Agriculture matters

Farm Credit Canada
2012-13 Annual Report

Agriculture matters

Agriculture matters. It's a simple statement that says so much.

Agriculture matters because it's a major force in Canada. More than two million Canadians work in primary production (crops and livestock) or agribusiness and agri-food (suppliers, processors and manufacturers). The full agriculture value chain is vital to Canada's economy.

Agriculture matters because the world needs a dependable source of safe, healthy food. Canada is one of the few nations that can both feed its own population and help feed the world. Canada is one of the top food exporters, and international markets are growing.

Agriculture matters because it's modern, vibrant and diverse. It's filled with forward-thinking people who love what they do. It provides exciting opportunities for producers and business people.

The bottom line is that agriculture has never mattered more to Canada and the world.

At FCC, we see this every day. We live it every day. We believe in the strength of agriculture and the people who make it their livelihood. We're proud that more than 100,000 of them are our customers.

That's why we're committed to advancing the business of agriculture – its people, products and potential – today and in the future. We understand the industry. We work with our customers to meet their needs so that they can face challenges and take advantage of opportunities. We work with our partners to move the industry forward and ensure that Canadians understand what agriculture is all about.

Our lending and leasing products are tailored to the unique needs of producers of all ages, with operations of all sizes and in all sectors. We also provide a range of business services: accounting and field crop management software; learning and knowledge programs; loan insurance; and venture capital. We believe in strong and effective risk management throughout all our operations.

While primary production remains our foundation, we also serve those businesses that serve producers – equipment manufacturers and dealers, input providers, food processors and wholesalers. We help these businesses expand into new markets, improve efficiency and capacity, take advantage of opportunities, adopt new technology and compete in the marketplace.

We support rural communities where our customers and employees live and work through our community investment. We offer farm safety programs, work with food banks to address hunger issues and offer financial support to local projects.

At FCC, we're focused on agriculture. We're committed to helping the industry thrive and grow.

Agriculture matters. We're working hard to make FCC matter to agriculture and the people who make it great.

FCC customer value proposition

From its origins in 1959, FCC today proudly serves Canadian agriculture as the leading provider of financing to the industry.

We focus on the primary producer as well as suppliers and processors along the agriculture value chain.

We provide our customers with flexible, competitively priced financing, equity, insurance, management software, information and learning.

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

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

We're easy to do business with.

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

Operational and financial highlights

Canadian agriculture experienced a strong 2012-13. While some sectors faced ongoing challenges, most enterprises had a profitable year. Farm capital and farmland values continued to rise, while cash receipts improved over the previous year in most provinces. This created a robust demand for commodities and agribusiness products. FCC continued to provide customers with flexible and customized financial solutions, knowledge and expertise to help them succeed. FCC's unwavering commitment to advancing the business of agriculture and delivering an extraordinary customer experience ensured that the corporation remained financially strong. In 2012-13, growth in loans receivable was $1.9 billion or 8.3%.

The number of loans disbursed was 47,046 in 2012-13 and the average size of the loans disbursed was $162,406, resulting in net disbursements of $7.7 billion. Net interest income increased by $59.0 million and equity continues to grow with corporate earnings. As the financial results indicate, FCC continues to build a strong financial foundation, which helps to ensure the continued ability to fund investment and growth in the industry.

For the years ended March 31

Operational highlights

Loans receivable portfolio	2013	2012	2011
Number of loans	147,696	126,496	120,070
Loans receivable ($ millions)	25,133.3	23,202.3	21,401.3
Net portfolio growth (%)	8.3	8.4	8.0
Impaired loans as a percentage of loans receivable (%)	1.3	1.2	1.5
New lending			
Number of loans disbursed	47,046	45,578	42,021
Net disbursements ($ millions)	7,746.2	7,116.8	6,153.2
Average size of loans disbursed ($)	162,406	156,150	146,432

Financial highlights*

Consolidated balance sheet ($ millions)	2013	2012	2011
Total assets	25,870.8	23,829.0	21,870.7
Total liabilities	22,332.1	20,714.7	19,184.8
Total equity	3,538.7	3,114.3	2,685.9
Consolidated statement of operations ($ millions)			
Net interest income	861.4	802.4	753.8
Provision for credit losses	38.1	1.8	35.6
Other income	15.6	51.1	16.0
Administration expenses	327.4	288.1	277.5
Fair value adjustment	1.9	2.0	3.5
Net income	513.4	565.6	460.2

*The historical data has been restated due to prior period adjustments.

Corporate profile

Farm Credit Canada (FCC) is a financially self-sustaining federal Crown corporation reporting to Parliament through the Minister of Agriculture and Agri-Food. Our corporate office is located in Regina, Saskatchewan. We provide financing and other services to primary producers, value-added operators, suppliers and processors along the agriculture value chain. Operating from more than 100 offices located primarily in rural communities, our more than 1,600 employees are passionate about the business of agriculture.

Our roots date back to 1929, when our precursor, the Canadian Farm Loan Board (CFLB), was established to provide long-term mortgage credit to farmers. 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.

In 1993, the Farm Credit Corporation Act was proclaimed into law, providing an expanded mandate and broader lending and administrative powers. Under the new mandate, FCC could provide financial services to farming operations, including individuals, farming corporations and farm syndicates, under the authority of one act.

In 2001, the Farm Credit Canada Act received royal assent, allowing us to offer an even broader range of services to producers and agribusiness operators.

Vision

FCC's long-term vision is as follows:

The full agriculture value chain believes FCC is advancing the business of agriculture by providing financial products, services and knowledge tailored to producers and agribusiness operators.

Our customers are advocates of FCC and can't imagine doing business without us.

We are socially and environmentally responsible and an employer of choice everywhere we operate.

We make it easy for customers and employees to do business.

We are financially strong and stable, and invest significantly in the agriculture and agri-food industry.

Mission

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.

Corporate values

We are committed to advancing the business of agriculture. We do this by setting our sights high – working to benefit our customers and to help employees achieve their potential.

Our corporate values represent these core beliefs:

Act with integrity

We are ethical and honest. We treat customers, colleagues and all stakeholders with respect.

Focus on the customer

We care about our customers, and we pride ourselves on providing them with an extraordinary experience based on personal relationships, flexibility and industry knowledge.

Achieve excellence

We share a commitment to high performance, accountability and efficiency in order to achieve excellence.

Working together

We believe in the power of teamwork. Whether delivering service tailored to customer needs or designing solutions to benefit the industry, we work together as one team.

Give back to the community

We take corporate social responsibility seriously. We believe in giving back to the communities where our customers and employees live and work, striving to reduce our impact on the environment and contributing to the success of the agriculture industry.

Message from the President and CEO

Agriculture matters. It's a major economic force in Canada. It's dynamic and diverse, filled with forward-thinking and innovative people. And it's growing. Whether it's primary production or agribusiness and agri-food, the outlook has never been so bright in terms of opportunities and potential.

Commodity prices are high and interest rates remain at historical lows. That doesn't mean some sectors aren't facing continuing challenges. But overall, these are good times for Canadian agriculture.

The industry's continued strength is critical to Canada's future. FCC plays an important role in the market, providing a range of financial products, business services and knowledge programs to customers across the entire agriculture value chain.

Agriculture is all we do

Agriculture is FCC's sole focus. This makes us unique among financial institutions.

As a self-sustaining federal Crown corporation, FCC is financially stable. Our strong bottom line allows us to not only fund our day-to-day operations; we can also invest in advancing the business of agriculture and engage Canadians in learning more about an industry that touches so many lives.

FCC's ongoing stability and consistent presence in the financial services marketplace has another benefit. It inspires confidence in our more than 100,000 customers, who tell us that they choose FCC for two reasons. The first is our quality products and services. Second and just as important is the time we take to build personal relationships. They appreciate our commitment to them and to agriculture over the long term. This gives them the confidence to grow and expand, knowing that FCC will be by their side to support them.

We're very deliberate about the experience we create for customers, and our Customer Experience Index gives us feedback to gauge how we're doing. We only count perfect scores in our overall result, and more than 60 per cent of our customers across Canada give us a perfect rating.

We understand agriculture

A big reason behind our strong customer experience rating is that when it comes to agriculture, we get it. Our 1,600 employees live it every day. When we say that our people are our greatest strength, it's not just talk. It's the truth.

Our employees are passionate about the industry and serving customers. They take this passion beyond the workplace and into their communities, freely giving their time and effort to many worthwhile causes.

They also lead a number of initiatives on behalf of FCC, the largest being the annual FCC Drive Away Hunger program. With help from our business, school and community partners, Drive Away Hunger raised more than 1.4 million pounds of food and $760,000 for food banks nationwide in 2012 – an all-time record. We're looking forward to achieving even more during the 10th anniversary of Drive Away Hunger in 2013.

FCC is a prudent lender

Everything we do is built on sound business principles. The strength of our business – strong equity position, positive net income, loan portfolio of more than $25 billion and 20 consecutive years of growth – is the result of a planned and prudent approach to being the best financial services provider we can be.

At FCC, we strive to conduct business in a manner consistent with developing and supporting a strong and healthy agriculture industry.

FCC has an established credit risk management program that ranges from portfolio diversification to managing risk at the individual transaction level. We develop and deliver all of our products and services with appropriate risk management considerations. We closely examine and monitor leverage ratios and loan-to-security ratios. We look at our customers' repayment ability based on projections of future rates, not just at current rates, and we ensure the accuracy of our collateral asset values.

We're always open to how we can make our strong approach to risk management even better. That's why we welcomed the recently completed Office of the Superintendent of Financial Institutions Canada (OSFI) review as an opportunity to take new steps forward.

Their findings will help guide our approach for the next fiscal year and beyond.

Working together for agriculture

What's best for agriculture is ultimately best for Canada. It's a view shared by FCC and other financial institutions. What's more, I firmly believe that FCC and all other financial institutions have a place in serving agriculture. Customers value having choice in the marketplace; in fact, the majority of our customers do business with other financial institutions. The industry and the larger economy are better for our collective presence. Our products and services generate economic activity and stability for our customers. In turn, they generate business for other financial institutions and help grow the economy. It's a win-win situation.

There are many opportunities for us to work together with other financial institutions. We're working to develop a closer relationship with the credit union system. And, we currently work with individual banks on a loan-by-loan basis and have started discussions with some on how to further enhance our partnership.

Agriculture More Than Ever

The story of agriculture is one of success, promise and determination. FCC wants to ensure that this story is told. In 2012, we began publicly championing a cause to show Canadians how important agriculture is to Canada and the world.

Since then, Agriculture More Than Ever has grown to include more than 159 partners from agriculture, industry associations, private sector businesses, trade organizations and media. These partners, and our supporters, are sharing their stories of agriculture as a modern and vibrant industry.

There are literally thousands of job opportunities across Canada, and when we grow agriculture together, everyone wins: rural communities, businesses and the people who make this industry great.

I'm proud to be part of an organization that's working alongside everyone for the betterment of agriculture and so are all our employees.

Greg Stewart, President and CEO

Message from the Board Chair

These are exciting times for agriculture and for FCC as it continues its outstanding support of an industry that means so much to Canada.

Beyond innovative products and services, FCC truly makes a difference in helping its customers succeed. I've heard many times in conversation with FCC employees that the customer relationship goes beyond the loan. That's certainly true in the impressive suite of knowledge offerings, software and other tools FCC makes available to customers and the public.

I'm especially proud of the support FCC offers to young farmers and people entering the agriculture industry by offering specialized financing, learning opportunities and other tools to help them get established. The future of farming depends on the industry's ability to attract young people and provide them with the skills they need to successfully operate farms and other agribusinesses. The Board is particularly proud that FCC loaned over $2.32 billion to young farmers in 2012-13.

My colleagues on the Board of Directors and I continue to hear positive and heartfelt comments from FCC customers, partners and community representatives regarding the professionalism and dedication of FCC employees. This goodwill comes not only from business relationships, but also from the time and effort that employees give to community causes. On behalf of the Board, I thank all FCC employees for their work and community spirit.

I want to acknowledge the contributions of Gill Shaw, who retired as FCC Board Chair in October 2012. His expertise and strong leadership helped move the organization forward and maintain its position as a leader in financial and business services for agriculture. I would like to welcome Sylvie Cloutier, Doris Priddle and Brenda Schoepp, who joined as Directors of the Board this past year. Their extensive backgrounds and abilities will complement the Board in its role to provide strategic direction to FCC.

As the boundaries of Canadian agriculture expand through global market access, technological advances and new product development, the industry needs a strong, flexible and knowledgeable financial services partner. FCC is well positioned to meet those needs to help producers and agribusinesses grow and prosper.

Respectfully submitted on behalf of the FCC Board of Directors,

Dale Johnston, Board Chair

Message from the Agriculture Minister

Canadian agriculture has a well-deserved international reputation for quality, integrity and innovation. This reputation continues to grow as markets expand for producers and agribusinesses.

Agriculture is a cornerstone of Canada's economy that contributes $130 billion to our gross domestic product each year and remains a catalyst for economic growth. Our Government remains committed to creating the right conditions for our producers, agribusinesses and agri-food operators to remain world leaders.

I know that all FCC employees share this commitment. They do great work serving customers at all points along the agriculture value chain. The fact that FCC has sustained 20 consecutive years of portfolio growth speaks volumes about the priority that FCC employees place on building long-term customer relationships and meeting their unique agriculture needs.

FCC's focus on preparing customers for success today and in the future also supports the principles of Growing Forward 2, Canada's agricultural framework signed by our Government and our provincial and territorial partners. The framework provides producers and agribusiness operators with the tools and resources they need to meet emerging challenges and opportunities and stay ahead of the ever-changing demands of consumers.

I want to congratulate FCC and all partners who are moving the "Agriculture More Than Ever" cause forward. Canadians need to hear the true story of agriculture, its bright future and the contributions its people are making, not only to our country, but to countries around the globe. In my travels, I've encountered plenty of Ag More Than Ever caps and t-shirts and I've even seen some colourful bale wraps along the highway supporting this great cause.

Looking ahead, more and more opportunities are opening up for agriculture as it continues to evolve and for FCC as it continues to provide leading-edge products and services. Our Government looks forward to continuing a strong working relationship with FCC. Together, we'll help ensure a strong future for Canadian agriculture.

Gerry Ritz, Agriculture Minister

FCC and public policy

Statement of priorities

FCC supports the federal government's vision for continued growth and prosperity in the agriculture industry.

The Minister of Agriculture and Agri-Food has established the following priorities to ensure that FCC continues to strengthen the agriculture industry:

- Agriculture is a dynamic industry that continues to adapt to an increasingly complex environment. Farms are getting bigger and farm families continue to evolve their businesses. Access to capital allows producers and agribusinesses to continue to adopt innovative practices and business models that enable them to lower production costs, develop new products, reduce environmental footprints and compete in the global marketplace. To facilitate this evolution, it's vital that FCC continue to provide a full range of financial and business products and services tailored to the industry's unique needs. These factors are essential to the industry's long-term success and contribute to the Government of Canada's vision of supporting the growth and prosperity of Canadian agriculture.
- As the size and complexity of agricultural operations increases, so do the associated financing requirements. As a leading provider of agriculture financing in Canada, FCC is a critical financial partner to the agriculture industry. FCC will continue to conduct business in a prudent manner, consistent with developing a strong and healthy agriculture sector over the long term. This may mean partnering with credit unions and other financial institutions to manage risk or address liquidity issues that sometimes challenge smaller institutions.
- Sound management is the key to any successful business and agriculture is no different. FCC will continue to provide Canadian producers with unique business services and knowledge through publications, workshops and learning programs, to help advance their business management skills. FCC will grow the knowledge and expertise of its employees to properly serve the needs of Canadian agriculture. In order to provide a superior level of customer service and support to the industry, it's vital that FCC has employees who are knowledgeable, engaged and focused on the needs of customers, the agriculture industry and rural Canada as a whole.
- The future is exciting for the next generation of producers. FCC will continue to work with young farmers and new entrants in agriculture by offering products that facilitate the intergenerational transfer of farm operations and establish new producers who are well equipped to navigate challenges and take advantage of opportunities.
- A top priority for this government continues to be the expansion of markets for Canadian agriculture and agri-food products. As such, it's important that FCC continue to work with the Business Development Bank of Canada and Export Development Canada, along with Agriculture and Agri-Food Canada (AAFC), to support access to international markets for Canadian agribusinesses.
- The story of Canadian agriculture is one of success, promise, challenge and determination. For the industry to reach its full potential, all Canadians must have a better understanding of agriculture and its important contributions to the economy and individuals. FCC is showing leadership by initiating "Agriculture More Than Ever." FCC will continue to work with industry and portfolio partners, producers, agribusinesses and AAFC to improve the public's perception of agriculture.
- Building on last year's priorities, FCC should continue to work collaboratively with AAFC on key issues affecting agriculture. FCC and AAFC should continue to share advice and expertise on challenges and opportunities that are of mutual interest to both organizations, including interest rates, Growing Forward 2, service excellence and farmland values. FCC will also work closely with AAFC as required on the state of the hog industry.
- FCC will remain mindful of the fiscal constraints faced by the Government of Canada and the outcomes of the Strategic and Operating Review.

We're proud to serve all of agriculture, all the time – all sectors, all across Canada

FCC's public policy role

FCC enhances rural Canada by providing specialized and personalized business and financial services to farm families and agribusinesses.

Our public policy role is the foundation of everything that we do to advance the business of agriculture.

With more than 100,000 customers* nationwide, we help producers and agribusiness operators succeed in an increasingly complex and demanding industry.

FCC provides financing to producers of all ages and to agriculture operations of all sizes, across all sectors. We loan money to agribusinesses, including suppliers and processors that serve producers. A healthy value chain provides producers with more stable purchasing and selling options.

In 2012-13, 40,478 customers received loans or other financial products through one of more than 100 FCC offices, which are located primarily in rural areas across Canada:

Alberta – 7,920
British Columbia – 2,746
Manitoba – 3,082
New Brunswick – 472
Newfoundland and Labrador – 126
Nova Scotia – 481
Ontario – 10,807
Prince Edward Island – 317
Quebec – 4,349
Saskatchewan – 10,166
Yukon – 12

Among these customers, 38,549 are primary producers and 1,929 are agribusiness operators.

In 2012-13, we loaned over $2.32 billion to young farmers.

We're dedicated to agriculture and take the long-term view

FCC is a profitable, financially self-sustaining Crown corporation. We support the agriculture industry and are committed to its long-term success. Our strong financial position enables us to create innovative products and services that are tailored to the dynamic needs of the industry and ensure that producers and agribusiness operators have choices in the marketplace.

Our loan products reflect that agriculture is a cyclical industry and that it takes time for business operations to flourish. Unpredictable weather and market conditions can negatively affect even the best producers and agribusiness operators. We support our customers through highs and lows.

For over 10 years, FCC's customer support program has helped producers manage when unexpected challenges arise, particularly during unpredictable events such as avian flu, drought, flooding and the 2003 BSE (bovine spongiform encephalopathy) crisis.

In 2012, FCC offered a customer support program to customers in the hog sector who faced high input costs and low prices. The program included payment schedule adjustments or deferrals to help see customers through short-term cash flow problems.

*FCC currently has more than 100,000 customers. The customer number includes all customers with an active loan balance who are primary borrowers, co-borrowers or guarantors for personal and corporate loans, including primary production, agribusiness and agri-food, and alliances.

We're visionary and operate our business in a sustainable manner

FCC offers unique products and services to help young farmers and agribusiness entrepreneurs succeed in a sophisticated marketplace that continually evolves.

We believe that knowledge is vital to the success of our customers and the industry. We offer workshops, publications and learning forums across the country, and encourage employees and customers to share insights and information. These services are offered free of charge.

Our corporate social responsibility framework focuses on agriculture and food, community, customers, employees and the environment. To support our commitment, we offer environmental information and products to our customers, hire and develop employees who are passionate and knowledgeable about agriculture, give back to the communities where our customers and employees live and work, and continually work to reduce our environmental footprint.

The annual FCC Drive Away Hunger program is a unique food drive that focuses on reducing hunger in rural Canada. All 100 FCC offices across Canada collect food and cash donations. A focal point of the program is the tractor tours that take place across the country each October.

The 2012 FCC Drive Away Hunger program was the most successful in its nine-year history, with more than 1.4 million pounds of food and $760,000 raised for food banks nationwide. The support of a record number of partners (393), schools (307), as well as hundreds of volunteers and thousands of generous Canadians were critical to the program's success.

Corporate governance

We're accountable to the Parliament of Canada

FCC is governed by the Farm Credit Canada Act and the Financial Administration Act. Like other Crown corporations, we're subject to laws such as the Federal Accountability Act, Privacy Act, Access to Information Act, Canadian Labour Code, Employment Equity Act and Official Languages Act.

FCC is accountable to Parliament through the Minister of Agriculture and Agri-Food. We report to Parliament and Canadians on our operations through our annual report, corporate plan summary and quarterly financial reports.

We build relationships with our customers, partners and stakeholders

FCC looks to a variety of stakeholders and partners for guidance and expertise in public sector governance practices.

FCC representatives regularly meet with partners at Agriculture and Agri-Food Canada, the Treasury Board of Canada Secretariat, the Department of Finance and other federal Crown corporations to ensure that our policies and procedures are current and sound. We communicate with Export Development Canada and the Business Development Bank of Canada to share ideas and best practices about ways we can work together to benefit customers. We also seek opportunities to work with banks and credit unions to meet our customers' financial needs.

The FCC Vision Panel is a research advisory group representing Canadian producers and agribusiness operators of all sizes and across all sectors. The panel's input helps us to ensure that our products and services meet the needs of the agriculture industry.

In addition, the FCC Board of Directors hosts an annual public meeting in August where we report our activities and financial results and listen to feedback from interested stakeholders and the Canadian public about our mandate and strategic direction.

FCC representatives attend events and meetings hosted by industry and producer groups. We share knowledge and solicit input and feedback on issues facing agriculture.

We help safeguard the environment

FCC exercises all reasonable care to safeguard the environment and protect the value of real property taken as lending security.

To ensure protection of the environment and mitigation of identified risks, FCC conducts environmental assessments of all properties used by customers to secure financing. The lending decision process also requires customers to provide written declarations that their properties are free from contamination.

As a federal Crown corporation, FCC is also a federal authority with accountabilities under the Canadian Environmental Assessment Act, 2012 (CEAA 2012). We do not provide financing to projects or activities that will cause significant adverse environmental effects.

The CEAA 2012 (sections 67-69), states that federal authorities must not carry out or permit projects to be carried out on Government of Canada-owned lands, and must not carry out or enable projects to be carried out outside Canada, unless the federal authority determines that the project is not likely to cause significant adverse environmental effects; or, if the Governor in Council decides that the effects are justified under the circumstances. FCC must report any environmental assessments carried out regarding projects on federally owned lands or projects outside Canada.

In 2012-13, FCC did not conduct any environmental assessments for projects that fall under sections 67-69 of the CEAA 2012:

- projects on federal lands – 0
- projects outside Canada – 0
- projects referred for decision by the Governor in Council – 0

We represent Canadians

The FCC Board of Directors oversees the corporation's business operations. Directors represent the interests of Canadian people, particularly those who make their livelihood in the agriculture industry.

Directors are appointed by the Governor in Council upon the recommendation of the Minister of Agriculture and Agri-Food. They serve terms of up to four years and may be reappointed. Except for the President and CEO, directors are independent of management.

Board composition

The Board is composed of 12 directors, including the Chair and the President and CEO. Directors include successful primary producers and agribusiness operators from rural and small urban centres. They reflect the broad spectrum of Canadian agriculture and bring a combination of senior agriculture, business and financial experience and expertise to the task of governing a corporation that serves an increasingly complex industry.

Directors participate in one of three Board committees: Audit, Human Resources or Corporate Governance.

The Board is committed to financial transparency. Its Audit Committee works closely with the Office of the Auditor General (OAG) of Canada to ensure the integrity of FCC's internal controls and management information systems. The OAG audits FCC every year and performs a special examination at least every 10 years. The purpose of special examinations is to ensure that Crown corporations' systems and practices provide reasonable assurance that assets are safeguarded, resources are managed economically and efficiently, and operations are carried out effectively. The most recent special examination of FCC was completed July 31, 2012. The full report is available on FCC's public website.

New appointments

Gill Shaw's term as Board Chair ended October 30, 2012. Dale Johnston, a director since June 23, 2011, was appointed Board Chair on December 13, 2012.

Sylvie Cloutier of Bromont, Quebec was appointed to replace Caroline Belzile effective April 5, 2012. On November 26, 2012, Doris Priddle of Toronto, Ontario, was appointed to replace Carl Spencer and Brenda Schoepp of Rimbey, Alberta, was appointed to replace Ron Hierath on February 10, 2013.

We take care of the business

The Board oversees the strategic planning process and provides input, guidance, validation and a critical evaluation of strategic plans and initiatives. After the plans are approved, the Board provides support to implement them and measure success. Strategic initiatives are reviewed throughout the year.

The roles and responsibilities of the Board Chair, directors, President and CEO and committees are established in written profiles and charters. The Board is responsible for six major areas:

- integrity – legal and ethical conduct (setting the tone at the top)
- strategic planning and risk management
- financial reporting and public disclosure
- leadership development
- government relations and corporate social responsibility
- corporate governance

FCC has an established enterprise risk management process designed to identify potential events that may affect business operations. The Board ensures that appropriate authorities and controls are in place, risks are properly managed and the achievement of goals and objectives isn't in jeopardy.

Senior FCC managers work closely with the Board to ensure that the Board is fully aware of the corporation's affairs. The Chief Financial Officer and the Chief Operating Officer attend every Board meeting. Other members of the Executive Management Team also attend meetings on a rotating basis to strengthen the relationship between the Board and management. Time is set aside at each meeting for the Board and its committees to meet without management present.

The Board follows a formal approach to the President and CEO's goal setting and performance review, consistent with the Performance Management Program established by the Federal Privy Council Office.

2012-13 Board remuneration, attendance and expenses

Director	Annual retainer (A)	Per diems (B)	Total remuneration (A & B)	Board meeting attendance	Committee meeting attendance	Board travel and related expenses
Donald Bettle	$ 6,200.00	$ 16,490.00	$ 22,690.00	5 of 5	6 of 7	$ 18,124.98
Sylvie Cloutier	6,200.00	9,457.50	15,657.50	5 of 5	4 of 4	14,191.89
Caroline Granger	7,200.00	11,640.00	18,840.00	5 of 5	4 of 4	13,347.76
Brad Hanmer	7,200.00	6,790.00	13,990.00	4 of 5	4 of 4	6,135.91
Ron Hierath	5,683.33	4,365.00	10,048.33	3 of 4	1 of 3	4,322.93
Dale Johnston*	4,999.00	0.00	4,999.00	5 of 5	4 of 4	17,395.47
John Klippenstein	7,200.00	12,125.00	19,325.00	5 of 5	8 of 8	10,448.14
Doris Priddle	2,066.67	6,305.00	8,371.67	2 of 2	1 of 1	9,416.99
Ross Ravelli	6,200.00	9,942.50	16,142.50	4 of 5	6 of 8	13,314.01
Brenda Schoepp	516.67	2,910.00	3,426.67	1 of 1	1 of 1	3,243.94
Gill O. Shaw	7,233.33	8,245.00	15,478.33	3 of 3	3 of 4	5,417.39
Jason Skinner	6,200.00	8,245.00	14,445.00	4 of 5	7 of 8	7,094.29
Carl Spencer	4,133.33	7,760.00	11,893.33	3 of 3	2 of 2	12,057.27
Total	**$ 71,032.33**	**$ 104,275.00**	**$ 175,307.33**			**$ 134,510.97**

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

Board performance

Upon appointment to the Board, each director receives a detailed orientation and meets with senior management to learn about FCC. Directors also regularly visit customer operations and attend employee meetings, as well as conferences and seminars relevant to corporate governance and FCC's business. Some are also involved in director certification programs.

The Board regularly assesses its collective performance and the individual performances of its directors through a structured self-evaluation process.

Position profiles for the Chair and individual directors are reviewed annually to ensure that they accurately describe desired competencies and skills. Gaps are addressed through new appointments, training and hiring outside experts to assist the Board in its review of technical or specialized issues.

Compensation

Directors are paid an annual retainer and per diem amounts established by the Governor in Council, pursuant to the Financial Administration Act. 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.
- Other directors receive an annual retainer of $6,200.
- All directors, including the Chair, receive a per diem of $485 for meetings, training sessions, travel time and FCC sponsored events.
- Directors are reimbursed for all reasonable out-of-pocket expenses, including travel, accommodation and meals, while performing their duties.

During 2012-13, there were five Board meetings and 16 committee meetings. Total remuneration (annual retainer and per diems) paid to all directors was $175,307.33. Total Board travel and related expenses were $134,510.97, compared to $179,159.53 in 2011-12.

Code of conduct, ethics and values

At FCC, acting with integrity and maintaining the highest ethical standards are vital priorities. On appointment and every year during his or her tenure, each director signs a declaration committing to act in accordance with FCC's Code of Conduct and Ethics. The Board has also established a process to directly disclose any potential violations of the code by the President and CEO or his

*As a former member of Parliament, Dale Johnston is subject to the Members of Parliament Retiring Allowances Act. His total remuneration is capped at $5,000.

direct reports, and a policy that specifies how to address situations where a director has a conflict of interest. FCC's Integrity Officer discloses all possible violations of the code and discusses ongoing employee education and awareness with the Board annually.

Board committees

Audit Committee

Chair: John Klippenstein
Members: Doris Priddle, Ross Ravelli and Jason Skinner

Members of the Audit Committee are independent of management. All committee members are financially literate and at least one member is considered to be a financial expert.

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

The Audit Committee reviews the travel and hospitality expenses of the President and CEO quarterly. The committee also annually reviews a listing of all contracts over $250,000.

In addition to meeting with management, this committee regularly meets with representatives of the Office of the Auditor General and FCC's internal auditors without management present.

Human Resources Committee

Chair: Brad Hanmer
Members: Donald Bettle, Sylvie Cloutier and Greg Stewart (CEO)

The Human Resources Committee reviews all major human resources policy matters. The committee is responsible for advising the Board with respect to the skills and characteristics essential to the position of the President and CEO and how to assess his performance. It also works with the President and CEO to agree on an annual development plan.

The Human Resources Committee is responsible for reviewing the corporation's compensation structure, succession plan (including training and development plans for employees), and the executive perquisites program.

Corporate Governance Committee

Chair: Caroline Granger
Members: Sylvie Cloutier, Dale Johnston (Board Chair) and Brenda Schoepp

The Corporate Governance Committee reviews and makes recommendations to the Board with respect to sound governance practices. It also oversees the corporation's strategic planning process, including enterprise risk management and FCC's corporate social responsibility program. 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 FCC policies on ethics, conflict of interest and code of conduct for employees and directors.

FCC Board of Directors*

Dale Johnston
Owner/operator, mixed farming operation

Ponoka County, Alberta

Appointed director June 23, 2011
Appointed Board Chair December 13, 2012

Greg Stewart, P.Ag., C.Dir.
President and CEO, FCC

Regina, Saskatchewan

Appointed January 1, 2008
Reappointed October 4, 2012

Donald Bettle
Owner, cow/calf operation and woodlot

Passekeag, New Brunswick

Appointed January 25, 2007
Reappointed February 10, 2010 and November 1, 2012

Sylvie Cloutier, BA, Comm.
President and CEO, Council of Food Processing and Consumer Products

Bromont, Quebec

Appointed April 5, 2012

Caroline Granger
President and CEO, The Grange of Prince Edward Vineyards and Estate Winery

Hillier, Ontario

Appointed June 27, 2007
Reappointed August 6, 2010

Brad Hanmer, B.Sc.Ag.
Co-owner/operator, commercial grain and pedigreed seed farm

Govan, Saskatchewan

Appointed January 25, 2007
Reappointed February 10, 2010 and November 1, 2012

John Klippenstein, FCMA
COO, Klippenstein Management Services

Steinbach, Manitoba

Appointed July 30, 2008
Reappointed December 15, 2011

Doris Priddle, MBA
Owner, Priddle Farms Inc.

Toronto, Ontario

Appointed November 26, 2012

Ross Ravelli
Owner, Ravelli Farms Ltd.

Dawson Creek, British Columbia

Appointed February 10, 2010
Reappointed November 22, 2012

Brenda Schoepp
Owner, cattle and equine rescue farm

President and CEO, BEEFLINK and Brenda Schoepp & Associates

Rimbey, Alberta

Appointed February 10, 2013

Jason Skinner, M.Sc., P.Ag.
CEO, NorthWest Terminal Ltd.

Wilkie, Saskatchewan

Appointed February 12, 2009
Reappointed March 1, 2012

*Full biographies are available at www.fcc.ca. At time of publication, one director position was vacant.

Executive Management Team

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

Rick Hoffman, CMA, MBA
Executive VP and Chief Financial Officer

Rémi Lemoine, MBA, CCP
Executive VP and Chief Operating Officer

Michael Hoffort, P.Ag.
Executive VP and Chief Risk Officer*

Lyndon Carlson, P.Ag.
Senior VP, Marketing

Kellie Garrett, MA, MC, ICD.D
Senior VP, Strategy, Knowledge and Reputation**

Greg Honey
Senior VP, Human Resources

Paul MacDonald
Senior VP and Chief Information Officer

Greg Willner
Senior VP, Governance, Legal and Stakeholder Management***

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. Each EMT member believes that a culture characterized by open communication and trust results in engaged employees who forge great relationships with customers.

EMT is responsible for business results and corporate decision-making, including the strategic vision, investment strategy, allocation of enterprise resources and resolution of major strategic issues.

All executives, with the exception of the President and CEO, are paid within salary ranges and compensation policies approved by the FCC Board of Directors. The Governor in Council establishes the President and CEO's compensation. All executives receive a variable pay-at-risk component linked to the performance of the corporation, division and individual. In 2012-13, the salary range for the President and CEO was set at $290,700 to $341,900. The salary range for Executive Vice-Presidents was $185,245 to $335,980. The salary range for Senior Vice-Presidents was $156,895 to $239,955.

*Michael Hoffort, formerly Senior VP, Portfolio and Credit Risk, was promoted to Executive VP and Chief Risk Officer effective July 1, 2013.
**Congratulations to Kellie Garrett on her retirement effective July 26, 2013. Her outstanding leadership was instrumental in transforming the organization's business strategy and advancing FCC's image and reputation management.
***Greg Willner, formerly General Council and Corporate Secretary, was promoted to Senior VP, Governance, Legal and Stakeholder Management, effective July 1, 2013.

Corporate social responsibility

At FCC, we take corporate social responsibility seriously. It's part of our corporate vision and guides how we operate.

We give back to the communities where our customers and employees live and work, strive to reduce our environmental impact and contribute to the success of the Canadian agriculture industry.

Being socially responsible is important to our customers, employees, communities and the Government of Canada. We're committed to conducting business in a responsible and sustainable manner and being accountable to our stakeholders through sound corporate governance practices.

At FCC, our corporate social responsibility framework includes five focus areas.

Agriculture and food

We support the development of a sustainable, competitive and innovative Canadian agriculture industry. We do this by providing knowledge and education and by supporting initiatives and forming partnerships that advance the business of agriculture.

FCC knows that supporting young people in agriculture is key to a strong and vibrant industry. In 2012-13, we lent a record-breaking $2.32 billion to Canadian producers under the age of 40. We also launched a new $500 million Young Farmer Loan program that enables young farmers to purchase or improve farmland and buildings. The new loan includes features and options that support the long-term success of young farmers.

Community

We foster strong and vibrant communities where our customers and employees live and work, with a focus on rural Canada.

The FCC AgriSpirit Fund provides $1 million each year to help make life better for people in rural communities. Since 2004, more than $6.5 million has been provided for capital projects, such as these in 2012-13:

- Dalum Fire Protection Association, Drumheller, Alberta – $25,000 to purchase a fire truck.
- Miramichi Regional Hospital Foundation, Miramichi, New Brunswick – $10,000 to purchase state-of-the-art equipment to treat pulmonary diseases.

Customers

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, insurance, software, learning programs and other business services.

The FCC Ag Crisis Fund helps employees request support for individual customers facing difficult times, such as a natural disaster, serious illness, fire or farm accident. Since 2005, FCC has supported more than 800 customers through the fund. Here are a few comments from 2012-13 FCC Ag Crisis Fund recipients:

- "We are humbled by the generosity you have shown us. Your support to help us meet our basic needs speaks volumes about your integrity and we want to encourage you to keep blessing others in need."
- "Thank you for thinking of us and going above and beyond in helping us during these difficult times. Your kindness is appreciated. We have never experienced such heartwarming support."

Employees

We foster a culture of accountability, partnership and diversity – and deliver an exceptional employee experience.

Each year, FCC asks employees to take part in an employee opinion survey conducted by Aon Hewitt. Over the past several years, FCC has sustained an employee engagement score of 80 per cent or higher. As a result, FCC has ranked in the top 10 on Aon Hewitt's Best Employers in Canada list for the last seven years.

Our success in building engagement has a lot to do with listening carefully to our employees. We believe it is not enough to simply ask employees to complete a survey. FCC has a structured process for analyzing the survey results and supporting leaders across the corporation in discussing the results with their teams. We expect every leader to develop an action plan to ensure that employees feel heard and their concerns are addressed. This kind of deliberate approach to creating an exceptional employee experience is the key to sustaining a level of engagement, year after year, that sets FCC apart.

Environment

We improve our environmental performance and support the industry with tools and knowledge to do the same.

For example: each year, FCC Management Software partners with the Canadian Horticultural Council (CHC) to host a series of workshops across Canada targeted at fruit and vegetable growers and packers. The purpose of these workshops is to increase awareness of the CanadaGAP (Good Agricultural Practices) food safety/traceability program and requirements, and share some practical tools about record-keeping and audits. Thirteen workshops were held across Canada in 2012-13.

FCC corporate social responsibility report

Each fall, FCC issues a corporate social responsibility report that measures our performance for the past fiscal year. The report is prepared using the Global Reporting Initiative (GRI) G3 Sustainability Reporting Guidelines. GRI is a non-profit organization that promotes economic sustainability and provides a comprehensive sustainability reporting framework that's widely used around the world.

The 2011-12 FCC Corporate Social Responsibility Report is available at www.fcc.ca/csrreport.

The 2012-13 FCC Corporate Social Responsibility Report will be available in the fall of 2013.

Management's discussion and analysis

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.

Basis of preparation of financial information

FCC's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial information included in the MD&A is derived either directly from FCC's consolidated IFRS financial statements or from information FCC has used to prepare them. FCC has used the IFRS Practice Statement Management Commentary and the accompanying Basis for Conclusions document as guides for preparing its MD&A. The MD&A is intended to be read in conjunction with the March 31, 2013, Consolidated Financial Statements and the corporate plan documents.

Industry overview

FCC operates in the complex agriculture and finance industries, both of which are shaped by market forces and global trends.

Demographics throughout the world are changing. In 2012, the global population reached seven billion; by 2050, it is expected to surpass nine billion. Populations are growing significantly in developing countries and aging in western nations. As incomes in developing countries rise, diets shift and consumers demand more meat and dairy products. In western developed nations, scrutiny and focus is being placed on food production – including nutrition, land and water use, and animal welfare.

Concerns about the environment and future energy needs are fuelling alternative uses for agriculture products, contributing to increased demand and heightening awareness about agriculture via mainstream and social media. Although global demand for agri-food products is rising, primary producers and agribusiness operators need to be prepared for volatility in financial, commodity and consumer markets.

Feeding the growing population using the limited resources of the planet will be a challenge, but it also creates many opportunities for Canadian agriculture. Producers and agribusiness operators are harnessing the power of marketing, innovation, efficiency and technology to capitalize on these opportunities. The shift in food preferences in the domestic market is also opening new market segments for Canadian agribusinesses.

Key economic indicators

Current world economic conditions – highlighted by sovereign debt concerns in Europe, slow employment growth and fiscal issues in the United States, and continued political tensions in the Middle East – are affecting agri-food supply chains in Canada. Another important driver of agriculture markets in recent years has been income growth in emerging markets. As economic struggles in developed markets lower their growth prospects, the demand for food is growing in emerging markets. With these changes, it is in the best interests of Canadian producers to continue seeing economic growth in emerging markets.

The International Monetary Fund (IMF) forecasts that world economic growth will be slightly stronger in 2013 than in 2012, with below-average growth throughout most of the western world and rapid growth in the emerging world.[1]

United States job growth remains slow. At the current pace, it will take until 2015 to regain the employment level reached before the 2008-09 recession. The housing market's apparent stabilization after years of declining prices should positively affect consumer wealth and spending. The U.S. government is running a large deficit and national debt continues to climb. The challenge for the U.S. government is to lower the deficit fast enough to reassure financial markets while sustaining the fragile economic expansion.

Europe's debt crisis remains contained within its borders. Government austerity measures have alleviated concerns about the capacity of some countries to meet their debt obligations. However, these same measures have contributed to recessions in many European Union (EU) member countries. Unemployment in the eurozone hit a record high of 11.8% in November 2012.[2] The IMF projects the eurozone economy will grow at a rate of 0.2% in 2013.

While there have been considerable efforts recently to diversify Canadian exports, Canadian businesses still rely greatly on the United States. Slow economic recovery in the developed world is hindering the expansion of Canada's export-dependent economy.

Meanwhile, economic growth in emerging economies is fuelling world economic growth. The expansion of the middle class in Southeast Asia has resulted in consumers spending more of their additional income on food. As demand for agriculture and agri-food products continually evolves, Canadian agriculture must adapt to take advantage of opportunities and remain competitive in the marketplace.

Strong export markets, especially for commodities and natural resources, have led to a strong Canadian dollar.

[1] World Economic Outlook, October 2012, Coping with High Debt and Sluggish Growth. International Monetary Fund.
[2] Eurostat, Unemployment Rate, Monthly Average by sex and age group (%).

The long-term outlook for Canadian currency is good, despite economic uncertainty and challenges throughout the world. During the first three quarters of 2012, Canada's gross domestic product (GDP) grew at an annualized average rate of 1.2%.[3]

For more than 10 years, Canadian consumer debt has increased. As consumers start paying down debt, the ratio of debt to assets should improve. Given world economic struggles and slower consumer and government spending at home, business investments will determine much of the Canadian economy's growth in the short term. The Bank of Canada forecasts a 2% increase in Canadian GDP in 2013.[4]

The Canadian economy is faring well on a number of fronts. According to the World Economic Forum, Canada's banking system is the strongest in the world. Unemployment remains lower than in other industrialized countries and the federal government is on track to balance its budget by 2016. The Bank of Canada's historically low overnight interest rate is stimulating the economy, and it appears that interest rates will remain low for the foreseeable future due to low inflationary pressures in Canada and an uncertain outlook for the world economy.

Agriculture industry overview

FCC has a diversified portfolio and an in-depth understanding of agriculture enterprises. The corporation lends to a wide variety of agriculture sectors, including cattle, dairy, hogs, poultry, grains and oilseeds, greenhouses, and agribusiness and agri-food, and considers the factors that influence the long-term prospects of each sector, including asset values, farm debt and trade.

Asset values

Farm asset values have steadily increased as a result of rising land values driven by a strong agriculture economy, growing world food demand and higher commodity prices.

Canadian farmland values have risen steadily over the past decade, driven by low real interest rates and strong crop receipts. Farmland values increased an average of 8.6% during the first half of 2012, following average increases of 6.9% and 7.4% in the previous six-month reporting periods.

The last time the average value decreased was by 0.6% in 2000.

The current environment makes it even more important for buyers of farmland to ensure their budgets have room to flex should commodity prices fall back from current highs or interest rates rise to more traditional levels.

Farm debt

As farm asset values rose, so did total Canadian farm debt; it reached nearly $70 billion in 2011.[5] Debt has increased at an average annual rate of 6% since 1995, pushed by declining interest rates and intensifying pressure to remain competitive and grow productivity in a more globalized world.

Aside from the impact of inflation, the remaining increase in average farm debt has come mostly from farms in supply-managed sectors, with annual gross receipts of more than $500,000. Farm debt is expected to continue to increase, but at a slower pace than in recent years. Strong crop receipts are bolstering optimism and leading to investments in land and machinery, while low financing costs help farm businesses capture economies of scale and increase productivity.

Trade

The landscape of Canada's international trade agreements will continue to evolve. The U.S. market accounted for 49% of Canadian agriculture and agri-food exports in 2011, compared to 63% in 2001.[6] With slow growth in the United States and strong growth in emerging markets such as China and India, Canada is likely to further diversify its trade away from the U.S. market.

Canada is currently negotiating trade agreements with India, South Korea, Japan and the EU, among others, and has also joined Trans-Pacific Partnership talks. Trade negotiations are a gateway to expand export opportunities. Lower trade barriers mean greater access to foreign markets and possible growth of Canadian market share.

[3] Statistics Canada, Table 380-0064 – *Gross domestic product, expenditure-based (Percentage Change (period-to-period)), quarterly (dollars unless otherwise noted)*, CANSIM (database).
[4] Bank of Canada, Monetary Policy Report, January 2013.
[5] Statistics Canada, Table 002-0008 – *Farm debt outstanding, classified by lender, annual (dollars)*, CANSIM (database).
[6] Statistics Canada, based on NAICS Codes.

Gaining access to new markets gives Canadian agriculture producers a competitive advantage, as developing countries generally have high tariffs on agriculture products. Increased access to mature markets like Japan and Europe could also result in opportunities. However, trade negotiations will likely increase competition in Canada's domestic markets, especially in supply-managed sectors.

Overall primary agriculture profitability

In 2012, severe drought conditions in much of the United States affected both livestock and crop producers. Canadian crop and oilseed operations benefited from high prices, while hog and cattle producers were forced to manage high feed costs.

Throughout the first three quarters of 2012, total farm cash receipts (crop and livestock revenues, plus program payments) increased by 6.1%, following an 11.9% increase in 2011. Farm cash receipts were higher in all provinces except New Brunswick, which experienced a 7.5% decrease over the first three quarters compared to the previous year. Alberta had the largest increase at 13%.

Overall input costs rose by 5.4% in the second quarter of 2012, compared to the same quarter the previous year.[7] Fertilizer and commercial feed costs saw increases of 13.8% and 9.8%, respectively. Livestock feed costs should decline in 2013, as crop prices are expected to drop from 2012 levels, according to futures markets. A crop price reduction would imply a decline in crop producers' profit margins over the next 12 months, while offering relief to livestock producers. Lower feed prices and projections of above-average livestock prices offer a positive outlook for the livestock industry over the medium term.

Energy costs are vitally important to the agriculture industry. The U.S. Energy Information Administration predicts crude oil prices will decline in 2013 and 2014. Natural gas prices are projected to increase over the next two years, although they will remain low compared to the highs of 2007-08 due to the continued expansion of natural gas production from shale fracking.[8]

Sector overview

Grains and oilseeds

In 2012, grain and oilseed yields and quality varied across Canada. Yields in Western Canada were below expectations, with barley and canola yields down 12% and 21% respectively from the previous year. Barley production remained relatively unchanged and canola production dropped 9%. Despite dry weather conditions in 2012, yields in Ontario and Quebec were, on average, above the previous year's levels.

Corn and soybean inventory levels in the United States are near record lows.[9] Corn, soybean, canola and wheat prices for the 2012-13 marketing year should be well above their historical averages. Aside from seasonal fluctuations, fertilizer prices are expected to stay relatively stable into 2014. Despite expected low natural gas prices, strong demand from crop producers is keeping prices high compared to the historical average.

According to the most recent Agriculture and Agri-Food Canada (AAFC) Medium Term Outlook for Canadian Agriculture and the United States Department of Agriculture (USDA) Agricultural Projections to 2022, grains and oilseeds prices will be slightly lower than current highs, but will remain historically high over the next 10 years. This will be driven by increased demand from developing countries such as China for coarse grains and oilseeds. Domestic livestock producers, biofuel manufacturers and vegetable oil crushers also will contribute to demand.

Horticulture

Greenhouse operations generally recorded higher profit margins in 2012 for both floriculture and vegetable production. The increase in profits was partly due to low natural gas prices, which is a major input in the industry. Average natural gas prices for November 2012 were 40% lower than the previous year.[10]

Despite the rather positive results for the sector, competitive pressures in some specific sectors emerged. For example, a large increase in the U.S. tomato supply and Mexican imports, combined with the strong Canadian dollar, pushed down Canadian tomato prices and reduced the profitability of some Canadian greenhouse growers.

7 Statistics Canada, *Table 328-0015 – Farm input price index, quarterly (index, 2002=100)*, CANSIM (database).
8 U.S. Energy Information Administration, AEO 2013 Early Release Overview, December 2012.
9 USDA World Agriculture Supply Demand Estimate (WASDE), October 2012.
10 Statistics and Data Development Branch, Economics and Competitiveness Division, Alberta Agriculture and Rural Development.

To offset competitive pressures, producers are adopting new, more efficient technologies, such as sophisticated equipment that reduces energy and water consumption. The pace of technology adoption and expansion in the greenhouse sector will continue to depend on energy prices.

Cattle

The Canadian and American cattle industries are closely integrated due to strong trade linkages and logistics. Since the U.S. industry is significantly larger, trends in Canada's cattle industry are largely driven by U.S. trends.

Cattle inventories in both countries declined between 2005 and 2011. In the United States, cattle inventories have continued to decline due to back-to-back droughts in 2011 and 2012, which limited pasture and feed availability. Meanwhile, Canadian cattle numbers remained steady in 2012. Increased heifer retention in Canada suggests that the industry should slowly start to grow. Lower inventories combined with increased world demand for beef have increased cattle prices and, in particular, calf prices, relative to their previous 10-year average. Cattle futures suggest strong prices throughout 2013 and heading into 2014.

In 2012, the World Trade Organization (WTO) ruled that U.S. Country of Origin Labelling (COOL) requirements discriminated against Canadian and Mexican beef and pork. The United States recently proposed amendments to its COOL legislation to comply with the WTO ruling. Depending on the result of further consultations between Canadian and American governments and industry stakeholders, the issue may evolve towards Canada imposing retaliation measures on U.S. exports.

Despite challenges posed by COOL, live cattle exports to the United States increased 19% in 2012, following a 35% decline in 2011. The number of cattle slaughtered in federally inspected establishments was down in 2012, with most of the decline occurring in Western Canada. Some of the decline in slaughter and increase in exports can be attributed to the temporary closure of the XL Foods Inc. processing plant in Brooks, Alta. Per capita beef consumption in Canada has also been declining for more than 10 years.[11] Canadian beef producers will remain dependent on export markets for the foreseeable future.

Dairy

Canada's supply-managed dairy sector is expected to remain profitable. Each year, the Canadian Dairy Commission reviews and, if necessary, adjusts dairy support prices. Higher feed costs have resulted in higher support prices for skim milk powder and butter. Canadian dairy products are primarily sold domestically; only a fraction of production is sold in foreign markets.

The AAFC Medium Term Outlook for Canadian Agriculture (2012) forecasts that per capita consumption of fluid milk, butter and ice cream will decrease over the next 10 years, while per capita yogurt consumption will continue to increase. Recent trade negotiations have been accompanied by heightened media coverage about the future of supply management. At this point, future changes to domestic marketing institutions are speculative.

Poultry

Supply management in the poultry sector ensures that producers obtain a price above their cost of production. Production increases closely match changes in domestic consumption, as little production is sold in foreign markets. Over the next 10 years, AAFC projects that the consumption of Canadian chicken will increase at a rate of 1.5% per year, although per capita consumption is expected to be relatively stable.

Per capita consumption of eggs is also projected to remain stable. Animal welfare concerns and the resulting industry response are affecting production methods, and supply chains are demanding specific aviary systems from producers.

Hogs

The past several years have been challenging for Canadian hog producers. Upward pressure on feed prices due to weather conditions reduced profitability in this sector. Adding to the challenge, hog prices declined by 20% to 30% during the summer of 2012, with losses ranging from $30 to $50/market hog depending upon the structure of the operation.[12] Producers who grow their own feed grains or have diversified revenue from operations will withstand the current situation better than those who rely on purchasing feed.

[11] Statistics Canada, Table 002-0011 – Food available in Canada, annual (kilograms per person, per year unless otherwise noted), CANSIM (database).
[12] Agriculture and Agri-Food Canada – Economic and Market Information – Red Meat Market Information.

Despite economic challenges, hog inventories were 1.5% higher on July 1, 2012, compared to July 1, 2011.[13] Profit margins are expected to improve in 2013.

Animal welfare concerns and the resulting industry response are impacting production methods, and hog gestation stalls may be replaced by group housing in the future.

As the world's population and incomes grow, demand for higher-value proteins increases. This trend is expected to continue in the short term, as emerging economies continue to grow the fastest.

Agribusiness and agri-food

As economies, including Canada's, continue to improve, consumer demand for value-added products slowly increases, creating more opportunities for food manufacturers. Due to a strong performance in the farm sector, agribusinesses that supply inputs to primary agriculture have experienced strong demand for their products.

Canadian agribusinesses are also dependent on the strength of demand in foreign markets. According to Industry Canada data, 67% of Canadian agri-food exports are destined for the U.S. market. This isn't surprising, given its close geographic proximity. For example, in 2011, over 50% of agri-food exports to the United States were from Ontario and Quebec – provinces that enjoy strong logistical advantages to export to the U.S. market.

Canadian manufacturing firms have lagged behind other developed countries in productivity growth.[14] The strong Canadian dollar continues to put pressure on the competitiveness of Canadian food processors. As a result, the Canadian trade balance of food and beverages has worsened over the past seven years. Product and process innovations will be needed to fight off a decline in relative labour productivity and the impacts of a stronger Canadian dollar. The grain handling industry is evolving following changes to wheat and barley marketing regulations.

Current and potential impacts for FCC

FCC has experienced its 20th consecutive year of portfolio growth. Revenue and administration expenses have grown in relation to FCC product and service offerings and its overall loan portfolio. FCC understands the importance of prudent budget practices and sustained financial viability through all economic cycles in order to support customers through good and challenging times. Maintaining strong customer satisfaction and employee engagement is important to the corporation's continued success in serving the agriculture and agri-food industry.

FCC remains financially strong. Along with $4,178.9 million in equity and loan loss reserves, the corporation has a low debt-to-equity ratio and high quality risk management practices. FCC's portfolio is diversified by enterprise and geography because the corporation finances customers involved in all areas of agriculture across Canada, which reduces risk.

Continued complexity in the agriculture industry translates into a need for enhanced knowledge, technical skills and competencies on the part of customers and FCC employees. FCC offers employees extensive access to sector and market knowledge and offers learning programs and publications free of charge to customers and non-customers.

Producers and agribusiness operators have a strong impetus for innovation and growth, and FCC will continue to provide the support required for success. Agility is a critical attribute for any business operating in this environment. FCC's unique connection to customers, industry, government, academia and business will help ensure that it is attuned to evolving needs, risks and opportunities.

FCC is beginning the next fiscal year in a strong financial position. 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 that they continue to be within acceptable tolerances.

FCC's commitment to Canadian agriculture is unwavering. The corporation will continue to monitor and respond to economic conditions as needed to achieve its objectives and maintain financial strength.

[13] Statistics Canada, Table 003-0004 – Number of hogs on farms at end of quarter, quarterly (head), CANSIM (database).
[14] Bank of Canada's Monetary Policy Report, July 2012.

Strategic overview

FCC is advancing the business of agriculture by providing financing, insurance, software, learning programs and other business services to producers and agribusiness and agri-food operations. FCC is financially strong and stable, and serves the industry through all cycles. Our employees are passionate about agriculture and committed to the success of our customers and the industry.

FCC's strategic direction is aligned with the Government of Canada and the 2012 Statement of Priorities received from the Minister of Agriculture and Agri-Food.

Corporate strategy map

FCC uses a corporate scorecard to monitor and measure progress against its corporate strategy. To achieve its vision and deliver on its mission, FCC has developed objectives and strategies that are categorized under four strategic themes:

- financial and risk management
- customer experience
- efficiency and execution
- employee experience

The FCC corporate strategy map illustrates how the 12 five-year strategic objectives within the strategic themes contribute to achieving the FCC vision and mission. The employee experience theme and its related objectives provide the foundation for the other three themes and their objectives.

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 solutions to farm families and agribusiness.*

Financial and risk management

- Enhance financial management
- Increase maturity of enterprise risk management (ERM), including internal control framework
- Strengthen and leverage FCC's reputation with all stakeholders

Customer experience

- Deliver an extraordinary customer experience
- Demonstrate commitment to the agriculture and agri-food industry, with a particular focus on producers and young farmers
- Promote agriculture as a dynamic industry that is important to Canada
- Expand FCC's ability to provide customers with leading-edge knowledge

Efficiency and execution

- Optimize how FCC conducts business
- Expand channel delivery

Employee experience

- Provide an exceptional employee experience
- Strengthen leadership capabilities
- Expand and enhance employee knowledge

Strategic themes | Five-year objectives

*This is an abridged version of the FCC mission. A complete version is available at www.fcc.ca.

Report on corporate performance

Financial and risk management

Critical outcome:

In 2020, FCC has a diversified agriculture, agribusiness and agri-food portfolio. The corporation has remained financially viable and self-sustaining with a strong balance sheet and a return on equity (ROE) of greater than or equal to 12%.

Summary of results:

FCC has remained financially sustainable. The portfolio grew to $25.1 billion in 2012-13 and profitability remains strong. FCC has a strong balance sheet and an ROE of 16.4%.

Strategic objectives	Performance measures	2011-12		2012-13		Comments	2013-14	2014-15
		Target	Result	Target	Result		Target	Target
Enhance financial management	Net income	$355.8 million	$565.6 million*	$445.0 million	$513.4 million	Exceeded. Primarily due to higher than target net interest income and lower than target provision for credit losses.	$466.8 million	$481.2 million
	Return on equity	13.9%	20.9%*	13.9%	16.4%	Exceeded. Due to higher than target net income.	13.0%	12.0%
	Debt-to-equity ratio	6.9:1	7.1:1*	6.2:1	6.7:1	Not achieved. Increased borrowings were required to support higher than planned portfolio growth.	Measure discontinued and replaced with the capital adequacy measure[15]	Measure discontinued and replaced with the capital adequacy measure
	Portfolio growth	3.3%	8.4%	6.1%	8.3%	Exceeded. Due to higher than target net disbursements.	Measure discontinued	Measure discontinued
	Risk scoring and pricing system (RSPS) score for primary production stated as points[16]	Greater than or equal to 770 points[17]	804 points	Greater than or equal to 790 points	808 points	Achieved	Measure discontinued and replaced with the capital adequacy measure	Measure discontinued and replaced with the capital adequacy measure

*The historical data has been restated due to prior period adjustments.

[15] Capital adequacy measure: greater than or equal to 100%. This measure tracks available capital over required capital. In the first two years, only credit capital will be used in the denominator. It will be extended to include other risk types in years following.
[16] The RSPS model considers three principal sets of risk predictors that model the risk of a loan defaulting. Refer to glossary for definition.
[17] Note: 2011-12 score was for the entire portfolio (primary production and agribusiness and agri-food).

<table>
<tr><th rowspan="2">Strategic objectives</th><th rowspan="2">Performance measures</th><th colspan="2">2011-12</th><th colspan="2">2012-13</th><th rowspan="2">Comments</th><th>2013-14</th><th>2014-15</th></tr>
<tr><th>Target</th><th>Result</th><th>Target</th><th>Result</th><th>Target</th><th>Target</th></tr>
<tr><td rowspan="2">Enhance financial management</td><td>Risk scoring and pricing system (RSPS) score for agribusiness and agri-food stated as points</td><td>Greater than or equal to 770 points</td><td>804 points</td><td>Greater than or equal to 750 points</td><td>791 points</td><td>Achieved</td><td>Measure discontinued and replaced with the capital adequacy measure</td><td>Measure discontinued and replaced with the capital adequacy measure</td></tr>
<tr><td colspan="8">In 2012-13, FCC developed its capital management framework. FCC implemented systems and processes to assess capital adequacy using concepts from the Basel Committee on Banking. Once completely actualized, the capital management framework will allow FCC to assess its capital needs on a risk-adjusted basis. Measurement of capital adequacy will begin in 2013-14. A new measure and reporting for capital adequacy has been developed.</td></tr>
<tr><td rowspan="2">Increase maturity of enterprise risk management (ERM), including internal control framework</td><td>ERM maturity measure[18]</td><td colspan="2">Create measure and baseline ERM</td><td>1.8</td><td>1.8</td><td>Achieved</td><td>2.9</td><td>3.4</td></tr>
<tr><td colspan="8">In 2012-13, FCC continued implementing its ERM framework. FCC adopted an ERM maturity target based on KPMG's assessment methodology and enhanced governance of enterprise risk through the development of a risk appetite and tolerance statement. FCC is in the final stages of implementing its internal control framework policy.

In 2012-13, FCC underwent a review by the Office of the Superintendent of Financial Institutions (OSFI). OSFI's guidance will be used to further enhance and strengthen FCC's risk management practices.</td></tr>
<tr><td rowspan="3">Strengthen and leverage FCC's reputation with all stakeholders</td><td rowspan="2">Media favourability index[19]</td><td>7</td><td>13</td><td>7</td><td>11</td><td rowspan="2">Exceeded</td><td>7</td><td>7</td></tr>
<tr><td colspan="4">Points above the global average for financial institutions</td><td colspan="2">Points above the global average for financial institutions</td></tr>
<tr><td colspan="8">FCC's national reputation program is a comprehensive, centralized and consistent approach to reputation management. In 2012-13, FCC designed software for recording all stakeholder interactions to better manage stakeholder relations across the organization. FCC social media governance and processes were established along with a social media policy. FCC's social media channels gathered support and followers over the year including 2,699 Facebook likes, 2,373 followers on Twitter, and 9,156 YouTube views. FCC published its second corporate social responsibility report in October.

The full report is available at www.fcc-fac.ca/en/About Us/Responsibility/csr_full_report_e.asp</td></tr>
</table>

[18] ERM maturity measure: KPMG Model: the calculation is based on advances in ERM maturity that would be achieved by implementing recommendations from the KPMG ERM Maturity Review conducted in 2012.
[19] Media favourability index: Leger Marketing measures FCC favourability quarterly using numbers, qualitative factors and other criteria. Performance is relative to the global average for financial institutions.

Customer experience

Critical outcome:

In 2020, FCC continues to deliver an extraordinary experience to customers. As a result, the customer experience index score indicates that two out of three customers (65%) rate their experience with FCC as five out of five.

Summary of results:

FCC's strong emphasis on how employees deliver service has led to rising customer experience scores. In 2012-13, the score was 64.1%.

<table>
<tr><th rowspan="2">Strategic objectives</th><th rowspan="2">Performance measures</th><th colspan="2">2011-12</th><th colspan="2">2012-13</th><th rowspan="2">Comments</th><th>2013-14</th><th>2014-15</th></tr>
<tr><th>Target</th><th>Result</th><th>Target</th><th>Result</th><th>Target</th><th>Target</th></tr>
<tr><td rowspan="2">Deliver an extraordinary customer experience</td><td>Customer experience index[20]</td><td>60.0%</td><td>63.6%</td><td>61.0%</td><td>64.1%</td><td>Exceeded</td><td>61.5%</td><td>62.0%</td></tr>
<tr><td colspan="8">In 2012-13, FCC refreshed its customer experience strategy to gain a deeper understanding of key differentiators that customers desire from FCC. This strategy will serve as the foundation for updates to the customer experience at FCC. Results from surveys conducted were used to identify opportunities for service improvements and customer experience.</td></tr>
<tr><td rowspan="3">Demonstrate commitment to the agriculture and agri-food industry, with a particular focus on producers and young farmers</td><td>Total lending to young farmers</td><td>$1.48 billion</td><td>$1.92 billion</td><td>$1.74 billion</td><td>$2.32 billion</td><td>Exceeded</td><td>$2.10 billion</td><td>$2.20 billion</td></tr>
<tr><td>Number of learning program participants</td><td>10,500</td><td>11,457</td><td>11,500</td><td>12,960</td><td>Exceeded</td><td>Measure discontinued</td><td>Measure discontinued</td></tr>
<tr><td colspan="8">In April 2012, Agriculture and Agri-Food Minister Gerry Ritz and FCC President and CEO Greg Stewart launched a new Young Farmer Loan aimed at farmers under 40 years of age. As of March 31, 2013, approvals of the young farmer loans totalled $2.32 billion. FCC provided support to AAFC as it assessed the pressures facing hog producers and also provided input on several aspects of the Growing Forward 2 policy framework. FCC also worked with other industry associations such as the Canadian Agri-Policy Food Institute, the B.C. Ministry of Agriculture and the George Morris Centre.

Since 2006, FCC has offered a venture capital fund to Canadian agriculture to stimulate investment. In 2012-13, FCC successfully launched a new $50 million subordinated debt fund.</td></tr>
<tr><td>Promote agriculture as a dynamic industry that’s important to Canada</td><td colspan="8">In 2012-13, FCC launched Agriculture More Than Ever, a multi-year campaign to improve perceptions of agriculture in Canada. Agriculture More Than Ever provides an opportunity for the industry to change perceptions. As of March 31, 2013, FCC was working with 159 official industry partners including industry associations, trade shows, media entities and government. There were 20,673 unique visitors to the Agriculture More Than Ever website. More information is available at www.agmorethanever.ca.</td></tr>
<tr><td>Expand FCC’s ability to provide customers with leading-edge knowledge</td><td colspan="8">FCC works to continually enhance employee knowledge, skills and expertise to better serve its customers. In 2012-13, FCC’s economic outlook was provided to more than 5,200 customers, employees and industry stakeholders at various FCC and FCC-sponsored events. In 2012-13, FCC provided approximately 260 customer packages for employees to share with customers. Custom knowledge packages are tailored to the customer or prospect with information on their industry, questions to ponder and sources for more information.</td></tr>
</table>

[20] Customer experience index: this number is derived from customer surveys in areas such as satisfaction, loyalty, advocacy, ease of doing business and service resolution.

Efficiency and execution

Critical outcome:

In 2020, FCC continues to be recognized as a highly efficient, effective and agile organization that's easy to do business with. The corporation has an efficiency ratio of 42.0% or lower.

Summary of results:

FCC's efficiency ratio increased from prior year results and is expected to increase slightly in future years (increased from 33.8 cents per dollar of revenue in 2011-12 to 37.3 cents per dollar of revenue in 2012-13); FCC consistently attains its easy-to-do-business indicators (increased from 74.0% in 2007 to 83.0% in 2013). This score exceeds the target of being greater than or equal to the average of the top 50 Canadian employers. This indicator measures how efficiently and effectively employees feel they can accomplish their work.

Strategic objectives	Performance measures	2011-12		2012-13		Comments	2013-14	2014-15
		Target	Result	Target	Result		Target	Target
Optimize how FCC conducts business	Efficiency ratio[21]	41.6%	33.8%*	37.1%	37.3%	Not achieved. Target does not reflect a 2012-13 expense reclassification. Excluding this impact, the target was achieved.	38.6%	39.5%
	Employee engagement index – easy-to-do-business indicators[22]	Greater than or equal to the average of the top 50 employers (2011 average: 78.0%)	83.0%	Greater than or equal to the average of the top 50 employers	83.0% (5.4% above target)	Exceeded	Greater than the average of the top 50 employers	Greater than the average of the top 50 employers
	FCC regularly challenges all areas of the corporation to find better ways to do business and meet customer expectations with respect to service delivery and speed. The most significant initiative ever undertaken by the corporation, the business process and technology transformation program, was completed and launched in 2012-13. The program will streamline and automate many processes, and support lending activities with more flexible technology. In addition, a number of initiatives to improve efficiency and save costs were implemented: the information technology outsourcing arrangement was renegotiated, the enhanced learning management system was launched and changes were made to courier services. These efficiencies will allow FCC to continue to grow, while maintaining its target ratio.							
Expand channel delivery	In 2012-13, FCC conducted channel research and outlined approaches as to how best to deliver service to customers. This research will ensure that the sales channel used by individual customers meets their needs efficiently and effectively. FCC's e-business program will enhance FCC's online presence, deliver a redesigned public mobile presence and website, and improve partner online capabilities. Work to streamline processes in place for existing online secure customer interactions continued in 2012-13. The first release of FCC's new and updated online presence will occur in 2013-14.							

*The historical data has been restated due to prior period adjustments.

[21] Efficiency ratio: refer to glossary for definition.

[22] Easy-to-do-business indicators include co-workers, physical work environment, resources, work processes and work tasks, as measured by the annual Aon-Hewitt Best Employers in Canada study.

Employee experience

Critical outcome:

In 2020, FCC continues to be an employer of choice with a culture that inspires employees to deliver an extraordinary customer experience. FCC's employee engagement score is greater than or equal to the average of the top 50 Canadian employers as measured by the annual Aon-Hewitt Best Employers in Canada study.

Summary of results:

FCC has already achieved the 2020 critical outcome in that employee engagement index results are greater than the average of the top 50 employers as measured by the Aon-Hewitt Best Employers in Canada study. FCC plans to sustain this performance in the future by continuing to use survey results to institute changes required to maintain this level of employee engagement.

Strategic objectives	Performance measures	2011-12		2012-13		Comments	2013-14	2014-15
		Target	Result	Target	Result		Target	Target
Provide an exceptional employee experience	Employee engagement index[23]	Greater than or equal to the average of the top 50 employers (2011 average: 78.0%)	84.0%	Greater than or equal to the average of the top 50 employers	86.0% (7.0% above target)	Exceeded	Greater than the average of the top 50 employers	Greater than the average of the top 50 employers
	Employee engagement index - employee experience indicators[24]	Greater than or equal to the average of the top 50 employers (2011 average: 75.0%)	81.0%	Greater than or equal to the average of the top 50 employers	82.0% (6.4% above target)	Exceeded	Greater than the average of the top 50 employers	Greater than the average of the top 50 employers
	Stellar leadership enhances the employee experience by inspiring performance, developing employees and ensuring that FCC continues to run a successful business. FCC believes that a positive employee experience leads to an extraordinary customer experience. In 2012-13, FCC implemented various initiatives to deepen and strengthen employee culture. FCC redesigned all existing leadership development programs and surveyed all employees to identify culture gaps. From these gaps, a new culture refresher course was developed and will be implemented in 2013-14. All tactics identified in a diversity strategy and employment equity plan were completed. Highlights included delivery of online diversity training and an accommodation brochure to all employees, as well as development of a corporate diversity measure.[25]							

[23] Performance is measured by the annual Aon-Hewitt Best Employers in Canada study.

[24] Employee experience indicators include the average scores from the following measures: career opportunities, learning and development, intrinsic motivation, managing performance and work/life balance as measured by the annual Aon-Hewitt Best Employers in Canada study.

[25] Diversity measure: Reduce diversity gap by 12. Based on the Goal Setting Report in the Workplace Equity Information Management System of Human Resources and Skills Development Canada.

<table>
<tr><th rowspan="2">Strategic objectives</th><th rowspan="2">Performance measures</th><th colspan="2">2011-12</th><th colspan="2">2012-13</th><th rowspan="2">Comments</th><th>2013-14</th><th>2014-15</th></tr>
<tr><th>Target</th><th>Result</th><th>Target</th><th>Result</th><th>Target</th><th>Target</th></tr>
<tr><td rowspan="2">Strengthen leadership capabilities</td><td>Leadership index[26]</td><td>Greater than the average of the top 50 employers (2011 average: 72.0%)</td><td>78.0%</td><td>Greater than the average of the top 50 employers</td><td>81.0% (9.0% above target)</td><td>Exceeded</td><td>Greater than the average of the top 50 employers</td><td>Greater than the average of the top 50 employers</td></tr>
<tr><td colspan="8">In 2012-13, FCC reviewed existing leadership development programs to ensure that they were integrated and worked well together. A new leadership program, Leadership Effectiveness, was developed and delivered to all FCC leaders. This program provided additional clarity about leadership expectations at FCC.</td></tr>
<tr><td>Expand and enhance employee knowledge</td><td colspan="8">FCC’s learning strategy consists of two main components: the Lending Essentials program that includes training to develop the skills and knowledge necessary for employees to serve customers, and an initiative designed to improve employee access to specialized agriculture and financial knowledge via the intranet, Internet, collaboration tools and podcasts.

FCC has formalized knowledge competency requirements into its performance management process for customer-facing employees.</td></tr>
</table>

[26] Leadership indicators take the average score from the following drivers to calculate the leadership index score: senior leadership, manager, recognition, career opportunities and managing performance as measured by the annual Aon-Hewitt Best Employers in Canada study.

Financial performance review

Overview

As part of its strategic planning process, FCC develops a comprehensive plan that includes targeted financial measures for the coming fiscal year. In 2012-13, FCC exceeded its plan targets for most major financial measures.

In 2012-13, loans receivable growth was 8.3%, exceeding the target growth of 6.1%. The primary driver of this growth was an 8.8% increase in disbursements. The allowance for credit losses as a percentage of loans receivable decreased by 0.2% in 2012-13 to 2.5%. Increased net interest income offset the impact of cost increases resulting in an efficiency ratio of 37.3%, which was behind the 2012-13 plan target by 0.2% due to an expense reclassification.

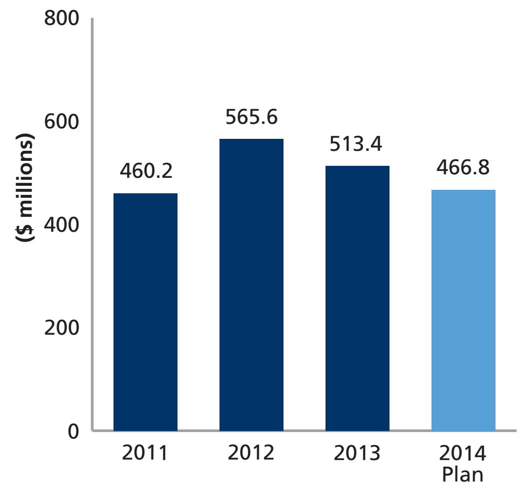
Debt to equity improved from 7.1:1 in 2011-12 to 6.7:1 in 2012-13; however, FCC did not achieve its target of 6.2:1 primarily due to increased borrowing required to support higher disbursements. FCC's return on equity was 16.4%, exceeding its target of 13.9%. This was due to net income of $513.4 million, exceeding the plan target of $445.0 million.

Consolidated operating results

Net income overview

FCC's 2012-13 net income decreased by $52.2 million from the previous fiscal year primarily due to a decrease in non-interest income, an increase in the provision for credit losses and an increase in administration expenses. These factors were partially offset by increased net interest income. Net income is projected to decrease by 9.1% in 2013-14, due mainly to a higher provision for credit losses and increased administration expenses.

Net income*

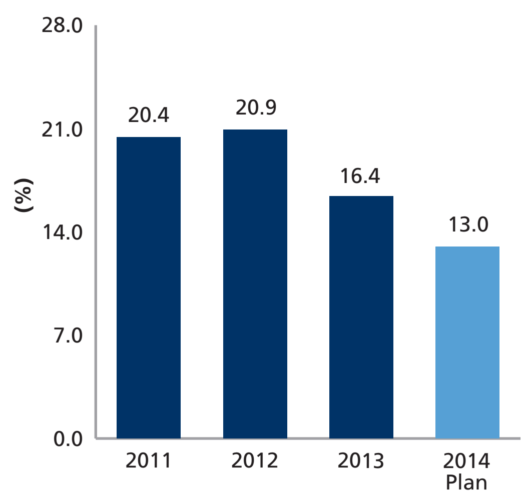


*The historical data has been restated due to prior period adjustments.

Return on equity

Return on equity decreased to 16.4% in 2012-13 from 20.9% in 2011-12 primarily due to lower net income. This was partially offset by a higher dividend. Return on equity is projected to decrease to 13.0% in 2013-14 as a result of lower net income.

Return on equity*



*The historical data has been restated due to prior period adjustments.

Net interest income and margin

Changes in net interest margin and portfolio volume are the primary causes of changes in net interest income. The following table contains historical net interest margins and interest rate spreads. Interest rate spreads are the difference between interest rates earned on interest-earning assets and interest rates paid on interest-bearing liabilities.

Net interest margin*

	2013		2012		2011	
($ millions)	Average balance	Rate	Average balance	Rate	Average balance	Rate
Earning assets:						
Fixed loan principal balance	8,601.3	4.92%	7,173.4	5.52%	6,388.1	6.06%
Variable loan principal balance	15,510.0	3.94%	14,874.8	3.95%	13,921.7	3.72%
Investments	1,078.9	1.05%	1,017.6	1.05%	995.9	0.80%
Venture capital investments	61.6	3.14%	55.6	4.33%	50.1	3.13%
Total earning assets	25,251.8	4.27%	23,121.4	4.43%	21,355.8	4.44%
Total interest-bearing liabilities	21,581.1	1.00%	19,944.8	1.11%	18,653.9	1.04%
Total interest rate spread		3.27%		3.32%		3.40%
Impact of non-interest bearing items		0.13%		0.15%		0.12%
Net interest margin		3.40%		3.47%		3.52%

*The historical data has been restated due to prior period adjustments.

Fixed interest rates in the market decreased over the past few years due to slow global economic recovery. As a result, fixed lending rates continued to decrease in 2012-13 as new and renewing loans were added to the portfolio at lower rates. Variable interest rates remained similar to 2011-12 due to the fact that the prime rates in Canada remained unchanged throughout 2012-13. Venture capital investment rates declined in 2012-13 due to a shift in portfolio composition. The portfolio has progressed from a mix of revenue-generating debt investments and mature equity positions to less mature equity related positions that are expected to provide future returns.

In 2012-13, interest rates on the corporation's interest-bearing liabilities were lower than 2011-12 but did not decrease by the same magnitude as the rates on interest-bearing assets. Lower interest rates on new long-term funding was the main reason for the decrease. Also contributing to the decrease was the $10.9 million cost incurred in 2011-12 related to capital market debt repurchased. These decreases were partly offset by the increase in short-term funding rates over the prior year as the funding yield curve supporting variable rate loans increased slightly.

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

Net interest income and margin*

($ millions)	2014 Plan	2013	2012	2011
Net interest income	887.9	861.4	802.4	753.8
Average total assets	26,679.9	25,310.7	23,133.5	21,423.7
Net interest margin (%)	3.33	3.40	3.47	3.52
Year-over-year change in net interest income due to:				
Increases in volume	49.0	71.3	58.8	–**
Changes in margin	(22.5)	(12.3)	(10.2)	–
Total change to net interest income	26.5	59.0	48.6	–

*The historical data has been restated due to prior period adjustments.
**Data from 2011 is not comparable due to the transition from Canadian GAAP (Generally Accepted Accounting Principles) to IFRS (International Financial Reporting Standards).

FCC's net interest income increased by 7.4% in 2012-13 to $861.4 million. Average total assets increased by 9.4% to $25,310.7 million due to increased loans receivable. Net interest margin decreased by 0.07% due to lower lending margins resulting from a narrowing interest rate spread. Net interest margin is expected to decrease to 3.33% in 2013-14 due to borrowing cost increases on variable-rate assets and a continued low fixed-rate interest environment, both of which are compressing the interest rate spread.

Non-interest income

FCC generated other income of $15.6 million through FCC Ventures, FCC Insurance, and FCC Management Software. This was down $35.5 million from the previous year primarily due to a $34.0 million gain on the sale of a venture capital investment in 2011-12. FCC anticipates that further gains of approximately $5.4 million will be realized in the future, subject to the fulfilment of certain conditions of the sale agreement. Non-interest income is expected to be $19.0 million in 2013-14.

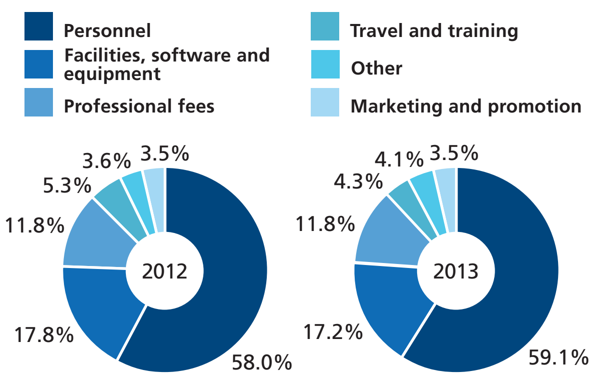
Administration expense

FCC's administration expenses represent the costs associated with day-to-day operations and costs related to specific projects that support operations and the achievement of strategic objectives. The efficiency ratio measures the percentage of income earned that is spent on business operations. A low efficiency ratio indicates efficient use of corporate resources. FCC's efficiency ratio increased from 33.8% in 2011-12 to 37.3% in 2012-13, due primarily to increased administration expenses, compounded by lower non-interest income.

The administration expense increase is primarily due to salaries and benefits related to additional resources required to support business growth and strategic initiatives. Expenses related to FCC's defined benefit pension plan increased significantly due to higher current service cost resulting from increased plan membership combined with a decrease in the discount rate used to determine benefits costs.

As indicated in the chart below, personnel expenses were the largest contributor to administration expenses in 2012-13, and represented 59.1% of total administration expenses.

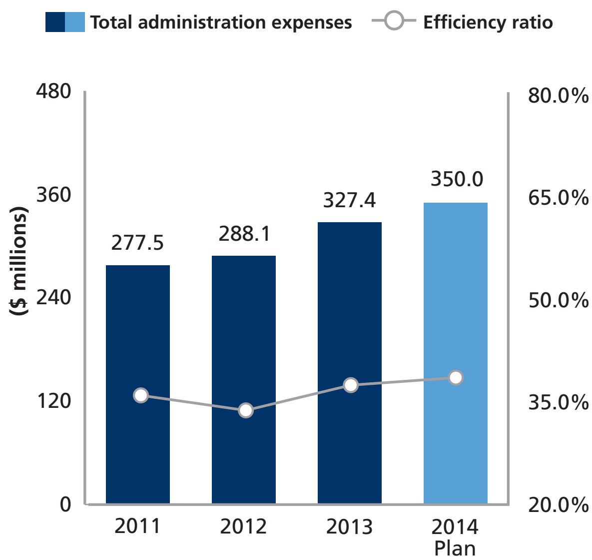
Administration expenses by category*



*The historical data has been restated due to prior period adjustments.

Total administration expenses are projected to increase to $350.0 million in 2013-14 and the efficiency ratio is expected to increase to 38.6%. The increased administration expenses will be due to: additional capacity needed to support business growth; increased pension costs caused by changes in pension plan accounting; and normal inflationary pressures. FCC will continue to conduct business in a manner that supports the Government of Canada's focus on fiscal restraint.

Administration expenses*



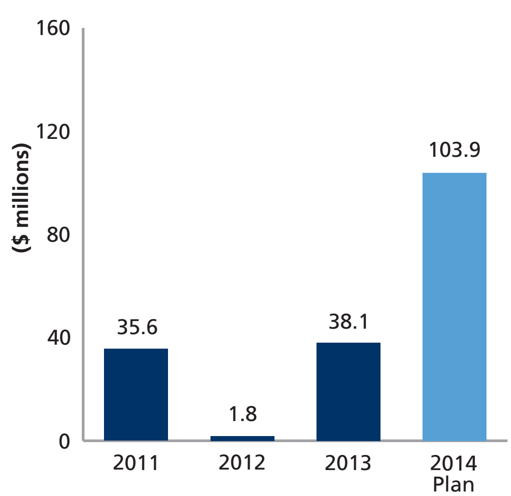
*The historical data has been restated due to prior period adjustments.

Provision for credit losses

The provision for credit losses is charged against net income by an amount necessary to bring the allowance for credit losses to the appropriate level.

The provision for credit losses increased $36.3 million from 2011-12 to $38.1 million in 2012-13. The low provision in 2011-12 was the result of a reduction in the required allowance due to improved portfolio health. This was partially offset by a change in estimate based on a refinement of the underlying assumptions used to calculate the allowance for credit losses and an increase in the allowance required to support the growth in loans receivables. In 2012-13, the provision increased resulting from a higher required allowance for credit losses. This was due primarily to growth in the portfolio, partially offset by improvements in portfolio health. In 2013-14, the provision is expected to increase to $103.9 million, primarily due to portfolio growth. The allowance as a percentage of closing loans receivable is expected to increase slightly.

Provision for credit losses



Business lines

Overview

FCC provides financing, insurance, software, learning programs and other business services to producers, agribusinesses and agri-food operations. FCC serves more than 100,000 customers across Canada through its business lines:

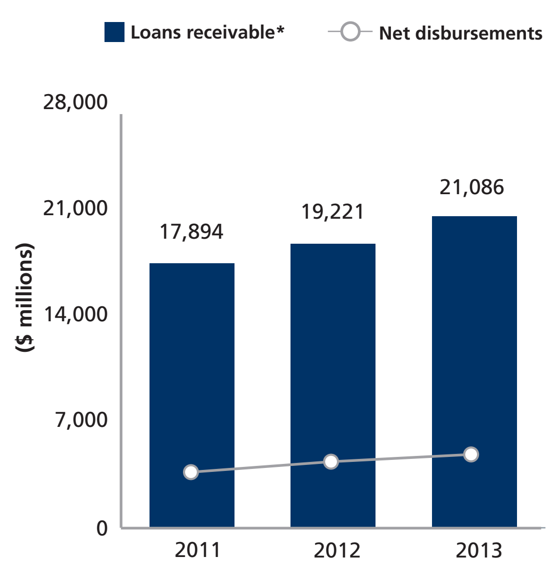
- primary production financing
- agribusiness and agri-food financing
- FCC Alliances
- FCC Ventures
- FCC Insurance
- FCC Learning
- FCC Management Software

Each business line offers specific products and services tailored to address the needs of Canadian agriculture. Lending products include standard loans with variable or fixed interest rates and many term, amortization and payment frequency options. The primary driver of FCC's financial performance is lending activity conducted through primary production financing, agribusiness and agri-food financing, and FCC Alliances.

Primary production financing provides loans to primary producers and is FCC's largest business line. Customers with loans under this business line produce raw commodities such as crops, cattle, hogs, poultry, sheep and dairy, as well as fruits, vegetables and alternative livestock. This business line also includes, but is not limited to, lending to vineyards, greenhouses, forestry and aquaculture.

Primary production financing comprised 83.8% of FCC's total loans receivable balance in 2012-13. Loans receivable increased $1,865 million from 2011-12, resulting in a portfolio of $21,086 million. The rate of loans receivable growth increased to 9.7% from 7.4% the previous fiscal year. The main driver of growth in the primary production financing portfolio was a 10.9% increase in net disbursements to $5,038 million.

Primary production financing

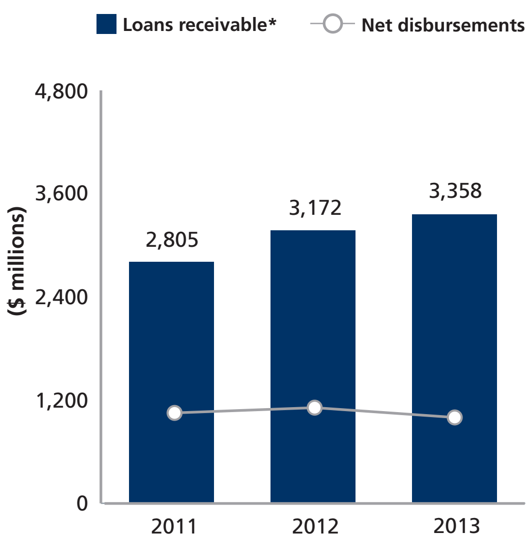


*Excludes deferred loan fees.

Agribusiness and agri-food financing provides loans to customers who support primary producers. These customers are typically suppliers or processors who sell to, buy from, or otherwise serve primary agriculture producers. They also include, but are not limited to, equipment manufacturers and dealers, input providers, wholesalers, marketing firms and processors.

Agribusiness and agri-food financing loans receivable grew 5.9% from 2011-12 to $3,358 million in 2012-13. However, net disbursements decreased by 10.2% to $968 million.

Agribusiness and agri-food financing

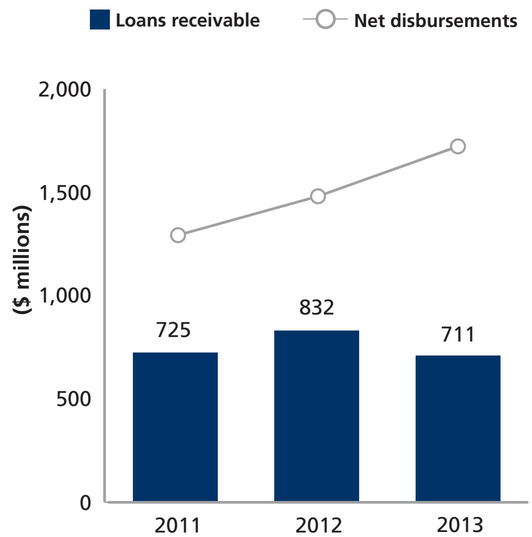


*Excludes deferred loan fees.

FCC Alliances goes beyond traditional lending to provide financing to customers who do business through contractual relationships with equipment dealers, crop input retailers, co-operatives, livestock dealers and manufacturing partners.

FCC Alliances loans receivable declined by 14.5% from 2011-12 to $711 million in 2012-13. Net disbursements increased by 16.3% to $1,740 million. Disbursements during the year exceeded loans receivable at the end of the year due to the short-term nature of the lending products in this business line.

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 three limited partnership funds managed by Avrio Capital Inc. Avrio Fund I (launched in 2006) and Avrio Fund II (launched in 2011) are equity investment funds. The Avrio Subordinated Debt Fund, launched in January 2013, focuses exclusively on subordinated lending. Each fund received a $50-million capital commitment from FCC.

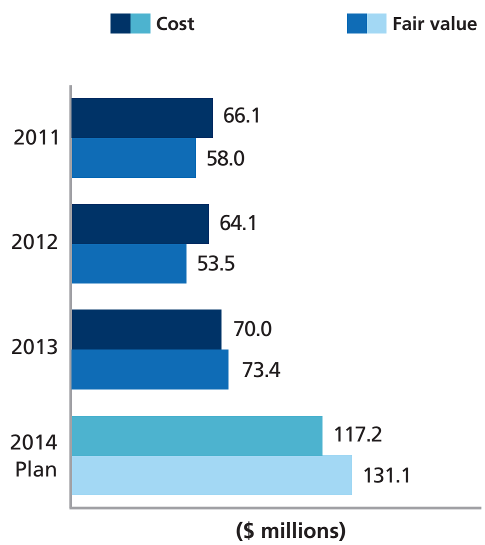
FCC held direct investments in the FCC Fund, which was formed in 2001 and closed in 2010. All investments made through this fund have been exited.

The investment objectives of the Avrio funds are focused on commercialization-to-growth or recapitalization of mature businesses in the industrial bio-products, nutraceutical ingredient, food and agricultural technology sectors. Avrio Fund I is now closed and future investments are limited to follow-on funds that may be required by existing investee companies. New investments are made through Avrio Fund II and the Subordinated Debt Fund. In June 2012, Avrio Fund II received an additional $40.9 million in committed capital provided by outside investors.

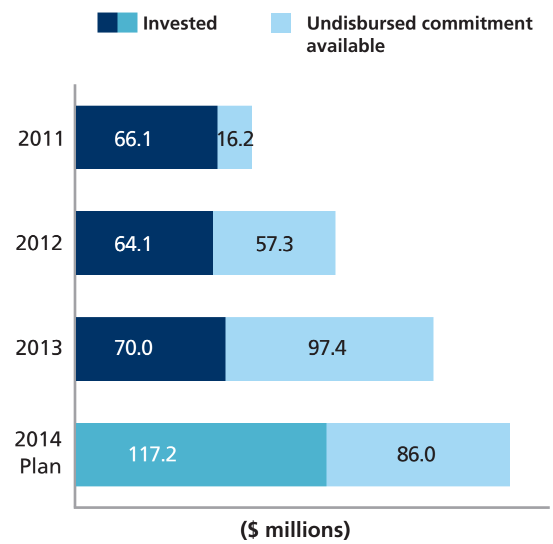
In 2012-13, FCC Ventures earned $0.6 million in income, primarily related to fair value gains in Avrio Fund I and Avrio Fund II as well as a deferred gain from a prior FCC Fund investment. These gains were mainly offset by management fees in Avrio Fund I and Avrio Fund II. During the year, $17.1 million was invested, bringing total funding to the agriculture industry since inception of FCC Ventures to $135.4 million. In addition, co-investment partners have contributed another $187.9 million to the industry since inception. Further detail of the investment carrying value amounts can be found in Note 9 of the Notes to Consolidated Financial Statements.

The venture capital portfolio is expected to increase in the next year as significant investment increases in Avrio Fund II and the Avrio Subordinated Debt Fund are expected to offset divestitures in Avrio Fund I. FCC Ventures is pursuing investment opportunities in other funds in 2013-14 to further expand its venture capital offering to the industry.

Venture capital investments



Venture capital commitments



Venture capital investments outstanding at fair value

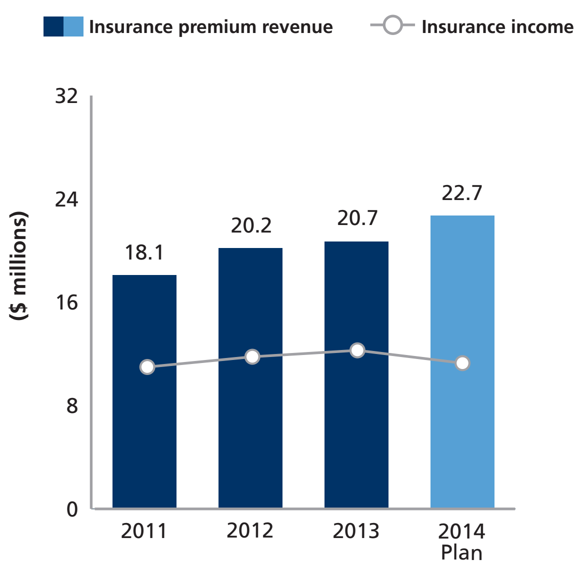
($ millions)	FCC Fund	Avrio Fund I	Avrio Fund II	Avrio Sub Debt Fund	Total
Balance March 31, 2012	2.4	47.4	3.7	0.0	53.5
Investments during the period	0.0	0.9	16.2	0.0	17.1
Repayments and divestitures during the period	0.0	0.0	0.0	0.0	0.0
Change in fair value	(2.4)	3.8	1.1	0.0	2.5
Change in accrued interest	0.0	(0.2)	0.5	0.0	0.3
Balance March 31, 2013	**0.0**	**51.9**	**21.5**	**0.0**	**73.4**

FCC Insurance offers creditor life and accident insurance to protect customers, their businesses and their families. Sun Life Assurance Company of Canada underwrites and administers FCC's insurance programs.

Life insurance premiums, net of claims, contribute directly to FCC's net income. Insurance premium revenue has increased consistently over the last several years as a result of FCC's growing portfolio and emphasis on insurance coverage as part of a customer's complete loan package. Insurance premium revenue increased to $20.7 million in 2012-13, compared to $20.2 million in 2011-12. Net insurance income varies from year to year depending on the claims incurred. In 2012-13, total incurred claims remained unchanged at $8.3 million. This resulted in net insurance income of $12.4 million in 2012-13, compared to $11.9 million in 2011-12.

In 2013-14, insurance premium revenue is expected to increase by 9.7% as a result of continued portfolio growth. Net insurance income is expected to decrease by 8.1%.

Insurance income



FCC Learning provides Canadian producers and agribusiness operators with information and training to help advance their farm management practices. In 2012-13, 12,960 people attended 160 core FCC Learning events, and 24,230 people participated in 129 events in FCC partner programs. FCC's e-learning program had 120,334 video views.

In 2013-14, FCC Learning will continue to offer a combination of e-learning and face-to-face events to meet the ever-changing business management needs of the agriculture industry.

FCC Management Software is focused on developing, promoting and improving farm management software for the Canadian agriculture industry. In 2012-13, net sales revenue, including product support, decreased slightly to $1.8 million. In 2013-14, sales revenue is expected to reach $2.0 million.

Financial position

FCC continues to maintain a strong balance sheet, with adequate capital and good risk management practices. The following section discusses FCC's financial position and provides an analysis of FCC's largest asset: loans receivable. This section also discusses FCC's credit quality, funding and liquidity, and capitalization.

Loans receivable

Market share

According to Statistics Canada, farm debt outstanding increased by 6.0% to $72,199.6 million in 2012. FCC increased its market share by 0.8% to 30.2% in 2012. FCC's proportion of Canada's farm debt outstanding of $21,776.1 million remains second to the chartered banks at $25,561.8 million.

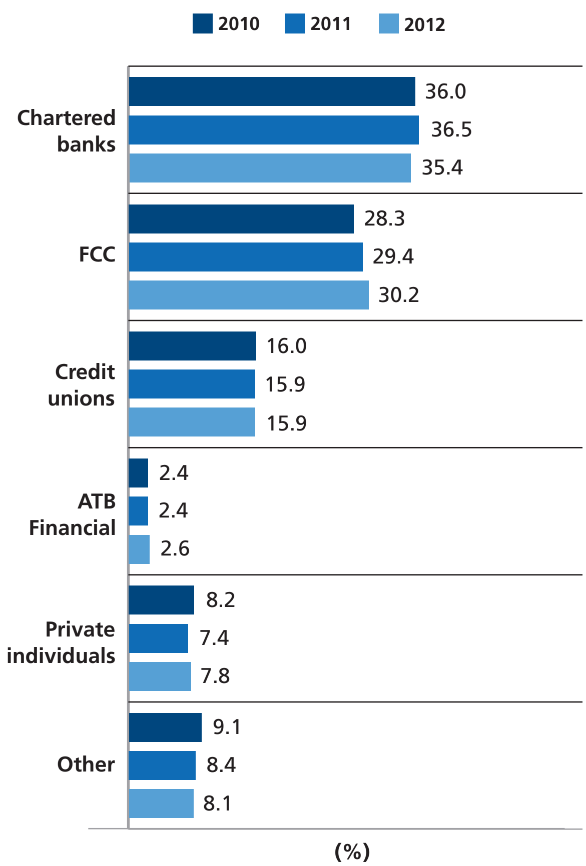
Total loans receivable

In 2012-13, FCC experienced its 20th consecutive year of portfolio growth. Loans receivable increased by $1,931 million from 2011-12, moving the portfolio from $23,202 million to $25,133 million. Net disbursements increased by $629 million from 2011-2012 to $7,746 million.

The growth in loans receivable was largely driven by growth in disbursements in all major agriculture enterprises, with the exception of value-added. Primary production financing and FCC Alliances financing made up 87.5% of FCC's net disbursements in 2012-13.

Growth is expected to slow in 2013-14, with loans receivable increasing by 4.4% or $1,110 million. This slower growth can be attributed to a projected $132 million reduction in net disbursements to $7,614 million. Renewal and prepayment rates are expected to be to 97.0% and 6.8% respectively.

Market share as at December 31*



*Historical results are updated annually by Statistics Canada.

Loans receivable

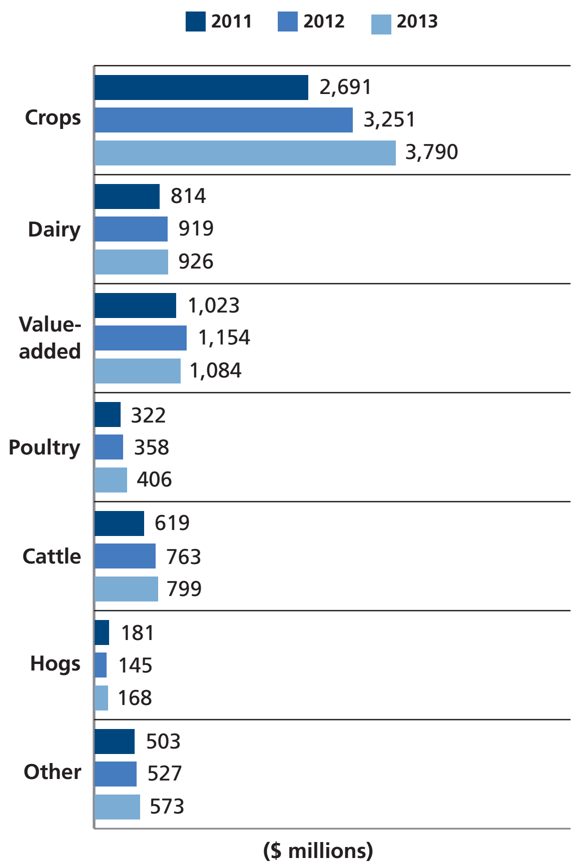
Loans receivable composition by enterprise

FCC lends to all agriculture enterprises. This diversifies FCC's lending portfolio, reduces concentration risk and helps ensure the corporation's long-term viability.

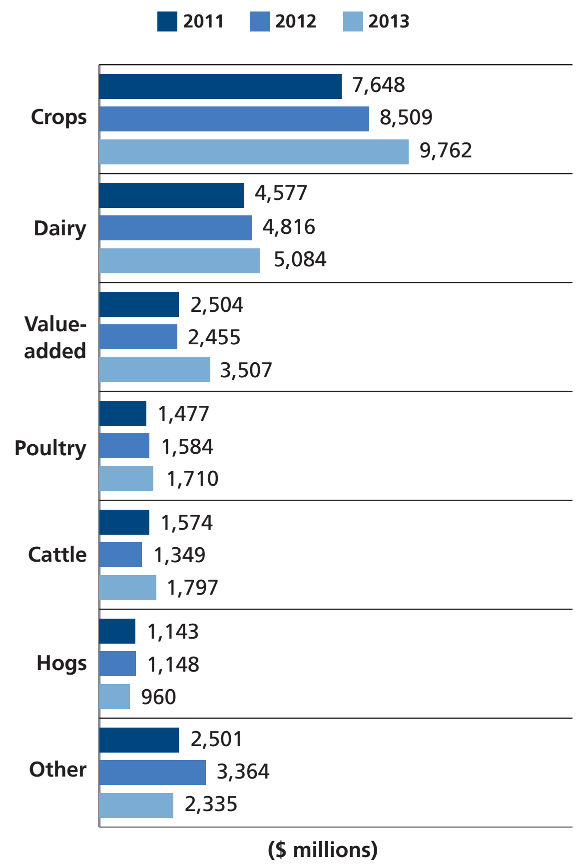
In 2012-13, net disbursements increased in all major enterprises except value-added, which experienced a decline of 6.1%. The most significant increase in net disbursements was in crops, which experienced an increase of $539 million.

FCC experienced loans receivable growth in all sectors with the exception of hogs and other. In 2012-13, the hogs and other sectors decreased by 16.4% and 30.6%, respectively. Other is composed of maple syrup, sheep, mixed enterprises and many smaller enterprise types. The largest loans receivable year-over-year growth was in the value-added and cattle sectors, which increased 42.9% to $3,507 million and 33.2% to $1,797 million, respectively.

Net disbursements by enterprise



Loans receivable by enterprise



Loans receivable composition by region

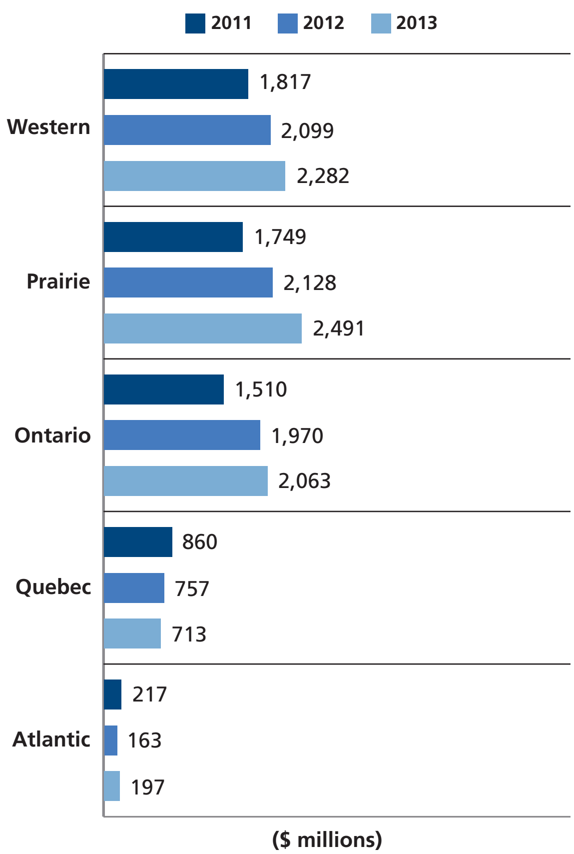
By lending to all agriculture sectors across Canada, FCC spreads risk geographically while promoting agriculture as a strong and vibrant industry.

In 2012-13, net disbursements increased in all regions, with the exception of Quebec. The largest increase was in the Atlantic region where net disbursements increased by 20.9%.

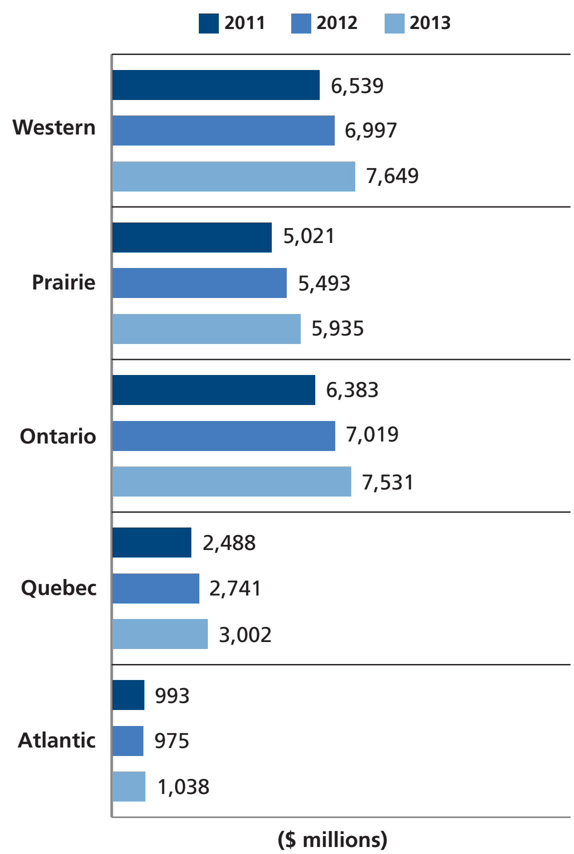
The Western and Prairie regions comprised over half of net disbursements and 54.0% of loans receivable. Their overall proportion of net disbursements increased by 2.2% to 61.6% from 2011-12.

In 2012-13, FCC experienced loans receivable growth across Canada. The Western region was the largest individual contributor to loans receivable in 2012-13 and increased by 9.3% to $7,649 million. The second largest contributor was the Ontario region which increased by 7.3% to $7,531 million in 2012-13.

Net disbursements by region



Loans receivable by region*



*Excludes deferred loan fees.

Credit quality

FCC continually monitors its portfolio and the industry to proactively identify and develop solutions to help customers through difficult times. FCC has developed customized programs and product options that provide flexibility and support customers both in times of challenge and opportunity. Customer assistance programs and product options such as payment deferral may understate the impact of economic events on impaired loans. FCC closely monitors the number of customers using support programs and deferral options to gauge the portfolio's overall health and ensure that proper risk management practices are employed.

FCC employs sound business practices 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 risks are within the acceptable tolerances. FCC has the ability to withstand further losses due to its strong equity position.

Impaired loans

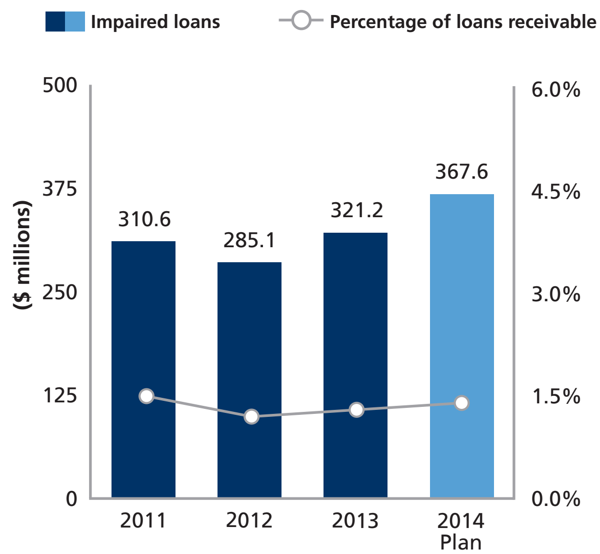
Impaired loans are loans that, in management's opinion, have no reasonable assurance of a timely collection of the full amount of principal and interest. In addition, any loan that is $500 or more in arrears for more than 90 days and has insufficient security is classified as impaired.

In 2012-13, impaired loans increased by $36.1 million to $321.2 million. As a percentage of loans receivable, this was an increase of 0.1% to 1.3%. In 2013-14, impaired loans are projected to increase by $46.4 million to $367.6 million due to growth in loans receivable.

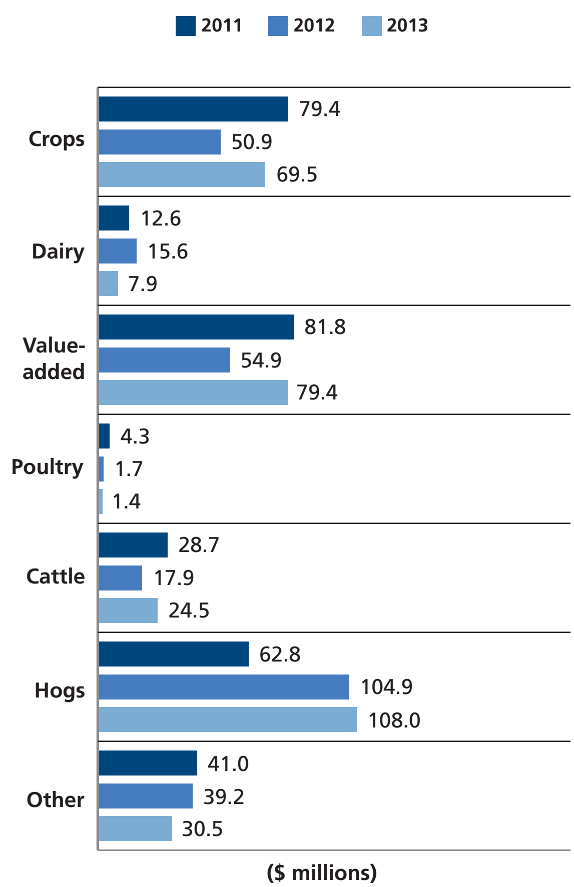
At an enterprise level, impaired loans for value-added and crops experienced the largest year-over-year increase of $24.5 million and $18.6 million, respectively. Dairy and other enterprises experienced the largest year-over-year decrease of $7.7 million and $8.7 million, respectively.

Through its customer support programs, FCC proactively supports individual customers and enterprises during financial difficulties. In 2012-13, FCC made payment schedule adjustments to 1,337 loans, 148 of which were part of its enterprise-specific support programs. Payment schedule adjustments as a percentage of loans receivable remained low at 2.3% in 2012-13.

Impaired loans



Impaired loans by enterprise



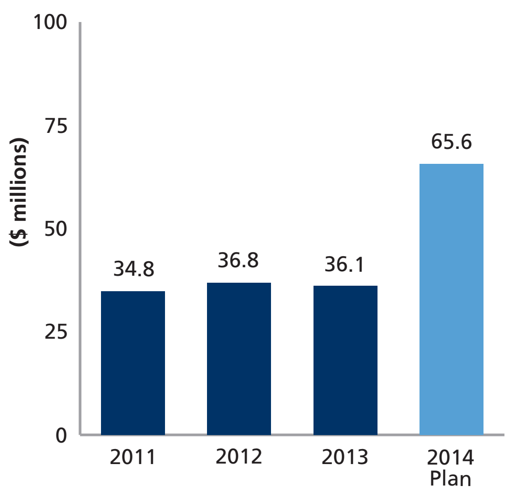
Writeoffs

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

In 2012-13, the amount of writeoffs, net of recoveries, decreased to $36.1 million. Writeoffs as a percentage of loans receivable remained low at 0.1%.

In 2013-14, writeoffs are projected to increase by $29.5 million to $65.6 million due to expected loans receivable growth. Writeoffs as a percentage of loans receivable are expected to increase to 0.2%.

Writeoffs*

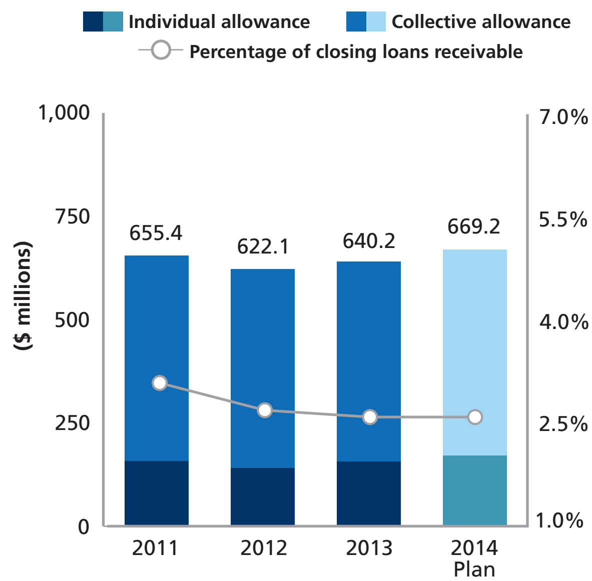


*Net of recoveries.

Allowance for credit losses

The allowance for credit losses is an estimate used to adjust loans receivable to reflect the 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 inputs – coupled with changes in the external operating environment – may cause the realized credit losses to be materially different from current assessments, requiring an increase or decrease in the provision for credit losses.

Allowance for credit losses



In determining the allowance for credit losses, management segregates credit losses into two allowance components: individual and collective. The individual allowance assesses risk based on an individual review of each loan or lease in the portfolio. The collective allowance assesses risk on an aggregated basis by grouping loans and leases with similar credit risk characteristics. For more information about the allowance calculation process and its components, refer to Note 2 and Note 8 of the Notes to the Consolidated Financial Statements.

In 2012-13, the allowance for credit losses increased by $18.1 million to $640.2 million due to portfolio growth. The allowance for credit losses as a percentage of closing loans receivable decreased from 2.7% to 2.5%, as a result of an improvement in the overall health of the portfolio. In 2013-14, the allowance is expected to increase to $669.2 million, while the allowance as a percentage of loans receivable is expected to increase slightly.

Funding and liquidity

Funding activity

On April 21, 2008, FCC began borrowing directly from the federal government under the Crown Borrowing Program. FCC continues to carry capital market debt raised before this date.

During 2012-13, FCC raised short- and long-term funds through the following programs:

- Domestic Commercial Paper Program (for U.S. dollars only)
- 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 Crown Borrowing Program and the Domestic Commercial Paper Program. The outstanding short-term borrowings at March 31, 2013, were $10,045.9 million, compared to $9,568.7 million at March 31, 2012. Of the total short-term borrowings outstanding, $9,771.0 million were funds from the Crown Borrowing Program.

Long-term funding

Long-term funding consists of borrowings with a term-to-maturity of more than one year, which includes fixed-rate borrowings and floating rate notes. Floating rate notes have floating interest rates that reset based on one-month or three-month T-bill rates. In 2012-13, FCC borrowed $5,356.2 million in long-term funds, an increase from $3,575.7 million the previous fiscal year. In 2012-13, all long-term borrowing was through the Crown Borrowing Program.

Overall, the total growth in long-term funding during 2012-13 was $1,133.3 million or 10.5%. This is consistent with the overall growth of the loan portfolio of $1,931.0 million or 8.3% during the same time period.

Credit ratings

New and outstanding capital market debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. Moody's Investors Service and Standard & Poor's did not change FCC's debt ratings during 2012-13. FCC's debt ratings as of March 31, 2013, are detailed below.

	Long-term	Short-term
Moody's Investors Service	Aaa	P-1
Standard & Poor's	AAA	A-1+

Financial instruments

Most of FCC's balance sheet is comprised of financial instruments, including 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 long-term profitability. Derivative risk management is discussed further in Note 24 of the Notes to the Consolidated Financial Statements. Fair value measurement of FCC's financial instruments is described in Note 19 of the Notes to the Consolidated Financial Statements.

Cash flow

Cash and cash equivalents increased $13.7 million from $904.2 million at March 31, 2012, to $917.9 million at March 31, 2013. In 2012-13, cash of $1,571.8 million was provided by financing activities and $1,425.7 million and $133.1 million was used in operating and investing activities, respectively.

Capital management

FCC must ensure that its financial and risk management practices keep pace with its business and the financial industry. FCC will continue to safeguard its reputation and strong financial position so that it can maintain its ability to serve the industry through all economic cycles. In 2012-13, FCC began implementation of a capital management framework from which a capital adequacy measure was derived. This framework uses best practices in bank management to assess the capital needs of the corporation. Through the capital adequacy measure, FCC can ensure that it has enough equity and other forms of capital on hand to remain solvent if a severe downturn in the agriculture industry were to occur.

In 2013-14, FCC will continue to enhance its capital management practices and ensure an adequate level of capital to support future growth and related risks.

Capitalization

At the end of 2012-13, FCC's gross assets were $26,511.0 million, of which $4,178.9 million was supported by equity and the allowance for credit losses. At this level of capitalization, 15.8% of assets did not require external debt financing. In 2013-14, FCC expects that 16.5% of assets will not require external debt financing due to lower portfolio growth relative to growth in retained earnings.

($ millions)	2014 Plan	2013	2012	2011
Allowance for credit losses	**669.2**	**640.2**	622.1	655.4
Contributed surplus	**547.7**	**547.7**	547.7	547.7
Retained earnings	**3,177.0**	**2,777.8**	2,347.0	1,943.0
Accumulated other comprehensive income	**148.9**	**184.8**	203.5	181.8
Non-controlling interest in special purpose entity	**34.0**	**28.4**	16.1	13.4
Total capitalization	**4,576.8**	**4,178.9**	3,736.4	3,341.3
Gross assets	**27,657.1**	**26,511.0**	24,451.1	22,526.2
Capitalization as a percentage of gross assets (%)	**16.5**	**15.8**	15.3	14.8

* The historical data has been restated due to prior period adjustments.

Debt to equity

FCC uses debt to equity as a key measure to assess capital adequacy. It is also used in financial management as 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 and financial viability.

At the end of 2012-13, FCC's debt-to-equity ratio remained below its legislated limit of 12:1.

From 2011-12 to 2012-13, FCC's debt-to-equity ratio improved from 7.1:1 to 6.7:1. In 2013-14, this ratio is projected to further improve to 6.1:1, due in part to 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 2012-13, growth in equity was 13.6%, which exceeded the portfolio growth of 8.3%.

Enterprise risk management

Managing risk to protect FCC and create value

As a financial institution, FCC understands that risk is inherent in virtually every decision. Whether lending to customers, defining business priorities or deciding where to invest, FCC takes potential risks into account.

FCC is diligent about enterprise risk management (ERM), which is integrated with strategic planning across business lines and corporate initiatives. The corporation is focused on continually improving its approach to ERM, including the continued implementation of an ERM framework and the development of a risk appetite statement and risk tolerances.

Risk governance

The FCC Board of Directors oversees the corporation's risk governance framework, which is supported by policies and committees that guide corporate decision-making.

A number of internal committees develop and monitor aspects of FCC's overall risk management policies, processes and practices. These committees report regularly to the President and CEO and the Executive Management Team (EMT), as required, or directly to the Board.

FCC Board of Directors

The FCC Board of Directors oversees risk management and ensures that policies, control systems and practices are established to manage key business and financial risks. Three committees assist the Board in fulfilling its risk governance responsibilities.

The **Corporate Governance Committee** provides recommendations to the Board regarding all FCC corporate governance matters, including strategic planning and ERM programs and processes, the code of conduct and ethics, corporate social responsibility and the reputation policy.

The **Audit Committee** assists the Board in fulfilling its oversight responsibilities with respect to the corporation's financial affairs, including integrity of financial reporting, effectiveness of internal controls, regulatory compliance, ethical conduct and performance of FCC's internal and external audit functions.

The **Human Resources Committee** is responsible for advising the Board about all matters relative to the President and CEO, including required skills, goal setting and performance reviews. The committee is also responsible for reviewing the corporation's compensation structure and succession plans for key employees and senior management.

FCC risk committees

The **President and CEO** and **EMT** are responsible for corporate decision-making, including managing the corporation's principal risks. They're also responsible for making decisions concerning risk-related strategies that have been escalated by the following committees.

The **Asset Liability Committee** (ALCO) directs FCC's asset and liability management function, including:

- establishing and maintaining portfolio risk management policies and processes
- implementing balance sheet interest rate policies
- overseeing loan pricing
- integrating asset and liability management with corporate strategies
- achieving portfolio return targets

The **Credit Committee** approves large loan transactions and requests for pre-authorized credit as per FCC's credit policies. The committee ensures that approved lending transactions fall within an appropriate risk tolerance.

The **Credit Policy Committee** ensures that FCC adheres to industry best practices and federal, provincial and regional laws and regulations when establishing credit policy and credit risk tolerance.

The **ERM Steering Committee** reviews and recommends FCC's ERM framework, policies, strategies and subsequent enhancements to EMT. The committee also approves annual corporate action plans to mitigate significant risks.

The **Reputation Steering Committee** acts as a focal point for the co-ordination of reputation issues. The committee:

- provides a corporate approach and enterprise-wide perspective on FCC's reputation
- offers counsel on reputation risks
- monitors issues and provides reports to the President and CEO, EMT and the Board

Review of FCC's risk management

FCC has undergone a review of risk and risk management practices by the Office of the Superintendent of Financial Institutions (OSFI). OSFI is the prudential regulator and supervisor for federally regulated financial institutions in Canada. Results from the review will be used to strengthen and improve FCC's management of risk.

FCC's principal risks

Risk is the potential that an event, action or inaction may threaten FCC's ability to achieve its business mandate and objectives. FCC has identified five principal risk areas: credit, market, operational, strategic and reputation.

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 financial obligations to FCC. Credit risk on loans is the most significant risk that the corporation faces.

The Board is responsible for approving the corporation's credit risk tolerance and relies on a number of committees, divisions and business units to effectively manage credit risk.

On an annual basis, the Board and ALCO approve a portfolio diversification plan and key risk measures. Leveraging financial industry best practices, FCC has developed a credit capital model and is implementing an overarching capital management framework.

Credit risk assessment starts with individual transactions. FCC lending and credit risk employees assess and manage credit risk by ensuring that individual loans are consistent with defined policies. Certified appraisers in the Valuations and Environmental Risk business unit help assure the accuracy of loan security value estimates.

FCC uses policies, processes, systems and strategies to manage the credit risk of the lending portfolio. The Portfolio and Credit Risk division assesses credit risk at the aggregate level, providing risk policies, assessment tools and models that quantify credit risk and allowance for credit losses. FCC also closely monitors the agriculture and agri-food operating environments to ensure that the corporation's lending policies, activities and prices are appropriate and relevant.

The Treasury division assesses credit risk due to counterparty exposure on derivative and investment activity. Policies, processes, systems and strategies are used to manage the credit risk of Treasury activities.

Details on how FCC manages credit risk are described in Note 24 of the Notes to the Consolidated Financial Statements.

Market and liquidity risk

Market risk is the potential for loss due to adverse changes in underlying market factors such as interest rates and foreign exchange rates.

FCC has market risk policies and limits in place to ensure that exposure to interest rate and foreign exchange risks is identified, measured, managed and reported on a timely basis. Market risk management at FCC also encompasses derivative fair value risk. Policies include limits around the variability of net interest income and the market value of portfolio equity relative to interest rate changes. Market risk policies are regularly reviewed by ALCO and approved by the Board. The Treasury division implements market risk management directives and reports regularly to ALCO and the Board on its activities and asset/liability positions.

Liquidity risk is the risk that FCC has insufficient funds to meet payment obligations as they come due. 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.

FCC's market risk management is described in Note 24 of the Notes to the Consolidated Financial Statements.

Operational risk

Operational risk relates to the potential of direct or indirect loss due to inadequate or failed internal processes, resources, systems or external events, and the failure to comply with, or adapt to, legislative or regulatory requirements or litigation.

FCC has a team approach to proactively manage operational risk. All managers are responsible for ensuring that appropriate policies and processes are in place within their business units and internal controls are operating effectively.

FCC has a formal internal control framework to ensure a risk-based culture. The framework provides requirements for the design, implementation, operation and monitoring of the corporation's internal controls.

FCC's operations audit program examines lending activities and provides learning opportunities for continual improvement in the areas of risk assessment and mitigation, compliance to credit policies and data integrity.

Incidents of fraud may negatively affect customer and public perceptions of FCC, making current and potential customers less willing to do business with the corporation. FCC reduces exposure to fraud risk by adhering to a Board-approved fraud risk management policy and delivering fraud awareness training to employees.

To ensure that the corporation can sustain operations in the event of a business disruption, FCC actively updates and tests its business continuity plan.

Enterprise security is addressed by a highly skilled and dedicated team of professionals across Information Technology, Facilities and Administration, and Human Resources who provide security controls that protect the availability, confidentiality and integrity of FCC assets. Overall, enterprise security governance is provided by a cross-divisional security co-ordination team.

Strategic risk

Strategic risk refers to the external environment and includes competitors' and FCC's ability to develop and implement effective business strategies.

EMT develops the corporate strategy annually and documents FCC's key strategic priorities in the five-year corporate plan. The Board provides oversight.

The external environment, including the Canadian financial marketplace and the agriculture industry, is monitored to discern if strategic changes are required to address emerging risks. FCC regularly communicates with its shareholder, the Government of Canada, to ensure that the corporation's activities align with government priorities. Each year, the Minister of Agriculture and Agri-Food establishes a set of priorities to ensure that FCC continues to strengthen the agriculture industry.[27]

Potential strategic risks are identified and analyzed through external scanning, consultation with internal subject matter experts and other means. The Board discusses the top enterprise risks during its involvement in the strategic planning cycle. EMT members are accountable for developing risk mitigation plans, monitoring progress and reporting to the Board on a quarterly basis through corporate performance reporting.

Reputation risk

Reputation risk is the risk that key stakeholders and others may develop negative perceptions about FCC that could adversely affect the corporation's reputation and ability to attract and retain customers, business partners and employees.

As a federal Crown corporation, FCC is accountable to all Canadians. To avoid real or perceived reputation damage, FCC has a robust governance structure, including policies and processes, to guide employee conduct in interactions with co-workers, customers, industry partners, suppliers, media and the general public.

Customer integrity and the potential impact on FCC's reputation from conducting business with any particular individual is part of the lending process. The loan application process requires customers to sign a declaration stating that they know of no reason why FCC may have any concern about their business.

[27] See FCC and public policy section of this report (page 11).

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 FCC 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 retirement benefit liability, the reserve for insurance claims and the fair value of financial instruments.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. 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 the corporation properly authorizes and records transactions, safeguards assets, recognizes liabilities, maintains proper records, and 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 FCC Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. It 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, internal auditors and 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 corporation's transactions and consolidated financial statements and for issuing his report thereon.

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

Rick Hoffman, CMA, MBA
Executive Vice-President and
Chief Financial Officer

Regina, Canada
May 29, 2013

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Agriculture and Agri-Food

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Farm Credit Canada, which comprise the consolidated balance sheet as at 31 March 2013, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Farm Credit Canada as at 31 March 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of Farm Credit Canada 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 Farm Credit Canada and the directive issued pursuant to Section 89 of the *Financial Administration Act*.

Clyde M. MacLellan, CA
Assistant Auditor General
for the Auditor General of Canada

29 May 2013
Ottawa, Canada

Consolidated Balance Sheet

(Thousands of Canadian dollars)	March 31, 2013	March 31, 2012 Restated Note 3	April 1, 2011 Restated Note 3
Assets			
Cash and cash equivalents	**$ 917,871**	$ 904,217	$ 601,840
Temporary investments (Note 4)	**164,781**	83,813	284,162
Accounts receivable	**18,666**	16,356	12,676
Derivative financial assets (Note 5)	**71,183**	67,898	47,407
	1,172,501	1,072,284	946,085
Loans receivable – net (Notes 6 and 8)	**24,493,332**	22,580,309	20,745,891
Finance leases receivable – net (Notes 7 and 8)	**12,908**	9,541	4,912
Venture capital investments (Note 9)	**73,366**	53,527	58,024
	24,579,606	22,643,377	20,808,827
Equipment and leasehold improvements (Note 10)	**23,467**	26,655	29,314
Computer software (Note 11)	**38,329**	40,091	42,124
Equipment under operating leases (Note 12)	**40,086**	28,331	19,077
Other assets (Note 13)	**16,825**	18,307	25,284
	118,707	113,384	115,799
Total assets	**$ 25,870,814**	$ 23,829,045	$ 21,870,711
Liabilities			
Accounts payable and accrued liabilities	**$ 57,459**	$ 59,675	$ 52,153
Derivative financial liabilities (Note 5)	**–**	84	4,724
	57,459	59,759	56,877
Borrowings (Note 14)			
Short-term debt	**10,045,902**	9,568,666	8,029,920
Long-term debt	**11,906,034**	10,772,729	10,921,999
	21,951,936	20,341,395	18,951,919
Transition loan liability	**92,499**	84,108	84,245
Retirement benefit liabilities (Note 15)	**218,104**	217,897	81,740
Other liabilities (Note 16)	**12,129**	11,550	10,024
	322,732	313,555	176,009
Total liabilities	**22,332,127**	20,714,709	19,184,805
Equity			
Contributed surplus	**547,725**	547,725	547,725
Retained earnings	**2,777,823**	2,346,976	1,943,001
Accumulated other comprehensive income	**184,752**	203,477	181,804
Equity attributable to shareholder of parent entity	**3,510,300**	3,098,178	2,672,530
Non-controlling interest in special purpose entity	**28,387**	16,158	13,376
	3,538,687	3,114,336	2,685,906
Total liabilities and equity	**$ 25,870,814**	$ 23,829,045	$ 21,870,711

Commitments, guarantees and contingent liabilities (Note 21).

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

The consolidated financial statements were approved by the FCC Board of Directors on May 29, 2013, and were signed on its behalf by:

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

John Klippenstein, FCMA
Chair, Audit Committee

Consolidated Statement of Operations

For the year ended March 31 (Thousands of Canadian dollars)	2013	2012 Restated Note 3
Interest income	**$ 1,115,477**	$ 1,060,359
Interest expense	**254,056**	257,989
Net interest income (Note 17)	**861,421**	802,370
Provision for credit losses (Note 8)	**38,072**	1,781
Net interest income after provision for credit losses	**823,349**	800,589
Net insurance income	**12,378**	11,907
Other income (Note 9)	**3,200**	39,168
Net interest income and non-interest income	**838,927**	851,664
Administration expenses		
Salary expense	**139,840**	127,649
Benefits expense	**53,496**	39,531
Professional fees expense	**38,776**	33,822
Facilities, software and equipment expense	**26,120**	23,656
Amortization and depreciation expense	**30,210**	27,500
Travel and training expense	**14,037**	15,292
Marketing and promotion expense	**11,175**	10,093
Other expenses	**13,771**	10,530
Total administration expenses	**327,425**	288,073
Net income before fair value adjustment	**511,502**	563,591
Fair value adjustment (Note 18)	**1,883**	1,997
Net income	**$ 513,385**	$ 565,588
Net income attributable to:		
Shareholder of parent entity	**$ 512,938**	$ 564,855
Non-controlling interest in special purpose entity	**447**	733

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

Consolidated Statement of Comprehensive Income

For the year ended March 31 (Thousands of Canadian dollars)	**2013**	2012 Restated Note 3
Net income	**$ 513,385**	$ 565,588
Other comprehensive income		
Net gains on derivatives designated as cash flow hedges	**3,796**	39,178
Transfer of net realized gains on derivatives designated as cash flow hedges to net income	**(22,769)**	(18,430)
Change in net (losses) gains on derivatives designated as cash flow hedges	**(18,973)**	20,748
Net actuarial losses on defined benefit pension plans	**(25,661)**	(143,380)
Net unrealized gains on available-for-sale financial assets	**248**	925
Total other comprehensive income (loss)	**(44,386)**	(121,707)
Total comprehensive income	**$ 468,999**	$ 443,881
Total comprehensive income attributable to:		
Shareholder of parent entity	**$ 468,552**	$ 443,148
Non-controlling interest in special purpose entity	**447**	733

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

Consolidated Statement of Changes in Equity

(Thousands of Canadian dollars)	Balance April 1, 2012 Restated Note 3	Net income	Other comprehensive income	Dividend paid	Distributions to non-controlling interest	Balance March 31, 2013
Contributed surplus	$ 547,725	$ –	$ –	$ –	$ –	$ 547,725
Retained earnings	2,346,976	512,938	(25,661)	(56,430)	–	2,777,823
Net gains (losses) on derivatives designated as cash flow hedges	204,045	–	(18,973)	–	–	185,072
Net unrealized (losses) gains on available-for-sale financial assets	(568)	–	248	–	–	(320)
Total accumulated other comprehensive income (loss)	203,477	–	(18,725)	–	–	184,752
Total equity attributable to parent	3,098,178	512,938	(44,386)	(56,430)	–	3,510,300
Non-controlling interest in special purpose entity	16,158	447	–	–	11,782	28,387
Total	$ 3,114,336	$ 513,385	$ (44,386)	$ (56,430)	$ 11,782	$ 3,538,687

(Thousands of Canadian dollars)	Balance April 1, 2011 Restated Note 3	Net income Restated Note 3	Other comprehensive income Restated Note 3	Dividend paid	Distributions to non-controlling interest	Balance March 31, 2012 Restated Note 3
Contributed surplus	$ 547,725	$ –	$ –	$ –	$ –	$ 547,725
Retained earnings	1,943,001	564,855	(143,380)	(17,500)	–	2,346,976
Net gains on derivatives designated as cash flow hedges	183,297	–	20,748	–	–	204,045
Net unrealized (losses) gains on available-for-sale financial assets	(1,493)	–	925	–	–	(568)
Total accumulated other comprehensive income	181,804	–	21,673	–	–	203,477
Total equity attributable to parent	2,672,530	564,855	(121,707)	(17,500)	–	3,098,178
Non-controlling interest in special purpose entity	13,376	733	–	–	2,049	16,158
Total	$ 2,685,906	$ 565,588	$ (121,707)	$ (17,500)	$ 2,049	$ 3,114,336

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

Consolidated Statement of Cash Flows

For the year ended March 31 (Thousands of Canadian dollars)		2013		2012 Restated Note 3
Operating activities				
Net income	**$**	**512,938**	$	564,855
Adjustments to determine net cash (used in) provided by operating activities:				
Net interest income		**(861,421)**		(802,370)
Unwind adjustment on impaired loans		**3,200**		535
Provision for credit losses		**38,072**		1,781
Fair value adjustment		**(1,883)**		(1,997)
Gain on sale of venture capital investment in associate		**(1,393)**		(34,048)
Depreciation and amortization		**30,210**		27,500
Other		**(1,531)**		(864)
Net cash outflow from loans receivable		**(1,960,378)**		(1,836,732)
Net cash outflow from finance leases receivable		**(3,164)**		(4,258)
Net change in other operating assets and liabilities		**10,525**		19,945
Interest received		**1,067,016**		1,027,656
Interest paid		**(257,875)**		(245,922)
Cash used in operating activities		**(1,425,684)**		(1,283,919)
Investing activities				
Net cash (outflow) inflow from temporary investments		**(80,823)**		200,442
Acquisition of venture capital investments		**(17,105)**		(9,511)
Proceeds on disposal and repayment of venture capital investments		**1,445**		50,452
Purchase of equipment and leasehold improvements		**(7,045)**		(8,142)
Purchase of computer software		**(11,710)**		(9,588)
Purchase of equipment under operating leases		**(18,019)**		(13,983)
Disposal of real estate property held for sale		**199**		2,292
Cash (used in) provided by investing activities		**(133,058)**		211,962
Financing activities				
Long-term debt issued		**5,356,221**		3,575,666
Long-term debt repaid		**(3,656,439)**		(3,481,967)
Short-term debt issued		**33,677,126**		32,373,724
Short-term debt repaid		**(33,748,667)**		(31,074,904)
Dividend paid		**(56,430)**		(17,500)
Cash provided by financing activities		**1,571,811**		1,375,019
Change in cash and cash equivalents		**13,069**		303,062
Cash and cash equivalents, beginning of year		**904,217**		601,840
Effects of exchange rate changes on the balances of cash held and due in foreign currencies		**585**		(685)
Cash and cash equivalents, end of year	**$**	**917,871**	$	904,217
Cash and cash equivalents are comprised of:				
Cash	**$**	**106,144**	$	107,576
Short-term investments		**811,727**		796,641

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 located in Canada and its registered office is at 1800 Hamilton Street, Regina, Saskatchewan, Canada. 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 revised Act allows the corporation to operate 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 Act 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 2013, the corporation continued to implement the requirements of Section 89(6) of the Financial Administration Act.

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

Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The significant accounting policies used in the preparation of the consolidated financial statements are summarized below and in the following pages. The significant accounting policies have been applied consistently to all periods presented in the consolidated financial statements.

The consolidated financial statements are presented in Canadian dollars, which is the corporation’s functional currency. Unless otherwise stated, all dollar amounts presented within the Notes to the Consolidated Financial Statements are in thousands of Canadian dollars.

Reclassification of comparative figures

Depreciation on equipment under operating leases in 2012 for $5.1M has been reclassified from interest expense to amortization and depreciation expense. This change was made to more closely align the Consolidated Statement of Operations to the nature method of classification as prescribed by IAS 1.

2. Significant accounting policies (continued)

Basis of consolidation

The consolidated financial statements include the accounts of the corporation, Avrio Ventures Limited Partnership (Avrio Fund I), Avrio Ventures Limited Partnership II (Avrio Fund II) and Avrio Subordinated Debt Limited Partnership (Avrio Subordinated Debt Fund). Avrio Fund I, Avrio Fund II and Avrio Subordinated Debt Fund are venture capital limited partnerships for which the corporation is a limited partner holding majority partnership interests. The corporation consolidates Avrio Fund I, Avrio Fund II, and Avrio Subordinated Debt Fund because they are special purpose entities in which the corporation is entitled and exposed to a majority of the benefits and risks. An adjustment has been made for significant intervening transactions occurring between the December 31 year-end of Avrio Fund I, Avrio Fund II, and Avrio Subordinated Debt Fund and the year-end of the corporation. All significant intercompany balances and transactions have been eliminated. The non-controlling interest, which represents the equity in Avrio Fund I, Avrio Fund II and Avrio Subordinated Debt Fund not attributable to the corporation, has been presented in the Consolidated Balance Sheet, the Consolidated Statement of Operations, the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity.

Classification and designation of financial instruments

Financial assets are classified or designated as loans and receivables, financial assets at fair value through profit or loss or available-for-sale (AFS) financial assets. Financial liabilities are classified or designated as financial liabilities at fair value through profit or loss 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. Financial instruments at fair value through profit or loss are derivative financial assets and liabilities that are classified as held for trading (HFT) and non-derivative financial assets and liabilities that meet certain conditions to be designated at fair value through profit or loss at initial recognition. AFS financial assets are non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets.

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

Cash and cash equivalents

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

Temporary investments

Temporary investments have maturity dates between 91 and 365 days from the date of acquisition, are acquired primarily for liquidity purposes and are designated as AFS financial assets. Temporary investments are accounted for at fair value using trade date accounting and a valuation technique as described under the Estimation Uncertainty heading. Unrealized fair value gains and losses are included in other comprehensive income (OCI). Interest earned on temporary investments is included in interest income.

2. Significant accounting policies (continued)

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 FCC Board of Directors (Board). These limits are based on guidelines established by the Department of Finance. The corporation does not use derivative financial instruments for speculative purposes.

Derivatives not designated as hedging instruments in effective hedging relationships are classified as HFT. Derivatives classified as HFT are recorded at fair value using a valuation technique as described under the Estimation Uncertainty heading, with gains and losses reported in the fair value adjustment. Derivatives classified as HFT are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. Interest earned and incurred on derivatives classified as HFT is included in interest expense.

Cash flow hedges

The corporation documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking hedge transactions. The corporation also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. Derivatives that are designated as hedging items in cash flow hedges are accounted for at fair value. The effective portion of a change in a derivative's fair value is recognized in OCI, while the ineffective portion of a change 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 as 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

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 recognized in net income using the effective interest rate method until the loan is classified as impaired. Once a loan is impaired, the unwinding of the discount on the security value is recognized as interest income based on the original effective interest rate of the loan.

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, the credit quality has deteriorated 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 value is reduced to its estimated realizable value through an adjustment to the individual allowance for credit losses. Changes in the estimated realizable amount arising subsequent to initial impairment are also adjusted through the individual allowance for credit losses.

2. Significant accounting policies (continued)

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 performing status when, in management's opinion, the ultimate collection of principal and interest is reasonably assured. When the impaired loan is restored to performing status, the remaining individual allowance for credit losses is reversed.

Loans and their related allowance for credit losses are written off when all collection efforts have been exhausted and there is no realistic prospect of future recovery.

Finance leases receivable

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 corporation recognizes an allowance for credit losses that represents management's best estimate of the incurred losses in the loan and lease portfolio at the balance sheet date. The allowance is increased or decreased by the provision for credit losses, the government subsidy for the Hog Industry Loan Loss Reserve Program (HILLRP), as described under the Government Assistance heading, the unwind adjustment, as described under the Individual Allowance heading, writeoffs and recoveries.

The corporation assesses at each balance sheet date whether there is objective evidence that a loan or lease is impaired. If there is objective evidence that an impairment loss on a loan or lease has been incurred, the carrying value of the loan or lease is reduced through the allowance for credit losses and the amount of the loss is recognized in the provision for credit losses. If, in a subsequent period, the amount of impairment loss increases or decreases and the increase or decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is adjusted through the allowance for credit losses and provision for credit losses.

In determining the allowance for credit losses, management segregates credit losses into two components: individual and collective.

Individual allowance – The corporation first assesses whether objective evidence of impairment exists based on an individual review of each loan or lease in the portfolio. The review is undertaken to determine if a loss event indicating impairment exists for an individual loan or lease. The review assesses whether credit quality has deteriorated to the extent that the corporation no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, the corporation has defined arrears of greater than $500 for 90 or more consecutive days as being a loss event. If a loss event has occurred, an impairment loss is recorded as the difference between the loan or lease's carrying value and the present value of estimated future cash flows discounted at either the loan or lease's original effective interest rate for fixed-rate loans or leases or the effective interest rate at the time of the impairment for variable-rate loans or leases. The estimation of future cash flows considers the fair value of any underlying security as well as the estimated time and costs to realize the security. In subsequent periods, any change in present value of estimated future cash flows attributable to the passage of time adjusts the allowance for credit losses through the unwind adjustment. The unwind adjustment is recorded in interest income.

2. Significant accounting policies (continued)

Collective allowance – If the corporation determines that no objective evidence of impairment exists for an individually assessed loan or lease, it is assessed on a collective basis. In making the collective assessment of impairment, management groups the loans and leases into portfolios with similar credit risk characteristics. Future cash flows for these portfolios are estimated on the basis of underlying security values and historical loss experience. The collective assessment of impairment for loans is broken down into three components: triggered loan pool, incurred but not reported (IBNR) and overlay.

- Triggered loan pool – Loans are included in this pool if any one of the following loss events has occurred:

  1. All loans for customers with any one loan that has a minimum of $500 of arrears.
  2. All loans for customers with any one loan that has had an amortization extension to the payment schedule in the last 12 months.
  3. Any individual loan that has had a 15-point risk scoring and pricing system (RSPS) score drop when compared to its RSPS score 12 months ago.

- IBNR – This assessment considers credit losses that have been incurred but not yet identified on loans subject to individual assessment. It is based on the historical movement of loans from performing status to either the triggered or individually impaired loan pools.

- Overlay – The corporation uses the overlay to adjust its historical loss experience reflected in the triggered loan pool and IBNR components of the collective assessment for current market conditions.

For select portions of the corporation's portfolio, the above process is tailored to capture the unique characteristics of these loans to identify and measure impairment more accurately. For these loans, the individual loss event is considered to be 165 days past due. For the collective allowance, the corporation considers the historical movement of performing loans to impaired status along with the calculation of expected future cash flows estimated using historical probabilities of default and loss given default.

Venture capital investments

Venture capital investments include investments held by Avrio Fund I and Avrio Fund II. Avrio Subordinated Debt Fund held no investments at March 31, 2013.

The corporation has designated its venture capital investments at fair value through profit or loss, as they are managed and their performance is evaluated on a fair value basis in accordance with a documented investment strategy, with the exception of one investment in associate that was sold during the comparative period. An investment in associate is an entity over which the corporation is able to exert significant influence.

Venture capital investments designated at fair value through profit or loss are accounted for at fair value, using a valuation technique as described under the Estimation Uncertainty heading, with gains and losses reported in the fair value adjustment. Interest on debt is recognized when receivable and included in interest income. Dividends on preferred and common shares are recognized when receivable and declared, respectively, and included in interest income. Royalty and fee income are also recognized when receivable and included in interest income.

2. Significant accounting policies (continued)

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the equipment or leasehold improvement. Subsequent expenditures, including replaced parts, are included in the equipment or leasehold improvement's carrying value or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the corporation and the cost of the item can be measured reliably. The carrying value of the replaced part is derecognized. All repair and maintenance costs are expensed during the financial period in which they are incurred.

Depreciation begins when the equipment or leasehold improvement is available for use by the corporation. Depreciation is calculated using the straight-line method to allocate the cost less estimated residual value of the asset over the following terms:

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

The residual values and useful lives are reviewed annually and adjusted, if appropriate. Equipment and leasehold improvements are reviewed annually for impairment and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss would be recorded to reduce the carrying value to the recoverable amount if the carrying value is greater than the estimated recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with the carrying value and are included in facilities, software and equipment expense.

Computer software

Computer 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, to use the software in a manner that will generate future economic benefits and to 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 recorded over the estimated useful life of three or five years using the straight-line method.

Software is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such indications exist, the carrying value is analyzed to assess whether it is fully recoverable. An impairment loss would be recorded to reduce the carrying value to the recoverable amount if the carrying value is greater than the estimated recoverable amount.

Equipment under operating leases

Equipment under operating leases is recorded at cost less accumulated depreciation. Equipment is depreciated on a straight-line basis over the term of the lease. Lease income from operating leases is recognized on a straight-line basis over the term of the lease and included in interest income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying value of the leased asset and recognized on a straight-line basis over the lease term.

2. Significant accounting policies (continued)

Post-employment 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 plan is based on the number of years of service and the average salary of the five highest-paid consecutive years of service. It is 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 obligations for pension and other defined benefit plans are actuarially determined using the projected unit credit actuarial valuation method. This method incorporates management's best estimate of future salary levels, other cost escalation, employees' retirement ages and other actuarial factors.

For the purpose of calculating the expected return on plan assets, these 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. Actuarial gains and losses are recognized in OCI as incurred and flow into retained earnings in the Consolidated Balance Sheet.

Past service costs arising from plan amendments are recognized immediately in benefits expense to the extent that the benefits are already vested and are otherwise recognized on a straight-line basis over the average period until the benefits become vested.

The defined benefit asset or liability represents the present value of the defined benefit obligation adjusted for unrecognized past service costs and reduced by the fair value of plan assets. The defined benefit asset is limited to the value determined by the asset ceiling. The value of the asset is restricted to the sum of any unrecognized actuarial losses and past service costs, plus the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plan.

Contributions to the defined contribution plan are recognized as an expense when employees have rendered service entitling them to the contributions. Unpaid contributions are recognized as a liability.

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 accrued when receivable and recorded in net insurance income.

Insurance claims expense, included in net insurance income, 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 at the balance sheet date and adjustments to the reserve for insurance claims. The reserve for insurance claims represents the liability that, together with estimated future premiums and net investment income on insurance reserve assets, will provide for outstanding claims, estimated future benefits, taxes (other than income taxes) and expenses. The reserve for insurance claims is recorded at fair value and included in other liabilities. The reserve is actuarially determined using the Canadian Asset Liability Method and prepared on a going concern basis, taking into account the appropriate degree of risk inherent in the obligation, as described in Note 24. Changes in estimates are recorded when made and are included in net insurance income.

2. Significant accounting policies (continued)

The corporation maintains a restricted insurance reserve asset, which is included in other assets, with the insurance provider to fund future claim payments. Interest is paid on the insurance reserve asset by the insurance provider annually and is recorded in other income.

Expenses related to administering the insurance program are recorded in other expenses. The accrual for insurance claims payable is classified as other financial liabilities, measured at amortized cost and included in accounts payable and accrued liabilities.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are classified as other financial liabilities and measured at amortized cost.

Borrowings

Borrowings are undertaken with the approval of the Minister of Finance. Borrowings are direct obligations of the corporation and therefore 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 at fair value through profit or loss to record them on a basis consistent with the fair value changes in their related derivatives.

Borrowings designated at fair value through profit or loss are accounted for at fair value, using a valuation technique as described under the Estimation Uncertainty heading, with gains and losses reported in the fair value adjustment.

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 recognized in interest expense using the effective interest rate method.

Transition loan liabilities

The corporation records a transition loan liability that represents amounts owing to third parties upon the signing of a contract that requires the corporation to pay amounts in accordance with a disbursement schedule relating to undisbursed transition loans, which are included in loans receivable. As payments are made in accordance with the transition loan disbursement schedule, the applicable amount of the transition loan liability is reduced. Transition loan liabilities are recorded at amortized cost.

2. Significant accounting policies (continued)

Government assistance

The corporation is one of the financial institutions participating in the HILLRP. Under the 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 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%, 80% and 70% of net credit losses in years one to three, four to six and seven to 15, respectively. Amounts held by the corporation to which it is not entitled are paid back to the Government of Canada at the end of the program. The corporation's deadline for disbursing the loans eligible under this program has passed and no further loan loss reserve fund instalments are due from the Government of Canada.

Management estimates the amount of the loan loss reserve fund to which the corporation is entitled under the HILLRP. 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 and borrowings classified as other liabilities are deferred and amortized over the instrument's expected useful life using the effective interest rate method. Transaction costs related to all other financial instruments are expensed as incurred.

Operating lease payments

Payments on operating lease agreements are expensed on a straight-line basis over the lease term. Associated costs 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.

Segmented information

The corporation is organized and managed as a single business segment, which is agriculture lending. All of the corporation's revenues are within Canada.

Significant management judgments in applying accounting policies

The following are critical management judgments used in applying the corporation's accounting policies.

Basis of consolidation
Management has determined that Avrio Fund I, Avrio Fund II and Avrio Subordinated Debt Fund meet the criteria of special purpose entities, and the substance of the relationship between the corporation and Avrio Fund I, Avrio Fund II and Avrio Subordinated Debt Fund indicates that the corporation controls Avrio Fund I, Avrio Fund II and Avrio Subordinated Debt Fund in accordance with SIC-12 – Consolidation – Special Purpose Entities.

2. Significant accounting policies (continued)

Finance leases receivable
In applying the classification of leases in IAS 17 – Leases, management considers leases of agricultural equipment to be either finance or operating lease arrangements. In some cases, the lease transaction is not always conclusive and management uses judgment in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership.

Computer software
A significant portion of the corporation's computer software expenditures relates to software that is developed as part of internal infrastructures and, to a lesser extent, purchased directly from suppliers. Management has a process to monitor the progress of internal research and development projects. Significant judgment is required in distinguishing between the research and development phases. Research costs are expensed as incurred, whereas development costs are recognized as an asset when all criteria are met. Management monitors whether the recognition requirements for development costs continue to be met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems after the time of recognition.

Estimation uncertainty

The preparation of the consolidated financial statements in accordance with IFRS requires that management make judgments, estimates and assumptions concerning the future that affect the reported amounts in the consolidated financial statements and accompanying notes. Judgments, estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these judgments, estimates and assumptions. Information about the significant judgments, estimates and assumptions that are critical to the recognition and measurement of assets, liabilities, income and expense are discussed below.

Allowance for credit losses
The corporation reviews its loan and lease portfolio to assess impairment. The corporation makes judgments when determining whether a loss event has occurred, and makes estimates and assumptions in measuring the resulting impairment loss. Management uses best estimates based on historical loss experience for loans and leases with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Defined benefit liability
The estimate of the defined benefit liability for pension and non-pension post-retirement benefits is actuarially determined and incorporates management's best estimate of future salary levels, other cost escalation, employees' retirement ages and other actuarial assumptions. One of the more significant assumptions used is the discount rate. Management determines the appropriate discount rate at the end of each year. This is the interest rate that determines the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, management considers the interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Any changes in these assumptions will affect the carrying values of defined benefit liabilities.

Reserve for insurance claims
The reserve for insurance claims is based on certain estimates and assumptions, including expected future mortality experience and interest rates. Higher mortality experience and increased interest rates would be financially adverse to the corporation. The corporation's mortality experience is combined with industry experience, since the corporation's own experience is insufficient to be statistically credible.

2. Significant accounting policies (continued)

Useful lives of depreciable assets
During the software development process and when new equipment, leasehold improvements and computer software are being purchased, management's judgment and estimates are required to determine the expected period of benefit over which capitalized costs should be amortized. Management reviews the useful lives of depreciable assets at each reporting date. Actual results may vary because of technical obsolescence, particularly for software and information technology equipment due to rapidly changing technology and the uncertainty of the software development process.

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:

- The estimated fair value of temporary investments is calculated by discounting contractual cash flows at interest rates prevailing at the reporting date for equivalent securities.
- The estimated fair value of derivative financial assets and liabilities is 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 by taking 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 the counterparty does not have an observable credit spread, a proxy that reflects the counterparty's credit profile is used.
- Venture capital investments in shares that are traded on an exchange are valued based on the bid prices as at the reporting date. 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 of venture capital debt investments is calculated by discounting contractual cash flows at interest rates prevailing at the reporting date with equivalent terms to maturity.
- The estimated fair value of structured notes is calculated by discounting contractual cash flows at interest rates prevailing at the reporting date for equivalent terms to maturity or by using 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 options (call features) exist, 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.

2. Significant accounting policies (continued)

Accounting standards issued but not yet effective

The corporation has reviewed the new standards and amendments that have been issued but are not yet effective and determined that the following may have an impact on the corporation. Management is in the process of assessing the impact of these standards and amendments on the corporation's financial statements and accounting policies.

Standard	Details	Date of initial application
IAS 1 – Presentation of Financial Statements	The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time will be presented separately from items that will never be reclassified. It is anticipated that the amendment will affect groupings and presentation in the Consolidated Statement of Comprehensive Income.	April 1, 2013
IFRS 10 – Consolidated Financial Statements	The new standard replaces the consolidation requirements in IAS 27 – Consolidated and Separate Financial Statements and SIC-12 – Consolidation – Special Purpose Entities. It establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. No significant changes are anticipated as a result of this standard.	April 1, 2013
IFRS 12 – Disclosure of Interests in Other Entities	The new standard is on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. It is anticipated that this standard will result in increased disclosure on venture capital investments.	April 1, 2013
IFRS 13 – Fair Value Measurement	The new standard establishes new guidance on fair value measurement and disclosure requirements. It is anticipated that this standard will result in increased disclosure on fair value measurement.	April 1, 2013
IAS 19 – Employee Benefits	The standard was amended to improve the recognition, presentation and disclosure of defined benefit plans. The amendments introduce a calculation for net interest costs, which will be included in benefits expense. Under the net interest method, plan assets are multiplied by the same discount rate used to calculate the interest expense on the defined benefit liability, rather than the previous methodology that used the expected rate of return, to determine the interest income on the plan assets. Under the new standard, the fair value of refundable tax assets will be calculated as the present value of future reimbursements. Under the existing standard, fair value is the full value of the refundable tax assets. It is anticipated that pension assets and retained earnings will decrease by approximately $7.5 million on April 1, 2013.	April 1, 2013
IAS 28 – Investments in Associates	This standard was reissued as Investments in Associates and Joint Ventures, as a result of the new standards IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements and IFRS 12 – Disclosure of Interests in Other Entities. No significant changes are anticipated as a result of this standard.	April 1, 2013
IAS 32 – Financial Instruments: Presentation	The amended standard was issued together with the amended IFRS 7 – Financial Instruments: Disclosures to clarify the guidance on the offsetting of financial assets and financial liabilities.	April 1, 2014
IFRS 7 – Financial Instruments: Disclosures	The amended standard was issued together with the amended IAS 32 – Financial Instruments: Presentation to enhance disclosures about the offsetting of financial assets and financial liabilities.	April 1, 2015
IFRS 9 – Financial Instruments	The new standard provides requirements for classifying and measuring financial assets and liabilities. This standard is the first in a three-phase project in progress by the IASB to replace IAS 39 – Financial Instruments: Recognition and Measurement in its entirety. It is anticipated that this standard will result in a change in classification of the corporation's temporary investments from AFS to fair value through profit and loss.	April 1, 2015

3. Prior period error

As a result of a review of the terms of the post-retirement and post-employment non-pension benefit plan of the corporation as at March 31, 2013, errors in the 2011-12 consolidated financial statements balances were discovered. Incorrect information related to the cost sharing structure for life insurance premiums had been used in the estimation of the defined benefit obligation of this plan. The corporation has retroactively corrected the error and restated the consolidated financial statements for the year ended March 31, 2012. The restatement decreased retirement benefit liabilities and increased retained earnings as at April 1, 2011, and March 31, 2012, by $4.5 million and $6.2 million, respectively. The restatement increased net income and other comprehensive income for the year ended March 31, 2012, by $0.5 million and $1.1 million, respectively.

4. Temporary investments

($ thousands)		**March 31, 2013** Carrying value	**Yield**		March 31, 2012 Carrying value	Yield
Short-term instruments	**$**	**164,781**	**1.07%**	$	83,813	1.09%

Short-term instruments consist of deposit notes, bankers' acceptance and treasury bills issued by institutions with credit ratings of R-1M or higher (2012 – R-1M or higher) as rated by the Dominion Bond Rating Service. As at March 31, 2013, the largest total investment in any one institution was $55.0 million (2012 – $63.9 million).

All temporary investments have an initial term to maturity of 91 to 365 days and will mature within four months of the balance sheet date.

5. Derivative financial instruments

($ thousands)		**March 31, 2013**		March 31, 2012
Derivative financial assets				
Derivatives designated as cash flow hedges	**$**	**71,172**	$	67,408
Derivatives classified as HFT		**11**		490
	$	**71,183**	$	67,898
Derivative financial liabilities				
Derivatives classified as HFT	**$**	**–**	$	84

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 or floating rates of interest. Notional amounts upon which interest payments and receipts are based are not exchanged. 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.

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

5. Derivative financial instruments (continued)

Cash flow hedges

Cash flow hedges consist of interest rate swaps. The corporation is exposed to variability in future interest cash flows on non-trading assets that bear interest at variable rates. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for the financial assets 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.

As at March 31, 2013, the estimated amount of existing net gains reported in AOCI that is expected to be transferred to net income within the next 12 months is $22.6 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 nine years.

Notional principal amounts and term to maturity

		March 31, 2013			
($ thousands)		**Within 1 year**	**1 – 5 years**	**Over 5 years**	**Total**
Interest rate swaps					
Receive	**Pay**				
Fixed	Floating	**$ 186**	**$ 94,489**	**$ 237,994**	**$ 332,669**
Cross-currency	Fixed	–	–	–	–
		$ 186	**$ 94,489**	**$ 237,994**	**$ 332,669**

		March 31, 2012			
($ thousands)		Within 1 year	1 – 5 years	Over 5 years	Total
Interest rate swaps					
Receive	**Pay**				
Fixed	Floating	$ 5,000	$ 94,675	$ 237,994	$ 337,669
Cross-currency	Fixed	3,365	–	–	3,365
		$ 8,365	$ 94,675	$ 237,994	$ 341,034

5. Derivative financial instruments (continued)

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 financial instruments are as follows:

	March 31, 2013		
($ thousands)	**Positive fair value**	**Negative fair value**	**Net fair value**
Interest rate swaps	**$ 71,183**	**$ –**	**$ 71,183**
Cross-currency interest rate swaps	–	–	–
Fair value	**71,183**	**–**	**71,183**
Impact of master netting agreements	–	–	–
	$ 71,183	**$ –**	**$ 71,183**

	March 31, 2012		
($ thousands)	Positive fair value	Negative fair value	Net fair value
Interest rate swaps	$ 67,898	$ –	$ 67,898
Cross-currency interest rate swaps	–	84	(84)
Fair value	67,898	84	67,814
Impact of master netting agreements	(57)	(57)	–
	$ 67,841	$ 27	$ 67,814

The corporation does not anticipate any significant non-performance by counterparties because all counterparties are rated Aa3, A+ and AA or higher, as rated by Moody's Investors Service (Moody's), Standard and Poor's Ratings Services (S&P), and Dominion Bond Rating Service (DBRS), respectively. The largest cumulative notional amount contracted with any institution as at March 31, 2013, was $139.3 million (2012– $139.3 million), and the largest net fair value of contracts with any institution as at March 31, 2013, was $25.3 million (2012 – $23.8 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.

Using reasonable possible alternative assumptions for valuing derivatives would not have a material effect on the corporation's financial position or earnings. To determine reasonably possible alternative assumptions, the corporation adjusted key unobservable model inputs. These adjustments included de-correlating interest rates and subjecting parameters to a large shift.

6. Loans receivable – net

The following table summarizes the contractual maturity and effective interest rates of the performing loans receivable as at March 31, 2013. 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-priced with changes in the rate.

	March 31, 2013			
	Term to maturity			
($ thousands)	**Within 1 year**	**1 – 5 years**	**Over 5 years**	**Total**
Floating	**$ 2,538,239**	**$ 12,289,074**	**$ 920,350**	**$ 15,747,663**
Yield	**4.38%**	**3.89%**	**4.04%**	**3.98%**
Fixed	**1,402,754**	**5,459,842**	**2,223,485**	**9,086,081**
Yield	**4.07%**	**4.52%**	**5.03%**	**4.58%**
Performing loans	**3,940,993**	**17,748,916**	**3,143,835**	**24,833,744**
Impaired loans				**321,209**
Deferred loan fees				**(21,618)**
Loans receivable – gross				**25,133,335**
Allowance for credit losses				**(640,003)**
Loans receivable – net				**$ 24,493,332**

	March 31, 2012			
	Term to maturity			
($ thousands)	Within 1 year	1 – 5 years	Over 5 years	Total
Floating	$ 1,241,440	$ 12,789,350	$ 779,763	$ 14,810,553
Yield	3.89%	3.98%	3.79%	3.96%
Fixed	1,089,958	5,348,495	1,691,161	8,129,614
Yield	5.20%	4.85%	5.67%	5.07%
Performing loans	2,331,398	18,137,845	2,470,924	22,940,167
Impaired loans				285,118
Deferred loan fees				(23,026)
Loans receivable – gross				23,202,259
Allowance for credit losses				(621,950)
Loans receivable – net				$ 22,580,309

Management estimates that annually, over the next three years, approximately 6.6% (2012 – approximately 6.3%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2013, $115.4 million (2012 – $97.3 million) of loans receivable were denominated in U.S. dollars (USD).

6. Loans receivable – net (continued)

Concentrations of credit risk

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

Enterprise distribution

	Performing		Impaired	
($ thousands)	**March 31, 2013**	March 31, 2012	**March 31, 2013**	March 31, 2012
Crops	**$ 9,692,523**	$ 8,458,662	**$ 69,411**	$ 50,828
Dairy	**5,076,094**	4,800,021	**7,905**	15,625
Value-added	**3,427,182**	2,400,461	**79,394**	54,898
Other	**2,304,824**	3,325,268	**30,484**	39,221
Cattle	**1,772,612**	1,330,738	**24,527**	17,897
Poultry	**1,708,482**	1,581,851	**1,445**	1,725
Hogs	**852,027**	1,043,166	**108,043**	104,924
Total	**$ 24,833,744**	$ 22,940,167	**$ 321,209**	$ 285,118

Geographic distribution

	Performing		Impaired	
($ thousands)	**March 31, 2013**	March 31, 2012	**March 31, 2013**	March 31, 2012
Western	**$ 7,553,109**	$ 6,917,923	**$ 95,881**	$ 78,664
Prairie	**5,823,837**	5,385,652	**111,663**	107,593
Ontario	**7,508,063**	6,996,890	**22,690**	21,772
Quebec	**2,945,830**	2,700,004	**56,045**	41,499
Atlantic	**1,002,905**	939,698	**34,930**	35,590
Total	**$ 24,833,744**	$ 22,940,167	**$ 321,209**	$ 285,118

7. Finance leases receivable – net

($ thousands)	**March 31, 2013**	March 31, 2012
Total minimum finance lease payments receivable		
Less than one year	**$ 5,089**	$ 3,846
Between one and five years	**9,042**	6,628
Finance leases receivable – gross	**14,131**	10,474
Unearned finance income	**(1,054)**	(789)
Allowance for credit losses	**(169)**	(144)
Finance leases receivable – net	**$ 12,908**	$ 9,541

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

8. Allowance for credit losses

($ thousands)	**March 31, 2013** Loans receivable	Finance leases receivable	Total	March 31, 2012 Loans receivable	Finance leases receivable	Total
Individual allowance, beginning of year	**$ 140,800**	**$ –**	**$ 140,800**	$ 157,734	$ –	$ 157,734
Provision for credit losses	**31,476**	**–**	**31,476**	13,099	–	13,099
Losses covered under HILLRP	**9,391**	**–**	**9,391**	2,623	–	2,623
Unwind adjustment on impaired loans	**3,200**	**–**	**3,200**	535	–	535
Writeoffs	**(35,602)**	**–**	**(35,602)**	(36,074)	–	(36,074)
Recoveries	**1,747**	**–**	**1,747**	2,883	–	2,883
Individual allowance, end of year	**151,012**	**–**	**151,012**	140,800	–	140,800
Collective allowance, beginning of year	**481,150**	**144**	**481,294**	497,644	84	497,728
Provision for credit losses	**6,571**	**25**	**6,596**	(11,378)	60	(11,318)
Losses covered under HILLRP	**3,552**	**–**	**3,552**	(1,682)	–	(1,682)
Writeoffs	**(2,451)**	**–**	**(2,451)**	(3,608)	–	(3,608)
Recoveries	**169**	**–**	**169**	174	–	174
Collective allowance, end of year	**488,991**	**169**	**489,160**	481,150	144	481,294
Total allowance	**$ 640,003**	**$ 169**	**$ 640,172**	$ 621,950	$ 144	$ 622,094

9. Venture capital investments

Carrying value by type of investment

($ thousands)		March 31, 2013		March 31, 2012
Preferred shares	**$**	**37,624**	$	29,954
Debt		**19,513**		14,003
Common shares		**16,229**		9,570
	$	**73,366**	$	53,527

As at March 31, 2013, $0.2 million (2012 – $0.1 million) of venture capital debt investments is due to the corporation within one year and $19.3 million (2012 – $13.9 million) is due between one and five years.

Concentrations of venture capital investments by sector

($ thousands)		March 31, 2013		March 31, 2012
Food processing and manufacturing	**$**	**35,242**	$	19,051
Bio-based fuels and chemicals		**20,967**		18,938
Agriculture biotechnology		**17,157**		15,538
	$	**73,366**	$	53,527

For the year ended March 31, 2013, the total amount of net losses realized on disposal of venture capital investments designated at fair value through profit or loss and reported in fair value adjustment was $12.2 million (2012 – net realized gain of $2.1 million).

The prior year sale of the investment in associate had a realized gain recorded in other income of $1.4 million (2012 - $34.0 million). Management anticipates that further gains of approximately $5.4 million related to the prior year sale will be realized in future periods, subject to fulfilment of certain conditions of the sale agreement.

The total amount of fees, interest and dividends recorded in interest income during the year for venture capital investments designated at fair value through profit or loss was $2.3 million (2012 – $2.4 million).

In addition to the above investments, the corporation has loans receivable from venture capital investees in the amount of $20.9 million (2012 – $27.7 million) and guarantees from venture capital investees in the amount of $0.2 million (2012 – $nil).

The venture capital investment portfolio exposes the corporation to credit risk. Venture capital investments are typically secured by a general security agreement, assignment of life insurance proceeds and personal guarantees. As at March 31, 2013, the gross amount of venture capital debt investments that were in arrears was $nil (2012 – $nil).

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.

10. Equipment and leasehold improvements

($ thousands)	Leasehold improvements	Office equipment and furniture	Computer equipment	Total
Cost				
Balance as at March 31, 2011	$ 41,131	$ 26,775	$ 11,550	$ 79,456
Additions	4,480	2,120	1,548	8,148
Disposals	(542)	(391)	(1,168)	(2,101)
Balance as at March 31, 2012	45,069	28,504	11,930	85,503
Additions	3,758	1,078	2,219	7,055
Disposals	(1,415)	(3,398)	(873)	(5,686)
Balance as at March 31, 2013	**$ 47,412**	**$ 26,184**	**$ 13,276**	**$ 86,872**
Accumulated depreciation				
Balance as at March 31, 2011	$ 21,906	$ 19,384	$ 8,852	$ 50,142
Depreciation	6,001	2,928	1,841	10,770
Disposals	(509)	(388)	(1,167)	(2,064)
Balance as at March 31, 2012	27,398	21,924	9,526	58,848
Depreciation	5,961	2,690	1,554	10,205
Disposals	(1,380)	(3,398)	(870)	(5,648)
Balance as at March 31, 2013	**$ 31,979**	**$ 21,216**	**$ 10,210**	**$ 63,405**
Carrying value				
March 31, 2012	$ 17,671	$ 6,580	$ 2,404	$ 26,655
March 31, 2013	**15,433**	**4,968**	**3,066**	**23,467**

11. Computer software

($ thousands)	Internally developed	Purchased	Total
Cost			
Balance as at March 31, 2011	$ 94,491	$ 9,554	$ 104,045
Additions	8,948	640	9,588
Disposals	–	–	–
Balance as at March 31, 2012	103,439	10,194	113,633
Additions	10,580	243	10,823
Disposals	(3,942)	(389)	(4,331)
Balance as at March 31, 2013	**$ 110,077**	**$ 10,048**	**$ 120,125**
Accumulated amortization			
Balance as at March 31, 2011	$ 56,440	$ 5,481	$ 61,921
Amortization	10,578	1,043	11,621
Disposals	–	–	–
Balance as at March 31, 2012	67,018	6,524	73,542
Amortization	11,528	1,055	12,583
Disposals	(3,940)	(389)	(4,329)
Balance as at March 31, 2013	**$ 74,606**	**$ 7,190**	**$ 81,796**
Carrying value			
March 31, 2012	$ 36,421	$ 3,670	$ 40,091
March 31, 2013	**35,471**	**2,858**	**38,329**

11. Computer software (continued)

Included in the carrying value as at March 31, 2013, is $17.0 million (2012 – $22.0 million) consisting of internally developed software related to the business process and technology transformation program, which is being developed to enhance speed, reduce manual effort and provide the corporation with the capability to enhance its technological agility. The remaining amortization period of the assets from this program is between two and four years.

Research and development costs related to internally developed computer software in the amount of $4.3 million (2012 – $0.7 million) have been included within facilities, software and equipment expenses.

12. Equipment under operating leases

($ thousands)		
Cost		
Balance as at March 31, 2011	$	25,296
Additions		17,398
Disposals		(3,035)
Balance as at March 31, 2012		39,659
Additions		23,380
Disposals		(4,203)
Balance as at March 31, 2013	**$**	**58,836**
Accumulated depreciation		
Balance as at March 31, 2011	$	6,219
Depreciation		5,109
Balance as at March 31, 2012		11,328
Depreciation		7,422
Balance as at March 31, 2013	**$**	**18,750**
Carrying value		
March 31, 2012	$	28,331
March 31, 2013		**40,086**

13. Other assets

($ thousands)		**March 31, 2013**		March 31, 2012
Insurance reserve assets	**$**	**16,487**	$	17,559
Real estate property held for sale		**277**		682
Other		**61**		66
	$	**16,825**	$	18,307

14. Borrowings

Short-term debt

($ thousands)	March 31, 2013	March 31, 2012
Government of Canada debt		
Floating-rate borrowings	**$ 6,156,912**	$ 6,051,606
Fixed-rate borrowings	**3,614,128**	3,171,566
	9,771,040	9,223,172
Retail and institutional fixed-rate notes	**152,153**	238,994
U.S. dollar fixed-rate promissory notes (1)	**115,105**	94,873
Cash collateral due to derivative counterparties	**7,406**	6,156
Structured note index-linked	**198**	–
Structured note double-up coupon	**–**	5,471
	$ 10,045,902	$ 9,568,666

(1) $113.3 million USD (2012 – $95.0 million USD)

Short-term debt by maturity date and yield

	March 31, 2013				
	Government of Canada		**Capital markets**		
($ thousands)	**Carrying value**	**Yield**	**Carrying value**	**Yield**	**Total**
From 0 – 3 months	**$ 5,231,718**	**1.02%**	**$ 216,516**	**1.93%**	**$ 5,448,234**
From 4 – 6 months	**1,939,831**	**1.11%**	**198**	**1.03%**	**1,940,029**
From 7 – 9 months	**1,306,778**	**1.15%**	**50,742**	**5.03%**	**1,357,520**
From 10 – 12 months	**1,292,713**	**1.03%**	**–**	**–**	**1,292,713**
Cash collateral due to derivative counterparties	**–**	**–**	**7,406**	**1.85%**	**7,406**
	$ 9,771,040	**–**	**$ 274,862**	**–**	**$10,045,902**

	March 31, 2012				
	Government of Canada		Capital markets		
($ thousands)	Carrying value	Yield	Carrying value	Yield	Total
From 0 – 3 months	$ 4,478,096	1.08%	$ 302,522	2.91%	$ 4,780,618
From 4 – 6 months	2,055,979	0.88%	–	–	2,055,979
From 7 – 9 months	1,618,695	0.96%	5,471	1.18%	1,624,166
From 10 – 12 months	1,070,402	0.90%	31,345	4.03%	1,101,747
Cash collateral due to derivative counterparties	–	–	6,156	1.00%	6,156
	$ 9,223,172	–	$ 345,494	–	$ 9,568,666

The corporation has a demand operating line of credit, which provides overdraft protection in the amount of $30.0 million (2012 – $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, 2013, there were no draws on this facility (2012 – $nil).

14. Borrowings (continued)

Long-term debt

($ thousands)	**March 31, 2013**	March 31, 2012
Government of Canada debt		
Floating-rate borrowings	**$ 9,272,277**	$ 8,295,816
Fixed-rate borrowings	**2,217,853**	1,909,411
	11,490,130	10,205,227
Retail and institutional fixed-rate notes	**415,904**	567,280
Structured note index-linked	**–**	222
	$ 11,906,034	$ 10,772,729

Long-term debt by maturity date and yield

	March 31, 2013				
	Government of Canada		**Capital markets**		
($ thousands)	**Carrying value**	**Yield**	**Carrying value**	**Yield**	**Total**
From 1 – 2 years	**$ 5,032,716**	**1.01%**	**$ –**	**–**	**$ 5,032,716**
From 2 – 3 years	**3,609,526**	**1.80%**	**108,221**	**4.37%**	**3,717,747**
From 3 – 4 years	**1,719,557**	**1.05%**	**–**	**–**	**1,719,557**
From 4 – 5 years	**603,446**	**1.69%**	**–**	**–**	**603,446**
Over 5 years	**524,885**	**2.16%**	**307,683**	**4.37%**	**832,568**
	$ 11,490,130		**$ 415,904**		**$ 11,906,034**

	March 31, 2012				
	Government of Canada		Capital markets		
($ thousands)	Carrying value	Yield	Carrying value	Yield	Total
From 1 – 2 years	$ 3,485,947	1.20%	$ 152,361	4.37%	$ 3,638,308
From 2 – 3 years	2,786,372	0.99%	–	–	2,786,372
From 3 – 4 years	2,514,257	1.04%	108,038	4.37%	2,622,295
From 4 – 5 years	907,491	1.03%	–	–	907,491
Over 5 years	511,160	2.16%	307,103	4.37%	818,263
	$ 10,205,227		$ 567,502		$ 10,772,729

14. Borrowings (continued)

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.

As at March 31, 2013, the amount the corporation is contractually required to pay on structured notes at maturity was $0.2 million (2012 – $5.2 million), a $nil (2012 - $0.4 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 $nil (2012 - $0.5 million) and, cumulatively, measured from the later of April 1, 2007, or the initial recognition of the structured notes, is $0.1 million (2012 - $0.7 million). The change in fair value attributable to changes in the corporation's credit risk has been calculated 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. To determine reasonably possible alternative assumptions, the corporation adjusted key unobservable model inputs. These adjustments included de-correlating interest rates and subjecting parameters to a large shift.

15. Post-employment 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 March 31 of each year.

The amounts recognized in the Consolidated Balance Sheet are as follows:

($ thousands)	Registered pension plan March 31, 2013	March 31, 2012	April 1, 2011
Present value of funded defined benefit obligations	$ **(537,799)**	$ (474,091)	$ (343,226)
Fair value of plan assets	**414,691**	338,641	315,593
Net liability for defined benefit obligations (1)	$ **(123,108)**	$ (135,450)	$ (27,633)

($ thousands)	Supplemental pension plans March 31, 2013	March 31, 2012	April 1, 2011
Present value of funded defined benefit obligations	$ **(47,941)**	$ (41,391)	$ (24,462)
Fair value of plan assets	**40,824**	33,110	33,834
Funded status	**(7,117)**	(8,281)	9,372
Present value of unfunded defined benefit obligations	**(11,401)**	(9,546)	(7,606)
Net (liability) asset for defined benefit obligations (1)	$ **(18,518)**	$ (17,827)	$ 1,766

($ thousands)	Other benefits March 31, 2013	March 31, 2012 Restated Note 3	April 1, 2011 Restated Note 3
Present value of unfunded defined benefit obligations	$ **(76,478)**	$ (64,620)	$ (46,501)
Net liability for defined benefit obligations (1)	$ **(76,478)**	$ (64,620)	$ (46,501)

(1) The total net liability for defined benefit obligations of all three plans is $218,104 (2012 – $217,897; 2011 – $81,740). This amount is recorded on the Consolidated Balance Sheet as retirement benefit liabilities. The total net asset for defined benefit obligations of all three plans is $nil (2012 – $nil; 2011 – $9,372). This amount is recorded on the Consolidated Balance Sheet in other assets.

15. Post-employment benefits (continued)

Movements in the present value of the defined benefit obligation

($ thousands)	Registered pension plan March 31, 2013	Registered pension plan March 31, 2012	Supplemental pension plans March 31, 2013	Supplemental pension plans March 31, 2012	Other benefits March 31, 2013	Other benefits March 31, 2012 Restated Note 3
Defined benefit obligation, beginning of year	**$ 474,091**	$ 343,226	**$ 50,937**	$ 32,068	**$ 64,620**	$ 46,501
Current service cost	**22,596**	13,669	**2,067**	1,078	**5,220**	3,366
Interest cost	**21,091**	19,579	**2,255**	1,804	**2,948**	2,715
Past service cost	**–**	–	**1,126**	–	**–**	–
Contributions by employees	**4,702**	4,048	**–**	46	**–**	–
Benefits paid	**(10,357)**	(10,007)	**(884)**	(767)	**(726)**	(672)
Actuarial losses	**25,676**	103,576	**3,841**	16,708	**4,416**	12,710
Defined benefit obligation, end of year	**$ 537,799**	$ 474,091	**$ 59,342**	$ 50,937	**$ 76,478**	$ 64,620

Movements in the fair value of plan assets

($ thousands)	Registered pension plan March 31, 2013	Registered pension plan March 31, 2012	Supplemental pension plans March 31, 2013	Supplemental pension plans March 31, 2012	Other benefits March 31, 2013	Other benefits March 31, 2012
Fair value of plan assets, beginning of year	**$ 338,641**	$ 315,593	**$ 33,110**	$ 33,834	**$ –**	$ –
Expected return on plan assets	**23,452**	21,649	**1,171**	1,092	**–**	–
Contributions by corporation	**50,661**	16,364	**6,500**	46	**726**	672
Contributions by employees	**4,702**	4,048	**–**	46	**–**	–
Benefits paid	**(10,357)**	(10,007)	**(637)**	(528)	**(726)**	(672)
Actuarial gains (losses)	**7,592**	(9,006)	**680**	(1,380)	**–**	–
Fair value of plan assets, end of year	**$ 414,691**	$ 338,641	**$ 40,824**	$ 33,110	**$ –**	$ –

Defined benefit costs recognized in net income

($ thousands)	Registered pension plan March 31, 2013	Registered pension plan March 31, 2012	Supplemental pension plans March 31, 2013	Supplemental pension plans March 31, 2012	Other benefits March 31, 2013	Other benefits March 31, 2012 Restated Note 3
Current service cost (1)	**$ 22,596**	$ 13,669	**$ 2,067**	$ 1,078	**$ 5,220**	$ 3,366
Interest on obligation (2)	**21,091**	19,579	**2,255**	1,804	**2,948**	2,715
Past service cost (3)	**–**	–	**1,126**	–	**–**	–
Expected return on plan assets (4)	**(23,452)**	(21,649)	**(1,171)**	(1,092)	**–**	–
	$ 20,235	$ 11,599	**$ 4,277**	$ 1,790	**$ 8,168**	$ 6,081

(1) Total current service cost of $29,883 (2012 – $18,113) is recorded in benefits expense.
(2) Total interest on obligation of $26,294 (2012 – $24,098) is recorded in benefits expense.
(3) Total past service costs of $1,126 (2012 – $nil) is recorded in benefits expense.
(4) Total expected return on plan assets of $24,623 (2012 – $22,741) is netted within benefits expense.

15. Post-employment benefits (continued)

Defined benefit costs recognized in other comprehensive income

($ thousands)	Registered pension plan March 31, 2013	March 31, 2012	April 1, 2011
Experience adjustments on plan liabilities	**$ 625**	$ (2,973)	$ 10,284
Experience adjustments on plan assets	**7,592**	(9,006)	10,032
Changes in assumptions	**(26,301)**	(100,603)	(16,617)
Net actuarial (losses) gains (1)	**$ (18,084)**	$ (112,582)	$ 3,699

($ thousands)	Supplemental pension plans March 31, 2013	March 31, 2012	April 1, 2011
Experience adjustments on plan liabilities	**$ 213**	$ (3,853)	$ 2,439
Experience adjustments on plan assets	**680**	(1,380)	(218)
Changes in assumptions	**(4,054)**	(12,855)	(1,486)
Net actuarial (losses) gains (1)	**$ (3,161)**	$ (18,088)	$ 735

($ thousands)	Other benefits March 31, 2013	March 31, 2012 Restated Note 3	April 1, 2011
Experience adjustments on plan liabilities	**$ 1,519**	$ 26	$ 81
Experience adjustments on plan assets	**–**	–	–
Changes in assumptions	**(5,935)**	(12,736)	(2,576)
Net actuarial losses (1)	**$ (4,416)**	$ (12,710)	$ (2,495)

(1) Net actuarial losses of $25,661 (2012 – $143,380 loss; 2011 – $1,939 gain) are recognized in other comprehensive income.

The cumulative actuarial losses recognized in OCI as at March 31, 2013, were $167.1 million (2012 – $141.4 million).

Plan assets

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

	Registered pension plan		Supplemental pension plans	
	March 31, 2013	March 31, 2012	**March 31, 2013**	March 31, 2012
Equity securities	**59.9%**	60.0%	**98.0%**	99.6%
Debt securities	**32.2%**	34.5%	**1.7%**	0.1%
Real estate	**7.0%**	4.4%	**–**	–
Cash	**0.9%**	1.1%	**0.3%**	0.3%
	100.0%	100.0%	**100.0%**	100.0%

The actual return on plan assets was $32.9 million (2012 – $12.4 million).

15. Post-employment benefits (continued)

Significant assumptions

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

	Registered pension benefits		Supplemental pension plans		Other benefits	
	March 31, 2013	March 31, 2012	**March 31, 2013**	March 31, 2012	**March 31, 2013**	March 31, 2012
Accrued benefit obligation						
Discount rate	**4.00%**	4.25%	**4.00%**	4.25%	**4.00%**	4.25%
Rate of compensation increase	**5.50%**	5.50%	**5.50%**	5.50%	**5.50%**	5.50%
Defined benefit costs						
Discount rate	**4.25%**	5.50%	**4.25%**	5.50%	**4.25%**	5.50%
Expected return on plan assets	**6.50%**	6.75%	**3.25%**	3.25%	**–**	–
Rate of compensation increase	**5.50%**	5.50%	**5.50%**	5.50%	**5.50%**	5.50%

Assumptions regarding future mortality are based on published statistics and mortality tables. As at March 31, 2013, the average life expectancy of an individual retiring at age 65 is 20 years for males and 22 years for females.

The overall expected return on plan assets for each of the registered and supplemental plans is based on the respective portfolios as a whole. The return is based exclusively on historical returns without adjustment.

Assumed health-care cost trend rates are as follows:

	2013	2012
Extended health-care and dental care cost escalation		
Initial rate	**8.00%**	9.00%
Ultimate rate	**5.00%**	5.00%
Year ultimate rate reached	**2021**	2020

15. Post-employment benefits (continued)

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)	Registered pension plan	Supplemental pension plans	Other benefits
1% decrease in expected long-term rate of return on assets			
Net benefit cost	**$ 3,606**	**$ 360**	**$ –**
1% decrease in discount rate			
Total of service and interest costs	**6,635**	**527**	**1,765**
Accrued benefit obligation	**127,404**	**13,684**	**22,112**
0.25% increase in rate of increase of future compensation			
Total of service and interest costs	**690**	**362**	**27**
Accrued benefit obligation	**4,948**	**2,663**	**159**
Assumed overall health-care cost trend rates on aggregate of service and interest cost components for period			
Impact of: 1% increase	**–**	**–**	**2,253**
1% decrease	**–**	**–**	**(1,618)**
Assumed overall health-care cost trend rates on accrued benefit obligation			
Impact of: 1% increase	**–**	**–**	**19,116**
1% decrease	**–**	**–**	**(13,988)**

Defined contribution plans

The cost of the defined contribution plans is recorded based on the contributions in the current year and is included in benefits expense. For the year ended March 31, 2013, the expense was $4.2 million (2012 – $4.1 million).

Total cash payments

Total cash payments for post-employment 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 $62.7 million (2012 – $21.8 million).

Total cash payments for post-employment benefits for 2014, as described in the preceding paragraph, are anticipated to be approximately $57.1 million.

16. Other liabilities

($ thousands)	**March 31, 2013**	March 31, 2012
Reserve for insurance claims	**$ 6,825**	$ 7,734
Deferred revenues	**4,781**	2,926
Other	**523**	890
	$ 12,129	$ 11,550

17. Net interest income

($ thousands)	March 31, 2013	March 31, 2012
Interest income		
Loans and receivables	**$ 1,057,889**	$ 1,007,256
Temporary investments designated as AFS	**10,603**	10,110
Transfer of net realized gains on derivatives designated as cash flow hedges from AOCI to net income	**22,769**	18,430
Hedging derivative financial assets and liabilities designated as cash flow hedges (net)	**11,486**	13,755
Finance leases	**590**	365
Operating leases	**8,799**	6,085
Foreign exchange gains on cash and loans and receivables	**1,407**	1,953
Total interest income for financial instruments not at fair value through profit or loss	**1,113,543**	1,057,954
Venture capital investments designated at fair value through profit or loss	**1,934**	2,405
	1,115,477	1,060,359
Interest expense		
Short-term borrowings classified as other liabilities	**55,406**	48,931
Long-term borrowings classified as other liabilities	**194,758**	204,297
Transition loan liabilities classified as other liabilities	**2,429**	2,183
Foreign exchange losses on cash and short-term borrowings classified as other liabilities (net)	**1,351**	2,295
Total interest expense for financial instruments not at fair value through profit or loss	**253,944**	257,706
Borrowings designated at fair value through profit or loss	**388**	539
Derivative financial assets and liabilities classified as HFT (net)	**(276)**	(256)
	254,056	257,989
Net interest income	**$ 861,421**	$ 802,370

The total net fee income that was recognized immediately in net interest income arising from financial assets and liabilities not measured at fair value through profit or loss was $3.0 million (2012 – $3.8 million). Interest income recognized from the unwinding of discounts on impaired financial assets was $5.1 million (2012 – $6.7 million).

18. Fair value adjustment

($ thousands)	March 31, 2013	March 31, 2012
Venture capital investments designated as fair value through profit or loss	**$ 2,476**	$ 1,868
Long-term debt designated at fair value through profit or loss	**351**	431
Guarantees	**(1)**	9
Derivative financial assets and liabilities classified as HFT	**(291)**	(399)
Ineffectiveness of cash flow hedges	**(652)**	88
	$ 1,883	$ 1,997

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 level of inputs used in the valuation of financial instruments carried at fair value:

	March 31, 2013			
($ thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Temporary investments	**$ –**	**$ 164,781**	**$ –**	**$ 164,781**
Derivative financial assets	**–**	**71,172**	**11**	**71,183**
Venture capital investments	**546**	**–**	**72,820**	**73,366**
	$ 546	**$ 235,953**	**$ 72,831**	**$ 309,330**
Liabilities				
Structured notes	**$ –**	**$ –**	**$ 198**	**$ 198**

	March 31, 2012			
($ thousands)	Level 1	Level 2	Level 3	Total
Assets				
Temporary investments	$ –	$ 83,813	$ –	$ 83,813
Derivative financial assets	–	67,408	490	67,898
Venture capital investments	2,694	–	50,833	53,527
	$ 2,694	$ 151,221	$ 51,323	$ 205,238
Liabilities				
Derivative financial liabilities	$ –	$ 84	$ –	$ 84
Structured notes	–	–	5,693	5,693
	$ –	$ 84	$ 5,693	$ 5,777

19. Fair value of financial instruments (continued)

Level 3 financial instruments

The following table summarizes the changes in the Level 3 valuation hierarchy that occurred during the year:

	March 31, 2013			
($ thousands)	**Derivative financial assets and liabilities**	**Venture capital investments**	**Structured notes**	**Total**
Balance, beginning of year	**$ 490**	**$ 50,833**	**$ (5,693)**	**$ 45,630**
Net (losses) gains recognized in fair value adjustment	**(347)**	**4,988**	**350**	**4,991**
Change in accrued interest	**(132)**	**288**	**145**	**301**
Acquisitions	**–**	**16,763**	**–**	**16,763**
Repayments	**–**	**(52)**	**5,000**	**4,948**
Balance, end of year	**$ 11**	**$ 72,820**	**$ (198)**	**$ 72,633**

	March 31, 2012			
($ thousands)	Derivative financial assets and liabilities	Venture capital investments	Structured notes	Total
Balance, beginning of year	$ 924	$ 46,560	$ (6,128)	$ 41,356
Net (losses) gains recognized in fair value adjustment	(433)	1,719	431	1,717
Change in accrued interest	(1)	196	4	199
Acquisitions	–	9,142	–	9,142
Repayments	–	(6,784)	–	(6,784)
Balance, end of year	$ 490	$ 50,833	$ (5,693)	$ 45,630

Net unrealized gains and losses relating to instruments still held at the reporting date recognized in the fair value adjustment are $5.0 million gain (2012 – $1.7 million gain).

19. Fair value of financial instruments (continued)

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 the methods and assumptions described below, are as follows:

($ thousands)	**March 31, 2013** Carrying value	**March 31, 2013** Estimated fair value	March 31, 2012 Carrying value	March 31, 2012 Estimated fair value
Assets				
Loans receivable	**$ 24,493,332**	**$ 24,683,726**	$ 22,580,309	$ 22,862,225
Finance leases receivable	**12,908**	**12,991**	9,541	9,678
Liabilities				
Long-term debt excluding structured notes	**11,906,034**	**12,024,794**	10,772,507	10,895,906

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 collective 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 individual 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 collective allowance for credit losses related to finance leases is subtracted from the estimated fair value of the finance leases receivable.

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

For all other financial instruments carried at amortized cost, the carrying value is assumed to approximate fair value due to the relatively short period to maturity of these instruments. This applies to the corporation's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, other assets, short-term debt excluding structured notes, transition loan liability and other liabilities excluding the reserve for insurance claims.

20. Operating lease arrangements

Operating leases as a lessor

Operating leases consist of agricultural equipment leased to customers under non-cancellable operating lease agreements. The initial lease terms of operating leases range from two to five years.

The future minimum lease payments are receivable as follows:

($ thousands)		**March 31, 2013**		March 31, 2012
Amounts due				
Less than one year	**$**	**8,967**	$	6,080
Between one and five years		**17,143**		13,007
	$	**26,110**	$	19,087

Operating leases as a lessee

The corporation leases office space under operating leases. The lease terms are typically five to 10 years, with an option to renew the lease after that date.

The future minimum lease payments under non-cancellable lease contracts are payable as follows:

($ thousands)		**March 31, 2013**		March 31, 2012
Amounts due				
Less than one year	**$**	**23,153**	$	22,259
Between one and five years		**55,294**		61,514
More than five years		**53,724**		62,494
	$	**132,171**	$	146,267

Operating lease payments in the amount of $16.0 million (2012 – $15.3 million) have been included within facilities, software and equipment expenses.

21. Commitments, guarantees and contingent liabilities

Loan and lease commitments

As at March 31, 2013, loans approved but undisbursed amounted to $2,904.2 million (2012 – $3,352.9 million). These loans were approved at an average interest rate of 3.88% (2012 – 4.13%) 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. As at March 31, 2013, finance leases approved but undisbursed amounted to $5.8 million (2012 – $2.1 million) and operating leases approved but undisbursed amounted to $2.1 million (2012 – $2.3 million). These leases do not form part of the finance leases receivable or equipment under operating leases balances until disbursed. These commitments do not generate liquidity risk to the corporation because it has sufficient funds available from the Government of Canada to meet its future cash requirements. The Government of Canada makes short-term and long-term funding available to the corporation through the Crown Borrowing Program.

Operating commitments

Future minimum payments on contracts for technology and other services are payable as follows:

($ thousands)	**March 31, 2013**	March 31, 2012
Amounts due		
Less than one year	**$ 10,717**	$ 9,451
Between one and five years	**16,785**	26,172
	$ 27,502	$ 35,623

Capital commitments

Capital expenditure contracted for computer software at the end of the fiscal year but not yet incurred is $8.1 million (2012 – $20.4 million). Capital expenditure contracted for equipment and leasehold improvements at the end of the fiscal year but not yet incurred is $0.3 million (2012 - $nil).

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 as at March 31, 2013, is $2.1 million (2012 – $1.6 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 guarantees will expire within four years, usually without being drawn upon. As at March 31, 2013, an amount of $nil (2012 – $nil) was recorded for these letters of credit.

21. Commitments, guarantees and contingent liabilities (continued)

Contingent liabilities and provisions

Various legal proceedings arising from the normal course of business are pending against the corporation. A provision for pending litigations has been recorded and represents management's best estimate of the probable cash outflows related to legal proceedings. The information usually required by IAS 37 Provisions, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to seriously prejudice the outcome of the litigations. Management does not believe that liabilities arising from pending litigations will have a material adverse effect on the Consolidated Statement of Financial Position or the results of operations of the corporation.

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 compensates 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, therefore the corporation is unable to determine a reasonable estimate of the maximum potential amount the corporation could be required to pay to counterparties. Historically, the corporation has not made any payments under such indemnifications and contingencies. No amount has been included in the consolidated financial statements as at March 31, 2013, for these indemnifications and contingencies.

22. Related party transactions

The corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations.

The corporation is related to Avrio Fund I, Avrio Fund II, and Avrio Subordinated Debt Fund. They are limited partnerships for which the corporation holds 67% (2012 – 67%) and 55% (2012 – 99%) and 99% (2012 – nil), respectively, of the partnership units. Avrio Fund I, Avrio Fund II and Avrio Subordinated Debt Fund are subsidiaries of the corporation. All transactions between the corporation and its subsidiaries have been eliminated on consolidation, and as such are not disclosed as related party transactions.

Other related parties of the corporation are key management personnel, close family members of key management personnel and entities that are controlled, significantly influenced by, or for which significant voting power is held by key management personnel or their close family members, and post-employment benefit plans for the benefit of the corporation's employees.

Transactions with these entities were entered into in the normal course of business and are measured according to the relevant IFRS standard applicable to the transaction.

22. Related party transactions (continued)

Transactions with the Government of Canada

The Government of Canada guarantees the borrowings of the corporation.

The corporation enters into short- and long-term borrowings with the Government of Canada through the Crown Borrowing Program. As at March 31, 2013, the balances outstanding with the Government of Canada were $9,771.0 million in short-term debt (2012 – $9,223.2 million) and $11,490.1 million in long-term debt (2012 – $10,205.2 million). For the year ended March 31, 2013, $223.7 million (2012 – $198.3 million) was recorded in interest expense relating to these borrowings.

The corporation receives government assistance to share the credit losses on certain loans with the Government of Canada. The government assistance is recorded as either an increase or decrease to the provision for credit losses. For the year ended March 31, 2013, the increase (decrease) recorded to the provision for credit losses was $12.9 million (2012 – $0.9 million). The amount estimated to be returned to the Government of Canada is included in the long-term debt balances above.

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

Key management personnel compensation

Key management personnel includes directors and members of the Executive Management Team. Close family members of key management personnel are considered related parties and have been included in the amounts disclosed below.

The compensation paid during the year to key management personnel for services rendered is shown below:

($ thousands)		**March 31, 2013**		March 31, 2012
Salaries and other short-term employee benefits	**$**	**3,287**	$	3,390
Post-employment benefits		**2,228**		704
Board retainer and per diems		**175**		213
Total	**$**	**5,690**	$	4,307

22. Related party transactions (continued)

Transactions with key management personnel

All transactions with key management personnel are with directors and entities related to those directors. The terms and conditions of the transactions with key management personnel were no more favourable than those available on similar transactions with other customers.

	2013		2012	
($ thousands)	**Maximum balance during the year**	**Balance as at March 31**	Maximum balance during the year	Balance as at March 31
Loans	**$ 9,564**	**$ 5,813**	$ 6,205	$ 5,446
Leases	**24**	**11**	36	24

The weighted average interest rate on the loans to key management personnel outstanding as at March 31, 2013, was 6% (2012 – 6%).

The loans and leases to key management personnel are secured under similar conditions as transactions with other customers and the key management personnel entering into these transactions were subject to the same credit assessment process applied to all customers. No individual allowance has been established in 2013 for the loans or leases made to key management personnel (2012 – $nil).

Undrawn credit commitments with key management personnel totalled $10.2 million as at March 31, 2013 (2012 – $5.2 million).

Transactions with post-employment benefit plans

During the year, $115.3 thousand was received from the defined benefit plan (2012 – $52.6 thousand) for administrative services and was recorded in benefits expense.

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;
- have the capability to withstand market fluctuations intrinsic to the agriculture industry while continuing to support its customers through all economic cycles; and
- 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, or up to 15 times with prior approval.

The corporation's level of capitalization and the percentage of gross assets not requiring funding through borrowings are as follows:

($ thousands)	March 31, 2013	March 31, 2012 Restated Note 3
Retained earnings	**$ 2,777,823**	$ 2,346,976
Accumulated other comprehensive income	**184,752**	203,477
Contributed surplus	**547,725**	547,725
Allowance for credit losses	**640,172**	622,094
Non-controlling interest in special purpose entity	**28,387**	16,158
Total capitalization	**$ 4,178,859**	$ 3,736,430
Gross assets	**$ 26,510,986**	$ 24,451,139
Capitalization as a percentage of gross assets	**15.76%**	15.28%

Limits on borrowing

As at March 31, 2013, the corporation's total direct and contingent liabilities were 6.72 times the shareholder's equity, excluding AOCI (2012 – 7.16 times the shareholder's equity, excluding AOCI), which was within the limit established by the Farm Credit Canada Act.

Contributed surplus

The corporation's contributed surplus 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 at March 31, 2013, cumulative capital payments received from the Government of Canada amounted to $1,208.3 million (2012 – $1,208.3 million). No capital payments have been received since 2006. The statutory limit for that same period was $1,250.0 million (2012 – $1,250.0 million).

Dividend

On August 15, 2012, the Board declared a dividend based on the results of the year ended March 31, 2012, in the amount of $56.4 million (2012 – $17.5 million based on the year ended March 31, 2011) to the corporation's shareholder, the Government of Canada, which was paid on March 22, 2013.

24. Risk management

Risk governance

The corporation has established a governance framework that includes a number of policies and internal committees to guide corporate decision-making. The Board provides oversight for this internal corporate governance framework. The Board's committees are responsible for developing and monitoring aspects of the corporation's overall risk management policies, processes and practices. Internal committees report regularly to the Board and its committees. The Audit Committee oversees the effectiveness of internal controls, regulatory compliance, ethical conduct and the performance of FCC's internal and external audit functions. The Governance Committee oversees the strategic planning and enterprise risk management programs providing oversight concerning the corporation's enterprise risk management process and its integration with the corporation's strategic planning process.

Financial risk management

The corporation has identified the major categories of financial risk to which it is exposed as credit risk and market 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 financial obligations to the corporation. Credit risk on loans is the most significant risk that the corporation faces.

Management of credit risk

The Board has overall responsibility for the management of credit risk and relies on a number of divisions and committees to effectively manage the credit risk that impacts the corporation:

- Portfolio and Credit Risk conducts industry, economic and portfolio analysis and reports to the various risk committees, including the Audit Committee. A number of areas within this division are involved in managing credit risk for the corporation. They include:
  - Portfolio Analysis and Modelling is responsible for the management, design and development of lending and credit risk-related models, lending scorecards and tools. It makes recommendations to the Asset Liability Committee (ALCO) to ensure that these models, scorecards and tools appropriately balance risk mitigation, growth and profitability.
  - Credit Policy and Process Management is responsible for the management of the corporation's credit policies and makes recommendations to the Credit Policy Committee to ensure that there is an appropriate balance between risk mitigation, profitability and growth. It also reviews, enhances and clarifies credit policies and communicates policy changes to employees. Credit Policy and Process Management provides ongoing interpretation of policy in relation to general and specific lending situations.
  - Credit Risk manages risk for larger loans as well as loans above established risk thresholds. It is responsible for the credit-related delegation of authorities, credit education, coaching and credit authorization. Special Credit is a function within Credit Risk that manages and resolves higher-risk accounts experiencing challenges through intensive management of accounts, arrears collection and recovery actions.
  - Corporate Credit is responsible for credit education, coaching and credit authorization for larger loan applications, including Credit Committee recommendations.
  - Valuation 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.

24. Risk management (continued)

- Operations is delegated authorities over lending and is responsible for managing credit risk on loans in its 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.
- Treasury is responsible for managing counterparty credit risk related to derivative and investment activities. The division reviews counterparty credit rating actions and financial performance.

The following internal committees are involved in the management of credit risk at the corporation:

- 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.
- Credit Policy Committee oversees the development of lending policies and ensures that they reflect the corporation's credit risk tolerance, industry best practices and compliance with federal, provincial and regional laws and regulations.
- Credit Committee reviews and makes lending decisions on loan applications in excess of the prescribed limits.
- Venture Capital Investment Committee oversees ongoing management of the investment portfolio including selection and oversight of third-party investment managers.

Measurement of credit risk

Portfolio and Credit Risk assesses credit risk at the aggregate level, providing risk policies and assessment tools and models that quantify credit risk and allowance for credit losses. The division also monitors the agriculture and agri-food operating environments to ensure that the corporation's lending policies, activities and prices are appropriate and relevant.

Policies, processes, systems and strategies are used to manage the credit risk of the corporation's portfolio. Each year, Portfolio and Credit Risk presents a comprehensive portfolio vision that summarizes many of these tools, models and strategies to the Board 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:

Credit economic capital

The corporation uses a credit economic capital model to assess capital adequacy for credit risk. The main benefits of a credit economic capital model are to:

- measure transaction, concentration and correlation risk
- stress test the loan portfolio to estimate losses with a certain level of probability
- measure trends over time
- allow for risk-adjusted comparisons of geographic areas and business lines

24. Risk management (continued)

Portfolio diversification plan

The portfolio diversification plan outlines the desired range for portfolio composition in five years, including diversification across enterprises, geographical areas and business lines. The desired range is evaluated against other realistically achievable scenarios considering growth, profit and risk impacts.

In addition, each year the portfolio vision also establishes customer exposure limits and approval authorities.

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 customer, loan and enterprise characteristics, and generates scores ranging 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

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.

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: individual and collective. The individual loan losses are determined for non-performing loans when, in management's opinion, credit quality has deteriorated to the extent that the corporation no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, individual loan losses are determined for loans that have met both of the following criteria:

- greater than $500 in arrears for 90 days or more
- security insufficient to fully recover amounts outstanding

Collective loan losses are calculated 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
- drop in the RSPS risk score of 15 or more points in the past year

The collective 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 between when impairment occurs and 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.

Macro measures that demonstrate the health of the portfolio are as follows:

	March 31, 2013	March 31, 2012
Weighted average loan-to-security ratio for secured loans	**54.4%**	57.0%
Loans secured by a General Security Agreement and unsecured loans as a percentage of loans receivable	**3.1%**	2.3%

24. Risk management (continued)

Collateral

The corporation mitigates its credit risk by employing policies and practices for 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 21 for further details regarding the corporation's loan commitments.

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

($ thousands)	**March 31, 2013**	March 31, 2012
On-balance sheet		
Temporary investments	**$ 164,781**	$ 83,813
Accounts receivable	**18,665**	16,356
Derivative financial assets	**71,183**	67,898
Loans receivable	**24,493,332**	22,580,309
Finance leases receivable	**12,908**	9,541
Venture capital investments	**73,366**	53,527
Other assets	**4,144**	4,028
	24,838,379	22,815,472
Off-balance sheet		
Financial guarantees	**2,084**	1,580
Loan and lease commitments	**2,912,144**	3,357,337
	2,914,228	3,358,917
Total maximum exposure to credit risk	**$ 27,752,607**	$ 26,174,389

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 exposure is based on net carrying values as reported in the balance sheet. For off-balance sheet items, the exposure is based on the maximum amount that the corporation would have to pay if the item was called upon.

24. Risk management (continued)

Loans receivable

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 and the amount owing is greater than $500. Loans less than 90 days in arrears are not considered impaired, unless other information is available to the contrary. As well, loans in arrears 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 value of the loan. Gross amounts of loans that were in arrears but not impaired were as follows:

($ thousands)	**March 31, 2013**	March 31, 2012
In arrears but not impaired		
Up to 30 days	**$ 74,914**	$ 58,744
31 – 60 days	**172,294**	63,978
61 – 89 days	**52,639**	25,667
90 days or more	**156,776**	110,290
	$ 456,623	$ 258,679

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. The total owing for each RSPS score bucket as a percentage of total owing that is neither in arrears nor impaired is as follows:

	March 31, 2013	March 31, 2012
RSPS score		
400-650	**0.6%**	0.6%
651-769	**15.2%**	16.1%
770-850	**64.4%**	63.8%
851-999	**19.8%**	19.5%
	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. These represent approximately 3% of the corporation's total portfolio.

Real estate property held for sale

The corporation has acquired real estate property from customers in the settlement of loan commitments with a carrying value of $0.3 million (2012 – $0.7 million). Real estate property acquired is sold as soon as practicable with the proceeds used to reduce the outstanding customer loan balance.

24. Risk management (continued)

Counterparty credit risk – derivatives and temporary investments

Credit risk arises from the potential for a counterparty to default on a 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 policies, 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 financial 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 (Standard & Poor's, Moody's or DBRS). See Note 5 and Note 14 for the quantification of counterparty credit risk.

ALCO and the Board 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.

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 financial 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, and the corporation's exposure to liquidity risk.

The corporation has market risk policies and limits to ensure that exposures to interest rate, foreign exchange risks and liquidity 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. 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 on its activities and asset/liability positions.

24. Risk management (continued)

Interest rate risk

Interest rate risk is the risk that a change in the interest rate adversely affects the corporation's net interest income and fair value measurements. 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 fair values to a change 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 projected impact of a 2.0% 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%. The second defined limit is that the market value of portfolio equity (MVPE) should not decline by more than 10.0% of total equity (excluding accumulated other comprehensive income) for a 2.0% immediate and sustained change in the level and term structure of interest rates. Based on the corporation's financial position as at March 31, 2013, assuming an immediate and sustained 2.0% change in interest rates occurs across all maturities and curves, net interest income and the MVPE would be affected over the next 12 months as follows:

	2013 Impact of		2012 Impact of	
($ thousands)	**2% increase**	**0.90% decrease (1)**	2% increase	0.85% decrease (1)
Projected net interest income variability	**$ (3,271)**	**$ 2,512**	$ (3,599)	$ 1,054
Limit	**89,494**	**(89,494)**	82,073	(82,073)
MVPE variability	**(230,537)**	**103,089**	(224,065)	91,441
Limit	**(332,555)**	**332,555**	(289,470)	289,470

(1) The lowest rate on the yield curves used in the model was 0.90% (2012 – 0.85%) 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 fair value of the interest guarantees on new loans and renewals cannot exceed 0.5% of total equity (excluding accumulated other comprehensive income) for a 0.5% increase in rates. The net decrease in the fair value of undisbursed loans if there was a 0.5% rate increase was $3.7 million as at March 31, 2013 (2012 – $4.2 million), which was within the policy limit of $16.6 million (2012 – $14.5 million).

24. Risk management (continued)

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 before 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	$ –	$ 881,523	$ –	$ –	$ –	$ 36,348	$ 917,871
Yield	–	1.05%	–	–	–	–	–
Temporary investments	–	139,614	24,921	–	–	246	164,781
Yield (1)	–	1.08%	1.02%	–	–	–	–
Derivative financial assets (2)	–	–	–	–	–	71,183	71,183
Loans receivable	15,577,048	1,058,649	1,781,109	5,448,957	1,050,519	(422,950)	24,493,332
Yield (1)	3.94%	5.38%	4.45%	4.63%	5.08%	–	–
Finance leases receivable	–	805	3,460	8,643	–	–	12,908
Yield (1)	–	5.19%	5.19%	5.19%	–	–	–
Venture capital investments	–	–	175	18,115	–	55,076	73,366
Yield (1)	–	–	8.00%	11.39%	–	–	–
Other	–	–	–	–	–	137,373	137,373
Total assets	**$ 15,577,048**	**$ 2,080,591**	**$ 1,809,665**	**$ 5,475,715**	**$ 1,050,519**	**$ (122,724)**	**$ 25,870,814**
Liabilities and equity							
Non-structured borrowings	$ –	$ 18,659,081	$ 694,625	$ 1,791,036	$ 764,065	$ 42,936	$ 21,951,743
Yield (1)	–	0.98%	2.26%	1.83%	3.12%	–	–
Structured borrowings	–	–	186	–	–	7	193
Yield (1)	–	–	6.00%	–	–	–	–
Total borrowings	**–**	**18,659,081**	**694,811**	**1,791,036**	**764,065**	**42,943**	**21,951,936**
Derivative financial liabilities (2)(3)	–	332,669	(186)	(94,489)	(237,994)	–	–
Yield (1)	–	1.05%	6.00%	4.26%	4.54%	–	–
Other	–	–	–	–	–	408,578	408,578
Shareholder's equity	–	–	–	–	–	3,510,300	3,510,300
Total liabilities and equity	**$ –**	**$ 18,991,750**	**$ 694,625**	**$ 1,696,547**	**$ 526,071**	**$ 3,961,821**	**$ 25,870,814**
Total gap 2013	**$ 15,577,048**	**$(16,911,159)**	**$ 1,115,040**	**$ 3,779,168**	**$ 524,448**	**$ (4,084,545)**	**$ –**
Total cumulative gap 2013	**$ 15,577,048**	**$ (1,334,111)**	**$ (219,071)**	**$ 3,560,097**	**$ 4,084,545**	**$ –**	**$ –**
Total gap 2012	$ 14,611,099	$(16,265,013)	$ 1,348,327	$ 3,628,478	$ 264,204	$ (3,587,095)	$ –
Total cumulative gap 2012	$ 14,611,099	$ (1,653,914)	$ (305,587)	$ 3,322,890	$ 3,587,095	$ –	$ –

(1) Represents the weighted-average effective yield based on the earlier of contractual re-pricing or maturity date.

(2) The notionals for derivatives with a positive fair value have been netted against derivatives with a negative fair value and are included with derivative financial liabilities.

(3) Represents notional principal amounts on derivatives.

24. Risk management (continued)

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. However, the corporation has determined that the residual risk is insignificant.

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's policy limit for the foreign currency funding to foreign currency asset hedge ratio is a range of 90% to 110%. The corporation's actual ratio as at March 31, 2013, is 96.1% (2012 – 97.7%).

Derivatives

The corporation uses derivatives to hedge interest rate and foreign exchange risk. Derivatives alter the risk profile of the consolidated balance sheet by reducing mismatches of assets and liabilities, while ensuring that 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.

Venture capital equity investments

The corporation is exposed to price risk through its venture capital equity investments. The corporation manages price 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.

Liquidity risk

Liquidity risk is the risk that 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 $1,082.7 million were on hand as at March 31, 2013 (2012 – $988.0 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
- access to a $30.0 million bank operating line of credit

24. Risk management (continued)

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 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

	March 31, 2013						
($ thousands)	Carrying value	Gross nominal inflow (outflow)	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years
Non-derivative financial liabilities							
Borrowings	$ 21,951,936	$(21,950,245)	$ (2,983,309)	$ (2,500,664)	$ (4,585,111)	$(11,059,037)	$ (822,124)
Derivative financial liabilities							
Carrying value	–	–	–	–	–	–	–
Cash inflows	–	–	–	–	–	–	–
Cash outflows	–	–	–	–	–	–	–
	$ 21,951,936	$(21,950,245)	$ (2,983,309)	$ (2,500,664)	$ (4,585,111)	$(11,059,037)	$ (822,124)

	March 31, 2012						
($ thousands)	Carrying value	Gross nominal inflow (outflow)	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years
Non-derivative financial liabilities							
Borrowings	$ 20,341,395	$(20,339,669)	$ (2,849,134)	$ (1,964,905)	$ (4,777,537)	$ (9,938,922)	$ (809,171)
Derivative financial liabilities							
Carrying value	84	–	–	–	–	–	–
Cash inflows	–	43	–	38	5	–	–
Cash outflows	–	(127)	–	(81)	(46)	–	–
	$ 20,341,479	$(20,339,753)	$ (2,849,134)	$ (1,964,948)	$ (4,777,578)	$ (9,938,922)	$ (809,171)

24. Risk management (continued)

Insurance risk management

Assumptions and measurement uncertainty

The corporation's insurance provider determines the reserve for insurance claims actuarially using the Canadian Asset Liability Method (CALM). Under CALM, the future cash flows from the insurance contracts and the assets that support them are dynamically projected in a number of scenarios prescribed by the Canadian Institute of Actuaries (CIA), using current best estimate assumptions with provisions for adverse deviation. The corporation engages independent actuaries from time to time to review its insurance program to ensure that the assumptions, methodologies and processes are prudent.

In calculating the reserve for insurance claims, assumptions must be made about interest rates, asset default, inflation, mortality and morbidity rates, policy terminations, expenses and other factors over the life of the insurance policies. Best estimate assumptions are used for expected future experience. Additional provisions are included in the reserve for insurance claims to provide for possible adverse deviations from the best estimate. If the assumption is more susceptible to change or if there is more uncertainty about the underlying best estimate assumption, a correspondingly larger provision is included in the reserve for insurance claims. There have been no changes in assumptions that have significantly affected the reserve for insurance claims in the current fiscal year.

The provisions are reviewed for reasonableness when taken one at a time and also in total. The best estimate assumptions and margins for adverse deviation are reviewed annually and revisions are made where deemed necessary and prudent. The assumptions with the greatest potential impact on net income are mortality and investment returns.

Insurance mortality refers to the rates at which death occurs for defined groups of people and are generally based on the corporation five-year average experience. In general, assumed mortality rates do not reflect any future expected improvement, except in some instances where the net effect of reflecting future improvement increases the policy liabilities.

Assumptions related to investment returns include expected future credit losses on fixed income investments. Past corporation experience and industry experience over the long term as well as specific reviews of the current portfolio are used to project credit losses.

Assumptions for termination experience are generally based on corporation five-year average experience.

Expense assumptions are based on corporation recent experience using an internal expense allocation methodology.

25. Subsequent events

The Board approved the consolidated financial statements on May 29, 2013. There were no subsequent events requiring recognition or disclosure within the consolidated financial statements between March 31, 2013, and the date of approval.

Glossary

Agribusiness and agri-food

Suppliers or processors who sell to, buy from and otherwise serve primary producers. These include equipment manufacturers and dealers, input providers, wholesalers, marketing firms and processors.

Alliances

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

Allowance for credit losses

Management's best estimate of credit losses incurred on a loan and lease receivable portfolio. Allowances are accounted for as deductions on the balance sheet from loans and leases receivable, respectively.

Arrears

All amounts that are past due by more than $500 on a loan, including impaired loans.

Basis point

One hundredth of 1 per cent, used when describing applicable interest rates or the yield of an investment (1 bps = 0.01 per cent).

Corporate social responsibility (CSR)

A company's commitment to operating in an economically, socially and environmentally sustainable manner, while recognizing the interests of its stakeholders, including investors, customers, employees, business partners, local communities, the environment and society at large, as defined by Canadian Business for Social Responsibility.

Counterparty

The other party involved in 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 the 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 during downturns in a particular segment of the agriculture industry. Individual plans can include deferred payments or flexible repayment schedules for defined periods of time.

Debt-to-equity ratio

The level of debt expressed as dollars of debt per one dollar of total equity, excluding 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. Revenue is composed of net interest income, net insurance income and other income.

Embedded derivative

An embedded derivative is a component of a hybrid (combined) instrument that also includes a nonderivative 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

A specific type of agricultural operation (dairy, cash crops, beef, etc.).

Enterprise risk management (ERM)

The enterprise-wide application of co-ordinated activities that direct and control an organization with respect to risk.

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 the elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

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. In addition, any loan that is $500 or more in arrears for 90 days is classified as impaired unless the loan is sufficiently 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 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 the 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 gains and losses due to changes in fair value that are recorded outside of net income in a section of the shareholder's equity called accumulated other comprehensive income (AOCI).

Prepayments

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

Primary production

Agriculture operations that produce raw commodities such as grains and oilseeds, cattle, hogs, poultry, sheep and dairy, as well as fruits, vegetables and alternative livestock. Primary production also includes vineyards, greenhouses, forestry (cultivation, growing and harvesting of trees), aquaculture (growing of ocean and inland fish) and part-time farming.

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 attributable to the shareholder of the parent entity expressed as a percentage of total average equity, excluding 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. The pricing component of RSPS calculates the risk price (risk adjustment), which is the portion of the loan margin required to cover the risk of loss.

Special purpose entity (SPE)

An entity that the corporation has created for a narrow and well-defined objective for which the corporation has rights to obtain the majority of the benefits and therefore may be exposed to risks incident to the activities of the SPE.

Value-added businesses

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

FCC office locations

British Columbia
Abbotsford, Dawson Creek, Duncan, Kelowna, Surrey

Alberta
Barrhead, Brooks, Calgary, Camrose, Drumheller, Edmonton, Falher, Grande Prairie, High River (S), La Crete, 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, Wadena (S), Weyburn, Yorkton

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

Ontario
Casselman, Chatham, Clinton, Essex, Frankford, Guelph, Kanata, Kingston, Lindsay, Listowel, London, Mississauga, New Liskeard (S), North Bay, Owen Sound, Simcoe, Stratford, Thornton, Vineland, Walkerton, Woodstock, Wyoming

Quebec
Alma, Blainville, Drummondville, Gatineau (S), Granby, Joliette, Lévis, Rivière-du-Loup, Salaberry-de-Valleyfield, Sherbrooke, Ste-Marie, St-Hyacinthe, St-Jean-sur-Richelieu, Trois-Rivières, Victoriaville

New Brunswick
Grand Falls, Moncton, Sussex (S), Woodstock

Newfoundland and Labrador
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Nova Scotia
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