2024-25

Climate-Related Disclosure Report

Farm Credit Canada

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About this report

Corporate profile

Farm Credit Canada (FCC) is a federal Crown corporation dedicated to serving 103,781 customers throughout the agriculture and agri-food value chain with capital and non-capital solutions and knowledge offerings. Our $55.5 billion portfolio supports the agriculture and agri-food industry across all economic cycles, with primary production making up 82.3% of our loans. We serve 84,152 primary production customers, of which 93.4% are small and medium-sized businesses, whose average loan size is $355,680.

As a lender 100% invested in Canadian agriculture and food, we help our customers expand their operations, improve efficiencies and compete in global markets. Beyond our own products and services, we support partners who provide programs, mentorship and resources that lead to innovation and ag technology opportunities.

Report scope and boundary

FCC supports the recommendations of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD), which was subsumed by the International Financial Reporting Standards (IFRS) through the International Sustainability Standards Board (ISSB). We're committed to producing an annual disclosure that addresses these recommendations and aligns with the Government of Canada's expectations for climate-related financial disclosures. Since our first disclosure in 2021-22, we continue to mature FCC's climate-related disclosures. We're committed to continuously monitoring and evolving our approach in response to changing standards and expectations.

Over the past few reporting cycles, we've advanced our climate-related disclosures alongside our organizational transformation, with sustainability underpinning our winning aspiration and our strategy. The development of FCC's strategy was informed by our understanding of climate risks and opportunities through scenario analysis, input from customers and industry stakeholders, our operational carbon footprint, measurement of our portfolio greenhouse gas (GHG) emissions and reporting requirements. We've built internal controls for sustainability reporting this year, adding rigour to our process.

The reporting period for this document is FCC's fiscal year, from April 1, 2024, to March 31, 2025. The performance data included in this report has been verified through internal processes. You can find the 2024-25 TCFD index at fcc.ca/Reports.

This report includes forward-looking 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 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, which could include, but are not limited to, extreme weather conditions, inflationary pressure, interest rates, supply chain challenges and trade disruptions.

Additional reporting

FCC provides relevant information on our mandate, corporate strategy, mission, vision and values, as well as our sustainability impacts in our 2024-25 Annual Report. You can find our reports at fcc.ca/Reports.

Contact

We welcome questions and feedback on our report and initiatives. You can find contact details at fcc.ca/Contact.

Message from the Executive Vice-President, Strategy and Impact

At FCC, sustainability is central to our purpose. As a lender 100% invested in Canadian agriculture and food, we recognize the connection between climate, nature and the long-term competitiveness of the industry we serve. Climate presents both risks and opportunities, and we're committed to supporting agricultural producers, food processors and agribusinesses in building a resilient and sustainable future for Canadian agriculture and agri-food.

Over the past year, we've made meaningful progress in embedding sustainable solutions into our strategy, governance and risk management frameworks. Aligning with the latest international reporting standards strengthens transparency and reinforces our role as a trusted financial partner. We worked on expanding our suite of sustainable financial and non-financial offerings to help more customers access capital and knowledge for climate-smart investments. Take for instance FCC AgExpert, an advanced data tool designed specifically for agricultural use that enables data-driven decision-making to enhance productivity. Its Sustainability Model now includes carbon sequestration and emissions tracking to enable farmers to understand their farm's sustainability footprint.

Extreme weather events continue to challenge the industry we serve. We've responded with customized financial solutions and expanded advisory services to promote climate-smart practices. Our data-driven approach empowers customers to make informed decisions as they adapt to changing conditions. Collaboration remains key to accelerating progress, and this year we deepened partnerships with industry leaders, researchers and government to advance productivity and enhance our competitiveness to build a more resilient sector.

Our commitment to sustainability is ongoing. In the year ahead, we'll refine climate-related disclosures, enhance risk assessments and expand our suite of sustainable capital and non-capital solutions. As climate expectations evolve, FCC is well-positioned to support businesses to adopt new technologies, grow productivity faster and manage natural resources efficiently to achieve both profitable and positive environmental outcomes.

We're proud of the progress made and remain dedicated to fostering a thriving, sustainable future for Canadian agriculture and agri-food. Thank you to our customers and partners for your shared commitment to this journey.

With thanks,

Jean-Philippe Gervais
Executive Vice-President, Strategy and Impact
Farm Credit Canada

Introduction

Themes that drive our approach to climate and nature

Food production relies on natural resources and ecosystems, and the relationship goes the other way too – producing food impacts natural resources and ecosystems. Agriculture, food, nature and climate are deeply linked and the relationships between them are complex. The themes and trends below set the stage for FCC's strategy and how we think about climate and nature risks and opportunities.

Demand for food

The global population is projected to increase to 9.8 billion by 2050,[1] and current food production levels aren't sufficient to meet the projected demand. With the increased population, the Canadian agriculture and agri-food industry faces the challenge of generating more food while using natural resources more efficiently. By increasing total production to feed an expanding global population and by increasing environmental sustainability, we can address current challenges and seize new opportunities to provide leadership in the global food system.

This requires the industry to produce more food per unit of resources (for example, water, land, etc.).

Boost productivity

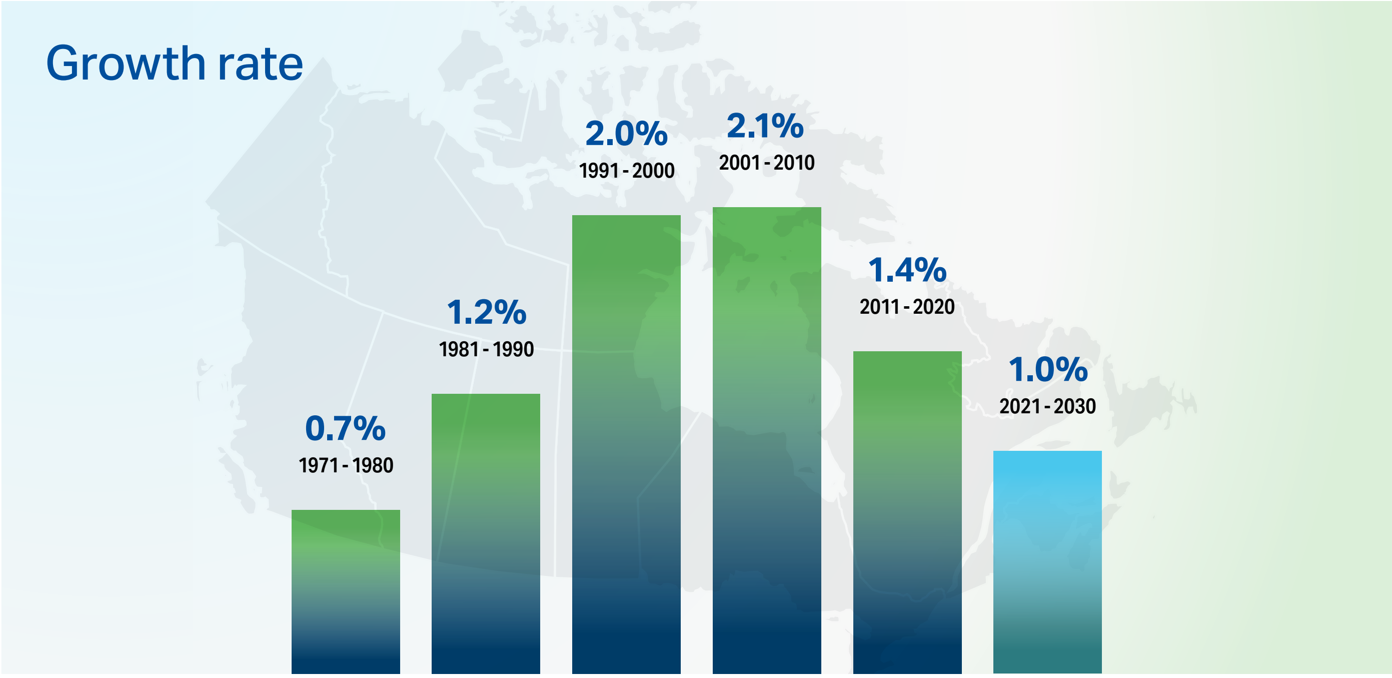
Agricultural productivity growth in Canada was highest during the 1990s and early 2000s, with annual growth rates reaching 2% per year. Modern agriculture production technologies, along with increased trade liberalization and investments following the North American Free Trade Agreement, contributed to this productivity growth. However, since then, productivity growth has decreased, falling to 1.4% throughout the 2010s, and is expected to fall to 1% per year from 2021 to 2030.[2]

Action is needed to increase agricultural productivity growth.

[1] United Nations – Department of Economic and Social Affairs

[2] FCC – Rekindling agriculture productivity growth - a $30B opportunity over ten years

Average annual total factor productivity growth in Canadian agriculture by decade



Sources: USDA database on agricultural productivity and FCC calculations

Resilience and adaptation

Throughout the years, the industry has encountered numerous challenges due to weather events, diseases and market fluctuations. Improvements in adaptation and innovation have helped Canada build resilient agri-food production systems.[3] However, agricultural commodities and products remain particularly vulnerable to extreme weather, which can disrupt production, transportation and distribution processes, resulting in supply shortages.[4]

For example, in 2020, Saskatchewan hit record crop production levels due to favourable growing conditions and decades of yield improvements. In 2021, drought conditions resulted in a 47% decrease in year-over-year production.[5] While this decrease was severe, production dropped only to levels typically seen in the 1990s and early 2000s.[2] This happened while less land was being farmed, highlighting the resilience the industry has built through more efficient farming practices and technology adoption.

While resiliency has improved, more is needed to handle the increased frequency and severity of extreme weather conditions.

Climate-nature connection affects agriculture

Nature and biodiversity are foundational to the agriculture and agri-food industry, which heavily relies on ecosystem services like soil, water and pollination. Climate impacts can disrupt these ecosystems, and conversely, when these ecosystems are healthy, they can improve resilience and contribute positively to climate mitigation. For example, healthy soils retain moisture to protect against drought conditions and can also play a critical role in sequestering carbon from the atmosphere and storing it underground, helping reduce emissions.[6]

A healthy ecosystem is essential for sustainable food production. The Canadian agriculture and agri-food industry can enhance and protect Canada's nature and biodiversity.

[3] Agriculture and Agri-Food Canada – Climate adaptation and food security
[4] Agriculture and Agri-Food Canada – Climate change impacts on agriculture
[5] Statistics Canada – Drought drags down Saskatchewan economy in 2021
[6] Soil Health Institute - How Does Soil Health Increase Resilience to Drought and Extreme Rainfall?
[7] Global Institute for Food Security - Sustainable Agriculture
[8] Government of Canada – Greenhouse gas emissions and agriculture
[9] FCC – Rekindling agriculture productivity growth - a $30B opportunity over ten years

Low-carbon food production

Canada produces some of the world's least carbon-intensive agricultural products.[7] However, crop and livestock production still account for 10% of Canada's GHG emissions.[8] The agriculture industry can support a low-carbon future through methods like improved grazing management and beneficial crop practices that boost productivity while reducing emissions intensity.

Other countries' agricultural practices are improving, and sustainability expectations are rising in some regions. Industry stakeholders are grappling with how to leverage the benefits of Canada's low-emissions intensity advantage today, while also setting a path forward to maintain that advantage tomorrow.

Putting it all together

Together, these themes and trends highlight the opportunity and the challenge the Canadian agriculture and agri-food industry must address. Agribusinesses, primary producers and food processing operations need to be profitable while boosting food production, all while building resilience and adapting towards a nature-positive, low-carbon economy.

The industry is uniquely positioned to seize a generational opportunity to improve global health, address food insecurity, tackle environmental concerns and drive economic prosperity all at the same time. By leveraging Canada's significant agricultural resources, FCC is prepared to support our industry in making the most of this opportunity through innovation and sustainability.

The Canadian agriculture and agri-food industry is a strategic asset in supporting the country's economy, contributing over $150 billion annually to Canada's gross domestic product (GDP) and accounting for one in nine Canadian jobs. It's one of the industries with the highest economic growth potential in Canada, with increasing Canadian agricultural productivity growth estimated to be a $30 billion opportunity over the next 10 years.[9]

FCC is committed to the Canadian agriculture and agri-food industry. Our corporate strategy is centered around our aspiration to be bold in positioning Canada as a leader in sustainable food production by fostering innovation and enhancing Canadian agriculture and agri-food's global reputation.

2024-25 Operating environment from a climate and nature perspective

FCC continuously monitors the operating environment of the Canadian agriculture and agri-food industry. In 2024-25, some of our customers and the industry felt the economic impacts of the following events, resulting in FCC providing customer support programs (for example, loan deferrals, lines of credit, or term loans) to help agricultural producers navigate these weather-related disruptions:

Sector	Livestock and crop (BC, AB, SK, MB)
Program timeframe	July 2023 – July 2024
Customers supported	233
Total support provided	$381,754,015
Weather event	Dry conditions in 2023
Impact of weather event	The beef cattle sector saw strong profitability in 2024, with many areas recovering from the 2023 drought. Despite this, the Canadian beef herd size still hit a three-decade low, which will require years of favourable weather and high prices to rebuild. In 2024-25, total Canadian crop production grew to 94.6 million tonnes, a 3.3% increase over the prior five-year average, driven by recovery in durum, lentil and pulse production after the 2023 drought.
Sector	**Fruit and wine producers (BC)**
Program timeframe	March 2024 – March 2025
Customers supported	78
Total support provided	$198,667,138
Weather event	Unseasonable cold early in the 2024 growing season
Impact of weather event	Some producers experienced significant damage to their wine vines and fruit trees, which led to production declines.

By helping customers succeed throughout every business cycle and in response to unexpected circumstances, we help strengthen the industry and position it for long-term viability.

Governance

Effective governance ensures that internal accountabilities, controls and procedures are in place to support sound decision-making, manage risk, adhere to compliance and promote long-term success. FCC has established roles, policies and procedures in place to ensure effective climate and nature governance across all levels, including the Board of Directors and its committees, management and operational teams. We'll continue to mature our climate and nature governance throughout the organization, leveraging guidance from external sustainability frameworks and standards.

To find out more about FCC's governance framework, see our 2024-25 Annual Report at fcc.ca/Reports.

Governance progress highlights in 2024-25

- Board of Directors – Climate and nature topics were brought to five of seven Board meetings throughout 2024-25 as part of the sustainability program update. Plus, separate items were brought forward to cover climate and nature aspects of our strategy and relevant trends in the Canadian agriculture and banking sectors.
- Board Risk Committee – Climate stress testing results and management actions were shared with the committee this year. Updates on climate and environmental risk were shared quarterly as part of the Top and Emerging Risk process.
- Board Audit Committee – In 2024-25, the committee reviewed last year's climate-related disclosures, and FCC updated the committee on climate and nature-related disclosure trends.
- The sustainability program, which includes climate and nature, is regularly reported through our internal governance process, including FCC's enterprise scorecard, which tracks performance across strategic objectives.
- In 2024-25, following a review of management governance committees and their terms of reference, FCC launched a new corporate governance structure to strengthen oversight. Climate and nature risks and opportunities have been further embedded into organizational decision-making through the leadership of the Executive Vice-President, Strategy and Impact, who chairs the Initiative Oversight Committee and sits on the Executive, Investment and Lending Committees, and the Vice-President of Sustainability, who sits on the Executive, Lending Review, Enterprise Risk Management and Operational Risk committees.
- All leaders and employees received sustainability training to deepen their understanding of the importance of sustainability issues and their impact on FCC's strategy and to support further embedding these principles into the organization. An internal Sustainability Hub was also created to house additional resources.

Strategy

FCC is proud to be 100% invested in Canadian agriculture and food. Our strategy is designed to help our customers and the industry manage climate and nature-related risks and capitalize on opportunities.

Climate and nature risks

We've identified potential physical and transition risks due to climate. In our assessments, we consider the diversity of each sector of agriculture and Canada's unique landscape. We've also developed a preliminary understanding of nature-related physical and transition risks.

Type of risk	
Physical	**Acute physical risks – risks from extreme weather events**
	Damage to FCC's or our borrowers' facilities
	Disruption to the supply chain because of damage to infrastructure or impacts to transportation or logistics
	Impacts on customer productivity, business continuity and financial performance from extreme or irregular weather events such as extreme drought, water stress or wildfires
	Increased insurance premiums and potential for reduced availability of insurance for businesses in high-risk locations
	Decline in food affordability
	Chronic physical risks – risks from changes in climate patterns and nature loss
	Extended periods of drought impacting productivity and operational costs
	Changes to historical climate patterns impacting Canada's agriculture landscape (for example, a decline in water availability or increase in average temperatures) that may require agricultural producers to change their farming practices
	Cascading changes that negatively affect biodiversity, soil health and ecosystem services (for example, pollinators, pollution and water regulation) essential for agriculture
Transition	**Market risks – shifts in supply and demand for commodities, products and services**
	Shifting customer preferences in some regions for food products produced with fewer carbon emissions and/or lower biodiversity impact
	Changes in trade-partner purchases of Canadian food products due to trade concerns superseding climate and nature considerations
	Investment pressure to seek alternative markets with lower regulatory requirements or preferences
	Lack of industry stakeholder alignment (for example, agricultural producers, grocers, financers, regulators) on climate and nature objectives
	Policy and legal risk – changing environmental regulations
	Transition costs to align with national climate and biodiversity policy ambitions
	Regulations on emissions (for example, from nitrogen and methane) from agriculture-related sources
	Technology risks – risks in adopting new technologies
	Increased investment requirements and time to integrate new technology
	Uncertainties in deploying new technology and unforeseen disruptions to operations

FCC has identified the potential timeframe (short term: one to five years, medium term: six to 10 years and long term: 10 or more years) of when the physical and transition risks may affect the Canadian agriculture and agri-food industry. Through stress testing and scenario analysis we've shared with our Board, we've been able to estimate timeframes for increases in risk levels for the above physical risk and transition risk categories, except for technology risks, which FCC hasn't assessed. None of the risk categories are expected to have a material impact in the short term, though physical risks may impact the agriculture and agri-food industry over the long term (see the Risk Management section).

Potential timeframe for physical and transitional risks

Potential timeframe	ACUTE PHYSICAL RISKS	CHRONIC PHYSICAL RISKS	MARKET TRANSITION RISKS	POLICY AND LEGAL TRANSITION RISKS
LONG (10+ YEARS)	HIGH	MODERATE	HIGH	HIGH
MEDIUM (6-10 YEARS)	MODERATE	LOW	MODERATE	MODERATE
SHORT (1-5 YEARS)	MODERATE	LOW	LOW	LOW

Types of potential risk

Climate and nature opportunities

We've identified potential opportunities for the agriculture and agri-food industry to take the lead on climate mitigation and adaptation, and nature-positive solutions.

Type of opportunity	Examples of opportunity
Productivity – opportunities from improving productivity	Input cost savings and yield gains from precision agriculture
	Artificial intelligence for robotics
	Increased output from longer growing seasons
Energy source – cost savings and operational benefits from switching to low-carbon energy sources	Reduced operating costs from the installation or use of renewables or alternative fuel sources
	Use of novel technologies to generate renewable energy
Products and services – revenue generation from new products and services	Shifts in demand for agricultural products produced with fewer carbon emissions and lower biodiversity impact in some regions
	Alternative uses for waste in the agri-food system
Markets – opportunities from new or expanded markets	Expansion of food exports in markets with less resilient supply
	Carbon offset markets
Resilience – adaptation measures to mitigate risks and improve resilience	Implementation of resilient infrastructure and landscapes to reduce vulnerability to variable and changing growing conditions

2024-25 Corporate strategy results from a climate and nature perspective

Climate and nature, together, are integral to FCC's strategy, having been identified as one of the six areas where we're transforming to have more impact.

Impact area:

Climate change and nature-based solutions – protecting our environment with sustainable and nature-based solutions

We unlock opportunities to protect nature and biodiversity to mitigate and adapt to climate change impacts. We support the industry in developing and adopting sustainable solutions and production practices to build resilience and protect the environment. We're intentional in supporting the investments required for rapid impact, particularly to accelerate innovation and foster technology adoption.

FCC performance measure

Expanded FCC's Sustainability Incentive program to include incentives provided by PepsiCo and Starbucks Canada in support of programs with Ducks Unlimited Canada, and Dairy Farmers of Canada and Lactanet, respectively. The program offers financial incentives to customers for the adoption of beneficial management practices. This year, there was a 27% increase in program adoption over the prior year, with 675 payments rewarded to customers, totalling $1.1M for sustainable and biodiverse practices.

In March 2024, launched a pilot Sustainability Capital Investment Program (SCIP) that offers one-time incentive payments to select agribusiness and agri-food customers for sustainable practices. These incentives are tied to financing for sustainability investments and must meet requirements under FCC's Sustainable Finance Framework. The program aims to reduce financial barriers for customers investing in sustainability-focused projects like solar panels, electric vehicles and LED grow lights. FCC plans to expand the program in 2025-26 and increase the amount of incentives based on customer testing and feedback gathered from the initial pilot.

Finalized FCC's Sustainable Finance Framework and received a second-party opinion to validate its effectiveness in guiding future development of financial and non-financial solutions that support our customers with enhancing and building sustainable operations.

Enhanced FCC AgExpert:

- METOS weather became accessible to AgExpert users through MyFarmConnect. METOS is a weather station data provider that gives farmers weather information for better crop management to enhance operational resiliency and the ability to adapt to changing environmental conditions. Historical data helps farmers analyze past activities and outcomes, while forecast data helps them anticipate weather changes to adjust their plans accordingly.
- The AgExpert Sustainability Estimator Tool is a digital solution designed to help Canadian agricultural producers in analyzing the environmental performance of their farm operations. By collecting and evaluating on-farm data, the tool calculates a comprehensive carbon score that includes emissions from fuel usage, nitrous oxide from fertilizer application, methane from livestock, and carbon sequestration through land management practices. This provides farmers with information to make decisions that align with sustainability practices and enables them to share data with their partners. As part of FCC's broader digital ecosystem, the tool supports sustainability reporting across the agricultural value chain.

In addition to being a standalone impact area, several of the other impact areas identified interconnectedness with climate and nature.

Impact area:

Innovation, exports and economic growth – investing for efficiency, sustainability and competitiveness

FCC performance measure

FCC Capital (previously Venture Capital) launched its direct investment program to expand its capital solutions offering to increase support to Canadian agriculture and agri-food businesses, companies and entrepreneurs working on innovative solutions, some of which are linked to sustainability. In 2024-25, we directly invested $170 million in nine companies focused on innovation, including gene editing, consumer packaged goods, controlled environment agriculture and ag technology (embodied artificial intelligence, precision software and biological crop protection).

Impact area:

Productivity, affordability and food security – increasing productivity through innovation

FCC performance measure

Expanded partnerships with innovation farms across the country, making the FCC Innovation Farm Network more representative and inclusive of the various sectors in agriculture. Also provided an annual $3.1 million financial commitment to four innovation farms to support the testing and demonstration of new technologies and on-farm production practices that increase efficiency and resiliency. In 2024-25, a baseline for future growing seasons was established to further demonstrate impact.

Impact area:

Industry long-term viability – commitment, support and long-term strength

FCC performance measure

In partnership with IC Canada, FCC launched the Sustainability Advisory program to assist agricultural producers, agribusinesses and agri-food customers with evaluating sustainability challenges and opportunities to accelerate growth. In the first year, there were 17 engagements and assessments.

We provided strategic investments through donations totalling $8.75 million to support agricultural research and innovation at Canadian academic institutions. This funding supports initiatives such as exploring circular economy practices, technological innovations in food processing, advancing the economic viability of the cow-calf industry through management best practices, improving honey bee health through specialized programs, integrating AI and machine learning into dairy research, researching digital agriculture to enhance farming practices, and plant breeding innovations. These efforts aim to support innovation and long-term sustainability in Canada's agriculture and agri-food industry.

Impact area:

Resilient FCC – striving to be better for Canadian agriculture every day

FCC performance measure

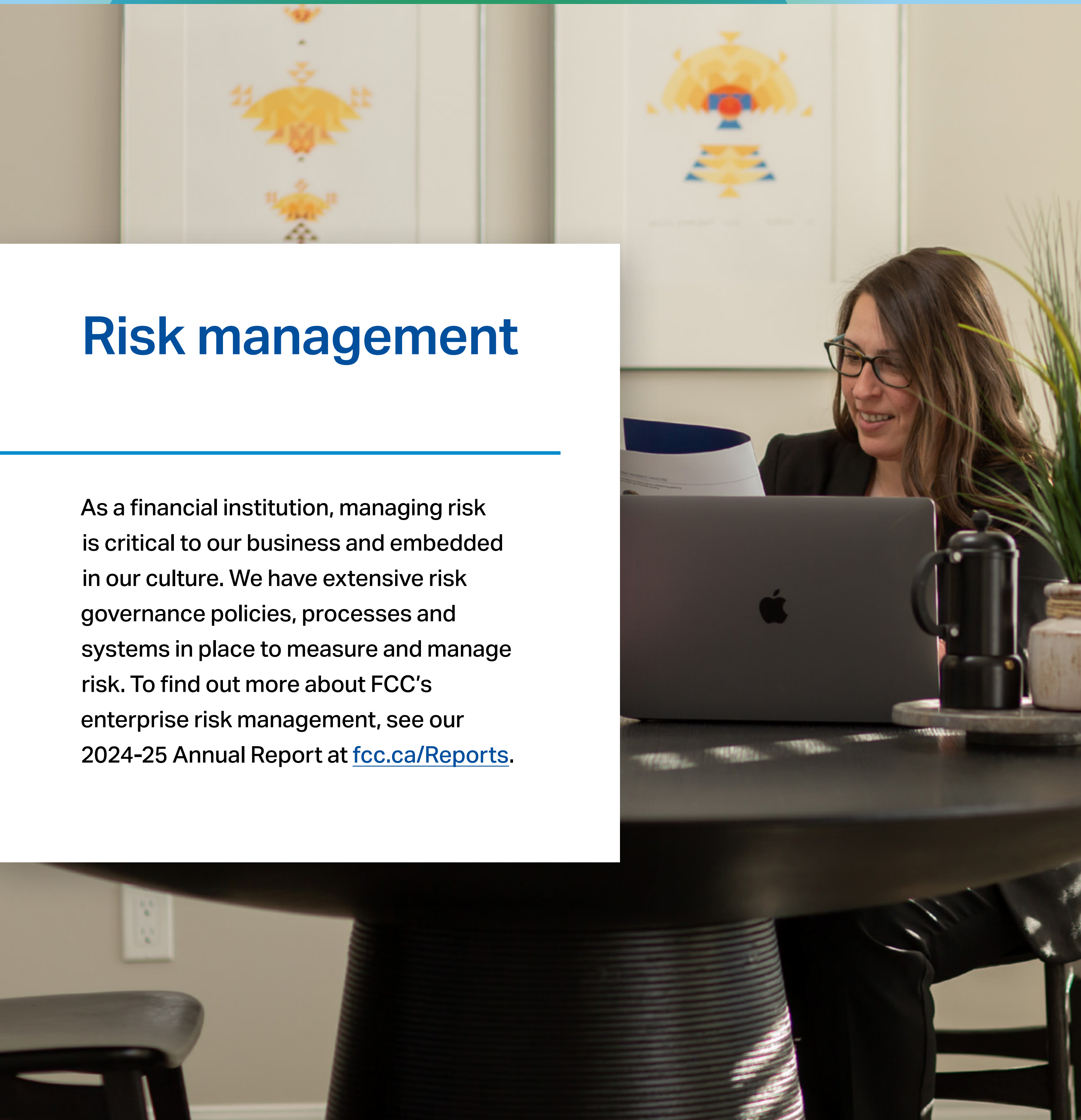
FCC is committed to reducing absolute GHG emissions and has set a new target of 42% reduction by 2030-31 (compared to the 2023-24 baseline). This year, we achieved 6% of this target by purchasing Renewable Energy Certificates (RECs)[10] and 5,403 tCO_2e[11] of carbon credits and additional RECs to offset our 2024-25 operational carbon footprint (Scope 1 & 2, along with Scope 3 air travel emissions).

[10] A Renewable Energy Certificate (REC) is a market-based instrument that represents the generation of one megawatt hour (MWh) of electricity produced by a renewable energy source. Retiring the certificate enables organizations to claim the use of renewable electricity in their operations.

[11] Operational emissions are measured in tonnes of carbon dioxide equivalent per year (tCO_2e).

Risk management

As a financial institution, managing risk is critical to our business and embedded in our culture. We have extensive risk governance policies, processes and systems in place to measure and manage risk. To find out more about FCC's enterprise risk management, see our 2024-25 Annual Report at fcc.ca/Reports.



FCC's risk appetite

FCC adjusted our Enterprise Risk Appetite to execute our corporate strategy launched in 2024. Efforts are underway to embed the new Risk Appetite across all business lines and to provide go-forward principles and guardrails to FCC teams as they relate to capacity to bear risk, ensuring a balanced approach to risk management.

Risk categories from a climate and nature perspective

Climate and nature risk materializes through our different risk categories – strategic, reputational, financial (credit, liquidity, market) and operational.

Strategic and reputational risks are very relevant to the agriculture and agri-food industry from a climate and nature perspective. The impacts to agriculture and agri-food from climate and nature are extremely complex, and key industry stakeholders haven't aligned on a path forward. Perceptions and attitudes towards certain topics within climate and nature differ considerably between various stakeholders.

From a financial risk perspective, credit risk is where we anticipate most of our climate and nature risk to materialize. This risk is from potential impacts to our customers' ability to repay loans and potential impacts to the value of collateral. Business continuity of FCC operations is the primary operational risk when considering physical risks such as extreme weather events.

Top and Emerging Risk process from a climate and nature perspective

Many of the climate and nature-related risks have been surfaced through our Top and Emerging Risk process, which evaluates the most significant risks to our strategy, mandate and resilience. This process includes risk identification, assessment and the development of risk management plans, monitored quarterly by the Enterprise Risk Management Committee and the Board Risk Committee. The plan was informed by a Board-approved stress test built on a comprehensive climate scenario. FCC's Sustainability team owns the risks, with the Risk Management team providing effective challenge. Detailed analysis and stakeholder input were used to assess the likelihood and impact of the risks.

The 2023-24 stress test results indicate that physical risks may impact the agriculture and agri-food industry, affecting our financials and operations over the long term. Our climate and nature risk management plan focuses on supporting customers in transitioning to a low-carbon economy, with mitigation activities outlined in our strategic approach.

Credit risk from a climate and nature perspective

Note 18 from FCC's Consolidated Financial Statements in the 2024-25 Annual Report describes how credit risk is managed, including how our credit risk ratings consider historical payment performance, customer financial ratios, customer business experience and customer primary sector. Because climate and nature are fundamentally connected to agriculture and agri-food, our customers' operational and financial performance captures a lot of information about our risk exposure.

For example, customer financial ratios can be impacted quickly in regions and sectors affected by a severe drought or another type of extreme weather event. Similarly, operations with deteriorating soil quality can be less productive, which impacts the financial results an operation can achieve.

FCC also considers customer business experience to recognize agricultural producers and agri-food businesses with a proven track record for successfully managing their operations through different business cycles. These cycles can include periods of challenging growing conditions and other disruptions from climate and nature-related events.

Credit risk processes don't capture all of our climate and nature-related risks. It's challenging to isolate the portion of credit risk attributed to climate and nature, making it difficult to assess the incremental impacts of future climate and nature scenarios that differ from historical experience. Some of this uncertainty is addressed through forward-looking information consumed in the allowance for credit losses, and through economic capital modelling and scenario analysis.

Note 7 from FCC's Consolidated Financial Statements in the 2024-25 Annual Report shows the portfolio distribution by sector and geographic area (see table on next page). The concentrations of gross loans and impaired loans by sector and geographic area are considered in FCC's risk exposure.

Concentrations of credit risk

The concentrations of gross loans and impaired loans[12] by sector and geographic area were as follows:

Sector distribution[13]	Gross		Impaired	
As at March 31 (millions of Canadian dollars)	2025	2024	2025	2024
Oilseed and grain	**17,501**	16,194	**211**	150
Dairy	**7,684**	7,368	**106**	50
Agribusiness	**5,739**	5,186	**140**	127
Beef	**4,678**	4,318	**83**	103
Other	**4,527**	4,289	**119**	91
Agri-food	**3,721**	3,037	**138**	172
Poultry	**3,619**	3,341	**27**	45
Greenhouse	**2,638**	2,373	**194**	89
Alliances	**2,254**	1,764	**19**	14
Hogs	**1,626**	1,659	**88**	27
Fruit	**1,573**	1,499	**106**	89
Total	**55,560**	**51,028**	**1,231**	**957**

Geographic distribution[14]	Gross		Impaired	
As at March 31 (millions of Canadian dollars)	2025	2024	2025	2024
Ontario	**16,918**	15,601	**300**	149
Saskatchewan	**10,408**	9,179	**107**	127
Alberta	**10,022**	9,176	**171**	156
Quebec	**7,613**	7,262	**280**	217
British Columbia	**4,831**	4,433	**259**	194
Manitoba	**4,085**	3,781	**66**	55
Atlantic	**1,683**	1,596	**48**	59
Total	**55,560**	**51,028**	**1,231**	**957**

[12] Impaired loans: Loans where, in management's opinion, there is no longer reasonable assurance the full amount of principal and interest owing will be collected in a timely fashion. Any loan that is contractually 90 days past due or to which an amendment has been granted that diminishes the financial obligation of the borrower is classified as impaired.

[13] Comparative figures have been reclassified. See Note 4 in the 2024-25 Annual Report.

[14] British Columbia includes the Yukon and Northwest Territories with $24 million gross loans and $nil impaired loans as at March 31, 2025 (2024 – $25 million and $nil, respectively).

Collateral from a climate and nature perspective

Physical climate and nature-related risks can materialize as credit risk by impacting the value of the collateral that secures most of our portfolio. As described in Note 18 from FCC's Consolidated Financial Statements in the 2024-25 Annual Report, FCC uses collateral as a method to mitigate its credit risk.

Farmland is the most common form of collateral and it has a fundamental relationship with climate and nature. It can be challenging to isolate the net impacts of climate and nature on farmland values as the impacts can be both positive and negative. There are factors beyond productivity that drive land values, particularly near urban and recreational areas. The anticipated impacts to farmland values from climate and nature-related risks are highly uncertain and variable.

FCC estimates the impacts to farmland values under various plausible scenarios as part of its allowance for credit losses, capital requirements modelling and stress-testing program. Some scenarios explicitly include climate and nature considerations, and others implicitly include it by focusing on farmland value shocks without defining the cause of the decline.

We value and support our customers to safeguard the environment and protect the value of real property that we take as lending security. As a federal Crown corporation, we have accountabilities under the Impact Assessment Act to ensure designated projects we're involved with won't cause significant adverse environmental effects. This year, the Environmental Risk Assessment was updated to improve consistency and organizational controls for better risk management and compliance.

Allowance for credit losses from a climate and nature perspective

As described in Note 9 from FCC's Consolidated Financial Statements in the 2024-25 Annual Report, credit risk is aggregated through analytics and modelling to quantify the allowance for credit losses. Beyond the customer and collateral considerations described above that capture past events and current conditions, forward-looking information is applied through probability-weighted scenarios. To develop these scenarios, FCC created national- and provincial-level economic models focused on farm cash receipts, farmland values and farm debt outstanding. While not purpose-built to assess impacts of evolving climate and nature-related risks, the forward-looking information captures some risks related to nature and climate.

FCC monitors weather-related risks, primarily by leveraging and forecasting the Normalized Difference Vegetation Index (NDVI), which quantifies vegetation health and changes over time. Analysis is shared quarterly for economic modelling and inclusion in the allowance for credit losses calculation. This helps ensure that our forward-looking information on farm cash receipts reflects certain growing challenges as they materialize (for example, drought conditions that are expected to reduce crop and beef production levels).

FCC is advancing the way we assess the potential materiality of climate risk. By simulating the impact of climate-adjusted probability of default on our allowance for credit losses calculation, we're developing a clearer picture of how various climate scenarios could influence expected credit losses.

Acknowledging that inputs and models may not always capture all risk considerations, FCC also allows for temporary qualitative adjustments or overlays to the allowance for credit losses based on ad hoc analysis and subject matter expertise. In fiscal 2024-25, FCC determined that no overlay was needed for climate and nature-related risks that may not be completely captured in the allowance for credit losses process. The weighted-average remaining term to maturity on FCC's loans receivable is between two to three years, meaning impacts expected beyond that horizon have diminishing effect on the allowance for credit losses. Over that short time horizon, historical events, current conditions and forward-looking information reasonably address climate and nature-related risks that could materialize as credit risk.

Capital management from a climate and nature perspective

The objective of the Capital Management policy and supporting framework is to maintain a safe and sound capital position to deliver our strategy and withstand economic downturns, climate uncertainty and periods of extended loss. This enables FCC to serve the industry through all economic cycles. FCC's target capital ratio, established through its Internal Capital Adequacy Assessment process, includes an allowance for climate-related risks.

Advancing scenario-based understanding of climate and nature risks

FCC is enhancing our ability to assess long-term climate and nature-related risks through a scenario-based approach. Through our internal assessment of the Office of the Superintendent of Financial Institutions (OSFI) Standardized Climate Scenario Exercise (SCSE), we evaluated how policy-driven climate transitions could impact credit risk in agriculture. This included reviewing modelled changes in emissions costs, capital investment needs, and sector-specific financial resilience, particularly for crop and livestock sectors. The results indicated increasing credit risk and higher capital requirements for increasing levels of policy action, though the increases were not material compared to other factors that affect the allowance for credit loss. This result suggests early policy action that is gradually increased minimizes transition risk.

We're also working with research partners, including the Prairie Adaptation Research Collaborative (PARC) to explore how changes in climate variability, extreme weather frequency and average growing conditions could alter the landscape for producers and the broader food system. These efforts are helping to translate scenario analysis into practical insights for capital planning, risk strategy and long-term resilience.

Metrics and targets

FCC recognizes the importance of metrics and targets in driving sustainability initiatives. They provide a framework for continuous improvement and accountability in addressing climate and nature-related challenges.

As our strategy evolves, we're refining the metrics we use to assess the impact our strategy is delivering. We're exploring measures for climate resilience and nature-related factors. In the interim, our measures are focused on emissions intensity.

FCC's greenhouse gas (GHG) emissions profile

FCC is committed to understanding our emissions footprint through the measurement of GHG emissions associated with our operations and capital solutions activities. Like other financial institutions, our Scope 3 – Category 15: Investments, or "financed emissions," make up most of our footprint (99.9% financed emissions, 0.1% related to our operational emissions).

Financed emissions

FCC calculates financed emissions (FE)[15] to estimate the GHG emissions associated with our lending portfolio. FE estimates are based on a revenue-based methodology, applying industry-specific emissions intensity factors to customer revenue, scaled by FCC's share of total financing.

FCC follows the Partnership for Carbon Accounting Financials (PCAF) Standard to calculate financed emissions for business loans. We multiply customer revenue by corresponding emission factors and determine an attribution factor for each loan based on the outstanding loan value as a share of total assets. This approach aligns with a PCAF Data Quality Score of four, indicating that our financed emissions data is largely estimated based on financial figures rather than physical activity or emissions reported by our customers.

FCC enhanced our internal review and data validation processes for reporting financed emissions. This includes improvements in methodological transparency, emissions factor consistency, and internal controls to ensure robustness and reliability in emissions disclosures.

This year's emissions intensity decreased relative to the prior fiscal year while absolute emissions increased, continuing a multi-year trend based on PCAF methodology that links increased lending activity to increased absolute emissions. FCC continues to demonstrate leadership in maturing financed emissions methods for Canadian agriculture. We're actively engaged with peers across the financial and agri-food sectors to develop industry-aligned, Canadian-specific emissions factors that reflect the realities of Canadian production. These efforts aim to strengthen the quality and usefulness of emissions metrics for building resilience and guiding transition in the agriculture and agri-food industry.

FCC's financed emissions (Scope 3, category 15)

Sector	Units	2024-25	2023-24	2022-23
Livestock	$MtCO_2e$[16]	3.7	3.3	3.3
Crops	$MtCO_2e$	4.0	3.9	3.5
Agribusiness and agri-food	$MtCO_2e$	1.2	1.1	1.1
Other	$MtCO_2e$	0.1	0.1	0.1
Total	**$MtCO_2e$**	**9.0**	**8.4**	**8.0**
Loans receivable (gross)	$ Million	55,561	51,028	47,920
Economic financed emissions intensity	tCO_2e/ $ Million of loans receivable	161	165	167

[15] All financed emissions are estimated using economic emissions intensities aligned with the PCAF Standard. Values reflect attribution of customer emissions proportional to FCC's share of financial exposure.

[16] Financed emissions are measured in million tonnes of carbon dioxide equivalent per year ($MtCO_2e$).

Challenges with agriculture-financed emissions

Throughout 2024, FCC worked with the Rocky Mountain Institute (RMI) and four major Canadian banks to identify key components, challenges and opportunities in disclosure and target-setting for agriculture. The resulting whitepaper highlighted obstacles such as fragmented ownership, regional variability and complex emissions sources like livestock, fertilizer use and land use changes. It noted past reductions in emissions intensity for Canadian beef and dairy based on lifecycle assessment data. It also highlighted opportunities for tools like AgExpert and frameworks like the Science Based Targets initiative (SBTi) forest, land and agriculture (FLAG) for measuring, disclosing and setting targets for agriculture-financed emissions.[17]

Spotlight on beef cattle

Canadian beef is significantly less emissions intensive than beef from other countries, with emissions that are less than half the global average.[18, 19, 20] Emissions intensity of Canadian beef (boneless and consumed) has declined 15% from 2014 to 2021 [18, 21] ahead of SBTi expectations, primarily through efficiency gains. Industry-led 2030 goals[22] set by the Canadian beef industry continue to pace ahead of SBTi expectations. In addition, the beef sector plays an important role in maintaining and enhancing soil organic carbon stored in land (native and tame grassland and pasture) used for raising beef cattle and supporting the majority (74% for reproduction) of wildlife habitat capacity on those lands.[18]

Financed emissions from livestock, particularly beef cattle, are a material part of our footprint. This fiscal year, FCC engaged with the Canadian Roundtable for Sustainable Beef (CRSB) to use data from their most recent National Beef Sustainability Assessment (NBSA) to better understand the carbon footprint of the beef sector and explore refining financed emissions estimates.

FCC is supporting these industry-led initiatives and is working closely with beef industry stakeholders to find collaboration opportunities.

Beef emissions intensity	CRSB NBSA[18] kgCO_2e / kg beef carcass	SBTi FLAG (Canada)[23] tCO_2e / t fresh weight	SBTi FLAG (World)[23] t CO_2e / t fresh weight
2014	20.9	23.1	34.5
2021	17.3[24]	21.1	31.5
2030	14.0	17.8	27.9

Note: We have aligned functional units and system boundary between CRSB NBSA and SBTi FLAG commodity data the best we can for comparison purposes, but they are not identical. The 2030 NBSA emission intensity is in reference to the 2030 Canadian beef industry goal of a 33% reduction from the 2014 baseline for functional unit of 1 kg boneless and consumed beef, therefore incorporating the whole supply chain.[21]

[17] RMI – Climate Disclosure and Target Setting in the Agriculture Sector Report (2024)

[18] Canadian Roundtable for Sustainable Beef. (2024a). National Beef Sustainability Assessment: Environmental and Social Assessments. Calgary, AB: Groupe AGECO.

[19] Isaac A. Aboagye, Gayathri Valappil, Baishali Dutta, Hugues Imbeault-Tétreault, Kim H. Ominski, Marcos R.C. Cordeiro, Roland Kröbel, Sarah J. Pogue, and Tim A. McAllister. 2024. An assessment of the environmental sustainability of beef production in Canada. Canadian Journal of Animal Science. 104(2): 221-240. https://doi.org/10.1139/cjas-2023-0077

[20] Food and Agriculture Organization of the United Nations – Global Livestock Environmental Assessment Model Version 3.0

[21] Canada's National Beef Strategy – Greenhouse Gas and Carbon Sequestration Goal Fact Sheet

[22] Canada's National Beef Strategy – 2030 Canadian beef industry goals

[23] Science Based Targets initiative – Commodity data tab of the Forest, Land and Agriculture Target-Setting Tool

[24] Canadian Roundtable for Sustainable Beef (CRSB). (2024). National Beef Sustainability Assessment and Strategy summary report. Calgary, AB.: CRSB.

Partnership for biodiversity accounting

In 2024, FCC became a premium supporter of the Partnership for Biodiversity Accounting Financials (PBAF), aligning the organization with early adopters of biodiversity accounting. This membership offers valuable insights, tools and best practices to enhance FCC's climate and nature reporting and sustainability efforts.

Operational emissions and target

FCC has been tracking our operational GHG emissions since 2012. In 2016-17, we set a target to reduce absolute GHG emissions by 40% by 2024-25, from a 2011-12 base year. This target has been retired a year early, after reducing emissions by 36.4% by 2023-24.

FCC has developed a new net-zero-aligned, science-based target using an updated base year. Starting in 2024-25, we commit to reducing absolute operational GHG emissions by 42% by 2030-31, from a 2023-24 baseline (4,778 tCO_2e). This target encompasses Scope 1 emissions resulting from the use of natural gas and other fuels in heating, ventilation and air conditioning (HVAC) equipment, as well as Scope 2 emissions from purchased electricity used in our offices.[25, 26]

[25] FCC uses the GHG Protocol and the International Organization for Standardization (ISO) 14064-1 guidance to measure and report GHG emissions and removals. We follow the operational control boundary to measure and report our direct and indirect GHG emissions for Scope 1, Scope 2 and Scope 3 – business air travel.

[26] We consider carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O) gases when measuring emissions and follow the 100-year Global Warming Potentials from the Intergovernmental Panel on Climate Change Assessment Report (AR5, 2014) to convert those gases to CO_2e.

Scope 1 and 2 results

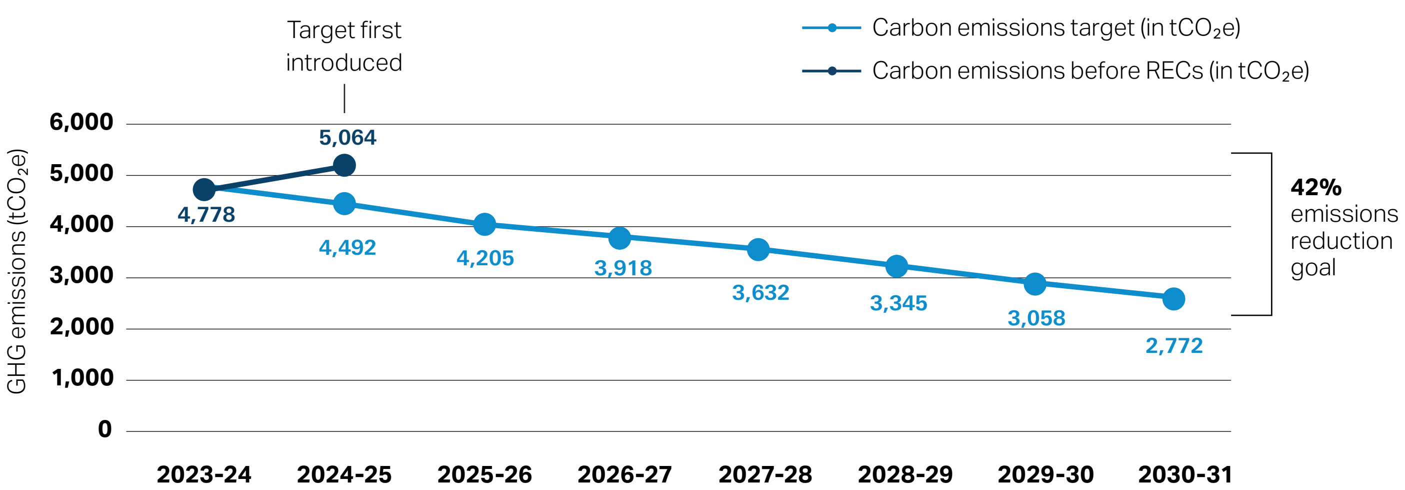
In 2024-25, our Scope 1 and Scope 2 GHG emissions were 5,064 tCO_2e, marking an approximate 6% increase over 2023-24 levels. Natural gas increased by 42%, while electricity decreased by 1%. The changes are due to collecting more actual data and relying less on estimates. FCC's operational footprint, including square footage and energy efficiency of the structure and equipment, continues to be part of the criteria considered when assessing office space.

Scope 1 and 2 GHG consumption results	Unit	2024-25	2023-24	2022-23
Scope 1	Cubic metre (m^3)	920,734	647,422	734,139
Scope 2 (location-based)	Kilowatt-hour (kWh)	8,588,267	8,658,891	7,937,079

To reach our 2030-31 operational GHG reduction target, we set a yearly reduction goal to reduce emissions by 6%. To meet this year's target, we're purchasing RECs equivalent to 572 tCO_2e. FCC is purchasing additional RECs and offsets equivalent to the remaining 4,492 tCO_2e.[27]

The following table shows FCC's progress on meeting our operational GHG reduction target:

Meeting our 42% operational GHG reduction goal



[27] FCC doesn't utilize a carbon price when making decisions for its internal operations.

Scope 3 results

This year, FCC's emissions related to Scope 3 – business air travel were 339 tCO_2e, a 7% decrease from last year. Although outside of FCC's operational GHG reduction target, we'll continue to report and offset emissions from business air travel.

FCC no longer measures Scope 3 emissions from business vehicle travel and paper usage as they are deemed immaterial.

The following table shows FCC's operational GHG emissions data:

FCC's GHG emissions	Unit	2024-25	2023-24	2022-23	Target
Scope 1	tCO_2e	1,821	1,263	1,443	42% absolute reduction by 2030-31 from a 2023-24 baseline. Progress to date: 6%
Scope 2 (location-based)[28]	tCO_2e	3,243	3,515	2,789	
Emissions reduction from RECs	tCO_2e	3,243	3,515	177	
Scope 2, market-based[29]	tCO_2e	0	0	-	
Scope 3, category 6 – business air travel	tCO_2e	339[30]	364	455	
Operational carbon intensity	tCO_2e / $ Million revenue	1.80	1.83[31]	2.11	
Total location-based operational emissions[32]	**tCO_2e**	**5,403**	**5,142**	**4,687**	
Other operational Scope 3 emissions	tCO_2e	-	1,361[33]	1,135	
Other carbon credits and additional RECs	tCO_2e	2,160	2,988	-	
Net operational emissions	**tCO_2e**	**0**	**0**	**5,645**	

[28] According to the GHG Protocol, location-based method reflects the average emissions intensity of grids on which energy consumption occurs and is used for the purposes of setting and tracking FCC's operational GHG emissions target.

[29] According to the GHG Protocol, market-based reflects emissions from electricity that FCC has purposefully chosen (or their lack of choice). It derives emission factors from contractual instruments, which include any type of contract between two parties for the sale and purchase of energy bundled with attributes about the energy generation, or for unbundled attribute claims. To calculate the market-based Scope 2 emissions, FCC's non-renewable indirect energy consumed is matched with RECs.

[30] The business air travel data is from FCC's travel provider. Any travel booked outside of this provider is not included or material to overall emission totals.

[31] The 2023-24 operational carbon intensity has been updated to match the scope of FCC's 2024-25 operational emissions.

[32] Emission factors were used to calculate the GHG emissions for each activity. Local emission factors were used where available; otherwise, we used default regional, national or international factors. Sources of Emission Factors: ECCC (2023), Emission Factors and Reference Values Table, National Inventory Report: Greenhouse Gas Sources and Sinks in Canada (1990-2021; Part 3), Department for Environment Food and Rural Affairs (DEFRA), UK Government Conversion factors for greenhouse gas (GHG) reporting, ECCC, NIR (2021) Part II, Tableau A6. 1-14, and EPA (2024), Emission factors for Greenhouse gas inventories.

[33] In 2023-24, in addition to business air travel (category 6), operational Scope 3 emissions included paper usage (category 5) and business vehicle travel (category 6).

Looking forward

Agricultural producers are stewards of the land with generational expertise and passion for agriculture that strengthens the agriculture and agri-food production system. Over the past 65-plus years, FCC has listened to our customers and adapted our products and services to fit their unique needs.

We'll continue to be intentional with our pace in supporting our customers on their sustainability journeys. FCC is committed to understanding and mitigating climate risks and pursuing opportunities to support adaptation, innovation and resilience across the Canadian agriculture and agri-food industry.

We'll explore ways to provide solutions – whether through investment, capital, innovation, partnerships, knowledge or advisory services – that help our customers improve productivity within their operations and contribute to feeding the growing global population.

Priorities for 2025-26

For fiscal year 2025-26 and beyond, our corporate strategy is centered around our aspiration to be bold in positioning Canada as a leader in sustainable food production by fostering innovation and enhancing Canadian agriculture and agri-food's global reputation. This includes investing in our impact areas, like climate and nature-based solutions, to maintain our position as a leader in providing capital solutions and support to the Canadian agriculture and agri-food industry. Priorities central to the climate and nature-based solutions impact area include:

- FCC will grow our capital solutions through the Sustainable Finance framework and adoption of the Sustainability Incentive and Sustainability Capital Investment programs.
- We will continue to raise awareness of the importance of environmental stewardship through collaborations, knowledge and advisory support to customers and the agriculture and agri-food industry.
- FCC will continue to measure and disclose GHG emissions and update on progress towards reducing operational GHG emissions by 42% by 2030-31.

DREAM. GROW. THRIVE.

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