Operating budget | Capital budget | Borrowing plan

2014-15 to 2018-19

# Corporate Plan Summary

Farm Credit Canada
Advancing the business of agriculture

Canada

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# 1.0 | Executive summary

Agriculture is a modern and economically important industry. Farmers and agribusiness operators are sophisticated business owners who manage the complexities of volatile markets, the value of the Canadian dollar, consumer trends, human resource challenges and other factors.

Given these variables, farmers and agribusiness operators need a trustworthy and stable financial partner. Farm Credit Canada (FCC) continues to demonstrate an unwavering commitment to the agriculture and agri-food industry.

FCC enhances rural Canada by providing specialized and personalized business and financial services and products to family farms, farming operations and small- and medium-sized businesses related to farming. FCC is dedicated to agriculture and takes a long-term view.

FCC prides itself on being responsive to the needs of its customers. FCC plans to develop a new loan product in 2014-15 and implement it in 2015-16. A revolving personal property loan will be an option available to producers who want to purchase such items as equipment or quota.

As a federal commercial Crown corporation, FCC understands the importance of remaining financially viable through all economic cycles to support customers through both good and challenging times. FCC has met or exceeded its financial targets for almost two decades. Meeting or exceeding its financial targets year over year means FCC will remain financially sound and able to serve the needs of the agriculture and agri-food industry well into the future.

As FCC has grown, so has the need for office space. FCC currently leases office space in three Regina locations. By the end of 2014-15, all corporate office employees will be consolidated in two connected towers, which will promote collaboration.

In Canada's Economic Action Plan 2012, the federal government indicated that it would work with Crown corporations to ensure that their pension plans are broadly aligned with those available to federal employees. In response, FCC will ensure its pension plan is aligned with the federal government's direction.

FCC is committed to having risk management policies consistent with federally regulated institutions. In 2013, FCC participated in a review by the Office of the Superintendent of Financial Institutions (OSFI) that looked at FCC's risks and risk management practices, including processes and procedures for setting and managing overall risk, risk pricing, and monitoring and reporting practices. In response to OFSI's recommendations and those of the Office of the Auditor General of Canada (OAG) 2012 Special Examination Report, FCC will continue to enhance its business practices with enterprise risk management (ERM) efforts through a comprehensive Enhanced Risk Management Program. The program will be implemented over the next three years. At the same time, FCC has implemented and will continue to implement, measures to reduce other operating expenditures.

FCC has updated its strategic planning process and model. FCC developed and outlined its strategic assets – the reasons customers choose to do business with FCC – and then built the strategy around protecting, leveraging and enhancing these assets. The result is a strategy framework that will allow FCC to effectively measure performance based on outcomes and objectives as recommended in the 2012 OAG Special Examination Report.

The corporate plan for the 2014-15 to 2018-19 planning period is an output of the strategic planning process that outlines the strategy the corporation will use to achieve its vision, mission and values. The FCC strategy has five areas of focus for the planning period:

- sustainable business success
- great customer relationships
- effective enterprise risk management
- operational efficiency
- high-performance culture

By pursuing the strategy within this plan, FCC will ensure that it remains self-sustaining and dedicated to the Canadian agriculture industry through all economic cycles.

# 2.0 | Mandate

## 2.1 Corporate mandate

FCC is Canada's leading provider of financial and business services tailored to the agriculture and agri-food industry.

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 shall be 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. Primary production is FCC's core business and represents 88 per cent of the loan portfolio. The corporation also serves agribusinesses along the value chain – from suppliers to processors.

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

- Access to Information Act
- Canadian Environmental Assessment Act, 2012
- Canada Human Rights Act
- Canada Labour Code
- Canadian Multiculturalism 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 Public policy role

FCC has created a public policy statement that outlines the many ways the corporation fulfils its mandate.

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

FCC provides financing to agribusiness and agri-food operations, such as suppliers and processors that serve primary producers. A healthy value chain provides producers with stable purchasing and selling options.

FCC recognizes that 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.

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

**FCC is dedicated to advancing the business of 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 ensures 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 create innovative products and services tailored to the dynamic business needs of agriculture. FCC's offerings recognize that it takes time for agriculture operations to flourish.

**FCC is visionary and operates in a sustainable manner.**
The corporation is committed to the success of young farmers and agribusiness entrepreneurs because it is good for the industry's future.[1]

FCC conducts business in a socially and environmentally sustainable manner, paying attention to the needs of customers, employees, communities, the agriculture industry and society. FCC provides environmental information and products to customers and is working to reduce its environmental footprint.

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

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

## 2.3 Alignment with government priorities

FCC is committed to supporting priorities outlined in Minister Ritz's Statement of Priorities letter and described in the Economic Action Plan 2013, as well as the recommendations provided through the Office of the Superintendent of Financial Institutions (OSFI) review.

[1] FCC defines young farmers as those under 40 years of age.

**Access to capital**
Access to capital allows producers and agribusinesses to adopt innovative practices and business models that enable them to expand, lower production costs, develop new products and compete in global markets. As a federal Crown, FCC plays a critical role in filling financing gaps and ensuring that producers have access to capital and a wide range of financial and business products and services tailored to their unique needs. These include long-term mortgages, short-term credit, leasing and venture capital.

In response to customer input, FCC will develop a revolving, personal property loan product in 2014-15. This loan product is designed to facilitate the purchase of items such as equipment and quota.

FCC will continue to offer venture capital created to meet the need for alternative financing in the agriculture industry. By providing venture capital via a private sector-led general partner, Avrio, FCC increases the capital and expertise available to growing, innovative firms in a manner that incents private-sector investments and venture capital funds management. These funds provide alternative financing arrangements to the agriculture industry in the form of subordinated debt, mezzanine and equity financing.

FCC participated in a consultation process initiated by Minister Flaherty on increasing the availability of venture capital for high-growth businesses in Canada. FCC shared Avrio's investment experience and outlined the role that Avrio continues to play in the agriculture venture capital market.

**Marketplace competition**
In the Statement of Priorities, Minister Ritz expressed that healthy marketplace competition and a choice of financing are necessary for Canadian farmers and agribusinesses to be successful through all economic cycles.

FCC believes that with it in the market, everyone benefits. Rural Canada benefits because a strong agriculture industry leads to a healthy economy. Financial institutions benefit because a healthy rural economy provides more business. Producers and the industry benefit because FCC provides a stable source of credit and ag knowledge to keep the industry thriving.

FCC will continue to partner with credit unions to share information, explore opportunities for collaboration and address market and policy issues of mutual interest. FCC and credit unions continue to identify partnership opportunities through things such as loan syndication, the provision of complementary services to producers and the development of mechanisms to facilitate co-operation at the local level.

FCC and the Canadian banks work together as financing partners for farms and agribusinesses. Financial institutions often lead financing syndicates. FCC participates financially and provides input to both the syndicate and the customer based on its agriculture industry expertise.

**Advancing the business of agriculture**
FCC continues to support the agriculture industry through learning programs, the development of young farmers and the Agriculture More Than Ever campaign.

FCC believes that sound financial management is the key to running a successful operation. To help advance Canadian producers' business management skills, FCC will continue to offer management workshops, learning forums, multimedia and publications. This will ensure that farmers of all ages can access the training and information they need to succeed in the future. FCC will remain focused on ensuring that employees are equipped with the appropriate knowledge and tools so that they can help customers make sound business decisions and positively affect relationships with customers.

Young farmers are important to the future agriculture industry. FCC is proud to support young farmers and has developed a number of programs and services designed specifically with the next generation in mind. Products and services, such as the FCC Transition Loan and Young Farmer Loan, help intergenerational transfers and assist farmers entering the industry. FCC aggregates its support of, and investment in, young farmers through its FCC On Campus program.

In 2012-13, FCC launched Agriculture More Than Ever, a multi-year campaign to improve perceptions of agriculture in Canada. The industry's value and contribution to Canada's economy as a whole needs to be better understood and celebrated by consumers and industry stakeholders. This campaign supports the Government of Canada's commitment to agriculture and farmers. As of September 27, 2013, FCC is working with 220 industry partners.

**Government policy**
FCC supports government policy through collaboration with Agriculture and Agri-Food Canada (AAFC), Export Development Canada (EDC), Business Development Bank of Canada (BDC) and other government agencies. FCC collaborates with the EDC and BDC to support access to international markets for Canadian agribusiness. To improve access to international financing and risk management tools, FCC and EDC draw on each other's expertise, knowledge, processes and products for customers who require export and global investment solutions. FCC and BDC connect regularly to exchange information on a variety of topics such as existing and potential joint deals, referrals for business services and records management activities.

FCC employees and their counterparts at AAFC also regularly exchange information on a range of topics important to the agriculture industry. FCC supported AAFC as it assessed the pressures facing hog producers. This included providing information on the performance of the FCC hog portfolio and potential impacts of the situation on Canadian hog producers. FCC also provided input on several aspects of the Growing Forward 2 policy framework.

**Corporate office renovations**

As FCC has grown, so has the need for office space. FCC currently leases office space in three Regina locations. In early 2013, FCC initiated a leasehold plan that will allow corporate office employees to work out of two interconnected towers, which will promote collaboration. Renovations to the existing space have already started. In addition, the lease provider has undertaken the construction of a new tower. FCC expects to move into the new facility in 2015.

**Employee pension**

The Economic Action Plan 2013 takes steps to align employee pension plans offered by Crown corporations with those available to federal employees. In 2009, FCC took the significant step of closing its defined benefit (DB) pension plan to new employees. In 2012, FCC increased the employee contribution of the cost-sharing formula for the DB pension plan. FCC will ensure that the employee contribution to the DB pension aligns with federal government direction by 2017.

**OSFI**

In 2012-13, the Minister of Finance requested that OSFI lead a review of FCC's risks and risk management practices, including its processes and procedures for setting and managing overall risk, risk pricing, and monitoring and reporting practices. The emphasis of the review was the identification of issues that could pose "material financial risk" to FCC and, ultimately, Canadians.

Risk assessment is an important part of the Government's ongoing efforts to monitor evolving lending risks and ensure prudent management. OSFI delivered its report to FCC in April 2013. It included a number of recommendations to be completed between the fiscal years 2013 and 2015.

To address OSFI's recommendations, FCC introduced a program to enhance risk management that includes six major projects. Completing these projects will strengthen FCC's risk culture and ensure that the corporation's risk management processes and practices are consistent with the requirements of a federally regulated financial institution.

**Profitable and self-sustaining**

Above all, FCC continues to remain profitable and self-sustaining. FCC understands the importance of remaining financially viable through all economic cycles to support customers through good and challenging times. FCC will carefully balance the resources required to provide business and financial services to the agriculture industry, while continuing to control costs and increase efficiency to sustain its excellent financial performance and ability to service the industry in the future.

# 3.0 | Corporate profile

FCC is a financially self-sustaining federal Crown corporation reporting to Parliament through the Minister of Agriculture and Agri-Food. FCC provides financing and other services to more than 100,000 primary producers, value-added operators, suppliers and processors along the agriculture value chain.[2] Operating from more than 100 offices located primarily in rural communities, its more than 1,600 employees are passionate about the business of agriculture.

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 FCC the successor of the CFLB.

In 1993, the Farm Credit Corporation Act was proclaimed into law, expanding FCC's mandate and broadening its lending powers. Under the new mandate, FCC could provide financial services to farming operations, including individuals, farming corporations and farm syndicates, under the authority of one act.

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

## 3.1 Why FCC exists

### FCC's 2020 vision

The following vision keeps employees focused on the future state.

*The full agriculture and agri-food value chain believes FCC is advancing the business of agriculture. We are the place to obtain financial products, services and knowledge tailored to producers and agribusiness operators. Our customers are advocates of FCC and can't imagine doing business without us. We are a socially and environmentally responsible corporation. FCC is an employer of choice everywhere we operate. We make it easy for customers and employees to do business. We are financially strong and stable, and invest significantly in the agriculture and agri-food industry.*

## 3.2 FCC value proposition

The FCC value proposition outlines what customers and prospects can expect from a relationship with FCC. It is available under About Us on FCC's website.

## 3.3 Corporate citizenship

### Corporate values

FCC is committed to advancing the business of agriculture. It does this by setting its sights high, working to benefit its customers and helping its employees achieve their full potential. FCC's corporate values represent its core beliefs. The corporate values are available under About Us on FCC's website.

### Corporate social responsibility

FCC takes corporate social responsibility (CSR) seriously. It is part of FCC's 2020 vision and it guides how FCC operates. In 2012-13, FCC released its second annual CSR report. Information on the initiatives outlined in this report is available under About Us on FCC's website.

[2] FCC customer number includes all customers with an active loan balance who are primary borrowers, co-borrowers or guarantors for personal and corporate loans, including primary production, agribusiness and agri-food and alliances.

### Cultural practices

In addition to its corporate values, FCC's cultural practices explicitly outline the behaviours that employees and Board members are expected to demonstrate with colleagues, customers, partners, suppliers and stakeholders. The cultural practices are available under About Us on FCC's website.

## 3.4 Corporate governance

### Board of Directors

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

Board members are appointed by the Governor-in-Council upon the recommendation of the Minister of Agriculture and Agri-Food. Except for the President and CEO, Board members are independent of management. They bring a combination of agriculture, business and financial experience to the task of governing a corporation that serves an increasingly complex industry.

The Board is currently composed of 12 members, including the President and CEO and the Chair. The full biographies of Board members are available under About Us on FCC's website.

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. This meeting is held in a different location each year to give the Board an opportunity to meet with employees, customers and stakeholders from different parts of the country, providing them with a better appreciation of the issues facing agriculture across Canada. For the past several years, this meeting has been held in conjunction with the corporation's annual public meeting.

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

The President and CEO is responsible to the Board for the corporation's day-to-day operations. Reporting to the CEO, the Chief Risk Officer is responsible for oversight across FCC and provides regular reports to the Chair of the Board's Risk Committee on whether or not FCC is operating within its risk appetite and/or policy limits.

The roles and responsibilities of the Chair, Board members, the President and 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 – legal and ethical conduct
- strategic planning and risk management
- financial reporting and public disclosure
- leadership development
- government relations and CSR
- corporate governance

The Board has four sub-committees: Audit, Corporate Governance, Human Resources and Risk.

**Audit Committee** members are independent of management. All committee members are financially literate and the committee chair is considered a financial expert.

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

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

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

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

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

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

**Risk Committee** members are independent of management. The Risk Committee has a broad mandate to assist the Board in fulfilling its oversight responsibilities for the identification and management of risk. The Risk Committee assists in defining the corporation's overall risk appetite and setting risk tolerances against which the corporation's business is measured, monitored and controlled. The Risk Committee is also responsible for reviewing and approving the corporation's risk management policies and overseeing its performance against the defined risk appetite.

## Executive Management Team (EMT)

EMT consists of the President and CEO, Executive Vice-Presidents and Senior Vice-Presidents. Bound by the code of conduct and ethics, FCC executive and senior management teams adhere to the highest ethical standards of business, professional and personal conduct. All executives, with the exception of the President and CEO, are paid within the salary ranges and compensation policies approved by the Board. The Governor-in-Council establishes the President and CEO's compensation. Full biographies are available under About Us on FCC's website.

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

## Senior Leadership Team (SLT)

SLT consists of the President and CEO, Executive Vice-Presidents, Senior Vice-Presidents and Vice-Presidents. This team provides input on setting corporate priorities to achieve strategic objectives consistent with FCC's mandate and approved direction.

## Governance framework

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

The **Asset Liability Committee**'s (ALCO) primary purpose is to direct and execute the corporation's business and financial performance relative to the approved strategy and risk appetite framework. This includes loan pricing direction, portfolio diversification and liquidity investment, integration with corporate strategies and financial planning, capital and portfolio risk management and achievement of portfolio return targets.

The **Enterprise Risk Management Committee** advises the Chief Risk Officer (CRO), oversees enterprise risk management governance and risk management practices, and promotes a risk culture at FCC. The committee manages corporate risks, which includes providing input on the corporate risk appetite and tolerances, and risk policies and practices. The committee approves reporting and provides recommendations and information to the CRO, the Board's Risk Committee and the Board.

The **Credit Committee** assesses the credit risk on loan applications from larger customers to ensure loan proposals fall within desired risk tolerances and credits are properly structured and have appropriate conditions. They also ensure that other factors such as customer reputation risk and loan pricing relative to risks have been effectively considered.

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

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

The **Fraud Risk Advisory Committee** ensures that decisions regarding internal or external fraud are made as per FCC's Fraud Risk Management policy.

The **Horizon Committee** provides strategic direction to EMT on compensation and performance management processes. The committee also evaluates all jobs in relation to FCC's classification system.

The **Pension Committee** provides advice to the Board's Human Resources Committee to ensure the effective operation of the pension program. It ensures that the pension plan and pension fund are funded and administered in accordance with the Pension Benefits Standards Act and Income Tax Act, and fulfils FCC's role as plan administrator by monitoring and reviewing fund activities. The committee also promotes awareness and understanding of the retirement program.

The **Pricing Committee** provides advice to ALCO on all issues related to pricing. It monitors and makes modest pricing adjustments as per FCC's margin targets. It regularly reports to ALCO on pricing performance and issues, and makes recommendations to ALCO for the approval of material pricing adjustments.

The **Reputation Steering Committee** acts as a focal point for the co-ordination of reputation issues and provides a corporate approach and enterprise-wide perspective on FCC's reputation. The committee provides counsel and advice on reputation risks, and monitors and reports progress to the President and CEO, EMT and the Board.

The **Strategy Execution Team** approves corporate projects that enable the execution of the business strategy.

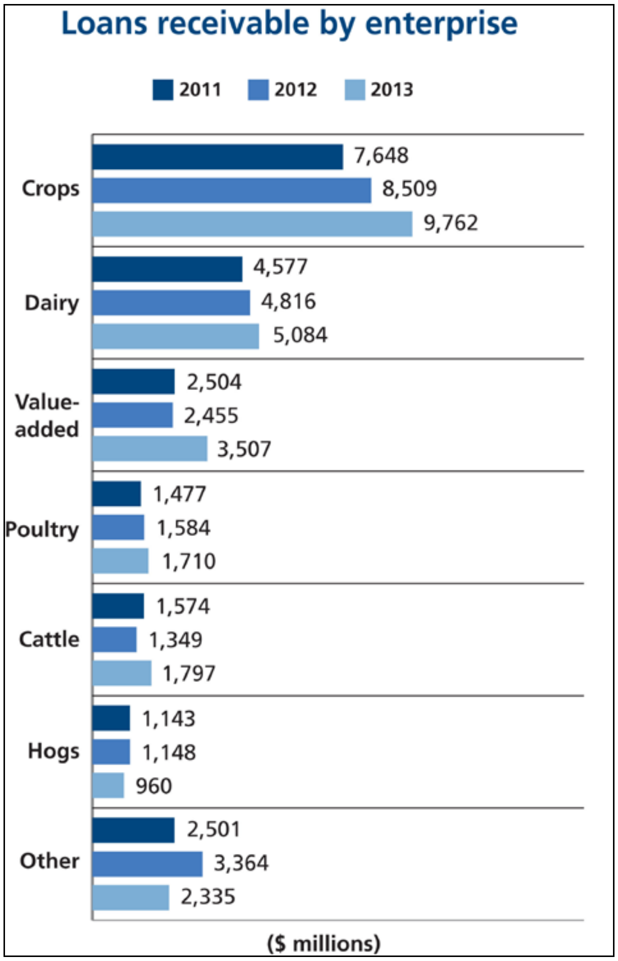
There are five new portfolio committees to help prioritize corporate actions: the Enterprise Services Portfolio Committee, the Lending Services Portfolio Committee, the Stakeholder Management Portfolio Committee, the Risk Services Portfolio Committee and the Information and Technology Portfolio Committee.

The **Venture Capital Investment Committee** adjudicates all venture capital investment recommendations and monitors the performance of FCC's venture capital portfolio.

# 3.5 FCC loan portfolio

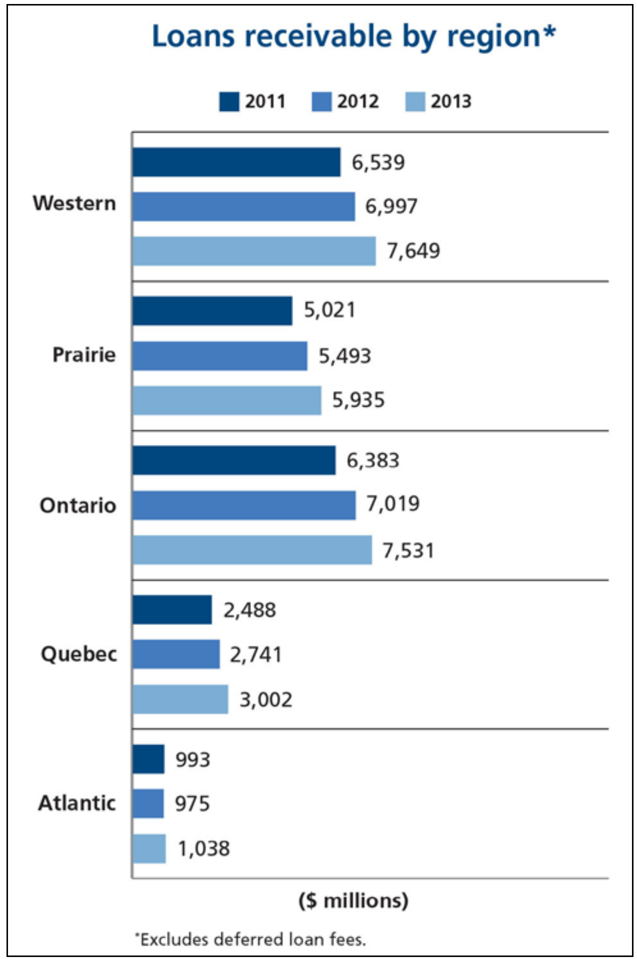
## Portfolio by enterprise

FCC lends to all agriculture enterprises, which diversifies the lending portfolio and reduces enterprise-specific risks. These practices focus on FCC's great customer relationships and sustainable business success 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. FCC has over 100 offices to serve its customers.



## 3.6 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
- 28 domestic banks (including the six major banks)
- 51 foreign bank branches and subsidiaries
- 48 trust companies
- 78 life insurance companies
- 348 credit unions and caisses populaires outside of Quebec

Provincial government Crown corporations or agencies that serve agriculture include:

- ATB Financial
- Alberta’s Agriculture Financial Services Corporation
- 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 6.0 per cent to $72.2 billion in 2012. FCC increased its market share by 0.8 percentage points to 30.2 per cent. FCC’s portion of Canada’s outstanding farm debt at $21.8 billion remained second only to the chartered banks at $25.6 billion.

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

In 2012, FCC held over 30 per cent of the farm debt market share. FCC is not the only financial institution increasing its market share. Provincial government agencies, such as the Manitoba Agricultural Services Corporation, Nova Scotia Farm Loan Board and Alberta’s Agriculture Financial Services Corporation have been steadily increasing their share over the past three years.

FCC continues to look for opportunities to partner with other financial services organizations to provide products and services to the Canadian agriculture industry.

# 4.0 | Strategic issues

## 4.1 Industry overview

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

Demographics throughout the world are changing. In 2012, the global population reached seven billion; by 2050, it is expected to surpass nine billion.[3] Population growth in developing countries is expected to far exceed that of developed countries. As incomes in developing countries rise, diets are expected to shift toward more meat and dairy products. In western developed nations, scrutiny and focus is being placed on food production – including nutrition, environmental sustainability and animal welfare.

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

Feeding the growing population with the planet's limited resources is a challenge; however, it also creates many opportunities for Canadian agriculture and agri-food industries. Emerging opportunities include, but are not limited to, those in bio-products, health foods and ethnic markets. Producers and agribusiness operators are harnessing the power of marketing, innovation, efficiency and technology to capitalize on these opportunities. The shift in food preferences in the domestic market is also opening new market segments for Canadian agribusinesses.

[3] World Agriculture Towards 2030/2050: The 2012 Revision (summary), FAO Agriculture Economics Division.

### The Canadian economy

Canada's real gross domestic product (GDP) grew at an annual rate of 2.5 per cent and 1.7 per cent in the first and second quarters, respectively, of 2013. The International Monetary Fund (IMF) predicts that annual growth for Canada in 2013 and 2014 will be 1.6 per cent and 2.2 per cent, respectively.[4] While these numbers are below the average growth rate of 2.6 per cent posted in Canada from 2000 to 2008 (before the global financial crisis), the Canadian economy is faring well on a number of fronts.

The World Economic Forum in Geneva has rated Canada's financial system as the strongest in the world for six consecutive years. Although unemployment remains above the historical average, it is lower than most industrialized countries. The federal government is on track to balance its budget by 2015. The Bank of Canada's overnight rate remains at historically low levels, although it could increase its key interest rate as inflation nears the target of two per cent.

**International**

The European economy posted weak growth in the second quarter of 2013. The IMF predicts that the European Union will remain stagnant in 2013, before resuming growth in 2014. Unemployment remains at record highs and youth unemployment is a major issue. Profound economic disparities continue between Germany and other European countries, including Greece, Italy and Spain. The IMF and the German government have acknowledged that austerity measures are not solving the economic crisis fast enough. This admission, combined with the Central Bank's determination to support the European economy, is yielding a more optimistic outlook for Europe in 2014.

[4] International Monetary Fund, World Economic Outlook April 2013 – Hopes, Realities, Risks.

Slow European growth and its potential effects on Asian markets are important factors to monitor. Weaker demand from European consumers could slow down income growth in Asia, forcing down demand and prices for red meats, grains and oilseeds.

A prolonged European slowdown could also lower demand for Canadian agricultural exports. Canadian agri-food exports to the European Union totalled $2.8 billion in 2012, representing six per cent of Canadian exports.

The United States remains Canada's largest trading partner. IMF projections for U.S. economic growth are slightly higher than Canadian growth forecasts. An improved outlook for the U.S. economy lowered the anticipated U.S. government deficit, but accumulated debt will likely continue to pull down public spending.

The Japanese economy has struggled for the past 15 years to find consistent growth. The Bank of Japan has a new mandate targeting higher inflation, which should boost the economy. Japan is also set to reform the economy by deregulating some sectors and opening the country for trade, as expressed by its willingness to enter the Trans-Pacific Partnership (TPP) negotiations.

Japan's aggressive monetary stance generally lowers the value of the yen against most currencies. Given Japan's reliance on food imports, the outlook remains positive for Canadian agri-food exports. The world economy would benefit from Japan's economic boost.

Risks to the world economy have moderated, although the financial situation remains delicate. Growth prospects in much of the western world are still below average.

The surprising strength of the U.S. economy and the lower price of Canadian oil leads the downward pressure on the Canadian dollar. Low inflationary pressures in Canada decrease the likelihood that interest rates will increase in the near term and push down the Canadian dollar. Canadian currency remains attractive in financial markets given the Canadian economy's overall stability. Going forward, the Canadian dollar is likely to trade in a narrow band below parity with the U.S. dollar.

Canadian agriculture and farm income is directly linked to agricultural commodity prices. Economic growth in emerging markets remains the most important long-term driver of crop and livestock prices and Canadian farm income. Farm income is driven by crop production issues in other countries.

**Trade**

The landscape of Canada's international trade agreements is bound to change in the near future. Canada is currently negotiating agreements with key economic partners, including India, South Korea, Japan and the European Union. Canada also continues to participate in TPP negotiations. The Prime Minister signed an agreement in principle on a Comprehensive Economic and Trade Agreement (CETA) on October 18, 2013. On December 7, 2013, the World Trade Organization's member countries agreed on a new trade facilitation agreement.

Free trade agreements help establish access to markets that are key to Canadian agriculture and agri-food. Opening a mature market like Japan (where food imports represent 60 per cent of domestic consumption[5]) would be positive for Canadian producers and food manufacturers. It is equally important to secure access to the booming middle class in emerging markets in Southeast Asia.

Trade negotiations also increase the competition faced by Canadian producers in domestic markets. A successful end to the trade negotiations with Europe or the TPP could trigger increases in dairy product imports and lead to adjustments in the Canadian dairy market.

[5] Ministry of Health, Labour and Welfare, Japan.

The U.S. market accounted for 49 per cent of Canadian agriculture and agri-food exports in 2012, steadily declining from 63 per cent in 2001.[6] A strengthening U.S. economy could reduce Canada's trade with the United States.

**Canada's farm debt**

Total Canadian farm debt reached $72 billion in 2012.[7] Debt has steadily increased since 2000 (at an average annual rate of 5.4 per cent), pushed by declining interest rates and intensifying pressures to remain competitive in a more globalized world. This steady increase in farm debt levels has been accompanied by steady increases in the value of farm capital, which increased by 10.5 per cent in 2012. The current environment of low financing costs helps farm businesses invest to capture economies of scale and increase productivity and efficiency.

Due to the steady increase in farm capital value and relatively strong industry margins, agriculture has become attractive to the Canadian financial industry in recent years. This is reflected by a more competitive lending market. The growing size and complexity of agriculture loans is increasing both risk and return. It also means there is an opportunity for increased lender collaboration, including syndications.

Canadian farm debt is increasing at a faster pace than U.S. farm debt – 5.4 per cent for Canada compared to 4.2 per cent in the United States annually.[8] There are several reasons for the difference, including production quotas for supply managed industries, which lead producers to take on additional debt because of steady, predictable returns. Agricultural production in the United States is also more vertically integrated. Short-term debt associated with vertical integration is difficult to track in farm debt surveys. Finally, Canada's shorter growing season may force Canadian producers to invest more in managing production control risks, which increases debt levels.

**Land values**

The appreciation in farm capital has primarily been driven by increases in farmland values. The average value of Canadian farmland increased 19.5 per cent in 2012, following an average increase of 14.8 per cent in 2011 (according to the FCC Farmland Values Report). These increases mirror those across much of the United States. Canadian farmland values have risen steadily over the past decade, driven mainly by strong crop receipts and low interest rates. The demand for lifestyle or hobby farms near urban centres continues to place upward pressure on land values. Due to a softening of crop prices, the pace of land value increases is expected to slow down.

**Farm structure**

Consolidation in Canadian agriculture is still occurring. The number of small- and medium-sized farms (as defined by gross farm receipts) is declining, while the number of large farms is increasing slightly.

Consolidation explains the increase in the average farm size over the last 10 years. One implication of fewer but larger farms is a greater ability to harness innovation for productivity gains, as high-output farms are relatively capital intensive.

The 2011 Canadian Census of Agriculture reveals that the average age of Canadian producers is climbing, reaching 54 years in 2011 compared to 50 years in 2001. The proportion of farmers aged 55 and older is higher than ever. This trend is somewhat connected to the aging of the Canadian population overall. Because of this, the average age of farmers may increase for some time before levelling off or decreasing.

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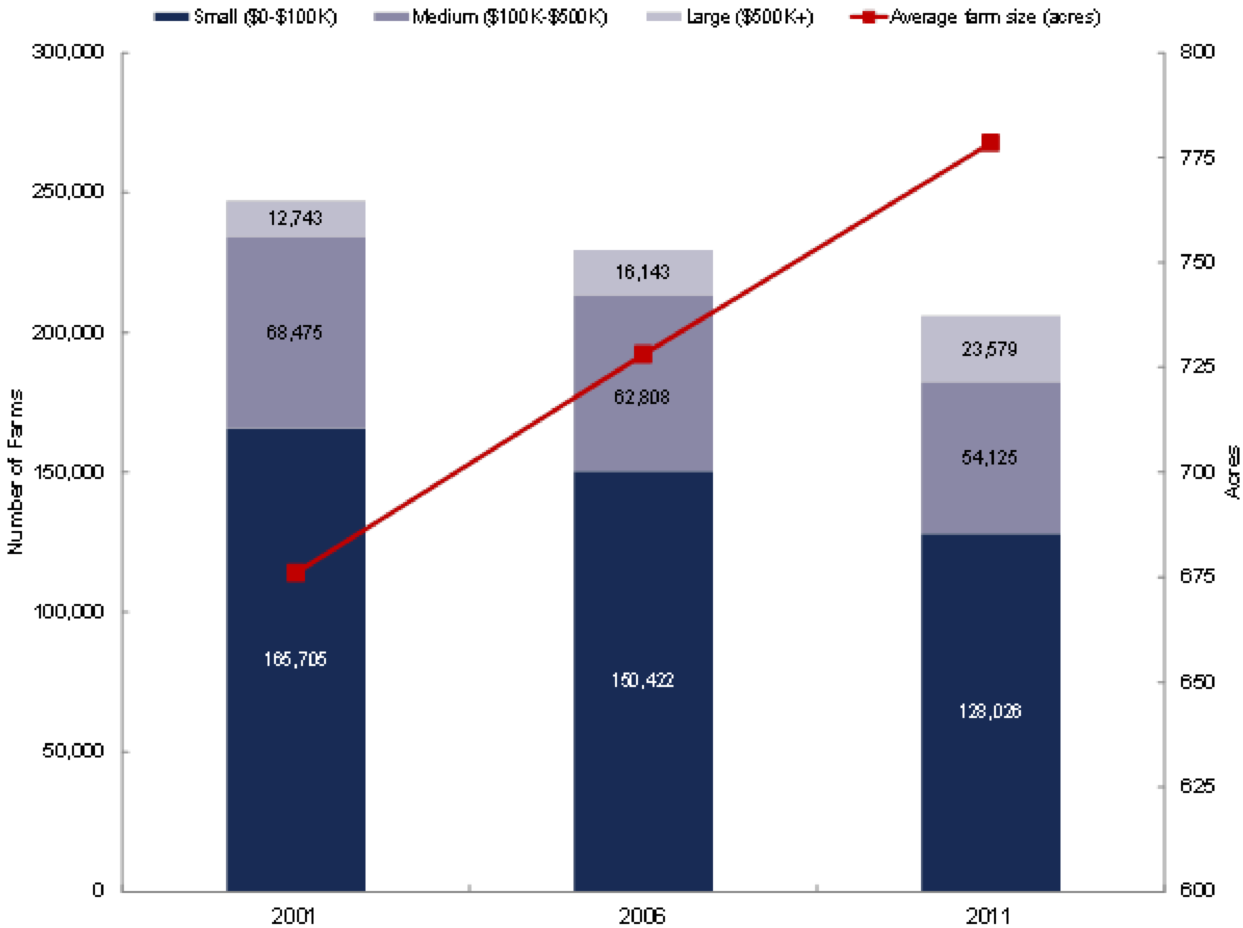
[6] Statistics Canada, based on NAICS Codes.

[7] Statistics Canada. Table 002-0008 - Farm debt outstanding, classified by lender, annual (dollars), *CANSIM (database)*.

[8] Economic Research Service, United States Department of Agriculture. Farm Business Balance Sheet. (accessed online 13 May 2013: http://www.ers.usda.gov/data-products/farm-income-)and-wealth-statistics.aspx?wwparam=1370019254.




Source: 2011 Census of Agriculture (developed by Statistics Canada)

## Purposeful, sustainable agriculture

The world's population is expected to surpass nine billion by 2050. Developing countries will lead the population increase. The Food and Agriculture Organization of the United Nations projects that the food demands of a population of 9.15 billion in 2050 will require an increase in global agricultural production of 60 per cent from 2005-2007 levels. While this is a smaller increase than the agriculture sector has achieved over the past 50 years, it raises questions about how it can be done sustainably.[9] Global ecosystems are under pressure and water is in limited supply. At the same time, both rapidly industrializing nations and developed nations need access to energy, minerals and metals.

Canada's abundant natural resources are receiving attention from Asian markets and there is potential for greater export opportunities.

For the banking and agri-finance sectors, these trends are adding lending risk and new portfolio liabilities as a result of carbon emissions exposure. Strong demand is expected for loans to purchase equipment and facilities that can bolster productivity or enhance sustainable farming or operating practices, including carbon, water and energy management and bioenergy production.

[9] Food and Agricultural Organization of the United Nations (FAO), September 23, 2009, "How to feed the world in 2050," page 2.

Canadian agriculture is positioned well in this environment, but also faces challenges. On the plus side, the industry has ample resources available – productive land, water and minerals. Producers have access to capital needed to retool or expand to meet increasing demands. On the other hand, Canada's economic strength has eroded some of the trade benefits associated with a low currency.

In this environment, all producers will benefit from strong demand. However, the pitfalls of economic volatility and societal pressures challenge some enterprises when markets subside.

**The future of agriculture**

With aging populations, western countries must use an increasing portion of their budgets to finance health care and related programs. A societal emphasis on health and wellness is more deeply affecting the agriculture and agri-food industry. Among other things, the effect of agricultural practices on the health of people, communities, livestock and the environment is subject to growing scrutiny, criticism and regulation. At the same time, agriculture is well positioned to provide solutions to health and environmental issues.

Along with an aging population, trends that will affect the domestic market for Canadian agricultural products include changing food preferences, slow income growth and immigration trends.

Global agriculture is increasingly dominated by large multi-national corporations in the supply, processing, manufacturing and retail sectors. Very large farms and vertically integrated companies are emerging. The concentration and control of big agribusiness has raised concerns about competitiveness among producers in the United States and Canada.

Large food manufacturers (such as Nestlé and PepsiCo) and large retailers (such as Walmart and McDonald's) affect the industry's future. This was illustrated in recent announcements by large retailers requiring pork suppliers to move to open housing sow systems by 2017. Meeting the procurement requirements of large food distributors with major contracts will become more challenging and, potentially, more costly.

**Data, connectivity and productivity**

The global population is becoming increasingly connected. Worldwide, there are about two billion Internet users and five billion mobile subscribers. In 2012, it was predicted that 1.43 billion people will be using social media (with 900 million on Facebook alone). Embedding intelligence to automate tools and processes is also increasing.[10]

Canada leads the world in time spent online. Nearly eight in 10 Canadians use the internet,[11] and it is now the main means of banking for 47 per cent of Canadians.[12] One-third of Canadians, including agriculture producers, have smartphones. Micro-sensors, cameras, robotics, expert systems and analytics software compile data from fields, farms and livestock operations. The use of GPS and precision agriculture will continue to grow as operations reduce input costs and boost labour efficiency.

More information and automation will likely increase demand for personalized and customized products and services, as well as more real-time service, such as online customer support.

Social media enables organizations to engage more directly with stakeholders and influence consumer trends. At the same time, it gives detractors the ability to publicly criticize and pressure corporations and agricultural practices. This is no different for FCC and its customers; reputation management is a significant strategy worth pursuing.

[10] Canadian Internet Registration Authority, Factbook, 2013.
[11] Canadian Internet Registration Authority, Factbook, 2013.
[12] Canadian Bankers Association Website.

## FCC and agriculture sectors

FCC lends to a wide variety of agriculture sectors, including beef, dairy, poultry, grains and oilseeds, hog, greenhouse and agribusiness and agri-food. FCC has a diversified portfolio and an in-depth understanding of various agriculture enterprises. The following tables highlight the key sectors that FCC regularly monitors.

| Beef, cattle, ranching and farming, including feedlots | |
|---|---|
| **Definition** | In Canada, cattle are raised for beef production; however, some byproducts are used for leather and other consumer goods. The Canadian cattle industry is composed of cow-calf and feedlot operations. Cow-calf operations refer to producers who keep a permanent herd to produce and sell calves. Feedlots raise feeder cattle to a finished weight of approximately 1,300 pounds. Finished cattle are either exported as live cattle or processed into beef. Canada exports beef around the world, but primarily exports live cattle to the United States.<br><br>Feed is the most significant input for cow-calf operations. Feedlot operations purchase both feed and feeder cattle. Cow-calf producers generally feed animals hay and grass, which requires a significant land base. Corn is the primary feed source for feedlot operations in Eastern Canada, while barley is generally used in Western Canada. |
| **Recent trend** | Demand is increasing for higher value proteins as incomes in emerging markets increase. Conversely, per capita beef consumption in the United States and Canada has been trending down for more than 10 years as consumers become more health conscious and switch to cheaper alternatives.[13]<br><br>The Canadian and U.S cattle industries are closely integrated due to strong trade relationships. The U.S. industry is significantly larger than in Canada. As a result, Canadian cattle industry trends are largely driven by U.S. trends. Cattle inventories in both countries declined between 2005 and 2012, primarily due to weak prices and high feed costs. The combination of lower inventories and increased world demand for beef has increased cattle prices. |
| **Disruptive trend** | In 2013, the Canadian federal government announced that Canadian beef would resume access to Chile. Canada continues to deal with a number of issues in the beef sector, including restricted access to South Korea and Japan due to the fallout of BSE in 2003. Canada continues to have limited access to the European market due to trade restrictions around the use of hormones in Canadian beef. Country of Origin Labeling (COOL) regulations in the United States were modified to be more restrictive to Canadian imports and came into effect in November 2013. This legislation has negatively affected Canadian cattle producers by lowering cattle prices and reducing Canadian exports. |
| **Current state** | Through to August, Alberta-fed steer prices were 4.6 per cent higher than a year ago.[14] In contrast, Alberta 550 lb steer prices are down 11 per cent year-to-date, though August prices remain unchanged from levels a year ago.<br><br>To the end of August, live cattle export volumes to the United States are up 39 per cent compared to a year ago. Slaughter volumes at federally inspected packing plants are down 8.4 per cent, year–to-date. The lower slaughter volumes are not surprising as JBS indicated that they would not operate the Brooks, Alta., plant at full capacity and the Cargill plant was temporarily shut down due to flooding.<br><br>The costs of feed grains have increased through to August compared to levels a year ago. Corn prices are up 2.0 per cent and barley is up 14 per cent. Prices are expected to subside as stocks are rebuilt following harvest. Prices are below last year's levels at harvest.[15] A CETA will provide new market opportunities for Canadian beef. It establishes tariff rate quotas for beef, giving Canadian farmers yearly duty-free access for up to 50,000 tonnes of beef. |
| **Future state and impact on FCC** | Canada's per capita consumption of beef will continue to slowly decline (according to forecasts by Agriculture and Agri-Food Canada (AAFC)), as diets evolve due to an aging population and immigration trends.<br><br>Canadian beef cattle inventories are expected to continue to decline in Eastern Canada, partly due to continued high feed prices. In Western Canada, the beef herd is likely to remain constant or slowly start to expand due to a good feed supply and strong cattle prices. Increased heifer retention in 2012 and 2013 also suggests that the beef herd will start expanding.<br><br>Feed costs are expected to subside as world stocks for feed grains are rebuilt over the next few years. Cattle prices should remain strong heading into 2014, as suggested by futures prices for contracts available on the Chicago Exchange. These factors will help cow-calf operations remain profitable through 2014. Backgrounding operations are expected to remain at or slightly above break-even over the next two years, while feedlots are expected to become more profitable.<br><br>COOL legislation will continue to have a negative effect on the Canadian cattle industry until the issues are resolved. |

[13] Statistics Canada. Table 002-0011 - Food available in Canada, annual (kilograms per person, per year unless otherwise noted), CANSIM (database).
[14] Canfax 2013.
[15] Saskatchewan Ministry of Agriculture Market Trends for Crops and Livestock.

| Dairy cattle and milk production | |
|---|---|
| **Definition** | Dairy operators produce table milk and other milk products, including processed products such as butter, ice cream, cheese and yogurt. Domestically, the industry has a strong reputation for producing safe, high-quality dairy products. Internationally, Canada's dairy industry is also known for producing high-quality genetics.<br><br>The Canadian dairy sector operates under a supply management system based on planned domestic production, administered pricing and import controls. Products are almost exclusively sold domestically. Imports above a predetermined level are restricted, with trade taxes in excess of 200 per cent.<br><br>Each year, the Canadian Dairy Commission reviews and establishes support prices for butter and skim milk powder. Support prices determine the price paid by processors for milk used in the production of butter, skim milk powder, cheese, yogurt, ice cream and other processed foods. Processors compete against each other in the marketplace to sell dairy food products. |
| **Recent trend** | Over the past 20 years, per capita consumption of dairy products has declined, but population growth has resulted in a slight increase in overall consumption.[16] Consumer diets have shifted away from fluid milk to products such as yogurt. Dairy prices are based on farm production costs and overall market and economic conditions. |
| **Disruptive trend** | Recent trade talks have triggered many discussions about the future of supply management. Trade negotiations may result in increased access for foreign dairy products.<br><br>Domestic marketing rules continue to be pressured. For example, an appeal was submitted to stop the importation of pizza cheese kits (including pepperoni and mozzarella), but was denied by the Canadian International Trade Tribunal. This allows importers to avoid the high tariffs that are in place for dairy products. As a result, a new milk class for mozzarella cheese to be used in the production of fresh pizza was created in May 2013. Milk processed into mozzarella cheese is now priced at a discount to allow domestic processors to compete against pizza kit imports. |
| **Current state** | Cash receipts from milk production were down 0.60 per cent in 2013 compared to 2012 (through July), according to Statistics Canada.[17] This is due to a 1.5 per cent decline in production.[18] Support prices for butter and skim milk powder increased in 2013, which should increase producer revenue for industrial milk by 0.9 per cent.[19]<br><br>Quota prices remain capped in the P5 production region in Eastern Canada and are relatively unchanged. In Saskatchewan, quota values remained flat, while Alberta and Manitoba saw quota values increased on average 7.6 per cent and 5.8 per cent respectively, through to August compared to a year ago.<br><br>Canada continues to produce extremely high-quality genetics that are sought after around the world. |
| **Future state and impact on FCC** | AAFC forecasts that per capita consumption of ice cream and butter will continue to decline. Forecasts also indicate that yogurt and cream consumption is likely to increase over the next 10 years.[20] Overall, total milk production is forecasted to increase by 0.8 per cent annually through to 2022. The industry is expected to remain profitable because of supply management.<br><br>Canadian trade negotiation efforts are continuing for the TPP. The Prime Minister signed an agreement in principle on a CETA on October 18, 2013. The likelihood that supply management will fully dismantle due to trade pressures is low.[21] Trade negotiations could lead to adjustments in marketing and pricing mechanisms, potentially affecting quota values and dairy farming revenues. |

[16] Statistics Canada. Table 002-0019 - Food available by major groups in Canada, annual (kilograms per person, per year unless otherwise noted), CANSIM (database).
[17] Statistics Canada – Table 003-0008 - Cash receipts from milk and cream sold off farms, monthly (dollars), CANSIM (database).
[18] Statistics Canada – Table 003-0011 – Milk production and utilization, monthly (kilolitres), CANSIM (database).
[19] Canadian Dairy Commission, Increase of the Support Prices for Skim Milk Powder and Butter on April 1, 2013. 14 February 2014. http://www.cdc-ccl.gc.ca/CDC/index-eng.php?link=260.
[20] Agriculture and Agri-Food Canada. Medium Term Outlook for Canadian Agriculture 2013. February, 2013.
[21] The George Morris Centre, 2012. "Does Canada Need to Dismantle Supply Management in the Trans-Pacific Partnership?"

| Poultry and egg production | |
|---|---|
| **Definition** | Poultry producers produce table or hatching eggs, or a specific weight or maturity of chicken or turkey. The Canadian poultry sector operates under a supply management system that matches production to Canadian demand. Provincial marketing boards balance the supply and demand of poultry in each province. Products are primarily used domestically and only a small portion is exported. Imports above a predetermined level are restricted, with tariff levels in excess of 150 per cent.<br><br>Under a supply management system, poultry producers collectively negotiate a minimum farm gate price with processors based on production costs for poultry and eggs. This process leads to a fair return for producers and a reliable supply of primary products for processors and Canadian consumers. |
| **Recent trend** | Overall consumption of poultry products remained steady between 2007 and 2012 due to population growth and a slight decline in per capita consumption. Since poultry producers receive a negotiated price based on the cost of production, positive margins have persisted. |
| **Disruptive trend** | Food safety is an increasingly important concern for consumers. Some groups are also expressing concern over production methods and poultry welfare. Codes of practice, industry regulations, advances in traceability and transparency are all part of ensuring a sustainable supply managed industry in Canada.<br><br>The allocation of chicken production quotas across provinces to match growth in consumption at the national level has become an issue of contention in the industry. Several proposals have been brought forth to address the issue; however, none have been agreed upon by all provincial organizations.[22] |
| **Current state** | Household consumption of eggs remained unchanged in the first half of 2013 compared to last year. The average farm gate price of eggs increased 9.0 per cent compared to last year through June. Overall production of eggs increased by less than 1.0 per cent compared to a year ago.[23]<br><br>AAFC reports that, through to September, average live chicken prices received by producers increased approximately 5.0 per cent compared to a year ago.[24] Monthly chicken slaughters are down 0.4 per cent through June 2013, compared to volumes of the same period last year. Total production by weight increased 1.7 per cent for the same time period.[25] |
| **Future state and impact on FCC** | Trade negotiation efforts are expected to continue for the TPP. The Prime Minister signed an agreement in principle on a CETA on October 18, 2013. Unlike the dairy industry, trade negotiation issues are less critical for poultry producers given the lower spread between domestic and world prices.<br><br>It is expected that poultry operations, such as layers, will invest in new facilities or retrofit existing facilities to ensure that production practices are in line with evolving consumer expectations. It is possible that negotiations about the allocation of new chicken quota could affect where production is located.<br><br>The poultry sector is expected to remain stable and profitable into the near future, given that it falls under Canada's supply management system. Canadian poultry product consumption is expected to increase at an annual rate of 1.5 per cent over the next 10 years, as per capita consumption is expected to remain flat.[26] |

[22] Chicken Farmers of Canada. Home Grown Goodness, 2012 Annual Report.
[23] Statistics Canada. Table 003-0022 - Production and disposition of eggs, monthly (layers unless otherwise noted) CANSIM (database).
[24] Agriculture and Agri-Food Canada. Statistics and Market Information - Poultry and Egg Market Information.
[25] Agriculture and Agri-Food Canada. Economic - Poultry and Egg Market Information.
[26] Agriculture and Agri-Food Canada. Medium Term Outlook for Canadian Agriculture 2013. February 2013.

| Oilseed and grain farming | |
|---|---|
| **Definition** | In Western Canada, popular crops include wheat, durum, barley, flax, canola and lentils. In Eastern Canada, the most common crops are winter wheat, corn and soybeans. These crops are used around the world as seed, food production inputs, animal feed or bioproducts. Most Canadian crop production is exported.<br><br>Significant inputs for grain and oilseed production include fertilizer, fuel and pesticides. Production is highly dependent on weather conditions. |
| **Recent trend** | Crop input prices have increased relative to the previous five-year average. To offset the higher cost of fertilizer, fuel and pesticides, producers are adopting new and more efficient technologies. The trend of higher input prices is expected to continue in the short term. As a result, it is anticipated that producers will continue to seek productivity gains. Adopting new technologies has also contributed to the trend toward larger farms. Growing world demand for grains and oilseeds, and productivity gains have offset the effect of higher crop input prices on profitability. |
| **Disruptive trend** | Recent changes to wheat and barley marketing options in Western Canada opened up the wheat and barley markets. It is reported that producers are adapting well to the new marketing environment.[27] Crop producers are thinking about land values and farmland ownership regulations. Unprecedented land value increases in parts of Canada are affecting producers' decisions to expand or exit farming. |
| **Current state** | The volume of crop exports declined by 0.92 per cent in the 2012-13 marketing year compared to 2011-12. Barley exports increased 8.1 per cent and flax exports increased 24.0 per cent. These increases were offset by declines in canola and oats exports, which were down 17.0 per cent and 10.0 per cent respectively.[28]<br><br>Grain and oilseed prices have increased through to August compared to last year's levels, with the exception of wheat. Corn prices are up 1.9 per cent, canola was up 3.6 per cent and barely was up 14.0 per cent. Wheat prices declined by 2.3 per cent year–to-date, while soybean prices remain unchanged.[29] Prices are expected to subside as North American stocks are rebuilt following harvest.<br><br>Statistics Canada's estimates suggest 2013 should be a positive year for Canada's grain and oilseed producers. Canola yields are projected to be 31 per cent higher than a year ago, and total production is projected to be up by 16 per cent. Barley yields and production are both projected to increase by 26 per cent and 18 per cent, respectively. Both yields and production of oats and wheat are projected to increase in 2013 compared to 2012 and remain above the five-year average.<br><br>Corn yields are down an estimated 1.7 per cent compared to last year, but remain consistent with the five-year average. Soybean yields are estimated down 10.0 per cent from 2012, and 3.7 per cent below the five-year average. Production is down 5.3 per cent from last year, but is 16.0 per cent above the five-year average due to the general trend of expanding acreage.<br><br>Producers of major field crops should remain profitable in 2013. Western Canadian producers are experiencing higher than average yields, which will offset declining prices. Producers in Eastern Canada will be operating closer to break-even if prices continue their downward trend. |
| **Future state and impact on FCC** | For the upcoming year, both corn and soybean inventories are expected to rebuild.[30] Corn, soybean and wheat prices will exceed their historical averages for the 2013-14 marketing year, but fall below last year's highs. Crop production is expected to remain profitable in 2013-14 even as margins tighten. AAFC forecasts that, on average, crop prices over the next 10 years will be lower than 2012 prices, but will remain above the 2007-11 five-year average.<br><br>Fertilizer prices are not expected to increase beyond seasonal fluctuations in 2014 and 2015 due to expected low natural gas prices. Significant amounts of nitrogen and potassium fertilizer production are expected over the next several years, reducing upward pressure on these prices.<br><br>While crop production is expected to remain profitable, a compression of margins will likely slow farmland value appreciation and the increase in demand for financing. |

[27] Winkler Times, "Farmers doing good business in post-CWB market", http://www.pembinatoday.ca/2012/12/10/farmers-doing-good-business-in-post-cwb-market (Accessed Online: 11 June 2013).
[28] Canadian Grain Commission – Grain Statistics Weekly, http://www.grainscanada.gc.ca/statistics-statistiques/gsw-shg/gswm-mshg-eng.htm.
[29] Saskatchewan Ministry of Agriculture Market Trends for Crops and Livestock.
[30] United States Department of Agriculture. World Agriculture Supply Demand Estimate (WASDE), May 2013.

| Hog and pig farming | |
|---|---|
| **Definition** | Hogs are raised to produce pork, but some byproducts are used for leather and other consumer goods. Hogs are typically raised to a market weight of 110 to 120 kilograms, at which time they are exported live, primarily to the United States, or slaughtered and processed into pork for domestic and international sale.<br><br>Feed and feeder pig prices are the most significant inputs for hog operations. Corn and wheat are the primary feed sources for operations in Eastern Canada, while barley and wheat are used in Western Canada. |
| **Recent trend** | World population and incomes continue to grow, increasing demand for higher value proteins. This trend is expected to continue in the short term as the emerging economies continue to exhibit strong growth.<br><br>The Canadian and U.S. hog industries are closely integrated. Both live hogs and pork meat are traded across the border. The U.S. industry is significantly larger than in Canada. As a result, Canadian hog industry trends are largely dictated by trends in the United States.<br><br>Feed prices have increased relative to the previous 10-year average, resulting in lower margins. |
| **Disruptive trend** | The price of feed is a key determinant of profitability in the livestock sector. As such, the industry closely monitors commodity price volatility, focusing on managing price risk. High feed prices in 2012 presented challenges for hog producers, and two major producers (Big Sky Farms and Puratone Corp.) entered receivership. The Government of Canada introduced a temporary Hog Industry Loan Loss Reserve Program to assist producers with short-term cash flow issues.<br><br>Based on consumer demand and animal welfare trends in Europe and North America, hog gestation stalls may be replaced by group housing in the future. Major corporations, including McDonald’s, Burger King and Tim Hortons, have announced that they are phasing out the purchase of hogs raised using gestation crates.<br><br>In mid-2013, Shuanghui International Holdings proposed the acquisition of Smithfield Foods in the United States. If the transaction goes through, it will be the largest takeover of a U.S. corporation by a Chinese firm to date. The size of the parties involved and the nature of the transaction raise a number of questions about the North American industry’s structure. |
| **Current state** | Hog inventories were 1.8 per cent higher on July 1, 2013, compared to 2012 levels.[31] Tight supplies of major feed crops put upward pressure on feed prices and reduced profitability in the hog sector for the first half of the year. Feed costs are significantly higher than their five-year average, and on average through August, are higher than a year ago. Prices are expected to soften significantly as a record U.S. corn crop is expected. Through August 2013, hog prices were approximately 12 per cent above 2012 levels.[32]<br><br>Margins for hog producers continue to be tight and are stronger for larger operations. Margins currently range from a profit of $10 to $60 per head. A CETA will provide new market opportunities for Canadian pork. It establishes tariff rate quotas for pork, giving Canadian farmers yearly duty-free access for up to 80,000 tonnes of pork. |
| **Future state and impact on FCC** | Hog prices are expected to soften slightly, according to CME Lean hog futures. Crop prices are expected to remain above historical averages, but well below highs observed in 2012. These two factors should allow larger operations to remain profitable through to the end of 2014. Smaller operations will continue to operate at or slightly above break-even. Given the last several years of challenges for the industry, limited growth is expected.<br><br>Announcements about animal welfare standards by major pork buyers will affect the hog sector. Although the implications of moving to group housing are not yet clear, it may compel producers to significantly invest in their operations. FCC will continue to monitor the situation and its potential effect on customers. |

[31] Statistics Canada. Table 003-0100 - Hog statistics, number of hogs on farms at the end of semi-annual period, CANSIM (database).
[32] Agriculture and Agri-Food Canada – Economic and Market Information – Red Meat Market Information.

| Greenhouse, nursery and floriculture production | |
|---|---|
| **Definition** | Popular plants grown in greenhouses include tomatoes, cucumbers, peppers and fresh-cut flowers. Greenhouses are primarily located in southern Ontario and British Columbia, but are also present in other provinces. Most greenhouse production is consumed domestically or exported to the United States.<br><br>Significant inputs to produce greenhouse products include fertilizer, natural gas and water. Greenhouses minimize the risks associated with weather and enable year-round production. Significant investment is required to build a greenhouse. |
| **Recent trend** | North Americans continue to demand year-round access to fresh vegetables. Greenhouse production of cucumbers, tomatoes and bell peppers is expanding in Canada.[33] Several Canadian greenhouse operators are considering expansion into the United States to diversify their operations and mitigate risk.<br><br>The market share of greenhouse-grown vegetables continues to increase against field-grown alternatives.[34]<br><br>Greenhouse input prices, with the exception of natural gas, have also increased compared to the previous five-year average. To offset higher input costs, producers are adopting new, more efficient technologies such as sophisticated equipment that is more energy and water efficient, decreasing the industry's environmental footprint. Natural gas prices are expected to remain low in the short term and support margins. Adopting new technologies has also resulted in larger greenhouses. |
| **Disruptive trend** | Energy is a key input cost in Canada's greenhouse industry. However, as natural gas prices trended lower in 2011, some operations have moved away from previous plans to expand renewable energy capabilities. Leading-edge technology is generally considered a necessary part of operation in this sector. Greenhouse owners are updating existing infrastructure as a result.<br><br>The significant expansion of Mexico's greenhouse area over the last five years has presented challenges for Canadian producers competing in the U.S. market, particularly for tomato producers. |
| **Current state** | In 2013, greenhouses continue to operate profitably for both floriculture and vegetable production, partly due to relatively low natural gas prices, which represent a significant share of overall production costs. Average natural gas prices through August 2013 were 44 per cent higher than levels of the same period last year, but remain 13 per cent below the five-year average price.[35]<br><br>In the first half of 2013 the value of exports of tomatoes, cucumbers and cut flowers had all increased compared to levels a year ago. Cut flower exports are up 5.1 per cent, while tomato and cucumbers exports increased 26.0 per cent and 32.0 per cent, respectively.[36]<br><br>Consumer prices of fresh vegetables are 1.3 per cent higher than prices a year ago. |
| **Future state and impact on FCC** | Natural gas prices are expected to increase slowly over the next several years, according to future markets. Greenhouse operators are expected to remain profitable in 2014. Greenhouse area is expected to continue to expand in British Columbia and Ontario. Large producers are expected to continue diversifying operations by expanding production south of the border and growing alternative crops. |

[33] United States Department of Agriculture, Vegetables and Pulses Yearbook Data. 31 May 2013.
[34] Farm Credit Canada. Update on the North American Greenhouse Industry, http://www.fcc-fac.ca/en/learningcentre/knowledge/doc/Greenhouse_study_e.pdf (Accessed online: 3 June 2013).
[35] Statistics and Data Development Branch, Economics and Competitiveness Division, Alberta Agriculture and Rural Development.
[36] Industry Canada website, Trade Data Online tool, http://www.ic.gc.ca/eic/site/tdo-dcd.nsf/eng/Home (accessed September 26, 2013). Based on HS codes 603, 702 and 707.

| Agribusiness and agri-food | |
|---|---|
| **Definition** | Agribusiness enterprises predominantly provide inputs to primary producers. They often import or produce goods and services for sale to primary producers. Examples include farm input suppliers, wholesaler distributors, veterinarians and equipment manufacturers. Some agribusinesses also purchase primary agriculture production. Examples include sawmills and ethanol plants.<br><br>Agri-food operations purchase and process the output of primary producers. They include flour mills, crushing facilities, rendering plants, bakeries and processing facilities. The food and beverage processing industry is the largest manufacturing industry in Canada in terms of production value. |
| **Recent trend** | Canada's food processing sector largely depends on the domestic market as only 16 per cent of output from the food and beverage industry is exported.[37] The industry relies heavily on the United States as an export destination, where 67 per cent of Canadian agri-food exports are destined.[38] This reliance is not surprising given the United States' close geographic proximity.<br><br>The agri-food sector is concentrated in Ontario and Quebec. In 2012, over half of the agri-food product exports to the United States came from these two provinces.<br><br>A trade balance deficit of around $6 billion in 2012 has raised concerns over Canada's competitiveness in this sector.[39] Canadian firms are lagging behind other developed countries in increasing productivity.[40] |
| **Disruptive trend** | One of the most commonly cited issues in the agribusiness and agri-food sector is the growing regulatory challenge that agribusinesses face in bringing products to market and then moving them into global markets. The sector is working to understand opportunities created by the deregulation of wheat and barley marketing. |
| **Current state** | The Canadian dollar's continued strength challenges the competitiveness of agri-food businesses in foreign markets. The effects are two-fold: foreign businesses are more competitive in the Canadian market and Canadian products are disadvantaged in foreign markets. Despite these challenges, strong foreign demand resulted in stronger exports. Canada's exports of food manufacturing increased two per cent from January to July 2013, when compared to the same period the year before.<br><br>The Canadian dollar's strength also lowers importing costs, allowing Canadian businesses to import machinery at a lower price and increase productivity, thereby improving competitiveness.<br><br>A CETA will immediately eliminate existing European Union tariffs on processed foods and beverages, benefitting the sector across Canada by generating more jobs, higher wages and greater long-term prosperity.<br><br>Equipment sales have increased year over year. Through to August, Canadian tractor sales increased 12.0 per cent and combine sales increased 8.2 per cent.[41] |
| **Future state and impact on FCC** | The Canadian dollar is expected to remain slightly below parity as the U.S. economy recovers. Canadian agri-food enterprises will continue to invest in productivity improving capital. A more rapidly growing U.S. economy should increase demand for many Canadian agri-food businesses.<br><br>Decreased crop prices and flat fertilizer prices may slow the increase in demand from primary agricultural producers for many inputs, specifically crop protection inputs and fertilizers. Since many producers have recently upgraded their machinery, new equipment sales may slow in 2014 or 2015, affecting loan demand. |

[37] An Overview of the Canadian Agriculture and Agri-Food System. March 2012.
[38] Industry Canada website, Trade Data Online tool, http://www.ic.gc.ca/eic/site/tdo-dcd.nsf/eng/Home (accessed June 3, 2012). Based on NAICS codes 311 and 312.
[39] The Canadian Agri-Food Policy Institute. The State of Canada's Processed Food Sector: Trade Balance. November 2012.
[40] Bank of Canada's Monetary Policy Report, July 2012.
[41] Association of Equipment Manufacturers.

## Conclusion

The last several years have been largely positive for Canadian agriculture; however, portions of the cattle and hog industries have struggled due to a number of challenges, including high input prices and trade disputes. As feed prices decline, the cattle and hog sectors will improve. However, some producers, especially hog producers, remain highly leveraged and vulnerable to adverse market conditions. As such, little growth is expected in the industry in the short term.

The largely positive results for the rest of agriculture have put upward pressure on land values. The rate of increase in land values is expected to decline as a result of decreased crop prices and expected interest rate increases. Higher interest rates could adversely affect land values and FCC disbursements.

Overall, demand for agricultural products continues to rise, resulting in strong demand for capital in most sectors. The agriculture value chain is evolving rapidly with increased technology, innovation and larger operations. Pressure on agriculture producers and financiers for transparency and accountability is manifesting in social media, corporate social responsibility and risk management.

# 4.2 2013-14 planned performance and expected results

## 4.2.1 Summary of results – 2013-14 corporate scorecard

The following page summarizes the corporate measures, targets and projected results for the 2013-14 fiscal year (as of October 2013).

### Financial and risk management

| Measures | 2013-14 Plan targets | 2013-14 Projected results |
|---|---|---|
| Net income | $466.8 million | On track |
| Return on equity (ROE) | 13.0% | On track |
| Capital adequacy measure | Greater than or equal to 100% (Credit only[42]) | On track |
| ERM maturity measure | 2.9 | Data to project results is not available until Q4 2013 |
| Media favourability index | 7 points above global average for financial institutions | Ahead |

### Customer and agriculture industry

| Measures | 2013-14 Plan targets | 2013-14 Projected results |
|---|---|---|
| Customer Experience Index (CEI) | 61.5% | On track |
| Total lending to young farmers | $2.1 billion | On track |
| Media favourability index for Agriculture More Than Ever | Greater than or equal to FCC media favourability score | On track |

### Efficiency and execution

| Measures | 2013-14 Plan targets | 2013-14 Projected results |
|---|---|---|
| Efficiency ratio | 38.6% | At risk – primarily due to higher than planned administration expenses partially offset by higher than planned net interest income |
| Employee engagement index - easy to do business indicators | Greater than the average of the top 50 employers | Data to project results is not available until November 2013 |
| Easy to do business CEI measure | 62.0% | At risk - process and system changes impacting front line staff may have attributed to the decrease in customer perceptions |

### Employee experience

| Measures | 2013-14 Plan targets | 2013-14 Projected results |
|---|---|---|
| Employee engagement index | Greater than the average of the top 50 employers | Data to project results is not available until November 2013 |
| Employee index – employee experience indicators | Greater than the average of the top 50 employers | Data to project results is not available until November 2013 |
| Diversity measure | Reduce diversity gap by 12 | Results not available until April 2014 |
| Leadership index – subset of employee engagement survey data leadership indicators | Greater than the average of the top 50 employers | Data to project results is not available until November 2013 |

[42] The first two years of targets will only measure credit capital adequacy.

### 4.2.2 Operational and financial highlights

For the years ending March 31

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

| Financial Highlights | 2013 (restated)* | 2012 (restated)* | 2011 |
|---|---|---|---|
| **Consolidated balance sheet ($ millions)** | | | |
| Total assets | 25,870.8 | 23,829.0 | 21,870.7 |
| Total liabilities | 22,339.6 | 20,721.3 | 19,184.8 |
| Equity | 3,531.2 | 3,107.8 | 2,685.9 |
| **Consolidated income statement ($ millions)** | | | |
| Net interest income | 861.4 | 802.4 | 753.8 |
| Provision for credit losses | 38.1 | 1.8 | 35.6 |
| Other income | 15.6 | 51.1 | 16.0 |
| Administration expenses | 337.2 | 288.1 | 277.5 |
| Fair value adjustment | 1.9 | 2.0 | 3.5 |
| Net income | 503.6 | 565.6 | 460.2 |

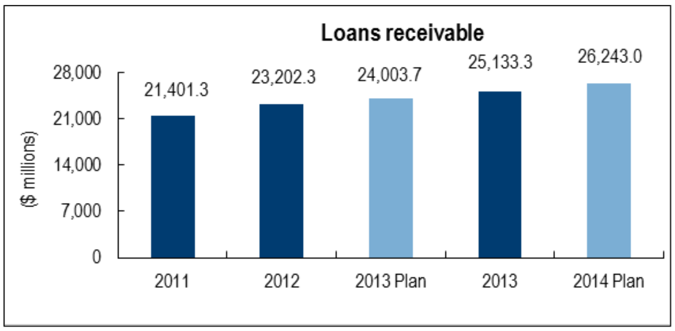
* The financial statements have been restated for the retrospective adoption of International Accounting Standard 19 - Employee Benefits.

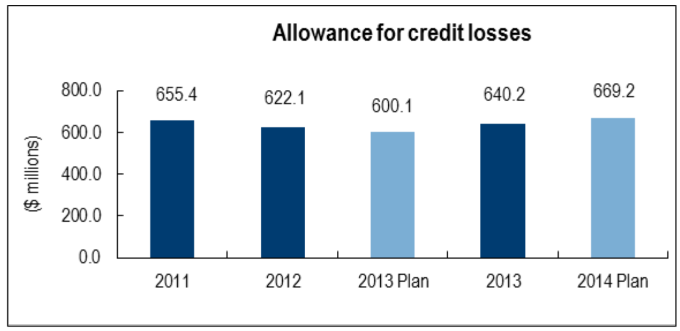
### Key results

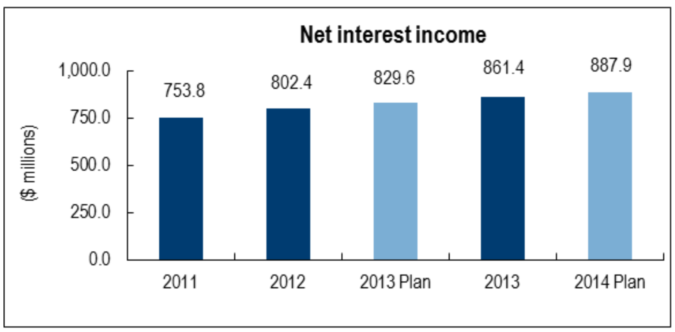
Canadian agriculture experienced a strong year in 2012-13. While some sectors faced ongoing challenges, most enterprises had a profitable year. Farm capital and farmland values continued to rise, while cash receipts improved over the previous year in most provinces. This created a robust demand for commodities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

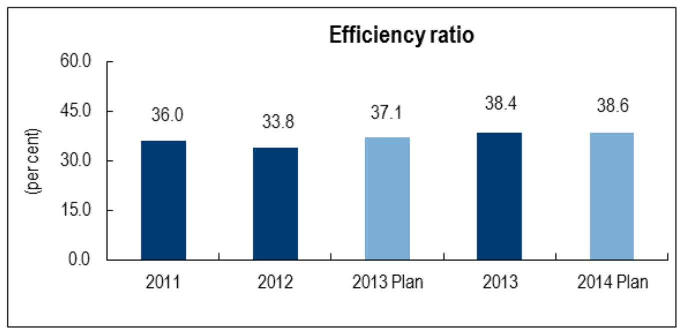
FCC disbursed 47,046 loans in 2012-13, with an average size of $162,406. This resulted in net disbursements of $7.7 billion. Net interest income increased by $59.0 million and equity continues to grow with corporate earnings. As the financial results indicate, FCC continues to build a strong financial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

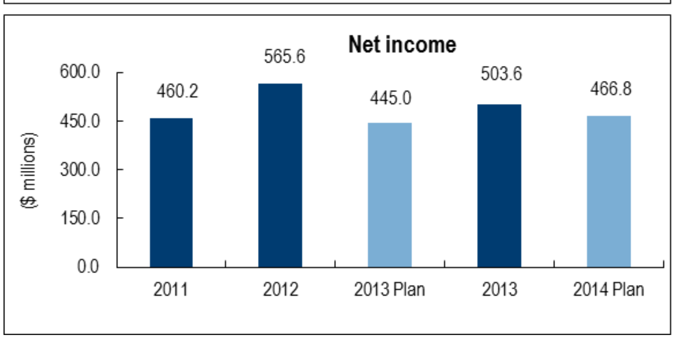
- In 2012-13, portfolio growth exceeded the plan by $1.1 billion and represented growth of 8.3 per cent over 2011-12. Net disbursement of $7.7 billion was the primary driver behind the growth in loans receivable.
- The allowance for credit losses was higher than the plan at $640.2 million, mainly due to higher than plan portfolio growth of $1.1 billion.
- Net interest income was $31.8 million higher than plan, increasing to $861.4 million due to the increased lending volume and a higher than plan net interest margin.
- The 2012-13 efficiency ratio of 38.4 per cent was higher than plan mainly due to an expense re-classification that was not captured in the 2013 corporate plan.
- Net income was $58.6 million above plan, mainly due to increased net interest income, a lower provision for credit losses and slightly higher other income. These are partially offset by higher administration expenses and lower fair value adjustment.
- Return on equity exceeded the plan targets due to the higher than plan net income.

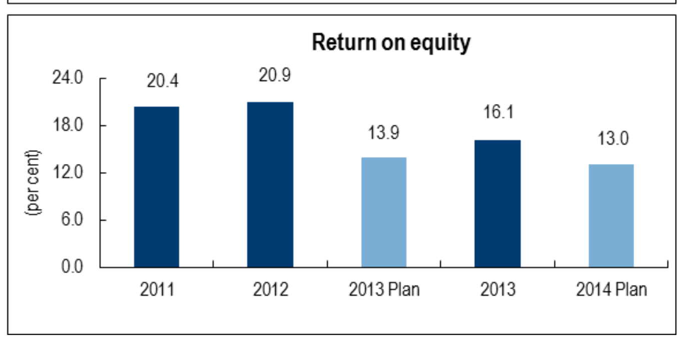


# 5.0 | Strategic themes, objectives and performance measures

## 5.1 Strategic planning process

FCC's strategic planning process engages the FCC Board of Directors and the Senior Leadership Team (SLT) to develop the corporation's business strategy.

The business strategy is used to develop 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.

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

### Strategy development

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

At the start of the strategy process, FCC looks at the needs of customers, employees, stakeholders and the public. Leaders and subject matter experts across the corporation work to envision possible futures for FCC and the agriculture industry. SLT then looks at potential gaps in FCC's current strategy. These gaps are addressed when the new business strategy is created.

Strategy creation starts with defining desired outcomes by examining FCC's vision, mission, values, cultural practices, strategic playing field (strategic planning assumptions and boundaries), and the business operating environment review. These elements are considered together to develop the desired critical outcomes for each of the strategic themes.

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

The results of FCC's strategic asset evaluation indicate that great customer relationships are the primary reason customers choose FCC. It was also determined that FCC's high-performance culture is foundational to great customer relationships, as illustrated in the corporate strategy map (section 5.4). Together, these themes feed into the sustainable business performance theme, contributing to the success of FCC and Canada's agriculture industry.

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

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

Corporate objectives and initiatives are then developed to realize the 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 uses an ERM framework to ensure that risks are adequately governed, identified, assessed, managed, monitored and reported in a holistic manner. Effective ERM enables FCC to achieve its strategic objectives and ensure sustainable business success.

Risk is inherent in FCC's business. The corporation is exposed to six main categories of risk: credit risk, liquidity risk, market risk, operational risk, reputation risk and strategic risk. Each category is governed by a Board-approved policy. In addition, FCC has an overall risk appetite statement and an ERM policy, which set the corporation's boundaries for risk taking, risk acceptance and risk avoidance.

As a result of the Office of the Superintendent of Financial Institutions Canada (OSFI) review, FCC is augmenting its business as usual and incremental ERM efforts through a comprehensive Enhanced Risk Management program. Through the program, FCC is enhancing its risk governance and oversight and ERM framework, continuing work on its capital management framework, developing a stress-testing framework and strengthening credit risk management practices.

FCC has revised its ERM framework to reflect recent governance changes to move toward a "three lines of defence" model. The corporation has gained additional insight on the delineation between roles and responsibilities for risk taking and risk management (first line), and for risk oversight (second line) through the three lines of defence.

The first line of defense consists of front-line operators. It is responsible for identifying and managing the risks inherent in the products, activities, processes and systems for which it is accountable and includes all employees.

The second line of defence is responsible for independently developing, coordinating, facilitating, implementing and overseeing the effectiveness and integrity of internal controls, risk management practices and policy setting. Through appropriate internal controls and procedures that implement the policies, the second line of defence monitors compliance to these polices and reports to the Executive Management Team (EMT) and the Board.

The third line of defence reviews and provides independent assurance of risk management practices and the effectiveness of internal controls. This typically includes internal audit, the external auditor and the regulator. At FCC, the Internal Audit division and the Office of the Auditor General make up the third line of defence.

**Governance**

The Board has ultimate accountability for overseeing FCC's ERM framework and internal control system and practices to ensure that the corporation's risk management is integrated with its strategic, financial and operating plans.

In 2013-14, the corporation implemented a number of changes to enhance its risk governance framework, including revising and clarifying roles and responsibilities for the Board and management, consolidating its risk policy framework, forming a Board Risk Committee, establishing a Chief Risk Officer (CRO) role, and augmenting the membership and responsibilities of the management ERM Committee. By making these changes, FCC has enhanced the oversight of risk and has taken steps to separate risk-taking decisions from risk-managing decisions.

**FCC's risk governance structure**

<table>
<tr><td colspan="12">Board of Directors</td></tr>
<tr><td colspan="3">Human Resources Committee</td><td colspan="3">Corporate Governance Committee</td><td colspan="3">Risk Committee</td><td colspan="3">Audit Committee</td></tr>
<tr><td colspan="4">CEO and EMT</td><td colspan="4">CRO and ERM Committee</td><td colspan="4">Internal Audit</td></tr>
</table>

In 2013-14, the Board approved a risk appetite statement that established the amount of risk the corporation is willing to take, avoid and accept. The risk appetite statement, which is grounded in FCC's strategy, is summarized as follows:

- FCC uses its understanding of agriculture to take prudent risks that are good for the customer, the corporation and the agriculture industry.
- FCC accepts the risk of taking a long-term view to maintain a steady presence in the marketplace.
- FCC avoids risks that could jeopardize its mandate and financial viability to protect the reputation of the corporation and its shareholder.

Following the approval of the risk appetite statement, the Board approved seven risk policies that govern all of the major categories of risk to which FCC is exposed. The Board monitors policy through a quarterly risk report that reports against the risk appetite and limits contained in the risk policies. Any policy exceptions or breaches are reported to the ERM Committee and the Board.

The CRO is responsible for oversight of risk across FCC, identifying, measuring, monitoring and reporting on the risks, and reporting to the Board and Risk Committee as to whether or not FCC is within its risk appetite and/or policy limits. The ERM Committee serves in an advisory capacity to the CRO.

## Risks

FCC's risk spectrum spans six main categories of risks.

**Credit risk** is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet financial obligations to the corporation. Like all other financial institutions involved in lending operations, credit risk is the most significant risk that FCC faces.

Oversight responsibility for credit risk lies with the Board. The ERM Committee, Asset Liability Committee (ALCO), Credit Committee, Credit Policy Committee, and several divisions and units perform various functions at different levels to efficiently manage credit risk within FCC's credit risk management framework.

The credit risk assessment process begins at the line management level and ends at the Credit Committee – (senior management level). FCC employs a two-dimensional credit assessment process. Assessment is carried out for the entire credit portfolio on a transactional and portfolio basis. At FCC, credit assessment is an ongoing process.

Assessment tools and models are in place to quantify risks, establish the required allowance for loan and lease losses, and monitor capital adequacy. FCC also closely monitors the agriculture and agri-food operating environments to ensure that the corporation's lending policies, activities and practices are appropriate and account for risk and opportunity in the marketplace.

FCC is also exposed to credit risk through its investing activities. All investing activities are consistent with the Minister of Finance's Financial Risk Management Guidelines for Crown Corporations, governed by Board approved policies and monitored by the ERM Committee and the Board.

FCC has defined credit policy limits for credit facility risk management, concentration risk and portfolio management, and investment limits for short- and long-term liquidity investments and counterparty credit risk for derivatives.

**Market risk** is a potential loss as a result of adverse changes in underlying market factors, such as interest rates and foreign exchange rates. Changes in interest rates affect FCC's earnings by changing its level of net interest income. They also affect the underlying economic value of FCC's assets, liabilities and equity. The Treasury division is responsible for market risk management.

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 the risk that FCC will have insufficient funds to meet its payment obligations. The corporation minimizes liquidity risk through the use of a liquid investment portfolio, funding through the Crown Borrowing Framework and access to an operating line of credit. The Treasury division is responsible for managing liquidity risks. Policy limits have been established for market and funding liquidity.

**Operational risk** relates to the potential of direct and/or indirect loss due to inadequate or failed internal processes, people, systems and/or external events, and failure to comply with or adapt to legislative or regulatory requirements or litigation. Operational risk exists in activities carried out across the corporation. The types of risks that are included in this category include fraud, theft, security breach, business disruption, execution, delivery or process management failures, or workplace safety.

FCC has a number of policies in place, including a Board-approved operational risk management policy, to manage operational risk. This includes policies that manage operational risks within the lending process, such as access to and use of confidential customer information and documentation requirements. Other key components of managing operational risk are FCC's internal control framework, fraud policy, business continuity plan and enterprise security program.

Internal controls play an important role in managing operational risk. FCC uses an internal control framework to establish the requirements for the design, implementation, operation and monitoring of internal controls within the corporation. All managers are responsible for ensuring that appropriate policies and processes are in place in their business units and that internal controls are operating effectively. FCC monitors compliance with process and lending policy through regular compliance testing.

Incidents of fraud may affect customer and public perceptions of FCC and impact their willingness to do business with the corporation. FCC reduces exposure to fraud risk by implementing a Board-approved fraud risk management policy and delivering fraud awareness training to employees.

To ensure that the corporation can sustain operations in the event of a business disruption, FCC maintains business continuity and recovery plans. The plans are tested and updated as part of the business continuity management program. FCC also maintains insurance to protect the corporation from major losses due to loss of or damage to its physical assets.

Enterprise security is addressed through a cross-divisional security co-ordination team that promotes security policies, best practices and incident handling strategies that optimize the privacy and protection of human, physical, information (customer, corporate and employee) and technology assets.

**Strategic risk** refers to risks related to the external environment. It includes the corporation's ability to develop and implement effective business strategies.

Executive management develops a corporate strategy annually with oversight provided by the Board. Progress on the strategic plan is monitored through quarterly reports to senior management and the Board. The external environment (including the Canadian financial marketplace and the agriculture industry) is monitored to discern if strategic changes are required to address emerging risks. FCC regularly communicates with the federal government to ensure that the corporation's activities align with government priorities.

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

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

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

## 5.3 Corporate social responsibility (CSR)

FCC strives to be a responsible corporate citizen in all areas of its operations.

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

FCC believes that being a good corporate citizen is the right thing to do and makes good business sense. FCC's CSR activities support its business strategy and help position it for long-term success. In 2012-13, FCC developed a five-year corporate objective to advance its CSR practices.

FCC's CSR framework is comprised of the following five areas:

### 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.

### Community

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

### Customers

FCC 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.

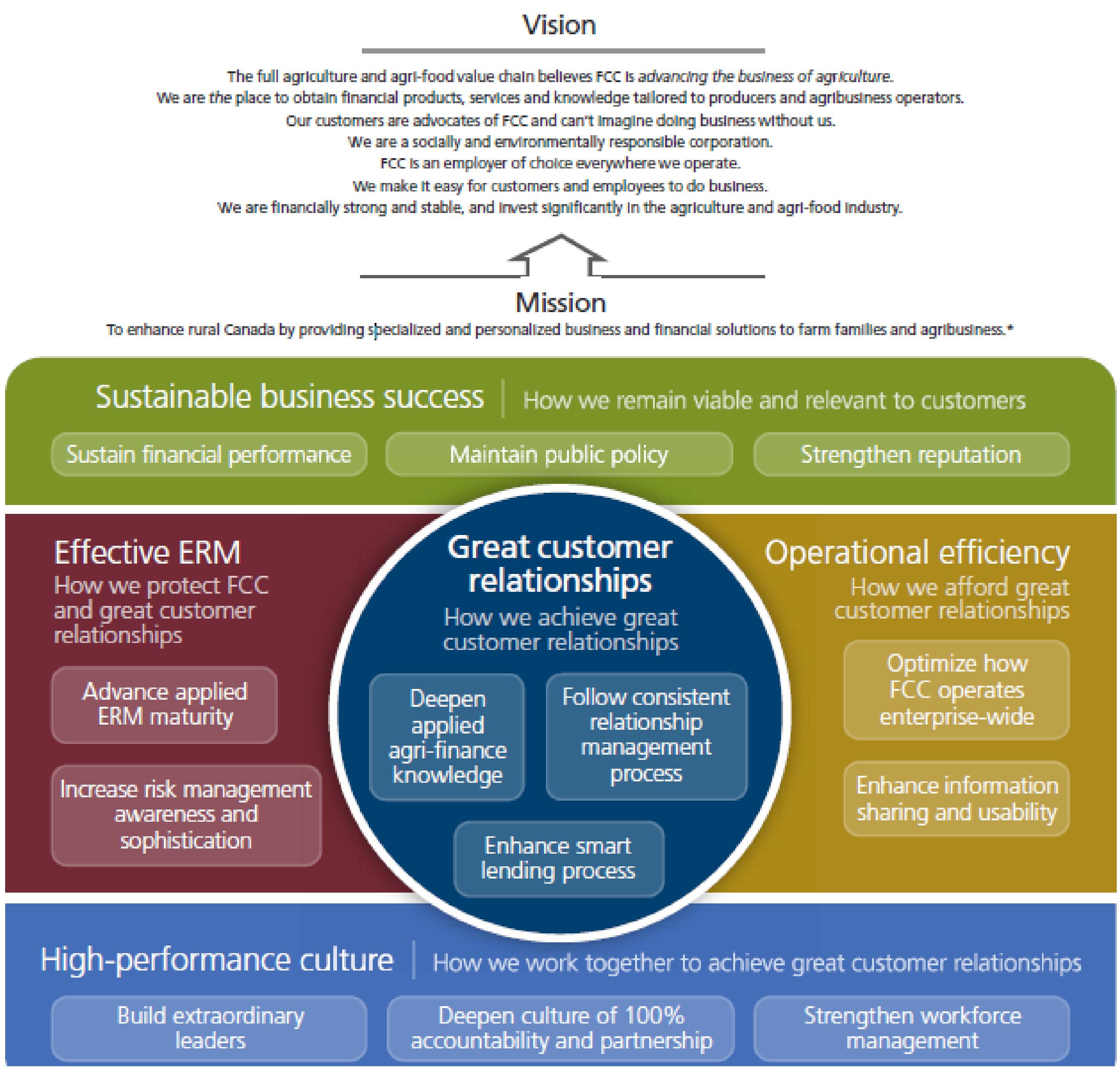
### Employees

FCC fosters a culture of accountability, partnership and diversity – and delivers a great employee experience.

### Environment

FCC improves its environmental performance and supports the industry with tools and knowledge to do the same.

## 5.4 Corporate strategy map




* The above is an abridged version of the FCC mission. For a complete version go to section 2.1

### 5.4.1 Sustainable business success

| Sustainable business success - How we remain viable and relevant to customers | | | | | | |
|---|---|---|---|---|---|---|
| Strategic objective | Measures | 2014-15 target | 2015-16 target | 2016-17 target | 2017-18 target | 2018-19 target |
| **Sustain financial performance** | Net income | $490.5 million | $530.8 million | $548.8 million | $591.5 million | $634.1 million |
| | Return on equity | 12.2% | 11.8% | 11.0% | 10.8% | 10.5% |
| | Capital adequacy measure | Greater than or equal to 100% | Greater than or equal to 100% | Greater than or equal to 100% | Greater than or equal to 100% | Greater than or equal to 100% |
| | **Continued focus on expense management and control** | | | | | |
| | **Continue to implement capital management framework** | | | | | |
| | **Undertake a feasibility study looking at loan securitization with other financial institutions as a means to manage loan portfolio risk** | | | | | |
| **Maintain public policy** | Ag media favourability | Greater than or equal to global media favourability score | Greater than or equal to global media favourability score | Greater than or equal to global media favourability score | Greater than or equal to global media favourability score | Greater than or equal to global media favourability score |
| | Percentage of customer count in small- and medium- sized segments | > 90% | > 90% | > 90% | > 90% | > 90% |
| | Young farmer lending | $2.06 billion | $2.14 billion | $2.22 billion | $2.31 billion | $2.39 billion |
| | **Encourage and create positive dialogue about Canadian agriculture in partnership with industry stakeholders** | | | | | |
| | **Enhance programs to support young farmers** | | | | | |
| | **Implement corporate social responsibility strategy** | | | | | |
| | **Maintain focus on small- to medium- sized customers** | | | | | |
| **Strengthen reputation (with all stakeholders)** | Media favourability | 7 points above global average for financial institutions | 7 points above global average for financial institutions | 7 points above global average for financial institutions | 7 points above global average for financial institutions | 7 points above global average for financial institutions |
| | **Enhance integrated multi-stakeholder strategy (including AAFC and industry associations)** | | | | | |

FCC is committed to remaining financially viable and self-sustaining in the long term, while investing significantly in the agriculture industry and forging valuable partnerships. The critical outcome that FCC is striving to attain for this theme is:

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

FCC will continue safeguarding its reputation and strong financial position so that it can maintain its ability to serve the industry through all economic cycles and meet its shareholder's expectations.

FCC will achieve its critical outcomes for this theme through the following five-year objectives:

- sustain financial performance
- maintain public policy
- strengthen reputation

#### Sustain financial performance

In this uncertain and volatile business environment, FCC must ensure that its financial and risk management practices are appropriate considering the uncertainty and ability of its business environment to keep pace with best practices in the financial services industry. After the farm crisis of the 1980s, FCC committed to operate as a financially self-sustaining federal Crown corporation. FCC has been profitable for 20 years which has allowed the organization to fund its extraordinary growth and create adequate capital reserves to backstop potential losses due to inherent risks in the business while paying an annual dividend to its shareholder, the Government of Canada.

FCC's strong financial position enables it to create innovative products and services that meet the needs of the agriculture industry, and ensures that producers and agribusiness operators have choices in the marketplace.

The traditional performance measures (net income and return on equity) for this objective indicate FCC's progress toward this critical outcome.

Through the capital adequacy measure, FCC can ensure that it has enough equity and other forms of capital on hand to remain solvent in the event of a severe downturn in the economy or agriculture industry.

**Continued focus on expense management and control**
Efficiency continues to be a corporate priority for FCC. In 2014-15, FCC will continue to conduct itself in a manner that is mindful of the federal government's current climate of fiscal constraint.

FCC has a healthy portfolio of more than $25 billion and 20 consecutive years of portfolio growth. FCC will continue to manage cost increases through continued focus on operational efficiency to achieve financial targets while balancing the need to enhance risk management.

**Continue to implement capital management framework**
The corporation's capital management goal is to maintain adequate capital to ensure the ongoing viability of FCC's business and to support anticipated growth and strategic investment. Capital management is an integral component of FCC's governance and risk management, as articulated in the ERM framework, the risk appetite statement and risk management policies approved by the Board annually.

In 2013-14, FCC created a Capital Management framework and policy that articulates its approach and boundaries to managing capital.

Implementation of the Capital Management framework is a multi-year project. The overall objective is to continue to enhance FCC's capital management practices. This project is part of the Enhanced Risk Management program and progress will be reported under the ERM theme.

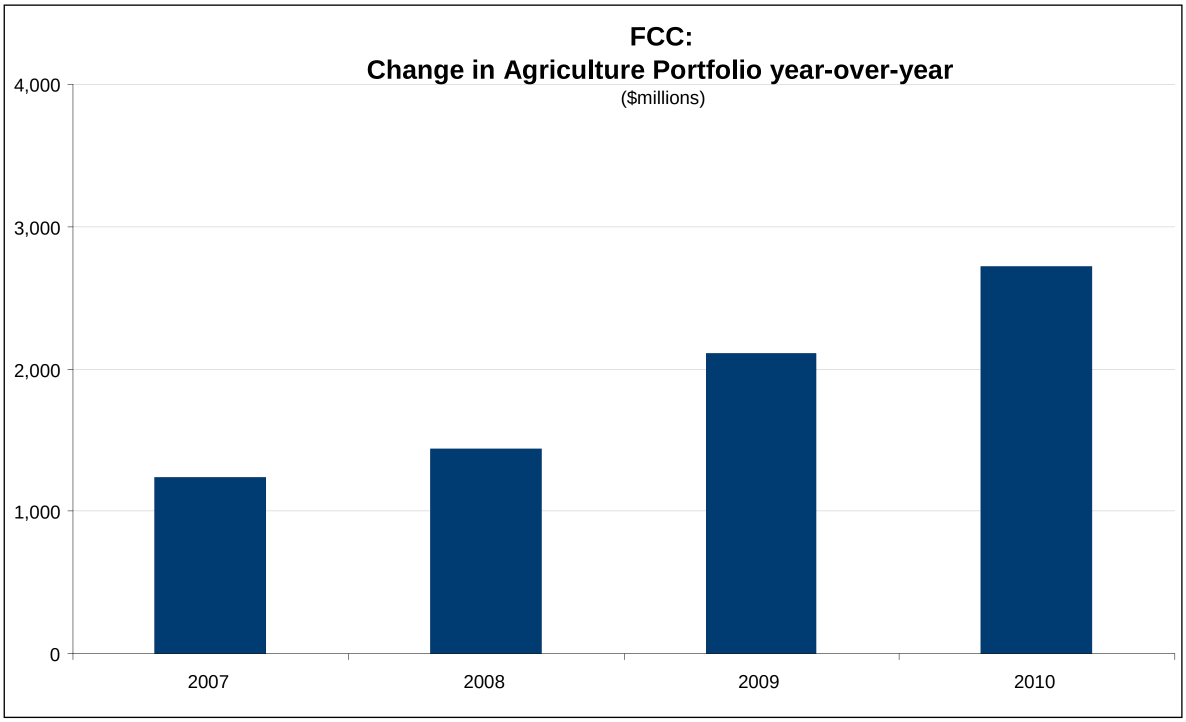
**Undertake a feasibility study looking at loan securitization with other financial institutions as a means to manage loan portfolio risk**
FCC has occasionally participated in the purchase of lending portfolios. Through this initiative FCC will undertake a feasibility study to assess the opportunity to foster partnership opportunities with other financial institutions and to manage loan portfolio concentration risk and portfolio growth through loan securitization.

## Maintain public policy

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

Primary production is FCC's core business and represents 88 per cent of the loan portfolio. The remaining 12 per cent represents loans to agricultural enterprises that directly support producers. Although FCC serves operations of all sizes, its focus will continue to be on small to medium-sized producers.

As a Crown corporation, FCC plays an important role in filling financing gaps for Canadian producers and agribusiness operators. The agriculture industry is often affected by volatility in commodity prices, adverse weather conditions, livestock and crop diseases, and trade implications. FCC takes a long-term view and remains committed to customers and the industry in difficult times by providing steady access to capital. For example, during the financial crisis in 2009, FCC continued to grow and expand its portfolio as depicted in the graph below.




FCC plays an important role in the marketplace, benefitting producers, the agriculture industry, rural Canada and all Canadians. Its long-term commitment provides customers with the confidence they need to grow and take advantage of opportunities in their business.

FCC recognizes that young farmers are important to the future of the agriculture and agri-food industry in Canada. FCC understands the challenges new entrants face and offers support to help young farmers succeed. Recognizing that interest and enthusiasm for agriculture starts early, FCC supports young farmers at every stage of their careers with financing, learning opportunities and more. Together, FCC and young farmers are creating a solid future for the industry.

The story of Canadian agriculture is one of success, promise, challenge and determination. FCC plays an important role in ensuring that all Canadians understand agriculture and its important contribution to the Canadian economy and individual lives. It takes significant effort and long-term commitment to change perceptions. FCC, in partnership with the industry, is providing leadership in promoting positive messages in the industry and beyond.

FCC segmented its portfolio using the bank standard laid out in the Capital Adequacy Requirements (CAR) created by OSFI. There are four segments: small- and medium- sized enterprises treated as retail; small- and medium-sized enterprises treated as commercial; commercial and corporate. The percentage of customers who fall within the first two segments will be measured to ensure that FCC's focus remains on small- and medium- sized businesses in 2014-15.

New entrants to primary production and the agribusiness and agri-food sectors are vital to the future of Canadian agriculture. FCC uses the total-lending-to-young-farmers measure to indicate progress on this objective.

**Encourage and create positive dialogue about Canadian agriculture in partnership with industry stakeholders**

This includes Agriculture More Than Ever (AMTE), a multi-year industry campaign to improve perceptions of agriculture in Canada. The intent is to stimulate positive discussion about Canadian agriculture with industry stakeholders, producers and the public. Through a positive image, the industry can attract more people, create investment opportunities and support innovation – all of which are necessary to feeds a growing world population.

AMTE is focused on sharing research findings with the industry to build awareness about how the industry is perceived. The goal is to create industry champions who share positive stories about Canadian agriculture. Industry partners on this initiative are wide-spread and include businesses, industry associations, agricultural trade shows, the private sector and the media. Long-term, these partnerships will be leveraged to maximize Agriculture More Than Ever's reach and impact.

**Enhance programs to support young farmers**

As the average age of producers continues to increase, agriculture needs the next generation of producers to enter the industry. FCC helps build the industry of the future by supporting young farmers – defined as farmers under 40 years of age. In 2012, FCC launched the Young Farmer Loan. The product allows young farmers to borrow up to $500,000 with waived loan processing fees and interest rates that are capped at prime plus 0.5 per cent for the variable rate product. The cap will be extended.

FCC products and services, like the Transition and Young Farmer loans, help intergenerational transfers of farms and assist young farmers to enter the industry.

FCC also supports young farmers through management workshops, learning forums and publications. This ensures farmers of all ages can access the training and information they need to succeed in the future.

As well, FCC supports young farmers through:

- courses in farm transition
- sponsorship of the Canadian Young Farmers Forum
- sponsorship of Canada's Outstanding Young Farmer Program
- partnerships with the Association des jeunes ruraux du Québec and the Fédération de la relève agricole for rural youth and young adults
- partnerships with 4-H Canada and all of its provincial organizations
- sponsorship of the FCC Business Planning Awards for students in agriculture degree and diploma programs

Over the next five years, FCC will enhance these offerings by staying connected to the needs of new entrants to agriculture.

**Implement corporate social responsibility strategy**

The purpose of this initiative is to develop a corporate social responsibility (CSR) strategy based on work done in 2013-14 to assess FCC's CSR maturity. FCC's first step is to finalize CSR measures, targets and initiatives with internal stakeholders in the five CSR focus areas – agriculture and food, community, customers, employees and the environment – and to roll these into a comprehensive strategy. Once the strategy is developed FCC will begin implementation by focusing on initiatives that will fill gaps identified in the maturity assessment.

**Maintain focus on small- to medium-sized customers**

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

Although FCC serves operations of all sizes, FCC's focus will continue to be to meet the financing and business needs of small- to medium-sized producers. These customers are vital to FCC fulfilling its vision and delivering on its mandate.

## Strengthen reputation (with all stakeholders)

FCC's reputation is an important asset. In essence, reputation is the collective perceptions of those who matter. Reputation management builds positive relationships with stakeholders who impact and influence the corporation's future.

Customers want to deal with companies that have high values and standards. They need to have confidence in the financial institutions they deal with, especially at a time when financial institutions are under increased scrutiny regarding their ethics, financial stability, risk management practices and lending policies.

Many factors contribute to reputation, including brand, goodwill, track record, integrity, quality of management, transparency and openness, and products and services.

For more than 15 years, FCC has benefitted from a positive reputation among those in the agriculture and agri-food industry. Results from a 2010 Léger study show that FCC has a positive reputation with producers across the country, who rank FCC fifth among well-known Canadian brands. There is an opportunity to further grow FCC's reputation by building relationships with a wider range of stakeholders.

FCC's reputation and progress on this objective is tracked through an external media favourability index, which measures media coverage about the corporation. FCC's overall favourability score for fiscal 2012-13 was 11 points above the global average for financial institutions.

**Enhance integrated multi-stakeholder strategy (including AAFC and industry associations)**

Many areas of FCC interact and collaborate with stakeholders. A more sophisticated, co-ordinated, consistent and strategic approach to these relationships will enhance FCC's reputation, and help the corporation respond to opportunities and risks, and support the Government of Canada's priorities.

### 5.4.2 Great customer relationships

| Great customer relationships - How we achieve great customer relationships | | | | | | |
|---|---|---|---|---|---|---|
| Strategic objective | Measures | 2014-15 target | 2015-16 target | 2016-17 target | 2017-18 target | 2018-19 target |
| **Enhance smart lending process** | Easy to do business CEI measure | 62.0% | 62.5% | 63.0% | 63.5% | 64.0% |
| | **Develop and launch revolving personal property loan** | | | | | |
| | **Enhance the overall alliance delivery** | | | | | |
| | **Optimize credit decision process** | | | | | |
| **Deepen applied agri-finance knowledge** | **Enhance knowledge offerings and tools for employees and customers** | | | | | |
| | **Leverage information and provide sense-making for senior leaders on emerging issues, opportunities and challenges** | | | | | |
| **Follow consistent relationship management process** | CEI | 61.5% | 62.0% | 62.5% | 63.0% | 63.5% |

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

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

FCC has defined great customer relationships as its key differentiator, supported by enterprise risk management, operational efficiency and a high-performance culture. Through great customer relationships, FCC will strengthen and grow its customer base and ensure that its business success is sustainable.

Progress on this theme is measured through FCC's Customer Experience Index (CEI). The customer experience is measured every month to gauge how FCC is perceived across Canada. Each survey measures satisfaction, loyalty, ease of doing business and service resolution. To be considered extraordinary, only perfect scores are counted.

All employees are expected to follow certain standards that support FCC's customer experience. These standards create a consistent, intentional experience for all customers and help customers feel that FCC is relationship-oriented, flexible, knowledgeable about agriculture and committed to the industry.

FCC will enhance great customer relationships and equip producers with financial and business management tools through the following five-year strategic objectives:

- enhance smart lending process
- deepen applied agri-finance knowledge
- follow consistent relationship management process

#### Enhance smart lending process

FCC has developed its own unique approach to lending through technology and a suite of analytic tools tailored to the agriculture industry. Its lending processes are efficient, integrated and consistent, allowing FCC to effectively manage risk while providing all its customers with an extraordinary experience.

The CEI has a sub-index that measures how easy it is to do business with FCC. This measure will be used to ensure that it is easy for customers to do business with the corporation.

In 2014-15, FCC will focus on enhancing its smart lending processes for its core primary production customers. FCC will also further develop its lending to manage the increasing customer complexity, risk and evolving needs of its primary production, agribusiness and agri-food customers, as well as Alliance partners.

**Develop and launch revolving personal property loan**
AdvancerEQ is a revolving personal property loan for purchases such as equipment and quota. FCC offers a revolving loan for operating purposes (FCC Credit Line, formerly AdvancerPlus) and for capital purchases (Advancer) that cover the long term assets required for a farm or agribusiness. This new product will provide relationship managers with a proactive tool to pre-approve funds to match their customers' purchasing needs and financing abilities. Development work will begin in 2014-15, with the product launch planned for 2015-16.

**Enhance the overall Alliance delivery**
This initiative will develop and implement a holistic approach to enhance the delivery of the Alliance programs. During this process, FCC will complete research on both FCC's Alliance offerings and what is offered in the market. Also, FCC will work on enhancements to the system to continue to make it easy for Alliances and customers to do business with FCC.

**Optimize credit decision process**
As FCC's customers become larger and more sophisticated and complex, employees need to make effective credit decisions prudently and promptly, while delivering a positive customer experience. Through this initiative, FCC will review existing credit adjudication processes and systems and credit decision-making authorities, while maintaining effective internal controls and strong credit quality. Reviewing these processes will help ensure FCC is managing its risk effectively.

## Deepen applied agri-finance knowledge

FCC prides itself on its knowledgeable ag-lending team, which responsive, solution-focused, understands agricultural risk and applied its knowledge every day to serve FCC's customers. Customers value FCC's knowledge, expertise and speed of service. They trust FCC and value the relationship it builds with them.

Today's producers and agribusiness operators are experts in crop and livestock production. They must also deal with complex financial management, human resource issues, partnerships, diversification and international markets. As producers become more sophisticated in their operations and knowledge of agriculture, FCC will be challenged to meet their expectations.

FCC must ensure that its employees have the technical skills and competencies required to meet the changing knowledge needs of its customers. FCC hires employees with agriculture and/or financial backgrounds who are committed to making a difference to the industry.

FCC researches and develops unique tools to help customers, stakeholders and the industry anticipate and understand changes in agriculture. FCC also supplements employee knowledge with publications for producers and agribusiness and agri-food operators.

FCC will continue to offer management workshops, learning forums and publications to ensure that farmers of all ages can access the training and information needed to succeed in the future.

In addition to the above activities, FCC will also complete the following two initiatives to further this objective:

**Enhance knowledge offerings and tools for employees and customers**
This initiative will focus on knowledge for both employees and customers.

For employees, the focus will be to equip them with the appropriate knowledge and tools to help customers make sound business decisions, reinforce FCC's unique position in the marketplace and positively impact the customer experience.

Knowledge will also be targeted to customer needs and situations. FCC will continue to fill knowledge gaps by producing leading-edge publications, videos, podcasts and webinars. New technology platforms will support knowledge flow within FCC to ensure that it efficiently transfers from the people who have it to those who need it.

**Leverage information and provide sense-making for senior leaders on emerging issues, opportunities and challenges**
This initiative will leverage and coordinate new and existing information for senior leaders to analyze trends and identify opportunities and challenges for FCC.

## Follow consistent relationship management process

FCC's approach to customer relationship management is proactive, innovative and highly disciplined. Continual learning helps front-line employees to strengthen their relationships with customers and provide customers with an extraordinary experience based on their current and potential financing needs.

Customer feedback gathered through the CEI is analyzed and shared with field offices so that they can continually improve. More than six out of 10 customers give FCC perfect scores when rating their experience with the corporation. FCC focuses on improving this level of customer satisfaction by continually coaching its relationship managers based on local CEI scores. The corporation has updated its customer experience strategy to incorporate anticipated changes in the operating environment over the next few years.

Over the past several years FCC has enhanced the relationship management process. Given the advanced state of this objective and the several competing priorities for FCC, no initiative will be developed for this objective in 2014-15.

### 5.4.3 Effective enterprise risk management

| Effective ERM - How we protect FCC and great customer relationships | | | | | | |
|---|---|---|---|---|---|---|
| Strategic objective | Measures | 2014-15 target | 2015-16 target | 2016-17 target | 2017-18 target | 2018-19 target |
| **Advance applied ERM maturity** | ERM maturity measure | 3.4 | 4.0 | 4.0 | 4.0 | 4.0 |
| | **Implement enterprise risk management program** | | | | | |
| **Increase risk management awareness and sophistication (within employee mindsets)** | **Increase employee understanding and accountability for risk management across FCC** | | | | | |

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

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

Since the 2008 financial crisis, ERM has been a greater priority for financial institutions. Companies have recognized the need to develop strong risk management systems to maintain financial stability. In fiscal 2011-12, FCC requested that a third-party review its ERM maturity and measure the corporation relative to other financial institutions of similar size. The review led to several recommendations for FCC to increase its ERM maturity, including the establishment of an independent risk function.

In 2012, the Office of the Superintendent of Financial Institutions (OSFI) lead a review of FCC's risks and risk management practices. The review focused on identifying issues that could pose "material financial risk" to FCC in its business. OSFI delivered its report to FCC in April 2013. It included a number of recommendations to be completed within the fiscal years 2014 and 2015.

With the growing emphasis on ERM both internally and externally, FCC has elevated effective ERM to its own theme. By understanding and managing its most significant risks, FCC is better able to fulfil its mandate and public policy role, create value for its customers and protect its long-term business interests.

FCC will pursue the following five-year strategic objectives to achieve this outcome:

- advance applied ERM maturity
- increase risk management awareness and sophistication

#### Advance applied ERM maturity

Risk is the effect of uncertainty on objectives. ERM is a framework to accept, reduce, mitigate or transfer uncertainty to achieve the corporation's objectives. FCC employs an ERM approach to manage risks across the corporation in a consistent, co-ordinated manner. By understanding and focusing on risk management, FCC can maintain its reputation and ensure its ongoing viability.

FCC has adopted KPMG's ERM maturity measure to gauge progress on this objective. The measure is based on a maturity model that indicates how mature FCC's ERM practices are in the following five areas: risk governance, risk assessment, risk quantification, risk monitoring and reporting, and risk and control optimization. The measure uses a five-point scale where a measure of 1.0 is considered basic (in compliance), 3.0 is mature (a management process) and 5.0 is advanced (a strategic tool). Before the OSFI review, FCC targeted a 3.4 maturity over a three-year time frame. This would have established ERM as a mature management process. The additional focus and value provided by the OSFI review will increase FCC's ERM maturity to a 4.0, allowing FCC to use risk management in some areas of the corporation as a strategic tool.

**Implement enhanced risk management program**

The Enhanced Risk Management program is intended to execute FCC's response to the OSFI review and increase the corporation's ERM maturity in all risk areas.

## Increase risk management awareness and sophistication

All employees should understand their accountability for risk management. Effective ERM relies on having all employees understand FCC's risk appetite so that they can serve as effective risk managers.

The objective to increase risk management awareness and sophistication requires that employees understand the corporation's risk appetite and base decisions to take, avoid or accept risk on the spirit of the statement. This means imbedding the risk appetite statement into the corporation's culture through awareness-building exercises such as key messages, consistent training delivery, internal policy review and job accountability updates, as necessary.

**Increase employee understanding and accountability for risk management across FCC**

Through this initiative, FCC will co-ordinate risk awareness and training activities across the corporation to ensure that they are consistent with the risk appetite statement's messages and delivered in a consistent manner. For more information, refer to Section 5.2.

### 5.4.4 Operational efficiency

| Operational efficiency - How we afford great customer relationships | | | | | | |
|---|---|---|---|---|---|---|
| Strategic objective | Measures | 2014-15 target | 2015-16 target | 2016-17 target | 2017-18 target | 2018-19 target |
| **Optimize how FCC operates enterprise-wide** | Efficiency ratio | 39.9% | 38.4% | 38.6% | 37.8% | 36.8% |
| | Employee engagement - easy to do business | Greater than the average of the 50 Best Employers | Greater than the average of the 50 Best Employers | Greater than the average of the 50 Best Employers | Greater than the average of the 50 Best Employers | Greater than the average of the 50 Best Employers |
| | **Implement technology portfolio optimization strategy** | | | | | |
| **Enhance information sharing and usability** | **Implement enhanced collaboration capabilities** | | | | | |
| | **Implement secure phase of Interactive and Online Services (I&OS)** | | | | | |

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 42 per cent or lower.*

FCC understands that continually improving and re-engineering 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. Efficiency provides FCC with additional resources to invest in great customer relationships.

The federal government introduced its Deficit Reduction Action Plan in 2011 to examine direct program spending as appropriated by Parliament. Although FCC does not receive financial appropriations from the Government of Canada, the corporation will continue to track its record of efficiency and strong financial performance, and conduct itself in a manner that is mindful of the current climate of fiscal constraint. FCC will also continue to focus on reducing controllable costs.

FCC will pursue the following strategic objectives to achieve this outcome:

- optimize how FCC operates enterprise-wide
- enhance information sharing and usability

#### Optimize how FCC operates enterprise-wide

FCC continually seeks better ways for employees to perform their work and to simplify interactions for customers. The corporation reviews internal processes, procedures and systems to optimize performance.

FCC uses an efficiency ratio (administration expense as a percentage of revenue) to measure how well resources are used to generate income. FCC uses five drivers from the annual employee engagement survey – co-workers, physical work environment, resources, work processes and work tasks – to measure how easy it is for employees to do business.

**Implement technology portfolio optimization strategy**
This initiative will ensure that FCC maximizes its use of IT resources and reduces costs while providing technology that supports its business model and strategy.

It includes developing a policy and process for upgrading systems and software, consolidating tools, and determining and appropriately using alternative technologies. It also involves implementing a framework for making technology purchase decisions, specifically when to buy versus rent and when to customize versus purchase off-the-shelf products.

## Enhance information sharing and usability

Managing corporate information will help FCC become more efficient and effective. Specifically, FCC will save money by enabling employees to spend less time searching for and recreating information. It will also dispose of redundant and outdated information to reduce IT storage costs. This will help ensure that the right information is available when needed to inform decision-making.

In 2014-15, the corporation will continue to work on its Enterprise Information Management program to achieve this objective.

**Implement enhanced collaboration capabilities**

In 2014-15, IT will continue to deploy technology that centralizes access to enterprise information and applications on the corporate network. This will help employees work more collaboratively and efficiently by capturing and sharing information and knowledge, managing data and publishing reports. Improved video-conferencing capabilities will also be implemented in strategic locations and provided to key employee groups.

**Implement the secure phase of I&OS**

The secure phase will enhance FCC's online presence for customers by building on many of the usability improvements in the website's public areas.

New features, functions and capabilities will allow customers to view and manage their financing information in a more intuitive, efficient and streamlined way. Improvements will also allow customers to name their loans, manage their online profiles and access a consolidated view of their Alliance Crop Input loans, Alliance Equipment loans and FCC loans. Many of the new features delivered in the secure phase are in response to consistent and direct feedback from customer research and input from customer-facing employees.

Internally, FCC will gain efficiencies as customers manage their own accounts and profiles.

### 5.4.5 High-performance culture

| High-performance culture - How we work together to achieve great customer relationships | | | | | | |
|---|---|---|---|---|---|---|
| Strategic objective | Measures | 2014-15 target | 2015-16 target | 2016-17 target | 2017-18 target | 2018-19 target |
| **Build extraordinary leaders** | Leadership index: subset of employee engagement survey data with respect to leadership indicators | Greater than the average of the 50 Best Employers | Greater than the average of the 50 Best Employers | Greater than the average of the 50 Best Employers | Greater than the average of the 50 Best Employers | Greater than the average of the 50 Best Employers |
| | **Enhance leadership effectiveness** | | | | | |
| **Deepen culture of 100% accountability and partnership** | Employee engagement | Greater than the average of the 50 Best Employers | Greater than the average of the 50 Best Employers | Greater than the average of the 50 Best Employers | Greater than the average of the 50 Best Employers | Greater than the average of the 50 Best Employers |
| | Employee engagement index: subset of employee engagement survey data with respect to employee experience indicators | Greater than the average of the 50 Best Employers | Greater than the average of the 50 Best Employers | Greater than the average of the 50 Best Employers | Greater than the average of the 50 Best Employers | Greater than the average of the 50 Best Employers |
| | **Implement year three of culture strategy** | | | | | |
| **Strengthen workforce management** | Diversity measure | Hire a net of 5 diversity candidates | Hire a net of 5 diversity candidates | Hire a net of 5 diversity candidates | Hire a net of 5 diversity candidates | Hire a net of 5 diversity candidates |
| | **Implement senior leaders succession strategy** | | | | | |
| | **Renew diversity strategy and employment equity plan** | | | | | |

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 great customer relationships. FCC's employee engagement score is greater than the average of the 50 Best Employers in the Aon Hewitt study.*

FCC strives to be an employer of choice. In 2012, the corporation ranked sixth in the national 50 Best Employers in Canada study. FCC believes that being a top employer helps it attract and retain top-notch employees with the competencies required to meet customers' needs.

FCC will continue to participate in an annual employee engagement survey to track its progress in employee experience, stated objectives and critical outcomes.

Engagement is the state of intellectual and emotional involvement that employees have with an organization. It 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 actions that directly address employee concerns and opportunities for improvement.

Employees drive a positive customer experience and research shows that engaged employees deliver better customer service. This is why ensuring a positive employee experience is so important to FCC.

FCC will pursue the following strategic objectives to achieve this outcome:

- build extraordinary leaders
- deepen the culture of 100 per cent accountability and partnership
- strengthen workforce management

## Build extraordinary leaders

Leaders at FCC inspire employees to be passionate about FCC’s customers and the business of agriculture, coach teams to achieve outstanding results and are authentic, open and 100 per cent accountable. With an eye on the big picture and a commitment to employee engagement, leaders partner with employees to find new and better ways to make FCC’s business exceptional.

Inspiring employees requires strong and consistent communication, strategy, team, culture and change leadership (FCC’s five leadership principles). FCC recognizes that strong leaders support a culture of 100 per cent accountability and partnership and a high-performance workforce. By building better leaders, FCC will ensure that employees remain highly engaged.

FCC has developed a leadership index (sub-index of employee engagement survey data) to gauge employee perceptions about leadership at FCC.

**Enhance leadership effectiveness**
Since 2009, FCC’s leadership framework has defined an approach to effective leadership that is founded in the behaviours leaders must exhibit for the corporation to achieve its strategic objectives.

In 2014-15, the current leadership development programs will be phased out and replaced by a more streamlined program. FCC will deliver a more robust learning experience that fully integrates leadership and culture and includes follow-up activities.

## Deepen culture of 100 per cent accountability and partnership

FCC has worked hard to build a culture of accountability across the corporation. FCC’s cultural practices outline specific ways of working together that remove barriers and expand possibilities. Employee relationships are the foundation of a high-performance culture.

FCC’s culture is a conscious choice made by employees. They choose to abide by the cultural practices every day, especially when under pressure. It means taking time to listen to each other and grant grace instead of judging. It means focusing on committed partnerships and standing for each other’s success.

FCC will monitor and analyze a sub-index of the employee engagement results that measure the employee experience in areas such as career opportunities, learning and development, intrinsic motivation, managing performance and work-life balance.

**Implement year three of culture strategy**
FCC's culture by design is a significant factor in employee engagement. In 2014-15, FCC will continue to roll out the Culture Fundamentals program that was designed in 2012-13. FCC will also strengthen its culture of recognition by introducing an e-learning program about recognition to all employees.

## Strengthen workforce management

Workforce management is a strategic business process that helps FCC make the right talent decisions to deliver on business priorities. This process is essential to FCC’s continuing success because it ensures that the corporation has the knowledge, skills and attributes to meet its long-term goals.

Strengthening workforce management will help FCC identify and mitigate business risks associated with sourcing challenges due to Canada’s aging workforce and increasing immigration, labour market shortages in specialized skill areas and employee departures. It also reinforces FCC’s employment equity goal to create and maintain diversity in the workplace by increasing representation from the four employment equity groups.

Organizations are becoming more aware of the importance of building a diverse workforce. Research shows that harnessing and maximizing diverse talents offers substantial productivity, profitability and competitive advantage benefits to organizations. Employment equity nurtures innovation and enriches culture. FCC believes that providing employment opportunities to diverse candidates across Canada positions it for long-term financial sustainability. FCC is also committed to providing a work environment that supports the productivity, personal goals and respect of all employees.

FCC has identified gaps in each employment equity group and has consolidated these numbers to determine the corporate-wide employment equity gap. FCC will track its progress in this area and reduce the corporate-wide gap by five employees each year.

**Implement senior leaders succession strategy**
A number of senior leaders, including the President and CEO, are planning to retire in the next 18 months. The corporation has a succession plan that identifies individuals who are ready for new leadership positions over various timeframes and includes all Executive Management Team positions. FCC will implement the succession plan as individuals retire or otherwise leave the corporation.

**Renew diversity strategy and employment equity plan**
FCC understands that a diverse workforce is extremely important. The corporation strives to build a workforce that represents the diversity of its customers across Canada and the Canadian workforce as a whole.

Through this initiative, FCC will continue to implement its employment equity plan, which specifies the policies and practices needed in the short term to hire, train, promote and retain individuals from the four employment equity groups. This will help FCC to correct each group’s under-representation in specific occupational areas.

# 6.0 | Financial plan

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

Uncertainties exist relative to the current economy and in the financial and agricultural sectors. These uncertainties along with volatility in financial, commodity and consumer markets create risk associated with some of the key variables used in creating the financial plan. It is important to understand these key variables and their impact on the financial results (see Sensitivity analysis). FCC monitors these key variables throughout the year to ensure timely management of the potential impacts.

**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 analysis

FCC employs a financial model to determine the five-year plan targets based on inputs received from various divisions throughout the corporation. 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.

In addition to the financial plan projections provided in this document, the corporation runs 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 2014-15 for each variable.

| Major drivers ($ millions) | Change | 2015 Plan |
|---|---|---|
| Loan disbursements* | +/- 10%/year | +/- 13.5 |
| New lending margins** | +/- 10 bps/year | +/- 4.9 |
| New lending mix (F/V) | +/- 10% fixed | +/- 1.9 |
| Interest rate curves** | +/- 100 bps | +/- (2.2) |

* 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, 2015, and is submitted for Treasury Board approval in accordance with section 123 of the Financial Administration Act. The table below summarizes financial projections for 2013-14 and 2014-15.

| Fiscal year ending March 31<br>($ millions) | 2015<br>Plan |
|---|---|
| **Portfolio growth** | |
| Loans receivable | 27,125.4 |
| Loans receivable growth rate (per cent) | 3.6 |
| Net disbursements | 7,461.0 |
| Loan renewal rate (per cent) | 97.0 |
| Prepayment rate (per cent) | 7.0 |
| **Profitability** | |
| Net interest income | 935.1 |
| Net interest margin (per cent) | 3.38 |
| **Credit quality** | |
| Impaired loans | 380.7 |
| Provision for credit losses | 91.2 |
| Allowance for credit losses | 678.1 |
| **Performance by non-lending business lines** | |
| Venture capital | |
| Investments - total capital outstanding | 62.8 |
| Investments - fair market value | 111.9 |
| Co-investment ratio ($ co-invested per FCC $) | 1.5 |
| FCC Management Software | |
| Net sales revenue | 1.9 |
| FCC Insurance | |
| Insurance premium income | 24.3 |
| Net insurance income | 12.1 |
| **Efficiency** | |
| Administration expenses* | 378.9 |
| Efficiency ratio (per cent)* | 39.9 |
| **Funding** | |
| Borrowings | 23,194.4 |
| **Equity** | |
| Total capitalization* | 4,958.0 |
| Gross assets not requiring debt financing (per cent)* | 17.3 |
| Debt to equity* | 5.6 |
| **Shareholder return** | |
| Net income | 490.5 |
| Return on equity (per cent)* | 12.2 |
| Return on assets (per cent)* | 1.77 |
| Dividends | 46.9 |

* The financial statements have been restated for the retrospective adoption of International Accounting Standard 19- Employee Benefits.

### 6.1.1 Discussion of 2013-14 forecast versus 2012-13 actual, prior plan and 2014-15 financial plan

#### Portfolio growth

**Loans receivable**

Relative to 2012-13 actual results, the portfolio is forecast to grow by $1,057.7 million or 4.2 per cent in 2013-14 due to new lending of $7,226.0 million. Compared to the 2013-14 plan, the forecast loans receivable of $26,191.0 million is $51.9 million or 0.2 per cent lower. This is due to lower than anticipated net disbursements of $388.0 million.

Loans receivable is projected to grow by 3.6 per cent, increasing from $26,191.0 million forecast for 2013-14 to $27,125.4 million in 2014-15. 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**

2013-14 forecast net disbursements are $520.2 million lower than levels experienced in 2012-13 and $388.0 million lower than the 2013-14 plan. Reduced anticipated growth in the farm debt market and increased competitive market pressures are contributing to lower volumes. While the prepayment rate in 2013-14 is expected to decrease from the prior year, it is expected to increase due to competitive pressures.

Net disbursements are projected to increase by $235.0 million from the forecast level of $7,226.0 million in 2013-14 to $7,461.0 million in 2014-15. This is the primary driver of the portfolio growth in 2014-15. Primary production financing, lending to agribusiness and agri-food, and Alliance disbursements are expected to increase by $159.0 million, $36.0 million and $40.0 million respectively. Overall, lending to primary producers represents 87.0 per cent of total net disbursements in 2014-15.

#### Profitability

**Net interest income and net interest margin**

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

The 2013-14 net interest income forecast of $894.4 million is $33.0 million higher than 2012-13 actual results and $6.6 million higher than the 2013-14 plan. The continued growth in the loan portfolio, as discussed previously, is the primary driver of these increases. The net interest margin is forecasted at 3.33 per cent, which is slightly lower than the prior year actual of 3.40 per cent and equal to the 2013-14 plan. The decrease is being driven by increases in FCC’s funding costs on variable rate assets and a continued low interest rate environment, which are compressing the interest rate spread.

Net interest income is expected to increase from an $894.4 million forecast for 2013-14 to $935.1 million for 2014-15. This is due to a 3.6 per cent growth in loans receivable combined with an increase in the net interest margin from 3.33 per cent to 3.38 per cent. The increase in net interest margin is due to rising fixed market interest rates and its favourable impacts on lending rates.

## Credit quality

### Impaired loans

Impaired loans of $367.7 million in the 2013-14 forecast are $46.5 million higher than 2012-13 actual results. The increase is due to growth in the loan portfolio coupled with a slight increase in impaired loans as a percentage of loans receivable. The 2013-14 forecast is consistent with the 2013-14 planned amount of $367.6 million.

Impaired loans are expected to be $380.7 million in 2014-15, an increase of $13.0 million over the 2013-14 forecast of $367.7 million. This increase is due to a larger portfolio in 2014-15 compared to 2013-14.

### Allowance for credit losses

The allowance for credit losses represents management’s best estimate of incurred losses in the loan and leases portfolio at the balance sheet date.

The 2013-14 forecast allowance for credit losses of $654.8 million is higher than the 2012-13 actual allowance of $640.0 million due to continued portfolio growth which is offset by an improvement in the health of the portfolio. The forecast allowance is lower than the 2013-14 plan of $669.2 million as the allowance as a percentage of ending loans receivable has decreased from 2.55 per cent to 2.50 per cent due to continued improvement in the health of the portfolio.

The allowance for credit losses is projected to grow from the forecast of $654.8 million in 2013-14 to $678.1 million at the end of 2014-15. The allowance as a percentage of ending loans receivable is projected to remain flat at 2.50 per cent as the overall risk in the portfolio is not anticipated to change significantly. The increase is being driven entirely by the growth in loans receivable.

### Provision for credit losses

Once management determines the allowance for credit losses and write-offs, the provision for credit losses is charged against net income by an amount necessary to bring the allowance for credit losses to the appropriate level.

To bring the allowance to the appropriate level in 2013-14, the provision for credit losses is forecast at $81.8 million, which is higher than the 2012-13 actual provision of $38.1 million and lower than the 2013-14 plan of $103.9 million. The increase from the 2012-13 actual provision is due to portfolio growth. The decrease from the prior plan is due to lower than planned loans receivable growth and improved portfolio health.

In 2014-15, the required provision is projected to be $91.2 million due to an increase in the projected size of the portfolio. The allowance as a percentage of ending loans receivable is anticipated to remain flat.

## Performance by non-lending business lines

### Venture capital

FCC Ventures continues to address the need for venture capital in the agriculture industry. At the end of 2013-14, the corporation is forecasting $50.4 million in capital outstanding. In addition, every $1.00 invested by FCC is expected to attract $1.50 from co-investors.

Total capital outstanding, including investments made through the Avrio Ventures Limited Partnership, is expected to increase slightly to $62.8 million at the end of 2014-15. This anticipates new investments of $35.5 million, offset by repayments and divestitures.

The fair value of the venture capital investments is projected to increase from $92.3 million in 2013-14 to $111.9 million in 2014-15. This reflects the plan assumptions with respect to the new investments and increases in the fair value of existing investments.

**FCC Management Software**

FCC Management Software is focused on developing, promoting and improving farm management software for the Canadian agriculture industry. FCC Management Software supports the business of agriculture by providing valuable solutions to farmers that will help ensure their success and viability. Its products include AgExpert Analyst and Field Manager PRO. The forecasted net sales revenue of $1.9 million is higher than 2012-13 actual results but slightly below the 2013-14 plan of $2.0 million. In 2014-15, net sales revenue is anticipated to remain flat at $1.9 million.

**FCC Insurance**

FCC has offered loan life and accident insurance since 1960, providing protection for customers, their families and their businesses. Insurance premium revenue is forecast to be $23.4 million in 2013-14, which is $2.6 million higher than 2012-13 actual results and $0.7 million higher than the 2013-14 plan. The increase is primarily driven by the growth in the portfolio.

In 2014-15, insurance premium revenue is planned to be $24.3 million, representing an increase of $0.9 million from forecast levels. Net insurance revenue after taking into account claims paid, is projected to remain at $12.1 million in 2014-15.

## Efficiency

**Administration expenses**

A key element of continued financial viability is prudent cost management and operational efficiency balanced against the requirements of a growing enterprise. The corporation will continue its track record of efficiency and strong financial performance, and conduct itself in a manner that is mindful of the current climate of fiscal constraint. FCC will continue to focus on delivering services in an efficient manner, focusing on revenue-generating activities and ongoing organizational cost management. At the same time, additional expenditures on non-revenue-generating activities will be required to implement industry best practises for enterprise risk and capital management. Ensuring best practices for enterprise risk management provides FCC with a strong defense against potential financial losses.

In 2013-14, administration expenses are forecast to be $375.6 million. This represents an increase of $38.4 million from 2012-13 actual expenses of $337.2 million. This increase is largely driven by increased personnel costs required to support business growth, increased pension costs related to the defined benefit pension plan, additional costs for the augmented comprehensive Enhanced Risk Management program (see section 5.2), a change in accounting policy for operating lease depreciation and other general inflationary increases.

Administration expenses are projected to increase from the 2013-14 forecast of $375.6 million to $378.9 million in 2014-15 as expected increases related to ERM initiatives, facilities costs, portfolio growth and general inflation are offset by cost reduction initiatives.

**Efficiency ratio**
The forecast efficiency ratio of 41.1 per cent is higher than 2012-13 actual ratio of 38.5 per cent, and higher than last year's plan of 38.6 per cent as a result of higher than anticipated administration expenses.

As a result of increased net interest income and relatively flat administration expenses, the efficiency ratio is expected to improve in 2014-15 to 39.9 per cent.

## Funding

**Cash provided by (used in) operating activities**
After adjusting net income for non-cash items, FCC expects to use $577.3 million in support of operating activities in 2013-14. Cash used in operating activities is projected to decrease by $156.0 million in 2014-15 to $421.3 million.

**Cash provided by (used in) investing activities**
Cash used in investing activities is anticipated to be $65.2 million in 2014-15 which is a decrease of $84.2 million from the $149.4 million used in the 2013-14 forecast. This change is primarily driven by a decrease in cash used for temporary investments of $85.2 million.

**Cash provided by (used in) financing activities**
Cash provided by financing activities is projected to decrease from the 2013-14 forecast of $658.8 million to $486.5 million in 2014-15. The decrease is driven primarily by the decrease in loans receivable growth from the 2013-14 forecast of 4.2 per cent to 3.6 per cent in 2014-15 and the associated debt levels.

## Equity

**Debt to equity**
The forecasted debt-to-equity ratio of 6.1 to 1 is lower than the 2012-13 actual of 6.7 to 1, and equal to the 2013-14 plan. In 2014-15, the debt-to-equity ratio decreases further to 5.6 to 1. This measure's continued decline reflects funding a larger portion of the portfolio through equity versus debt.

This ratio is projected to remain well below the maximum 12 to 1 debt-to-equity ratio set under the Farm Credit Canada Act.

**Net income**
Net income is projected to reach $470.7 million in 2013-14 which is $32.9 million lower than 2012-13 actual and $3.9 million higher than the 2013-14 plan. A higher provision for credit losses and administration expenses is driving the decrease from 2012-13. These decreases are partially offset by higher net interest income and fair value adjustment. The increase from the 2013-14 plan is driven by higher net interest income and a lower provision for credit losses, partially offset by higher administration expenses.

In 2014-15, net income is projected to increase to $490.5 million from the 2013-14 forecast of $470.7 million. This increase is primarily due to increased net interest income due to portfolio growth and higher net interest margin, offset by a higher provision for credit losses.

**Return on equity**
Return on equity measures the efficiency at generating income relative to equity.

In 2013-14, return on equity is forecast at 13.2 per cent, which is lower than the 2012-13 actual of 16.1 per cent. The decrease is primarily due to a higher amount of equity, lower net interest margin and higher administration expenses. The forecast is slightly higher than the return on equity projected in the 2013-14 plan of 13.0 per cent. This increase is due to higher net income as discussed above.

In 2014-15, return on equity is projected to decrease from 13.2 per cent to 12.2 per cent. The decrease is mainly due to equity growing at a faster rate than net income.

**Return on assets**

Return on assets measures the use of assets to generate income. The 2013-14 projected return on assets of 1.77 per cent is lower than 2012-13 actual of 2.03 per cent and slightly higher than the 2013-14 plan of 1.76 per cent. The decrease from 2012-13 is being driven by a decrease in the net interest margin from 3.40 per cent to 3.33 per cent. In 2014-15, the return on assets is projected to remain at 1.77 per cent.

**Dividends**

The corporation pays dividends to its shareholder, the Government of Canada, at the Board's discretion. The projections are based on the maximum provided under the current policy, as approved by the Board, is to pay an annual dividend calculated as an amount up to 10 per cent of net income for the prior fiscal year. The actual recommended percentage of income will be based on current and future capital needs as determined through FCC's capital management framework. FCC is working on its capital management framework. When fully implemented, the framework will allow FCC to monitor and assess capital adequacy based on economic and regulatory capital.

The 2013-14 forecast includes a dividend of $50.3 million which is lower than the prior year actual of $56.4 million due to a decrease in net income. The 2013-14 forecast is higher than the 2013-14 plan of $47.8 million due to an increase in net income. Dividends are expected to decrease slightly in 2014-15 to $46.9 million, again due to lower prior year net income.

## 6.2 Capital budget

The 2014-15 capital budget is submitted for Treasury Board approval in accordance with section 124 of the Financial Administration Act.

Capital spending is expected to be $30.4 million in 2014-15 which is an increase from both the 2012-13 actual results of $17.9 million and the 2013-14 forecast of $29.8 million. FCC's capital projections primarily consist of purchases relating to regular furniture, fixture and equipment replacements, planned leasehold improvements and computer hardware and software purchases.

In 2014-15, expenditures related to office furniture and equipment, and leasehold improvements are increasing to support continued business growth, including the expansion and consolidation of FCC's corporate office.

Farm Credit Canada
Consolidated Balance Sheet
2014-15 Corporate Plan

| As at March 31 ($ millions) | 2013 Actuals (restated)* | 2014 Forecast | 2015 Plan |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | $ 917.9 | $ 850.0 | $ 850.0 |
| Temporary investments | 164.8 | 250.0 | 250.0 |
| Accounts receivable | 18.6 | 27.4 | 32.5 |
| Derivative financial assets | 71.2 | 48.6 | 37.8 |
| | 1,172.5 | 1,176.0 | 1,170.3 |
| Loans receivable | 25,133.3 | 26,191.0 | 27,125.4 |
| Allowance for credit losses | 640.0 | 654.8 | 678.1 |
| Loans receivable (net) | 24,493.3 | 25,536.2 | 26,447.3 |
| Finance leases receivable | 12.9 | 16.3 | 20.8 |
| Venture capital investments | 73.4 | 92.3 | 111.9 |
| | 24,579.6 | 25,644.8 | 26,580.0 |
| Equipment and leasehold improvements | 23.5 | 21.6 | 22.4 |
| Computer software | 38.3 | 44.3 | 50.8 |
| Equipment under operating lease | 40.1 | 51.7 | 61.3 |
| Other assets | 16.8 | 18.4 | 19.6 |
| | 118.7 | 136.0 | 154.1 |
| **Total assets** | $ 25,870.8 | $ 26,956.8 | $ 27,904.4 |
| **Liabilities** | | | |
| Accounts payable and accrued liabilities | $ 57.5 | $ 59.2 | $ 62.9 |
| | 57.5 | 59.2 | 62.9 |
| Borrowings | | | |
| Short-term debt | 10,045.9 | 12,430.5 | 11,429.1 |
| Long-term debt | 11,906.0 | 10,230.5 | 11,765.3 |
| | 21,951.9 | 22,661.0 | 23,194.4 |
| Other liabilities | 330.2 | 329.8 | 329.8 |
| | 22,339.6 | 23,050.0 | 23,587.1 |
| **Equity** | | | |
| Contributed surplus | 547.7 | 547.7 | 547.7 |
| Retained earnings | 2,770.3 | 3,188.7 | 3,628.0 |
| Accumulated other comprehensive income | 184.8 | 137.5 | 104.2 |
| Equity attributable to shareholder of the parent entity | 3,502.8 | 3,873.9 | 4,279.9 |
| Non-controlling interests in special purpose entity | 28.4 | 32.9 | 37.4 |
| | 3,531.2 | 3,906.8 | 4,317.3 |
| **Total liabilities and equity** | $ 25,870.8 | $ 26,956.8 | $ 27,904.4 |

* The financial statements have been restated for the retrospective adoption of International Accounting Standard 19- Employee Benefits.

Farm Credit Canada
Consolidated Statement of Operations
2014-15 Corporate Plan

| Fiscal year ending March 31 ($millions) | 2013 Actuals (restated)* | 2014 Forecast | 2015 Plan |
|---|---|---|---|
| Loans and leases | $ 1,102.2 | $ 1,145.4 | $ 1,194.1 |
| Investments | 13.3 | 14.4 | 15.8 |
| Total interest income | 1,115.5 | 1,159.8 | 1,209.9 |
| | | | |
| Short-term debt | 56.8 | 71.9 | 68.8 |
| Long-term debt | 197.3 | 193.5 | 206.0 |
| Total interest expense | 254.1 | 265.4 | 274.8 |
| Net interest income | 861.4 | 894.4 | 935.1 |
| Provision for credit losses | 38.1 | 81.8 | 91.2 |
| Net interest income after provision for credit losses | 823.3 | 812.6 | 843.9 |
| Insurance income | | | |
| Premiums | 20.8 | 23.4 | 24.3 |
| Claims expense | (8.4) | (11.3) | (12.2) |
| | 12.4 | 12.1 | 12.1 |
| Other income | 3.2 | 7.7 | 1.9 |
| Total other income | 15.6 | 19.8 | 14.0 |
| | | | |
| Net income and non-interest income | 838.9 | 832.4 | 857.9 |
| Administration expenses | 337.2 | 375.6 | 378.9 |
| | | | |
| Income before fair value adjustment | 501.7 | 456.8 | 479.0 |
| Fair value adjustment | 1.9 | 13.9 | 11.5 |
| Net income | $ 503.6 | $ 470.7 | $ 490.5 |
| | | | |
| Net income attributable to: | | | |
| Shareholder of the parent entity | $ 503.2 | $ 468.7 | $ 486.2 |
| Non-controlling interest in special purpose entity | 0.4 | 2.0 | 4.3 |

* The financial statements have been restated for the retrospective adoption of International Accounting Standard 19- Employee Benefit

Farm Credit Canada
Consolidated Statement of Comprehensive Income
2014-15 Corporate Plan

| Fiscal year ending March 31 ($millions) | | 2013 Actuals (restated)* | | 2014 Forecast | | 2015 Plan |
|---|---|---|---|---|---|---|
| Net income | $ | 503.6 | $ | 470.7 | $ | 490.5 |
| Other comprehensive income | | | | | | |
| Net gains on derivatives designated as cash flow hedges | | 3.8 | | (24.8) | | (10.9) |
| Transfer of net realized (gains) losses on derivatives designated as cash flow hedges to net income | | (22.8) | | (22.6) | | (22.4) |
| Change in net gains (losses) on derivatives designated as cash flow hedges | | (19.0) | | (47.4) | | (33.3) |
| Net unrealized (losses) gains on available-for sale financial assets | | 0.2 | | 0.1 | | 0.0 |
| Remeasurements of post-employment benefit liabilities | | (16.8) | | 0.0 | | 0.0 |
| Total other comprehensive income | | (35.6) | | (47.3) | | (33.3) |
| Total comprehensive income | $ | 468.0 | $ | 423.4 | $ | 457.2 |
| | | | | | | |
| Total comprehensive income (loss) attributable to: | | | | | | |
| Shareholder of parent entity | $ | 467.6 | $ | 421.4 | $ | 452.9 |
| Non-controlling interest in special purpose entity | | 0.4 | | 2.0 | | 4.3 |

* The financial statements have been restated for the retrospective adoption of International Accounting Standard 19- Employee Benefit

Farm Credit Canada
Consolidated Statement of Changes in Equity
2014-15 Corporate Plan

| Fiscal year ending March 31 ($millions) | | 2013 Actuals (restated)* | | 2014 Forecast | | 2015 Plan |
|---|---|---|---|---|---|---|
| **Contributed surplus** | | | | | | |
| Balance, beginning of year | $ | 547.7 | $ | 547.7 | $ | 547.7 |
| Capital contributions during the year | | 0.0 | | 0.0 | | 0.0 |
| Balance, end of year | | 547.7 | | 547.7 | | 547.7 |
| **Retained earnings** | | | | | | |
| Balance, beginning of year | | 2,340.3 | | 2,770.3 | | 3,188.7 |
| Net income | | 503.2 | | 468.7 | | 486.2 |
| Other comprehensive income | | (16.8) | | 0.0 | | 0.0 |
| Dividends paid | | (56.4) | | (50.3) | | (46.9) |
| Balance, end of year | | 2,770.3 | | 3,188.7 | | 3,628.0 |
| **Accumulated other comprehensive income** | | | | | | |
| Balance, beginning of year | | 203.5 | | 184.8 | | 137.5 |
| Net gains on derivatives designated as cash flow hedges | | (18.9) | | (47.4) | | (33.3) |
| Net unrealized (losses) gains on available-for-sale financial assets | | 0.2 | | 0.1 | | 0.0 |
| Balance, end of year | | 184.8 | | 137.5 | | 104.2 |
| **Total equity attributable to parent** | $ | 3,502.8 | $ | 3,873.9 | $ | 4,279.9 |
| **Non-controlling interests in special purpose entitiy** | | | | | | |
| Balance, beginning of year | | 16.2 | | 28.4 | | 32.9 |
| Net income | | 0.4 | | 2.0 | | 4.3 |
| Distributions to non-controlling interest | | 11.8 | | 2.5 | | 0.2 |
| Balance, end of year | | 28.4 | | 32.9 | | 37.4 |
| **Total** | $ | 3,531.2 | $ | 3,906.8 | $ | 4,317.3 |

* The financial statements have been restated for the retrospective adoption of International Accounting Standard 19- Employee Benefit

Farm Credit Canada
Consolidated Statement of Cash Flows
2014-15 Corporate Plan

| Fiscal year ending March 31 ($millions) | | 2013 Actuals (restated)* | | 2014 Forecast | | 2015 Plan |
|---|---|---|---|---|---|---|
| **Operating activities** | | | | | | |
| Net Income | $ | 503.2 | $ | 468.7 | $ | 486.2 |
| Adjustments to determine net cash provided by (used in) operating activities: | | | | | | |
| Net interest income | | (861.4) | | (894.4) | | (935.1) |
| Provision for credit losses | | 38.1 | | 81.8 | | 91.2 |
| Fair value adjustment | | 0.0 | | (13.9) | | (11.5) |
| Gain on the sale of venture capital investment in associate | | (1.4) | | (5.7) | | 0.0 |
| Depreciation | | 1.0 | | 2.4 | | 5.9 |
| Other | | 1.0 | | 0.0 | | 0.0 |
| Net cash outflow from loans receivable | | (1,960.4) | | (1,110.6) | | (982.9) |
| Finance leases receivable | | (3.2) | | (3.4) | | (4.5) |
| Interest received | | 1,067.0 | | 1,167.8 | | 1,202.3 |
| Interest paid | | (257.9) | | (265.4) | | (274.8) |
| Changes in operating assets and liabilities | | 23.6 | | (4.6) | | 1.9 |
| Cash used in operating activities | | (1,425.6) | | (577.3) | | (421.3) |
| **Investing activities** | | | | | | |
| Net cash inflow (outflow) from temporary investments | | (80.8) | | (85.2) | | 0.0 |
| Acquisition of venture capital investments | | (17.1) | | (30.5) | | (35.5) |
| Proceeds on disposal of venture capital investments | | 1.4 | | 18.3 | | 27.2 |
| Capital purchases | | (18.8) | | (29.9) | | (30.5) |
| Purchase of equipment under operating leases | | (18.0) | | (22.1) | | (26.4) |
| Interest and dividends received | | 0.2 | | 0.0 | | 0.0 |
| Cash used in investing activities | | (133.1) | | (149.4) | | (65.2) |
| **Financing activities** | | | | | | |
| Change in long-term debt | | 1,699.8 | | 223.2 | | 898.0 |
| Change in short-term debt | | (71.6) | | 485.9 | | (364.6) |
| Dividends paid | | (56.4) | | (50.3) | | (46.9) |
| Cash provided by financing activities | | 1,571.8 | | 658.8 | | 486.5 |
| Change in cash and cash equivalents | | 13.1 | | (67.9) | | 0.0 |
| Cash and cash equivalents, beginning of year | | 904.2 | | 917.9 | | 850.0 |
| Effects of exchange rate changes on the balances of cash held and due in foreign currencies | | 0.6 | | 0.0 | | 0.0 |
| Cash and cash equivalents, end of year | $ | 917.9 | $ | 850.0 | $ | 850.0 |

* The financial statements have been restated for the retrospective adoption of International Accounting Standard 19- Employee Benefits.

## 6.3 Borrowing plan summary

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

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 borrowings outstanding will not exceed a maximum limit of $12.0 billion in 2014-15.

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 borrowings outstanding will not exceed a maximum limit of $20.0 billion in 2014-15.

c) Borrow short-term U.S. dollar financing from domestic money markets for match-funding U.S. dollar assets. Total short-term U.S. dollar borrowings outstanding will not exceed a maximum limit of $200 million in 2014-15.

Canadian dollar capital market borrowings will only be used if Crown Borrowing Framework borrowing is unavailable for a prolonged period, and will be subject to approval by the Minister of Finance.

Total short-term borrowing outstanding of $12.0 billion is required to meet 2014-15 financing needs.

Total medium- and long-term borrowing outstanding of $20.0 billion is required to meet 2014-15 financing needs.

# 7.0 Reference information

## 7.1 Products and services

FCC cares about its 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 primary producers in the agriculture industry. This includes industries such as crop production, greenhouse production, cattle, hogs, dairy and poultry. FCC employees build relationships with customers to ensure that the right combination of terms, security and payment schedules meet their customers 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. FCC employees offer customized financial solutions to agribusiness and agri-food customers on a foundation of service excellence, industry knowledge and trusted partnerships.

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

FCC provides loans and leases to customers at the point of sale through alliance relationships with crop input retailers, livestock marketers and equipment dealers. These convenient finance programs benefit our alliance partners and our customers.

### Ag Knowledge Exchange

FCC offers management training, information and learning to customers. Live event and online multimedia topics 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. In 2012-13, 12,960 people attended 160 Ag Knowledge Exchange events (previously called FCC Learning) and 24,230 people participated in 129 FCC partner programs.

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

FCC recently launched a series of online learning videos, audio podcasts and webinars to help Canadian producers expand their knowledge. In 2012-13, over 120,000 online clicks were recorded. The offering is available at www.fcc.ca/multimedia.

In 2012-13, the FCC Forum customer event series was held in 10 locations across Canada. These forums featured highly acclaimed speakers presenting on a "think inspiration" theme.

Every week, customers receive the latest news through the FCC Express – Canada's most-read agriculture e-newsletter according to a 2012 Ipsos Reid study. The Express is delivered at no cost to over 42,000 subscribers and customers each week.

Customers can learn more about farm management strategies by reading AgriSuccess, FCC's bimonthly publication. 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. Current software offerings include AgExpert Analyst, Field Manager PRO, Field Manager PRO 360 and Field Manager Commercial.

AgExpert Analyst allows customers to track income, 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 with access to their crop production data.

Field Manager PRO 360 is used to track field records and has geographic information system (GIS) capabilities. With Field Manager PRO 360, producers can access satellite imagery of their farms, do their own mapping and upload and use GIS files from their equipment.

With Field Manager Commercial, food processing companies, packing houses and agronomists can track and filter their producers data. The software saves time, increases reporting accuracy and creates auditable records. The electronic records provide proof of good agronomic practices, and agronomists can use them to gather and sort valuable producer information. As traceability requirements increase, Field Manager Commercial, Field Manager PRO and Field Manager PRO 360 can minimize tracking efforts by managing field records from planning to storage.

### FCC Insurance

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

### FCC Ventures

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

FCC venture capital financing is delivered through various limited partnership funds managed by Avrio Ventures (Avrio Fund I and Avrio Fund II).

These funds provide alternative financing arrangements to the agriculture industry in the form of subordinated debt, mezzanine and equity financing.

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

### FCC Online Services

Using FCC Online Services, customers can check their portfolios, request funds from their FCC Credit Line, locate branch offices, view local weather and review information on Canada’s agriculture sectors, financial market trends and farmland values.

## 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 Loan is a pre-approved, secured loan with the flexibility to re-advance funds for capital purchases at the borrower’s discretion.

**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.

**FCC Credit Line**
FCC Credit Line (previously called AdvancerPlus Loan) is a revolving, pre-approved loan that borrowers can access at any time for their day-to-day operating expenses.

**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**
The Spring Break Loan 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 manage their cash flow with deferred payments to get their operation up and running.

**Syndicated Loan**
The Syndicated Loan is a relatively large loan to a single borrower, structured by a lead manager (or managers) and the borrower. Funds are provided by a group of banks rather than a single lender.

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

**Young Farmer Loan**
The Young Farmer Loan is available to farmers under the age of 40 to help start or grow their businesses. Key features include no loan processing fees and special interest rates. FCC is making $1 billion of financing available through this product.

## Standard loans

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

**Fixed rates**
Fixed rates are set for the term of the loan and include a 10 per cent prepayment option.

**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 10 per cent at 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

**Agribusiness and agri-food**
Agribusiness and agri-food includes suppliers or processors who sell to, buy from and otherwise serve primary producers. These include equipment manufacturers and dealers, input providers, wholesalers, marketing firms and processors.

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

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

**Basel II**
Basel II is the second of the Basel Accords, which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision.

**Basis point**
A basis point is a unit that is equal to 1/100 of one per cent, and is used when describing applicable interest rates or the yield of an investment (1 bps = 0.01 per cent).

**Corporate social responsibility (CSR)**
CSR refers to a corporation's commitment to operate in an economically, socially and environmentally sustainable manner while recognizing the interests of its stakeholders, including investors, customers, employees, business partners, local communities, the environment and society at large, as defined by Canadian Business for Social Responsibility.

**Counterparty**
A counterparty is the other party involved in a financial transaction, typically another financial institution.

**Counterparty risk**
Counterparty risk is 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 credit rating is a classification of credit risk based on the investigation of a company's financial resources, prior payment pattern and history of responsibility for debts incurred.

**Crown Borrowing Framework**
A Crown Borrowing Framework is direct lending provided to the corporation by the federal government.

**Customer support program**
A customer support program is a program developed to proactively assist customers who may experience loan repayment difficulties during downturns in a particular segment of the agriculture industry. Individual plans can include deferred payments or flexible repayment schedules for defined periods of time.

**Debt-to-equity ratio**
The debt-to-equity ratio is the level of debt expressed as dollars of debt per one dollar of total equity, excluding accumulated other comprehensive income.

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

**Effective interest rate method**
An effective interest rate method is used to calculate the amortized cost of a financial asset or financial liability and allocate the interest income or interest expense over the relevant period.

**Efficiency ratio**
An efficiency ratio is a measure of how well resources are used to generate income calculated as administration expense as a percentage of revenue. Revenue is composed of net interest income, net insurance income and other income.

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

**Enterprise**
An enterprise is a specific type of agricultural operation (dairy, crops – grain and oilseeds, beef, etc.).

**Enterprise risk management (ERM)**
ERM is the enterprise-wide application of co-ordinated activities that direct and control an organization with respect to risk.

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

**Foreign exchange risk**
Foreign exchange risk is the risk of financial loss due to adverse movements in foreign currencies.

**Hedge**
A hedge is a risk management technique used to protect against adverse price, interest rate or foreign exchange movements by eliminating or reducing exposures, by establishing offsetting or risk-mitigating positions.

**Impaired loans**
Impaired loans are loans where, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan that is $500 or more in arrears for 90 days is classified as impaired unless the loan is sufficiently secured.

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

**Interest expense**
An interest expense is an expense to the corporation incurred on debt.

**Interest income**
Interest income is income earned on loans receivable, cash and investments.

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

**Leverage**
Leverage refers to the relationship between total liabilities and the equity of a business.

**Loan renewal rate**
A loan renewal rate is the percentage ratio of principal dollars renewed to principal dollars matured.

**Market value of portfolio equity (MVPE)**
MVPE is 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.

**Mezzanine financing**
Mezzanine financing is a hybrid of debt and equity financing that is typically used to finance the expansion of existing companies. Mezzanine financing is often debt capital that gives the lender the right to convert to an ownership equity interest if the loan is not paid off in time and in full.

**Net disbursements**
Net disbursements represent the release of funds against approved loans. They exclude the refinancing of existing FCC loans.

**Net interest income**
Net interest income is the difference between the interest earned on assets, such as loans and securities, and the interest expense on borrowings.

**Net interest income margin**
A net interest income margin is the net interest income expressed as a percentage of average total assets.

**Notional amount**
The notional amount is 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**
Other comprehensive income represents gains and losses due to changes in fair value that are recorded outside of net income in a section of shareholder's equity called accumulated other comprehensive income (AOCI).

**Prepayments**
Prepayments are unscheduled principal payments prior to interest term maturity.

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

**Provision for credit losses**
A 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)**
ROE is the net income attributable to the shareholder of the parent entity, expressed as a percentage of total average equity excluding accumulated other comprehensive income.

**Risk scoring and pricing system (RSPS)**
The risk scoring and pricing framework (RSPS) allows FCC to price loans based on customer profile. This initiative will enhance the current process tool.

**Special purpose entity**
A special purpose entity is an entity that the corporation has created for a narrow and well-defined objective for which it has rights to obtain the majority of the benefits and therefore may be exposed to risks incident to the activities of the special purpose entity.

**Subordinated debt**
A loan that ranks below other loans with respect to claims on assets or earnings in the case of default. Subordinated debt is often unsecured.

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

## 7.4 Office locations (as of December 31, 2013)

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

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

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

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

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

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

**New Brunswick**
Grand Falls, Moncton, Woodstock

**Newfoundland and Labrador**
Mount Pearl

**Nova Scotia**
Kentville, Truro

**Prince Edward Island**
Charlottetown, Summerside

**Corporate Office**
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Fax: 306-780-5167

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

**FCC Ventures**
1800 Hamilton Street, P.O. Box 4320
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**Customer toll-free number**
Extended hours: 1-888-332-3301

**FCC's venture capital investments are managed by:**

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## 7.5 Contacts

If you require more information about FCC's corporate plan or want to provide feedback, contact:

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