DREAM. GROW. THRIVE.

ANNUAL REPORT 2019-20

FARM CREDIT CANADA

We're proud to serve the industry that feeds the world. We're always looking at how to advance our own social and sustainable practices, support customers in their own sustainability journeys, act as a catalyst for good, and do the right thing. Because at FCC, how we do things is as important as what we do. This is about how we show up every day. And we want to do the right things to ensure the Canadian agriculture and agri-food industry reaches its full potential. We take pride in helping our customers **Dream**, **Grow** and **Thrive**.

Message from the President and CEO

As I sit down to write this year-end message in early April, countries around the world and our nation are gripped by the COVID-19 virus. With over 95% of FCC's employees working remotely from home, we've rapidly redesigned our processes, leveraging telephone and digital technologies to continue to serve the Canadian agriculture and agri-food industry effectively and efficiently. It is an unprecedented time for everyone, and it remains too early to speculate on the ultimate social and economic impacts from the pandemic. What I can confirm is this: I've never been prouder of the 2,000 employees who make up the team at FCC, for their professionalism, perseverance and agility to evolve and thrive during this incredibly challenging time. This pride also extends to the entire Canadian agriculture and food industry that has stepped up to ensure Canadians and citizens around the world have the safe, quality and abundant food they require to sustain themselves and their families.

Nevertheless, this report is about the activities of FCC for the full 2019-20 fiscal year, ending March 31, 2020. With the COVID-19 situation escalating in Canada in March, the impacts on the organization's performance are limited, and we anticipate it to have a much more substantive effect in 2020-21.

Even before the COVID-19 crisis, 2019-20 was an eventful year for the Canadian agriculture and agri-food industry. While continuing to grow and thrive, the industry was tested with interruption of trade and unfavourable fall and spring weather in many parts of the country. I'm continuously impressed by how the industry and our customers demonstrate ingenuity, resilience and optimism even in the face of challenging times, COVID-19 being no exception. FCC is 100% focused on agriculture and agri-food and we stand by our customers and work to support them through these difficult periods.

We celebrated our 60th anniversary at FCC this year and it was a great opportunity to reflect on our organization's history as well as plan for the future. We embarked on an ambitious rebranding effort to express what's at the heart of what we do – and that's our desire to help our customers be successful. The result of this work and consultation with our customers and employees is our new tagline: Dream. Grow. Thrive.

Our mandate also reflects this desire to ensure the success of our customers and the industry both in the short term and long term. As a self-sustaining federal Crown corporation, we lend money and provide other services to primary producers, food operations and agribusinesses that provide inputs or add value to the agriculture and agri-food value chain. We share business management knowledge and training with our customers, free of charge. We offer insurance, venture capital and farm management software specialized to the needs of our customers.

Our financial performance in 2019-20 was positive. Our team of employees worked hard to support our close to 100,000 customers from coast to coast. We continued to deliver an exceptional customer experience with a Net Promoter Score® of 71 to finish the fiscal year. Reflecting a continued investment in growth and technology, our loan portfolio grew to $38.6 billion. Over 98.95% of our loans are performing.

We advanced our corporate strategy this year, under the theme of Building for the Future. We made great progress in redefining FCC's customer-centric strategy, taking our agribusiness and agri-food and next generation strategies to market, advancing our customer digital strategy, as well as leveraging our data to enhance customer service and organizational effectiveness. We announced new partnerships for our AgExpert software in 2019-20, creating a data lab with Olds College in Alberta and an exciting integration with the John Deere Operations Center. Also, to assist customers and non-customers through multi-generational transitions, we rolled out regional Agriculture Transition Specialists across the country, in addition to transition planning resource material available on fcc.ca.

It was an important year for our public support of the industry. We acted as catalysts for the fourth annual

Canada's Agriculture Day on February 11, 2020, bringing together hundreds of industry partners and thousands of individual "agvocates" to raise awareness of and pride for Canadian agriculture and food. Events were held in communities nationwide and we reached millions of Canadians through social media.

Corporate social responsibility is a key driver of our strategy because at FCC, how we do things is as important as what we do. We've already made great strides toward operating sustainably and supporting the industry to do the same. We've advanced our strategy related to environmental targets, mental health programs, women in agriculture and our approach to supporting customer integrity and sustainability. FCC remains committed to giving back to the communities in which we live and work. Our 16th annual Drive Away Hunger campaign set a new record, providing over 16.2 million meals for food banks and food programs across the country. Our FCC AgriSpirit Fund contributed $1.5 million to 94 community projects across Canada in 2019-20. In February 2020, responding to multiple requests from customers and industry partners for additional copies, we updated and reprinted our *Rooted in Strength* booklet containing mental health information, best practices and ways to seek help if you're struggling. This booklet was distributed to every farm mailbox in Canada.

Looking ahead to our 2020-21 strategy, we're focused on expanding our support of the Canadian agriculture and agri-food sector as well as Indigenous groups interested in entering the agriculture and agri-food marketplace. We've also embarked on an enterprise-wide strategy to reimagine how we deliver the best possible customer experience, and support our employees to deliver on that promise, each and every time.

The COVID-19 pandemic has cast a long shadow on our industry, but I remain optimistic. This industry has always been resilient, and we will continue to be. Meanwhile, the global importance of Canadian food products has never been clearer. COVID-19 has changed the way we see the world, but FCC's reason for being remains the same. We intend to be there for the industry and our customers to ensure Canada's agriculture and agri-food producers can continue to dream, grow and thrive.

Michael Hoffort, President and CEO

Message from the Board Chair

FCC remains a strong and stable partner to the agriculture and agri-food industry, and for over 60 years, FCC has delivered on its commitment to serve the industry and enhance rural Canada.

The COVID-19 outbreak amplified FCC's supportive role to its customers and the industry at the tail end of the 2019-20 fiscal year. As part of the Government of Canada's COVID-19 Economic Response Plan announced in March, FCC stood in support of the agriculture and agri-food industry to ensure producers, agribusinesses and food processors had access to necessary capital during this challenging time.

The FCC Board of Directors is confident the corporation is well positioned to serve the industry with support and flexibility to effectively move capital into the marketplace through incremental lending activity, expanded credit arrangements with other financial institutions and credit unions, and by restructuring existing lending packages. FCC serves as a steady source of financing to Canadian agriculture, agribusiness and agri-food operations of all sizes and it will continue to do so for decades to come. FCC employees are committed to innovating and evolving to meet the changing needs of agriculture and agri-food well into the future.

Drawing on its rich history and deep understanding of the industry, FCC provides products, services and programs that support the long-term success of Canadian agriculture and agri-food. FCC had another successful year in 2019-20, growing its portfolio, effectively managing risks, and advancing its strategies and initiatives to serve its close to 100,000 customers nationwide. FCC's efforts this past year to promote the industry to Canadians are noteworthy as well.

The Board is responsible for providing leadership and independent oversight of FCC's management and operations. Our current Board consists of members from across Canada. We have a diverse set of backgrounds with extensive experience in executive leadership, agriculture, agri-food, finance, government, law, economics, corporate consulting and international development. Now is an exciting opportunity to draw on our various talents and expertise to enable this organization to reach new heights.

I would like to take this opportunity to thank our outgoing Board members Dale Johnston (Board Chair 2012 to 2019) and Jason Skinner (2011 to 2019). We are grateful for Dale and Jason's contributions to FCC and to the Canadian agriculture and agri-food industry. I would also like to thank Bertha Campbell for her guidance and leadership this past year as the interim Board Chair.

At the time of this writing, the full ramifications of the COVID-19 crisis are yet to be seen. However, FCC will continue to leverage the strength of its partners and the nation to serve the industry that feeds the world; this industry helps to meet domestic and foreign demand for safe and healthy food. The Board remains supportive of management and employees and is proud of the responsible way FCC delivers on its mandate, manages its operations, and supports the industry and communities – both in good times and in bad. We see excellent progress and potential, and we look forward to helping FCC chart its course for continued success in the year ahead.

Respectfully submitted on behalf of the FCC Board of Directors,

Jane Halford, Board Chair

Message from the Minister of Agriculture and Agri-Food

Canada's farmers and agri-food businesses are pillars of our communities and our country. More than ever, Canadians can appreciate the essential service they provide to make sure Canadians have high-quality food in the grocery stores and on their kitchen tables.

This report is focused on FCC's activities in the 2019-20 fiscal year. However, when COVID-19 hit our nation in mid-March, the Canadian food supply chain faced a sudden shock and disruption, and some farmers are facing significant challenges amid this unprecedented pandemic. It gives me great pride to see the resilience and adaptability of our farm and food businesses, and I want to commend FCC and its employees for their tireless work in supporting our industry through this crisis.

Livestock producers are facing price volatility and processing backlog issues. Fruit and vegetable growers are concerned about having enough labour. The closure of restaurants and service industries has led dairy, potato and mushroom farmers to see sudden declines in demand. Other sectors are affected in different ways.

To producers and agri-food businesses, I say – you can be assured we have been working tirelessly since the COVID-19 outbreak to support those of you who are facing hardship, and we have your back.

The success of our industry is more important than ever. Canada's agriculture and agri-food sector contributed over $155 billion to Canada's GDP in 2019 and employed over three million people. With almost 200,000 producers across the country, and thousands of small and medium-sized businesses, agriculture is at the heart of our communities, key to our rural vitality.

We will continue to support our producers and agri-food businesses wherever possible. Both government and industry helped ensure more than 80% of foreign workers arrived in April compared to the previous year to help address looming labour shortages, with $50 million in funding put in place to help farmers safely welcome foreign workers and $20 million invested in the Canadian Food Inspection Agency to continue its vital work in ensuring our food is safe. We will continue to roll out initiatives as fast as we can, the delivery of which requires teamwork, including the efforts of trusted partners like FCC.

The federal government made a solid commitment to the agriculture and agri-food industry to support Canadians, enabling FCC to provide an additional $5 billion in lending capacity to ensure producers, agribusinesses and agri-food processors have the capital they need to sustain their operations, including a range of programs and lending options to respond to COVID-19 impacts.

In addition, the Canadian Emergency Business Account could provide up to $670 million to affected businesses, this being the sum total of funds businesses would not be required to pay back on interest-free loans totalling over $2.6 billion.

FCC has been a vital partner in our work and built great momentum throughout 2019-20. The corporation supports Canadian agriculture and agri-food by offering financial and business products, services, learning and resources tailored to meet the diverse needs of all sectors of the industry at every stage, from new entrants to those planning for expansion or succession.

I am encouraged by FCC's efforts to strengthen inclusion of historically under-represented groups in agriculture – women, youth and Indigenous communities. We also challenged FCC to assist with mental health issues facing producers, and I am pleased with the success of their Rooted in Strength campaign. I thank FCC's Board of Directors and employees for all their work in moving this great industry forward.

The COVID-19 crisis has been unprecedented and demanded the most out of all of us. We will continue to support each other and show the hearty resilience that best defines producers and agri-food businesses across this country.

The Honourable Marie-Claude Bibeau, P.C., M.P.
Minister of Agriculture and Agri-Food

Supporting FCC's mandate: 2019-20 highlights

We fulfil our mandate by supporting and strengthening Canadian agriculture and agri-food.

Financially strong

NET INCOME
$632.6 M

23,530
credit facilities
approved

PORTFOLIO
$38.6 B

27 years
OF GROWTH

Largest provider of capital
TO AGRICULTURE AND AGRI-FOOD

With knowledgeable, engaged employees

OVER **2,000** employees

99 field offices
PRIMARILY IN
RURAL CANADA

Best employer
FOR **17**
consecutive years*

SERVING CLOSE TO **100,000** customers

Proudly serving our industry

over
16.2 M
meals raised
THROUGH
FCC Drive Away Hunger

Delivering
EXCEPTIONAL
customer experience
Net Promoter Score® of **71**

FCC Young Farmer Summit
Delivered in **9** locations across Canada to **1,360** attendees

Supported over **2,343** young farmers and entrepreneurs, lending over **$721.42 million**

$4.2 M
GIVEN BACK THROUGH
community investment initiatives

* Recognized by Kincentric's Best Employers global certification program, previously a part of Aon.

Corporate profile

Farm Credit Canada (FCC) is a financially self-sustaining federal commercial Crown corporation reporting to Canadians and Parliament through the Minister of Agriculture and Agri-Food. FCC provides financing and other services to almost 100,000 customers[1]. We're a team of more than 2,000 employees operating from 99 field offices located primarily in rural Canada and our corporate office located in Regina, Saskatchewan.

We're passionate about what we do and our team has professional expertise in many areas, focused on agriculture. We provide capital and other services to primary producers and agribusiness and agri-food operators who provide inputs or add value to the industry. Primary production is FCC's core business and represents 86% of our loan portfolio. We share business management knowledge and training with our customers and the industry, free of charge. We offer management and accounting software designed for agriculture. We invest in venture capital funds dedicated to the agriculture and agri-food industry, providing an alternate source of capital and expertise to the growing number of innovative firms that will help the industry achieve new potential.

Our roots date back to 1929, when the Canadian Farm Loan Board (CFLB) was established to provide long-term mortgage credit to farmers. In 1959, the Farm Credit Act established FCC as an agent Crown corporation, making us the successor to the CFLB.

In 1993, the Farm Credit Corporation Act expanded our mandate and broadened our lending and administrative powers. Under the new mandate, FCC began providing financial services to larger farming operations and farming corporations, as well as to individual farmers.

In 2001, the Farm Credit Canada Act allowed us to offer an even broader range of services to producers and agribusiness and agri-food operators.

For 60 years, we've listened to our customers and continually adapted our products and services to fit their unique needs. Together, FCC and the agriculture community have experienced the dramatic transformations in production, technology and markets that are moving the industry forward. And through it all, one thing remains unchanged – agriculture matters to Canada and to FCC. With a healthy portfolio of $38.6 billion and 27 consecutive years of portfolio growth, FCC is a strong, stable partner dedicated to serving the Canadian agriculture industry through all economic cycles.

For more information about FCC's history, visit fcc.ca/CorporateProfile.

Vision

The full agriculture and agri-food value chain believes FCC is advancing the business of agriculture by providing financial products, services and knowledge tailored to producers and agribusiness operators.

Our customers are advocates of FCC and can't imagine doing business without us. We are socially and environmentally responsible and an employer of choice everywhere we operate. We make it easy for customers and employees to do business. We are financially strong and stable and invest significantly in the agriculture and agri-food industry.

[1] FCC lending customers include all individuals or businesses with an available credit or outstanding balance who are primary borrowers or co-borrowers for personal and corporate loans, including primary production, agribusiness and agri-food, and alliances.

Corporate values

We are committed to advancing the business of agriculture. We do this by setting our sights high – working to benefit our customers and to help employees achieve their potential.

Our corporate values represent these core beliefs:

Act with integrity

We are ethical and honest. We treat customers, colleagues and all stakeholders with respect.

Focus on the customer

We care about our customers, and we pride ourselves on providing them with an extraordinary experience based on personal relationships, flexibility and industry knowledge.

Achieve excellence

We share a commitment to high performance, accountability and efficiency in order to achieve excellence.

Working together

We believe in the power of teamwork. Whether delivering service tailored to customer needs or designing solutions to benefit the industry, we work together as one team.

Give back to the community

We take corporate social responsibility seriously. We believe in giving back to the communities where our customers and employees live and work, striving to reduce our impact on the environment and contributing to the success of the agriculture industry.

Cultural practices

In addition to our corporate values, FCC's cultural practices outline the behaviours that employees and Board members are expected to demonstrate with colleagues, customers, partners, suppliers and stakeholders.

Customer value proposition

What you can expect from us:

- FCC proudly serves Canadian agriculture as the leading provider of financing to the industry since 1959.
- We focus on the primary producer as well as suppliers and processors along the agriculture value chain.
- We provide our customers with flexible, competitively priced financing, management software, information and learning.
- These services help our customers make sound business decisions and experience greater success.
- We take time to get to know our customers, their individual needs, goals and vision for the future. We work with them through challenges and help them pursue opportunities.
- We're easy to do business with.

For more information about FCC, visit fcc.ca/CorporateProfile.

Public policy role

FCC's mandate is described in the Farm Credit Canada Act as follows:

The purpose of the corporation 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 the corporation shall be on farming operations, including family farms.

Our priorities reflect the federal government's mandate to support the agriculture and agri-food sector in a way that allows this vibrant industry to be a leader in job creation and innovation. Government priorities for the sector include support for agri-food exports, under-represented groups in Canadian agriculture and agri-food, products to facilitate intergenerational transfers and assist young and new farmers entering the industry, and mental health challenges facing producers. FCC's mandate letters are available on the Agriculture and Agri-Food Canada website.

FCC also has a significant public policy role as part of the federal government's economic response to strengthen investment in federal lending agencies to support Canadians, and we're confident that FCC will serve the agriculture and agri-food industry in managing the impacts of the COVID-19 pandemic. The government made a commitment to the agriculture and agri-food industry to ensure Canadians have ongoing access to capital during this challenging time. On March 23, 2020, FCC received an enhancement to our capital base to enable us to provide an additional $5 billion in timely, proactive lending capacity to support the industry. With over 95% of our employees working from home as of mid-March, we've rapidly redesigned our processes, leveraging telephone and digital technologies to continue to serve the Canadian agriculture and agri-food industry effectively and efficiently.

At FCC, we have close to 100,000 customers to support and we're ensuring producers, agribusinesses and food processors have the capital they need to sustain their operations. In addition to regular lending activity, we're offering a range of support, including restructuring existing lending packages, payment deferrals, expanded short-term credit and lending options, and we'll continue to evaluate and implement customer support strategies as needed. We also remain committed to collaborating with other financial institutions. FCC is well positioned to support our customers and Canadian agriculture and agri-food through whatever lies ahead, including our ongoing measures to support the mental well-being of customers, the industry and our employees. We'll work collaboratively with the Government of Canada through Agriculture and Agri-Food Canada to evolve our strategies to support shareholder priorities and the needs of the agriculture and agri-food industry.

We provide access to capital

FCC provides access to capital by delivering a wide range of financial and business products and services tailored to the industry's unique needs. We lend money to all agriculture sectors, including primary producers, agri-food operators and agribusinesses that provide inputs or add value to agriculture.

Access to capital allows primary producers and agribusiness and agri-food operators to adopt innovative practices and business models that enable them to expand, lower their production costs, develop new products, compete in global markets and take advantage of trade opportunities.

Healthy marketplace competition and a choice of financing are necessary for Canadian producers and agribusinesses to be successful through all economic cycles. FCC works with credit unions and our sister Crown corporations – Business Development Bank of Canada and Export Development Canada – to address market and policy issues of mutual interest and identify opportunities for partnership. We partner with Canadian financial institutions to provide financing for larger agriculture operations and agribusinesses. We also offer venture capital financing to the industry through independent partners who manage a series of investment funds on behalf of FCC and other investment partners. This commitment to venture capital ensures capital and business expertise are available to help innovative firms grow into strong businesses in Canada. FCC continued to be self-sustaining and profitable in 2019-20. Our ongoing strength and stability allow us to serve agriculture through all cycles. We continue to reinvest FCC's profits into agriculture through increased lending to customers and by developing knowledge, products and services to meet our customers' needs.

We advance the business of agriculture

We believe sound financial management is key to successful agriculture and agri-food operations. To help advance producers' business management skills and knowledge, FCC continued to offer a wide range of learning events, multimedia tools, publications and other resources to our customers and the industry in 2019-20. Producers of all ages and in all sectors can access our in-person and online resources, free of charge. In addition, FCC offers accounting and farm management software, including cloud-based tools that enhance our customers' ability to manage their businesses and meet consumer demands. We also ensure our employees have the appropriate knowledge and tools to provide solid insight and expertise to our customers to help them achieve their goals. In addition to agriculture-focused knowledge, FCC provides mental health publications and resources through our website to help customers, employees and the public take care of their families and themselves.

The next generation is important to the ongoing growth and success of Canada's agriculture and agri-food industry. FCC proudly supports these enthusiastic, hardworking people by offering products and services such as the Transition Loan, Young Farmer Loan and Young Entrepreneur Loan. Our aim is to help young people enter the industry, assist them with intergenerational transfers of operations, provide them with valuable knowledge and help grow their businesses. We also support young farmers and entrepreneurs through our FCC On Campus program and events such as our FCC Young Farmer Summit.

FCC is committed to supporting the Government of Canada's Women Entrepreneurship Strategy by creating and launching a program to support women entrepreneurs in agriculture and agri-food. To support the need for capital, we offer the FCC Women Entrepreneur Loan. We also provide access to advisory services, value-added knowledge content and learning events on topics of interest to women. We launched a new event in 2019-20, the FCC Women in Ag Summit, that offers opportunities for women to build connections and enhance their knowledge and skills.

FCC continues to champion Agriculture More Than Ever, an industry-driven cause made up of hundreds of partners and thousands of industry champions, called agvocates, from across the country, all committed to improving perceptions, dispelling myths and creating positive dialogue about Canadian agriculture. Agriculture More Than Ever provides resources and a forum for agvocates to tell the real, positive story of Canadian agriculture. FCC and our Agriculture More Than Ever partners host Canada's Agriculture Day annually to celebrate agriculture across Canada.

We support government policy through collaboration with other government agencies

FCC partners with Export Development Canada and Business Development Bank of Canada to support innovation and access to international markets for Canadian agribusiness and agri-food operators. Our employees and their counterparts at Agriculture and Agri-Food Canada connect on a range of topics important to the agriculture industry, including farmland values, commodity prices and interest rates.

We're dedicated to agriculture and take a long-term view

We support the agriculture and agri-food industry and are committed to its long-term success. Our strong financial position enables us to provide innovative, industry-focused products and services and ensure producers and agribusiness and agri-food operators have choice in the marketplace.

Our loan products reflect that agriculture is a cyclical industry and that it takes time for business operations to flourish. Unpredictable weather and market conditions can negatively affect producers and agribusiness and agri-food operators. We support our customers through all economic cycles. Our customer support programs allow customers to restructure the terms of their loans to help manage through difficult times. The FCC AgCrisis Fund also provides modest financial support to customers experiencing a traumatic life event.

Our employees attend events and meetings hosted by industry, stakeholder and producer groups, and we share knowledge and solicit input and feedback on issues facing agriculture. We also lead Canada's largest agriculture-focused research panel, called FCC Vision. FCC Vision enables its members to share their ideas and opinions about Canadian agriculture and how FCC can best serve this exciting, growing industry.

FCC carefully balances the resources needed to support a growing enterprise while controlling costs and increasing efficiencies. This allows us to deliver on our public policy objectives and sustain our excellent financial performance and ability to serve agriculture in the years to come.

We operate our business in a sustainable manner

FCC is committed to agriculture in all cycles, and our work helps our customers reach their full potential and enables us to support continued growth, progress and innovation in the industry. We're striving to be a catalyst for sustainability in the industry we serve, and we've already made great strides toward operating sustainably and supporting the industry to do the same – we have a strong community investment program, we're steadfast with our support and promotion of the industry, we offer an unwavering focus on our customers, we provide an exceptional employee experience and we continue to focus on our environmental footprint.

FCC will continue to make significant strides and affect positive change in the industry, as we continually look for ways to contribute to the strength and future of the industry, partner to reduce hunger and enrich rural Canada, and operate sustainably and support our customers to do the same.

FCC exercises all reasonable care to safeguard the environment and protect the value of real property taken as lending security.

As a federal Crown corporation, FCC is also a federal authority with accountabilities under the Impact Assessment Act and its related regulations and instruments (together, the IAA). FCC complies with the requirements of the IAA if we finance a project that qualifies as a designated project under the IAA.

The IAA also states that federal authorities must not carry out or permit projects as defined under the IAA to be carried out on federally owned lands or outside Canada unless the federal authority determines the project isn't likely to cause significant adverse environmental effects (which means changes to the environment and the impact of these changes on the Indigenous peoples of Canada and on health, social or economic conditions) or the Governor in Council decides the effects are justified under the circumstances.

Results and delivery

As a federal Crown corporation, FCC is committed to making a difference in the lives of Canadians by supporting a strong, vibrant and sustainable Canadian agriculture and agri-food sector, which in turn supports a strong, food-secure and sustainable Canada.

By achieving our mandate through the provision of specialized products, services, knowledge and support to Canadian producers and agribusiness and agri-food operators, FCC serves as a trusted partner, enabling the industry to continue to create good jobs and opportunities in rural communities across the country, and to drive the Canadian economy, including supporting the industry through the COVID-19 pandemic. For a summary of the results we delivered in 2019-20 for our customers, Canadian agriculture and agri-food and all Canadians, along with expected outcomes, key performance indicators and targets, refer to the Strategic overview, objectives and planned results section.

Corporate governance

FCC is governed by the Farm Credit Canada Act and the Financial Administration Act. Like other Crown corporations, we're subject to laws such as the Privacy Act, Access to Information Act, Canadian Labour Code, Employment Equity Act and Official Languages Act.

FCC is accountable to Parliament through the Minister of Agriculture and Agri-Food. We report to Parliament and Canadians on our operations through our annual report, corporate plan summary and quarterly financial reports, and our Board of Directors provides oversight to ensure we're serving the industry and Canadians.

We build relationships with our customers, partners and stakeholders to better understand and support the needs of the agriculture and agri-food industry. We also look to a variety of stakeholders and partners for guidance and expertise in public sector governance practices.

FCC representatives meet with partners at Agriculture and Agri-Food Canada, the Treasury Board of Canada Secretariat, the Department of Finance and other federal Crown corporations to ensure our policies and procedures are current and sound. We communicate with Export Development Canada and Business Development Bank of Canada to share ideas and best practices about ways we can work together to benefit customers. We also seek opportunities to work with banks and credit unions to meet our customers' financial needs.

Board of Directors

The FCC Board of Directors represents Canadians and the breadth of the agriculture and agri-food industry. Its expertise contributes significantly to the corporation's strategic direction. The Board ensures FCC remains focused on our vision, mission and values, and fulfilling our public policy role as outlined in our mandate.

Board members are appointed by the Governor in Council upon the recommendation of the Minister of Agriculture and Agri-Food. Except for the President and CEO, Board members are independent of management. FCC and the Board are fully compliant with the government's process regarding the appointment of directors to fill current and future vacancies.

The Minister of Agriculture and Agri-Food announced four appointments. Michael Hoffort was re-appointed to a three-year term as President and Chief Executive Officer effective July 1, 2019. On July 12, 2019, Sylvie Cloutier (Quebec) was re-appointed to a three-year term. Sharilee Fossum (Alberta) was a new appointment as of June 2, 2019, to replace Jason Skinner, whose term expired. On April 26, 2020, Jane Halford (Alberta) was appointed to a four-year term as Chairperson of FCC's Board of Directors. Ms. Halford has been a member of the Board since December 2014. Four director terms will expire in 2020 and FCC is communicating with our shareholder on the appointment process. FCC and the Board receive regular updates on the status of the process. Board renewal is important for effective corporate governance and we welcome the insights and expertise of our new and continuing directors, with thanks to our departing members for their contributions.

The Board is responsible for the overall governance of FCC. It ensures business activities are in the best interests of the corporation and the Government of Canada. Directors exercise a stewardship role, participate in the strategic planning process and approve FCC's strategic direction and corporate plan. The Board exercises its responsibility to ensure risks associated with FCC's business have been identified and appropriate authorities and controls are in place to properly manage risk and ensure the achievement of the corporation's goals and objectives is not in jeopardy.

The Board is responsible for six major areas:

- integrity – legal and ethical conduct
- strategic planning and risk management
- financial reporting and public disclosure
- leadership development
- government relations and corporate social responsibility
- corporate governance

FCC's senior management works closely with the Board to ensure it is fully aware of the corporation's affairs. The Chief Financial Officer, Chief Operating Officer and Chief Risk Officer attend every Board meeting. Other members of the Enterprise Management Team also attend meetings periodically to strengthen the relationship between the Board and management. Time is set aside at each meeting for the Board and its committees to meet without management present.

The Board follows a formal approach to the President and CEO's goal setting and performance review. This approach is consistent with the Performance Management Program established by the Privy Council Office.

The Board regularly reviews FCC's compensation structure and annually reviews the compensation of the Enterprise Management Team.

The FCC Board of Directors hosts an annual public meeting where we report our activities and financial results and listen to feedback from interested stakeholders and the Canadian public about our mandate and strategic direction.

Code of conduct, ethics and values

Acting with integrity and maintaining the highest ethical standards are vital priorities for FCC. On appointment and every year during his or her tenure, each director signs a declaration committing to act in accordance with FCC's Code of Conduct and Ethics.

The Board has also established a process to directly disclose any potential violations of the code by the President and CEO or his direct reports, and a policy that specifies how to address situations where a director has a conflict of interest. FCC's Integrity Officer discloses all possible violations of the code and discusses ongoing employee education and awareness with the Board annually. All employees are required to participate in an online training program each year to ensure they understand and apply the Code of Conduct and Ethics.

Board composition

The Board is composed of 12 members, including the President and CEO and the Chair. They bring a combination of agriculture, business and financial experience to the task of governing a corporation that serves an increasingly complex industry.

The Board has four subcommittees: Audit, Corporate Governance, Human Resources and Risk.

Audit Committee
Chair: Govert Verstralen

Members: Bertha Campbell, Laura Donaldson, Sharilee Fossum, James Laws and Doris Priddle

The Audit Committee oversees the integrity, accuracy and timeliness of FCC's financial performance and audit functions. All members are financially knowledgeable and the committee chair is considered a financial expert.

In addition to meetings with management, the committee meets independent of management with representatives of the Office of the Auditor General (OAG) of Canada and FCC's internal auditors.

The Board is committed to financial transparency. The OAG audits FCC's financial statements every year and attends all Audit Committee meetings. The OAG also performs a special examination at least every 10 years. The purpose of the special examination is to ensure FCC's systems and practices provide reasonable assurance that assets are safeguarded, resources are managed economically and efficiently, and operations are carried out effectively. The most recent special examination of FCC was completed July 31, 2012.

Corporate Governance Committee
Chair: Laura Donaldson

Members: Del Anaquod, Bertha Campbell, James Laws and Doris Priddle

The Corporate Governance Committee reviews and makes recommendations to the Board with respect to sound governance practices. It oversees FCC's strategic planning process and corporate social responsibility program. It also acts as the Board's nominating committee and provides input to the government as to the desired skills and experience for new director appointments.

The committee regularly reviews the number, structure and mandate of Board committees, and is responsible for evaluating the performance of Board members, committees and the Board as a whole. The committee also oversees FCC's policies on ethics, conflicts of interest and code of conduct for employees and Board members.

Human Resources Committee
Chair: Jane Halford (Board Chair)

Members: Del Anaquod, Sylvie Cloutier and Michele Hengen

The Human Resources Committee reviews all major human resources programs. The committee is responsible for advising the Board of the skills and characteristics essential to the President and CEO position and how to assess his performance. It also works with the President and CEO to create his annual development plan.

The Human Resources Committee is responsible for reviewing the corporation's compensation structure, pension plans, succession plan, corporate learning programs for employees and executive perquisites program.

The Board and FCC are committed to offering employees a compensation, benefits and pension package that is fair, competitive and sustainable over the long term. FCC reviews the total compensation package annually and presents the results to the committee for approval.

FCC's Human Resources team compares the corporation to a consistent group of public and private organizations comparable in size, geography, industry or sector. The goal is to maintain a competitive market position in terms of compensation. Total cash compensation includes base pay and pay-at-risk.

Risk Committee

Chair: Michele Hengen

Members: Sylvie Cloutier, Sharilee Fossum, Jane Halford (Board Chair) and Govert Verstralen

The Risk Committee has a broad mandate to assist the Board in fulfilling its oversight responsibilities of risk management. It is responsible for overseeing the enterprise risk management framework, including the internal control framework and risk management policies, authorities and accountabilities that foster a risk culture of integrity and shared risk management throughout the corporation.

The Risk Committee monitors the corporation's significant risks, including credit, market, liquidity, strategic, reputational and operational risks. Reviewing and discussing management's stress testing results, analysis of emerging trends, and risk assessment processes relative to new strategies, products or services are central to these oversight responsibilities.

The Risk Committee reviews the reports of examinations by regulatory agencies, oversees organizational compliance to risk management policies and monitors the effectiveness of systems and programs related to capital measurement and financial crime risk management. The committee also oversees FCC's risk management function and ensures risk management activities are independent from operational management.

Board performance

Upon appointment to the Board, each director receives a detailed orientation and meets with senior management to learn about FCC. Directors also visit customer operations as well as attend conferences and seminars relevant to corporate governance and FCC's business. Some are also involved in director certification programs. FCC considers director education to be an ongoing process.

The Board assesses its collective performance and the individual performances of its directors through a periodic self-evaluation process. Position profiles are reviewed to ensure they accurately describe desired competencies and skills.

Compensation

Directors are paid an annual retainer and per diem amounts established by the Governor in Council, pursuant to the Financial Administration Act. Rates were last set on January 8, 2008:

- The Board Chair receives an annual retainer of $12,400.
- Committee chairs receive an annual retainer of $7,200.
- Other directors receive an annual retainer of $6,200.
- All directors, including the Chair, receive a per diem of $485 for meetings, training sessions, travel time and FCC-sponsored events.
- Directors are reimbursed for out-of-pocket expenses, including travel and accommodation while performing their duties. Board members are subject to a travel expense policy, which is substantially the same as the expense policy applicable to FCC employees.

During 2019-20, there were seven Board meetings and 22 committee meetings. Total remuneration (annual retainer and per diems) paid to all directors was $204,377. Total Board travel and related expenses were $151,674 compared to $151,740 in 2018-19.

2019-20 Board remuneration, expenses and attendance

Director	Board retainer (A)	Per diems (B)	Total remuneration (A & B)	Board meeting attendance	Committee meeting attendance	Board travel and related expenses
Del Anaquod	$ 6,200	$ 8,973	$ 15,173	6 of 7	6 of 8	$ 5,857
Bertha Campbell	6,200	16,975	23,175	7 of 7	12 of 12	22,010
Sylvie Cloutier	6,200	12,125	18,325	7 of 7	9 of 10	17,156
Laura Donaldson	7,200	15,278	22,478	7 of 7	12 of 12	11,318
Sharilee Fossum	5,167	11,155	16,322	4 of 5	5 of 7	11,955
Jane Halford	7,200	10,913	18,113	7 of 7	10 of 10	8,691
Michele Hengen	7,200	9,943	17,143	7 of 7	10 of 10	9,082
Dale Johnston	4,999	–	4,999	5 of 5	7 of 7	7,704
James Laws	6,200	13,823	20,023	7 of 7	12 of 12	13,852
Doris Priddle	6,200	16,733	22,933	7 of 7	12 of 12	30,137
Jason Skinner	1,033	1,940	2,973	2 of 2	3 of 3	998
Govert Verstralen	7,200	15,520	22,720	7 of 7	14 of 14	12,914
Total	**$ 70,999**	**$ 133,378**	**$ 204,377**			**$ 151,674**

There were seven Board, eight Audit, four Corporate Governance, four Human Resources and six Risk meetings.

Enterprise Management Team

FCC has attracted a senior team of professionals with diverse talents and experience who are responsible for managing FCC effectively. Our Enterprise Management Team members are sought after as best-practice leaders in their professions and they actively volunteer in their communities. Each member of the team believes that a culture characterized by open communication and trust results in engaged employees who forge great relationships with customers.

The Enterprise Management Team is responsible for business results and corporate decision-making, including the strategic vision, investment strategy, allocation of enterprise resources and resolution of major strategic issues. All executives, with the exception of the President and CEO, are paid within salary ranges and compensation policies approved by the FCC Board of Directors. All FCC employee salary ranges and pay-at-risk, except for the President and CEO, are based on a comparative assessment of 29 companies from both the private and public sectors.

The Governor in Council establishes the President and CEO's compensation. In 2019-20, the base salary range for that position was set at $325,300 to $381,700 and in addition, there is a component of pay-at-risk that ranges from 13% to 26% of base salary.

All other employees, including the Enterprise Management Team, are paid within salary ranges and compensation policies approved by FCC's Board of Directors. These ranges and policies are based on annual research of comparative Canadian organizations in both the private and public sectors.

The performance-based, total cash compensation framework for the Enterprise Management Team includes a base salary range and a significant pay-at-risk component. This framework aligns with the philosophy of pay for performance. Movement within a salary range and pay-at-risk payments are dependent upon the performance of the corporation, the individual executive and the executive's division. For more information on the performance measures for the corporation, see the 2019-20 planned results.

In 2019-20, the base salary for Executive Vice-Presidents ranges from $205,700 to $390,820. In addition, there is a pay-at-risk component that ranges from 45% to 66% of base salary. The pay-at-risk amount paid is discretionary within a range of zero and one-and-a-half times the pay-at-risk percentages. Members of EMT receive an amount equal to 12% of base pay as perquisites, which is applied first to their individual pension contributions and thereafter to other approved purposes. See Key Management Personnel Compensation (Note 25) in the Notes to the Consolidated Financial Statements for additional information.

Board of Directors*

Jane Halford Board Chair President, Halford Consulting Inc. Edmonton, Alberta	**Michael Hoffort** President and CEO, FCC Regina, Saskatchewan	**Del Anaquod** Principal Founder, First Nations Bank of Canada; Professor Emeritus, First Nations University of Canada Regina, Saskatchewan	**Bertha Campbell** Co-owner, dairy, beef and potato farm Grahams Road, Prince Edward Island
Sylvie Cloutier President and CEO, Council of Food Processing and Consumer Products Bromont, Quebec	**Laura Donaldson** Lawyer Qualicum Beach, British Columbia	**Sharilee Fossum** Chief Financial and Corporate Officer, Association of Professional Engineers and Geoscientists of Alberta Edmonton, Alberta	**Michele Hengen** President, Elite Strategies Regina, Saskatchewan
James Laws Agricultural Consultant Vancouver, British Columbia	**Doris Priddle** Owner, Priddle Farms Inc. Toronto, Ontario	**Govert Verstralen** Managing Director, GTV Consulting Inc. Scarborough, Ontario	

Enterprise Management Team*

Michael Hoffort President and Chief Executive Officer	**Travis Asmundson** Executive VP and Chief Information Officer	**Rick Hoffman** Executive VP and Chief Financial Officer	**Greg Honey** Executive VP and Chief Human Resources Officer
Todd Klink Executive VP and Chief Marketing Officer	**Corinna Mitchell-Beaudin** Executive VP and Chief Risk Officer	**Sophie Perreault** Executive VP and Chief Operating Officer	**Greg Willner**** Executive VP, Law and Corporate Secretary

* To see FCC's Board of Directors and EMT biographies, go to fcc.ca/Leadership.
** Congratulations to Greg Willner on his retirement effective February 29, 2020.

Sustainability – what we stand for

As Canada's leading agriculture lender, we're passionate about helping the industry succeed and take pride in helping our customers dream, grow and thrive. We're always looking for ways to advance our own business practices and support our customers in their own sustainability journeys. At FCC, how we do things is as important as what we do. What we stand for is a reflection of our corporate values – to act with integrity, focus on the customer, achieve excellence, work together, and give back to the community. We're committed to our customers through good times and bad, we support rural Canada and we're building an engaged workforce. We believe that operating in a socially, economically and environmentally sustainable way is an investment in the future.

What FCC stands for, and our commitment to sustainability, are represented through three impact statements. These impact statements connect to our corporate strategy and outline our commitment to continue to improve FCC's social and sustainable business practices to fulfil our mandate of promoting an ethical and sustainable organization and agriculture and agri-food industry, explore how we continue to support customers and the industry to respond to increasing expectations in the area of sustainability, continue to advance our internal environmental performance, and explore the United Nations Sustainable Development Goals (UN SDGs), supporting those where FCC's mandate can help address global sustainability challenges.

Our impact statements

We contribute to the strength and future of the Canadian agriculture and agri-food industry.

We support the development of a sustainable, competitive and innovative Canadian agriculture and agri-food industry. We do this by providing financing, knowledge and education, and by supporting initiatives and forming partnerships that make the industry stronger. This industry is poised for significant growth in the years to come – we take our role in ensuring the success and vibrancy of the nation's agriculture and agri-food industry to heart. Our goal is to help the industry and our customers achieve their full potential.

We partner to reduce hunger and enrich rural Canada.

We foster strong and vibrant communities where our customers and employees live and work. We do this by supporting projects that enhance rural Canada, with a focus on diversity and inclusion, agriculture safety and education, and supporting under-represented groups in agriculture and agri-food, including meeting the unique needs of women, youth, persons with disabilities, and Indigenous entrepreneurs and producers. As Canada's largest agriculture lender, we're in a unique position to connect the people who produce food to those who need it most.

We operate sustainably and support our customers to do the same.

We're committed to the success of the Canadian agriculture industry for generations to come. We care about the environment, and with 100 office locations across the country, we work to reduce our operational footprint. With global population growth, resource scarcity and increasing sustainability expectations from the public, a sustainable agriculture and agri-food industry is vital to the success of our organization, the industry, our customers and our planet.

Our sustainability commitments

Each year, we report on our sustainability commitments – this information is prepared using the Global Reporting Initiative's (GRI) Sustainability Reporting Standards. The GRI is a non-profit organization that promotes economic sustainability and provides a comprehensive sustainability reporting framework that's widely used around the world. The 2019 annual employee engagement survey indicated that 91% of employees believe FCC is socially and environmentally responsible.

You can read more about what we stand for and view our Sustainability Report at fcc.ca/CSRreport.

2019-20 sustainability highlights*

Contribute to the future of agriculture and food

Mental wellness: Updated *Rooted in Strength*, our mental health publication for agriculture, and distributed to **169,845 rural mailboxes** in Canada.

Free business resources: Over **1,442,198 views or interactions** with FCC's online knowledge offering.

Next generation of agriculture: Expanded our **FCC Young Farmer Summit** event series from five to nine events to connect with young producers and industry entrepreneurs nationwide.

Reduce hunger and enrich rural Canada

Help in difficult times: FCC AgCrisis Fund provided support to **367 customers** during hard times, including natural disasters, farm accidents, critical illnesses or deaths.

We grow volunteers: FCC donated over **$93,000** to employee-driven charities and non-profits, and employees clocked over **3,348 volunteer hours through** our Season of Caring.

Safety in agriculture: We invested **$70,000** in agriculture safety through Ag Health and Safety Alliance, which supported **700 students** in the Gear Up for Ag Health and Safety Program.

Careers in agriculture: Invested over **$45,000** in the Agriculture in the Classroom program to assist with the creation of live events for promoting career opportunities in agriculture.

Operate and support sustainability

Reduce emissions by 40%: On track to reduce FCC greenhouse gas emissions **by 2025** through monitoring office energy, air and vehicle travel, paper consumption and renewable energy certificates.

Giving back: Through the FCC AgriSpirit Fund, we supported **94 sustainable projects** in rural communities.

From printing to planting: FCC is part of the PrintReleaf program, which measures paper consumption and converts pages into **real trees planted** in global reforestation projects.

* Results as of March 31, 2020

Management's discussion and analysis

Caution regarding forward-looking statements

This management's discussion and analysis (MD&A) includes forward-looking financial information based on certain assumptions that reflect management's planned course of action with the most probable set of economic conditions. By their nature, assumptions are subject to inherent risks and uncertainties. There is significant risk that actual results may vary and that the differences may be material. Some factors that could cause such differences include changes in general economic and market conditions, including, but not limited to, interest rates.

Basis of preparation of financial information

FCC's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The MD&A is intended to be read in conjunction with the March 31, 2020, Consolidated Financial Statements and the corporate plan documents.

Economic environment

Global economic trends shape the business environment of Canadian agriculture and agri-food. Geopolitical tensions, trade disruptions and softer commodity prices contributed to a slowing in global gross domestic product (GDP) in 2019 compared to 2018. Through the first three months of 2020, the continued spread of the COVID-19 virus has resulted in swift responses by government and central banks across the globe.

Domestically, broad-based economic growth in 2019 supported Canada's unemployment rate near 40-year lows. In 2019, the economy grew at a slower pace than 2018 as global trade uncertainty held back business investment and exports. Elevated household debt continued to weigh on consumer spending. Despite these challenges domestically and in export markets, the overall economic climate remained favourable for the entire Canadian agri-food supply chain in 2019. Increased domestic concern over the rise of COVID-19 across Canada led to swift action by the federal and provincial governments to slow the spread, however the pandemic still resulted in increased unemployment and slowing domestic GDP in 2020. While the Canadian agri-food supply chain continues to function well overall, there have been shifts in consumer behaviours and increased costs.

Demand for agriculture commodities and food remains strong

The global economy grew at an estimated pace of 2.9% in 2019. Growth in emerging markets continued to outpace economic expansion of advanced economies. This has significant implications for the global demand for food and agricultural commodities, which has remained strong. Higher incomes in emerging market economies have raised the demand for animal-based proteins and processed food products as consumers allocate their additional income to food spending. Stronger disposable income in advanced economies has supported demand for restaurant meals and prepared foods. Widespread social distancing and self-isolation has resulted in a sudden shift in consumer behaviours in 2020. As a result, more people are working from home and shifting food consumption away from restaurants.

The U.S.-China trade tension has altered trade flows in agriculture and agri-food markets, leading to overall lower commodity prices for Canadian producers in 2019. Canada-China trade relations are also facing difficulties, with China restricting market access for a few Canadian agricultural products.

The United States remains Canada's largest export market, accounting for about 30% of our agriculture exports and more than 70% of our food and beverage manufacturing exports. Strong economic growth in the U.S. pushed the unemployment rate down to 3.6% in 2019, nearly a 50-year low, supporting increased demand for value-added foods. The Federal Reserve lowered its key interest rate three times in 2019 to 1.75% as lower global growth, trade uncertainty and geopolitical tensions created headwinds for the U.S. economy. To help support the U.S. economy from the impacts of COVID-19, the Federal Reserve lowered its key interest rates twice in early 2020 to 0.25%. Strong economic performance continued to support a strong U.S. currency, negatively impacting U.S. competitiveness in international markets and resulting in continued weakness in U.S. farm income in 2019. The strong U.S. dollar continued to give Canadian agriculture and agri-food exports a competitive advantage relative to U.S. products.

Trade agreements create future opportunities

Canada, Mexico and the United States completed negotiations to update the North American Free-Trade Agreement and the deal was ratified by all three countries. The resulting Canada-U.S.-Mexico Agreement (CUSMA) will maintain market access for the Canadian agribusiness, agriculture and agri-food supply chain. CUSMA will also expand access to foreign products in the Canadian dairy and poultry markets.

Canadian dollar supports farm income

The Canadian economy grew at an estimated annual rate of 1.6% in 2019, operating near capacity as the unemployment rate ended 2019 at 5.6%, the lowest rate in 40 years. With the economy operating near capacity, the Bank of Canada left its key interest rate unchanged throughout the majority of 2019, supporting historically low borrowing costs and encouraging producers and agribusiness and agri-food operators to leverage growth opportunities and make investments. On March 4, 2020, the Bank of Canada lowered its rate of 1.75% by 50 basis points to 1.25% due to the global impacts of the COVID-19 virus. In response to those impacts as well as a sharp drop in the price of oil, the Bank of Canada cut its overnight rate target on March 16 by another half a percentage point to 0.75%. On March 27, the Bank of Canada lowered its rate 50 basis points for a third time to 0.25%. The central bank indicated the unscheduled rate decision was due to the pandemic and its impact on the economy, adding that lower oil prices, even since the scheduled rate decision in early March, would continue to weigh on the economy. It is anticipated that the first quarter of 2020 will be weaker than expected and the Bank of Canada will closely monitor economic and financial conditions and adjust monetary policy accordingly.

Weaker Canadian oil prices and global trade uncertainty supported a Canadian dollar slightly above US$0.75 in 2019, which remained favourable to support Canadian exports. Lower oil prices and increased market uncertainty caused the Canadian dollar to decline to around US$0.72 in March 2020. Overall, Canadian agriculture benefits from a low dollar as it supports farm revenues by lifting prices paid to Canadian producers and making Canadian products competitive in the world market. Although some input prices such as machinery and equipment have been driven higher, the weaker Canadian dollar supported profit margins for Canadian crop, livestock and food-processing sectors.

Agriculture industry overview

FCC advances the business of agriculture by providing capital to all agriculture sectors, including primary producers, agribusinesses and food processors. We monitor several important factors that influence the short and long-term prospects, profitability and financial health of each sector.

Farm revenues declined on lower prices and production challenges

Weather challenges across the country have resulted in quality issues and as much as four million acres was left unharvested in 2019. Overall production of principal field crops is estimated at 93.4 million tonnes, relatively unchanged from the last crop year. Weather at harvest created major challenges for potato and vegetable producers. Offsetting the challenges in the crop sector, higher commodity prices for livestock and the expansion of cannabis receipts will support overall farm cash receipts in 2019.

Overall crop receipts increased 3.9% and overall livestock receipts increased 5.1%.

Farm input prices were, on average, 2.0% higher in 2019 compared to 2018. Average input prices for crop production increased 4.2%, as higher commercial seed and fertilizer prices were offset by lower fuel prices. This has contributed to an overall softening of crop margins. Average input prices for animal production increased 0.2% as higher feed costs were offset by lower livestock prices. This slow growth in livestock input cost is expected to contribute to improved margins for the sector in 2019.

For more information, refer to FCC's sector outlooks at fcc.ca/AgEconomics.

Farmland values continue to trend higher

Strong farm cash receipts and low interest rates supported continued investment in Canadian farm operations. As a result, farmland values increased an average of 5.2% in 2019. Stength in farmland values continues to support the balance sheet of producers. More information regarding farmland values, including regional analyses, is available in the FCC Farmland Values Report at fcc.ca/FarmlandValues.

Investment in farms pushing debt higher

Farm debt increased at an average annual rate of 6.2% over the past 10 years as producers continued to make strategic investments to improve the productivity and efficiency of their farm operations. More information is available on the Statistics Canada website.

Opportunities and challenges for Canadian agriculture and agri-food in global markets

Exports are key to Canada's success as an agricultural producer. With a small population and vast amount of arable land, we must export the production we can't consume. Canada is the fifth-largest exporter of agriculture products and the 11th-largest exporter of agri-food products in the world.

The landscape for world trade presented several different challenges for the agriculture and agri-food sectors in 2019. U.S.-China trade tensions continued to disrupt world trade flows of agriculture commodities, while U.S. tariffs on steel and aluminum caused trade disruptions for Canadian manufacturing companies. Tariffs on Canadian steel and aluminum were removed in May 2019. Import restrictions on Canadian canola exports to China have caused canola prices to decline. China historically accounts for 40% of Canada's canola exports. In addition to canola, there have been market access concerns raised on pork, peas and soybeans because of strained relations. Import tariffs on Canadian exports of pulses to India are also contributing to lower Canadian prices of peas and lentils. Market access for Canadian durum exports to Italy remains a concern for producers.

African swine fever has been detected in 11 countries across Asia and has created increased export opportunities for proteins. It was discovered in the Chinese hog herd in 2018 and spread quickly, wiping out an estimated 40% of the Chinese herd and increasing demand for proteins, including beef, pork and poultry products. Increased market opportunities have resulted in higher prices for cattle and hogs.

Canadian food preferences continue to evolve

Canadian consumers have an increasing influence on the agri-food supply chain. Preferences of Canadian households have evolved toward healthy, convenient and sustainably produced foods, leading producers and processors to develop food products with specific nutritional values and other attributes. This creates new supply chains and profit opportunities for the entire sector. Producers in all sectors also continue to evolve their practices to meet consumer expectations around food safety and sustainability.

Current and potential impacts for FCC

Canadian agriculture and agri-food sectors remained financially healthy at the end of 2019. New trade agreements, historically low interest rates, a favourable Canadian dollar and robust food demand at home and abroad were all supportive of opportunities for Canadian agriculture, agribusiness and agri-food.

Conversely, the combination of lower commodity prices, increased competition for supply-managed industries, production challenges, trade concerns, transportation disruptions and higher input prices created numerous challenges for Canadian agriculture, agribusiness and agri-food industries. This, combined with the spreading of COVID-19 in Canada and around the globe, is resulting in a tightening of balance sheets and increased market uncertainty.

Small to medium-sized food processors are delivering innovative food products to Canadians, and larger processing firms are capitalizing on the growing demand for safe, high-quality food in foreign markets. COVID-19 has forced governments around the world to take drastic action to reduce the spread of the virus. This has resulted in people limiting physical interactions and spending more time at home. Transportation has also been significantly disrupted, especially for commercial flights, resulting in higher costs and reduced access to markets. This is leading to a shift in food consumption away from restaurants to home. COVID-19 has also resulted in many consumers stockpiling food. This has created short-term sales opportunities as consumers fill freezers and pantries with non-perishable food.

COVID-19 is expected to create significant market disruptions and increased costs throughout the Canadian food value stream. Despite these challenges, we expect food manufacturing will remain a significant driver of the Canadian economy.

Technology and an emphasis on raising productivity at the farm level are two of the most important drivers for agribusiness. Tighter profit margins at the farm level slowed the demand for new farm equipment and other farm inputs, but farm operations continue to adopt technology to lower their cost structure and alleviate the impact of a tight labour market.

Agriculture, agribusiness and agri-food industries are continually adapting to the changing market environment, labour challenges and transportation disruptions caused by COVID-19. These challenges are creating major disruptions to the supply chain, adding significant costs and generating many market uncertainties. Despite these major challenges, Canada's agriculture and agri-food sectors are generally well-positioned to absorb headwinds while capitalizing on current and future market opportunities.

Strategic overview, objectives and planned results

Our strategic direction is aligned with our mandate, including our mission and vision, along with the direction from the Government of Canada and the Minister of Agriculture and Agri-Food's mandate letter[2] received August 31, 2016, and the Minister's letter outlining FCC Supplemental Priorities dated February 1, 2018.

The agriculture and agri-food industry faces unprecedented opportunities and unique challenges and FCC's strength and stability puts us in a position to support our customers and industry through all cycles, including the impacts of the COVID-19 pandemic.

As reported in the public policy section, the federal government made a commitment to the agriculture and agri-food industry to support Canadians, enabling FCC to provide an additional $5 billion in lending capacity to ensure producers, agribusinesses and agri-food processors have the capital they need to sustain their operations, including a range of programs and lending options to respond to COVID-19 impacts. With over 95% of our employees working from home, we've redesigned our processes to serve the industry effectively and efficiently and we continue to take steps to support the mental well-being of our employees, customers and the industry.

FCC is well positioned to support our customers and Canadian agriculture and agri-food and we're advancing our strategy to achieve our vision and mission, enhance the customer experience and grow the industry. We've developed a range of strategic objectives and initiatives categorized under six themes:

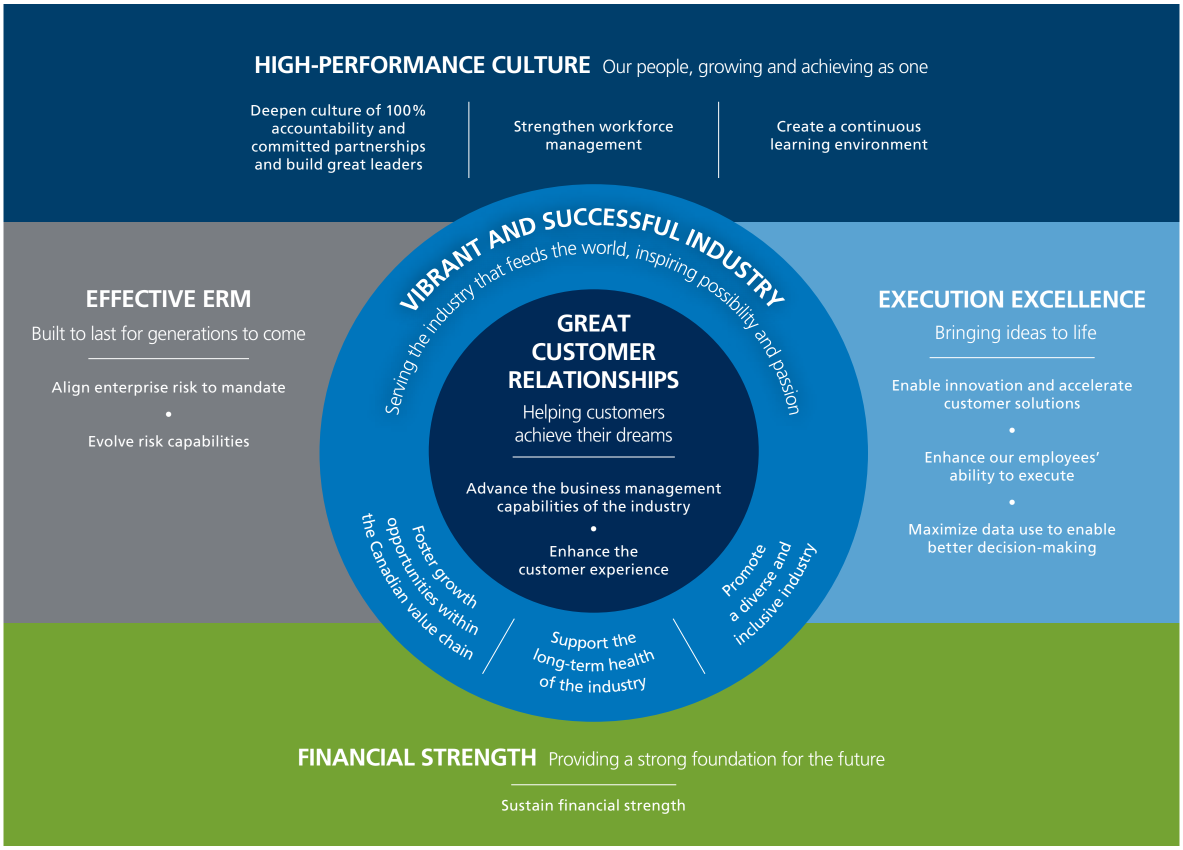
- Great customer relationships: helping customers achieve their dreams
- Vibrant and successful industry: serving the industry that feeds the world, inspiring possibility and passion
- High-performance culture: our people, growing and achieving as one
- Execution excellence: bringing ideas to life
- Effective enterprise risk management: built to last for generations to come
- Financial strength: providing a strong foundation for the future

These themes are based on FCC's strategic assets – the reasons customers choose FCC over our competitors. These assets can't be easily duplicated and are critical to the corporation's long-term success.

Within each theme, FCC sets one- to five-year plan performance measures that define how we assess progress each year against the objectives set out in our strategy. We use a balanced scorecard approach to identify and monitor corporate measures and we report on them throughout the fiscal year.

[2] FCC's mandate letter is available on the Agriculture and Agri-Food Canada website.

2019-20 corporate strategy map



2019-20 corporate strategy

Great customer relationships

Helping customers achieve their dreams

Key results – 2019-20 Corporate Plan objectives

Enhance the customer experience

Initiative:

- Enable employees to build great customer relationships by improving processes and tools to ensure a seamless customer experience.

Great customer relationships are the primary reason customers choose FCC. Therefore, serving customers in a way that meets their unique business needs remains a focus. FCC continues to explore the customer journey – the full experience a customer has with FCC, from pre-financing and borrowing through to advocacy of our brand. The customer journey initiative will ensure FCC maintains our philosophy to work as "one team, one customer" no matter the employee position in the organization. We compile feedback from customers to gain insight into the multiple touchpoints that FCC has in building a relationship with a customer.

To ensure employees have the knowledge they need to support great customer relationships, we've improved our onboarding process to provide employees in our sales areas across the country with the knowledge they need to support customers. We continue to create a high-performance learning and development culture that enables employees to do their best work every day, achieve outstanding results and deliver an exceptional customer experience.

We use Net Promoter Score®, a measurement tool used by numerous companies, to track our customer experience progress.

Advance the business management capabilities of the industry

Initiatives:

- Provide the industry with tools and products to manage their business, including the AgExpert farm management platform.
- Advance FCC's knowledge and advisory services offering.

As producers and agribusiness and agri-food operators become more sophisticated in their operations, FCC continues to investigate new products and offerings to help advance the business management capabilities of our customers. To support agribusiness and agri-food operators, we updated our policies and processes in 2019-20 to allow personal property to be used as security for the Young Entrepreneur Loan.

Another initiative at FCC was the enhancement of our AgExpert farm management platform, which gives producers a holistic view of their operations and helps them make informed business decisions. Customers no longer need to re-key activities in multiple systems, saving time and minimizing the risk of errors. Our software updates and integration with partners creates an impetus for producers to digitize their records, thereby expanding our reach and enabling accounting users to share financial information more easily via our cloud offering. We saw an increase in paid customers and basic customers, for a total of 11,366 unique users in 2019-20.

Over the years, FCC has developed content and knowledge for customers on a wide variety of topics related to all aspects of farming. In 2019-20, we provided online and in-person learning content focused on business-essential topics that will help elevate managers to CEOs and next-level leaders of their operations. FCC's knowledge offering reflects our integrated program for all learning channels, with publications, videos, events and web articles featuring business management content. Through our online business hub, producers can easily connect with knowledge and each other.

Offering advisory services is another way for FCC to build strong customer relationships and ensure we continue to deliver the best possible experience for customers and non-customers. FCC's Advisory Services supports farm operators through a successful transition to another operator or the next generation by providing coaching and connection with other advisors, resources and services, including accounting, legal and financial planning advice. These in-person advisory services help customers have those essential conversations about the future of their operations. In 2019-20, FCC expanded the Advisory Services Team to eight Agriculture Transition Specialists in place in Alberta, Saskatchewan, Ontario, Quebec and Atlantic. We also launched a new video series on fcc.ca that highlights the topic of transition.

Vibrant and successful agriculture industry

Serving the industry that feeds the world, inspiring possibility and passion

Key results – 2019-20 Corporate Plan objectives

Foster growth opportunities in the Canadian value chain

Initiatives:

- Develop products and business solutions to enhance our support for the agribusiness and agri-food (A&A) sectors to increase Canada's value-added capacity with a focus on small to medium-sized enterprises.
- Enhance our venture capital offering to advance innovation and growth for early and later stage agribusiness and agri-food operations.
- Update our policies to clarify and expand FCC's eligibility, allowing us to finance a broader range of agribusiness and agri-food operations.

In addition to supporting agriculture production, FCC is also committed to helping the Canadian economy reach its full potential by supporting the Government of Canada's goal to grow agri-food exports to $75 billion annually by 2025. In 2019-20, FCC made significant progress to enhance support for Canada's small to medium-sized commercial enterprises in the A&A sectors. FCC's A&A strategy not only benefits those sectors, it also benefits and strengthens the agriculture production sector. Businesses that are downstream of primary producers act as catalysts for evolution, innovation and development in primary agriculture.

Based on research results from the previous year, FCC implemented internal policies and processes and a new business unit focused on acquiring and supporting A&A business. Changes to policies and processes included a clarified and expanded definition of FCC's eligibility of acceptable agriculture activities, which opened new markets and allowed for a broader range of financing to A&A businesses. We also aligned our definition of small, medium and large A&A customers to Statistics Canada. This will enable us to generate data on how FCC is contributing to the government's mandate to increase exports, job creation and innovation in Canada. In addition, we updated FCC's risk appetite to better serve A&A businesses at all stages of the business life cycle. From start-ups to fast growth to mature enterprises, FCC is committed to supporting these businesses and growing the economy of the future.

As part of our A&A marketing strategy, we created and launched a new, inclusive positioning tagline – Dream. Grow. Thrive. – to speak to all customers across FCC's value chain. Additional marketing tactics focused on building FCC brand awareness throughout the A&A markets were also delivered. To further advance our digital presence, we launched targeted social media channels on Facebook and LinkedIn. These targeted channels will ensure we are able to deliver on one of FCC's differentiators as a knowledgeable lender by sharing relevant knowledge and insights with our agri-food customers and prospects. Enhancements to FCC's website provide A&A customers and prospects with a more tailored digital experience based on their specific industry.

FCC's venture capital strategy addresses the need for alternative financing in the agriculture industry and fosters innovation and enhancements in the development of strong companies in the A&A sectors. In 2019-20, FCC committed capital to one new venture capital fund and two others were finalized in the first week of April 2020. Through industry and business contacts, FCC continues to identify and pursue several other potential venture capital fund opportunities.

Support the long-term health of the industry

Initiatives:

- Advance our commitment to operate sustainably by reducing our greenhouse gas emissions and improving our business practices.
- Explore opportunities to support our customers and the industry in advancing their sustainability practices through knowledge, tools and financing.
- Enhance public trust in the industry through the Agriculture More than Ever cause.
- Advance mental health issues through knowledge and partnerships designed to support Canadians involved in farming and rural Canada.

Agriculture feeds the world and Canada is one of a handful of nations capable of helping address the projected demand for agricultural production. Being a trusted knowledge partner and champion of sustainable practices will help ensure FCC and the broader industry are set up for long-term success while keeping pace with rapidly evolving expectations. A refreshed three-year strategy is underway to position FCC as a leader in corporate social responsibility (CSR). To realize this ambitious goal, FCC is focusing on addressing gaps and opportunities to further advance our own practices across the organization, ensure we're acting with integrity and being transparent, and that all corporate decisions and processes fulfil our mandate to promote an ethical and sustainable organization, which in turn helps ensure a resilient and sustainable industry. FCC is also focusing on supporting global and national sustainability goals, and sharing our CSR story in a simple, compelling way to support customers in their own sustainability journeys.

It's important that FCC resonate with the industry we serve and use language that clearly states what we're up to. In 2019-20, we began communicating our CSR story and commitments through "What we stand for" content and these three impact statements:

- We contribute to the strength and future of the agriculture and agri-food industry.
- We partner to reduce hunger and enrich rural Canada.
- We operate sustainably and support our customers to do the same.

At a national level, FCC remains on track to reduce the corporation's greenhouse gas (GHG) emissions by 40% by 2025 based on the 2012 levels, which is in line with the Federal Sustainable Development Strategy. FCC's GHG strategy includes reducing paper use and travel where possible, using less on-site energy and purchasing renewable energy certificates to increase renewable energy on Canada's power grid. In 2019-20, FCC committed to focus on the United Nations Sustainable Development Goals of Zero Hunger (UN SDG 2) and Responsible Consumption and Production (UN SDG 12) and provide support where our mandate can help address these sustainability challenges at a global level.

Agriculture More Than Ever (AMTE) began in 2012 to infuse pride in the agriculture industry and help change the perceptions of consumers who knew very little about how their food was produced or the people who produced it. Since AMTE's inception, the conversations have shifted to social media initiatives and video promotions led by individuals and the industry. In 2019-20, FCC made the strategic decision to focus efforts toward building consumer trust through agvocates and industry stakeholders and positive dialogue about agriculture shared through AMTE's social media channels. Our AMTE social media channels focused on "do the right thing" messaging to our agriculture community, which had more than 90,000 followers at the end of the fiscal year, an increase of 13,500 from last year. FCC also launched a consumer-facing video on social media to instil pride and confidence in Canadian food at grocery stores. The video received 9.17 million impressions with 2.87 million complete views. FCC also gained 647 new followers on social media due to the campaign.

FCC continues to work with industry stakeholders across the country to support the promotion and execution of Canada's Agriculture Day events each February. On February 11, FCC hosted the national conference in Ottawa, which was attended by over 500 people, including industry representatives and students. That day, our social media activities featured a "Forks Up for Canadian Ag" theme and resulted in #CdnAgDay trending #1 for 10.5 hours. From farms to grocery stores, food is a great connector for all of us and FCC is a catalyst for building food trust through education.

FCC also believes that if young people pursue careers in the agriculture and agri-food industry, they're likely to have more trust in the food they buy. Our activities in 2019-20 included elementary classroom agriculture literacy, farm tours for educators, and events for urban high school students in Vancouver and Montreal.

FCC continues to support the mental wellness of our employees and customers. Internally, FCC is working to create a safe environment to talk about mental health, empowering employees to identify the need for help for themselves or their colleagues. In 2019-20, we launched the Not Myself Today® program, provided by the Canadian Mental Health Association, to enable employees to support each other's mental health through a framework built around the role of volunteer mental health ambassadors across FCC. This focus aligns to the Government of Canada's Federal Public Service Workplace Mental Health Strategy.

In 2019-20, we partnered with mental health experts to update and republish *Rooted in Strength*, a mental health publication we developed last year. FCC received many requests from customers and industry contacts for copies of the booklet due to the difficult growing season many experienced in 2019. The original and updated publications were delivered to every farm address in Canada. We continue to be committed to helping lift the stigma around mental health, promoting awareness and dialogue and enabling people throughout the industry to seek support if they need it. In 2019-20, FCC also partnered on delivering mental health first aid training to over 1,900 4-H clubs and the Gear Up for Safety in Agriculture training to approximately 700 agriculture students at colleges and universities across Canada.

Promote a diverse and inclusive industry

Initiatives:

- Support the next generation of agriculture by providing enhanced tools and knowledge, including in-person advisory services.
- Support the advancement of women in the agriculture and agri-food industry through access to financing and value-added offerings.
- Help enable economic development of Indigenous communities by creating a strategy designed to enhance Indigenous involvement in agriculture.

To ensure the growth and vitality of Canadian agriculture, FCC is committed to supporting the next generation of farmers. In 2019-20, we enhanced the knowledge offering on fcc.ca to focus on six core categories related to the business of agriculture – money and finance, strategy and planning, transition, agriculture economics, managing people and personal growth. We released a series of Business Essentials articles and introduced 11 new videos highlighting the topic of transition on the farm online. FCC also offered five Business Essentials workshops across Canada designed to help growth-oriented farm managers increase their knowledge of financial management and other important topics.

FCC continues to be committed to supporting the Government of Canada's Women Entrepreneurship Strategy, which was created to support women entrepreneurs in agriculture and agri-food. In 2019-20, we launched a new FCC Women in Ag Summit series in three cities across Canada. Two events were cancelled due to the COVID-19 pandemic. The events featured a range of skill-building topics, including financial literacy and leadership. Further enhancements to fcc.ca and our publications were also made to include more resources for women entrepreneurs. Supporting the financing needs of women entrepreneurs continues through the FCC Women Entrepreneur Loan. The loan provides each female borrower with a one-time fee waiver of loan processing fees up to $1,000. Borrowers are encouraged to reinvest these savings into both personal and professional development that best suits their individual needs and the needs of their growing businesses. As of March 31, 2020, FCC approved 924 applications totalling $674,453,491, including 183 first-time borrowers.

Indigenous agriculture represents one of FCC's largest future customer groups. Encouraging growth in this sector will support FCC's mandate, grow Canada's economy and economic resiliency, help with reconciliation efforts and obligations under the Employment Equity Act as an employer, and move communities forward through corporate social responsibility and community investments. In 2019-20, FCC developed a strategy and structure to support our long-term commitment to enhancing Indigenous involvement in agriculture. We are working toward investing in a growth fund that will leverage FCC's capabilities with an existing infrastructure with relationships and lending capacity within the Indigenous community. FCC also engaged Indigenous communities through the creation of visuals, interviews and footage for communication, marketing and brand development purposes. Also, a partnership with a tribal council in Saskatchewan was established in 2019-20, which focuses on addressing food security in northern communities and supports the Government of Canada's Food Policy.

High-performance culture

Our people, growing and achieving as one

Key results – 2019-20 Corporate Plan objectives

Deepen culture of 100% accountability, committed partnerships and strong leadership

Initiative:

- Execute the leadership and culture strategy, which includes providing tools and learning to employees to help them grow and apply FCC's cultural practices at work.

FCC's culture continues to define how our employees work together to create extraordinary business results. We remain committed to ensuring employees have a deep understanding of our cultural concepts and practices. All employees are participating in the second year of a multi-year learning program designed to strengthen behaviours and elevate the level of knowledge, skills and motivation to live the FCC culture. Activities include learning modules, hands-on activities and conversations.

FCC continues to roll out the 18-month Leadership Transformations Program to all new leaders, which focuses on participants applying key learnings to stretch their leadership skills. A new concept called the Leadership Circle 360 continues to be integrated into the program and has been provided to more than 100 leaders. In 2019-20, the Senior Leadership Team Mentorship program focused on providing mentorship to mid and senior-level leaders to ensure FCC continues to grow the pool of talent for potential succession.

Strengthen workforce management

Initiatives:

- Execute the diversity and inclusion strategy to ensure FCC is a welcoming and inclusive workplace that attracts and retains diverse candidates.
- Embed succession planning as an organizational process to ensure a pipeline of qualified employees and leaders.

FCC strives to have a workforce that represents the diversity of our customers across Canada and the qualified Canadian workforce as a whole. This year, FCC received the results of the Canadian Human Rights Commission Audit of Indigenous People in the Banking and Financial Sector, which identified eight action items to complete before the end of 2019-20. FCC's Indigenous Employment Equity Plan focuses on five strategic themes – workforce supply and Indigenous talent and candidate readiness; Indigenous recruitment, retention and advancement; partnerships; Indigenous workplace inclusion; and accountability.

In 2019-20, FCC engaged several organizations to partner on recruitment opportunities to increase workforce diversity and inclusion. FCC's summer student application process for our corporate office received 311 applications, of which 106 were hired from under-represented employment equity groups. Our total number of applications from under-represented employment equity groups more than doubled from the previous year. Lastly, diversity and inclusion awareness training has been made available to all employees. The training focuses on bridging the diversity gap, roles in workplace diversity and understanding and overcoming unconscious bias.

FCC continues to focus on succession planning to ensure we have the right people with the right skills. In 2019-20, a comprehensive workforce planning process to assist managers in identifying resource and skill gaps on their teams was completed by 155 managers. A succession planning module was also made available to all managers. Through the completion of employee talent profiles and leader assessments, leaders can leverage organization-wide talent pool information to make strategic staffing decisions.

Create a continuous learning environment

Initiative:

- Implement a comprehensive employee learning strategy.

As part of our employee learning strategy, FCC modernized the design, content and delivery of our foundational learning program in 2019-20. An on-demand, personalized learning application for employees was developed and launched. A new evaluation framework to assess the quality and effectiveness of key learning programs was also implemented. To date, 241 learning courses are available online for employees. This includes 87 internally created courses focused on our core business and 154 optional on-demand courses to support career development. Additions are being made based on business needs.

Execution excellence

Bringing ideas to life

Key results – 2019-20 Corporate Plan objectives

Enable innovation and accelerate customer solutions

Initiatives:

- Grow an innovation mindset within FCC and the industry by incorporating human-centred design principles.
- Offer digital solutions to facilitate seamless customer and partner interactions.

FCC continues to focus on adopting innovation as a way of being in how our employees think, create and operate. FCC's Idea Space and Innovation lab teams champion human-centred design to demonstrate the value of following the discipline to grow an innovation mindset and develop customer-centric solutions. In 2019-20, these teams experimented and tested several projects, including a commodity price projection model, analyzing world trade flow to predict industry and organizational impacts, and improving the employee experience with the help of a conversational agent or chatbot. We're growing an innovation mindset by offering educational sessions for employees to learn more about human-centred design as an approach to understand end users, identify root problems and work on potential solutions. In 2019-20, over 275 employees participated in Idea Space sessions throughout the year.

In today's marketplace, digital solutions are required to support seamless customer and partner interactions. In 2019-20, FCC focused on developing, improving and streamlining digital lending solutions for Alliance business lines. We launched an online lending portal that allows Alliance crop input partners to originate new credit applications and manage customer transactions such as disbursing funds and receiving payments. Customers can now use an online crop input credit application to apply for input financing. As of March 31, 2020, over 87 applications have been submitted through the new portal. Enhancements were also made to provide extra security for our customers and monitor for possible fraudulent activity.

FCC continues to operate in an innovative and agile manner. During the COVID-19 pandemic, FCC was able to quickly provide customers with the ability to apply for FCC's Customer Support Program repurposing an existing online application experience.

Enhance our employees' ability to execute customer solutions

Initiative:

- Increase velocity of execution by enabling employees' ability to develop customer solutions using FCC's Innovation Lab and Idea Space.

Increasing velocity at FCC is about making it easy for customers to do business with us and for employees to get work done. In 2019-20, FCC's Idea Space and Innovation teams facilitated and supported several sessions focused on corporate and divisional objectives, which included participation from employees and customers. Improvements to project velocity and measuring the success of execution were implemented through enhanced reporting, streamlined decision-making and clear long-term and incremental targets. FCC also made a structural change to consolidate several critical enterprise strategic functions into a new business unit responsible for bringing FCC's strategy to life with a primary focus on customers.

Maximize data use to enable better decision-making

Initiative:

- Create the foundation to access and leverage data through digital tools to advance our business management and that of our customers.

We continue to explore ways to leverage and safeguard data to advance business management for our customers and FCC, with a vision of using data as a strategic differentiator. Quality data means having the right information in the right place at the right time. In 2019-20, FCC focused on building a foundation to ensure employees understand and use data consistently. An internal customer dashboard, which enables greater insight into the size and composition of FCC's customer base, was released. We had a third party assess our business practices in managing and protecting customer information throughout its life cycle. Implementation of the recommendations is underway.

Effective enterprise risk management

Build to last for generations to come

Key results – 2019-20 Corporate Plan objectives

Align enterprise risk to mandate

Initiative:

- Build sustainable risk practices and tools to enhance employee knowledge and expand how FCC serves all sectors while maintaining an appropriate risk appetite.

In an ever-changing industry, understanding our customers' business requires more than knowing agriculture. FCC also needs to be the agriculture finance expert at the table. This knowledge will strengthen FCC's business foundation, position us to remain relevant as the primary lender in agriculture financing, and grow our agribusiness portfolio. In 2019-20, we launched a revamped credit learning and performance program designed to provide employees involved in lending decisions with a consistent understanding of credit risk and lending concepts. Over 950 employees have enrolled in the various courses, with 755 completing courses to date.

FCC's strategy to grow how we support Canada's agribusiness and agri-food sectors led to enhancements in related commercial and corporate risk management practices, including risk assessment, mitigation, monitoring, measuring and aggregation. New ways to monitor expanded overall risk and specific risks for start-ups will occur as data evolves. These enhancements ensure FCC takes risks we understand and that are good for customers and the industries we serve.

Evolve risk capabilities

Initiatives:

- Advance risk data management, analytics and modelling to enable enhanced decision-making.
- Mature operational risk management and controls in a digital era.
- Use privacy principles and cyber protection protocols to ensure we can continue to safeguard and leverage customer information.

Delivering enhanced decision-making tools and models requires mature model risk management practices. In 2019-20, FCC's modelling foundation and model risk management practices were strengthened. Models are built from data and to maintain data quality, we implemented new risk data management processes, policies and systems, focusing on managing the risk associated with collecting and documenting customer financial information.

FCC continued to mature operational risk management and controls in 2019-20, concentrating on implementation of a comprehensive risk control self-assessment program, including a governance, risk and compliance system. Risk and control accountabilities were clearly distributed throughout the organization. The new capabilities will enable further development of legal compliance management. In addition, enhancements were implemented to manage financial crime, including automation and enhanced policy for customer screening, modernizing FCC's "know your customer" capabilities.

Advancements in crisis management and preparedness were made. A crisis simulation was conducted, providing management with an opportunity to test and enhance crisis management processes and skills. In response to the COVID-19 pandemic, foundational business continuity plans and flexible work-from-anywhere technology allowed FCC to quickly adapt processes and enable employees to work from home with minimal work interruption. A few critical processes continued to be delivered on premise to maintain appropriate information privacy and security. FCC also quickly developed and delivered new financing options to support the industry during the pandemic.

In 2019-20, we focused on implementing privacy risk management to minimize risks through technical and governance controls. We're in the process of converting our external privacy statement into plain language to ensure FCC's privacy commitments support organizational accountability and transparency.

FCC remains diligent on cyber protection by continuing to ensure systems and data are protected. We've also made a concerted effort to continue educating employees on the importance of cyber protection through required training and regular communication. Advancements were made to enhance information security and privacy protections through processes to identify FCC's business-critical information. We're in the process of developing specific requirements for this category of information.

Financial strength

Providing a strong foundation for the future

Key results – 2019-20 Corporate Plan objectives

Sustain financial strength

Initiative:

- Improve foundational finance systems and processes to ensure we continue to make sound business decisions.

FCC continues to work on two major initiatives focused on enabling employees to make better decisions using easily accessible and enhanced financial data. We're implementing a new financial system that will replace outdated technology, improve efficiencies and improve data analytics. We also redesigned our internal pricing models, systems, processes and policies. These changes will improve FCC's loan pricing decisions by providing more precise cost and risk pricing, which will enable responsiveness to business conditions by creating flexibility in the pricing adjustments for certain markets.

2019-20 planned results

FCC's critical outcome statements are aligned to our mandate and Government of Canada priorities. We report on our progress through the following performance indicators.

Results as of March 31, 2020

Short-term outcomes				
Outcome	Performance indicator	2019-20 target	2019-20 results	2023-24 target
FCC is committed to growing Canada's agri-food exports and increasing value-added capacity	Number of net new agribusiness and agri-food customers	75	214	275
FCC is committed to building a workforce that reflects the diversity of its customers and the Canadian workforce	Percentage of total hired are members of employment equity groups[3]	14%	18.5%	20%
FCC invests in communities where its customers and employees live and work	Amount invested by FCC in community initiatives and projects, including funds provided to local non-profits	At least $3 million	$4.2 million	At least $3 million
	Number of paid volunteer hours by FCC employees	2,800	3,566	3,500

[3] FCC's employment equity groups include: women, Aboriginal persons, members of visible minorities and persons with disabilities.

Medium-term outcomes				
Outcome	Performance indicator	2019-20 target	2019-20 results	2023-24 target
FCC delivers a customer experience that meets the needs of the industry	Net Promoter Score®	70 (Equal to or greater than the 75th percentile)	71	70 (Equal to or greater than the 75th percentile)
	"We make it easy for customers to do business with us" employee engagement survey question	76%	72%	80%
Canadian agricultural producers and agribusiness and agri-food operators have access to knowledge that helps them advance their management skills and grow their businesses	Total views/interactions with FCC's online knowledge offering	1.25 million[4]	1,442,198	2.0 million
	Average score of event participants on the likelihood they will use information from the event in their farming operations	Greater than 4 out of 5	4.5 out of 5	Greater than 4 out of 5
Increased positive dialogue about Canadian agriculture	Percentage growth in social impressions[5] of conversations about Canadian agriculture	Overall sentiment: • English: 95% Positive-Neutral, 5% Negative • French: 98% Positive-Neutral, 2% Negative	Overall sentiment: • English mentions: 30.6% increase from last fiscal year • English sentiment: 6% decrease over last fiscal year 77% positive/neutral 23% negative • French mentions: 26.7% increase from last fiscal year • French sentiment: 11% decrease over last fiscal year 56% positive/neutral 44% negative	Measure removed in 2020-21 Planned Results
Young farmers and young agribusiness and agri-food operators have access to specialized lending products and services	Young borrower lending: Ag production: Agribusiness and agri-food:	 $3 billion $100 million[6]	 $3.8 billion $129 million	 $3.8 billion $181 million
	Number of borrowers[7] under age 40	More than 7,000	19,497	More than 7,000

[4] Year-end target amount for total views/interactions with FCC's online knowledge offering was adjusted to support a consolidated focus on our primary business channel. This resulted in a more accurate target amount.

[5] Year-end targets were adjusted as a result of vendor software enhancements which impacted FCC's original data set. Social mentions refer to the number of conversations about Canadian agriculture, while sentiment refers to the feeling of the conversation.

[6] Year-end target amounts for Young Borrower Lending were adjusted as a result of more accurate information made available during 2019-20 fiscal year.

[7] Includes primary and secondary borrowers.

Long-term outcomes				
Outcome	Performance indicator	2019-20 target	2019-20 results	2023-24 target
Canadian producers and agribusiness and agri-food operators can access capital to advance their businesses	Loans receivable and leasing (total loans and leasing outstanding)	$37,387.8 million	$38,593.3 million	$41,678.7 million
	Increase in loans receivable and leasing (year-over-year portfolio growth)	$1,544.9 million	$2,380.6 million	$1,012.4 million
FCC supports the Federal Sustainable Development Strategy and Greening Government Strategy by reducing its greenhouse gas emissions	Reduction in FCC's greenhouse gas footprint by 40% by 2025 based on 2012 levels	307 tonnes/$C0_2$e	307 tonnes/$C0_2$e	307 tonnes/$C0_2$e
FCC maintains a safe and sound capital position to withstand economic downturns and periods of extended loss and to support FCC's strategic decisions	Capital adequacy measure[8]	Target capital ratio of 15% or higher	16.8%	Target capital ratio of 15% or higher
Small and medium-sized operations have access to capital to grow their businesses	Percentage of FCC customer count in small and medium-sized segments: - Ag production - Agribusiness & agri-food	Ag production: Greater than 90% Agribusiness & agri-food: Greater than 75%	93.2% 85.0%	Ag production: Greater than 90% Agribusiness & agri-food: Greater than 75%

[8] Capital adequacy is used to ensure FCC carries an adequate amount of capital to meet the outcome described in this appendix.

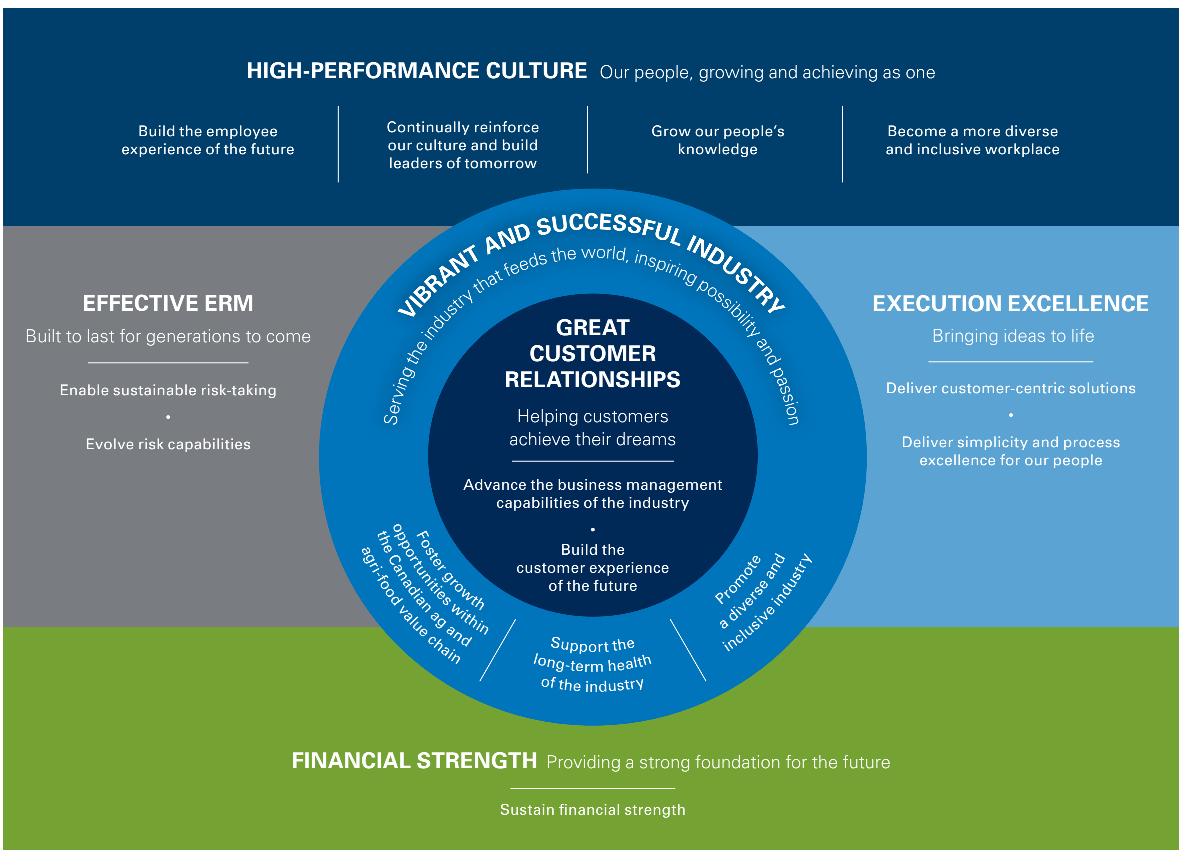
2020-21 corporate strategy

The agriculture and agri-food industry faces unprecedented opportunities and unique challenges. FCC's strength and stability puts us in a unique position to support our customers and the industry.

FCC's strategic themes are critical to the corporation's long-term success and are reflected in our 2020-21 corporate strategy map:

- Great customer relationships
- Vibrant and successful industry
- High-performance culture
- Execution excellence
- Effective enterprise risk management
- Financial strength

FCC will continue to advance and implement a range of initiatives to remain relevant, provide extraordinary customer experiences and support the agriculture and agri-food industry to ensure it achieves its full potential.



Financial results overview

FCC continued to produce strong financial results in 2019-20. Growth in loans receivable and leasing was $2.4 billion, or 6.6%, reflective of the strength of the agriculture and agri-food industry and FCC's ability to keep pace with its focus on exceptional customer experience. Net income and equity growth contributed to the maintenance of a sound capital position.

In response to the COVID-19 pandemic, FCC continues to work collaboratively with the federal government through Agriculture and Agri-Food Canada to support the needs of the agriculture and agri-food industry through an economic response plan to COVID-19. FCC has maintained a strong capital position and is further well positioned to support the industry through the challenging times following a related $500 million capital contribution received in March 2020 from the Government of Canada.

Financial performance against plan

Each year as part of its strategic planning process, FCC develops a comprehensive corporate plan that includes projections for various financial measures for the coming fiscal year. The following section discusses 2019-20 results in comparison to Corporate Plan projections.

Loans receivable and leasing

▲ 1,205M

2019-20 Actual	$38,593 M
2019-20 Plan	$37,388 M

Loans receivable and leasing was higher by $1,205 million or 3.2% in 2019-20 compared to 2019-20 plan primarily due to higher disbursements arising from higher demand for credit than planned.

Net income

▼ 42.1M

2019-20 Actual	$632.6 M
2019-20 Plan	$674.7 M

Net income was lower than 2019-20 plan mainly driven by higher provision for credit losses required to increase related allowance for COVID-19 impacts.

Return on equity

▼ 1.0%

2019-20 Actual	9.3%
2019-20 Plan	10.3%

Return on equity was 1.0% lower than the 2019-20 plan. The decrease is primarily due to lower net income and higher equity base as a result of the capital contribution.

Efficiency Ratio

▼ 1.8%

2019-20 Actual	37.8%
2019-20 Plan	39.6%

Efficiency ratio was favourable compared to 2019-20 plan primarily due to higher net interest income than planned.

Financial results summary

The following table provides selected annual consolidated financial statement information and financial measures and ratios for the past three fiscal years. The financial information has been prepared in accordance with International Financial Reporting Standards (IFRS).

For the years ended March 31 ($ in millions, except as noted)	2018	2019	2020
Consolidated statement of income			
Net interest income	1,072.3	1,151.7	1,196.7
Provision for credit losses	30.9	103.3	87.6
Non-interest income	26.9	39.4	(12.9)
Administration expenses	384.6	426.3	458.8
Fair value adjustment	(13.8)	(4.8)	(4.8)
Net income	669.9	656.7	632.6
Consolidated balance sheet			
Total assets	35,318	37,579	41,424
Total liabilities	29,257	31,149	34,171
Total equity	6,061	6,430	7,253
Financial measures and ratios			
Portfolio growth			
Number of loans and leasing	147,636	148,898	147,131
Loans receivable and leasing	33,989	36,213	38,593
Loans receivable and leasing growth rate (%)	8.5	6.5	6.6
Profitability			
Net interest margin (%)	3.16*	3.15*	3.10
Credit quality			
Credit-impaired loans	136.9	192.1	294.7
Allowance for credit losses	222.5	198.0	255.2
Efficiency			
Efficiency ratio (%)	34.9	36.3	37.8
Capital management			
Total capital ratio (%)	16.1	16.0	16.8
Debt to equity	4.9	4.9	4.7
Shareholder return			
Return on equity (%)	11.5	10.5	9.3
Dividends	308.3	364.0	394.8

* Restated

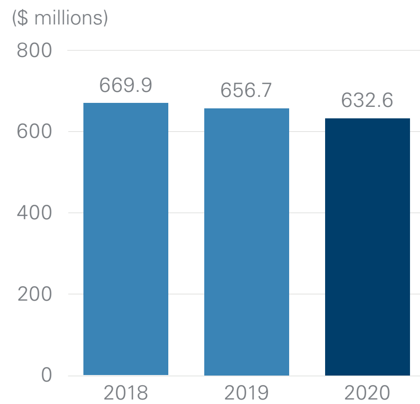
Financial performance

This section presents operating performance and provides commentary on how revenues, net income and profitability have developed over the past three years.

Net income

FCC's 2019-20 net income decreased by $24.1 million from the previous fiscal year primarily due to a decrease in non-interest income and an increase in administration expenses, partially offset by an increase in net interest income and a decrease in provision for credit losses.

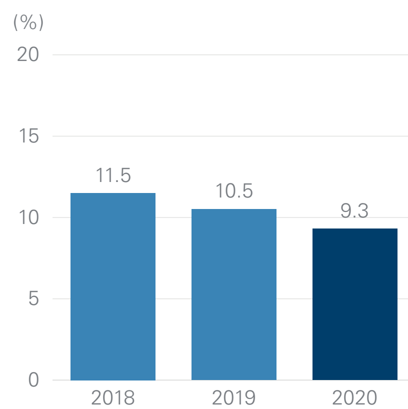
Net income



Return on equity

Return on equity decreased to 9.3% in 2019-20 from 10.5% in 2018-19 primarily due to the decline in net income and the increase in equity. Equity was higher due to a $500 million COVID-19 industry support related capital contribution received late in the fiscal year while net income was also impacted by increased credit risk related to COVID-19.

Return on equity



Net interest income and margin

Changes in portfolio balance and net interest margin are the primary drivers of changes in net interest income. Interest rate spreads are the difference between interest rates earned on interest-earning assets and interest rates paid on interest-bearing liabilities. The following table contains historical average balances, interest income and expense, net interest margins and interest rate spreads. The table also provides the year-over-year increases to net interest income caused by changes in portfolio volume and net interest margin.

In 2019-20, FCC's net interest income increased by 3.9% to $1,197 million. The primary driver of the higher interest income was portfolio growth, where total average earning assets increased by 5.5% to $38,578 million due to increased loans receivable.

The interest rate spread decreased 0.08% from 2.92% in 2018-19 to 2.84% in 2019-20. Favourable increases to interest rates on average earning assets were more than offset by an unfavourable increase in funding costs on the interest-bearing liabilities. Net interest margin on average earning assets decreased 0.05% to 3.10% compared to the prior year. This was a result of the decrease in the interest spread, partially offset by the favourable impact of equity.

Net interest income and margin on average earning balances

As at March 31 ($ millions)	2018			2019			2020		
	Average balance	**Interest**	**Rate (%)**	**Average balance**	**Interest**	**Rate (%)**	**Average balance**	**Interest**	**Rate (%)**
Average earning assets									
Loans	32,627	1,261	3.86	35,275	1,530	4.34	37,239	1,674	4.49
Investments	1,253	15	1.18	1,214	24	1.98	1,260	27	2.16
Venture capital investments	67	7	10.20	74	10	14.18	79	8	10.18
Total average earning assets	33,947	1,283	3.78	36,563	1,564	4.28	38,578	1,709	4.43
Total interest-bearing liabilities	28,162	211	0.75	30,346	412	1.36	32,229	512	1.59
Total interest spread			3.03			2.92			2.84
Impact of equity	5,785		0.13	6,217		0.23	6,349		0.26
Total net interest income on average earning assets	**33,947**	**1,072**	**3.16**	**36,563**	**1,152**	**3.15**	**38,578**	**1,197**	**3.10**
Year-over-year change in net interest income due to:									
Increases in volume		85			80			49	
Changes in margin		(10)			0			(4)	
Total change to net interest income		**75**			**80**			**45**	

Non-interest income

FCC generated non-interest income mainly through its insurance and venture capital equity investments identified as investments in associates. Other non-interest income items are net foreign exchange gain and loss and other income and expense inclusive of the management software offerings.

FCC had a loss of $12.9 million in non-interest income in 2019-20, which is a decrease of $52.3 million from $39.4 million in the prior year. The decrease is largely due to a fair value loss from investment in associates and a decrease in net insurance income.

For the year ended March 31 ($ millions)	2018	2019	2020
Net insurance income	30.9	22.1	17.8
Net (loss) income from investment in associates	(3.6)	17.4	(31.1)
Net foreign exchange (loss) gain	(0.3)	0.6	2.3
Other expense	(0.1)	(0.7)	(1.9)
Total non-interest (loss) income	**26.9**	**39.4**	**(12.9)**

Net insurance income decreased from $22.1 million in 2018-19 to $17.8 million in 2019-20 primarily due to an increase in incurred claims.

Net (loss) income from investment in associates decreased from $17.4 million in 2018-19 to ($31.1) million in 2019-20 primarily related to unrealized decreases in fair value of venture capital equity investments.

Provision for credit losses

The provision for credit losses decreased by $15.7 million from 2018-19 to $87.6 million in 2019-20. This is primarily due to decreases to the provision in 2019-20 for model refinements related to probability of default and forward-looking information.

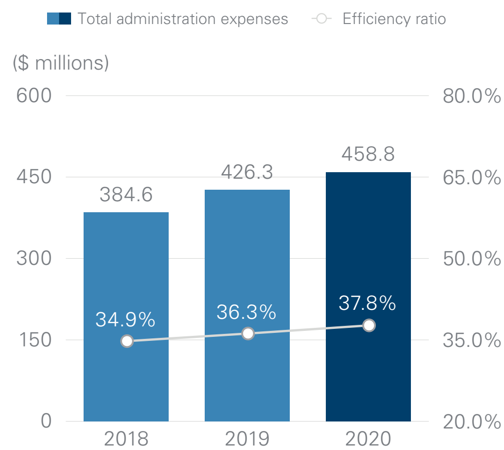
For the year ended March 31 ($ millions)	2018	2019	2020
Provision for credit losses			
Impaired loans (Stage 3)	6.2	56.3	43.5
Performing loans (Stage 1 & 2)	24.7	47.0	44.1
Total provision for credit losses	**30.9**	**103.3**	**87.6**

Administration expenses

FCC's administration expenses represent the costs associated with day-to-day operations and the costs related to specific projects that support operations and the achievement of strategic objectives. The efficiency ratio measures the percentage of income earned that is spent on business operations. FCC's efficiency ratio increased from 36.3% in 2018-19 to 37.8% in 2019-20 primarily due to the growth of administration expenses outpacing the growth of revenue.

In 2019-20, administration expenses increased from $426.3 million to $458.8 million. The increases were primarily reflected in amortization and depreciation, salaries, benefits, and professional fees categories.

Administration expenses



Administration expenses by category

For the year ended March 31	2018	2019	2020
Salaries	44.7%	43.1%	43.6%
Benefits	17.2%	16.8%	16.5%
Professional fees	10.3%	11.9%	11.7%
Facilities, software and equipment	13.4%	14.2%	11.4%
Amortization and depreciation	4.5%	4.5%	8.1%
Travel and training	3.9%	3.6%	3.3%
Marketing and promotion	2.9%	2.8%	2.6%
Other	3.1%	3.1%	2.8%
Total administration expenses	**100%**	**100%**	**100%**

Fair value adjustment

FCC's fair value adjustment amount includes changes in the fair value of guarantees, derivative financial assets and liabilities, and venture capital investments. Fair value adjustment was similar for 2019-20 as in 2018-19 at ($4.8) million primarily due to a decrease in the fair value of derivative financial assets and liabilities, which mainly related to fluctuations in interest rates. For additional information regarding the calculation of fair value adjustment, refer to Notes 5, 21 and 22 of the Notes to the Consolidated Financial Statements.

Financial condition

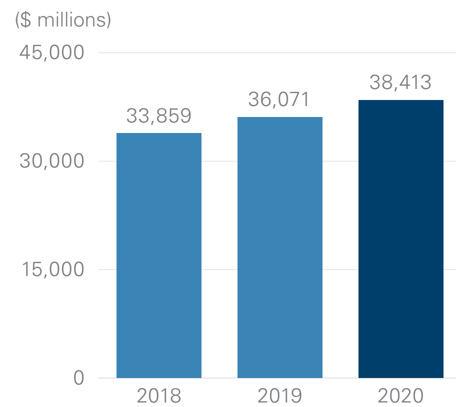
FCC continues to maintain a strong balance sheet and good risk management practices. The following section discusses FCC's financial position and provides an analysis of FCC's largest asset – loans receivable. This section also discusses FCC's credit quality, funding and liquidity, and capital management.

Loans receivable

Total loans receivable

In 2019-20, loans receivable increased by $2,342 million or 6.5% from 2018-19, growing to $38,413 million from $36,071 million. The increase was driven by loan disbursements partly offset by repayments.

Loans receivable



Loans receivable by sector distribution

FCC experienced loans receivable growth in all sectors with the exception of agri-food and fruit. The largest loans receivable year-over-year growth was in alliances and hogs, which increased $241 million to $1,557 million and $175 million to $1,215 million, respectively.

For the year ended March 31 ($ millions)	2018	2019	2020
Loans receivable			
Primary production financing			
Oilseed and grain	10,352	11,066	11,886
Dairy	6,204	6,427	6,471
Poultry	2,509	2,631	2,747
Beef	2,106	2,361	2,673
Part-time farming	2,047	2,069	2,220
Other	1,822	2,025	2,165
Alliances	1,176	1,316	1,557
Greenhouse	1,184	1,152	1,276
Hogs	934	1,040	1,215
Fruit	1,080	1,106	1,093
Total primary production financing	29,414	31,193	33,303
Agribusiness	3,311	3,643	4,026
Agri-food	1,158	1,259	1,112
Total loans receivable by sector distribution	**33,883**	**36,095**	**38,441**

* Excludes deferred loan fees

Primary production financing made up 86.6% of FCC's total loans receivable in 2019-20. Loans receivable for primary production increased $2,110 million or 6.8% from 2018-19, resulting in a portfolio of $33,303 million in 2019-20. Agribusiness financing loans receivable increased by 10.5% from 2018-19 to $4,026 million in 2019-20, a slight increase compared to prior year growth of 10.0%. Agri-food financing loans receivable decreased by 11.7% from 2018-19 to $1,112 million in 2019-20, compared to prior year growth of 8.7%.

Loans receivable by geographic distribution

In 2019-20, FCC experienced loans receivable growth across Canada. Quebec had the largest growth, increasing by 10.1% to $5,259 million. Saskatchewan had the second largest growth, increasing by 9.3% to $7,127 million.

For the year ended March 31 ($ millions)	2018	2019	2020
Loans receivable			
Ontario	10,046	10,617	11,144
Alberta and British Columbia	9,875	10,114	10,629
Saskatchewan	5,975	6,520	7,127
Quebec	4,285	4,777	5,259
Manitoba	2,417	2,800	3,004
Atlantic	1,285	1,267	1,278
Total loans receivable by geographic distribution	**33,883**	**36,095**	**38,441**

[1] Excludes deferred loan fees.

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

Credit quality

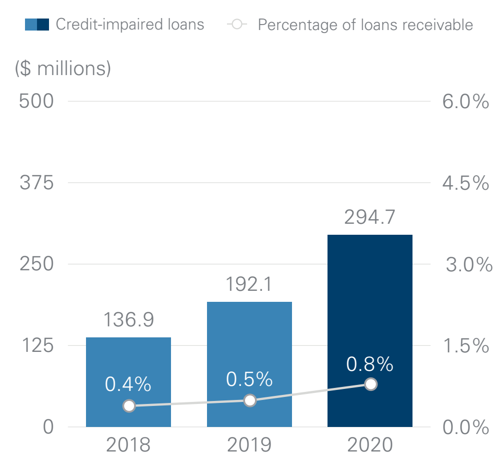
FCC continually monitors its portfolio and the industry to proactively identify and develop solutions to help customers through difficult times. FCC has developed customized programs and product options that provide flexibility and support customers both in times of challenge and opportunity.

FCC employs sound business practices for analyzing credit quality and monitoring loans that are past due and impaired. From this analysis, FCC can better assess the appropriate level of allowance for credit losses and determine whether its risks are within the tolerances stated in the Board-approved risk management policies.

Credit-impaired loans

In 2019-20, credit-impaired loans increased by $102.6 million to $294.7 million. As a percentage of loans receivable, credit-impaired loans increased to 0.8% in 2019-20 from 0.5% in the prior year.

Credit-impaired loans



At a sector level, credit-impaired loans fluctuated among different sectors in 2019-20. The oilseed and grain sector experienced the largest year-over-year dollar increase of $37.0 million to $58.1 million, which represents 0.5% of the sector. The beef sector experienced the second largest year-over-year dollar increase of $15.6 million, totalling 1.1%.

Agri-food and agribusiness experienced a year-over-year increase of $26.5 million and $6.2 million, totalling 3.4% and 1.3% respectively.

Through its customer support programs, FCC proactively supports individual customers and sectors during financial difficulties. This was further demonstrated through our support of the unprecedented COVID-19 related market disruption and uncertainty. In March 2020, FCC began providing the option for customers to defer principal payments for up to 12 months or principal and interest payments up to six months. In 2019-20, FCC made payment schedule adjustments to 5,336 loans, 311 of which were part of its sector-specific support programs. Payment schedule adjustments as a percentage of total owing increased to 9.0% in 2019-20 compared to 4.0% in 2018-19, primarily due to the COVID-19 related support.

For the year ended March 31 ($ millions)	**2018**	**2019**	**2020**
Credit-impaired loans			
Primary production financing			
Oilseed and grain	8.8	21.1	58.1
Dairy	2.0	4.6	19.2
Poultry	0.1	–	0.5
Beef	5.2	15.0	30.6
Part-time farming	20.6	18.9	21.5
Other	26.9	23.3	31.1
Alliances	11.9	20.5	26.0
Greenhouse	1.4	4.6	6.2
Hogs	7.7	3.1	0.7
Fruit	20.4	25.7	12.8
Total primary production financing	105.0	136.8	206.7
Agribusiness	6.8	44.5	50.7
Agri-food	25.1	10.8	37.3
Total credit-impaired loans by sector distribution	**136.9**	**192.1**	**294.7**

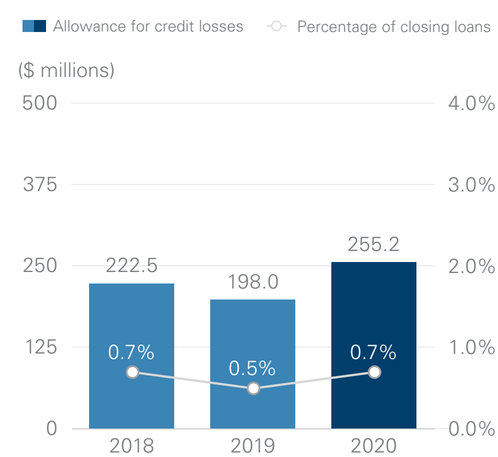
Writeoffs

In 2019-20, the amount of writeoffs decreased by $18.8 million from $51.1 million[1] in 2018-19 to $32.3 million. Writeoffs as a percentage of loans receivable were 0.08%, lower than 0.14% in the prior year.

Allowance for credit losses

FCC has been impacted by an accumulation of challenges in the Canadian agriculture and agri-food sector as at March 31, 2020, including disruptions from COVID-19. This market uncertainty results in industries most at risk being likely to face cash flow issues as disruptions due to consumption changes, trade issues and labour shortages take effect. These impacts will result in an erosion of working capital that could make debt repayment more difficult. In addition, certain assets held as security are at a higher risk of being devalued in the current environment, particularly if a default were to occur. FCC considered the current state of the economy when estimating the allowance for credit losses. Significant judgment was used by management to make assumptions to determine how specific sectors have been impacted by the disruption

Allowance for credit losses



[1] Restated

in the economy. This includes assumptions made for the impact of a higher risk of default resulting in a significant increase in credit risk, the impact of payment deferrals resulting from FCC's customer support programs and industry support programs, and an adjustment to the asset values used as security within our portfolio.

In 2019-20, the allowance for credit losses increased by $57.2 million to $255.2 million. This was primarily due to increased expected loss associated with the accumulating industry challenges, including those brought on by COVID-19, model enhancements to align FCC's definition of default with industry standard, as well as the overall increase in portfolio size. These increases were partially offset by decreases to the allowance resulting from model enhancements related to probability of default and refinements to methodologies for the capture of forward-looking information.

Specialized financial products

FCC also offers financing for equipment leases and venture capital investments. The following table presents leases receivable and the venture capital portfolio.

For the year ended March 31 ($ millions)	2018	2019	2020
Leases receivable – net	130.3	141.6	180.0
Venture capital portfolio	134.9	140.5	122.5

Leases receivable

Leases receivable includes finance leases and equipment under operating lease, which increased to $180.0 million in 2019-20 compared to $141.6 million in 2018-19 primarily due to an increase as a result of all lease arrangements being recorded as finance leases, partially offset by a decrease in overall lease disbursements.

Venture capital portfolio

Venture capital portfolio includes five limited partnership funds consisting of three equity funds and two subordinated debt funds. FCC's share of the equity funds makes up the investment in associates balance on the balance sheet. Investments through subordinated debt funds are consolidated in the financial statements and reported as venture capital investments. Venture capital portfolio decreased by $18.0 million from the previous fiscal year primarily due to unrealized fair value losses in the equity funds offset by new investment in the subordinated debt funds.

Funding and liquidity

Funding activity

On April 21, 2008, FCC began borrowing directly from the federal government under the Crown Borrowing Program. FCC continues to carry capital market debt raised before this date.

During 2019-20, FCC raised short and long-term funds through the following programs:

- Domestic Commercial Paper Program
  (for U.S. dollars only)
- Crown Borrowing Program

Short-term funding

Short-term funding consists of borrowings with a term to maturity of one year or less, which include fixed-rate borrowings and floating-rate notes. Floating-rate notes have floating interest rates that reset based on one-month T-bill rates. The outstanding short-term borrowings at March 31, 2020, were $9,952 million, compared to $9,794 million at March 31, 2019. Of the total short-term borrowings outstanding, $9,404 million were raised through the Crown Borrowing Program.

Long-term funding

Long-term funding consists of borrowings with a term to maturity of more than one year, which include fixed-rate borrowings and floating-rate notes. Floating-rate notes have floating interest rates that reset based on one-month or three-month T-bill rates. The outstanding long-term borrowings at March 31, 2020, were $23,607 million, compared to $20,950 million at March 31, 2019. In 2019-20, all long-term borrowings were raised through the Crown Borrowing Program.

Credit ratings

New and outstanding capital market debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. Moody's Investors Service and Standard & Poor's did not change FCC's debt ratings during 2019-20. FCC's debt ratings as of March 31, 2020, are detailed below.

	Long-term	Short-term
Moody's Investors Service	Aaa	P-1
Standard & Poor's	AAA	A-1+

Liquidity

Having adequate liquidity ensures FCC has access to cash to meet daily operational requirements in the event there is an unanticipated need for cash, or a business disruption prevents the corporation from borrowing debt through the Crown Borrowing Program. While the Crown Borrowing Program provides stable funding, in the event of a disruption FCC also maintains a bank operating line of credit and an investment portfolio of highly liquid securities sufficient to meet projected funding requirements for a minimum of 30 days. To ensure access to funds meets operational requirements, FCC forecasts future cash requirements and creates a borrowing plan. As a precautionary measure in response to the COVID-19 situation, FCC increased its investment portfolio to meet additional projected funding requirements beyond 30 days.

See Note 27 of the Notes to the Consolidated Financial Statements for additional details.

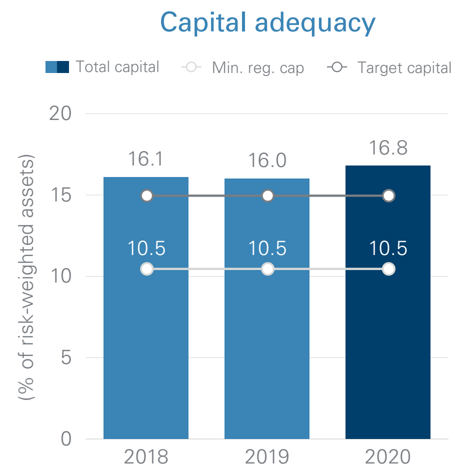
Capital management

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. FCC's capital management objective is to maintain a safe and sound capital position to withstand economic downturn and periods of extended loss and to support FCC's strategic direction.

FCC compares its total capital to minimum regulatory capital and target capital when assessing current and future capital adequacy. FCC uses the Capital Adequacy Requirements guideline issued by the Office of the Superintendent of Financial Institutions (OSFI) to assess total capital, minimum regulatory capital and risk-weighted assets (RWA). FCC's internal capital adequacy assessment process (ICAAP) uses regulatory and internal assessments of credit, market and operational risks, including considerations for business development, operating range, regulatory changes and uncertainties as well as the results of stress-testing. FCC uses the ICAAP to determine an appropriate target capital ratio, which is currently assessed at 15.0%.

Capital adequacy

FCC is currently projected to remain adequately capitalized as growth in capital outpaces growth in capital requirements from normal business operations. As part of the COVID-19 industry support response, additional capital was provided by the Government of Canada through the form of a capital contribution of $500 million in March 2020. With this capital contribution, FCC is 1.8% above the target capital ratio.



Total capital ratio continuity

The 0.8% increase in the total capital ratio from March 31, 2019, to March 31, 2020, is the net result of capital generation and the capital contribution offset by increased RWA and dividend payments. The increased RWA results primarily from portfolio growth while capital generation is primarily driven by net income and the resulting increase to retained earnings. In 2019-20, FCC paid dividends of $394.8 million to the Government of Canada based on the prior year's capital adequacy assessment. FCC's Dividend policy is aligned with the Capital and Dividend Policy Framework for Financial Crown Corporations issued in 2018 by the Department of Finance and the Treasury Board Secretariat.

Total capital ratio continuity

2019 capital ratio	16.0%
Capital generation	1.7%
Capital contribution	1.3%
RWA growth	(1.3%)
Dividends paid	(0.9%)
2020 capital ratio	16.8%

Debt to equity

FCC uses debt to equity as an additional measure to assess capital adequacy and the measure also represents the corporation's only legislated limit. At the end of 2019-20, FCC's debt-to-equity ratio remained below its legislated limit of 12:1.

From 2018-19 to 2019-20, FCC's debt-to-equity ratio decreased to 4.7:1 due in part to the relationship between portfolio and equity growth as well as a COVID-19 related capital contribution late in the fiscal year.

See Note 26 of the Notes to the Consolidated Financial Statements for additional details on capital management.

Outlook for 2020-21

The 2020-21 Corporate Plan projections represented a point in time when it was finalized in December 2019. As such, it does not incorporate COVID-19 related impacts recognized in the 2020 actual results. Since then, the impact of COVID-19 and the changing economic environment continues to be uncertain and there is a high likelihood that actual results would vary materially from the Corporate Plan projections. Considering the uncertainty that exists, likely to be the most significantly impacted will be:

- The **portfolio growth** is expected to be higher due to support programs and payment trends.
- The **credit quality** is anticipated to increase with customer support programs as well as the potential deterioration of the risk level in the existing portfolio.
- The **net income** is expected to decrease as a result of increases in provision of credit losses related to increased credit risk.

Enterprise risk management

Managing risk to protect FCC and maintain great customer relationships

FCC has governance, systems and processes in place to maintain enterprise risk management practices consistent with federally regulated financial institutions.

As a financial institution, risk is inherent in all our activities and we take potential risks into account when lending to customers, delivering services, identifying our priorities and developing our business strategies and initiatives. We continually improve our enterprise risk management framework and we measure our activities against a formal risk appetite and tolerance statement that defines and measures acceptable risk.

Our risk management objectives and supporting priorities are focused on building a bright future for Canadian agriculture.

Risk governance

Under the oversight of the Board of Directors, FCC's enterprise risk management framework provides an overview of our enterprise-wide practices for managing risk, including identifying, assessing, mitigating/controlling, monitoring and reporting on significant risks facing the organization.

FCC Board of Directors

FCC's Board of Directors oversees the organization's enterprise risk management framework to ensure risk management is integrated with strategic, financial and operating plans. The Board-approved risk appetite framework establishes the risk limits for all categories of risk.

The Board has established four committees to help fulfil its oversight role.

The **Risk Committee** oversees enterprise risk management and ensures risk management activities are separate from operational management. The committee also oversees organizational compliance with FCC's risk management policies and the effectiveness of systems and programs related to capital requirements.

The **Audit Committee** oversees the integrity, accuracy and timeliness of FCC's financial reporting. The committee also oversees FCC's internal audit function to ensure compliance with laws, regulations and ethical conduct. This includes ensuring an ongoing working relationship between FCC and the Office of the Auditor General of Canada.

The **Corporate Governance Committee** reviews, reports and, when appropriate, recommends governance matters to the Board. This includes FCC's strategic planning process, code of conduct and ethics and corporate social responsibility strategy. The committee also has the mandate to provide recommendations regarding the appointment of directors and the Board Chair.

The **Human Resources Committee** oversees FCC's human resources plan and policies. The committee also oversees President and Chief Executive Officer (CEO) selection, goal setting and performance review, the corporate compensation structure and pension plans, as well as succession planning for senior managers.

FCC management committees

A number of FCC committees guide corporate decision-making. These committees develop and monitor risk management processes and practices.

The Enterprise Management Team sets FCC's strategy and determines which business opportunities to pursue. The committee is accountable to implement the enterprise risk management framework across FCC.

The **Asset Liability Committee** directs FCC's business and financial performance relative to the approved strategy and risk appetite statement. The committee is responsible for FCC's capital and asset liability management strategies, volume, margin and loan pricing results.

The **Enterprise Risk Management Committee** oversees the management of enterprise risks and promotes a robust risk management culture and continuous evolution of risk management practices. The committee works with the Chief Risk Officer to advise the Board about the risk appetite statement and tolerances, risk management frameworks and policies, compliance and risk reports, action plans to address policy breaches, the fit of new products and services within the risk appetite, stress/scenario testing and the assessment of strategic risk.

The **Operational Risk Management Committee** champions operational risk management at FCC. The committee oversees operational risks of the organization, challenges effectiveness of controls and manages operational risk treatment plans, escalating unaddressed risks to the Enterprise Risk Management Committee as required.

The **Model Governance Committee** provides oversight of FCC's predictive and decision-making models, with explicit accountability to recommend models for implementation. This includes ensuring utilization of appropriate model development techniques, assessing suitability of models to meet business objectives, overseeing model validation responses and evaluating readiness for implementation.

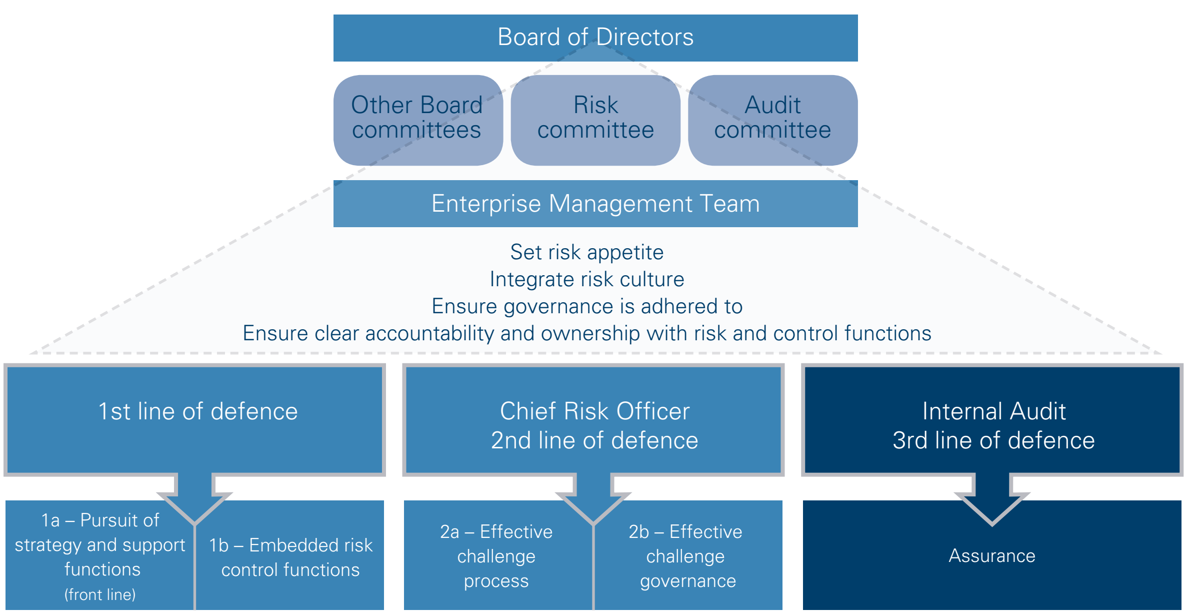
The **Credit Policy Committee** oversees the development of lending, leasing and product policies and ensures they reflect FCC's credit risk tolerance, risk culture and industry best practices, including applicable laws and regulations. The committee oversees the Credit Committee process, through which large credit facilities and requests for pre-authorized credit are approved. It ensures activities are within FCC's risk tolerances and in accordance with credit policies.

The **Venture Capital Committee** approves commitments of capital to third-party fund managers for venture capital investments.

FCC executive and business functions

FCC uses a three lines of defence model to govern risk related to key business processes. Policies outline risk-taking and risk management functions. Policies further establish risk management authorities to various operational units congruent with the authorities of the President and CEO, Chief Risk Officer and Vice-President, Internal Audit. The authorities maintain three distinct and independent lines of defence.

The **first line of defence** develops and executes FCC's business strategy. This includes the ability to make loans, fund the portfolio, develop products and pursue markets and other risk-taking decisions. These decisions are made within the context of the risk appetite statement. Included in the first line are embedded control functions whose role is to monitor activities of the first line.



The **second line of defence** effectively challenges risk-taking decisions made by the first line relative to the risk appetite statement. This includes setting risk policy and standards, monitoring compliance to policy, and reporting risks to management and the Board. The Chief Risk Officer maintains independence through a direct reporting relationship to the Board's Risk Committee and leads a Risk Management division that is independent of FCC operations.

The **third line of defence** provides independent and objective assurance to the Board and senior management on the adequacy and effectiveness of the organization's governance, risk management and internal controls. This includes assurance on the adequacy and effectiveness of the first and second lines of defence. It also fulfils an advisory role on co-ordinating assurances and recommending effective ways of improving existing processes.

The Internal Audit business function provides objective assurance to the Board and FCC executive about the effective operation of risk management practices and internal controls.

FCC's risk appetite

FCC's risk capacity is informed by the Farm Credit Canada Act, Financial Administration Act and various directives provided by our shareholder, the Government of Canada.

The Board has established a risk appetite statement for FCC. Annually, the risk appetite is reaffirmed and approved by the Board through the risk appetite framework. The statement consists of three core principles that outline the level of risk FCC is willing to take, accept and avoid. A series of supporting statements provides additional information and context. The core principles for managing risk are as follows:

- We take risks we understand and that are good for customers, FCC and the Canadian agriculture and agri-food industry.
- We accept the risk of a long-term view in order to remain a steady presence for Canadian agriculture and agri-food industry participants.
- We avoid risks that jeopardize FCC, our customers or the sustainability of the industry we serve.

In addition to the principles, the risk appetite contains a series of tolerances and limits categorized as strategic, financial and operating. These statements and limits are reviewed annually to ensure adequate coverage of the strategy, changes in the operating environment, and changes in guidelines for financial Crown corporations.

Management regularly reports on the risk profile to risk tolerances and limits, ensuring appropriate action is taken to address any issues outside of stated tolerances and prevent the profile from exceeding FCC's risk appetite.

FCC's risk-intelligent culture

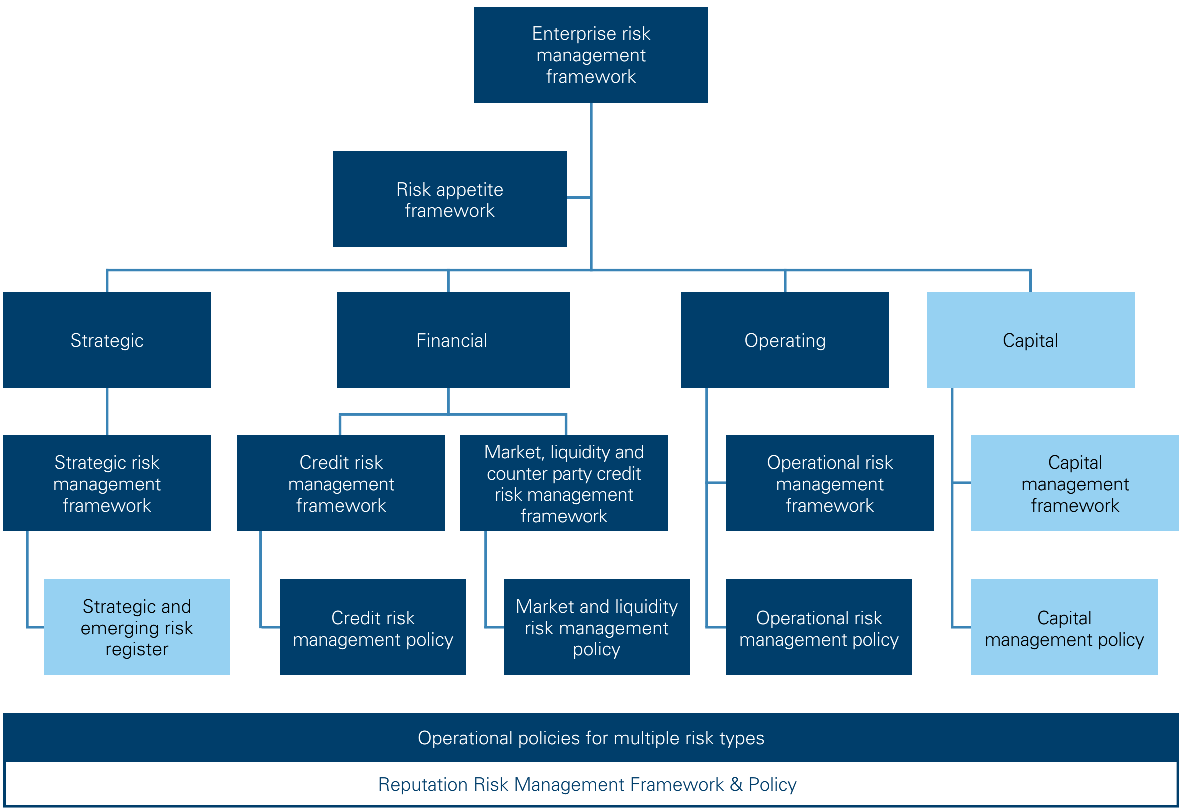
Industry trust and marketplace reputation are essential to sustained business success and effective mandate execution. To proactively manage FCC's culture and risk mindsets, the fundamental drivers of employee behaviour have been defined and grouped into four key areas — risk competence and skill, organizational structure, intrinsic and extrinsic motivation, and relationships and interactions. Through surveys and measurement, these areas are assessed, reviewed and discussed with senior management and the Board.

Each line of defence at FCC is 100% accountable to work collaboratively with others, advance the business of agriculture in Canada and be a committed partner in every interaction, listening for contributions and honouring commitments to achieve the best possible result for FCC and the customer.

FCC's risk categories

FCC categorizes risk as strategic, financial, operating or reputation. The financial classification is further delineated into three categories – credit, market and liquidity.

Enterprise risk management framework: This framework provides the governance structure for managing risk, the process to identify, assess, control/mitigate, monitor and report on risk, and formalizes the risk appetite and supporting risk-intelligent culture. The Board approves this framework.



Risk appetite framework: This framework sets the tone for risks the organization is willing to take and accept, as well as the risks we wish to avoid. It includes all limits and thresholds. The Board approves this framework.

Risk category frameworks: These frameworks elaborate on the processes used to identify, assess, control/mitigate, monitor and report on the risk category. These frameworks are subordinate to the enterprise risk management framework and are approved by management.

Strategic and emerging risk register: This register ranks the top risks facing the organization in the categories of strategic, financial and operating risk. The Board approves the register and related prioritization of risks. The prioritization is an input to the stress-testing program.

Enterprise risk category policies: By risk category, these policies articulate the minimum requirements by which employees and business units must operate. These policies are approved by the Board.

Operational policies for multiple risk types: These policies are established to communicate requirements specific to control risk within business operations and processes.

Authorities and limits: Applicable authorities and limits are established within each policy and approved by the Board.

Reporting: Quarterly reports against the risk appetite framework are provided to the Enterprise Management Team, Enterprise Risk Management Committee and Board Risk Committee for discussion. The report contains a comprehensive view of the organization's risk profile relative to the risk appetite as well as an analysis on emerging risks and key risk indicators.

Strategic risk

Strategic risk refers to the external environment and FCC's ability to develop and implement effective business strategies.

The Enterprise Management Team develops the corporate strategy annually and documents FCC's key strategic priorities in the five-year corporate plan. The Board provides oversight. The external environment, including the global economy, the Canadian financial marketplace and the agriculture industry, is monitored to determine if strategic changes are required to address emerging risks.

FCC has developed strategic risk tolerance statements. Limits are set annually to correspond to the tolerance statements:

Role of FCC: We engage in activities aligned with the Farm Credit Canada Act and other legislative requirements, federal government policy and operational directives. Our primary focus is on small and medium-sized participants.

Market share: We assess the market for growth, recognizing industry and economic cycles. We maintain a market share that fosters a healthy level of competition. We are a fair competitor.

Industry trust: We execute FCC's mandate and apply practices appropriately consistent with Canadian financial institution requirements for risk management.

Sustainability: We operate sustainably and support our customers to do the same. We work with customers to understand the material issues they face and help them identify and address these in a way that generates a positive impact on society, animal welfare and the environment. We accept that not all customers will progress at the same pace.

Customer relationships: We focus on great customer relationships and provide an excellent customer experience, balancing customer interests, the responsible management of FCC and what is best for the industry.

Relevance: We seek new approaches to meet industry and customer expectations and effectively evolve our capabilities to consistently resonate with the marketplace.

Execution excellence: We invest in effective delivery of services and balance operational efficiency and innovation with managing risk.

Culture: We have engaged employees, enabled by our culture of 100% accountability and partnership, managing relationships with customers and demonstrating shared accountability for sound risk and financial practices.

Stakeholder value: We are a catalyst for the agriculture, agri-food and financial services industries, partnering to make Canadian agriculture vibrant and successful.

Emerging and strategic risks are identified and analyzed through external scanning, consultation with internal subject matter experts and other means. The Board discusses the top enterprise risks during its involvement in the strategic planning cycle. Enterprise Management Team members are accountable for developing risk mitigation plans and reporting progress to the Board on a quarterly basis.

In addition, management develops severe but plausible scenarios to test our ability to stay within our risk appetite during a stress event. Potential risks are assessed to determine the level of risk treatment required.

Board-approved treatment plans and playbooks are monitored and reported to the Board on a quarterly basis.

Financial risks – credit, market and liquidity

Financial risks include FCC's risk categories of credit, market and liquidity. FCC has developed risk tolerance statements applicable to all financial risk categories. Annually, limits are set to correspond to the risk tolerance statements, maintained in policy and reported quarterly to the Board. The limits are holistic and include capital, income, loan loss, portfolio distribution and large customer connection exposure. The financial risk tolerance statements are:

Total capital ratio: We maintain a safe and sound capital position to withstand economic downturn and periods of extended loss.

Financial strength: We target a return on equity that recognizes our mandate, ensures FCC remains self-sustaining and meets shareholder expectations.

Portfolio health: We manage our loan portfolio to minimize large writeoffs through sound credit diligence, policy compliance, enforceable security and accurate information and documentation.

Portfolio concentration: We diversify our portfolio across all sectors of agriculture, agribusiness and agri-food, and Canada. We manage concentration using limits.

Connection exposure: We do not expose FCC to a customer connection exposure that could result in major loss.

Details on how FCC manages financial risk are described in Note 27 of the Notes to the Consolidated Financial Statements.

Financial risks – 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 loan/lease receivables is the most significant risk that the corporation faces, but credit risk also exists in investments and derivative financial instruments.

The Board is responsible for approving the corporation's credit risk tolerance and relies on committees, divisions and business units to effectively manage credit risk.

Credit risk assessment starts with individual transactions. FCC lending and credit risk employees assess and manage credit risk by ensuring individual loans are consistent with defined policies. Certified appraisers and validated models in the Valuations and Environmental Risk business unit help ensure the accuracy of security value estimates.

FCC uses policies, processes, systems and strategies to manage the credit risk of the lending portfolio. Venture capital and subordinated debt are provided through independent partners who manage a series of investment funds on behalf of FCC and other investment partners. FCC is exposed to credit risk through subordinated debt fund investments.

The Risk Management division assesses credit risk at the aggregate level, providing risk policies, assessment tools and models that quantify portfolio credit risk and allowance for credit losses. FCC also closely monitors the agriculture and agri-food operating environments to ensure the corporation's lending policies, activities and prices are appropriate and relevant. FCC focuses risk-taking decisions primarily on the customers' ability to repay the loan. Secondary forms of repayment such as collateral security are considered in the lending decision. The loan portfolio is monitored regularly using a combination of measures to estimate repayment and collateral quality.

Financial risks – 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. Market risk exists in all the corporation's financial instruments. The market risk policies and limits ensure interest rate and foreign exchange risks are identified, measured, managed and reported on a timely basis. FCC's market risk policies comply with the Minister of Finance Financial Risk Management Guidelines for Crown Corporations (August 2009).

Interest rate risk is the risk that a change in the interest rate adversely affects FCC's net interest income and fair value measurements. Exposure to interest rate risk is monitored primarily through an asset/liability model where 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. Foreign exchange risk is the risk that currency fluctuation negatively affects FCC. The currency exposure is minimized by matching foreign currency loans against foreign currency funding.

Financial risks – liquidity risk

Liquidity risk is the risk that FCC has insufficient funds to meet payment obligations as they come due. Liquidity risk is minimized using a liquid investment portfolio, funding through the Crown Borrowing Program and access to an operating line of credit.

Operational risk

Operational risk relates to the potential of direct or indirect loss due to inadequate or failed internal processes, resources, systems or external events, and the failure to comply with, or adapt to, legislative or regulatory requirements or litigation.

FCC categorizes operational risks into a risk taxonomy under the headings of people, process and systems. Each category has risk appetite statements developed to guide management in the setting of controls:

People: We adhere to the highest standards of integrity and will not allow goals, compensation or pressure to compromise our decisions.

We know our customers, vendors and employees. We deter money laundering, terrorist financing, theft and fraud and comply with applicable legislation, regulation and regulatory directives.

We employ and support a skilled, knowledgeable and diverse workforce to meet current and future business requirements.

We safeguard employee physical safety and support their mental health and well-being.

We effectively manage risks within our accountabilities to deliver great customer experiences while respecting each of the three lines of defence.

Process: We design and execute processes with effective controls, consistent with policy and information capture requirements.

We deliver customer offerings with suitable controls for channel and customer segment.

We use models that are verified and monitored to support their intended business purpose.

We apply an iterative approach to deliver successful outcomes and support change adoption.

We contract third parties when associated risk and controls are understood, managed and monitored.

Systems: We proactively prepare for business disruption of critical operations to restore availability while limiting losses.

We protect the confidentiality and availability of information assets. We maintain the quality and integrity of business-critical data.

We manage a technology infrastructure that is available, supportable and adaptable.

At FCC, business units are responsible for ensuring appropriate controls, including policies and processes, are in place to mitigate risks and operate effectively.

FCC processes are organized in a hierarchical process classification framework. This classification provides an end-to-end view to define work processes consistently and comprehensively, and to identify risks inherent in the process.

Risk and control self-assessments identify and assess key risks to ensure appropriate controls are in place or gaps are closed. Initial assessments are facilitated by the Risk Management team to provide consistency of risk evaluation and categorization across the organization. Managers are expected to self-assess and attest to the effectiveness of controls on a quarterly basis. Risk Management provides effective challenge to self-assessments based on reported issues and information from Internal Audit. Where necessary, Risk Management issues recommendations to optimize controls.

In addition, the Internal Audit function executes the Audit Committee's approved audit plan. The plan reviews processes and controls to provide assurance to the Board that risk is managed as intended. Audit deficiencies are to be addressed by management in a timely manner and reporting is provided to the Board on management's progress.

Reputation risk

Reputation risk is the risk that key stakeholders and others may develop negative perceptions about FCC that could adversely affect the corporation's reputation and ability to attract and retain customers, business partners and employees.

As a federal Crown corporation, FCC is accountable to our Minister but also takes into consideration the interests of many stakeholders, including employees, customers, industry associations and Canadians as a whole. Exposure to reputation risk is a function of FCC's ability to manage and respond to other risks. To avoid real or perceived reputation damage, FCC has a robust governance structure, including policies and processes, to guide employee conduct in interactions with co-workers, customers, industry partners, suppliers, media and the public.

Any risk event that exceeds FCC's risk appetite is assessed for reputation implications in accordance with the Reputation policy.

Management's Responsibility for Consolidated Financial Statements

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

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

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

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

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

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

Regina, Canada
June 3, 2020

INDEPENDENT AUDITOR'S REPORT

To the Minister of Agriculture and Agri-Food

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on Compliance with Specified Authorities

Opinion

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

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

Responsibilities of Management for Compliance with Specified Authorities

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

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

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

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

Ottawa, Canada
3 June 2020

Consolidated Balance Sheet

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

Commitments, guarantees and contingent liabilities (Note 24).
The accompanying notes are an integral part of the consolidated financial statements.
The consolidated financial statements were approved by the FCC Board of Directors on June 3, 2020, and were signed on its behalf by:

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

Govert Verstralen
Chair, Audit Committee

Consolidated Statement of Income

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

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

Consolidated Statement of Comprehensive Income

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

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

Consolidated Statement of Changes in Equity

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

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

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

Consolidated Statement of Cash Flows

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

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

Notes to the Consolidated Financial Statements

1. The corporation

Authority and objectives

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

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

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

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

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

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

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

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

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

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

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

2. Significant accounting policies

Basis of presentation

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

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

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

Changes in accounting standards

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

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

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

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

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

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

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

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

Leases

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

2. Significant accounting policies (continued)

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

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

Lease liabilities

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

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

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

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

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

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

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

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

ROU assets

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

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

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

Under IAS 17

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

2. Significant accounting policies (continued)

Basis of consolidation

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

Cash and cash equivalents

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

Short-term investments

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

Accounts receivable

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

Derivatives

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

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

Cash flow hedges

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

2. Significant accounting policies (continued)

Loans receivable

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

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

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

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

Finance leases receivable

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

Investment in associates

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

Venture capital investments

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

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

2. Significant accounting policies (continued)

Allowance for credit losses

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

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

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

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

Performing financial assets:

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

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

Credit-impaired financial assets:

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

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

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

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

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

2. Significant accounting policies (continued)

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

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

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

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

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

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

Modifications of financial assets

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

2. Significant accounting policies (continued)

Post-employment benefits

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

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

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

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

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

Defined benefit costs are split into three categories:

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

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

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

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

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

2. Significant accounting policies (continued)

Equipment and leasehold improvements

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

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

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

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

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

Computer software

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

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

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

Equipment under operating leases

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

2. Significant accounting policies (continued)

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

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

Insurance

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

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

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

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

Accounts payable and accrued liabilities

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

Borrowings

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

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

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

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

2. Significant accounting policies (continued)

Transition loan liabilities

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

Government assistance

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

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

Transaction costs

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

Translation of foreign currencies

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

Segmented information

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

Significant management judgments in applying accounting policies

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

2. Significant accounting policies (continued)

Finance leases receivable

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

Computer software

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

Leases

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

Estimation uncertainty

The preparation of the consolidated financial statements in accordance with IFRS requires that management makes judgments, estimates and assumptions concerning the future that affect the reported amounts in the consolidated financial statements and accompanying notes. Judgments, estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these judgments, estimates and assumptions, especially given the added uncertainties resulting from the COVID-19 pandemic declared by the World Health Organization in March 2020. Information about the significant judgments, estimates and assumptions that are critical to the recognition and measurement of assets, liabilities, income and expense is discussed as follows.

Allowance for credit losses

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

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

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

2. Significant accounting policies (continued)

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

Post-employment benefit assets and liabilities

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

Reserve for insurance claims

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

Useful lives of depreciable assets

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

Fair value of financial instruments

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

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

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

2. Significant accounting policies (continued)

Accounting standards issued but not yet effective

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

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

3. Transition to IFRS 16

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

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

4. Short-term investments

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

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

5. Derivative financial instruments

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

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

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

Notional principal amounts and term to maturity

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

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

Counterparty credit risk

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

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

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

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

5. Derivative financial instruments (continued)

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

6. Loans receivable – net

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

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

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

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

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

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

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

6. Loans receivable – net (continued)

Concentrations of credit risk

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

Sector distribution

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

Geographic distribution[1]

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

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

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

7. Finance leases receivable – net

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

[1] Reported under IAS 17 – Leases

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

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

8. Allowance for credit losses

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

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

(2) Includes partial repayments.

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

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

8. Allowance for credit losses (continued)

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

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

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

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

9. Venture capital investments – net

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

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

10. Post-employment benefits

Financial position of benefit plans

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

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

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

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

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

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

10. Post-employment benefits (continued)

Movements in the present value of the defined benefit obligation

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

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

Movements in the fair value of plan assets

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

10. Post-employment benefits (continued)

Defined benefit costs recognized in net income

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

Defined benefit costs recognized in OCI

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

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

Plan assets

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

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

10. Post-employment benefits (continued)

Significant assumptions

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

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

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

Assumed health care cost trend rates are as follows:

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

Sensitivity analysis

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

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

10. Post-employment benefits (continued)

Defined contribution pension plans

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

Total cash payments

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

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

11. Equipment and leasehold improvements

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

12. Computer software

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

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

13. Equipment under operating leases

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

14. Right-of-use assets

FCC's lease portfolio consists of office space.

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

15. Other assets

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

16. Borrowings

Short-term debt

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

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

16. Borrowings (continued)

Short-term debt by maturity date

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

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

Short-term debt continuity

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

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

16. Borrowings (continued)

Long-term debt

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

Long-term debt by maturity date

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

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

Long-term debt continuity

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

17. Lease liabilities

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

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

Amounts recognized in net income

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

Amounts recognized in the statement of cash flows

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

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

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

18. Other liabilities

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

19. Net interest income

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

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

20. Administration expenses

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

21. Fair value adjustment

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

22. Fair value of financial instruments

Financial instruments carried at fair value

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

Valuation hierarchy

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

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

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

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

Level 3 financial instruments

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

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

22. Fair value of financial instruments (continued)

Financial instruments not carried at fair value

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

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

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

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

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

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

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

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

23. Operating lease arrangements

Operating leases as a lessor

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

The future minimum lease payments are receivable as follows:

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

[1] Reported under IAS 17 – Leases

24. Commitments, guarantees and contingent liabilities

Loan and lease commitments

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

Investment in associates

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

24. Commitments, guarantees and contingent liabilities (continued)

Operating commitments

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

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

Guarantees

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

Contingent liabilities and provisions

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

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

25. Related party transactions

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

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

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

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

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

Transactions with the Government of Canada

The Government of Canada guarantees the borrowings of FCC.

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

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

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

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

25. Related party transactions (continued)

Key management personnel compensation

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

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

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

Transactions with key management personnel

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

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

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

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

Transactions with post-employment benefit plans

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

26. Capital management

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

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

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

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

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

26. Capital management (continued)

Debt to equity

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

Contributed capital

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

Dividend

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

27. Risk management

Financial risk management

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

a) Credit risk

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

Management of credit risk

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

27. Risk management (continued)

Measurement of credit risk

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

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

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

Impact of COVID-19 pandemic

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

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

Risk scoring and pricing system

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

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

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

27. Risk management (continued)

Allowance for credit losses model

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

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

Key macroeconomic variables

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

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

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

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

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

27. Risk management (continued)

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

Collateral

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

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

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

Loan commitments

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

27. Risk management (continued)

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

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

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

27. Risk management (continued)

Exposure to credit risk by credit risk rating grades

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

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

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

27. Risk management (continued)

Exposure to credit risk by credit risk rating grades

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

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

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

27. Risk management (continued)

Loans receivable

Loans receivable past due but not credit-impaired

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

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

Counterparty credit risk – derivatives and short-term investments

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

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

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

27. Risk management (continued)

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

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

Credit quality

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

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

Venture capital debt investments

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

b) Market risk

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

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

27. Risk management (continued)

Interest rate risk

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

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

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

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

27. Risk management (continued)

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

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

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

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

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

27. Risk management (continued)

Residual value risk

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

Foreign exchange risk

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

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

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

Derivatives

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

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

Post-employment benefits

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

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

27. Risk management (continued)

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

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

Insurance

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

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

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

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

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

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

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

27. Risk management (continued)

c) Liquidity risk

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

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

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

FCC maintains liquidity through:

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

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

27. Risk management (continued)

Residual contractual maturities of financial liabilities

As at March 31 ($ thousands) — **2020**

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

As at March 31 ($ thousands) — 2019

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

Glossary

Agribusiness and agri-food

Suppliers or processors who sell to, buy from and otherwise serve primary producers. These include equipment manufacturers and dealers, input providers, wholesalers and processors.

Agvocate

A term created by FCC to describe an individual or group who actively promotes agriculture in respectful and meaningful ways. Agvocates believe that agriculture is a modern and dynamic industry with value that needs to be better understood, recognized and advanced among industry stakeholders and the general public.

Alliances

Relationships established by contract between FCC and other agriculture or financial organizations designed to pool talents and offer expanded customer services.

Allowance for credit losses

Management's best estimate of credit losses incurred on financial assets measured at amortized cost and loan commitments. Allowances are accounted for as deductions to financial assets on the balance sheet.

Capital adequacy measure

Capital adequacy measure is used to ensure FCC carries an adequate amount of capital to meet the outcome described.

Corporate social responsibility (CSR)

A corporation's commitment to operate in an economically, socially and environmentally sustainable manner while recognizing the interests of its stakeholders, including investors, customers, employees, business partners, local communities, the environment and society at large, as defined by Canadian Business for Social Responsibility.

Counterparty

The other party involved in a financial transaction, typically another financial institution.

Counterparty credit risk

The risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction into which it has entered.

Credit facility

The credit limit over a group of loans and/or leases which share the same borrower(s), guarantor(s) and security.

Credit impaired loans

Loans where, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan that is $500 or more and past due for 90 days is classified as credit-impaired unless the loan is sufficiently secured.

Credit rating

A classification of credit risk based on the investigation of an individual or company's financial resources, prior payment pattern and history of responsibility for debts incurred.

Crown Borrowing Program

Direct lending provided to FCC by the federal government.

Customer support program

Plans developed to proactively assist customers who may experience loan repayment difficulties during downturns in a particular segment of the agriculture industry. Individual plans can include deferred payments or flexible repayment schedules for defined periods of time.

Debt-to-equity ratio

The level of debt expressed as dollars of debt per one dollar of total equity, excluding accumulated other comprehensive income and non-controlling interest.

Derivative financial instrument

A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates and foreign exchange rates. Types of derivative contracts include interest rate swaps, interest rate options, currency swaps and forward contracts.

Economic value of equity (EVE)

The net present value of assets less liabilities. It is used to measure the sensitivity of FCC's net economic worth to changes in interest rates.

Effective interest method

A method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period.

Efficiency ratio

A measure of how well resources are used to generate income calculated as administration expense as a percentage of revenue. Revenue is composed of net interest income, net insurance income and other income.

Fair value

The estimated price to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions.

Foreign exchange risk

The risk of financial loss due to adverse movements in foreign currencies.

Hedge

A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through the elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Interest rate swaps

Contractual agreements for specified parties to exchange interest payments for a specified period of time based on notional principal amounts.

Internal capital adequacy assessment process (ICAAP)

An end-to-end process designed to ensure FCC maintains a safe and sound capital position to withstand economic downturn and periods of extended loss and to support FCC's strategic direction.

Minimum regulatory capital ratio

The minimum level of capital, as a percentage of risk-weighted assets, which is prescribed by regulations issued by the Office of the Superintendent of Financial Institutions (OSFI).

Net interest income (NII)

The difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

Net interest income margin

NII expressed as a percentage of average earning assets.

Notional amount

The amount considered as principal when calculating interest and other payments for derivative contracts. This amount traditionally does not change hands under the terms of the derivative contract.

Other comprehensive income (OCI)

Represents gains and losses due to changes in fair value that are recorded outside net income in a section of the shareholder's equity called accumulated other comprehensive income (AOCI).

Past due

A loan is past due when a counterparty has failed to make a payment when contractually due and the amount owing is greater than $500.

Pay-at-risk

Pay-at-risk is the portion of an employee's compensation that is variable, or "at risk" of not being paid out. It is a lump-sum payment based on a percentage of base salary. It is re-earned each year, based on overall performance and the successful achievement of objectives. The amount of this lump sum varies, depending on the degree of success achieved.

Prepayments

Prepayments are unscheduled principal payments prior to interest term maturity.

Primary production

Agriculture operations that produce raw commodities such as grains and oilseeds, cattle, hogs, poultry, sheep and dairy, as well as fruits and vegetables. Primary production also includes vineyards, greenhouses, forestry (cultivation, growing and harvesting of trees), aquaculture (growing of ocean and inland fish) and part-time farming.

Provision for credit losses

Charges to the income statement by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management.

Return on equity (ROE)

Net income attributable to the shareholder of the parent entity expressed as a percentage of total average equity, excluding accumulated other comprehensive income and non-controlling interest.

Risk scoring and pricing system (RSPS)

A tool used to evaluate the type and potential impact of risks present in each loan or finance lease to ensure FCC is adequately compensated for the risk in its portfolio. The pricing component of RSPS calculates the risk price (risk adjustment), which is the portion of the loan margin required to cover the risk of loss.

Risk-weighted assets (RWA)

Assets weighted according to relative risk as prescribed by the regulatory capital requirements issued by OSFI.

Subordinated debt

A loan that ranks below other loans with respect to claims on assets or earnings in the case of default. Subordinated debt is often unsecured.

Total capital ratio

The total capital ratio is calculated by dividing total capital by RWA. FCC's total capital consists of retained earnings, contributed surplus and AOCI, and is net of required regulatory adjustments prescribed by OSFI. The applicable regulatory adjustments consist of the exclusion of intangible assets, accumulated gains or losses on derivatives designated as cash flow hedges and post-employment benefit assets.

Writeoffs

Loans and their related allowance for credit losses are written off when there is no realistic prospect of recovery.

FCC office locations

British Columbia

Abbotsford, Dawson Creek, Duncan, Kelowna, Surrey

Alberta

Barrhead, Brooks, Calgary, Camrose, Drumheller, Edmonton, Falher, Grande Prairie, High River (S), La Crete, Leduc, Lethbridge, Medicine Hat, Olds, Red Deer, Strathmore (S), Vegreville, Vermilion, Westlock

Saskatchewan

Assiniboia, Carlyle, Humboldt, Kindersley, Lloydminster, Meadow Lake (S), Moose Jaw, Moosomin (S), North Battleford, Outlook (S), Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Unity (S), Wadena (S), Weyburn, Yorkton

Manitoba

Arborg, Brandon, Dauphin, Killarney (S), Morden, Neepawa, Portage la Prairie, Shoal Lake (S), Steinbach, Stonewall (S), Swan River, Virden, Winnipeg

Ontario

Casselman, Chatham, Clinton, Essex, Frankford, Guelph, Kanata, Kingston, Lindsay, Listowel, London, Mississauga, New Liskeard, Owen Sound, St. Catharines, Simcoe, Stratford, Thornton, Walkerton, Woodstock, Wyoming

Quebec

Alma (S), Ange-Gardien, Beauharnois, Blainville, Drummondville, Gatineau (S), Joliette, Lévis, Montreal (S), Rivière-du-Loup, Sherbrooke, St-Hyacinthe, Ste-Marie, Trois-Rivières, Victoriaville

New Brunswick

Moncton, Woodstock

Nova Scotia

Kentville, Truro

Prince Edward Island

Charlottetown

Newfoundland and Labrador

Mount Pearl

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