DREAM. GROW. THRIVE.

# Second Quarter Financial Report 2022-23

## As at and for the three and six months ended September 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 November 24, 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 and six months ended September 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 asset prices, 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 14.9% 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, total Canadian grain, oilseed and pulse production declined due to drought conditions on the prairies. 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. The grain and oilseed sector is expected to be profitable in 2022 and overall production is expected to increase by 36% to 97.5 million tonnes. The Russian war in Ukraine continues to create uncertainty about global supplies, which will continue to support prices and demand for Canadian commodity exports.

Strong crop receipts continue to support agribusiness companies in the grain and oilseed sector through 2022. Demand for farm equipment remains strong but new purchases of tractors and combines declined 6% and remained unchanged through 2022 as shortages of semiconductors and tires, along with other supply chain challenges, delayed delivery of new equipment. We are forecasting equipment sales to be mixed 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 producers' 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, increased crop production in 2022 is expected to result in increased opportunities to handle, process and transport product in 2022-23. Tight global supplies and Russia's war in Ukraine are providing grain companies additional export opportunities for the 2022 crop. However, supply chain constraints, especially backlogs in rail movement 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.

High feed costs have been a major challenge for the livestock sector in 2022. Feedlot margins have been pressured but are expected to improve into 2023 as supplies of feed grains improve and beef prices rise. Improvements in pasture conditions,

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

hay supplies, and feed grains will help improve cow-calf and feedlot profitability. Profit projections for hog producers are expected to remain above break-even in western Canada and near or below break-even in eastern Canada in 2023. High feed costs and price discounts in Quebec are negatively impacting hog producers especially in eastern Canada. Dairy margins remain tight, as higher feed costs and inflationary pressures outweigh support price increases. However, we are seeing growth in production costs slowing down as feed supplies improve with increased crop production. 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 have overall been positive in 2022 despite high feed costs. Avian influenza infections were reported in some regions in the spring and a few isolated fall incidents occurred. However, new infections are declining, and previously infected operations are starting to come out of quarantine, allowing placements again which is improving profitability going forward.

Food and beverage manufacturing sales were up 12.7% year-over-year in August and were up 12.1% year-over-year between January and August 2022. Sales growth has been fueled by price inflation, estimated to be 9.7% year-over-year for food during the same time frame. Inflation has lowered in recent months, but remains above 8%. Food inflation and declining savings rates are limiting upside in sales for price-sensitive industries. Basics like bread, canned foods and private label foods are performing well.

The labour market remains tight, but we are seeing some manufacturers shrink head count due to tighter margins. The job vacancy rate for food manufacturing was 6.1% in Q2 2022 versus 6.0% in Q1 2022 and 3.9% in Q2 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.

## 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 remain financially stable and are well positioned to respond to the needs of the sector.

The annual rate of inflation is showing signs of moderating at 6.9% in September. 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 3.25% 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 debt repayment obligations will impact working capital and customers' ability to service debt. We monitor 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 and six months ended September 30, 2022, to the results for the three and six months ended September 30, 2021.

## Net income

| | Three months ended September 30 | | | Six months ended September 30 | | |
|---|---|---|---|---|---|---|
| **($ millions)** | **2022** | 2021 | Variance | **2022** | 2021 | Variance |
| Net interest income | **348** | 337 | 11 | **685** | 669 | 16 |
| (Provision for) reversal of credit losses | **(14)** | (7) | (7) | **(40)** | 22 | (62) |
| Non-interest income | **3** | 5 | (2) | **6** | 9 | (3) |
| Administration expenses | **(129)** | (117) | (12) | **(255)** | (242) | (13) |
| Fair value gain (loss) | **2** | – | 2 | **2** | (1) | 3 |
| **Net income** | **210** | 218 | (8) | **398** | 457 | (59) |

Three months ended September 30

Net income decreased by $8 million, a 4% reduction compared to the same period last year, primarily due to an increase in provision for credit losses and administration expenses, partially offset by an increase in net interest income. The provision for credit losses in the three months ended September 30, 2022, was driven by an increase in total balance of loans past due compared to the prior period. Increases in administration expenses this quarter were led by higher salaries and benefits from additional personnel and professional services required to support operations and deliver strategic initiatives. Net interest income increased slightly due to higher lending volumes this quarter compared to the same period last year.

Six months ended September 30

Net income decreased by $59 million, a 13% reduction compared to the same period last year, primarily due to an increase in provision for credit losses and administration expenses, partially offset by an increase in net interest income. For the six months ended September 30, 2022, the provision for credit losses increased as more customers used loan amendments and our total balance of loans past due increased. The reversal of provision for credit losses in the six months ended September 30, 2021, was primarily a result of a decrease in the allowance for credit losses as customers resumed regular payment following the expiration of COVID-19 deferrals. Increased administration expenses were due to higher salaries and benefits from additional personnel and professional services required to support operations and deliver strategic initiatives. Net interest income increased slightly due to higher lending volumes compared to the same period last year.

## Net interest income, loans receivable and borrowings

### Net interest income

| **($ millions)** | **Three months ended September 30, 2022** | **Six months ended September 30, 2022** |
|---|---|---|
| **Year-over-year increase in net interest income due to:** | | |
| Increase in volume | **23** | **44** |
| Decrease in net interest margin | **(12)** | **(28)** |
| **Total increase in net interest income** | **11** | **16** |

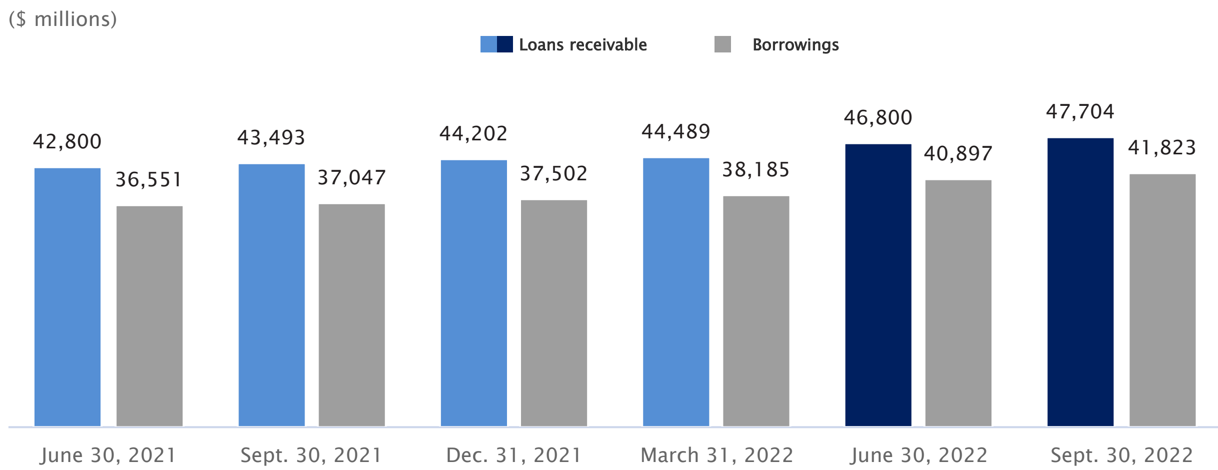
Three months ended September 30

Higher lending volumes contributed a $23 million increase, which was largely realized in our fixed rate products, as customers looked to secure rate certainty. Increased volume was offset by a decreased interest margin of $12 million, reflecting the net effect of higher interest rates on our interest-earning assets and interest-bearing liabilities.

Six months ended September 30

Higher lending volumes contributed a $44 million increase, with growth most pronounced in our fixed lending products as customers looked to secure rate certainty. Increased volume was partially offset by a $28 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



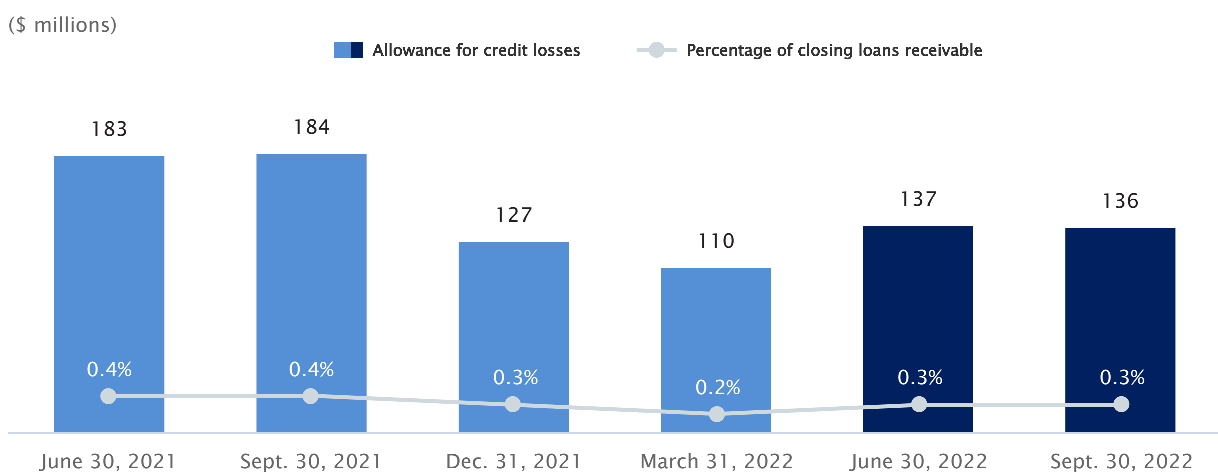

Loans receivable increased 7.2% since March 31, 2022. Growth occurred across all industry sectors and geographic regions.

Alliance lending had the largest dollar increase and growth rate, driven by high demand for inputs at the start of the crop year. Loans receivable for oilseed and grain also had consistent growth as high demand and strong commodity prices increased farm receipts, allowing the sector to absorb increased production costs.

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

## Provision for credit losses and credit quality

#### Allowance for credit losses




Allowance for credit losses increased $26 million since March 31, 2022. The increase was driven by a higher volume of customers accessing loan amendments, a higher balance of loans past due this year and annual updates to inputs used in our allowance for credit losses model.

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, reducing customer risk across our portfolio.

### (Provision for) reversal of credit losses

| | Three months ended September 30 | | | Six months ended September 30 | | |
|---|---|---|---|---|---|---|
| ($ millions) | 2022 | 2021 | Variance | 2022 | 2021 | Variance |
| Impaired loans (Stage 3) | **(31)** | (10) | (21) | **(42)** | (16) | (26) |
| Performing loans (Stages 1 & 2) | **17** | 3 | 14 | **2** | 38 | (36) |
| **Total (provision for) reversal of credit losses** | **(14)** | (7) | (7) | **(40)** | 22 | (62) |

Three months ended September 30

High operational costs and environmental challenges led to a decrease in portfolio health, as the total balance of loans past due increased, leading to a higher allowance for credit losses and provision on impaired loans compared to the same period last year.

Improved economic conditions and strong commodity prices led to a decreased allowance and a reversal of provision for credit losses in our performing loans this quarter. Last year, improved economic conditions as the industry continued its recovery from the impacts of COVID-19, contributed to a decrease in allowance for credit losses and reversal of provision for credit losses in our performing loans.

Six months ended September 30

We had an increased number of customers accessing loan amendments and a higher balance of loans past due, leading to a higher allowance for credit losses and recorded provision on impaired loans compared to the same period last year.

Improved economic conditions and strong commodity prices coupled with annual updates to inputs used in the calculation of our allowance for credit losses, led to a decrease in allowance for credit losses and reversal of provision for credit losses in our performing loans. 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.

## Administration expenses

Three months ended September 30

The increase in administration expenses was primarily due to additional professional fees incurred to support our expanded technological requirements and allow us to deliver strategic initiatives that serve our customers and the industry. We had higher salaries and benefits this quarter as additional personnel were required to support growing operations. Expenses for travel and training also increased slightly, reflecting the impact of COVID-19 restrictions last year.

Six months ended September 30

Administration expenses increased this year as professional fees increased to support implementation of strategic initiatives and build on our investment in technology from last year. In addition, additional staffing was required to support our growing operations.

# Financial position

| ($ millions) | September 30, 2022 | March 31, 2022 | Variance |
|---|---|---|---|
| Cash and cash equivalents | **1,754** | 1,439 | 315 |
| Loans receivable – net | **47,568** | 44,379 | 3,189 |
| Other | **1,264** | 1,466 | (202) |
| Total assets | **50,586** | 47,284 | 3,302 |
| Borrowings | **41,823** | 38,184 | 3,639 |
| Other | **508** | 523 | (15) |
| Total liabilities | **42,331** | 38,707 | 3,624 |
| Equity | **8,255** | 8,577 | (322) |

## Cash and cash equivalents

| | Three months ended September 30 | | | Six months ended September 30 | | |
|---|---|---|---|---|---|---|
| ($ millions) | 2022 | 2021 | Variance | 2022 | 2021 | Variance |
| Cash used in operating activities | (471) | (507) | 36 | (2,531) | (1,742) | (789) |
| Cash (used in) provided by investing activities | (135) | (4) | (131) | 22 | (5) | 27 |
| Cash provided by financing activities | 389 | 497 | (108) | 2,820 | 1,787 | 1,033 |
| **Change in cash and cash equivalents** | (217) | (14) | (203) | 311 | 40 | 271 |

Three months ended September 30

Cash used in operating activities decreased primarily due to proceeds received from the sale of our lease portfolio. This decrease was partially offset by higher disbursements required to support our growing loan portfolio.

Cash used in investing activities increased as we purchased more short-term investments and had fewer maturities on investments compared to the same period last year.

Cash provided by financing activities decreased due to a dividend payment made to the Government of Canada. The decrease was slightly offset by additional borrowings held to support our growing loan portfolio and future committed disbursements.

Six months ended September 30

Cash used in operating activities increased primarily due to higher disbursements required to support our growing loan portfolio. This increase was partially offset by proceeds received through the sale of our lease portfolio.

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

Cash provided by financing increased as more borrowings were held to fund our growing loan portfolio and future committed disbursements. This cash inflow was reduced by a dividend payment and partial repayment of a capital contribution to the Government of Canada.

## Loans receivable and borrowings

Our loans receivable balance increased, with a strong demand for agricultural commodities and high farm input costs contributing to the increase in agricultural debt. Borrowings have increased to fund the growth in loans receivable. For additional details, refer to the loans receivable and borrowings section above.

## Other assets

The $202 million decrease in other assets was primarily due to the sale of our lease portfolio and a decrease in short-term investments.

## Other liabilities

The $15 million reduction in other liabilities was largely due to a decrease in our accounts payable and accrued liabilities. The decrease is due to the annual portion of salaries expense that is accrued throughout the year.

## 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 contributed capital, decreasing our equity balance.

On September 28, 2022, a dividend payment of $471 million was made to the Government of Canada.

## Performance against plan

Except for return on equity, we are projected to meet all year-end financial targets as outlined in the Corporate Plan Summary for 2022-23 to 2026-27. Return on equity is projected to be behind plan due to an increase in provision for credit losses and a decrease in projected net interest income. We continue to monitor and evaluate the performance of other metrics, including portfolio growth and credit quality.

### Key financial measures

| For the six months ended September 30 | 2023 Plan | Outlook[2] |
|---|---|---|
| Net income | $766M | On track with corporate plan |
| Return on equity[1] | 9.2% | Behind 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
November 24, 2022

# Consolidated Balance Sheet

| (Unaudited)<br>(thousands of Canadian dollars) | September 30, 2022 | March 31, 2022 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | **$ 1,753,708** | $ 1,439,109 |
| Short-term investments | **532,789** | 584,397 |
| Accounts receivable and prepaid expenses | **37,829** | 38,490 |
| Assets held for sale | **–** | 185,761 |
| Derivative financial assets | **26** | – |
| | **2,324,352** | 2,247,757 |
| Loans receivable – net (Notes 3 and 4) | **47,568,188** | 44,379,503 |
| Other loans receivable – net | **40,918** | 50,443 |
| Investments at fair value | **88,289** | 56,063 |
| Investment in associates | **52,829** | 49,424 |
| Post-employment benefit assets | **303,261** | 293,543 |
| | **48,053,485** | 44,828,976 |
| Property and equipment | **188,414** | 188,798 |
| Intangible assets | **13,405** | 12,668 |
| Other assets | **6,390** | 5,824 |
| | **208,209** | 207,290 |
| **Total assets** | **$ 50,586,046** | $ 47,284,023 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | **$ 64,191** | $ 84,274 |
| Derivative financial liabilities | **–** | 32 |
| | **64,191** | 84,306 |
| Borrowings (Note 5) | | |
| Short-term debt | **7,553,910** | 8,077,614 |
| Long-term debt | **34,269,416** | 30,106,670 |
| | **41,823,326** | 38,184,284 |
| Transition loan liabilities | **181,013** | 173,652 |
| Post-employment benefit liabilities | **94,478** | 91,471 |
| Lease liabilities | **165,964** | 166,748 |
| Other liabilities | **2,003** | 6,335 |
| | **443,458** | 438,206 |
| **Total liabilities** | **42,330,975** | 38,706,796 |
| **Equity** | | |
| Contributed capital | **250,000** | 500,000 |
| Retained earnings | **8,003,870** | 8,076,280 |
| **Equity attributable to shareholder of parent entity** | **8,253,870** | 8,576,280 |
| Non-controlling interest | **1,201** | 947 |
| | **8,255,071** | 8,577,227 |
| **Total liabilities and equity** | **$ 50,586,046** | $ 47,284,023 |

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

# Consolidated Statement of Income

| (Unaudited)<br>(thousands of Canadian dollars) | Three months ended<br>September 30, 2022 | September 30, 2021 | Six months ended<br>September 30, 2022 | September 30, 2021 |
|---|---|---|---|---|
| Interest income | **$ 539,289** | $ 392,832 | **$ 984,054** | $ 779,620 |
| Interest expense | **191,127** | 55,808 | **299,231** | 110,404 |
| **Net interest income** | **348,162** | 337,024 | **684,823** | 669,216 |
| (Provision for) reversal of credit losses | **(13,982)** | (6,616) | **(39,637)** | 21,708 |
| **Net interest income after provision for credit losses** | **334,180** | 330,408 | **645,186** | 690,924 |
| Insurance distribution income | **4,518** | 3,813 | **9,504** | 9,671 |
| Net (loss) income from investment in associates | **(1,135)** | 464 | **(3,889)** | (617) |
| Net foreign exchange gain | **1,998** | 661 | **2,815** | 340 |
| Other expense | **(1,713)** | (275) | **(2,037)** | (868) |
| **Net interest income and non-interest income** | **337,848** | 335,071 | **651,579** | 699,450 |
| Administration expenses | **129,341** | 116,967 | **255,018** | 241,783 |
| **Net income before fair value gain (loss)** | **208,507** | 218,104 | **396,561** | 457,667 |
| Fair value gain (loss) | **1,684** | 204 | **1,569** | (519) |
| **Net income** | **$ 210,191** | $ 218,308 | **$ 398,130** | $ 457,148 |
| **Net income attributable to:** | | | | |
| Shareholder of parent entity | **$ 210,181** | $ 218,296 | **$ 398,090** | $ 457,123 |
| Non-controlling interest | **10** | 12 | **40** | 25 |

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

# Consolidated Statement of Comprehensive Income

| (Unaudited)<br>(thousands of Canadian dollars) | Three months ended<br>September 30, 2022 | September 30, 2021 | Six months ended<br>September 30, 2022 | September 30, 2021 |
|---|---|---|---|---|
| **Net income** | **$ 210,191** | $ 218,308 | **$ 398,130** | $ 457,148 |
| **Other comprehensive income** | | | | |
| Transfer of net realized gains on derivatives designated as cash flow hedges to net income | **–** | – | **–** | (1,489) |
| **Total comprehensive income** | **$ 210,191** | $ 218,308 | **$ 398,130** | $ 455,659 |
| **Total comprehensive income attributable to:** | | | | |
| Shareholder of parent entity | **$ 210,181** | $ 218,296 | **$ 398,090** | $ 455,634 |
| Non-controlling interest | **10** | 12 | **40** | 25 |

**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, 2022 | Net income | Other comprehensive income | Dividend paid | Distributions to non-controlling interest | Balance September 30, 2022 |
|---|---|---|---|---|---|---|
| **Contributed capital** | **$ 250,000** | **$ –** | **$ –** | **$ –** | **$ –** | **$ 250,000** |
| **Retained earnings** | **8,264,189** | **210,181** | **–** | **(470,500)** | **–** | **8,003,870** |
| **Total equity attributable to parent** | **8,514,189** | **210,181** | **–** | **(470,500)** | **–** | **8,253,870** |
| Non-controlling interest | **1,230** | **10** | **–** | **–** | **(39)** | **1,201** |
| **Total** | **$ 8,515,419** | **$ 210,191** | **$ –** | **$ (470,500)** | **$ (39)** | **$ 8,255,071** |

| (Unaudited) (thousands of Canadian dollars) | Balance June 30, 2021 restated (Note 2) | Net income | Other comprehensive income | Dividend paid | Distributions to non-controlling interest | Balance September 30, 2021 restated (Note 2) |
|---|---|---|---|---|---|---|
| **Contributed capital** | $ 500,000 | $ – | $ – | $ – | $ – | $ 500,000 |
| **Retained earnings** | 7,776,393 | 218,296 | – | (560,100) | – | 7,434,589 |
| **Total equity attributable to parent** | 8,276,393 | 218,296 | – | (560,100) | – | 7,934,589 |
| Non-controlling interest | 616 | 12 | – | – | (11) | 617 |
| **Total** | $ 8,277,009 | $ 218,308 | $ – | $ (560,100) | $ (11) | $ 7,935,206 |

## For the six months ended September 30

| (Unaudited) (thousands of Canadian dollars) | Balance March 31, 2022 | Net income | Other comprehensive income | Dividend paid | Contributions from non-controlling interest | Balance September 30, 2022 |
|---|---|---|---|---|---|---|
| **Contributed capital** | **$ 500,000** | **$ –** | **$ –** | **$ (250,000)** | **$ –** | **$ 250,000** |
| **Retained earnings** | **8,076,280** | **398,090** | **–** | **(470,500)** | **–** | **8,003,870** |
| **Total equity attributable to parent** | **8,576,280** | **398,090** | **–** | **(720,500)** | **–** | **8,253,870** |
| Non-controlling interest | **947** | **40** | **–** | **–** | **214** | **1,201** |
| **Total** | **$ 8,577,227** | **$ 398,130** | **$ –** | **$ (720,500)** | **$ 214** | **$ 8,255,071** |

| (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 September 30, 2021 restated (Note 2) |
|---|---|---|---|---|---|---|
| **Contributed capital** | $ 500,000 | $ – | $ – | $ – | $ – | $ 500,000 |
| **Retained earnings** | 7,537,566 | 457,123 | – | (560,100) | – | 7,434,589 |
| 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 | 457,123 | (1,489) | (560,100) | – | 7,934,589 |
| Non-controlling interest | 610 | 25 | – | – | (18) | 617 |
| **Total** | $ 8,039,665 | $ 457,148 | $ (1,489) | $ (560,100) | $ (18) | $ 7,935,206 |

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

# Consolidated Statement of Cash Flows

| (Unaudited)<br>(thousands of Canadian dollars) | Three months ended<br>September 30,<br>2022 | <br>September 30,<br>2021 | Six months ended<br>September 30,<br>2022 | <br>September 30,<br>2021 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Net income | **$ 210,191** | $ 218,308 | **$ 398,130** | $ 457,148 |
| **Adjustments to determine net cash (used in) provided by operating activities:** | | | | |
| Net interest income | **(348,162)** | (337,024) | **(684,823)** | (669,216) |
| Provision for (reversal of) credit losses | **13,982** | 6,616 | **39,637** | (21,708) |
| Fair value (gain) loss | **(1,684)** | (204) | **(1,569)** | 519 |
| Net loss (income) from investment in associates | **1,135** | (464) | **3,889** | 617 |
| Amortization and depreciation | **8,032** | 9,416 | **15,976** | 19,139 |
| Net unrealized foreign exchange gains | **(32,944)** | (23,429) | **(49,398)** | (11,474) |
| Impairment loss on assets held for sale | **1,894** | – | **1,894** | – |
| Proceeds from sale of lease portolio | **171,625** | – | **171,625** | – |
| Net cash outflow from loans receivable | **(739,199)** | (588,183) | **(3,028,291)** | (2,069,965) |
| Net cash inflow (outflow) from finance leases receivable | **5,317** | (1,415) | **8,280** | (725) |
| Net change in other operating assets and liabilities | **(17,259)** | (37,387) | **(21,194)** | (42,353) |
| Interest received | **399,113** | 299,015 | **841,260** | 705,713 |
| Interest paid | **(143,066)** | (52,695) | **(226,480)** | (109,945) |
| **Cash used in operating activities** | **$ (471,025)** | $ (507,446) | **$ (2,531,064)** | $ (1,742,250) |
| **Investing activities** | | | | |
| Purchase of short-term investments[1] | **$ (228,537)** | $ (154,590) | **$ (401,023)** | $ (549,649) |
| Proceeds from maturity of short-term investments[1] | **104,709** | 157,034 | **454,818** | 556,425 |
| Disbursements of other loans receivable[1] | **(500)** | (38) | **(725)** | (4,000) |
| Repayments from other loans receivable[1] | **10,000** | – | **11,000** | 3,629 |
| Acquisition of investments at fair value | **(13,454)** | (8,900) | **(30,035)** | (14,861) |
| Disbursements paid to investment in associates | **(4,135)** | (163) | **(7,295)** | (2,829) |
| Repayments from investment in associates | **–** | – | **–** | 274 |
| Purchase of property and equipment | **(2,945)** | (570) | **(5,643)** | (2,437) |
| Proceeds on disposal of property and equipment | **2,274** | 4,038 | **5,102** | 9,163 |
| Purchase of intangible assets | **(2,222)** | (662) | **(3,887)** | (1,034) |
| **Cash (used in) provided by investing activities** | **$ (134,810)** | $ (3,851) | **$ 22,312** | $ (5,319) |
| **Financing activities** | | | | |
| Long-term debt issued | **$ 2,473,000** | $ 2,630,000 | **$ 6,568,000** | $ 7,555,000 |
| Long-term debt repaid | **(1,617,500)** | (2,540,000) | **(2,878,029)** | (6,076,356) |
| Short-term debt issued | **3,127,387** | 2,957,972 | **6,241,071** | 5,893,875 |
| Short-term debt repaid | **(3,120,953)** | (2,547,112) | **(6,382,479)** | (5,577,931) |
| Principal repayment of lease liabilities | **(3,836)** | (3,806) | **(7,641)** | (7,584) |
| Dividend paid | **(470,500)** | – | **(720,500)** | – |
| **Cash provided by financing activities** | **$ 387,598** | $ 497,054 | **$ 2,820,422** | $ 1,787,004 |
| **Change in cash and cash equivalents** | **$ (218,237)** | $ (14,243) | **$ 311,670** | $ 39,435 |
| Cash and cash equivalents, beginning of period | **1,969,838** | 1,304,733 | **1,439,109** | 1,251,093 |
| Effects of exchange rate changes on the balances of cash held and due in foreign currencies | **2,107** | 270 | **2,929** | 232 |
| **Cash and cash equivalents, end of period** | **$ 1,753,708** | $ 1,290,760 | **$ 1,753,708** | $ 1,290,760 |
| **Cash and cash equivalents consists of:** | | | | |
| Cash | **$ 1,301,329** | $ 1,290,760 | **$ 1,301,329** | $ 1,290,760 |
| Short-term investments | **452,379** | – | **452,379** | – |

[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 and six months ended September 30, 2022, and were approved and authorized for issue by the Audit Committee of the Board of Directors on November 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, 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.

During the second quarter, we updated FCC's loss given default model to remove an indicator previously used to distinguish the sufficiency of security between performing status and credit-impaired loans. This prospective change resulted in a reclassification, which increased FCC's impaired loan balance by $248 million and decreased performing loans receivable by the same amount. The change did not have an impact on FCC's loans receivable or allowance for credit losses balances.

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 the opening and closing retained earnings balances for the three and six months ended September 30, 2021 previously reported in the Consolidated Statement of Changes in Equity of the interim financial statements for September 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 September 30, 2022 | As at March 31, 2022 |
| Floating | $ | 4,410,730 | $ | 10,218,991 | $ | 303,610 | $ | 14,933,331 | $ 15,012,411 |
| Fixed | | 3,481,695 | | 18,900,840 | | 10,431,470 | | 32,814,005 | 29,521,978 |
| Loans receivable – gross | $ | 7,892,425 | $ | 29,119,831 | $ | 10,735,080 | | 47,747,336 | 44,534,389 |
| Deferred loan fees | | | | | | | | (43,132) | (45,252) |
| Loans receivable – total | | | | | | | | 47,704,204 | 44,489,137 |
| Allowance for credit losses (Note 4) | | | | | | | | (136,016) | (109,634) |
| **Loans receivable – net** | | | | | | | $ | 47,568,188 | $ 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 September 30, 2022 | | As at March 31, 2022 | |
|---|---|---|---|---|
| | Gross | Impaired | Gross | Impaired |
| Oilseed and grain | $ 15,180,444 | $ 256,819 | $ 14,332,100 | $ 128,637 |
| Dairy | 7,193,204 | 8,310 | 6,929,019 | 15,677 |
| Agribusiness | 5,758,661 | 99,970 | 5,432,022 | 77,836 |
| Beef | 3,935,377 | 146,368 | 3,713,939 | 67,254 |
| Other | 3,134,614 | 72,114 | 3,025,176 | 44,057 |
| Poultry | 3,121,980 | 6,714 | 3,004,698 | 6,087 |
| Alliances | 2,569,890 | 23,698 | 1,706,558 | 17,965 |
| Agri-food | 1,992,269 | 46,017 | 1,827,205 | 16,849 |
| Greenhouse | 1,916,873 | 18,401 | 1,848,533 | 6,980 |
| Hogs | 1,528,805 | 6,274 | 1,394,722 | 6,357 |
| Fruit | 1,415,219 | 33,680 | 1,320,417 | 6,672 |
| **Total** | $ 47,747,336 | $ 718,365 | $ 44,534,389 | $ 394,371 |

### Geographic distribution

| | As at September 30, 2022 | | As at March 31, 2022 | |
|---|---|---|---|---|
| | Gross | Impaired | Gross | Impaired |
| Ontario | $ 13,964,473 | $ 111,880 | $ 13,010,205 | $ 55,418 |
| Saskatchewan | 9,057,013 | 163,443 | 8,312,457 | 105,463 |
| Alberta | 8,670,881 | 234,933 | 8,181,161 | 104,600 |
| Quebec | 6,626,997 | 56,724 | 6,157,848 | 51,493 |
| British Columbia | 4,167,090 | 69,698 | 4,007,965 | 24,161 |
| Manitoba | 3,834,005 | 65,237 | 3,519,480 | 38,460 |
| Atlantic | 1,426,877 | 16,450 | 1,345,273 | 14,776 |
| **Total** | $ 47,747,336 | $ 718,365 | $ 44,534,389 | $ 394,371 |

# 4. Allowance for credit losses – loans receivable

| As at September 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 | **13,424** | **(13,098)** | **(326)** | **–** |
| Transfer to stage 2 | **(3,683)** | **29,698** | **(26,015)** | **–** |
| Transfer to stage 3 | **(478)** | **(6,337)** | **6,815** | **–** |
| Changes due to new loans originated | **19,802** | **2,508** | **4,512** | **26,822** |
| Loans receivable derecognized during the period | **(6,055)** | **(2,991)** | **(6,046)** | **(15,092)** |
| Net remeasurement of loss allowance | **(21,545)** | **(13,471)** | **69,226** | **34,210** |
| Writeoffs | **–** | **(1,365)** | **(19,156)** | **(20,521)** |
| Recoveries of amounts previously written off | **–** | **390** | **575** | **965** |
| Losses covered under Hog Industry Loan Loss Reserve Program | **(1)** | **(5)** | **4** | **(2)** |
| **Total allowance** | **$ 46,491** | **$ 26,728** | **$ 62,797** | **$ 136,016** |

| 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 September 30, 2022** | As at March 31, 2022 |
|---|---|---|
| **Government of Canada debt** | | |
| Floating-rate borrowings | **$ 642,507** | $ 915,105 |
| Fixed-rate borrowings | **6,127,224** | 6,489,070 |
| | **6,769,731** | 7,404,175 |
| **Capital markets debt** | | |
| USD fixed-rate promissory notes[1] | **784,179** | 673,439 |
| | **784,179** | 673,439 |
| **Total** | **$ 7,553,910** | $ 8,077,614 |

[1] $572 million USD (March 31, 2022 – $539 million USD)

## Long-term debt

| | **As at September 30, 2022** | As at March 31, 2022 |
|---|---|---|
| **Government of Canada debt** | | |
| Floating-rate borrowings | **$ 15,232,494** | $ 15,282,177 |
| Fixed-rate borrowings | **19,036,922** | 14,824,493 |
| **Total** | **$ 34,269,416** | $ 30,106,670 |