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1.0 Executive summary

Today's farmers and agribusiness operators are sophisticated business owners. They work in a complex industry affected by unpredictable markets, evolving consumer trends, human resource challenges and many other factors.

Given the current state of the global economy, a trustworthy and stable financial partner has never been more important. The events of recent years have provided an opportunity for Farm Credit Canada (FCC) to demonstrate its continued and unwavering commitment to the agriculture and agri-food industry.

FCC is a financially self-sustaining corporation, providing financial and business services to 100,000 primary producers, value-added operators, suppliers and processors along the agriculture value chain.

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

As a federal commercial Crown corporation, FCC understands the importance of remaining financially viable through all economic cycles to support customers through good and challenging times. In 2011-12, the corporation will continue to control costs and increase efficiency to sustain its excellent financial performance and the ability to serve the industry in the future.

The FCC strategic planning process engages the Board of Directors and the senior leadership team in developing the corporation's business strategy. This process assesses the current state and develops strategies to move FCC toward its vision and mission. FCC uses a balanced scorecard approach to communicate, monitor and measure progress in achieving its strategy.

To achieve the vision and mission, FCC has developed 11 five-year strategic objectives and numerous initiatives categorized under four strategic themes:

- Financial viability and enterprise risk
- Customer experience
- Efficiency and execution
- Employee experience

Enterprise risk management is integrated into the strategic planning process to ensure that risk identification, assessment and evaluation are considered from a strategic vantage point. Effective risk management enables FCC to fulfill its mandate, protect and create value for stakeholders, and ensure long-term business viability.

The corporate plan for the 2011-16 planning period is an output of the strategic planning process, and outlines how the corporation will achieve its vision, mission and value proposition.

2.0 Mandate

2.1 Corporate mandate

FCC is Canada's largest provider of business and financial services to farms and agribusiness.

FCC's mandate is described in the Farm Credit Canada Act as follows:

> 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 is on farming operations, including family farms.

FCC fulfils its mandate by offering loans and services to the agriculture and agri-food industry. Other offerings include management software, learning programs and knowledge to help customers and others involved in agriculture make sound decisions. FCC's main focus remains primary producers, who represent 85 per cent of the portfolio. The corporation also serves agribusinesses along the full value chain – from inputs to processing.

FCC's 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 named in Part 1 of Schedule III of the Financial Administration Act, making it the successor to the CFLB.

On April 2, 1993, the Farm Credit Corporation Act was proclaimed into law. It provided the corporation with an expanded mandate and broader lending and administrative powers. It also combined these powers allowing FCC to provide financial services to farming operations, including individuals, farming corporations and farm syndicates, under the authority of one Act.

On June 14, 2001, the Farm Credit Canada Act received royal assent, further broadening the corporation's range of services to producers and agribusiness operators.

Upon request, FCC also delivers specific programs for the Government of Canada on a cost-recovery basis. The Hog Industry Loan Loss Reserve Program is an example of one such program.

In addition to the Farm Credit Canada Act, FCC is governed by, or subject to, the following federal legislation:

- Access to Information Act
- Canada Human Rights Code
- Canada Labour Code
- Canadian Environmental Assessment Act
- Conflict of Interest Act
- Employment Equity Act
- Employment Insurance Act
- Federal Accountability Act
- Financial Administration Act
- Official Languages Act
- Privacy Act
- Public Servants Disclosure Protection Act

FCC complies with other federal and provincial legislation, such as land titles, farm debt mediation, personal property security acts, environmental protection, bankruptcy, insurance, occupational health and safety, and securities.

2.2 Official languages

As a federal Crown corporation, FCC adheres to the Official Languages Act, and serves customers in both official languages.

One of the ways that FCC supports the use of both official languages in minority language communities across Canada is through the Expression Fund. This fund supports projects that contribute to the vitality of official language minority communities, such as community centres, events and daycares.

2.3 Public policy role

The public policy role is based on FCC's mandate and is the foundation of corporate initiatives. Serving agriculture through all cycles and tailoring products and services to the unique needs of the industry are some of the ways that FCC fulfils its public policy role. The more sophisticated primary producers and agribusiness operators become, the greater their chances of success in an increasingly complex industry. That is why FCC provides learning programs and knowledge to all those involved in the industry, whether they are customers or not. Knowledgeable farmers and agribusiness owners contribute to advancing the business of agriculture, which is important to the industry's future growth.

FCC's public policy:

FCC serves all of agriculture, all the time – all sectors, all across Canada.
The corporation provides financing to Canadian producers. This includes operations of all sizes and producers of all ages.

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

The corporation works with every sector across the country, primarily in rural areas.

FCC is dedicated to agriculture and takes the long-term view.
The corporation understands that agriculture is cyclical and that cycles impact even the best producers and agribusiness operators. For that reason FCC consistently works with and supports its customers and agriculture sectors through the highs and lows.

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

The corporation is profitable and financially self-sustaining, which enables it to lead the way in creating innovative products and services tailored to the dynamic business needs of agriculture. FCC offerings recognize that it takes time for agriculture operations to flourish.

FCC is visionary and operates business in a sustainable manner.
The corporation offers unique products and services that help young farmers and agribusiness entrepreneurs because it is good for the industry's future. [1]

Knowledge is key to the future success of Canadian agriculture. FCC provides workshops, publications and learning forums as educational offerings to the industry and encourages knowledge sharing internally and externally.

As a socially responsible corporation FCC has a special focus on customers, the environment, community investments, people and agriculture and food.

The corporation provides environmental information and products to customers and is working to reduce its corporate environmental footprint.

FCC gives back to the communities where its customers and employees live and work.

[1] Young farmers are defined as all customers under 40.

The corporation hires and develops employees who are passionate and knowledgeable about Canadian agriculture.

Examples that demonstrate how FCC fulfilled its public policy role in 2009-10 are provided below.

Highlights
In 2009-10, 38,556 customers[2] received loans or other financial products through one of FCC's 100 offices, located primarily in rural areas across Canada:

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

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

The corporation offers loans, management software, information and learning opportunities tailored to the unique needs of the agriculture industry, including

- The FCC Transition Loan, which assists young farmers to start or expand an operation
- FCC Management Software, which provides producers with detailed management information to enhance decision-making
- CanadianFarmersMarket.com, which provides customers with an Internet site where they can promote and sell products

FCC builds alliances with businesses involved in Canadian agriculture. These alliance partners supply products and services to producers, retailers and wholesalers, while FCC provides the financing.

FCC has 2,082 alliance partners including equipment dealers and manufacturers, crop input retailers, co-operatives and livestock operations. Offering loans where customers want to do business supports local communities where dealers and suppliers operate. FCC customers can purchase new or used farm equipment through equipment loan financing. Approximately 600 equipment dealers across Canada offer FCC financing.

In 2009-10, $469,563,033 in equipment loan and lease financing was disbursed to customers.

FCC's customer support strategy helps customers manage when unexpected challenges arise. During the 2009-10 year, the corporation implemented this program for hog customers across Canada and crop producers in regions of Alberta affected by drought.

Recognizing that interest and enthusiasm for agriculture starts early, FCC supports young farmers with various loan products and initiatives, including Business Planning Awards, 4-H partnerships, FCC Learning workshops and tools like FCC management software. In 2009-10, FCC disbursed over $1.8 billion in loans to help young farmers succeed.

FCC shares knowledge with customers, stakeholders and the industry in a variety of ways. FCC Learning programs offer insights and knowledge that helps participants advance their farm management practices. Over 10,000 people attended a learning event last year. Through the Knowledge Insider publication, FCC offers ideas and a view of global issues from the perspective of Canadian agriculture.

Early in 2010, FCC held panel events in conjunction with the release of the winter edition of the Knowledge Insider about the green economy. Offered in two regions, these events featured two unique sets of panellists who shared their knowledge about regional and federal

[2] FCC currently has 100,000 customers. The customer number has been restated to include 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.

aspects of the green economy in Canada. Webcasts of the presentations were posted on the FCC website at fcc-fac.ca

FCC recognizes the value of renewable energy for producers and agribusiness owners. In March 2010, the corporation launched the Energy Loan to assist producers who wish to move toward producing their own renewable energy and becoming more self-sufficient.

FCC assesses environmental risk as part of credit risk analysis. As part of the loan approval process, lending staff assess environmental risk, and work with customers to complete questionnaires, site inspections and assessment reports.

The corporation also provides the Canadian Environmental Assessment Registry with a quarterly report of projects assessed under the Canadian Environmental Assessment Act.

FCC is environmentally responsible in its business practices. The corporation adheres to established biosecurity protocols, ensuring that employees practice disease prevention when visiting farms and agribusiness operations.

Community matters, and giving back to the communities where customers and employees live and work is vital to FCC's brand. FCC gives back in a number of ways. These are a few examples from 2009-10:

- In support of the 2009 FCC Drive Away Hunger program, students in Brooks, Alberta donated, collected and grew food to help fill empty plates in their community. As a result, 72 students raised over 6,400 pounds of food for the Brooks Food Bank, an average of nearly 90 pounds per student.

- The FCC AgriSpirit Fund provided $10,000 towards the new South Mountain Library Resource Centre. Located in Winchester, Ontario, the facility provides space for community groups to hold meetings and run activities. A local history display is being developed. The FCC AgriSpirit Fund also allotted $12,000 to the town of St.-Hugues for the renovation of the Marché Public and improvements to the multi-purpose halls.

- The FCC Regina Spirit Fund provided $10,000 to support the Cochrane and Community Food Store in Regina, Saskatchewan. The store, located in Cochrane High School, provides healthy, competitively-priced food to students and community members in a low income area where access to such food is limited. Community members and students volunteer as staff in return for skill development and food honorariums. Food-related programming is also offered to students and community members to further enhance the impact the store has on the community.

2.4 Alignment with government priorities

FCC is committed to supporting the priorities of the Government of Canada as they arise and as directed by the Minister. The Minister has asked FCC to focus on several important elements of these priorities.

FCC and Agriculture & Agri-Food Canada (AAFC) are accountable and report through the Minister of Agriculture and Agri-Food to Parliament for the conduct of their affairs. Both organizations are mandated to support the agriculture industry and offer programs and tools designed to meet a range of related policy objectives. FCC occasionally partners with AAFC to deliver specific programs for the Government of Canada on a cost-recovery basis. For example, FCC was one of the main financial institutions that delivered the Hog Industry Loan Loss Reserve Program to the hog industry.

FCC will continue to support the AAFC Growing Forward vision through the continued development of innovative and sound financial and related products, services and programs that promote a strong agriculture and agri-food industry. As part of the early industry consultation for Growing Forward 2, AAFC was able to obtain input from the 9,000 members of the FCC Vision Panel.

FCC contributes to good governance and coordination of efforts in the Minister's portfolio through the CEO's relationship with the Deputy Minister and participation in Portfolio Head meetings. FCC supports the Portfolio Coordination Secretariat (part of the Deputy Minister's office) through participation at several levels, including Portfolio Head phone calls and meetings and sharing information on various common subjects. FCC provides advice and input on sector-specific issues, new policy and where appropriate, delivery of special government programs.

In support of Canada's Economic Action Plan, FCC ensures that the agriculture industry has access to capital by providing a range of customized credit products, such as the Advancer Loan, AdvancerPlus and Energy Loan. FCC works with Business Development Bank of Canada and Export Development Canada when appropriate. To ensure that the sector has an effective marketplace to access credit, FCC will remain a fair competitor among financial institutions, offering neither the lowest nor the highest priced loans.

AAFC has been working on enhancing the public image of agriculture as a modern, innovative industry. During this work, AAFC has been consulting with FCC about the methods and materials FCC uses to publicize this message.

The Minister of State for Agriculture has made it a priority to better understand the challenges and opportunities that face young farmers in Canada. During consultations with industry, a number of the topics raised touched directly on FCC. To ensure a coordinated and complete approach on these topics, the Minister of State met with FCC and discussed concrete options for moving forward.

FCC helps to build the industry of the future by supporting young farmers. Products and services like the Transition and First Step loans help with the intergenerational transfer of farms and assist farmers entering the industry.

Management workshops and software for farm accounting and field management help to ensure that farmers of all ages can access the training and tools that they need to succeed in the future. FCC supports the future growth of their business with value-added knowledge, targeted publications and learning forums.

FCC is a strong corporate citizen, and has multiple initiatives in place under its Corporate Social Responsibility (CSR) program. FCC donates more than one per cent of its profits to charities and not-for-profit organizations. Giving is focused on hunger, rural safety, education about agriculture, voluntarism and community enhancement projects. FCC makes a difference in rural communities through its Drive Away Hunger program and support of the National Food Sharing system. In addition to these community investment programs, FCC is benchmarking its environmental footprint and improving its CSR performance management framework.

FCC also helps customers and rural communities facing difficult times – such as fires and illness – through the Ag Crisis Fund. The corporation utilizes its Customer Support Program to proactively assist customers who may experience loan repayment difficulties due to a disaster or downturns in a segment of agriculture.

2.5 Operating expense restraint

FCC is a commercial Crown corporation with a mandate to serve agricultural producers and agribusiness operators by ensuring access to credit through all cycles. FCC does this by financing its own growth, without financial appropriations from the federal government.

The corporation has placed a strong focus on financial viability for the past 20 years. As a result, FCC has recorded 17 years of profitable growth, and began paying a dividend to the federal government in 1996. The corporation's efficiency ratio has fallen from 89.6 per cent in 1990 to 41.2 per cent in 2010.

In order to serve an expanding industry with increasingly complex needs well into the future, FCC has grown its suite of products, services and learning programs, while maintaining a strong focus on financial viability.

FCC is mindful of the government's increased focus on fiscal prudence and accountability and intends to continue managing its growth in an efficient and financially self-sustaining manner.

The agriculture and agri-food industry plays a major role in the Canadian economy, making a significant contribution to Gross Domestic Product (GDP) and employment. In 2008, the agriculture and agri-food system was responsible for 8.1 per cent of Canadian GDP and 12.6 per cent of Canadian employment. Changing market conditions have caused the industry to go through considerable transformation and restructuring. Agriculture has become more capital intensive. The average farm in Canada has grown to $1.6 million in total farm assets.[3]

In fulfilling its mandate, FCC has experienced significant growth every year for more than a decade. Revenues and administration expenses have grown in relation to FCC's product and service offerings, and overall loan portfolio. Over the same period, FCC has realized improvements in its efficiency ratio and profitability. This trend is expected to continue as the efficiency ratio is projected to improve from 41.6 per cent to 40.5 per cent over the planning period.

The efficiency ratio (defined as total administration expenses as a percentage of total revenue) is a common management measure in the financial services industry. A lower efficiency ratio indicates an effective utilization of resources to generate revenue. FCC has used this measure for many years to carefully manage its growth in administration expenses[4] in relation to revenue and profits. As a result, the corporation has one of the best efficiency ratios in the industry. For the purposes of this corporate plan, the projected administration expenses over the plan period are based on a prudent efficiency ratio in each year.

FCC understands the importance of remaining financially viable through all economic cycles to support customers through good and challenging times. Maintaining strong customer satisfaction and employee engagement are important to the continued growth and success of the agriculture and agri-food industry.

[3] Structure and Performance of the Agriculture and Agri-food Sector, Agriculture and Agri-Food Canada, 2010

[4] Includes expenses related to personnel, travel, training, professional fees, marketing and promotion, facilities and equipment (including depreciation)

3.0 Corporate profile

FCC operates out of 100 offices located primarily in rural communities. Over 1,500 dedicated employees are passionate about the business of agriculture. We continue to meet the changing needs of the industry, offering customized debt and equity financing, creditor insurance, management software, learning programs and knowledge.

FCC is a financially self-sustaining federal Crown corporation reporting to Parliament through the Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board. We provide financing and other services to 100,000 primary producers and value-added operators, suppliers and processors along the agriculture value chain. In addition, every year, FCC provides learning events and publications to over 10,000 participants and 100,000 subscribers respectively.

3.1 Why we exist

Vision

The following vision keeps employees focused on our future state, which we target to meet by the year 2020.

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

Mission

FCC's mission as stated in the Farm Credit Canada Act as follows:

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.

3.2 Customer value proposition

The following customer value proposition outlines what customers and prospects can expect from a relationship with FCC:

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

We focus on the primary producer as well as suppliers and processors along the agriculture value chain. We provide our customers with flexible, competitively priced financing, equity, leasing, insurance, management software, information and learning.

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

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

We're easy to do business with.

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

3.3 Corporate citizenship

Corporate values

FCC's corporate values represent our core beliefs, which fall under six themes:

Focus on the customer
We succeed when our customers succeed. To help them, we listen and work to understand their needs.

Act with integrity
We treat people – colleagues and customers – with respect, balancing business decisions with individual needs.

Work together
We believe in the power of teamwork. We work together with customers to design services tailored to their needs. We partner with other organizations to benefit our customers.

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

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

Corporate social responsibility

At FCC, we believe that being socially responsible makes good business sense. Corporate social responsibility is part of our 2020 vision and we plan to advance our CSR practices by responding to changing macro trends and societal expectations.

As part of our commitment to CSR, we strive to be a responsible corporate citizen in all areas of our operation. We work in a socially and environmentally sustainable manner in our interactions with customers, employees, communities, the agriculture industry and society as a whole. We believe that socially responsible practices help us to grow and advance our business.

Cultural practices

In addition to the corporate values, our cultural practices explicitly outline the behaviours employees and Board members are expected to demonstrate with colleagues, customers, partners, suppliers and stakeholders.

- We hold ourselves and each other accountable for our impact on business results and our impact on people.
- We hold ourselves and each other accountable for delivering on commitments, agreements and promises.
- We hold ourselves and each other accountable for building and sustaining committed partnerships.
- We hold ourselves and each other accountable for creating a safe environment where people can speak up without fear.
- We measure our success by how others perceive and respond to our leadership, not by our personal point of view.
- We talk straight in a responsible manner. We are committed to the success of others – we do not engage in "conspiracies against" people.
- We "listen for" contributions and commitment. We do not "listen against" people or ideas.
- We are highly coachable. We actively seek and listen to coaching.
- We clean up and recover quickly.[5]
- We acknowledge others often and celebrate both small and large successes.

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

[5] When disagreements occur, we seek to understand our colleague's perspective and apologize for any impact.

3.4 Employee value proposition

Just as FCC has a customer value proposition so that customers and prospects know what to expect, the corporation has created an employee value proposition so that employees know what to expect.

FCC's commitment to employees:

- leadership that inspires, provides clarity, and helps employees feel valued and supported
- a positive culture based on respect and trust where employees can feel safe to speak up responsibly – regardless of role or title
- opportunities to learn, grow and take on new challenges as part of an industry-leading organization
- processes, systems, knowledge and tools that make it easy for employees to do their job
- recognition for employee accomplishments, ideas and demonstrated commitment to work in partnership with others
- competitive salaries, pension and benefits

Our employees' commitment to FCC:

- do their absolute best every day – go the extra mile to show customers that they care about their needs, they value their business and that FCC is easy to do business with
- be committed to the success of each person and team at FCC – One team. One customer. Make decisions as if they owned the company: Think like an owner.
- be personally accountable for the results they create, acting with integrity and for their impact on others
- display a positive attitude toward change; actively support corporate decisions and initiatives
- demonstrate leadership in improving our internal processes and service delivery by generating and sharing ideas
- take ownership for continually developing their knowledge and abilities

3.5 Corporate governance

Board of Directors

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

The Board of Directors is appointed by the corporation's shareholder, the Government of Canada. The Governor-in-Council appoints the Chair and the President and Chief Executive Officer (CEO). The Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board, with approval of the Governor-in-Council, appoints Board members, striving to balance sector, gender, linguistic and geographical representation. Directors serve terms of up to four years and may be reappointed. They are paid an annual retainer and a per diem. Amounts are set by the Governor-in-Council under the authority of the Financial Administration Act.

The Board is responsible for the overall governance of the corporation. It ensures that FCC business activities are in the best interests of the corporation and the Government of Canada as required by the Farm Credit Canada Act and the Financial Administration Act. Directors exercise a stewardship role, participate in the strategic planning process and approve the corporation's strategic direction and corporate plan. The Board also exercises its responsibility to oversee and ensure that risks associated with FCC's business have been identified and that appropriate systems, controls and policies are implemented to manage them.

At each meeting the board receives and reviews the corporation's quarterly Corporate Scorecard Report, which contains a report on all of the corporation's initiatives and progress toward the approved targets. This document includes reports on enterprise risk management and CSR initiatives.

The CEO is responsible to the Board for day-to-day operations of the organization and is a member of the Board.

The roles and responsibilities of the Chair, Board members, the CEO and all Board committees are set out in written profiles and charters (available upon request). These documents articulate the Board's responsibility in six major areas:

- integrity including legal and ethical conduct
- strategic planning
- financial reporting and public disclosure
- risk management and internal controls
- leadership development and succession planning
- corporate governance including director orientation, continuing education and evaluation

There are three sub-committees of the Board: Audit, Human Resources and the Corporate Governance Committee.

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

The **Human Resources Committee** reviews major human resources policy matters. The committee is responsible for advising the Board about all matters relative to the CEO, including required skills, goals and performance assessment. The Human Resources Committee is also responsible for reviewing the corporation's succession plan.

The **Corporate Governance Committee** reviews and makes recommendations to the Board with respect to sound governance practices and oversees the corporation's strategic planning and enterprise risk management processes.

The Governance Committee oversees the process for conducting regular Board evaluations and reviews of the Board's competencies and skills so as to recommend appropriate orientation and training plans for individual Board members and the Board as a whole. The committee also oversees Board policies with respect the Board's relationship with management, particularly with respect to conflict of interest and the corporation's code of conduct and ethics.

The committee also serves as the Board's nominating committee and is responsible for reviewing, reporting and providing recommendations to the Board and FCC's Minister regarding the appointment of Directors, the Board Chair and the corporation's CEO.

FCC's board is currently comprised of 12 members, including the CEO and Chair. The board and committees typically meet five times each year. Four of these meetings are regular business meetings held at FCC's corporate office in Regina. The remaining meeting is the board's strategic planning meeting, which is typically held in August. Each year this meeting is held in a different part of the country to give the Board an opportunity to meet with staff, customers and stakeholders and thereby gain a better appreciation of the issues facing agriculture in Canada. For the last several years this meeting has also been held in conjunction with the corporation's annual public meeting.

Members of the Board of Directors

Full biographies are available at www.fcc.ca

Gill O. Shaw, B.Sc.Ag., MBA
Chair, FCC Board of Directors
Retired CEO
Manitoba Agricultural Credit Corporation
Brandon, Manitoba
Appointed Chair October 30, 2006
Reappointed Chair August 4, 2009

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

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

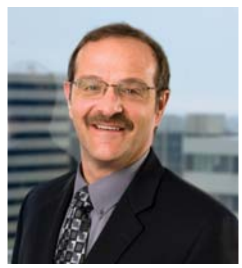
Donald Bettle
Former dairy farmer
Former chairman,
Canadian Atlantic Dairy Export Co-op
Passekeag, New Brunswick
Appointed January 25, 2007

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

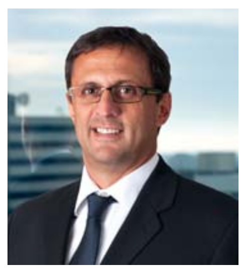
Brad Hanmer, B.Sc.Ag.
Co-owner/operator, commercial grain and pedigreed seed farm
Govan, Saskatchewan
Appointed January 25, 2007

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

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



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



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

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

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

Executive Management Team (EMT)

Bound by the code of conduct and ethics, senior management adheres to the highest ethical standards of business, professional and personal conduct. All executives, with the exception of the CEO, are paid within the salary ranges and compensation policies approved by the Board of Directors. The Governor-in-Council establishes CEO compensation.

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

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

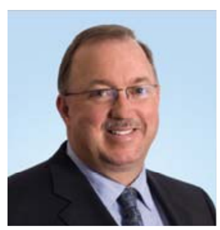
Moyez Somani,
CMA, MBA, FCMA
Executive VP and
Chief Financial Officer

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

Lyndon Carlson,
P.Ag.
Senior VP,Marketing

Kellie Garrett,
MA, ABC, MC
Senior VP,
Strategy, Knowledge and
Reputation

Mike Hoffort, P.Ag.
Senior VP,
Portfolio and
Credit Risk



Greg Honey
Senior VP,
Human Resources

Paul MacDonald
Senior VP and
Chief Information
Officer

Senior Leadership Team (SLT)

SLT consists of the President, Vice-Presidents, the Senior Director, Culture, Learning and Employee Experience and the General Counsel and Corporate Secretary. This team provides input to setting corporate priorities to achieve strategic objectives consistent with the mandate and approved direction.

Governance framework

In addition to the Board of Directors, EMT and SLT, FCC has established a governance framework, including a number of committees, to guide corporate decision-making.

Asset Liability Committee directs and oversees the asset liability management function of the corporation, including establishing and maintaining prudent risk management policies and procedures and ensuring sufficient integration with corporate strategic and financial planning and overseeing the design and development of FCC's credit risk related models and lending scorecards.

BK Executive Steering Committee
The Business Process and Technical Transformation Program (BK) addresses the redesign and integration of major customer-facing processes, content and data across business lines and channels. The BK Executive Steering Committee ensures that the BK program, together with related technology renewal, aligns with FCC's strategy and that related risks are adequately addressed.

Credit Committee reviews and makes lending decisions on agribusiness and agri-food loan applications from customers whose total exposure is in excess of $10 million for established operations and in excess of $5 million for start-up operations, and on primary production applications from customers whose total exposure is in excess of $15 million for established operations and in excess of $7.5 million for start-up operations.

Employee Experience Committee provides direction and guidance on key aspects of the FCC employee experience, orientation and change management.

Enterprise Architecture Committee maintains the principles, standards and guidelines of FCC's business and technical infrastructures.

Enterprise Risk Management Steering Committee oversees the identification, assessment, ranking and action planning of significant risks to which FCC is exposed.

Horizon Committee provides strategic direction to EMT on compensation and performance management issues. They also evaluate all jobs in relation to the corporation's classification system.

Lending Policy Committee oversees the development of lending policies to ensure that the credit risk management policies reflect FCC's credit risk tolerance, industry best practices and compliance with federal, provincial and regional laws and regulations.

Pension Committee provides advice to the Human Resources Committee of the Board of Directors regarding monitoring the approved governance structure of support for the pension plan, reporting annually on the overall functioning of the plan, recommending changes to plan governance, developing and reviewing the plan's Statement of Investment Policies and Goals, and monitoring and reviewing the performance and activities of the plan's investment managers.

Security Coordination Committee oversees the design and development of FCC's security policy and principles to ensure the protection of FCC employees and assets.

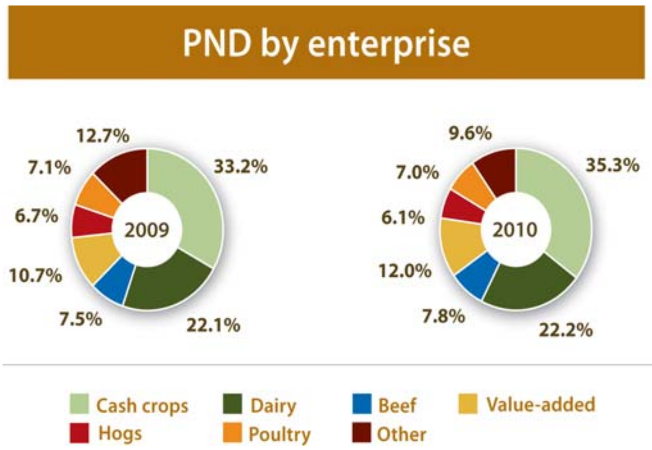
Strategy Execution Team is responsible for approving corporate projects that enable the execution of the business strategy.

Venture Capital Investment Committee is responsible for adjudicating all investment recommendations and reviewing the performance of the FCC Ventures legacy portfolio.

3.6 FCC loan portfolio

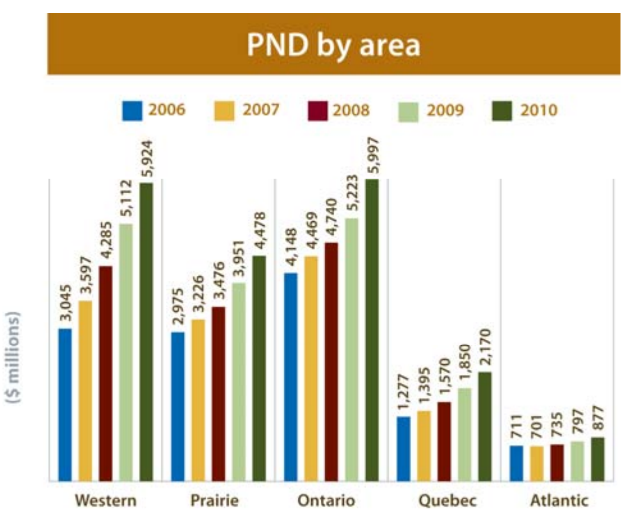
Portfolio by enterprise

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



Portfolio by geographic area

By lending to all areas of agriculture across Canada, FCC is able to spread risk geographically while promoting agriculture as a strong and vibrant industry. From coast to coast, FCC has over 100 offices to serve its customers. In 2009-10, FCC experienced consistent PND growth in all areas across Canada.



3.7 Financial services industry

The agriculture market is served by chartered banks, credit unions, provincial lending agencies, equipment manufacturer financing programs and independent financing institutions. Nationally the main players are FCC, the chartered banks and credit unions.

According to the Office of the Superintendent of Financial Institutions, Canada currently has:

- six major chartered banks
- 16 domestic banks
- 55 foreign bank branches and subsidiaries
- 47 trust companies
- over 80 life insurance companies
- over 900 credit unions and caisses populaires

Provincial government Crown corporations or agencies that serve agriculture include:

- ATB Financial (formerly Alberta Treasury Branch)
- Alberta's Agriculture Financial Services Corporation (AFSC)
- La Financière agricole du Québec
- Manitoba Agricultural Services Corporation
- Nova Scotia Farm Loan Board
- P.E.I. Lending Agency

Market Share

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

FCC's market share has consistently grown since 2001. Market share growth is an endorsement from producers of our commitment to the industry, our products and our knowledgeable employees.

FCC's market share gain was partially attributable to reduced credit availability in the market place during 2009, resulting from the ongoing global financial crisis. FCC continued to fulfil its mandate by offering agricultural financing throughout this period. This market share gain was also partially attributable to additional Alliance partnerships entered into this past year.

The chartered banks market share decreased 3.32 per cent from 2008-2009. Credit union market share remained relatively stable, with a decrease of 0.13 per cent.

All of the major banks except Toronto Dominion which remained flat, experienced a decrease in agriculture loan portfolio in 2009 compared to 2008. Credit unions increased their agriculture portfolio by $0.4 billion in 2009 and Desjardins had an increase of $0.1 billion from 2008.

FCC continues to look for opportunities to partner with other financial services organizations in providing products and services to the agriculture industry in Canada.

4.0 Strategic issues

4.1 External economic and business environment

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

Numerous issues have been considered while developing the corporate strategy. The following provides a brief discussion of some of the key issues reviewed, including:

- unpredictable economy
- changing agriculture industry
- farm ownership transition
- increasing competition

Unpredictable economy

While some economies are starting to emerge from the deepest global recession since the end of the Great Depression, there are still many uncertainties relative to a global economic recovery. The Canadian economy has grown at a modest rate. The Bank of Canada raised its benchmark interest rate several times in response to early signs of inflationary pressures. Other western economies are still waiting to observe conclusive signs that their economy is on a firm path to recovery. Unemployment remains very high in the U.S., and to address rising concerns over the potential threat of deflation, the U.S. Federal Reserve has reaffirmed its commitment to a low interest rate environment. Growth in emerging and developing economies has resumed and, in some instances, such as China, has exceeded the comfort level of government officials.

Some economists believe that economic stimulus programs and the past bail-outs of financial institutions will generate inflation in the not-so-distant future. Stimulus programs are not necessarily inflationary, but they have added to the debt held by western governments. In response to the financial crisis, the U.S. Federal Reserve and other central banks have replaced some bad assets on the books of financial institutions with additional reserves. In normal times, the financial institutions would increase lending and this could potentially generate inflation.

The global banking system failures in 2008 and 2009 have triggered collaborative international efforts to re-regulate the system and restore public confidence. The World Economic Forum named the Canadian banking system the soundest one in the world in 2009 for the second year in a row. Although Canada's banking system has fared better than most, it has implemented adaptive strategies in response to the slow growth environment, such as simplified product offerings, more conservative risk policies and reductions to operating costs.

While FCC cannot predict the interest rate environment for the planning period, it is monitoring the potential impacts of inflationary or deflationary economic environments on FCC customers. For FCC customers, an increase in interest rates could translate into increased operating costs, higher risk, reduced investment (in land, buildings, machinery and equipment), decreased profitability and lower farmland prices. These circumstances impact their ability to repay loans. FCC is strengthening its ability to identify, quantify and measure the impacts of weakening global, agricultural and domestic economic environments on its portfolio.

Changing agriculture industry

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

AAFC's Structure and Performance of the Agriculture and Agri-food Sector report indicates that in 2008, the Canadian agriculture and agri-food system made up 8.1 per cent of the Canadian Gross Domestic Product (GDP). Contributors to GDP in order of contribution are: food/retail wholesale sector, food, beverage and tobacco processing. Primary agriculture made up approximately 1.7 per cent of the national GDP which is slightly higher than the 2007 results.[6]

In 2008, the Canadian agriculture and agri-food system employed one in eight (12.6 per cent or 2.2 million Canadian's). The food service industry was the largest contributor to employment followed by the food retail/wholesale industry.[7]

Canadian agri-food exports totalled $35.2 billion in 2009, of which 50 per cent was exported to the United States. Canada's total exports of merchandise were $369.8 billion. At the end of 2009, the value of Canada's primary agriculture exports totalled $21.5 billion, a decline of 12.6 per cent compared to the year prior. This was sobering news for an export-dependent nation and particularly for the agriculture and agri-food industry.

Between 1981 and 2006, AAFC reports the number of farms in Canada declined from approximately 318,000 to 229,000 farms. During this period, the numbers of small and medium sized farms have decreased while the numbers of large farms have increased. This increase in the average farm size in Canada has been enabled by technological advances combined with increasing productivity. [8]

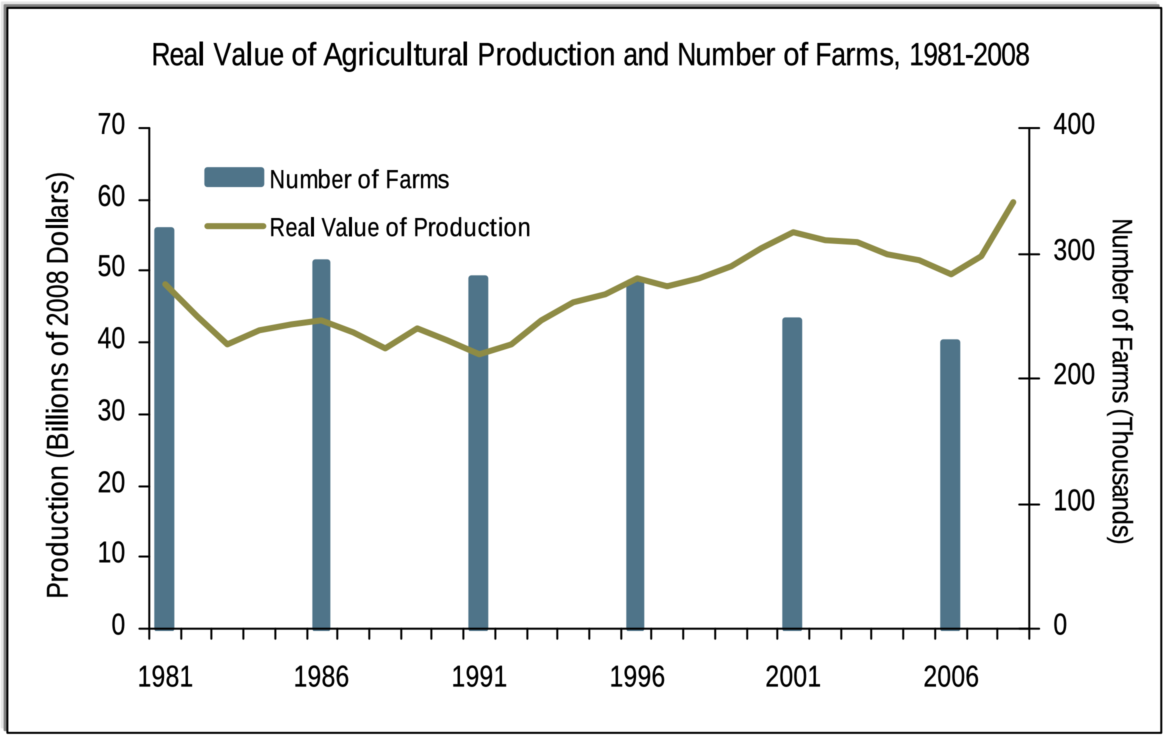
From 2001 to 2006, 61,025 farms left the industry primarily due to retirements. However, this was partially offset with 43,475 new farm businesses started in Canada. [9]

[6] Agriculture and Agri-Food Canada. *Structure and Performance of the Agriculture and Agri-Food Sector*, 2010

[7] Agriculture and Agri-Food Canada. *Structure and Performance of the Agriculture and Agri-Food Sector*, 2010

[8] Agriculture and Agri-Food Canada. *Structure and Performance of the Agriculture and Agri-Food Sector*, 2010

[9] Agriculture and Agri-Food Canada. *Structure and Performance of the Agriculture and Agri-Food Sector*, 2010



While the number of farms has been decreasing over the last decade, the real net operating income per farm has been increasing. In 2008, the average real net operating income reached $45,500. Increases in real operating income since 2006 can be attributed to increased demand and higher prices for grain and oilseed.[10]

Because of the highly uncertain economic outlook in the short and long term, it is important for FCC to continue monitoring the overall Canadian farm debt situation. While there has been a steady increase in Canadian farm debt since 1995, the implications of this expansion for the future of Canadian agriculture are less clear. The value of agriculture assets has grown concurrently with the increase in debt, so industry leverage has remained relatively stable. While the growth in farm debt has slightly outpaced farm income in the last ten years, it has not reached levels of significant concern.

In terms of the number of farms, there were more grain and oilseed farms and beef cattle operations than any other farm type in Canada. However, hog, poultry and egg, and greenhouse and nursery farms had the highest average total operating revenue per farm, due in part to a higher percentage of large and million dollar farms in these farm types.

It is important to continue monitoring the economic environment as higher interest rates could impede the ability of Canadian agriculture to compete in the global marketplace. Agribusinesses must continue to implement solutions that improve their productivity, enhance efficiencies, reduce costs and provide innovative products to the market.

For FCC, the pace and complexity of change in the agriculture industry demands diligent efforts to keep staff knowledgeable about leading technologies and management philosophies.

[10] Agriculture and Agri-Food Canada. *Structure and Performance of the Agriculture and Agri-Food Sector*, 2010

Agriculture Sector Highlights

Agriculture Sector	Highlights
Pork	• U.S. hog prices have improved, however, with the appreciation of the Canadian dollar, Canadian hog producers have not experienced the same price gains.
Beef	• The impact of County of Origin Labelling legislation on the export of Canadian beef to the U.S. negatively impacted North American prices. • Both the number of beef cows and producers in Canada continue to decline.
Grains and Oilseeds	• Southern Alberta, Saskatchewan and Manitoba have all been negatively impacted by high levels of rainfall, reducing the total numbers of acres seeded. • Parts of the Peace region of Alberta, Ontario and Quebec have been negatively impacted by low levels of precipitation. • Prices remain unsteady as world growing conditions and inventories fluctuate.
Dairy	• The dairy industry experienced a stabilizing of markets, an increase in prices and a reduction in some input costs. • Demand for dairy products in Canada remains sound.
Poultry	• Canadian chicken consumption remains relatively unchanged from the previous year. • Overall, tariffs for poultry products continued to remain effective in controlling imports.
Agribusiness and Agri-food	• The global recession resulted in slowing demand for higher value processed food products. • This industry has diversified and found increased markets outside the U.S., thus reducing the reliance on this market.

Farm ownership transition

According to Statistics Canada, the average age of farm operators increased from 49.9 to 52.0 between 2001 and 2006[11]. Meanwhile, the age of FCC customers has also gradually increased, with approximately 50 per cent of FCC customers 48 years of age or older at March 31, 2010. Operators aged 55 years and older own over half of all agriculture assets in Canada. Producers continue to exit the industry and farm ownership transfer usually occurs over several years. This creates an opportunity for succession products and services. In 2009-10, FCC disbursed over $1.8 billion in loans to young farmers to help them succeed.

Large operations may involve an extended family, which can be challenging. Retiring producers may seek to dispose of their assets so they can retire comfortably. The next generation of producers may not be able to finance the full value of a farm. Large down payment requirements and the need to generate sufficient cash flow, can be daunting for young farmers. Modern farms also are increasingly capital-intensive which poses greater challenges to farm transfers. FCC will continue to focus on the needs of new entrants to help ensure continued success of the agriculture industry, including capital and knowledge requirements.

Twice each year FCC compiles and releases the Farmland Values Report, which is the only Canadian source that highlights changes in the land values in each province and nationally.The average value of Canadian farmland increased 3.0 per cent during the first six months of 2010,

[11] Statistics Canada, 2006 Census of Agriculture, Farm Data and Farm Operator Data, Data Tables, Characteristics of farm operators, Table 8.5 Average age of farm operators

following increases of 3.6 and 2.9 per cent in the previous two reporting periods. As farmland values continue to rise, the growing capital requirements become increasingly difficult for new entrants.

Increasing competition

FCC holds 27.1 per cent of Canadian farm debt as of December 31, 2009.[12] In the year 2009, credit availability was an issue for the broader economy due to recession. However, the Canadian farm debt market grew by 4.7 per cent in 2009[13], signaling the availability of credit for Canadian agriculture. Credit availability for larger agricultural equipment manufacturers has improved as three other financial institutions have entered or re-entered this market.

During 2010, FCC experienced increasing competition based on payout activity of loans by other financial institutions. To gain lending business, some financial institutions are encouraging farmers to open AgriInvest accounts. AgriInvest is a federally administered margin protection program that allows producers to make annual deposits at participating financial institutions.

Operating environment for upcoming planning period

It is expected that Canadian agriculture will be impacted by shifts in global economic powers, resulting from the recent recession and an uneven recovery. The industry is likely to face increased risk and volatility in terms of input costs and commodity prices.

The industry has an opportunity to position itself to address these challenges through strategic management, innovation and environmental sustainability. Many producers and agribusiness operations are rapidly enlarging the industry's contribution well beyond its traditional focus on food.

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

Several emerging global trends may directly affect Canadian agriculture. First, the world food diet appears to be undergoing "westernization". Changing demographics such as the aging Western nations and the rapid rise of developing nations are slowly altering the dynamics of food demand. There is good potential in emerging markets for Canadian food exports, ranging from mainstay commodities like meats and cereals to value-added and niche products like organic meats. Canada's aging population is also driving increased demand for fortified foods and age-related animal and vegetal products.

Second, rising health care needs and costs will drive the demand for the biomass needed to develop and manufacture drugs and drug supplements.

A third global trend is the growing concern over climate change, and in particular the rising cost of energy. By 2030, the demand for oil is expected to increase by 35 per cent, so energy will be of significant importance to producers everywhere. As a result, producers are making their operations more energy efficient. Some are producing electricity and selling surpluses to the energy grid.

In 2009, grains and oilseeds producers across the country experienced reduced market prices. Profits for dairy and poultry producers remained stable, while other sectors that rely heavily on U.S. exports (such as cattle, hog, potato and forestry) saw profits decline. Due to market

[12] Statistics Canada. May 2010. Farm Debt Outstanding as of December 31, 2009.
[13] Statistics Canada. May 2010. Farm Debt Outstanding as of December 31, 2009.

volatility, risk management practices therefore remain important and challenging.

It is expected that the U.S. recession will continue to impact Canadian agriculture. Additionally, a higher Canadian dollar may discourage export demand for Canadian agriculture products.

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

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

Conclusion

To date, FCC has experienced minimal negative impact due to the economic downturn. Defaults and arrears have remained consistent with previous years. Although the economy may continue to experience negative economic impacts in the future, FCC remains financially strong, with significant equity and loan loss reserves, a low debt-to-equity ratio and high-quality risk management practices. FCC's risk is reduced by having a portfolio that is diversified in terms of enterprise and geography.
FCC remains in a strong financial position and expects to meet its financial targets in 2010-11. It will continue to closely monitor external and internal financial trends, assess implications and create proactive strategies to address them. Risk levels will be diligently monitored to ensure that they continue to be within acceptable tolerances.[14]

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

Producers big and small have strong impetus for innovation and growth, and FCC will continue to innovate and grow providing the support that they require for success.

[14] For discussion on risk management at FCC, refer to Section 5.2

4.2 2010-11 Planned performance and expected results

4.2.1 Summary of results – 2010-11 corporate scorecard

The following pages summarize the corporate measures, targets and projected results for the 2010-11 fiscal year (as of October 2010).

Commitment to agriculture

Measures	2010-11 Plan targets	2010-11 Projected results
Investments in agriculture	$13.3 million	Initiative cancelled[15]
Corporate social responsibility scorecard	Report against scorecard	On track.
Corporate reputation index	Develop new approach and measurement	On track
Media favourability index	10 points above global average for financial institutions	On track

Financial strength

Measures	2010-11 Plan targets	2010-11 Projected results
Net income	$318.4 million	Ahead
ROE	14.5%	Ahead
Efficiency ratio	39.7%	On track
Debt-to-equity ratio	8.1:1	On track
Portfolio growth	7.7%	Behind [16]
Venture capital invested	$92.4 million	Behind [17]

Customer experience

Measures	2010-11 Plan targets	2010-11 Projected results
Customer Experience Index	58.44%	On track
New lending to young farmers and agribusiness operators	$1.71 billion	On track

[15] Commitment to agriculture has been removed as a separate strategic theme, and the various related investments in agriculture are now included in the other strategic themes. Therefore this measure is no longer tracked.
[16] Primarily due to lower than target disbursements and higher principal payments, partially offset by lower prepayments.
[17] There have been higher divestures than expected and lower investments than planned due to timing of finding suitable investment opportunities.

Efficiency and execution

Measures	2010-11 Plan targets	2010-11 Projected results
Customer Experience Index (easy to do business indicators)	53.07%	On track
Employee engagement (easy to do business indicators)	Greater than or equal to the average for the top 50 employers	On track
Project management maturity	Project management maturity score of 40%	On track

Culture and employee experience

Measures	2010-11 Plan targets	2010-11 Projected results
Employee engagement index	Greater than or equal to the average for the top 50 employers	On track
Employee engagement – employee experience indicators	Greater than or equal to the average for the top 50 employers	On track
Employee engagement – leadership indicators	Greater than or equal to the average for the top 50 employers	On track

4.2.2 Operational and financial highlights

For the years ending March 31

Operational	2010	2009	2008	2007	2006
Loans receivable portfolio					
Number of loans	114,439	106,867	98,066	101,470	95,768
Loans receivable ($ millions)	19,687.2	17,098.5	14,992.1	13,550.4	12,310.2
Net portfolio growth (per cent)	15.1	14.1	10.6	10.1	10.4
Loans receivable in good standing (per cent)	97.7	97.5	97.4	97.4	97.5
New lending					
Number of loans disbursed	41,418	31,037	32,561	28,684	28,634
Net disbursements ($ millions)	6,585.6	5,068.4	4,285.0	3,714.7	3,317.3
Average size of loans disbursed ($)	159,003	163,302	131,600	129,504	115,852

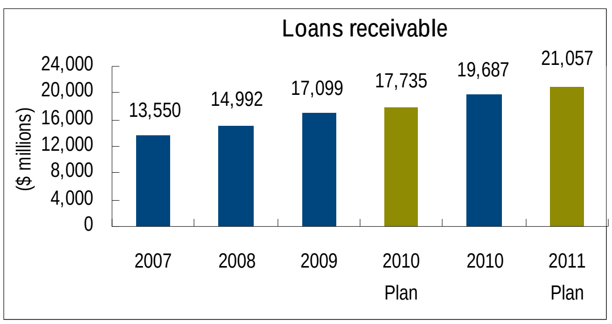
Financial	2010	2009	2007	2006	2005
Balance sheet ($ millions)					
Total assets	20,203.2	17,802.7	15,470.5	13,834.2	12,576.3
Total liabilities	17,867.6	15,526.8	13,693.7	12,372.1	11,312.5
Equity	2,335.6	2,275.9	1,776.8	1,462.1	1,263.8
Income statement ($ millions)					
Net interest income	609.9	508.0	434.4	415.5	388.4
Provision for credit losses	91.4	70.0	5.0	38.9	62.4
Other income	10.3	6.2	14.4	7.7	6.6
Administration expenses	255.2	231.4	197.6	180.5	163.0
Fair value adjustment *	6.6	(1.7)	(41.1)	-	-
Non-controlling interest	1.7	0.8	0.0	0.0	0.0
Net income	281.9	211.9	205.1	203.8	169.6

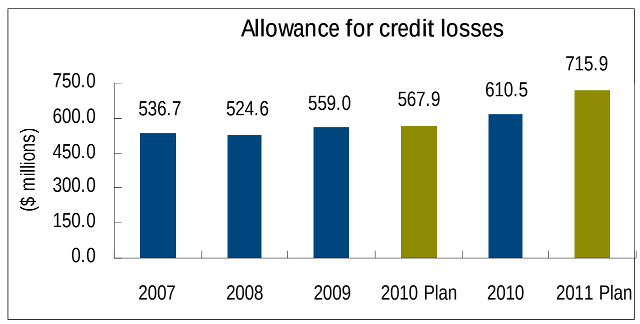
*The fair value adjustment was introduced in 2008 as a result of changes to the accounting standards related to financial instruments.

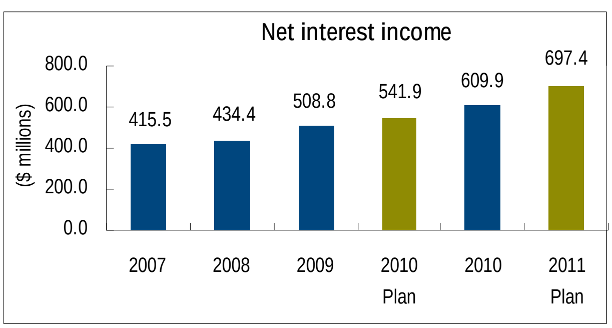
Key results

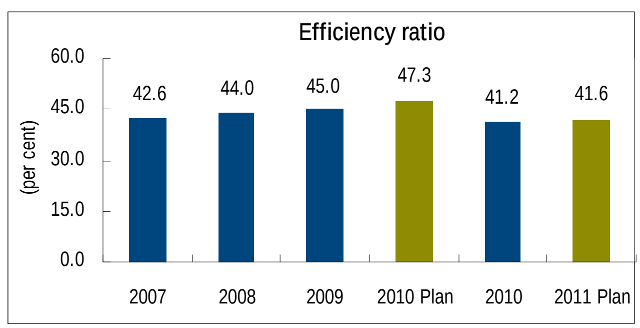
In 2009-10 FCC's portfolio experienced growth for 17 consecutive years, growing by $2.6 billion or 15.1 per cent. Equity continues to grow with increases in net income. This is composed of growth in net interest income and other income plus a lower fair value adjustment which is offset by a higher provision for credit losses and increased administration expenses. The corporation continues to build its strong financial foundation, ensuring sufficient resources for continued growth and viability while supporting customers during all economic cycles.

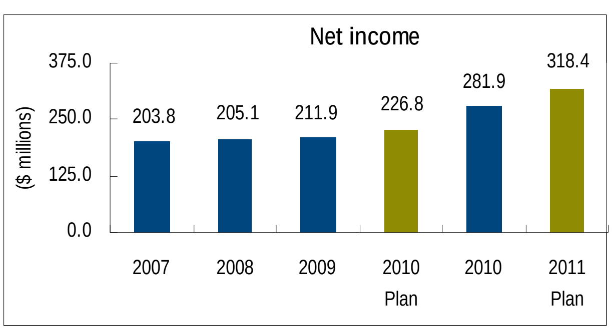
- In 2009-10, portfolio growth exceeded plan by $2.0 billion and represented growth of 15.1 per cent over 2008-09. Net disbursements increased to $6,585.6 million and were the primary driver for the increase in the portfolio.
- Allowance for credit losses was above plan at $610.5 million due to portfolio growth, however as a percentage of closing loans receivable the allowance decreased from 2008-09 levels to 3.10 per cent from 3.27 per cent.
- Net interest income exceeded plan by $68.0 million, increasing to $609.9 million due to the increased lending volume and a higher net interest margin.
- The 2009-10 efficiency ratio of 41.2 per cent was lower than plan due to the higher than plan portfolio growth and net interest margin.
- Net income was $55.1 million above plan, mainly due to higher portfolio growth, increased net interest margin, lower administration expenses and higher fair value adjustment offset slightly by a higher provision.
- Return on equity exceeded plan targets primarily due to higher portfolio growth and increased net income.

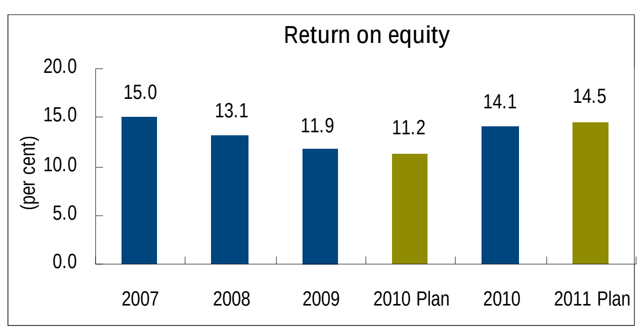












5.0 Strategic themes, objectives and performance measures

5.1 Strategic planning process

The FCC strategic planning process engages the Board of Directors and SLT to develop the corporation's business strategy. This process includes reviewing the operating environment, establishing the future direction, objectives and success measures, assessing the current state, and developing strategies and initiatives to move FCC toward its vision. The plan is used in the development of divisional plans. All employees receive a brief summary of the objectives, initiatives and measures, also known as the corporate scorecard, which is incorporated in annual team and employee objectives.

This corporate plan is an output of the strategic planning process, outlining how the corporation will achieve its vision, mission and value proposition.

Strategy development

FCC uses a modified balanced scorecard approach to develop strategic plans and monitor implementation, and measure progress against the corporate strategy. The scorecard is based on Kaplan and Norton's balanced scorecard, which balances attention on four perspectives: financial, customers, internal processes/efficiency and learning. The FCC scorecard includes the following strategic themes: financial strength, customer experience, efficiency and execution and culture and employee experience.

Previously, FCC had a theme called commitment to agriculture, which included public policy objectives and initiatives. This theme has now been incorporated in the customer experience strategic theme. FCC remains fully committed to the agriculture industry. It is the only industry served by the corporation.

Strategy formulation starts with defining the desired outcomes by examining FCC's vision, mission, values, cultural practices and strategic playing field (strategic planning assumptions and boundaries). These are used to develop the desired critical outcomes for each of four strategic themes.

Corporate measures and the targets for years one to three, and five years into the future are developed. They define how FCC will measure achievement of the objectives set out in the strategy. The current state is then discussed, based on a review of the operating environment, risks and strengths, weaknesses, opportunities and threats assessment.

Then, corporate objectives and initiatives are developed to realize the five-year measures and targets followed by action plans that will be implemented and monitored through the corporate scorecard.

5.2 Enterprise risk management

FCC has an enterprise risk management (ERM) program to manage risks in a consistent and coordinated manner. Effective risk management enables FCC to fulfill its mandate, protect and create value for stakeholders and maintain long-term business viability.

ERM is incorporated in the strategic planning process to ensure that risk identification, assessment and evaluation take place within FCC's strategic context. The top enterprise risks are identified and analyzed through scanning and other means. Senior management provides input to the selection of the top risks. EMT then proposes the corporation's top risks to the Board of Directors, for approval. EMT members are accountable for creating risk mitigation plans and monitoring progress, which is reported to the Board on a quarterly basis through the corporate scorecard.

The corporation has established a governance framework that includes a number of policies and committees to guide corporate decision-making. The Board of Directors provides oversight for this internal corporate governance framework. The committees are responsible for developing and monitoring aspects of FCC's overall risk management policies, processes and practices. Internal committees report regularly to the CEO and EMT as required, or to the Board of Directors, most often through the Corporate Governance Committee, Audit Committee and Human Resources Committee.

The Corporate Governance Committee is responsible for ensuring that management has:

- a governance structure and policies to identify key risks
- identified key risks
- control systems and practices in place to manage risks

Risks

There are five main categories of risks that are key to FCC.

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or lease or meet financial obligations to the corporation. This is the most significant risk that the corporation faces.

The Board of Directors has overall responsibility for the management of credit risk and relies on a variety of committees, divisions and departments to effectively manage the credit risks that impact the corporation.

The Portfolio Management Division assesses credit risk at the aggregate level, providing risk policies, assessment tools and models that quantify credit risk and the allowance for credit losses. Policies, processes, systems and strategies are used to manage the credit risk of the portfolio.

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

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

Market risk policies include limits around the variability of net interest income and market value of portfolio equity relative to interest rate changes.

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

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, systems or external events, failure to comply with or adapt to legislative or regulatory requirements or litigation. FCC is committed to preserving customer and shareholder value by proactively managing operational risk. Managers are responsible for daily management of operational risk by ensuring that appropriate policies and procedures are in place within their business units, and internal controls are operating effectively.

Strategic risk includes risks related to the external environment, and the corporation's ability to develop and implement effective business strategies. Executive management is responsible for developing corporate strategy annually, with oversight provided by the Board of Directors. Progress on the strategic plan is monitored through quarterly reporting to senior management and the Board of Directors. The external environment is monitored through ongoing scanning, including monitoring the Canadian financial marketplace and customer satisfaction surveys. FCC regularly communicates with federal departments and agencies to ensure alignment of the corporation's activities with government priorities.

Reputation risk is the risk that key stakeholders and other publics develop negative perceptions about FCC, which 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. Reputation risk at FCC is managed with guidance from the reputation risk strategy. Employees and members of the Board of Directors must comply with FCC policies and procedures in all written and verbal communication, and in their interactions with other employees, customers, industry partners, suppliers, media and the general public to avoid any real or perceived reputation risk.

Actions to mitigate these risks are discussed in the planning process and form part of FCC's business strategy.

5.3 Corporate social responsibility

FCC strives to be a responsible corporate citizen in all areas of its operations. The corporation works in a socially and environmentally sustainable manner when interacting with customers, employees, communities, the agriculture industry and society as a whole. FCC believes that socially responsible practices are prudent business practices.

Governance and transparency are principles that guide FCC's CSR framework. The corporation acts with integrity and is accountable to stakeholders in accordance with all laws and with high ethical standards.

The FCC CSR program focuses on the following focus areas:

Community

FCC fosters strong and vibrant communities where customers and employees live and work, with a focus on rural Canada.

FCC focuses donations on hunger, agriculture safety and education, volunteerism and community enhancement projects.

Customers

FCC is committed to customer success, and focuses on primary producers as well as suppliers and processors along the agricultural value chain. The corporation provides customers with flexible and competitively-priced financing, equity, insurance, management software, information and learning.

Employees

FCC fosters a culture of accountability, high performance and diversity, and delivers a stellar employee experience.

Environment

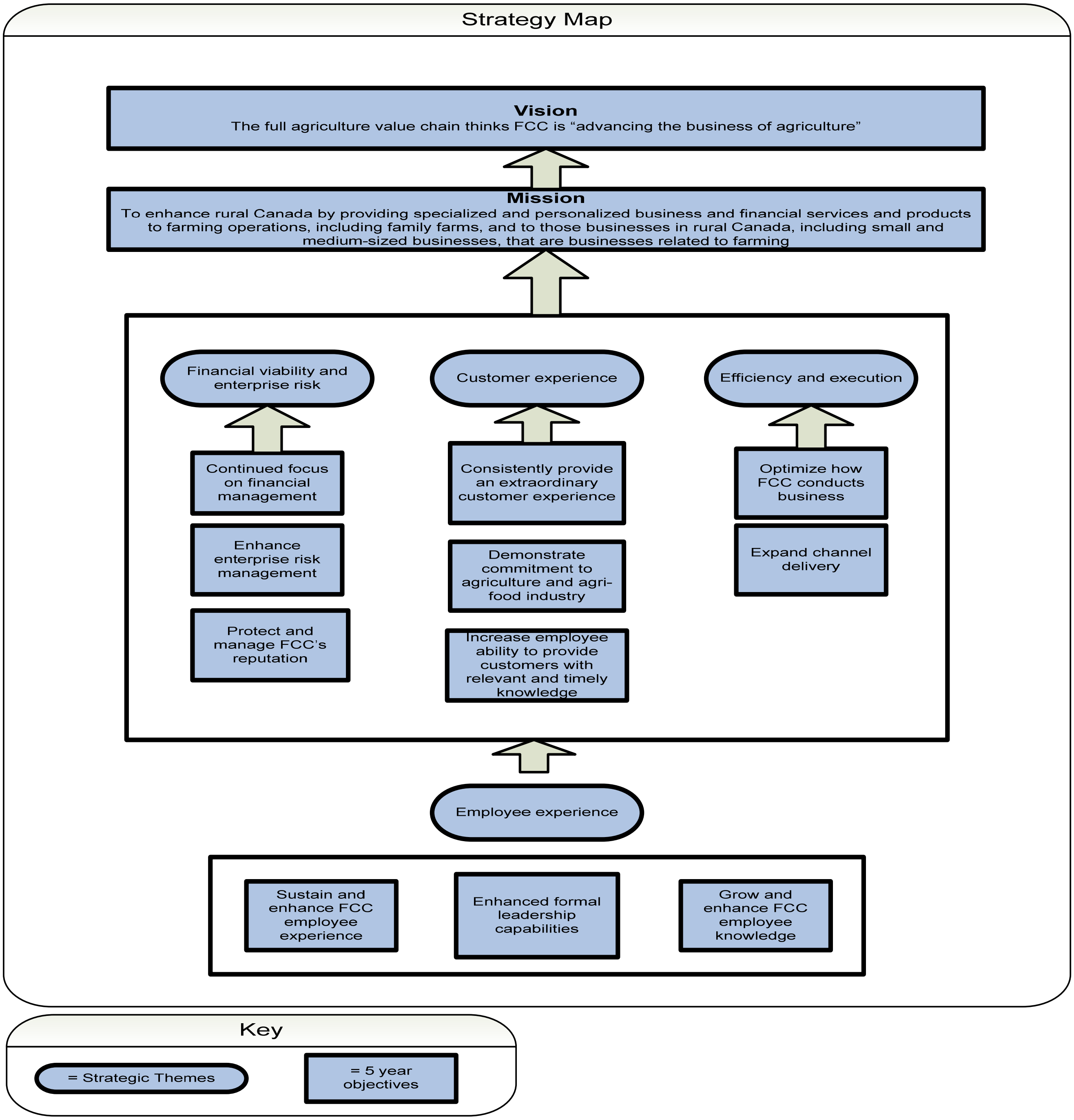
The corporation improves environmental performance and support the industry with tools and knowledge.

Agriculture and Food

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

5.4 Strategic themes

FCC uses four strategic themes for corporate planning purposes. A corporate strategy map illustrates how the eleven 5-year strategic objectives within these themes work together towards achieving FCC's vision and mission. The Employee experience theme and related objectives is foundational. Employee leadership, expertise and knowledge support FCC in executing the other three themes and initiatives. Together, these eleven objectives lead to accomplishing the corporate vision and mission.



Strategic theme: Financial viability and enterprise risk

Critical Outcome: In 2020, FCC has a diversified agriculture, agribusiness and agri-food portfolio. The corporation has remained financially viable and self-sustaining, with a strong balance sheet and an ROE of ≥12 per cent.

Five-year strategic objectives 2011-16	Measures	2011-12 initiatives
Continued focus on financial management	Net income Return on equity Debt-to-equity ratio Portfolio growth	• research and develop economic capital management framework
Enhance enterprise risk management (ERM)	ERM maturity measure RSPS risk score	• implement amended ERM framework • enhance internal controls • implement enhanced enterprise security program
Protect and manage FCC's reputation as an ethical corporation with high integrity	Media favourability index	• implement integrated reputation management strategy • benchmark FCC's environmental footprint

Strategic theme: Customer experience

Critical Outcome: In 2020, FCC continues to deliver an extraordinary experience to customers. The Customer Experience Index score indicates that two out of three customers (65 per cent) rate their experience with FCC as five out of five.

Five-year strategic objectives 2011-16	Measures	2011-12 initiatives
Consistently provide an extraordinary customer experience	Customer Experience Index	• continuously improve the customer experience by analyzing feedback and implementing relevant actions • implement alliance process redesign with external alliances • develop tailored service by market segment, including specialized expertise for large loans • implement web strategy
Demonstrate commitment to the agriculture and agri-food industry, with a particular focus on producers and young farmers	Total lending to young farmers Number of learning program participants	• enhance programs to support young farmers • implement knowledge offering that adds value to customers • increase collaboration with Agriculture and Agri-Food Canada on key issues impacting sector • enhance venture capital offering
Increase employee ability to provide customers with relevant and timely knowledge		• define agriculture/ finance knowledge expectations of customer-facing staff and integrate with sales process • offer employees additional information to share with customer, including sector-specific knowledge, publications and key messages

Strategic theme: Efficiency and execution

Critical Outcome: In 2020, FCC continues to be recognized as a highly efficient, effective and agile organization that is easy to do business with. The corporation has an efficiency ratio of 45 per cent or lower.

Five-year strategic objectives 2011-16	Measures	2011-12 Initiatives
Optimize how FCC conducts business	Efficiency ratio Employee engagement (easy to do business indicators)	• implement business process and technical transformation program (BK) • implement optimization strategy • implement new property valuation software • develop corporate-wide business process management • implement information management program
Expand channel delivery		• develop integrated channel delivery strategy • enhance e-business strategy • create strategy to enhance customer access to approved credit

Strategic theme: Employee experience

Critical Outcome: In 2020, FCC continues to be an employer of choice, with a culture that inspires employees to deliver an extraordinary customer experience. FCC's employee engagement score is greater than or equal to the average of the top 50 Canadian employers.

Five-year strategic objectives 2011-16	Measures	2011-12 Initiatives
Sustain and enhance employee experience	Employee engagement index Employee index: employee experience indicators	• implement updated culture strategy • enhance workforce through the employment equity plan and diversity strategy • implement training to foster leadership at all levels
Enhance formal leadership capabilities	Leadership index – subset of employee engagement survey data leadership indicators	• implement leadership and succession planning • enhance workforce planning
Grow and enhance employee knowledge	Learning measure	• implement Lending Essentials program • improve employee access to specialized agriculture and finance knowledge via intranet, collaboration tools, podcasts and web

5.4.1 Financial viability and enterprise risk

The critical outcome that FCC is striving to attain for this theme is:

In 2020, FCC has a diversified agriculture, agribusiness and agri-food portfolio. The corporation has remained financially viable and self-sustaining, with a strong balance sheet and an ROE of ≥12 per cent.

As a federal commercial Crown corporation, FCC needs to be financially sustainable to support customers and the industry. The following five-year objectives will be pursued towards achieving this outcome:

- continue to focus on financial management
- enhance enterprise risk management (ERM)
- protect and manage FCC's reputation as an ethical corporation with high integrity

Continued focus on financial management

Initiative for 2011-12
• Research and develop economic capital management framework

After the farm crisis of the 1980s, the government mandated FCC to operate as a financially self-sustaining federal commercial Crown corporation. FCC has been financially profitable for 17 years and pays an annual dividend to its shareholder, the Government of Canada. FCC will continue to safeguard its strong financial position to meet the expectations of its shareholder and those involved in agriculture, that is, the ability to serve the industry through all economic cycles.

FCC's previous five-year objective regarding financial management was *"Implement a financial management framework, integrating portfolio growth, risk, margins and return."* This year, the five-year objective was changed to the broader focus, intended to ensure that FCC can sustain its commitment to agriculture over the long term.

In response to the 2008-09 global recession, Canadian interest rates fell to historic lows. When interest rates rise, there is a potential for customers to experience increased financial challenges, which may increase the degree of credit risk faced by FCC.

As a financial services provider, FCC faces credit risk. This risk is broadly defined as the potential for financial loss due to the failure of an industry, sector or a significant number of borrowers to repay loans or leases, or meet financial obligations to FCC. The main scenario for this risk is the simultaneous or successive occurrence of a number of events that negatively impact customers and/or the economy in general, such as a rapid increase in interest rates, commodity price volatility, falling land values and/or multi-year, widespread weather disasters. Severity of the financial impacts depends on the number, length and variability of the events.

Significant progress was made in the past year on the initial development of a financial management framework. The design of this framework has now evolved such that it is referred to as an economic capital framework. The framework will utilize elements of the financial management framework and will include a capital management vision for FCC that will further strengthen FCC's ability to be self-sustaining.

A critical element in maintaining a strong financial position is cost control, a topic that was highlighted in the federal 2010-11 budget. FCC utilizes the efficiency ratio to measure the level of expenses required to grow and maintain operations.[18] Strong cost management is also a key element of FCC's plans for the future.[19]

[18] See financial plan section for more information on the management of the efficiency ratio.
[19] See the efficiency and optimization strategic theme for more information about business optimization.

Quarterly financial reporting to the federal Treasury Board Secretariat will commence in 2011-12. FCC is preparing for this reporting requirement as part of its continuing focus on financial management.

Corporate measures	2011-12 Target	2012-13 Target	2013-14 Target	2015-16 Target
Net income	$355.8 M	$378.9 M	$408.2 M	$505.2 M
Return on equity	13.9%	12.9%	12.3%	12.0%
Debt-to-equity ratio	6.9:1	6.5:1	6.2:1	5.5:1
Portfolio growth	3.3%	7.0%	7.0%	7.0%

The traditional strategic measures identified for this objective will indicate FCC's progress towards sustaining financial sustainability.

Enhance enterprise risk management (ERM)

Initiatives for 2011-12
• implement amended ERM framework • enhance internal controls • implement enhanced enterprise security program

Over the past 24 months, the world has been dealing with the financial crisis and its aftermath. Companies have recognized the need to develop strong risk management systems to protect themselves against significant threats. Enterprise risk management (ERM) is an integrated approach to risk management, driven by increasingly complex business and regulatory environments, and a public desire for increased corporate accountability.

FCC employs an enterprise risk management approach to manage risks across the organization in a consistent, coordinated manner. ERM is not a single function within an organization, but rather a common approach to inter-related management functions. By understanding and managing the most significant risks, FCC ensures that it can fulfill its public policy role, create value for customers, and maintain long-term business viability.

Within the next five years, FCC plans to further integrate its recently revised ERM framework into the corporate culture, strategic planning and financial management. In 2011-12, the corporation will continue implementing the recently revised ERM framework, including defining the corporate risk appetite, identifying emerging risks and raising awareness of risk management for all employees.

FCC continues to strengthen internal controls to ensure that corporate systems and information remain sound and reliable, and that opportunities for fraud are minimized.

A security breach is defined as any act that compromises the security, confidentiality or integrity of FCC by bypassing or contravening security policies, practices or procedures. The most likely cause of a breach is the unintentional or intentional release of sensitive personal or financial information about customers or employees by an FCC contractor or employee.

The enhanced security program will mitigate and manage the impact of security incidents on the customer experience, employee experience, operational efficiency, financial strength and reputation. In 2011-12, work will continue on governance and policies, information classification, and information technology monitoring projects.

Corporate measures	2011-12 Target	2012-13 Target	2013-14 Target	2015-16 Target
ERM maturity measure	Establish measure	TBD	TBD	TBD
RSPS risk score	770 pts	770 pts	770 pts	770 pts

FCC plans to develop and implement a new measure related to monitoring the maturity of its ERM program. Targets for future years will be established once the measure is selected.

FCC uses an internal Risk Score Pricing System (RSPS) to evaluate the type and potential impact of risk present in each loan or finance lease. This evaluation is used to ensure FCC is adequately compensated for the risk in its portfolio. When aggregated, the overall RSPS score for the loan portfolio provides a strong indicator of corporate credit risk management, which is a significant component of FCC's enterprise risk.

Protect and manage FCC's reputation as an ethical corporation with high integrity

Initiatives for 2011-12
• implement integrated reputation management strategy • benchmark FCC's environmental footprint

Customers want to deal with companies that have high values and standards. Heightened concerns arising from the worldwide economic crisis have led the financial industry to heighten its focus on maintaining public trust. Financial institutions are under continued scrutiny regarding their ethics, financial stability, risk management practices and lending policies.

Given the current economic climate and perceptions of financial institutions in general, FCC pays significant attention to reputation risk. Reputation management entails building positive relationships with stakeholders who may influence the corporation's future. Many factors contribute to reputation, including brand, goodwill, track record, integrity, quality of management, perception of transparency and openness, and products and services. In the event of a negative issue or crisis, there is then equity or credibility to draw on from positive relationships.

Results from a 2010 Léger study show that FCC has a very positive reputation with producers across the country, who rank FCC fifth among well-known Canadian brands. Plans to maintain and grow FCC's reputation include a continued focus on corporate citizenship, provision of an extraordinary customer experience, preserving the internal culture of respect and accountability, and increasing transparency.

Two specific initiatives are underway to manage, enhance, protect and grow FCC's reputation.

The first is the national reputation strategy, which outlines a comprehensive approach to reputation management. FCC has effective mechanisms in place to manage its reputation with customers. The Customer Experience Index provides a solid measure of this reputation.

The second is benchmarking FCC's environmental footprint. FCC recognizes the importance of environmental sustainability, and is developing more ways to support care of the environment. FCC recently updated its CSR strategy, which includes a commitment to reduce the direct environmental impact of FCC operations. A baseline greenhouse gas inventory is underway and will assist in the prioritization of opportunities for reduced consumption with regard to energy, water, and reduced generation of waste.

Corporate measures	2011-12 Target	2012-13 Target	2013-14 Target	2015-16 Target
Media favourability index	7 points above global average for financial institutions	7 points above global average for financial institutions	7 points above global average for financial institutions	7 points above global average for financial institutions

The measure used to track FCC's reputation is an external media favourability index, which measures media coverage about the corporation.

FCC's overall favourability score for fiscal 2009-10 was 61 out of 100 versus the global average for financial institutions of 53.

5.4.2 Customer experience

The critical outcome that FCC is striving to attain for this theme is:

In 2020, FCC continues to deliver an extraordinary experience to customers. As a result, the Customer Experience Index score indicates that two out of three customers (65 per cent) rate their experience with FCC as five out of five.

FCC wants customers to feel that the corporation offers value, is easy to do business with and makes a difference to their success.

FCC will continue to sustain and enhance its existing customer experience by focusing on the following three strategic objectives:

- consistently provide an extraordinary customer experience
- demonstrate commitment to the agriculture and agri-food industry, with a particular focus on producers and young farmers
- increase employee ability to provide customers with relevant and timely knowledge

Consistently provide an extraordinary customer experience

Initiatives for 2011-12
• continuously improve the customer experience by analyzing feedback and implementing relevant actions • implement alliance process redesign with external alliances • develop tailored service by market segment, including specialized expertise for large loans • implement web strategy

Customers choose FCC because they are provided with an extraordinary experience. Surveys consistently indicate that customers feel their business is valued, that FCC understands agriculture and is committed to the industry through its ups and downs, and that FCC is easy to deal with. In short, customers feel that FCC employees really care about their success.

FCC hires employees with agriculture and/or financial backgrounds who are committed to making a difference to the industry. The corporation has a learning culture and emphasizes the importance of continuously keeping abreast of developments in the agriculture and finance industries. FCC has customer experience standards that outline expectations of employees to ensure consistent and positive interactions.

In 2011-12, FCC will concentrate on enhancing the consistency of customer service at all locations across the country and through all channels. The corporation will continue to implement best practices that embed the desired customer experience culture into the way every transaction is conducted.

Alliance lending is an integral part of FCC's strategy. Work will continue on the review and redesign of the processes and internal controls used to do business with FCC alliances. The goal is to ensure that customers receive a consistent experience, whether they deal through an alliance or directly with FCC. To achieve this, FCC will ensure that all processes are as efficient and effective as possible, with appropriate internal controls to manage credit and reputation risk.

FCC will continue to enhance its ability to meet customer needs, including the specialized requirements of producers and business operators with larger capital requirements. Ongoing attention is directed at discerning increasingly complex needs as they evolve and then developing and implementing relevant products and services.

FCC will continue implementing a value-based web strategy. Value-based websites seek to establish credibility with customers, whether they are ready to do business or not, and the best way to provide value is through great content. It is also an effective and efficient way to extend the reach of existing programs and publications, such as FCC Learning and the Knowledge Insider.

Corporate measures	2011-12 Target	2012-13 Target	2013-14 Target	2015-16 Target
Customer Experience Index	60.0	60.0	60.0	60.0

The customer experience is measured every month to gauge how we are doing across Canada. Each survey measures seven key areas – satisfaction, loyalty, advocacy, easy, care, value and service resolution. FCC wants to deliver an extraordinary customer experience, so only scores that rate five out of five are counted.

Customer feedback is analyzed and shared with field offices so that they can engage in continuous improvement. Six out of ten customers give FCC perfect scores when rating their experience with the corporation. FCC intends to maintain and increase this level of customer satisfaction.

Demonstrate commitment to the agriculture and agri-food industry, with a particular focus on producers and young farmers

Initiatives for 2011-12
• enhance programs to support young farmers
• implement knowledge offering that adds value to customers
• increase collaboration with Agriculture and Agri-Food Canada on key issues impacting sector
• enhance venture capital offering

This objective replaces and builds on the previous strategic theme called commitment to agriculture. Initiatives previously incorporated under that theme that remain priorities for the future have been integrated with this new objective.

FCC believes that agriculture matters more than ever. Besides feeding Canadians, the industry contributes to the economy through significant employment and other activity, including generating billions of dollars in exports annually. FCC is committed to Canadian agriculture over the long term and supports the industry through good times and challenging times. The corporation works with customers to see them through challenges and help them take advantage of opportunities. Access to capital and knowledge contributes to a competitive advantage for Canadian producers.

The trends of farm consolidation and increasing producer sophistication have been observed for many years and continue to accelerate. Many farms will be transferred to new owners, often the next generation, within the next five years. New farmers continue to enter the industry. Beginning farmers face issues such as access to capital to purchase farmland and other farm assets, and the need to acquire the necessary skills and training for success.

FCC strives to meet both the financial and knowledge needs of new farmers. A number of learning programs are offered at no cost through FCC Learning, addressing topics such as transferring the farm, succession planning, and vision and goal setting. Loan products like the Transition and First Step loan offer flexibility to help young farmers get their operations up and running. As well, FCC supports young farmers by:

- sponsoring the Canadian Young Farmers Forum
- sponsoring Canada's Outstanding Young Farmer Program.
- providing financial support to the Canadian Association of Diploma Agriculture Programs
- partnering with the Association des jeunes ruraux du Québec and the Fédération de la relève agricole for rural youth and young adults
- partnering with 4-H
- sponsoring Business Planning awards for agricultural students

FCC will seek to enhance these offerings by staying connected to the needs of new entrants to agriculture.

Farms are becoming larger, more complex businesses that require sophisticated management skills. In addition to all of the elements of crop and livestock production, today's producers must deal with human resource issues and automation choices, partnerships, diversification, volatile market fluctuations and many other issues.

Management sophistication is a major predictor of success for primary producers and agribusiness and agri-food operations. FCC strives to provide knowledge and learning that enhances their ability to succeed, and continuously updates these offerings as new needs become apparent. These offerings are tailored to the unique needs of agriculture and constitute part of how FCC fulfils its public policy role.

FCC will look for additional ways to collaborate with Agriculture and Agri-Food Canada (AAFC). This includes providing input to AAFC where beneficial regarding the development of the next agriculture policy framework. The corporation will continue to provide advice, expertise and support to AAFC with regard to sector-specific issues and programs, such as the Hog Industry Loan Loss Reserve Program. FCC will also endeavour to find new areas in which collaboration with AAFC could be mutually beneficial.

FCC has been offering venture capital to the Canadian agriculture industry for a number of years. In 2006, a venture capital fund was created with a lead capital commitment from FCC. The investment objectives of this fund focus on businesses that add value to outputs from primary production. It is envisioned that a new venture capital fund will be launched in the coming year with additional financial support from FCC. The investment objectives of this second fund will be broadened to include certain businesses that are more directly involved in primary production. The corporation will continue to explore how it can expand the venture capital available to the agriculture industry.

Corporate measures	2011-12 Target	2012-13 Target	2013-14 Target	2015-16 Target
Total lending to young farmers	$1.48 B	$1.73 B	$1.87 B	$2.23 B
Number of learning program participants	10,500	11,000	11,250	11,500

New entrants to primary production and the agribusiness and agri-food sectors are vital to ensure the future of Canadian agriculture. FCC tracks its total lending to young farmers and entrepreneurs, and the number of participants in FCC learning programs to monitor uptake of services to these groups and better plan for future offerings.

Increase employee ability to provide customers with relevant and timely knowledge

Initiatives for 2011-12
• define agriculture/finance knowledge expectations of customer-facing staff and integrate with sales process • offer employees additional information to share with customers, including sector-specific knowledge, publications and key messages

Customer sophistication within the agriculture industry is consistently increasing as operations become more complex. FCC customers are business owners who require information to make good decisions and plan for the future. FCC supports customers with value-added knowledge that contributes to the success and growth of their businesses.

The competitive advantage of an organization increasingly resides in the knowledge value of its products and services. This is especially true when the main product is a commodity, such as lending money. It is also widely recognized that the speed at which an organization is able to create, share and use knowledge is rapidly increasing. To be successful at this, FCC needs to continually enhance staff knowledge, skills and experience.

FCC collaborates with experts regarding the broad range of issues that impact Canadian agriculture. The corporation researches and develops unique tools to help customers anticipate and understand changes in agriculture. This knowledge is shared with customers, stakeholders and the industry. FCC supplements employee knowledge with publications targeted at producers and agribusiness and agri-food operators, such as the FCC Knowledge Insider, which reviews relevant industry trends and provides thought-provoking ideas for individual producers and agribusiness operators to consider incorporating in their own businesses.

In 2011-12, FCC will provide employees additional information to share with customers. This will help ensure that front line staff are equipped with up-to-date information on topics such as the agriculture economy, agriculture market drivers and the potential impact of global trends, and with tools that add value to customers. By deliberately focusing on organizational knowledge, FCC can efficiently serve its customers, manage the inherent risk associated with a rapidly changing industry and enhance its reputation as a partner to the agriculture industry.

In particular, as the agribusiness and agri-food portfolio grows and becomes more complex, the need for FCC relationship managers with knowledge and expertise in these businesses increases. These knowledge needs will be integrated with the existing sales process to improve the customer experience and increase the value of FCC's products and services.

5.4.3 Efficiency and execution

The critical outcome that FCC is striving to attain for this theme is:

In 2020, FCC continues to be recognized as a highly efficient, effective and agile organization that is easy to do business with. The corporation has an efficiency ratio of 45 per cent or lower.

The strategic theme of efficiency and execution is about regularly challenging all areas of the corporation to seek better ways to do business. The following two strategic objectives will be pursued towards achieving this outcome:

- optimize how FCC conducts business
- expand channel delivery

Optimize how FCC conducts business

Initiatives for 2011-12
• implement business process and technical transformation program (BK) • implement optimization strategy • implement new property valuation software • develop corporate-wide business process management • implement information management program

FCC understands that continuously improving and reengineering corporate processes and functions will enhance corporate agility. Efficient and effective processes make it easy for employees to do business and provide a better customer experience.

FCC continually seeks better ways for employees to perform their work to simplify interactions for customers. The corporation continues to review internal processes, procedures and systems to optimize performance, such as further integration of project management processes with change management methodologies.

FCC is nearing completion of its multi-year Business Process and Technology Transformation Program (BK). FCC's processes and the way employees do their work were originally designed for one business line and a transactional business model. We now offer seven business lines and have transitioned to a customer relationship model. Existing processes have become cumbersome and dated technology makes it difficult for employees and customers to do business.

In 2011-12, FCC will implement the final stages of BK. This will streamline and automate many business processes and support lending activities with more flexible technology.

The new technology platform provided by BK will also facilitate the installation of new property valuation software. This tool will directly support front line lenders and appraisers in more efficiently executing FCC's lending processes and managing risk.

FCC completed an organizational work optimization review in December 2009 to identify opportunities to enhance the corporation's efficiency, effectiveness and overall alignment of resources with strategic objectives. A number of opportunities were identified that need more review and analysis. To further investigate these recommendations, EMT approved a formal optimization program. This program entails a structured approach to formally assess the opportunities identified and make recommendations. Potential initiatives will need to fit with FCC's strategic direction and business model.

The processes, systems, policies and culture of FCC impact how employees do their work, which directly affects the customer experience. Employee opinions are also sought to provide an indicator of how easy it is to do business within FCC and identify where improvements can be made.

FCC currently has a business unit that undertakes business process redesign and improvement regarding lending processes. This activity will be expanded to support further development of FCC's business architecture initiative.

FCC plans to develop and implement of a new comprehensive information management program to ensure the efficient management of this critical business element. Information under FCC's control includes websites, network drives, databases and other electronic systems, as well as hardcopy files and material. This information could be related to customers, employees or FCC's business.

Since information is central to the effective functioning of FCC, it is necessary to ensure efficient storage and use of both internally created and externally sourced information.

Corporate measures	2011-12 Target	2012-13 Target	2013-14 Target	2015-16 Target
Efficiency ratio	41.6%	41.3%	41.1%	40.5%
Employee engagement (easy to do business indicators)	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers

FCC uses an efficiency ratio (administration expense as a percentage of revenue) to measure how well resources are used to generate income.

Employee engagement is derived from five selected drivers including co-workers, physical work environment, resources, work process and work tasks found in from the employee engagement survey. This index measures how easy to do business it is for FCC employees.

Expand channel delivery

Initiatives for 2011-12
• develop integrated channel delivery strategy • enhance e-business strategy • create strategy to enhance customer access to approved credit

Alternative delivery channels could create efficiencies in how FCC does business, while providing additional solutions to customers. This objective concentrates on expanding product and service delivery methods to provide more choice for customers without significantly increasing costs, and ensuring the most efficient and effective delivery. Potential new channels would be based on new technologies that are now readily available, and would be fully integrated with existing channel delivery options.

FCC will explore new service channels to provide customers with more efficient service options. Areas to be explored under this objective are customer self-service through the phone and internet and expanded CSC access.

As agriculture continues to grow and innovate, so do the preferences of customers and the tools they use. A recent Ipsos Reid Ag Communications study stated that 68 per cent of producers use high-speed Internet and 80 per cent use the web for farm business purposes. One analyst estimates that various alternative methods of payments on accounts, especially mobile, could account for 20 per cent of transactions by 2012, up significantly from two per cent in 2009.[20]

FCC will enhance its current e-business strategy to ensure available telecommunications and data processing technologies are being used as effectively as possible for the benefit of its customers and the corporation. These tools could potentially reduce employees' time to deliver services while meeting certain customer needs on a 24/7 basis.

FCC will concurrently create a strategy aimed at expanding the manner in which customers who have been approved for credit can then access this credit from FCC.

20 Steve Bills, "Consumer Trends Bode Well for Mobile Payment Adoption", Mobile Banker section, American Banker website, October 15, 2009, http://www.americanbanker.com/issues/174_198/trends_bode_well_for_mobile_pay_adoption-1002928-1.html .

5.4.4 Employee experience

The critical outcome that FCC is striving to attain for this theme is:

In 2020, FCC continues to be an employer of choice, with a culture that inspires employees to deliver an extraordinary customer experience. FCC's employee engagement score is greater than or equal to the average of the top 50 Canadian employers.

Employees touch every aspect of the corporation. They are the foundation of FCC's success, so ensuring a positive employee experience is key. The following three strategic objectives will be pursued towards achieving this outcome:

- sustain and enhance employee experience
- enhance formal leadership capabilities
- grow and enhance employee knowledge

Sustain and enhance employee experience

Initiatives for 2011-12
• implement updated culture strategy • enhance workforce through the employment equity plan and diversity strategy • implement training to foster leadership at all levels

FCC has recognized the need for a strong, positive employee experience to provide an exceptional customer experience. The corporation has taken specific steps each year to improve and enhance both the employee experience and the drivers that support the experience. This includes taking steps to enhance the working environment and the values of trust, respect, teamwork and high performance.

FCC strives to be an employer of choice, and in 2009, the corporation ranked number nine in the national 50 Best Employers in Canada study. We believe that being a top employer enables us to attract and retain the type of employees with the specific competencies that we need to fulfill both our mandate and our strategy.

Sustaining and growing the employee experience will become increasingly important to FCC's ability to retain current employees and attract new ones. With the aging of baby boomers, FCC is expecting a significant number of retirements over the planning period. Within the next five years, up to 26 per cent of FCC's workforce is eligible to retire.

FCC plans to implement an updated culture strategy that will address areas of opportunities and continue to enhance the current positive employee experience.

FCC is subject to the *Employment Equity Act*, is compliant with the Act's requirements, and completes the annual reporting requirements. There is an employment and diversity plan in place with specific tactics to address the identified opportunities over the next several years.

Central to the desired employee experience at FCC is the quality of leadership, both formal and informal. FCC plans to continue to provide solid leadership training to both management staff and all employees to foster an ever-increasing culture of strong internal leadership at all levels.

Corporate measures	2011-12 Target	2012-13 Target	2013-14 Target	2015-16 Target
Employee engagement index	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers
Employee index: employee experience indicators	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers

FCC will continue to participate in an annual employee engagement survey to track progress in the employee experience area and our stated objectives.

Engagement is the state of intellectual and emotional involvement employees have with an organization and is a measure of their energy and passion. Since engagement is correlated to recruitment and retention, it is critical that it be measured and managed. This will lead to additional actions that directly address employee concerns and opportunities for improving engagement.

FCC will also monitor and analyze a sub-index which measures the employee experience in areas such as career opportunities, learning and development, intrinsic motivation, managing performance and work-life balance.

Enhance formal leadership capabilities

Initiatives for 2011-12
• implement leadership and succession planning • enhance workforce planning

Being an employer of choice requires exceptional leadership. Strong and consistent leadership enhances the employee experience by inspiring performance and developing skills in the areas of communication, strategy, team leadership, culture and change. Effective leadership ensures that FCC continues to run a good business with engaged employees.
As the current corporate leaders retire over the next few years, it will be critical to ensure there is an adequate supply of trained and capable individuals to promote into these leadership roles within FCC. As many organizations will be facing this challenge, such leaders will become increasingly difficult to attract and retain. Therefore, succession planning and leadership development is very important to the continued successful functioning of FCC.

FCC is continuing to implement its leadership framework. The framework defines great leadership for the organization and provides learning support to FCC leaders.

As agriculture continues to evolve and FCC continues to adjust and re-invent its operations to provide the new types of financial and related support that agriculture now requires, the corporation must also continue to grow the skills and capabilities of its workforce. The corporation will continue to enhance its current workforce planning efforts to meet these new challenges as they unfold.

Corporate measure	2011-12 Target	2012-13 Target	2013-14 Target	2015-16 Target
Leadership index – subset of employee engagement survey data leadership indicators	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers

A leadership index (sub-index of employee engagement survey data) will be developed to gauge employee perceptions regarding FCC leadership.

Grow and enhance employee knowledge

Initiatives for 2011-12
• implement Lending Essentials program • improve employee access to specialized agriculture and finance knowledge via intranet, collaboration tools, podcasts and web

FCC is committed to supporting the professional and personal development of employees to meet the increasingly complex knowledge demands of customers. The goal is to foster and grow an environment where learning is encouraged, management provides support, and success in meeting learning objectives is measured and recognized.

This objective relates to ongoing industry knowledge development for employees, with a particular focus on what is needed to best serve the customer. FCC believes that maintaining a level of knowledge that matches that of the leading edge of agriculture is key to the future success of employees and FCC. Employee knowledge must keep pace with rapidly changing agriculture and finance industries. This means providing employees with the knowledge they need to confidently add value during every interaction with a customer.

FCC intends to offer its employees improved access to specialized information that they can use to enhance their interactions with customers. This information will include knowledge related to specific sectors of agriculture, and will be provided through various channels.

FCC has an extensive training program related to the skills and knowledge necessary for front line employees to serve customers in the prescribed manner. This knowledge content has recently been re-organized into a Lending Essentials program, which will be fully implemented in the coming year.

Corporate measure	2011-12 Target	2012-13 Target	2013-14 Target	2015-16 Target
Learning measure	Establish measure	TBD	TBD	TBD

FCC will develop a specific measure this coming year directly related to employee knowledge and learning.

6.0 Financial Plan Summary

Farm Credit Canada is a self-sustaining Crown corporation, projecting growth and continued viability through sound financial and risk management practices.

Uncertainties still exist relative to the current global economy and its recovery from the recession. This along with a changing agriculture industry and increased competition increases the risk and volatility associated with some of the key variables used in creating the financial plan. As such, it is important to understand these key variables and their impact on the financial results (see Sensitivity and scenario analysis on the following page). FCC monitors these key variables throughout the year to ensure timely management of the potential impacts.

The financial projections have been prepared in accordance with IFRS which increases the volatility of the assumptions used in the Financial Plan. Several standards are still under review and the decisions FCC has made thus far with regards to IFRS implementation and the opening transition adjustment have not yet been audited and as such are subject to change. Given this there is increased risk that actual results could vary significantly from those projected in this plan.

Caution regarding forward-looking statements

The Corporate Plan 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.

Sensitivity and scenario analysis

FCC employs a financial model to determine the five-year plan targets based on inputs received from various divisions throughout the organization. The model has been tested and has proven to generate consistent projections based on the data inputs. The input assumptions for this financial plan are consistent with historical experience and are approved by management and the Board of Directors.

In addition to the financial plan projections provided in this document, the corporation runs a wide range of alternate sensitivity and scenario analyses. These analyses assist in financial planning, risk management, and resource allocation by testing financial strength across a range of financial plan assumptions. This information assists in ensuring that the corporation is making prudent financial and risk management decisions over the long term, including situations where the financial results may be less favourable than the projections provided in this document.

The table below shows the impact of changes to key variables on projected net income. The table provides the impact on net income for 2011-12 for each variable.

Major drivers ($ millions)	Change	2012 Plan
Loan disbursements *	+/- 10%/year	+/- 10.0
New lending margins **	+/- 10 bps/year	+/- 6.4
New lending mix (F/V)	+/- 10% fixed	+/- 1.5
Interest rate curves **	+/- 100 bps	+/- 7.2

* assumes that disbursements are made throughout the year.

** bps is basis points

6.1 Operating Budget

The operating budget provides details of our forecasted revenues and expenses for the fiscal year ended March 31, 2012, and is submitted for Treasury Board approval in accordance with Section 123 of the Financial Administration Act. The table below summarizes financial targets for 2011-12.

Profitable growth

Fiscal year ending March 31 ($ millions)	2012 Plan
Portfolio growth	
Loans receivable	21,447.8
Net disbursements	5,386.7
Loan renewal rate (per cent)	96.0
Prepayment rate (per cent)	6.5
Venture capital	
Investments - total capital outstanding	77.1
Investments - fair market value	65.5
Co-investment ratio ($ co-invested per FCC $)	1.5
FCC Management Software	
Net sales revenue	1.9
FCC Insurance	
Gross insurance revenue	19.3
Net insurance revenue	9.6
Portfolio profitability	
Net interest income	738.9
Net interest margin (per cent)	3.37
Net income	355.8

Effective financial management

Efficiency and cost control	
Administration expenses	312.2
Efficiency ratio (per cent)	41.6
Capital management	
Borrowings	18,840.3
Total capitalization	3,586.8
Gross assets not requiring debt financing (per cent)	15.8
Debt-to-equity ($ of debt per $1 equity)	6.9
Credit quality	
Arrears	84.7
Impaired loans	300.3
Provision for credit losses	88.7
Allowance for credit losses	665.1
Shareholder return	
Return on equity (per cent)	13.9
Return on assets (per cent)	1.65
Dividends	17.1

6.1.1 Discussion of expected results – 2010-11 forecast versus 2011-12 financial plan

Profitable growth

Portfolio growth

Loans receivable

Loans receivable is projected to grow by 3.3 per cent, increasing from $20,767.3 million forecast for 2010-11 to $21,447.8 million in 2011-12. The increase in loans receivable reflects the projected lending through the Primary production financing, Agribusiness and agri-food financing and Alliances business lines.

Net disbursements

Net disbursements, though projected to decrease by $395.3 million from the forecast level of $5,782.0 million in 2010-11 to $5,386.7 million in 2011-12, are the primary driver of the portfolio growth in 2011-12. Alliances and Primary production financing are expected to decrease by $55 million and $180.8 million respectively. Agribusiness and agri-food financing is expected to decrease by $159.5 million. Lending to primary producers represents 85.8 per cent of total net disbursements in 2011-12. Renewals are expected to be 96.4 per cent in 2010-11 and 96.0 per cent in 2011-12. Prepayments are expected to be 5.9 per cent of loans receivable in 2010-11 and 6.5 per cent of loans receivable in 2011-12.

Other business lines

Venture Capital

FCC Ventures continues to address the need for venture capital in the agriculture industry. At the end of 2010-11, the corporation is forecasting $68.9 million in capital outstanding. In addition, every $1.00 invested by FCC has attracted $1.60 from co-investors.

Total capital outstanding, including investments made through the Avrio Ventures Limited Partnership, is expected to increase to $77.1 million at the end of 2011-12. This anticipates new investments of $16.0 million, offset slightly by repayments and divestures.

The fair value of the venture capital investments is projected to increase from $57.2 million in 2010-11 to $65.5 million in 2011-12. This reflects the plan assumptions with respect to the new investments, as well as assumptions related to the timing of fair value adjustments over the life of the investments.

FCC Management Software

FCC Management Software packages support the business of agriculture by providing valuable solutions to farmers that will help to ensure their success and viability. Its products include AgExpert Analyst and Field Manager PRO. Net sales revenue is expected to increase to $1.9 million in 2011-12 from $1.6 million in 2010-11.

FCC Insurance

FCC has offered loan life and accident insurance since 1960, providing protection for customers, their families and businesses. Gross premium revenue is forecast to be $18.2 million in 2010-11 and is projected to increase to $19.3 million in 2011-12. Net insurance revenue, after insurance claims, is forecast to be $9.1 million in 2010-11, and is projected to increase to $9.6 million in 2011-12.

Sun Life Assurance Company of Canada administers FCC insurance programs.

Portfolio profitability

Net interest income and net interest margin

Net interest income is required to cover risk of credit losses and administration expenses as well as yield a sufficient profit to enable the corporation to remain financially viable and fulfill its role in supporting agriculture.

Net interest income is expected to decrease from $751.7 million forecast for 2010-11 to $738.9 million for 2011-12, contributing to a drop in net interest margin from 3.58 per cent to 3.37 per cent. This is due to both an expected decrease in lending margins and a narrowing of the spread between the rate FCC earns on its assets and the rate is pays on its debt. In 2010-11, FCC's borrowing rates remain extremely low as demand for government debt continues to remain strong, keeping rates low relative to assets. As the global economy continues to recover from the recession, rates and competition are anticipated to increase resulting in decreased margins.

Net income

Net income is projected to decrease from the 2010-11 forecast of $411.6 million to $355.8 million in 2011-12, mainly due to the lower net interest margin as discussed above, a higher provision for credit losses and increased administration expenses. These are offset slightly by higher other income and fair value gains.

Effective financial management

Efficiency

Administration expenses

Administration expenses for 2011-12 are planned to increase to $312.2 million from the 2010-11 forecast level of $284.7 million.

Permanent staff levels expressed as full-time equivalents (FTEs) are projected for planning purposes at 1,646 FTEs in the 2010-11 forecast. Staffing increases in 2011-12 will be limited as FCC continues to focus on cost management and operational efficiency.

Efficiency ratio

In 2011-12, the efficiency ratio is expected to increase to 41.6 per cent. The increase in the efficiency ratio is due to both an increase in administration expenses required to support FCC's continued growth combined with normal inflationary pressures and higher depreciation expense and a decrease in net interest income as margins return to more normal levels due to the reasons discussed in the net interest income and net interest margin section above.

Capital management

Funding activities

Cash provided by (used in) operating activities

After adjusting net income for non-cash items, FCC expects to use $372.7 million in support of operating activities in 2011-12. Cash used in operating activities is projected to decrease by $359.3 million from the 2010-11 forecast mainly due to lower loan disbursements.

Cash provided by (used in) investing activities

Change in temporary investments: ($3.5) million
FCC anticipates temporary investments of $62.9 million in 2011-12 representing a $3.5 million increase from forecasted temporary investments in 2010-11 of $59.4

Venture capital purchased: ($16.0) million
Total investment in venture capital opportunities is projected at $16.0 million in 2011-12, up from $11.8 million in 2010-11.

Cash provided by (used in) financing activities

Change in long-term debt: $1,350.1 million
FCC anticipates long-term debt to increase by $1,350.1 million in 2011-12 in order to fund the growing portfolio.

Change in short-term debt: ($962.2) million
FCC anticipates short-term debt to decrease by $962.2 million as FCC uses more long-term floating rate notes to fund the portfolio.

Dividend paid to Government of Canada: ($17.1) million
A dividend of $17.1 million is projected to be paid to the Government of Canada in 2011-12, at the discretion of the Board of Directors. A dividend of $18.5 million is anticipated for 2010-11.

Debt to equity

The projected debt to equity ratio for 2011-12 is 6.9 to 1, a decrease from the forecast of 7.7 to 1. The decrease reflects anticipated funding of a larger portion of loans receivable through equity. This ratio is projected to remain well below the maximum 12 to 1 debt to equity ratio set under the Farm Credit Canada Act.

Credit quality

Arrears

The arrears balance is forecast to be $71.9 million in 2010-11 and increase to $84.7 million in 2011-12, primarily due to a higher overall loans receivable balance in 2011-12.

Impaired loans

Impaired loans are expected to be $300.3 million in 2011-12, an increase of $8.8 million over the forecast for 2010-11 of $291.5 million. This increase is due primarily to the larger portfolio in 2011-12 compared to 2010-11.

Provision for credit losses

The provision for credit losses is expected to increase in 2011-12 to $88.7 million from the 2010-11 forecast of $68.0 million. The increase is due to an increase in the projected size of the portfolio and a slight increase in the level of risk.

Allowance for credit losses

The allowance for credit losses represents management's best estimate of credit losses on loans receivable. The allowance is made up of two components:

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

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

The allowance for credit losses is projected to grow from the forecast of $633.5 million in 2010-11 to $665.1 million at the end of 2011-12. The allowance as a percentage of ending loans receivable is projected to increase from the forecast 3.05 per cent to 3.10 per cent. The overall risk within the portfolio is not anticipated to change significantly.

Shareholder return

Return on equity

Return on equity measures the return on the investment the Government of Canada has made in the corporation. Return on equity is projected to decrease from 18.2 per cent forecast for 2010-11 to 13.9 per cent in 2011-12. The decrease is mainly due to the lower net interest income as discussed previously, higher administration expenses, an increase in the provision for credit losses and a decrease in the use of debt to fund the portfolio.

Return on assets

Return on assets measures how well the corporation is utilizing its assets to generate income. The return on assets is projected to be 1.65 per cent in 2011-12, a decrease from 1.98 per cent forecast in 2010-11. The decrease is due to the items discussed in the net income section.

6.2 Capital Budget

The 2011-12 capital budget is submitted for Treasury Board approval in accordance with Section 124 of the Financial Administration Act.

Capital spending is not anticipated to exceed $25.0 million in 2011-12 which is a slight decrease from historical levels. FCC has undertaken a significant redesign of core information systems and infrastructure over the past few years and has begun transitioning over to the new systems with most of the transition planned to occur in 2011-12, with completion slated for the 2012-13 fiscal year. The development plans for information technology also include normal hardware and software purchases and improvements to the corporation's business systems. The remainder of capital spending relates to regular furniture, fixture and equipment replacements and incremental purchases of these items and leasehold improvements.

6.2.1 Future accounting changes

International financial reporting standards

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011, as the date international financial reporting standards (IFRS) will replace Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises. Starting in the first quarter of the corporation's 2011-12 fiscal year, the corporation will provide unaudited consolidated financial reports in accordance with IFRS including comparative figures. The corporation's comparative period began April 1, 2010 and the corporation has been preparing IFRS compliant financial information since this time. The corporation's first annual IFRS financial statements will be for the year ending March 31, 2012

Changing from GAAP to IFRS is a significant undertaking for the corporation that is expected to materially affect the corporation's reported financial position and results of operations. It will also affect certain business functions. The corporation has developed an IFRS conversion plan and a formal governance structure, including an IFRS Steering Committee, to monitor the progress and critical decisions made during the conversion. The Steering Committee consists of senior management from Finance, Treasury and Internal Audit. The conversion plan will be modified and updated as required as the corporation proceeds through the conversion process and as new or amended IFRSs are adopted.

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

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

The IFRS accounting policies selected by the project team have been approved by senior management and the Audit Committee is aligned with the selections. All parties are aware that throughout the remaining conversion period the International Accounting Standards Board (IASB) will continue to issue new accounting standards, and as a result of this changing reporting environment, the original accounting policies selected by the project team may change. Revisions will be addressed per the project governance structure as set out in the detailed conversion plan.

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

Element	Milestone	Status
Financial Reporting		
Determine accounting and reporting differences. Select ongoing IFRS accounting policies. Select IFRS 1 elections.	Executive management approval of IFRS accounting policy and IFRS 1 election choices to occur in Q2, 2009-10.	Executive management approval of accounting policy choices and IFRS 1 elections obtained in Q2, 2009-10.
Develop IFRS financial statement format including disclosures.	Draft financial statement format to be completed by Q4, 2009-10.	IFRS financial statement format and opening IFRS balance sheet have been completed and the effects of conversion have been quantified.
Quantify effects of conversion.	Opening IFRS balance sheet to be completed by end of Q2, 2010-11.	Monitoring of impacts of new and amended accounting standards is ongoing.
Systems and Processes		
Determine impact of accounting policy changes on systems and processes. Confirm systems and processes support data requirements of financial reporting. Implement required changes to systems and processes.	System and process changes complete in time to support dual reporting requirements throughout fiscal 2010-11.	Initial system and process impact assessment is complete. Process and IT changes required due to IFRS have been implemented including development of a dual reporting system for fiscal 2010-11.
Ensure the control environment is maintained as process and system changes are implemented.	All key control implications have been assessed when planning system and process change implementations.	Changes to processes and systems have been made and are being monitored for changes to the control environment.
Business		
Assess impacts to all areas of the business and implement required changes.	Impact to all areas of the business to be determined by Q2, 2009-10.	Assessment of impacts on other areas of the business completed in Q2, 2009-10. Impacts were communicated to the business areas in Q3, 2009-10 and the required changes have been implemented.
Communicate conversion plan, impacts of IFRS and implementation progress internally and externally.	Maintain and execute change management and communication plans throughout the project.	Updates are provided to the Audit Committee quarterly. An additional session was held in Q2, 2009-10 to communicate

Determine and provide the appropriate level of IFRS training for each area of the corporation.	IFRS impacts identified as well as policy and IFRS 1 election choices. An additional session is planned to present the opening IFRS balance sheet. Detailed IFRS training has been provided to key members of the IFRS project team. The training and information needs of the rest of the corporation have been identified and addressed.

The following describes the key changes that the corporation expects to make to its accounting policies as a result of the conversion to IFRS as well as the key IFRS 1 elections the corporation expects to make. The descriptions below are based on the accounting standards that the corporation expects to be effective for its first IFRS reporting period and may be amended as circumstances and standards change.

A final determination of the impact IFRS will have on the consolidated financial statements of the corporation can not be measured with certainty until all the IFRS applicable at the conversion date are known. The quantified impacts detailed below are therefore subject to change.

The total impact to the corporation's retained earnings at April 1, 2010, the corporation's IFRS transition date, is expected to be a decrease of $129.7 million.

Employee benefits

(i) Under IFRS, the corporation's accounting policy is to use the 'corridor' approach and split actuarial gains and losses into unrecognized and recognized portions. The corporation is planning to elect to recognize all cumulative actuarial gains and losses for its defined benefit plans at the date of transition. The transitional adjustment to retained earnings relating to this item is expected to be a decrease of $63.4 million. Further, the corporation is planning to elect to use the exemption to not disclose the present value of the defined benefit obligation, the fair value of the plan assets, the defined benefit plan surplus/deficit and experience adjustments before the date of transition.

(ii) Under IFRS, the corporation must recognize a liability immediately for all past service costs arising from plan amendments to the extent that the benefits are already vested, and otherwise must recognize them on a straight-line basis over the average period until the benefits become vested. Under Canadian GAAP, all past service costs from plan amendments were amortized over the average remaining service period of active employees when the amendment was recognized. On transition, the corporation expects to recognize all vested past service costs and the impact to retained earnings is expected to be a decrease of $1.3 million.

(iii) IFRS requires that if the corporation has a net pension asset for its defined benefit obligation, the asset is limited to the total of any unrecognized past service costs and 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. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the corporation. An economic benefit is available to the corporation if it is realizable during the life of the plan, or on settlement of the plan liabilities. Canadian GAAP did not calculate the asset ceiling in this manner. On transition, the corporation expects to recognize an additional liability and the impact of which to retained earnings is expected to be a decrease of $41.8 million.

(iv) Under IFRS, the measurement date for the accrued benefit obligation and the plan assets must be a date such that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period. Under Canadian GAAP, the plan assets and accrued benefit obligation were measured three months prior to the date of the annual financial statements. On transition, the corporation expects to recognize a $21.5 million decrease to retained earnings as a result of the change in measurement date.

(v) IFRS requires the corporation to record a liability for non-vesting short-term compensated absences. The expense is recognized when the employee renders service that increases their entitlement to future compensated absences that do not vest. Canadian GAAP did not require a liability for this type of short-term employee benefit to be recorded. The transitional adjustment to retained earnings to record the obligation is expected to be a decrease of $1.2 million.

Loan origination costs

Under IFRS, loan origination costs must be incremental and directly attributable to the loan origination. Loan origination costs must be deferred and recognized over the expected term of the loan using the effective interest rate method. Under Canadian GAAP, a portion of administrative expenses were deferred and recognized over the expected term of the loan using the effective interest rate method as they were considered direct costs of negotiating and executing loan agreements. These costs do not meet the criteria of loan origination costs under IFRS and the corporation expects to recognize the deferred balance at transition. The transitional impact to retained earnings is expected to be a decrease of $6.0 million.

Fees assessed after loan origination

Under IFRS, fees assessed after loan origination are recognized in income immediately. This includes conversions, re-amortizations, terming out, and payment schedule amendments, which under Canadian GAAP were deferred and recognized over the expected term of the loan using the effective interest method. The corporation expects to recognize the deferred balance at transition. The transitional impact to retained earnings is expected to be an increase of $5.7 million.

Fair value of structured borrowings

The corporation is expecting to elect to apply the IFRS 1 voluntary exemption which allows it to measure its structured borrowings on initial recognition at fair value using a valuation technique prospectively from January 1, 2004. In accordance with the requirements of IAS 39, this results in the recognition of a deferred net gain at the transaction date (day one profit or loss). The effect of this exemption on the corporation’s financial statements, resulting from the deferral and amortization of the day one profit or loss on initial recognition, is expected to be a decrease to retained earnings of $0.2 million.

An amendment to the IFRS 1 voluntary exemption described above is currently being considered by the IASB. The amendment would change the effective date of the exemption from January 1, 2004 to the transition date of the corporation. An adjustment would no longer be required by the corporation if the amendment is put in place.

Non-controlling interest

Under IFRS, non-controlling interest is classified as equity and is presented separately from the equity attributable to the shareholder of the corporation. Under Canadian GAAP, non-controlling interest in the consolidated balance sheet was classified between total liabilities and equity. The impact on transition is expected to be a $9.5 million increase to total equity.

Other IFRS elections at transition

Business combinations

The corporation is expecting to elect not to apply IFRS 3, Business Combinations, retrospectively to business combinations that occurred before the date of transition to IFRS. Therefore, prior business combinations would not be restated and there would be no effect on the corporation's financial statements at transition from applying this exemption.

Subsidiary adoption of IFRS

For the consolidation of Avrio in the corporation's consolidated financial statements on the date of transition to IFRS, the corporation is expecting to elect to measure the assets and liabilities of Avrio at values that were determined by Avrio when Avrio adopted IFRS on January 1, 2010. There is not expected to be a financial statement impact at transition as a result of this election.

Leases

The corporation is expecting to elect under IFRS 1 not to reassess whether an arrangement contains a lease under IFRIC 4 for contracts that were assessed under Canadian GAAP. Arrangements entered into before the effective date of EIC 150 that have not subsequently been assessed under EIC 150 were assessed under IFRIC 4 and no additional leases were identified. There is not expected to be a financial statement impact at transition as a result of this election.

Borrowing costs

Under Canadian GAAP the corporation expensed borrowing costs as incurred. At the date of transition, the corporation is expecting to elect to capitalize borrowing costs only in respect of qualifying assets for which the commencement date for capitalization was on or after the date of transition. There is not expected to be a financial statement impact at transition as a result of this election.

Farm Credit Canada
Consolidated Balance Sheet
2011-12 Corporate Plan
(millions of dollars)

As at March 31	2010 Actuals GAAP	2011 Forecast IFRS	2012 Plan IFRS
Assets			
Cash and cash equivalents	$ 628.0	$ 791.3	$ 837.9
Temporary investments	199.8	59.4	62.9
Accounts receivable	32.8	6.9	6.9
Derivative-related assets	66.9	104.5	85.6
	927.5	962.1	993.3
Loans receivable	19,687.2	20,767.3	21,447.8
Allowance for credit losses	610.4	633.5	665.1
Loans receivable (net)	19,076.8	20,133.8	20,782.7
Finance Leases Receivable	2.8	4.1	6.8
Venture capital investments	60.0	57.2	65.5
Equipment and leasehold improvements	31.5	31.9	30.8
Computer Software	42.8	44.0	44.6
Equipment under operating lease	14.9	28.5	36.3
Other assets	46.8	13.7	14.7
	136.0	118.1	126.4
Total assets	$ 20,203.1	$ 21,275.3	$ 21,974.7
Liabilities			
Accounts payable and accrued liabilities	$ 48.6	$ 56.4	$ 63.0
Accrued interest on borrowings	49.6	71.1	74.7
Derivative-related liabilities	6.8	0.8	0.8
	105.0	128.3	138.5
Borrowings			
Short-term debt	8,801.2	8,002.0	7,470.7
Long-term debt	8,908.4	10,375.7	11,294.9
	17,709.6	18,377.7	18,765.6
Other liabilities	43.4	131.0	131.8
Equity			
Capital	547.7	547.7	547.7
Retained earnings	1,584.3	1,847.0	2,186.3
Accumulated other comprehensive income	203.6	228.5	187.7
Equity attributable to shareholder of the parent entity	2,335.6	2,623.2	2,921.7
Non-controlling interests in special purpose entity	9.5	15.1	17.1
	2,345.1	2,638.3	2,938.8
Total liabilities and shareholder's equity	$ 20,203.1	$ 21,275.3	$ 21,974.7

Farm Credit Canada
Consolidated Statement of Operations
2011-12 Corporate Plan
(millions of dollars)

Fiscal year ending March 31	2010 Actuals GAAP	2011 Forecast IFRS	2012 Plan IFRS
Interest income			
Loans receivable	$ 797.4	$ 944.2	$ 1,012.9
Investments	5.9	8.1	13.0
	803.3	952.3	1,025.9
Interest expense			
Short-term debt	(2.8)	34.0	44.0
Long-term debt	196.2	166.6	243.0
Total interest expense	193.4	200.6	287.0
Net interet income	609.9	751.7	738.9
Provision for credit losses	91.4	68.0	88.7
Net interest income after provision for credit losses	518.5	683.7	650.2
Insurance income			
Premiums	16.1	18.2	19.3
Claims expense	(7.5)	(9.1)	(9.7)
	8.6	9.1	9.6
Other income	1.7	1.9	2.0
Total Other Income	10.3	11.0	11.6
Income before administration expenses	528.8	694.7	661.8
Adminstration expenses	255.2	284.7	312.2
Income before fair value adjustment	273.6	410.0	349.6
Fair value adjustment	6.6	1.6	6.2
Net income	$ 280.2	$ 411.6	$ 355.8
Net income (loss) attributable to:			
Shareholder of the parent entity	$ 281.9	$ 410.9	$ 356.4
Non-controlling interests in special purpose entity	(1.7)	0.7	(0.6)

Farm Credit Canada
Consolidated Statement of Comprehensive Income
2011-12 Corporate Plan
(millions of dollars)

Fiscal year ending March 31	2010 Actuals GAAP	2011 Forecast IFRS	2012 Plan IFRS
Net income	$ 280.2	$ 411.6	$ 355.8
Other comprehensive income			
Net gains on derivatives designated as cash flow hedges	(186.7)	46.3	(19.0)
Transfer of net realized (gains) losses on derivatives desginated as cash flow hedges to net income	(16.9)	(21.1)	(21.7)
Change in net gains on derivatives designated as cash flow hedges	(203.6)	25.2	(40.7)
Net unrealized (losses) gains on available-for sale temporary investments	0.0	(0.3)	(0.1)
Comprehensive income	$ 76.6	$ 436.5	$ 315.0

Farm Credit Canada
Consolidated Statement of Changes in Shareholder's Equity
2011-12 Corporate Plan
(millions of dollars)

Fiscal year ending March 31	2010 Actuals GAAP	2011 Forecast IFRS	2012 Plan IFRS
Contributed surplus	$ 547.7	$ 547.7	$ 547.7
Retained earnings			
Balance, beginning of year	1,321.0	1,584.3	1,847.0
IFRS transition adjustment - April 1, 2010	0.0	(129.7)	0.0
Net income	281.9	410.9	356.4
Dividends paid	(18.6)	(18.5)	(17.1)
Balance, end of year	1,584.3	1,847.0	2,186.3
Accumulated other comprehensive income			
Balance, beginning of year	407.2	$ 203.6	228.5
Net unrealized (losses) gains on available-for-sale temporary investments	0.0	(0.3)	(0.1)
Net gains on derivatives designated as cash flow hedges	(203.6)	25.2	(40.7)
Balance, end of year	203.6	$ 228.5	187.7
Non-controlling interests in special purpose entitiy			
Balance, beginning of year	7.6	9.5	15.1
Net income	(1.7)	0.7	(0.6)
Distributions to non-controlling interest	3.6	4.9	2.6
Balance, end of year	9.5	15.1	17.1
Total	$ 2,345.1	$ 2,638.3	$ 2,938.8

Farm Credit Canada
Consolidated Statement of Cash Flows
2011-12 Corporate Plan
(millions of dollars)

Fiscal year ending March 31	2010 Actuals GAAP	2011 Forecast IFRS	2012 Plan IFRS
Operating activities			
Comprehensive income	$ 281.9	$ 411.6	$ 355.8
Items not involving cash and cash equivalents:	0.0	0.0	0.0
Provision for credit losses	91.4	68.0	88.7
Fair value adjustment	0.0	0.3	(6.1)
Other	1.0	0.0	0.0
Loans receivable disbursed	(6,628.7)	(6,520.6)	(6,077.9)
Loans receivable repaid	3,981.9	5,375.1	5,347.0
Changes in operating assets and liabilities	(31.2)	(64.5)	(80.1)
Cash provided by operating activities	(2,313.9)	(732.0)	(372.7)
Investing activities			
Change in temporary investments	(156.1)	140.4	(3.5)
Venture capital investments purchased	(11.3)	(11.8)	(16.0)
Proceeds on disposal of venture capital investments	9.1	17.3	13.8
Other	(44.8)	99.8	54.2
Cash used in investing activities	(203.1)	245.7	48.5
Financing activities			
Change in long-term debt	3,159.9	1,849.3	1,350.1
Dividends paid	(18.6)	(18.5)	(17.1)
Capital contribution	0.0	0.0	0.0
Proceeds on sale of derivatives	98.7	0.0	0.0
Change in short-term debt	(790.9)	(1,181.2)	(962.2)
Cash provided by financing activities	2,449.1	649.6	370.8
Change in cash and cash equivalents	(67.9)	163.3	46.6
Cash and cash equivalents, beginning of year	695.9	628.0	791.3
Cash and cash equivalents, end of year	$ 628.0	$ 791.3	$ 837.9

6.3 Borrowing plan summary

FCC requests authority to borrow from the Crown Borrowing Framework and capital markets to meet its forecasted funding requirements.

Authority is requested to:

a) Borrow short-term financing from the Crown Borrowing Framework and/or domestic money markets and bank lines of credit or loan agreements. Total short-term borrowing outstanding will not exceed a maximum limit of $10.0 billion in 2011-12.

b) Borrow medium and long-term financing from the Crown Borrowing Framework and/or domestic Medium and Long-Term Note program. Total medium and long-term borrowing outstanding will not exceed a maximum limit of $20.0 billion in 2011-12.

c) Borrow short-term U.S. dollar financing from domestic money markets for the purposes of match funding U.S. dollar assets. Total short-term U.S. dollar borrowings outstanding will not exceed a maximum limit of $200 million in 2011-12.

Canadian dollar capital market borrowings will only be used in the event that Crown Borrowing Framework borrowing is not available for a prolonged period and will be subject to approval by the Minister of Finance.

Total short-term borrowing outstanding of $10.0 billion is required to meet 2011-12 financing needs. It is important that the limit provides latitude to meet business requirements and manage cash flow uncertainties.

Total medium and long-term borrowing outstanding of $20.0 billion is required to meet 2011-12 financing needs. This amount provides flexibility and latitude to effectively finance FCC’s balance sheet and business requirements

7.0 Reference information

7.1 Products and services

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

Primary production financing

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

Agribusiness and agri-food financing

FCC provides loans to those who buy from and sell to primary producers, including equipment manufacturers and dealers, input providers and processors along the agriculture value chain. Customers seeking a loan can talk with an FCC relationship manager or sales team member.

Financing for equipment, crop inputs and livestock at point of sale

FCC provides loans to customers who do business through partnerships with equipment dealers, crop input retailers and livestock marketers. Equipment dealers can also provide FCC lease products to customers. These programs support FCC partners while offering financial options to producers at the point of sale.

FCC Learning

FCC offers management training, information and learning to customers. Workshops and learning tours include managing farm finances, human resources, succession planning and others. In addition, FCC Partner Programs offer learning opportunities by partnering with industry associations, groups and businesses.

FCC offers all producers and agribusiness operators complimentary access to all learning events where participants can build management skills and experience hands-on training. Staff encourages young farmers to participate in these opportunities.

In 2010-11, the FCC Forum customer event series was held in ten locations across Canada. These forums feature highly-acclaimed speakers presenting on the theme of Big Ideas for Your Future.

Every week, customers receive the latest news through Canada’s most popular agriculture e-newsletter (according to a 2009 Ipsos Reid study), the FCC Express. This publication shares provincial, national and international news and sector information affecting agriculture. The weekly Express is delivered free to over 30,000 subscribers and customers.

Customers can learn more about farm management strategies by reading AgriSuccess, a bi-monthly publication of the corporation. This national farm management magazine, is free, and offers tips and insight from industry experts and producers.

FCC Management Software

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

AgExpert Analyst allows customers to track income and expenses, inventory and capital assets and prepare financial statements, including GST returns. The accounting software is designed specifically for Canadian agriculture, and provides reporting features that are relevant to producers.

Field Manager PRO is a crop record keeping and planning system that provides customers access to their crop production data.

With Field Manager Commercial, food processing companies and agronomists can track and filter their grower data. The software helps to save time, increase reporting accuracy, and create auditable records. The electronic records provide proof of good agronomic practices, and agronomists can use it to gather and sort valuable grower information. At a time when traceability requirements are increasing, Field Manager Commercial and Field Manager Pro help to minimize tracking efforts by managing field records from planning through storage.

FCC Insurance

FCC offers loan life and accident insurance that is tailored to agriculture, allowing customers to protect themselves, their businesses and families.

FCC Ventures

FCC Ventures is the corporation's venture capital business line created to address the need for non-traditional financing in Canada's agriculture industry.

Venture capital financing is delivered through the Avrio Ventures Limited Partnership fund. This fund has capital commitments of $75 million including the lead commitment from FCC of $50 million. The investment objectives of the fund are focused on equity financing for commercialization-to-growth stage agricultural based businesses operating in the industrial bio-products, food technology and nutraceutical ingredient sectors.

Avrio Ventures provides services across Canada with offices in Montreal, Toronto and Calgary.

FCC Online Services

Using FCC Online services, customers can check their portfolio, review farmland values reports, use a farm finance kit, and watch commodity futures prices, the weather and news.

Canadianfarmersmarket.com

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

7.2 Loans and leasing

Customized loans

1-2-3 Grow Loan
Customers can manage their cash flow with interest-only payments until they get a return on their investment.

Advancer Loan
The Advancer is a pre-approved, secured loan with the flexibility to re-advance funds for capital purchases at the discretion of the borrower.

AdvancerPlus
AdvancerPlus is a revolving, pre-approved loan that borrowers can access any time, for their day-to-day operating expenses.

American Currency Loan
The American Currency Loan is useful to customers who derive revenue in U.S. dollars. The loan allows them to borrow and make payments in U.S. currency.

Capacity Builder Loan
Producers may purchase quota or breeding livestock with pre-approved financing for up to 18 months with the option to capitalize interest.

Cash Flow Optimizer Loan
This loan offers interest-only payments, and allows customers to reinvest funds into other areas of their operation. The borrower chooses when to make principal payments.

Construction Loan
Customers may defer their principal payments while they build or expand, with interim financing for up to 18 months on construction projects.

Energy Loan
The Energy Loan helps customers convert to renewable energy sources like biogas, geo-thermal, wind or solar power.

Enviro-Loan
The Enviro-Loan allows customers to defer principal payments while constructing, improving or expanding their environmental facilities.

First Step Loan
Young farmers may use their post-secondary education to establish their operation.

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

Performer Loan
The Performer Loan rewards customers with lower interest rates when their business achieves preset financial goals and ratios.

Spring Break Loan
Spring Break provides customers with an opportunity to match their payment schedule to the forestry harvesting season.

Start Now – Pay Later Loan
This loan allows customers to take advantage of deferred payments to get their operation up and running.

Transition Loan
A Transition Loan provides flexibility in the transfer of farm assets, by allowing disbursements to be made to the seller over time.

Standard loans

Closed rates
These rates are fixed for the term of the personal property or mortgage loan.

Fixed rates
Fixed mortgage rates apply for the term of the loan with a 10 per cent prepayment option included.

Open rates
Open rates offer the benefit of prepayment without penalty, with a fixed rate for the term of the personal property loan.

Variable rates
Variable rates offer maximum flexibility with a rate that floats as interest rates rise and fall. Customers may prepay any amount at any time for personal property loans or Open Variable Rate mortgage loans. They may also prepay up to ten per cent any time for standard variable rate mortgage loans.

Equipment leases

FCC Leasing
Customers may lease new or used equipment at select dealerships, and benefit from less investment up front and increased flexibility.

7.3 Glossary of terms

AgProduction
(see Primary production financing)

Agribusiness and agri-food financing
Agribusiness and agri-food financing refers to customers who have loans with FCC. It includes customers who are suppliers or processors that are selling to, buying from and otherwise serving primary producers. These include equipment manufacturers and dealers, input providers, wholesalers, marketing firms and processors.

AgValue
(see Agribusiness and agri-food financing)

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

Allowance for credit losses
Management's best estimate of credit losses in the loans and finance leases receivable portfolio. Allowances are accounted for as deductions from loans and finance leases receivable, respectively, on the balance sheet.

Arrears
Arrears are defined as all amounts, including gross impaired loans, greater than $500 that are past due.

Available-for-sale (AFS) financial assets
AFS financial assets are those non-derivative financial assets that are designated as AFS, or that are not classified as loans and receivables, held-to-maturity investments or held for trading.

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

Corporate social responsibility (CSR)
CSR is about accessibility, accountability and transparently pursuing long-term corporate objectives in a manner that balances corporate decision making, behaviour and performance with the evolving values, norms and expectations of society.

Counterparty
The opposite side of a financial transaction, typically another financial institution

Counterparty risk
The risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction into which it has entered

Credit rating
A classification of credit risk based on investigation of a company's financial resources, prior payment pattern and history of responsibility for debts incurred

Crown Borrowing Framework
Direct lending provided to the corporation by the federal government

Customer Support Strategy
Plans developed to proactively assist customers who may experience loan repayment difficulties during down turns in a particular segment of the agriculture industry. Individual plans can include deferred payments or flexible repayment schedules

Debt-to-equity ratio
The level of debt expressed as dollars of debt per one dollar of equity before accumulated other comprehensive income

Derivative financial instrument
A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates and foreign exchange rates. Types of derivative contracts include interest rate swaps, interest rate options, currency swaps and forward contracts.

Effective interest method
The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period.

Efficiency ratio
A measure of how well resources are used to generate income calculated as administration expense as a percentage of revenue. Administration expense is composed of the total administration expenses less investment in agriculture program expenses and revenue is composed of net interest income, net insurance income and other income.

Embedded derivative
An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Enterprise
Specific type of agricultural operation, for example, dairy, cash crops, beef, etc.

Enterprise risk management
The balance of the corporation's risk-taking activities and risk management practices within the context of executing corporate strategy and achieving our business goals and objectives.

Fair value
The amount an independent party would pay to purchase or sell a financial instrument in the marketplace. It can be estimated as the present value of cash flows, adjusted for risk.

Foreign exchange risk
The risk of financial loss due to adverse movements in foreign currencies.

Hedge
A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Held for trading (HFT) financial assets or financial liabilities
HFT financial assets or financial liabilities are acquired or incurred principally for the purpose of selling or repurchasing in the near term; or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or are derivatives, except for derivatives designated in effective hedging relationships; or are financial instruments designated upon initial recognition as HFT.

Impaired loans
Loans where, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured.

Interest and currency rate swaps
Contractual agreements for specified parties to exchange currencies and/or interest payments for a specified period of time based on notional principal amounts.

Interest expense
Expense to the corporation incurred on debt.

Interest income
Income earned on loans receivable, cash and investments.

Interest rate option
A right, but not an obligation, to pay or receive a specific interest rate on a notional amount of principal for a set interval.

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

Leverage
The relationship between total liabilities and the equity of a business.

Loan renewal rate
Percentage ratio of principal dollars renewed to principal dollars matured.

Market value of portfolio equity (MVPE)
The net present value of assets less liabilities. It is used to measure the sensitivity of the corporation's net economic worth to changes in interest rates.

Net disbursements
Disbursements represents the release of funds against approved loans. Net disbursements exclude refinancing of existing FCC loans.

Net interest income (NII)
The difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

Net interest income margin
Net interest income expressed as a percentage of average total assets.

Notional amount
The amount considered as principal when calculating interest and other payments for derivative contracts. This amount traditionally does not change hands under the terms of the derivative contract.

Other comprehensive income (OCI)
Represents unrealized gains and losses due to changes in fair value that are temporarily recorded outside of net income in a section of shareholder's equity called Accumulated Other Comprehensive Income (AOCI).

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

Primary production financing
Primary production financing refers to customers who have loans from FCC and includes agricultural operations that produce raw commodities such as crops, beef, pork, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock. These include but are not limited to vineyards, greenhouses, forestry (cultivation, growing and harvesting of trees), aquaculture (growing of fish, both ocean and inland) and part-time farmers.

Principal not due (PND)
The principal balance owing on loans. PND is a useful measure of growth between business lines, geographic areas and enterprises. It excludes items such as arrears and interest accruals that are normally included in loans receivable.

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

Return on equity (ROE)
Net income expressed as a percentage of average equity before accumulated other comprehensive income.

Risk scoring and pricing system (RSPS)
A tool used to evaluate the type and potential impact of risks present in each loan or finance lease to ensure FCC is adequately compensated for the risk in its portfolio.

Strategic credit risk model (SCRM)
A tool to measure overall credit risk present in the portfolio, which reflects the impact of corporate priorities, credit culture, risk strategy and risk controls.

Value-added
Agricultural businesses on the input or output side of primary production that produce, transport, store, distribute, process or add value to agricultural commodities.

Variable interests
Contractual, ownership or other monetary interests in an entity that change with changes in the fair value of the entity's net assets.

Variable interest entity
An entity that by design does not have sufficient equity at risk to permit it to finance its activities without additional subordinated financial support, or in which equity investors do not have the characteristics of a controlling financial interest.

7.4 Office locations (as of October 31, 2010)

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

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

Saskatchewan
Assiniboia, Carlyle, Humboldt, Kindersley, Meadow Lake (S), Moose Jaw, Moosomin (S), North Battleford, Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Weyburn, Wynyard (S), Yorkton

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

Ontario
Barrie, Campbellford, Chatham, Clinton, Embrun, Essex, Guelph, Kanata, Kingston, Lindsay, Listowel, London, Mississauga, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Walkerton, Woodstock, Wyoming

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

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

Newfoundland and Labrador
Mount Pearl

Nova Scotia
Kentville, Truro

Prince Edward Island
Charlottetown, Summerside

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Fax: 306-780-5167

FCC Management Software
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Regina, SK S4P 4L3
1-800-667-7893
Telephone: 306-721-7949
Fax: 306-721-1981

FCC Ventures
1800 Hamilton Street, P.O. Box 4320
Regina, SK S4P 4L3
Telephone: 306-780-5708
Fax: 306-780-8757

Government and Industry Relations
Tower 7 - Floor 10 - Room 319
1341 Baseline Road
Ottawa, Ontario
K1A 0C5
Telephone: 613-773-2940
Fax: 613-960-7024

(S) Satellite office – limited hours

www.fcc.ca
csc@fcc-fac.ca

Customer toll-free number
extended hours: 1-888-332-3301

FCC's venture capital business is delivered through:

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www.avrioventures.com
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20/04/2011

7.5 Contacts

If you require more information about Farm Credit Canada's Corporate Plan or wish to provide feedback, please contact:

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Si vous désirez obtenir de plus amples renseignements sur le Plan d'entreprise de FAC ou fournir des commentaires, veuillez communiquer avec:

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