



Advancing the business of  
**agriculture**

**2010-11**  
ANNUAL REPORT

## Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Farm Credit Canada and all information in this annual report are the responsibility of the corporation's management and have been reviewed and approved by the Board of Directors. The consolidated financial statements include some amounts that are necessarily based on management's best estimates and judgments, such as the allowance for credit losses, the accrued benefit obligation, the reserve for insurance claims, variable interest entities and the fair value of financial instruments.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. 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 transactions are properly

authorized and recorded, assets are safeguarded, liabilities are recognized, proper records are maintained, and the corporation 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 the corporation's operations.

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

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



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



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

**Regina, Canada**  
June 1, 2011



# Independant 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 2011, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in shareholder's 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 Canadian generally accepted accounting principles, 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 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

## Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, Canadian generally accepted accounting principles 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 bylaws of Farm Credit Canada and the directive issued pursuant to Section 89 of the *Financial Administration Act*.

John Wiersema, FCA  
Interim Auditor General of Canada

1 June 2011

# Consolidated Balance Sheet

As at March 31 (\$ thousands)	2011	2010 Restated (Note 3)
<b>Assets</b>		
Cash and cash equivalents	\$ 601,840	\$ 628,023
Temporary investments (Note 4)	284,162	199,818
Accounts receivable	12,676	32,802
Derivative assets (Note 5)	47,407	66,945
	<b>946,085</b>	<b>927,588</b>
Loans receivable – net (Notes 6 and 8)	20,748,432	19,159,940
Finance leases receivable – net (Notes 7 and 8)	4,912	2,827
Venture capital investments (Note 9)	58,024	59,987
	<b>20,811,368</b>	<b>19,222,754</b>
Equipment and leasehold improvements (Note 10)	29,314	31,513
Computer software (Note 11)	42,124	42,814
Equipment under operating leases (Note 12)	19,077	14,867
Other assets (Note 13)	62,089	46,791
	<b>152,604</b>	<b>135,985</b>
<b>Total assets</b>	<b>\$ 21,910,057</b>	<b>\$ 20,286,327</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 50,656	\$ 48,619
Derivative liabilities (Note 5)	4,724	6,843
	<b>55,380</b>	<b>55,462</b>
Borrowings (Note 15)		
Short-term debt	8,029,920	8,810,407
Long-term debt	10,921,999	8,948,764
	<b>18,951,919</b>	<b>17,759,171</b>
Other liabilities (Note 16)	134,128	126,639
<b>Shareholder's equity</b>		
Contributed surplus	547,725	547,725
Retained earnings	2,025,725	1,584,266
Accumulated other comprehensive income	181,804	203,603
<b>Equity attributable to shareholder of parent entity</b>	<b>2,755,254</b>	<b>2,335,594</b>
Non-controlling interest in variable interest entity	13,376	9,461
	<b>2,768,630</b>	<b>2,345,055</b>
<b>Total liabilities and shareholder's equity</b>	<b>\$ 21,910,057</b>	<b>\$ 20,286,327</b>

Commitments, guarantees and contingent liabilities (Note 21).

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

Approved:



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



**John Klippenstein, CMA**  
Chair, Audit Committee

# Consolidated Statement of Operations

For the year ended March 31 (\$ thousands)	2011	2010
<b>Interest income</b>		
Loans and leases	\$ 937,091	\$ 797,441
Investments	9,559	5,888
	<b>946,650</b>	<b>803,329</b>
<b>Interest expense</b>	<b>208,156</b>	<b>193,450</b>
<b>Net interest income (Note 17)</b>	<b>738,494</b>	<b>609,879</b>
Provision for credit losses (Note 8)	27,932	91,402
<b>Net interest income after provision for credit losses</b>	<b>710,562</b>	<b>518,477</b>
Net insurance income	11,130	8,563
Other income	4,858	1,749
<b>Net interest income and non-interest income</b>	<b>726,550</b>	<b>528,789</b>
Administration expenses (Note 18)	270,801	255,165
<b>Net income before fair value adjustment</b>	<b>455,749</b>	<b>273,624</b>
Fair value adjustment (Note 19)	3,446	6,568
<b>Net income</b>	<b>\$ 459,195</b>	<b>\$ 280,192</b>
<b>Net income (loss) attributable to:</b>		
Shareholder of parent entity	\$ 459,959	\$ 281,916
Non-controlling interest in variable interest entity	(764)	(1,724)

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

# Consolidated Statement of Comprehensive Income

For the year ended March 31 (\$ thousands)	2011	2010
<b>Net income</b>	\$ 459,195	\$ 280,192
<b>Other comprehensive income</b>		
Net gains (losses) on derivatives designated as cash flow hedges	498	(186,689)
Transfer of net realized gains on derivatives designated as cash flow hedges to net income	(21,060)	(16,896)
Change in net losses on derivatives designated as cash flow hedges	(20,562)	(203,585)
Net unrealized losses on available-for-sale temporary investments	(1,237)	(6)
<b>Total other comprehensive loss</b>	\$ (21,799)	\$ (203,591)
<b>Total comprehensive income</b>	\$ 437,396	\$ 76,601
<b>Total comprehensive income (loss) attributable to:</b>		
Shareholder of parent entity	\$ 438,160	\$ 78,325
Non-controlling interest in variable interest entity	(764)	(1,724)

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

## Consolidated Statement of Changes in Shareholder's Equity

(\$ thousands)	Balance, April 1, 2010	Comprehensive income	Dividend paid	Distributions to non-controlling interest	Balance, March 31, 2011
<b>Contributed surplus</b>	\$ 547,725	\$ –	\$ –	\$ –	\$ 547,725
<b>Retained earnings</b>	1,584,266	459,959	(18,500)	–	2,025,725
Net gains (losses) on derivatives designated as cash flow hedges	203,859	(20,562)	–	–	183,297
Net unrealized losses on available-for-sale assets	(256)	(1,237)	–	–	(1,493)
<b>Total accumulated other comprehensive income (loss)</b>	203,603	(21,799)	–	–	181,804
<b>Non-controlling interest in variable interest entity</b>	9,461	(764)	–	4,679	13,376
<b>Total</b>	\$ 2,345,055	\$ 437,396	\$ (18,500)	\$ 4,679	\$ 2,768,630

(\$ thousands)	Balance, April 1, 2009	Comprehensive income	Dividend paid	Distributions to non-controlling interest	Balance, March 31, 2010
<b>Contributed surplus</b>	\$ 547,725	\$ –	\$ –	\$ –	\$ 547,725
<b>Retained earnings</b>	1,320,950	281,916	(18,600)	–	1,584,266
Net gains (losses) on derivatives designated as cash flow hedges	407,444	(203,585)	–	–	203,859
Net unrealized losses on available-for-sale assets	(250)	(6)	–	–	(256)
<b>Total accumulated other comprehensive income (loss)</b>	407,194	(203,591)	–	–	203,603
<b>Non-controlling interest in variable interest entity</b>	7,555	(1,724)	–	3,630	9,461
<b>Total</b>	\$ 2,283,424	\$ 76,601	\$ (18,600)	\$ 3,630	\$ 2,345,055

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

# Consolidated Statement of Cash Flows

For the year ended March 31 (\$ thousands)	2011	2010 Restated (Note 3)
<b>Operating activities</b>		
Net income	\$ 459,959	\$ 281,916
Adjustments to determine net cash from (used in) operating activities:		
Adjustment for loans no longer impaired	6,470	–
Provision for credit losses	27,932	91,402
Fair value adjustment	(3,446)	(6,568)
Amortization (1)	(7,928)	(2,828)
Foreign exchange (gains) losses	(47)	165
Other	(2,931)	44
Net change in accrued interest receivable and payable	(26,351)	(23,552)
Net change in other operating assets and liabilities	1,253	15,809
<b>Cash provided by operating activities</b>	<b>\$ 454,911</b>	<b>\$ 356,388</b>
<b>Investing activities</b>		
Net change in loans receivable	\$ (1,586,227)	\$ (2,653,264)
Net change in finance leases receivable	(2,020)	(2,858)
Net change in temporary investments	(84,314)	(155,936)
Acquisition of venture capital investments	(12,002)	(11,282)
Proceeds on disposal and repayment of venture capital investments	15,582	8,793
Purchase of equipment and leasehold improvements	(8,649)	(13,439)
Purchase of computer software	(14,563)	(18,169)
Purchase of equipment under operating leases	(7,862)	(11,295)
(Acquisition) disposal of real estate property held for sale	(24)	845
<b>Cash used in investing activities</b>	<b>\$ (1,700,079)</b>	<b>\$ (2,856,605)</b>
<b>Financing activities</b>		
Long-term debt issued	\$ 5,775,881	\$ 6,494,404
Long-term debt repaid	(3,486,289)	(3,351,310)
Short-term debt issued	42,093,003	71,043,951
Short-term debt repaid	(43,164,403)	(71,834,808)
Proceeds on sale of derivatives	19,293	98,683
Dividend paid	(18,500)	(18,600)
<b>Cash provided by financing activities</b>	<b>\$ 1,218,985</b>	<b>\$ 2,432,320</b>
<b>Change in cash and cash equivalents</b>	<b>\$ (26,183)</b>	<b>\$ (67,897)</b>
Cash and cash equivalents, beginning of year	628,023	695,920
<b>Cash and cash equivalents, end of year</b>	<b>\$ 601,840</b>	<b>\$ 628,023</b>
<b>Cash and cash equivalents are comprised of:</b>		
Cash	\$ 18,106	\$ 7,377
Short-term investments	583,734	620,646
<b>Supplemental information</b>		
Cash interest paid during year	\$ 211,617	\$ 249,649

(1) Includes amortization of equipment and leasehold improvements, computer software, equipment under operating leases, AOCI, bond premium/discount, deferred revenue fees and deferred initial direct leasing costs.

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 (the corporation) 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. The corporation is wholly owned by the Government of Canada and is not subject to the requirements of the Income Tax Act.

On April 2, 1993, the Farm Credit Corporation Act was proclaimed into law and replaced the Farm Credit Act and the Farm Syndicates Credit Act, both of which were repealed. The Act continues the corporation with its corporate office in Regina, Saskatchewan, 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 new Act continues the corporation as Farm Credit Canada and allows the corporation to offer producers and agribusiness operators a broader range of services.

In September 2008, the corporation, 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 the corporation to the personal integrity of those it lends to or provides benefits to. During fiscal 2011, the corporation continued to ensure the requirements of Section 89(6) of the Financial Administration Act were being implemented.

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.

## 2. Significant accounting policies

### Basis of presentation

Consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

The preparation of the consolidated financial statements in accordance with GAAP requires that management make estimates, assumptions and judgments that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. The more significant areas requiring the use of management estimates and judgments are the allowance for credit losses, the accrued benefit obligation, the reserve for insurance claims, variable interest entities and the fair value of financial instruments.

The significant accounting policies used in the preparation of these consolidated financial statements are summarized in the following pages.

### **Basis of consolidation**

The consolidated financial statements include the accounts of the corporation and Avrio Ventures Limited Partnership (Avrio), a variable interest entity for which the corporation is the primary beneficiary due to holding a 67% interest in the partnership. An adjustment has been made for significant intervening transactions occurring between Avrio's year-end of December 31 and the year-end of the corporation. All significant intercompany balances and transactions have been eliminated. The non-controlling interest, which represents the equity in Avrio not attributable to the corporation, has been presented in the Consolidated Balance Sheet, the Consolidated Statement of Operations, the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Shareholder's Equity.

### **Classification and designation of financial instruments**

Financial assets are classified or designated as loans and receivables, held for trading (HFT) or available-for-sale (AFS). Financial liabilities are classified or designated as HFT 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. HFT financial instruments are financial assets or liabilities that are purchased or incurred with the intention of generating profits in the near term, derivatives not designated in hedging relationships or financial instruments designated upon initial recognition as HFT. AFS financial instruments are those intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

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 are readily convertible to cash with a maturity date of 90 days or less from the date of acquisition. Interest earned on cash and cash equivalents is included in investment income.

### **Temporary investments**

Temporary investments have maturity dates between 91 and 365 days from the date of acquisition, are acquired primarily for liquidity purposes and are designated as AFS. Temporary investments are accounted for at fair value using settlement date accounting and a valuation technique as described under the Fair Value of Financial Instruments heading. Unrealized fair value gains and losses are included in other comprehensive income (OCI). Interest income is accrued when receivable and included in investment income.

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

Derivatives not designated as hedging instruments in effective hedging relationships are classified as HFT. HFT derivatives are recorded at fair value using a valuation technique as described under the Fair Value of Financial Instruments heading, with gains and losses reported in the fair value adjustment. HFT derivatives are reported as assets where they have a positive fair value and liabilities where they have a negative fair value. Interest earned and incurred on HFT derivatives is included in interest income and expense, respectively.

### Cash flow hedge accounting

Derivatives that are designated as hedging items in cash flow hedges are accounted for at fair value. The effective portion of changes in a derivative's fair value is recognized in OCI while the ineffective portion of changes in a derivative's fair value is reported in the fair value adjustment. Derivatives designated as hedging items are reported as assets where they have a positive fair value and liabilities where they have a negative fair value. Interest income or expense related to derivatives designated as hedging items in cash flow hedges is recognized on the same basis as the hedged item, as an adjustment to interest income or expense, respectively.

Cash flow hedge accounting is discontinued prospectively when the derivative contract is terminated, matures or no longer qualifies as an effective cash flow hedge. When a cash flow hedge is discontinued, any cumulative gains or losses previously recognized in OCI are transferred to net interest income over the remaining term of the original hedge and in the same manner that net interest income is affected by the variability in the cash flows as the hedged item. For derivatives still outstanding following the date of the discontinued hedging relationship, all subsequent fair value gains and losses are recognized immediately in the fair value adjustment.

### Loans receivable

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

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

Loan origination fees, including commitment fees and renegotiation fees, are considered an integral part of the return earned on a loan and are recognized in interest income over the expected term of the loan using the effective interest rate 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, there has been a deterioration of credit quality to the extent that the corporation no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, any loan that is \$500 or more in arrears for 90 days is classified as impaired unless the loan is sufficiently secured. When a loan is classified as impaired, the carrying amount is reduced to its estimated realizable amount through an adjustment to the allowance for credit losses. Changes in the estimated realizable amount arising subsequent to initial impairment are also adjusted through the allowance for credit losses.

Loan interest income is not accrued when a loan is classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to performing status when, in management's opinion, the ultimate collection of principal and interest is reasonably assured. When the impaired loan is restored to performing status, the allowance for credit losses is reduced through the adjustment for loans no longer impaired for the amount of loan interest income now recognized.

Loans are written off against the related allowance for credit losses if there is no realistic prospect of future recovery.

### Finance leases receivable

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 payment 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

The corporation recognizes an allowance for credit losses that represents management's best estimate of the incurred impairment in the loan and lease portfolio at the balance sheet date. The allowance is increased or decreased by the provision for credit losses, the government subsidy for the Hog Industry Loan Loss Reserve Program (HILLRP), as described under the Government Assistance heading, and the adjustment for loans no longer impaired, as described under the Loans Receivable heading. The allowance is reduced by writeoffs net of recoveries.

The corporation assesses at each balance sheet date 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 amount 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. In determining the allowance for credit losses, management segregates credit losses into two components: specific allowance and general allowance.

**Specific allowance** – Based on an account-by-account review, the specific allowance is established to value impaired loans or leases at the lower of the balance sheet carrying amount of the loan or lease and its estimated realizable value. The realizable value is based on the fair value of any underlying security, as well as the estimated time and costs required to realize the security. Changes in the estimated realizable value arising subsequent to initial impairment are adjusted through the specific allowance. For loans that were originated on the basis of cash flow lending, no collateral is held by the corporation and the estimated realizable value is based on expected cash flows as well as the estimated time and costs to realize the cash flows.

**General allowance** – A general allowance is established to provide for estimated credit losses incurred at the balance sheet date relating to individual loans or leases in the portfolio that have shown deterioration in credit quality but have not yet met the corporation's criteria for inclusion in the specific allowance. A model is used to determine the estimated credit losses for such loans or leases. The model considers specific indicators of deterioration in credit quality, including adverse changes in the payment status of borrowers. The amount of the general allowance is calculated based on the application of loan default rates to the estimated loss amounts for loans and leases identified. These factors are based on the corporation's historical experience and are adjusted to reflect current conditions.

The general allowance also provides for losses that have occurred at the balance sheet date but cannot be identified on an individual loan or lease basis and is calculated on a collective basis. In determining the amount of this portion of the general allowance, management assesses business and economic conditions, historical loss experience adjusted for current market considerations, loan and lease portfolio composition and other relevant factors. As a single-industry lender, the corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting agricultural regions and enterprises. Accordingly, management includes these factors in its assessment.

The allowance for credit losses is an estimate for accounting purposes. Events may occur that render the underlying assumptions invalid and thus cause actual credit losses to vary significantly from management's estimate. The methodology and assumptions used by management are reviewed regularly in an attempt to reduce any differences between loss estimates and actual loss experience.

## Venture capital investments

Venture capital investments include investments that are held directly by the corporation (FCC Fund) and investments held by Avrio Ventures Limited Partnership (Avrio Fund). FCC Fund investments focus on providing financing to small and medium-sized companies in early to mature stages, while Avrio Fund investments target investments containing higher risk profiles in commercialization-to-growth stages.

The corporation designated its FCC Fund investments as HFT, with the exception of one investment over which the corporation has significant influence, in order to eliminate the need to identify and separate certain embedded options found in the investment contracts.

FCC Fund and Avrio Fund venture capital investments, where the corporation does not have significant influence, are accounted for at fair value using a valuation technique as described under the Fair Value of Financial Instruments heading, with gains and losses reported in the fair value adjustment. Interest on debt, calculated in accordance with the effective interest rate method, is accrued when receivable and included in interest income. Dividends on preferred and common shares are accrued when receivable and declared, respectively, and included in interest income. Royalty and fee income are also accrued when receivable and included in interest income.

The FCC Fund venture capital investment over which the corporation has significant influence is accounted for using the equity method. Under this method, the pro rata share of post-acquisition earnings is included in other income and adjusts the carrying value of the investment. Dividends received or receivable reduce the carrying value of the investment.

## Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization.

Cost includes expenditures that are directly attributable to the acquisition of the equipment or leasehold improvement. Subsequent expenditures are included in the equipment or leasehold improvement's carrying amount, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the corporation and the cost of the item can be measured reliably. All repair and maintenance costs are expensed during the financial period in which they are incurred.

Amortization begins when the equipment or leasehold improvement is available for use by the corporation and is included in administration expenses. Amortization is calculated using the straight-line method 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

## Computer software

Software is recorded at cost less accumulated amortization. Expenditures on internally developed software are recognized as assets when the corporation is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can 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 the corporation. Amortization is recorded over the estimated useful life of three or five years using the straight-line method and is included in administration expenses.

### Equipment under operating leases

Equipment under operating leases is recorded at cost less accumulated amortization. Equipment is amortized on a straight-line basis over the term of the lease. Rental revenue from operating leases is recognized on a straight-line basis over the term of the lease and is included in interest income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

### Employee future benefits

The corporation 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 plans are based on the number of years of service and average salaries for the five highest-paid consecutive years of service and are inflation-protected. The supplemental defined benefit and supplemental defined contribution pension plans are available for employees with employment income greater than pensionable earnings.

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

The accrued benefit obligation for pension and other defined benefit plans is actuarially determined using the projected benefit method prorated on service that incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Actuarial gains or losses arise from the difference between the actual long-term rate of return on plan assets for the period and the expected long-term rate of return on plan assets for the period or from changes in actuarial assumptions used to determine the accrued benefit obligations. The excess of the net accumulated actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized on a straight-line basis over the average remaining service period of active employees. According to actuarial estimates, the average remaining service period for employees covered by the defined benefit pension plans is 10 years (2010 – 10 years). The average remaining service period to expected retirement age is 15 years (2010 – 15 years) for employees expected to receive benefits under the post-retirement non-pension benefit plan and 15 years (2010 – 15 years) for active employees covered by the post-employment benefit plan.

Past service costs arising from plan amendments are amortized on a straight-line basis over the average remaining service period of active employees when the amendment is recognized.

### Insurance

The corporation 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 of the balance sheet date and adjustments to the reserve for insurance claims. The reserve for

insurance claims represents the liability due to the expected shortfall of future premiums compared to future claims. 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 is prepared on a going concern basis, taking into account the appropriate degree of risk inherent in the obligation. It is based on estimates of future premiums, expected future mortality costs and expenses, past experience, interest rates and margins for adverse deviation from these assumptions. Actual experience may vary from best estimate assumptions, which will result in plan experience that differs from what is projected. These assumptions are reviewed at least annually and updated in response to actual experience and market conditions. Changes in estimates are recorded in net income when made and are included in insurance claims expense.

The corporation maintains an insurance reserve asset with the insurance provider to fund future claim payments. The insurance reserve asset is classified as loans and receivables and measured at amortized cost and included in other assets.

Expenses related to administering the insurance program are recorded in administration expenses. The accrual for insurance claims payable is a financial instrument recorded at amortized cost in accounts payable and accrued liabilities.

### **Real estate property held for sale**

Real estate property acquired from customers in settlement of loan commitments is classified as held for sale and recorded in other assets at fair value less selling costs. Fair value less selling costs is the amount that could be realized in an arm's-length disposition, considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower.

The carrying value of real estate property held for sale is adjusted to reflect significant decreases in the estimated fair value subsequent to acquisition. Recoveries arising from the disposal of real estate property held for sale are recognized when title to the property passes to the purchaser. Recoveries, adjustments and net operating costs incurred on real estate property held for sale are included in other income.

### **Accounts payable and accrued liabilities**

Accounts payable and accrued liabilities are classified as other financial liabilities and measured at amortized cost.

### **Borrowings**

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

Structured notes form part of the corporation's funding program. Structured notes are hybrid securities that combine fixed income products with derivative financial instruments. The corporation designated its structured notes as HFT in order to record them on a basis consistent with the fair value changes in their related derivatives. Borrowings designated as HFT are accounted for at fair value with gains and losses reported in the fair value adjustment.

Other borrowings are classified as other financial liabilities and measured at amortized cost.

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

### Transition loan liabilities

The corporation records a transition loan liability that represents amounts owing to third parties upon the signing of a contract that requires the corporation 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 accordingly. Transition loan liabilities are recorded at amortized cost and included in other liabilities.

### Government assistance

The corporation 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. The corporation 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 the corporation for any non-performing eligible loans are 90%, 80% and 70% of net credit losses in years 1 to 3, 4 to 6 and 7 to 15, respectively. Amounts held by the corporation to which the corporation is not entitled are paid back to the Government of Canada at the end of the program. The corporation'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.

An estimate is made by management for the amount of the loan loss reserve fund to which the corporation is entitled under the HILLRP and this estimate is accounted for as a reduction to the corporation's provision for credit losses. The remaining amount of the loan loss reserve fund, to which the corporation is not entitled, is recorded as long-term debt. Interest on this long-term debt 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 are deferred and amortized over the expected useful life of the instrument using the effective interest rate method. Transaction costs related to all other financial instruments are expensed as incurred.

### Operating lease payments

Payments on operating lease agreements are recognized as an expense 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.

### 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 financial instruments measured at fair value are as follows:

- The estimated fair value of temporary investments is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent securities.

- The estimated fair value of derivative 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 takes 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 the corporation's counterparty credit exposures. Where a counterparty does not have an observable credit spread, a proxy that reflects the credit profile of the counterparty is used.
- Venture capital investments in shares that are traded on an exchange are valued based on the bid prices as at year-end. Venture capital investments in shares of privately held companies are valued based on guidelines issued by the venture capital industry, using market-based valuation methodologies. Estimated fair value for venture capital debt investments is calculated by discounting contractual cash flows at interest rates prevailing at year-end with equivalent terms to maturity.
- The estimated fair value of structured notes, included in borrowings, is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity or by utilizing quoted market prices where available. Inputs used to determine the fair value include currency exchange rates, credit spreads, yield curves and volatility levels. Where embedded optionality exists (call features), fair values are derived using market standard valuation models and techniques. The value of the embedded options is determined using market measures for interest rates, currency exchange rates and volatility levels and estimations for other market-based pricing factors.

## Changes in accounting standards

### Consolidated financial statements and non-controlling interest

On April 1, 2010, the corporation early adopted the Canadian Institute of Chartered Accountants Handbook Section 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests. As a result of adopting the new standards, the non-controlling interest of the corporation is now presented as a separate component of shareholder's equity. The non-controlling interest is no longer recorded as a deduction of net income and total comprehensive income but is shown as a separate component of the Consolidated Statement of Operations and the Consolidated Statement of Comprehensive Income. In addition, the Consolidated Statement of Changes in Shareholder's Equity now discloses the allocation of net income, total comprehensive income and shareholder's equity, respectively, between the shareholder of the parent and the non-controlling interest.

### Future changes in accounting standards

#### Initial adoption of International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011, as the date International Financial Reporting Standards (IFRS) will replace Canadian GAAP for publicly accountable enterprises. The corporation's first annual IFRS financial statements will be for the year ending March 31, 2012, and will include comparative figures.

#### Future changes to International Financial Reporting Standards

In November 2009, the International Accounting Standards Board (IASB) issued IFRS 9, Classification and Measurement, which addresses the classification and measurement of financial assets. In October 2010, the IASB added the requirements for classifying and measuring financial liabilities to IFRS 9. IFRS 9 replaces the classification and measurement portions of IAS 39, Financial Instruments Recognition and Measurement, and is the first in a three-phase project in progress by the IASB to replace IAS 39 in its entirety. These recommendations are effective for fiscal years beginning on or after January 1, 2013, and therefore, the corporation will implement them for its year ended March 31, 2014. The second and third phases of the project address Amortized Cost and Impairment and Hedge Accounting, respectively, and have not yet been finalized.

### 3. Prior period adjustment

As a result of a review of the 2009-10 year-end loans receivable and other liabilities, errors in the 2009-10 consolidated financial statement balances were discovered. The corporation has retroactively corrected the errors and restated the consolidated financial statements for the year ended March 31, 2010. The impact of these errors on the 2009-10 previously reported amounts in the Consolidated Balance Sheet is an increase to both loans receivable and other liabilities in the amount of \$83.2 million. There was no impact to the 2009-10 net income or retained earnings.

### 4. Temporary investments

(\$ thousands)	2011		2010	
	Carrying value	Yield	Carrying value	Yield
Short-term instruments	\$ 284,162	1.12%	\$ 199,818	0.32%

Short-term instruments consist of deposit notes, bankers' acceptance and treasury bills issued by institutions with credit ratings of R-1M or higher (2010 – R-1M or higher) as rated by the Dominion Bond Rating Service (DBRS). As at March 31, 2011, the largest total investment in any one institution was \$123.6 million (2010 – \$89.9 million).

All temporary investments have an initial term to maturity of 91 to 365 days and will mature within three months.

### 5. Derivative financial instruments

(\$ thousands)	2011		2010	
<b>Derivative assets</b>				
Derivatives designated as cash flow hedges	\$	46,310	\$	65,023
Derivatives classified as HFT		1,097		1,922
	\$	47,407	\$	66,945
<b>Derivative liabilities</b>				
Derivatives designated as cash flow hedges	\$	4,475	\$	3,819
Derivatives classified as HFT		249		3,024
	\$	4,724	\$	6,843

#### Types of derivative contracts

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 and/or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged. Included in interest rate swaps are receive-fixed swaps, pay-fixed swaps and certain structured note swaps.

Cross-currency interest rate swaps are transactions in which two parties exchange notional amounts in different currencies at inception and maturity, as well as interest flows, on the exchanged amounts on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest. Included in cross-currency interest rate swaps are certain structured note swaps.

The derivative contracts entered into by the corporation are over-the-counter instruments.



The corporation does not anticipate any significant non-performance by counterparties because all counterparties are rated Aa2 or higher, as rated by Moody's Investors Service (Moody's). The largest cumulative notional amount contracted with any institution as at March 31, 2011, was \$350.0 million (2010 – \$450.0 million) and the largest net fair value of contracts with any institution as at March 31, 2011, was \$13.6 million (2010 – \$17.5 million). The corporation mitigates the credit exposure on multiple derivative transactions by entering into master netting agreements with counterparties as outlined in Note 24. These agreements create the legal right of offset of exposure in the event of default.

Using reasonable possible alternative assumptions for valuing derivatives would not have a material effect on the corporation's financial position or earnings.

## 6. Loans receivable – net

The following table summarizes the contractual maturity and effective interest rates of the performing loans receivable as at March 31, 2011. The yields are computed on a weighted-average basis by amount and term. Floating-rate loans are linked to the bank prime rate and re-price with changes in the rate.

(\$ thousands)	Remaining term to maturity			2011	2010 Restated (Note 3)
	Within 1 year	1 – 5 years	Over 5 years		
Floating	\$ 1,007,473	\$ 12,762,603	\$ 836,183	\$ 14,606,259	\$ 13,128,429
Yield	4.33%	3.93%	3.85%	3.95%	3.20%
Fixed	901,801	4,058,505	1,547,054	6,507,360	6,432,182
Yield	5.73%	5.64%	6.14%	5.77%	6.00%
Performing loans				21,113,619	19,560,611
Impaired loans				241,362	236,716
Deferred loan fees				(20,445)	(26,977)
Loans receivable – gross				21,334,536	19,770,350
Allowance for credit losses				(586,104)	(610,410)
<b>Loans receivable – net</b>				<b>\$ 20,748,432</b>	<b>\$ 19,159,940</b>

Management estimates that annually, over the next three years, 6.5% (2010 – 6.5%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2011, \$57.5 million (2010 – \$64.9 million) of loans receivable were denominated in United States dollars (USD).

## Concentrations of credit risk

The concentrations of performing loans and impaired loans by business line, enterprise and geographic area are as follows:

(\$ thousands)	Primary production financing	Agribusiness and agri-food financing	Alliances	2011	2010 Restated (Note 3)
<b>Performing loans – Enterprise distribution</b>					
Cash crops	\$ 7,013,259	\$ 263,679	\$ 291,968	\$ 7,568,906	\$ 6,973,079
Dairy	4,520,005	4,507	40,274	4,564,786	4,374,364
Value-added	186,478	2,227,231	46,165	2,459,874	2,312,794
Other	2,338,055	57,986	26,758	2,422,799	1,865,483
Beef	1,211,437	33,294	300,337	1,545,068	1,522,184
Poultry	1,413,117	58,031	1,253	1,472,401	1,372,485
Hogs	1,008,200	60,352	11,233	1,079,785	1,140,222
<b>Performing loans</b>	<b>\$ 17,690,551</b>	<b>\$ 2,705,080</b>	<b>\$ 717,988</b>	<b>\$ 21,113,619</b>	<b>\$ 19,560,611</b>
<b>Performing loans – Geographic distribution</b>					
Western	\$ 5,331,936	\$ 786,389	\$ 311,112	\$ 6,429,437	\$ 5,940,816
Prairie	4,201,449	483,972	250,768	4,936,189	4,527,475
Ontario	5,546,452	676,077	135,446	6,357,975	6,038,210
Quebec	1,856,615	570,682	19,297	2,446,594	2,191,470
Atlantic	754,099	187,960	1,365	943,424	862,640
<b>Performing loans</b>	<b>\$ 17,690,551</b>	<b>\$ 2,705,080</b>	<b>\$ 717,988</b>	<b>\$ 21,113,619</b>	<b>\$ 19,560,611</b>
<b>Impaired loans – Enterprise distribution</b>					
Cash crops	\$ 69,378	\$ 2,216	\$ 6,160	\$ 77,754	\$ 40,520
Dairy	11,954	–	18	11,972	5,109
Value-added	5,440	39,974	–	45,414	49,916
Other	36,830	423	99	37,352	42,853
Beef	25,643	–	1,219	26,862	29,389
Poultry	4,341	–	–	4,341	13,550
Hogs	28,590	9,077	–	37,667	55,379
Impaired loans	182,176	51,690	7,496	241,362	236,716
Specific allowance (Note 8)	(58,186)	(22,894)	(7,380)	(88,460)	(88,065)
<b>Net impaired loans</b>	<b>\$ 123,990</b>	<b>\$ 28,796</b>	<b>\$ 116</b>	<b>\$ 152,902</b>	<b>\$ 148,651</b>
<b>Impaired loans – Geographic distribution</b>					
Western	\$ 83,266	\$ 15,748	\$ 3,702	\$ 102,716	\$ 86,702
Prairie	43,302	18,068	65	61,435	64,879
Ontario	13,293	4,352	2,109	19,754	41,252
Quebec	22,193	2,964	1,466	26,623	17,209
Atlantic	20,122	10,558	154	30,834	26,674
Impaired loans	182,176	51,690	7,496	241,362	236,716
Specific allowance (Note 8)	(58,186)	(22,894)	(7,380)	(88,460)	(88,065)
<b>Net impaired loans</b>	<b>\$ 123,990</b>	<b>\$ 28,796</b>	<b>\$ 116</b>	<b>\$ 152,902</b>	<b>\$ 148,651</b>

## 7. Finance leases receivable – net

(\$ thousands)	2011		2010	
<b>Total minimum finance lease payments receivable</b>				
2010-11	\$	–	\$	1,351
2011-12		2,105		894
2012-13		1,316		482
2013-14		887		247
2014-15		698		233
2015 and beyond		431		–
Unearned finance income		(441)		(325)
Finance leases receivable – gross		4,996		2,882
Allowance for credit losses		(84)		(55)
<b>Finance leases receivable – net</b>	<b>\$</b>	<b>4,912</b>	<b>\$</b>	<b>2,827</b>

The company 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

(\$ thousands)	Loans receivable		Finance leases receivable		2011	2010
Balance, beginning of year	\$	610,410	\$	55	\$	610,465
Provision for credit losses		27,903		29		27,932
Losses covered under HILLRP		(631)		–		(631)
Losses incurred on loan restructuring		–		–		–
Adjustment for loans no longer impaired		6,470		–		6,470
Writeoffs		(58,760)		–		(58,760)
Recoveries		712		–		712
<b>Balance, end of year</b>	<b>\$</b>	<b>586,104</b>	<b>\$</b>	<b>84</b>	<b>\$</b>	<b>586,188</b>
Specific allowance	\$	88,460	\$	–	\$	88,460
General allowance		497,644		84		497,728
<b>Balance, end of year</b>	<b>\$</b>	<b>586,104</b>	<b>\$</b>	<b>84</b>	<b>\$</b>	<b>586,188</b>

## 9. Venture capital investments

(\$ thousands)	2011		2010	
Avrio Fund investments	\$	39,305	\$	28,942
FCC Fund investment – significant influence		9,586		7,973
FCC Fund investments designated as HFT		9,133		23,072
	<b>\$</b>	<b>58,024</b>	<b>\$</b>	<b>59,987</b>

### Carrying value by type of investment

(\$ thousands)		2011		2010
Preferred shares	\$	25,641	\$	20,766
Common shares		18,090		25,721
Debt		14,293		13,500
	\$	58,024	\$	59,987

The venture capital investment portfolio exposes the corporation to credit risk. Venture capital investments are typically secured only by a general security agreement, assignment of life insurance proceeds and personal guarantees, which makes the measurement of the fair value of collateral held impracticable. As at March 31, 2011, the gross amount of venture capital debt investments that was in arrears was \$0.1 million (2010 – \$5.5 million), and renegotiated venture capital investments that would otherwise be in arrears was \$4.4 million (2010 – \$0.3 million).

### Concentrations of venture capital investments by sector

(\$ thousands)		2011		2010
Food processing and manufacturing	\$	20,122	\$	26,828
Agriculture biotechnology		19,383		19,053
Bio-based fuels and chemicals		18,519		14,106
	\$	58,024	\$	59,987

As at March 31, 2011, the total amount of net gains (losses) realized on disposal and reported in the fair value adjustment was \$2.2 million (2010 – \$(0.8) million) and the total amount of net unrealized losses reported in the fair value adjustment was \$3.4 million (2010 – \$3.2 million).

The total amount of fees, interest and dividends recorded in net income during the year for venture capital investments recognized at fair value was \$1.4 million (2010 – \$3.3 million). The total net income recorded in net income for the venture capital investment subject to the corporation's significant influence during the year was \$3.0 million (2010 – \$0.2 million).

In addition to the above investments, the corporation has loans receivable from venture capital investees in the amount of \$35.8 million (2010 – \$47.3 million) and guarantees from venture capital investees in the amount of \$7.7 million (2010 – \$12.7 million).

Using reasonable possible alternative assumptions for valuing venture capital investments that are measured at fair value would not have a material effect on the corporation's financial position or earnings.

## 10. Equipment and leasehold improvements

(\$ thousands)		Cost	Accumulated amortization	2011 Net book value	2010 Net book value
Leasehold improvements	\$	41,131	\$ 21,906	\$ 19,225	\$ 19,431
Office equipment and furniture		26,775	19,384	7,391	8,659
Computer equipment		11,550	8,852	2,698	3,423
	\$	79,456	\$ 50,142	\$ 29,314	\$ 31,513

The total amount of amortization of equipment and leasehold improvements recorded in administration expenses during the year was \$10.8 million (2010 – \$9.9 million).

## 11. Computer software

(\$ thousands)	Cost	Accumulated amortization	2011 Net book value	2010 Net book value
Software	\$ 104,045	\$ 61,921	\$ 42,124	\$ 42,814

Software of \$1.9 million (2010 – \$1.7 million) was acquired and \$12.7 million (2010 – \$17.1 million) was internally developed during the year. The total amount of amortization of computer software recorded in administration expenses during the year was \$15.3 million (2010 – \$9.9 million).

## 12. Equipment under operating leases

(\$ thousands)	Cost	Accumulated amortization	2011 Net book value	2010 Net book value
Equipment	\$ 25,296	\$ 6,219	\$ 19,077	\$ 14,867

The total amount of amortization of equipment under operating leases recorded in interest income during the year was \$3.7 million (2010 – \$2.2 million).

The initial lease terms of operating leases range from two to five years. Future rental payments to be received from operating leases are as follows:

(\$ thousands)	2011	2010
2010-11	\$ –	\$ 3,056
2011-12	4,164	2,577
2012-13	3,345	2,053
2013-14	2,774	1,600
2014-15	1,798	242
2015 and beyond	256	–
	<b>\$ 12,337</b>	<b>\$ 9,528</b>

## 13. Other assets

(\$ thousands)	2011	2010
Accrued benefit assets (Note 14)	\$ 46,177	\$ 33,915
Insurance reserve assets	15,014	11,985
Real estate property held for sale	859	834
Other	39	57
	<b>\$ 62,089</b>	<b>\$ 46,791</b>

## 14. Employee future benefits

### Financial position of benefit plans

The corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuations of the pension plans for funding purposes were prepared as at December 31, 2010. The next valuations for funding purposes will be as at December 31, 2011.

(\$ thousands)	2011 Pension benefits	2010 Pension benefits	2011 Other benefits	2010 Other benefits
<b>Change in accrued benefit obligation</b>				
Accrued benefit obligation, beginning of year	\$ 317,978	\$ 262,880	\$ 40,862	\$ 27,095
Current service cost	12,814	9,672	2,837	1,850
Interest cost on benefit obligation	19,843	17,703	2,596	1,857
Contributions by employees	4,031	4,013	–	–
Benefits paid	(8,391)	(6,935)	(813)	(489)
Actuarial loss	38,068	30,645	6,980	10,549
Accrued benefit obligation, end of year	384,343	317,978	52,462	40,862
<b>Change in fair value of plan assets</b>				
Fair value of plan assets, beginning of year	289,480	235,798	–	–
Actual return on plan assets	24,941	32,753	–	–
Contributions by corporation	17,268	23,617	813	–
Contributions by employees	4,031	4,013	–	–
Benefits paid	(8,156)	(6,701)	(813)	–
Fair value of plan assets, end of year	327,564	289,480	–	–
Funded status – plan deficit	(56,779)	(28,498)	(52,462)	(40,862)
Unamortized past service cost	1,132	1,257	17	21
Unamortized net actuarial loss	88,360	57,679	12,586	5,717
Contributions by corporation after December 31	13,464	3,477	–	–
<b>Accrued benefit assets (liabilities), end of year</b>	<b>\$ 46,177 (a)</b>	<b>\$ 33,915 (a)</b>	<b>\$ (39,859) (b)</b>	<b>\$ (35,124) (b)</b>

(a) Recorded in other assets.

(b) Recorded in other liabilities.

### Plans with accrued benefit obligations in excess of plan assets

(\$ thousands)	2011 Pension benefits	2010 Pension benefits	2011 Other benefits	2010 Other benefits
Accrued benefit obligation	\$ 359,240	\$ 295,988	\$ 52,462	\$ 40,862
Fair value of plan assets	302,419	264,442	–	–
<b>Funded status – plan deficit</b>	<b>\$ (56,821)</b>	<b>\$ (31,546)</b>	<b>\$ (52,462)</b>	<b>\$ (40,862)</b>

## Defined benefit costs

(\$ thousands)	2011 Pension benefits	2010 Pension benefits	2011 Other benefits	2010 Other benefits
<b>Defined benefit costs</b>				
Current service cost	\$ 12,814	\$ 9,672	\$ 2,837	\$ 1,850
Interest cost on benefit obligation	19,843	17,703	2,596	1,857
Actual return on plan assets	(24,941)	(32,753)	–	–
Actuarial loss	38,068	30,645	6,980	10,549
Costs arising in period	45,784	25,267	12,413	14,256
<b>Adjustments for difference between costs arising in period and costs recognized in period</b>				
Return on plan assets	4,743 (a)	16,269 (a)	–	–
Actuarial loss	(35,424) (b)	(28,654) (b)	(6,869) (c)	(10,837) (c)
Past service cost	125	125	4	4
<b>Defined benefit costs recognized</b>	<b>\$ 15,228</b>	<b>\$ 13,007</b>	<b>\$ 5,548</b>	<b>\$ 3,423</b>

(a) Expected return on plan assets of \$(20,198) [2010 – \$(16,484)] less the actual return on plan assets of \$(24,941) [2010 – \$(32,753)] = \$4,743 [2010 – \$16,269].

(b) Actuarial loss recognized for year of \$2,644 [2010 – \$1,991] less actual actuarial loss on accrued benefit obligation for year of \$38,068 [2010 – \$30,645] = \$(35,424) [2010 – \$(28,654)].

(c) Actuarial loss (gain) recognized for year of \$111 [2010 – \$(288)] less actual actuarial loss on accrued benefit obligation for year of \$6,980 [2010 – \$10,549] = \$(6,869) [2010 – \$(10,837)].

## Significant assumptions

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

	2011 Pension benefits	2010 Pension benefits	2011 Other benefits	2010 Other benefits
<b>Accrued benefit obligation as at December 31</b>				
Discount rate	5.25%	6.00%	5.25%	6.00%
Rate of compensation increase	5.50%	5.50%	5.50%	5.50%
<b>Defined benefit costs for year ended December 31</b>				
Discount rate	6.00%	6.50%	6.00%	6.50%
Expected long-term rate of return on plan assets	7.00/3.75% (a)	7.00/3.75% (a)	–	–
Rate of compensation increase	5.50%	5.50%	5.50%	5.50%

(a) Registered pension plan/supplemental plans, respectively.

Assumed health care cost trend rates are as follows:

	2011	2010
<b>Extended health care and dental care cost escalation</b>		
Initial rate	9.00%	9.00%
Ultimate rate	5.00%	5.00%
Year ultimate rate reached	2020	2020

## Sensitivity analysis

The impact of changing the key weighted-average economic assumptions used in measuring the pension and other benefit costs are as follows:

(\$ thousands)	Pension benefits	Other benefits
<b>1% decrease in expected long-term rate of return on assets</b>		
Net benefit cost	\$ 3,070	\$ –
<b>1% decrease in discount rate</b>		
Total of service and interest costs	5,068	1,380
Accrued benefit obligation	81,568	11,931
<b>0.25% increase in rate of increase of future compensation</b>		
Total of service and interest costs	585	30
Accrued benefit obligation	3,758	191
<b>Assumed overall health care cost trend rates on aggregate of service and interest cost components for period</b>		
Impact of: 1% increase	–	1,184
1% decrease	–	(869)
<b>Assumed overall health care cost trend rates on accrued benefit obligation</b>		
Impact of: 1% increase	–	9,499
1% decrease	–	(7,174)

## Plan assets

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

	2011	2010
Equity securities	66.0%	63.0%
Debt securities	32.1%	33.9%
Other	1.9%	3.1%
	<b>100.0%</b>	<b>100.0%</b>

## Defined contribution plans

The cost of the defined contribution plans are recorded based on the contributions in the current year and are included in administration expenses. For the year ended March 31, 2011, the expense was \$3.8 million (2010 – \$3.9 million).

## Total cash payments

Total cash payments for employee future benefits, consisting of cash contributed by the corporation to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its defined contribution plan, were \$32.5 million (2010 – \$29.6 million).

Total cash payments for employee future benefits for 2012, as described in the preceding paragraph, are anticipated to be approximately \$20.6 million.

## 15. Borrowings

### Short-term debt

(\$ thousands)	2011	2010
Government of Canada debt	\$ 7,609,397	\$ 8,512,931
Retail and institutional notes	363,281	232,708
Promissory notes	57,242	64,768
	<b>\$ 8,029,920</b>	<b>\$ 8,810,407</b>

### Government of Canada debt

(\$ thousands)	2011	2010
Floating-rate borrowings	\$ 4,586,281	\$ 2,403,198
Fixed-rate borrowings	3,023,116	6,109,733
	<b>\$ 7,609,397</b>	<b>\$ 8,512,931</b>

### Retail and institutional notes

(\$ thousands)	2011	2010
Fixed-rate notes	\$ 363,281	\$ 232,708

### Short-term debt by currency

(\$ thousands)	2011	2010
Canadian dollars	\$ 7,972,678	\$ 8,745,639
United States dollars (1)	57,242	64,768
	<b>\$ 8,029,920</b>	<b>\$ 8,810,407</b>

(1) \$58.9 million USD (2010 – \$63.8 million USD).

### Short-term debt by final maturity date and yield

(\$ thousands)	From 0 – 3 months	From 4 – 6 months	From 7 – 9 months	From 10 – 12 months	2011	2010
<b>Government of Canada</b>						
Carrying value	\$ 5,032,054	\$ 731,410	\$ 770,667	\$ 1,075,266	\$ 7,609,397	\$ 8,512,931
Yield	1.05%	0.99%	0.94%	0.92%		
<b>Capital markets</b>						
Carrying value	199,489	34,848	–	186,186	420,523	297,476
Yield	2.84%	4.56%	–	4.16%		
	<b>\$ 5,231,543</b>	<b>\$ 766,258</b>	<b>\$ 770,667</b>	<b>\$ 1,261,452</b>	<b>\$ 8,029,920</b>	<b>\$ 8,810,407</b>

The corporation has a demand operating line of credit, which provides overdraft protection in the amount of \$30.0 million (2010 – \$30.0 million). Indebtedness under this agreement is unsecured and this credit facility does not expire. Any draws made throughout the year on this facility are reversed the next day. As at March 31, 2011, there were no draws on this facility (2010 – nil).

Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date.

## Long-term debt

(\$ thousands)	2011	2010
Government of Canada debt	\$ 10,049,888	\$ 7,481,354
Retail and institutional notes	865,983	1,440,910
Structured notes	6,128	26,500
	<b>\$ 10,921,999</b>	<b>\$ 8,948,764</b>

## Government of Canada debt

(\$ thousands)	2011	2010
Floating-rate borrowings	\$ 8,492,505	\$ 5,561,716
Fixed-rate borrowings	1,557,383	1,919,638
	<b>\$ 10,049,888</b>	<b>\$ 7,481,354</b>

## Retail and institutional notes

(\$ thousands)	2011	2010
Fixed-rate notes	\$ 445,287	\$ 814,765
Floating-rate notes	420,696	626,145
	<b>\$ 865,983</b>	<b>\$ 1,440,910</b>

## Structured notes

(\$ thousands)	2011	2010
Double-up coupon	\$ 5,861	\$ 6,179
Index-linked notes	267	276
Dual currency notes	–	11,768
Reverse floating-rate note	–	8,277
	<b>\$ 6,128</b>	<b>\$ 26,500</b>

The redemption of structured notes is controllable by the corporation. At the inception of a structured note, derivative swap agreements are entered into concurrently to economically hedge the embedded interest rate and currency exposure. In practice, the corporation will only redeem a structured note if the swap counterparty exercises its right to terminate the related derivative swap agreement. These derivative contracts ensure that the corporation will receive proceeds from the swap to meet the requirements of servicing and settling the debt obligation. The corporation has in substance created floating-rate debt by issuing notes at fixed rates and entering into swap contracts whereby the corporation receives fixed-rate interest and pays floating-rate interest, and vice versa. In swapping out of the underlying note issue, the potential market risk has been converted to credit risk. Credit exposure on derivative financial instruments is further discussed in Note 24.

The amount the corporation is contractually required to pay on structured notes at maturity is \$5.2 million, a \$0.8-million difference from its carrying value. The fair value change in structured notes attributable to changes in the corporation's credit risk in the current year is \$0.3 million and cumulatively, measured from the later of April 1, 2007 or the initial recognition of the structured notes, is \$0.2 million. The change in fair value attributable to changes in the corporation's credit risk has been calculated by using the Government of Canada Agency Curve as a proxy for the credit risk of the corporation. Using reasonable possible alternative assumptions for valuing structured notes would not have a material effect on the corporation's financial position or earnings.

**Long-term debt by currency**

(\$ thousands)	2011	2010
Canadian dollars	\$ 10,921,999	\$ 8,928,719
Japanese yen (1)	–	20,045
	<b>\$ 10,921,999</b>	<b>\$ 8,948,764</b>

(1) ¥0 billion JPY (2010 – ¥1.9 billion JPY).

**Long-term debt by final maturity date and yield**

(\$ thousands)	From 1 – 2 years	From 2 – 3 years	From 3 – 4 years	From 4 – 5 years	Over 5 years	2011	2010
<b>Government of Canada</b>							
Carrying value	\$ 3,370,598	\$ 3,180,427	\$ 2,570,992	\$ 700,936	\$ 226,935	\$ 10,049,888	\$ 7,481,354
Yield	1.22%	1.23%	0.99%	1.39%	2.73%		
<b>Capital Markets</b>							
Carrying value	244,625	152,273	–	107,951	367,262	872,111	1,467,410
Yield	4.15%	4.37%	–	4.37%	4.35%		
	<b>\$ 3,615,223</b>	<b>\$ 3,332,700</b>	<b>\$ 2,570,992</b>	<b>\$ 808,887</b>	<b>\$ 594,197</b>	<b>\$ 10,921,999</b>	<b>\$ 8,948,764</b>

**16. Other liabilities**

(\$ thousands)	2011	2010 Restated (Note 3)
Transition loan liabilities	\$ 84,245	\$ 83,182
Accrued benefit liability – other benefits (Note 14)	39,859	35,124
Reserve for insurance claims	6,970	4,412
Deferred revenues	2,212	2,201
Other	842	1,720
	<b>\$ 134,128</b>	<b>\$ 126,639</b>

## 17. Net interest income

(\$ thousands)	2011	2010
<b>Interest income</b>		
Loans and receivables	\$ 918,127	\$ 795,604
Transfer of net realized gains on derivatives designated as cash flow hedges from AOCI to net income	21,060	16,896
Temporary investments designated as AFS	7,964	2,369
Venture capital investments designated as HFT	881	2,103
Operating leases	711	414
Other venture capital investments	687	1,397
Finance leases	199	85
Foreign exchange loss on loans and receivables	(2,979)	(15,539)
Total interest income	946,650	803,329
<b>Interest expense</b>		
Long-term borrowings classified as other liabilities	206,163	244,897
Short-term borrowings classified as other liabilities	31,265	12,691
Borrowings designated as HFT	531	1,726
Derivative assets and liabilities designated as HFT (net)	(233)	(1,317)
Foreign exchange gain on short-term borrowings classified as other liabilities (net)	(3,026)	(15,374)
Hedging derivative assets and liabilities designated as cash flow hedges (net)	(26,544)	(49,173)
Total interest expense	208,156	193,450
<b>Net interest income</b>	<b>\$ 738,494</b>	<b>\$ 609,879</b>

The total net fee income (expense) that is recognized immediately in net interest income arising from financial assets and liabilities not classified as held for trading is \$1.9 million (2010 – \$(1.3) million).

## 18. Administration expenses

(\$ thousands)	2011	2010
Personnel	\$ 160,575	\$ 156,515
Facilities, software and equipment	47,053	39,667
Professional fees	30,540	29,616
Travel and training	14,306	13,044
Marketing and promotion	9,461	9,669
Other	8,866	6,654
	<b>\$ 270,801</b>	<b>\$ 255,165</b>

## 19. Fair value adjustment

(\$ thousands)	2011	2010
Ineffectiveness of cash flow hedges	\$ 3,987	\$ 11,541
Derivative assets and liabilities designated as HFT	2,936	(10,809)
Guarantees	87	(22)
Venture capital investments designated as HFT	(336)	158
Other venture capital investments held at fair value	(820)	(4,186)
Long-term debt designated as HFT	(2,408)	9,886
	<b>\$ 3,446</b>	<b>\$ 6,568</b>

## 20. Fair value of financial instruments

### Financial instruments carried at fair value

The corporation 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 tables categorize the inputs used in the valuation of financial instruments carried at fair value:

(\$ thousands)	2011			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Temporary investments	\$ -	\$ 284,162	\$ -	\$ 284,162
Derivative assets	-	46,483	924	47,407
FCC Fund venture capital investments	78	-	9,055	9,133
Avrio Fund venture capital investments	1,800	-	37,505	39,305
	<b>\$ 1,878</b>	<b>\$ 330,645</b>	<b>\$ 47,484</b>	<b>\$ 380,007</b>
<b>Liabilities</b>				
Derivative liabilities	\$ -	\$ 4,724	\$ -	\$ 4,724
Structured notes	-	-	6,128	6,128
	<b>\$ -</b>	<b>\$ 4,724</b>	<b>\$ 6,128</b>	<b>\$ 10,852</b>

(\$ thousands)	2010			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Temporary investments	\$ -	\$ 199,818	\$ -	\$ 199,818
Derivative assets	-	65,585	1,360	66,945
FCC Fund venture capital investments	204	-	22,868	23,072
Avrio Fund venture capital investments	1,900	-	27,042	28,942
	<b>\$ 2,104</b>	<b>\$ 265,403</b>	<b>\$ 51,270</b>	<b>\$ 318,777</b>
<b>Liabilities</b>				
Derivative liabilities	\$ -	\$ 4,591	\$ 2,252	\$ 6,843
Structured notes	-	-	26,500	26,500
	<b>\$ -</b>	<b>\$ 4,591</b>	<b>\$ 28,752</b>	<b>\$ 33,343</b>

### Level 3 financial instruments

The following tables summarize the fair value and other changes to financial instruments included in the Level 3 valuation hierarchy that occurred during the year. There have been no transfers between Level 1 and Level 2 during the current fiscal year.

(\$ thousands)	2011				
	Derivative assets and liabilities	FCC Fund venture capital investments	Avrio Fund venture capital investments	Structured notes	Total
Balance, beginning of year	\$ (892)	\$ 22,868	\$ 27,042	\$ (26,500)	\$ 22,518
Total gains (losses) recognized in fair value adjustment (1)	1,897	(212)	(720)	(2,408)	(1,443)
Change in accrued interest	(81)	(520)	247	76	(278)
Acquisitions	–	–	10,936	–	10,936
Repayments	–	(13,081)	–	22,704	9,623
<b>Balance, end of year</b>	<b>\$ 924</b>	<b>\$ 9,055</b>	<b>\$ 37,505</b>	<b>\$ (6,128)</b>	<b>\$ 41,356</b>

(1) Net unrealized losses relating to instruments still held at the reporting date recognized in the fair value adjustment amount to \$2.2 million.

(\$ thousands)	2010				
	Derivative assets and liabilities	FCC Fund venture capital investments	Avrio Fund venture capital investments	Structured notes	Total
Balance, beginning of year	\$ 11,634	\$ 30,838	\$ 22,236	\$ (241,018)	\$ (176,310)
Total (losses) gains recognized in fair value adjustment (1)	(10,538)	734	(4,186)	(9,886)	(23,876)
Change in accrued interest	(1,988)	(302)	(120)	–	(2,410)
Acquisitions	–	290	9,112	–	9,402
Repayments	–	(8,692)	–	224,404	215,712
<b>Balance, end of year</b>	<b>\$ (892)</b>	<b>\$ 22,868</b>	<b>\$ 27,042</b>	<b>\$ (26,500)</b>	<b>\$ 22,518</b>

(1) Net unrealized gains relating to instruments still held at the reporting date recognized in the fair value adjustment amount to \$1.9 million.

### Financial instruments not carried at fair value

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

(\$ thousands)	2011		2010 Restated (Note 3)	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
<b>Assets</b>				
Loans receivable – net	\$ 20,748,432	\$ 20,930,067	\$ 19,159,940	\$ 19,358,250
Finance leases receivable – net	4,912	4,942	2,827	2,852
Venture capital investments – significant influence	9,586	23,215	7,973	15,181
<b>Liabilities</b>				
Long-term debt excluding structured notes	10,915,871	10,998,293	8,922,264	9,021,227

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 is assumed to equal carrying value. The general component of the 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 their net realizable value, which is calculated by subtracting the specific component of the 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 general component of the allowance for credit losses related to finance leases receivable is subtracted from the estimated fair value of the finance leases receivable.

Venture capital investments in shares of privately held companies under significant influence are valued based on guidelines issued by the venture capital industry, using market-based valuation methodologies. Estimated fair value for venture capital debt investments under significant influence is calculated by discounting contractual cash flows at interest rates prevailing at year-end with equivalent terms to maturity.

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, or by utilizing quoted market prices where available.

For all other financial instruments carried at amortized cost, the carrying value is assumed to approximate fair value due to the relatively short period to maturity of these instruments. This applies to cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, other assets, short-term debt and other liabilities.

## 21. Commitments, guarantees and contingent liabilities

### Loan and venture capital commitments

As at March 31, 2011, loans approved but undisbursed amounted to \$2,821.8 million (2010 – \$2,720.9 million). These loans were approved at an average interest rate of 4.25% (2010 – 3.56%) and do not form part of the loans receivable balance until disbursed. As many of these loan approvals will expire or terminate without being drawn upon, the contract amounts do not necessarily represent future cash requirements. These outstanding commitments do not generate liquidity risk to the corporation because it has sufficient funds available from the Government of Canada to meet its future cash requirements. The Government of Canada makes short-term and long-term funding available to the corporation through the Crown Borrowing Program. As at March 31, 2011, the corporation did not have any venture capital investments that were approved but undisbursed (2010 – nil).

## Operating commitments

Future minimum payments by fiscal year on technology services and operating leases are due as follows:

(\$ thousands)

<b>Amounts due</b>	
Within 1 year	\$ 23,591
From 1 – 2 years	14,164
From 2 – 3 years	12,613
From 3 – 4 years	8,283
From 4 – 5 years	3,855
Over 5 years	5,837
	<b>\$ 68,343</b>

## Guarantees

In the normal course of its business, the corporation 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, 2011, is \$2.5 million (2010 – \$3.7 million). In the event of a call on these letters of credit, the corporation has recourse in the form of security against its customers for amounts to be paid to the third party. Existing items will expire within three years, usually without being drawn upon. As at March 31, 2011, the amount recorded in other liabilities for these letters of credit was nil (2010 – \$0.1 million).

## Contingent liabilities

Various legal proceedings arising from the normal course of business are pending against the corporation. No amount has been included in the consolidated financial statements as at March 31, 2011, for these contingent liabilities as management does not expect the outcome to have a significant effect on the financial statements.

In the normal course of operations, the corporation 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 the corporation compensate the counterparty to the agreement for various costs resulting from breaches of representations or obligations. The corporation also indemnifies directors, officers and employees, to the extent permitted by law and the corporation'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, thus the corporation is unable to determine a reasonable estimate of the maximum potential amount the corporation could be required to pay to counterparties. Historically, the corporation has not made any payments under such indemnifications. No amount has been included in the consolidated financial statements as at March 31, 2011, for these indemnifications.

## 22. Related party transactions

The corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. Transactions with these entities were entered into in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Items included in the consolidated financial statements are as follows:

(\$ thousands)	2011	2010
Loans receivable	\$ 10	\$ –
Accounts payable	265	56
Short-term debt	7,609,397	8,512,930
Long-term debt	10,049,888	7,481,354
Interest income	66	–
Interest expense	155,800	89,643
Provision for credit losses	631	6,153
Administration expenses	5,913	5,355
Dividend	18,500	18,600

The Government of Canada guarantees the borrowings of the corporation.

The corporation enters into certain loans with customers whereby the Government of Canada subsidizes the total interest due on the respective loans for an 18-month period. Accrued interest receivable and interest income on these loans is recorded in loans receivable and interest income, respectively.

The corporation enters into short-term and long-term borrowings with the Government of Canada through the Crown Borrowing Program. Interest accrued and incurred on these borrowings is recorded in accrued interest on borrowings and interest expense, respectively.

The corporation receives government assistance to share the credit losses on certain loans with the Government of Canada. The government assistance is recorded in provision for credit losses. The amount estimated to be returned to the Government of Canada is recorded in long-term debt as detailed in Note 2.

The corporation pays numerous other administrative business costs to Government of Canada departments, agencies and Crown corporations, which are included in administrative expenses. The balance outstanding at year-end related to these costs is included in accounts payable.

The corporation pays a dividend to the Government of Canada on an annual basis, as detailed in Note 23.

## 23. Capital management

The corporation's objectives when managing capital are:

- to generate a sufficient rate of return from operations to remain financially self-sustaining and to fund growth and strategic initiatives.
- to have the capability to withstand market fluctuations intrinsic to the agriculture industry while continuing to support its customers through all economic cycles.
- to comply with its external covenant imposed by the Farm Credit Canada Act that restricts the total direct and contingent liabilities of the corporation to 12 times its equity. This limit can be increased to 15 times its equity with the prior approval of the Governor-in-Council.

There has been no change to the corporation's objectives, policies or procedures for managing capital from the prior year.

The capital of the corporation consists of allowance for credit losses, contributed surplus, retained earnings and AOCI. One of the measures that the corporation reviews is the percentage of assets not requiring borrowings. The corporation's level of capitalization and the percentage of gross assets not requiring borrowings are as follows:

(\$ thousands)	2011	2010 Restated (Note 3)
Allowance for credit losses	\$ 586,188	\$ 610,465
Contributed surplus	547,725	547,725
Retained earnings	2,025,725	1,584,266
Accumulated other comprehensive income	181,804	203,603
Non-controlling interest in variable interest entity	13,376	9,461
<b>Total capitalization</b>	<b>\$ 3,354,818</b>	<b>\$ 2,955,520</b>
Gross assets	\$ 22,496,245	\$ 20,896,792
<b>Capitalization as a percentage of gross assets</b>	<b>14.91%</b>	<b>14.14%</b>

### Limits on borrowing

As at March 31, 2011, the corporation's total direct and contingent liabilities were 7.4 times the shareholder's equity, excluding AOCI (2010 – 8.4 times the shareholder's equity, excluding AOCI), which was within the limit established by the Farm Credit Canada Act.

### Contributed surplus

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

As of March 31, 2011, capital payments received from the Government of Canada amounted to \$1,208.3 million (2010 – \$1,208.3 million). The statutory limit for that same period was \$1,250.0 million (2010 – \$1,250.0 million).

### Dividend

On August 18, 2010, the corporation's Board of Directors declared a dividend based on the results of the year ended March 31, 2010, in the amount of \$18.5 million (2010 – \$18.6 million based on the year ended March 31, 2009) to the corporation's shareholder, the Government of Canada, which was paid on March 16, 2011.

## 24. Risk management

### Risk governance

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

The Audit Committee assists the Board of Directors in fulfilling its responsibilities by ensuring management has identified key risks and has put in place policies, control systems and practices to manage these risks. The Audit Committee receives semi-annual reports from management outlining major risk areas and corresponding risk management measures implemented to provide assurance that the corporation is effectively managing risk.

### Financial risk management

The corporation has identified the major categories of financial risk to which it is exposed as being credit risk and market 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 its financial obligations to the corporation. Credit risk on loans is the most significant risk that the corporation faces.

#### Management of credit risk

The Board of Directors has overall responsibility for the management of credit risk and relies on a number of divisions and committees to effectively manage credit risk that impacts the corporation.

Portfolio and Credit Risk conducts industry, economic and portfolio analysis and reports to the various risk committees, including the Audit Committee. A number of areas within this division are involved in managing credit risk at the corporation. They include:

- Portfolio Analysis and Modelling is responsible for management, design and development of lending and credit risk-related models, lending scorecards and tools and makes recommendations to the Asset Liability Committee to ensure these models, scorecards and tools appropriately balance risk mitigation, growth and profitability.
- Credit Policy and Process Management is responsible for management of the corporation's credit policies and makes recommendations to the Credit Policy Committee to ensure there is an appropriate balance between risk mitigation, profitability and growth. It also reviews, enhances and clarifies credit policies and communicates policy changes to staff. Credit Policy and Process Management provides ongoing interpretation of policy in relation to general and specific lending situations.
- Credit Risk manages risk for larger loans as well as loans above established risk thresholds. It is responsible for credit-related delegation of authorities, credit education, coaching and credit authorization. Special Credit is a function within Credit Risk that manages and resolves higher-risk accounts experiencing challenges through intensive management of accounts, arrears collection and recovery actions.
- Corporate Credit is responsible for credit education, coaching and credit authorization for larger loan applications, including Credit Committee recommendations.
- Valuation researches land sales, maintains benchmark data on land values and appraises the value of the corporation's security with particular emphasis on specialized enterprises and agribusinesses.

Operations is delegated authorities over lending and is responsible for managing credit risk on loans in its portfolio. Authority is granted on the basis of credit training and demonstrated competence, and credit decisions are made at an authority level appropriate to the size and risk of each loan. The division monitors customer and loan performance throughout the life of the loan through ongoing account management as well as the account review process.

Treasury is responsible for managing counterparty credit risk related to derivative and investment activities. The division reviews counterparty credit rating actions and financial performance.

The following committees are involved in the management of credit risk at the corporation:

- Asset Liability Committee (ALCO) directs the asset/liability management function, including the establishment and maintenance of portfolio risk management policies and procedures, loan pricing direction, integration with corporate strategies and achievement of portfolio return targets.
- Credit Policy Committee oversees the development of lending policies and ensures they reflect the corporation's credit risk tolerance, industry best practices and compliance with federal, provincial and regional laws and regulations.
- Credit Committee reviews and makes lending decisions on loan applications in excess of prescribed limits.
- Venture Capital Investment Committee adjudicates investment recommendations and reviews the performance of FCC Fund venture capital investments.

#### **Measurement of credit risk**

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

Policies, processes, systems and strategies are used to manage credit risk of the corporation's portfolio. Each year, Portfolio and Credit Risk presents a comprehensive portfolio vision that summarizes many of these tools, models and strategies to the Board of Directors for approval. Numeric targets associated with many of these tools are set annually to assist in achieving the portfolio vision.

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

#### **Economic capital**

The corporation monitors available capital less credit economic capital requirements. Economic Capital models are widely used by financial institutions to measure loan portfolio risk, and are considered best practice by the International Association of Credit Portfolio Managers. The main benefits of an Economic Capital model are to:

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

### Portfolio diversification plan

The portfolio diversification plan outlines the desired range for portfolio composition in five years, including diversification across enterprises, geographical areas and business lines. The desired range is evaluated against other realistically achievable scenarios considering growth, profit, risk and market share impacts.

In addition, each year, the portfolio vision also establishes customer exposure limits and approval authorities.

### Risk scoring and pricing system

The risk scoring and pricing system (RSPS) is used to rank risk for loans in the corporation's portfolio. Risk ranking is based on customer, loan and enterprise characteristics, and generates scores ranging from 400 to 999 points. Each score translates into a probability of default. The higher the score, the lower the probability of default. RSPS is also used to price loans.

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

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

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

The target risk score for the corporation's portfolio for new lending is 770. The portfolio's current risk score for new lending is 803 (2010 – 781) and the portfolio's overall risk score is 803 (2010 – 800).

### Loan loss model

The loan loss model estimates the losses within the portfolio due to credit risk. There are two components to the loan loss model: specific and general. The specific loan losses are determined for non-performing loans that have met both of the following criteria:

- greater than \$500 in arrears for 90 days or more
- security insufficient to fully recover amounts outstanding

General loan losses are calculated losses on loans within the portfolio that have met at least one of three indicators of impairment:

- arrears of \$500 or greater but not more than 90 days
- an adjustment to the terms of the loan in the past year
- a drop in the RSPS risk score of 15 or more points in the past year

The general allowance is also based on those losses that have been incurred but have not yet exhibited evidence of the loss. Based on historical experience, there is an emergence period of when impairment occurs to when it becomes evident in the portfolio. From the emergence period, migration rates are used to determine incurred losses within the portfolio that are not yet evident. For all components of the loss model, the model considers the security position to estimate the appropriate amount of loss allowance.

On a monthly basis, ALCO is provided with a report that illustrates various measures of the loan portfolio's credit risk on an overall basis, by industry enterprise and by business line. Macro measures that demonstrate the health of the portfolio are as follows:

	2011	2010
Weighted-average loan-to-security ratio for secured portfolio	57.8%	57.6%
Unsecured portfolio as a percentage of total owing	2.3%	2.6%
Arrears as a percentage of total owing	2.1%	2.5%
Portfolio adjusted over past 12 months as a percentage of total owing	5.8%	4.2%

### Collateral

The corporation mitigates its credit risk by employing policies and practices in terms of collateral requirements. Credit policy establishes collateral guidelines and standards. The corporation monitors the portfolio by reviewing the loan-to-security ratio, both on an overall portfolio basis and by enterprise. Upon initial recognition of a loan, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets at intervals prescribed by policy. The form of collateral obtained is generally real estate, quotas or equipment, depending on the purpose of the loan.

### Loan commitments

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk, the corporation is potentially exposed to loss in an amount equal to the total unused commitments. See Note 21 for further details regarding the corporation's loan commitments.

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

(\$ thousands)	2011	2010 Restated (Note 3)
<b>On-balance sheet assets</b>		
Temporary investments	\$ 284,162	\$ 199,818
Accounts receivable	12,676	32,802
Derivative assets	47,407	66,945
Loans receivable	20,748,432	19,159,940
Finance leases receivable	4,912	2,827
Venture capital investments	58,024	59,987
Other assets	3,651	3,226
<b>Off-balance sheet assets</b>		
Financial guarantees	2,513	3,703
Loan commitments	2,821,811	2,720,946
	<b>\$ 23,983,588</b>	<b>\$ 22,250,194</b>

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

**Loans receivable*****Loans receivable in arrears but not impaired***

A loan is considered to be in arrears when a customer has not made a payment by the contractual due date and the amount owing is greater than \$500, with the exception of loans that have matured and were current with their payments on the maturity date. Loans less than 90 days in arrears are not considered impaired, unless other information is available to the contrary. As well, loans in arrears are not considered impaired if there is adequate security and collection efforts are reasonably expected to result in full repayment. The longer that the customer is in arrears and interest continues to accrue, the greater the risk that the recoverable amount from the security value is less than the carrying amount of the loan. Gross amounts of loans that were in arrears but not impaired were as follows:

(\$ thousands)	2011	2010
<b>In arrears but not impaired</b>		
Up to 30 days	\$ 72,472	\$ 74,278
31 – 60 days	90,864	102,277
61 – 89 days	62,339	48,531
90 days or more	91,106	118,213
	<b>\$ 316,781</b>	<b>\$ 343,299</b>

***Loans receivable neither in arrears nor impaired***

The credit quality of loans that were neither in arrears nor impaired can be assessed by reference to the corporation's RSPS scores. Total owing for each RSPS score bucket as a percentage of total owing that is neither in arrears nor impaired is as follows:

	2011	2010
<b>RSPS score</b>		
400 – 650	1.1%	1.3%
651 – 769	18.7%	20.4%
770 – 850	61.6%	59.5%
851 – 999	18.6%	18.8%
	<b>100.0%</b>	<b>100.0%</b>

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 and these represent less than 1.0% of the corporation's total portfolio.

***Renegotiated loans receivable***

Renegotiating activities include payment schedule adjustments and deferred payment options. Renegotiated loans that would otherwise be in arrears or impaired are \$1,247.2 million (2010 – \$826.7 million).

***Real estate property acquired***

During 2011, the corporation acquired real estate property from customers in settlement of loan commitments with a carrying value of \$2.2 million (2010 – \$2.0 million). Real estate property acquired is sold as soon as practicable, with the proceeds used to reduce the outstanding customer loan balance.

**Counterparty credit risk – derivatives and temporary investments**

Credit risk arises from the potential for a counterparty to default on its contractual obligation to the corporation. To mitigate this risk, the corporation complies with the guidelines issued by the Minister of Finance by entering into derivatives with counterparties of high credit quality only, as determined by the published ratings of external credit rating agencies. Counterparty credit risk is managed via the corporation's Board-approved counterparty credit risk guidelines, which specify the maximum exposure that the corporation will accept for each level of credit rating.

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

The counterparty derivative obligation may arise when market-related currency and interest factors change, resulting in unrealized gains to the corporation. These unrealized gains result in positive fair values for these derivative instruments. The corporation 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. Credit Support Annex (CSA) documentation is also in place with most of the corporation's counterparties. These agreements are addendums to existing ISDA documentation and further specify the conditions for providing the corporation with collateral in the event that 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 (Standard & Poor's, Moody's or DBRS). See Note 5 and Note 15 for the quantification of counterparty credit risk.

ALCO and the Board of Directors have established an investment policy that sets minimum credit ratings for temporary investments and limits the size and composition of the total investment portfolio. For temporary investment activity with term to maturity equal to or less than one year, counterparties must have a minimum short-term credit rating of A1+/R1-low/P-1 from two or more external credit rating agencies. The actual credit ratings will determine the maximum face amount of investments per counterparty.

The corporation has controls and policies in place to protect against and minimize loss due to counterparty default. The Treasury division reviews credit ratings and counterparty financial performance regularly and recommends policy changes to ALCO and the Board of Directors.

**Venture capital debt investments**

The corporation is exposed to credit risk through its venture capital debt investments. The corporation manages credit risk through thoughtful planning, strict investment criteria, significant due diligence of investment opportunities and by conducting activities in accordance with investment policies. The Investment Manager monitors and reports on the financial condition of investee companies regularly.

**b) Market risk**

Market risk is the potential for financial loss to the corporation as a result of adverse changes in underlying market factors, such as interest rates and foreign exchange rates associated with investments, and the corporation's exposure to liquidity risk.

The corporation has market risk policies and limits to ensure exposures to interest rate, foreign exchange and liquidity risks are identified, measured, managed and reported on a timely basis. Market risk policies are regularly reviewed by ALCO and are approved by the Board of Directors. The corporation's policies and processes are based on industry best practices and the *Minister of Finance Financial Risk Management Guidelines for Crown Corporations*. The Treasury division is responsible for implementing market risk management directives and reports regularly to ALCO and the Board of Directors on its activities and asset/liability position.

**Interest rate risk**

Interest rate risk is the risk that a change in interest rate adversely impacts the corporation's net interest income and economic value. Interest rate risk arises from interest rate mismatches between assets and liabilities and embedded options. Interest rate mismatches occur because of different maturity and re-pricing 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/liability model. Various scenarios are produced at least monthly to analyze the sensitivity of net interest income and market values to changes in interest rates and balance sheet assumptions. The asset/liability model is back-tested and validated to ensure that the logic and assumptions used in the model are reasonable when compared to actual results.

Interest rate risk management is governed by policy, which has defined limits based on the impact of a 2.0% change in interest rates. The defined limit for variability of net interest income is that for the next 12-month period, net interest income should not decline by more than 10.0%. The second defined limit is that the market value of portfolio equity should not decline by more than 10.0% of total equity (excluding accumulated other comprehensive income) for a 2.0% immediate and sustained change in the level and term structure of interest rates. Based on the corporation's financial position as at March 31, 2011, assuming an immediate and sustained 2.0% change in interest rates occurs across all maturities and curves, net interest income and the market value of portfolio equity would be affected over the next 12 months as follows:

(\$ thousands)	2011		2010	
	Impact of		Impact of	
	2%	0.85%	2%	0.25%
	increase	decrease (1)	increase	decrease (1)
Net interest income variability	\$ 5,919	\$ (2,674)	\$ 7,692	\$ (1,013)
Limit	78,922	(78,922)	73,972	(73,972)
Market value of portfolio equity variability	(188,100)	80,600	(145,047)	18,668
Limit	(257,344)	257,344	(213,199)	213,199

(1) The lowest rate on the yield curves used in the model was 0.85% (2010 – 0.25%) to avoid using negative rates.

The corporation has a third defined limit that addresses its exposure to commitment risk. Commitment risk is the risk that interest rates rise after the corporation has committed to a lower interest rate to the customer. The policy states that the decline in the market value of the interest guarantees on new loans and renewals cannot exceed 0.5% of total equity (excluding accumulated other comprehensive income) for a 0.5% increase in rates. The net decrease in market value of undisbursed loans if there was a 0.5% rate increase was \$2.5 million as at March 31, 2011 (2010 – \$2.8 million), which was within the policy limit of \$10.1 million (2010 – \$10.7 million).

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

(\$ thousands)	Immediately rate-sensitive	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest- sensitive	Total
<b>Assets</b>							
Cash and cash equivalents	\$ –	\$ 583,738	\$ –	\$ –	\$ –	\$ 18,102	\$ 601,840
Yield (1)	–	1.08%	–	–	–	–	–
Temporary investments	–	284,155	–	–	–	7	284,162
Yield (1)	–	1.12%	–	–	–	–	–
Derivative assets (3)	–	–	–	–	–	47,407	47,407
Loans receivable – net	14,379,174	722,171	1,244,422	3,979,077	748,647	(325,059)	20,748,432
Yield (1)	3.91%	6.34%	5.90%	5.70%	6.10%	–	–
Finance leases receivable – net	–	224	1,152	3,620	–	(84)	4,912
Yield (1)	–	5.78%	5.78%	5.78%	–	–	–
Venture capital investments	2,377	93	1,985	9,098	–	44,471	58,024
Yield (1)	10.50%	20.00%	10.00%	10.65%	–	–	–
Other	–	–	–	–	–	165,280	165,280
<b>Total assets</b>	<b>\$ 14,381,551</b>	<b>\$ 1,590,381</b>	<b>\$ 1,247,559</b>	<b>\$ 3,991,795</b>	<b>\$ 748,647</b>	<b>\$ (49,876)</b>	<b>\$ 21,910,057</b>
<b>Liabilities and equity</b>							
Non-structured borrowings	\$ –	\$ 16,247,409	\$ 329,967	\$ 1,808,275	\$ 512,371	\$ 47,769	\$ 18,945,791
Yield (1)	–	0.96%	3.49%	3.31%	4.12%	–	–
Structured borrowings	–	–	–	5,186	–	942	6,128
Yield (1)	–	–	–	4.60%	–	–	–
Total borrowings	–	16,247,409	329,967	1,813,461	512,371	48,711	18,951,919
Derivative liabilities (2)(3)	–	1,093,578	(350,000)	(446,278)	(297,300)	4,724	4,724
Yield (1)	–	1.22%	1.37%	2.34%	4.52%	–	–
Other	–	–	–	–	–	198,160	198,160
Shareholder's equity	–	–	–	–	–	2,755,254	2,755,254
<b>Total liabilities and equity</b>	<b>\$ –</b>	<b>\$ 17,340,987</b>	<b>\$ (20,033)</b>	<b>\$ 1,367,183</b>	<b>\$ 215,071</b>	<b>\$ 3,006,849</b>	<b>\$ 21,910,057</b>
<b>Total gap 2011</b>	<b>\$ 14,381,551</b>	<b>\$(15,750,606)</b>	<b>\$ 1,267,592</b>	<b>\$ 2,624,612</b>	<b>\$ 533,576</b>	<b>\$ (3,056,725)</b>	<b>\$ –</b>
<b>Total cumulative gap 2011</b>	<b>\$ 14,381,551</b>	<b>\$ (1,369,055)</b>	<b>\$ (101,463)</b>	<b>\$ 2,523,149</b>	<b>\$ 3,056,725</b>	<b>\$ –</b>	<b>\$ –</b>
Total gap 2010	\$ 12,910,440	\$(13,742,619)	\$ 905,970	\$ 2,115,636	\$ 480,209	\$ (2,669,636)	\$ –
Total cumulative gap 2010	\$ 12,910,440	\$ (832,179)	\$ 73,791	\$ 2,189,427	\$ 2,669,636	\$ –	\$ –

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

(2) Represents notional principal amounts on derivatives.

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

### Foreign exchange risk

The corporation 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.

The corporation's policy is to mitigate foreign exchange risk. 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. The Board of Director's policy limit for the foreign currency funding to foreign currency asset hedge ratio is a range of 90% to 110%. The corporation's actual ratio as at March 31, 2011, is 98.4% (2010 – 99.0%).

### Derivatives

The corporation uses derivatives to hedge interest rate and foreign exchange risk. Derivatives alter the risk profile of the balance sheet by reducing mismatches of assets and liabilities, while ensuring interest rate risk and foreign exchange risk are managed within policy limits.

When derivative transactions qualify for hedge accounting, derivatives are designated as cash flow hedges and are accounted for as described in Note 2. Derivative transactions that do not qualify for hedge accounting are still considered economic hedges. Economic hedges that do not qualify for hedge accounting may lead to net income volatility because the derivatives are recorded at fair value and this volatility may not be representative of the overall risk.

### Liquidity risk

Liquidity risk is the risk that the corporation cannot meet a demand for cash or fund its obligations at a reasonable cost as they become due.

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

The corporation maintains liquidity through:

- a liquid investment portfolio – cash and cash equivalents, and temporary investments of \$886.0 million were on hand as at March 31, 2011 (March 31, 2010 – \$827.8 million)
- access to short-term funding – the corporation's access to funding through the Crown Borrowing Program and capital markets provides the corporation with sufficient liquidity to meet daily cash requirements
- access to a \$30.0-million bank operating line of credit

The following tables show the undiscounted cash flows of the corporation'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. The corporation's expected cash flows on certain instruments varies significantly from this analysis. For example, certain borrowings that may be prepaid by the corporation have not been included in their earliest possible maturities due to being impracticable to estimate.

## Residual contractual maturities of financial liabilities

		2011					
(\$ thousands)	Carrying amount	Gross nominal inflow (outflow)	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years
<b>Non-derivative liabilities</b>							
Borrowings	\$ 18,951,919	\$(18,949,344)	\$ (2,294,261)	\$ (2,968,427)	\$ (2,797,777)	\$(10,303,461)	\$ (585,418)
<b>Derivative liabilities</b>							
Carrying amount	4,724	–	–	–	–	–	–
Cash inflows	–	22,957	–	980	5,786	16,191	–
Cash outflows	–	(27,998)	–	(783)	(4,605)	(22,610)	–
	<b>\$ 18,956,643</b>	<b>\$(18,954,385)</b>	<b>\$ (2,294,261)</b>	<b>\$ (2,968,230)</b>	<b>\$ (2,796,596)</b>	<b>\$(10,309,880)</b>	<b>\$ (585,418)</b>
		2010					
(\$ thousands)	Carrying amount	Gross nominal inflow (outflow)	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years
<b>Non-derivative liabilities</b>							
Borrowings	\$ 17,759,171	\$(17,756,713)	\$ (5,386,251)	\$ (1,353,378)	\$ (2,134,346)	\$ (7,920,645)	\$ (962,093)
<b>Derivative liabilities</b>							
Carrying amount	6,843	–	–	–	–	–	–
Cash inflows	–	33,408	–	99	10,200	23,109	–
Cash outflows	–	(36,773)	–	(94)	(5,126)	(31,553)	–
	<b>\$ 17,766,014</b>	<b>\$(17,760,078)</b>	<b>\$ (5,386,251)</b>	<b>\$ (1,353,373)</b>	<b>\$ (2,129,272)</b>	<b>\$ (7,929,089)</b>	<b>\$ (962,093)</b>

## 25. Segmented information

The corporation is organized and managed as a single business segment, that being agriculture lending. The operation is viewed as a single segment for purposes of resource allocation and assessing performance. All of the corporation's revenues are within Canada. No one customer comprises more than 10.0% of the corporation's loans receivable or interest revenues.

## 26. Comparative figures

Certain 2010 comparative figures have been reclassified to conform to the current year's presentation.

# Glossary

## Agribusiness and agri-food financing

Includes customers who are suppliers or processors who are selling to, buying from and otherwise serving primary producers. These include equipment manufacturers and dealers, input providers, wholesalers, marketing firms and processors.

## Alliances

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

## Allowance for credit losses

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

## Arrears

All amounts that are past due by more than \$500 on a loan, including impaired loans, with the exception of amounts that became due on or after the loan's maturity date.

## Basis point

One hundredth of 1%, used when describing applicable interest rates or the yield of an investment (1 bps = 0.01%).

## Corporate social responsibility (CSR)

A company's commitment to operating 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 risk

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

## Credit rating

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

## Crown borrowing program

Direct lending provided to the corporation by the federal government.

## Customer support program

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

## Debt-to-equity ratio

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

## Derivative financial instrument

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

## Effective interest rate 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.

**Enterprise**

Specific type of agricultural operation (dairy, cash crops, beef, etc.).

**Enterprise risk management**

The enterprise-wide application of co-ordinated activities that direct and control an organization with respect to risk.

**Fair value**

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

**Foreign exchange risk**

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

**Hedge**

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

**Impaired loans**

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

**Interest and currency rate swaps**

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

**Interest expense**

Expense to the corporation incurred on debt.

**Interest income**

Income earned on loans receivable, cash and investments.

**Interest rate risk**

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

**Leverage**

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

**Loan renewal rate**

Percentage ratio of principal dollars renewed to principal dollars matured.

**Net disbursements**

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

**Net interest income (NII)**

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

**Net interest income margin**

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

**Notional amount**

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

**Other comprehensive income (OCI)**

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

**Prepayments**

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

**Primary production financing**

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

**Principal not due (PND)**

The principal balance owing on loans. PND is a useful measure of growth between business lines, geographic areas and enterprises. It excludes items such as arrears and interest accruals that are normally included in loans receivable.

**Provision for credit losses**

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 shareholder of parent entity expressed as a percentage of total average equity excluding accumulated other comprehensive income.

**Risk scoring and pricing system (RSPS)**

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

**Value-added**

Agriculture businesses on the input or output side of primary production that produce, transport, store, distribute, process or add value to agriculture commodities.

**Variable interest entity**

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

**Sources for agriculture facts and figures**

We consulted online and print publications from the following sources to provide the fast facts about agriculture that you'll find throughout this report and on the inside front and back covers:

- Agriculture and Agri-Food Canada ([www.agr.gc.ca](http://www.agr.gc.ca))
- Animal Cell Technology Industrial Platform ([www.actip.org](http://www.actip.org))
- Beef Information Centre ([www.beefinfo.org](http://www.beefinfo.org))
- Canada Pork International ([www.canadapork.com](http://www.canadapork.com))
- Canola Council of Canada ([www.canolacouncil.org](http://www.canolacouncil.org))
- Flax Council of Canada ([www.flaxcouncil.ca](http://www.flaxcouncil.ca))
- Ontario Agri-Food Education, Inc. ([www.oafe.org](http://www.oafe.org))
- Statistics Canada, 2006 Census of Agriculture ([www.statcan.gc.ca](http://www.statcan.gc.ca))

Interested in a particular fact or figure? Contact our Corporate Communication department at [communications@fcc-fac.ca](mailto:communications@fcc-fac.ca) for full reference details.