DREAM. GROW. THRIVE.

First Quarter Financial Report 2022-23

As at and for the three months ended June 30, 2022

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) is a summary of the financial position and results of operations of Farm Credit Canada (FCC) and was prepared by management. Pursuant to the authority delegated by FCC's Board of Directors, the MD&A was reviewed and approved for issue by the Audit Committee of the Board on August 23, 2022. The MD&A was prepared in accordance with the Treasury Board of Canada's Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports.

The MD&A is based on FCC's unaudited condensed consolidated quarterly financial statements (quarterly financial statements) as at and for the three months ended June 30, 2022, and should be read in conjunction with our 2022 Annual Report (which includes our annual audited consolidated financial statements and MD&A) and Corporate Plan Summary.[1]

Caution regarding forward-looking statements

The 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 102,000 customers. We are a team of more than 2,200 employees operating from 102 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 sector has shown great resilience amid disruptions in supply chains, market access challenges, unfavourable weather, volatility triggered by Russia's war on Ukraine and rising costs for farm inputs. Rising interest rates in Canada and other developed economies are increasing borrowing costs and are expected to slow global growth, putting downward pressure on riskier assets, including agriculture commodities. Despite these challenges, the sector remains financially healthy, supported by strong demand for both agriculture commodities and food, both domestically and in export markets. Farm cash receipts increased 14.7% in 2021 as higher commodity prices helped offset lower production. Strong commodity prices are forecast to grow farm cash receipts 14.5% in 2022.

In 2021, favourable weather in eastern Canada supported strong production. However, prairie grain, oilseed and pulse production declined 40% due to drought conditions compared to 2020 and was 36% below the five-year average. Despite reduced Canadian production in 2021, strong commodity prices supported grain and oilseed receipts to increase nearly 15%, placing producers in a strong financial position to absorb high input costs in 2022. High prices for crop insurance and strong reference margins for AgriStability will support the overall financial health of the sector in 2022. The grain and oilseed sector is expected to be profitable in 2022 and overall production is expected to increase. However, delayed planting across several parts of Canada could result in production declines or quality issues if crops do not reach full maturity before the first frost occurs. Weather will drive prices into the fall as markets look to better understand new crop production, especially corn and soybean production in the United States. The Russia-Ukraine conflict continues to create uncertainty about global supplies.

High feed costs continue to be a major challenge for the livestock sector in 2022. Feedlot margins are projected to be negative while cow-calf margins are expected to be near break-even. However, improvements in pasture conditions, hay supplies, and feed grains will help improve industry profitability. Profit projections for hog producers are expected to remain above breakeven in western Canada and near or below break-even in eastern Canada. High feed costs and price discounts in Quebec are negatively impacting hog producers and the Quebec price cut will continue especially in eastern Canada. Dairy margins remain tight, as higher feed costs and inflationary pressures already outweigh the February price increase. In response, the dairy support price is set to increase 2.5% on September 1, 2022, providing some cost pressure relief for producers. We are seeing growth in production costs slowing down with new crop prices. Dairy producers will receive compensation payments of $468 million in fiscal year 2022-23 for losses incurred due to the signing of the Comprehensive Economic and Trade Agreement (CETA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Margins for poultry producers are expected to be positive in 2022 despite the high feed costs. Avian influenza infections have slowed, and barns are starting to come out of quarantine allowing placements, again which is improving profitability going forward.

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

Strong crop receipts continue to support agribusiness companies in the grain and oilseed sector through the first half of 2022. Demand for farm equipment remains strong, however, Canadian purchases of tractors and combines declined 8% and 15.5% in the first half of 2022 as shortages of semiconductors and tires and other supply chain challenges delayed delivery of new equipment. FCC is forecasting equipment sales to be softer in 2022 following strong performance in 2021. However, farm equipment sales for 2022 and 2023 will largely depend on how fast the supply chain recovers and equipment manufacturers deliver on pre-orders. The delay in new equipment arrivals has impacted when producer's loan payments start and could influence the interest rate used on the loan. Rising interest rates may reduce demand for farm equipment and could lead to cancellations of equipment orders.

For grain-handling companies, the reduced size of the 2021 crop has meant significantly fewer opportunities to handle, process and transport product in 2021-22. Tight global supplies and Russia's war in Ukraine are providing grain companies additional export opportunities for the 2022 crop. Supply chain constraints have led to delays in grain shipments, increasing the number of days grain merchants hold grain in storage and overall costs. Rising fuel costs are increasing grain transportation and sourcing costs for grain merchandisers.

Food and beverage manufacturing sales were up 12.7% year-over-year in February and are up 13.8% year-to-date in 2022. Sales growth has been declining since February while inventories have increased, as the inventory-to-sales ratio hit a record high for May. Food inflation and declining savings rates are limiting upside in future sales for price-sensitive industries.

Labour remains a major concern, but we have seen slight improvements. Capacity utilization remains below pre-COVID-19 levels as manufacturers struggle finding labour, although it has risen slightly year-over-year. The job vacancy rate for food manufacturing was 6.0% in Q1, 2022 versus 6.1% in Q4, 2021 and 3.9% in Q1, 2019. Unfilled orders in food are down as a percentage of total sales year-to-date but remain elevated versus 2020.

The Canadian dollar (CAD) has declined from its high in 2021 versus the United States dollar (USD). The Bank of Canada has been increasing its policy rate aggressively to tackle inflation that has kept CAD declines against the USD in check. The future of the exchange rate will largely depend on whether the Federal Reserve is similarly aggressive. The CAD has rallied versus the Euro this year-to-date, a result of uncertainty in Europe surrounding energy supply from Russia and a less aggressive European Central Bank.

Enterprise risk management

We continue following our Enterprise Risk Management framework as outlined in the annual audited financial statements for the year ended March 31, 2022.

We are monitoring elevated credit risk from challenges relating to supply chains, input costs and geopolitical events, as well as impacts from climate events. Customer support programs are established to ensure producers, agribusinesses and food processors remain focused on business-critical functions throughout agriculture-related emergencies or unforeseen industry crises. Customer support comes as either new lending or deferred loan payments. We remain financially stable and well positioned to respond to the needs of the sector.

The annual rate of inflation rose to 8.1% in June 2022. Supply chain disruptions, high energy prices, and consumer demand are key factors keeping inflation high. Inflation is expected to remain above the Bank of Canada's target rate through 2022. The Bank of Canada has increased its overnight interest rate to 2.5% so far in 2022. Increasing this rate is a key tool to help stem inflation, and expectations remain for further rate increases to bring inflation to within target. A rising interest rate environment can create financial pressure on agriculture producers and businesses. Rising borrowing costs and increasing debt repayment obligations will impact working capital and customers' ability to service debt. We track the impacts from rising interest rates on customers with variable rate products and upcoming renewals, as well as impacts on our portfolio.

Competition in the business world is increasing at an exponential rate and organizations are continually innovating to gain a competitive advantage. As industries like finance become more digitally focused, the demand for talent with key skills in math, engineering and coding has increased. In response to an exceptionally tight labour market where job opportunities are outpacing talent supply, we are renewing our employee retention and attraction practices.

Financial performance

Our discussion of net income is a comparison of the results for the three months ended June 30, 2022, to the results for the three months ended June 30, 2021.

Net income

	Three months ended		
	June 30,	June 30,	
($ millions)	**2022**	2021	Variance
Net interest income	**337**	332	5
(Provision for) reversal of credit losses	**(26)**	28	(54)
Non-interest income	**3**	4	(1)
Administration expenses	**(126)**	(125)	(1)
Fair value loss	**–**	(1)	1
Net income	**188**	238	(50)

Three months ended June 30

Net income decreased by $50 million, a 21% reduction compared to the same period last year, primarily due to an increase in the provision for credit losses, partially offset by an increase in net interest income. The reversal of credit losses in the three months ended June 30, 2021, was primarily a result of a decrease in the allowance for credit losses as customers resumed regular payments following the expiration of COVID-19 deferrals. For the three months ended June 30, 2022, the provision for credit losses increased as more customers used loan amendments. Net interest income increased slightly due to higher lending volumes this quarter compared to the same period last year.

Net interest income, loans receivable and borrowings

Net interest income

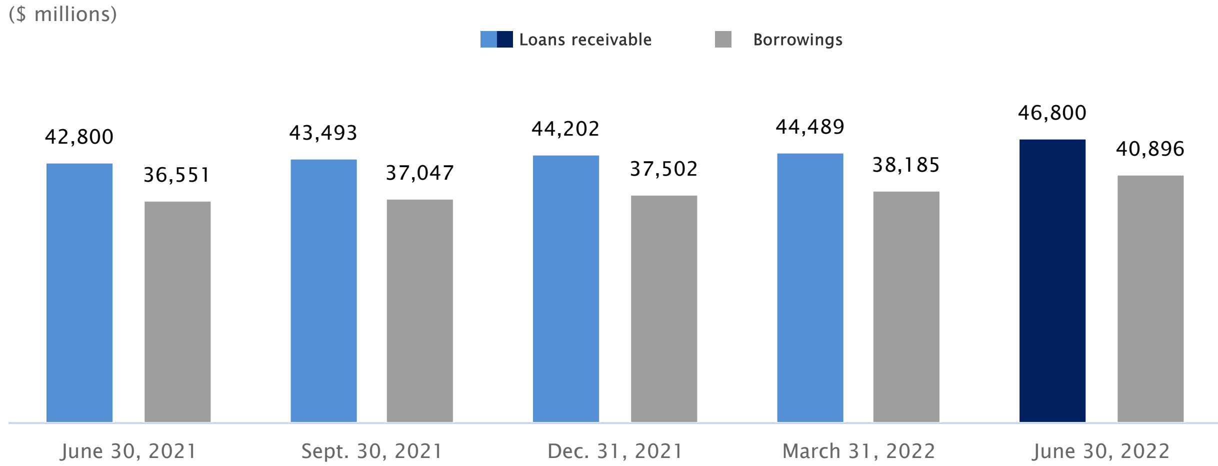
	Three months ended
	June 30,
($ millions)	**2022**
Year-over-year increase (decrease) in net interest income due to:	
Increase (decrease) in volume	**21**
Increase (decrease) in net interest margin	**(16)**
Total increase (decrease) in net interest income	**5**

Three months ended June 30

Net interest income was $337 million for the three months ended June 30, 2022, an increase of $5 million compared to the same period last year.

Higher lending volumes contributed a $21 million increase, with growth most pronounced in our fixed lending products. The volume of variable rate products decreased as customers looked to secure rate certainty. The increased volume was partially offset by a $16 million decrease in net interest margin, reflecting the net effect of higher interest rates on our interest-earning assets and interest-bearing liabilities.

Loans receivable and borrowings

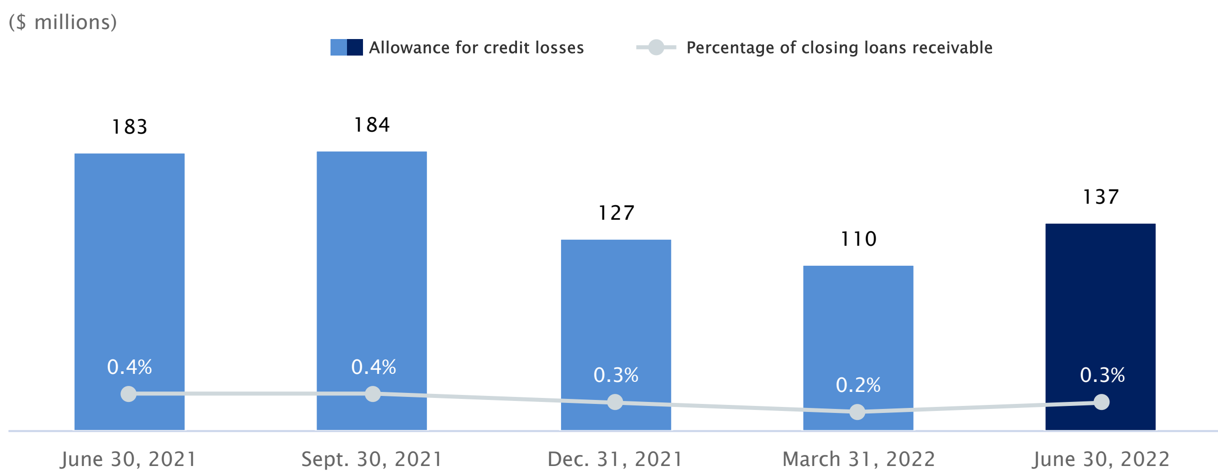


Loans receivable increased 5.2% since March 31, 2022. Growth occurred across all industry sectors and geographic regions. Higher farm receipts and operational costs continue to drive increases in outstanding agricultural debt. Alliance lending had the largest dollar increase and growth rate this quarter, with shortages driving higher prices for fertilizer and other crop inputs.

Borrowings increased to fund the growth in loans receivable. Long-term fixed rate funding provided most of the increase, reflecting customer demand for fixed rate products.

Provision for credit losses and credit quality

Allowance for credit losses



Allowance for credit losses increased $27 million since March 31, 2022. This was driven by a higher volume of customers accessing loan amendments. The annual update to inputs in the calculation of our allowance for credit losses model also contributed to the increase.

The decrease in allowance for credit losses between September 30, 2021, and March 31, 2022, reflects the implementation of model enhancements that increased emphasis on customer risk and recent loss experience. These changes led to a reduction of customer risk ratings across most of our portfolio and a decrease in allowance for credit losses.

(Provision for) reversal of credit losses

($ millions)	Three months ended June 30, 2022	June 30, 2021	Variance
Impaired loans (Stage 3)	**(12)**	(6)	(6)
Performing loans (Stages 1 & 2)	**(14)**	34	(48)
Total (provision for) reversal of credit losses	**(26)**	28	(54)

Three months ended June 30

High operational costs and environmental challenges have contributed to an increased number of customers requiring loan amendments, leading to a higher allowance for credit losses and recorded provision on impaired loans compared to the same period last year.

Annual updates to inputs used in the calculation of our allowance for credit losses led to an increased allowance and provision for performing loans this quarter. Last year, the reversal of provision for credit losses in our performing loans was primarily due to COVID-19 support program payment deferrals ending and customers resuming regular payments.

Financial position

($ millions)	June 30, 2022	March 31, 2022	Variance
Cash and cash equivalents	**1,970**	1,439	531
Loans receivable – net	**46,662**	44,379	2,283
Other	**1,285**	1,466	(181)
Total assets	**49,917**	47,284	2,633
Borrowings	**40,896**	38,184	2,712
Other	**506**	523	(17)
Total liabilities	**41,402**	38,707	2,695
Equity	**8,515**	8,577	(62)

Cash and cash equivalents

($ millions)	Three months ended June 30, 2022	June 30, 2021	Variance
Cash provided by (used in) operating activities	**(2,060)**	(1,235)	(825)
Cash provided by (used in) investing activities	**157**	(1)	158
Cash provided by (used in) financing activities	**2,434**	1,290	1,144
Change in cash and cash equivalents	**531**	54	477

Three months ended June 30

Cash used in operating activities increased primarily due to higher disbursements required to support our growing loan portfolio.

Cash provided by investing activities increased due to fewer short-term investments purchased compared to the prior period. This was slightly offset by fewer maturities and increased cash used in the acquisition of fair value investments.

Cash provided by financing activities increased as more borrowings were held to support a growing loan portfolio and future committed disbursements. This cash inflow was reduced by a partial repayment of the capital contribution received from the Government of Canada to help provide COVID-19 support programs.

Loans receivable and borrowings

Our borrowings increased to fund the growth in loans receivable. We used more long-term fixed borrowing to support our portfolio, providing some mitigation against interest rate risk. For additional details, refer to the loans receivable and borrowings section above.

Other assets

The $181 million decrease in other assets was primarily due to a decrease in short-term investments.

Other liabilities

The $17 million reduction in other liabilities was largely due to a decrease in transition loan liabilities.

Equity

A capital payment of $500 million was received from the Government of Canada on March 30, 2020, as part of the COVID-19 pandemic response targeting the Canadian food and agriculture sector. On June 27, 2022, $250 million was returned to the Government of Canada from retained earnings, decreasing our equity balance.

Performance against plan

FCC is projected to meet all year-end financial targets as outlined in the Corporate Plan Summary for 2022-23 to 2026-27. We continue to monitor and evaluate the performance of other metrics, including portfolio growth and credit quality.

Key financial measures

For the three months ended June 30	2023 Plan	Outlook[2]
Net income	766	On track with corporate plan
Return on equity	9.2%	On track with corporate plan
Efficiency ratio[1]	41.2%	On track with corporate plan
Total capital ratio[1]	16.3%	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, 2022.

[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 are 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.

Ross Topp, CPA, CA
Interim President and Chief Executive Officer

Nadine Welisch-Moore, CPA, CA, CMA, MBA
Senior Vice-President and Controller

Regina, Canada
August 23, 2022

Consolidated Balance Sheet

(Unaudited) (thousands of Canadian dollars)	June 30, 2022	March 31, 2022
Assets		
Cash and cash equivalents	**$ 1,969,838**	$ 1,439,109
Short-term investments	**406,974**	584,397
Accounts receivable and prepaid expenses	**23,579**	38,490
Assets held for sale	**175,837**	185,761
Derivative financial assets	**31**	–
	2,576,259	2,247,757
Loans receivable – net (Notes 3 and 4)	**46,662,433**	44,379,503
Other loans receivable – net	**49,906**	50,443
Investments at fair value	**72,640**	56,063
Investment in associates	**49,831**	49,424
Post-employment benefit assets	**297,583**	293,543
	47,132,393	44,828,976
Property and equipment	**189,926**	188,798
Intangible assets	**12,699**	12,668
Other assets	**5,964**	5,824
	208,589	207,290
Total assets	**$ 49,917,241**	$ 47,284,023
Liabilities		
Accounts payable and accrued liabilities	**$ 81,431**	$ 84,274
Derivative financial liabilities	**–**	32
	81,431	84,306
Borrowings (Note 5)		
Short-term debt	**8,234,531**	8,077,614
Long-term debt	**32,661,503**	30,106,670
	40,896,034	38,184,284
Transition loan liabilities	**159,057**	173,652
Post-employment benefit liabilities	**93,679**	91,471
Lease liabilities	**167,689**	166,748
Other liabilities	**3,932**	6,335
	424,357	438,206
Total liabilities	**41,401,822**	38,706,796
Equity		
Contributed capital	**250,000**	500,000
Retained earnings	**8,264,189**	8,076,280
Equity attributable to shareholder of parent entity	**8,514,189**	8,576,280
Non-controlling interest	**1,230**	947
	8,515,419	8,577,227
Total liabilities and equity	**$ 49,917,241**	$ 47,284,023

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 June 30, 2022	 June 30, 2021
Interest income	**$ 444,765**	$ 386,788
Interest expense	**108,104**	54,596
Net interest income	**336,661**	332,192
(Provision for) reversal of credit losses	**(25,655)**	28,324
Net interest income after provision for credit losses	**311,006**	360,516
Insurance distribution income	**4,986**	5,858
Net loss from investment in associates	**(2,754)**	(1,081)
Net foreign exchange gain (loss)	**817**	(321)
Other expense	**(324)**	(593)
Net interest income and non-interest income	**313,731**	364,379
Administration expenses	**125,677**	124,816
Net income before fair value loss	**188,054**	239,563
Fair value loss	**(115)**	(723)
Net income	**$ 187,939**	$ 238,840
Net income attributable to:		
Shareholder of parent entity	**$ 187,909**	$ 238,827
Non-controlling interest	**30**	13

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 June 30, 2022	 June 30, 2021
Net income	**$ 187,939**	$ 238,840
Other comprehensive income		
Transfer of net realized gains on derivatives designated as cash flow hedges to net income	**–**	(1,489)
Total comprehensive income	**$ 187,939**	$ 237,351
Total comprehensive income attributable to:		
Shareholder of parent entity	**$ 187,909**	$ 237,338
Non-controlling interest	**30**	13

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 June 30

(Unaudited) (thousands of Canadian dollars)	Balance March 31, 2022	Net income	Other comprehensive income	Dividend paid	Contributions from non-controlling interest	Balance June 30, 2022
Contributed capital	$ 500,000	$ –	$ –	$ (250,000)	$ –	$ 250,000
Retained earnings	8,076,280	187,909	–	–	–	8,264,189
Total equity attributable to parent	8,576,280	187,909	–	(250,000)	–	8,514,189
Non-controlling interest	947	30	–	–	253	1,230
Total	$ 8,577,227	$ 187,939	$ –	$ (250,000)	$ 253	$ 8,515,419

(Unaudited) (thousands of Canadian dollars)	Balance March 31, 2021 restated (Note 2)	Net income	Other comprehensive income	Dividend paid	Distributions to non-controlling interest	Balance June 30, 2021 restated (Note 2)
Contributed capital	$ 500,000	$ –	$ –	$ –	$ –	$ 500,000
Retained earnings	7,537,566	238,827	–	–	–	7,776,393
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	8,039,055	238,827	(1,489)	–	–	8,276,393
Non-controlling interest	610	13	–	–	(7)	616
Total	$ 8,039,665	$ 238,840	$ (1,489)	$ –	$ (7)	$ 8,277,009

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 June 30, 2022		June 30, 2021
Operating activities				
Net income	**$**	**187,939**	$	238,840
Adjustments to determine net cash (used in) provided by operating activities:				
Net interest income		**(336,661)**		(332,192)
Provision for (reversal of) credit losses		**25,655**		(28,324)
Fair value loss		**115**		723
Net loss from investment in associates		**2,754**		1,081
Amortization and depreciation		**7,944**		9,723
Net unrealized foreign exchange (gains) losses		**(16,454)**		11,955
Net cash outflow from loans receivable		**(2,289,092)**		(1,481,782)
Net cash inflow from finance leases receivable		**2,963**		690
Net change in other operating assets and liabilities		**(3,935)**		(4,966)
Interest received		**442,147**		406,698
Interest paid		**(83,414)**		(57,250)
Cash used in operating activities	**$**	**(2,060,039)**	$	(1,234,804)
Investing activities				
Purchase of short-term investments[1]	**$**	**(172,486)**	$	(395,059)
Proceeds from maturity of short-term investments[1]		**350,109**		399,391
Disbursements of other loans receivable[1]		**(225)**		(4,000)
Repayments from other loans receivable[1]		**1,000**		3,667
Acquisition of investments at fair value		**(16,581)**		(5,961)
Disbursements paid to investment in associates		**(3,160)**		(2,666)
Repayments from investment in associates		**–**		274
Purchase of property and equipment		**(2,698)**		(1,867)
Proceeds on disposal of property and equipment		**2,828**		5,125
Purchase of intangible assets		**(1,665)**		(372)
Cash provided by (used in) investing activities	**$**	**157,122**	$	(1,468)
Financing activities				
Long-term debt issued	**$**	**4,095,000**	$	4,925,000
Long-term debt repaid		**(1,260,529)**		(3,536,356)
Short-term debt issued		**3,113,684**		2,935,903
Short-term debt repaid		**(3,261,526)**		(3,030,819)
Principal repayment of lease liabilities		**(3,805)**		(3,778)
Dividend paid		**(250,000)**		–
Cash provided by financing activities	**$**	**2,432,824**	$	1,289,950
Change in cash and cash equivalents	**$**	**529,907**	$	53,678
Cash and cash equivalents, beginning of period		**1,439,109**		1,251,093
Effects of exchange rate changes on the balances of cash held and due in foreign currencies		**822**		(38)
Cash and cash equivalents, end of period	**$**	**1,969,838**	$	1,304,733
Cash and cash equivalents consists of:				
Cash	**$**	**1,428,796**	$	1,304,733
Short-term investments		**541,042**		–

[1] Comparative figures have been reclassified. See Note 4 in the March 31, 2022, annual report.

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, 2022.

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 months ended June 30, 2022, and were approved and authorized for issue by the Audit Committee of the Board of Directors on August 23, 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, 2022.

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, 2022.

2. Restatement of comparative figures

During the prior year, the IFRS Interpretations Committee issued an interpretation for attributing benefits to periods of service under IAS 19 – Employee Benefits. Based on this guidance, FCC changed from using the period of service from the date of hire to retirement to 10 years prior to eligibility for retirement to better represent the nature of the plan. Applying this change retrospectively resulted in an increase of $26 million to both the March 31, 2021, and June 30, 2021, retained earnings balances previously reported in the Consolidated Statement of Changes in Equity of the interim financial statements for June 30, 2021. Full details of the impact of the change in attributing benefits can be found in Note 4 of the annual audited financial statements for the year ended March 31, 2022.

3. Loans receivable – net

	Term to maturity				
	Within 1 year	1 – 5 years	Over 5 years	As at June 30, 2022	As at March 31, 2022
Floating	$ 4,325,922	$ 10,478,925	$ 327,360	$ 15,132,207	$ 15,012,411
Fixed	3,858,800	17,677,879	10,176,373	31,713,052	29,521,978
Loans receivable – gross	$ 8,184,722	$ 28,156,804	$ 10,503,733	46,845,259	44,534,389
Deferred loan fees				(45,589)	(45,252)
Loans receivable – total				46,799,670	44,489,137
Allowance for credit losses (Note 4)				(137,237)	(109,634)
Loans receivable – net				$ 46,662,433	$ 44,379,503

Concentrations of credit risk

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

Sector distribution

	As at June 30, 2022		As at March 31, 2022	
	Gross	Impaired	Gross	Impaired
Oilseed and grain	$ 14,773,422	$ 120,372	$ 14,332,100	$ 128,637
Dairy	7,138,742	11,752	6,929,019	15,677
Agribusiness	5,650,582	108,833	5,432,022	77,836
Beef	3,852,678	76,998	3,713,939	67,254
Other	3,111,897	60,906	3,025,176	44,057
Poultry	3,108,484	6,325	3,004,698	6,087
Alliances	2,501,178	27,016	1,706,558	17,965
Agri-food	1,979,334	22,384	1,827,205	16,849
Greenhouse	1,902,934	11,451	1,848,533	6,980
Hogs	1,468,551	14,409	1,394,722	6,357
Fruit	1,357,457	25,675	1,320,417	6,672
Total	$ 46,845,259	$ 486,121	$ 44,534,389	$ 394,371

Geographic distribution

	As at June 30, 2022		As at March 31, 2022	
	Gross	Impaired	Gross	Impaired
Ontario	$ 13,749,396	$ 74,820	$ 13,010,205	$ 55,418
Saskatchewan	8,813,561	91,654	8,312,457	105,463
Alberta	8,507,183	109,964	8,181,161	104,600
Quebec	6,559,258	118,500	6,157,848	51,493
British Columbia	4,087,498	40,485	4,007,965	24,161
Manitoba	3,746,447	34,866	3,519,480	38,460
Atlantic	1,381,916	15,832	1,345,273	14,776
Total	$ 46,845,259	$ 486,121	$ 44,534,389	$ 394,371

4. Allowance for credit losses – loans receivable

As at June 30, 2022		**Stage 1**		**Stage 2**		**Stage 3**		**Total**
Allowance for credit losses, beginning of year	**$**	**45,027**	**$**	**31,399**	**$**	**33,208**	**$**	**109,634**
Transfer to stage 1		**5,380**		**(5,234)**		**(146)**		**–**
Transfer to stage 2		**(2,269)**		**8,309**		**(6,040)**		**–**
Transfer to stage 3		**(219)**		**(1,991)**		**2,210**		**–**
Changes due to new loans originated		**13,902**		**1,976**		**2,671**		**18,549**
Loans receivable derecognized during the period		**(2,252)**		**(1,575)**		**(2,857)**		**(6,684)**
Net remeasurement of loss allowance		**(3,808)**		**2,248**		**18,829**		**17,269**
Writeoffs		**–**		**(119)**		**(2,148)**		**(2,267)**
Recoveries of amounts previously written off		**–**		**361**		**344**		**705**
Losses covered under Hog Industry Loan Loss Reserve Program		**–**		**3**		**28**		**31**
Total allowance	**$**	**55,761**	**$**	**35,377**	**$**	**46,099**	**$**	**137,237**

As at March 31, 2022		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		30,682		(27,430)		(3,252)		–
Transfer to stage 2		(7,419)		58,779		(51,360)		–
Transfer to stage 3		(1,178)		(9,518)		10,696		–
Changes due to new loans originated		50,480		4,920		6,266		61,666
Loans receivable derecognized during the period		(15,356)		(10,773)		(10,896)		(37,025)
Net remeasurement of loss allowance		(37,586)		(80,015)		69,739		(47,862)
Writeoffs		–		(791)		(24,875)		(25,666)
Recoveries of amounts previously written off		–		159		707		866
Losses covered under Hog Industry Loan Loss Reserve Program		(3)		(27)		(360)		(390)
Changes to allowance model parameters		(19,146)		(26,016)		(14,830)		(59,992)
Total allowance	$	45,027	$	31,399	$	33,208	$	109,634

5. Borrowings

Short-term debt

		As at June 30, 2022		As at March 31, 2022
Government of Canada debt				
Floating-rate borrowings	**$**	**950,427**	$	915,105
Fixed-rate borrowings		**6,560,398**		6,489,070
		7,510,825		7,404,175
Capital markets debt				
USD fixed-rate promissory notes[(1)]		**723,706**		673,439
		723,706		673,439
Total	**$**	**8,234,531**	$	8,077,614

[(1)] $561 million USD (March 31, 2022 – $539 million USD)

Long-term debt

		As at June 30, 2022		As at March 31, 2022
Government of Canada debt				
Floating-rate borrowings	**$**	**14,964,249**	$	15,282,177
Fixed-rate borrowings		**17,697,254**		14,824,493
Total	**$**	**32,661,503**	$	30,106,670

6. Subsequent events

The leasing portfolio, classified as assets held for sale on the Consolidated Balance Sheet as at June 30, 2022, was sold on July 5, 2022, to a financial services company for cash of $172 million.