Advancing

the business of agriculture

09 10

ANNUAL REPORT

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Advancing the business of agriculture with customers and communities

Today's farmers and agribusiness operators are sophisticated business people. They work in a complex industry impacted by currency risk, human resource challenges, evolving consumer trends, price volatility, globalization and many other factors. This industry is not for the faint of heart.

We are very proud to work with farmers and businesses along the agriculture value chain – from suppliers to processors. We're committed to advancing the business of agriculture so that these men and women can successfully sustain and grow their operations.

We reinvest our profits in the agriculture and agri-food industry. We listen to our customers and adapt our products and services to meet their needs. In addition to financial products (including insurance and leasing), we offer learning events and knowledge, software and tools to help farmers and agribusiness operators enhance their management practices and navigate a complex environment.

We also care about the communities that our customers and employees call home. We support local projects in every region of Canada, donating more than one per cent of profits. We support food banks across Canada, rural community enhancement and safety, and education about agriculture through targeted programs and funds. We are also committed to helping customers and communities through challenging times.

We believe that working together with customers and communities, we are advancing the business of agriculture.

Operational and financial highlights

In 2009-10, industries around the world continued to deal with the impact of the global financial situation, and agriculture was no exception. FCC remained focused on its strengths – commitment to agriculture, knowledge and expertise, flexible and customized solutions, and consistent delivery of an exceptional customer experience. FCC remained financially sustainable in 2009-10, with growth in loans receivable of $2.6 billion or 15.1 per cent.

The number of disbursements was 41,418 in 2009-10 and the average size of the loans disbursed was $159,003, resulting in net disbursements of $6.6 billion. Equity continues to grow as FCC generates positive net income. Growth in net interest income was $101 million. As the financial results indicate, FCC continues to build a strong 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	2010	2009	2008	2007	2006
Number of loans	**114,439**	106,867	98,066	101,470	95,768
Loans receivable ($ millions)	**19,687.2**	17,098.5	14,992.1	13,550.4	12,310.2
Net portfolio growth (per cent)	**15.1**	14.1	10.6	10.1	10.4
Loans receivable in good standing (per cent)	**97.7**	97.5	97.4	97.4	97.5
New lending	**2010**	**2009**	**2008**	**2007**	**2006**
Number of loans disbursed	**41,418**	31,037	32,561	28,684	28,634
Net disbursements ($ millions)	**6,585.6**	5,068.4	4,285.0	3,714.7	3,317.3
Average size of loans disbursed ($)	**159,003**	163,302	131,600	129,504	115,852

Financial highlights

Consolidated balance sheet ($ millions)	2010	2009	2008	2007	2006
Total assets	**20,203.2**	17,802.7	15,470.5	13,834.2	12,576.3
Total liabilities	**17,867.6**	15,526.8	13,693.7	12,372.1	11,312.5
Equity	**2,335.6**	2,275.9	1,776.8	1,462.1	1,263.8
Consolidated income statement ($ millions)	**2010**	**2009**	**2008**	**2007**	**2006**
Net interest income	**609.9**	508.8	434.4	415.5	388.4
Provision for credit losses	**91.4**	70.0	5.0	38.9	62.4
Other income	**10.3**	6.2	14.4	7.7	6.6
Administration expenses	**255.2**	231.4	197.6	180.5	163.0
Fair value adjustment*	**6.6**	(1.7)	(41.1)	0.0	0.0
Non-controlling interest	**1.7**	0.8	0.0	0.0	0.0
Net income	**281.9**	211.9	205.1	203.8	169.6

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

Corporate profile

Farm Credit Canada (FCC) operates out of our 100 offices located primarily in rural communities. Our over 1,500 dedicated employees are passionate about the business of agriculture. We continue 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 over 100,000 primary producers, value-added operators, suppliers and processors along the agriculture value chain. In addition, we provided learning events and publications to over 10,000 participants and 100,000 subscribers, respectively, in 2009-10.

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.

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.

Why we exist

Vision

The full agriculture value chain believes FCC is "advancing the business of agriculture" by providing financial products, tools and knowledge tailored to producers and agribusiness operators. Our customers are advocates of FCC and can't imagine doing business without us. We are a strong corporate citizen and an employer of choice everywhere we operate. Our focus on continuous improvement makes it easy for customers and employees to do business. We are financially viable and invest significantly in the agriculture and agri-food industry.

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

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, leasing, 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.

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 always 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.
- 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.

FCC is a high-performance organization with talented and dedicated employees who are passionate about contributing to the success of Canadian agriculture. We work in partnership to deliver an extraordinary customer experience.

The FCC employee value proposition

FCC's commitment to employees:

- leadership that inspires, provides clarity, and helps employees feel valued and supported
- 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, knowledge and tools that make it easy for employees to do their job
- recognition for employee accomplishments, ideas and demonstrated commitment to work in partnership with others
- competitive salaries, bonuses, pension and benefits

Our employees' commitment to FCC:

- 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 committed to the success of each person and team at FCC – "One team. One customer." Make decisions as if they owned the company: "Think like an owner"
- be personally accountable for the results they create, acting with integrity and for their impact on others
- display a positive attitude toward change; actively support corporate decisions and initiatives
- demonstrate leadership in improving our internal processes and service delivery by generating and sharing ideas
- take ownership for continually developing their knowledge and abilities

Message from the President and CEO

It is an honour and a privilege to serve Canada's agriculture and agri-food industry. Today, agriculture contributes $130 billion to the national economy and remains the backbone of a strong and healthy Canada. It's a chosen way of life for many, providing one in eight jobs across the country.

At FCC, we take great pride in working with the people who make up this dynamic industry and supporting the communities our customers call home, from rural farms to processing facilities.

Given the current state of the global economy, a trustworthy and stable financial partner has never been more important. The events of the past year have provided an opportunity for FCC to demonstrate our continued and unwavering support for agriculture.

Market volatility continued to remain top-of-mind in industries worldwide, and agriculture was no exception. In 2009-10, grain 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 the cattle, hog, potato and vegetable sectors) saw profits decline. The hog sector faced unprecedented challenges and as a result, both the government and FCC have implemented plans and programs to assist hog customers. Farm commodity prices and input costs are likely to remain volatile, which has and will continue to create challenges from a business planning and financing standpoint for our customers.

I am pleased to report that FCC remains financially sustainable, which allows the corporation to support customers through both good and challenging times. In 2009-10, the FCC loan portfolio grew to $19.7 billion from $17.1 billion in 2008-09. A total of $6,585 million in disbursements was extended to over 38,556 customers across Canada. At the end of 2009-10, new lending to the industry exceeded $5 billion. This is an incredible testament to our customers' belief in FCC, something we do not take for granted.

We recognize that our customers are the reason we exist. We show them our appreciation by focusing our efforts on advancing their business and also by contributing to the communities where they live and work. We know that working together we accomplish great things, which is why we chose the following theme for this year's annual report: "Advancing the business of agriculture with customers and communities."

Many of our customers have told us that there are three main reasons they do business with FCC.

We are committed to the long-term success of the industry.

At FCC, we put farmers first. They represent 87 per cent of our customer base. We recognize that the full agriculture value chain is needed to support the success of primary producers in this country. That's why we also serve suppliers and processors, who represent 13 per cent of our customers.

We know that along with the many opportunities agriculture presents, from time to time our customers also face challenges. Over the past year, we provided assistance to 206 operations with our customer support program, which helps customers manage through adversity.

In 2009-10, the hog sector experienced extremely difficult times and we continue to work with impacted hog operations through the Hog Industry Loan Loss Reserve Program. This federal customer support program provides additional options to assist customers. The FCC Ag Crisis Fund also helps individual customers facing challenges due to unforeseen events and major health issues.

At FCC, we care about the communities where our customers and employees live and work. We're one of Imagine Canada's Caring Companies, and donate more than one per cent of annual profits to charitable and not-for-profit organizations. We focus our giving on hunger, rural safety, education about agriculture, volunteerism and community enhancement projects. Through our annual FCC Drive Away Hunger program, we work with communities and partners to collect food for those who need it most. Since the program's inception in 2004, over 3.5 million pounds of food has been collected for Canadian food banks. We support local projects in every region of Canada, contributing $2 million through our community investment program, including $1 million to rural capital projects.

We are knowledgeable about agriculture.

Some say we get it, and that's probably because we live it. Many FCC employees come from farms and have worked in the agriculture industry for most of their lives. We understand that to be successful, owners need knowledge to make good decisions and plan for the future. At FCC, we share our knowledge with customers, stakeholders and the industry.

FCC is also committed to educating those who are not involved in the industry to ensure they understand that agriculture matters. The industry is more diverse and complex than ever. The agriculture and agri-food industry is a major contributor to our Canadian economy that employs more than two million Canadians and exports billions of dollars annually. Agriculture is more than a career; for many it is a chosen way of life. I am extremely proud to be a part of this vibrant industry and every time I meet with customers, I am reminded of the passion those involved in the industry share. We are a part of something significant and we need to support the industry in sharing its story.

We care about our customers.

We take the time to listen to customer needs and understand their business. And we're glad they notice. Our products and services are tailored to the unique needs of agriculture. We understand that cash flow varies significantly from sector to sector and offer loans to meet the needs of producers at every stage of their careers. Our learning programs and knowledge offerings are offered across the country.

In order to continue to meet the needs of our customers and the industry, customer experience, culture and efficiency will remain our three priorities for the year ahead.

We strive to create an extraordinary customer experience. We want our customers to feel our commitment to their success.

It's tough to provide a great customer experience without engaged employees who are willing to go that extra mile. That's why we place strong emphasis on our internal culture. We work in a climate of respect and teamwork, acting as a team to serve each customer. FCC's overall employee engagement was 86 per cent this year, and as a result, we were recognized in the Hewitt/Globe and Mail Report on Business 50 Best Employers in Canada list for the seventh consecutive year.

Our third priority, efficiency, is critical to ensure that we maintain our ability to serve agriculture through all cycles. We seek to continuously improve every aspect of what we do, for the benefit of our customers.

These priorities and our passion for agriculture help keep us focused on delivering the kind of results our customers have come to expect from us.

The latter half of 2009 marked the end of our 50th year serving Canadian agriculture. We have our customers to thank for our longevity in the industry. With their support, we will continue to do what we do best for a long time to come – advancing the business of agriculture each step of the way.

Greg Stewart, President and CEO

Message from the Chair

The past year saw FCC reach a milestone in its role supporting the Canadian agriculture industry. The organization celebrated the latter half of its 50th year in 2009. I am pleased to report that FCC remains committed to the future long-term success of the industry.

Today, agriculture is more diverse than ever and remains the backbone of a strong and healthy Canada. It is important to recognize the sophistication of the farmers and agribusiness operators behind the scenes who make up this dynamic industry. Today's producers work at a rapid pace to deal with the complexities of the agriculture industry. They keep pace with technology changes and race to equip themselves with the most up-to-date information, programs and tools. They have a compelling story to tell that the Canadian public needs to hear.

FCC continues to expand to meet the changing needs of this dynamic industry and fulfil its public policy role. FCC's mission is to enhance rural Canada by providing specialized business and financial services 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.

Mr. Ritz has outlined the government's overarching policy direction and expectations of FCC in his Statement of Priorities letter. As a result, the past year saw FCC continue to focus on maintaining its role as a financially self-sustaining Crown corporation, offering innovative products and services tailored to farmers and to the industry. In 2009-10, FCC added value to the industry through products and services tailored to agriculture.

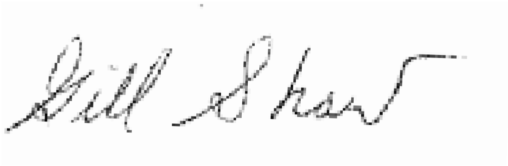
Mr. Ritz also called for FCC's continued support for renewal in agriculture. Recognizing the importance of young farmers to the future of the industry, FCC provides support to them at every stage, from up-and-coming rural youth in 4-H clubs through to college students and young farmers who are beginning their careers and expanding their operations. In 2009-10 alone, FCC approved $1.8 billion in loans to young farmers.

The FCC Board of Directors consists of men and women with diverse experience, skilled leadership and passion for agriculture. They provide FCC with strategic direction and hold management accountable to demonstrate established values including transparency, accountability and ethical conduct. In today's economic climate, we need to ensure FCC remains well managed and emphasize the importance of fiscal discipline and spending restraint in business transactions at all levels of the organization. We ensure FCC fulfils its mandate in the best interests of the organization, and that as a Crown corporation, it acts in the best interests of all Canadians.

I have had the opportunity to work with many FCC employees throughout my term as Board Chair. They are a fine group of individuals who exhibit a dedication to our customers that is second to none. Their demonstration of knowledge and enthusiasm reflects the true spirit of FCC. On behalf of the board, I thank them for their work.

Along with the Board, I have full confidence that the year ahead will see FCC continue to play an instrumental role working with people and communities to advance the business of agriculture. We look forward to working with you to serve the Canadian agriculture industry.

Respectfully submitted on behalf of the Board of Directors,



Gill O. Shaw

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

Canadian farmers grow the best food in the world and to succeed in their farm businesses they depend on the most up-to-date and responsive services and programs. For generations, Farm Credit Canada (FCC) has been the leading provider of business and financial services to Canadian farmers.

FCC's new Energy Loan, for instance, is helping farmers who want to move towards producing their own renewable energy with financing to help them acquire on-farm energy sources such as biogas, geo-thermal, wind or solar power.

Through Canada's Economic Action Plan, our Government is supporting agriculture as a core economic driver in this country; and we are reinvigorating world markets, to make sure the foundation of our economy is strong and our agriculture industry emerges stronger than ever.

As well, Canada's agriculture framework, Growing Forward, is delivering a more flexible and responsive suite of programs that provinces and territories can tailor to the circumstances of their own farming communities.

The skill and dedication of Canadian farmers continue to impress consumers both domestically and abroad. This is why our Government puts Farmers First in every agriculture policy and program we develop. Like FCC, we listen to farmers and work hard to deliver the results farmers need.

I look forward to our continued work together to support Canadian farmers and the agriculture industry.

Gerry Ritz
P.C., M.P.

FCC and public policy

Statement of priorities

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 economy recovering from the global financial crisis, working in collaboration is essential as we strengthen the agriculture sector and concentrate our efforts on protecting Canada's future.

Minister Ritz has established the following priorities 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, Growing Forward.

Aligning with government priorities

Through the Growing Forward agricultural policy framework, federal, provincial and territorial ministers committed to make $1.3 billion available for non-Business Risk Management (non-BRM) programming from 2008 to 2013. Growing Forward programming has been implemented with a vision of a profitable innovative industry that seizes opportunities in responding to market demands and contributes to the health and well-being of Canadians.

In addition to cost-shared programs, which are being delivered by provinces and territories, AAFC has also committed over $1 billion in federal funds over five years to a series of federal-only initiatives as part of Growing Forward.

Growing Forward also continues to provide a suite of Business Risk Management (BRM) programs, which have been in place since April 2008. They include:

AgriInvest – a savings account for producers that provides flexible coverage for small income declines, and 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

FCC will support Growing Forward's vision through the continued development of innovative financial and related products, services and programs that promote a strong agriculture and agri-food industry.

FCC supports the Portfolio Coordination Secretariat, part of the AAFC Deputy Minister's office, through participation at several levels, including Portfolio Head phone calls, meetings and sharing information on various common subjects.

FCC and AAFC are separate organizations that both report to the Parliament of Canada through the Minister of Agriculture and Agri-Food and the Minister for the Canadian Wheat Board. Both organizations have mandates to support the agriculture sector and a range of programs and variety of tools designed to meet a range of policy objectives. FCC occasionally partners with AAFC in the delivery of specific programs for the Government of Canada on a cost-recovery basis. As well, FCC is one of the financial institutions delivering the Hog Industry Loan Reserve Program to the hog industry.

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.

Highlights of FCC 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 2009-10.

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.

2009-10 highlights

In 2009-10, 38,556 primary production, agribusiness and agri-food customers received loans through one of our 100 offices, located primarily in rural areas, across Canada:

- British Columbia/Alberta – 10,332
- Saskatchewan/Manitoba – 12,643
- Ontario – 10,348
- Quebec – 3,712
- Atlantic – 1,521

Of these customers, 36,509 are primary producers and 2,047 are agribusiness and agri-food 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.

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.

2009-10 highlights

Our customer support strategy helps customers manage when unexpected challenges arise. This year, FCC implemented the customer support program for hog customers across Canada as well as crop producers in regions of Alberta affected by drought.

Through 2,082 alliances with equipment dealers and manufacturers, crop input retailers, co-operatives and livestock operations, we are able to do business where our customers want to do business and support local communities where these dealers and suppliers operate. We build alliances with businesses and organizations that are part of Canadian agriculture. They 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
- Canadianfarmersmarket.com provides customers a place on the Internet where they can promote and sell products
- FCC's Transition Loan assists young farmers starting or expanding an operation

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 2009-10, customers received equipment loan financing and leasing. In total, $469,563,033 was disbursed through this service.

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.

2009-10 highlights

Recognizing that interest and enthusiasm for agriculture starts early, FCC supports young farmers at every stage with various loan products and initiatives including Business Planning Awards, 4-H partnerships, FCC Learning management workshops and tools like FCC management software.

In 2009-10, FCC disbursed over $1.8 billion in loans to young farmers to help them succeed.

We share our knowledge with customers, stakeholders and the industry in a variety of ways. Our FCC Learning programs provide inspiring information to help participants advance their farm management practices. Over 10,000 people attended a learning event last year. Through the Knowledge Insider publication, we provide thought-provoking ideas and insight on global issues from the perspective of Canadian agriculture.

In 2010, we held our first-ever FCC panel events in conjunction with the release of the winter edition of Knowledge Insider. Events were offered in two regions, featuring two unique sets of panellists knowledgeable on regional and federal aspects of the green economy in Canada, the topic addressed in this edition of the publication. Following the events, webcasts of the panellists' presentations were made available online.

We recognize the value in renewable energy for producers and agribusiness and agri-food. In March 2010, we launched the Energy Loan to assist producers who want to save money and become more self-sufficient by making the move towards producing their own renewable energy.

We assess environmental risk as part of our credit risk analysis. Lending staff receive training on environmental risk assessment and we strive to continually improve our environmental assessment tools.

As part of our loan approval process, we work with customers to review environmental risk through questionnaires, site inspections and assessment reports from qualified consultants.

We also provide the Canadian Environmental Assessment Registry with a quarterly report of projects assessed under the Canadian Environmental Assessment Act.

We incorporate well-balanced, environmentally aware business practices into our daily operations. This includes adhering to established bio-security protocol to ensure employees practise disease prevention when visiting farms and agribusiness operations.

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. These are a few examples from 2009-10:

- Students in Brooks, Alta., donated and collected food to help fill empty plates in their community in support of the 2009 FCC Drive Away Hunger program. As a result, 72 students raised over 6,400 pounds of food for the Brooks Food Bank – an average of nearly 90 pounds per student.
- The FCC AgriSpirit Fund provided $10,000 towards the new South Mountain Library Resource Centre. Located in Winchester, Ont., the facility has benefited the entire community. Community groups now have space to hold meetings and run activities. A local history display is under development.
- The FCC Regina Spirit Fund provided $10,000 to support the Cochrane and Community Food Store in Regina, Sask. The food store, located in Cochrane High School, provides healthy, competitively priced food to students and community members in a low income area where access to such food is limited. Community members and students volunteer as staff in return for skill development and food honorariums. Food-related programming is also offered to students and community members to further enhance the impact the store has on the community.

Paul Speck – Ontario

Paul Speck and his two brothers are proud to be continuing a family tradition. They own and operate the Henry of Pelham Family Estate Winery, a premium estate winery located on 175-acre estate vineyards in St. Catharines, Ont. The winery has been owned and operated by the Speck family since 1988, and the land itself has been in the family since 1794.

Paul has been working with FCC since the early days of their business when the premium wine industry was fairly new in Canada. "We're very loyal to FCC because they were there for us when we needed them."

Paul credits his Relationship Manager for his knowledge and understanding of the business. "We all like technology and think we can do everything on a computer," he explains. "The reality is that the personal relationships are still critical to the business and the people you deal with and how they operate becomes the differentiator."

Henry of Pelham continues to evolve with increasing success. Their wines are sold in every province across Canada and internationally, including in the U.S., Europe and Asia. Expansion continues with the launch of new products as well as the addition of a barrel cellar to complement expanded wine tours on the vineyard grounds.

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 that is 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's 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 letter that sets out the Minister's expectations and the government's priorities. This letter is key in ensuring that FCC fulfils its public policy mandate.

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

In the aftermath of the global financial situation, FCC's commitment to agriculture remains unwavering. FCC continues to work with customers to see them through challenges and to help them take advantages of opportunities.

Communication with other Crowns, stakeholders and the public

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

FCC attends the annual meeting of the Canadian Federation of Agriculture and Canadian Young Farmers Forum. Staff also attend events and meetings hosted by other industry and producer groups to share knowledge and solicit input and feedback on issues facing agriculture.

Representatives of industry-related organizations and associations are invited to speak to FCC professionals on a variety of topics. 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. Every August, FCC holds an annual public meeting of stakeholders. These meetings allow 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. This panel is a group of over 9,000 Canadian producers, including customers and others involved in agriculture, who share their ideas and insights on a voluntary basis.

Effective working relationship with management

Members of the corporation's senior leadership routinely make presentations to the Board. The CFO and Chief Operating Officer attend every Board meeting. In addition, two other members of the executive management team attend each Board meeting on a rotating basis to continually strengthen the relationship between the Board and management. The Board follows a formal approach to CEO goal setting and performance review. This approach is consistent with the Performance Management Program established by the Privy Council Office.

Board independence

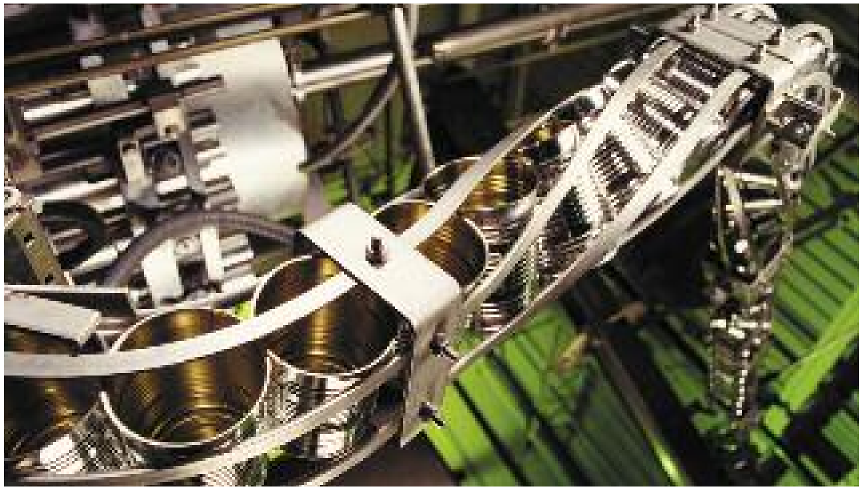
The roles and responsibilities of the Chair, Board members, the CEO and all Board committees are set out in written profiles and charters. The Board has put in place a written charter and a related set of Board governance guidelines. These documents articulate the Board's responsibilities in six major 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. With the exception of the CEO, all Board members are independent of management. At each meeting, the Board sets aside time to meet without management present. The Board also arranges regular meetings with FCC's external auditor and various members of the executive management team to meet in private.

Mechanism to assess CEO's position and evaluate CEO performance

The Board continues to engage the services of an outside consultant to work with the CEO and the Board to maintain 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 maintain 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.

Mechanism to assess Board capacity, competency and evaluate Board's 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 external consultant. Each Board member was individually interviewed and completed a written survey. Individual peer reviews were reviewed with each Board member and the Board Chair by the 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. 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 the hiring of 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.

To gain understanding of FCC business and the current issues facing the corporation, the Board regularly engages in continuing education.

Board members have attended conferences and seminars conducted by private sector organizations on various topics relevant to corporate governance and the business of FCC. Some have attended courses offered by universities that offer director certification programs. Each year, the Board also visits a number of customer operations and FCC area meetings. 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 2009-10, there were six Board meetings and 15 committee meetings. Total remuneration (annual retainer and per diems) paid to all Directors was $222,899.99. Total Board travel and related expenses were $186,114.25, compared to $180,853.37 in 2008-09.

2009-10 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	$ 13,095.00	$ 19,295.00	6 of 6	6 of 6	$ 19,340.61
Don Bettle	6,200.00	16,005.00	22,205.00	5 of 6	3 of 3	25,815.10
Jack Christie	4,800.00	3,880.00	8,680.00	3 of 3	3 of 4	3,740.17
Caroline Granger	6,283.33	14,550.00	20,833.33	6 of 6	6 of 6	26,552.73
Brad Hanmer	7,200.00	8,730.00	15,930.00	6 of 6	6 of 6	4,211.75
Ron Hierath	6,200.00	12,852.50	19,052.50	5 of 6	3 of 3	13,457.91
John Klippenstein	6,533.33	18,430.00	24,963.33	6 of 6	6 of 6	13,609.32
Gilles Lapointe	6,200.00	13,580.00	19,780.00	6 of 6	6 of 6	19,447.41
Ross Ravelli	516.67	1,455.00	1,971.67	1 of 2	2 of 2	1,755.18
Gill Shaw	12,400.00	20,370.00	32,770.00	6 of 6	6 of 6	29,104.29
Jason Skinner	6,200.00	9,700.00	15,900.00	6 of 6	3 of 3	4,615.63
Carl Spencer	2,066.66	6,547.50	8,614.16	3 of 3	1 of 1	13,163.54
Sharon White	6,600.00	6,305.00	12,905.00	4 of 4	2 of 2	11,300.61
Total	**$ 77,399.99**	**$ 145,500.00**	**$ 222,899.99**			**$ 186,114.25**

Responsibility for corporate governance

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 is approved, the Board provides ongoing support to implement and measure the success of those plans and initiatives. The Board also discusses individual strategic initiatives throughout the year.

Promote a culture of ethical 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. The Board has also approved a Reputation Risk policy against which all corporate programs and policies are reviewed.

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 has also approved a protocol setting out the process by which disclosures of possible violations of the code by the CEO and any of his direct reports 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 employee education and awareness activities.

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 is 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, at least every 10 years, the Auditor General of Canada conducts a special examination. This is a value-for-money audit and 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 November 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.

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 include 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

Carl Spencer from Tara, Ont., was appointed on November 26, 2009 and Ross Ravelli of Dawson Creek, B.C., was appointed on February 10, 2010.

Audit Committee

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

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.

Human Resources Committee

Chair: Brad Hanmer
Members: Greg Stewart (CEO), Caroline Belzile and Ross Ravelli

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.

Corporate Governance Committee

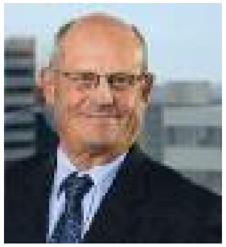
Chair: Caroline Granger
Members: Ron Hierath, Don Bettle and Carl Spencer

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 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.

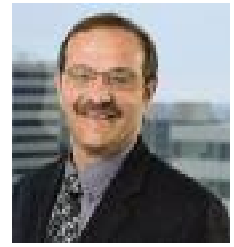
Members of the Board of Directors

Full biographies are available at www.fcc.ca



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
Reappointed Chair August 4, 2009

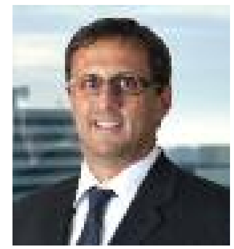
Caroline Granger
President and CEO
The Grange of Prince Edward Vineyards and Estate Winery
Hillier, Ontario
Appointed June 27, 2007



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

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

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



Ross Ravelli
Owner, Ravelli Farms Ltd.
Dawson Creek, British Columbia
Appointed February 10, 2010

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

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

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

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

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

Carl Spencer, B.Sc.Ag.
Owner/operator, beef farm and maple syrup operation
Tara, Ontario
Appointed November 26, 2009

Executive Management Team

Full biographies are available at www.fcc.ca

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, CCP
Senior VP, Portfolio and Credit Risk

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

FCC has attracted a senior team of professionals with diverse talents and experience. Our Executive Management Team (EMT) 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 EMT believes that a culture characterized by open communication and trust results in engaged employees who forge great relationships with customers.

EMT 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.

The EMT, 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 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 2009-10, the salary range for the President and CEO was set at $277,200 to $326,100. The salary range for Executive Vice-Presidents was $206,505 to $315,830. The salary range for Senior Vice-Presidents was $149,670 to $228,905. Total compensation paid to executive management in 2009-10 was $2,896,861.

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 2010 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.

Marie Gosselin
greenhouse operator, businesswoman, agrologist, visionary Portneuf, Quebec

Margaret Rempel
hog and crops producer, volunteer Ste-Anne, Manitoba

Bette Jean Crews
crops and horticulture producer, industry leader, teacher and volunteer Trenton, Ontario

Jeannie Van Dyk
dairy and crops producer, volunteer, mentor, teacher Maitland, Nova Scotia

Gay Hahn
dairy producer, educator, volunteer Burnaby, British Columbia

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.

Recognition for awards

FCC won a total of 62 national and international marketing, communication and printing awards from seven different associations in 2009-10. The Knowledge Insider publication won 12 of the 62 awards from five different associations. AgriSuccess, the Brand story and a customer testimonial video each also won five awards. FCC Drive Away Hunger was the recipient of two awards.

Twin Valley Co-op – Manitoba

FCC looks at each Alliance relationship as a three-way win – for the business, customer and FCC. The collaboration between FCC and the Co-operative Retailing System demonstrates this.

Travis Dreger, General Manager of Twin Valley Co-op in Manitoba, agrees that their association with FCC has provided opportunity for their business. "It's allowed us to grow our business without impacting the cash flow of the company," Dreger says. "And it has reduced our risk exposure in our receivable portfolio."

Twin Valley Co-op serves over 5,300 members from businesses in five locations in rural Manitoba and one in Saskatchewan. An extensive crop input division is complemented by a wide range of services from grocery stores and gas bars to petroleum and home centres.

A reliable financial provider that is knowledgeable about agriculture is a win for the Co-op and their customers. Twin Valley Co-op Credit Manager Jacki Boryskavich sees this daily. "The really big thing is that FCC understands how much money it costs to put in a crop and take it off, and they understand when customers have cash flow," explains Boryskavich, who works with customers using FCC financing to purchase crop inputs. "That makes all the difference."

Corporate social responsibility

Corporate social responsibility (CSR) is integrated with how we do business at FCC. We strive to work in a socially and environmentally sustainable manner in our interactions with customers, employees, communities, the industry and society as a whole.

We believe that a focus on socially and environmentally responsible practices helps us to grow and advance our business.

In 2009-10, FCC remained accountable and responsible to stakeholders through the following six focus areas:

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

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

To ensure that FCC's CSR programming continues to be relevant and meaningful, an evaluation of the CSR strategy and performance was completed over the past fiscal year. As a result, the CSR strategy was updated to further support FCC's desire to be a strong corporate citizen. The corporation's six CSR focus areas were updated, along with CSR governance, measurement and execution.

In 2010-11, FCC's CSR team will implement the new CSR framework.

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 conduct with our stakeholders and represent our core beliefs.

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 the code of conduct. The FCC Integrity Officer monitors the business of the organization to ensure the code is adhered to. The Integrity Officer also acts as the "go to" person for employees, and is available if employees need assistance to understand the code, their role as an employee and the process to follow if they are faced with an ethical dilemma.

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.

Each year, FCC takes part in an employee engagement survey. The survey, delivered by Hewitt 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 2009-10, FCC achieved an engagement score of 86 per cent and ranked ninth 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 strive to be an employer of choice, which helps us attract and retain top talent in a highly competitive labour market.

FCC is committed to building a workforce that reflects the diversity of the Canadian population. We strive to create a work environment that integrates both official languages and encourages full participation, including persons with disabilities, aboriginal people, visible minorities and women in leadership positions.

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 enhance Canadian communities.

FCC is a member of Imagine Canada's Caring Companies, and we donate more than one per cent of annual profits to charitable and not-for-profit organizations such as Food Banks Canada and the Canadian Agricultural Safety Association. In 2009-10, we were able to make a difference in communities across Canada with contributions over $2 million.

FCC's community investment program focuses on five areas: community enhancement projects, hunger, volunteerism, education about agriculture and rural safety. We are proud to support the communities where our customers and employees live and work.

Each year, employees across Canada get involved in FCC Drive Away Hunger, our largest community investment program. Each month, more than 700,000 people use Canadian food banks and 37 per cent of them are children. The purpose of FCC Drive Away Hunger is to help food banks feed people in need in rural and urban Canada and to increase awareness of hunger. In 2004, the tour involved one tractor in one province. In 2009, we held FCC Drive Away Hunger tours in Alberta, New Brunswick, Ontario, Quebec and Saskatchewan, and in Regina, where FCC's head office is located. FCC also collected food and cash donations in every field office. Working with community partners and customers across Canada, we raised over 1.6 million pounds of food for food banks nationwide.

The FCC AgriSpirit Fund provides funding to capital projects that enhance rural communities. Since 2004, the AgriSpirit Fund has donated $3.5 million to rural capital projects. Eligible organizations can receive between $5,000 and $25,000. In 2009-10, we awarded $1 million to 115 projects across Canada, including emergency services equipment, playgrounds, recreation centres and care homes.

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 1,500 employees live and work in Regina. The fund awards $100,000 annually. Funding ranging from $3,750 to $20,000 was provided to 20 organizations in 2009-10.

FCC awarded $50,000 from the FCC Expression Fund to support the use of Canada's official languages in communities across the country. The fund was developed in 2008 to support projects that contribute to the vitality of official language minority communities and help residents express the cultural and linguistic diversity of the area.

FCC supports agriculture education through Agriculture in the Classroom Canada. Through this program, resources are distributed to schools across the country and are used to teach children about Canadian agriculture with an emphasis on how food gets from the farm gate to their plates.

We help producers stay safe through our continued 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, FCC partnered with CASA on a new national agriculture safety training fund in 2010. The $100,000 fund is aimed at increasing the number of people trained in agriculture safety across the country. Our goal is two-fold: to raise awareness of agricultural safety and to provide farm owners and operators with the training and information they need to incorporate safe farm practices in their day-to-day operations. This brings us one step closer to a safer rural Canada.

The FCC employee volunteer program encourages employees to give back to their communities through the projects or charities that touch their hearts. There are three programs available: 1) When employees work together to raise money for a charity, the FCC employee matching donation program donates 50 cents for each dollar employees donate to a charity that fits within our giving guidelines. 2) The employee volunteer draw awards donations of up to $500 monthly to Canadian charities and non-profit organizations where employees volunteer their time. 3) Employee teams are eligible to receive up to $1,000 towards a community team volunteer project that meets criteria to enhance the community through charitable and not-for-profit organizations.

In 2009-10, FCC donated $38,500 to support locals community groups through the employee volunteer program and over $213,000 to local charities and non-profits through the employee matching program.

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. Our in-house print shop is Forest Stewardship Council certified and follows the chain of custody standards, which ensures our paper is made from environmentally managed forests.

Our business continuity, security and occupational health and safety programs focus on our employees and customers. Through these programs, we strive to provide a safe work environment. We also work to mitigate the impact of business disruptions on our customers and provide them with full confidence that their information is protected in all their interactions with us.

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.

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 customers 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 2009-10, we held 87 learning tours and hosted 65 workshops on topics ranging from financial management to human resources. FCC Forums' "Big Ideas for Your Future" attracted 5,536 participants to 10 major events to hear presentations on various subjects regarding Canadian agriculture.

FCC continually scans the agricultural operating environment, and when a sector faces tough times, FCC proactively encourages customers to contact us. In many cases, Relationship Managers contact customers who may be experiencing difficulties to understand their situation and help them evaluate the best plan for their operation, including the possibility of deferring payments on term loans. In 2009-10, hog producers continued to face challenges, and FCC worked with customers in the hog industry to make various changes to their payment schedules. We do our best to proactively support our customers when they are in need.

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 2009-10, the FCC Ag Crisis Fund provided $211,319 to support 144 operations.

Our canadianfarmersmarket.com website showcases customer products on the world's biggest marketplace – the Internet. We promote the website and now have more than 370 businesses using the free service. Products range from award-winning wine, cheese and meat, to fresh flowers, jams and jellies. There is also a place where farmers can sell their products and services to each other.

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.

The data gathered provides us with invaluable feedback to ensure we are doing all that we can to meet the needs of our customers. Over the years, this feedback has enabled us to enhance the way we do business and adapt some of our products and services to better suit our customers.

FCC believes in operating as a responsible corporate citizen. Our 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

FCC takes corporate social responsibility seriously. We care about our impact on employees, customers and the communities where we live and work.

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	2009-10
Statement of social responsibility	yes
Statement of corporate values	yes
Code of business conduct	yes
Board Chair and company CEO are separate functions	yes
Human resources management	**2009-10**
Conducts employee satisfaction surveys: • Included in Globe and Mail's Best Employers list and Maclean's Top 100 companies	yes
Provides employees with education and development	yes
Conducts annual market compensation reviews	yes
Policy on diversity and employment equity	yes
Public reports on diversity issues	yes
Offers employees diversity training	yes
Benefits include additional maternity and paternity benefits	yes
Percentage of women on the Board	16
Percentage of women among executive management team	12.5
Community investment and involvement	**2009-10**
Policy statement on community donations is available to the public	yes
Donates a minimum of one per cent of profits*	yes
Programs are in place to support employee giving and volunteering	yes

* based on Imagine Canada's Caring Companies program formula

Environment, health and safety	2009-10
Corporate environmental management systems in place, including policies, programs and performance analysis	**in progress**
Reports on resource use (energy, materials, water)	**in progress**
External reporting on lending environmental risk management	yes
Lending environmental risk management policy and processes, including environmental risk assessment	yes
Bio-security protocol for customer visits	yes
Offers loans that reduce environmental impact	yes
Environmental reporting, including policy, programs and initiatives, and performance data	**in progress**
Human rights	**2009-10**
Human rights policy and code of conduct	yes
Policy/code of conduct governing the supply chain of procured items	**in progress**
Customers	**2009-10**
Conducts customer satisfaction surveys	yes
Helps customers market their products	yes
Loans to meet the needs of new entrants into agriculture	yes
Offers industry-related training	yes

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 inputs and livestock at point of sale

FCC provides lending services where our customers do business through partnerships with equipment dealers, crop input retailers and livestock marketers. In addition, equipment dealers are able to provide FCC lease products to customers. These programs support the core business objectives of FCC partners while conveniently offering innovative financial solutions to producers at point of sale.

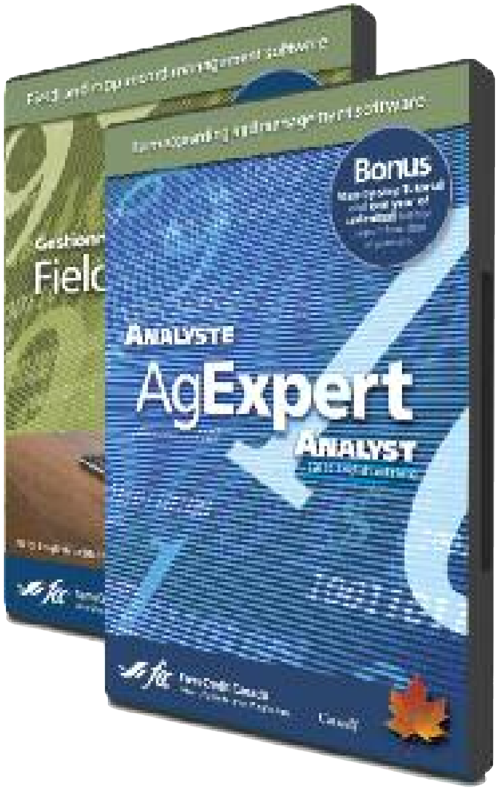
FCC Learning

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. To demonstrate our commitment to the agriculture industry, FCC began offering all producers and agribusiness operators complimentary access to FCC workshops that give them the opportunity to build farm management skills and experience hands-on training.

In 2009-10, FCC continued the FCC Forum customer event series, held in 10 cities across Canada, featuring highly acclaimed speakers addressing the theme of Big Ideas for Your Future.

Every week, customers can get the latest in agriculture e-news with FCC Express. This publication shares provincial, national and international news and trends that affect agriculture. FCC 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, 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, Field Manager PRO and Field Manager Commercial.

AgExpert Analyst allows customers to track income and expenses, inventory and capital assets and prepare financial statements. With just a few clicks , a completed GST return is ready. It is accounting software designed specifically for Canadian agriculture with reporting features relevant for producers.

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.

Using a desktop PC or handheld, customers get a complete picture of their operation as well as having the ability to plan the most profitable scenarios for their operation.

With Field Manager Commercial, food processing companies and agronomists can track and filter their grower data. This saves time, increases accuracy of their reports and creates auditable records. With Field Manager Commercial's electronic records, processors have proof of good agronomic practices for their customers and agronomists can use it to gather and sort valuable grower information.

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 created to address the need for non-traditional financing in Canada's agriculture industry.

Venture capital financing is delivered through the limited partnership fund (Avrio Ventures) created by FCC in 2006. FCC committed $50 million to this fund, which has attracted an additional $25 million from other limited partners interested in investing in the agriculture industry. The investment objectives of the fund are focused on commercialization-to-growth stage businesses operating in the industrial bio-products, food technology and nutraceutical ingredient sectors. Avrio Ventures provides services across Canada with offices in Montreal, Toronto and Calgary.

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.

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.

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

AdvancerPlus
Need input financing for your farm? Keep your day-to-day operations running smoothly with this revolving, pre-approved 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 with 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.

Energy Loan
A special interest rate helps you convert to renewable energy sources like biogas, geo-thermal, wind or solar power.

Enviro-Loan
Defer loan payments on projects that improve your environmental stewardship.

First Step Loan
Use your post-secondary education to establish your operation.

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

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

Spring Break Loan
Match your payment schedule to the forestry harvesting season.

Start Now – Pay Later Loan
Better manage your cash flow with deferred payments, and get your operation up and running.

Transition Loan
Buy land with as low as zero down and make payments over time to build equity or improve cash flow.

Standard loans

Closed rates
Rates fixed for the term of your personal property or mortgage loan.

Fixed rates
Fix a 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 fixed rate 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 dealerships, plus benefit from less money up front, lower payments and increased flexibility.

Sean Gorrill – Saskatchewan

Sean Gorrill is a third-generation dairy farmer in Bulyea, Sask. He farms with his parents, Jim and Carol, who purchased their first cow in 1972.

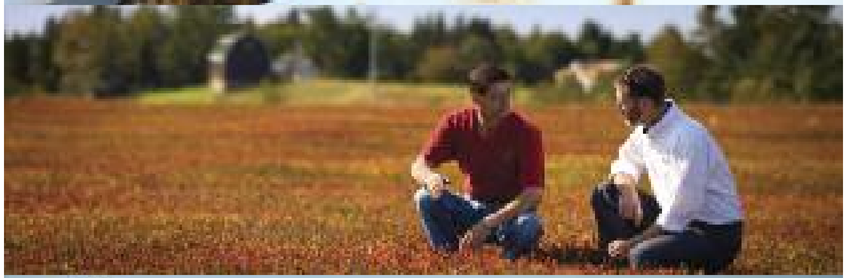
The Gorrill operation has come a long way since the early days. In 2002, they set their sights on expanding their 180-cow dairy operation. In doing so, they needed to have more employees. As a result, Sean says, they found themselves "managing people rather than cows," which was taking away from their reason for choosing farming as a profession in the first place.

They found the solution to continue the hands-on work and remain a family-run business when they acquired a robotic milking system. Sean's hope is that the new technology will also entice a fourth generation to recognize their business as not only a job, but a chosen lifestyle.

It's clear when talking to Sean that he loves the farm and the dairy industry. As he looks ahead to what the future holds, he acknowledges the role FCC has played along the way.

"Brent and Gabe (his FCC representatives) go to bat for us. They're willing to do what it takes to help us see our vision through to fruition," he says.





FCC corporate scorecards

The agriculture and agri-food industry is sophisticated, complex and full of opportunities and challenges. FCC is proud of its long-term commitment to agriculture and plans to sustain and grow its ability to serve the industry in the future.

When developing FCC's strategic direction, we ensured alignment with government priorities by reviewing both the 2008 Minister's Statement of Priorities and the Agriculture and Agri-Food Canada Growing Forward agricultural policy framework.

FCC uses a corporate scorecard to monitor and measure progress against its corporate strategy. This scorecard includes the following strategic themes: financial strength, customer experience, efficiency and execution, and culture and employee experience. FCC also has a theme called commitment to agriculture, which includes public policy objectives and initiatives.

The 2009-10 corporate scorecard summarizes the corporation's performance against objectives. We believe that our results demonstrate our commitment to producers, agribusiness operators and the industry.

The 2010-11 corporate scorecard outlines how we plan to continue providing products, services and knowledge tailored to the unique needs of the agriculture and agri-food industry.

2009-10 Corporate scorecard results

Commitment to agriculture

FCC has a reputation for offering outstanding financial products, knowledge and services tailored to agriculture, and for being a strong corporate citizen.

Corporate measures	2009-10 targets	2009-10 results
Total investment in agriculture	Maximum of $12.5 million	**Achieved:** As of March 31, 2010, $7,928,000 has been re-invested in programs that benefit those involved in agriculture. This included FCC learning programs, rural community investment and free publications.
Corporate social responsibility scorecard	Report against scorecard	**Achieved:** See detailed information on page 34. The CSR scorecard will be updated in 2010-11 based on a new CSR strategy.
Corporate reputation index	+50 or more	**Replaced:** FCC has changed its reputation measure from a biannual index to more frequent surveys of customers and stakeholders. The customer measure is shown on page 44 and is called the Customer Experience Index (CEI). Media coverage is measured as shown below. New reputation results will be published in 2010-11.
Media favourability index	10 points above global average for financial institutions	**Not achieved:** The Q4 media results included 2,830 media mentions, with an overall favourability rating of 61. The global favourability rating for financial institutions was 53. The FCC favourability score of 61 (vs. 65 in 2008-09) is directly related to media stories regarding expenses and some foreclosures. Despite this, only six negative comments were received out of 2,400 responses to FCC surveys for the Customer Experience Index between March 1 and April 22, 2010.
Social impact measure	Develop measure and set target	**Cancelled:** Social impact measure was deleted as it was a subset of the Corporate Social Responsibility scorecard. This was approved by the FCC Board of Directors.

Five-year strategic objectives	2009-10 initiatives	2009-10 results
Significant investment in initiatives that enhance producer and agribusiness success (education, awareness, knowledge)	Allocate new Investment in Agriculture budget (choose, prioritize and implement initiatives)	**Achieved:** Strategy and principles for budgeting, reporting and approval processes were developed, approved by the Executive Management Team and executed.
	Enhance FCC Learning by expanding content providers, delivery channels (online), and agribusiness and agri-food content	**Achieved:** In 2009-10, FCC partnered with Export Development Canada, Business Development Canada and Canada West Equipment Dealers Association to deliver learning programs. Online learning webinars for young farmers and other producers will continue in 2010-11.
	Position FCC as supporter of agriculture and agri-food industry in marketing and communication, including advertising	**Achieved:** A national print and online advertising campaign aimed at primary producers ran February 1 to March 31, 2010.
Aggregated knowledge and innovations impacting agriculture industry (sense-making for industry)	Deliver leading-edge, targeted knowledge program to customers and other industry stakeholders	**Achieved:** FCC shared its Agriculture Industry Update with customers and stakeholders through field staff and plans to post this information on the FCC website in 2010-11. The FCC knowledge strategy budget included funding to Canadian Agri-Food Policy Institute for a graduate studies research awards program. Additional initiatives will be delivered in 2010-11.
	Interact directly with customers and other stakeholders online	**Postponed:** Further enhancement of the FCC Vision community website was postponed.
Fully implemented Corporate Social Responsibility program (including championing the environment and employees recognized as strong rural community leaders)	Offer customers learning tools regarding sustainable agriculture practices	**Ahead:** Significant media interest resulted from the Finding Value in Green and Consumer Trends editions of Knowledge Insider. These publications were downloaded more than 17,000 times. Print copies were also available in both official languages. In January 2010, FCC co-sponsored "Growing the North – A Community Economic Development Conference" with 350 people in attendance. Nearly 200 producers attended two new special events held in February 2010. Industry expert presentations are available at www.fcc.ca/panel.
	Provide farm safety training in collaboration with others	**Achieved:** The FCC Ag Safety Training Fund was established in 2009-10 and will be launched in September 2010. This partnership with the Canadian Agricultural Safety Association will increase the number of people trained in agriculture safety and the number of trainers.
	Expand national Drive Away Hunger program	**Ahead:** FCC Drive Away Hunger tours were held in all five sales areas and at corporate office in Regina. More than 1.6 million pounds of food was donated to food banks across the country.
	Adopt a green strategy	**Achieved:** Executive Management Team approved a proposal to benchmark FCC's environmental footprint.

Financial strength

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

Corporate measures	2009-10 targets	2009-10 results
Net income	$226.8 million	**Ahead at $281.9,** primarily due to favourable variances in the provision for credit losses, administration expenses and the fair value adjustment. This was partially offset by an unfavourable variance in net interest income.
ROE	11.2%	**Ahead at 14.1%,** due to higher than target net income.
Efficiency ratio	45.0%	**Ahead at 39.9%,** primarily due to a favourable variance in administration expenses. The efficiency ratio excludes expenses related to the Investment in Agriculture program.
Venture capital invested	$67.3 million	**Ahead at $69.0 million.** Capital outstanding was ahead of target due to a higher balance in the FCC Fund, partially offset by a lower balance in the Avrio Fund. The FCC Fund has experienced less divestiture than originally planned while new investments in the Avrio fund have occurred at a slower pace than that assumed for plan purposes.
Debt-to-equity ratio	7.5:1	**Behind at 8.4:1,** primarily due to a higher than target loans receivable balance that was funded by debt.

Five-year strategic objectives	2009-10 initiatives	2009-10 results
Profitability framework targeting portfolio growth, risk, margins and returns	Define, communicate and reinforce the desired lending culture	**Achieved:** The lending culture statement and supporting materials were rolled out across FCC. This information is available to all employees online and was incorporated in relevant materials/initiatives for reinforcement purposes.
	Develop a framework for profitability reporting by field location	**Postponed:** Planning is complete; however, the delivery of profitability reports for every field office has been delayed due to competing priorities. This work will start in April 2010.
	Develop a capital management framework based on economic capital principles that reassesses capital requirements, portfolio risk and diversification limits	**Achieved:** The capital management framework was developed and will be implemented in 2010-11 after the rollout of the Business Process and Technology Transformation Program (BK). An economic capital model focused on credit risk was implemented and a process was developed to calculate and communicate credit risk economic capital requirements.
	Comply with International Financial Reporting Standards	**Achieved:** The project to convert FCC financial accounting and reporting systems to meet International Financial Reporting Standards (IFRS) continues to meet project milestone dates. Impacted business units implemented required changes. Planning for preparation of financial statements under IFRS is complete.
Diversified income sources beyond traditional lending model to non-interest sources	Examine non-interest income sources and propose options for income generation and diversification	**Postponed:** This initiative was deferred to 2010-11.
Venture capital strategy outlining investment levels to increase FCC's presence in the agribusiness and agri-food marketplace	Develop a comprehensive, long-term venture capital strategy	**Achieved:** A long-term venture capital strategy was established in 2009-10. Supporting initiatives for the growth of the venture capital portfolio are being pursued.
Dynamic and sophisticated pricing model balancing risk and return and incorporating market forces	Create a pricing strategy using economic capital concepts	**Postponed:** This initiative was deferred to 2010-11.
	Implement pricing optimization incorporating elements such as competitive environment, customer attributes and regional market share	**Achieved:** Price optimization was operationalized in Q4 through the Risk Scoring and Pricing System.
Future growth strategy	Create a growth and market share strategy that balances market opportunity, volume and margin to create the optimum primary production and agribusiness and agri-food portfolios	**Achieved:** Framework and modelling for the growth strategy was completed in Q4. Modelling will be updated in Q2, 2010-11 when Statistics Canada reports on Total Farm Debt Outstanding.
Internal control framework	Develop and implement an enterprise risk and control framework	**On Track:** Execution of the Security Program is underway in three of the eight project phases (Governance/Policy, Information Asset Classification and Assurance Monitoring). The Fraud Risk Management Policy was introduced to FCC employees in February 2010. Training was delivered to all customer-facing staff in 2009-10 and training will continue in 2010-11. Operational Risk and Internal Controls continue to formalize and implement a framework and methodology to standardize risk and control processes.

Customer experience

Customers are passionate advocates of FCC.

Corporate measures	2009-10 targets	2009-10 results
Customer Experience Index – scorecards	57.94%	**Ahead:** at 60.81%. This means 60.81% of survey respondents gave FCC perfect scores.
Customer advocacy	47.22%	**Cancelled:** This measure was cancelled as it is a subset of the Customer Experience Index measure.
Portfolio growth – primary production	5.24%	**Ahead:** at 13.69% due to higher than target net disbursements.
Portfolio growth – agribusiness and agri-food	10.06%	**Ahead:** at 23.18% due to higher than target net disbursements.
Products tailored to agriculture	71%	**Ahead:** 82% of respondents to post-loan surveys indicate that FCC offers superior loan products.
New lending to young producers	$1.43 billion	**Ahead:** at $1.8 billion; 2009-10 was a record year for disbursements to young producers.

Five-year strategic objectives	2009-10 initiatives	2009-10 results
Known in Canada as a best-practice organization that consistently provides an extraordinary customer experience	Implement a brand ambassador program	**Achieved:** A Brand Story booklet and video were developed and distributed. Living the Brand presentations were delivered to 13 groups of employees as part of the brand education strategy.
	Sustain customer experience standards	**Achieved:** Reinforcement efforts occurred through emails, a quarterly Customer Experience Bulletin and best practice tip sheets. A customer recognition program was rolled out and program execution will continue in 2010-11.
Disciplined sales management culture	Integrate customer experience and sales process	**Achieved:** Various materials and activities assisted employees to incorporate the customer experience into the sales process: best practice articles, presentations to districts, tip sheets and meetings with employees. These included topics such as how to ensure a consistent and intentional customer experience throughout the sales process, and annual customer contact.
Sophisticated, innovative products that differentiate FCC	Expand lease product to field channel	**Postponed:** This initiative was deferred to 2010-11.
	Research and develop young farmer product needs	**Ahead:** A record number of loans were disbursed ($1.64 billion) to young farmers in 2009-10. FCC supports young farmers at all stages of their careers through various initiatives: a young farmer web page and brochure, sponsorship of the Canadian Association of Diploma in Ag Program, the creation of a customer recognition program and collaboration with the Minister of State for Agriculture on AAFC's Young Farmer Action plan.
	Research services and products to assist customers with environmental responsibility	**Ahead:** FCC developed an Energy Loan that was announced by the Minister of Agriculture and Agri-Food and launched in March 2010. The Energy Loan encourages on-farm use of clean renewable energy in the forms of solar, wind, geothermal and biogas. Uptake has been greater than expected, largely in Ontario where the Energy Loan complements the Ontario Feed-In Tariff program.
Offerings and customer experience tailored to agribusiness and agri-food	Tailor products to agribusiness and agri-food market	**Achieved:** The AdvancerPlus loan was adjusted for the agribusiness market. A new revolving term loan is under development.
Increased awareness of FCC with agribusiness and agri-food prospects	Develop and execute an awareness campaign for agribusiness and agri-food	**Achieved:** Agribusiness awareness campaign activities included advertising, enhancements to the FCC website, testimonial print ads and custom pre-call knowledge packages.

Efficiency and execution

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

Corporate measures	2009-10 targets	2009-10 results
Customer Experience Index (easy to do business indicators)	52.57%	**Ahead:** at 58.08%. This means that 6 out of 10 respondents give FCC perfect scores on this measure.
Employee engagement (work processes indicators)	Measure performance against targets (baseline to be set in Q4 of 2008-09)	**Cancelled:** This measure is a duplicate of the employee engagement "easy to do business with" measure under the Culture and Employee Experience theme.
Benefits realization	Develop measure	**Achieved:** A new benefits definition and realization process was developed and approved in 2009-10. Major projects will use this new process in 2010-11.
Project management maturity	OPM3 ProductSuite project management maturity score of 37%	**Ahead:** at 43%. Process improvement planning in the areas of stakeholder identification and scope management was completed.

Five-year strategic objectives	2009-10 initiatives	2009-10 results
Continuous process improvement and re-engineering of all corporate functions; excel at ease, speed and efficiency of processes	Increase number of key corporate processes that are accomplished electronically	**Achieved:** Examples rolled out in 2009-10 include new financial system modules for planning and budgeting and project costing; automation of the delegation of financial authorities; policies and processes for alliance and dealer programs, loan origination and multiple loans initiatives. A new electronic calculator was launched for the Combined Interest Rate Loan.
	Define decision rights for key processes and projects	**Achieved:** In 2009-10, a decision rights/approval process document was defined for Corporate Communication and Change Management as well as the Integrated Marketing Communication Committee.
	Further develop content management capabilities and processes	**Achieved:** IT and business milestones for this project were completed in 2009-10. An approved FCC writing guide was rolled out to all professional writers. Several pilot groups were used to test the new infrastructure related to social collaboration and content management. Instant messaging and video conferencing were rolled out.
	Ensure lending processes fulfil needs of agribusiness and agri-food strategy	**Achieved:** Best practice information to enhance agribusiness lending processes was gathered. Near and longer term recommendations were approved in 2009-10.
FCC is an agile organization able to change priorities to capitalize on complex new business opportunities	Implement initiatives to enhance project management maturity	**Ahead:** Process improvement planning in the areas of stakeholder identification and scope management was completed. Standardized reporting for the Project Portfolio Management (PPM) quarterly updates was established. Benefits Realization Phase 2 "Defining benefits" was implemented. All new projects submitted through the PPM process will now require clearly defined and measured benefits.
Mix of external and internal capability to maximize corporate performance	Identify corporate functions, services or processes for alternate methods of service delivery	**Achieved:** Examples undertaken in 2009-10 include: a standard methodology for process redesign was created and applied to processes in financial accounting; a new translation tool was implemented and shared with freelance translators; and a feasibility study regarding an employee service centre was completed.
High-performing, optimized and agile technology portfolio that creates competitive advantage for FCC and its customers	Implement business and technology transformation program	**Achieved:** Milestones for the Business Process and Technology Transformation Program (BK). BK is on track and is operating within budget and scope.
	Implement redesigned information technology operating model to ensure the ongoing maintenance, optimization and agility of technology investments	**Achieved:** The design of the request for proposal process for the provision of data centre and network management services is complete. **Postponed:** The web channel strategy has been postponed to be completed in conjunction with the mobile strategy by end of Q1 2010-11.

Culture and employee experience

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

Corporate measures	2009-10 targets	2009-10 results
Employee engagement index	Greater than or equal to average for top 50 employers	**Ahead:** at 86%. FCC's engagement score is up from 81% last year to 86% this year. The average engagement score for the Top 50 Employers is 80%.
Employee engagement – employee experience indicators	Greater than or equal to average for top 50 employers	**Ahead:** at 78.2%. The Employee Experience index is composed of the average of five drivers: career opportunities; learning and development; intrinsic motivation; managing performance and work/life balance. The FCC average of these drivers is 78.2%, up from 77% last year. The average of these five drivers for the Top 50 Employers is 75.4%.
Employee engagement – "easy to do business with" employee indicators	Greater than or equal to average for top 50 employers	**Behind:** at 77.8%. The "easy to do business" employee score is comprised of the average of five selected drivers: co-workers; physical work environment; resources; work processes; work tasks. The FCC average of these drivers is 77.8%, up from 77.0% last year. The average of these five drivers for the Top 50 Employers is 78.8%.
Employee engagement – leadership indicators	Greater than or equal to average for top 50 employers	**Ahead:** at 79%. The leadership Index score is comprised of the average of five selected drivers: senior leadership; manager; recognition; career opportunities; managing performance. This is the first year FCC has used this measure. The average of these five drivers for the Top 50 Employers is 73.2%.

Five-year strategic objectives	2009-10 initiatives	2009-10 results
FCC offers a stellar employee experience	Design a holistic health and well-being strategy that supports employee wellness	**Achieved:** Executive Management team approved the health and well-being strategy for implementation in 2010-11 and 2011-12.
	Review the Employee Value Proposition	**Achieved:** The Employee Value Proposition was revamped and rolled out.
FCC sustains and grows its culture of accountability and high performance	Develop the leadership coaching capabilities of formal leaders relative to FCC's culture of accountability and high performance	**Achieved:** The roll out of the "Will and the Skill" leadership training is complete.
	Develop a program to enhance the understanding and behaviours of all employees relative to FCC's culture of accountability and high performance	**Achieved:** The course content of the Leading from Within program was developed and piloted in 2009-10. This course fosters leadership at all levels. Three culture training sessions were delivered to 43 new employees across the country.
FCC recruits and retains high-performing employees, and possesses a bilingual and diverse workforce	Define, develop and implement a talent supply process that encompasses bilingualism and diversity	**Achieved:** The end-to-end talent supply process was redesigned in 2009-10. A diversity strategy was approved and FCC is making progress toward meeting the requirements of the Employment Equity Act; orientation programs were delivered to 260 new employees.
FCC provides learning and knowledge that equips employees to serve sophisticated customers and prospects	Develop and implement a knowledge strategy that helps employees to keep pace with increasingly sophisticated primary production and agribusiness and agri-food customers	**Achieved:** Pre-call packages were updated to include information on internal FCC resources, external contacts and industry information to add value to customer visits.
	Implement the learning strategy, providing just-in-time, easy-to-access learning and learning events, using blended learning methods	**Achieved:** Initiatives undertaken include: a new scorecard to evaluate the transfer of new learned behaviours; 13 modules of the new Field Development Program; and online learning for the FCC Code of Conduct and Access to Information and Privacy Act.
	Develop tools to support learning strategy including a Learning Content Management System and a Learning Management System	**Postponed:** Implementation of the Learning Content Management, tracking and administration systems was delayed until 2010-11. Software will be deployed in Q3 2010.
Flexible compensation and rewards programs	Research long-term incentives tying employee compensation to the performance and success of the organization	**Postponed:** This initiative has been deferred to 2010-11.
Leaders offer consistent employee experience	Design and implement a new leadership development program that supports FCC's vision and future direction	**Achieved:** The new leadership development program was approved by Executive Management Team in 2009-10.

2010-11 Corporate scorecard plan

Commitment to agriculture

FCC has a reputation for offering outstanding financial products, knowledge and services tailored to agriculture, and for being a strong corporate citizen.

Corporate measures	2010-11 target
Corporate social responsibility scorecard	Report against scorecard
Corporate reputation index	Develop new approach and measurement strategy
Media favourability index	10 points above global average for financial institutions

Five-year strategic objectives	2010-11 initiatives
Invest in initiatives that advance the business of agriculture	Invest in initiatives that promote the business of agriculture and agri-food in Canada and contribute to the success of this industry
Assist young farmers and agribusiness operators	Develop additional programs for young farmers and agribusiness operators
Be a leader in providing knowledge that enhances producer and agribusiness success	Create and implement long-term knowledge strategy that includes aggregating knowledge, innovations and practical ideas for producers and agribusiness operators Offer FCC Learning programs, events and publications to the agriculture industry
Ensure that FCC acts in the best interest of all stakeholders	Develop integrated reputation management strategy, including media relations, issues management, web community involvement and internal monitoring
Operate as a good corporate citizen	Invest $1 million in rural capital projects through the AgriSpirit Fund Benchmark FCC's environmental footprint

Financial strength

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

Corporate measures	2010-11 target
Net income	$318.4 million
ROE	14.5%
Efficiency ratio	39.7%
Debt-to-equity ratio	8.1:1
Portfolio growth	7.7%
Venture capital invested	$92.4 million

Five-year strategic objectives	2010-11 initiatives
Implement a financial management framework integrating portfolio growth, risk, margins and returns	Continue to implement an economic capital management framework
	Evaluate and update credit risk culture and practices in relation to evolving market conditions
Protect the corporation with sound enterprise governance, risk and compliance (GRC) practices	Continue implementation of enhanced internal controls
	Update enterprise risk management framework
	Enhance enterprise security measures
	Implement policy and process changes to comply with new International Financial Reporting Standards

Customer experience

Customers receive FCC's unique customer experience and are passionate advocates of FCC.

Corporate measures	2010-11 target
Customer Experience Index	58.44%
Lending to young farmers and agribusiness operators	$1.71 billion

Five-year strategic objectives	2010-11 initiatives
Known in Canada as a best-practice organization that consistently provides an extraordinary customer experience	Conduct a gap analysis based on the Customer Experience Index to define customer needs and minimize inconsistencies in customer service
	Define agriculture and finance knowledge expectations of customer-facing staff and integrate with the sales process to ensure a stellar customer experience
Contribute to the success of the agriculture and agri-food industry by serving the full value chain	Conduct awareness campaign with agribusiness and agri-food markets
	Equip employees with skills, products and services tailored to the unique needs of agribusiness and agri-food operators
Make it easy for customers to do business with FCC	Enhance customer channel choice by offering more options for doing business with FCC through the Customer Service Centres
	Create a web and e-channel strategy to enhance the ability of customers and partners to do business electronically with FCC
	Make it easy for customers to do business with FCC

Efficiency and execution

FCC's agility in decision-making processes and technical and operational infrastructure makes it easy for customers and employees to do business.

Corporate measures	2010-11 target
Customer Experience Index (easy to do business indicator[1])	53.07%
Employee engagement (easy to do business indicators[2])	Greater than or equal to the average for the top 50 employers
Project management maturity	Project management maturity score[3] of 40%

Five-year strategic objectives	2010-11 initiatives
Optimize how FCC conducts business	Complete implementation of the business and technology transformation program
	Identify corporate functions, services and processes for potential alternate methods of service delivery and/or partnerships
	Optimize how FCC conducts business
	Enhance project management maturity, including benefits realization
	Develop a comprehensive corporate information management plan, including content management
Ensure business continuity	Enhance the plans for addressing consequences of pandemic from H1N1 virus or other unforeseen business disruption
Implement a web and e-channel strategy	Implement a web and e-channel strategy to enhance web presence
	Develop plan to enhance the delivery of products and services through e-business

[1] Easy to do business indicator: the percentage of customers responding 5 on a scale of 1 to 5 (top box score) to the question: Is it easy to do business at FCC?
[2] Easy to do business indicators include: co-workers; physical work environment; resources; work processes; work tasks.
[3] Maturity is based on the OPM3 ProductSuite® project management score.

Culture and employee experience

FCC is an employer of choice with a high-performance culture and strong employee engagement that bring out the best in people at all levels.

Corporate measures	2010-11 target
Employee engagement index	Greater than or equal to average for top 50 employers
Employee engagement – employee experience indicators[1]	Greater than or equal to average for top 50 employers
Employee engagement – leadership indicators[2]	Greater than or equal to average for top 50 employers

Five-year strategic objectives	2010-11 initiatives
Sustain and grow FCC employee experience	Enhance employee competencies with respect to feedback and coaching
	Implement employee health and well-being strategy
	Sustain and grow FCC employee experience
Enhance leadership capabilities	Implement new leadership development program
	Ensure effective change management practices are employed when rolling out initiatives
Provide learning and knowledge that offers employees ongoing growth	Implement next phase of FCC learning strategy

[1] Employee experience indicators – scores on the following drivers are averaged to calculate the score: career opportunities; learning and development; intrinsic motivation; managing performance; work/life balance.

[2] Leadership indicators – scores on the following drivers are averaged to calculate the score: senior leadership; manager; recognition; career opportunities; managing performance.

Scotian Gold – Nova Scotia

David Cudmore has been in the apple business for more than 25 years. As President and CEO of Scotian Gold Co-operative Limited, he is involved in storing, packing and selling apples for member owners who grow and produce them.

The company has grown to represent more than 50 per cent of the apple crop in Nova Scotia. The company's "Scotian Gold" brand is recognized for quality and well known throughout Canada. Scotian Gold's Honeycrisp apples are exported throughout the U.S., and its McIntosh apples have been a regular premium brand in U.K. markets for many years.

Working with someone who understands the challenges and opportunities of the apple industry is important to David. He has confidence that FCC will be there when he needs them. "We want to work with someone who understands what we do and what we deal with. FCC understands agriculture and they're in the business to support agriculture. We know that through thick and thin, they'll be here," he explains. "That's important to us."

Management's discussion and analysis 2009-10




Caution regarding forward-looking statements

This management's 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 financing and has been in the business of agriculture for over 50 years. To meet the changing needs of the industry, FCC offers customized debt and equity financing, creditor insurance, management software, leasing, 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:

The full agriculture value chain believes FCC is "advancing the business of agriculture" by providing financial products, tools and knowledge tailored to producers and agribusiness operators. Our customers are advocates of FCC and can't imagine doing business without us. We are a strong corporate citizen and an employer of choice everywhere we operate. Our focus on continuous improvement makes it easy for customers and employees to do business. We are financially viable and invest significantly in the agriculture and agri-food industry.

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
- Customer experience
- Execution and efficiency
- Culture and employee experience
- Financial strength

Strategic themes

As discussed in the Corporate Scorecard section on pages 39 through 54, FCC has developed several key measures, targets, objectives and initiatives to achieve its desired outcomes under each strategic theme. The following discussion outlines FCC's achievements under each strategic theme based on the results of the corporate scorecard initiatives.

Commitment to agriculture

FCC endeavours to be "the" place to obtain financial products, knowledge and services tailored to agriculture, with the goal of enhancing producer and agribusiness operations success, and facilitating knowledge-sharing to advance the business of agriculture. Additionally, FCC strives to be a strong corporate citizen.

- FCC met or exceeded its 2009-10 targets toward investment in agriculture and corporate responsibility. The corporation is on track to achieve its long-term initiatives and positive results from a number of initiatives in 2009-10, including expansion of the FCC Drive Away Hunger program, which resulted in the collection of 1.6 million pounds of food for food banks nationwide, as well as the establishment of a farm safety fund that will increase the number of people trained in agriculture safety and the number of trainers.

Customer experience

FCC strives to differentiate itself by creating an extraordinary customer experience for producers, suppliers and processors. FCC works to provide sophisticated and innovative solutions for customers that exceed their expectations and provide value.

- The customer experience targets for 2009-10 have been exceeded. In particular, the customer experience index measure reached an all-time high of 60.81 per cent, which was 2.87 per cent above the 57.94 per cent target.

Execution and efficiency

FCC is focused on creating a highly efficient, effective and agile organization that makes it easy for customers and employees to do business.

- In 2009-10, FCC's initiatives focused on optimization. A number of key corporate processes are now accomplished electronically, decision rights have been defined for projects and processes, and FCC continues to identify alternative services and implement initiatives to maximize corporate performance. This has resulted in a number of enhancements and efficiencies.

Culture and employee experience

FCC endeavours to be an employer of choice by recruiting and retaining employees with a passion for excellence. FCC works to sustain a high-performance culture where employees are highly engaged.

- FCC was successful in achieving its stated initiatives for culture and employee experience. In 2009-10, FCC's employee engagement index was at an all-time high of 86 per cent.

Financial strength

FCC seeks to effectively balance risk and return to remain financially viable and self-sustaining in the long term while continuing to invest significantly in the agriculture industry.

- In 2009-10, FCC successfully created various frameworks focused on improving internal financial analysis capabilities and process sophistication. Additionally, FCC developed and implemented an enterprise risk and control framework that incorporates additional internal and external elements in its enterprise risk management practices.

The underlying goals of the financial strength strategic theme can be categorized as follows:

- monitor and respond to marketplace activity
- profitable growth
- effective financial management
- effective risk management

Monitor and respond to marketplace activity

Responsiveness to marketplace activity and economic shifts are key factors in maintaining FCC's financial strength. FCC continually monitors the external operating environment, paying particular attention to events, trends and developments impacting the agriculture industry. Given recent global economic volatility, this goal has become increasingly important to sustain long-term financial viability.

Profitable growth

To generate a sufficient rate of return to meet FCC's financial targets, the corporation must continue to carefully manage its portfolio. Portfolio growth is driven by many factors including net disbursements, principal payments, loan maturities, loan renewals and prepayments. Performance is monitored through net interest income, net interest margin and net income analysis.

Effective financial management

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

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 ensure appropriate risk management practices.

Monitor and respond to marketplace activity

Global trends

FCC operates within two major industries: finance and agriculture. Market forces and global trends shape both industries. Today, these forces include fallout from the global financial crisis, continued agriculture industry consolidation, climate change and changing demographics and markets. No one can predict with certainty how the external operating environment will impact Canadian agriculture and agri-food. However, we can monitor trends, consider possible implications and create proactive strategies to address them.

The year 2009 will be remembered for the economic instability felt by countries around the world. Many industries were deeply affected by the financial crisis. The initial impact on agriculture was less dramatic; however, the long-term effects are still unknown.

Despite this, a 2009 poll of FCC's Vision panel (which consists of 9,000 Canadian producers and agribusiness operators) revealed that 55 per cent are optimistic about the future of agriculture. These results are consistent with optimism levels in 2007 (53 per cent) and 2008 (54 per cent). Nearly a quarter (23 per cent) of respondents still plan to expand their farm or business over the next five years, which demonstrates their willingness to persevere the economic uncertainty of 2009.

Key economic conditions

In late 2008, U.S. economic volatility triggered declining demand, business failures and cutbacks, as well as reduced trade and unemployment worldwide, which set the stage for the global recession in 2009. Economic conditions in 2009 were characterized by continued financial instability, resulting in the first decline in world trade since 1982 and the first reduction in global gross domestic product (GDP) in 60 years. Governments around the world co-ordinated action to reduce the impact of the global recession. They responded with a variety of strategies, including increasing the supply of money to encourage access to credit, and implementing policies to protect domestic markets.

Although Canada's banking system has fared better than most, it has implemented adaptive strategies in response to the slow growth environment, such as simplified product offerings, more conservative risk policies and reductions to operating costs.

Early in 2009, the Bank of Canada (BOC) lowered overnight interest rates to 0.25 per cent and committed to maintain this rate to the end of the second quarter of 2010, based on the inflation outlook. The Canadian dollar fluctuated through the year against the U.S. dollar, from a low of $1.26 to a high of $1.05. Since most agricultural commodities are traded in U.S. dollars, appreciation of the Canadian dollar tends to lower domestic and export prices. Alternatively, currency appreciation often contributes to lower prices for agricultural inputs like machinery, fertilizer and feed, much of which is purchased in the U.S.

For our customers, an increase in interest rates could translate into increased operating costs, higher risk, reduced investment (in land, buildings, machinery and equipment), decreased profitability and lower farmland prices.

Agriculture sector overview

Globally, agriculture is in a state of flux. The world of agriculture is increasingly characterized by rapid technological advancement and greater connection and collaboration. Many businesses continue to use existing methods and technologies, while others leap forward with innovative processes inspired by closed-loop systems, alternative energies, agronomics and efficiency principles. New markets are emerging, due to growing populations and rising consumer affluence in developing countries. In addition, the changing values and priorities of consumers are creating new opportunities. New markets for trading carbon, water and alternative energy solutions are also appearing. At the same time, changing policies and regulations are impacting the industry.

Pork

Restructuring of Canada's hog industry continued throughout 2009 and was marked by continued losses and a reduction in the number of producers as well as the national herd. Although hog numbers declined in both Canada and the U.S., the relative decline was more rapid in Canada. Hog prices have improved dramatically in the U.S. with the appreciation of Canada's currency relative to the U.S. Improvements in Canada have not been dramatic.

In April 2009, the H1N1 virus hit and delayed a return to profitability.

As a result of these challenges, the Government of Canada pledged to deliver a comprehensive restructuring plan for pork producers.

The FCC national customer support program for hogs is being extended to September 30, 2010, to assist hog customers dealing with this crisis. In 2009-10, FCC, along with other qualifying financial institutions, participated in the Hog Industry Loan Loss Reserve Program (HILLRP), which was developed by the Government of Canada to assist the pork industry in dealing with immediate short-term cash-flow pressures. The program was designed to increase access to credit for eligible hog operations in Canada by having the Government of Canada share a portion of the risk with financial institutions.

Beef

In 2009, the Canadian beef industry continued to struggle with a number of issues that contributed to negative margins for feedlots and marginal returns for cow-calf producers. A relatively higher Canadian dollar, combined with lows in the price cycle and additional transportation and export costs, were key contributors. Reduced demand for U.S. exports of beef and the impact of U.S. COOL legislation on the export of Canadian beef to the U.S. negatively impacted North American cattle prices.

As beef cow numbers continued to decline, so did the number of producers. These numbers have been on the decline since their peak in 2005.

Grains and oilseeds

In 2009, prices for grains and oilseeds in Western and Eastern Canada declined, in comparison to 2008, due to the global recession. Volatile markets have made risk management practices more important and difficult in grain marketing. High global inventories and suppressed demand were key contributors to reduced margins. Input costs increased as the recession eased.

Dairy

While 2009 was marked by considerable turmoil in international dairy markets, the Canadian picture was relatively stable. Demand for dairy products in Canada remained sound, despite the recession. Input costs declined slightly from their peak in 2008.

Revised policies that outlined caps for quota prices came into effect in August 2009. By 2012, Nova Scotia, New Brunswick, Prince Edward Island, Quebec and Ontario will have a common quota price cap of $25,000.

In 2009, a new Canadian Code of Practice for the Care and Handling of Dairy Cattle was published. The Canadian dairy industry also began to consider its part in the implementation of the national traceability initiative program announced in July 2009.

Poultry

Overall tariffs for poultry products continued to remain effective in controlling imports. This allowed Canada to hold domestic prices at a level that would not otherwise be possible and allowed for reasonable profit margins.

Total 2009 Canadian chicken consumption remained relatively unchanged from 2008. Demand for broiler meat was supported to some extent by negative perceptions of pork in the first half of 2009, due to the H1N1 virus. Broiler meat production from January through August 2009, was slightly lower than for the same period in 2008. However, production is expected to recover in 2010 due to an increase in household consumption.

Biofuels

In 2009, total domestic ethanol production capacity reached 1.42 billion litres, an increase of 1.8 per cent over 2008. If projects under construction are completed, production capacity is expected to reach 1.93 billion litres by the end of 2010, meeting the federal government's target of 1.9 billion litres. Biodiesel production capacity increased to 146 million litres in 2009. The biodiesel sector is pursuing a goal of producing 500 million litres a year by 2011.

In Canada, the Renewable Fuel Bill (2008) requires two to three billion litres of renewable fuel per year. The U.S. and other countries subsidize their biofuel industries to encourage production. Canada also provides support through various initiatives.

The North American biofuels industry has undergone consolidation as a result of decreasing petroleum prices and high inputs costs. Higher oil prices and increased margins for biofuels producers are anticipated in 2010.

Agribusiness and agri-food

Processing is becoming increasingly important to Canadian agriculture. The global recession resulted in slowing demand for processed food products. Other challenges to agriculture processing businesses included fluctuation of the Canadian dollar, attraction and retention of skilled labour, heightened competition, and declining export markets. Constraints on availability of trade finance to foreign customers also impacted exporters.

Greenhouses

The Canadian greenhouse industry relies heavily on exports to the U.S. market. In 2009, the industry faced the challenges of the high Canadian dollar and high energy prices. Competition from European exporters persisted as the Canadian dollar continued to rise. Canadian greenhouses continue to benefit from customers reliance on them to provide safe, fresh produce.

Farmland values

Twice a year, FCC compiles and releases the Farmland Values Report, the only Canadian source that highlights changes in land values in each province and nationally.

The average value of Canadian farmland increased 3.6 per cent between July and December 2009. Farmland values remained the same or increased in every province.

- Manitoba experienced the largest increase of 5.9 per cent
- three provinces experienced similar average increases: Alberta (3.8 per cent), Saskatchewan (3.4 per cent) and Ontario (3.3 per cent)
- New Brunswick followed with an increase of 2.5 per cent
- values also increased slightly in Nova Scotia (1.4 per cent) and Quebec (1.3 per cent)
- farmland values remained steady in British Columbia, Prince Edward Island and Newfoundland and Labrador

Sector profitability

Canadian farm debt levels have steadily increased since 1993, reaching $63.0 billion as of December 31, 2009, a 4.7 per cent increase from 2008. This is a reflection, in part, of low interest rates and the availability of credit.

Total farm market receipts declined by two per cent from the 2008 level. Farm cash crop receipts dropped by five per cent in 2009 and farm cash livestock receipts increased by two per cent. Net cash income (includes program payments) also saw an increase of four per cent. In 2009, total farm market receipts were up 26 per cent and net cash income was up 25 per cent above the five-year average from 2003-07.

While there are conflicting opinions, improvements in some economic indicators are prompting some economists to predict that the worst is over, and that economies throughout the world are beginning to turn around. In this volatile and transitioning global economy, Canadian agriculture is likely to face increased risk and volatility in terms of input costs and commodity prices in the coming year.

There is promise and there are challenges for agriculture and agri-food. The industry has the opportunity to redefine itself with the incorporation of knowledge, innovation and environmental sustainability. Many producers and agribusiness operations are rapidly enlarging the industry's contribution well beyond its focus on food.

This expanded vision for agriculture means opportunities for new products, services and revenue streams. It will require applying new knowledge within traditional categories, including food, feed and fibre production. It may also mean pursuing innovative ventures, including carbon storage, habitat protection, biofuels and bio-industrial livestock. Agriculture is being reshaped, and as a result, the industry will continue to emerge with new solutions to adapt and respond to whatever the future brings.

In 2009, grain and oilseed producers across the country experienced reduced market prices. Profits for dairy and poultry producers remained stable; while other sectors that rely heavily on U.S. exports, such as cattle, hog, potato and forestry, saw profits decline. Risk management practices remained important and challenging due to market volatility.

The U.S. recession will likely continue to have a significant impact on Canadian agriculture. The effects on agribusiness could include a further decline in global demand for agriculture products or deflation and loss of equity on owned assets. Additionally, a higher Canadian dollar may discourage export demand for Canadian agricultural products.

Continued access to foreign markets is essential to the health of the Canadian economy and particularly the agriculture and agri-food industry. Shrinking consumer demand, less trade financing and protectionist measures imposed by importing countries are seen as contributors to this historic decline in international trade.

Canadian agri-food exports totalled $35.2 billion, of which 50 per cent (about $17.6 billion) was exported to the U.S. Canada's total exports of merchandise in 2009 totalled $369.8 billion. At the end of 2009, the value of Canada's primary agriculture exports totalled $21.5 billion, a decline of 12.6 per cent in comparison to the year prior. This was sobering news for our export-dependent nation, particularly in the agriculture and agri-food industry.

In a volatile and transitioning world economy, Canadian producers and agribusiness operators face risk and opportunity. For some, weathering the storm is the primary concern. Others see an opportunity to grow or innovate. For all, understanding emerging trends and drivers is critical for successful strategic decision-making.

Current and potential impacts for FCC

FCC has experienced some negative impacts as a result of the economic downturn. However, the level of defaults and arrears has remained consistent with previous years. Although the economy may continue to experience these negative economic impacts into the future, FCC remains financially strong with $2,946.1 million in equity and loan loss reserves, low debt to equity and high-quality risk management practices. FCC's portfolio is diversified by enterprise and geography because it lends to all areas of agriculture across Canada, which reduces risk.

FCC is beginning the next fiscal year in a strong financial position and expects to meet its strategic targets in 2010-11. It will continue to closely monitor external and internal financial trends, assess implications and create proactive strategies to address them. Risk levels will be diligently monitored to ensure they continue to be within acceptable tolerances.

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 and effective financial management

Financial performance versus plan

Each year, as part of its strategic planning process, FCC develops a comprehensive corporate plan, which includes targets for various financial measures for the coming fiscal year. The chart to the right provides a comparison of the actual outcomes against key plan targets for 2009-10.

Profitable growth and effective financial management

(millions of dollars unless otherwise noted)	2010 Actual	2010 Plan
Portfolio growth		
Loans receivable	19,687.2	17,735.0
Loans receivable growth (per cent)	15.1	6.4
Net disbursements	6,585.6	4,599.2
Venture capital		
Investments – total capital outstanding	69.0	67.3
Investments – carrying value	60.0	66.5
FCC Management Software		
Net sales revenue	1.6	1.8
FCC Insurance		
Gross insurance revenue	16.1	14.4
Net insurance revenue	8.6	7.2
Profitability		
Net interest income	609.9	541.9
Net interest margin (per cent)	3.16	3.07
Credit quality		
Arrears	42.2	38.9
Impaired loans	236.7	266.0
Provision for credit losses	91.4	65.1
Allowance for credit losses	610.5	567.9
Efficiency		
Administration expense	255.2	260.4
Efficiency ratio (per cent)	39.9	45.0
Capital management		
Debt to equity ($ of debt per $ of equity)	8.4	7.5
Shareholder return		
Net income	281.9	226.8
Return on equity (per cent)	14.1	11.2

Financial performance versus prior year

The remainder of the MD&A provides a review of year-over-year performance, as well as FCC's performance expectations for 2010-11.

Portfolio growth

Market share

According to Statistics Canada, farm debt outstanding increased by 4.7 per cent to $63.0 billion in 2009. FCC increased its market share by 2.6 per cent to 27.1 per cent in 2009. FCC's proportion of Canada's outstanding farm debt of $17.1 billion remains second only to the chartered banks at $21.8 billion.

Lending activity

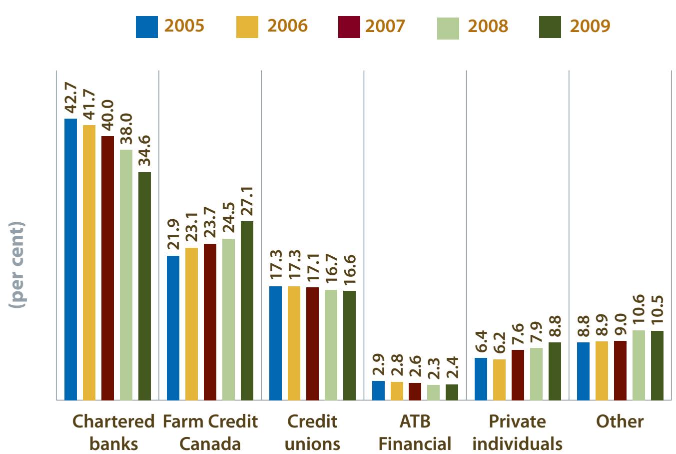
FCC's lending activity is conducted through its lending business lines: primary production financing, agribusiness and agri-food financing, and FCC Alliances (point-of-sale financing) (refer to Products and Services on page 35).

In 2009-10, FCC experienced its 17th consecutive year of growth. Loans receivable increased $2,589 million from 2008-09 to $19,687 million in 2009-10. Net disbursements showed a $1,517-million increase, growing to $6,586 million. Contributing to the increased level of disbursements was an increase in renewal rates of 0.6 per cent to 97.3 per cent and a decrease in prepayments of 1.1 per cent to 5.1 per cent.

The primary driver behind this growth was increased disbursements to primary producers in all major enterprises. Primary production and point-of-sale financing constitute 84.9 per cent of FCC's net disbursements. Agribusiness and agri-food financing disbursements grew by 32.3 per cent due to increased market penetration and growth in disbursements to the value-added enterprises of $282 million.

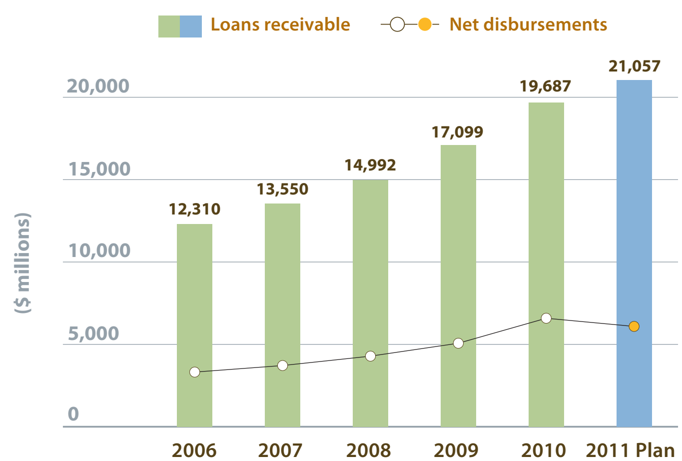
In 2010-11, primary producers are expected to continue to face tight margins as input prices remain relatively high and commodity prices rise slowly. Growth is expected to slow as FCC is only anticipating to increase loans receivable by $1,370 million. This decreased level of growth can be attributed to a projected reduction in net disbursements of $496 million compared to 2009-10. Renewals are expected to decrease slightly to 96.0 per cent and prepayments are expected to increase to 6.5 per cent.

Market share as at December 31*



*Historical results are also updated annually by Statistics Canada.

Loans receivable

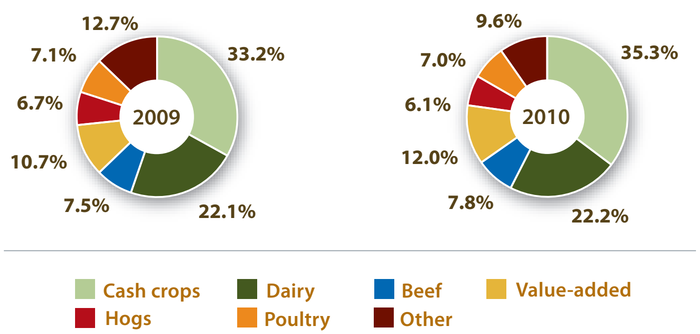


Portfolio growth by enterprise

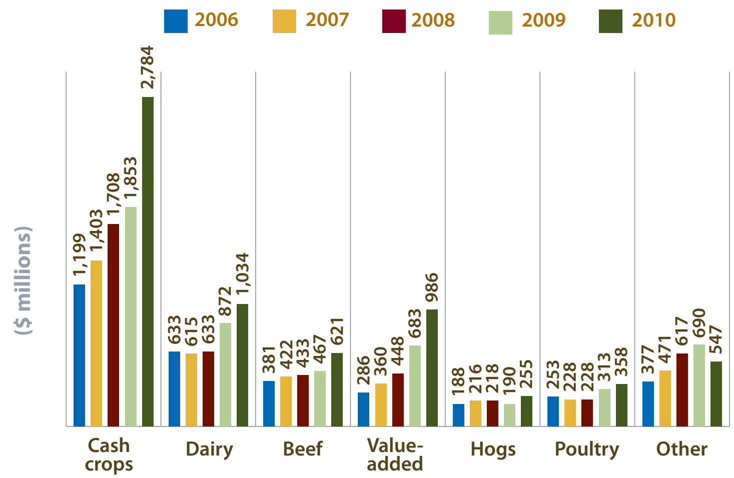
FCC lends to all agriculture enterprises, which diversifies the lending portfolio and reduces enterprise-specific risks. These practices align to the strategic themes addressing FCC's commitment to agriculture and financial strength by effectively managing risk to ensure FCC's long-term viability.

In 2009-10, net disbursements increased in all major enterprises (as identified in the chart to the right). There was a marked increase in net disbursements for cash crops of 50.2 per cent. This increase is attributed to an increase in crop input lending from recently added FCC Alliance partnerships and improved customer profitability leading to increased optimism and capital expenditures. As a result, cash crops continued to represent the largest portion of FCC's PND and net disbursements in 2009-10. Significant growth in net disbursements was also seen in the value-added, dairy and beef enterprises, which showed an increase in net disbursements of $303 million, $162 million and $154 million, respectively.

PND by enterprise



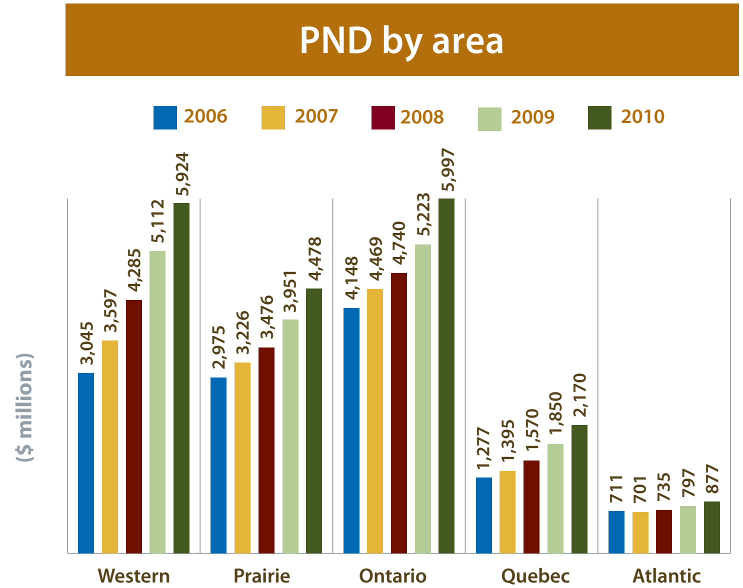
Net disbursements by enterprise



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.

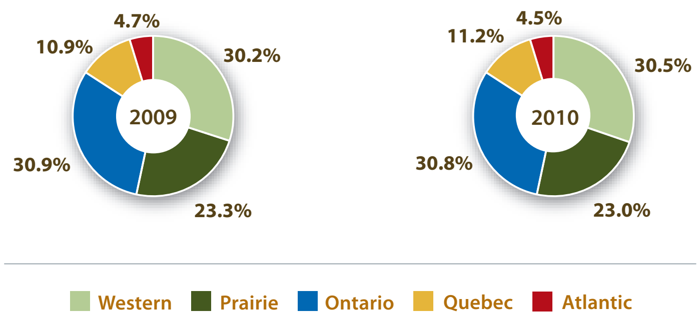
In 2009-10, FCC experienced consistent PND growth in all areas across Canada. The largest PND growth areas continue to be Quebec and Western, which experienced 17.3 and 15.9 per cent growth. Quebec's overall PND growth from 2008-09 was due to growth in all major enterprises.



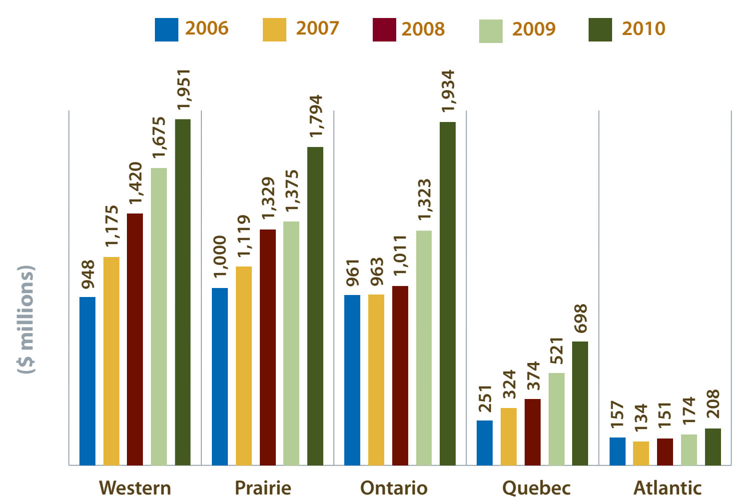
Western and Prairie continue to comprise over half of PND and net disbursements. Their overall proportion of net disbursements remained unchanged from 2008-09. Ontario remains the largest individual contributor to PND in 2009-10; however, its respective share decreased by 0.1 per cent.

In 2009-10, net disbursements increased in all areas. The largest increase was seen in Ontario where net disbursements increased 46.2 per cent followed by Quebec and Prairie with increases of 34.0 and 30.5 per cent, respectively. Increased crop input lending from recently added FCC Alliance partnerships contributed to the increased disbursements in the Western, Prairie and Ontario regions.

PND by area



Net disbursements by area



Lines of business

FCC provides financing and other services to over 100,000 customers 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

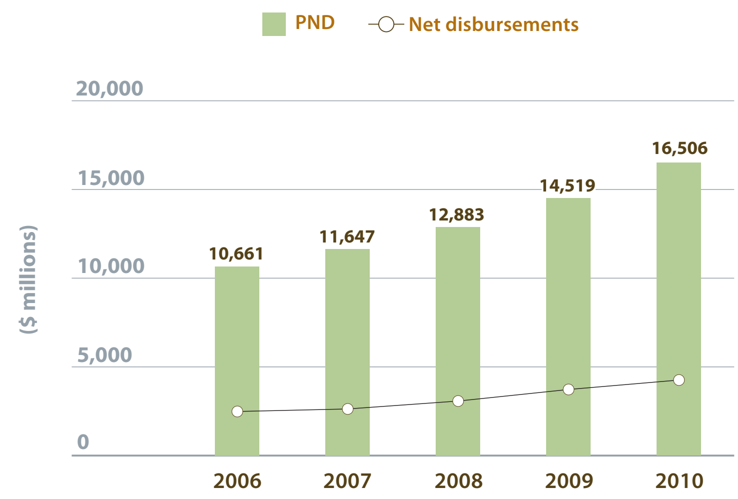
Each business line has specific products tailored to address the needs of Canadian agriculture.

Primary production financing is FCC's largest revenue-generating business line, and 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 comprised 84.9 per cent of FCC's total PND. In 2009-10, growth in PND increased to 13.7 per cent, up from 12.7 per cent the previous fiscal year, resulting in a portfolio of $16,506 million. The primary driver was an improvement in net disbursements of 14.3 per cent in 2009-10 to $4,258 million. Lending increased in all primary enterprises.

FCC has a growth and market share strategy to optimize the primary production financing and agribusiness and agri-food financing portfolios. This strategy balances growth with market opportunity, volume and margin at the provincial level.

Primary production financing



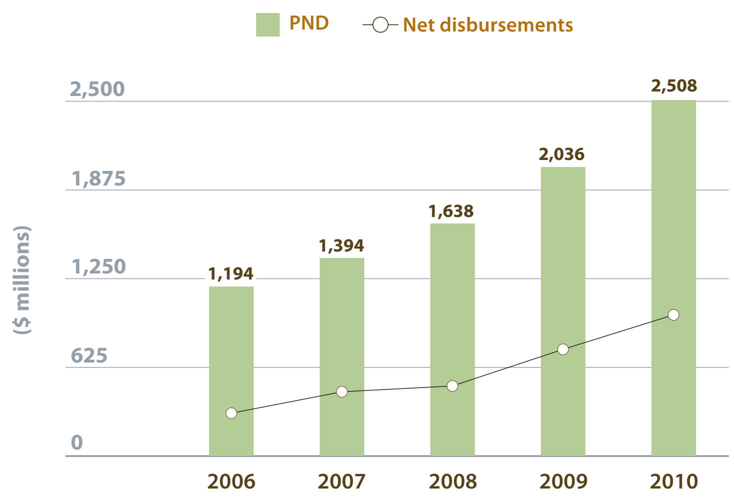
Agribusiness and agri-food financing customers provide support to primary producers. These customers are typically suppliers or processors who are selling to, buying from, or otherwise serving primary agriculture producers. These customers include, but are not limited to, equipment manufacturers, dealers,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

Agribusiness and agri-food showed growth in both PND by 23.2 per cent to $2,508 million, and net disbursements by 32.3 per cent to $995 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 favourable market conditions.

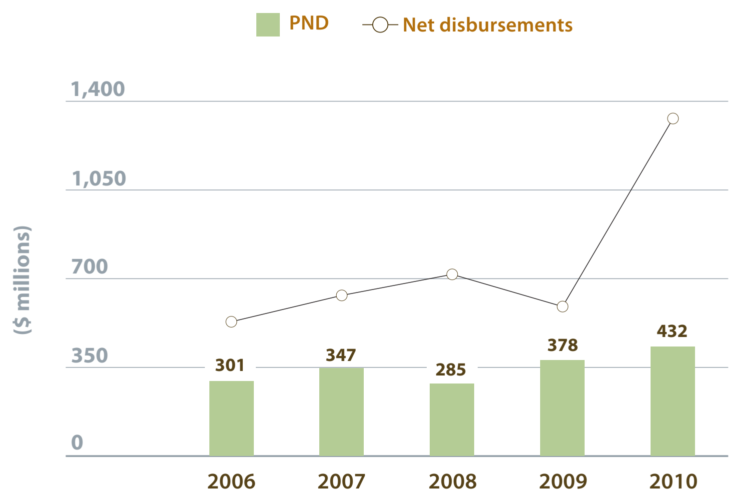
FCC Alliances is the largest contributor to FCC's financing for equipment, crop inputs, and livestock point-of-sale business line. It lends to agriculture customers through a network of external agriculture or financial organizations, some of which include equipment dealers, crop input retailers, livestock operators and manufacturing partners. Through this network, FCC is able to provide efficient and effective products and services to its customers.

In 2009-10, there was a 125.8 per cent increase in net disbursements to $1,332 million. This was primarily due to significant growth in crop input lending from recently added partners. The increase only had a moderate impact to the level of PND at the end of 2009-10, due to the shorter-term nature of the loan products.

Agribusiness and agri-food financing



FCC Alliances



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

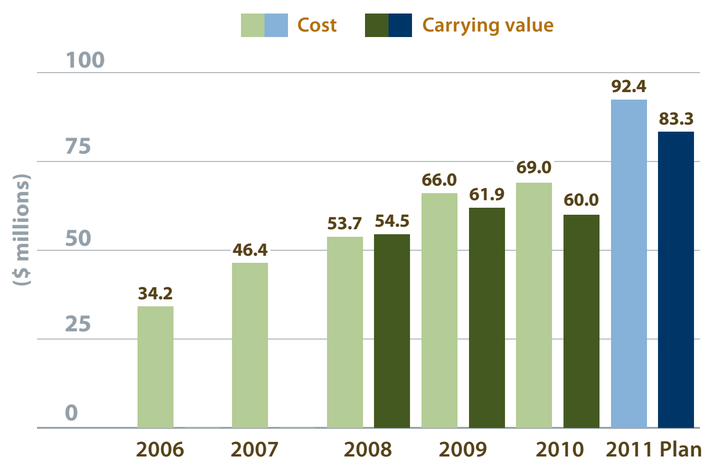
The venture capital portfolio includes investments made directly by FCC (FCC Fund), as well as investments made through the Avrio Ventures Limited Partnership fund (Avrio Fund).

In 2009-10, FCC earned $3.5 million in income, primarily related to unrealized accounting gains and interest earned on debt investments. The carrying value of the total venture capital portfolio of $60.0 million includes $31.1 million held directly by FCC and $28.9 million in investments held in the Avrio Fund. Throughout 2009-10, $10.3 million in new investments were funded. This increase was offset by $9.1 million in payments and divestitures along with a $3.2-million fair value loss.

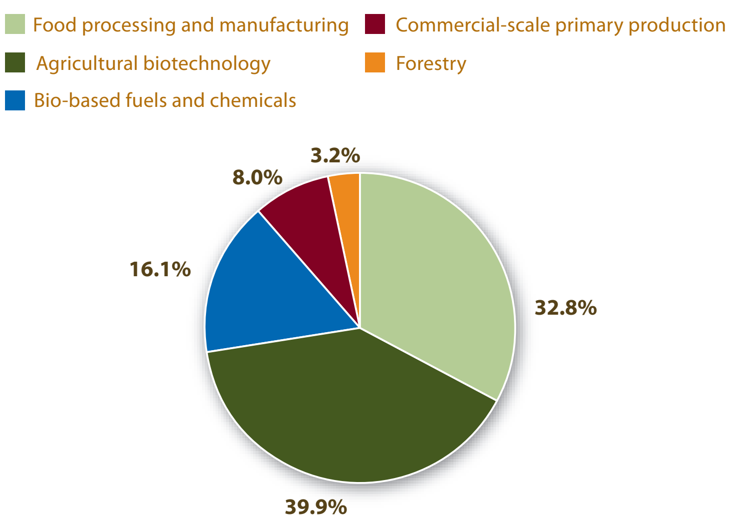
Co-investment partners contributed an additional $13.4 million to individual investments made during the year. Further detail of the carrying value investment amounts can be found in Note 8 and Note 19 of the Notes to Consolidated Financial Statements.

The venture capital portfolio is expected to continue to grow. In 2010-11, continued investment in the Avrio Fund is expected to outpace maturity and divestiture of existing investments. In addition, FCC Ventures is pursuing opportunities to expand the type and level of investment. In 2010-11, new investments are expected to be mainly in equity instruments, which will result in further reduction of interest income as existing debt instruments mature.

Investments outstanding



Investments outstanding by sector*



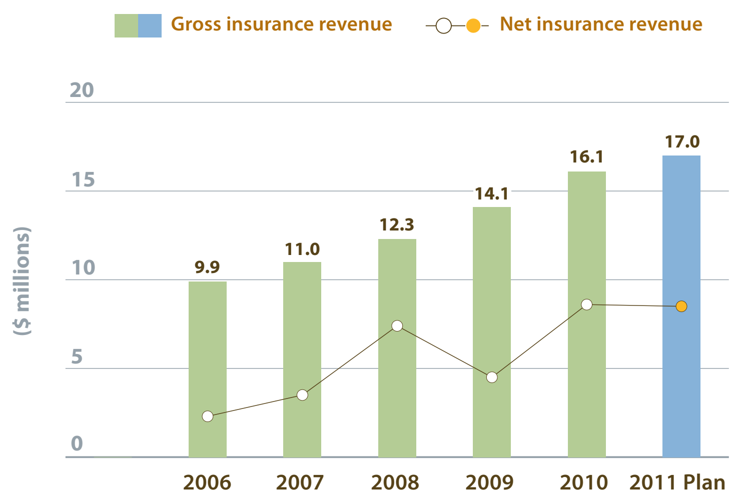
*Investments at cost.

FCC Insurance offers loan, creditor life and accident insurance to provide protection to customers, their businesses and their families. SunLife Assurance Company of Canada administers FCC insurance programs.

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. Gross life insurance premiums grew to $16.1 million in 2009-10 compared to $14.1 million in 2008-09. Net insurance revenue varies from year to year depending on claims paid. In 2009-10, $7.6 million in claims were paid to customers compared to $9.6 million the previous fiscal year.

To meet the changing needs of customers, FCC increased the program limit from $1.5 million to $2.0 million worth of coverage per customer in 2009-10. FCC will continue to enhance its life insurance product next fiscal year.

Gross and net insurance revenue



FCC Learning is FCC's information and learning program and supports FCC's commitment to continued investment in agriculture. In 2009-10, over 10,000 people attended 162 FCC Learning events.

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
- FCC Forums
- partnership programs with industry partners
- the AgriSuccess bi-monthly publication (formerly AgriSuccess Journal)
- the electronic newsletter FCC Express (formerly AgriSuccess Express)

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

FCC Management Software packages support the business of agriculture by providing valuable solutions to farmers that will help to ensure their success and viability. Its products include AgExpert Analyst and Field Manager PRO. AgExpert Analyst is financial management software designed specifically for farmers.

In 2009-10, net sales revenue increased by 6.7 per cent to $1.6 million, and is expected to reach $1.7 million in 2010-11.

Net sales revenue

Profitability

Net interest income and margin

Changes in net interest margin along with changes in portfolio volume are primarily responsible for the increase in net interest income (NII). The net interest margin must yield a sufficient return to enable the corporation to reinvest toward future growth, after covering 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	**2010**		**2009**		**2008**		**2007**		**2006**	
($ millions)	**Average balance**	**Rate**	**Average balance**	**Rate**	**Average balance**	**Rate**	**Average balance**	**Rate**	**Average balance**	**Rate**
Earning assets:										
Fixed loan principal balance	**6,557.1**	**6.25%**	7,170.2	6.50%	6,601.5	6.63%	5,313.9	6.55%	4,076.1	6.70%
Variable loan principal balance	**11,769.9**	**3.09%**	8,562.1	4.89%	7,523.8	6.84%	7,507.4	6.76%	7,518.5	5.50%
Investments	**874.4**	**0.27%**	711.1	2.50%	645.5	4.44%	838.7	4.22%	627.5	2.93%
Venture capital investments	**57.8**	**4.07%**	57.2	5.39%	54.4	6.46%	40.9	12.26%	31.4	11.10%
Total earning assets	**19,259.2**	**4.15%**	16,500.6	5.58%	14,825.2	6.72%	13,700.9	6.66%	12,253.5	5.92%
Total interest-bearing liabilities	**17,056.6**	**1.13%**	14,440.3	2.86%	12,879.0	4.36%	11,933.0	4.17%	10,733.2	3.14%
Total interest rate spread		**3.02%**		2.72%		2.36%		2.49%		2.78%
Impact of non-interest bearing items		**0.14%**		0.33%		0.58%		0.58%		0.43%
Net interest margin		**3.16%**		3.05%		2.94%		3.07%		3.21%

Interest rates on interest-earning assets decreased from 2008-09 to 2009-10. However, interest rates on FCC's 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. Demand for government debt continued throughout 2009-10, keeping rates low relative to the assets, contributing to FCC's 0.11 per cent improvement in net interest margin.

This was partially offset by current year expenses related to debt repurchases. Access to the Crown Borrowing Program and favourable changes in rates created another opportunity for FCC to repurchase $1,086.3 million of capital market debt. Related derivatives were also closed out, resulting in fair value gains of $12.5 million and an overall reduction in net income of $50.1 million. The fair value 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 $65.3 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)	2011 Plan	2010	2009	2008	2007	2006
Net interest income	697.4	**609.9**	508.0	434.4	415.5	388.4
Average total assets	20,822.5	**19,290.2**	16,649.9	14,764.7	13,530.6	12,100.7
Net interest margin (per cent)	3.35	**3.16**	3.05	2.94	3.07	3.21
Year-over-year change in net interest income due to:						
Increase in volume	50.3	**81.7**	39.9	32.9	33.7	30.8
Changes in margin	37.2	**20.2**	33.7	(14.0)	(6.6)	5.7
Total change to net interest income	87.5	101.9	73.6	18.9	27.1	36.5

The net interest income and margin chart indicates that FCC experienced growth in both areas. NII increased by 20.0 per cent to $609.9 million and FCC's loans receivable grew by 15.1 per cent to $19,687.2 million. NII is expected to increase to $697.4 million in 2010-11, these improvements will be due to decreased margins offset by the lack of buyback expenses expected in 2010-11 as rates begin to normalize.

Other income

FCC generates other income through its non-lending business lines from sources including FCC Insurance and FCC Management Software products and support sales. In 2009-10, FCC experienced a 66.8 per cent increase in other income to $10.3 million. This is primarily due to an increased level of insurance premiums collected compounded by a decreased level of claims in 2009-10. Other income is expected to decrease slightly to $10.2 million in 2010-11.

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 sectors experiencing extraordinary challenges, such as the hog and beef sectors. 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.

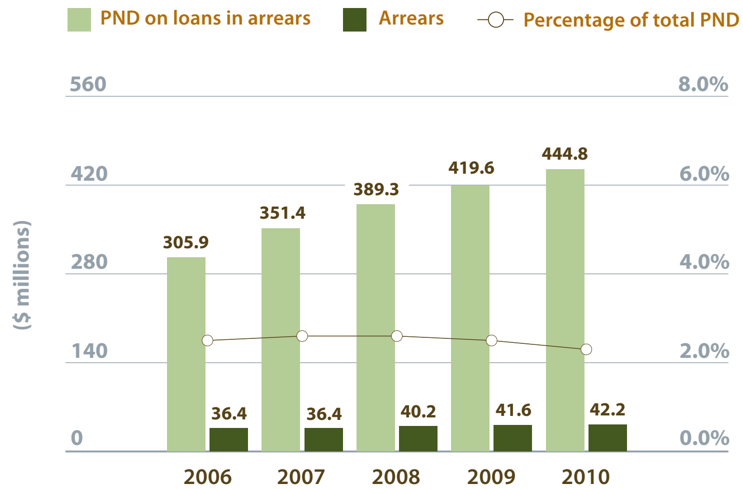
While these payment schedule adjustments are used to assist customers and manage the health of FCC's portfolio, it is important to note that these programs and payment deferral options may understate the impact of economic events on arrears and impaired loans. These programs offer the customer increased payment flexibility in a variety of ways, including 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, it is expected that the global recession will continue to impact agriculture operations. Although it is not clear what the exact impact and magnitude will be, increases in arrears, impaired loans and defaults are expected to continue. 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.

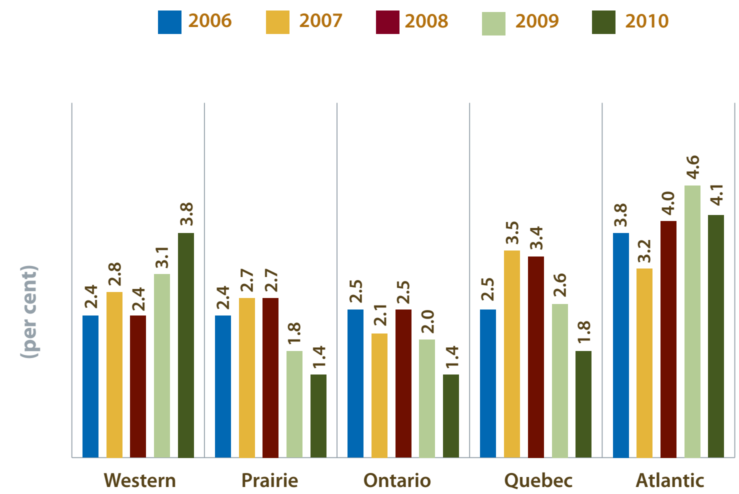
Arrears

In 2009-10, PND on loans in arrears increased by 6.0 per cent to $444.8 million, and arrears increased by 1.4 per cent. One of the primary drivers for this increase was an increase in the hog enterprise, which had the greatest year-over-year increase both in PND on loans in arrears and percentage of total PND in arrears overall. PND on loans in arrears, as a percentage of total PND, remained relatively low at 2.3 per cent, which reflects effective mitigation of risk through portfolio diversification and sound credit risk practices. However, as a result of continued unfavourable market conditions and expected portfolio growth in 2010-11, arrears are anticipated to increase to $72.9 million.

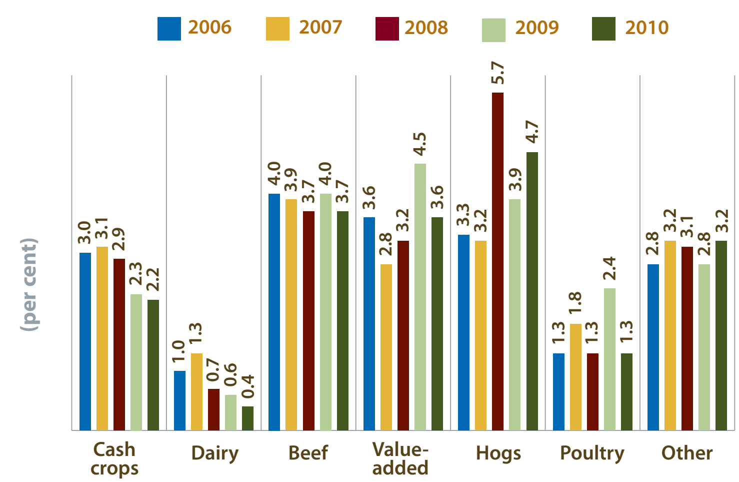
Arrears



PND on loans in arrears as % of area PND



PND on loans in arrears as % of enterprise PND



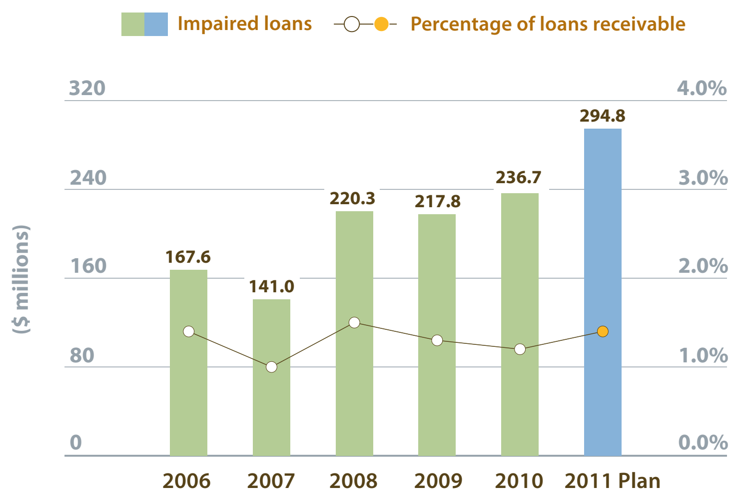
Impaired loans

In 2009-10, impaired loans showed an $18.9-million increase from the previous fiscal year. This trend is expected to continue in 2010-11 with an estimated increase of $58.1 million. Impaired loans as a percentage of loans receivable decreased slightly to 1.2 per cent. In 2010-11, they are expected to slightly increase to 1.4 per cent. These increases are reflective of the growth in loans receivable and an increase in risk given the impact of the current economic environment.

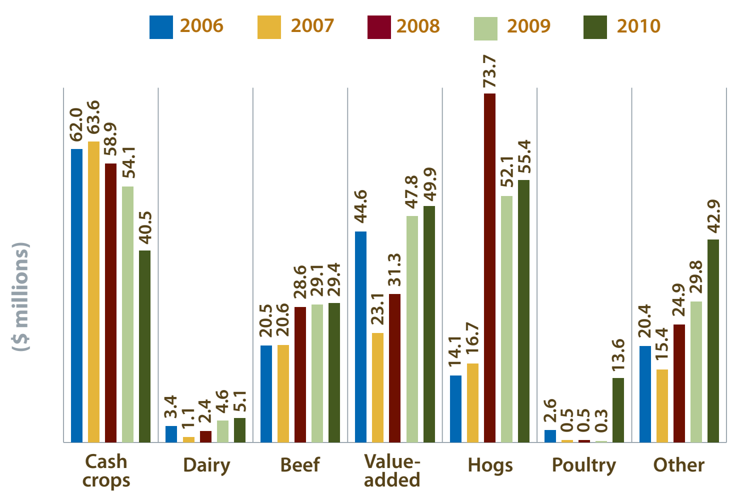
At an enterprise level, impaired loans for cash crops experienced the largest year-over-year decrease of $13.6 million. The poultry enterprise experienced the largest year-over-year increase of $13.3 million to $13.6 million. Turbulence experienced in the commodity market in 2009-10, as well as the continued challenges faced by the beef and hog sectors, may have a negative effect on impaired loans in the fiscal year ahead.

FCC customer support programs, addressed earlier, give FCC employees the opportunity to proactively provide support to individual customers or enterprises during financial difficulties. In 2009-10, FCC made 2,158 payment schedule adjustments, 352 of which were part of their enterprise-specific support programs. Payment schedule adjustments as a percentage of PND increased from 3.9 per cent in 2008-09 to 4.5 per cent in 2009-10.

Impaired loans



Impaired loans by enterprise



Write-offs

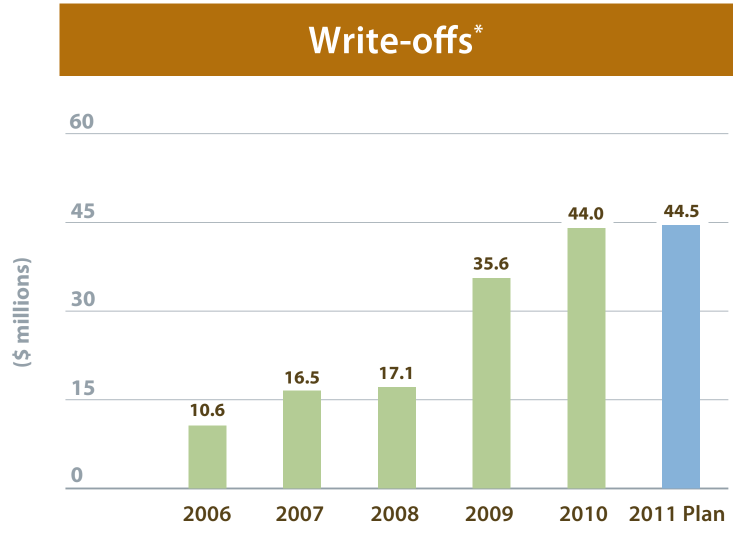
Loan amounts deemed uncollectible by management are considered in default and may result in full or partial write-offs, depending on the level and value of security on hand.

In 2009-10, the amount of write-offs, net of recoveries, increased to $44.0 million. A portion of this increase is attributable to the unfavourable economic conditions experienced by the beef and hog enterprises since 2006. The majority of this increase is due to the increase in overall loans receivable, as write-offs as a percentage of loans receivable remained constant at 0.2 per cent.

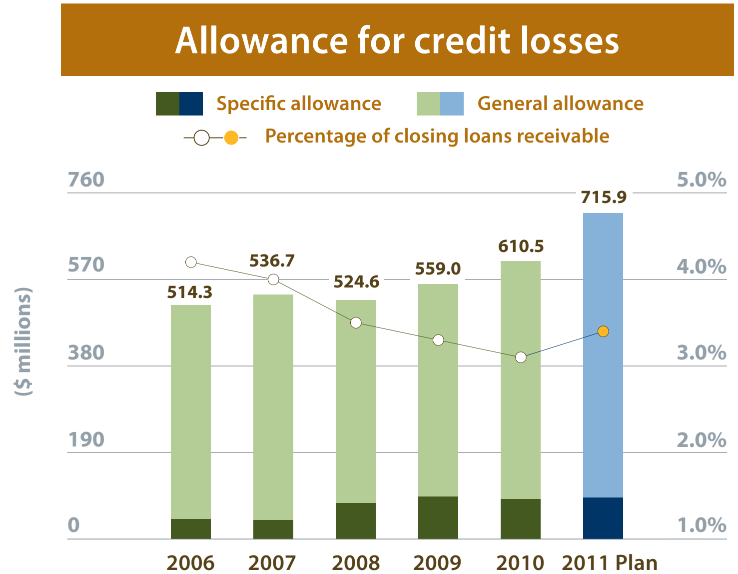
Write-offs are expected to increase by 0.5 per cent in 2010-11 to $44.5 million. Write-offs as a percentage of loans receivable are expected to remain at 0.2 per cent. Additional losses may be realized as a result of ongoing economic conditions. Given FCC's allowance for credit losses and equity position, it is positioned to weather an increased level of write-offs.

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.



*Net of recoveries.



The allowance for credit losses has two components:

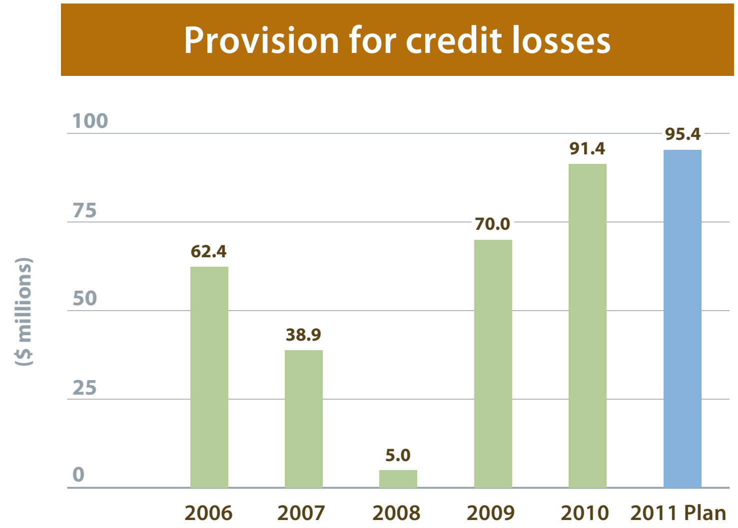
> Specific allowance – provides for management's best estimate regarding probable losses on specific loans that have become impaired. It is the shortfall between the realizable amount from the security provided on the loan and the total amount outstanding on the loan at the time of impairment.
>
> General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

In 2009-10, the allowance for credit losses increased to $610.5 million, $51.5 million higher than the previous fiscal year. A significant contributor to this increase is the 15.1 per cent increase in loans receivable, as the allowance for credit losses decreased as a percentage of closing loans receivable. The allowance is expected to increase by 17.3 per cent to $715.9 million in 2010-11.

Provision for credit losses

Once the allowance for credit losses and write-offs are determined by management, the provision for credit losses is charged to the Consolidated Statement of Operations by an amount necessary to bring the allowance for credit losses to the appropriate level.

The provision for credit losses increased to $91.4 million in 2009-10 to bring the allowance to the appropriate level of $610.5 million. As mentioned previously, FCC participated in the Hog Industry Loan Loss Reserve Program, which reduced the provision by $6.2 million. In 2010-11, the provision is expected to increase slightly to $95.4 million, as a result of the reduced level of growth in loans receivable, compounded by an increase in risk.



Efficiency

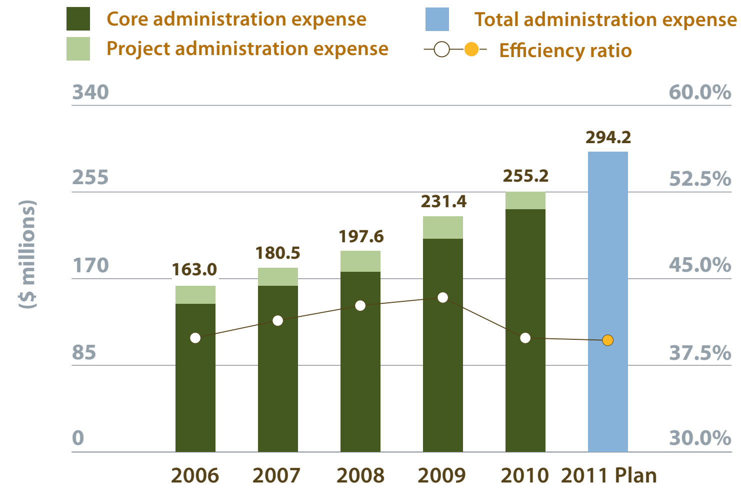
The efficiency ratio measures the percentage of income earned that is spent on the operation of the business. A low efficiency ratio indicates efficient use of corporate resources. FCC administration expenses are broken down into core administration expenses and project administration expenses. Core 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 the achievement of strategic goals. FCC uses a portion of its administration expenses to invest directly back into the industry through its Investment in Agriculture program. In 2009-10, $7.9 million was invested toward qualifying initiatives.

Core administration expenses increased by $29.0 million to $237.9 million in 2009-10. The majority of this increase is attributed to an increase in personnel-related expenses necessary to support FCC's growth. Project administration expenses decreased by $5.2 million to $17.3 million as funding for projects in support of strategic objectives was capitalized over a number of years. Although total administration expenses increased in 2009-10, the efficiency ratio decreased from 43.4 per cent to 39.9 per cent due to significant portfolio growth and improvements to net interest income.

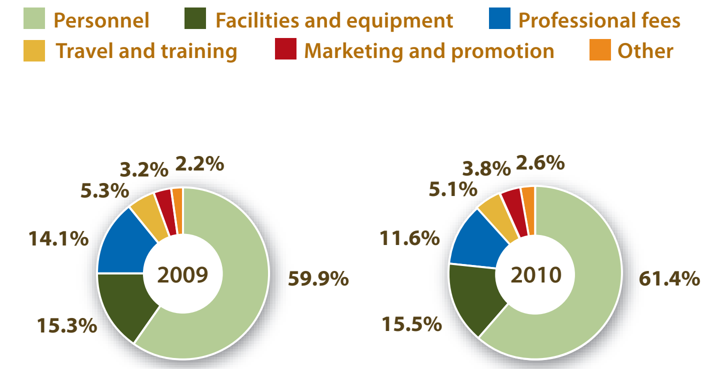
In 2009-10, the largest increases to administration expense were in the categories of marketing and promotion, other, and personnel. The increases were primarily due to resource requirements to support growth of the business and strategic initiatives. Personnel continues to represent the largest proportion of total administration expenses in 2009-10 at 61.4 per cent. While total administration expenses are projected to increase to $294.2 million in 2010-11.

FCC will work diligently to contain costs below this projection. Some growth in administration expense will be necessary to support continued portfolio growth.

Efficiency ratio



Administration expenses by category



Liability management

Funding activity

On April 21, 2008, FCC began borrowing directly from the federal government under the Crown Borrowing Program. The corporation continues to carry capital market debt that was raised prior to April 21, 2008.

During 2009-10, FCC raised short and long-term funds through the following programs:

- Domestic Commercial Paper Program (for U.S. dollars)
- 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, 2010, were $8.8 billion compared to $8.1 billion at March 31, 2009. Of the total short-term borrowings outstanding, $8.5 billion were funds from the Crown Borrowing Program. The increase in short-term borrowings supports the increase in short-term assets.

Long-term funding

Long-term funding consists of all borrowings with a term to maturity of more than one year, which includes all fixed-rate borrowings and floating rate notes. In 2009-10, FCC borrowed a total of $6.5 billion in long-term funds, up from $5.3 billion the previous fiscal year. The increase in long-term borrowing supports a corresponding increase in variable-rate mortgages in its asset portfolio. All 2009-10 long-term borrowings were floating rate notes. Floating rate notes are borrowings with a term to maturity of more than one year that have a floating interest rate that resets based on one-month or three-month T-bill rates. In 2009-10, all long-term borrowing was through the Crown Borrowing Program.

Credit ratings

New and outstanding capital market debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. During 2009-10, the corporation's debt ratings were unchanged by Moody's Investors Service and Standard & Poor's. FCC's foreign and domestic debt ratings as of March 31, 2010, are detailed below.

	Domestic debt		Foreign debt	
	Long-term	Short-term	Long-term	Short-term
Moody's	Aaa	P1	Aaa	P-1
Standard & Poor's	AAA	A-1+	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 liability 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 83. Fair value measurement of FCC's financial instruments is described in Note 19 of the Notes to the Consolidated Financial Statements.

Capital management

Capitalization

FCC's gross assets are $20,813.6 million, of which $2,946.1 million are supported by equity and allowance for credit losses. At this level of capitalization, 14.2 per cent of assets do not require external debt financing. Capitalization is expected to increase to 14.6 per cent in 2010-11, due to an increase in retained earnings.

($ millions)	2011 Plan	2010	2009	2008	2007	2006
Equity:						
Capital	547.7	**547.7**	547.7	547.7	547.7	547.7
Retained earnings	1,801.9	**1,584.3**	1,321.0	1,132.0	914.4	716.1
Accumulated other comprehensive income	161.0	**203.6**	407.2	97.1	0.0	0.0
Subtotal	2,510.6	**2,335.6**	2,275.9	1,776.8	1,462.1	1,263.8
Allowance for credit losses	715.9	**610.5**	559.0	524.6	536.7	514.3
Total capitalization	3,226.5	**2,946.1**	2,834.9	2,301.4	1,998.8	1,778.1
Gross assets not requiring debt financing (per cent)	14.6	**14.2**	**15.4**	**14.4**	**13.9**	**13.6**

Debt to equity

FCC uses debt to equity as a key measure to assess its capital adequacy. It also uses the 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 helps to ensure continued self-sustainability, financial viability and reinvestment in agriculture.

FCC continues to be below its legislated limit of debt to equity, which is 12 to 1. For financial management purposes, FCC has set target debt-to-equity ratios for each business line. By setting these internal thresholds, FCC recognizes and monitors the inherent risk associated with each business line individually.

From 2008-09 to 2009-10, FCC's debt-to-equity ratio increased from 8.3 to 8.4. to 1. In 2010-11, this ratio is projected to improve by 0.3 to 8.1. 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 2009-10, growth in equity was 14.1 per cent, which was lower than the loans receivable growth of 15.1 per cent.

Shareholder return

FCC uses three key corporate measures to determine 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 8.3 in 2008-09 to 8.4 in 2009-10 due to the significant level of portfolio growth.

Net income

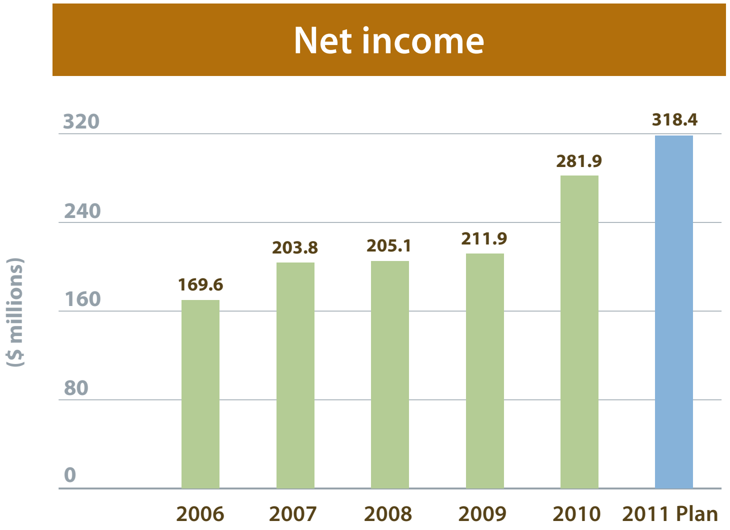
As part of its commitment to agriculture, FCC reinvests its earnings back into agriculture through financing portfolio growth and developing new products and business services that support the agriculture industry.

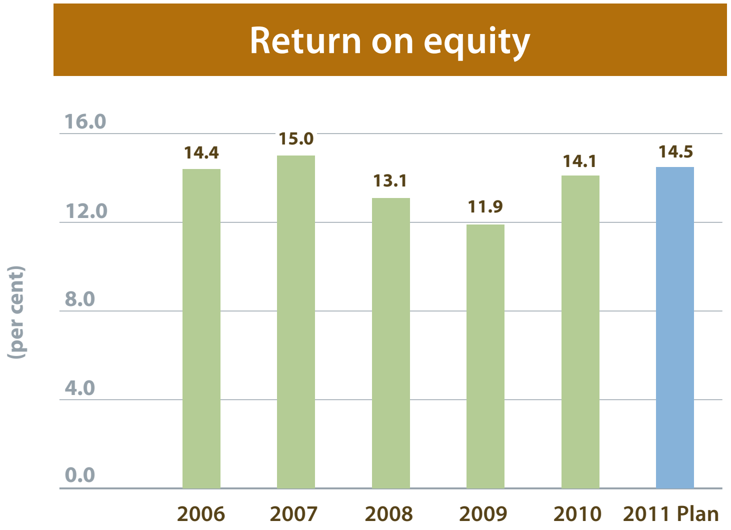
Net income is composed of net interest income and other income, provision for credit losses, administration expenses and fair value adjustments. In 2009-10, net income increased by $70.0 million from the previous fiscal year, due to the increased level of net interest income and other income offset by increases in provision for credit losses and administration expenses. The current-year impact of the debt repurchase on net income was a decrease of $50.1 million. Net income is projected to increase 12.9 per cent in 2010-11 as a result of increased net interest margin and other income and offset partly by increases to the provision for credit losses and administration expenses.

Return on equity

Return on equity is calculated by dividing total net income by average equity before accumulated other comprehensive income. 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 increased to 14.1 per cent in 2009-10 from 11.9 per cent in 2008-09. The year-over-year increase was largely due to increased net interest income partially offset by increased provision for credit losses. Return on equity is projected to increase to 14.5 per cent in 2010-11.





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 its most significant risks, FCC ensures that it can fulfil its public policy role, create value for customers and maintain long-term business viability.

Through the ERM process, risks of corporate significance are identified, assessed, managed and monitored. Risks are identified during the annual strategic planning process by gathering input from the Executive Management Team, the Senior Leadership Team, subject matter experts and the Board of Directors. Once identified, top risks are assigned a senior leadership sponsor, action plans to manage the risks are developed and progress on the plans is monitored throughout the year. The major categories of risk at FCC are credit, market and operational risk. FCC's current top risks are included in the appropriate category of this report.

Risk governance

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

Board and Board Committees	
Board of Directors	The Board of Directors is responsible for overall governance of the corporation and oversees management of risks. The Board ensures that risk management policies, control systems and practices have been put in place to manage key business and financial risks.
Committees of the Board	**Audit Committee** The Audit Committee is delegated responsibility by the Board of Directors for ensuring management has identified key risks and has put reasonable policies, control systems and practices in place to manage these risks and monitor the effectiveness of remediation plans. **Human Resources Committee** The Human Resources Committee reviews major human resources policy matters and the corporation's succession plan. It also advises the Board of Directors on matters related to the CEO. **Corporate Governance Committee** The Corporate Governance Committee reviews and makes recommendations to the Board with respect to sound governance practices.

Senior Management
CEO and Executive Management Team The CEO and Executive Management Team are responsible for corporate decision-making, including the business strategy, investment strategy, allocation of enterprise resources and resolution of major strategic issues.
Senior Leadership Team FCC's Senior Leadership Team provides input towards establishing risk tolerances and the assessment of potential top corporate risks.

Management Committees	
Asset Liability Committee (ALCO)	The Asset Liability Committee directs FCC's 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.
Credit Committee	FCC's 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	The Credit Policy Committee oversees development of lending and leasing policies, ensuring they reflect FCC's credit risk tolerance, industry best practices and compliance with federal, provincial and regional laws and regulations.
Employee Experience Committee	The Employee Experience Committee provides direction and guidance on key aspects of the FCC employee experience, orientation and change management.
Enterprise Architecture Committee	The Enterprise Architecture Committee maintains the principles, standards and guidelines of FCC's business and technical infrastructures.
ERM Steering Committee	The ERM Steering Committee oversees FCC's ERM framework, policies and strategies, and subsequent enhancements. It is also responsible for approving the annual corporate top risk action plans.
Horizon Committee	The Horizon Committee provides strategic direction to the Executive Management Team on compensation and performance management issues. The Committee also evaluates all jobs in relation to FCC's classification system.
Pension Committee	The Pension Committee provides advice to the Human Resources Committee of the Board of Directors regarding monitoring the approved governance structure of support for the pension plan. The Committee reports annually on the overall functioning of the plan, recommends changes to plan governance and develops and reviews the plan's Statement of Investment Policies and Goals. It also monitors and reviews the performance and activities of the plan's investment managers.
Security Co-ordination Committee	The 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	The Strategy Execution Team is responsible for approving corporate projects that enable the execution of the business strategy.
Venture Capital Investment Committee	The Venture Capital Investment Committee is responsible for adjudicating all investment recommendations and for reviewing the performance of the FCC Fund.

Major risks

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 lease, or meet its financial obligations to the corporation. This is the most significant risk that FCC faces.

The Board of Directors has overall responsibility for the management of credit risk and discharges its responsibility through oversight committees, policies, processes, modelling and maintaining an adequate level of capital.

The corporation is currently within its Board-approved target ranges for managing credit risk in the portfolio. In addition to the current allowance for credit losses of $610.5 million, the corporation has a strong capital position, with a debt-to-equity ratio of 8.4 to 1.

Like any lending institution, FCC faces the risk that some customers may not repay their loans. Over the past year, FCC employees have remained knowledgeable and diligent as they add loans to the portfolio and manage existing customer exposures, which helps to mitigate this risk.

In 2009-10, new metrics and sensitivity guidelines were introduced to ensure that loan quality remains a focus to sustain loan portfolio strength. An updated version of the application scorecard for approving crop input loans was also implemented.

The credit crisis has not had widespread material impacts to date on the majority of FCC customers. However, certain sectors, particularly hogs and beef, have experienced challenges due to a rising Canadian currency, increasing costs and lower commodity prices. These sectors continue to face pressure. A customer support program was implemented for customers in areas most affected by unfavourable weather or market conditions.

FCC continues to monitor the operating environment and its impact on lending and portfolio health. It also remains committed to make reasonable adjustments to its lending and credit risk management practices in response to changing market or economic conditions.

Counterparty credit risk

Credit risk also includes the risk that counterparties may not fulfil their obligations to FCC. FCC has controls and policies in place to prevent 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.

Top credit risk for 2010-11

Risk summary
Impacts of global economic crisis
Risk description
The risk that fallout from the global economic crisis causes an increase in the number of customers who cannot fulfil their contractual obligations, which affects FCC's financial strength and ability to serve the industry through challenging times.
Incremental risk action plan synopsis
Evaluate and update credit risk culture, practices, and pricing strategies, including economic capital, in relation to evolving market conditions and portfolio composition.

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 in place 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.

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 or market 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.

FCC's strong corporate culture is a key component to mitigating operational risk. FCC is committed to a high-performance culture that encourages employees to work in partnership and 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.

The corporate culture is complemented by the Code of Conduct and Ethics, which 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 offers whistleblower protection and a hotline for reporting possible violations of the code. The FCC Integrity Officer is responsible for the administration of the code and supports a corporate culture of ethical behaviour.

The annual employee engagement 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.

As a federal Crown corporation, FCC is accountable to all Canadians. Reputation risk at FCC is managed with guidance from its reputation risk policy. 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 employees, customers, industry partners, suppliers, media and the general public to avoid any real or perceived reputation risk.

Consideration of a customer's integrity and the impact on FCC's reputation of doing business with any particular customer is part of the lending process. As part of the loan application process, customers sign a Customer Declaration stating that they are not aware of any reason why FCC may have any concern with their business. FCC only lends to individuals with personal integrity.

Incidents of fraud have the potential to affect customer and public perceptions of FCC, and impact their willingness to do business with the corporation. FCC reduces exposure to fraud risk through the development and implementation of a Board-approved fraud risk management policy, and the delivery of fraud awareness training to staff.

To ensure that the corporation can sustain operations in the event of a business disruption, FCC actively updates and exercises its business continuity management program. FCC has developed a pandemic response plan to deal with the potential impacts associated with a human pandemic.

Enterprise security is addressed through a cross-divisional security co-ordination team that 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.

FCC manages environmental risk through specific lending policies and procedures, which indicate that an environmental risk assessment be performed where the loan purpose falls within the sphere of the Canadian Environmental Assessment Act and where real property is accepted as loan security.

Top operational risks for 2010-11		
Risk summary	**Risk description**	**Incremental risk action plan synopsis**
Pace of corporate growth and change	The risk that adequate resources, systems and processes are not in place to fully support the pace of corporate growth and change, which results in overtaxed employees and negative business impacts.	Ensure effective change management practices are employed when rolling out major initiatives. Enhance processes that determine sequencing and execution of initiatives. Identify key resources and implement a key resource plan.
Information management	The risk that information under FCC's control is inadequately managed, which could result in loss of business-critical information, a privacy breach or litigation.	Develop a comprehensive corporate information management plan, including content management.
Reputation damage	The risk that key stakeholders and other publics develop negative perceptions about FCC, which adversely affects FCC's reputation and ability to attract and retain customers and business partners.	Develop integrated reputation management strategy, including media relations, issues management, web community involvement and internal monitoring. Establish Corporate Social Responsibility framework to improve sustainable decision-making and transparency of reporting.
Internal control failures	The risk that internal controls are inadequate or ineffective, especially during comprehensive changes to business systems and processes, causing internal control failures, resulting in financial loss or reputation damage.	Develop and implement an internal control framework for FCC.
Customer knowledge outpacing staff ability to grow competencies	The risk that customer-facing and credit risk employees cannot keep pace with the increasingly sophisticated knowledge and practices of current and prospective customers, resulting in failure to meet their expectations and damaging the FCC brand.	Define agriculture/finance knowledge expectations of customer-facing staff and provide the knowledge, skills, tools and resources to access learning. Enhance workforce planning process to provide decision-makers with better understanding of workforce's ability to meet the emerging customer needs.
Credit risk	The risk that established credit policies, practices and processes are not consistently applied, exposing the corporation to increased credit risk.	Provide credit policy, credit culture, credit education and legal training for new FCC employees, and provide support and reinforcement in these areas to current FCC employees.
Business process and technology transformation	The risk that the business process and technical transformation program does not deliver the primary benefits described in its business case.	All existing program controls will be reviewed and modified as needed to respond to changing risk or priority within the program. The business case will continue to be reviewed and updated periodically.
Pandemic	The risk that FCC preparedness plans are inadequate in the event of a pandemic, which affects FCC's ability to deliver critical services to customers and employees.	Enhance FCC's pandemic response framework. Update and test the Business Continuity Plan and implement lessons learned from the test.

Changes in accounting standards

Current changes

Goodwill and intangible assets

On April 1, 2009, the corporation adopted CICA Handbook Section 3064, Goodwill and Intangible Assets. As a result of adopting the new standard, software costs previously recorded in equipment, software and leasehold improvements are now recorded as computer software in the Consolidated Balance Sheet. Accordingly, the corporation reclassified $34.5 million as at March 31, 2009, from equipment and leasehold improvements to computer software in the Consolidated Balance Sheet. The related amortization expense continues to be recorded within administration expenses.

Financial Instrument disclosures

The CICA issued amendments to CICA Handbook Section 3862, Financial Instruments – Disclosures, to expand disclosures relating to fair value measurement techniques and the liquidity risk of financial liabilities. These amendments introduce a three-level fair value hierarchy that prioritizes the quality and reliability of information used in estimating the fair value of financial instruments measured at fair value. The new disclosures were effective for the corporation in the current year and as a result, Note 19 of the Notes to the Consolidated Financial Statements has been expanded to include information regarding the corporation's use of valuation techniques within a fair value hierarchy. Note 24 has also been expanded to include the corporation's contractual maturities of its financial liabilities.

Future changes

International financial reporting standards

Pursuant to a decision made by the Canadian Accounting Standards Board, the corporation will begin reporting under International Financial Reporting Standards (IFRS) starting the year ended March 31, 2012, including March 31, 2011, comparative results. Changing from Generally Accepted Accounting Principles (GAAP) to IFRS is a significant undertaking for the corporation that may materially affect the corporation's reported financial position and results of operations. It will also affect certain business functions. The corporation has an IFRS conversion plan and a formal governance structure to monitor the progress and critical decisions made during the conversion. The conversion plan is modified and updated as required as the corporation proceeds through the conversion process and new or amended IFRSs are adopted.

An external consultant has been engaged to partner with the organization throughout the conversion process as required. A high-level scoping study was completed, identifying impacts IFRS will have on the corporation's policies, processes and systems. The results of this study provided the framework for the corporation's detailed conversion plan.

Consideration of the required resources for the IFRS conversion project resulted in the dedication of certain full-time resources as well as other employees on a part-time basis, as their expertise was required. All individuals with key responsibilities in the conversion process received appropriate training. Training will also be provided to anyone whose responsibilities will be directly impacted by the conversion project. As part of a greater change management plan, general information sessions were provided to employees detailing the impacts IFRS will have on the corporation.

A final determination of the impact IFRS will have on the consolidated financial statements of the corporation cannot be measured with certainty until all the IFRSs applicable at the conversion date are known. As the accounting standards are finalized and the corporation progresses through the changeover process toward the transition date, additional disclosure will be provided.

The table on the following page lists key elements of the corporation's conversion plan, major milestones and current status. The corporation's conversion plan is to be completed over the time period from July 2008 to June 2012. To date, the corporation has completed all planned tasks within the timeframes set out in the project plan and expects to meet all milestones through to the completion of the conversion project.

Element	Milestone	Status
Financial Reporting		
Determine accounting and reporting differences. **Select ongoing IFRS accounting policies.** **Select IFRS 1 elections.**	Executive management approval of IFRS accounting policy and IFRS 1 election choices to occur in Q2, 2009-10.	Executive management approval of accounting policy choices and IFRS 1 elections obtained in Q2, 2009-10. Monitoring of impacts of new and amended accounting standards is ongoing.
Develop IFRS financial statement format including disclosures.	Draft financial statement format to be completed by Q4, 2009-10.	Draft IFRS financial statement format completed.
Quantify effects of conversion.	Opening IFRS balance sheet to be completed by end of Q2, 2010-11.	
Systems and Processes		
Determine impact of accounting policy changes on systems and processes. **Confirm systems and processes support data requirements of financial reporting.** **Implement required changes to systems and processes.**	System and process changes complete in time to support dual reporting requirements throughout fiscal 2010-11.	Initial system and process impact assessment is complete. Process and IT alternatives to address changes due to IFRS have been identified and implementation is underway. To date, no significant IT issues have been noted.
Ensure the control environment is maintained as process and system changes are implemented.	All key control implications have been assessed when planning system and process change implementations.	Planned changes to processes and systems have been identified and are being monitored for changes to the control environment.
Business		
Assess impacts to all areas of the business and implement required changes.	Impact to all areas of the business to be determined by Q2, 2009-10.	Preliminary assessment of impacts on other areas of the business completed in Q2, 2009-10. Impacts were communicated to the business areas in Q3, 2009-10 and implementation of required changes is in progress.
Communicate conversion plan, impacts of IFRS and implementation progress internally and externally.	Maintain and execute change management and communication plans throughout the project.	Updates are provided to the Audit Committee quarterly. A formal Audit Committee information session was held in Q2, 2009-10 to communicate IFRS impacts identified as well as policy and IFRS 1 election choices. Additional information will be provided when the opening IFRS balance sheet has been completed.
Determine and provide the appropriate level of IFRS training for each area of the corporation.		Detailed IFRS training has been provided to key members of the IFRS project team. The training and information needs of the rest of the corporation have been identified and plans are in place to address them.

The following describes the key changes that the corporation expects to make to its accounting policies as a result of the conversion to IFRS. The corporation is not yet in a position to quantify the effect of the changes. Descriptions below are based on accounting standards that the corporation expects to be effective for its first IFRS reporting period and may be amended as circumstances and standards change.

Employee Benefits

IAS 19, *Employee Benefits*, requires past service costs associated with a defined benefit plan that are vested to be recognized immediately into profit and loss. Unvested past service costs are recognized on a straight-line basis over the vesting period. Consistent with the requirements of GAAP, FCC recognizes past service costs on a straight-line basis over the average remaining service period of active employees expected under the plan. This change in policy will result in FCC recognizing past service costs earlier than was its practice under GAAP.

The corporation will be impacted by IAS 19 in two additional ways. Firstly, it will be required to record a liability for any shortfall in the current position of its defined benefit plans when compared to their minimum funding requirements. Secondly, the carrying amount of the corporation's defined benefit asset for each of its defined benefit plans is limited by an asset ceiling test. Similar requirements exist under GAAP; however, the calculation differs. The corporation expects to recognize a net liability on its balance sheet, in relation to the above two requirements, when it transitions to IFRS.

Borrowing Costs

IAS 23, *Borrowing Costs*, requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Consistent with the accounting policy choice available under GAAP, FCC's current practice is to expense borrowing costs as incurred. At its IFRS transition date, FCC will amend its policy to meet the requirements of IAS 23.

Financial Instruments:
Classification of legacy fund venture capital investments

FCC currently designates its legacy fund venture capital investments as held for trading. Financial instruments included in this classification are measured at fair value with any gain or loss arising from a change in fair value recognized in net income. Similarly, under IFRS, an entity may designate a financial asset or financial liability as at fair value through profit and loss. The criteria for inclusion in this classification differ from GAAP in such a way that the corporation is prohibited from using it for all but one of its legacy fund venture capital investments. As a result, the investments will be recognized in the available for sale classification at the corporations IFRS transition date. Financial instruments classified as available for sale are measured at fair value. Any gain or loss arising from a change in fair value is recognized in other comprehensive income with the exception of impairment losses and foreign exchange gains and losses, which are recognized directly to net income. At the time the instrument is derecognized, any cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to net income.

First-Time Adoption of International Financial Reporting Standards

The corporation is required to apply IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, in its first IFRS reporting period. This standard provides guidance for an entity's initial adoption of IFRS, as well as some relief from the general IFRS requirement that an entity apply all IFRSs effective at the end of its first IFRS reporting period retrospectively. IFRS 1 includes both mandatory exceptions that must be applied and optional exemptions that may be applied voluntarily to ease an entity's transition impact. The following are the significant optional exemptions that the corporation expects to apply in preparing its first IFRS financial statements.

Business Combinations – The corporation expects to elect not to restate any Business Combination that occurred prior to April 1, 2010.

Employee Benefits – The corporation expects to elect to recognize any accumulated actuarial gains/losses as at April 1, 2010, in retained earnings.

Assets and liabilities of subsidiaries, associates and joint ventures – The corporation expects to elect to measure the assets and liabilities of its subsidiary, at the same carrying amounts determined by the subsidiary and presented in its financial statements, after adjusting for consolidation and any effects arising due to the transition to IFRS.

Designation of previously recognized financial instruments – The corporation expects to elect to designate all but one of its legacy venture capital investments as available for sale at April 1, 2010.

Fair value measurement of financial assets or financial liabilities at initial recognition – The corporation expects to elect to apply these requirements prospectively from January 1, 2004.

Borrowing Costs – The corporation expects to elect to capitalize borrowing costs prospectively from April 1, 2010.

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 judgments, such as the allowance for credit losses, the accrued benefit obligation, the reserve for insurance claims, variable interest entities 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, P.Ag.
President and Chief Executive Officer

Moyez Somani, CMA, MBA, FCMA
Executive Vice-President and Chief Financial Officer

Regina, Canada
June 2, 2010

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 31 March 2010 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 31 March 2010 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*.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
2 June 2010

Consolidated Balance Sheet

As at March 31 ($ thousands)

	2010	2009
Assets		
Cash and cash equivalents	$ **628,023**	$ 695,920
Temporary investments (Note 3)	**199,818**	43,916
Accounts receivable	**32,802**	6,116
Derivative assets (Note 4)	**66,945**	352,224
	927,588	1,098,176
Loans receivable – net (Notes 5 and 7)	**19,076,758**	16,539,551
Finance leases receivable – net (Notes 6 and 7)	**2,827**	–
Venture capital investments (Note 8)	**59,987**	61,875
	19,139,572	16,601,426
Equipment and leasehold improvements (Note 9)	**31,513**	28,018
Computer software (Note 10)	**42,814**	34,507
Equipment under operating leases (Note 11)	**14,867**	5,734
Other assets (Note 12)	**46,791**	34,842
	135,985	103,101
Total assets	$ **20,203,145**	$ 17,802,703
Liabilities		
Accounts payable and accrued liabilities	$ **48,619**	$ 45,809
Accrued interest on borrowings	**49,594**	89,769
Derivative liabilities (Note 4)	**6,843**	676
	105,056	136,254
Borrowings (Note 14)		
Short-term debt	**8,801,208**	8,112,398
Long-term debt	**8,908,369**	7,232,996
	17,709,577	15,345,394
Other liabilities (Note 15)	**43,457**	37,631
Non-controlling interest in variable interest entity	**9,461**	7,555
Shareholder's equity		
Contributed surplus	**547,725**	547,725
Retained earnings	**1,584,266**	1,320,950
Accumulated other comprehensive income	**203,603**	407,194
	2,335,594	2,275,869
Total liabilities and shareholder's equity	$ **20,203,145**	$ 17,802,703

Commitments, guarantees and contingent liabilities (Note 20).
The accompanying notes are an integral part of the consolidated financial statements.

Approved:

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

John Klippenstein, CMA
Chair, Audit Committee

Consolidated Statement of Operations

For the year ended March 31 ($ thousands)

	2010	2009
Interest income		
Loans and leases	$ 797,441	$ 913,680
Investments	5,888	21,220
	803,329	934,900
Interest expense	193,450	426,860
Net interest income (Note 16)	609,879	508,040
Provision for credit losses (Note 7)	91,402	70,014
Net interest income after provision for credit losses	518,477	438,026
Net insurance income		
Premiums	16,132	14,052
Claims	7,569	9,601
Net insurance income	8,563	4,451
Other income	1,749	1,701
Net income before administration expenses	528,789	444,178
Administration expenses (Note 17)	255,165	231,379
Net income before fair value adjustment and non-controlling interest in variable interest entity	273,624	212,799
Fair value adjustment (Note 18)	6,568	(1,731)
Non-controlling interest in net loss of variable interest entity	1,724	809
Net income	$ 281,916	$ 211,877

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

Consolidated Statement of Comprehensive Income

For the year ended March 31 ($ thousands)

	2010	2009
Net income	**$ 281,916**	$ 211,877
Other comprehensive income		
Net (losses) gains on derivatives designated as cash flow hedges	**(186,689)**	314,560
Transfer of net realized gains on derivatives designated as cash flow hedges to net income	**(16,896)**	(4,112)
Change in net (losses) gains on derivatives designated as cash flow hedges	**(203,585)**	310,448
Net unrealized losses on available-for-sale temporary investments	**(6)**	(314)
Total other comprehensive (loss) income	**(203,591)**	310,134
Total comprehensive income	**$ 78,325**	$ 522,011

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)

	2010	2009
Contributed surplus (Note 23)	**$ 547,725**	$ 547,725
Retained earnings		
Balance, beginning of year	**1,320,950**	1,131,973
Net income	**281,916**	211,877
Dividend (Note 23)	**(18,600)**	(22,900)
Balance, end of year	**1,584,266**	1,320,950
Accumulated other comprehensive income		
Balance, beginning of year	**407,194**	97,060
Net unrealized losses on available-for-sale temporary investments	**(6)**	(314)
Net (losses) gains on derivatives designated as cash flow hedges	**(203,585)**	310,448
Balance, end of year	**203,603**	407,194
Total retained earnings and accumulated other comprehensive income	**1,787,869**	1,728,144
Total shareholder's equity	**$ 2,335,594**	$ 2,275,869

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

Consolidated Statement of Cash Flows

For the year ended March 31 ($ thousands)

	2010	2009
Operating activities		
Net income	**$ 281,916**	$ 211,877
Adjustments to determine net cash from (used in) operating activities:		
Provision for credit losses	**91,402**	70,014
Fair value adjustment	**(6,568)**	1,731
Amortization of equipment and leasehold improvements	**9,944**	10,318
Amortization of computer software	**9,862**	7,229
Amortization of equipment under operating leases	**2,203**	198
Foreign exchange losses (gains)	**165**	(37)
Other	**(24,832)**	47,958
Changes in operating assets and liabilities (Note 21)	**(31,165)**	(34,472)
Cash provided by operating activities	**332,927**	314,816
Investing activities		
Disbursement of loans receivable	**(6,628,700)**	(5,060,562)
Repayment of loans receivable	**3,981,870**	2,891,951
Disbursement of finance leases receivable	**(4,240)**	–
Repayment of finance leases receivable	**1,454**	–
Acquisition of temporary investments	**(289,886)**	(591,410)
Proceeds on maturity/disposal of temporary investments	**133,838**	1,022,857
Acquisition of venture capital investments	**(11,282)**	(14,902)
Proceeds on disposal and repayment of venture capital investments	**9,095**	2,421
Purchase of equipment and leasehold improvements	**(13,439)**	(13,019)
Purchase of computer software	**(18,169)**	(20,319)
Purchase of equipment under operating leases	**(11,336)**	(5,932)
Disposal (acquisition) of real estate property held for sale	**845**	(740)
Cash used in investing activities	**(2,849,950)**	(1,789,655)
Financing activities		
Long-term debt issued	**6,511,210**	5,298,128
Long-term debt repaid	**(3,351,310)**	(4,017,774)
Short-term debt issued	**71,043,951**	43,343,458
Short-term debt repaid	**(71,834,808)**	(42,753,866)
Proceeds on sale of derivatives	**98,683**	53,876
Dividend paid	**(18,600)**	(22,900)
Cash provided by financing activities	**2,449,126**	1,900,922
Change in cash and cash equivalents	**(67,897)**	426,083
Cash and cash equivalents, beginning of year	**695,920**	269,837
Cash and cash equivalents, end of year (Note 21)	**$ 628,023**	$ 695,920
Supplemental information		
Cash interest paid during the year	**$ 249,649**	$ 497,141

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

Notes to the 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 a number of other Crown corporations, was issued a directive (P.C. 2008-1598) pursuant to Section 89 of the Financial Administration Act requiring due consideration by the corporation to the personal integrity of those it lends to or provides benefits to. During fiscal 2010, the corporation continued to ensure the requirements of Section 89(6) of the Financial Administration Act were being implemented and has notified the Minister of Agriculture and Agri-Food that the directive has been met.

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, assumptions and judgments 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 and judgments are the allowance for credit losses, the accrued benefit obligation, the reserve for insurance claims, variable interest entities 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. The corporation does not hold the majority of the voting rights of the VIE, but has a 67 per cent interest. 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 partnership 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 is 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. Interest earned on cash and cash equivalents is included in investment income.

Temporary investments

Temporary investments have maturity dates between 91 and 365 days from the date of acquisition, and 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 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 are intended to mitigate 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.

In the normal course of business, the corporation receives collateral in the form of cash from its derivative counterparties and is normally permitted to sell, dispose, invest or re-pledge this collateral under terms that are common and customary to standard derivative activities. When the corporation receives cash collateral, an amount is recorded in short-term debt to reflect the contractual amount of collateral due back to the counterparty.

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 contract is terminated, 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 fees, 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 or more 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.

Finance leases receivable

The corporation's finance leases receivable are classified as loans and receivables. Finance leases receivable are stated net of an allowance for credit losses and are recorded at the aggregate future minimum lease payments plus estimated residual values less unearned finance income.

Finance lease income is recognized in a manner that produces a constant rate of return on the lease.

Allowance for credit losses

The allowance for credit losses represents management's best estimate of the incurred impairment losses in the loan and lease portfolio at the balance sheet date. The allowance is increased by the provision for credit losses, and the government subsidy for the Hog Industry Loan Loss Reserve Program, as described under the Government Assistance heading on page 103. The allowance is 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 an account-by-account review, the specific allowance is established to value impaired loans and leases at the lower of the balance sheet carrying amount of the loan or lease 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 or leases 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 or leases. 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 and leases 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 or lease-by-lease 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 and lease 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. A change in estimate was required in the current period due to a change in the circumstances on which the estimate was based and as a result of new information on the value of security underlying the loans receivable. Accordingly, the allowance for credit losses and the provision for credit losses have been decreased by $20.0 million as at and for the year ended March 31, 2010.

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 in order 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 and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful life using the straight-line method over the following terms:

	Terms
Office equipment and furniture	5 years
Computer equipment	3 or 5 years
Leasehold improvements	Shorter of the lease term or the asset's useful economic life

Computer software

Software is recorded at cost less accumulated amortization. Expenditures on internally developed software are recognized as assets when the corporation is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software. Amortization begins when the software is available for use by the corporation. Amortization is provided over the estimated useful life of three or five years using the straight-line method.

Equipment under operating leases

Equipment under operating leases is recorded at cost less accumulated amortization. Equipment is amortized on a straight-line basis over the term of the lease.

Rental revenue from operating leases is recognized on a straight-line basis over the term of the underlying lease and is included in interest income.

Employee future benefits

The corporation has a registered defined benefit pension plan, three supplemental defined benefit pension plans, a registered defined contribution pension plan, a supplemental defined contribution plan, and other defined benefit plans that provide 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 and supplemental defined contribution pension plans are available for employees with employment income greater than pensionable earnings.

Retirement benefit plans are contributory health-care plans with employee contributions adjusted annually and a non-contributory life insurance plan. Post-employment plans 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 other defined benefit plans is actuarially determined using the projected benefit method prorated on service that incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors.

For the purpose of calculating the expected return on plan assets , those assets are valued at fair value.

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 (2009 – 10 years). The average remaining service period to expected retirement age is 15 years (2009 – 15 years) for employees expected to receive benefits under the post-retirement non-pension benefit plan, and 15 years (2009 – 15 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 adjustments to the 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 using the Canadian Asset Liability Method and is prepared on a going concern basis, taking into account the appropriate degree of risk inherent in the obligation. It is based on estimates of future premiums, expected future mortality costs and 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. These assumptions are reviewed at least annually and updated in response to actual experience and market conditions. 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. The assets are classified as loans and receivables and are initially measured at fair value and subsequently at amortized cost.

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.

Accounts payable and accrued liabilities

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

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.

Government assistance

Under the Hog Industry Loan Loss Reserve Program (HILLRP), the Government of Canada has established a loan loss reserve fund to share the net credit losses on eligible loans provided to hog operations with certain financial institutions. The corporation is one of the financial institutions participating in the HILLRP. The corporation is responsible for all credit losses beyond those covered by the loan loss reserve fund and must meet certain eligibility requirements to access the reserve fund. The amount of funds available from the loan loss reserve fund to the corporation for any non-performing eligible loans are 90 per cent, 80 per cent and 70 per cent of net credit losses in years 1 to 3, 4 to 6 and 7 to 15, respectively. Amounts held by the corporation to which the corporation is not entitled are paid back to the Government of Canada at the end of the program. The corporation has received one instalment under the HILLRP as at March 31, 2010, and an amount was recorded in accounts receivable for the second instalment owing for all loans disbursed prior to March 31, 2010. The corporation is entitled to receive government assistance in 2010-11 for loans that are disbursed between March 31, 2010, and April 30, 2011, where eligibility requirements are met.

An estimate is made by management for the amount of the loan loss reserve fund to which the corporation is entitled under the HILLRP and this estimate is accounted for as a reduction to the corporation's provision for credit losses. The remaining amount of the loan loss reserve fund, to which the corporation is not entitled, is recorded as long-term debt. Interest on this long-term debt is recorded in interest expense.

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 on loans and receivables are included in interest income and exchange gains and losses on borrowings are included in interest expense.

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. The methods used to value the corporation's financial instruments measured at fair value are as follows:

Temporary investments

Temporary investments are recorded at fair value, which is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent securities.

Derivative financial instruments

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.

Venture capital investments

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.

Borrowings

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 utilizing quoted market prices where available. Inputs used to determine the fair value include currency exchange rates, credit spreads, yield curves and volatility levels. 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.

Changes in accounting standards

Goodwill and intangible assets

On April 1, 2009, the corporation adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, Goodwill and Intangible Assets. As a result of adopting the new standard, software costs previously recorded in equipment, software and leasehold improvements are now recorded as computer software in the consolidated balance sheet. Accordingly, the corporation reclassified $34.5 million as at March 31, 2009, from equipment and leasehold improvements to computer software in the consolidated balance sheet. The related amortization expense continues to be recorded within administration expenses.

Financial instrument disclosures

The CICA issued amendments to CICA Handbook Section 3862, Financial Instruments – Disclosures, to expand disclosures relating to fair value measurement techniques and the liquidity risk of financial liabilities. These amendments introduce a three-level fair value hierarchy that prioritizes the quality and reliability of information used in estimating the fair value of financial instruments measured at fair value. The new disclosures were effective for the corporation in the current year and as a result, Note 19 has been expanded to include information regarding the corporation's use of valuation techniques within a fair value hierarchy. Note 24 has also been expanded to include the corporation's contractual maturities of its financial liabilities.

Future changes in accounting standards

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 GAAP for publicly accountable enterprises. The corporation's first annual IFRS financial statements will be for the year ending March 31, 2012, and will include comparative figures. Starting in the first quarter of the corporation's 2011-12 fiscal year, the corporation will provide unaudited consolidated financial information including comparative figures. The impact to the corporation's consolidated financial statements of adopting IFRS is currently unknown.

3. Temporary investments

($ thousands)	2010 Carrying value	2010 Yield	2009 Carrying value	2009 Yield
Short-term instruments	**$ 199,818**	**0.32%**	$ 43,916	0.86%

Short-term instruments consists of deposit notes, bankers' acceptance and treasury bills issued by institutions with credit ratings of R-1M or higher (2009 – R-1M or higher) as rated by the Dominion Bond Rating Service. As at March 31, 2010, the largest total investment in any one institution was $89.9 million (2009 – $29.0 million).

All temporary investments have an initial term to maturity of 91 to 365 days and will mature within three months.

4. Derivative financial instruments

($ thousands)	2010	2009
Derivative assets		
Derivatives designated as cash flow hedges	**$ 65,023**	$ 340,411
Derivatives classified as HFT	**1,922**	11,813
	$ 66,945	$ 352,224
Derivative liabilities		
Derivatives designated as cash flow hedges	**$ 3,819**	$ –
Derivatives classified as HFT	**3,024**	676
	$ 6,843	$ 676

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 estimated amount of existing net gains reported in AOCI that is expected to be reclassified to net income within the next 12 months is $20.2 million.

The maximum length of time over which the corporation is hedging its exposure to the variability in future cash flows for anticipated transactions is 12 years.

Notional principal amounts

($ thousands)		Remaining term to maturity: 1 to 5 years	Remaining term to maturity: Over 5 years	2010	2009
Interest rate swap contracts:					
Receive	**Pay**				
Fixed	Floating	$ 555,186	$ 601,675	$ 1,156,861	$ 2,383,084
Cross-currency	Floating	–	22,704	22,704	75,443
Cross-currency	Fixed	3,679	–	3,679	4,711
		$ 558,865	$ 624,379	$ 1,183,244	$ 2,463,238

Counterparty credit risk

Derivatives that have a positive fair value are subject to counterparty risk because the positive fair value indicates that over time, the corporation can expect to receive cash flows from the counterparties based on the terms of the contract and current market conditions.

The net fair values of the derivative instruments are as follows:

	2010			2009		
($ thousands)	Positive fair value	Negative fair value	Net fair value	Positive fair value	Negative fair value	Net fair value
Interest rate swaps	$ 66,945	$ 6,474	$ 60,471	$ 345,280	$ 18	$ 345,262
Cross-currency interest rate swaps	–	369	(369)	6,944	658	6,286
Fair value	66,945	6,843	60,102	352,224	676	351,548
Impact of master netting agreements	(6,810)	(6,810)	–	(626)	(626)	–
	$ 60,135	$ 33	$ 60,102	$ 351,598	$ 50	$ 351,548

The corporation does not anticipate any significant non-performance by counterparties because all counterparties are rated Aa3 or higher, as rated by Moody's Rating Service. The largest cumulative notional amount contracted with any institution as at March 31, 2010, was $450.0 million (2009 – $835.2 million) and the largest net fair value of contracts with any institution as at March 31, 2010, was $17.5 million (2009 – $119.9 million). The corporation mitigates the credit exposure on multiple derivative transactions by entering into master netting agreements with counterparties as outlined in Note 24. These agreements create the legal right of offset of exposure in the event of default.

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, 2010. 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.

	Remaining term to maturity				
($ thousands)	**Within 1 year**	**1 to 5 years**	**Over 5 years**	**2010**	**2009**
Floating	**$ 1,118,449**	**$ 11,108,529**	**$ 839,478**	**$ 13,066,456**	$ 9,735,729
Yield	**4.32%**	**3.08%**	**3.24%**	**3.20%**	3.30%
Fixed	**829,795**	**3,840,523**	**1,740,655**	**6,410,973**	7,163,041
Yield	**5.95%**	**5.92%**	**6.21%**	**6.00%**	6.35%
Performing loans				**19,477,429**	16,898,770
Impaired loans				**236,716**	217,803
Deferred loan fees				**(26,977)**	(18,034)
Loans receivable – gross				**19,687,168**	17,098,539
Allowance for credit losses				**(610,410)**	(558,988)
Loans receivable – net				**$ 19,076,758**	$ 16,539,551

Management estimates that annually, over the next three years, 6.5 per cent (2009 – 7.0 per cent) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2010, $64.9 million (2009 – $77.7 million) of loans receivable were denominated in United States dollars (USD). The foreign exchange (losses) gains recorded by the corporation in relation to the loans receivable denominated in USD were $(15.5) million (2009 – $9.8 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	2010	2009
Cash crops	$ 6,516,937	$ 226,563	$ 185,549	$ 6,929,049	$ 5,634,856
Dairy	4,349,315	1,117	10,188	4,360,620	3,772,553
Value-added	216,641	2,053,525	42,124	2,312,290	1,779,277
Other	1,794,287	45,758	14,636	1,854,681	2,142,569
Beef	1,313,765	34,613	163,984	1,512,362	1,262,337
Poultry	1,308,995	57,340	3,638	1,369,973	1,207,078
Hogs	1,065,708	57,609	15,137	1,138,454	1,100,100
Performing loans	**$ 16,565,648**	**$ 2,476,525**	**$ 435,256**	**$ 19,477,429**	$ 16,898,770

Performing loans – Geographic distribution

($ thousands)	Primary production financing	Agribusiness and agri-food financing	Alliances	2010	2009
Western	$ 5,041,147	$ 733,831	$ 143,990	$ 5,918,968	$ 5,116,446
Prairie	3,923,742	383,615	171,230	4,478,587	3,922,547
Ontario	5,270,679	659,450	104,540	6,034,669	5,236,559
Quebec	1,638,537	533,473	11,298	2,183,308	1,840,369
Atlantic	691,543	166,156	4,198	861,897	782,849
Performing loans	**$ 16,565,648**	**$ 2,476,525**	**$ 435,256**	**$ 19,477,429**	$ 16,898,770

Impaired loans – Enterprise distribution

($ thousands)	Primary production financing	Agribusiness and agri-food financing	Alliances	2010	2009
Cash crops	$ 36,062	$ 3,308	$ 1,150	$ 40,520	$ 54,100
Dairy	5,062	–	47	5,109	4,567
Value-added	6,129	43,787	–	49,916	47,848
Other	41,089	1,560	204	42,853	29,829
Beef	28,153	–	1,236	29,389	29,059
Poultry	13,550	–	–	13,550	311
Hogs	40,592	14,757	30	55,379	52,089
Impaired loans	170,637	63,412	2,667	236,716	217,803
Specific allowance (Note 7)	(60,079)	(25,369)	(2,617)	(88,065)	(93,495)
Net impaired loans	**$ 110,558**	**$ 38,043**	**$ 50**	**$ 148,651**	$ 124,308

Impaired loans – Geographic distribution

($ thousands)	Primary production financing	Agribusiness and agri-food financing	Alliances	2010	2009
Western	$ 74,104	$ 11,719	$ 879	$ 86,702	$ 50,363
Prairie	38,068	25,950	861	64,879	72,312
Ontario	28,986	11,481	785	41,252	42,017
Quebec	12,816	4,300	93	17,209	30,160
Atlantic	16,663	9,962	49	26,674	22,951
Impaired loans	170,637	63,412	2,667	236,716	217,803
Specific allowance (Note 7)	(60,079)	(25,369)	(2,617)	(88,065)	(93,495)
Net impaired loans	**$ 110,558**	**$ 38,043**	**$ 50**	**$ 148,651**	$ 124,308

6. Finance leases receivable – net

The corporation's finance leases receivable include the following:

($ thousands)	2010	2009
Total minimum finance lease payments receivable		
2010-11	$ 1,351	$ –
2011-12	894	–
2012-13	482	–
2013-14	247	–
2014 and beyond	233	–
Unearned finance income	(325)	–
Finance leases receivable – gross	2,882	–
Allowance for credit losses	(55)	–
Finance leases receivable – net	$ 2,827	$ –

The company retains as collateral a security interest in the equipment associated with finance leases. The maximum term for finance leases receivable is five years.

7. Allowance for credit losses

($ thousands)	Loans receivable	Finance leases receivable	2010	2009
Balance, beginning of year	$ 558,988	$ –	$ 558,988	$ 524,604
Provision for credit losses	91,347	55	91,402	70,014
Losses covered under HILLRP	6,153	–	6,153	–
Losses incurred on loan restructuring	(2,111)	–	(2,111)	–
Write-offs	(44,619)	–	(44,619)	(36,209)
Recoveries	652	–	652	579
Balance, end of year	$ 610,410	$ 55	$ 610,465	$ 558,988
Specific allowance	$ 88,065	$ –	$ 88,065	$ 93,495
General allowance	522,345	55	522,400	465,493
Balance, end of year	$ 610,410	$ 55	$ 610,465	$ 558,988

The provision for credit losses for the year ended March 31, 2010, has been reduced for losses covered under the HILLRP and increased for losses incurred on restructuring loans. As neither of these items flow through the allowance for credit losses at March 31, 2010, both are therefore reconciling items as shown in the table above.

8. Venture capital investments

($ thousands)	2010	2009
Avrio Fund investments	$ 28,942	$ 22,236
FCC Fund investments designated as HFT	23,072	31,619
FCC Fund investment – significant influence	7,973	8,020
	$ 59,987	$ 61,875

Carrying value by type of investment

($ thousands)	2010	2009
Common shares	$ 25,721	$ 25,625
Preferred shares	20,766	10,400
Debt	13,500	25,850
	$ 59,987	$ 61,875

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, 2010, the gross amount of venture capital debt investments that was in arrears was $5.5 million (2009 – $1.7 million), and renegotiated venture capital investments that would otherwise be in arrears was $0.3 million (2009 – $10.6 million).

Concentrations of venture capital investments by sector

($ thousands)	2010	2009
Food processing and manufacturing	$ 26,828	$ 31,057
Agriculture biotechnology	19,053	17,018
Bio-based fuels and chemicals	14,106	11,252
Agriculture equipment manufacturing	–	2,548
	$ 59,987	$ 61,875

As at March 31, 2010, the total amount of net losses realized on disposal and reported in the fair value adjustment was $0.8 million (2009 – nil) and the total amount of net unrealized losses reported in the fair value adjustment was $3.2 million (2009 – $4.9 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 $3.3 million (2009 – $3.2 million). The total net income recorded in net income for the venture capital investment subject to the corporation's significant influence during the year was $0.2 million (2009 – $0.2 million).

In addition to the above investments, the corporation has loans receivable from venture capital investees in the amount of $47.3 million (2009 – $45.7 million) and guarantees from venture capital investees in the amount of $12.7 million (2009 – $10.5 million).

The potential effect of using reasonable possible alternative assumptions for valuing venture capital investments that are measured at fair value would not have a material effect on the corporation's financial position or earnings.

9. Equipment and leasehold improvements

($ thousands)	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Leasehold improvements	**$ 37,570**	**$ 18,139**	**$ 19,431**	$ 16,195
Office equipment and furniture	**26,759**	**18,100**	**8,659**	7,215
Computer equipment	**12,069**	**8,646**	**3,423**	4,608
	$ 76,398	**$ 44,885**	**$ 31,513**	$ 28,018

10. Computer software

($ thousands)	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Software	**$ 92,156**	**$ 49,342**	**$ 42,814**	$ 34,507

Software in the amount of $1.7 million (2009 – $1.5 million) was acquired during the year. Software in the amount of $16.3 million (2009 – $18.4 million) was internally developed during the year.

11. Equipment under operating leases

($ thousands)	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Equipment	**$ 17,405**	**$ 2,538**	**$ 14,867**	$ 5,734

The initial lease terms of operating leases range from 2 – 5 years. Future rental payments to be received from operating leases are as follows:

($ thousands)	2010	2009
2009-10	**$ –**	$ 758
2010-11	**3,056**	783
2011-12	**2,577**	582
2012-13	**2,053**	331
2013-14	**1,600**	142
2014 and beyond	**242**	–
	$ 9,528	$ 2,596

12. Other assets

($ thousands)	2010	2009
Accrued benefit assets (Note 13)	**$ 33,915**	$ 21,978
Insurance reserve assets	**11,985**	11,141
Real estate property held for sale	**834**	1,679
Other	**57**	44
	$ 46,791	$ 34,842

13. 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, 2009. The next valuations for funding purposes will be as at December 31, 2010.

($ thousands)	**2010 Pension benefits**	2009 Pension benefits	**2010 Other benefits**	2009 Other benefits
Change in accrued benefit obligation:				
Accrued benefit obligation, beginning of year	**$ 262,880**	$ 307,989	**$ 27,095**	$ 32,204
Current service cost	**9,672**	12,992	**1,850**	2,276
Interest cost on benefit obligation	**17,703**	16,039	**1,857**	1,708
Contributions by employees	**4,013**	3,179	**–**	–
Benefits paid	**(6,935)**	(7,327)	**(489)**	(663)
Actuarial loss (gain)	**30,645**	(69,992)	**10,549**	(8,430)
Accrued benefit obligation, end of year	**317,978**	262,880	**40,862**	27,095
Change in fair value of plan assets:				
Fair value of plan assets, beginning of year	**235,798**	274,826	**–**	–
Actual return on plan assets	**32,753**	(46,332)	**–**	–
Contributions by corporation	**23,617**	11,224	**–**	–
Contributions by employees	**4,013**	3,179	**–**	–
Benefits paid	**(6,701)**	(7,099)	**–**	–
Fair value of plan assets, end of year	**289,480**	235,798	**–**	–
Funded status – plan deficit	**(28,498)**	(27,082)	**(40,862)**	(27,095)
Unamortized past service cost	**1,257**	1,382	**21**	25
Unamortized net actuarial loss (gain)	**57,679**	45,294	**5,717**	(5,120)
Contributions by corporation after December 31	**3,477**	2,384	**–**	–
Accrued benefit assets (liability), end of year	**$ 33,915(a)**	$ 21,978(a)	**$ (35,124)(b)**	$ (32,190)(b)

(a) Recorded in other assets.
(b) Recorded in other liabilities.

Plans with accrued benefit obligations in excess of plan assets

($ thousands)	**2010 Pension benefits**	2009 Pension benefits	**2010 Other benefits**	2009 Other benefits
Accrued benefit obligation	**$ 295,988**	$ 245,685	**$ 40,862**	$ 27,095
Fair value of plan assets	**264,442**	216,313	**–**	–
Funded status – plan deficit	**$ (31,546)**	$ (29,372)	**$ (40,862)**	$ (27,095)

Defined benefit costs

($ thousands)	2010 Pension benefits	2009 Pension benefits	2010 Other benefits	2009 Other benefits
Defined benefit costs:				
Current service cost	**$ 9,672**	$ 12,992	**$ 1,850**	$ 2,276
Interest cost on benefit obligation	**17,703**	16,039	**1,857**	1,708
Actual return on plan assets	**(32,753)**	46,332	**–**	–
Actuarial loss (gain)	**30,645**	(69,992)	**10,549**	(8,430)
Costs arising in the period	**25,267**	5,371	**14,256**	(4,446)
Adjustments for difference between costs arising in the period and costs recognized in the period in respect of:				
Return on plan assets	**16,269 (a)**	(65,867) (a)	**–**	–
Actuarial (loss) gain	**(28,654) (b)**	72,054 (b)	**(10,837) (c)**	8,441 (c)
Past service cost	**125**	125	**4**	4
Defined benefit costs recognized	**$ 13,007**	$ 11,683	**$ 3,423**	$ 3,999

(a) Expected return on plan assets of $(16,484) [2009 – $(19,535)] less the actual return on plan assets of $(32,753) [2009 – $46,332] = $16,269 [2009 – $(65,867)].
(b) Actuarial loss recognized for year of $1,991 [2009 – $2,062] less actual actuarial loss (gain) on accrued benefit obligation for year of $30,645 [2009 – $(69,992)] = $(28,654) [2009 – $72,054].
(c) Actuarial (gain) loss recognized for year of $(288) [2009 – $11] less actual actuarial loss (gain) on accrued benefit obligation for year of $10,549 [2009 – $(8,430)] = $(10,837) [2009 – $8,441].

Significant assumptions

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

	2010 Pension benefits	2009 Pension benefits	2010 Other benefits	2009 Other benefits
Accrued benefit obligation as at December 31:				
Discount rate	**6.00%**	6.50%	**6.00%**	6.50%
Rate of compensation increase	**5.50%**	5.50%	**5.50%**	5.50%
Defined benefit costs for years ended December 31:				
Discount rate	**6.50%**	5.00%	**6.50%**	5.00%
Expected long-term rate of return on plan assets	**7.00/3.75%(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 are as follows:

	2010	2009
Extended health-care and dental-care cost escalation:		
Initial rate	**9.00%**	9.00%
Ultimate rate	**5.00%**	5.00%
Year ultimate rate reached	**2020**	2019

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
1% decrease in expected long-term rate of return on assets:			
Net benefit cost		**$ 2,491**	**$ –**
1% decrease in discount rate:			
Total of service and interest costs		**4,026**	**615**
Accrued benefit obligation		**64,456**	**9,293**
0.25% increase in rate of increase of future compensation:			
Total of service and interest costs		**465**	**24**
Accrued benefit obligation		**3,081**	**149**
Assumed overall health-care cost trend rates on the aggregate of the service and interest cost components for the period:			
Impact of:	1% increase	**–**	**751**
	1% decrease	**–**	**(553)**
Assumed overall health-care cost trend rates on the accrued benefit obligation:			
Impact of:	1% increase	**–**	**7,399**
	1% decrease	**–**	**(5,588)**

Plan assets

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

	2010	2009
Equity securities	**63.0%**	59.9%
Debt securities	**33.9%**	34.1%
Other	**3.1%**	6.0%
	100.0%	100.0%

Defined contribution plans

The cost of the defined contribution plans are recorded based on the contributions in the current year and are included in administration expenses. For the year ended March 31, 2010, the expense was $3.9 million (2009 – $3.4 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 $29.6 million (2009 – $16.7 million).

Total cash payments for employee future benefits for 2011, as described in the preceding paragraph, are anticipated to be approximately $41.8 million.

14. Borrowings

Short-term debt

($ thousands)	2010	2009
Government of Canada debt	$ 8,507,328	$ 7,176,963
Retail and institutional notes	229,118	623,989
Promissory notes	64,762	77,521
Cash collateral due to derivative counterparties	–	220,440
Structured notes	–	13,485
	$ 8,801,208	$ 8,112,398

Short-term debt by currency

($ thousands)	2010	2009
Canadian dollars	$ 8,736,446	$ 8,034,877
United States dollars (1)	64,762	77,521
	$ 8,801,208	$ 8,112,398

(1) $63.8 million USD (2009 – $61.5 million USD).

Short-term debt by final maturity date and yield

	2010					2009				
	Government of Canada		Capital Markets		Total	Government of Canada		Capital Markets		Total
($ thousands)	Carrying value	Yield	Carrying value	Yield		Carrying value	Yield	Carrying value	Yield	
From 0 – 3 months	$ 6,547,331	0.30%	$ 135,736	2.19%	$ 6,683,067	$ 6,636,540	0.46%	$ 541,961	3.85%	$ 7,178,501
From 4 – 6 months	600,014	0.26%	–	–	600,014	9,720	2.88%	114,121	3.87%	123,841
From 7 – 9 months	745,008	0.60%	158,144	3.50%	903,152	190,703	2.59%	58,913	4.38%	249,616
From 10 – 12 months	614,975	0.27%	–	–	614,975	340,000	0.46%	–	–	340,000
Cash collateral due to counterparties	–	–	–	–	–	–	–	220,440	0.45%	220,440
	$ 8,507,328		$ 293,880		$ 8,801,208	$ 7,176,963		$ 935,435		$ 8,112,398

The corporation has a demand operating line of credit, which provides overdraft protection in the amount of $30.0 million (2009 – $30.0 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, 2010, there were no draws on this facility (2009 – nil).

Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date. The net foreign exchange (gain) loss recorded by the corporation in relation to the short-term debt denominated in a foreign currency was $(15.4) million (2009 – $9.8 million).

Long-term debt

($ thousands)	2010	2009
Government of Canada debt	$ 7,462,067	$ 4,276,683
Retail and institutional notes	1,420,031	2,729,009
Structured notes	26,271	227,304
	$ 8,908,369	$ 7,232,996

Government of Canada debt

($ thousands)	2010	2009
Floating-rate borrowings	$ 5,561,359	$ 2,068,000
Fixed-rate borrowings	1,900,708	2,208,683
	$ 7,462,067	$ 4,276,683

Retail and institutional notes

($ thousands)	2010	2009
Fixed-rate notes	$ 805,306	$ 1,024,845
Floating-rate notes	614,725	1,704,164
	$ 1,420,031	$ 2,729,009

Structured notes

($ thousands)	2010	2009
Dual currency notes	$ 11,725	$ 13,479
Reverse floating rate note	8,245	8,947
Double-up coupon	6,034	6,494
Index-linked notes	267	6,387
Extendible notes	–	79,651
Floating-rate notes	–	52,334
Targeted redemption notes	–	39,462
Callable notes	–	20,550
	$ 26,271	$ 227,304

The redemption of structured notes 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 a structured note if the swap counterparty exercises its right to terminate the related derivative swap agreement. These derivative 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 24.

The amount the corporation is contractually required to pay on structured notes at maturity is $27.9 million, a $1.6-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 $2.7 million and cumulatively, measured from the later of April 1, 2007, or the initial recognition of the structured notes is $(1.9) 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 for the credit risk of the corporation. The potential effect of using reasonable possible alternative assumptions for valuing structured notes would not have a material effect on the corporation's financial position or earnings.

Long-term debt by currency

($ thousands)	2010	2009
Canadian dollars	$ 8,888,399	$ 7,152,018
Japanese yen (1)	19,970	80,978
	$ 8,908,369	$ 7,232,996

(1) ¥1.9 billion JPY (2009 – ¥6.5 billion JPY).

Long-term debt by final maturity date and yield

	2010					2009				
	Government of Canada		Capital Markets		Total	Government of Canada		Capital Markets		Total
($ thousands)	Carrying value	Yield	Carrying value	Yield		Carrying value	Yield	Carrying value	Yield	
From 1 – 2 years	$ 3,034,116	0.58%	$ 360,430	4.07%	$ 3,394,546	$ 2,514,143	0.85%	$ 238,091	4.08%	$ 2,752,234
From 2 – 3 years	3,113,558	0.65%	239,768	3.74%	3,353,326	424,151	2.83%	360,482	4.12%	784,633
From 3 – 4 years	919,911	1.85%	149,900	4.29%	1,069,811	488,748	3.04%	239,365	4.12%	728,113
From 4 – 5 years	75,088	2.80%	–	–	75,088	546,002	2.84%	149,707	4.37%	695,709
Over 5 years	319,394	3.04%	696,204	4.26%	1,015,598	303,639	3.32%	1,968,668	4.08%	2,272,307
	$ 7,462,067		$ 1,446,302		$ 8,908,369	$ 4,276,683		$ 2,956,313		$ 7,232,996

15. Other liabilities

($ thousands)	2010	2009
Accrued benefit liability – other benefits (Note 13)	$ 35,124	$ 32,190
Reserve for insurance claims	4,412	3,420
Deferred revenues	2,201	1,540
Other	1,720	481
	$ 43,457	$ 37,631

16. Net interest income

($ thousands)	2010	2009
Interest income		
Loans and receivables	$ **795,604**	$ 899,652
Transfer of net realized gains on derivatives designated as cash flow hedges from AOCI to net income	**16,896**	4,250
Temporary investments designated as AFS	**2,369**	17,678
Venture capital investments designated as HFT	**2,103**	2,836
Other venture capital investments	**1,397**	621
Operating leases	**414**	29
Finance leases	**85**	–
Foreign exchange (loss) gain on loans and receivables	**(15,539)**	9,834
Total interest income	**803,329**	934,900
Interest expense		
Long-term borrowings classified as other liabilities	**244,897**	302,247
Short-term borrowings classified as other liabilities	**12,691**	109,866
Borrowings designated as HFT	**1,726**	43,859
Derivative assets and liabilities designated as HFT (net)	**(1,317)**	(1,449)
Foreign exchange (gain) loss on short-term borrowings classified as other liabilities (net)	**(15,374)**	9,797
Hedging derivative assets and liabilities designated as cash flow hedges (net)	**(49,173)**	(37,598)
Transfer of net realized losses on derivatives designated as cash flow hedges from AOCI to net income	**–**	138
Total interest expense	**193,450**	426,860
Net interest income	$ **609,879**	$ 508,040

The total net fee (expense) income that is recognized immediately in net interest income arising from financial assets and liabilities not classified as held for trading is $(1.3) million (2009 – $2.0 million).

17. Administration expenses

($ thousands)	2010	2009
Personnel	$ **156,642**	$ 138,542
Facilities, software and equipment	**39,667**	35,413
Professional fees	**29,489**	32,756
Travel and training	**13,044**	12,169
Marketing and promotion	**9,669**	7,347
Other	**6,654**	5,152
	$ **255,165**	$ 231,379

18. Fair value adjustment

($ thousands)	2010	2009
Ineffectiveness of cash flow hedges	$ **11,541**	$ 9,672
Long-term debt designated as HFT	**9,886**	(124,130)
Venture capital investments designated as HFT	**158**	(6,505)
Guarantees	**(22)**	(10)
Other venture capital investments held at fair value	**(4,186)**	1,615
Derivative assets and liabilities designated as HFT	**(10,809)**	117,627
	$ **6,568**	$ (1,731)

19. Fair value of financial instruments

Financial instruments carried at fair value

The corporation follows a three-level fair value hierarchy to categorize the inputs used to measure fair value. Level 1 is based on quoted prices in active markets, Level 2 incorporates models using inputs other than quoted prices and Level 3 incorporates models using inputs that are not based on observable market data. Details of the valuation methodologies applied and assumptions used in determining fair value are provided in Note 2.

Valuation hierarchy

The following table categorizes the inputs used in the valuation of financial instruments carried at fair value:

($ thousands)	Level 1	Level 2	Level 3	Total
Assets				
Temporary investments	$ –	$ 199,818	$ –	$ 199,818
Derivative assets	–	65,585	1,360	66,945
FCC Fund venture capital investments	204	–	22,868	23,072
Avrio Fund venture capital investments	1,900	–	27,042	28,942
	$ 2,104	$ 265,403	$ 51,270	$ 318,777
Liabilities				
Derivative liabilities	$ –	$ 4,591	$ 2,252	$ 6,843
Structured notes	–	–	26,271	26,271
	$ –	$ 4,591	$ 28,523	$ 33,114

Level 3 financial instruments

The following table summarizes the fair value and other changes to financial instruments included in the Level 3 valuation hierarchy that occurred during the year:

($ thousands)	Derivatives	FCC Fund venture capital investments	Avrio Fund venture capital investments	Structured notes	Total
Balance, beginning of year	$ 11,634	$ 30,838	$ 22,236	$ (240,789)	$ (176,081)
Total (losses) gains recognized in the fair value adjustment (1)	(10,538)	734	(4,186)	(9,886)	(23,876)
Change in accrued interest	(1,988)	(302)	(120)	–	(2,410)
Acquisitions	–	290	9,112	–	9,402
Repayments	–	(8,692)	–	224,404	215,712
Balance, end of year	$ (892)	$ 22,868	$ 27,042	$ (26,271)	$ 22,747

(1) Net unrealized gains relating to instruments still held at the reporting date recognized in the fair value adjustment amount to $1.9 million.

Financial instruments not carried at fair value

The estimated fair value of the corporation's financial instruments that do not approximate carrying values in the financial statements, using methods and assumptions described below, are as follows:

($ thousands)	2010 Carrying value	2010 Estimated fair value	2009 Carrying value	2009 Estimated fair value
Assets				
Loans receivable – net	**$ 19,076,758**	**$ 19,275,069**	$ 16,539,551	$ 16,899,857
Finance leases receivable – net	**2,827**	**2,852**	–	–
Venture capital investments – significant influence	**7,973**	**15,181**	8,020	8,448
Liabilities				
Long-term debt excluding structured notes	**8,882,098**	**8,981,061**	7,005,692	7,377,626

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 related to loans receivable 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.

The estimated fair value for the finance leases receivable is calculated by discounting the expected future cash flows at year-end market interest rates for equivalent terms to maturity. The general component of the allowance for credit losses related to finance leases receivable is subtracted from the estimated fair value of the finance leases receivable.

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

20. Commitments, guarantees and contingent liabilities

Loan and venture capital commitments

As at March 31, 2010, loans approved but undisbursed amounted to $2,720.9 million (2009 – $2,362.3 million). These loans were approved at an average interest rate of 3.56 per cent (2009 – 3.50 per cent) and do not form part of the loans receivable balance until disbursed. As many of these loan 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. As at March 31, 2010, the corporation did not have any venture capital investments that were approved but undisbursed (2009 – $1.3 million).

Operating commitments

Future minimum payments by fiscal year on technology services and operating leases are due as follows:

($ thousands)	**2010**
Amounts due:	
Within 1 year	**$ 21,839**
From 1 – 2 years	**13,115**
From 2 – 3 years	**9,709**
From 3 – 4 years	**8,057**
From 4 – 5 years	**4,754**
Over 5 years	**1,264**
	$ 58,738

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, 2010, is $3.7 million (2009 – $4.8 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 four years, usually without being drawn upon. As at March 31, 2010, an amount of $0.1 million (2009 – $0.1 million) was recorded in other liabilities for these letters of credit.

Contingent liabilities

Various legal proceedings arising from the normal course of business are pending against the corporation. No amount has been included in the consolidated financial statements as at March 31, 2010, for these contingent liabilities as management does not expect the outcome to have a significant effect on the financial statements.

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. No amount has been included in the consolidated financial statements as at March 31, 2010, for these indemnifications.

21. 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)	2010	2009
Accrued interest on loans receivable	**$ 9,359**	$ 12,872
Accrued interest on derivative assets	**6,823**	(12,102)
Accrued interest on borrowings	**(40,175)**	(61,187)
Accrued interest on derivative liabilities	**(18)**	(9,094)
Other	**(7,154)**	35,039
	$ (31,165)	$ (34,472)

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

($ thousands)	2010	2009
Cash	**$ 7,377**	$ 1,193
Temporary investments	**620,646**	694,727
	$ 628,023	$ 695,920

22. 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)	2010	2009
Accounts payable	**$ 56**	$ 49
Accrued interest on borrowings	**24,889**	32,148
Short-term debt	**8,507,328**	7,176,963
Long-term debt	**7,462,067**	4,276,683
Interest income	**–**	126
Interest expense	**89,643**	168,374
Provision for credit losses	**6,153**	–
Other income	**–**	2
Administration expenses	**5,355**	4,912
Dividend	**18,600**	22,900

The Government of Canada guarantees the borrowings of the corporation.

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 receives government assistance to share the credit losses on certain loans with the Government of Canada. The government assistance is recorded in provision for credit losses. The amount estimated to be returned to the Government of Canada is recorded in long-term debt as detailed in Note 2.

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 Government of Canada departments, agencies and Crown corporations, which are included in administrative expenses. The balance outstanding at year-end related to these costs is included in accounts payable.

The corporation pays a dividend to the Government of Canada on an annual basis, as detailed in Note 23.

23. 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.

There have been no changes to the corporation's objectives when managing capital from the prior year.

The capital of the corporation consists of allowance for credit losses, contributed surplus, retained earnings and AOCI. One of the measures that the corporation reviews is the percentage of assets not requiring borrowings. The corporation's level of capitalization and the percentage of gross assets not requiring borrowings are as follows:

($ thousands)		2010		2009
Allowance for credit losses	**$**	**610,465**	$	558,988
Contributed surplus		**547,725**		547,725
Retained earnings		**1,584,266**		1,320,950
Accumulated other comprehensive income		**203,603**		407,194
Total capitalization	**$**	**2,946,059**	$	2,834,857
Gross assets	**$**	**20,813,610**	$	18,361,691
Capitalization as a percentage of gross assets		**14.15%**		15.44%

Limits on borrowing

At March 31, 2010, the corporation's total direct and contingent liabilities were 8.4 times the shareholder's equity, excluding AOCI (2009 – 8.3 times the shareholder's equity, excluding AOCI), 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, 2010, capital payments received from the Government of Canada amounted to $1,208.3 million (2009 – $1,208.3 million). The statutory limit for that same period was $1,250.0 million (2009 – $1,250.0 million).

Dividend

On August 26, 2009, the corporation's Board of Directors declared a dividend based on the results of the year ended March 31, 2009, in the amount of $18.6 million (2009 – $22.9 million based on the year ended March 31, 2008) to the corporation's shareholder, the Government of Canada, which was paid on March 23, 2010.

24. Risk management

Risk governance

The corporation has established a governance framework that includes a number of policies and committees to guide corporate decision-making. The Board of Directors provides oversight for this internal corporate governance framework. The committees are responsible for developing and monitoring aspects of the corporation's overall risk management policies, processes and practices. Internal committees report regularly through the CEO and the Executive Management Team (EMT) as required, or 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. Credit risk on loans 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, divisions and departments 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 and leasing 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 loan applications in excess of prescribed limits.

- The **Venture Capital Investment Committee** adjudicates investment recommendations and reviews the performance of FCC 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 reports to the various risk committees, including the Audit Committee.

- The **Credit Risk 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 department,** which is part of the Credit Risk 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 department,** which is part of the Credit Risk 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, 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 a comprehensive portfolio vision that summarizes many of these tools, models and strategies to the Board of Directors for approval. 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, 2010, the corporation achieved an average score of 57.72 (2009 – 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

Risk scoring and pricing system

The risk scoring and pricing system (RSPS) is used to rank risk for 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 is also used to price loans.

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 781 (2009 – 790) and the portfolio's overall risk score is 800 (2009 – 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
- a drop in the RSPS risk score of 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 with 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:

	2010	2009
Weighted average loan-to-security ratio for secured portfolio	**57.6%**	57.5%
Unsecured portfolio as a percentage of total owing	**2.6%**	2.6%
Arrears as a percentage of total owing	**2.5%**	2.7%
Portfolio adjusted over the past 12 months as a percentage of total owing	**4.2%**	3.7%

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 20 for further details regarding the corporation's loan commitments.

Maximum exposure to credit risk before collateral held or other credit enhancements

($ thousands)	2010	2009
On-balance-sheet assets:		
Temporary investments	**$ 199,818**	$ 43,916
Accounts receivable	**32,802**	6,116
Derivative assets	**66,945**	352,224
Loans receivable	**19,076,758**	16,539,551
Finance leases receivable	**2,827**	–
Venture capital investments	**59,987**	61,875
Other assets	**3,226**	2,810
Off-balance-sheet assets:		
Financial guarantees	**3,703**	4,782
Loan commitments	**2,720,946**	2,362,348
Venture capital investment commitments	**–**	1,300
	$ 22,167,012	$ 19,374,922

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:

	2010	2009
RSPS score:		
400-650	**1.3%**	0.8%
651-769	**20.4%**	21.4%
770-850	**59.5%**	60.1%
851-999	**18.8%**	17.7%
	100.0%	100.0%

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 1.0 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)	2010	2009
In arrears:		
Up to 30 days	**$ 74,278**	$ 64,754
31 – 60 days	**102,277**	76,014
61 – 89 days	**48,531**	53,715
90 days or more	**118,213**	78,353
	$ 343,299	$ 272,836

Renegotiated loans receivable

Renegotiating activities include payment schedule adjustments and deferred payment options. Renegotiated loans that would otherwise be in arrears or impaired are $826.7 million (2009 – $635.7 million).

Real estate property acquired

During 2010, the corporation acquired real estate property from customers in settlement of loan commitments with a carrying value of $2.0 million (2009 - $2.3 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 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 14 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.

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. The Investment Manager monitors and reports on the financial condition of investee companies 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 the *Minister of Finance Financial Risk Management Guidelines for Crown Corporations*. 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 position.

Interest rate risk

Interest rate risk is the risk that a change in interest rate adversely impacts the corporation's net interest income and economic value. 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 2.0 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 10.0 per cent. The second defined limit is that the market value of portfolio equity should not decline by more than 10.0 per cent of total equity (excluding accumulated other comprehensive income) for a 2.0 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, 2010, assuming an immediate and sustained 2.0 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:

	2010		2009	
	Impact of		Impact of	
($ thousands)	2% increase	0.25% decrease(a)	2% increase	0.4% decrease(a)
Net interest income variability	**$ 7,692**	**$ (1,013)**	$ 1,356	$ (389)
Limit	**73,972**	**(73,972)**	62,959	(62,959)
Market value of portfolio equity variability	**(145,047)**	**18,668**	(116,300)	21,800
Limit	**(213,199)**	**213,199**	(178,027)	178,027

(a) The lowest rate on the yield curves used in the model was 0.25 per cent (2009 – 0.4 per cent) 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 (excluding accumulated other comprehensive income) for a 0.5 per cent increase in rates. The net decrease in market value of undisbursed loans if there was a 0.5 per cent rate increase was $2.8 million as at March 31, 2010 (2009 – $2.6 million), which was within the policy limit of $10.7 million (2009 – $9.3 million).

The following table summarizes the corporation's interest rate risk based on the gap between the carrying value of assets, and 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 – 12 months	1 – 5 years	Over 5 years	Non-interest-sensitive	Total
Assets							
Cash and cash equivalents	$ –	$ 620,652	$ –	$ –	$ –	$ 7,371	$ 628,023
Yield (1)	–	0.25%	–	–	–	–	
Temporary investments	–	199,841	–	–	–	(23)	199,818
Yield (1)	–	0.32%	–	–	–	–	
Derivative assets (3)	–	–	–	–	–	66,945	66,945
Loans receivable – net	12,908,063	619,717	1,253,423	3,919,038	840,627	(464,110)	19,076,758
Yield (1)	3.11%	7.23%	5.99%	5.93%	6.15%	–	
Finance leases receivable – net	–	–	1,026	1,856	–	(55)	2,827
Yield (1)	–	–	6.07%	6.07%	–	–	
Venture capital investments	2,377	300	7,093	2,742	–	47,475	59,987
Yield (1)	10.50%	25.00%	11.79%	12.39%	–	–	
Other	–	–	–	–	–	168,787	168,787
Total assets	**$ 12,910,440**	**$ 1,440,510**	**$ 1,261,542**	**$ 3,923,636**	**$ 840,627**	**$ (173,610)**	**$ 20,203,145**
Liabilities and equity							
Non-structured borrowings	$ –	$ 14,007,464	$ 355,572	$ 2,354,100	$ 962,093	$ 4,077	$ 17,683,306
Yield (1)	–	0.26%	2.97%	3.29%	4.08%	–	
Structured borrowings	–	–	–	5,186	22,704	(1,619)	26,271
Yield (1)	–	–	–	5.28%	1.06%	–	
Total borrowings	–	14,007,464	355,572	2,359,286	984,797	2,458	17,709,577
Derivative liabilities (2)(3)	–	1,175,665	–	(551,286)	(624,379)	6,843	6,843
Yield (1)	–	0.31%	–	1.81%	4.33%	–	
Other	–	–	–	–	–	151,131	151,131
Shareholder's equity	–	–	–	–	–	2,335,594	2,335,594
Total liabilities and equity	**$ –**	**$ 15,183,129**	**$ 355,572**	**$ 1,808,000**	**$ 360,418**	**$ 2,496,026**	**$ 20,203,145**
Total gap 2010	**$ 12,910,440**	**$ (13,742,619)**	**$ 905,970**	**$ 2,115,636**	**$ 480,209**	**$ (2,669,636)**	**$ –**
Total cumulative gap 2010	**$ 12,910,440**	**$ (832,179)**	**$ 73,791**	**$ 2,189,427**	**$ 2,669,636**	**$ –**	**$ –**
Total gap 2009	$ 9,119,008	$ (9,924,616)	$ 805,002	$ 1,682,565	$ 463,847	$ (2,145,806)	$ –
Total cumulative gap 2009	$ 9,119,008	$ (805,608)	$ (606)	$ 1,681,959	$ 2,145,806	$ –	$ –

(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 Directors' 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, 2010, is 99.0 per cent (2009 – 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 derivatives are recorded at fair value 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 of $827.8 million were on hand at March 31, 2010 (March 31, 2009 – $739.8 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 $30.0 million bank operating line of credit

The following table shows the undiscounted cash flows of the corporation's financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal cash flows represent the contractual undiscounted cash flows relating to the principal and interest on the financial liability. The corporation's expected cash flows on certain instruments varies significantly from this analysis. For example, certain long-term borrowings that may be prepaid by the corporation have not been included in their earliest possible maturities due to being impracticable to estimate.

Residual contractual maturities of financial liabilities

($ thousands)	Carrying amount	Gross nominal inflow (outflow)	< 1 month	1 – 3 months	3 – 12 months	1 – 5 years	> 5 years
Non-derivative liabilities							
Short-term borrowings	$ 5,663,068	$ (5,663,742)	$ (4,679,618)	$ (984,124)	$ –	$ –	$ –
Long-term borrowings	12,046,509	(12,621,250)	(696,678)	(369,591)	(2,231,442)	(8,192,625)	(1,130,914)
Derivative liabilities							
Carrying amount	6,810	–	–	–	–	–	–
Cash inflows	–	33,408	–	99	10,200	23,109	–
Cash outflows	–	(36,773)	–	(94)	(5,126)	(31,553)	–
	$ 17,716,387	$ (18,288,357)	$ (5,376,296)	$ (1,353,710)	$ (2,226,368)	$ (8,201,069)	$ (1,130,914)

25. 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 10.0 per cent of the corporation's loans receivable or interest revenues.

26. Comparative figures

Certain 2009 comparative figures have been reclassified to conform to the current year's presentation.

Glossary of terms

Agribusiness and agri-food financing
Refers to 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.

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 the incurred credit losses in the loan and lease receivable portfolio. Allowances are accounted for as deductions from loans and leases receivable, respectively, on the balance sheet.

Arrears
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 per cent, 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 Program
Plans developed to proactively assist customers who may experience loan repayment difficulties due to disaster or 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 rate 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 expense as a percentage of revenue. Administration expense is 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
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 enterprise-wide application of co-ordinated activities that direct and control an organization with respect to the positive and negative effects of uncertainty on organizational 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
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.

Interest rate risk
The risk that a change in interest rates adversely impacts the corporation's net interest income and economic value.

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
Disbursements represent the release of funds against approved loans. Net disbursements exclude 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
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 part-time farming.

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
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 monetary 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.

FCC office locations

BRITISH COLUMBIA
Abbotsford, Dawson Creek, Duncan, Kelowna, Surrey

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

SASKATCHEWAN
Assiniboia, Carlyle, Humboldt, Kindersley, Meadow Lake (S), 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

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, Lévis, Rivière-du-Loup, Salaberry-de-Valleyfield, Sherbrooke, St-Hyacinthe, St-Jean-sur-Richelieu, St-Jérôme, Ste-Marie, Trois-Rivières, Victoriaville

NEW BRUNSWICK
Grand Falls, Moncton, Sussex, Woodstock

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