

# Advancing the business of **agriculture**

Annual Report 2008-09

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# Advancing the business of **agriculture**

Annual Report 2008-09

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## 50 years of advancing the business of agriculture

For 50 years, FCC has been advancing the business of agriculture.

Agriculture is a vibrant industry and we are privileged to be a part of it. The people we serve, the products, services and learning we provide and the opportunity we create all contribute to the industry's success.

Over time, generations of our customers have faced their share of challenges and celebrated much success, evolving along with a dynamic industry. Today, the agriculture industry is more diverse than ever, contributing significantly to Canada's gross domestic product and generating billions of dollars in exports annually. FCC is Canada's largest provider of business and financial services to farms and agribusiness, with products and services tailored to the unique needs of agriculture.

Yes, much has changed over the past 50 years. We are proud to say that our loyalty, commitment and passion to the industry remain steadfast. These qualities distinguish us from others. More importantly, it is the vigour and determination of our customers that inspires us. We judge our success on the success of our customers.

As we move forward, we will continue advancing the business of agriculture with products and services, customized programs and unique knowledge to help producers and agribusiness operators along the value chain. We are committed to delivering an extraordinary experience to our customers at every encounter.



## Operational and financial highlights

In 2008-09, the global financial situation impacted Canadian industries, including agriculture. While some sectors felt the impact of a volatile economy, in other sectors, the consequences were less obvious.

Despite this economic uncertainty, FCC's commitment to Canadian agriculture remains unwavering. FCC will continue to lend, grow its portfolio and do what's right for FCC customers, the industry and FCC.

With amazing customers and knowledgeable employees dedicated to the success of the industry, FCC continued to experience exceptional growth in 2008-09, with the portfolio increasing by \$2.1 billion or 14.1 per cent. While the number of disbursements decreased in 2008-09, the average size of loans disbursed increased 24 per cent, resulting in net disbursements reaching \$5.1 billion. Equity continues to grow as FCC generates positive net income. Growth in net interest income was somewhat offset by increases in administration expenses and the provision for credit losses. As the financial results indicate, FCC continues to strengthen its financial foundation, which will help ensure continued funding for growth and investment in agriculture.

### For the years ended March 31

#### Operational highlights

Loans receivable portfolio	2009	2008	2007	2006	2005
Number of loans	106,867	98,066	101,470	95,768	90,492
Loans receivable (\$ millions)	17,098.5	14,992.1	13,550.4	12,310.2	11,150.0
Net portfolio growth (per cent)	14.1	10.6	10.1	10.4	11.1
Loans receivable in good standing (per cent)	97.5	97.4	97.4	97.5	96.9
New lending	2009	2008	2007	2006	2005
Number of loans disbursed	31,037	32,561	28,684	28,634	27,948
Net disbursements (\$ millions)	5,068.4	4,285.0	3,714.7	3,317.3	3,067.2
Average size of loans disbursed (\$)	163,302	131,600	129,504	115,852	109,747

#### Financial highlights

Balance sheet (\$ millions)	2009	2008	2007	2006	2005
Total assets	17,802.7	15,470.5	13,834.2	12,576.3	11,405.0
Total liabilities	15,526.8	13,693.7	12,372.1	11,312.5	10,320.5
Equity	2,275.9	1,776.8	1,462.1	1,263.8	1,084.5
Income statement (\$ millions)	2009	2008	2007	2006	2005
Net interest income	508.0	434.4	415.5	388.4	351.9
Provision for credit losses	70.0	5.0	38.9	62.4	95.2
Other income	6.2	14.4	7.7	6.6	5.0
Administration expenses	231.4	197.6	180.5	163.0	143.7
Fair value adjustment*	(1.7)	(41.1)	–	–	–
Non-controlling interest	0.8	–	–	–	–
Net income	211.9	205.1	203.8	169.6	118.0

\* The fair value adjustment was introduced in 2008 as a result of changes to the accounting standards related to financial instruments.



## Why we exist

### 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

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.

### Public policy role – summary

Our purpose is to enhance rural Canada by providing specialized and personalized business and financial services to small and medium-sized businesses that are related to farming. These are exciting times in agriculture as the industry is constantly changing and evolving. From financing to training and software, community programs and knowledge, our commitment to the agriculture industry remains strong.

We believe our public policy role permeates everything we do. For example, our brand is exemplified by our positioning line, "Advancing the business of agriculture." This illustrates our belief that agriculture, including the full value chain, is a business. It tells people that we are a visionary organization committed to helping producers and business operators succeed in a complex agriculture industry.

## The FCC customer 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 agriculture value chain. We provide our customers with flexible, competitively priced financing, equity, insurance, management software, information and learning.

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.**





1962

## How we behave

### Corporate values

FCC's 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 services tailored to their needs. We partner with other organizations to benefit our customers.

#### Give back to the community

We believe in giving back to our communities – the communities where our customers and employees live and work.

#### Achieve excellence

We are committed to one thing – the success of the Canadian agriculture industry. We set our sights high, strive to learn more and work to build a business that benefits our customers and helps our employees achieve their potential.

## Cultural practices

In addition to the corporate values, our cultural practices explicitly outline the behaviours employees and Board members are expected to demonstrate 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.
- ◆ We hold ourselves and each other accountable for delivering on commitments, agreements and promises.
- ◆ We hold ourselves and each other accountable for building and sustaining committed partnerships.
- ◆ We hold ourselves and each other accountable for creating a safe environment where people can speak up without fear of repercussion.
- ◆ 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.





## The FCC employee value proposition

FCC is a high-performance organization made up of talented and dedicated people who are passionate about contributing to the future success of Canadian agriculture. We work together as committed partners to deliver an extraordinary customer experience.

### FCC's commitment to employees:

- leadership that provides clear goals and inspires and coaches employees to excel at what they do
- a positive culture based on respect and trust where employees can feel safe to speak up responsibly – regardless of role or title
- opportunities to learn, grow and take on new challenges as part of an industry-leading organization
- processes, systems and tools that make it easy for employees to do their job
- recognition for employee accomplishments and innovative ideas
- competitive salaries, bonuses, pension and benefits

### Our employees' commitment to FCC:

- be committed to the success of each person and team at FCC – **"One team. One customer."**
- do their absolute best every day – go the extra mile to show customers that they care about their needs, they value their business and that FCC is easy to do business with

- be personally accountable for the results they create, acting with integrity and for their impact on others
- be innovative thinkers and demonstrate leadership in improving our internal processes and service delivery
- take ownership for continually developing their knowledge and abilities



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## Corporate profile



Farm Credit Canada (FCC) operates out of over 100 offices located primarily in rural communities. Our 1,400 dedicated employees are passionate about the business of agriculture. We continue to expand to meet the changing needs of the industry, offering our customers customized debt and equity financing, creditor insurance, management software, learning and knowledge.

We are a financially self-sustaining federal Crown corporation reporting to Parliament through the Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board. We provide financing and other services to about 50,000 primary producers, value-added operators, suppliers and processors along the agriculture value chain. In addition, we provide training and publications to over 50,000 participants and subscribers every year.

Our roots date back to 1929, when the Canadian Farm Loan Board (CFLB) was established to provide long-term mortgage credit to farmers. Then in 1959, the Farm Credit Act established FCC as an agent Crown corporation named in Part 1 of Schedule III of the Financial Administration Act, making us the successor to the CFLB.

On April 2, 1993, the Farm Credit Corporation Act was proclaimed into law. It gave us an expanded mandate and broader lending and administrative powers. It also combined these 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, allowing us to offer an even broader range of services to producers and agribusiness operators.



We also deliver specific programs for the Government of Canada at their request, on a cost-recovery basis. Two such programs are the Ruminant Slaughter Equity Assistance Program and Canadian Farm Families Options Program.

We are governed by, or subject to, the requirements of the following federal legislation:

- Farm Credit Canada Act
- Access to Information Act
- Canada Human Rights Code
- Canada Labour Code
- Canadian Environmental Assessment Act
- Conflict of Interest Act



- Employment Equity Act
- Employment Insurance Act
- Federal Accountability Act
- Financial Administration Act
- Official Languages Act
- Privacy Act
- Public Servants Disclosure Protection Act

We also comply with other federal and provincial legislation like land titles, farm debt mediation, personal property security acts, environmental protection, bankruptcy, insurance, occupational health and safety, and securities.



## Message from the President and CEO



This year, FCC is celebrating its 50th anniversary and we are proud of the role we play in advancing the business of agriculture. Agriculture is the backbone of a strong and healthy

Canada. This industry now supplies more than food and drink – it contributes to health care, renewable energy, the environment and countless other areas. Over the past 50 years, we have grown and evolved to meet the changing needs of this diverse and sophisticated industry. I am continually impressed by Canada's producers and agribusiness operators. Their pride in what they do is humbling and inspiring. These men and women represent the heart of agriculture, and they motivate us to do our best to contribute to their success.

Globally, we are facing unprecedented economic times that are affecting every industry. We continually monitor international developments

and analyze how they will impact agriculture in this country. Although no one can predict what lies ahead, we are steadfast in our commitment to customers and the industry. That's why our attention to the customer experience matters more now than ever. We strive to deliver a positive experience to customers – large and small, those experiencing success and those facing challenges.

In 2008, primary agriculture contributed approximately \$20 billion to Canada's gross domestic product with food and beverage manufacturing contributing an additional \$24 billion. Export of these products totalled approximately \$40 billion in 2008, up \$10 billion since 2004. As additional and export-oriented marketing opportunities continue to arise, there are significant possibilities for the future of Canadian agriculture.

In 2008-09, FCC experienced its 16th consecutive year of growth. The loan portfolio grew to \$17.1 billion, compared to \$15 billion in 2007-08. A total of \$5.1 billion in loans was extended to over 15,000 lending customers.

The past year provides a glimpse of agriculture's incredible diversity. The impact of global conditions varied dramatically from one sector to another. Unparalleled market volatility has resulted from changes in supply and demand,

and marketplace speculation. Most grain producers saw a positive return despite higher input costs. While grain prices have come down, they remain higher than the five-year average. At the same time, producers and agri-food businesses dependent on the U.S. market were challenged. Hog and beef sectors were impacted by both input prices and the rise and fall of the Canadian dollar. These are just a few examples.

We recognize the cyclical nature of agriculture. Through our customer support strategy, we proactively contact impacted customers to help them develop plans to help them manage through adversity. In 2008-09, we provided relief to 213 operations through this strategy. The FCC Ag Crisis Fund also helps individual customers in need due to accidents and major health issues.

At FCC, we care about the communities where our customers and employees live and work. We are a member of the Canadian Centre for Philanthropy's Imagine program, and donate 1.5 per cent of annual profits to charitable and not-for-profit organizations. In 2008, our Drive Away Hunger campaign doubled its national goal, raising over one million pounds of food for those in need. We also contributed \$2 million through our community investment program, including \$750,000 to rural capital projects.







**We are proud of  
the role we play  
in advancing  
the business  
of agriculture.**

Over half of the industry's assets are currently held by operators over the age of 54. An estimated 23,000 producers will retire over the next five years. We know how important renewal is to continued industry growth. That's why we offer support to 4-H clubs and college students, and offer products and services tailored to first-time borrowers just starting out. In 2008-09, FCC approved over \$1.6 billion in loans to young farmers.

FCC will focus on three priorities over the coming decade to continue serving agriculture.

The first is to provide an extraordinary customer experience. We want customers to feel that FCC

offers value and makes a difference to their success. The agriculture industry is changing rapidly, making it more challenging to keep pace. Our customers are more sophisticated than ever. We are embarking on a significant knowledge strategy to help customers and others in the industry make sense of developments that impact the agriculture value chain.

The second priority is our culture. We work in a climate of respect and caring, which positively impacts how we treat customers, allowing us to deliver an extraordinary customer experience and strong business results. We survey employees annually to measure their engagement and hear their views, and last year we recorded an engagement score of 81 per cent. As a result, we were recognized on the 50 Best Employers in Canada list for the sixth consecutive year. Our employees are knowledgeable about the industry and enjoy their work. Collectively, they are responsible for our exceptional culture.

Our third priority is efficiency, which is about regularly challenging ourselves to seek better ways to do our work. We routinely survey customers and other industry players to obtain their views, which helps us to continuously improve.

In adhering to these priorities, I am confident that we will continue to meet or surpass customer and industry expectations by providing products, services and knowledge that are second to none.

This year, we celebrate 50 years of advancing the business of agriculture. Fifty years of serving an amazing industry – what a privilege it has been. Here's to the next 50!

A handwritten signature in blue ink, reading "Greg Stewart".

**Greg Stewart, President and CEO**



## Message from the Chair



FCC reached a major milestone this year in celebrating 50 years of dedicated service to the Canadian agriculture industry. Consistent values, a clear understanding of purpose and commitment to common goals have provided the foundation for FCC's long-term success.

It gives me great pleasure to report that FCC has retained its longstanding commitment to agriculture.

FCC's purpose is to enhance rural Canada by providing tailored business and financial services and products to the full agriculture value chain. FCC reports to Parliament through the Honourable Gerry Ritz, Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board.

In December 2008, Mr. Ritz provided me with his annual letter outlining the government's overarching policy direction and expectations of FCC. This statement of accountabilities and priorities recognizes the vital role FCC plays in providing a broad range of financial products to the agriculture industry. This is particularly important as producers and agribusinesses face the global economic situation.

Our Board of Directors is satisfied FCC has the strong financial foundation required to continue lending to the industry. However, financial stability alone is not enough. As a federal Crown corporation, FCC has a responsibility to protect and promote a positive reputation.

FCC is committed to values such as transparency, accountability and ethical conduct. I am proud that FCC's Board initiated the creation of a Reputation Risk Policy against which all other corporate policies and operating activities are measured. This policy requires that FCC not only complies with the law but also ensures that its activities promote a positive reputation for FCC and reflects the values of our customers and Canadians as a whole.

The Board has full confidence in President and CEO Greg Stewart and his senior management team, and their ability to successfully lead FCC through these challenging times. We commend Greg for his leadership and the excellent example he sets for all FCC employees. He is committed to ensuring FCC is a key contributor to the success of the Canadian agriculture industry.

The Board is continually amazed by the stories that surface of the innovation and ingenuity of FCC customers across the country. Agriculture is a demanding industry and we credit FCC customers for their perseverance and creativity in weathering these turbulent times.

Now more than ever, we must work together to maintain the industry's strength and reaffirm agriculture's role as the backbone of Canada.

Respectfully submitted on behalf of the Board of Directors,

A handwritten signature in dark ink, appearing to read 'Gill O. Shaw'.

Gill O. Shaw



## Message from the Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board



Congratulations to Farm Credit Canada on half a century of serving farmers and the agriculture industry. As federal Minister of Agriculture, I am proud of FCC's commitment to growing the industry from the ground up.

Even during a time of economic instability, agriculture remains the backbone of the Canadian economy. That's why our Government will continue to put Farmers First in every decision we make to advance Canadian agriculture.

We are helping our livestock industry and other hard-hit sectors weather the storm. Canada's new policy framework for agriculture, Growing Forward, includes flexible and responsive programs that focus on innovation and allows provinces and territories to tailor programs to meet unique opportunities for their farmers.

FCC is a key partner in helping the industry meet and beat current challenges by taking a responsible, respectful and proactive approach to business. Through more than 85 educational workshops and forums over the past year, you are helping your customers meet competitive challenges and build their businesses with new expertise, knowledge and skills.

Now more than ever, Canada needs a strong and healthy industry, starting with and extending to every link in the agriculture value chain.

We will continue to focus on the future by helping new farmers get into the business. At FCC, you do this through the products, services and programs offered to help young farmers get started and expand their farming operations.

We will continue to promote Canadian agriculture on the world stage. I am proud of the gains we have achieved in opening and growing markets and building on Canada's global reputation for producing safe, high-quality food. Agriculture in Canada has bright and vibrant future.

I look forward to our continued work together as FCC embarks on another 50 years of growing Canadian agriculture.

A handwritten signature in dark ink, appearing to read 'Gerry Ritz'.

Gerry Ritz, P.C., M.P.





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## Public policy role



### Statement of priorities and accountabilities

In December 2008, the Honourable Gerry Ritz, Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board, reaffirmed the government's commitment to support Canada's farmers. With the global economy in a tumultuous state, working in collaboration is essential as we strengthen the agriculture sector and concentrate our efforts on protecting Canada's future.

Minister Ritz established the following priorities and accountabilities to ensure FCC continues to strengthen the agriculture industry:

- Continued attention to maintaining FCC as a self-sustaining Crown corporation. In view of current global economic conditions, it is vital that FCC continues to make its full range of credit products available to the agriculture industry in Canada. Access to short-term credit, long-term mortgages, and venture capital are important to

the long-term viability and success of the entire agriculture value chain and all sectors of agriculture. FCC needs to continue to create innovative products and services that are tailored to the dynamic business needs of its customers and are competitive with those offered by other financial institutions. As FCC customers grow, diversify and expand both within and outside of Canada, FCC needs to grow with them.

- Continued support for renewal in agriculture. FCC will continue to work with new entrants in agriculture and with young farmers to offer products that will help them get established and help facilitate the intergenerational transfer of Canadian family farms. Working with stakeholders and in collaboration with Agriculture and Agri-Food Canada (AAFC), FCC will continue to offer specialized business services, workshops and learning forums, as well as publications and educational offerings tailored to the particular needs of producers and agribusiness operators. Knowledge is key to provide the potential for producers and agribusiness operators to capitalize on opportunities. Continuing to hire and develop employees who are passionate and knowledgeable about Canadian agriculture is also important to this renewal.
- Continued presence as a socially responsible corporation. FCC will play an important role in promoting sustainable environmental practices and food safety by supporting traceability in the agriculture supply chain through products such as FCC's Field Manager PRO software. FCC will also continue to provide environmental information to its customers and continue to fulfil its obligations as a federal authority under the Canadian Environmental Assessment Act.
- Continued collaboration with AAFC in implementing its policy framework for Canadian agriculture.





## Aligning with government priorities

FCC partners with Agriculture and Agri-Food Canada in the delivery of specific programs for the Government of Canada on a cost-recovery basis. The Ruminant Slaughter Equity Assistance program and Canadian Farm Families Options Program are two examples of such programs.

The Canadian Farm Families Options Program provided financial assistance to low income operations. Over the two-year tenure of the program, FCC contracted approximately 50 independent consultants to complete over 500 Farm Business Assessments for qualifying customers. The program ended on November 20, 2008.

On July 11, 2008, the federal, provincial and territorial ministers of agriculture signed the Growing Forward agreement, paving the way for new programs that support the Growing Forward vision. We support the initiative's framework through continued development of innovative products, services and programs that promote a strong agriculture industry. A number of programs already in place under this initiative include:

**AgriInvest** – a savings account for producers that provides flexible coverage for small income declines, it also supports investments that help mitigate risk or improve market income

**AgriStability** – a margin-based account that provides income support when a producer experiences larger income losses

**AgriRecovery** – a disaster relief framework that provides rapid assistance when small-sized disasters hit producers

**AgriInsurance** – includes existing production insurance and other insurance products, and will expand to include other commodities

## Official languages

As a federal Crown corporation, FCC adheres to the Official Languages Act, offering our customers service in both official languages. FCC also communicates with employees in their language of choice and respects language of work policies.



FCC has also developed the FCC Expression Fund to support the use of Canada's official languages in Canadian communities. The Expression Fund provides funding to projects that contribute to the vitality of official language minority communities.



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## FCC's public policy role

FCC's purpose is to enhance rural Canada by providing specialized and personalized business and financial services and products to family farms, farming operations and small and medium-sized businesses related to farming.



We believe our public policy role provides a foundation for everything we do – and everything we do is focused on advancing the business of agriculture. Serving customers nationwide, we are committed to helping producers and agribusiness operators succeed in a complex industry.

The following describes our public policy statement. The examples provided demonstrate how we fulfilled our policy role in 2008-09.

## We serve all of agriculture, all the time – all sectors, all across Canada

We provide financing to Canadian producers. This includes operations of all sizes and producers of all ages.

We provide financing to agribusinesses, such as suppliers and processors that serve producers. A healthy value chain provides producers with stable purchasing and selling options.

We work with every sector across the country, primarily in rural areas.

### 2008-09 highlights:

In 2008-09, FCC served 47,053 customers with loans or other financial products through one of our 100 offices, located primarily in rural areas, across Canada:

- British Columbia/Alberta – 11,464
- Saskatchewan/Manitoba – 18,267
- Ontario – 11,029
- Quebec – 3,862
- Atlantic – 2,431

Of FCC's over 47,000 customers, 3,825 were new – 3,626 of these were primary producers and 199 were agribusiness operators.

## We are dedicated to agriculture and take the long-term view

We understand that agriculture is cyclical and that cycles impact even the best producers and agribusiness operators. That's why we consistently work with and support our customers and agriculture sectors through the highs and lows.

We are a commercial Crown corporation that partners and competes with other financial institutions to ensure primary producers and agribusiness operators have choice in the marketplace through all cycles.



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We are profitable and financially self-sustaining, which enables us to lead the way in creating innovative products and services tailored to the dynamic business needs of agriculture. Our offerings recognize that it takes time for agricultural operations to flourish.

#### 2008-09 highlights

Our customer support strategy helps customers manage when unexpected challenges arise. This year, we implemented customer support strategies for beef and hog sectors. We also used the program to provide relief in the Interlake region of Manitoba due to flooding. In 2008-09, 213 customers benefited from the customer support program.

Through partnerships with equipment dealers and manufacturers, crop input retailers, co-operatives and livestock partners, we provide loans to customers where they do business across Canada. With 78 Alliance partners, we are able to do business where our customers want to do business and support local communities where our partners operate.

We build alliances with businesses and organizations that are part of Canadian agriculture. FCC Alliance partners supply the products and services producers, retailers and wholesalers want – we provide the financing that helps them buy or sell their products.

We offer loans, management software, information and learning opportunities customized to the agriculture industry. Our products are designed to address the unique needs of our customers:

- FCC Management Software provides producers with detailed management information to enhance decision-making.
- FCC Learning offers learning programs with an emphasis on succession, marketing and management skills.
- CanadianFarmersMarket.com provides customers a place on the Internet where they can promote and sell products.

- FCC's Accelerator Loan assists young farmers starting or expanding an operation.

In October 2008, FCC launched FCC Leasing to provide customers with a leasing option that provides them with lower up-front costs and increased flexibility when financing equipment. At March 31, \$8.7 million in funding for leases has been provided through FCC Leasing.

FCC customers can purchase new or used farm equipment through equipment loan financing. Approximately 600 equipment dealers across Canada offer FCC financing, providing customers with the option to do business with people they know in the industry.



In 2008-09, over 5,200 customers received equipment loan financing, and in total, over \$366 million in equipment loan financing was approved through this service.





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**We are visionary and operate our business in a sustainable manner**

We offer unique products and services that help young farmers and agribusiness entrepreneurs because it is good for the industry's future.

We recognize knowledge is key to the future success of Canadian agriculture. We provide workshops, publications and learning forums as educational offerings to the industry and encourage knowledge sharing internally and externally.

We operate in a socially responsible manner with a special focus on customers; the environment, health and safety; human rights; human resource management; community investments and involvement; and corporate governance.

We provide environmental information and products to our customers and we are working to reduce our corporate environmental footprint.

We give back to the communities where our customers and employees live and work.

We hire and develop employees who are passionate and knowledgeable about Canadian agriculture.

**2008-09 highlights**

FCC's AdvancerPlus Loan provides customers with easily accessible short-term credit financing. Customers have the ability to request disbursements online.

FCC held 243 different training programs attended by over 13,000 participants and provided publications to over 50,000 subscribers.

In January, we celebrated Ag Day in Canada by gathering in communities across the country to recognize and pay tribute to the people who live and breathe agriculture, making it one of Canada's most vibrant industries.

It is our duty under the Canadian Environmental Assessment Act to assess the environmental effects of projects. We also review environmental risks related to lending activities.

We incorporate well-balanced, environmentally aware business practices into our daily operations. We establish a biosecurity protocol to ensure employees practise disease prevention when visiting customer operations.

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At FCC, community matters and giving back to the communities where our customers and employees live and work is a vital part of who we are. We make a point of giving back in a number of ways:

- We adhere to the Canadian Centre for Philanthropy's Imagine program guidelines and donate 1.5 per cent of profits to local communities.
- We promote farm safety, support causes that address food and hunger issues, provide education about agriculture and fund projects that improve quality of life.
- We provide funding to rural capital projects through the FCC AgriSpirit Fund. In 2008-09 alone, we awarded a total of \$750,000 to 76 community organizations.
- Our annual Drive Away Hunger tours collect thousands of pounds of food for rural food banks.
- We also support World Food Day, Canadian Agriculture Safety Week and First Aid on the Farm training sessions.



## Corporate governance

### Responsibility for the stewardship of the corporation

FCC is governed by the Farm Credit Canada Act and the Financial Administration Act, and reports to Parliament through the Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board.

The FCC Board of Directors is appointed by FCC's shareholder, the Government of Canada. The Board Chair and the President and CEO are appointed by the Governor-in-Council. The Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board appoints FCC directors.

The corporation has a well-established enterprise risk management process designed to identify potential events that may affect FCC. The Board oversees this process to manage within the corporation's risk appetite and to provide reasonable assurance regarding the achievement of goals and objectives.



Senior management holds primary responsibility for identifying risks, and designing and implementing solutions to mitigate them. The Board requires that management assure that risks are properly managed and that appropriate authorities and controls are in place.

The Board is committed to financial transparency and works closely with the Office of the Auditor General of Canada to ensure the integrity of FCC internal controls and management information systems.

### FCC public policy objectives

As a federal Crown corporation, FCC serves a public policy role. 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." FCC fulfils this mission by offering loans and business services to meet the needs of the industry. FCC operates on a financially self-sustaining basis and supports all sectors of the agriculture economy in all parts of the country, through good times and bad.

Each year, the Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board, in consultation with the Board Chair, delivers a statement of priorities and accountabilities that sets out the Minister's expectations and the government's priorities. As FCC's governing legislation does not call for regular mandate reviews, this letter is key in ensuring that FCC fulfils its public policy mandate. This statement is provided on page 14 of this report.

The Board oversees the operations of FCC to ensure that the corporation manages and performs in the best interests of the corporation, agriculture, Canadians and the Government of Canada.

FCC is increasingly challenged to meet the needs of customers in an increasingly global agriculture economy, particularly in these times of global financial uncertainty.



1983

### Communication with other Crowns, stakeholders and the public

FCC regularly meets with Treasury Board, Department of Finance and other Crown corporations to ensure its policies and procedures are continually reviewed against best practices and government guidelines.

In addition, each year, FCC attends the annual meeting of the Canadian Federation of Agriculture and Canadian Young Farmers Forum. We attend events and meetings hosted by other industry and producer groups as well, to share knowledge and solicit input and feedback on issues facing agriculture.

We invite representatives of industry-related organizations and associations to speak to our various communities of practice on subjects within their areas of expertise, and twice each year we collaborate with Export Development Canada and the Business Development Bank of Canada to share ideas, best practices and ways we can work together to benefit customers.



In August 2008, FCC held its second annual public meeting of stakeholders. This meeting allowed the corporation to report on activities and financial results for the past fiscal year and receive feedback from interested stakeholders and the public at large concerning our mandate and strategic direction.

FCC also ensures that its products and services meet the needs of the agriculture industry by regularly consulting with the FCC Vision panel. The panel is a group of over 8,000 Canadian producers (including customers and non-customers) and other agriculture professionals from coast to coast who have volunteered to share their ideas and insights with us.

### Effective working relationship with management

Greg Stewart completed his first full year as the corporation's President and CEO. The Board has established a more formal approach to CEO Goal Setting and Performance Review. This approach is consistent with the new Performance Management Program established by the Privy Council Office.





### Board independence

The roles and responsibilities of the Chair, Board members, the CEO and all Board committees are set out in written profiles and charters. The Board has put in place a written charter and a related set of Board governance guidelines. These documents articulate the Board's responsibilities in six major areas:

- integrity – legal and ethical conduct (setting the tone at the top)
- strategic planning
- financial reporting and public disclosure
- risk management and internal controls
- leadership development and succession planning
- corporate governance including director orientation, continuing education and evaluation

The roles of the CEO and Board Chair are separate. All Board members, with the exception of the CEO, are independent of management. At each meeting, the Board sets aside time to meet without management present. The Board arranges regular, private meetings with various members of the executive management team as required. FCC's Audit Committee of the Board also holds regular in-camera sessions with the external auditor.

### Mechanism to assess CEO's position and evaluate CEO performance

With the appointment of Greg Stewart as CEO last year, the Board engaged the services of an outside consultant to work with the CEO and the Board to develop the process to annually set the CEO's goals and objectives, to help in the documentation of those goals and objectives year over year, and to develop a process for evaluating and reporting on those objectives. This consultant has worked through this process with the Board and the CEO during the past fiscal year.



1984

### Mechanism to assess Board capacity, competency and evaluate Board performance

Through a structured process of self-evaluation, the Board regularly assesses its collective performance and the individual performance of its members. This year, the Board once again engaged in an extensive evaluation conducted by an outside consultant. Each Board member was individually interviewed and completed a written survey. Feedback was also sought from members of executive management concerning the effectiveness of the Board and its governance practices. Results were reviewed with each Board member and the Board Chair by the outside consultant.

Annually, the Board reviews its established profiles for the Board Chair and individual directors to ensure they continue to accurately and clearly set out the desired competencies and skills for both. Board members then engage in an annual process to self-assess their competencies and skills. From this, the Board conducts a skills gap analysis and puts in place plans to address skill gaps through new appointments, training and hiring outside experts to advise the Board on particular technical matters.

### Orientation and education programs for Board

Upon appointment to the Board, each member receives a detailed orientation and meets with senior management to learn about the business. Board members also have direct access to the Senior Management Team for ongoing education. This year, because of the significant number of new appointments to the Board over the last two fiscal years, Board members requested followup orientation sessions. In conjunction with Board meetings, Directors travelled to Regina a day early and met with various members of the Senior Management Team to follow up on questions they had concerning the corporation's operations and to better understand the reports typically presented to the Board.

To gain understanding of FCC business and the current issues facing the corporation, the Board regularly engages in continuing education. Gill Shaw, Board Chair, has enrolled in the Directors College at the DeGroote School of Business at McMaster University and is working toward obtaining his Chartered Director designation.

Other Board members have individually attended conferences and seminars conducted by private sector organizations on various topics relevant to corporate governance and FCC business. Each year, the Board also visits a number of customer operations and corporate area conferences. This gives them a better understanding of the corporation, the depth and scope of Canadian agriculture, and the issues facing primary producers and agribusiness operators.



### Review of adequacy and form of compensation for Board Directors

Directors are paid an annual retainer and per diems. Amounts are set by the Governor-in-Council pursuant to the Financial Administration Act. These rates were last set on January 8, 2008:

- the Board Chair receives an annual retainer of \$12,400
- committee Chairs receive an annual retainer of \$7,200
- all other Board members receive an annual retainer of \$6,200
- all Board members including the Chair receive a per diem of \$485 for meetings, training sessions and FCC-sponsored events
- Directors are reimbursed for all reasonable out-of-pocket expenses including travel, accommodation and meals while performing their duties

During 2008-09, there were five Board meetings and 13 committee meetings. Total remuneration (annual retainer and per diems) paid to all Directors was \$225,082.50. Total Board travel and related expenses were \$180,053, compared to \$196,654 in 2007-08.

### 2008-09 Board remuneration, expenses and attendance

Director	Board retainer (A)	Per diems (B)	Total remunerations (A&B)	Board meeting attendance	Committee meeting attendance	Board travel & related expenses
Caroline Belzile	6,200.00	15,520.00	21,720.00	5 of 5	4 of 4	18,213.96
Don Bettie	6,200.00	13,095.00	19,295.00	5 of 5	6 of 6	16,137.30
Jack Christie	7,200.00	15,520.00	22,720.00	5 of 5	6 of 6	17,159.58
Caroline Granger	6,200.00	13,095.00	19,295.00	5 of 5	5 of 6	16,763.73
Brad Hanmer	6,866.67	12,852.50	19,719.17	5 of 5	6 of 6	13,085.66
Ron Hierath	6,200.00	14,065.00	20,265.00	5 of 5	4 of 4	18,926.38
John Klippenstein	4,133.33	8,245.00	12,378.33	3 of 4	3 of 3	6,254.81
Gilles Lapointe	6,200.00	13,580.00	19,780.00	5 of 5	5 of 5	20,706.37
Russel Marcoux	6,600.00	8,245.00	14,845.00	4 of 4	3 of 3	10,248.96
Gill Shaw	12,400.00	20,855.00	33,255.00	5 of 5	7 of 7	21,609.92
Jason Skinner	516.67	1,455.00	1,971.67	1 of 1	1 of 1	910.18
Réal Tétrault	2,400.00	1,940.00	4,340.00	1 of 1	1 of 1	1,510.61
Sharon White	6,283.33	9,215.00	15,498.33	5 of 5	4 of 4	19,325.91
<b>Total</b>	<b>77,400.00</b>	<b>147,682.50</b>	<b>225,082.50</b>			<b>180,853.37</b>

There were five Audit, four Human Resources, and four Corporate Governance meetings.





1986



### Responsibility for developing the corporation's governance issues

The Board leads the corporation in the achievement of long-term goals by overseeing the strategic planning process and providing input, guidance, validation and a critical evaluation of strategic plans and initiatives. After the plan has been approved, the Board provides ongoing support to implement and measure the success of those plans and initiatives. The Board also discusses particular strategic initiatives throughout the year.

### Promote a culture of ethical and business conduct

All Board members are bound by the FCC Code of Conduct and Ethics (the code). As well, the corporation is subject to the Access to Information Act, the Privacy Act, the Federal Accountability Act, the Conflict of Interest Act and the Public Servants Disclosure Protection Act. This year, the Board approved a Reputation Risk policy against which all of the corporation's current and future programs and policies will be reviewed.

In September 2008, FCC, along with other federal Crown corporations, was issued a directive (P.C. 2008-1598) pursuant to Section 89 of the Financial Administration Act. Under the Act, the Corporation is given direction to give due consideration to the personal integrity of those they lend to or provide benefits to in accordance with Government's policy to improve the accountability and integrity of federal institutions. FCC is finalizing

its review of its policies and programs and will notify the Minister of Agriculture and Agri-Food that the directive has been implemented.

Acting with integrity is a core value and maintaining the highest ethical standards is a vital priority for the Board of Directors and FCC. Upon their appointment and each year thereafter during their tenure, each Director signs a declaration committing to adherence to the code. The Board also approved a protocol setting out the process by which disclosures of possible violations of the code by the CEO, any of his direct reports or any member of the management team in the Finance division are reported to the Board.

At least annually, the corporation's Integrity Officer reports to the Board on all disclosures of possible violations of the code and discusses ongoing education and awareness activities for employees.

The Board also has its own specific policy related to loans where a Director has a material interest. This policy supplements the corporate bylaws, prescribing rules for dealing with situations where a Director has a conflict of interest.

### Travel and hospitality expenses incurred by the CEO

At least quarterly, the Board reviews the travel and hospitality expenses of the CEO, which in turn are published on the corporation's public website.

### Review of contracts over \$50,000

Annually, the Board reviews a listing of all contracts entered into by the corporation where the amount of the contract exceeds \$50,000.

### Audit

FCC annual financial statements are audited by the Auditor General of Canada. In addition, every 10 years, the Auditor General of Canada conducts a special examination. This is designed to focus on the financial and management controls, information systems and management practices maintained by FCC. The most recent special examination was completed in September 2007. A copy of the report is available on FCC's public website. The Board has committed itself to ensuring the corporation follows up on all of the recommendations of the report in a timely manner.





Personal computers in all FCC offices help speed service delivery

1987



### Board composition

The Board is composed of 12 members, including the Chair and the President and CEO. Directors serve terms of up to four years and may be re-appointed.

Board members are generally successful primary producers and agribusiness operators from rural and small urban centres. The Board strives for diversity – gender, geographic, ethnic, cultural, age and language – in order to reflect the broad spectrum of agriculture in Canada.

### New appointments

John Klippenstein from Steinbach, Manitoba was appointed on July 30, 2008, and Jason Skinner of Wilkie, Saskatchewan was appointed on February 12, 2009.

Plain language mortgages ensure customers clearly understand what they are signing

1990

### Audit Committee

**Chair:** Jack Christie

**Members:** Gill Shaw (Board Chair), Gilles Lapointe and John Klippenstein

Members of the Audit Committee are independent of management. All committee members are financially literate and several members are considered to be financial experts, as those terms are now commonly used with respect to the composition of audit committees.

The Audit Committee oversees FCC's financial performance and ensures the integrity, effectiveness and accuracy of the corporation's financial reporting, control systems, integrated risk management processes and audit functions.

This committee meets regularly in private with representatives of the Office of the Auditor General of Canada, FCC internal auditors and management.





Corporate and administrative functions move to Regina, in the heart of Prairie agriculture

1992



### Human Resources Committee

**Chair:** Brad Hanmer

**Members:** Greg Stewart (CEO), Caroline Granger and Caroline Belzile

This committee reviews all major human resources policy matters. The Human Resources Committee is responsible for advising the Board with respect to the skills and characteristics essential to the position of CEO, how to assess the CEO's performance and working with him to agree on an annual development plan.

The Human Resources Committee is responsible for reviewing the corporation's succession plan, including plans for training and development of all employees, and for the review of the executive perquisites program with respect to senior management.

The Farm Credit Corporation Act broadens mandate to include agribusiness and removes loan limit regulations

1993

### Corporate Governance Committee

**Chair:** Sharon White

**Members:** Ron Hierath, Don Bettel and Jason Skinner

The Corporate Governance Committee reviews and makes recommendations to the Board with respect to sound governance practices, which include updating Board practices and procedures related to conducting meetings, their frequency and length, the materials and information provided to Board members, and the reporting of meetings. This committee also acts as the Board's nominating committee.

The Corporate Governance Committee regularly reviews the number, structure, composition and mandates of the Board's committees and is responsible for conducting Board evaluations concerning the performance of Directors, committees and the Board as a whole. The Corporate Governance Committee also oversees the Board's policies about ethics, conflict of interest and code of conduct for Directors.





1994

## Members of the Board of Directors



**Gill O. Shaw, B.Sc.Ag., MBA**  
Chair, FCC Board of Directors  
Retired CEO  
Manitoba Agricultural  
Credit Corporation  
Brandon, Manitoba  
Appointed Chair  
October 30, 2006



**Greg Stewart, P.Ag.**  
President and CEO  
Farm Credit Canada  
Regina, Saskatchewan  
Appointed January 1, 2008



**Caroline Belzile, D.T.A.**  
Co-owner, beef, hog and  
grain farm and sugar bush  
Saint-Elzéar, Quebec  
Appointed January 29, 2008



**Donald Bettle**  
Former dairy farmer  
Former chairman,  
Canadian Atlantic Dairy  
Export Co-op  
Passekeag, New Brunswick  
Appointed January 25, 2007



**Jack C. Christie, B.Comm., FCA**  
General Manager and CEO  
Northumberland Dairy  
Co-operative Ltd.  
Miramichi, New Brunswick  
Appointed November 27, 2003  
Reappointed October 20, 2005  
Chair, Audit Committee



**Brad Hanmer, B.Sc.Ag.**  
Co-owner/operator,  
commercial grain and  
pedigreed seed farm  
Govan, Saskatchewan  
Appointed January 25, 2007



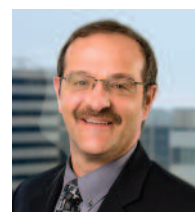
**Ron Hierath**  
Realtor, residential  
and agricultural sales  
Lethbridge, Alberta  
Appointed January 25, 2007



**Caroline Granger**  
President and CEO  
The Grange of Prince Edward  
Vineyards and Estate Winery  
Hillier, Ontario  
Appointed June 27, 2007



**John Klippenstein, CMA**  
COO, Klippenstein  
Management Services  
Steinbach, Manitoba  
Appointed July 30, 2008



**Gilles Lapointe,  
B.Comm., CGA, CFP**  
Partner, BDO Dunwoody LLP  
Casselman, Ontario  
Appointed March 11, 2008



**Jason Skinner, M.Sc., P.Ag.**  
CEO, North West Terminal Ltd.  
Wilkie, Saskatchewan  
Appointed February 12, 2009



**Sharon E. White, B.Comm., LLB**  
Lawyer – Partner  
Richards Buell Sutton LLP  
Vancouver, British Columbia  
Appointed December 18, 2006





1996

## Executive Team

Farm Credit Canada has attracted a senior team of professionals with diverse talents and experience. Our Executive Committee (EC) members are sought after as best practice leaders in their professions, and they actively volunteer in their communities. At FCC, everyone is a leader, whether charged with formal management responsibility or not. Each member of EC believes that a culture characterized by open communication and trust results in engaged employees who forge great relationships with customers.

EC is responsible for corporate decision-making, including the strategic vision, investment strategy, allocation of enterprise resources and resolution of major strategic issues. They provide advice to the

Chief Executive Officer on matters pertaining to the corporation's direction and ensure that FCC continues to make a difference to agriculture.

Supporting EC is the Senior Management Team (SMT), which is responsible for setting priorities, executing approved corporate strategies, and inspiring employees to behave in a high-performance manner each and every day.

The full senior management team, with the exception of the President and Chief Executive Officer, is paid within salary ranges and compensation policies set by corporate policy and approved by the Board of Directors. The

1997

Governor-in-Council sets the President and CEO's salary and benefits. All executives receive a variable remuneration component linked to the performance of the corporation, the business unit and the individual. In 2008-09, the salary range for the President and CEO was set at \$273,000 to \$321,200. The salary range for Executive Vice-Presidents was \$204,660 to \$313,010. The salary range for Senior Vice-Presidents was \$144,330 to \$220,735. The salary range for Vice-Presidents was set at \$124,060 to \$182,440. The salary range for Senior Directors was set at \$106,690 to \$144,345. The salary range for the General Counsel and Corporate Secretary was set at \$124,060 to \$182,440. Total compensation paid to senior management in 2008-09 was \$5,604,880.



**Greg Stewart, P.Ag.**  
President and Chief Executive Officer



**Dan Bergen, P.Ag.**  
Executive VP and Chief Operating Officer



**Moyez Somani,**  
**CMA, MBA, FCMA**  
Executive VP and Chief Financial Officer



**Lyndon Carlson, P.Ag.**  
Senior VP, Marketing



**Kellie Garrett,**  
**ABC, MA Leadership**  
Senior VP, Strategy, Knowledge and Reputation



**Greg Honey**  
Senior VP, Human Resources



**Rémi Lemoine,**  
**MBA, FCI**  
Senior VP, Portfolio and Credit Risk



**Paul MacDonald,**  
**B.Sc., MA**  
Senior VP and Chief Information Officer



## FCC Senior Management Team

**Darren Bly, P.Ag.**

VP Partners and Channels

**Vincent Giard, P.Ag., MBA**

VP Operations – Quebec

**Rick Hoffman, CMA**

VP Finance and Venture Capital

**Mike Hoffort, P.Ag.**

VP Operations – Prairie

**Faith Matchett, BBA, CMA**

VP Operations – Atlantic and  
Eastern Ontario

**Corinna Mitchell-Beaudin, CA, CFA**

VP Portfolio Management

**Clem Samson, CIM, FICB**

VP Operations – Western

**Joy Serne, B.Sc.Ag.**

Senior Director, Culture

**Barry Smith, B.Sc.Ag.**

VP Operations – Western Ontario

**Don Stevens, B.Engineering, MBA, CFA, CMA, P.Eng.**

VP and Treasurer

**Brad Strom**

VP Enterprise Architecture

**Ross Topp, CA**

VP Audit and Integrated Risk

**Greg Willner, B.Admin., LLB**

General Counsel and Corporate Secretary

## The Rosemary Davis Award

As agriculture continues to evolve, so does the face of the industry. More and more women are being recognized for their innovation and leadership in the field. This year, we are proud to honour five of these outstanding women as the 2009 winners of the FCC Rosemary Davis Award.

The award is presented annually to women who serve as role models to others in the agriculture industry. Successful producers, agrologists, mentors, educators, agribusiness operators and volunteers, these women display a knowledge and passion for agriculture that is second to none.

**This award is named for Rosemary Davis, the first woman to chair FCC's Board of Directors. We are proud to honour her contributions to the industry as a successful agribusiness owner and operator.**



**Wendy Holm**  
agrologist,  
author, educator;  
Bowen Island,  
British Columbia



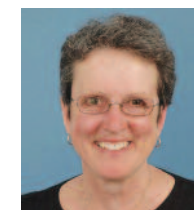
**Patricia Smith**  
farmer,  
businesswoman,  
volunteer; Nokomis,  
Saskatchewan



**Darlene Sandford**  
farmer, industry  
and community  
leader; Wellington,  
Prince Edward Island



**Lorna Wilson**  
volunteer,  
educator, mentor;  
Georgetown, Ontario



**Denyse Gagnon**  
farmer, mentor,  
volunteer;  
Métabetchouan-  
Lac-à-la-Croix,  
Quebec

## Corporate social responsibility

Transparency in the pursuit of corporate objectives is a cornerstone of corporate social responsibility (CSR) at FCC. We strive to work in an economically, socially and environmentally sustainable manner.

FCC is accountable and responsive to our stakeholders through a focus on the following six areas:

- corporate governance
- human resources management
- community investment and involvement
- environment, health and safety
- human rights
- customer focus

To transparently report our CSR commitments, FCC's Board and senior management receive quarterly status reports on all six areas of CSR.

### Corporate governance

**We act with integrity, balancing business decisions with individual needs. We are accountable to our stakeholders and act in accordance with all laws and with high ethical standards.**

At FCC, our corporate values are more than just words. They guide our interactions with colleagues, customers and stakeholders.

Our code of conduct and ethics includes whistleblower protection so that employees can feel safe if they need to report any perceived wrongdoing. Measures are in place to monitor compliance to the code and ensure business activities at all levels of the organization are appropriate. Employees sign a declaration annually to confirm they understand and accept their responsibilities under FCC's code of conduct.



A number of projects are underway to educate employees about the code of conduct and ethics. We are sharing the code and its implications with stakeholders through our external website and developing a series of communications for staff addressing possible ethical dilemmas and how to deal with them. We have also implemented automated notification to our Integrity Officer when new employees are hired so the officer can help clarify roles and responsibilities under the code.

### Human resources management

**We leverage our people's specialized knowledge and passion, developing and encouraging employees to be their best. Our cultural practices explicitly outline the behaviour expected of FCC employees at all times with colleagues, customers, partners, suppliers and stakeholders.**

At FCC, we strive to consistently provide a healthy and respectful work environment and appropriate compensation and acknowledgement. We encourage all employees to contribute to business solutions and exercise leadership, regardless of title.

1999

Our cultural practices drive how we work together. When new employees join FCC, they participate in a four-day course that outlines the culture and how they are expected to behave.

FCC spends more than five per cent of annual payroll on employee training and development every year. FCC has a distinct culture that defines how we expect employees to work together to bring value to our customers. To help employees understand and live our culture, we offer a number of ongoing development opportunities.

FCC is committed to building a workforce that reflects the diversity of the Canadian population. Our desired work environment welcomes both official languages and encourages full participation, including persons with disabilities, Aboriginal Peoples, visible minorities and women.

Each year, FCC takes part in an employee opinion survey. The survey, delivered by Hewitt and Associates, gives employees the opportunity to comment on a range of factors in the workplace and provides a valuable measure of how engaged our employees are. In 2008-09, FCC achieved an engagement score of 81 per cent and ranked eighth on the 50 Best Employers in Canada list published by the Globe and Mail's Report on Business.



FCC uses the survey results to engage employees in discussions about what needs to improve and to create plans to rectify issues. Our strong focus on the employee experience ensures that our people can deliver great results to customers. We also offer several recognition programs that acknowledge employees for their achievements. Together, these set FCC apart as an employer of choice, which helps us attract and retain top talent in a highly competitive labour market.

2000

## Community investment and involvement

**We give back to the communities where our employees and customers live and work by promoting safety, supporting causes that address food and hunger issues, providing education about agriculture and funding projects that improve the quality of life in rural Canada.**

FCC is a member of the Canadian Centre for Philanthropy's Imagine program, and we donate 1.5 per cent of annual profits to charitable and not-for-profit community and industry organizations such as 4-H, Food Banks Canada and the Canadian Agricultural Safety Association. Our contributions to communities were over \$2 million in 2008-09.



FCC's community investments focus on four areas: enhancing rural Canada, fighting hunger, education about agriculture and rural safety. We are proud to support the communities where our customers and employees live and work.





Since much of what happens in agriculture happens in rural Canada, we developed the FCC AgriSpirit Fund. Since 2004, the AgriSpirit Fund has donated \$2.5 million to rural capital projects. Communities can receive between \$5,000 and \$25,000. In 2008-09, we awarded \$750,000 to projects, including fire trucks, playground and medical equipment and recreation centres.

To complement the AgriSpirit Fund, FCC launched the FCC Regina Spirit Fund to support community enhancement projects by Regina charitable and non-profit organizations. About 600 of FCC's 1,400 employees live and work in Regina. The fund awards \$100,000 annually. In 2008-09, funding ranging from \$4,000 to \$15,000 was provided to seven organizations.

In 2008-09, FCC partnered with Agriculture in the Classroom to advance agriculture awareness among Canadian youth. Our \$100,000 investment provided teachers and students across Canada with 25,000 updated copies of the "All About Food" book set and 10,000 new educational music CDs. Together, these resources teach children about Canada's agriculture industry and where their food comes from.

To support the use of Canada's official languages in communities across the country, we developed the FCC Expression Fund. In 2008-09, the fund awarded \$20,000 to projects that contribute to the vitality of official language minority communities and help residents express the cultural and linguistic diversity of the area.

Protecting agriculture's most important asset – its people – is important to FCC. In 2008-09, we renewed our partnership with the Canadian Agricultural Safety Association (CASA), the Canadian Federation of Agriculture and Agriculture and Agri-Food Canada to present Canadian Agriculture Safety Week. In addition, we posted an online safety survey on our corporate website to educate customers on current safety information and promote safe farm practices. FCC and CASA partnered to conduct a nationwide survey to measure awareness and attitudes about agriculture safety.

We encourage our employees to give back to their communities through the projects or charities that touch their hearts. The employee matching program funds projects that involve three or more FCC employees. Employees who donate more than 20 hours of volunteer time to a charitable organization may be selected to receive funding for that organization. In 2008-09, FCC donated \$36,000 to support local community groups through the employee volunteer program and over \$200,000 to local charities and non-profits through the employee matching program.



Drive Away Hunger is FCC's largest community investment program. The purpose of Drive Away Hunger is to create awareness of hunger in rural Canada and to help food banks by collecting food and cash donations. Drive Away Hunger tours were held in Nova Scotia, Manitoba, Saskatchewan and Alberta. In addition, all FCC offices participated by collecting food and cash donations to support local food banks. Working with community partners and customers across Canada, we were successful in raising over one million pounds of food to help fight hunger.

## Environment, health and safety

**We are committed to sound environmental practices and to educating customers about environmental risk and bio-security issues. We incorporate environmental sustainability considerations into our decision-making.**

FCC is responsible for environmental due diligence under the Canadian Environmental Assessment Act. As part of our loan approval process, we work with customers to review environmental risks through questionnaires, site inspections and assessment reports from qualified consultants.

We incorporate environmentally conscious business practices into our daily operations by recycling and making energy-conscious purchases of light bulbs, paper and office-related supplies. We are tracking our use of paper as a first step toward reducing the environmental impact of our business operations across the country. Our bio-security protocol helps ensure that employees understand and practise disease prevention when visiting customers. As part of our commitment, we make sure bio-security supplies are accessible to every employee who visits agriculture operations.



We keep employees safe through ongoing first aid and CPR training, and our safe workplace training for managers and supervisors.



## Human rights

**We are proud to act in accordance with human rights standards, including the Canadian Human Rights Act and the Canadian Human Rights Commission.**

In all our interactions with customers, employees, suppliers and others, we take human rights very seriously. We have implemented a code of conduct and ethics that is reviewed and acknowledged, in writing, by every employee every year.



Settler Computer Technologies Inc. becomes AgExpert, Canada's leading agriculture management software, under the FCC banner

2002

## Customer focus

**We are committed to customer success. We focus on primary producers as well as suppliers and processors along the agriculture value chain. We provide our customers with flexible, competitively priced financing, equity, insurance, management software, information and learning.**

We demonstrate our commitment to customer success in many ways – from offering products and services tailored to the unique needs of agriculture to offering information and learning opportunities.

FCC workshops help customers gain the business skills they need to better manage their financial and human resource requirements and plan for succession. In 2008-09, we held 10 learning tours and hosted 87 workshops on topics ranging from financial management to human resources. We celebrated our industry with 3,613 attendees at 89 Ag Day in Canada events across the country. FCC Forums, themed “Big Ideas for Your Future,” attracted 4,680 customers to nine major events to hear presentations on various subjects regarding Canadian agriculture.

# FCC Forum 2008

## Big ideas for your future

FCC has two initiatives that help customers during challenging times. FCC Relationship Managers proactively contact customers to develop plans to help them manage through adversity. We work with customers on an individual basis to discuss options and help them evaluate the best plan for their operation (deferral of payments, create flexible repayment schedules, etc.). In 2008-09, we supported customers in both the beef and pork sectors who were facing challenges brought on by low prices and high input costs. We worked with 213 producers across Canada, providing support when they needed it.

The FCC Ag Crisis Fund gives employees a way to request support for an individual customer facing a difficult time. These situations may result from natural disasters (flooding, tornadoes or drought), or from serious illness, fire or farm accidents. In 2008-09, the FCC Ag Crisis Fund provided 104 customers with a total of \$161,519 in funds.

Our CanadianFarmersMarket.com website showcases customer products on the world's biggest marketplace – the Internet. We promote the website and now have more than 300 customers using the free service. Products range from appetizers to snacks and sweets.

The Customer Experience Index (CEI) is calculated using data gathered from customer post-loan, customer exit and annual report card surveys. The score is derived from questions pertaining to customer satisfaction, loyalty, advocacy, ease of doing business with FCC, care, overall value and problem resolution. Through this process, we provide customers with the opportunity to provide direct feedback about their experience with FCC in a format that is guaranteed to be measured and acted upon.

As a result of the data gathered, we are able to make adjustments to enhance the way we do business and change some of our products and services to enhance the customer experience.

FCC believes in operating as a responsible corporate citizen. Our deep commitment to these six pillars of social responsibility will help us provide a strong competitive foundation to Canada's agriculture sector.





# Corporate social responsibility scorecard

## For the years ended March 31

FCC takes corporate social responsibility seriously. We care about our impact on employees, customers and the communities where we live and work. According to the Conference Board of Canada, corporate social responsibility (CSR) is about “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.”

The following summary was adapted from the Globe and Mail’s Report on Business as a measure of FCC’s performance in six key decision-making, behaviour and performance priority areas.

Corporate governance	2008	2009
Statement of social responsibility	yes	yes
Statement of corporate values	yes	yes
Code of business conduct	yes	yes
Board Chair and company CEO are separate functions	yes	yes
Human resources management	2008	2009
<b>Conducts employee satisfaction surveys:</b> • Included in Globe and Mail’s Best Employers list and Maclean’s Top 100 companies	yes	yes
Provides employees with education and development	yes	yes
Conducts annual market compensation reviews	yes	yes
Policy on diversity and employment equity	yes	yes
Public reports on diversity issues	yes	yes
Offers employees diversity training	yes	yes
Benefits include additional maternity and paternity benefits	yes	yes
Percentage of women on the Board	25	25
Percentage of women among senior management team	23	19
Community investment	2008	2009
Policy statement on community donations is available to the public	yes	yes
Calculates donations based on one per cent of profits	yes – 1.5%	yes – 1.5%
Programs are in place to support employee giving and volunteering	yes	yes

Environment, health and safety	2008	2009
Corporate environmental management systems in place, including policies, programs and performance analysis	in progress	in progress
Reports on resource use (energy, materials, water)	in progress	in progress
External reporting on lending environmental risk management	yes	yes
Lending environmental risk management policy and processes, including environmental risk assessment	yes	yes
Bio-security protocol for customer visits	yes	yes
Offers loans that reduce environmental impact	yes	yes
Environmental reporting, including policy, programs and initiatives, and performance data	in progress	in progress
Human rights	2008	2009
Human rights policy and code of conduct	yes	yes
Policy/code of conduct governing the supply chain of procured items	yes	yes
Programs are in place to support employee giving and volunteering	yes	yes
Customers	2008	2009
Conducts customer satisfaction surveys	yes	yes
<b>Helps customers market their products:</b> • over 300 customers listed on CanadianFarmersMarket.com	yes	yes
Loans to meet the needs of new entrants into agriculture	yes	yes
<b>Offers industry-related training:</b> • AgriSuccess delivered 10 workshops, 9 forums and 10 learning tours	yes	yes





**“FCC has a special expertise that comes with 50 years of dealing with agriculture business and commercial enterprises that are connected with agriculture.”**

photo by Greg Huszar

## Dr. Ian Goodbrand, Alberta

A veterinarian, feedlot owner, rancher and all-around businessman, Dr. Ian Goodbrand is making a living doing what he loves.

In 1992, Ian purchased his veterinary clinic in Provost, Alberta. Within a few years, he began farming and ranching. Today, he runs Goodbrand Land and Cattle Company, which includes a 4,000-head feedlot, a large grass yearling operation and a ranch. He is also a partner in Dryland Cattle Trading, an auction barn marketing about 100,000 feeder cattle and slaughter cows and bulls each year.

As his operations expand, Ian spends more time managing his business, leaving less time to focus on other areas. He counts on FCC to provide support with the financial portion of his business. According to Ian, his relationship with FCC is about more than financing. It's about working with someone he trusts who offers expertise to help his business grow.



2002

## Operating environment

### Global Trends

The year 2008 will be remembered as the start of a major economic crisis felt by countries around the world. Oil hit an all-time high. Commodity prices were volatile across all sectors. Input costs for fuel, labour, feed and seed reached record highs.



Despite these trends, there are many opportunities in Canadian agriculture. A 2008 poll of FCC Vision panel members, which consists of producers and agribusiness operators, revealed that 53 per cent are optimistic about the future, while another 31 per cent are cautiously optimistic. At least 66 per cent believe their business is in better shape today than it was five years ago and 22 per cent said they plan to expand over the next five years.

A spirit of optimism and an entrepreneurship attitude is alive, well and flourishing in most sectors, with good reason. Canada's agriculture exports continue to increase. Governments are investing in transportation infrastructure that will create improved ports, with more capacity on the East and West coasts. Inland container facilities and new transportation corridors that serve all of North America are being built. New domestic and international markets are opening and there is increased demand for agriculture and agri-food products.

FCC monitors changes in the global operating environment to identify future trends and strategic issues. Today, powerful global trends are driving change, which presents both challenges and opportunities for those involved in Canadian agriculture. Against this backdrop, we present our synopsis of key market drivers.

### The business environment

The international nature of the capital markets means that anything happening in the U.S. impacts the rest of the world. Globally, the economic downturn has forced governments and central banks to take unprecedented actions. So far, most Canadian banks have not experienced the same difficulties faced by U.S. and foreign banks. In fact, the World Economic Forum published a report in October 2008 ranking Canada's banking system the "soundest" among 134 countries surveyed.

There are conflicting expert opinions about how deep and long the global recession will be, but it is clear that the Canadian economy and agriculture are not insulated. The future impacts are uncertain.

Early in 2008, land values and the cost of equipment increased. At times, the demand for equipment outpaced supply. As future markets dropped, things changed quickly. Global trade is down for the first time in 25 years. The markets remain volatile. The Canadian dollar is down from the highs of 2008, which is good news for exporters.





2004



The Doha round of WTO negotiations collapsed in July 2008. Early in 2009, new concerns were raised about growing protectionism that could increase trade tariffs in some countries. Legislation that requires governments to favour domestic production has been introduced in several countries, including the U.S.

While the economic downturn may have slowed China's growth, many experts believe it will be the world's largest economy within the next three decades. The Chinese government has introduced stimuli and promised not to let growth slide below eight per cent. The growth of the middle class and the expansion of Asian economies are redefining global supply and demand patterns. As China's wealth increases, it will be one of the few areas with a growing demand for bulk imports, commodities and value-added products. There are opportunities for Canadian exporters to capitalize on Asia's growing demand for North American products. However, additional risk must be managed by both producers and exporters.

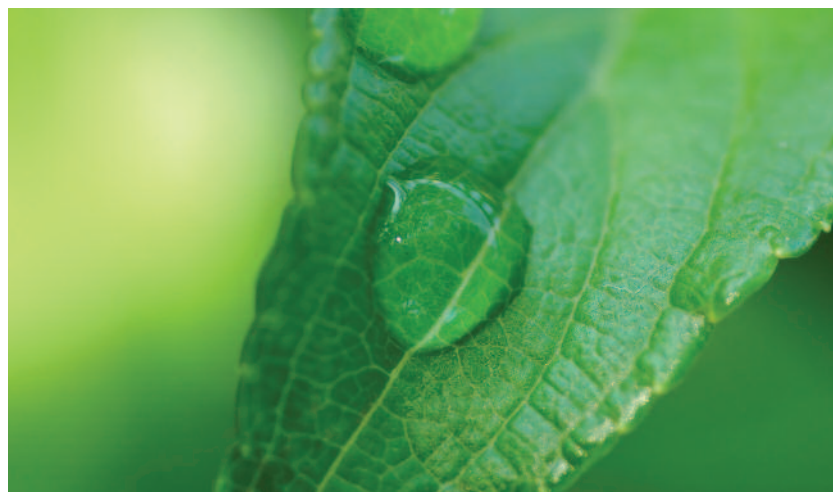
Rules governing U.S. country of origin labelling (COOL) that apply to Canadian livestock products were clarified after the Canadian government submitted a complaint to the WTO dispute resolution process. COOL legislation threatens the relatively free-flowing movement and processing of Canadian meat products in the U.S.

### The natural environment

The environment and climate change are high on the agenda in many jurisdictions. Consumers increasingly weigh the social consequences of their purchases, including environmental impacts.

Environmental awareness is on the rise and sustainable development is quickly becoming a popular way to differentiate products.

The agriculture industry faces climate change, soil deterioration, the loss of productive land and depletion of water supplies. In response, producers are adopting precision farming techniques, nutrient optimization, fuel conservation and sound water management strategies.







Urban sprawl is consuming productive agriculture land and increased concerns regarding the environment make it more difficult for producers to grow their businesses. It is complicated to expand intensive livestock operations in heavily populated areas because environmental regulations often favour homeowners over industry.

The need for energy is never-ending. The search for clean energy has a major impact on sectors ranging from research and development to agriculture. The North American biofuel industry remains intact despite high input costs and low fuel prices.

The relationship between energy and agriculture is both a challenge and an opportunity. Variations in the cost of energy throughout the year created additional risk for agriculture businesses. Although prices came down from record highs, there is concern about the long-term availability and stability of conventional energy and the related environmental impacts. Some producers are seeking alternative sources, while others see energy production as a future source of income.

Carbon policy is gaining momentum and the G8 nations have agreed to reduce world greenhouse gas emissions by 50 per cent by 2050. As policy pressures encourage the development of a carbon economy, producers may play a key role in the reduction of carbon.

### Technology advances

Advances in genomics will influence the way we grow food. To increase productivity and expand global acreage, international seed companies are introducing drought-tolerant hybrids and crops with less need for high-energy fertilizer inputs.

Today, agriculture is about more than food. As the industry evolves and embraces bio-pharmacy, bio-energy, bio-materials and eco-services, the opportunity for technological innovation will increase.

Agriculture is adopting efficiency-based technologies to improve productivity by integrating IT, robotics and GPS technology. Servicing such new technology will create challenges if the need for highly specialized service workers cannot be met.





2005

Consumer demand will influence new advances in technology. Further integration of radio frequency identification with supply chains and the use of GPS have enhanced efficiency and traceability throughout the agriculture industry. The hoof-to-hook tracing used by the Canadian Cattlemen's Association and identity preservation for grains are examples of such innovations.

### Agriculture finance

Many suppliers, producers and processors involved in the agriculture value chain finance their operations with some credit. Domestic and foreign end users use credit to buy agriculture products. Although Canada's banking system remains stable, some foreign buyers are having difficulty accessing adequate credit. When credit availability is restricted, every part of the value chain is impacted.

### Profitability

In 2008-09, grains and oilseed producers across the country saw considerable increases in market prices. Profits for dairy and poultry producers remained stable, while other businesses that rely heavily on U.S. exports, such as cattle, hog, potato, vegetable and forestry, saw profits decline.

Risk management practices have been even more important and challenging due to market volatility.

### Grains and oilseeds

The events of the past year have clearly demonstrated the need for sophisticated risk management in grain marketing. Higher prices in the first half of the year can be attributed to low global stocks, greater demand for biofuels and greater demand from developing countries. Rapid price

reductions were caused by decreased demand due to the global economic downturn. Margins for producers have been reduced. Input costs have followed a similar pattern of rapid decline.

### Beef

In 2008-09, the Canadian beef industry experienced tight margins, higher feed costs and lower prices. The high Canadian dollar, combined with lows in the price cycle and additional transportation and export costs, reduced prices. Margins were negative for feedlots and marginal for cow-calf operations. The beef packing industry is also suffering from low utilization levels that reduce efficiency and profitability. Packers face increased costs due to legislated requirements that satisfy specified risk material regulations implemented because of BSE.





## Pork

Canada's pork industry faced unprecedented challenges in 2008-09. Higher feed and transportation costs lowered margins for most producers and contributed to a reduction in the Canadian hog herd. Consolidation in the hog processing industry continues. With fewer plants in Canada, producers have fewer marketing choices and face higher transportation costs. Prices in 2008 were higher than the previous year's price points, but still fall below the five-year average. As market hog numbers decrease over 2009-10, it is expected that prices will improve and the pork sector will stabilize.

## Poultry

Despite the tariff for table eggs, there have been times over the past three years when the world price plus the tariff and currency exchange fell below the domestic price. There is little room to raise Canada's table egg price and effectively control imports. Alignment in the structure of provincial supply management boards has occurred and the evolution of supply management in Canada is expected to continue.



## Dairy

Higher feed and energy costs caused milk prices to increase in 2008-09. Although production has been increasing, individual consumption of fluid milk and some milk products has been declining for 10 years.<sup>1</sup> During this period, per capita consumption of other milk products, such as cheese, yogurt and ice cream, has increased. Domestic milk prices are higher than the world price.

## Biofuels

Canada produces approximately 830 million litres of ethanol per year, with an additional 625 million litres of capacity under construction, for a total of 1.45 billion litres per year. Biodiesel production is 97 million litres per year, with 225 million litres per year under construction for a total of 322 million litres per year. In June 2008, the federal government passed the Renewable Fuel Bill, which mandates the production of between two and three billion

<sup>1</sup> Statistics Canada and Canadian Dairy Commission



2006

litres of renewable fuel production per year. Relatively high grain prices in the beginning of the year slowed some planned biofuel projects down. It remains to be seen whether the momentum will return with the drop in commodity prices.



### Agribusiness and agri-food

The importance of processing to Canadian agriculture is growing. In spite of increases in the overall export of agriculture products, slowing global demand for processed food products is cause for concern for businesses heavily dependent on exports. However, increased investment in research and development, technology-enabled innovation and changing customer needs make this a dynamic and strategic category of agricultural activity. Constant challenges to agriculture processing businesses in 2008-09

included the fluctuating value of the Canadian dollar, attraction and retention of skilled labour, heightened competition, and export markets. Constraints on the availability of trade finance to foreign customers also impacted exporters.

### Greenhouses

The Canadian greenhouse industry relies heavily on exports to the U.S. market. Early in 2008, the industry was challenged by the high Canadian dollar and high energy prices, and then benefited from the reduction of these costs later in the year. In the midst of several food safety scares throughout North America, Canadian greenhouses benefited as customers relied on them to provide safe, fresh produce.







### Farm succession planning

In 2008-09, the FCC portfolio included 8,627 customers aged 36 to 45. There were 12,713 customers aged 46 to 55. Remaining customers were over 55 or under 36 years of age. An estimated 23,000 producers will exit agriculture in the next five years. In many cases, there is a need for farms to transfer ownership over several years, creating an opportunity for FCC to provide succession products and services.

### Farmland values

The average value of Canadian farmland increased across the country by an average 5.6 per cent between July and December 2008.

- Farmland values increased in every province except Prince Edward Island, which remained the same
- The largest increase was in Saskatchewan followed by New Brunswick and Quebec
- Nova Scotia, Newfoundland and Labrador and Manitoba all experienced moderate increases
- Values increased slightly in British Columbia, Alberta and Ontario

Visit Farmland Values Online at [www.fcc.ca](http://www.fcc.ca) for the latest information on farmland values.



"FCC believes in what we're doing  
and that's the difference."



photo by Greg Huszar

## David and Beth Hatt, New Brunswick

A 500-acre farm located on the Bay of Fundy is home to Granite Town Farms. For more than 25 years, owners David and Beth Hatt have been farming wild blueberries. Today, they also process the berries to develop a number of value-added gourmet products.

Making everything from jams and jellies to vinaigrettes and hot sauces, David and Beth distribute their products to niche markets throughout Canada and the United States.

Competing in the world market, they recognize the need to produce their berries as efficiently and economically as possible.

David and Beth have partnered with FCC since the purchase of their first tractor. The couple appreciates the personal service they receive and recognizes the number of agriculture resources FCC has to offer.







## Awards

### FCC wins two awards at the 2008 Best of CAMA show

On November 6, 2008, FCC's Ag Day in Canada event and the FCC Awareness program booklet were both recognized with Awards of Excellence at the 2008 Canadian Agri-Marketing Association (CAMA) Best of CAMA awards.

Ag Day in Canada was honoured in Special Events, External: Customer-focused, and the FCC Awareness Program booklet was recognized in Publications and Electronic Publications, French category.

CAMA is a network of agricultural marketing professionals located in five Canadian provinces. CAMA chapters promote and develop excellence in the marketing of agriculture products, services and programs.

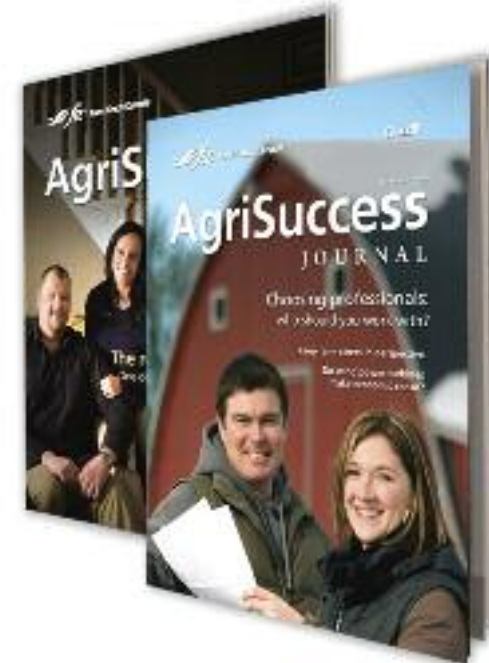


### CFWF honours the AgriSuccess Journal

FCC's AgriSuccess Journal was honoured by the Canadian Farm Writers' Federation (CFWF) at their annual awards banquet on October 4, 2008. AgriSuccess Journal was awarded gold in the General Periodical category.

Winning entries were selected by a panel of 24 judges from across Canada and the U.S., including journalism professors and editors from both agriculture and non-agriculture mainstream publications.

The CFWF serves the common interests of agriculture journalists, including reporters, editors and broadcasters, as well as those in business and government whose primary responsibility is agriculture communications.





2008

## Products and services

FCC cares about customers and takes the time to listen, learn and understand their businesses. FCC offers a combination of financing, insurance, management software, information and learning products and services. FCC focuses on creating extraordinary customer experiences.

### Primary production financing

FCC lends money to primary producers with loans tailored to the unique needs of agriculture. Diverse customers include those who produce raw commodities like crops, beef, hogs, poultry, sheep, dairy, fruits and vegetables. FCC employees build relationships with customers to ensure the right combination of terms, security and payment schedules meets their current and future needs.

### Agribusiness and agri-food financing

FCC lends money to those who buy from and sell to primary producers. These are the equipment manufacturers and dealers, input providers and processors along the agriculture value chain. If customers need financing to do business, they can talk to an FCC Relationship Manager or sales team member who helps them take advantage of opportunities.

### Financing for equipment, crop input and livestock

FCC provides lending services where our customers do business through a network of equipment dealers, crop input retailers, and livestock marketers. Equipment dealers are able to help their customers obtain equipment loans and leases by becoming a member of the National Equipment Dealers Finance Program.

These programs support the core business objectives of FCC partners while conveniently offering innovative financial solutions to producers at point of sale. FCC currently has relationships with 525 agriculture equipment retailers, in addition to over 500 crop input retail outlets, financial institutions, other agricultural groups and co-ops.

### FCC Learning

FCC strengthens the relationship with customers through management training, information and learning. Workshops, learning tours and speaker sessions include the following topics: managing farm finances, human resources, succession planning and others.

In 2008-09, FCC continued the FCC Forum customer event series, held in nine cities across Canada, featuring highly acclaimed speakers addressing the theme of Big Ideas for your Future.

The second FCC Ag Day in Canada took place on January 28, 2009, in 89 locations across the country. It recognized the contributions of our customers and agriculture and provided an opportunity for participants to learn about the latest innovations in the ag industry, learn about sector outlooks and future trends, meet up with friends and connect with producers and operators in their area.

Every week, customers can get the latest in agriculture e-news with AgriSuccess Express. This publication shares provincial, national and international news and trends that affect agriculture. AgriSuccess Express is delivered free, on a weekly basis, to subscribers and customers with email addresses.

Customers can learn more about farm management strategies with AgriSuccess Journal, which is published every two months. With this free national farm management magazine, customers get tips and insight from industry experts and producers.

### FCC Management Software

FCC offers software designed for Canadian producers – AgExpert Analyst and Field Manager PRO.

AgExpert Analyst allows customers to enter income and expenses, track inventory and capital assets and prepare financial statements. With just a few clicks, a completed GST return is ready. It's the accounting software that's designed specifically for Canadian agriculture.

Field Manager PRO is an innovative crop record-keeping and planning system that gives customers access to all of their crop production data – any time, anywhere.







The FCC Drive Away Hunger Tour goes national, collecting one million pounds of food

Using this application, customers get a complete picture of their operation as it is and as it could be, using a desktop PC or handheld.



### FCC insurance

Insurance is an important tool for any business. It is also important to our customers. That is why we offer loan life and accident insurance tailored to agriculture. It is an easy way for our customers to protect themselves, their businesses and their families.

### FCC Ventures

FCC Ventures is the corporation's venture capital business line. Since its inception in 2002, FCC Ventures has been a leader in addressing the need for non-traditional capital financing in Canada's agriculture industry.

In 2006, FCC became the lead sponsor in the Avrio Ventures Limited Partnership with a commitment of \$50 million. This fund was created to enhance the corporation's ability to attract other investors and increase the level of venture capital available to the agriculture industry. In 2008-09, the fund grew to \$75 million with new investors joining the limited partnership. Avrio Ventures is Canada's first industrial life sciences venture capital fund and was created in response to the convergence of life sciences and industrial technology. Its focus is on investments in Canadian commercialization to growth stage companies in three emerging sectors: industrial bio-products, food technology and nutraceutical ingredients. Avrio Ventures has three offices across Canada in Montreal, Toronto and Calgary.

Together with its funding partners, FCC Ventures has invested over \$207.0 million in the industry. During the 2009 fiscal year, FCC Ventures invested \$14.3 million in venture capital funds directly and through the Avrio Ventures Limited Partnership, bringing its total contribution to \$87.2 million since inception. For every dollar invested by FCC Ventures, third party co-investors have contributed \$1.40 in venture capital.

### FCC Online Services

FCC makes it easy for customers to do business. Customers can check their entire portfolio online, review farmland values reports, use a farm finance kit, and watch commodity futures prices, the weather and news, 24 hours a day, seven days a week.

### CanadianFarmersMarket.com

FCC developed CanadianFarmersMarket.com, a website to bring buyers and sellers together and help customers market their products and services. Consumers can purchase Canadian products online, direct from producers, while learning what agriculture has to offer. Our Farmer to Farmer section allows producers to sell their products and services to each other. Categories include livestock and feed, seed and inputs, nursery plants, equipment and special services.





**“Farm Credit Canada understands the agriculture community a lot better than anybody else. If FCC hadn’t been there when we needed help, I don’t know if we’d be in business today. They really stepped up for us.”**

photo by Dominic Schaefer

## Peter Dhillon, British Columbia and Quebec

Peter Dhillon has been in the cranberry business for 30 years. A second-generation farmer, he runs four different operations spanning about 650 acres in British Columbia. With an expansion into Quebec underway, Peter is one of the largest cranberry producers in Canada.

According to Peter, growing awareness of the health aspects of cranberries has rejuvenated the business over the last decade and demand continues to grow.

Business is going well in comparison to low pricing levels the industry faced 10 years ago. It was then that Peter partnered with FCC. This relationship continues to grow along with his business.

Peter plans to continue expanding his company, with a goal to become the largest producer of cranberries in the world. And in doing so, he sees FCC beside him every step of the way.





## FCC loans and leasing

### Customized loans

#### 1-2-3 Grow Loan

Manage your cash flow with interest-only payments until you get a return on your investment.

#### Accelerator Loan

Are you a young farmer looking to build your farm? Get as low as zero down – and flexible payment options.

#### Advancer Loan

Use this pre-approved, secured loan with the flexibility to re-advance funds for capital purchases at your discretion.

#### AdvancerPlus Loan

Need financing that provides working capital to purchase inputs? Keep your day-to-day operations running smoothly with this revolving loan you can access any time.

#### American Currency Loan

If you derive a lot of your revenue in U.S. dollars, you can borrow and make payments in U.S. dollars.

#### Capacity Builder Loan

Purchase quota or breeding livestock with pre-approved financing for up to 18 months and the option to capitalize interest.

#### Cash Flow Optimizer Loan

Make interest-only payments while reinvesting funds into other areas of your operation, giving you the control to make principal payments when you choose.

#### Construction Loan

Defer your principal payments while you build or expand, with interim financing for up to 18 months on construction projects.

#### Enviro-Loan

Defer loan payments when constructing, improving or expanding your environmental facilities.

#### First Step Loan

Use your post-secondary education to buy your first farm-related asset.

#### Flexi-Loan

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

#### Payday Loan

Use your off-farm income to start or expand your farm business.

#### Performer Loan

Get rewarded with lower interest rates when your business achieves pre-set financial goals and ratios.

#### Start Now – Pay Later Loan

Defer payments in your operation until you start seeing rewards for your efforts.

#### Spring Break Loan

Match your payment schedule to the forestry harvesting season.

#### Transition Loan

Help the next generation purchase your property at retirement. Get the equity from your farm without risk.

### Standard loans

#### Closed rates

Get FCC's lowest rates fixed for the term of your personal property or mortgage loan.

#### Fixed rates

Fix a low mortgage rate for the term of the loan with a 10 per cent prepayment option included.

#### Open rates

Have the benefit of prepayment without penalty with a low rate fixed for the term of your personal property loan.

#### Variable rates

Enjoy maximum flexibility with a rate that floats as interest rates rise and fall. Prepay any amount at any time for personal property loans, or with the Open Variable Rate mortgage loans. Prepay up to 10 per cent any time for standard variable rate mortgage loans.

### Equipment leases

#### FCC Leasing

Lease new or used equipment at select equipment dealerships and benefit from less investment up front and increased flexibility.

"FCC has provided us an excellent financing tool to apply in our agriculture business. They understand what we need from start to finish."



photo by Mike Grandmaison

## Miller Farm Equipment, Saskatchewan and Manitoba

Serving the equipment needs of Western Canadian farmers for over 80 years, General Manager Doug Heritage and the team at Miller Farm Equipment understand the business of agriculture.

Miller Farm Equipment, a division of Rocky Mountain Dealerships Inc., operates agriculture equipment dealerships in six locations across Manitoba and Saskatchewan. Its 135 dedicated employees provide sales, parts and services to the agriculture industry and offer new and used equipment, including short lines, as well.

Through its alliance with FCC, Miller is able to offer convenient retail financing options to customers.

Together, they've formed a strong relationship that provides a competitive advantage, according to Doug. He believes FCC understands their business needs from start to finish. This shared understanding makes business easier for everyone.







## FCC corporate scorecards

Powerful trends that have significant implications for service providers like FCC are reshaping the agriculture, agri-food and financial industries. Intensifying environmental concerns, volatile food and energy prices, changing societal values and consumer demands, disruptive technologies and foreign competitors are impacting agriculture. We have studied these trends and developed a vision for the corporation that addresses them, taking into account the corporation's public policy role.

Instability in the world's financial systems is impacting all industries and agriculture is no exception. Despite uncertainty in the markets, our commitment to Canadian agriculture is unwavering and we are well positioned to respond to these challenges.

We will continue to be responsible, proactive and innovative, while demonstrating compassion to customers. As we weather the current economic environment, we are committed to advancing the business of agriculture, working with customers and industry.

**The 2008-09 corporate scorecard details our performance against objectives.** We believe our results demonstrate our commitment to producers, agribusiness operators and the industry.

**As part of the strategic planning process, these strategic priorities have been identified for 2009-10:**

- commitment to agriculture
- financial strength
- customer experience
- efficiency and execution
- culture and employee experience

The 2009-10 corporate scorecard plan outlines our strategies to continue providing products, services and knowledge tailored to the unique needs of the agriculture industry.

As we move forward, we remain committed to the success of the agriculture industry and to the people and communities it represents.



# 2008-09 Corporate scorecard results

## Strategic theme: Commitment to agriculture

**Desired outcome:** We will be recognized as an agriculture industry leader – promoting agriculture as a vibrant industry, supporting its long-term success and viability, and sharing knowledge and innovations.

2008-09 to 2012-13 strategic objectives	Corporate measures	2008-09 targets	2008-09 results
<p>Realize public policy role, serving as a catalyst and advancing positive change in the agriculture and agri-food industry</p> <p>Stakeholder awareness, credibility and support</p> <p>A leader in sharing aggregated industry knowledge and innovations</p> <p>Be socially responsible</p>	<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>	<ul style="list-style-type: none"> <li>1.4:1</li> <li>\$7.8 million</li> <li>\$52.2 million</li> </ul>	<ul style="list-style-type: none"> <li><b>Ahead at 1.5:1.</b> Since inception, FCC Ventures (together with its funding partners) has provided over \$207 million in funding to the agriculture industry. As at March 31, 2009, for every \$1 invested by FCC, third party co-investors have invested an additional \$1.40.</li> <li><b>Ahead at \$12.2 million.</b> FCC's total capital invested was higher than target at March 31, 2009. (The investment amounts are reported based on non-consolidated results at cost, before adjustments for fair value.)</li> <li><b>Ahead at \$60.4 million,</b> primarily due to lower principal repayments than expected, offset partially by lower capital invested to date. (The investment amounts are reported based on non-consolidated results at cost, before adjustments for fair value.)</li> </ul>
	Total investment in agriculture	Between 3% and 5% of the total administration budget	<b>Achieved:</b> As of March 31, 2009, total investment in agriculture was 3.8% or \$8.0 million. This included programs such as FCC AgriSuccess and community investment.
	<b>CanadianFarmersMarket.com</b> <ul style="list-style-type: none"> <li>number of unique visitors per month</li> </ul>	31,000	<b>Ahead at 40,594.</b> FCC launched a Facebook page in Q3 and targeted campaigns to wine and vineyard consumers and businesses.
	Corporate reputation index	Bi-annual measure	N/A: The next survey will be conducted during the 2010-11 fiscal year.
	Media favourability index	Score of 65	<b>Achieved:</b> FCC's overall favourability is 65. The global index for financial institutions was 53 in 2008.
	Measure development in progress	Develop measure and set baseline	<b>Achieved:</b> A Vision panel survey was used to establish a benchmark measure for the Knowledge Insider publication. We will track responses to "FCC is a trusted source." In 2008-09, 31% agreed and 10% strongly agreed.
	Corporate social responsibility scorecard	Report against CSR scorecard	<b>Achieved:</b> All 2008-09 CSR initiatives were completed as planned. See detailed information on page 35.



2008-09 initiatives	2008-09 results
Conduct program to inform elected officials of FCC's role and offerings	<b>Achieved:</b> 43 visits/calls as of March 31, 2009.
Measure FCC's total investment in agriculture in fulfilment of its public policy role	<b>Achieved:</b> FCC invested \$8.0 million in the Canadian agriculture industry in 2008-09. Programs include Drive Away Hunger, Canadian Ag Safety Week, AgriSpirit, Agriculture in the Classroom, and AgriSuccess.
Determine next phase of Venture Capital strategy	<b>Achieved:</b> Executive Committee has identified a five-year strategic goal to invest \$151 million by 2014. Strategic alternatives to increase venture capital investment are being considered.
Sustain young farmer strategy	<b>Achieved:</b> 4-H to 40 (young farmer strategy) is complete, which covers FCC programs for 4-H, college students, beginning and developing farmers.
Implement awareness program	<b>Achieved:</b> New tradeshow material was produced for the agribusiness and agri-food sector. The TV awareness campaign ran in 2008-09.
Revise customer support strategy	<b>Achieved:</b> The strategy was renamed the Customer Support Program and will continue to assist customers facing industry, weather and economic hardships.
Aggregate domestic and global trends, ag knowledge and innovations, and package for external use	<b>Ahead.</b> The third edition of Knowledge Insider was released January 2009 for Ag Day in Canada and accompanied by a video production. The publication was distributed to over 90 media and 70 associations for its release. It was very well received by the media, achieving a media favourability score of 79 (target was 56). The publication was downloaded over 10,500 times and was presented at the Canadian Renewable Energy Workshop in January 2009.
Grow producer knowledge of management practices via AgriSuccess information and learning programs	<b>Ahead.</b> Producers scored 76 workshops at an average of 4.5 out of 5. Nine FCC Forums scored an average of 4.6 out of 5. Ten learning tours, with 68 event stops, were conducted throughout rural Canada, scored 4.4 out of 5. Ag Day in Canada scored 4 out of 5 on customer evaluations with over 3,600 in attendance at 89 events. AgriSuccess Journal grew by four pages of value-added content.
Implement CSR strategy (corporate governance, human resources management, community investment and involvement, health and safety, human rights and customers)	<b>Achieved:</b> See detailed information on page 30.
Develop and implement environment strategy	<b>Achieved:</b> Sustainability expert, Stratos, has been contracted by FCC to help enhance the existing CSR strategy. As part of their work, Stratos will validate the FCC Environment, Health and Safety Strategy and determine recommendations to reduce FCC's environmental footprint. A Corporate Office recycling program has been established, which includes paper, cardboard, toner cartridges, batteries, pop cans, bottles, plastic, coffee K-cups and a selection of construction demolition materials.



## Strategic theme: Financial strength

**Desired outcome:** Financial success will enable us to fund long-term growth and continuing investment in agriculture.

2008-09 to 2012-13 strategic objectives	Corporate measures	2008-09 targets	2008-09 results
Profitable growth	Portfolio growth	6.9%	<b>Ahead at 14.1%</b> , primarily due to higher-than-target net disbursements.
Effective risk management	Non-interest revenue	\$25.4 million	<b>Ahead at \$28.3 million</b> due to higher-than-target loan fees, largely due to increased lending volumes and gross insurance premiums.
Effective financial management	Net disbursements	\$3,956.7 million	<b>Ahead at \$5,068.4 million</b> due to favourable lending volumes in AgProduction and AgValue.
Monitor and respond to marketplace activity	Net income	\$173.2 million	<b>Ahead at \$211.9 million</b> , primarily due to significantly favourable variance in net interest income. Net interest income is significantly higher than target due to favourable lending volumes, margins and borrowing costs. The favourable variance was partially offset by unfavourable variances in provisions for credit losses, administration expenses, total other income and fair value adjustment.
	% of PND with arrears	Less than 6%	<b>Ahead at 2.5%</b> due to: (1) agriculture is cyclical and most sectors experienced a relatively profitable period; (2) FCC implemented a customer support program for those sectors experiencing low profitability.
	Return on equity and investment	10.0%	<b>Ahead at 11.9%</b> due to higher-than-target net income.
	Core and total efficiency ratio	<ul style="list-style-type: none"> <li>old calculation 47.3%</li> <li>new calculation 45.5%</li> </ul>	<b>Ahead at 43.4%</b> . The efficiency ratio has been recalculated to adjust for non-controlling interest and to exclude expenses related to the investment in agriculture program. The efficiency ratio is ahead of target primarily due to the favourable variance in net interest income.
	Debt-to-equity ratio	Under 10:1	<b>Achieved at 8.3:1.</b>





2008-09 initiatives	2008-09 results
Develop comprehensive growth strategy	<b>In progress:</b> A pricing strategy is in development. The growth strategy will flow from the approved pricing strategy.
Develop non-interest revenue growth strategy	<b>Achieved:</b> Equipment leasing product was launched in Q3, with \$8.7 million of leases funded to March 31, 2009. FCC and SunLife agreed to increase life insurance exposure cap per customer from \$1.5 million to \$2.0 million. Balance of strategy development is deferred to 2010-11.
Develop AgValue growth strategy	<b>Achieved:</b> Strategy was developed in support of AgValue brand awareness, business development, lead generation, industry relations and collateral support.
Develop fraud awareness and prevention strategy	<b>Achieved:</b> FCC completed a fraud risk assessment identifying key risk areas and action plans required to implement an effective fraud risk management program. Actions are underway to address and mitigate these risks.
Enhance business continuity and security management	<b>Achieved:</b> The Business Continuity Project consists of nine scenarios, in various stages of development, vis-à-vis FCC's ability to conduct business during a disruption or crisis.  Security Management: The baseline enterprise security threat-risk assessment was completed in July 2008. The subsequent enterprise security policy framework and strategy was approved in November 2008. Enterprise Security program Phase II started in February 2009 to align FCC business-priority with security risk areas and establish security domains.
Implement and test mature, secure IT control framework	<b>Achieved:</b> The Information Technology (IT) division has completed a yearly review of the CoBIT Internal Control Inventory. IT controls, risks and gaps within CoBIT Control Objectives have been updated; 19 new mitigation strategies will be created and executed in 2009-10 to reduce risk within the IT environment.
Enhance risk-based pricing	<b>Achieved:</b> Phase 1 was completed in June 2008 and included improvements to Risk-Free Margin and Risk Adjustment components to better reflect experience and industry best practice.
Enhance internal control framework	<b>Achieved:</b> An education and awareness presentation made to Executive Committee highlighted the importance of implementing an Internal Control Framework at FCC. FCC formalized risk and controls assessment processes that are now used for major initiatives like the Credit Policy & Process Enhancement (CPPE) Program and BK. Further elements to strengthen the internal control framework will be delivered as part of the 2009-10 enterprise risk management process.
Grow profitability	<b>Achieved:</b> Developed and approved a profitability framework made up of 10 projects that will be implemented to enhance FCC's long-term financial strength.
Enhance loan loss allowance methodology	<b>Achieved:</b> Enhanced methodology was approved, which addresses all material gaps between FCC's current loan loss allowance methodology and Canadian industry best practice. KPMG deemed the methodology as reasonable and appropriate under Generally Accepted Accounting Principles and it is consistent with the International Financial Reporting Standards.
Develop margin management strategy	<b>Achieved:</b> A prototype model was developed and programming requirements provided to Information Technology. A cross-functional pricing committee has been established as an advisory body to the Asset Liability Committee.
Monitor and respond strategically to marketplace changes	<b>Achieved:</b> A policy review occurred and training about lending in these economic times was delivered to Operations staff.



## Strategic theme: Enhance customer experience

**Desired outcome:** We will create an extraordinary customer experience based on our genuine interest in the business of agriculture and customer success. We will provide solutions that exceed expectations and provide value to customers.

2008-09 to 2012-13 strategic objectives	Corporate measures	2008-09 targets	2008-09 results
<p>Team relationship management of current and potential customers, centres of influence and partners</p> <p>Anticipate and offer individualized solutions to all customers</p> <p>Fully leverage delivery channels</p> <p>Customer experience management strategy</p> <p>Product and service innovation for tomorrow's customers and partners</p>	Gross customer retention, net customer acquisition and net customer growth	Develop measure and set baseline	<b>Achieved:</b> The measure has been renamed Net Customer Acquisition. It is equal to the total of new customers, plus recaptured customers, minus customers who pre-pay.
	Customer advocacy	Develop measure and set baseline	<b>Achieved:</b> 49% of customers responding to the question "How likely are you to recommend FCC in the next year?" rated FCC 5 out of 5, a 4 % increase from March 31, 2008.
	Channel usage – number of unique website visitors per month	21,000	<b>Ahead at 28,297.</b>
	Customer experience index	54.44%	<b>Ahead at 59.0%.</b> The Customer Experience Index is derived from questions pertaining to customer satisfaction, loyalty, advocacy, ease of doing business with FCC – care, overall value and problem resolution. CEI scoreboard results focus on perfect "5 out of 5" rating.
	Custom product penetration	60%	<b>Ahead at 63.5%.</b> Custom product penetration is the percentage of disbursement lending using customized products such as standard-niche, interest only, deferred payment, extended disbursement, revolving and foreign currency product platforms.



2008-09 initiatives	2008-09 results
Develop team relationship management strategy	<b>Postponed:</b> Due to other priorities, this initiative is postponed until 2009-10.
Research sales process management best practices	<b>Achieved:</b> Best practices have been gathered, compiled and shared with staff nationally.
Implement tactics for AgValue strategy	<b>Achieved:</b> Three "FCC Business Connection" events were held with AgValue prospects, Centres of Influence and customers. New AgValue print ads and trade show displays were designed for AgValue marketing.
Develop individualized customer solutions strategy	<b>Achieved:</b> AdvancerPlus product and equipment leasing were launched in 2008-09.
Enhance awareness and uptake of FCC's other business solutions with Alliances and customers	<b>Achieved:</b> Operations employees are cross-promoting Alliances leads, FCC Management Software and FCC Learning opportunities.
Execute Customer Service Centre (CSC) strategies to provide customers with enhanced service via their channel of choice	<b>Achieved:</b> CSC continues to grow its service offerings to crop input alliance partners. Channel use through the CSC and business channels continues to grow.
Enhance equipment program sales strategy	<b>Achieved:</b> The FCC Leasing product was released.
Enhance equipment dealer and alliance channel conversion strategy	<b>Achieved:</b> Processes were established to introduce FCC Relationship Managers to new alliance or equipment dealer end customers. A "Welcome to FCC" package was rolled out and includes information on FCC's various business lines.
Implement customer experience management strategy	<b>Achieved:</b> All initiatives were completed. A Customer Experience Index target is now included in all employee team goals.
Determine corporate actions to enhance customer experience from customer experience index scoreboards	<b>Achieved:</b> A process has been developed to examine customer comments from the post-loan, annual report card and exit surveys. These themes were analyzed to develop tactics to continuously improve the customer experience.
Develop future producer strategy	<b>Achieved:</b> Strategy is complete and will be implemented in 2009-10.
Create products and services uniquely tailored to AgValue customers	<b>Achieved:</b> Products ranging from equity and subordinated debt to secured term loans are tailored to AgValue customers.
Create measure of product and service innovation	<b>Ahead at 75%.</b> The measure is a post-loan survey question, indicating the percentage of customers who feel FCC's loan product or service is superior. The target was 70%.



## Strategic theme: Optimize execution and efficiency

**Desired outcome:** We will create an effective, agile business infrastructure that makes it easy for customers and employees to do business. We will continue to enhance efficiency.

2008-09 to 2012-13 strategic objectives	Corporate measures	2008-09 targets	2008-09 results
<p>Easy for customers and employees to do business</p> <p>Enhanced channel capabilities</p> <p>Optimized business policies, processes and procedures</p> <p>Agile, integrated business infrastructure</p> <p>Effective project execution, management and control</p> <p>Efficient and execution-focused business climate</p>	Easy to do business with (customer and employee composites)	<p><b>Customer:</b> Develop measure and set baseline</p> <p><b>Employee:</b> Develop measure and set baseline</p>	<p><b>Achieved:</b> 54% of customers responding to the question “It is easy to do business at FCC?” rated FCC 5 out of 5. This is a 3% increase from March 31, 2008.</p> <p><b>Ahead at 77%.</b> This measure is a combination of employee engagement survey scores for five selected drivers – co-workers, physical work environment, resources, work processes and work tasks. Target is to attain an average score greater than or equal to the 50 Best Employers. FCC’s average score for these five drivers on the 2008 survey is 77%, up from 74.2% last year. The 50 Best Employers had an average score of 76%.</p>
	Dollars disbursed of CSC direct lending	\$370 million	<b>Ahead at \$514.9 million.</b>
	Efficiency index	Develop measure and set baseline	<b>Cancelled:</b> This measure was deleted as it is a duplicate of the “Efficient and execution-focused business” measure.
	Business and technology architecture capability	Establish targets	<b>Achieved:</b> An Architecture Capability Maturity Model was drafted and includes nine measurable elements, IT corporate measures, and a maturity model scorecard.
	Project management maturity	<p><b>Old target:</b> Level 2, with an average greater than or equal to 2.5 across 12 capabilities</p> <p><b>New target:</b> 29% or greater</p>	<b>Ahead at 43%.</b> The original measure was based on the Mark Mullaly/Interthink assessment of project management maturity levels (Level 1 to Level 5). In 2008-09, the measure was changed to the OPM3 ProductSuite project management maturity score. OPM3 is more complex, measures more things and is expressed as a %.
	Efficient and execution-focused business climate – measure development in progress	Develop measure and set baseline	<b>Achieved:</b> All divisions compile corporate efficiencies gained and report on them in the divisional performance objectives.





2008-09 initiatives	2008-09 results
Implement business process and technology transformation to enhance customer and employee experience	<b>Achieved:</b> The Business Process and Technology Transformation Program (BK) is on track and operating within budget and scope.
Create composite customer and employee measure	<p><b>Achieved:</b> 54% of customers responding to the question “It is easy to do business at FCC?” rated FCC 5 out of 5. This is a 3% increase from March 31, 2008.</p> <p><b>Ahead at 77%.</b> This measure is a combination of employee engagement survey scores for five selected drivers – co-workers, physical work environment, resources, work processes and work tasks. Target is to attain an average score greater than or equal to the 50 Best Employers. FCC’s average score for these five drivers on the 2008 survey is 77%, up from 74.2% last year. The 50 Best Employers had an average score of 76%.</p>
Leverage effectiveness of the CSC channel	<b>Ahead.</b> 75% of eligible AgProduction loans were processed by the CSC, resulting in over \$128.6 million in disbursements.
Revamp lending policies and processes to increase efficiencies and internal controls while enabling more time with customers	<b>Achieved:</b> Near-term improvements pertaining to the use of quota for security were implemented. A review of policies to mitigate credit risk and a review of valuation processes are underway.
Establish a long-term business process management strategy	<b>Achieved:</b> Developed methodology and approach for monitoring internal controls and redesigned process.
Define the principles, standards and processes required to ensure appropriate governance of FCC’s enterprise architecture.	<b>Achieved:</b> FCC’s enterprise architecture principles and standards have been defined for all enterprise architecture domains. These define the rules and guidelines for the use and deployment of FCC resources and assets across the enterprise and form the basis for making future Information Technology decisions.
Manage capacity to pace execution of major new initiatives through integrated strategic planning and SET	<b>Achieved:</b> In addition to selecting, prioritizing and sequencing projects through the Project Portfolio Management processes and reporting project portfolio status monthly to SMT, a project portfolio review was conducted by SET quarterly. At each quarterly review, adjustments to project priorities and sequencing were made as required based on resource constraints (or availability), change impact saturation or emerging business priorities.
Implement project management maturity strategy	<b>Achieved:</b> Project management process standardization was advanced by developing, communicating and implementing enhanced and scalable processes and tools covering the full project lifecycle. Organizational enablers such as project management policy and training were implemented. To measure progress against the 2008-09 baseline, the project management maturity assessment was repeated in Q4.
Ensure divisional process reviews	<b>Cancelled:</b> This initiative was deleted as it is a duplicate of the “Define and share best practice efficiencies” initiative.
Define and share best practice efficiencies	<b>Achieved:</b> All divisions are compiling corporate efficiencies and report in divisional performance objectives at year end.



## Strategic theme: Enhance employee experience

**Desired outcome:** We will sustain a high-performance culture where employees are highly engaged, strive for excellence and deliver outstanding results. Employees feel they add value and are appreciated and act as FCC ambassadors.

2008-09 to 2012-13 strategic objectives	Corporate measures	2008-09 targets	2008-09 results
Culture of partnership, accountability and leadership  Employer of choice  Customer and knowledge-focused strategic competencies and capabilities	Employee engagement score	Minimum threshold 80% NOTE: Changed to – Equal to or better than the average of the 50 Best Employers	<b>Ahead at 81%.</b> The average of the 50 Best Employers was 76%. FCC ranked number 8 on the 2009 Top 50 list.
	Employee experience index	Annual Hewitt Survey score for the five selected drivers greater than or equal to the average of the 50 Best Employer scores	<b>Ahead at 77%.</b> This is well above the 73.4 per cent average achieved by the Top 50 Employers.
	Change management maturity	Approve change management maturity model and establish target	<b>Achieved:</b> Level 4 of Prosci Change Management Maturity Model has been chosen as target. At this level, organizational standards and methods will be broadly deployed for managing and leading change.
	Code of conduct	100% of employees review Code of Conduct and Ethics and sign Declaration of Fidelity and Secrecy annually	<b>Achieved:</b> Each calendar year, all employees are required to review the Code and complete an online renewal of their Declaration and Promise of Fidelity and Secrecy. For 2009, 100% of employees have completed the annual renewal process.
Strategic enterprise governance	2008-09 initiatives		2008-09 results
	Develop and implement next phase of culture strategy (culture in action)		<b>Achieved:</b> A new culture course for leaders (The Will and the Skill) was rolled out. A new Culture 101 course and a new workshop on alignment was developed.
	Implement employee engagement strategy		<b>Achieved:</b> EC finalized the corporate response to the latest employee engagement survey results. A series of initiatives and an enhanced communication strategy to connect employee input with tangible actions were implemented.
	Implement employee experience program		<b>Achieved:</b> Nine initiatives to address gaps in the employee experience were rolled out, including a new leaders communication toolkit, a new leadership training course, and a career planning guide for all employees.
	Review total remuneration and rewards program		<b>Achieved:</b> Review of total remuneration was completed and recommendation approved by the Board.
	Develop and implement a learning strategy		<b>Achieved:</b> Performance Measurement Model was developed and performance-based learning design was implemented.
	Develop workforce analysis and plan that includes: attraction, retention, diversity, official languages		<b>Achieved:</b> Workforce analysis complete and strategies developed that will focus on leadership, workload/flexibility, career development, culture and pay. Continued focus on building a more diverse workforce; first by launching Aboriginal Summer Student program. Completed development of a new career planning guide for employees. Demonstrated support for official languages by launching the new FCC Expression Fund. Review conducted on policy for second language training.
	Implement next phase of change management strategy		<b>Achieved:</b> The second phase of the change management strategy was approved. Specific recommendations include the need to pace and co-ordinate change initiatives.
	Review and implement enhanced leadership development program		<b>Postponed:</b> Implementation of this initiative was deferred to 2009-10 due to turnover and staffing of the Leadership Manager position.



## 2009-10 Corporate scorecard

### Strategic theme: Commitment to agriculture

FCC is known as “the” place to obtain financial products, knowledge and services tailored to agriculture – FCC is also known as a strong corporate citizen

**Critical outcome:** By 2018, 85 per cent of customers and 25 per cent of stakeholders consider FCC to be the first choice in the marketplace as a credible provider of agricultural financial products, knowledge and services. FCC is viewed as a strong corporate citizen by 85 per cent of target stakeholders by 2018.

Corporate measures	2009-10 targets
Total investment in agriculture	\$12.5 million
Social impact measure	Develop measure and set target
Corporate social responsibility scorecard	Report against scorecard
Corporate reputation index	+50 or more
Media favourability index	10 points above global average for financial institutions
Five-year strategic objectives	2009-10 initiatives
Significant investment in initiatives that enhance producer and agribusiness success (education, awareness, knowledge)	<ul style="list-style-type: none"> <li>• Allocate new investment in agriculture budget (choose, prioritize and implement initiatives)</li> <li>• Enhance FCC Learning by expanding content providers, delivery channels (online), and AgValue content</li> <li>• Position FCC as supporter of agriculture and agri-food industry in marketing and communication, including advertising</li> </ul>
Aggregated knowledge and innovations impacting agriculture industry (sense-making for industry)	<ul style="list-style-type: none"> <li>• Deliver leading-edge, targeted knowledge program to customers and other industry stakeholders</li> <li>• Interact directly with customers and other stakeholders online</li> </ul>
Fully implemented Corporate Social Responsibility program (including championing the environment and employees recognized as strong rural community leaders)	<ul style="list-style-type: none"> <li>• Offer customers learning tools regarding sustainable agriculture practices</li> <li>• Provide farm safety training in collaboration with others</li> <li>• Expand national Drive Away Hunger program</li> <li>• Adopt a green strategy</li> </ul>



## Strategic theme: Financial strength

FCC is financially viable and self-sustaining in the long term, while investing significantly in the agriculture industry

**Critical outcome:** By 2018, FCC will have a diversified and efficient balance sheet with a substantial AgValue portfolio. FCC will have an ROE of 12 per cent with significant income derived from both lending and non-interest sources.

Corporate measures	2009-10 targets
Net income	\$226.8 million
ROE	11.2%
Efficiency ratio	45.0% <sup>2</sup>
Venture capital invested	\$67.3 million
Debt-to-equity ratio	7.5:1
Five-year strategic objectives	2009-10 initiatives
Profitability framework targeting portfolio growth, risk, margins and returns	<ul style="list-style-type: none"> <li>Define, communicate and reinforce the desired lending culture</li> <li>Develop a framework for profitability reporting by field location</li> <li>Develop a capital management framework based on economic capital principles that reassesses capital requirements, portfolio risk and diversification limits</li> <li>Comply with International Financial Reporting Standards</li> </ul>
Diversified income sources beyond traditional lending model to non-interest sources	<ul style="list-style-type: none"> <li>Examine non-interest income sources and propose options for income generation and diversification</li> </ul>
Venture capital strategy outlining investment levels to increase FCC's presence in the AgValue marketplace	<ul style="list-style-type: none"> <li>Develop a comprehensive, long-term venture capital strategy</li> </ul>
Dynamic and sophisticated pricing model balancing risk and return and incorporating market forces	<ul style="list-style-type: none"> <li>Create a pricing strategy using economic capital concepts</li> <li>Implement pricing optimization incorporating elements such as competitive environment, customer attributes and regional market share</li> </ul>
Future growth strategy	<ul style="list-style-type: none"> <li>Create a growth and market share strategy that balances market opportunity, volume and margin to create the optimum AgProduction and AgValue portfolio</li> </ul>
Internal control framework	<ul style="list-style-type: none"> <li>Develop and implement an enterprise risk and control framework</li> </ul>

<sup>2</sup> Target was recalculated to adjust for non-controlling interest and to exclude expenses related to the investment in agriculture program.





## Strategic theme: Customer experience

### Customers are passionate advocates of FCC

**Critical outcome:** By 2018, FCC will deliver an extraordinary customer experience to producers, suppliers and processors, with a strengthened reputation among AgValue customers and prospects. FCC's customer experience index score is at 65 or higher, and its loan portfolio is at \$25 billion.

Corporate measures	2009-10 targets
Customer Experience Index – scorecards	57.94%
Customer advocacy	47.22%
Portfolio growth – AgProduction	5.24%
Portfolio growth – AgValue	10.06%
Products tailored to agriculture	71%
New lending to young producers	\$1.43 billion
Five-year strategic objectives	2009-10 initiatives
Known in Canada as a best practice organization that consistently provides an extraordinary customer experiences	<ul style="list-style-type: none"> <li>Implement a brand ambassador program</li> <li>Sustain customer experience standards</li> </ul>
Disciplined sales management culture	<ul style="list-style-type: none"> <li>Integrate customer experience and sales process</li> </ul>
Sophisticated, innovative products that differentiate FCC	<ul style="list-style-type: none"> <li>Expand lease product to field channel</li> <li>Research and develop young farmer product needs</li> <li>Research services and products to assist customers with environmental responsibility</li> </ul>
Offerings and customer experience tailored to AgValue	<ul style="list-style-type: none"> <li>Tailor products to AgValue market</li> </ul>
Increased awareness of FCC with AgValue prospects	<ul style="list-style-type: none"> <li>Develop and execute an awareness campaign for AgValue</li> </ul>



## Strategic theme: Efficiency and execution

### FCC makes it easy for customers and employees to do business

**Critical outcome:** In 2018, FCC is a highly efficient, effective and agile organization in the eyes of customers, business partners and employees (as per major measures).

Corporate measures	2009-10 targets
Customer Experience Index (easy to do business indicators)	52.57%
Employee engagement (work processes indicators)	Measure performance against targets (baseline to be set in Q4 of 2008-09)
Benefits realization	Develop measure
Project management maturity	OPM3 ProductSuite project management maturity score of 37%
Five-year strategic objectives	2009-10 initiatives
Continuous process improvement and reengineering of all corporate functions. Excel at ease, speed and efficiency of processes	<ul style="list-style-type: none"> <li>• Increase number of key corporate processes that are accomplished electronically</li> <li>• Define decision rights for key processes and projects</li> <li>• Further develop content management capabilities and processes</li> <li>• Ensure lending processes fulfill needs of AgValue strategy</li> </ul>
FCC is an agile organization able to change priorities to capitalize on complex new business opportunities	<ul style="list-style-type: none"> <li>• Implement initiatives to enhance project management maturity</li> </ul>
Mix of external and internal capability to maximize corporate performance	<ul style="list-style-type: none"> <li>• Identify corporate functions, services or processes for alternate methods of service delivery</li> </ul>
High-performing, optimized and agile technology portfolio that creates competitive advantage for FCC and its customers	<ul style="list-style-type: none"> <li>• Implement redesigned information technology operating model to ensure the ongoing maintenance, optimization and agility of technology investments</li> </ul>



## Strategic theme: Culture and employee experience

### FCC is an employer of choice with a high-performance culture and strong employee engagement

**Critical outcome:** By 2018, FCC is a highly desirable employer for people with a passion for excellence. Employees know they will grow their career (knowledge, skills, abilities and attitudes). FCC delivers on its commitment to provide all employees with inspirational leadership. FCC will attain an employee engagement score greater than or equal to the average of the 50 Best Employers.

Corporate measures	2009-10 targets
Employee engagement index	Greater than or equal to the average for the 50 Best Employers
Employee engagement – employee experience indicators	Greater than or equal to the average for the 50 Best Employers
Employee engagement – “easy to do business with” employee indicators	Greater than or equal to the average for the 50 Best Employers
Employee engagement – leadership indicators	Greater than or equal to the average for the 50 Best Employers
Five-year strategic objectives	2009-10 initiatives
FCC offers a stellar employee experience	<ul style="list-style-type: none"> <li>Design a holistic health and well-being strategy that supports employee wellness</li> </ul>
FCC sustains and grows its culture of accountability and high performance	<ul style="list-style-type: none"> <li>Develop the leadership coaching capabilities of formal leaders relative to FCC’s culture of accountability and high performance</li> <li>Develop a program to enhance the understanding and behaviours of all employees relative to FCC’s culture of accountability and high performance</li> </ul>
FCC recruits and retains high-performing employees, and possesses a bilingual and diverse workforce	<ul style="list-style-type: none"> <li>Define, develop and implement a talent supply process, which encompasses bilingualism and diversity</li> </ul>
FCC provides learning and knowledge that equips employees to serve sophisticated customers and prospects	<ul style="list-style-type: none"> <li>Develop and implement a knowledge strategy that helps employees keep pace with increasingly sophisticated AgProduction and AgValue customers</li> <li>Implement the learning strategy, providing just-in-time, easy to access learning and learning events, using blended learning methods</li> <li>Develop tools to support learning strategy including a Learning Content Management System and a Learning Management System</li> </ul>
Flexible compensation and rewards programs	<ul style="list-style-type: none"> <li>Research long-term incentives tying employee compensation to the performance and success of the organization</li> </ul>
Leaders offer consistent employee experience	<ul style="list-style-type: none"> <li>Design and implement a new leadership development program that supports FCC’s vision and future direction</li> </ul>



# Management discussion and analysis 2008-09

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### Caution regarding forward-looking statements

FCC's Management Discussion and Analysis (MD&A) includes forward-looking financial information based on certain assumptions that reflect management's planned course of action with the most probable set of economic conditions. By their nature, assumptions are subject to inherent risks and uncertainties. There is significant risk that actual results may vary and that the differences may be material. Some factors that could cause such differences include changes in general economic and market conditions, including, but not limited to, interest rates. To manage within this volatility, management routinely forecasts financial results, as early as the first quarter.





# Strategic overview

## Vision and strategy

FCC is Canada's leading provider of agricultural finance and has been in the business of agriculture for 50 years. To meet the changing needs of the industry, FCC offers customized debt and equity financing, creditor insurance, management software, information and learning opportunities. The driving force behind FCC's current financial success and the key to its future success is its dedication to agriculture as stated through the following 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.*

To achieve the vision and deliver on the mission, FCC has developed objectives and strategies that are categorized into five strategic themes:

- **Commitment to agriculture**
- **Enhance customer experience**
- **Optimize execution and efficiency**
- **Enhance culture and employee experience**
- **Financial strength**

## Performance measurement

As discussed in FCC's Corporate Scorecard section on pages 52 through 65, FCC has developed several key measures, targets and initiatives to achieve its desired outcomes under each strategic theme. The following discussion outlines FCC's overall progression and its challenges in attaining its current and future goals under each strategic theme based on the results of the corporate scorecard measures.

### Commitment to agriculture

FCC endeavours to promote agriculture as a vibrant industry, supporting its long-term success and viability, and sharing knowledge and innovations to advance the business.

#### → Progress toward desired outcome

FCC met or exceeded its 2008-09 targets toward investment in agriculture, social responsibility, and media favourability, and is on track to achieve its long-term initiatives. In particular, FCC met its investment in agriculture goal by investing \$8.0 million – 3.8 per cent of its administration expense budget – into the agriculture industry.

### Enhance customer experience

FCC strives to create an extraordinary customer experience based on genuine interest in the business of agriculture and the success of its customers. FCC works to provide solutions for customers that exceed their expectations and provide value.

#### → Progress toward desired outcome

The 2008-09 customer experience targets for customer retention, advocacy, experience and custom product penetration have been exceeded. In particular, the customer experience index measure reached an all-time high of 59.0 per cent, which was 4.6 per cent above the 54.4 per cent target.



### Optimize execution and efficiency

To achieve the desired outcome of this strategic theme, FCC must create an effective, agile business infrastructure that makes it easy for customers and employees to do business, while continuing to enhance efficiency.

#### → Progress toward desired outcome

FCC's efficiency and execution targets have been met or exceeded for 2008-09. Particularly, FCC succeeded in developing a measure and setting a baseline for determining the ease with which customers and employees do business with FCC. Additionally, FCC exceeded its Customer Service Centre direct lending goal of \$370 million by \$145 million.

### Enhance culture and employee experience

FCC strives to sustain a high-performance culture where employees are highly engaged, strive for excellence and deliver outstanding results. FCC needs to ensure that its employees feel they add value, are appreciated and act as FCC ambassadors.

#### → Progress toward desired outcome

Goals under this strategic theme were met or exceeded in 2008-09. FCC achieved its employee engagement goal by exceeding the 80 per cent threshold with a score of 81 per cent. Additionally, FCC met its internal goal of meeting or exceeding the average engagement score of Canada's 50 Best Employers, as named by the Globe and Mail's Report on Business Magazine. The average engagement score was 76 per cent.

### Financial strength

In order for FCC to fund long-term growth and continue investing in agriculture, the corporation maintains a strong and diversified portfolio and seeks to expand its income sources beyond the traditional lending model.

The financial strength strategic objectives will be discussed in greater detail throughout the MD&A.

#### → Progress toward desired outcome

In 2008-09, all goals under the financial strength theme were achieved or exceeded. FCC experienced portfolio growth of 14.1 per cent, and exceeded its net income target by 22.3 per cent. The favourable variance was primarily related to higher net interest income due to the higher than target net disbursements and net interest margin. This was partly offset by lower other income and higher than target provision for credit losses and administration expenses.

### Future outlook

Although there is a great deal of uncertainty regarding the exact impact of the current economic environment on the agriculture industry, FCC is well positioned to meet potential challenges. The corporation is well capitalized with over \$2.3 billion in equity and loan loss reserves of \$559.0 million. FCC's portfolio remains strong and healthy even though certain sectors are experiencing some duress. Total arrears and other portfolio health measures remain favourable. With a low debt-to-equity level, high-quality risk management practices and a solid marketplace brand, FCC is beginning the year from a strong position and expects to meet its strategic goals in 2009-10.

FCC will continue to focus on its diversified growth strategy in 2009-10, and closely monitor and respond to external and internal financial trends. Risk levels will be diligently monitored to ensure they continue to be within acceptable tolerances.

The financial performance section provides a more in-depth analysis of the key drivers contributing to FCC's progression toward financial success.



# Financial strength: Performance against plan

FCC monitors progress toward its desired outcomes through four key strategic objectives within the theme of financial strength:

- **Monitor and respond to marketplace activity**
- **Profitable growth**
- **Effective financial management**
- **Effective risk management**

This section of the discussion focuses on these objectives and describes FCC's financial performance against each, relative to the 2008-09 plan.

## Monitor and respond to marketplace activity

Awareness and responsiveness to marketplace activity and economic shifts are key factors in maintaining FCC's financial strength. To identify future trends, strategic issues and opportunities, FCC continually monitors its external operating environment, paying particular attention to events, trends and developments impacting the agriculture industry. With recent global economic volatility, this objective will become increasingly important in realizing long-term financial success.

### → Progress toward strategic objective

In 2008-09, FCC's market monitoring process identified several emerging trends as a result of economic volatility and made adjustments as a result. FCC established a pricing committee to more closely monitor and respond to fluctuating interest rates and help FCC remain competitive. FCC also made adjustments to its transfer pricing model to better capture current economic trends in its modeling process.

## Profitable growth

To generate a sufficient rate of return to meet FCC's financial targets, the corporation must continue to grow its portfolio. Portfolio growth is driven by many factors including net disbursements, principal payments, loan maturities, loan renewals and prepayments. Net disbursements is a key measure when assessing FCC's performance, as it is the largest contributor to portfolio growth.

FCC also uses principal not due (PND) to assess growth between various business lines, geographic areas and enterprises. Profitability is then assessed through net interest income and net interest margin analysis.

### → Progress toward strategic objective

FCC performed well in 2008-09. It exceeded both its portfolio growth and profitability plan targets. FCC exceeded its net disbursement and loans receivable plan target by \$1,111.7 million and \$1,155.5 million respectively.

## Effective financial management

FCC monitors several measures in its financial management analysis to ensure effectiveness. These measures include spending efficiency, capital management, credit quality and shareholder return. By monitoring these areas, FCC ensures its overall financial stability, which is critical to fulfilling its public policy role over the long term.

### → Progress toward strategic objective

In 2008-09, FCC exceeded its efficiency ratio goal of 45.5 per cent due to higher than expected income levels. Shareholder return measures and credit quality measures were also better than their corporate scorecard targets. Return on equity was 1.9 per cent above its target and the per cent of PND in arrears was below the 6.0 per cent target for 2008-09.

## Effective risk management

FCC uses enterprise risk management (ERM) to identify, monitor and communicate risks to various levels of management to guide decision making, and to ensure risk management practices are appropriate. ERM focuses primarily on monitoring strategic, credit, market and operational risk.

### → Progress toward strategic objective

Throughout 2008-09, FCC identified and created action plans for its top 10 risks to be implemented in 2009-10. As a result of actions taken in 2008-09, some of the risks identified in 2007-08 were reduced to an acceptable level and have been removed from the top 10 risks list.



The chart on the right provides a comparison of the actual outcomes against the plan targets for “profitable growth” and “effective financial management.” Progress toward the “monitor and respond to market activity” and “effective risk management” strategic objectives are measured by the success of their strategic initiatives, and do not have financial targets.

### Profitable growth

(millions of dollars unless otherwise noted)

	2009 Actual	2009 Plan
<b>Portfolio growth</b>		
Loans receivable	17,098.5	15,943.0
Loans receivable growth (per cent)	14.1	6.9
Net disbursements	5,068.4	3,956.7
<b>Venture capital</b>		
Investments – total capital outstanding	66.0	52.2
Investments – carrying value	61.9	58.8
<b>FCC Management Software</b>		
Net sales revenue	1.5	1.6
<b>FCC Insurance</b>		
Gross insurance revenue	14.1	12.7
Net insurance revenue	4.5	6.5
<b>Portfolio profitability</b>		
Net interest income	508.0	448.9
Net interest margin (per cent)	3.05	2.78
Net income	211.9	173.2

### Effective financial management

(millions of dollars unless otherwise noted)

	2009 Actual	2009 Plan
<b>Efficiency</b>		
Administration expenses	231.4	216.0
Efficiency ratio* (per cent)	43.4	45.5
<b>Capital management</b>		
Debt to equity (\$ of debt per \$ of equity)	8.3	8.0
<b>Credit quality</b>		
Arrears	41.6	64.5
Impaired loans	217.8	207.3
Provision for credit losses	70.0	69.1
Allowance for credit losses	559.0	615.8
<b>Shareholder return</b>		
Return on equity (per cent)	11.9	10.0

\*The efficiency ratio has been recalculated to adjust for non-controlling interest and to exclude expenses related to the Investment in Agriculture program, see page 82 for additional details.





# Financial performance review

The remainder of the MD&A provides a review of year-over-year performance in addition to the performance expectations for 2009-10.

## Monitor and respond to marketplace activity

### Key economic conditions

Economic conditions in 2008 were characterized by financial instability, which set the stage for a global recession. The U.S., in particular, faced significant levels of home foreclosures, which negatively impacted their financial institutions. Due to the nature of our global economy and the U.S.'s relative share of the global gross domestic product (GDP), impacts felt by the U.S. invariably impacted the rest of the world. In late 2008, U.S. economic volatility triggered declining demand, business failures and cutbacks, as well as reduced trade and unemployment worldwide.

Financial institutions continue to feel the impact of this turbulence through increased borrowing costs, reduced profit margins and increased credit losses. However, Canada's banking system may fare better than most. The World Economic Forum published a report in October 2008 that ranked Canada's banking system the "soundest" among 134 countries surveyed.

In the agriculture industry, commodity prices were volatile across all sectors. Input costs for fuel, labour, feed and seed reached record highs. The beef and hog enterprises were most notably affected. The beef enterprise experienced tight margins due to higher feed costs, lower prices, additional transportation export costs as well as increased costs to satisfy new legislative requirements. The pork enterprise faced low hog prices, high feed and transportation costs, and industry consolidation.

While there are conflicting opinions as to the depth and length of this global recession, it is clear the Canadian economy and agriculture will be affected.

### Current and potential impacts

Borrowing costs have decreased for FCC, due to direct access to government borrowings. The economic downturn has resulted in favourable borrowing rates for FCC due to the increased demand for government debt, which drove down interest rates. However, FCC could experience the negative impact of these economic conditions through higher defaults, arrears and losses in the future. FCC remains financially strong with \$2.8 billion in equity and loan reserves, low debt to equity and high-quality risk management practices.

Because it lends to all areas of agriculture across Canada, FCC's portfolio is diversified by enterprise and geography, which reduces risk. However, due to the current economic situation, the overall risk has increased because the level of uncertainty has increased.

As the U.S. is Canada's largest trading partner for agricultural exports, especially for hogs, beef, greenhouse produce and forestry products, the economic downturn could have significant impacts on Canadian agriculture. The effects on agribusiness could include a decline in global demand for agriculture products, deflation and loss of equity on owned assets. Conversely, reduced oil prices may have a favourable effect on agricultural input costs in 2009, and a lower Canadian dollar may encourage export demand for Canadian agricultural products. The full impact of the global economic situation on agriculture enterprises remains to be seen.

New and existing FCC customers may have increased need for loan products that can be used as operating credit, such as AdvancerPlus, and products with flexible repayment terms.

Despite economic uncertainty, FCC's commitment to Canadian agriculture is unwavering. It will continue to monitor and respond to economic conditions as needed in order to achieve the objectives it has set out to maintain financial strength.



## Profitable growth

### Portfolio growth

#### Market share

According to Statistics Canada, farm debt outstanding increased by 5.2 per cent to \$58.0 billion in 2008. FCC increased its market share by 1.4 per cent to 25.4 per cent in 2008, which was the largest growth compared to all other financial institutions. FCC's proportion of Canada's outstanding farm debt remains second only to the chartered banks at \$22.5 billion or 38.7 per cent.

#### Lending activity

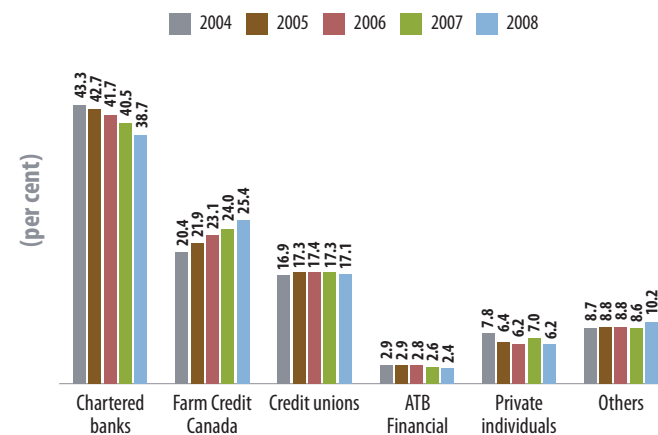
FCC's lending activity is conducted through its lending business lines: primary production financing, agribusiness and agri-food financing, and FCC Alliances (refer to Lines of Business on page 75).

In 2008-09, FCC experienced its 16th consecutive year of growth. Loans receivable increased \$2,107 million over 2007-08 to \$17,099 million in 2008-09. Net disbursements showed a \$783 million increase, growing to \$5,068 million. The increased level of disbursements was offset by a decrease in renewal rates of 0.2 per cent to 96.7 per cent and an increase in prepayments of 0.1 per cent to 6.2 per cent.

The primary driver behind this growth was increased disbursements to primary producers in all enterprises, with the exception of hogs. Primary producers constitute 88.0 per cent of FCC's portfolio. Agribusiness and agri-food financing disbursements also grew by 52.2 per cent due to increased market penetration and growth in disbursements to the value-added enterprises of \$217 million.

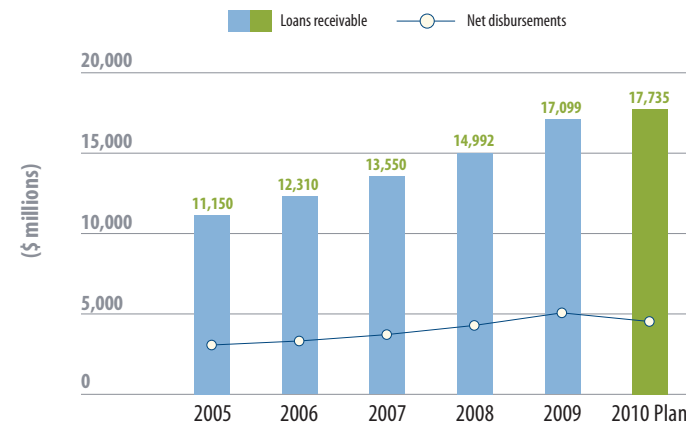
In 2009-10, primary producers are expected to face tighter margins as input prices remain high and commodity prices continue to decline. Growth is expected to slow as FCC is only expecting to increase loans receivable by \$636 million. This decreased level of growth can be attributed to the projected reduction in net disbursements of \$469 million compared to the previous year. Renewals are expected to decrease slightly to 96.0 per cent and prepayments are expected to increase to 7.0 per cent.

## Market share as at December 31\*



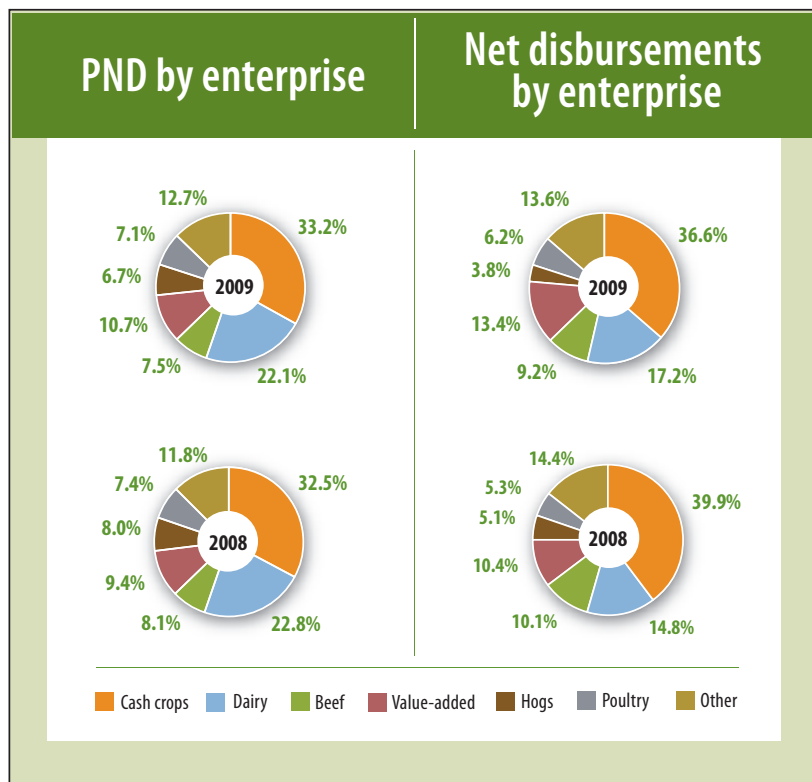
\*Historical results are also updated annually by Statistics Canada.

## Loans receivable

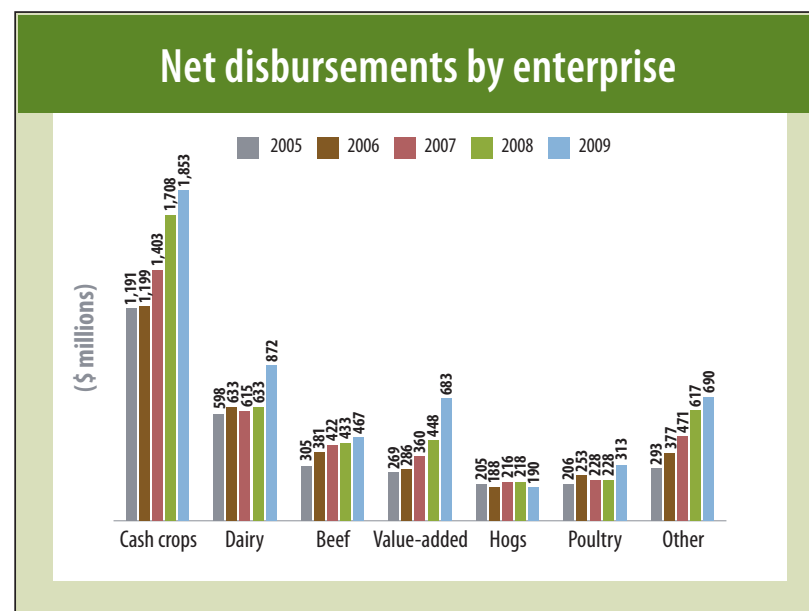


### Portfolio growth by enterprise

FCC lends to all areas of agriculture. In doing so, FCC diversifies its lending portfolio, and reduces enterprise-specific risks. These practices align to the strategic themes addressing FCC's commitment to agriculture and financial strength by effectively managing risk.



In 2008-09, net disbursements increased in all enterprises except hogs. In particular, there was a marked increase in net disbursements for cash crops of 8.5 per cent. This increase may be attributable to improved customer profitability leading to increased optimism and capital expenditures. As a result, cash crops continued to comprise the largest portion of FCC's PND and net disbursements in 2008-09. Significant growth in net disbursements was also seen in the dairy, value-added and poultry enterprises, which showed an increase in net disbursements of \$239 million, \$235 million, and \$85 million respectively.



### Portfolio growth by geographic area

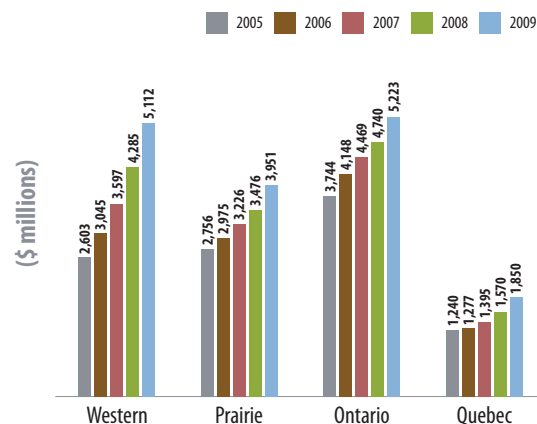
By lending to all areas of agriculture across Canada, FCC is able to spread risk geographically while promoting agriculture as a strong and vibrant industry. From coast to coast, FCC has over 100 offices to serve its customers and meet the needs of rural Canada efficiently and effectively.

FCC experienced PND growth in all areas across Canada in 2008-09. The largest PND growth areas continue to be Western and Quebec, which experienced 19.3 per cent and 17.8 per cent growth. Quebec's overall PND growth from 2007-08 was due to growth in all enterprises except beef. Ontario and Atlantic regions continued to show the lowest year-over-year increase of 10.2 per cent and 8.4 per cent in 2008-09.

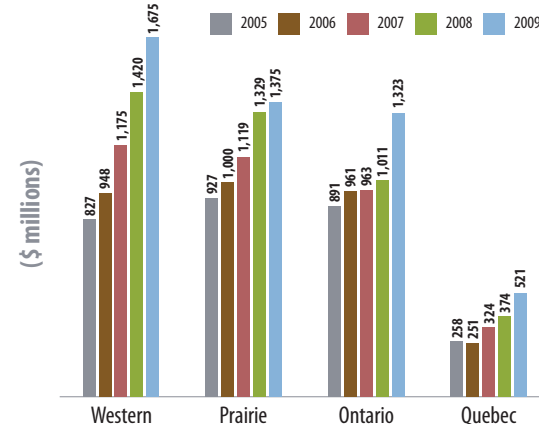
In 2008-09, net disbursements increased in all areas. The largest increase was seen in the Quebec region where net disbursements increased 39.3 per cent followed by Ontario and Western with increases of 30.9 and 18.0 per cent respectively. Lending in the value-added, poultry, crops and dairy enterprises contributed to the increased disbursements in Quebec.

The Western and Prairie regions continue to comprise over half of PND and net disbursements. Their overall proportion of net disbursements declined 4.0 per cent to 60.2 per cent, which is attributable to a decrease in primary production financing in the Western region and a decrease in Alliances financing in the Prairie region. Ontario remains the largest individual contributor to PND; however, its respective share decreased by 1.1 per cent in 2008-09.

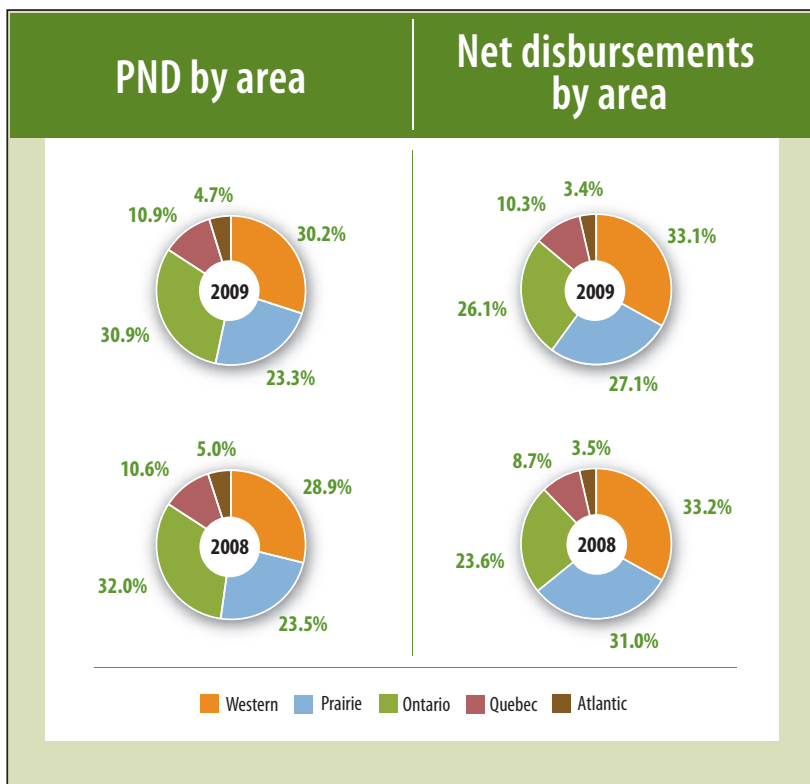
### PND by area



### Net disbursements by area







### Lines of business

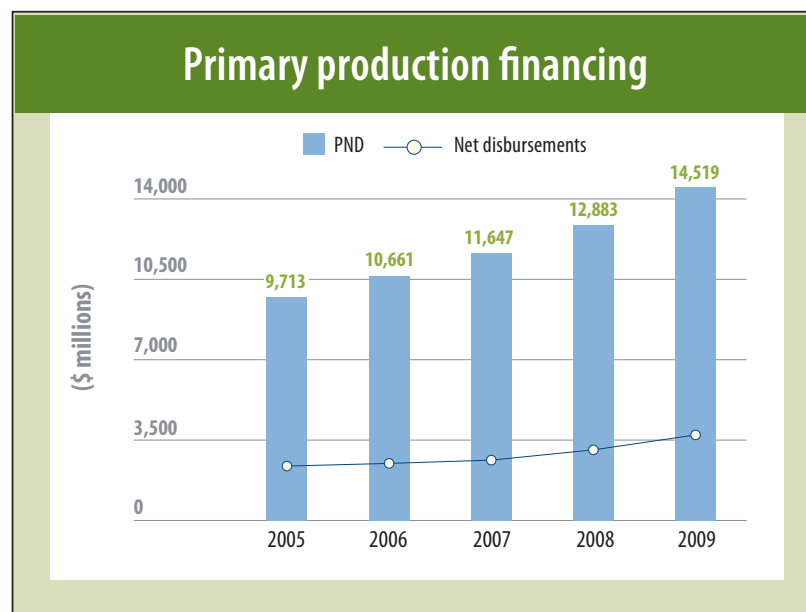
FCC provides financing and other services to over 50,000 primary producers, value-added operators, suppliers and processors across Canada through its various business lines:

- Primary production financing
- Agribusiness and agri-food financing
- FCC Alliances
- FCC Ventures
- FCC Insurance
- FCC Learning
- FCC Management Software

Each business line has specific products tailored to address the needs of Canadian agriculture.

**Primary production financing** (formerly referred to as AgProduction) is FCC's largest revenue-generating business line, which provides loans to primary producers. Customers who have loans under this business line produce raw commodities in various enterprises such as crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock. This line of business also includes, but is not limited to, lending to vineyards, greenhouses, forestry, aquaculture and lifestyle customers.

Primary production comprises 85.7 per cent of FCC's total PND. In 2008-09, growth in PND increased to 12.7 per cent, up from 10.6 per cent the previous fiscal year, resulting in a portfolio of \$14,519 million. The primary driver was an improvement in net disbursements of 21.2 per cent in 2008-09 to \$3,726 million. Lending increased in all primary enterprises, with the exception of hogs.



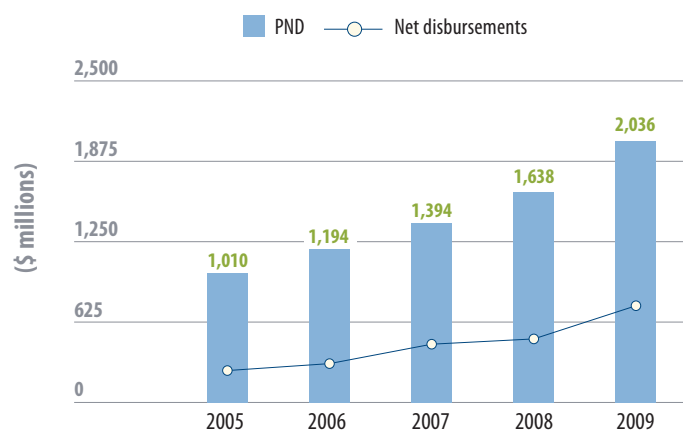
**Agribusiness and agri-food financing** (formerly AgValue) customers are typically those who provide support to primary producers. These customers are typically suppliers or processors who are selling to, buying from, or otherwise serving primary agriculture producers. These customers include, but are not limited to, equipment manufacturers, dealers, input providers, wholesalers, marketing firms, sawmills and processors.

Agribusiness and agri-food showed growth in both PND of 24.3 per cent to \$2,036 million and net disbursements of 52.2 per cent to \$752 million, making it FCC's fastest growing segment of the portfolio. FCC's growth in this business line was brought about by increased market awareness of FCC products, as well as the favourable market conditions. There is excellent opportunity for growth in this portion of the portfolio in 2009-10 as FCC's share of this market is relatively small. To capitalize on this opportunity, FCC will be implementing a comprehensive growth strategy in 2009-10.

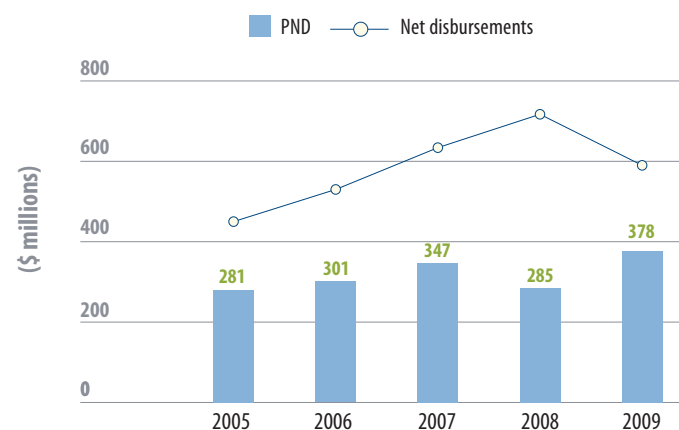
**FCC Alliances** is the line of business that lends to agriculture customers through a network of external agriculture or financial organizations, some of which include equipment dealers, crop input retailers, livestock handlers and manufacturing partners. Through this network, FCC is able to provide efficient and effective products and services to its customers.

In 2008-09, there was a drop in net disbursements of 17.7 per cent to \$590 million due to the loss of a significant alliance partner. The loss also impacted the level of PND at the end of 2007-08. However, in 2008-09, PND grew by 32.6 per cent to \$378 million. The growth was partially due to the establishment of a number of new partnerships.

## Agribusiness and agri-food financing



## FCC Alliances



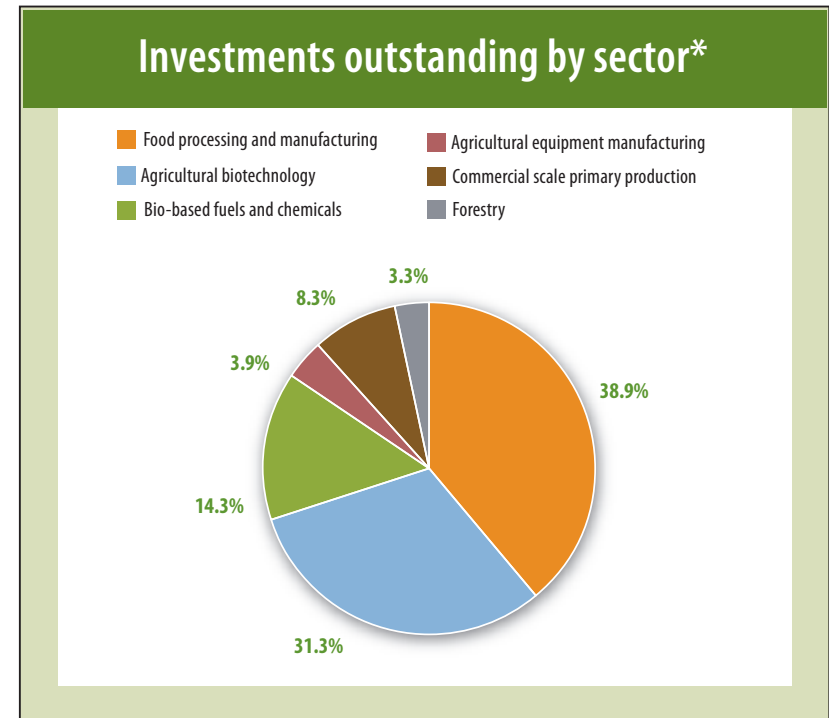
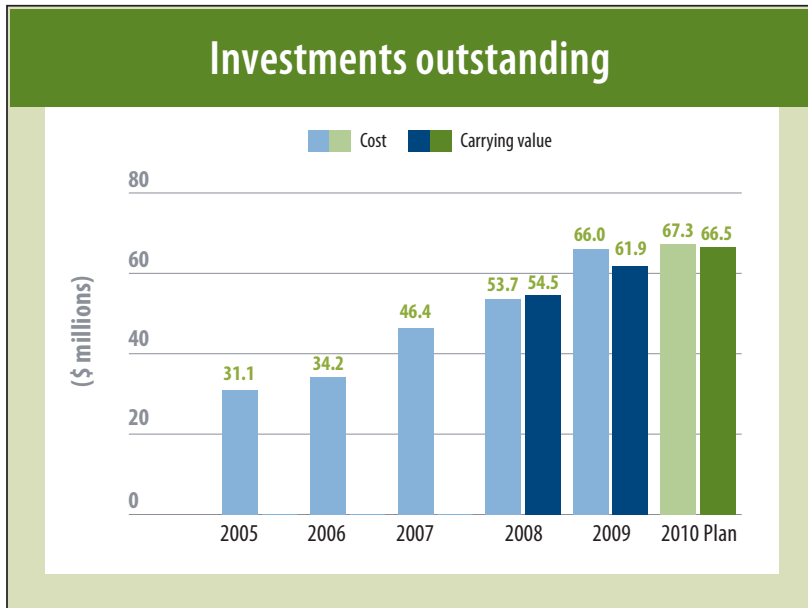
**FCC Ventures** is the corporation's venture capital business line, focusing on addressing the growing need for alternative financing in the agriculture industry.

The venture capital portfolio includes investments made directly by FCC (FCC fund), as well as investments made through the Avrio Ventures Limited Partnership fund (Avrio fund).

In 2008-09, FCC earned \$3.4 million in income, primarily related to interest earned on debt investments. The carrying value of the combined venture capital investments was \$61.9 million. During 2008-09, \$14.3 million in new investments was offset by \$4.9 million (net) in unrealized fair value accounting losses and \$1.5 million in divestitures. The total carrying value reflects \$39.7 million held directly by FCC and \$22.2 million in investments

held in the Avrio Ventures fund. Co-investment partners contributed an additional \$10.4 million to individual investments made during the year. Further detail of the carrying value investment amounts can be found in Note 7 and Note 16 of the Notes to Consolidated Financial Statements.

In 2009-10, investments made by the Avrio Ventures fund are expected to be offset by divestiture and maturity of existing investments held in the FCC fund. New investments are expected to be mainly in equity instruments, which will result in a reduction of interest income as existing debt instruments mature. Going forward, FCC Ventures will continue to develop the strategy to increase both the level of venture capital investments and its presence in the agribusiness and agri-food financing sector.



\*Investments at cost.



**FCC Insurance** (formerly Agri-Assurance) offers loan, life and accident insurance to customers to provide protection to their business and their families. SunLife Financial administers FCC insurance programs.

Loan life and accident insurance contributes to FCC's goal of financial success in the form of non-interest revenue. Life insurance premiums, net of claims, contribute directly to FCC's net income. Gross insurance revenue has increased consistently over the last several years as a result of FCC's growing portfolio, as well as specific emphasis on insurance coverage as part of a customer's complete loan package. Life insurance penetration rates on new loans grew from 26.2 per cent in 2007-08 to 29.8 per cent in 2008-09. Net insurance revenue varies from year to year depending on claims paid. In 2008-09, \$7.6 million in claims were paid to customers compared to \$4.6 million the previous fiscal year.

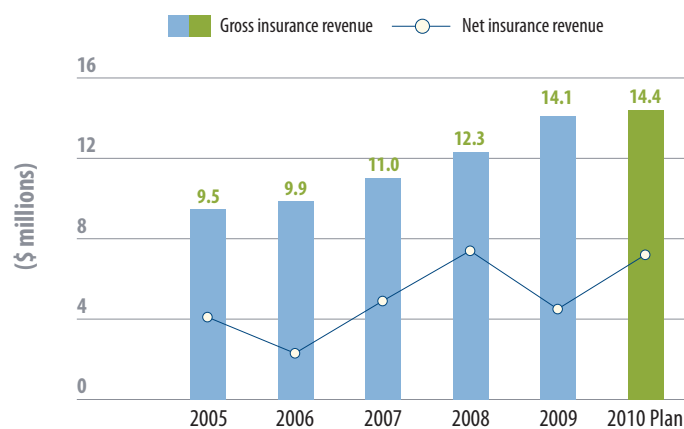
FCC will increase the program limit from \$1.5 million to \$2.0 million of coverage per customer in 2009-10. It will also look to improve its life insurance product to meet the changing needs of FCC customers.

**FCC Learning** (formerly AgriSuccess) is FCC's information and learning program and is part of FCC's continued investment in agriculture.

FCC offers several learning products aimed at addressing the increasingly sophisticated knowledge needs of primary producers and agribusiness operators. These products include management workshops, agriculture learning tours, AgriSuccess Journal and an electronic newsletter, AgriSuccess Express.

In 2008-09, 13,124 people attended 243 FCC Learning events.

## Gross and net insurance revenue

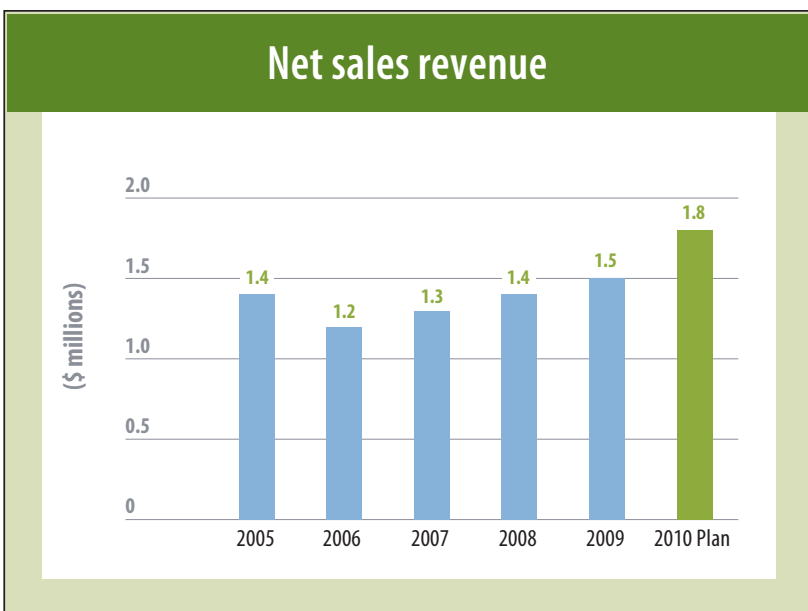




**FCC Management Software** (formerly AgExpert) is focused on developing, promoting and improving farm management software for the Canadian agriculture industry.

FCC Management Software products offered by FCC are AgExpert Analyst and Field Manager PRO. AgExpert Analyst is a financial management program designed specifically for farmers. Field Manager PRO is field and crop management software that provides a record-keeping system to track all crops through the entire cycle – from planting to storage to planning for future crops. These innovative software packages support FCC's strategic objectives by providing valuable solutions to farmers that will help to ensure their success and viability.

In 2008-09, net sales revenue increased by 7.1 per cent to \$1.5 million and is expected to reach \$1.8 million in 2009-10.



### Other income

FCC generates other income through its non-lending business lines from such sources as FCC Insurance and FCC Management Software product and support sales. In 2008-09, FCC experienced a 57 per cent decrease in other income to \$6.2 million. This is due to an increased level of insurance claims in 2008-09 combined with the impact of a one-time favourable accounting adjustment and a one-time contract termination fee received in 2007-08. Non-interest revenue is expected to contribute to an increase in other income of 47 per cent to \$9.1 million in 2009-10.

### Portfolio profitability

#### Net interest income and margin

Net interest income (NII) is calculated as interest earned on assets less interest expense on borrowings. Net interest margin is NII expressed as a percentage of average total assets. Changes in net interest margin along with changes in portfolio volume are primarily responsible for the increase in NII. The net interest margin must yield a sufficient return to enable the corporation to reinvest toward future growth while at the same time be adequate to cover credit risk and administration expenses.

The following table represents the historical interest rate spreads and net interest margin. The analysis monitors changes in interest rate spreads, which is the difference between the interest rates earned on interest-earning assets and the interest rates paid on interest-bearing liabilities.



## Net interest margin

	2009		2008		2007		2006		2005	
(\$ millions)	Average balance	Rate	Average balance	Rate	Average balance	Rate	Average balance	Rate	Average balance	Rate
<b>Earning assets:</b>										
Fixed loan principal balance	7,170.2	6.50%	6,601.5	6.63%	5,313.9	6.55%	4,076.1	6.70%	4,092.2	7.00%
Variable loan principal balance	8,562.1	4.89%	7,523.8	6.84%	7,507.4	6.76%	7,518.5	5.50%	6,361.3	4.87%
Investments	711.1	2.50%	645.5	4.44%	838.7	4.22%	627.5	2.93%	536.2	2.36%
Venture capital investments	57.2	5.39%	54.4	6.46%	40.9	12.26%	31.4	11.10%	19.7	10.59%
Total earning assets	16,500.6	5.58%	14,825.2	6.72%	13,700.9	6.66%	12,253.5	5.92%	11,009.4	5.71%
Total interest-bearing liabilities	14,440.3	2.86%	12,879.0	4.36%	11,933.0	4.17%	10,733.2	3.14%	9,735.2	2.83%
Total interest rate spread		2.72%		2.36%		2.49%		2.78%		2.88%
Impact of non-interest bearing items		0.33%		0.58%		0.58%		0.43%		0.34%
Net interest margin		3.05%		2.94%		3.07%		3.21%		3.22%

Interest rates on interest-earning assets decreased from 2007-08 to 2008-09. However, interest rates on our debt have also decreased, due to the general decrease in interest rates, compounded by favourable borrowing costs driven by other market factors. The global credit crisis has resulted in favourable borrowing rates for FCC. Increased demand for government debt drove down rates, which contributed to FCC's improved net interest margin of 3.05 per cent in 2008-09. This was partially offset by current year expenses related to debt repurchases. Access to the Crown Borrowing Program and favourable changes in rates created an opportunity for FCC to repurchase \$785 million in capital market debt. Related derivatives were also closed out resulting in fair value gains of \$98.1 million. These gains are recorded in accumulated other comprehensive income and will be amortized into income in future years. The amortization of the derivative related gains will more than offset current year expenses of \$46.4 million related to the repurchased debt.

The following table outlines the year-over-year increases to net interest income and outlines changes caused by shifts in portfolio volume and net interest margin.

## Net interest income and margin

(\$ millions)	2010 Plan	2009	2008	2007	2006	2005
Net interest income	541.9	508.0	434.4	415.5	388.4	351.9
Average total assets	17,635.6	16,649.9	14,764.7	13,530.6	12,100.7	10,940.8
Net interest margin (per cent)	3.07	3.05	2.94	3.07	3.21	3.22
Year-over-year change in net interest income due to:						
Increase in volume	31.8	39.9	32.9	33.7	30.8	31.2
Changes in margin	2.1	33.7	(14.0)	(6.6)	5.7	6.3
Total change to net interest income	33.9	73.6	18.9	27.1	36.5	37.5



The Net Interest Income and Margin chart indicates that FCC experienced growth in both net interest margin and net interest income. Net interest income increased by 16.9 per cent to \$508.0 million and FCC's portfolio grew by 14.1 per cent to \$17,098.5 million. Net interest income is expected to increase to \$541.9 million in 2009-10. Net interest income will show improvements in 2009-10 due to increased volume and improved margins as rates begin to normalize. Additional opportunities to repurchase debt are expected to arise in 2009-10. If these opportunities are pursued, the accounting for repurchased debt and derivatives will result in unfavourable impacts to net interest income in 2009-10 with the incremental benefits being recognized over a number of years.

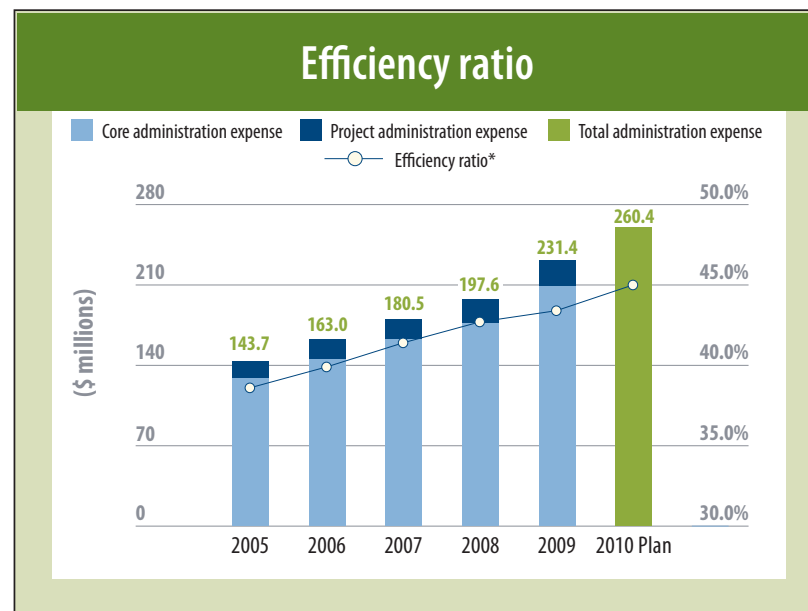
## Effective financial management

### Efficiency

The efficiency ratio measures the percentage of income earned that is spent in the operation of the business. A low efficiency ratio indicates efficient use of corporate resources. The efficiency ratio is total administration expenses, less expenses related to FCC's Investment in Agriculture program (refer to page 82) expressed as a percentage of income before administration expenses and provision for credit losses. FCC administration expenses are broken down into core administration expenses and project administration expenses. Core administration expenses represent costs associated with the day-to-day operation of FCC and include such costs as salaries and benefits, and travel and training expenses. Project expenses are costs related to specific projects undertaken by FCC to support operations and achievement of strategic goals.

Core administration expenses in 2008-09 increased by \$32.2 million to \$208.9 million. The increased core administration expenses were attributed to an increase in personnel related expenses required to support FCC's growth. Project administration expenses increased by \$1.6 million to \$22.5 million as additional funding for projects in support of strategic

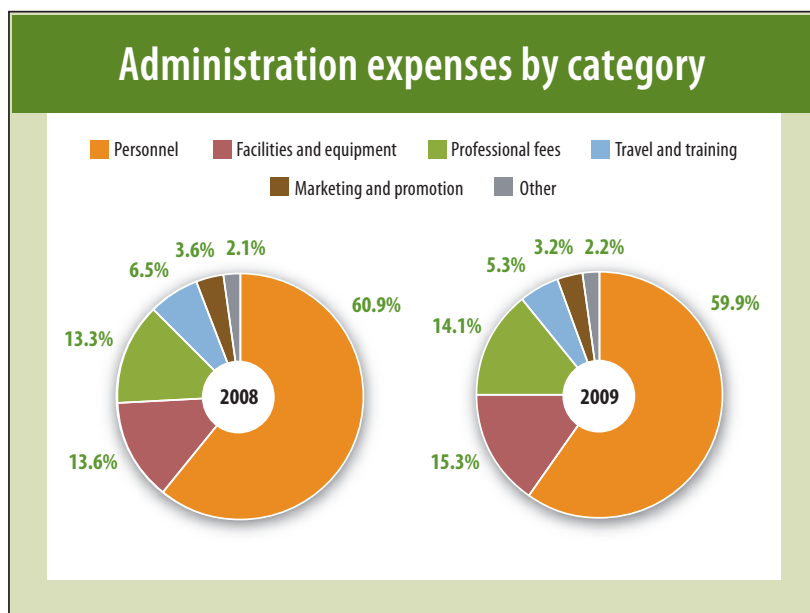
objectives was required. Although total administration expenses increased in 2008-09, the efficiency ratio only increased slightly to 43.4 per cent from 42.7 per cent due to the higher net interest margin. Total administration expenses are projected to increase to \$260.4 million in 2009-10 with a corresponding projected increase in the efficiency ratio to 45.0 per cent.



\*The efficiency ratio has been restated to adjust for non-controlling interest and to exclude expenses related to the Investment in Agriculture program, which is further explained in the next section.



The largest increases in expenses from 2007-08 were in facilities and equipment, professional fees and personnel. The increases were primarily due to resource requirements to support growth of the business and strategic initiatives. Personnel continues to comprise the largest proportion of administration expenses at 59.9 per cent in 2008-09.

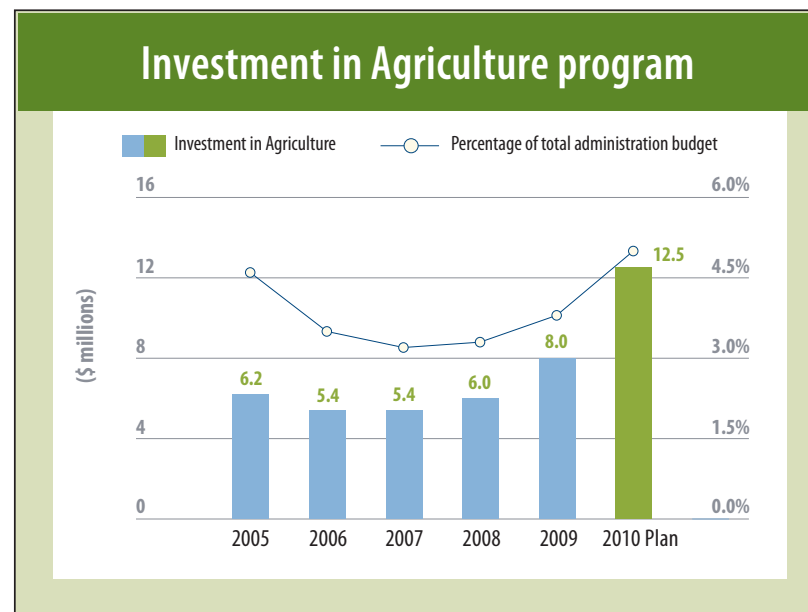


### Investment in Agriculture program

FCC invests a portion of earnings directly back into the industry through its Investment in Agriculture program. The program is designed to increase FCC's investment in non-revenue generating initiatives that support agriculture and rural Canada, and align to the strategic theme addressing FCC's commitment to agriculture.

FCC has defined a set of principles that are used to determine whether an initiative will be funded through the program. An initiative may qualify if it achieves such things as enhanced producer success, educational support or increased agriculture awareness. This program is designed to benefit agriculture – directly or indirectly – and rural Canada.

In 2008-09, \$8.0 million was invested toward qualifying initiatives. This resulted in successful achievement of the 2008-09 target of investing between three and five per cent of the total administration budget into agriculture. For 2009-10, FCC plans to invest \$12.5 million on qualifying initiatives.





## Capital management

### Funding activity

On March 19, 2007, the federal government announced its intention to consolidate the Crown borrowings of FCC by providing direct lending to the corporation (Crown Borrowing Program) beginning in 2008. On April 21, 2008, FCC gained full access to the Crown Borrowing Program, reducing the use of money market and capital market programs for new borrowing. The corporation continues to carry debt raised in the capital market for borrowings prior to April 21, 2008.

Funding activities in 2008-09 contributed to the effective financial management and financial success of FCC. In a year of extreme market volatility and increasing credit risk premiums, funding from the Crown Borrowing Program was more cost-effective than capital market borrowing for FCC. The Crown Borrowing Program enabled FCC to match the duration of borrowings to the duration of loan assets. This reduced FCC's reliance on derivatives, thereby reducing counterparty credit risk and simplifying the balance sheet.

During 2008-09, FCC raised short, medium and long-term funds through the following programs:

- Domestic Commercial Paper Program
- Crown Borrowing Program

### Short-term funding

Short-term funding consists of borrowings with a term to maturity of one year or less. Funding is raised through the Domestic Commercial Paper Program and the Crown Borrowing Program. The outstanding short-term borrowings at March 31, 2009, were \$8.1 billion compared to \$6.8 billion at March 31, 2008. Of the total short-term borrowings outstanding, \$7.2 billion were funds from the Crown Borrowing Program. The increase in short-term borrowings is a result of FCC funding a portion of the short-term requirement through floating rate notes from the Crown Borrowing Program.

### Medium to long-term funding

Medium to long-term funding consists of all borrowings with a term to maturity of more than one year. This includes all fixed rate borrowings and floating rate notes with more than one year to maturity. FCC borrowed a total of \$5.3 billion in medium to long-term funds in 2008-09, up from \$1.1 billion the previous fiscal year due to increased use of floating rate notes. Of the total medium and long-term borrowings in 2008-09, \$2.4 billion were fixed rate borrowings and \$2.9 billion were floating rate notes. Floating rate notes are borrowings with a term to maturity of more than one year, but with a floating interest rate that resets based on one-month or three-month T-bill rates. All medium and long-term borrowing in 2008-09 was through the Crown Borrowing Program.

### Credit ratings

New and outstanding debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. During 2008-09, the corporation's debt ratings were unchanged by Moody's Investors Service and Standard & Poor's. FCC's foreign and domestic debt ratings are detailed below as of March 31, 2009.

	Domestic debt		Foreign Debt	
	Long-term	Short-term	Long-term	Short-term
Moody's	Aaa	P1	Aaa	P-1
Standard & Poor's	AAA	P1	AAA	A-1+

### Financial instruments

Most of FCC's balance sheet is comprised of financial instruments that include, but are not limited to, items such as cash, loans receivable, and investments. The use of financial instruments exposes FCC to interest rate and, to a lesser extent, foreign exchange rate fluctuations. As part of its overall capital management, FCC uses derivatives to hedge risks and reduce income volatility to help ensure FCC's long-term profitability. Derivative risk management is discussed further in the Effective Risk Management section on page 91. Fair value measurement of FCC's financial instruments is described in Notes 15 and 16 of the Notes to the Consolidated Financial Statements.



### Capitalization

FCC's gross assets are \$18,361.7 million, of which \$2,834.8 million are supported by equity and allowance for credit losses. At this level of capitalization, 15.4 per cent of assets do not require external debt financing. Capitalization is expected to decrease to 14.7 per cent in 2009-10 as the balance in accumulated other comprehensive income decreases. The plan did not anticipate the increase in fair value of derivative instruments.

(\$ millions)	2010 Plan	2009	2008	2007	2006	2005
<b>Equity:</b>						
Capital	547.7	547.7	547.7	547.7	547.7	532.7
Retained earnings	1,578.7	1,321.0	1,132.0	914.4	716.1	551.8
Accumulated other comprehensive income	70.0	407.2	97.1	0.0	0.0	0.0
Subtotal	2,196.4	2,275.9	1,776.8	1,462.1	1,263.8	1,084.5
Allowance for credit losses	567.9	559.0	524.6	536.7	514.3	462.5
Total capitalization	2,764.3	2,834.9	2,301.4	1,998.8	1,778.1	1,547.0
Gross assets not requiring debt financing (per cent)	14.7	15.4	14.4	13.9	13.6	13.0

### Debt to equity

FCC uses debt to equity as a key measure to assess its capital adequacy. FCC uses this ratio in its financial management as it is a measure of the corporation's ability to fund future growth and meet long-term obligations. Monitoring debt to equity will help ensure continued self-sustainability, financial viability and reinvestment in agriculture.

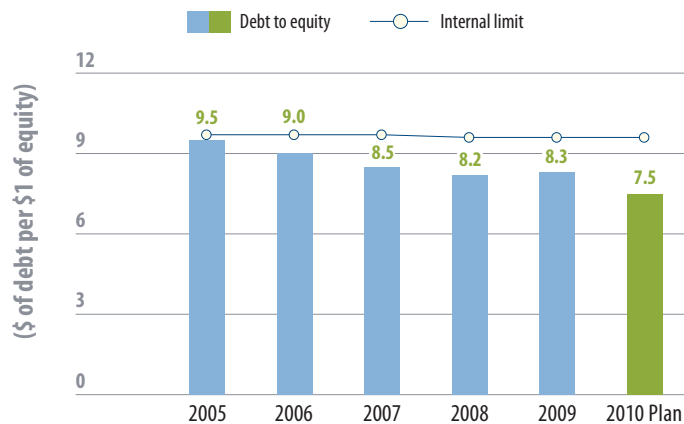
FCC continues to be below its legislated limit of 12 to 1. For financial management purposes, FCC has set target debt-to-equity ratios for each business line as listed in the following table. By setting these internal thresholds, FCC recognizes and monitors the inherent risk associated with each business line individually. The internal limit line on the graph reflects the maximum level of debt per dollar of equity based on the portfolio mix by business line.

Business line	Leverage ratio
Primary production financing and Alliances	10 to 1
Agribusiness and agri-food financing	7 to 1
FCC Ventures	1 to 1

From 2007-08 to 2008-09, FCC's debt-to-equity ratio increased slightly from 8.2 to 8.3. This ratio is projected to improve by 0.8 in 2009-10 to 7.5. A contributing factor to this decrease is the relationship between portfolio and equity growth. When growth in equity exceeds portfolio growth, the debt-to-equity ratio decreases due to a reduced requirement for borrowed funds. In 2008-09, growth in equity was 11.3 per cent, which was lower than the portfolio growth of 14.1 per cent.



## Debt to equity



### Credit quality

As part of FCC's strategy to deliver an extraordinary customer experience and support Canadian agriculture, the corporation continually monitors its portfolio and the industry to proactively identify and develop solutions to help customers through difficult times. FCC has developed customized programs to assist those enterprises that are experiencing extraordinary

challenges, such as the hog and beef enterprises. FCC also provides several products that have payment deferral options, providing flexibility in payments to support customers in challenging times as well as in times of opportunity.

While these payment schedule adjustments are used to assist customers and manage the health of FCC's portfolio, it is important to note that these programs and payment deferral options may understate the impact of economic events on arrears and impaired loans. These programs offer the customer increased payment flexibility in a variety of ways, such as enabling the customer to amend the payment schedule on a loan. The number of customers using these support programs and deferral options is closely monitored to gauge the overall health of the portfolio and ensure proper risk management practices are employed.

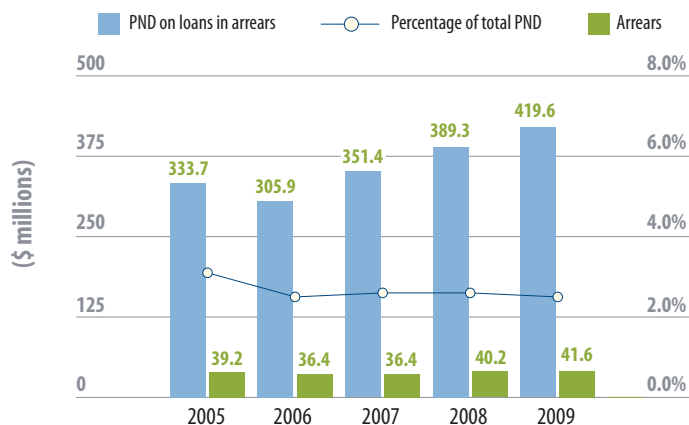
Looking to the future, the recent global economic turmoil will affect agriculture operations. Although it is not clear what the exact impact and magnitude will be, increases in arrears, impaired loans and defaults are anticipated. However, FCC has sound business practices in place for analyzing credit quality and monitoring loans in arrears and impaired loans. From this analysis, FCC can better assess the appropriate level of allowance for credit losses and determine whether its risk is within acceptable tolerances. In addition to the allowance for credit losses, FCC has the ability to withstand further losses due to its healthy equity position.



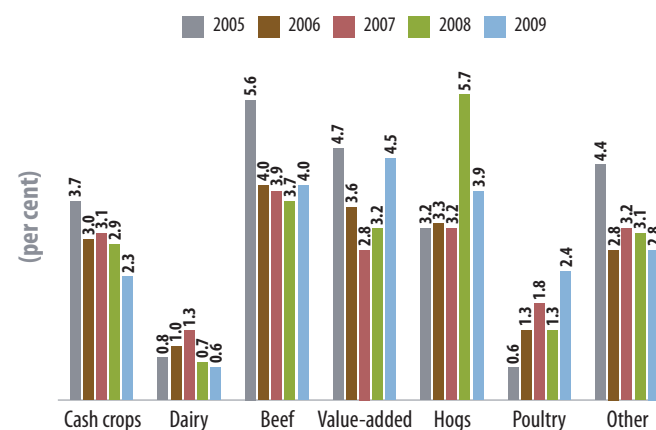
## Arrears

In 2008-09, PND on loans in arrears increased by 7.8 per cent to \$419.6 million, and arrears increased by 3.5 per cent. One of the primary drivers for this increase was the increase in the value-added enterprise in the agribusiness and agri-food financing business line, which had the greatest year-over-year increase both in PND on loans in arrears and percentage of total PND in arrears. PND on loans in arrears as a percentage of total PND remained relatively low at 2.5 per cent, which reflects effective mitigation of risk through portfolio diversification and sound credit risk practices. However, as a result of the unfavourable market conditions expected in 2009-10, arrears are anticipated to increase by \$38.9 million.

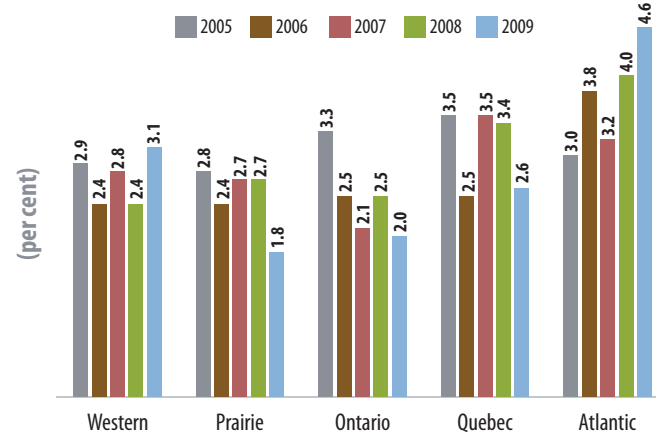
## Arrears



## PND on loans in arrears as % of enterprise PND



## PND on loans in arrears as % of area PND





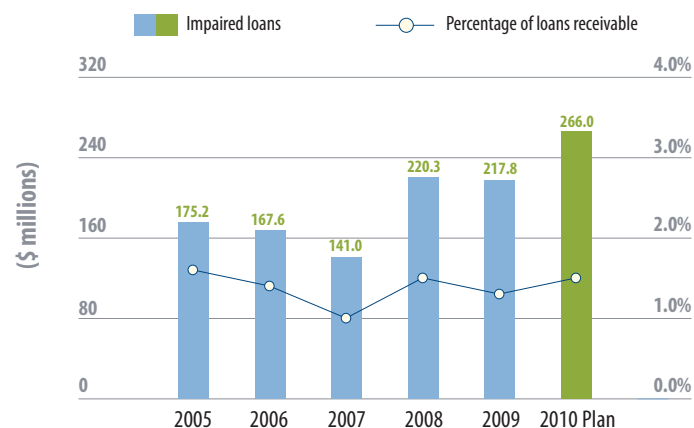
### Impaired loans

In 2008-09, impaired loans showed a \$2.5 million decrease from the previous fiscal year; however, they are expected to increase by \$48.2 million in 2009-10. Impaired loans as a percentage of loans receivable decreased to 1.3 per cent; however, they are expected to increase to 1.5 per cent in 2009-10. These increases are reflective of the growth in loans receivable and an increase in risk given the impact of the current economic environment.

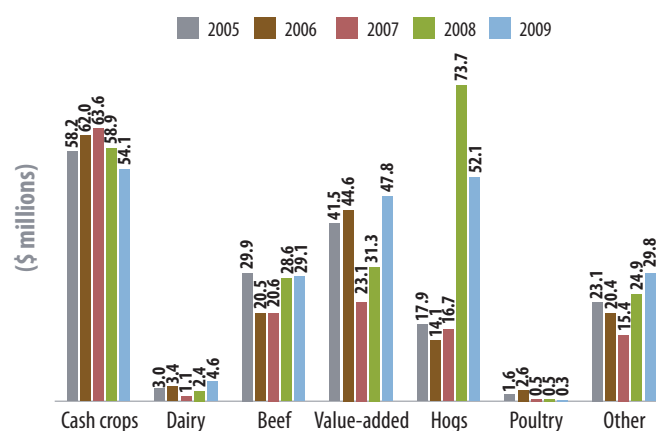
At an enterprise level, impaired loans for hogs experienced the largest year-over-year decrease of \$21.6 million to \$52.1 million. The value-added enterprise experienced the largest year-over-year increase of \$16.5 million to \$47.8 million. The turbulence experienced in the commodity market in 2008-09, as well as the continued challenges faced by the beef and hog enterprises, may have a negative effect on impaired loans in 2009-10.

As previously mentioned, FCC has customer support programs that provide support to individual customers or enterprises during financial difficulties. In 2008-09, FCC made 1,638 payment schedule adjustments, of which 395 were part of their enterprise-specific support programs. Payment schedule adjustments as a percentage of PND decreased from 5.1 per cent in 2007-08 to 4.0 per cent in 2008-09.

### Impaired loans



### Impaired loans by enterprise

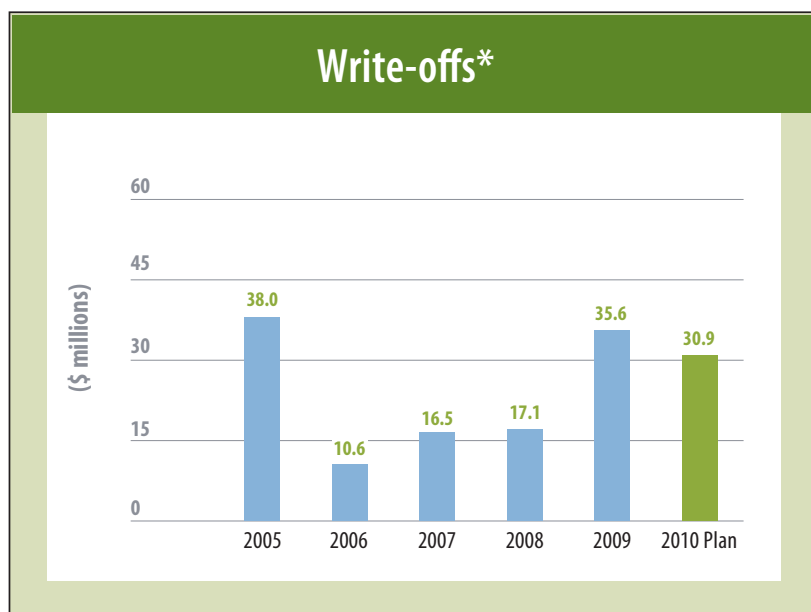


### Write-offs

Loan amounts deemed uncollectible by management are considered in default and may result in full or partial write-offs, depending on the level and value of security on hand.

The amount of write-offs, net of recoveries, increased to \$35.6 million in 2008-09. A large portion of this increase is attributable to the unfavourable economic conditions experienced by the beef and hog enterprises since 2006. However, some of this increase is due to the increase in overall loans receivable, as write-offs as a percentage of loans receivable only increased by a marginal 0.1 per cent to 0.2 per cent.

Write-offs are expected to decrease slightly in 2009-10 by 13.2 per cent to \$30.9 million. Write-offs as a percentage of loans receivable are expected to remain at 0.2 per cent. Additional losses may be realized as a result of recent economic conditions. Given FCC's loan loss reserves and equity position, it is in a strong position to weather an increased level of write-offs.

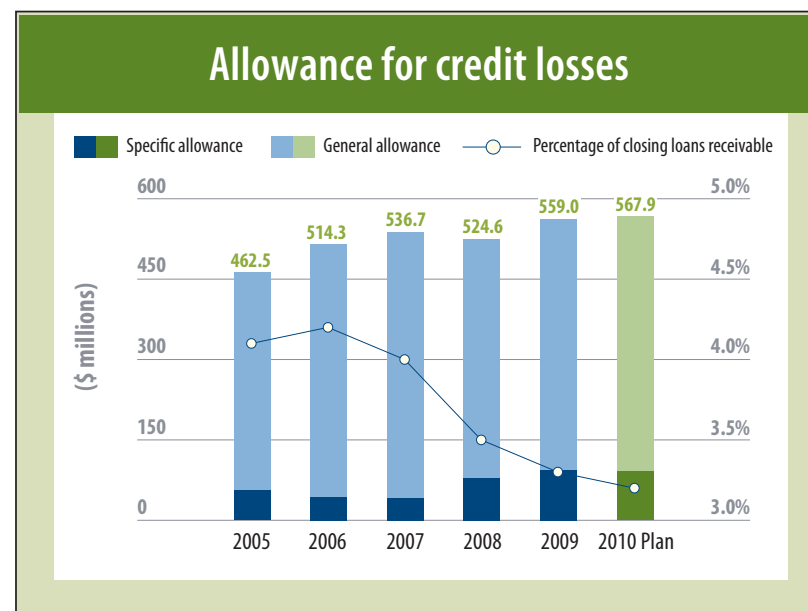


\* Net of recoveries.

### Allowance for credit losses

The allowance for credit losses is an estimate used to adjust loans receivable to reflect estimated realizable value. In addition to the use of indicators such as loans in arrears and impaired loans, management must rely on estimates and judgment when assessing the appropriate level of realizable value.

These factors, coupled with changes in the external operating environment, may cause the realized credit losses to be materially different from current assessments, resulting in the need for an increase or decrease in the provision for credit losses.



The allowance for credit losses has two components:

**Specific allowance** – provides for management's best estimates regarding probable losses on specific loans that have become impaired. It is the shortfall between the realizable amount from the security provided on the loan and the total amount outstanding on the loan at the time of impairment.

**General allowance** – provides for management's best estimate of probable losses that exist in the portfolio that have not been specifically identified as impaired. Analysis to determine the general allowance considers loans that have shown some deterioration in credit quality. It also estimates unidentified losses in response to recent events or changes in economic conditions, as well as losses that may be caused by general economic trends. Using this analysis, management can provide for credit losses within the portfolio that have not yet manifested themselves as observable deterioration on specific loans.

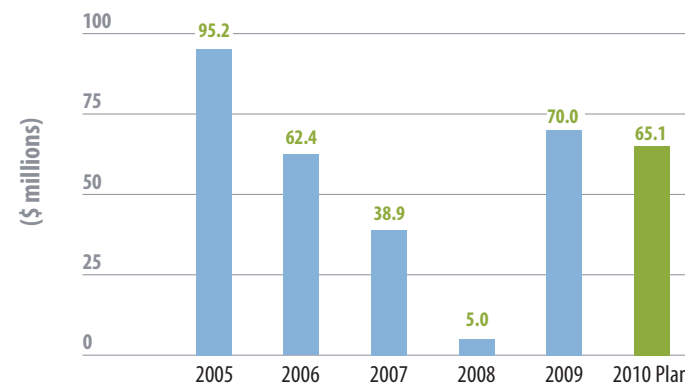
The allowance for credit losses increased to \$559.0 million in 2008-09, a \$34.4-million increase from the previous fiscal year. This allowance is expected to increase to \$567.9 million in 2009-10. Allowance for credit losses has decreased as a percentage of closing loans receivable due to updated assumptions around loss experience.

#### Provision of credit losses

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

The provision for credit losses increased to \$70.0 million in 2008-09 to bring the allowance to the appropriate level of \$559.0 million. It is expected to decrease to \$65.1 million in 2009-10 as a result of the reduced level of growth in loans receivable, partially offset by an increase in risk.

### Provisions for credit losses



#### Shareholder return

FCC uses three measures to judge its overall success toward financial strength: net income, return on equity and debt to equity. As discussed in the capital management section, debt to equity increased slightly from 8.2 in 2007-08 to 8.3 in 2008-09 due to the significant level of portfolio growth.

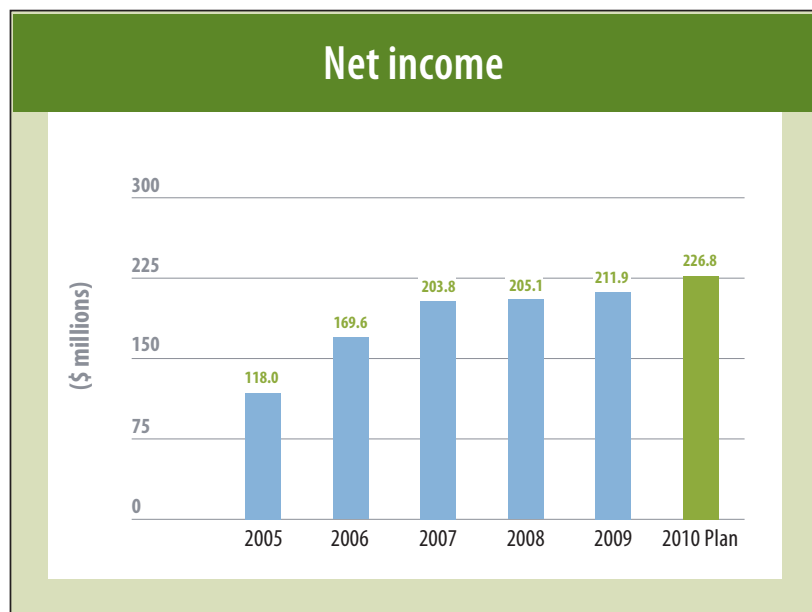
#### Net income

As part of its commitment to agriculture, FCC reinvests its earnings back into agriculture through financing portfolio growth and developing new products and business services that support the agriculture industry.



Net income is composed of net interest income and other income, provision for credit losses, administration expenses and fair value adjustments. In 2008-09, net income increased by \$6.8 million from the previous fiscal year, due to the increased level of net interest income offset by increases in provision for credit losses and administration expenses and a decrease in the level of other income.

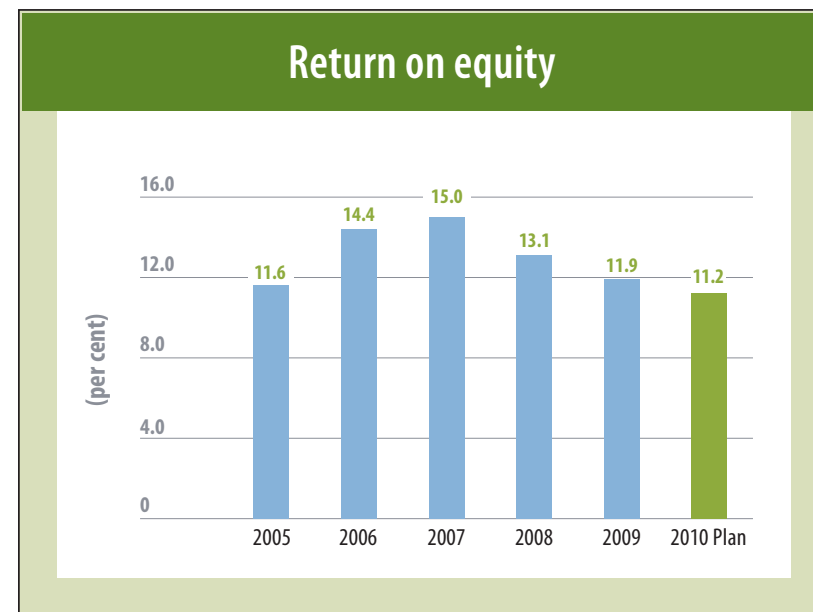
As discussed in the Net Interest Income and Margin sections on pages 79 to 81, the increase in net interest income was primarily due to favourable market factors offset by expenses related to repurchased debt. Net income is projected to increase 7.0 per cent in 2009-10 as a result of increased net interest margin, other income and lower provision for credit losses offset by increased administration expenses.



### Return on equity

Return on equity is calculated by dividing total net income by total equity. This ratio measures FCC's efficiency at using its existing equity base to generate growth. It is used to evaluate financial performance, viability and the corporation's ability to fund future growth and strategic initiatives.

Return on equity decreased to 11.9 per cent in 2008-09 from 13.1 per cent in 2007-08. The significant year-over-year decrease was largely due to the increased level of provision for credit losses. Return on equity is projected to decrease slightly to 11.2 per cent in 2009-10 primarily due to the reduced level of portfolio growth.



## Effective risk management

FCC has an enterprise risk management (ERM) program to manage risks across the organization in a consistent, co-ordinated manner. By understanding and managing the most significant risks, FCC ensures that it can fulfil its public policy role, create value for customers and maintain long-term business viability. The goals are to ensure risk-taking activities and risk management practices are aligned with the shareholder's expectations, and that an appropriate balance is achieved between realizing opportunities and minimizing losses.

### Risk governance

FCC has established a governance framework that includes a number of committees to guide corporate decision-making.

#### Board of Directors

- Responsible for overall governance of the corporation
- Oversees management of risks of the corporation and ensures risk management policies, control systems and practices have been put in place to manage key business and financial risks identified by management

#### Committees of the Board

##### Audit Committee

- Oversees FCC's financial performance and ensures the integrity, effectiveness and accuracy of the corporation's financial reporting, control systems, enterprise risk management process and audit functions

##### Human Resources Committee

- Reviews major human resources policy matters and the succession plan
- Advises the Board on matters related to the CEO

##### Corporate Governance Committee

- Reviews and makes recommendations to the Board with respect to sound governance practices

#### CEO and Executive Committee

- Responsible for corporate decision-making, including the strategic vision, investment strategy, allocation of enterprise resources and resolution of major strategic issues

#### Senior Management Team

- Ranks top corporate risks according to their impact on FCC and their likelihood of occurrence





## Management committees

### Asset Liability Committee (ALCO)

- Directs the asset/liability management function, including the establishment and maintenance of portfolio risk management policies and procedures, loan pricing direction, integration with corporate strategies and achievement of portfolio return targets

### Business Process and Technical Transformation Program Executive Steering Committee

- Ensures that the business process and technical transformation program, together with related technology renewal, aligns with FCC strategy and that related risks are adequately addressed

### Credit Committee

- Reviews and makes lending decisions on agribusiness and agri-food financing 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; and on primary production financing applications from customers with total exposure in excess of \$15 million for established operations and in excess of \$7.5 million for start-up operations

### Credit Policy Committee

- Oversees development of lending policies, ensuring they reflect FCC's credit risk tolerance, industry best practices and compliance with federal, provincial and regional laws and regulations

### Enterprise Architecture Committee

- Maintains the standards and guidelines of FCC's business and technical architecture

### ERM Steering Committee

- Facilitates the identification, assessment, ranking and action planning of significant risks to which FCC is exposed

### Horizon Committee

- Provides strategic direction to Executive Committee on compensation and performance management issues

### Pension Committee

- Provides advice to the Human Resources Committee of the Board regarding the governance structure for the pension plan
- Reports annually on overall functioning of the plan, recommending changes to plan governance, developing and reviewing the plan's Statement of Investment Policies and Goals
- Monitors and reviews performance and activities of the plan's investment managers

### Security Co-ordination Committee

- Oversees the design and development of FCC's security policy and principles to ensure the protection of FCC employees and assets

### Strategy Execution Team

- Approves corporate projects that enable the execution of the business strategy

### Venture Capital Investment Committee

- Adjudicates all investment recommendations on venture capital investments and reviews the performance of the FCC fund

## Business units

### Strategy and ERM Business Unit

- Ensures a comprehensive view of risk across FCC by co-ordinating FCC's ERM process and ensures ERM is incorporated into corporate strategic planning

### Internal Audit

- Provides independent assurance to FCC management and the Audit Committee on the effectiveness of FCC's risk management, internal control and governance processes



## Risk management

FCC's five-year strategy provides the context for annual enterprise risk identification. Risks are identified at all levels of the organization, including the Board of Directors, through discussion with management, strategic planning and a survey of all staff.

Following risk identification, the ERM business unit, under the guidance of the ERM Steering Committee, compiles and analyzes potential risks. The Senior Management Team (SMT) ranks the risks according to their impact on the organization and their likelihood of occurrence. The Board of Directors and Executive Committee participate in identifying the top risks through the strategic planning process.

A senior management sponsor is assigned to each of the top ranked risks. Each sponsor is responsible for developing and implementing action plans that address the root causes of the risk in question.

Risks are monitored and communicated to various levels of the organization throughout the year. Progress on risk action plans is reported quarterly in the corporate scorecard to senior management and the Board of Directors. The Audit Committee receives semi-annual reports from management outlining major risk areas and corresponding risk management measures implemented to ensure that FCC is effectively managing risk. The CEO provides the Board of Directors with a report on risks with a potentially high impact to the corporation as they arise.

## Major risks

FCC has identified the following major categories of risk: strategic, credit, market and operational.

### Top strategic risks

Ten top corporate risks were identified in 2008-09 through the annual ERM process. Action plans for these risks will be implemented during 2009-10. Risk action plan initiatives are aligned with corporate strategy, which enables FCC to achieve its long-term objectives.

Risk summary	Incremental action plan <i>(complements existing risk management efforts)</i>
<b>Changes in market or economic conditions</b> Market and economic conditions negatively impact FCC (commodity prices, weather, disease, health issues, trade issues)	<ul style="list-style-type: none"><li>• Monitor and respond as necessary to changes in market or economic conditions, possibly including invoking a customer support strategy and implementing changes to credit risk policies or lending models</li><li>• Communicate to all staff regarding current market volatility and uncertainty, including reinforcement of lending guidelines, as new developments arise</li></ul>
<b>Credit risk at the loan and portfolio level</b> FCC customers are unable to fulfil their contractual obligations or FCC has a significant imbalance in the risk-reward relationship in our loan portfolio	<ul style="list-style-type: none"><li>• Develop a capital management framework based on economic capital principles that reassesses capital requirements, portfolio risk and diversification limits</li><li>• Redesign and update current lending policies, processes and forms</li><li>• Enhance employee training on credit policies and lending tools</li></ul>
<b>Inadequate risk and control framework</b> Reputation damage or financial loss due to undefined risk tolerances, lack of clear accountabilities or ineffective internal control mechanisms	<ul style="list-style-type: none"><li>• Develop an enterprise risk and control framework</li><li>• Provide internal control assessment methodologies and related services to significant corporate initiatives</li></ul>



Risk summary	Incremental action plan <i>(complements existing risk management efforts)</i>
<p><b>Customer sophistication exceeds staff capabilities, and the inability to grow knowledge</b></p> <p>Inability of FCC employees to stay ahead of the competition as industry-specialized knowledge advances and customers increase their sophistication about the business of agriculture</p>	<ul style="list-style-type: none"> <li>• Develop and implement a comprehensive knowledge strategy that helps employees keep pace with increasingly sophisticated primary production and agribusiness and agri-food financing customers</li> </ul>
<p><b>Inability to attract and retain employees and to create the desired employee experience</b></p> <p>Increased competition for skilled workers and the inability to engage employees so they want to stay at FCC and do their best</p>	<ul style="list-style-type: none"> <li>• Implement enhanced attraction and retention, diversity, official languages and learning strategies</li> <li>• Develop an enhanced employee orientation program</li> <li>• Review the talent supply process</li> </ul>
<p><b>Capacity to execute major new initiatives</b></p> <p>Inability to allocate enough resources (people and dollars) toward strategic initiatives because of limited resource supply and the need to focus on numerous business-as-usual activities</p>	<ul style="list-style-type: none"> <li>• Enhance corporate change management efforts and the regular project portfolio review by the Strategy Execution Team</li> <li>• Include adequate provision of staff resources in strategic initiative implementation plans</li> <li>• Prioritize initiatives when planning corporate and divisional strategies</li> </ul>
<p><b>Fraud</b></p> <p>Reputation damage or financial loss due to fraudulent activity committed by internal or external parties</p>	<ul style="list-style-type: none"> <li>• Implement recommendations from the enterprise anti-fraud assessment and develop a fraud risk management program</li> </ul>
<p><b>Failure to deliver the brand promise or the desired customer experience</b></p> <p>Failure to sustain and reinforce foundational standards for the key customer touch points that will allow FCC to deliver a consistent, valuable, intentional and differentiated customer experience each and every time</p>	<ul style="list-style-type: none"> <li>• Ensure that all staff focus on the customer experience at all times through corporate-wide initiatives, the provision of products and services, and the processing of loans</li> <li>• Reinforce customer experience standards, concentrating on opportunities identified by customers</li> <li>• Complete the Relationship Manager transition project</li> </ul>
<p><b>Business process and technical transformation program</b></p> <p>Inability to deliver the business process and technical transformation program on time, budget and scope, which negatively impacts the desired customer and employee experience objectives</p>	<ul style="list-style-type: none"> <li>• Use strong project management processes for project execution</li> <li>• Ongoing review by Internal Audit and an external consultant, with a focus on areas identified as high risk</li> <li>• Create mitigation strategies and action plans where applicable to lower program risks</li> </ul>
<p><b>Brand reputation damage caused by information security or privacy breach</b></p> <p>An event negatively impacts FCC's reputation or brand, caused by unauthorized disclosure of private customer, employee or business information, or that FCC, without proper authorization, collects, uses or discloses personal information concerning customers or employees</p>	<ul style="list-style-type: none"> <li>• Develop and implement a training program for all employees concerning the FCC Code of Conduct and the responsibilities of employees under the Access to Information and Privacy acts</li> <li>• Develop a communication plan for use in the event of a privacy breach</li> <li>• Continue implementation of the enterprise security program and IT internal controls</li> </ul>



Two risks previously included in the top 10 were removed (business disruption and the risk of losing customers or market share to competitors). Executive Committee and the Board of Directors decided that the actions taken in these areas have reduced risk to an acceptable level. Although these two risks have been removed from the top 10 list, they will continue to be monitored.

#### Credit risk

Credit risk is the most significant risk for FCC. It is the potential for financial loss due to the failure of a customer or group of customers to meet their financial obligations to the corporation. The Board of Directors has overall responsibility for the management of credit risk and discharges its responsibility through oversight committees, policies, processes, modelling, maintaining a targeted level of portfolio diversification and requiring appropriate collateral for the amount of funding outstanding. The corporation is currently within its Board-approved target ranges for managing portfolio risk, indicating that risk is being managed within FCC's credit risk appetite.

In 2008-09, the corporation reviewed and enhanced the methodology used to estimate the incurred losses that exist in FCC's loan portfolio. The enhanced approach incorporates best practices of financial institutions and applies them to FCC to estimate an appropriate allowance for credit losses.

To mitigate potential losses of interest and principal, FCC employees invest time and effort to work with customers who find themselves at high risk of default. The primary objective is to have customers honour their commitments. Where this is not possible, employees work with customers to investigate alternatives that help them return to performing status. In the event that a loan cannot be returned to performing status, staff incurs additional time and effort to reduce losses to the corporation.

Because FCC understands that agriculture is impacted by weather and market cycles, management has ensured that customers are offered flexible payment options. In some situations, such as flooding or periods of low profitability in certain enterprises, the corporation has implemented a customer support program offering customers the option to adjust their payment schedule. For example, in 2008-09, many hog customers chose to adjust the payment schedule on loans that would have otherwise fallen into arrears.

FCC will continue to do business as usual, while being diligent regarding the current economic environment. Staff will continue to make sound lending and pricing decisions that balance customer needs with the need for FCC to preserve its long-term viability. They will exercise good judgment in assessing creditworthiness of customers and deals, including security valuations and income projections. They will also monitor the financial health of existing customers, since market issues may result in changes to their risk profile.

In addition to the current allowance for credit losses of \$559.0 million, the corporation has a strong capital position with a low debt-to-equity level of 8.3 to 1.

Credit risk also includes the risk of counterparties not fulfilling their obligations to FCC. Due to the global financial situation, counterparty credit risk has become a greater risk for the corporation. The corporation has controls and policies in place to ensure that it does not suffer loss due to counterparty default. The Treasury division reviews credit ratings and counterparty financial performance regularly and recommends policy changes to ALCO and the Board of Directors.

For more detailed information on the corporation's exposure to credit risk, refer to Note 21 of the Notes to the Consolidated Financial Statements.



### Market risk

Market risk is the potential for loss to the corporation as a result of adverse changes in underlying market factors such as interest rates and foreign exchange rates. Market risk policies are regularly reviewed by ALCO and are approved by the Board of Directors. The Treasury division is responsible for implementing market risk management directives and reports regularly to ALCO and the Board of Directors on its activities and asset/liability positions.

FCC has market risk policies and limits to ensure exposure to interest rate and foreign exchange risks are identified, measured, managed and reported on a timely basis. Market risk management at FCC also encompasses derivative fair value risk and liquidity risk.

Market risk policies include limits around the variability of net interest income and market value of portfolio equity relative to interest rate changes. The variability of net interest income and market value of portfolio equity over the next 12 months is well below established limits, minimizing the impact of interest rate risk to the corporation.

Liquidity risk is minimized through the use of a liquid investment portfolio, funding through the Crown Borrowing program and access to an operating line of credit.

For more detailed information on the corporation's exposure to market risk, refer to Note 21 of the Notes to the Consolidated Financial Statements.

### Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events that are not related to credit, market or liquidity risks. FCC is committed to preserving customer and shareholder value by proactively managing operational risk. Managers are responsible for daily management of operational risk by ensuring appropriate policies and procedures are in place within their business units and internal controls are operating effectively. Executive Committee and the Senior Management Team are responsible for managing enterprise-wide operational risk.

A number of enterprise-wide programs and strategies are in place to assist with the management of operational risk:

**Business continuity management:** FCC actively updates and exercises its business continuity management program to mitigate the risks associated with varying degrees of potential business disruptions, including those associated with a human pandemic.

**Enterprise security:** The cross-divisional security co-ordination team promotes security policies, best practices and incident handling strategies to optimize privacy and protection for human, physical, information (customer, corporate and employee) and technology assets.

**Environmental risk management:** Specific lending policies and procedures direct that an environmental risk assessment is performed where the loan purpose falls within the sphere of the Canadian Environmental Assessment Act and where real property is accepted as loan security.

**Biosecurity risk management:** FCC's biosecurity protocol, supporting documentation and supplies ensure all employees practise disease prevention when visiting customers.





**Fraud prevention and controls:** An anti-fraud services role has been established to strengthen the fraud risk management program. Key elements include clarifying roles and responsibilities, building employee awareness and ensuring the existence of effective internal controls and risk response strategies. Risk and control self-assessments are facilitated with business process owners to ensure there are effective controls in place within business processes to manage operational risks.

**Corporate social responsibility (CSR):** FCC has approved the adoption of a comprehensive CSR strategy, which includes initiatives associated with six themes:

- corporate governance
- human resource management
- community investment and involvement
- environment, health and safety
- human rights
- customer focus

**Reputation risk:** As a federal Crown corporation, FCC is accountable to all Canadians. Reputation risk at FCC is managed with guidance from the reputation risk policy adopted in 2008-09.

Employees and members of the Board of Directors must take reasonable steps to adhere to all FCC policies and procedures at all times, including the Code of Conduct and Ethics, credit policies, Procurement and Disposal policy, Use of Computers and Electronic Networks policy, Enterprise Documents and Records Management policy, Delegation of Authority policy, and corporate social responsibility.

Employees and members of the Board of Directors must comply with FCC policies and procedures in all written and verbal communication and in their interactions with other FCC employees, customers, industry partners, suppliers, media and the general public to avoid any real or perceived reputation risk. In the case of the Board of Directors,

“reasonable steps” means asking management to identify applicable policies and FCC’s adherence to those policies.

**Corporate culture:** FCC is committed to a high-performance culture that encourages employees to work in partnership and to take 100 per cent accountability for their impact on business results as well as on people. FCC’s cultural practices supplement the corporate values by explicitly outlining the behaviour expected of employees at all times with colleagues, customers, partners, suppliers and stakeholders.

**Employee engagement survey:** Employees participate in an annual employee engagement survey. The survey allows employees to provide their input on a wide range of factors in the workplace and provides a valuable measure of their level of engagement. Highly engaged employees are more likely to speak positively about the organization, stay with the organization and strive to do their best every day. FCC uses the survey results to facilitate discussions with employees about the workplace environment and to develop action plans to continually enhance the employee experience.

**Code of conduct, whistleblower protection and Integrity Officer:** As a complement to the corporate values and cultural practices, FCC’s Code of Conduct and Ethics ensures all employees and Board members have a clear and consistent understanding of how ethical values apply to everyday work. In support of the code, FCC has included whistleblower protection and has established a hotline for reporting possible violations of the code. The Integrity Officer is responsible for the administration of the code and supports a corporate culture of ethical behaviour.

**Vision research advisory panel:** This is a forum for Canadian farmers, ranchers, agri-food processors and agribusiness professionals to share their ideas that will assist in mitigating the risk of customer sophistication exceeding staff capabilities. Input received is used to influence FCC’s development of programs to better serve its customers.



# Changes in accounting standards

## Current changes

### Financial instruments – presentation and disclosure

On April 1, 2008, the corporation adopted CICA Handbook Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation. These sections replace CICA Handbook Section 3861, Financial Instruments – Disclosures and Presentation, and enhance the disclosure requirements on the nature and extent of risks arising from financial instruments and how the corporation manages those risks.

### Capital disclosures

On April 1, 2008, the corporation adopted CICA Handbook Section 1535, Capital Disclosures, which establishes guidelines for the disclosure of information regarding what a corporation regards as capital and its objectives, policies and processes for managing capital.

### Credit risk and fair value

On January 20, 2009, the corporation adopted EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which is effective for the corporation beginning April 1, 2008. This abstract clarifies how the corporation's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives.

## Future changes

### International financial reporting standards

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011, as the date international financial reporting standards (IFRS) will replace Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises. For the corporation, IFRS will be effective for the annual period commencing April 1, 2011, including the preparation and reporting of one year of comparative figures.

Changing from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the corporation's reported financial position and results of operations. It may also affect certain business functions. The corporation has developed an IFRS changeover plan and a formal governance structure that includes senior management. It is expected that the changeover plan will be modified and updated as the corporation proceeds through the changeover process and as new or amended IFRSs are adopted.

Fiscal year	Key elements
2008-09	<p>The resources the IFRS conversion project requires has been considered and the project team has been formed. IFRS education and training has been completed by the project team. Communication and risk mitigation plans have been put in place and a formal project plan has been adopted.</p> <p>An external consultant is working with the project team as an implementation partner. A high level scoping study was completed, identifying impacts IFRS will have on the corporation's policies, processes and systems. It identified differences between existing Canadian GAAP and IFRS relevant to the corporation. The results of this study acted as the basis for the technical portion of the corporation's changeover plan.</p> <p>The consultant has also been contracted to provide ongoing services as conversion issues arise.</p> <p>The project team has begun performing detailed identification, evaluation and selection of accounting policies. This analysis considers impacts to all functions of the organization including information technology and internal controls over financial reporting.</p>
2009-10	<p>Accounting policy selections will be completed. The changes to accounting policies, procedures and information technology systems required to put the selected accounting policies in place will be identified. An implementation plan for identified changes will be developed and executed.</p>
2010-11	<p>IFRS accounting will commence in order to provide comparative figures for the 2011-12 fiscal year. An opening IFRS balance sheet and required Canadian GAAP/IFRS reconciliations will be prepared.</p> <p>Stakeholder education regarding expected changes to financial statement balances, presentation and disclosure will be completed.</p>
2011-12	<p>IFRS reporting will commence.</p>

Changeover activities are progressing as planned and as the corporation proceeds through the changeover process toward the transition date, more detailed disclosure will be provided.



## Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Farm Credit Canada and all information in this annual report are the responsibility of the corporation's management and have been reviewed and approved by the Board of Directors. The consolidated financial statements include some amounts that are necessarily based on management's best estimates and judgment, such as the allowance for credit losses, the accrued benefit obligation and the fair value of financial instruments.

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

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are properly authorized and recorded, assets are safeguarded, liabilities are recognized, proper records are maintained, and the corporation complies with applicable laws and conflict of interest rules. The system of internal control is augmented by internal audit, which conducts periodic reviews of different aspects of the corporation's operations.

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

The corporation's independent external auditor, the Auditor General of Canada, is responsible for auditing the transactions and consolidated financial statements of the corporation and for issuing her report thereon.



**Greg Stewart**  
President and Chief Executive Officer



**Moyez Somani**  
Executive Vice-President and Chief Financial Officer

Regina, Canada  
May 27, 2009





Auditor General of Canada  
Vérificatrice générale du Canada

## AUDITOR'S REPORT

To the Minister of Agriculture and Agri-Food

I have audited the consolidated balance sheet of Farm Credit Canada as at March 31, 2009 and the consolidated statements of operations, comprehensive income, changes in shareholder's equity and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the corporation that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Canada Act*, the by-laws of the corporation and the directive issued pursuant to Section 89 of the *Financial Administration Act* described in Note 1 to the consolidated financial statements.

Sheila Fraser, FCA  
Auditor General of Canada

Ottawa, Canada  
May 26, 2009



# Consolidated Balance Sheet

As at March 31 (\$ thousands)

	2009	2008
<b>Assets</b>		
Cash and cash equivalents	\$ 695,920	\$ 269,837
Temporary investments (Note 3)	43,916	478,635
Accounts receivable	6,116	10,424
Derivative assets (Note 4)	352,224	111,649
	<b>1,098,176</b>	<b>870,545</b>
Loans receivable – net (Notes 5 and 6)	16,539,551	14,467,495
Venture capital investments (Note 7)	61,875	54,496
	<b>16,601,426</b>	<b>14,521,991</b>
Equipment, software and leasehold improvements (Note 8)	62,525	46,733
Other assets (Note 9)	40,576	31,187
	<b>103,101</b>	<b>77,920</b>
<b>Total assets</b>	<b>\$ 17,802,703</b>	<b>\$ 15,470,456</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 45,809	\$ 40,015
Accrued interest on borrowings	89,769	150,957
Derivative liabilities (Note 4)	676	169,281
	<b>136,254</b>	<b>360,253</b>
Borrowings (Note 11)		
Short-term debt	8,112,398	6,838,350
Long-term debt	7,232,996	6,460,965
	<b>15,345,394</b>	<b>13,299,315</b>
Other liabilities (Note 12)	37,631	33,924
Non-controlling interest in variable interest entity	7,555	206
<b>Shareholder's equity</b>		
Contributed surplus	547,725	547,725
Retained earnings	1,320,950	1,131,973
Accumulated other comprehensive income	407,194	97,060
	<b>2,275,869</b>	<b>1,776,758</b>
<b>Total liabilities and shareholder's equity</b>	<b>\$ 17,802,703</b>	<b>\$ 15,470,456</b>

Commitments, guarantees and contingent liabilities (Note 17).

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

Approved:   
Greg Stewart  
President and Chief Executive Officer

  
Jack Christie  
Chair, Audit Committee





# Consolidated Statement of Operations

For the year ended  
March 31 (\$ thousands)

	2009	2008
<b>Interest income</b>		
Loans	\$ 913,651	\$ 953,333
Investments	21,220	32,225
<b>Total interest income</b>	<b>934,871</b>	<b>985,558</b>
<b>Interest expense</b>		
Short-term debt	116,428	191,557
Long-term debt	310,432	359,573
<b>Total interest expense</b>	<b>426,860</b>	<b>551,130</b>
<b>Net interest income</b> (Note 13)	<b>508,011</b>	<b>434,428</b>
Provision for credit losses (Note 6)	70,014	5,033
<b>Net interest income after provision for credit losses</b>	<b>437,997</b>	<b>429,395</b>
<b>Net insurance income</b>		
Premiums	14,052	12,316
Claims expense	9,601	4,920
<b>Net insurance income</b>	<b>4,451</b>	<b>7,396</b>
Other income	1,730	7,000
Income before administration expenses	444,178	443,791
Administration expenses (Note 14)	231,379	197,614
<b>Income before fair value adjustment</b>	<b>212,799</b>	<b>246,177</b>
Fair value adjustment (Note 15)	(1,731)	(41,128)
<b>Net income before non-controlling interest in variable interest entity</b>	<b>211,068</b>	<b>205,049</b>
Non-controlling interest in net loss of variable interest entity	809	38
<b>Net income</b>	<b>\$ 211,877</b>	<b>\$ 205,087</b>

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



# Consolidated Statement of Comprehensive Income

For the year ended  
March 31 (\$ thousands)

	2009	2008
<b>Net income</b>	\$ 211,877	\$ 205,087
<b>Other comprehensive income</b>		
Net gains on derivatives designated as cash flow hedges	314,560	89,473
Transfer of net realized (gains) losses on derivatives designated as cash flow hedges to net income	(4,112)	8,728
Change in net gains on derivatives designated as cash flow hedges	310,448	98,201
Net unrealized (losses) gains on available-for-sale temporary investments	(314)	188
<b>Total other comprehensive income</b>	<b>310,134</b>	<b>98,389</b>
<b>Total comprehensive income</b>	<b>\$ 522,011</b>	<b>\$ 303,476</b>

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

# Consolidated Statement of Changes in Shareholder's Equity

For the year ended  
March 31 (\$ thousands)

	2009	2008
<b>Contributed surplus</b> (Note 20)	\$ 547,725	\$ 547,725
<b>Retained earnings</b>		
Balance, beginning of year	1,131,973	914,444
Impact of adopting new accounting standards	–	17,919
Balance, beginning of year – adjusted	1,131,973	932,363
Net income	211,877	205,087
Dividends paid (Note 20)	(22,900)	(5,477)
Balance, end of year	1,320,950	1,131,973
<b>Accumulated other comprehensive income</b>		
Balance, beginning of year	97,060	–
Adjustment to opening accumulated other comprehensive income – impact of adopting new accounting standards	–	(125)
Net unrealized (losses) gains on available-for-sale temporary investments	(314)	188
Total net unrealized (losses) gains on available-for-sale temporary investments	(314)	63
Adjustment to opening accumulated other comprehensive income – impact of adopting new accounting standards	–	(1,204)
Net gains on derivatives designated as cash flow hedges	310,448	98,201
Total net gains on derivatives designated as cash flow hedges	310,448	96,997
Balance, end of year	407,194	97,060
<b>Total retained earnings and accumulated other comprehensive income</b>	<b>1,728,144</b>	<b>1,229,033</b>
<b>Total shareholder's equity</b>	<b>\$ 2,275,869</b>	<b>\$ 1,776,758</b>

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



# Consolidated Statement of Cash Flows

For the year ended  
March 31 (\$ thousands)

	2009	2008
<b>Operating activities</b>		
Net income	\$ 211,877	\$ 205,087
Adjustments to determine net cash from (used in) operating activities:		
Provision for credit losses	70,014	5,033
Fair value adjustment	1,731	41,128
Amortization of equipment, software and leasehold improvements	17,547	11,655
Foreign exchange (gains) losses	(37)	102
Other	47,958	17,551
Changes in operating assets and liabilities (Note 18)	(40,206)	31,413
<b>Cash provided by operating activities</b>	<b>308,884</b>	<b>311,969</b>
<b>Investing activities</b>		
Disbursement of loans receivable	(5,060,562)	(4,285,023)
Repayment of loans receivable	2,891,951	2,840,753
Acquisition of temporary investments	(591,410)	(1,087,237)
Proceeds on maturity/disposal of temporary investments	1,022,857	972,877
Acquisition of venture capital investments	(14,902)	(9,971)
Proceeds on disposal and repayment of venture capital investments	2,421	3,214
Purchase of equipment, software and leasehold improvements	(33,338)	(24,508)
Disposal (acquisition) of real estate property held for sale	(740)	535
<b>Cash used in investing activities</b>	<b>(1,783,723)</b>	<b>(1,589,360)</b>
<b>Financing activities</b>		
Long-term debt issued	5,298,128	1,039,225
Long-term debt repaid	(4,017,774)	(1,819,721)
Short-term debt issued	43,343,458	20,005,476
Short-term debt repaid	(42,753,866)	(17,991,670)
Proceeds on sale of derivatives	53,876	3,826
Dividend paid	(22,900)	(5,477)
<b>Cash provided by financing activities</b>	<b>1,900,922</b>	<b>1,231,659</b>
Change in cash and cash equivalents	426,083	(45,732)
Cash and cash equivalents, beginning of year	269,837	315,569
<b>Cash and cash equivalents, end of year (Note 18)</b>	<b>\$ 695,920</b>	<b>\$ 269,837</b>
<b>Supplemental information</b>		
<b>Cash interest paid during the year</b>	<b>\$ 497,141</b>	<b>\$ 535,634</b>

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



# Notes to Consolidated Financial Statements

## 1. The corporation

### Authority and objectives

Farm Credit Canada (the corporation) was established in 1959 by the Farm Credit Act as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the Financial Administration Act. The corporation is wholly owned by the Government of Canada and is not subject to the requirements of the Income Tax Act.

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

On June 14, 2001, the Farm Credit Canada Act received royal assent, which updated the Farm Credit Corporation Act. This new Act continues the corporation as Farm Credit Canada and allows the corporation to offer producers and agribusiness operators a broader range of services.

In September 2008, the corporation, together with Business Development Bank of Canada, Export Development Canada, Canadian Commercial Corporation and Canada Mortgage and Housing Corporation, was issued a directive (P.C. 2008-1598) pursuant to Section 89 of the Financial Administration Act, entitled *Order giving a direction to parent Crown corporations involved in commercial lending to give due consideration to the personal integrity of those they lend to or provide benefits to is in accordance with Government's policy to improve the accountability and integrity of federal institutions*. The corporation is finalizing its review of its policies and programs and, as per the requirements of section 89(6) of the Financial Administration Act, will be notifying the Minister of Agriculture and Agri-Food that the directive has been implemented.

The purpose of the corporation 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.

## 2. Significant accounting policies

### Basis of presentation

The corporation's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

The preparation of the consolidated financial statements in accordance with GAAP requires that management make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. The more significant areas requiring the use of management estimates are the allowance for credit losses, the accrued benefit obligation, the reserve for insurance claims and the fair value of financial instruments.

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below and in the following pages.

### Basis of consolidation

The consolidated financial statements include the accounts of the corporation and Avrio Ventures Limited Partnership, a variable interest entity (VIE) for which the corporation is the primary beneficiary. All significant intercompany balances and transactions have been eliminated and the non-controlling interest has been presented in the Consolidated Balance Sheet and the Consolidated Statement of Operations. The non-controlling interest represents the equity in the VIE not attributable to the corporation.

### Classification and designation of financial instruments

The corporation's financial assets are classified or designated as loans and receivables, held for trading (HFT) or available-for-sale (AFS). Financial liabilities are classified or designated as HFT or other financial liabilities. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. HFT financial instruments are defined as financial assets or liabilities that are purchased or incurred with the intention of generating profits in the near term. AFS financial instruments are those intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.



Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification.

### **Cash and cash equivalents**

Cash and cash equivalents are composed of bank account balances and short-term highly liquid investments that are readily convertible to cash with a maturity date of 90 days or less from the date of acquisition.

### **Temporary investments**

Temporary investments have maturity dates between 91 and 365 days from the date of acquisition, are acquired primarily for liquidity purposes and are designated as AFS.

Temporary investments are accounted for at fair value using settlement date accounting. Unrealized fair value gains and losses, including changes in fair value between the trade date and settlement date, are included in accumulated other comprehensive income (AOCI).

Interest earned on temporary investments is included in investment income.

### **Derivatives**

Derivative financial instruments create rights and obligations that have the intent of mitigating one or more of the financial risks inherent in an underlying primary financial instrument. The corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations, within limits approved by the Board of Directors. These limits are based on guidelines established by the Department of Finance. The corporation does not use derivative financial instruments for speculative purposes.

The corporation's derivatives not designated as hedging instruments in effective hedging relationships are classified as HFT. HFT derivatives are recorded at fair value, with gains and losses reported in the fair value adjustment. HFT derivatives are reported as assets where they have a positive fair value and liabilities where they have a negative fair value.

Interest earned and incurred on HFT derivatives is included in interest income and expense, respectively.

Derivatives embedded in other financial instruments are valued as separate derivatives when the following criteria are met: the economic characteristics and risks of the embedded derivative are not clearly and closely related to those of the host contract, the terms of the embedded derivative would meet the definition of a derivative if it were a free-standing instrument, and the combined contract is not designated as HFT.

### **Cash flow hedge accounting**

Derivatives that are designated as hedging items in cash flow hedges are accounted for at fair value. The effective portion of changes in a derivative's fair value is recognized in other comprehensive income (OCI) while the ineffective portion of changes in a derivative's fair value is reported in the fair value adjustment. Derivatives designated as hedging items are reported as assets where they have a positive fair value and liabilities where they have a negative fair value.

Interest income or expense related to derivatives designated as hedging items in cash flow hedges is recognized on the same basis as the hedged item, as an adjustment to interest income or expense, respectively.

Cash flow hedge accounting is discontinued prospectively when the derivative is unwound, matures or no longer qualifies as an effective cash flow hedge. When a cash flow hedge is discontinued, any cumulative gains or losses previously recognized in OCI are transferred to net interest income over the remaining term of the original hedge and in the same manner that net interest income is affected by the variability in the cash flows as the hedged item. For derivatives still outstanding following the date of the discontinued hedging relationship, all subsequent fair value gains and losses are recognized immediately in the fair value adjustment.

### **Loans receivable**

The corporation's loans are classified as loans and receivables. Loans receivable are stated net of an allowance for credit losses and deferred loan fees and are measured at amortized cost using the effective interest rate method.

Loan interest income is recorded on an accrual basis and is recognized in net income using the effective interest rate method until such time as the loan is classified as impaired.

Loan origination fees, including commitment and renegotiation fees, are considered an integral part of the return earned on a loan and are recognized in interest income over the expected term of the loan using the effective interest rate method. In addition, certain incremental direct costs for originating the loans are deferred and netted against the related fees.

An impaired loan is any loan where, in management's opinion, there has been a deterioration of credit quality to the extent that the corporation no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, any loan that is \$500 in arrears for 90 days is classified as impaired unless the loan is sufficiently secured.





When a loan is classified as impaired, the carrying amount is reduced to its estimated realizable amount through an adjustment to the allowance for credit losses. Changes in the estimated realizable amount arising subsequent to initial impairment are also adjusted through the allowance for credit losses.

Loan interest income is not accrued when a loan is classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to accrual status when, in management's opinion, the ultimate collection of principal and interest is reasonably assured. At that time, previously non-accrued interest is recognized as interest income.

Loans are written off against the related allowance for credit losses if there is no realistic prospect of future recovery and all collateral has been realized or transferred to the corporation.

#### **Allowance for credit losses**

The allowance for credit losses represents management's best estimate of the incurred impairment losses in the loan portfolio at the balance sheet date. The allowance is increased by the provision for credit losses and reduced by write-offs net of recoveries. In determining the allowance for credit losses, management segregates credit losses into two components: specific allowance and general allowance.

**Specific allowance** – Based on a loan-by-loan review, the specific allowance is established to value impaired loans at the lower of the balance sheet carrying amount of the loan and its estimated realizable value. The realizable value is based on the fair value of any underlying security, as well as the estimated time and costs required to realize the security. Changes in the estimated realizable value arising subsequent to initial impairment are adjusted through the specific allowance. For loans that were originated on the basis of cash flow lending, no collateral is held by the corporation and the estimated realizable value is based on expected cash flows as well as the estimated time and costs to realize the cash flows.

**General allowance** – A general allowance is established to provide for estimated credit losses incurred at the balance sheet date relating to individual loans in the portfolio that have shown deterioration in credit quality but have not yet met the corporation's criteria for inclusion in the specific allowance. A model is used to determine the estimated credit

losses for such loans. The model considers specific indicators of deterioration in credit quality, including adverse changes in the payment status of borrowers. The amount of the general allowance is calculated based on the application of loan default rates to the estimated loss amounts for loans identified. These factors are based on the corporation's historical experience and are adjusted to reflect current conditions.

The general allowance also provides for losses that have occurred at the balance sheet date but cannot be identified on a loan-by-loan basis, and is calculated on a collective basis. In determining the amount of this portion of the general allowance, management assesses business and economic conditions, historical loss experience adjusted for current market considerations, loan portfolio composition and other relevant factors. As a single-industry lender, the corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting agricultural regions and enterprises. Accordingly, management includes these factors in its assessment.

The allowance for credit losses is an estimate for accounting purposes. Events may occur that render the underlying assumptions invalid and thus cause actual credit losses to vary significantly from management's estimate. The methodology and assumptions used by management are reviewed regularly in an attempt to reduce any differences between loss estimates and actual loss experience.

#### **Venture capital investments**

The corporation's venture capital investments include investments that are held directly by the corporation (FCC Fund), and investments held by Avrio Ventures Limited Partnership (Avrio Fund). FCC Fund investments focus on providing financing to small and medium-sized companies in early to mature stages, while Avrio Fund investments target investments containing higher risk profiles in commercialization-to-growth stages.

The corporation designated its FCC Fund investments as HFT to eliminate the need to identify and separate certain embedded options found in the investment contracts, with the exception of one investment over which the corporation has significant influence.

The corporation's FCC Fund and Avrio Fund venture capital investments, where the corporation does not have significant influence, are accounted for at fair value with gains and losses reported in the fair value adjustment.



Interest on debt and dividends on preferred shares are accrued when receivable, and dividends on common shares are accrued when declared. Interest, royalty, dividend and fee income are included in investment income.

The FCC Fund venture capital investment over which the corporation has significant influence is accounted for using the equity method. Under this method, the pro rata share of post-acquisition earnings is included in other income and adjusts the carrying value of the investment. Dividends received or receivable reduce the carrying value of the investment.

**Equipment, software and leasehold improvements**

Equipment, software and leasehold improvements are recorded at cost less accumulated amortization. In-house developed software costs are capitalized as incurred, and amortization begins when the software is placed in use by the corporation. Amortization is provided over the estimated useful life using these methods and terms:

	Methods	Terms
Office equipment and furniture	Straight-line	5 years
Computer equipment and software	Straight-line	3 or 5 years
Leasehold improvements	Straight-line	Lease term

**Employee future benefits**

The corporation has a registered defined benefit pension plan, three supplemental defined benefit pension plans, a defined contribution pension plan and other defined benefit plans that provide other retirement and post-employment benefits to most of its employees. The defined benefit pension plans are based on years of service and final average salary and are inflation-protected. The supplemental defined benefit pension plans are available for employees with employment income greater than pensionable earnings.

Other retirement benefit plans are contributory health-care plans with employee contributions adjusted annually and a non-contributory life insurance plan. Post-employment plans also provide short-term disability income benefits, severance entitlements after employment and health-care benefits to employees on long-term disability.

The accrued benefit obligation for pension and non-pension post-retirement benefits is actuarially determined using the projected benefit method pro rated on service that incorporates

management’s best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors.

Plan assets are valued at fair value for the purpose of calculating the expected return.

Actuarial gains or losses arise from the difference between the actual long-term rate of return on plan assets for the period and the expected long-term rate of return on plan assets for the period, or from changes in actuarial assumptions used to determine the accrued benefit obligations. The excess of the net accumulated actuarial gain or loss over 10 per cent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. According to actuarial estimates, the average remaining service period for employees covered by the defined benefit pension plans is 10 years (2008 – 10 years). The average remaining service period to expected retirement age is 15 years (2008 – 16 years) for employees expected to receive benefits under the post-retirement non-pension benefit plan, and 15 years (2008 – 11 years) for active employees covered by the post-employment benefit plan.

Past service costs arising from plan amendments are amortized over the average remaining service period of active employees when the amendment is recognized.

**Insurance**

The corporation sells group creditor life and accident insurance to its customers through a program administered by a major insurance provider. The insurance premiums are actuarially determined and are recognized as revenue when due.

The corporation’s insurance claims expense consists of paid claims that are recorded as incurred throughout the year, an accrual for insurance claims payable at year-end for claims that have been incurred as of the balance sheet date and a reserve for insurance claims. The reserve for insurance claims represents the liability due to the expected shortfall of future premiums compared to future claims. The reserve is actuarially determined and is based on best estimates of future claims experience, expenses, past experience, interest rates and margins for adverse deviation from these assumptions. Actual experience may vary from best estimate assumptions, which will result in plan experience that differs from what is projected. Changes in estimates are recorded in income when made and are recorded in claims expense.

The corporation maintains an insurance reserve asset with the insurance provider to fund future claim payments.

Expenses related to administering the insurance program are recorded in administration expenses. The accrual for insurance claims payable is a financial instrument recorded at amortized cost in accounts payable and accrued liabilities. The reserve for insurance claims is recorded at fair value in other liabilities. The insurance reserve asset is recorded at amortized cost in other assets.

### **Real estate property held for sale**

Real estate property acquired from customers in settlement of loan commitments is classified as held for sale and recorded in other assets at fair value less selling costs. Fair value less selling costs is the amount that could be realized in an arm's-length disposition, considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower.

The carrying value of real estate property held for sale is adjusted to reflect significant decreases in the estimated fair value subsequent to acquisition. Recoveries arising from the disposal of real estate property held for sale are recognized when title to the property passes to the purchaser. Recoveries, adjustments and net operating costs incurred on real estate property held for sale are included in other income.

### **Borrowings**

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

Structured notes form part of the corporation's funding program. Structured notes are hybrid securities that combine fixed income products with derivative financial instruments. The corporation designated its structured notes as HFT in order to record them on a basis consistent with the fair value changes in their related derivatives. Borrowings designated as HFT are accounted for at fair value with gains and losses reported in the fair value adjustment.

The corporation's other borrowings are classified as other financial liabilities and measured at amortized cost.

Interest incurred on all borrowings is recorded on an accrual basis and is recognized in interest expense using the effective interest rate method.

### **Transaction costs**

Transaction costs are incremental costs that are directly attributable to the acquisition, issuance or disposal of a financial asset or liability. Transaction costs relating to loans and receivables are deferred and amortized over the expected useful life of the instrument using the effective interest rate method. Transaction costs related to all other financial instruments are expensed as incurred.

### **Translation of foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date. Income and expenses are translated at the monthly average exchange rates prevailing throughout the year. Exchange gains and losses are included in interest income and interest expense, respectively.

### **Determination of fair value of financial instruments**

The fair value of financial instruments is determined based on published quoted market prices or valuation techniques when quoted market prices are not available. Fair values are point-in-time estimates that may change significantly in subsequent reporting periods due to changes in market conditions. Fair value techniques use models and assumptions about future events, based on either observable or non-observable market inputs. As such, fair values are estimates involving uncertainties, and may be significantly different when compared to another financial institution's value for a similar contract.

### **Changes in accounting standards**

#### **Financial instruments – presentation and disclosures**

On April 1, 2008, the corporation adopted CICA Handbook Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation. These sections replace CICA Handbook Section 3861, Financial Instruments – Disclosures and Presentation, and enhance the disclosures about the significance of financial instruments to the corporation's financial position and performance, the nature and extent of risks arising from financial instruments and how the corporation manages those risks.



### Capital disclosures

On April 1, 2008, the corporation adopted CICA Handbook Section 1535, Capital Disclosures, which establishes guidelines for the disclosure of information regarding what a corporation regards as capital, any externally imposed capital requirements and the consequences of non-compliance with such requirements, and its objectives, policies and processes for managing capital.

### Credit risk and fair value

The corporation adopted EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, effective April 1, 2008. This abstract clarifies how the corporation's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. As at March 31, 2009, the new guidance had the following impact on the financial position and earnings of the corporation: a decrease to derivative assets of \$10.2 million, an increase to derivative liabilities of \$0.1 million and a corresponding decrease to the fair value adjustment and OCI of \$0.3 million and \$10.0 million, respectively.

### Future changes in accounting standards

#### International financial reporting standards

Effective January 1, 2011, international financial reporting standards (IFRS) will replace Canadian GAAP for publicly accountable enterprises. For the corporation, IFRS will be effective for the annual period commencing April 1, 2011, including the preparation and reporting of one year of comparative figures.

Changing from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the corporation's reported financial position and results of operations. It may also affect certain business functions. The corporation has developed an IFRS changeover plan and a formal governance structure that includes senior management. Changeover activities are progressing as planned and as the corporation proceeds through the changeover process towards the transition date, more detailed disclosure will be provided.

## 3. Temporary investments

(\$ thousands)	2009		2008	
	Yield	Carrying Value	Yield	Carrying Value
Promissory note issued or guaranteed by Canada		\$ –	3.93%	\$ 39,874
Short-term instruments of other institutions	0.86%	43,916	3.94%	438,761
		\$ 43,916		\$ 478,635

Short-term instruments of other institutions consist of deposit notes and treasury bills issued by institutions with credit ratings of R-1M or higher (2008 – R-1M or higher) as rated by the Dominion Bond Rating Service. As at March 31, 2009, the largest total investment in any one institution was \$29.0 million (2008 – \$88.4 million).

All temporary investments have a maturity date within three months.

The carrying value of temporary investments is their fair value calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent securities.



## 4. Derivative financial instruments

(\$ thousands)	2009	2008
<b>Derivative assets</b>		
Derivatives designated as cash flow hedges	\$ 340,411	\$ 97,935
Derivatives classified as HFT	11,813	13,714
	<b>\$ 352,224</b>	<b>\$ 111,649</b>
<b>Derivative liabilities</b>		
Derivatives designated as cash flow hedges	\$ –	\$ 1,337
Derivatives classified as HFT	676	167,944
	<b>\$ 676</b>	<b>\$ 169,281</b>

### Types of derivative contracts

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed and/or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged. Included in interest rate swaps are overnight index swaps, receive-fixed swaps, pay-fixed swaps and certain structured note swaps.

Cross-currency interest rate swaps are transactions in which two parties exchange notional amounts in different currencies at inception and maturity, as well as interest flows, on the exchanged amounts on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest. Included in cross-currency interest rate swaps are certain structured note swaps.

The derivative contracts entered into by the corporation are over-the-counter instruments.

### Cash flow hedges

The corporation's cash flow hedges consist of interest rate swaps. The corporation is exposed to variability in future interest cash flows on non-trading assets and liabilities that bear interest at variable rates or are expected to be refunded in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for the financial assets and financial liabilities on the basis of their contractual terms and other relevant factors. The principal balances and interest cash flows over time form the basis for identifying the effective portion of gains and losses on the derivatives designated as cash flow hedges of forecasted transactions.

The maximum length of time over which the corporation is hedging its exposure to the variability in future cash flows for anticipated transactions is 13 years.





## Notional principal amounts

		Remaining term to maturity				
(\$ thousands)		Within 1 year	1 to 5 years	Over 5 years	2009	2008
<b>Interest rate swap contracts:</b>						
<b>Receive</b>	<b>Pay</b>					
Fixed	Floating	\$ 676,893	\$ 5,186	\$ 1,701,005	\$ 2,383,084	\$ 10,956,451
Cross-currency	Floating	75,443	–	–	75,443	419,457
Cross-currency	Fixed	–	3,900	–	3,900	3,900
Floating	Fixed	–	–	–	–	1,605,000
		\$ 752,336	\$ 9,086	\$ 1,701,005	\$ 2,462,427	\$ 12,984,808

## Counterparty credit risk

Counterparty credit risk is represented by derivative contracts that have a positive fair value. Net fair value represents the total of positive and negative fair values of all derivative financial instruments. The net fair values of the derivative instruments are as follows:

	2009			2008		
(\$ thousands)	Positive fair value	Negative fair value	Net fair value	Positive fair value	Negative fair value	Net fair value
Interest rate swaps	\$ 345,280	\$ 18	\$ 345,262	\$ 111,649	\$ 86,992	\$ 24,657
Cross-currency interest rate swaps	6,944	658	6,286	–	82,289	(82,289)
Fair value	352,224	676	351,548	111,649	169,281	(57,632)
Impact of master netting agreements	(626)	(626)	–	(83,125)	(83,125)	–
	\$ 351,598	\$ 50	\$ 351,548	\$ 28,524	\$ 86,156	\$ (57,632)

The corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 2009, was \$835.2 million (2008 – \$4,688.0 million) and the largest net fair value of contracts with any institution as at March 31, 2009, was \$119.9 million (2008 – \$(27.6) million). The corporation mitigates the credit exposure on multiple derivative transactions by entering into master netting agreements with counterparties as outlined in Note 21. These agreements create the legal right of offset of exposure in the event of default.

## Determining fair value

Derivative fair values are determined using market standard valuation techniques. Where call or extension options exist, the value of these options is determined using current market measures for interest rates and currency exchange rates, and takes volatility levels and estimations for other market-based pricing factors into consideration. Market observed credit spreads, where available, are a key factor in establishing valuation adjustments against the corporation's counterparty credit exposures. Where a counterparty does not have an observable credit spread, a proxy that reflects the credit profile of the counterparty is used. The potential effect of using reasonable possible alternative assumptions for valuing derivatives would not have a material effect on the corporation's financial position or earnings.



## 5. Loans receivable – net

The following table summarizes the contractual maturity and effective interest rates of the performing loans receivable at March 31, 2009. The yields are computed on a weighted average basis by amount and term. Floating rate loans are linked to the bank prime rate and re-price with changes in the rate.

(\$ thousands)	Within 1 year	1 to 5 years	Over 5 years	2009	2008
Floating	\$ 904,167	\$ 8,186,522	\$ 645,040	\$ 9,735,729	\$ 7,683,989
Yield	3.39%	3.29%	3.29%	3.30%	6.03%
Fixed	788,722	4,561,146	1,813,173	7,163,041	7,092,166
Yield	6.50%	6.26%	6.50%	6.35%	6.64%
Performing loans	1,692,889	12,747,668	2,458,213	16,898,770	14,776,155
Impaired loans				217,803	220,320
Deferred loan fees				(18,034)	(4,376)
Loans receivable – gross				17,098,539	14,992,099
Allowance for credit losses				(558,988)	(524,604)
<b>Loans receivable – net</b>				<b>\$ 16,539,551</b>	<b>\$ 14,467,495</b>

Management estimates that annually, over the next three years, approximately 7.0 per cent (2008 – approximately 7.0 per cent) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2009, \$77.7 million (2008 – \$45.9 million) of loans receivable were denominated in a foreign currency (USD). The foreign exchange gains (losses) recorded by the corporation in relation to the loans receivable denominated in a foreign currency were \$9.8 million (2008 – \$(8.0) million).



## Concentrations of credit risk

The concentrations of performing loans and impaired loans by business line, enterprise and geographic area are as follows:

### Performing loans – Enterprise distribution

(\$ thousands)	Primary production financing	Agribusiness and agri-food financing	Alliances	2009	2008
Cash crops	\$ 5,272,289	\$ 182,240	\$ 180,327	\$ 5,634,856	\$ 4,821,708
Dairy	3,758,670	724	13,159	3,772,553	3,349,298
Other	2,049,816	70,852	21,901	2,142,569	1,773,451
Value-added	160,177	1,588,972	30,128	1,779,277	1,412,036
Beef	1,114,283	35,919	112,135	1,262,337	1,178,296
Poultry	1,127,580	74,007	5,491	1,207,078	1,086,702
Hogs	1,029,384	53,595	17,121	1,100,100	1,154,664
<b>Performing loans</b>	<b>\$ 14,512,199</b>	<b>\$ 2,006,309</b>	<b>\$ 380,262</b>	<b>\$ 16,898,770</b>	<b>\$ 14,776,155</b>

### Performing loans – Geographic distribution

(\$ thousands)	Primary production financing	Agribusiness and agri-food financing	Alliances	2009	2008
Western	\$ 4,393,122	\$ 614,500	\$ 108,824	\$ 5,116,446	\$ 4,284,937
Prairie	3,456,748	312,102	153,697	3,922,547	3,447,171
Ontario	4,658,954	474,645	102,960	5,236,559	4,739,219
Quebec	1,375,871	454,370	10,128	1,840,369	1,569,602
Atlantic	627,504	150,692	4,653	782,849	735,226
<b>Performing loans</b>	<b>\$ 14,512,199</b>	<b>\$ 2,006,309</b>	<b>\$ 380,262</b>	<b>\$ 16,898,770</b>	<b>\$ 14,776,155</b>

### Impaired loans – Enterprise distribution

(\$ thousands)	Primary production financing	Agribusiness and agri-food financing	Alliances	2009	2008
Cash crops	\$ 50,946	\$ 3,080	\$ 74	\$ 54,100	\$ 58,908
Dairy	4,550	–	17	4,567	2,379
Other	27,662	2,116	51	29,829	24,912
Value-added	5,075	42,773	–	47,848	31,323
Beef	27,416	58	1,585	29,059	28,576
Poultry	282	29	–	311	527
Hogs	49,717	2,328	44	52,089	73,695
Impaired loans	165,648	50,384	1,771	217,803	220,320
Specific allowance (Note 6)	(63,677)	(28,060)	(1,758)	(93,495)	(79,099)
<b>Net impaired loans</b>	<b>\$ 101,971</b>	<b>\$ 22,324</b>	<b>\$ 13</b>	<b>\$ 124,308</b>	<b>\$ 141,221</b>

### Impaired loans – Geographic distribution

(\$ thousands)	Primary production financing	Agribusiness and agri-food financing	Alliances	2009	2008
Western	\$ 38,566	\$ 11,211	\$ 586	\$ 50,363	\$ 37,054
Prairie	57,216	14,896	200	72,312	88,402
Ontario	34,618	6,762	637	42,017	39,132
Quebec	17,317	12,828	15	30,160	33,155
Atlantic	17,931	4,687	333	22,951	22,577
Impaired loans	165,648	50,384	1,771	217,803	220,320
Specific allowance (Note 6)	(63,677)	(28,060)	(1,758)	(93,495)	(79,099)
<b>Net impaired loans</b>	<b>\$ 101,971</b>	<b>\$ 22,324</b>	<b>\$ 13</b>	<b>\$ 124,308</b>	<b>\$ 141,221</b>



## 6. Allowance for credit losses

(\$ thousands)	2009	2008
Balance, beginning of year	\$ 524,604	\$ 536,700
Write-offs	(36,209)	(20,141)
Provision for credit losses	70,014	5,033
Recoveries	579	3,012
<b>Balance, end of year</b>	<b>\$ 558,988</b>	<b>\$ 524,604</b>
Specific allowance	\$ 93,495	\$ 79,099
General allowance	465,493	445,505
<b>Balance, end of year</b>	<b>\$ 558,988</b>	<b>\$ 524,604</b>

## 7. Venture capital investments

(\$ thousands)	2009	2008
FCC Fund investments designated as HFT	\$ 31,619	\$ 39,702
Avrio Fund investments	22,236	6,708
FCC Fund investment – significant influence	8,020	8,086
	<b>\$ 61,875</b>	<b>\$ 54,496</b>

### Carrying value by type of investment

(\$ thousands)	2009	2008
Debt	\$ 25,850	\$ 25,358
Common shares	25,625	29,138
Preferred shares	10,400	–
	<b>\$ 61,875</b>	<b>\$ 54,496</b>

The venture capital investment portfolio exposes the corporation to credit risk. Venture capital investments are typically secured only by a general security agreement, assignment of life insurance proceeds and personal guarantees, which makes the measurement of the fair value of collateral held impracticable. At March 31, 2009, the gross amounts of venture capital debt investments that were in arrears were \$1.7 million and renegotiated venture capital investments that would otherwise be in arrears were \$10.6 million.

## Concentrations of venture capital investments by sector

(\$ thousands)	2009	2008
Food processing and manufacturing	\$ 31,057	\$ 31,788
Agriculture biotechnology	17,018	4,200
Bio-based fuels and chemicals	11,252	11,675
Agriculture equipment manufacturing	2,548	3,254
Commercial-scale primary producers	–	3,579
	<b>\$ 61,875</b>	<b>\$ 54,496</b>

As at March 31, 2009, the total amount of net gains realized on disposal and reported in the fair value adjustment was nil (2008 – \$0.1 million) and the total amount of net unrealized losses reported in the fair value adjustment was \$4.9 million (2008 – \$0.7 million).

The total amount of fees, interest and dividends recorded in net income during the year for venture capital investments recognized at fair value was \$3.2 million (2008 – \$3.3 million). The total net income (loss) recorded in net income for the venture capital investment subject to the corporation's significant influence during the year was \$0.2 million (2008 – \$(0.1) million).

In addition to the above investments, the corporation has loans receivable and guarantees from venture capital investees in the amount of \$56.2 million (2008 – \$55.7 million).

### Determining fair value

Venture capital investments in shares that are traded on an exchange are valued based on the bid prices as at year-end. Venture capital investments in shares of privately held companies are valued based on guidelines issued by the venture capital industry, using market-based valuation methodologies. Estimated fair value for venture capital debt investments is calculated by discounting contractual cash flows at interest rates prevailing at year-end with equivalent terms to maturity.



## 8. Equipment, software and leasehold improvements

(\$ thousands)	Cost	Accumulated amortization	2009 Net book value	2008 Net book value
Computer equipment and software	\$ 85,712	\$ 46,597	\$ 39,115	\$ 27,447
Leasehold improvements	29,784	13,589	16,195	11,509
Office equipment and furniture	22,706	15,491	7,215	7,777
	\$ 138,202	\$ 75,677	\$ 62,525	\$ 46,733

## 9. Other assets

(\$ thousands)	2009	2008
Accrued benefit assets (Note 10)	\$ 21,978	\$ 21,370
Insurance reserve assets	11,141	8,836
Real estate property held for sale	1,679	940
Other	5,778	41
	\$ 40,576	\$ 31,187





## 10. Employee future benefits

### Financial position of benefit plans

The corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuations of the pension plans for funding purposes were prepared as at December 31, 2008. The next valuations for funding purposes will be as at December 31, 2009.

(\$ thousands)	2009 Pension benefits	2008 Pension benefits	2009 Other benefits	2008 Other benefits
<b>Change in accrued benefit obligation:</b>				
Accrued benefit obligation, beginning of year	\$ 307,989	\$ 284,461	\$ 32,204	\$ 26,511
Current service cost	12,992	12,009	2,276	1,923
Interest cost on benefit obligation	16,039	14,470	1,708	1,408
Contributions by employees	3,179	3,043	–	–
Benefits paid	(7,327)	(7,081)	(663)	(983)
Plan amendment	–	1,507	–	–
Actuarial (gain) loss	(69,992)	(420)	(8,430)	3,345
Accrued benefit obligation, end of year	262,880	307,989	27,095	32,204
<b>Change in fair value of plan assets:</b>				
Fair value of plan assets, beginning of year	274,826	265,591	–	–
Actual return on plan assets	(46,332)	3,323	–	–
Contributions by corporation	11,224	9,913	–	–
Contributions by employees	3,179	3,043	–	–
Benefits paid	(7,099)	(7,044)	–	–
Fair value of plan assets, end of year	235,798	274,826	–	–
Funded status – plan deficit	(27,082)	(33,163)	(27,095)	(32,204)
Unamortized past service cost	1,382	1,507	25	29
Unamortized net actuarial loss (gain)	45,294	51,481	(5,120)	3,321
Contributions by corporation after December 31	2,384	1,545	–	–
<b>Accrued benefit assets (liability), end of year</b>	<b>\$ 21,978(a)</b>	<b>\$ 21,370(a)</b>	<b>\$ (32,190)(b)</b>	<b>\$ (28,854)(b)</b>

(a) Recorded in other assets.

(b) Recorded in other liabilities.

### Plans with accrued benefit obligations in excess of plan assets

(\$ thousands)	2009 Pension benefits	2008 Pension benefits	2009 Other benefits	2008 Other benefits
Accrued benefit obligation	\$ 245,685	\$ 289,575	\$ 27,095	\$ 32,204
Fair value of plan assets	216,313	253,207	–	–
<b>Funded status – plan deficit</b>	<b>\$ (29,372)</b>	<b>\$ (36,368)</b>	<b>\$ (27,095)</b>	<b>\$ (32,204)</b>



## Defined benefit costs

(\$ thousands)	2009 Pension benefits	2008 Pension benefits	2009 Other benefits	2008 Other benefits
<b>Defined benefit costs:</b>				
Current service cost	\$ 12,992	\$ 12,009	\$ 2,276	\$ 1,923
Interest cost on benefit obligation	16,039	14,470	1,708	1,408
Actual return on plan assets	46,332	(3,323)	–	–
Actuarial (gain) loss	(69,992)	(420)	(8,430)	3,345
Plan amendments	–	1,507	–	–
Costs arising in the period	5,371	24,243	(4,446)	6,676
<b>Adjustments for difference between costs arising in the period and costs recognized in the period in respect of:</b>				
Return on plan assets	(65,867)(a)	(15,494)(a)	–	–
Actuarial gain (loss)	72,054 (b)	1,265 (b)	8,441(c)	(3,453) (c)
Past service cost	125	(927)	4	4
<b>Defined benefit costs recognized</b>	<b>\$ 11,683</b>	<b>\$ 9,087</b>	<b>\$ 3,999</b>	<b>\$ 3,227</b>

(a) Expected return on plan assets of \$(19,535) [2008 – \$(18,817)] less the actual return on plan assets of \$46,332 [2008 – \$(3,323)] = \$(65,867) [2008 – \$(15,494)].

(b) Actuarial loss recognized for year of \$2,062 [2008 – \$845] less actual actuarial (gain) on accrued benefit obligation for year of \$(69,992) [2008 – \$(420)] = \$72,054 [2008 – \$1,265].

(c) Actuarial loss (gain) recognized for year of \$11 [2008 – \$(108)] less actual actuarial (gain) loss on accrued benefit obligation for year of \$(8,430) [2008 – \$3,345] = \$8,441 [2008 – \$(3,453)].

## Significant assumptions

The significant assumptions used are as follows (weighted-average):

	2009 Pension benefits	2008 Pension benefits	2009 Other benefits	2008 Other benefits
<b>Accrued benefit obligation as at December 31:</b>				
Discount rate	6.50%	5.00%	6.50%	5.00%
Rate of compensation increase	5.50%	5.50%	5.50%	5.50%
<b>Benefit costs for years ended December 31:</b>				
Discount rate	5.00%	5.00%	5.00%	5.00%
Expected long-term rate of return on plan assets	7.25/4.00%(a)	7.25/4.00%(a)	–	–
Rate of compensation increase	5.50%	5.50%	5.50%	5.50%

(a) Registered pension plan/supplemental plans, respectively.



Assumed health-care cost trend rates at December 31 are as follows:

	2009	2008
<b>Hospital:</b>		
Initial rate	9.00%	9.00%
Ultimate rate	5.00%	5.00%
Year ultimate rate reached	2019	2018
<b>Prescription drugs:</b>		
Initial rate	9.00%	9.00%
Ultimate rate	5.00%	5.00%
Year ultimate rate reached	2019	2018
<b>Other health-care costs:</b>		
Initial rate	9.00%	9.00%
Ultimate rate	5.00%	5.00%
Year ultimate rate reached	2019	2018

### Sensitivity analysis

The impact of changing the key weighted-average economic assumptions used in measuring the pension and other benefit costs are as follows:

(\$ thousands)	Pension benefits	Other benefits
<b>1% decrease in expected long-term rate of return on assets:</b>		
Net benefit cost	\$ 2,812	\$ –
<b>1% decrease in discount rate:</b>		
Total of service and interest cost	4,450	646
Accrued benefit obligation	51,259	5,486
<b>0.25% increase in rate of increase of future compensation:</b>		
Total of service and interest cost	544	11
Accrued benefit obligation	2,473	149
<b>Assumed overall health-care cost trend rates on the aggregate of the service and interest cost components for the period:</b>		
Impact of: 1% increase	–	782
1% decrease	–	(597)
<b>Assumed overall health-care cost trend rates on the accrued benefit obligation:</b>		
Impact of: 1% increase	–	4,101
1% decrease	–	(3,134)

### Plan assets

The percentage of plan assets based on market values at the most recent actuarial valuation are as follows:

	2009	2008
Equity securities	59.9%	63.3%
Debt securities	34.1%	31.9%
Other	6.0%	4.8%
	<b>100.0%</b>	<b>100.0%</b>

### Defined contribution plan

The cost of the defined contribution plan is recorded based on the contributions in the current year and is included in administration expenses. For the year ended March 31, 2009, the expense was \$3.4 million (2008 – \$3.0 million).

### Total cash payments

Total cash payments for employee future benefits, consisting of cash contributed by the corporation to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to its defined contribution plan, were \$16.7 million (2008 – \$12.8 million).

Total cash payments for employee future benefits for 2010, as noted in the preceding paragraph, are anticipated to be approximately \$27.7 million.



## 11. Borrowings

### Short-term debt

(\$ thousands)	2009	2008
Government of Canada debt	\$ 7,176,963	\$ 3,806,419
Retail and institutional notes	623,989	901,249
Cash collateral due to derivative counterparties	220,440	–
Promissory notes	77,521	2,057,915
Structured notes	13,485	72,767
	<b>\$ 8,112,398</b>	<b>\$ 6,838,350</b>

### Short-term debt by currency

(\$ thousands)	2009	2008
Canadian dollars	\$ 8,034,877	\$ 6,792,327
United States dollars (1)	77,521	46,023
	<b>\$ 8,112,398</b>	<b>\$ 6,838,350</b>

(1) \$61.5 million USD (2008 – \$44.9 million USD)

### Short-term debt by final maturity date and yield

(\$ thousands)	2009					2008				
	Government of Canada		Capital Markets		Total	Government of Canada		Capital Markets		Total
	Carrying value	Yield	Carrying value	Yield		Carrying value	Yield	Carrying value	Yield	
From 0 – 3 months	\$ 6,636,540	0.46%	\$ 541,961	3.85%	\$ 7,178,501	\$ 3,806,419	3.29%	\$ 2,249,959	3.19%	\$ 6,056,378
From 4 – 6 months	9,720	2.88%	114,121	3.87%	123,841	–		498,309	4.02%	498,309
From 7 – 9 months	190,703	2.59%	58,913	4.38%	249,616	–		86,998	3.98%	86,998
From 10 – 12 months	340,000	0.46%	–		340,000	–		196,665	4.02%	196,665
Cash collateral due to counterparties	–		220,440	0.45%	220,440	–		–		–
	<b>\$ 7,176,963</b>		<b>\$ 935,435</b>		<b>\$ 8,112,398</b>	<b>\$ 3,806,419</b>		<b>\$ 3,031,931</b>		<b>\$ 6,838,350</b>

The corporation has a demand operating line of credit, which provides overdraft protection in the amount of \$30.0 million (2008 – \$10.0 million). Indebtedness under this agreement is unsecured and this credit facility does not expire. Any draws made throughout the year on this facility are reversed the next day. As at March 31, 2009, there were no draws on this facility (2008 – \$0.3 million).

Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date. The net foreign exchange (loss) gain recorded by the corporation in relation to the short-term debt denominated in a foreign currency was \$(9.9) million (2008 – \$7.9 million).



## Long-term debt

(\$ thousands)	2009	2008
Government of Canada debt	\$ 4,276,683	\$ –
Retail and institutional notes	2,729,009	4,128,305
Structured notes	227,304	2,332,660
	<b>\$ 7,232,996</b>	<b>\$ 6,460,965</b>

## Government of Canada debt

(\$ thousands)	2009	2008
Fixed-rate borrowings	\$ 2,208,683	\$ –
Floating-rate borrowings	2,068,000	–
	<b>\$ 4,276,683</b>	<b>\$ –</b>

## Retail and institutional notes

(\$ thousands)	2009	2008
Floating-rate notes	\$ 1,704,164	\$ 2,433,756
Fixed-rate notes	1,024,845	1,694,549
	<b>\$ 2,729,009</b>	<b>\$ 4,128,305</b>

## Structured notes

(\$ thousands)	2009	2008
Extendible notes	\$ 79,651	\$ 1,319,085
Floating-rate notes	52,334	243,905
Targeted redemption notes	39,462	361,991
Other	15,441	13,976
Dual currency notes	13,479	10,402
Callable notes	20,550	231,598
Index-linked notes	6,387	21,773
Range notes	–	57,860
Amortizing notes	–	39,857
Fixed-rate notes	–	32,213
	<b>\$ 227,304</b>	<b>\$ 2,332,660</b>

The redemption of a structured note is controllable by the corporation. At the inception of a structured note, derivative swap agreements are entered into concurrently to economically hedge the embedded interest rate and currency exposure. In practice, the corporation will only redeem the structured note if the counterparty exercises its right to terminate the related derivative swap agreement. These contracts ensure that the corporation will receive proceeds from the swap to meet the requirements of servicing and settling the debt obligation. The corporation has in substance created floating-rate debt by issuing notes at fixed rates and entering into swap contracts whereby the corporation receives fixed-rate interest and pays floating-rate interest, and vice versa. In swapping out of the underlying note issue, the potential market risk has been converted to credit risk. Credit exposure on derivative financial instruments is further discussed in Note 21.

The amount the corporation is contractually required to pay on structured notes at maturity is \$219.0 million, an \$8.3-million difference from its carrying value. The fair value change in structured notes attributable to changes in the corporation's credit risk in the current year is \$(11.9) million and cumulatively, measured from the later of April 1, 2007, or the initial recognition of the structured notes is \$(10.9) million. The change in fair value attributable to changes in the corporation's credit risk has been calculated by using the Government of Canada Agency Curve as a proxy to present-value the future cash flows on the debt.

The estimated fair value for structured notes is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity, or by using quoted market prices where available. Where embedded optionality exists (call features), fair values are derived using market standard valuation models and techniques. The value of the embedded options is determined using market measures for interest rates, currency exchange rates and volatility levels, and estimations for other market-based pricing factors.





## Long-term debt by currency

(\$ thousands)	2009	2008
Canadian dollars	\$ 7,152,018	\$ 6,090,459
Japanese yen (1)	80,978	232,423
United States dollars	–	138,083
	<b>\$ 7,232,996</b>	<b>\$ 6,460,965</b>

(1) ¥6.5 billion Japanese yen (2008 – ¥23.4 billion JPY)

## Long-term debt by final maturity date and yield

	2009					2008	
	Government of Canada		Capital Markets		Total	Capital Markets	
(\$ thousands)	Carrying value	Yield	Carrying value	Yield		Carrying value	Yield
From 1 – 2 years	\$ 2,514,143	0.85%	\$ 238,091	4.08%	\$ 2,752,234	\$ 761,033	4.36%
From 2 – 3 years	424,151	2.83%	360,482	4.12%	784,633	576,845	3.91%
From 3 – 4 years	488,748	3.04%	239,365	4.12%	728,113	638,015	4.00%
From 4 – 5 years	546,002	2.84%	149,707	4.37%	695,709	473,462	3.96%
Over 5 years	303,639	3.32%	1,968,668	4.08%	2,272,307	4,011,610	4.24%
	\$ 4,276,683		\$ 2,956,313		\$ 7,232,996	\$ 6,460,965	

Debt payments denominated in foreign currency have been fully swapped into Canadian dollars.

## 12. Other liabilities

(\$ thousands)	2009	2008
Accrued benefit liability – other benefits (Note 10)	\$ 32,190	\$ 28,854
Reserve for insurance claims	3,420	3,031
Deferred revenues	1,540	850
Other	481	1,189
	<b>\$ 37,631</b>	<b>\$ 33,924</b>



### 13. Net interest income

(\$ thousands)	2009	2008
<b>Interest income</b>		
Loans and receivables	\$ 909,486	\$ 955,496
AFS temporary investments	17,678	28,533
Transfer of net realized gains (losses) on derivatives designated as cash flow hedges from AOCI to net income	4,250	(1,994)
Venture capital investments designated as HFT	2,836	3,452
Other venture capital investments	621	71
<b>Total interest income</b>	<b>934,871</b>	<b>985,558</b>
<b>Interest expense</b>		
Borrowings classified as other liabilities	421,910	419,406
Borrowings designated as HFT	43,859	88,650
Transfer of net realized losses on derivatives designated as cash flow hedges from AOCI to net income	138	6,734
HFT derivative assets and liabilities (net)	(1,449)	36,428
Hedging derivative assets and liabilities (net)	(37,598)	(88)
<b>Total interest expense</b>	<b>426,860</b>	<b>551,130</b>
<b>Net interest income</b>	<b>\$ 508,011</b>	<b>\$ 434,428</b>

Fees that are recognized immediately in net interest income arising from financial assets and liabilities not classified as held for trading are \$2.0 million – net (2008 – \$0.3 million – net).

### 14. Administration expenses

(\$ thousands)	2009	2008
Personnel	\$ 138,542	\$ 120,420
Facilities and equipment	35,413	26,898
Professional fees	32,756	26,182
Travel and training	12,169	12,938
Marketing and promotion	7,347	7,056
Other	5,152	4,120
	<b>\$ 231,379</b>	<b>\$ 197,614</b>

### 15. Fair value adjustment

(\$ thousands)	2009	2008
HFT derivative assets and liabilities	\$ 117,627	\$ 70,902
Ineffectiveness of cash flow hedges	9,672	144
Other venture capital investments held at fair value	1,615	–
Guarantees	(10)	(12)
Designated as HFT venture capital investments	(6,505)	(631)
Designated as HFT long-term debt	(124,130)	(111,531)
	<b>\$ (1,731)</b>	<b>\$ (41,128)</b>



## 16. Fair value of financial instruments carried at amortized cost

### Fair value methods and assumptions

The estimated fair value for the performing fixed-rate loans receivable is calculated by discounting the expected future cash flows at year-end market interest rates for equivalent terms to maturity. The estimated fair value for the performing variable-rate loans receivable is assumed to equal carrying value. The general component of the allowance for credit losses is subtracted from the estimated fair value of the performing loans receivable. The estimated fair value of the impaired loans receivable is equal to their net realizable value, which is calculated by subtracting the specific component of the allowance for credit losses from the book value of the impaired loans receivable.

Venture capital investments under significant influence in shares of privately held companies are valued based on guidelines issued by the venture capital industry, using market-based valuation methodologies. Estimated fair value for venture capital debt investments is calculated by discounting contractual cash flows at interest rates prevailing at year-end equivalent terms to maturity.

Estimated fair value for long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity, or by using quoted market prices where available.

For all other financial instruments carried at amortized cost, the carrying value is assumed to approximate fair value due to the relatively short period to maturity of these instruments. This applies to the corporation's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, accrued interest on borrowings, other assets and short-term debt.

### Fair value

The estimated fair value of the corporation's financial instruments that do not approximate carrying values in the financial statements are as follows:

(\$ thousands)	2009		2008	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
<b>Assets</b>				
Loans receivable – net	\$ 16,539,551	\$ 16,899,857	\$ 14,467,495	\$ 14,774,957
Venture capital investments – significant influence	8,020	8,448	8,086	6,111
<b>Liabilities</b>				
Long-term debt excluding structured notes	7,005,692	7,377,626	4,128,305	4,338,844



## 17. Commitments, guarantees and contingent liabilities

### Loan and venture capital commitments

As at March 31, 2009, loans approved but undisbursed amounted to \$1,883.7 million (2008 – \$1,427.3 million). These loans were approved at an average interest rate of 3.50 per cent (2008 – 4.35 per cent) and do not form part of the loans receivable balance until disbursed. The corporation also approved but did not disburse \$1.3 million (2008 – \$1.3 million) in venture capital investments. As many of these approvals will expire or terminate without being drawn upon, the contract amounts do not necessarily represent future cash requirements. The contractual maturities of these commitments do not generate liquidity risk to the corporation because it has sufficient funds available from the Government of Canada to meet its future cash requirements. The Government of Canada makes short-term and long-term funding available to the corporation through the Crown Borrowing Program.

### Operating commitments

Future minimum payments by fiscal year on technology services, operating leases for premises, automobiles, investment management fees and community investments are due as follows:

(\$ thousands)	2009
<b>Amounts due:</b>	
Within 1 year	\$ 22,141
From 1 – 2 years	20,530
From 2 – 3 years	11,038
From 3 – 4 years	7,658
From 4 – 5 years	5,807
Over 5 years	6,542
	<b>\$ 73,716</b>

### Guarantees

In the normal course of its business, the corporation issues guarantees in the form of letters of credit that represent an obligation to make payments to third parties on behalf of its customers if customers are unable to make the required payments or meet other contractual obligations. The maximum amount potentially payable at March 31, 2009, is \$4.8 million (2008 – \$4.1 million). In the event of a call on these letters of credit, the corporation has recourse in the form of security against its customers for amounts to be paid to the third party. Existing items will expire within five years, usually without being drawn upon. As at March 31, 2009, an amount of \$0.1 million (2008 – \$0.1 million) was recorded in other liabilities for these letters of credit.

### Contingent liabilities

In the normal course of operations, the corporation enters into agreements that provide general indemnification. These indemnifications typically occur in service contracts and strategic alliance agreements, and in certain circumstances may require that the corporation compensate the counterparty to the agreement for various costs resulting from breaches of representations or obligations. The corporation also indemnifies directors, officers and employees, to the extent permitted by law and the corporation's governing legislation, against certain claims that may be made against them as a result of their being directors, officers or employees. The terms of these indemnifications vary, thus the corporation is unable to determine a reasonable estimate of the maximum potential amount the corporation could be required to pay to counterparties. Historically, the corporation has not made any payments under such indemnifications and contingencies. No amount has been included in the consolidated financial statements as at March 31, 2009, or March 31, 2008, for these indemnifications and contingencies.



## 18. Consolidated Statement of Cash Flows – additional information

### Changes in operating assets and liabilities

The changes in operating assets and liabilities reported in the Consolidated Statement of Cash Flows are as follows:

(\$ thousands)	2009	2008
Accrued interest on loans receivable	\$ 12,872	\$ (13,303)
Accrued interest on borrowings	(61,187)	23,410
Derivative assets	(12,102)	3,193
Derivative liabilities	(9,094)	1,752
Other	29,305	16,361
	<b>\$ (40,206)</b>	<b>\$ 31,413</b>

Cash and cash equivalents is comprised of balances with a maturity date of 90 days or less from the date of acquisition as follows:

(\$ thousands)	2009	2008
Cash	\$ 1,193	\$ (176)
Temporary investments	694,727	270,013
	<b>\$ 695,920</b>	<b>\$ 269,837</b>

## 19. Related party transactions

The corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. Transactions with these entities were entered into in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Items included in the consolidated financial statements are as follows:

(\$ thousands)	2009	2008
Temporary investments	\$ –	\$ 39,874
Accrued interest on borrowings	32,148	20,287
Short-term debt	7,176,963	3,806,419
Long-term debt	4,276,683	–
Interest income	126	3,299
Interest expense	168,374	20,287
Other income	2	16
Administration expenses	4,047	3,815

The Government of Canada guarantees the borrowings of the corporation.

The corporation enters into temporary investments issued by the Government of Canada. Interest earned on these investments is recorded in interest income.

The corporation enters into short-term and long-term borrowings with the Government of Canada through the Crown Borrowing Program. Interest accrued and incurred on these borrowings is recorded in accrued interest on borrowings and interest expense, respectively.

The corporation administers various programs for Government of Canada departments on a cost-recovery basis. The administration fee for this service is recorded in other income.

The corporation pays numerous other administrative business costs to the Government of Canada, which are included in administrative expenses.





## 20. Capital management

The corporation's objectives when managing capital are:

- To generate a sufficient rate of return from operations to remain financially self-sustaining and to fund growth and strategic initiatives.
- To have the capability to withstand market fluctuations intrinsic to the agriculture industry while continuing to support its customers through all economic cycles.
- To comply with its external covenant imposed by the Farm Credit Canada Act that restricts the total direct and contingent liabilities of the corporation to 12 times its equity. This limit can be increased to 15 times its equity with the prior approval of the Governor-in-Council.

The capital of the corporation consists of allowances for credit losses, contributed surplus, retained earnings and AOCI. One of the measures that the corporation reviews is the percentage of assets that do not require borrowings. The corporation's level of capitalization and the percentage of gross assets not requiring borrowings are as follows:

(\$ thousands)	2009	2008
Allowance for credit losses	\$ 558,988	\$ 524,604
Contributed surplus	547,725	547,725
Retained earnings	1,320,950	1,131,973
Accumulated other comprehensive income	407,194	97,060
<b>Total capitalization</b>	<b>\$ 2,834,857</b>	<b>\$ 2,301,362</b>
Gross assets	\$ 18,361,691	\$ 15,995,060
<b>Capitalization as a percentage of gross assets</b>	<b>15.44%</b>	<b>14.39%</b>

### Limits on borrowing

At March 31, 2009, the corporation's total direct and contingent liabilities were 8.3 times the shareholder's equity, excluding AOCI, of \$1,868.7 million (2008 – 8.2 times the shareholder's equity, excluding AOCI, of \$1,679.7 million), which was within the limit established by the Farm Credit Canada Act.

### Contributed surplus

Contributed surplus of the corporation consists of capital contributions made by the Government of Canada net of the March 31, 1998, reallocation of \$660.6 million to eliminate the corporation's accumulated deficit.

As of March 31, 2009, capital payments received from the Government of Canada amounted to \$1,208.3 million (2008 – \$1,208.3 million). The statutory limit for that same period was \$1,250.0 million (2008 – \$1,250.0 million).

### Dividend

On December 10, 2008, the corporation's Board of Directors declared a dividend based on the results of the year ended March 31, 2008, in the amount of \$22.9 million (2008 – \$5.5 million based on the year ended March 31, 2007) to the corporation's shareholder, the Government of Canada, which was paid March 17, 2009.



## 21. Risk management

### Risk governance

The corporation has established a governance framework that includes a number of committees to guide corporate decision-making. The Board of Directors provides oversight for these committees, all of which are responsible for developing and monitoring aspects of the corporation's overall financial risk management policies and practices. These committees report regularly through the CEO and the Executive Committee as required, or as mandated by the Board of Directors to the Board of Directors, most often through the Board of Directors' Audit Committee, Human Resources Committee and Corporate Governance Committee.

The Audit Committee assists the Board of Directors in fulfilling its responsibilities by ensuring management has identified key risks and has put in place policies, control systems and practices to manage these risks. The Audit Committee receives semi-annual reports from management outlining major risk areas and corresponding risk management measures implemented to provide assurance that the corporation is effectively managing risk.

### Financial risk management

The corporation has identified the major categories of financial risk to which it is exposed as being credit risk, market risk and liquidity risk.

### a) Credit risk

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet its financial obligations to the corporation. This is the most significant risk that the corporation faces.

### Management of credit risk

The Board of Directors has overall responsibility for the management of credit risk and relies on the following committees and divisions to effectively manage the credit risk that impacts the corporation:

- The **Asset Liability Committee** (ALCO) directs the asset/liability management function, including the establishment and maintenance of portfolio risk management policies and procedures, loan pricing direction, integration with corporate strategies and achievement of portfolio return targets.
- The **Credit Policy Committee** oversees the development of lending policies, and ensures they reflect the corporation's credit risk tolerance, industry best practices and compliance with federal, provincial and regional laws and regulations.
- The **Credit Committee** reviews and makes lending decisions on agribusiness and agri-food financing loan applications in excess of prescribed limits.
- The **Venture Capital Investment Committee** adjudicates investment recommendations and reviews the performance of Legacy Fund venture capital investments.



- The **Portfolio Management division** is responsible for the management, design and development of lending and credit risk-related models and lending scorecards and tools, and makes recommendations to ALCO to ensure these models, scorecards and tools appropriately balance risk mitigation, growth and profitability.

It is also responsible for the management of the corporation's credit policies and makes recommendations to the Credit Policy Committee to ensure there is an appropriate balance between risk mitigation, profitability and growth. It reviews, enhances and clarifies credit policies, communicates policy changes to staff and provides ongoing interpretation of policy in relation to general and specific lending situations.

Portfolio Management also conducts industry, economic and portfolio analysis and reporting to the various risk committees, including the Audit Committee.

- The **Credit division** manages risk for larger loans as well as loans above established risk thresholds. It is responsible for credit-related delegation of authorities, credit education and coaching and credit authorization including Credit Committee recommendations.
- The **Valuation division** researches land sales, maintains benchmark data on land values and appraises the value of the corporation's security with particular emphasis on specialized enterprises and agribusinesses.
- The **Special Credit division** manages and resolves higher-risk accounts experiencing challenges.
- The **Operations division** is delegated authorities over lending and is responsible for managing credit risk on loans in their portfolio. Authority is granted on the basis of credit training and demonstrated competence, and credit decisions are made at an authority level appropriate to the size and risk of each loan. The division monitors customer and loan performance throughout the life of the loan through ongoing account management as well as the account review process.
- The **Treasury division** is responsible for managing counterparty credit risk related to derivative and investment activities, and reviews counterparty credit rating actions and financial performance.

### Measurement of credit risk

The Portfolio Management division assesses credit risk at the aggregate level, providing risk policies and assessment tools and models that quantify credit risk and the allowance for credit losses. The division also monitors the agriculture and agri-food operating environments to ensure the corporation's lending policies, activities and prices are appropriate and relevant.

Policies, processes, systems and strategies are used to manage credit risk of the portfolio. Each year, Portfolio Management presents to the Board of Directors for approval a comprehensive portfolio vision that summarizes many of these tools, models and strategies. Numeric targets associated with many of these tools are set annually to assist in achieving the portfolio vision. Significant research, modelling, validation and interpretation are used to determine the targets for each tool as follows:

### Strategic credit risk model

The strategic credit risk model (SCRM) measures portfolio risk by assessing the transaction risk arising from individual customers and loans, the intrinsic risk from the industries and lines of business receiving loans, and the concentration risk present from concentrations of loans to industries, lines of business or small groups of large borrowers.

There are three possible score ranges for the SCRM, each corresponding to a credit risk strategy:

- conservative (maximizes portfolio quality)
- managed (balances portfolio quality and growth)
- aggressive (maximizes growth)

The corporation targets the managed range (a score of 51 to 70). For the year ended March 31, 2009, the corporation achieved an average score of 56.60.



### Portfolio diversification plan

The portfolio diversification plan outlines the optimal portfolio composition over a five-year period, through a balance of profitability and risk, while taking into account a variety of growth constraints. The portfolio diversification plan provides a basis to establish target ranges and adjustment options for each of the following:

- diversification across enterprises, geographical areas and business lines
- customer exposure limits and approval authorities
- maximum exposure for minor, niche market enterprises
- risk rating and pricing targets for new lending

The corporation is currently on track for achieving the target ranges identified in the five-year plan.

### Risk scoring and pricing system

The risk scoring and pricing system (RSPS) is used to rank risk and price loans in the corporation's portfolio. Risk ranking is based on the customer, the loan and the enterprise, and generates scores within a range from 400 to 999 points. Each score translates into a probability of default. The higher the score, the lower the probability of default.

RSPS scores are based on inputs that are categorized under four main themes:

- customer credit rating and historical payment performance
- customer financial ratios
- customer business experience
- customer primary enterprise

The RSPS weights each characteristic differently to arrive at the final RSPS score. These weightings are based on the corporation's historical experience and are set with the objective to maximize the system's ability to predict probability of default.

The target risk score for the corporation's portfolio for new lending is 770. The portfolio's current risk score for new lending is 790 and the portfolio's overall risk score is 799.

### Loan loss model

The loan loss model estimates the losses within the portfolio due to credit risk. There are two components to the loan loss model: specific and general. The specific loan losses are determined for non-performing loans, which are based upon the following criteria:

- greater than \$500 in arrears for 90 days or more, and
- security insufficient to fully recover amounts outstanding

General loan losses are calculated losses on loans within the portfolio that have met at least one of three indicators of impairment:

- arrears of \$500 or greater but not more than 90 days,
- an adjustment to the terms of the loan in the past year, or
- the RSPS risk score dropped by 15 or more points in the past year

The general allowance is also based on those losses that have been incurred but have not yet exhibited evidence of the loss. Based on historical experience, there is an emergence period of when impairment occurs to when it becomes evident in the portfolio. From the emergence period, migration rates are used to determine incurred losses within the portfolio that are not yet evident. For all components of the loss model, the model considers the security position to estimate the appropriate amount of loss allowance.

On a monthly basis, ALCO is provided a report that illustrates various measures of the loan portfolio's credit risk on an overall basis, by industry enterprise and by business line. Macro measures that demonstrate the health of the portfolio are as follows:

	2009	2008
Weighted average loan-to-security ratio for secured portfolio	57.5%	57.2%
Unsecured portfolio as a percentage of total owing	2.6%	1.4%
Arrears as a percentage of total owing	2.7%	2.9%
Portfolio adjusted over the past 12 months as a percentage of total owing	3.7%	4.7%



## Collateral

The corporation mitigates its credit risk by employing policies and practices in terms of collateral requirements. Credit policy establishes collateral guidelines and standards. The corporation monitors the portfolio by reviewing the loan-to-security ratio, both on an overall portfolio basis and by enterprise. Upon initial recognition of a loan, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets at intervals prescribed by policy. The form of collateral obtained is generally real estate, quotas or equipment, depending on the purpose of the loan.

## Loan commitments

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk, the corporation is potentially exposed to loss in an amount equal to the total unused commitments. See Note 17 for further details regarding the corporation's loan commitments.

## Maximum exposure to credit risk before collateral held or other credit enhancements

(\$ thousands)	2009	2008
<b>On-balance sheet assets:</b>		
Temporary investments	\$ 43,916	\$ 478,635
Accounts receivable	6,116	10,424
Derivative assets	352,224	111,649
Loans receivable	16,539,551	14,467,495
Venture capital investments	61,875	54,496
Other assets	2,810	2,463
<b>Off-balance sheet assets:</b>		
Financial guarantees	4,782	4,064
Loan commitments	1,883,726	1,426,720
Venture capital investment commitments	1,300	1,300
	<b>\$ 18,896,300</b>	<b>\$ 16,557,246</b>

The preceding table represents a worst-case scenario of credit risk exposure to the corporation at the end of the year, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out are based on net carrying amounts as reported

in the balance sheet. For off-balance sheet items, the exposure is based upon the maximum amount that the corporation would have to pay if the item were called upon.

## Loans receivable

### Loans receivable neither in arrears nor impaired

The credit quality of loans that were neither in arrears nor impaired can be assessed by reference to the corporation's RSPS scores. Total owing for each RSPS score bucket as a percentage of total owing that are neither in arrears nor impaired is as follows:

	2009	2008
<b>RSPS score:</b>		
400-650	0.8%	1.0%
651-769	21.4%	21.8%
770-850	60.1%	61.6%
851-999	17.7%	15.6%
	<b>100.0%</b>	<b>100.0%</b>

The majority of the RSPS scores are updated on a monthly basis. For certain types of loans, different approval and credit management processes are used and these represent less than one per cent of the corporation's total portfolio.

### Loans receivable in arrears but not impaired

A loan is considered to be in arrears when a customer has not made a payment by the contractual due date. Loans less than 90 days in arrears are not considered impaired, unless other information is available to the contrary. As well, loans in arrears for 90 days or more are not considered impaired if there is adequate security and collection efforts are reasonably expected to result in full repayment. The longer that the customer is in arrears and interest continues to accrue, the greater the risk that the recoverable amount from the security value is less than the carrying amount of the loan. Gross amounts of loans that were in arrears but not impaired were as follows:

(\$ thousands )	2009	2008
<b>In arrears:</b>		
Up to 30 days	\$ 64,754	\$ 76,773
31 – 60 days	76,014	40,502
61 – 89 days	53,715	34,519
90 days or more	78,353	94,016
	<b>\$ 272,836</b>	<b>\$ 245,810</b>

### **Renegotiated loans receivable**

Renegotiating activities include payment schedule adjustments and deferred payment options. Renegotiated loans that would otherwise be in arrears or impaired are \$635.7 million (2008 – \$696.7 million).

### **Real estate property acquired**

During 2009, the corporation acquired real estate property from customers in settlement of loan commitments with a carrying value of \$2.3 million (2008 – \$2.5 million). Real estate property acquired is sold as soon as practicable, with the proceeds used to reduce the outstanding customer loan balance.

### **Counterparty credit risk – derivatives and temporary investments**

Credit risk arises from the potential for a counterparty to default on its contractual obligation to the corporation. To mitigate this risk, the corporation complies with the guidelines issued by the Minister of Finance by entering into derivatives with counterparties of high credit quality only, as determined by the published ratings of external credit rating agencies. Counterparty credit risk is managed via the corporation's Board-approved counterparty credit risk guidelines, which specify the maximum exposure that the corporation will accept for each level of credit rating.

In the normal course of business, the corporation receives collateral on certain transactions to reduce its exposure to counterparty credit risk. The corporation is normally permitted to sell, dispose, invest or re-pledge the collateral it receives under terms that are common and customary to standard derivative activities.

The counterparty derivative obligation may arise when market-related currency and interest factors change resulting in unrealized gains to the corporation. These unrealized gains result in positive fair values for these derivative instruments. The corporation is not exposed to credit risk for the full notional amount of the derivative contracts, but only to the potential replacement cost if the counterparty defaults. Furthermore, standard credit mitigation via master netting agreements provided in the International

Swap and Derivatives Association (ISDA) documentation provide for the simultaneous closeout and netting of positions with a counterparty in the event of default. Credit Support Annex (CSA) documentation is also in place with most of the corporation's counterparties. These agreements are addendums to existing ISDA documentation and further specify the conditions for providing the corporation with collateral in the event that the counterparty credit exposure exceeds an agreed threshold. For derivative transactions, counterparties where a CSA is in place, the counterparty must have a minimum long-term credit rating of A- from two or more external credit rating agencies (S&P, Moody's or DBRS). See Note 4 and Note 11 for the quantification of counterparty credit risk.

ALCO and the Board of Directors have established an investment policy that sets minimum credit ratings for temporary investments and limits the size and composition of the total investment portfolio. For temporary investment activity with term to maturity equal to or less than one year, counterparties must have a minimum short-term credit rating of A1+/R1-low/P-1 from two or more external credit rating agencies. The actual credit ratings will determine the maximum face amount of investments per counterparty.

Due to the global financial situation in the current marketplace, counterparty credit risk has become a greater risk for the corporation. The corporation has controls and policies in place to protect against and minimize loss due to counterparty default. The Treasury division reviews credit ratings and counterparty financial performance regularly and recommends policy changes to ALCO and the Board of Directors.

### **Venture capital debt investments**

The corporation is exposed to credit risk through its venture capital debt investments. The corporation manages credit risk through thoughtful planning, strict investment criteria, significant due diligence of investment opportunities and by conducting activities in accordance with investment policies that are approved by the Board of Directors. The Venture Capital Investment Committee reviews the financial condition of investees regularly.





## b) Market risk

Market risk is the potential for loss to the corporation as a result of adverse changes in underlying market factors such as interest rates and foreign exchange rates associated with investments.

The corporation has market risk policies and limits to ensure exposures to interest rate and foreign exchange risks are identified, measured, managed and reported on a timely basis. Market risk policies are regularly reviewed by ALCO and are approved by the Board of Directors. The corporation's policies and processes are based on industry best practices and Department of Finance risk management guidelines. The Treasury division is responsible for implementing market risk management directives and reports regularly to ALCO and the Board of Directors on its activities and asset/liability positions.

### Interest rate risk

Interest rate risk is the potential for adverse impacts on the corporation's earnings and economic value due to changes in interest rates. Interest rate risk arises from interest rate mismatches between assets and liabilities and embedded options. Interest rate mismatches occur because of different maturity and re-pricing dates, residual assets funded by equity and different interest rate benchmarks for some assets and liabilities. Embedded options exist on fixed-rate loans that have principal deferral options, prepayment features and interest rate guarantees on loan commitments.

Exposure to interest rate risk is monitored primarily through an asset/liability model. Various scenarios are produced at least monthly to analyze the sensitivity of net interest income and market values to changes in interest rates and balance sheet assumptions. The asset/liability model is back-tested and validated to ensure that the logic and assumptions used in the model are reasonable when compared to actual results.

Interest rate risk management is governed by policy, which has defined limits based on the impact of a two per cent change in interest rates. The defined limit for variability of net interest income is that for the next 12-month period, net interest income should not decline by more than 10 per cent. The second defined limit is that the market value of portfolio equity should not decline by more than one per cent of assets for a two per cent immediate and sustained change in the level and term structure of interest rates. Based on the corporation's financial position at March 31, 2009, assuming an immediate and sustained two per cent change in interest rates occurs across all maturities and curves, net interest income and the market value of portfolio equity would be affected over the next 12 months as follows:

	Impact of	
(\$ thousands )	2% increase	0.4% decrease (a)
Net interest income variability	\$ 1,356	\$ (389)
Limit	62,959	(62,959)
Market value of portfolio equity variability	(116,300)	21,800
Limit	(178,027)	178,027

(a) The lowest rate on the yield curves used in the model was 0.4% to avoid using negative rates.

The corporation has a third defined limit that addresses its exposure to commitment risk. Commitment risk is the risk that interest rates rise after the corporation has committed to a lower interest rate to the customer. The policy states that the decline in the market value of the interest guarantees on new loans and renewals cannot exceed 0.5 per cent of total equity for a 0.5 per cent increase in rates. The net decrease in market value of undisbursed loans if there were a 0.5 per cent rate increase was \$2.6 million as at March 31, 2009, which was within the policy limit of \$11.4 million.



The following table summarizes the corporation's interest rate risk based on the gap between the carrying value of assets, liabilities and equity, grouped by the earlier of contractual re-pricing or maturity dates and interest rate sensitivity. In the normal course of business, loan customers frequently prepay their loans in part or in full prior to the contractual maturity date.

(\$ thousands)	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non interest-sensitive	Total
<b>Assets</b>							
Cash and cash equivalents	\$ –	\$ 694,687	\$ –	\$ –	\$ –	\$ 1,233	\$ 695,920
Yield (1)		0.56%					
Temporary investments	–	43,905	–	–	–	11	43,916
Yield (1)		0.86%					
Derivative assets (3)	–	–	–	–	–	352,224	352,224
Loans receivable – net	9,640,484	533,033	1,174,544	4,546,473	826,194	(181,177)	16,539,551
Yield (1)	3.28%	6.35%	6.45%	6.26%	6.38%		
Venture capital investments	3,524	1,888	4,300	14,701	–	37,462	61,875
Yield (1)	10.93%	9.32%	15.70%	9.62%			
Other	–	–	–	–	–	109,217	109,217
<b>Total assets</b>	<b>\$ 9,644,008</b>	<b>\$ 1,273,513</b>	<b>\$ 1,178,844</b>	<b>\$ 4,561,174</b>	<b>\$ 826,194</b>	<b>\$ 318,970</b>	<b>\$ 17,802,703</b>
<b>Liabilities</b>							
Non-structured borrowings	\$ –	\$ 9,793,502	\$ 373,842	\$ 2,874,709	\$ 2,063,352	\$ (799)	\$ 15,104,606
Yield (1)		0.65%	3.26%	3.30%	4.30%		
Structured borrowings	–	13,459	–	15,186	203,877	8,266	240,788
Yield (1)		3.34%		5.72%	3.29%		
Total borrowings	–	9,806,961	373,842	2,889,895	2,267,229	7,467	15,345,394
Accrued interest on borrowings	–	–	–	–	–	89,769	89,769
Derivative liabilities (2)(3)	525,000	1,391,168	–	(11,286)	(1,904,882)	676	676
Yield (1)	0.50%	0.82%		5.77%	4.34%		
Other	–	–	–	–	–	90,995	90,995
Shareholder's equity	–	–	–	–	–	2,275,869	2,275,869
<b>Total liabilities and equity</b>	<b>\$ 525,000</b>	<b>\$ 11,198,129</b>	<b>\$ 373,842</b>	<b>\$ 2,878,609</b>	<b>\$ 362,347</b>	<b>\$ 2,464,776</b>	<b>\$ 17,802,703</b>
<b>Total gap 2009</b>	<b>\$ 9,119,008</b>	<b>\$ (9,924,616)</b>	<b>\$ 805,002</b>	<b>\$ 1,682,565</b>	<b>\$ 463,847</b>	<b>\$ (2,145,806)</b>	<b>\$ –</b>
<b>Total cumulative gap 2009</b>	<b>\$ 9,119,008</b>	<b>\$ (805,608)</b>	<b>\$ (606)</b>	<b>\$ 1,681,959</b>	<b>\$ 2,145,806</b>	<b>\$ –</b>	<b>\$ –</b>
<b>Total gap 2008</b>	<b>\$ 1,341,244</b>	<b>\$ (1,837,284)</b>	<b>\$ 107,023</b>	<b>\$ 1,873,422</b>	<b>\$ 488,203</b>	<b>\$ (1,972,608)</b>	<b>\$ –</b>
<b>Total cumulative gap 2008</b>	<b>\$ 1,341,244</b>	<b>\$ (496,040)</b>	<b>\$ (389,017)</b>	<b>\$ 1,484,405</b>	<b>\$ 1,972,608</b>	<b>\$ –</b>	<b>\$ –</b>

(1) Represents the weighted-average effective yield based on the earlier of contractual re-pricing or maturity date.

(2) Represents notional principal amounts on overnight index swaps, receive-fixed, pay-fixed and structured note swaps.

(3) The notionals for derivatives with a positive fair value have been netted against derivatives with a negative fair value and are included with derivative liabilities.



### Foreign exchange risk

The corporation is exposed to foreign exchange risk due to differences in the amount and timing of foreign currency denominated asset and liability cash flows. The currency exposure is minimized by matching foreign currency loans against foreign currency funding. This risk cannot be perfectly hedged because the assets are amortizing loans and the liabilities are discount bonds, which creates timing mismatches for the principal and interest cash flows.

The corporation's policy is to mitigate foreign exchange risk. All foreign currency borrowings are fully hedged at the time of issuance, unless the foreign currency denominated debt is used specifically to finance a like currency asset. The Board of Director's policy limit for the foreign currency funding to foreign currency asset hedge ratio is a range of 90 per cent to 110 per cent. The corporation's actual ratio at March 31, 2009 is 98.9 per cent.

### Derivatives

The corporation uses derivatives to hedge interest rate and foreign exchange risk. Derivatives alter the risk profile of the balance sheet by reducing mismatches of assets and liabilities, while ensuring interest rate risk and foreign exchange risk are managed within policy limits.

When derivative transactions qualify for hedge accounting, derivatives are designated as cash flow hedges and are accounted for as described in Note 2. Derivative transactions that do not qualify for hedge accounting are still considered economic hedges. Economic hedges that do not qualify for hedge accounting may lead to net income volatility because the hedged items are recorded on an amortized cost basis and this volatility may not be representative of the overall risk.

### c) Liquidity risk

Liquidity risk is the potential for financial loss if the corporation cannot meet a demand for cash or fund its obligations at a reasonable cost as they become due.

The corporation measures, forecasts and manages cash flow as an integral part of liquidity management. The corporation's objective is to maintain sufficient funds to meet customer and business operational requirements.

The corporation maintains liquidity through:

- a liquid investment portfolio – cash and cash equivalents, and temporary investments equal to \$739.8 million were on hand at March 31, 2009 (March 31, 2008 – \$748.5 million)
- access to short-term funding – the corporation's access to funding through the Crown Borrowing Program and capital markets provides the corporation with sufficient liquidity to meet daily cash requirements, and
- access to a \$30-million bank operating line of credit

## 22. Segmented information

The corporation is organized and managed as a single business segment, that being agriculture lending. The operation is viewed as a single segment for purposes of resource allocation and assessing performance. All of the corporation's revenues are within Canada. No one customer comprises more than 10 per cent of the corporation's loans receivable or interest revenues.

## 23. Comparative figures

Certain 2008 comparative figures have been reclassified to conform to the current year's presentation.



## FCC Office locations

### British Columbia

Abbotsford, Dawson Creek, Duncan, Kelowna, Surrey

### Alberta

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

### Saskatchewan

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

### Manitoba

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

### Ontario

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

### Quebec

Alma, Drummondville, Gatineau, Granby, Joliette, Quebec City, Rivière-du-Loup, Salaberry-de-Valleyfield, Sherbrooke, St-Georges-de-Beauce, St-Hyacinthe, St-Jean-sur-Richelieu, St-Jérôme, Trois-Rivières, Victoriaville

### New Brunswick

Grand Falls, Moncton, Sussex, Woodstock

### Newfoundland and Labrador

Mount Pearl

### Nova Scotia

Kentville, Truro

### Prince Edward Island

Charlottetown, Summerside

### Corporate Office

1800 Hamilton Street, P.O. Box 4320  
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Telephone: 306-780-8100  
Fax: 306-780-5167

### FCC Management Software

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Fax: 306-721-1981

### FCC Ventures

1800 Hamilton Street, P.O. Box 4320  
Regina, SK S4P 4L3  
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Fax: 306-780-8757

### Government and Industry Relations

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Montreal, QC H3B 2K4  
Telephone: 514-868-1079



# Glossary of terms

## **AgProduction**

(see primary production financing)

## **Agribusiness and agri-food financing**

Agribusiness and agri-food are customers who have loans from FCC. It includes customers who are suppliers or processors that are selling to, buying from and otherwise serving primary producers. These include equipment manufacturers and dealers, input providers, wholesalers, marketing firms and processors.

## **AgValue**

(see agribusiness and agri-food financing)

## **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 on the balance sheet.

## **Arrears**

Arrears are defined as all amounts, including gross impaired loans, greater than \$500 that are past due.

## **Available-for-sale (AFS) financial assets**

AFS financial assets are those non-derivative financial assets that are designated as AFS, or that are not classified as loans and receivables, held-to-maturity investments or held for trading.

## **Basis point**

One hundredth of one percent, used when describing applicable interest rates or the yield of an investment (1 bps = 0.01 per cent).

## **Corporate social responsibility (CSR)**

CSR is about accessibility, accountability and 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.

## **Counterparty**

The opposite side of a financial transaction, typically another financial institution.

## **Counterparty risk**

The risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction into which it has entered.

## **Credit rating**

A classification of credit risk based on investigation of a company's financial resources, prior payment pattern and history of responsibility for debts incurred.

## **Crown Borrowing Program**

Direct lending provided to the corporation by the federal government.

## **Customer support strategy**

Plans developed to proactively assist customers who may experience loan repayment difficulties during downturns in a particular segment of the agriculture industry. Individual plans can include deferred payments or flexible repayment schedules.

## **Debt-to-equity ratio**

The level of debt expressed as dollars of debt per one dollar of equity before accumulated other comprehensive income.

## **Derivative financial instrument**

A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates and foreign exchange rates. Types of derivative contracts include interest rate swaps, interest rate options, currency swaps and forward contracts.

## **Effective interest method**

A method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period.

## **Efficiency ratio**

A measure of how well resources are used to generate income calculated as administration expenses as a percentage of revenue. Administration expenses are composed of the total administration expenses less investment in agriculture program expenses and revenue is composed of net interest income, net insurance income and other income.

## **Embedded derivative**

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

## **Enterprise**

Specific type of agricultural operation (dairy, cash crops, beef, etc.).

## **Enterprise risk management**

The balance of the corporation's risk-taking activities and risk management practices within the context of executing corporate strategy and achieving business goals and objectives.

## **Fair value**

The amount an independent party would pay to purchase or sell a financial instrument in the marketplace. It can be estimated as the present value of cash flows, adjusted for risk.

## **Foreign exchange risk**

The risk of financial loss due to adverse movements in foreign currencies.

## **Hedge**

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

## **Held-for-trading (HFT)**

### **financial assets or financial liabilities**

HFT financial assets or financial liabilities are acquired or incurred principally for the purpose of selling or repurchasing in the near term; or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or are derivatives, except for derivatives designated in effective hedging relationships; or are financial instruments designated upon initial recognition as HFT.



**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 and currency rate swaps**

Contractual agreements for specified parties to exchange currencies or interest payments for a specified period of time based on notional principal amounts.

**Interest expense**

Expense to the corporation incurred on debt.

**Interest income**

Income earned on loans receivable, cash and investments.

**Interest rate option**

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

**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.

**Market value of portfolio equity (MVPE)**

The net present value of assets less liabilities. It is used to measure the sensitivity of the corporation's net economic worth to changes in interest rates.

**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.

**Notional amount**

The amount considered as principal when calculating interest and other payments for derivative contracts. This amount traditionally does not change hands under the terms of the derivative contract.

**Other comprehensive income (OCI)**

Represents unrealized gains and losses due to changes in fair value that are temporarily recorded outside of net income in a section of shareholder's equity called Accumulated Other Comprehensive Income (AOCI).

**Prepayments**

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

**Primary production financing**

Primary production financing refers to customers who have loans from FCC and includes agricultural operations that produce raw commodities such as crops, beef, pork, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock. These include but are not limited to vineyards, greenhouses, forestry (cultivation, growing and harvesting of trees), aquaculture (growing of fish, both ocean and inland) and lifestyle customers.

**Principal not due (PND)**

The principal balance owing on loans. PND is a useful measure of growth between business lines, geographic areas and enterprises. It excludes items such as arrears and interest accruals that are normally included in loans receivable.

**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 equity (ROE)**

Net income expressed as a percentage of average equity before accumulated other comprehensive income.

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

A tool used to evaluate the type and potential impact of risks present in each loan or finance lease 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.

**Variable interests**

Contractual, ownership or other pecuniary interests in an entity that change with changes in the fair value of the entity's net assets.

**Variable interest entity**

An entity that by design does not have sufficient equity at risk to permit it to finance its activities without additional subordinated financial support, or in which equity investors do not have the characteristics of a controlling financial interest.







