

# Farm Credit Canada

2013-14 Annual Report



# FCC customer value proposition

What you can expect from us:

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

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

We provide our customers with flexible, competitively priced financing, 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.**

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## Message from the President and CEO

It's been a privilege to work in such a vibrant and dynamic industry and to represent FCC as its President for the past seven years. As I enter retirement, I've had the opportunity to pause and reflect on my career at FCC. We've come a long way since I first joined the organization in 1988. At that time, we had a limited offering of products and services, and our portfolio was \$4.2 billion. After 21 consecutive years of growth, our portfolio is now more than \$26 billion and we offer a variety of flexible products and services to customers across the entire agriculture value chain.

### Agriculture matters

Advancements in technology and export markets have shaped agriculture into an exciting and vibrant industry where family farms are prospering. Today, the agriculture and agri-food system contributes over \$135 billion to the Canadian economy every year. Producers have a lot of opportunities to expand their operations and venture into new markets, both within Canada and globally. The world population is expected to reach 9.6 billion by 2050. This means the world will need 70 per cent more food. Canadian producers play a huge role in meeting this challenge, and FCC is here to support them along the way.

These opportunities, combined with tremendous economic growth, are changing attitudes about agriculture. We've seen this first-hand through the response we've been getting from Agriculture More Than Ever – an industry initiative to improve perceptions and create positive dialogue about Canadian agriculture. Our partners are the driving force for Agriculture More Than Ever. Together, we're capturing the optimism and pride we all have in agriculture so that we can continue to build the talent, investment and consumer confidence we need to grow our industry today and into the future.

### We care about our customers

Without question, we serve the best industry and the best customers in the world. Although there are always challenges, our customers work hard and are committed to the industry through thick and thin. And, I'm proud that FCC makes a difference in the lives of more than 100,000 customers. On a daily basis, we hear stories

from customers who tell us they wouldn't be as successful or, in some cases, in business at all without FCC. To know these businesses are flourishing today is a wonderful feeling.

Another way we work to meet the evolving needs of customers is by offering an extraordinary customer experience. The Customer Experience Index is proof of this focus – more than six out of 10 customers give us perfect scores when we poll them on various aspects of the customer experience. We want to make it easy for customers to do business with us by operating in a timely and efficient manner. We also focus on creating a positive environment every time we interact with customers, partners and the community.

### We manage risk responsibly

FCC is a stable force, supporting the growth of the agriculture industry through financing and services that meet the evolving needs of customers – this is part of our public policy role as a federal Crown corporation. One of the ways we do this is by managing risk in an efficient and sustainable manner. Enhancing our risk management practices was a key area of focus this year. After all, effective risk management protects our customers and, ultimately, the industry itself. Our reputation and ability to serve the agriculture and agri-food system depend on our knowledge and demonstrated prudence as a lender.

### We believe in giving back

We believe in giving back to the communities where our customers and employees live and work. Our largest community investment initiative is FCC Drive Away Hunger. We celebrated its 10th anniversary in 2013 and collected a record 6.5 million pounds of food for food banks nationwide. I'm truly touched by the amount of support we received from communities across Canada for such a worthy cause. The contributions of thousands of volunteers and generous Canadians, including customers, partners and schools, were crucial to the program's success. And, I want to recognize the involvement of our employees for freely giving their time and effort to many worthwhile causes like this. It's the right thing to do.

### Our people are our strength

I feel privileged to have worked with so many great people in such an exciting industry throughout my career. With support from our Board of Directors and senior leadership team, our employees are the reason for our success – they're passionate about agriculture and care deeply about our customers.

Looking forward, I can't help but feel excited about what I see. Undoubtedly, the industry will continue to change and with change will come many opportunities for growth, innovation and success. I believe FCC will play an important role in that success because with FCC

in the market, producers benefit, agriculture benefits, rural Canada benefits, and so do all Canadians.

I feel fortunate to have been part of this and to have spent the past 26 years of my life serving something that matters so much. Thanks for the opportunity.



**Greg Stewart, President and CEO**



## Message from the Board Chair



I'm proud to represent the FCC Board of Directors in its commitment to FCC in serving the agriculture industry and enhancing rural Canada.

Throughout the year, FCC enjoyed many successes, including strong portfolio numbers and lending results. FCC also had the opportunity to positively impact people from all across Canada through successful community investment initiatives, like FCC Drive Away Hunger.

FCC tackled some challenges as well, including changes to its lending and operational processes. It enhanced its enterprise risk management framework to further mitigate risk and be sustainable in an increasingly competitive and regulated industry.

Over the past few years, FCC has implemented a number of technology upgrades to streamline and automate many of its business processes. This year, the focus was on equipping employees with some new tools and procedures to enable them to provide the best service to customers.

As another way to connect with customers, FCC continues to expand its social media channels. It has had the opportunity to share information, have conversations and respond to questions from customers, partners and the community through their preferred social media platforms. As a result, FCC has become a trusted, influential and growing social media voice in the Canadian agriculture industry.

While a range of financial products, business services and knowledge programs are provided to customers across the entire agriculture value chain, small and medium-sized businesses are at the heart of FCC. In fact, 93 per cent of its loan portfolio consists of loans under \$500,000.

FCC exists to advance the business of agriculture and its employees are passionate about carrying out that mandate.

I want to acknowledge the contributions of Greg Stewart, who retired as FCC's President and CEO and Board director in June 2014. His integrity, leadership and passion for agriculture was inspirational to employees and customers alike, and helped move the organization forward.

FCC will continue to work with its employees, stakeholders and partners to develop and encourage innovative ideas in the agriculture industry, which we know is dynamic and progressive, as are the producers and agribusiness operators that give it life.

Respectfully submitted on behalf of the FCC Board of Directors,

A handwritten signature in dark ink, which appears to read "Dale Johnston". The signature is fluid and cursive, written over a light blue background.

**Dale Johnston, Board Chair**

## Message from the Agriculture Minister



The agriculture and agri-food system continues to be a major driver for jobs and economic growth in Canada. It provides one in eight jobs and contributes nearly seven per cent of our gross domestic product.

Our government remains committed to creating the right conditions for our producers, agribusinesses and agri-food operators to remain world leaders. FCC plays a critical role in ensuring that producers have access to capital and a wide range of financial and business products and services tailored to their unique needs.

FCC's focus on advancing the business of agriculture also supports the principles of Growing Forward 2 which is in its second year of implementation. These programs focus on proactive investments in innovation, competitiveness and market development to ensure that Canadian producers and processors have the tools they need to compete at home and abroad.

On the international stage, our government continues to open up new avenues for income across the entire industry by advancing free trade agreements, working to overcome trade-restrictive measures and obstacles, and leading trade missions to emerging agri-food markets around the world. Through new free-trade agreements with the European Union and with South Korea, we are continuing to broaden export opportunities for Canadian agriculture.

Our government looks forward to continuing a strong working relationship with FCC. Together, we will continue to provide a strong financial foundation for Canadian agriculture to build on its success.

**Gerry Ritz, Agriculture Minister**

## Operational and financial highlights

In 2013-14, economic conditions improved across the developed world, including Canada. Farm asset values continued to increase due to rising land values driven by a robust agriculture economy, growing world food demand and strong commodity prices. As the demand for agriculture and agri-food products evolves, Canadian agriculture must adapt to take advantage of opportunities and remain competitive.

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 2013-14, growth in loans receivable was \$1.1 billion or 4.3 per cent.

The number of loans disbursed was 46,288 in 2013-14 and the average size of the loans disbursed was \$163,649, resulting in net disbursements of \$7.7 billion. Net interest income increased by \$38.8 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 its continued ability to fund investment and growth in the industry.

For the years ended March 31

### Operational highlights

	2014	2013	2012
<b>Loans receivable portfolio</b>			
Number of loans	149,130	147,696	126,496
Loans receivable (\$ millions)	26,205.0	25,133.3	23,202.3
Net portfolio growth (%)	4.3	8.3	8.4
Impaired loans as a percentage of loans receivable (%)	1.2	1.3	1.2
<b>New lending</b>			
Number of loans disbursed	46,288	47,046	45,578
Net disbursements (\$ millions)	7,694.6	7,746.2	7,114.8
Average size of loans disbursed (\$)	163,649	162,406	156,150

### Financial highlights

	2014	2013*	2012
<b>Consolidated balance sheet (\$ millions)</b>			
Total assets	27,290.0	25,870.8	23,829.0
Total liabilities	23,070.2	22,339.6	20,714.7
Total equity	4,219.8	3,531.2	3,114.3
<b>Consolidated statement of operations (\$ millions)</b>			
Net interest income	900.2	861.4	802.4
Provision for credit losses	(47.6)	38.1	1.8
Other income	21.8	15.6	51.1
Administration expenses	366.6	337.2	288.1
Fair value adjustment	39.0	1.9	2.0
Net income	642.0	503.6	565.6

\*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 lend money and provide other services to primary producers, agri-food operations and agribusinesses that provide inputs or add value to agriculture. We share business management knowledge and training with our customers, free of charge. We offer insurance, venture capital and management accounting software that's designed specifically for agriculture.

We're a team of more than 1,700 employees operating from more than 100 offices located primarily in rural Canada. We have professional expertise in many fields, focusing on agriculture, and we're passionate about what we do.

With a healthy portfolio of more than \$26 billion and 21 consecutive years of portfolio growth, FCC is strong and stable, serving agriculture through all cycles.

Our roots date back to 1929 when 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, making us the successor to the CFLB.

In 1993, the Farm Credit Corporation Act expanded our mandate and broadened our lending and administrative powers. Under the new mandate, FCC began providing financial services to larger farming operations and farming corporations, as well as to individual farmers.

In 2001, the Farm Credit Canada Act allowed us to offer an even broader range of services to producers, agri-food operations and agribusinesses.

### Vision

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.

## FCC and public policy

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 a set of priorities to guide FCC in continuing to strengthen the agriculture industry. We used these priorities, along with the Economic Action Plan 2013, to develop our public policy approach for 2013-14.

### **We provide access to capital**

Access to capital allows producers and agribusinesses to adopt innovative practices and business models that enable them to expand, lower their production costs, develop new products and compete in global markets. FCC ensures access to capital by providing a wide range of financial and business products and services tailored to the industry's unique needs.

FCC works to reduce financing gaps in the agriculture industry. In response to requests from equipment dealers and associations, we continued to roll out a new inventory financing product in 2013-14 that offers financing on equipment carried by dealers.

FCC also offers venture capital that addresses the need for alternative financing in the agriculture industry. We provide venture capital through a private sector partner, Avrio Capital. This is consistent with the Economic Action Plan 2013 commitment to provide \$400 million to increase the capital and expertise available to growing, innovative firms in a manner that encourages private sector investments and venture capital fund management.

FCC works with credit unions to address market and policy issues of mutual interest and identify opportunities for partnership. FCC and Canadian banks work together to provide financing for agriculture operations and agribusinesses. Healthy marketplace competition and a choice of financing are necessary for Canadian producers and agribusinesses to be successful through all economic cycles.

### **We advance the business of agriculture**

We believe that sound financial management is key to successful agriculture operations. To help advance producers' business management skills, FCC continued to offer Ag Knowledge Exchange events, learning forums and publications in 2013-14. Producers of all ages and in all sectors could access the training and information they needed, free of charge.

FCC remained focused on ensuring that employees have the appropriate knowledge and tools to provide solid insight and expertise to customers to help them achieve their goals.

Young producers are very important to the agriculture industry. FCC proudly supported them in 2013-14 by offering products and services such as the FCC Transition Loan and Young Farmer Loan, assisting with intergenerational transfers of operations and helping young people enter the industry.

FCC continued to champion Agriculture More Than Ever to show Canadians how important agriculture is to Canada and the world. In 2013-14, Agriculture More Than Ever grew to include partners from agriculture, industry associations, private sector businesses, provincial ministries of agriculture, trade organizations and the media, who shared stories of agriculture as a modern and vibrant industry.

### **We support government policy through collaboration with other government agencies**

In 2013-14, FCC collaborated with Export Development Canada (EDC) and the Business Development Bank of Canada (BDC) to support access to international markets for Canadian agribusinesses. FCC and EDC drew on each other's expertise, knowledge, processes and products to improve access to international financing and risk management tools for customers who need export and global investment solutions. FCC and BDC regularly exchanged information on a variety of topics.

FCC employees and their counterparts at Agriculture and Agri-Food Canada (AAFC) connected on a range of topics important to the agriculture industry, including opportunities for youth.

FCC supported the development of Growing Forward 2 by providing input on several aspects of the policy framework. To align with Growing Forward 2 policy objectives, we revised our business strategy to include a customer and agriculture industry theme and a critical outcome statement that focused on the industry and FCC customers.

Above all, FCC continued to remain self-sustaining and profitable in 2013-14. Our ongoing strength and stability allowed us to continue to serve agriculture through all cycles. With a single industry focus, we continued to reinvest FCC's profits into agriculture through increased lending to customers and by developing knowledge, products and services.

While remaining mindful of the government's Strategic and Operating Review, FCC carefully balanced the resources needed to support a growing enterprise while controlling costs and increasing efficiencies. This allowed us to sustain our excellent financial performance and ability to serve agriculture in the years to come.

### **We're proud to serve all of agriculture, all the time, in 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 lends money to all agriculture sectors, including primary producers, agri-food operations and agribusinesses that provide inputs or add value to agriculture.

### **We're dedicated to agriculture and take a long-term view**

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.

In 2013-14, 39,168 customers received loans or other financial products through one of more than 100 FCC offices located primarily in rural Canada.

Alberta – 7,691  
 British Columbia – 2,482  
 Manitoba – 2,930  
 New Brunswick – 445  
 Newfoundland and Labrador – 89  
 Nova Scotia – 543  
 Ontario – 10,461  
 Prince Edward Island – 353  
 Quebec – 4,283  
 Saskatchewan – 9,876  
 Yukon – 15

Among these customers, 37,245 are primary producers and 1,923 are agribusiness operators.

In 2013-14, over \$2.27 billion was loaned to young farmers.

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. We offer a customer support program, which includes the FCC Ag Crisis Fund, to help customers manage through difficult times.

\*FCC currently has more than 100,000 customers. This 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.

In January 2014, FCC assisted customers across Western Canada who were affected by grain marketing issues resulting from record high volumes. Many producers experienced delays in being able to deliver and convert their crops to cash. FCC contacted more than 16,000 customers who were potentially affected by grain delivery delays to explore options that addressed their individual needs.

### **We operate our business in a sustainable manner**

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 collect food and cash donations for local food banks. The tractor tours that take place across the country each October are a high point of the program.

In 2013, FCC and our partners celebrated the 10th anniversary of FCC Drive Away Hunger by collecting the most food ever – a total of 6.5 million pounds. This was a 186 per cent increase over the previous record set in 2012. The support of a record number of partners (533) and schools (415), hundreds of volunteers and thousands of generous Canadians was 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 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 protect the environment and mitigate 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 don't provide financing to projects or activities that will cause significant adverse environmental effects.

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

In 2013-14, FCC didn't conduct any environmental assessments for projects that fall under sections 67 to 69 of the CEAA 2012:

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

## We represent Canadians

The FCC Board of Directors represents the breadth of Canadian agriculture. Its expertise contributes significantly to the corporation's vision and strategic development. The Board ensures that FCC remains focused on its vision, mission and values, and fulfilling its public policy role.

Board members are appointed by the Governor in Council upon the recommendation of the Minister of Agriculture and Agri-Food. Except for the President and CEO, Board members are independent of management.

### Board composition

The Board is composed of 12 members, including the President and CEO and the Chair. They bring a combination of agriculture, business and financial experience to the task of governing a corporation that serves an increasingly complex industry.

The Board has four subcommittees: Audit, Corporate Governance, Human Resources and Risk.

The Board is committed to financial transparency. The Office of the Auditor General (OAG) of Canada audits FCC's financial statements every year and attends all Audit Committee meetings. The OAG also performs a special examination at least every 10 years. The purpose of the special examination is to ensure that FCC's 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

Effective November 7, 2013, Jamie Muir of Truro, N.S., was appointed to replace Caroline Granger, and Collin May of Calgary, Alta., was appointed to fill a vacancy.

## We take care of the business

The Board is responsible for the overall governance of the corporation. It ensures that business activities are in the best interests of the corporation and the Government of Canada. Board members participate in the strategic planning process and approve FCC's strategic direction and corporate plan. The Board also

exercises its responsibility to ensure that risks associated with FCC's business have been identified and that appropriate systems, controls and policies are implemented to manage them.

The Board is responsible for six major areas:

- integrity – legal and ethical conduct
- 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, the Chief Operating Officer and the Chief Risk Officer attend every Board meeting. Other members of the Executive Management Team (EMT) 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. This approach is consistent with the Performance Management Program established by the Federal Privy Council Office.

The Board regularly reviews FCC's compensation structure and annually reviews the cash compensation paid to EMT.

### 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

## 2013-14 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	\$ 6,533.33	\$ 12,610.00	\$ 19,143.33	5 of 5	5 of 6	\$ 32,321.58
Sylvie Cloutier	6,200.00	11,397.50	17,597.50	5 of 5	8 of 8	18,655.89
Caroline Granger	4,500.00	2,910.00	7,410.00	1 of 3	2 of 2	4,241.65
Brad Hanmer	7,200.00	6,790.00	13,990.00	3 of 5	6 of 6	3,502.67
Dale Johnston*	4,999.00	0.00	4,999.00	5 of 5	7 of 7	13,275.92
John Klippenstein	7,200.00	14,065.00	21,265.00	5 of 5	7 of 7	11,714.95
Collin May	2,583.33	3,880.00	6,463.33	2 of 2	3 of 5	3,557.76
Jamie Muir	2,583.33	9,215.00	11,798.33	2 of 2	5 of 5	12,632.52
Doris Priddle	6,200.00	11,640.00	17,840.00	5 of 5	5 of 5	24,798.28
Ross Ravelli	6,200.00	9,942.50	16,142.50	4 of 5	6 of 7	8,905.87
Brenda Schoepp	6,200.00	8,730.00	14,930.00	4 of 5	3 of 4	6,850.95
Jason Skinner	6,700.00	9,700.00	16,400.00	5 of 5	6 of 6	6,314.07
<b>Total</b>	<b>\$ 67,098.99</b>	<b>\$ 100,880.00</b>	<b>\$ 167,978.99</b>			<b>\$ 146,772.11</b>

There were five Board meetings as well as seven Audit, four Human Resources, four Corporate Governance and three Risk committee meetings.

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 2013-14, there were five Board meetings and 18 committee meetings. Total remuneration (annual retainer and per diems) paid to all directors was \$167,978.99. Total Board travel and related expenses were \$146,772.11, compared to \$134,510.97 in 2012-13.

### 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

\*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.



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 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:** Collin May, Jamie Muir and Ross Ravelli

Audit Committee members are independent of FCC management. All members are financially literate and the committee chair is considered 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.

In addition to meetings with management, the committee meets independent of management with representatives of the OAG and FCC's internal auditors.

### Corporate Governance Committee

**Chair:** Donald Bettle

**Members:** Dale Johnston (Board Chair), Collin May and Brenda Schoepp

The Corporate Governance Committee reviews and makes recommendations to the Board with respect to sound governance practices. It oversees FCC's strategic planning process and corporate social responsibility program. It also acts as the Board's nominating committee.

The committee regularly reviews the number, structure and mandate of Board committees, and is responsible for evaluating the performance of Board members, committees and the Board as a whole. The committee also oversees FCC's policies on ethics, conflicts of interest and codes of conduct for employees and Board members.

### Human Resources Committee

**Chair:** Brad Hanmer

**Members:** Sylvie Cloutier, Jamie Muir and Greg Stewart (CEO)

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

The Human Resources Committee is responsible for reviewing the corporation's compensation structure, pension plans, succession plan, corporate learning programs for employees and executive perquisites program.

The Board and FCC are committed to offering employees a compensation, benefits and pension package that is fair, competitive and sustainable over the long term. FCC reviews the total compensation package annually and presents the results to the committee for approval.

FCC's compensation team compares the corporation to a consistent group of public and private organizations comparable in size, geography, industry and sector. The goal is to maintain a competitive market position in terms of compensation. Total cash compensation includes base pay and pay-at-risk. FCC doesn't offer long-term incentives.

### Risk Committee

**Chair:** Jason Skinner

**Members:** Sylvie Cloutier, Dale Johnston (Board Chair) and Doris Priddle

Risk Committee members are independent of FCC management. The Risk Committee has a broad mandate to assist the Board in fulfilling its oversight responsibilities to identify and manage risk.

The committee helps define the corporation's overall risk appetite and sets risk tolerances against which the business is measured, monitored and controlled.

The committee is also responsible for reviewing and approving the corporation's risk management policies and overseeing its performance against the risk appetite.



## FCC Board of Directors\*



**Dale Johnston**

Owner/operator, mixed farming operation

Ponoka County, Alta.

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



**Greg Stewart, P.Ag., C.Dir.**

President and CEO, FCC

Regina, Sask.

Appointed January 1, 2008  
Reappointed October 4, 2012



**Donald Bettie**

Owner, cow/calf operation and woodlot

Passekeag, N.B.

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, Que.

Appointed April 5, 2012



**Brad Hanmer, B.Sc.Ag.**

Co-owner/operator, commercial grain and pedigreed seed farm

Govan, Sask.

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



**John Klippenstein, FCMA**

COO, Klippenstein Management Services

Steinbach, Man.

Appointed July 30, 2008  
Reappointed December 15, 2011



**Collin May**

Lawyer, Associate, Miller Thomson

Calgary, Alta.

Appointed November 7, 2013



**Jamie Muir**

Retired

Truro, N.S.

Appointed November 7, 2013



**Doris Priddle, MBA**

Owner, Priddle Farms Inc.

Toronto, Ont.

Appointed November 26, 2012



**Ross Ravelli**

Owner, Ravelli Farms Ltd.

Dawson Creek, B.C.

Appointed February 10, 2010  
Reappointed November 22, 2012



**Brenda Schoepp**

Owner, cattle and equine rescue farm

President and CEO, Brenda Schoepp & Associates  
Publisher/owner, BEEFLINK

Rimbey, Alta.

Appointed February 10, 2013



**Jason Skinner, M.Sc., P.Ag.**

CEO, North West Terminal Ltd.

Wilkie, Sask.

Appointed February 12, 2009  
Reappointed March 1, 2012

\*Full biographies are available at [fcc.ca](http://fcc.ca).

## 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



**Greg Honey**

Senior VP,  
Human Resources



**Paul MacDonald**

Senior VP and Chief  
Information Officer



**Greg Willner**

Senior VP, Law and  
Corporate Secretary

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 2013-14, the salary range for the President and CEO was set at \$293,700 to \$345,400. The salary range for Executive Vice-Presidents was \$192,660 to \$356,145. The salary range for Senior Vice-Presidents was \$161,605 to \$247,160.

\* Congratulations to Greg Stewart on his retirement effective July 1, 2014.

## 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.

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.

### Community

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

### 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.

### Employees

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

### Environment

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

## FCC corporate social responsibility performance

Each year, FCC reports on its corporate social responsibility performance in the areas listed above. This information 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.

For details on FCC's corporate social responsibility performance for 2013-14 and previous years, click [Corporate Social Responsibility](#) on the About FCC page at [fcc.ca](http://fcc.ca).

## Management's discussion and analysis

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### 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, 2014, 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.

The global population currently exceeds seven billion; by 2050, it is expected to surpass nine billion. Populations are growing significantly in developing countries. At the same time, western populations are aging.

Figuring out how to feed more people with limited land, water, nutrients and other resources is an important issue. Agriculture will play a key role in finding solutions. Canadian producers, agribusinesses and agri-food operators will undoubtedly find opportunities to harness the powers of innovation, technology and efficiency as they explore new markets.

As incomes in developing countries rise, diets shift and consumers demand more meat and dairy products. In western developed nations, food preferences are changing and more focus is being placed on how food is produced, as well as on nutrition and animal welfare.

Canadian agriculture will continue to experience the benefits of strong global demand and the challenges of economic volatility and increased competition.

### Key economic indicators

In 2013, economic conditions improved across the developed world including Canada, the United States, Europe and Japan. The International Monetary Fund (IMF) forecasts that world economic growth will be much stronger in 2014, especially in emerging markets.<sup>1</sup>

During the first three quarters of 2013, Canada's gross domestic product (GDP) grew at an annualized average rate of 1.6%.<sup>2</sup> As a result of weak inflationary pressures and soft economic growth, there is little pressure to increase interest rates. However, this will likely change as both the domestic and international markets improve. The Bank of Canada forecasts a 2.5% increase in Canadian GDP in 2014.<sup>3</sup>

The World Economic Forum in Geneva has rated Canada's banking system as the strongest in the world for the past six years. Unemployment remains lower here than in other industrialized countries and the federal government is on track to balance its budget by 2015.

The Canadian dollar weakened throughout 2013 relative to the U.S. dollar due to the improving U.S. economy and lower demand for Canadian energy exports. The dollar declined from US\$1.01 at the beginning of 2013 to US\$0.94 at the end of the year.

The U.S. labour market slowly improved in 2013. If the pace continues, it will take until mid-2014 to regain the employment level reached before the 2008-09 recession.

The U.S. housing market's rebound after years of declining prices positively affected consumer wealth and spending. Both housing prices and construction were up in 2013, reflecting improved consumer confidence.

The U.S. government continues to run a large deficit and national debt continues to climb. Fiscal tightening negatively affected growth in 2013, but government cutbacks are expected to lessen in 2014.

The European recession ended in the second quarter of 2013 and the IMF projects its economy will grow 1.0% in 2014. Europe's debt crisis is showing signs of improvement as some countries no longer require financial assistance to meet debt obligations. While unemployment in European Union (EU) member countries reached a record high of 12.2% in November 2013,<sup>4</sup> it should decrease as the economy improves and austerity measures ease.

Economic growth in emerging economies, such as China, continues to fuel world economic growth. In many Southeast Asian countries, the expansion of the middle class has resulted in consumers spending more income on food. As the demand for agriculture and agri-food products evolves, Canadian agriculture must adapt to take advantage of opportunities and remain competitive.

### Agriculture industry overview<sup>5</sup>

FCC advances the business of agriculture by lending money to all agriculture sectors, including primary producers, agribusinesses and agri-food operations. FCC monitors a number of important factors that influence the long-term prospects of each sector, including asset values, farm debt and trade.

<sup>1</sup> World Economic Outlook, October 2013, Transitions and Tensions. International Monetary Fund.

<sup>2</sup> Statistics Canada, Table 380-0064 – Gross domestic product, expenditure-based (Percentage Change (year-to-year), quarterly (dollars unless otherwise noted)), CANSIM (database).

<sup>3</sup> Bank of Canada, Monetary Policy Report, January 2014.

<sup>4</sup> Eurostat, Unemployment Rate, Monthly Average by sex and age group (%).

<sup>5</sup> In some cases, the most recent data available when this report was produced is from 2012.

### Asset values

Farm asset values have steadily increased due to rising land values driven by a robust agriculture economy, growing world food demand and strong commodity prices. Asset values increased 12.2% in 2012, which was a larger increase than the five-year average of 6.7%.<sup>6</sup>

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 22% in 2013.

For the most part, current land values reflect recent returns to crop production and continuing low interest rates. In the current environment, it is important for farmland buyers to ensure that their budgets can withstand commodity price decreases or interest rate increases.

### Farm debt

Total farm debt reached nearly \$78.0 billion in 2013.<sup>7</sup> Debt has increased at an average annual rate of 5.2% since 2003, pushed by declining interest rates and an intensifying pressure to remain competitive and increase productivity in a more globalized world.

Farm debt is expected to continue to grow, but at a slower pace than in recent years. This is partly due to an expected slowdown in asset price increases and lower investment in capital. Crop receipts remained strong in the first half of 2013, while low financing costs helped farm businesses capture economies of scale and increase productivity.

### Trade

Canada's international trade agreement landscape continues to evolve. The U.S. market accounted for 49% of Canadian agriculture and agri-food exports in 2012, compared to 63% in 2003.<sup>8</sup> With 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 individual trade agreements with India and Japan, and is a member of Trans-Pacific Partnership talks involving Australia, Brunei Darussalam, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam. These trade negotiations are a gateway to expanding export opportunities.

In 2013, Canada and the EU reached a tentative deal on the Comprehensive Economic and Trade Agreement (CETA). Under CETA, Canada receives increased access to the EU beef and pork markets, while the EU receives increased access to Canada's dairy sector, specifically for cheese. Canada will gain access for 50,000 tonnes of tariff-free beef, an export value of approximately \$600 million, and could gain access for 75,000 tonnes of tariff-free pork worth as much as \$400 million. As well, Canadian grain and oilseed producers will have full access to EU markets for wheat, oats, barley, rye and canola oil.

The Canada-Korea Free Trade Agreement, announced in March 2013, is Canada's first free trade agreement in the Asia-Pacific region. Canada will be able to export agricultural goods with reduced tariffs once the deal is ratified. While tariffs on some agriculture products will be eliminated immediately, tariffs for the red meat sector will be reduced over several years.

Lower trade barriers will increase Canada's access to foreign markets and possibly create opportunities to grow its share of those markets. This will give Canadian agriculture producers a competitive advantage as many countries, especially developing countries, have high tariffs on agriculture products.

### Overall primary agriculture profitability

In 2013, Canada produced record canola and wheat crops, while the United States produced a record amount of corn. This pushed commodity prices lower as the year progressed, although Canadian crop and oilseed operations still benefited from high yields with moderate prices. Hog and cattle producers received higher prices in 2013 and paid lower feed costs.

Throughout the first three quarters of 2013, total Canadian farm cash receipts (crop and livestock revenues, plus program payments) increased by 1.8%, following a 9.2% increase in 2012. Farm cash receipts were 14.7% higher in Manitoba over the first three quarters compared to the previous year. Nova Scotia, Newfoundland and Labrador, New Brunswick, Saskatchewan and Alberta also experienced increases. All other provinces experienced slight declines.<sup>9</sup>

Overall input costs rose by 0.8% in the third quarter of 2013, compared to the same quarter the previous year.<sup>10</sup> The crop production input price index declined 3.5%, driven by a 13.3% decline in indexed fertilizer costs. The animal production input price index increased 0.1% compared to 2012 levels. Futures markets indicate

<sup>6</sup> Statistics Canada, Table 002-0020 – Balance sheet of the agricultural sector, at December 31, and ratios, annual (dollars unless otherwise noted), CANSIM (database).

<sup>7</sup> Statistics Canada, Table 002-0008 – Farm debt outstanding, classified by lender, annual (dollars), CANSIM (database).

<sup>8</sup> Statistics Canada, based on NAICS Codes.

<sup>9</sup> Statistics Canada, Table 002-0002 – Farm cash receipts, quarterly (dollars).

<sup>10</sup> Statistics Canada, Table 328-0015 – Farm input price index, quarterly (index, 2002=100), CANSIM (database).



feed prices will likely increase slightly through 2014 after large declines in 2013. 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 vital to the agriculture industry. The U.S. Energy Information Administration predicts crude oil prices will decline in 2014 and 2015. Natural gas prices are projected to remain flat over the next two years. They will remain low compared to the highs of 2007-08 due to the ongoing expansion of natural gas production from shale fracking.<sup>11</sup>

## Sector overview

### Oilseed and grain farming

In 2013, oilseed and grain yields and quality varied across Canada. Yields in Western Canada were excellent, following a poor 2012. Barley, canola, flax, oats and wheat all set record yields across the country. Barley production increased 14% compared to the previous five-year average and canola production was up 34%. Yields in Ontario and Quebec were slightly higher than the five-year average. Record production was also recorded for both corn and soybeans in Canada due to increased acreage.<sup>12</sup> The record volumes led to grain transportation issues in Western Canada and producers experienced delays in getting their crops to market.

Corn and soybean inventory levels in the U.S. ended the 2012-13 marketing year near record lows.<sup>13</sup> Corn, soybean, canola and wheat prices for the year were well above their historical averages. In 2013-14, analysts expect corn inventory levels to rebound coming off a record U.S. crop, while soybean inventories will remain low. Heading into 2014, the increase in corn inventories is limiting the upside for crop prices. Canadian producers dealt with tighter margins in 2013-14 and those in Western Canada received lower-than-market prices at the elevator.

Aside from seasonal fluctuations, fertilizer prices are expected to stay relatively stable in 2014. Despite expected low natural gas prices, a strong demand from crop producers will keep fertilizer prices high compared to the historical average.

The 2014 Agriculture and Agri-Food Canada (AAFC) Medium Term Outlook for Canadian Agriculture and the United States Department of Agriculture (USDA) Agricultural Projections to 2022 state that grain and

oilseed prices will drop from 2012 and 2013 levels, but will remain historically high over the next several years. This will be driven by the increased demand from developing countries for coarse grains and oilseeds, along with domestic demand from livestock producers, biofuel manufacturers and vegetable oil crushers.

### Greenhouse, nursery and floriculture production

Greenhouse, nursery and floriculture operations generally recorded profitable margins in 2013, partly due to higher cash receipts and lower natural gas prices. Natural gas prices for November 2013 were still 38% higher than the previous year, but remained below the previous five-year average.<sup>14</sup>

Cash receipts from greenhouse vegetables were 10% higher through the first three quarters of 2013 compared to the previous five-year average. Field vegetables were 3.9% higher, floriculture was up 3.0% and nursery product receipts remained unchanged.

Despite the positive overall results, some sectors faced competitive pressures. Restructuring of a major tomato processing plant in Leamington, Ont., was announced in November 2013, which could negatively affect farm incomes in that region. Continued competition from U.S. and Mexican imports, combined with the strong Canadian dollar, held Canadian tomato prices down and reduced the profitability of some Canadian greenhouse growers. A declining Canadian dollar in 2014 may alleviate some of this pressure.

### Beef and cattle ranching and farming, including feedlots

The Canadian and American cattle industries are closely integrated due to strong trade relations and logistics. However, the U.S. industry is significantly larger and, as a result, largely drives Canadian price trends.

Cattle inventories in both countries declined between 2005 and 2012. In the United States, back-to-back droughts in 2011 and 2012 limited pasture and feed availability and furthered the decline. Canadian cattle numbers remained steady in 2013. Heifer retention increased from 2011 through 2013, which suggests that the Canadian industry will slowly start to grow. Lower inventories and increased world demand for beef have increased cattle prices (particularly for calves) relative to the previous 10-year average. Cattle futures suggest strong prices throughout 2014 and into 2015.

<sup>11</sup> U.S. Energy Information Administration, AEO 2014 Early Release Overview, December 2013.

<sup>12</sup> Statistics Canada, Table 001-0017— Estimated areas, yield, production, average farm price and total farm value of principal field crops in imperial units, annual, CANSIM (database).

<sup>13</sup> USDA World Agriculture Supply Demand Estimate (WASDE), October 2012.

<sup>14</sup> Statistics and Data Development Branch, Economics and Competitiveness Division, Alberta Agriculture and Rural Development.

U.S. country of origin labeling (COOL) requirements continue to pose challenges for Canadian producers. Even so, live cattle exports to the United States increased in 2013 due to the smaller American cattle inventory and need for U.S. producers to import cattle before more restrictive COOL rules took effect in late 2013.

The number of cattle slaughtered in federally inspected establishments was down in 2013, with most of the decline occurring in Western Canada. In 2012, per capita consumption of beef stopped its steady decline of more than 10 years.<sup>15</sup> Despite this, Canadian beef producers will remain dependent on export markets.

### Dairy cattle and milk production

Over the past 20 years, Canada's population growth has resulted in increased demand for dairy products even though per capita dairy consumption has declined. The AAFC Medium Term Outlook for Canadian Agriculture (2013) forecasts that per capita consumption of butter and ice cream will decrease over the next 10 years, while per capita yogurt consumption will continue to increase. Per capita consumption of fluid milk and cheese is projected to remain flat.

Throughout these trends and in the face of increasing competition, analysts expect Canada's dairy sector to remain profitable. Dairy production is controlled under a supply management system that ensures consistent and predictable returns for producers. Each year, the Canadian Dairy Commission reviews and, if necessary, adjusts dairy support prices. In February 2014, the Canadian Dairy Commission increased support prices for butter and skim milk powder by 0.9%. Dairy products are primarily sold domestically; only a small fraction of production is sold in foreign markets.

Recent trade negotiations have been accompanied by heightened media coverage about the future of supply management. Under CETA, the EU will gain access to Canada's dairy sector, specifically to cheese. Currently, the EU can export about 17,000 tonnes of cheese to Canada without paying tariffs. CETA will allow the EU to export an additional 16,000 tonnes of tariff-free cheese to Canada each year.

Further competition in the cheese market is likely to force Canadian processors to seek productivity gains and lower prices. However, it's unlikely that Canada will dismantle supply management despite the current attention it's receiving.

### Poultry and egg production

Most poultry and egg producers in Canada are specialized. They produce table or hatching eggs, or a specific weight of maturity for chicken or turkey. Supply management matches production to Canadian demand. Provincial marketing boards balance the supply and demand of products in each province. Poultry and egg products are used domestically and only a small amount are sold internationally.

Chicken slaughter increased 0.7% between January and November 2013 compared to the same period in 2012. Over the next 10 years, AAFC projects that per capita consumption will be relatively stable.

Per capita egg consumption is also projected to remain stable. Overall egg production increased 1.2% between January and October 2013 compared to the previous year. The average farm gate price of eggs increased 7.2%.<sup>16</sup>

Consumers are increasingly aware of food safety and some interest groups are expressing concern about the treatment of poultry. The industry has responded by implementing codes of practice, regulations, specific aviary systems and advances in traceability and transparency.

### Hog and pig farming

In Canada, hogs are raised to produce pork. Some byproducts are used for leather and consumer goods. Market-weight hogs are exported live, primarily to the U.S., or slaughtered and processed domestically. Canadian pork is sold around the world.

Feed and feeder pig prices are the most significant inputs. Corn and wheat are the primary feed sources in Eastern Canada, while operations in Western Canada generally use barley and wheat.

The past several years have been challenging for Canadian hog producers who have faced low prices for their animals and high input costs. The significant decline in feed costs during the latter half of 2013 brought some relief.

Hog inventories were 0.6% higher on January 1, 2013, compared to January 1, 2012.<sup>17</sup> Federally and provincially inspected hog slaughter decreased by 1.8% between January and November 2013 compared to the same

<sup>15</sup> Statistics Canada, Table 002-0011 – Food available in Canada, annual (kilograms per person, per year unless otherwise noted), CANSIM (database).

<sup>16</sup> Statistics Canada, Table 003-0022 – Production and disposition of eggs, monthly (layers unless otherwise noted) CANSIM (database).

<sup>17</sup> Statistics Canada, Table 003-0004 – Number of hogs on farms at end of quarter, quarterly (head), CANSIM (database).



period in 2012.<sup>18</sup> Hog exports to the U.S. fell 15.6% in 2013 compared to 2012.

Porcine epidemic diarrhea (PED) virus has put significant upward pressure on hog prices. PED has killed over two million piglets in the United States. Cases have been confirmed in Ontario, Quebec, Prince Edward Island and Manitoba. Strict biosecurity protocols remain the best way to prevent the spread of the virus.

### Agribusiness and agri-food

Agribusinesses provide inputs or goods and services to primary producers, while agri-food operations purchase and process the outputs of primary producers. As domestic and world economies continue to improve, consumer demand creates more opportunities for food processors. Farm input suppliers are seeing strong demand for their products.

One of the most commonly cited issues for this sector is the growing regulatory challenge to bring products to the domestic market and then move them into global markets. Another major challenge is the strength of the Canadian dollar, which makes exports less competitive. However, the dollar's decline over the last year should make Canadian exports more competitive on the world stage.

Despite these challenges, foreign demand for Canadian agribusiness and agri-food products resulted in strong exports in 2012. Overall agriculture exports increased 7.2% in 2012 compared to 2011. Canada's food manufacturing trade balance continued to decline.

The U.S. market remains important. According to Industry Canada, two-thirds of Canadian agri-food exports are destined for the U.S. While there have been some high-profile plant closures in Ontario, food manufacturing continues to outperform the overall manufacturing sector. Since the 2008 recession, the food manufacturing GDP has increased 4.7%, while the total manufacturing GDP has dropped 5.8%. According to the Bank of Canada, Canadian manufacturing firms have lagged behind other developed countries in productivity growth.<sup>19</sup>

## Current and potential impacts for FCC

FCC has experienced 21 consecutive years of portfolio growth. Revenue and administration expenses have increased in relation to its product and service offerings, overall loan portfolio and additional costs related to enhanced risk management. FCC understands the importance of sound budget practices and sustained financial viability through all economic cycles to support customers through good times and times of challenge. Strong customer satisfaction and employee engagement are important to the corporation's continued success in serving the agriculture and agri-food industry.

FCC remains financially strong. Along with \$4,753.4 million in equity and loan loss reserves, the corporation continues to focus on enhancing its strong risk management practices to keep pace with the growing complexity of the business. FCC's portfolio is diversified by sector and geography. It finances customers involved in all areas of agriculture across Canada, which reduces risk. Additionally, FCC minimizes the risk of overvaluing land through its prudent lending practices.

Due to continued complexity in the agriculture industry, customers and FCC employees need to enhance their knowledge, technical skills and competencies. FCC provides employees with extensive access to sector and market knowledge and offers free learning programs and publications to customers and non-customers.

Producers and agribusiness operators are driven to innovation and grow their businesses, and FCC will continue to foster their success. FCC's unique connection to customers, industry, government, academia and business will help ensure that it is agile and attuned to customers' evolving needs, risks and opportunities.

FCC is beginning the next fiscal year in a strong financial position. It continues to closely monitor external and internal financial trends, assess their implications and create proactive strategies to address these implications. FCC is also implementing a formal capital management framework and policy and is monitoring risk levels to ensure that they remain within acceptable tolerance levels.

FCC's commitment to Canadian agriculture is unwavering. As such, the corporation will continue to operate efficiently, produce strong financial results and conduct itself in a manner that is mindful of the current climate of fiscal constraint.

<sup>18</sup> Agriculture and Agri-Food Canada – Economic and Market Information – Red Meat Market Information.

<sup>19</sup> Bank of Canada's Monetary Policy Report, July 2012.

## Strategic overview

FCC advances the business of agriculture by offering financing to all sectors, including primary producers, agri-food operations and agribusinesses. FCC shares business management knowledge and training with customers, free of charge. FCC also offers management accounting software that's designed specifically for agriculture. With a single industry focus, FCC invests profits back into agriculture through increased lending and by developing products and services.

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 Statement of Priorities received from the Minister of Agriculture and Agri-Food.

### 2013-14 corporate strategy

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 and agriculture industry
- efficiency and execution
- employee experience

The FCC corporate strategy map illustrates how the 15 five-year strategic objectives in the strategic themes help FCC achieve its 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*.  
 We are *the* place to obtain 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 a socially and environmentally responsible corporation.  
 FCC is 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

To enhance rural Canada by providing specialized and personalized business and financial solutions to farm families and agribusiness.\*

### Financial and risk management

Further align FCC management of finance and risk with financial institution best practices

Increase maturity level of enterprise risk management (ERM)

Strengthen relationships and leverage FCC's reputation with all stakeholders

Advance corporate social responsibility

### Customer and agriculture industry

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 leading-edge understanding and insights

### Efficiency and execution

Optimize how FCC conducts business

Improve corporate information management

Enhance ability to align channel delivery to customer needs

### Employee experience

Provide a great employee experience

Continue to develop a diverse workforce

Strengthen leadership capabilities

Enhance employee knowledge

\* The above is an abridged version of the FCC mission. For a complete version, click on Corporate Profile on the About FCC page at [fcc.ca](http://fcc.ca)



Strategic themes



Five-year objectives

## Financial and risk management

### Critical outcome:

In 2020, excellent risk and financial management ensure ongoing viability. FCC has a solid reputation and a strong balance sheet with a diversified agriculture, agribusiness and agri-food portfolio. FCC stays within its risk appetite and tolerances, maintains an appropriate level of capital and achieves a return on equity of 12% or higher.

### Summary of results:

Strategic objectives	Performance measures	2012-13		2013-14		Comments
		Target	Result	Target	Result	
Further align FCC management of finance and risk with financial institution best practices	Net income	\$445.0 million	\$503.6 million*	\$466.8 million	\$642.0 million	Exceeded
	Return on equity	13.9%	16.1%*	13.0%	17.0%	Exceeded
	Capital adequacy measure <sup>20</sup>	N/A – New measure in 2013-14	N/A	Greater than or equal to 100% (credit only)	>100%	Achieved
	In 2013-14, FCC continued implementing the capital management framework (Phase 2) through the Enhanced Risk Management Program. As part of FCC's Capital Adequacy project, a third party completed an in-depth review of FCC's capital measures. They have found FCC to be adequately capitalized, both from an economic and regulatory capital perspective.					

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

<sup>20</sup> This measure tracks the available capital over required capital. In 2013-14, only credit capital will be used in the denominator. It will be extended to include other risk types in years following.

Strategic objectives	Performance measures	2012-13		2013-14		Comments
		Target	Result	Target	Result	
Increase maturity level of enterprise risk management (ERM)	ERM maturity measure <sup>21</sup>	1.8	1.8	2.9	2.9	Achieved
	FCC developed a maturity model that indicates how mature FCC's ERM practices are in risk governance, risk assessment, risk quantification, risk monitoring and reporting, and risk and control optimization. In 2013-14, FCC achieved its target by implementing Phase 2 of its ERM framework, including an integrated risk appetite framework, risk management governance, policies, compliance and reporting structures.					
Strengthen relationships and leverage FCC's reputation with all stakeholders	Media favourability index <sup>22</sup>	7	11	7	10	Exceeded
		Points above the global average for financial institutions.				
	FCC's integrated stakeholder management program is a comprehensive, centralized and consistent approach to reputation management. In 2013-14, FCC recorded stakeholder interactions to better manage stakeholder relations across the organization. FCC established social media governance and processes, along with a social media policy. FCC's social media channels gathered English and French support and followers over the year, including 891 Facebook likes and 5,699 followers on Twitter. FCC's Facebook and Twitter followers clicked on 8,367 links.					
Advance corporate social responsibility	FCC published its second corporate social responsibility report in October. The full report is available at <a href="https://www.fcc-fac.ca/en/about-fcc/corporate-social-responsibility.html">https://www.fcc-fac.ca/en/about-fcc/corporate-social-responsibility.html</a> .  FCC implemented Phase 2 of the greenhouse gas emission reduction strategy, which manages the environmental performance and operating costs of its facilities and locations. FCC is collecting data for the FCC Environmental Baseline project and the results will be reported in the 2013-14 FCC Corporate Social Responsibility Report to be released in 2014-15.					

<sup>21</sup> ERM maturity measure: The calculation is based on advances in ERM maturity that would be achieved by implementing recommendations from the ERM Maturity Review conducted in 2012.

<sup>22</sup> Media favourability index: Leger Marketing measures FCC favourability quarterly, based on volume, qualitative factors and other criteria. Performance is relative to the global average for financial institutions.

## Customer and agriculture industry

### Critical outcome:

In 2020, Canadian agriculture is respected as an innovative, sustainable industry. FCC makes tools available to the whole industry to improve farm business management. FCC provides financing to producers from all sectors of agriculture through all economic cycles. FCC continues to deliver an extraordinary experience to customers. 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:

Strategic objectives	Performance measures	2012-13		2013-14		Comments
		Target	Result	Target	Result	
Deliver an extraordinary customer experience	Customer experience index <sup>23</sup>	61.0%	64.1%	61.5%	62.4%	Exceeded
	Great customer relationships are central to FCC's customer experience strategy. Updates to the strategy implemented in 2013-14 further enhanced the consistency and quality of the customer experience. FCC's national customer experience index was 62.4% for 2013-14, which exceeded the year-end target. This means that over 62 per cent of survey respondents gave FCC top box scores or five out of five.					
Demonstrate commitment to the agriculture and agri-food industry, with a particular focus on producers and young farmers	Total lending to young farmers	\$1.74 billion	\$2.32 billion	\$2.10 billion	\$2.27 billion	Exceeded
	<p>FCC continued its support of young farmers by approving \$416 million through the Young Farmer Loan product. FCC also introduced an On Campus program, which sponsored upgrades to student lounges for agriculture students and provided orientation packages for first-year agriculture students through its FCC On Campus Ag Bag program. FCC entered into an economic research partnership with three universities to research feed prices, the production of agri-food allowing for successful export and vaccine use in cattle.</p> <p>FCC also worked closely with Agriculture and Agri-Food Canada (AAFC) in 2013-14 to develop and launch AAFC's client feedback management system, called Insights. The system was built based on technology developed at FCC and with AAFC's feedback.</p> <p>Since 2006, FCC has offered a venture capital fund to Canadian agriculture to stimulate investment. In 2013-14, FCC furthered its commitment to venture capital through the Avrio Fund II and the Avrio Subordinated Debt Fund.</p>					

<sup>23</sup> Customer experience index: This number is derived from customer surveys in areas such as satisfaction, loyalty, advocacy, ease of doing business and service resolution.

Strategic objectives	Performance measures	2012-13		2013-14		Comments
		Target	Result	Target	Result	
Promote agriculture as a dynamic industry that is important to Canada	Media favourability index for Agriculture More Than Ever	N/A—new measure in 2013-14	N/A	Greater than or equal to FCC media favourability score	Annual average 66.25	Exceeded. The average FCC media favourability score for 2013-14 is 65.00. The media favourability index for Ag More Than Ever exceeds this by 1.25.
	FCC continued to deliver Agriculture More Than Ever, a multi-year campaign to improve perceptions of agriculture in Canada. As of March 31, 2014, FCC was working with 270 official industry partners and 400 advocates. There were 13,500 fans on Facebook, 6,600 followers on Twitter, 22,500 video views on YouTube and 48,000 unique visitors to the Agriculture More Than Ever website. More information is available at <a href="http://www.agmorethanever.ca">www.agmorethanever.ca</a> .					
Expand FCC's ability to provide leading-edge understanding and insights	<p>FCC works to continually enhance employee knowledge, skills and expertise to better serve its customers. In 2013-14, FCC's Customer and Employee Insight teams developed 22 videos (nine of which were distributed to employees), with a specific focus on FCC, agriculture and finance. FCC also provided 143 custom knowledge packages, 84 company pre-call packages and 78 other knowledge projects for employees to share with customers. Custom knowledge and pre-call packages are tailored to customers with information on their industry, questions to ponder and sources for more information.</p> <p>FCC uploaded Agribusiness and Agri-food Industry newsfeed items in both official languages at <a href="https://www.fcc-fac.ca/en/we-finance/agribusiness-and-agri-food/agribusiness-and-agrifood-news.html">https://www.fcc-fac.ca/en/we-finance/agribusiness-and-agri-food/agribusiness-and-agrifood-news.html</a>. The items promoted employee knowledge of current news and provided a unique agribusiness and agri-food news source to customers and prospects.</p>					

## Efficiency and execution

### Critical outcome:

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

### Summary of results:

Strategic objectives	Performance measures	2012-13		2013-14		Comments
		Target	Result	Target	Result	
Optimize how FCC conducts business	Efficiency ratio <sup>24</sup>	37.1%	38.4% *	38.6%	39.7%	Not achieved. Target does not reflect the impact of Enhanced Enterprise Risk Management program costs or 2012-13 expense reclassification. Excluding these impacts, the target was exceeded.
	Employee engagement index – easy-to-do-business indicators <sup>25</sup>	Greater than or equal to the average of the top 50 employers	83.0% (5.4% above target)	Greater than the average of the top 50 employers	76.2% (1.6% behind the average of the top 50 employers)	Not achieved. Due to significant changes to FCC's lending systems and processes, this target was not achieved. FCC continues to stabilize the new system.
	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. In 2013-14, projects implemented to improve efficiency and save costs included: a phone technology renewal program for its customer service representatives, the upgrade and installation of video conferencing equipment and the introduction of SharePoint software to help employees manage projects and share videos. FCC also established a new portfolio governance model to help manage resource capacity (human, technical, financial and change) across the organization.					
Improve corporate information management	FCC is committed to developing a comprehensive enterprise-wide program to ensure quick access to and efficient management of business-critical information, reducing risk and storage costs. In 2013-14, the Enhanced Information Management program ensured that FCC practices were consistent with the federal government directive on record keeping.					
Enhance ability to align channel delivery to customer needs	Easy-to-do-business – CEI measure	N/A – new measure in 2013-14	N/A	62.0%	62.0%	Achieved
	In 2013-14, FCC redesigned its public website, enhancing the corporation's online presence. The redesign included online yearly statements and updates to key contacts and customer views.  FCC is committed to enabling employees to access corporate, customer and partner information from a variety of mobile devices. In 2013-14, a mobility strategy was approved and initial steps were undertaken to identify possible devices to mobilize specified employee segments.					

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

<sup>24</sup> Efficiency ratio: refer to the glossary for the definition.

<sup>25</sup> 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 the average engagement score of the top 50 Canadian employers.

### Summary of results:

Strategic objectives	Performance measures	2012-13		2013-14		Comments
		Target	Result	Target	Result	
Provide a great employee experience	Employee engagement index <sup>26</sup>	Greater than or equal to the average of the top 50 employers	86.0% (7.0% above target)	Greater than the average of the top 50 employers	81.0% (3% above the average of the top 50 employers)	Achieved
	Employee index – subset of employee engagement survey data with respect to employee experience indicators <sup>27</sup>	Greater than or equal to the average of the top 50 employers	82.0% (6.4% above target)	Greater than the average of the top 50 employers	79.8% (4% above the average of the top 50 employers)	Achieved
	A great employee experience is foundational to an extraordinary customer experience. In 2013-14, FCC launched its Culture Fundamentals program (culture refresher) to strengthen its culture. A new handbook was developed for the new employee orientation packages. Improvements were also made to FCC's employee recognition site (magnifique) to encourage acknowledgement.					
Continue to develop a diverse workforce	Diversity measure <sup>28</sup>	N/A – new measure in 2013-14	N/A	Reduce diversity gap by 12	Diversity gap reduced by 17	Exceeded
	FCC believes that employment equity is a business advantage that nurtures innovation and enriches our culture. The Canadian Human Rights Commission's Employee Status report shows FCC has made strides in increasing the visible minority representation of its workforce. In 2013-14, FCC's new diversity strategy was approved and will be implemented over the next three years.					
Strengthen leadership capabilities	Leadership index – subset of employee engagement survey data with respect to leadership indicators <sup>29</sup>	Greater than the average of the top 50 employers	81.0% (9.0% above target)	Greater than the average of the top 50 employers	79.8% (7.6% above the average of the top 50 employers)	Achieved
	A new leadership program, Leadership Transformations, was developed and delivered to a pilot group. This program will support leaders in performance management and career development for employees at FCC.					
Enhance employee knowledge	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 to increase employee understanding and accountability for enterprise risk management across FCC. These elements were communicated to employees through an online presentation.					

<sup>26</sup> Performance is measured by the annual Aon Hewitt Best Employers in Canada study.

<sup>27</sup> Employee experience indicators include the average scores from the following measures: career opportunities, learning and development, sense of accomplishment, managing performance and work/life balance as measured by the annual Aon Hewitt Best Employers in Canada study.

<sup>28</sup> The diversity measure is based on the Goal Setting Report in the Workplace Equity Information Management System of Human Resources and Skills Development Canada.

<sup>29</sup> 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.

## 2014-17 future targets, objectives and initiatives

FCC used a strategic asset model as a framework for evaluation and development of the 2014-17 corporate strategy. Strategic assets are the reasons customers choose FCC over its competitors. They cannot be easily duplicated and are critical to the corporation's long-term success. If strategic assets are not sustained or grown, corporate results may be jeopardized.

The results of FCC's strategic asset evaluation indicate that great customer relationships are the primary reason customers choose FCC. It was also determined that FCC's high-performance culture is foundational to great customer relationships, as illustrated in the corporate strategy map. Together, these themes feed into the sustainable business performance theme, contributing to the success of FCC and Canada's agriculture industry.

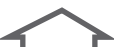
Two additional themes emerged outside the strategic assets. The enterprise risk management (ERM) theme, on the left side of the strategy map, protects the customer relationship. The operational efficiency theme, on the right, allows FCC to be lean in areas that do not impact the customer relationship and invest in areas that do.

Corporate measures and targets define how FCC will measure the objectives set out in the strategy. The current state is then discussed based on a review of the operating environment, as well as risks, strengths, weaknesses, opportunities and threats.

Corporate objectives and initiatives are then developed to realize the targets, followed by action plans that will be implemented and monitored through the corporate scorecard.

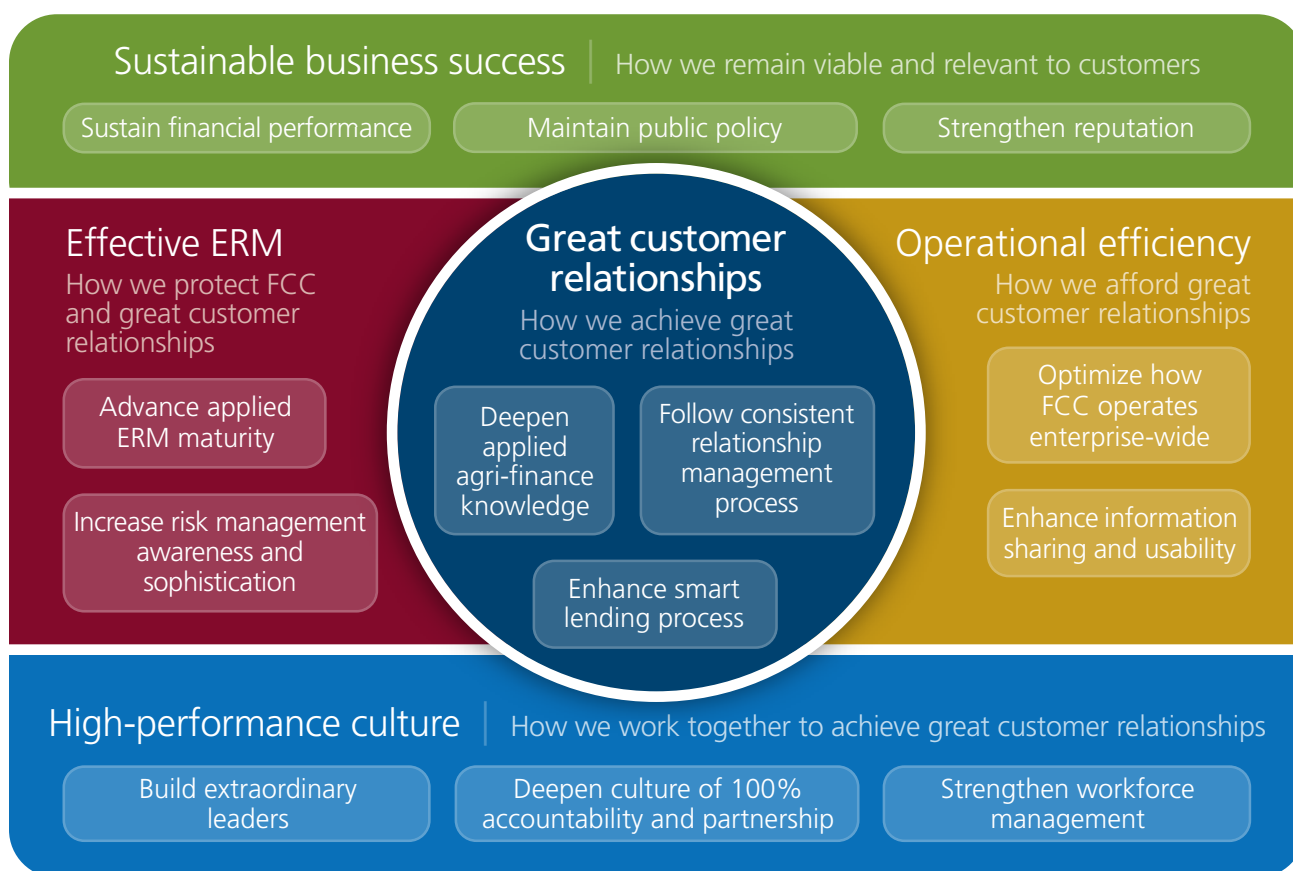
## Vision

The full agriculture and agri-food value chain believes FCC is *advancing the business of agriculture*.  
 We are *the* place to obtain 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 a socially and environmentally responsible corporation.  
 FCC is 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

To enhance rural Canada by providing specialized and personalized business and financial solutions to farm families and agribusiness.\*



\* The above is an abridged version of the FCC mission. For a complete version, click on Corporate Profile on the About FCC page at [fcc.ca](http://fcc.ca)

## Theme: Sustainable business success

### Critical outcome:

In 2020, FCC is financially strong and well respected by stakeholders. Small and medium-sized producers across the country view FCC as their reliable long-term source of financing. Agriculture producers and agribusinesses see FCC as providing relevant products and services through all economic cycles. FCC maintains an appropriate level of capital and achieves a return on equity of 12 per cent or higher.

Sustainable business success – How we remain viable and relevant to customers				
Strategic objectives	Measures	2014-15 target	2015-16 target	2016-17 target
Sustain financial performance	Net income	\$490.5 million	\$530.8 million	\$548.8 million
	Return on equity	12.2%	11.8%	11.0%
	Capital adequacy measure	Greater than or equal to 100%	Greater than or equal to 100%	Greater than or equal to 100%
	Continued focus on expense management and control			
	Continue to implement capital management framework			
	Undertake a feasibility study looking at loan securitization with other financial institutions as a means to manage loan portfolio risk			
Maintain public policy	Ag media favourability	Greater than or equal to global media favourability score	Greater than or equal to global media favourability score	Greater than or equal to global media favourability score
	Percentage of customer count in small- and medium-sized segments	> 90%	> 90%	> 90%
	Young farmer lending	\$2.06 billion	\$2.14 billion	\$2.22 billion
	Encourage and create positive dialogue about Canadian agriculture in partnership with industry stakeholders			
	Enhance programs to support young farmers			
	Implement corporate social responsibility strategy			
	Maintain focus on small- to medium-sized customers			
Strengthen reputation (with all stakeholders)	Media favourability	7 points above global average for financial institutions	7 points above global average for financial institutions	7 points above global average for financial institutions
	Enhance integrated multi-stakeholder strategy (including AAFC and industry associations)			

## Theme: Great customer relationships

### Critical outcome:

In 2020, FCC continues to build great customer relationships and views this as the key differentiator. FCC shares its knowledge of the industry and creates innovative financial products and services to help customers. The Customer Experience Index score indicates that two out of three customers (65 per cent) rate their experience with FCC as five out of five.

Great customer relationships – How we achieve great customer relationships				
Strategic objectives	Measures	2014-15 target	2015-16 target	2016-17 target
Enhance smart lending process	Easy-to-do-business CEI measure	62.0%	62.5%	63.0%
	Develop and launch revolving personal property loan			
	Enhance the overall alliance delivery			
	Optimize credit decision process			
Deepen applied agri-finance knowledge	Enhance knowledge offerings and tools for employees and customers			
	Leverage information and provide sense-making for senior leaders on emerging issues, opportunities and challenges			
Follow consistent relationship management process	CEI	61.5%	62.0%	62.5%

## Theme: Effective enterprise risk management

### Critical outcome:

In 2020, excellent risk management ensures ongoing viability for FCC and protects great customer relationships. FCC has risk management processes and practices consistent with a federally regulated financial institution. FCC stays within its risk appetite and tolerances and maintains an appropriate level of capital.

Effective ERM – How we protect FCC and great customer relationships				
Strategic objectives	Measures	2014-15 target	2015-16 target	2016-17 target
Advance applied ERM maturity	ERM maturity measure	3.4	4.0	4.0
	Implement enterprise risk management program			
Increase risk management awareness and sophistication (within employee mindsets)	Increase employee understanding and accountability for risk management across FCC			

## Theme: Operational efficiency

### Critical outcome:

In 2020, FCC continues to be recognized as a highly efficient, effective and agile organization that is easy to do business with. The corporation has an efficiency ratio of 42 per cent or lower.

Operational efficiency – How we afford great customer relationships				
Strategic objectives	Measures	2014-15 target	2015-16 target	2016-17 target
Optimize how FCC operates enterprise-wide	Efficiency ratio	39.9%	38.4%	38.6%
	Employee engagement – easy to do business	Greater than the average of the 50 Best Employers	Greater than the average of the 50 Best Employers	Greater than the average of the 50 Best Employers
	Implement technology portfolio optimization strategy			
Enhance information sharing and usability	Implement enhanced collaboration capabilities			
	Implement secure phase of Interactive and Online Services (I&OS)			

## Theme: High-performance culture

### Critical outcome:

In 2020, FCC continues to be an employer of choice, with a culture that inspires employees to deliver great customer relationships. FCC's employee engagement score is greater than the average of the 50 Best Employers in the Aon Hewitt study.

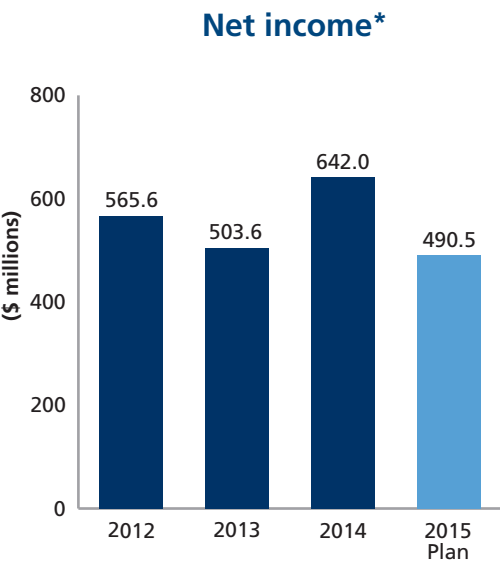
High-performance culture – How we work together to achieve great customer relationships				
Strategic objectives	Measures	2014-15 target	2015-16 target	2016-17 target
Build extraordinary leaders	Leadership index: subset of employee engagement survey data with respect to leadership indicators	Greater than the average of the 50 Best Employers	Greater than the average of the 50 Best Employers	Greater than the average of the 50 Best Employers
	Enhance leadership effectiveness			
Deepen culture of 100% accountability and partnership	Employee engagement	Greater than the average of the 50 Best Employers	Greater than the average of the 50 Best Employers	Greater than the average of the 50 Best Employers
	Employee engagement index: subset of employee engagement survey data with respect to employee experience indicators	Greater than the average of the 50 Best Employers	Greater than the average of the 50 Best Employers	Greater than the average of the 50 Best Employers
	Implement year three of culture strategy			
Strengthen workforce management	Diversity measure	Hire a net of 5 diversity candidates	Hire a net of 5 diversity candidates	Hire a net of 5 diversity candidates
	Implement senior leaders succession strategy			
	Renew diversity strategy and employment equity plan			

# Financial performance review

## Consolidated operating results

### Net income overview

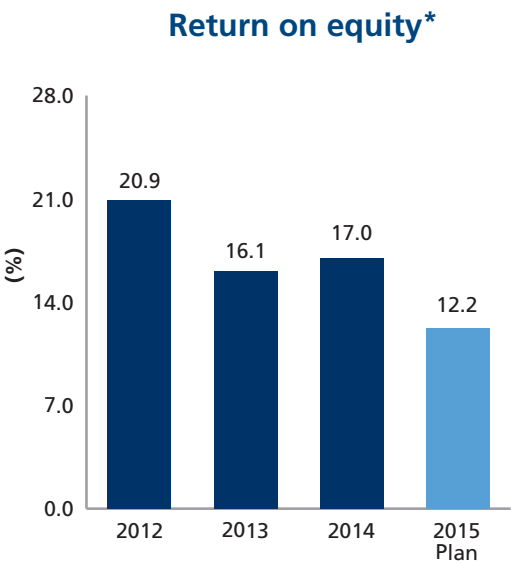
FCC's 2013-14 net income increased by \$138.4 million from the previous fiscal year primarily due to a decrease in the provision for credit losses, an increase in net interest income, and an increase in fair value adjustment. These factors were partially offset by increased administration expenses. Net income is projected to decrease by 23.6% in 2014-15, due mainly to a higher provision for credit losses, lower fair value adjustment and increased administration expenses.



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

### Return on equity

Return on equity increased to 17.0% in 2013-14 from 16.1% in 2012-13 primarily due to increased net income. Return on equity is projected to decrease to 12.2% in 2014-15 due to an increased equity base and lower net income.



\*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

	2014		2013		2012	
(\$ millions)	Average balance	Rate	Average balance	Rate	Average balance	Rate
<b>Earning assets:</b>						
Fixed loan principal balance	9,275.8	4.64%	8,601.3	4.92%	7,173.4	5.52%
Variable loan principal balance	16,184.1	3.98%	15,510.0	3.94%	14,874.8	3.95%
Investments	1,086.8	1.06%	1,078.9	1.05%	1,017.6	1.05%
Venture capital investments	100.7	4.06%	61.6	3.14%	55.6	4.33%
Total earning assets	26,647.5	4.22%	25,251.8	4.27%	23,121.4	4.43%
Total interest-bearing liabilities	22,596.9	0.99%	21,581.1	1.00%	19,944.8	1.11%
Total interest rate spread		3.23%		3.27%		3.32%
Impact of equity		0.13%		0.13%		0.15%
Net interest margin		3.36%		3.40%		3.47%

In 2013-14, fixed lending rates continued to decrease as new and renewing loans were added to the portfolio at lower rates. Variable interest lending rates increased compared to 2012-13 due to a change in portfolio composition for variable rate loans, while the prime rates in Canada remained unchanged throughout 2013-14. Venture capital investment rates increased in 2013-14 primarily due to the increase in interest earned on debt investments.

In 2013-14, interest rates on the corporation's interest-bearing liabilities were lower than 2012-13. This is primarily due to higher fixed-rate funding maturing in 2013-14. This decrease was partly offset by the increase in variable-rate funding over the prior year.

The corporation funds a portion of its loan portfolio using its available equity, which impacted net interest margin by 0.13% in 2014.

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)	2015 Plan	2014	2013	2012
Net interest income	935.1	900.2	861.4	802.4
Average total assets	27,686.1	26,793.1	25,310.7	23,133.5
Net interest margin (%)	3.38	3.36	3.40	3.47
Year-over-year change in net interest income due to:				
Increases in volume	31.1	45.9	71.3	58.8
Changes in margin	3.8	(7.1)	(12.3)	(10.2)
Total change to net interest income	34.9	38.8	59.0	48.6

FCC's net interest income increased by 4.5% in 2013-14 to \$900.2 million. Average total assets increased by 5.9% to \$26,793.1 million primarily due to increased loans receivable. Net interest margin decreased by 0.04% primarily due to lower fixed-rate lending margins. Net interest margin is expected to increase to 3.38% in 2014-15 due to the impact of equity.

#### Non-interest income

FCC generated other income of \$21.8 million through FCC Ventures, FCC Insurance and FCC Management Software. This was an increase over 2012-13, primarily due to a realized gain from the sale of a venture capital investment in 2011-12. FCC anticipates that further gains related to this sale of approximately \$0.3 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 \$14.0 million in 2014-15.

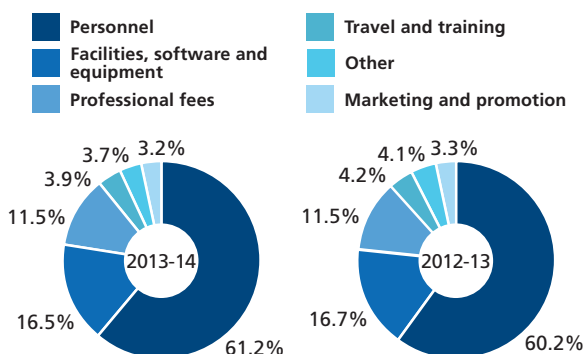
### Administration expense

FCC's administration expenses represent the costs associated with day-to-day operations and the 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 38.4%\* in 2012-13 to 39.7% in 2013-14, primarily due to increased administration expenses partially offset by higher net interest income.

The administration expense increase was primarily due to increased pension expense related to the defined benefit pension plan, increased personnel costs required to support business growth, and additional costs for the comprehensive Enhanced Risk Management program launched in 2013-14.

As indicated in the chart below, personnel expenses were the largest contributor to administration expenses in 2013-14. They represented 61.2% of the total administration expenses.

### Administration expenses by category\*

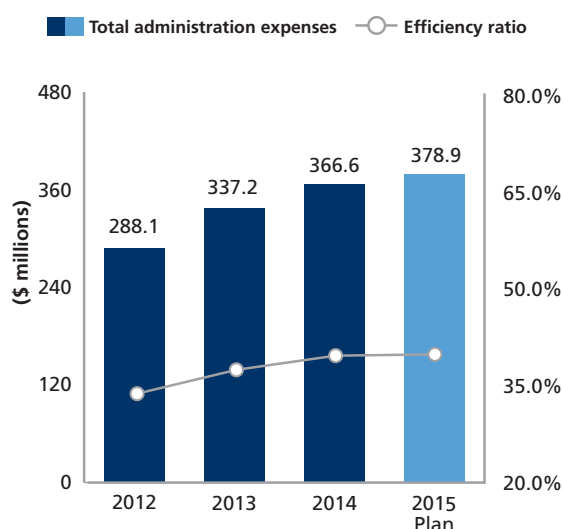


\*The historical data has been restated due to prior period adjustments.

Total administration expenses are projected to increase to \$378.9 million in 2014-15 and the efficiency ratio is expected to rise slightly to 39.9% as cost reduction initiatives are offset by expected increases related to enterprise risk management initiatives, facilities costs, portfolio growth and general inflation. FCC will continue to focus on delivering services in an efficient manner, focusing on revenue-generating activities and ongoing

organizational cost management. At the same time, additional expenditures on non-revenue-generating activities will be required to implement industry best practices for enterprise risk and capital management. Ensuring best practices for enterprise risk management provides FCC with a strong defense against potential financial losses.

### Administration expenses\*

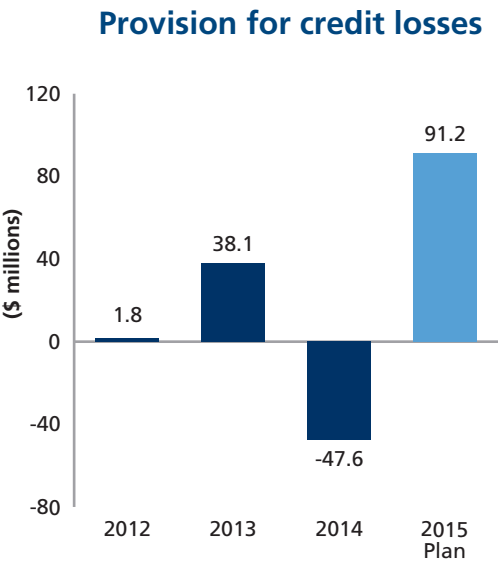


\*The historical data has been restated due to prior period adjustments.

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 decreased by \$85.6 million from 2012-13, resulting in a recovery of \$47.6 million in 2013-14. This decrease is mainly due to a change in estimate based on a refinement of the collateral information, a general improvement in portfolio health and a refinement in the underlying assumptions used to calculate the allowance for credit losses. These were partially offset by an increase in the allowance required to support the growth in loans receivables. In 2014-15, the provision is expected to increase to \$91.2 million, due to portfolio growth and increased portfolio credit risk. The allowance as a percentage of closing loans receivable is expected to increase to 2.5%.



Fair value adjustment

Fair value is 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 cashflows, adjusted for risk. FCC's fair value adjustment amount includes changes in the fair value of designated venture capital investments, long-term debt designated at fair value, guarantees, derivative financial assets and liabilities and ineffectiveness of cashflow hedges. Fair value adjustment increased by \$37.1 million in 2013-14 to \$39.0 primarily due to the \$22.1 million fair value gain on the sale of a venture capital investment, effective April 1, 2014. Fair value adjustment is expected to decrease to \$11.5 million in 2014-15. For additional information regarding calculation of fair value adjustment, refer to Notes 18 and 19 of the Notes to Consolidated Financial Statements.

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, which include:

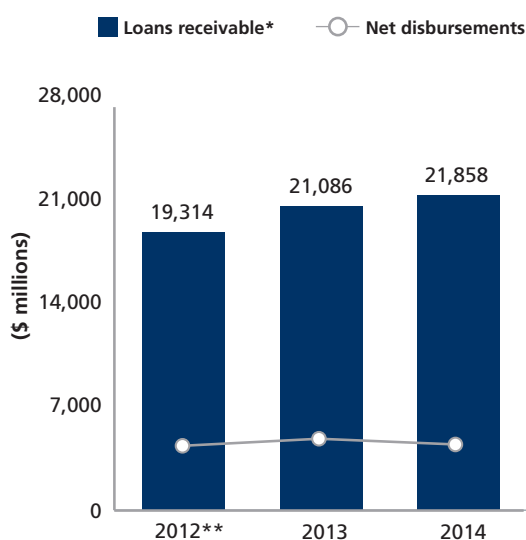
- primary production financing
- agribusiness and agri-food financing
- FCC Alliances
- FCC Ventures
- FCC Insurance
- FCC Learning
- FCC Management Software

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 83.4% of FCC's total loans receivable balance in 2013-14. Loans receivable increased \$772 million from 2012-13, resulting in a portfolio of \$21,858 million in 2013-14. The rate of loans receivable growth decreased to 3.7% from 9.2% the previous fiscal year. The main driver of growth in the primary production financing portfolio was net disbursements of \$4,637 million.

### Primary production financing



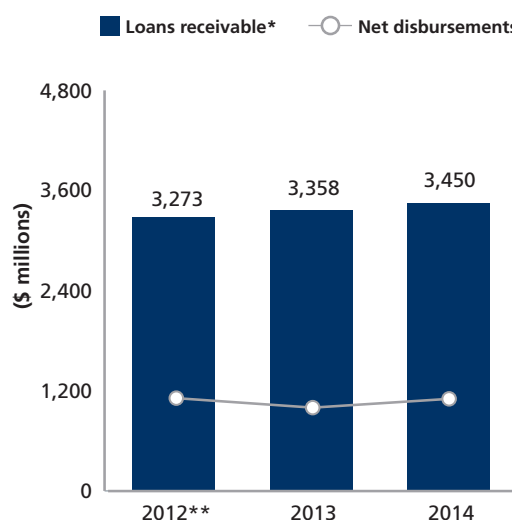
\* Excludes deferred loan fees.

\*\*Loans receivable for 2012 has been restated between the business lines based on North American Industry Classification System (NAICS) codes.

**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, and marketing firms.

Agribusiness and agri-food financing loans receivable grew 2.7% from 2012-13 to \$3,450 million in 2013-14. Net disbursements increased by 10.5% to \$1,070 million.

### Agribusiness and agri-food financing



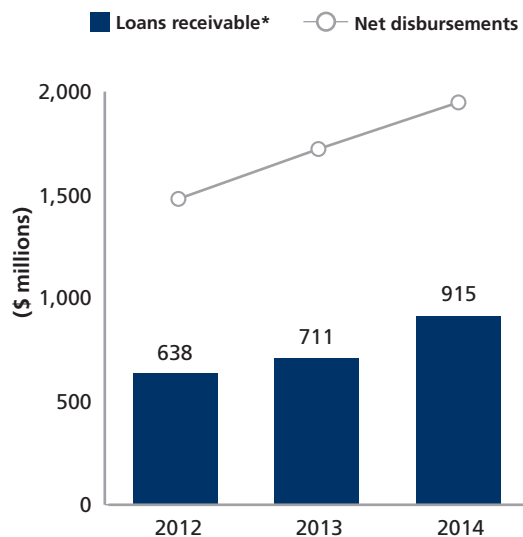
\* Excludes deferred loan fees.

\*\*Loans receivable for 2012 has been restated between the business lines based on NAICS codes.

**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 increased by 28.7% from 2012-13 to \$915 million in 2013-14. Net disbursements increased by 14.3% to \$1,988 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



\*Loans receivable for 2012 has been restated between the business lines based on NAICS codes.

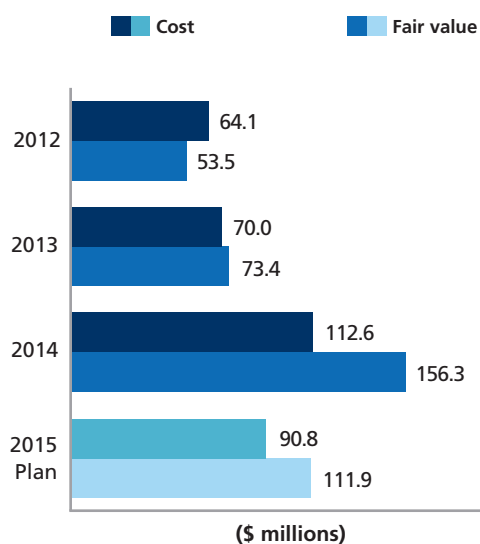
**FCC Ventures** is the corporation's venture capital business line. It is focused on addressing the need for alternative financing in the agriculture industry.

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.

The investment objectives of the Avrio funds are focused on commercialization-to-growth or the recapitalization of mature businesses in the industrial bio-products, nutraceutical ingredient, food and agricultural technology sectors. Avrio Fund I is closed. New investments are being made through the Avrio Subordinated Debt Fund and Avrio Fund II which is approaching the end of the investment period. A new Avrio equity fund is expected to start investing during fiscal 2014-15, and FCC plans to participate pending a due diligence assessment.

In 2013-14, FCC Ventures earned \$37.7 million in income, primarily related to fair value gains, as well as the realization of a deferred gain from a prior divestiture. The venture capital portfolio is expected to shrink in 2014-15 as divestitures and repayments exceed the expected increase in Avrio Fund II and Avrio Subordinated Debt Fund investments.

## Venture capital investments



### Venture capital investments outstanding at fair value

(\$ millions)	Avrio Fund I	Avrio Fund II	Avrio Sub Debt Fund	Total
Balance March 31, 2013	51.9	21.5	0.0	73.4
Investments during the period	0.6	31.1	19.5	51.2
Repayments and divestitures during the period	(0.7)	0.0	(0.2)	(0.9)
Change in fair value	30.4	2.1	0.0	32.5
Change in accrued interest	(0.5)	0.1	0.5	(0.1)
Balance March 31, 2014	81.7	54.8	19.8	156.3
Undisbursed capital commitment - March 31, 2014	17.0	34.4	30.2	81.6

These investments brought the total funding to the agriculture industry since the inception of FCC Ventures to \$148.0 million. Co-investment partners have contributed another \$301.7 million to the industry during

that time. Further detail of the investment carrying value amounts can be found in Note 9 of the Notes to Consolidated Financial Statements.



**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 \$22.8 million in 2013-14, compared to \$20.7 million in 2012-13. Net insurance income varies from year to year depending on the claims incurred. In 2013-14, total incurred claims were \$8.5 million. This resulted in net insurance income of \$14.3 million in 2013-14, compared to \$12.4 million in 2012-13.

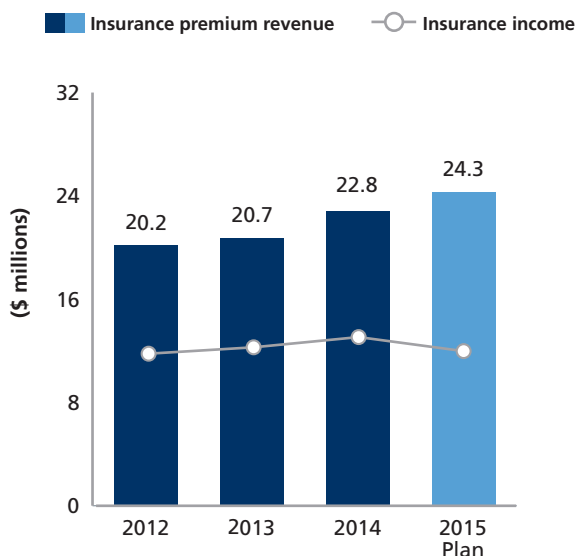
In 2014-15, insurance premium revenue is expected to increase by 5.7% as a result of portfolio growth. Net insurance income is expected to decrease by 15.4%.

**FCC Learning** provides Canadian producers and agribusiness operators with information and training to help advance their farm management practices. In 2013-14, 13,954 people attended 128 core FCC Learning events, and 13,859 people participated in 117 events in FCC partner programs. FCC's e-learning program had 131,144 video views.

In 2014-15, 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 2013-14, net sales revenue, including product support, increased slightly to \$2.0 million. In 2014-15, sales revenue is expected to decrease slightly to \$1.9 million.

## Insurance income



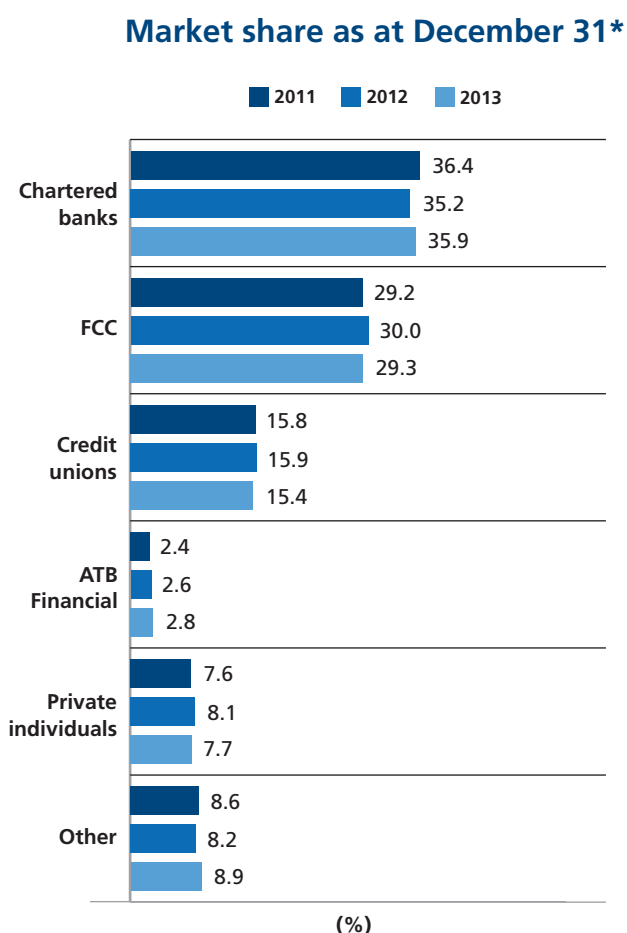
## Financial position

FCC continues to maintain a strong balance sheet 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 capital management.

### Loans receivable

#### Market share

According to Statistics Canada, farm debt outstanding increased by 7.3% to \$77,979.2 million in 2013. FCC's market share decreased 0.7% to 29.3% in 2013. FCC's proportion of Canada's farm debt outstanding increased \$1,032.9 million from 2012 to \$22,809.0 million, which remains second to the chartered banks at \$27,993.6 million.



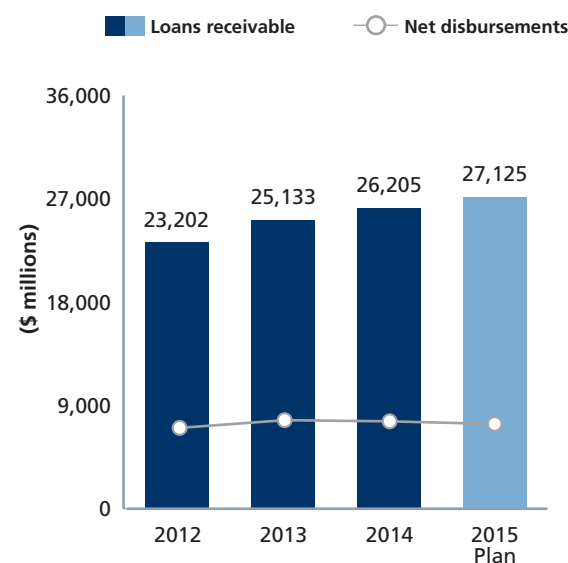
\*Historical results are updated annually by Statistics Canada.

### Total loans receivable

In 2013-14, FCC experienced its 21st consecutive year of portfolio growth. Loans receivable increased by \$1,072 million from 2012-13, moving the portfolio from \$25,133 million to \$26,205 million. Net disbursements decreased by \$52 million from 2012-13 to \$7,695 million. The slower growth in loans receivable was mainly due to slightly lower disbursement levels, combined with higher loan repayments compared to the previous year.

Growth is expected to continue to slow in 2014-15, with loans receivable increasing by 3.5% or \$920 million and disbursements decreasing \$234 million as compared to 2013-14.

### Loans receivable

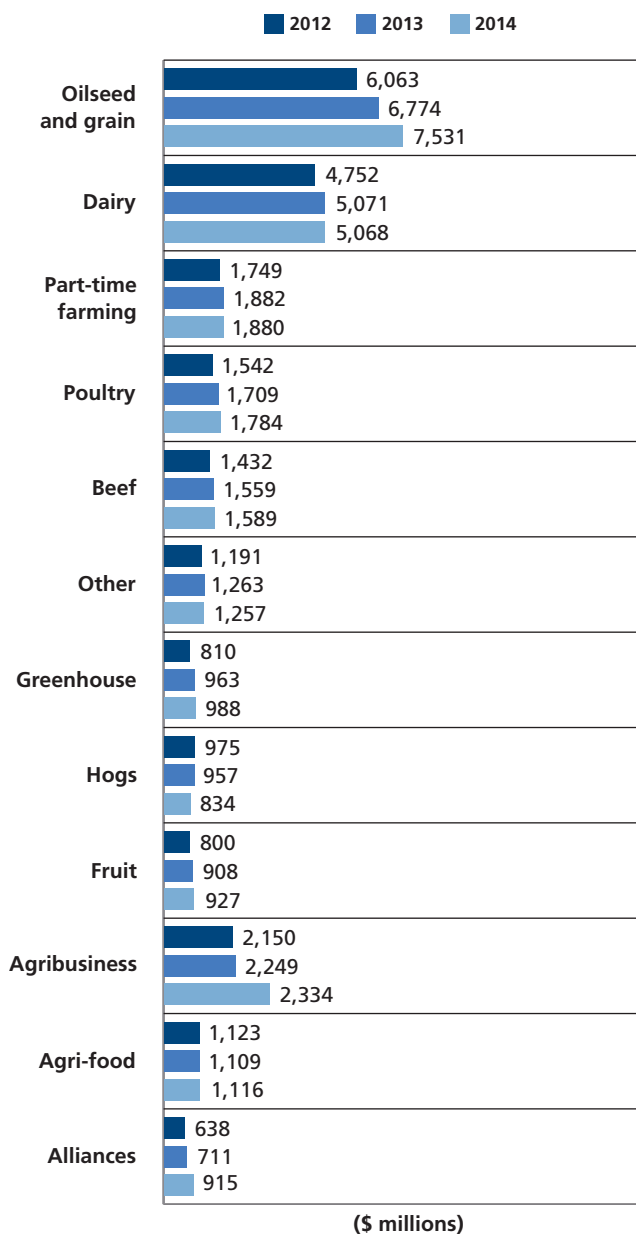


### Loans receivable composition by sector

FCC experienced the largest loans receivable year-over-year growth in the Alliances and oilseed and grain sectors, which increased 28.6% to \$915 million and 11.2% to \$7,531 million, respectively. Loans receivable decreased in several sectors in 2013-14. The largest decrease was 12.8% in the hog sector.

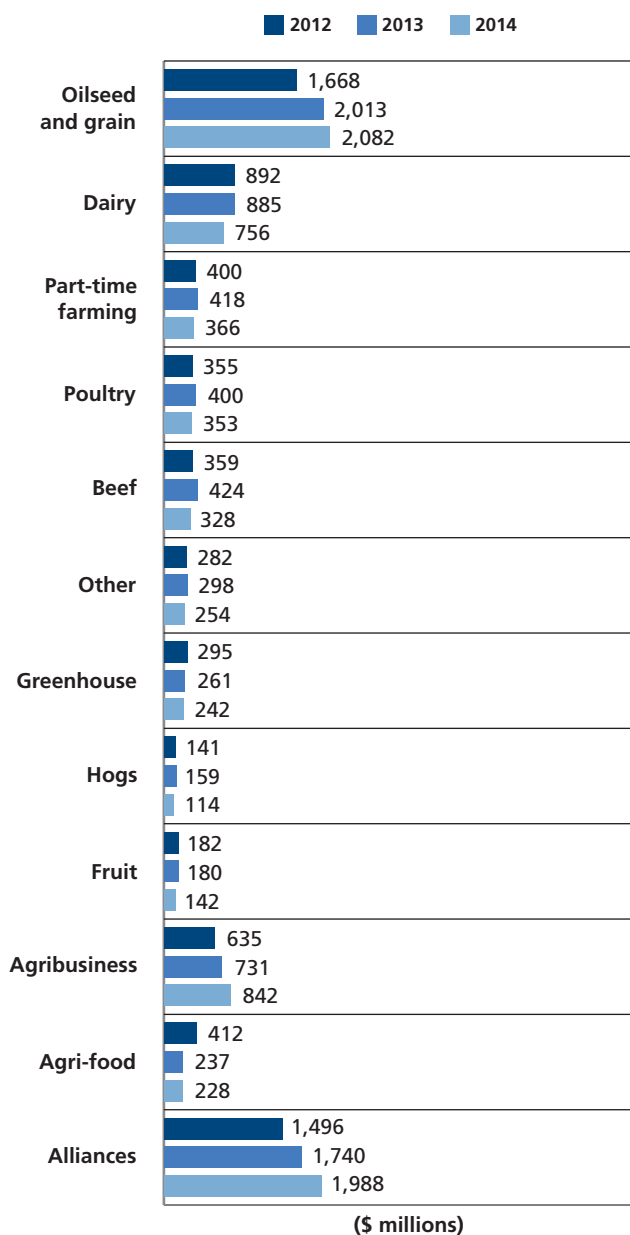
In 2013-14, net disbursements decreased in all major sectors except agribusiness, Alliances, and oilseed and grain, which experienced increases of 15.2%, 14.3%, and 3.4% respectively. The most significant decrease in net disbursements was in dairy, which experienced a decrease of \$129 million.

### Loans receivable by sector\*



\*Excludes deferred loan fees, and historical data has been restated to align to NAICS codes.

### Net disbursements by sector\*



\*Historical data has been restated to align to NAICS codes.

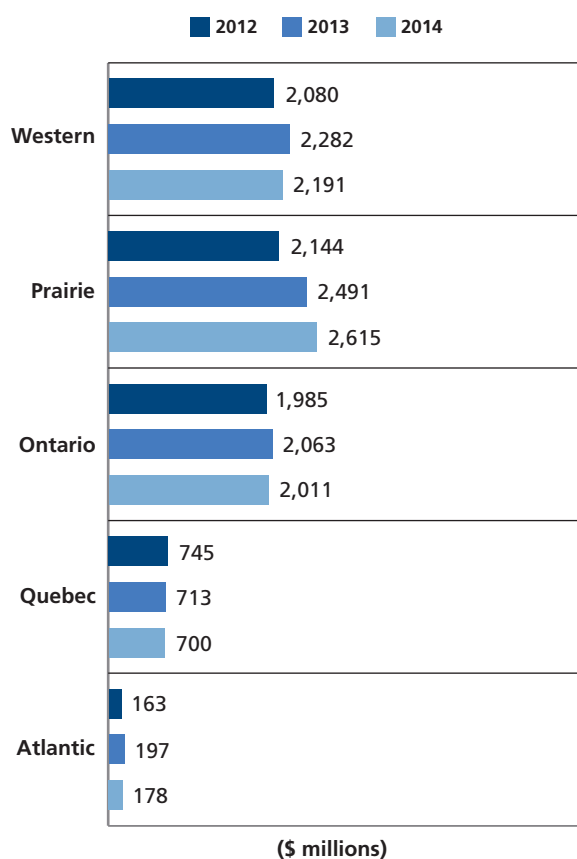
### Loans receivable composition by region

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

In 2013-14, net disbursements decreased in all regions, with the exception of Prairie, where net disbursements increased by 5.0%.

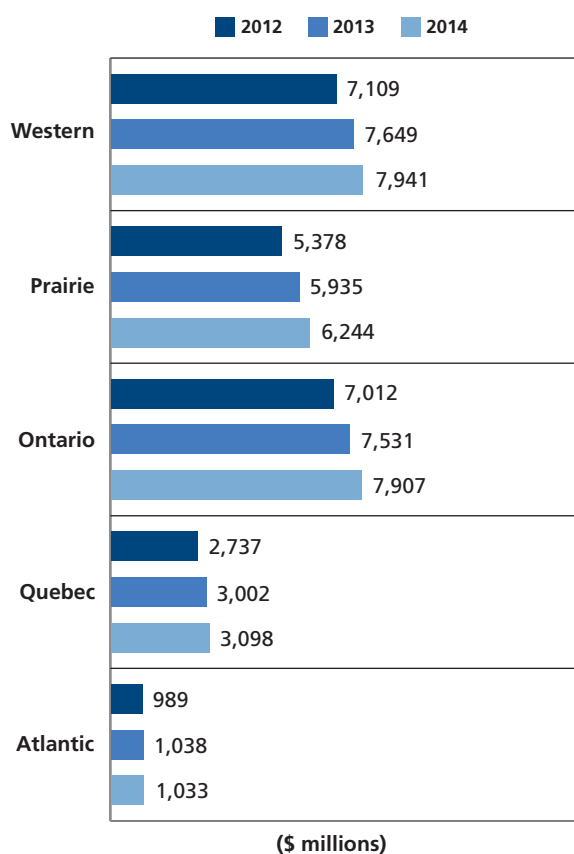
In 2013-14, FCC experienced loans receivable growth across Canada, with the exception of Atlantic. The Western region was the largest individual contributor to loans receivable in 2013-14 and increased by 3.8% to \$7,941 million. The second largest contributor was the Ontario region which increased by 5.0% to \$7,907 million in 2013-14.

### Net disbursements by region\*



\*Historical data has been restated to align NAICS codes.

### Loans receivable by region\*



\* Excludes deferred loan fees, and historical data has been restated to align to NAICS codes.

## 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.

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

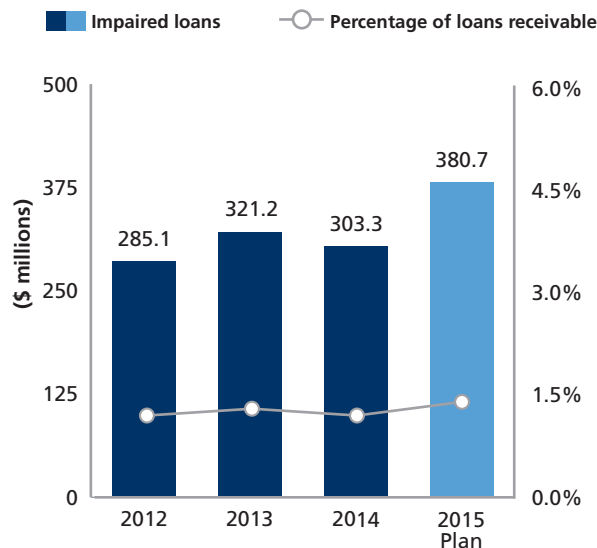
Impaired loans are loans that, in management's opinion, have no reasonable assurance of a timely collection of the full amount of principal and interest. In addition, impaired loans are \$500 or more in arrears for more than 90 days and have insufficient security.

In 2013-14, impaired loans decreased by \$17.9 million to \$303.3 million. As a percentage of loans receivable, this was a decrease of 0.1% to 1.2%. In 2014-15, impaired loans are projected to increase by \$77.4 million to \$380.7 million, in part due to growth in loans receivable.

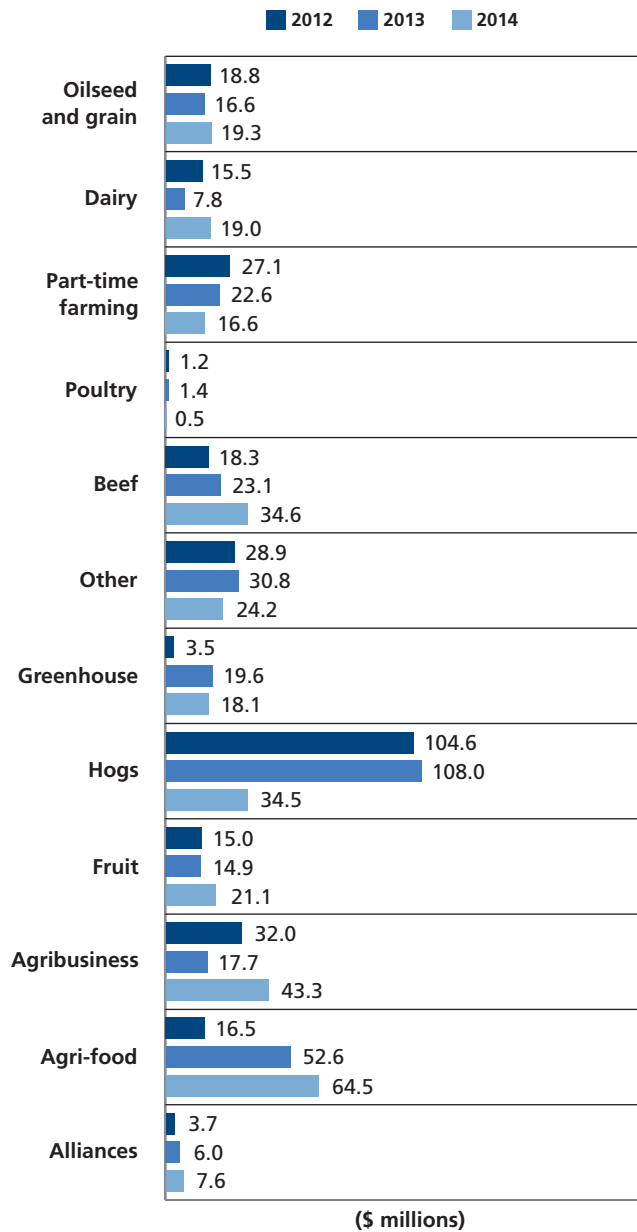
At a sector level, impaired loans for agribusiness and agri-food experienced the largest year-over-year increase of \$25.7 million and \$11.9 million, respectively. Hog and other sectors experienced the largest year-over-year decrease of \$73.6 million and \$6.6 million, respectively. Other is composed of maple syrup, sheep, mixed sectors and many smaller sector types.

Through its customer support programs, FCC proactively supports individual customers and sectors during financial difficulties. In 2013-14, FCC made payment schedule adjustments to 1,915 loans, 283 of which were part of its sector-specific support programs. Payment schedule adjustments as a percentage of loans receivable remained low at 2.9% in 2013-14.

## Impaired loans



### Impaired loans by sector\*



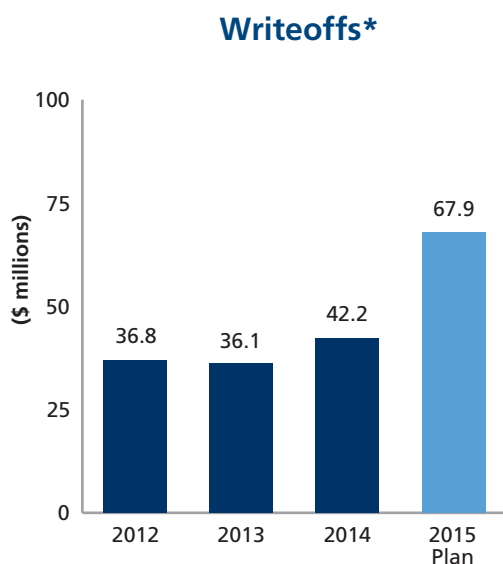
\*Historical data has been restated to align to NAICS codes.

### 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 2013-14, the amount of writeoffs, net of recoveries, increased to \$42.2 million. Writeoffs as a percentage of loans receivable remained low at 0.2%.

In 2014-15, writeoffs are projected to increase by \$25.7 million to \$67.9 million due to expected loans receivable growth. Writeoffs as a percentage of loans receivable are expected to increase to 0.3%.

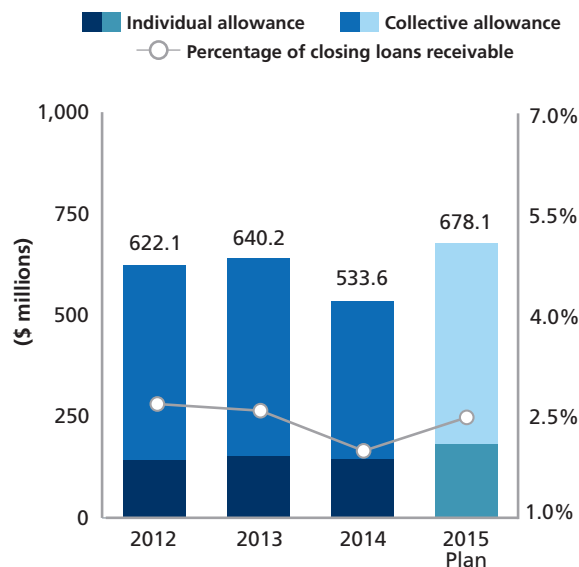


\*Net of recoveries.

### 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 2013-14, the allowance for credit losses decreased by \$106.6 million to \$533.6 million mainly due to a change in estimate based on a refinement of the collateral information, a general improvement in portfolio health and a refinement in the underlying assumptions used to calculate the allowance for credit losses. These were partially offset by growth in the portfolio. The allowance for credit losses as a percentage of closing loans receivable decreased from 2.5% to 2.0%. In 2014-15, the allowance is expected to increase to \$678.1 million, while the allowance as a percentage of loans receivable is expected to increase.

## 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 2013-14, 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, 2014, were \$10,359.9 million, compared to \$10,045.9 million at March 31, 2013. Of the total short-term borrowings outstanding, \$10,161.5 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 include 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. The outstanding long-term borrowings at March 31, 2014, were \$12,431.6 million, an increase from \$11,906.0 million the previous fiscal year. In 2013-14, all long-term borrowing was through the Crown Borrowing Program.

### Credit ratings

New and outstanding capital market debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. Moody's Investors Service and Standard & Poor's did not change FCC's debt ratings during 2013-14. FCC's debt ratings as of March 31, 2014, 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 composed 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 5 of the Notes to the Consolidated Financial Statements. The 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 \$108.9 million from \$917.9 million at March 31, 2013, to \$1,026.8 million at March 31, 2014. In 2013-14, cash of \$803.6 million was provided by financing activities and \$633.6 million and \$61.7 million was used in operating and investing activities, respectively.

### Post-employment benefit liabilities

In 2013-14 post-employment benefit liabilities decreased by \$127.1 million. This decrease was primarily due to gains related to changes in actuarial assumptions of \$80.5 million, contributions to fund the pension plan of \$54.4 million and return on assets of \$45.9 million. These gains were partially offset by current service costs of \$40.4 million and net interest of \$9.7 million. FCC's post-employment benefit liability is described in Note 15 of the Notes to the Consolidated Financial Statements.



## Capital management

In 2013-14, FCC focused on enhancing its approach to measuring capital requirements and implementing a formalized capital management framework and policy. The capital management framework outlines FCC's approach to assessing capital requirements for risks identified through its enterprise risk management framework. The objective of the framework is to maintain adequate capital to ensure ongoing viability and support anticipated growth and strategic investment. This will allow FCC to continue to serve the industry through all economic cycles. FCC will continue to build on its capital management practices in 2014-15 with the implementation of enhanced risk measurement, along with enhanced capital planning and stress-testing capabilities. See Note 23 of the Notes to the Consolidated Financial Statements for additional details on capital management. FCC uses the following measures to assess the adequacy of its capital.

### Regulatory and economic capital

FCC's capital management framework uses industry standard practices in bank management to assess the capital needs of the corporation. FCC uses the Capital

Adequacy Requirements guideline as issued by the Office of the Superintendent of Financial Institutions (OSFI) to assess its capital adequacy. FCC has also developed an economic capital model to assess all risks it is exposed to, consistent with guidance issued by the Basel Committee for Banking Supervision. The capital adequacy measures are used to ensure that FCC has sufficient capital on hand to remain solvent if a severe downturn in the agriculture industry were to occur.

### Debt to equity

FCC uses debt to equity as an additional measure to assess capital adequacy. The measure also represents the corporation's only statutory limit. At the end of 2013-14, FCC's debt-to-equity ratio remained well below its legislated limit of 12:1.

From 2012-13 to 2013-14, FCC's debt-to-equity ratio improved from 6.7:1 to 5.7:1. When growth in equity exceeds portfolio growth, the debt-to-equity ratio decreases due to a reduced requirement for borrowed funds. In 2013-14, growth in equity was 19.5%, which exceeded the portfolio growth of 4.3%. In 2014-15, this ratio is projected to decrease to 5.6:1 due in part to the relationship between portfolio and equity growth.

# Enterprise risk management

## Managing risk to protect FCC and maintain great customer relationships

As a financial institution, risk is inherent in virtually all FCC activities. FCC takes potential risks into account when lending to customers, delivering services and defining priorities.

FCC is diligent about enterprise risk management (ERM) and integrates it with corporate initiatives and strategic planning across business lines. FCC continually improves its approach through implementation and execution of the ERM framework and measurement of activities against a formal risk appetite and tolerance statement that define and measure acceptable risk.

FCC is also implementing recommendations resulting from a review of its risk management practices by the Office of the Superintendent of Financial Institutions (OSFI).

## Risk governance

### FCC Board of Directors

The FCC Board of Directors oversees the corporation's risk governance framework. The Board also oversees the ERM program, internal systems and practices to ensure that risk management is integrated with strategic, financial and operating plans. Risk policies approved by the Board establish the risk limits for enterprise risk management, as well as the management of specific risk categories.

The Board has established four committees to help fulfil its oversight role:

The **Risk Committee** oversees enterprise-wide risk management and ensures that risk management activities are separate from operational management. The committee also oversees organizational compliance with FCC's risk management policies and the effectiveness of systems and programs related to capital adequacy.

The **Audit Committee** oversees the integrity, accuracy and timeliness of FCC's financial reporting. The Committee also oversees FCC's internal audit function to ensure compliance with laws, regulations and ethical conduct. This includes ensuring an ongoing working relationship between FCC and the Office of the Auditor General of Canada.

The **Corporate Governance Committee** reviews, reports and, when appropriate, recommends governance matters to the Board. This includes FCC's strategic planning process, Code of Conduct and Ethics and corporate social responsibility program.

The **Human Resources Committee** oversees FCC's human resources plan and policies. The committee also oversees President and Chief Executive Officer (CEO) selection, goal setting and performance review, as well as the corporate compensation structure and succession planning for senior managers.

### FCC executive and business functions

FCC uses a three lines of defence model to govern risk related to key business processes. Policies outline risk-taking and risk-management functions and then cascade risk management authorities to various operational units congruent with the authorities of the President and CEO, Chief Risk Officer (CRO) or the Vice-President, Internal Audit. The authorities maintain three distinct and independent lines of defence.

- The **first line of defence** develops and executes FCC's business strategy. This includes the ability to make loans, fund the portfolio, develop products, and pursue markets and other risk-taking decisions. These decisions are made within the context of the risk appetite statement.
- The **second line of defence** effectively challenges risk-taking decisions made by the first line relative to the risk appetite statement. This includes setting risk policy, monitoring compliance to policy and reporting risks to management and the Board.
- The **third line of defence** assures the Board that FCC appropriately takes and manages risk within the risk appetite statement. This includes reviewing the first and second line functions.

The President and CEO ensures that FCC's risk management functions have the necessary resources and support to fulfil their duties, are independent of operational management and have the capacity to offer objective opinions and advice to senior leaders and the Board. The President and CEO is responsible for the implementation of several major risk-related policies and FCC's performance relative to the risk appetite statement.

The CEO is also responsible to ensure the effectiveness of FCC's internal risk controls and compliance with applicable laws, regulations and guidelines.

The CRO leads a risk division that is independent of FCC operations. The CRO is independent of operational management and reports directly to the Board's Risk Committee. The CRO oversees risk management at all levels across FCC and reports to the Risk Committee about whether FCC is operating within its risk appetite statement and risk policy limits. The CRO designs and implements action plans in the event of policy breaches and ensures that applicable business functions provide accurate and objective risk reports.

The Internal Audit business function provides objective assurance to the Board and FCC executive about the effective operation of risk management practices and internal controls and employee compliance with risk policies. It audits operational and risk management activities across FCC and provides its findings and recommendations to the Board.

### FCC committees

A number of FCC committees guide corporate decision-making. These committees develop and monitor risk management processes and practices.

The **Executive Management Team (EMT)** sets FCC's strategy and determines which business opportunities to pursue. EMT ensures that the ERM framework is implemented across FCC. EMT also recommends all risk policies and risk appetite statements and tolerance limits to the Board for approval.

The **Asset Liability Committee (ALCO)** directs FCC's business and financial performance as outlined in the corporate plan and the risk appetite statement. ALCO manages FCC's loan pricing and all of FCC's products and business lines.

The **Enterprise Risk Management Committee (ERMC)** advises the CRO on risk management governance. It also promotes a risk management culture at FCC and the oversight of risk management practices. As an advisory group, ERMC reviews and makes recommendations about FCC's risk structure, resources, mandate and budget. ERMC advises the CRO and Board about the risk appetite statement and tolerances, risk management frameworks and policies, risk reports, action plans to address policy breaches and the fit of new products and services within the risk appetite. ERMC also reviews and approves FCC's risk management models.

The **Credit Policy Committee** oversees the development of lending, leasing and custom product policies and

ensures that they reflect FCC's credit risk tolerance, lending culture and industry best practices complying with applicable laws and regulations.

The **Credit Committee** approves large credit facilities and requests for pre-authorized credit. It ensures that activities are within FCC's risk tolerances and follow credit policies.

The **Reputation Steering Committee** is accountable for providing an enterprise-wide perspective on FCC's reputation and the response to reputation issues or incidents.

The **Venture Capital Committee** assesses all funds and fund managers that FCC may invest in or participate in as a limited partner investor.

## FCC's risk appetite

The Board has established a risk appetite statement for FCC as the criteria to assess risk. The statement consists of three principles that outline the level of risk FCC is willing to take, accept and avoid. A series of supporting statements provides additional information and context. The risk appetite statement is widely shared throughout the corporation.

Risk appetite statement principles:

- We use our understanding of agriculture financing to take prudent risks that are good for the customer, the corporation and the agriculture industry.
- We accept the risk of taking a long-term view in order to maintain a steady presence in the marketplace.
- We avoid risks that could jeopardize our mandate and financial viability in order to protect the reputation of the corporation and our shareholder.

## 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 six risk categories: credit, market, liquidity, operational, strategic and reputation.

### Credit risk

Credit risk is the potential for financial loss due to the failure of a borrower or other party 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 ERM approve a portfolio diversification plan and key risk measures. Leveraging financial industry best practices, FCC has developed a credit capital model and has implemented 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 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 ERM and approved by the Board. The Treasury division implements market risk management directives and reports regularly to ERM, ALCO and the Board on its activities.

### Liquidity risk

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 liquidity 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.

At FCC, 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 that provides requirements for the design, implementation, operation and monitoring of the corporation's internal controls.

Risk and control assessments identify and assess key risks to ensure that appropriate controls are in place or gaps are closed. Key controls are monitored on a regular basis to determine their effectiveness.

FCC has a formal program to measure and monitor operational compliance to policies for credit, market and liquidity risk. Compliance reporting provides recommendations to address non-compliance, including employee coaching, policy clarifications or additional controls.

In addition, 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 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.

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 key risk indicators, reporting progress to mitigation strategies and reporting to the Board on a quarterly basis through corporate risk 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. FCC treats reputation risk as the result of a failure in another risk category. 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 credit facility application process requires customers to sign a declaration stating that they know of no reason why FCC may have any concern about their business.

## 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, post-employment benefit liability, reserve for insurance claims and 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 28, 2014





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 2014, 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 2014, 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, after giving retrospective effect to the change in the method of accounting for employee benefits as explained in Note 2 to the consolidated financial statements, 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, FCPA, FCA  
Assistant Auditor General  
for the Auditor General of Canada

28 May 2014  
Ottawa, Canada

# Consolidated Balance Sheet

(Thousands of Canadian dollars)		March 31, 2013 Restated Note 2
	March 31, 2014	
<b>Assets</b>		
Cash and cash equivalents	\$ 1,026,820	\$ 917,871
Temporary investments (Note 3)	140,780	164,781
Accounts receivable (Note 4)	93,095	18,666
Derivative financial assets (Note 5)	53,201	71,183
	<b>1,313,896</b>	<b>1,172,501</b>
Loans receivable – net (Notes 6 and 8)	25,671,535	24,493,332
Finance leases receivable – net (Notes 7 and 8)	15,511	12,908
Venture capital investments (Note 9)	156,277	73,366
	<b>25,843,323</b>	<b>24,579,606</b>
Equipment and leasehold improvements (Note 10)	23,675	23,467
Computer software (Note 11)	31,987	38,329
Equipment under operating leases (Note 12)	54,803	40,086
Other assets (Note 13)	22,273	16,825
	<b>132,738</b>	<b>118,707</b>
<b>Total assets</b>	<b>\$ 27,289,957</b>	<b>\$ 25,870,814</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 64,217	\$ 57,459
Derivative financial liabilities (Note 5)	2,527	–
	<b>66,744</b>	<b>57,459</b>
Borrowings (Note 14)		
Short-term debt	10,359,856	10,045,902
Long-term debt	12,431,589	11,906,034
	<b>22,791,445</b>	<b>21,951,936</b>
Transition loan liability	97,194	92,499
Post-employment benefit liabilities (Note 15)	98,460	225,601
Other liabilities (Note 16)	16,346	12,129
	<b>212,000</b>	<b>330,229</b>
<b>Total liabilities</b>	<b>23,070,189</b>	<b>22,339,624</b>
<b>Equity</b>		
Contributed surplus	547,725	547,725
Retained earnings	3,476,801	2,770,326
Accumulated other comprehensive income	141,389	184,752
<b>Equity attributable to shareholder of parent entity</b>	<b>4,165,915</b>	<b>3,502,803</b>
Non-controlling interest in structured entity	53,853	28,387
	<b>4,219,768</b>	<b>3,531,190</b>
<b>Total liabilities and equity</b>	<b>\$ 27,289,957</b>	<b>\$ 25,870,814</b>

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 28, 2014, 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)	2014	2013 Restated Note 2
Interest income	\$ 1,159,679	\$ 1,115,477
Interest expense	259,450	254,056
<b>Net interest income (Note 17)</b>	<b>900,229</b>	861,421
Provision for credit losses (Note 8)	47,551	(38,072)
<b>Net interest income after provision for credit losses</b>	<b>947,780</b>	823,349
Net insurance income	14,332	12,378
Other income	7,471	3,200
<b>Net interest income and non-interest income</b>	<b>969,583</b>	838,927
<b>Administration expenses</b>		
Salary expense	149,293	139,840
Benefits expense	74,955	63,309
Professional fees expense	42,308	38,776
Amortization and depreciation expense	33,101	30,210
Facilities, software and equipment expense	27,322	26,120
Travel and training expense	14,220	14,037
Marketing and promotion expense	11,779	11,175
Other expenses	13,575	13,771
<b>Total administration expenses</b>	<b>366,553</b>	337,238
<b>Net income before fair value adjustment</b>	<b>603,030</b>	501,689
Fair value adjustment (Note 18)	39,008	1,883
<b>Net income</b>	<b>\$ 642,038</b>	\$ 503,572
<b>Net income attributable to:</b>		
Shareholder of parent entity	\$ 630,710	\$ 503,125
Non-controlling interest in structured entity	11,328	447

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)	2014	2013 Restated Note 2
<b>Net income</b>	<b>\$ 642,038</b>	<b>\$ 503,572</b>
<b>Other comprehensive income</b>		
<b>Items that are or may be reclassified to net income</b>		
Net (losses) gains on derivatives designated as cash flow hedges	(20,462)	3,796
Transfer of net realized gains on derivatives designated as cash flow hedges to net income	(22,684)	(22,769)
Net unrealized (losses) gains on available-for-sale financial assets	(217)	248
	<b>(43,363)</b>	<b>(18,725)</b>
<b>Item that will never be reclassified to net income</b>		
Remeasurements of post-employment benefit liabilities	126,085	(16,781)
<b>Total other comprehensive income (loss)</b>	<b>82,722</b>	<b>(35,506)</b>
<b>Total comprehensive income</b>	<b>\$ 724,760</b>	<b>\$ 468,066</b>
<b>Total comprehensive income attributable to:</b>		
Shareholder of parent entity	<b>\$ 713,432</b>	<b>\$ 467,619</b>
Non-controlling interest in structured entity	<b>11,328</b>	<b>447</b>

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, 2013 Restated Note 2	Net income	Other comprehensive income	Dividend paid	Distributions to non-controlling interest	Balance March 31, 2014
<b>Contributed surplus</b>	\$ 547,725	\$ –	\$ –	\$ –	\$ –	\$ 547,725
<b>Retained earnings</b>	2,770,326	630,710	126,085	(50,320)	–	3,476,801
Net gains (losses) on derivatives designated as cash flow hedges	185,072	–	(43,146)	–	–	141,926
Net unrealized losses on available-for-sale financial assets	(320)	–	(217)	–	–	(537)
<b>Total accumulated other comprehensive income (loss)</b>	184,752	–	(43,363)	–	–	141,389
<b>Total equity attributable to parent</b>	3,502,803	630,710	82,722	(50,320)	–	4,165,915
Non-controlling interest in structured entity	28,387	11,328	–	–	14,138	53,853
<b>Total</b>	\$ 3,531,190	\$ 642,038	\$ 82,722	\$ (50,320)	\$ 14,138	\$ 4,219,768

(Thousands of Canadian dollars)	Balance April 1, 2012 Restated Note 2	Net income Restated Note 2	Other comprehensive income Restated Note 2	Dividend paid	Distributions to non-controlling interest	Balance March 31, 2013 Restated Note 2
<b>Contributed surplus</b>	\$ 547,725	\$ –	\$ –	\$ –	\$ –	\$ 547,725
<b>Retained earnings</b>	2,340,412	503,125	(16,781)	(56,430)	–	2,770,326
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)
<b>Total accumulated other comprehensive income (loss)</b>	203,477	–	(18,725)	–	–	184,752
<b>Total equity attributable to parent</b>	3,091,614	503,125	(35,506)	(56,430)	–	3,502,803
Non-controlling interest in structured entity	16,158	447	–	–	11,782	28,387
<b>Total</b>	\$ 3,107,772	\$ 503,572	\$ (35,506)	\$ (56,430)	\$ 11,782	\$ 3,531,190

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

# Consolidated Statement of Cash Flows

		2013 Restated Note 2
For the year ended March 31 (thousands of Canadian dollars)	2014	
<b>Operating activities</b>		
Net income	\$ 642,038	\$ 503,572
<b>Adjustments to determine net cash (used in) provided by operating activities:</b>		
Net interest income	(900,229)	(861,421)
Unwind adjustment on impaired loans	(4,151)	3,200
Provision for credit losses	(47,551)	38,072
Fair value adjustment	(39,008)	(1,883)
Gain on sale of venture capital investment in associate	(5,575)	(1,393)
Amortization and depreciation	33,101	30,210
Other	(1,292)	(936)
Net cash outflow from loans receivable	(1,113,327)	(1,960,378)
Net cash outflow from finance leases receivable	(2,486)	(3,164)
Net change in other operating assets and liabilities	(40,707)	19,891
Interest received	1,113,888	1,067,016
Interest paid	(268,277)	(257,875)
<b>Cash used in operating activities</b>	<b>(633,576)</b>	<b>(1,425,089)</b>
<b>Investing activities</b>		
Net cash inflow (outflow) from temporary investments	23,954	(80,823)
Acquisition of venture capital investments	(51,321)	(17,105)
Proceeds on disposal and repayment of venture capital investments	6,273	1,445
Purchase of equipment and leasehold improvements	(11,170)	(7,045)
Purchase of computer software	(5,261)	(11,710)
Purchase of equipment under operating leases	(32,399)	(22,222)
Proceeds on disposal of equipment under operating leases	7,004	4,203
Disposal of real estate property held for sale	1,229	199
<b>Cash used in investing activities</b>	<b>(61,691)</b>	<b>(133,058)</b>
<b>Financing activities</b>		
Long-term debt issued	6,559,000	5,356,221
Long-term debt repaid	(4,208,886)	(3,656,439)
Short-term debt issued	35,828,010	33,677,126
Short-term debt repaid	(37,324,214)	(33,748,667)
Dividend paid	(50,320)	(56,430)
<b>Cash provided by financing activities</b>	<b>803,590</b>	<b>1,571,811</b>
<b>Change in cash and cash equivalents</b>	<b>108,323</b>	<b>13,664</b>
Cash and cash equivalents, beginning of year	917,871	904,217
Effects of exchange rate changes on the balances of cash held and due in foreign currencies	626	(10)
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,026,820</b>	<b>\$ 917,871</b>
<b>Cash and cash equivalents are comprised of:</b>		
Cash	\$ 119,300	\$ 106,144
Short-term investments	\$ 907,520	\$ 811,727

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 2014, 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, after retrospectively applying the change in the accounting method for employee benefits as explained under the Changes in Accounting Standards heading, 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.

### Changes in accounting standards

The IASB has issued a number of new standards, interpretations, amendments and improvements. The standards that are relevant to FCC are listed below. They were effective April 1, 2013.

## 2. Significant accounting policies (continued)

### New standards:

- IFRS 10 – Consolidated Financial Statements replaces the guidance on control and consolidation in IAS 27 – Consolidated and Separate Financial Statements, and SIC-12 – Consolidation: Special Purpose Entities. IFRS 10 requires consolidation of an investee only if the investor has power over the investee, exposure to variable returns from its involvement with the investee and the ability to use its power over the investee to affect its returns. IFRS 10 provides detailed guidance on applying the definition of control. The accounting requirements for consolidation have remained consistent with IAS 27. The corporation assessed its consolidation conclusions and determined that IFRS 10, which was adopted on April 1, 2013, did not change the consolidation status of its subsidiaries and investees. While 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) are no longer special purpose entities with the removal of SIC-12, the corporation will continue to consolidate them given that the corporation is exposed, or has rights, to variable returns from its involvement with these funds and has the ability to affect those returns through its power over the funds.
- IFRS 12 – Disclosure of Interests in Other Entities outlines the disclosure requirements for all forms of interest in other entities, both on and off the balance sheet. FCC has assessed the disclosure requirements and determined that the adoption of IFRS 12 did not require additional disclosure in its financial statements.
- IFRS 13 – Fair Value Measurement provides a single framework for measuring fair value. The measurement of an asset or liability's fair value is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. FCC adopted IFRS 13 on April 1, 2013, on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques that FCC uses to measure fair value and did not result in any measurement adjustments as at April 1, 2013. The corporation has included new disclosures in the consolidated financial statements which are required under IFRS 13.

### Amended standards:

- IAS 1 – Presentation of Financial Statements requires the corporation to group other comprehensive income items by those that will be reclassified to income and those that will not. The corporation has reclassified comprehensive income items for the comparative periods. These changes did not result in any adjustments to other comprehensive income or comprehensive income.
- IAS 19 – Employee Benefits 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 to determine the interest income on the plan assets. This differs from the previous methodology, which used the expected rate of return. Under the previous standard, fair value is the full value of the refundable tax assets. Under the new standard, the fair value of refundable tax assets will be calculated as the present value of future reimbursements. This amendment was implemented effective April 1, 2013, and applied retrospectively. The adjustments for each financial statement line item are presented in the tables below.

### Adjustment to the Consolidated Balance Sheet

(\$ thousands)	March 31, 2014	March 31, 2013	April 1, 2012
Equity before effect of accounting change	\$ 4,228,349	\$ 3,538,687	\$ 3,114,336
Increase in post-employment benefit liabilities	(8,581)	(7,497)	(6,564)
Equity after effect of accounting change	\$ 4,219,768	\$ 3,531,190	\$ 3,107,772

(\$ thousands)	March 31, 2014	March 31, 2013	April 1, 2012
Decrease in equity attributable to:			
Shareholder of parent entity	\$ 8,581	\$ 7,497	\$ 6,564
Non-controlling interest in structured entity	–	–	–
	\$ 8,581	\$ 7,497	\$ 6,564

## 2. Significant accounting policies (continued)

### Adjustment to the Consolidated Statement of Operations

(\$ thousands)	March 31, 2014	March 31, 2013
Net income before effect of accounting change	\$ 654,523	\$ 513,385
Increase in benefits expense	(12,485)	(9,813)
Net income after effect of accounting change	\$ 642,038	\$ 503,572
(\$ thousands)	March 31, 2014	March 31, 2013
Decrease in net income attributable to:		
Shareholder of parent entity	\$ 12,485	\$ 9,813
Non-controlling interest in structured entity	—	—
	\$ 12,485	\$ 9,813

### Adjustment to the Consolidated Statement of Comprehensive Income

(\$ thousands)	March 31, 2014	March 31, 2013
Other comprehensive income (loss) before effect of accounting change	\$ 71,321	\$ (44,386)
Increase in other comprehensive income for remeasurements of post-employment benefit liabilities	11,401	8,880
Other comprehensive income (loss) after effect of accounting change	\$ 82,722	\$ (35,506)
(\$ thousands)	March 31, 2014	March 31, 2013
Increase in comprehensive income attributable to:		
Shareholder of parent entity	\$ 11,401	\$ 8,880
Non-controlling interest in structured entity	—	—
	\$ 11,401	\$ 8,880

### Reclassification of comparative figures

The corporation has reclassified certain comparative figures in the Consolidated Statement of Cash Flows. The reclassification was immaterial and did not have an impact on the Consolidated Balance Sheet or the Consolidated Statement of Operations. As a result, the related note disclosures have not been provided.

### Basis of consolidation

The consolidated financial statements include the accounts of the corporation, Avrio Fund I, Avrio Fund II and 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 structured entities in which the corporation is exposed, or has rights, to variable returns from its involvement with these funds and has the ability to affect those returns through its power over the funds. An adjustment has been made for significant intervening transactions and changes in fair value of investments occurring between the December 31 year-end of Avrio Fund I, Avrio Fund II and Avrio Subordinated Debt Fund and the corporation's year-end. 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 that is 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.

## 2. Significant accounting policies (continued)

### 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 financial asset categories.

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 have a maturity date of 90 days or less from the date of acquisition, are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash equivalents are designated as AFS financial assets. 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.

### Accounts receivable

Accounts receivable are classified as loans and receivables and are carried at amortized cost using the effective interest rate method. Amounts receivable from pending borrowing consist of borrowings which remained unsettled at the end of the reporting year. The fair value of amounts receivable from pending borrowing is the value at which the borrowing was undertaken.

### 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 the 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

## 2. Significant accounting policies (continued)

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 that arise subsequent to the initial impairment are also adjusted through the individual allowance for credit losses.

Loan interest income is not accrued when a loan is classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to 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.



## 2. Significant accounting policies (continued)

At each balance sheet date, the corporation assesses 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.

**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, Avrio Fund II and Avrio Subordinated Debt Fund.

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 a prior period. An investment in associate is an entity over which the corporation is able to exert significant influence.

## 2. Significant accounting policies (continued)

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.

### 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 the costs to sell and the 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 its useful life to the corporation, which is equivalent to 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)

Equipment under operating leases 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.

### 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 and the defined contribution pension plan are registered under the Pension Benefits Standards Act, 1985 registration No. 57164. They are registered pension trusts as defined in the Income Tax Act and are not subject to income taxes. The defined benefit pension plan is based on employees' number of years of service and the average salary of their five highest-paid consecutive years of service. It is protected against inflation. The supplemental defined benefit and supplemental defined contribution pension plans are available for employees with employment income greater than their 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, which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors. Plan assets are measured at fair value.

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 net liability for defined benefit obligations represents the present value of the defined benefit obligation 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 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.

Defined benefit costs are split into three categories:

- service cost, past-service cost, gains and losses on curtailments and settlements
- net interest expense or income on the net defined benefit liability
- remeasurements of the net defined benefit liability

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.

Past service costs arising from plan amendments are recognized immediately in benefits expense in the period of plan amendment.

Net interest expense or income and service costs are recognized immediately in benefits expense in net income. Net interest is calculated by applying the discount rate used to discount the post-employment benefit obligations to the net liability for defined benefit obligations.

Remeasurement includes actuarial gains and losses, the change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability, if applicable) and the return on plan assets (excluding interest on the net defined benefit liability). Actuarial gains or losses arise from changes in actuarial assumptions used to determine the accrued benefit obligations. Remeasurements are recognized immediately in other comprehensive income in the period in which they occur and flow into retained earnings in the Consolidated Balance Sheet.

## 2. Significant accounting policies (continued)

### 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.

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 using the effective interest rate method 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 using the effective interest rate method.

### 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 using the effective interest rate method.

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 using the effective interest rate method.

## 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 are structured entities. 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. They have been consolidated in accordance with IFRS 10 – Consolidated Financial Statements.

#### Consolidated structured entities

IFRS 10 – Consolidated Financial Statements provides guidance on whether an entity is an agent or a principal decision-maker with respect to investments in other entities. After reviewing these criteria, management has concluded that the corporation is the principal, and the Avrio funds are the agents. This is based on the fact that the funds operate within the mandate set out in the partnership agreements established by the corporation, and that the fund managers have limited exposure (1%) to the variability of returns. As such, the Avrio funds will account for all investments at fair value. If a fund obtains a controlling interest in an entity, Avrio will account for the investment at fair value. In this case, the corporation will consolidate the controlled investment into the fund's financial statements prior to consolidating the funds into the corporation's financial statements.

## 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 makes 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 is 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.

### Post-employment benefit liabilities

The estimate of the post-employment benefit liabilities or 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. The discount rate is one of the more significant assumptions used. It is the interest rate that determines the present value of estimated future cash outflows expected to be required to settle the pension obligations. Management determines the appropriate discount rate at the end of each year. In doing this, 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 post-employment 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.

### 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.

## 2. Significant accounting policies (continued)

### 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. The 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.

### 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. A number of other amendments and improvements have been issued by the IASB and are not listed below and are not yet effective. The corporation has not fully determined the impact of these new standards on the consolidated financial statements.

Standard	Details	Date of initial application
IAS 32 – Financial Instruments: Presentation	The amended standard was issued together with the amended IFRS 7 – Financial Instruments: Disclosures to clarify the guidance on offsetting financial assets and liabilities. It is anticipated that this standard will result in increased disclosure only.	April 1, 2014
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 change the classification of the corporation's temporary investments from available-for-sale to amortized cost.	To be determined



### 3. Temporary investments

(\$ thousands)	March 31, 2014		March 31, 2013	
	Carrying value	Yield	Carrying value	Yield
Short-term instruments	\$ 140,780	1.08%	\$ 164,781	1.07%

Short-term instruments consist of deposit notes, bankers' acceptance and treasury bills issued by institutions with credit ratings of R-1M or higher (2013 – R-1M or higher) as rated by the Dominion Bond Rating Service. As at March 31, 2014, the largest total investment in any one institution was \$50.0 million (2013 – \$55.0 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.

### 4. Accounts receivable

(\$ thousands)	March 31, 2014	March 31, 2013
Amounts receivable from pending borrowing	\$ 72,950	\$ –
Other	20,145	18,666
	<b>\$ 93,095</b>	<b>\$ 18,666</b>

### 5. Derivative financial instruments

(\$ thousands)	March 31, 2014	March 31, 2013
<b>Derivative financial assets</b>		
Derivatives designated as cash flow hedges	\$ 53,201	\$ 71,172
Derivatives classified as HFT	–	11
	<b>\$ 53,201</b>	<b>\$ 71,183</b>
<b>Derivative financial liabilities</b>		
Derivatives classified as cash flow hedges	\$ 2,527	\$ –

The derivative contracts entered into by the corporation are over-the-counter interest rate swaps. They 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.

The corporation is exposed to variability in future interest cash flows on non-trading assets that bear interest at variable rates and designates its derivatives as cash flow hedges. 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, 2014, the estimated amount of existing net gains reported in Accumulated Other Comprehensive Income (AOCI) that is expected to be transferred to net income within the next 12 months is \$22.4 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 eight years.



## 5. Derivative financial instruments (continued)

## Notional principal amounts and term to maturity

		March 31, 2014			
(\$ thousands)		Within 1 year	1 – 5 years	Over 5 years	Total
<b>Interest rate swaps</b>					
Receive fixed	Pay floating	\$ –	\$ 94,489	\$ 237,994	\$ 332,483

		March 31, 2013			
(\$ thousands)		Within 1 year	1 – 5 years	Over 5 years	Total
<b>Interest rate swaps</b>					
Receive fixed	Pay floating	\$ 186	\$ 94,489	\$ 237,994	\$ 332,669

## 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 master netting agreements in place have no impact on the fair values at March 31, 2013 and March 31, 2014.

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

(\$ thousands)		March 31, 2014	March 31, 2013
Interest rate swaps		\$ 50,674	\$ 71,183
Cash collateral due to derivative counterparties		(1,552)	(7,406)
<b>Fair value</b>		<b>\$ 49,122</b>	<b>\$ 63,777</b>

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, 2014, was \$139.3 million (2013– \$139.3 million), and the largest net fair value of contracts with any institution as at March 31, 2014, was \$19.3 million (2013 – \$25.3 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 to offset exposure in the event of default.

## 6. Loans receivable – net

The following tables summarize the contractual maturity of the gross loans receivable:

(\$ thousands)	March 31, 2014			
	Within 1 year	1 – 5 years	Over 5 years	Total
Floating	\$ 3,031,722	\$ 13,027,407	\$ 693,844	\$ 16,752,973
Fixed	1,472,745	5,835,290	2,162,011	9,470,046
Gross loans receivable	\$ 4,504,467	\$ 18,862,697	\$ 2,855,855	\$ 26,223,019
Deferred loan fees				(18,058)
Loans receivable – total				26,204,961
Allowance for credit losses				(533,426)
<b>Loans receivable – net</b>				<b>\$ 25,671,535</b>

(\$ thousands)	March 31, 2013			
	Within 1 year	1 – 5 years	Over 5 years	Total
Floating	\$ 2,599,540	\$ 12,448,366	\$ 921,857	\$ 15,969,763
Fixed	1,450,132	5,507,182	2,227,876	9,185,190
Gross loans receivable	\$ 4,049,672	\$ 17,955,548	\$ 3,149,733	\$ 25,154,953
Deferred loan fees				(21,618)
Loans receivable – total				25,133,335
Allowance for credit losses				(640,003)
<b>Loans receivable – net</b>				<b>\$ 24,493,332</b>

Management estimates that annually, over the next three years, approximately 7.2% (2013 – approximately 6.6%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2014, \$197.3 million (2013 – \$115.4 million) of loans receivable were denominated in U.S. dollars (USD).

## 6. Loans receivable – net (continued)

## Concentrations of credit risk

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

## Enterprise distribution

(\$ thousands)	Gross		Impaired	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Oilseed and grain	\$ 7,530,755	\$ 6,774,407	\$ 19,324	\$ 16,644
Dairy	5,067,758	5,071,022	18,991	7,772
Agribusiness	2,334,257	2,248,963	43,346	17,660
Part-time farming	1,880,102	1,881,614	16,602	22,587
Poultry	1,784,212	1,708,813	482	1,445
Beef	1,588,531	1,558,479	34,552	23,103
Other	1,258,284	1,262,707	24,230	30,832
Agri-food	1,115,706	1,109,154	64,504	52,622
Greenhouse	987,639	963,233	18,070	19,627
Fruit	926,924	908,441	21,109	14,908
Alliances	914,562	711,092	7,647	5,967
Hogs	834,289	957,028	34,452	108,042
<b>Total</b>	<b>\$ 26,223,019</b>	<b>\$ 25,154,953</b>	<b>\$ 303,309</b>	<b>\$ 321,209</b>

## Geographic distribution

(\$ thousands)	Gross		Impaired	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Alberta and British Columbia	\$ 7,941,193	\$ 7,648,990	\$ 103,857	\$ 95,881
Saskatchewan	4,316,219	4,103,637	56,124	49,514
Manitoba	1,927,693	1,831,863	11,692	62,149
Ontario	7,906,769	7,530,753	31,268	22,690
Quebec	3,098,181	3,001,875	65,565	56,045
Atlantic	1,032,964	1,037,835	34,803	34,930
<b>Total</b>	<b>\$ 26,223,019</b>	<b>\$ 25,154,953</b>	<b>\$ 303,309</b>	<b>\$ 321,209</b>

## 7. Finance leases receivable – net

(\$ thousands)	March 31, 2014	March 31, 2013
<b>Total minimum finance lease payments receivable</b>		
Less than one year	\$ 5,913	\$ 5,089
Between one and five years	11,044	9,042
Finance leases receivable – gross	16,957	14,131
Unearned finance income	(1,259)	(1,054)
Allowance for credit losses	(187)	(169)
<b>Finance leases receivable – net</b>	<b>\$ 15,511</b>	<b>\$ 12,908</b>

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, 2014			March 31, 2013		
	Loans receivable	Finance leases receivable	Total	Loans receivable	Finance leases receivable	Total
Individual allowance, beginning of year	\$ 151,012	\$ –	\$ 151,012	\$ 140,800	\$ –	\$ 140,800
Provision for credit losses	48,356	–	48,356	31,476	–	31,476
Losses covered under HILLRP	(10,901)	–	(10,901)	9,391	–	9,391
Unwind adjustment on impaired loans	(4,151)	–	(4,151)	3,200	–	3,200
Writeoffs	(45,053)	–	(45,053)	(35,602)	–	(35,602)
Recoveries	4,294	–	4,294	1,747	–	1,747
Individual allowance, end of year	143,557	–	143,557	151,012	–	151,012
Collective allowance, beginning of year	488,991	169	489,160	481,150	144	481,294
Provision for credit losses	(95,925)	18	(95,907)	6,571	25	6,596
Losses covered under HILLRP	(1,711)	–	(1,711)	3,552	–	3,552
Writeoffs	(2,021)	–	(2,021)	(2,451)	–	(2,451)
Recoveries	535	–	535	169	–	169
Collective allowance, end of year	389,869	187	390,056	488,991	169	489,160
<b>Total allowance</b>	<b>\$ 533,426</b>	<b>\$ 187</b>	<b>\$ 533,613</b>	<b>\$ 640,003</b>	<b>\$ 169</b>	<b>\$ 640,172</b>

## 9. Venture capital investments

### Carrying value by type of investment

(\$ thousands)	March 31, 2014	March 31, 2013
Debt	\$ 57,287	\$ 19,513
Preferred shares	51,750	37,624
Common shares	47,240	16,229
	<b>\$ 156,277</b>	<b>\$ 73,366</b>

As at March 31, 2014, \$2.5 million (2013 – \$0.2 million) of venture capital debt investments is due to the corporation within one year and \$54.8 million (2013 – \$19.3 million) is due between one and five years.

### Concentrations of venture capital investments by sector

(\$ thousands)	March 31, 2014	March 31, 2013
Food processing and manufacturing	\$ 72,869	\$ 35,242
Bio-based fuels and chemicals	47,586	20,967
Agriculture biotechnology	35,822	17,157
	<b>\$ 156,277</b>	<b>\$ 73,366</b>

For the year ended March 31, 2014, the total amount of net losses realized on the disposal of venture capital investments designated at fair value through profit or loss and reported in fair value adjustment was \$5.6 million (2013 – \$12.2 million).

The sale of the investment in associate, during the year ended March 31, 2012, had a realized gain recorded in other income of \$5.6 million in the current year (2013 – \$1.4 million).

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 \$4.7 million (2013 – \$2.3 million).

In addition to the above investments, the corporation has loans receivable from venture capital investees in the amount of \$38.2 million (2013 – \$20.9 million) and no guarantees from venture capital investees (2013 – \$0.2 million).

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, 2014, there were no venture capital debt investments in arrears (2013 – \$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
<b>Cost</b>				
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
Additions	6,474	2,932	1,752	11,158
Disposals	(2,893)	(902)	(1,159)	(4,954)
<b>Balance as at March 31, 2014</b>	<b>\$ 50,993</b>	<b>\$ 28,214</b>	<b>\$ 13,869</b>	<b>\$ 93,076</b>
<b>Accumulated depreciation</b>				
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
Depreciation	6,507	2,526	1,890	10,923
Disposals	(2,862)	(887)	(1,178)	(4,927)
<b>Balance as at March 31, 2014</b>	<b>\$ 35,624</b>	<b>\$ 22,855</b>	<b>\$ 10,922</b>	<b>\$ 69,401</b>
<b>Carrying value</b>				
March 31, 2013	\$ 15,433	\$ 4,968	\$ 3,066	\$ 23,467
<b>March 31, 2014</b>	<b>15,369</b>	<b>5,359</b>	<b>2,947</b>	<b>23,675</b>

## 11. Computer software

(\$ thousands)	Internally developed	Purchased	Total
<b>Cost</b>			
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
Additions	4,815	446	5,261
<b>Balance as at March 31, 2014</b>	<b>\$ 114,892</b>	<b>\$ 10,494</b>	<b>\$ 125,386</b>
<b>Accumulated amortization</b>			
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
Amortization	10,632	971	11,603
<b>Balance as at March 31, 2014</b>	<b>\$ 85,238</b>	<b>\$ 8,161</b>	<b>\$ 93,399</b>
<b>Carrying value</b>			
March 31, 2013	\$ 35,471	\$ 2,858	\$ 38,329
<b>March 31, 2014</b>	<b>29,654</b>	<b>2,333</b>	<b>31,987</b>

Research and development costs related to internally developed computer software in the amount of \$9.2 million (2013 – \$4.3 million) have been included within facilities, software and equipment expenses.

## 12. Equipment under operating leases

(\$ thousands)

<b>Cost</b>		
Balance as at March 31, 2012	\$	39,659
Additions		23,380
Disposals		(4,203)
Balance as at March 31, 2013		58,836
Additions		32,296
Disposals		(7,004)
<b>Balance as at March 31, 2014</b>	<b>\$</b>	<b>84,128</b>
<b>Accumulated depreciation</b>		
Balance as at March 31, 2012	\$	11,328
Depreciation		7,422
Balance as at March 31, 2013		18,750
Depreciation		10,575
<b>Balance as at March 31, 2014</b>	<b>\$</b>	<b>29,325</b>
<b>Carrying value</b>		
March 31, 2013	\$	40,086
<b>March 31, 2014</b>		<b>54,803</b>

## 13. Other assets

(\$ thousands)	March 31, 2014	March 31, 2013
Insurance reserve assets	\$ 19,888	\$ 16,487
Post-employment benefit assets (Note 15)	1,661	—
Real estate property held for sale	706	277
Other	18	61
	<b>\$ 22,273</b>	<b>\$ 16,825</b>

## 14. Borrowings

### Short-term debt

(\$ thousands)	March 31, 2014	March 31, 2013
<b>Government of Canada debt</b>		
Floating-rate borrowings	\$ 5,637,602	\$ 6,156,912
Fixed-rate borrowings	4,523,938	3,614,128
	<b>10,161,540</b>	<b>9,771,040</b>
USD fixed-rate promissory notes (1)	196,764	115,105
Cash collateral due to derivative counterparties	1,552	7,406
Retail and institutional fixed-rate notes	–	152,153
Structured note index-linked	–	198
	<b>\$ 10,359,856</b>	<b>\$ 10,045,902</b>

(1) \$178.0 million USD (2013 – \$113.3 million USD)

### Short-term debt by maturity date

(\$ thousands)	March 31, 2014				
	Government of Canada		Capital markets		Total
	Carrying value	Yield	Carrying value	Yield	
From 0 – 3 months	\$ 5,287,542	0.79%	\$ 196,764	0.08%	\$ 5,484,306
From 4 – 6 months	1,495,377	0.84%	–	–	1,495,377
From 7 – 9 months	1,066,901	0.83%	–	–	1,066,901
From 10 – 12 months	2,311,720	0.92%	–	–	2,311,720
Cash collateral due to derivative counterparties	–	–	1,552	1.85%	1,552
	<b>\$10,161,540</b>		<b>\$ 198,316</b>		<b>\$10,359,856</b>

(\$ thousands)	March 31, 2013				
	Government of Canada		Capital markets		Total
	Carrying value	Yield	Carrying value	Yield	
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
	<b>\$ 9,771,040</b>		<b>\$ 274,862</b>		<b>\$10,045,902</b>

The corporation has a demand operating line of credit, which provides overdraft protection in the amount of \$30.0 million (2013 – \$30.0 million). Indebtedness under this agreement is unsecured and this credit facility does not expire. Any draws made throughout the year on this credit facility are reversed the next day. As at March 31, 2014, there were no draws on this credit facility (2013 – \$nil).



## 14. Borrowings (continued)

## Long-term debt

(\$ thousands)	March 31, 2014	March 31, 2013
<b>Government of Canada debt</b>		
Floating-rate borrowings	\$ 9,918,918	\$ 9,272,277
Fixed-rate borrowings	2,096,083	2,217,853
	<b>12,015,001</b>	11,490,130
Retail and institutional fixed-rate notes	416,588	415,904
	<b>\$ 12,431,589</b>	\$ 11,906,034

## Long-term debt by maturity date

	March 31, 2014				
	Government of Canada		Capital markets		
(\$ thousands)	Carrying value	Yield	Carrying value	Yield	Total
From 1 – 2 years	\$ 7,723,218	0.87%	\$ 108,385	4.37%	\$ 7,831,603
From 2 – 3 years	2,689,355	1.42%	–	–	2,689,355
From 3 – 4 years	803,361	1.24%	–	–	803,361
From 4 – 5 years	564,402	2.04%	–	–	564,402
Over 5 years	234,665	1.90%	308,203	4.37%	542,868
	<b>\$ 12,015,001</b>		<b>\$ 416,588</b>		<b>\$ 12,431,589</b>

	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
	<b>\$ 11,490,130</b>		<b>\$ 415,904</b>		<b>\$ 11,906,034</b>

## 15. Post-employment benefits

## Plan amendments

Effective January 1, 2014, FCC redesigned the extended health care retiree provisions of the other post-employment benefits plan. The new design provides retirees with the ability to choose which of the three levels of health-care coverage best fits their needs. In addition, retirees were given a one-time opportunity to elect extended health-care coverage that mirrors the Public Services Health Care Plan, which also offers three levels of coverage. The corporation expects the new extended health-care design to be cost-neutral from the previous extended health-care design. Therefore, the corporation has assumed no change to the expected extended health-care costs as a result of these amendments.

## 15. Post-employment benefits (continued)

**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)	<b>Registered pension plan</b>		
	<b>March 31, 2014</b>	March 31, 2013	April 1, 2012
Present value of funded defined benefit obligations	<b>\$ (515,887)</b>	\$ (537,799)	\$ (474,091)
Fair value of plan assets	<b>517,548</b>	414,691	338,641
<b>Net asset (liability) for defined benefit obligations (1)</b>	<b>\$ 1,661</b>	\$ (123,108)	\$ (135,450)

(\$ thousands)	<b>Supplemental pension plans</b>		
	<b>March 31, 2014</b>	March 31, 2013 Restated Note 2	April 1, 2012 Restated Note 2
Present value of funded defined benefit obligations	<b>\$ (44,116)</b>	\$ (47,941)	\$ (41,391)
Fair value of plan assets	<b>40,979</b>	33,327	26,546
Funded status	<b>(3,137)</b>	(14,614)	(14,845)
Present value of unfunded defined benefit obligations	<b>(11,944)</b>	(11,401)	(9,546)
<b>Net liability for defined benefit obligations (1)</b>	<b>\$ (15,081)</b>	\$ (26,015)	\$ (24,391)

(\$ thousands)	<b>Other benefits</b>		
	<b>March 31, 2014</b>	March 31, 2013	April 1, 2012
Present value of unfunded defined benefit obligations	<b>\$ (83,379)</b>	\$ (76,478)	\$ (64,620)
<b>Net liability for defined benefit obligations (1)</b>	<b>\$ (83,379)</b>	\$ (76,478)	\$ (64,620)

(1) The total net liability for defined benefit obligations of all three plans is \$98,460 (2013 – \$225,601; 2012 – \$224,461). This amount is recorded on the Consolidated Balance Sheet as post-employment benefit liabilities. The total net asset for defined benefit obligations of all three plans is \$1,661 (2013 – \$nil; 2012 – \$nil). 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		Supplemental pension plans		Other benefits	
	March 31, 2014	March 31, 2013 Restated Note 2	March 31, 2014	March 31, 2013 Restated Note 2	March 31, 2014	March 31, 2013 Restated Note 2
Defined benefit obligation, beginning of year	\$ 537,799	\$ 474,091	\$ 59,342	\$ 50,937	\$ 76,478	\$ 64,620
Current service cost	32,239	22,596	2,644	2,067	5,529	5,220
Interest cost on the defined benefit obligation	22,828	21,091	2,463	2,255	3,263	2,948
Past service cost	—	—	—	1,126	—	—
Contributions by employees	6,350	4,702	122	—	—	—
Benefits paid	(11,489)	(10,357)	(1,039)	(884)	(727)	(726)
Experience adjustments on plan liabilities	(7,738)	(625)	(646)	(213)	(142)	(1,519)
Actuarial (gain) loss from changes in financial assumptions	(109,300)	26,301	(12,922)	4,054	(9,328)	11,585
Actuarial loss (gain) from changes in demographic assumptions	45,198	—	6,096	—	8,306	(5,650)
<b>Defined benefit obligation, end of year</b>	<b>\$ 515,887</b>	<b>\$ 537,799</b>	<b>\$ 56,060</b>	<b>\$ 59,342</b>	<b>\$ 83,379</b>	<b>\$ 76,478</b>

The duration of the plan's defined benefit obligation is 20 years.

## Movements in the fair value of plan assets

(\$ thousands)	Registered pension plan		Supplemental pension plans		Other benefits	
	March 31, 2014	March 31, 2013 Restated Note 2	March 31, 2014	March 31, 2013 Restated Note 2	March 31, 2014	March 31, 2013
Fair value of plan assets, beginning of year	\$ 414,691	\$ 338,641	\$ 33,327	\$ 26,546	\$ —	\$ —
Interest income on plan assets	17,453	15,324	1,374	1,212	—	—
Return on plan assets greater than the discount rate	41,710	16,401	4,211	1,587	—	—
Contributions by the corporation	49,596	50,661	4,117	6,747	727	726
Contributions by employees	6,350	4,702	122	—	—	—
Benefits paid	(11,489)	(10,357)	(1,039)	(884)	(727)	(726)
Plan administration costs	(763)	(681)	(49)	(45)	—	—
Tax effect on refundable tax assets	—	—	(1,084)	(1,836)	—	—
<b>Fair value of plan assets, end of year</b>	<b>\$ 517,548</b>	<b>\$ 414,691</b>	<b>\$ 40,979</b>	<b>\$ 33,327</b>	<b>\$ —</b>	<b>\$ —</b>

## 15. Post-employment benefits (continued)

## Defined benefit costs recognized in net income

(\$ thousands)	Registered pension plan		Supplemental pension plans		Other benefits	
	March 31, 2014	March 31, 2013 Restated Note 2	March 31, 2014	March 31, 2013 Restated Note 2	March 31, 2014	March 31, 2013
Current service cost (1)	\$ 32,239	\$ 22,596	\$ 2,644	\$ 2,067	\$ 5,529	\$ 5,220
Net interest (2)	5,375	5,767	1,089	1,043	3,263	2,948
Past service cost (3)	–	–	–	1,126	–	–
Plan administration costs (4)	763	681	49	45	–	–
Tax effect on refundable tax assets (5)	–	–	772	1,000	–	–
	<b>\$ 38,377</b>	<b>\$ 29,044</b>	<b>\$ 4,554</b>	<b>\$ 5,281</b>	<b>\$ 8,792</b>	<b>\$ 8,168</b>

(1) Total current service cost of \$40,412 (2013 – \$29,883) is recorded in benefits expense.

(2) Total interest on obligation of \$9,727 (2013 – \$9,758) is recorded in benefits expense.

(3) Total past service costs of \$nil (2013 – \$1,126) is recorded in benefits expense.

(4) Total administration costs of \$812 (2013 – \$726) is recorded in benefits expense.

(5) Total tax effect of refundable tax assets of \$772 (2013 – \$1,000) is recorded in benefits expense.

## Defined benefit costs recognized in other comprehensive income

(\$ thousands)	Registered pension plan	
	March 31, 2014	March 31, 2013 Restated Note 2
Experience adjustments on plan liabilities	\$ 7,738	\$ 625
Return on plan assets greater than the discount rate	41,710	16,401
Changes in liability assumptions	64,102	(26,301)
<b>Remeasurement gain (loss) (1)</b>	<b>\$ 113,550</b>	<b>\$ (9,275)</b>

(\$ thousands)	Supplemental pension plans	
	March 31, 2014	March 31, 2013 Restated Note 2
Experience adjustments on plan liabilities	\$ 646	\$ 213
Return on plan assets greater than the discount rate	4,211	1,587
Tax effect on refundable tax assets	(312)	(836)
Changes in liability assumptions	6,826	(4,054)
<b>Remeasurement gain (loss) (1)</b>	<b>\$ 11,371</b>	<b>\$ (3,090)</b>

(\$ thousands)	Other benefits	
	March 31, 2014	March 31, 2013 Restated Note 2
Experience adjustments on plan liabilities	\$ 142	\$ 1,519
Changes in liability assumptions	1,022	(5,935)
<b>Remeasurement gain (loss) (1)</b>	<b>\$ 1,164</b>	<b>\$ (4,416)</b>

(1) Remeasurement gains of \$126,085 (2013 – \$16,781 loss) are recognized in other comprehensive income.

The cumulative remeasurements recognized in OCI as at March 31, 2014, were \$32.1 million (2013 – \$158.2 million).

## 15. Post-employment benefits (continued)

## 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, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Equity securities	62.7%	59.9%	92.8%	98.0%
Debt securities	27.9%	32.2%	1.3%	1.7%
Real estate	7.9%	7.0%	–	–
Cash	1.5%	0.9%	5.9%	0.3%
	100.0%	100.0%	100.0%	100.0%

## Significant assumptions

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

	Registered pension benefits		Supplemental pension plans		Other benefits	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
<b>Accrued benefit obligation</b>						
Discount rate	4.40%	4.00%	4.40%	4.00%	4.40%	4.00%
Rate of compensation increase	4.50%	5.50%	4.50%	5.50%	4.50%	5.50%
Consumer price index	2.00%	2.50%	2.00%	2.50%	–	–
<b>Defined benefit costs</b>						
Discount rate	4.00%	4.25%	4.00%	4.25%	4.00%	4.25%
Consumer price index	2.50%	2.50%	2.50%	2.50%	–	–

At March 31, 2014, the mortality assumption for the accrued benefit obligation is based on the 2014 Public Sector Mortality (Canadian Pensioners Mortality 2014 publication) and Canadian Pensioners Mortality Improvement Scale B, with pension size adjustment factors for males of 0.8614 and for females of 0.9855. The mortality assumption for the accrued benefit obligation at March 31, 2013 and for the defined benefit costs for the years ended March 31, 2013 and 2014 is based on the 1994 Uninsured Pensioner Mortality Table, projected generationally using Scale AA. As at March 31, 2014, the average life expectancy of an individual retiring at age 65 is 24 years for males and 25 years for females.

Assumed health-care cost trend rates are as follows:

	2014	2013
<b>Extended health-care and dental care cost escalation</b>		
Initial rate	8.00%	8.00%
Ultimate rate	5.00%	5.00%
Year ultimate rate reached	2021	2021

## 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 is as follows:

(\$ thousands)	Registered pension plan	Supplemental pension plans	Other benefits
<b>1% increase in discount rate</b>			
Total of service and net interest costs	\$ (11,757)	\$ (604)	\$ (1,584)
Defined benefit obligation	(89,816)	(9,224)	(18,365)
<b>1% decrease in discount rate</b>			
Total of service and net interest costs	14,212	1,170	2,197
Defined benefit obligation	119,892	12,080	25,989
<b>0.25% increase in rate of compensation increase</b>			
Total of service and net interest costs	956	500	24
Defined benefit obligation	4,695	1,738	117
<b>0.25% decrease in rate of compensation increase</b>			
Total of service and net interest costs	(1,002)	(386)	(24)
Defined benefit obligation	(4,746)	(1,487)	(117)
<b>1% increase in consumer price index</b>			
Total of service and net interest costs	9,239	1,009	–
Defined benefit obligation	83,109	9,025	–
<b>1% decrease in consumer price index</b>			
Total of service and net interest costs	(7,420)	(441)	–
Defined benefit obligation	(67,168)	(7,325)	–
<b>One year increase in expected lifetime of plan participants</b>			
Total of service and net interest costs	1,112	319	302
Defined benefit obligation	10,834	1,173	2,785
<b>1% increase in assumed overall health-care cost trend rates</b>			
Total of service and net interest costs	–	–	2,870
Defined benefit obligation	–	–	23,118
<b>1% decrease in assumed overall health-care cost trend rates</b>			
Total of service and net interest costs	–	–	(2,002)
Defined benefit obligation	–	–	(16,710)

## 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, 2014, the expense was \$4.2 million (2013 – \$4.2 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 \$59.1 million (2013 – \$62.7 million).

Total cash payments for post-employment benefits for 2015, as described in the preceding paragraph, are anticipated to be approximately \$42.1 million.

## 16. Other liabilities

(\$ thousands)	March 31, 2014	March 31, 2013
Reserve for insurance claims	\$ 9,573	\$ 6,825
Deferred revenues	6,225	4,781
Other	548	523
	<b>\$ 16,346</b>	<b>\$ 12,129</b>

## 17. Net interest income

(\$ thousands)	March 31, 2014	March 31, 2013
<b>Interest income</b>		
Loans and receivables	\$ 1,097,693	\$ 1,057,889
Transfer of net realized gains on derivatives designated as cash flow hedges from AOCI to net income	22,684	22,769
Operating leases	12,350	8,799
Temporary investments designated as AFS	10,753	10,603
Foreign exchange gains on loans and receivables	6,999	1,407
Hedging derivative financial assets and liabilities designated as cash flow hedges (net)	4,456	11,486
Finance leases designated as loans and receivables	654	590
Total interest income for financial instruments not at fair value through profit or loss	<b>1,155,589</b>	<b>1,113,543</b>
Venture capital investments designated at fair value through profit or loss	4,090	1,934
	<b>1,159,679</b>	<b>1,115,477</b>
<b>Interest expense</b>		
Long-term debt classified as other liabilities	194,792	194,758
Short-term debt classified as other liabilities	55,245	55,406
Foreign exchange losses on cash and short-term debt classified as other liabilities (net)	6,998	1,351
Transition loan liabilities classified as other liabilities	2,404	2,429
Total interest expense for financial instruments not at fair value through profit or loss	<b>259,439</b>	<b>253,944</b>
Borrowings designated at fair value through profit or loss	14	388
Derivative financial assets and liabilities classified as HFT (net)	(3)	(276)
	<b>259,450</b>	<b>254,056</b>
<b>Net interest income</b>	<b>\$ 900,229</b>	<b>\$ 861,421</b>

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 \$5.0 million (2013 – \$3.0 million). Interest income recognized from the unwinding of discounts on impaired financial assets was \$2.8 million (2013 – \$5.1 million).

## 18. Fair value adjustment

(\$ thousands)	March 31, 2014	March 31, 2013
Venture capital investments designated as fair value through profit or loss	\$ 32,627	\$ 2,476
Ineffectiveness of cash flow hedges	6,387	(652)
Long-term debt designated at fair value through profit or loss	7	351
Guarantees	(6)	(1)
Derivative financial assets and liabilities classified as HFT	(7)	(291)
	<b>\$ 39,008</b>	<b>\$ 1,883</b>

## 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:

(\$ thousands)	March 31, 2014			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash equivalents	\$ –	\$ 907,520	\$ –	\$ 907,520
Temporary investments	–	140,780	–	140,780
Derivative financial assets	–	53,201	–	53,201
Venture capital investments	846	–	155,431	156,277
	\$ 846	\$ 1,101,501	\$ 155,431	\$ 1,257,778
<b>Liabilities</b>				
Derivative financial liabilities	\$ –	\$ 2,527	\$ –	\$ 2,527
(\$ thousands)	March 31, 2013			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash equivalents	\$ –	\$ 811,727	\$ –	\$ 811,727
Temporary investments	–	164,781	–	164,781
Derivative financial assets	–	71,172	11	71,183
Venture capital investments	546	–	72,820	73,366
	\$ 546	\$ 1,047,680	\$ 72,831	\$ 1,121,057
<b>Liabilities</b>				
Structured notes	\$ –	\$ –	\$ 198	\$ 198

Changes in valuation methods may result in transfers into or out of levels 1, 2 and 3. For the year ended March 31, 2014, there were no transfers between levels (2013 – \$nil).



## 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:

(\$ thousands)	March 31, 2014			
	Derivative financial assets and liabilities	Venture capital investments	Structured notes	Total
Balance, beginning of year	\$ 11	\$ 72,820	\$ (198)	\$ 72,633
Net (losses) gains recognized in fair value adjustment	(7)	37,888	7	37,888
Change in accrued interest	(4)	2,127	4	2,127
Acquisitions	–	48,604	–	48,604
Repayments	–	(6,008)	187	(5,821)
<b>Balance, end of year</b>	<b>\$ –</b>	<b>\$ 155,431</b>	<b>\$ –</b>	<b>\$ 155,431</b>

(\$ thousands)	March 31, 2013			
	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
<b>Balance, end of year</b>	<b>\$ 11</b>	<b>\$ 72,820</b>	<b>\$ (198)</b>	<b>\$ 72,633</b>

Net unrealized gains and losses relating to instruments still held at the reporting date recognized in the fair value adjustment are a \$15.3 million gain (2013 – \$5.0 million gain).

## 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, 2014		March 31, 2013	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
<b>Assets</b>				
Loans receivable	\$ 25,671,535	\$ 25,826,685	\$ 24,493,332	\$ 24,683,726
Finance leases receivable	15,511	15,657	12,908	12,991
<b>Liabilities</b>				
Long-term debt excluding structured notes	12,431,589	12,508,770	11,906,034	12,024,794

Financial instruments not carried at fair value as noted in the above table are considered to use level 2 inputs in determining estimated fair value.

### 19. Fair value of financial instruments (continued)

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 approximates the carrying value due to having fluctuating interest rates that directly correspond to changes in the prime interest rate, on which the fair value is based. 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 its 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.

For all other financial instruments carried at amortized cost using the effective interest rate method, the carrying value approximates fair value due to the relatively short period to maturity of these instruments, or because they are already at discounted values. This applies to the corporation's cash, 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, 2014	March 31, 2013
<b>Amounts due</b>		
Less than one year	\$ 11,963	\$ 8,967
Between one and five years	24,017	17,143
	<b>\$ 35,980</b>	<b>\$ 26,110</b>

### 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, 2014	March 31, 2013
<b>Amounts due</b>		
Less than one year	\$ 16,055	\$ 23,153
Between one and five years	47,257	55,294
Greater than five years	115,677	53,724
	<b>\$ 178,989</b>	<b>\$ 132,171</b>

Operating lease payments in the amount of \$17.2 million (2013 – \$16.0 million) have been included within facilities, software and equipment expense.

## 21. Commitments, guarantees and contingent liabilities

### Loan and lease commitments

As at March 31, 2014, loans approved but undisbursed amounted to \$2,948.9 million (2013 – \$2,904.2 million). These loans were approved at an average interest rate of 3.87% (2013 – 3.88%) 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, 2014, finance leases approved but undisbursed amounted to \$3.0 million (2013 – \$5.8 million) and operating leases approved but undisbursed amounted to \$2.3 million (2013 – \$2.1 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 through the Crown Borrowing Program to meet its future cash requirements.

### Venture capital commitments

As at March 31, 2014, the corporation has committed to invest \$3.7 million (2013 – \$nil) in venture capital investments.

### Operating commitments

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

(\$ thousands)	March 31, 2014	March 31, 2013
<b>Amounts due</b>		
Less than one year	\$ 11,306	\$ 10,717
Between one and five years	14,217	16,785
	<b>\$ 25,523</b>	<b>\$ 27,502</b>

### Capital commitments

Capital expenditures contracted for computer software at the end of the fiscal year but not yet incurred are \$5.2 million (2013 – \$8.1 million). Capital expenditure contracted for equipment and leasehold improvements at the end of the fiscal year but not yet incurred are \$nil (2013 – \$0.3 million).

### Funding commitments for post-employment benefits plans

Funding commitments for post-employment benefit plans at the end of the fiscal year are \$26.4 million (2013 – \$23.8 million) each year for the next five years.

### 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, 2014, is \$1.2 million (2013 – \$2.1 million). In the event of a call on these letters of credit, the corporation has recourse in the form of security against its customers for amounts to be paid to the third party. Existing guarantees will expire within three years, usually without being drawn upon. As at March 31, 2014, an amount of \$nil (2013 – \$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. 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. Therefore, no amount has been included in the consolidated financial statements as at March 31, 2014 for these contingent liabilities.

In the normal course of operations, the corporation enters into agreements that provide general indemnification. These indemnifications typically occur in service contracts and strategic alliance agreements and, in certain circumstances, may require that the corporation 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 it 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, 2014, 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% (2013 – 67%), 55% (2013 – 55%) and 99% (2013 – 99%), respectively, of the partnership units. Avrio Fund I, Avrio Fund II and Avrio Subordinated Debt Fund are consolidated structured entities of the corporation. All transactions between the corporation and the funds 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.

### 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, 2014, the balances outstanding with the Government of Canada were \$10,161.5 million in short-term debt (2013 – \$9,771.0 million) and \$12,015.0 million in long-term debt (2013 – \$11,490.1 million). For the year ended March 31, 2014, \$228.8 million (2013 – \$223.7 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, 2014, the decrease recorded to the provision for credit losses was \$12.6 million (2013 – \$12.9 million increase). 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.

## 22. Related party transactions (continued)

### 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, 2014	March 31, 2013
Salaries and other short-term employee benefits	\$ 3,575	\$ 3,287
Post-employment benefits	1,224	2,228
Board retainer and per diems	166	175
<b>Total</b>	<b>\$ 4,965</b>	<b>\$ 5,690</b>

### 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.

(\$ thousands)	2014		2013	
	Maximum balance during the year	Balance as at March 31	Maximum balance during the year	Balance as at March 31
Loans	\$ 5,459	\$ 4,993	\$ 9,564	\$ 5,813
Leases	–	–	24	11

The weighted average interest rate on the loans to key management personnel outstanding as at March 31, 2014, was 6% (2013 – 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 2014 for the loans or leases made to key management personnel (2013 – \$nil).

Undrawn credit commitments with key management personnel totalled \$11.3 million as at March 31, 2014 (2013 – \$10.2 million).

### Transactions with post-employment benefit plans

During the year, \$173.3 thousand was received from the defined benefit plan (2013 – \$115.3 thousand) for administrative services and was recorded in benefits expense.

## 23. Capital management

The corporation manages its capital in accordance with its capital management policy and framework. The policy and framework documents outline the corporation's approach to measuring, managing and monitoring capital adequacy. The corporation's objective is to maintain adequate capital to ensure ongoing viability of its business and to support anticipated growth and strategic investment. As such, capital must be managed in accordance with the corporation's risk appetite and tolerances, the Farm Credit Canada Act and the Minister of Finance's Financial Risk Management Guidelines for Crown Corporations. Net income is the primary supply of capital for the corporation and dividend payments are one of the tools used in managing capital levels and therefore, both current and future capital needs are considered when determining dividend payments.

The corporation has a statutory limit which requires that total direct and contingent liabilities not exceed 12 times equity. As at March 31, 2014, the corporation's total direct and contingent liabilities were 5.73 times the shareholder's equity, excluding AOCI (2013 – 6.73 times the shareholder's equity, excluding AOCI).

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

	March 31, 2014	March 31, 2013 Restated Note 2
(\$ thousands)		
Retained earnings	\$ 3,476,801	\$ 2,770,326
Accumulated other comprehensive income	141,389	184,752
Contributed surplus	547,725	547,725
Allowance for credit losses	533,613	640,172
Non-controlling interest in structured entity	53,853	28,387
<b>Total capitalization</b>	<b>\$ 4,753,381</b>	<b>\$ 4,171,362</b>
Gross assets	\$ 27,823,570	\$ 26,510,986
<b>Capitalization as a percentage of gross assets</b>	<b>17.08%</b>	<b>15.73%</b>

### 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, 2014, cumulative capital payments received from the Government of Canada amounted to \$1,208.3 million (2013 – \$1,208.3 million). No capital payments have been received since 2006. The statutory limit for that same period was \$1,250.0 million (2013 – \$1,250.0 million).

### Dividend

On March 12, 2014 the Board declared a dividend based on the results of the year ended March 31, 2013, in the amount of \$50.3 million (2013 – \$56.4 million based on the year ended March 31, 2012) to the corporation's shareholder, the Government of Canada, which was paid on March 21, 2014.

## 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 also oversees the ERM program, and the internal systems and practices that ensure that risk management is integrated with strategic, financial and operating plans. 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 Board has established committees to help fulfil its oversight role related to risk management.

- The Risk Committee oversees enterprise-wide risk management and ensures that risk management activities are separate from operational management. It also oversees organizational compliance with the corporation's risk management policies and the effectiveness of systems and programs related to capital requirements.
- The Audit Committee oversees the integrity, accuracy and timeliness of the corporation's financial reporting. It also oversees the corporation's internal audit function to ensure compliance with laws, regulations and ethical conduct. This includes ensuring an ongoing working relationship between the corporation and the Office of the Auditor General of Canada.
- The Corporate Governance Committee reviews, reports and when appropriate, recommends governance matters to the Board. This includes the corporation's strategic planning process, Code of Conduct and Ethics and corporate social responsibility strategy.

The Board has established a risk appetite statement for the corporation as the criteria to assess risk. The statement consists of three principles outlining the level of risk the corporation is willing to take and accept and the risks the corporation will avoid. A series of sub-statements provides additional information and context. The risk appetite statement is widely shared throughout the corporation. Risk appetite statement principles include:

- We use our understanding of agriculture financing to take prudent risks that are good for the customer, the corporation and the agriculture industry.
- We accept the risk of taking a long-term view in order to maintain a steady presence in the marketplace.
- We avoid risks that could jeopardize our mandate and financial viability in order to protect the reputation of the corporation and our shareholder.

The corporation uses a "three lines of defence" model to govern risk related to key business processes. Policies outline risk-taking and risk-management functions and then cascade risk management authorities to various operational units congruent with the authorities of the President and Chief Executive Officer (CEO), Chief Risk Officer (CRO) and the Vice-President, Internal Audit. The authorities maintain three distinct and independent lines of defence.

- The first line of defence develops and executes the corporation's business strategy. This includes the ability to make loans, fund the portfolio, develop products and pursue markets and other risk-taking decisions. These decisions are made within the context of the risk appetite statement.
- The second line of defence effectively challenges risk-taking decisions made by the first line relative to the risk appetite statement. This includes setting risk policy, monitoring compliance to policy and reporting risks to managers and the Board.
- The third line of defence assures the Board that the corporation appropriately takes and manages risk within the risk appetite statement. This includes reviewing the first and second line functions.

#### 24. Risk management (continued)

The President and CEO ensures that the areas tasked with the corporation's risk management functions have the necessary resources and support to fulfil their duties, are independent of operational management and have the capacity to offer objective opinions and advice to senior leaders and the Board. The President and CEO is responsible for the implementation of several major risk-related policies and the corporation's performance relative to the risk appetite statement. The President and CEO is also responsible for ensuring the effectiveness of the corporation's internal risk controls and compliance with applicable laws, regulations and guidelines.

The CRO leads a risk division that is independent of the corporation's operations. The CRO is independent of operational management and reports directly to the Board's Risk Committee. The CRO oversees risk management at all levels across the corporation and reports to the Risk Committee about whether the corporation is operating within its risk appetite statement and risk policy limits. The CRO designs and implements action plans in the event of policy breaches and ensures that applicable business functions provide accurate and objective risk reports.

The Internal Audit division provides objective assurance to the Board and the corporation's executive about the effective operation of risk management practices and internal controls, and employee compliance with risk policies. The division audits operational and risk management activities across the corporation and provides its findings and recommendations to the Board.

The following internal committees develop and monitor risk management processes and practices:

- Executive Management Team (EMT) sets FCC's strategy and determines which business opportunities to pursue. EMT ensures that the ERM framework is implemented across the corporation. EMT also recommends all risk policies, the risk appetite statement and tolerance limits to the Board for approval.
- The Asset Liability Committee (ALCO) directs the corporation's business and financial performance as outlined in the corporate plan and the risk appetite statement. ALCO manages the corporation's capital and oversees interest rate risk. ALCO also oversees loan pricing and all of the corporation's products and business lines.
- The Enterprise Risk Management Committee (ERMC) advises the CRO on risk management governance and promotes a risk management culture throughout the corporation and the oversight of risk management practices. As an advisory group, ERMC reviews and makes recommendations about the corporation's risk structure, resources, mandate and budget. ERMC advises the CRO and Board about the risk appetite statement and tolerances, risk management frameworks and policies, risk reports, action plans to address policy breaches and the fit of new products and services within the risk appetite. ERMC also reviews and approves the corporation's risk management models.
- The Credit Policy Committee oversees the development of lending, leasing and custom product policies and ensures that they reflect the corporation's credit risk tolerance, lending culture and industry best practices, and comply with applicable laws and regulations.
- The Credit Committee approves large credit facilities and requests for pre-authorized credit. It ensures that activities are within the corporation's risk tolerances and follow credit policies.
- The Venture Capital Committee assesses all funds and fund managers that the corporation may invest in or participate in as a limited partner investor.



## 24. Risk management (continued)

### Financial risk management

The corporation has identified the major categories of financial risk to which it is exposed as credit risk, market risk and liquidity risk.

#### a) Credit risk

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet 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:

- The Risk Management division conducts industry, economic and portfolio analysis and reports to the various committees. A number of areas within this division are involved in managing credit risk for the corporation:
  - 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 ERM 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 in Credit Risk that manages and resolves higher risk accounts experiencing challenges through the 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.
- 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 and 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.

## 24. Risk management (continued)

### Measurement of credit risk

The Risk Management division assesses credit risk at the aggregate level, providing risk policies and assessment tools and models that quantify credit risk and the allowance for credit losses. The division also monitors the agriculture and agri-food operating environments to ensure 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, Risk Management 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

### 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.

## 24. Risk management (continued)

### Loan loss model

The loan loss model estimates the losses in 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 the 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:

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

Collective loan losses are calculated on loans within the portfolio that have met at least one of three impairment indicators:

- arrears of \$500 or greater for less than 90 days
- an amortization extension within 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, 2014	March 31, 2013
Weighted average loan-to-security ratio for secured loans	50.6%	54.4%
Loans secured by a General Security Agreement and unsecured loans as a percentage of loans receivable	3.7%	3.1%

### 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.

## 24. Risk management (continued)

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

(\$ thousands)	March 31, 2014	March 31, 2013
<b>On-balance sheet</b>		
Temporary investments	\$ 140,780	\$ 164,781
Accounts receivable	93,095	18,666
Derivative financial assets	53,201	71,183
Loans receivable	26,223,019	25,154,953
Finance leases receivable	16,957	14,131
Venture capital investments	156,277	73,366
Other assets	4,550	4,144
	<b>26,687,879</b>	<b>25,501,224</b>
<b>Off-balance sheet</b>		
Financial guarantees	1,231	2,084
Loan and lease commitments	2,954,288	2,912,144
Venture capital commitments	3,711	–
	<b>2,959,230</b>	<b>2,914,228</b>
<b>Total maximum exposure to credit risk</b>	<b>\$ 29,647,109</b>	<b>\$ 28,415,452</b>

The preceding table represents a worst-case scenario of credit risk exposure to the corporation at the end of the year, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposure is based on carrying values as reported in the Consolidated 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.

**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, 2014	March 31, 2013
<b>In arrears but not impaired</b>		
Up to 30 days	\$ 198,009	\$ 74,914
31 – 60 days	67,142	172,294
61 – 89 days	52,056	52,639
90 days or more	114,390	156,776
	<b>\$ 431,597</b>	<b>\$ 456,623</b>

#### 24. Risk management (continued)

##### **Loans receivable neither in arrears nor impaired**

The credit quality of loans that were neither in arrears nor impaired can be assessed by referencing the corporation's RSPS scores. The total owing for each RSPS score bucket as a percentage of the total owing that is neither in arrears nor impaired is as follows:

	March 31, 2014	March 31, 2013
<b>RSPS score</b>		
400-650	0.6%	0.6%
651-769	14.4%	15.2%
770-850	63.1%	64.4%
851-999	21.9%	19.8%
	<b>100.0%</b>	<b>100.0%</b>

The majority of the RSPS scores are updated on a monthly basis. For certain types of loans, different approval and credit management processes are used. These represent approximately 5% 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 \$0.7 million (2013 – \$0.3 million). Real estate property acquired is sold as soon as practicable with the proceeds used to reduce the outstanding customer loan balance.

##### **Counterparty credit risk – derivatives and temporary investments**

Credit risk arises from the potential for a counterparty to default on 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 credit risk policy, which specifies 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. The master netting arrangements do not meet the criteria for offsetting in the Consolidated Statement of Financial Position. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default of the counterparty. In addition, the corporation and its counterparties do not intend to settle on a net basis or to realize the assets and settle liabilities simultaneously. 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.

## 24. Risk management (continued)

ERMC 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 activities with a 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 corporation reviews credit ratings and the financial performance of counterparties regularly and recommends policy changes to ERMC and the Board.

### Credit quality

The following table presents the credit quality of the corporation's cash equivalents and temporary investments as rated by Standard and Poor's:

	March 31, 2014			March 31, 2013		
	Credit rating categories			Credit rating categories		
	A-1+	A-1	Total	A-1+	A-1	Total
Cash equivalents	\$ 621,797	\$ 285,723	\$ 907,520	\$ 637,898	\$ 173,829	\$ 811,727
Temporary investments	70,833	69,947	140,780	84,826	79,955	164,781

### 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.

The corporation has market risk policies and limits to ensure that exposures to interest rate and foreign exchange risks are identified, measured, managed and reported on a timely basis. Market risk policies are regularly reviewed by ERMC and are approved by the Board. The corporation's policies and processes are based on industry best practices and the Minister of Finance's Financial Risk Management Guidelines for Crown Corporations. The Treasury division is responsible for implementing market risk management directives and reports regularly to ERMC 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 the 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 the total equity (excluding AOCI) 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, 2014, 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:

(\$ thousands)	2014 Impact of		2013 Impact of	
	2% increase	0.85% decrease (1)	2% increase	0.90% decrease (1)
Projected net interest income variability	\$ 1,606	\$ (1,644)	\$ 3,271	\$ (2,512)
Limit	(92,470)	(92,470)	(89,494)	(89,494)
MVPE variability	(261,159)	113,422	(230,537)	103,089
Limit	(402,453)	(402,453)	(331,805)	(331,805)

(1) The lowest rate on the yield curves used in the model was 0.85% (2013 – 0.90%) to avoid using negative rates.

The corporation has a third defined limit that addresses its exposure to commitment risk. Commitment risk is the risk that interest rates rise after the corporation has committed to a lower interest rate to the customer. The policy states that the decline in the market value of the lending pipeline including new loans and renewals cannot exceed 0.5% of the total equity (excluding AOCI) 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 \$3.8 million as at March 31, 2014 (2013 – \$3.7 million), which was within the policy limit of \$20.1 million (2013 – \$16.6 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	March 31, 2014 Total	March 31, 2013 Total Restated Note 2
<b>Assets</b>								
Cash and cash equivalents	\$ –	\$ 977,442	\$ –	\$ –	\$ –	\$ 49,378	\$ 1,026,820	\$ 917,871
Yield	–	1.03%	–	–	–	–	–	–
Temporary investments	–	140,581	–	–	–	199	140,780	164,781
Yield (1)	–	1.08%	–	–	–	–	–	–
Derivative financial assets (2)	–	–	–	–	–	53,201	53,201	71,183
Loans receivable	16,267,097	1,094,704	1,851,139	5,725,613	1,020,166	(287,184)	25,671,535	24,493,332
Yield (1)	3.93%	6.03%	4.17%	4.50%	5.02%	–	–	–
Finance leases receivable	–	1,353	3,863	10,295	–	–	15,511	12,908
Yield (1)	–	5.08%	5.08%	5.08%	–	–	–	–
Venture capital investments	–	–	4,000	40,062	9,874	102,341	156,277	73,366
Yield	–	–	13.13%	11.20%	6.75%	–	–	–
Other	–	–	–	–	–	225,833	225,833	137,373
<b>Total assets</b>	<b>\$16,267,097</b>	<b>\$ 2,214,080</b>	<b>\$ 1,859,002</b>	<b>\$ 5,775,970</b>	<b>\$ 1,030,040</b>	<b>\$ 143,768</b>	<b>\$ 27,289,957</b>	<b>\$ 25,870,814</b>
<b>Liabilities and equity</b>								
Non-structured borrowings	\$ –	\$ 20,026,662	\$ 301,000	\$ 1,958,036	\$ 478,065	\$ 27,682	\$ 22,791,445	\$ 21,951,743
Yield (1)	–	0.80%	1.94%	1.91%	3.56%	–	–	–
Structured borrowings	–	–	–	–	–	–	–	193
<b>Total borrowings</b>	<b>–</b>	<b>\$ 20,026,662</b>	<b>\$ 301,000</b>	<b>\$ 1,958,036</b>	<b>\$ 478,065</b>	<b>\$ 27,682</b>	<b>\$ 22,791,445</b>	<b>\$ 21,951,936</b>
Derivative financial liabilities (2)(3)	–	332,483	–	(94,489)	(237,994)	2,527	2,527	–
Yield (1)	–	1.03%	–	3.80%	4.54%	–	–	–
Other	–	–	–	–	–	330,070	330,070	416,075
Shareholder's equity	–	–	–	–	–	4,165,915	4,165,915	3,502,803
<b>Total liabilities and equity</b>	<b>\$ –</b>	<b>\$ 20,359,145</b>	<b>\$ 301,000</b>	<b>\$ 1,863,547</b>	<b>\$ 240,071</b>	<b>\$ 4,526,194</b>	<b>\$ 27,289,957</b>	<b>\$ 25,870,814</b>
<b>Total gap 2014</b>	<b>\$16,267,097</b>	<b>\$(18,145,065)</b>	<b>\$ 1,558,002</b>	<b>\$ 3,912,423</b>	<b>\$ 789,969</b>	<b>\$(4,382,426)</b>	<b>\$ –</b>	<b>\$ –</b>
<b>Total cumulative gap 2014</b>	<b>\$16,267,097</b>	<b>\$(1,877,968)</b>	<b>\$ (319,966)</b>	<b>\$ 3,592,457</b>	<b>\$ 4,382,426</b>	<b>–</b>	<b>–</b>	<b>–</b>
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	\$ –	\$ –	\$ –

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

(2) The notional amounts 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, 2014, is 99.0% (2013 – 96.1%).

### Derivatives

The corporation may use 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 in assessing 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.

### Post-employment benefits

Significant financial risks are related to the registered pension plans' investments. These financial risks are managed by having an investment policy that is approved annually by the Pension Committee. The investment policy provides guidelines to the registered pension plans' investment managers for the asset mix of the portfolio regarding quality and quantity of debt and equity investments. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. Investment risk is managed by diversification guidelines within the investment policy.

The pension plans' asset structure includes both Canadian Long Bonds and Canadian Real Return Bonds in an attempt to match a portion of the plans' assets to the plans' liabilities. The current target composition of the plans' portfolio includes 16.5% of assets invested in Canadian Long Bonds and 13.0% invested in Canadian Real Return Bonds. The Canadian Long Bonds have a duration of 14 years and the Canadian Real Return Bonds duration is seven years, while the plans' liabilities are estimated to be 21 years. As the plans' benefits are fully indexed to inflation, the Canadian Real Return Bonds provide short-term inflation protection for the plans.

The pension plans' funding policy is such that the corporation pays such contributions as deemed to be necessary to provide the benefits promised under the pension plans, including the amortization of any going-concern or solvency deficiency.

The corporation monitors expenses paid from the pension fund to ensure that they are reasonable. A formal funding policy statement has been adopted and approved by the Board to provide guidance with regard to the funding of the plan's defined benefit provision. The corporation implemented the funding policy and monitors its application.

## 24. Risk management (continued)

### c) 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 has a liquidity risk policy and limits and the Treasury division regularly reports compliance within these limits to ERM and the Board.

The corporation measures, forecasts and manages cash flow as an integral part of its 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 \$1,167.6 million were on hand as at March 31, 2014 (2013 – \$1,082.7 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

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, 2014							
(\$ thousands)	Carrying value	Gross nominal inflow (outflow)	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years
<b>Non-derivative financial liabilities (1)</b>							
Borrowings	\$ 22,791,445	\$ (22,789,495)	\$ (4,309,505)	\$ (1,195,570)	\$ (4,873,399)	\$ (11,874,036)	\$ (536,985)
<b>Derivative financial liabilities</b>							
Carrying value	2,527	–	–	–	–	–	–
Cash outflows	–	(2,527)	–	–	–	(2,527)	–
	<b>\$ 22,793,972</b>	<b>\$ (22,792,022)</b>	<b>\$ (4,309,505)</b>	<b>\$ (1,195,570)</b>	<b>\$ (4,873,399)</b>	<b>\$ (11,876,563)</b>	<b>\$ (536,985)</b>
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
<b>Non-derivative financial liabilities (1)</b>							
Borrowings	\$ 21,951,936	\$ (21,950,245)	\$ (2,983,309)	\$ (2,500,664)	\$ (4,585,111)	\$ (11,059,037)	\$ (822,124)
<b>Derivative financial liabilities</b>							
Carrying value	–	–	–	–	–	–	–
Cash outflows	–	–	–	–	–	–	–
	<b>\$ 21,951,936</b>	<b>\$ (21,950,245)</b>	<b>\$ (2,983,309)</b>	<b>\$ (2,500,664)</b>	<b>\$ (4,585,111)</b>	<b>\$ (11,059,037)</b>	<b>\$ (822,124)</b>

(1) The amount expected to be paid in the next twelve months related to the transition loan liability is \$44.4 million (2013 - \$37.2 million).

## 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, 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's 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 the corporation's five-year average experience.

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

## 25. Subsequent events

The Board approved the consolidated financial statements on May 28, 2014. There were no subsequent events requiring recognition or disclosure within the consolidated financial statements between March 31, 2014, 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 one per cent, used when describing applicable interest rates or the yield of an investment (1 bps = 0.01 per cent).

### Corporate social responsibility

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 an individual or 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 non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

**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**

The 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 that 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.

**Structured entity**

An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity and the relevant activities are directed by means of contractual arrangements.

## 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), Strathmore (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, Woodstock

### Newfoundland and Labrador

Mount Pearl

### Nova Scotia

Kentville, Truro

### Prince Edward Island

Charlottetown

(S) Satellite office – limited hours

### Corporate office

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Fax: 306-780-5167

### FCC Management Software

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Toll-free: 1-800-667-7893  
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FCC's venture capital investments are managed by:



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