DREAM. GROW. THRIVE.

Third Quarter Financial Report 2021-22

As at and for the three and nine months ended December 31, 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 February 24, 2022. 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 nine months ended December 31, 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 differences include changes in general economic and market conditions. Examples of such changes include, but are not limited to, inflationary pressure, interest rates and supply chain challenges.

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 initial loosening of restrictions 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. Despite these challenges, demand for commodities and food is robust.

Farm cash receipts increased 11.0% for the first three quarters of the 2021 calendar year compared to the same period in 2020 as higher commodity prices helped offset lower production. Gross domestic product (GDP) grew by an estimated 4.6% in 2021 and is expected to grow by around 4.0% in 2022, 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 target rate through the first half of 2022, resulting in multiple interest rate increases.

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.

Feed is a concern in western Canada as yields have been significantly reduced and quality is extremely variable. 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 in 2021 due to the culling of their herds. This will help producers rebuild in 2022. Other livestock sectors also experienced 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 there is less grain to be handled, processed and transported for the 2021-22 crop year. 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.

Food and beverage manufacturing sales are up 13.9% 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

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

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.

Enterprise risk management

FCC continues to follow our Enterprise Risk Management framework as outlined 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. FCC continues to monitor restrictions across the country as provinces experience waves of infections from COVID-19 variants of concern, shifting employee attendance at offices as required by provincial guidance and restrictions. Many FCC offices remain open with necessary staffing levels and protocols to safely serve customers and maintain critical functions. FCC has also implemented a flexible work program to enable employees to work from the office and from home, further enabling the continuity of FCC's services throughout the pandemic.

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. Since April 2020, over $6 billion in support has been provided through loan deferrals, credit lines and term loans, although the demand for this support program has decreased. In total, 95% of COVID-19 deferrals have expired as of December 31, 2021, with nearly all (97%) returning to making regular payments. The program continues to be offered and is supported through the Government of Canada's enhancement to FCC's capital base.

To address adverse weather conditions affecting FCC's customers and the agriculture industry in western Canada, FCC has a support program in place, offering loan deferrals and credit lines to reduce financial pressures on those impacted by unfavourable weather. Since July 2021, $470 million in customer support has been provided through deferrals and credit lines. 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 nine months ended December 31, 2021, to the results for the three and nine months ended December 31, 2020.

Net income overview

	Three months ended			Nine months ended		
($ millions)	**December 31, 2021**	December 31, 2020	Variance	**December 31, 2021**	December 31, 2020	Variance
Net interest income	**340**	335	5	**1,009**	975	34
Reversal of (provision for) credit losses	**46**	33	13	**68**	(6)	74
Non-interest income	**1**	7	(6)	**9**	15	(6)
Administration expenses	**(130)**	(118)	(12)	**(372)**	(349)	(23)
Fair value adjustment	**8**	(2)	10	**8**	(6)	14
Net income	**265**	255	10	**722**	629	93

Three months ended December 31

Net interest income increased due to continued portfolio growth, partially offset by lower margins on lending activity.

The decrease in the provision for credit losses was due to a revised estimate for the Allowance for Credit Losses (ACL) that segmented customers based on risk and emphasized recent loss experience. Last year, improved portfolio health and most customers resumed regular payments after the expiration of COVID-19 payment deferrals reduced the ACL, leading to a decreased provision.

The increase in administration expenses was primarily due to the addition of employees and investment in technology to support continued growth in our loan portfolio.

The increase in fair value adjustment was the result of a revaluation of an equity investment.

Nine months ended December 31

The increase in net interest income was due to continued growth in our loan portfolio, partially offset by lower margins on lending activity.

The provision for credit losses decreased due to a revised estimate for the ACL, that segmented customers based on risk and emphasized recent loss experience. The ACL also decreased as customers who deferred payments under COVID-19 programs resumed regular payments.

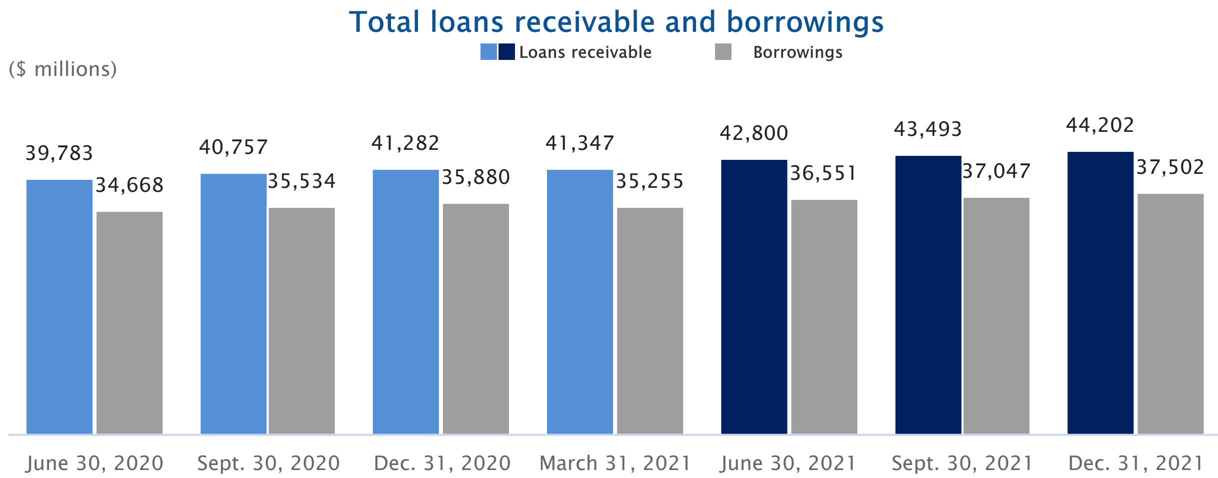
The increase in administration expenses was due to added employees and investment in technology required to support a growing loan portfolio.

Fair value adjustment increased due to the revaluation of an equity investment. The comparative period included an unrealized loss on interest rate swaps.

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

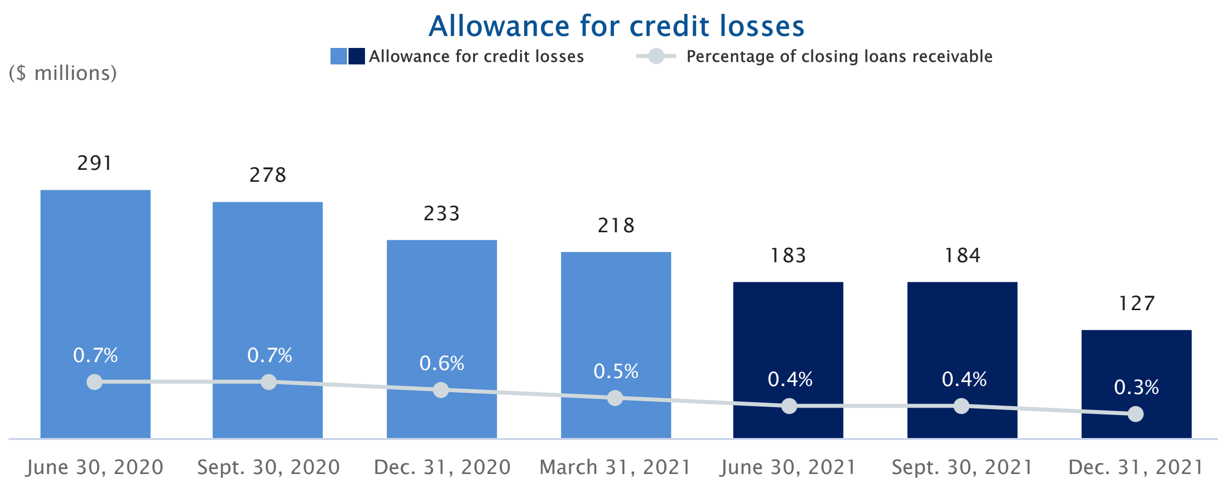
Balance sheet overview

($ millions)	**December 31, 2021**	March 31, 2021	Variance
Total assets	**46,798**	43,860	2,938
Total liabilities	**38,625**	35,847	2,778
Equity	**8,174**	8,013	161
Total loans receivable	**44,202**	41,347	2,855
Allowance for credit losses – loans receivable	**(127)**	(218)	91
Total borrowings	**37,502**	35,255	2,247



Continued rise in loans receivable, particularly in the Ag Production portfolio, accounted for the majority of the 6.9% increase since March 31, 2021. This growth is supported by strong demand for agricultural commodities, notably grains and oilseeds, and an increase in high farm input costs, both of which are contributing to an increase in outstanding agricultural debt.

Borrowings increased to fund the growth in loans receivable.



As at June 30, 2020, management included an estimate of $100 million for the impact of higher default risk on specific sectors resulting from uncertainty caused by COVID-19. Since then, the COVID-19 estimate has reduced gradually with the remaining $15 million removed in December 2021 due to resumed payments from deferral programs and strong security in the portfolio. Since September 2021, FCC incorporated a $74 million reduction to the ACL estimate due to segmenting customers based on risk characteristics and emphasizing more recent loss experience.

Cash flow overview

($ millions)	Three months ended December 31, 2021	December 31, 2020	Variance	Nine months ended December 31, 2021	December 31, 2020	Variance
Cash used in operating activities	**(483)**	(310)	(173)	**(2,226)**	(2,288)	62
Cash (used in) provided by investing activities	**(16)**	131	(147)	**(21)**	(267)	246
Cash provided by financing activities	**462**	362	100	**2,249**	2,336	(87)
Change in cash and cash equivalents	**(37)**	183	(220)	**2**	(219)	221

Three months ended December 31

Cash used in operating activities increased primarily due to higher disbursements to and lower loan repayments from customers compared to last year. There were also additional administration expenses paid to support our growing loan portfolio.

Cash used in investing activities increased due to fewer short-term investment maturities compared to the prior period.

Cash provided by financing activities increased due to more borrowings to support a growing loan portfolio.

Nine months ended December 31

Cash provided by investing activities increased as total short-term investments held were reduced. This reduction was due to a lower portfolio risk from COVID-19 this year compared to the previous year.

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

Outlook against Corporate Plan Summary

FCC is projected to meet or exceed 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[2]
Net income	Ahead of corporate plan
Return on equity	Ahead of 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.

[2] FCC evaluates forecast values to be on track with the corporate plan when the variance is within 10%. Favourable variance greater than 10% is classified as ahead of the corporate plan, while unfavourable variance greater than 10% is classified as behind the corporate plan.

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
February 24, 2022

Consolidated Balance Sheet

(Unaudited) (thousands of Canadian dollars)	December 31, 2021	March 31, 2021
Assets		
Cash and cash equivalents	$ **1,254,015**	$ 1,251,093
Short-term investments	**740,343**	732,702
Accounts receivable and prepaid expenses	**36,061**	38,176
Derivative financial assets	**–**	4,781
	2,030,419	2,026,752
Loans receivable – net (Notes 2 and 3)	**44,075,140**	41,128,445
Finance leases receivable – net	**145,189**	141,053
Other loans receivable – net	**49,181**	59,313
Equity investments	**52,774**	28,398
Investment in associates	**58,301**	57,839
Post-employment benefit assets	**149,945**	143,886
	44,530,530	41,558,934
Property and equipment	**218,191**	248,323
Intangible assets	**13,382**	19,990
Other assets	**5,976**	6,165
	237,549	274,478
Total assets	$ **46,798,498**	$ 43,860,164
Liabilities		
Accounts payable and accrued liabilities (Note 4)	$ **626,175**	$ 76,122
Derivative financial liabilities	**150**	322
	626,325	76,444
Borrowings (Note 5)		
Short-term debt	**9,413,178**	12,550,153
Long-term debt	**28,088,562**	22,704,662
	37,501,740	35,254,815
Transition loan liabilities	**181,773**	191,563
Post-employment benefit liabilities	**140,419**	142,266
Lease liabilities	**167,901**	174,492
Other liabilities	**6,399**	7,352
	496,492	515,673
Total liabilities	**38,624,557**	35,846,932
Equity		
Contributed capital	**500,000**	500,000
Retained earnings	**7,673,435**	7,511,133
Accumulated other comprehensive income	**–**	1,489
Equity attributable to shareholder of parent entity	**8,173,435**	8,012,622
Non-controlling interest	**506**	610
	8,173,941	8,013,232
Total liabilities and equity	$ **46,798,498**	$ 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 December 31, 2021	 December 31, 2020	Nine months ended December 31, 2021	 December 31, 2020
Interest income	$ 394,101	$ 401,056	$ 1,173,721	$ 1,193,285
Interest expense	53,934	65,794	164,338	218,487
Net interest income	340,167	335,262	1,009,383	974,798
Reversal of (provision for) credit losses	46,177	32,718	67,885	(6,000)
Net interest income after provision for credit losses	386,344	367,980	1,077,268	968,798
Insurance distribution income	5,802	5,855	15,473	17,658
Net (loss) income from investment in associates	(4,572)	3,491	(5,189)	3,654
Net foreign exchange (loss) gain	(43)	(1,188)	297	(3,863)
Other expense	(357)	(799)	(1,225)	(1,412)
Net interest income and non-interest income	387,174	375,339	1,086,624	984,835
Administration expenses				
Salary and benefits	75,467	70,534	227,988	211,609
Other	54,851	47,722	144,113	137,390
Total administration expenses	130,318	118,256	372,101	348,999
Net income before fair value adjustment	256,856	257,083	714,523	635,836
Fair value adjustment	8,350	(2,302)	7,831	(6,457)
Net income	$ 265,206	$ 254,781	$ 722,354	$ 629,379
Net income attributable to:				
Shareholder of parent entity	$ 265,279	$ 254,778	$ 722,402	$ 629,486
Non-controlling interest	(73)	3	(48)	(107)

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 December 31, 2021	 December 31, 2020	Nine months ended December 31, 2021	 December 31, 2020
Net income	$ 265,206	$ 254,781	$ 722,354	$ 629,379
Other comprehensive income				
Transfer of net realized gains on derivatives designated as cash flow hedges to net income	–	(4,504)	(1,489)	(15,394)
Total comprehensive income	$ 265,206	$ 250,277	$ 720,865	$ 613,985
Total comprehensive income attributable to:				
Shareholder of parent entity	$ 265,279	$ 250,274	$ 720,913	$ 614,092
Non-controlling interest	(73)	3	(48)	(107)

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 December 31

(Unaudited) (thousands of Canadian dollars)	Balance Sept. 30, 2021	Net income	Other comprehensive income	Distributions to non-controlling interest	Balance December 31, 2021
Contributed capital	$ 500,000	$ –	$ –	$ –	$ 500,000
Retained earnings	7,408,156	265,279	–	–	7,673,435
Total equity attributable to parent	7,908,156	265,279	–	–	8,173,435
Non-controlling interest	617	(73)	–	(38)	506
Total	$ 7,908,773	$ 265,206	$ –	$ (38)	$ 8,173,941

(Unaudited) (thousands of Canadian dollars)	Balance Sept. 30, 2020	Net income	Other comprehensive income	Contributions from non-controlling interest	Balance December 31, 2020
Contributed capital	$ 500,000	$ –	$ –	$ –	$ 500,000
Retained earnings	7,105,940	254,778	–	–	7,360,718
Net gains (transfer of net gains) on derivatives previously designated as cash flow hedges	10,347	–	(4,504)	–	5,843
Total accumulated other comprehensive income	10,347	–	(4,504)	–	5,843
Total equity attributable to parent	7,616,287	254,778	(4,504)	–	7,866,561
Non-controlling interest	730	3	–	46	779
Total	$ 7,617,017	$ 254,781	$ (4,504)	$ 46	$ 7,867,340

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

Consolidated Statement of Changes in Equity

For the nine months ended December 31

(Unaudited) (thousands of Canadian dollars)		Balance March 31, 2021		Net income		Other comprehensive income		Dividend declared		Distributions to non-controlling interest		Balance December 31, 2021
Contributed capital	$	500,000	$	–	$	–	$	–	$	–	$	500,000
Retained earnings		7,511,133		722,402		–		(560,100)		–		7,673,435
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		722,402		(1,489)		(560,100)		–		8,173,435
Non-controlling interest		610		(48)		–		–		(56)		506
Total	$	8,013,232	$	722,354	$	(1,489)	$	(560,100)	$	(56)	$	8,173,941

(Unaudited) (thousands of Canadian dollars)		Balance March 31, 2020		Net income		Other comprehensive income		Dividend declared		Contributions from non-controlling interest		Balance December 31, 2020
Contributed capital	$	500,000	$	–	$	–	$	–	$	–	$	500,000
Retained earnings		6,731,232		629,486		–		–		–		7,360,718
Net gains (transfer of net gains) on derivatives previously designated as cash flow hedges		21,237		–		(15,394)		–		–		5,843
Total accumulated other comprehensive income		21,237		–		(15,394)		–		–		5,843
Total equity attributable to parent		7,252,469		629,486		(15,394)		–		–		7,866,561
Non-controlling interest		807		(107)		–		–		79		779
Total	$	7,253,276	$	629,379	$	(15,394)	$	–	$	79	$	7,867,340

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 December 31, 2021	 December 31, 2020	Nine months ended December 31, 2021	 December 31, 2020
Operating activities				
Net income	**$ 265,206**	$ 254,781	**$ 722,354**	$ 629,379
Adjustments to determine net cash (used in) provided by operating activities:				
Net interest income	**(340,167)**	(335,262)	**(1,009,383)**	(974,798)
(Reversal of) provision for credit losses	**(46,177)**	(32,718)	**(67,885)**	6,000
Fair value adjustment	**(8,350)**	2,302	**(7,831)**	6,457
Net loss (income) from investment in associates	**4,572**	(3,491)	**5,189**	(3,654)
Amortization and depreciation	**8,171**	9,685	**27,310**	28,944
Net unrealized foreign exchange (gains) losses	**(5,231)**	17,241	**(16,705)**	55,981
Net cash outflow from loans receivable	**(797,460)**	(652,334)	**(2,867,425)**	(2,983,390)
Net cash inflow (outflow) from finance leases receivable	**653**	(3,049)	**(72)**	(35,414)
Net change in other operating assets and liabilities	**16,707**	16,389	**(25,646)**	(4,892)
Interest received	**472,489**	490,154	**1,178,202**	1,216,009
Interest paid	**(53,912)**	(73,225)	**(163,857)**	(229,093)
Cash used in operating activities	**$ (483,499)**	$ (309,527)	**$ (2,225,749)**	$ (2,288,471)
Investing activities				
Net cash (outflow) inflow from short-term investments	**$ (14,911)**	$ 138,928	**$ (8,135)**	$ (246,838)
Net cash inflow (outflow) from other loans receivable	**3,200**	(1,600)	**2,829**	(6,000)
Acquisition of equity investments	**(1,127)**	(3,500)	**(15,988)**	(3,500)
Disbursements paid to investment in associates	**(3,344)**	(3,005)	**(6,173)**	(14,558)
Repayments from investment in associates	**249**	1,332	**523**	1,332
Purchase of property and equipment	**(1,457)**	(2,855)	**(3,894)**	(5,352)
Proceeds on disposal of property and equipment	**2,740**	2,692	**11,903**	11,356
Purchase of intangible assets	**(1,030)**	(600)	**(2,064)**	(2,945)
Cash (used in) provided by investing activities	**$ (15,680)**	$ 131,392	**$ (20,999)**	$ (266,505)
Financing activities				
Long-term debt issued	**$ 3,290,000**	$ 2,645,000	**$ 10,845,000**	$ 6,827,000
Long-term debt repaid	**(2,729,500)**	(2,149,831)	**(8,805,856)**	(4,678,865)
Short-term debt issued	**2,849,974**	2,835,468	**8,743,849**	8,693,672
Short-term debt repaid	**(2,944,598)**	(2,964,842)	**(8,522,529)**	(8,494,570)
Principal repayment of lease liabilities	**(3,829)**	(3,709)	**(11,413)**	(10,799)
Cash provided by financing activities	**$ 462,047**	$ 362,086	**$ 2,249,051**	$ 2,336,438
Change in cash and cash equivalents	**$ (37,132)**	$ 183,951	**$ 2,303**	$ (218,538)
Cash and cash equivalents, beginning of period	**1,290,760**	1,323,020	**1,251,093**	1,724,503
Effects of exchange rate changes on the balances of cash held and due in foreign currencies	**387**	(2,292)	**619**	(1,286)
Cash and cash equivalents, end of period	**$ 1,254,015**	$ 1,504,679	**$ 1,254,015**	$ 1,504,679
Cash and cash equivalents consists of:				
Cash	**$ 1,254,015**	$ 1,204,212	**$ 1,254,015**	$ 1,204,212
Short-term investments	**–**	300,467	**–**	300,467

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 nine months ended December 31, 2021, and were approved and authorized for issue by the Audit Committee of the Board of Directors on February 24, 2022.

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 December 31, 2021**	As at March 31, 2021
Floating	**$ 4,452,113**	**$ 11,544,725**	**$ 325,056**	**$ 16,321,894**	$ 15,732,412
Fixed	**4,920,852**	**15,200,560**	**7,805,271**	**27,926,683**	25,659,625
Loans receivable – gross	**$ 9,372,965**	**$ 26,745,285**	**$ 8,130,327**	**44,248,577**	41,392,037
Deferred loan fees				**(46,498)**	(45,555)
Loans receivable – total				**44,202,079**	41,346,482
Allowance for credit losses (Note 3)				**(126,939)**	(218,037)
Loans receivable – net				**$ 44,075,140**	$ 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 December 31, 2021		As at March 31, 2021	
	Gross	**Impaired**	Gross	Impaired
Oilseed and grain	**$ 14,049,472**	**$ 110,086**	$ 13,502,917	$ 79,628
Dairy	**6,875,471**	**15,857**	6,678,425	15,697
Agribusiness	**5,081,657**	**129,256**	4,891,151	49,017
Beef	**3,694,734**	**65,965**	3,549,528	62,061
Poultry	**2,958,949**	**16,411**	2,848,649	7,076
Other	**2,936,759**	**38,551**	2,776,938	25,858
Alliances	**2,219,926**	**22,298**	1,459,956	26,679
Greenhouse	**1,886,086**	**10,362**	1,535,782	2,072
Agri-food	**1,885,025**	**42,175**	1,610,562	20,798
Hogs	**1,356,219**	**15,908**	1,319,560	3,174
Fruit	**1,304,279**	**4,993**	1,218,569	13,947
Total	**$ 44,248,577**	**$ 471,862**	$ 41,392,037	$ 306,007

Geographic distribution

	As at December 31, 2021		As at March 31, 2021	
	Gross	**Impaired**	Gross	Impaired
Ontario	**$ 12,836,027**	**$ 85,677**	$ 11,912,436	$ 34,593
Saskatchewan	**8,323,521**	**$ 86,086**	7,751,631	62,851
Alberta	**8,237,499**	**113,174**	7,784,951	89,451
Quebec	**6,125,049**	**91,766**	5,679,918	16,142
British Columbia	**3,884,793**	**27,754**	3,709,917	31,674
Manitoba	**3,471,204**	**44,947**	3,256,442	33,666
Atlantic	**1,370,484**	**22,458**	1,296,742	37,630
Total	**$ 44,248,577**	**$ 471,862**	$ 41,392,037	$ 306,007

3. Allowance for credit losses – loans receivable

As at December 31, 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	25,897	(23,214)	(2,683)	–
Transfer to stage 2	(5,787)	22,852	(17,065)	–
Transfer to stage 3	(1,102)	(7,174)	8,276	–
Changes due to new loans originated	41,644	3,283	4,556	49,483
Loans receivable derecognized during the period	(9,443)	(9,277)	(9,219)	(27,939)
Net remeasurement of loss allowance	(32,662)	(47,658)	61,316	(19,004)
Writeoffs	–	(749)	(19,451)	(20,200)
Recoveries of amounts previously written off	–	144	689	833
Losses covered under Hog Industry Loan Loss Reserve Program	(3)	(5)	(252)	(260)
Changes to allowance model parameters(1)	(19,146)	(26,016)	(28,849)	(74,011)
Total allowance	**$ 43,951**	**$ 34,297**	**$ 48,691**	**$ 126,939**

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(2)	12,800	2,000	200	15,000
Total allowance	$ 44,553	$ 122,111	$ 51,373	$ 218,037

(1) An estimate was recorded for updates to FCC's loss given default model which incorporated a revised definition of default, changes to segment customers based on risk characteristics and more recent loss experience. These changes resulted in a net decrease of $74 million to the allowance for credit losses and are being made prospectively.

(2) The revised definition of default that was estimated last year was implemented into FCC's probability of default models along with changes to segment customers based on risk characteristics (increase of $11 million). Exposure at default models were updated for revolving loans to better reflect historical experience (increase of $4 million). These changes resulted in a net increase of $15 million to the allowance and are being made prospectively.

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 December 31, 2021		As at March 31, 2021
Government of Canada debt				
Floating-rate borrowings	**$**	**2,375,020**	$	4,695,209
Fixed-rate borrowings		**6,387,803**		7,003,080
		8,762,823		11,698,289
Capital markets debt				
USD fixed-rate promissory notes[1]		**650,355**		563,342
Retail and institutional fixed-rate notes		**–**		288,522
		650,355		851,864
Total	**$**	**9,413,178**	$	12,550,153

(1) $513 million USD (March 31, 2021 – $448 million USD)

Long-term debt

		As at December 31, 2021		As at March 31, 2021
Government of Canada debt				
Floating-rate borrowings	**$**	**15,410,160**	$	11,610,371
Fixed-rate borrowings		**12,678,402**		11,094,291
Total	**$**	**28,088,562**	$	22,704,662