DREAM. GROW. THRIVE.

ANNUAL REPORT 2019-20

FARM CREDIT CANADA

Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Farm Credit Canada (FCC) and all information in this annual report are the responsibility of FCC's management and have been reviewed and approved by the FCC Board of Directors. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, consequently, include amounts that are based on the best estimates and judgment of management. Financial information presented elsewhere in the annual report is consistent with that contained in the consolidated financial statements.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that FCC properly authorizes and records transactions, safeguards assets, recognizes liabilities, maintains proper records, and complies with applicable laws and conflict of interest rules. The system of internal control is augmented by internal audit, which conducts periodic reviews of different aspects of FCC's operations.

The FCC Board of Directors is responsible for ensuring management fulfils its responsibilities for financial reporting and internal control. It exercises this responsibility through the Audit Committee, which is composed of directors who are not employees of FCC. The Audit Committee meets with management, internal auditors and external auditors on a regular basis. Internal and external auditors have full and free access to the Audit Committee.

FCC's independent external auditor, the Auditor General of Canada, is responsible for auditing FCC's transactions and consolidated financial statements and for issuing his report thereon.

Michael Hoffort, P.Ag., ICD.D
President and
Chief Executive Officer

Rick Hoffman, CPA, CMA, MBA, ICD.D
Executive Vice-President and
Chief Financial Officer

Regina, Canada
June 3, 2020

Office of the Auditor General of Canada | Bureau du vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Agriculture and Agri-Food

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Farm Credit Canada and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 March 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the consolidated financial statements, we have audited transactions of Farm Credit Canada coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Farm Credit Canada Act*, the by-laws of Farm Credit Canada, and the directives issued pursuant to section 89 of the *Financial Administration Act*.

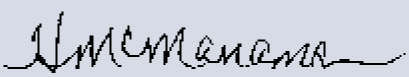
In our opinion, the transactions of Farm Credit Canada that came to our notice during the audit of the consolidated financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied, except for the change in the method of accounting for leases as explained in Note 3 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for Farm Credit Canada’s compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable Farm Credit Canada to comply with the specified authorities.

Auditor’s Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the consolidated financial statements are in compliance with the specified authorities referred to above.



Heather McManaman, CPA, CA
Principal
for the Interim Auditor General of Canada

Ottawa, Canada
3 June 2020

Consolidated Balance Sheet

As at March 31 (thousands of Canadian dollars)	2020	2019
Assets		
Cash and cash equivalents	**$ 1,724,503**	$ 770,517
Short-term investments (Note 4)	**756,369**	435,601
Accounts receivable and prepaid expenses	**39,378**	39,879
Derivative financial assets (Note 5)	**12,469**	16,459
	2,532,719	1,262,456
Loans receivable – net (Notes 6 and 8)	**38,158,149**	35,873,075
Finance leases receivable – net (Notes 7 and 8)	**99,744**	20,148
Investment in associates	**39,499**	69,909
Venture capital investments – net (Notes 8 and 9)	**83,004**	70,602
Post-employment benefit assets (Note 10)	**178,398**	88,891
	38,558,794	36,122,625
Equipment and leasehold improvements (Note 11)	**26,847**	26,070
Computer software (Note 12)	**31,536**	32,714
Equipment under operating leases (Note 13)	**80,227**	121,496
Right-of-use assets (Note 14)	**180,120**	–
Other assets (Note 15)	**13,972**	13,419
	332,702	193,699
Total assets	**$ 41,424,215**	$ 37,578,780
Liabilities		
Accounts payable and accrued liabilities	**$ 78,392**	$ 68,531
Derivative financial liabilities (Note 5)	**535**	–
	78,927	68,531
Borrowings (Note 16)		
Short-term debt	**9,952,320**	9,794,234
Long-term debt	**23,607,441**	20,950,075
	33,559,761	30,744,309
Transition loan liabilities	**195,223**	160,763
Post-employment benefit liabilities (Note 10)	**148,694**	165,205
Lease liabilities (Note 17)	**180,353**	–
Other liabilities (Note 18)	**7,981**	10,421
	532,251	336,389
Total liabilities	**34,170,939**	31,149,229
Equity		
Contributed capital (Notes 25 and 26)	**500,000**	183,725
Retained earnings	**6,731,232**	6,202,132
Accumulated other comprehensive income	**21,237**	43,017
Equity attributable to shareholder of parent entity	**7,252,469**	6,428,874
Non-controlling interest	**807**	677
	7,253,276	6,429,551
Total liabilities and equity	**$ 41,424,215**	$ 37,578,780

Commitments, guarantees and contingent liabilities (Note 24).

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

The consolidated financial statements were approved by the FCC Board of Directors on June 3, 2020, and were signed on its behalf by:

Michael Hoffort, P.Ag., ICD.D
President and Chief Executive Officer

Govert Verstralen
Chair, Audit Committee

Consolidated Statement of Income

For the year ended March 31 (thousands of Canadian dollars)	2020	2019
Interest income	$ 1,764,364	$ 1,622,334
Interest expense	567,696	470,616
Net interest income (Note 19)	**1,196,668**	1,151,718
Provision for credit losses	(87,576)	(103,288)
Net interest income after provision for credit losses	**1,109,092**	1,048,430
Net insurance income	17,806	22,061
Net (loss) income from investment in associates	(31,078)	17,392
Net foreign exchange gain (Note 27)	2,306	555
Other expense	(1,938)	(724)
Net interest income and non-interest income	**1,096,188**	1,087,714
Administration expenses (Note 20)		
Salaries and benefits	275,723	255,423
Other	183,109	170,873
Total administration expenses	**458,832**	426,296
Net income before fair value adjustment	**637,356**	661,418
Fair value adjustment (Note 21)	(4,757)	(4,764)
Net income	**$ 632,599**	$ 656,654
Net income attributable to:		
Shareholder of parent entity	$ 632,600	$ 656,578
Non-controlling interest	(1)	76

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

Consolidated Statement of Comprehensive Income

For the year ended March 31 (thousands of Canadian dollars)	2020	2019
Net income	**$ 632,599**	$ 656,654
Other comprehensive income		
Items that are or may be reclassified to net income		
Transfer of net realized gains on derivatives previously designated as cash flow hedges to net income (Note 5)	**(21,780)**	(21,720)
	(21,780)	(21,720)
Item that will never be reclassified to net income		
Remeasurement of post-employment benefit assets and liabilities (Note 10)	**107,575**	24,158
Total other comprehensive income	**85,795**	2,438
Total comprehensive income	**$ 718,394**	$ 659,092
Total comprehensive income attributable to:		
Shareholder of parent entity	**$ 718,395**	$ 659,016
Non-controlling interest	**(1)**	76

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

Consolidated Statement of Changes in Equity

(thousands of Canadian dollars)	Balance March 31, 2019	Net income	Other compre-hensive income	Dividend paid	Contributions received	Contributions from non-controlling interest	Balance March 31, 2020
Contributed capital	**$ 183,725**	**$ –**	**$ –**	**$ (183,725)**	**$ 500,000**	**–**	**$ 500,000**
Retained earnings	**6,202,132**	**632,600**	**107,575**	**(211,075)**	**–**	**–**	**6,731,232**
Net gains (transfer of net gains) on derivatives previously designated as cash flow hedges	**43,017**	**–**	**(21,780)**	**–**	**–**	**–**	**21,237**
Total accumulated other comprehensive income (loss)	**43,017**	**–**	**(21,780)**	**–**	**–**	**–**	**21,237**
Total equity attributable to parent	**6,428,874**	**632,600**	**85,795**	**(394,800)**	**500,000**		**7,252,469**
Non-controlling interest	**677**	**(1)**	**–**	**–**	**–**	**131**	**807**
Total	**$ 6,429,551**	**$ 632,599**	**$ 85,795**	**$ (394,800)**	**$ 500,000**	**$ 131**	**$ 7,253,276**

(thousands of Canadian dollars)	Balance March 31, 2018	Impact of adopting IFRS 9	Balance April 1, 2018	Net income	Other compre-hensive income	Dividend paid	Distributions to non-controlling interest	Balance March 31, 2019
Contributed capital	$ 547,725	$ –	$ 547,725	$ –	$ –	$ (364,000)	$ –	$ 183,725
Retained earnings	5,447,657	73,739	5,521,396	656,578	24,158	–	–	6,202,132
Net gains (transfer of net gains) on derivatives previously designated as cash flow hedges	64,737	–	64,737	–	(21,720)	–	–	43,017
Net unrealized (losses) gains on available-for-sale financial assets	(350)	350	–	–	–	–	–	–
Total accumulated other comprehensive income (loss)	64,387	350	64,737	–	(21,720)	–	–	43,017
Total equity attributable to parent	6,059,769	74,089	6,133,858	656,578	2,438	(364,000)	–	6,428,874
Non-controlling interest	767	(13)	754	76	–	–	(153)	677
Total	$ 6,060,536	$ 74,076	$ 6,134,612	$ 656,654	$ 2,438	$ (364,000)	$ (153)	$ 6,429,551

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

Consolidated Statement of Cash Flows

For the year ended March 31 (thousands of Canadian dollars)	2020	2019
Operating activities		
Net income	**$ 632,599**	$ 656,654
Adjustments to determine net cash (used in) provided by operating activities:		
Net interest income	**(1,196,668)**	(1,151,718)
Provision for credit losses	**87,576**	103,288
Fair value adjustment	**4,757**	4,764
Net loss (income) from investment in associates	**31,078**	(17,392)
Amortization and depreciation	**37,133**	19,289
Net unrealized foreign exchange gains	**(21,488)**	(16,230)
Net cash outflow from loans receivable	**(2,296,276)**	(2,211,374)
Net cash (outflow) inflow from finance leases receivable	**(76,872)**	250
Net change in other operating assets and liabilities	**42,020**	60,418
Interest received	**1,700,944**	1,540,893
Interest paid	**(540,880)**	(418,801)
Cash used in operating activities	**(1,596,077)**	(1,429,959)
Investing activities		
Net cash outflow from short-term investments	**(320,868)**	(35,611)
Acquisition of venture capital investments	**(17,113)**	(23,076)
Proceeds on disposal and repayment of venture capital investments	**–**	29,460
Net cash (outflow) inflow from investment in associates	**(667)**	5,248
Purchase of equipment and leasehold improvements	**(9,451)**	(10,400)
Purchase of computer software	**(11,945)**	(9,708)
Purchase of equipment under operating leases	**–**	(55,361)
Proceeds on disposal of equipment under operating leases	**18,625**	19,469
Cash used in investing activities	**(341,419)**	(79,979)
Financing activities		
Long-term debt issued	**9,770,000**	9,926,000
Long-term debt repaid	**(6,598,796)**	(7,650,327)
Short-term debt issued	**9,783,591**	10,642,664
Short-term debt repaid	**(10,154,089)**	(11,102,387)
Principal repayment of lease liabilities	**(15,101)**	–
Dividend paid	**(394,800)**	(364,000)
Capital contributions received	**500,000**	–
Cash provided by financing activities	**2,890,805**	1,451,950
Change in cash and cash equivalents	**953,309**	(57,988)
Cash and cash equivalents, beginning of year	**770,517**	828,569
Effects of exchange rate changes on the balances of cash held and due in foreign currencies	**677**	(64)
Cash and cash equivalents, end of year	**$ 1,724,503**	$ 770,517
Cash and cash equivalents consists of:		
Cash	**$ 878,570**	$ 770,517
Cash equivalents	**845,933**	–

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

Notes to the Consolidated Financial Statements

1. The corporation

Authority and objectives

Farm Credit Canada (FCC) was established in 1959 by the Farm Credit Act as the successor to the Canadian Farm Loan Board. FCC is an agent Crown corporation named in Part I of Schedule III to the Financial Administration Act. FCC is located in Canada and its registered office is at 1800 Hamilton Street, Regina, Saskatchewan, Canada. FCC is wholly owned by the Government of Canada and is not subject to the requirements of the Income Tax Act.

The purpose of FCC is to enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are businesses related to farming. The primary focus of the activities of FCC shall be on farming operations, including family farms.

On April 2, 1993, the Farm Credit Corporation Act was proclaimed into law replacing the Farm Credit Act and the Farm Syndicates Credit Act, which were repealed. The revised Act expanded FCC's mandate, providing broader lending and administrative powers.

On June 14, 2001, the Farm Credit Canada Act received royal assent, updating the Farm Credit Corporation Act. This Act allows FCC to offer producers and agribusiness operators a broader range of services.

The Farm Credit Canada Act was amended effective March 25, 2020, to allow the Minister of Finance to determine the capital payment limit. As at March 25, 2020, the Minister increased the capital payment limit to $2,500.0 million from $1,250.0 million.

In September 2008, FCC, together with a number of other Crown corporations, was issued a directive (P.C. 2008-1598) pursuant to Section 89 of the Financial Administration Act, requiring due consideration by FCC to the personal integrity of those it lends to or provides benefits to. During fiscal 2020, FCC continued to comply with the requirements of the directive.

In July 2015, FCC was issued a directive (P.C. 2015-1104) pursuant to Section 89 of the Financial Administration Act to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations. The directive also required FCC to report on the implementation of this directive in FCC's next corporate plan. FCC has fulfilled this requirement. FCC's policies, guidelines and practices have been aligned with Treasury Board policies, directives and related instruments since March 31, 2016.

In March 2017, FCC was issued a directive (P.C. 2017-242) pursuant to Section 89 of the Financial Administration Act, which repealed directive P.C. 2014-1377 of December 2014 and directs FCC to ensure its pension plans reflect the following:

(1) for its defined contribution pension plan, member contribution rates are equal to those of the employer by December 31, 2017

(2) the normal age of retirement is 65 years for employees hired on or after March 10, 2017, and the age at which retirement benefits are available, other than those received at the normal age of retirement, corresponds with the age at which they are available under the Public Service Pension Plan

This directive also required FCC to outline its implementation strategy with respect to the aforementioned requirements in its next corporate plan and subsequent corporate plans until the commitments are fully implemented. FCC fully implemented the commitments as at March 31, 2018.

2. Significant accounting policies

Basis of presentation

Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The significant accounting policies used in the preparation of the consolidated financial statements are summarized below and in the following pages. The significant accounting policies have been applied consistently to all periods presented in the consolidated financial statements, except for FCC's new accounting policies resulting from the adoption of IFRS 16 – Leases in the current year, as explained below.

The consolidated financial statements are presented in Canadian dollars, which is FCC's functional currency. Unless otherwise stated, all dollar amounts presented within the Notes to the Consolidated Financial Statements are in thousands of Canadian dollars.

Changes in accounting standards

On April 1, 2019, FCC adopted IFRS 16 – Leases, which replaced IAS 17 – Leases, IFRIC 4 – Determining whether an arrangement contains a lease, SIC-15 – Operating leases – incentives, and SIC-27 – Evaluating the substance of transactions involving the legal form of a lease.

Lessee accounting has changed significantly with the introduction of IFRS 16 by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use (ROU) asset and a lease liability at the commencement of all leases, except for short-term leases and leases of low value.

Lessor accounting for finance and operating leases remains largely unchanged from current practice.

On transition to IFRS 16, FCC elected to follow the modified retrospective approach under which a lessee does not restate comparative information, so comparative information continues to be reported under IAS 17, IFRIC 4 and SIC-27. Practical expedients, allowable within the IFRS 16 – Leases standard, were applied whereby FCC is not required to reassess whether a contract is, or contains, a lease at the date of initial application and where the lessee may exclude initial direct costs from the measurement of a ROU asset at the date of initial application.

As a result of adopting IFRS 16, FCC recognized ROU assets and lease liabilities of $180.7 million on April 1, 2019. These are presented as separate line items on the Consolidated Balance Sheet. There was no cumulative effect to equity from initially applying the standard. Refer to Note 3 for the transition from IAS 17 – Leases to IFRS 16 – Leases.

At the date of initial application, the weighted average incremental borrowing rate was 1.714%.

FCC is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. FCC accounted for its leases in accordance with IFRS 16 from the date of initial application.

Changes to FCC's accounting policies resulting from the adoption of IFRS 16 are described below and on the following pages.

Leases

FCC assesses whether a contract is or contains a lease at the inception of a contract. At the inception or reassessment of a contract that contains a lease component, FCC allocates consideration to lease components based on their relative stand-alone prices. If observable stand-alone prices are not available,

2. Significant accounting policies (continued)

FCC has elected not to separate non-lease components and account for lease and non-lease components as a single lease component for leases of buildings for which it is a lessee.

At the lease commencement date, FCC recognizes an ROU asset and lease liability except for short-term leases of 12 months or less and leases of low value that are expensed on a straight-line basis over the lease term.

Lease liabilities

Lease liabilities are initially measured at the present value of lease payments not paid at the commencement date, discounted using the rate implicit in the lease or FCC's weighted-average incremental borrowing rate, if the rate implicit in the lease cannot be readily determined.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments, less any lease incentives
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date

Lease liabilities are subsequently measured at amortized cost by increasing the carrying amount to reflect interest on the lease liability using the effective interest rate method and by reducing the carrying amount to reflect lease payments made.

FCC remeasures the lease liability, with a corresponding adjustment to the related ROU asset, when there is a change in future lease payments arising from:

- a change in a lease term, in which case the revised lease payments are discounted using a revised discount rate
- a change to an index or rate used to determine lease payments, in which case the revised lease payments are discounted using the initial discount rate
- a change to the scope or consideration of a lease where the lease is not accounted for as a separate lease, in which case revised lease payments are discounted using a revised discount rate

If the remeasurement of the lease liability results in the carrying amount of the ROU asset being reduced to zero, a lessee will recognize any remaining amount of the remeasurement in profit or loss.

Lease liabilities are presented as a separate line item on the Consolidated Balance Sheet.

ROU assets

The ROU assets are initially measured at cost and are comprised of the initial measurement of the lease liability adjusted for any lease payments made on or before the commencement date, less any incentives received from the lessor. They are subsequently measured at cost less accumulated depreciation, impairment losses and adjusted for any remeasurements of the lease liability as noted above. The lease term consists of the non-cancellable lease term, renewal options that are reasonably expected to be exercised and termination options that are not reasonably expected to be exercised.

The ROU assets are depreciated to the earlier of the lease term or the ROU asset's useful life. Depreciation starts at the commencement date of the lease and is recognized on a straight-line basis.

ROU assets are presented as a separate line item on the Consolidated Balance Sheet.

Under IAS 17

In the comparative period, payments for operating lease arrangements were expensed on a straight-line basis over the lease term. Associated costs were expensed as incurred.

2. Significant accounting policies (continued)

Basis of consolidation

The consolidated financial statements include the accounts of FCC, Avrio Subordinated Debt Fund II and Avrio Subordinated Debt Fund III (collectively the Avrio Subordinated Debt Funds). The Avrio Subordinated Debt Funds are venture capital limited partnerships for which FCC is a limited partner holding majority partnership interests. FCC consolidates the Avrio Subordinated Debt Funds as it has control over these funds. FCC controls these funds as it is exposed, or has rights, to variable returns from its involvement with these funds and FCC has the ability to affect those returns through its power over the funds. An adjustment has been made for significant intervening transactions and changes in fair value of investments occurring between the December 31 year-end of the Avrio Subordinated Debt Funds and FCC's year-end. All significant intercompany balances and transactions have been eliminated. The non-controlling interest, which represents the equity in the Avrio Subordinated Debt Funds that is not attributable to FCC, has been presented in the Consolidated Balance Sheet, the Consolidated Statement of Income, the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity.

Cash and cash equivalents

Cash and cash equivalents are composed of bank account balances and short-term, highly liquid investments that have a maturity date of 90 days or less from the date of acquisition, are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash equivalents are managed on a hold to collect basis and classified as amortized cost financial assets. Interest earned on cash and cash equivalents is recorded on an accrual basis and recognized in interest income using the effective interest method.

Short-term investments

Short-term investments have maturity dates between 91 and 365 days from the date of acquisition, are acquired primarily for liquidity purposes, are managed on a hold to collect basis and are classified as amortized cost financial assets. Interest earned on short-term investments is recorded on an accrual basis and recognized in interest income using the effective interest method.

Accounts receivable

Accounts receivable are managed on a hold to collect basis and classified as amortized cost financial assets.

Derivatives

Derivative financial instruments create rights and obligations that are intended to mitigate one or more of the financial risks inherent in an underlying primary financial instrument. FCC uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations, within limits approved by the FCC Board of Directors (the Board). These limits are based on guidelines established by the Department of Finance. FCC does not use derivative financial instruments for speculative purposes.

Derivatives are classified as fair value through profit and loss (FVTPL) and measured at fair value using a valuation technique as described under the Estimation Uncertainty heading, with gains and losses reported in the fair value adjustment. Derivatives classified as FVTPL are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. Interest earned and incurred on derivatives classified as FVTPL is included in interest income.

Cash flow hedges

Cash flow hedge accounting was discontinued prospectively on January 1, 2015, for all the interest rate swaps previously designated as hedging items as FCC revoked the designated hedging relationships. The cumulative gains previously recognized in OCI are being transferred to net interest income over the remaining term of the original hedge. All fair value gains and losses on the interest rate swaps subsequent to discontinuation are recognized immediately in the fair value adjustment.

2. Significant accounting policies (continued)

Loans receivable

Loans receivable are classified as amortized cost financial assets. Loans receivable are stated net of an allowance for credit losses and deferred loan fees and are measured at amortized cost using the effective interest method. Loan interest income is recorded on an accrual basis and recognized in net income using the effective interest method.

Loan origination fees, including commitment fees and renegotiation fees, are considered an integral part of the return earned on a loan and are recognized in interest income over the expected term of the loan using the effective interest method. In addition, certain incremental direct costs for originating the loans are deferred and netted against the related fees.

When a loan becomes credit-impaired, loan interest income is calculated based on the carrying amount of the instrument, net of the allowance for credit losses. The loan reverts to performing status when, in management's opinion, the ultimate collection of principal and interest is reasonably assured. When the credit-impaired loan is restored to performing status, the remaining allowance for credit losses is recalculated under Stage 2 and adjusted through the provision for credit losses.

Loans and their related allowance for credit losses are written off, either partially or in full, when there is no realistic prospect of future recovery.

Finance leases receivable

When FCC is the lessor in a lease arrangement that transfers substantially all of the risks and rewards incidental to ownership to the lessee, then the arrangement is classified as a finance lease. Finance leases receivable are recorded at amortized cost. Finance leases receivable are stated net of an allowance for credit losses and are recorded at the aggregate future minimum lease payments plus estimated residual values less unearned finance income. Finance lease income is recognized in a manner that produces a constant rate of return on the lease.

Investment in associates

FCC holds investments in venture capital limited partnerships (the equity funds) that are associates of FCC. An associate is an entity over which FCC has significant influence. FCC has the power to participate in the financial and operating policy decisions of the investee but does not have control over those policies. These equity funds are accounted for using the equity method of accounting. Under the equity method of accounting, investments are initially recorded at cost and the carrying amount is increased or decreased to recognize FCC's share of investee net income or loss. The investment is recorded as investment in associates in FCC's Consolidated Balance Sheet and its share of the net income or loss is recorded in net income from investment in associates in its Consolidated Statement of Income. An adjustment has been made for significant intervening transactions and changes in fair value of investments occurring between the December 31 year-end of the equity funds and FCC's year-end.

Venture capital investments

Venture capital investments include investments held by the Avrio Subordinated Debt Funds. FCC has classified certain of its venture capital investments as amortized cost financial assets, as they are managed on a hold to collect basis in accordance with their business model. These venture capital investments are stated net of an allowance for credit losses. Venture capital investments that do not meet the solely payments of principal and interest (SPPI) test are classified as FVTPL. These venture capital investments are accounted for at fair value, using a valuation technique as described under the Estimation Uncertainty heading, with gains and losses reported in the fair value adjustment.

Loan interest on debt and fee income are recorded on an accrual basis and recognized in interest income.

2. Significant accounting policies (continued)

Allowance for credit losses

FCC recognizes an allowance for credit losses on financial assets classified as amortized cost that represents management's best estimate of the expected losses at the balance sheet date. The carrying value of the financial asset is reduced through the allowance for credit losses and the amount of the loss is recognized in the provision for credit losses. Loan commitments are an off-balance sheet item and are subject to impairment. As such, an allowance for credit losses is calculated and included with the allowance for credit losses on loans receivable. The allowance is increased or decreased by changes in the provision for credit losses, the government subsidy for the Hog Industry Loan Loss Reserve Program (HILLRP), as described under the Government Assistance heading, writeoffs and recoveries.

If, in a subsequent period, the amount of impairment loss increases or decreases, the previously recognized impairment loss is adjusted through the allowance for credit losses and provision for credit losses.

In determining the allowance for credit losses, management segregates financial assets into three stages and the allowance methodology is based on the stage, as described below.

Expected loss impairment model

The expected loss impairment model applies a three-stage approach to measure the allowance for credit losses:

Performing financial assets:

Stage 1: Represents financial assets not yet individually identified as credit-impaired. On initial recognition, and if there has not been a significant increase in credit risk, 12-month expected credit losses are recognized in the provision for credit losses and an allowance for credit losses is established.

Stage 2: Represents financial assets not yet individually identified as credit-impaired. If credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized. In subsequent reporting periods, if the credit risk of the financial asset improves such that there is no longer a significant increase in credit risk since initial recognition, then the allowance reverts back to Stage 1 with the allowance being measured based on 12-month expected credit losses.

Credit-impaired financial assets:

Stage 3: Represents financial assets individually identified as credit-impaired. When a financial asset is considered credit-impaired, full lifetime expected credit losses are recognized.

Measurement of expected credit losses

The measurement of expected credit losses along with the stage determination considers reasonable and supportable information about past events, current conditions and forward-looking information. The estimation and application of forward-looking information, using both internal and external sources of information, requires significant judgment.

The calculation of expected credit losses is based on the expected value of three probability-weighted scenarios to measure the expected cash shortfalls, discounted at the effective interest rate. A cash shortfall is the difference between the contractual cash flows that are due and the cash flow that FCC expects to receive. For loan commitments, credit loss estimates consider the portion of the commitment that is expected to be drawn over the relevant time period. The key inputs in the measurement of expected credit losses are as follows:

- the probability of default (PD) is an estimate of the likelihood of default over a given time horizon
- the loss given default (LGD) is an estimate of the amount that may not be recovered in the event of default
- the exposure at default (EAD) is an estimate of the exposure at a future default date

Twelve-month expected credit losses are measured using the probability that default will occur within 12 months after the reporting date. Lifetime expected credit losses are measured using the probability that default will occur between now and the maturity of the loan.

2. Significant accounting policies (continued)

Significant increase in credit risk
At each balance sheet date, FCC assesses whether a significant increase in credit risk (SICR) has taken place since initial recognition of the financial asset to determine the migration of financial assets from Stage 1 to Stage 2. In assessing whether credit risk has increased significantly, FCC considers the following factors:

- whether financial assets are considered to have low credit risk at the reporting date in accordance with FCC's internal Borrowing Risk Rating system, which considers low credit risk as a low risk of default and all contractual cash flows being met
- whether there is an increase in the PD beyond a certain threshold to indicate the risk of a default occurring on the financial asset as at the reporting date is significantly higher than upon initial recognition
- qualitative information available as at the reporting date
- days past due

Credit-impaired financial assets
In accordance with FCC's definition of default, a Stage 3 credit-impaired financial asset is any financial asset at amortized cost where, in management's opinion, the credit quality has deteriorated to the extent that FCC no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, any financial asset at amortized cost where an amount greater than $500 is past due for 90 or more consecutive days is classified as Stage 3 credit-impaired unless the financial asset is sufficiently secured. When a financial asset is classified as Stage 3 credit-impaired, the carrying value is reduced to its estimated realizable value through an adjustment to the provision for credit losses. Changes in the estimated realizable amount that arise subsequent to the initial impairment are also adjusted through the provision for credit losses.

The impairment loss is calculated as the difference between the financial asset's carrying value and the present value of estimated future cash flows discounted at the financial asset's effective interest rate. For loans receivable, the effective interest rate is either the loan's original effective interest rate for fixed-rate loans or the effective interest rate at the time of the impairment for variable-rate loans. The estimation of future cash flows considers the fair value of any underlying security as well as the estimated time and costs to realize the security. The estimation of future cash flows for finance leases is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16.

Forward-looking information
The measurement of expected credit losses for each stage of the allowance for credit losses and the assessment of SICR considers information about reasonable and supportable forecasts of future events and economic conditions.

FCC incorporates forward-looking information into its measurement of expected credit losses by using a base case forecast as well as two probability-weighted, forward-looking scenarios representing more optimistic and pessimistic outcomes. To achieve this, FCC has developed national and provincial-level models for farm cash receipts, farmland values and farm debt outstanding. In its models, FCC relies on a broad range of forward-looking information as economic inputs, using both internal and external sources of information such as Canadian Gross Domestic Product, exchange rates and interest rates. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgment.

Modifications of financial assets

If the contractual terms of a financial asset are modified, an assessment is made to determine if the financial asset should be derecognized. Where the modification does not result in derecognition, the date of origination continues to be used to determine an SICR for stage assignment of credit losses. Where the modification results in derecognition, the modified financial asset is considered to be a new financial asset.

2. Significant accounting policies (continued)

Post-employment benefits

FCC has a registered defined benefit pension plan, three supplemental defined benefit pension plans, a registered defined contribution pension plan, a supplemental defined contribution plan and other defined benefit plans that provide retirement and post-employment benefits to most of its employees. The defined benefit pension plan and the defined contribution pension plan are two different provisions of the same registered plan and are registered under the Pension Benefits Standards Act, 1985, registration no. 57164. They are registered pension trusts as defined in the Income Tax Act and are not subject to income taxes. The defined benefit pension plan is based on employees' number of years of service and the average salary of their five highest-paid consecutive years of service. It is protected against inflation. The supplemental defined benefit and supplemental defined contribution pension plans are available for employees whose benefits under the registered plans are limited by the Income Tax Act maximum limits.

Retirement benefit plans are contributory health care plans with employee contributions adjusted annually and a non-contributory life insurance plan. Post-employment plans provide short-term disability income benefits, severance entitlements after employment and health care benefits to employees on long-term disability.

The defined benefit obligations for pension and other defined benefit plans are actuarially determined using the projected unit credit actuarial valuation method, which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors. Plan assets are measured at fair value.

FCC measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at March 31 of each year.

The net asset or liability for defined benefit obligations represents the present value of the defined benefit obligation reduced by the fair value of plan assets. The defined benefit asset is limited to the value determined by the asset ceiling. The value of the asset is restricted to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plan.

Defined benefit costs are split into three categories:

- service costs, past service costs, gains and losses on curtailments and settlements, plan administration costs and the tax effect on refundable tax assets
- net interest expense or income on the net defined benefit liability
- remeasurements of the net defined benefit liability

Contributions to the defined contribution pension plan are recognized as an expense when employees have rendered service entitling them to the contributions. Unpaid contributions are recognized as a liability.

Past service costs arising from plan amendments are recognized immediately in salaries and benefits in the period of the plan amendment.

Net interest, current service costs, gains and losses on curtailments and settlements and plan administration costs are recognized immediately in salaries and benefits in net income. Net interest is calculated by applying the discount rate used to discount the post-employment benefit obligations to the net asset or liability for defined benefit obligations.

Remeasurements include actuarial gains and losses, experience adjustments on plan liabilities, the change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability, if applicable) and the return on plan assets (excluding interest on the net defined benefit liability). Actuarial gains or losses arise from changes in actuarial assumptions used to determine the defined benefit obligations. Remeasurements are recognized immediately in OCI in the period in which they occur and flow into retained earnings in the Consolidated Balance Sheet.

2. Significant accounting policies (continued)

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the equipment or leasehold improvement. Subsequent expenditures, including replaced parts, are included in the equipment or leasehold improvement's carrying value or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to FCC and the cost of the item can be measured reliably. The carrying value of the replaced part is derecognized. All repair and maintenance costs are expensed during the period in which they are incurred.

Depreciation begins when the equipment or leasehold improvement is available for use by FCC. Depreciation is calculated using the straight-line method to allocate the cost less estimated residual value of the asset over the following terms:

	Terms
Office equipment and furniture	5 years
Computer equipment	3 or 5 years
Leasehold improvements	Shorter of lease term or asset's useful economic life

The residual values and useful lives are reviewed annually and adjusted, if appropriate. Equipment and leasehold improvements are reviewed annually for indicators of impairment and, if indicators exist, FCC estimates the recoverable amount of the asset. The estimated recoverable amount is the higher of the fair value less the costs to sell and the value in use. If the carrying value is greater than the estimated recoverable amount, an impairment loss would be recognized to reduce the carrying value to the estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying value and are included in facilities, software and equipment expense.

Computer software

Computer software is recorded at cost less accumulated amortization. Expenditures on internally developed software are recognized as assets when FCC is able to demonstrate its intention and ability to complete the development, to use the software in a manner that will generate future economic benefits and to reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software.

Amortization begins when the software is available for use by FCC. Amortization is recorded over the estimated useful life of three or five years using the straight-line method.

Software is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such indications exist, the carrying value is analyzed to assess whether it is fully recoverable. An impairment loss would be recorded to reduce the carrying value to the recoverable amount if the carrying value is greater than the estimated recoverable amount.

Equipment under operating leases

When FCC is the lessor in a lease arrangement that does not transfer substantially all of the risks and rewards incidental to ownership to the lessee, then the arrangement is classified as an operating lease. Equipment under operating leases is recorded at cost less accumulated depreciation. Equipment is depreciated on a straight-line basis over its useful life to FCC, which is equivalent to the term of the lease. Depreciation is included in interest expense.

2. Significant accounting policies (continued)

Lease income from operating leases is recognized on a straight-line basis over the term of the lease and included in interest income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying value of the leased asset and recognized on a straight-line basis over the lease term.

Equipment under operating leases is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such indications exist, the carrying value is analyzed to assess whether it is fully recoverable. An impairment loss would be recorded to reduce the carrying value to the recoverable amount if the carrying value is greater than the estimated recoverable amount.

Insurance

FCC sells group creditor life and accident insurance to its customers through a program administered by a major insurance provider. The insurance premiums are actuarially determined and are accrued when receivable and recorded in net insurance income.

Insurance claims expense, included in net insurance income, consists of paid claims that are recorded as incurred throughout the year, an accrual for insurance claims payable at year-end for claims that have been incurred as at the balance sheet date and adjustments to the reserve for insurance claims. The reserve for insurance claims represents the liability that, together with estimated future premiums and net investment income on insurance reserve assets, will provide for outstanding claims, estimated future benefits, taxes and expenses. The reserve for insurance claims is recorded at fair value and included in other liabilities. The reserve is actuarially determined using the Canadian Asset Liability Method and prepared on a going concern basis, taking into account the appropriate degree of risk inherent in the obligation, as described in Note 27. Changes in estimates are recorded when made and are included in net insurance income.

FCC maintains a restricted insurance reserve asset, which is included in other assets, with the insurance provider to fund future claim payments. Interest is paid on the insurance reserve asset by the insurance provider annually and is recorded in other income.

Expenses related to administering the insurance program are recorded in other expenses. The accrual for insurance claims payable is classified as other financial liabilities, measured at amortized cost using the effective interest method and included in accounts payable and accrued liabilities.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are measured at amortized cost using the effective interest method.

Borrowings

Government of Canada borrowings are undertaken with the approval of the Minister of Finance. Government of Canada borrowings are direct obligations of FCC and therefore constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

Capital market debt includes short-term U.S. dollar fixed-rate promissory notes and short and long-term retail and institutional fixed-rate notes.

Borrowings are accounted for using trade date accounting and are measured at amortized cost using the effective interest method.

Interest incurred on all borrowings is recorded on an accrual basis and recognized in interest expense using the effective interest method.

2. Significant accounting policies (continued)

Transition loan liabilities

FCC records a transition loan liability that represents amounts owing to third parties upon the signing of a contract that requires FCC to pay amounts in accordance with a disbursement schedule relating to undisbursed transition loans, which are included in loans receivable. As payments are made in accordance with the transition loan disbursement schedule, the applicable amount of the transition loan liability is reduced. Transition loan liabilities are recorded at amortized cost using the effective interest method.

Government assistance

FCC is one of the financial institutions participating in the HILLRP. Under the HILLRP, the Government of Canada established a loan loss reserve fund to share the net credit losses on eligible loans provided to hog operations with certain financial institutions. FCC is responsible for all credit losses beyond those covered by the loan loss reserve fund and must meet certain eligibility requirements to access the reserve fund. The amount of funds available from the loan loss reserve fund to FCC for any non-performing eligible loans are 90%, 80% and 70% of net credit losses in years one to three, four to six and seven to 15 respectively. Amounts held by FCC to which it is not entitled are paid back to the Government of Canada at the end of the program. FCC's deadline for disbursing the loans eligible under this program has passed and no further loan loss reserve fund instalments are due from the Government of Canada.

Management estimates the amount of the loan loss reserve fund to which FCC is entitled under the HILLRP. This estimate is accounted for as a reduction to FCC's provision for credit losses. The remaining amount of the loan loss reserve fund, to which FCC is not entitled, is recorded as borrowings. Interest on this borrowing is recorded in interest expense.

Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issuance or disposal of a financial asset or liability. Transaction costs relating to financial instruments measured at amortized cost are deferred and amortized over the instrument's expected useful life using the effective interest method. Transaction costs related to all other financial instruments are expensed as incurred.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date. Income and expenses are translated at the monthly average exchange rates prevailing throughout the year. Exchange gains and losses on loans and receivables are included in interest income, and exchange gains and losses on borrowings are included in interest expense.

Segmented information

FCC is organized and managed as a single business segment, which is agriculture lending. All of FCC's revenues are within Canada.

Significant management judgments in applying accounting policies

The following are critical management judgments used in applying FCC's accounting policies.

2. Significant accounting policies (continued)

Finance leases receivable

In applying the classification of leases in IFRS 16 – Leases, management considers leases of agricultural equipment to be either finance or operating lease arrangements. In some cases, the lease transaction is not always conclusive and management uses judgment in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership.

Computer software

A significant portion of FCC's computer software expenditures relates to software that is developed as part of internal infrastructures and, to a lesser extent, purchased directly from suppliers. Management has a process to monitor the progress of internal research and development projects. Significant judgment is required in distinguishing between the research and development phases. Research costs are expensed as incurred, whereas development costs are recognized as an asset when all criteria are met. Management monitors whether the recognition requirements for development costs continue to be met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems after the time of recognition.

Leases

In determining the lease term under IFRS 16 – Leases, management uses judgment to determine whether a lessee is reasonably certain to exercise optional extension periods by considering facts and circumstances including past practice.

Estimation uncertainty

The preparation of the consolidated financial statements in accordance with IFRS requires that management makes judgments, estimates and assumptions concerning the future that affect the reported amounts in the consolidated 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, especially given the added uncertainties resulting from the COVID-19 pandemic declared by the World Health Organization in March 2020. Information about the significant judgments, estimates and assumptions that are critical to the recognition and measurement of assets, liabilities, income and expense is discussed as follows.

Allowance for credit losses

Financial assets classified as amortized cost and all loan commitments are reviewed by management to assess impairment. Judgments are made when determining whether a loss event is expected to occur, and estimates and assumptions are made in measuring the resulting impairment loss, including movements between stages.

Management uses best estimates based on historical loss experience, current conditions and forward-looking information, as described under the Allowance for Credit Losses heading, for financial assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Significant judgment was used by management to assess the impact of the COVID-19 pandemic on the values of the key economic inputs used in the macroeconomic scenario analysis and the probability weights of these scenarios, as well as the assumptions used to determine how specific sectors are impacted. In addition, significant management judgment was used to assess the impact of the customer support programs offered to FCC's borrowers, including those provided by industry, as well as determining whether

2. Significant accounting policies (continued)

these arrangements constitute forbearance, whether they result in a substantial modification of the contract, their effect on the staging of the allowance and the impact on the overall allowance. For more details about the key assumptions used refer to Note 27.

Post-employment benefit assets and liabilities

The estimate of the post-employment benefit assets and liabilities or pension and non-pension post-retirement benefits is actuarially determined and incorporates management's best estimate of future salary levels, other cost escalation, employees' retirement ages and other actuarial assumptions. The discount rate is one of the more significant assumptions used. It is the interest rate that determines the present value of estimated future cash outflows expected to be required to settle the pension obligations. Management determines the appropriate discount rate at the end of each year. In doing this, management considers the interest rates of high-quality corporate bonds, augmented with government bonds and A-rated bonds with associated credit spread adjustments, that have terms to maturity approximating the terms of the related pension liability. Any changes in these assumptions will affect the carrying values of post-employment benefit assets and liabilities.

Reserve for insurance claims

The reserve for insurance claims is based on certain estimates and assumptions, including expected future mortality experience and interest rates. Higher mortality experience and increased interest rates would be financially adverse to FCC. FCC's mortality experience is combined with industry experience, since FCC's own experience is insufficient to be statistically credible.

Useful lives of depreciable assets

During the software development process and when new equipment, leasehold improvements and computer software are being purchased, management's judgment and estimates are required to determine the expected period of benefit over which capitalized costs should be depreciated or amortized. Management reviews the useful lives of depreciable assets at each reporting date. Actual results may vary because of technical obsolescence, particularly for software and information technology equipment, due to rapidly changing technology and the uncertainty of the software development process.

Fair value of financial instruments

The fair value of financial instruments is determined based on published quoted market prices or valuation techniques when quoted market prices are not available. Fair values are point-in-time estimates that may change significantly in subsequent reporting periods due to changes in market conditions. Fair value techniques use models and assumptions about future events, based on either observable or non-observable market inputs. As such, fair values are estimates involving uncertainties and may be significantly different when compared to another financial institution's value for a similar contract. The method used to value FCC's financial instruments measured at fair value is noted below.

- The estimated fair value of derivative financial assets and liabilities is determined using market standard valuation techniques. Where call or extension options exist, the value of these options is determined using current market measures for interest rates and currency exchange rates and by taking volatility levels and estimations for other market-based pricing factors into consideration. Market-observed credit spreads, where available, are a key factor in establishing valuation adjustments against FCC's counterparty credit exposures. Where the counterparty does not have an observable credit spread, a proxy that reflects the counterparty's credit profile is used.

- The estimated fair value of venture capital investments classified as FVTPL, which consists of shares of privately held companies, is valued based on guidelines issued by the venture capital industry, using market-based valuation methodologies.

2. Significant accounting policies (continued)

Accounting standards issued but not yet effective

FCC has reviewed the new standards and amendments that have been issued by the International Accounting Standards Board (IASB) but are not yet effective and determined that the following may have an impact on FCC in the future. Management is in the process of assessing the impact of this standard on FCC's financial statements and accounting policies. A number of other new standards, amendments and improvements that have been issued but are not yet effective are not listed below as FCC determined that they will not have a significant impact on the consolidated financial statements.

Standard	Details	Date of initial application
IFRS 17 – Insurance contracts	In May 2017, the IASB issued IFRS 17, which provides a single principles-based standard to account for all types of insurance contracts. IFRS 17 provides updated information about the obligations, risks and performance of insurance contracts and increases transparency in financial information reported by insurance companies, which will give investors and analysts more confidence in understanding the insurance industry. It also introduces consistent accounting for all insurance contracts based on a current measurement model. FCC is assessing the impact of this standard and the extent of the impact of its adoption is unknown at this time. (1) In March 2020 the IASB tentatively agreed to defer the effective date of the standard to annual reporting periods beginning on or after January 1, 2023. Amendments to the standard are expected to be issued in Q2 2020.	April 1, 2023(1)

3. Transition to IFRS 16

As stated in Note 2, FCC adopted IFRS 16 – Leases, which requires an explanation of how the transition from IAS 17 – Leases to IFRS 16 – Leases affected the corporation on April 1, 2019. The operating lease arrangements as of March 31, 2019, can be reconciled to the lease liabilities as of April 1, 2019, as follows:

($ thousands)	
Operating lease arrangements committed as a lessee as at March 31, 2019	$ 268,825
Impacts of discounting operating lease arrangements as at April 1, 2019	(23,269)
Impacts of operating expenses not included in lease liabilities according to IFRS 16	(120,702)
Extension options reasonably certain to be exercised	50,507
Other	5,379
Lease liabilities as at April 1, 2019	**$ 180,740**

4. Short-term investments

As at March 31, 2020, short-term investments were $756.4 million (2019 – $435.6 million) with a yield of 1.31% (2019 – 2.02%). They consisted of promissory notes and treasury bills issued by institutions with credit ratings of A+ or higher (2019 – A+ or higher) as rated by Standard and Poor's Ratings Services (S&P). As at March 31, 2020, the largest total investment in any one counterparty was $171.7 million (2019 – $219.1 million). As at March 31, 2020, the allowance for credit losses on short-term investments is $nil (2019 – $nil).

All short-term investments have an initial term to maturity of 91 – 365 days and will mature within 12 months of the balance sheet date.

5. Derivative financial instruments

As at March 31, 2020, derivative financial assets were $12.5 million (2019 – $16.5 million) and derivative financial liabilities were $0.5 million (2019 – $nil).

The derivative contracts entered into by FCC are over-the-counter instruments. Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest. Notional amounts upon which interest payments and receipts are based are not exchanged. FCC is exposed to variability in future interest cash flows on non-trading assets that bear interest at variable rates.

As at March 31, 2020, the estimated amount of existing net gains reported in AOCI that is expected to be transferred to net income within the next 12 months is $21.8 million (2019 – $21.7 million).

Notional principal amounts and term to maturity

As at March 31 ($ thousands)			**2020**	
		Within 1 year	**1-5 years**	**Total**
Interest rate swaps				
Receive	**Pay**			
Fixed	Floating	**$ 17,870**	**$ 220,124**	**$ 237,994**
Floating	Fixed	**–**	**14,187**	**14,187**
		$ 17,870	**$ 234,311**	**$ 252,181**

As at March 31 ($ thousands)			2019	
		Within 1 year	1-5 years	Total
Interest rate swaps				
Receive	Pay			
Fixed	Floating	$ –	$ 237,994	$ 237,994
Floating	Fixed	–	13,363	13,363
		$ –	$ 251,357	$ 251,357

Counterparty credit risk

Derivatives that have a positive fair value are subject to counterparty risk because the positive fair value indicates that over time, FCC can expect to receive cash flows from the counterparties based on the terms of the contract and current market conditions. The master netting agreements in place have no impact on the fair values at March 31, 2019, and March 31, 2020.

The fair values of the derivative financial instruments are as follows:

As at March 31 ($ thousands)		**2020**	
	Positive fair value	**Negative fair value**	**Net fair value**
Interest rate swaps	**$ 12,469**	**$ 535**	**$ 11,934**

As at March 31 ($ thousands)		2019	
	Positive fair value	Negative fair value	Net fair value
Interest rate swaps	$ 16,459	$ –	$ 16,459

5. Derivative financial instruments (continued)

FCC does not anticipate any significant non-performance by counterparties because all counterparties are rated Aa2, A+ and AA or higher, as rated by Moody's Investors Service (Moody's), S&P, and the Dominion Bond Rating Service (DBRS), respectively. The largest cumulative notional amount contracted with any institution as at March 31, 2020, was $125.0 million (2019 – $125.0 million), and the largest net fair value of contracts with any institution as at March 31, 2020, was $5.1 million (2019 – $7.0 million). FCC mitigates the credit exposure on multiple derivative transactions by entering into master netting agreements with counterparties as outlined in Note 27. These agreements create the legal right to offset exposure in the event of default.

6. Loans receivable – net

The following tables summarize the contractual maturity of the gross loans receivable.

As at March 31 ($ thousands)			2020	
	Within 1 year	**1 – 5 years**	**Over 5 years**	**Total**
Floating	**$ 449,311**	**$ 15,392,080**	**$ 379,107**	**$ 16,220,498**
Fixed	**59,042**	**17,489,050**	**4,672,788**	**22,220,880**
Loans receivable – gross	**$ 508,353**	**$ 32,881,130**	**$ 5,051,895**	**38,441,378**
Deferred loan fees				**(28,078)**
Loans receivable – total[(1)]				**38,413,300**
Allowance for credit losses (Note 8)				**(255,151)**
Loans receivable – net				**$ 38,158,149**

[(1)] Loans receivable – total at March 31, 2020, includes accrued interest and fees of $312.9 million

As at March 31 ($ thousands)			2019	
	Within 1 year	1 – 5 years	Over 5 years	Total
Floating	$ 3,479,111	$ 13,588,365	$ 413,031	$ 17,480,507
Fixed	3,517,435	11,878,981	3,217,599	18,614,015
Loans receivable – gross	$ 6,996,546	$ 25,467,346	$ 3,630,630	36,094,522
Deferred loan fees				(23,437)
Loans receivable – total[(1)]				36,071,085
Allowance for credit losses (Note 8)				(198,010)
Loans receivable – net				$ 35,873,075

[(1)] Loans receivable – total at March 31, 2019, includes accrued interest and fees of $286.7 million.

Management estimates that annually, over the next three years, approximately 5.0% (2019 – approximately 5.0%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2020, $565.6 million (2019 – $557.9 million) of loans receivable were denominated in U.S. dollars (USD).

6. Loans receivable – net (continued)

Concentrations of credit risk

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

Sector distribution

	Gross		Impaired	
As at March 31 ($ thousands)	**2020**	2019	**2020**	2019
Oilseed and grain	**$ 11,885,710**	$ 11,065,631	**$ 58,087**	$ 21,130
Dairy	**6,471,403**	6,427,217	**19,204**	4,620
Agribusiness	**4,026,457**	3,643,069	**50,699**	44,423
Poultry	**2,746,817**	2,630,863	**454**	–
Beef	**2,672,922**	2,360,585	**30,618**	15,015
Part-time farming	**2,219,839**	2,068,541	**21,496**	18,947
Other	**2,164,724**	2,025,195	**31,098**	23,324
Alliances	**1,557,064**	1,315,532	**25,991**	20,371
Greenhouse	**1,276,559**	1,151,791	**6,202**	4,615
Hogs	**1,214,595**	1,040,244	**709**	3,133
Agri-food	**1,112,258**	1,259,046	**37,306**	10,799
Fruit	**1,093,030**	1,106,808	**12,816**	25,732
Total	**$ 38,441,378**	$ 36,094,522	**$ 294,680**	$ 192,109

Geographic distribution[1]

	Gross			
As at March 31 ($ thousands)	**2020**	2019 As previously reported	2019 Reclassification	2019 Reclassified
Ontario	**$ 11,144,496**	$ 10,750,000	$ (133,872)	$ 10,616,128
Alberta and British Columbia	**10,629,035**	10,308,299	(194,233)	10,114,066
Saskatchewan	**7,127,196**	6,227,655	292,808	6,520,463
Quebec	**5,259,159**	4,710,995	66,108	4,777,103
Manitoba	**3,003,789**	2,847,062	(47,295)	2,799,767
Atlantic	**1,277,703**	1,250,511	16,484	1,266,995
Total	**$ 38,441,378**	$ 36,094,522	$ –	$ 36,094,522

	Impaired			
As at March 31 ($ thousands)	**2020**	2019 As previously reported	2019 Reclassification	2019 Reclassified
Ontario	**$ 43,992**	$ 45,788	$ (1,958)	$ 43,830
Alberta and British Columbia	**81,024**	59,215	(423)	58,792
Saskatchewan	**68,315**	33,686	(1,186)	32,500
Quebec	**23,721**	13,950	1,956	15,906
Manitoba	**15,499**	11,286	1,610	12,896
Atlantic	**62,129**	28,184	1	28,185
Total	**$ 294,680**	$ 192,109	$ –	$ 192,109

(1) The information presented in the table has been reclassified to present geographic distribution using the customer's location instead of FCC's office location, as it better reflects the representation of the geographical areas.

7. Finance leases receivable – net

As at March 31 ($ thousands)		2020		2019[1]
Total minimum finance lease payments receivable				
Less than 1 year	**$**	**20,896**	$	11,461
From 1 – 2 years		**19,358**		5,511
From 2 – 3 years		**19,357**		3,237
From 3 – 4 years		**16,157**		1,270
From 4 – 5 years		**35,967**		428
Over 5 years		**1,694**		–
Finance leases receivable – gross		**113,429**		21,907
Unearned finance income		**(13,631)**		(1,736)
Allowance for credit losses (Note 8)		**(54)**		(23)
Finance leases receivable – net	**$**	**99,744**	$	20,148

[1] Reported under IAS 17 – Leases

All lease arrangements after April 1, 2019 have been recorded as finance leases.

The discounted unguaranteed residual value for finance leases is $18.1 million (2019 – $2.9 million). FCC retains as collateral a security interest in the equipment associated with finance leases. The maximum term for finance leases receivable is six years for select equipment.

8. Allowance for credit losses

As at March 31 ($ thousands)	2020			
	Stage 1	Stage 2	Stage 3	Total
Loans receivable[1]				
Allowance for credit losses, beginning of year	$ 31,780	$ 115,402	$ 50,828	$ 198,010
Transfer to Stage 1	33,669	(32,976)	(693)	–
Transfer to Stage 2	(11,523)	39,075	(27,552)	–
Transfer to Stage 3	(107)	(17,208)	17,315	–
Changes due to new loans originated	25,376	12,573	34,997	72,946
Loans that have been derecognized during the period	(13,764)	(9,788)	(9,934)	(33,486)
Net remeasurement of loss allowance[2]	(36,411)	91,543	34,999	90,131
Writeoffs[3]	–	(2,529)	(29,757)	(32,286)
Recoveries of amounts previously written off	–	143	1,368	1,511
Losses covered under HILLRP	(2)	5	(278)	(275)
Changes to allowance model parameters[4]	(3,400)	(38,000)	–	(41,400)
Total allowance, end of year	**$ 25,618**	**$ 158,240**	**$ 71,293**	**$ 255,151**
Finance leases receivable				
Allowance for credit losses, beginning of year	$ 23	$ –	$ –	$ 23
Changes due to new finance leases originated	40	–	–	40
Finance leases that have been derecognized during the period	(3)	–	–	(3)
Net remeasurement of loss allowance[2]	(6)	–	–	(6)
Total allowance, end of year	**$ 54**	**$ –**	**$ –**	**$ 54**
Venture capital investments				
Allowance for credit losses, beginning of year	$ 552	$ –	$ 96	$ 648
Transfer to Stage 3	(56)	–	56	–
Changes due to venture capital investments originated	130	–	–	130
Venture capital investments that have been derecognized during the period	–	–	(96)	(96)
Net remeasurement of loss allowance[2]	(35)	–	3,847	3,812
Total allowance, end of year	**$ 591**	**$ –**	**$ 3,903**	**$ 4,494**

(1) Included within the loans receivable total there is $3.5 million of allowance for credit losses on loan commitments that have not been partially drawn at March 31, 2020.

(2) Includes partial repayments.

(3) FCC is not actively continuing to pursue collection on any loans that have been written off.

(4) During 2019-20, FCC updated its allowance models to implement new PD segments (decrease of $43.9 million), to address the gap between FCC's current default definition and the industry standard definition (increase of $21.0 million) and to improve how the impact of forward looking information is captured in the allowance (net decrease of $18.5 million). These changes resulted in a net decrease of $41.4 million to the allowance and are being made prospectively.

8. Allowance for credit losses (continued)

As at March 31 ($ thousands)	2019			
	Stage 1	Stage 2	Stage 3	Total
Loans receivable[1]				
Allowance for credit losses, beginning of year	$ 29,040	$ 70,799	$ 38,889	$ 138,728
Transfer to Stage 1	15,433	(15,349)	(84)	–
Transfer to Stage 2	(4,813)	8,352	(3,539)	–
Transfer to Stage 3	(84)	(2,584)	2,668	–
Changes due to new loans originated	19,289	43,444	2,034	64,767
Loans that have been derecognized during the period	(4,664)	(8,094)	(7,407)	(20,165)
Net remeasurement of loss allowance[2]	(22,403)	18,948	66,544	63,089
Writeoffs[3]	(1)	(633)	(50,498)	(51,132)
Recoveries of amounts previously written off	–	486	2,744	3,230
Losses covered under HILLRP	(17)	33	(523)	(507)
Total allowance, end of year	$ 31,780	$ 115,402	$ 50,828	$ 198,010
Finance leases receivable				
Allowance for credit losses, beginning of year	$ 58	$ –	$ –	$ 58
Changes due to new finance leases originated	16	–	–	16
Finance leases that have been derecognized during the period	(16)	–	–	(16)
Net remeasurement of loss allowance[2]	(35)	–	–	(35)
Total allowance, end of year	$ 23	$ –	$ –	$ 23
Venture capital investments				
Allowance for credit losses, beginning of year	$ 957	$ –	$ –	$ 957
Changes due to venture capital investments originated	–	–	96	96
Net remeasurement of loss allowance[2]	(405)	–	–	(405)
Total allowance, end of year	$ 552	$ –	$ 96	$ 648

[1] Included within the loans receivable total there is an $11.2 million allowance for credit losses on loan commitments that have not been partially drawn at March 31, 2019.
[2] Includes partial repayments.
[3] FCC is not actively continuing to pursue collection on any loans that have been written off.

FCC has reclassified certain comparative figures in the allowance for credit losses continuity table above to align to common practice in the industry and to conform to the current year's presentation. The impacts as at March 31, 2019, are as follows:

- There was a $12.7 million increase to the amount transferred to Stage 1. Transfers to Stage 2 and Stage 3 decreased by $26.0 million and $58.9 million, respectively.
- FCC increased the amount recorded for loan origination in Stage 1 by $2.3 million and Stage 3 by $1.0 million.
- The balance of loans derecognized decreased by $2.1 million in Stage 2 and $3.0 million in Stage 3.
- The amount recorded to net remeasurement of allowance in Stage 1 decreased by $15.0 million. Balances increased in Stage 2 by $28.0 million and Stage 3 by $60.9 million.

9. Venture capital investments – net

As at March 31, 2020, FCC had $83.0 million (2019 – $70.6 million) in net venture capital investments, of which $80.3 million (2019 – $70.2 million) was carried in net debt investments and $2.7 million (2019 – $0.4 million) was carried in equity investments. Of the net debt investments, $17.6 million (2019 – $0.7 million) is due to FCC within one year and $62.7 million (2019 – $69.6 million) is due between one and five years. As at March 31, 2020, the allowance for credit losses on venture capital debt investments is $4.5 million (2019 – $0.6 million). Venture capital investments are made in the agribusiness and agri-food sector.

The venture capital investment portfolio exposes FCC to credit risk. Venture capital investments are typically secured by a general security agreement, assignment of life insurance proceeds and personal guarantees. As at March 31, 2020, there were no venture capital debt investments past due (2019 – $nil).

10. Post-employment benefits

Financial position of benefit plans

FCC measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at March 31 of each year.

The amounts recognized in the Consolidated Balance Sheet are as follows:

	Registered pension plan	
As at March 31 ($ thousands)	**2020**	2019
Present value of funded defined benefit obligations	**$ (762,840)**	$ (833,187)
Fair value of plan assets	**941,238**	922,078
Net asset for defined benefit obligations	**$ 178,398**	$ 88,891

	Supplemental pension plans	
As at March 31 ($ thousands)	**2020**	2019
Present value of funded defined benefit obligations	**$ (76,417)**	$ (88,358)
Fair value of plan assets	**48,349**	51,287
Funded status	**(28,068)**	(37,071)
Present value of unfunded defined benefit obligations	**(13,533)**	(14,794)
Net liability for defined benefit obligations	**$ (41,601)**	$ (51,865)

	Other benefits	
As at March 31 ($ thousands)	**2020**	2019
Present value of unfunded defined benefit obligations	**$ (107,093)**	$ (113,340)
Net liability for defined benefit obligations	**$ (107,093)**	$ (113,340)

The total net asset for defined benefit obligations is $178.4 million (2019 – $88.9 million). This amount is recorded on the Consolidated Balance Sheet as post-employment benefit assets. The total net liability for defined benefit obligations is $148.7 million (2019 – $165.2 million). This amount is recorded on the Consolidated Balance Sheet as post-employment benefit liabilities.

10. Post-employment benefits (continued)

Movements in the present value of the defined benefit obligation

	Registered pension plan		Supplemental pension plans		Other benefits	
As at March 31 ($ thousands)	**2020**	2019	**2020**	2019	**2020**	2019
Defined benefit obligation, beginning of year	**$ 833,187**	$ 769,544	**$ 103,152**	$ 94,092	**$ 113,340**	$ 100,029
Current service cost	**24,765**	23,983	**2,477**	2,232	**7,612**	7,053
Interest cost on the defined benefit obligation	**29,017**	27,609	**3,569**	3,348	**4,096**	3,731
Contributions by employees	**8,794**	8,625	**694**	629	**–**	–
Benefits paid	**(17,835)**	(18,032)	**(2,073)**	(1,966)	**(971)**	(895)
Experience adjustments on plan liabilities	**(1,137)**	4,930	**1,909**	2,869	**(85)**	(59)
Actuarial (gain) loss from changes in liability assumptions	**(113,951)**	16,528	**(19,778)**	1,948	**(16,899)**	3,481
Defined benefit obligation, end of year	**$ 762,840**	$ 833,187	**$ 89,950**	$ 103,152	**$ 107,093**	$ 113,340

The duration of the registered pension plan's defined benefit obligation is 18 years (2019 – 20 years). The duration of the supplemental pension plan's defined benefit obligation is 19 years (2019 – 20 years). The duration of the other benefit plan's defined benefit obligation is 26 years (2019 – 26 years).

Movements in the fair value of plan assets

	Registered pension plan		Supplemental pension plans		Other benefits	
As at March 31 ($ thousands)	**2020**	2019	**2020**	2019	**2020**	2019
Fair value of plan assets, beginning of year	**$ 922,078**	$ 819,800	**$ 51,287**	$ 48,840	**$ –**	$ –
Interest income on plan assets	**31,650**	29,045	**1,870**	1,709	**–**	–
Return on plan assets (less) greater than the discount rate	**(30,118)**	53,110	**(12,248)**	744	**–**	–
Contributions by FCC	**27,423**	30,194	**8,838**	1,354	**971**	895
Contributions by employees	**8,794**	8,625	**694**	629	**–**	–
Benefits paid	**(17,835)**	(18,032)	**(2,073)**	(1,966)	**(971)**	(895)
Plan administration costs	**(754)**	(664)	**(19)**	(23)	**–**	–
Fair value of plan assets, end of year	**$ 941,238**	$ 922,078	**$ 48,349**	$ 51,287	**$ –**	$ –

10. Post-employment benefits (continued)

Defined benefit costs recognized in net income

For the year ended March 31 ($ thousands)	Registered pension plan 2020	Registered pension plan 2019	Supplemental pension plans 2020	Supplemental pension plans 2019	Other benefits 2020	Other benefits 2019	Total 2020	Total 2019
Current service cost	**$ 24,765**	$ 23,983	**$ 2,477**	$ 2,232	**$ 7,612**	$ 7,053	**$ 34,854**	$ 33,268
Net interest	**(2,633)**	(1,436)	**1,699**	1,639	**4,096**	3,731	**3,162**	3,934
Plan administration costs	**754**	664	**19**	23	**–**	–	**773**	687
	$ 22,886	$ 23,211	**$ 4,195**	$ 3,894	**$ 11,708**	$ 10,784	**$ 38,789**	$ 37,889

Defined benefit costs recognized in OCI

For the year ended March 31 ($ thousands)	Registered pension plan 2020	Registered pension plan 2019	Supplemental pension plans 2020	Supplemental pension plans 2019	Other benefits 2020	Other benefits 2019	Total 2020	Total 2019
Experience adjustments on plan liabilities	**$ 1,137**	$ (4,930)	**$ (1,909)**	$ (2,869)	**$ 85**	$ 59	**$ (687)**	$ (7,740)
Return on plan assets (less) greater than the discount rate	**(30,118)**	53,110	**(12,248)**	744	**–**	–	**(42,366)**	53,854
Actuarial gain (loss) from changes in liability assumptions	**113,951**	(16,528)	**19,778**	(1,948)	**16,899**	(3,481)	**150,628**	(21,957)
Remeasurement gain (loss)	**$ 84,970**	$ 31,652	**$ 5,621**	(4,073)	**$ 16,984**	$ (3,422)	**$107,575**	$ 24,157

The cumulative net remeasurement gains recognized in OCI as at March 31, 2020, were $60.8 million (2019 – $46.8 million losses).

Plan assets

The percentages of plan assets by asset type based on market values at the most recent actuarial valuation are as follows:

As at March 31	Registered pension plan 2020	Registered pension plan 2019	Supplemental pension plans 2020	Supplemental pension plans 2019
Debt securities	**42.4%**	40.4%	**–**	–
Equity securities	**36.7%**	39.8%	**100.0%**	100.0%
Real estate	**15.9%**	14.7%	**–**	–
Infrastructure	**4.9%**	4.8%	**–**	–
Cash	**0.1%**	0.3%	**–**	–
	100.0%	100.0%	**100.0%**	100.0%

10. Post-employment benefits (continued)

Significant assumptions

The significant assumptions used are as follows (weighted-average):

	Registered pension plan		Supplemental pension plans		Other benefits	
As at March 31	**2020**	2019	**2020**	2019	**2020**	2019
Defined benefit obligation						
Discount rate	**4.00%**	3.40%	**4.00%**	3.40%	**4.00%**	3.40%
Rate of compensation increase	**3.25%**	4.00%	**3.25%**	4.00%	**4.00%**	4.00%
Consumer price index	**2.00%**	2.00%	**2.00%**	2.00%	**–**	–
Defined benefit costs						
Discount rate	**3.40%**	3.50%	**3.40%**	3.50%	**3.40%**	3.50%
Consumer price index	**2.00%**	2.00%	**2.00%**	2.00%	**–**	–

At March 31, 2020 and 2019, the mortality assumption for the defined benefit obligation is based on the 2014 Public Sector Mortality publication and Canadian Pensioners Mortality Improvement Scale B, with pension size adjustment factors for males of 0.87 and for females of 0.99. As at March 31, 2020 and 2019, the average life expectancy of an individual retiring at age 65 is 24 years for males and 25 years for females.

Assumed health care cost trend rates are as follows:

As at March 31	**2020**	2019
Extended health care and dental care cost escalation		
Initial rate	**7.00%**	7.25%
Ultimate rate	**4.50%**	4.50%
Year ultimate rate reached	**2030**	2030

Sensitivity analysis

The impact of changing the key weighted-average economic assumptions used in measuring the defined benefit obligation is as follows:

As at March 31 ($ thousands)		**2020**	
Increase (decrease) defined benefit obligation	**Registered pension plan**	**Supplemental pension plans**	**Other benefits**
1% increase in discount rate	**$ (124,601)**	**$ (14,103)**	**$ (23,882)**
1% decrease in discount rate	**163,966**	**17,039**	**33,840**
0.25% increase in rate of compensation increase	**5,224**	**1,619**	**97**
0.25% decrease in rate of compensation increase	**(5,624)**	**(2,221)**	**(95)**
1% increase in consumer price index	**118,157**	**13,108**	**–**
1% decrease in consumer price index	**(96,297)**	**(11,595)**	**–**
One year increase in expected lifetime of plan participants	**16,643**	**1,144**	**3,522**
1% increase in assumed overall health care cost trend rates	**–**	**–**	**30,110**
1% decrease in assumed overall health care cost trend rates	**–**	**–**	**(21,801)**

10. Post-employment benefits (continued)

Defined contribution pension plans

The cost of the defined contribution pension plans is recorded based on the contributions in the current year and is included in salaries and benefits. For the year ended March 31, 2020, the expense was $9.9 million (2019 – $8.5 million).

Total cash payments

Total cash payments for post-employment benefits, consisting of cash contributed by FCC to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its defined contribution pension plan, were $47.8 million (2019 – $41.2 million).

Total cash payments for post-employment benefits for 2021, as described in the preceding paragraph, are anticipated to be approximately $46.5 million.

11. Equipment and leasehold improvements

($ thousands)	Leasehold improvements	Office equipment and and furniture	Computer equipment	Total
Cost				
Balance as at March 31, 2018	$ 56,680	$ 27,658	$ 18,720	$ 103,058
Additions	6,584	2,178	1,638	10,400
Disposals	(649)	(935)	(426)	(2,010)
Balance as at March 31, 2019	62,615	28,901	19,932	111,448
Additions	6,710	602	2,139	9,451
Disposals	(682)	(865)	(6,419)	(7,966)
Balance as at March 31, 2020	**$ 68,643**	**$ 28,638**	**$ 15,652**	**$ 112,933**
Accumulated depreciation				
Balance as at March 31, 2018	$ 42,466	$ 25,000	$ 11,079	$ 78,545
Depreciation	3,351	1,331	4,154	8,836
Disposals	(649)	(935)	(419)	(2,003)
Balance as at March 31, 2019	45,168	25,396	14,814	85,378
Depreciation	3,642	1,242	3,785	8,669
Disposals	(682)	(865)	(6,414)	(7,961)
Balance as at March 31, 2020	**$ 48,128**	**$ 25,773**	**$ 12,185**	**$ 86,086**
Carrying value				
March 31, 2019	$ 17,447	$ 3,505	$ 5,118	$ 26,070
March 31, 2020	**20,515**	**2,865**	**3,467**	**26,847**

12. Computer software

($ thousands)	Internally developed	Purchased	Total
Cost			
Balance as at March 31, 2018	$ 143,769	$ 12,398	$ 156,167
Additions	9,368	341	9,709
Disposals	(32,472)	(2,668)	(35,140)
Balance as at March 31, 2019	120,665	10,071	130,736
Additions	11,672	273	11,945
Disposals	(26,191)	(2,143)	(28,334)
Balance as at March 31, 2020	**$ 106,146**	**$ 8,201**	**$ 114,347**
Accumulated amortization			
Balance as at March 31, 2018	$ 112,065	10,651	122,716
Amortization	9,653	793	10,446
Disposals	(32,472)	(2,668)	(35,140)
Balance as at March 31, 2019	89,246	8,776	98,022
Amortization	12,125	992	13,117
Disposals	(26,185)	(2,143)	(28,328)
Balance as at March 31, 2020	**$ 75,186**	**$ 7,625**	**$ 82,811**
Carrying value			
March 31, 2019	$ 31,419	$ 1,295	$ 32,714
March 31, 2020	**30,960**	**576**	**31,536**

Research and development costs related to internally developed computer software in the amount of $3.5 million (2019 – $11.5 million) have been included within facilities, software and equipment expenses.

13. Equipment under operating leases

($ thousands)	
Cost	
Balance as at March 31, 2018	$ 149,152
Additions	55,361
Disposals	(38,981)
Balance as at March 31, 2019	165,532
Additions	–
Disposals	(35,541)
Balance as at March 31, 2020	**$ 129,991**
Accumulated depreciation	
Balance as at March 31, 2018	$ 38,482
Depreciation	25,065
Disposals	(19,511)
Balance as at March 31, 2019	44,036
Depreciation	22,644
Disposals	(16,916)
Balance as at March 31, 2020	**$ 49,764**
Carrying value	
March 31, 2019	$ 121,496
March 31, 2020	**80,227**

14. Right-of-use assets

FCC's lease portfolio consists of office space.

($ thousands)		Buildings
Cost		
Balance as at April 1, 2019	$	180,740
Additions		15,441
Disposals		(719)
Balance as at March 31, 2020	**$**	**195,462**
Accumulated depreciation		
Balance as at April 1, 2019	$	–
Depreciation		15,343
Disposals		(1)
Balance as at March 31, 2020	**$**	**15,342**
Carrying value		
April 1, 2019	$	180,740
March 31, 2020		**180,120**

15. Other assets

As at March 31 ($ thousands)		2020		2019
Insurance reserve assets	**$**	**13,609**	$	13,155
Real estate property held for sale		**363**		264
	$	**13,972**	$	13,419

16. Borrowings

Short-term debt

As at March 31 ($ thousands)		2020		2019
Government of Canada debt				
Floating-rate borrowings	**$**	**2,990,733**	$	4,288,036
Fixed-rate borrowings		**6,417,486**		4,996,874
		9,408,219		9,284,910
Capital markets debt				
USD fixed-rate promissory notes[1]		**525,385**		509,324
Retail and institutional fixed-rate notes		**18,716**		–
		544,101		509,324
	$	**9,952,320**	$	9,794,234

[1] $370.1 million USD (2019 – $380.6 million USD)

16. Borrowings (continued)

Short-term debt by maturity date

As at March 31 ($ thousands)	2020				
	Government of Canada		**Capital markets**		
	Carrying value	**Yield**	**Carrying value**	**Yield**	**Total**
From 0 – 3 months	**$ 2,353,856**	**1.46%**	**$ 525,385**	**1.25%**	**$ 2,879,241**
From 4 – 6 months	**1,865,604**	**1.30%**	**–**	**–**	**1,865,604**
From 7 – 9 months	**2,949,562**	**1.20%**	**18,716**	**4.32%**	**2,968,278**
From 10 – 12 months	**2,239,197**	**1.13%**	**–**	**–**	**2,239,197**
	$ 9,408,219		**$ 544,101**		**$ 9,952,320**

As at March 31 ($ thousands)	2019				
	Government of Canada		Capital markets		
	Carrying value	Yield	Carrying value	Yield	Total
From 0 – 3 months	$ 2,100,526	1.50%	$ 509,324	1.69%	$ 2,609,850
From 4 – 6 months	2,394,447	1.60%	–	–	2,394,447
From 7 – 9 months	3,036,191	1.59%	–	–	3,036,191
From 10 – 12 months	1,753,746	1.62%	–	–	1,753,746
	$ 9,284,910		$ 509,324		$ 9,794,234

Short-term debt continuity

As at March 31 ($ thousands)	**2020**	2019
Short-term debt, beginning of year	**$ 9,794,234**	$ 10,919,146
Financing cash flows		
Debt issued	**9,783,591**	10,642,664
Debt repaid	**(10,154,089)**	(11,102,387)
Non-cash changes		
Change in short-term portion of long-term debt	**525,942**	(675,492)
Debt transacted, not settled	**–**	–
Change in interest accrual	**(7,113)**	9,205
Change due to unrealized foreign exchange loss	**9,755**	1,098
Short-term debt, end of year	**$ 9,952,320**	$ 9,794,234

FCC has a demand operating line of credit, which provides overdraft protection in the amount of $30.0 million (2019 – $30.0 million). Indebtedness under this agreement is unsecured and this credit facility does not expire. Any draws made throughout the year on this credit facility are reversed the next day. As at March 31, 2020, there were no draws on this credit facility (2019 – $nil).

16. Borrowings (continued)

Long-term debt

As at March 31 ($ thousands)	2020	2019
Government of Canada debt		
Floating-rate borrowings	**$ 13,212,981**	$ 13,860,914
Fixed-rate borrowings	**10,105,409**	6,780,921
	23,318,390	20,641,835
Capital markets debt		
Retail and institutional fixed-rate notes	**289,051**	308,240
	$ 23,607,441	$ 20,950,075

Long-term debt by maturity date

As at March 31 ($ thousands)	2020				
	Government of Canada		Capital markets		
	Carrying value	Yield	Carrying value	Yield	Total
From 1 – 2 years	**$ 8,686,818**	**0.94%**	**$ 289,051**	**4.37%**	**$ 8,975,869**
From 2 – 3 years	**4,361,339**	**0.99%**	**–**	**–**	**4,361,339**
From 3 – 4 years	**2,687,590**	**0.98%**	**–**	**–**	**2,687,590**
From 4 – 5 years	**3,362,288**	**1.18%**	**–**	**–**	**3,362,288**
Over 5 years	**4,220,355**	**0.90%**	**–**	**–**	**4,220,355**
	$ 23,318,390		**$ 289,051**		**$ 23,607,441**

As at March 31 ($ thousands)	2019				
	Government of Canada		Capital markets		
	Carrying value	Yield	Carrying value	Yield	Total
From 1 – 2 years	$ 5,301,928	1.65%	$ 18,730	4.32%	$ 5,320,658
From 2 – 3 years	6,232,121	1.62%	289,510	4.37%	6,521,631
From 3 – 4 years	3,871,001	1.75%	–	–	3,871,001
From 4 – 5 years	2,432,559	1.71%	–	–	2,432,559
Over 5 years	2,804,226	1.77%	–	–	2,804,226
	$ 20,641,835		$ 308,240		$ 20,950,075

Long-term debt continuity

As at March 31 ($ thousands)	2020	2019
Long-term debt, beginning of year	**$ 20,950,075**	$ 17,980,195
Financing cash flows		
Debt issued	**9,770,000**	9,926,000
Debt repaid	**(6,598,796)**	(7,650,327)
Non-cash changes		
Change in short-term portion of long-term debt	**(525,942)**	675,492
Debt transacted, not settled	**–**	–
Change in interest accrual	**12,342**	18,287
Other	**(238)**	428
Long-term debt, end of year	**$ 23,607,441**	$ 20,950,075

17. Lease liabilities

FCC's lease portfolio consists of office space. Lease terms are negotiated on an individual basis and contain a range of terms and conditions. Lease terms[1] range from 1.2 to 20.0 years including optional renewal periods.

As at March 31 ($ thousands)		2020
Maturity analysis – contractual undiscounted cash flows		
Less than 1 year	**$**	**17,070**
From 1 – 5 years		**64,485**
Over 5 years		**120,375**
Total undiscounted lease liabilities	**$**	**201,930**
Lease liabilities on the balance sheet	**$**	**180,353**
Less: current portion of lease liabilities		**14,141**
Non-current portion of lease liabilities		**166,212**

Amounts recognized in net income

For the year ended March 31 ($ thousands)		2020
Interest on lease liabilities	**$**	**3,085**
Variable lease payments not included in the measurement of lease liabilities		**4,117**

Amounts recognized in the statement of cash flows

For the year ended March 31 ($ thousands)		2020
Interest on lease liabilities	**$**	**3,085**
Principal repayment of lease liabilities		**15,101**
Total cash outflow for leases	**$**	**18,186**

(1) Lease terms calculated from IFRS 16 – Leases adoption date of April 1, 2019.

Future cash flows for leases not commenced to which the lessee is committed are $8.7 million.

18. Other liabilities

As at March 31 ($ thousands)		2020		2019
Deferred revenues	**$**	**7,311**	$	9,957
Other		**670**		464
	$	**7,981**	$	10,421

19. Net interest income

For the year ended March 31 ($ thousands)		2020		2019
Interest income				
Financial assets measured at amortized cost	**$**	**1,707,405**	$	1,563,961
Operating leases		**25,769**		29,104
Transfer of net realized gains on derivatives designated as cash flow hedges from AOCI to net income		**21,780**		21,720
Finance leases		**2,980**		733
Total interest income for financial instruments not at FVTPL		**1,757,934**		1,615,518
Derivative financial assets and liabilities at FVTPL – net		**6,430**		6,816
Total interest income		**1,764,364**		1,622,334
Interest expense				
Financial liabilities measured at amortized cost		**542,510**		445,705
Interest on lease liabilities		**3,085**		–
Depreciation on equipment under operating leases		**22,101**		24,911
Total interest expense		**567,696**		470,616
Net interest income	**$**	**1,196,668**	$	1,151,718

The total net fee income that was recognized immediately in net interest income arising from financial assets and liabilities not measured at FVTPL was $4,802.9 thousand (2019 – $103.5 thousand expense).

20. Administration expenses

For the year ended March 31 ($ thousands)		2020		2019
Salaries	**$**	**200,171**	$	183,610
Benefits		**75,552**		71,813
Professional fees		**53,562**		50,869
Facilities, software and equipment		**52,374**		60,451
Amortization and depreciation		**37,133**		19,289
Travel and training		**15,405**		15,262
Marketing and promotion		**11,819**		11,789
Other		**12,816**		13,213
	$	**458,832**	$	426,296

21. Fair value adjustment

For the year ended March 31 ($ thousands)		2020		2019
Venture capital investments	**$**	**(287)**	$	(375)
Derivative financial assets and liabilities		**(4,470)**		(4,389)
	$	**(4,757)**	$	(4,764)

22. Fair value of financial instruments

Financial instruments carried at fair value

FCC follows a three-level fair value hierarchy to categorize the inputs used to measure fair value. Level 1 is based on quoted prices in active markets, Level 2 incorporates models using inputs other than quoted prices and Level 3 incorporates models using inputs that are not based on observable market data. Details of the valuation methodologies applied and assumptions used in determining fair value are provided in Note 2.

Valuation hierarchy

The following table categorizes the level of inputs used in the valuation of financial instruments carried at fair value:

As at March 31 ($ thousands)			**2020**			
		Level 2		**Level 3**		**Total**
Assets						
Derivative financial assets	**$**	**12,469**	**$**	**–**	**$**	**12,469**
Venture capital investments		**–**		**2,718**		**2,718**
	$	**12,469**	**$**	**2,718**	**$**	**15,187**
Liabilities						
Derivative financial liabilities	**$**	**535**	**$**	**–**	**$**	**535**
	$	**535**	**$**	**–**	**$**	**535**

As at March 31 ($ thousands)			2019			
		Level 2		Level 3		Total
Assets						
Derivative financial assets	$	16,459	$	–	$	16,459
Venture capital investments		–		355		355
	$	16,459	$	355	$	16,814
Liabilities						
Derivative financial liabilities	$	–	$	–	$	–
	$	–	$	–	$	–

Changes in valuation methods may result in transfers into or out of Levels 1, 2 and 3. For the year ended March 31, 2020, there were no transfers between levels (2019 – $nil).

Level 3 financial instruments

The following table summarizes the changes in the Level 3 valuation hierarchy for venture capital investments that occurred during the year:

As at March 31 ($ thousands)		**2020**		2019
Balance, beginning of year	**$**	**355**	$	730
Acquisitions		**2,650**		–
Net unrealized losses recognized in fair value adjustment		**(287)**		(375)
Balance, end of year	**$**	**2,718**	$	355

22. Fair value of financial instruments (continued)

Financial instruments not carried at fair value

The estimated fair value of FCC's financial instruments that do not approximate carrying values in the financial statements, using the methods and assumptions described below, are as follows:

As at March 31 ($ thousands)	**2020**		2019	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
Assets				
Cash equivalents	**$ 845,933**	**$ 845,921**	$ –	$ –
Short-term investments	**756,369**	**754,557**	435,601	432,422
Loans receivable	**38,158,149**	**38,923,158**	35,873,075	36,117,894
Finance leases receivable	**99,744**	**101,168**	20,148	20,047
Liabilities				
Long-term debt	**23,607,441**	**23,967,288**	20,950,075	21,024,962

Financial instruments not carried at fair value as noted in the above table use Level 2 and Level 3 inputs in determining estimated fair value.

The estimated fair value of cash equivalents and short-term investments is calculated by discounting contractual cash flows at interest rates prevailing at the reporting date for equivalent securities.

The estimated fair value for the performing fixed-rate loans receivable is calculated by discounting the expected future cash flows at year-end market interest rates for equivalent terms to maturity. The estimated fair value for the performing variable-rate loans receivable approximates the carrying value due to having fluctuating interest rates that directly correspond to changes in the prime interest rate, on which the fair value is based. The collective allowance for credit losses related to loans receivable is subtracted from the estimated fair value of the performing loans receivable. The estimated fair value of the impaired loans receivable is equal to its net realizable value, which is calculated by subtracting the individual allowance for credit losses from the book value of the impaired loans receivable.

The estimated fair value for the finance leases receivable is calculated by discounting the expected future cash flows at year-end market interest rates for equivalent terms to maturity. The collective allowance for credit losses related to finance leases is subtracted from the estimated fair value of the finance leases receivable.

The estimated fair value for long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity.

For all other financial instruments carried at amortized cost using the effective interest method, the carrying value approximates fair value due to the relatively short period to maturity of these instruments or because they are already at discounted values. This applies to FCC's accounts receivable, venture capital investments, other assets, accounts payable and accrued liabilities, short-term debt, transition loan liabilities and other liabilities, excluding the reserve for insurance claims.

23. Operating lease arrangements

Operating leases as a lessor

Operating leases consist of agricultural equipment leased to customers under non-cancellable operating lease agreements. The initial lease terms of operating leases range from two to six years.

The future minimum lease payments are receivable as follows:

As at March 31 ($ thousands)		2020		2019[1]
Amounts due				
Less than 1 year	**$**	**19,364**	$	37,488
From 1 – 2 years		**14,431**		18,763
From 2 – 3 years		**8,290**		13,217
From 3 – 4 years		**1,109**		7,440
From 4 – 5 years		**7**		867
Over 5 years		**–**		7
	$	**43,201**	$	77,782

[1] Reported under IAS 17 – Leases

24. Commitments, guarantees and contingent liabilities

Loan and lease commitments

As at March 31, 2020, loans approved but undisbursed amounted to $7,994.3 million (2019 – $7,988.6 million). These loans do not form part of the loans receivable balance until disbursed. As many of these loan approvals will expire or terminate without being drawn upon, the contract amounts do not necessarily represent future cash requirements. As at March 31, 2020, finance leases approved but undisbursed amounted to $5.6 million (2019 – $7.5 million). These leases do not form part of the finance leases receivable balances until disbursed. These commitments do not generate liquidity risk to FCC because it has sufficient funds available from the Government of Canada through the Crown Borrowing Program to meet its future cash requirements.

Investment in associates

As at March 31, 2020, FCC has committed to invest $13.5 million (2019 – $63.6 million) in investments in associates.

24. Commitments, guarantees and contingent liabilities (continued)

Operating commitments

Future minimum payments by fiscal year on software and other operating expenditure commitments are due as follows:

As at March 31 ($ thousands)		2020		2019
Amounts due				
Less than 1 year	**$**	**17,045**	$	22,303
From 1 – 5 years		**40,256**		51,370
Over 5 years		**62,305**		47,029
	$	**119,606**	$	120,702

Guarantees

In the normal course of its business, FCC issues guarantees in the form of letters of credit that represent an obligation to make payments to third parties on behalf of its customers if customers are unable to make the required payments or meet other contractual obligations. The maximum amount potentially payable as at March 31, 2020, is $9.2 million (2019 – $7.7 million). In the event of a call on these letters of credit, FCC has recourse in the form of security against its customers for amounts to be paid to the third party. Existing guarantees will expire within three years, usually without being drawn upon. As at March 31, 2020, an amount of $nil (2019 – $nil) was recorded for these letters of credit.

Contingent liabilities and provisions

Various legal proceedings arising from the normal course of business are pending against FCC. Management does not believe that liabilities arising from pending litigations will have a material adverse effect on the Consolidated Balance Sheet or the results of operations of FCC, therefore, no amount has been included in the consolidated financial statements as at March 31, 2020 (2019 – $nil) for these contingent liabilities.

In the normal course of operations, FCC enters into agreements that provide general indemnification. These indemnifications typically occur in service contracts and strategic alliance agreements and, in certain circumstances, may require that FCC compensates the counterparty to the agreement for various costs resulting from breaches of representations or obligations. FCC also indemnifies directors, officers and employees, to the extent permitted by law and FCC's governing legislation, against certain claims that may be made against them as a result of their being directors, officers or employees. The terms of these indemnifications vary, therefore FCC is unable to determine a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, FCC has not made any payments under such indemnifications and contingencies. No amount has been included in the consolidated financial statements as at March 31, 2020 (2019 – $nil) for these indemnifications and contingencies.

25. Related party transactions

FCC is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations.

FCC is related to Avrio Subordinated Debt Fund II and Avrio Subordinated Debt Fund III. They are limited partnerships for which FCC holds 99% (2019 – 99%) of the partnership units. The Avrio Subordinated Debt Funds are consolidated as described in Note 2. All transactions between FCC and the Avrio Subordinated Debt Funds have been eliminated on consolidation and, as such, are not disclosed as related party transactions.

FCC is related to the equity funds, which are venture capital limited partnerships where FCC exerts significant influence over operating, investing and financing decisions.

Other related parties of FCC are key management personnel, close family members of key management personnel and entities that are controlled, significantly influenced by, or for which significant voting power is held by key management personnel or their close family members, and post-employment benefit plans for the benefit of FCC's employees.

Transactions with these entities were entered into in the normal course of business and are measured according to the relevant IFRS standard applicable to the transaction.

Transactions with the Government of Canada

The Government of Canada guarantees the borrowings of FCC.

FCC enters into short and long-term borrowings with the Government of Canada through the Crown Borrowing Program. For the year ended March 31, 2020, $512.8 million (2019 – $414.8 million) was recorded in interest expense relating to these borrowings.

FCC receives government assistance from the HILLRP to share the credit losses on certain loans with the Government of Canada. The government assistance is recorded as either an increase or decrease to the provision for credit losses. For the year ended March 31, 2020, the decrease recorded to the provision for credit losses was $0.1 million (2019 – $0.5 million). The amount estimated to be returned to the Government of Canada is $19.8 million (2019 – $26.4 million) and is included in borrowings.

At the discretion of the Board of Directors, FCC will pay a dividend to the Government of Canada on an annual basis, as detailed in Note 26.

On March 30, 2020, the Government of Canada provided FCC with a capital contribution in the amount of $500.0 million for COVID-19 related industry support programs. This amount was recorded in contributed capital.

25. Related party transactions (continued)

Key management personnel compensation

Key management personnel include directors and members of the Enterprise Management Team. Close family members of key management personnel are considered related parties and have been included in the amounts disclosed below.

The compensation paid by FCC during the year to key management personnel for services rendered is shown below:

For the year ended March 31 ($ thousands)		**2020**		2019
Salaries and other short-term employee benefits	**$**	**3,932**	$	3,818
Post-employment benefits		**942**		1,150
Board retainer and per diems		**204**		194
Total	**$**	**5,078**	$	5,162

Transactions with key management personnel

All transactions with key management personnel are with directors and entities related to those directors. The terms and conditions of the transactions with key management personnel were no more favourable than those available on similar transactions with other customers.

Loans to key management personnel outstanding as at March 31, 2020 were $nil (2019 – $30.3 million). The maximum balance outstanding on these loans during the year ended March 31, 2020, was $nil (2019 – $31.4 million). The weighted-average interest rate on the loans to key management personnel outstanding as at March 31, 2020 was nil% (2019 – 4.6%).

The loans to key management personnel are secured under similar conditions as transactions with other customers and the key management personnel entering into these transactions were subject to the same credit assessment process applied to all customers. There are no Stage 3 allowances established as at March 31, 2020, for the loans made to key management personnel (2019 – $nil).

FCC does not have undrawn credit commitments with key management personnel as at March 31, 2020 (2019 – $0.1 million).

Transactions with post-employment benefit plans

During the year, $179 thousand was received from the defined benefit pension plan (2019 – $170 thousand) for administrative services and was recorded in salaries and benefits.

26. Capital management

FCC manages capital in compliance with its Board approved Capital Management Policy. The Capital Management Policy and supporting framework outline FCC's approach to assessing capital requirements for risks identified through its enterprise risk management framework and policy. The objective of the Capital Management Policy and supporting framework is to maintain a sound capital position to withstand economic downturn and periods of extended loss, and to support FCC's strategic direction. This will allow FCC to continue to serve the industry through all economic cycles.

Although not formally regulated, FCC manages its capital using a total capital ratio, dividing total capital by risk-weighted assets, as defined by the Capital Adequacy Requirements (CAR) guideline issued by the Office of the Superintendent of Financial Institutions (OSFI). This total capital ratio is then compared to the minimum capital requirements established by the CAR and FCC's target capital ratio established through its Internal Capital Adequacy Assessment Process.

FCC's total capital consists of retained earnings, contributed capital, and AOCI, and is net of required regulatory adjustments as outlined in the CAR guideline. Applicable adjustments include the exclusion of computer software, accumulated gains or losses on derivatives designated as cash flow hedges and post-employment benefit assets. All of FCC's capital is considered Common Equity Tier 1 (CET1) capital, therefore total capital and CET1 capital are equivalent.

As at March 31, 2020 and 2019, FCC's total capital ratio was greater than both the minimum regulatory capital ratio and the target capital ratio, and therefore in compliance with OSFI's CAR guideline and FCC's Internal Capital Adequacy Assessment Process.

As at March 31 ($ thousands)	**2020**	2019
Capital		
Retained earnings	**$ 6,731,232**	$ 6,202,132
Contributed capital	**500,000**	183,725
AOCI	**21,237**	43,017
Required regulatory adjustments:		
Accumulated net gains on derivatives designated as cash flow hedges	**(21,237)**	(43,017)
Computer software	**(31,536)**	(32,714)
Post-employment benefit assets	**(178,398)**	(88,891)
CET1/Total capital	**$ 7,021,298**	$ 6,264,252
Risk-weighted assets		
Credit risk-weighted assets	**$ 39,777,862**	$ 37,128,123
Operational risk-weighted assets	**2,110,651**	2,002,093
Total risk-weighted assets	**$ 41,888,513**	$ 39,130,216
Total capital ratio	**16.8%**	16.0%
Target capital ratio	**15.0%**	15.0%
Minimum regulatory capital ratio	**10.5%**	10.5%

26. Capital management (continued)

Debt to equity

FCC's only statutory limit, as prescribed by the Farm Credit Canada Act, requires that FCC's total direct and contingent liabilities not exceed 12 times equity. As at March 31, 2020, FCC's total direct and contingent liabilities were 4.73 times the shareholder's equity excluding AOCI (2019 – 4.88 times the shareholder's equity, excluding AOCI).

Contributed capital

FCC's contributed capital consists of capital contributions made by the Government of Canada, net of the March 31, 1998, reallocation of $660.6 million to eliminate FCC's accumulated deficit. As noted below, $183.7 million of the dividend was paid during the year to eliminate the contributed capital. Subsequently, as noted in Note 25, a capital payment was received on March 30, 2020 as part of the Government of Canada's COVID-19 pandemic response bringing the contributed capital balance to $500.0 million at March 31, 2020 (2019 – $183.7 million).

Dividend

On August 21, 2019, the Board declared a dividend for the year ended March 31, 2019, in the amount of $394.8 million to FCC's shareholder, the Government of Canada, of which $183.7 million was paid out of contributed capital and $211.1 million out of retained earnings, on September 20, 2019 (2019 – $364.0 million was paid out of contributed capital for the year ended March 31, 2018).

27. Risk management

Financial risk management

FCC has identified the major categories of financial risk to which it is exposed as credit risk, market risk and liquidity risk.

a) Credit risk

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet financial obligations to FCC. Credit risk on loans and leases receivable is the most significant risk that FCC faces, although credit risk also exists on investments and derivative financial instruments.

Management of credit risk

The Board is responsible for approving FCC's Credit Risk Management Policy and relies on a number of committees, divisions and business units to effectively manage credit risk.

27. Risk management (continued)

Measurement of credit risk

The Risk Management division assesses credit risk at the aggregate level, providing detailed credit policies, assessment tools and models that quantify credit risk, allowance for credit losses and capital requirements. It also monitors the agriculture and agri-food operating environments to ensure FCC's lending policies, activities and prices are appropriate and relevant.

Policies, processes, systems and strategies are used to manage the credit risk of FCC's portfolio. Each year, Risk Management develops a comprehensive portfolio vision to set numeric risk metrics for many of these tools, models and strategies.

Significant research, modelling, validation and interpretation are used to develop the risk metrics for each tool as follows:

Impact of COVID-19 pandemic

At March 31, 2020, management performed an economic and portfolio assessment of each industry in its loan portfolio and assigned a rating of low, medium, or high depending on how susceptible FCC believed it is to impacts of the COVID-19 pandemic. All industries are susceptible to impacts of the pandemic to some extent: however, industries most at risk are likely to face cash flow issues as disruptions due to consumption changes, trade issues and labour shortages take effect. These impacts will result in an erosion of working capital that could make debt repayment more difficult. In addition, certain assets held as security are at a higher risk of being devalued in the current economic environment, particularly if a default were to occur. Within FCC's portfolio, this would impact industries differently depending on the nature of the security.

Due to the significant uncertainty surrounding the unprecedented COVID-19 pandemic's impact on the economy, significant judgment was used by management to determine its best estimate on the allowance for credit losses and actual results may differ materially from that recorded as at March 31, 2020.

Risk scoring and pricing system

The risk scoring and pricing system (RSPS) is used to rank risk for loans in FCC's portfolio. Risk ranking is based on customer, loan and sector characteristics, which model a risk score. Each score translates into a probability of default. The higher the score, the lower the probability of default. RSPS is also used to price loans. RSPS scores are based on inputs that are categorized under four main themes:

- customer credit rating and historical payment performance
- customer financial ratios
- customer business experience
- customer primary sector

RSPS weights each characteristic differently to arrive at the final RSPS score. These weightings are based on FCC's historical experience and are set with the objective to maximize the system's ability to predict probability of default.

27. Risk management (continued)

Allowance for credit losses model

The allowance for credit losses model estimates expected losses in the portfolio due to credit risk. In determining the allowance for credit losses, management segregates credit losses into three stages, as described in Note 2.

For all stages of the allowance for credit losses model, the model considers the collateral position as well as customer, loan and collateral characteristics, to estimate the appropriate amount of allowance.

Key macroeconomic variables

The measurement of expected credit losses for each stage of the allowance for credit losses and the assessment of SICR considers information about reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

The allowance for credit losses on performing loans is sensitive to changes in both economic forecasts and the probability-weight assigned to each forecast scenario. Many of the factors have a high degree of interdependency and there is no single factor to which the allowance for credit losses on loans is sensitive.

The following table shows the primary macroeconomic variables used in the impairment model to estimate the allowance for credit losses on performing loans during the forecast period. The base case scenario is based on forecasts of the expected rate or yield for each of the macroeconomic variables identified below. Scenarios are set by adjusting expectations of agricultural output based on historically optimistic and pessimistic growth in Canadian farmland values.

	2020	
As at March 31	Next 12 months	2 to 5 years
Macroeconomic variables		
Real gross domestic product	(3.5%)	1.8%
Exchange rates	$ 0.70	$ 0.72
Interest rates		
- Bank	0.4%	1.1%
- 5-year	3.2%	4.5%

As at March 31, 2020, the impact of weighting the multiple scenarios increased FCC's allowance for credit losses on performing loans, relative to the base case scenario, by $1.6 million. The weighted scenarios are based on a combination of baseline, pessimistic and optimistic scenarios. As a result of the COVID-19 pandemic, the forward-looking base scenario was updated with a dampened outlook leveraging macroeconomic inputs from a pandemic scenario provided by industry. In addition, the probability weightings for the scenarios have shifted towards the pessimistic.

27. Risk management (continued)

If all of FCC's performing loans were in Stage 1, the impairment model would generate an allowance for credit losses on performing loans of approximately $151.4 million. If all of FCC's performing loans were in Stage 2, the impairment model would generate an allowance for credit losses on performing loans of approximately $206.7 million. The allowance for credit losses for all loans in Stage 1 and Stage 2 ranges from approximately $165.8 million to $187.1 million under the most optimistic and pessimistic scenarios. These values are components of FCC's weighted allowance calculation used for the financial statements.

Collateral

FCC mitigates its credit risk through collateral. FCC monitors the portfolio by reviewing the loan-to-security ratio, both on an overall portfolio basis and by sector. Upon initial recognition of a loan, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market prices or indexes of similar assets. The form of collateral obtained is generally real estate, quota or equipment, depending on the purpose of the loan. As at March 31, 2020, the collateral held against total gross impaired loans represents 75.3% (2019 – 73.2%) of total gross impaired loans.

Macro measures that demonstrate the health of the portfolio are as follows:

As at March 31	**2020**	2019
Weighted-average loan-to-security ratio for secured loans	**49.3%**	49.5%
Loans secured by a general security agreement and unsecured loans as a percentage of loans receivable	**5.3%**	4.6%

Loan commitments

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. FCC is potentially exposed to loss in an amount equal to the total unused commitments. See Note 24 for further details regarding FCC's loan commitments. To mitigate risk, unused commitments are included as input into FCC's capital requirement calculations.

27. Risk management (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements

As at March 31 ($ thousands)	2020	2019
On balance sheet		
Cash and cash equivalents	$ 1,724,503	$ 770,517
Short-term investments	756,369	435,601
Accounts receivable	24,834	26,614
Derivative financial assets	12,469	16,459
Loans receivable	38,441,378	36,094,522
Finance leases receivable	113,429	21,907
Investment in associates	39,499	69,909
Venture capital investments	83,004	70,602
Other assets	13,972	13,419
	41,209,457	37,519,550
Off balance sheet		
Financial guarantees	9,198	7,654
Loan and lease commitments	7,999,953	7,996,041
Operating lease receivable	43,201	77,782
Investment in associates commitments	13,535	63,598
Venture capital commitments	–	–
	8,065,887	8,145,075
Total maximum exposure to credit risk	$ 49,275,344	$ 45,664,625

The preceding table represents a worst-case scenario of credit risk exposure to FCC at the end of the year, without taking into account any collateral held or other credit enhancements attached. For on balance sheet assets, the exposure is based on carrying values as reported on the Consolidated Balance Sheet. For off balance sheet items, the exposure is based on the maximum amount that FCC would have to pay if the item was called upon.

27. Risk management (continued)

Exposure to credit risk by credit risk rating grades

As at March 31 ($ thousands)	FCC Risk Ratings	Stage 1	Stage 2	Stage 3	2020 Total
On balance sheet:					
Loans receivable					
Pass ratings 1[1]	1-3	$ 10,896,576	$ 1,056,193	$ –	$ 11,952,769
Pass ratings 2[1]	4-7	9,858,624	9,832,436	–	19,691,060
Watch list	8-11	1,136,656	3,489,185	–	4,625,841
Default	12	–	110,802	263,234	374,036
Unassigned credit risk rating[2]	n/a	1,232,481	505,500	31,613	1,769,594
Loans receivable – total		23,124,337	14,994,116	294,847	38,413,300
Allowance for credit losses		(25,618)	(158,240)	(71,293)	(255,151)
Loans receivable – net		$ 23,098,719	$ 14,835,876	$ 223,554	$ 38,158,149
Venture capital investments					
Low risk	n/a	$ 80,877	$ –	$ –	$ 80,877
Medium risk	n/a	–	–	–	–
High risk	n/a	–	–	3,903	3,903
Venture capital investments – gross		80,877	–	3,903	84,780
Allowance for credit losses		(591)	–	(3,903)	(4,494)
Venture capital investments – net		$ 80,286	$ –	$ –	$ 80,286
Off balance sheet:					
Loan commitments					
Pass ratings 1[1]	1-3	$ 2,141,208	$ 91,976	$ –	$ 2,233,184
Pass ratings 2[1]	4-7	1,511,883	919,568	–	2,431,451
Watch list	8-11	203,749	218,922	–	422,671
Default	12	–	7,478	4,408	11,886
Unassigned credit risk rating[2]	n/a	2,813,117	81,995	23	2,895,135
Loan commitments – gross[3]		$ 6,669,957	$ 1,319,939	$ 4,431	$ 7,994,327

(1) Classification is based on FCC's internal Borrowing Risk Rating system, which includes ratings for investment and speculative grade status.
(2) For these loans and loan commitments, expected credit losses are measured on a collective basis so individual loans and loan commitments are not assigned credit risk ratings.
(3) Allowance for loan commitments is included in the allowance for credit losses on loans receivable.

The preceding table provides the gross carrying amount of loans receivable, venture capital investments and loan commitments by credit risk rating grade and allowance stage and is based on FCC's internal credit risk ratings.

27. Risk management (continued)

Exposure to credit risk by credit risk rating grades

As at March 31 ($ thousands)	FCC Risk Ratings	Stage 1	Stage 2	Stage 3	2019 Total
On balance sheet:					
Loans receivable					
Pass ratings 1[1]	1-3	$ 12,004,239	$ 793,057	$ –	$ 12,797,296
Pass ratings 2[1]	4-7	9,594,581	7,617,143	–	17,211,724
Watch list	8-11	1,008,634	3,206,207	–	4,214,841
Default	12	–	83,854	169,134	252,988
Unassigned credit risk rating[2]	n/a	1,388,486	182,827	22,923	1,594,236
Loans receivable – total		23,995,940	11,883,088	192,057	36,071,085
Allowance for credit losses		(31,780)	(115,402)	(50,828)	(198,010)
Loans receivable – net		$ 23,964,160	$ 11,767,686	$ 141,229	$ 35,873,075
Venture capital investments					
Low risk	n/a	$ 65,305	$ –	$ –	$ 65,305
Medium risk	n/a	–	–	–	–
High risk	n/a	5,849	–	96	5,945
Venture capital investments – gross		71,154	–	96	71,250
Allowance for credit losses		(552)	–	(96)	(648)
Venture capital investments – net		$ 70,602	$ –	$ –	$ 70,602
Off balance sheet:					
Loan commitments					
Pass ratings 1[1]	1-3	$ 2,207,400	$ 64,866	$ –	$ 2,272,266
Pass ratings 2[1]	4-7	1,355,691	641,014	–	1,996,705
Watch list	8-11	143,866	408,286	–	552,152
Default	12	–	341	7,507	7,848
Unassigned credit risk rating[2]	n/a	3,111,843	39,402	8,366	3,159,611
Loan commitments – gross[3]		$ 6,818,800	$ 1,153,909	$ 15,873	$ 7,988,582

(1) Classification is based on FCC's internal Borrowing Risk Rating system, which includes ratings for investment and speculative grade status.
(2) For these loans and loan commitments, expected credit losses are measured on a collective basis so individual loans and loan commitments are not assigned credit risk ratings.
(3) Allowance for loan commitments is included in the allowance for credit losses on loans receivable.

The preceding table provides the gross carrying amount of loans receivable, venture capital investments and loan commitments by credit risk rating grade and allowance stage and is based on FCC's internal credit risk ratings.

27. Risk management (continued)

Loans receivable

Loans receivable past due but not credit-impaired

A loan is considered to be past due when a customer has not made a payment by the contractual due date and the amount owing is greater than $500. Loans less than 90 consecutive days past due are not considered credit-impaired, unless other information is available to the contrary. As well, loans past due are not considered credit-impaired if they are sufficiently secured and collection efforts are reasonably expected to result in full repayment. The longer the loan is past due and interest continues to accrue, the greater the risk the recoverable amount from the security value is less than the carrying value of the loan. Gross amounts of loans that were past due but not credit-impaired were as follows:

As at March 31 ($ thousands)	**2020**	2019
Past due but not credit-impaired		
Up to 30 days	**$ 594,823**	$ 184,317
31 – 60 days	**51,431**	76,628
61 – 89 days	**23,545**	29,878
90 days or more	**131,350**	114,488
	$ 801,149	$ 405,311

Counterparty credit risk – derivatives and short-term investments

Credit risk arises from the potential for a counterparty to default on a contractual obligation to FCC. To mitigate this risk, FCC complies with the guidelines issued by the Minister of Finance by entering into derivatives with counterparties of high credit quality only, as determined by the published ratings of external credit rating agencies.

In the normal course of business, FCC receives collateral on certain transactions to reduce its exposure to counterparty credit risk. FCC is normally permitted to sell, dispose, invest or re-pledge the collateral it receives under terms that are common and customary to standard derivative activities.

The counterparty derivative obligation may arise when market-related currency and interest factors change, resulting in unrealized gains to FCC. These unrealized gains result in positive fair values for these derivative financial instruments. FCC is not exposed to credit risk for the full notional amount of the derivative contracts, but only to the potential replacement cost if the counterparty defaults. Furthermore, standard credit mitigation via master netting agreements provided in the International Swap and Derivatives Association (ISDA) documentation provide for the simultaneous closeout and netting of positions with a counterparty in the event of default. The master netting arrangements do not meet the criteria for offsetting in the Consolidated Balance Sheet. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default of the counterparty. In addition, FCC and its counterparties do not intend to settle on a net basis or to realize the assets and settle liabilities simultaneously. Credit Support Annex (CSA) documentation is also in place with most of FCC's counterparties. These agreements are addendums to existing ISDA documentation, and further specify the conditions for providing FCC with collateral in the event the counterparty credit exposure exceeds an agreed threshold. For derivative transactions where a CSA is in place, the counterparty must have a minimum long-term credit rating of A- from two or more external credit rating agencies (S&P, Moody's or DBRS). See Note 5 for the quantification of counterparty credit risk.

27. Risk management (continued)

Short-term investments are permitted with government counterparties. These investments are limited to a term to maturity equal to or less than one year and must have a minimum long-term credit rating of A low/A3/A- from two or more external credit rating agencies. FCC also has cash equivalents that are permitted with schedule 1 and 2 banks. These investments are limited to a term to maturity equal to or less than 90 days and must have a minimum short-term credit rating of A1-/R1-low/P-1 from two or more external credit rating agencies. The actual credit ratings will determine the maximum face amount of investments per counterparty.

FCC reviews credit ratings and the financial performance of counterparties regularly and has controls in place to manage counterparty risk.

Credit quality

The following table presents the credit quality of FCC's cash equivalents and short-term investments as rated by S&P:

As at March 31 ($ thousands)	**2020**		2019	
	Cash equivalents	**Short-term investments**	Cash equivalents	Short-term investments
Government and government guaranteed				
AAA	**$ 216,852**	**$ 81,934**	$ –	$ 62,922
AA	**47,976**	**157,931**	–	–
AA-	**94,895**	**286,418**	–	74,700
A+	**169,587**	**230,086**	–	297,979
	529,310	**756,369**	–	435,601
Schedule 1 banks				
A-1+	**216,704**	**–**	–	–
A-1	**99,919**	**–**	–	–
	316,623	**–**	–	–
	$ 845,933	**$ 756,369**	$ –	$ 435,601

Venture capital debt investments

FCC is exposed to credit risk through its Avrio Subordinated Debt Fund investments. FCC manages credit risk through thoughtful planning, strict investment criteria, significant due diligence of investment opportunities and by conducting activities in accordance with each Fund's Limited Partnership Agreement. The investment managers monitor and report on the financial condition of investee companies regularly.

b) Market risk

Market risk is the potential for loss due to adverse changes in underlying market factors, such as interest rates and foreign exchange rates.

The Board is responsible for approving FCC's Market and Liquidity Risk Management Policy and relies on a number of committees, divisions and business units to effectively manage market risk. The market risk policies and limits ensure exposures to interest rate and foreign exchange risks are identified, measured, managed and reported on a timely basis. FCC's policies and processes are based on industry best practices and the Minister of Finance's Financial Risk Management Guidelines for Crown Corporations.

27. Risk management (continued)

Interest rate risk

Interest rate risk is the risk that a change in interest rates adversely affects FCC's net interest income and fair value measurements. Interest rate risk arises from interest rate mismatches between assets and liabilities and embedded options. Interest rate mismatches occur because of different maturity and repricing dates, residual assets funded by equity and different interest rate benchmarks for some assets and liabilities. Embedded options exist on fixed-rate loans that have principal deferral options, prepayment features and interest rate guarantees on loan commitments.

Exposure to interest rate risk is monitored primarily through an asset and liability model. Various scenarios are produced at least monthly to analyze the sensitivity of net interest income and fair values to a change in interest rates and balance sheet assumptions. The asset and liability model is back-tested and validated to ensure the logic and assumptions used in the model are reasonable when compared to actual results.

Interest rate risk management uses defined limits based on the projected impact of a 2% immediate and sustained change in the level and term structure of interest rates. The defined limit for the variability of net interest income is that, for the next 12-month period, net interest income should not decline by more than 5%. The second defined limit is that the economic value of equity (EVE) should not decline by more than 10% of the total equity (excluding AOCI) for a 2% change in interest rates. Based on FCC's financial position and assuming an immediate and sustained 2% change in interest rates occurs across all maturities and curves, net interest income and the EVE would be affected over the next 12 months as follows:

	2020 Impact of		2019 Impact of	
($ thousands)	**2% increase**	**2% decrease**	2% increase	2% decrease
Projected net interest income variability	**$ 41,700**	**$ (50,100)**	$ 14,400	$ (20,300)
Limit	**(64,500)**	**(64,500)**	(60,400)	(60,400)
EVE variability	**(325,000)**	**237,600**	(356,700)	316,700
Limit	**(723,123)**	**(723,123)**	(638,586)	(638,586)

27. Risk management (continued)

The following table summarizes FCC's interest rate risk based on the gap between the carrying value of assets, and liabilities and equity, grouped by the earlier of contractual repricing or maturity dates and interest rate sensitivity. In the normal course of business, loan customers frequently prepay their loans in part or in full before the contractual maturity date.

As at March 31 ($ thousands)	Immediately rate-sensitive	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest sensitive	Total 2020	2019
Assets								
Cash and cash equivalents	**$ 878,570**	**$ 845,933**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 1,724,503**	$ 770,517
Yield	**0.74%**	**–**	**–**	**–**	**–**	**–**	**–**	–
Short-term investments	**–**	**298,819**	**451,550**	**–**	**–**	**6,000**	**756,369**	435,601
Yield [(1)]	**–**	**1.23%**	**1.35%**	**–**	**–**	**–**	**–**	–
Derivative financial assets [(2) (3)]	**–**	**(237,994)**	**17,870**	**220,124**	**–**	**12,469**	**12,469**	16,459
Yield [(1)]	**–**	**1.80%**	**4.30%**	**4.56%**	**–**	**–**	–	–
Loans receivable	**15,412,459**	**2,317,974**	**4,598,653**	**13,406,992**	**2,264,069**	**158,002**	**38,158,149**	35,873,075
Yield [(1)]	**3.41%**	**4.38%**	**3.82%**	**4.10%**	**4.35%**	**–**	**–**	–
Finance leases receivable	**–**	**5,355**	**16,431**	**77,958**	**–**	**–**	**99,744**	20,148
Yield [(1)]	**–**	**4.50%**	**4.50%**	**4.50%**	**–**	**–**	**–**	–
Investment in associates	**–**	**–**	**–**	**–**	**–**	**39,499**	**39,499**	69,909
Yield	**–**	**–**	**–**	**–**	**–**	**–**	**–**	–
Venture capital investments	**–**	**4,965**	**–**	**68,747**	**–**	**9,292**	**83,004**	70,602
Yield	**–**	**10.50%**	**–**	**9.80%**	**–**	**–**	**–**	–
Other	**–**	**–**	**–**	**–**	**–**	**550,478**	**550,478**	322,469
Total assets	**$ 16,291,029**	**$ 3,235,052**	**$ 5,084,504**	**$ 13,773,821**	**$ 2,264,069**	**$ 775,740**	**$ 41,424,215**	$ 37,578,780
Liabilities and equity								
Borrowings	**$ –**	**$ 18,702,140**	**$ 4,445,253**	**$ 8,807,234**	**$ 1,525,000**	**$ 80,134**	**$ 33,559,761**	$ 30,744,309
Yield [(1)]	**–**	**0.68%**	**1.56%**	**1.67%**	**1.41%**	**–**	**–**	–
Derivative financial liabilities [(2) (3)]	**–**	**(14,187)**	**–**	**14,187**	**–**	**535**	**535**	–
Yield [(1)]	**–**	**0.92%**	**–**	**1.75%**	**–**	**–**	**–**	–
Other	**–**	**–**	**–**	**–**	**–**	**611,450**	**611,450**	405,597
Shareholder's equity	**–**	**–**	**–**	**–**	**–**	**7,252,469**	**7,252,469**	6,428,874
Total liabilities and equity	**$ –**	**$ 18,687,953**	**$ 4,445,253**	**$ 8,821,421**	**$ 1,525,000**	**$ 7,944,588**	**$ 41,424,215**	$ 37,578,780
Total gap 2020	**$ 16,291,029**	**$ (15,452,901)**	**$ 639,251**	**$ 4,952,400**	**$ 739,069**	**$ (7,168,848)**	**$ –**	$ –
Total cumulative gap 2020	**$ 16,291,029**	**$ 838,128**	**$ 1,477,379**	**$ 6,429,779**	**$ 7,168,848**	**$ –**	**$ –**	$ –
Total gap 2019	$ 17,660,727	$ (18,577,939)	$ 1,002,429	$ 5,360,938	$ 850,206	$ (6,296,361)	$ –	$ –
Total cumulative gap 2019	$ 17,660,727	$ (917,212)	$ 85,217	$ 5,446,155	$ 6,296,361	$ –	$ –	$ –

(1) Represents the weighted-average effective yield based on the earlier of contractual repricing or maturity date.

(2) The notionals for derivatives with a positive fair value have been netted against derivatives with a negative fair value and are included with derivative financial assets.

(3) Represents notional principal amounts on derivatives, except for the non-interest sensitive amount.

27. Risk management (continued)

Residual value risk

FCC, as a lessor, is exposed to residual value risk due to the risk of selling its leased equipment at the end of the lease term at an amount below the residual value. FCC manages its risk of the rights it retains in underlying assets by reviewing the residual values of its leased equipment on an annual basis to ensure they are within fair market value ranges and by entering into agreements with third parties to either ensure its residual values are fully recovered or to sell the equipment on FCC's behalf at an amount approved by FCC.

Foreign exchange risk

FCC is exposed to foreign exchange risk due to differences in the amount and timing of foreign currency denominated asset and liability cash flows. The currency exposure is minimized by matching foreign currency loans against foreign currency funding. This risk cannot be perfectly hedged because the assets are amortizing loans and the liabilities are discount bonds, which creates timing mismatches for the principal and interest cash flows. However, FCC has determined that the residual risk is insignificant.

FCC mitigates foreign exchange risk through economic hedges. All foreign currency borrowings are fully hedged at the time of issuance, unless the foreign currency denominated debt is used specifically to finance a like currency asset.

Foreign exchange gains in the year were $37.4 million (2019 – $21.8 million). Foreign exchange losses in the year were $35.1 million (2019 – $21.3 million).

Derivatives

FCC uses derivatives to hedge interest rate and foreign exchange risk. Derivatives assist in altering the risk profile of the Consolidated Balance Sheet by reducing mismatches of assets and liabilities while ensuring interest rate risk and foreign exchange risk are managed within acceptable ranges.

Derivative transactions lead to net income volatility because the derivatives are recorded at fair value and this volatility may not be representative of the overall risk.

Post-employment benefits

FCC is exposed to significant financial risks through the registered pension plans' investments. These financial risks are managed by having an Investment Policy that is approved annually by management and at a minimum every three years by the Board. The Investment Policy provides guidelines to the registered pension plans' investment managers for the asset mix of the portfolio regarding quality and quantity of debt, equity and alternative investments. The asset mix helps reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. Investment risk is managed by diversification guidelines within the Investment Policy.

The pension plans' assets are composed of Canadian Long Bonds that match a portion of the plans' assets to the plans' liabilities. The current target composition of the plans' portfolios includes an allocation of 40% of assets invested in Canadian Long Bonds, which effectively increases the duration of the assets to better match the plans' liabilities. The Canadian Long Bonds have a duration of 15.3 years and the leveraged Canadian Long Bonds have a duration of 46.5 years. Overall, the registered pension plans' assets are estimated to be 12.7 years while the liabilities are estimated to be 18.2 years. The supplemental pension plans' liabilities are estimated to be 18.5 years and the assets have no duration.

27. Risk management (continued)

The pension plans' Funding Policy is approved by the Board at a minimum every three years. The policy states two primary objectives, which are to fund the pension plans' benefits, measured on a going concern basis, and to provide adequate funding for future service benefits in accordance with the applicable law and plan text. With respect to the defined benefit provision, FCC will fund any going concern and solvency deficits over the statutory minimum and maintains discretion to make additional contributions at any time.

The Pension Plan Governance Policy is approved by the Board at a minimum every three years, and outlines the governance structure and responsibilities with respect to the registered and supplemental pension plans for the Board, committees and management. The Pension Plan Governance Manual is approved annually by management and includes review and monitoring criteria for investment managers and third-party providers as well as guidelines for eligible fees and expenses. All fees and expenses paid from the plan are reviewed to ensure they are eligible based on the guidelines.

Insurance

FCC's insurance provider determines its reserves for insurance claims actuarially using the Canadian Asset Liability Method. The future cash flows from the insurance contracts and the assets that support them are dynamically projected in a number of scenarios prescribed by the Canadian Institute of Actuaries, using current best estimate assumptions with provisions for adverse deviation. FCC engages independent actuaries from time to time to review its insurance program to ensure the assumptions, methodologies and processes are prudent.

In calculating the reserve for insurance claims, assumptions must be made about interest rates, asset default, inflation, mortality and morbidity rates, lapses, expenses and other factors over the life of the insurance coverage. Best estimate assumptions are used for expected future experience. Additional provisions are included in the reserve for insurance claims to provide for possible adverse deviations from the best estimate. If the assumption is more susceptible to change or if there is more uncertainty about the underlying best estimate assumption, a correspondingly larger provision is included in the reserve for insurance claims.

The provisions are reviewed for reasonableness in aggregate. The best estimate assumptions and margins for adverse deviation are reviewed periodically and revisions are made where deemed necessary and prudent. The assumptions with the greatest potential impact on net income are mortality, lapses and investment returns.

Insurance mortality refers to the rates at which death occurs for defined groups of people and are generally based on the insurance provider's experience. Assumed mortality rates do not reflect any future expected improvement.

Assumptions related to investment returns include expected future credit losses on fixed income investments. Past corporation experience and industry experience over the long term as well as specific reviews of the current portfolio are used to project credit losses.

Lapse assumption is based on FCC's five-year average.

Expense assumptions are based on FCC's recent experience using an internal expense allocation methodology.

27. Risk management (continued)

c) Liquidity risk

Liquidity risk is the risk that FCC has insufficient funds to meet payment obligations as they come due.

The Board is responsible for approving FCC's Market and Liquidity Risk Management Policy and relies on a number of committees, divisions and business units to effectively manage liquidity risk. The liquidity risk policies and limits ensure FCC's objective to maintain sufficient funds to meet customer and business operational requirements is met. FCC's policies and processes are based on industry best practices and the Minister of Finance's Financial Risk Management Guidelines for Crown Corporations.

FCC measures, forecasts and manages cash flow as an integral part of its liquidity management. FCC's objective is to maintain sufficient funds to meet customer and business operational requirements should a market or operational event occur, disrupting FCC's access to funds. The total investment portfolio is targeted to be a minimum of 30 calendar days of upcoming cash requirements.

FCC maintains liquidity through:

- a liquid investment portfolio – cash and cash equivalents, and short-term investments of $2,480.9 million were on hand as at March 31, 2020 (2019 – $1,206.1 million)
- access to short-term funding – FCC's access to funding through the Crown Borrowing Program and capital markets provides FCC with sufficient liquidity to meet daily cash requirements
- access to a $30.0 million bank operating line of credit

The following table shows the undiscounted cash flows of FCC's financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal cash flows represent the contractual undiscounted cash flows relating to the principal and interest on the financial liability. FCC's expected cash flows on certain instruments vary significantly from this analysis. For example, certain borrowings that may be prepaid by FCC have not been included in their earliest possible maturities due to being impracticable to estimate.

27. Risk management (continued)

Residual contractual maturities of financial liabilities

As at March 31 ($ thousands)				2020			
	Carrying value	**Gross nominal outflow**	**Less than 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**Over 5 years**
Non-derivative financial liabilities							
Borrowings	**$33,559,761**	**$33,559,102**	**$ 1,148,351**	**$ 1,774,701**	**$ 7,074,090**	**$19,362,960**	**$ 4,199,000**
Transition loan liabilities	**195,223**	**199,680**	**15,618**	**18,562**	**45,071**	**120,085**	**344**
	33,754,984	**33,758,782**	**1,163,969**	**1,793,263**	**7,119,161**	**19,483,045**	**4,199,344**
Derivative financial liabilities	**535**	**535**	**2**	**–**	**–**	**533**	**–**
	$33,755,519	**$33,759,317**	**$ 1,163,971**	**$ 1,793,263**	**$ 7,119,161**	**$19,483,578**	**$ 4,199,344**

As at March 31 ($ thousands)				2019			
	Carrying value	Gross nominal outflow	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years
Non-derivative financial liabilities							
Borrowings	$30,744,309	$ 30,743,117	$ 1,045,922	$ 1,601,173	$ 7,225,231	$18,066,565	$ 2,804,226
Transition loan liabilities	160,763	164,584	13,239	12,738	37,748	99,551	1,308
	$30,905,072	$30,907,701	$ 1,059,161	$ 1,613,911	$ 7,262,979	$ 18,166,116	$ 2,805,534

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