

2023-24 Annual Report

Management's Responsibility for Consolidated Financial Statements

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

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

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

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



Justine Hendricks, MBA
President and
Chief Executive Officer

Regina, Canada
June 12, 2024



Corinna Mitchell-Beaudin, CPA, CA, CFA
Executive Vice-President and
Chief Financial Officer



Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Agriculture and Agri-Food

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Farm Credit Canada and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 March 2024, 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 material accounting policy information.

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 2024, 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 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.

A handwritten signature in black ink, reading "Riowen Abgrall". The signature is written in a cursive, flowing style.

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

Ottawa, Canada
12 June 2024

Consolidated Balance Sheet

As at March 31 (millions of Canadian dollars)	Note	2024	2023 ⁽¹⁾
Assets			
Cash and cash equivalents	5	1,559	1,782
Short-term investments	6	446	222
Accounts receivable and prepaid expenses		34	39
Loans receivable			
Loans receivable – total	8	50,995	47,881
Allowance for credit losses	10	(195)	(165)
Loans receivable – net		50,800	47,716
Other loans receivable – net	9, 10	21	26
Investments	9, 11	225	193
Right-of-use assets	12	154	157
Property and equipment		24	25
Intangible assets		9	10
Post-employment benefit assets	13	245	292
Other assets		4	5
Total assets		53,521	50,467
Liabilities			
Accounts payable and accrued liabilities		105	92
Borrowings			
Short-term debt	14	8,314	7,697
Long-term debt	14	35,932	33,672
Total borrowings		44,246	41,369
Transition loan liabilities		177	180
Lease liabilities	12	158	160
Post-employment benefit liabilities	13	91	84
Other liabilities		8	5
Total liabilities		44,785	41,890
Equity			
Contributed capital	19, 20	–	250
Retained earnings		8,736	8,327
Total equity		8,736	8,577
Total liabilities and equity		53,521	50,467

⁽¹⁾ Comparative figures have been reclassified. See Note 4.

Commitments, guarantees and contingent liabilities (Note 18).

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

The consolidated financial statements were approved by the FCC Board of Directors on June 12, 2024, and were signed on its behalf by:



Justine Hendricks, MBA
President and
Chief Executive Officer



Govert Verstralen
Chair, Audit Committee

Consolidated Statement of Income

For the year ended March 31 (millions of Canadian dollars)	Note	2024	2023 ⁽¹⁾
Interest income		2,806	2,223
Interest expense		(1,441)	(869)
Net interest income	15	1,365	1,354
Insurance distribution income	16	17	16
Net (loss) gain from financial instruments carried at fair value		(19)	8
Other expenses		(4)	–
Non-interest (expense) income		(6)	24
Total revenue		1,359	1,378
Provision for credit losses		(77)	(108)
Administration expenses	17	(605)	(548)
Net income		677	722

⁽¹⁾ Comparative figures have been reclassified. See Note 4.

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

Consolidated Statement of Comprehensive Income

For the year ended March 31 (millions of Canadian dollars)	Note	2024	2023
Net income		677	722
Other comprehensive loss			
Item that will never be reclassified to net income			
Remeasurement loss on post-employment benefit assets and liabilities	13	(58)	–
Total comprehensive income		619	722

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

Consolidated Statement of Changes in Equity

For the year ended March 31 (millions of Canadian dollars)	Balance 2023 ⁽¹⁾	Net income	Other comprehensive income	Dividend paid	Balance 2024
Contributed capital	250	–	–	(250)	–
Retained earnings	8,327	677	(58)	(210)	8,736
Total equity	8,577	677	(58)	(460)	8,736

For the year ended March 31 (millions of Canadian dollars)	Balance 2022 ⁽¹⁾	Net income	Other comprehensive income	Dividend paid	Balance 2023 ⁽¹⁾
Contributed capital	500	–	–	(250)	250
Retained earnings	8,076	722	–	(471)	8,327
Total equity	8,576	722	-	(721)	8,577

⁽¹⁾ Comparative figures have been reclassified. See Note 4.

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

Consolidated Statement of Cash Flows

For the year ended March 31 (millions of Canadian dollars)	2024	2023 ⁽¹⁾
Operating activities		
Net income	677	722
Adjustments to determine net cash (used in) provided by operating activities:		
Interest income	(2,806)	(2,223)
Interest expense	1,441	869
Provision for credit losses	77	108
Net unrealized loss (gain) from financial instruments carried at fair value	22	(7)
Depreciation of right-of-use assets	16	16
Depreciation of property and equipment	9	10
Amortization of intangible assets	5	6
Miscellaneous income	(3)	(66)
Impairment loss on assets held for sale	–	2
Proceeds from sale of lease portfolio	–	172
Net cash outflow from loans receivable	(3,078)	(3,242)
Net change in other operating assets and liabilities	4	2
Interest received	2,718	2,087
Interest paid	(1,378)	(746)
Cash used in operating activities	(2,296)	(2,290)
Investing activities		
Purchase of short-term investments	(1,256)	(699)
Proceeds from maturity of short-term investments	1,039	1,064
Repayments from other loans receivable	5	15
Acquisition of investments	(49)	(80)
Proceeds from sale and repayment of investments	7	4
Purchase of property and equipment	(8)	(11)
Purchase of intangible assets	(4)	(4)
Cash (used in) provided by investing activities	(266)	289
Financing activities		
Long-term debt issued	10,781	10,197
Long-term debt repaid	(7,006)	(7,128)
Short-term debt issued	13,502	12,997
Short-term debt repaid	(14,464)	(12,988)
Principal repayment of lease liabilities	(15)	(15)
Dividend paid	(460)	(721)
Cash provided by financing activities	2,338	2,342
Change in cash and cash equivalents	(224)	341
Cash and cash equivalents, beginning of year	1,782	1,439
Effects of exchange rate changes on the balances of cash held and due in foreign currencies	1	2
Cash and cash equivalents, end of year	1,559	1,782
Cash and cash equivalents consists of:		
Cash	1,339	1,240
Cash equivalents	220	542

⁽¹⁾ Comparative figures have been reclassified. See Note 4.

The accompanying notes are an integral part of these 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 operates across 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. On March 25, 2020, the Minister increased the capital payment limit to \$2,500 million.

In September 2008, FCC, together with several 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 2024, FCC continued to comply with the requirements of the directive.

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

In March 2017, FCC was issued a directive (P.C. 2017-242) pursuant to Section 89 of the Financial Administration Act. This directive intended to ensure equitable and balanced cost-sharing between employee and employer for pension contributions and set the normal retirement age to 65. FCC was in full compliance with the directive as of March 31, 2018, and continues to comply with the directive.

2. Basis of preparation

Basis of presentation

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

Unless otherwise stated, the financial statements are presented in millions of Canadian dollars, which is FCC's functional currency.

Basis of consolidation

The financial statements include the accounts of FCC and the consolidated structured entity (SE) funds referred to below. A SE is one that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights only relate to administrative tasks and relevant activities are directed by contractual arrangements. The consolidated funds are venture capital limited partnerships for which FCC is a limited partner holding majority partnership interests. FCC consolidates these funds as it has control over them. FCC controls these funds as it is exposed, or has rights, to variable returns from its involvement with these funds and FCC can affect those returns through its power over the funds.

The following funds have a December 31 year end and have been consolidated in FCC's financial statements as at March 31, 2024 and 2023.

Fund	Principal activity	Country of incorporation and residence	Proportion of ownership and voting power held ⁽¹⁾	Basis of control
Forage Subordinated Debt Fund II	Investments in subordinate financing	Canada	99%	Voting power and contractual agreements
Forage Subordinated Debt Fund III	Investments in subordinate financing	Canada	99%	Voting power and contractual agreements
Forage Capital – Ag & Food Business Solutions Fund	Investments in venture capital	Canada	99%	Voting power and contractual agreements

⁽¹⁾ The non-controlling interest, which represents the equity in the consolidated funds that is not attributable to FCC, has not been presented in the Consolidated Balance Sheet, Consolidated Statement of Income, the Consolidated Statement of Comprehensive Income, and the Consolidated Statement of Changes in Equity due to its insignificance.

Translation of foreign currencies

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

Estimation uncertainty

The preparation of the financial statements in accordance with IFRS requires that management makes judgments, estimates and assumptions concerning the future that affect the reported amounts in the financial statements and accompanying notes. Judgments, estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these judgments, estimates and assumptions. Information about the significant judgments, estimates and assumptions that are critical to the recognition and measurement of assets, liabilities, income and expense is discussed throughout.

2. Basis of preparation (continued)

Additional accounting policies

To ease the reading of these financial statements, additional material accounting policies, estimates and judgments (in addition to those identified in Note 2) are disclosed throughout the notes, with the related financial disclosures. See table below for reference purposes.

Note	Topic	Accounting policy	Accounting estimates and judgments	Page
5	Cash and cash equivalents	X		79
6	Short-term investments	X		79
7	Derivative financial instruments	X		79
8	Loans receivable – net	X		80
9	Venture capital arrangements	X	X	83
10	Allowance for credit losses	X	X	86
11	Fair value of financial instruments	X	X	90
12	Leases	X	X	92
13	Post-employment benefits	X	X	95
14	Borrowings	X		100
16	Insurance	X		102
19	Related party transactions	X		104

3. Changes in accounting standards

Accounting standards issued but not yet effective

FCC has reviewed the new standards and amendments that have been issued by the International Accounting Standards Board (IASB) but are not yet effective and determined that the following may have an impact on FCC in the future.

Standard	Details	Date of required initial application
IAS 1 – Presentation of Financial Statements	In October 2022, the IASB issued Non-current Liabilities with Covenants, which amended IAS 1 – Presentation of Financial Statements. The amendments clarify how conditions with which an entity must comply within 12 months after the reporting period affect the classification of a liability. The amendments aim to improve information about covenants provided through additional disclosures. FCC has completed the assessment of the standard amendments and has determined that it has no transition impact.	April 1, 2024
IAS 21 – The Effects of Changes in Foreign Exchange Rates	In August 2023, the IASB issued Lack of Exchangeability, which amended IAS 21 – The Effects of Changes in Foreign Exchange Rates. The amendments provide guidance to determine if a currency is exchangeable and how to estimate a spot rate when a currency lacks exchangeability. Management is in the process of assessing the impact of this standard on FCC's financial statements and accounting processes.	April 1, 2025

4. Reclassification of comparative figures

a) Change in level of rounding used in presentation of financial statements

We previously presented the amounts in FCC's financial statements in thousands of dollars. We have elected to update our presentation to millions of dollars. Therefore, certain comparative figures are no longer presented to align with the current year's presentation, such as non-controlling interest.

b) Change in presentation of venture capital arrangements

We performed an in-depth analysis of our investments in associates, which are fund investments. This analysis resulted in the conclusion that measurement for these fund investments at fair value through profit or loss (FVTPL) under IFRS 9 would provide more relevant information to the users of the financial statements due to the nature of these fund investments. This resulted in the determination that we do not have significant influence because of FCC's limited power over the fund investments. In addition, these amounts are now being presented on the Consolidated Balance Sheet within investments, which was previously titled investments at fair value. As a result, we have reclassified our investments in associates previously accounted for under the equity method as investments. The comparative figures have been reclassified as follows:

Consolidated Balance Sheet

As at March 31, 2023	As previously reported	Adjustments	As reclassified
Investments at fair value	131	(131)	–
Investment in associates	62	(62)	–
Investments	–	193	193

Consolidated Statement of Income

For the year ended March 31, 2023	As previously reported	Adjustments	As reclassified
Net loss from investment in associates	(8)	8	–
Net gain from financial instruments designated as fair value through profit or loss	16	(16)	–
Net gain from financial instruments carried at fair value	–	8	8

Consolidated Statement of Cash Flows

For the year ended March 31, 2023	As previously reported	Adjustments	As reclassified
Net unrealized gain from financial instruments designated as fair value through profit or loss	(15)	15	–
Net unrealized gain from financial instruments carried at fair value	–	(7)	(7)
Net loss from investment in associates	8	(8)	–
Acquisition of investments at fair value	(58)	58	–
Proceeds from sale and repayment of investments at fair value	2	(2)	–
Acquisition of investments	–	(80)	(80)
Proceeds from sale and repayment of investments	–	4	4
Disbursements paid to investment in associates	(22)	22	–
Repayments from investment in associates	2	(2)	–

Refer to the following note disclosures for further impacts of the reclassification:

Note 11 – Fair value of financial instruments – Level 3 financial instruments table

Note 18 – Commitments, guarantees and contingent liabilities – Investments

4. Reclassification of comparative figures (continued)

c) Change in presentation of administration expenses

FCC has changed the disclosure of its administration expenses so that it provides more meaningful information to stakeholders and aligns with industry practice.

Therefore, the following comparative figures were subject to a change in classification of administration expenses by nature to align with current year classification. The impacts for the year ended March 31, 2023, are shown below.

Administration expenses (Note 17)

For the year ended March 31, 2023	As previously reported	Adjustments	As reclassified
Salaries and benefits	314	(314)	–
Employee compensation and benefits	–	318	318
Professional fees	88	(88)	–
Professional services	–	23	23
Outsourced workforce	–	72	72
Facilities, software and equipment	66	(66)	–
Occupancy, including depreciation	–	32	32
Amortization and depreciation	32	(32)	–
Technology and communication, including depreciation and amortization	–	65	65
Marketing and promotion	17	(17)	–
Marketing and industry support	–	17	17
Travel and training	15	(15)	–
Travel	–	9	9
Other	16	(4)	12
Total	548	–	548

d) Change in presentation of amortization and depreciation

FCC previously combined amortization and depreciation in the Consolidated Statement of Cash Flows. We have elected to update our presentation and recategorize depreciation and amortization into three line items as shown below. The additional line items provide more meaningful information to our stakeholders about the nature of our underlying expenses.

Therefore, the following comparative figures have been reclassified to align with current year presentation. The impacts for the year ended March 31, 2023, are shown below.

Consolidated Statement of Cash Flows

For the year ended March 31, 2023	As previously reported	Adjustments	As reclassified
Amortization and depreciation	32	(32)	–
Depreciation of right-of-use assets	–	16	16
Depreciation of property and equipment	–	10	10
Amortization of intangible assets	–	6	6

5. Cash and cash equivalents

Accounting policy

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 and cash equivalents are managed on a hold to collect basis, classified as financial assets and measured at amortized cost. Interest earned on cash and cash equivalents is recognized using the effective interest method.

6. Short-term investments

Accounting policy

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. Transaction costs are incremental costs that are directly attributable to the acquisition, issuance or disposal of a financial asset. 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.

Supporting information

As at March 31, 2024, short-term investments were \$446 million (2023 – \$222 million) with a yield of 5.13% (2023 – 3.72%). They consisted of promissory notes and treasury bills. As at March 31, 2024, the allowance for credit losses on short-term investments was \$nil (2023 – \$nil).

7. Derivative financial instruments

Accounting policy

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

Supporting information

FCC previously purchased interest rate options, which have now expired. These are contracts in which FCC (the purchaser of the option) acquires from another party (the writer of an option), in exchange for a premium, the right, but not the obligation, to either buy or sell on a future date or within a specified time, a financial instrument at a contracted price. The underlying financial instrument has a market price that varies in response to changes in interest rates.

As at March 31, 2024, the notional amount of interest rate options was \$nil (2023 – \$87 million) and the fair value was \$nil (2023 – \$nil).

The largest cumulative notional amount contracted with any institution as at March 31, 2024, was \$nil (2023 – \$44 million).

8. Loans receivable – net

Accounting policy

Loans receivable

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

Loan origination fees, including commitment fees and renegotiation fees, are considered an integral part of the return earned on a loan and are recognized in interest income over the expected term of the loan using the effective interest method.

When a loan becomes impaired as described in Note 10, loan interest income is calculated based on the carrying amount of the instrument, net of the allowance for credit losses, until such time as the loan reverts to performing status or is written off.

FCC writes off loans and their related allowance for credit losses, either partially or in full, when there is no realistic prospect of future recovery. FCC does not actively pursue collection on any loans that have been written off.

Loan modifications and customer relief programs

If the contractual terms of a financial asset are modified, FCC makes an assessment to determine if the financial asset should be derecognized. Where the modification does not result in derecognition, we continue to use the date of origination to determine significant increase in credit risk (SICR) for stage assignment of credit losses and a modification gain or loss is recognized. We recognize a modification gain or loss in interest income and net loans receivable when the net present value of the modified future cash flows, discounted at the original effective interest rate, is greater than or less than the original cash flows. Interest income continues to be recognized based on the original effective interest rate.

Transition loan receivables and liabilities

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

8. Loans receivable – net (continued)

Supporting information

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

As at March 31	2024			
	Within 1 year	1 – 5 years	Over 5 years	Total
Floating	4,099	9,910	284	14,293
Fixed	5,066	22,960	8,709	36,735
Loans receivable – gross	9,165	32,870	8,993	51,028
Deferred loan fees				(33)
Loans receivable – total ⁽¹⁾				50,995
Allowance for credit losses (Note 10)				(195)
Loans receivable – net				50,800

⁽¹⁾ Loans receivable – total at March 31, 2024, includes accrued interest and fees of \$469 million and transition loans receivable of \$177 million.

As at March 31	2023			
	Within 1 year	1 – 5 years	Over 5 years	Total
Floating	3,667	9,606	245	13,518
Fixed	3,205	21,060	10,137	34,402
Loans receivable – gross	6,872	30,666	10,382	47,920
Deferred loan fees				(39)
Loans receivable – total ⁽¹⁾				47,881
Allowance for credit losses (Note 10)				(165)
Loans receivable – net				47,716

⁽¹⁾ Loans receivable – total at March 31, 2023, includes accrued interest and fees of \$402 million and transition loans receivable of \$180 million.

As at March 31, 2024, \$911 million (2023 – \$907 million) of loans receivable were denominated in USD.

8. Loans receivable – net (continued)

Concentrations of credit risk

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

Sector distribution

As at March 31	Gross		Impaired	
	2024	2023	2024	2023
Oilseed and grain	16,371	15,317	151	209
Dairy	7,368	7,238	50	37
Agribusiness	6,311	6,117	153	62
Beef	4,318	3,900	103	120
Other	3,396	3,225	68	89
Poultry	3,341	3,244	45	10
Agri-food	2,628	2,132	168	154
Greenhouse	2,373	1,987	89	19
Alliances	1,764	1,765	14	17
Hogs	1,659	1,568	27	57
Fruit	1,499	1,427	89	40
Total	51,028	47,920	957	814

Geographic distribution

As at March 31	Gross		Impaired	
	2024	2023	2024	2023
Ontario	15,601	14,326	149	92
Saskatchewan	9,179	8,720	127	144
Alberta	9,176	8,538	156	182
Quebec	7,262	6,854	217	158
British Columbia	4,433	4,244	194	102
Manitoba	3,781	3,763	55	61
Atlantic	1,596	1,475	59	75
Total	51,028	47,920	957	814

Loans receivable past due but not impaired

A loan is considered past due when a customer has not made a payment by the contractual due date. Gross amounts of loans that were past due but not impaired were as follows:

As at March 31	2024	2023
Past due but not impaired		
Up to 30 days	181	104
31 – 60 days	114	57
61 – 89 days	6	31
	301	192

Loan modifications and customer relief programs

As part of FCC's usual lending business, the contractual terms of loans are modified from time to time for various reasons, including financial difficulty of the borrower and borrower preference.

The net carrying value of loans with lifetime allowance for credit losses modified during the year ended March 31, 2024, was \$2,510 million (2023 – \$3,098 million). As at March 31, 2024, the gross carrying value of loans modified during the year with lifetime allowance for credit losses that had changed to 12-month credit losses was \$508 million (2023 – \$841 million).

9. Venture capital arrangements

Accounting policy

Structured entities

FCC uses SEs to provide financing to the agriculture and agri-food industry through our venture capital arrangements. An SE is one that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights only relate to administrative tasks and relevant activities are directed by contractual arrangements. SEs are created to achieve well-defined objectives and have restrictions on ongoing activities.

Our venture capital arrangements are designed to limit FCC's exposure to the size of the investment and once invested, FCC is not able to withdraw investment contributions. We do not provide financial or non-financial support to any SE where we are not contractually obligated to do so and have no intentions of providing such support in the future.

Other loans receivable

FCC includes the investments held by consolidated SE venture capital funds that are managed on a hold to collect basis within other loans receivable. FCC has classified other loans receivable as amortized cost financial assets given this business model. These venture capital arrangements are stated net of an allowance for credit losses. We record loan interest on other loans receivable on an accrual basis that is recognized in interest income.

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

Investments

Venture capital funds are considered SEs. The investments held by venture capital funds that are included within investments are those that do not meet the "solely payments of principal and interest" (SPPI) test. These investments are classified as FVTPL, with gains and losses reported in net gain (loss) from financial instruments carried at fair value on the Consolidated Statement of Income.

Accounting judgments

Management exercises judgment in determining whether our venture capital arrangements meet the typical characteristics of a SE. SEs FCC controls are consolidated as discussed in Note 2. When criteria for control is not met, SEs are not consolidated.

9. Venture capital arrangements (continued)

Supporting information

The following table provides a summary of the venture capital portfolio by type of investment.

As at March 31	2024		2023	
	Fair value	Cost	Fair value	Cost
Other loans receivable – net	21	20	26	24
Investments	225	198	193	158
Total	246	218	219	182

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

As at March 31	2024			2023		
	Within 1 year	1 – 5 years	Total	Within 1 year	1 – 5 years	Total
Other loans receivable – gross ⁽¹⁾ ⁽²⁾	14	11	25	19	11	30
Allowance for credit losses (Note 10)			(4)			(4)
Other loans receivable – net			21			26

⁽¹⁾ All loans are fixed-rate loans.

⁽²⁾ Other loans receivable – gross at March 31, 2024, includes accrued interest of \$2 million (2023 – \$1 million).

Concentrations of credit risk

Other loans receivable

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

Sector distribution

As at March 31	2024	2023
Agribusiness	15	18
Agri-food	10	12
Total	25	30

Geographic distribution

As at March 31	2024	2023
Quebec	20	24
Saskatchewan	3	3
Ontario	2	3
Total	25	30

Other loans receivable exposes FCC to credit risk. These venture capital arrangements are typically secured by a general security agreement and assignment of life insurance proceeds. As at March 31, 2024, the amount of loans receivable that were past due less than 90 days and not impaired totalled \$nil (2023 – \$11 million).

9. Venture capital arrangements (continued)

Investments

The concentrations of investments by sector and geographic area were as follows:

Sector distribution

As at March 31	2024	2023
Agribusiness	146	126
Agri-food	47	48
Other	32	19
Total	225	193

Geographic distribution

As at March 31	2024	2023
Saskatchewan	63	51
Ontario	48	48
British Columbia	43	40
International	32	24
Alberta	17	9
Manitoba	13	10
Quebec	6	5
Atlantic	3	6
Total	225	193

Unconsolidated structured entities

The following table presents the carrying amounts recognized in the Consolidated Balance Sheet and our maximum exposure to loss from our interests in unconsolidated SEs.

	2024	2023
On balance sheet:		
Investments	106	83
Off balance sheet:		
Investment commitments	132	114
Maximum exposure to loss from unconsolidated structured entities	238	197

Our unconsolidated SEs consist of investments in pooled, private equity funds established through limited partnership agreements.

10. Allowance for credit losses

Accounting policy

FCC recognizes an allowance for credit losses on financial assets classified as amortized cost that represents management's best estimate of the expected losses at the reporting date. The carrying value of the financial asset is reduced through the allowance for credit losses and the amount of the loss is recognized in the provision for credit losses. Loan commitments are an off-balance-sheet item and are subject to impairment. We calculate an allowance for credit losses on loan commitments, which is included with the allowance for credit losses on loans receivable. The allowance is increased or decreased by changes in the provision for credit losses, write-offs and recoveries.

If, in a subsequent period, the amount of impairment loss increases or decreases, we adjust the previously recognized impairment loss 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 bases the allowance methodology 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 individually identified as impaired. On initial recognition, and if there has not been a significant increase in credit risk, we recognize 12-month expected credit losses in the provision for credit losses and an allowance for credit losses is established.

Stage 2: Represents financial assets not individually identified as impaired. If credit risk increases significantly and the resulting credit risk is not considered to be low, we recognize full lifetime expected credit losses. 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 to Stage 1 with the allowance being measured based on 12-month expected credit losses.

Impaired financial assets:

Stage 3: Represents financial assets individually identified as impaired. When a financial asset is considered impaired, there is no longer reasonable assurance of timely collection of the full amount of principal and interest, and we recognize full lifetime expected credit losses.

Measurement of expected credit losses

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

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

- The probability of default is an estimate of the likelihood of default over a given time horizon.
- The loss given default is an estimate of the amount that may not be recovered in the event of default.
- The exposure at default is an estimate of the amount outstanding at a future default date.

10. Allowance for credit losses (continued)

FCC measures the 12-month expected credit losses using the probability that default will occur within 12 months of the reporting date. We measure lifetime expected credit losses using the probability that default will occur between the reporting date and the maturity of the loan.

Significant increase in credit risk

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

- whether financial assets are classified as investment grade at the reporting date in accordance with FCC's internal risk rating system, which considers investment grade as a low risk of default and all contractual cash flows being met
- whether there is an increase in the probability of default 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

Impaired financial assets

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

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.

10. Allowance for credit losses (continued)

Accounting estimates and judgments

Financial assets classified as amortized cost and all loan commitments are reviewed by management to assess impairment. FCC makes judgments when determining whether a loss event is expected to occur and makes estimates and assumptions 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 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.

Supporting information

As at March 31

	2024			
	Stage 1	Stage 2	Stage 3	Total
Loans receivable⁽¹⁾				
Allowance for credit losses, beginning of year	45	29	91	165
Transfer to Stage 1	15	(10)	(5)	–
Transfer to Stage 2	(25)	101	(76)	–
Transfer to Stage 3	(2)	(13)	15	–
Changes due to new loans originated	30	5	15	50
Loans that have been derecognized during the period	(16)	(2)	(13)	(31)
Net remeasurement of loss allowance ⁽²⁾	(13)	(35)	115	67
Write-offs	–	(3)	(55)	(58)
Recoveries of amounts previously written off	–	–	2	2
Total allowance, end of year	34	72	89	195
Other loans receivable				
Allowance for credit losses, beginning of year	–	4	–	4
Transfer to Stage 1	–	–	–	–
Transfer to Stage 2	–	–	–	–
Transfer to Stage 3	–	–	–	–
Net remeasurement of loss allowance ⁽²⁾	–	–	–	–
Write-offs	–	–	–	–
Total allowance, end of year	–	4	–	4

⁽¹⁾ Included within the loans receivable total is \$7 million of allowance for credit losses on loan commitments that have not been partially drawn at March 31, 2024.

⁽²⁾ Includes partial repayments.

10. Allowance for credit losses (continued)

As at March 31	2023			
	Stage 1	Stage 2	Stage 3	Total
Loans receivable⁽¹⁾				
Allowance for credit losses, beginning of year	45	31	34	110
Transfer to Stage 1	20	(16)	(4)	–
Transfer to Stage 2	(6)	51	(45)	–
Transfer to Stage 3	(5)	(12)	17	–
Changes due to new loans originated	36	4	6	46
Loans that have been derecognized during the period	(17)	(4)	(12)	(33)
Net remeasurement of loss allowance ⁽²⁾	(28)	(24)	148	96
Write-offs	–	(1)	(54)	(55)
Recoveries of amounts previously written off	–	–	1	1
Total allowance, end of year	45	29	91	165
Other loans receivable				
Allowance for credit losses, beginning of year	–	3	–	3
Transfer to Stage 1	–	–	–	–
Transfer to Stage 2	–	–	–	–
Transfer to Stage 3	–	–	–	–
Net remeasurement of loss allowance ⁽²⁾	–	1	10	11
Write-offs	–	–	(10)	(10)
Total allowance, end of year	–	4	–	4

⁽¹⁾ Included within the loans receivable total is \$4 million of allowance for credit losses on loan commitments that have not been partially drawn at March 31, 2023.

⁽²⁾ Includes partial repayments.

11. Fair value of financial instruments

Accounting policy

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 and are significant in the fair value of the asset or liability. The classification of a financial instrument in the hierarchy for disclosure purposes is based on the lowest level of input that is significant to the measurement of fair value. Details of the valuation methodologies applied and assumptions used in determining fair value are provided below.

Accounting estimates and judgments

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 estimated fair value of venture capital arrangements classified as FVTPL, which are investments held by venture capital funds, is based on guidelines issued by the venture capital industry, using market-based valuation methodologies.

Supporting information

Level 3 financial instruments

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

As at March 31	2024	2023
Balance, beginning of year	193	105
Net acquisitions	42	76
Net fair value (losses) gains	(10)	12
Balance, end of year	225	193

11. 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	2024		2023	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Assets				
Loans receivable	50,800	49,579	47,716	46,523
Liabilities				
Short-term debt	8,314	8,243	7,698	7,637
Long-term debt	35,932	35,044	33,671	32,815

FCC calculates the estimated fair value of short-term investments at appropriate discount rates for such securities prevailing at the reporting date.

We calculate the estimated fair value for the performing fixed-rate loans receivable by discounting the expected future cash flows at discount rates with appropriate risk premiums included for equivalent terms to maturity at the reporting date. 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. We subtract the allowance for credit losses related to loans receivable 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.

FCC calculates the estimated fair value for short-term and long-term debt by discounting contractual cash flows at interest rates from the Government of Canada yield curve prevailing at the reporting date for equivalent terms to maturity.

For all other financial instruments carried at amortized cost using the effective interest method, the carrying value approximates fair value due to the relatively short period to maturity of these instruments or because they are already at discounted values. This applies to FCC's cash equivalents, accounts receivable, other loans receivable, assets held for sale, other assets (excluding the insurance reserve asset), accounts payable and accrued liabilities, transition loan liabilities and other liabilities.

12. Leases

Accounting policy

Right-of-use assets

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

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

We initially measure ROU assets at cost and they 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. We subsequently measure them at cost less accumulated depreciation and impairment losses, and they are adjusted for any remeasurements of the lease liability as described below. The lease term consists of the non-cancellable lease term, renewal options that are reasonably expected to be exercised and termination options that are not reasonably expected to be exercised.

We depreciate the ROU assets 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.

Lease liabilities

At the lease commencement date, FCC recognizes a lease liability except for short-term leases of 12 months or less and leases of low value that are expensed on a straight-line basis over the lease term and recognized in administration expenses on the Consolidated Statement of Income.

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.

The following lease payments are included in the measurement of the lease liability:

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

FCC subsequently measures lease liabilities 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. We include interest expense on lease liabilities in interest expense on the Consolidated Statement of Income.

12. Leases (continued)

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, FCC will recognize any remaining amount of the remeasurement in administration expenses on the Consolidated Statement of Income.

Accounting estimates and judgments

Right-of-use assets

In determining the lease term for lessee perspective ROU assets and lease liabilities under IFRS 16, management uses judgment to determine whether FCC is reasonably certain to exercise optional extension periods. Judgment is also used to determine whether termination options are not reasonably expected to be exercised by considering facts and circumstances, including past practice.

Supporting information

Right-of-use assets

FCC's ROU asset portfolio consists of leased office space.

	Buildings
Cost	
Balance as at March 31, 2022	212
Additions	10
Disposals	(2)
Balance as at March 31, 2023	220
Additions	16
Disposals	(3)
Balance as at March 31, 2024	233
Accumulated depreciation	
Balance as at March 31, 2022	47
Depreciation	16
Disposals	–
Balance as at March 31, 2023	63
Depreciation	16
Disposals	–
Balance as at March 31, 2024	79
Carrying value	
March 31, 2023	157
March 31, 2024	154

12. Leases (continued)

Lease liabilities

FCC's lease liabilities consist of leased office space. Lease terms are negotiated on an individual basis and contain a range of terms and conditions. Lease terms⁽¹⁾ range from 5 to 25 years, including optional renewal periods.

Amounts recognized on the balance sheet

As at March 31	2024	2023
Maturity analysis – contractual undiscounted cash flows		
Less than 1 year	18	18
From 1 – 5 years	66	62
Over 5 years	94	97
Total undiscounted lease liabilities	178	177
Lease liabilities on the balance sheet	158	160
Less: current portion of lease liabilities	15	15
Non-current portion of lease liabilities	143	145

Amounts recognized on the statement of income

For the year ended March 31	2024	2023
Interest on lease liabilities	3	3
Variable lease payments not included in the measurement of lease liabilities	2	4

Amounts recognized on the statement of cash flows

For the year ended March 31	2024	2023
Interest on lease liabilities	3	3
Principal repayment of lease liabilities	15	15
Total cash outflow for leases	18	18

Future cash flows for leases not commenced to which FCC is committed are \$1 million (2023 – \$8 million).

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

13. Post-employment benefits

Accounting policy

FCC has a registered defined benefit pension plan, supplemental defined benefit pension plans, a registered defined contribution pension plan, a supplemental defined contribution plan and other defined benefit plans that provide retirement and post-employment benefits to most of its employees.

FCC's registered pension plan has two components: a defined contribution pension component and a closed defined benefit pension component (closed to any employees hired after January 1, 2009). The defined benefit pension plan and the defined contribution pension plan are two different provisions of the same registered plan and are registered under the Pension Benefits Standards Act, 1985, registration no. 57164. They are registered pension trusts as defined in the Income Tax Act and are not subject to income taxes. The defined benefit pension plan is based on employees' number of years of service and the average salary of their five highest-paid consecutive years of service and is protected against inflation. The defined contribution pension plan is an accumulated savings plan and all new employees since January 1, 2009, are automatically enrolled in this plan. FCC also provides a supplemental defined benefit and supplemental defined contribution pension plan for employees whose benefits under the registered plans are limited by the Income Tax Act maximum limits.

FCC also provides a retirement benefit plan, which is a contributory health care plan with employee contributions adjusted annually, and a non-contributory life insurance plan that provides 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 plans are actuarially determined using the projected unit credit actuarial valuation method. This method incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors. Plan assets are measured at fair value.

FCC measures its net defined benefit asset or liability for accounting purposes as at March 31 of each year.

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

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

We recognize net interest, current service costs, gains and losses on curtailments and settlements and plan administration costs immediately in employee compensation and benefits in net income. We calculate net interest by applying the discount rate used to discount the defined benefit obligations included in the net defined benefit asset or liability.

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 other comprehensive income (OCI) in the period in which they occur and flow into retained earnings on the Consolidated Balance Sheet.

13. Post-employment benefits (continued)

Accounting estimates and judgments

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

Significant assumptions

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

As at March 31	Defined benefit pension plans		Other benefits	
	2024	2023	2024	2023
Defined benefit obligation				
Discount rate	5.00%	5.10%	5.00%	5.10%
Rate of compensation increase	3.25%	3.25%	4.00%	4.00%
Consumer price index	2.00%	2.00%	–	–
Defined benefit costs				
Discount rate	5.10%	4.10%	5.10%	4.10%
Consumer price index	2.00%	2.00%	–	–

At March 31, 2024 and 2023, the mortality assumption for the defined benefit obligation is based on the 2014 Public Sector Mortality publication and MI-2017 improvement scale, with adjustment factors for males of 1.03 (2023 – 1.03) and for females of 1.15 (2023 – 1.15). As at March 31, 2024, the average life expectancy of an individual retiring at age 65 is 23 years for males (2023 – 23 years) and 24 years for females (2023 – 24 years).

Assumed health care cost trend rates are as follows:

As at March 31	2024	2023
Extended health care and dental care cost escalation		
Initial rate	5.10%	4.40%
Ultimate rate	4.00%	4.00%
Year ultimate rate reached	2040	2040

13. Post-employment benefits (continued)

Supporting information

Financial position of benefit plans

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

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

	Registered pension plan		Supplemental pension plans		Other benefits		Total	
As at March 31	2024	2023	2024	2023	2024	2023	2024	2023
Fair value of plan assets, beginning of year	1,023	1,087	69	74	–	–	1,092	1,161
Interest income on plan assets	52	45	4	3	–	–	56	48
Return on plan assets (less) greater than the discount rate	(28)	(112)	3	(6)	–	–	(25)	(118)
Contributions by FCC	8	20	1	–	1	1	10	21
Contributions by employees	8	8	1	1	–	–	9	9
Benefits paid	(26)	(24)	(4)	(3)	(1)	(1)	(31)	(28)
Plan administration costs	(1)	(1)	–	–	–	–	(1)	(1)
Fair value of plan assets, end of year	1,036	1,023	74	69	–	–	1,110	1,092
Defined benefit obligation, beginning of year	731	794	85	90	68	75	884	959
Current service cost	11	16	1	1	4	5	16	22
Interest cost on the defined benefit obligation	37	33	4	4	4	3	45	40
Contributions by employees	8	8	1	1	–	–	9	9
Benefits paid	(26)	(24)	(4)	(3)	(1)	(1)	(31)	(28)
Experience adjustments on plan liabilities	18	24	1	4	2	–	21	28
Actuarial loss (gain) from changes in financial assumptions	12	(131)	1	(13)	–	(14)	13	(158)
Actuarial loss (gain) from changes in demographic assumptions	–	11	–	1	(1)	–	(1)	12
Defined benefit obligation, end of year	791	731	89	85	76	68	956	884
Unfunded obligation	–	–	13	12	76	68	89	80
Wholly or partly funded obligation	791	731	76	73	–	–	867	804
Total defined benefit obligation	791	731	89	85	76	68	956	884
Total net defined benefit asset	245	292	–	–	–	–	245	292
Total net defined benefit liability	–	–	(15)	(16)	(76)	(68)	(91)	(84)
Duration of the defined benefit obligation, in years	15	15	14	14	18	18	–	–

13. Post-employment benefits (continued)

Defined benefit costs

	Registered pension plan		Supplemental pension plans		Other benefits		Total	
As at March 31	2024	2023	2024	2023	2024	2023	2024	2023
Defined benefit costs recognized in net income								
Current service cost	11	16	1	1	4	5	16	22
Net interest	(15)	(12)	–	1	4	3	(11)	(8)
Plan administration costs	1	1	–	–	–	–	1	1
Defined benefit costs recognized in net income	(3)	5	1	2	8	8	6	15
Defined benefit costs recognized in other comprehensive income								
Experience adjustments on plan liabilities	(18)	(24)	(1)	(4)	(2)	–	(21)	(28)
Return on plan assets (less) greater than the discount rate	(28)	(112)	3	(6)	–	–	(25)	(118)
Actuarial (loss) gain from changes in financial assumptions	(12)	131	(1)	13	–	14	(13)	158
Actuarial (loss) gain from changes in demographic assumptions	–	(11)	–	(1)	1	–	1	(12)
Remeasurement (loss) gain	(58)	(16)	1	2	(1)	14	(58)	–

The cumulative net remeasurement gains recognized in OCI as at March 31, 2024, were \$126 million (2023 – \$184 million).

Plan assets

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

	Registered pension plan		Supplemental pension plans	
As at March 31	2024	2023	2024	2023
Debt securities	513	526	–	–
Equity securities	327	296	53	50
Real estate	98	108	–	–
Infrastructure	95	91	–	–
Cash*	3	2	21	19
	1,036	1,023	74	69

* Includes cash held in a refundable tax account as prescribed by Canada Revenue Agency.

All market values are based on unquoted markets with the exception of cash, which is quoted on an active market.

13. Post-employment benefits (continued)

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	2024		
	Registered pension plan	Supplemental pension plans	Other benefits
Increase (decrease) defined benefit obligation			
1% increase in discount rate	(110)	(12)	(12)
1% decrease in discount rate	141	14	16
0.25% increase in rate of compensation increase	4	1	–
0.25% decrease in rate of compensation increase	(4)	(2)	–
1% increase in consumer price index	108	11	–
1% decrease in consumer price index	(89)	(10)	–
One-year increase in expected lifetime of plan participants	17	2	2
1% increase in assumed overall health care cost trend rates	–	–	14
1% decrease in assumed overall health care cost trend rates	–	–	(11)

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 employee compensation and benefits. For the year ended March 31, 2024, the expense was \$16 million (2023 – \$14 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 \$27 million (2023 – \$37 million).

In accordance with regulatory requirements, if any unfunded liabilities exist, solvency contributions are required over specified future periods to reduce any deficit determined by the actuarial valuation process. During the year, FCC made solvency payments of \$nil (2023 – \$6 million) to the defined benefit pension plan.

Total cash payments for post-employment benefits for 2025 are anticipated to be approximately \$32 million.

14. Borrowings

Accounting policy

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. Transaction costs are incremental costs that are directly attributable to the acquisition, issuance or disposal of a financial liability. Transaction costs are deferred and amortized over the instrument's expected useful life using the effective interest method.

Supporting information

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

Short-term debt

As at March 31	2024	2023
Government of Canada debt		
Floating-rate borrowings	413	325
Fixed-rate borrowings	6,974	6,425
	7,387	6,750
Capital markets debt		
USD fixed-rate promissory notes	927	947
	8,314	7,697

Short-term debt by maturity date

As at March 31	2024				
	Government of Canada		Capital markets		
	Carrying value	Yield	Carrying value	Yield	Total
From 0 – 3 months	1,381	2.88%	927	5.31%	2,308
From 4 – 6 months	1,550	2.91%	–	–	1,550
From 7 – 9 months	2,477	3.16%	–	–	2,477
From 10 – 12 months	1,979	3.32%	–	–	1,979
	7,387		927		8,314

As at March 31	2023				
	Government of Canada		Capital markets		
	Carrying value	Yield	Carrying value	Yield	Total
From 0 – 3 months	1,920	1.83%	947	4.64%	2,867
From 4 – 6 months	1,318	2.87%	–	–	1,318
From 7 – 9 months	2,052	2.86%	–	–	2,052
From 10 – 12 months	1,460	2.33%	–	–	1,460
	6,750		947		7,697

14. Borrowings (continued)

Short-term debt continuity

As at March 31	2024	2023
Short-term debt, beginning of year	7,697	8,078
Financing cash flows		
Debt issued	13,503	12,997
Debt repaid	(14,463)	(12,989)
Non-cash changes		
Change in short-term portion of long-term debt	1,567	(421)
Change in interest accrual	10	46
Change due to unrealized foreign exchange gain	–	(14)
Short-term debt, end of year	8,314	7,697

FCC has a demand operating line of credit that provides overdraft protection in the amount of \$75 million (2023 – \$75 million). Indebtedness under this agreement is unsecured and this credit facility does not expire. Any draws made throughout the year on this credit facility are repaid the next day. As at March 31, 2024, there were no draws on this credit facility (2023 – \$nil).

Long-term debt

As at March 31	2024	2023
Government of Canada debt		
Floating-rate borrowings	14,055	13,659
Fixed-rate borrowings	21,877	20,013
	35,932	33,672

Long-term debt by maturity date

As at March 31	2024		2023	
	Government of Canada		Government of Canada	
	Carrying value	Yield	Carrying value	Yield
From 1 – 2 years	7,118	2.93%	6,113	2.57%
From 2 – 3 years	5,695	2.82%	5,160	2.47%
From 3 – 4 years	4,905	3.38%	4,356	2.46%
From 4 – 5 years	3,538	3.82%	3,710	3.09%
Over 5 years	14,676	4.07%	14,333	3.58%
	35,932		33,672	

Long-term debt continuity

As at March 31	2024	2023
Long-term debt, beginning of year	33,672	30,107
Financing cash flows		
Debt issued	10,781	10,197
Debt repaid	(7,007)	(7,128)
Non-cash changes		
Change in short-term portion of long-term debt	(1,567)	421
Change in interest accrual	53	75
Long-term debt, end of year	35,932	33,672

15. Net interest income

For the year ended March 31	2024	2023
Interest income		
Financial assets measured at amortized cost	2,803	2,214
Operating leases	–	3
Finance leases	–	2
Total interest income for financial instruments not at FVTPL	2,803	2,219
Investments	3	4
Total interest income	2,806	2,223
Interest expense		
Financial liabilities measured at amortized cost	1,438	865
Depreciation on equipment under operating leases	–	1
Interest on lease liabilities	3	3
Total interest expense	1,441	869
Net interest income	1,365	1,354

The total net fee expense that was recognized immediately in net interest income arising from financial assets and liabilities not measured at FVTPL was \$4 million (2023 – \$4 million).

16. Insurance

Accounting policy

FCC sells group creditor life and accident insurance to its customers through a program administered by a major insurance provider and FCC's risk of the insurance program is limited. Insurance premiums are actuarially determined and are accrued when receivable and recorded in accounts receivable. Insurance distribution income includes these premiums received or receivable and is net of insurance claims incurred throughout the year as well as net of statutory reserves maintained by the insurance provider. Expenses related to administering the insurance program are also recorded in insurance distribution income. FCC maintains a restricted insurance reserve asset, which is included in other assets, with the insurance provider to fund future claim payments. Interest is paid on the insurance reserve asset by the insurance provider annually and is recorded in insurance distribution income.

17. Administration expenses

For the year ended March 31	2024	2023 ⁽¹⁾
Employee compensation and benefits	343	318
Outsourced workforce	90	72
Technology and communication, including depreciation and amortization	68	65
Occupancy, including depreciation	32	32
Marketing and industry support	27	17
Professional services	25	23
Travel	9	9
Other	11	12
	605	548

⁽¹⁾ Comparative figures have been reclassified. See Note 4.

18. Commitments, guarantees and contingent liabilities

Loan commitments

As at March 31, 2024, loans approved but undisbursed amounted to \$12,292 million (2023 – \$11,185 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.

Investments

As at March 31, 2024, FCC had committed to invest an additional \$132 million (2023 reclassification ⁽¹⁾ – \$114 million) in investments.

Operating commitments

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

As at March 31	2024	2023
Amounts due		
Less than 1 year	41	22
From 1 – 5 years	85	39
Over 5 years	44	48
	170	109

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, 2024, is \$12 million (2023 – \$10 million). In the event of a call on these letters of credit, FCC has recourse in the form of security against its customers for amounts to be paid to the third party. Existing guarantees will expire within three years, usually without being drawn upon. No amount has been recorded for these letters of credit as at March 31, 2024 (2023 – \$nil).

Contingent liabilities and provisions

Various legal proceedings arising from the normal course of business are pending against FCC. Management does not believe that liabilities arising from pending litigations will have a material adverse effect on the financial position or the results of operations of FCC; therefore, no amount has been included in the financial statements as at March 31, 2024, (2023 – \$nil) for these contingent liabilities.

In the normal course of operations, FCC enters into agreements that provide general indemnification. These indemnifications typically occur in service contracts and strategic alliance agreements and, in certain circumstances, may require that FCC compensates the counterparty to the agreement for various costs resulting from breaches of representations or obligations. FCC also indemnifies directors, officers and employees, to the extent permitted by law and FCC's governing legislation, against certain claims that may be made against them as a result of their being directors, officers or employees. The terms of these indemnifications vary; therefore, FCC is unable to determine a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, FCC has not made any payments under such indemnifications and contingencies. No amount has been included in the financial statements as at March 31, 2024, (2023 – \$nil) for these indemnifications and contingencies.

⁽¹⁾ Comparative figures have been reclassified. See Note 4.

19. Related party transactions

Accounting policy

Government assistance

FCC is one of the financial institutions participating in the Hog Industry Loan Loss Reserve Program (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 is 70% of net credit losses. Amounts held by FCC to which FCC 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.

The portion of the loan loss reserve fund to which FCC is entitled under the HILLRP is recognized in FCC's provision for credit losses. The remaining amount of the loan loss reserve fund, to which FCC is not entitled, is recorded as borrowings. Interest on these borrowings is recorded in interest expense.

Supporting information

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

FCC is related to the consolidated funds as described in Note 2. All transactions between FCC and the consolidated funds have been eliminated on consolidation and, as such, are not disclosed as related party transactions.

In the normal course of business, FCC provides certain services to its investments. These transactions meet the definition of related party transactions and are made on terms equivalent to those that prevail in arm's-length transactions. Refer to Note 9 for more information on these investments.

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.

19. Related party transactions (continued)

Transactions with the Government of Canada

The Government of Canada guarantees the borrowings of FCC.

FCC enters short- and long-term borrowings with the Government of Canada through the Crown Borrowing Program. For the year ended March 31, 2024, \$1,384 million (2023⁽¹⁾ – \$835 million) was recorded in interest expense relating to these borrowings.

FCC has \$50 million (2023 – \$165 million) in short-term investments with the Government of Canada. These investments are included in cash and cash equivalents because they have a maturity date of less than 90 days.

FCC receives government assistance from the HILLRP to share the credit losses on certain loans with the Government of Canada. The amount estimated to be returned to the Government of Canada is \$5 million (2023 – \$8 million) and is included in borrowings.

At the discretion of the Board, FCC may pay a dividend to the Government of Canada on an annual basis, as detailed in Note 20.

Key management personnel compensation

Key management personnel include the Board of 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 personnel for services rendered is \$4 million (2023 – \$4 million).

20. 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 safe and sound capital position to deliver our strategy and withstand economic downturn, climate change uncertainty and periods of extended loss. This will allow FCC to continue to serve the industry through all economic cycles.

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

FCC's total capital consists of retained earnings and contributed capital and is net of required regulatory adjustments as outlined in the CAR guideline. Applicable adjustments include the exclusion of intangible assets and post-employment benefit assets. All of FCC's capital is considered Common Equity Tier 1 (CET1) capital; therefore, total capital and CET1 capital are equivalent.

As at March 31, 2024 and 2023, FCC's total capital ratio was greater than both the minimum regulatory capital ratio and the target capital ratio, and therefore FCC is adequately capitalized in accordance with OSFI's CAR guideline and FCC's Internal Capital Adequacy Assessment Process.

⁽¹⁾ Comparative figures have been changed from the amount previously disclosed (\$662) due to the inclusion of interest accruals in the interest expense calculation.

20. Capital management (continued)

As at March 31	2024	2023
Capital		
Retained earnings	8,736	8,327
Contributed capital	–	250
Required regulatory adjustments:		
Intangible assets	(9)	(10)
Post-employment benefit assets	(245)	(292)
CET1/Total capital	8,482	8,275
Risk-weighted assets		
Credit risk-weighted assets	46,493	49,598
Operational risk-weighted assets	2,114	2,488
Total risk-weighted assets	48,607	52,087
Total capital ratio	17.4%	15.9%
Target capital ratio	15.0%	15.0%
Minimum regulatory capital ratio	10.5%	10.5%

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, 2024, FCC's total direct and contingent liabilities were 5.13 times the shareholder's equity (2023 – 4.88 times the shareholder's equity).

Contributed capital

FCC's contributed capital consists of capital contributions made by the Government of Canada. For the year ended March 31, 2024, \$250 million was repaid to the Government of Canada, resulting in a contributed capital balance of \$nil as at March 31, 2024 (2023 – \$250 million).

Dividend

For the year ended March 31, 2024, a dividend totalling \$460 million was declared to FCC's shareholder, the Government of Canada, of which \$250 million was distributed out of contributed capital and \$210 million out of retained earnings (2023 – \$721 million dividend declared, \$250 million distributed out of contributed capital and \$471 million distributed out of retained earnings).

Policy revisions impacting 2025

As part of the Federal Budget 2024, the Government of Canada has issued updates to the Capital and Dividend Policy Framework for Financial Crown Corporations, which FCC will adopt in fiscal 2025. The revisions include more specific guidance on the determination of capital requirements with increased emphasis on the Governments preparedness to inject capital in severe conditions, requirements for outcome-based performance metrics focused on economic growth, and increased disclosure requirements. Management is assessing the impact on FCC's Internal Capital Adequacy Assessment Process; however, the changes are expected to lower required capital through the target capital ratio, which will impact FCC's capital structure and dividend flows.

21. 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 risk of potential loss if a borrower or other counterparty fails to meet its financial commitments. Credit risk on loans receivable is the most significant risk that FCC faces.

Management of credit risk

The Board is responsible for approving FCC's Credit Risk Management policy and relies on several committees, divisions and business units to effectively manage credit risk. Our Board-approved Risk Appetite framework and policy describe and quantify acceptable risk levels.

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 and activities are appropriate and relevant.

We use policies, processes, systems and strategies to manage the credit risk of FCC's portfolio.

We use significant research, modelling, validation and interpretation to develop the risk metrics for each tool as follows:

Credit risk rating

We use risk rating to rank the credit risk for loans in FCC's portfolio. Risk ratings are based on customer, loan and sector, and include inputs that are categorized under four main themes:

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

Risk ratings translate to a probability of default (PD) to enable credit risk management on our loan portfolio. Each characteristic is weighted differently to arrive at the final risk rating. 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.

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

Allowance for credit losses model

The allowance for credit losses model estimates expected losses in the portfolio due to credit risk. In determining the allowance for credit losses, management segregates credit losses into three stages as described in Note 10.

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.

21. Financial risk management (continued)

Key macroeconomic variables

The measurement of expected credit losses for each stage of the allowance for credit losses and the assessment of significant increase in credit risk (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 weighting assigned to each forecast scenario. The allowance for credit losses has three probability-weighted scenarios: baseline, optimistic and pessimistic. The weighting applied to each scenario can be adjusted using management discretion to reflect changes in the operating environment that are not captured by the models. Many of the factors have a high degree of interdependency and there is no single factor to which the allowance for credit losses on loans is sensitive.

The following table shows the primary macroeconomic variables used in the allowance for credit losses 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, farm cash receipts and farm debt outstanding.

As at March 31	2024	
	Next 12 months	2 to 5 years
Macroeconomic variables		
Nominal gross domestic product	4.5%	3.9%
USD/CAD exchange rates	\$ 0.76	\$ 0.79
Interest rates		
– Bank	4.80%	2.90%
– 5-year	6.30%	5.80%

As at March 31, 2024, 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 million (2023 – \$3 million). If all of FCC's performing loans were in Stage 1, the allowance for credit losses model would generate an allowance for credit losses on performing loans of approximately \$82 million (2023 – \$65 million). If all of FCC's performing loans were in Stage 2, the allowance for credit losses model would generate an allowance for credit losses on performing loans of approximately \$125 million (2023 – \$104 million). The allowance for credit losses for all loans in Stage 1 and Stage 2 ranges from approximately \$87 million to \$121 million (2023 – \$59 million to \$86 million) under the most optimistic and pessimistic scenarios. These values are components of FCC's weighted-allowance calculation used for the financial statements.

21. Financial risk management (continued)

Collateral

FCC uses collateral as a method to mitigate its credit risk. 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, 2024, the collateral held against total gross impaired loans represents 90.7% (2023 – 88.7%) of total gross impaired loans.

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

As at March 31	2024	2023
Weighted-average loan-to-security ratio for secured loans	49.0%	49.5%
Loans secured by a general security agreement and unsecured loans as a percentage of loans receivable	4.6%	4.9%

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 18 for further details regarding FCC's loan commitments. Unused commitments are included as input into FCC's capital requirement calculations.

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

As at March 31	2024	2023
Financial guarantees	12	10
Loan commitments	12,292	11,185
Total maximum exposure to credit risk	12,304	11,195

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

21. Financial risk management (continued)

Exposure to credit risk by credit risk rating grades

As at March 31	Stage 1	Stage 2	Stage 3	2024 Total
On balance sheet:				
Loans receivable				
Investment grade	18,462	615	–	19,077
Non-investment grade	15,373	13,469	–	28,842
Watch list	35	267	–	302
Default	–	–	943	943
Unassigned credit risk rating ⁽¹⁾	1,631	186	14	1,831
Loans receivable – total	35,501	14,537	957	50,995
Allowance for credit losses	(34)	(72)	(89)	(195)
Loans receivable – net	35,467	14,465	868	50,800
Other loans receivable				
Low risk	11	–	–	11
Medium risk	–	14	–	14
High risk	–	–	–	–
Other loans receivable – gross	11	14	–	25
Allowance for credit losses	–	(4)	–	(4)
Other loans receivable – net	11	10	–	21
Off balance sheet:				
Loan commitments				
Investment grade	3,873	48	–	3,921
Non-investment grade	2,397	1,571	–	3,968
Watch list	13	2	–	15
Default	–	–	6	6
Unassigned credit risk rating ⁽¹⁾	4,351	31	–	4,382
Loan commitments – gross⁽²⁾	10,634	1,652	6	12,292

⁽¹⁾ For these loans and loan commitments, expected credit losses are measured on a collective basis so individual loans and loan commitments are not assigned credit risk ratings.

⁽²⁾ Allowance for loan commitments is included in the allowance for credit losses on loans receivable.

21. Financial risk management (continued)

Exposure to credit risk by credit risk rating grades

As at March 31	Stage 1	Stage 2	Stage 3	2023 Total
On balance sheet:				
Loans receivable				
Investment grade	17,522	497	–	18,019
Non-investment grade	18,101	8,994	–	27,095
Watch list	36	151	–	187
Default	–	–	797	797
Unassigned credit risk rating ⁽¹⁾	1,624	142	17	1,783
Loans receivable – total	37,283	9,784	814	47,881
Allowance for credit losses	(45)	(29)	(91)	(165)
Loans receivable – net	37,238	9,755	723	47,716
Other loans receivable				
Low risk	14	–	–	14
Medium risk	–	12	–	12
High risk	–	3	–	3
Other loans receivable – gross	14	15	–	29
Allowance for credit losses	–	(4)	–	(4)
Other loans receivable – net	14	11	–	25
Off balance sheet:				
Loan commitments				
Investment grade	3,454	41	–	3,495
Non-investment grade	2,468	1,039	–	3,507
Watch list	4	2	–	6
Default	–	–	34	34
Unassigned credit risk rating ⁽¹⁾	4,100	43	–	4,143
Loan commitments – gross ⁽²⁾	10,026	1,125	34	11,185

⁽¹⁾ For these loans and loan commitments, expected credit losses are measured on a collective basis so individual loans and loan commitments are not assigned credit risk ratings.

⁽²⁾ Allowance for loan commitments is included in the allowance for credit losses on loans receivable.

21. Financial risk management (continued)

Counterparty credit risk – 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. The Board is responsible for approving FCC's Market and Liquidity Risk Management policy and relies on internal committees and the Treasury division to effectively manage counterparty credit risk.

Short-term investments are permitted with government counterparties. These investments are limited to a term to maturity equal to or less than one year and must have a minimum long-term credit rating of A low/A3/A- from two or more external credit rating agencies. FCC also has cash equivalents that are permitted with schedule 1 and 2 banks. These investments are limited to a term to maturity equal to or less than 90 days and must have a minimum short-term credit rating of A1-/R1-low/P-1 from two or more external credit rating agencies. The actual credit ratings will determine the maximum face amount of investments per counterparty. As at March 31, 2024, the largest total investment in any one counterparty was \$161 million (2023 – \$240 million).

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

Credit quality

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

As at March 31	2024		2023	
	Cash equivalents	Short-term investments	Cash equivalents	Short-term investments
Government and government guaranteed				
AAA	50	–	165	–
AA+	–	–	–	87
AA	25	163	–	–
AA-	93	164	29	19
A+	44	98	215	116
A	8	21	25	–
	220	446	434	222
Schedule 1 banks				
A-1+	–	–	58	–
A-1	–	–	50	–
	–	–	108	–
	220	446	542	222

Other loans receivable

FCC is exposed to credit risk through its debt-related venture capital arrangements. Credit risk is managed by having a Board-approved Venture Capital policy and internal committees, divisions and business units to effectively manage venture capital debt credit risk. FCC also manages venture capital debt credit risk through thoughtful planning, strict investment criteria, significant due diligence of investment opportunities and other activities in accordance with each fund's limited partnership agreement. The investment managers monitor and report on the financial condition of investee companies regularly.

21. Financial risk management (continued)

b) Market risk

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

The Board is responsible for approving FCC's Market and Liquidity Risk Management policy and relies on several committees and the Treasury division 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.

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 the economic value of equity to a change in interest rates and balance sheet assumptions. We backtest and validate the asset and liability model 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 should not decline by more than 10% of the total equity 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, projected values for net interest income and the economic value of equity that would be affected over the next 12 months are as follows:

	2024 Impact of		2023 Impact of	
	2% increase	2% decrease	2% increase	2% decrease
Net interest income variability	15	(36)	18	(17)
Limit	(70)	(70)	(73)	(73)
Economic value of equity variability	(313)	210	(376)	326
Limit	(874)	(874)	(858)	(858)

21. Financial risk management (continued)

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

As at March 31	Immediately rate-sensitive	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest sensitive	Total 2024	2023
Assets								
Cash and cash equivalents	1,339	219	–	–	–	1	1,559	1,782
Yield	5.70%	4.98%	–	–	–	–	–	–
Short-term investments	–	187	250	–	–	9	446	222
Yield ⁽¹⁾	–	5.14%	5.12%	–	–	–	–	–
Loans receivable	13,538	2,599	6,623	23,024	4,616	400	50,800	47,716
Yield ⁽¹⁾	7.98%	6.00%	4.60%	4.65%	4.32%	–	–	–
Other loans receivable	–	14	–	7	–	–	21	26
Yield ⁽¹⁾	–	11.48%	–	9.51%	–	–	–	–
Other	–	–	–	–	–	695	695	721
Total assets	14,877	3,019	6,873	23,031	4,616	1,105	53,521	50,467
Liabilities and equity								
Borrowings	–	16,717	5,554	17,735	4,001	239	44,246	41,369
Yield ⁽¹⁾	–	4.78%	3.02%	2.82%	1.79%	–	–	–
Other	–	–	–	–	–	539	539	521
Shareholder's equity	–	–	–	–	–	8,736	8,736	8,577
Total liabilities and equity	–	16,717	5,554	17,735	4,001	9,514	53,521	50,467
Total gap 2024	14,877	(13,698)	1,319	5,296	615	(8,409)	–	–
Total cumulative gap 2024	14,877	1,179	2,498	7,794	8,409	–	–	–
Total gap 2023	14,028	(13,720)	584	6,358	924	(8,174)	–	–
Total cumulative gap 2023	14,028	308	892	7,250	8,174	–	–	–

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

21. Financial risk management (continued)

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 borrowing. 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 \$12 million (2023 – \$75 million). Foreign exchange losses in the year were \$15 million (2023 – \$72 million).

Venture capital investments

FCC is exposed to market risk in our venture capital investments due to the potential for financial loss that may arise from volatility in equity markets, marketplace conditions and market value fluctuations. We manage venture capital market risk through a Board-approved Venture Capital policy and Risk Appetite policy. Due diligence processes and executive management investment committee approval are required before any venture capital investment is executed. Investments are established through legal agreements, and policies and frameworks establish the requirements for identifying, measuring, managing and reporting on investment market risk on a timely basis.

Post-employment benefits

FCC is exposed to market risk and financial loss through the registered pension plans' investments. This risk is managed by Board-approved Pension Governance, Investment and Funding policies for FCC's pension plans. The Statement of Investment policy and procedure provides guidelines on the registered pension plans' 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 allocated between equities and fixed income investment funds with a significant portion in fixed income comprised of Canadian bonds, which provides liability hedging between the plans' assets and the plans' liabilities. The current target composition of the plans' portfolio are as follows:

Portfolio	Allocation (%)	Duration (years)
Canadian and Global Equities	30%	–
Real Return Bonds with Overlay	20%	27
Canadian Long Bonds	19%	14
Real Assets and Global Infrastructure	15%	–
Canadian Long-term Private Debt	10%	15
Leveraged Canadian Long Bonds	6%	43
Registered Pension Plans' assets	–	11
Registered Pension Plans' liabilities	–	15
Supplemental Pension Plans' liabilities	–	14

The pension plans' Funding 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 the provisions of the Pension Plan for Employees of FCC. 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.

21. Financial risk management (continued)

The Pension Plan Governance policy 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 framework is approved annually by management and includes review and monitoring criteria for investment managers and third-party providers as well as guidelines for eligible fees and expenses. All fees and expenses paid from the plan are reviewed to ensure they are eligible based on the guidelines.

c) Liquidity risk

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

The Board is responsible for approving FCC's Market and Liquidity Risk Management policy and relies on several committees and the Treasury division to effectively manage liquidity risk. The liquidity risk policies and limits ensure FCC meets its objective to maintain sufficient funds to meet customer and business operational requirements. 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 disrupt FCC's access to funds. The total investment portfolio is targeted to meet a minimum of 30 calendar days of upcoming cash requirements.

FCC maintains liquidity through:

- a liquid investment portfolio – cash, cash equivalents and short-term investments of \$2,005 million were on hand as at March 31, 2024 (2023 – \$2,004 million)
- access to a \$75 million bank operating line of credit

21. Financial risk management (continued)

Residual contractual maturities of financial liabilities

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

As at March 31		2024					
	Carrying value	Gross nominal outflow	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years
Financial liabilities							
Accounts payable and accrued liabilities	105	105	36	51	18	–	–
Borrowings	44,246	44,246	1,097	1,381	6,015	21,124	14,629
Transition loan liabilities	177	186	16	14	55	101	–
	44,528	44,537	1,149	1,446	6,088	21,225	14,629

As at March 31		2023					
	Carrying value	Gross nominal outflow	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years
Financial liabilities							
Accounts payable and accrued liabilities	92	92	30	4	58	–	–
Borrowings	41,369	41,369	1,593	1,369	4,862	19,248	14,297
Transition loan liabilities	180	186	13	20	46	107	–
	41,641	41,647	1,636	1,393	4,966	19,355	14,297



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