2022-23 ANNUAL REPORT

FARM CREDIT CANADA

Management's Responsibility for Consolidated Financial Statements

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

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

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

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

Justine Hendricks, MBA
President and
Chief Executive Officer

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

Regina, Canada
June 13, 2023

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 2023, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2023, 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.

Riowen Abgrall

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

Ottawa, Canada
13 June 2023

Consolidated Balance Sheet

As at March 31 (thousands of Canadian dollars)	Note	2023	2022
Assets			
Cash and cash equivalents	5	**1,782,248**	1,439,109
Short-term investments	6	**221,589**	584,397
Accounts receivable and prepaid expenses		**38,660**	38,490
Derivative financial assets	7	**220**	–
Assets held for sale	8	**–**	185,761
		2,042,717	2,247,757
Loans receivable – net	9, 11	**47,715,829**	44,379,503
Other loans receivable – net	10, 11	**25,513**	50,443
Investments at fair value	12	**131,230**	56,063
Investment in associates		**62,072**	49,424
Post-employment benefit assets	13	**292,242**	293,543
		48,226,886	44,828,976
Property and equipment	14	**182,008**	188,798
Intangible assets	15	**9,611**	12,668
Other assets		**5,434**	5,824
		197,053	207,290
Total assets		**50,466,656**	47,284,023
Liabilities			
Accounts payable and accrued liabilities		**91,939**	84,274
Derivative financial liabilities	7	**–**	32
		91,939	84,306
Borrowings	16		
Short-term debt		**7,697,512**	8,077,614
Long-term debt		**33,671,581**	30,106,670
		41,369,093	38,184,284
Transition loan liabilities		**179,873**	173,652
Post-employment benefit liabilities	13	**84,143**	91,471
Lease liabilities	17	**160,270**	166,748
Other liabilities		**2,704**	6,335
		426,990	438,206
Total liabilities		**41,888,022**	38,706,796
Equity			
Contributed capital	22, 23	**250,000**	500,000
Retained earnings		**8,327,235**	8,076,280
Equity attributable to shareholder of parent entity		**8,577,235**	8,576,280
Non-controlling interest		**1,399**	947
		8,578,634	8,577,227
Total liabilities and equity		**50,466,656**	47,284,023

Commitments, guarantees and contingent liabilities (Note 21).

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

The consolidated financial statements were approved by the FCC Board of Directors on June 13, 2023, 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 (thousands of Canadian dollars)	Note	2023	2022
Interest income		**2,222,700**	1,567,027
Interest expense		**(868,687)**	(226,515)
Net interest income	**18**	**1,354,013**	1,340,512
(Provision for) reversal of credit losses		**(108,040)**	89,947
Net interest income after provision for credit losses		**1,245,973**	1,430,459
Insurance distribution income	**19**	**15,736**	16,809
Net loss from investment in associates		**(7,614)**	(9,515)
Net gain from financial instruments designated as fair value through profit or loss		**16,263**	8,757
Net foreign exchange gain (loss)	**24**	**2,923**	(170)
Other expenses		**(3,120)**	(6,526)
Net interest income and non-interest income[(1)]		**1,270,161**	1,439,814
Administration expenses	**20**	**(548,064)**	(507,927)
Net income		**722,097**	931,887
Net income attributable to:			
Shareholder of parent entity		**721,977**	931,844
Non-controlling interest		**120**	43

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

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

Consolidated Statement of Comprehensive Income

For the year ended March 31 (thousands of Canadian dollars)	Note	2023	2022
Net income		**722,097**	931,887
Other comprehensive income			
Items that are or may be reclassified to net income			
Transfer of net realized gains on derivatives previously designated as cash flow hedges to net income	**18**	**–**	(1,489)
		–	(1,489)
Item that will never be reclassified to net income			
Remeasurement of post-employment benefit assets and liabilities	**13**	**(522)**	166,970
Total other comprehensive (loss) income		**(522)**	165,481
Total comprehensive income		**721,575**	1,097,368
Total comprehensive income attributable to:			
Shareholder of parent entity		**721,455**	1,097,325
Non-controlling interest		**120**	43

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

Consolidated Statement of Changes in Equity

For the year ended March 31 (thousands of Canadian dollars)	**Balance 2022**	**Net income**	**Other comprehensive income**	**Dividend paid**	**Contributions from non-controlling interest**	**Balance 2023**
Contributed capital	**500,000**	**–**	**–**	**(250,000)**	**–**	**250,000**
Retained earnings	**8,076,280**	**721,977**	**(522)**	**(470,500)**	**–**	**8,327,235**
Total equity attributable to parent	**8,576,280**	**721,977**	**(522)**	**(720,500)**	**–**	**8,577,235**
Non-controlling interest	**947**	**120**	**–**	**–**	**332**	**1,399**
Total	**8,577,227**	**722,097**	**(522)**	**(720,500)**	**332**	**8,578,634**

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

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

Consolidated Statement of Cash Flows

For the year ended March 31 (thousands of Canadian dollars)	**2023**	2022
Operating activities		
Net income	**722,097**	931,887
Adjustments to determine net cash (used in) provided by operating activities:		
Interest income[1]	**(2,222,700)**	(1,567,027)
Interest expense[1]	**868,687**	226,515
Provision for (reversal of) credit losses	**108,040**	(89,947)
Net unrealized gain from financial instruments designated as fair value through profit or loss	**(15,057)**	(8,757)
Net loss from investment in associates	**7,614**	9,515
Amortization and depreciation	**31,934**	35,250
Net unrealized foreign exchange gains	**(66,162)**	(6,947)
Impairment loss on assets held for sale	**2,484**	4,500
Proceeds from sale of lease portfolio	**171,625**	–
Net cash outflow from loans receivable	**(3,241,712)**	(3,144,999)
Net cash inflow from finance leases receivable	**–**	3,889
Net change in other operating assets and liabilities	**2,233**	(17,667)
Interest received	**2,086,953**	1,525,840
Interest paid	**(746,306)**	(216,305)
Cash used in operating activities	**(2,290,270)**	(2,314,253)
Investing activities		
Purchase of short-term investments	**(699,306)**	(763,016)
Proceeds from maturity of short-term investments	**1,063,633**	910,761
Disbursements of other loans receivable	**(225)**	(4,000)
Repayments from other loans receivable	**15,000**	10,774
Acquisition of investments at fair value	**(58,115)**	(18,507)
Proceeds from sale and repayment of investments at fair value	**2,400**	–
Disbursements paid to investment in associates	**(21,836)**	(10,122)
Repayments from investment in associates	**1,573**	9,022
Purchase of property and equipment	**(10,456)**	(6,892)
Proceeds on disposal of property and equipment	**–**	15,656
Purchase of intangible assets	**(3,116)**	(3,024)
Cash provided by investing activities	**289,552**	140,652
Financing activities		
Long-term debt issued	**10,197,000**	14,490,000
Long-term debt repaid	**(7,128,529)**	(11,785,856)
Short-term debt issued	**12,997,331**	12,629,821
Short-term debt repaid	**(12,988,412)**	(12,397,247)
Principal repayment of lease liabilities	**(15,219)**	(15,250)
Dividend paid	**(720,500)**	(560,100)
Cash provided by financing activities	**2,341,671**	2,361,368
Change in cash and cash equivalents	**340,953**	187,767
Cash and cash equivalents, beginning of year	**1,439,109**	1,251,093
Effects of exchange rate changes on the balances of cash held and due in foreign currencies	**2,186**	249
Cash and cash equivalents, end of year	**1,782,248**	1,439,109
Cash and cash equivalents consists of:		
Cash	**1,240,417**	1,295,169
Cash equivalents	**541,831**	143,940

[1] Comparative figures have been reclassified. See Note 4.

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

Notes to the Consolidated Financial Statements

1. The corporation

Authority and objectives

Farm Credit Canada (FCC) was established in 1959 by the Farm Credit Act as the successor to the Canadian Farm Loan Board. FCC is an agent Crown corporation named in Part I of Schedule III to the Financial Administration Act. FCC 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 2023, 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 thousands of Canadian dollars, which is FCC's functional currency.

Basis of consolidation

The consolidated financial statements include the accounts of FCC and the consolidated funds referred to below. 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. An adjustment has been made for intervening transactions and changes in fair value of investments occurring between the December 31 year-end of the consolidated funds and FCC's year-end. All intercompany balances and transactions have been eliminated. The non-controlling interest, which represents the equity in the consolidated funds that is not attributable to FCC, has been presented in the Consolidated Balance Sheet, the Consolidated Statement of Income, the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity.

The following funds have been consolidated in FCC's consolidated financial statements as at March 31, 2023 and 2022.

Fund	Principal activity	Country of incorporation and residence	Proportion of ownership and voting power held	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

Venture capital arrangements

Accounting judgments

In determining how to account for venture capital arrangements, management considers several factors on whether FCC has control or significant influence over the fund, or neither. Factors considered include share ownership, voting rights and the number of advisory committee seats held by FCC.

Investments in associates

FCC holds investments in venture capital limited partnerships (the equity funds) that are associates of FCC. An associate is an entity over which FCC has significant influence. FCC has the power to participate in the financial and operating governance decisions of the limited partnership but does not have control over those decisions. These equity funds are accounted for using the equity method of accounting. An adjustment has been made for intervening transactions and changes in fair value of investments occurring between the December 31 year-end of the equity funds and FCC's year-end.

2. Basis of preparation (continued)

Other venture capital arrangements

Venture capital arrangements that do not meet the criteria for consolidation or investments in associates are classified as fair value through profit or loss (FVTPL) and recorded as investments at fair value.

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 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.

Additional accounting policies

To ease the reading of these consolidated financial statements, additional significant accounting policies, estimates and judgments (with the exception of 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	Assets held for sale	X		80
9	Loans receivable – net	X		81
10	Other loans receivable – net	X		84
11	Allowance for credit losses	X	X	85
12	Fair value of financial instruments	X	X	89
13	Post-employment benefits	X	X	91
14	Property and equipment	X	X	96
15	Intangible assets	X	X	99
16	Borrowings	X		100
17	Lease liabilities	X		102
19	Insurance	X		103
22	Related party transactions	X		105

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 initial application
IAS 1 – Presentation of financial statements	In February 2021, the IASB issued Disclosure Initiative – Accounting Policies which amended IAS 1 – Presentation of Financial Statements. The amendment requires entities to disclose material accounting policies rather than significant accounting policies. FCC has completed an assessment of the standard amendments and has early adopted this amendment on April 1, 2022. FCC has disclosed material accounting policy information rather than significant accounting policies.	April 1, 2023
IAS 1 – Presentation of financial statements	In January 2020, the IASB issued Classification of Liabilities as Current or Non-current which amended IAS 1 – Presentation of Financial Statements. The amendments provide a more general approach to the classification of liabilities based on contractual arrangements in place at the reporting date. FCC has completed an assessment of the standard amendments and determined that FCC will have a classification impact between short-term and long-term debt when new long-term debt arrangements incorporate rights to allow deferral of payment greater than 12 months. FCC early adopted this amendment on April 1, 2022, with no transition impacts.	April 1, 2024
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. Management is in the process of assessing the impact of this standard on FCC's financial statements and accounting policies.	April 1, 2024
IAS 8 – Accounting policies, changes in accounting estimates and errors	In February 2021, the IASB issued Definition of Accounting Estimates, which amended IAS 8 – Accounting policies, changes in accounting estimates and errors. The amendments introduced the definition of accounting estimates and included other amendments to distinguish between changes in accounting estimates and changes in accounting policies. FCC has completed the assessment of the standard and has determined that it has no transition impact.	April 1, 2023

Current changes in accounting standards

Interest rate benchmark reform

In March 2021, the Financial Conduct Authority and Intercontinental Exchange Benchmark Administration announced that United States Dollar (USD) London Interbank Offered Rate (LIBOR) would cease to be provided on June 30, 2023. This period allowed existing USD LIBOR contracts to mature. FCC held loans receivable that used USD LIBOR as a reference rate.

In October 2021, a project was initiated to use the Secured Overnight Financing Rate (SOFR) as the benchmark rate. As of February 2022, all new USD lending used SOFR as the reference rate. During the 2022-23 fiscal year, FCC completed the project to convert customer loans to SOFR. The impact of this change was immaterial. As of March 31, 2023, all LIBOR loans have been converted.

4. Reclassification of comparative figures

a) Change in presentation of fair value gains and losses

FCC previously classified its fair value gains and losses as a separate line item before net income in its Consolidated Statement of Income. In reviewing FCC's financial statements, we decided to classify fair value gains and losses within non-interest income as this location represents non-interest related transactions. We also renamed the line item to "Net gain (loss) from financial instruments designated as fair value through profit or loss" to better reflect the nature of transactions the line represents.

Therefore, the following comparative figures have been reclassified to align with current year presentation. The impacts for the year ended March 31, 2022, are shown below.

Adjustments to the Consolidated Statement of Income

For the year ended March 31, 2022	As previously reported	Adjustments	As reclassified
Net gain from financial instruments designated as fair value through profit or loss	–	8,757	8,757
Net interest income and non-interest income	1,431,057	8,757	1,439,814
Net income before fair value gain (loss)	923,130	(923,130)	–
Fair value gain (loss)	8,757	(8,757)	–

Adjustments to the Consolidated Statement of Cash Flows

For the year ended March 31, 2022	As previously reported	Adjustments	As reclassified
Fair value (gain) loss	(8,757)	8,757	–
Net gain from financial instruments designated as fair value through profit or loss	–	(8,757)	(8,757)

b) Change in presentation of net interest income

FCC previously netted its interest income and expense in the Consolidated Statement of Cash Flows. We have elected to update our presentation and report interest income and expense for operating activities on a gross basis. These changes provide a more detailed understanding around the nature of cash flows from operating activities and align with industry comparatives.

Therefore, the following comparative figures have been reclassified to align with current year presentation. The impacts for the year ended March 31, 2022, are shown below.

Adjustments to the Consolidated Statement of Cash Flows

For the year ended March 31, 2022	As previously reported	Adjustments	As reclassified
Operating activities			
Net interest income	(1,340,512)	1,340,512	–
Interest income	–	(1,567,027)	(1,567,027)
Interest expense	–	226,515	226,515

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, are classified as financial assets and measured at amortized cost. Interest earned on cash and cash equivalents are 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, 2023, short-term investments were $222 million (2022 – $584 million) with a yield of 3.72% (2022 – 0.48%). They consisted of promissory notes and treasury bills. As at March 31, 2023, the allowance for credit losses on short-term investments was $nil (2022 – $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.

Derivatives are classified as FVTPL and measured at fair value using a valuation technique as described in Note 12, with gains and losses reported in net gain (loss) from financial instruments designated as FVTPL. Derivatives classified as FVTPL are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. We have included interest earned and incurred on derivatives classified as FVTPL in interest income.

Supporting information

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

FCC purchased interest rate options. 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 which varies in response to changes in interest rates.

7. Derivative financial instruments (continued)

The following table shows the term to maturity, notional amounts and fair values of our derivatives.

As at March 31			2023		2022	
		Maturity	Notional amounts	Fair value	Notional amounts	Fair value
Interest rate swaps						
Receive	**Pay**					
Floating	Fixed	Within one year	–	–	12,496	(32)
Interest rate options						
Receive	**Pay**					
Floating	Fixed	Within one year	**87,000**	**220**	–	–
			87,000	**220**	12,496	(32)

Counterparty credit risk

Derivatives that have a positive fair value are subject to counterparty risk because the positive fair value indicates that over time, FCC can expect to receive cash flows from the counterparties based on the terms of the contract and current market conditions.

FCC does not anticipate any significant non-performance by counterparties because all counterparties are rated Aa3, A and AA or higher, as rated by Moody's Investors Service (Moody's), Standard & Poor's Ratings Services (S&P), and the Dominion Bond Rating Service (DBRS), respectively. The largest cumulative notional amount contracted with any institution as at March 31, 2023, was $44 million (2022 – $12 million). FCC mitigates the credit exposure on multiple derivative transactions by entering into master netting agreements with counterparties as outlined in Note 24. These agreements create the legal right to offset exposure in the event of default. The master netting agreements in place have no impact on the fair values at March 31, 2022, and March 31, 2023.

8. Assets held for sale

Accounting policy

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

Supporting information

The leasing portfolio, classified as assets held for sale on the Consolidated Balance Sheet as at March 31, 2022, was sold on July 5, 2022, to a financial services company for cash of $172 million, the net book value of the portfolio at the date of the sale.

9. 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 credit-impaired, 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.

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.

9. Loans receivable – net (continued)

Supporting information

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

As at March 31	2023			
	Within 1 year	**1 – 5 years**	**Over 5 years**	**Total**
Floating	**3,667,118**	**9,606,345**	**244,871**	**13,518,334**
Fixed	**3,205,151**	**21,059,597**	**10,136,958**	**34,401,706**
Loans receivable – gross	**6,872,269**	**30,665,942**	**10,381,829**	**47,920,040**
Deferred loan fees				**(38,742)**
Loans receivable – total[1]				**47,881,298**
Allowance for credit losses (Note 11)				**(165,469)**
Loans receivable – net				**47,715,829**

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

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

As at March 31, 2023, $907 million (2022 – $693 million) of loans receivable were denominated in USD.

9. Loans receivable – net (continued)

Concentrations of credit risk

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

Sector distribution

	Gross		Impaired	
As at March 31	**2023**	2022	**2023**	2022
Oilseed and grain	**15,316,509**	14,332,100	**208,617**	128,637
Dairy	**7,238,310**	6,929,019	**36,750**	15,677
Agribusiness	**6,117,354**	5,432,022	**61,909**	77,836
Beef	**3,900,270**	3,713,939	**119,589**	67,254
Poultry	**3,243,888**	3,004,698	**10,355**	6,087
Other	**3,225,434**	3,025,176	**89,307**	44,057
Agri-food	**2,131,496**	1,827,205	**154,369**	16,849
Greenhouse	**1,987,110**	1,848,533	**18,846**	6,980
Alliances	**1,765,351**	1,706,558	**16,814**	17,965
Hogs	**1,567,816**	1,394,722	**57,094**	6,357
Fruit	**1,426,502**	1,320,417	**40,288**	6,672
Total	**47,920,040**	44,534,389	**813,938**	394,371

Geographic distribution

	Gross		Impaired	
As at March 31	**2023**	2022	**2023**	2022
Ontario	**14,325,828**	13,010,205	**92,086**	55,418
Saskatchewan	**8,719,833**	8,312,457	**143,612**	105,463
Alberta	**8,538,054**	8,181,161	**181,516**	104,600
Quebec	**6,854,067**	6,157,848	**158,125**	51,493
British Columbia	**4,244,057**	4,007,965	**102,200**	24,161
Manitoba	**3,762,858**	3,519,480	**61,480**	38,460
Atlantic	**1,475,343**	1,345,273	**74,919**	14,776
Total	**47,920,040**	44,534,389	**813,938**	394,371

Loans receivable past due but not credit-impaired

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

As at March 31	**2023**	2022
Past due but not credit-impaired		
Up to 30 days	**104,268**	141,039
31 – 60 days	**56,397**	46,604
61 – 89 days	**31,105**	18,950
90 days or more	**–**	88,665
	191,770	295,258

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, 2023, was $3,098 million (2022 – $nil). As at March 31, 2023, 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 $841 million (2022 – $nil).

10. Other loans receivable – net

Accounting policy

FCC includes the investments held by consolidated 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 and fee income on other loans receivable on an accrual basis that is recognized in interest income.

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

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

Supporting information

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

As at March 31	**2023**			2022		
	Within 1 year	**1 – 5 years**	**Total**	Within 1 year	1 – 5 years	Total
Other loans receivable – gross[1] [2]	**18,715**	**10,908**	**29,623**	16,682	37,533	54,215
Allowance for credit losses (Note 11)			**(4,110)**			(3,772)
Other loans receivable – net			**25,513**			50,443

[1] All loans are fixed-rate loans.
[2] Other loans receivable – gross at March 31, 2023, includes accrued interest of $1 million (2022 – $1 million).

Concentrations of credit risk

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

Sector distribution

As at March 31	**2023**	2022
Agribusiness	**18,230**	38,095
Agri-food	**11,393**	16,120
Total	**29,623**	54,215

Geographic distribution

As at March 31	**2023**	2022
Quebec	**23,782**	28,412
Saskatchewan	**3,205**	2,910
Ontario	**2,636**	2,605
Alberta	**–**	10,124
British Columbia	**–**	9,140
Manitoba	**–**	1,024
Total	**29,623**	54,215

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, 2023, there were two other loans receivable that were past due less than 90 days and not credit-impaired totalling $11 million (2022 – $nil).

11. 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 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 base 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 credit-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 credit-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.

Credit-impaired financial assets:

Stage 3: Represents financial assets individually identified as credit-impaired. When a financial asset is considered credit-impaired, there is no longer reasonable assurance of timely collection of the full amount of principal and interest, and 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. The key inputs in the measurement of expected credit losses are as follows:

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

11. Allowance for credit losses (continued)

FCC measures the twelve-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 PD beyond a certain threshold to indicate the risk of a default occurring on the financial asset as at the reporting date is significantly higher than upon initial recognition
- qualitative information available as at the reporting date
- days past due

Credit-impaired financial assets

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

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

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.

11. 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.

During the comparative period, management used judgment to assess the impact of the customer support programs offered to FCC's borrowers, including those provided by industry. This judgment also determined whether these arrangements constitute forbearance, result in a substantial modification of the contract, affect the staging of the allowance and have an impact on the overall allowance. Near the end of the comparative period, management assessed that industries impacted by the pandemic no longer constituted an increased risk of default to FCC.

During the year, FCC updated its loss given default model to remove an indicator previously used to distinguish the sufficiency of security between its performing status and credit impaired loans. This prospective change resulted in an increase in FCC's impaired loan balance of $248 million and a decrease of the same amount in performing loans receivable. The change did not have an impact on FCC's allowance for credit losses balance as these loans were sufficiently secured.

Supporting information

As at March 31	2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans receivable[1]				
Allowance for credit losses, beginning of year	**45,027**	**31,399**	**33,208**	**109,634**
Transfer to Stage 1	**20,595**	**(16,388)**	**(4,207)**	**–**
Transfer to Stage 2	**(6,170)**	**50,857**	**(44,687)**	**–**
Transfer to Stage 3	**(4,816)**	**(11,966)**	**16,782**	**–**
Changes due to new loans originated	**36,025**	**3,730**	**6,565**	**46,320**
Loans that have been derecognized during the period	**(16,748)**	**(3,759)**	**(12,223)**	**(32,730)**
Net remeasurement of loss allowance[2]	**(28,286)**	**(24,115)**	**148,190**	**95,789**
Write-offs[3]	**–**	**(1,369)**	**(53,568)**	**(54,937)**
Recoveries of amounts previously written off	**–**	**437**	**956**	**1,393**
Changes to allowance model parameters	**–**	**–**	**–**	**–**
Total allowance, end of year	**45,627**	**28,826**	**91,016**	**165,469**
Other loans receivable				
Allowance for credit losses, beginning of year	**480**	**3,251**	**41**	**3,772**
Transfer to Stage 1	**41**	**–**	**(41)**	**–**
Transfer to Stage 2	**–**	**–**	**–**	**–**
Transfer to Stage 3	**–**	**–**	**–**	**–**
Changes due to new other loans originated	**–**	**–**	**–**	**–**
Net remeasurement of loss allowance[2]	**(192)**	**530**	**9,922**	**10,260**
Write-offs[3]	**–**	**–**	**(9,922)**	**(9,922)**
Total allowance, end of year	**329**	**3,781**	**–**	**4,110**

[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.

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

11. Allowance for credit losses (continued)

As at March 31	2022			
	Stage 1	Stage 2	Stage 3	Total
Loans receivable[1]				
Allowance for credit losses, beginning of year	44,553	122,111	51,373	218,037
Transfer to Stage 1	30,682	(27,430)	(3,252)	–
Transfer to Stage 2	(7,419)	58,779	(51,360)	–
Transfer to Stage 3	(1,178)	(9,518)	10,696	–
Changes due to new loans originated	50,480	4,920	6,266	61,666
Loans that have been derecognized during the period	(15,356)	(10,773)	(10,896)	(37,025)
Net remeasurement of loss allowance[2][3]	(37,589)	(80,042)	69,379	(48,252)
Write-offs[4]	–	(791)	(24,875)	(25,666)
Recoveries of amounts previously written off	–	159	707	866
Changes to allowance model parameters[5]	(19,146)	(26,016)	(14,830)	(59,992)
Total allowance, end of year	45,027	31,399	33,208	109,634
Finance leases receivable				
Allowance for credit losses, beginning of year	147	–	–	147
Changes due to new finance leases originated	21	–	–	21
Finance leases that have been derecognized during the period	(157)	–	–	(157)
Net remeasurement of loss allowance[2]	(11)	–	–	(11)
Total allowance, end of year	–	–	–	–
Other loans receivable				
Allowance for credit losses, beginning of year	702	–	1,041	1,743
Transfer to Stage 1	–	–	–	–
Transfer to Stage 2	(169)	169	–	–
Transfer to Stage 3	–	–	–	–
Changes due to new other loans originated	28	250	–	278
Net remeasurement of loss allowance[2]	(81)	2,832	–	2,751
Write-offs[4]	–	–	(1,000)	(1,000)
Total allowance, end of year	480	3,251	41	3,772

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

(2) Includes partial repayments.

(3) Comparative figures have been reclassified for consistency with the current year presentation; losses covered under HILLRP are now included within Net remeasurement of loss allowance.

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

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

12. Fair value of financial instruments

Accounting policy

The investments held by venture capital funds that are included within investments at fair value are those that are not accounted for as investments in associates and also 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 designated as FVTPL on the Consolidated Statement of Income.

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 methods used to value FCC's financial instruments measured at fair value are noted below.

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

Supporting information

Valuation hierarchy

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

As at March 31	**2023**			2022		
	Level 2	**Level 3**	**Total**	Level 2	Level 3	Total
Assets						
Derivative financial assets	**220**	**–**	**220**	–	–	–
Investments at fair value	**–**	**131,230**	**131,230**	–	56,063	56,063
	220	**131,230**	**131,450**	–	56,063	56,063
Liabilities						
Derivative financial liabilities (Note 7)	**–**	**–**	**–**	32	–	32
	–	**–**	**–**	32	–	32

Changes in valuation methods may result in transfers into or out of levels 2 and 3. For the year ended March 31, 2023, there were no transfers between levels (2022 – $nil).

12. Fair value of financial instruments (continued)

Level 3 financial instruments

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

As at March 31	**2023**	2022
Balance, beginning of year	**56,063**	28,398
Net acquisitions	**55,715**	18,507
Net fair value gains	**19,452**	9,158
Balance, end of year	**131,230**	56,063

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	**2023**		2022	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
Assets				
Short-term investments	**219,016**	**219,433**	583,343	582,460
Loans receivable	**47,715,829**	**46,523,139**	44,379,503	43,677,354
Liabilities				
Short-term debt	**7,697,512**	**7,637,148**	8,077,615	8,075,566
Long-term debt	**33,671,581**	**32,814,733**	30,106,670	29,437,770

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

FCC calculates the estimated fair value of short-term investments by discounting contractual cash flows at interest rates prevailing at the reporting date for equivalent securities.

We calculate the estimated fair value for the performing fixed-rate loans receivable by discounting the expected future cash flows at year-end market interest rates for equivalent terms to maturity. The estimated fair value for the performing variable-rate loans receivable approximates the carrying value due to having fluctuating interest rates that directly correspond to changes in the prime interest rate, on which the fair value is based. We subtract the collective 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 prevailing at year-end for equivalent terms to maturity.

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

13. Post-employment benefits

Accounting policy

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

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

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

The defined benefit obligation for pension and other defined benefit plans is actuarially determined using the projected unit credit actuarial valuation method. 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.

Defined benefit costs are split into three categories:

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

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

We recognize net interest, current service costs, gains and losses on curtailments and settlements and plan administration costs immediately in salaries 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.

13. Post-employment benefits (continued)

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

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):

	Registered pension plan		Supplemental pension plans		Other benefits	
As at March 31	**2023**	2022	**2023**	2022	**2023**	2022
Defined benefit obligation						
Discount rate	**5.10%**	4.10%	**5.10%**	4.10%	**5.10%**	4.10%
Rate of compensation increase	**3.25%**	3.25%	**3.25%**	3.25%	**4.00%**	4.00%
Consumer price index	**2.00%**	2.00%	**2.00%**	2.00%	**–**	–
Defined benefit costs						
Discount rate	**4.10%**	3.30%	**4.10%**	3.30%	**4.10%**	4.10%
Consumer price index	**2.00%**	2.00%	**2.00%**	2.00%	**–**	–

At March 31, 2023 and 2022, 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 (2022 – 1.03) and for females of 1.15 (2022 – 1.15). As at March 31, 2023, the average life expectancy of an individual retiring at age 65 is 23 years for males (2022 – 23 years) and 24 years for females (2022 – 24 years).

Assumed health care cost trend rates are as follows:

As at March 31	**2023**	2022
Extended health care and dental care cost escalation		
Initial rate	**4.40%**	4.40%
Ultimate rate	**4.00%**	4.00%
Year ultimate rate reached	**2040**	2040

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	
As at March 31	**2023**	2022
Present value of funded defined benefit obligations	**(730,544)**	(793,725)
Fair value of plan assets	**1,022,786**	1,087,268
Net defined benefit asset	**292,242**	293,543

	Supplemental pension plans	
As at March 31	**2023**	2022
Present value of funded defined benefit obligations	**(73,331)**	(77,965)
Fair value of plan assets	**69,120**	73,791
Net defined benefit liability (funded)	**(4,211)**	(4,174)
Present value of unfunded defined benefit obligations	**(11,748)**	(12,612)
Net defined benefit liability	**(15,959)**	(16,786)

	Other benefits	
As at March 31	**2023**	2022
Present value of unfunded defined benefit obligations	**(68,184)**	(74,685)
Net defined benefit liability	**(68,184)**	(74,685)

The total net defined benefit asset is $292 million (2022 – $294 million). This amount is recorded on the Consolidated Balance Sheet as post-employment benefit assets. The total net defined benefit liability is $84 million (2022 – $91 million). This amount is recorded on the Consolidated Balance Sheet as post-employment benefit liabilities.

Movements in the present value of the defined benefit obligation

	Registered pension plan		Supplemental pension plans		Other benefits	
As at March 31	**2023**	2022	**2023**	2022	**2023**	2022
Defined benefit obligation, beginning of year	**793,725**	905,150	**90,577**	102,056	**74,685**	79,363
Current service cost	**15,815**	22,325	**1,065**	1,529	**5,355**	6,415
Interest cost on the defined benefit obligation	**32,875**	30,366	**3,710**	3,388	**3,253**	2,809
Contributions by employees	**8,296**	8,427	**622**	634	**–**	–
Benefits paid	**(23,706)**	(23,005)	**(2,975)**	(2,472)	**(1,114)**	(1,105)
Experience adjustments on plan liabilities	**24,172**	6,455	**4,478**	1,721	**(279)**	(233)
Actuarial gain from changes in financial assumptions	**(131,278)**	(123,491)	**(13,551)**	(12,501)	**(13,716)**	(12,564)
Actuarial loss (gain) from changes in demographic assumptions	**10,645**	(32,502)	**1,153**	(3,778)	**–**	–
Defined benefit obligation, end of year	**730,544**	793,725	**85,079**	90,577	**68,184**	74,685

The duration of the registered pension plan's defined benefit obligation is 15 years (2022 – 17 years). The duration of the supplemental pension plans' defined benefit obligation is 14 years (2022 – 16 years). The duration of the other benefit plan's defined benefit obligation is 18 years (2022 – 21 years).

13. Post-employment benefits (continued)

Movements in the fair value of plan assets

	Registered pension plan		Supplemental pension plans		Other benefits	
As at March 31	**2023**	2022	**2023**	2022	**2023**	2022
Fair value of plan assets, beginning of year	**1,087,268**	1,049,036	**73,791**	65,586	**–**	–
Interest income on plan assets	**44,644**	34,784	**3,003**	2,317	**–**	–
Return on plan assets less than the discount rate	**(112,322)**	(6,589)	**(6,576)**	(3,334)	**–**	–
Contributions by FCC	**19,462**	25,496	**1,283**	11,090	**1,114**	1,105
Contributions by employees	**8,296**	8,427	**622**	634	**–**	–
Benefits paid	**(23,706)**	(23,005)	**(2,975)**	(2,472)	**(1,114)**	(1,105)
Plan administration costs	**(856)**	(881)	**(28)**	(30)	**–**	–
Fair value of plan assets, end of year	**1,022,786**	1,087,268	**69,120**	73,791	**–**	–

Defined benefit costs recognized in net income

	Registered pension plan		Supplemental pension plans		Other benefits		Total	
For the year ended March 31	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Current service cost	**15,815**	22,325	**1,065**	1,529	**5,355**	6,415	**22,235**	30,269
Net interest	**(11,769)**	(4,418)	**707**	1,071	**3,253**	2,809	**(7,809)**	(538)
Plan administration costs	**856**	881	**28**	30	**–**	–	**884**	911
	4,902	18,788	**1,800**	2,630	**8,608**	9,224	**15,310**	30,642

Defined benefit costs recognized in OCI

	Registered pension plan		Supplemental pension plans		Other benefits		Total	
For the year ended March 31	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Experience adjustments on plan liabilities	**(24,172)**	(6,455)	**(4,478)**	(1,721)	**279**	233	**(28,371)**	(7,943)
Return on plan assets less than the discount rate	**(112,322)**	(6,589)	**(6,576)**	(3,334)	**–**	–	**(118,898)**	(9,923)
Actuarial gain from changes in financial assumptions	**131,278**	123,491	**13,551**	12,501	**13,716**	12,564	**158,545**	148,556
Actuarial (loss) gain from changes in demographic assumptions	**(10,645)**	32,502	**(1,153)**	3,778	**–**	–	**(11,798)**	36,280
Remeasurement (loss) gain	**(15,861)**	142,949	**1,344**	11,224	**13,995**	12,797	**(522)**	166,970

The cumulative net remeasurement gains recognized in OCI as at March 31, 2023, were $184 million (2022 – $185 million).

13. Post-employment benefits (continued)

Plan assets

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

As at March 31	2023					
	Registered pension plan			**Supplemental pension plans**		
	Quoted on active market	**Unquoted**	**Total**	**Quoted on active market**	**Unquoted**	**Total**
Debt securities	**–**	**525,751**	**525,751**	**–**	**–**	**–**
Equity securities	**–**	**295,975**	**295,975**	**–**	**49,703**	**49,703**
Real estate	**–**	**107,935**	**107,935**	**–**	**–**	**–**
Infrastructure	**–**	**90,741**	**90,741**	**–**	**–**	**–**
Cash*	**2,384**	**–**	**2,384**	**19,417**	**–**	**19,417**
	2,384	**1,020,402**	**1,022,786**	**19,417**	**49,703**	**69,120**

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

As at March 31	2022					
	Registered pension plan			Supplemental pension plans		
	Quoted on active market	Unquoted	Total	Quoted on active market	Unquoted	Total
Debt securities	–	502,323	502,323	–	–	–
Equity securities	–	353,928	353,928	–	53,005	53,005
Real estate	–	171,983	171,983	–	–	–
Infrastructure	–	58,485	58,485	–	–	–
Cash*	549	–	549	20,786	–	20,786
	549	1,086,719	1,087,268	20,786	53,005	73,791

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

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	2023		
Increase (decrease) defined benefit obligation	**Registered pension plan**	**Supplemental pension plans**	**Other benefits**
1% increase in discount rate	**(102,890)**	**(11,384)**	**(10,839)**
1% decrease in discount rate	**131,396**	**13,152**	**14,021**
0.25% increase in rate of compensation increase	**3,484**	**906**	**47**
0.25% decrease in rate of compensation increase	**(4,054)**	**(1,557)**	**(44)**
1% increase in consumer price index	**99,946**	**10,873**	**–**
1% decrease in consumer price index	**(82,747)**	**(9,932)**	**–**
One-year increase in expected lifetime of plan participants	**14,850**	**1,351**	**1,487**
1% increase in assumed overall health care cost trend rates	**–**	**–**	**12,424**
1% decrease in assumed overall health care cost trend rates	**–**	**–**	**(9,806)**

Defined contribution pension plans

The cost of the defined contribution pension plans is recorded based on the contributions in the current year and is included in salaries and benefits. For the year ended March 31, 2023, the expense was $14 million (2022 – $13 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 $37 million (2022 – $51 million). During the year, FCC made solvency payments of $6 million (2022 – $10 million) to the defined benefit pension plan.

Total cash payments for post-employment benefits for 2024 are anticipated to be approximately $28 million.

14. Property and equipment

Accounting policy

Equipment and leasehold improvements

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

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

14. Property and equipment (continued)

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

FCC reviews the residual values and useful lives annually and adjusts if appropriate. We review equipment and leasehold improvements annually for indicators of impairment and, if indicators exist, we estimate the recoverable amount of the asset. The estimated recoverable amount is the higher of the fair value less the costs to sell and the value in use. If the carrying value is greater than the estimated recoverable amount, an impairment loss would be recognized to reduce the carrying value to the estimated recoverable amount.

Equipment under operating leases

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

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 in Note 17. 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.

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.

14. Property and equipment (continued)

Supporting information

	Leasehold improvements	Office equipment and furniture	Computer equipment	Equipment under operating leases	Right-of-use assets[1]	Total
Cost						
Balance as at March 31, 2021	71,293	30,245	17,110	94,948	204,165	417,761
Additions	1,796	1,380	3,717	–	8,340	15,233
Disposals	(2,326)	(993)	(1,442)	(39,458)	(834)	(45,053)
Transfer to assets held for sale (Note 8)	–	–	–	(55,490)	–	(55,490)
Balance as at March 31, 2022	70,763	30,632	19,385	–	211,671	332,451
Additions	4,703	1,881	3,872	–	10,256	20,712
Disposals	(3,152)	(3,560)	(2,046)	–	(1,513)	(10,271)
Balance as at March 31, 2023	**72,314**	**28,953**	**21,211**	**–**	**220,414**	**342,892**
Accumulated depreciation						
Balance as at March 31, 2021	52,322	26,612	13,213	46,100	31,191	169,438
Depreciation	4,850	1,459	2,510	10,138	16,084	35,041
Disposals	(2,196)	(989)	(1,403)	(23,802)	–	(28,390)
Transfer to assets held for sale (Note 8)	–	–	–	(32,436)	–	(32,436)
Balance as at March 31, 2022	54,976	27,082	14,320	–	47,275	143,653
Depreciation	4,905	1,576	3,140	–	16,140	25,761
Disposals	(2,991)	(3,543)	(1,996)	–	–	(8,530)
Balance as at March 31, 2023	**56,890**	**25,115**	**15,464**	**–**	**63,415**	**160,884**
Carrying value						
March 31, 2022	15,787	3,550	5,065	–	164,396	188,798
March 31, 2023	**15,424**	**3,838**	**5,747**	**–**	**156,999**	**182,008**

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

15. Intangible assets

Accounting policy

Intangible assets are comprised of computer software and are recorded at cost less accumulated amortization. Expenditures on internally developed intangible assets are recognized as assets when FCC can demonstrate its intention and ability to complete the development, to use the asset in a manner that will generate future economic benefits and to reliably measure the costs to complete the development. The capitalized costs of internally developed intangible assets include all costs directly attributable to developing the asset. For internally developed intangible assets, expenditures on research or on the research phase of a project are recognized as an expense when incurred. Amortization begins when the intangible asset is available for use by FCC. We record amortization over the estimated useful life of three or five years using the straight-line method.

Accounting estimates and judgments

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

Supporting information

	Internally developed	Purchased	Total
Cost			
Balance as at March 31, 2021	78,526	7,629	86,155
Additions	3,012	12	3,024
Disposals	(4,049)	(63)	(4,112)
Balance as at March 31, 2022	77,489	7,578	85,067
Additions	3,007	109	3,116
Disposals	(990)	(13)	(1,003)
Balance as at March 31, 2023	**79,506**	**7,674**	**87,180**
Accumulated amortization			
Balance as at March 31, 2021	58,844	7,321	66,165
Amortization	10,187	159	10,346
Disposals	(4,049)	(63)	(4,112)
Balance as at March 31, 2022	64,982	7,417	72,399
Amortization	6,095	78	6,173
Disposals	(990)	(13)	(1,003)
Balance as at March 31, 2023	**70,087**	**7,482**	**77,569**
Carrying value			
March 31, 2022	12,507	161	12,668
March 31, 2023	**9,419**	**192**	**9,611**

Research and development costs related to internally developed computer software in the amount of $6 million (2022 – $22 million) have been included in administration expenses on the Consolidated Statement of Income.

16. 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 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	**2023**	2022
Government of Canada debt		
Floating-rate borrowings	**325,389**	915,105
Fixed-rate borrowings	**6,425,079**	6,489,070
	6,750,468	7,404,175
Capital markets debt		
USD fixed-rate promissory notes	**947,044**	673,439
	947,044	673,439
	7,697,512	8,077,614

Short-term debt by maturity date

As at March 31	**2023**				
	Government of Canada		**Capital markets**		
	Carrying value	**Yield**	**Carrying value**	**Yield**	**Total**
From 0 – 3 months	**1,920,252**	**1.83%**	**947,044**	**4.64%**	**2,867,296**
From 4 – 6 months	**1,317,878**	**2.87%**	**–**	**–**	**1,317,878**
From 7 – 9 months	**2,052,440**	**2.86%**	**–**	**–**	**2,052,440**
From 10 – 12 months	**1,459,898**	**2.33%**	**–**	**–**	**1,459,898**
	6,750,468		**947,044**		**7,697,512**

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

16. Borrowings (continued)

Short-term debt continuity

As at March 31	**2023**	2022
Short-term debt, beginning of year	**8,077,614**	12,550,153
Financing cash flows		
Debt issued	**12,997,331**	12,629,821
Debt repaid	**(12,988,412)**	(12,397,247)
Non-cash changes		
Change in short-term portion of long-term debt	**(421,017)**	(4,699,921)
Change in interest accrual	**46,342**	1,869
Change due to unrealized foreign exchange gain	**(14,346)**	(7,061)
Short-term debt, end of year	**7,697,512**	8,077,614

FCC has a demand operating line of credit that provides overdraft protection in the amount of $75 million (2022 – $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, 2023, there were no draws on this credit facility (2022 – $nil).

Long-term debt

As at March 31	**2023**	2022
Government of Canada debt		
Floating-rate borrowings	**13,658,715**	15,282,177
Fixed-rate borrowings	**20,012,866**	14,824,493
	33,671,581	30,106,670

Long-term debt by maturity date

As at March 31	**2023**		2022	
	Government of Canada		Government of Canada	
	Carrying value	**Yield**	Carrying value	Yield
From 1 – 2 years	**6,112,689**	**2.57%**	4,890,615	0.92%
From 2 – 3 years	**5,159,870**	**2.47%**	4,193,587	1.05%
From 3 – 4 years	**4,356,565**	**2.46%**	4,001,935	0.64%
From 4 – 5 years	**3,709,655**	**3.09%**	3,113,035	1.15%
Over 5 years	**14,332,802**	**3.58%**	13,907,498	0.61%
	33,671,581		30,106,670	

Long-term debt continuity

As at March 31	**2023**	2022
Long-term debt, beginning of year	**30,106,670**	22,704,662
Financing cash flows		
Debt issued	**10,197,000**	14,490,000
Debt repaid	**(7,128,529)**	(11,785,856)
Non-cash changes		
Change in short-term portion of long-term debt	**421,017**	4,699,921
Change in interest accrual	**75,423**	(2,016)
Other	**–**	(41)
Long-term debt, end of year	**33,671,581**	30,106,670

17. Lease liabilities

Accounting policy

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.

Lease payments included in the measurement of the lease liability:

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

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.

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.

Supporting information

FCC's leasing portfolio consists of office space. Lease terms are negotiated on an individual basis and contain a range of terms and conditions. Lease terms[(1)] range from 2 to 25 years, including optional renewal periods.

As at March 31	**2023**	2022
Maturity analysis – contractual undiscounted cash flows		
Less than 1 year	**17,653**	17,879
From 1 – 5 years	**62,454**	63,646
Over 5 years	**97,123**	102,078
Total undiscounted lease liabilities	**177,230**	183,603
Lease liabilities on the balance sheet	**160,270**	166,748
Less: current portion of lease liabilities	**15,053**	15,353
Non-current portion of lease liabilities	**145,217**	151,395

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

17. Lease liabilities (continued)

Amounts recognized in net income

For the year ended March 31	**2023**	2022
Interest on lease liabilities	**2,741**	2,676
Variable lease payments not included in the measurement of lease liabilities	**3,599**	4,853

Amounts recognized in the statement of cash flows

For the year ended March 31	**2023**	2022
Interest on lease liabilities	**2,741**	2,676
Principal repayment of lease liabilities	**15,219**	15,250
Total cash outflow for leases	**17,960**	17,926

Future cash flows for leases not commenced to which FCC is committed are $8 million (2022 – $6 million).

18. Net interest income

For the year ended March 31	**2023**	2022
Interest income		
Financial assets measured at amortized cost	**2,214,205**	1,546,533
Operating leases	**2,809**	12,478
Finance leases	**1,802**	5,630
Transfer of net realized gains on derivatives designated as cash flow hedges from AOCI to net income	**–**	1,489
Total interest income for financial instruments not at FVTPL	**2,218,816**	1,566,130
Investments at fair value	**3,879**	471
Derivative financial assets and liabilities at FVTPL – net	**5**	426
Total interest income	**2,222,700**	1,567,027
Interest expense		
Financial liabilities measured at amortized cost	**865,326**	213,273
Depreciation on equipment under operating leases	**620**	10,566
Interest on lease liabilities	**2,741**	2,676
Total interest expense	**868,687**	226,515
Net interest income	**1,354,013**	1,340,512

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 (2022 – $8 million net fee income).

19. 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.

20. Administration expenses

For the year ended March 31	**2023**	2022
Salaries and benefits	**314,499**	304,890
Professional fees	**87,620**	71,135
Facilities, software and equipment	**66,211**	67,474
Amortization and depreciation	**31,934**	35,250
Marketing and promotion	**16,615**	12,670
Travel and training	**15,413**	6,769
Other	**15,772**	9,739
	548,064	507,927

21. Commitments, guarantees and contingent liabilities

Loan commitments

As at March 31, 2023, loans approved but undisbursed amounted to $11,185 million (2022 – $10,447 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 at fair value

As at March 31, 2023, FCC had committed to invest an additional $49 million (2022 – $55 million) in investments at fair value.

Investment in associates

As at March 31, 2023, FCC had committed to invest an additional $65 million (2022 restated[19] – $27 million) in investments in associates.

Capital commitments

As at March 31, 2023, capital expenditures contracted for property and equipment but not yet incurred were $1 million (2022 – $2 million).

Operating commitments

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

As at March 31	**2023**	2022
Amounts due		
Less than 1 year	**22,624**	22,501
From 1 – 5 years	**38,787**	37,619
Over 5 years	**47,661**	53,872
	109,072	113,992

[19] Last year, venture capital commitments of $82 million were classified under Investment in associates. We have reclassified this comparative figure between Investment in associates and Investments at fair value to align with current year presentation which provides more transparency about the nature of our venture capital commitments.

21. Commitments, guarantees and contingent liabilities (continued)

Guarantees

In the normal course of its business, FCC issues guarantees in the form of letters of credit that represent an obligation to make payments to third parties on behalf of its customers if customers are unable to make the required payments or meet other contractual obligations. The maximum amount potentially payable as at March 31, 2023, is $10 million (2022 – $6 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, 2023 (2022 – $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, 2023 (2022 – $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, 2023 (2022 – $nil) for these indemnifications and contingencies.

22. 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 are 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.

22. Related party transactions (continued)

In the normal course of business, FCC provides certain services to the equity funds. 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 2 for more information on associates.

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

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

Transactions with the Government of Canada

The Government of Canada guarantees the borrowings of FCC.

FCC enters short- and long-term borrowings with the Government of Canada through the Crown Borrowing Program. For the year ended March 31, 2023, $662 million (2022 – $207 million) was recorded in interest expense relating to these borrowings.

FCC has $165 million (2022 – $nil) 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 $8 million (2022 – $13 million) and is included in borrowings.

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

Key management personnel compensation

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

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

For the year ended March 31	**2023**	2022
Salaries and other short-term employee benefits	**3,797**	3,681
Post-employment benefits	**480**	723
Board retainers and per diems	**347**	335
Total	**4,624**	4,739

23. Capital management

FCC manages capital in compliance with its Board-approved Capital Management policy. The Capital Management policy and supporting framework outline FCC's approach to assessing capital requirements for risks identified through its enterprise risk management framework and policy. The objective of the Capital Management policy and supporting framework is to maintain a 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, 2023 and 2022, FCC's total capital ratio was greater than both the minimum regulatory capital ratio and the target capital ratio, and therefore adequately capitalized in accordance with OSFI's CAR guideline and FCC's Internal Capital Adequacy Assessment Process.

As at March 31	**2023**	2022
Capital		
Retained earnings	**8,327,235**	8,076,280
Contributed capital	**250,000**	500,000
Required regulatory adjustments:		
Intangible assets	**(9,611)**	(12,668)
Post-employment benefit assets	**(292,242)**	(293,543)
CET1/Total capital	**8,275,382**	8,270,069
Risk-weighted assets		
Credit risk-weighted assets	**49,598,184**	46,304,780
Operational risk-weighted assets	**2,488,445**	2,358,970
Total risk-weighted assets	**52,086,629**	48,663,750
Total capital ratio	**15.9 %**	17.0 %
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, 2023, FCC's total direct and contingent liabilities were 4.9 times the shareholder's equity (2022 – 4.5 times the shareholder's equity).

Contributed capital

FCC's contributed capital consists of capital contributions made by the Government of Canada. We received no additional capital contributions during the fiscal year from the Government of Canada, and as noted below, $250 million of the dividend was paid out of contributed capital, decreasing the balance to $250 million as at March 31, 2023 (2022 – $500 million).

23. Capital management (continued)

Dividend

For the year ended March 31, 2023, two dividends totalling $721 million were declared to FCC's shareholder, the Government of Canada, of which $250 million was distributed out of contributed capital and $471 million out of retained earnings (2022 – $560 million was distributed out of retained earnings).

Regulatory updates

OSFI has implemented BASEL III reforms as part of their CAR 2023 guidelines, which FCC will adopt in 2024. This change will impact FCC's Internal Capital Adequacy Assessment Process (ICAAP), lowering risk-weighted assets.

24. Financial risk management

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

a) Credit risk

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

Management of credit risk

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

Measurement of credit risk

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

Risk scoring and pricing system

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

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

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

24. Financial risk management (continued)

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

Allowance for credit losses model

The allowance for credit losses model estimates expected losses in the portfolio due to credit risk. In determining the allowance for credit losses, management segregates credit losses into three stages as described in Note 11.

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

Key macroeconomic variables

The measurement of expected credit losses for each stage of the allowance for credit losses and the assessment of 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 weight assigned to each forecast scenario. The allowance for credit losses has three probability-weighted scenarios: baseline, optimistic and pessimistic. The weighting applied to each scenario can be adjusted using management discretion to reflect changes in the 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.

	2023	
As at March 31	**Next 12 months**	**2 to 5 years**
Macroeconomic variables		
Real gross domestic product	**0.6%**	**3.9%**
USD/CAD exchange rates	**$ 0.76**	**$ 0.79**
Interest rates		
- Bank	**4.50%**	**2.80%**
- 5-year	**6.10%**	**5.80%**

As at March 31, 2023, the impact of weighting the multiple scenarios increased FCC's allowance for credit losses on performing loans, relative to the base case scenario, by $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 $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 $104 million. The allowance for credit losses for all loans in Stage 1 and Stage 2 ranges from approximately $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.

24. 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, 2023, the collateral held against total gross impaired loans represents 88.7% (2022 – 91.5%) of total gross impaired loans.

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

As at March 31	**2023**	2022
Weighted-average loan-to-security ratio for secured loans	**49.5%**	50.7%
Loans secured by a general security agreement and unsecured loans as a percentage of loans receivable	**4.9%**	5.5%

Loan commitments

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. FCC is potentially exposed to loss in an amount equal to the total unused commitments. See Note 21 for further details regarding FCC's loan commitments. 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	**2023**	2022
On balance sheet		
Cash and cash equivalents	**1,782,248**	1,439,109
Short-term investments	**221,589**	584,397
Accounts receivable	**23,186**	25,369
Derivative financial assets	**220**	–
Loans receivable	**47,920,040**	44,534,389
Other loans receivable	**29,623**	54,215
Assets held for sale	**–**	185,761
Investments at fair value	**131,230**	56,063
Investment in associates	**62,072**	49,424
Other assets	**5,434**	5,824
	50,175,642	46,934,551
Off balance sheet		
Financial guarantees	**10,062**	6,141
Loan commitments	**11,184,777**	10,447,254
Investments at fair value commitments	**49,141**	55,400
Investment in associates' commitments[1]	**64,629**	26,910
	11,308,609	10,535,705
Total maximum exposure to credit risk	**61,484,251**	57,470,256

[1] Last year, venture capital arrangement commitments of $82 million were classified within the Investment in associates' commitments line item. To provide more transparency about the nature of our venture capital arrangement commitments and to align with current year presentation, we have reclassified this comparative figure between the categories of Investment in associates' commitments and Investments at fair value commitments.

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

24. 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	17,522,053	496,929	–	18,018,982
Non-investment grade	18,101,206	8,993,896	–	27,095,102
Watch list	36,186	150,498	–	186,684
Default	–	–	796,712	796,712
Unassigned credit risk rating[1]	1,624,130	142,280	17,408	1,783,818
Loans receivable – total	37,283,575	9,783,603	814,120	47,881,298
Allowance for credit losses	(45,627)	(28,826)	(91,016)	(165,469)
Loans receivable – net	37,237,948	9,754,777	723,104	47,715,829
Other loans receivable				
Low risk	14,480	–	–	14,480
Medium risk	–	11,840	–	11,840
High risk	–	3,303	–	3,303
Other loans receivable – gross	14,480	15,143	–	29,623
Allowance for credit losses	(329)	(3,781)	–	(4,110)
Other loans receivable – net	14,151	11,362	–	25,513
Off balance sheet:				
Loan commitments				
Investment grade	3,454,152	40,666	–	3,494,818
Non-investment grade	2,467,787	1,038,840	–	3,506,627
Watch list	3,618	2,368	–	5,986
Default	–	–	33,764	33,764
Unassigned credit risk rating[1]	4,100,550	43,011	21	4,143,582
Loan commitments – gross[2]	10,026,107	1,124,885	33,785	11,184,777

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

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

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

24. Financial risk management (continued)

Exposure to credit risk by credit risk rating grades

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

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

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

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

24. Financial risk management (continued)

Counterparty credit risk – derivatives and short-term investments

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

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

The counterparty derivative obligation may arise when market-related currency and interest factors change, resulting in unrealized gains to FCC. These unrealized gains result in positive fair values for these derivative financial instruments. FCC is not exposed to credit risk for the full notional amount of the derivative contracts, but only to the potential positive economic value if the counterparty defaults. Furthermore, standard credit mitigation via master netting agreements provided in the International Swap and Derivatives Association (ISDA) documentation provide for the simultaneous closeout and netting of positions with a counterparty in the event of default. The master netting arrangements do not meet the criteria for offsetting in the Consolidated Balance Sheet. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default of the counterparty. In addition, FCC and its counterparties do not intend to settle on a net basis or to realize the assets and settle liabilities simultaneously. Credit Support Annex (CSA) documentation is also in place with most of FCC's counterparties. These agreements are addendums to existing ISDA documentation and further specify the conditions for providing FCC with collateral in the event the counterparty credit exposure exceeds an agreed threshold. For derivative transactions where a CSA is in place, the counterparty must have a minimum long-term credit rating of A- from two or more external credit rating agencies (S&P, Moody's or DBRS). See Note 7 for more details on the quantification of 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, 2023, the largest total investment in any one counterparty was $240 million (2022 – $178 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	**2023**		2022	
	Cash equivalents	**Short–term investments**	Cash equivalents	Short–term investments
Government and government guaranteed				
AAA	**165,030**	**–**	–	–
AA+	**–**	**87,115**	–	59,960
AA	**–**	**–**	–	69,813
AA-	**29,432**	**18,965**	–	166,662
A+	**214,536**	**115,509**	–	129,230
A	**24,927**	**–**	103,941	158,732
	433,925	**221,589**	103,941	584,397
Schedule 1 banks				
A-1+	**58,007**	**–**	–	–
A-1	**49,899**	**–**	39,999	–
	107,906	**–**	39,999	–
	541,831	**221,589**	143,940	584,397

24. Financial risk management (continued)

Other loans receivable

FCC is exposed to credit risk through its debt-related venture capital arrangements. Credit risk is managed by having a Venture Capital policy that is approved annually by management and at a minimum every two years by the Board. FCC also manages credit risk through thoughtful planning, strict investment criteria, significant due diligence of investment opportunities and by conducting activities in accordance with each fund's Limited Partnership Agreement. The investment managers monitor and report on the financial condition of investee companies regularly.

b) Market risk

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

The Board is responsible for approving FCC's Market and Liquidity Risk Management policy and relies on several committees, 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:

	2023 Impact of		2022 Impact of	
	2% increase	**2% decrease**	2% increase	2% decrease
Net interest income variability	**17,602**	**(16,729)**	27,500	(30,500)
Limit	**(72,735)**	**(72,735)**	(71,900)	(71,900)
Economic value of equity variability	**(375,854)**	**326,072**	(363,600)	343,400
Limit	**(857,724)**	**(857,724)**	(807,628)	(807,628)

24. 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 2023	2022
Assets								
Cash and cash equivalents	**1,240,417**	**540,533**	**–**	**–**	**–**	**1,298**	**1,782,248**	1,439,109
Yield	**5.05%**	**4.45%**	**–**	**–**	**–**	**–**	**–**	–
Short-term investments	**–**	**117,902**	**101,113**	**–**	**–**	**2,574**	**221,589**	584,397
Yield(1)	**–**	**2.96%**	**4.61%**	**–**	**–**	**–**	**–**	–
Derivative financial assets(2)(3)	**–**	**–**	**–**	**–**	**–**	**220**	**220**	–
Yield(1)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	–
Loans receivable	**12,787,092**	**2,338,394**	**5,032,713**	**21,805,557**	**5,378,533**	**373,540**	**47,715,829**	44,379,503
Yield(1)	**7.58%**	**5.36%**	**4.05%**	**4.14%**	**4.14%**	**–**	**–**	–
Other loans receivable	**–**	**11,552**	**5,826**	**6,683**	**1,452**	**–**	**25,513**	50,443
Yield(1)	**–**	**9.94%**	**9.97%**	**8.93%**	**8.44%**	**–**	**–**	–
Other	**–**	**–**	**–**	**–**	**–**	**721,257**	**721,257**	830,571
Total assets	**14,027,509**	**3,008,381**	**5,139,652**	**21,812,240**	**5,379,985**	**1,098,889**	**50,466,656**	47,284,023
Liabilities and equity								
Borrowings	**–**	**16,728,196**	**4,555,107**	**15,454,500**	**4,456,000**	**175,290**	**41,369,093**	38,184,284
Yield(1)	**–**	**4.12%**	**2.61%**	**2.18%**	**1.76%**	**–**	**–**	–
Derivative financial liabilities(2)(3)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	32
Yield(1)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	–
Other	**–**	**–**	**–**	**–**	**–**	**520,328**	**520,328**	523,427
Shareholder's equity	**–**	**–**	**–**	**–**	**–**	**8,577,235**	**8,577,235**	8,576,280
Total liabilities and equity	**–**	**16,728,196**	**4,555,107**	**15,454,500**	**4,456,000**	**9,272,853**	**50,466,656**	47,284,023
Total gap 2023	**14,027,509**	**(13,719,815)**	**584,545**	**6,357,740**	**923,985**	**(8,173,964)**	**–**	–
Total cumulative gap 2023	**14,027,509**	**307,694**	**892,239**	**7,249,979**	**8,173,964**	**–**	**–**	–
Total gap 2022	15,758,241	(16,158,238)	1,077,788	6,382,731	1,006,889	(8,067,411)	–	–
Total cumulative gap 2022	15,758,241	(399,997)	677,791	7,060,522	8,067,411	–	–	–

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

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

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

24. 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 $75 million (2022 – $nil). Foreign exchange losses in the year were $72 million (2022 – $1 million).

Derivatives

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

Derivative transactions lead to net income volatility because the derivatives are recorded at fair value, leading to a difference in the timing of recognition.

Post-employment benefits

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

The pension plans' assets are 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 includes an allocation of 30% of assets invested in Canadian and Global Equities, 15% in Real Assets and Global Infrastructure, 19% invested in Canadian Long Bonds, 6% in leveraged Canadian Long Bonds, 10% in Canadian Long-term Private Debt, and 20% in Real Return Bonds with Overlay, which effectively increases the duration of the assets to better match the plans' liabilities. The Canadian Long Bonds have a duration of 14.6 years and the leveraged Canadian Long Bonds have a duration of 43.7 years. The Canadian Long-term Private Debt has a duration of 14.6 years and the Real Return Bonds have a duration of 28.8 years. Overall, the registered pension plans' assets are estimated to be 13.7 years while the liabilities are estimated to be 15.4 years. The supplemental pension plans' liabilities are estimated to be 14.3 years and the assets have no duration.

The pension plans' Funding policy is approved by the Board at a minimum every three years. The policy states two primary objectives, which are to fund the pension plans' benefits, measured on a going concern basis, and to provide adequate funding for future service benefits in accordance with the applicable law and 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.

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

24. Financial risk management (continued)

c) Liquidity risk

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

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

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

FCC maintains liquidity through:

- a liquid investment portfolio – cash and cash equivalents, and short-term investments of $2,004 million were on hand as at March 31, 2023 (2022 – $2,024 million)
- access to borrowing and short-term funding – FCC's access to funding through the Crown Borrowing Program and capital markets provides FCC with sufficient liquidity to meet daily cash requirements
- access to a $75 million bank operating line of credit

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

24. Financial risk management (continued)

Residual contractual maturities of financial liabilities

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**
Non-derivative financial liabilities							
Accounts payable and accrued liabilities	**91,939**	**91,939**	**29,540**	**4,216**	**58,183**	**–**	**–**
Borrowings	**41,369,093**	**41,369,093**	**1,592,596**	**1,369,372**	**4,861,789**	**19,248,336**	**14,297,000**
Transition loan liabilities	**179,873**	**186,088**	**12,553**	**19,754**	**46,476**	**107,305**	**–**
	41,640,905	**41,647,120**	**1,634,689**	**1,393,342**	**4,966,448**	**19,355,641**	**14,297,000**
Derivative financial liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	41,640,905	**41,647,120**	**1,634,689**	**1,393,342**	**4,966,448**	**19,355,641**	**14,297,000**

As at March 31	2022						
	Carrying value	Gross nominal outflow	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years
Non-derivative financial liabilities							
Accounts payable and accrued liabilities	84,274	84,274	38,209	1,919	44,146	–	–
Borrowings	38,184,284	38,184,281	1,318,299	1,347,928	5,448,008	16,173,046	13,897,000
Transition loan liabilities	173,652	175,689	11,735	23,703	43,453	96,798	–
	38,442,210	38,444,244	1,368,243	1,373,550	5,535,607	16,269,844	13,897,000
Derivative financial liabilities	32	32	3	–	29	–	–
	38,442,242	38,444,276	1,368,246	1,373,550	5,535,636	16,269,844	13,897,000

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