Second Quarter Financial Report 2018-19

For the period ended September 30, 2018

Farm Credit Canada
Advancing the business of agriculture

Canada

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 98 offices located primarily in rural communities, our more than 1,800 permanent employees are passionate about the business of agriculture.

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

Second Quarter Financial Report 2018-19
For the period ended September 30, 2018

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 second quarter, which ended September 30, 2018. On April 1, 2018, FCC adopted IFRS 9 – Financial Instruments to replace IAS 39 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 9 are described in Note 2 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 2018-19 to 2022-23.

Net income overview

($ millions)

	Three months ended		Six months ended	
	September 30, 2018	**September 30, 2017**	**September 30, 2018**	**September 30, 2017**
Net interest income	**$ 293.3**	$ 269.0	**$ 569.6**	$ 524.9
Provision for credit losses	**(17.3)**	2.9	**(23.6)**	(5.3)
Non-interest income	**9.8**	3.3	**32.4**	7.8
Administration expenses	**(101.8)**	(91.4)	**(204.9)**	(185.0)
Fair value adjustment	**(2.7)**	(5.0)	**(4.5)**	(9.5)
Net income	**$ 181.3**	$ 178.8	**$ 369.0**	$ 332.9

Net income for the six-month period ended September 30, 2018, increased by $36.1 million over the prior year. This was mainly due to an increase in net interest income of $44.7 million and an increase in non-interest income of $24.6 million, offset by an increase in administration expense of $19.9 million and an increase in provision for credit losses of $18.3 million.

Net interest income for the six-month period ended September 30, 2018, increased by $44.7 million over the prior year primarily due to higher portfolio volumes and higher margins. The net interest margin for the six-month period ended September 30, 2018, increased to 3.11% from 3.10% for the comparable period in 2017-18, mainly due to lower funding costs.

Provision expense increased $18.3 million year-over-year. IFRS 9 was adopted on April 1 and introduces an expected loss impairment model for all financial assets. The prior period comparative financials were not restated upon adoption of the new standard.

Non-interest income for the six-month period ended September 30, 2018, increased by $24.6 million mainly due to an increase in net income from investment in associates of $24.2 million as a result of fair value gains.

Administration expenses increased $19.9 million year-over-year due to an increase in salaries and benefits as well as an increase in professional fees and facilities, software and equipment expense.

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

Loans receivable

FCC experienced overall growth in loans receivable of $2,005 million since March 31, 2018, bringing its loan portfolio to $35,864 million at September 30, 2018. Loan portfolio growth of 5.9% for the six months ended September 30, 2018, was slightly lower than the loan portfolio growth of 6.3% for the first six months of the prior fiscal year. Higher disbursement volume year-over-year was more than offset by the increase in opening loans receivable, resulting in a lower growth rate.

Cash flow

Cash and cash equivalents at September 30, 2018, increased by $24.0 million from $728.7 million at September 30, 2017. For the six-month period ended September 30, 2018, cash of $1,594 million and $65.2 million was used in operating activities and investing activities respectively, while $1,584 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 2018-19 to 2022-23.

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 and most notably the new USMCA agreement have been closely monitored for financial implications. This risk has been identified as a scenario in FCC’s stress testing program and impacts are not expected to be significant to the overall financial performance of the corporation. FCC will continue to monitor the situation.

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
November 13, 2018

Condensed Consolidated Financial Statements

Consolidated Balance Sheet

(Unaudited) (thousands of Canadian dollars)		Sept. 30, 2018		March 31, 2018
Assets				
Cash and cash equivalents	$	**752,716**	$	828,569
Short-term investments		**436,502**		398,207
Accounts receivable and prepaid expenses		**31,645**		47,801
Derivative financial assets		**16,548**		21,512
		1,237,411		1,296,089
Loans receivable – net (Notes 3 and 4)		**35,728,190**		33,636,019
Finance leases receivable – net		**17,282**		19,613
Investment in associates		**70,394**		57,765
Venture capital investments – net		**74,355**		77,115
Post-employment benefit assets		**57,009**		50,256
		35,947,230		33,840,768
Equipment and leasehold improvements		**26,144**		24,513
Computer software		**34,307**		33,451
Equipment under operating leases		**127,711**		110,670
Other assets		**12,529**		12,442
		200,691		181,076
Total assets	$	**37,385,332**	$	35,317,933
Liabilities				
Accounts payable and accrued liabilities	$	**50,762**	$	63,870
Borrowings (Note 5)				
Short-term debt		**10,846,145**		10,919,146
Long-term debt		**20,012,574**		17,980,195
		30,858,719		28,899,341
Transition loan liabilities		**160,894**		139,319
Post-employment benefit liabilities		**150,970**		145,281
Other liabilities		**10,205**		9,586
		322,069		294,186
Total liabilities		**31,231,550**		29,257,397
Equity				
Contributed surplus		**183,725**		547,725
Retained earnings		**5,915,482**		5,447,657
Accumulated other comprehensive income		**53,848**		64,387
Equity attributable to shareholder of parent entity		**6,153,055**		6,059,769
Non-controlling interest		**727**		767
		6,153,782		6,060,536
Total liabilities and equity	$	**37,385,332**	$	35,317,933

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 **Sept. 30, 2018**	Sept. 30, 2017	Six months ended **Sept. 30, 2018**	Sept. 30, 2017
Interest income	**$ 395,351**	$ 318,910	**$ 780,328**	$ 615,441
Interest expense	**102,010**	49,929	**210,693**	90,552
Net interest income	**293,341**	268,981	**569,635**	524,889
Provision for credit losses	**(17,320)**	2,906	**(23,618)**	(5,291)
Net interest income after provision for credit losses	**276,021**	271,887	**546,017**	519,598
Net insurance income	**4,845**	5,026	**10,476**	9,718
Net income (loss) from investment in associates	**5,075**	(1,607)	**22,478**	(1,723)
Other expense	**(100)**	(79)	**(566)**	(239)
Net interest income and non-interest income	**285,841**	275,227	**578,405**	527,354
Administration expenses				
Salary and benefits	**63,198**	58,806	**127,453**	118,538
Other	**38,610**	32,565	**77,437**	66,454
Total administration expenses	**101,808**	91,371	**204,890**	184,992
Net income before fair value adjustment	**184,033**	183,856	**373,515**	342,362
Fair value adjustment	**(2,738)**	(5,018)	**(4,538)**	(9,441)
Net income	**$ 181,295**	$ 178,838	**$ 368,977**	$ 332,921
Net income attributable to:				
Shareholder of parent entity	**$ 181,276**	$ 178,828	**$ 368,942**	$ 332,901
Non-controlling interest	**19**	10	**35**	20

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 **Sept. 30, 2018**	 Sept. 30, 2017	Six months ended **Sept. 30, 2018**	 Sept. 30, 2017
Net income	**$ 181,295**	$ 178,838	**$ 368,977**	$ 332,921
Other comprehensive income				
Items that are or may be reclassified to net income				
Transfer of net realized gains on derivatives designated as cash flow hedges to net income	**(5,474)**	(5,474)	**(10,889)**	(10,890)
Net unrealized losses on available-for-sale financial assets	**-**	(479)	**-**	(424)
Total other comprehensive loss	**(5,474)**	(5,953)	**(10,889)**	(11,314)
Total comprehensive income	**$ 175,821**	$ 172,885	**$ 358,088**	$ 321,607
Total comprehensive income attributable to:				
Shareholder of parent entity	**$ 175,802**	$ 172,875	**$ 358,053**	$ 321,587
Non-controlling interest	**19**	10	**35**	20

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 June 30, 2018	Net income	Other comprehensive income	Dividend paid	Contributions from non-controlling interest	Balance Sept. 30, 2018
Contributed surplus	**$ 547,725**	**$ -**	**$ -**	**$ (364,000)**	**$ -**	**$ 183,725**
Retained earnings	**5,734,206**	**181,276**	**-**	**-**	**-**	**5,915,482**
Net gains (transfer of net gains) on derivatives previously designated as cash flow hedges	**59,322**	**-**	**(5,474)**	**-**	**-**	**53,848**
Total accumulated other comprehensive income (loss)	**59,322**	**-**	**(5,474)**	**-**	**-**	**53,848**
Total equity attributable to parent	**6,341,253**	**181,276**	**(5,474)**	**(364,000)**	**-**	**6,153,055**
Non-controlling interest	**691**	**19**	**-**	**-**	**17**	**727**
Total	**$ 6,341,944**	**$ 181,295**	**$ (5,474)**	**$ (364,000)**	**$ 17**	**$ 6,153,782**

(Unaudited) (thousands of Canadian dollars)	Balance June 30, 2017	Net income	Other comprehensive income	Dividend paid	Contributions from non-controlling interest	Balance Sept. 30, 2017
Contributed surplus	$ 547,725	$ -	$ -	$ -	$ -	$ 547,725
Retained earnings	5,260,856	178,828	-	(308,300)	-	5,131,384
Net gains (transfer of net gains) on derivatives previously designated as cash flow hedges	81,042	-	(5,474)	-	-	75,568
Net unrealized losses on available-for-sale financial assets	(132)	-	(479)	-	-	(611)
Total accumulated other comprehensive income (loss)	80,910	-	(5,953)	-	-	74,957
Total equity attributable to parent	5,889,491	178,828	(5,953)	(308,300)	-	5,754,066
Non-controlling interest	579	10	-	-	40	629
Total	$ 5,890,070	$ 178,838	$ (5,953)	$ (308,300)	$ 40	$ 5,754,695

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

Consolidated Statement of Changes in Equity (continued)

(Unaudited) (thousands of Canadian dollars)		Balance March 31, 2018		Impact of adopting new accounting standard		Balance April 1, 2018		Net income		Other comprehensive income		Dividend paid		Contributions from non-controlling interest		Balance Sept. 30, 2018
Contributed surplus	**$**	**547,725**	**$**	**-**	**$**	**547,725**	**$**	**-**	**$**	**-**	**$**	**(364,000)**	**$**	**-**	**$**	**183,725**
Retained earnings		**5,447,657**		**98,883**		**5,546,540**		**368,942**		**-**		**-**		**-**		**5,915,482**
Net gains (transfer of net gains) on derivatives previously designated as cash flow hedges		**64,737**		**-**		**64,737**		**-**		**(10,889)**		**-**		**-**		**53,848**
Net unrealized (losses) gains on available-for-sale financial assets		**(350)**		**350**		**-**		**-**		**-**		**-**		**-**		**-**
Total accumulated other comprehensive income (loss)		**64,387**		**350**		**64,737**		**-**		**(10,889)**		**-**		**-**		**53,848**
Total equity attributable to parent		**6,059,769**		**99,233**		**6,159,002**		**368,942**		**(10,889)**		**(364,000)**		**-**		**6,153,055**
Non-controlling interest		**767**		**(13)**		**754**		**35**		**-**		**-**		**(62)**		**727**
Total	**$**	**6,060,536**	**$**	**99,220**	**$**	**6,159,756**	**$**	**368,977**	**$**	**(10,889)**		**(364,000)**	**$**	**(62)**	**$**	**6,153,782**

(Unaudited) (thousands of Canadian dollars)		Balance March 31, 2017		Net income		Other comprehensive income		Dividend paid		Contributions from non-controlling interest		Balance Sept. 30, 2017
Contributed surplus	$	547,725	$	-	$	-	$	-	$	-	$	547,725
Retained earnings		5,106,783		332,901		-		(308,300)		-		5,131,384
Net gains (transfer of net gains) on derivatives previously designated as cash flow hedges		86,458		-		(10,890)		-				75,568
Net unrealized losses on available-for-sale financial assets		(187)		-		(424)		-		-		(611)
Total accumulated other comprehensive income (loss)		86,271		-		(11,314)		-		-		74,957
Total equity attributable to parent		5,740,779		332,901		(11,314)		(308,300)		-		5,754,066
Non-controlling interest		535		20		-		-		74		629
Total	$	5,741,314	$	332,921	$	(11,314)		(308,300)	$	74	$	5,754,695

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 **Sept. 30, 2018**	 Sept. 30, 2017	Six months ended **Sept. 30, 2018**	 Sept. 30, 2017
Operating activities				
Net income	**$ 181,295**	$ 178,838	**$ 368,977**	$ 332,921
Adjustments to determine net cash (used in) provided by operating activities:				
Net interest income	**(293,341)**	(268,981)	**(569,635)**	(524,889)
Unwind adjustment on impaired loans	**-**	(398)	**-**	(498)
Provision for credit losses	**17,320**	(2,906)	**23,618**	5,291
Fair value adjustment	**2,738**	5,018	**4,538**	9,441
Net (income) loss from investment in associates	**(5,075)**	1,607	**(22,478)**	1,723
Amortization and depreciation	**4,663**	4,295	**9,008**	9,458
Other	**2,551**	41,725	**(6,277)**	34,407
Net cash outflow from loans receivable	**(684,885)**	(574,042)	**(1,964,291)**	(1,941,904)
Net cash inflow (outflow) from finance leases receivable	**999**	(2,109)	**2,726**	(3,451)
Net change in other operating assets and liabilities	**9,050**	(28,148)	**45,512**	(11,858)
Interest received	**297,317**	228,669	**697,916**	527,673
Interest paid	**(83,028)**	(29,935)	**(183,986)**	(72,492)
Cash used in operating activities	**$ (550,396)**	$ (446,367)	**$ (1,594,372)**	$ (1,634,178)
Investing activities				
Net cash outflow from temporary investments	**$ (5,466)**	$ (22,366)	**$ (36,701)**	$ (61,364)
Acquisition of venture capital investments	**(6,650)**	(5,250)	**(6,650)**	(9,250)
Proceeds on disposal and repayment of venture capital investments	**2,150**	-	**9,150**	500
Net cash inflow (outflow) from investment in associates	**4,827**	(8,596)	**9,849**	(8,538)
Purchase of equipment and leasehold improvements	**(2,713)**	(3,619)	**(6,000)**	(4,407)
Purchase of computer software	**(2,420)**	(768)	**(5,495)**	(4,328)
Purchase of equipment under operating leases	**(16,125)**	(12,095)	**(39,848)**	(32,108)
Proceeds on disposal of equipment under operating leases	**3,825**	4,131	**10,537**	10,293
Cash used in investing activities	**$ (22,572)**	$ (48,563)	**$ (65,158)**	$ (109,202)
Financing activities				
Long-term debt issued	**$ 2,569,000**	$ 2,381,500	**$ 5,654,000**	$ 4,881,500
Long-term debt repaid	**(1,638,000)**	(1,293,000)	**(3,470,327)**	(2,693,263)
Short-term debt issued	**3,089,760**	2,313,091	**4,961,722**	5,257,223
Short-term debt repaid	**(3,133,657)**	(2,619,800)	**(5,197,726)**	(5,454,446)
Dividend paid	**(364,000)**	(308,300)	**(364,000)**	(308,300)
Cash provided by financing activities	**$ 523,103**	$ 473,491	**$ 1,583,669**	$ 1,682,714
Change in cash and cash equivalents	**$ (49,865)**	$ (21,439)	**$ (75,861)**	$ (60,666)
Cash and cash equivalents, beginning of period	**802,620**	750,835	**828,569**	790,595
Effects of exchange rate changes on the balances of cash held and due in foreign currencies	**(39)**	(676)	**8**	(1,209)
Cash and cash equivalents, end of period	**$ 752,716**	$ 728,720	**$ 752,716**	$ 728,720
Cash and cash equivalents consists of:				
Cash	**$ 752,716**	$ 552,930	**$ 752,716**	$ 552,930
Short-term investments	**-**	175,790	**-**	175,790

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, 2018.

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, 2018, 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, 2018.

New standards include:

- IFRS 9 – Financial Instruments was issued to bring together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. IFRS 9 also introduces an expected loss impairment model for all financial assets measured at amortized cost and certain off-balance sheet loan commitments and guarantees. IFRS 9 was implemented effective April 1, 2018, and applied retrospectively. As permitted, FCC has not restated the prior period comparative consolidated financial statements upon adoption of the new standard. The transition adjustment recognized a $98.9 million measurement difference through an adjustment to opening retained earnings and a reclassification difference of $0.4 million as an adjustment to opening AOCI.

  Changes to FCC's accounting policies and the transition impact resulting from the adoption of IFRS 9 as of April 1, 2018, are described below and in Note 2.

Amended standards include:

- IFRS 7 - Financial Instruments: Disclosure was amended to provide additional qualitative and quantitative disclosures when an entity adopts IFRS 9. FCC has provided certain additional disclosures required by IFRS 7 in Notes 2 and 4 of these consolidated financial statements and additional disclosures will be provided in the annual consolidated financial statements for the year ended March 31, 2019.

Classification and measurement of financial assets

The classification and measurement model of IFRS 9 requires that all financial assets that do not meet the "solely payment of principal and interest" (SPPI) test, be classified at initial recognition as FVTPL. The SPPI test is conducted to identify whether the contractual cash flows of the financial instrument are solely payments of principal and interest such that any variability in the contractual cash flows is consistent with a basic lending arrangement. For financial assets that meet the SPPI test, classification at initial recognition is determined based on a business

1.Significant accounting policies (continued)

model under which these instruments are managed. Financial assets that are managed on a held for trading or fair value basis are classified as FVTPL, financial assets that are managed on a hold for sale basis are classified as FVOCI and financial assets that are managed on a hold to collect basis are classified as amortized cost.

Under IFRS 9, financial assets are required to be reclassified when and only when the business model under which they are managed has changed. All reclassifications are to be applied prospectively from the reclassification date. IFRS 9 changes the classification of FCC's cash equivalents and short-term investments from available-for-sale (AFS) to amortized cost and venture capital investments from FVTPL to amortized cost.

Allowance for credit losses on financial assets

The new expected loss impairment model will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event. This differs from the previous approach where the allowance recorded was designed to capture only losses that were incurred whether or not they had been specifically identified.

The most significant impact of the new standard is on FCC's net loans receivable. FCC recognizes an allowance for credit losses that represents management's best estimate of the expected losses in the loan and lease portfolios at the balance sheet date.

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: Stage 1 impaired financial assets represents financial assets not yet individually identified as credit-impaired. On initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established.

Stage 2: Stage 2 impaired financial assets also represents financial assets not yet individually identified as credit-impaired. If credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized. In subsequent reporting periods, if the credit risk of the financial asset improves such that there is no longer a significant increase in credit risk since initial recognition, then stage 1 credit losses are recognized.

Credit-impaired financial assets:

Stage 3: Stage 3 impaired financial assets represents financial assets individually identified as credit-impaired. When a financial asset is considered credit-impaired, full lifetime expected credit losses are recognized and interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount.

Measurement of expected credit losses

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

The calculation of expected credit losses is based on the expected value of three probability-weighted scenarios to measure the expected cash shortfalls, discounted at the effective interest rate. A cash shortfall is the difference between the contractual cash flows that are due and the cash flow that FCC expects to receive. The key inputs in the measurement of expected credit losses are as follows:

- the probability of default (PD) is an estimate of the likelihood of default over a given time horizon
- the loss given default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time
- the exposure at default (EAD) is an estimate of the exposure at a future default date

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

1.Significant accounting policies (continued)

Significant increase in credit risk

At each balance sheet date, FCC assesses whether a significant increase in credit risk (SICR) has taken place since initial recognition of the loan or finance lease receivable to determine the migration of loans from stage 1 to stage 2. In assessing whether credit risk has increased significantly, FCC considers the following factors:

- whether financial assets are considered to have low credit risk at the reporting date
- the risk of a default occurring on the financial asset as at the reporting date is compared with the risk of a default occurring on the financial asset as at the date of initial recognition
- qualitative information available as at the reporting date
- days past due

Credit-impaired loans receivable

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

The impairment loss is calculated as the difference between the loan or lease's carrying value and the present value of estimated future cash flows discounted at either the loan or lease'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.

Loan interest income is calculated based on the carrying amount of the instrument, net of the allowance for credit losses. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to performing status when, in management's opinion, the ultimate collection of principal and interest is reasonably assured. When the impaired loan is restored to performing status, the remaining individual allowance for credit losses is reversed.

Loans and their related stage 3 allowance for credit losses are written off, either partially or in full, when there is no realistic prospect of future recovery.

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. The estimation and application of forward-looking information requires significant judgement.

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. In order 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 (GDP), farm product price indexes, 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 judgement.

1.Significant accounting policies (continued)

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 a SICR for stage assignment of credit losses. Where the modification results in derecognition, the modified financial asset is considered to be a new financial asset.

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 16 – Leases	In January 2016, the IASB issued IFRS 16, which requires all leases to be reported on a lessee's balance sheet as assets and liabilities. There are also changes in accounting over the life of the lease. In particular, lessees will now recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. It is anticipated this standard will result in an increase in both lease assets and lease liabilities on the balance sheet as well as an accelerated pattern for expense recognition. Lessor accounting remains similar to current practice as lessors continue to classify leases as finance and operating leases. FCC is assessing the impact of this standard and the extent of the impact of the adoption is unknown at this time.	April 1, 2019
IFRS 17 - Insurance contracts	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. FCC is assessing the impact of this standard and the extent of the impact of the adoption is unknown at this time.	April 1, 2021

2. Transition to IFRS 9

As stated in Note 1, on April 1, 2018, FCC adopted IFRS 9 – Financial instruments, which requires that certain comparative financial information be disclosed. In preparing its opening IFRS Consolidated Balance Sheet, FCC has adjusted certain financial asset amounts previously reported under IAS 39. An explanation of how the transition from IAS 39 to IFRS 9 has affected the corporation's financial assets on April 1, 2018, is set out in the following tables and the notes that accompany the tables.

2. Transition to IFRS 9 (continued)

Reconciliation of IAS 39 to IFRS 9 as at April 1, 2018

($ thousands)	IAS 39 March 31, 2018 Measurement basis	Carrying amount	Impact of classification and measurement	Impact of impairment	IFRS 9 April 1, 2018 Carrying amount	Measurement basis
Assets						
Cash		$ 665,393	$ -	$ -	$ 665,393	
Cash equivalents[3]	FVOCI[1]	163,176	18	-	163,194	Amortized cost
Short-term investments[3]	FVOCI[1]	398,207	332	-	398,539	Amortized cost
Accounts receivable and prepaid expenses	Amortized cost	47,801	-	-	47,801	Amortized cost
Derivative financial assets	FVTPL[2]	21,512	-	-	21,512	FVTPL[2]
		1,296,089	350	-	1,296,439	
Loans receivable - net [4]	Amortized cost	33,636,019	-	100,691	33,736,710	Amortized cost
Finance leases receivable - net	Amortized cost	19,613	-	-	19,613	Amortized cost
Investment in associates		57,765	-	-	57,765	
Venture capital investments[5]	FVTPL[2]	77,115	-	(1,311)	75,804	Amortized cost
Post-employment benefit assets		50,256	-	-	50,256	
		33,840,768	-	99,380	33,940,148	
Equipment and leasehold improvements		24,513	-	-	24,513	
Computer software		33,451	-	-	33,451	
Equipment under operating leases		110,670	-	-	110,670	
Other assets		12,442	-	-	12,442	
		181,076	-	-	181,076	
Total assets		**$ 35,317,933**	**$ 350**	**$ 99,380**	**$ 35,417,663**	
Liabilities						
Accounts payable and accrued liabilities	Amortized cost	$ 63,870	-	$ -	$ 63,870	Amortized cost
Borrowings						
Short-term debt	Amortized cost	10,919,146	-	-	10,919,146	Amortized cost
Long-term debt[4]	Amortized cost	17,980,195	-	510	17,980,705	Amortized cost
		28,899,341	-	510	28,899,851	
Transition loan liabilities	Amortized cost	139,319	-	-	139,319	Amortized cost
Post-employment benefit liabilities		145,281	-	-	145,281	
Other liabilities		9,586	-	-	9,586	
		294,186	-	-	294,186	
Total liabilities		**29,257,397**	**-**	**510**	**29,257,907**	
Equity						
Contributed surplus		547,725	-	-	547,725	
Retained earnings		5,447,657	-	98,883	5,546,540	
Accumulated other comprehensive income		64,387	350	-	64,737	
Equity attributable to shareholder of the parent entity		6,059,769	350	98,883	6,159,002	
Non-controlling interest		767	-	(13)	754	
		6,060,536	350	98,870	6,159,756	
Total liabilities and equity		**$ 35,317,933**	**$ 350**	**$ 99,380**	**$ 35,417,663**	

(1) Fair value through OCI.
(2) Fair value through profit and loss.
(3) AFS financial instruments measured at FVOCI were reclassified to amortized cost with an offset to AOCI in the amount of $0.4 million. These reclassifications were due to the business model being hold to collect and cash flows that meet the SPPI test.
(4) Adjustment to the carrying value of certain balances against allowance for credit losses with an offset to retained earnings.
(5) The reclassification of venture capital investments to amortized cost resulted in a remeasurement of $1.3 million with an offset to retained earnings. This reclassification was due to the business model being hold to collect and cash flows that meet the SPPI test.

2. Transition to IFRS 9 (continued)

Reconciliation of allowance for credit losses from IAS 39 to IFRS 9 as at April 1, 2018

	Allowance for credit losses under IAS 39 as at March 31, 2018			Allowance for credit losses under IFRS 9 as at April 1, 2018			
($ thousands)	**Collective**	**Individual**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans receivable	$ 158,191	$ 64,343	$ 222,534	$ 19,350	$ 55,346	38,889	$ 113,585
Finance leases receivable	58	-	58	58	-	-	58
Venture capital investments	-	-	-	957	-	-	957
Total	**$ 158,249**	**$ 64,343**	**$ 222,592**	**$ 20,365**	**$ 55,346**	**$ 38,889**	**$ 114,600**

3. Loans receivable – net

	Term to maturity				
($ thousands)	**Within 1 year**	**1 - 5 years**	**Over 5 years**	**Sept. 30, 2018**	March 31, 2018
Floating	**$ 4,083,899**	**$ 13,804,932**	**$ 600,570**	**$ 18,489,401**	$ 17,489,377
Fixed	**3,210,366**	**11,551,713**	**2,636,307**	**17,398,386**	16,393,136
Loans receivable – gross	**7,294,265**	**25,356,645**	**3,236,877**	**35,887,787**	33,882,513
Deferred loan fees				**(24,109)**	(23,960)
Loans receivable – total				**35,863,678**	33,858,553
Allowance for credit losses				**(135,488)**	(222,534)
Loans receivable – net				**$ 35,728,190**	$ 33,636,019

The amounts for the period ended September 30, 2018 have been prepared in accordance with IFRS 9; prior period amounts have not been restated (refer to Notes 1 and 2).

4. Allowance for credit losses – loans receivable

As at September 30, 2018 ($ thousands)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowance for credit losses, beginning of year (Note 2)	**$ 19,350**	**55,346**	**38,889**	**113,585**
Transfer to stage 1	**2,588**	**(9,802)**	**(87)**	**(7,301)**
Transfer to stage 2	**(2,574)**	**21,571**	**(2,721)**	**16,276**
Transfer to stage 3	**(39)**	**(1,921)**	**14,931**	**12,971**
Changes due to new loans receivable originated or purchased	**9,055**	**8,054**	**-**	**17,109**
Loans receivable that have been derecognized during the period	**(1,477)**	**(2,916)**	**(1,561)**	**(5,954)**
Net remeasurement of loss allowance	**(2,457)**	**(6,896)**	**6,212**	**(3,141)**
Writeoffs	**-**	**(92)**	**(9,469)**	**(9,561)**
Recoveries of amounts previously written off	**-**	**66**	**1,627**	**1,693**
Losses covered under Hog Industry Loan Loss Reserve Program	**(10)**	**18**	**(197)**	**(189)**
Total allowance	**$ 24,436**	**63,428**	**47,624**	**135,488**

5. Borrowings

Short-term debt

($ thousands)	Sept. 30, 2018	March 31, 2018
Government of Canada debt		
Floating-rate borrowings	**$ 6,086,599**	$ 5,619,703
Fixed-rate borrowings	**4,218,899**	4,774,850
	10,305,498	10,394,553
Capital markets debt		
USD fixed-rate promissory notes [(1)]	**540,647**	524,593
Total	**$ 10,846,145**	$ 10,919,146

(1) $417.2 million USD (March 31, 2018 - $406.4 million USD)

Long-term debt

($ thousands)	Sept. 30, 2018	March 31, 2018
Government of Canada debt		
Floating-rate borrowings	**$ 13,847,685**	$ 12,443,337
Fixed-rate borrowings	**5,856,376**	5,228,107
	19,704,061	17,671,444
Capital markets debt		
Retail and institutional fixed-rate notes	**308,513**	308,751
Total	**$ 20,012,574**	$ 17,980,195