

First Quarter Financial Report 2019-20

For the period ended June 30, 2019

Farm Credit Canada

Farm Credit Canada (FCC) is a financially self-sustaining federal Crown corporation, reporting to Canadians and Parliament through the Minister of Agriculture and Agri-Food. We provide financing and other services to more than 100,000 primary producers, value-added operators, suppliers and processors along the agriculture value chain. Operating from 97 offices located primarily in rural communities, our more than 1,900 employees are passionate about the business of agriculture.

Contact Corporate Communication at communications@fcc-fac.ca for more information.

First Quarter Financial Report 2019-20

For the period ended June 30, 2019

This report was prepared in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and should be read in conjunction with disclosures and information contained in FCC's Annual Report and Corporate Plan Summary.¹

Financial results

This document contains the corporation's unaudited financial results for the first quarter, which ended June 30, 2019. On April 1, 2019, FCC adopted International Financial Reporting Standard (IFRS) 16 – Leases to replace IAS 17, IFRIC 4, SIC 15 and SIC 27 in accordance with the accounting policy changes made by the International Accounting Standards Board (IASB). Changes to FCC's accounting policies and the transition impact resulting from the adoption of IFRS 16 are described in Note 1 of the Notes to the Consolidated Financial Statements.

The corporation is on track to meet the financial performance measures for the current fiscal year as outlined in the Corporate Plan Summary for 2019-20 to 2023-24.

Net income overview

(\$ millions)

	Three months ended	
	June 30, 2019	June 30, 2018*
Net interest income	\$ 290.6	\$ 275.9
Provision for credit losses	-	(6.3)
Non-interest income	4.0	23.0
Administration expenses	(109.7)	(103.1)
Fair value adjustment	(1.1)	(1.8)
Net income	\$ 183.8	\$ 187.7

*Restated

Net income for the three-month period ended June 30, 2019, decreased by \$3.9 million over the prior year. This was mainly due to a decrease in non-interest income of \$19.0 million and an increase in administrative expenses of \$6.6 million, offset by an increase in net interest income of \$14.7 million and a decrease in provision for credit losses of \$6.3 million.

Net interest income for the three-month period ended June 30, 2019, increased by \$14.7 million over the prior year primarily due to higher portfolio volumes. The net interest margin for the three-month period ended June 30, 2019, decreased to 3.10% from 3.12% for the comparable period in 2018-19, mainly due to the recognition of interest expense on lease liabilities related to the adoption of IFRS 16.

The provision for credit losses for the three-month period ended June 30, 2019, is \$6.3 million lower than the prior year, reflective of overall portfolio health.

Non-interest income for the three-month period ended June 30, 2019, decreased by \$19.0 million mainly due to a decrease in fair value gains in net income from investment in associates.

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

Administration expenses increased \$6.6 million year-over-year due to an increase in amortization and depreciation expense and an increase in salary expense, offset by a decrease in facilities, software and equipment expense.

Loans receivable

FCC experienced overall growth in loans receivable of \$1,172 million since March 31, 2019, bringing its loan portfolio to \$37,243 million at June 30, 2019. Loan portfolio growth of 3.2% for the three months ended June 30, 2019, was lower than the loan portfolio growth of 3.7% for the first three months of the prior fiscal year. Lower disbursement volume year-over-year was offset by lower repayments and the increase in opening loans receivable, resulting in a lower growth rate.

Cash flow

Cash and cash equivalents increased by \$103.8 million since March 31, 2019, to \$874.3 million at June 30, 2019, compared to a decrease of \$26.0 million for the first three months of the prior fiscal year. For the three-month period ended June 30, 2019, cash of \$976.9 million and \$52.5 million was used in operating activities and investing activities respectively, while \$1,028 million was provided by financing activities.

Outlook against Corporate Plan Summary

FCC is projected to meet or exceed all year-end financial targets as outlined in the Corporate Plan Summary for 2019-20 to 2023-24.

Measure	Outlook
Net income	On track with Corporate Plan
Return on equity	On track with Corporate Plan
Efficiency ratio	On track with Corporate Plan
Total capital ratio	On track with Corporate Plan

Enterprise risk management

FCC has an enterprise risk management framework to identify, manage and respond to risks effectively, consistently and in a co-ordinated manner. The corporation is exposed to four main categories of risk: financial, operational, strategic and reputation. Financial risks include the sub-categories of credit, market and liquidity.

The FCC Board of Directors oversees the corporation's risk governance framework, which is supported by policies and committees that guide corporate decision-making. The Risk Committee of the Board reviews risk results through a quarterly risk report.

Enterprise Management Team members are accountable for setting the tone on the importance of managing risk in their functional areas, as well as developing and implementing sound risk management strategies and action plans to manage the corporation's risks in accordance with its risk appetite.

FCC's risk assessment process includes risk identification and assessment, measurement, control, monitoring and reporting. This is an ongoing process for the corporation's material risks. In addition, all risks are assessed annually during the strategic planning process. Based on these processes, international trade has been closely monitored for financial implications.

Statement of management responsibility

Management is responsible for the preparation and fair presentation of these consolidated quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and for such internal controls as management determines is necessary to enable the preparation of consolidated quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring that all other information in this quarterly report is consistent, where appropriate, with the consolidated quarterly financial statements.

Based on our knowledge, these unaudited consolidated quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the consolidated quarterly financial statements.



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



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

*Regina, Canada
August 6, 2019*

Condensed Consolidated Financial Statements

Consolidated Balance Sheet

(Unaudited) (thousands of Canadian dollars)	June 30, 2019	March 31, 2019
Assets		
Cash and cash equivalents	\$ 874,315	\$ 770,517
Short-term investments	378,893	435,601
Accounts receivable and prepaid expenses	42,915	39,879
Derivative financial assets	13,788	16,459
	1,309,911	1,262,456
Loans receivable – net (Notes 3 and 4)	37,044,718	35,873,075
Finance leases receivable – net	35,062	20,148
Investment in associates	73,666	69,909
Venture capital investments – net	72,678	70,602
Post-employment benefit assets	90,278	88,891
	37,316,402	36,122,625
Equipment and leasehold improvements	24,956	26,070
Computer software	32,812	32,714
Equipment under operating leases	110,222	121,496
Right-of-use assets	177,265	-
Other assets	13,665	13,419
	358,920	193,699
Total assets	\$ 38,985,233	\$ 37,578,780
Liabilities		
Accounts payable and accrued liabilities	\$ 82,104	\$ 68,531
Derivative financial liabilities	51	-
	82,155	68,531
Borrowings (Note 5)		
Short-term debt	9,835,690	9,794,234
Long-term debt	21,935,802	20,950,075
	31,771,492	30,744,309
Transition loan liabilities	166,954	160,763
Post-employment benefit liabilities	168,830	165,205
Lease liabilities	177,721	-
Other liabilities	10,187	10,421
	523,692	336,389
Total liabilities	32,377,339	31,149,229
Equity		
Contributed surplus	183,725	183,725
Retained earnings	6,385,868	6,202,132
Accumulated other comprehensive income	37,602	43,017
Equity attributable to shareholder of parent entity	6,607,195	6,428,874
Non-controlling interest	699	677
	6,607,894	6,429,551
Total liabilities and equity	\$ 38,985,233	\$ 37,578,780

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

Consolidated Statement of Income

(Unaudited) (thousands of Canadian dollars)	Three months ended	
	June 30, 2019	June 30, 2018
Interest income ⁽¹⁾	\$ 431,729	\$ 372,784
Interest expense ⁽¹⁾	141,162	96,850
Net interest income⁽¹⁾	290,567	275,934
Provision for credit losses	21	6,298
Net interest income after provision for credit losses	290,546	269,636
Net insurance income	5,985	5,631
Net (loss) income from investment in associates	(1,206)	17,403
Net foreign exchange (loss) gain ⁽¹⁾	(356)	360
Other expense	(369)	(466)
Net interest income and non-interest income	294,600	292,564
Administration expenses		
Salary and benefits	68,041	64,255
Other	41,646	38,827
Total administration expenses	109,687	103,082
Net income before fair value adjustment	184,913	189,482
Fair value adjustment	(1,160)	(1,800)
Net income	\$ 183,753	\$ 187,682
Net income attributable to:		
Shareholder of parent entity	\$ 183,736	\$ 187,666
Non-controlling interest	17	16

(1) Comparative figures in 2018 were reclassified. See Note 18 in the March 31, 2019 annual report.

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

Consolidated Statement of Comprehensive Income

(Unaudited) (thousands of Canadian dollars)	Three months ended	
	June 30, 2019	June 30, 2018
Net income	\$ 183,753	\$ 187,682
Other comprehensive income		
Transfer of net realized gains on derivatives designated as cash flow hedges to net income	(5,415)	(5,415)
Total comprehensive income	\$ 178,338	\$ 182,267
Total comprehensive income attributable to:		
Shareholder of parent entity	\$ 178,321	\$ 182,251
Non-controlling interest	17	16

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

Consolidated Statement of Changes in Equity

(Unaudited) (thousands of Canadian dollars)	Balance March 31, 2019	Net income	Other comprehensive income	Contributions from non-controlling interest	Balance June 30, 2019
Contributed surplus	\$ 183,725	\$ -	\$ -	\$ -	183,725
Retained earnings	6,202,132	183,736	-	-	6,385,868
Net gains (transfer of net gains) on derivatives previously designated as cash flow hedges	43,017	-	(5,415)	-	37,602
Total accumulated other comprehensive income (loss)	43,017	-	(5,415)	-	37,602
Total equity attributable to parent	6,428,874	183,736	(5,415)	-	6,607,195
Non-controlling interest	677	17	-	5	699
Total	\$ 6,429,551	\$ 183,753	\$ (5,415)	\$ 5	\$ 6,607,894

(Unaudited) (thousands of Canadian dollars)	Balance March 31, 2018	Impact of adopting new accounting standard Restated Note 2	Balance April 1, 2018 Restated Note 2	Net income	Other comprehensive income	Contributions from non- controlling interest	Balance June 30, 2018 Restated Note 2
Contributed surplus	\$ 547,725	\$ -	\$ 547,725	\$ -	\$ -	\$ -	\$ 547,725
Retained earnings	5,447,657	73,739	5,521,396	187,666	-	-	5,709,062
Net gains (transfer of net gains) on derivatives previously designated as cash flow hedges	64,737	-	64,737	-	(5,415)	-	59,322
Net unrealized (losses) gains on available-for-sale financial assets	(350)	350	-	-	-	-	-
Total accumulated other comprehensive income (loss)	64,387	350	64,737	-	(5,415)	-	59,322
Total equity attributable to parent	6,059,769	74,089	6,133,858	187,666	(5,415)	-	6,316,109
Non-controlling interest	767	(13)	754	16	-	(79)	691
Total	\$ 6,060,536	\$ 74,076	\$ 6,134,612	\$ 187,682	\$ (5,415)	\$ (79)	\$ 6,316,800

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

Consolidated Statement of Cash Flows

(Unaudited) (thousands of Canadian dollars)	Three months ended	
	June 30, 2019	June 30, 2018
Operating activities		
Net income	\$ 183,753	\$ 187,682
Adjustments to determine net cash (used in) provided by operating activities:		
Net interest income ⁽¹⁾	(290,567)	(275,934)
Provision for credit losses	21	6,298
Fair value adjustment	1,160	1,800
Net loss (income) from investment in associates	1,206	(17,403)
Amortization and depreciation	9,063	4,345
Other	550	(8,828)
Net cash outflow from loans receivable	(1,200,937)	(1,279,406)
Net cash (outflow) inflow from finance leases receivable	(14,597)	1,727
Net change in other operating assets and liabilities	17,588	36,462
Interest received ⁽¹⁾	445,522	388,406
Interest paid ⁽¹⁾	(129,624)	(89,125)
Cash used in operating activities	\$ (976,862)	\$ (1,043,976)
Investing activities		
Net cash inflow (outflow) from short-term investments	\$ 57,692	\$ (31,235)
Acquisition of venture capital investments	(1,886)	-
Proceeds on disposal and repayment of venture capital investments	815	7,000
Net cash (outflow) inflow from investment in associates	(4,963)	5,022
Purchase of equipment and leasehold improvements	(1,064)	(3,287)
Purchase of computer software	(3,202)	(3,075)
Purchase of equipment under operating leases	(891)	(23,723)
Proceeds on disposal of equipment under operating leases	6,042	6,712
Cash used in investing activities	\$ 52,543	\$ (42,586)
Financing activities		
Long-term debt issued	\$ 2,775,000	\$ 3,085,000
Long-term debt repaid	(1,532,796)	(1,832,327)
Short-term debt issued	2,069,927	1,871,962
Short-term debt repaid	(2,281,073)	(2,064,069)
Lease liabilities paid	(3,325)	-
Cash provided by financing activities	\$ 1,027,733	\$ 1,060,566
Change in cash and cash equivalents	\$ 103,414	\$ (25,996)
Cash and cash equivalents, beginning of period	770,517	828,569
Effects of exchange rate changes on the balances of cash held and due in foreign currencies	384	47
Cash and cash equivalents, end of period	\$ 874,315	\$ 802,620
Cash and cash equivalents consists of:		
Cash	\$ 807,575	\$ 670,815
Cash equivalents	66,740	131,805

(1) Comparative figures in 2018 were reclassified. See Note 18 in the March 31, 2019 annual report.

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

Notes to the Condensed Consolidated Financial Statements (Unaudited)

1. Significant accounting policies

Basis of presentation

The condensed consolidated interim financial statements (interim financial statements) comply with the Standard on Quarterly Financial Reports for Crown Corporations issued by the Treasury Board of Canada.

These interim financial statements do not include all of the information required for complete annual financial statements and should be read in conjunction with the annual audited financial statements for the year ended March 31, 2019.

Unless otherwise stated, all dollar amounts presented in the Notes to the Condensed Consolidated Financial Statements are in thousands of Canadian dollars, which is the functional currency of Farm Credit Canada (FCC).

Accounting policies

The accounting policies adopted in the preparation of these interim financial statements are consistent with those followed in the annual, audited financial statements for the year ended March 31, 2019, except as described below.

Application of new and revised International Financial Reporting Standards

The International Accounting Standards Board (IASB) has issued a number of new standards, interpretations, amendments and improvements. The standards that are relevant to FCC are listed below. They were effective April 1, 2019.

New standards include:

IFRS 16 – Leases: In January 2016, the IASB issued the new lease standard requiring lessees to recognize assets and liabilities arising from a lease. The right-of-use (ROU) asset represents the lessee's right to use the leased asset with the lease liability representing the lessee's obligation to make lease payments applicable for all leases with a term of more than 12 months, unless the underlying asset is of low value.

On April 1, 2019, FCC adopted IFRS 16 – Leases, which replaced IAS 17 – Leases, IFRIC 4 – Determining whether an arrangement contains a lease, SIC-15 – Operating leases – incentives, and SIC 27 – Evaluating the substance of transactions involving the legal form of a lease. On transition to IFRS 16 on April 1, 2019, FCC elected to follow the modified retrospective approach under which a lessee does not restate comparative information, therefore comparative information continues to be reported under IAS 17, IFRIC 4 and SIC 27. Practical expedients were used where FCC is not required to reassess whether a contract is, or contains, a lease at the date of initial application and where the lessee may exclude initial direct costs from the measurement of a ROU asset at the date of initial application.

As a result of adopting IFRS 16, FCC recognized ROU assets and lease liabilities of \$180.7 million. These are presented as separate line items on the balance sheet. Depreciation and interest expense are presented within administration expenses and interest expense respectively. There was no cumulative effect to equity from initially applying the standard.

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

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

Changes to FCC's accounting policies resulting from the adoption of IFRS 16 as of April 1, 2019, are described on the following pages.

1. Significant accounting policies (continued)

Leases

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

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

Lease liabilities

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

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

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

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

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

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

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

Lease liabilities are presented as a separate line item on the balance sheet.

ROU assets

The ROU assets are initially measured at cost and are comprised of the initial measurement of the lease liability adjusted for any lease payments made on or before the commencement date, less any incentives received from the lessor. They are subsequently measured at cost less accumulated depreciation, impairment losses and for any remeasurements of the lease liability as noted above.

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 amortized on a straight-line basis.

ROU assets are presented as a separate line item on the balance sheet.

1. Significant accounting policies (continued)

Under IAS 17

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

Accounting standards issued but not yet effective

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

Standard	Details	Date of initial application
IFRS 17 - Insurance contracts	<p>In May 2017, the IASB issued IFRS 17, which provides a single principle-based standard to account for all types of insurance contracts. IFRS 17 provides updated information about the obligations, risks and performance of insurance contracts and increases transparency in financial information reported by insurance companies, which will give investors and analysts more confidence in understanding the insurance industry. It also introduces consistent accounting for all insurance contracts based on a current measurement model.</p> <p>FCC is assessing the impact of this standard and the extent of the impact of the adoption is unknown at this time.</p>	April 1, 2021

2. Prior period adjustment

There was an error in the comparative figures reported in the prior years' quarterly financial reports relating to the IFRS 9 transition amount recorded on April 1, 2018. Additional IFRS 9 transition adjustments were required to adjust the opening allowance for credit losses and retained earnings on April 1, 2018, primarily due to a re-estimation of the expected credit losses of FCC's customers. FCC has retroactively corrected these errors and restated the comparative figures in these interim financial statements for the period ending June 30, 2019. The impact of this error on the April 1, 2018 previously reported amount in the Consolidated Statement of Changes in Equity is a decrease to opening retained earnings of \$25.1 million, with an offsetting increase of the same amount to the opening allowance for credit losses (Note 4). Full details of the impact of the transition to IFRS 9 on the opening April 1, 2018 balance sheet can be found in Note 3 of the annual, audited financial statements for the year ended March 31, 2019.

3. Loans receivable – net

(\$ thousands)	Term to maturity			June 30, 2019	March 31, 2019
	Within 1 year	1 - 5 years	Over 5 years		
Floating	\$ 3,951,157	\$ 13,156,279	\$ 430,760	\$ 17,538,196	\$ 17,480,507
Fixed	3,985,679	12,218,117	3,525,049	19,728,845	18,614,015
Loans receivable – gross	7,936,836	25,374,396	3,955,809	37,267,041	36,094,522
Deferred loan fees				(23,829)	(23,437)
Loans receivable – total				37,243,212	36,071,085
Allowance for credit losses				(198,494)	(198,010)
Loans receivable – net				\$ 37,044,718	\$ 35,873,075

4. Allowance for credit losses – loans receivable

As at June 30, 2019 (\$ thousands)	Stage 1	Stage 2	Stage 3	Total
Allowance for credit losses, beginning of year	\$ 31,780	\$ 115,402	\$ 50,828	\$ 198,010
Transfer to stage 1	2,822	(15,009)	(4)	(12,191)
Transfer to stage 2	(3,261)	19,211	(19,787)	(3,837)
Transfer to stage 3	(2)	(3,011)	8,787	5,774
Changes due to new loans originated	8,820	6,941	10,281	26,042
Loans receivable that have been derecognized during the period	(5,182)	(3,285)	(1,342)	(9,809)
Net remeasurement of loss allowance	(3,635)	(3,332)	1,941	(5,026)
Writeoffs	-	(257)	(508)	(765)
Recoveries of amounts previously written off	-	28	341	369
Losses covered under Hog Industry Loan Loss Reserve Program	3	(10)	(66)	(73)
Total allowance	\$ 31,345	\$ 116,678	\$ 50,471	\$ 198,494
As at March 31, 2019 (\$ thousands)	Stage 1	Stage 2	Stage 3	Total
Allowance for credit losses, beginning of year (Restated - Note 3)	\$ 29,040	\$ 70,799	\$ 38,889	\$ 138,728
Transfer to stage 1	2,716	(15,349)	(84)	(12,717)
Transfer to stage 2	(4,813)	34,342	(3,539)	25,990
Transfer to stage 3	(84)	(2,584)	61,563	58,895
Changes due to new loans originated	17,000	43,444	1,034	61,478
Loans receivable that have been derecognized during the period	(4,664)	(6,044)	(4,378)	(15,086)
Net remeasurement of loss allowance	(7,397)	(9,092)	5,620	(10,869)
Writeoffs	(1)	(633)	(50,498)	(51,132)
Recoveries of amounts previously written off	-	486	2,744	3,230
Losses covered under Hog Industry Loan Loss Reserve Program	(17)	33	(523)	(507)
Total allowance	\$ 31,780	\$ 115,402	\$ 50,828	\$ 198,010

5. Borrowings

Short-term debt

(\$ thousands)	June 30, 2019	March 31, 2019
Government of Canada debt		
Floating-rate borrowings	\$ 3,927,991	\$ 4,288,036
Fixed-rate borrowings	5,415,693	4,996,874
	9,343,684	9,284,910
Capital markets debt		
USD fixed-rate promissory notes ⁽¹⁾	492,006	509,324
Total	\$ 9,835,690	\$ 9,794,234

(1) \$375.4 million USD (March 31, 2019 - \$380.6 million USD)

Long-term debt

(\$ thousands)	June 30, 2019	March 31, 2019
Government of Canada debt		
Floating-rate borrowings	\$ 13,531,305	\$ 13,860,914
Fixed-rate borrowings	8,099,796	6,780,921
	21,631,101	20,641,835
Capital markets debt		
Retail and institutional fixed-rate notes	304,701	308,240
Total	\$ 21,935,802	\$ 20,950,075