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Farm Credit Canada

2015-16 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.

Message from the President and CEO

Serving Canada's agriculture and agri-food industry is an important calling, and FCC is proud to contribute to this vibrant, diverse and responsible industry.

As Canada's largest lender to agriculture, FCC is part of something bigger than ourselves. Our work helps our customers reach their greatest potential and enables FCC to be a catalyst for continuing growth and progress in the industry.

Feeding the world

Canada is the fifth-largest agriculture exporter in the world and we have a well-earned reputation for producing safe, high-quality food. Agriculture has its share of challenges, as every industry does, but on balance, these are good days for Canadian agriculture. Our producers, agribusinesses and agri-food operators have tremendous opportunities in a global marketplace where Canada is one of the few countries capable of meeting the growing demand.

Agriculture continues to be a vital part of the Canadian economy, employing 2.2 million people and contributing more than $100 billion to Canada's gross domestic product every year. And while fewer Canadians are connected directly to the land, we're seeing more and more interest from consumers about where their food comes from, which is creating opportunities for important conversations moving forward.

Offering value and stability to our customers and partners

FCC has a unique role among Canada's financial institutions – agriculture is all we do. This gives us a focus, and a depth of expertise, that is second to none in the industry.

We've designed a variety of flexible products and services for customers across the agriculture value chain. We have a team of knowledgeable, committed employees who come together across Canada to deliver great customer experiences. We work to add value beyond the loan transaction by offering innovative learning programs and resources free of charge to thousands of customers and non-customers every year. From flagship events like our annual FCC Forums to online webinars, videos and newsletters, we provide knowledge and insights on a range of topics related to agriculture.

As a prudent lender with 23 consecutive years of growth and a $28 billion portfolio, we contribute strength and stability to the industry. We know the ups and downs of agriculture and we've had an unwavering commitment to the industry through all cycles since we opened our doors in 1959. Our ability to deliver on that commitment for generations of farmers – past, present and future – requires us to manage every aspect of our business with diligence and care, from our lending practices and risk management principles to our business objectives and public policy mandate.

Like other industries, agriculture has been affected by recent economic instability, including a declining Canadian dollar, oil priced in the neighbourhood of $30 a barrel and weaker growth in major economies like China. FCC remains a stable partner in changing times, and it's inspiring to see the growth and innovations that are occurring as the industry pursues new opportunities.

Our business results for 2015-16 reflect another year of growth in Canadian agriculture. We loaned a total of $9.1 billion across all sectors, including $2.6 billion to young farmers across Canada. Our agribusiness and agri-food lending is helping more companies add the processing value here at home before export.

Partnerships have always been important in agriculture, and they're becoming even more significant as businesses work together to create value and opportunity. At FCC, we value our relationships with other lenders and it's a priority for us to work effectively with all financial institutions, especially credit unions, to ensure access to capital in all sectors.

Making a difference in our communities

Our employees are at the heart of everything we accomplish as a company and I'm very proud of our team. Together, we're making a difference in the lives of our customers and in the communities where we live and work.

FCC is a proactive champion of agriculture safety. Through our support of Canadian Agricultural Safety Week and Progressive Ag Safety day camps, we enable thousands of people each year to receive knowledge and training on safe agriculture practices. Our Back to Ag partnership with the Canadian Agricultural Safety Association and the Rick Hansen Foundation helps cover the cost of adaptive technology for farmers or agricultural workers who have experienced

a traumatic injury, to get them back working in agriculture. In 2015-16, we pledged a $500,000 contribution over five years to STARS air ambulance to provide life-saving transportation to patients in rural Alberta, Saskatchewan, Manitoba and eastern B.C., including those injured on family farms.

Our commitment to communities also includes our sponsorship of programs such as 4-H and Agriculture in the Classroom, and our annual food bank initiative, FCC Drive Away Hunger. This year, we provided more than 5.2 million meals for food banks nationwide through the efforts of our partners, participating schools and volunteers across the country.

For more information about the work we're doing to advance our commitment to corporate social responsibility, I invite you to read our CSR report online at fcc.ca/CSRReport.

Moving forward

The future of Canadian agriculture is bright – and more and more people know about it thanks to the efforts of Agriculture More than Ever, an industry-wide cause that is helping us create a national dialogue about the value of agriculture.

In my first two years as CEO, some of my most memorable moments have been the conversations I've had with customers, stakeholders, industry partners, FCC Board members and employees where we've talked about our shared commitment to agriculture, the work we're doing to move forward and the opportunities that lie ahead.

FCC serves the industry that feeds the world and we couldn't be more proud to support Canada's farmers, agribusinesses and agri-food operators and the work they do.

Michael Hoffort, President and CEO

Message from the Board Chair

FCC has an important responsibility to serve agriculture and enhance rural Canada. As a federal Crown corporation and Canada's largest lender to agriculture, FCC offers strength, stability, knowledge of agriculture and a longstanding commitment to the industry.

The FCC Board of Directors provides leadership and independent oversight of management and the operations of the corporation. On behalf of the Board, we're proud of FCC's contributions to agriculture and the responsible way in which the corporation operates.

FCC had another successful year in 2015-16, with excellent lending results, continued portfolio growth and steady progress on its strategies and initiatives. Employees are creating efficiencies and streamlining processes as they deliver products, services and programs to meet the needs of FCC's 100,000 customers across Canada.

The corporation also continues to advance its risk management practices. The Board oversees FCC's enterprise risk management framework to ensure risk management is integrated with the corporation's strategic, financial and operating plans.

At the heart of every effective organization is a great team, and the Board appreciates the passion and commitment of FCC's employees to build relationships, deliver a positive customer experience and serve the agriculture and agri-food industry. We also value the insights of our Board and we thank Ross Ravelli for his contributions during his six years with us.

These are exciting times for Canadian agriculture, with the potential for more growth and opportunities to come in an increasingly global marketplace. FCC will be there every step of the way to serve agriculture and support the success of Canada's farm families, producers and agribusiness operators.

Respectfully submitted on behalf of the FCC Board of Directors,

Dale Johnston, Board Chair

Message from the Agriculture Minister

As Canada's leading agriculture lender, Farm Credit Canada plays a critical role in one of the most complex and dynamic sectors of our economy. Our agriculture and agri-food sector has a proud history of feeding Canada and the world, and is a vital part of our communities.

FCC is a valued partner in communities across Canada, providing Canadians with access to capital and a range of financial and business products and services tailored to the unique needs of the agriculture and agri-food industry – all sectors, all sizes, all stages of their development.

I am committed to helping this sector be more innovative, safer and stronger. Canada's farmers, ranchers and food processors are vital to Canada's economy. They are vital to making sure Canadians have access to safe, healthy and high-quality foods. Our government will continue to use the policy and financial tools available to help the sector grow.

Together, we'll help Canadian agriculture lead the way in providing safe, high-quality food, technical innovation, economic growth and a sustainable approach to agricultural practices, environmental stewardship and climate change.

Agriculture is local and global, deeply rooted and growing in new directions. As Canadians, we can be truly proud of agriculture's contributions to our economy and communities here at home and around the world. In keeping with the open, transparent approach of our government, I'm committed to building strong relationships and listening to the input and ideas of stakeholders.

I'm excited to work with FCC's Board of Directors and employees to support the continued growth and prosperity of Canadian agriculture. I am fully confident in their ability to help us meet the needs of the agriculture sector moving forward.

The Honourable Lawrence MacAulay P.C., M.P.
Minister of Agriculture and Agri-Food

Operational and financial highlights

The global economy experienced slower growth in 2015-16, although demand for food remained strong as the global gross domestic product continued to rise. Overall, farm cash receipts remained strong and farm asset values continued to increase at a slower pace than in past years. With strong food demand, the Canadian agriculture industry must adapt to take advantage of opportunities and remain competitive in the global marketplace.

FCC continued to support agriculture by providing customers with flexible, customized financing solutions and other expertise. Our commitment to advancing the business of agriculture and supporting our customers through all economic cycles has ensured FCC remains relevant to the industry's needs.

FCC continued to produce strong financial results in 2015-16. Growth in loans receivable was $1.3 billion, or 4.9%. The number of loans disbursed was 46,796 and the average size of loans disbursed was $191,689, resulting in net disbursements of $9.1 billion. Net interest income increased by $53.4 million and equity continues to grow with corporate earnings.

For the years ended March 31

Operational highlights

Loans receivable portfolio	2016	2015	2014
Number of loans	143,700	147,230	149,130
Loans receivable ($ millions)	28,656	27,309	26,205
Growth in loans receivable (%)	4.9	4.2	4.3
Impaired loans as a percentage of loans receivable (%)	0.8	1.1	1.2
New lending			
Number of loans disbursed	46,796	47,178	46,288
Net disbursements ($ millions)	9,074	8,555	7,695
Average size of loans disbursed ($)	191,689	178,825	163,649

Financial highlights

Consolidated balance sheet ($ millions)	2016	2015*	2014*
Total assets	29,951	28,616	27,236
Total liabilities	24,597	23,761	23,070
Total equity	5,354	4,855	4,166
Consolidated statement of income ($ millions)			
Net interest income	986.5	933.1	886.0
Provision for credit losses	42.6	(281.4)	(47.6)
Non-interest income	28.8	20.8	43.5
Administration expenses	352.4	328.7	352.9
Fair value adjustment	(4.8)	(2.7)	6.5
Net income	615.5	903.8	630.7

*Restated (see Note 3 of the Notes to the Consolidated Financial Statements for additional details).

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 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 $28 billion and 23 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.

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 also offers alternative financing to the agriculture industry. Venture capital is provided through Avrio Capital, a private entity that manages a series of investment funds on behalf of FCC and other investment partners. FCC's lead as the primary sponsor for each of these funds has attracted additional capital to the agriculture industry from other investors in these venture capital funds as well as individual investment deals. This capital helps innovative firms grow into strong businesses in Canada.

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 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 2015-16. Producers of all ages and in all sectors can access the in-person and online training and information, free of charge. In addition, FCC offers accounting and farm management software tools that enhance our customers' ability to manage their businesses.

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

Young farmers are very important to the agriculture industry. FCC proudly supports them by offering products and services such as the 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 2015-16, Agriculture More Than Ever grew to include more than 450 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

FCC collaborates with Export Development Canada (EDC) and Business Development Bank of Canada (BDC) to support access to international markets for Canadian agribusinesses. FCC and EDC draw 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 exchange information on a variety of topics.

FCC employees and their counterparts at Agriculture and Agri-Food Canada connect on a range of topics important to the agriculture industry, including farmland values, commodity prices and interest rates.

Above all, FCC continued to be self-sustaining and profitable in 2015-16. Our ongoing strength and stability allowed us to serve agriculture through all cycles. We continued to reinvest FCC's profits into agriculture through increased lending to customers and by developing knowledge, products and services.

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 we do to advance the business of agriculture.

With more than 100,000 customers[1] 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 producers and agribusiness operators have choices in the marketplace.

In 2015-16, 40,200 customers received loans or other financial products through one of more than 100 FCC offices located primarily in rural Canada:

Alberta – 7,726
British Columbia – 2,710
Manitoba – 3,150
New Brunswick – 448
Newfoundland and Labrador – 108
Nova Scotia – 553
Ontario – 10,780
Prince Edward Island – 378
Quebec – 4,578
Saskatchewan – 9,751
Yukon – 18

Among these customers, 38,197 are primary producers and 2,003 are agribusiness operators.

In 2015-16, over $2.6 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. Our customer support program allows customers to restructure the terms of their loans to help manage through difficult times. The FCC Ag Crisis Fund also provides modest financial support to customers experiencing a traumatic life event.

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 financing for environmental solutions 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.

[1]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.

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 Privacy Act, Access to Information Act, Canadian Labour Code, Federal Accountability Act, 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 (AAFC), the Treasury Board of Canada Secretariat, the Department of Finance and other federal Crown corporations to ensure our policies and procedures are current and sound. We communicate with Export Development Canada and 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 our products and services meet the needs of the agriculture industry.

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

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.

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 Canada, unless the federal authority determines 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 Canada.

In 2015-16, FCC did not conduct any environmental assessments for projects that fall under sections 67 to 69 of the CEAA 2012:

- projects on federal lands – 0
- projects outside 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 direction. 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.

We take care of the business

The Board is responsible for the overall governance of the corporation. It ensures 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 risks associated with FCC's business have been identified. The Board ensures appropriate authorities and controls are in place, risks are properly managed and the achievement of goals and objectives isn't in jeopardy.

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

Senior FCC managers work closely with the Board to ensure 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 Enterprise Management Team also attend meetings on a rotating basis to strengthen the relationship between the Board and management. Time is set aside at each meeting for the Board and its committees to meet without management present.

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

The Board regularly reviews FCC's compensation structure and annually reviews compensation for the Enterprise Management Team.

In January, the Board met with the President and CEO in a two-day meeting to discuss risk management and the economic outlook for agriculture. The session also focused on FCC's vision for the future of FCC and agriculture in Canada.

Code of conduct, ethics and values

At FCC, acting with integrity and maintaining the highest ethical standards are vital priorities. On appointment and every year during his or her tenure, each director signs a declaration committing to act in accordance with FCC's Code of Conduct and Ethics.

This year, FCC refreshed the Code of Conduct and Ethics. As a result, the corporation rolled out a new online mandatory training program for all employees.

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 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.

Audit Committee

Chair: Jane Halford
Members: Jamie Muir, Doris Priddle 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 the integrity, accuracy and timeliness of FCC's financial performance and audit functions.

In addition to meetings with management, the committee meets independent of management with representatives of the Office of the Auditor General (OAG) of Canada and FCC's internal auditors.

The Board is committed to financial transparency. The OAG 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 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.

Corporate Governance Committee

Chair: Donald Bettle
Members: Sylvie Cloutier, Michael Hoffort (CEO) and Collin May

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: Dale Johnston (Board Chair), Jamie Muir and Brenda Schoepp

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 his 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 Human Resources 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: Dale Johnston (Board Chair), Collin May and Brenda Schoepp

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

FCC has an established enterprise risk management process designed to identify potential events that may affect business operations. 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.

Board performance

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

The Board regularly assesses its collective performance and the individual performances of its directors through a structured self-evaluation process. Position profiles for the Chair and individual directors are reviewed annually to ensure 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.[2]
- 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 2015-16, there were five Board meetings and 19 committee meetings. Total remuneration (annual retainer and per diems) paid to all directors was $163,877.

Total Board travel and related expenses were $123,706, compared to $171,459 in 2014-15.

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

2015-16 Board remuneration, attendance and expenses

Director	Board retainer (A)	Per diems (B)	Total remuneration (A & B)	Board meeting attendance	Committee meeting attendance	Board travel and related expenses
Don Bettle	$ 7,200	$ 11,155	$ 18,355	5 of 5	4 of 4	$ 21,694
Sylvie Cloutier	6,200	9,215	15,415	5 of 5	5 of 5	18,370
Jane Halford	7,200	9,700	16,900	4 of 5	6 of 6	6,617
Brad Hanmer	7,200	3,395	10,595	2 of 5	2 of 4	3,069
Dale Johnston	4,999	–	4,999	4 of 5	7 of 9	5,414
Collin May	6,200	9,215	15,415	4 of 5	8 of 10	9,826
Jamie Muir	6,200	13,095	19,295	5 of 5	10 of 10	17,375
Doris Priddle	6,200	11,640	17,840	5 of 5	5 of 5	16,347
Ross Ravelli	6,200	1,698	7,898	2 of 5	2 of 6	1,626
Brenda Schoepp	6,200	15,035	21,235	5 of 5	7 of 8	15,837
Jason Skinner	7,200	8,730	15,930	5 of 5	5 of 5	7,532
Total	**$ 70,999**	**$ 92,878**	**$ 163,877**			**$ 123,707**

There were five Board, six Audit, four Human Resources, four Corporate Governance, five Risk meetings, and one strategic planning session off-site.

We're responsible for managing FCC effectively

FCC has attracted a senior team of professionals with diverse talents and experience. Our Enterprise Management Team members are sought after as best-practice leaders in their professions and they actively volunteer in their communities. Each member of the team believes that a culture characterized by open communication and trust results in engaged employees who forge great relationships with customers.

The Enterprise Management Team 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.

In 2015-16, the salary range for the President and CEO was set at $257,900 to $303,400. There are two salary ranges for Executive Vice-Presidents. One range is set at $192,855 to $283,610 and the second range is set at $219,465 to $368,815. In addition, all executives receive a variable pay component linked to the performance of the corporation, division and individual.

Board of Directors*

Dale Johnston Owner/operator, mixed farming operation Ponoka County, Alta. Appointed June 23, 2011 Appointed Board Chair December 13, 2012	**Michael Hoffort, P.Ag., ICD.D** President and CEO, FCC Regina, Sask. Appointed July 1, 2014	**Donald Bettle** Owner, cow/calf operation and woodlot Passekeag, N.B. Appointed January 25, 2007 Reappointed February 10, 2010 and February 10, 2013	**Sylvie Cloutier, BA Comm.** President and CEO, Council of Food Processing and Consumer Products Bromont, Que. Appointed April 5, 2012 Reappointed April 5, 2015
Jane Halford Co-founder of BOLT Transition Edmonton, Alta. Appointed December 15, 2014	**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 February 10, 2013	**Collin May** Lawyer 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 Reappointed November 26, 2015	**Ross Ravelli** Owner, Ravelli Farms Ltd. Dawson Creek, B.C. Appointed February 10, 2010 Reappointed February 10, 2013 Resigned March 31, 2016	**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 and March 1, 2015

Enterprise Management Team*

Michael Hoffort President and Chief Executive Officer	**Rick Hoffman** Executive VP and Chief Financial Officer	**Sophie Perreault** Executive VP and Chief Operating Officer	**Corinna Mitchell-Beaudin** Executive VP and Chief Risk Officer
Travis Asmundson Executive VP and Chief Information Officer	**Greg Honey** Executive VP and Chief Human Resources Officer	**Todd Klink** Executive VP and Chief Marketing Officer	**Greg Willner** Executive VP, Law and Corporate Secretary

*Biographies are available at fcc.ca.

Corporate social responsibility

FCC believes in corporate social responsibility. It's part of our values and guides how we operate. Being a good corporate citizen is the right thing to do and is good for business. We focus on efforts that support Canadian agriculture, help our customers succeed, give back to communities across the country, create a great employee experience and reduce our environmental impact.

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 make the industry stronger.

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, we report on our corporate social responsibility performance in the areas listed above. This information is prepared using the Global Reporting Initiative's sustainability reporting guidelines. The Global Reporting Initiative is a non-profit organization that promotes economic sustainability and provides a comprehensive sustainability reporting framework that's widely used around the world.

This is an exciting time for the Canadian agriculture industry and for FCC. We're proud of our progress and our ability to move our corporate social responsibility goals forward so we can continue to make a positive impact on Canadian agriculture.

For details on FCC's corporate social responsibility performance for 2015-16 and previous years, visit fcc.ca/CSRReport.

Management's discussion and analysis

Caution regarding forward-looking statements

This management's discussion and analysis (MD&A) includes forward-looking financial information based on certain assumptions that reflect management's planned course of action with the most probable set of economic conditions. By their nature, assumptions are subject to inherent risks and uncertainties. There is significant risk that actual results may vary and that the differences may be material. Some factors that could cause such differences include changes in general economic and market conditions, including, but not limited to, interest rates.

Basis of preparation of financial information

FCC's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The MD&A is intended to be read in conjunction with the March 31, 2016, Consolidated Financial Statements and the corporate plan documents.

Economic environment

The Canadian agriculture industry operates in a global environment. Multiple economic variables influence the strategic decisions of agricultural producers, agribusinesses and food processors, and impact the profitability of their operations.

Demand for agriculture commodities remains strong as global economy slows

The global economy experienced slower growth in 2015, led by a slowdown in the Chinese economy and developed countries that generally recorded an economic expansion lower than their historical averages. The more sluggish economic environment has weakened the demand for commodities, causing prices to slump, most notably the price of crude oil. The latter market outcome was driven not only by concerns over economic conditions and timid demand expansion, but an increase in global oil production that created a supply glut.

The U.S. economy represented one bright spot in 2015 among the overall economic malaise. Impressive job creation and modest increases in wages convinced the Federal Reserve to raise its key interest rate for the first time in over a decade. This relatively strong economic performance led to a surge in the value of U.S. currency.

Despite weak global economic growth, incomes in emerging market economies continued to increase, raising the demand for food, particularly for animal-based proteins and processed products. The large populations in emerging market economies have a large impact on many agricultural markets.

China imports more than 65% of soybeans that are traded, and it’s also the largest hog-producing country in the world. China’s gross domestic product (GDP) grew at an annual rate of 6.9%, a slower pace than the five-year GDP average of 8.6%, but this had limited effect on demand for agriculture commodities and food. Disposable income of Chinese consumers grew at an annual rate of nearly 9% in 2015, while inflation remained low and stable. China continued to be a growing market for Canadian agriculture.

India is another economy that has a great impact on agricultural markets. Economic growth of 7.3% in 2015, combined with difficult weather conditions that led to a shortfall in pulse production, resulted in a strong demand for Canadian pulses in 2015.

Decline in Canadian dollar benefits farm income

The Canadian economy grew at an annual rate of 1.2% in 2015. The pace of economic activity was slower due to the decline in oil prices that triggered cuts in business investments and layoffs. Price pressures in the commodity markets led the Bank of Canada to cut its key policy rate by 25 basis points early in 2015, a decision subsequently repeated in July. Low borrowing costs allowed agricultural operations and agribusinesses to leverage growth opportunities and make investments to position themselves for long-term success.

The low interest rate environment, coupled with the decline in the price of oil, led the Canadian dollar on a steady path downward. The Canadian dollar lost 16.3% against the U.S. dollar in 2015. Overall, Canadian agriculture benefits from a low dollar as it raises prices paid to Canadian producers. Although some input prices (new farm machinery, fertilizers) have been driven higher, the weaker Canadian dollar supported strong profit margins for Canadian crop, livestock and food-processing sectors.

Consumer preferences are creating opportunities for processors

Food purchasing patterns continue to evolve according to the income, demographics and preferences of Canadian households. Consumers are placing more emphasis on healthy, fresh, convenient foods. This is leading food processors to innovate and increasingly differentiate their products to meet the varied food preferences of consumers.

Agriculture industry overview

FCC advances the business of agriculture by lending money to all agriculture sectors, including primary producers, agribusinesses and food processors. We monitor a number of important factors that influence the short and long-term prospects, profitability and financial health of each sector.

Canadian agriculture is financially healthy. Strong crop receipts and low interest rates have supported growth in farmland values. Conversely, debt levels have not grown as rapidly. Despite a softening of world agriculture commodity prices, the weaker Canadian dollar supported strong farm income in both livestock and crop sectors.

Farm asset values reach record highs

Farmland values increased an average of 10.1% in 2015. This is the third consecutive year that growth in farmland values has declined, suggesting the market is easing after years of strong gains, specifically 14.3% and 22.1% in 2014 and 2013, respectively.[1] Strong farm receipts and continued low interest rates have allowed producers to grow their farm operations.

Farm debt climbs at a slower pace than asset values

Total farm debt reached $91.8 billion at the end of 2015.[2] Debt has increased at an average annual rate of 6.2% over the past 10 years, as producers sought to increase investments to grow their farm operations and remain productive.

Canadian agricultural producers are healthy, with strong balance sheets as farm equity continues to increase. Growth in farm debt is expected to continue to increase, but at a slower pace than the past several years due to lower appreciation in farm asset values.

Trade expands for Canadian agriculture and agri-food

Canada is the fifth-largest exporter of agriculture and agri-food products in the world. The landscape of Canada's access to foreign markets continues to evolve. The U.S. market accounted for 53% of Canadian agriculture and agri-food exports in 2015, compared to 60% in 2005.[3] With strong growth in emerging markets such as China and India, Canada is likely to continue to diversify its exports away from the U.S. market.

The past year has been active on the trade negotiations front. Canada signed the Trans-Pacific Partnership (TPP) agreement along with Australia, Brunei Darussalam, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam in New Zealand on February 4, 2016. Completing the TPP ratification process is expected to take additional time.

Member countries of the World Trade Organization (WTO) concluded negotiations to eliminate export subsidies. The 2015 WTO final ruling on U.S. Country of Origin Labelling (COOL) led the U.S. government to repeal COOL legislation, ending a lengthy dispute between Canadian and U.S. livestock markets. These trade developments should lead to more market access opportunities for Canadian agricultural producers.

Overall primary agriculture profitability is stable

Overall farm cash receipts remained strong, increasing 2.7% in 2015 compared to 2014, driven by strong crop receipts, up 5.2%. Livestock receipts decreased slightly in 2015, with a 0.2% decline over 2014. Only three provinces recorded slightly lower farm cash receipts: Prince Edward Island, Quebec and Manitoba.[4]

[1] Statistics Canada, Table 002-0020 – Balance sheet of the agricultural sector, at December 31, and ratios, annual (dollars unless otherwise noted), CANSIM (database).
[2] Statistics Canada, Table 002-0008 – Farm debt outstanding, classified by lender, annual (dollars), CANSIM (database).
[3] Statistics Canada, based on NAICS Codes.
[4] Statistics Canada, Table 002-0002 – Farm cash receipts, quarterly (dollars).

Available global supply of major crops like corn, soybeans and wheat climbed in 2015, putting downward pressure on prices. Most pulse crops ended 2015 with exceptional prices due to strong demand from India as a result of poor crops and low stocks.

Prices received by hog producers declined slightly in 2015 compared to 2014 as a result of the expansion in the U.S. hog herd, which pushed prices down. Cattle prices remained strong for most of 2015, declining slightly by year-end. Overall, 2015 was a profitable year for cattle producers compared to the historical average.

Oil prices continued to fall in 2015, resulting in downward pressures on the price of some farm inputs. Diesel average prices fell 22% in 2015 compared to 2014 values, while natural gas prices declined 36%. Reduced energy costs improved producer profit margins.

Livestock sectors responding to consumer demands

Consumers have increasing influence on the agri-food supply chain. Some consumer groups continue to express concern about the welfare of Canadian livestock. Canada's livestock sectors are responding by implementing new codes of practice, regulations, and advances in traceability and transparency. The hog and poultry sectors have promoted codes of practice related to the phasing out of gestation crates for hogs and conventional housing for laying hens by 2024.

Sector overview

Cattle prices remain high, but trending toward long-term average

Cash receipts for cattle and calves increased 7% in 2015 over 2014. The cattle herd is being rebuilt in the United States as cattle inventories have been trending upward since July 2014. Despite greater heifer retention, available U.S. beef supply grew in 2015 because of higher cattle marketing weights and increased imports. Larger supply led to a reduction in U.S. cattle prices. As a result of the Canadian and U.S. cattle sectors being so integrated, this spilled over to the Canadian market. The decline of the Canadian dollar mitigated the price pressures for Canadian producers. Overall profitability of cow-calf operations has remained strong. Feedlot operations recorded profits in the first half of 2015 and experienced tighter margins in the second half of the year.

Challenges and opportunities ahead for the dairy industry

The consumption of butter, cream and yogurt in Canada is trending upward. Canadian stocks of butter in 2015 remained stubbornly low despite increased production and special permits to import foreign butter. The higher demand for butterfat stemming from the increased demand of consumers created a challenge for the industry regarding the resulting surplus of non-fat solids – mostly proteins. This surplus was compounded by the growth in import of dairy ingredients (proteins). Cheaper imports displaced domestic proteins normally used in the production of cheese and yogurt towards lower-value milk classes. In addition, world dairy prices were low in 2015. This impacted the price paid to producers because as much as 20% of all industrial milk (quantities marketed in class 4m and 5) is priced according to the world market. The end result was pressure on the milk price paid to producers.

Some uncertainty related to international trade negotiations has been lifted. Yet, full implementation of the Trans-Pacific Partnership (TPP) and the Comprehensive Economic Trade Agreement (CETA) with Europe is years away. With the benefit of greater certainty on the trade issues, changes to Canadian dairy policy and milk supply management can now be pursued. A national dairy ingredient strategy was negotiated with the intent to find value for skim milk products, develop dairy-processing capacity and raise producer revenues.

Grain and oilseed production second-highest in Canadian history

Total Canadian grain and oilseed production in 2015 was estimated to be 83.9 million metric tonnes, a 3.0% increase from 2014 levels. This is the second-highest production level after the record harvest of 2013, despite portions of Western Canada experiencing dry conditions for most of the growing season.

Wheat, canola, corn and soybean prices for the year were slightly below their five-year historical averages. Projections are that world inventories of corn and soybean will be higher at the end of the 2015-16 crop year due to higher U.S. production and stocks. Producer margins continued to tighten in 2015-16, but have remained positive on average. The lower Canadian dollar helped compensate for the lower prices listed in U.S. dollars in the North American market.

AAFC's 2016 Canadian Agricultural Outlook and the United States Department of Agriculture (USDA) Agricultural Projections to 2025 state that grain and oilseed prices will likely remain above their respective historical averages. This will be driven by increased demand from developing countries for coarse grains and oilseeds, along with domestic demand from livestock producers, biofuel manufacturers and vegetable oil crushers.

Worldwide demand for fertilizer has weakened similar to other major global commodities. While global fertilizer prices declined, the weak Canadian dollar resulted in domestic fertilizer prices being flat.

Greenhouse, nursery and floriculture producers post higher revenues

Positive profit margins occurred in 2015 for greenhouse, nursery and floriculture operations as growers took advantage of low energy prices and improved cash receipts. Overall, natural gas prices trended lower by 36% in 2015 compared to the previous year.[5]

Cash receipts from greenhouse vegetables were 2.9% higher in 2015 compared to 2014. Receipts for field vegetables and floriculture were up 6.5% and 3.6%, respectively.

The North American demand for greenhouse products remains strong. Although production acres are increasing annually, the volume is simply keeping pace with consumer demand. Canadian operations are facing increased competition as Mexico and other countries increase their acres under glass. However, the value of the loonie continues to be favourable for Canadian greenhouses, pushing prices up along the entire Canadian supply chain.

Hog producers growing exports to the United States

Profit margins of hog producers in 2015 declined compared to the strong levels observed in 2014. This is mostly the result of lower prices due to the U.S. hog herd rebuilding, which triggered lower hog prices. However, the decline in the Canadian dollar protected producers from even tighter margins.

Canadian hog inventories were up 0.7% on January 1, 2016, compared to January 1, 2015.[6] Federally and provincially inspected hog slaughter increased by 4.2% in 2015 compared to 2014.[7] Hog exports to the United States continued to grow, with a 15% increase in 2015 compared to 2014. The repeal of U.S. COOL legislation is positive for the hog industry and will further boost Canadian hog exports to the U.S. market.

Poultry and egg production is stable

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. Poultry and egg products are used domestically and only a small amount is sold internationally.

[5] Statistics and Data Development Branch, Economics and Competitiveness Division, Alberta Agriculture and Rural Development.
[6] Statistics Canada, Table 003-0100 – Hogs statistics, number of hogs on farms at end of semi-annual period (head), CANSIM (database).
[7] Agriculture and Agri-Food Canada – Statistics and Market Information – Red Meat Market Information

Chicken slaughter increased 3.4% in 2015 compared to 2014. Chicken cash receipts experienced little growth in 2015, increasing 0.7% in 2015 over 2014. Overall egg production increased 5.5% in 2015 compared to 2014. Total Canadian egg receipts were up 5.5%.[8]

Agribusiness and food processors face challenging demand conditions

Agribusinesses provide inputs or goods and services to primary producers, while agri-food operations purchase and process the outputs of primary producers. Evolving consumer preferences continue to present opportunities for processors. Food manufacturing real GDP in December 2015 was up 1.2% over the December 2014 real GDP period.[9]

Food processors are also facing challenges. Canada's food manufacturing trade balance faces strong import penetration. The trade deficit with the United States for secondary beverage and food totalled $1.3 billion at the end of 2015. The trade deficit with the rest of the world reached a record high of $6.2 billion. The decline of the Canadian dollar also increased the competitiveness of Canadian processors in export markets, but it's not likely to be enough to grow the sector as productivity is the most significant driver of competitiveness.

One of the most commonly cited challenges in Canada's food sector is the growing regulatory challenge to bring products to the domestic market and then move them to global markets. The shortage of qualified labour throughout the country remained a challenge for most of 2015. A slower economy and the resulting increase in the unemployment rate have softened the shortage of qualified labour for processors, yet pressures to recruit and retain workers still exist.

Sales of new farm equipment experienced a significant downturn in 2015, down 13.5%. Sales of four-wheel-drive tractors and combines were down 25.8% and 33.3% respectively compared to the previous year, due in part to exceptionally high sales in 2014, although lower commodity prices also contributed to the lower sales. Equipment dealers were generally able to compensate for lower new equipment sales with increased revenues from sales and service of used equipment.

[8] Statistics Canada, Table 003-0022 – Production and disposition of eggs, monthly (layers unless otherwise noted), CANSIM (database).
[9] Statistics Canada, Table 379-0031 – Gross domestic product (GDP) at basic prices.

Current and potential impacts for FCC

Canadian agriculture is financially healthy and FCC experienced growth this year in all major business lines, including primary production, agri-food operations and agribusinesses. Although the global and Canadian economies have been slowing down, FCC still anticipates continued growth in the agricultural sectors and our lending portfolio across all sectors. We balance risk by having a well-diversified lending portfolio and we achieve this by financing customers involved in all areas of agriculture across Canada.

FCC has experienced 23 consecutive years of portfolio growth. A key element of continued financial viability is prudent cost management and operational efficiency balanced against the requirements of a growing enterprise. We maintain our track record of efficiency and strong financial performance, and we operate in a manner that is mindful of the climate of fiscal constraint. We continue to focus on delivering services in an efficient manner and optimizing how the corporation operates enterprise-wide.

FCC remains financially strong. Along with $5.6 billion in equity and loan loss reserves, we continue to enhance our strong risk management practices to keep pace with the growing complexity of the business. FCC manages capital in compliance with our Board-approved capital management policy and framework, and we currently operate above the targeted capital level.

FCC continues to closely monitor external and internal trends, assess their implications and create proactive strategies to address those implications.

Strategic overview

Our strategic direction is aligned with our mandate, including our mission and vision, and with the direction from the Government of Canada and the Minister of Agriculture and Agri-Food's statement of priorities.

To achieve our vision and mission, we've developed objectives and initiatives that are categorized under five themes. These themes – great customer relationships, high-performance culture, sustainable business success, enterprise risk management, and operational efficiency – are based on FCC's strategic assets. Strategic assets are the reasons customers choose FCC over our competitors. They can't be easily duplicated and are essential to the corporation's long-term success. Together, these five themes form the foundation of our business strategy, as illustrated on FCC's strategy map on the following page.

Within each theme, FCC sets one- to five-year plan performance measures (Plan) that define how we'll measure our progress each year against the objectives set out in the strategy. The overall approach for 2015-16 was to stay the course, with a continuing focus on risk management and customer experience.

We use a corporate scorecard to monitor and measure progress against our strategy. When we accomplish our corporate objectives within the five themes, FCC is successful and we achieve our vision and mission.

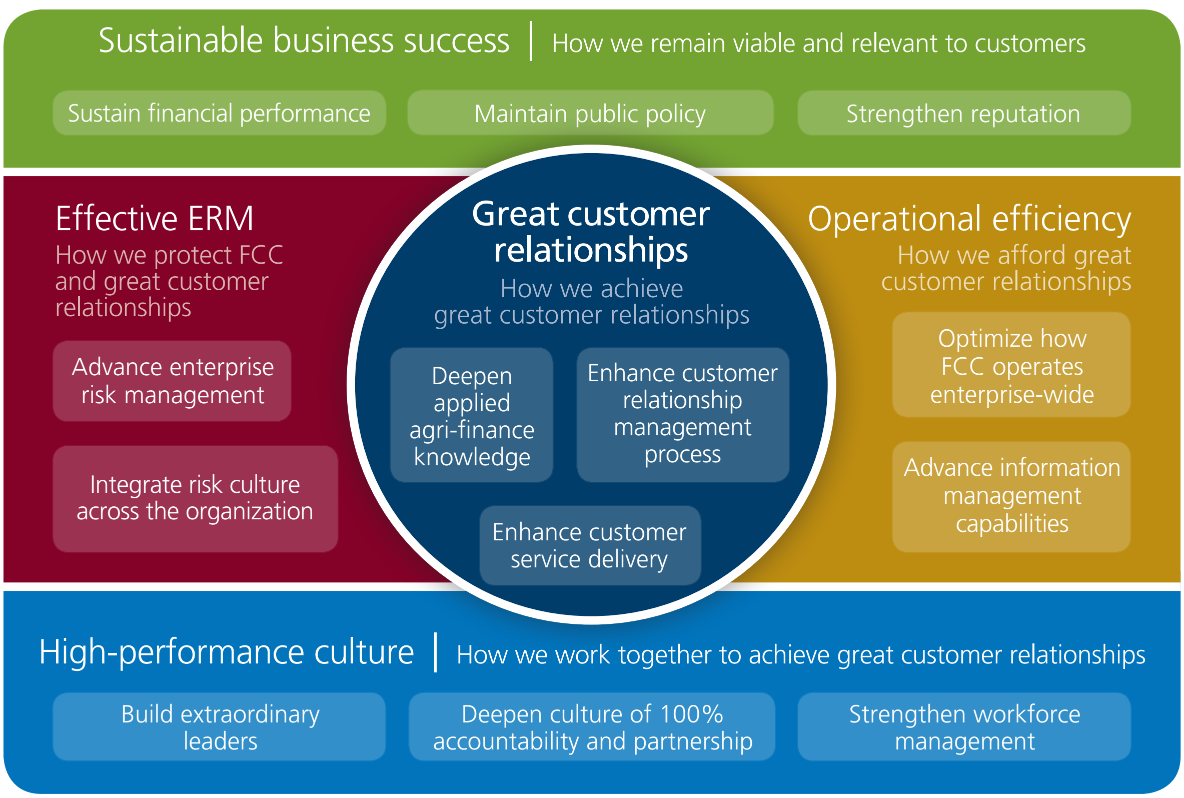
FCC 2015-16 corporate strategy map

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.



Sustainable business success

How we remain viable and relevant to customers

Performance Measures	2013-14 Result*	2014-15 Result*	2015-16 Plan*	2015-16 Actual	2016-17 Plan*	2017-18 Plan*
Sustain financial performance						
Net income	$630.7 million	$903.8 million	$530.7 million	$615.5 million	$542.1 million	$561.0 million
Return on equity	17.1%	20.7%	10.6%	12.3%	9.8%	9.3%
Capital adequacy measure	> 100%	136%	Total capital ratio > 15%	16.7%	17.5%	18.3%
Maintain public policy						
Percentage of customer count in small and medium-sized segments[10]	N/A – new measure in 2014-15	94%	> 80%[10]	86%	> 80%	> 80%
Young farmer lending	$2.3 billion	$2.4 billion	$2.35 billion	$2.63 billion	$2.45 billion	$2.55 billion
Strengthen reputation (with all stakeholders)						
Media favourability	10 points above global average for financial institutions	10 points above global average for financial institutions	7 points above global average for financial institutions	9 points above global average for financial institutions	N/A	N/A

*Restated (see Note 3 of the Notes to the Consolidated Financial Statements for additional details).

[10] The methodology for calculating this measure changed between 2014-15 and 2015-16. As a result, Plan has also changed from >90% to >80%.

Key results – 2015-16 Corporate Plan objectives

Sustain financial performance

FCC is committed to remaining financially viable and self-sustaining in the long term while investing in the agriculture industry and forging valuable partnerships. Three measures and three corporate initiatives have been put in place to achieve this objective. Net income, return on equity and capital adequacy exceeded Plan. Corporate initiatives for this theme were a continued focus on expense management, implementing the capital management framework, and evaluating and enhancing loan pricing. These initiatives were delivered as planned.

Maintain public policy

As a Crown corporation, FCC plays an important role in filling financing gaps for Canadian producers and agribusiness operators. The agriculture industry is often affected by volatility in commodity prices, adverse weather conditions, livestock and crop diseases, and trade implications. FCC takes a long-term view and remains committed to customers and the industry in difficult times by providing steady access to capital. FCC has two measures and one corporate initiative to track progress on this objective. Young farmer lending exceeded Plan, while the percentage of small and medium-sized segments was achieved. The corporate initiative for this objective was to encourage positive dialogue about Canadian agriculture in partnership with industry stakeholders. This initiative was delivered as planned.

Strengthen reputation with all stakeholders

Customers want to deal with companies that have high values and standards. FCC's reputation and progress on this objective is tracked through an external media favourability index that measures media coverage about the corporation. The media favourability index exceeded Plan. Enhance the integrated multi-stakeholder strategy and develop a strategy to create and sustain relationships with credit unions and financial institutions are the corporate initiatives for this objective. These initiatives were delivered as planned.

Great customer relationships

How we achieve great customer relationships

Performance Measures	2013-14 Result	2014-15 Result	2015-16 Plan	2015-16 Actual	2016-17 Plan	2017-18 Plan
Enhance customer service delivery						
Customer Experience Index – Easy to do business sub-index	62.0%	63.7%	62.5%	62.06%	62.5%	63.0%
Deepen applied agri-finance knowledge						
Enhance customer relationship management process						
Customer experience index	62.4%	63.6%	62.0%	62.78%	62.0%	62.5%

Key results – 2015-16 Corporate Plan objectives

Enhance customer service delivery

FCC strives for lending processes that are efficient, integrated and consistent, allowing FCC to effectively manage risk while providing customers with an extraordinary experience. Progress on this objective is tracked through the easy to do business sub-index measure from the Customer Experience Index (CEI). FCC was slightly below Plan on this measure. One corporate initiative was planned for this objective – to design the next FCC experience. As part of this initiative, extensive work was completed in 2015-16 to understand opportunities to improve the customer experience. Recommendations from the work completed in 2015-16 will be implemented in 2016-17 and beyond, which FCC expects to result in an enhanced customer experience.

Deepen applied agri-finance knowledge

We're proud of our knowledgeable lending team, which is responsive and solution-focused, and understands agricultural risk and applies its knowledge every day to serve FCC's customers. Two corporate initiatives – enhance knowledge offerings for employees and enhance knowledge offerings for customers – were delivered as planned.

Enhance customer relationship management process

FCC's approach to customer relationship management is proactive, innovative and highly disciplined. Customer feedback gathered through the CEI is analyzed and shared with front-line employees to promote continual learning that strengthens their relationships with customers. FCC achieved Plan for the CEI in 2015-16. The corporate initiative, to redefine the relationship management process, was delivered as planned.

Effective enterprise risk management

How we protect FCC and great customer relationships

Performance Measures	2013-14 Result	2014-15 Result	2015-16 Plan	2015-16 Actual	2016-17 Plan	2017-18 Plan
Advance enterprise risk management						
ERM maturity measure	2.9	3.2	3.6	3.6	>3.5	>3.5
Integrate risk culture across the organization						

Key results – 2015-16 Corporate Plan objectives

Advance enterprise risk management

FCC applies an enterprise risk management approach to manage risks across the corporation in a consistent, co-ordinated manner. FCC uses an ERM maturity measure to track progress on this objective and achieved a score of 3.6 as planned. The two corporate initiatives – implement the enterprise risk management program and the operational risk management framework – were delivered as planned.

Integrate risk culture across the organization

The objective to integrate risk culture across FCC requires that employees understand the corporation's risk appetite statement and base decisions to take, avoid or accept risk within the spirit of the statement. While there is no measure associated with this objective, there is one corporate initiative – increase employee understanding and accountability for risk management across FCC – that was delivered as planned and will continue into 2016-17.

Operational efficiency

How we afford great customer relationships

Performance Measures	2013-14 Result*	2014-15 Result*	2015-16 Plan*	2015-16 Actual	2016-17 Plan*	2017-18 Plan*
Optimize how FCC operates enterprise-wide						
Efficiency ratio	38.9%	34.7%	39.6%	35.2%	38.2%	38.2%
Employee engagement – Easy to do business	76.2% (1.6% below the average of the 50 Best Employers)	75.6% (1.8% below the average of the 50 Best Employers)	Greater than the average of the Platinum and Gold employers[11]	78.4% (0.4% higher than the average of the Platinum and Gold employers)	Greater than the average of the Platinum and Gold employers	Greater than the average of the Platinum and Gold employers
Advance information management capabilities						

*Restated (see Note 3 of the Notes to the Consolidated Financial Statements for additional details).

Key results – 2015-16 Corporate Plan objectives

Optimize how FCC operates enterprise-wide

FCC continually seeks better ways for employees to perform their work and to simplify interactions for customers. FCC has two measures and one corporate initiative to track progress on this objective. FCC exceeded the efficiency ratio Plan and met the employee engagement – easy to do business Plan, which tracked slightly higher than the average of the Platinum and Gold employers. The enhance core lending systems and processes initiative was delivered as planned.

Advance information management capabilities

Managing corporate information will help FCC become more efficient and effective. FCC delivered the two corporate initiatives – execute the risk technology project and advance information security and privacy capabilities – for this objective.

[11] AON Hewitt has moved from reporting the average of the 50 Best Employers, to providing data for Platinum and Gold employers. As a result, FCC will report against the Platinum and Gold employers' average.

High-performance culture

How we work together to achieve great customer relationships

Performance Measures	2013-14 Result	2014-15 Result	2015-16 Plan	2015-16 Actual	2016-17 Plan	2017-18 Plan
Build extraordinary leaders						
Leadership index: subset of employee engagement survey data with respect to leadership indicators	79.8% (7.6% above the average of the 50 Best Employers)	77.6% (5.8% above the average of the 50 Best Employers)	Greater than the average of the Platinum and Gold employers	80.7% (7.2% greater than the average of the Platinum and Gold employers)	Greater than the average of the Platinum and Gold employers	Greater than the average of the Platinum and Gold employers
Deepen culture of 100% accountability and partnership						
Employee engagement	81.0% (3.0% above average of 50 Best Employers)	79.0% (2.0% above the average of the 50 Best Employers)	Greater than the average of the Platinum and Gold employers	83.0% (5.0% greater than the average of the Platinum and Gold employers)	Greater than the average of the Platinum and Gold employers	Greater than the average of the Platinum and Gold employers
Employee experience index: subset of employee engagement survey data related to employee experience	79.8% (4.0% above average of 50 Best Employers)	78.4% (3.2% above the average of the 50 Best Employers)	Greater than the average of the Platinum and Gold employers	79.4% (3.8% greater than the average of the Platinum and Gold employers)	Greater than the average of the Platinum and Gold employers	Greater than the average of the Platinum and Gold employers
Strengthen workforce management						
Diversity measure	Diversity gap reduced by 17	Net hire of -4	Hire 6 new diversity candidates from the designated groups where we have gaps	23 (11 were hired on a permanent basis, 11 on 6-month terms and 1 on a short-term basis)	Hire 16 new diversity candidates from the designated groups where we have gaps	Hire 16 new diversity candidates from the designated groups where we have gaps

Key results – 2015-16 Corporate Plan objectives

Build extraordinary leaders

Strong and consistent leaders support a great employee experience and lead to increased ability to attract and retain the skills needed to carry out FCC's strategy. To measure the quality of leadership across the corporation, FCC has developed a leadership index (sub-index of employee engagement survey data) to gauge employee perceptions about the effectiveness of their leaders. FCC achieved Plan and delivered the renewed leadership development program corporate initiative as well.

Deepen culture of 100% accountability and partnership

FCC's culture of 100% accountability is the foundation of the overall employee experience. To measure performance on creating the desired employee experience, FCC monitors and analyzes overall employee engagement, which is a composite of numerous processes and programs that are key to sustaining the desired culture. They include workforce planning, succession planning, talent reviews and diversity initiatives. FCC also measures the employee experience, a sub-index of the employee engagement score that measures how employees feel about their workplace environment. FCC met both the employee engagement and the employee experience index Plan and delivered both the three-year culture strategy and culture fundamentals corporate initiatives.

Strengthen workforce management

Workforce management is a strategic business process that helps FCC make the right talent decisions to deliver on business priorities. This process is essential to FCC's continuing success because it ensures the corporation has the knowledge, skills and attributes to meet our long-term goals. One of the ways we measure our workforce management performance is through the diversity measure. The target for the diversity measure was changed in 2015-16 to provide an accurate measurement of diversity attraction. FCC exceeded the Plan and two corporate initiatives were delivered as planned. We implemented a comprehensive succession strategy and also renewed our diversity strategy, with a focus on retention and our employment equity plan.

2016-17 strategy

For 2016-17, FCC will put increased focus on the customer experience. While the framework and foundation of the strategy map will remain similar to 2015-16, there have been some adjustments to the overall strategic approach. Four of the five themes will remain unchanged in 2016-17, while the theme of operational efficiency will become execution excellence. After several years of focus on right-sizing FCC's business operations, operational efficiency has become central to how we operate.

The move to focus on execution excellence is about ensuring we can deliver great customer experiences. This will be done by optimizing processes, tools and systems while advancing information capabilities and enhancing FCC's investment in technology.

Canadian agriculture is changing at an incredible pace and it's important that we go beyond meeting the needs of our customers to anticipating what they'll need in the future. To do this, FCC needs to invest in technology to keep pace with evolving customer expectations and to ensure we can continue to deliver a great customer experience – today and into the future.

FCC will continue to use a corporate scorecard to monitor and measure progress against the corporate strategy. The 2016-17 FCC corporate strategy map is shown on the following page.

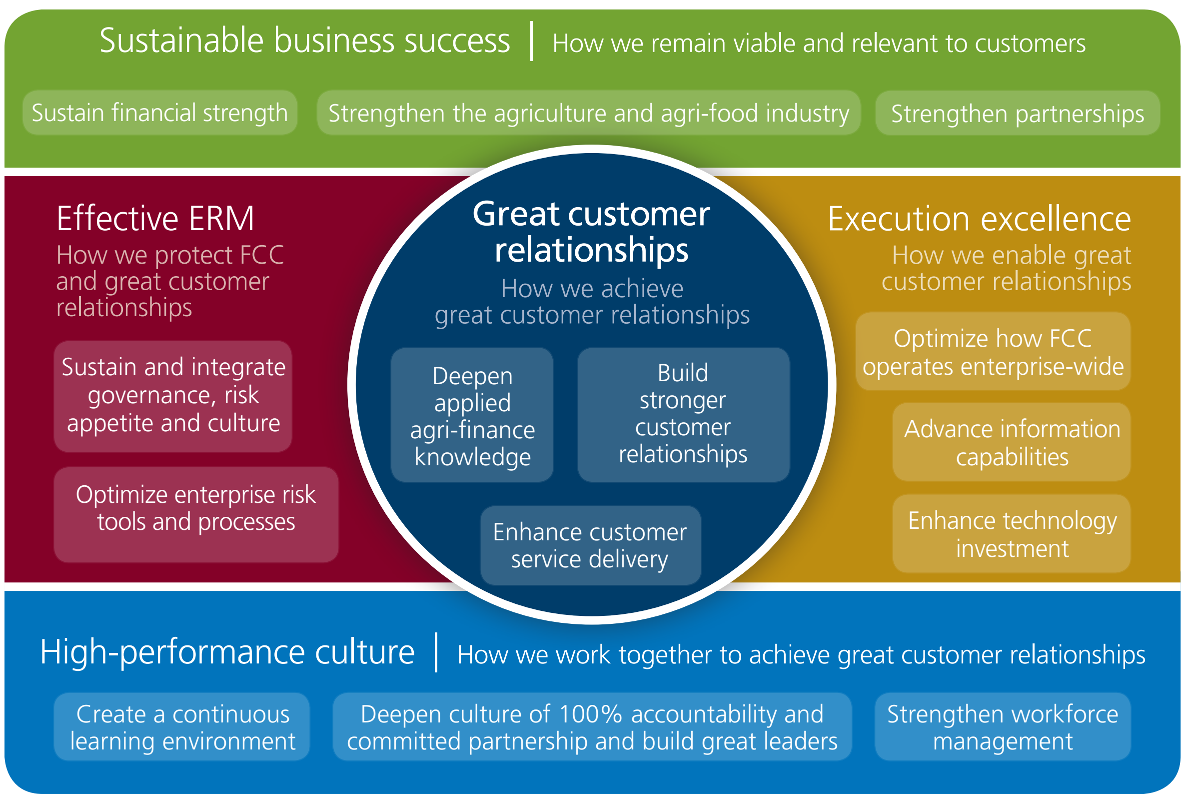
FCC 2016-17 corporate strategy map

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.

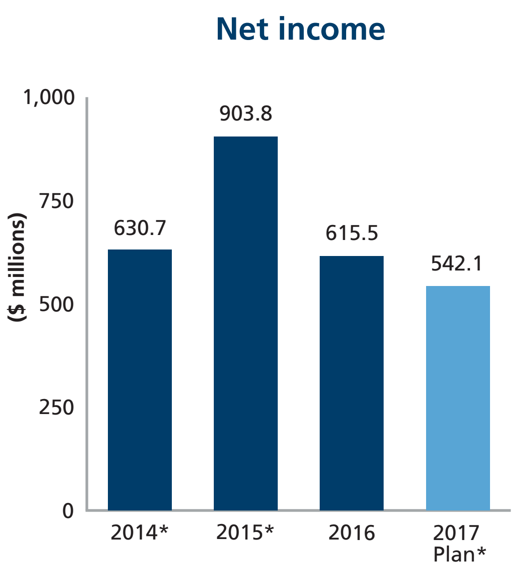


Financial performance review

Consolidated operating results

Net income overview

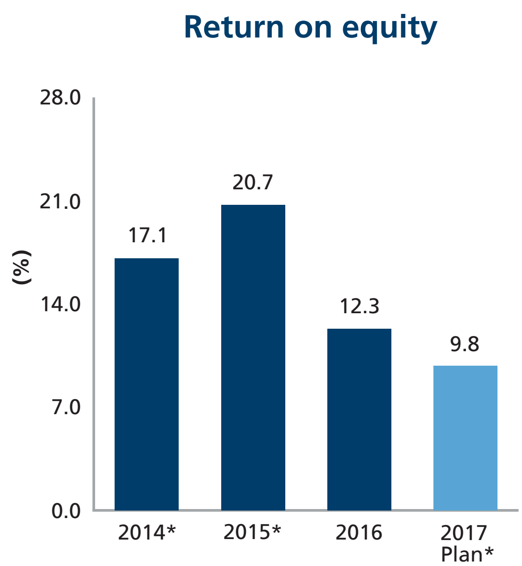
FCC's 2015-16 net income decreased by $288.3 million from the previous fiscal year primarily due to a large recovery of provision for credit losses incurred in 2014-15 and higher administration expenses. The recovery was a result of enhancements made in credit risk measurement and loan loss estimates to better reflect the corporation's historical loss experience. These factors were partially offset by an increase in net interest income and non-interest income. Net income is projected to decrease by 11.9% in 2016-17 mainly due to increased administration expense and provision for credit losses as well as a lower net interest income and non-interest income.



*Restated (see Note 3 of the Notes to the Consolidated Financial Statements for additional details).

Return on equity

Return on equity decreased to 12.3% in 2015-16 from 20.7% in 2014-15 primarily due to lower net income. Return on equity is projected to decrease to 9.8% in 2016-17 as equity grows at a faster pace than net income.



*Restated (see Note 3 of the Notes to the Consolidated Financial Statements for additional details).

Net interest income and margin

Changes in portfolio volume and net interest margin 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

As at March 31 ($ millions)	2016		2015*		2014*	
	Average balance	Rate	Average balance	Rate	Average balance	Rate
Earning assets:						
Fixed loan principal balance	$ 11,363.4	4.03%	$ 9,670.1	4.37%	$ 9,275.8	4.53%
Variable loan principal balance	16,409.9	3.67%	16,899.6	3.94%	16,184.2	3.98%
Investments	1,293.0	0.67%	1,135.2	1.04%	1,086.8	1.06%
Venture capital investments	37.6	10.11%	26.5	5.69%	9.9	4.51%
Total earning assets	$ 29,103.9	3.80%	$ 27,731.4	4.09%	$ 26,556.7	4.18%
Total interest-bearing liabilities	$ 24,247.1	0.49%	$ 23,349.3	0.86%	$ 22,596.9	0.99%
Total interest rate spread		3.31%		3.23%		3.19%
Impact of non-interest-bearing items		0.01%		0.09%		0.12%
Net interest margin		**3.32%**		**3.32%**		**3.31%**

*Restated (see Note 3 of the Notes to the Consolidated Financial Statements for additional details).

In 2015-16, both variable and fixed interest lending rates decreased compared to 2014-15. The fixed lending rates continued a downward trend as new and renewed lending was impacted by the lower interest rate environment. Variable lending rates decreased due to a drop in the prime interest rate in the second quarter of 2015-16, compounded by the previous prime interest rate decrease in the fourth quarter of 2014-15. Interest on investments was lower due to lower short-term investment rates. Venture capital investment rates increased in 2015-16 primarily due to interest earned from the growing Avrio Subordinated Debt Funds.

In 2015-16, interest rates on the corporation's interest-bearing liabilities were lower than 2014-15. This is primarily due to the decrease in the prime interest rate.

The corporation funds a portion of its loan portfolio using its available equity. Non-interest-bearing items are earning 3.80% and contributed an additional 0.01% on the average assets. This decreased primarily due to a reduction in short-term interest rates tied to the drop in the Bank of Canada's overnight rate.

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

For the year ended March 31($ millions)	2017 Plan*	2016	2015*	2014*
Net interest income	$ 977.1	$ 986.5	$ 933.1	$ 886.0
Average total assets	30,818.6	29,748.8	28,104.4	26,769.9
Net interest margin (%)	3.17	3.32	3.32	3.31
Year-over-year change in net interest income due to:				
Increases in volume	29.5	45.0	34.7	44.0
Changes in margin	(38.9)	8.4	12.4	(12.0)
Total change to net interest income	**$ (9.4)**	**$ 53.4**	**$ 47.1**	**$ 32.0**

*Restated (see Note 3 of the Notes to the Consolidated Financial Statements for additional details).

FCC's net interest income increased by 5.7% in 2015-16 to $986.5 million. Average total assets increased by 5.9% to $29,748.8 million primarily due to increased loans receivable. Net interest margin remained the same as the prior year. Net interest margin is expected to decrease to 3.17% in 2016-17 due to fixed earning assets re-pricing in the lower interest rate environment.

Non-interest income

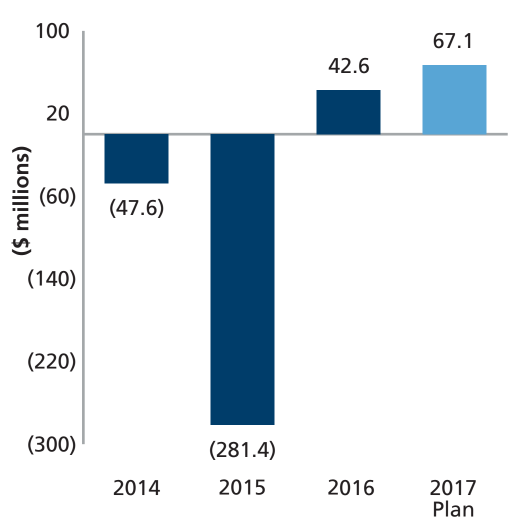
FCC generated non-interest income of $28.8 million through FCC Insurance, FCC Management Software and Investment in associates. This was an increase compared to 2014-15 and was primarily due to increased net insurance income and investment in associates. Non-interest income is expected to be $20.8 million in 2016-17.

Provision for credit losses

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

The provision for credit losses increased by $324.0 million from 2014-15 to $42.6 million. The significant increase was a result of the recovery incurred in 2014-15 primarily due to a one-time adjustment to the allowance for credit losses, which was a result of enhancements made in credit risk measurement and loan loss estimates to better reflect the corporation's historical loss experience. In 2016-17, the provision is expected to increase to $67.1 million, mainly due to portfolio growth and consistent portfolio credit risk. The allowance as a percentage of closing loans receivable is expected to be 0.8%.

Provision for credit losses



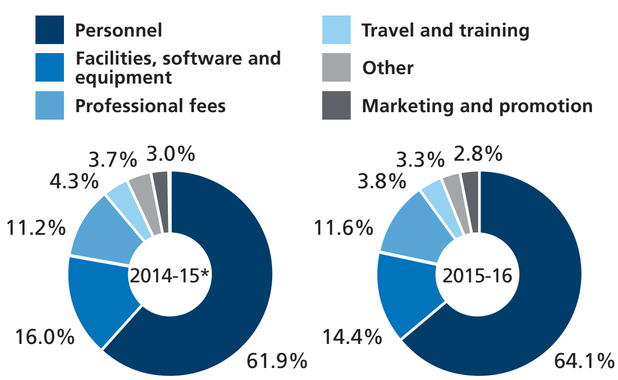
Administration expense

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 lower efficiency ratio indicates more efficient use of corporate resources. FCC's efficiency ratio increased from 34.7% in 2014-15 to 35.2% in 2015-16 primarily due to increased administration expenses, partially offset by higher net interest income.

The increase in administration expense was primarily due to an increase in pension expense related to the defined benefit pension plan, personnel costs required to support business growth and professional fees, which were partially offset by decreased facilities, software and equipment expense.

As indicated in the chart below, personnel expenses were the largest component representing 64.1% of the total administration expenses in 2015-16.

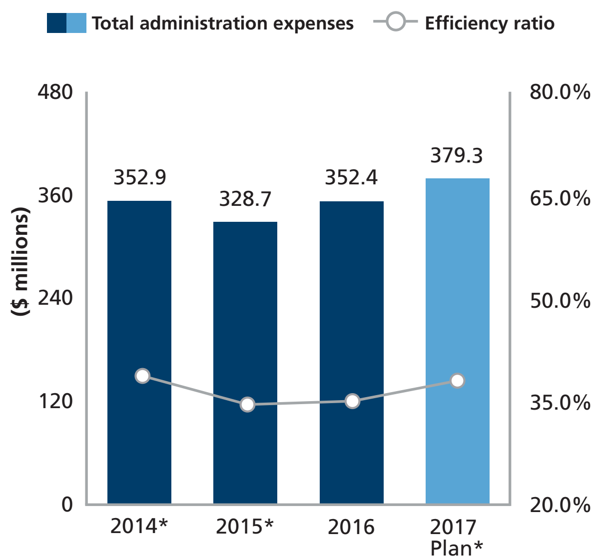
Administration expenses by category



*Restated (see Note 3 of the Notes to the Consolidated Financial Statements for additional details).

Total administration expenses are projected to increase to $379.3 million in 2016-17 and the efficiency ratio is expected to rise to 38.2% mainly due to expected increases related to depreciation attributed to investment under the enterprise risk management program completed in 2015-16, project initiatives, facilities costs and general inflation partially offset by a higher net interest income. FCC will continue to focus on delivering services in an efficient manner and optimizing how it operates enterprise-wide.

Administration expenses



*Restated (see Note 3 of the Notes to the Consolidated Financial Statements for additional details).

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 cash flows adjusted for risk. FCC's fair value adjustment amount includes changes in the fair value of long-term debt designated at fair value, guarantees, derivative financial assets and liabilities, and Avrio Subordinated Debt Funds. Fair value adjustment decreased by $2.1 million in 2015-16 to ($4.8) million primarily due to a decrease in the fair value of Avrio Subordinated Debt Funds and derivative instruments. Fair value adjustment is expected to decrease to ($9.4) million in 2016-17. For additional information regarding the calculation of fair value adjustment, refer to Notes 5, 19 and 20 of the Notes to the Consolidated Financial Statements.

Business lines

Overview

FCC provides financing, insurance, learning programs, software 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:

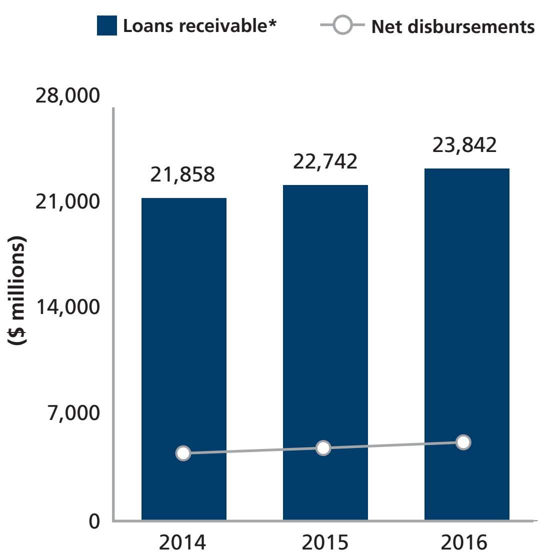
- primary production financing
- agribusiness and agri-food financing
- FCC Alliances
- FCC Ventures
- FCC Insurance
- FCC Learning
- FCC Management Software

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 83.1% of FCC's total loans receivable balance in 2015-16. Loans receivable for primary production increased $1,100 million from 2014-15, resulting in a portfolio of $23,842 million in 2015-16. The rate of loans receivable growth increased to 4.8% from 4.0% the previous fiscal year. The main driver of growth in the primary production financing portfolio was net disbursements growth of 7.8% from 2014-15 to $5,388 million.

Primary production financing

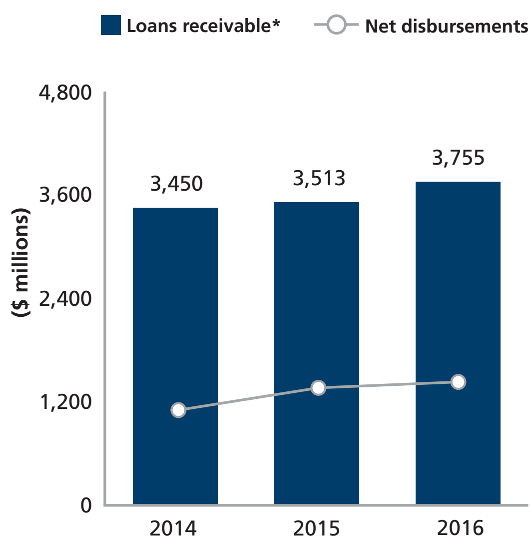


*Excludes deferred loan fees.

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

Agribusiness and agri-food financing loans receivable increased 6.9% from 2014-15 to $3,755 million in 2015-16. Net disbursements increased by 5.0% to $1,386 million.

Agribusiness and agri-food financing

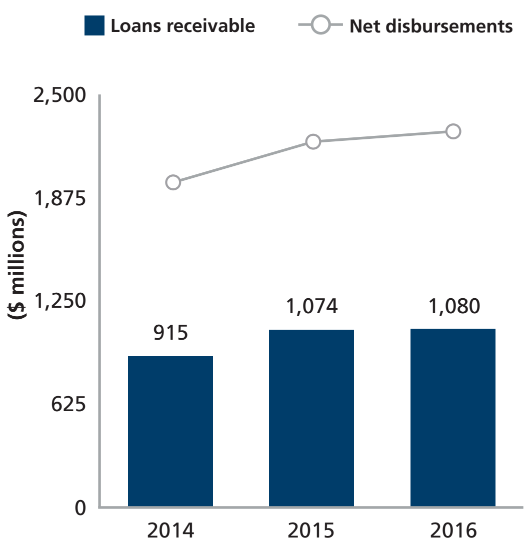


*Excludes deferred loan fees.

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

FCC Alliances loans receivable increased by 0.5% from 2014-15 to $1,080 million in 2015-16. Net disbursements increased by 2.8% to $2,300 million. Disbursements during the year exceeded loans receivable at the end of the year due to the short-term nature of the lending products in this business line.

FCC Alliances



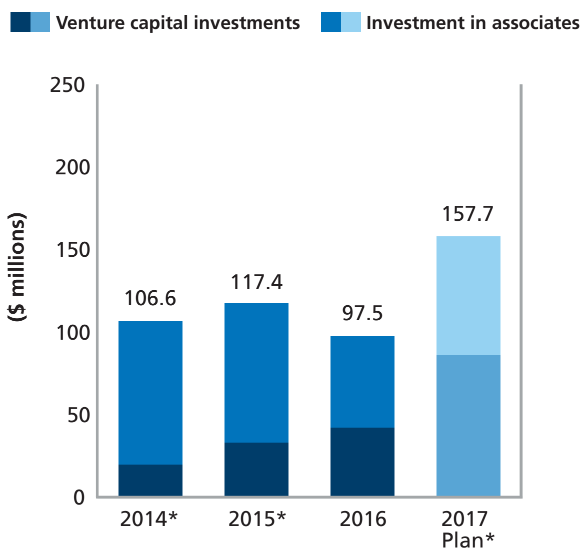
FCC Ventures is the corporation's venture capital business line addressing the need for alternative financing in the agriculture industry. The investment objectives are focused on commercialization-to-growth or the recapitalization of mature businesses in the industrial bio-products, nutraceutical ingredients, food and agricultural technology sectors.

The venture capital portfolio includes five limited partnership funds managed by Avrio Capital Inc. Avrio Equity Funds are equity investment funds and make up the investment in associates balance. Avrio Subordinated Debt Funds are consolidated in our financial statements and focus exclusively on subordinated lending. Investments through Avrio Subordinated Debt Funds are shown on the financial statements as venture capital investments.

Avrio Equity Fund I, Avrio Equity Fund II and Avrio Subordinated Debt Fund I are closed to new investments. During the year, the remaining investments in Avrio Equity Fund I were exited. New investors joined Avrio Equity Fund III during the year, bringing total committed capital from $65.7 million to $108.0 million. New investments are being made through the Avrio Subordinated Debt Fund II and Avrio Equity Fund III.

In 2015-16, FCC Ventures earned $15.8 million in income which is higher than the $7.4 million earned last year and is primarily related to the gains realized from divestitures, fair value gains and interest income. Investment in associates decreased from $84.2 million in 2014-15 to $55.5 million primarily due to the exit of remaining investments in Avrio Equity Fund I in 2015-16. Venture capital investments increased from $33.2 million in 2014-15 to $42.0 million in 2015-16 due to additional subordinated lending. It is expected that investment in associates will increase in 2016-17 to $71.7 million due to fair value gains in Avrio Equity Fund II and new investments in Avrio Equity Fund III. Venture capital investments are expected to increase to $86.0 million as a result of new lending in Avrio Subordinated Debt Fund II.

FCC Ventures



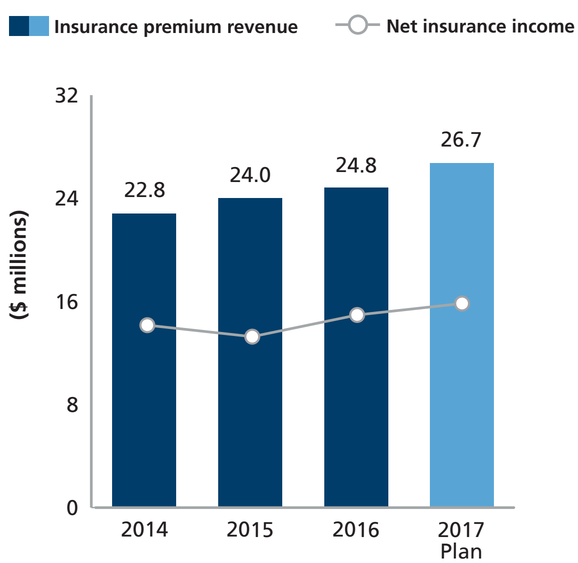
*Restated (see Note 3 of the Notes to the Consolidated Financial Statements for additional details).

Since the inception of FCC Ventures, FCC has provided $194.3 million of funding through this line of business. Co-investment partners have provided another $519.1 million, for a total of $713.4 million of venture capital funding to the agriculture industry. Further details of the investment carrying value amounts can be found in Note 9 and Note 10 of the Notes to the Consolidated Financial Statements.

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

Loan insurance premiums, net of claims, contribute directly to FCC's net income. FCC loan 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. FCC loan insurance premium revenue slightly increased to $24.8 million in 2015-16, compared to $24.0 million in 2014-15. Net insurance income varies from year to year depending on the claims incurred. In 2015-16, total incurred claims were $9.7 million, compared to $10.6 million in 2014-15. This resulted in net insurance income of $15.1 million in 2015-16, compared to $13.4 million in 2014-15.

Insurance income



In 2016-17, insurance premium revenue is expected to increase by 7.8% as a result of portfolio growth. Net insurance income is expected to increase by 5.9% due to a higher forecast for premium revenue partially offset by a higher claims expense compared to prior years.

FCC Learning provides Canadian producers and agribusiness operators with information and training to help advance their farm management practices. In 2015-16, 14,593 people attended 133 core FCC Learning events. FCC's e-learning program had 288 people attend online webinars.

In 2016-17, 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 2015-16, net sales revenue, including product support, increased slightly to $1.9 million. In 2016-17, sales revenue is expected to increase to $2.0 million.

Financial position

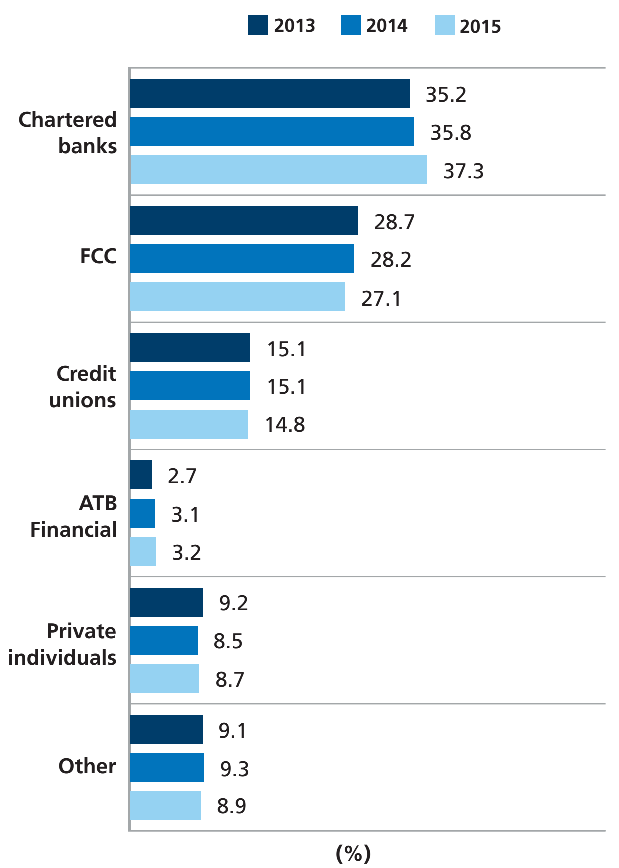
FCC continues to maintain a strong balance sheet and good risk management practices. The following section discusses FCC's financial position and provides an analysis of FCC's largest asset: loans receivable. This section also discusses FCC's credit quality, funding and liquidity, and capital management.

Loans receivable

Market share

According to Statistics Canada, farm debt outstanding increased by 8.5% to $91,795 million in 2015. FCC's market share decreased from 28.2% to 27.1% in 2015. FCC's proportion of Canada's farm debt outstanding increased $1,062 million from 2014 to $24,916 million, which remains second to the chartered banks at $34,192 million.

Market share as at December 31*

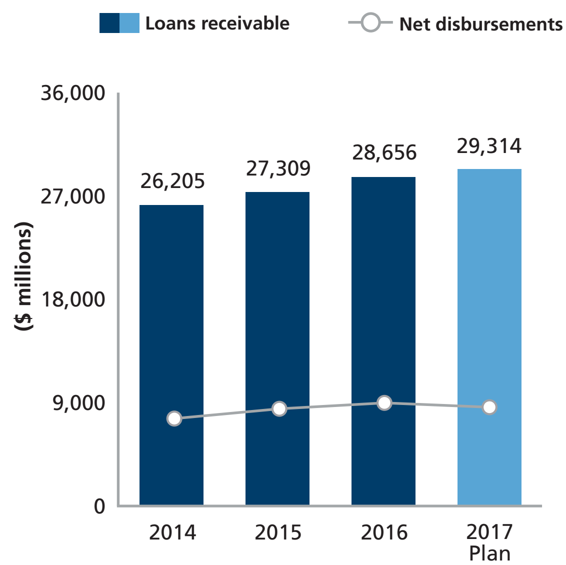


*Historical results are updated annually by Statistics Canada.

Total loans receivable

In 2015-16, FCC experienced its 23rd consecutive year of portfolio growth. Loans receivable increased by $1,347 million or 4.9% from 2014-15, moving the portfolio from $27,309 million to $28,656 million. Net disbursements increased by $519 million from 2014-15 to $9,074 million. The consistent growth in loans receivable was mainly due to higher net disbursement levels compared to the previous year, offset by higher loan repayments in the current year. In 2016-17, loans receivable is expected to increase at a slower pace as net disbursements are expected to decrease.

Loans receivable

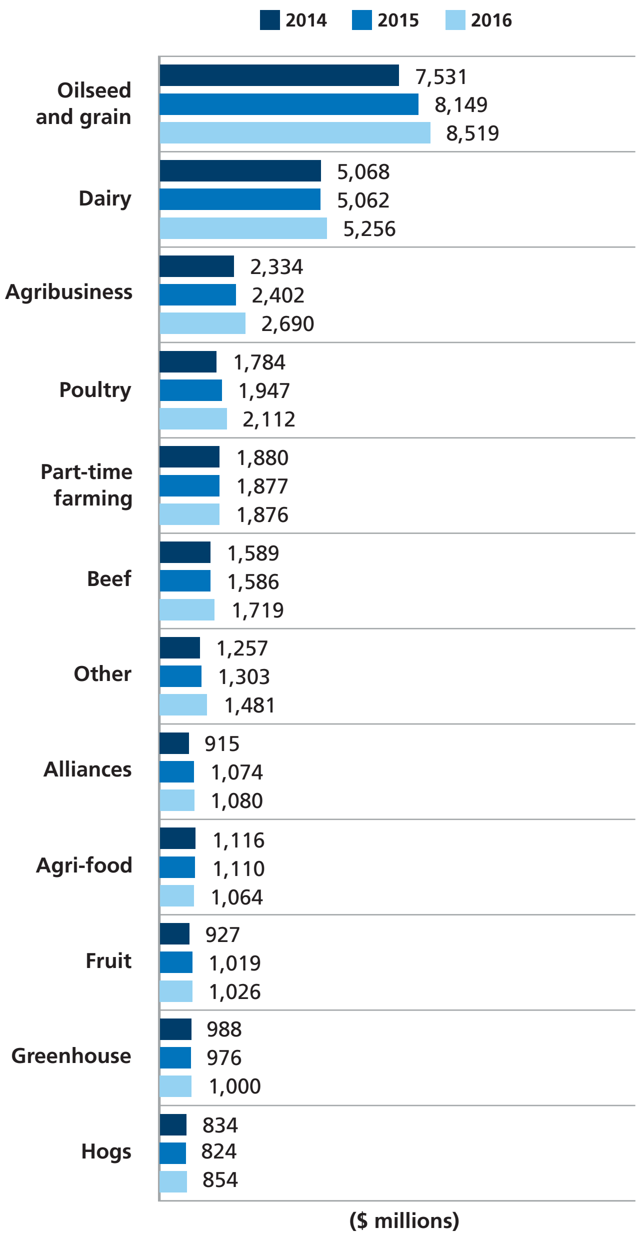


Loans receivable composition by sector

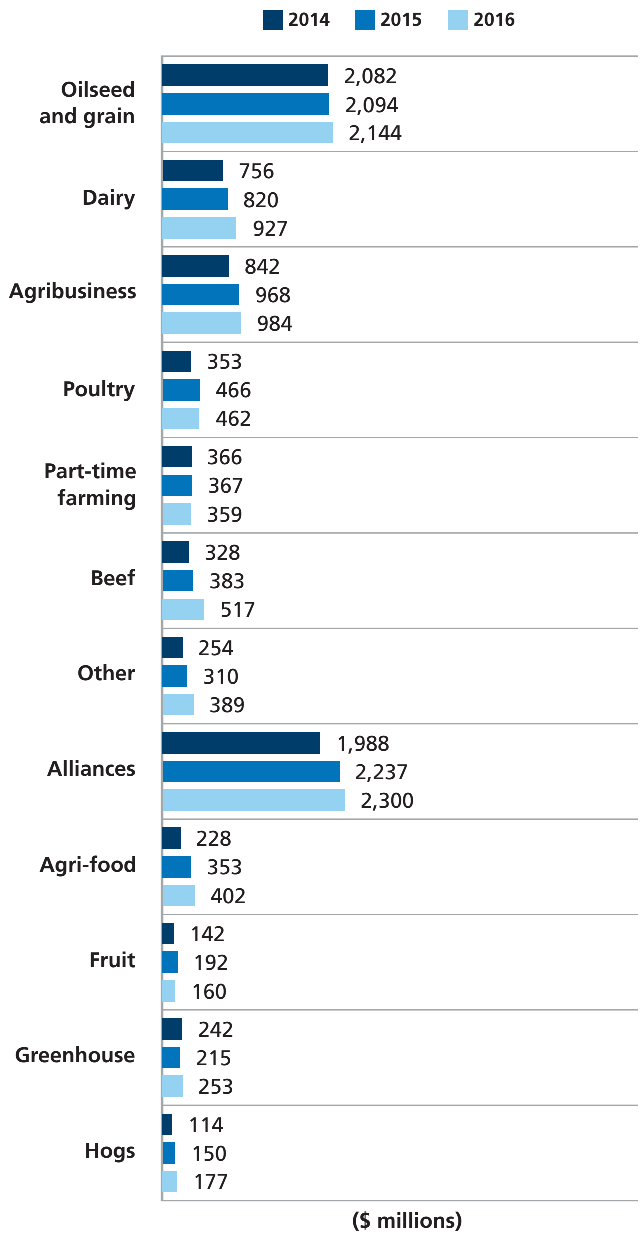
FCC experienced loans receivable growth in all sectors with the exception of agri-food and part-time farming. The largest loans receivable year-over-year growth was in other and the agribusiness sectors, which increased 13.6% to $1,481 million and 12.1% to $2,690 million, respectively. Other is composed of maple syrup, sheep, mixed enterprises and many smaller enterprise types.

In 2015-16, net disbursements increased in all major sectors except fruit, part-time farming and poultry, which experienced decreases of 16.7%, 2.1% and 0.8%, respectively. The most significant increases in net disbursements were in beef and other, which increased 35.0% and 25.6%, respectively. Other is composed of maple syrup, sheep, mixed enterprises and many smaller enterprise types.

Loans receivable by sector*



Net disbursements by sector



*Excludes deferred loan fees.

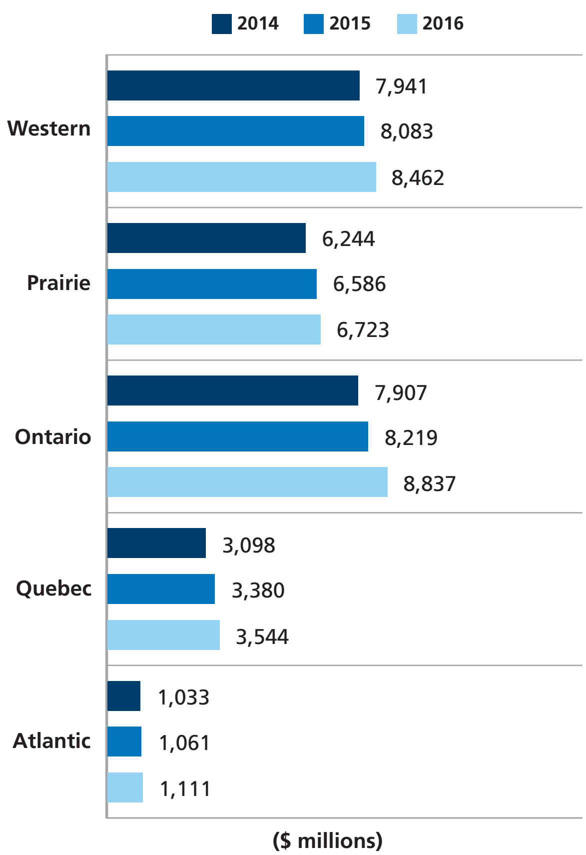
Loans receivable composition by region

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

In 2015-16, FCC experienced loans receivable growth across Canada. The Ontario region was the largest individual contributor to loans receivable in 2015-16, increasing by 7.5% to $8,837 million. The second largest contributor was the Western region, which increased by 4.7% to $8,462 million.

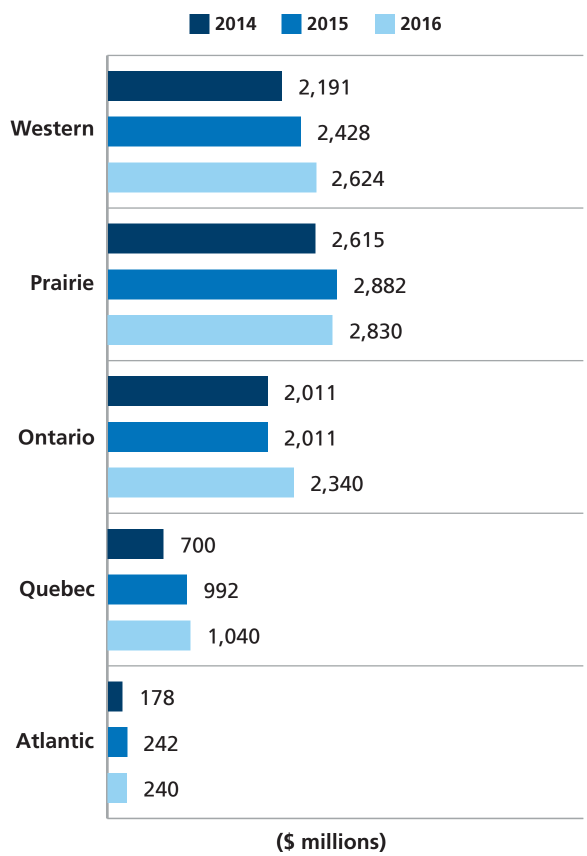
In 2015-16, net disbursements increased in most regions, with the exceptions of Prairie and Atlantic. The largest increase was in the Ontario region where net disbursements increased by 16.4%.

Loans receivable by region*



*Excludes deferred loan fees.

Net disbursements by region



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.

Impaired loans

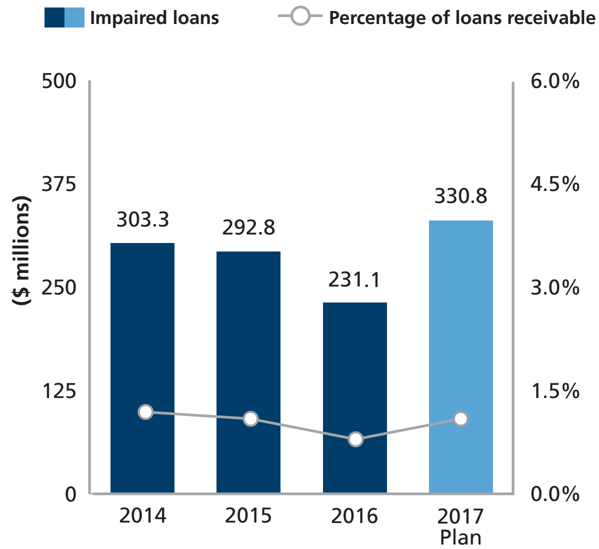
Impaired loans are loans that, in management's opinion, have no reasonable assurance of a timely collection of the full amount of principal and interest. A loan is considered impaired when it is $500 or more in arrears for more than 90 days and has insufficient security.

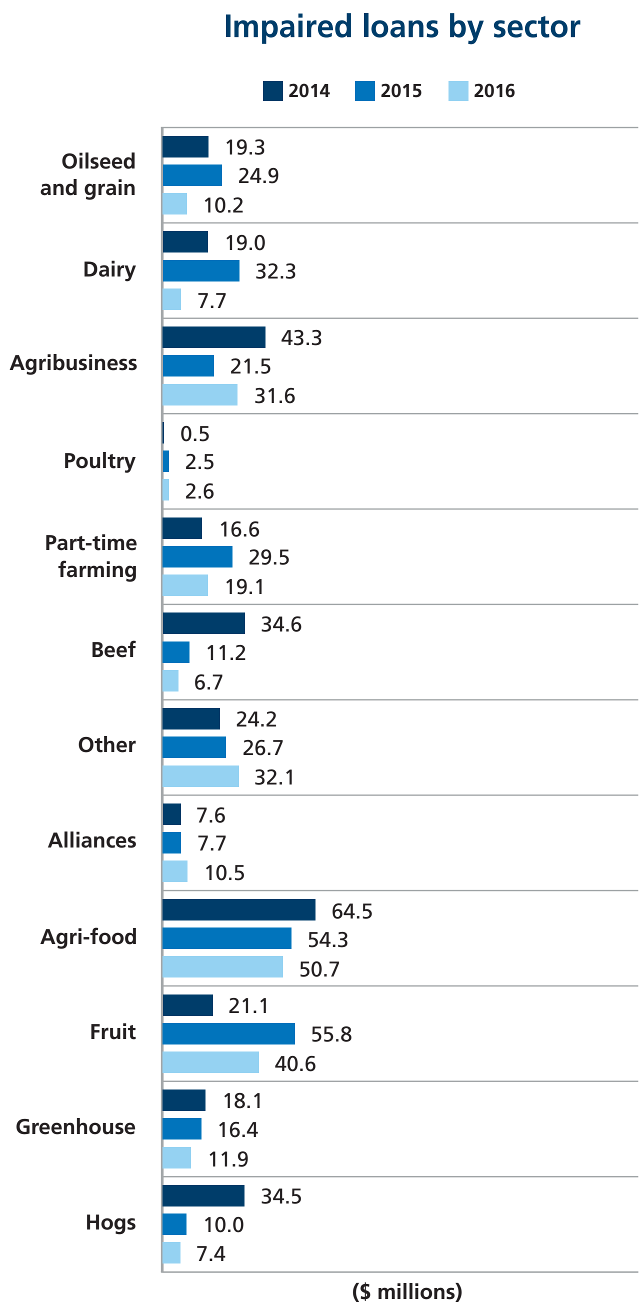
In 2015-16, impaired loans decreased by $61.7 million to $231.1 million. As a percentage of loans receivable, this was a decrease of 0.3% to 0.8%. In 2016-17, impaired loans are projected to increase by $99.7 million to $330.8 million due in part to growth in loans receivable.

At a sector level, impaired loans for Agribusiness and Other experienced the largest year-over-year increase of $10.1 million and $5.4 million, respectively. Other is composed of maple syrup, sheep, mixed enterprises and many smaller enterprise types. Dairy, fruit and oilseed and grain sectors experienced the largest year-over-year decreases of $24.6 million, $15.2 and $14.7 million, respectively.

Through its customer support programs, FCC proactively supports individual customers and sectors during financial difficulties. In 2015-16, FCC made payment schedule adjustments to 1,604 loans, 91 of which were part of its sector-specific support programs. Payment schedule adjustments as a percentage of total owing remained low at 2.4% in 2015-16.

Impaired loans



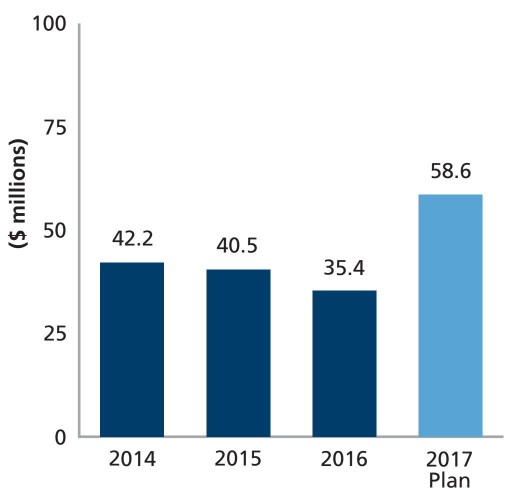

Impaired loans by sector
2014
2015
2016
Oilseed and grain
19.3
24.9
10.2
Dairy
19.0
32.3
7.7
Agribusiness
43.3
21.5
31.6
Poultry
0.5
2.5
2.6
Part-time farming
16.6
29.5
19.1
Beef
34.6
11.2
6.7
Other
24.2
26.7
32.1
Alliances
7.6
7.7
10.5
Agri-food
64.5
54.3
50.7
Fruit
21.1
55.8
40.6
Greenhouse
18.1
16.4
11.9
Hogs
34.5
10.0
7.4
($ millions)

Writeoffs

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

In 2015-16, the amount of writeoffs, net of recoveries, decreased to $35.4 million. Writeoffs as a percentage of loans receivable was consistent with prior year at 0.1%. In 2016-17, writeoffs are projected to increase by $23.2 million to $58.6 million. Writeoffs as a percentage of loans receivable are expected to increase to 0.2%.

Writeoffs*

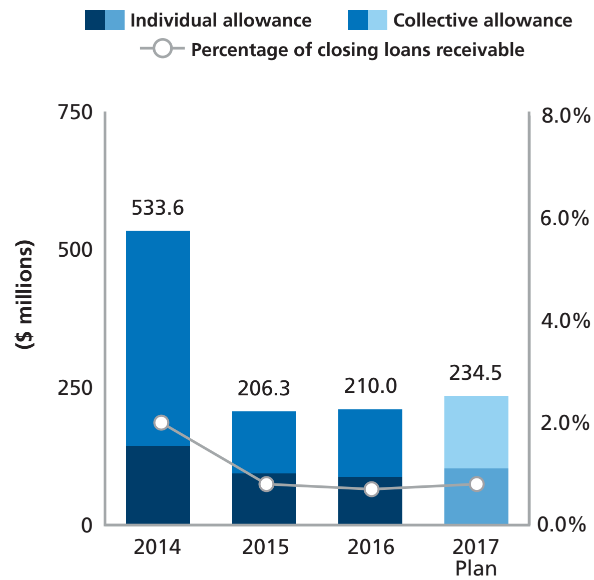


*Net of recoveries.

Allowance for credit losses

The allowance for credit losses is an estimate used to adjust loans receivable to reflect the estimated realizable value. In addition to the use of indicators such as loans in arrears and impaired loans, management must rely on estimates and judgment when assessing the appropriate level of realizable value. These inputs, coupled with changes in the external operating environment, may cause the realized credit losses to be materially different from current assessments, requiring an increase or decrease in the allowance 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 2015-16, the allowance for credit losses increased by $3.7 million to $210.0 million. The allowance for credit losses as a percentage of closing loans receivable decreased to 0.7%. In 2016-17, the allowance is expected to increase to $234.5 million, while the percentage of loans receivable is expected to increase slightly to 0.8%.

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 2015-16, 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, 2016, were $12,352 million, compared to $13,709 million at March 31, 2015. Of the total short-term borrowings outstanding, $11,900 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, 2016, were $11,910 million, an increase from $9,723 million the previous fiscal year. In 2015-16, all long-term borrowing was transacted 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 2015-16. FCC's debt ratings as of March 31, 2016, are detailed below.

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

Liquidity

Having adequate liquidity ensures FCC has access to cash to meet daily operational requirements in the event there is an unanticipated need for cash, or a business disruption prevents the corporation from borrowing debt through the Crown Borrowing Program. While the Crown Borrowing Program provides stable funding, in the event of a disruption FCC also maintains a bank operating line of credit and an investment portfolio of highly liquid securities sufficient to meet projected funding requirements for a minimum of 30 days. To ensure access to funds meets operational requirements, FCC forecasts future cash requirements and creates a borrowing plan.

See Note 25 of the Notes to the Consolidated Financial Statements for additional details.

Capital management

FCC manages capital in compliance with its Board-approved capital management policy and framework. The capital management policy and framework outline FCC's approach to assessing capital requirements for risks identified through its enterprise risk management framework. The objective of the policy and framework is to ensure that sufficient capital is held to maintain a safe and sound capital position to withstand economic downturn and periods of extended loss and to support FCC's strategic direction. This will allow FCC to continue to serve the industry through all economic cycles.

FCC compares its total capital to minimum regulatory capital and target capital when assessing current and future capital adequacy. FCC uses the Capital Adequacy Requirements guideline issued by the Office of the Superintendent of Financial Institutions (OSFI) to assess its total capital, minimum regulatory capital and risk-weighted assets (RWA). FCC's internal capital adequacy assessment process (ICAAP) considers the results of its stress-testing and considers current and future strategic direction. FCC uses the ICAAP to determine an appropriate target capital ratio. FCC's approaches are based on Basel III guidance issued by the Basel Committee for Banking Supervision.

Capital adequacy

FCC is currently and is projected to remain adequately capitalized. FCC has established a target capital ratio of 15% of RWA, based on the ICAAP. The target is set to account for OSFI's minimum regulatory capital, capital required for additional risks and the impact of stress-testing, future growth, potential regulatory changes, peer benchmarking and an operating range. The capital ratio reached 16.7% at the end of 2015-16: 1.7% above the target and is expected to be 2.5% above the target by March 31, 2017, as the growth rate in capital from retained earnings is expected to outpace the growth rate in RWA.

Total capital ratio continuity

The considerable increase in the total capital ratio from March 31, 2015, to March 31, 2016, is largely explained by increased total capital, which is primarily driven by increased retained earnings. This is partially offset by an increase in RWA resulting primarily from portfolio growth.

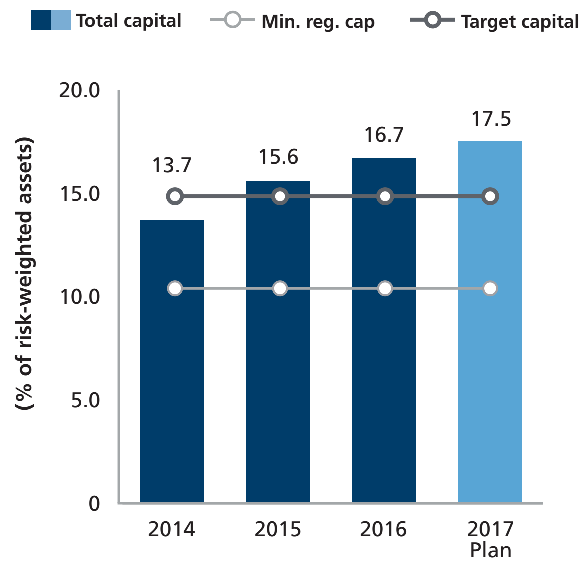
Debt to equity

FCC uses debt to equity as an additional measure to assess capital adequacy and the measure also represents the corporation's only legislated limit. At the end of 2015-16, FCC's debt-to-equity ratio remained below its legislated limit of 12:1.

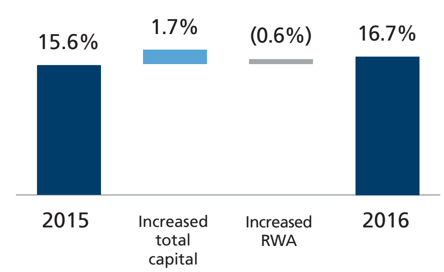
From 2014-15 to 2015-16, FCC's debt-to-equity ratio improved from 5.0:1 to 4.7:1. In 2016-17, this ratio is projected to further improve to 4.4:1, due in part to the relationship between portfolio and equity growth. In 2015-16, growth in equity was 10.3%, which exceeded the portfolio growth of 4.9%.

See Note 24 of the Notes to the Consolidated Financial Statements for additional details on capital management.

Capital adequacy



Total capital ratio continuity



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 and integrates it with corporate initiatives and strategic planning across business lines. We continually improve our approach through implementation and execution of the enterprise risk management framework and measurement of activities against a formal risk appetite and tolerance statement that defines and measures acceptable risk.

Implementation of recommendations resulting from a review of our risk management practices by the Office of the Superintendent of Financial Institutions is now complete. FCC has governance, systems and processes to maintain risk management practices consistent with federally regulated financial institutions.

Our risk management objectives and supporting priorities are focused on building a bright future for Canadian agriculture.

Risk governance

Under the oversight of the Board of Directors, FCC's enterprise risk management framework provides an overview of our enterprise-wide practices for managing risk, including identifying, assessing, mitigating/controlling, monitoring and reporting on significant risks facing the organization. The risk appetite describes what risks FCC is willing to take, accept and avoid, and the risk culture defines how we expect employees to take those risks.

FCC Board of Directors

The FCC Board of Directors oversees the organization's enterprise risk management framework to ensure risk management is integrated with strategic, financial and operating plans. Risk and capital policies approved by the Board establish the risk limits for enterprise risk and capital 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 risk management and ensures 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 requirements.

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 strategy. The committee also has the mandate to provide recommendations regarding the appointment of directors and the Board Chair.

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, pension plans and succession planning for senior managers.

FCC management committees

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

The **Enterprise Management Team** sets FCC's strategy and determines which business opportunities to pursue. The committee also ensures the enterprise risk management framework is implemented across FCC.

The **Asset Liability Committee** directs FCC's business and financial performance relative to the approved strategy and risk appetite statement. The committee manages FCC's capital, interest rate risk, price, volume, margin, loan pricing, products, business lines and annual targets for the corporate plan.

The **Enterprise Risk Management Committee** advises the Chief Risk Officer on risk management governance. It also promotes a risk management culture at FCC and the oversight of risk management practices. The committee reviews and makes recommendations about FCC's risk structure, resources, mandate and budget. It advises the Chief Risk Officer and Board about the risk appetite statement and tolerances, risk management frameworks and policies, compliance and risk reports, action plans to address policy breaches, the fit of new products and services within the risk appetite, stress/scenario testing and the assessment of strategic risk. The committee also reviews and approves FCC's risk management models.

The **Operational Risk Management Committee** champions operational risk management at FCC. The committee recommends changes to the operational risk management framework, challenges effectiveness of controls and manages risk treatment plans, escalating risks to the Enterprise Risk Management Committee as required.

The **Credit Policy Committee** oversees the development of lending, leasing and custom product policies and ensures they reflect FCC's credit risk tolerance, risk 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 activities are within FCC's risk tolerances and in accordance with credit policies.

The **Venture Capital Committee** approves commitments of capital to third-party fund managers for venture capital investments.

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 or 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. Included in the first line are embedded control functions whose role is to monitor activities of the first line.

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 and standards, monitoring compliance to policy, reporting risks to management and the Board and challenging the risk-taking decisions.

The Chief Risk Officer maintains independence through a direct reporting relationship to the Board's Risk Committee and leads a risk division that is independent of FCC operations.

The **third line of defence** provides independent and objective assurance to the Board that FCC appropriately takes and manages risk within the risk appetite statement. This includes reviewing the first and second-line functions.

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.

FCC's risk appetite

FCC's risk capacity is defined by the Farm Credit Canada Act, Financial Administration Act and various directives provided by our shareholder, the Government of Canada.

The Board has established a risk appetite statement for FCC. Annually, the risk appetite is reaffirmed and approved by the Board through the Enterprise Risk Management policy. The statement consists of three core 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 core principles for managing risk are as follows:

- We take risks we understand and are good for customers, Canadian agriculture and FCC.
- We accept the risk of a long-term view in order to remain a steady presence for Canadian agriculture.
- We avoid risks that jeopardize FCC and our ability to strengthen and sustain Canadian agriculture.

In addition to the principles, the risk appetite statement contains a series of tolerances and limits categorized as strategic, financial and operating. Annually, these statements and limits are reviewed to ensure adequate coverage of the strategy, changes in the operating environment, and changes in guidelines for financial Crown corporations.

Management regularly reports on the risk profile to risk tolerances and limits, ensuring appropriate action is taken to address any issues outside of stated tolerance, preventing the profile from exceeding risk appetite.

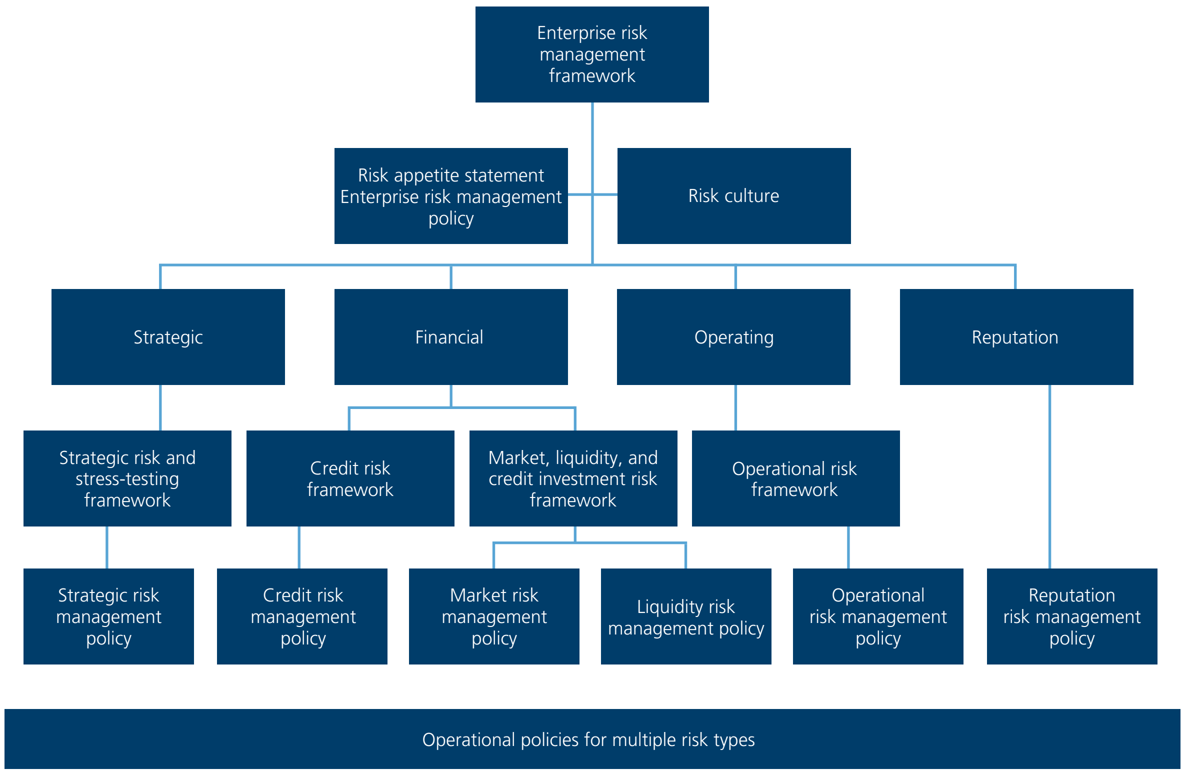
FCC's risk culture

FCC has developed a risk culture statement describing how employees in each line of defence are expected to behave in regard to the risk appetite. Each line of defence is 100% accountable to work collaboratively with others, advance the business of agriculture in Canada and be a committed partner in every interaction to listen for contributions and honour commitments to achieve the best possible result for FCC and the customer.

FCC's risk categories

FCC categorizes risk as strategic, financial, operating or reputation. The financial classification is further delineated between the categories of: credit, market and liquidity.

Enterprise risk management framework: This framework provides the governance structure for managing risk, the process to identify, assess, control/mitigate, monitor and report on risk and formalizes the risk appetite and supporting risk culture. This framework is approved by the Board.



Risk-specific frameworks: These frameworks elaborate on the specific processes used to identify, assess, control/mitigate, monitor and report on the risk category.

Enterprise risk category policies: By risk category, these policies articulate the minimum requirements by which employees and business units must operate. These policies are approved by the Board.

Operational policies for multiple risk types: These policies are established to communicate requirements specific to business operations and processes.

Authorities and limits: Applicable authorities and limits are established within each policy and approved by the Board.

Reporting: Quarterly reports against each policy limit and the risk appetite are provided to the Enterprise Management Team, Enterprise Risk Management Committee and Board Risk Committee for discussion. The report contains a comprehensive view of the organization's risk profile relative to the risk appetite as well as an analysis on emerging risks and key risk indicators.

Strategic risk

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

The Enterprise Management Team 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 has developed strategic risk tolerance statements. Annually, limits are set to correspond to the tolerance statements.

Role of FCC: We engage in activities aligned with the Farm Credit Canada Act and other legislative requirements, federal government policy and operational directives. Our primary focus is on small and medium-sized participants in the industry.

Market share: We assess the market for growth, recognizing industry and economic cycles. We maintain a market share that encourages a healthy level of competition. We are a fair competitor.

Industry trust: We execute FCC's mandate and apply practices consistent with Canadian financial institution requirements for risk management.

Customer relationships: We focus on great customer relationships and provide an excellent customer experience, balancing customer interests, the responsible management of FCC and what is best for the industry.

Execution excellence: We invest in effective delivery of services and balance operational efficiency with managing risk.

Culture: We have engaged employees, enabled by our culture of 100% accountability and partnership, managing relationships with customers and demonstrating diligence with respect to risk.

Stakeholder value: We are a catalyst for the agriculture and financial services industries, working together to make Canadian agriculture stronger.

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. Enterprise Management Team members are accountable for developing risk mitigation plans and reporting progress to the Board on a quarterly basis.

In addition, management develops severe but plausible scenarios to test our ability to stay within our risk appetite during a stress event. Potential risks are assessed both inherently and residually, which determines the level of risk treatment required.

Board-approved treatment plans and playbooks are monitored and reported to the Board on a quarterly basis.

Financial risks – credit, market and liquidity

Financial risks include FCC's risk categories of credit, market and liquidity risk. FCC has developed risk tolerance statements applicable to all financial risk categories. These are:

Total capital ratio: We maintain a safe and sound capital position to withstand economic downturn and periods of extended loss.

Financial strength: We target a net income that allows FCC to be self-sustaining: funding growth while securing long-run stability.

Loan loss: We manage our loan portfolio to minimize large writeoffs and avoid material, sustained losses.

Portfolio concentration: We diversify our portfolio across all sectors of agriculture, agribusiness and agri-food and Canada. We manage concentration through the use of limits.

Connection exposure: We do not expose FCC to a customer connection exposure that could result in major loss.

Annually, limits are set to correspond to the tolerance statements. These limits are further defined for each risk category and maintained in their respective policy. Details on how FCC manages financial risk are described in Note 25 of the Notes to the Consolidated Financial Statements.

Credit risk

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet financial obligations to FCC. Credit risk on loan/lease receivables is the most significant risk that the corporation faces, but credit risk also exists in investments and derivative financial instruments.

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.

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 ensure the accuracy of security value estimates.

FCC uses policies, processes, systems and strategies to manage the credit risk of the lending portfolio.

The Risk Management division assesses credit risk at the aggregate level, providing risk policies, assessment tools and models that quantify portfolio credit risk and allowance for credit losses. FCC also closely monitors the agriculture and agri-food operating environments to ensure 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 25 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. Market risk exists in all of the corporation's financial instruments. FCC market risk policies comply with the Minister of Finance Financial Risk Management Guidelines for Crown Corporations (August 2009). FCC's market risk management is described in Note 25 of the Notes to the Consolidated Financial Statements.

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 25 of the Notes to the Consolidated Financial Statements.

Operational risk

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

FCC categorizes operational risks into a risk taxonomy under the headings of people, process and systems. Each category has risk appetite statements developed to guide managers in the setting of controls.

People: We maintain a skilled and knowledgeable work force to meet current and future business requirements. We adhere to the highest standards of integrity and ethical behaviour as described in FCC's code of conduct. We deter theft and fraud. We comply with applicable legislation, regulation and regulatory directives.

Process: We execute transactions and capture information consistent with clear policy, process and controls. We prudently manage development and use of products and services. We validate models based on risk, complexity and frequency of use.

We use project management to enable successful implementation. We address change needs to enable successful transition and adoption. We procure goods and services that are defensible and supportable. We ensure sufficient controls exist to protect FCC in all contractual relationships.

We proactively prepare for business disruption to protect employees, limit losses and continue to provide critical operations at all times.

Systems: We control and safeguard the confidentiality, integrity and availability of information assets. We maintain data quality to understand, replicate and audit key decisions. We manage a technology infrastructure that is available, supportable and adaptable.

At FCC, managers are responsible for ensuring that appropriate controls, including policies and processes, are in place within their business units to manage risks and are operating effectively.

Risk and control self-assessments identify and assess key risks to ensure appropriate controls are in place or gaps are closed. Initial assessments are facilitated by the Risk Management team to provide consistency of risk evaluation and categorization across the organization, after which managers are expected to self-assess and report monitoring results. Risk Management provides effective challenge by issuing recommendations to optimize controls.

In addition, the Internal Audit function executes the Audit Committee's approved Audit plan. The plan reviews processes and controls to provide assurance to the Board that risk is managed as intended. Audit deficiencies are to be addressed by management in a timely manner and reporting is provided to the Board on management's progress.

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. Exposure to reputation risk is a function of FCC's ability to manage and respond to other risks. 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.

Any risk event that exceeds FCC's risk appetite is assessed for reputation implications in accordance with the Reputation policy.

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 FCC's management and have been reviewed and approved by the FCC Board of Directors. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, consequently, include amounts that are based on the best estimates and judgment of management. 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 FCC 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 FCC's operations.

The FCC Board of Directors is responsible for ensuring that management fulfil 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 FCC. 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.

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

Michael Hoffort, P.Ag., ICD.D
President and Chief Executive Officer

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

Regina, Canada
June 1, 2016

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 2016, and the consolidated statement of income, 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 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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

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

HMcManaman

Heather McManaman, CPA, CA
Principal
for the Auditor General of Canada

1 June 2016
Ottawa, Canada

Consolidated Balance Sheet

(thousands of Canadian dollars)	**March 31, 2016**	March 31, 2015 Restated Note 3	April 1, 2014 Restated Note 3
Assets			
Cash and cash equivalents	**$ 831,387**	$ 1,164,315	$ 1,022,722
Temporary investments (Note 4)	**337,049**	–	140,780
Accounts receivable	**24,820**	23,308	93,081
Derivative financial assets (Note 5)	**47,510**	58,828	53,201
	1,240,766	1,246,451	1,309,784
Loans receivable – net (Notes 6 and 8)	**28,445,647**	27,102,815	25,671,535
Finance leases receivable – net (Notes 7 and 8)	**14,736**	15,497	15,511
Investment in associates (Note 9)	**55,489**	84,203	86,896
Venture capital investments (Note 10)	**41,977**	33,248	19,750
	28,557,849	27,235,763	25,793,692
Equipment and leasehold improvements (Note 11)	**22,254**	17,142	23,675
Computer software (Note 12)	**33,307**	25,359	31,987
Equipment under operating leases (Note 13)	**75,384**	70,221	54,803
Other assets (Note 14)	**21,345**	20,722	22,273
	152,290	133,444	132,738
Total assets	**$ 29,950,905**	$ 28,615,658	$ 27,236,214
Liabilities			
Accounts payable and accrued liabilities	**$ 63,813**	$ 70,058	$ 65,683
Derivative financial liabilities (Note 5)	**422**	–	2,527
	64,235	70,058	68,210
Borrowings (Note 15)			
Short-term debt	**12,352,406**	13,709,423	10,358,304
Long-term debt	**11,910,379**	9,722,524	12,431,589
	24,262,785	23,431,947	22,789,893
Transition loan liability	**105,222**	96,257	97,194
Post-employment benefit liabilities (Note 16)	**146,299**	143,563	98,460
Other liabilities (Note 17)	**18,293**	18,993	16,346
	269,814	258,813	212,000
Total liabilities	**24,596,834**	23,760,818	23,070,103
Equity			
Contributed surplus	**547,725**	547,725	547,725
Retained earnings	**4,698,824**	4,175,856	3,476,801
Accumulated other comprehensive income	**107,121**	130,944	141,389
Equity attributable to shareholder of parent entity	**5,353,670**	4,854,525	4,165,915
Non-controlling interest	**401**	315	196
	5,354,071	4,854,840	4,166,111
Total liabilities and equity	**$ 29,950,905**	$ 28,615,658	$ 27,236,214

Commitments, guarantees and contingent liabilities (Note 22).
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 June 1, 2016, and were signed on its behalf by:

Michael Hoffort, P.Ag., ICD.D
President and Chief Executive Officer

Jane Halford, FCPA, FCA, ICD.D
Chair, Audit Committee

Consolidated Statement of Income

For the year ended March 31 (thousands of Canadian dollars)	2016	2015 Restated Note 3
Interest income	$ 1,161,484	$ 1,201,962
Interest expense	174,957	268,887
Net interest income (Note 18)	986,527	933,075
Provision for credit losses (Note 8)	(42,582)	281,397
Net interest income after provision for credit losses	943,945	1,214,472
Net insurance income	15,111	13,366
Net income from investment in associates	13,614	6,720
Other income	33	701
Net interest income and non-interest income	972,703	1,235,259
Administration expenses		
Salary expense	156,784	151,249
Benefits expense	69,178	52,167
Professional fees expense	41,045	36,922
Facilities, software and equipment expense	32,042	31,900
Amortization and depreciation expense	18,805	20,646
Travel and training expense	13,409	13,978
Marketing and promotion expense	9,792	9,832
Other expenses	11,372	12,047
Total administration expenses	352,427	328,741
Net income before fair value adjustment	620,276	906,518
Fair value adjustment (Note 19)	(4,781)	(2,712)
Net income	$ 615,495	$ 903,806
Net income attributable to:		
Shareholder of parent entity	$ 615,477	$ 903,797
Non-controlling interest	18	9

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)	2016	2015 Restated Note 3
Net income	**$ 615,495**	$ 903,806
Other comprehensive income		
Items that are or may be reclassified to net income		
Net gains on derivatives designated as cash flow hedges	–	12,508
Transfer of net realized gains on derivatives designated as cash flow hedges to net income	**(23,322)**	(22,933)
Net unrealized losses on available-for-sale financial assets	**(501)**	(20)
	(23,823)	(10,445)
Item that will never be reclassified to net income		
Remeasurements of post-employment benefit liabilities (Note 16)	**(2,129)**	(78,599)
Total other comprehensive loss	**(25,952)**	(89,044)
Total comprehensive income	**$ 589,543**	$ 814,762
Total comprehensive income attributable to:		
Shareholder of parent entity	**$ 589,525**	$ 814,753
Non-controlling interest	**18**	9

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

Consolidated Statement of Changes in Equity

(thousands of Canadian dollars)	Balance March 31, 2015 Restated Note 3	Net income	Other comprehensive income	Dividend paid	Contributions from non-controlling interest	Balance March 31, 2016
Contributed surplus	**$ 547,725**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 547,725**
Retained earnings	**4,175,856**	**615,477**	**(2,129)**	**(90,380)**	**–**	**4,698,824**
Net gains (losses) on derivatives previously designated as cash flow hedges	**131,501**	**–**	**(23,322)**	**–**	**–**	**108,179**
Net unrealized losses on available-for-sale financial assets	**(557)**	**–**	**(501)**	**–**	**–**	**(1,058)**
Total accumulated other comprehensive income (loss)	**130,944**	**–**	**(23,823)**	**–**	**–**	**107,121**
Total equity attributable to parent	**4,854,525**	**615,477**	**(25,952)**	**(90,380)**	**–**	**5,353,670**
Non-controlling interest	**315**	**18**	**–**	**–**	**68**	**401**
Total	**$ 4,854,840**	**$ 615,495**	**$ (25,952)**	**$ (90,380)**	**$ 68**	**$ 5,354,071**

(thousands of Canadian dollars)	Balance April 1, 2014 Restated Note 3	Net income Restated Note 3	Other comprehensive income	Dividend paid	Contributions from non-controlling interest Restated Note 3	Balance March 31, 2015 Restated Note 3
Contributed surplus	$ 547,725	$ –	$ –	$ –	$ –	$ 547,725
Retained earnings	3,476,801	903,797	(78,599)	(126,143)	–	4,175,856
Net gains (losses) on derivatives designated as cash flow hedges	141,926	–	(10,425)	–	–	131,501
Net unrealized losses on available-for-sale financial assets	(537)	–	(20)	–	–	(557)
Total accumulated other comprehensive income (loss)	141,389	–	(10,445)	–	–	130,944
Total equity attributable to parent	4,165,915	903,797	(89,044)	(126,143)	–	4,854,525
Non-controlling interest	196	9	–	–	110	315
Total	$ 4,166,111	$ 903,806	$ (89,044)	$ (126,143)	$ 110	$ 4,854,840

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

Consolidated Statement of Cash Flows

For the year ended March 31 (thousands of Canadian dollars)	2016	2015 Restated Note 3
Operating activities		
Net income	**$ 615,495**	$ 903,806
Adjustments to determine net cash (used in) provided by operating activities:		
Net interest income	**(986,527)**	(933,075)
Unwind adjustment on impaired loans	**(2,630)**	(454)
Provision for credit losses	**42,582**	(281,397)
Fair value adjustment	**4,781**	2,712
Net income from investment in associates	**(13,614)**	(6,720)
Gain on sale of venture capital investment in associate	**–**	(498)
Amortization and depreciation	**18,805**	20,646
Other	**1,683**	(997)
Net cash outflow from loans receivable	**(1,372,931)**	(1,139,810)
Net cash inflow from finance leases receivable	**1,232**	636
Net change in other operating assets and liabilities	**(215)**	56,361
Interest received	**1,135,093**	1,156,881
Interest paid	**(160,165)**	(255,621)
Cash used in operating activities	**(716,411)**	(477,530)
Investing activities		
Net cash (outflow) inflow from temporary investments	**(337,296)**	140,581
Acquisition of venture capital investments	**(10,545)**	(12,020)
Proceeds on disposal and repayment of venture capital investments	**2,032**	728
Net cash inflow from investment in associates	**42,328**	9,412
Purchase of equipment and leasehold improvements	**(13,982)**	(3,234)
Purchase of computer software	**(17,942)**	(6,598)
Purchase of equipment under operating leases	**(32,791)**	(38,242)
Proceeds on disposal of equipment under operating leases	**12,108**	9,240
Cash (used in) provided by investing activities	**(356,088)**	99,867
Financing activities		
Long-term debt issued	**10,788,000**	7,466,250
Long-term debt repaid	**(9,990,621)**	(6,530,000)
Short-term debt issued	**20,324,075**	44,549,626
Short-term debt repaid	**(20,290,949)**	(44,844,133)
Dividend paid	**(90,380)**	(126,143)
Cash provided by financing activities	**740,125**	515,600
Change in cash and cash equivalents	**(332,374)**	137,937
Cash and cash equivalents, beginning of year	**1,164,315**	1,022,722
Effects of exchange rate changes on the balances of cash held and due in foreign currencies	**(554)**	3,656
Cash and cash equivalents, end of year	**$ 831,387**	$ 1,164,315
Cash and cash equivalents consists of:		
Cash	**$ 138,165**	$ 91,989
Short-term investments	**693,222**	1,072,326

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 (FCC) 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. FCC is located in Canada and its registered office is at 1800 Hamilton Street, Regina, Saskatchewan, Canada. FCC 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 FCC 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 FCC to offer producers and agribusiness operators a broader range of services.

In September 2008, FCC, 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 FCC to the personal integrity of those it lends to or provides benefits to. During fiscal 2016, FCC continued to comply with the requirements of Section 89(6) of the Financial Administration Act.

In December 2014, FCC was issued a directive (P.C. 2014-1377) pursuant to Section 89 of the Financial Administration Act, requiring FCC to ensure its pension plans reflect the following:

(1) a 50:50 current service cost-sharing ratio between employee and employer for pension contributions to be phased in by December 31, 2017

(2) the normal age of retirement is raised to 65 years for employees hired after January 1, 2015, and the age at which retirement benefits are available, other than those received at the normal age of retirement, corresponds with the age at which they are available under the Public Service Pension Plan

This directive also requires FCC outline its implementation strategy with respect to the aforementioned requirements in its next corporate plan and subsequent corporate plans until the commitments are fully implemented. FCC is in the process of phasing in these changes by the required dates.

In July 2015, FCC was issued a directive (P.C. 2015-1104) pursuant to Section 89 of the Financial Administration Act to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with their legal obligations, and to report on the implementation of this directive in FCC's next corporate plan. FCC's policies, guidelines and practices are aligned with Treasury Board policies, directives and related instruments at March 31, 2016.

The purpose of FCC 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 FCC 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).

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

The consolidated financial statements are presented in Canadian dollars, which is FCC'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 International Accounting Standards Board (IASB) has issued a number of interpretations, amendments and improvements that were mandatory for the accounting periods beginning on or after January 1, 2015. None of these had an impact on FCC.

Basis of consolidation

The consolidated financial statements include the accounts of FCC, Avrio Subordinated Debt Fund I and Avrio Subordinated Debt Fund II (collectively the Avrio Subordinated Debt Funds). The Avrio Subordinated Debt Funds are venture capital limited partnerships for which FCC is a limited partner holding majority partnership interests. FCC consolidates the Avrio Subordinated Debt Funds as it has control over these funds. FCC controls these funds as it is exposed, or has rights, to variable returns from its involvement with these funds and FCC 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 the Avrio Subordinated Debt Funds and FCC's year-end. All significant intercompany balances and transactions have been eliminated. The non-controlling interest, which represents the equity in the Avrio Subordinated Debt Funds that is not attributable to FCC, has been presented in the Consolidated Balance Sheet, the Consolidated Statement of Income, the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity.

Investment in associates

FCC holds investments in Avrio Fund I, Avrio Fund II and Avrio Fund III (collectively the Avrio Equity Funds) which are venture capital limited partnerships operating in Calgary, Alberta, which are associates of FCC. An associate is an entity over which FCC has significant influence. FCC has the power to participate in the financial and operating policy decisions of the investee but does not have control over those policies. The Avrio Equity Funds are accounted for using the equity method. Under the equity method of accounting, investments are initially recorded at cost, and the carrying amount is increased or decreased to recognize FCC's share of investee net income or loss. The investment is recorded as Investment in associates in FCC's Consolidated Balance Sheet and its share of the net income or loss is recorded in Net income from investment in associates in its Consolidated Statement of Income. An adjustment has been made for significant intervening transactions and changes in fair value of investments occurring between the December 31 year-end of the Avrio Equity Funds and FCC's year-end.

2. Significant accounting policies (continued)

Venture capital investments

Venture capital investments include investments held by the Avrio Subordinated Debt Funds. FCC has designated its venture capital investments at fair value through profit or loss (FVTPL), as they are managed and their performance is evaluated on a fair value basis in accordance with a documented investment strategy.

Venture capital investments 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 and fee income are recognized when receivable and included in interest income.

Classification and designation of financial instruments

Financial assets are classified or designated as loans and receivables, financial assets at FVTPL or available-for-sale (AFS) financial assets. Financial liabilities are classified or designated as financial liabilities at FVTPL 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 FVTPL 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 FVTPL 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 method.

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. FCC uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations, within limits approved by the FCC Board of Directors (the Board). These limits are based on guidelines established by the Department of Finance. FCC does not use derivative financial instruments for speculative purposes.

2. Significant accounting policies (continued)

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

Cash flow hedge accounting was discontinued prospectively on January 1, 2015, for all the interest rate swaps previously designated as hedging items as FCC revoked the designated hedging relationships. The cumulative gains previously recognized in OCI are being transferred to net interest income over the remaining term of the original hedge. All fair value gains and losses on the interest rate swaps subsequent to discontinuation are recognized immediately in the fair value adjustment.

Prior to discontinuation of hedge accounting, the effective portion of a change in a derivative's fair value was recognized in OCI, while the ineffective portion of a change in a derivative's fair value was reported in the fair value adjustment. Interest income or expense related to derivatives designated as hedging items in cash flow hedges was recognized on the same basis as the hedged item, as an adjustment to interest income or expense, respectively.

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 method.

Loan interest income is recorded on an accrual basis and recognized in Net income using the effective interest method unless 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 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 FCC 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.

2. Significant accounting policies (continued)

Finance leases receivable

When FCC is the lessor in a lease arrangement that transfers substantially all of the risks and rewards incidental to ownership to the lessee, then the arrangement is classified as a finance lease. 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

FCC 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.

At each balance sheet date, FCC 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 – FCC 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 FCC no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, FCC 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 unless the loan or lease is sufficiently secured.

The impairment loss is calculated 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 FCC 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, considering customer, loan and security characteristics. The collective assessment of impairment for loans is broken down into three components: triggered loan pool, general loan pool and overlay.

2. Significant accounting policies (continued)

- 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.

- General loan pool – This assessment considers credit losses that have been incurred on loans that do not meet the criteria to be in either the individual or triggered loan pools. It is based on the historical movement of loans from performing status to either the triggered or individually impaired loan pools.

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

For select portions of FCC'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 180 days past due. For the collective allowance, FCC 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.

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 FCC 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 FCC. 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 indicators of impairment and, if indicators exist, FCC estimates the recoverable amount of the asset. The estimated recoverable amount is the higher of the fair value less the costs to sell and the value in use. If the carrying value is greater than the estimated recoverable amount, an impairment loss would be recognized to reduce the carrying value to the estimated recoverable amount.

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

2. Significant accounting policies (continued)

Computer software

Computer software is recorded at cost less accumulated amortization. Expenditures on internally developed software are recognized as assets when FCC 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 FCC. 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

When FCC is the lessor in a lease arrangement that does not transfer substantially all of the risks and rewards incidental to ownership to the lessee, then the arrangement is classified as an operating lease. Equipment under operating leases is recorded at cost less accumulated depreciation. Equipment is depreciated on a straight-line basis over its useful life to FCC, which is equivalent to the term of the lease. Depreciation is included in interest expense.

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.

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

FCC 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 defined 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.

FCC measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at March 31 of each year.

2. Significant accounting policies (continued)

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, plan administration costs and the tax effect on refundable tax assets
- 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, current service costs, gains and losses on curtailments and settlements, plan administration costs and the tax effect on refundable tax assets 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.

Remeasurements include actuarial gains and losses, experience adjustments on plan liabilities, 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 defined benefit obligations. Remeasurements are recognized immediately in OCI in the period in which they occur and flow into retained earnings in the Consolidated Balance Sheet.

Insurance

FCC 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 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 25. Changes in estimates are recorded when made and are included in net insurance income.

FCC 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 method and included in accounts payable and accrued liabilities.

2. Significant accounting policies (continued)

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 method.

Borrowings

Government of Canada borrowings are undertaken with the approval of the Minister of Finance. Government of Canada borrowings are direct obligations of FCC 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.

Capital market debt includes short-term U.S. dollar fixed-rate promissory notes and short- and long-term retail and institutional fixed-rate notes.

Borrowings are classified as other financial liabilities and measured at amortized cost using the effective interest method.

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

Transition loan liabilities

FCC records a transition loan liability that represents amounts owing to third parties upon the signing of a contract that requires FCC 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 method.

Government assistance

FCC 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. FCC 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 FCC 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 FCC to which it is not entitled are paid back to the Government of Canada at the end of the program. FCC'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 FCC is entitled under the HILLRP. This estimate is accounted for as a reduction to FCC's provision for credit losses. The remaining amount of the loan loss reserve fund, to which FCC is not entitled, is recorded as borrowings. Interest on this borrowing 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 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.

2. Significant accounting policies (continued)

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

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

Significant management judgments in applying accounting policies

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

- **Significant influence over Avrio Fund III**

  FCC exercised significant influence over Avrio Fund III at March 31, 2016, while holding less than 20% voting control (Note 23).

- **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 FCC'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 loan and lease portfolio is reviewed by management to assess impairment. Judgments are made when determining whether a loss event has occurred, and estimates and assumptions are made 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.

2. Significant accounting policies (continued)

- **Post-employment benefit liabilities**

  The estimate of the post-employment benefits 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 FCC. FCC's mortality experience is combined with industry experience, since FCC'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.

- **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 FCC'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 FCC'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.

  - 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 risk and terms to maturity.

2. Significant accounting policies (continued)

Accounting standards issued but not yet effective

FCC 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 FCC in the future. Management is in the process of assessing the impact of these standards and amendments on FCC's financial statements and accounting policies, and therefore the extent of the impact of the adoption of these standards and amendments is unknown. A number of other amendments and improvements that have been issued by the IASB but are not yet effective are not listed below as FCC determined that they will not have a significant impact on the consolidated financial statements.

Standard	Details	Date of initial application
IFRS 15 – Revenue from contracts with customers	The IASB issued IFRS 15, which establishes principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.	April 1, 2018
IFRS 9 – Financial instruments	In July 2014, the IASB issued the complete version of IFRS 9, first issued in November 2009, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. It is anticipated this standard will change the classification of FCC's temporary investments and cash equivalents from AFS to amortized cost. IFRS 9 also introduces an expected loss impairment model for all financial assets not at FVTPL. The model has three stages: (1) on initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established (2) if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized (3) when a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount In order to meet the requirement to adopt IFRS 9, an enterprise-wide project has been established. It is supported by a formal governance framework and a robust implementation plan. IFRS 9 also introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities.	April 1, 2018
IFRS 16 – Leases	In January 2016, the IASB issued IFRS 16 which requires all leases to be reported on a lessee's balance sheet as assets and liabilities. There are also changes in accounting over the life of the lease. In particular, lessees will now recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. It is anticipated this standard will result in an increase in both lease assets and lease liabilities on the balance sheet as well as an accelerated pattern for expense recognition. Lessor accounting remains similar to current practice as lessors continue to classify leases as finance and operating leases.	April 1, 2019

3. Prior period error

During the year, FCC reassessed the accounting for the Avrio Equity Funds. As FCC does not have the ability to affect its returns through power over these funds, FCC concluded that it does not control the funds and they should therefore not be accounted for using the consolidation method. FCC has significant influence over the Avrio Equity Funds, therefore these funds are investments in associates and should be accounted for using the equity method. As a result of this error, the prior period financial statements have been corrected by restating each of the affected financial statement line items. The following tables summarize the impacts on FCC's consolidated financial statements.

Adjustments to the Consolidated Balance Sheet

($ thousands)	As at March 31, 2015			As at April 1, 2014		
	As previously reported	Adjustments	As restated	As previously reported	Adjustments	As restated
Assets						
Cash and cash equivalents	$ 1,166,754	$ (2,439)	$ 1,164,315	$ 1,026,820	$ (4,098)	$ 1,022,722
Accounts receivable	23,336	(28)	23,308	93,095	(14)	93,081
Investment in associates	–	84,203	84,203	–	86,896	86,896
Venture capital investments	179,788	(146,540)	33,248	156,277	(136,527)	19,750
Total assets	$28,680,462	$ (64,804)	$28,615,658	$27,289,957	$ (53,743)	$27,236,214
Liabilities						
Accounts payable and accrued liabilities	$ 77,966	$ (7,908)	$ 70,058	$ 65,769	$ (86)	$ 65,683
Total liabilities	23,768,726	(7,908)	23,760,818	23,070,189	(86)	23,070,103
Equity						
Non-controlling interest	57,211	(56,896)	315	53,853	(53,657)	196
Total liabilities and equity	$28,680,462	$ (64,804)	$28,615,658	$27,289,957	$ (53,743)	$27,236,214

3. Prior period error (continued)

Adjustments to the Consolidated Statement of Income

For the year ended March 31, 2015 ($ thousands)	As previously reported	Adjustments	As restated
Interest income	$ 1,207,135	$ (5,173)	$ 1,201,962
Net interest income	938,248	(5,173)	933,075
Net interest income after provision for credit losses	1,219,645	(5,173)	1,214,472
Net income from investment in associates	–	6,720	6,720
Net interest income and non-interest income	1,233,712	1,547	1,235,259
Administration expenses			
Professional fees expense	47,229	(10,307)	36,922
Other expenses	12,062	(15)	12,047
Total administration expenses	339,063	(10,322)	328,741
Net income before fair value adjustment	894,649	11,869	906,518
Fair value adjustment	13,459	(16,171)	(2,712)
Net income	$ 908,108	$ (4,302)	$ 903,806
Net income attributable to:			
Non-controlling interest	$ 4,311	$ (4,302)	$ 9

Adjustments to the Consolidated Statement of Comprehensive Income

For the year ended March 31, 2015 ($ thousands)	As previously reported	Adjustments	As restated
Net income	$ 908,108	$ (4,302)	$ 903,806
Total comprehensive income	$ 819,064	$ (4,302)	$ 814,762
Total comprehensive income attributable to:			
Non-controlling interest	$ 4,311	$ (4,302)	$ 9

Adjustment to the Consolidated Statement of Changes in Equity

For the year ended March 31, 2015 ($ thousands)	As previously reported	Adjustment	As restated
Contributions from (distributions to) non-controlling interest	$ (953)	$ 1,063	$ 110

3. Prior period error (continued)

Adjustments to the Consolidated Statement of Cash Flows

For the year ended March 31, 2015 ($ thousands)	As previously reported	Adjustments	As restated
Net income	$ 908,108	$ (4,302)	$ 903,806
Adjustments to determine net cash (used in) provided by operating activities:			
Net interest income	(938,248)	5,173	(933,075)
Fair value adjustment	(13,459)	16,171	2,712
Net income from investment in associates	–	(6,720)	(6,720)
Net change in other operating assets and liabilities	62,501	(6,140)	56,361
Interest received	1,162,054	(5,173)	1,156,881
Cash used in operating activities	(476,539)	(991)	(477,530)
Acquisition of venture capital investments	(40,971)	28,951	(12,020)
Proceeds on disposal and repayment of venture capital investments	36,441	(35,713)	728
Net cash inflow from investment in associates	–	9,412	9,412
Cash provided by investing activities	97,217	2,650	99,867
Change in cash and cash equivalents	136,278	1,659	137,937
Cash and cash equivalents, beginning of year	1,026,820	(4,098)	1,022,722
Cash and cash equivalents, end of year	$ 1,166,754	$ (2,439)	$ 1,164,315
Cash and cash equivalents consists of:			
Cash	$ 94,428	$ (2,439)	$ 91,989

4. Temporary investments

As at March 31, 2016, short-term instruments were $337.0 million (2015 – $nil) with a yield of 0.63% (2015 – not applicable). They consisted of deposit notes and treasury bills issued by institutions with credit ratings of R-1M or higher (2015 – not applicable) as rated by the Dominion Bond Rating Service (DBRS). As at March 31, 2016, the largest total investment in any one institution was $103.6 million (2015 – $nil).

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

5. Derivative financial instruments

As at March 31, 2016, derivative financial assets were $47.5 million (2015 – $58.8 million) and derivative financial liabilities were $0.4 million (2015 – $nil).

The derivative contracts entered into by FCC 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.

FCC is exposed to variability in future interest cash flows on non-trading assets that bear interest at variable rates and has historically designated certain derivatives as cash flow hedges.

As at March 31, 2016, 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 $21.7 million.

Notional principal amounts and term to maturity

As at March 31 ($ thousands)		2016			
		Within 1 year	**1-5 years**	**Over 5 years**	**Total**
Interest rate swaps					
Receive	**Pay**				
Fixed	Floating	**$ –**	**$ 17,870**	**$ 220,124**	**$ 237,994**
Floating	Fixed	**–**	**–**	**12,987**	**12,987**
		$ –	**$ 17,870**	**$ 233,111**	**$ 250,981**

As at March 31 ($ thousands)		2015			
		Within 1 year	1-5 years	Over 5 years	Total
Interest rate swaps					
Receive	**Pay**				
Fixed	Floating	$ 94,489	$ –	$ 237,994	$ 332,483
Floating	Fixed	–	–	–	–
		$ 94,489	$ –	$ 237,994	$ 332,483

5. Derivative financial instruments (continued)

Counterparty credit risk

Derivatives that have a positive fair value are subject to counterparty risk because the positive fair value indicates that over time, FCC 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, 2015, and March 31, 2016.

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

As at March 31 ($ thousands)		2016	
	Positive fair value	**Negative fair value**	**Net fair value**
Interest rate swaps	**$ 47,510**	**$ 422**	**$ 47,088**
Cash collateral due to derivative counterparties	**–**	**5,353**	**(5,353)**
Fair value	**$ 47,510**	**$ 5,775**	**$ 41,735**

As at March 31 ($ thousands)		2015	
	Positive fair value	Negative fair value	Net fair value
Interest rate swaps	$ 58,828	$ –	$ 58,828
Cash collateral due to derivative counterparties	–	7,855	(7,855)
Fair value	$ 58,828	$ 7,855	$ 50,973

FCC 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 DBRS, respectively. The largest cumulative notional amount contracted with any institution as at March 31, 2016, was $125.0 million (2015 – $139.3 million), and the largest net fair value of contracts with any institution as at March 31, 2016, was $23.3 million (2015 – $24.4 million). FCC mitigates the credit exposure on multiple derivative transactions by entering into master netting agreements with counterparties as outlined in Note 25. 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.

As at March 31 ($ thousands)		2016		
	Within 1 year	**1 – 5 years**	**Over 5 years**	**Total**
Floating	**$ 2,844,528**	**$ 13,024,565**	**$ 645,708**	**$ 16,514,801**
Fixed	**2,645,690**	**7,548,226**	**1,968,099**	**12,162,015**
Gross loans receivable	**$ 5,490,218**	**$ 20,572,791**	**$ 2,613,807**	**$ 28,676,816**
Deferred loan fees				**(21,139)**
Loans receivable – total				**28,655,677**
Allowance for credit losses (Note 8)				**(210,030)**
Loans receivable – net				**$ 28,445,647**

6. Loans receivable – net (continued)

As at March 31 ($ thousands)	2015			
	Within 1 year	1 – 5 years	Over 5 years	Total
Floating	$ 2,776,857	$ 13,388,257	$ 614,175	$ 16,779,289
Fixed	1,775,735	6,854,161	1,920,285	10,550,181
Gross loans receivable	$ 4,552,592	$ 20,242,418	$ 2,534,460	$ 27,329,470
Deferred loan fees				(20,399)
Loans receivable – total				27,309,071
Allowance for credit losses (Note 8)				(206,256)
Loans receivable – net				$ 27,102,815

Management estimates that annually, over the next three years, approximately 5.6% (2015 – approximately 7.0%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2016, $450.5 million (2015 – $306.9 million) of loans receivable were denominated in U.S. dollars (USD).

Concentrations of credit risk

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

Enterprise distribution

	Gross		**Impaired**	
As at March 31 ($ thousands)	**2016**	2015	**2016**	2015
Oilseed and grain	**$ 8,519,358**	$ 8,148,896	**$ 10,200**	$ 24,880
Dairy	**5,255,906**	5,061,541	**7,702**	32,307
Agribusiness	**2,690,327**	2,402,502	**31,568**	21,511
Poultry	**2,111,516**	1,947,479	**2,621**	2,490
Part-time farming	**1,875,575**	1,876,855	**19,105**	29,512
Beef	**1,718,997**	1,585,624	**6,665**	11,208
Other	**1,480,666**	1,303,487	**32,052**	26,723
Alliances	**1,080,320**	1,074,446	**10,470**	7,740
Agri-food	**1,064,406**	1,110,096	**50,668**	54,259
Fruit	**1,026,129**	1,019,002	**40,647**	55,760
Greenhouse	**999,703**	975,843	**11,921**	16,429
Hogs	**853,913**	823,699	**7,449**	9,979
Total	**$ 28,676,816**	$ 27,329,470	**$ 231,068**	$ 292,798

Geographic distribution

	Gross		**Impaired**	
As at March 31 ($ thousands)	**2016**	2015	**2016**	2015
Alberta and British Columbia	**$ 8,462,635**	$ 8,083,156	**$ 98,013**	$ 140,485
Saskatchewan	**4,592,517**	4,548,013	**20,486**	29,723
Manitoba	**2,130,095**	2,037,519	**4,587**	4,289
Ontario	**8,836,895**	8,219,811	**35,291**	31,099
Quebec	**3,544,143**	3,379,665	**45,097**	49,553
Atlantic	**1,110,531**	1,061,306	**27,594**	37,649
Total	**$28,676,816**	$ 27,329,470	**$ 231,068**	$ 292,798

7. Finance leases receivable – net

As at March 31 ($ thousands)	2016	2015
Total minimum finance lease payments receivable		
Less than one year	**$ 6,046**	$ 6,518
Between one and five years	**9,625**	10,098
Finance leases receivable – gross	**15,671**	16,616
Unearned finance income	**(906)**	(1,088)
Allowance for credit losses (Note 8)	**(29)**	(31)
Finance leases receivable – net	**$ 14,736**	$ 15,497

FCC 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

As at March 31 ($ thousands)	2016			2015		
	Loans receivable	**Finance leases receivable**	**Total**	Loans receivable	Finance leases receivable	Total
Individual allowance, beginning of year	**$ 93,433**	**$ –**	**$ 93,433**	$ 143,557	$ –	$ 143,557
Provision for credit losses	**30,601**	**–**	**30,601**	(14,947)	–	(14,947)
Losses covered under HILLRP	**(1,313)**	**–**	**(1,313)**	201	–	201
Unwind adjustment on impaired loans	**(2,630)**	**–**	**(2,630)**	(454)	–	(454)
Writeoffs	**(35,700)**	**–**	**(35,700)**	(35,991)	–	(35,991)
Recoveries	**3,295**	**–**	**3,295**	1,067	–	1,067
Individual allowance, end of year	**87,686**	**–**	**87,686**	93,433	–	93,433
Collective allowance, beginning of year	**112,823**	**31**	**112,854**	389,869	187	390,056
Provision for credit losses	**11,983**	**(2)**	**11,981**	(266,294)	(156)	(266,450)
Losses covered under HILLRP	**577**	**–**	**577**	(5,204)	–	(5,204)
Writeoffs	**(3,719)**	**–**	**(3,719)**	(6,132)	–	(6,132)
Recoveries	**680**	**–**	**680**	584	–	584
Collective allowance, end of year	**122,344**	**29**	**122,373**	112,823	31	112,854
Total allowance	**$ 210,030**	**$ 29**	**$ 210,059**	$ 206,256	$ 31	$ 206,287

9. Investment in associates

Summarized financial information for FCC's associates is set out below. The summarized financial information represents amounts prepared in accordance with IFRS and adjusted for significant intervening transactions. FCC has used this information for equity accounting purposes.

As at March 31 ($ thousands)			2016					
		Avrio Fund I		**Avrio Fund II**		**Avrio Fund III**		**Total**
Revenue	**$**	**19,427**	**$**	**6,521**	**$**	**–**	**$**	**25,948**
Net income		**14,367**		**9,035**		**(2,453)**		**20,949**
Assets		**2,374**		**95,685**		**4,119**		**102,178**
Liabilities		**471**		**47**		**11**		**529**
Net assets		**1,903**		**95,638**		**4,108**		**101,649**
Proportion of FCC's ownership		**66.9%**		**54.7%**		**46.3%**		
Carrying amount of FCC's interest	**$**	**1,273**	**$**	**52,314**	**$**	**1,902**	**$**	**55,489**

As at March 31 ($ thousands)			2015					
		Avrio Fund I		Avrio Fund II		Avrio Fund III		Total
Revenue	$	399	$	4,100	$	–	$	4,499
Net income		6,807		4,873		(656)		11,024
Assets		64,202		83,802		994		148,998
Liabilities		7,211		40		656		7,907
Net assets		56,991		83,762		338		141,091
Proportion of FCC's ownership		66.9%		54.7%		76.2%		
Carrying amount of FCC's interest	$	38,127	$	45,818	$	258	$	84,203

Distributions received during the year were $77.7 million (2015 – $33.1 million).

During the year, FCC's ownership in Avrio Fund III changed, resulting in a $196 thousand decrease to 2016 Net income from investment in associates.

10. Venture capital investments

As at March 31, 2016, $42.0 million (2015 – $33.2 million) of venture capital investments are carried in debt investments. Of these debt investments, $nil (2015 – $2.0 million) is due to FCC within one year, $32.0 million (2015 – $21.4 million) is due between one and five years and $10.0 million (2015 – $9.8 million) is due later than five years.

Concentrations of venture capital investments by sector

As at March 31 ($ thousands)	2016	2015 Restated Note 3
Food processing and manufacturing	$ 41,008	$ 31,982
Bio-based fuels and chemicals	969	1,266
	$ 41,977	$ 33,248

For the year ended March 31, 2016, the total amount of net gains realized on the disposal of venture capital investments designated at FVTPL was $36 thousand (2015 – $143 thousand).

The total amount of fees and interest recorded in interest income during the year for venture capital investments designated at FVTPL was $3.8 million (2015 – $1.5 million).

In addition to the above investments, FCC has loans receivable from venture capital investees in the amount of $67.8 million (2015 – $38.2 million) and no guarantees from venture capital investees (2015 – $nil).

The venture capital investment portfolio exposes FCC 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, 2016, there were no venture capital debt investments in arrears (2015 – $nil).

11. Equipment and leasehold improvements

($ thousands)	Leasehold improvements	Office equipment and furniture	Computer equipment	Total
Cost				
Balance as at March 31, 2014	$ 50,993	$ 28,214	$ 13,869	$ 93,076
Additions	1,801	364	1,085	3,250
Disposals	(805)	(63)	(1,392)	(2,260)
Balance as at March 31, 2015	51,989	28,515	13,562	94,066
Additions	7,434	2,170	4,380	13,984
Disposals	(4,579)	(4,101)	(849)	(9,529)
Balance as at March 31, 2016	**$ 54,844**	**$ 26,584**	**$ 17,093**	**$ 98,521**
Accumulated depreciation				
Balance as at March 31, 2014	$ 35,624	$ 22,855	$ 10,922	$ 69,401
Depreciation	5,925	2,077	1,769	9,771
Disposals	(796)	(63)	(1,389)	(2,248)
Balance as at March 31, 2015	40,753	24,869	11,302	76,924
Depreciation	4,242	1,732	2,837	8,811
Disposals	(4,531)	(4,099)	(838)	(9,468)
Balance as at March 31, 2016	**$ 40,464**	**$ 22,502**	**$ 13,301**	**$ 76,267**
Carrying value				
March 31, 2015	$ 11,236	$ 3,646	$ 2,260	$ 17,142
March 31, 2016	**14,380**	**4,082**	**3,792**	**22,254**

12. Computer software

($ thousands)	Internally developed	Purchased	Total
Cost			
Balance as at March 31, 2014	$ 114,892	$ 10,494	$ 125,386
Additions	6,157	441	6,598
Disposals	(3,971)	–	(3,971)
Balance as at March 31, 2015	117,078	10,935	128,013
Additions	16,829	1,113	17,942
Disposals	–	–	–
Balance as at March 31, 2016	**$ 133,907**	**$ 12,048**	**$ 145,955**
Accumulated amortization			
Balance as at March 31, 2014	$ 85,238	$ 8,161	$ 93,399
Amortization	9,974	901	10,875
Disposals	(1,620)	–	(1,620)
Balance as at March 31, 2015	93,592	9,062	102,654
Amortization	9,169	825	9,994
Disposals	–	–	–
Balance as at March 31, 2016	**$ 102,761**	**$ 9,887**	**$ 112,648**
Carrying value			
March 31, 2015	$ 23,486	$ 1,873	$ 25,359
March 31, 2016	**31,146**	**2,161**	**33,307**

Research and development costs related to internally developed computer software in the amount of $13.4 million (2015 – $15.6 million) have been included within facilities, software and equipment expenses.

13. Equipment under operating leases

($ thousands)	
Cost	
Balance as at March 31, 2014	$ 73,165
Additions	38,173
Disposals	(16,448)
Balance as at March 31, 2015	94,890
Additions	32,704
Disposals	(23,113)
Balance as at March 31, 2016	**$ 104,481**
Accumulated depreciation	
Balance as at March 31, 2014	$ 18,362
Depreciation	13,515
Disposals	(7,208)
Balance as at March 31, 2015	24,669
Depreciation	15,434
Disposals	(11,006)
Balance as at March 31, 2016	**$ 29,097**
Carrying value	
March 31, 2015	$ 70,221
March 31, 2016	**75,384**

14. Other assets

As at March 31 ($ thousands)	**2016**	2015
Insurance reserve assets	**$ 21,309**	$ 20,722
Real estate property held for sale	**36**	–
	$ 21,345	$ 20,722

15. Borrowings

Short-term debt

As at March 31 ($ thousands)	2016	2015
Government of Canada debt		
Floating-rate borrowings	**$ 7,960,648**	$ 9,738,627
Fixed-rate borrowings	**3,939,463**	3,610,699
	11,900,111	13,349,326
Capital markets debt		
USD fixed-rate promissory notes (1)	**452,295**	252,050
Retail and institutional fixed-rate notes	**–**	108,047
	452,295	360,097
	$ 12,352,406	$ 13,709,423

(1) $348.1 million USD (2015 – $199.0 million USD)

Short-term debt by maturity date

As at March 31 ($ thousands)	2016				
	Government of Canada		**Capital markets**		
	Carrying value	**Yield**	**Carrying value**	**Yield**	**Total**
From 0 – 3 months	**$ 3,862,343**	**0.49%**	**$ 452,295**	**0.40%**	**$ 4,314,638**
From 4 – 6 months	**2,914,926**	**0.46%**	**–**	**–**	**2,914,926**
From 7 – 9 months	**3,239,973**	**0.48%**	**–**	**–**	**3,239,973**
From 10 – 12 months	**1,882,869**	**0.46%**	**–**	**–**	**1,882,869**
	$ 11,900,111		**$ 452,295**		**$ 12,352,406**

As at March 31 ($ thousands)	2015				
	Government of Canada		Capital markets		
	Carrying value	Yield	Carrying value	Yield	Total
From 0 – 3 months	$ 3,597,497	0.61%	$ 252,050	0.72%	$ 3,849,547
From 4 – 6 months	3,463,095	0.59%	–	–	3,463,095
From 7 – 9 months	3,721,728	0.60%	108,047	4.37%	3,829,775
From 10 – 12 months	2,567,006	0.55%	–	–	2,567,006
	$ 13,349,326		$ 360,097		$ 13,709,423

FCC has a demand operating line of credit, which provides overdraft protection in the amount of $30.0 million (2015 – $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, 2016, there were no draws on this credit facility (2015 – $nil).

15. Borrowings (continued)

Long-term debt

As at March 31 ($ thousands)	2016	2015
Government of Canada debt		
Floating-rate borrowings	**$ 7,749,307**	$ 6,837,611
Fixed-rate borrowings	**3,851,430**	2,575,702
	11,600,737	9,413,313
Retail and institutional fixed-rate notes	**309,642**	309,211
	$ 11,910,379	$ 9,722,524

Long-term debt by maturity date

As at March 31 ($ thousands)	**2016**				
	Government of Canada		**Capital markets**		
	Carrying value	**Yield**	**Carrying value**	**Yield**	**Total**
From 1 – 2 years	**$ 4,415,300**	**0.58%**	**$ –**	**–**	**$ 4,415,300**
From 2 – 3 years	**4,070,118**	**0.72%**	**–**	**–**	**4,070,118**
From 3 – 4 years	**2,446,553**	**0.45%**	**–**	**–**	**2,446,553**
From 4 – 5 years	**404,392**	**0.59%**	**18,735**	**4.32%**	**423,127**
Over 5 years	**264,374**	**1.36%**	**290,907**	**4.37%**	**555,281**
	$ 11,600,737		**$ 309,642**		**$ 11,910,379**

As at March 31 ($ thousands)	2015				
	Government of Canada		Capital markets		
	Carrying value	Yield	Carrying value	Yield	Total
From 1 – 2 years	$ 6,120,602	0.58%	$ –	–	$ 6,120,602
From 2 – 3 years	1,988,648	0.96%	–	–	1,988,648
From 3 – 4 years	1,074,458	1.33%	–	–	1,074,458
From 4 – 5 years	36,164	1.77%	–	–	36,164
Over 5 years	193,441	1.89%	309,211	4.37%	502,652
	$ 9,413,313		$ 309,211		$ 9,722,524

16. Post-employment benefits

Financial position of benefit plans

FCC measures its defined 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:

	Registered pension plan	
As at March 31 ($ thousands)	**2016**	2015
Present value of funded defined benefit obligations	**$ (668,578)**	$ (650,819)
Fair value of plan assets	**651,472**	627,232
Net liability for defined benefit obligations	**$ (17,106)**	$ (23,587)

	Supplemental pension plans	
As at March 31 ($ thousands)	**2016**	2015
Present value of funded defined benefit obligations	**$ (58,136)**	$ (56,815)
Fair value of plan assets	**41,553**	45,849
Funded status	**(16,583)**	(10,966)
Present value of unfunded defined benefit obligations	**(14,630)**	(15,220)
Net liability for defined benefit obligations	**$ (31,213)**	$ (26,186)

	Other benefits	
As at March 31 ($ thousands)	**2016**	2015
Present value of unfunded defined benefit obligations	**$ (97,980)**	$ (93,790)
Net liability for defined benefit obligations	**$ (97,980)**	$ (93,790)

The total net liability for defined benefit obligations of all three plans is $146.3 million (2015 – $143.6 million). This amount is recorded on the Consolidated Balance Sheet as post-employment benefit liabilities.

16. Post-employment benefits (continued)

Movements in the present value of the defined benefit obligation

	Registered pension plan		Supplemental pension plans		Other benefits	
As at March 31 ($ thousands)	**2016**	2015	**2016**	2015	**2016**	2015
Defined benefit obligation, beginning of year	**$ 650,819**	$ 515,887	**$ 72,035**	$ 56,060	**$ 93,790**	$ 83,379
Current service cost	**27,663**	22,680	**1,816**	1,674	**6,991**	5,458
Past service cost	**–**	–	**–**	–	**–**	(8,794)
Interest cost on the defined benefit obligation	**23,771**	23,713	**2,556**	2,479	**3,511**	3,889
Contributions by employees	**7,729**	7,047	**312**	–	**–**	–
Benefits paid	**(14,221)**	(13,502)	**(2,257)**	(2,838)	**(1,061)**	(812)
Experience adjustments on plan liabilities	**1,571**	(3,285)	**1,269**	4,209	**(22)**	(1,966)
Actuarial (gain) loss from changes in financial assumptions	**(28,754)**	98,279	**(2,965)**	10,451	**(5,229)**	12,636
Defined benefit obligation, end of year	**$ 668,578**	$ 650,819	**$ 72,766**	$ 72,035	**$ 97,980**	$ 93,790

The duration of the registered pension plan's defined benefit obligation is 21 years (2015 – 21 years). The duration of the supplemental pension plan's defined benefit obligation is 19 years (2015 – 20 years).

Movements in the fair value of plan assets

	Registered pension plan		Supplemental pension plans		Other benefits	
As at March 31 ($ thousands)	**2016**	2015	**2016**	2015	**2016**	2015
Fair value of plan assets, beginning of year	**$ 627,232**	$ 517,548	**$ 45,849**	$ 40,979	**$ –**	$ –
Interest income on plan assets	**22,532**	23,850	**1,583**	1,753	**–**	–
Return on plan assets (less) greater than the discount rate	**(31,680)**	36,304	**(4,579)**	5,421	**–**	–
Contributions by FCC	**40,465**	56,769	**1,018**	615	**1,061**	812
Contributions by employees	**7,729**	7,047	**312**	–	**–**	–
Benefits paid	**(14,221)**	(13,502)	**(2,257)**	(2,838)	**(1,061)**	(812)
Plan administration costs	**(585)**	(784)	**(174)**	(45)	**–**	–
Tax effect on refundable tax assets	**–**	–	**(199)**	(36)	**–**	–
Fair value of plan assets, end of year	**$ 651,472**	$ 627,232	**$ 41,553**	$ 45,849	**$ –**	$ –

16. Post-employment benefits (continued)

Defined benefit costs recognized in net income

	Registered pension plan		Supplemental pension plans		Other benefits		Total	
For the year ended March 31 ($ thousands)	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Current service cost	**$27,663**	$22,680	**$ 1,816**	$ 1,674	**$ 6,991**	$ 5,458	**$36,470**	$29,812
Past service cost	**–**	–	**–**	–	**–**	(8,794)	**–**	(8,794)
Net interest	**1,239**	(137)	**973**	726	**3,511**	3,889	**5,723**	4,478
Plan administration costs	**585**	784	**174**	45	**–**	–	**759**	829
Tax effect on refundable tax assets	**–**	–	**199**	36	**–**	–	**199**	36
	$29,487	$23,327	**$ 3,162**	$ 2,481	**$10,502**	$ 553	**$43,151**	$26,361

Defined benefit costs recognized in OCI

	Registered pension plan	
For the year ended March 31 ($ thousands)	**2016**	2015
Experience adjustments on plan liabilities	**$ (1,571)**	$ 3,285
Return on plan assets (less) greater than the discount rate	**(31,680)**	36,304
Changes in liability assumptions	**28,754**	(98,279)
Remeasurement loss	**$ (4,497)**	$ (58,690)

	Supplemental pension plans	
For the year ended March 31 ($ thousands)	**2016**	2015
Experience adjustments on plan liabilities	**$ (1,269)**	$ (4,209)
Return on plan assets (less) greater than the discount rate	**(4,579)**	5,421
Changes in liability assumptions	**2,965**	(10,451)
Remeasurement loss	**$ (2,883)**	$ (9,239)

	Other benefits	
For the year ended March 31 ($ thousands)	**2016**	2015
Experience adjustments on plan liabilities	**$ 22**	$ 1,966
Changes in liability assumptions	**5,229**	(12,636)
Remeasurement gain (loss)	**$ 5,251**	$ (10,670)

Total remeasurement losses of $2.1 million (2015 – $78.6 million) are recognized in OCI. The cumulative remeasurement losses recognized in OCI as at March 31, 2016, were $112.8 million (2015 – $110.7 million).

16. 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	
As at March 31	**2016**	2015	**2016**	2015
Equity securities	**57.6%**	59.3%	**99.2%**	98.7%
Debt securities	**30.1%**	30.4%	**0.1%**	1.3%
Real estate	**10.6%**	9.0%	**–**	–
Cash	**1.7%**	1.3%	**0.7%**	–
	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	
As at March 31	**2016**	2015	**2016**	2015	**2016**	2015
Defined benefit obligation						
Discount rate	**3.70%**	3.50%	**3.70%**	3.50%	**3.70%**	3.50%
Rate of compensation increase	**4.00%**	4.00%	**4.00%**	4.00%	**4.00%**	4.00%
Consumer price index	**2.00%**	2.00%	**2.00%**	2.00%	**–**	–
Defined benefit costs						
Discount rate	**3.50%**	4.40%	**3.50%**	4.40%	**3.50%**	4.40%
Consumer price index	**2.00%**	2.00%	**2.00%**	2.00%	**–**	–

At March 31, 2016 and 2015, the mortality assumption for the defined 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. As at March 31, 2016, the average life expectancy of an individual retiring at age 65 is 24 years for males (2015 – 24 years) and 25 years for females (2015 – 26 years).

Assumed health care cost trend rates are as follows:

As at March 31	**2016**	2015
Extended health care and dental care cost escalation		
Initial rate	**7.50%**	8.00%
Ultimate rate	**5.00%**	5.00%
Year ultimate rate reached	**2021**	2021

16. 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
1% increase in discount rate			
Total of service and net interest costs	$ (13,956)	$ (689)	$ (2,099)
Defined benefit obligation	(115,330)	(11,655)	(22,290)
1% decrease in discount rate			
Total of service and net interest costs	16,242	700	2,968
Defined benefit obligation	154,107	15,176	31,926
0.25% increase in rate of compensation increase			
Total of service and net interest costs	1,076	275	14
Defined benefit obligation	5,616	2,012	104
0.25% decrease in rate of compensation increase			
Total of service and net interest costs	(1,081)	(226)	(14)
Defined benefit obligation	(5,616)	(1,732)	(104)
1% increase in consumer price index			
Total of service and net interest costs	10,805	764	–
Defined benefit obligation	107,842	11,852	–
1% decrease in consumer price index			
Total of service and net interest costs	(8,567)	(613)	–
Defined benefit obligation	(87,116)	(9,555)	–
One year increase in expected lifetime of plan participants			
Total of service and net interest costs	1,395	107	404
Defined benefit obligation	13,906	1,542	3,587
1% increase in assumed overall health care cost trend rates			
Total of service and net interest costs	–	–	3,904
Defined benefit obligation	–	–	28,424
1% decrease in assumed overall health care cost trend rates			
Total of service and net interest costs	–	–	(2,669)
Defined benefit obligation	–	–	(20,346)

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, 2016, the expense was $5.3 million (2015 – $4.5 million).

Total cash payments

Total cash payments for post-employment benefits, consisting of cash contributed by FCC 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 $47.7 million (2015 – $63.0 million).

Total cash payments for post-employment benefits for 2017, as described in the preceding paragraph, are anticipated to be approximately $44.3 million.

17. Other liabilities

As at March 31 ($ thousands)	2016	2015
Reserve for insurance claims	$ 9,289	$ 9,821
Deferred revenues	8,667	7,978
Other	337	1,194
	$ 18,293	$ 18,993

18. Net interest income

For the year ended March 31 ($ thousands)	2016	2015 Restated Note 3
Interest income		
Loans and receivables	$ 1,094,568	$ 1,119,304
Transfer of net realized gains on derivatives designated as cash flow hedges from AOCI to net income	23,322	22,933
Operating leases	17,966	15,790
Temporary investments and cash equivalents designated as AFS	8,025	10,774
Foreign exchange gains on loans and receivables	2,140	20,145
Finance leases classified as loans and receivables	581	703
Hedging derivative financial assets and liabilities designated as cash flow hedges – net	–	10,806
Total interest income for financial instruments not at FVTPL	1,146,602	1,200,455
Derivative financial assets and liabilities classified as HFT – net	11,084	–
Venture capital investments designated at FVTPL	3,798	1,507
	1,161,484	1,201,962
Interest expense		
Long-term debt classified as other liabilities	135,168	199,493
Short-term debt classified as other liabilities	18,759	34,006
Depreciation on equipment under operating leases	15,434	13,515
Foreign exchange losses on cash and short-term debt classified as other liabilities – net	3,001	19,303
Transition loan liabilities classified as other liabilities	2,595	2,570
Total interest expense for financial instruments not at FVTPL	174,957	268,887
Net interest income	$ 986,527	$ 933,075

The total net fee income that was recognized immediately in net interest income arising from financial assets and liabilities not measured at FVTPL was $5.3 million (2015 – $4.0 million). Interest income recognized from the unwinding of discounts on impaired financial assets was $2.6 million (2015 – $0.5 million).

19. Fair value adjustment

For the year ended March 31 ($ thousands)	2016	2015 Restated Note 3
Venture capital investments designated at FVTPL	**$ 317**	$ 1,496
Ineffectiveness of cash flow hedges	**–**	(4,215)
Guarantees	**(6)**	7
Derivative financial assets and liabilities classified as HFT	**(5,092)**	–
	$ (4,781)	$ (2,712)

20. Fair value of financial instruments

Financial instruments carried at fair value

FCC 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:

As at March 31 ($ thousands)		**2016**	
	Level 2	**Level 3**	**Total**
Assets			
Cash equivalents	**$ 693,222**	**$ –**	**$ 693,222**
Temporary investments	**337,049**	**–**	**337,049**
Derivative financial assets	**47,510**	**–**	**47,510**
Venture capital investments	**–**	**41,977**	**41,977**
	$ 1,077,781	**$ 41,977**	**$ 1,119,758**
Liabilities			
Derivative financial liabilities	**$ 422**	**$ –**	**$ 422**

As at March 31 ($ thousands)		2015	
	Level 2	Level 3 Restated Note 3	Total Restated Note 3
Assets			
Cash equivalents	$ 1,072,326	$ –	$ 1,072,326
Derivative financial assets	58,828	–	58,828
Venture capital investments	–	33,248	33,248
	$ 1,131,154	$ 33,248	$ 1,164,402

Changes in valuation methods may result in transfers into or out of Levels 1, 2 and 3. For the year ended March 31, 2016, there were no transfers between levels (2015 – $nil).

20. Fair value of financial instruments (continued)

Level 3 financial instruments

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

As at March 31 ($ thousands)	2016	2015 Restated Note 3
Balance, beginning of year	**$ 33,248**	$ 19,750
Net gains recognized in fair value adjustment	**317**	1,496
Change in accrued interest	**(472)**	(126)
Acquisitions	**11,217**	12,357
Repayments	**(2,333)**	(229)
Balance, end of year	**$ 41,977**	$ 33,248

Net unrealized gains and losses relating to instruments still held at the reporting date recognized in the fair value adjustment are a $0.3 million gain (2015 – $1.4 million).

Financial instruments not carried at fair value

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

As at March 31 ($ thousands)	2016		2015	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
Assets				
Loans receivable	**$ 28,445,647**	**$ 28,704,562**	$ 27,102,815	$ 27,446,135
Finance leases receivable	**14,736**	**14,497**	15,497	15,351
Liabilities				
Long-term debt	**11,910,379**	**12,005,399**	9,722,524	9,845,813

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.

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.

20. Fair value of financial instruments (continued)

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 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 FCC's cash, accounts receivable, other assets, accounts payable and accrued liabilities, short-term debt, transition loan liability and other liabilities excluding the reserve for insurance claims.

21. 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:

As at March 31 ($ thousands)	2016	2015
Amounts due		
Less than one year	**$ 16,170**	$ 15,309
Between one and five years	**27,435**	28,795
	$ 43,605	$ 44,104

Operating leases as a lessee

FCC leases office space under operating leases. The lease terms are typically five to 20 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:

As at March 31 ($ thousands)	2016	2015
Amounts due		
Less than one year	**$ 22,230**	$ 17,215
Between one and five years	**68,725**	48,522
Greater than five years	**172,312**	107,112
	$ 263,267	$ 172,849

Operating lease payments in the amount of $21.2 million (2015 – $18.0 million) have been included within facilities, software and equipment expense.

22. Commitments, guarantees and contingent liabilities

Loan and lease commitments

As at March 31, 2016, loans approved but undisbursed amounted to $3,028.7 million (2015 – $2,996.2 million). These loans were approved at an average interest rate of 3.54% (2015 – 3.64%) 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, 2016, finance leases approved but undisbursed amounted to $3.0 million (2015 – $5.7 million) and operating leases approved but undisbursed amounted to $3.2 million (2015 – $1.2 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 FCC because it has sufficient funds available from the Government of Canada through the Crown Borrowing Program to meet its future cash requirements.

Investments in associates

As at March 31, 2016, FCC has committed to invest $46.0 million (2015 – $67.4 million) in investments in associates.

Venture capital commitments

As at March 31, 2016, FCC has committed to invest $14.9 million (2015 – $nil) in venture capital investments.

Operating commitments

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

As at March 31 ($ thousands)	**2016**	2015
Amounts due		
Less than one year	**$ 6,389**	$ 15,200
Between one and five years	**1,143**	5,171
	$ 7,532	$ 20,371

Capital commitments

Capital expenditures contracted for computer software and hardware at the end of the fiscal year but not yet incurred are $0.1 million (2015 – $9.6 million). Capital expenditures contracted for equipment and leasehold improvements at the end of the fiscal year but not yet incurred are $2.0 million (2015 – $6.0 million).

Guarantees

In the normal course of its business, FCC 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, 2016, is $1.0 million (2015 – $4.5 million). In the event of a call on these letters of credit, FCC 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, 2016, an amount of $nil (2015 – $nil) was recorded for these letters of credit.

22. Commitments, guarantees and contingent liabilities (continued)

Contingent liabilities and provisions

Various legal proceedings arising from the normal course of business are pending against FCC. Management does not believe that liabilities arising from pending litigations will have a material adverse effect on the Consolidated Balance Sheet or the results of operations of FCC. Therefore, no amount has been included in the consolidated financial statements as at March 31, 2016, for these contingent liabilities.

In the normal course of operations, FCC 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 FCC compensates the counterparty to the agreement for various costs resulting from breaches of representations or obligations. FCC also indemnifies directors, officers and employees, to the extent permitted by law and FCC'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 FCC is unable to determine a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, FCC has not made any payments under such indemnifications and contingencies. No amount has been included in the consolidated financial statements as at March 31, 2016, for these indemnifications and contingencies.

23. Related party transactions

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

FCC is related to Avrio Subordinated Debt Fund I and Avrio Subordinated Debt Fund II. They are limited partnerships for which FCC holds 99% (2015 – 99%) and 99% (2015 – nil%), respectively, of the partnership units. The Avrio Subordinated Debt Funds are consolidated as described in Note 2. All transactions between FCC and the Avrio Subordinated Debt Funds have been eliminated on consolidation and, as such, are not disclosed as related party transactions.

FCC is related to Avrio Fund I, Avrio Fund II, and Avrio Fund III. They are limited partnerships for which FCC holds 67% (2015 – 67%), 55% (2015 – 55%) and 46% (2015 – 76%), respectively. FCC is entitled to 20% (2015 – 20%) of the voting rights of Avrio Fund I and Avrio Fund II, and 14% (2015 – 14%) of Avrio Fund III. The Avrio Equity Funds are venture capital limited partnerships where FCC exerts significant influence over operating, investing and financing decisions. These are accounted for using the equity method.

Other related parties of FCC 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 FCC'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 FCC.

FCC enters into short- and long-term borrowings with the Government of Canada through the Crown Borrowing Program. As at March 31, 2016, the balances outstanding with the Government of Canada were $11,900.1 million in short-term debt (2015 – $13,349.3 million) and $11,600.7 million in long-term debt (2015 – $9,413.3 million). For the year ended March 31, 2016, $135.8 million (2015 – $214.4 million) was recorded in interest expense relating to these borrowings.

23. Related party transactions (continued)

FCC receives government assistance in the HILLRP 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, 2016, the decrease recorded to the provision for credit losses was $0.7 million (2015 – $5.0 million). The amount estimated to be returned to the Government of Canada is included in the long-term debt balances above.

FCC pays a dividend to the Government of Canada on an annual basis, as detailed in Note 24.

Key management personnel compensation

Key management personnel includes directors and members of the Enterprise 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:

For the year ended March 31 ($ thousands)		**2016**		2015
Salaries and other short-term employee benefits	**$**	**4,183**	$	4,395
Post-employment benefits		**975**		688
Board retainer and per diems		**164**		188
Total	**$**	**5,322**	$	5,271

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.

Loans to key management personnel outstanding as at March 31, 2016, were $4.7 million (2015 – $5.9 million). The maximum balance outstanding on these loans during the year ended March 31, 2016, was $5.3 million (2015 – $8.8 million). The weighted average interest rate on the loans to key management personnel outstanding as at March 31, 2016, was 5% (2015 – 6%).

The loans 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. There is no individual allowance established as at March 31, 2016, for the loans made to key management personnel (2015 – $nil).

Undrawn credit commitments with key management personnel totalled $8.9 million as at March 31, 2016 (2015 – $6.5 million).

Transactions with post-employment benefit plans

During the year, $174 thousand was received from the defined benefit plan (2015 – $133 thousand) for administrative services and was recorded in benefits expense.

24. Capital management

FCC manages capital in compliance with its Board-approved capital management policy and framework. The capital management policy and framework outline FCC's approach to assessing capital requirements for risks identified through its enterprise risk management framework. The objective of the capital management policy and framework is to maintain a safe and sound capital position and manage capital to withstand economic downturns and periods of extended loss. This will allow FCC to continue to serve the industry through all economic cycles.

Although not formally regulated, FCC manages its capital using a total capital ratio, dividing total capital by risk-weighted assets, as defined by the Capital Adequacy Requirements (CAR) guideline issued by the Office of the Superintendent of Financial Institutions (OSFI). This total capital ratio is then compared to the minimum capital requirements established by CAR and FCC's target capital ratio established through its Internal Capital Adequacy Assessment Process.

Debt to equity

FCC's only statutory limit, as prescribed by the Farm Credit Canada Act, requires that FCC's total direct and contingent liabilities not exceed 12 times equity. As at March 31, 2016, FCC's total direct and contingent liabilities were 4.69 times the shareholder's equity, excluding AOCI (2015 – 5.03 times the shareholder's equity, excluding AOCI).

Total capital and minimum regulatory capital

FCC's total capital consists of retained earnings, contributed surplus and AOCI, and is net of required regulatory adjustments as outlined in the CAR guideline. Applicable adjustments include the exclusion of intangible assets, accumulated gains or losses on derivatives designated as cash flow hedges and post-employment benefit assets. All of FCC's capital is considered Common Equity Tier 1 (CET1) capital, therefore total capital and CET1 capital are equivalent.

As at March 31, 2016 and 2015, FCC's total capital ratio was greater than both the minimum regulatory capital ratio and the target capital ratio and therefore in compliance with OSFI's CAR guideline and FCC's Internal Capital Adequacy Assessment Process.

As at March 31 ($ thousands)	**2016**	2015 Restated Note 3
Capital		
Retained earnings	**$ 4,698,824**	$ 4,175,856
Contributed surplus	**547,725**	547,725
AOCI	**107,121**	130,944
Required regulatory adjustments:		
Computer software	**(33,307)**	(25,359)
Accumulated net gains on derivatives designated as cash flow hedges	**(108,179)**	(131,501)
CET1/Total capital	**$ 5,212,184**	$ 4,697,665
Risk-weighted assets		
Credit risk-weighted assets	**$ 29,377,526**	$ 28,332,982
Operational risk-weighted assets	**1,793,320**	1,708,124
Total risk-weighted assets	**$ 31,170,846**	$ 30,041,106
Total capital ratio	**16.7%**	15.6%
Target capital ratio	**15.0%**	15.0%
Minimum regulatory capital ratio	**10.5%**	10.5%

24. Capital management (continued)

Contributed surplus

FCC'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 FCC's accumulated deficit.

As at March 31, 2016, cumulative capital payments received from the Government of Canada amounted to $1,208.3 million (2015 – $1,208.3 million). No capital payments have been received since 2006. The statutory limit for that same period was $1,250.0 million (2015 – $1,250.0 million).

Dividend

On October 22, 2015, the Board declared a dividend based on the results of the year ended March 31, 2015, in the amount of $90.4 million (2015 – $126.1 million based on the year ended March 31, 2014) to FCC's shareholder, the Government of Canada, which was paid on March 16, 2016.

25. Risk management

Financial risk governance

FCC has established a governance framework consistent with requirements for federally regulated financial institutions including Board and management committees, a formalized risk appetite, risk frameworks, risk policies and the three lines of defence. The Board provides oversight over risk management through a formal Board Risk Committee. The Board also oversees the enterprise risk management framework and practices to ensure risk management is integrated with strategic, financial and operating plans.

The Board has established a risk appetite statement for FCC. Annually, the risk appetite is reaffirmed and approved by the Board. The statement consists of three core 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. In addition to the principles, the appetite statement contains a series of tolerances and limits categorized as strategic, financial and operating risk. The financial risks include credit, market and liquidity risk. In addition, FCC has insurance risk related to its provision of insurance to customers.

FCC has developed risk tolerance statements applicable to all financial risk categories. These are:

- **Total capital ratio:** FCC maintains a safe and sound capital position to withstand economic downturn and periods of extended loss.
- **Financial strength:** FCC targets a net income that allows it to be self-sustaining: funding growth while securing long-run stability.
- **Loan loss:** FCC manages its loan portfolio to minimize large writeoffs and avoid material, sustained losses.
- **Portfolio concentration:** FCC diversifies its portfolio across all sectors of agriculture, agribusiness and agri-food and Canada. FCC manages concentration through the use of limits.
- **Connection exposure:** FCC does not expose itself to a customer connection exposure that could result in major loss.

Annually, limits are set to correspond to the tolerance statements and are maintained in the Enterprise Risk Management policy and reported quarterly to the Board. The limits are holistic and include capital and income, loan loss, portfolio distribution and large customer connection exposure. In addition, individual policies are approved by the Board, including risk limits for credit, market and liquidity risk.

25. Risk management (continued)

The three lines of defence model of FCC applies to the management of financial risk.

First line of defence

At a high level, the first line of defence owns and manages the risk within a set of Board-approved risk appetite statements and prescribed tolerances. Their mandate is to seek out opportunities within FCC's risk appetite and adopt strategies or practices to meet risk/return objectives. The first line is actively involved in the risk assessment process and uses risk information to support decision-making.

Second line of defence

The role of the second line of defence is to provide oversight and effective challenge to the risk-taking decisions of the first line relative to FCC's risk appetite statement and defined risk tolerances. The independent risk function recommends and sets policies and standards while establishing the infrastructure and processes to address risk across FCC.

Third line of defence

The third line provides independent and objective assurance on the effectiveness of FCC's systems of internal control established by the first and second lines of defence, and that the right processes and policies are in place to manage significant risks for each category of operational risk.

Financial risk management

FCC 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 FCC. Credit risk on loan and lease receivables is the most significant risk that FCC faces, although credit risk also exists on investments and derivative financial instruments.

Management of credit risk

The Board is responsible for approving FCC's Credit Risk Management policy and relies on a number of committees, divisions and business units to effectively manage credit risk. The three lines of defence model is employed as follows:

First line of defence

- Operations employees are delegated lending and valuations authorities and are responsible for managing credit risk on loans in their portfolio. Authority is granted on the basis of credit training and demonstrated competence, and credit decisions are made at an authority level appropriate to the size and risk of each loan. The division monitors customer and loan performance throughout the life of the loan through ongoing account management 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. Within the Treasury division, roles with pure first line accountability (1a) are directly involved in the pursuit of FCC's strategy. Embedded risk and controls roles (1b) in Treasury, based on their field of expertise, support the second line through policy development to control risk, monitoring and testing risk activities performed by 1a, and monitoring compliance with FCC's risk appetite and policies.

25. Risk management (continued)

Second line of defence

- 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 FCC:

  – Enterprise Risk and Portfolio Management is accountable for creating and maintaining credit, capital and loss models, validating FCC's models and monitoring FCC's loan portfolio by providing risk management solutions, independently maintaining the Board Credit Risk Management policy, monitoring risk policy limits, breaches and policy exceptions and reporting to the Chief Risk Officer, Board and senior management. It also maintains the credit risk management framework in co-ordination with the overall enterprise risk management framework of the corporation, monitoring and managing the compliance program for operational risk management at FCC.

  – Credit Policy and Process Management is responsible for the management of FCC's operational credit policies and makes recommendations to the Credit Policy Committee regarding policy changes. 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 scenarios.

  – Credit Management is accountable for providing second-level authorizations on credit facilities and credit facility administration that align with FCC's risk appetite statement and risk tolerances. It provides risk mitigation and coaching to help employees improve credit skills and provides eligibility rulings within FCC's mandate. It also manages the credit risk authorities system and delegates FCC's credit authorities to qualified employees. The Special Credit area manages accounts experiencing financial difficulty through intensive management or recovery by implementing customer-focused solutions with efficiency and respect, while protecting FCC's interests, capturing learnings and actively sharing specialized knowledge. Special Credit mitigates loan losses by working with customers to return them to performing or minimize losses through realizing and liquidating collateral.

  – Valuations provides market value estimates for risk-related decisions, delivering training and coaching to Operations, providing up-to-date valuation tools to Operations and delivering expert opinions on farmland values. It also provides valuations for real and personal property taken as security, valuations for recovery and intensive management purposes, valuation quality reviews, and maintenance of valuation guides used by field staff. Valuations employees execute FCC's environmental risk assessment policies and delegate valuation authorities to qualified employees.

Third line of defence

The Internal Audit division and Fraud Risk Management make up the third line of defence. A lending audit program provides assurance over activities related to credit risk management.

Measurement of credit risk

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

Policies, processes, systems and strategies are used to manage the credit risk of FCC's portfolio. Each year, Risk Management develops a comprehensive portfolio vision to set numeric targets for many of these tools, models and strategies. The portfolio vision is also an input used in determining customer exposure limits and approval authorities for policy.

25. Risk management (continued)

Significant research, modelling, validation and interpretation are used to determine the targets for each tool as follows:

Credit capital

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

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

Portfolio diversification plan

The portfolio diversification plan outlines the desired range for portfolio composition in five years, including diversification across enterprises, sales areas and business lines. The desired range is evaluated against other realistically achievable scenarios to determine the demand for credit capital.

Risk scoring and pricing system

The risk scoring and pricing system (RSPS) is used to rank risk for loans in FCC's portfolio. Risk ranking is based on customer, loan and enterprise characteristics, and generates scores ranging from 380 to 915 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 FCC's historical experience and are set with the objective to maximize the system's ability to predict probability of default.

In 2014-15 and 2015-16, FCC completed a project to update and standardize its credit risk rating methodology and processes. The updated model is now being used for the purposes of determining the allowance for credit losses, assessing capital requirements and internal monitoring of overall portfolio health as well as for pricing loans.

Loan loss model

The loan loss model estimates incurred 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 FCC 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 recover amounts outstanding

Collective loan losses are calculated on loans within the portfolio that have no individual loan loss and have met one of these indicators of potential future impairment:

- all loans for customers with any one loan that has arrears of $500 or greater for less than 90 days
- all loans for customers with any one loan that has had an amortization extension within the terms of the loan in the past year
- any individual loan that has had a drop in the RSPS risk score of 15 or more points in the past year

25. Risk management (continued)

A collective allowance is also calculated on those losses that have been incurred but have not yet exhibited evidence of 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, as well as customer, loan and security characteristics, to estimate the appropriate amount of loss allowance.

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

As at March 31	2016	2015
Weighted average loan-to-security ratio for secured loans	**49.9%**	49.2%
Loans secured by a general security agreement and unsecured loans as a percentage of loans receivable	**4.2%**	4.3%

Collateral

FCC mitigates its credit risk by employing policies and practices for collateral requirements. Credit policy establishes collateral guidelines and standards. FCC 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, FCC is potentially exposed to loss in an amount equal to the total unused commitments. See Note 22 for further details regarding FCC's loan commitments. To mitigate risk, unused commitments are included as input into FCC's capital requirement calculations.

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

As at March 31 ($ thousands)	2016	2015 Restated Note 3
On balance sheet		
Temporary investments	**$ 337,049**	$ –
Accounts receivable	**24,820**	23,308
Derivative financial assets	**47,510**	58,828
Loans receivable	**28,676,816**	27,329,470
Finance leases receivable	**15,671**	16,616
Investment in associates	**55,489**	84,203
Venture capital investments	**41,977**	33,248
Other assets	**21,345**	20,722
	29,220,677	27,566,395
Off balance sheet		
Financial guarantees	**998**	4,504
Loan and lease commitments	**3,034,895**	3,003,077
Investment in associates commitments	**46,034**	67,475
Venture capital commitments	**14,852**	–
	3,096,779	3,075,056
Total maximum exposure to credit risk	**$ 32,317,456**	$ 30,641,451

25. Risk management (continued)

The preceding table represents a worst-case scenario of credit risk exposure to FCC 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 FCC 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 they are sufficiently secured and collection efforts are reasonably expected to result in full repayment. The longer the customer is in arrears and interest continues to accrue, the greater the risk 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:

As at March 31 ($ thousands)	2016	2015
In arrears but not impaired		
Up to 30 days	**$ 167,722**	$ 275,658
31 – 60 days	**37,663**	31,271
61 – 89 days	**21,394**	25,160
90 days or more	**90,217**	112,542
	$ 316,996	$ 444,631

Loans receivable neither in arrears nor impaired

The credit quality of loans that were neither in arrears nor impaired can be assessed by referencing FCC'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:

As at March 31	2016	2015
RSPS score		
400-650	**0.4%**	0.5%
651-769	**8.8%**	9.8%
770-850	**80.3%**	78.2%
851-999	**10.5%**	11.5%
	100.0%	100.0%

The majority of the RSPS scores are updated on a monthly basis. For certain types of loans, different approval and credit management processes are used. These represent approximately 5% of FCC's total portfolio.

Counterparty credit risk – derivatives and temporary investments

Credit risk arises from the potential for a counterparty to default on a contractual obligation to FCC. To mitigate this risk, FCC 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 FCC's Board-approved credit risk policy, which specifies the maximum exposure that FCC will accept for each level of credit rating.

In the normal course of business, FCC receives collateral on certain transactions to reduce its exposure to counterparty credit risk. FCC 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 FCC. These unrealized gains result in positive fair values for these derivative financial instruments. FCC 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

25. Risk management (continued)

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 Balance Sheet. 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, FCC 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 FCC's counterparties. These agreements are addendums to existing ISDA documentation, and further specify the conditions for providing FCC with collateral in the event the counterparty credit exposure exceeds an agreed threshold. For derivative transactions where a CSA is in place, the counterparty must have a minimum long-term credit rating of A- from two or more external credit rating agencies (S&P, Moody's or DBRS). See Note 5 for the quantification of counterparty credit risk.

FCC's Enterprise Risk Management Committee 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, government counterparties must have a minimum long-term credit rating of A low/A3/A- from two or more external credit rating agencies. For temporary investment activities with a term to maturity equal to or less than 90 days, schedule 1, 2 or 3 bank 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.

FCC has controls and policies in place to protect against and minimize loss due to counterparty default. FCC reviews credit ratings and the financial performance of counterparties regularly and recommends policy changes to the Enterprise Risk Management Committee and the Board.

Credit quality

The following table presents the credit quality of FCC's cash equivalents and temporary investments as rated by S&P:

As at March 31 ($ thousands)	**2016**		2015	
	Cash equivalents	**Temporary investments**	Cash equivalents	Temporary investments
Government & government guaranteed				
AAA	**$ 14,974**	**$ 126,159**	$ 88,405	$ –
AA+	**11,984**	**72,335**	–	–
AA	**34,163**	**–**	101,838	–
AA-	**–**	**–**	222,414	–
A+	**55,944**	**138,555**	121,646	–
	117,065	**337,049**	534,303	–
Schedule 1 banks				
A-1+	**190,631**	**–**	301,863	–
A-1	**385,526**	**–**	236,160	–
	576,157	**–**	538,023	–
	$ 693,222	**$ 337,049**	$ 1,072,326	$ –

Effective November 1, 2015, the credit rating policy for short-term government and government guaranteed investments changed from using short-term credit ratings to long-term credit ratings. This policy change does not impact the credit rating criteria for investments in schedule 1, 2 or 3 banks.

25. Risk management (continued)

Venture capital debt investments

FCC is exposed to credit risk through its Avrio Subordinated Debt Fund investments. FCC 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 managers monitor and report on the financial condition of investee companies regularly.

b) 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.

The Board is responsible for approving FCC's Market Risk Management policy and relies on a number of committees, divisions and business units to effectively manage liquidity risk. The market risk policies and limits ensure exposures to interest rate and foreign exchange risks are identified, measured, managed and reported on a timely basis. FCC's policies and processes are based on industry best practices and the Minister of Finance's Financial Risk Management Guidelines for Crown Corporations.

The three lines of defence model is employed as follows:

First line of defence

The Treasury division is responsible for implementing market risk management directives and reports regularly to the Enterprise Risk Management Committee and the Board on its activities and asset/liability positions. Within the Treasury division, roles with pure first line accountability (1a) are directly involved in the pursuit of FCC's strategy. Embedded risk and controls roles (1b) in Treasury, based on their field of expertise, support the second line through policy development to control risk, monitoring and testing risk activities performed by 1a, and monitoring compliance with FCC's risk appetite and policies.

Second line of defence

The Enterprise Risk and Portfolio Management division is accountable for validating market risk models, independently maintaining the Market Risk Management policy, monitoring risk policy limits, breaches and policy exceptions and reporting to the Chief Risk Officer, Board and senior management. It also maintains the market risk management framework in co-ordination with the overall enterprise risk management framework of the corporation.

Third line of defence

The Internal Audit division and Fraud Risk Management make up the third line of defence. The audit program provides assurance over activities related to market risk management.

Interest rate risk

Interest rate risk is the risk that a change in the interest rate adversely affects FCC'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 repricing 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.

25. Risk management (continued)

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 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% immediate and sustained change in the level and term structure of 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 5%. The second defined limit is that the market value of portfolio equity (MVPE) should not decline by more than 10% of the total equity (excluding AOCI) for a 2% change in interest rates. Based on FCC's financial position as at March 31, 2016, assuming an immediate and sustained 2% 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:

	2016 Impact of		2015 Impact of	
($ thousands)	**2% increase**	**0.40% decrease (1)**	2% increase	0.30% decrease (1)
Projected net interest income variability	**$ 30,048**	**$ (6,443)**	$ 15,713	$ (2,681)
Limit	**(50,915)**	**(50,915)**	(98,215)	(98,215)
MVPE variability	**(303,514)**	**60,803**	(294,288)	43,519
Limit	**(524,655)**	**(524,655)**	(472,358)	(472,358)

(1) The lowest rate on the yield curves used in the model was 0.40% (2015 – 0.30%) to avoid using negative rates.

25. Risk management (continued)

The following table summarizes FCC's interest rate risk based on the gap between the carrying value of assets, and liabilities and equity, grouped by the earlier of contractual repricing 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.

As at March 31 ($ thousands)	Immediately rate-sensitive	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest sensitive	Total 2016	2015 Restated Note 3
Assets								
Cash and cash equivalents	$ –	$ 813,240	$ –	$ –	$ –	$ 18,147	$ 831,387	$ 1,164,315
Yield	–	0.75%	–	–	–	–	–	–
Temporary investments	–	141,276	196,020	–	–	(247)	337,049	–
Yield (1)	–	0.64%	0.62%	–	–	–	–	–
Derivative financial assets (2) (3)	–	(225,007)	–	17,870	207,137	47,510	47,510	58,828
Yield (1)	–	0.61%	–	4.30%	4.74%	–	–	–
Loans receivable	15,995,274	1,220,735	3,170,843	7,087,289	901,183	70,323	28,445,647	27,102,815
Yield (1)	3.58%	5.32%	3.39%	3.86%	4.53%	–	–	–
Finance leases receivable	–	1,188	3,647	9,901	–	–	14,736	15,497
Yield (1)	–	4.53%	4.53%	4.53%	–	–	–	–
Investment in associates	–	–	–	–	–	55,489	55,489	84,203
Yield	–	–	–	–	–	–	–	–
Venture capital investments	–	–	–	32,326	10,000	(349)	41,977	33,248
Yield	–	–	–	11.53%	8.75%	–	–	–
Other	–	–	–	–	–	177,110	177,110	156,752
Total assets	**$ 15,995,274**	**$ 1,951,432**	**$ 3,370,510**	**$ 7,147,386**	**$ 1,118,320**	**$ 367,983**	**$29,950,905**	$ 28,615,658
Liabilities and equity								
Borrowings	$ –	$17,944,158	$ 2,189,648	$ 3,595,331	$ 504,734	$ 28,914	$24,262,785	$ 23,431,947
Yield (1)	–	0.44%	0.57%	0.98%	3.12%	–	–	–
Derivative financial liabilities (2) (3)	–	12,987	–	–	(12,987)	422	422	–
Yield (1)	–	0.43%	–	–	1.75%	–	–	–
Other	–	–	–	–	–	334,028	334,028	329,186
Shareholder's equity	–	–	–	–	–	5,353,670	5,353,670	4,854,525
Total liabilities and equity	**$ –**	**$ 17,957,145**	**$ 2,189,648**	**$ 3,595,331**	**$ 491,747**	**$ 5,717,034**	**$29,950,905**	$ 28,615,658
Total gap 2016	**$ 15,995,274**	**$(16,005,713)**	**$ 1,180,862**	**$ 3,552,055**	**$ 626,573**	**$(5,349,051)**	**$ –**	$ –
Total cumulative gap 2016	**$ 15,995,274**	**$ (10,439)**	**$ 1,170,423**	**$ 4,722,478**	**$ 5,349,051**	**$ –**	**$ –**	$ –
Total gap 2015 Restated Note 3	$ 16,175,647	$(16,453,586)	$ 361,687	$ 4,099,931	$ 653,294	$(4,836,973)	$ –	$ –
Total cumulative gap 2015 Restated Note 3	$ 16,175,647	$ (277,939)	$ 83,748	$ 4,183,679	$ 4,836,973	$ –	$ –	$ –

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

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

(3) Represents notional principal amounts on derivatives, except for the non-interest sensitive amount.

25. Risk management (continued)

Foreign exchange risk

FCC 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, FCC has determined that the residual risk is insignificant.

FCC's policy is to mitigate foreign exchange risk through economic hedges. 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.

Derivatives

FCC 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 interest rate risk and foreign exchange risk are managed within policy limits.

Derivatives may be designated as cash flow hedges which are accounted for as described in Note 2. There were no derivatives designated as hedging instruments in the year and no designated cash flow hedges were in place as at March 31, 2015 or 2016 respectively.

Derivative transactions that are not designated as cash flow hedges 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.

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 Board. 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 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 16 years, while the registered pension plans' liabilities are estimated to be 21 years and the supplemental pension plans' liabilities are estimated to be 20 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 FCC 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.

FCC monitors expenses paid from the pension fund to ensure 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. FCC implemented the funding policy and monitors its application.

25. Risk management (continued)

c) Liquidity risk

Liquidity risk is the risk that FCC has insufficient funds to meet payment obligations as they come due. FCC has a liquidity risk policy and a policy limit and the Treasury division regularly reports compliance within this limit to the Enterprise Risk Management Committee and the Board.

The Board is responsible for approving FCC's Liquidity Risk Management policy and relies on a number of committees, divisions and business units to effectively manage liquidity risk. The liquidity risk policies and limits ensure FCC's objective to maintain sufficient funds to meet customer and business operational requirements is met. FCC's policies and processes are based on industry best practices and the Minister of Finance's Financial Risk Management Guidelines for Crown Corporations.

The three lines of defence model is employed as follows:

First line of defence

The Treasury division is responsible for implementing liquidity risk management directives and reports regularly to the Enterprise Risk Management Committee and the Board on its activities and liquidity position. Within the Treasury division, roles with pure first-line accountability (1a) are directly involved in the pursuit of FCC's strategy. Embedded risk and controls roles (1b) in Treasury, based on their field of expertise, support the second line through policy development to control risk, monitoring and testing risk activities performed by 1a, and monitoring compliance with FCC's risk appetite and policies.

Second line of defence

The Enterprise Risk and Portfolio Management division is accountable for independently maintaining the Liquidity Risk Management policy, monitoring risk policy limits, breaches and policy exceptions and reporting to the Chief Risk Officer, Board and senior management. It also maintains the liquidity risk management framework in co-ordination with the overall enterprise risk management framework of the corporation.

Third line of defence

The Internal Audit division and Fraud Risk Management make up the third line of defence. The audit program provides assurance over activities related to liquidity risk management.

FCC measures, forecasts and manages cash flow as an integral part of its liquidity management. FCC's objective is to maintain sufficient funds to meet customer and business operational requirements.

FCC maintains liquidity through:

- a liquid investment portfolio – cash and cash equivalents, and temporary investments of $1,168.4 million were on hand as at March 31, 2016 (2015 – $1,164.3 million)
- access to short-term funding – FCC's access to funding through the Crown Borrowing Program and capital markets provides FCC 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 FCC'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. FCC's expected cash flows on certain instruments vary significantly from this analysis. For example, certain borrowings that may be prepaid by FCC have not been included in their earliest possible maturities due to being impracticable to estimate.

25. Risk management (continued)

Residual contractual maturities of financial liabilities

As at March 31 ($ thousands)	2016						
	Carrying value	**Gross nominal outflow**	**Less than 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**
Non-derivative financial liabilities							
Borrowings	**$ 24,262,785**	**$ (24,260,058)**	**$ (1,787,846)**	**$ (2,539,289)**	**$ (8,036,112)**	**$ (11,343,331)**	**$ (553,480)**
Transition loan liability	**105,222**	**(106,449)**	**(3,984)**	**(8,467)**	**(30,210)**	**(62,647)**	**(1,141)**
Derivative financial liabilities	**418**	**(542)**	**(14)**	**(18)**	**(85)**	**(393)**	**(32)**
	$24,368,425	**$(24,367,049)**	**$ (1,791,844)**	**$ (2,547,774)**	**$ (8,066,407)**	**$ (11,406,371)**	**$ (554,653)**

As at March 31 ($ thousands)	2015						
	Carrying value	Gross nominal outflow	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years
Non-derivative financial liabilities							
Borrowings	$ 23,431,947	$ (23,429,460)	$ (1,940,947)	$ (1,920,102)	$ (9,856,480)	$ (9,210,250)	$ (501,681)
Transition loan liability	96,257	(97,823)	(6,834)	(5,527)	(28,300)	(55,264)	(1,898)
Derivative financial liabilities	–	–	–	–	–	–	–
	$ 23,528,204	$ (23,527,283)	$ (1,947,781)	$ (1,925,629)	$ (9,884,780)	$ (9,265,514)	$ (503,579)

Insurance risk management

Assumptions and measurement uncertainty

FCC's insurance provider determines the reserve for insurance claims actuarially using the Canadian Asset Liability Method. 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. FCC engages independent actuaries from time to time to review its insurance program to ensure 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.

25. Risk management (continued)

Insurance mortality refers to the rates at which death occurs for defined groups of people and is generally based on FCC'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 FCC's five-year average experience.

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

26. Subsequent events

The Board approved the consolidated financial statements on June 1, 2016. There were no subsequent events requiring recognition or disclosure within the consolidated financial statements between March 31, 2016, 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).

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 FCC 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 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.

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 rate swaps

Contractual agreements for specified parties to exchange interest payments for a specified period of time based on notional principal amounts.

Market value of portfolio equity (MVPE)

The net present value of assets less liabilities. It is used to measure the sensitivity of FCC's net economic worth to changes in interest rates.

Minimum regulatory capital ratio

The minimum level of capital, as a percentage of risk-weighted assets, which is prescribed by regulations issued by the Office of the Superintendent of Financial Institutions (OSFI).

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

NII 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 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 AOCI.

Risk scoring and pricing system (RSPS)

A tool used to evaluate the type and potential impact of risks present in each loan or finance lease to ensure FCC is adequately compensated for the risk in its portfolio. The pricing component of RSPS calculates the risk price (risk adjustment), which is the portion of the loan margin required to cover the risk of loss.

Risk-weighted assets (RWA)

Assets weighted according to relative risk as prescribed by the regulatory capital requirements issued by OSFI.

Total capital ratio

The total capital ratio is calculated by dividing total capital by RWA. FCC's total capital consists of retained earnings, contributed surplus and AOCI, and are net of required regulatory adjustments prescribed by OSFI. The applicable regulatory adjustments consist of the exclusion of intangible assets, accumulated gains or losses on derivatives designated as cash flow hedges and post-employment benefit assets.

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, 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, St-Hyacinthe, St-Jean-sur-Richelieu, Ste-Marie, Trois-Rivières, Victoriaville

New Brunswick

Moncton, Woodstock

Nova Scotia

Kentville, Truro

Prince Edward Island

Charlottetown

Newfoundland and Labrador

Mount Pearl

(S) Satellite office – limited hours

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