DREAM. GROW. THRIVE.

# Third Quarter Financial Report 2022-23

As at and for the three and nine months ended December 31, 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 February 16, 2023. 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 nine months ended December 31, 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 food sector is persevering despite ongoing challenges in supply chains, market volatility from geopolitical events, high prices of farm inputs and higher interest rates. Elevated interest rates are increasing borrowing costs and are expected to slow global growth, putting downward pressure on asset prices, including agriculture commodities. A slowdown or possible recession combined with rising input costs and supply chain disruptions will impact the profitability of our customers. Inflationary pressures are creating tighter margins, which make higher interest rates a concern for customers. Despite challenges, the sector remains resilient and financially healthy, supported by strong demand for both agriculture commodities and food, domestically and in export markets. Strong commodity prices are forecasted to grow farm cash receipts 13% in 2022 and 8.3% in 2023.

In 2022, Canadian grain, oilseed and pulse production increased 34% to 96.0 million tonnes, recovering from the 2021 drought conditions on the prairies. Increased production and historically strong commodity prices supported grain and oilseed receipts, placing producers in a strong financial position to absorb high input costs in 2022. Grain and oilseed margins in 2022 were profitable overall. Projected 2023 margins will be tighter but above the five-year average.

For grain-handling companies, increased crop production in 2022 is leading to increased opportunities to handle, process and transport product in 2023. High farm input prices through 2022 resulted in volatility for input retailers. Fertilizer prices are expected to remain volatile through 2023. As a result, many farm input retailers have already secured supplies for 2023 delivered to farms or have mitigated price risk with on-site volumes pre-sold to farms, holding little unsold inventory.

Improved pasture conditions, hay supplies, and declining feed prices improved cow-calf profitability at the end of 2022. Feedlot margins are projected to be positive in 2023, while cow-calf margins are expected to be well above break-even. Beef futures continue to be strong for cow-calf while continued easing of feed costs, along with strong consumer demand, will support improved profitability.

Canadian dairy margins have improved but remain tight as high feed costs and inflationary pressures outweigh the September 1, 2022, support price increases. The Canadian Dairy Commission has announced a further 2.2% increase to the support price effective February 1, 2023. Dairy producers will receive compensation payments of $468 million in fiscal year 2023 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). This implies that a farm with 80 dairy cows will receive a payment of approximately $35,000 or $1.15 per kg of butterfat.

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

Profits for hog producers were positive in 2022 for farrow-to-finish operations and are forecasted to be positive and above the five year average for 2023. However, slaughter constraints in Quebec are keeping eastern margins below the west. Margins for poultry producers are expected to be positive in 2023 as feed costs have eased. Avian influenza remains a major concern. British Columbia poultry producers have had 64 commercial premises infected since November 16, 2022.

Strong farm cash receipts supported revenues of agribusinesses in 2022. Demand for farm equipment remains strong but supply chain disruptions slowed sales that otherwise could have been stronger in 2022. Farm equipment sales for 2023 will largely depend on how fast the supply chain recovers and equipment manufacturers deliver on pre-orders.

Food and beverage manufacturing sales were up 11.2% year-over-year between January and October 2022. Sales growth has been fuelled by price inflation, estimated to be 12.6% year-over-year on a monthly average basis for food during the same time frame. Food inflation has been resilient and remains above 10% despite the overall headline inflation number starting to decline. Food inflation and tighter consumer wallets are limiting upside in sales for price-sensitive industries. The labour market remains tight with the national unemployment rate remaining near historical lows, but the job vacancy rate in food manufacturing declined modestly in Q3 2022 to 6.0 from 6.1% in Q2 2022. It was 3.9% in Q3 2019.

The Canadian dollar (CAD) started 2022 at USD 0.79 before finishing the year just under USD 0.74. The Bank of Canada increased its policy rate aggressively in 2022 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. We expect further deterioration in early 2023. It should decline toward USD 0.70 in Q2 2023 before starting to rise again by the end of 2023.

## 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 6.3% in December. 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 but will decline toward 3% at the end of 2023. The Bank of Canada increased its overnight interest rate to 4.25% in 2022. Increasing this rate is a key tool to help stem inflation, and expectations remain for further rate increases to bring inflation 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 nine months ended December 31, 2022, to the results for the three and nine months ended December 31, 2021.

## Net income

| | Three months ended December 31 | | | Nine months ended December 31 | | |
|---|---|---|---|---|---|---|
| **($ millions)** | **2022** | 2021 | Variance | **2022** | 2021 | Variance |
| Net interest income | **342** | 340 | 2 | **1,027** | 1,009 | 18 |
| (Provision for) reversal of credit losses | **(47)** | 46 | (93) | **(87)** | 68 | (155) |
| Non-interest income | **(1)** | 1 | (2) | **5** | 9 | (4) |
| Administration expenses | **(137)** | (130) | (7) | **(392)** | (372) | (20) |
| Fair value gain | **12** | 8 | 4 | **14** | 8 | 6 |
| **Net income** | **169** | 265 | (96) | **567** | 722 | (155) |

Three months ended December 31

Net income decreased by $96 million, a 36% reduction compared to the same period last year, primarily due to an increase in provision for credit losses. The provision for credit losses in the three months ended December 31, 2022, was driven by an increase in impaired loans. Last year, a large reversal of credit losses was recorded due to a revised estimate for the allowance for credit losses that segmented customers based on risk and emphasized recent loss experience. The prior year also included customers who deferred payments under pandemic programs also resumed regular payments, contributing to a decrease in allowance for credit losses and reversal of provision. Increases in administration expenses this quarter were required to support portfolio growth and deliver strategic initiatives. Net interest income increased slightly due to higher lending volumes, largely offset by a decrease to net interest margin this quarter compared to the same period last year.

Nine months ended December 31

Net income decreased by $155 million, a 21% 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 nine months ended December 31, 2022, the provision for credit losses increased as the balance of impaired loans increased. The reversal of provision for credit losses in the nine months ended December 31, 2021, was primarily a result of a revised estimate for the allowance for credit losses that segmented customers based on risk and emphasized recent loss experience. Further decrease in the allowance for credit losses, and reversal of provision, was also recorded as customers resumed regular payment following the expiration of COVID-19 deferrals. Increased administration expenses were required to support portfolio growth and deliver strategic initiatives. Net interest income increased slightly due to higher lending volumes, largely offset by a decrease to net interest margin, compared to the same period last year.

## Net interest income, loans receivable and borrowings

### Net interest income

| **($ millions)** | **Three months ended December 31, 2022** | **Nine months ended December 31, 2022** |
|---|---|---|
| **Year-over-year increase in net interest income due to:** | | |
| Increase in volume | **22** | **66** |
| Decrease in net interest margin | **(20)** | **(48)** |
| **Total increase in net interest income** | **2** | **18** |

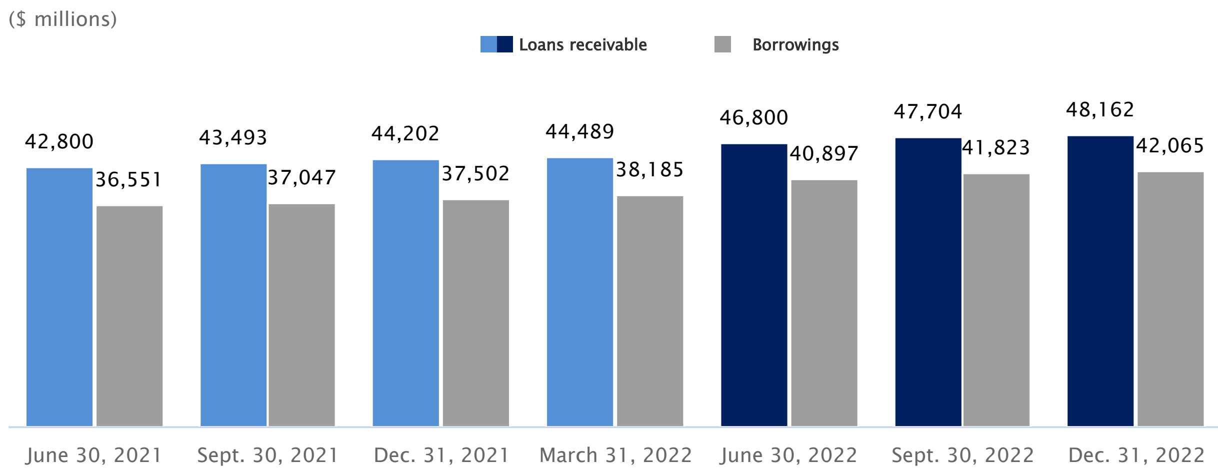
Three months ended December 31

Higher lending volumes contributed a $22 million increase, with growth realized in our fixed rate lending products. Increased volume was offset by a decreased interest margin of $20 million reflecting the net effect of higher interest rates on our interest-earning assets and interest-bearing liabilities.

Nine months ended December 31

Increased lending volume contributed a $66 million increase, with pronounced growth in our fixed lending products as customers looked to secure rate certainty. Increased volume was partially offset by a $48 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



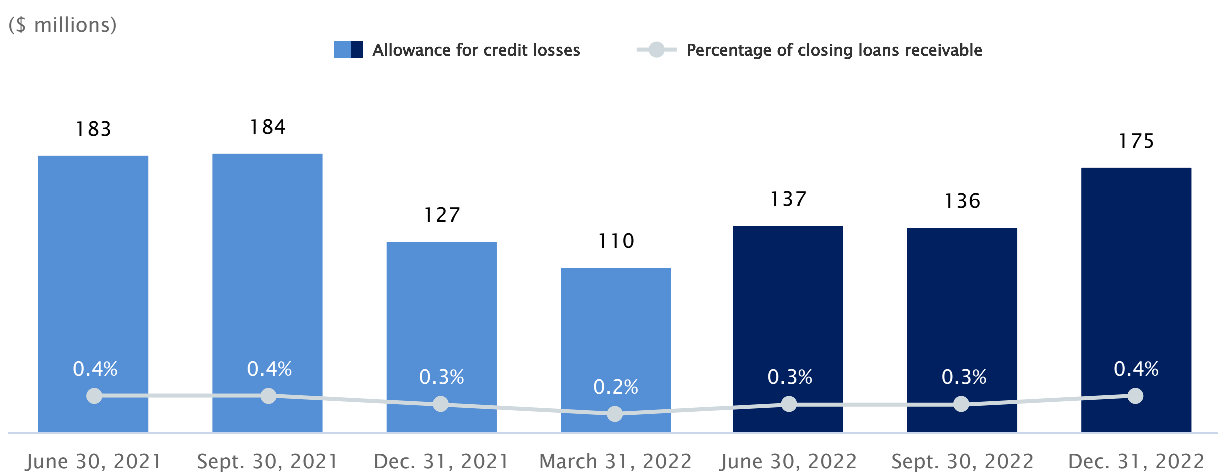

Loans receivable increased 8.3% since March 31, 2022. Growth occurred across all industry sectors and geographic regions.

Oilseed and grain had the largest dollar increase, as additional volume and historically high commodity prices helped operations navigate higher costs of production. Alliance lending had the highest growth rate realized at the start of the crop year and driven by the rising price of inputs.

Borrowings increased 10.2% since March 31, 2022. The increase allowed us to fund the growth in loans receivable. Additional borrowings were secured this year to help mitigate against interest rate risk. 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 $65 million since March 31, 2022. The additional allowance was due to a higher volume of impaired loans. A few large customers drove the higher allowance in the agribusiness and agri-food sectors, while increased allowance in the agriculture production sectors was distributed across the portfolio.

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.

### (Provision for) reversal of credit losses

| ($ millions) | Three months ended December 31 2022 | 2021 | Variance | Nine months ended December 31 2022 | 2021 | Variance |
|---|---|---|---|---|---|---|
| Impaired loans (Stage 3) | **(45)** | 4 | (49) | **(87)** | (12) | (75) |
| Performing loans (Stages 1 & 2) | **(2)** | 42 | (44) | **–** | 80 | (80) |
| **Total (provision for) reversal of credit losses** | **(47)** | 46 | (93) | **(87)** | 68 | (155) |

Three months ended December 31

We had more customers access loan amendments due to financial difficulty and an increased balance of loans past due, leading to a higher allowance for credit losses and provision on impaired loans. Last year, the reversal of credit losses on impaired loans was due to revisions in estimates used for the allowance for credit losses that increased emphasis on customer risk and recent loss experience.

The increased provision for performing loans was driven by new lending primarily in the agribusiness and agri-food sectors. This increase was offset by improved economic conditions and strong commodity prices, which contributed to a decreased allowance and provision for credit losses. Last year, the reversal of provision for credit losses was due to a revised estimate for allowance for credit losses that segmented customers based on risk and emphasized recent loss experience. Additional reduction to the allowance for credit losses, and reversal of provision, was realized as customers who deferred payments under pandemic programs resumed regular payments.

Nine months ended December 31

We had an increased number of customers accessing loan amendments due to financial difficulty 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.

The increased provision for performing loans was the result of new lending activity and annual updates of inputs used in the calculation of our allowance for credit losses, which contributed to an increase in allowance and provision for performing loans. This increase was offset by improved economic conditions and strong commodity prices, which contributed to a decreased allowance and provision for credit losses. 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) | December 31, 2022 | March 31, 2022 | Variance |
|---|---|---|---|
| Cash and cash equivalents | **1,695** | 1,439 | 256 |
| Loans receivable – net | **47,987** | 44,379 | 3,608 |
| Other | **1,338** | 1,466 | (128) |
| Total assets | **51,020** | 47,284 | 3,736 |
| Borrowings | **42,065** | 38,184 | 3,881 |
| Other | **532** | 523 | 9 |
| Total liabilities | **42,597** | 38,707 | 3,890 |
| Equity | **8,423** | 8,577 | (154) |

## Cash and cash equivalents

| | Three months ended December 31 | | | Nine months ended December 31 | | |
|---|---|---|---|---|---|---|
| **($ millions)** | **2022** | 2021 | Variance | **2022** | 2021 | Variance |
| Cash used in operating activities | **(229)** | (483) | 254 | **(2,760)** | (2,226) | (534) |
| Cash used in investing activities | **(71)** | (16) | (55) | **(49)** | (21) | (28) |
| Cash provided by financing activities | **243** | 462 | (219) | **3,062** | 2,249 | 813 |
| **Change in cash and cash equivalents** | **(57)** | (37) | (20) | **253** | 2 | 251 |

Three months ended December 31

Cash used in operating activities decreased due to fewer disbursements this quarter compared to the same period last year.

Cash used in investing activities increased as we purchased more short-term investments this year. The increase was partially offset by additional maturities on investments compared to the same time last year.

Cash provided by financing activities decreased as fewer borrowings were secured compared to the same time last year.

Nine months ended December 31

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 and higher interest payments received on lending.

Cash used in investing activities increased as additional cash was used in the acquisition of fair value investments and funding our investments in associates.

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 $128 million decrease in other assets was primarily due to the sale of our lease portfolio, partially offset by additional investment in equity investments this period.

## 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 nine months ended December 31 | 2022–23 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.

Justine Hendricks, MBA
President and Chief Executive Officer

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

Regina, Canada
February 16, 2023

# Consolidated Balance Sheet

| (Unaudited)<br>(thousands of Canadian dollars) | December 31, 2022 | March 31, 2022 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ **1,694,993** | $ 1,439,109 |
| Short-term investments | **597,335** | 584,397 |
| Accounts receivable and prepaid expenses | **40,985** | 38,490 |
| Assets held for sale | **–** | 185,761 |
| Derivative financial assets | **1,180** | – |
| | **2,334,493** | 2,247,757 |
| Loans receivable – net (Notes 3 and 4) | **47,986,872** | 44,379,503 |
| Other loans receivable – net | **27,917** | 50,443 |
| Investments at fair value | **103,794** | 56,063 |
| Investment in associates | **57,300** | 49,424 |
| Post-employment benefit assets | **305,406** | 293,543 |
| | **48,481,289** | 44,828,976 |
| Property and equipment | **185,050** | 188,798 |
| Intangible assets | **14,073** | 12,668 |
| Other assets | **5,147** | 5,824 |
| | **204,270** | 207,290 |
| **Total assets** | $ **51,020,052** | $ 47,284,023 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | $ **76,013** | $ 84,274 |
| Derivative financial liabilities | **–** | 32 |
| | **76,013** | 84,306 |
| Borrowings (Note 5) | | |
| Short-term debt | **7,510,185** | 8,077,614 |
| Long-term debt | **34,555,114** | 30,106,670 |
| | **42,065,299** | 38,184,284 |
| Transition loan liabilities | **192,889** | 173,652 |
| Post-employment benefit liabilities | **97,011** | 91,471 |
| Lease liabilities | **163,352** | 166,748 |
| Other liabilities | **2,231** | 6,335 |
| | **455,483** | 438,206 |
| **Total liabilities** | **42,596,795** | 38,706,796 |
| **Equity** | | |
| Contributed capital | **250,000** | 500,000 |
| Retained earnings | **8,172,039** | 8,076,280 |
| **Equity attributable to shareholder of parent entity** | **8,422,039** | 8,576,280 |
| Non-controlling interest | **1,218** | 947 |
| | **8,423,257** | 8,577,227 |
| **Total liabilities and equity** | $ **51,020,052** | $ 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>December 31, 2022 | <br>December 31, 2021 | Nine months ended<br>December 31, 2022 | <br>December 31, 2021 |
|---|---|---|---|---|
| Interest income | **$ 610,250** | $ 394,101 | **$ 1,594,304** | $ 1,173,721 |
| Interest expense | **(268,502)** | (53,934) | **(567,733)** | (164,338) |
| **Net interest income** | **341,748** | 340,167 | **1,026,571** | 1,009,383 |
| (Provision for) reversal of credit losses | **(47,425)** | 46,177 | **(87,062)** | 67,885 |
| **Net interest income after provision for credit losses** | **294,323** | 386,344 | **939,509** | 1,077,268 |
| Insurance distribution income | **2,800** | 5,802 | **12,304** | 15,473 |
| Net loss from investment in associates | **(3,602)** | (4,572) | **(7,491)** | (5,189) |
| Net foreign exchange (loss) gain | **(635)** | (43) | **2,180** | 297 |
| Other expenses | **(28)** | (357) | **(2,339)** | (1,225) |
| **Net interest income and non-interest income** | **292,858** | 387,174 | **944,163** | 1,086,624 |
| Administration expenses | **(137,271)** | (130,318) | **(392,015)** | (372,101) |
| **Net income before fair value gain** | **155,587** | 256,856 | **552,148** | 714,523 |
| Fair value gain | **12,655** | 8,350 | **14,224** | 7,831 |
| **Net income** | **$ 168,242** | $ 265,206 | **$ 566,372** | $ 722,354 |
| **Net income attributable to:** | | | | |
| Shareholder of parent entity | **$ 168,169** | $ 265,279 | **$ 566,259** | $ 722,402 |
| Non-controlling interest | **73** | (73) | **113** | (48) |

**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>December 31, 2022 | <br>December 31, 2021 | Nine months ended<br>December 31, 2022 | <br>December 31, 2021 |
|---|---|---|---|---|
| **Net income** | **$ 168,242** | $ 265,206 | **$ 566,372** | $ 722,354 |
| **Other comprehensive income** | | | | |
| Transfer of net realized gains on derivatives designated as cash flow hedges to net income | **–** | – | **–** | (1,489) |
| **Total comprehensive income** | **$ 168,242** | $ 265,206 | **$ 566,372** | $ 720,865 |
| **Total comprehensive income attributable to:** | | | | |
| Shareholder of parent entity | **$ 168,169** | $ 265,279 | **$ 566,259** | $ 720,913 |
| Non-controlling interest | **73** | (73) | **113** | (48) |

**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, 2022 | Net income | Other comprehensive income | Dividend paid | Distributions to non-controlling interest | Balance December 31, 2022 |
|---|---|---|---|---|---|---|
| **Contributed capital** | $ 250,000 | $ – | $ – | $ – | $ – | $ 250,000 |
| **Retained earnings** | 8,003,870 | 168,169 | – | – | – | 8,172,039 |
| **Total equity attributable to parent** | 8,253,870 | 168,169 | – | – | – | 8,422,039 |
| Non-controlling interest | 1,201 | 73 | – | – | (56) | 1,218 |
| **Total** | $ 8,255,071 | $ 168,242 | $ – | $ – | $ (56) | $ 8,423,257 |

| (Unaudited) (thousands of Canadian dollars) | Balance Sept. 30, 2021 restated (Note 2) | Net income | Other comprehensive income | Dividend paid | Distributions to non-controlling interest | Balance December 31, 2021 restated (Note 2) |
|---|---|---|---|---|---|---|
| **Contributed capital** | $ 500,000 | $ – | $ – | $ – | $ – | $ 500,000 |
| **Retained earnings** | 7,434,589 | 265,279 | – | – | – | 7,699,868 |
| **Total equity attributable to parent** | 7,934,589 | 265,279 | – | – | – | 8,199,868 |
| Non-controlling interest | 617 | (73) | – | – | (38) | 506 |
| **Total** | $ 7,935,206 | $ 265,206 | $ – | $ – | $ (38) | $ 8,200,374 |

## For the nine months ended December 31

| (Unaudited) (thousands of Canadian dollars) | Balance March 31, 2022 | Net income | Other comprehensive income | Dividend paid | Contributions from non-controlling interest | Balance December 31, 2022 |
|---|---|---|---|---|---|---|
| **Contributed capital** | $ 500,000 | $ – | $ – | $ (250,000) | $ – | $ 250,000 |
| **Retained earnings** | 8,076,280 | 566,259 | – | (470,500) | – | 8,172,039 |
| **Total equity attributable to parent** | 8,576,280 | 566,259 | – | (720,500) | – | 8,422,039 |
| Non-controlling interest | 947 | 113 | – | – | 158 | 1,218 |
| **Total** | $ 8,577,227 | $ 566,372 | $ – | $ (720,500) | $ 158 | $ 8,423,257 |

| (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 December 31, 2021 restated (Note 2) |
|---|---|---|---|---|---|---|
| **Contributed capital** | $ 500,000 | $ – | $ – | $ – | $ – | $ 500,000 |
| **Retained earnings** | 7,537,566 | 722,402 | – | (560,100) | – | 7,699,868 |
| 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 | 722,402 | (1,489) | (560,100) | – | 8,199,868 |
| Non-controlling interest | 610 | (48) | – | – | (56) | 506 |
| **Total** | $ 8,039,665 | $ 722,354 | $ (1,489) | $ (560,100) | $ (56) | $ 8,200,374 |

**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, 2022 | December 31, 2021 | Nine months ended December 31, 2022 | December 31, 2021 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Net income | **$ 168,242** | $ 265,206 | **$ 566,372** | $ 722,354 |
| **Adjustments to determine net cash (used in) provided by operating activities:** | | | | |
| Net interest income | **(341,748)** | (340,167) | **(1,026,571)** | (1,009,383) |
| Provision for (reversal of) credit losses | **47,425** | (46,177) | **87,062** | (67,885) |
| Fair value gain | **(12,655)** | (8,350) | **(14,224)** | (7,831) |
| Net loss from investment in associates | **3,602** | 4,572 | **7,491** | 5,189 |
| Amortization and depreciation | **7,897** | 8,171 | **23,873** | 27,310 |
| Net unrealized foreign exchange gains | **(6,451)** | (5,231) | **(55,849)** | (16,705) |
| Impairment (gain) loss on assets held for sale | **(28)** | – | **1,866** | – |
| Proceeds from sale of lease portfolio | **–** | – | **171,625** | – |
| Net cash outflow from loans receivable | **(534,393)** | (797,460) | **(3,562,684)** | (2,867,425) |
| Net cash (outflow) inflow from finance leases receivable | **(835)** | 653 | **7,445** | (72) |
| Net change in other operating assets and liabilities | **19,409** | 16,707 | **(1,785)** | (25,646) |
| Interest received | **671,449** | 472,489 | **1,512,709** | 1,178,202 |
| Interest paid | **(250,945)** | (53,912) | **(477,425)** | (163,857) |
| **Cash used in operating activities** | **$ (229,031)** | $ (483,499) | **$ (2,760,095)** | $ (2,225,749) |
| **Investing activities** | | | | |
| Purchase of short-term investments[1] | **$ (172,542)** | $ (14,911) | **$ (573,565)** | $ (564,560) |
| Proceeds from maturity of short-term investments[1] | **110,964** | – | **565,782** | 556,425 |
| Disbursements of other loans receivable[1] | **(83)** | – | **(808)** | (4,000) |
| Repayments from other loans receivable[1] | **4,010** | 3,200 | **15,010** | 6,829 |
| Acquisition of investments at fair value | **(1,700)** | (1,127) | **(31,735)** | (15,988) |
| Disbursements paid to investment in associates | **(9,646)** | (3,344) | **(16,941)** | (6,173) |
| Repayments from investment in associates | **1,573** | 249 | **1,573** | 523 |
| Purchase of property and equipment | **(1,981)** | (1,457) | **(7,624)** | (3,894) |
| Proceeds on disposal of property and equipment | **295** | 2,740 | **5,397** | 11,903 |
| Purchase of intangible assets | **(2,118)** | (1,030) | **(6,005)** | (2,064) |
| **Cash used in investing activities** | **$ (71,228)** | $ (15,680) | **$ (48,916)** | $ (20,999) |
| **Financing activities** | | | | |
| Long-term debt issued | **$ 2,214,000** | $ 3,290,000 | **$ 8,782,000** | $ 10,845,000 |
| Long-term debt repaid | **(1,859,000)** | (2,729,500) | **(4,737,029)** | (8,805,856) |
| Short-term debt issued | **3,110,114** | 2,849,974 | **9,351,185** | 8,743,849 |
| Short-term debt repaid | **(3,219,302)** | (2,944,598) | **(9,601,781)** | (8,522,529) |
| Principal repayment of lease liabilities | **(3,815)** | (3,829) | **(11,456)** | (11,413) |
| Dividend paid | **–** | – | **(720,500)** | – |
| **Cash provided by financing activities** | **$ 241,997** | $ 462,047 | **$ 3,062,419** | $ 2,249,051 |
| **Change in cash and cash equivalents** | **$ (58,262)** | $ (37,132) | **$ 253,408** | $ 2,303 |
| Cash and cash equivalents, beginning of period | **1,753,708** | 1,290,760 | **1,439,109** | 1,251,093 |
| Effects of exchange rate changes on the balances of cash held and due in foreign currencies | **(453)** | 387 | **2,476** | 619 |
| **Cash and cash equivalents, end of period** | **$ 1,694,993** | $ 1,254,015 | **$ 1,694,993** | $ 1,254,015 |
| **Cash and cash equivalents consists of:** | | | | |
| Cash | **$ 1,232,763** | $ 1,254,015 | **$ 1,232,763** | $ 1,254,015 |
| Short-term investments | **462,230** | – | **462,230** | – |

[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 nine months ended December 31, 2022, and were approved and authorized for issue by the Audit Committee of the Board of Directors on February 16, 2023.

### 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 the opening and closing retained earnings balances for the three and nine months ended December 31, 2021, previously reported in the Consolidated Statement of Changes in Equity of the interim financial statements for December 31, 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 December 31, 2022 | As at March 31, 2022 |
| Floating | $ 4,064,218 | $ 10,404,594 | $ 256,403 | $ 14,725,215 | $ 15,012,411 |
| Fixed | 3,288,023 | 19,967,071 | 10,222,890 | 33,477,984 | 29,521,978 |
| Loans receivable – gross | $ 7,352,241 | $ 30,371,665 | $ 10,479,293 | 48,203,199 | 44,534,389 |
| Deferred loan fees | | | | (41,550) | (45,252) |
| Loans receivable – total | | | | 48,161,649 | 44,489,137 |
| Allowance for credit losses (Note 4) | | | | (174,777) | (109,634) |
| **Loans receivable – net** | | | | $ 47,986,872 | $ 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 December 31, 2022 | | As at March 31, 2022 | |
|---|---|---|---|---|
| | Gross | Impaired | Gross | Impaired |
| Oilseed and grain | $ 15,252,643 | $ 284,095 | $ 14,332,100 | $ 128,637 |
| Dairy | 7,263,575 | 17,772 | 6,929,019 | 15,677 |
| Agribusiness | 5,972,672 | 124,533 | 5,432,022 | 77,836 |
| Beef | 3,896,839 | 140,250 | 3,713,939 | 67,254 |
| Poultry | 3,210,029 | 9,623 | 3,004,698 | 6,087 |
| Other | 3,202,140 | 85,342 | 3,025,176 | 44,057 |
| Alliances | 2,424,915 | 19,555 | 1,706,558 | 17,965 |
| Agri-food | 2,052,517 | 123,859 | 1,827,205 | 16,849 |
| Greenhouse | 1,953,066 | 18,150 | 1,848,533 | 6,980 |
| Hogs | 1,554,492 | 15,251 | 1,394,722 | 6,357 |
| Fruit | 1,420,311 | 40,871 | 1,320,417 | 6,672 |
| **Total** | $ 48,203,199 | $ 879,301 | $ 44,534,389 | $ 394,371 |

### Geographic distribution

| | As at December 31, 2022 | | As at March 31, 2022 | |
|---|---|---|---|---|
| | Gross | Impaired | Gross | Impaired |
| Ontario | $ 14,206,294 | $ 100,038 | $ 13,010,205 | $ 55,418 |
| Saskatchewan | 8,957,915 | 173,847 | 8,312,457 | 105,463 |
| Alberta | 8,715,049 | 250,567 | 8,181,161 | 104,600 |
| Quebec | 6,799,005 | 143,712 | 6,157,848 | 51,493 |
| British Columbia | 4,237,823 | 85,767 | 4,007,965 | 24,161 |
| Manitoba | 3,817,128 | 95,961 | 3,519,480 | 38,460 |
| Atlantic | 1,469,985 | 29,409 | 1,345,273 | 14,776 |
| **Total** | $ 48,203,199 | $ 879,301 | $ 44,534,389 | $ 394,371 |

# 4. Allowance for credit losses – loans receivable

| As at December 31, 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 | | **16,592** | | **(15,130)** | | **(1,462)** | | **–** |
| Transfer to stage 2 | | **(4,480)** | | **32,609** | | **(28,129)** | | **–** |
| Transfer to stage 3 | | **(719)** | | **(10,547)** | | **11,266** | | **–** |
| Changes due to new loans originated | | **27,881** | | **2,838** | | **5,682** | | **36,401** |
| Loans receivable derecognized during the period | | **(10,384)** | | **(3,298)** | | **(9,854)** | | **(23,536)** |
| Net remeasurement of loss allowance | | **(22,669)** | | **(12,214)** | | **108,768** | | **73,885** |
| Writeoffs | | **–** | | **(1,365)** | | **(21,480)** | | **(22,845)** |
| Recoveries of amounts previously written off | | **–** | | **413** | | **825** | | **1,238** |
| **Total allowance** | $ | **51,248** | $ | **24,705** | $ | **98,824** | $ | **174,777** |

| 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[1] | | (37,589) | | (80,042) | | 69,379 | | (48,252) |
| Writeoffs | | – | | (791) | | (24,875) | | (25,666) |
| Recoveries of amounts previously written off | | – | | 159 | | 707 | | 866 |
| Changes to allowance model parameters | | (19,146) | | (26,016) | | (14,830) | | (59,992) |
| **Total allowance** | $ | 45,027 | $ | 31,399 | $ | 33,208 | $ | 109,634 |

[1] Comparative figures have been reclassified for consistency with the current year presentation. Losses covered under HILLRP are now included within net remeasurement of loss allowance.

# 5. Borrowings

## Short-term debt

| | | As at December 31, 2022 | | As at March 31, 2022 |
|---|---|---|---|---|
| **Government of Canada debt** | | | | |
| Floating-rate borrowings | $ | **477,965** | $ | 915,105 |
| Fixed-rate borrowings | | **6,185,430** | | 6,489,070 |
| | | **6,663,395** | | 7,404,175 |
| **Capital markets debt** | | | | |
| USD fixed-rate promissory notes[1] | | **846,790** | | 673,439 |
| | | **846,790** | | 673,439 |
| **Total** | $ | **7,510,185** | $ | 8,077,614 |

[1] $624 million USD (March 31, 2022 – $539 million USD)

## Long-term debt

| | | As at December 31, 2022 | | As at March 31, 2022 |
|---|---|---|---|---|
| **Government of Canada debt** | | | | |
| Floating-rate borrowings | $ | **14,916,056** | $ | 15,282,177 |
| Fixed-rate borrowings | | **19,639,058** | | 14,824,493 |
| **Total** | $ | **34,555,114** | $ | 30,106,670 |