# FARM CREDIT CANADA

2017-18 ANNUAL REPORT

# FCC CUSTOMER VALUE PROPOSITION

**What you can expect from us:**

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

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

We provide our customers with flexible, competitively priced financing, management software, information and learning.

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

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

We're easy to do business with.

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

# Message from the President and CEO

This is an exciting time to be part of Canada's agriculture and agri-food industry, and FCC is focused on supporting the industry and our customers to achieve their full potential.

The industry is vital to Canada, employing 2.3 million Canadians and contributing more than $111 billion each year to our economy. And it will drive even more growth and innovation as the industry strives to meet the significant goal set out in the federal government's 2017 budget to increase Canada's agri-food exports from $55 billion now to $75 billion by 2025.

## A strong foundation

As Canada's largest lender to agriculture, FCC exists to advance the agriculture and agri-food industry and enhance rural Canada. For more than 50 years, we've been at the table to help Canadians get started in agriculture, enhance their operations and transition to the next generation when the time comes.

We understand the needs of our customers across the agriculture value chain, from primary producers to the agribusiness and agri-food companies that create value-added products for Canadian and global markets. We design flexible products and services to provide our customers with access to capital and knowledge to grow and succeed.

We believe the industry is stronger when we work together, so we partner with Canada's credit unions and banks as well as our sister Crowns – Business Development Bank of Canada and Export Development Canada – to provide access to capital for larger loans.

The 2017-18 growing season had its share of challenges, and we announced a Customer Support Strategy to assist customers in parts of eastern Ontario and western Quebec facing hardship due to excessive moisture. We also offered support to customers across western Canada facing potential cash flow problems due to delays in grain movement to international markets. We stand by our customers and show flexibility to help them through challenging times.

As FCC supports agriculture and agri-food operations to become leaders in job creation and innovation, we continue to advance our public policy priorities and business practices to deliver on our mandate.

We manage every aspect of our business with diligence and care, keeping our responsibilities as a prudent lender top of mind.

Our business performance in 2017-18 reflects our focus on working together as one team to achieve our objectives. We continued to focus on small and medium-sized businesses, approving 22,438 credit facilities, and providing specialized products and learning for young entrepreneurs and farmers under 40. The strength of our portfolio, which tops $33.9 billion after 25 consecutive years of growth, reflects the growth and prosperity of Canada's farm families and agribusiness and agri-food operators.

We add value beyond the loan transaction, so we offer learning programs and resources free of charge to customers and non-customers – both in-person and online.

Together with our Agriculture More Than Ever partners, we delivered the second annual Canada's Agriculture Day in February, with more than 250 events nationwide and more than 23 million people reached through social media to help build a bridge between the industry and consumers. New this year, we worked with young farmer associations and industry partners to deliver Ignite: FCC Young Farmer Summit, a series of five events across Canada to inspire, inform and connect the next generation.

We're passionate about creating connections and having a positive impact on agriculture and rural Canada. We brought communities, customers and partners together in a range of activities this year, including supporting Canadian food banks with a record 7.2 million meals as part of our FCC Drive Away Hunger campaign. We added a new element by contributing $100,000 to school meal programs, donating $1,000 each to 100 schools.

We support the next generation through 4-H, school programs such as Agriculture in the Classroom, and activities with post-secondary students. We champion agriculture safety through Agriculture Safety Week activities and our Back to Ag partnership with the Canadian Agricultural Safety Association and the Rick Hansen Foundation, which helps injured farmers and agricultural workers return to work on the farm.

To deliver on our commitment to build an open and inclusive workplace, we engage employees and the public in a range of initiatives, including our partnership with the University of Regina's Campus for All program. For our commitment to hiring people with intellectual disabilities through this program, we received the Employer of Excellence award from the Saskatchewan Association of Rehabilitation Centres.

I feel strongly that raising awareness of mental health issues is critical to the long-term health of our society. We're committed to making a difference and we provide training, tools and resources for our employees and managers. We're also exploring opportunities to advance the conversation about mental health with our industry and community partners.

Our team is working to create the conditions for FCC to be successful over the long term by becoming more innovative and agile to meet the challenges of a rapidly changing world.

## The way forward

Canadians can take pride that our country is one of the few with the capacity to help meet the growing global demand for safe, high-quality, sustainably produced food.

The agriculture and agri-food industry faces unique challenges and unprecedented opportunities in a time of change for global economies, and FCC's strength and stability put us in a great position to be part of the solution. Our 2018-19 strategy identifies five areas where we can have a positive impact on our customers – revitalizing our commitment to agribusiness and agri-food enterprises, enhancing our support to the next generation, advancing our knowledge offerings and advisory services, becoming a leader in corporate social responsibility with an expanded focus on serving under-represented groups in Canadian agriculture, and creating the conditions to achieve our strategy more effectively by making innovation a bigger part of how we work.

Our strategy is ambitious, and I'm confident we can bring it to life. Our foundation is strong. Our business success is sustained over time and continues to reach new heights.

Our higher purpose statement – we serve the industry that feeds the world, inspiring possibility and passion – is our way forward. It keeps us focused on growing our economy, building our industry, and strengthening our communities. It also speaks to the energy and commitment that our 1,800 employees bring to work every day. Canadian agriculture has a bright future, and we're proud to play a part in it.

**Michael Hoffort, President and CEO**

# Message from the Board Chair

The agriculture and agri-food industry is a vital part of Canada's growing economy, and FCC continues to be a strong, stable partner in that growth.

For more than 50 years, FCC has delivered on its commitment to serve the industry and enhance rural Canada. FCC continues to be relevant today because it serves as a steady source of financing to Canadian agriculture, agribusiness and agri-food operations of all sizes – and because its team of employees is committed to being innovative and agile to meet the changing needs of agriculture in the 21st century.

With its deep understanding of the industry, FCC is creating products, services and programs that support the long-term success of Canadian agriculture and agri-food. FCC had another successful year in 2017-18, achieving excellent lending results, growing its portfolio, managing enterprise risks, and advancing its strategies and initiatives to serve its 100,000 customers across Canada.

The FCC Board of Directors is responsible for providing leadership and independent oversight of FCC management and operations. Board renewal is important to effective governance, and on November 17, 2017, the Board welcomed the appointments of six new members – Del Anaquod, Bertha Campbell, Laura Donaldson, Michele Hengen, James Laws and Govert Verstralen – and the reappointment of current member Jane Halford, returning the Board to our full complement of 12 members.

We look forward to working together as a full Board over the coming year and gaining the benefit of new perspectives. We value the insights of past members Don Bettle, Brad Hanmer, Jamie Muir and Brenda Schoepp, who left the Board in the past year, and thank them for their contributions during their years with us.

The Board is supportive of management and employees, and is proud of the responsible way in which FCC delivers on its mandate, manages its operations, and supports Canadian agriculture and communities. We see excellent progress and potential, and we look forward to FCC's continued success in the year ahead.

Respectfully submitted on behalf of the FCC Board of Directors,

**Dale Johnston, Board Chair**

# Message from the Minister of Agriculture and Agri-Food

Canadians can take great pride in the success and vitality of our agriculture and agri-food industry – it is a key driver of our economy, supporting job growth and strengthening the middle class in communities across Canada. We help feed the world, producing agriculture and agri-food products that are safe, high-quality and sustainable – and we can do more.

Agriculture is who we are. It has been our past and it will be our future. There is tremendous opportunity to expand on our success in global markets and to create more growth and prosperity here at home. In recognition of this potential, the federal government set an ambitious target in its 2017 budget to grow Canada's agri-food exports to $75 billion annually by 2025.

Reaching this target will require innovation and teamwork, including the support of trusted partners like FCC. As Canada's largest lender to agriculture, FCC provides access to capital through all economic cycles. The corporation offers financial and business products, services, learning and resources tailored to meet the diverse needs of all sectors of the agriculture and agri-food industry at every stage, from new entrants to those planning for expansion or succession.

As I set out in my mandate letter to FCC, our work includes a range of priorities to support Canada's farm families, producers and businesses along the agriculture value chain, and to deliver on our commitments to Canadians. In early 2018, I provided FCC with additional areas of focus to help achieve our export goal, enable intergenerational transfers, advance mental health, support under-represented groups in agriculture to enhance diversity and inclusion, and assist young and new farmers entering the industry.

Young people are the future of agriculture, and I'm proud of the emphasis FCC places on supporting new entrants to the industry as producers and entrepreneurs. The Canadian agriculture and agri-food industry needs more young people to get involved, because they bring the energy and innovative ways of thinking that grow the industry and keep it on the leading edge.

I thank FCC's Board of Directors and employees for their commitment to make a difference – we have exciting work ahead.

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

# Supporting FCC's mandate: 2017-18 highlights

We fulfil our mandate by supporting and strengthening Canadian agriculture and agri-food.

## Financially strong

NET INCOME **$669.9 M**

**22,438** credit facilities approved

PORTFOLIO **$33.9 B**

**25 years** OF GROWTH

**Largest provider of capital** TO AGRICULTURE AND AGRI-FOOD

## With knowledgeable, engaged employees

OVER **1,800** employees

**98** offices PRIMARILY IN rural Canada

**Aon Hewitt best employer** FOR **15** consecutive years

SERVING OVER **100,000** customers

## Proudly serving our industry

**7.2 M** meals raised THROUGH FCC Drive Away Hunger

**Highest** customer experience ratings IN OUR HISTORY

**IGNITE:** FCC Young Farmer Summit launched in 2017-18

**$3.29 B** LOANED TO young farmers

**$3.89 M** given back through community investment initiatives

# Corporate profile

Farm Credit Canada (FCC) is a financially self-sustaining federal commercial Crown corporation reporting to Canadians and Parliament through the Minister of Agriculture and Agri-Food. FCC provides financing and other services to more than 100,000 customers.[1] We're a team of more than 1,800 employees operating from 98 offices located primarily in rural Canada with our corporate office located in Regina, Sask.

We're passionate about what we do and our team has professional expertise in many areas, focused on agriculture. We provide capital and other services to primary producers, agri-food operations and agribusinesses that provide inputs or add value to agriculture. Primary production is FCC's core business and represents 83.3% of our loan portfolio. We share business management knowledge and training with our customers and the industry, free of charge. We offer management and accounting software designed for agriculture. We invest in venture capital funds that are dedicated to agriculture, providing an alternate source of capital and expertise to the growing number of innovative firms that will help the industry achieve new potential.

Our roots date back to 1929, when the Canadian Farm Loan Board (CFLB) was established to provide long-term mortgage credit to farmers. In 1959, the Farm Credit Act established FCC as an agent Crown corporation, making us the successor to the CFLB.

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

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

For over a half century, we've listened to our customers and continually adapted our products and services to fit their unique needs. Together, FCC and the agriculture community have experienced the dramatic transformations in production, technology and markets that are moving the industry forward. And through it all, one thing remains unchanged – agriculture matters to Canada and to FCC. With a healthy portfolio of $33.9 billion and 25 consecutive years of portfolio growth, FCC is a strong, stable partner dedicated to serving the Canadian agriculture industry through all economic cycles.

## Vision

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

[1] 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.

## Corporate values

We are committed to advancing the business of agriculture. We do this by setting our sights high – working to benefit our customers and to help employees achieve their potential.

Our corporate values represent these core beliefs:

### Act with integrity

We are ethical and honest. We treat customers, colleagues and all stakeholders with respect.

### Focus on the customer

We care about our customers, and we pride ourselves on providing them with an extraordinary experience based on personal relationships, flexibility and industry knowledge.

### Achieve excellence

We share a commitment to high performance, accountability and efficiency in order to achieve excellence.

### Working together

We believe in the power of teamwork. Whether delivering service tailored to customer needs or designing solutions to benefit the industry, we work together as one team.

### Give back to the community

We take corporate social responsibility seriously. We believe in giving back to the communities where our customers and employees live and work, striving to reduce our impact on the environment and contributing to the success of the agriculture industry.

## Cultural practices

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

For more information about FCC, visit fcc.ca/WhoWeAre.

# Public policy role

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.*

Our priorities reflect the federal government's mandate to support the agriculture sector in a way that allows this vibrant industry to be a leader in job creation and innovation. FCC's mandate letter is available on the Agriculture and Agri-Food Canada website.

### We provide access to capital

FCC provides access to capital by delivering a wide range of financial and business products and services tailored to the industry's unique needs. We lend money to all agriculture sectors, including primary producers, agri-food operations and agribusinesses that provide inputs or add value to agriculture.

Access to capital allows producers and agribusinesses to adopt innovative practices and business models that enable them to expand, lower their production costs, develop new products and compete in global markets.

Healthy marketplace competition and a choice of financing are necessary for Canadian producers and agribusinesses to be successful through all economic cycles. FCC works with credit unions and our sister Crown corporations – Business Development Bank of Canada and Export Development Canada – to address market and policy issues of mutual interest and identify opportunities for partnership. We partner with Canadian banks to provide financing for larger agriculture operations and agribusinesses. We also offer venture capital financing to the industry through Avrio Capital, a private entity that manages a series of investment funds on behalf of FCC and other investment partners. This capital helps innovative firms grow into strong businesses in Canada. FCC continued to be self-sustaining and profitable in 2017-18. Our ongoing strength and stability allows us to serve agriculture through all cycles. We continue to reinvest FCC's profits into agriculture through increased lending to customers and by developing knowledge, products and services to meet our customers' needs.

### We advance the business of agriculture

We believe sound financial management is key to successful agriculture operations. To help advance producers' business management skills and knowledge, FCC continued to offer a wide range of learning events, publications and other resources to our customers and the industry in 2017-18. Producers of all ages and in all sectors can access our in-person and online resources, free of charge. In addition, FCC offers accounting and farm management software tools that enhance our customers' ability to manage their businesses. We also ensure our employees have the appropriate knowledge and tools to provide solid insight and expertise to our customers to help them achieve their goals.

The next generation is important to the ongoing growth and success of Canada's agriculture and agri-food industry. FCC proudly supports these enthusiastic, hardworking young people by offering products and services such as the Transition Loan, Young Farmer Loan and Young Entrepreneur Loan, assisting with intergenerational transfers of operations, providing valuable knowledge and helping them enter the industry and grow their businesses.

FCC continues to champion Agriculture More Than Ever, an industry-driven cause made up of hundreds of partners and thousands of industry champions, called agvocates, from across the country, all committed to improving perceptions, dispelling myths and creating positive dialogue about Canadian agriculture. Agriculture More Than Ever provides resources and a forum for agvocates to tell the real, positive story of Canadian agriculture.

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

FCC partners with Export Development Canada and Business Development Bank of Canada to support innovation and access to international markets for Canadian agribusinesses. Our employees and their counterparts at Agriculture and Agri-Food Canada connect on a range of topics important to the agriculture industry, including farmland values, commodity prices and interest rates.

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

We support the agriculture industry and are committed to its long-term success. Our strong financial position enables us to provide innovative, industry-focused products and services and ensure producers and agribusiness operators have choice in the marketplace.

Our loan products reflect that agriculture is a cyclical industry and that it takes time for business operations to flourish. Unpredictable weather and market conditions can negatively affect producers and agribusiness operators. We support our customers through highs and lows. Our customer support program allows customers to restructure the terms of their loans to help manage through difficult times. The FCC AgCrisis Fund also provides modest financial support to customers experiencing a traumatic life event.

Our employees attend events and meetings hosted by industry, stakeholder and producer groups, and we share knowledge and solicit input and feedback on issues facing agriculture. We also lead Canada's largest agriculture-focused research panel, called FCC Vision. FCC Vision enables its members to share their ideas and opinions about Canadian agriculture and how FCC can best serve this exciting, growing industry.

FCC carefully balances the resources needed to support a growing enterprise while controlling costs and increasing efficiencies. This allows us to deliver on our public policy objectives and sustain our excellent financial performance and ability to serve agriculture in the years to come.

### We operate our business in a sustainable manner

Our corporate social responsibility framework focuses on agriculture and food, community, customers, employees and the environment. To support our commitment, we offer financing for environmental solutions to our customers, hire and develop employees who are passionate and knowledgeable about agriculture, give back to the communities where our customers and employees live and work, and continually work to reduce our environmental footprint.

FCC exercises all reasonable care to safeguard the environment and protect the value of real property taken as lending security.

To protect the environment and mitigate identified risks, FCC conducts environmental assessments of all properties used by customers to secure financing. The lending decision process also requires customers to provide written declarations that their properties are free from contamination.

As a federal Crown corporation, FCC is also a federal authority with accountabilities under the Canadian Environmental Assessment Act, 2012 (CEAA 2012). We don't provide financing to projects or activities that will cause significant adverse environmental effects.

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

In 2017-18, FCC conducted one environmental assessment for projects that fell under sections 67 to 69 of the CEAA 2012:

- projects on federal lands – 1
- projects outside of Canada – 0
- projects referred to the Governor in Council for decision – 0

## Results and delivery

As a federal Crown corporation, FCC is committed to making a difference in the lives of Canadians by supporting a strong, vibrant and sustainable Canadian agriculture and agri-food sector, which in turn supports a strong, food-secure and sustainable Canada.

By achieving our mandate through the provision of specialized products, services, knowledge and support to Canadian producers and agribusiness and agri-food operators, FCC serves as a trusted partner, enabling the industry to continue to create good jobs and opportunity in rural communities across the country, and to drive the Canadian economy. For a summary of the results we delivered in 2017-18 for our customers, Canadian agriculture and all Canadians, along with expected outcomes, key performance indicators and targets, refer to the Results Commitment section.

# Corporate governance

FCC is governed by the Farm Credit Canada Act and the Financial Administration Act. Like other Crown corporations, we're subject to laws such as the Privacy Act, Access to Information Act, Canadian Labour Code, Federal Accountability Act, Employment Equity Act and Official Languages Act.

FCC is accountable to Parliament through the Minister of Agriculture and Agri-Food. We report to Parliament and Canadians on our operations through our annual report, corporate plan summary and quarterly financial reports, and our Board of Directors provides oversight to ensure we're serving the industry and Canadians.

We build relationships with our customers, partners and stakeholders to better understand and support the needs of the agriculture and agri-food industry. We also look to a variety of stakeholders and partners for guidance and expertise in public sector governance practices.

FCC representatives regularly meet with partners at Agriculture and Agri-Food Canada, the Treasury Board of Canada Secretariat, the Department of Finance and other federal Crown corporations to ensure our policies and procedures are current and sound. We communicate with Export Development Canada and Business Development Bank of Canada to share ideas and best practices about ways we can work together to benefit customers. We also seek opportunities to work with banks and credit unions to meet our customers' financial needs.

### Board of Directors

The FCC Board of Directors represents Canadians and the breadth of the agriculture and agri-food industry. Its expertise contributes significantly to the corporation's mandate and strategic direction. The Board ensures FCC remains focused on our vision, mission and values, and fulfilling our 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. FCC and the Board are fully compliant with the government's new process regarding the appointment of directors to fill current and future vacancies.

FCC's Board of Directors welcomed six new appointments, announced by the Minister of Agriculture and Agri-Food on November 17, 2017. The new members come from diverse backgrounds and have extensive knowledge and experience in farming, finance, law and science.

Appointed to four-year terms are: Bertha Campbell (Prince Edward Island), Laura Donaldson (British Columbia) and Govert Verstralen (Ontario). Appointed to three-year terms are: Del Anaquod (Saskatchewan), Michele Hengen (Saskatchewan) and James Laws (Ontario). Minister MacAulay also reappointed Jane Halford (Alberta) to a second three-year term.

Board renewal is important for effective corporate governance and we welcome the insights and expertise of our new and returning directors, with thanks to our departing members for their contributions.

The Board is responsible for the overall governance of FCC. It ensures business activities are in the best interests of the corporation and the Government of Canada. Board members participate in the strategic planning process and approve FCC's strategic direction and corporate plan. The Board also exercises its responsibility to ensure risks associated with FCC's business have been identified. The Board ensures appropriate authorities and controls are in place, risks are properly managed and the achievement of the corporation's goals and objectives is not in jeopardy.

The Board is responsible for six major areas:

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

Senior FCC managers work closely with the Board to ensure the Board is fully aware of the corporation's affairs. The Chief Financial Officer, the Chief Operating Officer and the Chief Risk Officer attend every Board meeting. Other members of the Enterprise Management Team also attend meetings on a rotating basis to strengthen the relationship between the Board and management.

Time is set aside at each meeting for the Board and its committees to meet without management present.

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

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

In January, the entire Board attended a two-day orientation meeting. It served to inform the new Board members about the corporation and allow all members to get to know each other.

Each year, the FCC Board of Directors hosts an annual public meeting in August where we report our activities and financial results and listen to feedback from interested stakeholders and the Canadian public about our mandate and strategic direction.

**Code of conduct, ethics and values**

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

The Board has also established a process to directly disclose any potential violations of the code by the President and CEO or his direct reports, and a policy that specifies how to address situations where a director has a conflict of interest. FCC's Integrity Officer discloses all possible violations of the code and discusses ongoing employee education and awareness with the Board annually. All employees are required to participate in an online training program each year to ensure they understand and apply the Code of Conduct and Ethics.

**Board composition**

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

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

**Audit Committee**

**Chair:** Govert Verstralen

**Members:** Bertha Campbell, Laura Donaldson, James Laws and Doris Priddle

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

The Audit Committee oversees the integrity, accuracy and timeliness of FCC's financial performance and audit functions.

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

The Board is committed to financial transparency. The OAG audits FCC's financial statements every year and attends all Audit Committee meetings. The OAG also performs a special examination at least every 10 years. The purpose of the special examination is to ensure FCC's systems and practices provide reasonable assurance that assets are safeguarded, resources are managed economically and efficiently, and operations are carried out effectively. The most recent special examination of FCC was completed July 31, 2012.

**Corporate Governance Committee**

**Chair:** Laura Donaldson

**Members:** Dale Johnston (Board Chair), Del Anaquod, Bertha Campbell, James Laws and Doris Priddle

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

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

**Human Resources Committee**

**Chair:** Jane Halford

**Members:** Dale Johnston (Board Chair), Del Anaquod, Sylvie Cloutier, Michele Hengen and Jason Skinner

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

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

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

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

**Risk Committee**

**Chair:** Michele Hengen

**Members:** Sylvie Cloutier, Jane Halford, Jason Skinner and Govert Verstralen

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

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

**Board performance**

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

The Board assesses its collective performance and the individual performances of its directors through a structured self-evaluation process. Position profiles for the Chair and individual directors are reviewed to ensure they accurately describe desired competencies and skills. Gaps are addressed through new appointments, training, and hiring outside experts to assist the Board in its review of technical or specialized issues.

**Compensation**

Directors are paid an annual retainer and per diem amounts established by the Governor in Council, pursuant to the Financial Administration Act. Rates were last set on January 8, 2008:

- The Board Chair receives an annual retainer of $12,400.[2]
- Committee chairs receive an annual retainer of $7,200.
- Other directors receive an annual retainer of $6,200.
- All directors, including the Chair, receive a per diem of $485 for meetings, training sessions, travel time and FCC-sponsored events.
- Directors are reimbursed for out-of-pocket expenses, including travel and accommodation while performing their duties. Board members are subject to their own travel expense policy, which is substantially the same as the expense policy applicable to FCC employees. Board members receive per diems for meals and incidentals rather than reimbursement for actual expenses paid.

During 2017-18, there were five Board meetings and 17 committee meetings. Total remuneration (annual retainer and per diems) paid to all directors was $146,223. Total Board travel and related expenses were $126,156, compared to $125,021 in 2016-17.

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

## 2017-18 Board remuneration, attendance and expenses

| Director | Board retainer (A) | Per diems (B) | Total remuneration (A & B) | Board meeting attendance | Committee meeting attendance | Board travel and related expenses |
|---|---|---|---|---|---|---|
| Del Anaquod | $ 2,325 | $ 5,820 | $ 8,145 | 2 of 2 | 2 of 2 | $ 4,121 |
| Don Bettle | 4,500 | 4,365 | 8,865 | 2 of 3 | 3 of 4 | 6,595 |
| Bertha Campbell | 2,325 | 5,335 | 7,660 | 1 of 2 | 3 of 3 | 6,091 |
| Sylvie Cloutier | 7,200 | 9,700 | 16,900 | 5 of 5 | 7 of 8 | 17,324 |
| Laura Donaldson | 2,408 | 6,305 | 8,713 | 2 of 2 | 3 of 3 | 5,594 |
| Jane Halford | 7,200 | 9,700 | 16,900 | 5 of 5 | 12 of 12 | 6,611 |
| Michele Hengen | 2,325 | 4,365 | 6,690 | 2 of 2 | 2 of 2 | 2,738 |
| Dale Johnston | 4,999 | – | 4,999 | 5 of 5 | 6 of 6 | 14,943 |
| James Laws | 2,325 | 7,518 | 9,843 | 2 of 2 | 3 of 3 | 11,580 |
| Jamie Muir | 3,875 | 7,275 | 11,150 | 3 of 3 | 4 of 4 | 9,784 |
| Doris Priddle | 6,200 | 9,700 | 15,900 | 5 of 5 | 9 of 9 | 22,013 |
| Brenda Schoepp | 3,875 | 1,940 | 5,815 | 2 of 3 | 3 of 3 | 2,194 |
| Jason Skinner | 7,200 | 8,730 | 15,930 | 5 of 5 | 11 of 11 | 5,618 |
| Govert Verstralen | 2,408 | 6,305 | 8,713 | 2 of 2 | 3 of 3 | 10,950 |
| **Total** | **$ 59,165** | **$ 87,058** | **$ 146,223** | | | **$ 126,156** |

There were five Board meetings, as well as seven Audit, two Corporate Governance, three Human Resources and five Risk meetings. In addition, the Board attended an orientation session in January and Canada's Agriculture Day in February. These events are not included in the attendance report but per diems and expenses incurred have been included.

### Enterprise Management Team

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

The Enterprise Management Team is responsible for business results and corporate decision-making, including the strategic vision, investment strategy, allocation of enterprise resources and resolution of major strategic issues. All executives, with the exception of the President and CEO, are paid within salary ranges and compensation policies approved by the FCC Board of Directors. The Governor in Council establishes the President and CEO's compensation.

In 2017-18, the base salary range for the President and CEO was set at $257,900 to $303,400. There are two base salary ranges for Executive Vice-Presidents. One range is set at $197,710 to $290,745 and the second range is set at $228,335 to $387,485. In addition to the base salary, a significant part of their total remuneration is dependent upon the performance of the corporation, the individual executive and the executive's division.

# Board of Directors*

| | | | |
|---|---|---|---|
| **Dale Johnston**<br>Owner/Operator, mixed farming operation<br>Ponoka County, Alta. | **Michael Hoffort, P.Ag., ICD.D**<br>President and CEO, FCC<br>Regina, Sask. | **Del Anaquod**<br>Principal Founder, First Nations Bank of Canada<br>Former President, First Nations University of Canada<br>Regina, Sask. | **Bertha Campbell**<br>Co-owner, dairy, beef and potato farm<br>Grahams Road, P.E.I. |
| **Sylvie Cloutier, BA Comm.**<br>President and CEO, Council of Food Processing and Consumer Products<br>Bromont, Que. | **Laura Donaldson**<br>Lawyer<br>Qualicum Beach, B.C. | **Jane Halford**<br>Co-Founder, BOLT Transition Inc.<br>Edmonton, Alta. | **Michele Hengen**<br>President, Elite Strategies<br>Regina, Sask. |
| **James Laws**<br>Agricultural Consultant<br>Ottawa, Ont. | **Doris Priddle**<br>Owner, Priddle Farms Inc.<br>Toronto, Ont. | **Jason Skinner**<br>CEO, North West Terminal Ltd.<br>Wilkie, Sask. | **Govert Verstralen**<br>Managing Director, GTV Consulting Inc.<br>Scarborough, Ont. |

# Enterprise Management Team*

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

* To see FCC's Board of Directors and EMT biographies, please go to fcc.ca/annualreport.

# Corporate social responsibility

As Canada's leading agriculture lender, we're passionate about helping the industry succeed. We're committed to our customers through good times and bad, support rural Canada and build an engaged workforce. We believe operating in a socially, economically and environmentally sustainable way is an investment in the future.

Our corporate social responsibility framework includes five focus areas:

### Agriculture and food

We provide knowledge and education, support initiatives and form partnerships that make the industry stronger.

### Community

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

### Customers

We provide financing and services for primary producers, suppliers and processors along the agriculture value chain.

### Employees

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

### Environment

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

## FCC corporate social responsibility performance

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

We're proud of our progress and our ability to move our corporate social responsibility goals forward so we can continue to make a positive impact on Canadian agriculture.

You can read the full story in our Corporate Social Responsibility Report at fcc.ca/CSRreport.

# 2017-18 CSR highlights

**15,203**
ATTENDEES
at **FCC Learning Events**

FOUNDING PARTNER OF
**Agriculture More Than Ever,**
bringing together
**535 partners**

**93%**
**of employees**
believe
FCC is
**socially and environmentally responsible**

**250+ events**
CELEBRATING
**Canada's Agriculture Day**

**287 customers supported**
through the **FCC AgCrisis Fund**

**1,520,286**
**views, clicks and downloads** of online knowledge offerings

* Results as of March 31, 2018.

# Management's discussion and analysis



**Caution regarding forward-looking statements**

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

**Basis of preparation of financial information**

FCC's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The MD&A is intended to be read in conjunction with the March 31, 2018, Consolidated Financial Statements and the corporate plan documents.

# Economic environment

Global economic trends shape the business environment of Canadian agricultural operations, food processors and input suppliers. In 2017, the global economy expanded as economies in Europe, Japan and Russia all experienced improved economic growth. The Chinese economy also experienced strong growth, alleviating concerns of a slowing economy.

Domestically, broad-based improvements in the Canadian economy made Canada the fastest-growing economy of G7 countries with growth of 3.0%. As a result, the overall economic climate remained favourable for the entire Canadian agri-food supply chain in 2017.

## Demand for agriculture commodities remains strong

The global economy grew at an estimated pace of 3.6% in 2017. Growth in emerging markets remained relatively strong, while growth in advanced economies remained weaker but improving. This has significant implications for the global demand for food and agricultural commodities, which has remained strong. Higher incomes in emerging market economies raise the demand for animal-based proteins and processed food products as consumers allocate their additional income to food spending. Improvements in advanced economies are supporting demand for restaurant meals and prepared foods.

China imports more than 65% of soybeans that are traded, and it's also the largest hog-producing country in the world. These are only two examples of the weight China carries in the global agricultural market. China's gross domestic product (GDP) grew at an annual rate of 6.8%, a slower pace than the five-year GDP average of 7.3% (2012 to 2016). This had limited effect on demand for agriculture commodities and food as disposable incomes of Chinese consumers continue to grow, increasing the demand for products such as animal-based protein.

India is another economy that has a great impact on agricultural markets. Economic growth of 6.8% in 2017 resulted in a strong demand for Canadian pulses. Large domestic production of pulse crops resulted in the Indian government imposing tariffs on all imports of peas, negatively affecting Canadian pulse exports.

The United States remains Canada's largest export market. This is also true for Canada's agriculture, food processing and agribusiness sectors, accounting for roughly 30% of our agriculture exports and more than 70% of our food and beverage manufacturing exports.

An expanding U.S. economy pushed the unemployment rate down to 4.1% in 2017, supporting increased demand for value-added foods. Impressive job creation led to increased consumer confidence and higher disposable income. The Federal Reserve raised its key interest rate for the fourth time since 2016, representing a departure from the low interest rate environment. While a modest monetary policy response by historical standards, this represents a departure from the low interest rate environment of the past eight years. Strong economic performance continued to support a strong U.S. currency, negatively impacting U.S. competitiveness in international markets and resulting in continued weakness in U.S. farm income.

## Canadian dollar supports farm income

The Canadian economy grew at an estimated annual rate of 3.0% in 2017. Broad-based improvements in the overall economy led to a significant decrease in the unemployment rate, ending 2017 at 5.7% – the lowest rate in 40 years. Strong economic growth resulted in the Bank of Canada increasing its key interest rate 0.25% twice in 2017. Despite the increases in interest rates, borrowing costs remain historically low, encouraging agricultural operations and agribusinesses to leverage growth opportunities and make investments.

The price of oil has found stability, trading around US$50 per barrel in 2017. Improvements in commodity prices and two interest rate increases supported a Canadian dollar at US$0.77 in 2017, which remained favourable to support Canadian exports. Overall, Canadian agriculture benefits from a low dollar as it supports farm revenues by lifting prices paid to Canadian producers and making Canadian products competitive in the world market. Although some input prices (machinery and equipment) have been driven higher, the weaker Canadian dollar supported strong profit margins for Canadian crop, livestock and food processing sectors.

# Agriculture industry overview

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

Canadian farms remain in a strong position to meet their financial obligations. Despite a number of production challenges for farmers across the country, we saw strong crop and livestock production, robust demand for agricultural commodities and food. The Canadian dollar also supported strong farm revenues in 2017.

## Farm revenues grow on better-than-expected crop production

Despite dry conditions in many parts of western Canada and excessive precipitation in the east, production in 2017 was similar to 2016. Overall production of principal field crops was 93.1 million tonnes, compared to 94.3 million tonnes last crop year. Farm cash receipts were also supported by large inventories of principal field crops, increased consumer demand for dairy, changes in dairy pricing, expansion of the hog herd and relatively strong livestock prices.

In 2017, overall crop receipts increased 1.4% while livestock receipts increased 3.9%, according to AAFC's 2017 Canadian Agricultural Outlook. Strong farm revenue is expected to result in record farm cash income.

Farm input prices were on average 1.0% higher in 2017 compared to 2016. Machinery and equipment were up, while fertilizers, feed and energy were down. Average fertilizer prices were down 5.0% in 2017, supporting profit margins for crop producers.

## Farmland values continue to trend higher

Strong farm cash receipts and low interest rates supported strong investment in Canadian farm operations. As a result, farmland values increased an average of 8.4% in 2017. More information regarding farmland values, including regional analyses, is available in FCC's Farmland Values Report.

Continued growth in farmland values helped fuel a 3.6% increase in farm asset values in 2017, according to AAFC's 2017 Canadian Agricultural Outlook. The growth in farm assets is expected to support an expansion in overall net worth of Canadian farms.

## Investment in farms pushing debt higher

Total farm debt is forecast to grow 5.0% in 2017, according to AAFC's 2017 Canadian Agricultural Outlook. This would result in Canadian farm debt exceeding $100 billion in 2017. Farm debt has increased at an average annual rate of 6.2% from 2008 to 2016 as producers continue to make strategic investments to improve productivity and efficiency of their farm operation.

## Trade expands for Canadian agriculture and agri-food

Exports are key to Canada's success as an agricultural producer. With a small population and vast arable land, we must export the production we can't consume. Canada is the fifth-largest exporter of agriculture products and the eleventh-largest exporter of agri-food products in the world.

The U.S. accounted for 53.4% of Canadian agriculture and agri-food exports in 2017, compared to 57.4% in 2006.[3] With strong growth in emerging markets such as China, Malaysia and Vietnam, Canada is likely to continue to diversify exports away from the U.S. market.

[3] Statistics Canada, based on NAICS Codes.

The landscape for world trade evolved in 2017 in response to a strong pushback against globalization in different parts of the world. Canada supported global trade, implementing the Comprehensive Economic Trade Agreement with the European Union to create export opportunities for red meats, grains and oilseeds, and processed foods. In addition, Canada recently signed the Comprehensive and Progressive Trans-Pacific Partnership, promising Canada increased market access to Japan – the world's third-largest economy – as well as the fast-growing economies in the Asia-Pacific region.

### Canadian food preferences continue to evolve

Canadian consumers have an increasing influence on the agri-food supply chain. Preferences of Canadian households have evolved toward healthy and convenient foods that are produced in a sustainable manner, leading producers and processors to develop food products with specific nutritional value and various attributes. This opens up new supply chains and profit opportunities for the entire sector. Producers in all sectors also continue to evolve their practices to meet consumer expectations around food safety and sustainability.

## Current and potential impacts for FCC

Canadian agriculture is financially healthy and demand for agriculture commodities remains strong. In 2017-18, FCC experienced growth in all major business lines, including primary production, agri-food operations and agribusinesses, making it our 25th year of consecutive portfolio growth. FCC anticipates continued growth in the agricultural industry and our lending portfolio across all sectors.

A key element of continued financial viability is cost management and operational efficiency balanced against the requirements of a growing enterprise. We continue to maintain our strong efficiency and financial performance, focusing on delivering services in an efficient manner and optimizing how we operate enterprise-wide. We are committed to making investments to improve foundational business systems and data management, enhance digital solutions to facilitate customer and partner interactions, and mature a sustainable innovation practice.

We are focused on enhancing our risk management practices to keep pace with the growing complexity of the business. FCC manages capital in compliance with our Board-approved Capital Management policy and framework and we currently operate above the targeted capital level, resulting in a dividend payment of $308.3 million to the Government of Canada in 2017-18.

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

# Strategic overview

Our strategic direction is aligned with our mandate, including our mission and vision, along with the direction from the Government of Canada and the Minister of Agriculture and Agri-Food's mandate letters[4] received August 31, 2016, and February 27, 2018.

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

Within each theme, FCC sets one to five-year plan performance measures (Plan) that define how we'll measure our progress each year against the objectives set out in the strategy. In 2018-19, we will continue to focus on the main themes outlined in past years. While customer experience remains important, there will be particular focus on building FCC's capability to support the growth potential for the agriculture and agri-food industry.

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

[4] FCC's mandate letter is available on the Agriculture and Agri-Food Canada website.

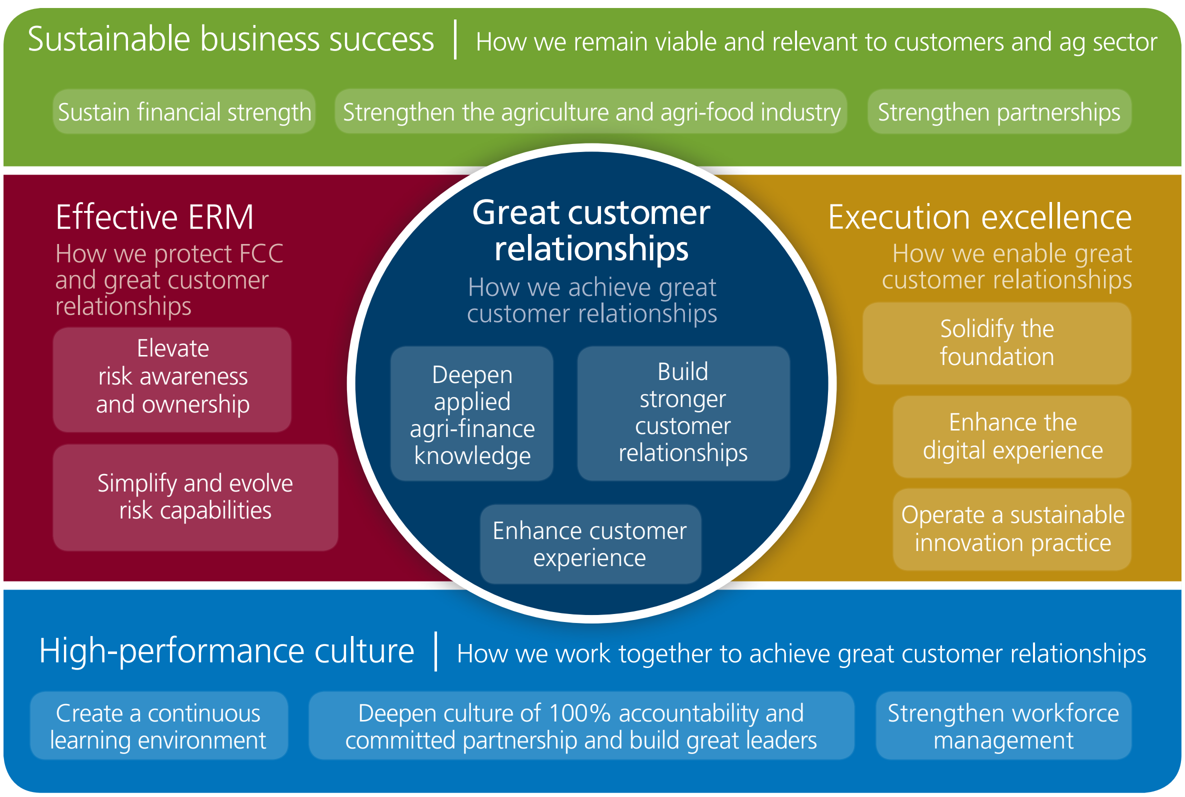
# FCC 2017-18 corporate strategy map

## Vision

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

## Mission

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



# Sustainable business success

How we remain viable and relevant to customers and the ag sector

| Performance Measures | 2015-16 Result | 2016-17 Result | 2017-18 Plan | 2017-18 Actual | 2018-19 Plan | 2019-20 Plan |
|---|---|---|---|---|---|---|
| **Sustain financial strength** | | | | | | |
| Net income | $615.5 million | $613.8 million | $570.5 million | $669.9 million | $648.8 million | $684.2 million |
| Return on equity | 12.3% | 11.3% | 10.2% | 11.5% | 10.6% | 10.7% |
| Capital adequacy measure | 16.7% | 16.3% | 16.3% | 16.2% | 16.0% | 16.0% |
| Efficiency ratio[5] | 35.2% | 36.6% | 38.7% | 34.9% | 38.0% | 37.9% |
| **Strengthen the agriculture and agri-food industry** | | | | | | |
| Young farmer lending | $2.63 billion | $3.2 billion | $2.89 billion | $3.29 billion | Ag production: $3.09 billion<br>Agribusiness and agri-food: $145.2 million | Ag production: $3.17 billion<br>Agribusiness and agri-food: $151.0 million |
| Percentage of customer count in small and medium-sized segments | 86% | 80.8% | > 80% | 79.5% | > 80% | > 80% |
| Investigate internal environmental baseline measure[6] | N/A | N/A | N/A | Measure and target established: Reduction of 353 tonnes of $CO_2e$ | Reduction of 353 tonnes of $CO_2e$ | Reduction of 353 tonnes of $CO_2e$ |
| **Strengthen partnerships**[7] | | | | | | |

## Key results – 2017-18 Corporate Plan objectives

### Sustain financial strength

We're committed to remaining financially self-sustaining in the long term while investing in the agriculture industry. By ensuring we operate in a financially and socially responsible way, we can ensure FCC is ready and able to serve the industry through both good and challenging times.

Four measures are used to track progress on this objective. Net income, return on equity and efficiency ratio were favourable against Plan. Total capital ratio was slightly lower than Plan.

[5] In 2017-18, the efficiency ratio measure was moved into the Sustainable Business Success theme. It was moved out of the Execution Excellence theme as this theme no longer captures efficiency initiatives at FCC.

[6] In 2017-18, an internal baseline measure and target was set as part of FCC's greenhouse gas (GHG) reduction strategy. The target is to reduce FCC's GHG emissions by 40% by 2025 based on 2012 levels. Reporting on this measure will begin in 2018-19.

[7] There is no measure for this corporate objective. In 2016-17, the media favourability index measurement was removed when the corporate objective shifted from "strengthen reputation" to "strengthen partnerships." Media favourability continues to be tracked, but is no longer an accurate measurement for the corporate objective.

A key initiative related to this strategic theme – enhance loan pricing structure and governance – continued in 2017-18. Work this year focused on design of new internal systems and processes to determine, track and report on individual components of the loan price. This initiative will continue in 2018-19.

**Strengthen the agriculture and agri-food industry**

As a Crown corporation, we play a lead role in providing financing for agribusiness and agri-food operators. The agriculture industry is often affected by volatility in commodity prices, adverse weather conditions, livestock and crop diseases, and trade implications. We take a long-term view and remain committed to customers and the industry in difficult times by providing steady access to capital. Two measures have been identified to track progress on this objective. The young farmer lending exceeded Plan and the percentage of small and medium-sized segments was slightly below Plan.

Four corporate initiatives were identified for this objective. The first was to advance FCC's environmental sustainability and that of our customers. FCC has developed an aggressive, multi-faceted approach to achieve greenhouse gas reductions in line with the federal sustainable development target of 40% by 2025 based on 2012 levels. This initiative supports our commitment to operate in a socially and environmentally responsible manner.

The second initiative identified to further this objective was to support agriculture producers with new products and services. We worked with partners to launch Ignite, the FCC Young Farmer Summit. Five free events were held across Canada aimed at attracting and engaging the next generation of farmers under age 40.

The third corporate initiative – expand customer reach within the agribusiness and agri-food sector – is underway. While primary production is the foundation of our business, FCC recognizes the importance the agribusiness and agri-food sector has on Canada's agriculture industry. A strategy is currently being developed to position FCC to better serve this market. Execution of this strategy will begin in 2018-19.

The fourth initiative – to build a positive perception of the agriculture industry – was achieved through the Agriculture More than Ever cause. In 2017-18, FCC launched an "agvocate" ambassador program in Alberta, Ontario and Quebec. This, coupled with delivering public trust materials to support producers, has increased the reach of the cause and created further positive awareness about agriculture and food.

Also, in support of this initiative, FCC worked with partners across the country to deliver the second annual Canada's Agriculture Day, which was held February 13, 2018, and featured more than 250 events nationwide. This day brought together industry, government and consumers to create dialogue and awareness about Canadian food, and to celebrate and increase the positive perception of the agriculture industry.

**Strengthen partnerships**

FCC acts as a catalyst to connect the agriculture industry to experts, communities and knowledge, strengthening relationships with stakeholders and increasing support for the industry through strong private sector and commercial Crown financial partnerships. There are no measures to track progress, however, one initiative was established to deliver this objective.

The initiative – continue to advance stakeholder relationships – was designed to develop a co-ordinated, consistent and strategic approach to stakeholder engagement, protect FCC's reputation and help the organization respond to risks and opportunities to support the Government of Canada's priorities. To achieve this initiative, FCC spoke at over 50 industry events to share knowledge and engage the industry on the topic of public trust and agriculture. FCC also serves as a connector for the industry by facilitating conversations among industry groups and individuals to address challenges and opportunities in agriculture.

## Great customer relationships

How we achieve great customer relationships

| Performance Measures | 2015-16 Result | 2016-17 Result | 2017-18 Plan | 2017-18 Actual | 2018-19 Plan | 2019-20 Plan |
|---|---|---|---|---|---|---|
| **Build stronger customer relationships** | | | | | | |
| Customer experience index[8] | 62.8% | 64.6% | 62.0% | 65.8% | Replaced with Net Promoter Score® | Replaced with Net Promoter Score® |
| **Enhance customer experience** | | | | | | |
| Easy to do business – CEI measure[9] | 62.1% | 63.9% | 62.5% | 64.7% | Discontinued | Discontinued |
| **Deepen applied agri-finance knowledge** | | | | | | |
| FCC Learning post-event survey – attendees “likely to use information” | N/A – new measure in 2016-17 | 4.7 | ≥ 4.0 | 4.46 | ≥ 4.0 | ≥ 4.0 |

### Key results – 2017-18 Corporate Plan objectives

**Build stronger customer relationships**

FCC’s approach to customer relationship management is proactive, innovative and highly disciplined. Customer feedback gathered through the Customer Experience Index (CEI) is analyzed and shared with front-line employees to promote continual learning that strengthens their relationships with customers.

On October 1, 2017, FCC implemented a new tool, Net Promoter Score®, to measure our future progress on this initiative. The tool offers two major advantages over the CEI, including increased program simplicity and an ability to compare the FCC experience to other recognized companies with a similar customer experience focus.

Two initiatives were established to deliver on this objective. The first initiative was designed to make it easier for employees to build meaningful customer relationships. FCC has a well-defined relationship management process to ensure customers are provided with a consistent and exceptional experience at every encounter. To deliver on this objective, we implemented changes to our customer segmentation definitions as well as improving our relationship management processes, tools and analytics.

The second initiative was to implement our newly defined customer experience principles. FCC takes pride in delivering exceptional customer experiences. To ensure employees across the corporation deliver a consistent experience, we launched a series of workshops designed to communicate the refreshed customer experience principles to all employees.

[8] The CEI measure was replaced with the Net Promoter Score® as of October 1, 2017. Measurement for this year will reflect the CEI score as of September 30, 2017.
[9] The easy to do business subset of the CEI is being discontinued in 2018-19 after adopting the Net Promoter Score®.

**Enhance customer experience**

FCC customers are knowledgeable business professionals who manage multiple priorities every day. Our customers want smooth, efficient interactions with FCC that add value to their businesses. One measure is used to track progress on this initiative. The easy to do business subset of the CEI, which measures how easy it is for customers to do business with FCC, exceeded Plan. We discontinued this measure after adopting Net Promoter Score®, which will provide future measurement for this objective.

Two initiatives have been identified to deliver on this objective. The first initiative was to improve processes so customers can transact with ease. Customer correspondence has been redesigned to ensure correspondence is easy for customers to use and understand. Also, we launched AgExpert Field, an enhanced version of FCC Management Software's field record-keeping tool. This cloud-based farm management solution allows anywhere, anytime, any device access to our customers, improving their customer experience.

The second initiative was to offer digital solutions to facilitate customer and partner interactions. To deliver on this initiative, we launched FCC Mobile for iPhone and Android, which provides customers with a quick, easy way to view loan information, request loan disbursements, manage their profiles, contact their relationship management team and access the best business advice from FCC's online knowledge library. We also improved our Online Services platform, making it easier for our customers to access their loan information.

**Deepen applied agri-finance knowledge**

We take pride in our knowledgeable agriculture lending team members, who are responsive, solution-focused, understand agricultural risk and apply their knowledge every day to serve customers. There is no measure in place to track this objective. One initiative – advance employee knowledge about topics related to agri-finance – has been identified to deliver on this objective. To achieve this, we developed new content, much of which is featured on FCC's intranet, including sector-specific information and economic policy sense-making. In addition, we delivered in-depth employee training on security management and fraud risk.

Agriculture is a highly competitive and constantly changing industry. We are committed to helping our customers understand the changing landscape and grow their business management capabilities through a host of knowledge opportunities. Progress on this objective is tracked through the measure: FCC Learning post-event survey – attendees "likely to use information." In 2017-18, attendees rated this measure at 4.46 out of 5, which met Plan.

One initiative – provide knowledge to advance customers' management capabilities – was achieved through multiple offerings. Our digital Ag Knowledge library, including our Ag Economics blog, was viewed over 1,520,000 times in 2017-18. Over 400,000 copies of our farm management magazine, AgriSuccess, were distributed. In addition, FCC delivered a total of 123 learning events to over 15,203 attendees across the country.

# Execution excellence

How we enable great customer relationships

| Performance Measures | 2015-16 Result | 2016-17 Result | 2017-18 Plan | 2017-18 Actual | 2018-19 Plan | 2019-20 Plan |
|---|---|---|---|---|---|---|
| **Solidify the foundation** | | | | | | |
| Easy to do business index: A subset of the employee engagement score | 78.4% (0.4% higher than the average of the Platinum and Gold employers) | 77.4% (0.8% lower than the average of the Platinum and Gold employers) | Greater than the average of the Platinum and Gold employers | 77.8% (0.2% less than the average of the Platinum and Gold employers) | Greater than the average of the Platinum and Gold employers | Greater than the average of the Platinum and Gold employers |
| Data management maturity target in development[10] | N/A | N/A | TBD | Measure no longer being pursued | N/A | N/A |
| **Enhance the digital experience** | | | | | | |
| **Operate a sustainable innovation practice** | | | | | | |
| Investigating new measures[11] | N/A | N/A | TBD | Deferred to 2018-19 | TBD | TBD |

## Key results – 2017-18 Corporate Plan objectives

FCC is committed to high performance and accountability to achieve execution excellence. In 2017-18, we focused on improving and streamlining foundational corporate processes and functions to enhance corporate agility. By simplifying how we do business, FCC is making it easier for employees and providing a better customer experience.

### Solidify the foundation

To deliver great customer relationships, employees must have a strong foundation from a technology, systems and processes standpoint. Progress on this objective is tracked through the employee engagement – easy to do business index, which tracked 0.2% less than the average of Platinum and Gold employers.

The first initiative – improve integrity and productivity in FCC's key processes – was implemented to standardize terminology and definitions across platforms to improve consistency.

The second initiative was to enhance FCC's digital infrastructure necessary for the future. FCC's public website has been upgraded, with all content accessible on mobile devices. Progress has also been made toward replacement of our current HR system with a cloud-based offering and implementation is scheduled for 2018-19.

[10] Upon further investigation, this measure will not be pursued further. This objective is being updated in 2018-19.
[11] This measure development has been deferred to the 2018-19 fiscal year.

### Enhance the digital experience

FCC's goal is to develop digital capabilities to unlock opportunities for FCC and our customers. There are no measures to track progress on this objective. One initiative – increase employee enablement – has been achieved through the execution of several activities, including upgraded computers and equipment.

### Operate a sustainable innovation practice

FCC strives to offer solutions that provide value to customers, partners and employees. Work is underway to identify a measure to track progress on this objective. One initiative – mature a sustainable innovation practice – has been identified. To anticipate and focus on evolving expectations of customers and employees, our internal Innovation team continues to support the creation and execution of new digital products and services and is working to improve the overall experience for Alliance customers and partners.

# Effective enterprise risk management

How we protect FCC and great customer relationships

| Performance Measures | 2015-16 Result | 2016-17 Result | 2017-18 Plan | 2017-18 Actual | 2018-19 Plan | 2019-20 Plan |
|---|---|---|---|---|---|---|
| **Elevate risk awareness and ownership** | | | | | | |
| ERM maturity measure | 3.6 | 3.6 | > 3.5 | 3.7 | > 3.5 | > 3.5 |
| **Simplify and evolve risk capabilities** | | | | | | |

## Key results – 2017-18 Corporate Plan objectives

### Elevate risk awareness and ownership

We apply an enterprise risk management approach to manage risks across the corporation in a consistent, co-ordinated manner. Risk management is integrated across business units and governed through various senior leadership management committees to enhance business performance through efficient, effective and aligned risk-taking and decision-making behaviour. Progress on this objective is tracked through the ERM maturity measure, which exceeded Plan.

One initiative – align and integrate accountability for managing risk across FCC – was developed to achieve this objective. Leadership messages as well as communication packages reinforcing accountabilities for managing risk across the three lines of defence were delivered. Work on this initiative continues, including responding to employee survey results on risk awareness and ownership as well as enhancing the corporate procurement function to ensure vendor and third parties acting on behalf of FCC perform effective risk management.

### Simplify and evolve risk capabilities

We continue to simplify and evolve our risk capabilities. This will enable employees to pursue risk-taking opportunities in an efficient way while effectively and consistently managing the risks FCC faces, including financial, strategic, operational and reputation risks.

While there is no measure associated with this objective, three corporate initiatives were created to further this objective.

The first – simplify risk management tools – was achieved through the renewal of key lending documentation and the development of a simplified credit policy framework. Other highlights include enhancements to our financial spreading tools and system integration work that improved the employee and customer experience.

The second – mature enterprise security – was achieved through several projects designed to ensure consistent and repeatable processes, increase awareness and education, and improve our ability to assess trends in security technology and the environment so we can proactively position FCC to be responsive and effective. Some examples include maturing cyber vendor risk management, updated policies and crisis management processes and the addition of systems and databases into our access review tool and lending system.

The third initiative – build sustainable risk practices – was achieved through advancing operational risk management with substantial completion of risk and control self-assessments over key processes, delivering learning on topics such as fundamental legal concepts and financial crimes, and implementing a loan review function to provide proactive, independent insights on the quality of credit risk assessments and their alignment to our risk appetite.

## High-performance culture

How we work together to achieve great customer relationships

| Performance Measures | 2015-16 Result | 2016-17 Result | 2017-18 Plan | 2017-18 Actual | 2018-19 Plan | 2019-20 Plan |
|---|---|---|---|---|---|---|
| **Deepen culture of 100% accountability and committed partnership and build great leaders** | | | | | | |
| Leadership index: subset of employee engagement survey data with respect to leadership indicators | 80.7% (7.2% greater than the average of the Platinum and Gold employers) | 78.7% (5.0% greater than the average of the Platinum and Gold employers) | Greater than the average of the Platinum and Gold employers | 79.5% (6.0% greater than the average of the Platinum and Gold employers) | Greater than the average of the Platinum and Gold employers | Greater than the average of the Platinum and Gold employers |
| Employee engagement | 83.0% (5.0% greater than the average of the Platinum and Gold employers) | 82.0% (4.0% greater than the average of the Platinum and Gold employers) | Greater than the average of the Platinum and Gold employers | 85.0% (7.0% greater than the average of the Platinum and Gold employers) | Greater than the average of the Platinum and Gold employers | Greater than the average of the Platinum and Gold employers |
| Employee experience index: subset of employee engagement survey data with respect to experience indicators | 79.4% (3.8% greater than the average of the Platinum and Gold employers) | 78.2% (2.5% greater than the average of the Platinum and Gold employers) | Greater than the average of the Platinum and Gold employers | 79.8% (3.8% greater than the average of the Platinum and Gold employers) | Greater than the average of the Platinum and Gold employers | Greater than the average of the Platinum and Gold employers |
| **Strengthen workforce management** | | | | | | |
| Diversity measure | 23 (11 were hired on a permanent basis, 11 on 6-month terms and 1 on a short-term basis) | 32 (19 were hired on a permanent basis, 11 on terms and 2 on a short-term basis) | Hire 24 new diversity candidates from the designated groups where we have gaps | 32 (14 were hired on a permanent basis, 15 on terms and 3 on a short-term basis) | Hire 24 new diversity candidates from the designated groups where we have gaps | Hire 24 new diversity candidates from the designated groups where we have gaps |
| **Create a continuous learning environment** | | | | | | |

## Key results – 2017-18 Corporate Plan objectives

**Deepen culture of 100% accountability and committed partnership and build great leaders**

Our culture of 100% accountability is the foundation of the overall employee experience and what enables us to deliver a great customer experience. To measure performance on this objective, we monitor and analyze overall employee engagement, as well as measures related to employee experience and leadership at FCC. FCC exceeded Plan for the leadership index, employee engagement and employee experience measures.

One corporate initiative – to update and execute the leadership and culture strategy – was developed to further this objective. FCC completed the delivery of an enhanced leadership transformation program designed to deepen and strengthen leadership skills of formal leaders.

**Strengthen workforce management**

Workforce management is a strategic business process that helps FCC ensure the right talent is in place to deliver on business priorities. This process is essential to our continued success as it ensures the corporation has the knowledge, skills and abilities to meet our long-term goals. One measure, diversity, is used to track progress on this objective. In 2017-18, we achieved Plan for this measure.

Two corporate initiatives were identified to further this objective. The first initiative – execute the diversity strategy – was achieved through several projects, including expanded participation in Campus for All, a program that creates opportunities for people with cognitive disabilities to gain meaningful employment at FCC. Other initiatives will be implemented in 2018-19.

The second initiative – enhanced mental health programming – was completed in 2017-18 through improvements to our employee and family assistance offering and the delivery of mental health and first aid training for managers. In addition, communication tactics on mental health topics are delivered on a regular basis through our intranet. The intranet also allows employees to participate in a wide range of online discussions on mental health issues.

**Create a continuous learning environment**

Our learning infrastructure supports employee knowledge requirements. The learning strategy is focused on agriculture and finance knowledge, on supporting employees to be continuous learners, and ensuring FCC's learning programs, methods and delivery are current and focused on business and user needs. There are no measures in place to track this objective.

One corporate initiative – develop and implement a comprehensive employee learning strategy – was designed to further the objective. We've applied new technologies and approaches to employee learning that better help employees get the knowledge they need to perform on the job.

## 2018-19 strategy

For 2018-19, FCC will continue to focus on enhancing the customer experience while supporting the growth of the agriculture and agri-food industry by implementing strategies that build for the future. While the framework, foundation and themes of the strategy map will remain similar to 2017-18, added focus on supporting the agriculture and agri-food industry will play a central role in the 2018-19 strategy. Corporate objectives have been updated to respond to our mandate, which will result in the creation of initiatives to support under-represented groups in Canadian agriculture, including women, youth, persons with disabilities and Indigenous agricultural entrepreneurs and producers.

Following an in-depth review of the current state of the agriculture and agri-food industry, FCC identified opportunities to support the industry to achieve its full potential. To do this effectively over the long term, FCC requires strong leadership, skilled employees, clear strategies, sound enterprise risk management and effective business practices. FCC will place increased emphasis on providing capital and business services to the next generation of farm customers as well as Canada's agribusiness and agri-food industry. FCC will develop and launch products, knowledge and expertise that will help new entrants and those currently in the industry to successfully transfer assets to the next generation. FCC will also increase our focus on operating sustainably and supporting the industry to do the same.

An exceptional customer experience and strong digital offering will remain central to how we serve our customers. We're enhancing our digital capabilities to provide employees with seamless access to up-to-date tools and knowledge to serve our customers and the industry. With customer preferences continuously evolving in terms of mobility and enhanced digital capability, we must ensure we can adapt to their changing needs. We also see an opportunity to fill this need by maturing our innovation practice.

FCC will continue to evolve our risk capabilities to protect our ability to deliver exceptional customer experiences over the long run. Doing so will also help to ensure customer demands for seamless transactions and instant decisions can be met while risk levels are appropriately managed.

FCC will enhance our employee experience through focused effort on building great leaders and deepening our high performance culture. Through new learning programs and the execution of a strong diversity strategy, FCC will continue to build our reputation as an inclusive employer of choice.

FCC will continue to use a corporate scorecard to monitor and measure progress against the corporate strategy. The 2018-19 FCC corporate strategy map is represented on the following page.

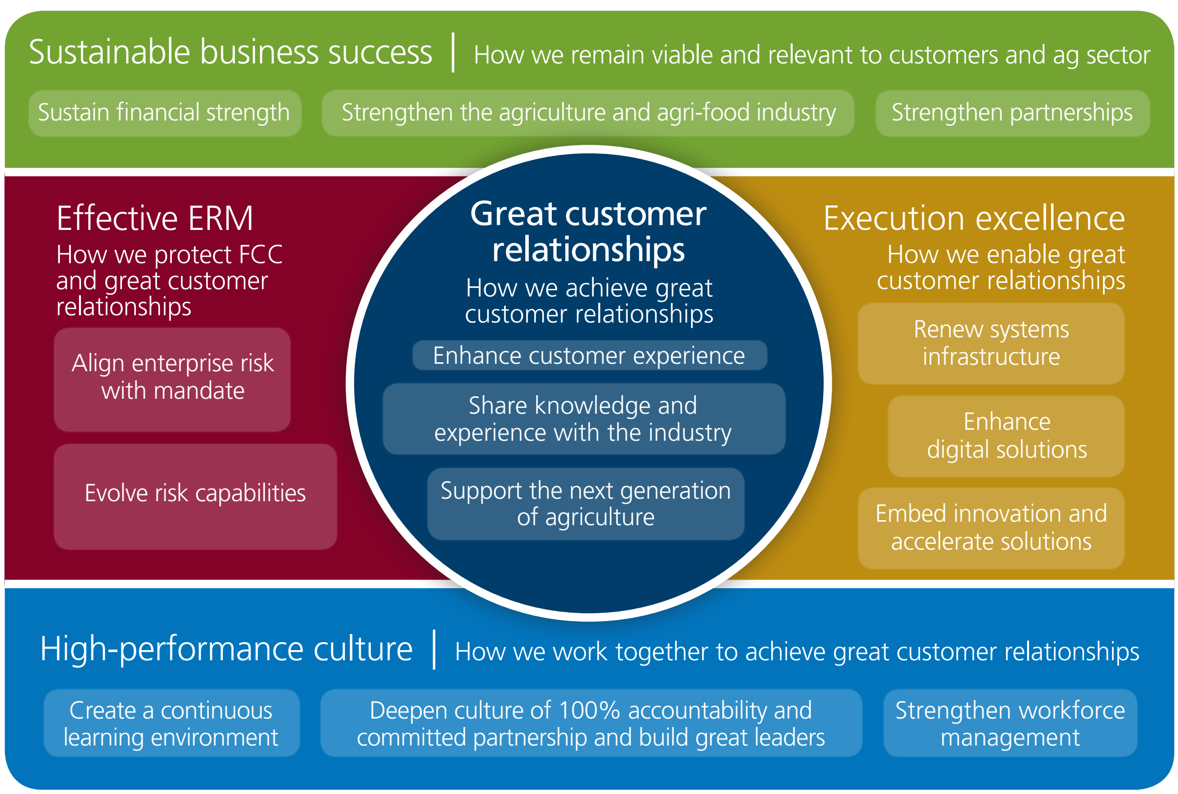
## FCC 2018-19 corporate strategy map

### Vision

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

### Mission

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



# Financial highlights

FCC continued to produce strong financial results in 2017-18. Growth in loans receivable was $2.6 billion, or 8.4%, which was due to strong financial health in the agriculture and agri-food industry and FCC's focus on enhancing the customer experience. Net interest income increased by $75.3 million and equity growth contributed to the maintenance of a sound capital position.

**For the years ended March 31**

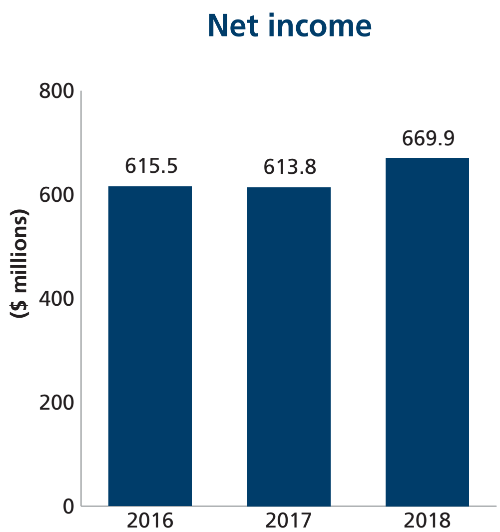
| **Loans receivable portfolio** | 2016 | 2017 | 2018 |
|---|---|---|---|
| Number of loans | 143,700 | 143,952 | 145,011 |
| Loans receivable ($ millions) | 28,656 | 31,221 | 33,859 |
| Growth in loans receivable (%) | 4.9 | 9.0 | 8.4 |
| Impaired loans as a percentage of loans receivable (%) | 0.8 | 0.6 | 0.4 |
| **Consolidated balance sheet ($ millions)** | | | |
| Total assets | 29,951 | 33,014 | 35,318 |
| Total liabilities | 24,597 | 27,273 | 29,257 |
| Total equity | 5,354 | 5,741 | 6,061 |
| **Consolidated statement of income ($ millions)** | | | |
| Net interest income | 986.5 | 996.7 | 1,072.0 |
| Provision for credit losses | 42.6 | 19.3 | 30.9 |
| Non-interest income | 28.8 | 19.6 | 27.2 |
| Administration expenses | 352.4 | 371.1 | 384.6 |
| Fair value adjustment | (4.8) | (12.1) | (13.8) |
| Net income | 615.5 | 613.8 | 669.9 |

# Financial performance review

## Consolidated operating results

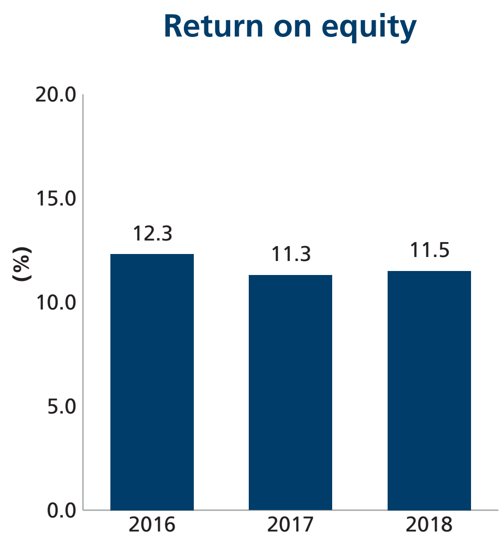
### Net income overview

FCC's 2017-18 net income increased by $56.1 million from the previous fiscal year primarily due to an increase in net interest income and non-interest income, partially offset by an increase in administration expenses and provision for credit losses.




### Return on equity

Return on equity increased to 11.5% in 2017-18 from 11.3% in 2016-17 primarily due to higher net income.



### Net interest income and margin

Changes in portfolio balance and net interest margin are the primary drivers of changes in net interest income. The following table contains historical net interest margins and interest rate spreads. Interest rate spreads are the difference between interest rates earned on interest-earning assets and interest rates paid on interest-bearing liabilities.

## Net interest margin

| As at March 31 ($ millions) | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|
| | **Average balance** | **Rate (%)** | **Average balance** | **Rate (%)** | **Average balance** | **Rate (%)** |
| **Earning assets:** | | | | | | |
| Fixed loan principal balance | 11,363.4 | 4.03 | 13,096.2 | 3.67 | 15,131.6 | 3.66 |
| Variable loan principal balance | 16,409.9 | 3.67 | 16,692.8 | 3.60 | 17,346.8 | 3.93 |
| Investments | 1,293.0 | 0.67 | 1,226.3 | 0.72 | 1,252.9 | 1.18 |
| Venture capital investments | 37.6 | 10.11 | 55.0 | 10.01 | 66.8 | 10.20 |
| Total earning assets | 29,103.9 | 3.80 | 31,070.3 | 3.60 | 33,798.1 | 3.80 |
| Total interest-bearing liabilities | 24,247.1 | 0.49 | 25,709.6 | 0.48 | 28,162.2 | 0.75 |
| Total interest rate spread | | 3.31 | | 3.12 | | 3.05 |
| Impact of non-interest-bearing items | | 0.01 | | 0.03 | | 0.06 |
| **Net interest margin** | | **3.32** | | **3.15** | | **3.11** |

In 2017-18, the lending rate increased due to three prime rate increases. This increased the rate on variable lending and total earning assets. Interest rates on fixed loans continued to be impacted by renewed lending activity in the lower interest rate environment. Interest rates on the corporation's interest-bearing liabilities were higher due to the prime rate increases.

The decrease in the total interest rate spread is partly offset by the favourable impact of increasing interest rates on non-interest-bearing items. The corporation funds a portion of its loan portfolio using its available equity reflected in the non-interest-bearing items. Non-interest-bearing items are contributing an additional return of 0.06% on average assets.

The following table outlines the year-over-year increases to net interest income, including those caused by changes in portfolio volume and net interest margin.

## Net interest income and margin

| For the year ended March 31 ($ millions) | 2016 | 2017 | 2018 |
|---|---|---|---|
| Net interest income | 986.5 | 996.7 | 1,072.0 |
| Average total assets | 29,748.8 | 31,635.7 | 34,447.7 |
| Net interest margin (%) | 3.32 | 3.15 | 3.11 |
| Year-over-year change in net interest income due to: | | | |
| Increases in volume | 45.0 | 70.7 | 85.8 |
| Changes in margin | 8.4 | (60.5) | (10.5) |
| **Total change to net interest income** | **53.4** | **10.2** | **75.3** |

FCC's net interest income increased by 7.6% in 2017-18 to $1,072.0 million. Average total assets increased by 8.9% to $34,447.7 million primarily due to increased loans receivable. Net interest margin decreased to 3.11% in 2017-18 mostly due to the lower interest rate spread.

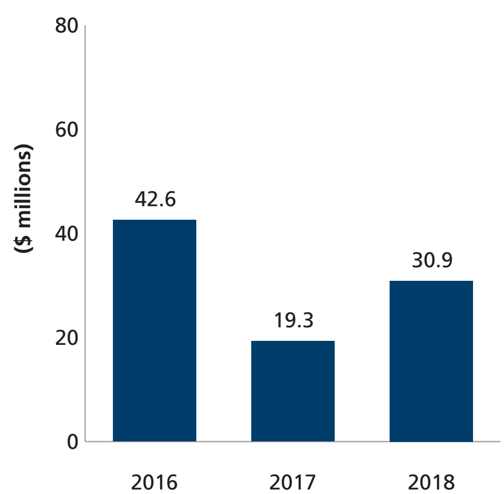
## Non-interest income

FCC generated non-interest income of $27.2 million through FCC Insurance, FCC Management Software and investment in associates. The non-interest income increased by $7.6 million from $19.6 million in 2016-17 primarily due to increased net insurance income resulting from the recovery of a reserve for insurance claims due to a change in actuarial assumption in 2017-18.

## Provision for credit losses

The provision for credit losses increased by $11.6 million from 2016-17 to $30.9 million in 2017-18 primarily due to portfolio growth.

## Provision for credit losses

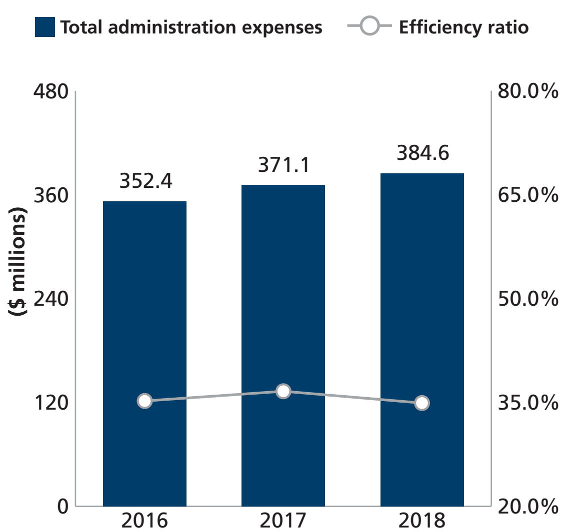


**Administration expenses**

FCC's administration expenses represent the costs associated with day-to-day operations and the costs related to specific projects that support operations and the achievement of strategic objectives. The efficiency ratio measures the percentage of income earned that is spent on business operations. FCC's efficiency ratio improved from 36.6% in 2016-17 to 34.9% in 2017-18 primarily due to higher net interest income and net insurance income, partially offset by increased administration expenses.

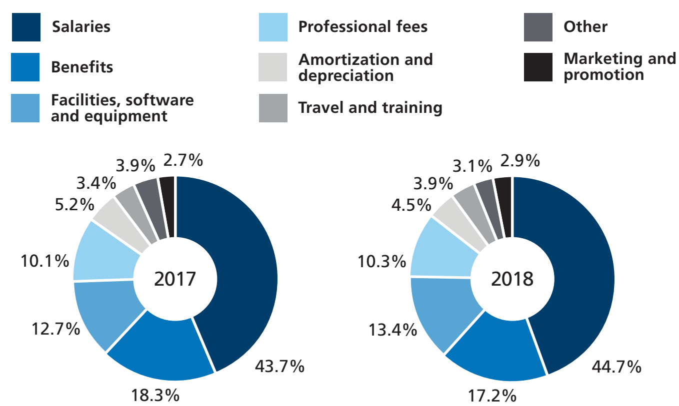
In 2017-18, the administration expenses increased from $371.1 million to $384.6 million primarily due to an increase in salaries required to support business growth, and facilities, software and equipment expenses, which were partially offset by decreased pension expense related to the defined benefit pension plan.

## Administration expenses




The chart below indicates more detailed categorization of the administration expenses. Salaries was the largest component, representing 44.7% of the total administration expenses in 2017-18.

## Administration expenses by category



### Fair value adjustment

FCC's fair value adjustment amount includes changes in the fair value of guarantees, derivative financial assets and liabilities, and venture capital investments. Fair value adjustment decreased by $1.7 million in 2017-18 to ($13.8) million primarily due to a decrease in the fair value of derivative financial assets and liabilities, which mainly related to fluctuations in interest rates. For additional information regarding the calculation of fair value adjustment, refer to Notes 5, 20 and 21 of the Notes to the Consolidated Financial Statements.

## Business lines

### Overview

FCC provides financing, insurance, learning programs, software and other business services to producers, agribusinesses and agri-food operations. FCC serves more than 100,000 customers across Canada through its business lines, which include:

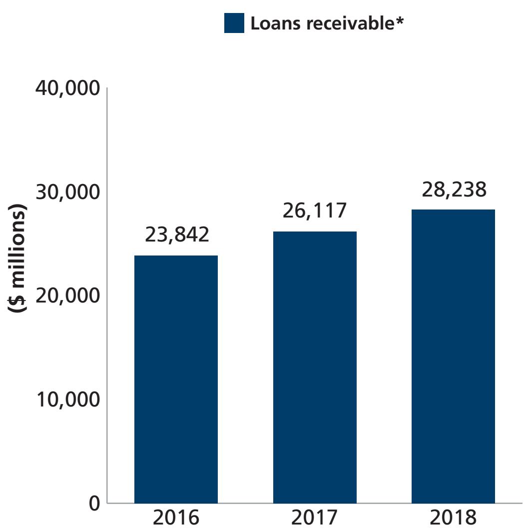
- primary production financing
- agribusiness and agri-food financing
- FCC Alliances
- FCC Ventures
- FCC Insurance
- FCC Learning
- FCC Management Software

Each business line offers specific products and services tailored to address the needs of the Canadian agriculture and agri-food industry. Lending products include standard loans with variable or fixed interest rates and many term, amortization and payment frequency options. The primary driver of FCC's financial performance is lending activity conducted through primary production financing, agribusiness and agri-food financing, and FCC Alliances.

**Primary production financing** provides loans to primary producers and is FCC's largest business line. Customers with loans under this business line produce raw commodities such as oilseeds and grains, cattle, hogs, poultry, sheep and dairy, as well as fruits, vegetables and alternative livestock. This business line also includes, but is not limited to, lending to vineyards, greenhouses, forestry, aquaculture and part-time farming.

Primary production financing was 83.3% of FCC's total loans receivable in 2017-18. Loans receivable for primary production increased $2,121 million from 2016-17, resulting in a portfolio of $28,238 million in 2017-18. The rate of loans receivable growth decreased to 8.1% from 9.5% the previous fiscal year. The main driver of growth in loans receivable was increased disbursements.

## Primary production financing

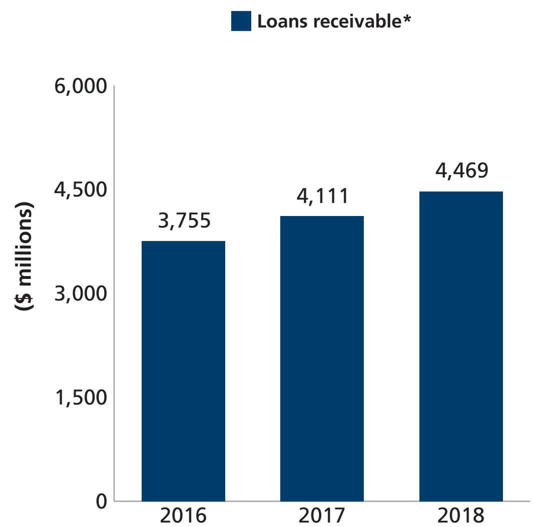



*Excludes deferred loan fees.

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

Agribusiness and agri-food financing loans receivable increased by 8.7% from 2016-17 to $4,469 million in 2017-18. The main driver of growth in loans receivable was increased disbursements.

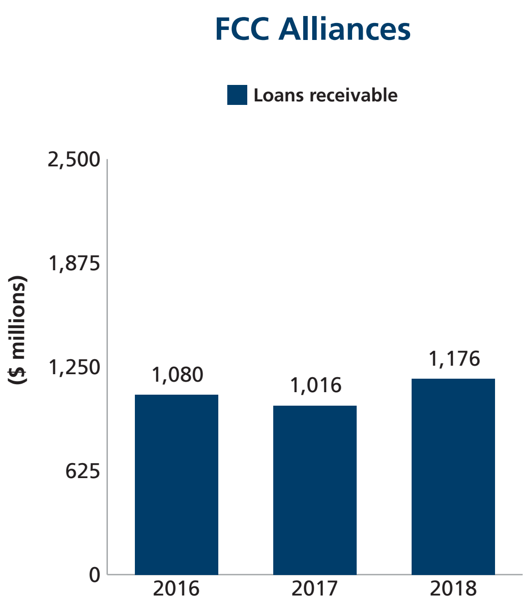
## Agribusiness and agri-food financing




*Excludes deferred loan fees.

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

FCC Alliances loans receivable increased by 15.7% from 2016-17 to $1,176 million in 2017-18 due to higher disbursements during the year.



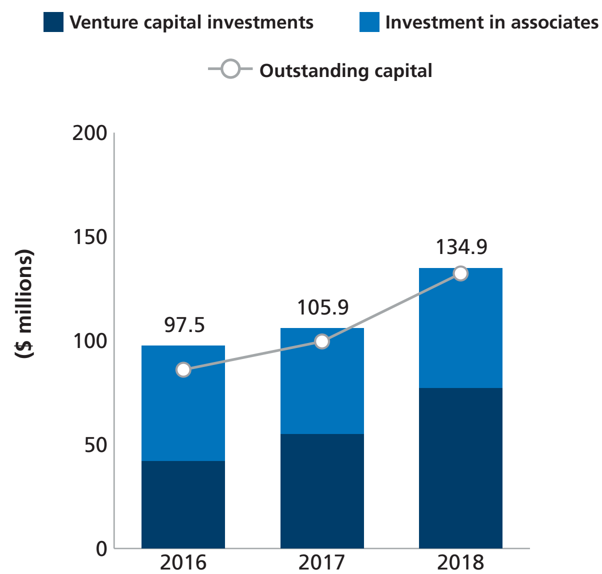
**FCC Ventures** is the corporation's venture capital business line that provides alternative financing in Canada's agriculture and agri-food industry. The investment objectives are focused on commercialization-to-growth stage and the recapitalization of mature businesses in the industrial bio-products,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

As of March 31, 2018, the venture capital portfolio includes four limited partnership funds, consisting of two equity funds and two subordinated debt funds, managed by Avrio Capital Inc. FCC's share of the Avrio Equity Funds make up the investment in associates balance on the balance sheet. Investments through Avrio Subordinated Debt Funds are consolidated in the financial statements and reported as venture capital investments. All investments have been sold from Avrio Fund I and the fund was closed early in the 2017-18 fiscal year.

In 2017-18, FCC Ventures contributed $0.4 million in income, which is lower than the $4.4 million earned in 2016-17 and is primarily related to unrealized fair value losses in the equity funds. Investment in associates increased from $50.9 million in 2016-17 to $57.8 million in 2017-18 primarily due to new investments in the equity funds. Venture capital investments increased from $55.0 million in 2016-17 to $77.1 million in 2017-18 due to new subordinated lending.

At March 31, 2018, FCC has provided $348.7 million to date in venture capital funding to the agriculture and agri-food industry. Co-investors have contributed an additional $575.1 million, resulting in an additional $2.17 of capital for every $1.00 invested by FCC. Further details of the investment carrying value amounts can be found in Note 9 and Note 10 of the Notes to the Consolidated Financial Statements.

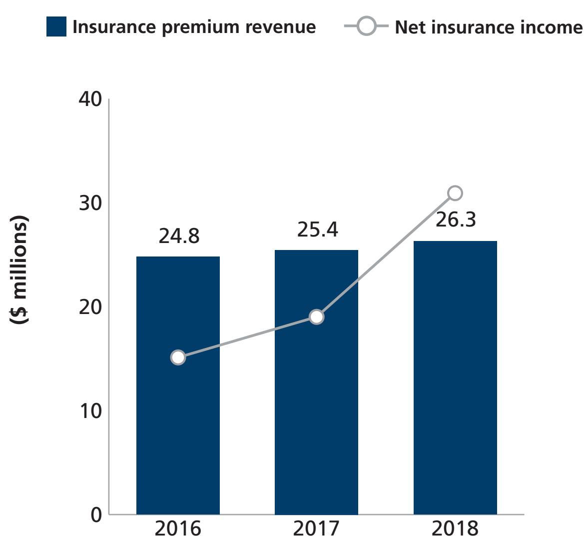
## FCC Ventures



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

FCC loan insurance premium revenue has increased consistently over the last several years as a result of FCC's growing portfolio and emphasis on insurance coverage as part of a customer's complete loan package. FCC loan insurance premium revenue increased to $26.3 million in 2017-18, compared to $25.4 million in 2016-17. Net insurance income varies from year to year depending on the claims incurred. In 2017-18, there was a significant change in actuarial assumptions, which reduced incurred claims reserve by $10.0 million. As a result, the current year total incurred claims reflect a recovery of $4.6 million, compared to total incurred claims of $6.4 million in 2016-17. This resulted in net insurance income of $30.9 million in 2017-18, compared to $19.0 million in 2016-17. We do not expect the change in assumptions to have any impact on future years results.

## Insurance income




**FCC Learning** provides Canadian producers and agribusiness operators with information and training to help advance their farm management practices. In 2017-18, 15,203 people attended 123 core FCC Learning events.

**FCC Management Software** is focused on developing, promoting and improving farm management software for the Canadian agriculture and agri-food industry. In 2017-18, net sales revenue, including product support, increased to $1.8 million.

# Financial position

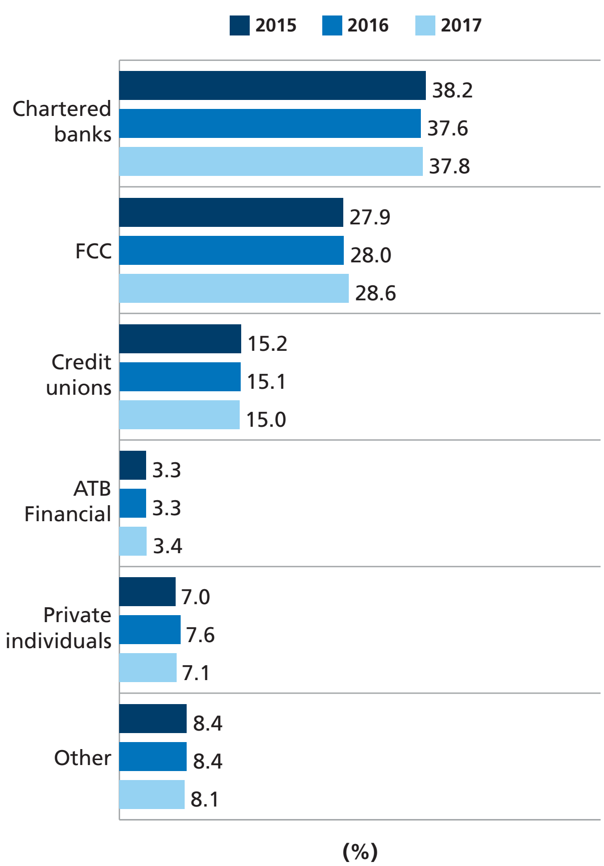
FCC continues to maintain a strong balance sheet and good risk management practices. The following section discusses FCC's financial position and provides an analysis of FCC's largest asset: loans receivable. This section also discusses FCC's credit quality, funding and liquidity, and capital management.

## Loans receivable

### Market share

According to Statistics Canada, farm debt outstanding increased by 6.6% to $102,322 million in 2017. FCC's market share increased from 28.0% to 28.6% in 2017. FCC's proportion of Canada's farm debt outstanding increased $2,326 million from 2016 to $29,224 million, which remains second to the aggregate of the chartered banks at $38,652 million.

**Market share as at December 31***

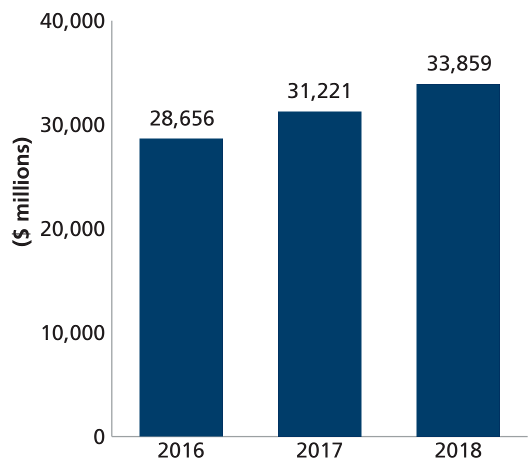



*Historical results are updated annually by Statistics Canada.

### Total loans receivable

In 2017-18, loans receivable increased by $2,638 million or 8.4% from 2016-17, moving the portfolio from $31,221 million to $33,859 million. The growth in loans receivable was mainly due to higher disbursement levels.

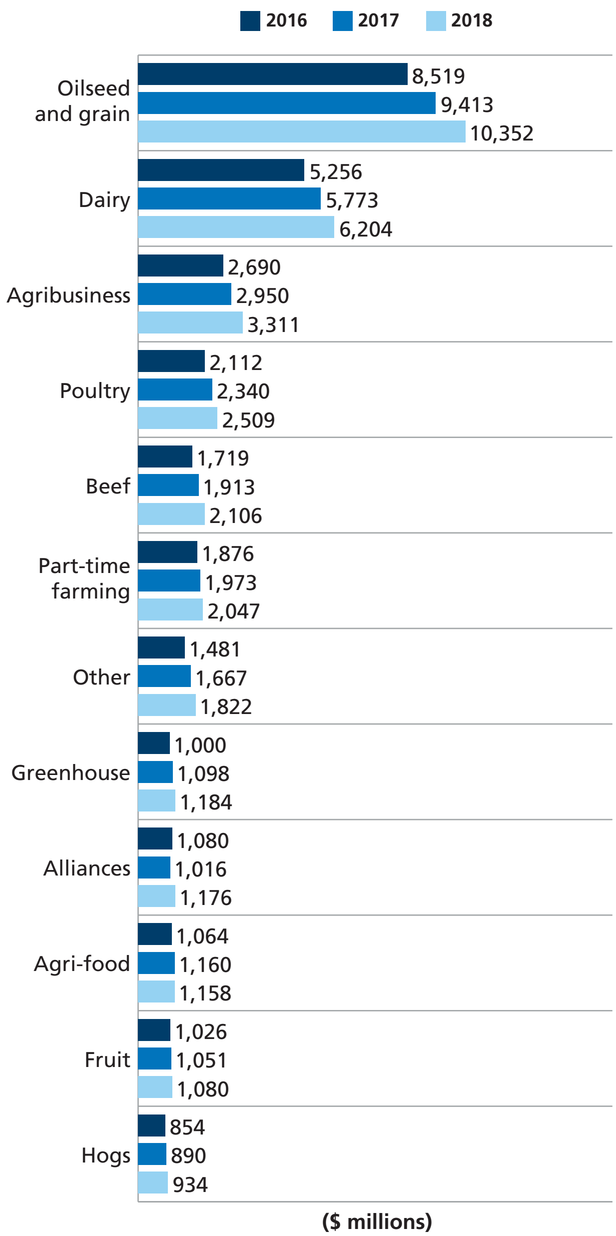
**Loans receivable**



### Loans receivable composition by sector

FCC experienced loans receivable growth in all sectors with the exception of agri-food. The largest loans receivable year-over-year growth was in alliances and the agribusiness sectors, which increased 15.7% to $1,176 million and 12.2% to $3,311 million, respectively.

## Loans receivable by sector*



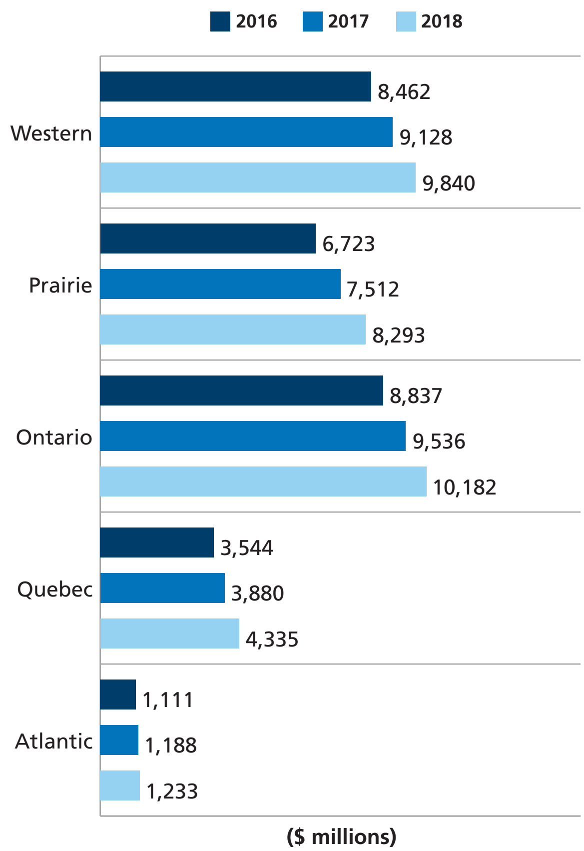

*Excludes deferred loan fees.

### Loans receivable composition by region

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

In 2017-18, FCC experienced loans receivable growth across Canada. The Quebec region had the largest growth in loans receivable in 2017-18, increasing by 11.7% to $4,335 million. The Prairie region had the second largest growth, which increased by 10.4% to $8,293 million.

## Loans receivable by region*




*Excludes deferred loan fees.

## Credit quality

FCC continually monitors its portfolio and the industry to proactively identify and develop solutions to help customers through difficult times. FCC has developed customized programs and product options that provide flexibility and support customers both in times of challenge and opportunity.

FCC employs sound business practices for analyzing credit quality and monitoring loans that are past due and impaired. From this analysis, FCC can better assess the appropriate level of allowance for credit losses and determine whether its risks are within the tolerances stated in the Board-approved risk management policies.

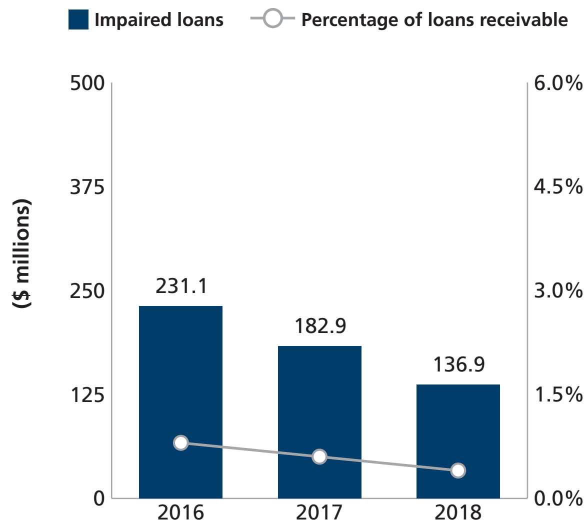
### Impaired loans

In 2017-18, impaired loans decreased by $46.0 million to $136.9 million. As a percentage of loans receivable, it decreased to 0.4% in 2017-18.

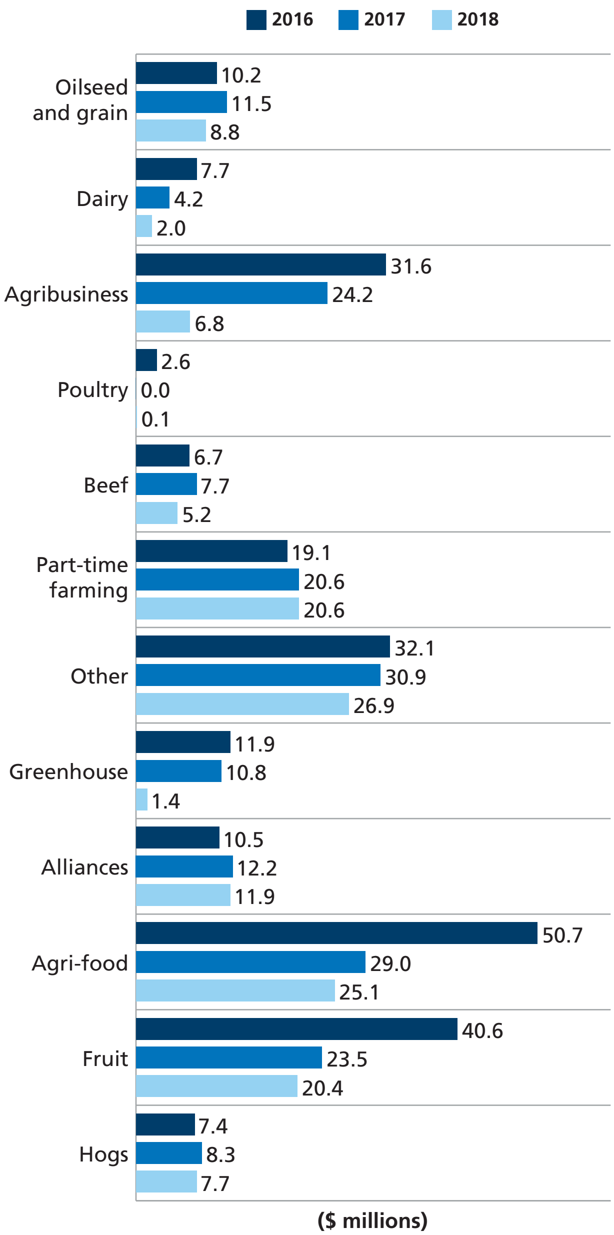
At a sector level, impaired loans decreased in all sectors with the exception of poultry and part-time farming in 2017-18. The agribusiness and greenhouse sectors experienced the largest year-over-year decreases of $17.4 million and $9.4 million, respectively.

Through its customer support programs, FCC proactively supports individual customers and sectors during financial difficulties. In 2017-18, FCC made payment schedule adjustments to 1,528 loans, 145 of which were part of its sector-specific support programs. Payment schedule adjustments as a percentage of total owing remained low at 2.7% in 2017-18 compared to 2.8% in 2016-17.

## Impaired loans

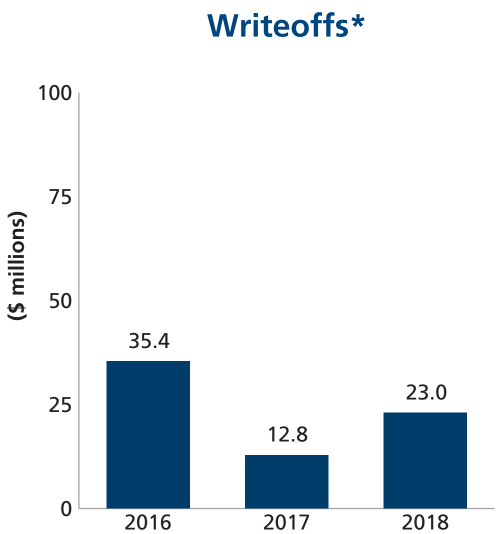


## Impaired loans by sector



### Writeoffs

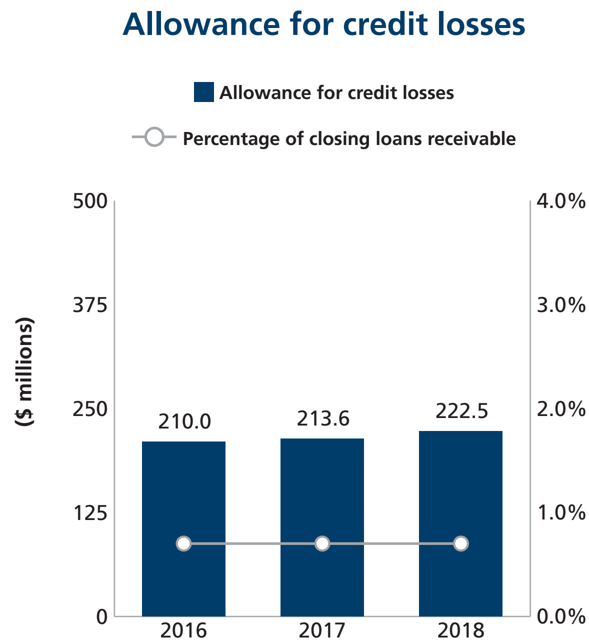
In 2017-18, the amount of writeoffs, net of recoveries, increased to $23.0 million. Writeoffs as a percentage of loans receivable was higher than prior year, however, it remained at less than 0.1%.




*Net of recoveries.

### Allowance for credit losses

In 2017-18, the allowance for credit losses increased by $8.9 million to $222.5 million. The allowance for credit losses as a percentage of closing loans receivable remained at 0.7%. For more information about the allowance calculation process and its components, refer to Note 2 and Note 8 of the Notes to the Consolidated Financial Statements.



## Funding and liquidity

### Funding activity

On April 21, 2008, FCC began borrowing directly from the federal government under the Crown Borrowing Program. FCC continues to carry capital market debt raised before this date.

During 2017-18, FCC raised short- and long-term funds through the following programs:

- Domestic Commercial Paper Program (for U.S. dollars only)
- Crown Borrowing Program

#### *Short-term funding*

Short-term funding consists of borrowings with a term to maturity of one year or less, which include fixed-rate borrowings and floating-rate notes. Floating-rate notes have floating interest rates that reset based on one-month T-bill rates. Funding is raised through the Crown Borrowing Program and the Domestic Commercial Paper Program. The outstanding short-term borrowings at March 31, 2018, were $10,919 million, compared to $10,416 million at March 31, 2017. Of the total short-term borrowings outstanding, $10,395 million were funds from the Crown Borrowing Program.

#### *Long-term funding*

Long-term funding consists of borrowings with a term to maturity of more than one year, which include fixed-rate borrowings and floating-rate notes. Floating-rate notes have floating interest rates that reset based on one-month or three-month T-bill rates. The outstanding long-term borrowings at March 31, 2018, were $17,980 million, an increase from $16,508 million the previous fiscal year. In 2017-18, all long-term borrowing was transacted through the Crown Borrowing Program.

#### *Credit ratings*

New and outstanding capital market debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. Moody's Investors Service and Standard & Poor's did not change FCC's debt ratings during 2017-18. FCC's debt ratings as of March 31, 2018, are detailed below.

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

### Liquidity

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

See Note 26 of the Notes to the Consolidated Financial Statements for additional details.

## Capital management

FCC manages capital in compliance with its Board-approved Capital Management policy. The Capital Management policy and supporting framework outline FCC's approach to assessing capital requirements for risks identified through its enterprise risk management framework. FCC's capital management objective is to maintain a safe and sound capital position to withstand economic downturn and periods of extended loss and to support FCC's strategic direction.

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

### Capital adequacy

Currently, FCC is adequately capitalized. FCC has established a target capital ratio of 15.0% of RWA, based on the ICAAP. The target is set to account for OSFI's minimum regulatory capital, capital required for additional risks and the impact of stress-testing, future growth, potential regulatory changes, peer benchmarking and an operating range. FCC is currently 1.2% above the target capital ratio.

### Total capital ratio continuity

The 0.1% decrease in the total capital ratio from March 31, 2017, to March 31, 2018, is the net result of capital generation offset by increased RWA and dividend payments. The increased RWA results primarily from portfolio growth while capital generation is primarily driven by net income and the resulting increase to retained earnings. In 2017-18, FCC paid dividends of $308.3 million to the Government of Canada. FCC's dividend policy is aligned with the Capital and Dividend Policy Framework for Financial Crown Corporations issued in 2017 by the Department of Finance and the Treasury Board Secretariat.

The objectives of the new framework are to ensure Crown corporations have appropriate methodologies in place to determine their capital adequacy requirements, that they effectively manage their capital in relation to risk and that dividends are paid to the shareholder when capital is in excess of the levels required to deliver on their mandates. FCC is fulfilling the new requirements with a well-established, Board-approved Capital Management policy and ICAAP.

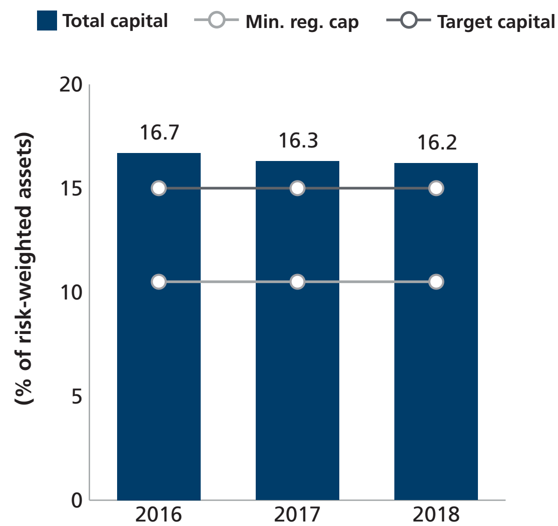
### Debt to equity

FCC uses debt to equity as an additional measure to assess capital adequacy and the measure also represents the corporation's only legislated limit. At the end of 2017-18, FCC's debt-to-equity ratio remained below its legislated limit of 12:1.

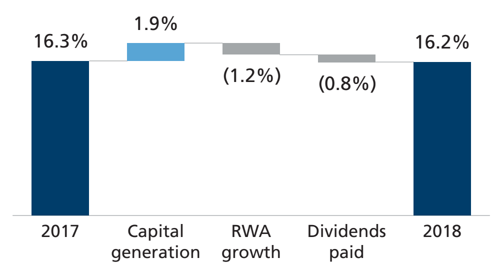
From 2016-17 to 2017-18, FCC's debt-to-equity ratio increased slightly from 4.8:1 to 4.9:1 due in part to the relationship between portfolio and equity growth. Portfolio growth was 8.4%, which exceeded equity growth, net of dividends of 5.6%.

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

## Capital adequacy




## Total capital ratio continuity



# Outlook for 2018-19

| (millions of dollars unless otherwise noted) | 2018 Actual | 2019 Plan |
|---|---|---|
| **Portfolio growth** | | |
| Loans receivable | 33,859 | 35,316 |
| Loans receivable growth rate (%) | 8.4 | 5.4 |
| **Profitability** | | |
| Net interest income | 1,072.0 | 1,103.2 |
| Net interest margin (%) | 3.11 | 3.02 |
| **Credit quality** | | |
| Impaired loans | 136.9 | 159.7 |
| Provision for credit losses | 30.9 | 49.8 |
| Allowance for credit losses | 222.5 | 144.8 |
| **Efficiency** | | |
| Administration expenses | 384.6 | 424.8 |
| Efficiency ratio (%) | 34.9 | 38.0 |
| **Capital management** | | |
| Total capital ratio | 16.2 | 16.0 |
| Debt to equity (%) | 4.9 | 4.9 |
| **Shareholder return** | | |
| Net income | 669.9 | 648.8 |
| Return on equity (%) | 11.5 | 10.6 |

### Portfolio growth

Loans receivable is projected to grow by $1,457 million from March 31, 2018. The increase in loans receivable reflects projected lending through the primary production financing, agribusiness and agri-food financing and Alliances business lines. Slower portfolio growth is anticipated in 2018-19 due to slower growth in farmland asset values and farm debt outstanding.

### Profitability

Net interest income is expected to increase by $31.2 million to $1,103.2 million in 2018-19. This is due to a 5.4% growth in loans receivable, offset by a decrease in the net interest margin from 3.11% to 3.02%. Rising interest rates are projected to have an unfavourable impact on the interest rate spread between interest-bearing liabilities and interest-earning assets. This will be offset by the favourable impact rising interest rates will have on FCC's equity base.

### Credit quality

Impaired loans are expected to be $159.7 million in 2018-19, an increase of $22.8 million over current year due to increasing portfolio growth and risk in the loan portfolio. In 2018-19, the required provision is projected to be $49.8 million, increasing from 2017-18 mainly due to the projected portfolio growth.

On April 1, 2018, FCC will adopt IFRS 9 – Financial Instruments. The adoption of the new standard will result in changes in the accounting for financial instruments. For the allowance for credit losses, IFRS 9 introduces a new expected loss impairment model. On adoption, the allowance for credit losses is estimated to decrease significantly, which will result in an increase to opening retained earnings. By the end of 2018-19, the allowance for credit losses is expected to be $144.8 million. The allowance for credit losses as a percentage of loans receivable is projected to decline from 0.7% in 2017-18 to 0.4% in 2018-19.

### Efficiency

In 2018-19, administration expenses are projected to be $40.2 million higher than current year mainly due to increased investments in digital solutions to enhance the customer experience, salaries and benefits expense, professional fees, and other administration expense. Due to increased administration expenses and slower growth in net interest income, the efficiency ratio is anticipated to grow to 38.0% in 2018-19.

### Capital management

The total capital ratio in 2018-19 is projected to remain higher than FCC's targeted total capital ratio of 15.0% as growth in capital from net income outpaces growth in RWA. The total capital ratio is expected to decrease to 16.0% in 2018-19 due to slower portfolio growth and dividends partially offset by growth in capital from net income. In 2018-19, the debt-to-equity ratio is projected to remain stable at 4.9 to 1, since excess capital is paid to the shareholder in the form of dividends. 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

In 2018-19, net income is projected to decrease $21.1 million to $648.8 million. The projected decrease is due to higher administration expenses and provision for credit losses and lower net insurance income, partially offset by higher net interest income and net income from investment in associates. Return on equity in 2018-19 is projected to decrease to 10.6% due to the growth in equity and lower net income.

# Enterprise risk management

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

FCC has governance, systems and processes in place to maintain enterprise risk management practices consistent with federally regulated financial institutions.

As a financial institution, risk is inherent in all our activities and we take potential risks into account when lending to customers, delivering services, identifying our priorities and developing our business strategies and initiatives. We continually improve our enterprise risk management framework and we measure our activities against a formal risk appetite and tolerance statement that defines and measures acceptable risk.

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

## Risk governance

Under the oversight of the Board of Directors, FCC's enterprise risk management framework provides an overview of our enterprise-wide practices for managing risk, including identifying, assessing, mitigating/controlling, monitoring and reporting on significant risks facing the organization.

### FCC Board of Directors

The FCC Board of Directors oversees the organization's enterprise risk management framework to ensure risk management is integrated with strategic, financial and operating plans. The Board-approved risk appetite framework establishes the risk limits for all categories of risk.

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

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

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

The **Corporate Governance Committee** reviews, reports and, when appropriate, recommends governance matters to the Board. This includes FCC's strategic planning process, code of conduct and ethics and corporate social responsibility strategy. The committee also has the mandate to provide recommendations regarding the appointment of directors and the Board Chair.

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

### FCC management committees

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

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

The **Asset Liability Committee** directs FCC's business and financial performance relative to the approved strategy and risk appetite statement. The committee is responsible for FCC's capital and asset-liability management strategies, volume, margin and loan pricing results, and annual targets for the corporate plan.

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

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

The **Model Governance Committee** provides oversight of FCC's predictive and decision-making models, with explicit accountability to recommend models for implementation. This includes ensuring utilization of appropriate model development techniques, assessing suitability of models to meet business objectives, overseeing model validation responses and evaluating readiness for implementation.

The **Credit Policy Committee** oversees the development of lending, leasing and product policies and ensures they reflect FCC's credit risk tolerance, risk culture and industry best practices, including applicable laws and regulations.

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

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

## FCC executive and business functions

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

The **first line of defence** develops and executes FCC's business strategy. This includes the ability to make loans, fund the portfolio, develop products and pursue markets and other risk-taking decisions. These decisions are made within the context of the risk appetite statement. Included in the first line are embedded control functions whose role is to monitor activities of the first line.

The **second line of defence** effectively challenges risk-taking decisions made by the first line relative to the risk appetite statement. This includes setting risk policy and standards, monitoring compliance to policy, reporting risks to management and the Board and challenging the risk-taking decisions.

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

The **third line of defence** provides independent and objective assurance to the Board and senior management on the adequacy and effectiveness of the organization's governance, risk management and internal controls. This includes assurance on the adequacy and effectiveness of the first and second lines of defence. It also fulfils an advisory role on co-ordinating assurances and recommending effective ways of improving existing processes.

The Internal Audit business function provides objective assurance to the Board and FCC executive about the effective operation of risk management practices and internal controls.

## FCC's risk appetite

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

The Board has established a risk appetite statement for FCC. Annually, the risk appetite is reaffirmed and approved by the Board through the risk appetite framework. The statement consists of three core principles that outline the level of risk FCC is willing to take, accept and avoid. A series of supporting statements provides additional information and context. The core principles for managing risk are as follows:

- We take risks we understand and that are good for customers, FCC, and the Canadian agriculture and agri-food industry.
- We accept the risk of a long-term view to remain a steady presence for Canadian agriculture and agri-food industry participants.
- We avoid risks that jeopardize FCC, our customers or the sustainability of the industry we serve.

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

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

## FCC's risk culture

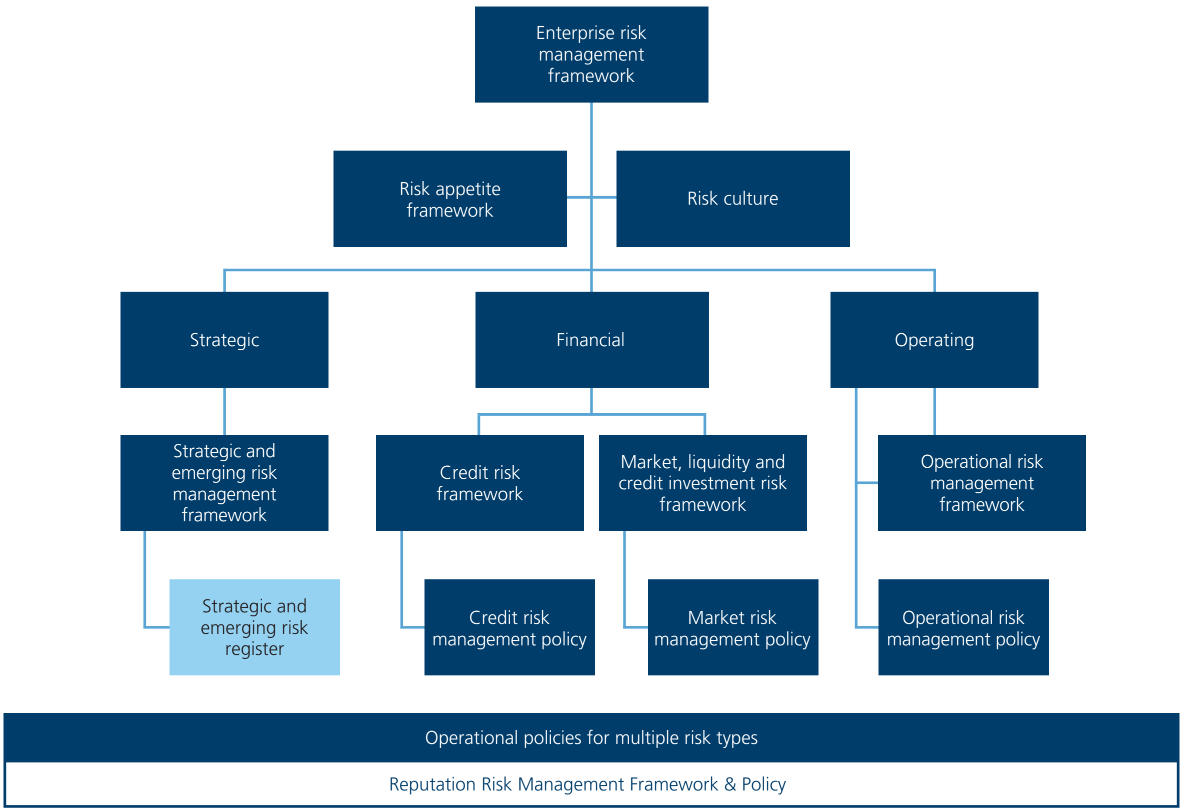
Industry trust and marketplace reputation are essential to sustained business success and effective mandate execution. To proactively manage FCC's culture and risk mindsets, the fundamental drivers of employee behaviour have been defined and grouped into four key areas: risk competence and skill, organizational structures, intrinsic and extrinsic motivation, and relationships and interactions. Through survey and measurement, these areas are assessed, reviewed and discussed with senior management and the Board.

Each line of defence at FCC is 100% accountable to work collaboratively with others, advance the business of agriculture in Canada and be a committed partner in every interaction, listening for contributions and honouring commitments to achieve the best possible result for FCC and the customer.

## FCC's risk categories

FCC categorizes risk as strategic, financial, operating or reputation. The financial classification is further delineated into three categories – credit, market and liquidity.

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




**Risk appetite framework:** This framework sets the tone for risks the organization is willing to take and accept, and the risks it wishes to avoid and includes all limits and thresholds. The Board approves this framework.

**Risk category frameworks:** These frameworks elaborate on the processes used to identify, assess, control/mitigate, monitor and report on the risk category. These frameworks are subordinate to the enterprise risk management framework and are approved by management.

**Strategic and emerging risk register:** This register ranks the top risks facing the organization in the categories of strategic, financial and operating risk. The Board approves the register and related prioritization of risks. The prioritization is an input to the stress-testing program.

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

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

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

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

### Strategic risk

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

The Enterprise Management Team develops the corporate strategy annually and documents FCC's key strategic priorities in the five-year corporate plan. The Board provides oversight. The external environment, including the global economy, the Canadian financial marketplace and the agriculture industry, is monitored to discern if strategic changes are required to address emerging risks.

FCC has developed strategic risk tolerance statements. Annually, limits are set to correspond to the tolerance statements.

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

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

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

**Sustainability:** We work with customers to understand the material issues they face, and help them identify and address these in a way that generates a positive impact on society, animal welfare and the environment. We accept that not all customers will progress at the same pace.

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

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

**Culture:** We have engaged employees, enabled by our culture of 100% accountability and partnership, managing relationships with customers and demonstrating shared accountability for sound risk and financial practices.

**Stakeholder value:** We are a catalyst for the agriculture, agri-food and financial services industries, partnering to make Canadian agriculture stronger.

Emerging and strategic risks are identified and analyzed through external scanning, consultation with internal subject matter experts and other means. The Board discusses the top enterprise risks during its involvement in the strategic planning cycle. Enterprise Management Team members are accountable for developing risk mitigation plans and reporting progress to the Board on a quarterly basis.

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

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

## Financial risks – credit, market and liquidity

Financial risks include FCC's risk categories of credit, market and liquidity risk. FCC has developed risk tolerance statements applicable to all financial risk categories. Annually, limits are set to correspond to the risk tolerance statements, maintained in policy and reported quarterly to the Board. The limits are holistic and include capital, income, loan loss, portfolio distribution and large customer connection exposure. The financial risk tolerance statements are:

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

**Financial strength:** We target a return on equity that recognizes our mandate and supports long-term growth to ensure FCC remains self-sustaining.

**Loan loss:** We manage our loan portfolio to minimize large writeoffs through policy compliance, enforceable security and accurate documentation.

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

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

Details on how FCC manages financial risk are described in Note 26 of the Notes to the Consolidated Financial Statements.

## Financial risks – credit risk

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

The Board is responsible for approving the corporation's credit risk tolerance and relies on committees, divisions and business units to effectively manage credit risk.

Credit risk assessment starts with individual transactions. FCC lending and credit risk employees assess and manage credit risk by ensuring individual loans are consistent with defined policies. Certified appraisers in the Valuations and Environmental Risk business unit help ensure the accuracy of security value estimates.

FCC uses policies, processes, systems and strategies to manage the credit risk of the lending portfolio. Venture capital and subordinated debt are provided through Avrio Capital, a private entity that manages a series of investments on behalf of FCC and other investment partners. FCC is exposed to credit risk through subordinated debt fund investments.

The Risk Management division assesses credit risk at the aggregate level, providing risk policies, assessment tools and models that quantify portfolio credit risk and allowance for credit losses. FCC also closely monitors the agriculture and agri-food operating environments to ensure the corporation's lending policies, activities and prices are appropriate and relevant. FCC focuses risk-taking decisions primarily on the customers' ability to repay the loan. Secondary forms of repayment such as collateral security are considered in the lending decision. The loan portfolio is monitored regularly using a combination of measures to estimate repayment and collateral quality.

## Financial risks – market risk

Market risk is the potential for loss due to adverse changes in underlying market factors such as interest rates and foreign exchange rates. Market risk exists in all of the corporation's financial instruments. The market risk policies and limits ensure interest rate and foreign exchange risks are identified, measured, managed and reported on a timely basis. FCC's market risk policies comply with the Minister of Finance Financial Risk Management Guidelines for Crown Corporations (August 2009).

Interest rate risk is the risk that a change in the interest rate adversely affects FCC's net interest income and fair value measurements. Exposure to interest rate risk is monitored primarily through an asset/liability model where various scenarios are produced at least monthly to analyze the sensitivity of net interest income and fair values to a change in interest rates and balance sheet assumptions. Foreign exchange risk is the risk that currency fluctuation negatively affects FCC. The currency exposure is minimized by matching foreign currency loans against foreign currency funding.

## Financial risks – liquidity risk

Liquidity risk is the risk that FCC has insufficient funds to meet payment obligations as they come due. Liquidity risk is minimized through the use of a liquid investment portfolio, funding through the Crown Borrowing Program and access to an operating line of credit.

## Operational risk

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

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

**People:** We maintain a skilled and knowledgeable work force to meet current and future business requirements. We adhere to the highest standards of integrity and will not allow goals or pressure to compromise our decisions. We deter theft and fraud. We comply with applicable legislation, regulation and regulatory directives. We effectively manage risks within our accountabilities to deliver great customer experiences while respecting each of the three lines of defence.

**Process:** We execute transactions and capture information consistent with policy, process and controls. We match suitable products, services and terms to customer situations and capabilities.

We validate decision-making models based on risk, complexity and materiality.

We apply an integrated approach and address change needs to deliver successful outcomes, transition and adoption of initiatives.

We ensure sufficient controls exist to protect FCC in all contractual relationships and procure goods and services with defensible and supportable methods.

**Systems:** We proactively prepare for business disruption to protect employees, customers and partners, to continue availability of critical operations and to limit losses.

We control and safeguard the confidentiality, integrity and availability of information assets. We maintain data quality to understand, replicate and audit key decisions.

We manage a technology infrastructure that is available, supportable and adaptable.

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

FCC processes are organized in a hierarchical process classification framework. This classification provides an end-to-end view to define work processes consistently and comprehensively without redundancies, and to identify risks inherent in the process.

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

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

The Board receives regular reports on the operations of FCC in the form of:

- enterprise reports that provide an overview of FCC's business activities
- quarterly financial reports that provide quarterly financial statements and analysis
- quarterly risk reports that provide an overview of the risk profile of the organization, including any breaches of defined risk appetite limits and thresholds
- reporting on internal audit findings and effectiveness of controls – in addition, Internal Audit evaluates the performance of risk management annually and provides a report to the Board
- an annual report by the Integrity Officer on code of conduct violations and on litigation affecting FCC

### Reputation risk

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

As a federal Crown corporation, FCC is accountable to all Canadians. Exposure to reputation risk is a function of FCC's ability to manage and respond to other risks. To avoid real or perceived reputation damage, FCC has a robust governance structure, including policies and processes, to guide employee conduct in interactions with co-workers, customers, industry partners, suppliers, media and the public.

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

# Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Farm Credit Canada (FCC) and all information in this annual report are the responsibility of FCC's management and have been reviewed and approved by the FCC Board of Directors. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, consequently, include amounts that are based on the best estimates and judgment of management. Financial information presented elsewhere in the annual report is consistent with that contained in the consolidated financial statements.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that FCC properly authorizes and records transactions, safeguards assets, recognizes liabilities, maintains proper records, and complies with applicable laws and conflict of interest rules. The system of internal control is augmented by internal audit, which conducts periodic reviews of different aspects of FCC's operations.

The FCC Board of Directors is responsible for ensuring management fulfils its responsibilities for financial reporting and internal control. It exercises this responsibility through the Audit Committee, which is composed of directors who are not employees of FCC. The Audit Committee meets with management, internal auditors and external auditors on a regular basis. Internal and external auditors have full and free access to the Audit Committee.

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

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

**Rick Hoffman, CPA, CMA, MBA, ICD.D**
Executive Vice-President and
Chief Financial Officer

Regina, Canada
May 30, 2018

Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

# INDEPENDENT AUDITOR'S REPORT

To the Minister of Agriculture and Agri-Food

## Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Farm Credit Canada, which comprise the consolidated balance sheet as at 31 March 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

*Opinion*

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Farm Credit Canada as at 31 March 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

## Report on Other Legal and Regulatory Requirements

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

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

HMcManaman

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

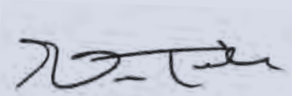
30 May 2018
Ottawa, Canada

# Consolidated Balance Sheet

| As at March 31 (thousands of Canadian dollars) | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | **$ 828,569** | $ 790,595 |
| Short-term investments (Note 3) | **398,207** | 435,530 |
| Accounts receivable and prepaid expenses (Note 4) | **47,801** | 399,110 |
| Derivative financial assets (Note 5) | **21,512** | 35,831 |
| | **1,296,089** | 1,661,066 |
| Loans receivable – net (Notes 6 and 8) | **33,636,019** | 31,007,050 |
| Finance leases receivable – net (Notes 7 and 8) | **19,613** | 16,468 |
| Investment in associates (Note 9) | **57,765** | 50,908 |
| Venture capital investments (Note 10) | **77,115** | 55,015 |
| Post-employment benefit assets (Note 11) | **50,256** | 53,536 |
| | **33,840,768** | 31,182,977 |
| Equipment and leasehold improvements (Note 12) | **24,513** | 24,234 |
| Computer software (Note 13) | **33,451** | 32,966 |
| Equipment under operating leases (Note 14) | **110,670** | 90,850 |
| Other assets (Note 15) | **12,442** | 22,179 |
| | **181,076** | 170,229 |
| **Total assets** | **$ 35,317,933** | $ 33,014,272 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | **$ 63,870** | $ 60,393 |
| Derivative financial liabilities (Note 5) | **–** | 3 |
| | **63,870** | 60,396 |
| Borrowings (Note 16) | | |
| Short-term debt | **10,919,146** | 10,416,139 |
| Long-term debt | **17,980,195** | 16,508,032 |
| | **28,899,341** | 26,924,171 |
| Transition loan liabilities | **139,319** | 130,024 |
| Post-employment benefit liabilities (Note 11) | **145,281** | 138,709 |
| Other liabilities (Note 17) | **9,586** | 19,658 |
| | **294,186** | 288,391 |
| **Total liabilities** | **29,257,397** | 27,272,958 |
| **Equity** | | |
| Contributed surplus | **547,725** | 547,725 |
| Retained earnings | **5,447,657** | 5,106,783 |
| Accumulated other comprehensive income | **64,387** | 86,271 |
| **Equity attributable to shareholder of parent entity** | **6,059,769** | 5,740,779 |
| Non-controlling interest | **767** | 535 |
| | **6,060,536** | 5,741,314 |
| **Total liabilities and equity** | **$ 35,317,933** | $ 33,014,272 |

Commitments, guarantees and contingent liabilities (Note 23).
The accompanying notes are an integral part of the consolidated financial statements.
The consolidated financial statements were approved by the FCC Board of Directors on May 30, 2018, and were signed on its behalf by:

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



**Govert Verstralen**
Chair, Audit Committee

# Consolidated Statement of Income

| For the year ended March 31 (thousands of Canadian dollars) | 2018 | 2017 |
|---|---|---|
| Interest income | $ 1,330,351 | $ 1,179,128 |
| Interest expense | 258,345 | 182,408 |
| **Net interest income (Note 18)** | 1,072,006 | 996,720 |
| Provision for credit losses (Note 8) | (30,881) | (19,289) |
| **Net interest income after provision for credit losses** | 1,041,125 | 977,431 |
| Net insurance income | 30,859 | 19,030 |
| Net (loss) income from investment in associates | (3,557) | 1,491 |
| Other expense | (127) | (930) |
| **Net interest income and non-interest income** | 1,068,300 | 997,022 |
| **Administration expenses (Note 19)** | | |
| Salaries and benefits | 238,164 | 230,203 |
| Other | 146,421 | 140,944 |
| **Total administration expenses** | 384,585 | 371,147 |
| **Net income before fair value adjustment** | 683,715 | 625,875 |
| Fair value adjustment (Note 20) | (13,797) | (12,080) |
| **Net income** | $ 669,918 | $ 613,795 |
| **Net income attributable to:** | | |
| Shareholder of parent entity | $ 669,879 | $ 613,767 |
| Non-controlling interest | 39 | 28 |

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

# Consolidated Statement of Comprehensive Income

| For the year ended March 31 (thousands of Canadian dollars) | 2018 | 2017 |
|---|---|---|
| **Net income** | **$ 669,918** | $ 613,795 |
| **Other comprehensive income** | | |
| **Items that are or may be reclassified to net income** | | |
| Transfer of net realized gains on derivatives previously designated as cash flow hedges to net income (Note 5) | **(21,721)** | (21,721) |
| Net unrealized (losses) gains on available-for-sale financial assets | **(163)** | 871 |
| | **(21,884)** | (20,850) |
| **Item that will never be reclassified to net income** | | |
| Remeasurement of post-employment benefit assets and liabilities (Note 11) | **(20,705)** | 62,492 |
| **Total other comprehensive (loss) income** | **(42,589)** | 41,642 |
| **Total comprehensive income** | **$ 627,329** | $ 655,437 |
| **Total comprehensive income attributable to:** | | |
| Shareholder of parent entity | **$ 627,290** | $ 655,409 |
| Non-controlling interest | **39** | 28 |

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

# Consolidated Statement of Changes in Equity

| (thousands of Canadian dollars) | Balance March 31, 2017 | Net income | Other comprehensive income | Dividend paid | Contributions from non-controlling interest | Balance March 31, 2018 |
|---|---|---|---|---|---|---|
| **Contributed surplus** | $ 547,725 | $ – | $ – | $ – | $ – | $ 547,725 |
| **Retained earnings** | 5,106,783 | 669,879 | (20,705) | (308,300) | – | 5,447,657 |
| Net gains (transfer of net gains) on derivatives previously designated as cash flow hedges | 86,458 | – | (21,721) | – | – | 64,737 |
| Net unrealized losses on available-for-sale financial assets | (187) | – | (163) | – | – | (350) |
| **Total accumulated other comprehensive income (loss)** | 86,271 | – | (21,884) | – | – | 64,387 |
| **Total equity attributable to parent** | 5,740,779 | 669,879 | (42,589) | (308,300) | – | 6,059,769 |
| Non-controlling interest | 535 | 39 | – | – | 193 | 767 |
| **Total** | $ 5,741,314 | $ 669,918 | $ (42,589) | $ (308,300) | $ 193 | $ 6,060,536 |

| (thousands of Canadian dollars) | Balance March 31, 2016 | Net income | Other comprehensive income | Dividend paid | Contributions from non-controlling interest | Balance March 31, 2017 |
|---|---|---|---|---|---|---|
| **Contributed surplus** | $ 547,725 | $ – | $ – | $ – | $ – | $ 547,725 |
| **Retained earnings** | 4,698,824 | 613,767 | 62,492 | (268,300) | – | 5,106,783 |
| Net gains (transfer of net gains) on derivatives previously designated as cash flow hedges | 108,179 | – | (21,721) | – | – | 86,458 |
| Net unrealized (losses) gains on available-for-sale financial assets | (1,058) | – | 871 | – | – | (187) |
| **Total accumulated other comprehensive income (loss)** | 107,121 | – | (20,850) | – | – | 86,271 |
| **Total equity attributable to parent** | 5,353,670 | 613,767 | 41,642 | (268,300) | – | 5,740,779 |
| Non-controlling interest | 401 | 28 | – | – | 106 | 535 |
| **Total** | $ 5,354,071 | $ 613,795 | $ 41,642 | $ (268,300) | $ 106 | $ 5,741,314 |

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

# Consolidated Statement of Cash Flows

| For the year ended March 31 (thousands of Canadian dollars) | 2018 | 2017 |
|---|---|---|
| **Operating activities** | | |
| Net income | $ 669,918 | $ 613,795 |
| **Adjustments to determine net cash (used in) provided by operating activities:** | | |
| Net interest income | (1,072,006) | (996,720) |
| Unwind adjustment on impaired loans | 1,005 | (3,403) |
| Provision for credit losses | 30,881 | 19,289 |
| Fair value adjustment | 13,797 | 12,080 |
| Net loss (income) from investment in associates | 3,557 | (1,491) |
| Amortization and depreciation | 17,383 | 19,177 |
| Other | 17,650 | (8,245) |
| Net cash outflow from loans receivable | (2,600,616) | (2,549,543) |
| Net cash outflow from finance leases receivable | (2,539) | (1,295) |
| Net change in other operating assets and liabilities | (23,011) | 18,936 |
| Interest received | 1,238,269 | 1,137,378 |
| Interest paid | (221,290) | (160,519) |
| **Cash used in operating activities** | (1,927,002) | (1,900,561) |
| **Investing activities** | | |
| Net cash inflow (outflow) from short-term investments | 38,002 | (97,564) |
| Acquisition of venture capital investments | (26,020) | (23,163) |
| Proceeds on disposal and repayment of venture capital investments | 5,850 | 10,000 |
| Net cash (outflow) inflow from investment in associates | (10,414) | 6,076 |
| Purchase of equipment and leasehold improvements | (8,567) | (9,440) |
| Purchase of computer software | (9,582) | (11,399) |
| Purchase of equipment under operating leases | (59,510) | (50,043) |
| Proceeds on disposal of equipment under operating leases | 18,276 | 16,402 |
| **Cash used in investing activities** | (51,965) | (159,131) |
| **Financing activities** | | |
| Long-term debt issued | 9,226,500 | 11,039,000 |
| Long-term debt repaid | (6,536,263) | (9,166,601) |
| Short-term debt issued | 10,906,762 | 16,160,430 |
| Short-term debt repaid | (11,270,209) | (15,745,739) |
| Dividend paid | (308,300) | (268,300) |
| **Cash provided by financing activities** | 2,018,490 | 2,018,790 |
| **Change in cash and cash equivalents** | 39,523 | (40,902) |
| Cash and cash equivalents, beginning of year | 790,595 | 831,387 |
| Effects of exchange rate changes on the balances of cash held and due in foreign currencies | (1,549) | 110 |
| **Cash and cash equivalents, end of year** | $ 828,569 | $ 790,595 |
| **Cash and cash equivalents consists of:** | | |
| Cash | $ 665,393 | $ 350,290 |
| Cash equivalents | 163,176 | 440,305 |

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

# Notes to the Consolidated Financial Statements

## 1. The corporation

### Authority and objectives

Farm Credit Canada (FCC) was established in 1959 by the Farm Credit Act as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the Financial Administration Act. FCC is located in Canada and its registered office is at 1800 Hamilton Street, Regina, Saskatchewan, Canada. FCC is wholly owned by the Government of Canada and is not subject to the requirements of the Income Tax Act.

The purpose of FCC is to enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small- and medium-sized businesses, that are businesses related to farming. The primary focus of the activities of FCC shall be on farming operations, including family farms.

On April 2, 1993, the Farm Credit Corporation Act was proclaimed into law and replaced the Farm Credit Act and the Farm Syndicates Credit Act, both of which were repealed. The revised Act allows FCC to operate under an expanded mandate that includes broader lending and administrative powers.

On June 14, 2001, the Farm Credit Canada Act received royal assent, which updated the Farm Credit Corporation Act. This Act allows FCC to offer producers and agribusiness operators a broader range of services.

In September 2008, FCC, together with a number of other Crown corporations, was issued a directive (P.C. 2008-1598) pursuant to Section 89 of the Financial Administration Act, requiring due consideration by FCC to the personal integrity of those it lends to or provides benefits to. During fiscal 2018, FCC continued to comply with the requirements of the directive.

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

In March 2017, FCC was issued a directive (P.C. 2017-242) pursuant to Section 89 of the Financial Administration Act, which repealed directive P.C. 2014-1377 of December 2014 and directs FCC to ensure its pension plans reflect the following:

(1) for its defined contribution pension plan, member contribution rates are equal to those of the employer by December 31, 2017

(2) the normal age of retirement is 65 years for employees hired on or after March 10, 2017, and the age at which retirement benefits are available, other than those received at the normal age of retirement, corresponds with the age at which they are available under the Public Service Pension Plan

This directive also required FCC to outline its implementation strategy with respect to the aforementioned requirements in its next corporate plan and subsequent corporate plans until the commitments are fully implemented. FCC has fully implemented the commitments as at March 31, 2018.

## 2. Significant accounting policies

### Basis of presentation

Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

The consolidated financial statements are presented in Canadian dollars, which is FCC's functional currency. Unless otherwise stated, all dollar amounts presented within the Notes to the Consolidated Financial Statements are in thousands of Canadian dollars.

### Changes in accounting standards

The International Accounting Standards Board (IASB) has issued a number of interpretations, amendments and improvements that were mandatory for the accounting periods beginning on or after January 1, 2017. One amendment is relevant to FCC and was effective April 1, 2017. IAS 7 – Statement of cash flows was amended to require specific disclosures for changes in borrowings. Disclosure has been added to Note 16 to disclose changes in liabilities arising from financing activities.

### Basis of consolidation

The consolidated financial statements include the accounts of FCC, Avrio Subordinated Debt Fund I and Avrio Subordinated Debt Fund II (collectively the Avrio Subordinated Debt Funds). The Avrio Subordinated Debt Funds are venture capital limited partnerships for which FCC is a limited partner holding majority partnership interests. FCC consolidates the Avrio Subordinated Debt Funds as it has control over these funds. FCC controls these funds as it is exposed, or has rights, to variable returns from its involvement with these funds and FCC has the ability to affect those returns through its power over the funds. An adjustment has been made for significant intervening transactions and changes in fair value of investments occurring between the December 31 year-end of the Avrio Subordinated Debt Funds and FCC's year-end. All significant intercompany balances and transactions have been eliminated. The non-controlling interest, which represents the equity in the Avrio Subordinated Debt Funds that is not attributable to FCC, has been presented in the Consolidated Balance Sheet, the Consolidated Statement of Income, the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity.

### Classification and designation of financial instruments

Financial assets are classified or designated as loans and receivables, financial assets at fair value through profit or loss (FVTPL) or available-for-sale (AFS) financial assets. Financial liabilities are classified or designated as financial liabilities at FVTPL or other financial liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial instruments at FVTPL are derivative financial assets and liabilities that are classified as held for trading (HFT) and non-derivative financial assets and liabilities that meet certain conditions to be designated at FVTPL at initial recognition. AFS financial assets are non-derivative financial assets that do not qualify for inclusion in any of the other financial asset categories.

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification.

### Cash and cash equivalents

Cash and cash equivalents are composed of bank account balances and short-term, highly liquid investments that have a maturity date of 90 days or less from the date of acquisition, are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash equivalents are designated as AFS financial assets. Interest earned on cash and cash equivalents is included in interest income.

*2. Significant accounting policies (continued)*

## Short-term investments

Short-term investments have maturity dates between 91 and 365 days from the date of acquisition, are acquired primarily for liquidity purposes and are designated as AFS financial assets. Short-term investments are accounted for at fair value using trade date accounting and a valuation technique as described under the Estimation Uncertainty heading. Unrealized fair value gains and losses are included in other comprehensive income (OCI). Interest earned on short-term investments is included in interest income.

## Accounts receivable

Accounts receivable are classified as loans and receivables and are carried at amortized cost using the effective interest method.

## Derivatives

Derivative financial instruments create rights and obligations that are intended to mitigate one or more of the financial risks inherent in an underlying primary financial instrument. FCC uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations, within limits approved by the FCC Board of Directors (the Board). These limits are based on guidelines established by the Department of Finance. FCC does not use derivative financial instruments for speculative purposes.

Derivatives are classified as HFT and are recorded at FVTPL using a valuation technique as described under the Estimation Uncertainty heading, with gains and losses reported in the fair value adjustment. Derivatives classified as HFT are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. Interest earned and incurred on derivatives classified as HFT is included in interest income.

## Cash flow hedges

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

## Loans receivable

Loans receivable are classified as loans and receivables. Loans receivable are stated net of an allowance for credit losses and deferred loan fees and are measured at amortized cost using the effective interest method.

Loan interest income is recorded on an accrual basis and recognized in net income using the effective interest method unless the loan is classified as impaired. Once a loan is impaired, the unwinding of the discount on the security value is recognized as interest income based on the original effective interest rate on the loan.

Loan origination fees, including commitment fees and renegotiation fees, are considered an integral part of the return earned on a loan and are recognized in interest income over the expected term of the loan using the effective interest method. In addition, certain incremental direct costs for originating the loans are deferred and netted against the related fees.

An impaired loan is any loan where, in management's opinion, the credit quality has deteriorated to the extent that FCC no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, any loan where an amount greater than $500 is past due for 90 or more consecutive days is classified as impaired unless the loan is sufficiently secured. When a loan is classified as impaired, the carrying value is reduced to its estimated realizable value through an adjustment to the individual allowance for credit losses. Changes in the estimated realizable amount that arise subsequent to the initial impairment are also adjusted through the individual allowance for credit losses.

*2. Significant accounting policies (continued)*

Loan interest income is not accrued when a loan is classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to performing status when, in management's opinion, the ultimate collection of principal and interest is reasonably assured. When the impaired loan is restored to performing status, the remaining individual allowance for credit losses is reversed.

Loans and their related allowance for credit losses are written off when all collection efforts have been exhausted and there is no realistic prospect of future recovery.

## Finance leases receivable

When FCC is the lessor in a lease arrangement that transfers substantially all of the risks and rewards incidental to ownership to the lessee, then the arrangement is classified as a finance lease. Finance leases receivable are classified as loans and receivables. Finance leases receivable are stated net of an allowance for credit losses and are recorded at the aggregate future minimum lease payments plus estimated residual values less unearned finance income. Finance lease income is recognized in a manner that produces a constant rate of return on the lease.

## Allowance for credit losses

FCC recognizes an allowance for credit losses that represents management's best estimate of the incurred losses in the loan and lease portfolios at the balance sheet date. The allowance is increased or decreased by the provision for credit losses, the government subsidy for the Hog Industry Loan Loss Reserve Program (HILLRP), as described under the Government Assistance heading, the unwind adjustment, as described under the Individual Allowance heading, writeoffs and recoveries.

At each balance sheet date, FCC assesses whether there is objective evidence that a loan or lease is impaired. If there is objective evidence that an impairment loss on a loan or lease has been incurred, the carrying value of the loan or lease is reduced through the allowance for credit losses and the amount of the loss is recognized in the provision for credit losses. If, in a subsequent period, the amount of impairment loss increases or decreases, and the increase or decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is adjusted through the allowance for credit losses and provision for credit losses.

In determining the allowance for credit losses, management segregates credit losses into two components: individual and collective.

*Individual allowance* – FCC first assesses whether objective evidence of impairment exists based on an individual review of each loan or lease in the portfolio. The review is undertaken to determine if a loss event indicating impairment exists for an individual loan or lease. The review assesses whether credit quality has deteriorated to the extent that FCC no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, FCC has defined loans or leases where an amount greater than $500 is past due for 90 or more consecutive days as being a loss event. If a loss event has occurred, an impairment loss is recorded unless the loan or lease is sufficiently secured.

The impairment loss is calculated as the difference between the loan or lease's carrying value and the present value of estimated future cash flows discounted at either the loan or lease's original effective interest rate for fixed-rate loans or leases or the effective interest rate at the time of the impairment for variable-rate loans or leases. The estimation of future cash flows considers the fair value of any underlying security as well as the estimated time and costs to realize the security. In subsequent periods, any change in present value of estimated future cash flows attributable to the passage of time adjusts the allowance for credit losses through the unwind adjustment. The unwind adjustment is recorded in interest income.

*2. Significant accounting policies (continued)*

***Collective allowance*** – If FCC determines that no objective evidence of impairment exists for an individually assessed loan or lease, it is assessed on a collective basis. In making the collective assessment of impairment, management groups the loans and leases into portfolios with similar credit risk characteristics. Future cash flows for these portfolios are estimated on the basis of underlying security values and historical loss experience, considering customer, loan and security characteristics. The collective assessment of impairment for loans is broken down into three components: triggered loan pool, general loan pool and overlay.

- Triggered loan pool – Loans are included in this pool if any one of the following loss events has occurred:
  1. All loans for customers with any one loan that has an amount greater than $500 past due for 90 or more consecutive days.
  2. All loans for customers with any one loan that has had an amortization extension to the payment schedule in the last 12 months.
  3. Any individual loan that has had a 15-point risk scoring and pricing system (RSPS) score drop when compared to its RSPS score 12 months ago.
- General loan pool – This assessment considers credit losses that have been incurred on loans that do not meet the criteria to be in either the individual or triggered loan pools. It is based on the historical movement of loans from performing status to either the triggered or individually impaired loan pools.
- Overlay – FCC uses the overlay to adjust its historical loss experience reflected in the triggered loan pool and general loan pool components of the collective assessment for current market conditions.

For select portions of FCC's portfolio, the above process is tailored to capture the unique characteristics of these loans to identify and measure impairment more accurately. For these loans, the individual loss event is considered to be 180 days past due. For the collective allowance, FCC considers the historical movement of performing loans to impaired status, along with the calculation of expected future cash flows estimated using historical probabilities of default and loss given default.

## Investment in associates

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

## Venture capital investments

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

Venture capital investments are accounted for at fair value, using a valuation technique as described under the Estimation Uncertainty heading, with gains and losses reported in the fair value adjustment. Interest on debt and fee income are recognized when receivable and included in interest income.

*2. Significant accounting policies (continued)*

## Post-employment benefits

FCC has a registered defined benefit pension plan, three supplemental defined benefit pension plans, a registered defined contribution pension plan, a supplemental defined contribution plan and other defined benefit plans that provide retirement and post-employment benefits to most of its employees. The defined benefit pension plan and the defined contribution pension plan are registered under the Pension Benefits Standards Act, 1985, registration no. 57164. They are registered pension trusts as defined in the Income Tax Act and are not subject to income taxes. The defined benefit pension plan is based on employees' number of years of service and the average salary of their five highest-paid consecutive years of service. It is protected against inflation. The supplemental defined benefit and supplemental defined contribution pension plans are available for employees whose benefits under the registered plans are limited by the Income Tax Act maximum limits.

Retirement benefit plans are contributory health care plans with employee contributions adjusted annually and a non-contributory life insurance plan. Post-employment plans provide short-term disability income benefits, severance entitlements after employment and health care benefits to employees on long-term disability.

The defined benefit obligations for pension and other defined benefit plans are actuarially determined using the projected unit credit actuarial valuation method, which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors. Plan assets are measured at fair value.

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

The net asset or liability for defined benefit obligations represents the present value of the defined benefit obligation reduced by the fair value of plan assets. The defined benefit asset is limited to the value determined by the asset ceiling. The value of the asset is restricted to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plan.

Defined benefit costs are split into three categories:

- service costs, past service costs, gains and losses on curtailments and settlements, plan administration costs and the tax effect on refundable tax assets
- net interest expense or income on the net defined benefit liability
- remeasurements of the net defined benefit liability

Contributions to the defined contribution pension plan are recognized as an expense when employees have rendered service entitling them to the contributions. Unpaid contributions are recognized as a liability.

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

Net interest, current service costs, gains and losses on curtailments and settlements, plan administration costs and the tax effect on refundable tax assets are recognized immediately in salaries and benefits in net income. Net interest is calculated by applying the discount rate used to discount the post-employment benefit obligations to the net asset or liability for defined benefit obligations.

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

*2. Significant accounting policies (continued)*

## Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the equipment or leasehold improvement. Subsequent expenditures, including replaced parts, are included in the equipment or leasehold improvement's carrying value or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to FCC and the cost of the item can be measured reliably. The carrying value of the replaced part is derecognized. All repair and maintenance costs are expensed during the period in which they are incurred.

Depreciation begins when the equipment or leasehold improvement is available for use by FCC. Depreciation is calculated using the straight-line method to allocate the cost less estimated residual value of the asset over the following terms:

| | **Terms** |
|---|---|
| Office equipment and furniture | 5 years |
| Computer equipment | 3 or 5 years |
| Leasehold improvements | Shorter of lease term or asset's useful economic life |

The residual values and useful lives are reviewed annually and adjusted, if appropriate. Equipment and leasehold improvements are reviewed annually for indicators of impairment and, if indicators exist, FCC estimates the recoverable amount of the asset. The estimated recoverable amount is the higher of the fair value less the costs to sell and the value in use. If the carrying value is greater than the estimated recoverable amount, an impairment loss would be recognized to reduce the carrying value to the estimated recoverable amount.

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

## Computer software

Computer software is recorded at cost less accumulated amortization. Expenditures on internally developed software are recognized as assets when FCC is able to demonstrate its intention and ability to complete the development, to use the software in a manner that will generate future economic benefits and to reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software.

Amortization begins when the software is available for use by FCC. Amortization is recorded over the estimated useful life of three or five years using the straight-line method.

Software is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such indications exist, the carrying value is analyzed to assess whether it is fully recoverable. An impairment loss would be recorded to reduce the carrying value to the recoverable amount if the carrying value is greater than the estimated recoverable amount.

## Equipment under operating leases

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

*2. Significant accounting policies (continued)*

Lease income from operating leases is recognized on a straight-line basis over the term of the lease and included in interest income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying value of the leased asset and recognized on a straight-line basis over the lease term.

Equipment under operating leases is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such indications exist, the carrying value is analyzed to assess whether it is fully recoverable. An impairment loss would be recorded to reduce the carrying value to the recoverable amount if the carrying value is greater than the estimated recoverable amount.

## Insurance

FCC sells group creditor life and accident insurance to its customers through a program administered by a major insurance provider. The insurance premiums are actuarially determined and are accrued when receivable and recorded in net insurance income.

Insurance claims expense, included in net insurance income, consists of paid claims that are recorded as incurred throughout the year, an accrual for insurance claims payable at year-end for claims that have been incurred as at the balance sheet date and adjustments to the reserve for insurance claims. The reserve for insurance claims represents the liability that, together with estimated future premiums and net investment income on insurance reserve assets, will provide for outstanding claims, estimated future benefits, taxes and expenses. The reserve for insurance claims is recorded at fair value and included in other liabilities. The reserve is actuarially determined using the Canadian Asset Liability Method and prepared on a going concern basis, taking into account the appropriate degree of risk inherent in the obligation, as described in Note 26. Changes in estimates are recorded when made and are included in net insurance income.

FCC maintains a restricted insurance reserve asset, which is included in other assets, with the insurance provider to fund future claim payments. Interest is paid on the insurance reserve asset by the insurance provider annually and is recorded in other income.

Expenses related to administering the insurance program are recorded in other expenses. The accrual for insurance claims payable is classified as other financial liabilities, measured at amortized cost using the effective interest method and included in accounts payable and accrued liabilities.

## Accounts payable and accrued liabilities

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

## Borrowings

Government of Canada borrowings are undertaken with the approval of the Minister of Finance. Government of Canada borrowings are direct obligations of FCC and therefore constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

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

Borrowings are accounted for using trade date accounting, and are classified as other financial liabilities and measured at amortized cost using the effective interest method.

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

*2. Significant accounting policies (continued)*

## Transition loan liabilities

FCC records a transition loan liability that represents amounts owing to third parties upon the signing of a contract that requires FCC to pay amounts in accordance with a disbursement schedule relating to undisbursed transition loans, which are included in loans receivable. As payments are made in accordance with the transition loan disbursement schedule, the applicable amount of the transition loan liability is reduced. Transition loan liabilities are recorded at amortized cost using the effective interest method.

## Government assistance

FCC is one of the financial institutions participating in the HILLRP. Under the HILLRP, the Government of Canada has established a loan loss reserve fund to share the net credit losses on eligible loans provided to hog operations with certain financial institutions. FCC is responsible for all credit losses beyond those covered by the loan loss reserve fund and must meet certain eligibility requirements to access the reserve fund. The amount of funds available from the loan loss reserve fund to FCC for any non-performing eligible loans are 90%, 80% and 70% of net credit losses in years one to three, four to six and seven to 15, respectively. Amounts held by FCC to which it is not entitled are paid back to the Government of Canada at the end of the program. FCC's deadline for disbursing the loans eligible under this program has passed and no further loan loss reserve fund instalments are due from the Government of Canada.

Management estimates the amount of the loan loss reserve fund to which FCC is entitled under the HILLRP. This estimate is accounted for as a reduction to FCC's provision for credit losses. The remaining amount of the loan loss reserve fund, to which FCC is not entitled, is recorded as borrowings. Interest on this borrowing is recorded in interest expense.

## Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issuance or disposal of a financial asset or liability. Transaction costs relating to loans and receivables and borrowings classified as other liabilities are deferred and amortized over the instrument's expected useful life using the effective interest method. Transaction costs related to all other financial instruments are expensed as incurred.

## Operating lease payments

Payments on operating lease agreements are expensed on a straight-line basis over the lease term. Associated costs are expensed as incurred.

## Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date. Income and expenses are translated at the monthly average exchange rates prevailing throughout the year. Exchange gains and losses on loans and receivables are included in interest income, and exchange gains and losses on borrowings are included in interest expense.

## Segmented information

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

*2. Significant accounting policies (continued)*

## Significant management judgments in applying accounting policies

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

- **Significant influence over Avrio Fund III**
  FCC has determined that it exerts power over operating, investing and financing decisions, and thus has significant influence over Avrio Fund III at March 31, 2018, while holding less than 20% voting control (Note 24).

- **Finance leases receivable**
  In applying the classification of leases in IAS 17 – Leases, management considers leases of agricultural equipment to be either finance or operating lease arrangements. In some cases, the lease transaction is not always conclusive and management uses judgment in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership.

- **Computer software**
  A significant portion of FCC's computer software expenditures relates to software that is developed as part of internal infrastructures and, to a lesser extent, purchased directly from suppliers. Management has a process to monitor the progress of internal research and development projects. Significant judgment is required in distinguishing between the research and development phases. Research costs are expensed as incurred, whereas development costs are recognized as an asset when all criteria are met. Management monitors whether the recognition requirements for development costs continue to be met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems after the time of recognition.

## Estimation uncertainty

The preparation of the consolidated financial statements in accordance with IFRS requires that management makes judgments, estimates and assumptions concerning the future that affect the reported amounts in the consolidated financial statements and accompanying notes. Judgments, estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these judgments, estimates and assumptions. Information about the significant judgments, estimates and assumptions that are critical to the recognition and measurement of assets, liabilities, income and expense is discussed below.

- **Allowance for credit losses**
  The loan and lease portfolio is reviewed by management to assess impairment. Judgments are made when determining whether a loss event has occurred, and estimates and assumptions are made in measuring the resulting impairment loss. Management uses best estimates based on historical loss experience for loans and leases with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

- **Post-employment benefit assets and liabilities**
  The estimate of the post-employment benefit assets and liabilities or pension and non-pension post-retirement benefits is actuarially determined and incorporates management's best estimate of future salary levels, other cost escalation, employees' retirement ages and other actuarial assumptions. The discount rate is one of the more significant assumptions used. It is the interest rate that determines the present value of estimated future cash outflows expected to be required to settle the pension obligations. Management determines the appropriate discount rate at the end of each year. In doing this, management considers the interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Any changes in these assumptions will affect the carrying values of post-employment benefit assets and liabilities.

*2. Significant accounting policies (continued)*

- **Reserve for insurance claims**
  The reserve for insurance claims is based on certain estimates and assumptions, including expected future mortality experience and interest rates. Higher mortality experience and increased interest rates would be financially adverse to FCC. FCC's mortality experience is combined with industry experience, since FCC's own experience is insufficient to be statistically credible.

- **Useful lives of depreciable assets**
  During the software development process and when new equipment, leasehold improvements and computer software are being purchased, management's judgment and estimates are required to determine the expected period of benefit over which capitalized costs should be depreciated or amortized. Management reviews the useful lives of depreciable assets at each reporting date. Actual results may vary because of technical obsolescence, particularly for software and information technology equipment, due to rapidly changing technology and the uncertainty of the software development process.

- **Fair value of financial instruments**
  The fair value of financial instruments is determined based on published quoted market prices or valuation techniques when quoted market prices are not available. Fair values are point-in-time estimates that may change significantly in subsequent reporting periods due to changes in market conditions. Fair value techniques use models and assumptions about future events, based on either observable or non-observable market inputs. As such, fair values are estimates involving uncertainties and may be significantly different when compared to another financial institution's value for a similar contract. The methods used to value FCC's financial instruments measured at fair value are as follows:

  - The estimated fair value of short-term investments is calculated by discounting contractual cash flows at interest rates prevailing at the reporting date for equivalent securities.

  - The estimated fair value of derivative financial assets and liabilities is determined using market standard valuation techniques. Where call or extension options exist, the value of these options is determined using current market measures for interest rates and currency exchange rates and by taking volatility levels and estimations for other market-based pricing factors into consideration. Market-observed credit spreads, where available, are a key factor in establishing valuation adjustments against FCC's counterparty credit exposures. Where the counterparty does not have an observable credit spread, a proxy that reflects the counterparty's credit profile is used.

  - The estimated fair value of venture capital debt investments is calculated by discounting contractual cash flows at interest rates prevailing at the reporting date with equivalent risk and terms to maturity.

*2. Significant accounting policies (continued)*

## Accounting standards issued but not yet effective

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

| Standard | Details | Date of initial application |
|---|---|---|
| IFRS 9 – Financial instruments | In July 2014, the IASB issued the complete version of IFRS 9, first issued in November 2009, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39.<br><br>IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. This standard will change the classification of FCC's cash equivalents and short-term investments from AFS to amortized cost and venture capital investments from FVTPL to amortized cost.<br><br>IFRS 9 also introduces an expected loss impairment model for all financial assets not at FVTPL and certain off-balance sheet loan commitments and guarantees. The new expected loss impairment model will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event. This differs from the current approach where the allowance recorded is designed to capture only losses that have been incurred whether or not they have been specifically identified. The most significant impact will be on FCC's loans receivable.<br><br>The IFRS 9 expected loss impairment model has three stages:<br><br>1. On initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established.<br><br>2. If credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, then entities shall revert to recognizing 12 months of expected credit losses.<br><br>3. When a financial asset is considered credit-impaired, full lifetime expected credit losses are recognized and interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount.<br><br>As permitted, FCC will not re-state the prior period comparative consolidated financial statements when the requirements of the new standard are adopted.<br><br>FCC is validating the results of the new allowance for credit losses calculation and expects to recognize a significant decrease to the allowance for credit losses and increase to the opening retained earnings to reflect the implementation of the new standard. | April 1, 2018 |

*2. Significant accounting policies (continued)*

| | | |
|---|---|---|
| IFRS 16 – Leases | In January 2016, the IASB issued IFRS 16, which requires all leases to be reported on a lessee's balance sheet as assets and liabilities. There are also changes in accounting over the life of the lease. In particular, lessees will now recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. It is anticipated this standard will result in an increase in both lease assets and lease liabilities on the balance sheet as well as an accelerated pattern for expense recognition.<br>Lessor accounting remains similar to current practice as lessors continue to classify leases as finance and operating leases.<br>FCC is assessing the impact of this standard and the extent of the impact of the adoption is unknown at this time. | April 1, 2019 |
| IFRS 17 – Insurance contracts | In May 2017, the IASB issued IFRS 17, which provides a single principle-based standard to account for all types of insurance contracts. IFRS 17 provides updated information about the obligations, risks and performance of insurance contracts and increases transparency in financial information reported by insurance companies, which will give investors and analysts more confidence in understanding the insurance industry. It also introduces consistent accounting for all insurance contracts based on a current measurement model.<br>FCC is assessing the impact of this standard and the extent of the impact of the adoption is unknown at this time. | April 1, 2021 |

## 3. Short-term investments

As at March 31, 2018, short-term investments were $398.2 million (2017 – $435.5 million) with a yield of 1.38% (2017 – 0.67%). They consisted of promissory notes and treasury bills issued by institutions with credit ratings of A+ or higher (2017 – A+ or higher) as rated by Standard and Poor's Ratings Services (S&P). As at March 31, 2018, the largest total investment in any one institution was $131.1 million (2017 – $177.0 million).

All short-term investments have an initial term to maturity of 91 – 365 days and will mature within 12 months of the balance sheet date.

## 4. Accounts receivable and prepaid expenses

| As at March 31 ($ thousands) | **2018** | 2017 |
|---|---|---|
| Amounts receivable from pending borrowing | **$ –** | $ 370,000 |
| Other | **47,801** | 29,110 |
| | **$ 47,801** | $ 399,110 |

Amounts receivable from pending borrowing consist of borrowings that remained unsettled at the end of the reporting year. The fair value of amounts receivable from pending borrowing is the value at which the borrowing was undertaken.

## 5. Derivative financial instruments

As at March 31, 2018, derivative financial assets were $21.5 million (2017 – $35.8 million) and derivative financial liabilities were $nil (2017 – $2.6 thousand).

The derivative contracts entered into by FCC are over-the-counter instruments. Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest. Notional amounts upon which interest payments and receipts are based are not exchanged. FCC is exposed to variability in future interest cash flows on non-trading assets that bear interest at variable rates. Foreign exchange swaps are transactions in which two parties exchange notional amounts in different currencies at inception and maturity on the exchanged amounts on predetermined dates for a specific period of time using agreed-upon fixed rates of interest.

As at March 31, 2018, the estimated amount of existing net gains reported in accumulated other comprehensive income (AOCI) that is expected to be transferred to net income within the next 12 months is $21.7 million (2017 – $21.7 million).

### Notional principal amounts and term to maturity

| As at March 31 ($ thousands) | | 2018 | | | |
|---|---|---|---|---|---|
| | | **Within 1 year** | **1-5 years** | **Over 5 years** | **Total** |
| **Interest rate swaps** | | | | | |
| **Receive** | **Pay** | | | | |
| Fixed | Floating | **$ –** | **$ 237,994** | **$ –** | **$ 237,994** |
| Floating | Fixed | **–** | **12,894** | **–** | **12,894** |
| | | **–** | **250,888** | **–** | **250,888** |
| **Foreign exchange swaps** | | | | | |
| **Receive** | **Pay** | | | | |
| EUR | CAD | **11,143** | **–** | **–** | **11,143** |
| | | **$ 11,143** | **$ 250,888** | **$ –** | **$ 262,031** |

| As at March 31 ($ thousands) | | 2017 | | | |
|---|---|---|---|---|---|
| | | Within 1 year | 1-5 years | Over 5 years | Total |
| **Interest rate swaps** | | | | | |
| **Receive** | **Pay** | | | | |
| Fixed | Floating | $ – | $ 237,994 | $ – | $ 237,994 |
| Floating | Fixed | – | – | 13,299 | 13,299 |
| | | – | 237,994 | 13,299 | 251,293 |
| **Foreign exchange swaps** | | | | | |
| **Receive** | **Pay** | | | | |
| EUR | CAD | – | – | – | – |
| | | $ – | $ 237,994 | $ 13,299 | $ 251,293 |

*5. Derivative financial instruments (continued)*

### Counterparty credit risk

Derivatives that have a positive fair value are subject to counterparty risk because the positive fair value indicates that over time, FCC can expect to receive cash flows from the counterparties based on the terms of the contract and current market conditions. The master netting agreements in place have no impact on the fair values at March 31, 2017, and March 31, 2018.

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

| As at March 31 ($ thousands) | | 2018 | |
|---|---|---|---|
| | **Positive fair value** | **Negative fair value** | **Net fair value** |
| Interest rate swaps | **$ 21,414** | **$ –** | **$ 21,414** |
| Foreign exchange swaps | **98** | **–** | **98** |
| **Fair value** | **$ 21,512** | **$ –** | **$ 21,512** |

| As at March 31 ($ thousands) | | 2017 | |
|---|---|---|---|
| | Positive fair value | Negative fair value | Net fair value |
| Interest rate swaps | $ 35,831 | $ 3 | $ 35,828 |
| Foreign exchange swaps | – | – | – |
| **Fair value** | $ 35,831 | $ 3 | $ 35,828 |

FCC does not anticipate any significant non-performance by counterparties because all counterparties are rated A1, A+ and AA or higher, as rated by Moody's Investors Service (Moody's), S&P, and the Dominion Bond Rating Service (DBRS), respectively. The largest cumulative notional amount contracted with any institution as at March 31, 2018, was $125.0 million (2017 – $125.0 million), and the largest net fair value of contracts with any institution as at March 31, 2018, was $9.2 million (2017 – $16.8 million). FCC mitigates the credit exposure on multiple derivative transactions by entering into master netting agreements with counterparties as outlined in Note 26. These agreements create the legal right to offset exposure in the event of default.

## 6. Loans receivable – net

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

| As at March 31 ($ thousands) | | | 2018 | |
|---|---|---|---|---|
| | **Within 1 year** | **1 – 5 years** | **Over 5 years** | **Total** |
| Floating | **$ 3,296,610** | **$ 13,611,828** | **$ 580,939** | **$ 17,489,377** |
| Fixed | **3,432,898** | **10,753,841** | **2,206,397** | **16,393,136** |
| Loans receivable – gross | **$ 6,729,508** | **$ 24,365,669** | **$ 2,787,336** | **$ 33,882,513** |
| Deferred loan fees | | | | **(23,960)** |
| Loans receivable – total | | | | **33,858,553** |
| Allowance for credit losses (Note 8) | | | | **(222,534)** |
| **Loans receivable – net** | | | | **$ 33,636,019** |

*6. Loans receivable – net (continued)*

| As at March 31 ($ thousands) | 2017 | | | |
|---|---|---|---|---|
| | Within 1 year | 1 – 5 years | Over 5 years | Total |
| Floating | $ 3,026,214 | $ 13,338,504 | $ 651,522 | $ 17,016,240 |
| Fixed | 3,349,569 | 8,914,076 | 1,964,538 | 14,228,183 |
| Loans receivable – gross | $ 6,375,783 | $ 22,252,580 | $ 2,616,060 | $ 31,244,423 |
| Deferred loan fees | | | | (23,758) |
| Loans receivable – total | | | | 31,220,665 |
| Allowance for credit losses (Note 8) | | | | (213,615) |
| **Loans receivable – net** | | | | $ 31,007,050 |

Management estimates that annually, over the next three years, approximately 5.8% (2017 – approximately 5.8%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2018, $534.9 million (2017 – $497.7 million) of loans receivable were denominated in U.S. dollars (USD) and $11.2 million (2017-$nil) were denominated in Euros (EUR).

## Concentrations of credit risk

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

### Enterprise distribution

| | **Gross** | | **Impaired** | |
|---|---|---|---|---|
| As at March 31 ($ thousands) | **2018** | 2017 | **2018** | 2017 |
| Oilseed and grain | **$ 10,351,636** | $ 9,412,531 | **$ 8,831** | $ 11,513 |
| Dairy | **6,203,782** | 5,773,209 | **1,971** | 4,249 |
| Agribusiness | **3,310,446** | 2,950,494 | **6,856** | 24,227 |
| Poultry | **2,508,809** | 2,340,426 | **69** | – |
| Beef | **2,106,014** | 1,912,925 | **5,197** | 7,743 |
| Part-time farming | **2,047,149** | 1,972,545 | **20,607** | 20,573 |
| Other | **1,821,737** | 1,666,888 | **26,913** | 30,880 |
| Greenhouse | **1,184,326** | 1,097,946 | **1,364** | 10,776 |
| Alliances | **1,176,445** | 1,015,630 | **11,957** | 12,225 |
| Agri-food | **1,158,349** | 1,160,317 | **25,070** | 28,991 |
| Fruit | **1,079,454** | 1,051,133 | **20,368** | 23,496 |
| Hogs | **934,366** | 890,379 | **7,745** | 8,263 |
| **Total** | **$ 33,882,513** | $ 31,244,423 | **$ 136,948** | $ 182,936 |

### Geographic distribution

| | **Gross** | | **Impaired** | |
|---|---|---|---|---|
| As at March 31 ($ thousands) | **2018** | 2017 | **2018** | 2017 |
| Ontario | **$ 10,181,357** | $ 9,535,590 | **$ 22,699** | $ 22,122 |
| Alberta and British Columbia | **9,840,264** | 9,127,845 | **44,049** | 75,808 |
| Saskatchewan | **5,687,916** | 5,177,713 | **14,774** | 17,311 |
| Quebec | **4,335,325** | 3,880,438 | **22,857** | 39,091 |
| Manitoba | **2,604,928** | 2,334,569 | **2,449** | 4,805 |
| Atlantic | **1,232,723** | 1,188,268 | **30,120** | 23,799 |
| **Total** | **$33,882,513** | $ 31,244,423 | **$ 136,948** | $ 182,936 |

## 7. Finance leases receivable – net

| As at March 31 ($ thousands) | 2018 | 2017 |
|---|---|---|
| **Total minimum finance lease payments receivable** | | |
| Less than one year | **$ 8,675** | $ 6,498 |
| Between one and five years | **12,114** | 11,048 |
| Finance leases receivable – gross | **20,789** | 17,546 |
| Unearned finance income | **(1,118)** | (1,029) |
| Allowance for credit losses (Note 8) | **(58)** | (49) |
| **Finance leases receivable – net** | **$ 19,613** | $ 16,468 |

FCC retains as collateral a security interest in the equipment associated with finance leases. The maximum term for finance leases receivable is five years.

## 8. Allowance for credit losses

| As at March 31 ($ thousands) | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Loans receivable** | **Finance leases receivable** | **Total** | Loans receivable | Finance leases receivable | Total |
| Individual allowance, beginning of year | **$ 78,370** | **$ –** | **$ 78,370** | $ 87,686 | $ – | $ 87,686 |
| Provision for credit losses | **6,150** | **–** | **6,150** | 5,030 | – | 5,030 |
| Losses covered under HILLRP | **318** | **–** | **318** | 732 | – | 732 |
| Unwind adjustment on impaired loans | **1,005** | **–** | **1,005** | (3,403) | – | (3,403) |
| Writeoffs | **(23,521)** | **–** | **(23,521)** | (15,096) | – | (15,096) |
| Recoveries | **2,021** | **–** | **2,021** | 3,421 | – | 3,421 |
| Individual allowance, end of year | **64,343** | **–** | **64,343** | 78,370 | – | 78,370 |
| Collective allowance, beginning of year | **135,245** | **49** | **135,294** | 122,344 | 29 | 122,373 |
| Provision for credit losses | **24,722** | **9** | **24,731** | 14,239 | 20 | 14,259 |
| Losses covered under HILLRP | **(265)** | **–** | **(265)** | (241) | – | (241) |
| Writeoffs | **(2,158)** | **–** | **(2,158)** | (1,743) | – | (1,743) |
| Recoveries | **647** | **–** | **647** | 646 | – | 646 |
| Collective allowance, end of year | **158,191** | **58** | **158,249** | 135,245 | 49 | 135,294 |
| **Total allowance** | **$ 222,534** | **$ 58** | **$ 222,592** | **$ 213,615** | **$ 49** | **$ 213,664** |

## 9. Investment in associates

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

| As at March 31 ($ thousands) | 2018 | | | |
|---|---|---|---|---|
| | **Avrio Fund I** | **Avrio Fund II** | **Avrio Fund III** | **Total** |
| Revenue | **$ –** | **$ 14,742** | **$ 312** | **$ 15,054** |
| Net (loss) income | **(32)** | **(184)** | **(7,000)** | **(7,216)** |
| Assets | **–** | **75,820** | **39,812** | **115,632** |
| Liabilities | **–** | **156** | **6,389** | **6,545** |
| Net assets | **–** | **75,664** | **33,423** | **109,087** |
| Proportion of FCC's ownership | **66.9%** | **54.7%** | **49.0%** | |
| **Carrying amount of FCC's interest** | **$ –** | **$ 41,388** | **$ 16,377** | **$ 57,765** |

| As at March 31 ($ thousands) | 2017 | | | |
|---|---|---|---|---|
| | Avrio Fund I | Avrio Fund II | Avrio Fund III | Total |
| Revenue | $ 575 | $ 4,023 | $ 129 | $ 4,727 |
| Net (loss) income | 367 | 6,202 | (4,379) | 2,190 |
| Assets | 225 | 76,640 | 21,299 | 98,164 |
| Liabilities | 140 | 50 | 3,022 | 3,212 |
| Net assets | 85 | 76,590 | 18,277 | 94,952 |
| Proportion of FCC's ownership | 66.9% | 54.7% | 49.0% | |
| **Carrying amount of FCC's interest** | $ 57 | $ 41,895 | $ 8,956 | $ 50,908 |

Distributions received during the year were $2.9 million (2017 – $16.4 million).

## 10. Venture capital investments

As at March 31, 2018, FCC had $77.1 million (2017 – $55.0 million) in venture capital investments, of which $76.4 million (2017 – $55.0 million) was carried in debt investments and $0.7 million (2017 – $nil) was carried in equity investments. Of the debt investments, $7.2 million (2017 – $nil) is due to FCC within one year, $62.2 million (2017 – $47.5 million) is due between one and five years and $7.0 million (2017 – $7.5 million) is due later than five years. Venture capital investments are made in the agribusiness and agri-food sector.

The venture capital investment portfolio exposes FCC to credit risk. Venture capital investments are typically secured by a general security agreement, assignment of life insurance proceeds and personal guarantees. As at March 31, 2018, there were no venture capital debt investments past due (2017 – $nil).

## 11. Post-employment benefits

### Financial position of benefit plans

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

The amounts recognized in the Consolidated Balance Sheet are as follows:

| | Registered pension plan | |
|---|---|---|
| As at March 31 ($ thousands) | **2018** | 2017 |
| Present value of funded defined benefit obligations | **$ (769,544)** | $ (686,090) |
| Fair value of plan assets | **819,800** | 739,626 |
| **Net asset for defined benefit obligations** | **$ 50,256** | $ 53,536 |

| | Supplemental pension plans | |
|---|---|---|
| As at March 31 ($ thousands) | **2018** | 2017 |
| Present value of funded defined benefit obligations | **$ (79,473)** | $ (64,950) |
| Fair value of plan assets | **48,840** | 45,658 |
| Funded status | **(30,633)** | (19,292) |
| Present value of unfunded defined benefit obligations | **(14,619)** | (14,257) |
| **Net liability for defined benefit obligations** | **$ (45,252)** | $ (33,549) |

| | Other benefits | |
|---|---|---|
| As at March 31 ($ thousands) | **2018** | 2017 |
| Present value of unfunded defined benefit obligations | **$ (100,029)** | $ (105,160) |
| **Net liability for defined benefit obligations** | **$ (100,029)** | $ (105,160) |

The total net asset for defined benefit obligations is $50.3 million (2017 – $53.5 million). This amount is recorded on the Consolidated Balance Sheet as post-employment benefit assets. The total net liability for defined benefit obligations is $145.3 million (2017 – $138.7 million). This amount is recorded on the Consolidated Balance Sheet as post-employment benefit liabilities.

*11. Post-employment benefits (continued)*

## Movements in the present value of the defined benefit obligation

| As at March 31 ($ thousands) | Registered pension plan 2018 | Registered pension plan 2017 | Supplemental pension plans 2018 | Supplemental pension plans 2017 | Other benefits 2018 | Other benefits 2017 |
|---|---|---|---|---|---|---|
| Defined benefit obligation, beginning of year | **$ 686,090** | $ 668,578 | **$ 79,207** | $ 72,766 | **$ 105,160** | $ 97,980 |
| Current service cost | **22,121** | 23,320 | **1,663** | 1,276 | **6,772** | 6,750 |
| Interest cost on the defined benefit obligation | **26,771** | 25,444 | **3,039** | 2,711 | **4,230** | 3,854 |
| Contributions by employees | **8,591** | 8,393 | **543** | 486 | **–** | – |
| Benefits paid | **(16,010)** | (16,862) | **(2,315)** | (1,986) | **(1,172)** | (902) |
| Experience adjustments on plan liabilities | **(525)** | (8,859) | **5,226** | 5,427 | **(872)** | (229) |
| Actuarial loss (gain) from changes in liability assumptions | **42,506** | (13,924) | **6,729** | (1,473) | **(14,089)** | (2,293) |
| **Defined benefit obligation, end of year** | **$ 769,544** | $ 686,090 | **$ 94,092** | $ 79,207 | **$ 100,029** | $ 105,160 |

The duration of the registered and supplemental pension plan's defined benefit obligation is 20 years (2017 – 19 years). The duration of the other benefit plan's defined benefit obligation is 27 years (2017 – 26 years).

## Movements in the fair value of plan assets

| As at March 31 ($ thousands) | Registered pension plan 2018 | Registered pension plan 2017 | Supplemental pension plans 2018 | Supplemental pension plans 2017 | Other benefits 2018 | Other benefits 2017 |
|---|---|---|---|---|---|---|
| Fair value of plan assets, beginning of year | **$ 739,626** | $ 651,472 | **$ 45,658** | $ 41,553 | **$ –** | $ – |
| Interest income on plan assets | **28,728** | 24,495 | **1,782** | 1,626 | **–** | – |
| Return on plan assets greater (less) than the discount rate | **18,701** | 42,552 | **93** | (602) | **–** | – |
| Contributions by FCC | **41,042** | 30,287 | **4,383** | 6,413 | **1,172** | 902 |
| Contributions by employees | **8,591** | 8,393 | **543** | 486 | **–** | – |
| Benefits paid | **(16,010)** | (16,862) | **(2,315)** | (1,986) | **(1,172)** | (902) |
| Plan administration costs | **(878)** | (711) | **(148)** | (147) | **–** | – |
| Tax effect on refundable tax assets | **–** | – | **(1,156)** | (1,685) | **–** | – |
| **Fair value of plan assets, end of year** | **$ 819,800** | $ 739,626 | **$ 48,840** | $ 45,658 | **$ –** | $ – |

*11. Post-employment benefits (continued)*

## Defined benefit costs recognized in net income

| | Registered pension plan | | Supplemental pension plans | | Other benefits | | Total | |
|---|---|---|---|---|---|---|---|---|
| For the year ended March 31 ($ thousands) | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| Current service cost | **$ 22,121** | $ 23,320 | **$ 1,663** | $ 1,276 | **$ 6,772** | $ 6,750 | **$ 30,556** | $ 31,346 |
| Net interest | **(1,957)** | 949 | **1,257** | 1,085 | **4,230** | 3,854 | **3,530** | 5,888 |
| Plan administration costs | **878** | 711 | **148** | 147 | **–** | – | **1,026** | 858 |
| Tax effect on refundable tax assets | **–** | – | **632** | 876 | **–** | – | **632** | 876 |
| | **$ 21,042** | $ 24,980 | **$ 3,700** | $ 3,384 | **$ 11,002** | $ 10,604 | **$ 35,744** | $ 38,968 |

## Defined benefit costs recognized in OCI

| | Registered pension plan | |
|---|---|---|
| For the year ended March 31 ($ thousands) | **2018** | 2017 |
| Experience adjustments on plan liabilities | **$ 525** | $ 8,859 |
| Return on plan assets greater than the discount rate | **18,701** | 42,552 |
| Actuarial (loss) gain from changes in liability assumptions | **(42,506)** | 13,924 |
| **Remeasurement (loss) gain** | **$ (23,280)** | $ 65,335 |

| | Supplemental pension plans | |
|---|---|---|
| For the year ended March 31 ($ thousands) | **2018** | 2017 |
| Experience adjustments on plan liabilities | **$ (5,226)** | $ (5,427) |
| Return on plan assets greater (less) than the discount rate | **93** | (602) |
| Actuarial (loss) gain from changes in liability assumptions | **(6,729)** | 1,473 |
| Tax effect on refundable tax assets | **(524)** | (809) |
| **Remeasurement loss** | **$ (12,386)** | $ (5,365) |

| | Other benefits | |
|---|---|---|
| For the year ended March 31 ($ thousands) | **2018** | 2017 |
| Experience adjustments on plan liabilities | **$ 872** | $ 229 |
| Actuarial gain from changes in liability assumptions | **14,089** | 2,293 |
| **Remeasurement gain** | **$ 14,961** | $ 2,522 |

Total remeasurement losses of $20.7 million (2017 – $62.5 million gains) are recognized in OCI. The cumulative remeasurement losses recognized in OCI as at March 31, 2018, were $71.0 million (2017 – $50.3 million).

*11. Post-employment benefits (continued)*

## Plan assets

The percentages of plan assets by asset type based on market values at the most recent actuarial valuation are as follows:

| | Registered pension plan | | Supplemental pension plans | |
|---|---|---|---|---|
| As at March 31 | **2018** | 2017 | **2018** | 2017 |
| Equity securities | **50.5%** | 61.3% | **97.9%** | 92.6% |
| Debt securities | **39.2%** | 27.8% | **–** | 0.1% |
| Real estate | **10.2%** | 10.1% | **–** | – |
| Cash | **0.1%** | 0.8% | **2.1%** | 7.3% |
| | **100.0%** | 100.0% | **100.0%** | 100.0% |

## Significant assumptions

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

| | Registered pension plan | | Supplemental pension plans | | Other benefits | |
|---|---|---|---|---|---|---|
| As at March 31 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| **Defined benefit obligation** | | | | | | |
| Discount rate | **3.50%** | 3.80% | **3.50%** | 3.80% | **3.50%** | 3.80% |
| Rate of compensation increase | **4.00%** | 4.00% | **4.00%** | 4.00% | **4.00%** | 4.00% |
| Consumer price index | **2.00%** | 2.00% | **2.00%** | 2.00% | **–** | – |
| **Defined benefit costs** | | | | | | |
| Discount rate | **3.80%** | 3.70% | **3.80%** | 3.70% | **3.80%** | 3.70% |
| Consumer price index | **2.00%** | 2.00% | **2.00%** | 2.00% | **–** | – |

At March 31, 2018 and 2017, the mortality assumption for the defined benefit obligation is based on the 2014 Public Sector Mortality publication and Canadian Pensioners Mortality Improvement Scale B, with pension size adjustment factors for males of 0.8614 and for females of 0.9855. As at March 31, 2018 and 2017, the average life expectancy of an individual retiring at age 65 is 24 years for males and 25 years for females.

Assumed health care cost trend rates are as follows:

| As at March 31 | **2018** | 2017 |
|---|---|---|
| **Extended health care and dental care cost escalation** | | |
| Initial rate | **7.50%** | 7.00% |
| Ultimate rate | **4.50%** | 5.00% |
| Year ultimate rate reached | **2030** | 2021 |

*11. Post-employment benefits (continued)*

## Sensitivity analysis

The impact of changing the key weighted-average economic assumptions used in measuring the defined benefit obligation is as follows:

| As at March 31 ($ thousands) | 2018 | | |
|---|---|---|---|
| **Increase (decrease) defined benefit obligation** | **Registered pension plan** | **Supplemental pension plans** | **Other benefits** |
| 1% increase in discount rate | **$ (135,505)** | **$ (16,219)** | **$ (22,305)** |
| 1% decrease in discount rate | **181,785** | **20,275** | **31,609** |
| 0.25% increase in rate of compensation increase | **5,844** | **2,855** | **91** |
| 0.25% decrease in rate of compensation increase | **(5,980)** | **(3,368)** | **(88)** |
| 1% increase in consumer price index | **126,934** | **14,584** | **–** |
| 1% decrease in consumer price index | **(102,297)** | **(12,699)** | **–** |
| One year increase in expected lifetime of plan participants | **17,713** | **2,552** | **3,291** |
| 1% increase in assumed overall health care cost trend rates | **–** | **–** | **28,059** |
| 1% decrease in assumed overall health care cost trend rates | **–** | **–** | **(20,315)** |

## Defined contribution pension plans

The cost of the defined contribution pension plans is recorded based on the contributions in the current year and is included in salaries and benefits. For the year ended March 31, 2018, the expense was $7.4 million (2017 – $6.0 million).

## Total cash payments

Total cash payments for post-employment benefits, consisting of cash contributed by FCC to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its defined contribution pension plan, were $54.0 million (2017 – $44.0 million).

Total cash payments for post-employment benefits for 2019, as described in the preceding paragraph, are anticipated to be approximately $53.1 million.

## 12. Equipment and leasehold improvements

| ($ thousands) | Leasehold improvements | Office equipment and furniture | Computer equipment | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance as at March 31, 2016 | $ 54,844 | $ 26,584 | $ 17,093 | $ 98,521 |
| Additions | 3,859 | 605 | 4,976 | 9,440 |
| Disposals | (3,824) | (309) | (5,286) | (9,419) |
| Balance as at March 31, 2017 | 54,879 | 26,880 | 16,783 | 98,542 |
| Additions | 2,365 | 868 | 5,334 | 8,567 |
| Disposals | (564) | (90) | (3,397) | (4,051) |
| **Balance as at March 31, 2018** | **$ 56,680** | **$ 27,658** | **$ 18,720** | **$ 103,058** |
| **Accumulated depreciation** | | | | |
| Balance as at March 31, 2016 | $ 40,464 | $ 22,502 | $ 13,301 | $ 76,267 |
| Depreciation | 3,267 | 1,539 | 2,631 | 7,437 |
| Disposals | (3,812) | (308) | (5,276) | (9,396) |
| Balance as at March 31, 2017 | 39,919 | 23,733 | 10,656 | 74,308 |
| Depreciation | 3,111 | 1,357 | 3,820 | 8,288 |
| Disposals | (564) | (90) | (3,397) | (4,051) |
| **Balance as at March 31, 2018** | **$ 42,466** | **$ 25,000** | **$ 11,079** | **$ 78,545** |
| **Carrying value** | | | | |
| March 31, 2017 | $ 14,960 | $ 3,147 | $ 6,127 | $ 24,234 |
| **March 31, 2018** | **14,214** | **2,658** | **7,641** | **24,513** |

## 13. Computer software

| ($ thousands) | Internally developed | Purchased | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance as at March 31, 2016 | $ 133,907 | $ 12,048 | $ 145,955 |
| Additions | 10,447 | 952 | 11,399 |
| Disposals | (8,931) | (727) | (9,658) |
| Balance as at March 31, 2017 | 135,423 | 12,273 | 147,696 |
| Additions | 9,374 | 208 | 9,582 |
| Disposals | (1,028) | (83) | (1,111) |
| **Balance as at March 31, 2018** | **$ 143,769** | **$ 12,398** | **$ 156,167** |
| **Accumulated amortization** | | | |
| Balance as at March 31, 2016 | $ 102,761 | $ 9,887 | $ 112,648 |
| Amortization | 10,856 | 884 | 11,740 |
| Disposals | (8,931) | (727) | (9,658) |
| Balance as at March 31, 2017 | 104,686 | 10,044 | 114,730 |
| Amortization | 8,407 | 690 | 9,097 |
| Disposals | (1,028) | (83) | (1,111) |
| **Balance as at March 31, 2018** | **$ 112,065** | **$ 10,651** | **$ 122,716** |
| **Carrying value** | | | |
| March 31, 2017 | $ 30,737 | $ 2,229 | $ 32,966 |
| **March 31, 2018** | **31,704** | **1,747** | **33,451** |

Research and development costs related to internally developed computer software in the amount of $11.3 million (2017 – $12.4 million) have been included within facilities, software and equipment expenses.

## 14. Equipment under operating leases

| ($ thousands) | | |
|---|---|---|
| **Cost** | | |
| Balance as at March 31, 2016 | $ | 104,481 |
| Additions | | 50,043 |
| Disposals | | (30,137) |
| Balance as at March 31, 2017 | | 124,387 |
| Additions | | 59,510 |
| Disposals | | (34,745) |
| **Balance as at March 31, 2018** | **$** | **149,152** |
| **Accumulated depreciation** | | |
| Balance as at March 31, 2016 | $ | 29,097 |
| Depreciation | | 18,175 |
| Disposals | | (13,735) |
| Balance as at March 31, 2017 | | 33,537 |
| Depreciation | | 21,414 |
| Disposals | | (16,469) |
| **Balance as at March 31, 2018** | **$** | **38,482** |
| **Carrying value** | | |
| March 31, 2017 | $ | 90,850 |
| **March 31, 2018** | | **110,670** |

## 15. Other assets

| As at March 31 ($ thousands) | | **2018** | | 2017 |
|---|---|---|---|---|
| Insurance reserve assets | **$** | **12,331** | $ | 22,143 |
| Real estate property held for sale | | **111** | | 36 |
| | **$** | **12,442** | $ | 22,179 |

## 16. Borrowings

### Short-term debt

| As at March 31 ($ thousands) | | **2018** | | 2017 |
|---|---|---|---|---|
| **Government of Canada debt** | | | | |
| Floating-rate borrowings | **$** | **5,619,703** | $ | 6,026,860 |
| Fixed-rate borrowings | | **4,774,850** | | 3,883,242 |
| | | **10,394,553** | | 9,910,102 |
| **Capital markets debt** | | | | |
| USD fixed-rate promissory notes(1) | | **524,593** | | 506,037 |
| | **$** | **10,919,146** | $ | 10,416,139 |

(1) $406.4 million USD (2017 – $380.2 million USD).

*16. Borrowings (continued)*

## Short-term debt by maturity date

| As at March 31 ($ thousands) | 2018 | | | | |
|---|---|---|---|---|---|
| | Government of Canada | | Capital markets | | |
| | Carrying value | Yield | Carrying value | Yield | Total |
| From 0 – 3 months | **$ 2,633,526** | **1.01%** | **$ 524,593** | **1.69%** | **$ 3,158,119** |
| From 4 – 6 months | **2,454,932** | **1.12%** | **–** | **–** | **2,454,932** |
| From 7 – 9 months | **3,208,657** | **1.12%** | **–** | **–** | **3,208,657** |
| From 10 – 12 months | **2,097,438** | **1.10%** | **–** | **–** | **2,097,438** |
| | **$ 10,394,553** | | **$ 524,593** | | **$ 10,919,146** |

| As at March 31 ($ thousands) | 2017 | | | | |
|---|---|---|---|---|---|
| | Government of Canada | | Capital markets | | |
| | Carrying value | Yield | Carrying value | Yield | Total |
| From 0 – 3 months | $ 2,449,103 | 0.52% | $ 506,037 | 0.77% | $ 2,955,140 |
| From 4 – 6 months | 2,473,580 | 0.53% | – | – | 2,473,580 |
| From 7 – 9 months | 2,784,453 | 0.55% | – | – | 2,784,453 |
| From 10 – 12 months | 2,202,966 | 0.48% | – | – | 2,202,966 |
| | $ 9,910,102 | | $ 506,037 | | $ 10,416,139 |

## Short-term debt continuity

| As at March 31 ($ thousands) | 2018 | 2017 |
|---|---|---|
| Short-term debt, beginning of year | **$ 10,416,139** | $ 12,352,406 |
| Financing cash flows | | |
| Debt issued | **10,906,762** | 16,160,430 |
| Debt repaid | **(11,270,209)** | (15,745,739) |
| Non-cash changes | | |
| Change in short-term portion of long-term debt | **940,743** | (2,434,625) |
| Debt transacted, not settled | **(80,000)** | 80,000 |
| Change in interest accrual | **3,054** | 2,675 |
| Change due to unrealized foreign exchange loss | **2,657** | 992 |
| **Short-term debt, end of year** | **$ 10,919,146** | $ 10,416,139 |

FCC has a demand operating line of credit, which provides overdraft protection in the amount of $30.0 million (2017 – $30.0 million). Indebtedness under this agreement is unsecured and this credit facility does not expire. Any draws made throughout the year on this credit facility are reversed the next day. As at March 31, 2018, there were no draws on this credit facility (2017 – $nil).

*16. Borrowings (continued)*

## Long-term debt

| As at March 31 ($ thousands) | 2018 | 2017 |
|---|---|---|
| **Government of Canada debt** | | |
| Floating-rate borrowings | **$ 12,443,337** | $ 11,450,675 |
| Fixed-rate borrowings | **5,228,107** | 4,748,150 |
| | **17,671,444** | 16,198,825 |
| **Capital markets debt** | | |
| Retail and institutional fixed-rate notes | **308,751** | 309,207 |
| | **$ 17,980,195** | $ 16,508,032 |

## Long-term debt by maturity date

| As at March 31 ($ thousands) | **2018** | | | | |
|---|---|---|---|---|---|
| | **Government of Canada** | | **Capital markets** | | |
| | **Carrying value** | **Yield** | **Carrying value** | **Yield** | **Total** |
| From 1 – 2 years | **$ 6,128,979** | **1.08%** | **$ –** | **–** | **$ 6,128,979** |
| From 2 – 3 years | **2,575,058** | **1.15%** | **18,735** | **4.32%** | **2,593,793** |
| From 3 – 4 years | **5,974,334** | **1.19%** | **290,016** | **4.37%** | **6,264,350** |
| From 4 – 5 years | **2,526,448** | **1.20%** | **–** | **–** | **2,526,448** |
| Over 5 years | **466,625** | **1.29%** | **–** | **–** | **466,625** |
| | **$ 17,671,444** | | **$ 308,751** | | **$ 17,980,195** |

| As at March 31 ($ thousands) | 2017 | | | | |
|---|---|---|---|---|---|
| | Government of Canada | | Capital markets | | |
| | Carrying value | Yield | Carrying value | Yield | Total |
| From 1 – 2 years | $ 6,861,587 | 0.63% | $ – | – | $ 6,861,587 |
| From 2 – 3 years | 4,874,507 | 0.50% | – | – | 4,874,507 |
| From 3 – 4 years | 1,395,236 | 0.61% | 18,735 | 4.32% | 1,413,971 |
| From 4 – 5 years | 2,809,216 | 0.50% | 290,472 | 4.37% | 3,099,688 |
| Over 5 years | 258,279 | 1.00% | – | – | 258,279 |
| | $ 16,198,825 | | $ 309,207 | | $ 16,508,032 |

*16. Borrowings (continued)*

### Long-term debt continuity

| As at March 31 ($ thousands) | 2018 | 2017 |
|---|---|---|
| Long-term debt, beginning of year | **$ 16,508,032** | $ 11,910,379 |
| Financing cash flows | | |
| Debt issued | **9,226,500** | 11,039,000 |
| Debt repaid | **(6,536,263)** | (9,166,601) |
| Non-cash changes | | |
| Change in short-term portion of long-term debt | **(940,743)** | 2,434,625 |
| Debt transacted, not settled | **(290,000)** | 290,000 |
| Change in interest accrual | **13,240** | 1,599 |
| Other | **(571)** | (970) |
| **Long-term debt, end of year** | **$ 17,980,195** | $ 16,508,032 |

## 17. Other liabilities

| As at March 31 ($ thousands) | 2018 | 2017 |
|---|---|---|
| Deferred revenues | **$ 8,799** | $ 9,065 |
| Reserve for insurance claims | **–** | 10,012 |
| Other | **787** | 581 |
| | **$ 9,586** | $ 19,658 |

## 18. Net interest income

| For the year ended March 31 ($ thousands) | 2018 | 2017 |
|---|---|---|
| **Interest income** | | |
| Loans and receivables | **$1,261,704** | $ 1,106,963 |
| Operating leases | **24,684** | 20,912 |
| Transfer of net realized gains on derivatives designated as cash flow hedges from AOCI to net income | **21,721** | 21,721 |
| Short-term investments and cash equivalents | **14,808** | 7,819 |
| Finance leases classified as loans and receivables | **750** | 620 |
| Foreign exchange (losses) gains on loans and receivables | **(8,606)** | 6,458 |
| Total interest income for financial instruments not at FVTPL | **1,315,061** | 1,164,493 |
| Derivative financial assets and liabilities at FVTPL – net | **8,480** | 9,130 |
| Venture capital investments at FVTPL | **6,810** | 5,505 |
| | **1,330,351** | 1,179,128 |
| **Interest expense** | | |
| Long-term debt classified as other liabilities | **208,167** | 130,364 |
| Short-term debt classified as other liabilities | **33,154** | 24,606 |
| Depreciation on equipment under operating leases | **21,279** | 18,063 |
| Transition loan liabilities classified as other liabilities | **4,051** | 2,989 |
| Foreign exchange (gains) losses on cash and short-term debt classified as other liabilities – net | **(8,306)** | 6,386 |
| Total interest expense for financial instruments not at FVTPL | **258,345** | 182,408 |
| **Net interest income** | **$1,072,006** | $ 996,720 |

The total net fee expense that was recognized immediately in net interest income arising from financial assets and liabilities not measured at FVTPL was $17.1 thousand (2017 – $83.5 thousand). Interest income recognized from the unwinding of discounts on impaired financial assets was ($1.0) million (2017 – $3.4 million).

## 19. Administration expenses

| As at March 31 ($ thousands) | 2018 | 2017 |
|---|---|---|
| Salaries | **$ 171,876** | $ 162,432 |
| Benefits | **66,288** | 67,771 |
| Facilities, software and equipment | **51,627** | 47,395 |
| Professional fees | **39,578** | 37,632 |
| Amortization and depreciation | **17,383** | 19,177 |
| Travel and training | **15,177** | 12,677 |
| Marketing and promotion | **10,903** | 9,798 |
| Other | **11,753** | 14,265 |
| | **$ 384,585** | $ 371,147 |

# 20. Fair value adjustment

| For the year ended March 31 ($ thousands) | 2018 | 2017 |
|---|---|---|
| Venture capital investments | $ 4 | $ (901) |
| Guarantees | – | (11) |
| Derivative financial assets and liabilities | (13,801) | (11,168) |
| | $ (13,797) | $ (12,080) |

# 21. Fair value of financial instruments

## Financial instruments carried at fair value

FCC follows a three-level fair value hierarchy to categorize the inputs used to measure fair value. Level 1 is based on quoted prices in active markets, Level 2 incorporates models using inputs other than quoted prices and Level 3 incorporates models using inputs that are not based on observable market data. Details of the valuation methodologies applied and assumptions used in determining fair value are provided in Note 2.

## Valuation hierarchy

The following table categorizes the level of inputs used in the valuation of financial instruments carried at fair value:

| As at March 31 ($ thousands) | | 2018 | |
|---|---|---|---|
| | Level 2 | Level 3 | Total |
| **Assets** | | | |
| Cash equivalents | $ 163,176 | $ – | $ 163,176 |
| Short-term investments | 398,207 | – | 398,207 |
| Derivative financial assets | 21,512 | – | 21,512 |
| Venture capital investments | – | 77,115 | 77,115 |
| | $ 582,895 | $ 77,115 | $ 660,010 |
| **Liabilities** | | | |
| Derivative financial liabilities | $ – | $ – | $ – |

| As at March 31 ($ thousands) | | 2017 | |
|---|---|---|---|
| | Level 2 | Level 3 | Total |
| **Assets** | | | |
| Cash equivalents | $ 440,305 | $ – | $ 440,305 |
| Short-term investments | 435,530 | – | 435,530 |
| Derivative financial assets | 35,831 | – | 35,831 |
| Venture capital investments | – | 55,015 | 55,015 |
| | $ 911,666 | $ 55,015 | $ 966,681 |
| **Liabilities** | | | |
| Derivative financial liabilities | $ 3 | $ – | $ 3 |

Changes in valuation methods may result in transfers into or out of Levels 1, 2 and 3. For the year ended March 31, 2018, there were no transfers between levels (2017 – $nil).

*21. Fair value of financial instruments (continued)*

## Level 3 financial instruments

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

| As at March 31 ($ thousands) | 2018 | 2017 |
|---|---|---|
| Balance, beginning of year | **$ 55,015** | $ 41,977 |
| Acquisitions | **26,020** | 23,163 |
| Change in accrued interest | **1,926** | 776 |
| Net unrealized gains (losses) recognized in fair value adjustment | **4** | (901) |
| Repayments | **(5,850)** | (10,000) |
| **Balance, end of year** | **$ 77,115** | $ 55,015 |

## Financial instruments not carried at fair value

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

| As at March 31 ($ thousands) | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Carrying value** | **Estimated fair value** | Carrying value | Estimated fair value |
| **Assets** | | | | |
| Loans receivable | **$ 33,636,019** | **$ 33,600,316** | $ 31,007,050 | $ 31,169,878 |
| Finance leases receivable | **19,613** | **19,338** | 16,468 | 16,505 |
| **Liabilities** | | | | |
| Long-term debt | **17,980,195** | **17,940,429** | 16,508,032 | 16,554,987 |

Financial instruments not carried at fair value as noted in the above table use Level 2 inputs in determining estimated fair value.

The estimated fair value for the performing fixed-rate loans receivable is calculated by discounting the expected future cash flows at year-end market interest rates for equivalent terms to maturity. The estimated fair value for the performing variable-rate loans receivable approximates the carrying value due to having fluctuating interest rates that directly correspond to changes in the prime interest rate, on which the fair value is based. The collective allowance for credit losses related to loans receivable is subtracted from the estimated fair value of the performing loans receivable. The estimated fair value of the impaired loans receivable is equal to its net realizable value, which is calculated by subtracting the individual allowance for credit losses from the book value of the impaired loans receivable.

The estimated fair value for the finance leases receivable is calculated by discounting the expected future cash flows at year-end market interest rates for equivalent terms to maturity. The collective allowance for credit losses related to finance leases is subtracted from the estimated fair value of the finance leases receivable.

*21. Fair value of financial instruments (continued)*

The estimated fair value for long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity.

For all other financial instruments carried at amortized cost using the effective interest method, the carrying value approximates fair value due to the relatively short period to maturity of these instruments or because they are already at discounted values. This applies to FCC's accounts receivable, other assets, accounts payable and accrued liabilities, short-term debt, transition loan liability and other liabilities, excluding the reserve for insurance claims.

# 22. Operating lease arrangements

## Operating leases as a lessor

Operating leases consist of agricultural equipment leased to customers under non-cancellable operating lease agreements. The initial lease terms of operating leases range from two to six years.

The future minimum lease payments are receivable as follows:

| As at March 31 ($ thousands) | 2018 | 2017 |
|---|---|---|
| **Amounts due** | | |
| Less than one year | **$ 22,965** | $ 19,263 |
| Between one and five years | **44,899** | 35,404 |
| Greater than five years | **85** | 4,127 |
| | **$ 67,949** | $ 58,794 |

## Operating leases as a lessee

FCC leases office space, software, and equipment under operating leases. The lease terms range from one to 20 years, with an option to renew the lease after that date.

The future minimum lease payments under non-cancellable lease contracts are payable as follows:

| As at March 31 ($ thousands) | 2018 | 2017 |
|---|---|---|
| **Amounts due** | | |
| Less than one year | **$ 26,788** | $ 23,162 |
| Between one and five years | **74,816** | 70,934 |
| Greater than five years | **160,628** | 166,896 |
| | **$ 262,232** | $ 260,992 |

Operating lease payments in the amount of $28.2 million (2017 – $25.5 million) have been included within facilities, software, and equipment expense.

Contingent rental payments in the amount of $3.7 million (2017 – $7.5 million) have been included within facilities, software, and equipment expense.

## 23. Commitments, guarantees and contingent liabilities

### Loan and lease commitments

As at March 31, 2018, loans approved but undisbursed amounted to $6,203.5 million (2017 – $6,010.8 million). These loans do not form part of the loans receivable balance until disbursed. As many of these loan approvals will expire or terminate without being drawn upon, the contract amounts do not necessarily represent future cash requirements. As at March 31, 2018, finance leases approved but undisbursed amounted to $0.3 million (2017 – $4.6 million) and operating leases approved but undisbursed amounted to $4.0 million (2017 – $4.3 million). These leases do not form part of the finance leases receivable or equipment under operating leases balances until disbursed. These commitments do not generate liquidity risk to FCC because it has sufficient funds available from the Government of Canada through the Crown Borrowing Program to meet its future cash requirements.

### Investment in associates

As at March 31, 2018, FCC has committed to invest $27.1 million (2017 – $45.3 million) in investments in associates.

### Venture capital commitments

As at March 31, 2018, FCC has committed to invest $3.0 million (2017 – $nil) in venture capital investments.

### Capital commitments

Capital expenditures contracted for equipment and leasehold improvements at the end of the fiscal year but not yet incurred are $1.2 million (2017 – $nil).

### Guarantees

In the normal course of its business, FCC issues guarantees in the form of letters of credit that represent an obligation to make payments to third parties on behalf of its customers if customers are unable to make the required payments or meet other contractual obligations. The maximum amount potentially payable as at March 31, 2018, is $5.6 million (2017 – $5.5 million). In the event of a call on these letters of credit, FCC has recourse in the form of security against its customers for amounts to be paid to the third party. Existing guarantees will expire within three years, usually without being drawn upon. As at March 31, 2018, an amount of $nil (2017 – $nil) was recorded for these letters of credit.

### Contingent liabilities and provisions

Various legal proceedings arising from the normal course of business are pending against FCC. Management does not believe that liabilities arising from pending litigations will have a material adverse effect on the Consolidated Balance Sheet or the results of operations of FCC, therefore, no amount has been included in the consolidated financial statements as at March 31, 2018, for these contingent liabilities.

In the normal course of operations, FCC enters into agreements that provide general indemnification. These indemnifications typically occur in service contracts and strategic alliance agreements and, in certain circumstances, may require that FCC compensates the counterparty to the agreement for various costs resulting from breaches of

*23. Commitments, guarantees and contingent liabilities (continued)*

representations or obligations. FCC also indemnifies directors, officers and employees, to the extent permitted by law and FCC's governing legislation, against certain claims that may be made against them as a result of their being directors, officers or employees. The terms of these indemnifications vary, therefore FCC is unable to determine a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, FCC has not made any payments under such indemnifications and contingencies. No amount has been included in the consolidated financial statements as at March 31, 2018, for these indemnifications and contingencies.

## 24. Related party transactions

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

FCC is related to Avrio Subordinated Debt Fund I and Avrio Subordinated Debt Fund II. They are limited partnerships for which FCC holds 99% (2017 – 99%) of the partnership units. The Avrio Subordinated Debt Funds are consolidated as described in Note 2. All transactions between FCC and the Avrio Subordinated Debt Funds have been eliminated on consolidation and, as such, are not disclosed as related party transactions.

FCC is related to Avrio Fund I, Avrio Fund II, and Avrio Fund III. They are limited partnerships for which FCC holds 67% (2017 – 67%), 55% (2017 – 55%) and 46% (2017 – 46%), respectively, of the partnership units. FCC is entitled to 20% (2017 – 20%) of the voting rights of Avrio Fund I and Avrio Fund II, and 14% (2017 – 14%) of Avrio Fund III. The Avrio Equity Funds are venture capital limited partnerships where FCC exerts significant influence over operating, investing and financing decisions. These are accounted for using the equity method.

Other related parties of FCC are key management personnel, close family members of key management personnel and entities that are controlled, significantly influenced by, or for which significant voting power is held by key management personnel or their close family members, and post-employment benefit plans for the benefit of FCC's employees.

Transactions with these entities were entered into in the normal course of business and are measured according to the relevant IFRS standard applicable to the transaction.

### Transactions with the Government of Canada

The Government of Canada guarantees the borrowings of FCC.

FCC enters into short- and long-term borrowings with the Government of Canada through the Crown Borrowing Program. For the year ended March 31, 2018, $221.1 million (2017 – $138.4 million) was recorded in interest expense relating to these borrowings.

FCC receives government assistance from the HILLRP to share the credit losses on certain loans with the Government of Canada. The government assistance is recorded as either an increase or decrease to the provision for credit losses. For the year ended March 31, 2018, the increase recorded to the provision for credit losses was $0.1 million (2017 – $0.5 million). The amount estimated to be returned to the Government of Canada is $31.7 million (2017 – $38.9 million) and is included in borrowings.

FCC pays a dividend to the Government of Canada on an annual basis, as detailed in Note 25.

*24. Related party transactions (continued)*

## Key management personnel compensation

Key management personnel includes directors and members of the Enterprise Management Team. Close family members of key management personnel are considered related parties and have been included in the amounts disclosed below.

The compensation paid by FCC during the year to key management personnel for services rendered is shown below:

| For the year ended March 31 ($ thousands) | | 2018 | | 2017 |
|---|---|---|---|---|
| Salaries and other short-term employee benefits | **$** | **3,782** | $ | 3,707 |
| Post-employment benefits | | **1,076** | | 954 |
| Board retainer and per diems | | **146** | | 147 |
| **Total** | **$** | **5,004** | $ | 4,808 |

## Transactions with key management personnel

All transactions with key management personnel are with directors and entities related to those directors. The terms and conditions of the transactions with key management personnel were no more favourable than those available on similar transactions with other customers.

Loans to key management personnel outstanding as at March 31, 2018 were $13.0 million (2017 – $5.8 million). The maximum balance outstanding on these loans during the year ended March 31, 2018, was $13.8 million (2017 – $6.6 million). The weighted-average interest rate on the loans to key management personnel outstanding as at March 31, 2018, was 4.4% (2017 – 5.3%).

The loans to key management personnel are secured under similar conditions as transactions with other customers and the key management personnel entering into these transactions were subject to the same credit assessment process applied to all customers. There is no individual allowance established as at March 31, 2018, for the loans made to key management personnel (2017 – $nil).

Undrawn credit commitments with key management personnel totalled $20.7 million as at March 31, 2018 (2017 – $38.9 million).

## Transactions with post-employment benefit plans

During the year, $141 thousand was received from the defined benefit pension plan (2017 – $205 thousand) for administrative services and was recorded in salaries and benefits.

## 25. Capital management

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

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

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

As at March 31, 2018 and 2017, FCC's total capital ratio was greater than both the minimum regulatory capital ratio and the target capital ratio, and therefore in compliance with OSFI's CAR guideline and FCC's Internal Capital Adequacy Assessment Process.

| As at March 31 ($ thousands) | **2018** | 2017 |
|---|---|---|
| **Capital** | | |
| Retained earnings | **$ 5,447,657** | $ 5,106,783 |
| Contributed surplus | **547,725** | 547,725 |
| AOCI | **64,387** | 86,271 |
| Required regulatory adjustments: | | |
| Computer software | **(33,451)** | (32,966) |
| Post-employment benefit assets | **(50,256)** | (53,536) |
| Accumulated net gains on derivatives designated as cash flow hedges | **(64,737)** | (86,458) |
| CET1/Total capital | **$ 5,911,325** | $ 5,567,819 |
| **Risk-weighted assets** | | |
| Credit risk-weighted assets | **$ 34,657,396** | $32,358,883 |
| Operational risk-weighted assets | **1,896,951** | 1,823,987 |
| Total risk-weighted assets | **$ 36,554,347** | $ 34,182,870 |
| **Total capital ratio** | **16.2%** | 16.3% |
| **Target capital ratio** | **15.0%** | 15.0% |
| **Minimum regulatory capital ratio** | **10.5%** | 10.5% |

*25. Capital management (continued)*

### Debt to equity

FCC's only statutory limit, as prescribed by the Farm Credit Canada Act, requires that FCC's total direct and contingent liabilities not exceed 12 times equity. As at March 31, 2018, FCC's total direct and contingent liabilities were 4.88 times the shareholder's equity, excluding AOCI (2017 – 4.82 times the shareholder's equity, excluding AOCI).

### Contributed surplus

FCC's contributed surplus consists of capital contributions made by the Government of Canada, net of the March 31, 1998, reallocation of $660.6 million to eliminate FCC's accumulated deficit.

As at March 31, 2018, cumulative capital payments received from the Government of Canada amounted to $1,208.3 million (2017 – $1,208.3 million). No capital payments have been received since 2006. The statutory limit for that same period was $1,250.0 million (2017 – $1,250.0 million).

### Dividend

On August 17, 2017, the Board declared a dividend for the year ended March 31, 2017, in the amount of $308.3 million (2017 – $268.3 million for the year ended March 31, 2016) to FCC's shareholder, the Government of Canada, which was paid on September 27, 2017.

## 26. Risk management

### Financial risk management

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

**a) Credit risk**

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet financial obligations to FCC. Credit risk on loans and leases receivable is the most significant risk that FCC faces, although credit risk also exists on investments and derivative financial instruments.

**Management of credit risk**

The Board is responsible for approving FCC's Credit Risk Management policy and relies on a number of committees, divisions and business units to effectively manage credit risk.

**Measurement of credit risk**

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

Policies, processes, systems and strategies are used to manage the credit risk of FCC's portfolio. Each year, Risk Management develops a comprehensive portfolio vision to set numeric risk metrics for many of these tools, models and strategies.

*26. Risk management (continued)*

Significant research, modelling, validation and interpretation are used to develop the risk metrics for each tool as follows:

***Risk scoring and pricing system***

The risk scoring and pricing system (RSPS) is used to rank risk for loans in FCC's portfolio. Risk ranking is based on customer, loan and enterprise characteristics, which model a risk score. Each score translates into a probability of default. The higher the score, the lower the probability of default. RSPS is also used to price loans.

RSPS scores are based on inputs that are categorized under four main themes:

- customer credit rating and historical payment performance
- customer financial ratios
- customer business experience
- customer primary enterprise

RSPS weights each characteristic differently to arrive at the final RSPS score. These weightings are based on FCC's historical experience and are set with the objective to maximize the system's ability to predict probability of default.

***Allowance for credit losses model***

The allowance for credit losses model estimates incurred losses in the portfolio due to credit risk. There are two components to the allowance for credit losses model: individual and collective. The allowance on individual loans is determined for non-performing loans when, in management's opinion, credit quality has deteriorated to the extent that FCC no longer has reasonable assurance of the timely collection of the full amount of principal and interest. In addition, an individual allowance is determined for loans that have met both the following criteria:

- minimum of $500 past due for 90 consecutive days or more
- insufficient collateral to recover amounts outstanding

The collective allowance is calculated on loans within the portfolio that have no individual allowance and have met one of these indicators of potential future impairment:

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

A collective allowance is also calculated on those loans where losses are thought to have been incurred but evidence of the loss has not been exhibited. Based on historical experience, there is an emergence period between when impairment occurs and when it becomes evident in the portfolio. From the emergence period, migration rates are used to determine incurred losses within the portfolio that are not yet evident. For all components of the allowance for credit losses model, the model considers the collateral position, as well as customer, loan and collateral characteristics, to estimate the appropriate amount of allowance.

*26. Risk management (continued)*

### Collateral

FCC mitigates its credit risk through collateral. FCC monitors the portfolio by reviewing the loan-to-security ratio, both on an overall portfolio basis and by enterprise. Upon initial recognition of a loan, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market prices or indexes of similar assets. The form of collateral obtained is generally real estate, quotas or equipment, depending on the purpose of the loan.

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

| As at March 31 | **2018** | 2017 |
|---|---|---|
| Weighted-average loan-to-security ratio for secured loans | **50.1%** | 49.8% |
| Loans secured by a general security agreement and unsecured loans as a percentage of loans receivable | **4.3%** | 4.0% |

### Loan commitments

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. FCC is potentially exposed to loss in an amount equal to the total unused commitments. See Note 23 for further details regarding FCC's loan commitments. To mitigate risk, unused commitments are included as input into FCC's capital requirement calculations.

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

| As at March 31 ($ thousands) | **2018** | 2017 |
|---|---|---|
| **On balance sheet** | | |
| Cash and cash equivalents | **$ 828,569** | $ 790,596 |
| Short-term investments | **398,207** | 435,530 |
| Accounts receivable | **37,114** | 389,048 |
| Derivative financial assets | **21,512** | 35,831 |
| Loans receivable | **33,882,513** | 31,244,423 |
| Finance leases receivable | **20,789** | 17,546 |
| Investment in associates | **57,765** | 50,908 |
| Venture capital investments | **77,115** | 55,015 |
| Other assets | **12,442** | 22,179 |
| | **35,336,026** | 33,041,076 |
| **Off balance sheet** | | |
| Financial guarantees | **5,589** | 5,536 |
| Loan and lease commitments | **6,207,849** | 6,019,684 |
| Operating lease receivable | **67,949** | 58,794 |
| Investment in associates commitments | **27,079** | 45,300 |
| Venture capital commitments | **3,000** | – |
| | **6,311,466** | 6,129,314 |
| **Total maximum exposure to credit risk** | **$ 41,647,492** | $ 39,170,390 |

The preceding table represents a worst-case scenario of credit risk exposure to FCC at the end of the year, without taking into account any collateral held or other credit enhancements attached. For on balance sheet assets, the exposure is based on carrying values as reported in the Consolidated Balance Sheet. For off balance sheet items, the exposure is based on the maximum amount that FCC would have to pay if the item was called upon.

*26. Risk management (continued)*

### Loans receivable

#### *Loans receivable past due but not impaired*

A loan is considered to be past due when a customer has not made a payment by the contractual due date and the amount owing is greater than $500. Loans less than 90 consecutive days past due are not considered impaired, unless other information is available to the contrary. As well, loans past due are not considered impaired if they are sufficiently secured and collection efforts are reasonably expected to result in full repayment. The longer the loan is past due and interest continues to accrue, the greater the risk the recoverable amount from the security value is less than the carrying value of the loan. Gross amounts of loans that were past due but not impaired were as follows:

| As at March 31 ($ thousands) | 2018 | 2017 |
|---|---|---|
| **Past due but not impaired** | | |
| Up to 30 days | **$ 202,013** | $ 206,557 |
| 31 – 60 days | **51,665** | 52,369 |
| 61 – 89 days | **24,318** | 18,812 |
| 90 days or more | **129,540** | 71,884 |
| | **$ 407,536** | $ 349,622 |

#### *Loans receivable neither past due nor impaired*

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

| As at March 31 | 2018 | 2017 |
|---|---|---|
| **RSPS score** | | |
| 400-650 | **0.3%** | 0.4% |
| 651-769 | **9.0%** | 8.3% |
| 770-850 | **81.1%** | 81.3% |
| 851-999 | **9.6%** | 10.0% |
| | **100.0%** | 100.0% |

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

### Counterparty credit risk – derivatives and short-term investments

Credit risk arises from the potential for a counterparty to default on a contractual obligation to FCC. To mitigate this risk, FCC complies with the guidelines issued by the Minister of Finance by entering into derivatives with counterparties of high credit quality only, as determined by the published ratings of external credit rating agencies.

In the normal course of business, FCC receives collateral on certain transactions to reduce its exposure to counterparty credit risk. FCC is normally permitted to sell, dispose, invest or re-pledge the collateral it receives under terms that are common and customary to standard derivative activities.

*26. Risk management (continued)*

The counterparty derivative obligation may arise when market-related currency and interest factors change, resulting in unrealized gains to FCC. These unrealized gains result in positive fair values for these derivative financial instruments. FCC is not exposed to credit risk for the full notional amount of the derivative contracts, but only to the potential replacement cost if the counterparty defaults. Furthermore, standard credit mitigation via master netting agreements provided in the International Swap and Derivatives Association (ISDA) documentation provide for the simultaneous closeout and netting of positions with a counterparty in the event of default. The master netting arrangements do not meet the criteria for offsetting in the Consolidated Balance Sheet. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default of the counterparty. In addition, FCC and its counterparties do not intend to settle on a net basis or to realize the assets and settle liabilities simultaneously. Credit Support Annex (CSA) documentation is also in place with most of FCC's counterparties. These agreements are addendums to existing ISDA documentation, and further specify the conditions for providing FCC with collateral in the event the counterparty credit exposure exceeds an agreed threshold. For derivative transactions where a CSA is in place, the counterparty must have a minimum long-term credit rating of A- from two or more external credit rating agencies (S&P, Moody's or DBRS). See Note 5 for the quantification of counterparty credit risk.

Short-term investments are permitted with government counterparties. These investments are limited to a term to maturity equal to or less than one year and must have a minimum long-term credit rating of A low/A3/A- from two or more external credit rating agencies. FCC also has cash equivalents that are permitted with schedule 1 and 2 banks. These investments are limited to a term to maturity equal to or less than 90 days and must have a minimum short-term credit rating of A1-/R1-low/P-1 from two or more external credit rating agencies. The actual credit ratings will determine the maximum face amount of investments per counterparty.

FCC reviews credit ratings and the financial performance of counterparties regularly and has controls in place to manage counterparty risk.

### Credit quality

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

| As at March 31 ($ thousands) | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Cash equivalents** | **Short-term investments** | Cash equivalents | Short-term investments |
| **Government & government guaranteed** | | | | |
| AAA | **$ –** | **$ 22,874** | $ – | $ 114,679 |
| AA+ | **–** | **–** | – | 53,931 |
| AA | **–** | **9,992** | 12,991 | 44,606 |
| AA- | 24,979 | **131,767** | – | – |
| A+ | 30,470 | **233,574** | – | 222,314 |
| | **55,449** | **398,207** | 12,991 | 435,530 |
| **Schedule 1 banks** | | | | |
| A-1+ | **107,726** | **–** | 174,807 | – |
| A-1 | **–** | **–** | 252,507 | – |
| | **107,726** | **–** | 427,314 | – |
| | **$ 163,175** | **$ 398,207** | $ 440,305 | $ 435,530 |

*26. Risk management (continued)*

### Venture capital debt investments

FCC is exposed to credit risk through its Avrio Subordinated Debt Fund investments. FCC manages credit risk through thoughtful planning, strict investment criteria, significant due diligence of investment opportunities and by conducting activities in accordance with each fund's Limited Partnership Agreement. The investment managers monitor and report on the financial condition of investee companies regularly.

### b) Market risk

Market risk is the potential for loss due to adverse changes in underlying market factors, such as interest rates and foreign exchange rates.

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

### Interest rate risk

Interest rate risk is the risk that a change in the interest rates adversely affects FCC's net interest income and fair value measurements. Interest rate risk arises from interest rate mismatches between assets and liabilities and embedded options. Interest rate mismatches occur because of different maturity and repricing dates, residual assets funded by equity and different interest rate benchmarks for some assets and liabilities. Embedded options exist on fixed-rate loans that have principal deferral options, prepayment features and interest rate guarantees on loan commitments.

Exposure to interest rate risk is monitored primarily through an asset and liability model. Various scenarios are produced at least monthly to analyze the sensitivity of net interest income and fair values to a change in interest rates and balance sheet assumptions. The asset and liability model is back-tested and validated to ensure the logic and assumptions used in the model are reasonable when compared to actual results.

Interest rate risk management uses defined limits based on the projected impact of a 2% immediate and sustained change in the level and term structure of interest rates. The defined limit for the variability of net interest income is that, for the next 12-month period, net interest income should not decline by more than 5%. The second defined limit is that the economic value of equity (EVE) should not decline by more than 10% of the total equity (excluding AOCI) for a 2% change in interest rates. Based on FCC's financial position and assuming an immediate and sustained 2% change in interest rates occurs across all maturities and curves, net interest income and the EVE would be affected over the next 12 months as follows:

| | **2018 Impact of** | | 2017 Impact of | |
|---|---|---|---|---|
| ($ thousands) | **2% increase** | **2% decrease** | 2% increase | 2% decrease |
| Projected net interest income variability | **$ 13,000** | **$ (16,300)** | $ 30,800 | $ (34,900) |
| Limit | **(56,600)** | **(56,600)** | (51,400) | (51,400) |
| EVE variability | **(344,300)** | **349,600** | (323,200) | 320,800 |
| Limit | **(599,305)** | **(599,305)** | (565,451) | (565,451) |

*26. Risk management (continued)*

The following table summarizes FCC's interest rate risk based on the gap between the carrying value of assets, and liabilities and equity, grouped by the earlier of contractual repricing or maturity dates and interest rate sensitivity. In the normal course of business, loan customers frequently prepay their loans in part or in full before the contractual maturity date.

| As at March 31 ($ thousands) | Immediately rate-sensitive | Within 3 months | 3 – 12 months | 1 – 5 years | Over 5 years | Non-interest sensitive | Total 2018 | 2017 |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and cash equivalents | $ 655,335 | $ 162,902 | $ – | $ – | $ – | $ 10,332 | $ 828,569 | $ 790,595 |
| Yield | 1.73% | 1.51% | – | – | – | – | – | – |
| Short-term investments | – | 99,379 | 297,480 | – | – | 1,348 | 398,207 | 435,530 |
| Yield (1) | – | 0.81% | 1.56% | – | – | – | – | – |
| Derivative financial assets (2) (3) | – | (237,994) | – | 237,994 | – | 21,512 | 21,512 | 35,831 |
| Yield (1) | – | 1.39% | – | 4.54% | – | – | – | – |
| Loans receivable | 16,928,336 | 1,814,041 | 3,594,702 | 10,064,171 | 1,073,504 | 161,265 | 33,636,019 | 31,007,050 |
| Yield (1) | 4.30% | 4.12% | 3.43% | 3.78% | 4.48% | – | – | – |
| Finance leases receivable | – | 1,499 | 4,590 | 13,524 | – | – | 19,613 | 16,468 |
| Yield (1) | – | 4.15% | 4.15% | 4.15% | – | – | – | – |
| Investment in associates | – | – | – | – | – | 57,765 | 57,765 | 50,908 |
| Yield | – | – | – | – | – | – | – | – |
| Venture capital investments | – | – | 7,207 | 62,178 | 7,000 | 730 | 77,115 | 55,015 |
| Yield | – | – | 10.0% | 10.73% | 8.75% | – | – | – |
| Other | – | – | – | – | – | 279,133 | 279,133 | 622,875 |
| **Total assets** | $ 17,583,671 | $ 1,839,827 | $ 3,903,979 | $ 10,377,867 | $ 1,080,504 | $ 532,085 | $ 35,317,933 | $ 33,014,272 |
| **Liabilities and equity** | | | | | | | | |
| Borrowings | $ – | $ 20,334,545 | $ 3,028,215 | $ 5,348,065 | $ 140,000 | $ 48,516 | $ 28,899,341 | $ 26,924,171 |
| Yield (1) | – | 1.09% | 1.17% | 1.48% | 1.76% | – | – | – |
| Derivative financial liabilities (2) (3) | – | (12,894) | – | – | 12,894 | – | – | 3 |
| Yield (1) | – | 1.86% | – | – | 1.75% | – | – | – |
| Other | – | – | – | – | – | 358,823 | 358,823 | 349,319 |
| Shareholder's equity | – | – | – | – | – | 6,059,769 | 6,059,769 | 5,740,779 |
| **Total liabilities and equity** | $ – | $ 20,321,651 | $ 3,028,215 | $ 5,348,065 | $ 152,894 | $ 6,467,108 | $ 35,317,933 | $ 33,014,272 |
| **Total gap 2018** | $ 17,583,671 | $ (18,481,824) | $ 875,764 | $ 5,029,802 | $ 927,610 | $ (5,935,023) | $ – | $ – |
| **Total cumulative gap 2018** | $ 17,583,671 | $ (898,153) | $ (22,389) | $ 5,007,413 | $ 5,935,023 | $ – | $ – | $ – |
| Total gap 2017 | $ 16,540,780 | $ (16,959,078) | $ 1,220,711 | $ 3,722,795 | $ 771,751 | $ (5,296,959) | $ – | $ – |
| Total cumulative gap 2017 | $ 16,540,780 | $ (418,298) | $ 802,413 | $ 4,525,208 | $ 5,296,959 | $ – | $ – | $ – |

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

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

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

*26. Risk management (continued)*

**Foreign exchange risk**

FCC is exposed to foreign exchange risk due to differences in the amount and timing of foreign currency denominated asset and liability cash flows. The currency exposure is minimized by matching foreign currency loans against foreign currency funding. This risk cannot be perfectly hedged because the assets are amortizing loans and the liabilities are discount bonds, which creates timing mismatches for the principal and interest cash flows. However, FCC has determined that the residual risk is insignificant.

FCC mitigates foreign exchange risk through economic hedges. All foreign currency borrowings are fully hedged at the time of issuance, unless the foreign currency denominated debt is used specifically to finance a like currency asset.

**Derivatives**

FCC uses derivatives to hedge interest rate and foreign exchange risk. Derivatives assist in altering the risk profile of the Consolidated Balance Sheet by reducing mismatches of assets and liabilities while ensuring interest rate risk and foreign exchange risk are managed within acceptable ranges.

Derivative transactions lead to net income volatility because the derivatives are recorded at fair value and this volatility may not be representative of the overall risk.

**Post-employment benefits**

FCC is exposed to significant financial risks through the registered pension plans' investments. These financial risks are managed by having an Investment policy that is approved annually by management and at a minimum every three years by the Board. The Investment policy provides guidelines to the registered pension plans' investment managers for the asset mix of the portfolio regarding quality and quantity of debt, equity and alternative investments. The asset mix helps reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. Investment risk is managed by diversification guidelines within the Investment policy.

The pension plans' assets are comprised of Canadian Long Bonds that match a portion of the plans' assets to the plans' liabilities. The current target composition of the plans' portfolio includes an allocation of 40% of assets invested in Canadian Long Bonds, which effectively increases the duration of the assets to better match the plans' liabilities. The Canadian Long Bonds have a duration of 14.9 years and the leveraged Canadian Long Bonds have a duration of 46.6 years. Overall, the registered pension plans' assets are estimated to be 9.8 years while the liabilities are estimated to be 19.7 years. The supplemental pension plans' liabilities are estimated to be 19.6 years and the assets have no duration.

The pension plans' Funding policy is approved by the Board at a minimum every three years. The policy states two primary objectives, which are to fund the pension plans' benefits, measured on a going concern basis and to provide adequate funding for future service benefits in accordance with the applicable law and plan text. With respect to the defined benefit provision, FCC will fund any going concern and solvency deficits over the statutory minimum and maintains discretion to make additional contributions at any time.

The Pension Plan Governance policy is approved by the Board at a minimum every three years, and outlines the governance structure and responsibilities with respect to the registered and supplemental pension plans for the Board, committees and management. The Pension Plan Governance Manual is approved annually by management and includes review and monitoring criteria for investment managers and third-party providers as well as guidelines for eligible fees and expenses. All fees and expenses paid from the plan are reviewed to ensure they are eligible based on the guidelines.

*26. Risk management (continued)*

**Insurance**

FCC's insurance provider determines the reserve for insurance claims actuarially using the Canadian Asset Liability Method. The future cash flows from the insurance contracts and the assets that support them are dynamically projected in a number of scenarios prescribed by the Canadian Institute of Actuaries, using current best estimate assumptions with provisions for adverse deviation. FCC engages independent actuaries from time to time to review its insurance program to ensure the assumptions, methodologies and processes are prudent.

In calculating the reserve for insurance claims, assumptions must be made about interest rates, asset default, inflation, mortality and morbidity rates, lapses, expenses and other factors over the life of the insurance coverage. Best estimate assumptions are used for expected future experience. Additional provisions are included in the reserve for insurance claims to provide for possible adverse deviations from the best estimate. If the assumption is more susceptible to change or if there is more uncertainty about the underlying best estimate assumption, a correspondingly larger provision is included in the reserve for insurance claims.

The provisions are reviewed for reasonableness in aggregate. The best estimate assumptions and margins for adverse deviation are reviewed periodically and revisions are made where deemed necessary and prudent. The assumptions with the greatest potential impact on net income are mortality, lapses and investment returns.

Insurance mortality refers to the rates at which death occurs for defined groups of people and is generally based on our insurance provider's experience. Assumed mortality rates do not reflect any future expected improvement.

Assumptions related to investment returns include expected future credit losses on fixed income investments. Past corporation experience and industry experience over the long term as well as specific reviews of the current portfolio are used to project credit losses.

Lapse assumption is based on FCC's five-year average.

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

**c) Liquidity risk**

Liquidity risk is the risk that FCC has insufficient funds to meet payment obligations as they come due.

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

FCC measures, forecasts and manages cash flow as an integral part of its liquidity management. FCC's objective is to maintain sufficient funds to meet customer and business operational requirements should a market or operational event occur, disrupting FCC's access to funds. The total investment portfolio is targeted to be a minimum of 30 calendar days of upcoming cash requirements.

FCC maintains liquidity through:

- a liquid investment portfolio – cash and cash equivalents, and short-term investments of $1,226.8 million were on hand as at March 31, 2018 (2017 – $1,226.1 million)
- access to short-term funding – FCC's access to funding through the Crown Borrowing Program and capital markets provides FCC with sufficient liquidity to meet daily cash requirements
- access to a $30.0 million bank operating line of credit

*26. Risk management (continued)*

The following table shows the undiscounted cash flows of FCC's financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal cash flows represent the contractual undiscounted cash flows relating to the principal and interest on the financial liability. FCC's expected cash flows on certain instruments vary significantly from this analysis. For example, certain borrowings that may be prepaid by FCC have not been included in their earliest possible maturities due to being impracticable to estimate.

### Residual contractual maturities of financial liabilities

| As at March 31 ($ thousands) | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Carrying value** | **Gross nominal outflow** | **Less than 1 month** | **1 – 3 months** | **3 – 12 months** | **1 – 5 years** | **More than 5 years** |
| **Non-derivative financial liabilities** | | | | | | | |
| Borrowings | **$28,899,341** | **$ 28,897,580** | **$ 1,214,223** | **$ 1,967,512** | **$ 7,758,724** | **$ 17,485,565** | **$ 471,556** |
| Transition loan liability | **139,319** | **141,207** | **9,989** | **10,991** | **35,876** | **83,631** | **720** |
| **Derivative financial liabilities** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | **$29,038,660** | **$ 29,038,787** | **$ 1,224,212** | **$ 1,978,503** | **$ 7,794,600** | **$ 17,569,196** | **$ 472,276** |

| As at March 31 ($ thousands) | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying value | Gross nominal outflow | Less than 1 month | 1 – 3 months | 3 – 12 months | 1 – 5 years | More than 5 years |
| **Non-derivative financial liabilities** | | | | | | | |
| Borrowings | $ 26,924,171 | $ 26,921,893 | $ 1,302,235 | $ 1,669,051 | $ 7,458,670 | $ 16,229,065 | $ 262,872 |
| Transition loan liability | 130,024 | 131,482 | 3,810 | 8,857 | 38,624 | 79,648 | 543 |
| **Derivative financial liabilities** | 3 | 3 | 3 | – | – | – | – |
| | $ 27,054,198 | $ 27,053,378 | $ 1,306,048 | $ 1,677,908 | $ 7,497,294 | $ 16,308,713 | $ 263,415 |

# 27. Subsequent events

The Board approved the consolidated financial statements on May 30, 2018. There were no subsequent events requiring recognition or disclosure within the consolidated financial statements between March 31, 2018, and the date of approval.

# 2017-18 results commitment

Results as of March 31, 2018

| Outcome | Performance indicator | 2017-18 target | 2017-18 results |
|---|---|---|---|
| FCC provides products, services and a customer experience that meets the needs of the industry, helping producers and agribusiness and agri-food operators grow their operations, access new market opportunities and innovate | FCC products meet the needs of the industry | Net disbursements (new FCC business): $9,509.6 million | Net disbursements:<br>Term: $5,750.3 million<br>Revolving: $5,905.1 million |
| | | Loans receivable (total loans outstanding): $32,056.8 million | $33.9 billion |
| | FCC delivers a customer experience that meets the needs of the industry | Customer experience index: 62% | 65.76% as of Sept. 30, 2017 |
| | | Net promoter score: target to be baselined in 2018-19* | 76 |
| FCC is there for the industry in all economic cycles | FCC maintains a safe and sound capital position to withstand economic downturns and periods of extended loss and to support FCC's strategic decisions | Capital adequacy measure: target capital ratio of 16.3% or higher | 16.2% |
| FCC ensures agriculture, agribusiness and agri-food operations of all sizes have access to capital and a strong financial partner | FCC lends to small and medium-sized operations, which are less likely to attract financial partners from standard financial institutions | Percentage of customer count in small and medium-sized segments: 80% or more | 79.5% |

* In 2017-18, FCC transitioned from the Customer Experience Index measure to Net Promoter Score – targets to be baselined in 2018-19. The Net Promoter Score is a customer advocacy measure that has been embraced by leading companies around the world as the standard for measuring and improving customer experience.

| Outcome | Performance indicator | 2017-18 target | 2017-18 results |
|---|---|---|---|
| FCC helps the industry remain competitive and advances the knowledge and management capabilities of producers and others involved in Canadian agriculture | FCC offers in-person learning events, as well as publications and digital resources (videos, podcasts and more) to help producers and others involved in Canadian agriculture advance their management skills and grow their businesses | Average score of event participants on the likelihood they'll use information from the event in their farming operations: greater than 4 out of 5 | 4.46 |
| | | Number of participants in FCC's in-person learning events: 10,000 | 15,203 |
| FCC supports the long-term viability of Canadian agriculture and invests in rural communities across Canada | FCC encourages partners, producers and others to build public trust in Canadian agriculture and food products (Agriculture More Than Ever) | FCC will explore measures related to tracking progress on this outcome and key performance indicator – measures, targets and data strategy to follow | No results to report for 2017-18 |
| | FCC invests in communities where its customers and employees live and work | At least $2.5 million invested in community initiatives and projects, including funds provided to local non-profits | $3.89 million |
| FCC supports the long-term success of Canadian agriculture by focusing on the needs of the next generation of Canadian producers and agribusiness and agri-food operators | FCC offers specialized lending products and services to help new entrants and young farmers and agribusiness and agri-food operators | Young farmer lending target: $2.89 billion | $3.29 billion |

# Glossary

### Agribusiness and agri-food

Suppliers or processors who sell to, buy from and otherwise serve primary producers. These include equipment manufacturers and dealers, input providers, wholesalers and processors.

### Agvocate

An individual or group that actively promotes agriculture in respectful and meaningful ways. Agvocates believe that agriculture is a modern and dynamic industry with value that needs to be better understood, recognized and advanced among industry stakeholders and the general public.

### Alliances

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

### Allowance for credit losses

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

### Corporate social responsibility (CSR)

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

The other party involved in a financial transaction, typically another financial institution.

### Counterparty credit risk

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

### Credit facility

An arrangement that allows a customer to borrow an agreed amount of money for a particular period of time. The purpose of a credit facility is to provide capital to the borrower for multiple purposes and time frames without the need to structure a loan for each one. They can be used as a single loan or as an umbrella for multiple loans and can encompass multiple terms, repayment schedules and interest rates.

### Credit rating

A classification of credit risk based on the investigation of an individual or company's financial resources, prior payment pattern and history of responsibility for debts incurred.

### Crown Borrowing Program

Direct lending provided to FCC by the federal government.

### Customer support program

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

### Debt-to-equity ratio

The level of debt expressed as dollars of debt per one dollar of total equity, excluding accumulated other comprehensive income.

### Derivative financial instrument

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

### Economic value of equity (EVE)

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

### Effective interest method

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

### Efficiency ratio

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

### Fair value

The estimated price to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions.

### Foreign exchange risk

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

### Hedge

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

### Impaired loans

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

### Interest rate swaps

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

### Internal capital adequacy assessment process (ICAAP)

An end-to-end process designed to ensure FCC maintains a safe and sound capital position to withstand economic downturn and periods of extended loss and to support FCC's strategic direction.

### Minimum regulatory capital ratio

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

### Net interest income (NII)

The difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

### Net interest income margin

NII expressed as a percentage of average total assets.

### Notional amount

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

### Other comprehensive income (OCI)

Represents gains and losses due to changes in fair value that are recorded outside net income in a section of the shareholder's equity called accumulated other comprehensive income (AOCI).

### Past due

A loan is past due when a counterparty has failed to make a payment when contractually due and the amount owing is greater than $500.

### Prepayments

Prepayments are unscheduled principal payments prior to interest term maturity.

### Primary production

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

### Provision for credit losses

Charged to the income statement by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management.

### Return on equity (ROE)

Net income attributable to the shareholder of the parent entity expressed as a percentage of total average equity, excluding AOCI.

### Revolving disbursements

Revolving disbursements represents the release of funds on financing where customers can disburse and repay multiple times up to the maximum of the approved amount.

### Risk scoring and pricing system (RSPS)

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

### Risk-weighted assets (RWA)

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

### Subordinated debt

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

### Term disbursements

Term disbursements represent the release of funds against approved loans. Term disbursements exclude the refinancing of existing FCC loans and revolving disbursements.

### Total capital ratio

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

### Variable pay

Variable pay is a lump-sum payment based on a percentage of base salary. It is re-earned each year, based on the successful achievement of objectives. The amount of this lump sum varies, depending on the degree of success achieved.

### Writeoffs

Loans and their related allowance for credit losses are written off when all collection efforts have been exhausted and there is no realistic prospect of recovery.

# FCC office locations

### British Columbia

Abbotsford, Dawson Creek, Duncan, Kelowna, Surrey

### Alberta

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

### Saskatchewan

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

### Manitoba

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

### Ontario

Casselman, Chatham, Clinton, Essex, Frankford, Guelph, Kanata, Kingston, Lindsay, Listowel, London, Mississauga, New Liskeard, Owen Sound, St. Catharines, Simcoe, Stratford, Thornton, Walkerton, Woodstock, Wyoming

### Quebec

Alma, Ange-Gardien, Beauharnois, Blainville, Drummondville, Gatineau (S), Joliette, Lévis, Montreal, Rivière-du-Loup, Sherbrooke, St-Hyacinthe, Ste-Marie, Trois-Rivières, Victoriaville

### New Brunswick

Moncton, Woodstock

### Nova Scotia

Kentville, Truro

### Prince Edward Island

Charlottetown

### Newfoundland and Labrador

Mount Pearl

(S) Satellite office – limited hours

### Corporate office

1800 Hamilton Street
P.O. Box 4320
Regina SK S4P 4L3
Telephone: 306-780-8100
Fax: 306-780-5167
TTY: 306-780-6974
Toll free TTY: 1-866-205-0013

### Customer Service Centre

Hours: M-F: 7 a.m. – 7 p.m. Eastern
Telephone: 1-888-332-3301
Email: csc@fcc.ca

### Software Customer Care Centre

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

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