# Annual Report 2020-21

FARM CREDIT CANADA

We take pride in helping our customers **dream**, **grow** and **thrive**. We're the only lender 100% invested in Canadian agriculture and food, and we're passionate about helping the industry succeed. And how we show up every day is as important as what we do. We aim to advance our social and sustainable practices, support our customers in their sustainability journeys and act as a catalyst for good. What we stand for reflects our corporate values.

# Message from the President and CEO

What a year it's been. 2020-21 was unlike any other. I've heard the term "once in a century pandemic" and I think that's a pretty accurate way of describing the way COVID-19 disrupted the world around us. In a year filled with so much uncertainty, I am honoured and proud to be part of an organization and serve an industry that stepped up to overcome many challenges. The Canadian agriculture and food industry demonstrated its bend-not-break mentality and FCC was a part of that. I want to thank our 2,000 employees from coast to coast for their resilience and hard work this past year.

In late March 2020, one week after we began working from home and the first round of lockdowns were announced across the country, Prime Minister Trudeau announced that FCC would receive a $500-million enhancement to our capital base, which allowed for an additional $5 billion in lending capacity to support the needs of our industry. In the weeks and months that followed, we offered loan payment deferrals and products to assist with our customers' cash flow needs. From March 2020 to the end of this fiscal year, 4,919 customers utilized payment deferral options on loans totalling $5.6 billion. Over the same period, 1,879 customers were approved for COVID-19 FCC Credit Lines totalling approximately $400 million. Other products we introduced as part of our COVID-19 response included FCC Operating Credit Term Loans and loans to large customers disrupted by COVID-19, resulting in close to $485 million of additional financing support.

One thing COVID-19 forced everyone to do was adapt. Consider the food industry, which saw dramatic shifts in the market as restaurants and food services closed and consumers shifted to cooking at home, spiking demand at Canadian grocery stores. The rapid investment in new packaging lines and supply chain capacity quickly assured Canadians of the importance of the domestic agriculture and food industry to provide the safe and nutritious food they have come to expect.

Like many organizations, we also had to adapt our processes and practices in 2020-21 to enable more digital transactions and less face-to-face interaction. FCC had been ramping up our online services prior to COVID-19, but the pandemic certainly accelerated the rollout of a few offerings. We launched e-signatures for our customers, allowing them to approve official documents using an electronic signature, which is both convenient and eliminates physical contact when necessary, which resulted in more than 30,000 documents signed electronically. We also enhanced our online services to facilitate digital applications for new loans and loan administration requests. This allows customers to self-serve and also decreases the time it takes the FCC Customer Service Centre to approve these requests. We have also rolled out, in beta, our first auto-adjudication model that approves qualifying loan applications delivered to us by our Alliance partners via a new digital application for crop input customers. This is FCC's first end-to-end digital offering, from application to documentation, without human intervention. Virtual meetings such as our knowledge events, Annual Public Meeting and Canada's Agriculture Day enabled us to expand our reach and connect with new audiences across the country, in place of in-person events. These changes have encouraged us to seek ways to maintain a best-of-both-worlds approach to events in the future.

COVID-19 prompted us to adopt a hybrid work environment for our employees as well. Provincial restrictions and guidelines required us to work primarily from home (interestingly, the number of online meetings went up tenfold in 2020-21; likewise, chat messages went up nearly 200%), and we demonstrated our agility as we followed these changing requirements throughout the year.

I am proud of how we navigated this crisis as an organization. On the whole, we adjusted to working from home favourably and senior FCC leaders worked as a team to deliver regular communications to keep our employees connected. As a result, employees felt supported and informed from week to week – as evidence, our annual Kincentric employee engagement score came in at 90% in 2020, which is truly remarkable.

In terms of FCC's fiscal performance and in spite of a global pandemic, 2020-21 reflects the strength and resilience of the Canadian agriculture and food industry. Our total portfolio grew to $41.5 billion (an increase of 7.6% year-over-year), with disbursements totalling $13.2 billion in 2020-21. Net income amounted to $812.5 million.

To build a stronger FCC for the future, we took a closer look at diversity and inclusion in 2020-21, as we continued our work to ensure employees feel they belong and want to build their careers at FCC. Diversity of thought and of background are a competitive advantage for FCC and we want our workforce to understand that. It was also a year with great emphasis on mental wellness and we worked hard to ensure employees had the support they needed. We advanced our journey toward Truth and Reconciliation, with 99% of employees completing an intensive Indigenous Awareness learning program this year.

Truth and Reconciliation is a priority for us at FCC, and a key part of our mandate as a federal Crown corporation. Our Indigenous Relations team launched its Indigenous lending strategy in 2020-21, which we are excited to roll out nationwide in the coming year. Related to our mandate commitments, we established a greater focus on lending to food processing operations as part of our agribusiness and agri-food strategy, and further digitized the FCC Knowledge and Advisory Services offering. We connected with the next generation of farmers as well as women entrepreneurs and offered products to meet their needs. We also partnered to deliver increased venture capital to support agriculture and food innovation in Canada, and worked to champion environmentally sustainable practices at FCC, among our customers and throughout the greater industry. A year marked by COVID-19 highlighted the importance of something that is always important to us: we gave back to the communities where we live and work. Our annual FCC Drive Away Hunger food drive provided over 17 million meals for food banks and feeding programs nationwide, another record-breaking year despite disruptions caused by the global pandemic.

In terms of mental wellness support for our customers and the greater industry, FCC funded 31 mental first-aid training courses in partnership with Do More Ag. In 2020-21, FCC hosted 11 virtual events with 6,181 attendees where at least one speaker delivered messaging related to mental health. We also contributed $1.5 million to 92 rural community projects across Canada in 2020-21.

I believe 2020-21 showed the benefits of Crown corporations to all Canadians. In the early stages of the pandemic, the federal government, the FCC Board of Directors and FCC collaborated like never before to introduce emergency support programs for the industry and our customers. Looking ahead, we are working together closely to identify ways this great industry can contribute to Canada's post-COVID economic recovery. There is much work to be done, but I'm excited for FCC and the broader agriculture and food industry to play a bigger game.

As I reflect on the year that was, I remember how I felt writing this message for our annual report a year ago. It feels similar but different this year. The stress of the pandemic still looms large, but the arrival of COVID-19 vaccines and the promise of a new growing season bring feelings of greater hope and optimism. Like a marathon runner nearing the finish line of a long race, I recognize that the past year has not been easy but I am energized by what we have accomplished and what is yet to come.

Last fall, we launched an advertising campaign using our **Dream**. **Grow**. **Thrive**. tagline, articulating our unrelenting support for the industry. This type of campaign was an unusual promotional opportunity for FCC as we sought to express our support for the full farm-to-table value chain that makes up the Canadian agriculture and food industry, while also acknowledging the efforts of all the businesses and individuals rallying to produce food in the face of the COVID-19 pandemic. Our TV, web and physical ads stated, "If you're behind Canadian food, we're behind you." I think this message speaks volumes to FCC's role in the months and years to come. Our higher purpose statement is to serve the industry that feeds the world, inspiring possibility and passion. I am happy to report we are living into this purpose, both in our words and our actions.

**Michael Hoffort, President and CEO**

# Message from the Board Chair

No one had any idea what last year would have in store. Many businesses and employees had to adjust quickly to the COVID-19 outbreak as they found themselves facing new challenges, whether that be working virtually more, home schooling children, or pivoting and innovating their business operations due to market disruptions and new demands. Although we are far from understanding the long-term effects of the pandemic, we have made great strides in adapting and being resilient, and I'm so proud of what we've been able to accomplish at FCC.

Over 60 years ago, FCC was formed to advance the business of agriculture and enhance rural Canada by being a strong and stable financial partner to the agriculture and food industry. Historically, FCC has stepped up and provided support to producers and agribusinesses during the good, the bad and the ugly times. The COVID-19 pandemic was no exception. As the only lender 100% invested in Canadian agriculture and food, FCC stood by its long-standing commitment to the industry and delivered customer support like never before ensuring producers, agribusinesses and food processors had access to necessary capital to provide sustainable, safe and high-quality food from farm to plate. We want to thank our employees for their perseverance in adapting to different conditions of working from home while continuing to fulfil the changing needs of our customers and the industry.

Thanks to the hardworking efforts of our employees, FCC had another successful year in 2020-21, growing its portfolio, effectively managing risks and advancing its strategies and initiatives to serve close to 100,000 customers nationwide. In addition to providing COVID-19 support measures and core business offerings to customers, FCC made significant progress on key public policy priorities, which included enhancing farm management tools and knowledge offerings through virtual events, new and improved venture capital and accelerator partnerships, progress on our growth strategy for the agribusiness and agri-food value-chain and addressing food security through community support. We also strive to promote strength in diversity by ensuring women, Indigenous and young entrepreneurs have the capital and support they need to become established and succeed in this dynamic and growing industry.

Appointed as Chair of the FCC Board of Directors on April 26, 2020, I am proud to represent a Board of Directors that has a diverse set of backgrounds and experiences across Canada with expertise in executive leadership, agriculture, agri-food, finance, government, law, economics, corporate consulting and international development. Our Board is responsible for providing leadership and independent oversight of FCC's management and operations, and we are proud of the way FCC continues to deliver on its mandate, innovates its operations, and supports the industry and communities to dream, grow and thrive.

I would like to take this opportunity to thank our outgoing Board members Del Anaquod (2017 to 2020) and Doris Priddle (2012 to 2021). We are grateful for Del and Doris's contributions to FCC and to the Canadian agriculture and agri-food industry. Effective May 21, 2021, the Minister of Agriculture and Agri-Food announced two re-appointments and three new appointments to FCC's Board of Directors effective May 21, 2021. Michele Hengen (Saskatchewan) and James Laws (British Columbia) were reappointed to three-year terms. Rita Achrekar (Ontario), Sylvie Chagnon (Quebec) and Michael Tees (British Columbia) were appointed to four-year terms.

On the road to economic recovery, Canada has an important job to help sustain the world with safe and healthy food. We are in a great position at FCC to step up how we serve the entire Canadian agriculture and agri-food industry with financing solutions and business knowledge. FCC will continue to leverage the strength of its partners and the nation to help our industry realize its full potential. While recognizing the current contributions of Canadian agriculture, FCC envisions an even stronger future – one where the industry further positions itself as a global powerhouse in food production – and we will be there every step of the way. FCC remains dedicated to being a strong and stable financial partner to Canada, working to ensure the success of the industry today and in the future.

Respectfully submitted on behalf of the FCC Board of Directors,

**Jane Halford, Board Chair**

# Message from the Minister of Agriculture and Agri-Food

As the world faced COVID-19 in 2020, Canadian agriculture and agri-food has never mattered more. As an essential and stabilizing force, the agriculture sector continues to drive the Canadian economy and sustain our nation and the world with access to affordable and safe food. Despite all the challenges from the pandemic and the disruptions to the Canadian food supply chain, our farmers, food processors, front-line workers and volunteers demonstrated great resiliency and innovation to ensure that high-quality food made its way to grocery stores and our kitchen tables. Each of these contributors did their part to keep our food supply strong over the past year.

Since the beginning of the pandemic, the Government of Canada has remained committed to the health of Canadians by delivering a range of investments to help farmers and food processors weather the storm. For example, over $200 million was allocated to emergency safety programs to help farmers and food processors with mandatory quarantine costs and safety upgrades to enable them to keep their businesses operating and their workers safe. Another $50 million was invested to help farmers manage surplus product by redirecting food to food banks and other aid organizations to assist Canadian families in need.

In addition to these support measures, the federal government provided billions in credit assistance and loan deferrals to support farmers and food processors in managing cash flow pressures through the pandemic. We enabled FCC to provide an additional $5 billion in lending capacity to ensure producers, agribusinesses and agri-food processors had the capital they needed to sustain their operations from the impacts of COVID-19. The Farm Credit Canada Act was also amended in March 2020 to raise the capital payments limit for FCC to $2.5 billion.

Supporting the needs of Canadian agriculture through challenging and uncertain times is what inspired the creation of FCC more than 60 years ago and is more relevant than ever today. FCC moved quickly to implement COVID-19 support measures for the agriculture sector and this report, focused on FCC's activities in the 2020-21 fiscal year, reflects their outstanding results. I want to commend FCC and its employees for their tireless efforts to respond to the crisis and address the evolving needs of the sector.

Despite COVID-19's impacts on labour shortages, volatile markets, fluctuating commodity prices and processing slowdowns, Canada's agriculture and agri-food sector remains a powerhouse of the economy, contributing more than $143 billion to our gross domestic product and employing more Canadians than any other manufacturing industry.

The sector also achieved record performance for agriculture and agri-food exports, reaching nearly $74 billion, up from $67 billion (an increase of 10.4%) in 2019. This brings the government closer to achieving its target of $75 billion in agri-food and seafood exports by 2025. To help support our export targets, FCC also increased its focus and efforts in the agribusiness and agri-food space. Not only is the increase in exports good for farmers, but the results are also positive for Canadians as exports drive one in five jobs in this country.

Our vital industry partners, like FCC, continue to enable the growth and success of Canadian agriculture. FCC continues to deliver on its commitment to advance the business of agriculture, enhance rural Canada, and remain a strong and stable presence in the agriculture and food lending market. Their products and services focus on promoting innovation and sustainability within Canada's agriculture and food industry and are tailored to meeting the diverse needs of all sectors of the industry from supporting start-up to growth stage businesses and transition, to filling the gaps in financing for under-represented groups in the industry which include women, youth, and Indigenous communities.

The COVID-19 crisis has been unpredictable and has challenged us in new ways, but one of the silver linings of the pandemic has been Canadians' renewed appreciation of the importance of Canadian agriculture and agri-food and the recognition of farmers and food processers who work so hard to supply our food.

As we look ahead and unleash the potential of Canadian agriculture, we want to ensure that the agricultural sector continues to be an engine of growth, helping to restart the Canadian economy and position Canadian farmers as global leaders in sustainably grown food. I thank FCC's Board of Directors and employees for all their work and resilience in moving this great industry forward. We will continue to partner together throughout our economic recovery and will remain strongly committed to the long-term success of Canadian agriculture and agri-food.

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

# Supporting FCC's mandate: 2020-21 highlights

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

## Proudly serving our industry

CLOSE TO **100,000**
customers served

**31,028**
credit facilities approved

PORTFOLIO
**$41.5 B**

**28 years**
of growth

**Largest provider of capital**
to agriculture and agri-food

NET INCOME
**$812.5 M**

## Living into our mandate

PANDEMIC RESPONSE:
**4,919**
customers used payment deferral options on loans totalling
**$5.6 billion**

LOANED
**$4.61 B**
to young farmers

DELIVERING
exceptional customer experience
**Net Promoter Score® of 74**

NEARLY
**$900 million**
of COVID-specific lending
in support of customers navigating pandemic-related disruption to their businesses

DELIVERED
online format for learning events this year, reaching
**32,270**
across Canada

ADDED
**712 net new**
agribusiness and agri-food customers (90.4% were small and medium-sized operations)

Working with communities and partners, over 17 M meals raised through FCC Drive Away Hunger

## With knowledgeable, engaged employees

**90%**
employee engagement

TRANSITIONED
to 90% of employees working from home
175,000 virtual meetings held

BEST EMPLOYER
for 18 consecutive years*

OVER
**2,100**
**employees**
in 101 offices across Canada

* Recognized by Kincentric's Best Employers global certification program, previously a part of Aon.

# 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 almost 100,000 customers[1]. We're a team of more than 2,100 employees operating from 99 field offices located primarily in rural Canada, a government relations office in Ottawa, Ontario and our corporate office in Regina, Saskatchewan.

We're passionate about what we do and our team has professional expertise in many areas, focused on agriculture and agri-food. We provide capital and other services to primary producers and agribusiness and agri-food operators who provide inputs or add value to the industry. Primary production is FCC's core business and represents 84.3% of our loan portfolio and we have a strong focus on serving the entire agriculture and agri-food value chain to support the industry in achieving its full potential. 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 dedicated to the agriculture and agri-food industry, 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 more than 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 $41.5 billion and 28 consecutive years of portfolio growth, FCC is a strong, stable partner dedicated to serving the Canadian agriculture industry through all economic cycles.

For more information about FCC's history, visit fcc.ca/CorporateHistory.

## 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 lending customers include all individuals or businesses with an available credit or outstanding balance who are primary borrowers or co-borrowers 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.

## 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.

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

# 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 agriculture and agri-food in a way that allows this vibrant industry to be a leader in job creation and innovation. Government priorities for the industry 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 climate and sustainability goals.

FCC also has a significant public policy role as part of Canada's recovery from the economic impacts of COVID-19 and the federal government's economic response to strengthen investment in federal lending agencies to support Canadians. On March 23, 2020, FCC received an enhancement to our capital base from the federal government that allowed for an additional $5 billion in lending and risk-taking capacity to support the industry. In addition to regular lending activity, we offer a range of support, including restructuring existing lending packages, payment deferrals, expanded short-term credit and lending options, and we evaluate and implement customer support strategies as needed. We rapidly redesigned our processes, leveraging telephone and digital technologies to continue to serve the Canadian agriculture and agri-food industry effectively and efficiently while employees transitioned to working from home. FCC is well positioned to support our customers and Canadian agriculture and agri-food through whatever lies ahead, and we continue to support the health and mental well-being of our employees and customers. We continue to work collaboratively with the Government of Canada through Agriculture and Agri-Food Canada to evolve our strategies to support shareholder priorities and the needs of the agriculture and agri-food industry.

## 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. 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, 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 financial institutions to provide financing for larger agriculture operations and agribusinesses. We also offer venture capital financing to the industry through investment in external funds managed by independent third-party investment professionals. This commitment to venture capital ensures financing and business expertise are available to help innovative firms grow into strong businesses in Canada.

FCC continued to be self-sustaining and profitable in 2020-21. Our ongoing strength and stability allow us to serve agriculture through all cycles, as evidenced by the steady support through the COVID-19 pandemic. 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 2020-21. Producers of all ages and in all sectors can access our resources, free of charge. For the health and safety of attendees and employees during the pandemic, we cancelled all FCC in-person events and shifted to a successful, virtual delivery that has reached a significant number of attendees across Canada, including in remote and rural locations. We offer accounting and farm management software, including cloud-based tools that enhance our customers' ability to manage their businesses and meet consumer demands. 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, FCC provides mental health publications and resources through our website to help customers, employees and the public 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. We also support young farmers and entrepreneurs through our FCC On Campus program and events such as our FCC Young Farmer Summit, which we offered virtually this year due to COVID-19.

We support the Government of Canada's Women Entrepreneurship Strategy through our innovative programs for women entrepreneurs in agriculture and agri-food. To support the need for capital, we offer the FCC Women Entrepreneur Loan. We also provide access to advisory services, value-added knowledge content and learning events on topics of interest to women. Our FCC Women's Summit, offered virtually this year, offers opportunities for women to build connections and enhance their knowledge and skills.

FCC has served as an industry catalyst leading the Agriculture More Than Ever initiative since its inception in 2012. Agriculture More Than Ever is 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. Effective fiscal 2021-22, the Canadian Centre for Food Integrity (CCFI) and FCC reached an agreement for CCFI to assume leadership of Agriculture More Than Ever and Canada's Agriculture Day.

## 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 programs allow 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

FCC is committed to agriculture in all cycles, and our work helps our customers reach their full potential and enables us to support continued growth, progress and innovation in the industry. We strive to be a catalyst for sustainability in the industry we serve, and have already made great strides toward operating sustainably and supporting the industry to do the same – we have a strong community investment program, we're steadfast with our support and promotion of the industry, we offer an unwavering focus on our customers, we provide an exceptional employee experience and we continue to focus on our environmental footprint.

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

As a federal Crown corporation, FCC is also a federal authority with accountabilities under the Impact Assessment Act and its related regulations and instruments (together, the IAA). FCC complies with the requirements of the IAA if we finance a project that qualifies as a designated project under the IAA.

The IAA states that federal authorities must not carry out or permit projects as defined under the IAA to be carried out on federally owned lands or outside Canada unless the federal authority determines the project is not likely to cause significant adverse environmental effects (which means changes to the environment and the impact of these changes on the Indigenous peoples of Canada and on health, social or economic conditions) or the Governor in Council decides the effects are justified under the circumstances.

### 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 industry, 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, including supporting the industry through the COVID-19 pandemic. For a summary of the results we delivered in 2020-21 for our customers, Canadian agriculture and agri-food and all Canadians, along with expected outcomes, key performance indicators and targets, refer to the Strategic Overview, Objectives and Planned Results section.

# Corporate governance

FCC is governed by the Farm Credit Canada Act and the Financial Administration Act. Like other Crown corporations, FCC is subject to laws such as the Privacy Act, Access to Information Act, Canada Labour Code, 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 FCC is 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, Treasury Board of Canada Secretariat, 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. FCC and the Board receive regular updates on the status of the 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 contributes to the fulfillment of FCC's continuing long-term purpose of enhancing rural Canada by providing independent oversight of management and the operations of the corporation. 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 seven major areas:

- integrity – legal and ethical conduct
- strategic planning and risk management
- financial reporting and public disclosure
- leadership development and succession planning
- government relations and corporate social responsibility
- communications
- 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, Chief Operating Officer and Chief Risk Officer attend every Board meeting. Other members of the Enterprise Management Team also attend meetings periodically 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 where we report our activities and financial results. We presented the August 2020 meeting in a virtual format due to the pandemic.

**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.

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. FCC's Integrity Officer promotes awareness and understanding of the Code of Conduct on behalf of the CEO and the Board, and ensures employees have a safe environment for disclosing wrongdoing in the corporation. The Integrity Officer also provides information and advice to employees regarding disclosures of wrongdoing and ensuing investigations. All employees are required to review and recommit to the Code of Conduct each year.

**Board composition**

The Board is composed of a maximum 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. The members of each committee as of January 2021 are noted below.

**Audit Committee**
**Chair:** Govert Verstralen

**Members:** Bertha Campbell, Sharilee Fossum, James Laws and Doris Priddle

The Audit Committee oversees the integrity, accuracy and timeliness of FCC's financial performance and audit functions. All members are financially knowledgeable and the committee chair is considered a financial expert.

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 OAG initiated a special examination of FCC in July 2020 and work is ongoing, with the final report to be complete in 2022. The most recent special examination of FCC was completed July 31, 2012.

**Corporate Governance Committee**
**Chair:** Laura Donaldson

**Members:** Sylvie Cloutier, 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 the Code of Conduct ethics-related policies for employees and Board members.

**Human Resources Committee**

**Chair:** Sharilee Fossum

**Members:** Bertha Campbell, Jane Halford and Michele Hengen

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, Laura Donaldson and Govert Verstralen

The Risk Committee has a broad mandate to assist the Board in fulfilling its oversight responsibilities of risk management. It is responsible for overseeing the enterprise risk management framework, including the internal control framework and risk management policies, authorities and accountabilities that foster a risk culture of integrity and shared risk management throughout the corporation.

The Risk Committee monitors the corporation's significant risks, including credit, market, liquidity, strategic, reputational and operational risks.

Reviewing and discussing management's stress testing results, analysis of emerging trends, and risk assessment processes relative to new strategies, products or services are central to these oversight responsibilities.

The Risk Committee reviews the reports of examinations by regulatory agencies, oversees organizational compliance to risk management policies and monitors the effectiveness of systems and programs related to capital measurement and financial crime risk management. The committee also oversees FCC's risk management function and ensures risk management activities are independent from operational management.

**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 when possible as well as attend conferences and seminars relevant to corporate governance and FCC's business. 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 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.
- 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 2020-21, there were 10 Board meetings and 20 committee meetings. Total remuneration (annual retainer and per diems) paid to all directors was $208,102. Total Board travel and related expenses were $4,295* compared to $151,674 in 2019-20.

## 2020-21 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 | $ 4,133 | $ 5,578 | $ 9,711 | 8 of 8 | 4 of 4 | $ – |
| Bertha Campbell | 6,200 | 15,035 | 21,235 | 10 of 10 | 12 of 12 | -372* |
| Sylvie Cloutier | 6,200 | 11,640 | 17,840 | 10 of 10 | 7 of 7 | 1,610* |
| Laura Donaldson | 7,200 | 12,125 | 19,325 | 10 of 10 | 9 of 9 | – |
| Sharilee Fossum | 6,700 | 14,550 | 21,250 | 9 of 10 | 12 of 12 | – |
| Jane Halford | 12,642 | 22,795 | 35,437 | 10 of 10 | 14 of 14 | – |
| Michele Hengen | 7,200 | 12,853 | 20,053 | 10 of 10 | 9 of 9 | – |
| James Laws | 6,200 | 15,763 | 21,963 | 10 of 10 | 11 of 11 | – |
| Doris Priddle | 6,200 | 12,125 | 18,325 | 10 of 10 | 11 of 11 | – |
| Govert Verstralen | 7,200 | 15,763 | 22,963 | 10 of 10 | 12 of 12 | 3,057* |
| **Total** | **$ 69,875** | **$ 138,227** | **$ 208,102** | | | **$ 4,295** |

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

*Adjustments for pre-paid travel in prior and current year. No travel occurred in fiscal 2020-21.

**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 whose remuneration is set by Order in Council as detailed below, 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 29 companies from both the private and public sectors.

The Governor in Council establishes the President and CEO's compensation. In 2020-21, the base salary range for that position was set at $325,300 to $381,700 and in addition, there is a component of pay-at-risk that ranges from 13% to 26% of base salary.

The performance-based, total cash compensation framework for the Enterprise Management Team 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. For more information on the performance measures for the corporation, see the 2020-21 planned results.

In 2020-21, the base salary for Executive Vice-Presidents ranges from $209,809 to $400,587. In addition, there is a pay-at-risk component that ranges from 46% 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. Members of the Enterprise Management Team receive an amount equal to 12% of base pay as perquisites, which is applied first to their individual pension contributions and thereafter to other approved purposes. See Key Management Personnel Compensation (Note 24) in the Notes to the Consolidated Financial Statements for additional information.

# Board of Directors*

| | | | |
|---|---|---|---|
| **Jane Halford**<br>Board Chair<br>President, Halford Consulting Inc.<br>Edmonton, Alberta | **Michael Hoffort**<br>President and CEO, FCC<br>Regina, Saskatchewan | **Del Anaquod**<br>Principal Founder, First Nations Bank of Canada; Professor Emeritus, First Nations University of Canada<br>Regina, Saskatchewan<br>Completed three-year term effective November 9, 2020 | **Bertha Campbell**<br>Co-owner, dairy, beef and potato farm<br>Grahams Road, Prince Edward Island |
| **Sylvie Cloutier**<br>CEO, Quebec Food Processing Council (CTAQ)<br>Bromont, Quebec | **Laura Donaldson**<br>Lawyer, Retired<br>Qualicum Beach, British Columbia | **Sharilee Fossum**<br>Vice-President, Finance & Administration and CFO, MacEwan University<br>Edmonton, Alberta | **Michele Hengen**<br>Client Services Executive, People First HR Consulting<br>Regina, Saskatchewan |
| **James Laws**<br>Agricultural Consultant<br>Vancouver, British Columbia | **Doris Priddle**<br>Former owner of Westbrook Farms and Priddle Farms Inc.<br>Cheltenham, Ontario | **Govert Verstralen**<br>Managing Director, GTV Consulting Inc.<br>Scarborough, Ontario | |

# Enterprise Management Team*

| | | | |
|---|---|---|---|
| **Michael Hoffort**<br>President and Chief Executive Officer | **Travis Asmundson**<br>Executive VP and Chief Information Officer | **Greg Honey**<br>Executive VP and Chief Human Resources Officer | **Todd Klink**<br>Executive VP and Chief Marketing Officer |
| **Corinna Mitchell-Beaudin**<br>Executive VP and Chief Risk Officer | **Sophie Perreault**<br>Executive VP and Chief Operating Officer | **Ross Topp**<br>Executive VP and Chief Financial Officer | |

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

# Environmental, social and governance framework – what we stand for

At FCC, how we do things is as important as what we do. What we stand for reflects our corporate values – to act with integrity, focus on the customer, achieve excellence, work together, and give back to the community. We are committed to help our customers achieve their dreams, enable this great industry to grow sustainably and ensure our communities thrive today and into the future. We believe that integrating environmental, social and governance strategies in our core business strategy is an investment in the future.

What FCC stands for, and our commitment to sustainability, are represented through three impact statements. These impact statements connect to our corporate strategy and outline our commitment to continue to improve FCC's social and sustainable business practices to fulfil our mandate of promoting an ethical and sustainable organization and agriculture and agri-food industry, explore how we continue to support customers and the industry to respond to increasing expectations in the area of sustainability, continue to advance our internal environmental performance, and explore the United Nations Sustainable Development Goals (UN SDGs), supporting those where FCC's mandate can help address global sustainability challenges.

## Our impact statements

**We contribute to the strength and future of the Canadian agriculture and agri-food industry.**

We support the development of a sustainable, competitive and innovative Canadian agriculture and agri-food industry. We do this by providing financing, knowledge and education, and by supporting initiatives and forming partnerships that make the industry stronger. This industry is poised for significant growth in the years to come – we take our role in ensuring the success and vibrancy of the nation's agriculture and agri-food industry to heart. Our goal is to help the industry and our customers achieve their full potential.

**We partner to reduce hunger and enrich rural Canada.**

2 ZERO HUNGER

We foster strong and vibrant communities where our customers and employees live and work. We do this by supporting projects that enhance rural Canada, with a focus on diversity and inclusion, agriculture safety and education, and supporting under-represented groups in agriculture and agri-food, including meeting the unique needs of women, youth, persons with disabilities, and Indigenous entrepreneurs and producers. As the only lender 100% invested in Canadian agriculture and food, we are in a unique position to connect the people who produce food to those who need it most.

**We operate sustainably and support our customers to do the same.**

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

We are committed to the success of the Canadian agriculture and agri-food industry for generations to come. We care about the environment, and with 101 office locations across the country, we work to reduce our operational footprint. With global population growth, resource scarcity and increasing sustainability expectations from the public, a sustainable agriculture and agri-food industry is vital to the success of our organization, the industry, our customers and our planet.

## Our sustainability commitments

This year we will report on our sustainability commitments in an Environmental, Social and Governance (ESG) Report, previously the Corporate Social Responsibility (CSR) Report. The report will be prepared in accordance with the Global Reporting Initiative's (GRI) Sustainability Reporting Standards, to ensure that FCC is adhering to, and reporting on, internationally recognized standards. The GRI is a non-profit organization that promotes economic sustainability and provides a comprehensive sustainability reporting framework that's widely adopted.

In the 2021-22 Corporate Plan, FCC signaled intent to adopt the recommendations of the Task Force on Climate-Related Financial Disclosures, whereby Crown corporations will be required to deliver a set of climate-risk financial disclosures by 2022. The recommendations provide a consistent framework to help companies better understand and disclose the impacts of climate change on their business. The implementation of these recommendations will be a multi-year initiative – FCC will integrate these disclosures as per guidelines issued from Finance Canada for Crown corporations and we will continue to grow our understanding of climate-related risks and opportunities, and integrate reporting and disclosure through corporate strategies and financial planning.

FCC is committed to ensuring producers, agribusinesses and food processors can remain focused on their businesses – and produce food to feed the world. As we move more fully into positioning FCC as a leader in sustainability, we will continue to strive to be a catalyst for sustainability in the industry we serve and support our customers in their own sustainability journeys.

You can read more about what we stand for and view our ESG Report at fcc.ca/ESGreport.

# 2020-21 sustainability highlights*

## Contribute to the future of agriculture and food

**Mental wellness:** Over **6,100 attended online events** related to mental health topics; partnered with Do More Agriculture Foundation to deliver **31 workshops** to **406 individuals**

**Free business resources:** Over **844,653 views** or interactions with FCC's online knowledge offering

**Empowering the next generation:** Supported young farmers and entrepreneurs, lending **$4.61 billion** through various loan products

**Indigenous agriculture:** Commitment to truth and reconciliation through education of all employees, with required Indigenous Awareness learning; commitment of **$15 million** to National Aboriginal Capital Corporations Association (NACCA) through Indigenous Growth Fund

**Supporting women in agriculture:** Approved **1,893** Women Entrepreneur Loan applications, totalling over **$1.1 billion**, exceeding our three-year **$500-million** target

## Reduce hunger and enrich rural Canada

**73 million meals and counting:** Annual FCC Drive Away Hunger campaign collected a record **17.6 million** meals for Canadians in need, with the help of **131** partners

**Giving back to communities:** Provided over **$3.2 million** to charities and non-profit organizations through our FCC community giving

**Help in difficult times:** FCC AgCrisis Fund provided support to **342 customers** during hard times, including natural disasters, farm accidents, critical illnesses or deaths

**Safety in agriculture:** Invested **$50,000** in agriculture safety through Ag Health and Safety Alliance, which supported **675 students** in the Gear Up for Ag Health and Safety Program

**Careers in agriculture:** Invested over **$250,000** in various programs, including 4-H Canada and Agriculture in the Classroom to support events and tours for promoting career opportunities in agriculture

## Operate and support sustainability

**Reduce emissions by 40%:** On track to reduce FCC greenhouse gas emissions by 2025 through monitoring office energy, air and vehicle travel, paper consumption and renewable energy certificates

**Giving back:** Through the FCC AgriSpirit Fund, **80%** of funded projects were for sustainability projects in rural communities

**From printing to planting:** FCC is part of the PrintReleaf program, which measures paper consumption and converts pages into real trees planted in global reforestation projects

* Results as of March 31, 2021

# Management's discussion and analysis



**About this management's discussion and analysis**

The following management's discussion and analysis (MD&A) is a summary of the financial position and results of operations of FCC for the year ended March 31, 2021, and as compared to the year ended March 31, 2020. This MD&A was approved by FCC's Board of Directors on June 2, 2021.

This MD&A is based on FCC's financial results prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. This MD&A should be read in conjunction with our audited annual Consolidated Financial Statements and accompanying notes for the year ended March 31, 2021, and our corporate plan documents. All financial information is expressed in millions of Canadian dollars, unless otherwise stated.

**Caution regarding forward-looking statements**

This 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.

# Economic environment

Global economic trends shape the business environment of Canadian agriculture and agri-food. COVID-19 resulted in a significant contraction of the global economy in 2020 as global gross domestic product (GDP) declined 3.3%.[2] Although vaccine deployments are raising optimism about an economic recovery in 2021, new waves and variants of the virus are likely to continue hampering growth.

COVID-19 created significant domestic and trade disruptions in 2020, leading governments to close portions of the Canadian economy which resulted in declining GDP and higher unemployment. In 2020, Canada's GDP contracted 5.4%, the steepest decline since 1961.[3] With the economy contracting, unemployment surged to nearly 14% in May 2020. As people transitioned to work from home and the economy slowly re-opened, the national unemployment rate dropped to 8.5% but a resurgence of the virus in November resulted in further closing of businesses. Unemployment stood at 8.8% at the end of 2020. With the economy partially shut down, more people working from home, and significant government support to help those who had lost their jobs, household savings increased. Household debt as a percentage of disposable income ended 2020 at 175%, slightly down from 181% at the end of 2019.[4]

The contraction of the Canadian economy and higher unemployment levels led the Bank of Canada to cut its policy interest rate to 0.25% in the first quarter of 2020 and implement an aggressive quantitative easing program. Record low borrowing costs and strong demand for food and cash crops created investment opportunities across the agriculture and food value chain.

## Demand for agriculture commodities and food remains strong

Despite the global economic contraction, global demand for food and agricultural commodities has remained strong through the pandemic. Many countries have taken steps to ensure food security, such as implementing export restrictions or stockpiling, which amplified export opportunities for Canada. Business shutdowns in various economic sectors have shifted food consumption away from food services toward grocery stores and online channels. For food processors, this has created a major shift in business strategies such as adjusting packaging, building an online presence and finding new customers.

The United States remains Canada's largest export market, accounting for about 30% of our agriculture exports and more than 70% of our food and beverage manufacturing exports.[5] The U.S. economy quickly rebounded from COVID-19 disruptions. The Federal Reserve lowered its key interest rate twice in 2020 to near zero and injected liquidity in the financial markets. Initially, global uncertainty resulted in investors retreating to "safe-haven" currencies and a strengthening of the U.S. dollar. As COVID-19 spread, global uncertainty increased and investor demand declined, leading to a steady weakening in the U.S. dollar. The Canadian dollar averaged slightly below US$0.75 in 2020, trading between US$0.69 and US$0.79. 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.

Canada-China trade relations are facing difficulties as China restricts market access for a few Canadian agricultural products, including canola and pork. In contrast, U.S.-China trade tensions eased in 2020, with China making a commitment to purchase more agriculture products. As China continued rebuilding its domestic hog herd, demand for agriculture and food products remained strong through most of 2020. Improvements in U.S.-China relations will create more opportunities for Canadian commodities, notably corn, soybeans and pork.

[2] https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD
[3] https://www150.statcan.gc.ca/n1/daily-quotidien/210302/dq210302a-eng.htm
[4] https://www150.statcan.gc.ca/n1/daily-quotidien/210312/cg-b004-eng.htm
[5] http://www.ic.gc.ca/eic/site/tdo-dcd.nsf/eng/Home

# 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.

The Canadian agriculture and agri-food industry experienced several disruptions in 2020 due to COVID-19, resulting in economic stress. Processing plant closures, limited labour availability and food service and hospitality industry shutdowns are just a few of the disruptions introduced by the global pandemic. Despite the market turmoil, the agriculture and agri-food industry has performed better than the Canadian economy. Food and beverage manufacturing GDP declined 1.0% as compared to a 5.4% decline for the overall economy.

Farm cash receipts increased 8.3% in 2020 as strong demand for grains, oilseeds and pulses offset revenue declines in other areas of primary production. Food and beverage manufacturing sales also expanded, increasing 3.5%. New variants of COVID-19 continue to increase caseloads across the country, causing economic uncertainty and introducing risks of further disruptions in agri-food supply chains.

### Farm revenues increased on production and strong crop prices

Production of primary crops increased 4.5% to an estimated 99.0 million tonnes. Conversely, labour supply created harvest challenges for some fruit, vegetable and potato producers. Processing plant disruptions and closure of food services reduced marketing opportunities for livestock and supply-managed sectors.

Overall crop receipts increased 14.8% and livestock receipts decreased 1.1%.

Farm input prices were, on average, 1.0% lower in 2020 compared to 2019. Average input prices for crop production decreased 2.4% as prices for commercial seed, fertilizer, pesticide and fuel all declined. This has contributed to an improvement in crop margins. Average input prices for animal production increased 1.2%. Higher input costs are contributing to weaker margins for the sector in 2020.

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

### Farmland values continue to trend higher

Strong farm revenues and low interest rates supported investment in Canadian farm operations. Farmland values increased an average of 5.4% in 2020. Strength in farmland values continues to support the balance sheet of producers. More information regarding farmland values, including regional analyses, is available in the FCC Farmland Values Report at fcc.ca/FarmlandValues.

### Investment in farms pushes debt higher

Farm debt increased 5.9% in 2020 with an average annual rate of 6.5% over the past 10 years as producers continued to make strategic investments to improve the productivity and efficiency of their farm operations. Shifts in consumption patterns, processing plant closures, and market uncertainty all contributed to liquidity pressures or expectation of liquidity pressures, increasing demand for capital in 2020. More information is available on the Statistics Canada website.

### Strong demand for Canadian agriculture and agri-food product offsets market access challenges

Exports are key to Canada's success as an agricultural producer. With a small population and vast amount of arable land, we must export the production we can't consume. Canada is the fifth-largest exporter of agriculture products and the 11th-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 2020. Initially, temporary closure of port facilities and a large-scale cancellation of global flights due to the global spread of COVID-19 disrupted trade for all agriculture and agri-food sectors, especially seafood exports. Re-opening has significantly improved trade and food manufacturing sales, although it remains a challenge to access containers for pulse exports.

Processing plant disruptions in Canada and the United States created a backlog of cattle and hogs, reducing Canadian export opportunities and causing producer prices to decline. Investments to protect employees have allowed food processing facilities to re-open and work through the backlog of cattle and hogs.

### Shifts in food purchasing patterns

Shutdown of food service businesses across the country led to higher food expenditures at grocery stores. Consumers relied more on online channels, creating some new opportunities for food processors and producers to sell direct to consumers. Demand for local and Canadian food products also expanded considerably.

Canadian household preferences continue to evolve toward healthy, convenient, sustainable and environmentally responsible produced foods, 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 industries remain financially healthy at the end of 2020. Record low interest rates, a supportive Canadian dollar and robust food demand at home and abroad created opportunities for Canadian agriculture, agribusiness and agri-food. Demand for grains, oilseeds and pulses have been extremely strong in 2020, resulting in improved prices and producer returns. Strong prices in this sector have supported demand for farmland, farm equipment and improvements of balance sheets for this sector.

Conversely, increased market access for supply-managed industries, production challenges, trade concerns, transportation disruptions and higher input prices created numerous challenges for other sectors, notably for livestock and horticulture. Disruptions initially resulted in a tightening of balance sheets and strong demand for FCC's COVID-19 support products. These sectors have since improved as the Canadian economy recovers.

COVID-19 continues to create market uncertainty throughout the Canadian agri-food supply chain. We expect food manufacturing will remain a significant driver of the Canadian economy and the economic recovery. Small to medium-sized food processors are delivering innovative food products to Canadians, and larger processing firms are capitalizing on the growing demand for safe, high-quality food in foreign markets.

Agriculture, agribusiness and agri-food industries are continually adapting to the changing market environment. COVID-19 has caused significant labour and transportation challenges, adding significant costs and generating many market uncertainties. Despite these major challenges, Canada's agriculture and agri-food sectors have adapted and are well positioned to capitalize on the economic recovery.

# Strategic overview, objectives and planned results

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[6] received August 31, 2016, and the Minister's letter outlining FCC Supplemental Priorities dated February 1, 2018.

Canada's agriculture and agri-food industry feeds the world and is an important contributor to the Canadian economy. Canadian producers and agribusiness and agri-food operators are focused on producing high-quality, safe products and managing the complexities of changing markets, consumer trends, human resource management and other factors. FCC's strength and stability over two decades ensures it can support the industry in both good and challenging times.

FCC continues to serve the industry in managing the impacts of the COVID-19 pandemic. As reported in the public policy section, the federal government made a commitment to the agriculture and agri-food industry to ensure Canadians have ongoing access to capital during this challenging time. On March 23, 2020, we received an enhancement to our capital base of $500 million. This enhancement allowed for additional lending and increased portfolio growth and risk exposure to support the industry during this time of unprecedented market disruption and uncertainty.

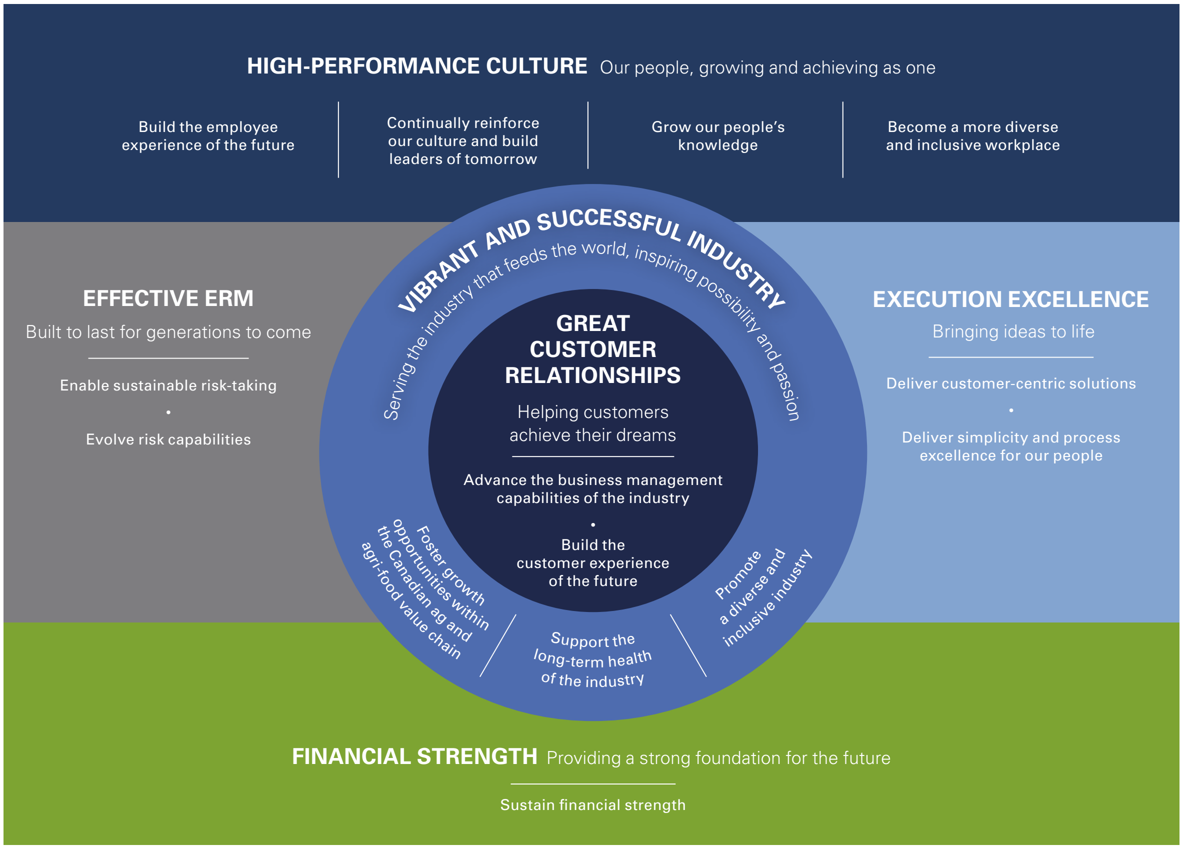
FCC is well positioned to help the Canadian agriculture and agri-food industry achieve its full potential. Our strategic planning process includes a range of strategic objectives and initiatives categorized under six themes:

- Great customer relationships: helping customers achieve their dreams
- Vibrant and successful industry: serving the industry that feeds the world, inspiring possibility and passion
- High-performance culture: our people, growing and achieving as one
- Execution excellence: bringing ideas to life
- Effective enterprise risk management: built to last for generations to come
- Financial strength: providing a strong foundation for the future

Over the past year, we've advanced our work in all six themes. Within each theme, we set one- to five-year plan performance measures that define how we assess progress each year against the objectives set out in our strategy. We use a balanced scorecard approach to identify and monitor corporate measures and we report on them throughout the fiscal year.

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

## 2020-21 corporate strategy map




## 2020-21 corporate strategy

### Great customer relationships

Helping customers achieve their dreams

### Key results – 2020-21 Corporate Plan objectives

**Build the customer experience of the future**

Initiatives:

- Enable employees to build great customer relationships and consistently create extraordinary customer experiences.
- Provide solutions to meet customer needs by enhancing our financial and digital customer offerings.

FCC strives to deliver world-class service to our customers. We know that great customer relationships are the primary reason customers choose FCC. Therefore, understanding and acknowledging our customers' experiences and serving them in a way that meets their unique business needs remains a focus. FCC's customer experience strategy focuses on developing a customer-inspired service vision for all segments we serve. To build on our customer experience principles, which set the tone for what our customers expect when interacting with us, we developed service excellence standards in 2020-21 that will provide guidance to our employees on the level of service required for customer transactions.

We continue to create a high-performance learning and development culture that enables employees to do their best work every day, achieve outstanding results and deliver an exceptional customer experience. In 2020-21, FCC rolled out new training targeted to long-serving customer-facing employees and leaders so they could refresh and continuously improve the quality of their relationship management skills and coaching abilities.

FCC uses Net Promoter Score® (NPS), a measurement tool used by numerous companies, to track our customer experience progress. Throughout the year, we monitor our NPS scores across the country and where needed, work with leaders to develop customized action plans that address team challenges, driving enhanced business success and improved NPS scores.

We compile feedback from customers to gain insights into the various interactions we have with them in our relationship management process.

In 2020-21, we created a customer round table to enhance how we deliver solutions based on the needs of those we serve, and use their in-depth feedback on new or updated functionality and processes before we release them to all customers. To date, feedback has been given on lending product offerings and financial and digital offerings for Alliance partners.

**Advance the business management capabilities of the industry**

Initiatives:

- Provide the industry with tools and products to manage their businesses.
- Evaluate the next phase of our AgExpert farm management platform.
- Provide knowledge and advice to support customers with their management practices.

As producers and agribusiness and agri-food operators become more sophisticated in their operations, FCC continues to investigate new and enhanced tools to help advance the business management capabilities of our customers. AgExpert has provided digital tools such as accounting and record-keeping to Canadian producers for decades. Now more than ever, customers need access to their data anywhere and at any time. Due to the COVID-19 pandemic, many customers can't physically meet with their accountants, financial partners, agronomists and other advisors. AgExpert makes it easy for customers to share important information while keeping their data safe.

In 2020-21, FCC continued to invest in the AgExpert platform. Using AgExpert reporting and partnering with a provincial crop insurance agency, FCC was able to simplify the provincial crop insurance report application process for customers in Saskatchewan. We continue to explore other partnerships, with a goal of saving customers time by entering their data once and using it in multiple, trusted ways. Work is underway to introduce a partner hub where customers can share their data with other Ag Data Transparent companies. This year, additional enhancements were made to AgExpert, including improved cash flow, budgeting capabilities, crop planning and reporting for users.

AgExpert software is a valuable tool for customers, and can be used as part of the sales process in today's competitive lending environment. FCC saw an increase in paid customers and basic customers, for a total of 8,342 unique users in 2020-21. Data on over three million acres were entered into AgExpert Field in 2020, the most since the software was launched.

Over the years, FCC has developed content and knowledge for customers on a wide variety of topics related to the management aspects of farming. Our knowledge offering reflects our integrated program for all learning channels, with publications, videos, events and web articles featuring business management content. Through our online business hub, producers can easily connect with knowledge and each other. In 2020-21, we continued to enhance our online knowledge offerings. In addition to new articles being posted weekly to the FCC Knowledge section of fcc.ca, other content and advice is available on our social media platforms.

In 2020-21, FCC launched a monthly FCC Knowledge podcast called *Talking Farm and Food*. The podcast is aimed at educating producers across the country with practical, targeted and inspirational content to help elevate their farm management practices. The podcast includes real producers, stories and conversations about the business of farming. Podcasts are one of the most effective ways to meet the needs of the next generation and offer the industry small snapshots of knowledge that are easy to consume on their own time.

FCC is also gathering feedback from customers and employees on opportunities to deliver a more personalized experience to our existing and prospective customers. Work on this initiative will continue into the 2021-22 year.

## Vibrant and successful agriculture industry

Serving the industry that feeds the world, inspiring possibility and passion

### Key results – 2020-21 Corporate Plan objectives

**Foster growth opportunities within the Canadian agriculture and agri-food value chain**

Initiatives:

- Develop business solutions to enhance our support for the agribusiness and agri-food (A&A) sectors to increase Canada's value-added capacity with a focus on small to medium-sized enterprises.
- Increase the availability of venture capital and expertise to enhance innovation and growth in the industry.

In addition to supporting agriculture production, FCC is committed to helping the Canadian economy reach its full potential by supporting the Government of Canada's goal to grow agri-food exports to $75 billion annually by 2025. In 2020-21, FCC continued to enhance the support for Canada's small to medium-sized commercial enterprises in the A&A sectors. Using market research and customer insights, we identified the needs of small and medium food and beverage companies and developed five knowledge categories that will be used to drive external content and events. FCC has led, partnered and sponsored virtual events to help food manufacturers and agribusinesses navigate the COVID-19 pandemic, with content focusing on economics and mental health.

FCC remains committed to contributing to the government's mandate to increase exports, job creation and innovation in Canada. This year, we introduced an updated definition of small, medium and large A&A customers that aligns with Statistics Canada. The collection of this data from customers will enable FCC to report on the size of our customers, their export activity and their specific A&A sector, and will allow us to compare our progress against market data and inform new key risk indicators.

In 2020-21, FCC continued to investigate and implement other product offerings specific to the needs of A&A customers. We launched a loan feature that provides eligible A&A customers the flexibility to skip a payment to manage their business through unique economic cycles.

FCC's venture capital strategy addresses the need for alternative financing in the agriculture industry. FCC's venture fund investments focus on promoting innovation and sustainability within Canada's agriculture and agri-food industry, supporting start-up to later-stage businesses, as well as filling the gaps in financing for underserved parts of the industry.

This year we expanded our investment in venture capital funds, and entered into new partnerships with organizations that provide accelerator services to support the full spectrum of early-stage to later-stage businesses. In 2020-21, FCC committed new capital totalling $155 million to four new venture capital funds, including $100 million to a fund established to support proven, viable companies through unexpected business disruptions, such as the COVID-19 pandemic. Through our partnerships, entrepreneurs have access to advice, mentorship and support that allow them to grow, scale globally and solve their business challenges and those of the agriculture and agri-food industry.

**Support the long-term health of the industry**

Initiatives:

- Continue to operate sustainably and support the industry to do the same – this includes supporting the Government of Canada's Sustainable Development Strategy to reduce greenhouse gas emissions, and help address global sustainability challenges by advancing FCC's pledge to the United Nations Sustainable Development Goals of Zero Hunger (UN SDG 2) and Responsible Consumption and Production (UN SDG 12).
- Enhance public trust in the industry by promoting and supporting the consumption of Canadian food and increasing awareness of careers in agriculture and agri-food.
- Advance mental health support for Canadians involved in farming and living in rural Canada.

Agriculture feeds the world and Canada is one of a handful of nations capable of helping address the projected demand for agricultural production. Being a trusted knowledge partner and champion of sustainable practices will help ensure FCC and the broader industry are set up for long-term success while keeping pace with rapidly evolving expectations. FCC continues to focus on furthering our goal to be a leader in sustainability by addressing gaps and opportunities to advance our own practices, supporting global and national sustainability goals, and sharing our story in a simple, compelling way to support customers in their own sustainability journeys.

While the COVID-19 pandemic generated a global health and economic crisis with impacts felt in Canadian households, communities and businesses, it has also created a sustainability movement. To ensure we stay aware of sustainability research and trends, FCC participated in several industry and government groups in 2020-21. Objectives of these groups include developing a set of high-level national performance indicators that demonstrate sustainability progress. FCC will seek feedback from customers, the industry, Board of Directors and employees in 2021-22 on the sustainability areas where FCC can have the biggest impact on the agriculture and agri-food industry to update our sustainability strategy.

At a national level, FCC remains on track to reduce the corporation's greenhouse gas (GHG) emissions by 40% by 2025 based on the 2012 levels, which is in line with the Federal Sustainable Development Strategy. Our GHG strategy includes reducing paper use and travel where possible, using less on-site energy and purchasing renewable energy certificates to increase renewable energy on Canada's power grid. More information on FCC's corporate GHG emissions and other sustainability-related initiatives can be found in the 2019-20 CSR report.

FCC continues to support Canadian communities through our annual flagship community investment program, FCC Drive Away Hunger. This year the agriculture and food community and FCC employees pulled together to refocus efforts and innovate to carry out the campaign. Instead of tractor and truck tours, many partners shifted to cash donation, while other donors contributed by rescuing food that would otherwise have gone to waste. This year's campaign collected over 17 million meals that will directly benefit food banks and feeding programs in Canada.

There is a strong and growing appetite among consumers to learn more about the food they buy. Promoting Canadian food and food products to consumers is another way FCC can fulfil our mandate to support the agriculture and food sectors. As an industry catalyst, FCC is taking a lead role in developing a new approach that helps Canadian food producers and processors strengthen their relationship with consumers. In response to COVID-19, we launched a social media video titled #WeFeedTogether to show support for essential workers within the food value system. The video had over 413,000 views in one week and #WeFeedTogether and #EnsemblePourNourrir had over 23 million impressions during a three-month duration.

The fifth annual Canada's Agriculture Day event also focused on strengthening the relationship between consumers and producers. Both share a common appreciation and sense of pride that comes from buying food grown or processed on Canadian soil. The theme for this year was was Forks Up for Canadian Ag. To accommodate safety and distancing regulations, the in-person activities in Ottawa were replaced with a virtual event that brought together people involved in Canadian agriculture, food and agribusiness. A virtual fireside chat with Dominic Barton, Canada's Ambassador to China, focused on opportunities for Canadian agriculture and agri-food and how Canada can live into its potential as a global food supplier. Over the course of the day, #CdnAgDay and #JourAgCan had over 20,500 thousand mentions on social media.

FCC believes that if young people pursue careers in the agriculture and agri-food industry, they're likely to have more trust in the food they buy. To increase awareness of careers in agriculture and agri-food across Canada, we continue to partner with organizations, including Agriculture in the Classroom and 4-H Canada, and create new partnerships, including the University of Guelph on two student-focused initiatives.

Now more than ever, FCC is committed to helping to lift the stigma around mental health, promoting awareness and dialogue, and enabling people throughout the industry to seek support if they need it. We play an essential role in helping farmers and agri-food workers manage unprecedented pressures brought on by the COVID-19 crisis. In 2020-21, FCC hosted several mental health virtual events and shared articles through our social media accounts. We also donated funds to the Do More Agriculture Foundation's Community Fund for Mental Health Education in Agriculture to offer mental health first aid workshops to communities across Canada and to Au cœur des familles agricoles to help the organization hire social workers trained in responding to mental health issues faced by producers in all Quebec regions. On our website, a Wellness page provides customers and the industry with mental health resources, such as our *Rooted in Strength* publication, personal wellness experiences from the agriculture and agri-food industry and an assessment tool. This year, FCC offered a 90-minute virtual event in English and French to our customers and industry partners that focused on inspiration and tools to build personal resilience.

Mental health remains important internally at FCC. With changes to how we work and interact with each other and our customers, FCC remains committed to creating a safe environment to talk about mental health, empowering employees to identify the need for help for themselves or their colleagues. Throughout the pandemic, surveys were sent to employees to get a sense of how they were managing and feeling. Leaders have also provided regular communications to employees, supported employees through transitions between returning to the office and working from home, acknowledging everyone's unique situations and feelings, and encouraging employees to take advantage of resources such as the Employee and Family Assistance Program, benefits coverage for mental health providers and FCC's internal mental health social network.

**Promote a diverse and inclusive industry**

Initiatives:

- Support the next generation of agriculture and farm transitions by providing enhanced knowledge and financial solutions.
- Support the advancement of women in the agriculture and agri-food industry by offering skill development and advisory services through partnerships.
- Help enable economic development of Indigenous communities through education and partnerships focused on enhancing Indigenous involvement in agriculture.

To ensure the growth and vitality of Canadian agriculture, FCC remains committed to supporting the next generation of farmers. In 2020-21, we launched a Money and Finance Business Essentials series on fcc.ca, providing foundational content and tips for those with a novice or intermediate level of financial knowledge. Articles on farm business management practices are also published weekly and emailed to over 30,000 subscribers of the FCC Knowledge e-newsletter.

Many farmers and operators looking to retire don't have a successor or a transition plan in place. We want our customers to be prepared for the unexpected and know that FCC is committed to their success no matter what the future holds. FCC continues to provide support to customers on the transition process by offering videos and articles on fcc.ca, including two new series called *Focus on Transition* and *Farm Transition Business Essentials*.

Providing advisory services and helping customers have necessary transition conversations is an ongoing focus for FCC. In 2020-21, our Advisory team of Agriculture Transition Specialists had 626 client engagements with an average Net Promoter Score® of 79. We launched a transition campaign in January 2021, highlighting the idea of a New Year's resolution with a focus on transition planning for producers.

The campaign included new articles on fcc.ca, a special farm transition edition of the FCC Knowledge e-newsletter, a webinar and social media content promoting dialogue and resources. This year we also began to explore how to expand our advisory offering in a way that makes a difference in the businesses of our customers. This work will continue into next fiscal.

Women play a vital role in growing the Canadian agriculture and agri-food industry. Over the past several decades, the proportion of female farm operators has continued to increase. While this progress is positive, women remain under-represented in the industry and continue to face barriers. FCC remains committed to supporting the Government of Canada's Women Entrepreneurship Strategy and continues to find new ways to show our commitment to women entrepreneurs, including offering skill development opportunities. Loans through our Women Entrepreneur Program help provide the capital women need to grow their businesses. Since launching the program in 2019, FCC has approved 1,893 Women Entrepreneur Loans totalling over $1.1 billion, more than double our original commitment of $500 million over three years.

We provide women with access to resources on fcc.ca and to events, including this year's virtual FCC Women's Summit, which is a free event focused on sharing knowledge and creating industry connections. In 2020-21, we worked with provincial women in agriculture groups and women in business organizations across Canada to identify partnerships and programming opportunities, sponsoring 15 initiatives and events.

FCC recognizes the opportunity Indigenous communities have in agriculture, the historical contribution Indigenous people have made in this sector and the current challenges they face revitalizing their agriculture businesses. Encouraging growth in this sector will support FCC's mandate, grow Canada's economy and economic resiliency, help with reconciliation efforts and obligations under the Employment Equity Act as an employer, and move communities forward through sustainability and community investments. This year, we created a team to support Indigenous communities and entrepreneurs entering the agriculture sector, and developed strategies for Indigenous employment and community investments. Our community investment program included supporting school feeding programs at 65 Indigenous Community schools.

In 2020-21, FCC met with Indigenous stakeholder groups to share knowledge and create partnerships. We updated our lending eligibility criteria, risk appetite and definition of agriculture to include Indigenous forms of agriculture and agronomic practices, including wild rice and non-timber forest production. Work is underway to develop our approach to lending on reserve, which includes a review of policies, processes, legal services and marketing approaches. In addition to direct lending to First Nations, Métis and Inuit entrepreneurs, Indigenous economic development corporations and governments, we enhanced access to capital by committing to invest $15 million with the National Aboriginal Capital Corporations Association (NACCA) Indigenous Growth Fund, which supports Aboriginal financial institutions across Canada.

We also contributed thought leadership to a paper, *First Nations Prosperity in Canadian Agriculture and Food: Navigating the opportunities and challenges in one of Canada's biggest industries*, published in the Journal of Aboriginal Economic Development and presented by FCC at conferences throughout the year. The intent of the paper is to initiate discussions and inform Indigenous communities of opportunities and challenges in the agriculture sector.

## High-performance culture

Our people, growing and achieving as one

### Key results – 2020-21 Corporate Plan objectives

**Build the employee experience of the future**

Initiative:

- Develop divisional talent management, recruitment and retention strategies to ensure FCC identifies, attracts and retains the right employees based on current and future needs.

Employees are one of FCC's greatest assets. We rely on an integrated, end-to-end talent supply process to maintain the workforce capacity needed to meet the current and future needs of our customers. In 2020-21, we completed internal and external research to understand our state of recruitment, required skill sets, demographics of the incoming workforce and industry best practices. Using these insights, we created customized divisional talent management strategies that included targeted recruitment campaigns.

Retaining our current employees is important to us. In March 2020, employees were able to adapt to a work-at-home environment and rely on technology to maintain their strong relationships with customers and colleagues. Based on this new environment, support for employees and leaders was advanced through additional mental wellness and benefit offerings, establishing regular feedback mechanisms and continuous reinforcement of the available tools and support. FCC continues to work with employees and leaders to identify organizational and team needs related to leading and collaborating in a hybrid work environment.

**Continually reinforce our culture and build leaders of tomorrow**

Initiatives:

- Protect FCC's culture by providing learning programs for employees that are focused on accountability and committed partnerships.
- Develop exceptional leaders through updated learning programs that enhance employee engagement.

A great culture and positive leadership are at the very heart of the FCC employee experience. FCC's culture continues to define how our employees work together to create extraordinary business results, and we remain committed to ensuring employees have a deep understanding of our cultural practices. In 2020-21, we continued to roll out our culture reinforcement program called Culture Plus. This multi-year learning program requires employees to complete various activities, including learning modules, self-assessments and facilitating conversations with leaders and colleagues. This year, we also adapted internal messaging to the virtual world, going deeper into what partnerships and talking straight responsibly looks like in our new work environment. A revised culture program for new employees was also rolled out, ensuring new employees are learning the right content at the right time to maximize impact and development outcomes.

Using virtual technology, FCC continues to provide a comprehensive learning program to support the growth and development of new leaders. The program consists of e-learning modules, one-on-one coaching and cohort connections that require participants to apply key learnings to stretch their leadership skills. In 2020-21, we reviewed employee engagement data to consider how our leadership expectations and the support we offer leaders could be improved, resulting in enhancements to the leadership training curriculum. We also advanced FCC's data capabilities for succession management. Going forward, managers will be able to use talent data to assist them in their annual talent review process.

**Grow our people's knowledge**

Initiative:

- Create an environment for continuous and efficient learning to enhance employee development based on evolving business needs.

FCC knows that an organization's ability to thrive in an ever-changing world is enhanced through the ability of employees to learn. Responding to our customers' business needs requires a consistent understanding of credit risk and lending concepts. For employees involved in making lending decisions, building this knowledge quickly positions FCC to remain relevant as the primary lender in agriculture financing and grow our agri-food and business portfolio. This year, customized learning paths with an emphasis on credit risk and lending concepts were created for customer-facing employees.

In 2020-21, FCC also completed an assessment of our current internal learning and researched best practices. Development of a comprehensive enterprise learning strategy that supports FCC's core business needs and employee growth and development is underway.

**Become a diverse workplace**

Initiative:

- Execute and assess the effectiveness of the employment equity strategy to ensure FCC is a welcoming and inclusive workplace that attracts and retains diverse candidates.

FCC strives to have a workforce that represents the diversity of our customers, the Canadian workforce as a whole and the communities in which we operate, and is focused on being an employer of choice for diverse talent. In 2020-21, we advanced our partnerships with diversity-serving organizations, created awareness with hiring managers of local partnerships that might help them find diverse talent, and implemented additional reporting to keep diversity and inclusion top of mind with leaders.

This year, FCC also launched our first all-employee learning related to the history of Indigenous peoples and our shared commitment to reconciliation. The learning was prepared by Four Seasons of Reconciliation, a Regina-based production company that partnered with First Nations University of Canada to develop multi-media teaching units that promote a renewed relationship between Indigenous peoples and Canadians through transformative learning.

Given the global climate, our support and education on unconscious bias and anti-racism have been advanced. We provide resources for leaders and employees, including inclusive language guidelines, tools to support discussions and the promotion of online learning from key partners such as the Canadian Centre for Diversity and Inclusion.

## Execution excellence

Bringing ideas to life

### Key results – 2020-21 Corporate Plan objectives

**Deliver customer-centric solutions**

Initiatives:

- Create additional self-service capabilities for our customers and deliver process improvements for customer-facing employees.

FCC is always looking for ways to improve the experience we provide customers and our customer-facing employees. Technology and information can often be used to improve the experience. As we move to an increasingly digital environment that has been expedited due to the COVID-19 pandemic, FCC engages partners and customers in the development of new and enhanced digital processes that are simple and secure. In addition to receiving customer feedback through FCC Vision, we established a customer round table in 2020-21 to gather customer feedback early and often as solutions are being built.

This year, we enhanced our digital offerings, enabling customers to manage more transactions remotely. Improvements to internal processes, including easier storing of electronic files, increased efficiencies for our customer-facing employees and speed of service to our customers.

**Deliver simplicity and process excellence for our people**

Initiative:

- Increase velocity of execution to adapt to a changing environment focusing on streamlining processes, increasing cross-divisional collaboration and accelerating decision-making.

Increasing velocity at FCC is about making it easy for customers to do business with us and for employees to get work done. In 2020-21, we continued to streamline business processes using a human-centred approach that focuses on understanding the needs of our customers and employees and making changes throughout development based on their feedback.

As with most organizations, the rate of change has increased at FCC. This year, we created a central area online for employees to learn about lending policy and procedure changes, access support materials and understand upcoming improvements. We continue to focus on bringing FCC's strategy to life with a primary focus on customers. A cross-divisional team was created to provide oversight on the execution of strategy and accelerate decision-making.

## Effective enterprise risk management

Build to last for generations to come

### Key results – 2020-21 Corporate Plan objectives

**Enable sustainable risk-taking**

Initiatives:

- Build sustainable risk practices to serve an evolving industry and expand how FCC serves all sectors.
- Develop a new risk-rating methodology and corresponding processes to scale our business for the future.

Improving the way FCC manages risk across the organization is one of the major pillars of our business strategy. By effectively managing risk, we protect our great customer relationships over the long term and ensure the sustainability of our business. In 2020-21, we improved our risk-rating methodology by incorporating industry-standard definitions and customized approaches based on customer segmentation. We also created a risk assessment methodology to assess regulatory compliance risk related to the laws FCC is subject to, automated divisional risk reporting and enhanced internal financial reporting controls for key business processes.

This year, FCC continued to launch a revamped credit learning and performance program designed to support employees with building their credit knowledge quickly and consistently. Results show lending and credit employees with strong performance indicators in their credit knowledge and decision-making ability compared to the global industry.

**Evolve risk capabilities**

Initiatives:

- Advance risk modelling, processes and data management to increase business performance.
- Evolve enterprise practices to manage continuously rising external threats.

The COVID-19 pandemic brought unprecedented disruptions and innovations. This reinforced the importance of having solid risk management capabilities that can not only manage risk during times of crisis but also meet the needs of the future in an environment where customer delivery expectations are rapidly evolving. In 2020-21, we evolved our capital management and stress testing processes, matured model risk management, implemented automated, on-line credit risk adjudication and enhanced usability by consolidating risk data. We also improved our methods for sharing customer financial information in a safe and secure manner with employees. This work will be implemented in 2021-22.

We remain diligent on maturing internal practices to address financial crime and information security threats. Work continues to enhance our financial crime and know-your-customer practices, including new controls and screening as digital service delivery evolves. Ongoing training is provided to customer-facing employees to introduce enhancements and maintain risk awareness.

Like many organizations, in 2020-21 FCC experienced a surge in phishing attempts. To ensure FCC safeguards the confidentiality, integrity and availability of business-critical information assets, we completed an assessment that resulted in additional controls being put in place. We adopted a new cybersecurity framework that outlines skills, processes and technology requirements, and continue to measure the effectiveness of FCC's cybersecurity controls.

This year, our enterprise crisis response team worked diligently to support FCC's ability to provide uninterrupted essential services while moving most of our workforce to a remote work environment. FCC's foundational business continuity and crisis response plans were put into action. The response team also prepared a national return to the office plan ensuring the safety of our customers and employees and following national and provincial regulations. We continue to monitor the situation and respond accordingly.

## Financial strength

Providing a strong foundation for the future

### Key results – 2020-21 Corporate Plan objectives

**Sustain financial strength**

Initiative:

- Transform our financial systems to create efficiencies and enhance data analytics.

In 2020-21, FCC continued to implement new technology, solutions and process enhancements to improve core financial support capabilities and replace outdated technology. A new procurement system was implemented to enhance risk management and standardize procurement processes. A new travel and expense solution was implemented that includes mobile capabilities and significantly improves efficiency and user experience. A new financial reporting and disclosure management tool has enhanced the financial close and reporting process as well as reduced related operational risk. We also implemented a redesigned internal pricing system to improve loan pricing decisions and responsiveness to changing risk and market conditions. Underlying all these new solutions is robust data capture and access to support enhanced reporting and analytics capabilities.

# 2020-21 planned results

FCC's critical outcome statements are aligned to our mandate and Government of Canada priorities. We report on our progress through the following performance indicators.

Results as of March 31, 2021:

| Short-term outcomes | | | | |
|---|---|---|---|---|
| Outcome | Performance indicator | 2020-21 target | 2020-21 results | 2024-25 target |
| FCC is committed to growing Canada's agri-food exports and increasing value-added capacity | Number of net new agribusiness and agri-food customers | 250 | 712 | 325 |
| FCC is committed to building a workforce that reflects the diversity of its customers and the Canadian workforce | Percentage of total hired are members of employment equity groups[7] | 16% | 18% | 20% |
| 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 | $3.5 million | $3.7 million | $3.5 million |
| | Number of paid volunteer hours by FCC employees | 3,000 | Due to COVID-19 restrictions FCC employees were unable to volunteer in the community during 2020-21 | 3,500 |

[7] Performance indicator includes the following employment equity groups: Aboriginal persons, members of visible minorities and persons with disabilities. Based on information from the CHRC, FCC will be redesigning future measures for employment equity groups.

| Medium-term outcomes | | | | |
|---|---|---|---|---|
| Outcome | Performance indicator | 2020-21 target | 2020-21 results | 2024-25 target |
| FCC delivers a customer experience that meets the needs of the industry | Net Promoter Score® | 68 | 74 | 68 |
| | "We make it easy for customers to do business with us" employee engagement survey question | 75% | 82% | 75% |
| 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 or interactions with FCC's online business management learning offering[8] | 650,000 | 844,653 | 1,000,000 |
| | Average score from event participants on the likelihood they will use information from the FCC event in their farming operations | 4 out of 5 | 4.3 out of 5 | 4 out of 5 |
| Young farmers and young agribusiness and agri-food operators have access to specialized lending products and services | Young borrower lending:<br>Ag production:<br>Agribusiness & agri-food: | <br>$3.1 billion<br>$100 million | <br>$4.4 billion<br>$193 million | <br>$3.5 billion<br>$110 million |
| | Number of current lending customers under age 40 | 19,450 | 20,453 | 19,850 |

[8] FCC previously measured a combination of views from various channels. This new target is based only on measuring page views from one online channel focused on FCC's business management learning offering.

| Long-term outcomes | | | | |
|---|---|---|---|---|
| Outcome | Performance indicator | 2020-21 target | 2020-21 results | 2024-25 target |
| Canadian producers and agribusiness and agri-food operators can access capital to advance their businesses | Loans receivable and leasing growth rate | 4.9% | 7.6% | 4.4% |
| FCC supports the Federal Sustainable Development Strategy and Greening Government Strategy by reducing its greenhouse gas emissions | Reduction in FCC's greenhouse gas footprint by 40% by 2025 based on 2012 levels | Reduction of 307 tonnes/$C0_2e$ per year | Reduction of 307 tonnes/$C0_2e$ per year | Reduction of 307 tonnes/$C0_2e$ per year |
| 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 | Target capital ratio of 15% or higher | 17.3% | Target capital ratio of 15% or higher |
| Small and medium-sized operations have access to capital to grow their businesses | Percentage of FCC customer count in small and medium-sized segments:<br>- Ag production<br>- Agribusiness & agri-food | Ag production: Greater than 90%<br><br>Agribusiness & agri-food: Greater than 75% | 93.12%<br><br>85.14% | Ag production: Greater than 90%<br><br>Agribusiness & agri-food: Greater than 75% |

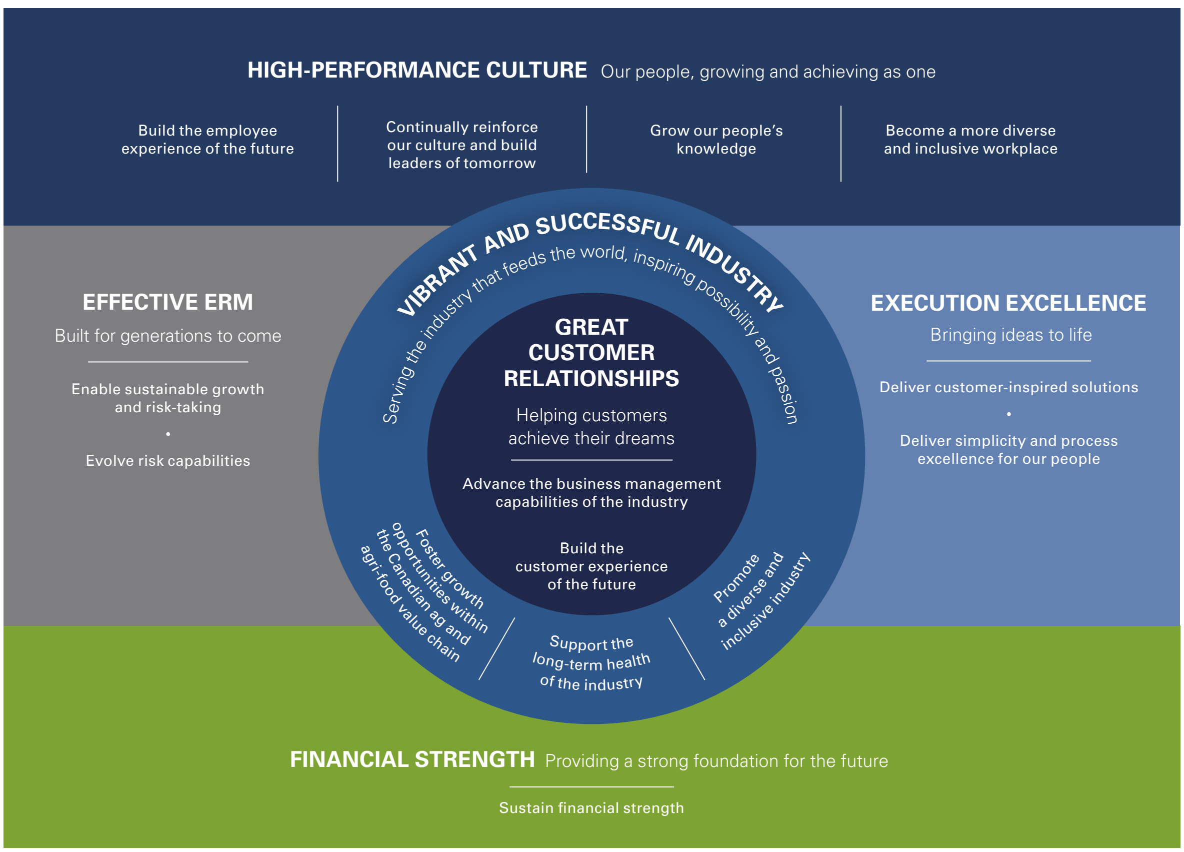
## 2021-22 corporate strategy

While recognizing the current contributions of Canadian agriculture, FCC envisions an even stronger future where the Canadian agriculture and agri-food industry achieves its fullest potential – further positioning itself as a global powerhouse ready to meet the challenges of an ever-growing world.

In addition to ensuring FCC's long-term success, our corporate strategy plays a vital role in advancing the agriculture and agri-food industry. Our 2021-22 corporate strategy map includes six strategic themes:

- Great customer relationships
- Vibrant and successful industry
- High-performance culture
- Execution excellence
- Effective enterprise risk management
- Financial strength

FCC balances resources and activities among these six strategic themes. We continue to focus on initiatives that advance the next generation of agriculture, agribusiness and agri-food enterprises, business management knowledge, organization and industry sustainability, and overall innovation. This range of initiatives is brought to life through continuous improvement of both the customer and employee experience.



# Financial results overview

FCC continued to produce strong financial results in 2020-21. Growth in loans receivable and leasing was $2.9 billion, or 7.6%, reflective of the strength and perseverance of the agriculture and agri-food industry and FCC's ability to keep pace with our focus on exceptional customer experience. Net income and equity growth contributed to the maintenance of a sound capital position.

To support the industry during the COVID-19 pandemic, FCC implemented support programs that have taken an increased level of risk and exercised greater flexibility. This included reduced levels of required security, longer repayment requirements, reduced interest rates and fees, more interest-only loans and an increase to the maximum customer lending limit. Strong capital levels enhanced by the temporary pause of dividend payments and the $500-million capital contribution received in March 2020 from the Government of Canada are key enabling factors to the support provided.

## Financial performance against plan

Each year as part of the strategic planning process, FCC develops a comprehensive corporate plan that includes projections for various financial measures for the coming fiscal year. The following section discusses our 2020-21 results in comparison to Corporate Plan projections.

### Loans receivable and leasing

▲ 1,657M

| | |
|---|---|
| 2020-21 Actual | $41,537 M |
| 2020-21 Plan | $39,880 M |

Loans receivable and leasing was higher by $1,657 million or 4.2% compared to 2020-21 plan primarily due to higher disbursements arising from higher demand for credit than planned.

### Net income

▲ 97.1M

| | |
|---|---|
| 2020-21 Actual | $812.5 M |
| 2020-21 Plan | $715.4 M |

Net income was higher than 2020-21 plan mainly due to higher net interest income and lower provision for credit losses.

### Return on equity

▲ 0.3%

| | |
|---|---|
| 2020-21 Actual | 10.7% |
| 2020-21 Plan | 10.4% |

Return on equity was 0.3% higher than 2020-21 plan. The increase was primarily due to the increase in net income partly offset by the elevated level of equity from additional capital held for COVID-19 support programs and uncertainty.

### Efficiency Ratio[9]

▲ 2.6%

| | |
|---|---|
| 2020-21 Actual | 36.1% |
| 2020-21 Plan | 38.7% |

Efficiency ratio was favourable compared to 2020-21 plan. Growth in net interest income exceeded plan by 5.0% and growth in administration expenses were lower than plan by 2.2% primarily due to COVID-19 restrictions and lower pension expenses.

[9] This measure may not have a standardized meaning under generally accepted accounting principles (GAAP) and may not be comparable to similar measures disclosed in industry. For further details, refer to the non-GAAP measures section.

# Financial results summary

The following table provides selected annual consolidated financial statement information and financial measures and ratios for the past three fiscal years.

| For the years ended March 31<br>($ in millions, except as noted) | 2019 | 2020 | 2021 |
|---|---|---|---|
| **Consolidated statement of income** | | | |
| Net interest income | $ 1,151.7 | $ 1,196.7 | $ 1,298.4 |
| Provision for credit losses | 103.3 | 87.6 | 18.7 |
| Non-interest income (loss) | 39.4 | (12.9) | 17.1 |
| Administration expenses | 426.3 | 458.8 | 475.6 |
| Fair value adjustment | (4.8) | (4.8) | (8.8) |
| Net income | 656.7 | 632.6 | 812.5 |
| **Consolidated balance sheet** | | | |
| Total assets | 37,579 | 41,424 | 43,860 |
| Total liabilities | 31,149 | 34,171 | 35,847 |
| Total equity | 6,430 | 7,253 | 8,013 |
| **Financial measures and ratios** | | | |
| **Portfolio growth** | | | |
| Number of loans and leases | 148,898 | 147,131 | 155,933 |
| Loans receivable and leasing | 36,213 | 38,593 | 41,537 |
| Loans receivable and leasing growth rate (%) | 6.5 | 6.6 | 7.6 |
| **Profitability** | | | |
| Net interest margin (%) | 3.15* | 3.10 | 3.05 |
| **Credit quality** | | | |
| Credit-impaired loans | 192.1 | 294.7 | 306.0 |
| Allowance for credit losses | 198.0 | 255.2 | 218.0 |
| **Efficiency** | | | |
| Efficiency ratio (%) | 36.3 | 37.8 | 36.1 |
| **Capital management** | | | |
| Total capital ratio (%) | 16.0 | 16.8 | 17.3 |
| Debt-to-equity | 4.9 | 4.7 | 4.5 |
| **Shareholder return** | | | |
| Return on equity (%) | 10.5 | 9.3 | 10.7 |
| Dividends | 364.0 | 394.8 | – |

* Restated

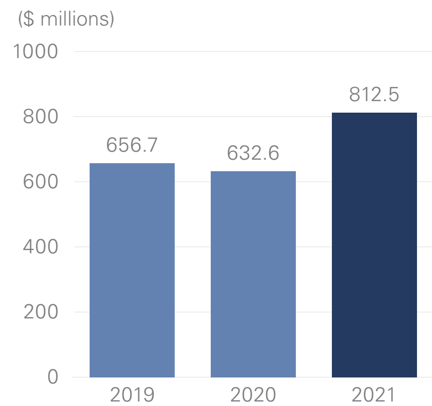
# Financial performance

This section presents operating performance and provides commentary on how revenues, net income and profitability have developed over the past three years.

## Net income

FCC's 2020-21 net income increased by $179.9 million from the previous fiscal year primarily due to: increases in net interest income because of overall portfolio growth; and non-interest income primarily due to an improvement in income from venture capital equity investments, and a decrease in the provision for credit losses due to more certainty related to the impacts of COVID-19 support programs. The favourable changes were partly offset by increases in administration expenses primarily due to more employees and a shift to more licensing of subscription-based technology, partly offset by COVID-19 travel restrictions.

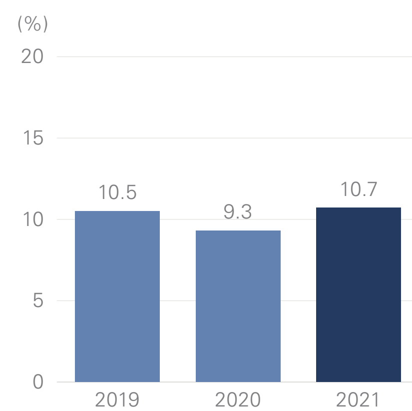
Net income




## Return on equity

Return on equity increased to 10.7% in 2020-21 from 9.3% in 2019-20 primarily due to an increase in net income. This was partly offset by higher equity resulting from the $500.0-million capital contribution from the Government of Canada and no dividend payment in 2020-21 allowing for additional capacity to support the industry during the pandemic.

Return on equity




## Net interest income and margin

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

In 2020-21, FCC's net interest income increased by 8.5% to $1,298 million primarily driven by portfolio growth, where total average earning assets increased by 10.4% to $42,609 million.

The interest rate spread increased 0.09% from 2.84% in 2019-20 to 2.93% in 2020-21. Unfavourable decreases to interest rates on average earning assets were more than fully offset by a favourable decrease in funding costs on the interest-bearing liabilities. Net interest margin on average earning assets decreased 0.05% to 3.05% compared to the prior year. This was a result of the decrease in the benefit from equity funding, partly offset by favourable interest spread.

## Net interest income and margin on average earning balances

| As at March 31 ($ millions) | 2019 | | | 2020 | | | 2021 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Average balance** | **Interest** | **Rate (%)** | **Average balance** | **Interest** | **Rate (%)** | **Average balance** | **Interest** | **Rate (%)** |
| Average earning assets | | | | | | | | | |
| Loans | 35,275 | 1,530 | 4.34 | 37,239 | 1,674 | 4.49 | 39,991 | 1,502 | 3.76 |
| Investments | 1,214 | 24 | 1.98 | 1,260 | 27 | 2.16 | 2,534 | 17 | 0.67 |
| Venture capital investments | 74 | 10 | 14.18 | 79 | 8 | 10.18 | 84 | 7 | 8.33 |
| Total average earning assets | 36,563 | 1,564 | 4.28 | 38,578 | 1,709 | 4.43 | 42,609 | 1,526 | 3.58 |
| Total interest-bearing liabilities | 30,346 | 412 | 1.36 | 32,229 | 512 | 1.59 | 35,285 | 228 | 0.65 |
| Total interest spread | | | 2.92 | | | 2.84 | | | 2.93 |
| Impact of equity | 6,217 | | 0.23 | 6,349 | | 0.26 | 7,324 | | 0.12 |
| **Total net interest income on average earning assets** | **36,563** | **1,152** | **3.15** | **38,578** | **1,197** | **3.10** | **42,609** | **1,298** | **3.05** |
| **Year-over-year change in net interest income due to:** | | | | | | | | | |
| Increases in volume | | 80 | | | 49 | | | 79 | |
| Changes in margin | | – | | | (4) | | | 22 | |
| **Total change to net interest income** | | **80** | | | **45** | | | **101** | |

## Non-interest income

FCC generated non-interest income mainly through insurance and investment in associates. Other non-interest income items are net foreign exchange gains and losses and other income and expenses inclusive of AgExpert.

We had income of $17.1 million in non-interest income in 2020-21, which was an increase of $30.0 million from the loss of $12.9 million in the prior year. The increase was primarily due to income from investment in associates.

| For the year ended March 31 ($ millions) | 2019 | 2020 | 2021 |
|---|---|---|---|
| Insurance distribution income | 22.1 | 17.8 | 20.3 |
| Net income (loss) from investment in associates | 17.4 | (31.1) | 1.9 |
| Net foreign exchange (loss) gain | 0.6 | 2.3 | (3.1) |
| Other expense | (0.7) | (1.9) | (2.0) |
| **Total non-interest income (loss)** | **39.4** | **(12.9)** | **17.1** |

**Insurance distribution income** increased from $17.8 million in 2019-20 to $20.3 million in 2020-21 primarily due to a decrease in incurred claims.

**Net income (loss) from investment in associates** increased from a net loss of $31.1 million in 2019-20 to net income of $1.9 million in 2020-21 primarily related to a fair value loss in venture capital equity investments in the prior year.

## Provision for credit losses

The provision for credit losses decreased by $68.9 million from 2019-20 to $18.7 million in 2020-21. This was primarily due to decreases in the expected loss associated with the challenges brought on by COVID-19, partly offset by increased provisions due to model enhancements related to FCC's definition of default.

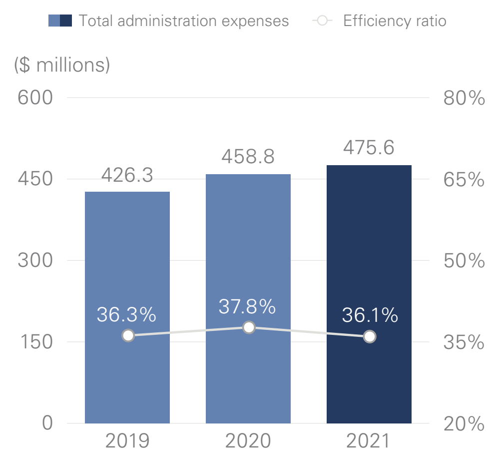
| For the year ended March 31 ($ millions) | 2019 | 2020 | 2021 |
|---|---|---|---|
| **Provision for credit losses** | | | |
| Impaired loans (Stage 3) | 56.3 | 43.5 | 11.2 |
| Performing loans (Stage 1 & 2) | 47.0 | 44.1 | 7.5 |
| **Total provision for credit losses** | **103.3** | **87.6** | **18.7** |

## Administration expenses

FCC's administration expenses represent the costs associated with business 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 decreased from 37.8% in 2019-20 to 36.1% in 2020-21 primarily due to the growth of net interest income outpacing the growth of administration expenses.

In 2020-21, our administration expenses increased from $458.8 million to $475.6 million. The increases were primarily reflected in salaries due to additional employees and professional fees and facilities, software and equipment due to more subscription and cloud-based technology. These increases were partly offset by a decrease in travel and training due to COVID-19 restrictions and benefits due to lower pension expenses because of changes in the discount rate assumption.

### Administration expenses



## Administration expenses by category

| For the year ended March 31 ($ millions) | 2019 | 2020 | 2021 |
|---|---|---|---|
| Salaries | 43.1% | 43.6% | 46.6% |
| Benefits | 16.8% | 16.5% | 13.8% |
| Professional fees | 11.9% | 11.7% | 13.5% |
| Facilities, software and equipment | 14.2% | 11.4% | 12.5% |
| Amortization and depreciation | 4.5% | 8.1% | 8.2% |
| Marketing and promotion | 2.8% | 2.6% | 2.7% |
| Travel and training | 3.6% | 3.3% | 0.9% |
| Other | 3.1% | 2.8% | 1.9% |
| **Total administration expenses** | **100%** | **100%** | **100%** |

## Fair value adjustment

FCC's fair value adjustment includes changes in the fair value of guarantees, derivative financial assets and liabilities, and equity investments. Fair value adjustment decreased by $4.0 million in 2020-21 to ($8.8) million primarily due to a decrease in the fair value of derivative financial assets and liabilities, which mainly related to fluctuations in interest rates.

## Non-GAAP measures

We believe that certain non-GAAP measures described below are more reflective of our ongoing performance and provide readers with a better understanding of management's perspective. These measures enhance the comparability of our financial performance over time. Non-GAAP measures do not have a standardized meaning under GAAP and may not be comparable to similar measures disclosed in the industry.

The following discussion describes the non-GAAP measures we use in evaluating our operating results.

Efficiency Ratio: our efficiency ratio is calculated by dividing administration expense by adjusted net interest income and non-interest income as outlined in the table below. These items are adjusted as they introduce volatility that is not reflective of our current and ongoing performance.

| For the year ended March 31 ($ millions) | 2019 | 2020 | 2021 |
|---|---|---|---|
| Net interest income and non-interest income | 1,087.7 | 1,096.2 | 1,296.9 |
| Provision for credit losses | 103.3 | 87.6 | 18.7 |
| Net income (loss) from investment in associates | 17.4 | (31.1) | 1.9 |
| Net foreign exchange (loss) gain | 0.6 | 2.3 | (3.1) |
| **Adjusted net interest income and non-interest income** | **1,173.0** | **1,212.6** | **1,316.8** |

# Financial condition

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

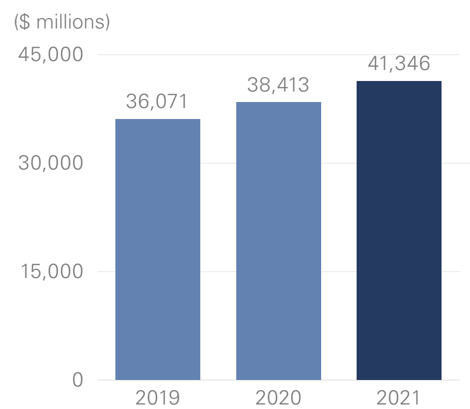
In 2020-21, we responded to support the industry by developing a comprehensive COVID-19 support program to ensure producers, agribusinesses and food producers can remain focused on business-critical functions. FCC's enhancement to our capital base allowed for additional lending, increasing portfolio growth and risk exposure to support the industry during this time of unprecedented market disruption and uncertainty.

## Loans receivable

**Total loans receivable**

In 2020-21, loans receivable increased by $2,933 million or 7.6% from 2019-20, growing to $41,346 million from $38,413 million. The increase was driven by higher loan disbursements partly offset by repayments. The increase in disbursements was due to a strong demand for credit and COVID-19-related support programs.

Loans receivable



### Loans receivable by sector distribution

FCC experienced loans receivable growth in all sectors except for Alliances. The largest loans receivable year-over-year growth was in agri-food and beef, which increased 44.9% to $1,611 million and 32.8% to $3,549 million, respectively.

| For the year ended March 31 ($ millions) | 2019 | 2020 | 2021 |
|---|---|---|---|
| **Loans receivable*** | | | |
| Primary production financing | | | |
| Oilseed and grain | 11,066 | 11,886 | 13,503 |
| Dairy | 6,427 | 6,471 | 6,678 |
| Beef | 2,361 | 2,673 | 3,549 |
| Poultry | 2,631 | 2,747 | 2,849 |
| Other | 2,025 | 2,165 | 2,777 |
| Greenhouse | 1,152 | 1,276 | 1,536 |
| Alliances | 1,316 | 1,557 | 1,460 |
| Hogs | 1,040 | 1,215 | 1,319 |
| Fruit | 1,106 | 1,093 | 1,219 |
| Part-time farming | 2,069 | 2,220 | – |
| Total primary production financing | 31,193 | 33,303 | 34,890 |
| Agribusiness | 3,643 | 4,026 | 4,891 |
| Agri-food | 1,259 | 1,112 | 1,611 |
| **Total loans receivable by sector distribution** | **36,095** | **38,441** | **41,392** |

* Excludes deferred loan fees

Primary production financing made up 84.3% of FCC's total loans receivable in 2020-21. Loans receivable for primary production increased $1,587 million or 4.8% from 2019-20, resulting in a portfolio of $34,890 million in 2020-21. Agribusiness financing loans receivable increased by 21.5% from 2019-20 to $4,891 million in 2020-21, an increase compared to prior year growth of 10.5%. Agri-food financing loans receivable increased by 44.9% from 2019-20 to $1,611 million in 2020-21, compared to a prior year decrease of 11.7%.

**Loans receivable by geographic distribution**

In 2020-21, FCC experienced loans receivable growth across Canada. Alberta had the largest growth, increasing by 9.8% to $7,785 million. Saskatchewan had the second largest growth, increasing by 8.8% to $7,752 million.

| For the year ended March 31 ($ millions) | 2019 | 2020 | 2021 |
|---|---|---|---|
| **Loans receivable*** | | | |
| Ontario | 10,617 | 11,144 | 11,912 |
| Alberta | 6,515 | 7,089 | 7,785 |
| Saskatchewan | 6,520 | 7,127 | 7,752 |
| Quebec | 4,777 | 5,259 | 5,680 |
| British Columbia | 3,599 | 3,540 | 3,710 |
| Manitoba | 2,800 | 3,004 | 3,256 |
| Atlantic | 1,267 | 1,278 | 1,297 |
| **Total loans receivable by geographic distribution** | **36,095** | **38,441** | **41,392** |

* Excludes deferred loan fees

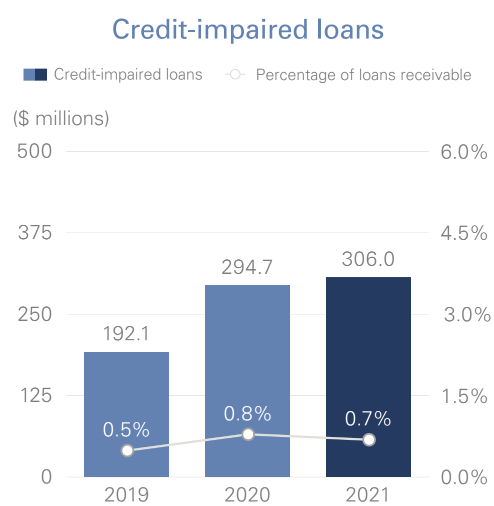
## Credit quality

We continually monitor our 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.

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

**Credit-impaired loans**

In 2020-21, credit-impaired loans increased by $11.3 million to $306.0 million. As a percentage of loans receivable, credit-impaired loans decreased to 0.7% in 2020-21 from 0.8% in the prior year primarily due to support programs FCC provided to customers during COVID-19.



Through our customer support programs, FCC proactively supports individual customers and sectors during financial difficulties. This was further demonstrated through our support of the unprecedented COVID-19 related market disruption and uncertainty. In March 2020, FCC began providing the option for customers to defer principal payments for up to 12 months or principal and interest payments up to six months. In 2020-21, FCC made payment schedule adjustments to 9,832 loans, 75 of which were part of sector-specific support programs and 8,823 of which were part of the COVID-19 support program. As a result of the significant COVID-19 support, payment schedule amendments as a percentage of total owing increased to 14.8% in 2020-21 compared to 9.0% in 2019-20.

At a sector level, credit-impaired loans fluctuated among different sectors in 2020-21. The beef sector experienced the largest year-over-year dollar increase of $31.5 million, which represents 1.7% of the sector. The oilseed and grain sector experienced the second-largest year-over-year dollar increase of $21.5 million, totalling 0.6%. While the beef and oilseed and grain sectors were due to increase in portfolio, it was not a result of widespread deterioration throughout the portfolio, as the percentage of customers with credit impaired loans stayed relatively flat compared to 2019-20.

Agri-food and agribusiness experienced a year-over-year decrease of $16.5 million and $1.7 million, totalling 1.3% and 1.0% respectively. The decrease is primarily due to payments made by customers throughout the year and writeoffs of previously impaired accounts.

| For the year ended March 31 ($ millions) | 2019 | 2020 | 2021 |
|---|---|---|---|
| **Credit-impaired loans** | | | |
| Primary production financing | | | |
| Oilseed and grain | 21.1 | 58.1 | 79.6 |
| Dairy | 4.6 | 19.2 | 15.7 |
| Beef | 15.0 | 30.6 | 62.1 |
| Poultry | – | 0.5 | 7.1 |
| Other | 23.3 | 31.1 | 25.8 |
| Greenhouse | 4.6 | 6.2 | 2.1 |
| Alliances | 20.5 | 26.0 | 26.7 |
| Hogs | 3.1 | 0.7 | 3.2 |
| Fruit | 25.7 | 12.8 | 13.9 |
| Part-time farming | 18.9 | 21.5 | – |
| Total primary production financing | 136.8 | 206.7 | 236.2 |
| Agribusiness | 44.5 | 50.7 | 49.0 |
| Agri-food | 10.8 | 37.3 | 20.8 |
| **Total credit-impaired loans by sector distribution** | **192.1** | **294.7** | **306.0** |

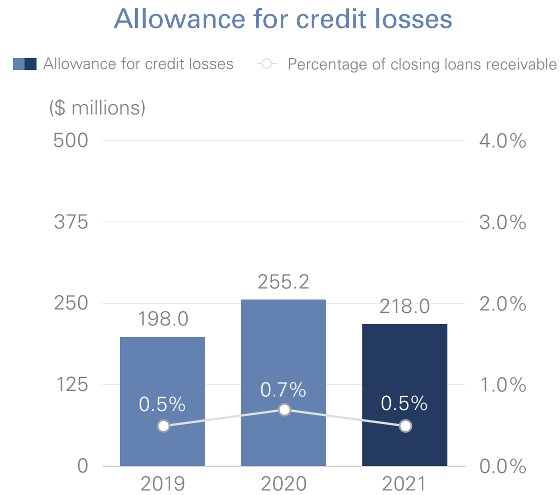
### Writeoffs

In 2020-21, the amount of writeoffs increased by $5.6 million from $32.3 million in 2019-20 to $37.9 million. Writeoffs as a percentage of loans receivable were 0.09%, higher than 0.08% in the prior year.

**Allowance for credit losses**

The Canadian agriculture and agri-food industry continued to face challenges and uncertainty over the past fiscal year, mainly driven by the ongoing global COVID-19 pandemic. Consumption changes, trade issues, labour shortages and economic shutdowns disrupted cash flow cycles for many industries.

The Government of Canada, along with FCC and other financial institutions, offered support programs to provide working capital relief and so far, they appear to be having a positive effect, as FCC has not observed any significant deterioration in the overall health of the portfolio to date. While vaccines are creating some optimism for economic recovery, the timing and extent is dependent on the removal of restrictions and the re-opening of global economies.




Judgment was used by management to estimate the impact of higher default risk on specific sectors resulting from the continued uncertainty caused by COVID-19. The magnitude of the potential default risk has decreased since the start of the fiscal year as several sectors displayed resiliency in working through the many challenges and found ways to maintain operations without significant disruption.

In 2020-21, the allowance for credit losses decreased by $37.2 million to $218.0 million. This was primarily due to decreases in the expected loss associated with the challenges brought on by COVID-19, and writeoffs of impaired accounts. These decreases were partly offset by increases to the allowance related to FCC's definition of default, as well as the overall increase in portfolio size.

## Specialized financial products

FCC offers financing for equipment leases and venture capital investments.

### Leases

Leases include finance leases and equipment under operating lease and increased to $189.9 million in 2020-21 compared to $180.0 million in 2019-20. All new lease arrangements are recorded as finance leases which addresses the downward trend in equipment under operating lease. Overall, growth in lease volumes slowed in 2020-21 due to the operating environment and its impact on the demand and availability of equipment.

| For the year ended March 31 ($ millions) | 2019 | 2020 | 2021 |
|---|---|---|---|
| Finance leases receivable – net | 20.1 | 99.8 | 141.1 |
| Equipment under operating lease | 121.5 | 80.2 | 48.8 |
| **Leases receivable – net** | **141.6** | **180.0** | **189.9** |

### Venture capital investments

Venture capital investments include our investment in limited partnership venture funds. Financial results for venture funds for which we own a controlling interest are consolidated with the financial results of FCC. Other loans receivable, net of allowance for credit losses, and equity investments relate to our consolidated fund investments. Unconsolidated fund investments are reported as investment in associates. The venture capital portfolio increased by $23.0 million to $145.5 million in 2020-21 compared to $122.5 million in 2019-20 primarily due to increased new investment, offset by writeoffs, repayments, and other fair value allowance adjustments.

| For the year ended March 31 ($ millions) | 2019 | 2020 | 2021 |
|---|---|---|---|
| Other loans receivable – net | 70.2 | 80.3 | 59.3 |
| Equity investments | 0.4 | 2.7 | 28.4 |
| Investment in associates | 69.9 | 39.5 | 57.8 |
| **Total venture capital investments** | **140.5** | **122.5** | **145.5** |

## Funding and liquidity

### Funding activity

On April 21, 2008, FCC began borrowing directly from the federal government under the Crown Borrowing Program. At March 31, 2021, we continue to carry $288.5 million of capital market debt raised before April 21, 2008, which will mature in 2021-22.

During 2020-21, we raised funds through the following programs:

- Domestic Commercial Paper Program used for short-term U.S. dollar funds
- Crown Borrowing Program used for short and long-term funds

#### *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 Treasury bill rates. The outstanding short-term borrowings at March 31, 2021, were $12,550 million, compared to $9,952 million at March 31, 2020. Of the total short-term borrowings outstanding, $11,698 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 Treasury bill rates. The outstanding long-term borrowings at March 31, 2021, were $22,705 million, compared to $23,607 million at March 31, 2020. In 2020-21, 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 2020-21. FCC's debt ratings as of March 31, 2021, were:

| | 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 we also maintain 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. As a precautionary measure in response to COVID-19, our investment portfolio was temporarily increased during the year to ensure FCC had adequate liquidity. At March 31, 2021, the investment portfolio reflected normal liquidity requirements.

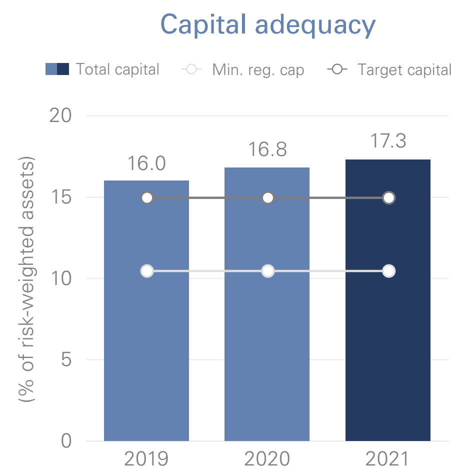
## Capital management

FCC manages capital in compliance with our Board-approved Capital Management Policy. The Capital Management Policy and supporting framework outline FCC's approach to assessing capital requirements for risks identified through the enterprise risk management framework. Our 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 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. We use the ICAAP to determine an appropriate target capital ratio, which is currently assessed at 15.0%. This was our target capital ratio in 2020-21.

## Capital adequacy

FCC is currently projected to remain capitalized within our target capital ratio as growth in capital outpaces growth in capital requirements from normal business operations. As a precautionary measure in response to COVID-19, no dividend was paid in 2020-21. In 2019-20, a $500-million capital contribution was provided by the Government of Canada to fulfil the commitments made to support the agriculture and agri-food industry in Canada through the global pandemic. The capital contribution limit for FCC is $2,500 million of which $2,000 million remains. At March 31, 2021, FCC was 2.3% above our target capital ratio.




## Total capital ratio continuity

The 0.5% increase in the total capital ratio from March 31, 2020, to March 31, 2021, was the net result of capital generation and the suspension of the dividend payment offset by an increase in RWA. The increased RWA results primarily from portfolio growth while internal capital generation is primarily driven by net income and the resulting increase to retained earnings. FCC's dividend statement within the Capital Management 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 which allows delays in distribution of surplus capital over the Corporate Plan planning horizon. Return to regular dividend payments will be contingent on a sustained recovery from the global pandemic and guided by stakeholder discussion.

**Total capital ratio continuity**

| | |
|---|---|
| **2020 capital ratio** | **16.8%** |
| Capital generation | 1.9% |
| RWA growth | (1.4%) |
| Dividends paid | – |
| **2021 capital ratio** | **17.3%** |

## Debt to equity

FCC uses debt to equity, the corporation's only legislated limit, as an additional measure to assess capital adequacy. At the end of 2020-21, FCC's debt-to-equity ratio remains below the legislated limit of 12:1.

From 2019-20 to 2020-21, our debt-to-equity ratio decreased to 4.5:1 due in part to the relationship between portfolio and equity growth as well as the withheld dividend as part of the capital response to mitigate the impacts of COVID-19.

# Outlook for 2021-22

| ($ in millions, except as noted) | 2021 Actual | 2022 Plan |
|---|---|---|
| **Portfolio growth** | | |
| Loans receivable and leasing | 41,537 | 42,204 |
| Loans receivable and leasing growth rate (%) | 7.6 | 3.7 |
| **Profitability** | | |
| Net interest income | 1,298.4 | 1,304.0 |
| Net interest margin (%) | 3.05 | 3.02 |
| **Credit quality** | | |
| Impaired loans | 306.0 | 325.0 |
| Provision for credit losses | 18.7 | 43.0 |
| Allowance for credit losses | 218.0 | 298.0 |
| **Efficiency** | | |
| Administration expenses | 475.6 | 509.0 |
| Efficiency ratio (%) | 36.1 | 38.5 |
| **Capital management** | | |
| Total capital ratio | 17.3 | 18.4 |
| Debt-to-equity | 4.5 | 4.1 |
| **Shareholder return** | | |
| Net income | 812.5 | 769.0 |
| Return on equity (%) | 10.7 | 9.3 |

### Portfolio growth

Loans receivable and leasing is projected to grow by 3.7% in 2021-22. The increase in loans receivable and leasing reflects projected continued growth in farm debt outstanding and represents lending through financing in the primary production, agribusiness and agri-food financing and Alliances business lines.

### Profitability

Net interest income is expected to increase by $5.6 million to $1,304.0 million in 2021-22. This is due to growth in loans receivable and leasing, offset by a decrease in the net interest margin from 3.05% to 3.02%.

### Credit quality

All aspects of credit quality are projected to increase in 2021-22. This is mainly due to an overall growth in the portfolio. The 2021-22 plan assumed the risk metrics would end higher than they did in 2020-21. However, the overall industry has displayed resilience in working through the many challenges and found ways to maintain operations without significant disruption throughout COVID-19.

### Efficiency

In 2021-22, administration expenses are projected to be $33.4 million higher than current year mainly due to salaries and benefits, professional fees and facilities, software and equipment. Due to the higher growth in administration expenses compared to income growth, the efficiency ratio is anticipated to increase to 38.5% in 2021-22.

**Capital management**

The total capital ratio in 2021-22 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 debt-to-equity ratio is forecasted to decrease to 4.1:1, which is well below the maximum 12:1 debt-to-equity ratio set under the Farm Credit Canada Act. Dividend payments to the Government of Canada have temporarily paused and are not projected to return until 2022-23.

**Shareholder return**

In 2021-22, net income is projected to decrease $43.5 million to $769.0 million. The projected decrease is due to higher administration expenses and higher provision for credit losses, partly offset by higher net interest income. Return on equity in 2021-22 is projected to decrease to 9.3% as the growth in equity outpaces the growth in annual net income.

# Enterprise risk management

FCC has governance, systems and processes in place to maintain enterprise risk management practices that reflect our mandate and are appropriately consistent with expectations in the financial services sector.

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

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

## Risk governance

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

### FCC Board of Directors

The 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 independent from operational management. The committee also oversees organizational compliance with FCC's risk management policies and monitors the corporation's most significant risks, including management's assessment of capital adequacy.

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 sustainability 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 is accountable to implement the enterprise risk management framework 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.

The **Enterprise Risk Management Committee** oversees the management of enterprise risks and promotes a robust risk management culture and continuous evolution of risk management practices. The committee works with the Chief Risk Officer to advise the Board on 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 **Operational Risk Management Committee** champions operational risk management at FCC. The committee oversees operational risks of the organization, challenges effectiveness of controls and manages operational risk treatment plans, escalating unaddressed risks to the Enterprise Risk Management Committee as required.

The **Model Governance Committee** provides oversight of FCC's predictive and decision-making models, with accountability to approve 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 committee oversees the Credit Committee process, through which large credit facilities and requests for pre-authorized credit are approved. It ensures activities are within FCC's risk tolerances and in accordance with credit policies.

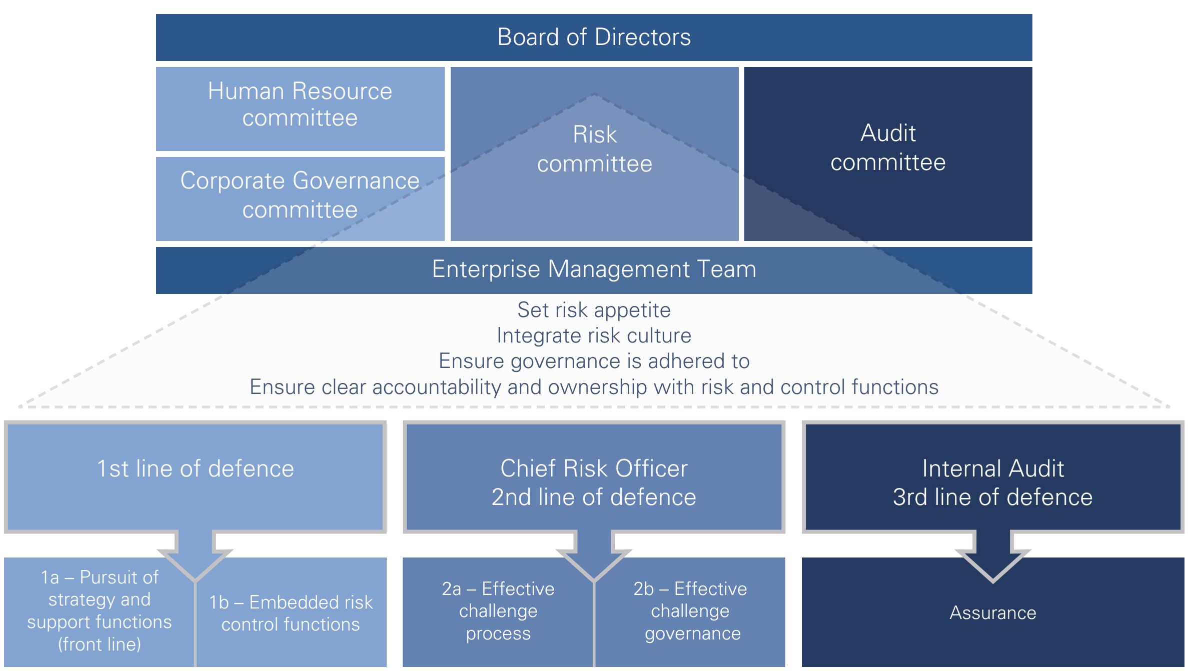
The **Venture Capital Committee** approves commitments of capital to third-party fund managers for venture capital investments. The committee oversees fund manager expertise and performance and monitors the diversification and performance of the venture capital portfolio.

The **Information Governance Committee** makes recommendations on controls, response plans, and various aspects of information to ensure confidentiality, integrity and availability of FCC's business-critical information consistent with the risk appetite of the organization.

## 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 and 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, and 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 Management 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.

## 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 tolerances 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

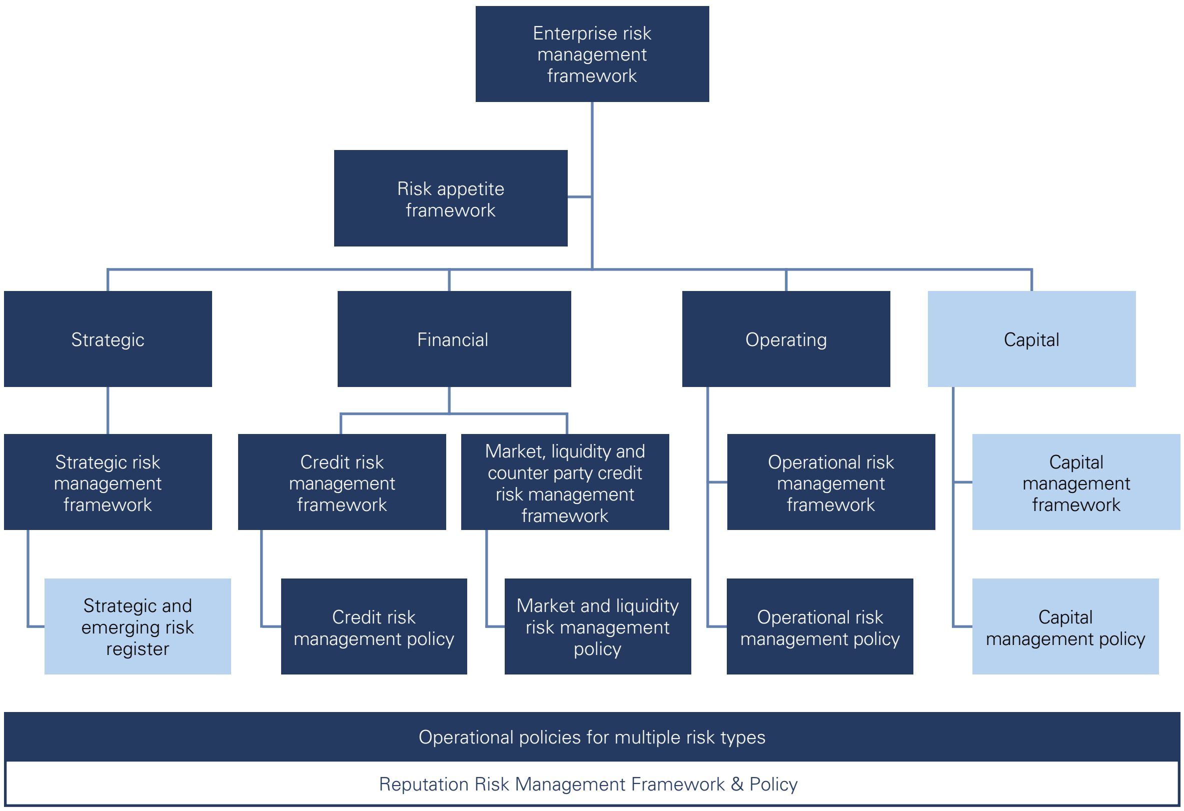
Industry trust and marketplace reputation are essential to sustained business success and effective mandate execution. To proactively manage FCC's culture and risk mindsets, the fundamental drivers of employee behaviour have been defined and grouped into four key areas: risk competence and skill, organizational 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 and agri-food 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 and policy:** This framework provides the governance structure for managing risk, the process to identify, assess and measure, 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 and policy:** This framework sets the tone for risks the organization is willing to take and accept, as well as the risks we wish 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.

**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.

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

**Measurement and 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. The reporting process is supported through Governance, Risk and Control software.

### 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 and agri-food industry, is monitored to determine if strategic changes are required to address emerging risks.

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.

**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. Enterprise Management Team members are accountable for developing risk mitigation plans and reporting progress to the Board on a quarterly basis.

The prioritization is an input to the stress-testing program. Management develops severe but plausible scenarios to test our ability to stay within our risk appetite during a stress event. Potential risks are assessed to determine the level of risk treatment required.

Risk 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.

### 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, venture fund holdings 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 help ensure the accuracy of security value estimates.

FCC uses policies, processes, systems and strategies to manage the credit risk of the lending portfolio. Portfolio concentrations and correlations due to FCC's legislated focus on the agriculture and agri-food industry can intensify credit risk. FCC manages this risk through portfolio diversification strategies, limits, credit insurance and robust capital management. Venture capital and subordinated debt are provided through independent venture capital partners who manage a series of investment funds in which FCC and others invest. 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 negatively 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 primarily 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.

At FCC, business units are responsible for ensuring 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. Managers are expected to self-assess and attest to the effectiveness of controls on a quarterly basis. Risk Management provides effective challenge to self-assessments based on reported issues and information from Internal Audit. Where necessary, Risk Management issues recommendations to optimize controls.

Operational risk management policies are established to communicate requirements specific to control risk within business operations and processes. FCC continues to develop and implement comprehensive risk management policies and practices to mitigate key operational risk areas of financial crime, model management, information, technology and systems. Management committees are in place to oversee these key risk categories.

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 our 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.

Crisis management is a key component to managing and mitigating both enterprise and reputation risk. FCC uses a crisis management program to respond to crisis events. Guiding principles inform consistent prioritization of crisis response activities and are applied as part of decision-making. The crisis response program is regularly reviewed, tested and enhanced based on assessment and experience.

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 her report thereon.

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

**Ross Topp, CPA, CA**
Executive Vice-President and
Chief Financial Officer

Regina, Canada
June 2, 2021

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 2021, 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 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with 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 audit 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 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.

HMcManaman

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

Ottawa, Canada
2 June 2021

# Consolidated Balance Sheet

| As at March 31 (thousands of Canadian dollars) | 2021 | 2020 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | **$ 1,251,093** | $ 1,724,503 |
| Short-term investments (Note 3) | **732,702** | 756,369 |
| Accounts receivable and prepaid expenses | **38,176** | 39,378 |
| Derivative financial assets (Note 4) | **4,781** | 12,469 |
| | **2,026,752** | 2,532,719 |
| Loans receivable – net (Notes 5 and 8) | **41,128,445** | 38,158,149 |
| Finance leases receivable – net (Notes 6 and 8) | **141,053** | 99,744 |
| Other loans receivable – net[1] (Notes 7 and 8) | **59,313** | 80,286 |
| Equity investments[1] | **28,398** | 2,718 |
| Investment in associates | **57,839** | 39,499 |
| Post-employment benefit assets (Note 9) | **143,886** | 178,398 |
| | **41,558,934** | 38,558,794 |
| Equipment and leasehold improvements (Note 10) | **26,501** | 26,847 |
| Computer software (Note 11) | **19,990** | 31,536 |
| Equipment under operating leases (Note 12) | **48,848** | 80,227 |
| Right-of-use assets (Note 13) | **172,974** | 180,120 |
| Other assets (Note 14) | **6,165** | 13,972 |
| | **274,478** | 332,702 |
| **Total assets** | **$ 43,860,164** | $ 41,424,215 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | **$ 76,122** | $ 78,392 |
| Derivative financial liabilities (Note 4) | **322** | 535 |
| | **76,444** | 78,927 |
| Borrowings (Note 15) | | |
| Short-term debt | **12,550,153** | 9,952,320 |
| Long-term debt | **22,704,662** | 23,607,441 |
| | **35,254,815** | 33,559,761 |
| Transition loan liabilities | **191,563** | 195,223 |
| Post-employment benefit liabilities (Note 9) | **142,266** | 148,694 |
| Lease liabilities (Note 16) | **174,492** | 180,353 |
| Other liabilities (Note 17) | **7,352** | 7,981 |
| | **515,673** | 532,251 |
| **Total liabilities** | **35,846,932** | 34,170,939 |
| **Equity** | | |
| Contributed capital (Notes 24 and 25) | **500,000** | 500,000 |
| Retained earnings | **7,511,133** | 6,731,232 |
| Accumulated other comprehensive income | **1,489** | 21,237 |
| **Equity attributable to shareholder of parent entity** | **8,012,622** | 7,252,469 |
| Non-controlling interest | **610** | 807 |
| | **8,013,232** | 7,253,276 |
| **Total liabilities and equity** | **$ 43,860,164** | $ 41,424,215 |

[1] Comparative figures have been reclassified. See Note 27.

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 2, 2021, 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) | 2021 | 2020 |
|---|---|---|
| Interest income | $ 1,576,005 | $ 1,764,364 |
| Interest expense | 277,576 | 567,696 |
| **Net interest income (Note 18)** | 1,298,429 | 1,196,668 |
| Provision for credit losses | (18,643) | (87,576) |
| **Net interest income after provision for credit losses** | 1,279,786 | 1,109,092 |
| Insurance distribution income | 20,339 | 17,806 |
| Net income (loss) from investment in associates | 1,910 | (31,078) |
| Net foreign exchange (loss) gain (Note 26) | (3,149) | 2,306 |
| Other expenses | (2,019) | (1,938) |
| **Net interest income and non-interest income** | 1,296,867 | 1,096,188 |
| **Administration expenses (Note 19)** | | |
| Salaries and benefits | 287,115 | 275,723 |
| Other | 188,438 | 183,109 |
| **Total administration expenses** | 475,553 | 458,832 |
| **Net income before fair value adjustment** | 821,314 | 637,356 |
| Fair value adjustment (Note 20) | (8,782) | (4,757) |
| **Net income** | $ 812,532 | $ 632,599 |
| **Net income attributable to:** | | |
| Shareholder of parent entity | $ 812,716 | $ 632,600 |
| Non-controlling interest | (184) | (1) |

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) | 2021 | 2020 |
|---|---|---|
| **Net income** | $ 812,532 | $ 632,599 |
| **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 4) | (19,748) | (21,780) |
| | (19,748) | (21,780) |
| **Item that will never be reclassified to net income** | | |
| Remeasurement of post-employment benefit assets and liabilities (Note 9) | (32,815) | 107,575 |
| **Total other comprehensive (loss) income** | (52,563) | 85,795 |
| **Total comprehensive income** | $ 759,969 | $ 718,394 |
| **Total comprehensive income attributable to:** | | |
| Shareholder of parent entity | $ 760,153 | $ 718,395 |
| Non-controlling interest | (184) | (1) |

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, 2020 | Net income | Other comprehensive income | Dividend paid | Contributions received | Distributions to non–controlling interest | Balance March 31, 2021 |
|---|---|---|---|---|---|---|---|
| **Contributed capital** | **$ 500,000** | **$ –** | **$ –** | **$ –** | **$ –** | **$ –** | **$ 500,000** |
| **Retained earnings** | **6,731,232** | **812,716** | **(32,815)** | **–** | **–** | **–** | **7,511,133** |
| Net gains (transfer of net gains) on derivatives previously designated as cash flow hedges | **21,237** | **–** | **(19,748)** | **–** | **–** | **–** | **1,489** |
| **Total accumulated other comprehensive income** | **21,237** | **–** | **(19,748)** | **–** | **–** | **–** | **1,489** |
| **Total equity attributable to parent** | **7,252,469** | **812,716** | **(52,563)** | **–** | **–** | **–** | **8,012,622** |
| Non-controlling interest | **807** | **(184)** | **–** | **–** | **–** | **(13)** | **610** |
| **Total** | **$ 7,253,276** | **$ 812,532** | **$ (52,563)** | **$ –** | **$ –** | **$ (13)** | **$ 8,013,232** |

| (thousands of Canadian dollars) | Balance March 31, 2019 | Net income | Other comprehensive income | Dividend paid | Contributions received | Contributions from non–controlling interest | Balance March 31, 2020 |
|---|---|---|---|---|---|---|---|
| Contributed capital | $ 183,725 | $ – | $ – | $ (183,725) | $ 500,000 | $ – | $ 500,000 |
| Retained earnings | 6,202,132 | 632,600 | 107,575 | (211,075) | – | – | 6,731,232 |
| Net gains (transfer of net gains) on derivatives previously designated as cash flow hedges | 43,017 | – | (21,780) | – | – | – | 21,237 |
| Total accumulated other comprehensive income | 43,017 | – | (21,780) | – | – | – | 21,237 |
| Total equity attributable to parent | 6,428,874 | 632,600 | 85,795 | (394,800) | 500,000 | – | 7,252,469 |
| Non-controlling interest | 677 | (1) | – | – | – | 131 | 807 |
| Total | $ 6,429,551 | $ 632,599 | $ 85,795 | $ (394,800) | $ 500,000 | $ 131 | $ 7,253,276 |

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) | 2021 | 2020 |
|---|---|---|
| **Operating activities** | | |
| Net income | **$ 812,532** | $ 632,599 |
| **Adjustments to determine net cash (used in) provided by operating activities:** | | |
| Net interest income | **(1,298,429)** | (1,196,668) |
| Provision for credit losses | **18,643** | 87,576 |
| Fair value adjustment | **8,782** | 4,757 |
| Net (income) loss from investment in associates | **(1,910)** | 31,078 |
| Amortization and depreciation | **38,952** | 37,133 |
| Net unrealized foreign exchange losses (gains) | **63,667** | (21,488) |
| Net cash outflow from loans receivable | **(3,049,367)** | (2,296,276) |
| Net cash outflow from finance leases receivable | **(36,384)** | (76,872) |
| Net change in other operating assets and liabilities | **(1,288)** | 42,020 |
| Interest received | **1,571,032** | 1,700,944 |
| Interest paid | **(287,598)** | (540,880) |
| **Cash used in operating activities** | **(2,161,368)** | (1,596,077) |
| **Investing activities** | | |
| Net cash inflow (outflow) from short-term investments | **22,249** | (320,868) |
| Net cash outflow from other loans receivable | **(915)** | (17,113) |
| Acquisition of equity investments | **(25,680)** | – |
| Disbursements paid to investment in associates[1] | **(24,620)** | (12,813) |
| Repayments from investment in associates[1] | **8,189** | 12,146 |
| Purchase of equipment and leasehold improvements | **(8,115)** | (9,451) |
| Purchase of computer software | **(3,132)** | (11,945) |
| Proceeds on disposal of equipment under operating leases | **14,390** | 18,625 |
| **Cash used in investing activities** | **(17,634)** | (341,419) |
| **Financing activities** | | |
| Long-term debt issued | **9,282,000** | 9,770,000 |
| Long-term debt repaid | **(7,081,365)** | (6,598,796) |
| Short-term debt issued | **11,891,716** | 9,783,591 |
| Short-term debt repaid | **(12,370,841)** | (10,154,089) |
| Principal repayment of lease liabilities | **(14,563)** | (15,101) |
| Dividend paid | **–** | (394,800) |
| Capital contributions received | **–** | 500,000 |
| **Cash provided by financing activities** | **1,706,947** | 2,890,805 |
| **Change in cash and cash equivalents** | **(472,055)** | 953,309 |
| Cash and cash equivalents, beginning of year | **1,724,503** | 770,517 |
| Effects of exchange rate changes on the balances of cash held and due in foreign currencies | **(1,355)** | 677 |
| **Cash and cash equivalents, end of year** | **$ 1,251,093** | $ 1,724,503 |
| **Cash and cash equivalents consists of:** | | |
| Cash | **$ 1,196,194** | $ 878,570 |
| Cash equivalents | **54,899** | 845,933 |

[1] Comparative figures have been reclassified. See Note 27.

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. FCC 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 replacing the Farm Credit Act and the Farm Syndicates Credit Act, which were repealed. The revised Act expanded FCC's mandate, providing broader lending and administrative powers.

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

The Farm Credit Canada Act was amended effective March 25, 2020, to allow the Minister of Finance to determine the capital payment limit. As at March 25, 2020, the Minister increased the capital payment limit to $2,500 million.

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 2021, 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 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 (financial statements) have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

The 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.

### Basis of consolidation

The financial statements include the accounts of FCC, Avrio Subordinated Debt Fund II, Avrio Subordinated Debt Fund III and Forage Capital – Ag & Food Business Solutions Fund Limited Partnership (collectively the consolidated funds). The consolidated funds are venture capital limited partnerships operating in Calgary, Alberta, and for which FCC is a limited partner holding majority partnership interests. FCC consolidates the consolidated 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 consolidated 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 consolidated 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.

### 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.

### 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.

### Accounts receivable

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

### 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.

*2. Significant accounting policies (continued)*

Derivatives are classified as fair value through profit and loss (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.

### 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 other comprehensive income (OCI) are being transferred to net interest income over the remaining term of the original hedge. All fair value gains and losses on the interest rate swaps subsequent to discontinuation are recognized immediately in the fair value adjustment.

### Loans receivable

Loans receivable are classified as 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.

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, as described under the Allowance for Credit Losses heading, 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.

### Finance leases receivable

When FCC is the lessor in a lease arrangement that transfers substantially all 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.

### Venture capital arrangements

Venture capital arrangements include other loans receivable and equity investments held by the consolidated funds. FCC has classified other loans receivable as amortized cost financial assets as they are managed on a hold to collect basis in accordance with their business model. These venture capital arrangements are stated net of an allowance for credit losses. Equity investments that do not meet the solely payments of principal and interest (SPPI) test are classified as FVTPL. These venture capital arrangements 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 on the Consolidated Statement of Income.

Loan interest on other loans receivable and fee income are recorded on an accrual basis and recognized in interest income.

*2. Significant accounting policies (continued)*

Other loans receivable differ from FCC's standard loans as they have lower priority in the event of bankruptcy and therefore take on greater risk, they are not as well secured if at all, and they are undertaken with separate adjudication policies and processes.

## Investment in associates

FCC holds investments in venture capital limited partnerships (the equity funds) 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.

## Allowance for credit losses

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 reporting 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 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 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, there is no longer reasonable assurance of timely collection of the full amount of principal and interest, and 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 is an estimate of the amount that may not be recovered in the event of default
- the exposure at default is an estimate of the amount outstanding at a future default date

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

**Significant increase in credit risk**

At each reporting 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 classified as investment grade at the reporting date in accordance with FCC's internal risk rating system, which considers investment grade as a low risk of default and all contractual cash flows being met
- 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 one or more events have occurred after initial recognition such that FCC no longer has reasonable assurance of timely collection of the full amount of principal and interest. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. A default occurs when the repayment of principal or payment of interest is contractually 90 days past due, or an amendment has been granted due to the financial difficulty of the borrower that results in a diminished financial obligation, unless the outstanding amount is immaterial, or the financial asset is sufficiently secured. An asset that is in Stage 3 will move back to Stage 2 when, as at the reporting date, it is no longer considered to be credit-impaired. The asset will transfer back to Stage 1 when its credit risk at the reporting date is no longer considered to have increased significantly from initial recognition, which could occur during the same reporting period as the transfer from Stage 3 to Stage 2. 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 the financial asset's effective interest rate. For loans receivable, the effective interest rate is either the loan'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. The estimation of future cash flows for finance leases is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16.

*2. Significant accounting policies (continued)*

**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.

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.

## 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 a SICR for stage assignment of credit losses and a modification gain or loss is recognized. A modification loss is recognized against interest income and net loans receivable when the net present value of the modified future cash flows, discounted at the original effective interest rate, is less than the original cash flows. Interest income continues to be recognized based on the original effective interest rate. Where the modification results in derecognition, the modified financial asset is considered a new financial asset.

## 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.

FCC's registered pension plan has two components: a defined contribution pension component and closed defined benefit pension component (closed to any employees hired after January 1, 2009). 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 and is protected against inflation. The defined contribution pension plan is an accumulated savings plan and all new employees since January 1, 2009, are automatically enrolled in the defined contribution pension component. FCC also provides a supplemental defined benefit and supplemental defined contribution pension plan 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 obligation for pension and other defined benefit plans is 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 net defined benefit asset or liability for accounting purposes as at March 31 of each year.

*2. Significant accounting policies (continued)*

The net defined benefit asset or liability represents the present value of the defined benefit obligation reduced by the fair value of plan assets. The net 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 asset or liability
- remeasurements of the net defined benefit asset or liability

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

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

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

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.

*2. Significant accounting policies (continued)*

### 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. For internally developed software, expenditures on research (or on the research phase of a project) are recognized as an expense when incurred.

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.

### Right-of-use assets

FCC assesses whether a contract is or contains a lease at the inception of a contract. At the inception or reassessment of a contract that contains a lease component, FCC allocates consideration to lease components based on their relative stand-alone prices. If observable stand-alone prices are not available, FCC has elected not to separate non-lease components and account for lease and non-lease components as a single lease component for leases of buildings for which it is a lessee.

At the lease commencement date, FCC recognizes a right-of-use (ROU) asset except for short-term leases of 12 months or less and leases of low value that are expensed on a straight-line basis over the lease term.

The ROU assets are initially measured at cost and are composed of the initial measurement of the lease liability adjusted for any lease payments made on or before the commencement date, less any incentives received from the lessor. They are subsequently measured at cost less accumulated depreciation, impairment losses and adjusted for any remeasurements of the lease liability as noted below. The lease term consists of the non-cancellable lease term, renewal options that are reasonably expected to be exercised and termination options that are not reasonably expected to be exercised.

The ROU assets are depreciated to the earlier of the lease term or the ROU asset’s useful life. Depreciation starts at the commencement date of the lease and is recognized on a straight-line basis.

ROU assets are presented as a separate line item on the Consolidated Balance Sheet.

*2. Significant accounting policies (continued)*

### Insurance

FCC sells group creditor life and accident insurance to its customers through a program administered by a major insurance provider and FCC's risk of the insurance program is limited. The insurance premiums are actuarially determined and are accrued when receivable and recorded in accounts receivable. Insurance distribution income includes these premiums received or receivable and is net of insurance claims incurred throughout the year as well as net of statutory reserves maintained by the insurance provider. Expenses related to administering the insurance program are also recorded in insurance distribution 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 insurance distribution income.

### Accounts payable and accrued liabilities

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

### Borrowings

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

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

Borrowings are accounted for using trade date accounting and are 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.

### Transition loan liabilities

In accordance with FCC's transition loan product, FCC enters into distinct contracts with each borrower of the loan and the vendor. The first contract gives rise to a loan receivable, which is recorded consistent with FCC's Loans Receivable policy. FCC also records a transition loan liability that represents amounts owing to third parties, as FCC is required to pay amounts in accordance with a disbursement schedule that may be different than the loan receivable payment schedule. As payments are made with respect to the transition loan disbursement schedule, the applicable amount of the transition loan liability is reduced. The transition loan liabilities are measured at amortized cost using the effective interest method.

### Lease liabilities

At the lease commencement date, FCC recognizes a lease liability except for short-term leases of 12 months or less and leases of low value that are expensed on a straight-line basis over the lease term.

Lease liabilities are initially measured at the present value of lease payments not paid at the commencement date, discounted using the rate implicit in the lease or FCC's weighted-average incremental borrowing rate if the rate implicit in the lease cannot be readily determined.

Lease payments included in the measurement of the lease liability:

- fixed lease payments, less any lease incentives
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date

*2. Significant accounting policies (continued)*

Lease liabilities are subsequently measured at amortized cost by increasing the carrying amount to reflect interest on the lease liability using the effective interest rate method and by reducing the carrying amount to reflect lease payments made.

FCC remeasures the lease liability, with a corresponding adjustment to the related ROU asset, when there is a change in future lease payments arising from:

- a change in a lease term, in which case the revised lease payments are discounted using a revised discount rate
- a change to an index or rate used to determine lease payments, in which case the revised lease payments are discounted using the initial discount rate
- a change to the scope or consideration of a lease where the lease is not accounted for as a separate lease, in which case revised lease payments are discounted using a revised discount rate

If the remeasurement of the lease liability results in the carrying amount of the ROU asset being reduced to zero, a lessee will recognize any remaining amount of the remeasurement in profit or loss.

Lease liabilities are presented as a separate line item on the Consolidated Balance Sheet.

### 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 recognized in 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.

### Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at rates prevailing at the reporting date. Income and expenses are translated at the monthly average exchange rates prevailing throughout the year. Exchange gains and losses on loans and receivables and borrowings are recorded on a net basis on the Consolidated Statement of Income.

### Segmented information

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

*2. Significant accounting policies (continued)*

## Significant management judgments in applying accounting policies

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

### Finance leases receivable

In applying the classification of 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.

### Leases

In determining the lease term under IFRS 16 – Leases, management uses judgment to determine whether a lessee is reasonably certain to exercise optional extension periods by considering facts and circumstances, including past practice.

## Estimation uncertainty

The preparation of the financial statements in accordance with IFRS requires that management makes judgments, estimates and assumptions concerning the future that affect the reported amounts in the 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, especially given the added uncertainties resulting from the COVID-19 pandemic declared by the World Health Organization in March 2020. 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.

### 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.

Significant judgment was used by management to assess the impact of the COVID-19 pandemic on the values of the key economic inputs used in the macroeconomic scenario analysis and the probability weights of these scenarios, as well as the assumptions used to determine how specific sectors are impacted. In addition, significant management judgment was used to assess the impact of the customer support programs offered to FCC's borrowers, including those provided by industry, as well as determining whether these arrangements constitute forbearance, result in a substantial modification of the contract, affect the staging of the allowance and have an impact on the overall allowance. For more details about the key assumptions used, refer to Note 26.

### Post-employment benefit assets and liabilities

The estimate of the net defined benefit asset or liability 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 obligation. Any changes in these assumptions will affect the carrying value of the net defined benefit asset or liability.

*2. Significant accounting policies (continued)*

**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.
- The estimated fair value of venture capital arrangements 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 by the International Accounting Standards Board (IASB) 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 this standard on FCC's financial statements and accounting policies.

In May 2017, the IASB issued IFRS 17 – Insurance Contracts, which provides a single principle-based standard to account for all types of insurance contracts. FCC previously reported that the impacts of this standard were unknown. FCC has completed the assessment of this standard and has determined that it has no impact.

| Standard | Details | Date of initial application |
|---|---|---|
| Interest Rate Benchmark Reform – Phase 2 | In August 2020, the IASB issued amendments to IFRS 9 – Financial Instruments, IFRS 7 – Financial Instruments: Disclosure, IFRS 4 – Insurance Contracts and IFRS 16 – Leases, to address interest rate benchmark reform. Amendments include updating the benchmark Canadian Dollar Offered Rate (CDOR) and London Interbank Offered Rate (LIBOR), used to calculate the effective interest rate of certain financial instruments, to reflect an alternative benchmark rate, disclosure on how the transition to the alternative benchmark rate is being managed and disclosure about additional risks arising from the interest rate benchmark reform.<br><br>The cessation of CDOR and LIBOR is expected to occur over the next two years as the industry will move to alternative risk-free interest rates, yet to be determined. This will impact only a small number of FCC's financial instruments. To manage FCC's transition to these alternative benchmark interest rates, FCC has established an internal working group. FCC is currently assessing the potential impacts of the interest rate benchmark changes on FCC's customers, financial instruments, agreements, systems and policies. FCC will continue to monitor guidance from the regulators, the administrators of the benchmarks and the standard-setting bodies as well as engage with industry stakeholders to incorporate recent developments into the project plan and ensure a smooth transition. | April 1, 2021 |

## 3. Short-term investments

As at March 31, 2021, short-term investments were $732.7 million (2020 – $756.4 million) with a yield of 0.31% (2020 – 1.31%). They consisted of promissory notes and treasury bills issued by institutions with credit ratings of A+ or higher (2020 – A+ or higher) as rated by Standard and Poor's Ratings Services (S&P). As at March 31, 2021, the largest total investment in any one counterparty was $307.9 million (2020 – $171.7 million). As at March 31, 2021, the allowance for credit losses on short-term investments is $nil (2020 – $nil).

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

## 4. Derivative financial instruments

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 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.

As at March 31, 2021, the estimated amount of existing net gains reported in accumulated other comprehensive income (AOCI) that is expected to be transferred to net income within the next 12 months is $1.5 million (2020 – $21.8 million).

### Notional principal amounts and term to maturity

| As at March 31 | | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|---|
| | | **Within 1 year** | **1–5 years** | **Total** | Within 1 year | 1–5 years | Total |
| **Interest rate swaps** | | | | | | | |
| **Receive** | **Pay** | | | | | | |
| Fixed | Floating | **$ 220,124** | **$ –** | **$ 220,124** | $ 17,870 | $ 220,124 | $ 237,994 |
| Floating | Fixed | **–** | **12,575** | **12,575** | – | 14,187 | 14,187 |
| | | **$ 220,124** | **$ 12,575** | **$ 232,699** | $ 17,870 | $ 234,311 | $ 252,181 |

### 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 fair values of the derivative financial instruments were as follows:

| As at March 31 | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Positive fair value** | **Negative fair value** | **Net fair value** | Positive fair value | Negative fair value | Net fair value |
| Interest rate swaps | **$ 4,781** | **$ 322** | **$ 4,459** | $ 12,469 | $ 535 | $ 11,934 |

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, 2021, was $125.0 million (2020 – $125.0 million), and the largest net fair value of contracts with any institution as at March 31, 2021, was $0.4 million (2020 – $5.1 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. The master netting agreements in place have no impact on the fair values at March 31, 2020, and March 31, 2021.

# 5. Loans receivable – net

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

| As at March 31 | | **2021** | | |
|---|---|---|---|---|
| | **Within 1 year** | **1 – 5 years** | **Over 5 years** | **Total** |
| Floating | **$ 3,685,122** | **$ 11,720,836** | **$ 326,454** | **$ 15,732,412** |
| Fixed | **5,254,849** | **14,258,886** | **6,145,890** | **25,659,625** |
| Loans receivable – gross | **$ 8,939,971** | **$ 25,979,722** | **$ 6,472,344** | **41,392,037** |
| Deferred loan fees | | | | **(45,555)** |
| Loans receivable – total[1] | | | | **41,346,482** |
| Allowance for credit losses (Note 8) | | | | **(218,037)** |
| **Loans receivable – net** | | | | **$ 41,128,445** |

[1] Loans receivable – total at March 31, 2021, includes accrued interest and fees of $270.0 million.

| As at March 31 | | 2020 | | |
|---|---|---|---|---|
| | Within 1 year | 1 – 5 years | Over 5 years | Total |
| Floating | $ 449,311 | $ 15,392,080 | $ 379,107 | $ 16,220,498 |
| Fixed | 59,042 | 17,489,050 | 4,672,788 | 22,220,880 |
| Loans receivable – gross | $ 508,353 | $ 32,881,130 | $ 5,051,895 | 38,441,378 |
| Deferred loan fees | | | | (28,078) |
| Loans receivable – total[1] | | | | 38,413,300 |
| Allowance for credit losses (Note 8) | | | | (255,151) |
| Loans receivable – net | | | | $ 38,158,149 |

[1] Loans receivable – total at March 31, 2020, includes accrued interest and fees of $312.9 million.

As at March 31, 2021, $590.8 million (2020 – $565.6 million) of loans receivable were denominated in U.S. dollars (USD).

*5. Loans receivable – net (continued)*

## Concentrations of credit risk

The concentrations of gross loans and impaired loans by sector and geographic area were as follows:

### Sector distribution[1]

| | Gross | | Impaired | |
|---|---|---|---|---|
| As at March 31 | **2021** | 2020 | **2021** | 2020 |
| Oilseed and grain | **$ 13,502,917** | $ 11,885,710 | **$ 79,628** | $ 58,087 |
| Dairy | **6,678,425** | 6,471,403 | **15,697** | 19,204 |
| Agribusiness | **4,891,151** | 4,026,457 | **49,017** | 50,699 |
| Beef | **3,549,528** | 2,672,922 | **62,061** | 30,618 |
| Poultry | **2,848,649** | 2,746,817 | **7,076** | 454 |
| Other | **2,776,938** | 2,164,724 | **25,858** | 31,098 |
| Agri-food | **1,610,562** | 1,112,258 | **20,798** | 37,306 |
| Greenhouse | **1,535,782** | 1,276,559 | **2,072** | 6,202 |
| Alliances | **1,459,956** | 1,557,064 | **26,679** | 25,991 |
| Hogs | **1,319,560** | 1,214,595 | **3,174** | 709 |
| Fruit | **1,218,569** | 1,093,030 | **13,947** | 12,816 |
| Part-time farming | **–** | 2,219,839 | **–** | 21,496 |
| **Total** | **$ 41,392,037** | $ 38,441,378 | **$ 306,007** | $ 294,680 |

[1] In 2021, Part-time farming was recategorized to Agribusiness and Other to better reflect the appropriate sectors. Comparative figures have not been reclassified as it is impracticable due to data limitations.

### Geographic distribution[1]

| | Gross | | Impaired | |
|---|---|---|---|---|
| As at March 31 | **2021** | 2020 | **2021** | 2020 |
| Ontario | **$ 11,912,436** | $ 11,144,496 | **$ 34,593** | $ 43,992 |
| Alberta | **7,784,951** | 7,089,062 | **89,451** | 45,629 |
| Saskatchewan | **7,751,631** | 7,127,196 | **62,851** | 68,315 |
| Quebec | **5,679,918** | 5,259,159 | **16,142** | 23,721 |
| British Columbia | **3,709,917** | 3,539,973 | **31,674** | 35,395 |
| Manitoba | **3,256,442** | 3,003,789 | **33,666** | 15,499 |
| Atlantic | **1,296,742** | 1,277,703 | **37,630** | 62,129 |
| **Total** | **$ 41,392,037** | $ 38,441,378 | **$ 306,007** | $ 294,680 |

[1] The information presented in this table has been reclassified to present Alberta and British Columbia separately as it better reflects the representation of the geographical area.

# 6. Finance leases receivable – net

| As at March 31 | 2021 | 2020 |
|---|---|---|
| **Total minimum finance lease payments receivable** | | |
| Less than 1 year | **$ 28,702** | $ 20,896 |
| From 1 – 2 years | **28,102** | 19,358 |
| From 2 – 3 years | **26,580** | 19,357 |
| From 3 – 4 years | **42,483** | 16,157 |
| From 4 – 5 years | **27,263** | 35,967 |
| Over 5 years | **2,527** | 1,694 |
| Finance leases receivable – gross | **155,657** | 113,429 |
| Unearned finance income | **(14,457)** | (13,631) |
| Allowance for credit losses (Note 8) | **(147)** | (54) |
| **Finance leases receivable – net** | **$ 141,053** | $ 99,744 |

All lease arrangements after April 1, 2019, have been recorded as finance leases.

The discounted unguaranteed residual value for finance leases was $23.6 million (2020 – $18.1 million). FCC retains as collateral a security interest in the equipment associated with finance leases. The maximum term for finance leases receivable is six years for select equipment.

# 7. Other loans receivable – net

The following table summarizes the contractual maturity of the other loans receivable.

| As at March 31 | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Within 1 year** | **1 – 5 years** | **Total** | Within 1 year | 1 – 5 years | Total |
| Other loans receivable – gross[(1) (2)] | **$ 13,781** | **$ 47,275** | **$ 61,056** | $ 17,679 | $ 67,101 | $ 84,780 |
| Allowance for credit losses (Note 8) | | | **(1,743)** | | | (4,494) |
| **Other loans receivable – net** | | | **$ 59,313** | | | $ 80,286 |

[(1)] All loans are fixed-rate loans.

[(2)] Other loans receivable – gross at March 31, 2021, includes accrued interest of $1.3 million (2020 – $2.1 million).

## Concentrations of credit risk

The concentrations of gross other loans receivable by sector and geographic area were as follows:

### Sector distribution

| As at March 31 | 2021 | 2020 |
|---|---|---|
| Agribusiness | **$ 34,134** | $ 42,250 |
| Agri-food | **26,922** | 42,530 |
| **Total** | **$ 61,056** | $ 84,780 |

### Geographic distribution

| As at March 31 | 2021 | 2020 |
|---|---|---|
| Quebec | **$ 31,051** | $ 41,595 |
| Alberta | **18,737** | 30,299 |
| British Columbia | **5,106** | – |
| Saskatchewan | **2,924** | 10,821 |
| Ontario | **2,217** | 2,065 |
| Manitoba | **1,021** | – |
| **Total** | **$ 61,056** | $ 84,780 |

Other loans receivable exposes FCC to credit risk. Venture capital arrangements are typically secured by a general security agreement, assignment of life insurance proceeds and personal guarantees. As at March 31, 2021, there were no venture capital arrangements past due (2020 – $nil).

# 8. Allowance for credit losses

| As at March 31 | | | 2021 | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Loans receivable[1]** | | | | |
| Allowance for credit losses, beginning of year | $ 25,618 | $ 158,240 | $ 71,293 | $ 255,151 |
| Transfer to Stage 1 | 17,651 | (17,302) | (349) | – |
| Transfer to Stage 2 | (7,575) | 20,424 | (12,849) | – |
| Transfer to Stage 3 | (8) | (6,656) | 6,664 | – |
| Changes due to new loans originated | 33,293 | 12,990 | 3,065 | 49,348 |
| Loans that have been derecognized during the period | (10,909) | (10,447) | (11,541) | (32,897) |
| Net remeasurement of loss allowance[2] | (26,320) | (36,539) | 31,417 | (31,442) |
| Writeoffs[3] | – | (661) | (37,254) | (37,915) |
| Recoveries of amounts previously written off | – | 74 | 625 | 699 |
| Losses covered under HILLRP | 3 | (12) | 102 | 93 |
| Changes to allowance model parameters[4] | 12,800 | 2,000 | 200 | 15,000 |
| **Total allowance, end of year** | **$ 44,553** | **$ 122,111** | **$ 51,373** | **$ 218,037** |
| **Finance leases receivable** | | | | |
| Allowance for credit losses, beginning of year | $ 54 | $ – | $ – | $ 54 |
| Changes due to new finance leases originated | 195 | – | – | 195 |
| Finance leases that have been derecognized during the period | (44) | – | – | (44) |
| Net remeasurement of loss allowance[2] | (58) | – | – | (58) |
| **Total allowance, end of year** | **$ 147** | **$ –** | **$ –** | **$ 147** |
| **Other loans receivable** | | | | |
| Allowance for credit losses, beginning of year | $ 591 | $ – | $ 3,903 | $ 4,494 |
| Transfer to Stage 3 | (1,489) | – | 1,489 | – |
| Changes due to new other loans originated | – | – | 23 | 23 |
| Net remeasurement of loss allowance[2] | 1,600 | – | 22,085 | 23,685 |
| Writeoffs[3] | – | – | (26,459) | (26,459) |
| **Total allowance, end of year** | **$ 702** | **$ –** | **$ 1,041** | **$ 1,743** |

(1) Included within the loans receivable total is $9.2 million of allowance for credit losses on loan commitments that have not been partially drawn at March 31, 2021.

(2) Includes partial repayments.

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

(4) During 2020-21, the revised definition of default that was estimated last year was implemented into FCC's PD models along with changes to segment customers based on risk characteristics (increase of $11.4 million). EAD models were updated for revolving loans to better reflect historical experience (increase of $3.6 million). These changes resulted in a net increase of $15.0 million to the allowance and are being made prospectively.

*8. Allowance for credit losses (continued)*

| As at March 31 | | 2020 | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Loans receivable[1] | | | | |
| Allowance for credit losses, beginning of year | $ 31,780 | $ 115,402 | $ 50,828 | $ 198,010 |
| Transfer to Stage 1 | 33,669 | (32,976) | (693) | – |
| Transfer to Stage 2 | (11,523) | 39,075 | (27,552) | – |
| Transfer to Stage 3 | (107) | (17,208) | 17,315 | – |
| Changes due to new loans originated | 25,376 | 12,573 | 34,997 | 72,946 |
| Loans that have been derecognized during the period | (13,764) | (9,788) | (9,934) | (33,486) |
| Net remeasurement of loss allowance[2] | (36,411) | 91,543 | 34,999 | 90,131 |
| Writeoffs[3] | – | (2,529) | (29,757) | (32,286) |
| Recoveries of amounts previously written off | – | 143 | 1,368 | 1,511 |
| Losses covered under HILLRP | (2) | 5 | (278) | (275) |
| Changes to allowance model parameters[4] | (3,400) | (38,000) | – | (41,400) |
| Total allowance, end of year | $ 25,618 | $ 158,240 | $ 71,293 | $ 255,151 |
| Finance leases receivable | | | | |
| Allowance for credit losses, beginning of year | $ 23 | $ – | $ – | $ 23 |
| Changes due to new finance leases originated | 40 | – | – | 40 |
| Finance leases that have been derecognized during the period | (3) | – | – | (3) |
| Net remeasurement of loss allowance[2] | (6) | – | – | (6) |
| Total allowance, end of year | $ 54 | $ – | $ – | $ 54 |
| Other loans receivable | | | | |
| Allowance for credit losses, beginning of year | $ 552 | $ – | $ 96 | $ 648 |
| Transfer to Stage 3 | (56) | – | 56 | – |
| Changes due to new other loans originated | 130 | – | – | 130 |
| Other loans that have been derecognized during the period | – | – | (96) | (96) |
| Net remeasurement of loss allowance[2] | (35) | – | 3,847 | 3,812 |
| Total allowance, end of year | $ 591 | $ – | $ 3,903 | $ 4,494 |

[1] Included within the loans receivable total is $3.5 million of allowance for credit losses on loan commitments that have not been partially drawn at March 31, 2020.

[2] Includes partial repayments.

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

[4] During 2019-20, FCC updated its allowance models to implement new PD segments (decrease of $43.9 million) and to improve how the impact of forward looking information is captured in the allowance (net decrease of $18.5 million). An estimate was also recorded to address the gap between FCC's current default definition and the industry standard definition (increase of $21.0 million). These changes resulted in a net decrease of $41.4 million to the allowance and are being made prospectively.

# 9. 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 were as follows:

| | Registered pension plan | |
|---|---|---|
| As at March 31 | **2021** | 2020 |
| Present value of funded defined benefit obligations | **$ (905,150)** | $ (762,840) |
| Fair value of plan assets | **1,049,036** | 941,238 |
| **Net defined benefit asset** | **$ 143,886** | $ 178,398 |

| | Supplemental pension plans | |
|---|---|---|
| As at March 31 | **2021** | 2020 |
| Present value of funded defined benefit obligations | **$ (87,507)** | $ (76,417) |
| Fair value of plan assets | **65,586** | 48,349 |
| Net defined benefit liability (funded) | **(21,921)** | (28,068) |
| Present value of unfunded defined benefit obligations | **(14,549)** | (13,533) |
| **Net defined benefit liability** | **$ (36,470)** | $ (41,601) |

| | Other benefits | |
|---|---|---|
| As at March 31 | **2021** | 2020 |
| Present value of unfunded defined benefit obligations | **$ (105,796)** | $ (107,093) |
| **Net defined benefit liability** | **$ (105,796)** | $ (107,093) |

The total net defined benefit asset is $143.9 million (2020 – $178.4 million). This amount is recorded on the Consolidated Balance Sheet as post-employment benefit assets. The total net defined benefit liability is $142.3 million (2020 – $148.7 million). This amount is recorded on the Consolidated Balance Sheet as post-employment benefit liabilities.

*9. Post-employment benefits (continued)*

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

| | Registered pension plan | | Supplemental pension plans | | Other benefits | |
|---|---|---|---|---|---|---|
| As at March 31 | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| Defined benefit obligation, beginning of year | **$ 762,840** | $ 833,187 | **$ 89,950** | $ 103,152 | **$ 107,093** | $ 113,340 |
| Current service cost | **18,237** | 24,765 | **1,524** | 2,477 | **6,527** | 7,612 |
| Interest cost on the defined benefit obligation | **30,999** | 29,017 | **3,627** | 3,569 | **4,521** | 4,096 |
| Contributions by employees | **8,566** | 8,794 | **700** | 694 | **–** | – |
| Benefits paid | **(20,755)** | (17,835) | **(2,307)** | (2,073) | **(1,270)** | (971) |
| Experience adjustments on plan liabilities | **(4,372)** | (1,137) | **(3,145)** | 1,909 | **10,668** | (85) |
| Actuarial loss (gain) from changes in financial assumptions | **109,635** | (113,951) | **11,707** | (19,778) | **(15,352)** | (16,899) |
| Actuarial gain from changes in demographic assumptions | **–** | – | **–** | – | **(6,391)** | – |
| **Defined benefit obligation, end of year** | **$ 905,150** | $ 762,840 | **$ 102,056** | $ 89,950 | **$ 105,796** | $ 107,093 |

The duration of the registered pension plan's defined benefit obligation is 18 years (2020 – 18 years). The duration of the supplemental pension plans' defined benefit obligation is 19 years (2020 – 19 years). The duration of the other benefit plan's defined benefit obligation is 23 years (2020 – 26 years).

## Movements in the fair value of plan assets

| | Registered pension plan | | Supplemental pension plans | | Other benefits | |
|---|---|---|---|---|---|---|
| As at March 31 | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| Fair value of plan assets, beginning of year | **$ 941,238** | $ 922,078 | **$ 48,349** | $ 51,287 | **$ –** | $ – |
| Interest income on plan assets | **37,843** | 31,650 | **2,045** | 1,870 | **–** | – |
| Return on plan assets greater (less) than the discount rate | **60,287** | (30,118) | **9,648** | (12,248) | **–** | – |
| Contributions by FCC | **22,825** | 27,423 | **7,180** | 8,838 | **1,270** | 971 |
| Contributions by employees | **8,566** | 8,794 | **700** | 694 | **–** | – |
| Benefits paid | **(20,755)** | (17,835) | **(2,307)** | (2,073) | **(1,270)** | (971) |
| Plan administration costs | **(968)** | (754) | **(29)** | (19) | **–** | – |
| **Fair value of plan assets, end of year** | **$ 1,049,036** | $ 941,238 | **$ 65,586** | $ 48,349 | **$ –** | $ – |

## Defined benefit costs recognized in net income

| | Registered pension plan | | Supplemental pension plans | | Other benefits | | Total | |
|---|---|---|---|---|---|---|---|---|
| For the year ended March 31 | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| Current service cost | **$ 18,237** | $ 24,765 | **$ 1,524** | $ 2,477 | **$ 6,527** | $ 7,612 | **$ 26,288** | $ 34,854 |
| Net interest | **(6,844)** | (2,633) | **1,582** | 1,699 | **4,521** | 4,096 | **(741)** | 3,162 |
| Plan administration costs | **968** | 754 | **29** | 19 | **–** | – | **997** | 773 |
| | **$ 12,361** | $ 22,886 | **$ 3,135** | $ 4,195 | **$ 11,048** | $ 11,708 | **$ 26,544** | $ 38,789 |

*9. Post-employment benefits (continued)*

## Defined benefit costs recognized in OCI

| For the year ended March 31 | Registered pension plan 2021 | Registered pension plan 2020 | Supplemental pension plans 2021 | Supplemental pension plans 2020 | Other benefits 2021 | Other benefits 2020 | Total 2021 | Total 2020 |
|---|---|---|---|---|---|---|---|---|
| Experience adjustments on plan liabilities | **$ 4,372** | $ 1,137 | **$ 3,145** | $ (1,909) | **$ (10,668)** | $ 85 | **$ (3,151)** | $ (687) |
| Return on plan assets greater (less) than the discount rate | **60,287** | (30,118) | **9,648** | (12,248) | **–** | – | **69,935** | (42,366) |
| Actuarial (loss) gain from changes in financial assumptions | **(109,635)** | 113,951 | **(11,707)** | 19,778 | **15,352** | 16,899 | **(105,990)** | 150,628 |
| Actuarial gain from changes in demographic assumptions | **–** | – | **–** | – | **6,391** | – | **6,391** | – |
| **Remeasurement (loss) gain** | **$ (44,976)** | $ 84,970 | **$ 1,086** | $ 5,621 | **$ 11,075** | $ 16,984 | **$ (32,815)** | $107,575 |

The cumulative net remeasurement gains recognized in OCI as at March 31, 2021, were $28.0 million (2020 – $60.8 million).

## Plan assets

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

| As at March 31 | Registered pension plan 2021 | Registered pension plan 2020 | Supplemental pension plans 2021 | Supplemental pension plans 2020 |
|---|---|---|---|---|
| Equity securities | **44.0%** | 36.7% | **99.0%** | 100.0% |
| Debt securities | **37.4%** | 42.4% | **–** | – |
| Real estate | **13.7%** | 15.9% | **–** | – |
| Infrastructure | **4.8%** | 4.9% | **–** | – |
| Cash | **0.1%** | 0.1% | **1.0%** | – |
| | **100.0%** | 100.0% | **100.0%** | 100.0% |

## Significant assumptions

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

| As at March 31 | Registered pension plan 2021 | Registered pension plan 2020 | Supplemental pension plans 2021 | Supplemental pension plans 2020 | Other benefits 2021 | Other benefits 2020 |
|---|---|---|---|---|---|---|
| **Defined benefit obligation** | | | | | | |
| Discount rate | **3.30%** | 4.00% | **3.30%** | 4.00% | **3.30%** | 4.00% |
| Rate of compensation increase | **3.25%** | 3.25% | **3.25%** | 3.25% | **4.00%** | 4.00% |
| Consumer price index | **2.00%** | 2.00% | **2.00%** | 2.00% | **–** | – |
| **Defined benefit costs** | | | | | | |
| Discount rate | **4.00%** | 3.40% | **4.00%** | 3.40% | **3.30%** | 3.40% |
| Consumer price index | **2.00%** | 2.00% | **2.00%** | 2.00% | **–** | – |

*9. Post-employment benefits (continued)*

At March 31, 2021 and 2020, 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, 2021 and 2020, 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 | **2021** | 2020 |
|---|---|---|
| **Extended health care and dental care cost escalation** | | |
| Initial rate | **4.40%** | 7.00% |
| Ultimate rate | **4.00%** | 4.50% |
| Year ultimate rate reached | **2040** | 2030 |

## 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 | | **2021** | |
|---|---|---|---|
| **Increase (decrease) defined benefit obligation** | **Registered pension plan** | **Supplemental pension plans** | **Other benefits** |
| 1% increase in discount rate | **$ (154,309)** | **$ (16,196)** | **$ (22,140)** |
| 1% decrease in discount rate | **204,588** | **19,989** | **30,830** |
| 0.25% increase in rate of compensation increase | **6,107** | **1,830** | **103** |
| 0.25% decrease in rate of compensation increase | **(6,746)** | **(2,295)** | **(100)** |
| 1% increase in consumer price index | **149,096** | **15,608** | **–** |
| 1% decrease in consumer price index | **(120,652)** | **(13,486)** | **–** |
| One-year increase in expected lifetime of plan participants | **21,990** | **2,132** | **2,977** |
| 1% increase in assumed overall health care cost trend rates | **–** | **–** | **27,195** |
| 1% decrease in assumed overall health care cost trend rates | **–** | **–** | **(20,030)** |

## 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, 2021, the expense was $11.4 million (2020 – $9.9 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 $42.5 million (2020 – $47.8 million). During the year, solvency payments of $9.4 million (2020 – $14.6 million) were made to the defined benefit pension plan.

Total cash payments for post-employment benefits for 2022 are anticipated to be approximately $41.6 million.

# 10. Equipment and leasehold improvements

| | Leasehold improvements | Office equipment and furniture | Computer equipment | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance as at March 31, 2019 | $ 62,615 | $ 28,901 | $ 19,932 | $ 111,448 |
| Additions | 6,710 | 602 | 2,139 | 9,451 |
| Disposals | (682) | (865) | (6,419) | (7,966) |
| Balance as at March 31, 2020 | 68,643 | 28,638 | 15,652 | 112,933 |
| Additions | 2,981 | 2,165 | 2,969 | 8,115 |
| Disposals | (331) | (558) | (1,511) | (2,400) |
| **Balance as at March 31, 2021** | **$ 71,293** | **$ 30,245** | **$ 17,110** | **$ 118,648** |
| **Accumulated depreciation** | | | | |
| Balance as at March 31, 2019 | $ 45,168 | $ 25,396 | $ 14,814 | $ 85,378 |
| Depreciation | 3,642 | 1,242 | 3,785 | 8,669 |
| Disposals | (682) | (865) | (6,414) | (7,961) |
| Balance as at March 31, 2020 | 48,128 | 25,773 | 12,185 | 86,086 |
| Depreciation | 4,514 | 1,397 | 2,535 | 8,446 |
| Disposals | (320) | (558) | (1,507) | (2,385) |
| **Balance as at March 31, 2021** | **$ 52,322** | **$ 26,612** | **$ 13,213** | **$ 92,147** |
| **Carrying value** | | | | |
| March 31, 2020 | $ 20,515 | $ 2,865 | $ 3,467 | $ 26,847 |
| **March 31, 2021** | **18,971** | **3,633** | **3,897** | **26,501** |

## 11. Computer software

| | | Internally developed | | Purchased | | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance as at March 31, 2019 | $ | 120,665 | $ | 10,071 | $ | 130,736 |
| Additions | | 11,672 | | 273 | | 11,945 |
| Disposals | | (26,191) | | (2,143) | | (28,334) |
| Balance as at March 31, 2020 | | 106,146 | | 8,201 | | 114,347 |
| Additions | | 3,131 | | – | | 3,131 |
| Disposals | | (30,751) | | (572) | | (31,323) |
| **Balance as at March 31, 2021** | **$** | **78,526** | **$** | **7,629** | **$** | **86,155** |
| **Accumulated amortization** | | | | | | |
| Balance as at March 31, 2019 | $ | 89,246 | $ | 8,776 | $ | 98,022 |
| Amortization | | 12,125 | | 992 | | 13,117 |
| Disposals | | (26,185) | | (2,143) | | (28,328) |
| Balance as at March 31, 2020 | | 75,186 | | 7,625 | | 82,811 |
| Amortization | | 14,387 | | 268 | | 14,655 |
| Disposals | | (30,729) | | (572) | | (31,301) |
| **Balance as at March 31, 2021** | **$** | **58,844** | **$** | **7,321** | **$** | **66,165** |
| **Carrying value** | | | | | | |
| March 31, 2020 | $ | 30,960 | $ | 576 | $ | 31,536 |
| **March 31, 2021** | | **19,682** | | **308** | | **19,990** |

Research and development costs related to internally developed computer software in the amount of $19.1 million (2020 – $3.5 million) have been included within facilities, software and equipment expenses.

## 12. Equipment under operating leases

| | |
|---|---|
| **Cost** | |
| Balance as at March 31, 2019 | $ 165,532 |
| Disposals | (35,541) |
| Balance as at March 31, 2020 | 129,991 |
| Disposals | (35,043) |
| **Balance as at March 31, 2021** | **$ 94,948** |
| **Accumulated depreciation** | |
| Balance as at March 31, 2019 | $ 44,036 |
| Depreciation | 22,644 |
| Disposals | (16,916) |
| Balance as at March 31, 2020 | 49,764 |
| Depreciation | 16,989 |
| Disposals | (20,653) |
| **Balance as at March 31, 2021** | **$ 46,100** |
| **Carrying value** | |
| March 31, 2020 | $ 80,227 |
| **March 31, 2021** | **48,848** |

## 13. Right-of-use assets

FCC's lease portfolio consists of office space.

| | **Buildings** |
|---|---|
| **Cost** | |
| Balance as at April 1, 2019 | $ 180,740 |
| Additions | 15,441 |
| Disposals | (719) |
| Balance as at March 31, 2020 | 195,462 |
| Additions | 11,719 |
| Disposals | (3,016) |
| **Balance as at March 31, 2021** | **$ 204,165** |
| **Accumulated depreciation** | |
| Balance as at April 1, 2019 | $ – |
| Depreciation | 15,343 |
| Disposals | (1) |
| Balance as at March 31, 2020 | 15,342 |
| Depreciation | 15,849 |
| Disposals | – |
| **Balance as at March 31, 2021** | **$ 31,191** |
| **Carrying value** | |
| March 31, 2020 | $ 180,120 |
| **March 31, 2021** | **172,974** |

# 14. Other assets

| As at March 31 | 2021 | 2020 |
|---|---|---|
| Insurance reserve assets | **$ 5,224** | $ 13,609 |
| Other | **941** | 363 |
| | **$ 6,165** | $ 13,972 |

# 15. Borrowings

## Short-term debt

| As at March 31 | 2021 | 2020 |
|---|---|---|
| **Government of Canada debt** | | |
| Floating-rate borrowings | **$ 4,695,209** | $ 2,990,733 |
| Fixed-rate borrowings | **7,003,080** | 6,417,486 |
| | **11,698,289** | 9,408,219 |
| **Capital markets debt** | | |
| USD fixed-rate promissory notes[1] | **563,342** | 525,385 |
| Retail and institutional fixed-rate notes | **288,522** | 18,716 |
| | **851,864** | 544,101 |
| | **$12,550,153** | $ 9,952,320 |

[1] $448.0 million USD (2020 – $370.1 million USD)

## Short-term debt by maturity date

| As at March 31 | 2021 | | | | |
|---|---|---|---|---|---|
| | Government of Canada | | Capital markets | | |
| | Carrying value | Yield | Carrying value | Yield | Total |
| From 0 – 3 months | **$ 2,291,362** | **0.97%** | **$ 851,864** | **2.31%** | **$ 3,143,226** |
| From 4 – 6 months | **2,546,933** | **0.60%** | **–** | **–** | **2,546,933** |
| From 7 – 9 months | **3,839,006** | **0.42%** | **–** | **–** | **3,839,006** |
| From 10 – 12 months | **3,020,988** | **0.43%** | **–** | **–** | **3,020,988** |
| | **$11,698,289** | | **$ 851,864** | | **$12,550,153** |

| As at March 31 | 2020 | | | | |
|---|---|---|---|---|---|
| | Government of Canada | | Capital markets | | |
| | Carrying value | Yield | Carrying value | Yield | Total |
| From 0 – 3 months | $ 2,353,856 | 1.46% | $ 525,385 | 1.25% | $ 2,879,241 |
| From 4 – 6 months | 1,865,604 | 1.30% | – | – | 1,865,604 |
| From 7 – 9 months | 2,949,562 | 1.20% | 18,716 | 4.32% | 2,968,278 |
| From 10 – 12 months | 2,239,197 | 1.13% | – | – | 2,239,197 |
| | $ 9,408,219 | | $ 544,101 | | $ 9,952,320 |

*15. Borrowings (continued)*

## Short-term debt continuity

| As at March 31 | 2021 | 2020 |
|---|---|---|
| Short-term debt, beginning of year | **$ 9,952,320** | $ 9,794,234 |
| Financing cash flows | | |
| Debt issued | **11,891,716** | 9,783,591 |
| Debt repaid | **(12,370,841)** | (10,154,089) |
| Non-cash changes | | |
| Change in short-term portion of long-term debt | **3,087,886** | 525,942 |
| Change in interest accrual | **(10,912)** | (7,113) |
| Change due to unrealized foreign exchange (gain) loss | **(16)** | 9,755 |
| **Short-term debt, end of year** | **$12,550,153** | $ 9,952,320 |

FCC has a demand operating line of credit that provides overdraft protection in the amount of $30.0 million (2020 – $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 repaid the next day. As at March 31, 2021, there were no draws on this credit facility (2020 – $nil).

## Long-term debt

| As at March 31 | 2021 | 2020 |
|---|---|---|
| **Government of Canada debt** | | |
| Floating-rate borrowings | **$ 11,610,371** | $13,212,981 |
| Fixed-rate borrowings | **11,094,291** | 10,105,409 |
| | **22,704,662** | 23,318,390 |
| **Capital markets debt** | | |
| Retail and institutional fixed-rate notes | **–** | 289,051 |
| | **$22,704,662** | $23,607,441 |

*15. Borrowings (continued)*

## Long-term debt by maturity date

| As at March 31 | **2021** | | | | |
|---|---|---|---|---|---|
| | **Government of Canada** | | **Capital markets** | | |
| | **Carrying value** | **Yield** | **Carrying value** | **Yield** | **Total** |
| From 1 – 2 years | **$ 5,741,911** | **0.62%** | **$ –** | **–** | **$ 5,741,911** |
| From 2 – 3 years | **3,397,911** | **0.64%** | **–** | **–** | **3,397,911** |
| From 3 – 4 years | **3,642,180** | **0.91%** | **–** | **–** | **3,642,180** |
| From 4 – 5 years | **2,670,147** | **0.23%** | **–** | **–** | **2,670,147** |
| Over 5 years | **7,252,513** | **0.51%** | **–** | **–** | **7,252,513** |
| | **$ 22,704,662** | | **$ –** | | **$22,704,662** |

| As at March 31 | 2020 | | | | |
|---|---|---|---|---|---|
| | Government of Canada | | Capital markets | | |
| | Carrying value | Yield | Carrying value | Yield | Total |
| From 1 – 2 years | $ 8,686,818 | 0.94% | $ 289,051 | 4.37% | $ 8,975,869 |
| From 2 – 3 years | 4,361,339 | 0.99% | – | – | 4,361,339 |
| From 3 – 4 years | 2,687,590 | 0.98% | – | – | 2,687,590 |
| From 4 – 5 years | 3,362,288 | 1.18% | – | – | 3,362,288 |
| Over 5 years | 4,220,355 | 0.90% | – | – | 4,220,355 |
| | $23,318,390 | | $ 289,051 | | $23,607,441 |

## Long-term debt continuity

| As at March 31 | **2021** | 2020 |
|---|---|---|
| Long-term debt, beginning of year | **$ 23,607,441** | $ 20,950,075 |
| Financing cash flows | | |
| Debt issued | **9,282,000** | 9,770,000 |
| Debt repaid | **(7,081,365)** | (6,598,796) |
| Non-cash changes | | |
| Change in short-term portion of long-term debt | **(3,087,886)** | (525,942) |
| Change in interest accrual | **(14,891)** | 12,342 |
| Other | **(637)** | (238) |
| **Long-term debt, end of year** | **$ 22,704,662** | $ 23,607,441 |

# 16. Lease liabilities

FCC's lease portfolio consists of office space. Lease terms are negotiated on an individual basis and contain a range of terms and conditions. Lease terms[1] range from 2.6 to 20.0 years, including optional renewal periods.

| As at March 31 | 2021 | 2020 |
|---|---|---|
| **Maturity analysis – contractual undiscounted cash flows** | | |
| Less than 1 year | **$ 17,724** | $ 17,070 |
| From 1 – 5 years | **65,093** | 64,485 |
| Over 5 years | **110,254** | 120,375 |
| **Total undiscounted lease liabilities** | **$ 193,071** | $ 201,930 |
| **Lease liabilities on the balance sheet** | **$ 174,492** | $ 180,353 |
| Less: current portion of lease liabilities | **15,077** | 14,141 |
| Non-current portion of lease liabilities | **159,415** | 166,212 |

## Amounts recognized in net income

| For the year ended March 31 | 2021 | 2020 |
|---|---|---|
| Interest on lease liabilities | **$ 2,910** | $ 3,085 |
| Variable lease payments not included in the measurement of lease liabilities | **3,815** | 4,117 |

## Amounts recognized in the statement of cash flows

| For the year ended March 31 | 2021 | 2020 |
|---|---|---|
| Interest on lease liabilities | **$ 2,910** | $ 3,085 |
| Principal repayment of lease liabilities | **14,563** | 15,101 |
| **Total cash outflow for leases** | **$ 17,473** | $ 18,186 |

[1] Lease terms calculated from the later of the lease commencement date or IFRS 16 – Leases Adoption Date.

Future cash flows for leases not commenced to which the lessee is committed are $2.9 million (2020 – $8.7 million).

# 17. Other liabilities

| As at March 31 | 2021 | 2020 |
|---|---|---|
| Deferred revenues | **$ 6,696** | $ 7,311 |
| Other | **656** | 670 |
| | **$ 7,352** | $ 7,981 |

## 18. Net interest income

| For the year ended March 31 | 2021 | 2020 |
|---|---|---|
| **Interest income** | | |
| Financial assets measured at amortized cost | **$ 1,521,719** | $ 1,707,405 |
| Operating leases | **19,349** | 25,769 |
| Transfer of net realized gains on derivatives designated as cash flow hedges from AOCI to net income | **19,748** | 21,780 |
| Finance leases | **5,700** | 2,980 |
| Total interest income for financial instruments not at FVTPL | **1,566,516** | 1,757,934 |
| Derivative financial assets and liabilities at FVTPL – net | **9,489** | 6,430 |
| Total interest income | **1,576,005** | 1,764,364 |
| **Interest expense** | | |
| Financial liabilities measured at amortized cost | **258,341** | 542,510 |
| Interest on lease liabilities | **2,910** | 3,085 |
| Depreciation on equipment under operating leases | **16,325** | 22,101 |
| Total interest expense | **277,576** | 567,696 |
| **Net interest income** | **$ 1,298,429** | $ 1,196,668 |

The total net fee income that was recognized immediately in net interest income arising from financial assets and liabilities not measured at FVTPL was $17.6 million (2020 – $4.8 million).

## 19. Administration expenses

| For the year ended March 31 | 2021 | 2020 |
|---|---|---|
| Salaries | **$ 221,722** | $ 200,171 |
| Benefits | **65,393** | 75,552 |
| Professional fees | **64,230** | 53,562 |
| Facilities, software and equipment | **59,265** | 52,374 |
| Amortization and depreciation | **38,952** | 37,133 |
| Marketing and promotion | **12,792** | 11,819 |
| Travel and training | **4,306** | 15,405 |
| Other | **8,893** | 12,816 |
| | **$ 475,553** | $ 458,832 |

## 20. Fair value adjustment

| For the year ended March 31 | | 2021 | | 2020 |
|---|---|---|---|---|
| Guarantees | $ | **24** | $ | – |
| Equity investments | | **–** | | (287) |
| Derivative financial assets and liabilities | | **(8,806)** | | (4,470) |
| | $ | **(8,782)** | $ | (4,757) |

## 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 | | | | 2021 | | | | | | 2020 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Level 2 | | Level 3 | | Total | | Level 2 | | Level 3 | | Total |
| **Assets** | | | | | | | | | | | | |
| Derivative financial assets | $ | **4,781** | $ | **–** | $ | **4,781** | $ | 12,469 | $ | – | $ | 12,469 |
| Equity investments | | **–** | | **28,398** | | **28,398** | | – | | 2,718 | | 2,718 |
| | $ | **4,781** | $ | **28,398** | $ | **33,179** | $ | 12,469 | $ | 2,718 | $ | 15,187 |
| **Liabilities** | | | | | | | | | | | | |
| Derivative financial liabilities | $ | **322** | $ | **–** | $ | **322** | $ | 535 | $ | – | $ | 535 |
| | $ | **322** | $ | **–** | $ | **322** | $ | 535 | $ | – | $ | 535 |

Changes in valuation methods may result in transfers into or out of levels 1, 2 and 3. For the year ended March 31, 2021, there were no transfers between levels (2020 – $nil).

### Level 3 financial instruments

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

| As at March 31 | | 2021 | | 2020 |
|---|---|---|---|---|
| Balance, beginning of year | $ | **2,718** | $ | 355 |
| Acquisitions | | **25,680** | | 2,650 |
| Net unrealized losses recognized in fair value adjustment | | **–** | | (287) |
| **Balance, end of year** | $ | **28,398** | $ | 2,718 |

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

## 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 | 2021 | | 2020 | |
|---|---|---|---|---|
| | **Carrying value** | **Estimated fair value** | Carrying value | Estimated fair value |
| **Assets** | | | | |
| Short-term investments | **$ 732,702** | **$ 731,103** | $ 756,369 | $ 754,557 |
| Loans receivable | **41,128,445** | **41,493,721** | 38,158,149 | 38,923,158 |
| Finance leases receivable | **141,053** | **141,338** | 99,744 | 101,168 |
| **Liabilities** | | | | |
| Long-term debt | **22,704,662** | **22,764,006** | 23,607,441 | 23,967,288 |

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.

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 cash equivalents, accounts receivable, other loans receivable, other assets (excluding the insurance reserve asset), accounts payable and accrued liabilities, short-term debt, transition loan liabilities and other liabilities.

## 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 three to six years.

The future minimum lease payments are receivable as follows:

| As at March 31 | 2021 | 2020 |
|---|---|---|
| **Amounts due** | | |
| Less than 1 year | **$ 11,601** | $ 19,364 |
| From 1 – 2 years | **7,053** | 14,431 |
| From 2 – 3 years | **1,017** | 8,290 |
| From 3 – 4 years | **7** | 1,109 |
| From 4 – 5 years | **–** | 7 |
| | **$ 19,678** | $ 43,201 |

## 23. Commitments, guarantees and contingent liabilities

### Loan and lease commitments

As at March 31, 2021, loans approved but undisbursed amounted to $9,903.7 million (2020 – $7,994.3 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, 2021, finance leases approved but undisbursed amounted to $11.3 million (2020 – $5.6 million). These leases do not form part of the finance leases receivable balances until disbursed. These commitments do not generate liquidity risk to FCC because it has sufficient funds available from the Government of Canada through the Crown Borrowing Program to meet its future cash requirements.

### Investment in associates

As at March 31, 2021, FCC had committed to invest an additional $44.9 million (2020 – $13.5 million) in investments in associates.

### Capital commitments

As at March 31, 2021, capital expenditures contracted for equipment and leasehold improvements but not yet incurred were $1.8 million (2020 – $nil).

### Operating commitments

Future minimum payments by fiscal year on software and other operating expenditure commitments are due as follows:

| As at March 31 | 2021 | 2020 |
|---|---|---|
| **Amounts due** | | |
| Less than 1 year | **$ 16,409** | $ 17,045 |
| From 1 – 5 years | **41,301** | 40,256 |
| Over 5 years | **62,006** | 62,305 |
| | **$ 119,716** | $ 119,606 |

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

### 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, 2021, is $6.8 million (2020 – $9.2 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, 2021, an amount of $nil (2020 – $nil) was recorded for these letters of credit.

### Contingent liabilities and provisions

Various legal proceedings arising from the normal course of business are pending against FCC. Management does not believe that liabilities arising from pending litigations will have a material adverse effect on the Consolidated Balance Sheet or the results of operations of FCC, therefore, no amount has been included in the financial statements as at March 31, 2021 (2020 – $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 financial statements as at March 31, 2021 (2020 – $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 II, Avrio Subordinated Debt Fund III and Forage Capital – Ag & Food Business Solutions Fund Limited Partnership. They are limited partnerships for which FCC holds 99% (2020 – 99%), 99% (2020 – 99%) and 100% (2020 – nil%) of the partnership units, respectively. These funds are all consolidated funds as described in Note 2. All transactions between FCC and the consolidated 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.

*24. Related party transactions (continued)*

## 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, 2021, $239.9 million (2020 – $512.8 million) was recorded in interest expense relating to these borrowings.

FCC has $46.0 million (2020 – $nil) in short-term investments with the Government of Canada. These investments are included in cash and cash equivalents because they have a maturity date of less than 90 days.

FCC receives government assistance from the HILLRP to share the credit losses on certain loans with the Government of Canada. For the year ended March 31, 2021, the increase recorded to the provision for credit losses was $0.1 million (2020 – decrease of $0.1 million). The amount estimated to be returned to the Government of Canada is $15.6 million (2020 – $19.8 million) and is included in borrowings.

At the discretion of the Board of Directors, FCC may pay a dividend to the Government of Canada on an annual basis, as detailed in Note 25.

## Key management personnel compensation

Key management personnel include 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 as follows:

| For the year ended March 31 | | **2021** | | 2020 |
|---|---|---|---|---|
| Salaries and other short-term employee benefits | **$** | **3,995** | $ | 3,932 |
| Post-employment benefits | | **968** | | 942 |
| Board retainers and per diems | | **208** | | 204 |
| **Total** | **$** | **5,171** | $ | 5,078 |

## Transactions with post-employment benefit plans

During the year, $0.2 million was received from the defined benefit pension plan (2020 – $0.2 million) 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 and policy. The objective of the Capital Management policy and supporting framework is to maintain a sound capital position to withstand economic downturns and 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 capital, 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, 2021 and 2020, 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 | 2021 | 2020 |
|---|---|---|
| **Capital** | | |
| Retained earnings | $ 7,511,133 | $ 6,731,232 |
| Contributed capital | 500,000 | 500,000 |
| AOCI | 1,489 | 21,237 |
| Required regulatory adjustments: | | |
| Accumulated net gains on derivatives designated as cash flow hedges | (1,489) | (21,237) |
| Computer software | (19,990) | (31,536) |
| Post-employment benefit assets | (143,886) | (178,398) |
| **CET1/Total capital** | $ 7,847,257 | $ 7,021,298 |
| **Risk-weighted assets** | | |
| Credit risk-weighted assets | $ 43,004,293 | $ 39,777,862 |
| Operational risk-weighted assets | 2,243,257 | 2,110,651 |
| **Total risk-weighted assets** | $ 45,247,550 | $ 41,888,513 |
| **Total capital ratio** | 17.3 % | 16.8 % |
| **Target capital ratio** | 15.0 % | 15.0 % |
| **Minimum regulatory capital ratio** | 10.5 % | 10.5 % |

*25. Capital management (continued)*

### Debt-to-equity

FCC's only statutory limit, as prescribed by the Farm Credit Canada Act, requires that FCC's total direct and contingent liabilities not exceed 12 times equity. As at March 31, 2021, FCC's total direct and contingent liabilities were 4.47 times the shareholder's equity, excluding AOCI (2020 – 4.73 times the shareholder's equity, excluding AOCI).

### Contributed capital

FCC's contributed capital consists of capital contributions made by the Government of Canada. No additional capital contributions were received during the fiscal year from the Government of Canada, maintaining the contributed capital balance at $500.0 million on March 31, 2021 (2020 – $500.0 million).

### Dividend

For the year ended March 31, 2021, no dividend was declared to FCC's shareholder, the Government of Canada. (2020 – $394.8 million was paid out of contributed capital and retained earnings for the year ended March 31, 2019.) This was part of the response to the COVID-19 pandemic and allowed FCC to maintain surplus capital and fulfil commitments to support the agriculture and agri-food industry in Canada.

# 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 several committees, divisions and business units to effectively manage credit risk.

### Measurement of credit risk

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

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

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

#### *Impact of COVID-19 pandemic*

At March 31, 2021, management performed an economic and portfolio assessment of each industry in its loan portfolio and assigned a rating of low, medium or high depending on how susceptible FCC believed it is to impacts of the COVID-19 pandemic. All industries are susceptible to impacts of the pandemic to some extent: however, industries most at risk are likely to face cash flow issues as disruptions due to consumption changes, trade issues, increased production costs and labour shortages take effect. These impacts will result in an erosion of working capital that could make debt repayment more difficult.

Due to the significant uncertainty surrounding this unprecedented COVID-19 pandemic's impact on the economy, significant judgment was used by management to determine its best estimate on the allowance for credit losses, and actual results may differ materially from those recorded on March 31, 2021.

#### *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 sector characteristics that 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 sector

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.

*26. Risk management (continued)*

| Credit Risk Category | PD Range |
|---|---|
| Investment grade | 0.00% – 0.54% |
| Non-investment grade | 0.55% – 26.12% |
| Watch list | 26.13% – 99.99% |
| Default | 100% |

### *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.

### *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 judgment.

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. The allowance for credit losses has three probability-weighted scenarios: baseline, optimistic and pessimistic. The weighting applied to each scenario can be adjusted using management discretion to reflect changes in the macroeconomic environment that are not captured by the models. 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 is 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 farmland values.

| | 2021 | |
|---|---|---|
| As at March 31 | Next 12 months | 2 to 5 years |
| **Macroeconomic variables** | | |
| Real gross domestic product | **5.8%** | **2.7%** |
| USD/CAD exchange rates | **$ 0.80** | **$ 0.79** |
| Interest rates | | |
| - Bank | **0.25%** | **1.08%** |
| - 5-year | **3.47%** | **4.44%** |

As at March 31, 2021, the impact of weighting the multiple scenarios increased FCC's allowance for credit losses on performing loans, relative to the base case scenario, by $8.4 million. 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 $94.3 million. If all of FCC's performing loans were in Stage 2, the impairment model would generate an allowance for credit losses on performing loans of approximately $226.6 million. The allowance for credit losses for all loans in Stage 1 and Stage 2 ranges from approximately $142.3 million to $187.7 million under the most optimistic and pessimistic scenarios. These values are components of FCC's weighted-allowance calculation used for the financial statements.

*26. Risk management (continued)*

### Collateral

FCC mitigates its credit risk through collateral. FCC monitors the portfolio by reviewing the loan-to-security ratio, both on an overall portfolio basis and by sector. 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, 2021, the collateral held against total gross impaired loans represents 83.1% (2020 – 75.2%) of total gross impaired loans.

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

| As at March 31 | **2021** | 2020 |
|---|---|---|
| Weighted-average loan-to-security ratio for secured loans | **50.6%** | 49.3% |
| Loans secured by a general security agreement and unsecured loans as a percentage of loans receivable | **5.5%** | 5.3% |

### 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 | **2021** | 2020 |
|---|---|---|
| **On balance sheet** | | |
| Cash and cash equivalents | **$ 1,251,093** | $ 1,724,503 |
| Short-term investments | **732,702** | 756,369 |
| Accounts receivable | **27,455** | 24,834 |
| Derivative financial assets | **4,781** | 12,469 |
| Loans receivable | **41,392,037** | 38,441,378 |
| Finance leases receivable | **155,657** | 113,429 |
| Other loans receivable(1) | **61,056** | 80,286 |
| Equity investments(1) | **28,398** | 2,718 |
| Investment in associates | **57,839** | 39,499 |
| Other assets | **6,165** | 13,972 |
| | **43,717,183** | 41,209,457 |
| **Off balance sheet** | | |
| Financial guarantees | **6,769** | 9,198 |
| Loan and lease commitments | **9,914,953** | 7,999,953 |
| Operating lease receivable | **19,678** | 43,201 |
| Investment in associates' commitments | **44,930** | 13,535 |
| | **9,986,330** | 8,065,887 |
| **Total maximum exposure to credit risk** | **$ 53,703,513** | $ 49,275,344 |

(1) Comparative figures have been reclassified to align with current year presentation. See Note 27.

The preceding table represents a worst-case scenario of credit risk exposure to FCC at the end of the year, without considering any collateral held or other credit enhancements attached. For balance sheet assets, the exposure is based on carrying values as reported on 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 were called upon.

*26. Risk management (continued)*

**Exposure to credit risk by credit risk rating grades**

| As at March 31 | Stage 1 | Stage 2 | Stage 3 | 2021 Total |
|---|---|---|---|---|
| **On balance sheet:** | | | | |
| **Loans receivable** | | | | |
| Investment grade | $ 12,956,101 | $ 1,439,762 | $ – | $ 14,395,863 |
| Non-investment grade | 11,830,640 | 12,897,937 | 13,570 | 24,742,147 |
| Watch list | 18,968 | 196,705 | 145 | 215,818 |
| Default | – | 124,652 | 264,492 | 389,144 |
| Unassigned credit risk rating[1] | 1,363,802 | 211,928 | 27,780 | 1,603,510 |
| Loans receivable – total | 26,169,511 | 14,870,984 | 305,987 | 41,346,482 |
| Allowance for credit losses | (44,553) | (122,111) | (51,373) | (218,037) |
| **Loans receivable – net** | $ 26,124,958 | $ 14,748,873 | $ 254,614 | $ 41,128,445 |
| **Other loans receivable** | | | | |
| Low risk | $ 24,481 | $ – | $ – | $ 24,481 |
| Medium risk | 35,534 | – | – | 35,534 |
| High risk | – | – | 1,041 | 1,041 |
| Other loans receivable – gross | 60,015 | – | 1,041 | 61,056 |
| Allowance for credit losses | (702) | – | (1,041) | (1,743) |
| **Other loans receivable – net** | $ 59,313 | $ – | $ – | $ 59,313 |
| **Off balance sheet:** | | | | |
| **Loan commitments** | | | | |
| Investment grade | $ 2,848,017 | $ 160,177 | $ – | $ 3,008,194 |
| Non-investment grade | 2,204,583 | 1,241,403 | – | 3,445,986 |
| Watch list | 1,305 | 5,768 | – | 7,073 |
| Default | – | 6,886 | 1,975 | 8,861 |
| Unassigned credit risk rating[1] | 3,335,727 | 95,050 | 2,792 | 3,433,569 |
| **Loan commitments – gross[2]** | $ 8,389,632 | $ 1,509,284 | $ 4,767 | $ 9,903,683 |

(1) 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.

(2) 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 and loan commitments by credit risk rating grade and allowance stage based on FCC's internal credit risk ratings.

*26. Risk management (continued)*

**Exposure to credit risk by credit risk rating grades**

| As at March 31 | Stage 1 | Stage 2 | Stage 3 | 2020 Total |
|---|---|---|---|---|
| On balance sheet: | | | | |
| Loans receivable | | | | |
| Investment grade | $ 10,896,576 | $ 1,056,193 | $ – | $ 11,952,769 |
| Non-investment grade | 9,858,624 | 9,832,436 | – | 19,691,060 |
| Watch list | 1,136,656 | 3,489,185 | – | 4,625,841 |
| Default | – | 110,802 | 263,234 | 374,036 |
| Unassigned credit risk rating[1] | 1,232,481 | 505,500 | 31,613 | 1,769,594 |
| Loans receivable – total | 23,124,337 | 14,994,116 | 294,847 | 38,413,300 |
| Allowance for credit losses | (25,618) | (158,240) | (71,293) | (255,151) |
| Loans receivable – net | $ 23,098,719 | $ 14,835,876 | $ 223,554 | $ 38,158,149 |
| Other loans receivable | | | | |
| Low risk | $ 80,877 | $ – | $ – | $ 80,877 |
| Medium risk | – | – | – | – |
| High risk | – | – | 3,903 | 3,903 |
| Other loans receivable – gross | 80,877 | – | 3,903 | 84,780 |
| Allowance for credit losses | (591) | – | (3,903) | (4,494) |
| Other loans receivable – net | $ 80,286 | $ – | $ – | $ 80,286 |
| Off balance sheet: | | | | |
| Loan commitments | | | | |
| Investment grade | $ 2,141,208 | $ 91,976 | $ – | $ 2,233,184 |
| Non-investment grade | 1,511,883 | 919,568 | – | 2,431,451 |
| Watch list | 203,749 | 218,922 | – | 422,671 |
| Default | – | 7,478 | 4,408 | 11,886 |
| Unassigned credit risk rating[1] | 2,813,117 | 81,995 | 23 | 2,895,135 |
| Loan commitments – gross[2] | $ 6,669,957 | $ 1,319,939 | $ 4,431 | $ 7,994,327 |

(1) 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.

(2) 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 and loan commitments by credit risk rating grade and allowance stage based on FCC's internal credit risk ratings.

*26. Risk management (continued)*

### Loans receivable

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

A loan is considered 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. Gross amounts of loans that were past due but not credit-impaired were as follows:

| As at March 31 | **2021** | 2020 |
|---|---|---|
| **Past due but not credit-impaired** | | |
| Up to 30 days | **$ 132,433** | $ 594,823 |
| 31 – 60 days | **48,224** | 51,431 |
| 61 – 89 days | **12,879** | 23,545 |
| 90 days or more | **101,935** | 131,350 |
| | **$ 295,471** | $ 801,149 |

#### *Loan modifications and customer relief programs*

As part of FCC's usual lending business, the contractual terms of loans are modified from time to time for various reasons including financial difficulty of the borrower and borrower preference. In addition, FCC established relief programs to help customers experiencing financial difficulty caused by the COVID-19 pandemic, primarily through payment deferrals.

The net carrying value of loans with lifetime allowance for credit losses modified during the year ended March 31, 2021, was $4,214.1 million (2020 – $nil), including modifications for COVID-19 payment deferrals of $2,808.3 million (2020 – $nil). Modification losses of $7.2 million were recorded against interest income (2020 – $nil). As at March 31, 2021, the gross carrying value of loans modified during the year with lifetime allowance for credit losses that had changed to 12-month credit losses was $407.2 million (2020 – $nil).

### 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,

*26. Risk management (continued)*

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 4 for the quantification of counterparty credit risk.

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

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

### Credit quality

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

| As at March 31 | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Cash equivalents** | **Short–term investments** | Cash equivalents | Short–term investments |
| **Government and government guaranteed** | | | | |
| AAA | **$ 46,000** | **$ 308,841** | $ 216,852 | $ 81,934 |
| AA | **–** | **55,975** | 47,976 | 157,931 |
| AA- | **–** | **212,081** | 94,895 | 286,418 |
| A+ | **8,899** | **155,805** | 169,587 | 230,086 |
| | **54,899** | **732,702** | 529,310 | 756,369 |
| **Schedule 1 banks** | | | | |
| A-1+ | **–** | **–** | 216,704 | – |
| A-1 | **–** | **–** | 99,919 | – |
| | **–** | **–** | 316,623 | – |
| | **$ 54,899** | **$ 732,702** | $ 845,933 | $ 756,369 |

*26. Risk management (continued)*

**Other loans receivable**

FCC is exposed to credit risk through its Avrio Subordinated Debt Fund arrangements. 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 several committees, divisions and business units to effectively manage market risk. The market risk policies and limits ensure exposures to interest rate and foreign exchange risks are identified, measured, managed and reported on a timely basis. FCC's policies and processes are based on industry best practices and the Minister of Finance's Financial Risk Management Guidelines for Crown Corporations.

**Interest rate risk**

Interest rate risk is the risk that a change in 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:

| | **2021 Impact of** | | 2020 Impact of | |
|---|---|---|---|---|
| | **2% increase** | **2% decrease** | 2% increase | 2% decrease |
| Projected net interest income variability | **$ 35,400** | **$ (44,200)** | $ 41,700 | $ (50,100) |
| Limit | **(70,100)** | **(70,100)** | (64,500) | (64,500) |
| EVE variability | **(307,200)** | **241,000** | (325,000) | 237,600 |
| Limit | **(801,174)** | **(801,174)** | (723,123) | (723,123) |

*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 | Immediately rate-sensitive | Within 3 months | 3 – 12 months | 1 – 5 years | Over 5 years | Non-interest sensitive | Total 2021 | 2020 |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and cash equivalents | $ 1,226,195 | $ 24,898 | $ – | $ – | $ – | $ – | $ 1,251,093 | $ 1,724,503 |
| Yield | 0.75% | 0.10% | – | – | – | – | – | – |
| Short-term investments | – | 399,391 | 331,697 | – | – | 1,614 | 732,702 | 756,369 |
| Yield[1] | – | 0.39% | 0.22% | – | – | – | – | – |
| Derivative financial assets[2][3] | – | – | – | – | – | 4,781 | 4,781 | 12,469 |
| Yield[1] | – | – | – | – | – | – | – | – |
| Loans receivable | 15,219,343 | 2,026,312 | 6,196,933 | 14,386,471 | 3,153,314 | 146,072 | 41,128,445 | 38,158,149 |
| Yield[1] | 3.34% | 4.41% | 3.16% | 3.74% | 3.81% | – | – | – |
| Finance leases receivable | – | 5,979 | 27,400 | 107,674 | – | – | 141,053 | 99,744 |
| Yield[1] | – | 3.94% | 3.94% | 3.94% | – | – | – | – |
| Other loans receivable[4] | – | – | 12,388 | 45,714 | – | 1,211 | 59,313 | 80,286 |
| Yield[1] | – | – | 10.30% | 8.98% | – | – | – | – |
| Other[4] | – | – | – | – | – | 542,777 | 542,777 | 592,695 |
| **Total assets** | $ 16,445,538 | $ 2,456,580 | $ 6,568,418 | $ 14,539,859 | $ 3,153,314 | $ 696,455 | $ 43,860,164 | $ 41,424,215 |
| **Liabilities and equity** | | | | | | | | |
| Borrowings | $ – | $ 19,387,197 | $ 4,762,831 | $ 7,874,000 | $ 3,177,000 | $ 53,787 | $ 35,254,815 | $ 33,559,761 |
| Yield[1] | – | 0.25% | 0.85% | 1.15% | 1.04% | – | – | – |
| Derivative financial liabilities[2][3] | – | (12,575) | – | 12,575 | – | 322 | 322 | 535 |
| Yield[1] | – | 0.11% | – | 1.75% | – | – | – | – |
| Other | – | – | – | – | – | 592,405 | 592,405 | 611,450 |
| Shareholder's equity | – | – | – | – | – | 8,012,622 | 8,012,622 | 7,252,469 |
| **Total liabilities and equity** | $ – | $ 19,374,622 | $ 4,762,831 | $ 7,886,575 | $ 3,177,000 | $ 8,659,136 | $ 43,860,164 | $ 41,424,215 |
| **Total gap 2021** | $ 16,445,538 | $ (16,918,042) | $ 1,805,587 | $ 6,653,284 | $ (23,686) | $ (7,962,681) | $ – | $ – |
| **Total cumulative gap 2021** | $ 16,445,538 | $ (472,504) | $ 1,333,083 | $ 7,986,367 | $ 7,962,681 | $ – | $ – | $ – |
| Total gap 2020 | $ 16,291,029 | $ (15,452,901) | $ 639,251 | $ 4,952,400 | $ 739,069 | $ (7,168,848) | $ – | $ – |
| Total cumulative gap 2020 | $ 16,291,029 | $ 838,128 | $ 1,477,379 | $ 6,429,779 | $ 7,168,848 | $ – | $ – | $ – |

[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.

[4] Comparative figures have been reclassified to align with current year presentation (see Note 27). In addition, equity investments of $2,718 and investment of associates of $39,499 have been reclassified to the Other category as these balances are non-interest bearing.

*26. Risk management (continued)*

**Residual value risk**

FCC, as a lessor, is exposed to residual value risk due to the risk of selling its leased equipment at the end of the lease term at an amount below the residual value. FCC manages its risk of the rights it retains in underlying assets by reviewing the residual values of its leased equipment on an annual basis to ensure they are within fair market value ranges and by entering agreements with third parties to either ensure its residual values are fully recovered or to sell the equipment on FCC's behalf at an amount approved by FCC.

**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 $72.5 million (2020 – $37.4 million). Foreign exchange losses in the year were $75.7 million (2020 – $35.1 million).

**Derivatives**

FCC uses derivatives to economically 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 composed of Canadian Long Bonds that match a portion of the plans' assets to the plans' liabilities. The current target composition of the plans' portfolios 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 15.5 years and the leveraged Canadian Long Bonds have a duration of 47.0 years. Overall, the registered pension plans' assets are estimated to be 10.4 years while the liabilities are estimated to be 18.0 years. The supplemental pension plans' liabilities are estimated to be 18.5 years and the assets have no duration.

*26. Risk management (continued)*

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.

**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 $1,983.8 million were on hand as at March 31, 2021 (2020 – $2,480.9 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

The following table shows the undiscounted cash flows of FCC's financial liabilities based on 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.

*26. Risk management (continued)*

## Residual contractual maturities of financial liabilities

| As at March 31 | 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Carrying value** | **Gross nominal outflow** | **Less than 1 month** | **1 – 3 months** | **3 – 12 months** | **1 – 5 years** | **Over 5 years** |
| **Non-derivative financial liabilities** | | | | | | | |
| Accounts payable and accrued liabilities | **$ 76,122** | **$ 76,122** | **$ 29,773** | **$ 1,261** | **$ 44,405** | **$ 683** | **$ –** |
| Borrowings | **35,254,815** | **35,254,702** | **1,510,422** | **1,657,892** | **9,409,789** | **15,444,599** | **7,232,000** |
| Transition loan liabilities | **191,563** | **194,159** | **16,137** | **18,900** | **42,509** | **116,545** | **68** |
| Other liabilities | **7,352** | **7,352** | **1,206** | **1,673** | **3,984** | **489** | **–** |
| | **35,529,852** | **35,532,335** | **1,557,538** | **1,679,726** | **9,500,687** | **15,562,316** | **7,232,068** |
| **Derivative financial liabilities** | **322** | **322** | **4** | **–** | **–** | **318** | **–** |
| | **$ 35,530,174** | **$ 35,532,657** | **$ 1,557,542** | **$ 1,679,726** | **$ 9,500,687** | **$ 15,562,634** | **$ 7,232,068** |

| As at March 31 | 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying value | Gross nominal outflow | Less than 1 month | 1 – 3 months | 3 – 12 months | 1 – 5 years | Over 5 years |
| Non-derivative financial liabilities | | | | | | | |
| Accounts payable and accrued liabilities | $ 78,392 | $ 78,392 | $ 29,221 | $ 2,263 | $ 42,186 | $ 4,722 | $ – |
| Borrowings | 33,559,761 | 33,559,102 | 1,148,351 | 1,774,701 | 7,074,090 | 19,362,960 | 4,199,000 |
| Transition loan liabilities | 195,223 | 199,680 | 15,618 | 18,562 | 45,071 | 120,085 | 344 |
| Other liabilities | 7,981 | 7,981 | 692 | 1,666 | 5,206 | 417 | – |
| | 33,841,357 | 33,845,155 | 1,193,882 | 1,797,192 | 7,166,553 | 19,488,184 | 4,199,344 |
| Derivative financial liabilities | 535 | 535 | 2 | – | – | 533 | – |
| | $ 33,841,892 | $ 33,845,690 | $ 1,193,884 | $ 1,797,192 | $ 7,166,553 | $ 19,488,717 | $ 4,199,344 |

## 27. Reclassification of comparative figures

FCC previously classified its consolidated net debt investments and equity investments under the category Venture Capital Investments in its financial statements. Equity investments have grown significantly this fiscal year, therefore FCC is presenting the debt and equity portions separately as Other Loans Receivable and Equity Investments to better represent the underlying substance of the transactions.

FCC previously netted its cash inflows and outflows from Investment in Associates in its Consolidated Statement of Cash Flows. Since this balance is growing, FCC is presenting on a gross basis.

Therefore the following comparative figures have been reclassed to align with current year presentation. The impacts as at March 31, 2020 are shown below:

| As at March 31 | 2020 As previously reported | 2020 Reclassification | 2020 Reclassified |
|---|---|---|---|
| **Consolidated Balance Sheet – Assets** | | | |
| Venture capital investments | $ 83,004 | $ (83,004) | $ – |
| Other loans receivable | – | 80,286 | 80,286 |
| Equity investments | – | 2,718 | 2,718 |
| **Consolidated Statement of Cash Flows – Investing activities** | | | |
| Net cash (outflow) inflow from investment in associates | $ (667) | $ 667 | $ – |
| Disbursements paid to investment in associates | – | (12,813) | (12,813) |
| Repayments from investment in associates | – | 12,146 | 12,146 |

# 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

A term created by FCC to describe an individual or group who actively promotes agriculture in respectful and meaningful ways. Agvocates believe that agriculture is a modern and dynamic industry with value that needs to be better understood, recognized and advanced among industry stakeholders and the general public.

### Alliances

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

### Allowance for credit losses

Management's best estimate of credit losses incurred on 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 and non-controlling interest.

### 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. This non-GAAP measure excludes net income (loss) from investment in associates and foreign exchange gain (loss).

### 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 earning 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.

### Quota

Quota is an intangible or incorporeal asset that's a license, or right, to sell a certain amount of a specific commodity. It includes supply-managed industries like dairy, egg and poultry (broiler, broiler-breeder, turkey, turkey breeder, layer, layer pullet and breeder pullet).

### Return on equity (ROE)

Net income attributable to the shareholder of the parent entity expressed as a percentage of total average equity, excluding accumulated other comprehensive income and non-controlling interest.

### 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, Outlook (S), Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Unity (S), 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 (S), Owen Sound, St. Catharines, Sarnia, Simcoe, Stratford, Thornton, Walkerton, Woodstock

## 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

## Corporate office

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Fax: 306-780-5167
TTY: 306-780-6974
Toll-free TTY: 1-866-205-0013

## Customer Service Centre

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