DREAM. GROW. THRIVE.

Second Quarter Financial Report 2021-22

As at and for the three and six months ended September 30, 2021

FARM CREDIT CANADA

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Contact Corporate Communication at communications@fcc-fac.ca for more information

Management's Discussion and Analysis

Basis of preparation of financial information

The following management's discussion and analysis (MD&A) of the financial position and results of operations of Farm Credit Canada (FCC) was prepared by management. Pursuant to the authority delegated by FCC's Board of Directors, this MD&A was reviewed and approved for issue by the Audit Committee of the Board on November 18, 2021. This MD&A was prepared in accordance with the Treasury Board of Canada's Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports.

This MD&A is based on FCC's unaudited condensed consolidated quarterly financial statements (quarterly financial statements) as at and for the three and six months ended September 30, 2021, and should be read in conjunction with our 2021 Annual Report (which includes our annual audited consolidated financial statements and MD&A) and Corporate Plan Summary.[1]

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 nature, assumptions are subject to inherent risks and uncertainties. There is a 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.

Overview

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. We are 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.

Economic and agriculture industry overview

The Canadian agriculture and agri-food industry continues to experience several challenges due to the COVID-19 pandemic, supply chain disruptions, market access, and reduced production of crops and feed in western Canada. The rollout of COVID-19 vaccines and the lessening of restrictions have boosted Canadian consumer spending, creating increased optimism for food services. Drought in the Prairie provinces reduced production, creating concerns for livestock producers, domestic processors, and exporters. Specifically for livestock producers, the drought has resulted in reduced feed and water availability. Despite these challenges, demand for commodities and food is robust.

Farm cash receipts increased 12.4% for the first half of 2021 compared to the same period in 2020 as higher commodity prices helped offset lower production. Gross domestic product (GDP) is expected to grow by around 6% in 2021, initially led by commodity exports and higher investments followed by higher household consumption and the rebound in service industries. Supply chain disruptions, strong consumer demand and higher energy prices are pushing inflation higher. Inflation is expected to remain above the Bank of Canada's upper boundary of 3% through the remainder of the year. Potential exists for rising long-term interest rates as inflationary pressures appear in the economy.

In 2021, grain, oilseed and pulse production in the Prairie provinces declined an estimated 40% compared to 2020 and 36% below the five-year average. Offsetting these concerns are stronger commodity prices. In eastern Canada, timely rains and strong crop prices have created a sense of optimism as margins are expected to be very strong. Business risk management programs will also help to support financial health of the sector in 2021.

Feed is a concern in western Canada as yields have been significantly reduced and quality is extremely variable across regions. Cow-calf margins in western Canada are expected to be very tight, while margins in eastern Canada are expected to be positive given good growing conditions. Margins for feedlots are below break-even as feed prices remain elevated compared to the long-term average due to the drought in western Canada. To support the cattle sector, the federal and provincial governments are allowing producers to defer income for the sale of cattle for 2021 due to the culling of their herds. This will help producers rebuild in 2022. Other livestock sectors also experience tight margins because of high feed prices.

The ongoing drought situation in western Canada is expected to weaken the short-term outlook for agribusiness as producers delay spending on farm inputs until the spring of 2022. The reduced size of the 2021 crop will also result in less grain handled, processed and transported for 2021-22. Rising global ocean freight rates have increased costs for grain merchants and agribusinesses, and rising energy prices and curtailed global production are driving fertilizer, chemical and fuel prices higher. Traditionally, this would cause producers to delay purchases of crop inputs, however, supply chain constraints are expected to result in shortages of agricultural chemicals and fertilizers.

[1] These documents are available at www.fcc-fac.ca/en/about-fcc/governance/reports.html

Food and beverage manufacturing sales are up 11.8% in 2021 compared to 2020. Sales growth has been led by grain and oilseed milling, seafood, sugar and confection products. Grain and oilseed milling sales have benefited from higher prices while seafood, sugar and confection products are seeing a rebound in volume from food services. Capacity utilization remains below pre-COVID-19 levels as manufacturers struggle finding labour.

FCC is actively monitoring the following emerging trends:

- Interest rates: impact on working capital and the ability of businesses to service debt from a sharp and/or sudden rate increase
- Rising Canadian dollar: the competitiveness of agriculture and food exports in the global economy as well as the cost of importing equipment and other inputs
- Labour: businesses are struggling to find labour at desired wages and continue to look to foreign labour as a solution
- Inflationary pressures: impact on interest rates, farm input prices (notably fertilizer and agriculture chemicals), food prices and consumer demand
- Farm equipment: shortages of semiconductors, rising freight costs, material surcharges, plant strikes and temporary closures are expected to increase farm equipment prices and delays in delivery
- Transportation: rising costs and access to shipping containers due to supply chain challenges
- Trade: United States is challenging the current process for U.S. dairy products to enter Canada as part of the Canada-United States-Mexico Agreement. Market access challenges exist for Canadian canola exports to China and pea exports to India. Lower market opportunities for Canadian pork as the Chinese hog recovers and expands from the effects of African Swine Fever

Enterprise risk management

FCC continues to follow our Enterprise Risk Management framework as discussed in the annual audited financial statements for the year-ended March 31, 2021.

FCC fulfils an essential service to the economy. In response to the COVID-19 pandemic, the corporation adapted the way work is completed to continue to serve the agriculture and agri-food industry. Changes included adapting to physical distancing and the use of personal protective equipment to provide a safe and healthy environment for employees, customers and those who enter FCC facilities. In response to the mandatory vaccination requirement for the federal workforce, FCC has implemented a vaccination policy and is monitoring employee retention and developing continuity plans to proactively address impacts on staffing.

FCC establishes customer support programs to ensure producers, agribusinesses and food processors remain focused on business-critical functions throughout agriculture-related emergencies or unforeseen industry crises. FCC's customers affected by COVID-19 were provided support to sustain operations throughout the pandemic. The program has been well used and is supported through the Government of Canada's enhancement to FCC's capital base. In total, 88% of COVID-19 deferrals have expired as of September 30, 2021, with nearly all (98%) returning to making regular payments.

To address adverse weather conditions affecting FCC's customers and the agriculture industry in western Canada, FCC launched a support program to reduce financial pressures on those impacted by unfavourable weather. FCC remains financially stable and is well positioned to respond to the needs of the sector.

Financial results

Our discussion of net income is a comparison of the results for the three and six months ended September 30, 2021, to the results for the three and six months ended September 30, 2020.

Net income overview

($ millions)	Three months ended September 30, 2021	Three months ended September 30, 2020	Variance	Six months ended September 30, 2021	Six months ended September 30, 2020	Variance
Net interest income	**$ 337**	$ 327	$ 10	**$ 669**	$ 640	$ 29
Provision for credit losses	**(7)**	3	(10)	**22**	(39)	61
Non-interest income	**5**	4	1	**9**	9	–
Administration expenses	**(117)**	(117)	–	**(242)**	(231)	(11)
Fair value adjustment	**–**	(2)	2	**(1)**	(4)	3
Net income	**218**	215	3	**457**	375	82

Three months ended September 30
The increase in net interest income was due to continued loan portfolio growth.

FCC's provision for credit losses increased due to a decreased impact of COVID-19 on our loan portfolio compared to the same period in the prior year.

Six months ended September 30
The increase in net interest income was due to continued growth in our loan portfolio. This increase was partially offset by a lower margin on lending activity.

The provision for credit losses decreased over the six-month period due to COVID-19 support program payment deferrals ending and those customers resuming regular payments.

The increase in administration expenses was primarily due to higher salaries and benefits compared to last year due to more employees required to support FCC's loan portfolio and enhance the customer experience.

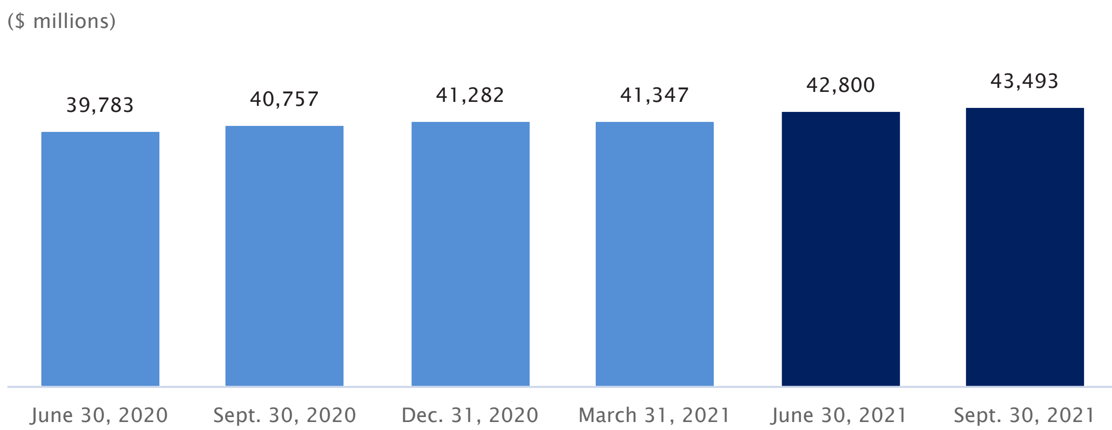
The following balance sheet analysis explores the change in assets, liabilities and equity as at September 30, 2021, compared to March 31, 2021.

Balance sheet overview

($ millions)	September 30, 2021	March 31, 2021	Variance
Total assets	**$ 46,063**	$ 43,860	$ 2,203
Total liabilities	**38,154**	35,847	2,307
Equity	**7,909**	8,013	(104)
Total loans receivable	**43,493**	41,347	2,146
Allowance for credit losses – loans receivable	**(184)**	(218)	34
Total borrowings	**37,047**	35,255	1,792

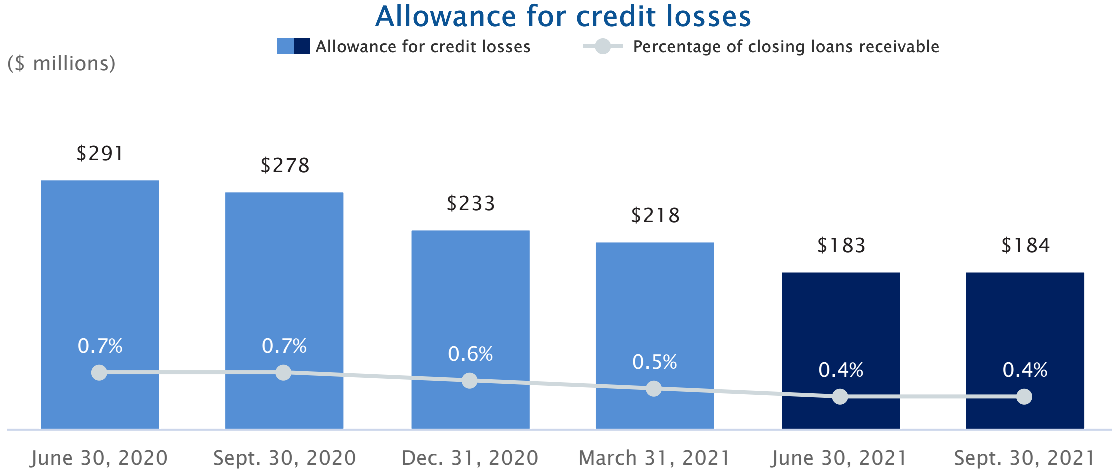
The decrease in equity was due to a dividend declared by the Board on August 25, 2021, for $560 million payable to the Government of Canada.

Total loans receivable



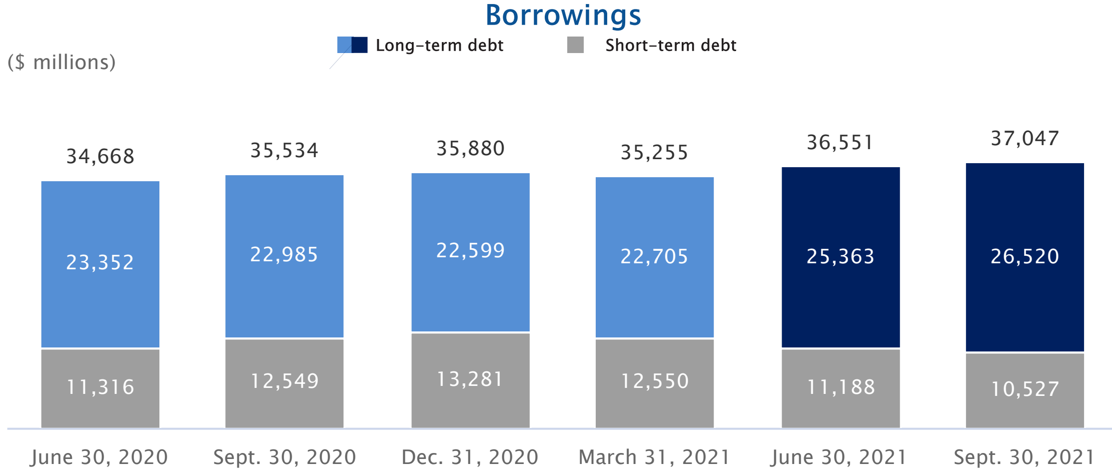
Loans receivable have experienced growth of 5.2% in six months from March 31, 2021. Growth is supported by increased demand for commodities and rising prices following the economic recovery from the pandemic.

Allowance for credit losses



The decrease in the allowance for credit losses since March 31, 2021, was primarily due to improvements in credit risk related to the ending of COVID-19 payment deferral programs with resumption of regular payments for most of these customers. This decrease was offset by an increase in the allowance associated with portfolio growth.

Borrowings



Borrowings increased to fund the growth in loans receivable. Changes in the composition of short-term and long-term borrowings year-to-date were mostly due to decreases in long-term debt due within one year.

Cash flow overview

($ millions)	Three months ended September 30, 2021	September 30, 2020	Variance	Six months ended September 30, 2021	September 30, 2020	Variance
Cash used in operating activities	**$ (507)**	$ (802)	$ 295	**$ (1,742)**	$ (1,979)	$ 237
Cash used in investing activities	**(4)**	(52)	48	**(5)**	(398)	393
Cash provided by financing activities	**497**	860	(363)	**1,787**	1,974	(187)
Change in cash and cash equivalents	**(14)**	6	(20)	**40**	(403)	443

Three months ended September 30

Cash used in operating activities decreased primarily because of a larger number of loan prepayments received compared to the previous year.

Cash provided by financing activities decreased due to reduced liquidity requirements as the economy recovers from the COVID-19 pandemic.

Six months ended September 30

Cash used in operating activities decreased due to more loan prepayments received, somewhat offset by loan portfolio growth.

Cash used in investing activities decreased primarily due to reduced liquidity requirements as the economy recovers from COVID-19.

Cash provided by financing activities decreased due to debt repayments, somewhat offset by an increase in debt issuances to accommodate loan portfolio growth.

Subsequent events

Adverse weather events that occurred in British Columbia in November 2021 may have an impact on FCC's financial position and operating results, however the impact of these events is unknown at this time.

Outlook against Corporate Plan Summary

FCC is projected to meet all year-end financial targets as outlined in the Corporate Plan Summary for 2021-22 to 2025-26. We continue to monitor and evaluate the impacts to portfolio growth, credit quality and net income.

Measure	Outlook
Net income	On track with Corporate Plan
Return on equity	On track with Corporate Plan
Efficiency ratio[1]	On track with Corporate Plan
Total capital ratio[1]	On track with Corporate Plan

[1] These measures 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 of the annual audited financial statements for the year ended March 31, 2021.

Statement of management responsibility

Management is responsible for the preparation and fair presentation of these condensed consolidated quarterly financial statements in accordance with the Treasury Board of Canada's Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports, and for such internal controls as management determines is necessary to enable the preparation of condensed consolidated quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the condensed consolidated quarterly financial statements.

Based on our knowledge, these unaudited condensed consolidated quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the condensed consolidated quarterly financial statements.

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

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

Regina, Canada
November 18, 2021

Consolidated Balance Sheet

(Unaudited) (thousands of Canadian dollars)	September 30, 2021	March 31, 2021
Assets		
Cash and cash equivalents	**$ 1,290,760**	$ 1,251,093
Short-term investments	**724,994**	732,702
Accounts receivable and prepaid expenses	**33,348**	38,176
Derivative financial assets	**–**	4,781
	2,049,102	2,026,752
Loans receivable – net (Notes 2 and 3)	**43,308,417**	41,128,445
Finance leases receivable – net	**144,521**	141,053
Other loans receivable – net	**60,660**	59,313
Equity investments	**43,117**	28,398
Investment in associates	**59,777**	57,839
Post-employment benefit assets	**148,650**	143,886
	43,765,142	41,558,934
Property and equipment	**228,344**	248,323
Intangible assets	**14,212**	19,990
Other assets	**5,921**	6,165
	248,477	274,478
Total assets	**$ 46,062,721**	$ 43,860,164
Liabilities		
Accounts payable and accrued liabilities (Note 4)	**$ 615,223**	$ 76,122
Derivative financial liabilities	**231**	322
	615,454	76,444
Borrowings (Note 5)		
Short-term debt	**10,526,897**	12,550,153
Long-term debt	**26,520,491**	22,704,662
	37,047,388	35,254,815
Transition loan liabilities	**176,684**	191,563
Post-employment benefit liabilities	**137,208**	142,266
Lease liabilities	**171,691**	174,492
Other liabilities	**5,523**	7,352
	491,106	515,673
Total liabilities	**38,153,948**	35,846,932
Equity		
Contributed capital	**500,000**	500,000
Retained earnings	**7,408,156**	7,511,133
Accumulated other comprehensive income	**–**	1,489
Equity attributable to shareholder of parent entity	**7,908,156**	8,012,622
Non-controlling interest	**617**	610
	7,908,773	8,013,232
Total liabilities and equity	**$ 46,062,721**	$ 43,860,164

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

Consolidated Statement of Income

(Unaudited) (thousands of Canadian dollars)	Three months ended September 30, 2021	 September 30, 2020	Six months ended September 30, 2021	 September 30, 2020
Interest income	$ 392,832	$ 400,301	$ 779,620	$ 792,229
Interest expense	55,808	72,432	110,404	152,693
Net interest income	337,024	327,869	669,216	639,536
Provision for credit losses	(6,616)	3,180	21,708	(38,718)
Net interest income after provision for credit losses	330,408	331,049	690,924	600,818
Insurance distribution income	3,813	5,923	9,671	11,803
Net income (loss) from investment in associates	464	(608)	(617)	163
Net foreign exchange gain (loss)	661	(1,012)	340	(2,675)
Other expense	(275)	(627)	(868)	(613)
Net interest income and non-interest income	335,071	334,725	699,450	609,496
Administration expenses				
Salary and benefits	74,486	69,481	152,521	141,075
Other	42,481	47,553	89,262	89,668
Total administration expenses	116,967	117,034	241,783	230,743
Net income before fair value adjustment	218,104	217,691	457,667	378,753
Fair value adjustment	204	(2,378)	(519)	(4,155)
Net income	$ 218,308	$ 215,313	$ 457,148	$ 374,598
Net income attributable to:				
Shareholder of parent entity	$ 218,296	$ 215,395	$ 457,123	$ 374,708
Non-controlling interest	12	(82)	25	(110)

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

Consolidated Statement of Comprehensive Income

(Unaudited) (thousands of Canadian dollars)	Three months ended September 30, 2021	 September 30, 2020	Six months ended September 30, 2021	 September 30, 2020
Net income	$ 218,308	$ 215,313	$ 457,148	$ 374,598
Other comprehensive income				
Transfer of net realized gains on derivatives designated as cash flow hedges to net income	–	(5,475)	(1,489)	(10,890)
Total comprehensive income	$ 218,308	$ 209,838	$ 455,659	$ 363,708
Total comprehensive income attributable to:				
Shareholder of parent entity	$ 218,296	$ 209,920	$ 455,634	$ 363,818
Non-controlling interest	12	(82)	25	(110)

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

Consolidated Statement of Changes in Equity

For the three months ended September 30

(Unaudited) (thousands of Canadian dollars)	Balance June 30, 2021	Net income	Other comprehensive income	Dividend declared	Distributions to non-controlling interest	Balance September 30, 2021
Contributed capital	**$ 500,000**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 500,000**
Retained earnings	**7,749,960**	**218,296**	**–**	**(560,100)**	**–**	**7,408,156**
Total equity attributable to parent	**8,249,960**	**218,296**	**–**	**(560,100)**	**–**	**7,908,156**
Non-controlling interest	**616**	**12**	**–**	**–**	**(11)**	**617**
Total	**$ 8,250,576**	**$ 218,308**	**$ –**	**$ (560,100)**	**$ (11)**	**$ 7,908,773**

(Unaudited) (thousands of Canadian dollars)	Balance June 30, 2020	Net income	Other comprehensive income	Dividend declared	Contributions from non-controlling interest	Balance September 30, 2020
Contributed capital	$ 500,000	$ –	$ –	$ –	$ –	$ 500,000
Retained earnings	6,890,545	215,395	–	–	–	7,105,940
Net gains (transfer of net gains) on derivatives previously designated as cash flow hedges	15,822	–	(5,475)	–	–	10,347
Total accumulated other comprehensive income	15,822	–	(5,475)	–	–	10,347
Total equity attributable to parent	7,406,367	215,395	(5,475)	–	–	7,616,287
Non-controlling interest	784	(82)	–	–	28	730
Total	$ 7,407,151	$ 215,313	$ (5,475)	$ –	$ 28	$ 7,617,017

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

Consolidated Statement of Changes in Equity

For the six months ended September 30

(Unaudited) (thousands of Canadian dollars)	Balance March 31, 2021	Net income	Other comprehensive income	Dividend declared	Distributions to non-controlling interest	Balance September 30, 2021
Contributed capital	$ 500,000	$ –	$ –	$ –	$ –	$ 500,000
Retained earnings	7,511,133	457,123	–	(560,100)	–	7,408,156
Net gains (transfer of net gains) on derivatives previously designated as cash flow hedges	1,489	–	(1,489)	–	–	–
Total accumulated other comprehensive income	1,489	–	(1,489)	–	–	–
Total equity attributable to parent	8,012,622	457,123	(1,489)	(560,100)	–	7,908,156
Non-controlling interest	610	25	–	–	(18)	617
Total	$ 8,013,232	$ 457,148	$ (1,489)	$ (560,100)	$ (18)	$ 7,908,773

(Unaudited) (thousands of Canadian dollars)	Balance March 31, 2020	Net income	Other comprehensive income	Dividend declared	Contributions from non-controlling interest	Balance September 30, 2020
Contributed capital	$ 500,000	$ –	$ –	$ –	$ –	$ 500,000
Retained earnings	6,731,232	374,708	–	–	–	7,105,940
Net gains (transfer of net gains) on derivatives previously designated as cash flow hedges	21,237	–	(10,890)	–	–	10,347
Total accumulated other comprehensive income	21,237	–	(10,890)	–	–	10,347
Total equity attributable to parent	7,252,469	374,708	(10,890)	–	–	7,616,287
Non-controlling interest	807	(110)	–	–	33	730
Total	$ 7,253,276	$ 374,598	$ (10,890)	$ –	$ 33	$ 7,617,017

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

Consolidated Statement of Cash Flows

(Unaudited) (thousands of Canadian dollars)	Three months ended September 30, 2021	 September 30, 2020	Six months ended September 30, 2021	 September 30, 2020
Operating activities				
Net income	**$ 218,308**	$ 215,313	**$ 457,148**	$ 374,598
Adjustments to determine net cash (used in) provided by operating activities:				
Net interest income	**(337,024)**	(327,869)	**(669,216)**	(639,536)
Provision for credit losses	**6,616**	(3,180)	**(21,708)**	38,718
Fair value adjustment	**(204)**	2,378	**519**	4,155
Net (income) loss from investment in associates	**(464)**	608	**617**	(163)
Amortization and depreciation	**9,416**	9,657	**19,139**	19,259
Net unrealized foreign exchange (gains) losses	**(23,429)**	16,809	**(11,474)**	38,740
Net cash outflow from loans receivable	**(588,183)**	(903,201)	**(2,069,965)**	(2,331,056)
Net cash outflow from finance leases receivable	**(1,415)**	(17,953)	**(725)**	(32,365)
Net change in other operating assets and liabilities	**(37,387)**	(30,582)	**(42,353)**	(21,281)
Interest received	**299,015**	304,867	**705,713**	725,855
Interest paid	**(52,695)**	(68,948)	**(109,945)**	(155,868)
Cash used in operating activities	**$ (507,446)**	$ (802,101)	**$ (1,742,250)**	$ (1,978,944)
Investing activities				
Net cash inflow (outflow) from short-term investments	**$ 2,444**	$ (46,886)	**$ 6,776**	$ (385,766)
Net cash outflow from other loans receivable	**(38)**	(3,265)	**(371)**	(4,400)
Acquisition of equity investments	**(8,900)**	–	**(14,861)**	–
Disbursements paid to investment in associates	**(163)**	(2,940)	**(2,829)**	(11,553)
Repayments from investment in associates	**–**	–	**274**	–
Purchase of property and equipment	**(570)**	(1,505)	**(2,437)**	(2,497)
Proceeds on disposal of property and equipment	**4,038**	3,954	**9,163**	8,664
Purchase of intangible assets	**(662)**	(929)	**(1,034)**	(2,345)
Cash used in investing activities	**$ (3,851)**	$ (51,571)	**$ (5,319)**	$ (397,897)
Financing activities				
Long-term debt issued	**$ 2,630,000**	$ 1,907,000	**$ 7,555,000**	$ 4,182,000
Long-term debt repaid	**(2,540,000)**	(1,146,000)	**(6,076,356)**	(2,529,034)
Short-term debt issued	**2,957,972**	2,784,700	**5,893,875**	5,858,204
Short-term debt repaid	**(2,547,112)**	(2,682,060)	**(5,577,931)**	(5,529,728)
Principal repayment of lease liabilities	**(3,806)**	(3,575)	**(7,584)**	(7,090)
Cash provided by financing activities	**$ 497,054**	$ 860,065	**$ 1,787,004**	$ 1,974,352
Change in cash and cash equivalents	**$ (14,243)**	$ 6,393	**$ 39,435**	$ (402,489)
Cash and cash equivalents, beginning of period	**1,304,733**	1,316,086	**1,251,093**	1,724,503
Effects of exchange rate changes on the balances of cash held and due in foreign currencies	**270**	541	**232**	1,006
Cash and cash equivalents, end of period	**$ 1,290,760**	$ 1,323,020	**$ 1,290,760**	$ 1,323,020
Cash and cash equivalents consists of:				
Cash	**$ 1,290,760**	$ 1,168,635	**$ 1,290,760**	$ 1,168,635
Short-term investments	**–**	154,385	**–**	154,385

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

Notes to the Condensed Consolidated Quarterly Financial Statements (Unaudited)

1. Significant accounting policies

Basis of presentation

These unaudited condensed consolidated quarterly financial statements (quarterly financial statements) comply with the Treasury Board of Canada's Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports.

These quarterly financial statements do not include all the information required for complete annual financial statements and should be read in conjunction with the annual audited financial statements for the year ended March 31, 2021.

Three items previously reported on the Consolidated Balance Sheet, "Equipment and leasehold improvements", "Equipment under operating leases" and "Right-of-use assets" have been combined into a single item, "Property and equipment".

Unless otherwise stated, all dollar amounts presented in the Notes to the Condensed Consolidated Quarterly Financial Statements are in thousands of Canadian dollars, which is the functional currency of Farm Credit Canada (FCC).

These quarterly financial statements are as at and for the three and six months ended September 30, 2021, and were approved and authorized for issue by the Audit Committee of the Board of Directors on November 18, 2021.

Accounting policies

The accounting policies adopted in the preparation of these quarterly financial statements are consistent with those followed in the annual audited financial statements for the year ended March 31, 2021.

Significant management judgments and estimates

The preparation of the quarterly financial statements requires that management makes judgments, estimates and assumptions concerning the future that affect the reported amounts in the quarterly 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.

For information about the judgments, estimates and assumptions that have the most significant effect on the amounts reported in the quarterly financial statements, refer to Note 2 of the annual audited financial statements for the year ended March 31, 2021.

2. Loans receivable – net

	Term to maturity				
	Within 1 year	**1 – 5 years**	**Over 5 years**	**As at September 30, 2021**	As at March 31, 2021
Floating	**$ 4,830,217**	**$ 11,358,947**	**$ 271,480**	**$ 16,460,644**	$ 15,732,412
Fixed	**5,396,878**	**14,680,090**	**7,002,493**	**27,079,461**	25,659,625
Loans receivable – gross	**$ 10,227,095**	**$ 26,039,037**	**$ 7,273,973**	**43,540,105**	41,392,037
Deferred loan fees				**(47,426)**	(45,555)
Loans receivable – total				**43,492,679**	41,346,482
Allowance for credit losses (Note 3)				**(184,262)**	(218,037)
Loans receivable – net				**$ 43,308,417**	$ 41,128,445

Concentrations of credit risk

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

Sector distribution

	As at September 30, 2021		As at March 31, 2021	
	Gross	**Impaired**	Gross	Impaired
Oilseed and grain	**$ 13,932,294**	**$ 101,840**	$ 13,502,917	$ 79,628
Dairy	**6,815,697**	**18,236**	6,678,425	15,697
Agribusiness	**4,981,550**	**58,772**	4,891,151	49,017
Beef	**3,705,848**	**68,696**	3,549,528	62,061
Other	**2,905,055**	**38,398**	2,776,938	25,858
Poultry	**2,895,508**	**12,904**	2,848,649	7,076
Alliances	**2,169,748**	**27,107**	1,459,956	26,679
Greenhouse	**1,761,533**	**3,253**	1,535,782	2,072
Agri-food	**1,748,032**	**22,022**	1,610,562	20,798
Hogs	**1,322,682**	**15,085**	1,319,560	3,174
Fruit	**1,302,158**	**6,888**	1,218,569	13,947
Total	**$ 43,540,105**	**$ 373,201**	$ 41,392,037	$ 306,007

Geographic distribution

	As at September 30, 2021		As at March 31, 2021	
	Gross	**Impaired**	Gross	Impaired
Ontario	**$ 12,480,400**	**$ 38,512**	$ 11,912,436	$ 34,593
Saskatchewan	**8,236,562**	**80,503**	7,751,631	62,851
Alberta	**8,183,339**	**104,121**	7,784,951	89,451
Quebec	**5,972,860**	**58,850**	5,679,918	16,142
British Columbia	**3,900,509**	**30,781**	3,709,917	31,674
Manitoba	**3,456,713**	**41,324**	3,256,442	33,666
Atlantic	**1,309,722**	**19,110**	1,296,742	37,630
Total	**$ 43,540,105**	**$ 373,201**	$ 41,392,037	$ 306,007

3. Allowance for credit losses – loans receivable

As at September 30, 2021	Stage 1	Stage 2	Stage 3	Total
Allowance for credit losses, beginning of year	$ 44,553	$ 122,111	$ 51,373	$ 218,037
Transfer to stage 1	21,053	(20,173)	(880)	–
Transfer to stage 2	(4,024)	11,593	(7,569)	–
Transfer to stage 3	(281)	(3,666)	3,947	–
Changes due to new loans originated	28,760	2,166	3,104	34,030
Loans receivable derecognized during the period	(5,300)	(7,313)	(6,313)	(18,926)
Net remeasurement of loss allowance	(29,637)	(31,102)	26,585	(34,154)
Writeoffs	–	(462)	(14,729)	(15,191)
Recoveries of amounts previously written off	–	42	410	452
Losses covered under Hog Industry Loan Loss Reserve Program	(2)	(4)	20	14
Total allowance	$ 55,122	$ 73,192	$ 55,948	$ 184,262

As at March 31, 2021	Stage 1	Stage 2	Stage 3	Total
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 receivable derecognized during the period	(10,909)	(10,447)	(11,541)	(32,897)
Net remeasurement of loss allowance	(26,320)	(36,539)	31,417	(31,442)
Writeoffs	–	(661)	(37,254)	(37,915)
Recoveries of amounts previously written off	–	74	625	699
Losses covered under Hog Industry Loan Loss Reserve Program	3	(12)	102	93
Changes to allowance model parameters	12,800	2,000	200	15,000
Total allowance	$ 44,553	$ 122,111	$ 51,373	$ 218,037

4. Accounts payable and accrued liabilities

Included in Accounts payable and accrued liabilities is a $560 million dividend, payable to the Government of Canada upon approval of our amended Corporate Plan reflecting this dividend.

5. Borrowings

Short-term debt

		As at September 30, 2021		As at March 31, 2021
Government of Canada debt				
Floating-rate borrowings	**$**	**3,140,232**	$	4,695,209
Fixed-rate borrowings		**6,717,785**		7,003,080
		9,858,017		11,698,289
Capital markets debt				
USD fixed-rate promissory notes[1]		**668,880**		563,342
Retail and institutional fixed-rate notes		**–**		288,522
		668,880		851,864
Total	**$**	**10,526,897**	$	12,550,153

[1] $525 million USD (March 31, 2021 – $448 million USD)

Long-term debt

		As at September 30, 2021		As at March 31, 2021
Government of Canada debt				
Floating-rate borrowings	**$**	**14,071,076**	$	11,610,371
Fixed-rate borrowings		**12,449,413**		11,094,291
Total	**$**	**26,520,489**	$	22,704,662

6. Subsequent events

Adverse weather events that occurred in British Columbia in November 2021 may have an impact on FCC's financial position and operating results, however the impact of these events is unknown at this time.