



Advancing the business of
agriculture

2010-11
ANNUAL REPORT

Management's discussion and analysis

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Industry overview

Global trends

FCC operates in the agriculture and finance industries. Both are shaped by market forces and global trends that affect those involved in agriculture and agri-food. We continue to monitor the impact of the global financial crisis, increasing demand for food and rising world prices, concern for the environment and alternative uses for agriculture products. Knowledge and opinion about these issues varies and instantly shared through social media and the Internet.

Several trends may directly affect Canadian agriculture. The world food diet is becoming more westernized. Demographics are changing. Populations are aging in western nations and on the rise in developing countries, a trend that will further alter the dynamics of food demand. There is good potential for Canadian products in emerging markets. To capitalize on these opportunities, new knowledge must be applied within traditional categories such as food, feed and fibre production. Other innovative ventures include carbon storage and biofuels.

Increased attention is focused on climate variability and the rising cost of energy. The demand for oil is expected to increase by as much as 35% in the next 20 years, which could significantly impact producers. Some are working now to make their operations more energy efficient. Others are producing electricity and selling any surplus to the energy grid.

No one can predict with certainty how external operating environment trends will impact Canadian agriculture and agri-food. FCC will continue to monitor trends, consider implications and proactively develop a strategic response.

Key economic conditions

Globally, economic recovery appears to be driven by business investments and exports. Despite relatively high unemployment in many countries, the Organization for Economic Co-operation and Development (OECD) believes that the recovery is self-sustaining. Canada is seen as a leader in growth among industrialized economies. Economic forecasts indicate Canada's annualized gross domestic product (GDP) growth in the 3% range. Still, many uncertainties about global economic recovery remain. Risks to a sustained recovery include impacts of the Japanese earthquake, persistent unrest in the Middle East and sovereign debt woes in Europe.

Canada's banking system continues to be held up as an example to the world in the time since the global economic crisis, a system that is demonstrating increased strength. Financial institutions around the world are focused on more conservative risk policies and reduced operating costs.

FCC is monitoring the potential impacts of inflation and interest rate increases that could result from economic growth.

The federal government has made the return to balanced budgets a clear priority. The three key elements of the government's overall plan are winding down stimulus spending, implementing targeted measures to restrain growth in direct program spending and undertaking reviews of government administrative functions and overhead costs to improve efficiency and effectiveness. The government has requested that all areas of government control costs, including Crowns.

Caution regarding forward-looking statements

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

Agriculture sector overview

Canadian agriculture and agribusiness owners are embracing new opportunities. A 2010 poll of FCC's Vision Panel revealed that optimism is at a four-year high. Three-quarters of those surveyed (76%) said that their farm or business will be better off in five years, compared to 2009 (70%). More Canadian producers reported being better off than they were five years ago and they have higher expectations for future growth than in the past. Intentions to expand and diversify are also at a four-year high. This is not to say that the industry does not have its challenges, which vary considerably from one sector to another.

Pork

The pork industry experienced some recovery in global demand in 2010. At the same time, the combined hog inventories of both Canada and the United States declined, a trend that is expected to continue into 2011. Reduced overall supply in both countries has contributed to stronger prices for hogs. Because the Canadian dollar has appreciated in value, Canadian hog producers have not experienced the same price gains as their counterparts in the United States.

Beef

The beef industry experienced some recovery in global demand in 2010. Cattle inventories and the number of producers in Canada continued to decline for a number of reasons, including shifts in age demographics within agriculture, steady increases in production costs, and increased competition for acreage. On a positive note, cattle prices have increased significantly and margins have improved, particularly for cow-calf producers.

Grains and oilseeds

Weather significantly impacted the grains and oilseeds sector in 2010. Southern Alberta, Saskatchewan and Manitoba experienced high levels of rainfall during the growing season, which reduced the total number of acres seeded and lowered crop quality. Conversely, parts of the Peace River region of Alberta, Ontario and Quebec

experienced low levels of precipitation, resulting in lower crop yields and quality. Consequently, producers have not been able to capture the full benefits of higher world prices for grains and oilseeds. Prices remain unsteady as world growing conditions and inventories fluctuate.

As of March 13, 2011, total exports of Canadian grains were nearly 3% higher than a year ago, according to the Canadian Grains Commission.

Dairy

In 2009, Ontario, Quebec, New Brunswick, Nova Scotia and Prince Edward Island (also referred to as the P5 provinces) agreed to harmonize dairy quota. As part of the agreement, quota prices are being lowered to \$25,000 per kilogram (kg); however, the time frame is different for each province. Quota prices in Ontario and Quebec (which account for the majority of quota in Canada) were lowered to \$25,000 per kg toward the end of 2009, and quota prices in these two provinces were unchanged in 2010. British Columbia, Alberta, Saskatchewan and Manitoba have yet to implement similar policies. As a result, their quota prices are all above \$25,000 per kg.

Poultry

Canadian chicken consumption increased by 1.4%, according to the Alberta Chicken Producers. Demand for chicken increased due to improvements in the Canadian economy, resulting in stronger overall demand for meat products.

Biofuels

Biofuels expansion continues to present opportunities for agribusiness in Canada. A national biodiesel mandate of 2% will begin in July 2011. According to the Canadian Renewable Fuels Association list of biodiesel facilities, 14 of 22 facilities are operational while the remaining eight are in the proposal or construction phase. Expansion of ethanol production in Canada has slowed as federal and provincial mandates are being met. There is still some interest in Alberta and Eastern Canada (Ontario and Quebec) for possible expansion of the ethanol industry; however, there is no new construction.

Greenhouses

The Canadian greenhouse industry relies heavily on exports to the U.S. market. In 2010, the industry also faced challenges created by the high Canadian dollar and high energy prices, including competition from European exporters. However, Canadian greenhouses continue to benefit from customers' reliance on them to provide safe, fresh produce.

Agribusiness and agri-food

Processing is very important to Canadian agriculture. Consumer demand for higher priced value-added products is slowly improving as economies in Canada and worldwide improve. The agribusiness and agri-food sector faced challenges caused by the high Canadian dollar relative to the U.S. dollar, making exports from Canada less attractive than similar products from the United States. Conversely, the high Canadian dollar provided an opportunity for companies to increase efficiencies by purchasing new equipment from the United States.

Farmland values

Twice a year, FCC compiles and releases its Farmland Values Report, the only Canadian source that highlights changes in land values in each province and nationally.

The average value of Canadian farmland increased 2.1% between July and December 2010, continuing the steady increase reported during the last decade. Farmland values remained stable or increased in all provinces.

In the last three semi-annual reporting periods, farmland values increased by an average of 3.6% in spring 2010, 3.0% in fall 2010 and 2.1% in spring 2011. The highest average national increase was in 2008 at 7.7%. The last time the average value decreased was in 2000 (by 0.6%).

Prince Edward Island experienced the highest average increase at 3.2%, followed by Saskatchewan at 2.7%. New Brunswick and Ontario each saw 2.4% growth, followed by Alberta at 1.5% and Manitoba at 1.3%. Quebec (0.9%), Nova Scotia (0.6%) and British Columbia (0.4%) rounded out the list of provinces that experienced a rise in farmland values. Values were unchanged in Newfoundland and Labrador.

Debt-to-asset ratios

While debt levels for Canadian farms have been increasing, asset values have as well. As a result, the debt-to-asset ratio for Canadian agriculture has remained constant at 19% between 2005 and 2009. Over the previous five-year period, the net worth of Canadian farms increased by \$53.7 billion. FCC Relationship Managers work with each customer to help them analyze and understand the impacts of debt on their business. FCC also monitors the financial health of the agriculture industry as a whole. To ensure the long-term success of the industry as well as that of individual business owners, it is important that debt is being used to increase profitability. While total farm liabilities in Canada increased by 33% from 2005 to 2009, the total liabilities to net income ratio increased by a more modest 11%.

Sector profitability

FCC holds 27.9% of Canadian farm debt as of December 31, 2010. In 2010, credit availability was an issue for the broader economy due to recession. However, the Canadian farm debt market grew by 6.1% in 2010, signalling the availability of credit for Canadian agriculture. Credit availability for larger agricultural equipment manufacturers has improved as three other financial institutions have entered or re-entered this market.

Total farm cash receipts for 2010 improved in the fourth quarter for many enterprises, especially grains and oilseeds.

Total farm market receipts declined by 1.5% to \$43.8 billion; however, they remain 6.7% higher than the previous five-year average. Farm cash crop receipts (crop and livestock revenues plus program payments) dropped by 1.7% in 2010. Specifically, crop receipts declined 6.3% and livestock receipts increased 4.7%. Net cash income (includes program payments) also saw an increase of 4%. In 2009, total farm market receipts were up 26% and net cash income was up 25% above the five-year average from 2003-07.

Current and potential impacts for FCC

FCC has experienced significant growth every year for more than a decade. Revenues and administration expenses have grown in relation to FCC's product and service offerings, and overall loan portfolio. Over the same period, FCC has realized improvements in its efficiency while growing its loan portfolio. This is projected to continue to trend favourably over the next five years. FCC understands the importance of restraining spending and remaining financially viable through all economic cycles to support customers through good and challenging times. Maintaining strong customer satisfaction and employee engagement are important to the continued growth and success of the agriculture and agri-food industry.

FCC remains financially strong with \$3,354.8 million in equity and loan loss reserves, low debt-to-equity and high-quality risk management practices. FCC's portfolio is diversified by enterprise and geography because it lends to all areas of agriculture across Canada, which reduces risk.

FCC is beginning the next fiscal year in a strong financial position and expects to meet its strategic targets in 2011-12. It will continue to closely monitor external and internal financial trends, assess implications and create proactive strategies to address them. Risk levels will be diligently monitored to ensure they continue to be within acceptable tolerances.

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

Strategic overview

Vision and strategy

As Canada's leading agriculture lender, FCC is advancing the business of agriculture by providing financing, insurance, software, learning programs and other business services to producers, agribusinesses and agri-food operations. FCC is strong and stable – committed to serving the industry through all cycles. Our employees are passionate about agriculture and committed to the success of customers and the industry. They are guided by FCC's vision:

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

FCC corporate scorecard

FCC's strategic direction is aligned with government priorities. Both the 2010 Minister's Statement of Priorities and the Agriculture and Agri-Food Canada Growing Forward agricultural policy framework were reviewed as inputs.

FCC uses a corporate scorecard to monitor and measure progress against its corporate strategy. To achieve the vision and deliver on the mission, FCC has developed objectives and strategies that are categorized into five strategic themes:

- Commitment to agriculture
- Customer experience
- Efficiency and execution
- Culture and employee experience
- Financial strength

2010-11 Strategic themes and results

The 2010-11 corporate scorecard summarizes the corporation's performance against objectives. The strategic objectives and targets are based on the corporate strategy reported in the 2010-15 Corporate Plan Summary. FCC's results demonstrate its commitment to producers, agribusiness operators and the industry.

Theme: Commitment to agriculture

FCC has a reputation for offering outstanding financial products, knowledge and services tailored to agriculture, and for being a strong corporate citizen.

Critical outcome

In 2020, 85% of customers and 25% of stakeholders consider FCC the preferred choice for financial products, knowledge and services tailored to agriculture, and view FCC as a strong corporate citizen.

Summary of 2010-11 results

FCC met or exceeded its 2010-11 targets under the Commitment to Agriculture theme. The corporation is on track to achieve its long-term strategy. FCC launched Go Ag!, a program that supports young farmers at every stage. FCC offered learning events and publications free of charge to producers across Canada.

Corporate measures	2009-10 Target	2009-10 Results	2010-11 Target	2010-11 Results
Corporate social responsibility scorecard	Report against scorecard	Achieved	Report against scorecard	On track: FCC has enhanced its performance measurement for corporate social responsibility in each of its five focus areas. Detailed information will be provided in a new Corporate Social Responsibility Report that will be released in Q3, 2011-12.
Corporate reputation index	+50 or more	Replaced: FCC has changed its reputation measure from a bi-annual index to more frequent surveys of customers and stakeholders.	Develop new approach and measurement	Exceeded: A national study benchmarking FCC's reputation against major national brands was completed. FCC achieved a significant increase among producers in both awareness and positive reputation. FCC has moved to 5th place from 22nd place in 2005.
Media favourability index	10 points above global average for financial institutions	Not achieved: The global favourability rating for financial institutions was 53. The FCC favourability score was 61.	7 points above global average for financial institutions ¹	Exceeded: Media favourability for 2010-11 was 64. This is nine points above the favourability for global financial institutions (also up this year by two points to 55).

Notes:

1) Media favourability target was changed from 10 to 7 in Q3 2009-10. The target was set too high given the economic recession.

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Invest in initiatives that advance the business of agriculture	Invest in initiatives that promote the business of agriculture and agri-food in Canada and contribute to the success of this industry	Achieved: In 2010-11, FCC continued to promote and advance the business of agriculture and agri-food in Canada through learning events, publication and sponsorship of industry trade shows and associations. Examples include: AgriSuccess (75,250 subscribers); FCC Express e-zine (32,609 subscribers); 288 learning events (29,574 attendees); 26 trade shows.
Assist young farmers and agribusiness operators	Develop additional programs for young farmers and agribusiness operators	Achieved: In 2010-11, Go Ag! was offered to ag colleges across the country. This program provides up to \$2,000 in funding to plan, promote and host an educational event. In 2010-11, eight colleges signed on and a total of 760 students attended these events.
Be a leader in providing knowledge that enhances producer and agribusiness success	Create and implement long-term knowledge strategy that includes aggregating knowledge, innovations and practical ideas for producers and agribusiness operators	Achieved: The working committee used an assessment tool to prioritize ideas for enhancing employee knowledge. The Community of Practice model was replaced with online networks that connect employees with knowledge on various topics. The focus is on further leveraging the knowledge we create with customers and the industry.
	Offer FCC Learning programs, events and publications to the agriculture industry	Achieved: A series of pilot programs (video, webinar, podcasting and online e-courses) are being offered to producers to determine what they consider to be of value to their business. Example: Management Forum speaker interviews videos were produced and released on the FCC website and 782 views occurred in one month.

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Ensure that FCC acts in the best interest of all stakeholders	Develop integrated reputation management strategy, including media relations, issues management, web community involvement and internal monitoring	On track: A new governance structure and processes were created to check for reputation risk and manage external issues or events. The national media relations strategy was fully implemented and contributed to positive media favourability results as noted on the prior page.
Operate as a good corporate citizen	Community enhancement a) Invest \$1 million in rural capital projects through the FCC AgriSpirit Fund b) Support minority official language communities c) Support the community where over half of our employees live and work	Achieved: a) The FCC AgriSpirit Fund awarded \$1 million to 104 rural capital projects that will enhance rural communities. b) The FCC Expression Fund provided \$50,000 to projects that contribute to the vitality of official language minority communities and help residents express the cultural and linguistic diversity of their area. c) Through the FCC Regina Spirit Fund, FCC invested \$100,000 to support 18 community enhancement projects carried out by Regina charitable and non-profit organizations.
	Benchmark FCC's environmental footprint	On track: An external organization was contracted to measure the composition of waste at corporate office. An engineering consultant was engaged to establish FCC's greenhouse gas emissions baseline for 2011-12.

Theme: Customer experience

Customers receive FCC's unique customer experience and are passionate advocates of FCC.

Critical outcome

In 2020, FCC delivers an extraordinary customer experience index to customers, prospects and suppliers. FCC's customer experience index score is at 65 or higher.

Summary of 2010-11 results

FCC exceeded its customer experience target; more than one in six customers give FCC perfect scores. We are very proud of the confidence and loyalty shown by our customers.

Corporate measures	2009-10 Target	2009-10 Results	2010-11 Target	2010-11 Results
Customer experience index	57.94%	Ahead: at 60.81%.	58.44%	Exceeded: at 61.64%.
Total lending to young farmers	\$1.43 billion	Ahead: at \$1.8 billion; 2009-10 was a record year for disbursements to young producers.	\$1.71 billion	Behind: at \$1.63 billion. Net disbursements as of March 31, 2011, represent 95% of target.

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Known in Canada as a best-practice organization that consistently provides an extraordinary customer experience	Conduct a gap analysis based on the Customer Experience Index to define customer needs and minimize inconsistencies in customer service	On track: FCC conducted a qualitative study on customer experience and channels to explore what customers think matters most and how channels fit in.
	Define agriculture and finance knowledge expectations of customer-facing staff and integrate with the sales process to ensure a stellar customer experience	On track: FCC defined knowledge expectations of customer-facing staff over the course of their FCC careers. In addition, “knowledge as a sales tool” presentations were provided across Canada. Research was also conducted on employees’ knowledge habits and behaviours. Next steps will include change management, awareness, knowledge gap identification and capture.
Contribute to the success of the agriculture and agri-food industry by serving the full value chain	Conduct awareness campaign with agribusiness and agri-food markets	Achieved: AgValue advertising campaign was executed and testimonial ads placed in key sector publications across the country.
	Equip employees with skills, products and services tailored to the unique needs of agribusiness and agri-food operators	Achieved: A product scan was completed. Product Managers assisted employees with their knowledge of FCC offerings. AgValue Relationship Managers received “on-demand” packages customized to individual customer needs.
Make it easy for customers to do business with FCC	Enhance customer channel choice by offering more options for doing business with FCC through the Customer Service Centres	Achieved: The Customer Service Centre (CSC) Real Property Loan pilot was successfully completed. Over 100 loans were sent to the CSC. Business and technical requirements for customer relationship management were defined and implemented.
	Create a web and e-channel strategy to enhance ability of customers and partners to do business electronically with FCC	Achieved: A governance committee for the web and e-channel was established to implement these completed strategies. Critical interdependencies were identified across planned web, e-business, intranet and future mobile applications.

Theme: Efficiency and execution

FCC's agility in decision-making processes and technical and operational infrastructure makes it easy for customers and employees to do business.

Critical outcome

In 2020, FCC is a highly efficient, effective and agile organization in the eyes of customers, business partners and employees.

Summary of 2010-11 results

FCC exceeded targets on the "easy to do business" indicator, on both customer and employee. The project management maturity target also was exceeded. The implementation of the business and technology transformation program is well underway. FCC continues to identify ways to maximize corporate performance.

Corporate measures	2009-10 Target	2009-10 Results	2010-11 Target	2010-11 Results
Customer experience index (easy to do business indicator) ¹	52.57%	Ahead: at 58.08%. This means that 6 out of 10 respondents give FCC perfect scores on this measure.	53.07%	Exceeded: at 59.85%.
Employee engagement (easy to do business indicators) ²	Greater than or equal to the average of the top 50 employers	Behind: at 77.8%. The average of the top 50 employers is 78.8%.	Greater than or equal to the average of the top 50 employers	Exceeded: at 78.8%. The "easy to do business" employee score is comprised of the average of the employee engagement scores for five selected drivers. The top 50 employers' score was 77.6%.
Project management maturity ³	Project management maturity score of 37%	Ahead: at 43%.	Project management maturity score of 40%	Exceeded: at 51%.

Notes:

- 1) Easy to do business indicator: the percentage of customers responding 5 on a scale of 1 to 5 (top box score) to the question: Is it easy to do business at FCC?
- 2) Easy to do business indicators include: co-workers, physical work environment; resources; work processes; work tasks
- 3) Maturity is based on the OPM3 Product Suite project management score

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Optimize how FCC conducts business	Complete implementation of the business and technology transformation program (BK)	Achieved (with adjustments): As of March 31, 2011, after 51 months of operation, the BK Program was 88% complete. Although progress has been good, adjustments were made to implementation plans. The multiple loan conversions are now scheduled to occur by October 2011. This is a one-month delay from the original estimate.
	Identify corporate functions, services and processes for potential alternate methods of service delivery and/or partnerships	On track: IT issued a Request for Proposal for increased network infrastructure outsourcing. A preferred vendor was chosen, and a contract is expected to be signed by July 2011. Other examples include: redesign of audit process, research for a new method of recruiting potential employee candidates to FCC, and new distribution channels for software sales with agricultural retailers.
	Optimize how FCC does business by reviewing optimization throughout the corporation	Achieved: An external optimization study was conducted, which found that FCC operates in a highly efficient manner. Ideas for further exploration were provided. This year, executive management commissioned a project to formally assess these opportunities. A project plan and methodology were developed and several opportunities were assessed. The business process redesign project for Alliances completed processes and several policies. A new Business Interaction Model was completed that redefines how IT interacts with other FCC divisions. In Q2, FCC completed the first phase of VAL Replacement. VAL is a system that supports FCC's valuations policy, which outlines the standards, criteria and processes required for valuing assets being secured with loans. The second phase will be completed in 2011-12.

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Optimize how FCC conducts business, continued	Enhance project management maturity, including benefits realization	<p>Exceeded: at 51%. Extensive work in the Corporate Project Management Office (PMO) as well as in IT included: a communication plan implemented, with messages regarding the importance of resource capacity management, its benefits and the consulting support available through Corporate PMO. The Corporate PMO began consulting to various areas to help them understand and implement resource capacity management within their teams.</p> <p>As of October 1, 2010, applicable projects must follow the benefits realization process.</p>
	Develop a comprehensive corporate information management plan, including content management	<p>On track: Addressing this opportunity will require a multi-year, multi-project program. Research into the Agriculture and Agri-Food Canada information management program and AgriDocs system has revealed an opportunity to leverage their work at FCC.</p>
Ensure business continuity	Enhance the plans for addressing consequences of pandemic from H1N1 or other unforeseen business disruptions	<p>On track: The threat of a pandemic was not evident in 2010-11. Monitoring activity is ongoing. The FCC Business Continuity Plan was updated with no significant changes to the pandemic section.</p>
Implement a web and e-channel strategy	Implement a web and e-channel strategy to enhance web presence	<p>On track: A web strategy was approved and a governance committee established along with operating principles. Business requirements gathering is underway.</p>
	Develop plan to enhance the delivery of products and services through e-business	<p>On track: Strategy is complete; research conducted; and restructuring occurred.</p>

Theme: Culture and employee experience

FCC is an employer of choice with a high-performance culture and strong employee engagement, which bring out the best in people at all levels.

Critical outcome

In 2020, FCC is an employer of choice, providing inspirational leadership and career growth for people with a passion for excellence. FCC will attain an employee engagement score greater than or equal to the average of the top 50 Canadian employers.

Summary of 2010-11 results

FCC's strong emphasis on its internal culture has led to high employee engagement and a positive employee experience. Several initiatives were pursued in 2010-11, including a health and well-being strategy and a new leadership program. A new learning management system was launched that allows employees to track training and development.

Corporate measures	2009-10 Target	2009-10 Results	2010-11 Target	2010-11 Results
Employee engagement index	Greater than or equal to the average of the top 50 employers	Ahead: at 86%. The average of the top 50 employers is 80%.	Greater than or equal to the average of the top 50 employers	Exceeded: at 82%. The average of the top 50 employers was 78%.
Employee engagement – (employee experience Indicators) ¹	Greater than or equal to the average of the top 50 employers	Ahead: at 78.2%. The average of the top 50 employers is 75.4%.	Greater than or equal to the average of the top 50 employers	Exceeded: at 75.4%. The Employee Experience Index is comprised of the average of five selected drivers. The top 50 employers' score was 74.2%.
Employee engagement – (leadership indicators) ²	Greater than or equal to the average of the top 50 employers	Ahead: at 79%. The average of the top 50 employers is 73.2%.	Greater than or equal to the average of the top 50 employers	Exceeded: at 73.2%. The Leadership Index score is comprised of the average of five selected drivers from the annual employee engagement survey. The top 50 employers' score was 71.4%

Notes:

- 1) Employee experience indicators – scores on the following drivers are averaged to calculate the score: career opportunities; learning and development; intrinsic motivation; managing performance; work/life balance
- 2) Leadership indicators – scores on the following drivers are averaged to calculate the score: senior leadership; manager; recognition; career opportunities; managing performance

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Sustain and grow FCC employee experience	Enhance employee competencies with respect to feedback and coaching	Achieved: In 2010-11, 936 employees completed personal leadership training called Leading from Within.
	Implement employee health and well-being strategy	Achieved: An employee wellness account was implemented on January 1, 2011. Contracts with the new Employee and Family Assistance Program (EFAP) provider were negotiated. Learning modules for FCC's Defined Contribution and Defined Benefit Pension Plans were developed.
	Sustain and grow FCC employee experience by developing and implementing corporate response to employee engagement survey	Achieved: A strategy based on the employee engagement survey results and action planning across FCC was approved in 2010. The strategy focuses on improving the people leadership skills of leaders across FCC. FCC Census Day for diversity was held on October 19, and received a response rate of 80%. Events promoting diversity awareness were held at corporate office. HR took part in a six-week placement program offered by the Regina Open Door Society. Cultural awareness training was delivered to managers taking part in the Aboriginal Summer Student Program. A partnership with the Regina Aboriginal Professionals Association was established to implement plans for celebrating National Aboriginal Day on June 21, 2011.

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Enhance leadership capabilities	Implement new leadership development program	Achieved: A new leadership development program was achieved. The Five Leadership Principles Program was rolled out to 120 leaders.
	Ensure effective change management practices are employed when rolling out initiatives	Achieved: Change management and communication consulting to divisions occurred throughout the year. A new tool that contains key messages regarding change initiatives was rolled out to assist leaders with communication change.
Provide learning and knowledge that offers employees ongoing growth	Implement next phase of FCC learning strategy	<p>Achieved: The Learning Management System (LMS), a new system that allows all employees to view, access, register and track all FCC learning opportunities, was launched.</p> <p>Divisional workforce plans were completed and the 2010-11 corporate workforce plan was approved.</p>

Theme: Financial strength

FCC is financially viable and self-sustaining in the long term, while investing significantly in the agriculture industry and utilizing valuable partnerships.

Critical outcome

In 2020, FCC has a diversified agriculture, agribusiness and agri-food portfolio, with a strong balance sheet and an ROE of 12%.

Summary of 2010-11 results

In 2010-11, FCC met or exceeded all financial targets with the exception of Venture Capital Invested. Initiatives were pursued to protect the corporation with sound enterprise governance, risk and compliance practices. An updated enterprise risk management (ERM) framework further integrated ERM with strategy, processes and policies. An Enterprise Security program to safeguard FCC information assets, physical assets and employees was developed. The IFRS conversion plan was completed and FCC is prepared to report under the new standards.

Corporate measures	2009-10 Target	2009-10 Results	2010-11 Target	2010-11 Results
Net income ¹	\$226.8 million	Ahead: at \$280.2 million.	\$318.4 million	Exceeded: at \$459.2 million. Primarily due to a significant favourable variance in the provision for credit losses, mainly due to updates and adjustments to the allowance model and lower risk in the portfolio. Also contributing are favourable variances in net interest margins and administration expenses.
ROE ¹	11.2%	Ahead: at 14.0%.	14.5%	Exceeded: at 19.5%. Above the year-end target due to higher than target net income.
Efficiency ratio ²	47.2%	Ahead: at 41.2%.	41.6%	Exceeded: at 35.9%. Primarily due to the favourable variance in net interest income, combined with lower than target administration expenses.
Debt-to-equity ratio ^{1,3}	7.5:1	Behind: at 8.4:1.	8.1:1	Achieved: at 7.4:1. Due to a higher than target equity balance compounded by a reduced requirement to borrow funds.

Notes:

- 1) Net income, total liabilities and total equity have been adjusted to reflect the current presentation of the non-controlling interest in a variable interest entity
- 2) The efficiency ratio was restated to include Investment in Agriculture spending
- 3) Loans receivable, total assets and total liabilities for 2010 have been restated as a result of a prior period adjustment

Corporate measures	2009-10 Target	2009-10 Results	2010-11 Target	2010-11 Results
Portfolio growth ^{3,4}	Primary production financing 5.24%	Ahead: at 13.69%.	7.7%	Achieved: at 7.9%. Primarily due to lower than target prepayments, partly offset by higher than target principal payments.
	Agribusiness and agri-food financing 10.26%	Ahead: at 23.18%.		
Venture capital invested	\$67.3 million	Ahead: at \$69.0 million.	\$92.4 million	Behind/not achieved: at \$66.1 million. Total capital outstanding is lower than target primarily due to timing of finding suitable investment opportunities under the Avrio Fund.

Notes:

- 3) Loans receivable, total assets and total liabilities for 2010 have been restated as a result of a prior period adjustment
4) The portfolio growth measure was updated and is now based on total portfolio growth and was moved to financial strength in 2010-11

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Implement a financial management framework, integrating portfolio growth, risk, margins and returns	Continue to implement an economic capital management framework	Achieved: A governance and accountability framework was developed. A pilot report on buydowns was presented to the Asset and Liabilities Committee. To measure the market risk component of the economic capital management framework, an independent model validation of Value at Risk calculation results was created. Initial research commenced on a holistic capital management framework. The research phase of the project will run until June 2011 and framework development will continue until December 2011.
	Evaluate and update credit risk culture and practices in relation to evolving market conditions	Achieved: The lending culture statement was reinforced through ongoing communication. Results of an internal survey indicated that the majority of employees felt they received consistent messaging on risk management, pricing and growth. The survey also indicated that FCC continues to balance growth, risk and profit with a desired increase in quality.
Protect the corporation with sound enterprise governance, risk and compliance (GRC) practices	Continue implementation of enhanced internal controls	On track: A holistic analysis of the control environment surrounding BK-related processes is complete and observations are being incorporated in corporate processes.
	Update enterprise risk management framework	On track: The Enterprise Risk Management (ERM) framework is on track to further integrate ERM with corporate processes and policies, and enhance risk culture. Corporate risk appetite was researched.

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
	Enhance enterprise security measures	<p>On track: An Enterprise Security program was created to safeguard FCC information assets, physical assets and employees in a co-ordinated, risk-based manner across the organization. The program consists of four project streams (Governance and Schedule Policy Creation, Information Asset Classification, Facilities and Personnel Security, and Program Assurance). Enterprise level policies were prepared for all four project streams.</p>
	Implement policy and process changes to comply with new International Financial Reporting Standards	<p>Ahead: The opening balance sheet was prepared using International Financial Reporting Standards (IFRS). Changes to accounting policies required for transition as well as key management disclosure requirements were presented to the Board's Audit Committee. A new requirement for quarterly reporting instituted by Treasury Board Secretariat resulted in the IFRS timelines being accelerated by nine months. All required deliverables to implement IFRS were completed. All processes required to complete the first set of IFRS-compliant financial statements were successfully tested. These processes will now transition into business as usual activities and will be monitored accordingly.</p>

Financial performance review

Financial performance versus plan

Each year, as part of its strategic planning process, FCC develops a comprehensive corporate plan, which includes targets for various financial measures for the coming fiscal year. The chart below provides a comparison of the actual outcomes against key plan targets for 2010-11.

Profitable growth and effective financial management

(millions of dollars unless otherwise noted)

	2011 Actual	2011 Plan
Portfolio growth		
Loans receivable	21,334.5	21,057.1
Loans receivable growth (%)	7.9	7.7
Net disbursements	6,153.2	6,089.9
FCC Ventures		
Investments – total capital outstanding	66.1	92.4
Investments – carrying value	58.0	83.3
FCC Management Software		
Net sales revenue	1.8	1.7
FCC Insurance		
Insurance premium income	18.1	17.0
Net insurance income	11.1	8.5
Portfolio profitability		
Net interest income	738.5	697.4
Net interest margin (%)	3.44	3.35
Credit quality		
Arrears	41.7	72.9
Impaired loans	241.4	294.8
Provision for credit losses	27.9	95.4
Allowance for credit losses	586.2	715.9
Efficiency		
Administration expense	270.8	294.2
Efficiency ratio (%)	35.9	41.6
Capital management		
Debt to equity (\$ of debt per \$ of equity)	7.4	8.1
Shareholder return		
Net income	459.2	318.4
Return on equity (%)	19.5	14.5

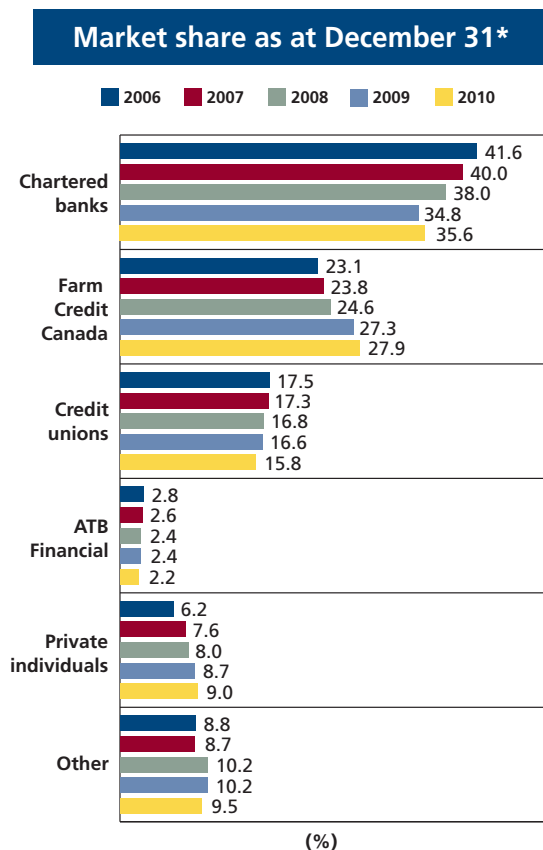
Financial performance versus prior year and outlook

The remainder of the MD&A provides a review of year-over-year performance, as well as FCC's performance expectations for 2011-12.

Portfolio growth

Market share

According to Statistics Canada, farm debt outstanding increased by 6.1% to \$66.4 billion in 2010. FCC increased its market share by 0.6% to 27.9% in 2010. FCC's proportion of Canada's outstanding farm debt of \$18.5 billion remains second to the chartered banks at \$23.6 billion.



*Historical results are also updated annually by Statistics Canada.

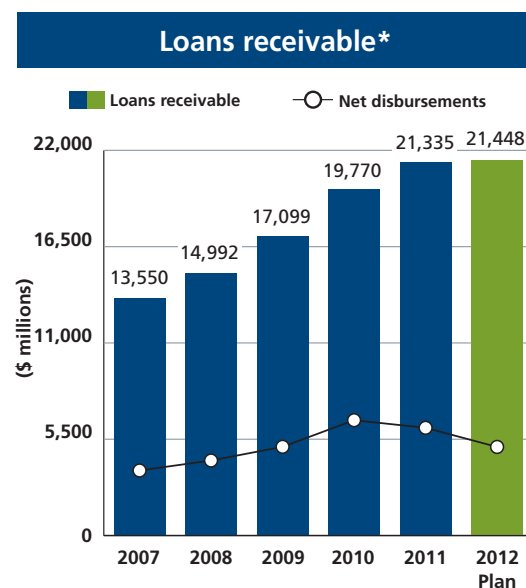
Lending activity

FCC lending activity is conducted through its lending business lines: primary production financing, agribusiness and agri-food financing, and FCC Alliances (point-of-sale financing) (refer to Lines of Business on page 52).

In 2010-11, FCC experienced its 18th consecutive year of growth. Loans receivable increased \$1,565 million from \$19,770 million in 2009-10 to \$21,335 million in 2010-11. The rate of loan portfolio growth of 7.9% has slowed due to lower disbursement levels. Net disbursements decreased compared to the prior year by \$433 million or 6.6% to \$6,153 million. Renewal rates have increased by 0.4% to 97.7%, contributing to loan portfolio growth. This is offset by increased prepayments in the current year with the prepayment rate increasing by 0.3% to 5.4%.

The primary driver behind the growth in loans receivable was disbursements to primary producers in all major enterprises. Primary production and point-of-sale financing constitute 83.4% of FCC's net disbursements.

Growth is expected to continue to slow in 2011-12 with loans receivable increasing by \$113 million, a growth rate of 0.5%. This decreased level of growth can be attributed to a projected reduction in net disbursements of \$766 million to \$5,387 million for 2011-12. The renewal rate is expected to decrease slightly to 96.0% in 2011-12 and prepayments are expected to increase to 6.5% in 2011-12.



*Loans receivable for 2010 have been restated as a result of a prior period adjustment.

Portfolio growth by enterprise

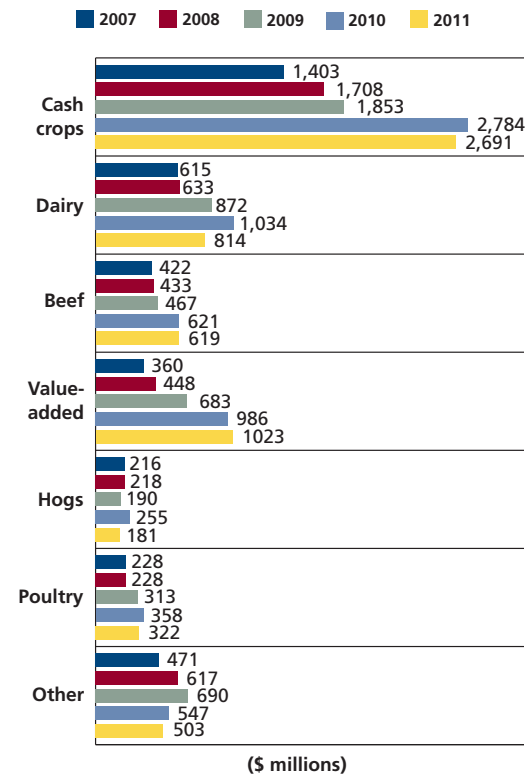
FCC lends to all agriculture enterprises, which diversifies the lending portfolio and reduces enterprise-specific risks. These practices align to the strategic themes addressing FCC’s commitment to agriculture and financial strength by effectively managing risk to ensure FCC’s long-term viability.

In 2010-11, net disbursements decreased compared to the previous year in all major enterprises except the value-added enterprise, which saw an increase of 3.8%. The value-added enterprise includes processing and activities that support primary enterprises. The most significant decreases in net disbursements were in the hog and dairy sectors, which experienced declines of 29.0% and 21.3% respectively.

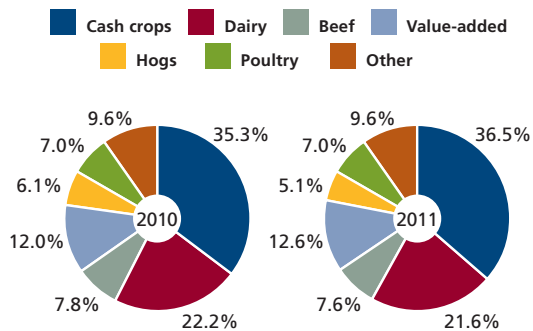
While net disbursements decreased in most major enterprises relative to 2009-10, this was offset by a decline in other portfolio activity including principal payments and net repayments, resulting in PND growth in all sectors with the exception of hogs. The hog sector decreased from 6.1% to 5.1% of FCC’s total PND. PND grew year-over-year in the dairy and beef sectors; however, their respective shares of total PND decreased from 22.2% to 21.6% and 7.8% to 7.6%.

Cash crops continue to represent the largest portion of FCC’s PND and net disbursements in 2010-11, representing 36.5% of total PND.

Net disbursements by enterprise



PND by enterprise



Portfolio growth by geographic area

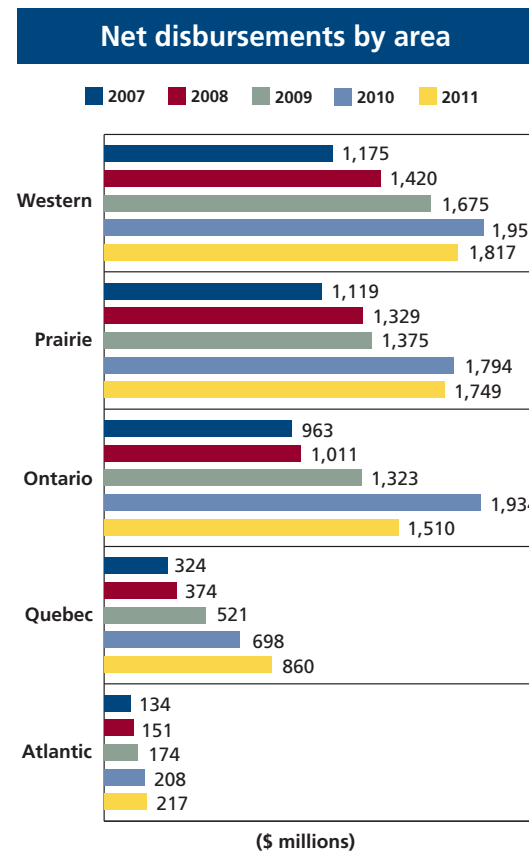
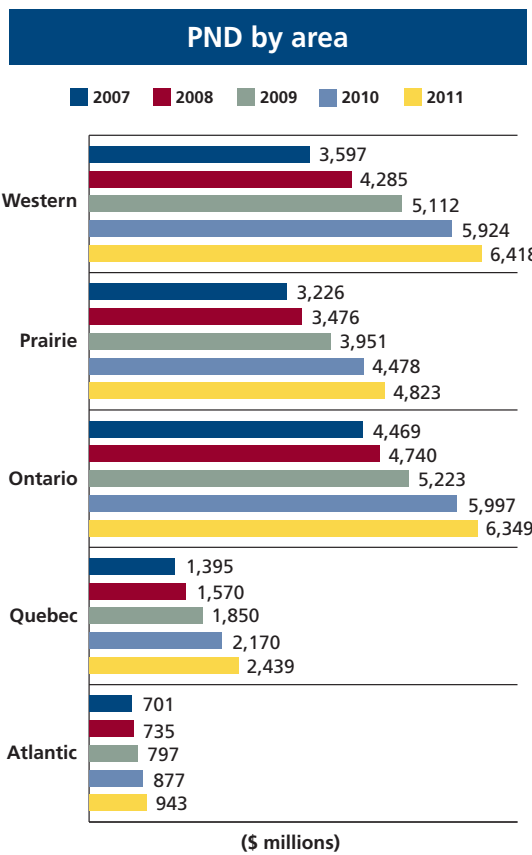
By lending to all areas of agriculture across Canada, FCC spreads risk geographically while promoting agriculture as a strong and vibrant industry. From coast to coast, FCC has over 100 offices to serve its customers.

In 2010-11, FCC experienced PND growth across all areas of Canada. The largest PND growth areas continue to be Quebec and Western, which experienced 12.4% and 8.3% growth respectively.

In 2010-11, net disbursements decreased in the Western, Prairie and Ontario areas and increased in the Quebec and Atlantic areas. The largest decrease was seen in Ontario where net disbursements decreased 21.9%.

Western and Prairie comprised over half of PND and net disbursements. Their overall proportion of net disbursements increased by 1.1% to 58.0% from 2009-10.

Western was the largest individual contributor to PND in 2010-11 with its respective share increasing by 0.1%. The respective share of Ontario decreased by 0.5%.



Lines of business

FCC offers a combination of financing, insurance, management software, information and learning products and services to over 100,000 customers across Canada through its various business lines:

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

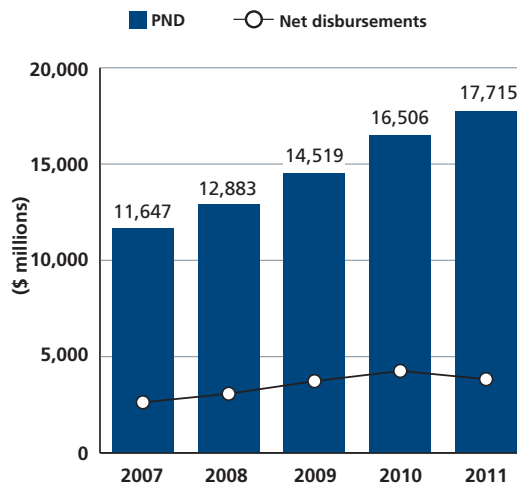
Each business line has specific products tailored to address the needs of Canadian agriculture. Lending products include standard loans with variable or fixed interest rates and many term, amortization and payment frequency options. Lending products are also available that include features such as principal payment and/or interest deferral, secured and unsecured revolving loans that can be paid down and re-advanced as needed, interest rates tied to customer credit quality and customized payment schedules linked to typical sector-based cash flow patterns. Lending is available for real and personal property purposes, through both loans and leases.

Primary production financing provides loans to primary producers and is FCC's largest business line. Customers with loans under this business line produce raw commodities in various enterprises such as crops,

beef, hogs, poultry, sheep and dairy, as well as fruits, vegetables and alternative livestock. This line of business also includes, but is not limited to, lending to vineyards, greenhouses, forestry and aquaculture.

Primary production comprised 84.5% of FCC's total PND in 2010-11. PND increased \$1,209 million, resulting in a portfolio of \$17,715 million. The rate of growth in PND decreased to 7.3%, from 13.7% the previous fiscal year. The primary driver was the decline in net disbursements of 10.1% in 2010-11 to \$3,828 million.

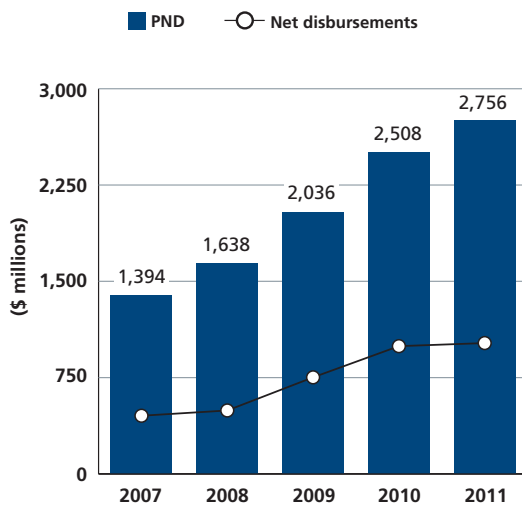
Primary production financing



Agribusiness and agri-food financing provides support to primary producers. These customers are typically suppliers or processors who are selling to, buying from or otherwise serving primary agriculture producers. These customers include, but are not limited to, equipment manufacturers, dealers, input providers, wholesalers, marketing firms and processors.

Agribusiness and agri-food showed growth in PND of 9.9% to \$2,756 million. Net disbursements increased 2.5% to \$1,019 million.

Agribusiness and agri-food financing

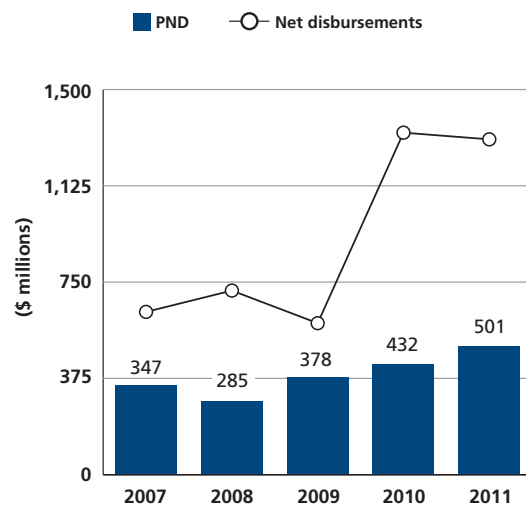


FCC's strategy is to optimize the primary production financing and agribusiness and agri-food financing portfolios. This strategy balances growth with market opportunity, volume and margin.

FCC Alliances is the largest contributor to FCC's financing for equipment, crop inputs and livestock point-of-sale business line. It lends to agriculture customers through a network of external agriculture or financial organizations, some of which include equipment dealers, crop input retailers, livestock operators and manufacturing partners. Through this network, FCC is able to provide efficient and effective products and services to its customers.

FCC Alliances showed growth in PND of 16.0% to \$501 million. In 2010-11, net disbursements decreased by 2.0% to \$1,306 million. Disbursements during the year exceed PND at the end of the year due to the short-term nature of the lending products in this business line.

FCC Alliances



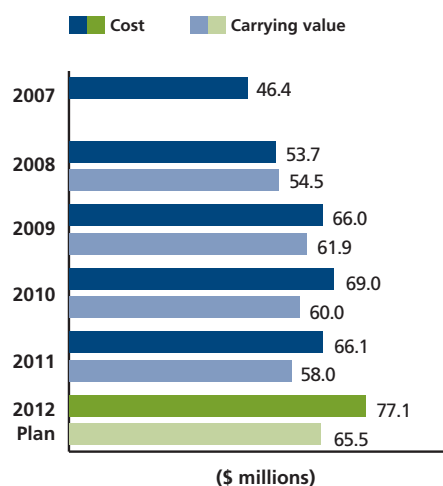
FCC Ventures is the corporation's venture capital business line, focused on addressing the need for alternative financing in the agriculture industry.

The venture capital portfolio includes investments made directly by FCC (FCC Fund), as well as investments made through the Avrio Ventures Limited Partnership fund (Avrio Fund). In 2006, FCC committed \$50 million to this fund, which also attracted an additional \$25 million from other limited partners interested in investing in the agriculture industry. The investment objectives of the fund are focused on commercialization-to-growth stage businesses operating in the industrial bio-products, food technology and nutraceutical ingredient sectors.

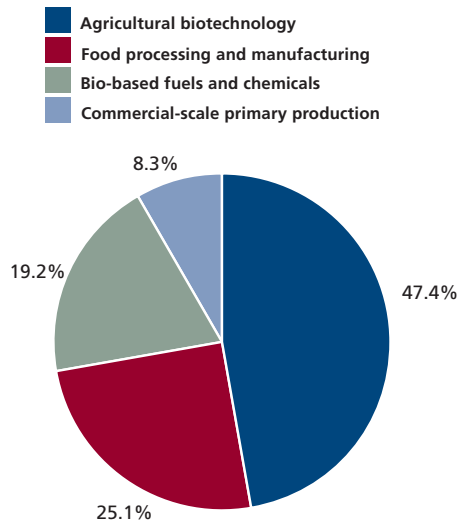
In 2010-11, FCC earned \$4.4 million in income, primarily related to an equity pickup from an investee company over which the corporation holds significant influence and interest earned on debt investments. The carrying value of the total venture capital portfolio of \$58.0 million includes \$18.7 million held directly by FCC and \$39.3 million in investments held in the Avrio Fund. Throughout 2010-11, \$12.1 million in new investments was funded and the carrying value of the investment over which the corporation has significant influence increased by \$2.8 million as a result of the equity pickup. These increases were offset by \$13.3 million in payments and divestitures, \$2.2 million in realized losses on divestitures and a \$1.2-million decrease in fair value. Co-investment partners contributed an additional \$1.1 million to individual investments made during the year. Further detail of the carrying value investment amounts can be found in Note 9 and Note 20 of the Notes to the Consolidated Financial Statements.

Despite the ongoing maturity and divestiture of existing investments, the venture capital portfolio is expected to continue to grow as FCC Ventures pursues new opportunities to expand the type and level of investment. On March 17, 2011, Avrio Ventures advised the limited partners that it has fulfilled the investment criteria for the Avrio Fund with its intention to launch a second fund. The corporation has approved an investment in this new fund subject to negotiation of suitable terms and conditions at closing.

Investments outstanding



Investments outstanding by sector*

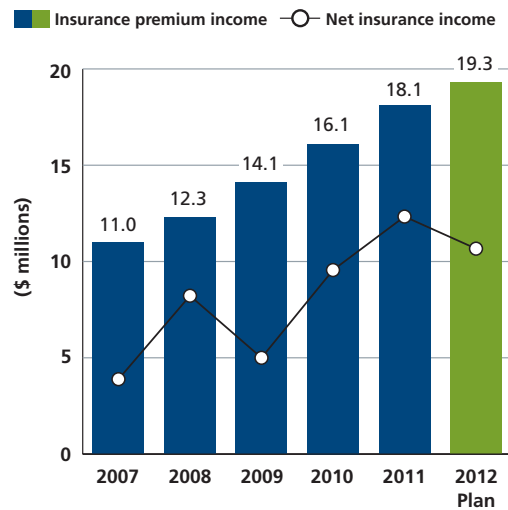


*Investments at cost

FCC Insurance offers loan, creditor life and accident insurance to provide protection to customers, their businesses and their families. SunLife Assurance Company of Canada administers FCC insurance programs.

Life insurance premiums, net of claims, contribute directly to FCC's net income. Insurance premium income has increased consistently over the last several years as a result of FCC's growing portfolio, as well as specific emphasis on insurance coverage as part of a customer's complete loan package. Life insurance premiums increased to \$18.1 million in 2010-11 compared to \$16.1 million in 2009-10. Net insurance income varies from year to year depending on claims paid. In 2010-11, total incurred claims were \$7.0 million compared to \$7.6 million the previous fiscal year, resulting in net insurance income of \$11.1 million compared to \$8.5 million in 2009-10.

Insurance income



FCC Learning is FCC's information and learning program that supports FCC's commitment to continued investment in agriculture. In 2010-11, 13,908 people attended 151 core FCC Learning events and 15,666 people participated in 137 events in FCC partner programs.

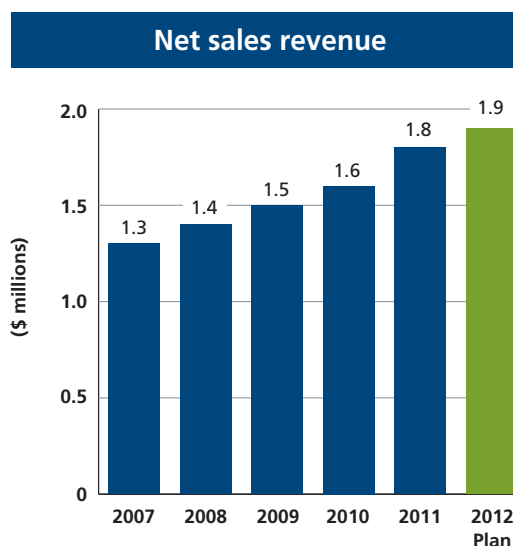
FCC offers several learning products aimed at addressing the increasingly sophisticated knowledge needs of primary producers and agribusiness operators. These products include:

- management workshops and learning tours
- FCC Forums
- partnership programs with industry partners
- the AgriSuccess bi-monthly magazine (formerly AgriSuccess Journal)
- the electronic newsletter, FCC Express
- e-learning tools, including webinars and video

FCC Management Software is focused on developing, promoting and improving farm management software for the Canadian agriculture industry.

FCC Management Software packages support the business of agriculture by providing valuable solutions to farmers that will help to ensure their success and viability. Its products include AgExpert Analyst and Field Manager PRO. AgExpert Analyst is financial management software designed specifically for farmers. Field Manager PRO is an electronic field record-keeping system for all types of crops.

In 2010-11, net sales revenue, including product support, increased by 12.5% to \$1.8 million and is expected to reach \$1.9 million in 2011-12.



Profitability

Net interest income and margin

Changes in net interest margin, along with changes in portfolio volume, are primarily responsible for the increase in net interest income (NII). The net interest margin must cover credit risk and administration expenses and yield a return sufficient for the organization to fund future growth.

The following table contains historical interest rate spreads and net interest margins. Interest rate spreads are the difference between the interest rates earned on interest-earning assets and the interest rates paid on interest-bearing liabilities.

Net interest margin

(\$ millions)	2011		2010		2009		2008		2007	
	Average balance	Rate	Average balance	Rate	Average balance	Rate	Average balance	Rate	Average balance	Rate
Earning assets:										
Fixed loan principal balance	6,369.6	5.97%	6,557.1	6.25%	7,170.2	6.50%	6,601.5	6.63%	5,313.9	6.55%
Variable loan principal balance	13,921.7	3.72%	11,769.9	3.09%	8,562.1	4.89%	7,523.8	6.84%	7,507.4	6.76%
Investments	995.9	0.80%	874.4	0.27%	711.1	2.50%	645.5	4.44%	838.7	4.22%
Venture capital investments	50.1	2.06%	57.8	4.07%	57.2	5.39%	54.4	6.46%	40.9	12.26%
Total earning assets	21,337.3	4.35%	19,259.2	4.15%	16,500.6	5.58%	14,825.2	6.72%	13,700.9	6.66%
Total interest-bearing liabilities	18,869.9	1.01%	17,056.6	1.13%	14,440.3	2.86%	12,879.0	4.36%	11,933.0	4.17%
Total interest rate spread		3.34%		3.02%		2.72%		2.36%		2.49%
Impact of non-interest – bearing items		0.10%		0.14%		0.33%		0.58%		0.58%
Net interest margin		3.44%		3.16%		3.05%		2.94%		3.07%

Interest rates on total earning assets increased from 2009-10 to 2010-11 due to increasing rates on FCC variable rate loans as the Bank of Canada raised the overnight rate. In addition, the interest rate on FCC's debt decreased due to reduced interest expenses arising from debt repurchases. In 2009-10, FCC incurred \$65.3 million in additional expense related to the repurchase of \$1,086.3 million in capital market debt. In 2010-11, FCC repurchased a further \$209.9 million in capital market debt at a cost of \$17.0 million and recognized \$19.3 million related

to the amortization of fair value gains resulting from debt repurchases completed in prior years. The net impact in 2010-11 of total debt repurchases is an increase in NII of \$2.3 million. The \$67.6 million increase in NII impact from 2009-10 to 2010-11 is a key contributor to the increase in the net interest margin.

The following table outlines the year-over-year increases to NII and outlines changes caused by shifts in portfolio volume and net interest margin.

Net interest income and margin

(\$ millions)	2012 Plan	2011	2010	2009	2008	2007
Net interest income	738.9	738.5	609.9	508.0	434.4	415.5
Average total assets	21,908.2	21,462.3	19,290.2	16,649.9	14,764.7	13,530.6
Net interest margin (%)	3.37	3.44	3.16	3.05	2.94	3.07
Year-over-year change in net interest income due to:						
Increase in volume	14.5	56.2	81.7	39.9	32.9	33.7
Changes in margin	(14.1)	72.4	20.2	33.7	(14.0)	(6.6)
Total change to net interest income	0.4	128.6	101.9	73.6	18.9	27.1

FCC experienced growth over the previous year in both NII and margin. NII increased by 21.1% to \$738.5 million and average total assets increased by 11.3% to \$21,462.3 million due to the increase in loans receivable. Net interest margin is expected to drop to 3.37% in 2011-12. This is due to both an expected decrease in lending margins and a narrowing of the spread between the rate FCC earns on its assets and the rate it pays on its debt. In 2010-11, FCC's borrowing costs remained extremely low as demand for government debt continued to remain strong, keeping rates low relative to assets. In 2011-12, interest rates and competition are anticipated to increase resulting in decreased margins.

Other income

FCC generates income through its non-lending business lines including FCC Ventures, FCC Insurance and FCC Management Software products and support sales. In 2010-11, FCC experienced a 55.2% increase in income to \$16.0 million from these non-lending sources. This increase was primarily due to FCC's share of earnings in a venture capital investment over which the corporation has significant influence and an increased level of net insurance income. These income sources are expected to decrease to \$11.6 million in 2011-12.

Credit quality

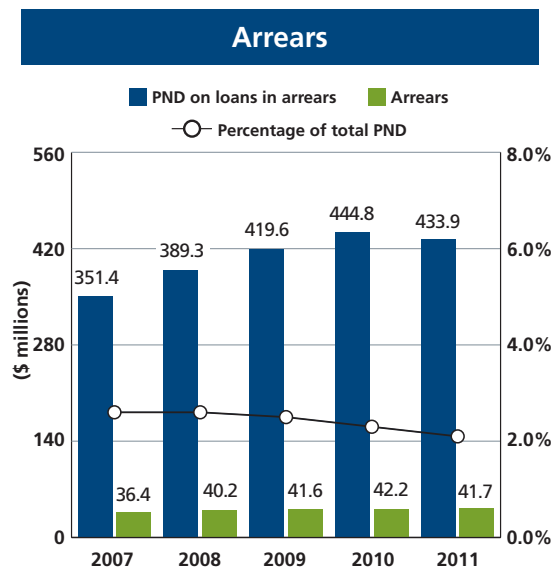
As part of FCC’s strategy to deliver an extraordinary customer experience and support Canadian agriculture, the corporation continually monitors its portfolio and the industry to proactively identify and develop solutions to help customers through difficult times. FCC has developed customized programs to assist sectors experiencing extraordinary challenges. FCC also provides several products that have payment deferral options, providing flexibility in payments to support customers in challenging times, as well as in times of opportunity.

While these payment schedule adjustments are used to assist customers, it is important to note that these programs and payment deferral options may understate the impact of economic events on arrears and impaired loans. These programs offer the customer increased payment flexibility in a variety of ways, including enabling the customer to amend the payment schedule on a loan. The number of customers using these support programs and deferral options is closely monitored to gauge the overall health of the portfolio and ensure proper risk management practices are employed.

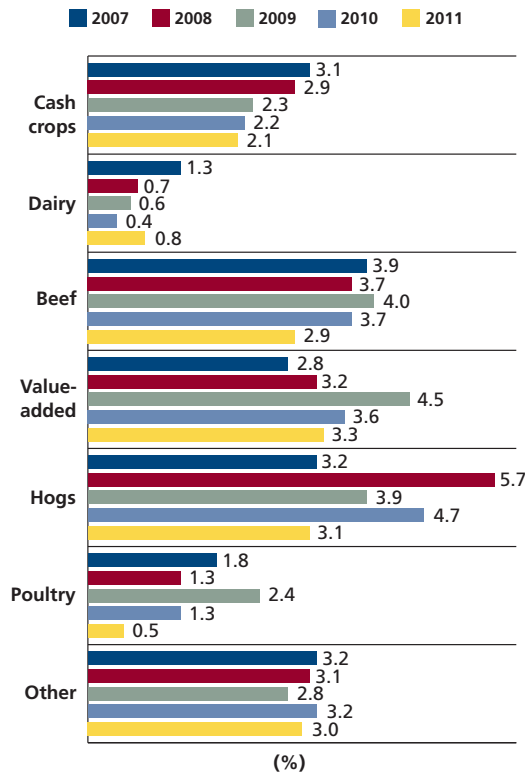
FCC has sound business practices in place for analyzing credit quality and monitoring loans in arrears and impaired loans. From this analysis, FCC can better assess the appropriate level of allowance for credit losses and determine whether its risk is within acceptable tolerances. In addition to the allowance for credit losses, FCC has the ability to withstand further losses due to its strong equity position.

Arrears

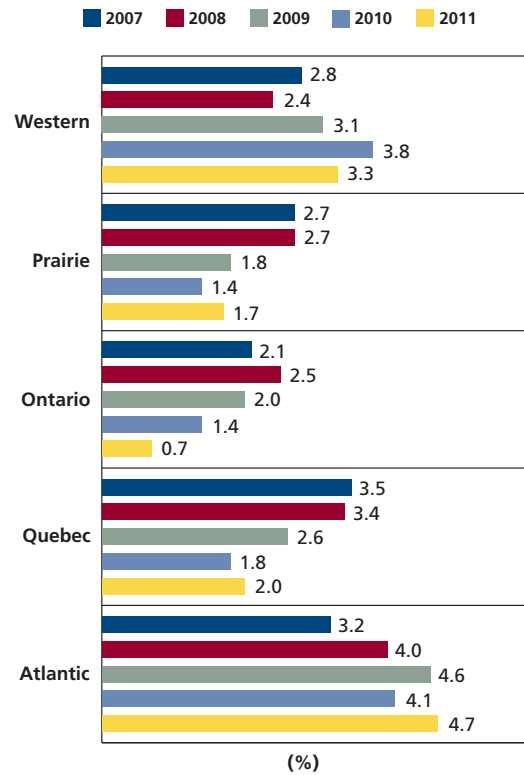
In 2010-11, PND on loans in arrears decreased by 2.5% to \$433.9 million, and arrears decreased by 1.2% to \$41.7 million. PND on loans in arrears, as a percentage of total PND, improved by 0.2% to 2.1%, which reflects effective mitigation of risk through portfolio diversification and sound credit risk practices. Arrears are anticipated to increase to \$84.7 million in 2011-12 as a result of an increased level of risk and expected portfolio growth.



PND on loans in arrears as % of enterprise PND



PND on loans in arrears as % of area PND



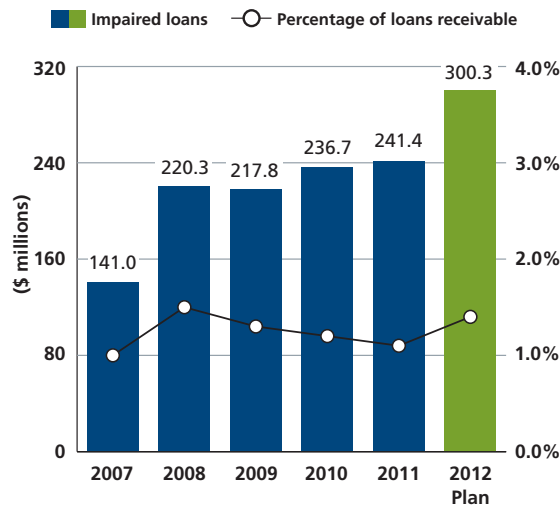
Impaired loans

In 2010-11, impaired loans increased by \$4.7 million from the previous fiscal year to \$241.4 million. Impaired loans as a percentage of loans receivable improved by 0.1% to 1.1%. In 2011-12, impaired loans are projected to increase by \$58.9 million to \$300.3 million due to an increase in the level of risk and growth in loans receivable.

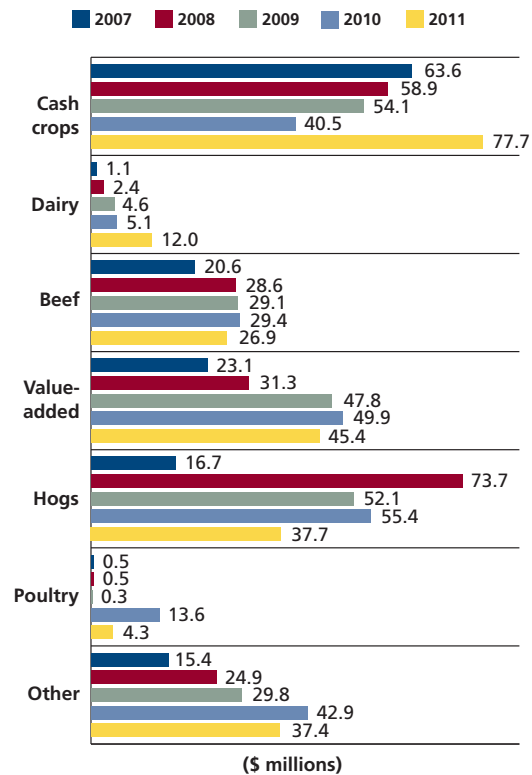
At an enterprise level, impaired loans for cash crops experienced the largest year-over-year increase of \$37.2 million to \$77.7 million. The hog enterprise experienced the largest year-over-year decrease of \$17.7 million to \$37.7 million.

FCC customer support programs, addressed earlier, give FCC employees the opportunity to proactively provide support to individual customers or enterprises during financial difficulties. In 2010-11, FCC made 1,819 payment schedule adjustments, 374 of which were part of its enterprise-specific support programs. Payment schedule adjustments as a percentage of PND decreased from 4.5% in 2009-10 to 3.3% in 2010-11.

Impaired loans



Impaired loans by enterprise

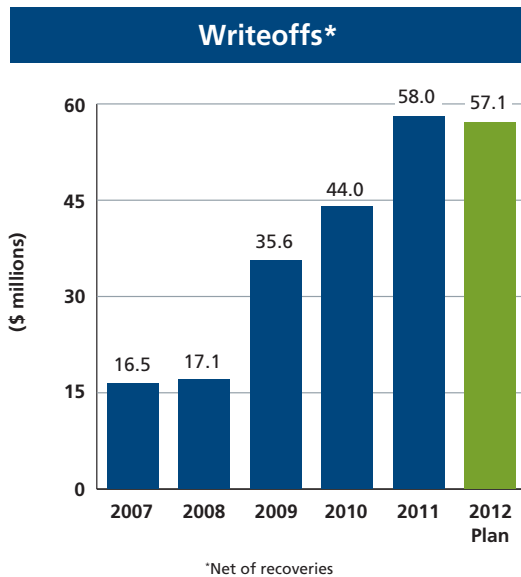


Writeoffs

Loan amounts deemed uncollectible by management are considered in default and may result in full or partial writeoffs, depending on the level and value of security on hand.

In 2010-11, the amount of writeoffs, net of recoveries, increased to \$58.0 million. Writeoffs as a percentage of loans receivable increased from 0.2% to 0.3%.

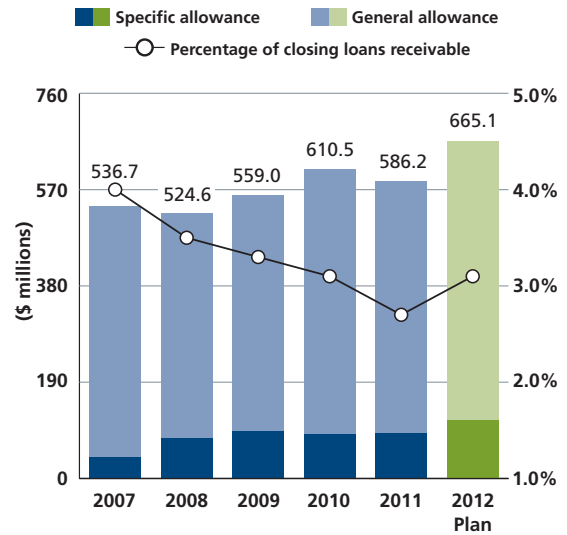
Writeoffs are projected to decrease by \$0.9 million or 1.6% in 2011-12 to \$57.1 million. Writeoffs as a percentage of loans receivable are expected to remain at 0.3%. Additional losses may be realized as a result of ongoing economic conditions.



Allowance for credit losses

The allowance for credit losses is an estimate used to adjust loans receivable to reflect the estimated realizable value. In addition to the use of indicators, such as loans in arrears and impaired loans, management must rely on estimates and judgment when assessing the appropriate level of realizable value. These factors, coupled with changes in the external operating environment, may cause the realized credit losses to be materially different from current assessments, resulting in the need for an increase or decrease in the provision for credit losses.

Allowance for credit losses



The allowance for credit losses has two components:

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

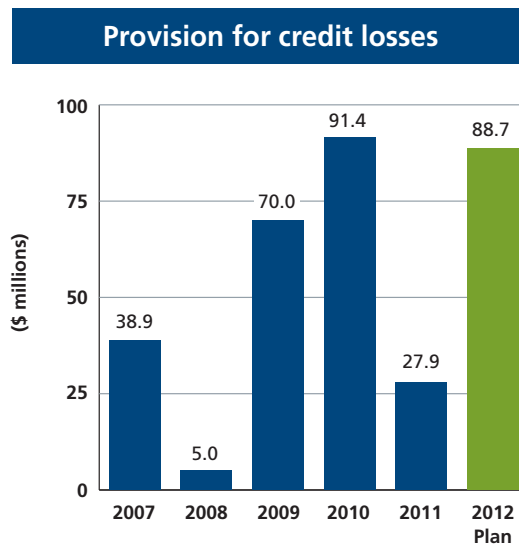
General allowance – provides for management’s best estimate of incurred losses that exist in the portfolio that have not been specifically identified as impaired. Analysis to determine the general allowance considers loans that have shown some deterioration in credit quality. It also estimates unidentified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

In 2010-11, the allowance for credit losses decreased to \$586.2 million, \$24.3 million lower than the previous fiscal year. The decrease was due to updating the parameters in the model used to calculate the allowance for credit losses as well as improved portfolio health. The updated parameters reflect FCC’s lower than expected loss experience in recent years. The allowance for credit losses as a percentage of closing loans receivable decreased from 3.1% to 2.7%. The allowance is expected to increase by 13.5% to \$665.1 million in 2011-12.

Provision for credit losses

Once the allowance for credit losses and writeoffs are determined by management, the provision for credit losses is charged against net income by an amount necessary to bring the allowance for credit losses to the appropriate level.

To bring the allowance to the appropriate level of \$586.2 million, the provision for credit losses decreased to \$27.9 million in 2010-11. In 2011-12, the provision is expected to increase to \$88.7 million as a result of an increase in the level of risk and the growth in loans receivable.



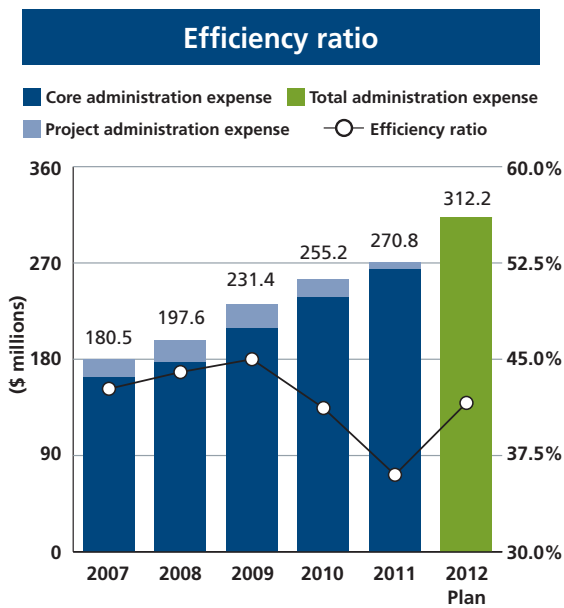
Efficiency

The efficiency ratio measures the percentage of income earned that is spent on the operation of the business. A low efficiency ratio indicates efficient use of corporate resources. FCC administration expenses are broken down into core expenses and project expenses. Core expenses represent costs associated with the day-to-day operation of FCC, and include such costs as salaries and benefits and travel and training expenses. Project expenses are costs related to specific projects undertaken by FCC to support operations and the achievement of strategic goals.

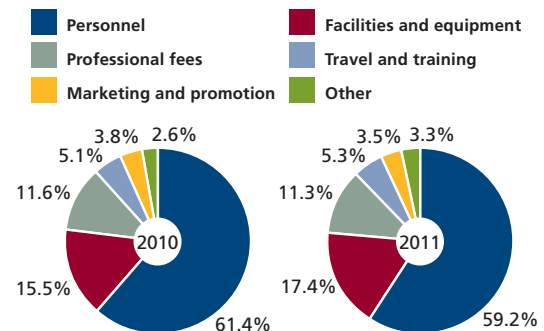
Core expenses increased by \$26.0 million to \$263.9 million in 2010-11. Project expenses in 2010-11 decreased by \$10.4 million to \$6.9 million as more project resources were utilized for capital projects compared to 2009-10. Although total administration expenses increased in 2010-11, the efficiency ratio improved from 41.2% to 35.9% due to higher net interest income.

In 2010-11, the largest increases in total administration expense were in the categories of facilities and equipment and personnel. The increases were primarily due to the amortization of software expenditures and resource requirements to support growth of the business and strategic initiatives. Facilities and equipment as a percentage of total administration expenses increased by 1.9% to 17.4%. Personnel continues to represent the largest proportion of total administration expenses in 2010-11 at 59.2%.

Total administration expenses are projected to increase to \$312.2 million in 2011-12 and the efficiency ratio is expected to increase to 41.6%. FCC will work diligently to contain costs below this projection. Growth in administrative expense will be necessary to support continued portfolio growth, normal inflationary pressures and additional depreciation on current capital projects.



Administration expenses by category



Funding and liquidity

Funding activity

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

During 2010-11, FCC raised short- and long-term funds through the following programs:

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

Short-term funding

Short-term funding consists of borrowings with a term to maturity of one year or less. Funding is raised through the Domestic Commercial Paper Program and the Crown Borrowing Program. The outstanding short-term borrowings at March 31, 2011, were \$8.0 billion compared to \$8.8 billion at March 31, 2010. Of the total short-term borrowings outstanding, \$7.6 billion were funds from the Crown Borrowing Program.

Long-term funding

Long-term funding consists of all borrowings with a term to maturity of more than one year, which includes fixed-rate borrowings and floating rate notes. Floating rate notes are borrowings with a term to maturity of more than one year that have a floating interest rate that resets based on one-month or three-month T-bill rates. In 2010-11, FCC borrowed a total of \$5.8 billion in long-term funds, down from \$6.5 billion the previous fiscal year. In 2010-11, all long-term borrowing was through the Crown Borrowing Program.

Overall, the total growth in funding during 2010-11 was an increase of \$1.2 billion or 6.7%. This is consistent with the overall growth of the loan portfolio of \$1.6 billion or 7.9%, during the same time period.

Credit ratings

New and outstanding capital market debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. During 2010-11, the corporation's debt ratings were unchanged by Moody's Investors Service and Standard & Poor's. FCC's foreign and domestic debt ratings as of March 31, 2011, are detailed below.

Credit ratings

	Domestic debt		Foreign debt	
	Long-term	Short-term	Long-term	Short-term
Moody's	Aaa	P1	Aaa	P-1
Standard & Poor's	AAA	A-1+	AAA	A-1+

Financial instruments

Most of FCC's balance sheet is comprised of financial instruments that include, but are not limited to, items such as cash, loans receivable and investments. The use of financial instruments exposes FCC to interest rate and, to a lesser extent, foreign exchange rate fluctuations. As part of its overall liability management, FCC uses derivatives to hedge

risks and reduce income volatility to help ensure FCC's long-term profitability. Derivative risk management is discussed further in Note 24 of the Notes to the Consolidated Financial Statements. Fair value measurement of FCC's financial instruments is described in Note 20 of the Notes to the Consolidated Financial Statements.

Cash flow

Cash and cash equivalents have decreased \$26.2 million from \$628.0 million at March 31, 2010, to \$601.8 million at March 31, 2011. In 2010-11, cash of \$454.9 million and \$1.2 billion was provided by operating and financing activities respectively, and \$1.7 billion was used in investing activities.

Capital Management**Capitalization**

FCC's gross assets are \$22,496.2 million, of which \$3,354.8 million are supported by equity and allowance for credit losses. At this level of capitalization, 14.9% of assets do not require external debt financing. Capitalization is expected to increase to 15.9% in 2011-12, due to lower portfolio growth relative to growth in retained earnings.

(\$ millions)	2012 Plan	2011	2010	2009	2008	2007
Equity:						
Capital	547.7	547.7	547.7	547.7	547.7	547.7
Retained earnings	2,186.3	2,025.7	1,584.3	1,321.0	1,132.0	914.4
Non-controlling interest in variable interest entity	17.1	13.4	9.5	7.6	0.2	0.0
Accumulated other comprehensive income	187.7	181.8	203.6	407.2	97.1	0.0
Subtotal	2,938.8	2,768.6	2,345.1	2,283.5	1,777.0	1,462.1
Allowance for credit losses	665.1	586.2	610.5	559.0	524.6	536.7
Total capitalization	3,603.9	3,354.8	2,955.6	2,842.9	2,301.6	1,998.8
Gross assets not requiring debt financing (%)	15.9	14.9	14.1	15.5	14.4	13.9

Debt to equity

FCC uses debt to equity as a key measure to assess capital adequacy. It is also used in financial management as a measure of the corporation's ability to fund future growth and meet long-term obligations. Monitoring debt to equity helps to ensure continued self-sustainability and financial viability.

FCC continues to be below its legislated limit of debt to equity, which is 12:1.

From 2009-10 to 2010-11, FCC's debt-to-equity ratio improved from 8.4:1 to 7.4:1. In 2011-12, this ratio is projected to improve further to 6.9:1. A contributing factor to this improvement is the relationship between portfolio and equity growth. When growth in equity exceeds portfolio growth, the debt-to-equity ratio decreases due to a reduced requirement for borrowed funds. In 2010-11, growth in equity was 20.8%, which exceeded the portfolio growth of 7.9%.

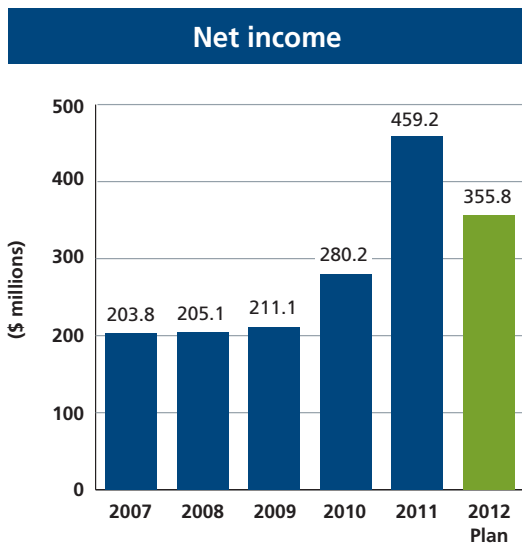
Shareholder return

FCC uses three key corporate measures to determine its overall success toward financial strength: net income, return on equity and debt to equity. As discussed above, debt to equity improved from 8.4:1 in 2009-10 to 7.4:1 in 2010-11, due to the growth in equity exceeding the portfolio growth.

Net income

As part of its commitment to agriculture, FCC reinvests its earnings in agriculture through financing portfolio growth and developing new products and business services that support the industry.

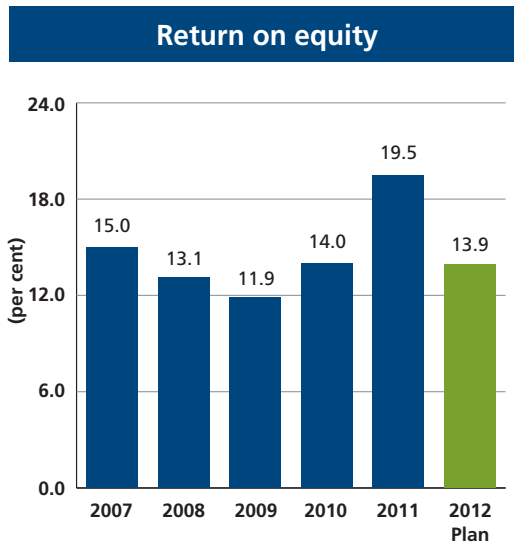
Net income is composed of net interest income and other income, provision for credit losses, administration expenses and fair value adjustments. In 2010-11, net income increased by \$179.0 million from the previous fiscal year, primarily due to the increased level of net interest income and the decrease in the provision for credit losses. These increases were offset by increases in administration expenses. Net income is projected to decrease 22.5% in 2011-12, mainly due to the lower net interest margins, a higher provision for credit losses and increased administrative expenses.



Return on equity

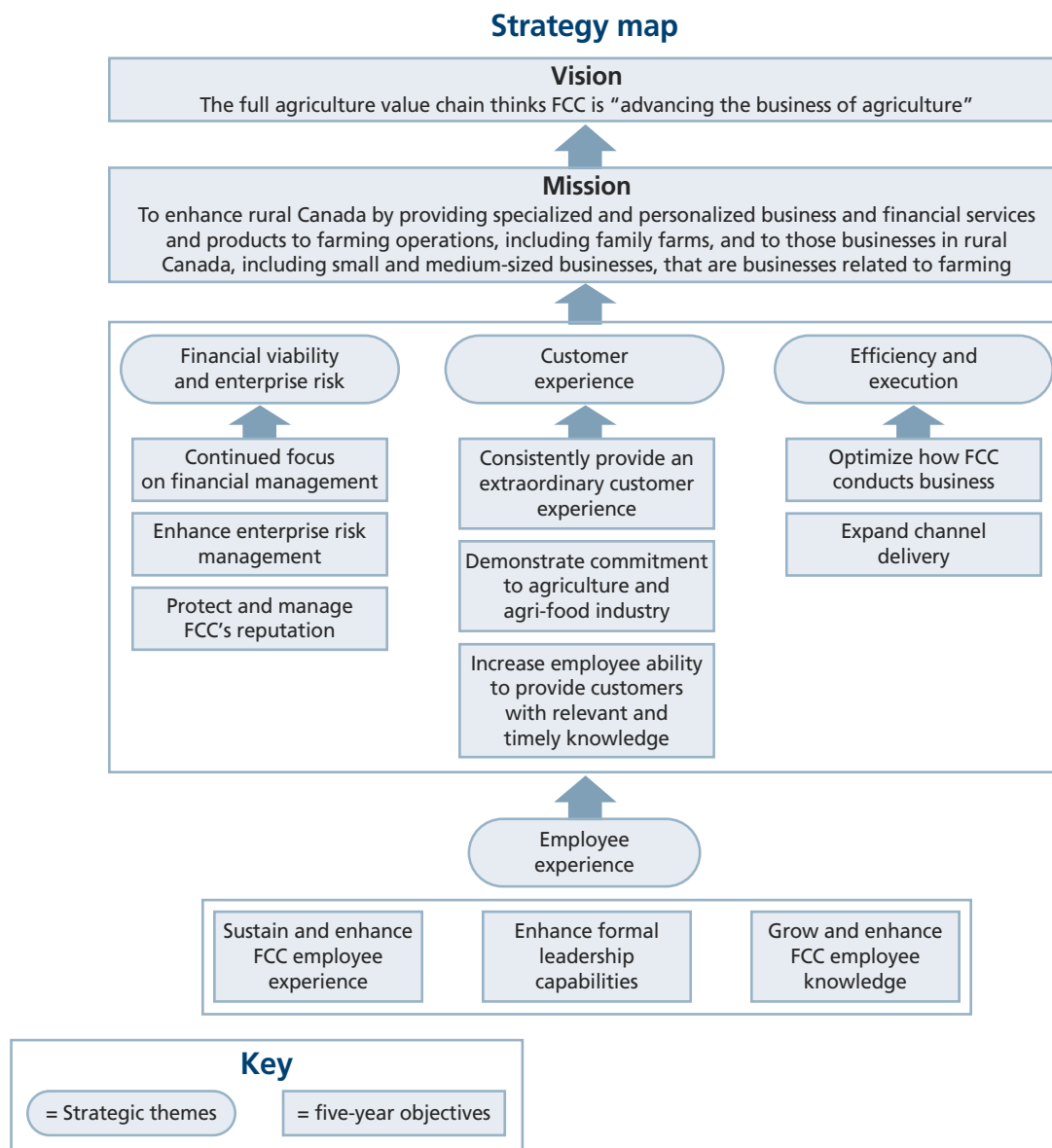
This ratio measures FCC's efficiency at using its existing equity base to generate income. It is used to evaluate financial performance, viability and the corporation's ability to fund future growth and strategic initiatives.

Return on equity increased to 19.5% in 2010-11 from 14.0% in 2009-10. The year-over-year increase was due to increased net income. Return on equity is projected to decrease to 13.9% in 2011-12. The decrease is mainly due to the lower net interest income, an increase in the provision for credit losses and higher administration expenses.



2011-12 Future targets, objectives and initiatives

FCC uses four strategic themes for corporate planning purposes. A corporate strategy map illustrates how the 11 five-year strategic objectives within these themes work together towards achieving FCC's vision and mission. The Employee experience theme and related objectives is foundational. Employee leadership, expertise and knowledge support FCC in executing the other three themes and initiatives. Together, these 11 objectives lead to accomplishing the corporate vision and mission.



The 2011-12 corporate scorecard outlines how we plan to continue providing products, services and knowledge tailored to the unique needs of the agriculture and agri-food industry.

Theme: Customer experience

Critical outcome

In 2020, FCC continues to deliver an extraordinary experience to customers. The Customer Experience Index score indicates that two out of three customers (65%) rate their experience with FCC as 5 out of 5.

Corporate measures	2011-12 Target	2012-13 Target	2013-14 Target
Customer experience index	60	60	60
Total lending to young farmers	\$1.48 B	\$1.73 B	\$1.87 B
Number of learning program participants	10,500	11,000	11,250

Five-year strategic objectives	2011-12 Initiatives
Consistently provide an extraordinary customer experience	Continuously improve the customer experience by analyzing feedback and implementing relevant actions
	Implement alliance process redesign with external alliances
	Develop tailored service by market segment, including specialized expertise for large loans
	Implement web strategy
Demonstrate commitment to the agriculture and agri-food industry, with a particular focus on producers and young farmers	Enhance programs to support young farmers
	Implement knowledge offering that adds value to customers
	Increase collaboration with Agriculture and Agri-Food Canada on key issues impacting sector
	Enhance venture capital offering
Increase employee ability to provide customers with relevant and timely knowledge	Define agriculture/finance knowledge expectations of customer-facing staff and integrate with sales process
	Offer employees additional information to share with customers, including sector-specific knowledge, publications and key messages

Theme: Efficiency and execution

Critical outcome

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

Corporate measures	2011-12 Target	2012-13 Target	2013-14 Target
Efficiency ratio	41.6%	41.3%	41.1%
Employee engagement (easy to do business indicators) ¹	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers

1) Easy to do business indicators include: co-workers, physical work environment; resources; work processes; work tasks

Five-year strategic objectives	2011-12 Initiatives
Optimize how FCC conducts business	Implement business process and technical transformation program (BK)
	Implement optimization strategy
	Implement new property valuation software
	Develop corporate-wide business process management
	Implement information management program
Expand channel delivery	Develop integrated channel delivery strategy
	Enhance e-business strategy
	Create strategy to enhance customer access to approved credit

Theme: Employee experience

Critical outcome

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

Corporate measures	2011-12 Target	2012-13 Target	2013-14 Target
Employee engagement index	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers
Employee index: (employee experience indicators) ¹	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers
Leadership index: (subset of employee engagement survey data leadership indicators) ²	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers
Learning measure	Establish measure	TBD	TBD

1) Employee experience indicators – scores on the following drivers are averaged to calculate the score: career opportunities; learning and development; intrinsic motivation; managing performance; work/life balance

2) Leadership indicators – scores on the following drivers are averaged to calculate the score: senior leadership; manager; recognition; career opportunities; managing performance

Five-year strategic objectives	2011-12 Initiatives
Sustain and enhance FCC employee experience	Implement updated culture strategy
	Enhance workforce through the employment equity plan and diversity strategy
	Implement training to foster leadership at all levels
Enhance formal leadership capabilities	Implement leadership and succession planning
	Enhance workforce planning
Grow and enhance FCC employee knowledge	Implement Lending Essentials program
	Improve employee access to specialized agriculture and finance knowledge via intranet, collaboration tools, podcast and web

Theme: Financial viability and enterprise risk

Critical outcome

In 2020, FCC has a diversified agriculture, agribusiness and agri-food portfolio. The corporation has remained financially viable and self-sustaining, with a strong balance sheet and an ROE of greater than or equal to 12%.

Corporate measures	2011-12 Target	2012-13 Target	2013-14 Target
Net income	\$355.8 M	\$378.9 M	\$408.2 M
Return on equity	13.9%	12.9%	12.3%
Debt-to-equity ratio	6.9:1	6.5:1	6.2:1
Portfolio growth	3.3%	7.0%	7.0%
ERM maturity measure	Establish measure	TBD	TBD
RSPS risk score	770 pts	770 pts	770 pts
Media favourability index	7 points above global average for financial institutions	7 points above global average for financial institutions	7 points above global average for financial institutions

Five-year strategic objectives	2011-12 Initiatives
Continued focus on financial management	Research and develop economic capital management framework
Enhance enterprise risk management (ERM)	Enhance internal controls Implement amended ERM framework Implement enhanced enterprise security
Protect and manage FCC's reputation as an ethical corporation with high integrity	Implement integrated reputation management strategy Benchmark FCC's environmental footprint

Enterprise risk management

Managing risks to protect the corporation and create value

As a financial institution, risk is inherent in virtually every decision. Whether lending to customers, defining business priorities or deciding where to invest in the business, potential risks are taken into account.

FCC is diligent about enterprise risk management (ERM). ERM is integrated with strategic planning across business lines and corporate initiatives.

Risk governance

The Board of Directors oversees FCC's risk governance framework, which is supported by a number of policies and committees that guide corporate decision-making.

Potential risks are identified and analyzed through external scanning, consultation with internal subject matter experts and by other means. FCC's Senior Leadership Team helps to identify the top enterprise risks, which are then presented to the Board for input. Members of the Executive Management Team (EMT) create risk mitigation plans, monitor progress, and report to the Board on a quarterly basis through the corporate scorecard.

A number of internal committees develop and monitor aspects of FCC's overall risk management policies, processes and practices. These committees report regularly to the CEO and to EMT as required, or to the Board of Directors.

Board of Directors and committees of the Board

The Board of Directors oversees risk management and ensures that policies, control systems and practices are in place to manage key business and financial risks. Three committees assist the Board in fulfilling its oversight responsibilities.

The **Audit Committee** of the Board ensures that management has identified key risks and reasonable policies, control systems and practices are in place to manage them and monitor effectiveness of remediation plans.

The **Human Resources Committee** reviews major human resources policy matters, the corporation's succession plan, and advises the Board of Directors on matters related to the CEO.

The **Corporate Governance Committee** reviews and makes recommendations to the Board with respect to sound governance practices.

FCC management risk committees

The **CEO** and **Executive Management Team** are responsible for corporate decision-making, including the business strategy, enterprise risk management, investment strategy, allocation of enterprise resources and resolution of major strategic issues.

FCC's **Senior Leadership Team** provides input to setting corporate priorities to achieve strategic objectives consistent with the mandate and approved direction.

The **Asset Liability Committee (ALCO)** directs FCC's asset/liability management function, including establishing and maintaining portfolio risk management policies and procedures, loan pricing direction, integration with corporate strategies and achievement of portfolio return targets.

FCC's **Credit Committee** reviews and makes lending decisions on agribusiness and agri-food loan applications from customers with a total exposure in excess of \$10 million for established operations and in excess of \$5 million for start-up operations. The committee reviews loans in primary production from customers with total exposure in excess of \$15 million for established operations and in excess of \$7.5 million for start-up operations.

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

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

The **ERM Steering Committee** reviews and recommends FCC’s ERM framework, policies and strategies, and subsequent enhancements to EMT, and approves the annual top corporate risk action plans.

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

The **Pension Committee** provides advice to the Human Resources Committee of the Board regarding monitoring the approved governance structure for the pension plan.

The **Security Co-ordination Committee** oversees the design and development of FCC’s security policy and principles to ensure the protection of FCC employees and assets.

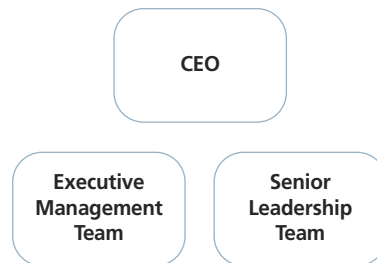
The **Strategy Execution Team** approves corporate projects that enable the execution of the business strategy.

The **Venture Capital Investment Committee** adjudicates all investment recommendations and monitors the performance of the FCC Fund venture capital investments.

Board and Board Committees



Senior Management



Management Committees



FCC's principal risks

Risk is the potential for an event, action or inaction that may threaten FCC's ability to achieve its business mandate and objectives. FCC has five principal risks: credit, market, operational, strategic and reputation.

Credit risk

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

Overall, the Board of Directors is responsible for approving the organization's credit risk tolerance and relies on a number of committees, divisions and departments to effectively manage credit risks that impact the corporation.

Assessment of credit risk starts with individual transactions. FCC lending and credit risk staff assess and manage credit risk by ensuring that individual loans are consistent with defined policies and guidelines.

In addition to managing credit risk at the transactional level, the Portfolio and Credit Risk Division assesses credit risk at the aggregate level by providing assessment tools and models that quantify risks, establish the required allowance for loan and lease losses and monitor capital adequacy. Policies, processes, systems, internal controls and strategies are used to manage the credit risk of the portfolio. FCC also closely monitors the agriculture and agri-food operating environments to ensure that the corporation's lending policies, activities and practices are appropriate and relevant.

Further details on how FCC manages credit risk are described in Note 24 of the Notes to the Consolidated Financial Statements.

Market risk

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

Market risk policies are regularly reviewed by ALCO and approved by the Board of Directors. The Treasury division implements market risk management directives and reports regularly to ALCO and the Board of Directors on its activities and asset/liability positions.

FCC has market risk policies and limits in place to ensure that exposure to interest rate and foreign exchange risks are identified, measured, managed and reported on a timely basis. Market risk management at FCC also encompasses derivative fair value risk and liquidity risk. Policies include limits around the variability of net interest income and the market value of portfolio equity relative to interest rate changes.

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

Further details on how FCC manages market risk are described in Note 24 of the Notes to the Consolidated Financial Statements.

Operational risk

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

FCC is committed to preserving customer and shareholder value by proactively managing operational risk. Managers are responsible to manage operational risk by ensuring that appropriate policies and procedures are in place within their business units, and that internal controls are operating effectively.

FCC's Field Operations Audit program examines lending activities and provides learning opportunities for continuous improvement in the areas of risk assessment and mitigation, compliance to lending policy, and data integrity.

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

To ensure that the corporation can sustain operations in the event of a business disruption, FCC actively updates and tests its business continuity management program.

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

FCC is entering the final stages of implementing a major information technology (IT) systems renewal that will streamline and automate many business processes, ensuring that the IT infrastructure can support business into the future. Risks related to the project are mitigated by extensive risk governance and reporting, ongoing reviews by Internal Audit and an external consultant, and change management and training activities.

Strategic risk

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

Executive management develops corporate strategy annually, with oversight provided by the Board of Directors. Progress on the strategic plan is monitored through quarterly reporting to senior management and the Board of Directors. The external environment is monitored (including the Canadian financial

marketplace and the agriculture industry) to discern if strategic changes are required to address emerging risks. FCC regularly communicates with the federal government to ensure alignment of the corporation's activities with government priorities.

Reputation risk

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

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

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

Changes in accounting standards

Current changes

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

International Financial Reporting Standards

Pursuant to a decision made by the Canadian Accounting Standards Board, the corporation will begin reporting under International Financial Reporting Standards (IFRS) starting with the year ended March 31, 2012, including March 31, 2011, comparative results. Changing from Canadian generally accepted accounting principles (GAAP) to IFRS was a significant undertaking for the corporation. The corporation developed and followed an IFRS conversion plan with a formal governance structure to monitor the progress and critical decisions made during the conversion. New or amended IFRS will continue to be monitored for impacts to the corporation.

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

Consideration of the required resources for the IFRS conversion project resulted in the dedication of certain full-time resources as well as other employees on a part-time basis as their expertise was required.

The following table lists key elements of the corporation's conversion plan, major milestones and the status of their completion. The corporation's conversion plan was completed over the time period from July 2008 to March 2011. Management previously disclosed that the conversion plan would be completed in June 2012. During the fiscal year, the corporation completed its implementation of the policies and procedures required to ensure IFRS compliance and a decision was made that the specific project dedicated to the implementation of IFRS had fulfilled the defined business objectives. The remaining tasks identified in the conversion plan are consistent with the day-to-day responsibilities of the corporation and will be managed as such. Completion of the first IFRS-compliant annual financial statements continues to be a key goal of the corporation.

Element	Milestone	Status
Financial Reporting		
<p>Determine accounting and reporting differences.</p> <p>Select ongoing IFRS accounting policies.</p> <p>Select IFRS 1 elections.</p> <p>Develop IFRS financial statement format, including disclosures.</p> <p>Quantify effects of conversion.</p>	<p>Executive management approval of IFRS accounting policy and IFRS 1 election choices to occur in Q2, 2009-10.</p> <p>Draft financial statement format to be completed by Q4, 2009-10.</p> <p>Opening IFRS balance sheet to be completed in Q2, 2010-11.</p>	<p>Executive management approval of accounting policy choices and IFRS 1 elections has been obtained.</p> <p>IFRS financial statement format has been completed.</p> <p>Opening IFRS balance sheet has been completed and the effects of conversion have been quantified.</p>
Systems and Processes		
<p>Determine impact of accounting policy changes on systems and processes and implement required changes.</p> <p>Confirm systems and processes support data requirements of financial reporting.</p> <p>Ensure the control environment is maintained as system and process changes are implemented.</p>	<p>System and process changes completed in time to support dual reporting requirements throughout fiscal 2010-11.</p> <p>Comparative financial statements and disclosures completed throughout fiscal 2010-11.</p> <p>All key control implications have been assessed when planning system and process change implementations.</p>	<p>System and process changes required have been implemented, including development of a dual reporting system for fiscal 2010-11. The changes required were not significant.</p> <p>IFRS financial statements have been completed for the comparative year.</p> <p>System and process changes were assessed for impacts to the control environment. No significant changes were required.</p>
Business		
<p>Assess impacts to all areas of the business and implement required changes.</p> <p>Communicate conversion plan, impacts of IFRS and implementation progress internally and externally.</p> <p>Determine and provide the appropriate level of IFRS training for each area of the corporation.</p>	<p>Impact to all areas of the business to be determined by Q2, 2009-10.</p> <p>Maintain and execute change management and communication plans throughout the project.</p>	<p>Assessment of impacts on other areas of the business has been completed. Impacts were communicated to the business areas and required changes were implemented. Changes were not significant.</p> <p>Updates are provided to the Audit Committee at each meeting. Special sessions were held to communicate IFRS impacts identified and IFRS 1 election choices and to present the opening IFRS balance sheet.</p> <p>Detailed IFRS training has been provided to key members of the IFRS project team. The training and information needs of the rest of the corporation have been identified and addressed.</p>

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

A final determination of the impact IFRS will have on the consolidated financial statements of the corporation cannot be measured with certainty until all the IFRS applicable at March 31, 2012, the corporation's first IFRS year-end, are known. The quantified impacts detailed below are therefore subject to change.

The total impact to the corporation's total shareholder's equity at April 1, 2010, the corporation's IFRS transition date, is expected to be a decrease of \$127.9 million.

Employee benefits

(i) Under IFRS, the corporation expects that its accounting policy will be to recognize actuarial gains and losses in other comprehensive income (OCI) annually at March 31 of each year. Under GAAP, the corporation currently recognizes actuarial gains and losses over time using the corridor approach. The corporation expects to elect to recognize all cumulative actuarial gains and losses for its defined benefit plans at the date of transition. The transitional adjustment to retained earnings relating to this item is expected to be a decrease of \$63.4 million. Further, the corporation expects to elect to use the exemption not to disclose the present value of the defined benefit obligation, the fair value of the plan assets, the defined benefit plan surplus/deficit and experience adjustments before the date of transition.

(ii) Under IFRS, the corporation must recognize a liability immediately for all past service costs arising from plan amendments to the extent that the benefits are already vested, and otherwise must recognize them on a straight-line basis over the average period until the benefits become vested. Under Canadian GAAP, all past service costs from plan amendments were amortized over the average

remaining service period of active employees when the amendment was recognized. On transition, the corporation expects to recognize all vested past service costs and the impact to retained earnings is expected to be a decrease of \$1.3 million.

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

(iv) Under IFRS, the measurement date for the accrued benefit obligation and the plan assets must be a date such that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period. Under Canadian GAAP, the plan assets and accrued benefit obligation were measured three months prior to the date of the annual financial statements. On transition, the corporation expects to recognize a \$21.4 million decrease to retained earnings as a result of the change in measurement date.

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

Loan origination costs

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

Fees assessed after loan origination

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

Unwinding of the discount

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. An impairment loss is recorded as the difference between the loan's carrying amount and the present value of discounted estimated

future cash flows. In subsequent periods, any change in present value of estimated future cash flows attributable to the passage of time adjusts the allowance for credit losses through the unwinding of the discount and the amount of the adjustment is recorded as income. Under IFRS, this income is recognized in interest income while under Canadian GAAP, it was recognized as a reduction to the provision for credit losses. There is no expected effect on the corporation's total shareholder's equity at transition from adopting this new income recognition policy.

Investments in associates

Under IFRS, investments in associates consolidated by the parent company of a venture capital organization must be accounted for at cost using the equity method of accounting. Under Canadian GAAP, venture capital investments under significant influence consolidated by the parent company of a venture capital organization were accounted for at fair value. The impact on transition is expected to be a \$1.1-million increase to retained earnings and a \$0.5-million increase to non-controlling interest in variable interest entity.

Other IFRS elections at transition**Business combinations**

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

Leases

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

Borrowing costs

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

The following tables further illustrate the impact the transition to IFRS is expected to have on the financial position and performance of the corporation.

Reconciliation of equity

(\$ thousands)	April 1, 2010
Total equity under Canadian GAAP	\$ 2,345,055
Differences increasing (decreasing) retained earnings	
Employee benefits	(87,454)
Loan origination costs	(6,038)
Fees assessed after loan origination	5,725
Investments in associates	1,064
Differences decreasing accumulated other comprehensive income	
Employee benefits	(41,755)
Differences increasing non-controlling interest in variable interest entity	
Investments in associates	526
Total equity under IFRS	\$ 2,217,123

Reconciliation of Consolidated Balance Sheet as of April 1, 2010

(\$ thousands)

Canadian GAAP accounts	Canadian GAAP	IFRS adjustments	IFRS	IFRS accounts
Assets				
Cash and cash equivalents	\$ 628,023	\$ –	\$ 628,023	Cash and cash equivalents
Temporary investments	199,818	–	199,818	Temporary investments
Accounts receivable	32,802	–	32,802	Accounts receivable
Derivative assets	66,945	–	66,945	Derivative assets
	927,588	–	927,588	
Loans receivable – net	19,159,940	(313)	19,159,627	Loans receivable – net
Finance leases receivable – net	2,827	–	2,827	Finance leases receivable – net
Venture capital investments	59,987	1,590	61,577	Venture capital investments
	19,222,754	1,277	19,224,031	
Equipment and leasehold improvements	31,513	–	31,513	Equipment and leasehold improvements
Computer software	42,814	–	42,814	Computer software
Equipment under operating leases	14,867	–	14,867	Equipment under operating leases
Other assets	46,791	(33,915)	12,876	Other assets
	135,985	(33,915)	102,070	
Total assets	\$ 20,286,327	\$ (32,638)	\$ 20,253,689	Total assets
Liabilities				
Accounts payable and accrued liabilities	\$ 48,619	\$ 1,229	\$ 49,848	Accounts payable and accrued liabilities
Derivative liabilities	6,843	–	6,843	Derivative liabilities
	55,462	1,229	56,691	
Borrowings				Borrowings
Short-term debt	8,810,407	–	8,810,407	Short-term debt
Long-term debt	8,948,764	–	8,948,764	Long-term debt
	17,759,171	–	17,759,171	
Other liabilities	126,639	94,065	220,704	Other liabilities
Shareholder's equity				
Contributed surplus	547,725	–	547,725	Contributed surplus
Retained earnings	1,584,266	(86,703)	1,497,563	Retained earnings
Accumulated other comprehensive income	203,603	(41,755)	161,848	Accumulated other comprehensive income
Equity attributable to shareholder of parent entity	2,335,594	(128,458)	2,207,136	Equity attributable to shareholder of parent entity
Non-controlling interest in variable interest entity	9,461	526	9,987	Non-controlling interest in special purpose entity
	2,345,055	(127,932)	2,217,123	
Total liabilities and shareholder's equity	\$ 20,286,327	\$ (32,638)	\$ 20,253,689	Total liabilities and equity