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ANNUAL REPORT

AGRICULTURE FINANCIAL SERVICES CORPORATION

CELEBRATING 80 YEARS 1938 - 2018

Unique Financial Services

AFSC

INSURANCE • LENDING • INCOME STABILIZATION

VISION

Building a strong, growing, diversified agriculture and agri-food sector in Alberta.

MISSION

Provide leading, innovative, client focused financial and risk-management solutions to grow agriculture in Alberta.

VALUES

RESPECT

We foster an environment in which each individual is valued and heard.

TRUST

We empower and support each other. We communicate openly and honour our commitments.

INTEGRITY

We behave ethically and are open, honest and fair.

ACCOUNTABILITY

We are responsible for our actions and for contributing to the effectiveness of AFSC.

EXCELLENCE

We use collaboration, innovation and continuous improvement to achieve our goals.

80 YEARS PROVIDING PEACE OF MIND

AFSC Staff Photo Submission by Kaelyn Gillard

Agriculture is an industry that brings people together; from a multi-generational farm family that has worked the Alberta soil for more than a century to the hard-working Albertans enjoying a craft beer on a warm evening, relishing the best malt barley in the world, grown in the field down the road.

In 2018 Agriculture Financial Services Corporation (AFSC) is celebrating 80 years of helping Albertans; it all began in 1938 when the Alberta Hail Board was created with the goal to give producers peace of mind against one of Mother Nature's greatest weapons: hail storms in Alberta are known to have the ability to flatten a field in a single storm and ruin crops overnight. In 1969 the Alberta Hail Board merged with another provincial entity, Alberta Crop Insurance Corporation, to become the Alberta Hail and Crop Insurance Corporation. An additional merger in 1994 with Agriculture Development Corporation formed AFSC. Another merger in 2002 incorporated the Alberta Opportunity Company, whose purpose was to support economic diversification in the province through commercial lending. AFSC's unification with the Alberta Opportunity Company brought the two organizations under the AFSC umbrella to create the organization known today.

Although the path to AFSC's existence began many decades ago, and has included many organizations with many names, one common thread has run through - providing products and services to Alberta's producers to manage their risk and help them achieve their goals.

AFSC is proud to have been part of Alberta's agricultural history for the past eight decades and is looking forward to continuing to provide clients peace of mind for years to come.

TABLE OF CONTENTS

Letter of Transmittal . . . 7
Minister of Agriculture and Forestry Message . . . 8
Message from the Chair of the Board . . . 10

CORPORATE HIGHLIGHTS 13

Overview of AFSC . . . 14
AFSC Corporate Governance . . . 16
Nature of Operations . . . 19
Overview . . . 19
Assistance for Alberta's Agriculture Sector . . . 23

PROGRAM HIGHLIGHTS 25

Income Stabilization . . . 26
Insurance . . . 32
Western Livestock Price Insurance Program (WLPIP) . . . 41
Lending . . . 44

OPERATIONAL HIGHLIGHTS 49

Operations . . . 50
Employees . . . 54
Community Investment . . . 56
Enterprise Risk Management . . . 60
Whistleblower Protection Act . . . 64

FINANCIAL HIGHLIGHTS 67

Financials at a Glance . . . 68
AgriStability Statistical Summaries . . . 69
AgriInsurance Statistical Summaries . . . 70
Lending Statistical Summaries . . . 71
Management's Responsibility For Financial Reporting . . . 73
Independent Auditor's Report . . . 74
Financial Statements . . . 75

AFSC Offices (as of March 31, 2018) . . . 103
AFSC Office Locations (as of March 31, 2018) . . . 104

LETTER OF TRANSMITTAL

May 30, 2018

The Honourable Oneil Carlier
Minister of Agriculture and Forestry
228 Legislature Building
10800 97 Avenue
Edmonton, Alberta T5K 2B6

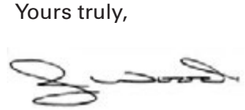
Dear Minister Carlier:

On behalf of the Board of Directors, we are pleased to submit the 2017-18 annual report of Agriculture Financial Services Corporation (AFSC).

As required by Section 15 of the Agriculture Financial Services Act (RSA 2000, c.A-12), the report contains a summary of the transactions and affairs of the corporation, its revenues and expenditures for the fiscal year ended March 31, 2018.

The report also contains audited financial statements, comprised of the statement of financial position, statement of operations, statement of changes in net financial assets, statement of cash flows and notes to the financial statements.

Yours truly,



Jennifer Wood
Board Chair

Darryl Kay
Interim CEO

MINISTER OF AGRICULTURE AND FORESTRY MESSAGE

ALBERTA
AGRICULTURE AND FORESTRY

Honourable Oneil Carlier
MLA, Whitecourt-Ste. Anne

Agriculture is a key sector contributing to the successful performance of Alberta's economy. Producers in our rural communities shoulder substantial risks stemming from the weather, market fluctuations and uncertainties in trading conditions to be able to make that contribution possible. Agriculture Financial Services Corporation (AFSC) offers producers support so they can overcome these challenges and effectively manage their risk.

In 2018, AFSC is marking its 80th year of service in support of agricultural producers, helping them manage their business risks by providing unique financial services.

Established in 1938 as the Hail Insurance Board, AFSC has evolved and expanded over the decades to enhance its assistance programs for rural communities to include insurance coverage for many perils alongside hail, income stabilization support and lending programs to provide access to capital.

AFSC provides important lending programs for rural and agriculture-based businesses to help them start and expand their operations, which in turn supports economic growth and job creation. This past year I was pleased to approve a renewed lending mandate that will guide AFSC as it revitalizes its programs to meet the changing needs in agriculture.

Having grown up on a farm, I know personally how much of a roller coaster agriculture can be – too much rain one year, too little the next. That's why it's been my priority to refocus this Corporation on the needs of producers and rural communities. Take for example the challenging conditions during the 2017 crop year that showed how important AFSC's programs are to Alberta's agriculture sector. We saw inconsistent weather patterns continue to affect agricultural production with excessive moisture putting crops under pressure in the north of the province and delaying harvest. In the south and east, dry conditions led to declines in soil moisture levels. Overall, about one third of annual crop producers had production shortfalls and close to 60 per cent of perennial crop producers reported poor pasture growth.

The wildfires in the southeast in the fall brought significant losses to farmers, in terms of both livestock and farm structures. Our government responded to this disaster by offering interest-free loans, administered by AFSC, to producers affected by wildfires in southern Alberta.

Mindful of the significant role agriculture plays in the Alberta economy, our government will continue to support agricultural producers to fulfil the growth potential of our province with its rich agricultural land base and its hardworking farmers.

Following the appointment of a new board of directors in April 2017, AFSC now has a new Chief Executive Officer in place, completing the composition of a new management structure that will lead the Corporation and its staff in their efforts to take further steps to serve agricultural producers with effective business risk management options tailored to their needs.

I am confident that with new leadership and a renewed dedication to support our rural communities, AFSC will make the year of its 80th anniversary a resounding success.

Oneil Carlier
Minister
Agriculture and Forestry

MESSAGE FROM THE CHAIR OF THE BOARD

Unique Financial Services
AFSC
INSURANCE ▪ LENDING ▪ INCOME STABILIZATION

This past year was a year of change for Agriculture Financial Services Corporation and I am extremely proud of the work that has been accomplished over this period. Since being appointed to the AFSC Board last spring, my colleagues and I have been committed to the continued success of AFSC and the vital support the Corporation provides to Alberta's agricultural industry. By building off the tremendous work of the previous interim Board- who made great strides in strengthening AFSC's policies and procedures- our newly appointed Board set to work to improve governance and create a corporate strategy to guide AFSC into a new era.

The Board and I have been working collaboratively with management to ensure AFSC is a mainstay in Alberta's agriculture sector. AFSC is committed to offering the access to capital the agricultural sector and producers require, while continuing to provide an exceptional client experience, both online and in any one of our 44 branch offices.

At a time of fast-changing circumstances, we have to remain relevant with both the products and services we offer to agricultural producers and the way we deliver them. AFSC Connect, our recently activated online service is an embodiment of our determination to respond to the demands of our clients in relation to how they want to do business with AFSC.

AFSC's mission is to provide leading, innovative, client-focused financial and risk-management solutions to grow agriculture in Alberta. Our role is helping farmers, ranchers and agri-buisness across the province achieve success in their agricultural endeavors.

At AFSC, we know a strong agricultural sector benefits all Albertans. To further strengthen our industry we have been focused on revitalizing AFSC's lending programs over the past year. I would like to take this opportunity to thank the Board for their dedication to solidify our strategy, improve governance and finalize the revision of the lending mandate. We are also grateful for the support of the Government of Alberta in concluding the review of AFSC's lending mandate through a transparent and collaborative effort. The changes introduced as a result of the renewed lending mandate will now enable AFSC to put more emphasis on providing financial assistance to young, new and flourishing producers, agri-food processors and agri-businesses.

I would also like to express my sincere gratitude and thanks to all of the staff at AFSC for their dedication and hard work over the last year. We are all excited about the future of AFSC. 2018 will be an exciting year for AFSC as we celebrate 80 years in the agriculture sector and anticipate continued progress in the upcoming year.

As we look forward to 2018-19 I am pleased to welcome Steve Blakely aboard as AFSC's newly-appointed CEO. Steve brings over 40 years of financial industry experience to the Corporation and I am confident that he will help ensure AFSC continues to deliver on our promise to our clients, our stakeholders and our province's agricultural industry. I would like to thank Darryl Kay for his commitment to the Interim CEO role and the Executive Leadership Team who have provided stability and thoughtful oversight during this transition period.

I look forward to what lies ahead and continuing to work alongside such a dedicated group of staff, Board of Directors and an engaged Ministry to continue to enhance AFSC. Thank you to my Board colleagues and Minister Carlier for your support over the past year, your dedication to the betterment of the Corporation and your investment in strengthening agriculture in our province is appreciated.

I invite you to review the 2017-18 Annual Report, which further highlights AFSC's many accomplishments and the challenges we overcame this past year.

Jennifer Wood
Board Chair

CORPORATE HIGHLIGHTS

OVERVIEW OF AFSC

Agriculture Financial Services Corporation (AFSC) is a provincial Crown corporation that provides producers, agribusinesses and other small businesses with financing, crop insurance and farm income disaster assistance. AFSC has provided Alberta farmers with hail insurance for 80 years, and has grown into a diverse corporation with several core business areas, including crop insurance, livestock price insurance, farm loans, commercial loans and farm income disaster assistance. The Corporation's unique role allows it to deliver services to assist its valued clients across the province to manage the risks associated in the agriculture industry.

In 2018, AFSC is celebrating 80 years of helping Albertans. The Alberta Hail Board was created in 1938 with the goal of giving producers peace of mind against devastating summer weather. Over the decades, AFSC has expanded services offered to Alberta producers to include income stabilization, broader insurance coverage alongside hail insurance, lending services and farm income disaster assistance.

AFSC products and services often address existing gaps in the marketplace where similar products are not available on a consistent and reliable basis from other sources. AFSC partners with agricultural producers, agribusiness, and commercial entities to support and advance agricultural development, to create new opportunities for businesses, and to improve the quality of life for rural Albertans.

Income Stabilization Products

Income stabilization is a core focus for AFSC, Alberta's delivery agent for AgriStability, a federally and provincially funded program.

Insurance Products

AFSC offers a range of insurance programs that include:

- Individualized production insurance for annual crops, hay and honey;
- Area-based programs for annual feed crops, corn and pasture;
- Cattle and hog price insurance programs;
- Straight Hail insurance; and
- Bee Overwintering Insurance

Lending Products and Services

AFSC offers financing opportunities for farms, commercial operations, agri-businesses and value-added enterprises and also offers loan guarantees and capital sourcing services.

With 44 branch offices located across the province, AFSC works closely with producers, agribusinesses and commercial entities to support and advance agricultural development, to create new opportunities for businesses and to help enhance the quality of life for rural Albertans.

AFSC CORPORATE GOVERNANCE

AFSC operates under the authority of the Agriculture Financial Services Act and the Agriculture Financial Services Regulation as a provincial Crown corporation. AFSC serves in a public policy role for the Government of Alberta. The Board of Directors provides leadership and direction to the Corporation, overseeing management and performances.

Composition of the Board of Directors

As of March 31, 2018 the Board of Directors consisted of eight directors who were appointed by the Minister of Agriculture and Forestry on April 27, 2017. The previous board was appointed on June 13, 2016 and consisted of six government officials on an interim basis. The permanent directors have a variety of skills and experience as entrepreneurs, primary agricultural producers and agribusiness owners/operators.

Jennifer Wood, Chair

Gerald (Jerry) Bouma

Gordon Cove

Peter Galloway

Harvey Hagman

Jo-Ann Hall

Anna Harder

Kiren Singh

Board Committee Membership and Responsibilities (as of March 31, 2018)

The Board of Directors has the flexibility to appoint members to committees. Each committee has specific reporting requirements and operates under formal charters, which are updated annually. Board and committee responsibilities include strategic management, enterprise risk management, corporate governance and stewardship, communication with stakeholders, integrity and ethical conduct, and fiscal responsibilities and financial reporting.

Governance Committee – The Governance Committee assists the Board in fulfilling its corporate governance and management oversight responsibilities.

- Jo-Ann Hall, Chair
- Gordon Cove
- Anna Harder
- Jennifer Wood

Audit Committee – The Audit Committee oversees the fiscal management, financial reporting, as well as internal/external audit plans, reports and internal controls.

- Anna Harder, Chair
- Peter Galloway
- Jo-Ann Hall
- Jennifer Wood, ex-officio

Risk Committee – The Risk Committee oversees the enterprise-wide risk management practices and makes recommendations on the adequacy, appropriateness and effectiveness of AFSC's enterprise-wide risk management practices.

- Gordon Cove, Chair
- Gerald (Jerry) Bouma
- Harvey Hagman
- Kiren Singh
- Jennifer Wood, ex-officio

CEO Recruitment Special Committee – The CEO Recruitment Special Committee was responsible for assisting the Board in recruiting a permanent CEO.

- Jennifer Wood, Chair
- Gerald (Jerry) Bouma
- Peter Galloway
- Harvey Hagman
- Jo-Ann Hall

AFSC Executive Leadership Team as of March 31, 2018

Darryl Kay,
Interim Chief
Executive Officer

Janet Bargholz,
Interim Chief
Financial Officer

JJ Campbell,
Chief Information
Officer (CIO)

Chris Dyck,
Interim Vice-President,
Innovation and Product
Development

Craig Floden,
Vice-President, Legal &
Compliance, General
Counsel

Karla Kochan,
Vice-President,
Human Resources and
Communications

David Maddox,
Interim Vice-President,
Operations and Sales

NATURE OF OPERATIONS

AFSC's mission is to provide leading, innovative, client-focused financial and risk-management solutions to grow agriculture in Alberta. The Corporation's role is helping farmers, ranchers and agribusinesses across the province to achieve success in their agricultural endeavors, but its impact goes beyond the fields and the farms. AFSC is focused on building a strong, growing, diversified agriculture and agri-food sector in Alberta, where agriculture is not only a key industry, it's also a way of life.

OVERVIEW

Economic Climate

Alberta's economy has been recovering from the impact of the decline in oil prices since 2014. The West Texas Intermediate oil price rose from US $50.25 per barrel to about US $65 per barrel at the close of the 2017-18 fiscal year. Though this year is the first time that oil price has crossed the 60-dollar mark in recent times, energy prices still remain below the highs attained a few years ago.

Canada was the fastest growing economy among the Group of Seven (G7) countries in 2017. Quarterly real gross domestic product (GDP) growth averaged 3.2 per cent. Due to the economic growth, the Bank of Canada raised its benchmark interest rate from 0.5 per cent to 1.25 per cent. National unemployment rate fell to its lowest level (5.8 per cent) in four decades in December 2017.

In Alberta, real GDP growth was estimated at 4.5 per cent, outpacing the national average. In 2017, farm land values have continued to go up across the country with an average increase of 7.3 per cent in Alberta. The economic recovery in Alberta in 2017 exceeded expectations, with growth in several areas of the economy other than energy. These gains notwithstanding, Alberta unemployment rates, although lower than a year ago, still remain above the national average.

Annual Crop Conditions

The 2017 crop year started off with many producers working to finish harvest on their 2016 snowed-under crops before they could turn their attention to seeding. As of the start of May, only five per cent of the unharvested acres had been taken off the fields. Seeding was slow even in areas not impacted by unharvested acres due to cool April temperatures. By the long weekend of May, 80 per cent of the snowed-under acres had been handled, and by the end of May, seeding in the province had reached 79 per cent complete, well below the five-year average of 97 per cent.

Due to the spring harvesting of the 2016 crop, producers expressed concerns with the quality of the crop and their ability to market it. AFSC responded to these concerns by adding a grade of "salvage" for cereals to be applied when warranted for the spring harvested production.

As seeding delays continued and producers began to shift acres away from spring wheat and canola to barley, AFSC responded by extending the recommended seeding dates by five, 10 and up to 15 days, depending on the crop. This extension allowed producers to continue to be covered for quality grade loss in the fall. The delays in seeding, compounded by rainfall in June, left some areas of the province with approximately 600,000 unseeded acres, affecting just over 3,000 producers, as of the June 20 reporting deadline.

As summer came, province-wide crop conditions started to decline. Precipitation was highly variable across the province; hot and dry conditions in the southern and eastern regions saw soil moisture reserves decrease significantly; heavy rains in the north central-region again placed crops under stress due to excessive moisture.

By early August, harvest was underway throughout the south region on winter and pulse crops, and stress from the drought conditions was evident in the lower than normal yields. Precipitation continued to be inconsistent across the province; the northeast region of the province received upwards of 80 mm of rain further exasperating the problem of wet fields and standing water; while most of the Peace Region received less than 5 mm.

Harvest progress was varied as well. By the end of summer, the south and central regions were ahead of their five-year average. Harvest in the northern regions was lagging behind and would need a long, frost-free fall to mature in many areas of the north.

As September arrived, harvest operations continued to benefit from the warm, dry weather which encompassed much of the province. Producers in the south, central and eastern regions of the province were cautious due the potential of fire while harvesting in such dry conditions. The middle of the month brought cooler weather and precipitation. As frosts were experienced across much of the province, there was concern as to the impact to yields and grades in the northern region where harvest was the most delayed.

An intense and large weather system over the first weekend of October brought cold, wet weather across the province with significant snowfall in some areas and a killing frost to almost all areas of the province. Crop quality had been better than normal for most crops, but was expected to decline due to frost and snow. Although there were concerns of a repeat of snowed-under crops from 2016, by the end of October, harvest was 98.7 per cent complete across the province.

At the end of November, there were approximately 75,000 insured acres, either abandoned or unharvested, a low figure when compared to the 960,000 insured acres left unharvested in 2016. Due to mild snowfall in December and the early part of January, many of these acres were cleared off and producers will be able to focus solely on the task of seeding, come spring of 2018.

Crop quality was variable across the province: the top two grades of hard red spring wheat, durum wheat, canola, dry peas and malt barley were above their five-year average. Quality for number one barley and the top two grades of oats were below the five-year average. Approximately 31 per cent of clients had a production shortfall caused either by volume, grade, or a combination of both.

Perennial Crop Conditions

Hay and pasture crops were slow to start growing this past spring due to cool temperatures, and the available moisture for perennial crops was rated between 72 per cent and 85 per cent, good to excellent. Rains in June maintained the good soil moisture, but at the same time slowed down haying in some areas. By the end of June, dryland and first cut irrigated haying yields looked very promising.

By early July haying was well underway and producers were enjoying the best haying weather for quite some time, although drought conditions in the southern regions were taking a toll and causing significant declines in crop conditions. Soil moistures were highly variable throughout the province; significant decrease in moisture in south and eastern areas, and excessively wet conditions in the north-central regions.

As the dry conditions continued in the south, central and eastern regions, lack of good pastures forced cow-calf producers to provide supplemental feed earlier than usual. With second cut haying underway, reported production was lower and quality ratings dropped to between 67 per cent and 71 per cent, good to excellent.

All in all, 58 per cent of perennial crop producers either reported a production shortfall, and/or were compensated for poor pasture growth in 2017.

The wildfires in the fall impacted primarily pasture acres and there were significant losses to fences, some buildings as well as losses of livestock.

Fall soil moisture was low in many areas of the province, and producers, both in these areas and province wide, are appreciative of the snow that fell in February and March.

Livestock Overview

2017 was a year of reprieve for the Canadian cattle industry – prices were higher than the yearly average of 2016, all classes of cattle were profitable at some point during the year, and a significant market rally occurred for cow-calf producers as the bulk of calves were sold in the fall.

Canfax puts gains in 2017 equivalent to $250/head profit on fed cattle compared to a $354/head loss in 2016. Across North America, the tone was mixed due to larger cattle populations in the US, and increased carcass weights creating a larger meat supply than in previous years. 2017 saw pleasantly higher than expected consumption of beef throughout North America.

The start of 2018 saw a market direction change for cattle, counteracting the fall rally with continued downward pressure for the first three months of the new year in anticipation of a larger than expected herd size contributing cattle and beef to the marketplace.

Livestock commodity erosion and a strengthening Canadian currency were behind the end of fiscal year price decline. Additionally, politics over trade policies were weighing on the markets.

For the 2017 calendar year, the Canadian beef cow herd saw a negligible expansion of 0.8 per cent. Alberta continued to lead the country in total herd size with 4.76 million head; however the province's beef herd decreased slightly since January 1, 2017, dropping 1.25 per cent.

Tighter supply, plus profitability in all cattle sectors encouraged both the feeding and packing sectors to keep cattle in Canada rather than be outbid by export destinations; there was a small percentage of feeder cattle imported from the US for feeding in Canada due to the strong Canadian cattle basis experienced in 2017-18. Looking forward, analysts indicate that market fundamentals are bearish, but may have hit a resistance level, and may see some short term rallies.

Hog markets were also volatile, driven largely by fluctuations in production numbers, including US herd expansion plans on both the production and slaughter sides. The 2017, Canadian (non-breeding) hog inventory numbers increased 1.24 per cent from the year prior, and showed 1.05 per cent fewer exports than 2016.

The livestock sectors continue to rely on robust trade markets for continued success.

ASSISTANCE FOR ALBERTA'S AGRICULTURE SECTOR

AFSC offered a range of products and services to support Alberta producers who dealt with varied conditions in 2017-18.

Growing Forward 2 Ends, Canadian Agricultural Partnership Begins

The 2017-18 year was the final year for the Growing Forward 2 (GF2) Framework Agreement among the federal, provincial and territorial governments, including Alberta. GF2 outlined the direction of the following national programs: AgriInsurance, AgriStability, AgriInvest, AgriRecovery and the Wildlife Damage Compensation Program.

The Government of Alberta's Ministry of Agriculture and Forestry is responsible for the bilateral portions of agriculture framework agreements, which address the development of the agriculture industry across Canada.

AFSC is responsible for all portions of those multilateral agreements that govern agriculture risk management in Alberta.

Starting in the 2018-19 fiscal year, Alberta will be part of the Canadian Agricultural Partnership (CAP), the new federal, provincial and territorial Framework Agreement. Under CAP, Business Risk Management (BRM) programs, which include the programs delivered by AFSC, will continue to help producers manage significant risks that threaten the viability of their farm and are beyond their capacity to manage.

PROGRAM HIGHLIGHTS

INCOME STABILIZATION

AGRISTABILITY

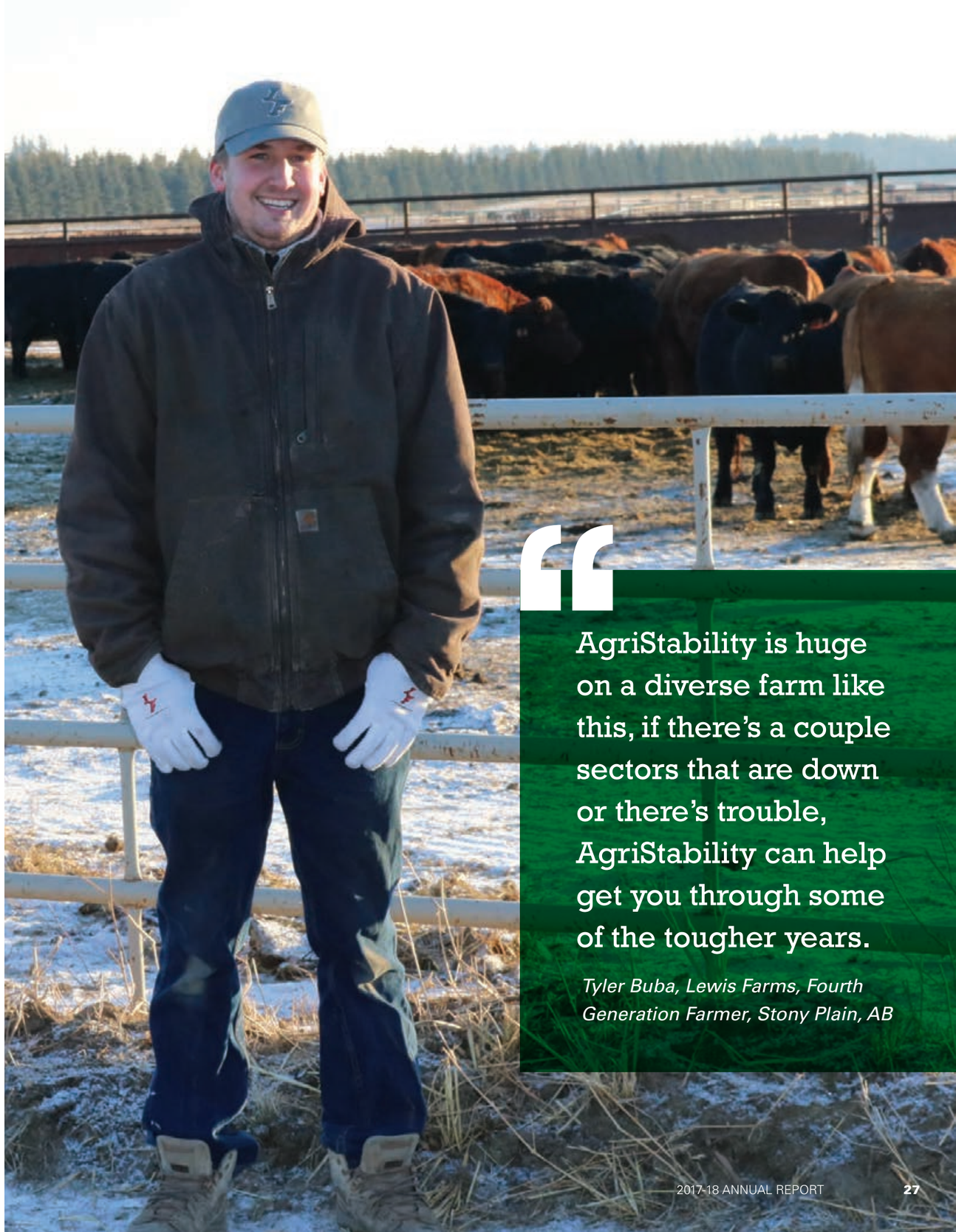
Producers can experience significant margin declines due to any number of circumstances, such as production shortfalls, falling commodity prices, and/or rising input costs. The AgriStability program provides compensation and support for participating producers who experience a decline in farm margins for their whole farming operation.

AgriStability is funded in accordance with the Growing Forward 2 Framework agreement, with the Government of Canada covering 60 per cent of AgriStability claim payments and administrative costs. The Government of Alberta funds the remaining 40 per cent.

Eligible participants receive compensation when their program margin declines by more than 30 per cent of their support level, in a fiscal year. The support level is based on the lesser of average of production margins selected from three of the previous five years and the average of the corresponding allowable expenses.

Production margins are calculated by deducting allowable expenses from allowable income and adjusted for changes in inventories, accounts receivable, accounts payable and purchased inputs. The allowable expenses used in calculating the support level is also adjusted for accounts payable and purchased inputs. Under the program, allowable income includes the proceeds from agricultural commodity sales and the proceeds from production insurance. Allowable expenses include commodity purchases, along with direct input costs incurred in the farming operation.

Should farming operations undergo a structural change—such as new ownership, size of operation, or farming practices—the participant's production margins during the reference period will be adjusted to make their support level comparable to the current program year margin.



"AgriStability is huge on a diverse farm like this, if there's a couple sectors that are down or there's trouble, AgriStability can help get you through some of the tougher years."

Tyler Buba, Lewis Farms, Fourth Generation Farmer, Stony Plain, AB

In order to participate, eligible applicants must report farming income, including losses, in Canada for income tax purposes. They must also have a minimum of six months continuous farming activity, along with the completion of a production cycle. Enrolment is required by April 30 of the program year, and participants must remit an enrolment fee.

2017-18 Year in Review

The 2016 year was a challenging year for producers as they were impacted by declines in cattle pricing, forage pricing and unharvested acres.

The decline in cattle prices partially stemmed from the increase in beef production in the United States that continued to recover from the effects of drought in recent years.

Although the 2016 crop growing season started with a dry spring, crop growing conditions were mainly favourable for producers. Precipitation during the season was conducive to produce above average yields. However, persistent wet and cold weather conditions from mid- August to November delayed the harvest and impacted quality. Due to the early onset of winter, many acres remained unharvested until the following spring.

Compared to 2015, producers harvested less greenfeed and silage mainly because of the significant increase in hay production and more intense grazing of their swaths, due to the long, cold and wet harvest season.

As of March 31, 2018, 5,867 or 57 per cent of claims were processed for the 2016 program year for a total of $141 million in benefits paid to participants. Of paid claims, 24 per cent of participants received payments compared to the seven per cent claims paid in 2015. An additional $98 million is estimated to be paid on the remaining 2016 claims. Early forecasts for the 2017 program year claims are projected at $134 million.

The average support level for producers increased from $259,341 to $308,865 in 2016. This is a result of five years of stable commodity prices.

While the participation is declining in terms of the number of applications received, as of March 31, 2018 producers who participated in the 2016 AgriStability program year represented 61 per cent of Alberta's farm cash receipts, this is comparable to the 2015 program year.

Claim Year	Number of Claims Processed	Support Level $,000	Average Support Level $	Number of Claims with Payment	Total Payments $,000	Average Payment $
2016	5,867 *	1,329,354	308,865	1,436	141,034	98,213
2015	11,768	2,535,832	259,341	804	56,173	69,867

- *5,867 claims processed out of 10,221 total AgriStability claims as of March 31, 2018
- Claims are processed with a one year lag

AGRIINVEST

AgriInvest is a matching deposit-based program for producers who face margin declines. The program is administered by the federal government, and AFSC assists as necessary. AgriInvest funds, including the government contribution, can be withdrawn at any time with no pre-existing withdrawal requirements.

The program is simple, responsive, predictable, and bankable, allowing participants to easily predict government contributions to producer-managed accounts each year. Under the Growing Forward 2 Program Guidelines, federal and provincial governments will match each producer's contributions by up to one per cent of their allowable net sales (ANS), subject to eligibility, to a maximum of $15,000 per year. They can carry a maximum account balance of 400 per cent of the three-year ANS average.

AgriInvest accounts are opened at a participating financial institution of a producer's choice. Eligible producers have a deadline of 90 days from the date of notification to make a deposit in AgriInvest accounts. The matching government contributions and administrative costs are shared between the federal (60 per cent) and provincial governments (40 per cent).

2017-18 Year in Review

As of March 31, 2018, 20,091 Alberta producers deposited $54 million in AgriInvest accounts for the 2016 claim year. The total value of 24,998 account balances is $617 million, up from the previous year's total of $595 million. The average account balance is $24,687.

Claim Year	Number of Producers Eligible	Total Value of Maximum Matchable Deposits $,000	Number of Producers Deposits	Total Value of Contributions by Producers $,000	Total Value of Contributions by Governments $,000
2016	26,050	69,654	20,091	53,903	53,903
2015	28,684	73,416	22,277	65,511	65,511

- Applications are processed using participants tax information, resulting in a one year lag

The support provided through the AgriRecovery framework was essential in helping our ranchers recover from the impacts of last year's bovine TB outbreak and demonstrates our collective recognition of the challenges producers endure in extraordinary situations like this. The lifting of the quarantine is testament to the effectiveness of Alberta's livestock traceability programs, the strength of our partnership with the federal government and the resilience of Alberta's beef producers.

Alberta Minister of Agriculture and Forestry, Oneil Carlier

AGRIRECOVERY

The AgriRecovery Framework provides a process to enable federal, provincial, territorial (FPT) governments to implement, under certain prescribed circumstances, initiatives to assist producers with extraordinary recovery or mitigation costs related to a disaster. The objective of the AgriRecovery Framework is to facilitate the development of initiatives designed to help producers with the extraordinary costs of activities necessary to resume business operations as quickly as possible after a disaster and/or the extraordinary costs associated with short-term actions necessary to minimize/contain the impacts of a disaster on producers. AFSC contributes to the design, development and delivery of the AgriRecovery Initiatives develop using the Framework.

Canada Alberta Bovine Tuberculosis Assistance Initiative (CABTAI)

In September 2016, a cow originating from Alberta was slaughtered in the USA and found to be positive for bovine tuberculosis (TB). This finding resulted in a significant disease investigation lead by the Canadian Food Inspection Agency (CFIA) that required some 45,000 cattle to be tested on 173 premises and 11,500 cattle to be destroyed. As a result of this finding, several Alberta ranchers were impacted by testing requirements set by CFIA, including quarantining animals and farmsteads. CABTAI, which was announced on November 30, 2016 was developed to help offset a portion of the extraordinary costs associated with quarantines required by CFIA. The extraordinary expenses covered by CABTAI ranged from the costs associated with housing animals that would have normally been sold (feeding, bedding, and housing) to the cleaning and disinfection of corrals/pens.

All affected farms have now been released from quarantine and owners who had their cattle herds depopulated and have completed cleaning and disinfection requirements are able to restock and rebuild their herds. Five additional animals within the original infected herd were found to be positive for TB but no additional animals in any other herds were detected as testing positive for the disease. This means, as far as can be determined, the disease had not spread beyond the herd that the original infected animal came from. There was no obvious indication of where the disease may have come from or how the original animal may have gotten infected. An outcome such as this is not unexpected in TB disease investigations.

CABTAI ended on March 31, 2018.

As of March 31, 2018, CABTAI paid 78 eligible applicants $8.4 million in compensation.

INSURANCE

Alberta producers constantly face the uncertainty of weather, commodity price fluctuations and global politics. Most producers consider relevant and well-designed business risk management tools to be vital to the sustainability of their operations. AFSC is proud to offer some of the most comprehensive insurance programs for crops and livestock in Canada.

Through the Growing Forward 2 (GF2) Framework Agreement, AFSC has provided AgriInsurance coverage, which gives producers protection against losses caused by designated natural perils on annual and perennial crops. AFSC also provides made-in-Alberta programs that are exclusive to Alberta agricultural producers, which expand available insurance coverage beyond what AgriInsurance delivers.

Participating producers cost share (40 per cent) the funding of AgriInsurance coverage with the federal (36 per cent) and provincial governments (24 per cent) according to a specific formula within the multilateral GF2 Framework Agreement. However, this ratio can vary because premiums for some insurance programs and endorsements are fully funded by producers, the Government of Alberta, or cost-shared in different arrangements between producers and governments.

In total, AFSC's insurance products provided $5.8 billion in coverage for 2017-18, as compared to $6 billion in 2016-17. AFSC collected $761 million in premiums for 2017-18 as compared to $818 million in 2016-17. AFSC's crop insurance coverage for annual crop, perennial crop and straight hail decreased by $206 million and Western Livestock Price Insurance Program coverage increased by $45 million over the last fiscal year.

"AFSC's malt barley insurance plan more accurately reflects the value of the malt barley and makes the malt barley insurance value per acre closer to the insurance value per acre for wheat and canola, which makes it easier to include it in a sustainable crop rotation.

John Hamill, Hamill Farms, Third Generation Farmer, Red Deer County, AB

We use crop insurance from AFSC, we have every year we've grown potatoes, if you live in central Alberta you know the summer storms are going to come, and sometimes those storms can be pretty devastating... AFSC gives you the reassurance of knowing they're going to cover you, and you're going to be okay.

Herman Scholing,
Scholing's Produce,
Second Generation Farmer,
Lacombe, AB

New and Enhanced Insurance Products for 2017 Crop Year

Eight enhancements to existing products were launched in 2017. AFSC receives ongoing feedback from clients and industry partners to ensure its insurance programs stay relevant.

Perennial Crop Variable Price Benefit

The fall price source is now based on Alberta Agriculture and Forestry's hay price from the Farm Input Survey from the month of October, rather than using pricing from the annual feedgrain markets. The outcome of this change is a pricing source that is more reflective of the replacement cost for hay, as well as being more transparent and reliable for producers.

Unseeded Acre Benefit

A review of industry costs was undertaken with the result being that the compensation levels for the unseeded acreage benefit were updated to better reflect the current costs of seed bed preparation in Alberta.

Risk Area Expansion for SWS Wheat

In response to client feedback, insurance is now available for Soft White Spring (SWS) wheat with an intended industrial use for producers who farm in AFSC's Risk Area 10 and Risk Area 16.

Lentils

AFSC has insured lentils as green lentils, regardless of the variety, partly due to historical predominance of green varieties. In recent years, the number of acres seeded to red lentils has far surpassed that of green lentils, creating a need for AFSC to realign its products for the industry. A new insurance class for red lentils was created to provide coverage independent from green lentils, in order to more accurately reflect differences in market values and yields.

Corn Heat Unit Maximum Values

In discussions with various industry representatives, AFSC was encouraged to enhance the Corn Heat Unit (CHU) coverage to reflect the more recent varieties with higher yield potentials, and to provide coverage more reflective of current year's commodity prices. As a result of the review, the coverage methodology for determining the CHU maximum values are now set annually using the current year's grain corn normal yield and the spring insurance price for grain corn and commercial barley.

Fall Cereal Recommended Seeding Dates Revision

To address some inconsistencies with current agronomic knowledge, AFSC undertook a review of its seeding deadlines for fall crops. In keeping with the recent studies on acclimation of fall planted cereals and winter survival, AFSC has removed the seeding deadlines and replaced them with a recommended seeding date consistent for all three fall seeded cereals covered under the production insurance program.

Fall Rye, Winter Triticale and Winter Wheat:	North of Bow River September 20
	South of Bow River September 30

Wildlife Damage Compensation Program

Traditionally feed crops left out by producers could result in easy access by wildlife and were not covered under the Wildlife Damage Compensation Program. Starting in the fall of 2017, swath grazing, bale grazing and corn grazing became eligible under the Wildlife Damage Compensation Program up to October 31.

Wildlife Excreta Program

Survey feedback from seed cleaning facilities across Alberta resulted in an increase to the seed cleaning costs used for the wildlife excreta program to $0.62/bushel.

Production-Based AgriInsurance Products

AFSC offers production-based (individualized) insurance coverage for most dryland and irrigated crops grown in Alberta. Producers are compensated when their yields fall below their coverage because of natural perils beyond their control. The primary perils covered under these products are drought and hail. For most annual crops, coverage is based on the client's individual insured yield records. Premium rates vary according to crop type, risk area, cropping practice and selected coverage level. Producers can choose coverage levels of 50, 60, 70 or 80 per cent (90 per cent for sugar beets) of their individual average yield history.

For hay crops, coverage is based on an indexing system in which individual yields are compared to area average yields every year. This comparison results in an index for each insured producer. This index is then multiplied by the risk area normal yield to determine an individual's normal yield. As with annual crops, hay producers can select yield coverage of 50, 60, 70, or 80 per cent of their individual normal yield. Hay producers also have four insurable value options.

Area-Based AgriInsurance Products

AFSC offers area-based insurance products for annual feed crops, corn and pasture. These products work well for crops that are difficult to insure under production insurance. The parameters and payment triggers selected for area-based programs are correlated to losses on the farm or ranch, although there are times when what happens on a producer's farm is different than what happens at a particular weather station, with the satellite measurements, or with the proxy crop. The area-based programs offered by AFSC are: Satellite Yield Insurance (SAT) for pasture, Moisture Deficiency Insurance (MDI) for pasture, Silage/ Greenfeed Insurance for annual feed crops, Corn Heat Unit (CHU) Insurance for corn and Moisture Deficiency Endorsement (MDE) for hay.

Additional Benefits – an overview

Both production-based and area-based products have benefits that provide additional coverage. The cost of these benefits is included in the base premium.

Reseeding Benefit: This provides compensation for acres damaged prior to June 20 by a designated peril, and is intended to partially compensate for the cost of reseeding the original crop (annual crops only).

Unseeded Acreage Benefit: This provides compensation for acres unseeded by June 20 due to excess moisture. This is intended to partially compensate for the direct and indirect cost of seed bed preparation (annual crops only).

Unharvested Acreage Benefit: This provides an advance payment on eligible acres of insured crops that remain unharvested after November 30 due to the onset of winter, when specified criteria are met (annual crops only).

Variable Price Benefit (VPB): This is intended to ensure producers are compensated for their production loss at market values in the event that fall market prices for insured crops are 10 per cent or more above the original insured value. This benefit applies to most crops; excluded crops that are normally grown under a fixed price contract. The VPB is limited to a 50 per cent increase (most annual and perennial crops).

Spot-Loss Fire Benefit: This is included on insured pasture acres under both SAT and MDI programs and protects against accidental fire and fire caused by lightning (pasture crops only).

Annual Crop

Annual Crop Insurance provides a production guarantee based on a calculated, individual coverage for each client. Producers also have the option to purchase the Hail Endorsement and Spring Price Endorsement with their crop insurance policies; there is a separate premium for these endorsements.

2017-18 Annual Crop Indemnities

The indemnities paid were distributed based on results of unharvested, unseeded, hail and post-harvest inspections.

Producers had to manage their unharvested acres from the previous crop year prior to focusing on seeding the new year's crop.

Due to the wet spring once again, there were acres producers were unable to seed, and consequently, 483,521 acres were compensated for unseeded acres, resulting in $25.3 million in indemnities on just over 3,000 unseeded acreage inspections.

Southern and eastern Alberta experienced extremely dry conditions over the summer; harvest was early, and 55 per cent of producers in the southern and eastern areas reported a production shortfall.

North-central Alberta was wet again for a second year. Clients in this area and in the Peace Region were concerned of another unharvested year when snow came in early October. Thankfully, good harvest weather returned and the majority of the crops were taken off by early November. In extreme wet areas across the province, an average of 42 per cent of producers reported a production shortfall.

Crop Year	Contracts	Acres ,000	Premium $,000	Liability $,000	Contracts with indemnity	Indemnity $,000	Loss/ premium %
2017	11,539	14,538	388,769	4,348,791	5,810	226,331	58.2
2016	12,198	15,187	438,190	4,522,117	4,099	180,185	41.1

- AgriInsurance products for annual crops include: Crop, Silage Greenfeed, Corn Heat Unit, Processing Vegetable, New Crop Insurance Initiative (NCII), Honey and Bee Overwintering Insurance.
- AFSC insured 71 per cent of Alberta's crop seeded acres for the 2017 crop year.

Perennial Crop

Perennial Crop Insurance provides a production-based guarantee for hay crops and area-based coverage for pastures. Producers can also choose to purchase the area-based Moisture Deficiency Endorsement with Hay Insurance.

2017-18 Perennial Crop Indemnities

Of the 5,402 subscriptions, 58 per cent received $30.9 million in indemnities. This compares to the $4.8 million paid out to 13.5 per cent of perennial crop clients last year. This resulted in a 148.2 per cent loss-to-premium ratio in 2017, which was significantly higher than the 19.7 per cent ratio in 2016.

Crop Year	Contracts	Acres ,000	Premium $,000	Liability $,000	Contracts with indemnity	Indemnity $,000	Loss/ premium %
2017	5,402	7,324	20,833	179,681	3,121	30,874	148.2
2016	5,858	7,806	24,395	147,269	792	4,808	19.7

- Perennial Crop Insurance programs include Hay and Moisture Deficiency Endorsement, Export Timothy Hay, and Satellite Yield and Moisture Deficiency Insurance for pasture
- AFSC insured 28 per cent of Alberta's hay and pasture acres for the 2017 crop year

Endorsements – an overview

AFSC offers endorsements to its clients to enhance Alberta's risk management programs and provide the most comprehensive insurance coverage in Canada. Endorsements add supplemental coverage which clients can opt to purchase for additional premium. Annual crop programs offer two endorsements: Hail Endorsement and Spring Price Endorsement.

Spring Price Endorsement (SPE) offers protection for price declines of 10 per cent or more from the spring insurance price to the fall market price; limited to a maximum decrease of 50 per cent. For production-based programs, payments are calculated by paying the price difference on the production of the insured crop, up to the yield coverage for the crop. For area-based programs, production on the farm has no impact; payments are calculated based on production deemed to be grown, up to the coverage level purchased.

Crop prices in the fall of 2017 were rather mixed in comparison to the spring prices, with roughly half seeing an increase and the other half a decrease. Traditional forage crops such as feed grains and hay saw significant increases ranging from 12.4 per cent up to 37.8 per cent, while wheats were down on average 9.3 per cent. Pulse crop markets were depressed in the fall with most crops seeing an average drop of 11.3 per cent, however, chickpeas were the opposite, specifically Kabuli seeing a remarkable jump of 64.4 per cent. A comparison of the oilseed prices revealed mustard values jumping up to 15.4 per cent, while canola and flax stayed fairly static.

In 2017, AFSC covered 0.6 million acres under SPE with a total liability of $202 million. The loss to premium ratio of 59.8 per cent was a result of $8 million in losses paid to 243 clients as compared to $13 million collected in premiums.

Crop Year	Contracts	Acres ,000	Premium $,000	Liability $,000	Contracts with indemnity	Indemnity $,000	Loss/ premium %
2017	914	607	13,482	201,667	243	8,062	59.8
2016	952	701	16,039	238,237	489	8,255	51.5

Hail Endorsement provides spot-loss coverage on a crop-specific basis for damage caused by hail, accidental fire and fire caused by lightning for both individual-based production insurance and area-based production insurance programs. Coverage is limited to the coverage level that the producer selects, and is not available for crops insured at the 50 per cent coverage level.

Premiums for Hail Endorsement are significantly lower than Straight Hail premiums. Producers pay only 33 per cent to 37 per cent of the Straight Hail premium rate for the township, depending on the type of crop. Premiums are cost-shared between clients (50 per cent), the Government of Alberta (37 per cent) and the federal government (13 per cent).

Hail events were significantly less in 2017 versus 2016, as evidenced by the losses paid being 52 per cent of the previous year. AFSC coverage was very comparable between the two years with 10,251 contracts encompassing 13 million acres, totaling $4.0 billion in liability in 2017. With less acres receiving more moderate damage, only 2,975 client received indemnities of $161 million resulting in a loss-to-premium ratio of 59.2 per cent as compared to 113 per cent in 2016.

Hail Endorsement - Subsidized premium and linked with AgriInsurance programs

Crop Year	Contracts	Acres ,000	Premium $,000	Liability $,000	Contracts with indemnity	Indemnity $,000	Loss/ premium %
2017	10,251	13,127	271,606	3,999,899	2,975	160,670	59.2
2016	10,679	13,508	271,490	4,096,572	4,464	306,671	113.0

Straight Hail Insurance

Straight Hail Insurance provides producers with spot-loss crop protection from hail damage, accidental fire or fire by lightning. Anyone with an interest in an insurable crop grown in Alberta, whether they are a producer, a tenant or a crop-share landlord, can purchase Straight Hail Insurance. Coverage is available from the time the crop emerges until it is harvested or November 1, whichever is earlier. The Straight Hail Insurance program is fully funded by producer premiums.

2017-18 Year in Review

The past year was quite a mild one in terms of hail indemnities, with only 681 insured producers suffering losses totaling $15 million. A total of 3.3 million acres were covered totalling $484.6 million in liability with total premiums of $43 million, creating a loss-to-premium ratio of 34.3 per cent.

In contrast, the 2016 program year's 3,768 clients insured 3.9 million acres, creating $549.8 million in total liability and generating premiums of $45.9 million. In total, 41.3 per cent of subscribing clients experienced a loss, which resulted in payments of $51.3 million and a 111.8 per cent loss-to-premium ratio.

Straight Hail Insurance - 100 per cent producer funded premiums

Crop Year	Contracts	Acres ,000	Premium $,000	Liability $,000	Contracts with indemnity	Indemnity $,000	Loss/ premium %
2017	3,180	3,266	43,044	484,597	681	14,778	34.3
2016	3,768	3,861	45,908	549,811	1,558	51,324	111.8

> Obviously in farming Mother Nature is in control so crop insurance is a big one for us.
>
> *Tyler Buba, Lewis Farms, Fourth Generation Farmer, Stony Plain, AB*

Wildlife Damage Compensation Program (WDCP)

Crop damage caused by wildlife and waterfowl is a risk in agriculture. AFSC compensates producers on behalf of the provincial and federal governments for this type of crop damage through the Wildlife Damage Compensation Program (WDCP).

The WDCP includes:

- Spot-loss coverage for unharvested crops damaged by waterfowl, big game animals or upland game birds. The program applies to all commercially grown annual crops and hay that can be insured under production-based and Straight Hail Insurance programs. Crops grown for pasture are not eligible;
- Excreta Market Loss-Cleaning compensates producers for reduced market value or for the cost of grain cleaning due to wildlife excreta;
- Compensation is available for crops and silage in pits and tubes that are contaminated with wildlife excreta;
- Swath grazing, bale grazing and corn grazing are eligible under the Wildlife Damage Compensation Program up to October 31.

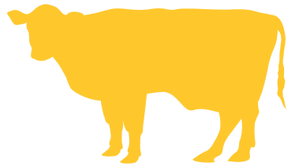
The WDCP is available nationally, and is cost-shared in Alberta by the federal (60 per cent) and provincial governments (40 per cent). It compensates incurred losses to a maximum of 80 per cent. The remaining 20 per cent of losses are covered exclusively by the Government of Alberta. The federal government also funds 60 per cent of the administrative and inspection costs, while the Government of Alberta funds the remaining 40 per cent. Producers who wish to participate in WDCP are not required to have insurance to qualify for a claim.

2017-18 Year in Review

The fall wildlife claims are set out below. Due to the small number of unharvested acres left out over the winter, there will be additional spring wildlife claims estimated at $1 million. The eligible claims for 2017 crops paid to date total $7.5 million.

Crop Year	Wildlife		Waterfowl		Total	
	Number of Claims	Indemnity $,000	Number of Claims	Indemnity $,000	Number of Claims	Indemnity $,000
2017	455	5,293	253	2,230	708	7,523
2016	1,507	18,173	568	5,809	2,075	23,982

- Wildlife and waterfowl damage compensation (data includes claims for wildlife excreta and market loss)
- Wildlife claims – 100 per cent government funded (no premium)



WLPIP

Western Livestock Price Insurance Program (WLPIP)

AFSC's Western Livestock Price Insurance Program was born of an industry-driven initiative to provide Alberta cattle and hog producers with an easy-to-use, made-in-Alberta risk management tool. This program offers simple, bankable and market-driven solutions to manage market price risk; it allows producers to insure a floor price on their cattle and hogs, while still having the ability to sell the animals at a higher price if markets rise above the insured price. Due to the success of the Alberta program, the provinces of Alberta, British Columbia, Saskatchewan and Manitoba and the federal government entered into an agreement for a four-year pilot program (starting in 2014) for producers across Western Canada. Work commenced in 2017 to extend this program under the new Canadian Agricultural Partnership (CAP) agreement for another five-year term.

2017-18 Year in Review

2017 will likely be remembered as a pleasant surprise. Many market factors surpassed expectations throughout the year, resulting in profits for all sectors of cattle. While the prices, for a yearly average, were only slightly above those in 2016, they exceeded original expectations. While the industry was overall profitable this year, Canada has not expanded its herd size significantly.

Both the feeder and fed cattle sectors ended their downward trend from the previous fiscal year during the spring, and into early summer. Fed cattle prices peaked in May at $187.25/cwt (hundredweight), whereas, the feeder cattle prices peaked in June at $210.37/cwt. The Fed cattle market continued into a summer, early fall decline of 30 per cent to bottom in October at $131.16/cwt. From there, the market rallied into early 2018 in range bound fashion from January to March.

> My family's used feeder insurance for years, and then for us having a young family it's nice to have an idea of what the income is going to be like in the fall and then we can plan. That's why we like WLPIP; it makes you more comfortable, really.
>
> *Erin Jaffray, Fourth Generation Farmer, Double J Crop and Cattle, Rimbey AB*

The feeder cattle market moved in a less definitive manner than the fed market. While the peak price for the year came on June 12 at $210.37/cwt, the summer months were somewhat uneventful, trending sideways overall into November. Early 2018 saw a significant downward trend losing 23 per cent off the feeder market from January to end of March.

The calf market saw a strong spring and summer rally, with the usual spring peak coming later and realized in June at $255.37/cwt. The fall displayed a counter-seasonal behavior with prices increasing from September 18 onward into mid-November and staying consistent into December. Typically the calf price (or 600 lb. steer calf index) follows a seasonal pattern with a price high in the spring and a price low in the fall. 2017 proved to be 'atypical,' and saw the calf product encounter the biggest price swing of the three indices. From a June 12, 2017 price-high of $255.37/cwt to the summer low of $183.27/cwt, the calf index dropped almost 39 per cent throughout the fiscal year.

Across all western provinces, 2017-18 WLPIP participation saw a slight year-over-year decrease in overall insured units, but surpassed the previous fiscal year in number of policies, liability and premium collected. In Alberta specifically, producers purchased price protection on 137,000 fed cattle, 148,000 feeders and 267,000 calves. Compared to the previous year, these head totals equal about half of the fed cattle insured, almost twice as many feeder cattle, and 72,000 more calves. Cumulatively, liability coverage amounted to approximately $823 million, premiums collected totaled $22.7 million, and indemnities of $6.2 million (as of March 31, 2018) were paid back to participating producers. The majority of payments, or $3.7 million, were made to participants in the feeder program.

The strongest year-over-year participation increase was observed in the feeder program as the total number of feeder cwt purchased increased 95 per cent over the previous fiscal year. Significant increases in uptake occurred during the fall months as cattle feeders purchased inventory out of the markets for feeding, and were able to capture a profitable margin for a late winter expiry.

In the WLPIP-Calf product, 2017 is recorded as the second biggest sales season on record in Alberta, and in total, 2,654 policies were sold in the province to cover 289,000 head. For the entire fiscal year, top coverage offered for the calf product was $232 per head which was sold in May 2017 to expire in September of 2017.

Premiums for all products were up per hundredweight (cwt) this year due to increased market volatility.

Fiscal Year	Policies	Premiums $,000	Liability $,000	Indemnity $,000	Loss to Premium %
2017-18	3,454	22,747	823,229	6,217	27
2016-17	3,125	22,295	778,449	11,971	54
2015-16	1,853	6,559	465,464	14,676	224
2014-15	4,745	20,730	1,249,019	249	1
2013-14	6,002	23,434	1,770,236	3,244	14

LENDING

AFSC has continued to support primary agricultural producers, agribusinesses and commercial enterprises in Alberta through its lending programs for nearly half a century. These products address market gaps and the needs of Alberta's entrepreneurs. Through partnerships with producers and businesses, AFSC helps maintain a profitable agriculture sector in the province, and stimulates growth in rural communities throughout Alberta. With financing of up to $5 million available to producers and businesses, AFSC clients can choose the right financial option to suit their individual needs.

AFSC offers financing for agricultural producers, agribusinesses, value-added enterprises and rural commercial businesses. AFSC also offers loan guarantees and capital sourcing services.

This year AFSC administered the Hilda Wildfire Support Loan Program on behalf of the Government of Alberta to support agricultural producers impacted by the 2017 wildfires. AFSC provided interest free loans for up to two years to enable producers to rebuild, recover and/or regain viability. AFSC approved 12 loans under this program for a total of $300,000.

2017-18 Year in Review

AFSC authorized 1,522 new direct loans for the period ending March 31, 2018, totaling $385 million, below the $444 million reported for 2016-17 year. This generated $450 million in investments in the province's agriculture, agri-industry and value-added sectors. AFSC's lending portfolio remained fairly consistent with the prior year at $2.2 billion.

"Our first loan came from AFSC in 1996…basically that money was used to buy this property and to buy out mom and dad, and that's how it all got going.

Herman Scholing, Scholing's Produce, Second Generation Farmer, Lacombe, AB

Some of the factors that have affected AFSC Lending performance measures are:

- The average value of Alberta farmland increased 7.3 per cent in 2017, following gains of 9.5 per cent in 2016 according to Farm Credit Canada Farmland Report 2017;
- AFSC's maximum lending limit at $5 million does not allow us to participate in certain markets where agriculture land values continue to increase;
- AFSC's current lending programs need to be revitalized as some program features are not meeting our clients' needs;
- A new Lending Mandate was approved in January, 2018 as the current lending programs need to be redesigned to ensure alignment with the Mandate. The new primary focus of AFSC Lending is to support Alberta's agricultural economy by providing financial assistance to young and new producers, developing producers and grow Alberta's value-added agri-processors and agri-businesses. The proposed new programs are expected to have a positive effect on lending volumes and growth of the portfolio in the identified market segments;
- The continued strength of the agricultural sector has resulted in continued presence from private and/or competitive lenders that sometimes offer more attractive terms and flexibility to attract clients.

Alberta Farm Loan Program

The Alberta Farm Loan Program assists with working capital, land and equipment purchases, and refinancing of existing debt. The Beginning Farmer Incentive helps producers by reducing borrowing costs by an additional 1.5 per cent rate reduction for the first five years of the loan.

2017-18 Year in Review

The number of farm loan approvals decreased in 2017-18 to 1,212 loans at $316 million from 1,391 loans at $338 million in the fiscal year 2016-17. Farm lending arrears remained similar to the prior year at 0.5 per cent. Farm loans fell slightly due to the continued conservative approach of producers with uncertainty of increases in interest rates, commodity prices and the overall economy.

Fiscal Year	Number of Loans	Lending $,000	Total Project $,000
2017-18	1,212	316,037	357,161
2016-17	1,391	338,224	381,567

Revolving Loan Program

The Revolving Loan Program meets the needs of Alberta's primary producers by enabling borrowing through an online, self-selecting and reusable loan facility. Funds can be used for input costs such as feed, fuel and fertilizer. The program offers competitive fixed rate terms for up to three years with no annual fees. Loans can be renewed upon expiry.

2017-18 Year in Review

The number of revolving loans approved for the 2017-18 year declined to 217 from 303 in the 2016-17 year. This program continues to be useful for clients who need convenience and flexibility in managing cash flow.

Fiscal Year	Number of Loans	Lending $,000	Total Project $,000
2017-18	217	28,899	29,144
2016-17	303	39,567	39,752

Value-Added and AgriBusiness Loan Program

The Value-Added and Agribusiness Program provides assistance to businesses that support agriculture and agricultural-focused, value-added enterprises with fixed-rate terms for purchases including land, building, equipment, refinancing existing debt and working capital.

2017-18 Year in Review

Total Value-Added and AgriBusiness Program (VAAP) loans are down from 71 in 2016-17 to 37 in 2017-18. VAAP arrears rose to 7.4 per cent by the fiscal year-end, up from the 6.1 per cent reported at the end of 2016-17.

Fiscal Year	Number of Loans	Lending $,000	Total Project $,000
2017-18	37	18,908	38,275
2016-17	71	26,247	54,465

Commercial Loan Program

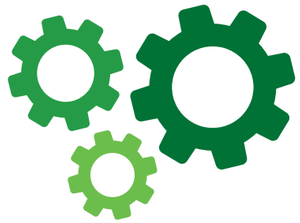
The Commercial Loan Program assists both rural and urban commercial businesses in growing their operations by providing fixed-rate loans. This program supports the development of resources and promotes growth and diversification of the Alberta economy.

2017-18 Year in Review

The total number of commercial loans approved for the 2017-18 year was 44, down from 75 in 2016-17. Commercial arrears declined to 10.3 per cent by the fiscal year-end, down from the 12 per cent reported for 2016-17.

Fiscal Year	Number of Loans	Lending $,000	Total Project $,000
2017-18	44	20,813	29,700
2016-17	75	36,784	66,562

OPERATIONAL HIGHLIGHTS



OPERATIONS

Client Experience Commitment

ASFC's focus on client experience continues to depend on the development of the employees because they are the backbone of the organization and a vital link to providing the high level of service that Alberta producers and business owners have come to expect. The goal is to ensure that every interaction a client has with AFSC feels like a good conversation that leaves them feeling valued, heard and respected as unique.

2017-18 Year in Review

AFSC continued evolving its online solutions to ensure alignment with clients' changing business needs. The successful launch in early 2018 of the new client interaction system - *AFSC Connect: your business, your way* - resulted in a user friendly tool to manage subscriptions and transactions with the organization. By utilizing technology and accumulated client feedback it has been made easier for clients to do business with AFSC in the way they prefer, be it online through the Live Chat functionality, on the phone or in person through a branch.

Feedback and trend analysis are foundational pieces to ensure the AFSC client experience is meeting and exceeding the expectations of its clients and that staff have the tools they need to support them. Information collection is done through multi-channel feedback options available to all clients that include surveys and information gathering sessions. The results obtained continue to provide comprehensive insight into the current needs of the clients as well as a sightline to future opportunities.

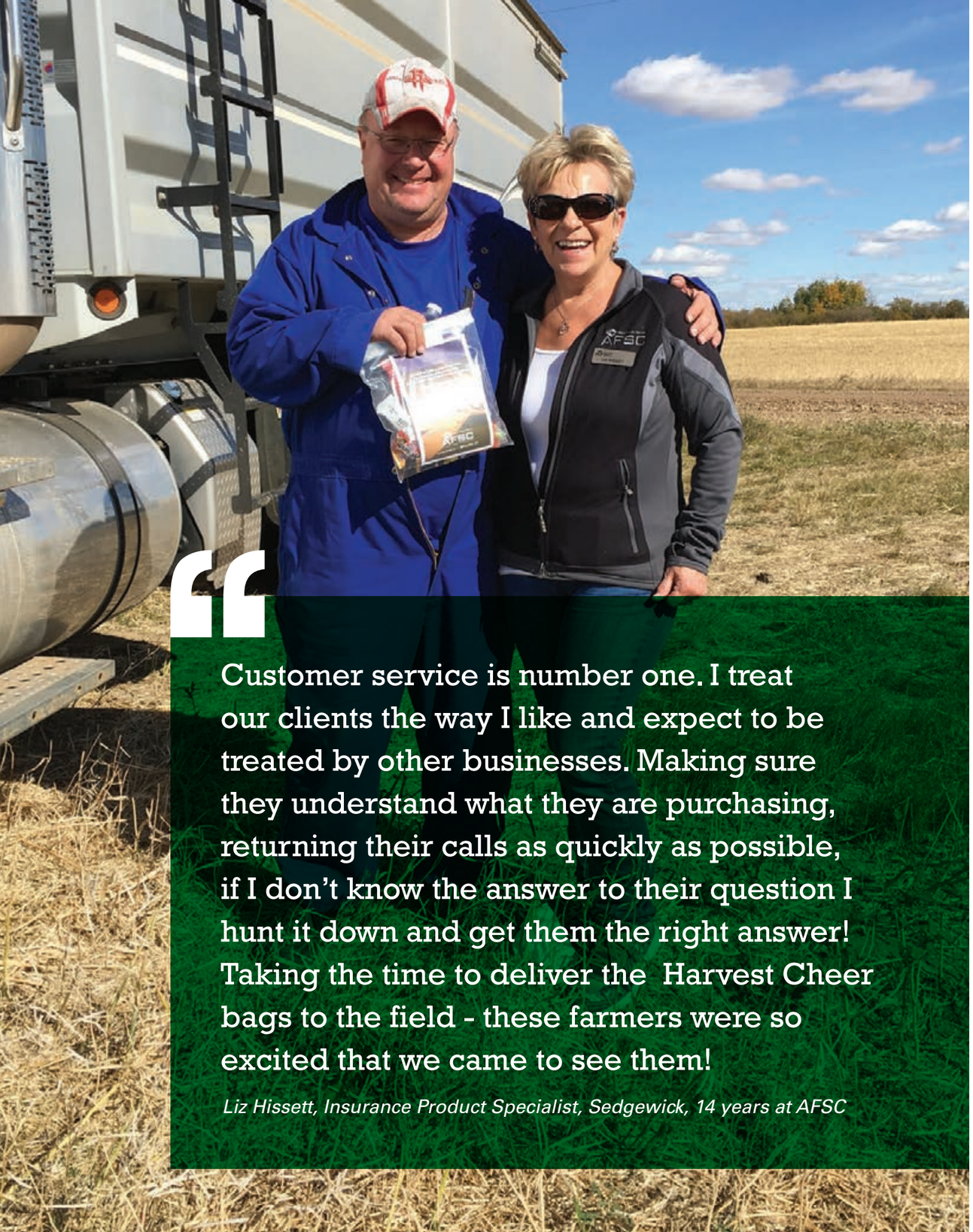
AFSC conducted four client surveys in 2017-18 focusing on Lending, Annual Crop Insurance, Perennial Crop Insurance and Hail Insurance. The average response rate to these surveys was 14 per cent. The surveys found that:

- 92 per cent of survey respondents are either satisfied, or very satisfied, with their representative's knowledge;
- 90 per cent of respondents indicated that AFSC staff members take the time to understand the clients' business;
- 94 per cent of respondents agree that AFSC staff have a pleasant attitude.

These results continue to be an indicator of the positive interactions clients have with the AFSC brand.

All branch roles are active liaisons between AFSC, clients and industry groups, working to understand clients' operations and see how AFSC products could align with their business opportunities. These roles are essential to take client interactions from being transactional in nature to building relationships. Support channels for AFSC clients extends outside of the branch teams with an emerging Client Experience and Relationship Department that is fine-tuning the client journey with operating procedures that establish the consistent experience ASFC wants clients to have with the brand.

> The things that AFSC offers are the biggest part of our business risk management on our farm; couldn't sleep without it.
>
> In our area, we need insurance for pasture, hay and crops. And the staff we have are great for explanations, help with details, information. And in the past, I think our insurance has been a great help.
>
> *2018 Perennial Client Survey Respondents*



Lending Portfolio Performance

Approvals, leverage and arrears are the three key performance indicators for lending.

- Total loans approved: $385 million for 2017-18, compared to the target of $415 million. The recent strength of the agricultural sector has resulted in an increasing involvement from private, competitive lenders; as they have term and rate flexibility to attract clients.
- Leverage of total project value to debt capital: Results for 2017-18 were 1.2 per cent, compared to the target of 1.4 per cent. The leverage target was for 2017-18 was the same as 2016-17.
- Lending payments in arrears: Overall lending arrears as of March 31, 2018 were 1.9 per cent, outperforming the target of three per cent. Less loan concentration in the commercial sector and more focus on arrears collection contributed to the decrease of Commercial Program arrears from 12 per cent last year to 10.3 per cent in 2017-18. The Value Added and AgriBusiness Program arrears increased from 6.1 per cent to 7.4 per cent due to economic conditions. The agricultural portfolio's strong performance contributed to the stability in the Farm Program arrears, which remained low at 0.5 per cent, up slightly from 0.4 per cent in 2016-17.

Project Management

AFSC measures the effectiveness of its project management using a weighted average of on-time statistics for project and maintenance work. The weighted current year ratio of 67 per cent falls slightly below the target of 75 per cent. In addition, projects are generally measured on a 75 per cent target for being on budget; AFSC did meet and exceed this target this year with 100 per cent of projects being on budget.

EMPLOYEES

Over the reporting period, AFSC has focused on creating a more collaborative work environment where every staff member has an opportunity to contribute to how the Corporation is helping to grow agriculture in Alberta. This is one of the ways the Corporation has been taking thoughtful and targeted steps to enhance employee engagement across the organization. The employee experience offered by AFSC directly influences the client experience, too. When people know they are valued and respected, they not only want to treat others the same way, but they are proven to be more effective in their roles.

AFSC's core values were revisited and revised last year with ongoing roll out to the corporation throughout 2017-18. The values of Accountability, Trust, Respect, Integrity and Excellence are being rolled out at six-month intervals, to ensure that these core values of the Corporation are purposefully kept under focus. During the year, employees have been recognized by their colleagues over 300 times for living the core values since the start of the roll out in May 2017. These values are making their way into all that is done at AFSC. The Corporation has also revamped its recruitment process to be more values-based, to ensure that those who are hired are not only the best and the brightest, but also embody AFSC's corporate values.

This year also saw the reintroduction of an employee engagement survey at AFSC. Employees are encouraged to 'Have Your Say' by providing feedback twice per year with the results being utilized to create action plans to facilitate change.

AFSC is seen as one of the best places to work in Alberta and Canada, validated by many highly acclaimed awards and accolades. AFSC has once again earned recognitions as a Top Employer in Canada and Alberta. In 2017-18, AFSC was recognized as a Top 100 Employer in Canada for the ninth year. As well, the Corporation is very proud to be celebrating being a Top 70 Employer in Alberta continuously for a decade.

> AFSC has offered a lot of opportunities in my time here, I've been able to reach my goals and set new ones allowing me to pursue a rewarding career within the Corporation.
>
> *Shannon Landry, IT Business Support Supervisor*
> *Lacombe Central Office, 10 years at AFSC*

COMMUNITY INVESTMENT

In addition to its strong Alberta roots, AFSC contributes and supports various events and causes that have a positive and meaningful impact on rural Alberta communities. It is important for AFSC to invest in the communities across the province and to support organizations and events that are vital to the same communities where staff live and work.

AFSC's support takes many forms every year through contributions to hundreds of community projects, events and initiatives with several organizations that count on ongoing cooperation from the Corporation. In doing so, AFSC aims to partner with organizations and events that enhance local communities while ensuring that its contributions are purposeful, measurable and impactful.

2017-18 also saw AFSC support several major trade shows and events. These included the Organic Grain Conference, Agri-Trade, Green Industry Show & Conference, Prairie Barley Summit, Alberta Potato Growers Conference, FarmTech, Ag Expo, Calgary Stampede, Advancing Women in Agriculture Conference, Canadian Bull Congress, Peace Country Classic, Farmfair International, Alberta Beef Industry Conference, Growing the North Conference and Farming Smarter. AFSC also provided sponsorship to numerous agricultural conferences, 4-H Alberta clubs, local community and agriculture educational events, including scholarships and programs.

The Canadian Foodgrains Bank is another important organization supported by AFSC. The Canadian Foodgrains Bank provides a practical way for Canadian farmers to share their harvest with the less fortunate. This past year, AFSC sponsored 27 projects from 20 locations across Alberta, totaling more than 3,670 acres. AFSC supported these efforts by providing $26,507 in Straight Hail Insurance for crops slated for donation by partnering communities in Alberta.

"To me it exemplified the spirit of agriculture. It didn't matter in that moment how hot it was, or the fact that some of those farmers participating must be experiencing losses this year themselves. The focus was completely on helping others.

Jenn Nooitgedagt, Inspector, Claresholm

I really enjoyed the sense and feeling of community and family involvement. You could see generations of families attending this event. And you could see and feel the sense of pride that each one of them exuded. It was an incredible sight to see.

Sheena Friesen, Client Service Representative, Lethbridge

2017-18 Partnerships:

4-H Alberta

AFSC has a long-standing involvement with 4-H Alberta, since 2009, and is officially recognized as a 'Silver Clover' Sponsor. In 2017-18 AFSC provided $33,500 in sponsorship contributions to local clubs, Club Week and Key Leaders to name a few. 4-H empowers youth to be skilled, engaged, responsible leaders who are passionate about making meaningful contributions to the world around them. 4-H Alberta believes in achieving results and excellence in communities, which directly parallels AFSC's community investment goals. Included in AFSC's support was an annual $1,000 scholarship in addition to expertise and monetary support for 56 4-H Alberta districts and events, including the 4-H Leader's Conference and 4-H Club Week.

The Do More Agriculture Foundation

In winter of 2018, AFSC partnered with The Do More Agriculture Foundation. Do More Ag is a not-for-profit organization focusing on mental health in agriculture. AFSC's support goes directly towards raising awareness about mental health and breaking the existing stigma in the agriculture community. The partnership also helps to build a community of support and resources for those impacted by mental health issues. The Do More Agriculture Foundation empowers, encourages and supports producers to take care of their mental well-being.

Agriculture More Than Ever

AFSC partnered with Agriculture More Than Ever and became an 'agvocate' for Canadian agricultural industry actively promoting agriculture. On February 13, Canada's Agriculture Day, AFSC joined in promoting and celebrating the industry online.

Ag for Life

AFSC partnered with Ag for Life to work together to grow a better public understanding of the role of agriculture in Alberta's culture and economy. Staff volunteered their time through speaking engagements, promoting campaigns and supporting agriculture education in the classroom.

Share & Care

The Share & Care committee was created in 2010 to identify and raise money for charities and causes that AFSC employees deem important to AFSC and to Alberta. The Share & Care committee allows AFSC staff to actively engage in their community through donations, fundraising and volunteering.

The committee is designed to represent AFSC and its interests by:

- Being cross-departmental;
- Being representative of the Lacombe Central Office and AFSC Branch Offices;
- Choosing several charities for AFSC to support;
- Developing an annual donation plan;
- Sharing donation and event information with AFSC staff, clients and media.

How Share & Care Supports Rural Communities

Over the previous year, the Share and Care Committee raised funds in addition to motivating AFSC staff to donate scores of food and volunteer hours to various charities, including: Movember ($6,543), Society for the Prevention of Cruelty to Animals-SPCA ($280), Light Up the Night, Meals on Wheels, and the Food Bank drive ($160) in which staff donated 704 lbs. of food and funds to various food banks throughout Alberta.

ENTERPRISE RISK MANAGEMENT

Risk management is vital to protecting AFSC's clients, their business interests and long-term viability. For AFSC, effective risk management is about optimizing risk taking and risk mitigation to ensure overall corporate risk is maintained at an acceptable level.

AFSC has an Enterprise Risk Department that has developed a comprehensive Enterprise Risk Management (ERM) Program. The program helps to ensure that risk-management activities and practices are appropriate to meet client needs, while fulfilling AFSC's corporate mandate, strategy and goals.

This program will provide a structured approach to making consistent risk-based decisions across the Corporation. It will also ensure that identified risks are formally analyzed and treated to provide confidence that all risks are maintained at acceptable levels and that opportunities are recognized and pursued in an appropriate manner.

As a part of this program, the Enterprise Risk Department has also developed a strategy for creating and utilizing risk appetites across the Corporation. Risk appetites will further ensure that AFSC is proactively identifying risks and maintaining risk at pre-determined levels. The Enterprise Risk Management Program is overseen by the Board of Directors and its committees.

The Executive Leadership Team is responsible for managing corporate-wide enterprise risk, in which all levels of management are responsible for active risk and opportunity monitoring and the implementation of appropriate measures to treat risk and leverage opportunity. The following is an overview of some key risks the Corporation faces, and how these risks are managed:

Strategic Planning

Several AFSC Corporate strategies in 2017-18 were client-focused, designed to better serve clients such as producers and rural and agri-business owners. During the previous fiscal year, AFSC revamped its vision, mission and values, these were rolled out to the corporation during 2017-18. The newly-appointed AFSC Board reassessed the mission and vision and revised them to align with AFSC's strengthened core purpose of providing leading and innovative risk-management solutions to grow agriculture in Alberta.

Credit Risk

Credit risk is the possibility that a debtor will not pay amounts owing to AFSC, thus resulting in a loss. Security requirements for a loan or guarantee will be different depending on the risk involved in each individual operation. Businesses are required to provide adequate security, as are enterprises needing specialized or customized equipment.

Lending staff continually monitor loan accounts for risk and ensure a prompt response to any financial difficulties that clients may encounter. Although these measures do not eliminate risk, they diminish the possibility of significant losses. The breakdown of AFSC's loan portfolio by sector is provided in Note 14 to the financial statements to highlight the areas of credit risk exposure by industry.

AFSC invests surplus funds generated by production and hail insurance operations. The majority of these funds are invested in bonds of federal or provincial governments, or securities of corporations that have superior credit ratings to minimize the risk of loss of the investment. The investments are managed by Alberta Investment Management Corporation, an Alberta Crown corporation. AFSC also invests in asset-backed securities (AAA rating) and senior bank notes (A rating and higher), securities which have relatively low levels of risk.

The insurance coverage that AFSC provides on crops becomes effective at the acceptance of the client's application for insurance, whether or not payment of premiums is made in full. To minimize the risk of non-collection of outstanding insurance premiums, AFSC offers a discount for early payment of insurance premiums and arranges a payment schedule for all clients who do not take advantage of the discount. Insurance staff monitor outstanding premiums closely, and when required, promptly take collection action.

AFSC accepts insurance coverage on credit, and offers a discount for premium payments received the earlier of June 25 or within 15 days of the billing date, with the exception of the Western Livestock Price Insurance products. These must be paid within 15 days. Clients facing financial difficulties may ask to make arrangements for a payment schedule. Unless specific payment arrangements have been approved, insurance is not renewed when there are outstanding premiums from a prior year.

Payments to some CAIS and AgriStability participants resulted in over payments when information provided by participants to AFSC proved to be incorrect or unfounded. As this creates a risk of potential non-repayment of the over payments, AFSC may offset over payments against any payments to clients.

To reduce AFSC's exposure to insurance program risk, AFSC enters into reinsurance arrangements with private sector reinsurance companies. AFSC selects reinsurance companies with superior credit ratings to mitigate credit risk related to non-recoverability of reinsurance proceeds from private reinsurance companies. In addition, AFSC engages a wide range of reinsurance companies to minimize the concentration of credit risk for the reinsurance contracts within its portfolio.

Interest Rate Risk

Interest rate risk is the impact that future changes in interest rates have on cash flows and fair value of assets and liabilities. To mitigate interest rate risk, AFSC focuses on matching the repayment timing of amounts borrowed with the repayment timing of loans made. AFSC allows its borrowers to repay loans in part or in full at any time without penalty.

Repayment of loans by clients in part or in full prior to the contract date is a normal feature of AFSC's lending programs. AFSC strives to minimize the gap between loan repayment and debt repayment on a regular basis. As loan repayments before maturity are not determinable with reasonable certainty, gaps are identified and dealt with when new borrowings are made.

The gap position as of March 31, 2018 is presented in Note 14 to the financial statements. As of March 31, 2018, there was a reasonable gap between the amount of loan and debt repayments due within the one-year period. AFSC has plans to bridge this gap through new borrowing that would result in a reduction of interest rate risk.

Interest rate risk is further mitigated by AFSC's Investment Policy, which covers surplus funds related to AgriInsurance, hay and pasture insurance and hail insurance program operations. The investment policy is approved by the Board of Directors, and compliance with the policy is reported to the Board's Audit Committee at least twice a year. Duration of investments is set to match management's best estimate of when investments need to be liquidated to meet financial commitments.

Liquidity Risk

Liquidity risk is the potential for financial loss if AFSC cannot meet its financial commitments for cash. As an integral part of liquidity management, AFSC uses sound cash management practices through cash flow statements, with an objective to maintain sufficient funds to meet business needs at all times. AFSC mitigates liquidity risks by retaining adequate bank balances in operating accounts. These accounts yield a reasonable rate of return through the Government of Alberta Consolidated Cash Investment Trust Fund. The investment portfolio of surplus funds in insurance operations is structured so that a portion of the portfolio is accessible at short notice to fund claim payments. Additionally, AFSC has access to advances from the provincial government to meet short-term cash flow needs.

Insurance Risk

Insurance risk is the potential for financial loss if insurance claims exceed program premiums and reserves in a given year. AFSC applies sound actuarial principles to mitigate insurance risk by setting premium rates to break even with claim payments over a term of 25 years. Independent actuarial firms certify AFSC's major insurance programs to ensure their long-term sustainability and a method of setting premiums that is reasonable. The federal and provincial governments provide reinsurance funds to AFSC to help mitigate inherent insurance risks for its AgriInsurance program. This is described in more detail in Note 2 (m) to the financial statements. A summary of transactions in the two reinsurance funds is under Note 16 to the financial statements. AFSC management has arranged reinsurance with private sector companies to further mitigate risks inherent to the insurance business. In the event that insurance claims exceed a threshold level that is determined in relation to premiums, these reinsurance arrangements limit AFSC's exposure to insurance program losses. In 2009, AFSC launched new price risk protection insurance for the cattle sector. The program has yet to build adequate reserves to be able to absorb unexpected levels of claims.

Operational Risk

The risk of loss resulting from insufficient or failed internal processes is referred to as operational risk. AFSC has developed an Enterprise Risk Management Plan to provide a framework and common understanding of risk and mitigation measures. Corporate policies and procedures are also in place to ensure internal controls exist and are adequate to reduce exposure to operational risks. AFSC has established formal processes to monitor compliance with policies and procedures, managers oversee operational risk in their respective work areas. Finance, Human Resources, Administrative Services and Information Technology manage operational risks specific to their areas as follows:

- **Operations:** Operational risks inherent in businesses and processes;
- **Finance:** Credit, interest rate, liquidity and financial controls;
- **Human Resources:** Employee recruitment, retention, succession planning and employee discipline;
- **Administrative Services:** Physical facilities and assets, employee safety and security, corporate liability and business continuity;
- **Information Technology:** Computer information processing systems, electronic information, security, data integrity, disaster recovery and storage, retrieval, and destruction of electronic information.

The Internal Audit Department plans and conducts operational and functional audits based on risk assessments, and regularly examines internal process controls and compliance with policies and procedures. External auditors review the effectiveness of internal controls annually. Both external and internal auditing groups report their findings and recommendations to the Board Audit Committee. The recommendations from these two audits are passed to the Executive Leadership Team to implement in a timely manner. Management is responsible for periodic reporting of progress on implementation of audit recommendations to the Board Audit Committee.

WHISTLEBLOWER PROTECTION ACT

AFSC is committed to conducting its affairs to the highest standards of ethics, integrity, honesty, fairness and professionalism, and in accordance with the principles of procedural fairness and natural justice. On January 1, 2016 AFSC launched its Whistleblower Protection Program which provides a safe, confidential and anonymous mechanism for facilitating the disclosure and investigation of "Wrongdoings", which are defined by the Government of Alberta's 2013 Public Interest Disclosure (Whistleblower Protection) Act (PIDA) as, significant and serious matters in or relating to AFSC that an employee believes may be unlawful, dangerous to the public, or injurious to the public interest. Legislative changes to PIDA through Bill 11: Public Interest Disclosure (Whistleblower Protection) Amendment Act, received Royal Assent on June 7, 2017 with proclamation on March 1, 2018. Amendments to the Act will impact how AFSC manages and investigate disclosures, give advice to employees, and educate staff on AFSC's Whistleblower Protection Policy.

The purpose of the AFSC's Whistleblower Protection Program is:

- To establish and maintain whistleblower policies and procedures that comply with PIDA that are designed to promote public confidence in the administration of AFSC;
- To facilitate the disclosure and investigation of "Wrongdoings" as defined in the Act, which are, in brief, significant and serious matters in or relating to AFSC that an employee believes may be unlawful, dangerous to the public or injurious to the public interest;
- To promote ethical behavior by AFSC employees, managers and staff members. Every employee, manager and staff member is expected to perform his or her duties with the utmost integrity, and to conduct themselves honestly, ethically and with the highest degree of professionalism;
- To deter and detect improper activity within AFSC to positively impact the reputation, effectiveness and finances of AFSC, and enhance the working environment for employees, managers and staff members;
- To protect from retaliatory action any employee, manager, staff member or other individual, who, in good faith, discloses improper activity occurring within AFSC. Protection from retaliation is also known as "whistleblower" protection.

In compliance with legislated reporting requirements, during 2017-18 AFSC's Designated Officer received six disclosure(s) under AFSC's Whistleblower Protection Program and the Public Interest Disclosure Act (PIDA); one disclosure was reviewed in conjunction with the testing performed during the 2017-18 Data Privacy Audit, which found that no instance(s) of Wrongdoing had occurred. The second disclosure was investigated and identified that a Wrongdoing had occurred; management has initiated corrective actions to address the Wrongdoing. The investigation found that subsequent to the processing of a 2013 AgriStability claim for a client, the actions of AFSC contravened the Freedom of Information & Protection of Privacy Act and therefore constituted a Wrongdoing under Section 3(1)(a). Management took corrective action including notifying the impacted client of the breach; performing a detailed review of the client's 2013 AgriStability claim; establishing increased oversight of the Compliance and Investigations TIPS Line; and performing a document retention review project for other 2011, 2012 and 2013 AgriStability clients. The other four disclosure(s) did not meet the criteria for a Wrongdoing as per PIDA, but were referred to either AFSC's Fraud Prevention Program; AFSC's General Counsel and Chief Compliance Officer; or AFSC's Manager of Internal Audit for further assessment and review by these respective functions.

Of note: AFSC's Designated Officer coordinates all PIDA disclosures pertaining to AFSC, including those that may originate externally via the provincial PIDA Commissioner/Office of the Ombudsman.

Disclosures Received	Disclosures Acted Upon	Disclosures Not Acted Upon	Investigations Commenced	Findings of Wrongdoing	Disclosures Closed
6	6	0	1	1	6

FINANCIAL HIGHLIGHTS

FINANCIALS AT A GLANCE

NOTE: Please read the following information in conjunction with AFSC's financial statements and attached notes.

Overall, AFSC recorded revenue of $1,158 million and expenses of $870 million, which resulted in a net surplus of $288 million. The surplus for 2017-18 was due to lower crop losses relative to premiums mainly due to dry conditions resulting in fewer hail storms and hail indemnities.

AFSC's assets increased from $5.144 billion to $5.398 billion of which $2.47 billion (46 per cent of all assets) represents investment of AgriInsurance surplus fund. AFSC's liabilities decreased from $2.568 billion to $2.534 billion.

The surplus balance carried over increased to $2.845 billion. Included in the surplus balance is $2.694 billion in the Crop Insurance Fund.

AGRISTABILITY STATISTICAL SUMMARY

Income stabilization - AgriStability including Alberta initiatives

Claim Year	Number of Claims Processed	Support Level $,000	Average Support Level $	Number of Claims with Payment	Total Payments $,000	Average Payment $
2016	5,867 *	1,329,354	308,865	1,436	141,034	98,213
2015	11,768	2,535,832	259,341	804	56,173	69,867
2014	13,838	2,523,615	224,981	951	34,638	36,422
2013	16,581	2,516,205	196,440	1,820	67,851	37,281
2012	17,830	2,974,747	197,644	1,459	52,173	35,760
2011	21,089	2,773,100	154,387	2,224	50,909	22,891

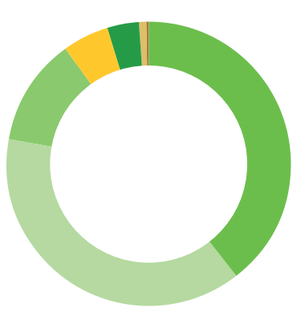
- *5,867 claims processed out of 10,221 total AgriStability claims as of March 31, 2018
- Claims are processed with a one year lag

AGRIINSURANCE STATISTICAL SUMMARIES

AgriInsurance for Annual and Perennial Crops as at March 31, 2018

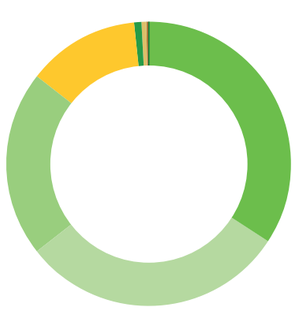
Crop Year	Number of Contracts	Acres ,000	Liability $,000	Premium $,000	Loss $,000	Loss/ Premium %
2017	16,941	21,862	4,528,472	694,717	425,937	61.3
2016	18,056	22,993	4,669,386	750,114	499,919	66.6
2015	17,030	21,422	4,042,181	617,889	483,466	78.2
2014	17,428	21,324	3,522,122	584,862	373,221	63.8
2013	18,418	21,698	4,364,681	780,420	308,535	39.5
2012	19,114	21,747	4,699,383	662,566	551,196	83.2

2017 Risk



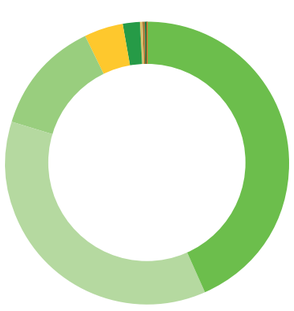
- Oilseed, 39.52%
- Cereal, 38.51%
- Pulse, 12.04%
- Forage, 5.22%
- Vegetables, 3.77%
- Sugar Beets, 0.68%
- Honey, 0.26%

2017 Loss



- Cereal, 34.19%
- Oilseed, 30.50%
- Pulse, 21.13%
- Forage, 12.75%
- Unseeded, 0.80%
- Vegetables, 0.47%
- Honey, 0.14%
- Sugar Beets, 0.02%

2017 Cause of Loss

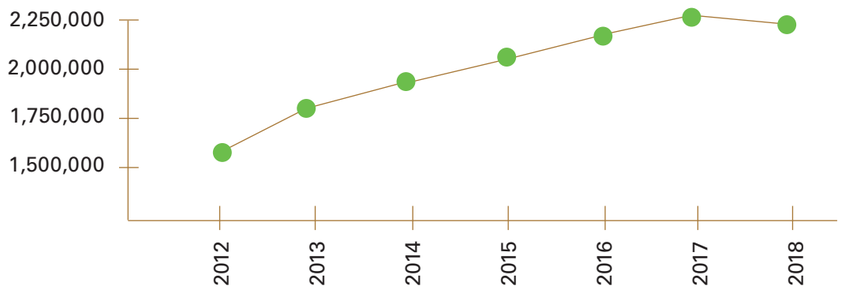


- Hail, 43.37%
- Drought, 36.51%
- Excess Moisture, 13.03%
- Other, 4.56%
- Price, 1.91%
- Frost, 0.30%
- Wind, 0.26%
- Plant Disease, 0.05%
- Insect Infestation, 0.01%

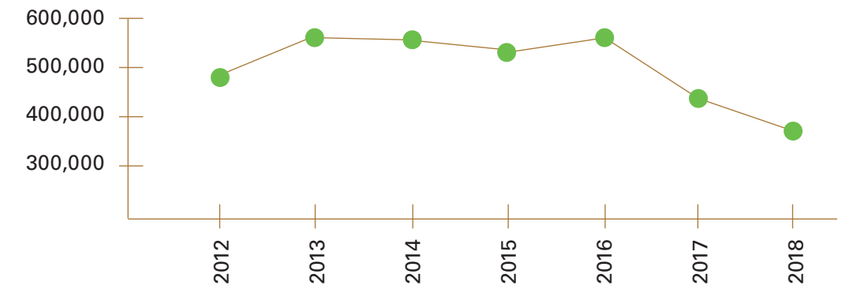
LENDING STATISTICAL SUMMARIES

31-Mar	New Loan Approvals $,000	Portfolio Outstanding $,000
2018	384,957	2,247,876
2017	443,522	2,251,215
2016	562,053	2,177,536
2015	522,868	2,077,493
2014	551,068	1,959,334
2013	552,898	1,789,700
2012	490,013	1,610,286

Portfolio Outstanding



New Loan Approvals



AFSC Staff Photo Submission by Doug Smith

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Agriculture Financial Services Corporation and all other information relating to the Corporation contained in this annual report have been prepared and presented by management, who is responsible for the integrity and fair presentation of the information.

These financial statements are prepared in accordance with Canadian generally accepted accounting standards. The financial statements necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in this annual report is consistent with that in the financial statements.

Management is responsible for maintaining a system of internal controls designed to provide reasonable assurance as to the reliability of financial information, and to ensure corporate assets are safeguarded and liabilities are recognized. The internal control systems are augmented by periodic reviews by the Corporation's internal and external auditors.

The Auditor General of Alberta has carried out an independent external audit of these financial statements in accordance with Canadian generally accepted auditing standards, and has expressed his opinion in the accompanying Auditor's Report.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board of Directors exercises this responsibility through the Board Audit Committee, composed of Directors who are not employees of the Corporation. The Board Audit Committee meets with the internal auditors and the external auditors-both in the presence and in the absence of management to discuss their audit, including any findings as to the integrity of financial reporting processes and the adequacy of our systems of internal controls. The internal and external auditors have full and unrestricted access to the Board Audit Committee.

Independent Auditor's Report

To the Board of Directors of the Agriculture Financial Services Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of the Agriculture Financial Services Corporation, which comprise the statement of financial position as at March 31, 2018, and the statements of operations, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Agriculture Financial Services Corporation as at March 31, 2018, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

Auditor General

May 31, 2018
Edmonton, Alberta

AGRICULTURE FINANCIAL SERVICES CORPORATION

FINANCIAL STATEMENTS

MARCH 31, 2018

Independent Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Change in Net Financial Assets

Statement of Cash Flows

Notes to the Financial Statements

Schedule of Operations

Schedule of Salaries and Benefits

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2018
(dollars in thousands)

	2018	2017
FINANCIAL ASSETS		
Cash	$ 294,430	$ 429,653
Accounts receivable (Note 3)	11,834	10,493
Due from Government of Alberta	106,461	98,534
Due from Government of Canada	226,853	196,969
Due from other Provincial Governments (Note 7)	-	1,941
Loans receivable (Note 4)	2,248,045	2,240,468
Investments (Note 5)	2,472,038	2,124,401
	5,359,661	5,102,459
LIABILITIES		
Accounts payable and accrued liabilities (Note 6)	15,255	21,979
Due to other Provincial Governments (Note 7)	2,832	-
Indemnities payable (Note 8)	288,540	333,922
Borrowing from Government of Alberta (Note 9)	2,220,290	2,206,540
Deferred revenue (Note 10)	7,336	5,810
	2,534,253	2,568,251
Net Financial Assets (Net Debt)	2,825,408	2,534,208
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 11)	34,639	37,269
Prepaid expenses	3,934	4,263
	38,573	41,532
Net assets before deferred capital contributions	2,863,981	2,575,740
Spent deferred capital contributions (Note 10)	$ 19,282	$ 19,475
Net Assets	$ 2,844,699	$ 2,556,265
Net Assets		
Accumulated surplus	$ 2,844,699	$ 2,556,265

Contingencies, Contractual Obligations and Commitments (Note 13)

The accompanying notes and schedules are part of these financial statements.

Jennifer Wood, Chair of the Board of Directors

Anna Harder, Audit Chair

Darryl Kay, Interim CEO

Janet Bargholz, Interim Chief Financial Officer

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2018
(dollars in thousands)

	2018 Budget	2018 Actual (Schedule 1)	2017 Actual
Revenues:			
Premiums from insured persons	$ 332,962	$ 348,131	$ 370,334
Interest	92,310	85,835	87,739
Contribution from Government of Alberta	310,477	356,855	375,481
Contribution from Government of Canada	260,534	316,013	332,624
Investment income	49,235	36,574	41,954
Fees and other income	15,038	14,434	18,416
	1,060,556	1,157,842	1,226,548
Expenses:			
AgriInsurance	410,362	501,291	568,035
Agriculture Income Support	122,144	224,160	187,835
Lending	108,968	99,033	100,327
Hail Insurance	45,641	25,282	55,840
Livestock Insurance	13,634	21,117	24,080
Wildlife Damage Compensation	6,704	(1,475)	35,991
	707,453	869,408	972,108
Annual surplus	$ 353,103	288,434	254,440
Accumulated surplus at beginning of year		2,556,265	2,301,825
Accumulated surplus at end of year		$ 2,844,699	$ 2,556,265

The accompanying notes and schedules are part of these financial statements.

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

YEAR ENDED MARCH 31, 2018
(dollars in thousands)

	2018 Budget	2018 Actual	2017 Actual
Net operating results	$ 353,103	$ 288,434	254,440
Acquisition of tangible capital assets	(7,570)	(6,902)	(7,366)
Amoritization of tangible capital assets (Note 11)	9,852	9,526	8,729
(Gain) Loss on disposal of tangible capital assets	-	6	(19)
Proceeds on sale tangible capital assets	-	-	53
Change in prepaid expenses	-	329	(305)
Change in spent deferred capital contributions	(911)	(193)	473
Increase in net financial assets in the year	354,474	291,200	256,005
Net financial assets, beginning of year	2,480,083	2,534,208	2,278,203
Net financial assets, end of year	$ 2,834,557	$ 2,825,408	$ 2,534,208

The accompanying notes and schedules are part of these financial statements.

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2018
(dollars in thousands)

	2018	2017
Operating activities:		
Net operating results	$ 288,434	$ 254,440
Non-cash items included in operating results		
Amortization of capital assets	9,526	8,729
Deferred capital contribution recognized as revenue	(5,061)	(5,355)
Amortization of premiums and discounts	(1,751)	1,781
Allowance for doubtful accounts and for losses	829	2,006
Gain on sale of investments	4,154	(7,340)
Loss on disposal of capital assets	(1)	(19)
Unearned revenue received	7,336	5,810
Changes in assets and liabilities relating to operations	(88,325)	100,464
Net cash provided by operating activities[1]	215,141	360,516
Investing activities:		
Proceeds from repayments of loans receivable	376,610	387,272
Loan disbursements	(389,373)	(470,480)
Purchase of investments	(1,403,900)	(1,205,287)
Proceeds on disposal of investments	1,052,106	978,962
Net cash utilized by investing activities	(364,557)	(309,533)
Capital activities:		
Purchase of tangible capital assets	(6,902)	(7,366)
Proceeds on disposal of tangible capital assets	6	53
Net cash utilized by capital activities	(6,896)	(7,313)
Financing activities:		
Borrowing from the Government of Alberta	1,145,000	1,020,000
Contributions restricted for capital	4,868	5,828
Repayment of borrowing from the Government of Alberta	(1,128,779)	(960,506)
Net cash provided by financing activities	21,089	65,322
Net increase in cash during the year	(135,223)	108,992
Cash at beginning of year	429,653	320,661
Cash at end of year	$ 294,430	$ 429,653

(1) Net cash provided by operating activities includes $68,028 (2017 $68,512) of interest paid.

The accompanying notes and schedules are part of these financial statements.

Note 1 Authority and Purpose

The Agriculture Financial Services Corporation (the "Corporation") operates under the authority of the *Agriculture Financial Services Act*, Chapter A-12 RSA 2000. AFSC is exempt from income taxes under the *Income Tax Act.*

The Corporation provides income stabilization, disaster assistance, AgriInsurance, livestock price insurance and loans and guarantees to primary agriculture producers in Alberta. Loans and guarantees are also provided to commercial Alberta businesses.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

Basis of Financial Reporting:

(a) Revenue Recognition

Premiums from insured persons are recorded as revenue when earned over the insurance policy contract term for AgriInsurance and Hail Insurance programs. A corresponding premium contribution from the Governments of Canada and Alberta is also recognized on policies sold under the AgriInsurance programs and is included in Contributions from the Governments of Canada and Alberta. Premiums received by the Corporation in advance of the related policy term are recorded as deferred revenue until earned.

For the Livestock Price Insurance Program premiums are recorded as revenue when a policy is sold.

Government transfers from the Governments of Canada and Alberta are referred to as government contributions. Contributions from the Governments of Canada and Alberta for estimated compensation payments to participants under Agriculture Income Support Programs such as AgriStability (formerly the Canadian Agriculture Income Stabilization (CAIS)), AgriInvest, AgriRecovery and Wildlife Damage Compensation are recognized in the period in which the program payments to producers are determinable. Overpayments of compensation payments under the AgriStability program are recovered through repayment or the reduction of future eligible payments under the program or other programs administered by the Corporation. Overpayments are repayable to the Governments of Canada and Alberta.

Contributions received from the Governments of Canada and Alberta that are restricted for the acquisition of tangible capital assets are recognized as deferred revenue when received and recognized as revenue over the useful life of the acquired tangible capital assets.

AGRICULTURE FINANCIAL SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018
(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(a) Revenue Recognition (continued)

Interest income on loans receivable is recognized as earned over the period of loan repayment except for impaired loans. At the date impairment is assessed, arrears of interest is derecognized and is not accrued until the loan reverts to performing status or is terminated. When an impaired loan is reverted to performing status, interest is accrued and recognized from the date of change in status of the loan. Interest previously unrecognized is recognized only when payment is received.

Investment income is recognized in the period in which the income is earned. Gains or losses on the value on investments are recognized when realized on disposition.

Fees which are primarily from lending activities and AgriStability applications are recognized on processing of the related application. AgriStability program application fees received in advance of the program commencement date are recorded as deferred revenue until earned.

(b) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed. Interest expense includes debt servicing costs such as amortization of discounts and premiums, foreign exchange gains and losses, and issuance costs.

Identifiable administrative expenses for all of the programs administered by AFSC are charged directly to the specific program. Where the direct charging of the administrative expenses to specific programs is not possible, these expenses are allocated to each program on a basis approved by management.

(c) Valuation of Financial Assets and Liabilities

AFSC's financial assets and liabilities include cash, receivables, loans receivable, investments, accounts payable and accrued liabilities, indemnities payable, borrowing from the Government of Alberta and deferred revenue. All financial instruments are held at cost or amortized cost. The effective interest method is used to recognize interest income or expense. Transaction costs related to all financial instruments are expensed as incurred.

Since no financial assets or liabilities are recorded at fair value and there were no material foreign currency transactions, these statements do not present a Statement of Remeasurement Gains and Losses as the Corporation has no remeasurement gains or losses.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(d) Measurement Uncertainty

There is an inherent degree of uncertainty associated with the measurement of certain amounts recognized or disclosed in the financial statements. In the preparation of the financial statements, management is required to make estimates and assumptions that affect the reported amount of assets, liabilities, net assets and related disclosures. Estimates of material amounts relate to Indemnities payable and Allowances for doubtful accounts and for losses on Accounts receivable and Loans receivable. Accordingly, actual results could differ from these and other estimates thereby impacting future financial statements. Disclosure of the nature and circumstances giving rise to the uncertainty, have been disclosed in the relevant notes in the financial statements (See Notes 3, 4 and 8).

(e) Non-Financial Assets

Non-financial assets are limited to tangible capital assets and prepaid expenses.

(f) Cash

Cash consists of bank balances. Interest is earned on bank balances as part of funds managed by the Government of Alberta and is included in investment income.

(g) Loans Receivable and Allowances for Doubtful Accounts and for Losses

Loans receivable are recorded at cost or amortized cost less any amount for provision for credit losses. Amounts included in the cost of loan receivable include principal not due, arrears of principal and interest, accrued interest and capitalized other costs.

The Corporation records valuation allowances to reduce the cost of impaired loans to their net realizable value. A loan is classified as impaired when collection of principal and interest is no longer reasonably assured. Two types of allowances are established for loans receivable.

Specific allowance – a specific allowance is established after a loan-by-loan review of accounts meeting prescribed criteria indicative of a potential deterioration in the credit quality of debt. The specific allowance for each loan is determined as the difference between the loan principal amount outstanding and the discounted net present value of the related security net of the cost of realization. Changes in net realizable value of security subsequent to the recording of the initial allowance are adjusted through the specific allowance.

AGRICULTURE FINANCIAL SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018
(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(g) Loans Receivable and Allowances for Doubtful Accounts and for Losses (continued)

General allowance – two types of general allowance are recorded. The first type is for estimated probable losses relating to deterioration in the full recoverability of individual loan accounts which have not yet met management's criteria for setting up a specific allowance at the Statement of Financial Position date. A methodology is applied to determine the Corporation's risk exposure to probable losses on individual loan accounts not subject to a specific allowance. The second type is for the aggregate amount owing for individual loans under a specific program or industry sector or a geographical area. In determining the allowance, management considers economic and market conditions and uncertainties affecting recoverability of such loans.

Loans are written off against the related allowance for doubtful accounts and for losses if there is no realistic prospect of future recovery. Any recovery of amounts previously written off is recognized on receipt of proceeds.

(h) Concessionary Loans and Loan Discounts

A loan is considered to have concessionary terms when at inception of the loan, the net present value of expected future cash flows is less than present book value. Book values of concessionary loans are reduced to their net present values by loan discounts expensed in the year in which loans are disbursed and amortized to interest revenue over the period of the concessionary term in proportion to loan repayments received.

(i) Investments

Investments are carried at cost or amortized cost unless there is an other than temporary decline in the value of the investments; then the investments are written down to recognize the loss. Premiums and discounts on investments are amortized to investment income using the effective interest rate method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

(j) Borrowing from Government of Alberta

Borrowing is carried at amortized cost. Premiums and discounts on borrowing are amortized to interest expense using the effective yield method over the period to maturity.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(k) Tangible Capital Assets including Capital Leases

Tangible capital assets of the Corporation are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. An asset acquired, other than computer software, with a life of more than one year and a cost of $5 or more is capitalized. Computer software acquired from external sources at a cost of $100 or more and software developed by the Corporation costing $500 or more are capitalized.

Leases that, from the point of view of the lessee, transfer substantially all the benefits and risks incidental to the ownership of the asset to the Corporation are considered capital leases. These are accounted for as an asset and an obligation. Capital lease obligations are recorded at the present value of the minimum lease payments excluding executory costs. The discount rate used to determine the present value of the lease payments is the Corporations incremental borrowing rate.

Tangible capital assets are written down when conditions indicate that they no longer contribute to AFSC's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the Statement of Operations.

(l) AgriStability, AgriInvest and AgriRecovery Program

Payments under the programs to participants, administration expenses and corresponding contributions from the Governments of Canada and Alberta are recorded at 100% for AgriStability and AgriRecovery programs because the programs are delivered by the Corporation and at 40% for AgriInvest program because the program is delivered by Agriculture and Agri-Food Canada.

(m) Reinsurance

The Corporation carries reinsurance to cover AgriInsurance risks through two levels of government. Two crop reinsurance funds were established. On behalf of the Province, the Corporation administers the provincial fund called the Crop Reinsurance Fund of Alberta. The Government of Canada holds the federal fund called the Crop Reinsurance Fund of Canada for Alberta. The Crop Reinsurance Fund of Alberta is included as part of the AgriInsurance net assets of the Corporation. Contributions to and withdrawals from the Funds are made in accordance with terms and conditions of the agreement between the Governments of Canada and Alberta (see Note 16).

In addition, the Corporation carries two different types of reinsurance through private reinsurance companies for AgriInsurance, Hail and Livestock insurance programs. This includes both Excess of loss and Quota share reinsurance. Excess of loss is a type of reinsurance in which the reinsurer indemnifies the ceding company for losses that exceed a

AGRICULTURE FINANCIAL SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018
(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(m) Reinsurance (continued)

specified limit. Quota share is a type of pro rata reinsurance contract in which the insurer and reinsurer share premiums and indemnities according to a fixed percentage. To reflect the objective of reinsurance as cost recovery, all reinsurance transactions, including brokerage commissions, ceded premiums and indemnities recovered, are disclosed in Schedule 1 as Net reinsurance expenses. Disclosure of the actual amounts relating to brokerage fees, ceded premiums and indemnity recoveries have been disclosed in the financial statement notes (see Note 17).

(n) AgriInsurance Accumulated Surplus Restriction

In accordance with the Federal/Provincial Agricultural Policy Framework Implementation Agreement, the AgriInsurance accumulated surplus of $2,694,432 (2017 2,431,277) is restricted for AgriInsurance purposes only (see Schedule 1).

(o) Pensions

The Corporation participates in multi-employer pension plans with related government entities. Pension costs included in these statements are comprised of the cost of employer contributions for the current year service of employees.

(p) Transactions with Related Parties

The Government of Alberta significantly influences the programs delivered by the Corporation and is a major contributor to the funding of the programs. Therefore, the Government is considered a related party. All related party transactions with the Government of Alberta have been recorded at the exchange amount which is the consideration paid or received as agreed to by the related party (see Note 15).

(q) PS3260 Liability for Contaminated Sites

Contaminated sites are a result of contamination being introduced into air, soil, water, or sediment of a chemical, organic, or radioactive material, or live organism that exceeds an environmental standard. AFSC recognizes a liability for the sites no longer in use where the contamination has exceeded the relevant environmental standards and where AFSC has accepted responsibility. Included in Accounts Payable and Accrued Liabilities (Note 6) is a liability of $1,330 for the estimated remaining remediation (2017 $2,925).

(r) Net Debt Model

Net debt model has been adopted for the presentation of financial statements. Net financial asset or net debt is measured as the difference between AFSC's financial assets and liabilities. A net financial asset balance indicates the extent of AFSC's dependence on government transfers and operating revenues to net assets resulting from settlement of its financial assets and liabilities.

Note 3 Accounts Receivable

	2018	2017
AgriStability & Canadian Agricultural Income Stabilization (CAIS) programs:		
Overpayments	$ 5,047	$ 7,846
Administration fees	328	252
Premiums from insured persons		
AgriInsurance program	3,708	2,914
Livestock insurance program	1,064	2,204
Hail insurance program	542	580
Other	7,394	5,945
	18,083	19,741
Allowances for doubtful accounts		
At beginning of year	(9,248)	(10,017)
Decrease (increase) for this year	1,199	469
Write offs, net of recoveries	1,800	300
At end of year	(6,249)	(9,248)
	$ 11,834	$ 10,493

Included in the allowances for doubtful accounts is $5,047 (2017 $7,846) representing the amount of overpayments under AgriStability and CAIS programs in recognition of the Corporation's role as an agent for collection. The allowance for doubtful accounts is subject to measurement uncertainty as it is an estimate based on management's assessment of collectability of outstanding balance. Actual write-offs realized in future periods could be materially different from management's estimates.

Note 4 Loans Receivable

Loans receivable are comprised of the following:

	2018			2017
	Farm	Commercial	Total	Total
Performing loans - non concessionary	$ 1,893,290	$ 321,886	$ 2,215,176	$ 2,207,533
Performing loans - concessionary	2,130	-	2,130	2,985
Impaired loans	2,865	27,705	30,570	40,697
	1,898,285	349,591	2,247,876	2,251,215
Accrued interest	24,513	1,513	26,026	26,060
Loan discount	(27)	-	(27)	(39)
	1,922,771	351,104	2,273,875	2,277,236
Allowances	(4,807)	(21,023)	(25,830)	(36,768)
Net carrying value	$ 1,917,964	$ 330,081	$ 2,248,045	$ 2,240,468

All loans have fixed interest rates for the term of loan or renewal period.

Loans have blended repayments during the term. Loans can be repaid in full or part during the term without any penalty.

Note 4 Loans Receivable (continued)

Allowances for doubtful accounts for loans are as follows:

	Farm	Commercial	2018	2017
At beginning of year	$ 8,002	$ 28,766	$ 36,768	$ 42,502
Increase (decrease) for the year	(3,001)	5,029	2,028	2,475
Write-offs	(194)	(12,772)	(12,966)	(8,209)
At end of year	$ 4,807	$ 21,023	$ 25,830	$ 36,768
Specific allowance	$ 536	$ 13,151	$ 13,687	$ 23,899
General allowance	4,271	7,872	12,143	12,869
	$ 4,807	$ 21,023	$ 25,830	$ 36,768

Valuation allowances of loans receivable are based on management's best estimate. Actual losses realized may vary significantly from management's estimate.

Loans receivable are secured by tangible assets consisting predominantly of land followed by buildings, equipment and other assets. The estimated values of such assets are $4,966,477 (2017 $4,698,479 (restated)).

The composition of the Loans receivable balance by range of effective annual interest rates is as follows:

	2018	2017
Effective annual Interest Rate		
Less than or equal to 2%	$ 198,673	$ 219,742
2.01% to 3.00%	430,595	454,977
3.01% to 4.00%	706,808	654,886
4.01% to 5.00%	504,046	462,449
5.01% to 6.00%	285,645	297,894
6.01% to 7.00%	108,179	141,430
7.01% to 8.00%	11,691	16,510
Over 8%	2,213	3,288
	2,247,850	2,251,176
Accrued interest	26,025	26,060
Allowance for doubtful accounts	(25,830)	(36,768)
	$ 2,248,045	$ 2,240,468
Weighted average annual interest rate	3.85%	3.86%

Note 5 Investments

	2018	2017
Bonds and debentures:		
Government of Canada, direct and guaranteed	$ 1,283,128	$ 952,752
Other provincial, direct and guaranteed	87,921	216,590
	1,371,049	1,169,342
Corporate securities:		
Asset backed securities, AAA rated	602,882	553,687
Senior bank notes	486,282	389,773
	1,089,164	943,460
	2,460,213	2,112,802
Accrued interest	11,825	11,599
	$ 2,472,038	$ 2,124,401

The fair value of investments at March 31, 2018 is $2,430,696 (2017 $2,123,136). Fair value is based on quoted market prices excluding accrued interest.

The following provides a breakdown of the investment portfolio by term to maturity.

	Term to Maturity [1]				
	Within 1 Year	1 to 5 Years	6 to 10 Years	2018	2017
Bonds and debentures	$ 14,726	$ 1,354,961	$ 1,362	$ 1,371,049	$ 1,169,342
Yield [2]	1.51%	2.02%	2.36%	2.02%	1.08%
Corporate Securities	44,927	1,011,238	32,999	1,089,164	943,460
Yield [2]	1.82%	2.51%	2.84%	2.49%	1.62%
	59,653	2,366,199	34,361	2,460,213	2,112,802
Accrued interest	216	11,489	120	11,825	11,599
	$ 59,869	$ 2,377,688	$ 34,481	$ 2,472,038	$ 2,124,401

[1] Term to maturity classifications are based on contractual maturity date of the security.

[2] Yield represents the rate which discounts future cash receipts to the carrying amount.

Note 6 Accounts Payable and Accrued Liabilities

	2018	2017
Supplies and services	$ 9,759	$ 15,180
Salaries, wages and employee benefits	4,935	5,968
Reinsurance Premiums to Government of Canada	19	20
Other	542	811
	$ 15,255	$ 21,979

Note 7 Due (to) from Other Provincial Governments

Due to provincial governments represents amounts collected from and paid to other provincial governments relating to the Western Livestock Price Insurance Program which was implemented in April 2014. The program provides producers with protection against an unexpected drop in prices on cattle and hogs. The Corporation entered into an agreement with the other provincial governments to deliver this program to producers in British Columbia, Saskatchewan and Manitoba. Any premiums, indemnities or expenses collected on behalf of producers outside of Alberta are recorded as Due to provincial governments in the financial statements. The Corporation's Statement of Operations includes premiums, indemnities and administration expenses for Alberta producers only.

Breakdown of the amounts owing is as follows:

	2018	2017
Premiums collected	$ (22,703)	$ (13,497)
Indemnities paid	17,247	15,640
Administration costs receivable	364	438
Reinsurance premiums	4,613	1,713
Reinsurance expense net of ceded premiums	(2,353)	(2,353)
	$ (2,832)	$ 1,941

Note 8 Indemnities Payable

	2018 (Note 2(l))	2017 (Note 2(l))
AgriStability (previously CAIS program), AgriInvest, AgriRecovery and related programs		
Current claim year	$ 149,300	$ 182,995
Prior claim years	110,198	48,433
	259,498	231,428
AgriInsurance	17,860	77,445
Wildlife compensation	1,022	24,651
Hail insurance	-	396
Livestock price insurance	10,160	2
	$ 288,540	$ 333,922

Estimated indemnities payable of $288,540 and corresponding contributions and receivables from the Governments of Canada and Alberta are subject to measurement uncertainty because they could change materially in the future, if factors and assumptions considered by management in establishing the estimates were to change significantly.

Estimated indemnities for the current claim year for the AgriStability and AgriInvest programs are based on a variety of factors such as number of participants, estimated reference margins, estimated claim year margins based on projected forecast commodity prices, crop yields, inventory changes and forecast changes in eligible income and expenses on an aggregate basis for different types of agriculture industry. Based on the above key assumptions and using a statistical model for projections estimated indemnities for the current year would be in the range of $127,237 to $181,027.

Estimated indemnities for prior claim years under AgriStability, AgriInvest and AgriRecovery programs are based on probable payments for claims not yet processed.

Estimated indemnities payable for the AgriInsurance program are based upon number of claims remaining to be paid and average claim payment amounts. The indemnities payable also includes claims deferred by producers. Based on that information the projected estimated indemnities would be in the range of $16,191 to $26,933.

Indemnities for Livestock Price Insurance Program are based on estimated payments using forward contract prices applicable to policies sold during the fiscal year with settlement dates beyond the end of fiscal year.

AGRICULTURE FINANCIAL SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018
(dollars in thousands)

Note 9 Borrowing from Government of Alberta

All borrowings from the Government of Alberta bear interest rates which are fixed for the term of the borrowing. Repayment of principal is on maturity with the exception of a small number of borrowings which require blended repayments during the term.

The composition of outstanding borrowing from the Government of Alberta by range of effective annual interest rate is as follows:

	2018	2017
Effective annual Interest Rate		
Less than or equal to 2%	$ 355,000	$ 370,000
2.01% to 3.00%	683,000	583,000
3.01% to 4.00%	759,238	759,238
4.01% to 5.00%	400,751	460,752
5.01% to 6.00%	9,227	18,006
	2,207,216	2,190,996
Accrued interest	14,198	14,668
Unamortized premium	(1,124)	876
	$ 2,220,290	$ 2,206,540
Weighted average annual interest rate	3.06%	3.13%

Principal repayments due in each of the next five years and thereafter are as follows:

Year ending March 31,	2019	$ 271,092
	2020	293,109
	2021	225,000
	2022	181,432
	2023	136,431
	Thereafter	1,100,152
		$ 2,207,216

The estimated fair value of borrowings as at March 31, 2018 is $2,272,966 (2017 $2,325,485). Fair value is an approximation of market value to the holder.

Note 10 Deferred Revenue

	2018	2017
Unearned revenue	$ 7,336	$ 5,810
Spent deferred capital contributions	19,282	19,475
	$ 26,618	$ 25,285

Unearned revenue

	2018				2017
	Government of Canada	Non-government	Government of Alberta	Total	Total
Balance at beginning of year	$ -	$ 5,810	$ -	$ 5,810	$ 6,932
Received during year	-	7,336	-	7,336	5,810
Less amounts recognized	-	(5,810)	-	(5,810)	(6,932)
Balance at end of year	$ -	$ 7,336	$ -	$ 7,336	$ 5,810

Spent deferred capital contributions

	2018				2017
	Government of Canada	Non-government	Government of Alberta	Total	Total
Balance at beginning of year	$ 11,277	$ 679	$ 7,519	$ 19,475	$ 19,002
Transferred capital assets received	2,921	-	1,947	4,868	5,828
Less amounts recognized as revenue	(2,978)	(97)	(1,986)	(5,061)	(5,355)
Balance at end of year	$ 11,220	$ 582	$ 7,480	$ 19,282	$ 19,475

Unearned revenue represents premiums received from producers for AgriInsurance programs, fees collected for the AgriStability program relating to the next fiscal year and amounts collected in advance from other provincial governments for licensing fees for the Western Livestock Price Insurance Program. Spent deferred capital contributions represent contributions received from the federal and provincial governments that are restricted for the acquisition of tangible capital assets.

Note 11 Tangible Capital Assets

	Land	Building	Furniture and Fixtures	Computer Equipment and Software	2018	2017
Estimated Useful Life	Indefinite	25 - 40 years	5 - 10 years	2 - 10 years		
Cost						
At beginning of year	$ 1,827	$ 10,219	$ 12,099	$ 110,192	$ 134,337	$ 127,469
Additions	4	39	95	6,764	6,902	7,366
Disposals	-	-	(15)	(4,952)	(4,967)	(498)
	1,831	10,258	12,179	112,004	136,272	134,337
Accumulated amortization						
At beginning of year	-	5,808	8,866	82,394	97,068	88,803
Amortization expense	-	387	957	8,182	9,526	8,729
Disposals	-	-	(9)	(4,952)	(4,961)	(464)
	-	6,195	9,814	85,624	101,633	97,068
Net book value at March 31, 2018	$ 1,831	$ 4,063	$ 2,365	$ 26,380	$ 34,639	
Net book value at March 31, 2017	$ 1,827	$ 4,411	$ 3,233	$ 27,798		$ 37,269

Computer equipment and software costs include $3,056 (2017 $7,543) of costs incurred that are not amortized because they are still in the development stage.

Note 12 Pensions

The Corporation participates in the multi-employer Alberta Management Employees Pension Plan and the Alberta Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Alberta Public Service Managers.

AFSC does not have sufficient plan information to follow the standards for defined benefit accounting, and therefore, follows the standards for defined contribution accounting. Accordingly, pension expense recorded for the plans is comprised of employer contributions to the plan that are required for its employees during the year, which are calculated based on actuarially pre-determined amounts that are expected to provide the plan's future benefits. The expense for these pension plans is equivalent to the annual contributions of $5,808 for the year ended March 31, 2018 (2017 $6,413).

At December 31, 2017, the Alberta Management Employees Pension Plan reported a surplus of $866,006 (2016 surplus $402,033), the Local Authorities Pension Plan reported a surplus of $4,835,515 (2016 surplus $637,357), the Alberta Public Service Pension Plan reported a surplus of $1,275,843 (2016 surplus $302.975) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of $54,984 (2016 deficiency $50,020). The Corporation's share of these pension plans' deficiency is not determinable. The Corporation is not responsible for future funding of the plan deficits other than through contribution increases.

Note 13 Contingencies, Contractual Obligations and Commitments

Contingent Liability

	2018	2017
Loan guarantees	$ 9,686	$ 13,112
Less allowances for losses	-	-
Total contingencies	$ 9,686	$ 13,112

Included in loan guarantees is $7,365 (2017 $9,336) guaranteed under the Alberta Flood Recovery Loan Guarantee Program (AFRLGP), which was established to assist Alberta businesses directly impacted by the June 2013 flood in southern Alberta. Under the AFRLGP, the Corporation has entered into agreements with financial institutions guaranteeing repayment of up to 75% of loans issued under this program.

The Corporation has been named in two (2017 three) claims of which the outcomes are not determinable. There are specified amounts totaling $312 (2017 $275). The resolution of the indeterminable claims may result in a liability, if any, that may be significantly lower than the claimed amount.

Contractual Obligations

	2018	2017
Reinsurance	28,898	23,879
Operating leases	11,187	12,747
Other contracts	9,060	7,061
Total contractual obligations	$ 49,145	$ 43,687

Reinsurance, operating leases and contracts due in each of the next five years and thereafter are as follows:

Year ending March 31,	2019	$ 37,297
	2020	3,386
	2021	2,233
	2022	1,584
	2023	1,075
	Thereafter	3,570
		$ 49,145

AFSC entered into a quota share reinsurance contract which is a pro rata reinsurance contract in which the insurer and the reinsurer share in premiums and indemnities according to a fixed percentage. The fixed percentages are 55% for Livestock insurance and 39% for Hail insurance.

The operating lease contractual obligations are for accommodations with terms up to twelve years.

AGRICULTURE FINANCIAL SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018
(dollars in thousands)

Note 13 Contingencies, Contractual Obligations and Commitments (continued)

Commitments

	2018	2017
Approved, undisbursed loans	$ 195,932	$ 187,126

Note 14 Financial Instruments and Financial Risk Management

Financial instruments comprise the majority of AFSC's assets and liabilities. AFSC is exposed to credit, interest and liquidity risks in respect to its use of financial instruments.

Credit Risk

Credit risk is the possibility that a debtor will not pay amounts owing to AFSC, resulting in a loss to the Corporation.

AFSC's maximum possible exposure to credit risk is as follows:

	2018	2017
Loans receivable	$ 2,248,045	$ 2,240,468
Investments	2,472,038	2,124,401
Due from Government of Canada	226,853	196,969
Due from Government of Alberta	106,461	98,534
Accounts receivable	11,834	10,493
Loan guarantees	9,686	13,112
Total commitments	$ 5,074,917	$ 4,683,977

Loans receivable - Security requirements for a loan or guarantee depend on the risk involved in each individual operation. Adequate security is required for new and emerging businesses as well as for enterprises needing specialized or customized equipment. To mitigate credit risk, lending staff monitor loan accounts continually to ensure prompt response to any financial difficulties customers may encounter.

Investments - AFSC invests surplus funds generated by Production and Hail Insurance operations. To decrease the risk of loss of investment, the majority of funds are invested in bonds of federal or provincial governments or securities of corporations that have superior credit ratings. The investments are managed by Alberta Investment Management Corporation, an Alberta Crown Corporation. AFSC also invests in asset-backed securities (AAA rating) and senior bank notes (A rating and higher). Both of these investments consist of securities with relatively low levels of risk.

Due from the Government of Alberta and the Government of Canada – AFSC is not exposed to significant credit risk as payment in full is typically collected when due.

Note 14 Financial Instruments and Financial Risk Management (continued)

Accounts receivable - Payments to some CAIS/AgriStability participants resulted in overpayments when information provided to AFSC by participants proved to be incorrect or not supported. This creates a risk of potential non-repayment of the overpayments. The Corporation may set off overpayments against any payments to customers.

AFSC provides insurance coverage on crops, effective at the acceptance of the customer's application for insurance, with or without payment of premiums in full. Non-collection of outstanding insurance premiums is a risk. To minimize this risk, a discount is offered for early payment of insurance premiums and arrangements made for a payment schedule for all customers not taking advantage of the discount. Insurance staff closely monitors outstanding premiums and promptly take collection action when required.

The following breakdown of the Loans receivable provides an indication of the concentration of credit risk in the loan portfolio. Further information is provided throughout these statements which disclose other concentrations of credit risk.

	2018		2017 (Restated)	
	Dollar	Percentage	Dollar	Percentage
Loans receivable by individual sector:				
Grain and Oilseeds	$ 1,189,275	53%	$ 1,166,729	52%
Cattle	635,419	28%	611,094	27%
Accommodations and Other Services	137,467	6%	145,594	7%
Manufacturing	83,456	4%	97,761	4%
Other Livestock	73,872	3%	72,379	3%
Trade - Retail and Wholesale	34,905	1%	41,676	2%
Commercial and Industrial	20,669	1%	30,116	1%
Transportation and Warehousing	21,457	1%	24,023	1%
Professional Services	15,943	1%	19,394	1%
Other	61,412	3%	68,470	3%
Allowance	(25,830)	-1%	(36,768)	-1%
	$ 2,248,045	100%	$ 2,240,468	100%

Interest Rate Risk

Interest rate risk is the impact future changes in interest rates have on cash flows and fair values of financial assets and liabilities. AFSC's interest rate exposure relates to investments, loans receivable, and borrowing from the Government of Alberta.

Investments – Interest rate risk on investments is mitigated by AFSC's Investment Policy for surplus funds. The investment policy is approved by the Board of Directors and compliance with the policy is reported to the Board Audit Committee at least twice a year. Duration of investments are set to match management's best estimate of when investments may be needed to be liquidated to meet financial commitments. These investments are normally held to maturity so changes in interest rates do not affect value of the investments as they are carried at amortized cost.

AGRICULTURE FINANCIAL SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018
(dollars in thousands)

Note 14 Financial Instruments and Financial Risk Management (continued)

Loans receivables – Loans receivable balances consist of loans with interest rates fixed either until maturity date or for a term with a renewable option. The Corporation allows its customers to prepay their loans without any prepayment penalties. In the normal course of business, loan customers prepay their loans in part or in full prior to the contractual maturity date. Impact of interest rate changes on performance of loan portfolio and cash flows could be significant as a result of changes in market interest rates and borrower's repayment preferences.

Borrowing from the Government of Alberta - The interest rates on borrowings are fixed until maturity. For a vast majority of borrowings, principal repayments are due in full on maturity date with no prepayment option. The Government of Alberta provides an annual contribution to the Corporation that includes an amount to bridge the gap between interest revenue from the loan portfolio and interest on borrowings annually through the budget process. Cash inflows are matched with outflows through additional borrowing as required from the Government of Alberta. Management has assessed that the interest rate risk related to borrowing is not significant.

The following position of the Corporation's loan portfolio and borrowing provides additional information on interest rate risk.

	Scheduled Repayment[1]				Not [2] Interest Rate Sensitive	2018	2017 (Restated)
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years		Total	Total
Loan balances	$ 197,314	$ 636,217	$ 634,068	$ 757,507	$ 22,939	$ 2,248,045	$ 2,240,468
Yield	3.71%	3.74%	3.73%	3.26%	-	3.67%	3.68%
Borrowing from Government of Alberta	$ 271,093	$ 835,972	$ 850,152	$ 250,000	$ 13,073	$ 2,220,290	$ 2,206,540
Yield [3]	3.27%	3.22%	3.15%	3.09%	-	3.21%	3.25%
Net gap	$ (73,779)	$ (199,755)	$ (216,084)	$ 507,507	$ 9,866	$ 27,755	$ 33,928

(1) For loan balances, scheduled repayments of principal are based on amortization of loans for the remaining term up to maturity at applicable interest rates. For borrowing from the Government of Alberta, scheduled repayments reflect contractual repayment of principal.

(2) Includes impaired loans, specific and general allowance, accrued interest and unamortized loan discount.

(3) Yield represents the rate which discounts future cash receipts to the carrying amount.

Liquidity Risk

Liquidity risk relates to AFSC's ability to access sufficient funds to meet its financial commitments.

Note 14 Financial Instruments and Financial Risk Management (continued)

AFSC's primary liquidity risk relates to its liability for insurance claims. Insurance claims are funded firstly with current year premiums collected, which normally exceeds cash requirements. In addition, the investment portfolio of surplus funds in insurance operations is structured in such a way that a portion of the portfolio is accessible at short notice to fund claim payments. The Corporation also carries private sector reinsurance for AgriInsurance and Hail Insurance providing significant protection against catastrophic losses. If all of the above are exhausted, the AgriInsurance program has a reinsurance agreement with the Government of Canada and the Government of Alberta to provide additional funding for claim payments. Additionally, the Corporation has access to advances from the Government of Alberta to meet short-term cash flow needs.

Note 15 Related Party Transactions

Related parties are those entities consolidated or accounted for on the modified equity basis in the Government of Alberta's financial statements. Related parties also include key management personnel and their close family members. As a result of an assessment made by management, there are no transactions to report.

The Corporation had the following transactions with related parties recorded on the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

	2018	2017
Revenues:		
Grants	$ 356,855	$ 375,481
Other	60	-
	$ 356,915	$ 375,481
Expenses:		
Accommodation	$ 619	$ 641
Other services	2,362	2,066
Interest	67,953	67,900
	$ 70,934	$ 70,607
Payable to:		
Ministry of Agriculture and Forestry	$ -	$ 650
Ministry of Treasury Board and Finance	2,220,290	2,206,540
Ministry of Service Alberta	-	-
Receivable from:		
Ministry of Agriculture and Forestry	106,461	98,534
Deferred Revenue from:		
Ministry of Agriculture and Forestry	7,480	7,519
	$ 2,334,231	$ 2,313,243

AGRICULTURE FINANCIAL SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018
(dollars in thousands)

Note 16 Crop Reinsurance Funds

The contributions, withdrawals and accumulated net asset positions of the Crop Reinsurance Fund of Alberta and the Crop Reinsurance Fund of Canada for Alberta are as follows (see Note 2(m)):

	AgriInsurance Reinsurance Fund of Alberta		AgriInsurance Reinsurance Fund of Canada for Alberta	
	2018	2017	2018	2017
Opening net assets	$ 33,642	$ 33,641	$ 34,531	$ 34,530
Contributions	(1)	1	(1)	1
Closing net assets	$ 33,641	$ 33,642	$ 34,530	$ 34,531

The net assets balance in the Crop Reinsurance Fund of Alberta is consolidated in the AgriInsurance Fund in Schedule 1.

Note 17 Reinsurance Expense

	AgriInsurance	Hail Insurance	Livestock Insurance	2018	2017
Brokerage					
Brokerage rebate	$ (1,037)	$ (195)	$ (126)	$ (1,358)	$ -
Excess loss					
Reinsurance expense	19,624	1,129	1,861	22,614	28,942
Recoveries	-	-	-	-	(3,904)
Quota Share					
Ceded premiums and commissions	-	13,430	8,339	21,769	
Ceded losses	-	(5,839)	(7,656)	(13,495)	
Net reinsurance expense	$ 18,587	$ 8,525	$ 2,418	$ 29,530	$ 25,038

Excess loss recoveries ($3,904) is included in Fees and other income in prior year.

Note 18 Budget

The budget reported in the Statement of Operations was included in the 2017/18 Government Estimates.

Note 19 Comparative Figures

The 2017 figures have been reclassified and restated where necessary to conform to 2018 presentation.

AGRICULTURE FINANCIAL SERVICES CORPORATION
SCHEDULE OF OPERATIONS
YEAR ENDED MARCH 31, 2018
(dollars in thousands)

Schedule 1

	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	AgriInsurance Note 2(n)	AgriInsurance Note 2(n)	Agriculture Income Support	Agriculture Income Support	Lending	Lending	Hail Insurance	Hail Insurance	Livestock Insurance	Livestock Insurance	Wildlife Damage Compensation	Wildlife Damage Compensation	Total	Total
Revenues:														
Premiums from insured persons	$ 282,834	$ 302,691	$ -	$ -	$ -	$ -	$ 42,534	$ 45,361	$ 22,763	$ 22,282	$ -	$ -	$ 348,131	$ 370,334
Interest	541	549	66	84	85,052	86,976	95	93	81	37	-	-	85,835	87,739
Contribution from Government of Alberta	242,670	258,738	101,775	85,685	12,547	11,672	-	-	737	806	(874)	18,580	356,855	375,481
Contribution from Government of Canada	203,150	222,140	112,252	92,039	-	-	-	-	1,089	1,199	(478)	17,246	316,013	332,624
Investment income	35,203	40,969	271	275	532	419	245	138	329	175	(6)	(22)	36,574	41,954
Fees and other income	48	85	10,336	10,330	2,805	2,915	393	2,884	716	2,120	136	82	14,434	18,416
	764,446	825,172	224,700	188,413	100,936	101,982	43,267	48,476	25,715	26,619	(1,222)	35,886	1,157,842	1,226,548
Expenses:														
Indemnities	439,683	501,310	210,716	174,069	-	-	14,779	51,304	16,375	18,400	(3,168)	35,201	678,385	780,284
Salaries, wages and employee benefits	26,332	26,447	9,411	10,343	19,643	20,642	662	1,248	1,127	1,179	937	371	58,112	60,230
Supplies and services	12,800	11,816	4,035	3,961	5,969	5,742	600	908	594	719	623	181	24,621	23,327
Amortization of tangible capital assets	4,004	3,451	1,087	999	2,988	2,878	699	744	615	613	133	44	9,526	8,729
Interest	-	-	-	-	68,405	68,590	-	-	-	-	-	-	68,405	68,590
Reinsurance (Note 17)	18,587	24,204	-	-	-	-	8,525	1,569	2,418	3,169	-	-	29,530	28,942
Allowance for doubtful accounts and for losses (Note 3 & 4)	(115)	807	(1,089)	(1,537)	2,028	2,475	17	67	(12)	-	-	194	829	2,006
	501,291	568,035	224,160	187,835	99,033	100,327	25,282	55,840	21,117	24,080	(1,475)	35,991	869,408	972,108
Annual surplus	263,155	257,137	540	578	1,903	1,655	17,985	(7,364)	4,598	2,539	253	(105)	288,434	254,440
Accumulated surplus at beginning of year	2,431,277	2,174,140	1,221	643	83,272	81,617	12,706	20,070	26,495	23,956	1,294	1,399	2,556,265	2,301,825
Accumulated surplus at end of year	$ 2,694,432	$ 2,431,277	$ 1,761	$ 1,221	$ 85,175	$ 83,272	$ 30,691	$ 12,706	$ 31,093	$ 26,495	$ 1,547	$ 1,294	$ 2,844,699	$ 2,556,265

Schedule 2

AGRICULTURE FINANCIAL SERVICES CORPORATION

SCHEDULE OF SALARIES AND BENEFITS

YEAR ENDED MARCH 31, 2018

(dollars in thousands)

	2018				2017
	Base Salary[1]	Other Cash Benefits[2]	Other Non-cash Benefits[3]	Total	Total
Chair of Board[4]	$ 47	$ -	$ 1	$ 48	$ 13
Board members[5]	103	-	3	106	32
President and Managing Director[6]	-	-	-	-	838
Executive Members					
Interim CEO[7]	246	12	60	318	42
Chief Operating Officer[8]	7	60	14	81	414
Vice-President, Innovation & Product Development[9]	-	-	-	-	556
Chief Financial Officer[10]	-	-	-	-	289
Chief Information Officer	174	11	44	229	227
Chief Communication and Marketing Officer[11]	-	-	-	-	244
Vice-President, Human Resources and Communications[12]	152	8	39	199	193
Vice-President, Legal & Compliance, General Counsel	185	4	45	234	142
Interim Vice-President, Innovation & Product Development[13]	198	2	49	249	127
Interim Vice-President, Business & Strategy[14]	-	-	-	-	114
Interim Vice-President, Operation & Sales[15]	171	9	42	222	106
Interim Chief Financial Officer[16]	115	10	29	154	-

(1) Base salaries are fees for Chair and Board members and base pay for employees.

(2) Other cash benefits include vacation payments and lump sum payments including retirement allowances. There were no bonuses paid during the year.

(3) Other non-cash benefits include employer's share of all employee benefits and contributions or payments made on behalf of employees, including health care, dental, medical and vision care, group life insurance benefits, pension and supplementary retirement plan, employment insurance, accidental death/dismemberment and long-term disability insurance, workers' compensation and professional memberships. No amount is included in other non-cash benefits for an automobile provided to the President and Managing Director.

(4) The amounts relate to eleven months during 2017/18 (two and one half months in 2016/17).

(5) The amounts relate to eleven months during 2017/18 (two and one half months in 2016/17).

(6) Position was for twelve months during 2016/17.

(7) The amounts relate to twelve months during 2017/18 (nine and one half months in 2016/17).

(8) The amounts relate to one month during 2017/18 (twelve months in 2016/17)

(9) Position was for twelve months during 2016/17.

(10) The amounts relate to twelve months during 2016/17.

(11) Position was for one month during 2016/17.

(12) Vice-President, Human Resources and Communications was promoted on March 1, 2018 from Senior Manager, Human Resources and Communications.

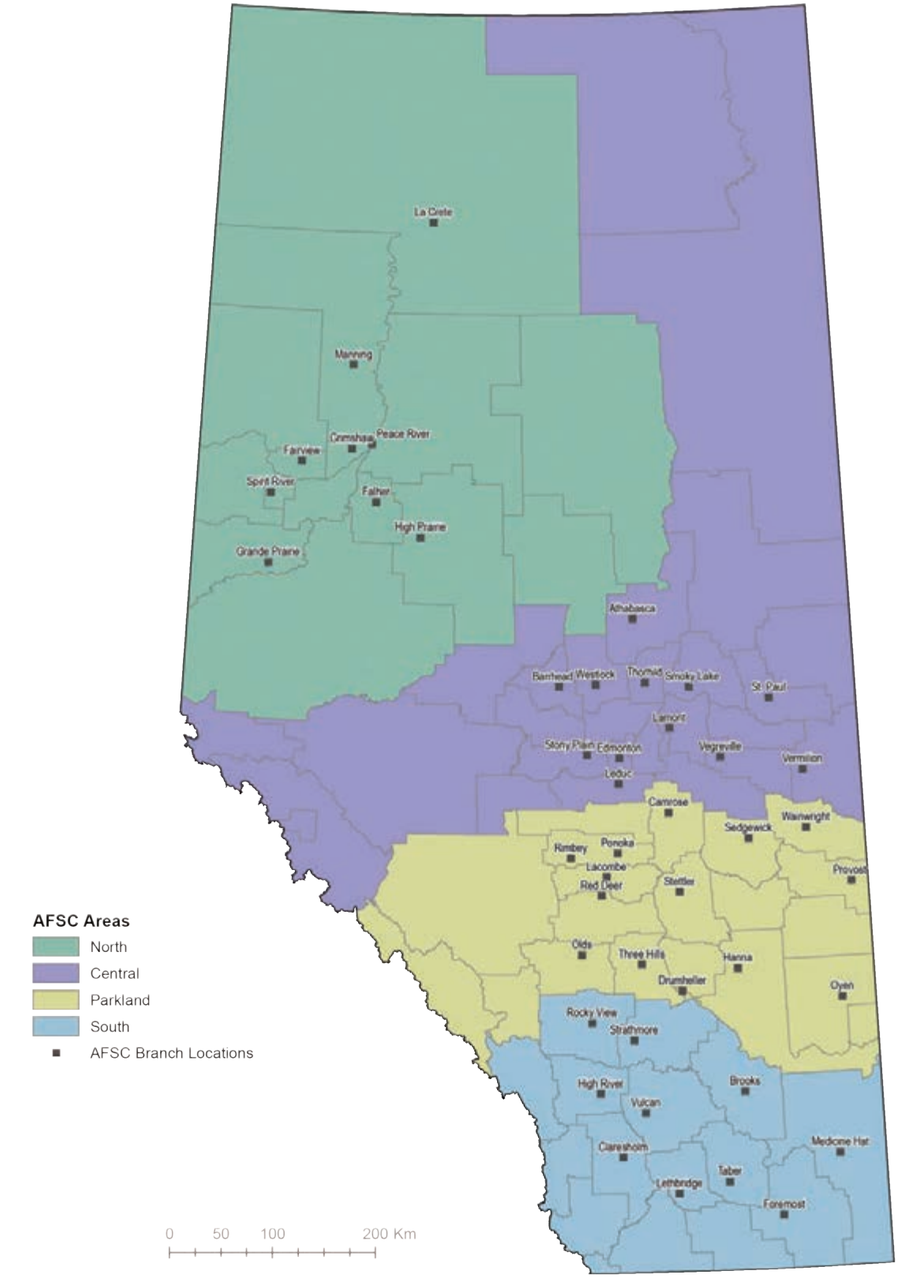
(13) The amounts relate to twelve months during 2017/18 (five months during 2016/17).

(14) Position was for four and one half months during 2016/17.

(15) The amounts relate to twelve months during 2017/18 (five months during 2016/17).

(16) The amounts relate to eight months during 2017/18.

AFSC Offices (as of March 31, 2018)



AFSC Office Locations (as of March 31, 2018)

ATHABASCA

Provincial Building
100 - 4903 - 50th Street
Athabasca AB T9S 1E2
Ph: 780.675.4007
Fax: 780.675.3827

BARRHEAD

PO Box 4533
4924 50th Avenue
Barrhead AB T7N 1A4
Ph: 780.674.8782
Fax: 780.674.8787

BROOKS

Provincial Building
220 - 4th Avenue W
Brooks AB T1R 0G1
Ph: 403.362.1262
Fax: 403.362.8078

CAMROSE

4910 - 52nd Street
Camrose, AB T4V 2V4
Ph: 780.679.1739
Fax: 780.679.1758

CLARESHOLM

Provincial Building
109 - 46th Avenue W
PO Box 1227
Claresholm AB T0L 0T0
Ph: 403.625.3534
Fax: 403.625.2862

DRUMHELLER

PO Box 2319
111 Railway Avenue West
Drumheller AB T0J 0Y0
Ph: 403.823.3042
Fax: 403.823.5083

FAIRVIEW

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Provincial Building
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Fairview AB T0H 1L0
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Fax: 780.835.3994

FALHER

PO Box 658
Municipal District Building
701 Main Street
Falher AB T0H 1M0
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Fax: 780.837.8223

FOREMOST

PO Box 37
218 Main Street
Foremost AB T0K 0X0
Ph: 403.867.3666
Fax: 403.867.2038

GRANDE PRAIRIE

102 - 10625 Westside Drive
Grande Prairie AB T8V 8E6
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Fax: 780.532.2560

GRIMSHAW

PO Box 802
5306 - 50th Street
Grimshaw AB T0H 1W0
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Fax: 780.332.1044

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PO Box 339
Provincial Building
401 Centre Street
Hanna AB T0J 1P0
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Fax: 403.854.2590

HIGH PRAIRIE

Provincial Building
PO Box 1259
5226 - 53rd Avenue
High Prairie AB T0G 1E0
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Fax: 780.523.6569

HIGH RIVER

309 - 1st Street SW
PO Box 5208
High River AB T1V 1M4
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Fax: 403.652.8306

LACOMBE CENTRAL OFFICE

5718 - 56 Avenue
Lacombe AB T4L 1B1
Phone: 403.782.8200

AFSC Office Locations (as of March 31, 2018)

LACOMBE BRANCH OFFICE

4712 - 49B Avenue
Lacombe AB T4L 1K2
Ph: 403.782.6800
Fax: 403.782.6753

LA CRETE

PO Box 1420
10105 94th Avenue
La Crete AB T0H 2H0
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Fax: 780.928.2819

LAMONT

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Lamont AB T0B 2R0
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Fax: 780.895.7755

LEDUC

6547 Sparrow Drive
Leduc AB T9E 7C7
Ph: 780.986.4088
Fax: 780.986.1085

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County of Lethbridge
Building
200 905 - 4th Avenue S.
Lethbridge, AB T1J 0P4
Ph: 403.381.5240
Fax: 403.382.4527

MANNING

PO Box 147
116 - 4th Avenue SW
Manning AB T0H 2M0
Ph: 780.836.3573
Fax: 780.836.2844

MEDICINE HAT

111 - 7 Strachan Bay SE
Medicine Hat AB T1B 4Y2
Phone: 403.488.4509
Fax: 403.488.4516

OLDS

Provincial Building
101 - 5030 - 50th Street
Olds AB T4H 1S1
Ph: 403.556.4334
Fax: 403.556.4255

OYEN

PO Box 426
201 Main Street
Oyen AB T0J 2J0
Ph: 403.664.3677
Fax: 403.664.2687

PEACE RIVER

9809 - 98th Avenue
Peace River AB T8S 1J5
Ph: 780.617.7225
Fax: 780.617.7229

PONOKA

PO Box 4426
Provincial Building
250 5110 - 49th Avenue
Ponoka AB T4J 1S1
Ph: 403.783.7071
Fax: 403.783.7925

PROVOST

PO Box 716
Provincial Building
5419 - 44th Street
Provost AB T0B 3S0
Ph: 780.753.2150
Fax: 780.753.2876

RED DEER

Unit #1 - 7710 Gaetz Avenue
Red Deer AB T4P 2A5
Ph: 403.340.5379
Fax: 403.340.7999

RIMBEY

PO Box 888
Provincial Building
5025 - 55th Street
Rimbey AB T0C 2J0
Ph: 403.843.4516
Fax: 403.843.4150

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Unit #2, 261024 Dwight Mclellan Trail
Rocky View County, AB T4A 0T5
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Fax: 403.297.8461

AFSC Office Locations (as of March 31, 2018)

SEDGEWICK

PO Box 266
4701 - 48th Avenue
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Ph: 780.384.3880
Fax: 780.384.2156

SMOKY LAKE

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Provincial Building
108 Wheatland Avenue
Smoky Lake AB T0A 3C0
Ph: 780.656.3644
Fax: 780.656.3669

SPIRIT RIVER

PO Box 547
Provincial Building
4602 - 50th Street
Spirit River AB T0H 3G0
Ph: 780.864.3896
Fax: 780.864.2529

ST. PAUL

104, 5025 - 49th Avenue
Provincial Building Box 406
St. Paul AB T0A 3A4
Ph: 780.645.6453
Fax: 780.645.2848

STETTLER

PO Box 1807
5020 50th Street
Stettler AB T0C 2L0
Ph: 403.740.4200
Fax: 403.740.4210

STONY PLAIN

Provincial Building
4709 - 44th Avenue
Stony Plain AB T7Z 1N4
Ph: 780.963.0600
Fax: 780.963.1251

STRATHMORE

325 - 3rd Avenue
Strathmore AB T1P 1B4
Ph: 403.934.3616
Fax: 403.934.5018

TABER

Provincial Building
5011 - 49th Avenue
PO Box 4
Taber AB T1G 1V9
Ph: 403.223.7900
Fax: 403.223.7985

THORHILD

County Administration Building
PO Box 400
801 - 1st Street
Thorhild AB T0A 3J0
Ph: 780.398.3933
Fax: 780.398.2087

THREE HILLS

Provincial Building
PO Box 40
128 - 3rd Avenue S
Three Hills AB T0M 2A0
Ph: 403.443.8515
Fax: 403.443.7519

VEGREVILLE

PO Box 1440
Vinet's Village Mall
Suite 138 4925 - 50th Avenue
Vegreville AB T9C 1S6
Ph: 780.603.2332
Fax: 780.632.3385

VERMILION

5039 - 49th Avenue
Vermilion AB T9X 1B8
Ph: 780.581.2345
Fax: 780.853.1982

VULCAN

104 Centre Street East
PO Box 847
Vulcan AB T0L 2B0
Ph: 403.485.2766
Fax: 403.485.2947

WAINWRIGHT

2710-15 Avenue
Wainwright AB T9W 0A4
Phone: 780.842.7547
Fax: 780.842.4948

WESTLOCK

11207-104 Avenue
Westlock AB T7P 1B2
Ph: 780.349.4544
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