Operating budget | Capital budget | Borrowing plan

2015-16 to 2019-20

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.

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 over 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.

The corporate plan for the 2015-16 to 2019-20 planning period is an output of the strategic planning process that outlines the strategy that FCC will use to achieve its vision, mission and values. The FCC strategy has five areas of focus for the planning period:

- great customer relationships
- high-performance culture
- sustainable business success
- effective ERM
- operational efficiency

Great customer relationships are the primary reason that customers choose FCC and therefore it is the central element of the strategy.

FCC's high-performance culture is foundational to great customer relationships. FCC employees must work together to achieve great customer relationships and having a high-performance culture makes this possible.

These first two themes support the sustainable business success theme and keep FCC viable and relevant to customers. This in turn contributes to the success of FCC and Canada's agriculture industry.

Enterprise risk management (ERM) protects the great customer relationship and FCC. Having a strong risk management emphasis has matured and strengthened risk maturity within FCC and provides a solid foundation for moving forward to protect FCC, the industry and its customers.

Efforts in the operational efficiency theme help FCC afford great customer relationships. Ongoing focus on operational efficiency allows FCC to be lean in areas that do not impact the customer relationship and invest in areas that do. When efforts in all five themes are aligned, FCC achieves success.

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 87 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*
- CASL – Canada's new anti-spam legislation
- *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.

FCC recognizes that family farms are often multi-generational. Family farms grow their businesses not only for the benefit of the current operators but also for the benefit of future generations. FCC's goal is to be the preferred lender for those family farms from one generation to the next.

The corporation is profitable and financially self-sustaining, which enables it to create innovative products and services tailored to the long-term business needs of agriculture. FCC's offerings recognize that it can take time for agriculture operations to flourish. Products like the Start Now – Pay Later Loan (see section 7.2 for a list of FCC products), take a longer-term view, allowing the customer to defer repayment until their farm reaches its productive capacity.

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 and is committed to being a socially responsible corporation.

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

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 the Minister of Agriculture and Agri-Food's Statement of Priorities letter and described in the Economic Action Plan 2014: The Road to Balance.

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 corporation, FCC plays a critical role in filling financing gaps and helping to ensure that agricultural 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.

FCC continues to offer venture capital to meet the need for alternative financing in the agriculture industry. FCC invests in venture capital funds dedicated to agriculture. These funds are managed by Avrio Capital. Avrio is able to attract other investors to its funds and is also able to attract investors to join with it on particular investment opportunities. These funds provide financing in the form of subordinated debt as well as mezzanine and equity financing.

By providing venture capital, FCC increases the capital and expertise available to growing, innovative firms. Its arrangement with Avrio Capital attracts additional capital investment to the agriculture industry.

Marketplace competition and collaboration
In the Statement of Priorities, the Minister of Agriculture and Agri-Food indicated 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 agriculture knowledge which helps 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 have established a liaison committee to identify ways they can better work together. FCC continues to identify partnership opportunities through activities such as loan participation agreements, the provision of complementary services to producers and the development of mechanisms to facilitate co-operation at the local level. FCC makes all of its learning events available for free to all participants and attendance is open to FCC customers and customers of credit unions and banks.

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 program.

FCC believes that sound financial management is the key to running a successful operation. To help advance Canadian producers' business management skills, FCC continues to offer management workshops, learning forums, multimedia and publications as well as FCC management software. This will ensure that farmers of all ages can access the training, tools and information they need to succeed in the industry. 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. These resources are available to all Canadian farmers at no charge.

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 supports and invests in young farmers through its FCC On Campus program.

FCC's Agriculture More Than Ever (AMTE) program, a multi-year partnership to improve perceptions of agriculture in Canada, continues to build momentum. As of June 30, 2014, FCC was working with more than 300 industry partners to help consumers and industry stakeholders better understand and celebrate the agriculture industry's value and contribution to Canada's economy. This program is consistent with the Government of Canada's commitment to help the agriculture sector reach its full potential.

Collaboration with other federal departments

Government policy
FCC supports federal 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 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 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 exchange information on a range of topics important to the agriculture industry. FCC also worked with AAFC on a proactive response to the logistical challenges created by a backlog of grain due to a record harvest in 2013. Letters were sent to over 18,000 customers who may have had challenges in making their upcoming payments.

Other corporate commitments

Corporate office renovations
FCC does not own any of its offices. In early 2013, FCC initiated a plan to consolidate its corporate office. Once complete, all FCC corporate office staff will work out of two interconnected towers rather than three separate buildings. Renovations to the existing space are nearly complete. FCC's landlord is currently constructing a new tower adjacent to FCC's existing corporate office. Construction is expected to be completed in 2015. FCC will share space in the new tower with other tenants.

Employee pension and compensation
The Economic Action Plan 2014: The Road to Balance took steps to align employee pension plans offered by Crown corporations with those available to federal public service employees. This includes two objectives: to raise the normal age of retirement to 65 years for new hires from January 1, 2015, and to phase in a 50:50 cost-sharing ratio for employee and employer pension contributions for all members of all of its plans by December 31, 2017. FCC has now received the government's pension directive in this regard by Order in Council P.C. 2014-1377 dated December 10, 2014. FCC's average employee contribution will increase by 14 per cent beginning January 1, 2015. This is further to increases on January 1, 2014 and on January 1, 2013. Following the most recent increase, FCC's cost sharing ratio for employees in the defined benefit (DB) plan will be approximately 62:38. In 2009, FCC closed its DB pension plan to new employees.

The Board and FCC are committed to offering employees a compensation, benefits and pension package that is fair, competitive and sustainable over the long term. Attracting and retaining talent is critical to the success of every business. FCC reviews the complete compensation package annually and presents the results to the Human Resources Board Committee for approval. FCC's compensation team compares the corporation to a consistent group of public and private organizations comparable in size, geography, industry and sector. Total cash compensation includes base pay and pay-at-risk. FCC does not offer long-term incentives.

Risk management
FCC continues a disciplined approach to risk management and closely monitors loan and portfolio quality. In response to evolving risk management and operational practices in the financial services sector, FCC launched a three-year program to enhance select risk management practices through six major initiatives.

Advancements over the past year in the areas of governance, controls and compliance, combined with additional enhancements to risk-related technologies and systems planned for 2015-16, will continue to position FCC well for sustainable business success.

FCC's strong capital position, disciplined and evolving focus on risk management and commitment to efficient operations will support the delivery of its mandate and Canadian agriculture in the short- and long-term.

Remaining profitable and self-sustaining
FCC is 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 carefully balances 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 serve Canadian agriculture in the future.

3.0 | Corporate profile

FCC reports to Parliament through the Minister of Agriculture and Agri-Food. FCC provides financing and other services to more than 100,000 customers[2]. Operating from more than 100 offices located primarily in rural communities, its more than 1,700 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 to 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 FCC 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 FCC on FCC's website.

Corporate social responsibility

FCC takes corporate social responsibility (CSR) seriously. It is part of FCC's values and it guides how FCC operates. In 2013-14, FCC released its third annual CSR report, which is available under About FCC on FCC's website.

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 FCC on FCC's website.

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

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 Crown 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 FCC 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. This meeting is held in conjunction with the corporation's annual public meeting, which 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.

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 for the corporation's day-to-day operations. 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 that are available on request. These documents articulate the Board's responsibility in six major areas:

- corporate governance
- financial reporting and public disclosure
- government relations and CSR
- integrity – legal and ethical conduct
- leadership development
- strategic planning and risk management

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

Audit Committee members are independent of management. The committee is financially literate and is led by the chair who is considered a financial expert.

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

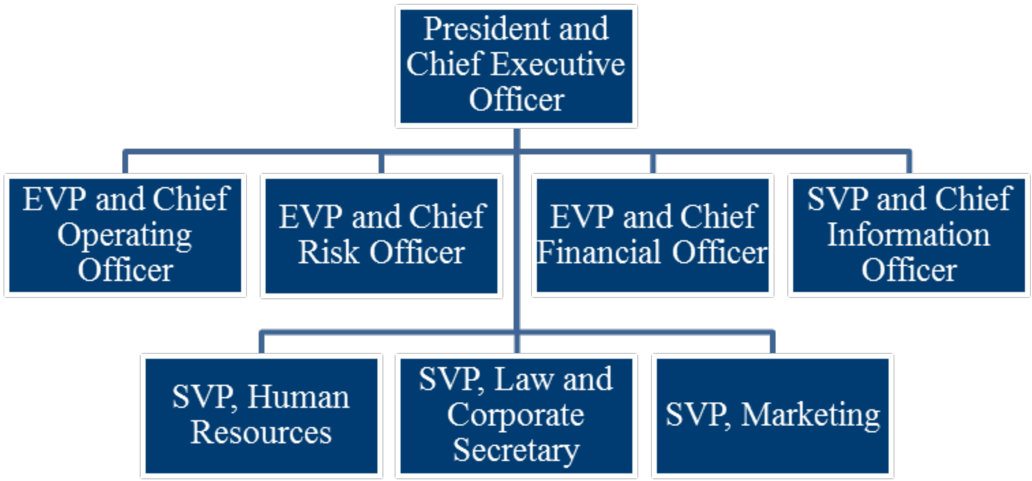
The **Corporate Governance Committee** reviews and makes recommendations to the Board with respect to sound governance practices. It oversees FCC's strategic planning process and CSR program. It also acts as the Board's nominating committee.

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 the corporation's compensation structure, pension plans, succession plan, corporate learning programs for employees and executive perquisites program. The committee also provides support to the President and CEO's selection, goal setting and performance reviews.

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.

EMT is responsible for corporate decision-making, including the strategic vision, investment strategy, allocation of enterprise resources and resolution of major strategic issues. Full biographies are available under About FCC on FCC's website.

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 the following committees, to guide corporate decision-making.

The **Asset Liability Committee** (ALCO) directs and executes 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 **Credit Committee** assesses the credit risk on loan applications from larger customers to ensure that 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 **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 oversees the management of corporate risks, which includes providing input on the corporate risk appetite and tolerances, and risk policies and practices. The committee provides recommendations and information to the CRO, the Board's Risk Committee and the Board.

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 Steering 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 the pricing of loans. 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.

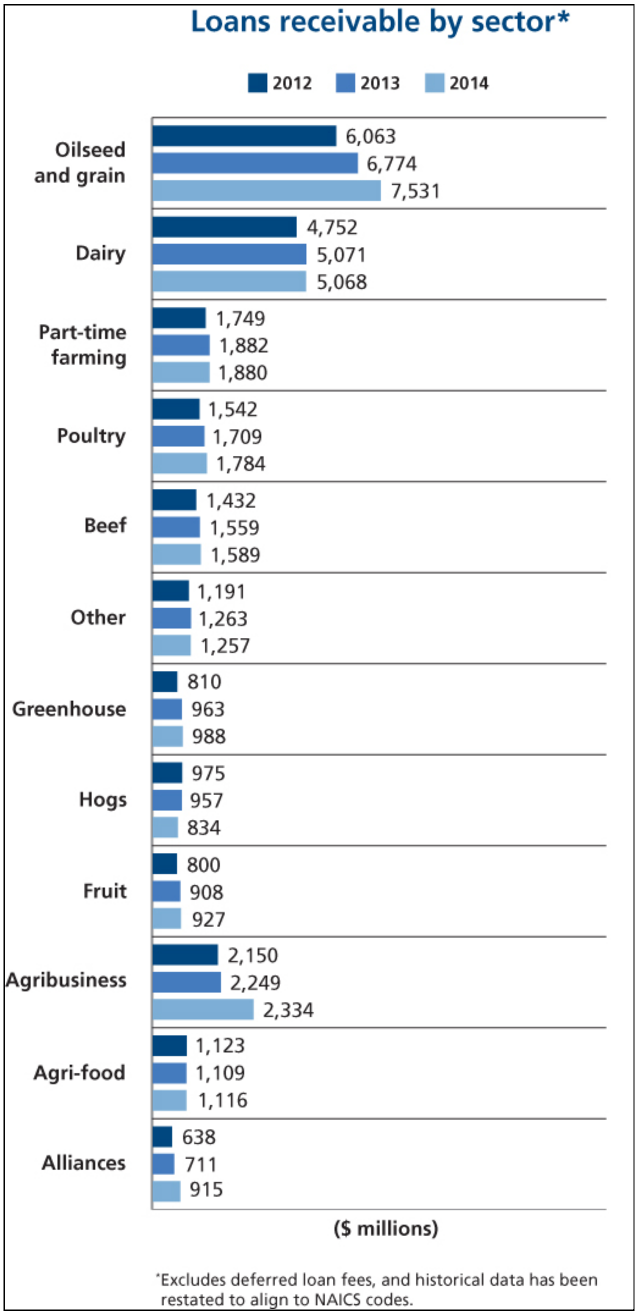
The **Strategy Execution Team** (SET) approves corporate projects that enable the execution of the business strategy. There are five portfolio committees reporting to SET to help prioritize corporate actions: the Enterprise Services Portfolio Committee, the Lending Services Portfolio Committee, the Stakeholder Management Portfolio Committee, the Risk Services Portfolio Committee and the Information and Technology Portfolio Committee.

The **Venture Capital Investment Committee** approves capital commitments to venture capital fund managers and monitors the performance of FCC's venture capital portfolio.

3.5 FCC loan portfolio

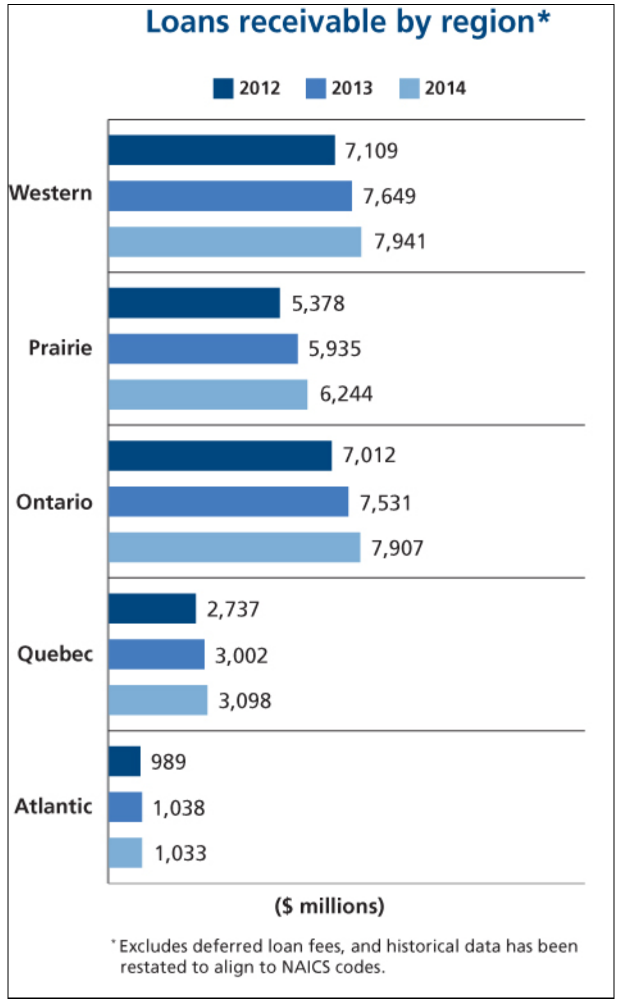
Portfolio by sector

FCC lends to all agriculture sectors. This diversifies FCC's lending portfolio and reduces sector-specific risks. These practices focus on FCC's 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, crop input financing programs and independent financing institutions. Nationally, the main lenders are FCC, the chartered banks and credit unions.

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

- 29 domestic banks (including six major chartered banks)
- 54 foreign bank branches and subsidiaries
- 44 trust companies
- 76 life insurance companies
- 348 credit unions and caisses populaires outside of Quebec

Provincial government Crown corporations or agencies that serve agriculture include:

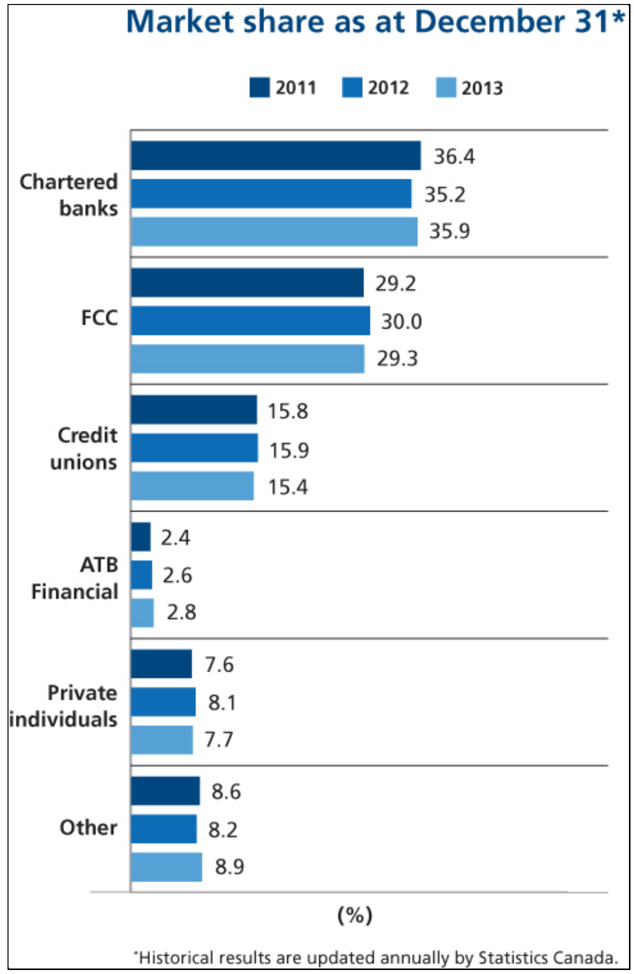
- ATB Financial
- Agriculture Financial Services Corporation
- La Financière agricole du Québec
- Manitoba Agricultural Services Corporation
- Nova Scotia Farm Loan Board
- P.E.I. Lending Agency

Market share

According to Statistics Canada, farm debt outstanding increased by 7.3 per cent to $77.98 billion in 2013. FCC's market share decreased by 0.7 percentage points to 29.3 per cent. FCC's portion of Canada's outstanding farm debt at $22.81 billion remained second only to the chartered banks at $27.99 billion.

Despite the slight decrease in market share, FCC's first since 2001, the corporation grew its lending portfolio by over $1 billion in 2013.

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 | Market forces and global trends

FCC studies market forces and global trends in the agriculture and finance industries and monitors developments in the areas of long-term trends in agriculture and finance, world economy, industry overview and the agriculture outlook.

Analyzing these trends helps FCC determine which strategies will best position it for success in the future and are inputs for the 2015-16 to 2019-20 Corporate Plan strategies. Executing these strategies will ensure FCC remains financially stable, strong and able to serve the agriculture industry into the future.

Long-term trends in agriculture and finance

A number of trends with implications for agriculture and finance have begun to unfold in each of the following five categories monitored by FCC:

- In *economics, business and trade*, business ecosystems are changing the dynamics of business relationships. A business ecosystem is a community of producers, customers, competitors and other stakeholders that operate collaboratively in an interdependent relationship. Networks and business ecosystems are likely to become increasingly significant in both the agriculture and finance sectors. In the process, business relationships among the stakeholders will become increasingly complex, presenting increased potential for collaboration and partnership, as well as competition as information is shared among partners and transparency increases.
- In *environment and natural resources*, the agriculture industry will continue to be under pressure to reduce its environmental impact and optimize its use of manufactured inputs and natural resources. The new focus for the agriculture industry has been described as "sustainable intensification" implying the need for sustainable farming systems, increasing product output while using fewer resources. We are likely witnessing a movement toward international standards for sustainable farming practices. Compliance will be important to ensure access to foreign agricultural markets. Weather extremes and water issues continue to disrupt and constrain agriculture production. The availability of water and the ability to maximize water use, as through recycling and drip irrigation, will be significant to the future of the agriculture industry.
- In *governance, policy and regulation*, shifts in power and influence are occurring. Internet and social media have strengthened the ability of consumers to organize and challenge the behaviour of large corporations. Consumers are increasingly capable of influencing retailers, processors and manufacturers by mobilizing consumer boycotts and public pressure. This in part, has influenced value chain leaders like Walmart, Unilever and PepsiCo to introduce programs that seek to improve the environmental sustainability of their growers' farming practices. FCC customers will need to become increasingly responsive to this growing consumer orientation and its sustainability focus.
- In *science and technology*, internet connectivity and machine intelligence are gathering momentum. Combined with agriculture analytics, these trends could provide the basis for the next leap in agri-food productivity. In the finance sector, we can expect that more analysis and decision-making will be done by machines and the workforce will change accordingly. The timely mining of customer data will enable organizations to anticipate needs and deliver timely, tailored customer solutions to the next generation customer.

- In society and demographics, the millennial generation will comprise about 40 per cent of the workforce by 2020 and 75 per cent of the workforce by 2025. The accompanying change in values and expectations will place new emphasis on sustainability, collaboration, community, connectivity, personalization and co-creation. These expectations will include a focus on how food is produced, including the care and treatment of livestock and the environmental practices of farming operations. Should FCC be perceived as an enabler of unsustainable practices, there could be a significant negative impact on its reputation. We can expect that employees, customers, and stakeholders will be drawn to companies, products and causes reflecting these values.

The implications of these trends are likely to be far reaching, prompting a rethink of business models; management and production practices; customer, competitor and stakeholder relationships; organizational structure; operating models; workforce design and the employee contract. These implications can be expected to play out in both the agriculture and finance sectors.

World economy

The world economy continues to improve. The Bank of Canada predicts broad-based improvement in the growth rates for the world economy in 2015 and 2016. World gross domestic product (GDP) is expected to increase to 3.7 per cent in 2015 and 2016 compared to 3.3 per cent in 2014.[3] A strengthening world economy should remain supportive of the growth in demand for food.

The Bank of Canada predicts that developed economies will gain strength. The Euro area is predicted to grow more quickly in both 2015 and 2016, although growth rates will remain below two per cent. Canada stands to benefit from a return to growth in the Euro area, particularly once the Comprehensive Economic Trade Agreement (CETA) is ratified and implemented.

In contrast to Europe, the Japanese economy will slow as the effects of its aggressive monetary and fiscal policy is expected to start wearing off. Trade policy reforms potentially could boost Japanese GDP growth to above the predicted levels if trade negotiations come to fruition. Gaining further access to the Japanese market through the Trans Pacific Partnership would benefit Canadian hog and cattle producers.

In China, economic growth is expected to continue to slow during the ongoing transition from an investment-led growth model toward consumption. Increased consumer spending should have a positive impact on the demand for agricultural products. As the economy depends more heavily on consumer spending, the demand for agricultural products should rise as the demand for high-value foods increases. China is a major destination for Canadian agriculture and agri-food exports, second only to the United States after surpassing Japan in 2012.[4]

The Bank of Canada expects economic growth in the United States to pick up for a number of reasons. The drag of fiscal consolidation will continue to be reduced over the next two years, prompting real GDP to increase 3.2 per cent in 2015, and a still strong 3.0 per cent in 2016. Consumers have reduced debt loads relative to disposable income since 2008. This allows U.S. consumers to increase spending as confidence in the economy recovers. The Federal Reserve stopped purchasing mortgage-backed and longer-term treasury securities, but has kept the degree of monetary stimulus unchanged. A majority of the committee overseeing U.S.

[3] Bank of Canada, Monetary Policy Report (April 2014)

[4] Industry Canada website, Trade Data Online tool, NAICS codes 111, 112, 311, 312.https://www.ic.gc.ca/eic/site/tdo-dcd.nsf/eng/home (accessed 23 June 2014)

monetary policy believes the appropriate timing for the first increase in the overnight rate is not until sometime in 2015. In 2016, the same committee members believe that the benchmark rate will remain between two to three per cent[5], still in an accommodative stance. The Federal Reserve policy should allow the U.S. economy to grow substantially.

A strengthening U.S. economy will also benefit Canadian economic growth. The Canadian economy is expected to grow at a slower rate than its American counterpart at 2.5 and 2.2 per cent in 2015 and 2016, respectively.[6] The Bank of Canada expects exports to grow, which in turn should stimulate business investment. These two factors are expected to contribute to GDP growth in the next two years. The Canadian economy fared well through the recession of 2008 and the following years. However, unemployment remains high in some regions, and high consumer debt levels limit potential growth in spending.

Although interest rates are expected to remain low in Canada, most observers predict that the Bank of Canada's key interest rate will increase slightly sometime in 2015. The overnight rate has not changed since September 2010. Over the next five years, the overall level of interest rates is expected to increase slowly, although it will remain low by historical standards.

While current interest rates remain low, increases in interest rates will have an outsized impact compared to the past on a percentage basis. Given the current low rate environment, the future increase in interest rates does not have to be large to have a sizable impact on interest payments. An increase of 200 basis points would almost always increase debt servicing expenses by more than 50 percent. The initial interest rate is important to understand the burden of higher interest rates. Rising interest rates in tandem with changing agricultural fundamentals will affect both asset values and the potential market for FCC.

A sluggish Canadian outlook combined with a strong expansion in the U.S. has resulted in a lower Canadian dollar relative the U.S. currency. Given Canada's leading status as an agricultural exporting country, the softness in the Canadian dollar should benefit the agriculture industry overall, as well as food manufacturers.

A lower price for oil driven by the expansion of U.S. oil production capacity has brought down further the value of the Canadian dollar. Given lower oil prices seem to be mostly driven by larger oil supplies, the agriculture sector could benefit from the situation if it persists.

Industry overview

FCC lends to all sectors within agriculture, which are influenced by a variety of factors such as world population and economic growth, food preferences of domestic consumers, commodity prices, exchange rates and interest rates.

Demographics throughout the world are changing. In 2012, the global population reached seven billion. The United Nations projects that it will surpass nine billion by 2050. Population growth in developing countries is expected to far exceed that of developed countries. The population is growing significantly in developing countries and aging in Western nations. As incomes in developing countries rise, it is expected that their diets will shift toward more meat and dairy products. In developed nations, scrutiny and focus are being placed on food production, including nutrition, land and water use, environmental sustainability and animal welfare. Consumer attention is also increasingly directed toward nutritional concerns and local food production systems.

While feeding a growing population with the planet's limited resources is a challenge, it also

[5] Federal Reserve website. Economic Projections Federal Reserve Board Members and Federal Reserve Bank Presidents, June 2014.http://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20140618.pdf (accessed 23 June 2014)
[6] Bank of Canada, Monetary Policy Report (April 2014)

creates many opportunities for Canadian agriculture and agri-food industries. Emerging opportunities include but are not limited to those in bio-based products, health foods and ethnic markets.

Several factors will affect Canadian agriculture and FCC over the next five years. A continued slow economic expansion globally will keep interest rates below their pre-recession levels in Canada and other developed countries. This will help Canadian agricultural producers service their farm debt, which reached a record $78 billion in 2013. A strengthening U.S. economy will help Canadian food processors expand their production. The grains and oilseeds sector will face tighter margins than the average of the past five years, while the cattle and hog sectors will slowly expand, and enjoy profitable years.

Agriculture outlook

Private and public investments represent a large share of China's GDP compared to western countries. The Chinese economy will mature and consumption expenditures will gain a larger share of GDP. Combined with a strengthening U.S. economy, these developments should be supportive of a strong agricultural economy. Recent strong profitability in the grains and oilseed sector has provided incentive to producers around the world to increase production. Similarly, several years of low returns in livestock production had the effect of reducing the size of the cattle and hog herds in North America.

Overall demand for agricultural products is expected to continue to climb. The U.S. Department of Agriculture predicts world wheat exports to increase from 150 to 164 million metric tonnes (mmt) from 2014-15 to 2019-20. Similarly, total soybean exports are predicted to increase by 27 per cent from 111.6 mmt to 131.5 mmt, of which China is expected to account for 97 per cent of the growth in soybean demand.[7] Even with its slowing economic growth rate, China remains a major growth area for agriculture.

The grains and oilseed sector experienced generally increasing prices from 2008-09 to 2012-13. Part of this was due to below average corn yields in the United States for the 2011-12 and 2012-13 crop years that cut world stocks. This had the effect of providing an incentive for producers around the world to increase production, and they responded. The world harvested area of corn increased 20 per cent from the 2008-09 to 2014-15 crop year.[8] Assuming normal growing conditions, grain and oilseed prices will likely be lower for the period 2015 to 2019 than the previous five years.[9] This holds true across a broad spectrum of commodities, including corn, soybeans, wheat, canola and lentils. Reduced prices will lead to tighter margins for grains and oilseed operations across Canada.

Lower grains and oilseed profitability will slow the upward pressures on Canadian farmland values; however, low interest rates will soften the impacts, as it will give time for producers to adjust their business plans to lower crop receipts, avoiding a large decline in farmland values. Interest rates will eventually rise, perhaps by the middle of 2015. This sequence of events (tighter margins in the short term and higher interest rates in the long term) is likely to lead to a much softer farmland market over the next five years. The combination of a weaker grain and oilseed sector and softer farm land market may also lower the interest of non-farmer investment corporations for farmland. The long-term prospect of higher interest rates may lower the appeal of farmland for non-traditional investors. Lower profitability in the crop sector may also reduce farm equipment

[7] United States Department of Agriculture, USDA Agricultural Projections to 2023, February 2014

[8] United States Department of Agriculture, Foreign Agricultural Service, Production Supply and Distribution Online. http://apps.fas.usda.gov/psdonline/psdQuery.aspx (Accessed Online: 25 June 2014)

[9] Agriculture and Agri-Food Canada, Medium Term Outlook for Canadian Agriculture, 2014

sales, but they are likely to remain high by historical standards.

While grain and oilseed producers experienced strong profitability from 2007 to 2013, cattle and hog producers faced a number of challenges: low livestock prices, rising feed costs, trade barriers and disease. The hog and cattle industries both hold growth opportunities for Canadian agricultural producers and represent an opportunity for FCC to help finance this expansion.

World beef trade is projected by the Organisation for Economic Co-operation and Development to increase by 11 per cent from 2014 to 2019.[10] At the same time, Canadian beef exports are projected to increase by less than eight per cent, capturing a smaller overall share of the export market. Over that same time period, Agriculture and Agri-Food Canada predicts an eight per cent increase in the beef herd, which will start to rebuild from a decade of decline. The reduction in cattle stocks in North America has led to higher prices and, in combination with lower feed costs, points to increased profitability in the sector over the next five years, although lower than the highs reached in 2014. As the beef industry expands and upgrades its equipment, there may be increased financing opportunities in this sector.

In 2014, pork producers experienced record profitability, due to reduced North American supply caused by Porcine Epidemic Diarrhea virus primarily in the United States. Margins are expected to tighten more quickly in the hog sector than the cattle sector as it is more responsive to changes in demand than the beef sector due to the tighter biological cycle. Hog prices are expected to trend upward to 2019, keeping margins positive for the sector. Even with sustained profitability, Agriculture and Agri-Food Canada expects the hog herd in Canada to expand less than one-half of one per cent through to 2019. While this may limit expansion in financing opportunities, the expectation of updating of housing requirements may fuel additional financing opportunities in the industry as producers upgrade facilities to meet new codes of practice.

Canadian supply-managed producers (dairy, poultry and eggs) may face additional challenges and opportunities through to 2019. Increased imports of dairy products, particularly cheese, through the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) will be phased in over several years, lessening the impact on primary dairy producers. Canada will continue to advance the interests of the Canadian agriculture sector in other negotiations such as the Trans Pacific Partnership (TPP). Potential impacts are not known at this point as negotiations are ongoing.

Agriculture and Agri-Food Canada predicts that Canadian chicken production will increase by 7.6 per cent from 2014 to 2019, and that live chicken prices will increase nine per cent. The projected increase in poultry production is due to the positive influence of Canadian demographic trends, notably immigration and population ageing. Egg production is expected to increase 6.5 per cent, along with a 7.5 per cent increase in farm gate prices.[11] Milk production is expected to increase 3.0 per cent from 2014 to 2019, with prices increasing 6.7 per cent. Dairy, poultry and egg producers are expected to remain profitable due to the supply-management system. Trade negotiations may impact profitability and growth in supply-managed sectors which could potentially affect revenue and lending growth for FCC.

Total sales of greenhouse products have been slowly trending upward since 2008[12], as has total greenhouse area.[13] Those trends should

[10] Organisation for Economic Co-operation and Development, OECD-FAO Outlook 2014-2023.

[11] Agriculture and Agri-Food Canada, Medium Term Outlook for Canadian Agriculture, 2014

[12] Statistics Canada. Table 001-0051- Total Value of Greenhouse Products annual (dollars). CANSIM database.

[13] Statistics Canada. Table 001-0046- Estimates of greenhouse total area and months of operation. CANSIM database.

continue as the North American demand for year-round access to fresh vegetables is expected to continue to grow. The market share of greenhouse-grown vegetables continues to increase against field-grown alternatives.[14] Several Canadian greenhouse operators have been considering expansion into the United States to diversify their operations and mitigate risk.

Agribusiness enterprises predominantly provide inputs to primary producers. They often import or produce goods and services for sale to primary producers. Given the expected reduced profitability of the grains and oilseed sector, agribusiness sales are expected to experience a slowdown. A reduction in agricultural equipment sales could occur as grain and oilseed producers reduce new equipment purchases toward the average pace of 2009-13 of approximately 24,700 tractors and 2,800 combines annually. This would be a reduction of nine per cent from 2013 levels. Equipment sales will largely depend on the profitability of the grains and oilseed sector. The impact on FCC is not clear, as the need for financing could increase if primary producers reduce down payments on equipment and cash purchases, offsetting some of the decline in overall sales.

In contrast, agri-food operations purchase and process the output of primary producers. They include flour mills, crushing facilities, rendering plants, bakeries and processing facilities. These operations may experience increased opportunity if input costs decline. This is expected to be the case for grains and oilseeds. Conversely, meat processing plants have seen their input costs go up as livestock prices climbed considerably. Evidence suggests they have been able to pass on higher costs downstream to retailers and consumers.

[14] 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)

Increasing productivity, investing in equipment, the exchange rate and achieving economies of scale are all factors that will determine future expansion in this sector.[15] FCC can expect that as facilities modernize and increase output to achieve the scale needed to compete, financing opportunities will continue to occur. The evolution of Canadian food preferences toward healthier foods as well as technology and innovation will provide Canadian food manufacturers with opportunities to serve niche markets that can be highly lucrative.

Farm debt

Total Canadian farm debt reached $78 billion in 2013, a 7.3 per cent increase from 2012.[16] Debt has steadily increased since 2000 at an average annual rate of 5.6 per cent (nominal dollars), 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 13.7 per cent in 2013.[17] The current environment of low financing costs helps farm businesses invest to capture economies of scale and increase productivity and efficiency.

The appreciation in farm capital has primarily been driven by increases in farmland values. The average value of Canadian farmland increased 22 per cent in 2013, following an average increase of 20 per cent in 2012 (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. However, since crop prices are expected to decline, the

[15] The Canadian Agri-Food Policy Institute. Tacking the Sector from Trade Deficits to a Competitive Resurgence. June 2014, http://www.capi-icpa.ca/pubs.html (Accessed Online: 24 June 2014)

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

[17] Statistics Canada. Table 002-0007- Value of Farm Capital, at July 1. CANSIM database.

pace of land value increases is projected to slow down. Lower crop income, combined with slowly increasing interest rates, is likely to lead to a steady farmland market over the next five years. Muted growth in the value of farmland will reduce the growth rate of the farmland debt market, reducing potential market opportunities for FCC.

Overall, the accumulation of farm debt is expected to slow slightly over the next five years in line with the long-term average of 4.5 per cent. This slowdown is the net impact resulting from reduced profitability in the crop sector, slower appreciation of farm land, increased investment in cattle and hogs and slowly increasing interest rates.

Summary

Overall, the outlook for the agriculture industry in Canada is positive, with potential growth of the beef and pork sectors and continued profitability in the grains and oilseed sector, although at lower levels. While the supply-managed sectors are expected to remain profitable, they may need to adjust to the potential impacts of trade agreements. FCC will continue to monitor market trends and global forces and will keep these top of mind when executing the strategy.

4.1 2014-15 planned performance and expected results

4.1.1 Summary of results – 2014-15 corporate scorecard

The following page summarizes the corporate measures, plan targets and projected results for the 2014-15 fiscal year (as of September 30, 2014).

Sustainable business success

Measures	2014-15 Plan targets	2014-15 Projected results
Net income	$490.5 million	Ahead
Return on equity (ROE)	12.2%	On track
Capital adequacy measure	Greater than or equal to 100%	On track
Ag media favourability	Greater than or equal to global media favourability score	Ahead
Percentage of customer count in small- and medium-sized segments	> 90%	Results not available until March 2015
Young farmer lending	$2.06 billion	On track
Media favourability index	7 points above global average for financial institutions	Ahead

Great customer relationships

Measures	2014-15 Plan targets	2014-15 Projected results
Easy to do business CEI measure	62.0%	Ahead
Customer Experience Index (CEI)	61.5%	Ahead

Effective ERM

Measures	2014-15 Plan targets	2014-15 Projected results
ERM maturity measure	3.4	On track

Operational efficiency

Measures	2014-15 Plan targets	2014-15 Projected results
Efficiency ratio	39.9%	Ahead
Employee engagement index - easy to do business	Greater than the average of the 50 Best Employers	Data to project results is not available until December 2014

High-performance culture

Measures	2014-15 Plan targets	2014-15 Projected results
Leadership index – subset of employee engagement survey data with respect to leadership indicators	Greater than the average of the 50 Best Employers	Data to project results is not available until December 2014
Employee engagement	Greater than the average of the 50 Best Employers	Data to project results is not available until December 2014
Employee engagement index – employee experience indicators	Greater than the average of the 50 Best Employers	Data to project results is not available until December 2014
Diversity measure	Hire a net of 5 diversity candidates	Results not available until April 2015

4.1.2 Operational and financial highlights

For the years ending March 31

Operational	2014	2013	2012
Loans receivable portfolio			
Number of loans	149,130	147,696	126,496
Loans receivable ($ millions)	26,204.9	25,133.3	23,202.3
Net portfolio growth (per cent)	4.3	8.3	8.4
Impaired loans as a percentage of loans receivable (per cent)	1.2	1.3	1.2
New lending			
Number of loans disbursed	46,288	47,046	45,578
Net disbursements ($ millions)	7,694.6	7,746.2	7,114.8
Average size of loans disbursed ($)	163,649	162,406	156,150

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

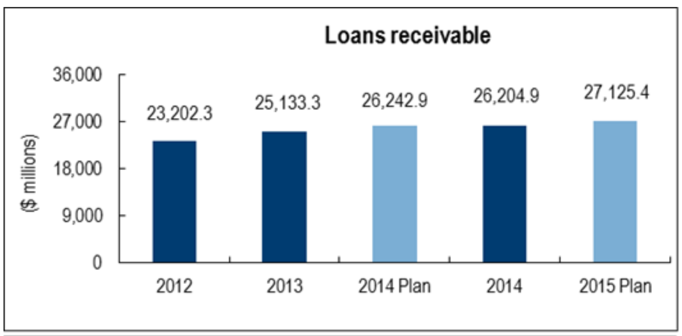
* The historical data has been restated due to prior period adjustments.

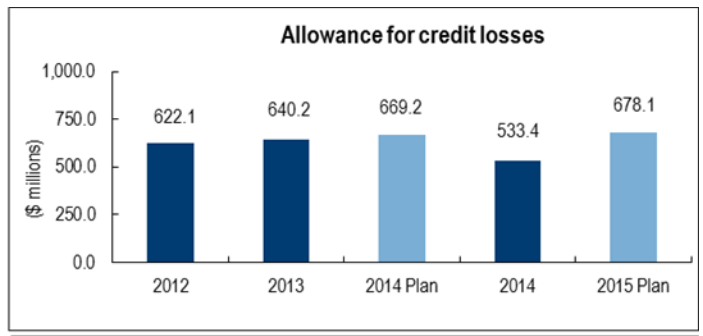
Key results

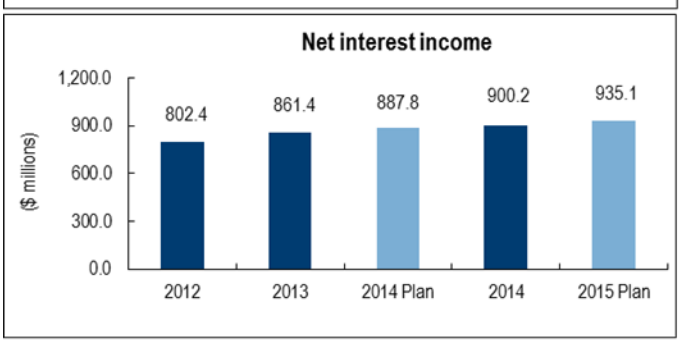
In 2013-14, economic conditions improved across the developed world, including Canada. Farm asset values continued to increase due to rising land values driven by a robust agriculture economy, growing world food demand and strong commodity prices. As the demand for agriculture and agri-food products evolves, Canadian agriculture must adapt to take advantage of opportunities and remain competitive. FCC continued to provide customers with flexible and customized financial solutions, knowledge and expertise to help them succeed. FCC's commitment to advancing the business of agriculture ensured that the corporation remained financially strong. In 2013-14, growth in loans receivable was $1.1 billion or 4.3 per cent. Growth in 2013-14 was down from 2012-13 due to slightly lower net disbursements and higher loan repayments.

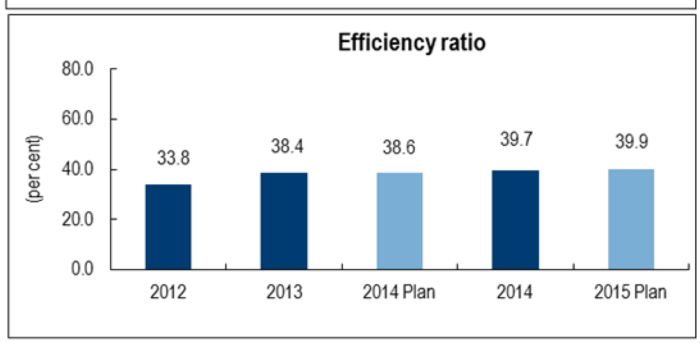
The number of loans disbursed was 46,288 in 2013-14 and the average size of the loans disbursed was $163,649, resulting in net disbursements of $7.7 billion. Net interest income increased by $38.8 million and equity continues to grow with corporate earnings. As the financial results indicate, FCC continues to build a strong financial foundation, which helps fund investment and growth in the industry.

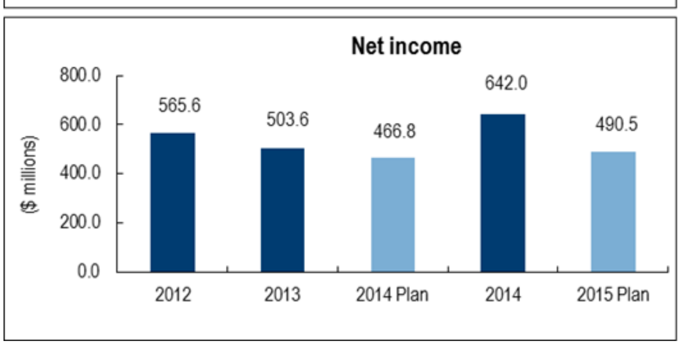
- In 2013-14, portfolio growth was below the plan by $38.0 million and represented growth of 4.3 per cent over 2012-13.
- The allowance for credit losses was lower than the plan at $533.4 million, mainly due to an overall improvement in portfolio health.
- Net interest income was $12.4 million higher than plan, increasing to $900.2 million due to the higher average outstanding lending volume and a higher than plan net interest margin.
- The 2013-14 efficiency ratio of 39.7 per cent was higher than plan mainly due to the impact of Enterprise Risk Management program costs and expense re-classification which are not reflected in the plan. Excluding these impacts, the plan was exceeded.
- Net income was $175.2 million above plan, mainly due to lower than plan provision for credit losses and higher than plan net interest income and fair value adjustment. This was partially offset by higher than plan administration expenses, which included additional costs for the Enhanced Risk Management program, which were not reflected in the plan.
- Return on equity exceeded the plan due to the higher than plan net income.

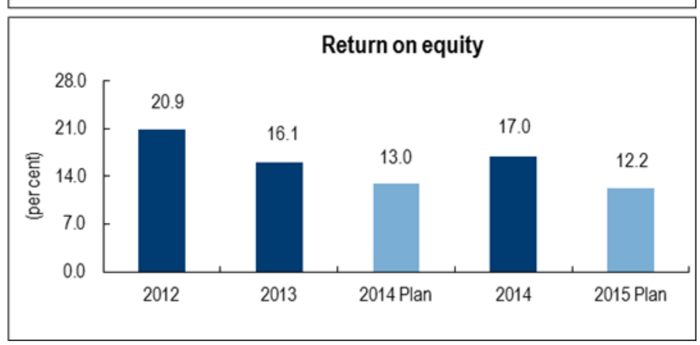












5.0 | Strategic themes, objectives and performance measures

5.1 Strategic planning process

FCC's strategic planning process engages the FCC Board of Directors, Executive Management team (EMT) 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 which are incorporated in the team and employee objectives that are used to evaluate performance annually.

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. EMT and SLT then look 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.

FCC uses 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 protects the customer relationship. The operational efficiency theme 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 plan 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 plan targets, followed by action plans that will be implemented and monitored through the corporate scorecard.

5.2 Enterprise risk management (ERM)

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.

FCC is augmenting its business as usual and incremental ERM efforts through a comprehensive ERM program. Through the program, FCC has enhanced its risk governance and oversight, ERM framework, credit risk management practices, and is continuing work on capital management and stress-testing.

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 defence owns and manages the risk within a set of Board-approved risk appetite statements and prescribed tolerances. 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 to provide oversight and effective challenge to the risk-taking decisions of the first line. It is responsible for independently developing, co-ordinating, 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 EMT and the Board.

The third line of defence reviews and provides independent assurance of risk management practices and the effectiveness of internal controls. At FCC, the Internal Audit function represents 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.

FCC's risk governance structure

Annually, the Board reviews and approves a risk appetite statement that establishes the amount of risk the corporation is willing to take, accept and avoid. 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.

In addition to the annual review and approval of the risk appetite statement, the Board reviews and approves 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 Chief Risk Officer (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 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. The entire credit portfolio is assessed monthly, and reports pertaining to the portfolio's health are submitted to the ERM Committee and EMT.

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.

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.

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.

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 key risk areas, such as access to and use of confidential customer information and documentation requirements. Other key components of managing operational risk are FCC's operational risk management framework, fraud policy, business continuity plan and enterprise security program.

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

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.

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.

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

The ERM Committee assesses strategic risks annually with risk treatment plans developed for high-priority risks and reported to the Board.

Within FCC's risk appetite, 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.

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.

FCC's CSR framework is comprised of 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.

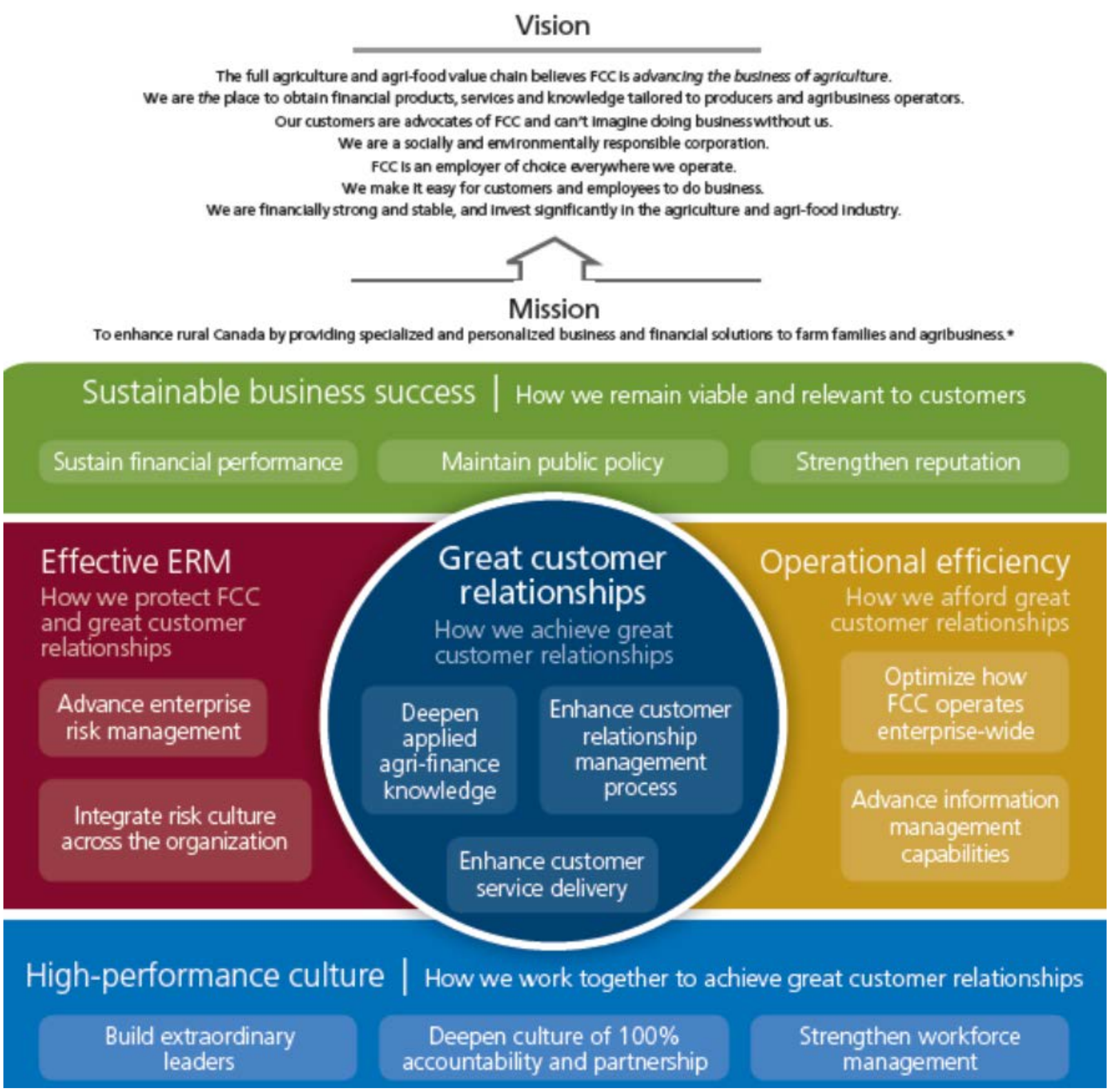
Employees

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	2015-16 plan	2016-17 plan	2017-18 plan	2018-19 plan	2019-20 plan
Sustain financial performance	Net income	$537.9 million	$531.1 million	$565.9 million	$603.6 million	$654.7 million
	Return on equity	10.5%	9.5%	9.3%	9.0%	9.0%
	Capital adequacy measure	Total capital ratio greater than or equal to 15%	Total capital ratio greater than or equal to 15%	Total capital ratio greater than or equal to 15%	Total capital ratio greater than or equal to 15%	Total capital ratio greater than or equal to 15%
	Continue to focus on expense management					
	Implement final phase of capital management framework					
	Evaluate and enhance loan pricing processes					
Maintain public policy	Percentage of customer count in small- and medium-sized segments	> 90%	> 90%	> 90%	> 90%	> 90%
	Young farmer lending	$2.35 billion	$2.45 billion	$2.55 billion	$2.66 billion	$2.78 billion
	Encourage and create positive dialogue about Canadian agriculture in partnership with industry stakeholders					
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)					
	Develop and execute a strategy to create and sustain relationships with Cu's and FI's					

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. The corporation is a trusted partner that acts as a catalyst for bringing industry partners together to make Canadian agriculture stronger. 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 15 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 of the business environment and its ability 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 21 years which has allowed the organization to fund its 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.

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.

Continue to focus on expense management and control
Efficiency continues to be a corporate priority for FCC. In 2015-16, FCC will continue to conduct itself in a manner that is mindful of the federal government's climate of fiscal constraint.

FCC has a healthy portfolio of more than $26 billion and 21 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.

Implement final phase of 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, risk appetite statement and risk management policies, which are approved by the Board annually.

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. Under this project in 2015-16, FCC plans to:

- continue to move towards Internal Capital Adequacy Assessment Process (ICAAP) with a phased implementation addressing key items, including stress testing
- define how FCC uses capital measurement in business to enhance decision-making and performance

Evaluate and enhance loan pricing processes
Agricultural financing is a very competitive market. FCC is being challenged to maintain the margins needed to fund continued growth, sustain long term profitability and cover risk. To ensure FCC is continuing to serve its customers and sustain its financial position, a review will be conducted in 2015-16 to determine what enhancements to loan pricing may be required.

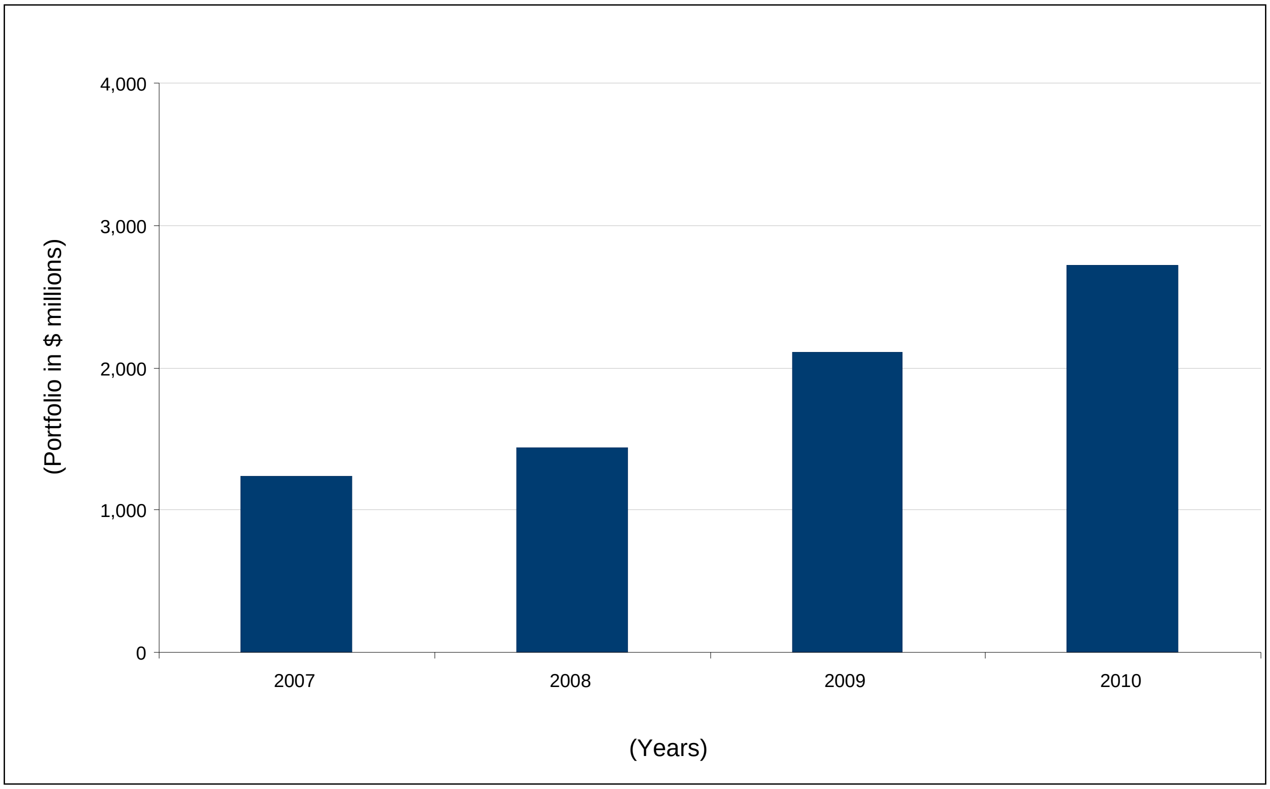
Maintain public policy

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 87 per cent of the loan portfolio. The remaining 13 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's Change in Agriculture Portfolio from 2007 to 2010



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 2015-16.

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

One of FCC's initiatives to accomplish this objective is Agriculture More Than Ever (AMTE), a multi-year industry program 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 feed 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 widespread and include businesses, industry associations, agricultural trade shows, the private sector and the media. Long-term, these partnerships will be leveraged to maximize AMTE's reach and impact.

The National Farm Animal Care Council is in the process of updating its Codes of Practice for the care and handling of farm animals. To date, 12 of the 14 sector codes have been updated. These codes require producers to make changes to existing infrastructure in order for some code requirements to be met. In the spring of 2014, FCC's market research team conducted an issues identification survey with producers, non-producers and FCC employees. FCC asked participants to rate CSR issues in terms of importance, and farm animal welfare was identified as an issue of importance. As a result, FCC is investigating how current loan products can be retrofitted to assist producers with meeting the new standards set out in the codes. Further details are expected in the 2015-16 year.

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 benefited from a positive reputation among those in the agriculture and agri-food industry. Results from a 2010 Leger 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 2013-14 was 10 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 to support the Government of Canada's priorities.

These stakeholders include, but are not limited to:

- Agriculture and Agri-food Canada
- agriculture and agri-food industry associations
- elected officials (federal and provincial)
- other federal government departments (Department of Finance, Treasury Board Secretariat, Privy Council Office)
- customers and prospects
- media
- rural communities and other areas where FCC has a presence

Develop and execute a strategy to create and sustain relationships with Cu's and FI's

Building on progress to date, FCC will develop and implement a formal strategy to strengthen its partnerships with banks and credit unions. The strategy will include enhancing overall attitudes and perceptions, implementing consistent partnership processes across the country, and exploring opportunities such as sharing key learning events.

5.4.2 Great customer relationships

Great customer relationships - How we achieve great customer relationships						
Strategic objective	Measures	2015-16 plan	2016-17 plan	2017-18 plan	2018-19 plan	2019-20 plan
Enhance customer service delivery	Easy to do business CEI measure	62.5%	63.0%	63.5%	64.0%	64.5%
	Design the next FCC experience					
Deepen applied agri-finance knowledge	**Enhance knowledge offerings and tools for employees**					
	Enhance knowledge offerings and tools for customers					
Enhance customer relationship management process	CEI	62.0%	62.5%	63.0%	64.0%	65.0%
	Redefine the Relationship Management Process (RMP)					

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 customer service delivery
- deepen applied agri-finance knowledge
- enhance customer relationship management process

Enhance customer service delivery

FCC has developed its own unique approach to lending through technology and a suite of analytic tools tailored to the agriculture industry. Its goal is to ensure 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 2015-16, FCC will continue to focus on its core primary production customers, and further develop lending to manage the increasing customer complexity, risk and evolving needs of its agribusiness and agri-food customers and Alliance partners.

Design the next FCC experience
This multi-year initiative will explore, design and implement the next FCC customer experience from two perspectives. The first will be an internal perspective, which will include redesigning Operations for execution excellence by aligning FCC's goals, staffing and operating model to advance the business of agriculture. The second will be from an external/customer perspective with a focus on exploring customer preferences, including a holistic look at product needs.

Deepen applied agri-finance knowledge

FCC prides itself on its knowledgeable agriculture-lending team, which is responsive, solution-focused, understands agricultural risk and applies 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 resources 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
For enhancing employee knowledge, 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.

Enhance knowledge offerings and tools for customers
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.

Enhance customer 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 experiences 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.

Redefine the Relationship Management Process (RMP)

In an effort to increase consistency in the relationship management process, FCC will develop strategy outlining an end vision where FCC is self-sufficient while supporting the relationship management process.

5.4.3 Effective enterprise risk management

Effective ERM - How we protect FCC and great customer relationships						
Strategic objective	Measures	2015-16 plan	2016-17 plan	2017-18 plan	2018-19 plan	2019-20 plan
Advance enterprise risk management	ERM maturity measure	3.6	3.7	3.8	3.8	3.8
	Implement ERMP					
	Implement operational risk management framework					
Integrate risk culture across the organization	**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.

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 enterprise risk management (ERM)
- integrate risk culture across the organization

Advance enterprise risk management

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). FCC's long-term target is to increase maturity to a level consistent with similar sized organizations in the financial services sector.

Implement ERMP

In 2013-14, FCC delivered on two-thirds of the Enhanced Risk Management program. Many of these deliverables established the necessary governance and business structures to manage risk effectively. The remaining deliverables in the program will be implemented in 2014-15 and 2015-16, and include the utilization of an internal capital adequacy assessment process (ICAAP), evolutions of risk models and measurement, introduction of advanced technologies for risk assessment and implementation of an operational risk management framework including the three lines of defence governance model.

Implement operational risk management framework

In 2013-14, KPMG conducted an operational risk management maturity assessment for FCC. One of the key recommendations to advance Operational Risk Management (ORM) maturity was to develop and implement an ORM framework. The framework has been developed, covering governance, risk identification, assessment, control, monitoring and reporting. It also includes a taxonomy covering the major types of operational risks and a refined methodology for risk and control assessments.

In 2015-16, framework implementation will continue with the following key activities:

- enhanced governance through implementation of the three lines of defence model
- enhanced operational risk reporting
- evolution of key risk indicators to assess the effectiveness of risk mitigation efforts, and to enable trend monitoring for key operational risks
- execution of risk and control assessments for high-risk processes

Integrate risk culture across the organization

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.

In 2012-13, the Board established a risk appetite statement for the corporation. It consists of:

- descriptive statements about the risks FCC takes, accepts and avoids
- strategic, financial and operating parameters for the corporation
- a list of metrics that set limits for the corporation

The objective to integrate risk culture across the organization 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 embedding the risk appetite statement into the corporation's culture through communication, measurement, training and reinforcement.

Increase employee understanding and accountability for risk management across FCC

This initiative will integrate FCC's risk appetite statements with FCC's high-performance culture (see section 5.4.5). Companies with high-performance cultures, where employees take ownership of the corporate results, require an integrated approach to risk culture development and its evolution. This involves describing and developing a refined risk culture statement plus measuring results to ensure behaviours align with the desired risk appetite.

5.4.4 Operational efficiency

Operational efficiency - How we afford great customer relationships						
Strategic objective	Measures	2015-16 plan	2016-17 plan	2017-18 plan	2018-19 plan	2019-20 plan
Optimize how FCC operates enterprise-wide	Efficiency ratio	39.8%	40.7%	40.2%	39.8%	38.9%
	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
	Enhance core lending systems and processes					
Advance information management capabilities	**Execute the risk technology project**					
	Advance information security and privacy capabilities					

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.

As part of its continuous focus on managing costs and efficiency, FCC developed a cost structure initiative in 2013-14 where executive management closely examined its business and determined a number of cost saving measures organizationally.

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

- optimize how FCC operates enterprise-wide
- advance information management capabilities

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.

Two measures have been identified to track progress on this objective. The first measure is an efficiency ratio (administration expense as a percentage of revenue) to measure how well resources are used to generate income.

The second measure is the easy to do business index. Five drivers are used 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. Employees are often in the best place to detect inefficient processes and policies that create extra work and unnecessary costs. FCC’s target for this measure is to be greater than the average of the 50 Best Employers.

Enhance core lending systems and processes
The objective of this initiative is to implement simple and quick changes to increase business efficiencies. Efficiency within the core lending processes is the primary focus. This initiative is intended to build excellence into FCC's core processes to simplify execution for staff.

Advance information management capabilities

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.

Execute the risk technology project
This project will support the other business streams within ERMP where there is a technology need, as well as provide the foundation that supports accurate risk data aggregation, analysis and the reporting required to achieving risk management capabilities.

Advance information security and privacy capabilities
As a federal Crown corporation FCC must comply with the federal *Access to Information Act* and *Privacy Act*. Privacy continues to grow in importance for customers and employees alike and FCC needs to stay current with best practices in this area. Information security breaches have been identified as one of FCC's tier I risks. Also, Internal Audit is in the process of completing a privacy audit concerning the handling of customer information. Updating policy and compliance controls with respect to privacy and providing appropriate access to information is an ongoing initiative, and this year the corporation will place increased focus on this area. As part of these efforts, FCC plans to implement the foundational elements of a collaboration, mobility and cloud computing strategy.

5.4.5 High-performance culture

High-performance culture - How we work together to achieve great customer relationships						
Strategic objective	Measures	2015-16 plan	2016-17 plan	2017-18 plan	2018-19 plan	2019-20 plan
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
	Implement renewed leadership development program					
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 experience: index subset of employee engagement survey data related to employee experience	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
	Complete implementation of culture fundamentals					
	Implement year one of three year rolling culture strategy					
Strengthen workforce management	Diversity measure	Hire 6 new diversity candidates from the designated groups where we have gaps	Hire 6 new diversity candidates from the designated groups where we have gaps	Hire 6 new diversity candidates from the designated groups where we have gaps	Hire 6 new diversity candidates from the designated groups where we have gaps	Hire 6 new diversity candidates from the designated groups where we have gaps
	Renew diversity strategy and employment equity plan					
	Implement comprehensive succession strategy					

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. For more than a decade, FCC has been featured on the Best Employers in Canada list based on its results from the Aon Hewitt employee opinion survey. FCC believes having a great employee experience helps it to attract and retain high-performing employees with the skills and attitudes required to meet customers' needs.

Aon Hewitt defines engagement as a state of emotional and intellectual commitment to their organization. Engaged employees are more likely to say good things about their employer, stay with the organization over the long term and give the discretionary effort needed to achieve great results.

Research shows that when employees provide this extra effort to serve their co-workers and customers, this tends to result in a better customer experience. This is why it is important for FCC to measure and manage the overall employee experience. When FCC asks employees to provide input on their level of engagement, this leads to discussions and actions that may directly address employee concerns and opportunities for improvement in the employee experience.

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. They coach teams to achieve outstanding results and they 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.

FCC believes that every employee deserves a great leader. To give leaders a clear picture of what great leadership looks like on a day-to-day basis, FCC has created a behavioural framework called The Five Leadership Principles. It includes five different categories:

1. Strategic leadership
2. Communication leadership
3. Change leadership
4. Team leadership
5. Cultural leadership

Under each of these categories, FCC provides a minimum set of behaviours and actions that it expects from all leaders. By developing better leaders, FCC will ensure that employees remain highly engaged.

To measure the quality of leadership across the organization, FCC has developed a leadership index (sub-index of employee engagement survey data) to gauge employee perceptions about the effectiveness of their leaders.

Implement renewed leadership development programs

FCC has launched a new leadership learning program to ensure it is preparing leaders to consistently demonstrate the Five Leadership Principles. The Leadership Transformations Program is a year-long learning experience. It fully integrates leadership and culture and encourages leaders to examine their current behaviours and work on creating a more powerful and authentic presence. The program also supports leaders in applying their learning with their teams on the job.

Deepen culture of 100 per cent accountability and partnership

FCC is proud of its culture. It defines how employees work together and it sets FCC apart as an excellent place to work and to do business. FCC's culture is based on the principles of 100 per cent accountability and working together as committed partners. FCC's 10 cultural practices outline how its employees are expected to show up at work each day, talk to one another and work together to deliver outstanding results. The cultural practices are available under About FCC on FCC's website.

FCC's culture is a conscious choice made by employees. They choose to live 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 in all circumstances.

FCC's culture is the foundation of its overall employee experience. To measure its performance on creating the desired employee experience, FCC will monitor and analyze a sub-index of the employee engagement results that measure how employees feel about their workplace environment and their relationship with their leader. The index includes career opportunities, learning and development, intrinsic motivation, managing performance and work-life balance.

Complete implementation of culture fundamentals

FCC's culture is a significant factor in employee engagement. In 2014-15, FCC continued to roll out Culture Fundamentals, a learning experience designed for all leaders and employees. Implementation of this initiative will continue in 2015-16. Culture Fundamentals is designed to reset understanding of the key concepts in the FCC culture and renew employee alignment and commitment to the culture. The program combines face-to-face conversations and a series of e-learning components that help create clarity around what it takes to live in the FCC culture. FCC will also provide additional resources to help new employees understand what is expected of them so they can begin applying the cultural practices as soon as they arrive in the organization.

Implement year one of three year rolling culture strategy

FCC's high-performance culture is part of the fabric of FCC and how employees work together to achieve results. Maintaining the culture at FCC requires constant attention and can't be taken for granted. While the Culture Fundamentals program will help FCC reset the foundation of its cultural practices, there is a need to focus on what's next to deepen and sustain the culture.

A new three-year culture strategy will focus on ensuring strong executive sponsorship of the culture. Employees need to get consistent messages from senior leaders that reinforce the behaviours that are needed. FCC also needs to ensure that leaders across FCC have the support needed to model and champion the cultural practices consistently. This means providing learning opportunities and other support such as coaching and mentorship. The strategy also focuses on regularly communicating with all employees about the cultural practices to ensure they have clarity on how to apply the concepts in their everyday work.

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.

A robust workforce management process has a number of aspects including succession planning, promoting meaningful career development conversations and developing employees across the organization. FCC employs a process to assess and identify the needs for talent in the organization and to ensure its talent development efforts meet those needs. Currently, FCC is working to raise the bar on the consistency by which it makes plans, has transparent conversations and develops its employees to meet future business needs and challenges.

Renew diversity strategy and employment equity plan

Organizations are becoming more aware of the importance of building a diverse workforce. Research shows that maximizing diverse talents offers substantial productivity, profitability and competitive advantage for 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 an inclusive work environment that supports the productivity, personal goals and respect of all employees.

FCC identifies gaps in each employment equity group annually and has consolidated these numbers to determine the corporate-wide employment equity gap. FCC will continue to track its progress in this area and has a goal to reduce the corporate-wide gap each year.

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 to source, hire, train, promote and retain individuals from the four employment equity groups. This will help FCC continue to enhance each group's under-representation in specific occupational areas.

Implement comprehensive succession strategy

A number of senior leaders, including the President and CEO, have retired recently. 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.

6.0 | Financial plan

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

The outlook for the world economy and the agriculture sector continues to improve while interest rates are expected to remain below pre-recession levels. However, potential 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 2015-16 for each variable, along with the cumulative impact for each of the four remaining years of the plan.

Major drivers ($ millions)	**Change**	**2016 Plan**
Loan disbursements*	+/- 10%/year	+/- 14.8
New lending margins**	+/- 10 bps/year	+/- 6.8
New lending mix (F/V)	+/-10% fixed	+/- 0.4
Interest rate curves**	+/- 100 bps	+/- (12.6)

* assumes that disbursements are made throughout the year.

** bps is basis points

6.1 Operating budget

The operating budget provides details of FCC's forecasted revenues and expenses for the fiscal year ended March 31, 2016, and is submitted for Treasury Board approval in accordance with section 123 of the *Financial Administration Act*. The table below summarizes financial projections for 2014-15 and 2015-16.

Fiscal year ending March 31 ($ millions)	2016 Plan
Portfolio growth	
Loans receivable	28,370.7
Loans receivable growth rate (per cent)	4.4
Net disbursements	8,551.5
Prepayment rate (per cent)	7.5
Profitability	
Net interest income	958.4
Net interest margin (per cent)	3.25
Credit quality	
Impaired loans	368.8
Provision for credit losses	68.1
Allowance for credit losses	269.5
Performance by non-lending business line	
Venture capital	
Investments - total capital outstanding	80.6
Investments - fair market value	164.1
Co-investment ratio ($ co-invested per FCC $)	1.5
FCC Management Software	
Net sales revenue	2.4
FCC Insurance	
Insurance premium income	25.1
Net insurance income	12.6
Efficiency	
Administration expenses	387.7
Efficiency ratio (per cent)	39.8
Funding	
Borrowings	24,106.9
Capital management	
Total capital	5,138.7
Total capital ratio	16.3
Debt to equity	4.6
Shareholder return	
Net income	537.9
Return on equity (per cent)	10.5
Return on assets (per cent)	1.8
Dividends	81.6

6.1.1 Discussion of 2014-15 forecast versus 2013-14 actual, prior plan and 2015-16 financial plan

Portfolio growth

Loans receivable
Relative to 2013-14 actual results, the portfolio is forecast to grow by $966.3 million or 3.7 per cent in 2014-15 due to net disbursements of $8,180.0 million. Compared to the 2014-15 plan, the forecast loans receivable of $27,171.2 million is $45.8 million or 0.2 per cent higher. This is due to higher than anticipated net disbursements of $719.0 million, partially offset by higher principal repayments.

Loans receivable is projected to grow by 4.4 per cent, increasing from $27,171.2 million forecast for 2014-15 to $28,370.7 million in 2015-16. 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
2014-15 forecast net disbursements are $485.4 million higher than levels experienced in 2013-14 and $719.0 million higher than the 2014-15 plan. Although increased competition continues to challenge FCC's portfolio and disbursement growth, FCC expects to continue to grow in line with growth in the farm debt market.

Net disbursements are projected to increase by $371.5 million from the forecast level of $8,180.0 million in 2014-15 to $8,551.5 million in 2015-16. Primary production financing, lending to agribusiness and agri-food, and Alliance disbursements are expected to increase by $196.0 million, $69.0 million and $106.5 million respectively. Overall, lending to primary producers represents 85.7 per cent of total net disbursements in 2015-16.

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 fulfil its role in supporting agriculture.

The 2014-15 net interest income forecast of $935.2 million is $35.0 million higher than 2013-14 actual results and $0.1 million higher than the 2014-15 plan. The continued growth in the loan portfolio is the primary driver of the year-over-year increase. The net interest margin is forecasted at 3.24 per cent, which is lower than the prior year actual of 3.36 per cent and the 2014-15 plan of 3.38 per cent. The decrease is being driven primarily by lower lending margins on new disbursements and a continued low interest rate environment, which are compressing the interest rate spread.

Net interest income is expected to increase from a $935.2 million forecast for 2014-15 to $958.4 million for 2015-16. This is due to a 4.4 per cent growth in loans receivable combined with an increase in the net interest margin from 3.24 per cent to 3.25 per cent. The increase in net interest margin is due to rising interest rates and its favourable impacts on fixed lending rates.

Credit quality

Impaired loans
Impaired loans of $353.2 million in the 2014-15 forecast are $49.9 million higher than 2013-14 actual results. The increase is due to growth in the loan portfolio coupled with an increase in impaired loans as a percentage of loans receivable. The 2014-15 forecast is slightly lower than with the 2014-15 planned amount of $380.7 million due to improved portfolio health.

Impaired loans are expected to be $368.8 million in 2015-16, an increase of $15.6 million over the 2014-15 forecast of $353.2 million. This increase is due to a larger portfolio in 2015-16 compared to 2014-15.

Allowance for credit losses
The allowance for credit losses represents management's best estimate of incurred losses in the portfolio of loans and leases.

The 2014-15 forecast allowance for credit losses of $258.1 million is lower than the 2013-14 actual allowance of $533.4 million. In fiscal 2014-15, FCC implemented an updated and refined estimation for credit losses in the loan and leases portfolio. The new estimation results in changes to the allowance for credit loss assumptions for probability of default and loss given default. Overall, the new probability of default model results in lower scores in the majority of the portfolio. These enhancements bring FCC closer in line with its own historical loss experience. The new loss given default model was built using predictive analytics to produce a model that best predicts loss of individual loans versus predicting the loss of the aggregated loan portfolio as in the previous model. As a result, FCC's allowance for credit losses is forecasted to decrease by $275.3 million in 2014-15 from 2013-14. As a percentage of ending loans receivable, the allowance is forecasted to be 0.95 per cent in 2014-15.

The allowance for credit losses is projected to grow from the forecast of $258.1 million in 2014-15 to $269.5 million at the end of 2015-16. The allowance as a percentage of ending loans receivable is projected to remain flat at 0.95 per cent as the overall risk in the portfolio is not anticipated to change. 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 2014-15, the provision for credit losses is forecasting a recovery of $228.7 million, which is higher than the recovery in 2013-14 of $47.6 million and lower than the provision for credit losses in the 2014-15 plan of $91.2 million. The increased level of recovery from the 2013-14 is due to the change in estimate for credit losses being implemented in forecast 2014-15.

In 2015-16, the required provision is projected to be $68.1 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 at 0.95 per cent.

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 2014-15, the corporation is forecasting $76.1 million in capital outstanding. In addition, every $1.00 invested by FCC is expected to attract $1.50 from co-investors.

Total capital outstanding is expected to increase slightly to $80.6 million at the end of 2015-16. This anticipates new investments of $21.7 million, offset by repayments and divestitures.

The fair value of the venture capital investments is projected to increase from $154.1 million in 2014-15 to $164.1 million in 2015-16. 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 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 $2.0 million is equal to 2013-14 actual results but slightly higher than the 2014-15 plan of $1.9 million. In 2015-16, net sales revenue is anticipated to increase to $2.4 million.

FCC Insurance

FCC offers loan life and accident insurance, providing protection for customers, their families and their businesses. Insurance premium revenue is forecast to be $24.3 million in 2014-15, which is $1.5 million higher than 2013-14 actual results and equal to the 2014-15 plan. The increase is primarily driven by the growth in the portfolio.

In 2015-16, insurance premium revenue is planned to be $25.1 million, representing an increase of $0.8 million from forecast levels. Net insurance revenue after taking into account claims paid, is projected at $12.6 million in 2015-16.

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 practises for enterprise risk and capital management. Initiatives are planned for 2015-16 to enhance core lending systems and processes, enhance risk technologies to improve analysis and risk management, and advance information security and privacy capabilities (see section 5.4.4 operational efficiency).

In 2014-15, administration expenses are forecast to be $362.1 million. This represents a decrease of $4.5 million from 2013-14 actual expenses of $366.6 million. This is largely driven by a decrease in pension expense, partially offset by increases in the ERM program (see section 5.2), and other general inflationary increases.

Administration expenses are projected to increase from the 2014-15 forecast of $362.1 million to $387.7 million in 2015-16 due to increases in personnel expenses and facilities costs partially offset by lower ERM program spending and cost reduction initiatives.

Efficiency ratio

The forecast efficiency ratio of 38.1 per cent is lower than 2013-14 actual ratio of 39.7 per cent, and lower than last year's plan of 39.9 per cent as a result of higher growth in net interest income than administration expenses.

As a result of higher growth in administration expense than net interest income, the efficiency ratio increases slightly in 2015-16 to 39.8 per cent.

Funding

Cash provided by (used in) operating activities

After adjusting net income for non-cash items, FCC expects to use $380.5 million in support of operating activities in 2014-15. Cash used in operating activities is projected to increase by $278.1 million in 2015-16 to $658.6 million.

Cash provided by (used in) investing activities

Cash used in investing activities is anticipated to be $62.0 million in 2015-16, which is an increase of $165.7 million from the $103.7 million provided in the 2014-15 forecast. This change is primarily driven by a decrease in cash provided by temporary investments of $140.8 million.

Cash provided by (used in) financing activities

Cash provided by financing activities is projected to increase from the 2014-15 forecast of $400.0 million to $770.6 million in 2015-16. The increase is driven primarily by the increase in loans receivable growth from the 2014-15 forecast of 3.7 per cent to 4.4 per cent in 2015-16 and the associated debt levels.

Capital Management

Total capital ratio

The forecasted 2014-15 total capital ratio of 15.5 per cent is higher than the 2013-14 actual of 13.7 per cent. In 2015-16, the total capital ratio increases further to 16.3 per cent. The basis for which this measure is calculated has changed from the 2014-15 plan so no comparison has been made.

The total capital ratio is calculated by dividing total capital by risk weighted assets, which are the assets weighted according to relative risk (0 to 150 per cent) as prescribed by the regulatory capital requirements issued by the Office of the Superintendent of Financial Institutions (OSFI). The total capital ratio will increase if total capital increases at a higher rate than risk weighted assets. This ratio is projected to remain higher than FCC's targeted total capital ratio of 15.0 per cent. As described in section 5.4.1, FCC's capital management goal is to maintain adequate capital to ensure the ongoing viability of FCC's business and to support anticipated capital growth and strategic investment.

Debt to equity

The forecasted debt-to-equity ratio of 4.9 to 1 is lower than the 2013-14 actual of 5.7 to 1, and lower than the 2014-15 plan of 5.6. In 2015-16, the debt-to-equity ratio decreases further to 4.6 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*.

Shareholder Return

Net income
Net income is projected to reach $824.7 million in 2014-15, which is $182.7 million higher than 2013-14 actual and $334.2 million higher than the 2014-15 plan. The large recovery in provision for credit losses, higher net interest income and lower administration expenses is driving the increase from 2013-14. These increases are partially offset by lower other income and fair value adjustment. The increase from the 2014-15 plan is driven by the recovery in provision for credit losses, higher other income, higher net interest income, and lower administration expenses, partially offset by lower fair value adjustment.

In 2015-16, net income is projected to decrease to $537.9 million from the 2014-15 forecast of $824.7 million. This decrease is primarily due to an increase in the provision for credit losses, higher administration expenses and lower other income, partially offset by increased net interest income and fair value adjustment.

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

In 2014-15, return on equity is forecast at 18.3 per cent, which is higher than the 2013-14 actual of 17.0 per cent. The increase is primarily due to the large recovery in provision for credit losses, higher net interest income and lower administration expense. The forecast is higher than the return on equity projected in the 2014-15 plan of 12.2 per cent. This increase is due to higher net income as discussed above.

In 2015-16, return on equity is projected to decrease from 18.3 per cent to 10.5 per cent as net income decreases.

Return on assets
Return on assets measures the use of assets to generate income. The 2014-15 projected return on assets of 2.9 per cent is higher than 2013-14 actual of 2.4 per cent and higher than the 2014-15 plan of 1.8 per cent. The increase from 2013-14 is being driven by the increase in net income due to the large recovery in the provision for credit losses. In 2015-16, the return on assets is projected to decrease to 1.8 per cent.

Dividends
The corporation pays dividends to its shareholder, the Government of Canada, at the discretion of the FCC Board of Directors. The projections are based on the maximum provided under the current policy, as approved by the Board, which provides for an annual dividend calculated as an amount up to 10 per cent of net income for the prior fiscal year. The actual recommended dividend will be based on current and future capital needs as determined through FCC’s capital management framework.

The 2014-15 forecast includes a dividend of $63.1 million, which is higher than the prior year actual of $50.3 million due to an increase in net income. The 2014-15 forecast is higher than the 2014-15 plan of $46.9 million due to higher than planned net income in 2013-14. Dividends are expected to increase in 2015-16 to $81.6 million, again due to higher prior year net income.

6.2 Capital budget

The 2015-16 capital budget is submitted for Treasury Board approval in accordance with section 124 of the *Financial Administration Act*.

Capital spending is expected to be $34.4 million in 2015-16 which is an increase from both the 2013-14 actual results of $16.5 million and the 2014-15 forecast of $21.1 million. FCC’s capital projections primarily consist of purchases relating to planned leasehold improvements, regular furniture, fixture and equipment replacements, and computer hardware and software purchases.

In 2015-16, expenditures related to computer software and leasehold improvements are increasing to support continued business growth, investment in the enterprise risk program and expansion of FCC’s corporate office.

Farm Credit Canada
Consolidated Balance Sheet
2015-16 Corporate Plan

As at March 31 ($ millions)	2014 Actuals	2015 Forecast	2016 Plan
Assets			
Cash and cash equivalents	$ 1,026.8	$ 1,150.0	$ 1,200.0
Temporary investments	140.8	0.0	0.0
Accounts receivable	93.1	19.6	20.1
Derivative financial assets	53.2	42.9	32.9
	1,313.9	1,212.5	1,253.0
Loans receivable	26,204.9	27,171.2	28,370.7
Allowance for credit losses	533.4	258.1	269.5
Loans receivable (net)	25,671.5	26,913.1	28,101.2
Finance leases receivable	15.5	22.9	23.5
Venture capital investments	156.3	154.1	164.1
	25,843.3	27,090.1	28,288.8
Equipment and leasehold improvements	23.7	16.1	18.2
Computer software	32.0	75.3	85.1
Equipment under operating lease	54.8	70.1	83.6
Other assets	22.3	21.5	23.1
	132.8	183.0	210.0
Total assets	$ 27,290.0	$ 28,485.6	$ 29,751.8
Liabilities			
Accounts payable and accrued liabilities	$ 64.2	$ 72.1	$ 69.8
Derivative financial liabilities	2.5	0.0	0.0
	66.7	72.1	69.8
Borrowings			
Short-term debt	10,359.9	13,507.1	13,155.6
Long-term debt	12,431.6	9,747.5	10,951.3
	22,791.5	23,254.6	24,106.9
Other liabilities	212.0	194.1	194.2
	23,070.2	23,520.8	24,370.9
Equity			
Contributed surplus	547.7	547.7	547.7
Retained earnings	3,476.8	4,229.8	4,678.9
Accumulated other comprehensive income	141.4	126.0	94.9
Equity attributable to shareholder of the parent entity	4,165.9	4,903.6	5,321.5
Non-controlling interest in structured entity	53.9	61.2	59.4
	4,219.8	4,964.8	5,380.9
Total liabilities and equity	$ 27,290.0	$ 28,485.6	$ 29,751.8

Farm Credit Canada
Consolidated Statement of Operations
2015-16 Corporate Plan

Fiscal year ending March 31 ($millions)	2014 Actuals	2015 Forecast	2016 Plan
Loans and leases	$ 1,144.1	$ 1,177.7	$ 1,206.8
Investments	15.5	17.9	19.6
Total interest income	1,159.6	1,195.6	1,226.4
Short-term debt	62.2	48.3	63.3
Long-term debt	197.2	212.1	204.7
Total interest expense	259.4	260.4	268.0
Net interest income	900.2	935.2	958.4
Provision for credit losses	(47.6)	(228.7)	68.1
Net interest income after provision for credit losses	947.8	1,163.9	890.3
Insurance income			
Premiums	22.8	24.3	25.1
Claims expense	(8.5)	(11.4)	(12.5)
	14.3	12.9	12.6
Other income	7.5	2.3	2.0
Total other income	21.8	15.2	14.6
Net income and non-interest income	969.6	1,179.1	904.9
Administration expenses	366.6	362.1	387.7
Income before fair value adjustment	603.0	817.0	517.2
Fair value adjustment	39.0	7.7	20.7
Net income	$ 642.0	$ 824.7	$ 537.9
Net income attributable to:			
Shareholder of the parent entity	$ 630.7	$ 816.1	$ 530.7
Non-controlling interest in structured entity	11.3	8.6	7.2

Farm Credit Canada
Consolidated Statement of Comprehensive Income
2015-16 Corporate Plan

Fiscal year ending March 31 ($ millions)	2014 Actuals	2015 Forecast	2016 Plan
Net income	$ 642.0	$ 824.7	$ 537.9
Other comprehensive income			
Items that are or may be reclassified to net income			
Net (losses) gains on derivatives designated as cash flow hedges	(20.5)	7.6	(9.9)
Transfer of net realized (gains) losses on derivatives designated as cash flow hedges to net income	(22.7)	(22.4)	(21.2)
Net unrealized (losses) gains on available-for-sale financial assets	(0.2)	(0.5)	0.0
	(43.4)	(15.3)	(31.1)
Item that will never be reclassified to net income			
Remeasurements of post-employment benefit liability	126.1	0.0	0.0
Total other comprehensive income (loss)	82.7	(15.8)	(31.1)
Total comprehensive income	$ 724.7	$ 808.9	$ 506.8
Total comprehensive income (loss) attributable to:			
Shareholder of parent entity	$ 713.4	$ 800.3	$ 499.6
Non-controlling interest in structured entity	11.3	8.6	7.2

Farm Credit Canada
Consolidated Statement of Changes in Shareholder's Equity
2015-16 Corporate Plan

Fiscal year ending March 31 ($ millions)		2014 Actuals		2015 Forecast		2016 Plan
Contributed surplus						
Balance, end of year		547.7		547.7		547.7
Retained earnings						
Balance, beginning of year		2,770.3		3,476.8		4,229.8
Net income		630.7		816.1		530.7
Other comprehensive income		126.1		0.0		0.0
Dividends paid		(50.3)		(63.1)		(81.6)
Balance, end of year		3,476.8		4,229.8		4,678.9
Accumulated other comprehensive income						
Balance, beginning of year		184.8		141.4		126.0
Net losses on derivatives designated as cash flow hedges		(43.2)		(14.8)		(31.1)
Net unrealized losses on available-for-sale financial assets		(0.2)		(0.5)		0.0
Balance, end of year		141.4	$	126.0		94.9
Total equity attributable to parent	$	4,165.9	$	4,903.6	$	5,321.5
Non-controlling interest in structured entitiy						
Balance, beginning of year		28.4		53.9		61.2
Non-controlling interest in structured entity		11.3		8.6		7.2
Distributions to/(from) non-controlling interest		14.2		(1.3)		(9.0)
Balance, end of year		53.9		61.2		59.4
Total	$	4,219.8	$	4,964.8	$	5,380.9

Farm Credit Canada
Consolidated Statement of Cash Flows
2015-16 Corporate Plan

Fiscal year ending March 31 ($millions)	2014 Actuals	2015 Forecast	2016 Plan
Operating activities			
Net Income	$ 642.0	$ 824.7	$ 537.9
Adjustments to determine net cash (used in) provided by operating activities:			
Net interest income	(900.2)	(935.2)	(958.4)
Provision for credit losses	(47.6)	(228.7)	68.1
Fair value adjustment	(39.0)	(7.7)	(20.7)
Gain on the sale of venture capital investment in associate	(5.6)	0.0	0.0
Amortization and depreciation	33.1	41.0	49.1
Other	(5.3)	0.0	0.0
Net cash outflow from loans receivable	(1,113.3)	(1,030.7)	(1,267.4)
Net cash outflow from finance leases receivable	(2.5)	(7.4)	(0.6)
Interest received	1,113.9	1,151.7	1,195.7
Interest paid	(268.3)	(260.4)	(268.0)
Net change in other operating assets and liabilities	(40.7)	72.1	5.7
Cash used in operating activities	(633.6)	(380.5)	(658.6)
Investing activities			
Net cash inflow (outflow) from temporary investments	24.0	140.8	0.0
Acquisition of venture capital investments	(51.3)	(31.4)	(30.7)
Proceeds on disposal of venture capital investments	6.3	46.8	32.5
Capital purchases	(16.4)	(21.2)	(34.3)
Purchase of equipment under operating leases net of disposal	(25.4)	(31.3)	(29.4)
Disposal of real estate property held for sale	1.2	0.0	0.0
Cash provided by (used) in investing activities	(61.7)	103.7	(62.0)
Financing activities			
Change in long-term debt	2,350.1	1,837.6	(11.7)
Change in short-term debt	(1,496.2)	(1,374.5)	863.9
Dividends paid	(50.3)	(63.1)	(81.6)
Cash provided by financing activities	803.6	400.0	770.6
Change in cash and cash equivalents	108.3	123.2	50.0
Cash and cash equivalents, beginning of year	917.9	1,026.8	1,150.0
Effects of exchange rate changes on the balances of of cash held and due in foreign currencies	0.6	0.0	0.0
Cash and cash equivalents, end of year	$ 1,026.8	$ 1,150.0	$ 1,200.0

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 2015-16.

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 $23.0 billion in 2015-16.

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 $400 million in 2015-16.

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 2015-16 financing needs.

Total medium- and long-term borrowing outstanding of $23.0 billion is required to meet 2015-16 financing needs.

The aggregate principal amount outstanding of short-term and long-term borrowings will not at any time exceed the amount of $30.0 billion.

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 alliance partners and customers.

FCC Learning

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.

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 offers a series of online learning videos, audio podcasts and webinars to help Canadian producers expand their knowledge. The offering is available at fcc.ca.

Introduced in 2014 and continuing with eight new events in 2014-15, FCC's Ag Outlook half-day learning sessions bring together leading industry experts to provide valuable insights into the economy, weather and commodity markets. Held in cities across the country and targeted directly at producers and agribusiness owners, Ag Outlook events complement FCC's Forum speaker series. Since 2006, the Forums have entertained and inspired more than 45,000 Canadians involved in the agriculture industry.

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.

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, Avrio Fund II and Avrio Fund III).

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.

Inventory Financing Loan
Inventory Financing is a revolving, pre-approved loan for agricultural equipment inventory. It serves as a two-way agreement between FCC and a dealership for the purpose of financing inventory held for resale.

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 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 has made $1.5 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 III
Basel III is a set of standards and practices, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector.

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 Program
A Crown Borrowing Program 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 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.

Minimum capital adequacy requirements
Minimum capital adequacy requirements are the amount of capital a bank or other financial institution has to hold as required by its financial regulator. These requirements are put into place to ensure that these institutions do not take on excess risk and become insolvent.

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 assets (ROA)
ROA is the net income attributable to the shareholder of the parent entity expressed as a percentage of total average assets.

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)
RSPS framework allows FCC to price loans based on customer profile. This initiative will enhance the current process tool.

Risk-weighted assets
Assets weighted according to relative risk (0 to 150 per cent) as prescribed by the regulatory capital requirements issued by the Office of the Superintendent of Financial Institutions (OSFI).

Sector
A sector is a specific type of agricultural operation (dairy, beef, oilseed and grain, agribusiness, etc.).

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

Subordinated debt
Subordinated debt is 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.

Total capital
Total capital consists of contributed surplus, retained earnings and accumulated other comprehensive income and are net of regulatory adjustments. Regulatory adjustments are prescribed by the Office of the Superintendent of Financial Institutions (OSFI).

Total capital ratio
The total capital ratio is the level of total capital held in relation to the risks taken on by the institution, and is expressed as total capital as a percentage of total risk-weighted assets.

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, 2014)

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

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

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

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

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

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

New Brunswick
Grand Falls, Moncton, Woodstock

Newfoundland and Labrador
Mount Pearl

Nova Scotia
Kentville, Truro

Prince Edward Island
Charlottetown

(S) Satellite office – limited hours

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1800 Hamilton Street, P.O. Box 4320
Regina SK S4P 4L3
Telephone: 306-780-8100
Fax: 306-780-5167

FCC Management Software
1800 Hamilton Street, P.O. Box 4320
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
Regina SK S4P 4L3
Telephone: 306-780-2728
Fax: 306-780-8757

Government and Stakeholder Relations
Tower 7 – Floor 10 – Room 319
1341 Baseline Road
Ottawa ON K1A 0C5
Telephone: 613-773-2940

fcc.ca
csc@fcc-fac.ca

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

FCC's venture capital investments are managed by:

AVRIO CAPITAL

avriocapital.com
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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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