DREAM. GROW. THRIVE.

Second Quarter Financial Report 2023-24

As at and for the three and six months ended September 30, 2023

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 27, 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 six months ended September 30, 2023, and should be read in conjunction with our 2022-23 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 more than 102,000 customers. We are a team of more than 2,300 employees operating from 103 field offices located primarily in rural Canada and our corporate office in Regina, Saskatchewan.

Economic and agriculture industry overview

The Canadian agriculture and food sectors remain financially healthy despite higher interest rates and other ongoing challenges. Higher borrowing costs are expected to slow global growth, putting downward price pressure on agriculture commodities. Farm cash receipt increases are projected to slow to 6.6% in 2023, after rising 14.8% in 2022.

Strong farm revenues supported continued increases in farmland values through the first six months of 2023. The national average growth rate in farmland values for the first six months stands at 7.7%. With higher interest rates and farm cash receipts forecasted to grow at a slower rate, land value appreciation will moderate slightly, with 2023 growth forecasted to be 11.3% compared to an average growth of 14.6% in 2022.

Canada's annual inflation rate fell to 3.8% in September 2023, still above the Bank of Canada's 2% target. Inflationary pressures are persistent, meaning interest rates are likely to stay higher for longer. The Bank of Canada's overnight interest rate is 5.00%, after a cumulative increase of 4.75% since March 2022. Higher interest rates have slowed the growth of Canadian real GDP which has been flat or slightly declining over the last three months (June to August).

The Canadian dollar has been trending lower compared to the United States dollar. Increases in the United States dollar are driven by perceptions of stability in the current geo-political and economic environment. The path forward for the Canadian dollar depends on several factors including commodity prices, including crude oil, and interest rate differentials with the United States.

Primary production

In 2022, Canadian crop production increased 33% to 96.1 million tonnes, recovering from the 2021 drought that impacted the prairies. This production was sold at strong prices and crop receipts increased 13% in the first half of 2023, which allowed most operations to absorb high input costs and achieve robust margins. The 2023 drought is expected to reduce Canadian grain, oilseed, and pulse production by 13%. This could impact year-end crop receipts for the rest of 2023 and the first half of 2024. Margins for producers with average yields are projected to decline from 2022 highs but continue to be positive.

The outlook for dairy margins deteriorated slightly due to lower revenue projections. Approximately 15% of Canadian dairy revenue is based on dairy prices in the US, where overproduction of milk has decreased prices. This will have an impact on dairy margins which were already tight. Strong year-to-date production, higher imports and slowing demand have limited the need for extra production.

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

Cow-calf margins are expected to be well above break-even in 2023. Cattle futures continue to be strong stemming from the United States drought that reduced cattle inventory. While margins are healthy, access to feed in Alberta and western Saskatchewan is a cause for concern. There is a near record amount of United States corn purchases for 2023-24 on the books already from Canadian feedlots and ranches. Increased corn imports are due to an anticipated shortage of feed grain, forage, and straw. Feedlot margins are projected to be positive in 2023 with a wide range of potential outcomes depending on availability of own feed and purchase costs due to production shortfalls.

Planted acres of potatoes are estimated to have increased 2.1% in 2023. The increase was driven by expansion in the west, particularly Alberta, where harvested acres are up an estimated 11.6%. Potato acres in the Atlantic region remain unchanged for 2023 following a 2.5% decline in 2022 as seed potato restrictions in PEI remain in effect. Despite a challenging growing season, average yields are expected to increase by 1.2% and overall production is expected to increase by 3.3%. The potato sector is expected to be profitable in 2023.

Poultry margins are expected to be positive in 2023 as feed costs have eased. Avian influenza remains a risk, with new cases recorded in Western Canada following the fall wild bird migration.

Greenhouse vegetable cash receipts are up 8.0% while fresh fruit receipts are up 12.3% in the first half of 2023. Greenhouse profitability is expected to be tight in 2023 as input and labour costs remain high.

In the hog sector, farrow-to-finish margins are expected to be mixed for the remainder of 2023. Hog margins were negative for most of 2023 but have increased due to strong hog futures and improvements in feed costs. Continued slaughter challenges in Eastern Canada are putting pressure on prices and profitability. Small positive margins are forecast for 2024, based on the assumption that processing capacity will stabilize and export markets will rebound.

The horticulture sector is having a challenging year in 2023. Cold stretches during winter 2022 and adverse weather during the growing season resulted in crop issues across Canada. British Columbia and Ontario are experiencing vine loss of grape crops. Wildfire smoke in the west is anticipated to have an impact on British Columbia wine grapes and a large portion of the crop is anticipated to suffer from smoke taint. Nova Scotia has indicated up to 100% of grapes, raspberries, peaches, cherries, and plums might be lost this year. Higher prices are expected to help offset some challenges from lost production.

Agribusiness and agri-food

Strong farm cash receipts supported revenues of agribusinesses in 2022. Demand remains robust for large equipment driven by strong grain and oilseed revenues.

Grain-handling companies had an excellent year in 2022 and the first half of 2023 as increased production volumes resulted in more sales, blending and handling opportunities. Current drought conditions will reduce the size of the overall crop and grain handling volumes in the fall of 2023 and into 2024. High farm input prices resulted in volatility for farm input retailers, but strong farm cash receipts continue to support profitability. Fertilizer prices have declined year-to-date in 2023 creating risks for retailers holding high priced inventory. Drought conditions in western Canada may reduce fall 2023 fertilizer applications and sales.

Food manufacturing sales for the first half of 2023 increased 8.4% while beverage manufacturing sales increased 7.3%. Combined food and beverage manufacturing sales growth is expected to slow to 5.4% in 2023, led by lower price inflation and a decline in volumes, predominantly on the export side. Food inflation is still high but moderating. We expect food inflation to decline over the next few months but remain elevated versus headline inflation. Consumer spending per capita is slightly declining amid cost-of-living pressures and consumers seem to be shifting their food purchasing habits towards lower-priced food items.

There are indications the labour market is beginning to ease, which should help lower wage pressures in food manufacturing. The job vacancy rate for food wholesalers, food manufacturers, and foodservices operations has been declining over the last year and rates for the first two sectors are in line with pre-pandemic averages.

Enterprise risk management

We continue following our Enterprise Risk Management framework as outlined in the annual audited consolidated financial statements for the year ended March 31, 2023.

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

A higher interest rate environment can create financial pressure on agriculture producers and food businesses. Rising borrowing costs and debt repayment obligations will impact customers' working capital, their ability to service debt and delay timelines for capital investment. With variable rate products and upcoming renewals, we are monitoring the impacts of rising interest rates on customers as well as impacts on our overall portfolio health.

The month-long British Columbia port workers' strike ended on August 4. The impact of the disrupted trade to Canada's economy was estimated at $10.7 billion. During the strike, the agri-food industry saw increased costs and reduced profitability for shippers as intermodal service was disrupted, however there was no lasting impact to FCC's portfolio. Grain terminals in British Columbia remained unaffected by the port strike, so canola and wheat continued to be exported. Canola exports more than doubled in July. Overall trade volumes of both exports and imports climbed more than 2% in August as transportation returned to normal after the port strike ended. Based on two months of data, exports are on track to grow in Q3, while imports are tracking a sharp contraction.

We are monitoring several geo-political events for their impact on FCC and its customers. Russia's war against Ukraine continues to create uncertainty in global agriculture markets. The recent conflict in Gaza continues to unfold and has potential to disrupt production or transportation of oil. If the conflict escalates to the Middle East, it could impact oil prices, global fertilizer, particularly nitrogen, and would lead to higher global inflation.

Current Canada-India tensions highlight the concern within the agriculture sector that the political tensions may escalate to trade retaliation. Lentils is the main market to watch, with Canadian exports to India being $1.4B last year. In the short term, it will be challenging for India to move away from Canadian lentils since we are responsible for half of their imports and there are limited producers/exporters in the world. If India sources lentils elsewhere, it could disrupt trade patterns, with Canada backfilling stocks for countries like Turkey who could then export to India at a profit. Should tensions further increase, there may be further volatility in the pulse market, which would likely impact grains and oilseeds customers' margins.

Financial performance

Our discussion of net income is a comparison of the results for the three and six months ended September 30, 2023, to the results for the three and six months ended September 30, 2022.

Net income

	Three months ended September 30			Six months ended September 30		
($ millions)	**2023**	2022	Variance	**2023**	2022	Variance
Net interest income	**342**	348	(6)	**674**	685	(11)
Provision for credit losses	**(27)**	(14)	(13)	**(27)**	(40)	13
Non-interest income	**–**	5	(5)	**(2)**	8	(10)
Administration expenses	**(145)**	(129)	(16)	**(292)**	(255)	(37)
Net income	**170**	210	(40)	**353**	398	(45)

Three months ended September 30

Net income decreased by $40 million, a 19% reduction compared to the same period in 2022. Net interest income was lower due to a decrease in net interest margin, partially offset by an increase in the volume of interest earning assets. The provision for credit losses increased primarily due to new lending driving an increased provision in performing loans. Non-interest income decreased mostly due to changes in the performance of our venture capital investments. Increases in administration expenses were led by higher salaries and benefits from additional personnel and outsourced workforce costs to support the growth of our business and implement strategic initiatives.

Six months ended September 30

Net income decreased by $45 million, a 13% reduction compared to 2022. Net interest income was lower due to a decrease in net interest margin, somewhat offset by a higher volume of interest earning assets. The provision for credit losses decreased primarily due to the increases from customers accessing loan amendments being offset by other customers moving out of impairment. Non-interest income decreased due to unrealized losses on a venture capital investment. Higher administration expenses were due to additional personnel required to support the growth of our business and outsourced workforce costs related to information technology and support for strategic initiatives.

Net interest income, loans receivable and borrowings

Net interest income

($ millions)	**Three months ended September 30, 2023**	**Six months ended September 30, 2023**
Year-over-year decrease in net interest income due to:		
Increase in volume	**11**	**26**
Decrease in net interest margin	**(17)**	**(37)**
Total decrease in net interest income	**(6)**	**(11)**

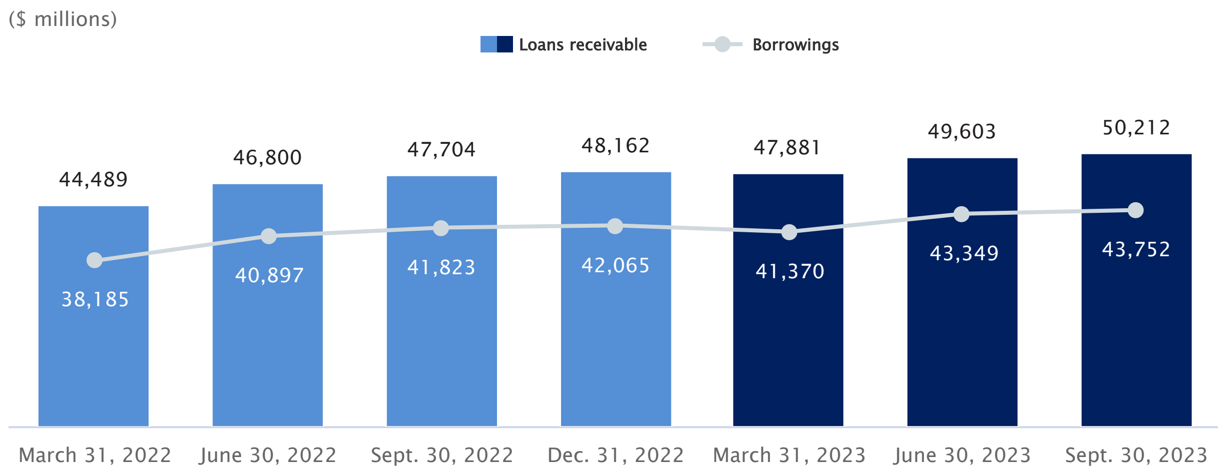
Three months ended September 30

A decrease in net interest margin, reflecting the net effect of interest rates on our interest-earning assets and interest-bearing liabilities, led to a $17 million reduction. This was partially offset by a $11 million increase in volume of interest earning assets, with growth realized in our fixed rate lending products.

Six months ended September 30

A decrease in net interest margin, reflecting the net effect of interest rates on our interest-earning assets and interest-bearing liabilities, led to a $37 million reduction. This was partially offset by a $26M increase in volume of interest earning assets due to growth in our fixed-rate lending products as customers sought rate certainty.

Loans receivable and borrowings

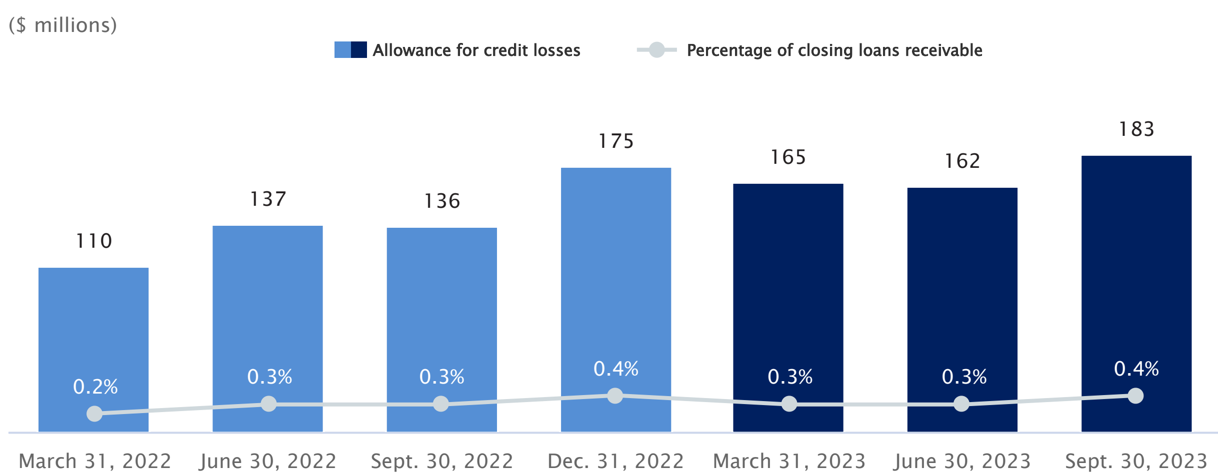


Loans receivable increased 4.9% since March 31, 2023. Growth occurred across most industry sectors and geographic regions, except for agribusiness. Rising costs and higher interest rates are contributing factors to decreased lending in the agribusiness sector. Growth rates have slowed compared to 2022, with lower total disbursements in 2023. Rising operational costs created a continued need for financing, while customers delayed non-essential investment and projects due to the higher interest rate environment.

Borrowings increased 5.8% since March 31, 2023, to fund the growth in loans receivable. Long-term funding provided most of the increase.

Provision for credit losses and credit quality

Allowance for credit losses



Allowance for credit losses increased $18 million since March 31, 2023. Additional allowance was due to an increase in the estimated loss on impaired loans and new lending. These increases were partially offset by customers moving out of impairment and a decreased allowance from annual updates to inputs within the calculation of our allowance for credit losses.

(Provision for) reversal of credit losses

($ millions)	Three months ended September 30 2023	2022	Variance	Six months ended September 30 2023	2022	Variance
Impaired loans (Stage 3)	**(20)**	(31)	11	**(24)**	(42)	18
Performing loans (Stages 1 & 2)	**(7)**	17	(24)	**(3)**	2	(5)
Total provision for credit losses	**(27)**	(14)	(13)	**(27)**	(40)	13

Three months ended September 30

The provision for impaired loans decreased as the movement of existing loans out of impairment partially offset the impact of customers accessing loan amendments due to financial difficulty. In 2022, implementation of model enhancements contributed to an increase in the provision for credit losses.

The increased provision on performing loans was the result of new lending activity and the movement of previously impaired loans into performing status. In 2022, improved economic conditions and strong commodity prices led to a decreased allowance and a reversal of provision for credit losses in our performing loans.

Six months ended September 30

Customers continued to access loan amendments due to financial difficulty, these increases were offset by other customers moving out of impairment. The net impact was a smaller change in the allowance for credit losses and recorded provision on impaired loans compared to 2022.

The increased provision for performing loans was the result of new lending activity and movement of previously impaired loans into performing status, largely offset by the impact of annual updates to inputs in the calculation of our allowance for credit losses, which led to a lower allowance and reversal of provision for credit losses. In 2022, improved economic conditions and strong commodity prices drove a decreased allowance and reversal of provision for credit losses.

Financial position

($ millions)	September 30, 2023	March 31, 2023	Variance
Cash and cash equivalents	**1,354**	1,782	(428)
Loans receivable – net	**50,029**	47,716	2,313
Other	**1,334**	969	365
Total assets	**52,717**	50,467	2,250
Borrowings	**43,752**	41,369	2,383
Other	**495**	519	(24)
Total liabilities	**44,247**	41,888	2,359
Equity	**8,470**	8,579	(109)

Cash and cash equivalents

($ millions)	Three months ended September 30 2023	2022	Variance	Six months ended September 30 2023	2022	Variance
Cash used in operating activities	**(388)**	(471)	83	**(1,916)**	(2,530)	614
Cash (used in) provided by investing activities	**(121)**	(135)	14	**(380)**	22	(402)
Cash provided by financing activities	**346**	388	(42)	**1,866**	2,820	(954)
Change in cash and cash equivalents	**(163)**	(218)	55	**(430)**	312	(742)

Three months ended September 30

Cash used in operating activities decreased, primarily due to lower disbursements. In 2022, cash was received through the sale of our lease portfolio.

Cash used in investing activities decreased, due to more maturities of short-term investments. Short-term investments may be purchased when cash is not required for upcoming operational costs. More investments were purchased in 2023, the decrease to cash used in investing activities was due to additional purchases being offset by more cash from maturities than in 2022.

Cash provided by financing activities decreased, due to reduced borrowings required given lower disbursements. In 2022, a dividend payment was made to the Government of Canada.

Six months ended September 30

Cash used in operating activities decreased primarily due to lower disbursements, largely due to slower customer demand in a higher interest rate environment.

Cash used in investing activities increased, as we purchased more short-term investments as less cash was needed to fund disbursements. In 2022, cash was provided by investing activities due to additional maturities on investments.

Cash provided by financing activities decreased, due to reduced borrowings required given lower disbursements.

Loans receivable and borrowings

Our loans receivable balance increased, but growth has slowed compared to 2022, in response to the higher interest rate environment. 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 $365 million increase in other assets was primarily due to an increase in short-term investments.

Equity

A contributed 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. This contributed capital was returned to the Government of Canada in two equal payments of $250 million on June 27, 2022 and June 27, 2023.

On June 27, 2023, a dividend payment of $210 million was made to the Government of Canada.

Performance against plan

We are forecasting to meet our year-end financial targets as outlined in the Corporate Plan Summary for 2023-24 to 2027-28. 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	2023–24 Plan	Outlook[2]
Net income	$714M	On track
Return on equity[1]	7.9%	On track
Efficiency ratio[1]	45.1%	On track
Total capital ratio[1]	15.3%	Ahead

[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, 2023.

[2] FCC evaluates forecast values to be on track with the corporate plan when the variance is within 10%.

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
November 27, 2023

Consolidated Balance Sheet

(Unaudited) (millions of Canadian dollars)	As at September 30, 2023	As at March 31, 2023[1]
Assets		
Cash and cash equivalents	**1,354**	1,782
Short-term investments	**580**	222
Accounts receivable and prepaid expenses	**27**	39
	1,961	2,043
Loans receivable – net (Notes 3 and 4)	**50,029**	47,716
Other loans receivable – net	**26**	26
Investments at fair value	**142**	131
Investment in associates	**65**	62
Post-employment benefit assets	**300**	292
	50,562	48,227
Property and equipment	**181**	182
Intangible assets	**8**	10
Other assets	**5**	5
	194	197
Total assets	**52,717**	50,467
Liabilities		
Accounts payable and accrued liabilities	**69**	92
	69	92
Borrowings (Note 5)		
Short-term debt	**8,010**	7,697
Long-term debt	**35,742**	33,672
	43,752	41,369
Transition loan liabilities	**174**	180
Post-employment benefit liabilities	**87**	84
Lease liabilities	**162**	160
Other liabilities	**3**	5
	426	429
Total liabilities	**44,247**	41,890
Equity		
Contributed capital	**–**	250
Retained earnings	**8,470**	8,327
Total equity	**8,470**	8,577
Total liabilities and equity	**52,717**	50,467

[1] Presentation of comparative figures has been updated to conform to the current presentation in millions of Canadian dollars. See Note 2.

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

Consolidated Statement of Income

(Unaudited) (millions of Canadian dollars)	For the three months ended September 30, 2023	September 30, 2022[(1)]	For the six months ended September 30, 2023	September 30, 2022[(1)]
Interest income	**704**	539	**1,356**	984
Interest expense	**(362)**	(191)	**(682)**	(299)
Net interest income	**342**	348	**674**	685
Provision for credit losses	**(27)**	(14)	**(27)**	(40)
Net interest income after provision for credit losses	**315**	334	**647**	645
Insurance distribution income	**4**	5	**9**	10
Net loss from investment in associates	**(3)**	(1)	**(5)**	(4)
Net gain (loss) from financial instruments designated as fair value through profit or loss	**–**	2	**(3)**	2
Other (expenses) income	**(1)**	–	**(3)**	1
Net interest income and non-interest income	**315**	340	**645**	654
Administration expenses	**(145)**	(129)	**(292)**	(255)
Net income	**170**	211	**353**	399

(1) Presentation of comparative figures has been updated to conform to the current presentation in millions of Canadian dollars. See Note 2.

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) (millions of Canadian dollars)	**Balance June 30, 2023**	**Net income**	**Dividend paid**	**Balance September 30, 2023**
Retained earnings	**8,300**	**170**	**–**	**8,470**
Total	**8,300**	**170**	**–**	**8,470**

(Unaudited) (millions of Canadian dollars)	Balance June 30, 2022[1]	Net income	Dividend paid	Balance September 30, 2022[1]
Contributed capital	250	–	–	250
Retained earnings	8,264	210	(471)	8,003
Total	8,514	210	(471)	8,253

For the six months ended September 30

(Unaudited) (millions of Canadian dollars)	**Balance March 31, 2023[1]**	**Net income**	**Dividend paid**	**Balance September 30, 2023**
Contributed capital	**250**	**–**	**(250)**	**–**
Retained earnings	**8,327**	**353**	**(210)**	**8,470**
Total	**8,577**	**353**	**(460)**	**8,470**

(Unaudited) (millions of Canadian dollars)	Balance March 31, 2022[1]	Net income	Dividend paid	Balance September 30, 2022[1]
Contributed capital	500	–	(250)	250
Retained earnings	8,076	398	(471)	8,003
Total	8,576	398	(721)	8,253

[1] Presentation of comparative figures has been updated to conform to the current presentation in millions of Canadian dollars. See Note 2.

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

Consolidated Statement of Cash Flows

(Unaudited) (millions of Canadian dollars)	For the three months ended September 30, 2023	September 30, 2022[1]	For the six months ended September 30, 2023	September 30, 2022[1]
Operating activities				
Net income	**170**	210	**353**	398
Adjustments to determine net cash (used in) provided by operating activities:				
Interest income[2]	**(704)**	(539)	**(1,356)**	(984)
Interest expense[2]	**362**	191	**682**	299
Provision for credit losses	**27**	14	**27**	40
Net unrealized (gain) loss from financial instruments designated as fair value through profit or loss[2]	**(1)**	(2)	**6**	(2)
Net loss from investment in associates	**3**	1	**5**	4
Amortization and depreciation	**7**	8	**15**	16
Miscellaneous income	**(21)**	(33)	**(3)**	(49)
Impairment loss on assets held for sale	**–**	2	**–**	2
Proceeds from sale of lease portfolio	**–**	172	**–**	172
Net cash outflow from loans receivable	**(447)**	(739)	**(2,202)**	(3,028)
Net cash inflow from finance leases receivable	**–**	5	**–**	8
Net change in other operating assets and liabilities	**(28)**	(17)	**(25)**	(21)
Interest received	**557**	399	**1,217**	841
Interest paid	**(313)**	(143)	**(635)**	(226)
Cash used in operating activities	**(388)**	(471)	**(1,916)**	(2,530)
Investing activities				
Purchase of short-term investments	**(268)**	(229)	**(850)**	(401)
Proceeds from maturity of short-term investments	**167**	105	**499**	455
Disbursements of other loans receivable	**–**	(1)	**–**	(1)
Repayments from other loans receivable	**–**	10	**–**	11
Acquisition of investments at fair value	**(13)**	(13)	**(20)**	(30)
Proceeds from sale and repayments of investments at fair value	**1**	–	**4**	–
Disbursements paid to investment in associates	**(6)**	(4)	**(9)**	(7)
Purchase of property and equipment	**(1)**	(3)	**(3)**	(6)
Proceeds on disposal of property and equipment	**–**	2	**–**	5
Purchase of intangible assets	**(1)**	(2)	**(1)**	(4)
Cash (used in) provided by investing activities	**(121)**	(135)	**(380)**	22
Financing activities				
Long-term debt issued	**1,811**	2,473	**5,537**	6,568
Long-term debt repaid	**(1,141)**	(1,617)	**(2,744)**	(2,878)
Short-term debt issued	**3,463**	3,127	**6,885**	6,241
Short-term debt repaid	**(3,783)**	(3,120)	**(7,344)**	(6,382)
Principal repayment of lease liabilities	**(4)**	(4)	**(8)**	(8)
Dividend paid	**–**	(471)	**(460)**	(721)
Cash provided by financing activities	**346**	388	**1,866**	2,820
Change in cash and cash equivalents	**(163)**	(218)	**(430)**	312
Cash and cash equivalents, beginning of period	**1,514**	1,970	**1,782**	1,439
Effects of exchange rate changes on the balances of cash held and due in foreign currencies	**3**	2	**2**	3
Cash and cash equivalents, end of period	**1,354**	1,754	**1,354**	1,754
Cash and cash equivalents consists of:				
Cash	**1,295**	1,302	**1,295**	1,302
Short-term investments	**59**	452	**59**	452

(1) Presentation of comparative figures has been updated to conform to the current presentation in millions of Canadian dollars. See Note 2.

(2) Comparative figures have been reclassified. See Note 4 in the March 31, 2023, 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, 2023.

Unless otherwise stated, the financial statements are presented in millions of Canadian dollars, which is the functional currency of Farm Credit Canada (FCC). Certain comparative figures have been omitted to align with the current year's presentation in millions of Canadian dollars (March 31, 2023 - thousands of Canadian dollars).

These quarterly financial statements are as at and for the three and six months ended September 30, 2023, and were approved and authorized for issue by the Audit Committee of the Board of Directors on November 27, 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, 2023.

Material 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 material effect on the amounts reported in the quarterly financial statements, refer to the respective notes of the annual audited financial statements for the year ended March 31, 2023.

2. Presentation of comparative figures

We previously presented FCC's financial statements in thousands of dollars. We have elected to change our presentation to millions of dollars.

3. Loans receivable – net

	Term to maturity			
	Within 1 year	**1 – 5 years**	**Over 5 years**	**As at September 30, 2023**
Floating	**4,189**	**9,681**	**324**	**14,194**
Fixed	**3,849**	**22,685**	**9,520**	**36,054**
Loans receivable – gross	**8,038**	**32,366**	**9,844**	**50,248**
Deferred loan fees				**(36)**
Loans receivable – total				**50,212**
Allowance for credit losses (Note 4)				**(183)**
Loans receivable – net				**50,029**

	Term to maturity			
	Within 1 year	1 – 5 years	Over 5 years	As at March 31, 2023
Floating	3,667	9,606	245	13,518
Fixed	3,205	21,060	10,137	34,402
Loans receivable – gross	6,872	30,666	10,382	47,920
Deferred loan fees				(39)
Loans receivable – total				47,881
Allowance for credit losses (Note 4)				(165)
Loans receivable – net				47,716

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, 2023		As at March 31, 2023	
	Gross	**Impaired**	Gross	Impaired
Oilseed and grain	**15,919**	**180**	15,317	209
Dairy	**7,328**	**50**	7,238	37
Agribusiness	**5,989**	**132**	6,117	62
Beef	**4,220**	**93**	3,900	120
Other	**3,338**	**68**	3,225	89
Poultry	**3,317**	**4**	3,244	10
Agri-food	**2,500**	**123**	2,132	154
Alliances	**2,410**	**23**	1,765	17
Greenhouse	**2,102**	**84**	1,987	19
Hogs	**1,640**	**7**	1,568	57
Fruit	**1,485**	**42**	1,427	40
Total	**50,248**	**806**	47,920	814

Geographic distribution

	As at September 30, 2023		As at March 31, 2023	
	Gross	**Impaired**	Gross	Impaired
Ontario	**15,133**	**174**	14,326	92
Saskatchewan	**9,330**	**125**	8,720	144
Alberta	**8,978**	**146**	8,538	182
Quebec	**7,056**	**171**	6,854	158
British Columbia	**4,292**	**81**	4,244	102
Manitoba	**3,867**	**85**	3,763	61
Atlantic	**1,592**	**24**	1,475	75
Total	**50,248**	**806**	47,920	814

4. Allowance for credit losses – loans receivable

As at September 30, 2023	Stage 1	Stage 2	Stage 3	Total
Allowance for credit losses, beginning of year	**45**	**29**	**91**	**165**
Transfer to stage 1	**9**	**(5)**	**(4)**	**–**
Transfer to stage 2	**(3)**	**48**	**(45)**	**–**
Transfer to stage 3	**(1)**	**(7)**	**8**	**–**
Changes due to new loans originated	**15**	**3**	**12**	**30**
Loans receivable derecognized during the period	**(5)**	**(2)**	**(7)**	**(14)**
Net remeasurement of loss allowance	**(13)**	**(36)**	**64**	**15**
Write-offs	**–**	**(2)**	**(12)**	**(14)**
Recoveries of amounts previously written off	**–**	**–**	**1**	**1**
Total allowance	**47**	**28**	**108**	**183**

As at March 31, 2023	Stage 1	Stage 2	Stage 3	Total
Allowance for credit losses, beginning of year	45	31	34	110
Transfer to stage 1	20	(16)	(4)	–
Transfer to stage 2	(6)	51	(45)	–
Transfer to stage 3	(5)	(12)	17	–
Changes due to new loans originated	36	4	6	46
Loans receivable derecognized during the period	(17)	(4)	(12)	(33)
Net remeasurement of loss allowance	(28)	(24)	148	96
Write-offs	–	(1)	(54)	(55)
Recoveries of amounts previously written off	–	–	1	1
Total allowance	45	29	91	165

5. Borrowings

Short-term debt

	As at September 30, 2023	As at March 31, 2023
Government of Canada debt		
Floating-rate borrowings	**224**	325
Fixed-rate borrowings	**6,911**	6,425
	7,135	6,750
Capital markets debt		
USD fixed-rate promissory notes[(1)]	**875**	947
	875	947
Total	**8,010**	7,697

[(1)] $643 million USD (March 31, 2023 – $699 million USD)

Long-term debt

	As at September 30, 2023	As at March 31, 2023
Government of Canada debt		
Floating-rate borrowings	**13,982**	13,659
Fixed-rate borrowings	**21,760**	20,013
Total	**35,742**	33,672