Annual Report 2021-22

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 her report thereon.

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

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

Regina, Canada
June 16, 2022

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 2022, 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 2022, 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, after giving retrospective effect to the accounting changes as explained in Note 4 a) 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.

Riowen Abgrall

Riowen Yves Abgrall, CPA, CA
Principal
for the Auditor General of Canada

Ottawa, Canada
16 June 2022

Consolidated Balance Sheet

(thousands of Canadian dollars)	March 31, 2022	March 31, 2021 Restated (Note 4)	April 1, 2020 Restated (Note 4)
Assets			
Cash and cash equivalents	**$ 1,439,109**	$ 1,251,093	$ 1,724,503
Short-term investments (Note 5)	**584,397**	732,702	756,369
Accounts receivable and prepaid expenses	**38,490**	38,176	39,378
Assets held for sale (Note 6)	**185,761**	–	–
Derivative financial assets (Note 7)	**–**	4,781	12,469
	2,247,757	2,026,752	2,532,719
Loans receivable – net (Notes 8 and 11)	**44,379,503**	41,128,445	38,158,149
Finance leases receivable – net (Notes 9 and 11)	**–**	141,053	99,744
Other loans receivable – net (Notes 10 and 11)	**50,443**	59,313	80,286
Investments at fair value	**56,063**	28,398	2,718
Investment in associates	**49,424**	57,839	39,499
Post-employment benefit assets (Note 12)	**293,543**	143,886	178,398
	44,828,976	41,558,934	38,558,794
Property and equipment (Note 13)	**188,798**	248,323	287,194
Intangible assets (Note 14)	**12,668**	19,990	31,536
Other assets	**5,824**	6,165	13,972
	207,290	274,478	332,702
Total assets	**$ 47,284,023**	$ 43,860,164	$ 41,424,215
Liabilities			
Accounts payable and accrued liabilities	**$ 84,274**	$ 76,122	$ 78,392
Derivative financial liabilities (Note 7)	**32**	322	535
	84,306	76,444	78,927
Borrowings (Note 15)			
Short-term debt	**8,077,614**	12,550,153	9,952,320
Long-term debt	**30,106,670**	22,704,662	23,607,441
	38,184,284	35,254,815	33,559,761
Transition loan liabilities	**173,652**	191,563	195,223
Post-employment benefit liabilities (Note 12)	**91,471**	115,833	119,763
Lease liabilities (Note 16)	**166,748**	174,492	180,353
Other liabilities	**6,335**	7,352	7,981
	438,206	489,240	503,320
Total liabilities	**38,706,796**	35,820,499	34,142,008
Equity			
Contributed capital (Note 22 and 23)	**500,000**	500,000	500,000
Retained earnings	**8,076,280**	7,537,566	6,760,163
Accumulated other comprehensive income	**–**	1,489	21,237
Equity attributable to shareholder of parent entity	**8,576,280**	8,039,055	7,281,400
Non-controlling interest	**947**	610	807
	8,577,227	8,039,665	7,282,207
Total liabilities and equity	**$ 47,284,023**	$ 43,860,164	$ 41,424,215

Commitments, guarantees and contingent liabilities (Note 21).

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 16, 2022, 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)	2022	2021 Restated (Note 4)
Interest income	$ 1,567,027	$ 1,576,005
Interest expense	226,515	277,576
Net interest income (Note 17)	1,340,512	1,298,429
Reversal of (provision for) credit losses	89,947	(18,643)
Net interest income after provision for credit losses	1,430,459	1,279,786
Insurance distribution income	16,809	20,339
Net (loss) income from investment in associates	(9,515)	1,910
Net foreign exchange loss (Note 24)	(170)	(3,149)
Other expenses	(6,526)	(2,019)
Net interest income and non-interest income	1,431,057	1,296,867
Administration expenses (Note 18)	507,927	472,917
Net income before fair value gain (loss)	923,130	823,950
Fair value gain (loss)	8,757	(8,782)
Net income	$ 931,887	$ 815,168
Net income attributable to:		
Shareholder of parent entity	$ 931,844	$ 815,352
Non-controlling interest	43	(184)

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)	2022	2021 Restated (Note 4a)
Net income	$ 931,887	$ 815,168
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 7)	(1,489)	(19,748)
	(1,489)	(19,748)
Item that will never be reclassified to net income		
Remeasurement of post-employment benefit assets and liabilities (Note 12)	166,970	(37,949)
Total other comprehensive income (loss)	165,481	(57,697)
Total comprehensive income	$ 1,097,368	$ 757,471
Total comprehensive income attributable to:		
Shareholder of parent entity	$ 1,097,325	$ 757,655
Non-controlling interest	43	(184)

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

Consolidated Statement of Changes in Equity

For the year ended March 31 (thousands of Canadian dollars)	Balance 2021 restated (Note 4a)	Net income	Other comprehensive income	Dividend paid	Contributions from non–controlling interest	Balance 2022
Contributed capital	**$ 500,000**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 500,000**
Retained earnings	**7,537,566**	**931,844**	**166,970**	**(560,100)**	**–**	**8,076,280**
Net gains (transfer of net gains) on derivatives previously designated as cash flow hedges	**1,489**	**–**	**(1,489)**	**–**	**–**	**–**
Total accumulated other comprehensive income	**1,489**	**–**	**(1,489)**	**–**	**–**	**–**
Total equity attributable to parent	**8,039,055**	**931,844**	**165,481**	**(560,100)**	**–**	**8,576,280**
Non-controlling interest	**610**	**43**	**–**	**–**	**294**	**947**
Total	**$ 8,039,665**	**$ 931,887**	**$ 165,481**	**$ (560,100)**	**$ 294**	**$ 8,577,227**

For the year ended March 31 (thousands of Canadian dollars)	Balance April 1, 2020 restated (Note 4a)	Net income restated (Note 4a)	Other comprehensive income restated (Note 4a)	Dividend paid	Distributions to non–controlling interest	Balance 2021 restated (Note 4a)
Contributed capital	$ 500,000	$ –	$ –	$ –	$ –	$ 500,000
Retained earnings	6,760,163	815,352	(37,949)	–	–	7,537,566
Net gains (transfer of net gains) on derivatives previously designated as cash flow hedges	21,237	–	(19,748)	–	–	1,489
Total accumulated other comprehensive income	21,237	–	(19,748)	–	–	1,489
Total equity attributable to parent	7,281,400	815,352	(57,697)	–	–	8,039,055
Non-controlling interest	807	(184)	–	–	(13)	610
Total	$ 7,282,207	$ 815,168	$ (57,697)	$ –	$ (13)	$ 8,039,665

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)	2022	2021 Restated (Note 4)
Operating activities		
Net income	**$ 931,887**	$ 815,168
Adjustments to determine net cash (used in) provided by operating activities:		
Net interest income	**(1,340,512)**	(1,298,429)
(Reversal of) provision for credit losses	**(89,947)**	18,643
Fair value (gain) loss	**(8,757)**	8,782
Net loss (income) from investment in associates	**9,515**	(1,910)
Amortization and depreciation	**35,250**	38,952
Net unrealized foreign exchange (gains) losses	**(6,947)**	63,667
Impairment loss on assets held for sale	**4,500**	–
Net cash outflow from loans receivable	**(3,144,999)**	(3,049,367)
Net cash inflow (outflow) from finance leases receivable	**3,889**	(36,384)
Net change in other operating assets and liabilities	**(17,667)**	(3,924)
Interest received	**1,525,840**	1,571,032
Interest paid	**(216,305)**	(287,598)
Cash used in operating activities	**(2,314,253)**	(2,161,368)
Investing activities		
Purchase of short-term investments	**(763,016)**	(1,151,868)
Proceeds from maturity of short-term investments	**910,761**	1,174,117
Disbursements of other loans receivable	**(4,000)**	(9,400)
Repayments from other loans receivable	**10,774**	8,485
Acquisition of investments at fair value	**(18,507)**	(25,680)
Disbursements paid to investment in associates	**(10,122)**	(24,620)
Repayments from investment in associates	**9,022**	8,189
Purchase of property and equipment	**(6,892)**	(8,115)
Proceeds on disposal of property and equipment	**15,656**	14,390
Purchase of intangible assets	**(3,024)**	(3,132)
Cash provided by (used in) investing activities	**140,652**	(17,634)
Financing activities		
Long-term debt issued	**14,490,000**	9,282,000
Long-term debt repaid	**(11,785,856)**	(7,081,365)
Short-term debt issued	**12,629,821**	11,891,716
Short-term debt repaid	**(12,397,247)**	(12,370,841)
Principal repayment of lease liabilities	**(15,250)**	(14,563)
Dividend paid	**(560,100)**	–
Cash provided by financing activities	**2,361,368**	1,706,947
Change in cash and cash equivalents	**187,767**	(472,055)
Cash and cash equivalents, beginning of year	**1,251,093**	1,724,503
Effects of exchange rate changes on the balances of cash held and due in foreign currencies	**249**	(1,355)
Cash and cash equivalents, end of year	**$ 1,439,109**	$ 1,251,093
Cash and cash equivalents consists of:		
Cash	**$ 1,295,169**	$ 1,196,194
Cash equivalents	**143,940**	54,899

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 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 2022, 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 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 (financial statements) have been prepared in accordance with International Financial Reporting Standards (IFRS).

The significant accounting policies used in the preparation of the financial statements are summarized below and in the following pages. The significant accounting policies have been applied consistently to all periods presented in the financial statements.

The 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.

Basis of consolidation

The financial statements include the accounts of FCC, Forage Subordinated Debt Fund II (previously Avrio Subordinated Debt II), Forage Subordinated Debt Fund III (previously Avrio Subordinated Debt III) and Forage Capital – Ag & Food Business Solutions Fund Limited Partnership (collectively the consolidated funds). The consolidated funds are venture capital limited partnerships operating in Calgary, Alta., and for which FCC is a limited partner holding majority partnership interests. FCC consolidates these funds as it has control over them. 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 consolidated 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 consolidated 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.

Assets held for sale

Non-current assets classified as held for sale are presented separately in the Consolidated Balance Sheet at the lower of their carrying amount and fair value less costs to sell. Once non-current assets are classified as held for sale, they are no longer depreciated or amortized. Any write-downs in fair value less costs to sell are recognized in other expenses on the Consolidated Statement of Income.

2. Significant accounting policies (continued)

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 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 fair value gain (loss). 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. As at March 31, 2022, the cumulative gains previously recognized in other comprehensive income (OCI) have fully transferred to net interest income. All fair value gains and losses on the interest rate swaps subsequent to discontinuation are recognized immediately in fair value gain (loss).

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. 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, as described under the Allowance for Credit Losses heading, 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 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.

2. Significant accounting policies (continued)

Venture capital arrangements

Venture capital arrangements include other loans receivable and investments at fair value held by the consolidated funds. FCC has classified other loans receivable as amortized cost financial assets as they are managed on a hold to collect basis in accordance with their business model. These venture capital arrangements are stated net of an allowance for credit losses. Investments that do not meet the solely payments of principal and interest (SPPI) test are classified as FVTPL. These venture capital arrangements are accounted for at fair value, using a valuation technique as described under the Estimation Uncertainty heading, with gains and losses reported in fair value gain (loss) on the Consolidated Statement of Income.

Loan interest on other loans receivable and fee income are recorded on an accrual basis and recognized in interest income.

Other loans receivable differ from FCC's standard loans as they have lower priority in the event of bankruptcy and therefore take on greater risk, they are not as well secured if at all, and they are undertaken with separate adjudication policies and processes.

Venture capital arrangements that do not meet the criteria for consolidation or investments in associates are classified as FVTPL and are included in investments at fair value. Interest earned on these investments are recorded on an accrual basis and recognized in interest income.

Once invested, FCC is not able to withdraw investment contributions.

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.

Once invested, FCC is not able to withdraw investment contributions.

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 reporting 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.

2. Significant accounting policies (continued)

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 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 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, there is no longer reasonable assurance of timely collection of the full amount of principal and interest, and 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 estimated 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 is an estimate of the amount that may not be recovered in the event of default
- the exposure at default is an estimate of the amount outstanding at a future default date

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

Significant increase in credit risk
At each reporting 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 classified as investment grade at the reporting date in accordance with FCC's internal risk rating system, which considers investment grade 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

2. Significant accounting policies (continued)

Credit-impaired financial assets
A Stage 3 credit-impaired financial asset is any financial asset at amortized cost where one or more events have occurred after initial recognition such that FCC no longer has reasonable assurance of timely collection of the full amount of principal and interest. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. A default occurs when the repayment of principal or payment of interest is contractually 90 days past due, or an amendment has been granted due to the financial difficulty of the borrower that results in a diminished financial obligation, unless the outstanding amount is immaterial, or the financial asset is sufficiently secured. An asset that is in Stage 3 will move back to Stage 2 when, as at the reporting date, it is no longer considered to be credit-impaired. The asset will transfer back to Stage 1 when its credit risk at the reporting date is no longer considered to have increased significantly from initial recognition, which could occur during the same reporting period as the transfer from Stage 3 to Stage 2. 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 – Leases.

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 SICR for stage assignment of credit losses and a modification gain or loss is recognized. A modification loss is recognized against interest income and net loans receivable when the net present value of the modified future cash flows, discounted at the original effective interest rate, is less than the original cash flows. Interest income continues to be recognized based on the original effective interest rate.

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.

FCC's registered pension plan has two components: a defined contribution pension component and closed defined benefit pension component (closed to any employees hired after January 1, 2009). 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 and is protected against inflation. The defined contribution pension plan is an accumulated savings plan and all new employees since January 1, 2009, are automatically enrolled in the defined contribution pension component. FCC also provides a supplemental defined benefit and supplemental defined contribution pension plan 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 obligation for pension and other defined benefit plans is 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 net defined benefit asset or liability for accounting purposes as at March 31 of each year.

The net defined benefit asset or liability represents the present value of the defined benefit obligation reduced by the fair value of plan assets. The net 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 asset or liability
- remeasurements of the net defined benefit asset or 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 defined benefit obligations included in the net defined benefit asset or liability.

2. Significant accounting policies (continued)

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.

Property and equipment

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.

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.

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.

Right-of-use assets

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, 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.

2. Significant accounting policies (continued)

At the lease commencement date, FCC recognizes a right-of-use (ROU) asset 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.

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 below. 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.

Intangible assets

Intangible assets are made up of computer software, which are recorded at cost less accumulated amortization. Expenditures on internally developed intangible assets are recognized as assets when FCC is able to demonstrate its intention and ability to complete the development, to use the asset 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 intangible assets include all costs directly attributable to developing the asset. For internally developed intangible assets, expenditures on research (or on the research phase of a project) are recognized as an expense when incurred.

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

Intangible assets are 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 and FCC's risk of the insurance program is limited. The insurance premiums are actuarially determined and are accrued when receivable and recorded in accounts receivable. Insurance distribution income includes these premiums received or receivable and is net of insurance claims incurred throughout the year as well as net of statutory reserves maintained by the insurance provider. Expenses related to administering the insurance program are also recorded in insurance distribution 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 insurance distribution income.

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-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

In accordance with FCC's transition loan product, FCC enters into distinct contracts with each borrower of the loan and the vendor. The first contract gives rise to a loan receivable, which is recorded consistent with FCC's Loans Receivable policy. FCC also records a transition loan liability that represents amounts owing to third parties, as FCC is required to pay amounts in accordance with a disbursement schedule that may be different than the loan receivable payment schedule. As payments are made with respect to the transition loan disbursement schedule, the applicable amount of the transition loan liability is reduced. The transition loan liabilities are measured at amortized cost using the effective interest method.

Lease liabilities

At the lease commencement date, FCC recognizes a 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 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:

- 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.

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 recognized in 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.

2. Significant accounting policies (continued)

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 at the reporting date. Income and expenses are translated at the monthly average exchange rates prevailing throughout the year. Exchange gains and losses on loans and receivables and borrowings are recorded on a net basis on the Consolidated Statement of Income.

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.

Venture capital arrangements
In determining how to account for venture capital arrangements, management considers several factors on whether FCC has control or significant influence over the fund, or if it is an investment at fair value. Factors include share ownership, voting rights, and the number of board seats held by FCC.

Leases
In determining the lease term under IFRS 16, 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 financial statements in accordance with IFRS requires that management makes judgments, estimates and assumptions concerning the future that affect the reported amounts in the 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. Information about the significant judgments, estimates and assumptions that are critical to the recognition and measurement of assets, liabilities, income and expense is discussed below.

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.

2. Significant accounting policies (continued)

Significant judgment was used by management to assess the impact of the 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 these arrangements constitute forbearance, result in a substantial modification of the contract, affect the staging of the allowance and have an impact on the overall allowance. For more details about the key assumptions used, refer to Note 24.

Post-employment benefit assets and liabilities
The estimate of the net defined benefit asset or liability 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 obligation. Any changes in these assumptions will affect the carrying value of the net defined benefit asset or liability.

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 arrangements 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.

Standard	Details	Date of initial application
IAS 8 - Accounting policies, changes in accounting estimates and errors	In February 2021, the IASB issued Definition of Accounting Estimates, which amended IAS 8 - Accounting policies, changes in accounting estimates and errors. The amendments introduced the definition of accounting estimates and included other amendments to distinguish between changes in accounting estimates and changes in accounting policies. Management is in the process of assessing the impact of this standard on FCC's financial statements and accounting policies	April 1, 2023

3. Changes in accounting standards

In August 2020, the International Accounting Standards Board (IASB) issued Interest Rate Benchmark Reform – Phase 2, which amended IFRS 9 – Financial Instruments, IFRS 7 – Financial Instruments: Disclosures, IFRS 4 – Insurance Contracts and IFRS 16 – Leases. These amendments were in response to the market transition away from interbank offered rates to alternative benchmark rates. Changes are effective for FCC in annual periods beginning on April 1, 2021.

FCC has loans receivable that use the United States Dollar (USD) London Interbank Offered Rate (LIBOR) as a reference rate. These balances are a small component of FCC's total portfolio. FCC also has one interest rate swap, included in derivative financial assets, which is tied to USD LIBOR. FCC does not have hedge accounting relationships and is not impacted by sections of the amendment related to insurance contracts or leases. There is limited risk exposure from adjustments associated with this amendment.

In March 2021, the Financial Conduct Authority and Intercontinental Exchange Benchmark Administration announced that USD LIBOR would cease to be provided on June 30, 2023. This period allows existing USD LIBOR contracts to mature. In October 2021, a project was initiated to use the Secured Overnight Financing Rate (SOFR) as the benchmark rate. As of February 2022, all new USD lending use SOFR as the reference rate. Existing USD LIBOR lending will be converted to SOFR by June 30, 2023. The impact of the amendments will be assessed at conversion and is currently not known.

The following table, reflected in Canadian dollars, shows FCC's exposure to financial instruments referencing USD LIBOR and subject to the amendment. It includes balances at the end of 2021-22, and amounts for FCC's current portfolio of loans maturing after the USD LIBOR publication ceases on June 30, 2023.

($ thousands)	Maturing after June 30, 2023	Carrying amount March 31, 2022
USD loans	$ 419,337	$ 556,127
USD Interest rate swap	–	12,496

4. Restatement and reclassification of comparative figures

a) Changes in accounting policy

Attributing benefits

In May 2021, the IFRS Interpretations Committee issued an interpretation for attributing benefits to periods of service under IAS 19 – Employee Benefits. Based on this guidance, FCC changed from using the period of service from the date of hire to retirement to 10 years prior to eligibility for retirement to better represent the nature of the plan. Applying this change retrospectively resulted in a change to comparative balances as shown below.

Adjustments to the Consolidated Balance Sheet

	As at March 31, 2021			As at April 1, 2020		
	As previously reported	Adjustments	As restated	As previously reported	Adjustments	As restated
Liabilities						
Post-employment benefit liabilities	$ 142,266	$ (26,433)	$ 115,833	$ 148,694	$ (28,931)	$ 119,763
	515,673	(26,433)	489,240	532,251	(28,931)	503,320
Total liabilities	35,846,932	(26,433)	35,820,499	34,170,939	(28,931)	34,142,008
Equity						
Retained earnings	7,511,133	26,433	7,537,566	6,731,232	28,931	6,760,163
Equity attributable to shareholder of parent entity	8,012,622	26,433	8,039,055	7,252,469	28,931	7,281,400
	$ 8,013,232	$ 26,433	$ 8,039,665	$ 7,253,276	$ 28,931	$ 7,282,207

Adjustments to the Consolidated Statement of Income

For the year ended March 31, 2021	As previously reported	Adjustments	As restated
Administration expenses	$ 475,553	$ (2,636)	$ 472,917
Net income before fair value gain (loss)	821,314	2,636	823,950
Net income	$ 812,532	$ 2,636	$ 815,168
Net income attributable to:			
Shareholder of parent entity	$ 812,716	$ 2,636	$ 815,352

Adjustments to the Consolidated Statement of Comprehensive Income

For the year ended March 31, 2021	As previously reported	Adjustments	As restated
Net income	$ 812,532	$ 2,636	$ 815,168
Remeasurement of post-employment benefit assets and liabilities	(32,815)	(5,134)	(37,949)
Total other comprehensive income (loss)	(52,563)	(5,134)	(57,697)
Total comprehensive income	$ 759,969	$ (2,498)	$ 757,471
Total comprehensive income attributable to:			
Shareholder of parent entity	$ 760,153	$ (2,498)	$ 757,655

4. Restatement and reclassification of comparative figures (continued)

Adjustments to the Consolidated Statement of Changes in Equity

For the year ended March 31, 2021	As previously reported	Adjustments	As restated
Balance April 1, 2020			
Retained earnings	$ 6,731,232	$ 28,931	$ 6,760,163
Total equity attributable to parent	7,252,469	28,931	7,281,400
Total	$ 7,253,276	$ 28,931	$ 7,282,207
Net income			
Retained earnings	$ 812,716	$ 2,636	$ 815,352
Total equity attributable to parent	812,716	2,636	815,352
Total	$ 812,532	$ 2,636	$ 815,168
Other comprehensive income			
Retained earnings	$ (32,815)	$ (5,134)	$ (37,949)
Total equity attributable to parent	(52,563)	(5,134)	(57,697)
Total	$ (52,563)	$ (5,134)	$ (57,697)
Balance March 31, 2021			
Retained earnings	$ 7,511,133	$ 26,433	$ 7,537,566
Total equity attributable to parent	8,012,622	26,433	8,039,055
Total	$ 8,013,232	$ 26,433	$ 8,039,665

Adjustments to the Consolidated Statement of Cash Flows

For the year ended March 31, 2021	As previously reported	Adjustments	As restated
Operating activities			
Net income	$ 812,532	$ 2,636	$ 815,168
Net change in other operating assets and liabilities	(1,288)	(2,636)	(3,924)

Refer to the following note disclosures for further impacts of the restatement:
Note 12 – tables within the followings sections: Financial position of benefit plans – other benefits, Movements in the present value of the defined benefit obligation, Defined benefit costs recognized in net income and Defined benefit costs recognized in OCI
Note 18 – salaries and benefits
Note 23 – retained earnings, CET1/total capital and total capital ratio line items within the capital ratio table
Note 24 – other and shareholder’s equity line items within the interest rate risk table

Cash flow presentation

FCC previously netted its cash inflows and outflows from short-term investments as well as cash inflows and outflows from other loans receivable in its Consolidated Statement of Cash Flows. This presentation was inconsistent with the disclosure provided for other components of our investing activities. We have elected to update our presentation and report all cash inflows and outflows for investing activities on a gross basis. These changes provide additional depth and a more detailed understanding around the nature of cash flows from investing activities. Therefore, the following comparative figures have been reclassified to align with current year presentation. The impacts for the year ended March 31, 2021, are shown below.

4. Restatement and reclassification of comparative figures (continued)

Adjustments to the Consolidated Statement of Cash Flows

For the year ended March 31, 2021	As previously reported	Adjustments	As restated
Investing activities			
Net cash inflow (outflow) from short-term investments	$ 22,249	$ (22,249)	$ –
Purchase of short-term investments	–	(1,151,868)	(1,151,868)
Proceeds from maturity of short-term investments	–	1,174,117	1,174,117
Net cash outflow from other loans receivable	(915)	915	–
Disbursements of other loans receivable	–	(9,400)	(9,400)
Repayments from other loans receivable	–	8,485	8,485

b) Reclassification of comparative figures

FCC previously classified equipment and leasehold improvements, equipment under operating leases and right-of-use assets separately in its financial statements. Due to these assets being similar in nature, FCC has combined these line items in its financial statements.

FCC previously provided categories of salaries and benefits and other expenses under the Administration expenses heading on the Consolidated Statement of Income. These categories have been removed from the Consolidated Statement of Income with FCC's Administration expenses financial statement note providing these details. Salaries and benefits are of similar nature so have been grouped together.

Therefore, the following comparative figures have been reclassified to align with current year presentation. The impacts as at and for the year ended March 31, 2021, are shown below.

Adjustments to the Consolidated Balance Sheet

	As at March 31, 2021			As at April 1, 2020		
	As previously reported	Adjustments	As restated	As previously reported	Adjustments	As restated
Assets						
Equipment and leasehold improvements	$ 26,501	$ (26,501)	$ –	$ 26,847	$ (26,847)	$ –
Equipment under operating leases	48,848	(48,848)	–	80,227	(80,227)	–
Right-of-use assets	172,974	(172,974)	–	180,120	(180,120)	–
Property and equipment	–	248,323	248,323	–	287,194	287,194

Adjustments to the Consolidated Statement of Income

For the year ended March 31, 2021	As previously reported	Adjustments[1]	Adjustments[2]	As restated
Administration expenses (Note 18)				
Salaries and benefits	$ 287,115	$ (287,115)	$ –	$ –
Other	188,438	(188,438)	–	–
Administration expenses	–	475,553	(2,636)	472,917

[1] Adjustments relate to reclassifications in Note 4b above.

[2] Adjustments relate to restatement of administration expenses in Note 4a above.

Refer to the following note disclosure for further impacts of the reclassification:
Note 18 – salaries and benefits

5. Short-term investments

As at March 31, 2022, short-term investments were $584 million (2021 – $733 million) with a yield of 0.48% (2021 – 0.31%). They consisted of promissory notes and treasury bills. As at March 31, 2022, the allowance for credit losses on short-term investments was $nil (2021 – $nil).

6. Assets held for sale

As at March 31, 2022, FCC's lessor perspective leasing portfolio, consisting of finance lease receivables, equipment under operating leases and lease loans receivable, was classified as held for sale within the Consolidated Balance Sheet. During 2021-22, FCC committed to a plan to sell the leasing portfolio to a financial services company within the next 12-month period. The leasing portfolio is no longer depreciated. On March 31, 2022, the assets held for sale were valued at net book value and included an impairment loss of $5 million. This impairment loss has been included in other expenses on the Consolidated Statement of Income (see Note 25).

7. Derivative financial instruments

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 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, 2022, the estimated amount of existing net gains reported in accumulated other comprehensive income (AOCI) that is expected to be transferred to net income within the next 12 months is $nil (2021 – $2 million).

Notional principal amounts and term to maturity

As at March 31		2022			2021		
		Within 1 year	**1–5 years**	**Total**	Within 1 year	1–5 years	Total
Interest rate swaps							
Receive	**Pay**						
Fixed	Floating	**$ –**	**$ –**	**$ –**	$ 220,124	$ –	$ 220,124
Floating	Fixed	**12,496**	**–**	**12,496**	–	12,575	12,575
		$ 12,496	**$ –**	**$ 12,496**	$ 220,124	$ 12,575	$ 232,699

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 fair values of the derivative financial instruments were as follows:

As at March 31	2022			2021		
	Positive fair value	**Negative fair value**	**Net fair value**	Positive fair value	Negative fair value	Net fair value
Interest rate swaps	**$ –**	**$ 32**	**$ (32)**	$ 4,781	$ 322	$ 4,459

7. 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), Standard & Poor's Ratings Services (S&P), and the Dominion Bond Rating Service (DBRS), respectively. The largest cumulative notional amount contracted with any institution as at March 31, 2022, was $12 million (2021 – $125 million). FCC mitigates the credit exposure on multiple derivative transactions by entering into master netting agreements with counterparties as outlined in Note 24. These agreements create the legal right to offset exposure in the event of default. The master netting agreements in place have no impact on the fair values at March 31, 2021, and March 31, 2022.

8. Loans receivable – net

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

As at March 31		2022		
	Within 1 year	**1 – 5 years**	**Over 5 years**	**Total**
Floating	**$ 3,995,145**	**$ 10,638,362**	**$ 378,904**	**$ 15,012,411**
Fixed	**4,276,842**	**16,060,560**	**9,184,576**	**29,521,978**
Loans receivable – gross	**$ 8,271,987**	**$ 26,698,922**	**$ 9,563,480**	**44,534,389**
Deferred loan fees				**(45,252)**
Loans receivable – total[(1)]				**44,489,137**
Allowance for credit losses (Note 11)				**(109,634)**
Loans receivable – net				**$ 44,379,503**

[(1)] Loans receivable – total at March 31, 2022, includes accrued interest and fees of $285 million and transition loan assets of $174 million.

As at March 31		2021		
	Within 1 year	1 – 5 years	Over 5 years	Total
Floating	$ 3,685,122	$ 11,720,836	$ 326,454	$ 15,732,412
Fixed	5,254,849	14,258,886	6,145,890	25,659,625
Loans receivable – gross	$ 8,939,971	$ 25,979,722	$ 6,472,344	41,392,037
Deferred loan fees				(45,555)
Loans receivable – total[(1)]				41,346,482
Allowance for credit losses (Note 11)				(218,037)
Loans receivable – net				$ 41,128,445

[(1)] Loans receivable – total at March 31, 2021, includes accrued interest and fees of $270 million and transition loan assets of $192 million.

As at March 31, 2022, $693 million (2021 – $591 million) of loans receivable were denominated in USD.

8. Loans receivable – net (continued)

Concentrations of credit risk

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

Sector distribution

	Gross		Impaired	
As at March 31	**2022**	2021	**2022**	2021
Oilseed and grain	**$ 14,332,100**	$ 13,502,917	**$ 128,637**	$ 79,628
Dairy	**6,929,019**	6,678,425	**15,677**	15,697
Agribusiness	**5,432,022**	4,891,151	**77,836**	49,017
Beef	**3,713,939**	3,549,528	**67,254**	62,061
Other	**3,025,176**	2,776,938	**44,057**	25,858
Poultry	**3,004,698**	2,848,649	**6,087**	7,076
Greenhouse	**1,848,533**	1,535,782	**6,980**	2,072
Agri-food	**1,827,205**	1,610,562	**16,849**	20,798
Alliances	**1,706,558**	1,459,956	**17,965**	26,679
Hogs	**1,394,722**	1,319,560	**6,357**	3,174
Fruit	**1,320,417**	1,218,569	**6,672**	13,947
Total	**$ 44,534,389**	$ 41,392,037	**$ 394,371**	$ 306,007

Geographic distribution

	Gross		Impaired	
As at March 31	**2022**	2021	**2022**	2021
Ontario	**$ 13,010,205**	$ 11,912,436	**$ 55,418**	$ 34,593
Saskatchewan	**8,312,457**	7,751,631	**105,463**	62,851
Alberta	**8,181,161**	7,784,951	**104,600**	89,451
Quebec	**6,157,848**	5,679,918	**51,493**	16,142
British Columbia	**4,007,965**	3,709,917	**24,161**	31,674
Manitoba	**3,519,480**	3,256,442	**38,460**	33,666
Atlantic	**1,345,273**	1,296,742	**14,776**	37,630
Total	**$ 44,534,389**	$ 41,392,037	**$ 394,371**	$ 306,007

9. Finance leases receivable – net

As at March 31	**2022**	2021
Total minimum finance lease payments receivable		
Less than 1 year	**$ –**	$ 28,702
From 1 – 2 years	**–**	28,102
From 2 – 3 years	**–**	26,580
From 3 – 4 years	**–**	42,483
From 4 – 5 years	**–**	27,263
Over 5 years	**–**	2,527
Finance leases receivable – gross	**–**	155,657
Unearned finance income	**–**	(14,457)
Allowance for credit losses (Note 11)	**–**	(147)
Finance leases receivable – net	**$ –**	$ 141,053

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

The discounted unguaranteed residual value for finance leases was $nil (2021 – $24 million). FCC retained as collateral a security interest in the equipment associated with finance leases. The maximum term for finance leases receivable was six years.

As of March 31, 2022, the finance lease balances were transferred to assets held for sale as detailed in Note 6.

10. Other loans receivable – net

The following table summarizes the contractual maturity of the other loans receivable.

As at March 31	2022			2021		
	Within 1 year	**1 – 5 years**	**Total**	Within 1 year	1 – 5 years	Total
Other loans receivable – gross[1] [2]	**$ 16,682**	**$ 37,533**	**$ 54,215**	$ 13,781	$ 47,275	$ 61,056
Allowance for credit losses (Note 11)			**(3,772)**			(1,743)
Other loans receivable – net			**$ 50,443**			$ 59,313

[1] All loans are fixed-rate loans.
[2] Other loans receivable – gross at March 31, 2022, includes accrued interest of $1 million (2021 – $1 million).

Concentrations of credit risk

The concentrations of gross other loans receivable by sector and geographic area were as follows:

Sector distribution

As at March 31	2022	2021
Agribusiness	**$ 38,095**	$ 34,134
Agri-food	**16,120**	26,922
Total	**$ 54,215**	$ 61,056

Geographic distribution

As at March 31	2022	2021
Quebec	**$ 28,412**	$ 31,051
Alberta	**10,124**	18,737
British Columbia	**9,140**	5,106
Saskatchewan	**2,910**	2,924
Ontario	**2,605**	2,217
Manitoba	**1,024**	1,021
Total	**$ 54,215**	$ 61,056

Other loans receivable exposes FCC to credit risk. These venture capital arrangements are typically secured by a general security agreement and assignment of life insurance proceeds. As at March 31, 2022, there were no venture capital arrangements past due (2021 – $nil).

11. Allowance for credit losses

As at March 31			2022					
		Stage 1		Stage 2		Stage 3		Total
Loans receivable[1]								
Allowance for credit losses, beginning of year	$	44,553	$	122,111	$	51,373	$	218,037
Transfer to Stage 1		30,682		(27,430)		(3,252)		–
Transfer to Stage 2		(7,419)		58,779		(51,360)		–
Transfer to Stage 3		(1,178)		(9,518)		10,696		–
Changes due to new loans originated		50,480		4,920		6,266		61,666
Loans that have been derecognized during the period		(15,356)		(10,773)		(10,896)		(37,025)
Net remeasurement of loss allowance[2]		(37,586)		(80,015)		69,739		(47,862)
Writeoffs[3]		–		(791)		(24,875)		(25,666)
Recoveries of amounts previously written off		–		159		707		866
Losses covered under HILLRP		(3)		(27)		(360)		(390)
Changes to allowance model parameters[4]		(19,146)		(26,016)		(14,830)		(59,992)
Total allowance, end of year	$	45,027	$	31,399	$	33,208	$	109,634
Finance leases receivable								
Allowance for credit losses, beginning of year	$	147	$	–	$	–	$	147
Changes due to new finance leases originated		21		–		–		21
Finance leases that have been derecognized during the period		(157)		–		–		(157)
Net remeasurement of loss allowance[2]		(11)		–		–		(11)
Total allowance, end of year	$	–	$	–	$	–	$	–
Other loans receivable								
Allowance for credit losses, beginning of year	$	702	$	–	$	1,041	$	1,743
Transfer to Stage 2		(169)		169		–		–
Changes due to new other loans originated		28		250		–		278
Net remeasurement of loss allowance[2]		(81)		2,832		–		2,751
Writeoffs[3]		–		–		(1,000)		(1,000)
Total allowance, end of year	$	480	$	3,251	$	41	$	3,772

[1] Included within the loans receivable total is $13 million of allowance for credit losses on loan commitments that have not been partially drawn at March 31, 2022.

[2] Includes partial repayments.

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

[4] An estimate was recorded for updates to FCC's loss given default model which incorporated changes to customer segmentation based on risk characteristics and more recent loss experience. FCC's probability of default model incorporated a revised definition of default to align with industry best practice. These changes resulted in a net decrease of $60 million to the allowance for credit losses and are being made prospectively.

11. Allowance for credit losses (continued)

As at March 31	2021			
	Stage 1	Stage 2	Stage 3	Total
Loans receivable[1]				
Allowance for credit losses, beginning of year	$ 25,618	$ 158,240	$ 71,293	$ 255,151
Transfer to Stage 1	17,651	(17,302)	(349)	–
Transfer to Stage 2	(7,575)	20,424	(12,849)	–
Transfer to Stage 3	(8)	(6,656)	6,664	–
Changes due to new loans originated	33,293	12,990	3,065	49,348
Loans that have been derecognized during the period	(10,909)	(10,447)	(11,541)	(32,897)
Net remeasurement of loss allowance[2]	(26,320)	(36,539)	31,417	(31,442)
Writeoffs[3]	–	(661)	(37,254)	(37,915)
Recoveries of amounts previously written off	–	74	625	699
Losses covered under HILLRP	3	(12)	102	93
Changes to allowance model parameters[4]	12,800	2,000	200	15,000
Total allowance, end of year	$ 44,553	$ 122,111	$ 51,373	$ 218,037
Finance leases receivable				
Allowance for credit losses, beginning of year	$ 54	$ –	$ –	$ 54
Changes due to new finance leases originated	195	–	–	195
Finance leases that have been derecognized during the period	(44)	–	–	(44)
Net remeasurement of loss allowance[2]	(58)	–	–	(58)
Total allowance, end of year	$ 147	$ –	$ –	$ 147
Other loans receivable				
Allowance for credit losses, beginning of year	$ 591	$ –	$ 3,903	$ 4,494
Transfer to Stage 3	(1,489)	–	1,489	–
Changes due to new other loans originated	–	–	23	23
Net remeasurement of loss allowance[2]	1,600	–	22,085	23,685
Writeoffs[3]	–	–	(26,459)	(26,459)
Total allowance, end of year	$ 702	$ –	$ 1,041	$ 1,743

[1] Included within the loans receivable total is $9 million of allowance for credit losses on loan commitments that have not been partially drawn at March 31, 2021.

[2] Includes partial repayments.

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

[4] During 2020-21, the revised definition of default that was estimated last year was implemented into FCC's PD models along with changes to segment customers based on risk characteristics (increase of $11 million). EAD models were updated for revolving loans to better reflect historical experience (increase of $4 million). These changes resulted in a net increase of $15 million to the allowance and are being made prospectively.

12. 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 were as follows:

	Registered pension plan	
As at March 31	**2022**	2021
Present value of funded defined benefit obligations	**$ (793,725)**	$ (905,150)
Fair value of plan assets	**1,087,268**	1,049,036
Net defined benefit asset	**$ 293,543**	$ 143,886

	Supplemental pension plans	
As at March 31	**2022**	2021
Present value of funded defined benefit obligations	**$ (77,965)**	$ (87,507)
Fair value of plan assets	**73,791**	65,586
Net defined benefit liability (funded)	**(4,174)**	(21,921)
Present value of unfunded defined benefit obligations	**(12,612)**	(14,549)
Net defined benefit liability	**$ (16,786)**	$ (36,470)

	Other benefits	
As at March 31	**2022**	2021 Restated (Note 4a)
Present value of unfunded defined benefit obligations	**$ (74,685)**	$ (79,363)
Net defined benefit liability	**$ (74,685)**	$ (79,363)

The total net defined benefit asset is $294 million (2021 – $144 million). This amount is recorded on the Consolidated Balance Sheet as post-employment benefit assets. The total net defined benefit liability is $91 million (2021 restated – $116 million). This amount is recorded on the Consolidated Balance Sheet as post-employment benefit liabilities.

12. Post-employment benefits (continued)

Movements in the present value of the defined benefit obligation

As at March 31	Registered pension plan 2022	Registered pension plan 2021	Supplemental pension plans 2022	Supplemental pension plans 2021	Other benefits 2022	Other benefits 2021 Restated (Note 4a)
Defined benefit obligation, beginning of year	**$ 905,150**	$ 762,840	**$ 102,056**	$ 89,950	**$ 79,363**	$ 78,162
Current service cost	**22,325**	18,237	**1,529**	1,524	**6,415**	5,105
Interest cost on the defined benefit obligation	**30,366**	30,999	**3,388**	3,627	**2,809**	3,307
Contributions by employees	**8,427**	8,566	**634**	700	**–**	–
Benefits paid	**(23,005)**	(20,755)	**(2,472)**	(2,307)	**(1,105)**	(1,270)
Experience adjustments on plan liabilities	**6,455**	(4,372)	**1,721**	(3,145)	**(233)**	3,639
Actuarial (gain) loss from changes in financial assumptions	**(123,491)**	109,635	**(12,501)**	11,707	**(12,564)**	(9,194)
Actuarial gain from changes in demographic assumptions	**(32,502)**	–	**(3,778)**	–	**–**	(386)
Defined benefit obligation, end of year	**$ 793,725**	$ 905,150	**$ 90,577**	$ 102,056	**$ 74,685**	$ 79,363

The duration of the registered pension plan's defined benefit obligation is 17 years (2021 – 18 years). The duration of the supplemental pension plans' defined benefit obligation is 16 years (2021 – 19 years). The duration of the other benefit plan's defined benefit obligation is 21 years (2021 – 23 years).

Movements in the fair value of plan assets

As at March 31	Registered pension plan 2022	Registered pension plan 2021	Supplemental pension plans 2022	Supplemental pension plans 2021	Other benefits 2022	Other benefits 2021
Fair value of plan assets, beginning of year	**$ 1,049,036**	$ 941,238	**$ 65,586**	$ 48,349	**$ –**	$ –
Interest income on plan assets	**34,784**	37,843	**2,317**	2,045	**–**	–
Return on plan assets (less) greater than the discount rate	**(6,589)**	60,287	**(3,334)**	9,648	**–**	–
Contributions by FCC	**25,496**	22,825	**11,090**	7,180	**1,105**	1,270
Contributions by employees	**8,427**	8,566	**634**	700	**–**	–
Benefits paid	**(23,005)**	(20,755)	**(2,472)**	(2,307)	**(1,105)**	(1,270)
Plan administration costs	**(881)**	(968)	**(30)**	(29)	**–**	–
Fair value of plan assets, end of year	**$ 1,087,268**	$ 1,049,036	**$ 73,791**	$ 65,586	**$ –**	$ –

12. Post-employment benefits (continued)

Defined benefit costs recognized in net income

For the year ended March 31	Registered pension plan 2022	Registered pension plan 2021	Supplemental pension plans 2022	Supplemental pension plans 2021	Other benefits 2022	Other benefits 2021 Restated (Note 4a)	Total 2022	Total 2021 Restated (Note 4a)
Current service cost	**$ 22,325**	$ 18,237	**$ 1,529**	$ 1,524	**$ 6,415**	$ 5,105	**$ 30,269**	$ 24,866
Net interest	**(4,418)**	(6,844)	**1,071**	1,582	**2,809**	3,307	**(538)**	(1,955)
Plan administration costs	**881**	968	**30**	29	**–**	–	**911**	997
	$ 18,788	$ 12,361	**$ 2,630**	$ 3,135	**$ 9,224**	$ 8,412	**$ 30,642**	$ 23,908

Defined benefit costs recognized in OCI

For the year ended March 31	Registered pension plan 2022	Registered pension plan 2021	Supplemental pension plans 2022	Supplemental pension plans 2021	Other benefits 2022	Other benefits 2021 Restated (Note 4a)	Total 2022	Total 2021 Restated (Note 4a)
Experience adjustments on plan liabilities	**$ (6,455)**	$ 4,372	**$ (1,721)**	$ 3,145	**$ 233**	$ (3,639)	**$ (7,943)**	$ 3,878
Return on plan assets (less) greater than the discount rate	**(6,589)**	60,287	**(3,334)**	9,648	**–**	–	**(9,923)**	69,935
Actuarial gain (loss) from changes in financial assumptions	**123,491**	(109,635)	**12,501**	(11,707)	**12,564**	9,194	**148,556**	(112,148)
Actuarial gain from changes in demographic assumptions	**32,502**	–	**3,778**	–	**–**	386	**36,280**	386
Remeasurement gain (loss)	**$ 142,949**	$ (44,976)	**$ 11,224**	$ 1,086	**$ 12,797**	$ 5,941	**$ 166,970**	$ (37,949)

The cumulative net remeasurement gains recognized in OCI as at March 31, 2022, were $185 million (2021 restated – $18 million).

Plan assets

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

As at March 31	Registered pension plan 2022	Registered pension plan 2021	Supplemental pension plans 2022	Supplemental pension plans 2021
Debt securities	**46.1%**	37.4%	**–**	–
Equity securities	**32.6%**	44.0%	**99.5%**	99.0%
Real estate	**15.8%**	13.7%	**–**	–
Infrastructure	**5.4%**	4.8%	**–**	–
Cash	**0.1%**	0.1%	**0.5%**	1.0%
	100.0%	100.0%	**100.0%**	100.0%

12. Post-employment benefits (continued)

Significant assumptions

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

As at March 31	Registered pension plan 2022	Registered pension plan 2021	Supplemental pension plans 2022	Supplemental pension plans 2021	Other benefits 2022	Other benefits 2021
Defined benefit obligation						
Discount rate	**4.10%**	3.30%	**4.10%**	3.30%	**4.10%**	3.30%
Rate of compensation increase	**3.25%**	3.25%	**3.25%**	3.25%	**4.00%**	4.00%
Consumer price index	**2.00%**	2.00%	**2.00%**	2.00%	**–**	–
Defined benefit costs						
Discount rate	**3.30%**	4.00%	**3.30%**	4.00%	**4.10%**	3.30%
Consumer price index	**2.00%**	2.00%	**2.00%**	2.00%	**–**	–

At March 31, 2022 and 2021, 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 1.03 (2021 – 0.87) and for females of 1.15 (2021 – 0.99). As at March 31, 2022, the average life expectancy of an individual retiring at age 65 is 23 years for males (2021 – 24 years) and 24 years for females (2021 – 25 years).

Assumed health care cost trend rates are as follows:

As at March 31	2022	2021
Extended health care and dental care cost escalation		
Initial rate	**4.40%**	4.40%
Ultimate rate	**4.00%**	4.00%
Year ultimate rate reached	**2040**	2040

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 / Increase (decrease) defined benefit obligation	2022 Registered pension plan	2022 Supplemental pension plans	2022 Other benefits
1% increase in discount rate	**$ (122,728)**	**$ (13,205)**	**$ (13,472)**
1% decrease in discount rate	**158,636**	**15,561**	**17,901**
0.25% increase in rate of compensation increase	**4,503**	**1,191**	**46**
0.25% decrease in rate of compensation increase	**(5,415)**	**(1,954)**	**(45)**
1% increase in consumer price index	**116,748**	**12,254**	**–**
1% decrease in consumer price index	**(96,400)**	**(11,090)**	**–**
One-year increase in expected lifetime of plan participants	**18,072**	**1,637**	**2,175**
1% increase in assumed overall health care cost trend rates	**–**	**–**	**15,608**
1% decrease in assumed overall health care cost trend rates	**–**	**–**	**(12,059)**

12. 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, 2022, the expense was $13 million (2021 – $11 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 $51 million (2021 – $43 million). During the year, solvency payments of $10 million (2021 – $9 million) were made to the defined benefit pension plan.

Total cash payments for post-employment benefits for 2023 are anticipated to be approximately $46 million.

13. Property and equipment

	Leasehold improvements	Office equipment and furniture	Computer equipment	Equipment under operating leases	Right-of-use assets[1]	Total[2]
Cost						
Balance as at March 31, 2020	$ 68,643	$ 28,638	$ 15,652	$ 129,991	$ 195,462	$ 438,386
Additions	2,981	2,165	2,969	–	11,719	19,834
Disposals	(331)	(558)	(1,511)	(35,043)	(3,016)	(40,459)
Balance as at March 31, 2021	71,293	30,245	17,110	94,948	204,165	417,761
Additions	1,796	1,380	3,717	–	8,340	15,233
Disposals	(2,326)	(993)	(1,442)	(39,458)	(834)	(45,053)
Transfer to assets held for sale (Note 6)	–	–	–	(55,490)	–	(55,490)
Balance as at March 31, 2022	**$ 70,763**	**$ 30,632**	**$ 19,385**	**$ –**	**$ 211,671**	**$ 332,451**
Accumulated depreciation						
Balance as at March 31, 2020	$ 48,128	$ 25,773	$ 12,185	$ 49,764	$ 15,342	$ 151,192
Depreciation	4,514	1,397	2,535	16,989	15,849	41,284
Disposals	(320)	(558)	(1,507)	(20,653)	–	(23,038)
Balance as at March 31, 2021	52,322	26,612	13,213	46,100	31,191	169,438
Depreciation	4,850	1,459	2,510	10,138	16,084	35,041
Disposals	(2,196)	(989)	(1,403)	(23,802)	–	(28,390)
Transfer to assets held for sale (Note 6)	–	–	–	(32,436)	–	(32,436)
Balance as at March 31, 2022	**$ 54,976**	**$ 27,082**	**$ 14,320**	**$ –**	**$ 47,275**	**$ 143,653**
Carrying value						
March 31, 2021	$ 18,971	$ 3,633	$ 3,897	$ 48,848	$ 172,974	$ 248,323
March 31, 2022	**15,787**	**3,550**	**5,065**	**–**	**164,396**	**188,798**

[1] FCC's Right-of-use assets portfolio consists of leased office space.

[2] The presentation of this note has changed from the previous year as a result of the reclassification described in Note 4b.

14. Intangible assets

	Internally developed	Purchased	Total
Cost			
Balance as at March 31, 2020	$ 106,146	$ 8,201	$ 114,347
Additions	3,131	–	3,131
Disposals	(30,751)	(572)	(31,323)
Balance as at March 31, 2021	78,526	7,629	86,155
Additions	3,012	12	3,024
Disposals	(4,049)	(63)	(4,112)
Balance as at March 31, 2022	**$ 77,489**	**$ 7,578**	**$ 85,067**
Accumulated amortization			
Balance as at March 31, 2020	$ 75,186	$ 7,625	$ 82,811
Amortization	14,387	268	14,655
Disposals	(30,729)	(572)	(31,301)
Balance as at March 31, 2021	58,844	7,321	66,165
Amortization	10,187	159	10,346
Disposals	(4,049)	(63)	(4,112)
Balance as at March 31, 2022	**$ 64,982**	**$ 7,417**	**$ 72,399**
Carrying value			
March 31, 2021	$ 19,682	$ 308	$ 19,990
March 31, 2022	**12,507**	**161**	**12,668**

Intangible assets are made up of computer software. Research and development costs related to internally developed computer software in the amount of $22 million (2021 – $19 million) have been included within facilities, software and equipment expenses.

15. Borrowings

Short-term debt

As at March 31	2022	2021
Government of Canada debt		
Floating-rate borrowings	**$ 915,105**	$ 4,695,209
Fixed-rate borrowings	**6,489,070**	7,003,080
	7,404,175	11,698,289
Capital markets debt		
USD fixed-rate promissory notes[1]	**673,439**	563,342
Retail and institutional fixed-rate notes	**–**	288,522
	673,439	851,864
	$ 8,077,614	$ 12,550,153

[1] $539 million USD (2021 – $448 million USD)

Short-term debt by maturity date

As at March 31	2022				
	Government of Canada		**Capital markets**		
	Carrying value	**Yield**	**Carrying value**	**Yield**	**Total**
From 0 – 3 months	**$ 1,962,493**	**0.52%**	**$ 673,439**	**0.27%**	**$ 2,635,932**
From 4 – 6 months	**1,922,592**	**0.71%**	**–**	**–**	**1,922,592**
From 7 – 9 months	**1,834,487**	**0.88%**	**–**	**–**	**1,834,487**
From 10 – 12 months	**1,684,603**	**1.25%**	**–**	**–**	**1,684,603**
	$ 7,404,175		**$ 673,439**		**$ 8,077,614**

As at March 31	2021				
	Government of Canada		Capital markets		
	Carrying value	Yield	Carrying value	Yield	Total
From 0 – 3 months	$ 2,291,362	0.97%	$ 851,864	2.31%	$ 3,143,226
From 4 – 6 months	2,546,933	0.60%	–	–	2,546,933
From 7 – 9 months	3,839,006	0.42%	–	–	3,839,006
From 10 – 12 months	3,020,988	0.43%	–	–	3,020,988
	$ 11,698,289		$ 851,864		$ 12,550,153

15. Borrowings (continued)

Short-term debt continuity

As at March 31	2022	2021
Short-term debt, beginning of year	**$ 12,550,153**	$ 9,952,320
Financing cash flows		
Debt issued	**12,629,821**	11,891,716
Debt repaid	**(12,397,247)**	(12,370,841)
Non-cash changes		
Change in short-term portion of long-term debt	**(4,699,921)**	3,087,886
Change in interest accrual	**1,869**	(10,912)
Change due to unrealized foreign exchange gain	**(7,061)**	(16)
Short-term debt, end of year	**$ 8,077,614**	$ 12,550,153

FCC has a demand operating line of credit that provides overdraft protection in the amount of $75 million (2021 – $30 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 repaid the next day. As at March 31, 2022, there were no draws on this credit facility (2021 – $nil).

Long-term debt

As at March 31	2022	2021
Government of Canada debt		
Floating-rate borrowings	**$ 15,282,177**	$ 11,610,371
Fixed-rate borrowings	**14,824,493**	11,094,291
	$ 30,106,670	$ 22,704,662

15. Borrowings (continued)

Long-term debt by maturity date

As at March 31	**2022**	
	Government of Canada	
	Carrying value	**Yield**
From 1 – 2 years	**$ 4,890,615**	**0.92%**
From 2 – 3 years	**4,193,587**	**1.05%**
From 3 – 4 years	**4,001,935**	**0.64%**
From 4 – 5 years	**3,113,035**	**1.15%**
Over 5 years	**13,907,498**	**0.61%**
	$ 30,106,670	

As at March 31	2021	
	Government of Canada	
	Carrying value	Yield
From 1 – 2 years	$ 5,741,911	0.62%
From 2 – 3 years	3,397,911	0.64%
From 3 – 4 years	3,642,180	0.91%
From 4 – 5 years	2,670,147	0.23%
Over 5 years	7,252,513	0.51%
	$ 22,704,662	

Long-term debt continuity

As at March 31	**2022**	2021
Long-term debt, beginning of year	**$ 22,704,662**	$ 23,607,441
Financing cash flows		
Debt issued	**14,490,000**	9,282,000
Debt repaid	**(11,785,856)**	(7,081,365)
Non-cash changes		
Change in short-term portion of long-term debt	**4,699,921**	(3,087,886)
Change in interest accrual	**(2,016)**	(14,891)
Other	**(41)**	(637)
Long-term debt, end of year	**$ 30,106,670**	$ 22,704,662

16. Lease liabilities

FCC's leasing 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 3 to 20 years, including optional renewal periods.

As at March 31	2022	2021
Maturity analysis – contractual undiscounted cash flows		
Less than 1 year	**$ 17,879**	$ 17,724
From 1 – 5 years	**63,646**	65,093
Over 5 years	**102,078**	110,254
Total undiscounted lease liabilities	**$ 183,603**	$ 193,071
Lease liabilities on the balance sheet	**$ 166,748**	$ 174,492
Less: current portion of lease liabilities	**15,353**	15,077
Non-current portion of lease liabilities	**151,395**	159,415

Amounts recognized in net income

For the year ended March 31	2022	2021
Interest on lease liabilities	**$ 2,676**	$ 2,910
Variable lease payments not included in the measurement of lease liabilities	**4,853**	3,815

Amounts recognized in the statement of cash flows

For the year ended March 31	2022	2021
Interest on lease liabilities	**$ 2,676**	$ 2,910
Principal repayment of lease liabilities	**15,250**	14,563
Total cash outflow for leases	**$ 17,926**	$ 17,473

[1] Lease terms calculated from the later of the lease commencement date or IFRS 16 – Leases adoption date.

Future cash flows for leases not commenced to which the lessee is committed are $6 million (2021 – $3 million).

17. Net interest income

For the year ended March 31		2022		2021
Interest income				
Financial assets measured at amortized cost	**$**	**1,546,533**	$	1,521,719
Operating leases		**12,478**		19,349
Finance leases		**5,630**		5,700
Transfer of net realized gains on derivatives designated as cash flow hedges from AOCI to net income		**1,489**		19,748
Total interest income for financial instruments not at FVTPL		**1,566,130**		1,566,516
Investments at fair value		**471**		–
Derivative financial assets and liabilities at FVTPL – net		**426**		9,489
Total interest income		**1,567,027**		1,576,005
Interest expense				
Financial liabilities measured at amortized cost		**213,273**		258,341
Depreciation on equipment under operating leases		**10,566**		16,325
Interest on lease liabilities		**2,676**		2,910
Total interest expense		**226,515**		277,576
Net interest income	**$**	**1,340,512**	$	1,298,429

The total net fee income that was recognized immediately in net interest income arising from financial assets and liabilities not measured at FVTPL was $8 million (2021 – $18 million).

18. Administration expenses

For the year ended March 31		2022		2021 Restated (Note 4)
Salaries and benefits	**$**	**304,890**	$	284,479
Professional fees		**71,135**		64,230
Facilities, software and equipment		**67,474**		59,265
Amortization and depreciation		**35,250**		38,952
Marketing and promotion		**12,670**		12,792
Travel and training		**6,769**		4,306
Other		**9,739**		8,893
	$	**507,927**	$	472,917

19. 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		2022			2021	
	Level 2	Level 3	Total	Level 2	Level 3	Total
Assets						
Derivative financial assets	$ –	$ –	$ –	$ 4,781	$ –	$ 4,781
Investments at fair value	–	56,063	56,063	–	28,398	28,398
	$ –	$ 56,063	$ 56,063	$ 4,781	$ 28,398	$ 33,179
Liabilities						
Derivative financial liabilities	$ 32	$ –	$ 32	$ 322	$ –	$ 322
	$ 32	$ –	$ 32	$ 322	$ –	$ 322

Changes in valuation methods may result in transfers into or out of levels 1, 2 and 3. For the year ended March 31, 2022, there were no transfers between levels (2021 – $nil).

Level 3 financial instruments

The following table summarizes the changes in the Level 3 valuation hierarchy for investments at fair value that occurred during the year:

As at March 31	2022	2021
Balance, beginning of year	$ 28,398	$ 2,718
Acquisitions	18,507	25,680
Net fair value gains	9,158	–
Balance, end of year	$ 56,063	$ 28,398

19. 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	2022		2021	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
Assets				
Short-term investments	**$ 583,343**	**$ 582,460**	$ 732,702	$ 731,103
Loans receivable	**44,379,503**	**43,677,354**	41,128,445	41,493,721
Finance leases receivable	**–**	**–**	141,053	141,338
Liabilities				
Long-term debt	**30,106,670**	**29,437,770**	22,704,662	22,764,006

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 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 cash equivalents, accounts receivable, other loans receivable, assets held for sale, other assets (excluding the insurance reserve asset), accounts payable and accrued liabilities, short-term debt, transition loan liabilities and other liabilities.

20. Operating lease arrangements

Operating leases as a lessor

Operating leases consisted of agricultural equipment leased to customers under non-cancellable operating lease agreements. The initial lease terms of operating leases ranged from three to six years.

The future minimum lease payments were receivable as follows:

As at March 31	2022	2021
Amounts due		
Less than 1 year	**$ –**	$ 11,601
From 1 – 2 years	**–**	7,053
From 2 – 3 years	**–**	1,017
From 3 – 4 years	**–**	7
	$ –	$ 19,678

As of March 31, 2022, operating lease balances were transferred to assets held for sale as detailed in Note 6.

21. Commitments, guarantees and contingent liabilities

Loan and lease commitments

As at March 31, 2022, loans approved but undisbursed amounted to $10,447 million (2021 – $9,904 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, 2022, finance leases approved but undisbursed amounted to $nil (2021 – $11 million). 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, 2022, FCC had committed to invest an additional $82 million (2021 – $45 million) in investments in associates.

Capital commitments

As at March 31, 2022, capital expenditures contracted for property and equipment but not yet incurred were $2 million (2021 – $2 million).

Operating commitments

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

As at March 31	2022	2021
Amounts due		
Less than 1 year	**$ 22,501**	$ 16,409
From 1 – 5 years	**37,619**	41,301
Over 5 years	**53,872**	62,006
	$ 113,992	$ 119,716

21. Commitments, guarantees and contingent liabilities (continued)

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, 2022, is $6 million (2021 – $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. No amount has been recorded for these letters of credit as at March 31, 2022 (2021 – $nil).

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 financial position or the results of operations of FCC, therefore, no amount has been included in the financial statements as at March 31, 2022 (2021 – $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 financial statements as at March 31, 2022 (2021 – $nil) for these indemnifications and contingencies.

22. 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 Forage Subordinated Debt Fund II, Forage Subordinated Debt Fund III and Forage Capital – Ag & Food Business Solutions Fund Limited Partnership. They are limited partnerships for which FCC holds 99% (2021 – 99%), 99% (2021 – 99%) and 99% (2021 – 100%) of the partnership units, respectively. These funds are all consolidated funds as described in Note 2. All transactions between FCC and the consolidated 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.

22. Related party transactions (continued)

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, 2022, $207 million (2021 – $240 million) was recorded in interest expense relating to these borrowings.

FCC has $nil (2021 – $46 million) short-term investments with the Government of Canada. In the prior year, these investments were included in cash and cash equivalents because they had a maturity date of less than 90 days.

FCC receives government assistance from the HILLRP to share the credit losses on certain loans with the Government of Canada. The amount estimated to be returned to the Government of Canada is $13 million (2021 – $16 million) and is included in borrowings.

At the discretion of the Board, FCC may pay a dividend to the Government of Canada on an annual basis, as detailed in Note 23.

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 as follows:

For the year ended March 31		**2022**		2021
Salaries and other short-term employee benefits	**$**	**3,681**	$	3,995
Post-employment benefits		**723**		968
Board retainers and per diems		**335**		208
Total	**$**	**4,739**	$	5,171

23. 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 downturns 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 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 intangible assets 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, 2022 and 2021, FCC's total capital ratio was greater than both the minimum regulatory capital ratio and the target capital ratio, and therefore adequately capitalized in accordance with OSFI's CAR guideline and FCC's Internal Capital Adequacy Assessment Process.

As at March 31	2022	2021 Restated (Note 4a)
Capital		
Retained earnings	**$ 8,076,280**	$ 7,537,566
Contributed capital	**500,000**	500,000
AOCI	**–**	1,489
Required regulatory adjustments:		
Accumulated net gains on derivatives designated as cash flow hedges	**–**	(1,489)
Intangible assets	**(12,668)**	(19,990)
Post-employment benefit assets	**(293,543)**	(143,886)
CET1/Total capital	**$ 8,270,069**	$ 7,873,690
Risk-weighted assets		
Credit risk-weighted assets	**$ 46,304,780**	$ 43,004,293
Operational risk-weighted assets	**2,358,970**	2,243,257
Total risk-weighted assets	**$ 48,663,750**	$ 45,247,550
Total capital ratio	**17.0 %**	17.4 %
Target capital ratio	**15.0 %**	15.0 %
Minimum regulatory capital ratio	**10.5 %**	10.5 %

23. 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, 2022, FCC's total direct and contingent liabilities were 4.51 times the shareholder's equity, excluding AOCI (restated 2021 – 4.46 times the shareholder's equity, excluding AOCI).

Contributed capital

FCC's contributed capital consists of capital contributions made by the Government of Canada. No additional capital contributions were received during the fiscal year from the Government of Canada, maintaining the contributed capital balance at $500 million on March 31, 2022 (2021 – $500 million).

Dividend

For the year ended March 31, 2022, a dividend of $560 million was declared to FCC's shareholder, the Government of Canada, which was paid out of retained earnings (2021 – $nil).

24. 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 several committees, divisions and business units to effectively manage credit risk.

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.

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

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 that 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.

24. Risk management (continued)

Credit risk category	PD range
Investment grade	0.00% – 0.54%
Non-investment grade	0.55% – 26.12%
Watch list	26.13% – 99.99%
Default	100%

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. The allowance for credit losses has three probability-weighted scenarios: baseline, optimistic and pessimistic. The weighting applied to each scenario can be adjusted using management discretion to reflect changes in the macroeconomic environment that are not captured by the models. 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.

	2022	
As at March 31	Next 12 months	2 to 5 years
Macroeconomic variables		
Real gross domestic product	7.3%	4.2%
USD/CAD exchange rates	$ 0.80	$ 0.83
Interest rates		
- Bank	0.90%	2.50%
- 5-year	4.30%	5.30%

As at March 31, 2022, the impact of weighting the multiple scenarios increased FCC's allowance for credit losses on performing loans, relative to the base case scenario, by $13 million. 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 $79 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 $163 million. The allowance for credit losses for all loans in Stage 1 and Stage 2 ranges from approximately $51 million to $108 million under the most optimistic and pessimistic scenarios. These values are components of FCC's weighted-allowance calculation used for the financial statements.

24. Risk management (continued)

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, 2022, the collateral held against total gross impaired loans represents 91.5% (2021 – 83.1%) of total gross impaired loans.

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

As at March 31	2022	2021
Weighted-average loan-to-security ratio for secured loans	**50.7%**	50.6%
Loans secured by a general security agreement and unsecured loans as a percentage of loans receivable	**5.5%**	5.5%

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 21 for further details regarding FCC's loan commitments. To mitigate risk, unused commitments are included as input into FCC's capital requirement calculations.

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

As at March 31	2022	2021
On balance sheet		
Cash and cash equivalents	**$ 1,439,109**	$ 1,251,093
Short-term investments	**584,397**	732,702
Accounts receivable	**25,369**	27,455
Derivative financial assets	**–**	4,781
Loans receivable	**44,534,389**	41,392,037
Finance leases receivable	**–**	155,657
Other loans receivable	**54,215**	61,056
Assets held for sale	**185,761**	–
Investments at fair value	**56,063**	28,398
Investment in associates	**49,424**	57,839
Other assets	**5,824**	6,165
	46,934,551	43,717,183
Off balance sheet		
Financial guarantees	**6,141**	6,769
Loan and lease commitments	**10,447,254**	9,914,953
Operating lease receivable	**–**	19,678
Investment in associates' commitments	**82,310**	44,930
	10,535,705	9,986,330
Total maximum exposure to credit risk	**$ 57,470,256**	$ 53,703,513

The preceding table represents a worst-case scenario of credit risk exposure to FCC at the end of the year, without considering any collateral held or other credit enhancements attached. For 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 were called upon.

24. Risk management (continued)

Exposure to credit risk by credit risk rating grades

As at March 31	Stage 1	Stage 2	Stage 3	2022 Total
On balance sheet:				
Loans receivable				
Investment grade	$ 15,778,529	$ 514,908	$ –	$ 16,293,437
Non-investment grade	15,523,988	10,175,738	11,099	25,710,825
Watch list	17,082	163,501	–	180,583
Default	–	192,284	365,078	557,362
Unassigned credit risk rating(1)	1,484,975	243,395	18,560	1,746,930
Loans receivable – total	32,804,574	11,289,826	394,737	44,489,137
Allowance for credit losses	(45,027)	(31,399)	(33,208)	(109,634)
Loans receivable – net	$ 32,759,547	$ 11,258,427	$ 361,529	$ 44,379,503
Other loans receivable				
Medium risk	$ 34,336	$ –	$ –	$ 34,336
High risk	–	19,838	41	19,879
Other loans receivable – gross	34,336	19,838	41	54,215
Allowance for credit losses	(480)	(3,251)	(41)	(3,772)
Other loans receivable – net	$ 33,856	$ 16,587	$ –	$ 50,443
Off balance sheet:				
Loan commitments				
Investment grade	$ 3,252,271	$ 58,386	$ –	$ 3,310,657
Non-investment grade	2,608,645	972,053	–	3,580,698
Watch list	348	2,340	–	2,688
Default	–	2,147	8,017	10,164
Unassigned credit risk rating(1)	3,459,756	83,265	24	3,543,045
Loan commitments – gross(2)	$ 9,321,020	$ 1,118,191	$ 8,041	$ 10,447,252

(1) 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.

(2) 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 and loan commitments by credit risk rating grade and allowance stage based on FCC's internal credit risk ratings.

24. Risk management (continued)

Exposure to credit risk by credit risk rating grades

As at March 31	Stage 1	Stage 2	Stage 3	2021 Total
On balance sheet:				
Loans receivable				
Investment grade	$ 12,956,101	$ 1,439,762	$ –	$ 14,395,863
Non-investment grade	11,830,640	12,897,937	13,570	24,742,147
Watch list	18,968	196,705	145	215,818
Default	–	124,652	264,492	389,144
Unassigned credit risk rating(1)	1,363,802	211,928	27,780	1,603,510
Loans receivable – total	26,169,511	14,870,984	305,987	41,346,482
Allowance for credit losses	(44,553)	(122,111)	(51,373)	(218,037)
Loans receivable – net	$ 26,124,958	$ 14,748,873	$ 254,614	$ 41,128,445
Other loans receivable				
Low risk	$ 24,481	$ –	$ –	$ 24,481
Medium risk	35,534	–	–	35,534
High risk	–	–	1,041	1,041
Other loans receivable – gross	60,015	–	1,041	61,056
Allowance for credit losses	(702)	–	(1,041)	(1,743)
Other loans receivable – net	$ 59,313	$ –	$ –	$ 59,313
Off balance sheet:				
Loan commitments				
Investment grade	$ 2,848,017	$ 160,177	$ –	$ 3,008,194
Non-investment grade	2,204,583	1,241,403	–	3,445,986
Watch list	1,305	5,768	–	7,073
Default	–	6,886	1,975	8,861
Unassigned credit risk rating(1)	3,335,727	95,050	2,792	3,433,569
Loan commitments – gross(2)	$ 8,389,632	$ 1,509,284	$ 4,767	$ 9,903,683

(1) 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.

(2) 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 and loan commitments by credit risk rating grade and allowance stage based on FCC's internal credit risk ratings.

24. Risk management (continued)

Loans receivable

Loans receivable past due but not credit-impaired

A loan is considered past due when a customer has not made a payment by the contractual due date. 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	2022	2021
Past due but not credit-impaired		
Up to 30 days	**$ 141,039**	$ 132,433
31 – 60 days	**46,604**	48,224
61 – 89 days	**18,950**	12,879
90 days or more	**88,665**	101,935
	$ 295,258	$ 295,471

Loan modifications and customer relief programs

As part of FCC's usual lending business, the contractual terms of loans are modified from time to time for various reasons, including financial difficulty of the borrower and borrower preference. In addition, FCC established relief programs to help customers experiencing financial difficulty caused by the pandemic and adverse weather, primarily through payment deferrals.

The net carrying value of loans with lifetime allowance for credit losses modified during the year ended March 31, 2022, was $nil (2021 – $4,214 million), including modifications for pandemic-related payment deferrals of $nil (2021 – $2,808 million). Modification losses of $nil were recorded against interest income (2021 – $7 million). As at March 31, 2022, the gross carrying value of loans modified during the year with lifetime allowance for credit losses that had changed to 12-month credit losses was $nil (2021 – $407 million).

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 7 for the quantification of counterparty credit risk.

24. 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. As at March 31, 2022, the largest total investment in any one counterparty was $178 million (2021 – $308 million).

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	**2022**		2021	
	Cash equivalents	**Short–term investments**	Cash equivalents	Short–term investments
Government and government guaranteed				
AAA	**$ –**	**$ –**	$ 46,000	$ 308,841
AA+	**–**	**59,960**	–	–
AA	**–**	**69,813**	–	55,975
AA-	**–**	**166,662**	–	212,081
A+	**–**	**129,230**	8,899	155,805
A	**103,941**	**158,732**	–	–
	103,941	**584,397**	54,899	732,702
Schedule 1 banks				
A-1	**39,999**	**–**	–	–
	39,999	**–**	–	–
	$ 143,940	**$ 584,397**	$ 54,899	$ 732,702

Other loans receivable

FCC is exposed to credit risk through its Forage Subordinated Debt Fund arrangements. 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 several 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.

24. 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:

	2022 Impact of		2021 Impact of	
	2% increase	**2% decrease**	2% increase	2% decrease
Projected net interest income variability	**$ 27,500**	**$ (30,500)**	$ 35,400	$ (44,200)
Limit	**(71,900)**	**(71,900)**	(70,100)	(70,100)
EVE variability	**(363,600)**	**343,400**	(307,200)	241,000
Limit	**(807,628)**	**(807,628)**	(801,174)	(801,174)

24. 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	Immediately rate-sensitive	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest sensitive	Total 2022	2021 Restated (Note 4a)
Assets								
Cash and cash equivalents	**$ 1,295,286**	**$ 143,823**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 1,439,109**	$ 1,251,093
Yield	**0.95%**	**0.50%**	**–**	**–**	**–**	**–**	**–**	–
Short-term investments	**–**	**330,161**	**253,182**	**–**	**–**	**1,054**	**584,397**	732,702
Yield[1]	**–**	**0.27%**	**0.76%**	**–**	**–**	**–**	**–**	–
Derivative financial assets[2][3]	**–**	**–**	**–**	**–**	**–**	**–**	**–**	4,781
Yield[1]	**–**	**–**	**–**	**–**	**–**	**–**	**–**	–
Loans receivable	**14,462,955**	**2,165,290**	**5,363,779**	**17,218,876**	**4,914,954**	**253,649**	**44,379,503**	41,128,445
Yield[1]	**3.65%**	**4.17%**	**3.14%**	**3.53%**	**3.75%**	**–**	**–**	–
Finance leases receivable	**–**	**–**	**–**	**–**	**–**	**–**	**–**	141,053
Yield[1]	**–**	**–**	**–**	**–**	**–**	**–**	**–**	–
Other loans receivable	**–**	**–**	**17,070**	**28,855**	**3,935**	**583**	**50,443**	59,313
Yield[1]	**–**	**–**	**9.30%**	**8.80%**	**9.25%**	**–**	**–**	–
Other	**–**	**–**	**–**	**–**	**–**	**830,571**	**830,571**	542,777
Total assets	**$ 15,758,241**	**$ 2,639,274**	**$ 5,634,031**	**$ 17,247,731**	**$ 4,918,889**	**$ 1,085,857**	**$ 47,284,023**	$ 43,860,164
Liabilities and equity								
Borrowings	**$ –**	**$ 18,810,008**	**$ 4,543,747**	**$ 10,865,000**	**$ 3,912,000**	**$ 53,529**	**$ 38,184,284**	$ 35,254,815
Yield[1]	**–**	**0.39%**	**1.04%**	**1.20%**	**1.21%**	**–**	**–**	–
Derivative financial liabilities[2][3]	**–**	**(12,496)**	**12,496**	**–**	**–**	**32**	**32**	322
Yield[1]	**–**	**0.44%**	**1.75%**	**–**	**–**	**–**	**–**	–
Other[4]	**–**	**–**	**–**	**–**	**–**	**523,427**	**523,427**	565,972
Shareholder's equity	**–**	**–**	**–**	**–**	**–**	**8,576,280**	**8,576,280**	8,039,055
Total liabilities and equity	**$ –**	**$ 18,797,512**	**$ 4,556,243**	**$ 10,865,000**	**$ 3,912,000**	**$ 9,153,268**	**$ 47,284,023**	$ 43,860,164
Total gap 2022	**$ 15,758,241**	**$ (16,158,238)**	**$ 1,077,788**	**$ 6,382,731**	**$ 1,006,889**	**$ (8,067,411)**	**$ –**	$ –
Total cumulative gap 2022	**$ 15,758,241**	**$ (399,997)**	**$ 677,791**	**$ 7,060,522**	**$ 8,067,411**	**$ –**	**$ –**	$ –
Total gap 2021	$ 16,445,538	$ (16,918,042)	$ 1,805,587	$ 6,653,284	$ (23,686)	$ (7,962,681)	$ –	$ –
Total cumulative gap 2021	$ 16,445,538	$ (472,504)	$ 1,333,083	$ 7,986,367	$ 7,962,681	$ –	$ –	$ –

[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.

[4] The prior year restatement relates to a $26 million reduction in post-employment benefit liabilities as discussed in Note 4a.

24. 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 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 $nil (2021 – $73 million). Foreign exchange losses in the year were $1 million (2021 – $76 million).

Derivatives
FCC uses derivatives to economically 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 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 19% of assets invested in Canadian Long Bonds, 6% in leveraged Canadian Long Bonds, 10% in Canadian Long-term Private Debt, and 20% in Real Return 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 44.3 years. The Canadian Long-term Private Debt has a duration of 15.4 years and the Real Return Bonds have a duration of 31.6 years. Overall, the registered pension plans' assets are estimated to be 11.3 years while the liabilities are estimated to be 16.5 years. The supplemental pension plans' liabilities are estimated to be 16.1 years and the assets have no duration.

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.

24. Risk management (continued)

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.

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 several 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 $2,024 million were on hand as at March 31, 2022 (2021 – $1,984 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 $75 million bank operating line of credit

The following table shows the undiscounted cash flows of FCC's financial liabilities based on 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.

24. Risk management (continued)

Residual contractual maturities of financial liabilities

As at March 31	2022						
	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							
Accounts payable and accrued liabilities	**$ 84,274**	**$ 84,274**	**$ 38,209**	**$ 1,919**	**$ 44,146**	**$ –**	**$ –**
Borrowings	**38,184,284**	**38,184,281**	**1,318,299**	**1,347,928**	**5,448,008**	**16,173,046**	**13,897,000**
Transition loan liabilities	**173,652**	**175,689**	**11,735**	**23,703**	**43,453**	**96,798**	**–**
	38,442,210	**38,444,244**	**1,368,243**	**1,373,550**	**5,535,607**	**16,269,844**	**13,897,000**
Derivative financial liabilities	**32**	**32**	**3**	**–**	**29**	**–**	**–**
	$ 38,442,242	**$ 38,444,276**	**$ 1,368,246**	**$ 1,373,550**	**$ 5,535,636**	**$ 16,269,844**	**$ 13,897,000**

As at March 31	2021						
	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[(1)]							
Accounts payable and accrued liabilities	$ 76,122	$ 76,122	$ 29,773	$ 1,261	$ 44,405	$ 683	$ –
Borrowings	35,254,815	35,254,702	1,510,422	1,657,892	9,409,789	15,444,599	7,232,000
Transition loan liabilities	191,563	194,159	16,137	18,900	42,509	116,545	68
	35,522,500	35,524,983	1,556,332	1,678,053	9,496,703	15,561,827	7,232,068
Derivative financial liabilities	322	322	4	–	–	318	–
	$ 35,522,822	$ 35,525,305	$ 1,556,336	$ 1,678,053	$ 9,496,703	$ 15,562,145	$ 7,232,068

[(1)] Other liabilities was removed to align with current year presentation.

25. Subsequent events

The Board approved the Consolidated Financial Statements on June 16, 2022. There was one subsequent event requiring disclosure within the Consolidated Financial Statements since March 31, 2022. As at May 17, 2022, the sale of the leasing portfolio was finalized between FCC and a financial services company. The leasing portfolio, currently classified as assets held for sale on the Consolidated Balance Sheet, will transfer to the financial services company as of July 5, 2022, for a price of net book value at closing and includes an impairment loss of $5 million (see Note 6).

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