ANNUAL REPORT
2018 - 2019

FARM CREDIT CANADA

FCC CUSTOMER VALUE PROPOSITION

What you can expect from us:

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

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

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

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

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

We're easy to do business with.

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

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Message from the President and CEO

Canadian agriculture is an industry on the move and we are proud to be part of it. Our nation's ability to sustainably produce safe, high-quality food has never been better. As the leading source of financing to the Canadian agriculture and agri-food industry, we at Farm Credit Canada take our role in ensuring the success of this industry to heart.

The agriculture and agri-food industry contributes $114 billion each year to our economy and employs one in eight Canadians. We are one of just a handful of nations that produces more food than they consume. I am confident we will continue to grow this impact from a position of strength.

FCC is a self-sustaining federal Crown corporation. Our role is to provide business and financial services and products to Canadian agriculture producers, agri-food operations and agribusinesses of all sizes. Beyond lending money, we provide advisory services, business management knowledge and training to the industry, free of charge. We also offer creditor insurance, venture capital and farm management software designed specifically for agriculture and agri-food operators.

Although the industry remains strong, 2018-19 was a challenging year for many Canadian producers. Producers in different parts of the country faced springtime challenges such as transport delays and a rare June frost; and a wet, cold fall impacted harvest and quality. Most recently, an international trade dispute has affected canola exports and prices. In spite of these setbacks, Canadian producers remain resilient. FCC is 100% focused on agriculture and we stand by our customers and work to support them through these difficult periods.

To fulfil our mandate, we support agriculture and agri-food operations to become leaders in job creation and innovation. We continue to work with the entire agriculture value chain to advance sector-specific priorities such as helping producers and agribusinesses get products to market, research and innovation, food safety and export support. We manage every aspect of our business with diligence and care to ensure we can support this industry for years to come.

In terms of business performance, FCC's outstanding 2018-19 results reflect the strength of the agriculture industry. Our team of over 1,900 talented and hard-working employees came together to support our over 100,000 customers nationwide. We succeeded in delivering an exceptional customer experience with a Net Promoter Score® (NPS) of 69.5 to finish the fiscal year, placing us among other elite brands, including financial services and other organizations across Canada and around the world. We enjoyed another record year in terms of loan demand and growth, with our portfolio now exceeding $36.1 billion. Over 99% of our loans are in performing status.

We advanced our corporate strategy in 2018-19, rolling out new technology, tools and offerings to strengthen our role as the leader in agriculture financing and a trusted partner to Canadian agriculture for years to come. FCC's combination of excellent financial performance and profitability support the business today and enable us to invest for tomorrow.

Another way we support the industry is through public awareness. Together with our over 500 industry partners, we hosted the third annual Canada's Agriculture Day on February 12, 2019, and it was a huge success. The goal of Canada's Ag Day is to celebrate the incredible agriculture and agri-food industry while engaging in a conversation with Canadians to help them better understand where their food comes from. Events were held in over 100 communities nationwide and we reached millions of Canadians through social media. This was also the second year we hosted "Ignite" events for young farmers at various locations. Based on feedback, these events were well attended and well received by participants.

FCC also supports the communities in which we live and work. Our 15th annual Drive Away Hunger campaign set a new record, providing over 9.5 million meals for food banks and food programs nationwide. Our FCC AgriSpirit Fund contributed $1.5 million to 84 community projects across Canada in 2018-19. Last fall, we developed our own information booklet called *Rooted in Strength* – in collaboration with mental health experts – as a resource to encourage dialogue and enable people throughout our industry to seek support if they need it. This booklet was distributed to every farm mailbox in Canada. We also partnered with the Do More Agriculture Foundation to sponsor mental health first aid training programs for producers and provided support to 4-H Canada to help them deliver their Healthy Living Program for rural youth across Canada.

Looking ahead to our 2019-20 strategy, we are excited about the theme Building for the Future. This theme reflects our renewed focus on contributing to the health and vibrancy of the Canadian agriculture and agri-food industry. This past year, we made significant progress in the following strategic areas: developing a plan to increase our support of agri-food and agribusiness; rethinking our approach to support the next generation of agriculture entrepreneurs; enhancing our knowledge offerings to include advisory services to meet the needs of our customers, particularly related to inter-generational transfers; and developing new lending products and programs to assist young farmers and women agriculture entrepreneurs.

Our higher purpose is to serve the industry that feeds the world, inspiring possibility and passion. In 2019, we celebrate the 60th anniversary of our organization's founding. It's a great opportunity to reflect on our past and plan for our future and the future of this great industry. Success has never come easily for Canadian agriculture and agri-food, but I am confident the future is bright.

Michael Hoffort, President and CEO

Message from the Board Chair

FCC remains a strong and stable partner to the agriculture and agri-food industry, and the importance of this industry to the Canadian economy continues to expand.

FCC was founded in 1959 and for the past 60 years, it has delivered on its commitment to serve the industry and enhance rural Canada. FCC serves as a steady source of financing to Canadian agriculture, agribusiness and agri-food operations of all sizes. And it will continue to do so for decades to come. FCC employees are committed to innovating and evolving to meet the changing needs of agriculture well into the future.

Drawing on its rich history and deep understanding of the industry, FCC provides products, services and programs that support the long-term success of Canadian agriculture and agri-food. FCC had another successful year in 2018-19, growing its portfolio, effectively managing risks, and advancing its strategies and initiatives to serve its 100,000-plus customers nationwide.

The FCC Board of Directors is responsible for providing leadership and independent oversight of the organization's management and operations. Our current Board consists of members from across Canada, representing six Canadian provinces. We have a diverse set of backgrounds with extensive experience in executive leadership, agriculture, agri-food, finance, government, law, economics, corporate consulting and international development.

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

Respectfully submitted on behalf of the FCC Board of Directors,

Dale Johnston, Board Chair

Message from the Minister of Agriculture and Agri-Food

Canada's agriculture and agri-food industry is a vital part of our economy. It strengthens our middle class, creates jobs, innovates and grows our economy on the world stage. It provides safe, high-quality and sustainable food to a growing world. And it is in a strong position to provide even more.

Agriculture is big business. In 2018-19, Canada's agriculture and food system contributed over $114 billion to our economy. That's over $300 million a day keeping our economy strong. Canadian agriculture and food exports continue to grow, hitting $64 billion last year, a new record. At the foundation of this economic engine are almost 200,000 producers and thousands of small to medium-sized businesses.

The Government of Canada has a strong focus on trade. It recognizes the tremendous potential of our agriculture and agri-food industry, setting an ambitious target in 2017 to grow Canada's agri-food exports to $75 billion annually by 2025.

The work to reach this target is already underway, and it requires innovation and teamwork, including the support of trusted partners like FCC. The corporation supports Canadian agriculture and agri-food by offering financial and business products, services, learning and resources tailored to meet the diverse needs of all sectors of the industry at every stage, from new entrants to those planning for expansion or succession.

Our government's work includes a range of priorities to support Canada's farm families, producers and businesses along the agriculture value chain, and to deliver on our commitments to Canadians. I am encouraged by the momentum FCC has built in 2018-19, particularly related to two new offerings it has developed: the FCC Starter Loan and the Women Entrepreneur Program. In our ministerial mandate letter to FCC, we outlined additional areas of focus to assist young and new farmers entering the industry, as well as under-represented groups in agriculture. We also challenged FCC to assist with mental health challenges facing producers, and I am pleased by the progress made in this area in 2018-19.

The future of agriculture in Canada is promising and there is much work left to do. Working together with industry and Canadians, FCC is doing an excellent job in helping the sector to innovate, grow and prosper.

I thank FCC's Board of Directors and employees for their commitment to moving this great industry forward.

The Honourable Marie-Claude Bibeau, P.C., M.P.
Minister of Agriculture and Agri-Food

Supporting FCC's mandate: 2018-19 highlights

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

Financially strong

NET INCOME
$656.7 M

21,670
credit facilities
approved

PORTFOLIO
$36.1 B

26 years
OF GROWTH

Largest provider of capital
TO AGRICULTURE AND AGRI-FOOD

With knowledgeable, engaged employees

OVER **1,900** employees

97 offices
PRIMARILY IN
rural Canada

Aon Hewitt best employer
FOR **16**
consecutive years

SERVING OVER **100,000** customers

Proudly serving our industry

over
9.5 M
meals raised
THROUGH
FCC Drive Away Hunger

Delivering
EXCEPTIONAL
customer experience
NET PROMOTER SCORE® OF **69.5**

IGNITE: FCC Young Farmer Summit
Delivered in 11 locations across Canada to 1,901 attendees

$3.18 B LOANED TO young farmers

$4.29 M given back through community investment initiatives

Corporate profile

Farm Credit Canada (FCC) is a financially self-sustaining federal commercial Crown corporation reporting to Canadians and Parliament through the Minister of Agriculture and Agri-Food. FCC provides financing and other services to more than 100,000 customers.[1] We're a team of more than 1,900 employees operating from 97 offices located primarily in rural Canada with our corporate office located in Regina, Sask.

We're passionate about what we do and our team has professional expertise in many areas, focused on agriculture. We provide capital and other services to primary producers and agribusiness and agri-food operators who provide inputs or add value to agriculture. Primary production is FCC's core business and represents 83% of our loan portfolio. We share business management knowledge and training with our customers and the industry, free of charge. We offer management and accounting software designed for agriculture. We invest in venture capital funds that are dedicated to agriculture, providing an alternate source of capital and expertise to the growing number of innovative firms that will help the industry achieve new potential.

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

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

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

For 60 years, we've listened to our customers and continually adapted our products and services to fit their unique needs. Together, FCC and the agriculture community have experienced the dramatic transformations in production, technology and markets that are moving the industry forward. And through it all, one thing remains unchanged – agriculture matters to Canada and to FCC. With a healthy portfolio of $36.1 billion and 26 consecutive years of portfolio growth, FCC is a strong, stable partner dedicated to serving the Canadian agriculture industry through all economic cycles.

Vision

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

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

Corporate values

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

Our corporate values represent these core beliefs:

Act with integrity

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

Focus on the customer

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

Achieve excellence

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

Working together

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

Give back to the community

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

Cultural practices

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

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

Public policy role

FCC's mandate is described in the Farm Credit Canada Act as follows:

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

Our priorities reflect the federal government's mandate to support the agriculture and agri-food sector in a way that allows this vibrant industry to be a leader in job creation and innovation. Government priorities for the sector include support for agri-food exports, under-represented groups in Canadian agriculture and agri-food, products to facilitate intergenerational transfers and assist young and new farmers entering the industry, and mental health challenges facing producers. FCC's mandate letters are available on the Agriculture and Agri-Food Canada website.

We provide access to capital

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

Access to capital allows primary producers and agribusiness and agri-food operators to adopt innovative practices and business models that enable them to expand, lower their production costs, develop new products, compete in global markets and take advantage of trade opportunities.

Healthy marketplace competition and a choice of financing are necessary for Canadian producers and agribusinesses to be successful through all economic cycles. FCC works with credit unions and our sister Crown corporations – Business Development Bank of Canada and Export Development Canada – to address market and policy issues of mutual interest and identify opportunities for partnership. We partner with Canadian banks to provide financing for larger agriculture operations and agribusinesses. We also offer venture capital financing to the industry through independent partners who manage a series of investment funds on behalf of FCC and other investment partners. This commitment to venture capital ensures that capital and business expertise are available to help innovative firms grow into strong businesses in Canada. FCC continued to be self-sustaining and profitable in 2018-19. Our ongoing strength and stability allow us to serve agriculture through all cycles. We continue to reinvest FCC's profits into agriculture through increased lending to customers and by developing knowledge, products and services to meet our customers' needs.

We advance the business of agriculture

We believe sound financial management is key to successful agriculture and agri-food operations. To help advance producers' business management skills and knowledge, FCC continued to offer a wide range of learning events, multimedia tools, publications and other resources to our customers and the industry in 2018-19. Producers of all ages and in all sectors can access our in-person and online resources, free of charge. In addition, FCC offers accounting and farm management software, including cloud-based tools that enhance our customers' ability to manage their businesses and meet consumer demands. We also ensure our employees have the appropriate knowledge and tools to provide solid insight and expertise to our customers to help them achieve their goals. In addition to agriculture-focused knowledge, FCC also makes available several mental health resources on its website and publications, so that customers, employees and Canadians can take care of their families and themselves.

The next generation is important to the ongoing growth and success of Canada's agriculture and agri-food industry. FCC proudly supports these enthusiastic, hardworking people by offering products and services such as the Transition Loan, Young Farmer Loan and Young Entrepreneur Loan. Our aim is to help young people enter the industry, assist them with intergenerational transfers of operations, provide them with valuable knowledge and help grow their businesses. FCC also supports young farmers and entrepreneurs through its FCC On Campus program and events such as Ignite: FCC Young Farmer Summit.

FCC is committed to supporting the Government of Canada's Women Entrepreneurship Strategy by creating and launching a program to support women entrepreneurs in agriculture and agri-food. To support the need for capital, FCC launched the FCC Women Entrepreneur Loan in 2018-19.

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

We support government policy through collaboration with other government agencies

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

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

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

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

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

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

We operate our business in a sustainable manner

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

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

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

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

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

Results and delivery

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

By achieving our mandate through the provision of specialized products, services, knowledge and support to Canadian producers and agribusiness and agri-food operators, FCC serves as a trusted partner, enabling the industry to continue to create good jobs and opportunities in rural communities across the country, and to drive the Canadian economy. For a summary of the results we delivered in 2018-19 for our customers, Canadian agriculture and all Canadians, along with expected outcomes, key performance indicators and targets, refer to the Results Commitment section.

Corporate governance

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

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

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

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

Board of Directors

The FCC Board of Directors represents Canadians and the breadth of the agriculture and agri-food industry. Its expertise contributes significantly to the corporation's strategic direction. The Board ensures FCC remains focused on our vision, mission and values, and fulfilling our public policy role, as outlined in our mandate.

Board members are appointed by the Governor in Council upon the recommendation of the Minister of Agriculture and Agri-Food. Except for the President and CEO, Board members are independent of management. FCC and the Board are fully compliant with the government's process regarding the appointment of directors to fill current and future vacancies.

Two director terms expired in 2018 and three (including the CEO and Board Chair) will expire in 2019. FCC and the Board receive regular updates on the status of the appointment process. Board renewal is important for effective corporate governance and we welcome the insights and expertise of our new and continuing directors, with thanks to our departing members for their contributions.

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

The Board is responsible for six major areas:

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

FCC's senior management works closely with the Board to ensure it is fully aware of the corporation's affairs. The Chief Financial Officer, the Chief Operating Officer and the Chief Risk Officer attend every Board meeting. Other members of the Enterprise Management Team also attend meetings on a rotating basis to strengthen the relationship between the Board and management. Time is set aside at each meeting for the Board and its committees to meet without management present.

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

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

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

Code of conduct, ethics and values

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

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

Board composition

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

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

Audit Committee

Chair: Govert Verstralen

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

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

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

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

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

Corporate Governance Committee

Chair: Laura Donaldson

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

The Corporate Governance Committee reviews and makes recommendations to the Board with respect to sound governance practices. It oversees FCC's strategic planning process and corporate social responsibility program. It also acts as the Board's nominating committee and provides input to the Government as to the desired skills and experience for new director appointments.

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

Human Resources Committee

Chair: Jane Halford

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

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

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

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

FCC's Human Resources team compares the corporation to a consistent group of public and private organizations comparable in size, geography, industry or sector. The goal is to maintain a competitive market position in terms of compensation. Total cash compensation includes base pay and pay-at-risk.

Risk Committee

Chair: Michele Hengen

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

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

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

Board performance

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

The Board assesses its collective performance and the individual performances of its directors through a periodic self-evaluation process. Position profiles for the Chair and individual directors are reviewed to ensure they accurately describe desired competencies and skills.

Compensation

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

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

During 2018-19, there were five Board meetings and 19 committee meetings. Total remuneration (annual retainer and per diems) paid to all directors was $194,189. Total Board travel and related expenses were $151,740, compared to $126,156 in 2017-18.

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

2018-19 Board remuneration, expenses and attendance

Director	Board retainer (A)	Per diems (B)	Total remuneration (A & B)	Board meeting attendance	Committee meeting attendance	Board travel and related expenses
Del Anaquod	$ 6,200	$ 10,185	$ 16,385	5 of 5	8 of 8	$ 7,025
Bertha Campbell	6,200	14,065	20,265	5 of 5	11 of 11	19,273
Sylvie Cloutier	6,200	8,245	14,445	4 of 5	6 of 8	10,091
Laura Donaldson	7,200	16,005	23,205	5 of 5	11 of 11	15,421
Jane Halford	7,200	8,245	15,445	4 of 5	8 of 8	7,476
Michele Hengen	7,200	7,760	14,960	5 of 5	8 of 8	3,838
Dale Johnston	4,999	–	4,999	5 of 5	8 of 8	13,996
James Laws	6,200	21,340	27,540	5 of 5	11 of 11	23,270
Doris Priddle	6,200	13,580	19,780	5 of 5	11 of 11	24,188
Jason Skinner	6,200	6,305	12,505	3 of 5	6 of 8	3,782
Govert Verstralen	7,200	17,460	24,660	5 of 5	11 of 11	23,380
Total	**$ 70,999**	**$ 123,190**	**$ 194,189**			**$ 151,740**

There were five Board meetings, as well as seven Audit, four Corporate Governance, four Human Resources and four Risk meetings.

Enterprise Management Team

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

The Enterprise Management Team is responsible for business results and corporate decision-making, including the strategic vision, investment strategy, allocation of enterprise resources and resolution of major strategic issues. All executives, with the exception of the President and CEO, are paid within salary ranges and compensation policies approved by the FCC Board of Directors. All FCC employee salary ranges and pay-at-risk, except for the President and CEO, are based on a comparative assessment of 30 companies from both the private and public sectors. FCC does not offer mid- or long-term incentives to any of its employees.

The Governor in Council establishes the President and CEO's compensation. In 2018-19, the base salary range for that position was set at $271,000 to $318,800 and in addition there is a component of pay-at-risk, which ranges from 13% to 26% of base salary.

All other employees, including the Enterprise Management Team (EMT), are paid within salary ranges and compensation policies approved by FCC's Board of Directors. These ranges and policies are based on annual research of comparative Canadian organizations in both the private and public sectors.

The performance-based, total cash compensation framework for EMT includes a base salary range and a significant pay-at-risk component. This framework aligns with the philosophy of pay for performance. Movement within a salary range and pay-at-risk payments are dependent upon the performance of the corporation, the individual executive and the executive's division. FCC does not offer mid- or long-term incentives to any of its employees. For more information on the performance measures for the corporation, see 2018-19 Results Commitment.

In 2018-19, the base salary for Executive Vice-Presidents ranges from $201,665 to $397,170. In addition, there is a pay-at-risk component that ranges from 45% to 66% of base salary. The pay-at-risk amount paid is discretionary within a range of zero and one-and-a-half times the pay-at-risk percentages. See Key Management Personnel Compensation (Note 24) in the Notes to the Consolidated Financial Statements for additional information.

Board of Directors*

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

Enterprise Management Team*

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

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

Corporate social responsibility

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

Our corporate social responsibility framework includes five focus areas:

Agriculture and food

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

Community

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

Customers

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

Employees

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

Environment

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

FCC corporate social responsibility performance

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

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

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

2018-19 CSR highlights*

12,552
ATTENDEES
at FCC Learning Events

FOUNDING PARTNER OF
Agriculture More Than Ever,
bringing together
555 partners

93%
of employees
believe
FCC is
socially and environmentally responsible

MORE THAN
140 million tweets
CELEBRATING
Canada's Agriculture Day

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

1,547,762
views, clicks and downloads
of online knowledge offerings

ON TRACK TO REDUCE INTERNAL
greenhouse gas emissions
by 40% by 2025

* Results as of March 31, 2019.

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Caution regarding forward-looking statements

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

Basis of preparation of financial information

FCC's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The MD&A is intended to be read in conjunction with the March 31, 2019, Consolidated Financial Statements and the corporate plan documents.

Economic environment

Global economic trends shape the business environment of Canadian agricultural operations, food processors and input suppliers. In 2018, the global economy expanded at a more moderate pace as compared to 2017 as strong economic growth in the U.S. was offset by geopolitical tensions, trade disruptions and softer commodity prices.

Domestically, broad-based economic growth in 2017 pushed Canada's unemployment rate to 40-year lows. In 2018, the economy grew at a slower pace as compared to 2017 as elevated household debt and higher interest rates resulted in slightly weaker growth in consumer spending. Lower Canadian oil prices and production cuts negatively impacted exports and contributed to slower economic growth. Despite these challenges domestically and in export markets, the overall economic climate remained favourable for the entire Canadian agri-food supply chain in 2018.

Demand for agriculture commodities and food remains strong

The global economy grew at an estimated pace of 3.7% in 2018. Growth in emerging markets continued to outpace economic expansion of advanced economies. This has significant implications for the global demand for food and agricultural commodities, which has remained strong. Higher incomes in emerging market economies have raised the demand for animal-based proteins and processed food products as consumers allocate their additional income to food spending. Stronger disposable income in advanced economies has supported demand for restaurant meals and prepared foods.

China imports more than 65% of soybeans that are traded, and produces roughly 50% of the world's hogs. These are only two examples of the weight China carries in the global agricultural market. China's gross domestic product (GDP) grew at an annual rate of 6.6%, a slower pace than the five-year (2013-2017) GDP average of 7.1%. This had limited effect on demand for agriculture commodities and food as disposable incomes of Chinese consumers continue to grow, increasing the demand for products such as animal-based protein. The U.S.-China trade tension has altered trade flows in agriculture and agri-food markets, leading to overall lower commodity prices for Canadian producers in 2018. Canada-China trade relations are also facing difficulties with China restricting market access for a few Canadian agricultural products.

The U.S. remains Canada's largest export market, accounting for roughly 30% of Canadian agriculture exports and more than 70% of our food and beverage manufacturing exports.

Strong economic growth in the U.S. pushed the unemployment rate below 4.0% in 2018, supporting increased demand for value-added foods. The Federal Reserve raised its key interest rate four times in 2018 to 2.5%, representing a departure from the low interest rate environment of the last 10 years. Strong economic performance continued to support a strong U.S. currency, negatively impacting U.S. competitiveness in international markets and resulting in continued weakness in U.S. farm income.

Trade agreements create future opportunities

On December 30, 2018, the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) was implemented as the first six countries ratified the agreement, opening new export opportunities for Canada's agriculture, agribusiness and agri-food sectors. CPTPP will lower tariffs applied to Canadian exports, improving Canada's competitiveness to the Japanese market and fast-growing Asian economies. Conversely, CPTPP also expands market access to foreign products in the Canadian dairy market.

Canada, Mexico and the U.S. have completed negotiations to update the North American Free-Trade Agreement. The resulting Canada-U.S.-Mexico Agreement (CUSMA) will maintain market access for the Canadian agribusiness, agriculture and agri-food supply chain. CUSMA will also expand access to foreign products in the Canadian dairy and poultry markets.

Canadian dollar supports farm income

The Canadian economy grew at an estimated annual rate of 1.8% in 2018, operating near capacity as the unemployment rate ended 2018 at 5.6% – the lowest rate in 40 years. Strong economic growth resulted in the Bank of Canada increasing its key interest rate by 0.25% three times in 2018. Despite the increases in interest rates, borrowing costs remain historically low, encouraging producers and agribusiness and agri-food operators to leverage growth opportunities and make investments.

Weaker Canadian oil prices and slower growth in Canadian interest rates as compared to the U.S. supported a Canadian dollar slightly below US $0.77 in 2018, which remained favourable to support Canadian exports. Overall, Canadian agriculture benefits from a low dollar as it supports farm revenues by lifting prices paid to Canadian producers and making Canadian products competitive in the world market. Although some input prices (such as machinery and equipment) have been driven higher, the weaker Canadian dollar supported strong profit margins for Canadian crop, livestock and food processing sectors.

Agriculture industry overview

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

Farm revenues declined on lower prices and production challenges

Dry conditions in many parts of Western Canada reduced overall production in 2018. Further east, excessive moisture in the latter half of the growing season resulted in significant disease in Ontario's corn crop, reducing overall revenues. Overall production of principal field crops is estimated at 92.7 million tonnes, compared to 93.2 million tonnes last crop year. Weather at harvest created major challenges for potato producers, resulting in an estimated 16,000 acres left unharvested across the country. In addition to challenges in the crop sector, farm cash receipts were pressured by lower commodity prices for livestock operations.

Through the first three quarters of 2018, Canadian farm cash receipts declined 1.6%. Overall crop receipts declined 1.1% and overall livestock receipts declined 1.0%. Despite the declines, farm revenues are forecast to be historically strong at $60 billion. For fourth quarter results on agriculture data, refer to the Statistics Canada website.

Farm input prices were, on average, 3.8% higher in 2018 compared to 2017. U.S. steel tariffs resulted in higher machinery and equipment prices, while lower energy costs resulted in mixed results for fertilizer and pesticide prices. Average fertilizer prices were up less than one percent, supporting profit margins for crop producers. Overall machinery and equipment prices increased 5.0% in 2018. Tighter feed barley stocks put upward pressure on overall feed prices.

For more information, refer to FCC's sector outlooks at fcc.ca/AgEconomics.

Farmland values continue to trend higher

Strong farm cash receipts and low interest rates supported strong investment in Canadian farm operations. As a result, farmland values increased an average of 6.6% in 2018. More information regarding farmland values, including regional analyses, is available in the FCC Farmland Values Report at fcc.ca/FarmlandValues.

Growth in farmland values continues to support the balance sheet of producers, which is expected to continue to support an expansion in overall net worth of Canadian farms.

Investment in farms pushing debt higher

Total farm debt is forecast to grow 5.0% to over $100 billion in 2018. Farm debt has increased at an average annual rate of 5.8% from 2008 to 2017 as producers continue to make strategic investments to improve the productivity and efficiency of their farm operations. More information is available on the Statistics Canada website.

Opportunities and challenges for Canadian agriculture and agri-food in global markets

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

The landscape for world trade presented several different challenges for the agriculture and agri-food sectors in 2018. U.S.-China trade tensions disrupted world trade flows of agriculture commodities, while U.S. tariffs on steel and aluminium caused trade disruptions for Canadian manufacturing companies. At the time of writing, import restrictions on Canadian canola exports to China have caused canola prices to decline. China historically accounts for 40% of Canada's canola exports. In addition to canola,

there have been market access concerns raised on pork, peas and soybeans as a result of strained relations. Import tariffs on Canadian exports of pulses to India are also contributing to lower Canadian prices of peas and lentils. Market access for Canadian durum exports to Italy remains a concern and is contributing to lower prices for producers.

African Swine Fever (ASF) in China has created increased export opportunities for proteins. In 2018, ASF was discovered in the Chinese hog herd and has quickly spread, wiping out over 20% of the herd and increasing demand for proteins including beef, pork and poultry products. Increased market opportunities have resulted in higher prices for cattle and hogs.

Canadian food preferences continue to evolve

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

Current and potential impacts for FCC

Canadian agriculture and agri-food sectors remain financially healthy. New trade agreements, historically low interest rates, a favourable Canadian dollar, and robust food demand at home and abroad are all supportive of opportunities for Canadian agriculture, agribusiness and agri-food. This is supporting continued growth in the agricultural industry and FCC's lending portfolio across all sectors.

Despite a positive environment for agriculture, some headwinds exist. Lower commodity prices, increased competition for supply managed industries, production challenges and trade concerns are leading to pressure on farm revenues. This, combined with slightly higher borrowing costs and farm expenses, is resulting in shrinking profit margins of farm operations. Sound risk management is critical to sustain the business success of Canadian farm operations.

Food demand is evolving towards healthier and more convenient food, and small to medium-sized food processors have been shown to be effective in delivering innovative food products to Canadian households. Larger processing firms have been successful capitalizing on the growing demand for safe, high-quality food in foreign markets. We expect food manufacturing to remain a significant driver of the Canadian economy.

Technology and an emphasis on raising productivity at the farm level are two of the most important drivers for agribusiness. Tighter profit margins at the farm level slowed the demand for new farm equipment and other farm inputs, but farm operations continue to adopt technology to lower their cost structure and alleviate the impact of a tight labour market.

In short, Canada's agriculture and agri-food sectors are well-positioned to absorb headwinds while capitalizing on current and future market opportunities.

Strategic overview, objectives and performance measures

Our strategic direction is aligned with our mandate, including our mission and vision, along with the direction from the Government of Canada and the Minister of Agriculture and Agri-Food's mandate letter[3] received August 31, 2016, and in the Minister's letter outlining FCC Supplemental Priorities dated February 1, 2018.

To achieve our vision and mission, FCC has developed objectives and initiatives categorized under five themes. These themes – sustainable business success, great customer relationships, execution excellence, effective enterprise risk management and high-performance culture – are based on FCC's strategic assets. Strategic assets are the reasons customers choose FCC over its competitors. They can't be easily duplicated and are essential to the corporation's long-term success. Together, these five themes form the foundation of FCC's business strategy, as illustrated in the 2018-19 corporate strategy map on the following page.

Within each theme, FCC sets one to five-year plan performance measures (Plan) that define how the organization measures progress each year against the objectives set out in its strategy; FCC uses a corporate scorecard to monitor and measure progress against its strategy.

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

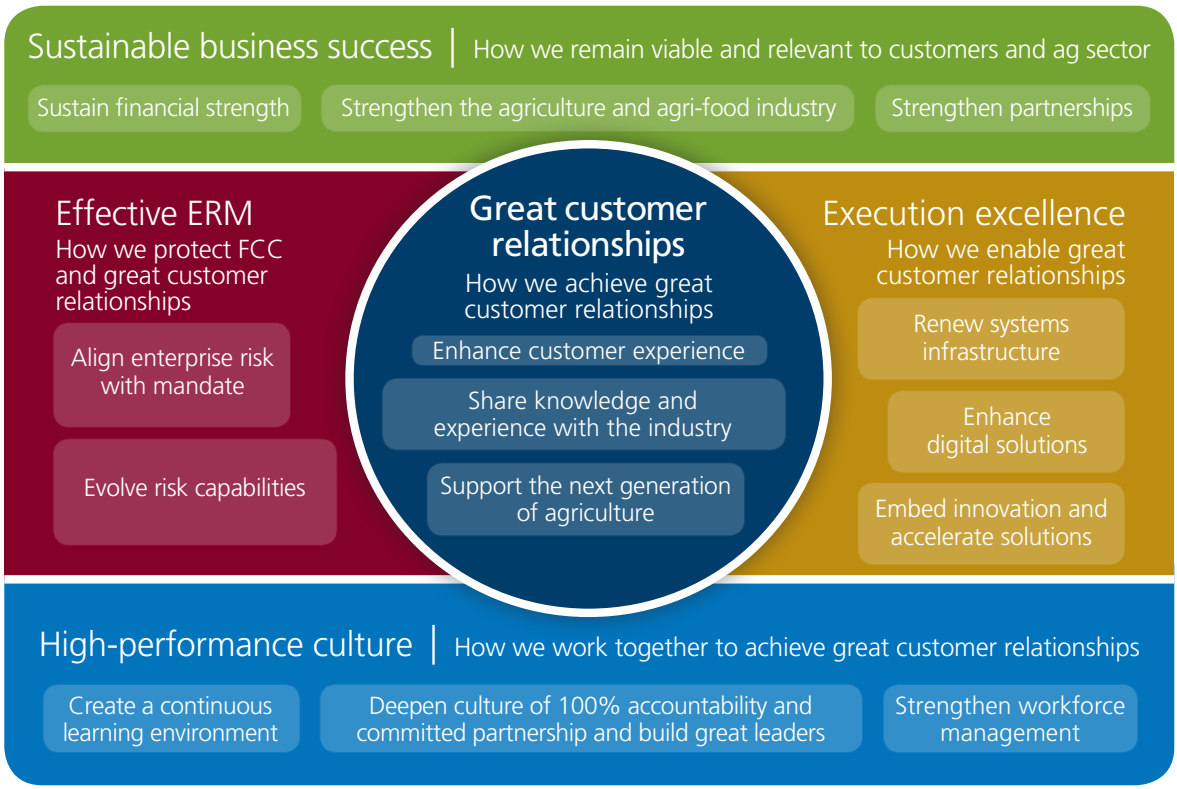
FCC 2018-19 corporate strategy map

Vision

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

Mission

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



Sustainable business success

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

Performance Measures	2016-17 Result	2017-18 Result	2018-19 Plan	2018-19 Actual	2019-20 Plan	2020-21 Plan
Strengthen the agriculture and agri-food industry						
Number of net new A&A customers	New measure for 2018-19	New measure for 2018-19	Greater than 0[4]	233	75	125
Reduction in FCC's greenhouse gas footprint[5]	New measure for 2017-18	Measure and target established: Reduction of 307 tonnes of CO_2e[6]	Reduction of 307 tonnes of CO_2e	Reduction of 307 tonnes of CO_2e	Reduction of 307 tonnes of CO_2e	Reduction of 307 tonnes of CO_2e
Strengthen partnerships[7]						
Sustain financial strength						
Net income	$613.8 million	$669.9 million	$648.8 million	$656.7 million	$674.7 million	$690.4 million
Return on equity	11.3%	11.5%	10.6%	10.5%	10.3%	10.2%
Total capital ratio[8]	16.3%	16.2%	16.0%	16.0%	15% or higher	15% or higher
Efficiency ratio	36.6%	34.9%	38.0%	36.3%	39.6%	39.5%

* Young Borrower Lending and Percentage of Customer Count in Small and Medium-Sized Segments measures were moved under the strategic theme Great Customer Relationships in 2018-19.

[4] The measure has been changed to report on the number of net new A&A customers, rather than total A&A customers. Targets have been set for the five-year planning period. The targets for acquisition of net new customers will be reviewed once the strategy is executed and more accurate information is available. This cumulative target will see the acquisition of 875 new customers over the five-year planning period.

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

[6] This measure was set at 353 tonnes of CO_2e and later adjusted to 307 tonnes of CO_2e due to an error in the 2016-17 data used to calculate the target. In 2017-18, the revised target of 307 tonnes of CO_2e was met.

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

[8] In 2018-19, this measure was revised from Total Adequacy Measure to Total Capital Ratio. Total Capital Ratio is an industry standard used to measure capital adequacy.

Key results – 2018-19 Corporate Plan objectives

Strengthen the agriculture and agri-food industry

As a Crown corporation, FCC plays a lead role in providing financing for agribusiness and agri-food operators. The agriculture industry is often affected by volatility in commodity prices, adverse weather conditions, livestock and crop diseases, and trade implications. FCC takes a long-term view and remains committed to customers and the industry in difficult times by providing steady access to capital.

Two measures have been identified to track progress on this objective. The number of net new agribusiness and agri-food (A&A) customers exceeded Plan and the reduction in FCC's greenhouse gas footprint met Plan. Four corporate initiatives, all of which will continue in 2019-20, were identified to further this objective.

The first initiative focused on enhancing support for the A&A sector to increase Canada's value-added capacity, with a focus on small to medium-sized enterprises. Agriculture and primary production will always be FCC's priority and core business. However, businesses that are upstream and downstream of primary producers contribute to a healthy and progressive ecosystem, acting as catalysts for evolution, innovation and development in primary agriculture. In 2018-19, FCC adjusted its strategy for serving the A&A sector. This strategy will allow FCC to serve the agriculture value chain in a more comprehensive way, supporting innovation, job creation and exports in Canada.

The second initiative focused on increasing support for early-stage agribusiness and agri-food operations. FCC plays an important role filling financing gaps for Canadian producers. The need for more capital, particularly for small and medium-sized businesses, as well as early stage and start-up entrepreneurs, was identified by the Advisory Council on Economic Growth. In 2018-19, FCC developed a strategy to invest in seed capital and early-stage venture capital funds, expanding investment in later-stage venture capital funds and providing financial support through sponsorships and program funding to organizations that support start-up and early-stage businesses. This strategy will support growth and innovation in the Canadian agriculture and agri-food industry.

The third initiative – advance FCC's environmental sustainability and that of our customers – was achieved through a multi-faceted approach to reduce FCC's greenhouse gas emissions by 40% by 2025 based on 2012 levels. This target is in line with targets set in the Federal Sustainable Development Strategy. In addition, FCC is investigating opportunities to support its customers on their sustainability journey. Work on this initiative will continue in 2019-20.

The fourth initiative – build a positive perception of the agriculture industry – was addressed through the Agriculture More Than Ever (AMTE) cause. AMTE shares resources, information and facts to make it easy for producers and everyone involved in or interested in Canadian agriculture and agri-food to share their stories. In 2018-19, FCC hosted the third annual Canada's Agriculture Day, bringing together industry leaders and students from across Canada to celebrate and increase the positive perception of the agriculture and agri-food industry.

Strengthen partnerships

FCC acts as a catalyst to connect the agriculture industry to experts, communities and knowledge, strengthening relationships with stakeholders and increasing support for the industry through strong private sector and commercial Crown financial partnerships.

There are no measures to track progress, however, three initiatives were established to deliver on this objective.

The first initiative – build partnerships to tackle agriculture industry challenges – focused on addressing the topics of mental health in rural communities and the advancement of women in agriculture.

In 2018-19, FCC worked with mental health experts to create a dedicated publication, *Rooted in Strength*, designed to raise awareness and provide mental health resources to people in rural communities. This publication was delivered to 176,000 farm mailboxes in Canada. In addition, FCC partnered with the Do More Ag Foundation and provided support for the delivery of mental health first aid training in rural communities. FCC also partnered with 4-H Canada to support their Healthy Living initiative, including creating and delivering materials on mental health for 4-H leaders to deliver to their 25,000 members.

Women make an invaluable contribution to Canadian agriculture. To further support women in agriculture, FCC launched the Woman Entrepreneur Program. This program offers online and in-person skill development, as well as a new Women Entrepreneur Loan. This reduced-fee loan is available on new loans with a female borrower, co-borrower or guarantor, and provides an opportunity for women entrepreneurs to invest the funds they've saved in loan fees into personal development.

FCC's focus on raising awareness of mental health issues in rural Canada and supporting women in the agriculture and agri-food industry will continue in 2019-20.

The second initiative – deepen support for Indigenous agriculture – is in development. Canadian agriculture and agri-food have untapped potential, and ensuring Indigenous communities and peoples have greater access to opportunities is important for Canada and the industry. In 2018-19, FCC hired a Director, Indigenous Affairs, to define FCC's role in Indigenous agriculture and raise awareness of FCC in the Indigenous community. This strategy will also detail FCC's plan to increase food security in northern communities. Work on this initiative will continue in 2019-20.

The third initiative – continue to advance stakeholder relationships – was designed to develop and execute a co-ordinated, consistent and strategic approach to stakeholder engagement, protect FCC's reputation and help the organization respond to risks and opportunities to support the Government of Canada's priorities. To achieve this initiative, FCC spoke at over 122 key industry events to share knowledge and engage the industry on the topic of public trust and agriculture. FCC also serves as a connector for the industry by facilitating conversations among industry groups and individuals to address challenges and opportunities in the agriculture and agri-food industry.

Sustain financial strength

FCC is committed to remaining financially self-sustaining in the long term while investing in the agriculture industry. By ensuring it operates in a financially and socially responsible way, FCC ensures it is ready and able to serve the industry through good and challenging times.

Four measures are used to track progress on this objective. Net income and the efficiency ratio exceeded Plan while return on equity and total capital ratio met Plan.

One initiative – enhance loan pricing structure and governance – is underway. Pricing is fundamental to FCC's financial success and competitiveness in the marketplace. In 2018-19, FCC continued work to advance internal systems and processes related to loan pricing. Work on this initiative will continue in 2019-20.

Great customer relationships

How we achieve great customer relationships

Performance Measures	2016-17 Result	2017-18 Result	2018-19 Plan	2018-19 Actual	2019-20 Plan	2020-21 Plan
Enhance the customer experience						
Net Promoter Score®[9]	Customer experience index score of 64.6%	Customer experience index score of 65.8%	Greater than 70 (Equal to or greater than the 75th percentile of NPS measured organizations)[10]	69.5	Greater than 70	Greater than 70
Support the next generation of agriculture						
Young borrower lending: - Ag production - Agribusiness and agri-food	$3.2 billion	$3.29 billion	Ag production: $3.09 billion Agribusiness and agri-food: $145.2 million	Ag production: $3.08 billion Agribusiness and agri-food: $105 million	Ag production: $3.18 billion Agribusiness and agri-food: $149 million	Ag production: $3.34 billion Agribusiness and agri-food: $156 million
Percentage of customer count in small and medium-sized segments	80.8%	79.5%	Greater than 80%	93.07%	Ag production: Greater than 90%[11] Agribusiness and agri-food: Greater than 75%[12]	Ag production: Greater than 90%[11] Agribusiness and agri-food: Greater than 75%[12]
Share knowledge and experience with the industry						
FCC Learning post-event survey – attendees "likely to use information"	4.7	4.46	Greater than or equal to 4.0	4.46	Greater than or equal to 4.0	Greater than or equal to 4.0
Total views or interactions with FCC's online knowledge offering	New measure in 2018-19	New measure in 2018-19	850,000	1,547,762	1.7 million	1.8 million

[9] The CEI measure was replaced with the Net Promoter Score® as of October 1, 2017. Measurement for the 2017-18 fiscal reflects the CEI score as of September 30, 2017. Benchmarks have been established in 2018-19 and targets have been set for the five-year planning period.

[10] FCC is developing a process to directly measure advocacy with other Canadian financial institutions and agriculture companies.

[11] The small and medium enterprise revenue range for primary production operations is up to $2 million in annual farm revenue.

[12] The small and medium enterprise revenue range for agribusiness and agri-food operations is up to $10 million in annual gross revenue.

Key results – 2018-19 Corporate Plan objectives

Enhance customer experience

FCC customers are knowledgeable business professionals who manage multiple priorities every day. Customers operate in a complex environment filled with changing market needs, evolving consumer trends and business challenges. As a result, FCC continues to enhance its customer experience on an ongoing basis.

Progress on this objective is tracked through the Net Promoter Score® (NPS), which met Plan.

One initiative – enable employees to build great customer relationships – was implemented to deliver on this objective. FCC has established customer experience principles that have been integrated into the organization. In 2018-19, FCC built on these principles and executed a customer experience strategy focused on enabling employees to provide customers with unmatched experiences. In addition to NPS, FCC has implemented more customer feedback mechanisms, making it easier for customers to share their thoughts and feedback in the moment.

Support the next generation of agriculture

To help ensure the agriculture and agri-food industry remains vibrant and realizes its full potential, FCC has continued to enhance its support for the next generation working in Canadian agriculture through products and services that meet their needs.

Two measures are used to track progress on this initiative: young borrower lending and the percentage of customer count in small and medium-sized segments. FCC did not meet Plan on the young borrower lending target; however, it exceeded Plan on the percentage of customer count in small and medium-sized segments. Two initiatives were established to deliver on this objective.

The first – enhance products and services for new entrants – was achieved through the launch of the FCC Starter Loan, a product designed for new entrants aged 18 to 25. The FCC Starter Loan offers financing up to $50,000 and grows financial literacy through an online business planning tool that is embedded within the application process.

The second – enhance products and services to support inter-generational business transitions for agriculture and agri-food industry – is in development. FCC has reviewed its existing Transition Loan and identified improvements that will be implemented in 2019-20. FCC supports our customers through two Transition Specialists who work with customers to provide coaching and recommend resources to support the transition process. In 2019-20, FCC will hire additional Transition Specialists and continue to advance its advisory services offering.

Share knowledge and experience with the industry

Customers value FCC's knowledge, expertise and speed of informed decisions. Today's producers and agribusiness and agri-food operators are experts in their respective industries. They must deal with complex financial management, human resource issues, partnerships, diversification and international markets. As producers and agribusiness and agri-food operators continue to become more sophisticated in their operations, FCC also advances to offer leading business management practices, advisory services and economic insights.

Two measures are used to track performance on this objective. FCC Learning post-event survey and total views or interactions with FCC's online knowledge offering exceeded Plan. Two initiatives were established to deliver on this objective.

The first – provide knowledge to advance our customers' management capabilities – was achieved through improvements to FCC's farm management software, AgExpert Field and AgExpert Accounting. These two platforms were consolidated to create a single, cloud-based farm management solution that allows producers to digitize their farm records. Enhancements to FCC's AgExpert platform will continue in 2019-20.

The second – advance FCC's knowledge and advisory offering – is in progress. FCC has completed a review of its entire knowledge offering to identify opportunities to better meet the specific and comprehensive needs of its customers. In addition, FCC's advisory services strategy is in development. Work on this initiative will continue in 2019-20.

Execution excellence

How we enable great customer relationships

Performance Measures	2016-17 Result	2017-18 Result	2018-19 Plan	2018-19 Actual	2019-20 Plan	2020-21 Plan
Renew systems infrastructure						
Employee engagement – easy to do business	Easy to do business: 77.4% (0.8% lower than the average of the Platinum and Gold employers)	Easy to do business: 77.8% (0.2% less than the average of the Platinum and Gold employers)	Easy to do business: Greater than the average of the Platinum and Gold employers	Easy to do business: 78.8% (2.4% greater than the average of the Platinum and Gold employers)	"We make it easy for customers to do business with us" Hewitt survey question 76%[13]	"We make it easy for customers to do business with us" Hewitt survey question 77%
Enhance digital solutions						
Embed innovation and accelerate solutions						

Key results – 2018-19 Corporate Plan objectives

Renew systems infrastructure

To deliver great customer relationships, FCC employees must work from a strong foundation, which includes accurate and efficient technology, systems and processes.

Progress on this objective is tracked through the employee engagement – easy to do business index, which exceeded Plan. Two initiatives were established to achieve this objective.

The first initiative – enhance data management at FCC – was achieved through the implementation of new analytics and insights solutions. These solutions support confident and timely decision-making and empower employees to efficiently access data.

The second initiative – improve foundational business systems – was achieved through the implementation of Workday, a new human resources management system. This new system has brought FCC's HR business processes in line with industry standards and allows all employees and leaders to perform HR transactions anytime, anywhere and from any device.

Enhance digital solutions

FCC is striving to become a digital organization that provides employees with seamless access to current tools and knowledge to serve FCC's customers and the industry.

There are no measures to track progress, however, two initiatives were established to deliver on this objective.

The first – improve processes so customers and employees can transact with ease – is underway. Customers now have the choice of receiving correspondence through their channel of choice – whether that be through paper or digital mediums. In addition, FCC implemented new disbursement services to allow customers to receive accurate, timely and easy access to funds.

Embed innovation and accelerate solutions

FCC strives to offer solutions that provide value to customers, partners and employees.

One initiative – mature a sustainable innovation practice – was established to deliver on this objective. FCC's Innovation Lab is a physical space for employees and customers to collaborate on solutions. A team of employees has been mobilized to champion the Innovation Lab and human-centred design principles, ensuring the organization builds solutions with the end-user in mind. In 2019-20, FCC will continue to embed human-centred design principles with employees and customers, resulting in solutions that support an excellent customer experience.

[13] The Easy To Do Business index measure methodology has been revised. This measure now comes from the responses to one question on our annual Hewitt survey rather than a set of questions. The target has been updated to a percentage.

Effective enterprise risk management

How we protect FCC and great customer relationships

Performance Measures	2016-17 Result	2017-18 Result	2018-19 Plan	2018-19 Actual	2019-20 Plan	2020-21 Plan
Align enterprise risk with mandate						
ERM maturity measure	3.6	3.7	Greater than 3.5	3.8	Greater than 3.5	Greater than 3.5
Evolve risk capabilities						

Key results – 2018-19 Corporate Plan objectives

Align enterprise risk with mandate

We apply an enterprise risk management approach to manage risks across the corporation in a consistent, co-ordinated manner. Risk management is integrated across business units and governed through various senior leadership management committees to enhance business performance through efficient, effective and aligned risk-taking and decision-making behaviour.

Progress on this objective is tracked through the ERM maturity measure, which exceeded Plan.

One initiative – build sustainable lending and risk practices – was achieved through a matured loan review function, designed to continue to ensure lending decisions align to FCC's risk appetite statement. FCC's procurement and vendor management processes have been improved to help business units proactively manage vendor risk and contract life cycles. FCC has also developed processes, tools and standards to enhance customer data accuracy and address high-priority, data-related observations. Work on this initiative will continue in 2019-20.

Evolve risk capabilities

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

There are no measures to track progress, however, three corporate initiatives were created to further this objective.

The first – redesign and digitize core risk and lending processes – was achieved through the implementation of a new valuations tool that allows employees to collect information required to value collateral anytime and anywhere, as well as leverage high-quality data to produce faster security valuations. These enhancements have created more time for employees to focus on delivering an exceptional customer experience.

The second – advance analytics to streamline decision-making – is underway. FCC is working to develop an updated application scorecard model. This new model will be in line with current approaches used in the financial services industry and will establish a foundation to continue refining analytics-based decision-making at FCC.

The third initiative – mature enterprise security – was achieved through several enhancements designed to safeguard the confidentiality, integrity and availability of information assets. Security education and awareness have been delivered to all employees. In addition, FCC's Microsoft Office Suite has been upgraded to enhance security, including the addition of functionality that allows employees to classify documents with the appropriate privacy label for information management purposes.

High-performance culture

How we work together to achieve great customer relationships

Performance Measures	2016-17 Result	2017-18 Result	2018-19 Plan	2018-19 Actual	2019-20 Plan	2020-21 Plan
Deepen culture of 100% accountability and committed partnerships, and build great leaders						
Leadership index: subset of employee engagement survey data with respect to leadership indicators	78.7% (5.0% greater than the average of the Platinum and Gold employers)	79.5% (6.0% greater than the average of the Platinum and Gold employers)	Greater than the average of the Platinum and Gold employers	78.7% (4.5% greater than the average of the Platinum and Gold employers)	Greater than the average of the Platinum and Gold employers	Greater than the average of the Platinum and Gold employers
Employee engagement	82.0% (4.0% greater than the average of the Platinum and Gold employers)	85.0% (7.0% greater than the average of the Platinum and Gold employers)	Greater than the average of the Platinum and Gold employers	85.0% (7.0% greater than the average of the Platinum and Gold employers)	Greater than the average of the Platinum and Gold employers	Greater than the average of the Platinum and Gold employers
Strengthen workforce management						
Diversity measure	32 (19 were hired on a permanent basis, 11 on terms and 2 on a short-term basis)	32 (14 were hired on a permanent basis, 15 on terms and 3 on a short-term basis)	Hire 24 new diversity candidates from the designated groups where we have gaps	30 (17 were hired on a permanent basis, 13 on terms and 0 on a short-term basis)	14% of total new hires are members of employment equity groups[14]	14% of total new hires are members of employment equity groups[14]
Create a continuous learning environment						

Key results – 2018-19 Corporate Plan objectives

Deepen culture of 100% accountability and committed partnerships and build great leaders

FCC's culture of 100% accountability is the foundation of the overall employee experience. It is what enables FCC to deliver a great customer experience.

To measure performance on this objective, FCC monitors and analyzes overall employee engagement, as well as measures related to employee experience and leadership. FCC exceeded Plan for the leadership index and employee engagement measures.

One corporate initiative – to update and execute the leadership and culture strategy – was achieved through the launch of Culture Plus, a multi-tactic approach designed to refresh employees' knowledge of the culture and encourage key culture behaviours. This initiative will continue in 2019-20.

[14] FCC's diversity targets have been revised from a number to a percentage. This change ensures FCC's overall workforce diversity continues to grow in line with total new hires.

Strengthen workforce management

Workforce management is a strategic business process that helps FCC ensure the right talent is in place to deliver on business priorities. This process is essential to FCC's continued success as it ensures the corporation has the knowledge, skills and abilities to meet its long-term goals. Progress on this objective is tracked through the diversity measure, which exceeded Plan.

One corporate initiative – execute the diversity strategy – was achieved through several projects, including continued participation in Campus for All, a program that creates opportunities for people with cognitive disabilities to gain meaningful employment at FCC. In addition, FCC continues to work with hiring managers to identify and close employee equity gaps. This initiative will continue in 2019-20.

Create a continuous learning environment

FCC's learning infrastructure supports employee knowledge requirements. The learning strategy is focused on agriculture and finance knowledge and ensures FCC's learning programs, methods and delivery are current and focused on business and user needs.

A measure is being created to evaluate the ongoing progress of employee development across the organization.

One corporate initiative – implement a comprehensive employee learning strategy – is in progress. FCC is working to redesign our approach to credit education through online training modules that can be adapted to suit individual and group needs. In addition, FCC is developing clear, repeatable processes to support new Operations employees, ensuring the onboarding process sets new employees up to perform their role with confidence and ultimately deliver an excellent customer experience.

2019-20 corporate strategy

For 2019-20, FCC will continue to advance and implement a range of strategic objectives and initiatives – existing and new – to grow the agriculture and agri-food industry and enhance the customer experience. Corporate objectives will continue to respond to our mandate.

FCC's 2019-20 corporate strategy map, reflected on the next page, has been revised to include a sixth theme – vibrant and successful industry. This theme reflects FCC's focus on the industry it serves, and details FCC's focus on initiatives to support the entire agriculture and agri-food value-chain as well as under-represented groups in Canadian agriculture, including women, youth and Indigenous agricultural entrepreneurs and producers.

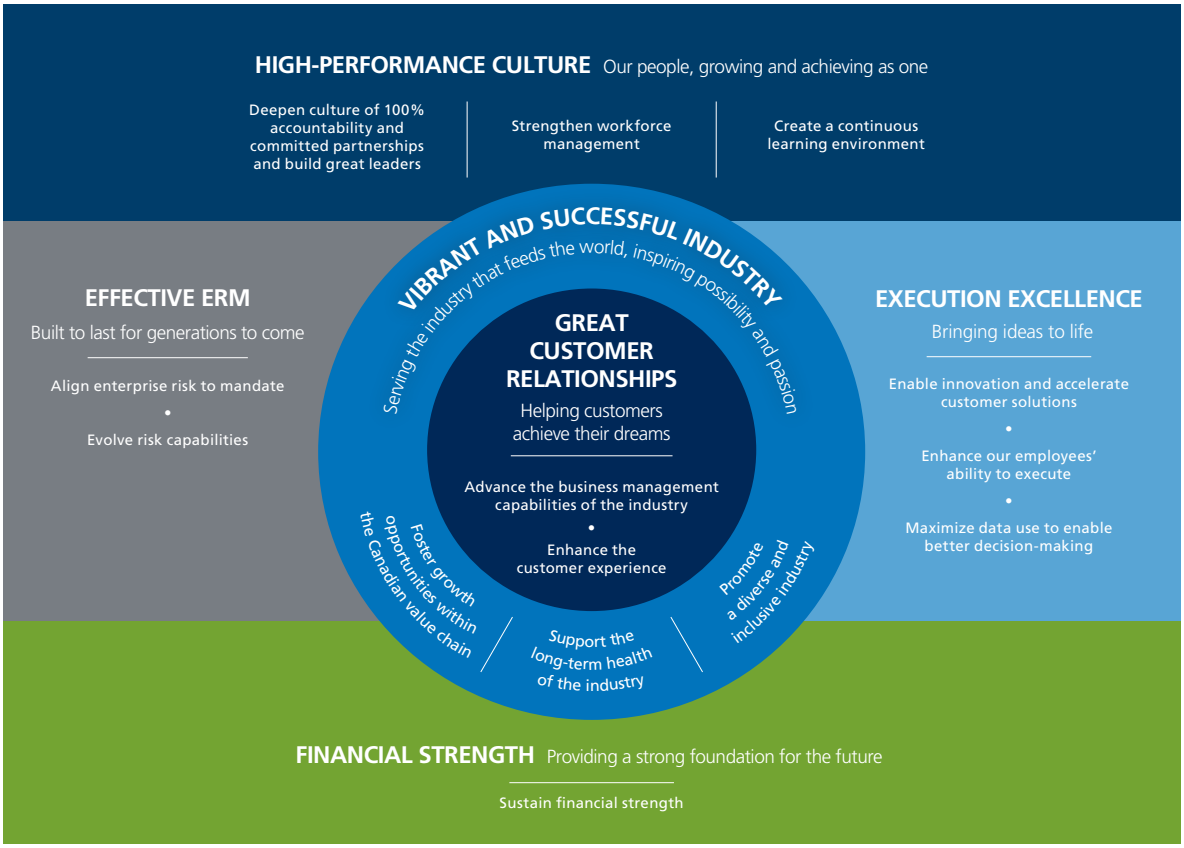
An exceptional customer experience and strong digital offering will remain central to how FCC serves its customers. FCC will continue to enhance its digital capabilities, providing employees with seamless access to up-to-date tools and knowledge to serve its customers and the industry. With customer preferences around mobility and digital capability continuously evolving, FCC must ensure it can adapt to changing needs. FCC will also work to maximize data use, focusing on becoming an information-rich organization capable of providing valuable insights to its customers and stakeholders.

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

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

FCC will continue to use a corporate scorecard to monitor and measure progress against the corporate strategy.

FCC 2019-20 corporate strategy map



Financial highlights

FCC continued to produce strong financial results in 2018-19. Growth in loans receivable was $2.2 billion, or 6.5%, reflective of the strength of the agriculture and agri-food industry and FCC's ability to keep pace through its focus on great customer relationships. Net income and equity growth contributed to the maintenance of a sound capital position.

For the years ended March 31

Loans receivable portfolio	2017	2018	2019
Number of loans	143,952	145,011	146,126
Loans receivable ($ millions)	31,221	33,859	36,071
Growth in loans receivable (%)	9.0	8.4	6.5
Impaired loans as a percentage of loans receivable (%)	0.6	0.4	0.5
Consolidated balance sheet ($ millions)			
Total assets	33,014	35,318	37,579
Total liabilities	27,273	29,257	31,149
Total equity	5,741	6,061	6,430
Consolidated statement of income ($ millions)			
Net interest income	996.7	1,072.3*	1,151.7
Provision for credit losses	19.3	30.9	103.3
Non-interest income	19.6	26.9*	39.4
Administration expenses	371.1	384.6	426.3
Fair value adjustment	(12.1)	(13.8)	(4.8)
Net income	613.8	669.9	656.7

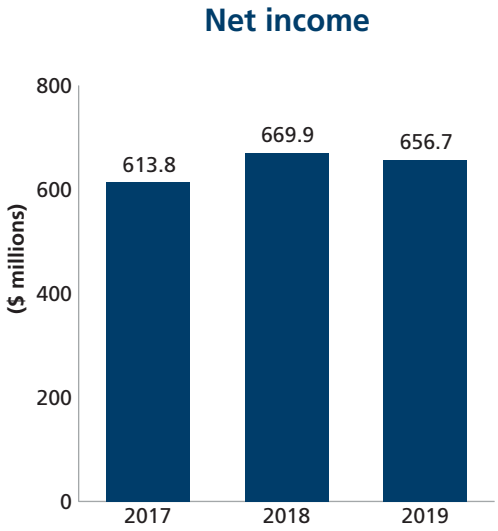
* Restated.

Financial performance review

Consolidated operating results

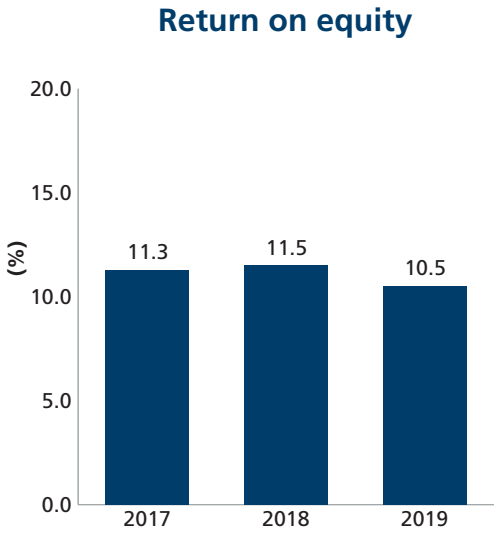
Net income overview

FCC's 2018-19 net income decreased by $13.2 million from the previous fiscal year primarily due to an increase in provision for credit losses and administration expenses, offset by an increase in net interest income and non-interest income.



Return on equity

Return on equity decreased to 10.5% in 2018-19 from 11.5% in 2017-18 primarily due to higher equity balance and lower net income.



Net interest income and margin

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

Net interest margin

As at March 31 ($ millions)	2017		2018		2019	
	Average balance	Rate (%)	Average balance	Rate (%)	Average balance	Rate (%)
Earning assets:						
Fixed loan principal balance	13,096.2	3.67	15,131.6	3.66	17,438.5	3.94
Variable loan principal balance	16,692.8	3.60	17,346.8	3.93	17,836.3	4.64
Investments	1,226.3	0.72	1,252.9	1.18	1,214.5	1.98
Venture capital investments	55.0	10.01	66.8	10.20	73.5	14.18
Total earning assets	31,070.3	3.60	33,798.1	3.80	36,562.8	4.28
Total interest-bearing liabilities	25,709.6	0.48	28,162.2	0.75	30,345.5	1.36
Total interest rate spread		3.12		3.05		2.92
Impact of non-interest-bearing items		0.03		0.06		0.19
Net interest margin		**3.15**		**3.11**		**3.11**

Interest rates rose in 2018-19 as three increases to the prime rate increased the rate on variable loans and, to a lesser extent, the rate on new and matured fixed loans. Higher interest rates also contributed to a rate increase on the corporation's interest-bearing liabilities. The decrease in the corporation's interest rate spread was offset by the favourable increase in the impact of non-interest-bearing items in the higher interest rate environment. The non-interest-bearing items reflect the portion of the loan portfolio funded by available equity. Overall, the net interest margin remained unchanged at 3.11%.

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

Net interest income and margin

For the year ended March 31 ($ millions)	2017	2018	2019
Net interest income	996.7	1,072.3	1,151.7
Average total assets	31,635.7	34,447.7	37,075.7
Net interest margin (%)	3.15	3.11	3.11
Year-over-year change in net interest income due to:			
Increases in volume	70.7	85.8	79.4
Changes in margin	(61.4)*	(10.1)*	0.0
Total change to net interest income	**9.3**	**75.7**	**79.4**

* Restated.

FCC's net interest income increased by 7.4% in 2018-19 to $1,151.7 million. Average total assets increased by 7.6% to $37,075.7 million primarily due to increased loans receivable. Net interest margin was the same as last year at 3.11%.

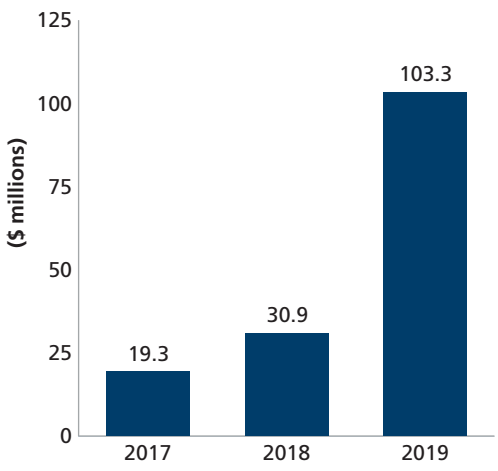
Non-interest income

FCC generated non-interest income of $39.4 million through FCC Insurance, investment in associates, and FCC Management Software. The non-interest income increased by $12.5 million from $26.9 million in 2017-18 primarily due to increased net income from investment in associates, offset by a decrease in net insurance income.

Provision for credit losses

IFRS 9 was adopted on April 1, 2018, and introduces an expected loss impairment model for all financial assets. The prior year comparative financials were not restated upon adoption of the new standard. Further details of the adoption of IFRS 9 can be found in Note 2 of the Notes to the Consolidated Financial Statements.

The provision for credit losses increased by $72.4 million from 2017-18 to $103.3 million in 2018-19. During the year, due to significant financial difficulties of one of its customers, FCC recognized an allowance for credit losses resulting in an increase to the provision of $44.6 million. The remaining increase to the provision is primarily due to portfolio growth and changes in credit risk.

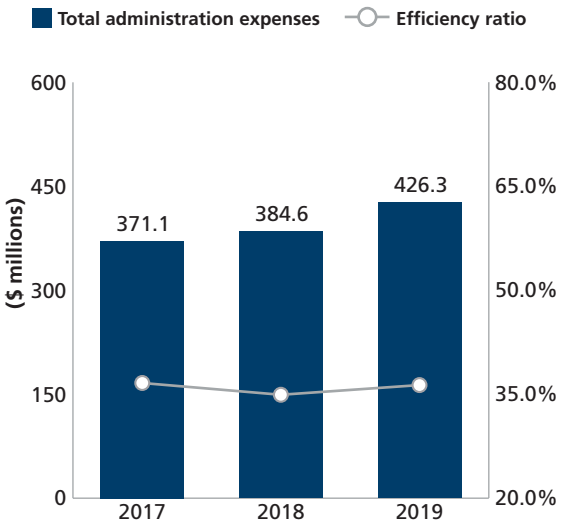


Administration expenses

FCC's administration expenses represent the costs associated with day-to-day operations and the costs related to specific projects that support operations and the achievement of strategic objectives. The efficiency ratio measures the percentage of income earned that is spent on business operations. FCC's efficiency ratio increased from 34.9% in 2017-18 to 36.3% in 2018-19 primarily due to the growth of administration expenses outpacing the growth of revenue.

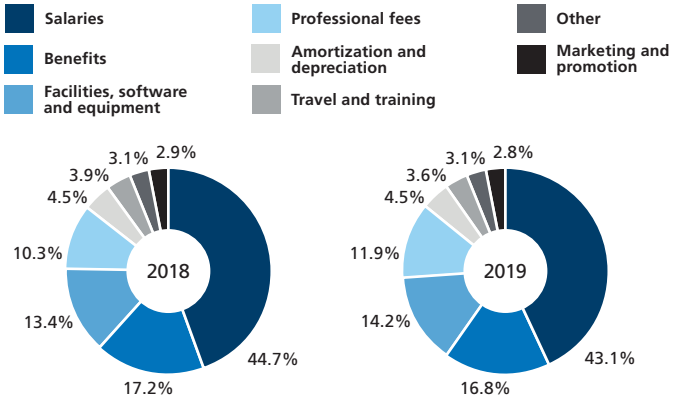
In 2018-19, the administration expenses increased from $384.6 million to $426.3 million. This reflects increased spending on initiatives related to the delivery of corporate objectives and business growth. The increases were primarily reflected in salaries, professional fees, facilities, software and equipment expense categories.

Administration expenses



The chart below indicates more detailed categorization of the administration expenses. Salaries was the largest component, representing 43.1% of the total administration expenses in 2018-19.

Administration expenses by category



Fair value adjustment

FCC's fair value adjustment amount includes changes in the fair value of guarantees, derivative financial assets and liabilities, and venture capital investments. Fair value adjustment increased by $9.0 million in 2018-19 to ($4.8) million primarily due to a lower decrease in the fair value of derivative financial assets and liabilities, which mainly related to fluctuations in interest rates. For additional information regarding the calculation of fair value adjustment, refer to Notes 5, 20 and 21 of the Notes to the Consolidated Financial Statements.

Business lines

Overview

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

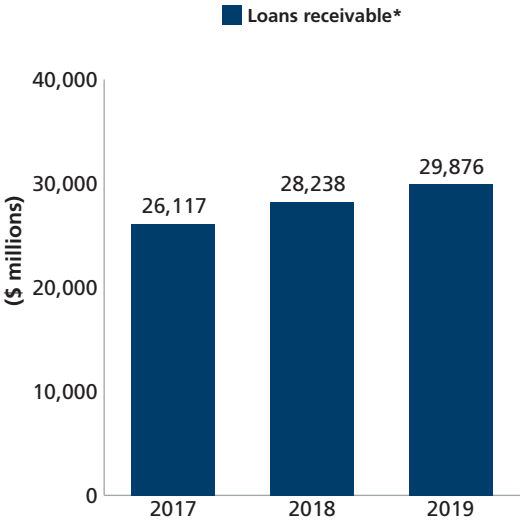
- primary production financing
- agribusiness and agri-food financing
- FCC Alliances
- FCC Ventures
- FCC Insurance
- FCC Learning
- FCC Management Software (AgExpert)

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

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

Primary production financing was 82.8% of FCC's total loans receivable in 2018-19. Loans receivable for primary production increased $1,638 million from 2017-18, resulting in a portfolio of $29,876 million in 2018-19. The rate of loans receivable growth decreased to 5.8% from 8.1% the previous fiscal year.

Primary production financing

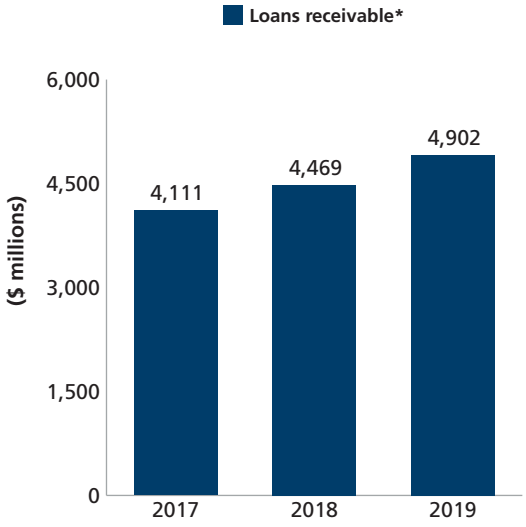


*Excludes deferred loan fees.

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

Agribusiness and agri-food financing loans receivable increased by 9.7% from 2017-18 to $4,902 million in 2018-19, a slight increase compared to prior year growth of 8.7%.

Agribusiness and agri-food financing

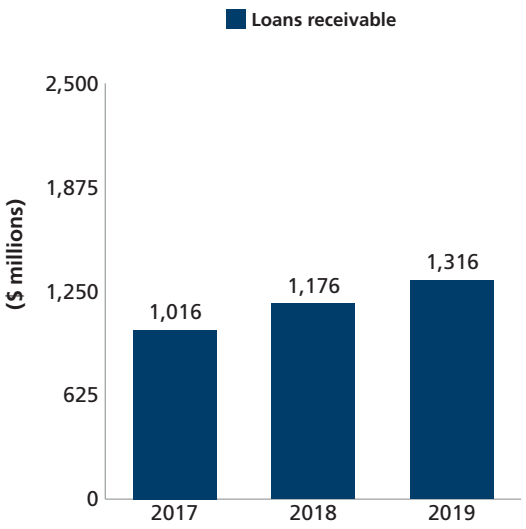


*Excludes deferred loan fees.

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

FCC Alliances loans receivable increased by 11.9% from 2017-18 to $1,316 million in 2018-19.

FCC Alliances



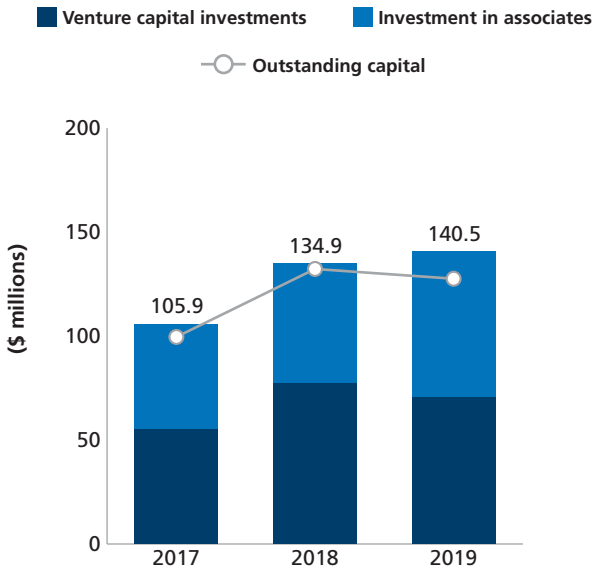
FCC Ventures is the corporation's venture capital business line that provides alternative financing in Canada's agriculture and agri-food industry. The investment objectives are focused on commercialization-to-growth stage and the recapitalization of mature businesses in the industrial bio-products,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

As of March 31, 2019, the venture capital portfolio includes six limited partnership funds, consisting of three equity funds and three subordinated debt funds. FCC's share of the equity funds make up the investment in associates balance on the balance sheet. Investments through Avrio subordinated debt funds are consolidated in the financial statements and reported as venture capital investments.

In 2018-19, FCC Ventures contributed $24.7 million in income, which is higher than the $0.4 million earned in 2017-18 and is primarily related to unrealized fair value gains in the equity funds. Investment in associates increased from $57.8 million in 2017-18 to $69.9 million in 2018-19 primarily due to new investments in the equity funds and fair value gains. Venture capital investments decreased from $77.1 million in 2017-18 to $70.6 million in 2018-19 due to repayments outpacing new lending.

At March 31, 2019, FCC has provided $300.6 million to date in venture capital funding to the agriculture and agri-food industry. Co-investors have contributed an additional $696.1 million, resulting in an additional $2.32 of capital for every $1.00 invested by FCC. Further details of the investment carrying value amounts can be found in Note 9 and 10 of the Notes to the Consolidated Financial Statements.

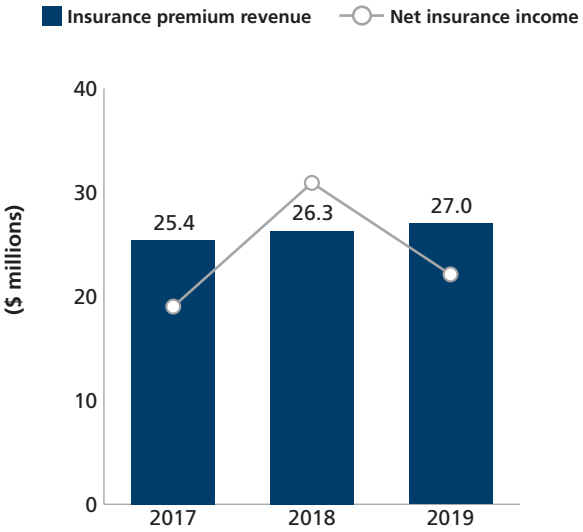
FCC Ventures



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

FCC loan insurance premium revenue has increased consistently over the last several years as a result of FCC's growing portfolio and focus on customer use of insurance coverage as part of FCC's risk mitigation strategy. FCC loan insurance premium revenue increased slightly to $27.0 million in 2018-19, compared to $26.3 million in 2017-18. Net insurance income varies from year to year depending on the claims incurred. In 2018-19, total incurred claims were $4.9 million, while in 2017-18 a significant change in actuarial assumptions reduced incurred claims reserve by $10.0 million, thereby reducing total incurred claims from $6.4 million to a recovery of $4.6 million. This resulted in net insurance income of $22.1 million in 2018-19 compared to $30.9 million in 2017-18.

Insurance income



FCC Learning provides Canadian producers and agribusiness operators with information and training to help advance their farm management practices. In 2018-19, 12,552 people attended 123 core FCC Learning events.

FCC Management Software (AgExpert) is focused on developing, promoting and improving farm management software for the Canadian agriculture and agri-food industry. In 2018-19, net sales revenue, including product support, increased to $1.6 million.

Financial position

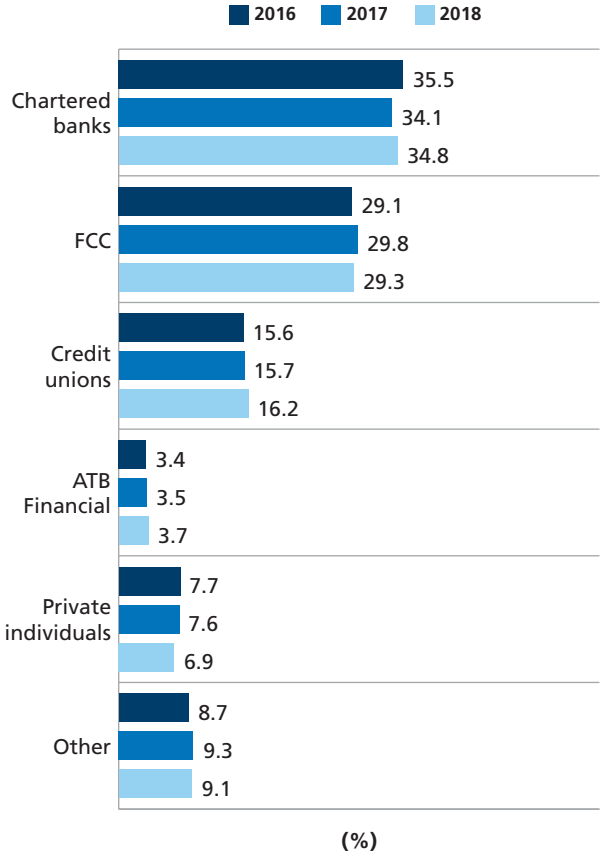
FCC continues to maintain a strong balance sheet and good risk management practices. The following section discusses FCC's financial position and provides an analysis of FCC's largest asset – loans receivable. This section also discusses FCC's credit quality, funding and liquidity, and capital management.

Loans receivable

Market share

According to Statistics Canada, farm debt outstanding increased by 8.3% to $106,259 million in 2018. FCC's market share decreased from 29.8% to 29.3% in 2018. FCC's proportion of Canada's farm debt outstanding increased $1,895 million from 2017 to $31,119 million, which remains second to the aggregate of the chartered banks at $36,944 million.

Market share as at December 31*

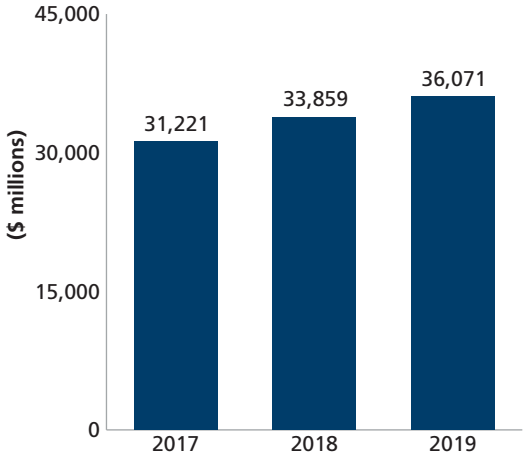


*Historical results are updated annually by Statistics Canada.

Total loans receivable

In 2018-19, loans receivable increased by $2,212 million or 6.5% from 2017-18, growing the portfolio to $36,071 million from $33,859 million. The growth in loans receivable was due to disbursements offset by net prepayments.

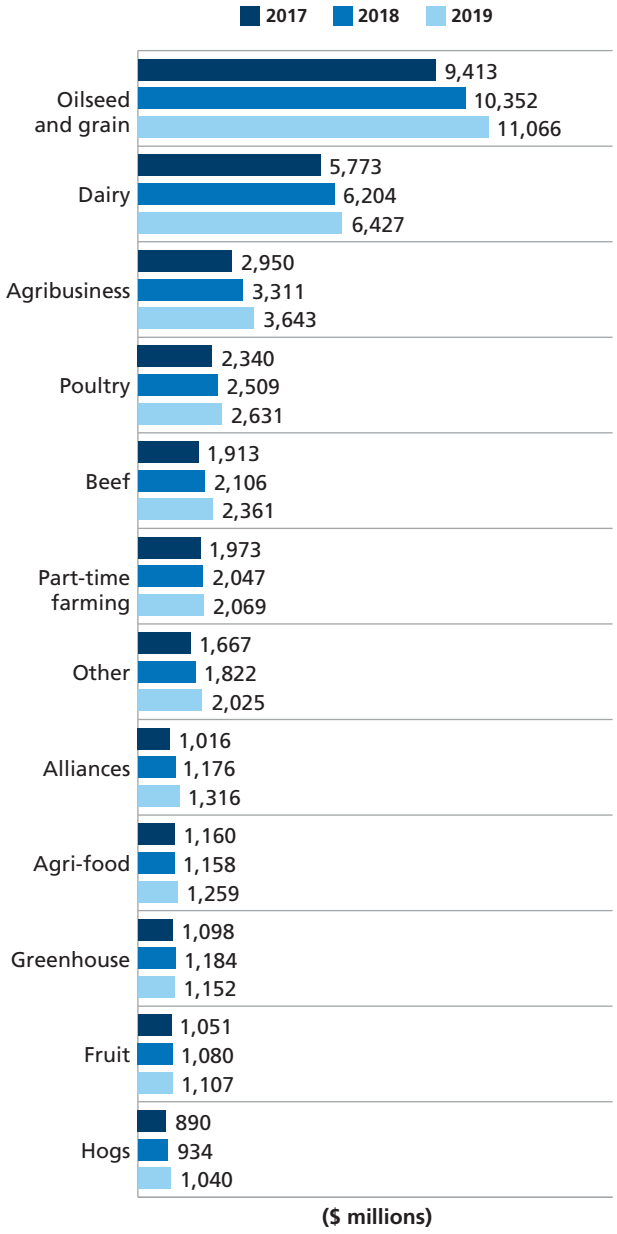
Loans receivable



Loans receivable composition by sector

FCC experienced loans receivable growth in all sectors with the exception of greenhouse. The largest loans receivable year-over-year growth was in oilseed and grain and the agribusiness sectors, which increased $714 million to $11,066 million and $332 million to $3,643 million, respectively.

Loans receivable by sector*



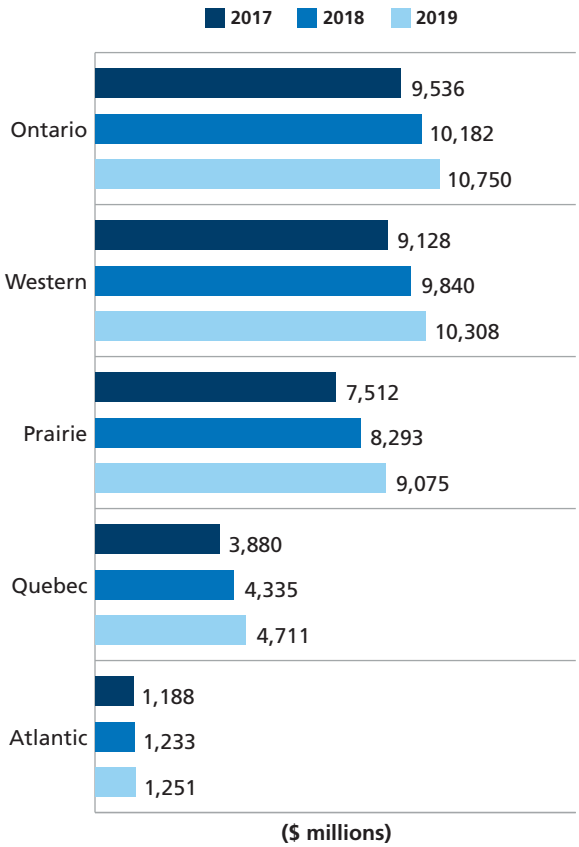
*Excludes deferred loan fees.

Loans receivable composition by region

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

In 2018-19, FCC experienced loans receivable growth across Canada. The Prairie region had the largest growth in loans receivable in 2018-19, increasing by $782 million to $9,075 million. The Ontario region had the second largest growth, which increased by $568 million to $10,750 million.

Loans receivable by region*



*Excludes deferred loan fees.

Credit quality

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

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

Credit-impaired loans

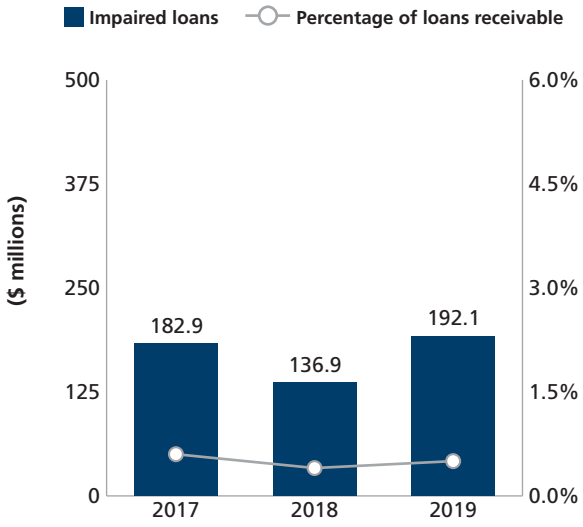
IFRS 9 was adopted on April 1, 2018, and introduces an expected loss impairment model for all financial assets. Upon adoption, credit-impaired loans increased by $18.0 million to $154.9 million. For more information about the adoption of IFRS 9, refer to Note 3 of the Notes to the Consolidated Financial Statements.

In 2018-19, credit-impaired loans increased by $37.2 million to $192.1 million. As a percentage of loans receivable, credit impaired loans increased to 0.5% in 2018-19 from 0.4%.

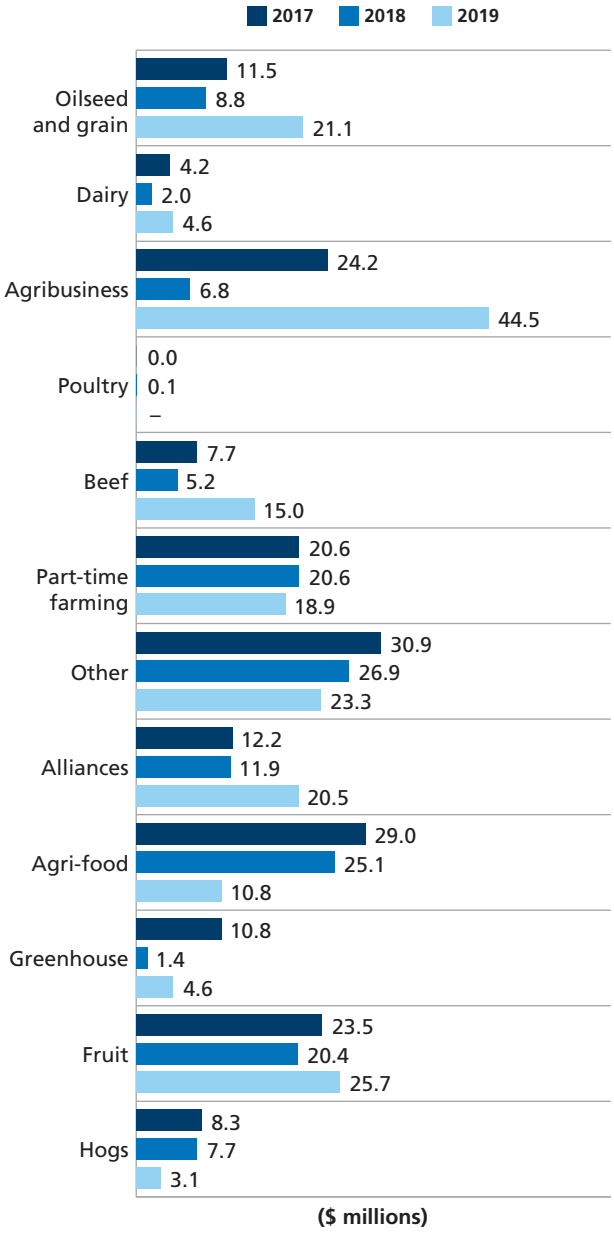
At a sector level, credit impaired loans fluctuated among different sectors in 2018-19. The agri-food and hogs sectors experienced the largest year-over-year decreases of $14.3 million and $4.6 million, respectively. The agribusiness sector experienced the largest year-over-year increase of $37.6 million largely due to a $27.7 million credit-impairment of one customer. The oilseed and grain experienced a $12.3 million increase.

Through its customer support programs, FCC proactively supports individual customers and sectors during financial difficulties. In 2018-19, FCC made payment schedule adjustments to 2,251 loans, 371 of which were part of its sector-specific support programs. Payment schedule adjustments as a percentage of total owing increased to 4.0% in 2018-19 compared to 2.7% in 2017-18.

Impaired loans



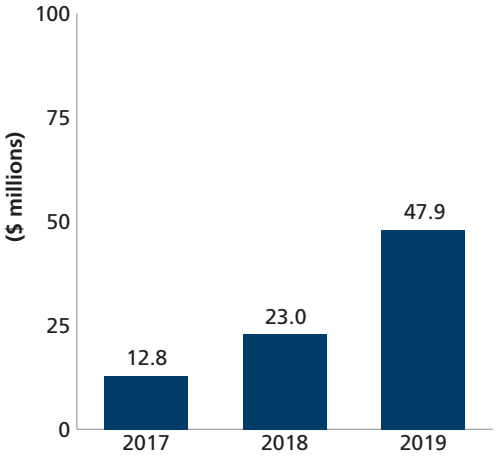
Impaired loans by sector



Writeoffs

In 2018-19, the amount of writeoffs, net of recoveries, increased by $24.9 from 2017-18 to $47.9 million. This was mainly due to a $27.4 million partial writeoff relating to one customer experiencing significant financial difficulties. Writeoffs as a percentage of loans receivable were 0.1%, higher than prior year which was less than 0.1%.

Writeoffs*



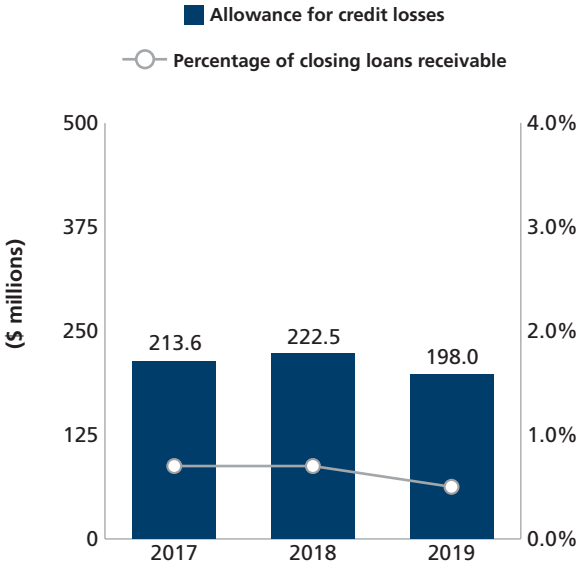
*Net of recoveries.

Allowance for credit losses

On April 1, 2018, FCC adopted IFRS 9 – Financial Instruments, which resulted in a decrease in allowance for credit losses of $82.8 million. For more information about the adoption of IFRS 9, refer to Note 3 of the Notes to the Consolidated Financial Statements.

The allowance for credit losses increased by $58.3 million from April 1, 2018, to $198.0 million on March 31, 2019. This is partly due to a $17.2 million increase from one customer that experienced significant financial difficulties and the remaining increase is primarily due to portfolio growth and changes in credit risk. The allowance for credit losses as a percentage of closing loans receivable decreased to 0.5%.

Allowance for credit losses



Funding and liquidity

Funding activity

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

During 2018-19, FCC raised short and long-term funds through the following programs:

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

Short-term funding

Short-term funding consists of borrowings with a term to maturity of one year or less, which include fixed-rate borrowings and floating-rate notes. Floating-rate notes have floating interest rates that reset based on one-month T-bill rates. The outstanding short-term borrowings at March 31, 2019, were $9,794 million, compared to $10,919 million at March 31, 2018. Of the total short-term borrowings outstanding, $9,285 million were raised through the Crown Borrowing Program.

Long-term funding

Long-term funding consists of borrowings with a term to maturity of more than one year, which include fixed-rate borrowings and floating-rate notes. Floating-rate notes have floating interest rates that reset based on one-month or three-month T-bill rates. The outstanding long-term borrowings at March 31, 2019, were $20,950 million, compared to $17,980 million at March 31, 2018. In 2018-19, all long-term borrowings were raised through the Crown Borrowing Program.

Credit ratings

New and outstanding capital market debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. Moody's Investors Service and Standard & Poor's did not change FCC's debt ratings during 2018-19. FCC's debt ratings as of March 31, 2019, are detailed below.

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

Liquidity

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

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

Capital management

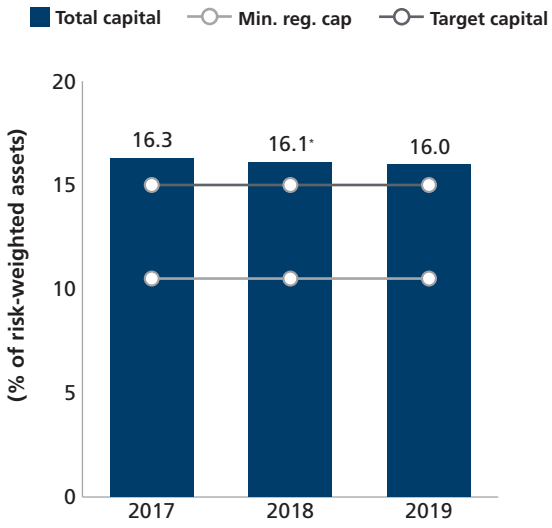
FCC manages capital in compliance with its Board-approved Capital Management policy. The Capital Management policy and supporting framework outline FCC's approach to assessing capital requirements for risks identified through its enterprise risk management framework. FCC's capital management objective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

FCC compares its total capital to minimum regulatory capital and target capital when assessing current and future capital adequacy. FCC uses the Capital Adequacy Requirements guideline issued by the Office of the Superintendent of Financial Institutions (OSFI) to assess total capital, minimum regulatory capital and risk-weighted assets (RWA). FCC's internal capital adequacy assessment process (ICAAP) uses regulatory and internal assessments of credit, market and operational risks, including considerations for business development, operating range, regulatory changes and uncertainties as well as the results of stress-testing. FCC uses the ICAAP to determine an appropriate target capital ratio, which is currently assessed at 15.0%.

Capital adequacy

FCC is currently and is projected to remain adequately capitalized as growth in capital outpaces growth in capital requirements. FCC is currently 1.0% above the target capital ratio, which will inform the dividend declaration and payment in the coming year.

Capital adequacy

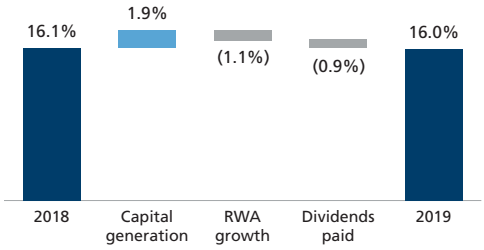


*Restated.

Total capital ratio continuity

The 0.1% decrease in the total capital ratio from March 31, 2018, to March 31, 2019, is the net result of capital generation offset by increased RWA and dividend payments. The increased RWA results primarily from portfolio growth while capital generation is primarily driven by net income and the resulting increase to retained earnings. In 2018-19, FCC paid dividends of $364.0 million to the Government of Canada based on the prior year's capital adequacy assessment. FCC's Dividend policy is aligned with the Capital and Dividend Policy Framework for Financial Crown Corporations issued in 2018 by the Department of Finance and the Treasury Board Secretariat.

Total capital ratio continuity



Debt to equity

FCC uses debt to equity as an additional measure to assess capital adequacy and the measure also represents the corporation's only legislated limit. At the end of 2018-19, FCC's debt-to-equity ratio remained below its legislated limit of 12:1.

From 2017-18 to 2018-19, FCC's debt-to-equity ratio remained at 4.9:1 due in part to the relationship between portfolio and equity growth.

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

Outlook for 2019-20

(millions of dollars unless otherwise noted)	2019 Actual	2020 Plan
Portfolio growth		
Loans receivable and leasing[1]	36,213	37,388
Loans receivable and leasing growth rate (%)	6.5	4.3
Profitability		
Net interest income	1,151.7	1,138.8
Net interest margin[2](%)	3.15	3.01
Credit quality		
Impaired loans	192.1	123.0
Provision for credit losses	103.3	28.8
Allowance for credit losses	198.0	133.8
Efficiency		
Administration expenses	426.3	458.8
Efficiency ratio (%)	36.3	39.6
Capital management		
Total capital ratio	16.0	16.0
Debt to equity	4.9	4.9
Shareholder return		
Net income	656.7	674.7
Return on equity (%)	10.5	10.3

(1) This is a new measure combining loans receivable and lease receivable.
(2) Starting 2019-20 the calculation for the net interest margin will be based on average earning assets instead of total assets. The 2019 actual net interest margin has been restated in this chart for comparison purposes.

Portfolio growth

Loans receivable and leasing is projected to grow by $1,175 million from March 31, 2019. The increase in loans receivable and leasing reflects projected lending through the primary production financing, agribusiness and agri-food financing and Alliances business lines. Slower portfolio growth is anticipated in 2019-20 due to slower growth in farmland asset values and farm debt outstanding.

Profitability

Net interest income is expected to decrease by $12.9 million to $1,138.8 million in 2019-20. This is due to 4.3% growth in loans receivable, offset by a decrease in the net interest margin from 3.15% to 3.01%. Increased funding costs on short-term debt are projected to have an unfavourable impact on the interest rate spread between interest-bearing liabilities and interest-earning assets. This will be partially offset by the favourable impact of interest rates on FCC's equity base.

Credit quality

Impaired loans are expected to be $123.0 million in 2019-20, a decrease of $69.1 million over current year due to loans coming out of impairment or being written off. In 2019-20, the required provision is projected to be $28.8 million, decreasing from 2018-19 mainly due to less risk projected in the portfolio. By the end of 2019-20, the allowance for credit losses is expected to be $133.8 million. The allowance for credit losses as a percentage of loans receivable and leasing is projected to decline from 0.5% in 2018-19 to 0.4% in 2019-20.

Efficiency

In 2019-20, administration expenses are projected to be $32.5 million higher than current year mainly due to facilities and equipment, salaries and benefits, professional fees and other administration expense. Due to the growth in administration expenses outpacing the growth in revenue, the efficiency ratio is anticipated to grow to 39.6% in 2019-20.

Capital management

The total capital ratio in 2019-20 is projected to remain higher than FCC's targeted total capital ratio of 15.0% as growth in capital from net income outpaces growth in RWA. The total capital ratio is expected to remain at 16.0% in 2019-20 due to lower portfolio growth and dividends partially offset by growth in capital from net income. In 2019-20, the debt-to-equity ratio is projected to remain at 4.9:1, since excess capital is paid to the shareholder in the form of dividends. This ratio is projected to remain well below the maximum 12:1 debt-to-equity ratio set under the Farm Credit Canada Act.

Shareholder return

In 2019-20, net income is projected to increase $18.0 million to $674.7 million. The projected increase is due to lower provision for credit losses, partially offset by higher administration expenses, lower net interest income and lower net income from investment in associates. Return on equity in 2019-20 is projected to decrease to 10.3% due to the growth in equity outpacing the growth of net income.

Enterprise risk management

Managing risk to protect FCC and maintain great customer relationships

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

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

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

Risk governance

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

FCC Board of Directors

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

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

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

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

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

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

FCC management committees

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

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

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

The **Enterprise Risk Management Committee** advises the Chief Risk Officer regarding the management of enterprise risks. The committee promotes a risk management culture at FCC and continuous evolution of risk management practices. ERMC supports the Chief Risk Officer to advise the Board about the risk appetite statement and tolerances, risk management frameworks and policies, compliance and risk reports, action plans to address policy breaches, the fit of new products and services within the risk appetite, stress/scenario testing and the assessment of strategic risk. The committee also approves FCC's risk management models for implementation.

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

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

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

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

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

FCC executive and business functions

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

The **first line of defence** develops and executes FCC's business strategy. This includes the ability to make loans, fund the portfolio, develop products and pursue markets and other risk-taking decisions. These

decisions are made within the context of the risk appetite statement. Included in the first line are embedded control functions whose role is to monitor activities of the first line.

The **second line of defence** effectively challenges risk-taking decisions made by the first line relative to the risk appetite statement. This includes setting risk policy and standards, monitoring compliance to policy, reporting risks to management and the Board. The Chief Risk Officer maintains independence through a direct reporting relationship to the Board's Risk Committee and leads a risk division that is independent of FCC operations.

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

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

FCC's risk appetite

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

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

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

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

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

FCC's risk-intelligent culture

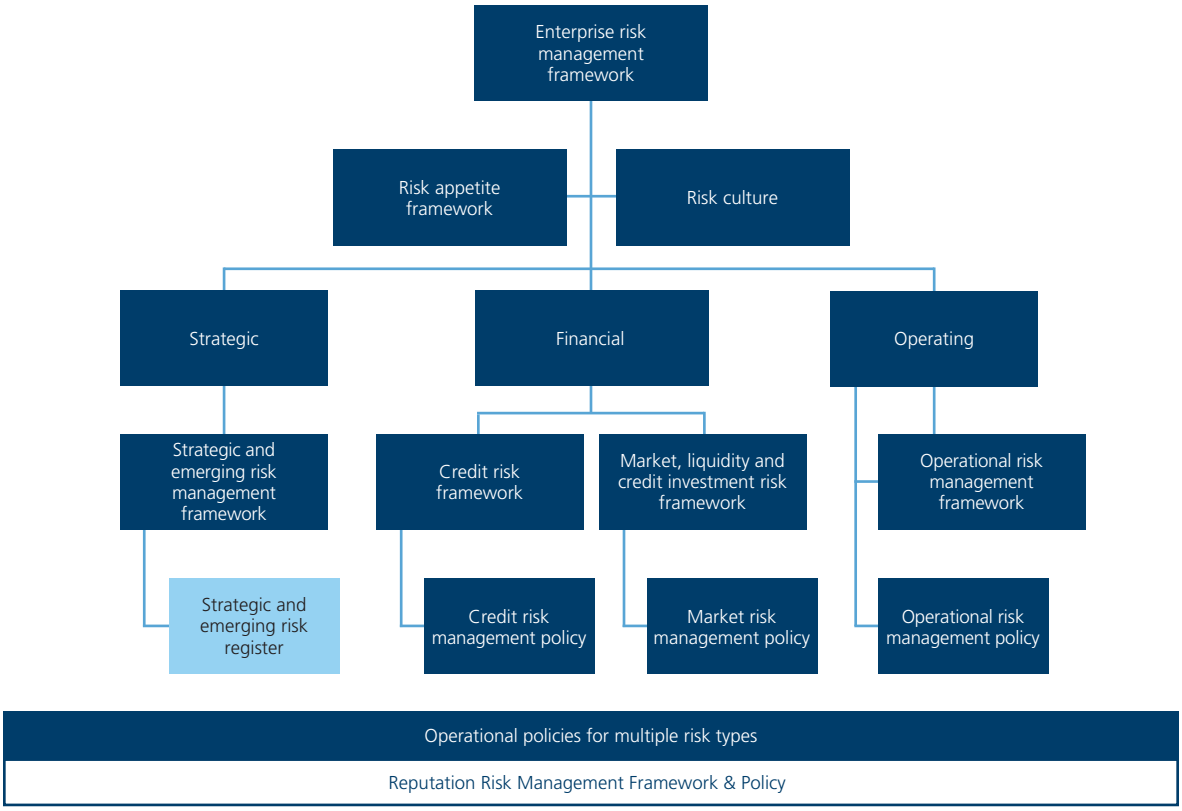
Industry trust and marketplace reputation are essential to sustained business success and effective mandate execution. To proactively manage FCC's culture and risk mindsets, the fundamental drivers of employee behaviour have been defined and grouped into four key areas: risk competence and skill, organizational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

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

FCC's risk categories

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

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



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

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

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

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

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

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

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

Strategic risk

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

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

FCC has developed strategic risk tolerance statements. Limits are set annually to correspond to the tolerance statements.

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

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

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

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

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

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

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

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

Emerging and strategic risks are identified and analyzed through external scanning, consultation with internal subject matter experts and other means. The Board

discusses the top enterprise risks during its involvement in the strategic planning cycle. Enterprise Management Team members are accountable for developing risk mitigation plans and reporting progress to the Board on a quarterly basis.

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

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

Financial risks – credit, market and liquidity

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

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

Financial strength: We target a return on equity that recognizes our mandate, ensures FCC remains self-sustaining and meets shareholder expectations.

Portfolio health: We manage our loan portfolio to minimize large write-offs through policy compliance, enforceable security and accurate information and documentation.

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

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

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

Financial risks – credit risk

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

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

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

FCC uses policies, processes, systems and strategies to manage the credit risk of the lending portfolio. Venture capital and subordinated debt are provided through independent partners who manage a series of investment funds on behalf of FCC and other investment partners. FCC is exposed to credit risk through subordinated debt fund investments.

The Risk Management division assesses credit risk at the aggregate level, providing risk policies, assessment tools and models that quantify portfolio credit risk and allowance for credit losses. FCC also closely monitors the agriculture and agri-food operating environments to ensure the corporation's lending policies, activities

and prices are appropriate and relevant. FCC focuses risk-taking decisions primarily on the customers' ability to repay the loan. Secondary forms of repayment such as collateral security are considered in the lending decision. The loan portfolio is monitored regularly using a combination of measures to estimate repayment and collateral quality.

Financial risks – market risk

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

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

Financial risks – liquidity risk

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

Operational risk

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

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

People: We adhere to the highest standards of integrity and will not allow goals, compensation or pressure to compromise our decisions.

We deter money laundering, terrorist financing, theft and fraud.

We comply with applicable legislation, regulation and regulatory directives.

We maintain a skilled and knowledgeable work force to meet current and future business requirements.

We safeguard employees' physical and mental well-being.

We effectively manage risks within our accountabilities to deliver great customer experiences while respecting each of the three lines of defence.

Process: We design and execute processes with effective controls, consistent with policy and information capture requirements. We match suitable products, services and terms to customer situations and capabilities.

We develop, maintain and validate models for consistent performance based on risk, complexity and materiality.

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

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

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

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

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

At FCC, business units are responsible for ensuring that appropriate controls, including policies and processes, are in place to mitigate risks and operate effectively.

FCC processes are organized in a hierarchical process classification framework. This classification provides an end-to-end view to define work processes consistently and comprehensively, and to identify risks inherent in the process.

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

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

Reputation risk

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

As a federal Crown corporation, FCC is accountable to its Minister but also takes into consideration the interests of many stakeholders including employees, customers, industry associations and Canadians as a whole. Exposure to reputation risk is a function of FCC's ability to manage and respond to other risks. To avoid real or perceived reputation damage, FCC has a robust governance structure, including policies and processes, to guide employee conduct in interactions with co-workers, customers, industry partners, suppliers, media and the public.

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

Management's Responsibility for Consolidated Financial Statements

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

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

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

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

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

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

Regina, Canada
June 5, 2019

Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Agriculture and Agri-Food

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Farm Credit Canada and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 March 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the consolidated financial statements, we have audited transactions of Farm Credit Canada coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Farm Credit Canada Act*, the by-laws of Farm Credit Canada, and the directives issued pursuant to section 89 of the *Financial Administration Act*.

In our opinion, the transactions of Farm Credit Canada that came to our notice during the audit of the consolidated financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied, except for the change in the method of accounting for financial instruments as explained in Note 3 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for Farm Credit Canada's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable Farm Credit Canada to comply with the specified authorities.

Auditor's Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the consolidated financial statements are in compliance with the specified authorities referred to above.

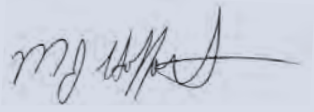
Heather McManaman, CPA, CA
Principal
for the Interim Auditor General of Canada

Ottawa, Canada
5 June 2019

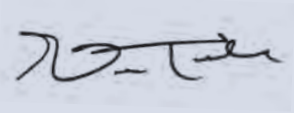
Consolidated Balance Sheet

As at March 31 (thousands of Canadian dollars)	2019	2018
Assets		
Cash and cash equivalents	**$ 770,517**	$ 828,569
Short-term investments (Note 4)	**435,601**	398,207
Accounts receivable and prepaid expenses	**39,879**	47,801
Derivative financial assets (Note 5)	**16,459**	21,512
	1,262,456	1,296,089
Loans receivable – net (Notes 6 and 8)	**35,873,075**	33,636,019
Finance leases receivable – net (Notes 7 and 8)	**20,148**	19,613
Investment in associates (Note 9)	**69,909**	57,765
Venture capital investments – net (Notes 8 and 10)	**70,602**	77,115
Post-employment benefit assets (Note 11)	**88,891**	50,256
	36,122,625	33,840,768
Equipment and leasehold improvements (Note 12)	**26,070**	24,513
Computer software (Note 13)	**32,714**	33,451
Equipment under operating leases (Note 14)	**121,496**	110,670
Other assets (Note 15)	**13,419**	12,442
	193,699	181,076
Total assets	**$ 37,578,780**	$ 35,317,933
Liabilities		
Accounts payable and accrued liabilities	**$ 68,531**	$ 63,870
	68,531	63,870
Borrowings (Note 16)		
Short-term debt	**9,794,234**	10,919,146
Long-term debt	**20,950,075**	17,980,195
	30,744,309	28,899,341
Transition loan liabilities	**160,763**	139,319
Post-employment benefit liabilities (Note 11)	**165,205**	145,281
Other liabilities (Note 17)	**10,421**	9,586
	336,389	294,186
Total liabilities	**31,149,229**	29,257,397
Equity		
Contributed surplus	**183,725**	547,725
Retained earnings	**6,202,132**	5,447,657
Accumulated other comprehensive income	**43,017**	64,387
Equity attributable to shareholder of parent entity	**6,428,874**	6,059,769
Non-controlling interest	**677**	767
	6,429,551	6,060,536
Total liabilities and equity	**$ 37,578,780**	$ 35,317,933

Commitments, guarantees and contingent liabilities (Note 23).
The accompanying notes are an integral part of the consolidated financial statements.
The consolidated financial statements were approved by the FCC Board of Directors on June 5, 2019, and were signed on its behalf by:



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



Govert Verstralen
Chair, Audit Committee

Consolidated Statement of Income

For the year ended March 31 (thousands of Canadian dollars)	2019	2018
Interest income[1]	$ 1,622,334	$ 1,338,957
Interest expense[1]	470,616	266,651
Net interest income[1] (Note 18)	1,151,718	1,072,306
Provision for credit losses	(103,288)	(30,881)
Net interest income after provision for credit losses	1,048,430	1,041,425
Net insurance income	22,061	30,859
Net income (loss) from investment in associates	17,392	(3,557)
Net foreign exchange gain (loss)[1] (Notes 18 and 26)	555	(300)
Other expense	(724)	(127)
Net interest income and non-interest income	1,087,714	1,068,300
Administration expenses (Note 19)		
Salaries and benefits	255,423	238,164
Other	170,873	146,421
Total administration expenses	426,296	384,585
Net income before fair value adjustment	661,418	683,715
Fair value adjustment (Note 20)	(4,764)	(13,797)
Net income	$ 656,654	$ 669,918
Net income attributable to:		
Shareholder of parent entity	$ 656,578	$ 669,879
Non-controlling interest	76	39

[1] Comparative figures in 2018 were reclassified. See Note 18.

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

Consolidated Statement of Comprehensive Income

For the year ended March 31 (thousands of Canadian dollars)		2019		2018
Net income	**$**	**656,654**	$	669,918
Other comprehensive income				
Items that are or may be reclassified to net income				
Transfer of net realized gains on derivatives previously designated as cash flow hedges to net income (Note 5)		**(21,720)**		(21,721)
Net unrealized losses on available-for-sale financial assets		**–**		(163)
		(21,720)		(21,884)
Item that will never be reclassified to net income				
Remeasurement of post-employment benefit assets and liabilities (Note 11)		**24,158**		(20,705)
Total other comprehensive income (loss)		**2,438**		(42,589)
Total comprehensive income	**$**	**659,092**	$	627,329
Total comprehensive income attributable to:				
Shareholder of parent entity	**$**	**659,016**	$	627,290
Non-controlling interest		**76**		39

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

Consolidated Statement of Changes in Equity

(thousands of Canadian dollars)	Balance March 31, 2018	Impact of adopting new accounting standard (Note 3)	Balance April 1, 2018	Net income	Other comprehensive income	Dividend paid	Contributions from non-controlling interest	Balance March 31, 2019
Contributed surplus	**$ 547,725**	**$ –**	**$ 547,725**	**$ –**	**$ –**	**$ (364,000)**	**$ –**	**$ 183,725**
Retained earnings	**5,447,657**	**73,739**	**5,521,396**	**656,578**	**24,158**	**–**	**–**	**6,202,132**
Net gains (transfer of net gains) on derivatives previously designated as cash flow hedges	**64,737**	**–**	**64,737**	**–**	**(21,720)**	**–**	**–**	**43,017**
Net unrealized (losses) gains on available-for-sale financial assets	**(350)**	**350**	**–**	**–**	**–**	**–**	**–**	**–**
Total accumulated other comprehensive income (loss)	**64,387**	**350**	**64,737**	**–**	**(21,720)**	**–**	**–**	**43,017**
Total equity attributable to parent	**6,059,769**	**74,089**	**6,133,858**	**656,578**	**2,438**	**(364,000)**	**–**	**6,428,874**
Non-controlling interest	**767**	**(13)**	**754**	**76**	**–**	**–**	**(153)**	**677**
Total	**$ 6,060,536**	**$ 74,076**	**$ 6,134,612**	**$ 656,654**	**$ 2,438**	**$ (364,000)**	**$ (153)**	**$ 6,429,551**

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

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

Consolidated Statement of Cash Flows

For the year ended March 31 (thousands of Canadian dollars)	2019	2018
Operating activities		
Net income	**$ 656,654**	$ 669,918
Adjustments to determine net cash (used in) provided by operating activities:		
Net interest income[1]	**(1,151,718)**	(1,072,306)
Unwind adjustment on impaired loans	**–**	1,005
Provision for credit losses	**103,288**	30,881
Fair value adjustment	**4,764**	13,797
Net (income) loss from investment in associates	**(17,392)**	3,557
Amortization and depreciation	**19,289**	17,383
Net unrealized foreign exchange (gains) losses	**(16,230)**	17,650
Net cash outflow from loans receivable	**(2,211,374)**	(2,600,616)
Net cash inflow (outflow) from finance leases receivable	**250**	(2,539)
Net change in other operating assets and liabilities	**60,418**	(23,011)
Interest received[1]	**1,540,893**	1,246,875
Interest paid[1]	**(418,801)**	(229,596)
Cash used in operating activities	**(1,429,959)**	(1,927,002)
Investing activities		
Net cash (outflow) inflow from short-term investments	**(35,611)**	38,002
Acquisition of venture capital investments	**(23,076)**	(26,020)
Proceeds on disposal and repayment of venture capital investments	**29,460**	5,850
Net cash inflow (outflow) from investment in associates	**5,248**	(10,414)
Purchase of equipment and leasehold improvements	**(10,400)**	(8,567)
Purchase of computer software	**(9,708)**	(9,582)
Purchase of equipment under operating leases	**(55,361)**	(59,510)
Proceeds on disposal of equipment under operating leases	**19,469**	18,276
Cash used in investing activities	**(79,979)**	(51,965)
Financing activities		
Long-term debt issued	**9,926,000**	9,226,500
Long-term debt repaid	**(7,650,327)**	(6,536,263)
Short-term debt issued	**10,642,664**	10,906,762
Short-term debt repaid	**(11,102,387)**	(11,270,209)
Dividend paid	**(364,000)**	(308,300)
Cash provided by financing activities	**1,451,950**	2,018,490
Change in cash and cash equivalents	**(57,988)**	39,523
Cash and cash equivalents, beginning of year	**828,569**	790,595
Effects of exchange rate changes on the balances of cash held and due in foreign currencies	**(64)**	(1,549)
Cash and cash equivalents, end of year	**$ 770,517**	$ 828,569
Cash and cash equivalents consists of:		
Cash	**$ 770,517**	$ 665,393
Cash equivalents	**–**	163,176

[1] Comparative figures in 2018 were reclassified. See Note 18.

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

Notes to the Consolidated Financial Statements

1. The corporation

Authority and objectives

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

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

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

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

In September 2008, FCC, together with a number of other Crown corporations, was issued a directive (P.C. 2008-1598) pursuant to Section 89 of the Financial Administration Act, requiring due consideration by FCC to the personal integrity of those it lends to or provides benefits to. During fiscal 2019, FCC continued to comply with the requirements of the directive.

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

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

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

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

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

2. Significant accounting policies

Basis of presentation

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

The significant accounting policies used in the preparation of the consolidated financial statements are summarized below and in the following pages. The significant accounting policies have been applied consistently to all periods presented in the consolidated financial statements, except for FCC's new accounting policies resulting from the adoption of IFRS 9 – Financial Instruments in the current year, as explained below.

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

Changes in accounting standards

On April 1, 2018, FCC adopted IFRS 9 – Financial Instruments, which replaced IAS 39 – Financial Instruments: Recognition and Measurement. The adoption of this new standard resulted in changes in the accounting for certain financial instruments as well as the recognition of certain adjustments in opening retained earnings and opening accumulated other comprehensive income as described below, in subsequent pages and in Note 3. The comparative consolidated financial statements have not been restated as a result of the adoption of the new standard.

On April 1, 2018, FCC also incorporated the amendments to IFRS 7 – Financial Instruments: Disclosures. IFRS 7 was amended to provide additional qualitative and quantitative disclosures requirements when an entity adopts IFRS 9.

The requirements of the new and amended standards, the related accounting policies adopted by the corporation and the resulting financial statement impacts are further discussed below and on the following pages.

(a) Classification and measurement of financial instruments

All financial assets that do not meet the "solely payment of principal and interest" (SPPI) test are classified at initial recognition as fair value through profit and loss (FVTPL). The SPPI test is conducted to identify whether the contractual cash flows of the financial instrument are solely payments of principal and interest such that any variability in the contractual cash flows is consistent with a basic lending arrangement.

For financial assets that meet the SPPI test, classification at initial recognition is determined based on a business model under which these instruments are managed:

- Financial assets managed on a held for trading or fair value basis are classified as FVTPL.
- Financial assets managed on a hold for sale basis are classified as fair value through other comprehensive income (FVOCI).
- Financial assets managed on a hold to collect contractual cash flows basis are classified as amortized cost.

FCC's loans and receivables are now classified as financial assets at amortized cost, with no impact on measurement.

Financial assets are only reclassified when the business model under which they are managed has changed. All reclassifications are to be applied prospectively from the reclassification date. FCC's cash equivalents and

2. Significant accounting policies (continued)

short-term investments have been reclassified from available-for-sale (AFS) to amortized cost and certain venture capital investments from FVTPL to amortized cost.

Other financial liabilities are now classified as financial liabilities at amortized cost, with no impact on measurement.

Under IAS 39, financial assets were classified or designated as loans and receivables, financial assets at FVTPL or AFS financial assets. Financial liabilities were classified or designated as financial liabilities at FVTPL or other financial liabilities. Loans and receivables consisted of non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. Financial instruments at FVTPL consisted of derivative financial assets and liabilities that were classified as held for trading and non-derivative financial assets and liabilities that met certain conditions to be designated at FVTPL at initial recognition. AFS financial assets consisted of non-derivative financial assets that did not qualify for inclusion in any of the other financial asset categories.

Under IAS 39, financial assets and financial liabilities were initially recognized at fair value and subsequently accounted for based on their classification.

(b) Impairment of financial assets

The most significant impact of IFRS 9 to FCC is the new expected loss impairment model, which results in an allowance for credit losses being recorded on financial assets classified as amortized cost and for all loan commitments and financial guarantees that are not measured at FVTPL, regardless of whether there has been an actual loss event. The new approach represents credit losses that reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Forward-looking information is explicitly incorporated in the estimation of allowance for credit losses, which involves significant judgment.

Under IAS 39, the allowance recorded was designed to capture only losses that were incurred whether or not they had been specifically identified, were based on a single best estimate and incorporated the time value of money and information about past events and current conditions.

(c) Opening financial statement impact

See Note 3 for a reconciliation of how the transition from IAS 39 to IFRS 9 has impacted the corporation's opening Consolidated Balance Sheet on April 1, 2018.

Basis of consolidation

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

2. Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents are composed of bank account balances and short-term, highly liquid investments that have a maturity date of 90 days or less from the date of acquisition, are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash equivalents are managed on a hold to collect basis and classified as amortized cost financial assets. Interest earned on cash and cash equivalents is recorded on an accrual basis and recognized in interest income using the effective interest method. See Note 3 for the impact of the adoption of IFRS 9 on the accounting treatment.

Under IAS 39, cash equivalents were designated as AFS financial assets and were recorded at fair value with unrealized gains and losses recognized in other comprehensive income (OCI). Interest earned on cash and cash equivalents was recorded on an accrual basis and recognized in interest income.

Short-term investments

Short-term investments have maturity dates between 91 and 365 days from the date of acquisition, are acquired primarily for liquidity purposes, are managed on a hold to collect basis and are classified as amortized cost financial assets. Interest earned on short-term investments is recorded on an accrual basis and recognized in interest income using the effective interest method. See Note 3 for the impact of the adoption of IFRS 9 on the accounting treatment.

Under IAS 39, short-term investments were designated as AFS financial assets and accounted for at fair value using trade date accounting. The estimated fair value of short-term investments was calculated by discounting contractual cash flows at interest rates prevailing at the reporting date for equivalent securities. Unrealized fair value gains and losses were included in OCI. Interest was recorded on an accrual basis and recognized in interest income.

Accounts receivable

Accounts receivable are managed on a hold to collect basis and classified as amortized cost financial assets.

This accounting treatment is consistent with the accounting treatment prior to April 1, 2018.

Derivatives

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

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

This accounting treatment is consistent with the accounting treatment prior to April 1, 2018.

Cash flow hedges

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

2. Significant accounting policies (continued)

Loans receivable

Loans receivable are classified as amortized cost financial assets. Loans receivable are stated net of an allowance for credit losses and deferred loan fees and are measured at amortized cost using the effective interest method. Loan interest income is recorded on an accrual basis and recognized in net income using the effective interest method.

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

This accounting treatment is consistent with the accounting treatment prior to April 1, 2018.

When a loan becomes credit-impaired, loan interest income is calculated based on the carrying amount of the instrument, net of the allowance for credit losses. The loan reverts to performing status when, in management's opinion, the ultimate collection of principal and interest is reasonably assured. When the credit-impaired loan is restored to performing status, the remaining allowance for credit losses is recalculated under Stage 2 and adjusted through the provision for credit losses.

Loans and their related allowance for credit losses are written off, either partially or in full, when there is no realistic prospect of future recovery.

Under IAS 39, loan interest income was not accrued when a loan was classified as impaired. When a loan was impaired, the unwinding of the discount on the security value was recognized as interest income based on the original effective interest rate on the loan. In addition, loans and their related allowance for credit losses were written off in full when collection efforts were exhausted and partial writeoffs, whereby collection efforts were still taking place, did not occur.

Finance leases receivable

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

This accounting treatment is consistent with the accounting treatment prior to April 1, 2018.

Investment in associates

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

This accounting treatment is consistent with the accounting treatment prior to April 1, 2018.

2. Significant accounting policies (continued)

Venture capital investments

Venture capital investments include investments held by the Avrio Subordinated Debt Funds. FCC has classified certain of its venture capital investments as amortized cost financial assets, as they are managed on a hold to collect basis in accordance with their business model. These venture capital investments are stated net of an allowance for credit losses. Venture capital investments that do not meet the SPPI test are classified as FVTPL. These venture capital investments are accounted for at fair value, using a valuation technique as described under the Estimation Uncertainty heading, with gains and losses reported in the fair value adjustment.

Loan interest on debt and fee income are recorded on an accrual basis and recognized in interest income. See Note 3 for the impact of the adoption of IFRS 9 on the accounting treatment.

Under IAS 39, all venture capital investments were designated as FVTPL and accounted for at fair value, with gains and losses reported in the fair value adjustment.

Allowance for credit losses

IFRS 9

FCC recognizes an allowance for credit losses on financial assets classified as amortized cost that represents management's best estimate of the expected losses at the balance sheet date. The carrying value of the financial asset is reduced through the allowance for credit losses and the amount of the loss is recognized in the provision for credit losses. Loan commitments are an off-balance sheet item and are subject to impairment. As such, an allowance for credit losses is calculated and included with the allowance for credit losses on loans receivable. The allowance is increased or decreased by changes in the provision for credit losses, the government subsidy for the Hog Industry Loan Loss Reserve Program (HILLRP), as described under the Government Assistance heading, writeoffs and recoveries.

If, in a subsequent period, the amount of impairment loss increases or decreases, the previously recognized impairment loss is adjusted through the allowance for credit losses and provision for credit losses.

In determining the allowance for credit losses, management segregates financial assets into three stages and the allowance methodology is based on the stage, as described below.

Expected loss impairment model

The expected loss impairment model applies a three-stage approach to measure the allowance for credit losses:

Performing financial assets:

Stage 1: Represents financial assets not yet individually identified as credit-impaired. On initial recognition and if there has not been a significant increase in credit risk, 12-month expected credit losses are recognized in the provision for credit losses and an allowance for credit losses is established.

Stage 2: Represents financial assets not yet individually identified as credit-impaired. If credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized. In subsequent reporting periods, if the credit risk of the financial asset improves such that there is no longer a significant increase in credit risk since initial recognition, then the allowance reverts back to Stage 1 with the allowance being measured based on 12-month expected credit losses.

Credit-impaired financial assets:

Stage 3: Represents financial assets individually identified as credit-impaired. When a financial asset is considered credit-impaired, full lifetime expected credit losses are recognized.

2. Significant accounting policies (continued)

Measurement of expected credit losses
The measurement of expected credit losses along with the stage determination considers reasonable and supportable information about past events, current conditions and forward-looking information. The estimation and application of forward-looking information, using both internal and external sources of information, requires significant judgment.

The calculation of expected credit losses is based on the expected value of three probability-weighted scenarios to measure the expected cash shortfalls, discounted at the effective interest rate. A cash shortfall is the difference between the contractual cash flows that are due and the cash flow that FCC expects to receive. For loan commitments, credit loss estimates consider the portion of the commitment that is expected to be drawn over the relevant time period. The key inputs in the measurement of expected credit losses are as follows:

- the probability of default (PD) is an estimate of the likelihood of default over a given time horizon
- the loss given default (LGD) is an estimate of the amount that may not be recovered in the event of default
- the exposure at default (EAD) is an estimate of the exposure at a future default date

Twelve-month expected credit losses are measured using the probability that default will occur within 12 months after the reporting date. Lifetime expected credit losses are measured using the probability that default will occur between now and the maturity of the loan.

Significant increase in credit risk
At each balance sheet date, FCC assesses whether a significant increase in credit risk (SICR) has taken place since initial recognition of the financial asset to determine the migration of financial assets from Stage 1 to Stage 2. In assessing whether credit risk has increased significantly, FCC considers the following factors:

- whether financial assets are considered to have low credit risk at the reporting date
- whether there is an increase in the PD beyond a certain threshold to indicate the risk of a default occurring on the financial asset as at the reporting date is significantly higher than upon initial recognition
- qualitative information available as at the reporting date
- days past due

Credit-impaired financial assets
A Stage 3 credit-impaired financial asset is any financial asset at amortized cost where, in management's opinion, the credit quality has deteriorated to the extent that FCC no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, any financial asset at amortized cost where an amount greater than $500 is past due for 90 or more consecutive days is classified as impaired unless the financial asset is sufficiently secured. When a financial asset is classified as Stage 3 credit-impaired, the carrying value is reduced to its estimated realizable value through an adjustment to the provision for credit losses. Changes in the estimated realizable amount that arise subsequent to the initial impairment are also adjusted through the provision for credit losses.

The impairment loss is calculated as the difference between the financial asset's carrying value and the present value of estimated future cash flows discounted at either the loan or lease's original effective interest rate for fixed-rate loans or the effective interest rate at the time of the impairment for variable-rate loans. The estimation of future cash flows considers the fair value of any underlying security as well as the estimated time and costs to realize the security.

Forward-looking information
The measurement of expected credit losses for each stage of the allowance for credit losses and the assessment of SICR considers information about reasonable and supportable forecasts of future events and economic conditions.

2. Significant accounting policies (continued)

FCC incorporates forward-looking information into its measurement of expected credit losses by using a base case forecast as well as two probability-weighted, forward-looking scenarios representing more optimistic and pessimistic outcomes. To achieve this, FCC has developed national and provincial-level models for farm cash receipts, farmland values and farm debt outstanding. In its models, FCC relies on a broad range of forward-looking information as economic inputs, using both internal and external sources of information such as Canadian Gross Domestic Product, exchange rates and interest rates. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgment.

See Note 3 for the impact of the adoption of IFRS 9 on the allowance for credit losses.

Modifications of financial assets

If the contractual terms of a financial asset are modified, an assessment is made to determine if the financial asset should be derecognized. Where the modification does not result in derecognition, the date of origination continues to be used to determine an SICR for stage assignment of credit losses. Where the modification results in derecognition, the modified financial asset is considered to be a new financial asset.

IAS 39

FCC assessed whether there was objective evidence that a loan or lease was impaired and recognized an allowance for credit losses that represented management's best estimate of the incurred losses at the balance sheet date. To determine the allowance for credit losses on FCC's loan and lease portfolio, management segregated credit losses into two components: individual and collective, as noted below.

Individual allowance

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

Any change in present value of estimated future cash flows attributable to the passage of time in subsequent periods adjusted the allowance for credit losses through the unwind adjustment. The unwind adjustment was recorded in interest income.

Collective allowance

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

- Triggered loan pool – Loans were included in this pool if any one of the following loss events had occurred:

  1. All loans for customers with any one loan that had an amount greater than $500 past due for 90 or more consecutive days.
  2. All loans for customers with any one loan that had an amortization extension to the payment schedule in the last 12 months.
  3. Any individual loan that had a 15-point risk scoring and pricing system (RSPS) score drop when compared to its RSPS score 12 months ago.

2. Significant accounting policies (continued)

- General loan pool – This assessment considered credit losses that had been incurred on loans that did not meet the criteria to be in either the individual or triggered loan pools. It was based on the historical movement of loans from performing status to either the triggered or individually impaired loan pools.

- Overlay – FCC used the overlay to adjust its historical loss experience reflected in the triggered loan pool and general loan pool components of the collective assessment for current market conditions.

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

Post-employment benefits

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

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

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

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

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

Defined benefit costs are split into three categories:

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

2. Significant accounting policies (continued)

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

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

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

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

Equipment and leasehold improvements

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

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

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

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

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

Computer software

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

2. Significant accounting policies (continued)

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

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

Equipment under operating leases

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

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

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

Insurance

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

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

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

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

Accounts payable and accrued liabilities

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

This accounting treatment is consistent with the accounting treatment prior to April 1, 2018.

2. Significant accounting policies (continued)

Borrowings

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

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

Borrowings are accounted for using trade date accounting and are measured at amortized cost using the effective interest method.

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

This accounting treatment is consistent with the accounting treatment prior to April 1, 2018.

Transition loan liabilities

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

This accounting treatment is consistent with the accounting treatment prior to April 1, 2018.

Government assistance

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

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

Transaction costs

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

This accounting treatment is consistent with the accounting treatment prior to April 1, 2018.

2. Significant accounting policies (continued)

Operating lease payments

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

Translation of foreign currencies

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

Segmented information

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

Significant management judgments in applying accounting policies

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

Significant influence over investment in associate
FCC has determined that it exerts power over operating, investing and financing decisions, and thus has significant influence over one of The Equity Funds, Avrio Fund III, at March 31, 2019, while holding less than 20% voting control (Note 9).

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

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

Estimation uncertainty

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

2. Significant accounting policies (continued)

Allowance for credit losses
Financial assets classified as amortized cost and all loan commitments are reviewed by management to assess impairment. Judgments are made when determining whether a loss event is expected to occur, and estimates and assumptions are made in measuring the resulting impairment loss, including movements between stages. Management uses best estimates based on historical loss experience, current conditions and forward-looking information, as described under the Allowance for Credit Losses heading, for financial assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

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

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

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

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

2. Significant accounting policies (continued)

- The estimated fair value of venture capital investments classified as FVTPL, which consists of shares of privately held companies, is valued based on guidelines issued by the venture capital industry, using market-based valuation methodologies.

Accounting standards issued but not yet effective

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

Standard	Details	Date of initial application
IFRS 16 – Leases	In January 2016, the IASB issued IFRS 16, which requires all leases with a term of more than 12 months, unless the underlying asset is of low value, to be reported on a lessee's balance sheet as assets and liabilities. The new standard is effective for annual periods beginning on or after January 1, 2019. Lessees will now recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. This standard will result in an increase in both lease assets and lease liabilities on the balance sheet, an accelerated pattern for expense recognition and a reclassification of some payments from operating activities to financing activities in the Statement of Cash Flows. Lessor accounting remains similar to current practice as lessors continue to classify leases as finance and operating leases. FCC has completed an assessment of IFRS 16 and has elected to apply the following transition reliefs upon adoption: • follow the modified retrospective approach under which a lessee does not restate comparative information • use the practical expedient where FCC is not required to reassess whether a contract is, or contains, a lease at the date of initial application • use the practical expedient where the lessee may exclude initial direct costs from the measurement of a right-of-use asset at the date of initial application Upon adoption of this new standard on April 1, 2019, FCC will recognize right-of-use assets and lease liabilities of $180.7 million each as separate line items on the Consolidated Balance Sheet. There will not be an impact on the Consolidated Statement of Income or Consolidated Statement of Cash Flows upon adoption.	April 1, 2019
IFRS 17 – Insurance contracts	In May 2017, the IASB issued IFRS 17, which provides a single principles-based standard to account for all types of insurance contracts. IFRS 17 provides updated information about the obligations, risks and performance of insurance contracts and increases transparency in financial information reported by insurance companies, which will give investors and analysts more confidence in understanding the insurance industry. It also introduces consistent accounting for all insurance contracts based on a current measurement model. FCC is assessing the impact of this standard and the extent of the impact of its adoption is unknown at this time.	April 1, 2021

3. Transition to IFRS 9

As stated in Note 2, on April 1, 2018, FCC adopted IFRS 9 – Financial instruments. As permitted, FCC did not restate the prior period comparative consolidated financial statements. In preparing its opening Consolidated Balance Sheet, FCC adjusted certain financial assets and liabilities through opening retained earnings and in accumulated other comprehensive income (AOCI). An explanation of how the transition from IAS 39 to IFRS 9 affected the corporation's Consolidated Balance Sheet on April 1, 2018, is set out in the following tables and the notes that accompany the tables.

Reconciliation of IAS 39 to IFRS 9 as at April 1, 2018

		IAS 39 March 31, 2018			IFRS 9 April 1, 2018	
($ thousands)	Measurement basis	Carrying amount	Impact of classification and measurement	Impact of impairment	Carrying amount	Measurement basis
Assets						
Cash		$ 665,393	$ –	$ –	$ 665,393	
Cash equivalents[1]	FVOCI	163,176	18	–	163,194	Amortized cost
Short-term investments[1]	FVOCI	398,207	332	–	398,539	Amortized cost
Accounts receivable and prepaid expenses	Amortized cost	47,801	–	–	47,801	Amortized cost
Derivative financial assets	FVTPL	21,512	–	–	21,512	FVTPL
		1,296,089	**350**	**–**	**1,296,439**	
Loans receivable – net[2]	Amortized cost	33,636,019	–	75,547	33,711,566	Amortized cost
Finance leases receivable – net	Amortized cost	19,613	–	–	19,613	Amortized cost
Investment in associates		57,765	–	–	57,765	
Venture capital investments – net[3]	FVTPL	76,384	(354)	(957)	75,073	Amortized cost
Venture capital investments	FVTPL	731	–	–	731	FVTPL
Post-employment benefit assets		50,256	–	–	50,256	
		33,840,768	**(354)**	**74,590**	**33,915,004**	
Equipment and leasehold improvements		24,513	–	–	24,513	
Computer software		33,451	–	–	33,451	
Equipment under operating leases		110,670	–	–	110,670	
Other assets		12,442	–	–	12,442	
		181,076	**–**	**–**	**181,076**	
Total assets		**$ 35,317,933**	**$ (4)**	**$ 74,590**	**$ 35,392,519**	
Liabilities						
Accounts payable and accrued liabilities	Amortized cost	$ 63,870	$ –	$ –	$ 63,870	Amortized cost
		63,870	**–**	**–**	**63,870**	
Borrowings						
Short-term debt	Amortized cost	10,919,146	–	–	10,919,146	Amortized cost
Long-term debt[2]	Amortized cost	17,980,195	–	510	17,980,705	Amortized cost
		28,899,341	**–**	**510**	**28,899,851**	
Transition loan liabilities	Amortized cost	139,319	–	–	139,319	Amortized cost
Post-employment benefit liabilities		145,281	–	–	145,281	
Other liabilities		9,586	–	–	9,586	
		294,186	**–**	**–**	**294,186**	
Total liabilities		**29,257,397**	**–**	**510**	**29,257,907**	

3. Transition to IFRS 9 (continued)

Reconciliation of IAS 39 to IFRS 9 as at April 1, 2018 *(continued)*

	IAS 39 March 31, 2018			IFRS 9 April 1, 2018		
($ thousands)	Measurement basis	Carrying amount	Impact of classification and measurement	Impact of impairment	Carrying amount	Measurement basis
Equity						
Contributed surplus		547,725	–	–	547,725	
Retained earnings		5,447,657	(354)	74,093	5,521,396	
Accumulated other comprehensive income		64,387	350	–	64,737	
Equity attributable to shareholder of the parent entity		**6,059,769**	**(4)**	**74,093**	**6,133,858**	
Non-controlling interest		767	–	(13)	754	
		6,060,536	**(4)**	**74,080**	**6,134,612**	
Total liabilities and equity		**$ 35,317,933**	**$ (4)**	**$ 74,590**	**$ 35,392,519**	

(1) AFS financial instruments measured at FVOCI were reclassified to amortized cost with an offset to AOCI in the amount of $0.4 million. These reclassifications were due to the business model being hold to collect and cash flows that meet the SPPI test.
(2) Adjustment to the carrying value of certain balances against allowance for credit losses with an offset to retained earnings.
(3) The reclassification of certain venture capital investments to amortized cost resulted in a total remeasurement of $1.3 million with an offset to retained earnings. This reclassification was due to the business model being hold to collect and cash flows that meet the SPPI test.

Reconciliation of allowance for credit losses from IAS 39 to IFRS 9 as at April 1, 2018

($ thousands)	Allowance for credit losses under IAS 39 as at March 31, 2018			Allowance for credit losses under IFRS 9 as at April 1, 2018			
	Collective	Individual	Total	Stage 1	Stage 2	Stage 3	Total
Loans receivable[1]	$ 158,191	$ 64,343	$ 222,534	$ 29,040	$ 70,799	$ 38,889	$ 138,728
Finance leases receivable	58	–	58	58	–	–	58
Venture capital investments	–	–	–	957	–	–	957
Total	**$ 158,249**	**$ 64,343**	**$ 222,592**	**$ 30,055**	**$ 70,799**	**$ 38,889**	**$ 139,743**

(1) Change in the allowance due to the adoption of IFRS 9 includes a decrease of $75.5 million due to the new impairment model, a decrease due to partial writeoffs of $26.2 million offset by an increase of $18.0 million due to discontinuing unwinding under IFRS 9.

Included within the IFRS 9 loans receivable total, there is $5.0 million of allowance for credit losses on loan commitments that have not been partially drawn at April 1, 2018.

4. Short-term investments

As at March 31, 2019, short-term investments were $435.6 million (2018 – $398.2 million) with a yield of 2.02% (2018 – 1.38%). They consisted of promissory notes and treasury bills issued by institutions with credit ratings of A+ or higher (2018 – A+ or higher) as rated by Standard and Poor's Ratings Services (S&P). As at March 31, 2019, the largest total investment in any one institution was $219.1 million (2018 – $131.1 million). As at March 31, 2019, the allowance for credit losses on short-term investments is nil.

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

5. Derivative financial instruments

As at March 31, 2019, derivative financial assets were $16.5 million (2018 – $21.5 million).

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

As at March 31, 2019, the estimated amount of existing net gains reported in AOCI that is expected to be transferred to net income within the next 12 months is $21.7 million (2018 – $21.7 million).

Notional principal amounts and term to maturity

As at March 31 ($ thousands)		2019		
		Within 1 year	**1-5 years**	**Total**
Interest rate swaps				
Receive	**Pay**			
Fixed	Floating	**$ –**	**$ 237,994**	**$ 237,994**
Floating	Fixed	**–**	**13,363**	**13,363**
			251,357	**251,357**
Foreign exchange swaps				
Receive	**Pay**			
EUR	CAD	**–**	**–**	**–**
		$ –	**$ 251,357**	**$ 251,357**

5. Derivative financial instruments (continued)

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

Counterparty credit risk

Derivatives that have a positive fair value are subject to counterparty risk because the positive fair value indicates that over time, FCC can expect to receive cash flows from the counterparties based on the terms of the contract and current market conditions. The master netting agreements in place have no impact on the fair values at March 31, 2018, and March 31, 2019.

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

As at March 31 ($ thousands)	**2019**	2018
	Positive Fair Value	Positive Fair Value
Interest rate swaps	**$ 16,459**	$ 21,414
Foreign exchange swaps	**–**	98
Fair value	**$ 16,459**	$ 21,512

FCC does not anticipate any significant non-performance by counterparties because all counterparties are rated Aa2, A+ and AA or higher, as rated by Moody's Investors Service (Moody's), S&P, and the Dominion Bond Rating Service (DBRS), respectively. The largest cumulative notional amount contracted with any institution as at March 31, 2019, was $125.0 million (2018 – $125.0 million), and the largest net fair value of contracts with any institution as at March 31, 2019, was $7.0 million (2018 – $9.2 million). FCC mitigates the credit exposure on multiple derivative transactions by entering into master netting agreements with counterparties as outlined in Note 26. These agreements create the legal right to offset exposure in the event of default.

6. Loans receivable – net

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

As at March 31 ($ thousands)	2019			
	Within 1 year	**1 – 5 years**	**Over 5 years**	**Total**
Floating	**$ 3,479,111**	**$ 13,588,365**	**$ 413,031**	**$ 17,480,507**
Fixed	**3,517,435**	**11,878,981**	**3,217,599**	**18,614,015**
Loans receivable – gross	**$ 6,996,546**	**$ 25,467,346**	**$ 3,630,630**	**$ 36,094,522**
Deferred loan fees				**(23,437)**
Loans receivable – total				**36,071,085**
Allowance for credit losses (Note 8)				**(198,010)**
Loans receivable – net				**$ 35,873,075**

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

Management estimates that annually, over the next three years, approximately 5.0% (2018 – approximately 5.8%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2019, $557.9 million (2018 – $534.9 million) of loans receivable were denominated in U.S. dollars (USD) and $nil (2018 – $11.2 million) were denominated in euros (EUR).

6. Loans receivable – net (continued)

Concentrations of credit risk

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

Enterprise distribution

	Gross		Impaired	
As at March 31 ($ thousands)	**2019**	2018	**2019**	2018
Oilseed and grain	**$ 11,065,631**	$ 10,351,636	**$ 21,130**	$ 8,831
Dairy	**6,427,217**	6,203,782	**4,620**	1,971
Agribusiness	**3,643,069**	3,310,446	**44,423**	6,856
Poultry	**2,630,863**	2,508,809	**–**	69
Beef	**2,360,585**	2,106,014	**15,015**	5,197
Part-time farming	**2,068,541**	2,047,149	**18,947**	20,607
Other	**2,025,195**	1,821,737	**23,324**	26,913
Alliances	**1,315,532**	1,176,445	**20,371**	11,957
Agri-food	**1,259,046**	1,158,349	**10,799**	25,070
Greenhouse	**1,151,791**	1,184,326	**4,615**	1,364
Fruit	**1,106,808**	1,079,454	**25,732**	20,368
Hogs	**1,040,244**	934,366	**3,133**	7,745
Total	**$ 36,094,522**	$ 33,882,513	**$ 192,109**	$ 136,948

Geographic distribution

	Gross		Impaired	
As at March 31 ($ thousands)	**2019**	2018	**2019**	2018
Ontario	**$ 10,750,000**	$ 10,181,357	**$ 45,788**	$ 22,699
Alberta and British Columbia	**10,308,299**	9,840,264	**59,215**	44,049
Saskatchewan	**6,227,655**	5,687,916	**33,686**	14,774
Quebec	**4,710,995**	4,335,325	**13,950**	22,857
Manitoba	**2,847,062**	2,604,928	**11,286**	2,449
Atlantic	**1,250,511**	1,232,723	**28,184**	30,120
Total	**$ 36,094,522**	$ 33,882,513	**$ 192,109**	$ 136,948

7. Finance leases receivable – net

As at March 31 ($ thousands)	**2019**	2018
Total minimum finance lease payments receivable		
Less than one year	**$ 11,461**	$ 8,675
Between one and five years	**10,446**	12,114
Finance leases receivable – gross	**21,907**	20,789
Unearned finance income	**(1,736)**	(1,118)
Allowance for credit losses (Note 8)	**(23)**	(58)
Finance leases receivable – net	**$ 20,148**	$ 19,613

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

8. Allowance for credit losses

As at March 31 ($ thousands)	Stage 1	Stage 2	Stage 3	IFRS 9 Total
Loans receivable[1]				
Allowance for credit losses, beginning of year (Note 3)	$ 29,040	$ 70,799	$ 38,889	$ 138,728
Transfer to Stage 1	2,716	(15,349)	(84)	(12,717)
Transfer to Stage 2	(4,813)	34,342	(3,539)	25,990
Transfer to Stage 3	(84)	(2,584)	61,563	58,895
Changes due to new loans originated	17,000	43,444	1,034	61,478
Loans that have been derecognized during the period	(4,664)	(6,044)	(4,378)	(15,086)
Net remeasurement of loss allowance[2]	(7,397)	(9,092)	5,620	(10,869)
Writeoffs[3]	(1)	(633)	(50,498)	(51,132)
Recoveries of amounts previously written off	–	486	2,744	3,230
Losses covered under HILLRP	(17)	33	(523)	(507)
Total allowance, end of year	**$ 31,780**	**$ 115,402**	**$ 50,828**	**$ 198,010**
Finance leases receivable				
Allowance for credit losses, beginning of year (Note 3)	$ 58	$ –	$ –	$ 58
Changes due to new finance leases originated	16	–	–	16
Finance leases that have been derecognized during the period	(16)	–	–	(16)
Net remeasurement of loss allowance[2]	(35)	–	–	(35)
Total allowance, end of year	**$ 23**	**$ –**	**$ –**	**$ 23**
Venture capital investments				
Allowance for credit losses, beginning of year (Note 3)	$ 957	$ –	$ –	$ 957
Changes due to venture capital investments originated	–	–	96	96
Net remeasurement of loss allowance[2]	(405)	–	–	(405)
Total allowance, end of year	**$ 552**	**$ –**	**$ 96**	**$ 648**

[1] Included within the IFRS 9 loans receivable total, there is $11.2 million of allowance for credit losses on loan commitments that have not been partially drawn at March 31, 2019.

[2] Net remeasurement represents the current year change of the allowance for credit losses due to changes in forecasts of forward-looking information, changes in impairment model parameters and partial repayments in the year.

[3] FCC is not actively continuing to pursue collection on any loans that have been written off.

8. Allowance for credit losses (continued)

As at March 31 ($ thousands)	2018		
	Loans receivable	Finance leases receivable	IAS 39 Total
Individual allowance, beginning of year	$ 78,370	$ –	$ 78,370
Provision for credit losses	6,150	–	6,150
Losses covered under HILLRP	318	–	318
Unwind adjustment on impaired loans	1,005	–	1,005
Writeoffs	(23,521)	–	(23,521)
Recoveries	2,021	–	2,021
Individual allowance, end of year	64,343	–	64,343
Collective allowance, beginning of year	135,245	49	135,294
Provision for credit losses	24,722	9	24,731
Losses covered under HILLRP	(265)	–	(265)
Writeoffs	(2,158)	–	(2,158)
Recoveries	647	–	647
Collective allowance, end of year	158,191	58	158,249
Total allowance	$ 222,534	$ 58	$ 222,592

9. Investment in associates

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

As at March 31 ($ thousands)	**2019**	
	Avrio Fund II	**Avrio Fund III**
Revenue	**$ 52,504**	**$ 1,135**
Net income (loss)	**38,088**	**(7,019)**
Assets	**96,272**	**54,672**
Liabilities	**13,579**	**6,353**
Net assets	**82,693**	**48,319**
Proportion of FCC's ownership	**54.7%**	**49.0%**
Carrying amount of FCC's interest	**$ 45,233**	**$ 23,676**

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

FCC is entitled to 20% (2018 – 20%) of the voting rights of Avrio Fund II and 14% (2018 – 14%) of Avrio Fund III. Distributions received during the year were $17.2 million from Avrio Fund II and $1.6 million from Avrio Fund III (2018 – $2.9 million from Avrio Fund II).

10. Venture capital investments – net

As at March 31, 2019, FCC had $70.6 million (2018 – $77.1 million) in net venture capital investments, of which $70.2 million (2018 – $76.4 million) was carried in net debt investments and $0.4 million (2018 – $0.7 million) was carried in equity investments. Of the net debt investments, $0.7 million (2018 – $7.2 million) is due to FCC within one year, $69.6 million (2018 – $62.2 million) is due between one and five years and $nil (2018 – $7.0 million) is due later than five years. As at March 31, 2019, the allowance for credit losses on venture capital debt investments is $0.6 million (2018 – $nil). Venture capital investments are made in the agribusiness and agri-food sector.

The venture capital investment portfolio exposes FCC to credit risk. Venture capital investments are typically secured by a general security agreement, assignment of life insurance proceeds and personal guarantees. As at March 31, 2019, there were no venture capital debt investments past due (2018 – $nil).

11. Post-employment benefits

Financial position of benefit plans

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

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

	Registered pension plan	
As at March 31 ($ thousands)	**2019**	2018
Present value of funded defined benefit obligations	**$ (833,187)**	$ (769,544)
Fair value of plan assets	**922,078**	819,800
Net asset for defined benefit obligations	**$ 88,891**	$ 50,256

	Supplemental pension plans	
As at March 31 ($ thousands)	**2019**	2018
Present value of funded defined benefit obligations	**$ (88,358)**	$ (79,473)
Fair value of plan assets	**51,287**	48,840
Funded status	**(37,071)**	(30,633)
Present value of unfunded defined benefit obligations	**(14,794)**	(14,619)
Net liability for defined benefit obligations	**$ (51,865)**	$ (45,252)

	Other benefits	
As at March 31 ($ thousands)	**2019**	2018
Present value of unfunded defined benefit obligations	**$ (113,340)**	$ (100,029)
Net liability for defined benefit obligations	**$ (113,340)**	$ (100,029)

The total net asset for defined benefit obligations is $88.9 million (2018 – $50.3 million). This amount is recorded on the Consolidated Balance Sheet as post-employment benefit assets. The total net liability for defined benefit obligations is $165.2 million (2018 – $145.3 million). This amount is recorded on the Consolidated Balance Sheet as post-employment benefit liabilities.

11. Post-employment benefits (continued)

Movements in the present value of the defined benefit obligation

As at March 31 ($ thousands)	Registered pension plan 2019	Registered pension plan 2018	Supplemental pension plans 2019	Supplemental pension plans 2018	Other benefits 2019	Other benefits 2018
Defined benefit obligation, beginning of year	**$ 769,544**	$ 686,090	**$ 94,092**	$ 79,207	**$ 100,029**	$ 105,160
Current service cost	**23,983**	22,121	**2,232**	1,663	**7,053**	6,772
Interest cost on the defined benefit obligation	**27,609**	26,771	**3,348**	3,039	**3,731**	4,230
Contributions by employees	**8,625**	8,591	**629**	543	**–**	–
Benefits paid	**(18,032)**	(16,010)	**(1,966)**	(2,315)	**(895)**	(1,172)
Experience adjustments on plan liabilities	**4,930**	(525)	**2,869**	5,226	**(59)**	(872)
Actuarial loss (gain) from changes in liability assumptions	**16,528**	42,506	**1,948**	6,729	**3,481**	(14,089)
Defined benefit obligation, end of year	**$ 833,187**	$ 769,544	**$ 103,152**	$ 94,092	**$ 113,340**	$ 100,029

The duration of the registered and supplemental pension plan's defined benefit obligation is 20 years (2018 – 20 years). The duration of the other benefit plan's defined benefit obligation is 26 years (2018 – 27 years).

Movements in the fair value of plan assets

As at March 31 ($ thousands)	Registered pension plan 2019	Registered pension plan 2018	Supplemental pension plans 2019	Supplemental pension plans 2018	Other benefits 2019	Other benefits 2018
Fair value of plan assets, beginning of year	**$ 819,800**	$ 739,626	**$ 48,840**	$ 45,658	**$ –**	$ –
Interest income on plan assets	**29,045**	28,728	**1,709**	1,782	**–**	–
Return on plan assets greater than the discount rate	**53,110**	18,701	**744**	93	**–**	–
Contributions by FCC	**30,194**	41,042	**1,354**	4,383	**895**	1,172
Contributions by employees	**8,625**	8,591	**629**	543	**–**	–
Benefits paid	**(18,032)**	(16,010)	**(1,966)**	(2,315)	**(895)**	(1,172)
Plan administration costs	**(664)**	(878)	**(23)**	(148)	**–**	–
Tax effect on refundable tax assets	**–**	–	**–**	(1,156)	**–**	–
Fair value of plan assets, end of year	**$ 922,078**	$ 819,800	**$ 51,287**	$ 48,840	**$ –**	$ –

11. Post-employment benefits (continued)

Defined benefit costs recognized in net income

	Registered pension plan		Supplemental pension plans		Other benefits		Total	
For the year ended March 31 ($ thousands)	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Current service cost	**$ 23,983**	$ 22,121	**$ 2,232**	$ 1,663	**$ 7,053**	$ 6,772	**$ 33,268**	$ 30,556
Net interest	**(1,436)**	(1,957)	**1,639**	1,257	**3,731**	4,230	**3,934**	3,530
Plan administration costs	**664**	878	**23**	148	**–**	–	**687**	1,026
Tax effect on refundable tax assets	**–**	–	**–**	632	**–**	–	**–**	632
	$ 23,211	$ 21,042	**$ 3,894**	$ 3,700	**$ 10,784**	$ 11,002	**$ 37,889**	$ 35,744

Defined benefit costs recognized in OCI

	Registered pension plan	
For the year ended March 31 ($ thousands)	**2019**	2018
Experience adjustments on plan liabilities	**$ (4,930)**	$ 525
Return on plan assets greater than the discount rate	**53,110**	18,701
Actuarial loss from changes in liability assumptions	**(16,528)**	(42,506)
Remeasurement gain (loss)	**$ 31,652**	$ (23,280)

	Supplemental pension plans	
For the year ended March 31 ($ thousands)	**2019**	2018
Experience adjustments on plan liabilities	**$ (2,869)**	$ (5,226)
Return on plan assets greater than the discount rate	**744**	93
Actuarial loss from changes in liability assumptions	**(1,948)**	(6,729)
Tax effect on refundable tax assets	**–**	(524)
Remeasurement loss	**$ (4,073)**	$ (12,386)

	Other benefits	
For the year ended March 31 ($ thousands)	**2019**	2018
Experience adjustments on plan liabilities	**$ 59**	$ 872
Actuarial (loss) gain from changes in liability assumptions	**(3,481)**	14,089
Remeasurement (loss) gain	**$ (3,422)**	$ 14,961

The total net remeasurement gain of $24.2 million (2018 – $20.7 million loss) is recognized in OCI. The cumulative net remeasurement losses recognized in OCI as at March 31, 2019, were $46.8 million (2018 – $71.0 million).

11. Post-employment benefits (continued)

Plan assets

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

	Registered pension plan		Supplemental pension plans	
As at March 31	**2019**	2018	**2019**	2018
Debt securities	**40.4%**	39.2%	**–**	–
Equity securities	**39.8%**	50.5%	**100.0%**	97.9%
Real estate	**14.7%**	10.2%	**–**	–
Infrastructure	**4.8%**	–	**–**	–
Cash	**0.3%**	0.1%	**–**	2.1%
	100.0%	100.0%	**100.0%**	100.0%

Significant assumptions

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

	Registered pension plan		Supplemental pension plans		Other benefits	
As at March 31	**2019**	2018	**2019**	2018	**2019**	2018
Defined benefit obligation						
Discount rate	**3.40%**	3.50%	**3.40%**	3.50%	**3.40%**	3.50%
Rate of compensation increase	**4.00%**	4.00%	**4.00%**	4.00%	**4.00%**	4.00%
Consumer price index	**2.00%**	2.00%	**2.00%**	2.00%	**–**	–
Defined benefit costs						
Discount rate	**3.50%**	3.80%	**3.50%**	3.80%	**3.50%**	3.80%
Consumer price index	**2.00%**	2.00%	**2.00%**	2.00%	**–**	–

At March 31, 2019 and 2018, the mortality assumption for the defined benefit obligation is based on the 2014 Public Sector Mortality publication and Canadian Pensioners Mortality Improvement Scale B, with pension size adjustment factors for males of 0.87 and for females of 0.99. As at March 31, 2019 and 2018, the average life expectancy of an individual retiring at age 65 is 24 years for males and 25 years for females.

Assumed health care cost trend rates are as follows:

As at March 31	**2019**	2018
Extended health care and dental care cost escalation		
Initial rate	**7.25%**	7.50%
Ultimate rate	**4.50%**	4.50%
Year ultimate rate reached	**2030**	2030

11. Post-employment benefits (continued)

Sensitivity analysis

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

As at March 31 ($ thousands)	2019		
Increase (decrease) defined benefit obligation	**Registered pension plan**	**Supplemental pension plans**	**Other benefits**
1% increase in discount rate	**$ (146,601)**	**$ (17,841)**	**$ (25,274)**
1% decrease in discount rate	**195,655**	**22,222**	**35,813**
0.25% increase in rate of compensation increase	**5,761**	**3,132**	**102**
0.25% decrease in rate of compensation increase	**(6,632)**	**(3,762)**	**(101)**
1% increase in consumer price index	**136,656**	**15,929**	**–**
1% decrease in consumer price index	**(110,885)**	**(13,946)**	**–**
One year increase in expected lifetime of plan participants	**21,431**	**1,963**	**3,728**
1% increase in assumed overall health care cost trend rates	**–**	**–**	**31,831**
1% decrease in assumed overall health care cost trend rates	**–**	**–**	**(23,048)**

Defined contribution pension plans

The cost of the defined contribution pension plans is recorded based on the contributions in the current year and is included in salaries and benefits. For the year ended March 31, 2019, the expense was $8.5 million (2018 – $7.4 million).

Total cash payments

Total cash payments for post-employment benefits, consisting of cash contributed by FCC to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its defined contribution pension plan, were $41.2 million (2018 – $54.0 million).

Total cash payments for post-employment benefits for 2020, as described in the preceding paragraph, are anticipated to be approximately $50.5 million.

12. Equipment and leasehold improvements

($ thousands)	Leasehold improvements	Office equipment and furniture	Computer equipment	Total
Cost				
Balance as at March 31, 2017	$ 54,879	$ 26,880	$ 16,783	$ 98,542
Additions	2,365	868	5,334	8,567
Disposals	(564)	(90)	(3,397)	(4,051)
Balance as at March 31, 2018	56,680	27,658	18,720	103,058
Additions	6,584	2,178	1,638	10,400
Disposals	(649)	(935)	(426)	(2,010)
Balance as at March 31, 2019	**$ 62,615**	**$ 28,901**	**$ 19,932**	**$ 111,448**
Accumulated depreciation				
Balance as at March 31, 2017	$ 39,919	$ 23,733	$ 10,656	$ 74,308
Depreciation	3,111	1,357	3,820	8,288
Disposals	(564)	(90)	(3,397)	(4,051)
Balance as at March 31, 2018	42,466	25,000	11,079	78,545
Depreciation	3,351	1,331	4,154	8,836
Disposals	(649)	(935)	(419)	(2,003)
Balance as at March 31, 2019	**$ 45,168**	**$ 25,396**	**$ 14,814**	**$ 85,378**
Carrying value				
March 31, 2018	$ 14,214	$ 2,658	$ 7,641	$ 24,513
March 31, 2019	**17,447**	**3,505**	**5,118**	**26,070**

13. Computer software

($ thousands)	Internally developed	Purchased	Total
Cost			
Balance as at March 31, 2017	$ 135,423	$ 12,273	$ 147,696
Additions	9,374	208	9,582
Disposals	(1,028)	(83)	(1,111)
Balance as at March 31, 2018	143,769	12,398	156,167
Additions	9,368	341	9,709
Disposals	(32,472)	(2,668)	(35,140)
Balance as at March 31, 2019	**$ 120,665**	**$ 10,071**	**$ 130,736**
Accumulated amortization			
Balance as at March 31, 2017	$ 104,686	$ 10,044	$ 114,730
Amortization	8,407	690	9,097
Disposals	(1,028)	(83)	(1,111)
Balance as at March 31, 2018	112,065	10,651	122,716
Amortization	9,653	793	10,446
Disposals	(32,472)	(2,668)	(35,140)
Balance as at March 31, 2019	**$ 89,246**	**$ 8,776**	**$ 98,022**
Carrying value			
March 31, 2018	$ 31,704	$ 1,747	$ 33,451
March 31, 2019	**31,419**	**1,295**	**32,714**

Research and development costs related to internally developed computer software in the amount of $11.5 million (2018 – $11.3 million) have been included within facilities, software and equipment expenses.

14. Equipment under operating leases

($ thousands)

Cost		
Balance as at March 31, 2017	$	124,387
Additions		59,510
Disposals		(34,745)
Balance as at March 31, 2018		149,152
Additions		55,361
Disposals		(38,981)
Balance as at March 31, 2019	**$**	**165,532**
Accumulated depreciation		
Balance as at March 31, 2017	$	33,537
Depreciation		21,414
Disposals		(16,469)
Balance as at March 31, 2018		38,482
Depreciation		25,065
Disposals		(19,511)
Balance as at March 31, 2019	**$**	**44,036**
Carrying value		
March 31, 2018	$	110,670
March 31, 2019		**121,496**

15. Other assets

As at March 31 ($ thousands)		**2019**		2018
Insurance reserve assets	**$**	**13,155**	$	12,331
Real estate property held for sale		**264**		111
	$	**13,419**	$	12,442

16. Borrowings

Short-term debt

As at March 31 ($ thousands)	2019	2018
Government of Canada debt		
Floating-rate borrowings	**$ 4,288,036**	$ 5,619,703
Fixed-rate borrowings	**4,996,874**	4,774,850
	9,284,910	10,394,553
Capital markets debt		
USD fixed-rate promissory notes[1]	**509,324**	524,593
	$ 9,794,234	$ 10,919,146

[1] $380.6 million USD (2018 – $406.4 million USD)

Short-term debt by maturity date

As at March 31 ($ thousands)	2019				
	Government of Canada		Capital markets		
	Carrying value	Yield	Carrying value	Yield	Total
From 0 – 3 months	**$ 2,100,526**	**1.50%**	**$ 509,324**	**1.69%**	**$ 2,609,850**
From 4 – 6 months	**2,394,447**	**1.60%**	**–**	**–**	**2,394,447**
From 7 – 9 months	**3,036,191**	**1.59%**	**–**	**–**	**3,036,191**
From 10 – 12 months	**1,753,746**	**1.62%**	**–**	**–**	**1,753,746**
	$ 9,284,910		**$ 509,324**		**$ 9,794,234**

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

Short-term debt continuity

As at March 31 ($ thousands)	2019	2018
Short-term debt, beginning of year	**$ 10,919,146**	$ 10,416,139
Financing cash flows		
Debt issued	**10,642,664**	10,906,762
Debt repaid	**(11,102,387)**	(11,270,209)
Non-cash changes		
Change in short-term portion of long-term debt	**(675,492)**	940,743
Debt transacted, not settled	**–**	(80,000)
Change in interest accrual	**9,205**	3,054
Change due to unrealized foreign exchange loss	**1,098**	2,657
Short-term debt, end of year	**$ 9,794,234**	$ 10,919,146

FCC has a demand operating line of credit, which provides overdraft protection in the amount of $30.0 million (2018 – $30.0 million). Indebtedness under this agreement is unsecured and this credit facility does not expire. Any draws made throughout the year on this credit facility are reversed the next day. As at March 31, 2019, there were no draws on this credit facility (2018 – $nil).

16. Borrowings (continued)

Long-term debt

As at March 31 ($ thousands)	2019	2018
Government of Canada debt		
Floating-rate borrowings	**$ 13,860,914**	$ 12,443,337
Fixed-rate borrowings	**6,780,921**	5,228,107
	20,641,835	17,671,444
Capital markets debt		
Retail and institutional fixed-rate notes	**308,240**	308,751
	$ 20,950,075	$ 17,980,195

Long-term debt by maturity date

As at March 31 ($ thousands)	2019				
	Government of Canada		Capital markets		
	Carrying value	Yield	Carrying value	Yield	Total
From 1 – 2 years	**$ 5,301,928**	**1.65%**	**$ 18,730**	**4.32%**	**$ 5,320,658**
From 2 – 3 years	**6,232,121**	**1.62%**	**289,510**	**4.37%**	**6,521,631**
From 3 – 4 years	**3,871,001**	**1.75%**	**–**	**–**	**3,871,001**
From 4 – 5 years	**2,432,559**	**1.71%**	**–**	**–**	**2,432,559**
Over 5 years	**2,804,226**	**1.77%**	**–**	**–**	**2,804,226**
	$ 20,641,835		**$ 308,240**		**$ 20,950,075**

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

Long-term debt continuity

As at March 31 ($ thousands)	2019	2018
Long-term debt, beginning of year	**$ 17,980,195**	$ 16,508,032
Financing cash flows		
Debt issued	**9,926,000**	9,226,500
Debt repaid	**(7,650,327)**	(6,536,263)
Non-cash changes		
Change in short-term portion of long-term debt	**675,492**	(940,743)
Debt transacted, not settled	**–**	(290,000)
Change in interest accrual	**18,287**	13,240
Other	**428**	(571)
Long-term debt, end of year	**$ 20,950,075**	$ 17,980,195

17. Other liabilities

As at March 31 ($ thousands)		2019		2018
Deferred revenues	**$**	**9,957**	$	8,799
Other		**464**		787
	$	**10,421**	$	9,586

18. Net interest income

For the year ended March 31 ($ thousands)		2019		2018
Interest income				
Financial assets measured at amortized cost	**$**	**1,563,961**	$	n/a
Loans and receivables		**n/a**		1,261,704
Operating leases		**29,104**		24,684
Transfer of net realized gains on derivatives designated as cash flow hedges from AOCI to net income		**21,720**		21,721
Finance leases		**733**		750
Financial assets measured at FVOCI		**n/a**		14,808
Total interest income for financial instruments not at FVTPL		**1,615,518**		1,323,667
Derivative financial assets and liabilities at FVTPL – net		**6,816**		8,480
Venture capital investments at FVTPL		**–**		6,810
		1,622,334		1,338,957
Interest expense				
Financial liabilities measured at amortized cost		**445,705**		245,372
Depreciation on equipment under operating leases		**24,911**		21,279
Total interest expense		**470,616**		266,651
Net interest income	**$**	**1,151,718**	$	1,072,306

n/a – not applicable due to IFRS 9 adoption

The total net fee expense that was recognized immediately in net interest income arising from financial assets and liabilities not measured at FVTPL was $103.5 thousand (2018 – $17.1 thousand).

FCC has reclassified certain comparative figures in the Consolidated Statement of Income and the Consolidated Statement of Cash Flows to better reflect the impact of foreign exchange transactions and to conform to the current year presentation. The reclassification did not have an impact on the Consolidated Statement of Comprehensive Income. As at March 31, 2018:

- On the Consolidated Statement of Income, gross foreign exchange losses on loans and receivables in the amount of $8.6 million and gross foreign exchange gains on cash and short-term debt in the amount of $8.3 million were reclassified from interest income and interest expense, respectively. The net resulting foreign exchange loss amount of $0.3 million was reclassified to net foreign exchange gain (loss) and included in non-interest income.
- On the Consolidated Statement of Cash Flows, net interest income increased by $0.3 million, while interest received and interest paid increased by $8.6 million and $8.3 million, respectively.

19. Administration expenses

As at March 31 ($ thousands)		2019		2018
Salaries	$	**183,610**	$	171,876
Benefits		**71,813**		66,288
Facilities, software and equipment		**60,451**		51,627
Professional fees		**50,869**		39,578
Amortization and depreciation		**19,289**		17,383
Travel and training		**15,262**		15,177
Marketing and promotion		**11,789**		10,903
Other		**13,213**		11,753
	$	**426,296**	$	384,585

20. Fair value adjustment

For the year ended March 31 ($ thousands)		2019		2018
Venture capital investments	$	**(375)**	$	4
Derivative financial assets and liabilities		**(4,389)**		(13,801)
	$	**(4,764)**	$	(13,797)

21. Fair value of financial instruments

Financial instruments carried at fair value

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

Valuation hierarchy

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

As at March 31 ($ thousands)		2019				
		Level 2		**Level 3**		**Total**
Assets						
Cash equivalents[1]	$	**–**	$	**–**	$	**–**
Short-term investments[1]		**–**		**–**		**–**
Derivative financial assets		**16,459**		**–**		**16,459**
Venture capital investments		**–**		**355**		**355**
	$	**16,459**	$	**355**	$	**16,814**

As at March 31 ($ thousands)		2018				
		Level 2		Level 3		Total
Assets						
Cash equivalents[1]	$	163,176	$	–	$	163,176
Short-term investments[1]		398,207		–		398,207
Derivative financial assets		21,512		–		21,512
Venture capital investments		–		77,115		77,115
	$	582,895	$	77,115	$	660,010

[1] In 2019, short-term investments and cash equivalents are reported at amortized cost on the Consolidated Balance Sheet due to a change in classification under IFRS 9.

Changes in valuation methods may result in transfers into or out of Levels 1, 2 and 3. For the year ended March 31, 2019, there were no transfers between levels (2018 – $nil).

21. Fair value of financial instruments (continued)

Level 3 financial instruments

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

As at March 31 ($ thousands)	2019	2018
Balance, beginning of year[1]	**$ 730**	$ 55,015
Acquisitions	**–**	26,020
Change in accrued interest	**–**	1,926
Net unrealized gains (losses) recognized in fair value adjustment	**(375)**	4
Repayments	**–**	(5,850)
Balance, end of year	**$ 355**	$ 77,115

(1) In 2019, the beginning balance reflects investments that remain at FVTPL due to the adoption of IFRS 9 (Note 3).

Financial instruments not carried at fair value

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

As at March 31 ($ thousands)	2019		2018	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
Assets				
Short-term investments[1]	**$ 435,601**	**$ 432,422**	$ –	$ –
Loans receivable	**35,873,075**	**36,117,894**	33,636,019	33,600,316
Finance leases receivable	**20,148**	**20,047**	19,613	19,338
Liabilities				
Long-term debt	**20,950,075**	**21,024,962**	17,980,195	17,940,429

(1) In 2018, short-term investments were reported at fair value on the Consolidated Balance Sheet so not included in the table above.

Financial instruments not carried at fair value as noted in the above table use Level 2 and Level 3 inputs in determining estimated fair value.

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

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

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

21. Fair value of financial instruments (continued)

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

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

22. Operating lease arrangements

Operating leases as a lessor

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

The future minimum lease payments are receivable as follows:

As at March 31 ($ thousands)		**2019**		2018
Amounts due				
Less than one year	**$**	**37,488**	$	22,965
Between one and five years		**40,287**		44,899
Greater than five years		**7**		85
	$	**77,782**	$	67,949

Operating leases as a lessee

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

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

As at March 31 ($ thousands)		**2019**		2018
Amounts due				
Less than one year	**$**	**30,958**	$	26,788
Between one and five years		**87,636**		74,816
Greater than five years		**150,231**		160,628
	$	**268,825**	$	262,232

Operating lease payments in the amount of $29.3 million (2018 – $28.2 million) have been included within facilities, software and equipment expense.

Contingent rental payments in the amount of $7.0 million (2018 – $3.7 million) have been included within facilities, software and equipment expense.

23. Commitments, guarantees and contingent liabilities

Loan and lease commitments

As at March 31, 2019, loans approved but undisbursed amounted to $7,988.6 million (Restated 2018 – $7,878.7 million). These loans do not form part of the loans receivable balance until disbursed. As many of these loan approvals will expire or terminate without being drawn upon, the contract amounts do not necessarily represent future cash requirements. As at March 31, 2019, finance leases approved but undisbursed amounted to $7.5 million (2018 – $0.3 million) and operating leases approved but undisbursed amounted to $nil (2018 – $4.0 million). These leases do not form part of the finance leases receivable or equipment under operating leases balances until disbursed. These commitments do not generate liquidity risk to FCC because it has sufficient funds available from the Government of Canada through the Crown Borrowing Program to meet its future cash requirements.

Prior period error

During the year, FCC reassessed the prior year's loan commitments and identified additional loan commitments not previously reported. As a result of this error, the prior period loan commitment amount has increased from $6,203.5 million to $7,878.7 million. This note, as well as Note 25 and Note 26 are impacted, as the changes to the loan commitment increased the credit risk weighted assets from $34,657.4 million to $34,721.5 million which increased the total risk-weighted assets from $36,554.3 million to $36,618.5 million and reduced the total capital ratio from 16.2% to 16.1%. The loan commitments, off balance sheet amount for loan and lease commitments increased from $6,207.8 million to $7,883.0 million.

Investment in associates

As at March 31, 2019, FCC has committed to invest $63.6 million (2018 – $27.1 million) in investments in associates.

Venture capital commitments

As at March 31, 2019, FCC has committed to invest $nil (2018 – $3.0 million) in venture capital investments.

Capital commitments

Capital expenditures contracted for equipment and leasehold improvements at the end of the fiscal year but not yet incurred are $0.7 million (2018 – $1.2 million).

Guarantees

In the normal course of its business, FCC issues guarantees in the form of letters of credit that represent an obligation to make payments to third parties on behalf of its customers if customers are unable to make the required payments or meet other contractual obligations. The maximum amount potentially payable as at March 31, 2019, is $7.7 million (2018 – $5.6 million). In the event of a call on these letters of credit, FCC has recourse in the form of security against its customers for amounts to be paid to the third party. Existing guarantees will expire within three years, usually without being drawn upon. As at March 31, 2019, an amount of $nil (2018 – $nil) was recorded for these letters of credit.

23. Commitments, guarantees and contingent liabilities (continued)

Contingent liabilities and provisions

Various legal proceedings arising from the normal course of business are pending against FCC. Management does not believe that liabilities arising from pending litigations will have a material adverse effect on the Consolidated Balance Sheet or the results of operations of FCC, therefore, no amount has been included in the consolidated financial statements as at March 31, 2019 (2018 – $nil) for these contingent liabilities.

In the normal course of operations, FCC enters into agreements that provide general indemnification. These indemnifications typically occur in service contracts and strategic alliance agreements and, in certain circumstances, may require that FCC compensates the counterparty to the agreement for various costs resulting from breaches of representations or obligations. FCC also indemnifies directors, officers and employees, to the extent permitted by law and FCC's governing legislation, against certain claims that may be made against them as a result of their being directors, officers or employees. The terms of these indemnifications vary, therefore FCC is unable to determine a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, FCC has not made any payments under such indemnifications and contingencies. No amount has been included in the consolidated financial statements as at March 31, 2019 (2018 – $nil) for these indemnifications and contingencies.

24. Related party transactions

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

FCC is related to Avrio Subordinated Debt Fund I, Avrio Subordinated Debt Fund II, and Avrio Subordinated Debt Fund III. They are limited partnerships for which FCC holds 99% (2018 – 99% and nil for Fund III) of the partnership units. The Avrio Subordinated Debt Funds are consolidated as described in Note 2. All transactions between FCC and the Avrio Subordinated Debt Funds have been eliminated on consolidation and, as such, are not disclosed as related party transactions.

FCC is related to The Equity Funds, which are venture capital limited partnerships where FCC exerts significant influence over operating, investing and financing decisions.

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

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

Transactions with the Government of Canada

The Government of Canada guarantees the borrowings of FCC.

FCC enters into short and long-term borrowings with the Government of Canada through the Crown Borrowing Program. For the year ended March 31, 2019, $414.8 million (2018 – $221.1 million) was recorded in interest expense relating to these borrowings.

FCC receives government assistance from the HILLRP to share the credit losses on certain loans with the

24. Related party transactions (continued)

Government of Canada. The government assistance is recorded as either an increase or decrease to the provision for credit losses. For the year ended March 31, 2019, the decrease recorded to the provision for credit losses was $0.5 million (2018 – $0.1 million). The amount estimated to be returned to the Government of Canada is $26.4 million (2018 – $31.7 million) and is included in borrowings.

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

Key management personnel compensation

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

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

For the year ended March 31 ($ thousands)		**2019**		2018
Salaries and other short-term employee benefits	**$**	**3,818**	$	3,782
Post-employment benefits		**1,150**		1,076
Board retainer and per diems		**194**		146
Total	**$**	**5,162**	$	5,004

Transactions with key management personnel

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

Loans to key management personnel outstanding as at March 31, 2019 were $30.3 million (2018 – $13.0 million). The maximum balance outstanding on these loans during the year ended March 31, 2019, was $31.4 million (2018 – $13.8 million). The weighted-average interest rate on the loans to key management personnel outstanding as at March 31, 2019, was 4.6% (2018 – 4.4%).

The loans to key management personnel are secured under similar conditions as transactions with other customers and the key management personnel entering into these transactions were subject to the same credit assessment process applied to all customers. There are no Stage 3 allowances established as at March 31, 2019, for the loans made to key management personnel (2018 – $nil).

Undrawn credit commitments with key management personnel totalled $0.1 million as at March 31, 2019 (2018 – $20.7 million).

Transactions with post-employment benefit plans

During the year, $170 thousand was received from the defined benefit pension plan (2018 – $141 thousand) for administrative services and was recorded in salaries and benefits.

25. Capital management

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

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

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

As at March 31, 2019 and 2018, FCC's total capital ratio was greater than both the minimum regulatory capital ratio and the target capital ratio, and therefore in compliance with OSFI's CAR guideline and FCC's Internal Capital Adequacy Assessment Process.

As at March 31 ($ thousands)	2019	2018
Capital		
Retained earnings	**$ 6,202,132**	$ 5,447,657
Contributed surplus	**183,725**	547,725
AOCI	**43,017**	64,387
Required regulatory adjustments:		
Computer software	**(32,714)**	(33,451)
Accumulated net gains on derivatives designated as cash flow hedges	**(43,017)**	(64,737)
Post-employment benefit assets	**(88,891)**	(50,256)
CET1/Total capital	**$ 6,264,252**	$ 5,911,325
Risk-weighted assets		
Credit risk-weighted assets[1]	**$ 37,128,123**	$ 34,721,532
Operational risk-weighted assets	**2,002,093**	1,896,951
Total risk-weighted assets[1]	**$ 39,130,216**	$ 36,618,483
Total capital ratio[1]	**16.0%**	16.1%
Target capital ratio	**15.0%**	15.0%
Minimum regulatory capital ratio	**10.5%**	10.5%

[1] Restated (see Note 23).

25. Capital management (continued)

Debt to equity

FCC's only statutory limit, as prescribed by the Farm Credit Canada Act, requires that FCC's total direct and contingent liabilities not exceed 12 times equity. As at March 31, 2019, FCC's total direct and contingent liabilities were 4.88 times the shareholder's equity, excluding AOCI (2018 – 4.88 times the shareholder's equity, excluding AOCI).

Contributed surplus

FCC's contributed surplus consists of capital contributions made by the Government of Canada, net of the March 31, 1998, reallocation of $660.6 million to eliminate FCC's accumulated deficit. Additionally, as noted below $364.0 million was paid as a dividend during the year to reduce contributed surplus.

As at March 31, 2019, cumulative capital payments received from the Government of Canada amounted to $1,208.3 million (2018 – $1,208.3 million). No capital payments have been received since 2006. The statutory limit for that same period was $1,250.0 million (2018 – $1,250.0 million).

Dividend

On August 22, 2018, the Board declared a dividend for the year ended March 31, 2018, in the amount of $364.0 million to FCC's shareholder, the Government of Canada, which was paid out of contributed surplus on September 26, 2018 (2018 – $308.3 million was paid out of retained earnings for the year ended March 31, 2017).

26. Risk management

Financial risk management

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

a) Credit risk

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

Management of credit risk

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

26. Risk management (continued)

Measurement of credit risk

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

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

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

Risk scoring and pricing system

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

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

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

Allowance for credit losses model

The allowance for credit losses model estimates expected losses in the portfolio due to credit risk. In determining the allowance for credit losses, management segregates credit losses into three stages, as described in Note 2.

For all stages of the allowance for credit losses model, the model considers the collateral position as well as customer, loan and collateral characteristics, to estimate the appropriate amount of allowance.

26. Risk management (continued)

Key macroeconomic variables

The measurement of expected credit losses for each stage of the allowance for credit losses and the assessment of SICR considers information about reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement.

The allowance for credit losses on performing loans is sensitive to changes in both economic forecasts and the probability-weight assigned to each forecast scenario. Many of the factors have a high degree of interdependency and there is no single factor to which the allowance for credit losses on loans are sensitive.

The following table shows the primary macroeconomic variables used in the impairment model to estimate the allowance for credit losses on performing loans during the forecast period. The base case scenario is based on forecasts of the expected rate or yield for each of the macroeconomic variables identified below. Scenarios are set by adjusting expectations of agricultural output based on historically optimistic and pessimistic growth in Canadian farm cash receipts.

As at March 31	Next 12 months	2 to 5 years
Macroeconomic variables		
Real gross domestic product	**1.5%**	1.8%
Exchange rates	**$ 0.76**	$ 0.74
Interest rates		
- Bank	**2.0%**	2.0%
- Five-year	**4.9%**	5.0%

As at March 31, 2019, the impact of weighting the multiple scenarios decreased FCC's allowance for credit losses on performing loans, relative to the base case scenario, by $7.0 million. The weighted scenarios are based on a combination of baseline, pessimistic and optimistic scenarios. If all of FCC's performing loans were in Stage 1, the impairment model would generate an allowance for credit losses on performing loans of approximately $82.9 million compared to the reported allowance for performing loans of $144.7 million. The allowance for credit losses for all loans in Stage 1 and Stage 2 range from approximately $130.9 million to $153.2 million under the most optimistic and pessimistic scenarios.

Collateral

FCC mitigates its credit risk through collateral. FCC monitors the portfolio by reviewing the loan-to-security ratio, both on an overall portfolio basis and by enterprise. Upon initial recognition of a loan, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market prices or indexes of similar assets. The form of collateral obtained is generally real estate, quota or equipment, depending on the purpose of the loan. As at March 31, 2019, the collateral held against total gross impaired loans represents 73.2% of total gross impaired loans.

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

As at March 31	2019	2018
Weighted-average loan-to-security ratio for secured loans	**49.5%**	50.1%
Loans secured by a general security agreement and unsecured loans as a percentage of loans receivable	**4.6%**	4.3%

26. Risk management (continued)

Loan commitments

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

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

As at March 31 ($ thousands)	2019	2018
On balance sheet		
Cash and cash equivalents	**$ 770,517**	$ 828,569
Short-term investments	**435,601**	398,207
Accounts receivable	**26,614**	37,114
Derivative financial assets	**16,459**	21,512
Loans receivable	**36,094,522**	33,882,513
Finance leases receivable	**21,907**	20,789
Investment in associates	**69,909**	57,765
Venture capital investments	**70,602**	77,115
Other assets	**13,419**	12,442
	37,519,550	35,336,026
Off balance sheet		
Financial guarantees	**7,654**	5,589
Loan and lease commitments[1]	**7,996,041**	7,883,000
Operating lease receivable	**77,782**	67,949
Investment in associates commitments	**63,598**	27,079
Venture capital commitments	**–**	3,000
	8,145,075	7,986,617
Total maximum exposure to credit risk[1]	**$ 45,664,625**	$ 43,322,643

[1] Restated (see Note 23).

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

26. Risk management (continued)

Exposure to credit risk by credit risk rating grades

As at March 31 ($ thousands)	FCC Risk Ratings	Stage 1	Stage 2	Stage 3	2019 Total
On balance sheet:					
Loans receivable					
Pass ratings 1[1]	1-3	$ 12,004,239	$ 793,057	$ –	$ 12,797,296
Pass ratings 2[1]	4-7	9,594,581	7,617,143	–	17,211,724
Watch list	8-11	1,008,634	3,206,207	–	4,214,841
Default	12	–	83,854	169,134	252,988
Unassigned credit risk rating[2]	n/a	1,388,486	182,827	22,923	1,594,236
Loans receivable – total		23,995,940	11,883,088	192,057	36,071,085
Allowance for credit losses		(31,780)	(115,402)	(50,828)	(198,010)
Loans receivable – net		$ 23,964,160	$ 11,767,686	$ 141,229	$ 35,873,075
Venture capital investments					
Low risk	n/a	65,305	–	–	65,305
Medium risk	n/a	–	–	–	–
High risk	n/a	5,849	–	96	5,945
Venture capital investments – gross		71,154	–	96	71,250
Allowance for credit losses		(552)	–	(96)	(648)
Venture capital investments – net		$ 70,602	$ –	$ –	$ 70,602
Off balance sheet:					
Loan commitments					
Pass ratings 1[1]	1-3	2,207,400	64,866	–	2,272,266
Pass ratings 2[1]	4-7	1,355,691	641,014	–	1,996,705
Watch list	8-11	143,866	408,286	–	552,152
Default	12	–	341	7,507	7,848
Unassigned credit risk rating[2]	n/a	3,111,843	39,402	8,366	3,159,611
Loan commitments – gross[3]		$ 6,818,800	$ 1,153,909	$ 15,873	$ 7,988,582

[1] Classification is based on FCC's internal Borrowing Risk Rating system which includes ratings for investment and speculative grade status.
[2] For these loans and loan commitments, expected credit losses are measured on a collective basis so individual loans and loan commitments are not assigned credit risk ratings.
[3] Allowance for loan commitments is included in the allowance for credit losses on loans receivable.

The preceding table provides the gross carrying amount of loans receivable, venture capital investments and loan commitments by credit risk rating grade and allowance stage based on FCC's internal credit risk ratings.

Loans receivable

Loans receivable past due but not credit-impaired

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

26. Risk management (continued)

Gross amounts of loans that were past due but not credit-impaired were as follows:

As at March 31 ($ thousands)		2019		2018
Past due but not credit-impaired				
Up to 30 days	**$**	**184,317**	$	202,013
31 – 60 days		**76,628**		51,665
61 – 89 days		**29,878**		24,318
90 days or more		**114,488**		129,540
	$	**405,311**	$	407,536

Counterparty credit risk – derivatives and short-term investments

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

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

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

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

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

26. Risk management (continued)

Credit quality

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

As at March 31 ($ thousands)	2019		2018	
	Cash equivalents	**Short-term investments**	Cash equivalents	Short-term investments
Government & government guaranteed				
AAA	**$ –**	**$ 62,922**	$ –	$ 22,874
AA	**–**	**–**	–	9,992
AA-	**–**	**74,700**	24,979	131,767
A+	**–**	**297,979**	30,470	233,574
	–	**435,601**	55,449	398,207
Schedule 1 banks				
A-1+	**–**	**–**	107,726	–
			107,726	–
	$ –	**$ 435,601**	$ 163,175	$ 398,207

Venture capital debt investments

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

b) Market risk

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

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

26. Risk management (continued)

Interest rate risk

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

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

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

	2019 Impact of		2018 Impact of	
($ thousands)	**2% increase**	**2% decrease**	2% increase	2% decrease
Projected net interest income variability	**$ 14,400**	**$ (20,300)**	$ 13,000	$ (16,300)
Limit	**(60,400)**	**(60,400)**	(56,600)	(56,600)
EVE variability	**(356,700)**	**316,700**	(344,300)	349,600
Limit	**(638,586)**	**(638,586)**	(599,305)	(599,305)

26. Risk management (continued)

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

As at March 31 ($ thousands)	Immediately rate-sensitive	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest sensitive	Total 2019	2018
Assets								
Cash and cash equivalents	**$ 764,322**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 6,195**	**$ 770,517**	$ 828,569
Yield	**2.27%**	**–**	**–**	**–**	**–**	**–**	**–**	–
Short-term investments	**–**	**26,225**	**406,244**	**–**	**–**	**3,132**	**435,601**	398,207
Yield [1]	**–**	**1.95%**	**2.03%**	**–**	**–**	**–**	**–**	–
Derivative financial assets [2] [3]	**–**	**(237,994)**	**–**	**237,994**	**–**	**16,459**	**16,459**	21,512
Yield [1]	**–**	**1.98%**	**–**	**4.54%**	**–**	**–**	**–**	–
Loans receivable	**16,896,405**	**1,702,414**	**4,144,271**	**11,315,361**	**1,618,635**	**195,989**	**35,873,075**	33,636,019
Yield [1]	**4.80%**	**5.24%**	**3.79%**	**4.10%**	**4.72%**	**–**	**–**	–
Finance leases receivable	**–**	**1,407**	**4,319**	**14,422**	**–**	**–**	**20,148**	19,613
Yield [1]	**–**	**4.57%**	**4.57%**	**4.57%**	**–**	**–**	**–**	–
Investment in associates	**–**	**–**	**–**	**–**	**–**	**69,909**	**69,909**	57,765
Yield	**–**	**–**	**–**	**–**	**–**	**–**	**–**	–
Venture capital investments	**–**	**–**	**–**	**71,226**	**–**	**(624)**	**70,602**	77,115
Yield	**–**	**–**	**–**	**10.45%**	**–**	**–**	**–**	–
Other	**–**	**–**	**–**	**–**	**–**	**322,469**	**322,469**	279,133
Total assets	**$ 17,660,727**	**$ 1,492,052**	**$ 4,554,834**	**$ 11,639,003**	**$ 1,618,635**	**$ 613,529**	**$ 37,578,780**	$ 35,317,933
Liabilities and equity								
Borrowings	**$ –**	**$ 20,083,420**	**$ 3,552,405**	**$ 6,278,065**	**$ 755,000**	**$ 75,419**	**$ 30,744,309**	$ 28,899,341
Yield [1]	**–**	**1.64%**	**1.56%**	**1.88%**	**2.17%**	**–**	**–**	–
Derivative financial liabilities [2] [3]	**–**	**(13,429)**	**–**	**–**	**13,429**	**–**	**–**	–
Yield [1]	**–**	**2.49%**	**–**	**–**	**1.75%**	**–**	**–**	–
Other	**–**	**–**	**–**	**–**	**–**	**405,597**	**405,597**	358,823
Shareholder's equity	**–**	**–**	**–**	**–**	**–**	**6,428,874**	**6,428,874**	6,059,769
Total liabilities and equity	**$ –**	**$ 20,069,991**	**$ 3,552,405**	**$ 6,278,065**	**$ 768,429**	**$ 6,909,890**	**$ 37,578,780**	$ 35,317,933
Total gap 2019	**$ 17,660,727**	**$ (18,577,939)**	**$ 1,002,429**	**$ 5,360,938**	**$ 850,206**	**$ (6,296,361)**	**$ –**	$ –
Total cumulative gap 2019	**$ 17,660,727**	**$ (917,212)**	**$ 85,217**	**$ 5,446,155**	**$ 6,296,361**	**$ –**	**$ –**	$ –
Total gap 2018	$ 17,583,671	$ (18,481,824)	$ 875,764	$ 5,029,802	$ 927,610	$ (5,935,023)	$ –	$ –
Total cumulative gap 2018	$ 17,583,671	$ (898,153)	$ (22,389)	$ 5,007,413	$ 5,935,023	$ –	$ –	$ –

[1] Represents the weighted-average effective yield based on the earlier of contractual repricing or maturity date.

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

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

26. Risk management (continued)

Foreign exchange risk

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

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

Foreign exchange gains in the year were $21.8 million (2018 – $8.3 million). Foreign exchange losses in the year were $21.3 million (2018 – $8.6 million).

Derivatives

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

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

Post-employment benefits

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

The pension plans' assets are comprised of Canadian Long Bonds that match a portion of the plans' assets to the plans' liabilities. The current target composition of the plans' portfolio includes an allocation of 40% of assets invested in Canadian Long Bonds, which effectively increases the duration of the assets to better match the plans' liabilities. The Canadian Long Bonds have a duration of 15.0 years and the leveraged Canadian Long Bonds have a duration of 46.6 years. Overall, the registered pension plans' assets are estimated to be 11.9 years while the liabilities are estimated to be 19.5 years. The supplemental pension plans' liabilities are estimated to be 19.7 years and the assets have no duration.

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

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

26. Risk management (continued)

Insurance

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

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

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

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

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

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

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

c) Liquidity risk

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

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

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

FCC maintains liquidity through:

- a liquid investment portfolio – cash and cash equivalents, and short-term investments of $1,206.1 million were on hand as at March 31, 2019 (2018 – $1,226.8 million)
- access to short-term funding – FCC's access to funding through the Crown Borrowing Program and capital markets provides FCC with sufficient liquidity to meet daily cash requirements
- access to a $30.0 million bank operating line of credit

26. Risk management (continued)

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

Residual contractual maturities of financial liabilities

As at March 31 ($ thousands)	2019						
	Carrying value	**Gross nominal outflow**	**Less than 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**
Non-derivative financial liabilities							
Borrowings	**$30,744,309**	**$ 30,743,117**	**$ 1,045,922**	**$ 1,601,173**	**$ 7,225,231**	**$18,066,565**	**$ 2,804,226**
Transition loan liabilities	**160,763**	**164,584**	**13,239**	**12,738**	**37,748**	**99,551**	**1,308**
	$30,905,072	**$ 30,907,701**	**$ 1,059,161**	**$ 1,613,911**	**$ 7,262,979**	**$ 18,166,116**	**$ 2,805,534**

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

27. Subsequent events

The Board approved the consolidated financial statements on June 5, 2019. There were no subsequent events requiring recognition or disclosure within the consolidated financial statements between March 31, 2019, and the date of approval.

2018-19 results commitment

Results as of March 31, 2019

Outcome	Performance indicator	2018-19 target	2018-19 results
Canadian producers and agribusiness and agri-food operators can access capital to advance their businesses	Loans receivable (total loans outstanding)	$35,316.3 million	$36,071.1 million
	Increase in loans receivable (year-over-year portfolio growth)	$1,824.8 million	$2,212.5 million
FCC delivers a customer experience that meets the needs of the industry	Net Promoter Score®[15]	70	69.5
FCC maintains a safe and sound capital position to withstand economic downturns and periods of extended loss and to support FCC's strategic decisions	Capital adequacy measure	Target capital ratio of 15% or higher	16.0%
Small and medium-sized operations, which are less likely to attract financial partners from standard financial institutions, have access to capital to grow their businesses	Percentage of FCC customer count in small and medium-sized segments	80% or more	93.07%

[15] FCC transitioned from its Customer Experience Index in 2017-18 to Net Promoter Score® (NPS®) in 2018-19. This customer advocacy measure is used by leading companies around the world as the standard for measuring and improving customer experience.

Outcome	Performance indicator	2018-19 target	2018-19 results
Canadian agricultural producers and agribusiness and agri-food operators have access to knowledge that helps them advance their management skills and grow their businesses	Total views/interactions with FCC's online knowledge offering	850,000	1,547,762
	Average score of event participants on the likelihood they will use information from the event in their farming operations	Greater than 4 out of 5	4.46
Increased positive dialogue about Canadian agriculture	Establish a new baseline to measure sentiment of online conversations in Canadian agriculture[16]	Establish a baseline to monitor year-over-year change in sentiment	Baseline established: Overall sentiment English : 95% Positive-Neutral, 5% Negative French : 98% Positive – Neutral, 2% Negative
FCC invests in communities where its customers and employees live and work	Amount invested by FCC in community initiatives and projects, including funds provided to local non-profits	At least $2.5 million	$4.29 million
Young farmers and young agribusiness and agri-food operators have access to specialized lending products and services	Number of borrowers[17] under age 40	More than 20,000	17,569[18]

[16] FCC's tool for measuring industry engagement changed during the 2018-19 fiscal year. The performance indicator and target now measure year-over-year change in sentiment. The new tool analyzes key industry hashtags (which comprised the previous measure) as well as keywords, location, tone and trends to provide a more accurate, inclusive picture of sentiment.

[17] Includes primary and secondary borrowers.

[18] FCC is continuing its efforts to capture age demographic data more accurately, which may impact this number.

Glossary

Agribusiness and agri-food

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

Agvocate

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

Alliances

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

Allowance for credit losses

Management's best estimate of credit losses incurred on financial assets measured at amortized cost and loan commitments. Allowances are accounted for as deductions to financial assets on the balance sheet.

Capital adequacy measure

Capital adequacy measure is used to ensure FCC carries an adequate amount of capital to meet the outcome described.

Corporate social responsibility (CSR)

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

Counterparty

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

Counterparty credit risk

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

Credit facility

The credit limit over a group of loans and/or leases which share the same borrower(s), guarantor(s) and security.

Credit impaired loans

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

Credit rating

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

Crown Borrowing Program

Direct lending provided to FCC by the federal government.

Customer support program

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

Debt-to-equity ratio

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

Derivative financial instrument

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

Economic value of equity (EVE)

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

Effective interest method

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

Efficiency ratio

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

Fair value

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

Foreign exchange risk

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

Hedge

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

Interest rate swaps

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

Internal capital adequacy assessment process (ICAAP)

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

Minimum regulatory capital ratio

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

Net interest income (NII)

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

Net interest income margin

NII expressed as a percentage of average total assets.

Notional amount

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

Other comprehensive income (OCI)

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

Past due

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

Pay-at-risk

Pay-at-risk is the portion of an employee's compensation that is variable, or "at risk" of not being paid out. It is a lump-sum payment based on a percentage of base salary. It is re-earned each year, based on overall performance and the successful achievement of objectives. The amount of this lump sum varies, depending on the degree of success achieved.

Prepayments

Prepayments are unscheduled principal payments prior to interest term maturity.

Primary production

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

Provision for credit losses

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

Return on equity (ROE)

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

Risk scoring and pricing system (RSPS)

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

Risk-weighted assets (RWA)

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

Subordinated debt

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

Total capital ratio

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

Writeoffs

Loans and their related allowance for credit losses are written off when there is no realistic prospect of recovery.

FCC office locations

British Columbia

Abbotsford, Dawson Creek, Duncan, Kelowna, Surrey

Alberta

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

Saskatchewan

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

Manitoba

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

Ontario

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

Quebec

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

New Brunswick

Moncton, Woodstock

Nova Scotia

Kentville, Truro

Prince Edward Island

Charlottetown

Newfoundland and Labrador

Mount Pearl

(S) Satellite office – limited hours

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