



**2019-20 ANNUAL REPORT**  
Agriculture Financial Services Corporation





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“Agriculture affords something unique to the few of us that get to do it. Every single day we face a set of challenges and circumstances that can make you question why it is you do what you do. But in that same day, you will also witness the miracle of life.

The reward that comes out of farming is what matters most.”

Nichole Neubauer  
Neubauer Farms  
Medicine Hat, AB

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## Vision

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

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## Mission

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

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## Values



### RESPECT

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

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### TRUST

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

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### INTEGRITY

We behave ethically and are open, honest and fair.

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### 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.

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# Minister of Agriculture and Forestry Message

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Agriculture Financial Services Corporation (AFSC) has an essential role in supporting Alberta's producers and entrepreneurs. Alberta's agriculture and food sector is a cornerstone of our economy, and will be an essential contributor to the diversification and rebuilding of our economy as we recover from the effects of the COVID-19 pandemic.

The events of this fiscal year show just how unpredictable the agriculture industry can be. The 2019 farming season was not easy for Alberta producers, as weather, trade disruptions, and other challenges had a serious impact on farming operations across the province. With snow blanketing the province early, many farmers faced large amounts of unharvested acres. In addition to production levels, product grade was also a concern. It was not an easy year for forage either, and producers were concerned about potential feed quality, the increasing price of hay, getting products to market, and, in some cases, the stability of their overall farming operations.

In the face of these challenges, AFSC continued to have an essential role in building and maintaining a strong agriculture and agri-food sector in Alberta. With a full suite of business risk management programs, AFSC proved once again it is ready to support clients facing financial difficulties due to circumstances beyond their control. AFSC clients experiencing financial setbacks can depend on proven programs, such as AgriInsurance and AgriStability, to help get them back on track.

I have met with AFSC staff; they are keenly aware of the challenges their clients face and they are ready to work with them to respond to their needs. AFSC also continues to work closely with industry groups and partners to review programs and ensure they remain relevant. I am certain that AFSC's Board and management team will continue to enable our agriculture and food sectors, to contribute to the rebuilding of our economy and thrive in the coming years.

Devin Dreeshen

Minister of Agriculture and Forestry

# About Agriculture Financial Services Corporation

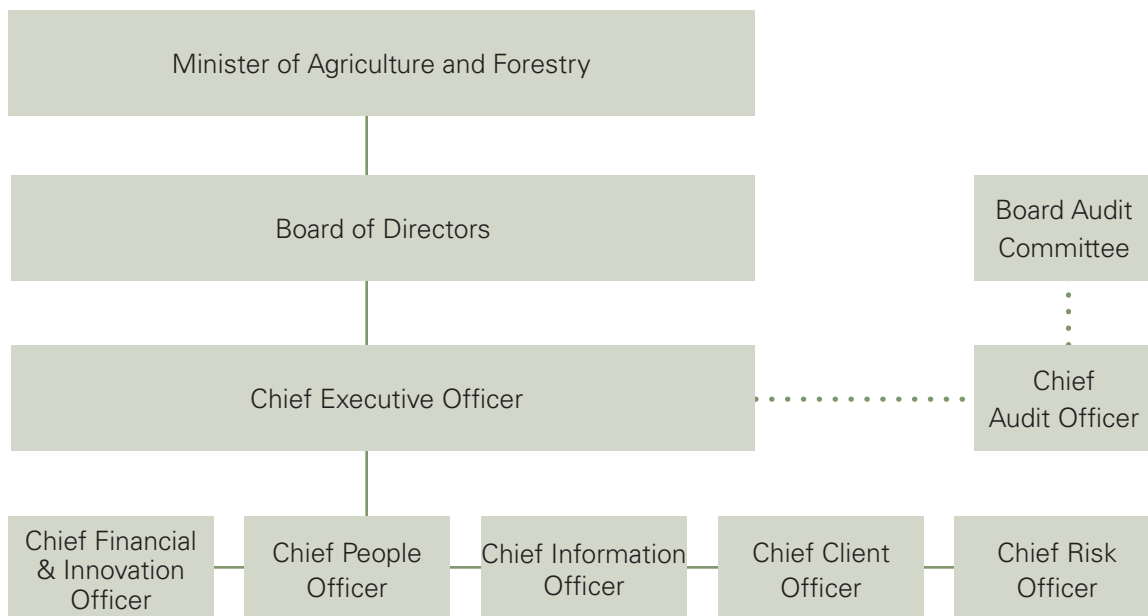
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Agriculture Financial Services Corporation (AFSC) provides leading, innovative, client-focused financial and risk-management solutions to grow agriculture in Alberta. We are a provincial Crown corporation that began by providing hail insurance to Alberta farmers more than 80 years ago, and we have grown into a diverse corporation dedicated to building relationships with our clients to help manage their risks within the agriculture industry.

Our products and services address gaps in the marketplace where similar products are not consistently and reliably available from other sources. We work with agricultural producers, agribusinesses and rural businesses to support and advance agricultural development, creating new opportunities for businesses and improving the quality of life for rural Albertans.

## Corporate Governance

We operate under the authority of the *Agriculture Financial Services Act* and the *Agriculture Financial Services Regulation* as a provincial Crown corporation. We serve in a public policy role for the Government of Alberta.





## Board of Directors

The AFSC Board of Directors provides leadership and direction to our organization, overseeing management and performance.

On March 31, 2020 the Board of Directors consisted of seven directors appointed by the Minister of Agriculture and Forestry on April 27, 2017. The directors bring a variety of skills and experience as entrepreneurs, primary agricultural producers and agribusiness owners and operators.



Jennifer Wood, Chair



Gerald (Jerry) Bouma



Gordon Cove



Peter Galloway



Harvey Hagman



Jo-Ann Hall



Anna Harder  
until September 2019



Kiren Singh

# Board and Committee Structure

The AFSC Board of Directors has the flexibility to appoint members to committees. Each committee has specific reporting requirements and operates under formal charters, 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.

<b>Governance and Human Resources Committee</b>	The Governance and Human Resources Committee assists the Board in fulfilling its corporate governance and management oversight responsibilities.
	Members: Jo-Ann Hall, <i>Chair</i> , Gordon Cove, Peter Galloway, Jennifer Wood
<b>Audit Committee</b>	The Audit Committee oversees the fiscal management, financial reporting, as well as internal/external audit plans, reports and internal controls.
	Members: Peter Galloway, <i>Chair</i> , Jo-Ann Hall, Kiren Singh, Jennifer Wood, ex-officio
<b>Risk Committee</b>	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. This includes proposals for significant changes to existing businesses or new initiatives that will advance the long-term strategic vision of the corporation.
	Members: Gordon Cove, <i>Chair</i> , Gerald (Jerry) Bouma, Harvey Hagman, Kiren Singh, Jennifer Wood, ex-officio



## Executive Leadership Team

As of March 31, 2020 the Executive Leadership Team consisted of six Chief Officers.



Steve Blakely,  
Chief Executive Officer



Darryl Kay,  
Chief Financial and  
Innovation Officer



Karla Kochan,  
Chief People Officer



JJ Campbell,  
Chief Information Officer



Steve Janz,  
Chief Client Officer



Walker Rogers  
Chief Risk Officer

# 2019-20 at a Glance

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## Economic Climate

**Alberta's agriculture industry was impacted by a number of factors in 2019-20, both on a global and local scale.**

Global growth was slow in 2019 with key economic indicators decelerating to very low levels. In many advanced nations, bond yields dropped and in some advanced economies, inverted yield curves raised fears of a recession. Growth prospect concerns led to easing monetary policy in many countries, including the United States.

Trade tensions between major economies continued to escalate for most of 2019. The signing of a phase one deal between the US and China and the ratification of the Canada-United States-Mexico Agreement contributed to reducing tensions. However, protectionist measures adopted by many advanced nations continued to act as headwinds to economic growth.

On March 11, 2020, COVID-19 was declared a pandemic by the World Health Organization. Prior to this, the global economy was showing signs of stabilization. As the fiscal year came to a close, COVID-19 posed new threats to the global economy with many countries in lockdown, resulting in a disruption to global supply chains, reduced final demand for imported goods and services, mass unemployment and a decline in both business travel and tourism. Various governments declared states of emergency and implemented stimulus programs to reduce the impact of COVID-19.

Economic growth in Canada was modest, with a real GDP growth of 1.6 per cent in the 2019 calendar year. Alberta's real GDP growth for 2019 has been estimated at 0.3 per cent, down from 1.6 per cent a year ago.

Alberta's economic wellbeing was negatively impacted by the lack of pipeline capacity in the energy sector and market access challenges for some agricultural exports especially to China (e.g. canola seed, pork). As a result of oversupply and COVID-19, oil prices collapsed in March 2020. The price of West Texas Intermediate fell from \$61.59 USD per barrel on April 1, 2019 to \$20.51 per barrel on March 31, 2020. Western Canadian Select, the price obtained for most of Alberta's oil, was trading at just over \$5 USD per barrel at the end of the fiscal year. The economic shock of COVID-19 and collapsed oil prices prompted the Bank of Canada to cut interest rates three times in one month, bringing the policy interest rate to 0.25 per cent.

Agricultural commodity prices experienced downward pressure due to abundant supply. Canada's export sector continued to be cushioned by the weaker Canadian dollar relative to the US dollar.

The weak economic conditions in Alberta coupled with unfavourable weather resulted in softened growth in farm land values. On average, Alberta farm land values increased by 3.3 per cent in 2019.



## Annual Crops

The 2019 season was not easy for Alberta producers, as weather and other challenges had a serious impact on operations in many areas of the province. These weather conditions, including early snow in parts of the province, resulted in over one million unharvested acres.

Generally, seeding was completed early, but dry conditions slowed plant growth. The summer saw varying amounts of rain across the province. The South region continued to experience dry conditions while the north-west and lower Peace regions received excessive amounts of moisture. Average temperatures during the growing season were cooler than normal, causing crop maturation to linger. By harvest season, precipitation and early snowfall added to the tough conditions producers were already facing.

Heading into harvest, yields for the south and the north-west regions were below average, while remaining parts of the province were generally looking very good. The delayed maturing of crops and wet weather during harvest affected the quality of the crop, and made getting the crop in the bin difficult or even impossible in some areas.

By the end of December 2019, when close to 98 per cent of Harvested Production Reports for the 2019 crop season had been filed, 1,014,056 acres were reported unharvested. Of those acres, 504,988 were seeded to canola, 256,901 to wheat and 129,056 to barley.

In addition, a further 888,778 acres were reported with yields below their crop insurance coverage, due to excess moisture and snow during harvest. In this category, canola also took the biggest share with 457,559 acres, followed by wheat with 212,033 acres and barley with 110,154.



## Perennial Crops

Alberta's weather continued to pose challenges for producers throughout 2019 as some areas experienced cool temperatures and a late start to spring. As a result of cooler spring temperatures and late snow in 2019—tame hay and pasture grown had a slow start. By June they were behind the five-and-ten-year average, at just under 50 per cent good and nine per cent excellent and declining—compared to 40 per cent good and 25 per cent excellent over the past five to 10 years.

July haying was delayed in most areas of the province due to continued showers, with some hay in the swath suffering from rot and standing hay's condition continuing to decline. Haying started early in the south due to the continuing dry conditions, while production, as expected, was low.

In August there were varying conditions across the province, with continued dry conditions in the south, some improvement in the central and north east and wet and cool conditions in the Peace and north west. These conditions contributed to delays in haying, with on average 62 per cent completed compared with the five-year norm of 94 per cent complete. The number of claims and indemnities paid to perennial clients was down slightly from the 2018 crop year totaling a 204 per cent loss-to-premium ratio.





## Livestock

The livestock sector experienced rollercoaster market volatility throughout the 2019-20 fiscal year.

Very little precipitation fell in late spring and early summer, which forced the price of feed up significantly. The next wave of uncertainty was brought by the halt of meat exports from Canada to China in late June. Shaky trade negotiations demonstrated instability in livestock markets and put downward pressure on prices, particularly hogs.

The focus shifted to the cattle industry when Tyson Foods Inc., a packing plant in Holcomb, Kansas, caught fire. With packing plants across North America working at full capacity, and already processing more cattle than in years prior, plants surrounding Tyson Foods Inc. increased their capacity again to process the additional 30,000 head per week. This had a significant impact on the cash price for fed cattle; although, packer margins flourished with no shortage of cattle.

A slow rally back through the fall and into December saw Canadian meat exports resume to China, the re-opening of the Tyson Foods plant, a positive outlook for the Canada-United States-Mexico Agreement (USMCA) and a new year on the horizon, all of which supporting cattle prices across the board.

However, 2020 came with new and devastating challenges. The viral pandemic COVID-19 swept the globe, resulting in extreme economic and market uncertainty. To close out the fiscal year, the WLPPI program experienced the highest levels of market volatility since its inception. As a result, available coverage decreased and premiums significantly increased, challenging the affordability of the program.

Amongst the challenges the industry faced, Canada saw record-high volumes of cattle and hogs on feed with strong beef demand in the domestic and export market throughout North America in 2019 and into 2020.





## Corporate Enhancements

Building upon the successful introduction of initiatives like the AFSC Roadmap, Balanced Scorecard and People Strategy, in 2019-20 we introduced a number of enhancements linked to these overarching strategies. Three key corporate enhancements were instrumental in helping us meet the needs of our stakeholders, our clients and our people.

1. To support Agriculture and Forestry's focus on creating jobs and promoting economic growth, we established an agribusiness lending team, with locations in Leduc, Rocky View - Calgary and Lethbridge, close to Alberta's core industry centres. This **agribusiness lending team** has over 70 years of combined experience.
2. In response to our *Everyone Has a Client* initiative, we created **service level agreements** for our internal and external clients. These parameters enable us to provide clear expectations regarding turnaround times and encourage accountability between teams as we work towards exceeding our clients' expectations. As part of our Service Level Agreements, we created a Client Service Level Catalogue to help us enhance efficiencies, provide transparency and demonstrate our commitment to our clients.
3. In response to AFSC's Roadmap and People Strategy, we launched the **Diversity and Inclusion** framework to formalize our commitment to building a more diverse workforce. Under this framework, we consciously remove barriers to success and promote equitable access to opportunity across our organization.

The focus of our Diversity and Inclusion strategy is to build an inclusive culture that embraces psychological diversity over physical diversity. As both the framework and the Diversity and Inclusion practice at AFSC mature, the workforce of the future will better represent the diversity of the communities we serve and ensure we fill our talent pipeline with qualified individuals to build our workforce.

More than just a written or verbal commitment, the Diversity and Inclusion strategy is built on changing our behaviour and mindset—so diversity and inclusion become a natural part of how we do things at AFSC.

As we move forward with a focus on enhancing our responsiveness, these three corporate enhancements will continue to play a key role in fulfilling our promises to our clients and our people.





# SUPPORTING OUR **CLIENTS**

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“The relationships with our AFSC Product Specialists have been great, they’ve gotten to learn our needs and have helped us with loans to increase infrastructure and equipment at our farm.”

Mike deJong  
Busy Bee Farms Ltd.  
AFSC Lending Client  
Hay Lakes, AB

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SERVING  
**22,601**  
CLIENTS



**2.45 B**

TOTAL LOANS  
OUTSTANDING



**22.6**  
MILLION

ACRES  
INSURED

**14,174**

ACRES INSURED UNDER NEW  
CROP INSURANCE INITIATIVE



**16,113** INSPECTIONS  
COMPLETED



**479,374\***

PRICE-PROTECTED CATTLE

\* APPROX HEAD BASED ON 4.9M CWT



## Client Experience

The work that we do revolves around our clients. Serving Alberta's agriculture industry is a privilege and our goal to deliver an unbeatable client experience is rooted in the actions of our team members. AFSC staff are the drivers of the organization's success and a vital link in providing the high level of service that Alberta producers and business owners deserve. Each interaction a client has with AFSC should leave them feeling heard, valued and respected.

Client experience is at the forefront of everything we do. Through our Balanced Scorecard, every AFSC employee has a direct line of sight into how their role affects the delivery of our client experience — and they remain focused on continually improving that experience day after day.

In 2019-20, we continued to develop online solutions that provide our clients with enhanced digital access and more options for conducting their business. Since the successful launch of our client interaction system, AFSC Connect, 25 per cent of our clients have used this tool to manage their business exchanges with the organization and to provide feedback.

In July 2019, AFSC launched new AgriStability functionality, which enables clients to do business their way by completing Supplementary and Statement A forms online through AFSC Connect. Through this added capability, clients and their authorized representatives were able to send additional documents on the platform, which resulted in 6,272 documents submitted online this fiscal year.

We continue to enhance the ways we interact with our clients. Multi-channel options such as Live Chat, within AFSC Connect, encourages simple, real-time interactions with our clients. Our Live Chat interactions nearly tripled this fiscal year, with 1,114 interactions since Chat was launched in February 2018.

Feedback and trend analysis ensure that we continue to evaluate and evolve to meet client expectations. Surveys and information-gathering sessions with clients are two of the many ways AFSC collects feedback from our clients.

We conducted monthly transactional surveys and three annual client surveys in 2019-20 focusing on Lending, Insurance and AgriStability; the average response rate to these surveys was 6 per cent, 14 per cent and 13 per cent respectively. The surveys found that:

- 93 per cent of clients are satisfied with the assistance they receive from AFSC team members
- 72 per cent of clients are satisfied with AFSC's products

These results are a key indicator of the positive interactions clients have with us.

One of the most significant process changes that occurred in 2019-20 was the reorganization and alignment of teams to specific product lines, while maintaining a single view of the customer. This change created alignment and focus to provide specialized advice and service to our clients.



## Programs at a Glance

<b>Income Stabilization</b>	<b>2018*</b>	<b>2017</b>	<b>2016</b>
Total Claims Processed	5,839	9,411	10,425
Total Payments (\$,000)	\$87,861.7	\$57,184.3	\$218,987.8
% Alberta Farm Cash Receipts Covered through AgriStability	63%	59%	65%
<b>Insurance</b>	<b>2019-20</b>	<b>2018-19</b>	<b>2017-18</b>
Annual and Perennial			
Total Insured Acres (million)	22,602	22,125	21,860
Total Coverage (\$ billion, liability)	\$4.90	\$4.83	\$4.53
Total Premium (\$ million)	\$665.9	\$654.6	\$694.6
Total Indemnities paid to date (\$ million)	\$714.8	\$569.4	\$437.1
WLPPI			
Total Policies	2,389	3,280	3,454
Total Premium (\$ million)	\$17.4	\$20.1	\$22.7
Total Liability (\$ million)	\$830.1	\$1,084.7	\$828.1
Total Indemnities paid to date (\$ million)	\$7.6	\$30.6	\$12.3
Loss to Premium	43.7%	152.2%	54.2%
<b>Lending</b>	<b>2019-20</b>	<b>2018-19</b>	<b>2017-18</b>
Total Loans Authorized	1,637	1,446	1,522
Total Loan Authorizations (\$ million)	\$549.8	\$429.8	\$385.0
Loans Outstanding (\$ billion)	\$2.45	\$2.30	\$2.25

\* 5,839 Claims processed out of 9,332 total AgriStability claims as of March 31, 2020.

Claims are processed with a one year lag.



# Income Stabilization

## AgriStability

**What is it?** Producers who participate in the AgriStability program receive compensation and support for their whole farming operation when they experience significant margin declines. These declines can include production shortfalls, falling commodity prices and/or rising input costs.

### Key Program Details

- AgriStability is funded under the Canadian Agricultural Policy (CAP) agreement.
- The Government of Canada covers 60 per cent of AgriStability claim payments and administrative costs and 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 the average of production margins selected from three of the previous five years and the average of the corresponding allowable expenses.
  - To participate in AgriStability, eligible applicants must report farming income (including losses) in Canada for income tax purposes.
  - Participants must also have a minimum of six months of continuous farming activity, along with the completion of a production cycle. Enrolment is required by April 30 of the program year, and participants pay an enrolment fee.

### 2019-20 Program Year Review

Note: Producer tax information is required to process an AgriStability claim, reporting under this program is a year behind other programs reported in the 2019-20 AFSC Annual Report. The AgriStability information in this report is based on the 2018 production year.

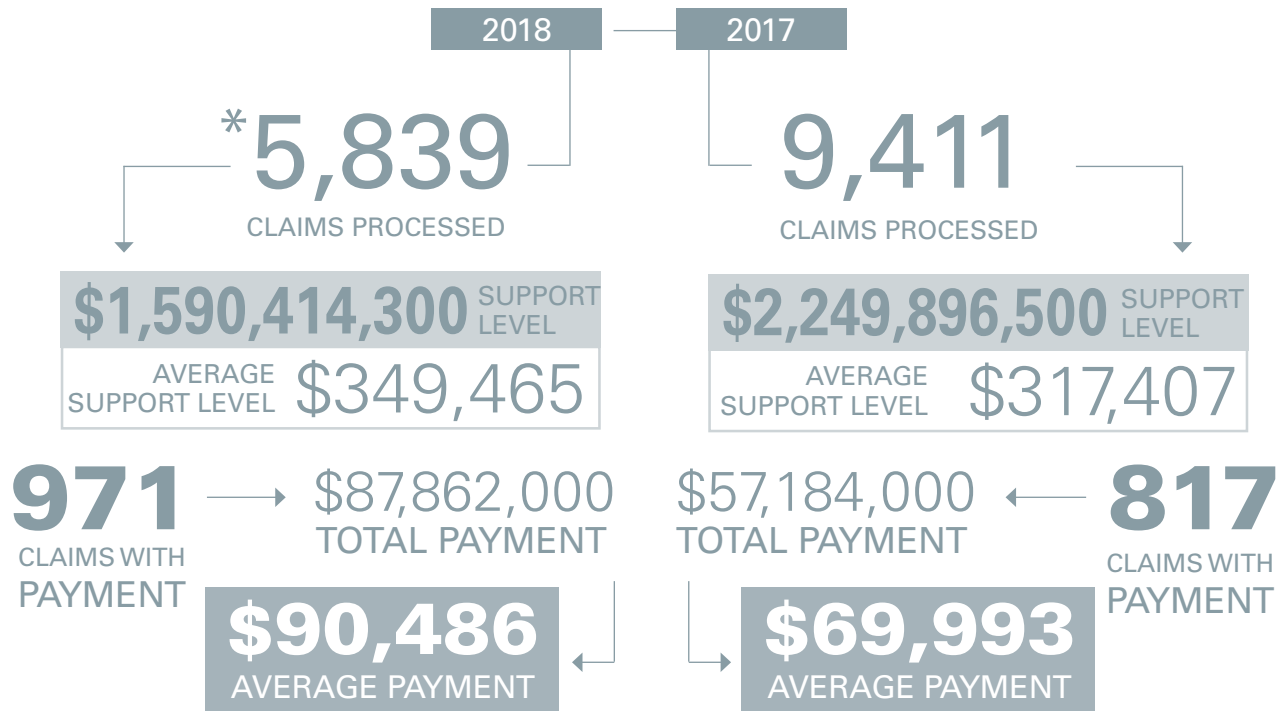
Participants in the 2018 program year were paid \$87.9 million in benefits, resulting from 63 per cent of claims processed as of March 31, 2020. Of claims processed, 17 per cent of participants received payments, compared to the 9 per cent claims paid in 2017.

Participation in AgriStability continued to decline slightly in terms of the number of applications received.

As of March 31, 2020, 9,332 claims were received for the 2018 program compared to 9,540 claims for the 2017 program year.

Producers who participated in the 2018 AgriStability program year represented 63 per cent of Alberta's farm cash receipts. This is up from 59 per cent for the 2017 program year. The average support level for producers increased from \$317,139 to \$349,465 in 2018.

AGRISTABILITY HIGHLIGHTS



\*5,839 claims processed out of 9,332 total AgriStability claims as of March 31, 2020

Claims are processed with a one year lag

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“AFSC has the programs we need to protect ourselves from weather and market swings.”

2019 AFSC Brand Research Survey

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## AgrilInvest

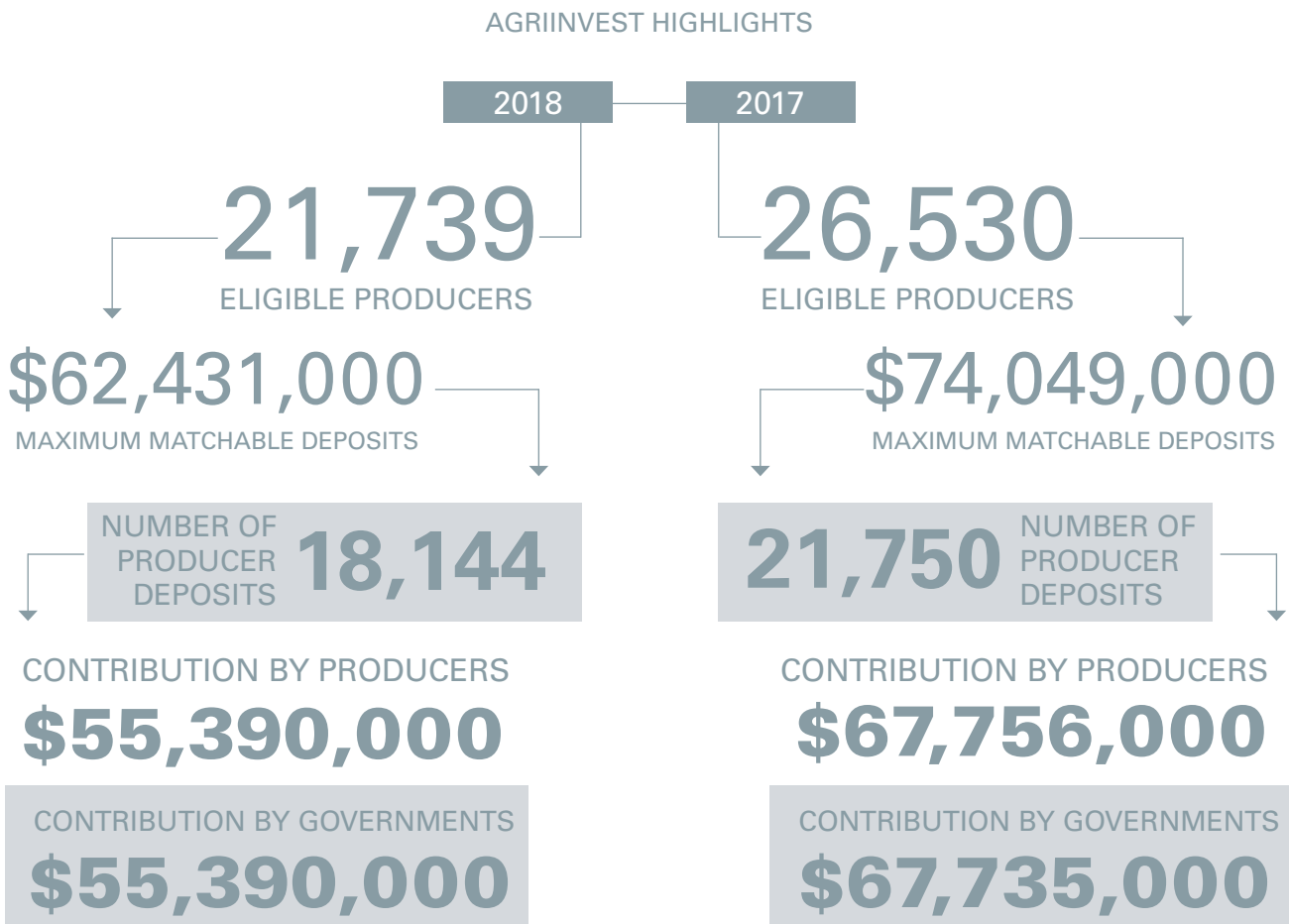
**What is it?** AgrilInvest is a matching deposit-based program for producers to access when they face margin declines. The program is simple, responsive, predictable and bankable, and allows participants to easily predict government contributions to producer-managed accounts each year. AgrilInvest funds, including the government contribution, can be withdrawn at any time with no pre-existing requirements.

### Key Program Details

- Under CAP guidelines, federal and provincial governments match each eligible producer's contributions by up to one per cent of their allowable net sales (ANS) to a maximum of \$10,000 per year.
- The maximum account balance is limited to 400 per cent of the ANS of the current and prior two program years.
- Producers can open AgrilInvest accounts at participating financial institutions.
- Eligible producers have 90 days from the date of notification to make a deposit in AgrilInvest accounts.
- The matching government contributions and administrative costs are shared between the federal (60 per cent) and provincial (40 per cent) governments.

### 2019-20 Results

As of March 31, 2020, 18,144 Alberta producers deposited \$55 million in AgrilInvest accounts for the 2018 claim year. The total value of 23,673 account balances is \$653.7 million, up from the previous year's total of \$648 million. The average account balance is \$27,617.



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





# Insurance

## What was new for the 2019 crop year

We encourage and receive ongoing feedback from our clients and industry partners to ensure our insurance programs stay relevant.

### Organic Certification

We made it easier for clients to enrol in organic coverage by allowing them to provide proof of their organic certification later in the crop year. Since organic certification can take time, clients eligible for organic coverage could provide a Letter of Transmittal or suitable pre-certification documents to AFSC by April 30. To maintain organic coverage, clients then provided their organic certification in the fall.

### Processing Vegetable Insurance

Processing plants no longer receive a share of the coverage or indemnities through AFSC. As a result, our clients now receive full coverage and premium on their subscription, which is reflective on the Statement of Coverage and Premium. This does not impact the current bypass process or any other aspects of coverage we provide for processing corn and peas.

### Cocktail Crops

Cocktail crops are insurable under Silage Greenfeed Insurance when intended for livestock feed. This covers any mixture of a minimum of three crops meeting the following criteria:

- primary crop is single insurable crop under the Silage Greenfeed Insuring Agreement;
- primary crop is a single crop type comprising of 35 per cent or more of the plant population; and
- no single crop or variety that is not included in the Insuring Agreement composes more than 20 per cent of the plant population.

### Preliminary Payments

In order to assist with fall cash flow, clients may now be eligible to receive a portion of their potential indemnity based on their declaration. The Preliminary Payment option is based on the reported production from the Harvested Production Report and offers an advance based on a 20 per cent increase in production.

## Production-based AgrilInsurance Products

We offer production-based, individualized insurance coverage for most dry land and irrigated crops grown in Alberta. Producers are compensated when their yields fall below their coverage because of natural perils beyond their control.

### Key Program Details

- 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 normal yield.
- For hay crops, coverage is based on an indexing system in which individual yields are compared to the area's average yields for the crop type.
  - This comparison results in a coverage adjustment for each insured producer.
  - The coverage adjustment is then multiplied by the risk area's long-term 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 two price options for insurance.

## Area-based AgrilInsurance Products

We also offers area-based insurance products for annual feed crops, corn and pasture. These products work well as an alternative for crops that are not intended to be combined or are not insurable under production-based insurance.

### Key Program Details

- The parameters and payment triggers selected for area-based programs are based on weather events that occur near and around the producer's farm.
- There are times when the situation on a producer's farm is different than what is recorded at a particular weather station, with the satellite measurements or with the proxy crop. As the payment indicators are not based on the producer's actual production, payments are intended to reflect probable losses on the insured's farm or ranch.
- We offer these area-based programs: Satellite Yield Insurance (SAT) and Moisture Deficiency Insurance (MDI) for pasture, Silage Greenfeed Insurance for annual feed crops and Corn.
- Heat Unit (CHU) Insurance for irrigated corn and the 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 program's premium.

**Reseeding Benefit** provides compensation for acres damaged prior to June 20 by a designated peril. This is intended to partially compensate for the cost of reseeding the original crop.

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

**Variable Price Benefit (VPB)** compensates producers 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 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** is included on insured pasture acres under both SAT and MDI programs and protects against accidental fire and fire caused by lightning.

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“The people working at AFSC understand agriculture and the problems that the industry faces. Their programs provide a much needed safety net for my farming activities, especially in the last five years which have seen uncontrollable weather-related losses.”

2019 AFSC Brand Research Survey

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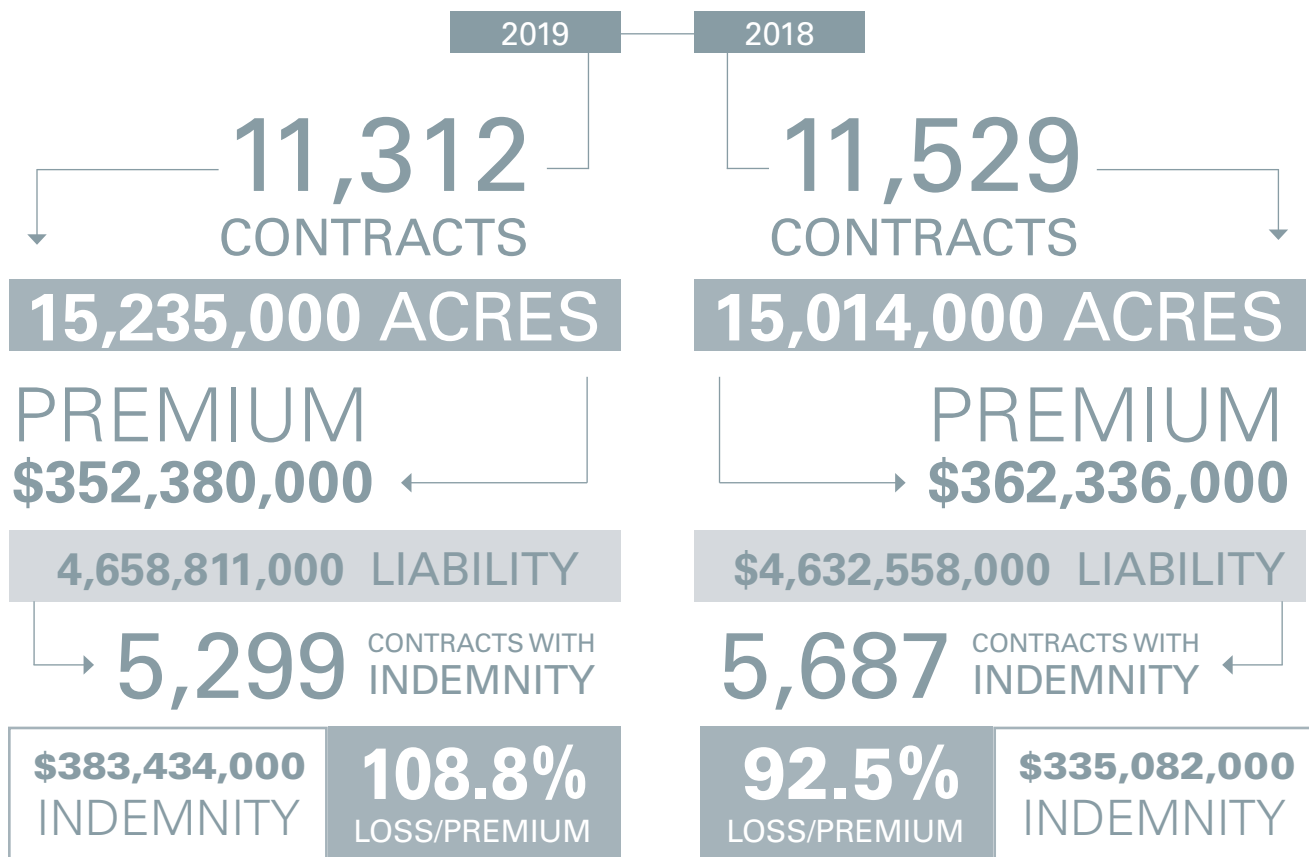
## Annual Crop Insurance

Annual Crop Insurance provides a production guarantee based on a method referred to as Individual Coverage, in which individual yield records provide the basis for coverage. Producers also have the option to purchase Hail Endorsement and Spring Price Endorsement with their crop insurance policies. There is a separate premium for each of these endorsements.

### 2019-20 Annual Crop Insurance indemnities

As mentioned in the Year at a Glance, there were variable growing conditions throughout the province. Indemnities paid in 2019-20 were primarily a result of the varied growing conditions, drought and excess moisture—compounded by the early onset of winter—which led to almost one million acres of unharvested crops in the central and northern areas of the province.

#### ANNUAL CROP INSURANCE HIGHLIGHTS



\*Indemnities represent amounts paid out as of March 31, 2020

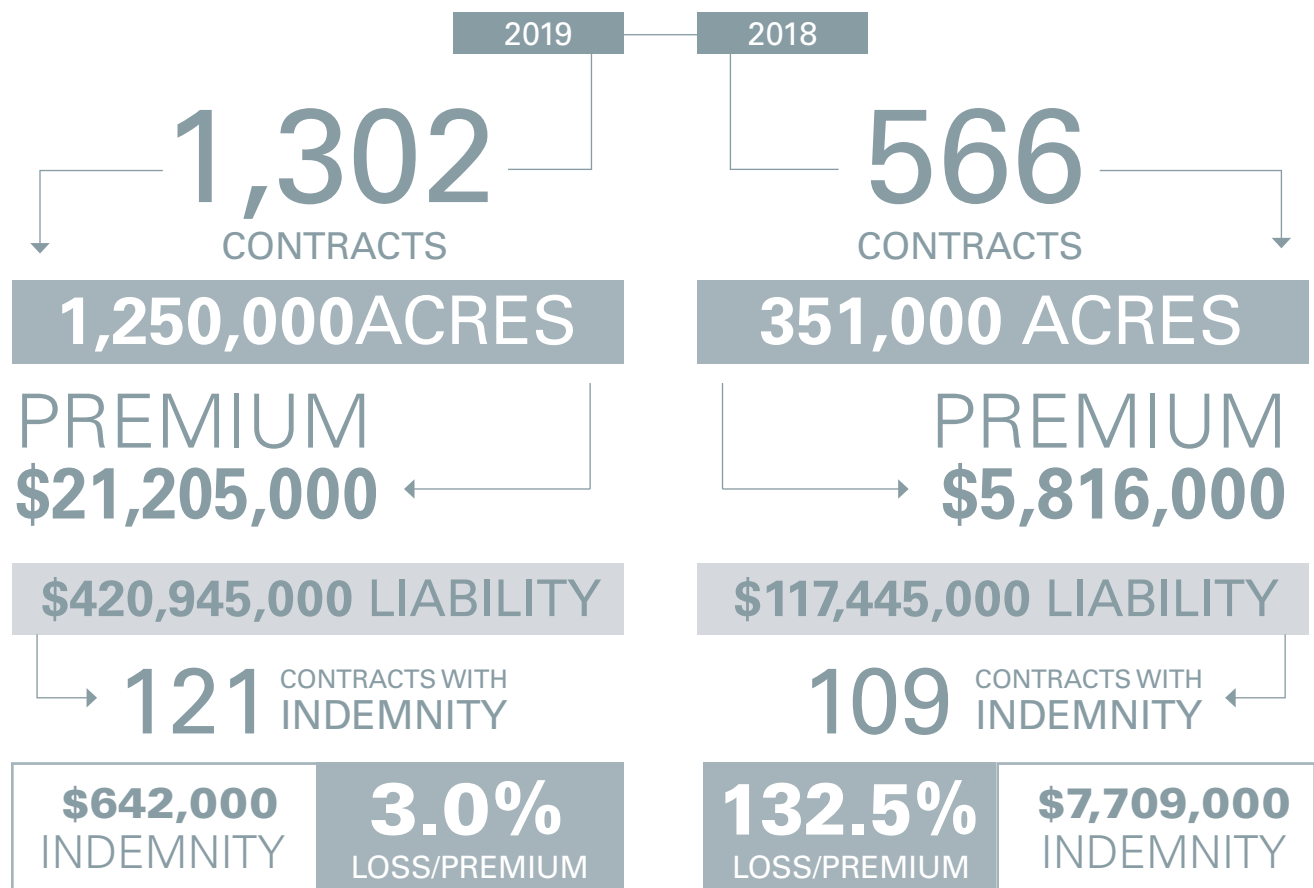
## Annual Crop Insurance Endorsements

Our clients are offered two additional optional endorsements for Annual Crop Insurance—Spring Price Endorsement and Hail Endorsement. These endorsements allow producers to customize their coverage to their operation's needs. Endorsements add supplemental coverage, which clients can opt to purchase for an additional premium. These enhanced options provide Alberta producers with the most comprehensive insurance coverage in Canada.

**Spring Price Endorsement (SPE)** is purchased on a crop-specific basis and offers protection for price declines of more than 10 per cent between the spring insurance price and the fall market price within the same year, limited to a maximum decrease of 50 per cent. SPE pays on production that is grown, up to the coverage level purchased, at 90 per cent of the spring insurance price. This 10 per cent claim deductible reduces the premium rate charged to clients by 20 to 30 per cent, depending on the crop selected.

- For 2019, nine crops triggered the Spring Price Endorsement: HRS Wheat, HRW Wheat, SWS Wheat, SWS (Industrial) Wheat, CPS Wheat, ESRS Wheat, NHR Wheat, Special Purpose Wheat and Kabuli Chickpeas. The price reductions for these crops ranged from 10.9 per cent for CPS wheat and ESRS wheat to 21.9 per cent for kabuli chickpeas.
- Under SPE, we covered 1.25 million acres, with a total liability of \$420.9 million. The loss-to-premium ratio of 3.03 per cent was a result of \$642,000 in losses paid to 121 clients as compared to \$21.2 million collected in premiums.

### SPRING PRICE ENDORSEMENT HIGHLIGHTS

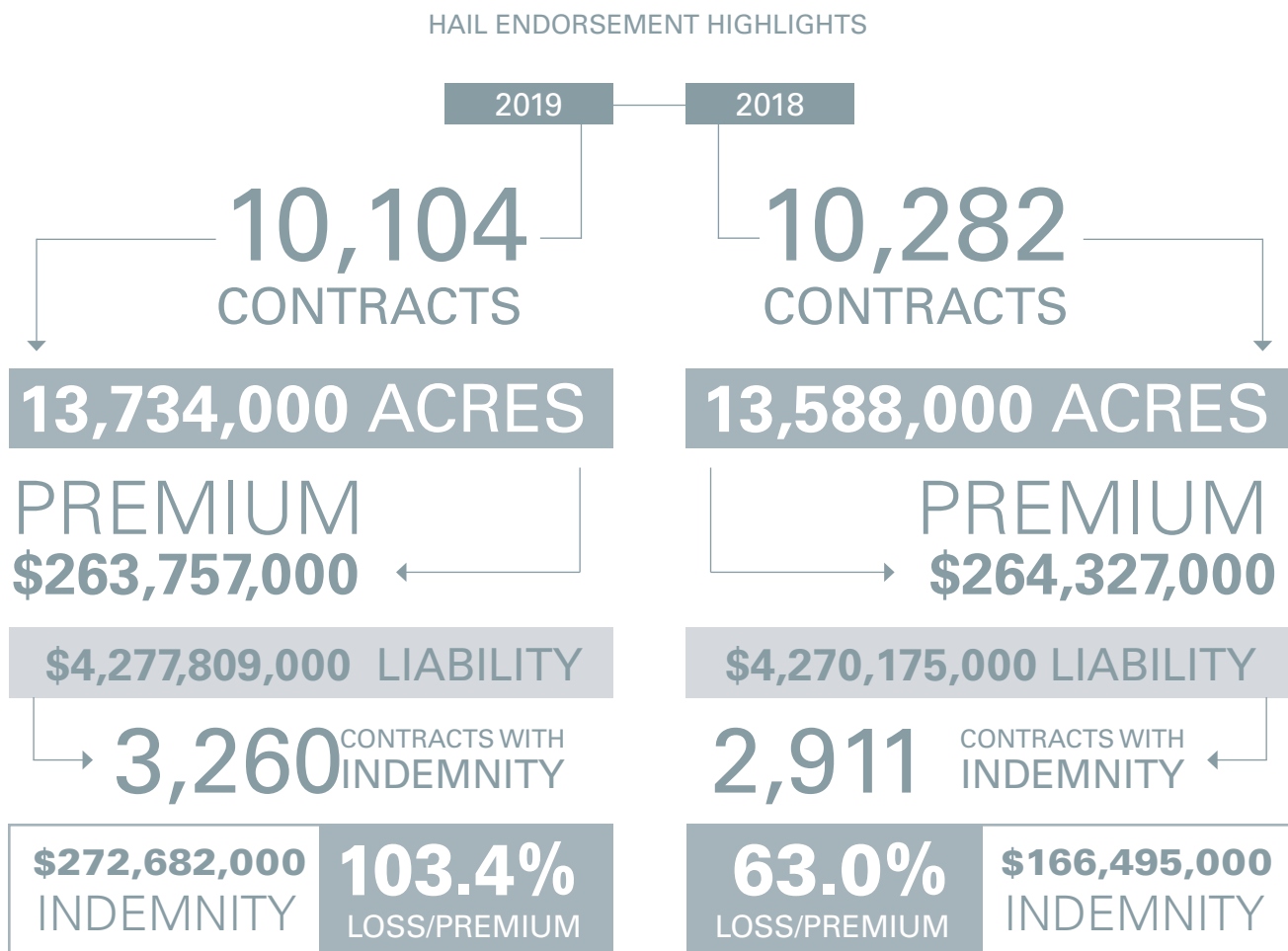


**Hail Endorsement** provides spot-loss coverage for damage caused by hail, accidental fire and fire caused by lightning for both production and area-based insurance.

**Key Program Details**

- Hail Endorsement provides spot-loss coverage on a crop-specific basis. The Hail Endorsement cannot be purchased at the 50 per cent coverage level for production-based insurance.
- 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 among clients (50 per cent), the Government of Alberta (37 per cent) and the federal government (13 per cent).

Although there were similar acres, contracts and liability covered in 2019 as covered in 2018, hail events were higher in 2019—with a loss to premium rate 40.4 percent higher than in the previous year. This increase was distributed over a larger number of clients (3,260) receiving indemnities of \$272.7 million, resulting in a loss-to-premium ratio of 103.4 per cent as compared to 63 per cent in 2018.





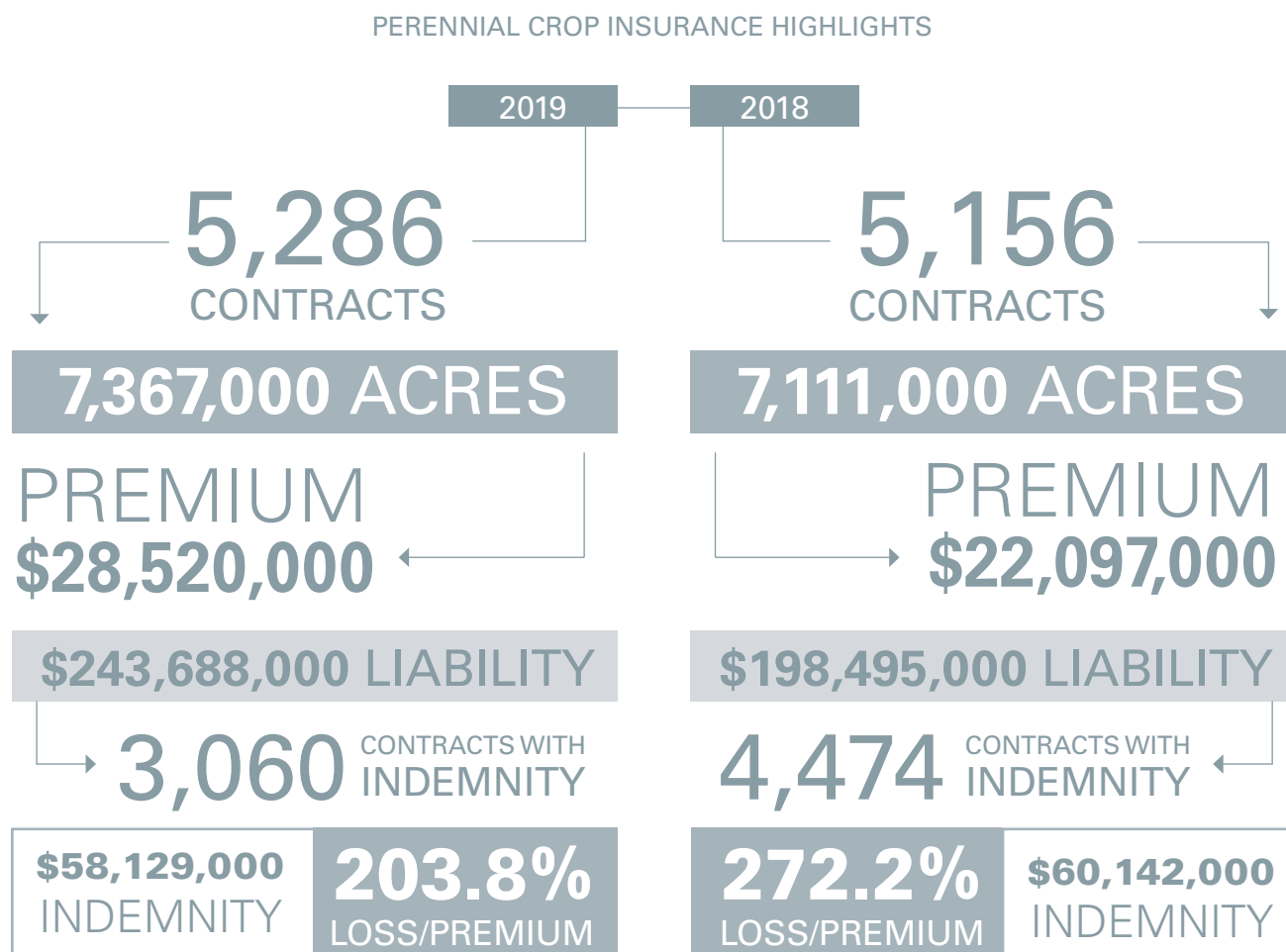
## Perennial Crop Insurance

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.

### 2019-20 Year in Review

Of the 5,286 contracts, 57.9 per cent received \$58.1 million in indemnities. This compares to \$60.1 million paid out to 86.8 per cent of perennial crop clients in 2018. This resulted in a 203.8 per cent loss-to-premium ratio in 2019, which was lower than the 272.2 per cent ratio in 2018.

The pasture programs (Satellite Yield Insurance Program and Moisture Deficiency Insurance Program) paid out \$51.2 million in indemnities while the Hay Insurance Program, including Moisture Deficiency Endorsement, paid \$6.9 million.



## Straight Hail Insurance

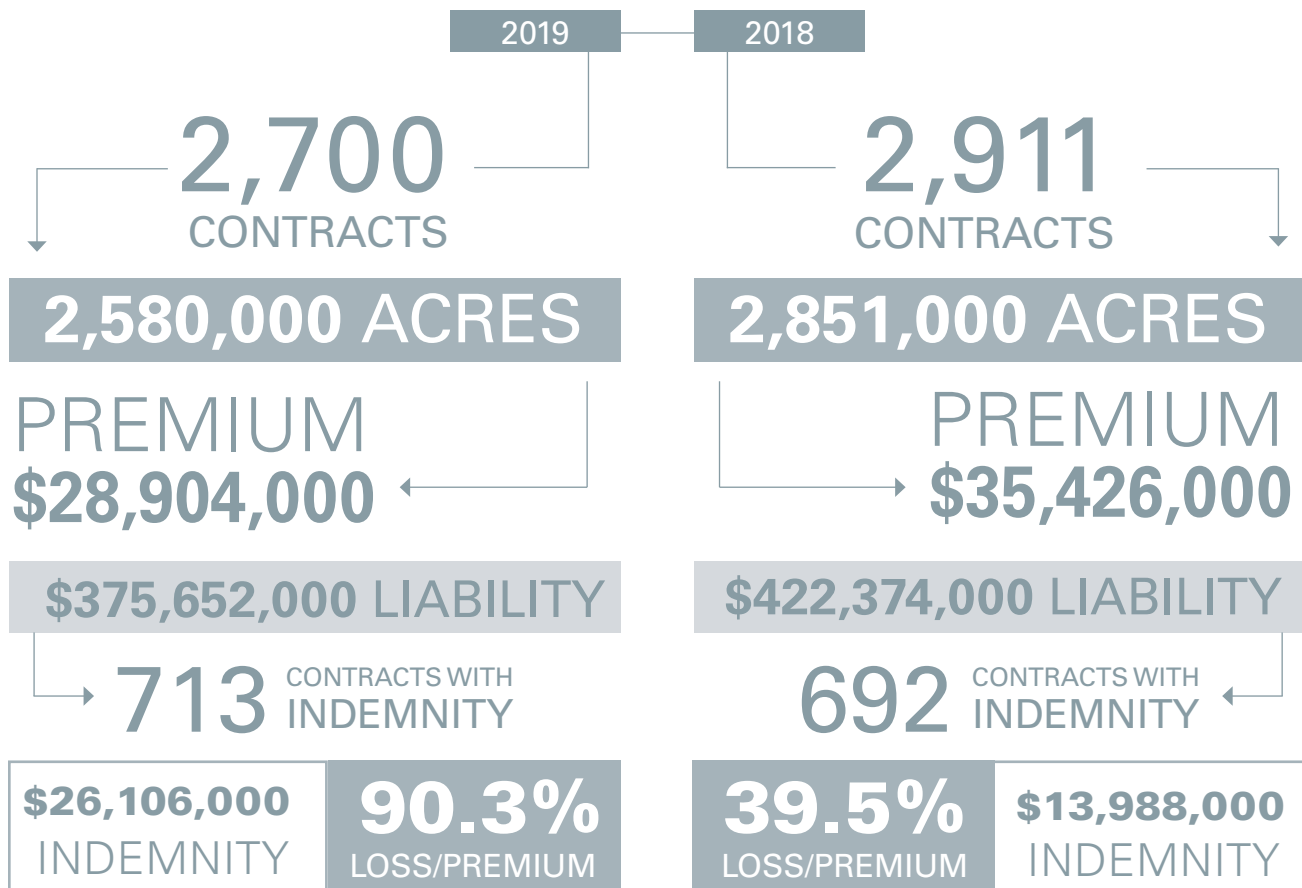
Straight Hail Insurance provides producers with spot-loss crop protection from hail damage, accidental fire or fire by lightning. Anyone is eligible to purchase Straight Hail Insurance, whether they are a producer, a tenant or a crop-share landlord. Coverage is available from the time the crop emerges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

### 2019-20 Year in Review

The 2019 crop year losses were markedly higher than last year, with 713 of the 2,700 clients receiving \$26.1 million in losses, resulting in a loss-to-premium ratio of 90.3 per cent. AFSC collected \$28.9 million in premiums on almost 2.6 million acres, providing \$375.7 million in insurance liability.

In 2018, the insured acres totaled almost 2.9 million, resulting in a liability of \$422.4 million and premiums of \$35.4 million. Clients experienced reasonably light hail activity, with losses totaling \$14 million paid out to 692 insured producers and a loss-to-premium ratio of 39.5 per cent.

### STRAIGHT HAIL INSURANCE HIGHLIGHTS



## Wildlife Damage Compensation Program

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

The WDCP includes:

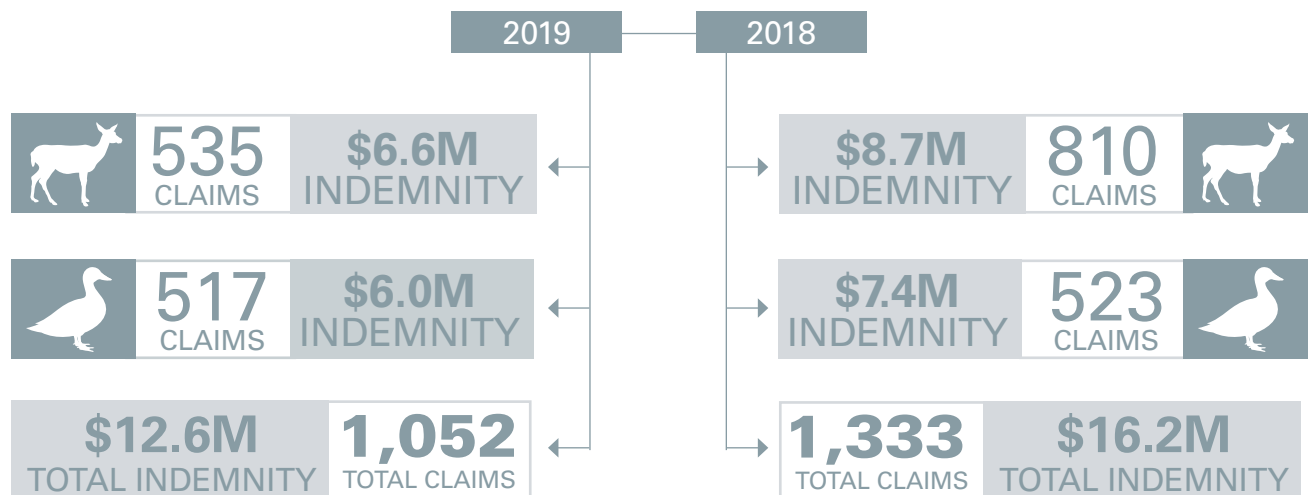
- spot-loss coverage for unharvested crops damaged by waterfowl, big game animals or upland game birds. The program applies to all commercially-grown annual crops and hay that can be insured under production-based and Straight Hail Insurance programs. Crops grown for pasture are not eligible;
- excreta market-loss cleaning, which compensates producers for reduced market value or for the cost of grain cleaning due to wildlife excreta;
- compensation for crops and silage in pits and tubes that are contaminated or eaten by wildlife; and
- swath grazing, bale grazing and corn grazing are eligible up to October 31.

The WDCP is available nationally, and is cost-shared in Alberta by the federal (60 per cent) and provincial (40 per cent) governments. It compensates for incurred losses to a maximum of 80 per cent; losses above this level 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 make a claim under the WDCP are not required to have crop insurance.

### 2019-20 Year in Review

In 2019-20, over one million acres remained unharvested and were left in the field over winter. As a result, additional spring wildlife losses may significantly increase the losses for the 2019 crop year. The wildlife losses for 2019 crops paid as of March 31, 2020 total \$12.6 million.

### WILDLIFE DAMAGE COMPENSATION PROGRAM HIGHLIGHTS



## The Western Livestock Price Insurance Program (WLPIP)

The Western Livestock Price Insurance Program (WLPIP) experienced a slight year-over-year decline in the overall number of policies purchased, insured units, liability and premiums collected.

### Key Program Details

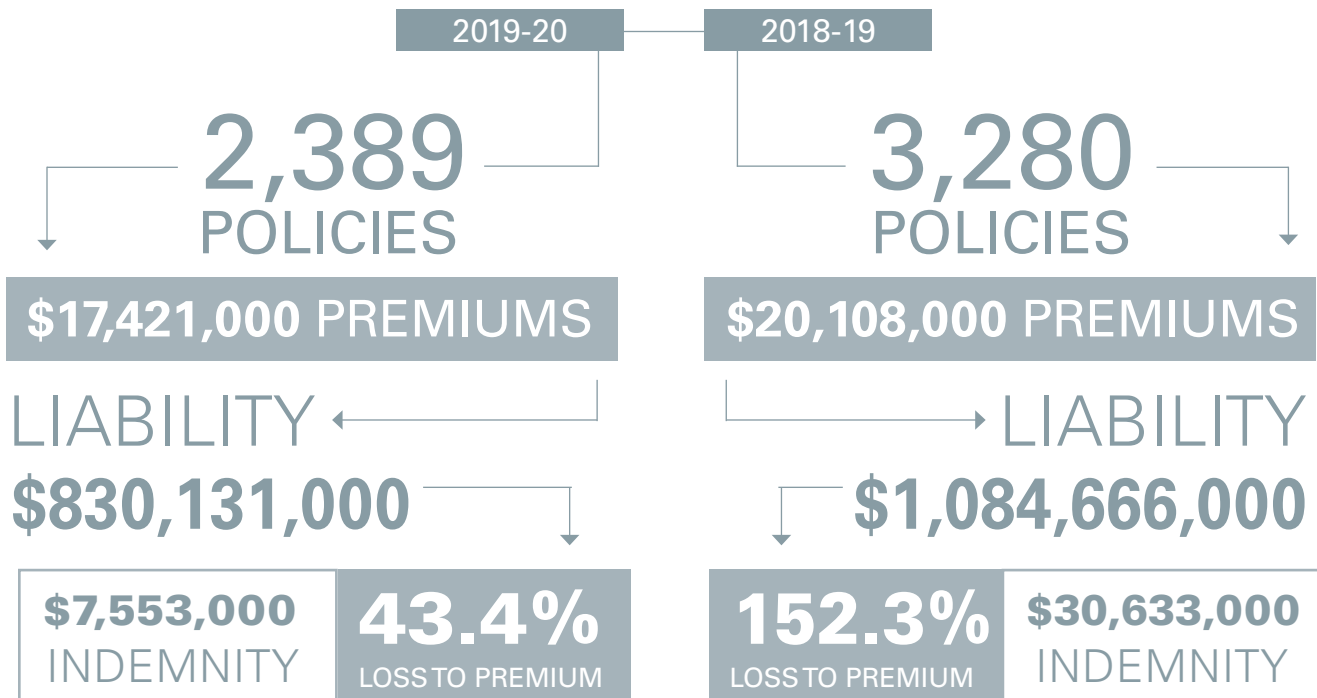
Producers purchased price protection on 221,000 fed cattle, 131,000 feeders and 128,000 calves. Compared to the previous year, these head totals equal about 2.8 per cent more fed cattle, but 41 per cent fewer feeders and 42 per cent fewer calves insured.

Cumulatively, liability coverage amounted to just more than \$830 million, premiums totaled \$17.4 million, and indemnities of approximately \$7.6million (as of March 31, 2020) were paid to participating producers. Total indemnities at the end of the fiscal year were paid to participants in the calf program (received 48 per cent), feeder (35 per cent), fed (16 per cent) and hog (one per cent) programs.

The strongest year-over-year participation increase in WLPIP was in fed product, with short-term policies purchased to cover producers into the peak of the fat cattle marketing run into May and June.

We continue to work on strategic initiatives to enhance WLPIP— to make it more relevant for Alberta producers and ensure its longevity within the industry. The livestock industry is facing its third black swan event to close out this fiscal year. As we move into 2020-21 fiscal period the WLPIP program is experiencing its highest volatility levels since the inception of the program, challenging the affordability of the program amidst COVID-19.

### WESTERN LIVESTOCK PRICE INSURANCE PROGRAM HIGHLIGHTS





# Lending

In September 2018, we introduced a new suite of lending programs, and over the past fiscal year these newly-implemented programs have proven successful in assisting Alberta businesses. Our new focus is on providing financial assistance to new and young producers, developing and mature producers, agribusinesses and rural commercial businesses.

In July 2018, the Government of Alberta increased our lending limit from \$5 million to \$15 million. This increase enabled us to expand our ability to support agricultural producers, value-added businesses and rural businesses that are looking to start, grow and develop their operations.

These changes ensure our organization can continue to support Alberta by providing access to much-needed capital for diversifying and growing the province’s economy and in turn, creating jobs.

Our lending programs continue to address market gaps and the needs of Alberta’s entrepreneurs, who can now choose financial options that work for them. In 2019-20, we provided financing to clients under the age of 40 totaling more than \$334 million. These loans will help young farmers start and grow their farming operation.

We authorized loans of over \$36 million to the Agribusiness sector during the past fiscal year. There remain significant opportunities for agribusiness and agri-foods industries in Alberta and we’re focused on lending them a hand to help grow a strong and diversified Alberta.

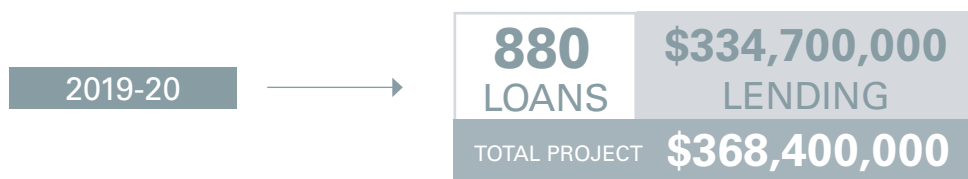
## 2019-20 Year in Review

We authorized 1,637 new direct loans for the period ending March 31, 2020, totaling \$549 million, above the \$430 million reported for 2018-19. This generated \$610 million in investments in the province’s agriculture, agribusiness and rural commercial sectors. AFSC’s loans outstanding increased to \$2.4 billion.

## Next Generation Loan Program

The Next Generation Loan Program (NGLP) facilitates succession planning to provide new entrants and young agriculture producers with a consistent source of fixed-rate term loans to establish, grow and re-finance their farming operation. The Young Producer Incentive (YPI) helps reduce borrowing costs by an additional one per cent for up to five years.

### NEXT GENERATION LOAN AUTHORIZATIONS



## Developing Producer Loan Program

The Developing Producer Loan Program (DPLP) helps existing agricultural producers invest in their operation, allowing growth and expansion of their business.

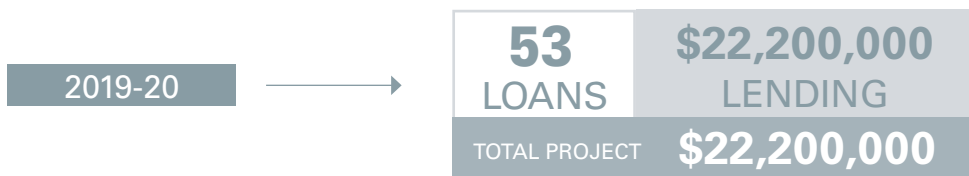
### DEVELOPING PRODUCER LOAN AUTHORIZATIONS



## Alberta Producer Loan Program

The Alberta Producer Loan Program (APLP) ensures existing agricultural producers have access to long-term financing to maintain and sustain their operations.

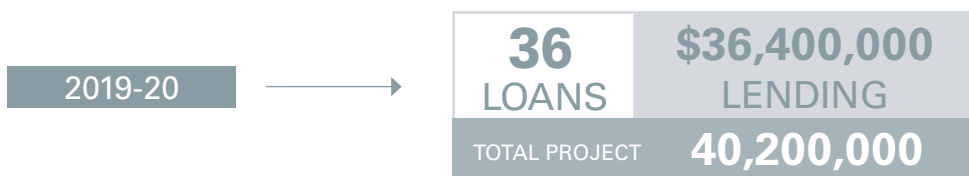
### ALBERTA PRODUCER LOAN AUTHORIZATIONS



## Agribusiness Loan Program

The Agribusiness Loan Program (ABLP) supports investment in Alberta's agribusiness sector to generate and maintain jobs or support the sales and export of products.

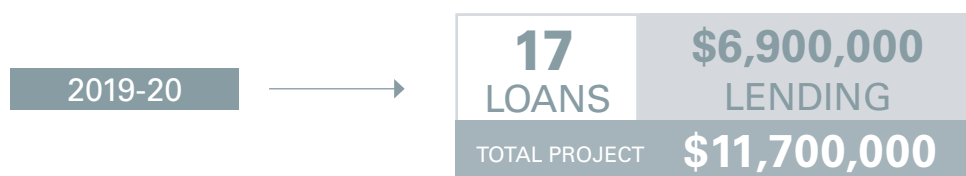
### AGRIBUSINESS LOAN AUTHORIZATIONS



## Rural Business Loan Program

This Rural Business Loan Program (RBLP) ensures Alberta's rural small and medium-sized enterprises have access to much-needed financing.

### RURAL BUSINESS LOAN AUTHORIZATIONS



## Revolving Loan Program

The Revolving Loan Program (RLP) enables producers to borrow through a self-serve online account that can be accessed at any time. Funds can be used for input costs such as feed, seed, 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.

The number of revolving loans approved for the 2019-20 year increased slightly to 218 from 206 in the 2018-19 year. This program continues to be useful for our clients who need convenience and flexibility in managing cash flow and the ability to continually re-advance funds as the loan is paid down.

### REVOLVING LOAN AUTHORIZATIONS



## Lending Portfolio Performance

The three key performance indicators for our lending portfolio are approvals, portfolio balance and arrears:

- total loans authorized: \$549.8 million for 2019-20, compared to the target of \$470 million. This is a 28 per cent increase from the year earlier. The increase in the lending limit, as well as revitalized lending programs, have strengthened our ability to be competitive with other lenders. It has enabled us to attract new borrowers and retain existing clients;
- the loans outstanding increased to \$2.448 billion from \$2.305 billion, representing a 6 per cent gain; and
- overall lending arrears as of March 31, 2020 were 5.7 per cent, higher than the prior year result of 5.3 per cent.





# SUPPORTING OUR **COMMUNITY**

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“We’re so grateful to AFSC for donating to our Show Day, it makes it possible to have events like this. For our members to show off their hard work, and for the community to see what 4-H’ers do in and around Wainwright.”

Hannah Poulin  
4-H Club Leader  
Wainwright, AB

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GOLD CLOVER  
SPONSOR



**\$26,410**

4H CLUB FUND  
SUPPORTED

**81 CLUBS**

**2,119 YOUTHS**

**4H**

**37**

CANADIAN  
FOODGRAINS  
BANK PROJECTS

**19 LOCATIONS**

**3,630 ACRES**

**1,800**

CLIENTS WERE DELIVERED  
HARVEST CHEER BUCKETS

**361.5**  
HOURS

OF VOLUNTEER  
TIME USED BY  
STAFF



## Community Investment

We believe that investing in the communities where we live and work is part of doing good business. We support our clients with our products and services. We support events that are important to our industry and we support communities by investing in initiatives that make them a better place to live.

We partner with organizations that enrich the agriculture industry and support events that encourage the development and advancement of agriculture in Alberta. Through these partnerships, our people attend and participate in numerous events throughout the province.

Farming can be a challenging profession, as there are many elements outside of producers' control. Conversations focused on producers' mental health concerns and overall wellbeing have emerged online and in public sessions in the past year.

In an effort to help remove the stigma around mental health in the agricultural community, we partnered with The Do More Agriculture Foundation in 2018. Do More Ag is a not-for-profit organization focusing on mental health in agriculture. Our support goes directly towards raising awareness about mental health and breaking the stigma in the agricultural community. The partnership also helps to build a community of support and resources for those impacted by mental health issues. We are proud to support this organization's groundbreaking work and are proud to be part of the discussion to change the narrative around mental health in agriculture.

Agriculture More Than Ever is a large industry movement to encourage producers across the country to become an 'advocate' and promote and celebrate the agriculture industry, while educating the public and improve perceptions about agriculture. On Canada's Agriculture Day, February 12, 2020, our team members across the province took part by hosting events and sharing their agriculture stories to promote our industry's contribution to fundamental daily events, such as putting food on our plates.

Our partnership with Ag For Life allows us to work together to grow an increased public understanding of the role agriculture plays in Alberta's culture and economy. Our team members volunteered their time through speaking engagements and supporting agriculture education in the classroom.

The Canadian Foodgrains Bank is a practical way farmers can help end hunger around the world by sharing their harvest with the less fortunate. In the 2019 crop year, we sponsored 37 projects in 19 locations across Alberta, totaling more than 3,630 acres. We support this initiative by providing Straight Hail Insurance for crops slated for donation through The Canadian Foodgrains Bank organization. In 2019 we supplied \$22,161 worth of hail coverage.

4-H Alberta plays a huge role in the development of agriculture, nurturing the next generation's love for the industry. 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 align with our corporate values. Last year we partnered with 4-H Alberta at the Gold Clover sponsorship level and also administered the AFSC 4-H Alberta Club Fund.

The AFSC 4-H Alberta Club Fund provides financial support for 4-H clubs, districts, and regions in Alberta to assist with costs associated with developing existing programs and activities. This includes the costs to start a new club. In early 2020 we granted \$26,410 to over 80 4-H clubs across the province, in turn supporting more than 2,100 Alberta youth.

Harvest Cheer was a way for us to show our gratitude for producers and their contribution to Alberta's agriculture industry. This fall event was a great opportunity to connect with clients on their farms, strengthen our relationships and share real conversations about the realities farmers face, particularly during the difficult harvest of 2019. Although in some areas of the province the poor conditions put a damper on Harvest Cheer, it gave us the opportunity to connect, hear their concerns and discuss their options for the road ahead.

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**This is our favorite time of year – we all look so forward to this. It is good for our soul and these visits remind us of why we love our jobs so much, because we get to work and help our clients. We have sat in combines with clients while they harvested, we have sat in their shop and visited with them and their neighbours on rainy mornings, we have toured flood irrigation land, chicken barns, watched corn silage, learnt about the four generations that have farmed this land, and more. All of this wouldn't have been possible without these visits. – Medicine Hat Branch**

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Additionally, 2019-20 saw us attend several major trade shows and events that are key to the development and advancement of agriculture in Alberta. Near the end of the fiscal year a number of regularly attended events were postponed due to the outbreak of COVID-19.

Some of the major events AFSC attended throughout the province include:

- Alberta Young Speakers Association: Agriculture
- Calgary Stampede
- Westerner Days
- Canadian Beef Industry Conference
- 4-H Alberta Club Week
- Ag for Life Harvest Gala
- Agri-Trade
- Alberta Potato Grower's Conference
- Farming Smarter
- Tiffin Conference
- Ladies Livestock Lessons
- Canadian Bull Congress
- Organic Alberta Conference
- Farm Tech
- Alberta Craft Brewing Convention

On a personal level, our team members support many fundraising and community service initiatives on their paid community service day and in their spare time. These events help build the communities that they live in and support. Many branches and AFSC departments choose to dedicate their time and money to charities and initiatives of their choice, including:

- Angel Tree Christmas Campaign (FCSS Lethbridge)
- Fill a Fridge Holiday Campaign (FCSS Lacombe)
- Various food bank drives across the province
- National Cupcake Day in support of Alberta Pound & Rescue Centres (Smoky Lake)
- Heart and Stroke Foundation potluck fundraiser (Lacombe)
- Collection of needed items for Ronald McDonald House Central Alberta
- Lacombe Light Up the Night



# SUPPORTING OUR **PEOPLE**

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“I enjoy working at AFSC because it allows me to play an active role in my rural-farming community. AFSC understands the value of community and is a continuous supporter in many ways. I’m proud to be a part of an organization that continues to strengthen Alberta’s agricultural community.”

Anna Popovitch  
Relationship Manager,  
Insurance

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SUMMER STUDENTS HIRED



**\$262,372**

SPENT ON TRAINING



**12 YEARS** ALBERTA'S TOP  
75 EMPLOYER

CANADA'S TOP  
100 EMPLOYER

**11 YEARS**



# People

During this past year, we implemented a number of corporate initiatives that created a renewed focus on our people. We were proud to once again be named a Top 100 Employer in Canada for 2020 and a Top 75 Employer in Alberta. These are never easy achievements and we were extremely proud to be able to celebrate these accomplishments for 11 years as Top 100 and 12 straight years for Top 75.

In 2019, we continued to progress on our People Strategy. We've committed to a high level of engagement and improved people management across our Corporation, knowing it is vital for our workforce to feel connected to our organization and know how they contribute to agriculture in Alberta. During the 2019-20 fiscal year we made further progress towards the People Strategy goals of Attracting, Recruiting, and Retaining; Onboarding, Supporting, and Developing; Rewarding and Recognizing; Promoting an Inclusive Culture; and Providing a Positive and Productive Workplace.

## Keeping Our People Safe

Our Occupational Health and Safety (OH&S) program integrates sound health and safety practices into everyday business processes, enabling our employees to feel empowered through open and productive discussions and accept responsibility to protect themselves, coworkers, their community and the environment. In 2019-20, our Occupational Health and Safety program implemented several advancements: a Health & Safety Policy; joint OH&S Committees, to involve employees across our organization in identifying hazards and resolving safety issues; and health and safety orientations, to raise awareness and provide expectations for the program.

During the onset of the COVID-19 pandemic at the end of the fiscal year, OH&S worked diligently to provide daily information updates and mental health resources to our people. At the same time, our Business Services team responded quickly to supply all offices with necessary sanitation supplies and increased janitorial presence to ensure that proper cleaning in all locations. Additionally, we initiated a remote work strategy to allow the majority of our people to work remotely to help stop the spread of COVID-19, while minimal numbers of essential front-line employees remained in branches to assist with business continuity.

## Developing Our People

From new hires to seasoned employees, our people had the opportunity to participate in many training initiatives across the organization. This training is beneficial to all facets of the business. Highlights include:

- The Leadership Challenge taught all AFSC employees to Model the Way, Inspire a Shared Vision, Challenge the Process, Enable Others to Act, and Encourage the Heart.
- New Employee Orientation was revamped.
- Foundational Insurance Training course was provided to staff over three and a half days.
- Occupational Health and Safety training series was available to staff online.
- AgriStability Connect online training supported the new business functionality.
- Agriculture Industry Training was provided to AFSC Lenders.
- Cyber Security training series was offered online.
- The 15th annual Farming 101 session showed new hires how our business lines impact real producers and businesses.



In fall 2019, Senior Managers and Supervisors participated in a talent review to evaluate an employee's current and potential level of contribution to our organization. This review was part of our People Strategy and will provide leadership insight into our future growth and identify the development needs of our people. From these assessments, leaders will be able to determine development plans for their team and what coaching strategies we can offer.

## Engaging Our People

In 2019, our employee engagement survey reported an increase in engagement, from 68 per cent to 75 per cent. Multiple areas across our organization held engagement survey sessions to discuss their overall team scores compared to the corporate average. These discussions were meant to showcase what each team did well and what they might improve upon together.

### Walking Challenge 2019:

In May 2019, nineteen teams participated in our third annual organization-wide Walking Challenge. The teams worked together to increase their daily step count to keep a focus on being active—while connecting employees across AFSC with some healthy competition!

### Take Our Kids To Work Day:

On November 6, 2019 six grade nine students spent the day at with us to learn more about what their parents – and AFSC – do. The morning featured presentations from various areas of the organization: income stabilization, research, IT security, human resources, occupational health and safety, marketing and corporate learning. After the sessions in the morning, students and presenters networked and then went on to job shadow their parents for the afternoon.

## Including Our People

In November 2019, we developed a Diversity and Inclusion Framework, which formalized our commitment to remove institutional and behavioural barriers to diversity, inclusion and equity. The ultimate objective is for our people to feel comfortable to bring their whole selves to work, to comfortably express their opinions and share their perspectives, to feel included and to genuinely believe they have fair and equitable access to opportunities.

Since November 2019, we've started a number of initiatives to promote diversity and inclusion at AFSC, including:

- introduced the framework to leaders through workshops;
- signed a Leadership Accord on Gender Diversity;
- created a flexible workspace called "The Combine" to promote more inclusive, collaborative working environments;
- created of the Inclusion Council, which includes six employees from across our organization to guide Diversity and Inclusion activities and celebrations that are meaningful to our population;
- executed an International Women's Day social media campaign;
- reviewed internal policies through a Diversity and Inclusion lens;
- created Digital Accessibility standards for our online platforms; and
- developed standards rooted in Diversity and Inclusion best practice for recruitment, job postings and interviews to eliminate bias.



# SUPPORTING OUR **STAKEHOLDERS**

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“Our daily focus on continuous improvement positions us to respond to the Red Tape Reduction initiative led by the Government of Alberta.”

Melanie Ducholke  
Senior Manager,  
Continuous Improvement

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**503**

EMPLOYEES RECEIVED  
INFORMATION  
CENTRE TRAINING

**44**

ACTIVE  
INFORMATION  
CENTRES

RESULTING IN



**90**

IMPROVEMENT  
OPPORTUNITIES  
IMPLEMENTED

**3,997**

RED TAPE  
REDUCTION  
INITIATIVES



# Continuous Improvement

One of our main goals is to constantly improve – our processes, our technology, our people and our results. As such, we have made numerous efforts to ingrain continuous improvement into the AFSC culture.

Providing maximum value to our clients is one of the main reasons we focus on continuous improvement, and our efforts emphasize a client-first approach, which is embedded in each improvement activity that we identify and implement. By enhancing our continuous improvement processes, we seek to uncover challenges and find ways to solve problems. Small, positive changes over time will meaningfully impact our processes and make it easier for our clients and partners to do business with us.

AFSC team members are guided by the principle *Everyone Has a Client*. By working together towards this common goal, employees are engaged, focused and ready to deliver on our promises. When the team delivers better results together, they develop a strong sense of ownership and accountability.

As part of our continuous improvement culture, our teams collaborate in 15-minute daily huddles, focused on identifying organizational improvements to meet the evolving needs of Alberta's agricultural producers. Through these daily huddles, we've identified significant improvement opportunities that simplify what we do and allow us to deliver our products and services with excellence.

Our daily focus on continuous improvement positions us to respond to the Red Tape Reduction initiative led by the Government of Alberta. As a public agency, AFSC has an obligation to participate and support the reduction of red tape for our clients. The main focus in 2019-20 was identifying baseline counts for our regulations to identify further improvements that will occur in 2020-21.

This past fiscal year we had a strong focus on improving our lending practices and policies through red tape reduction so that we can deliver more efficiently on our lending mandate. As part of Red Tape Reduction and our focus on continuous improvement, we continue to identify and implement opportunities to streamline our processes and remove complexities for our clients.

We continue to investigate ways to offer convenient access to our programs, eliminating redundant process activities, using technology to enhance our products and service delivery and empowering decision-making and accountability in our people.

To facilitate these goals, we created a full-time, dedicated continuous improvement team in December 2018. Continuous Improvement works with teams across the organization to identify and resolve problems to improve the way we operate. Since the formalization of this team, organizationally-wide we have completed round one of basic continuous improvement training, focused on defining standards that help each team identify their unique purpose and measures of success.

During the 2019-20 fiscal year, the Continuous Improvement team conducted seven projects that resulted in 110 identified improvement actions, 40 of which were implemented. Some examples of the implemented continuous improvements in 2019-20 are:

- Introduced new lending processes that assist our existing lending clients with an unsecured loan of up to \$150,000 and up to \$100,000 for AFSC business-risk-management clients which reduced turnaround times and ensure clients can secure finance quickly.
- Introduced electronic signatures to save clients from having to be physically available to sign paperwork which has improved turnaround times for clients.
- Introduced a preliminary payment option for post-harvest insurance claims to ensure cash flow for our clients.

As the organization moves forward, the Continuous Improvement team will build on these successes and continue to put our clients first by embedding the *Everyone Has a Client* concept into each project. We will also increase responsiveness throughout the organization by establishing a clear link between internal service and the external client experience.

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“I appreciate AFSC’s support and willingness to work with me. As a beginning farmer it’s sure nice to have that support from my local office.”

2019 AFSC Brand Research Survey

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# Enterprise Risk Management

Enterprise Risk Management (ERM) at AFSC continues to evolve as we implement a forward-looking, integrated and holistic risk management approach. Through this approach, key risks and opportunities that the organization encounters are identified, analyzed, evaluated and monitored.

From this process, our ERM team produces a suite of risk reports that enables board oversight and drives effective management decision-making to either accept more risk or mitigate existing risk. Through a partnership with all the functions within AFSC and our clients, this standardized and coordinated approach allows us to pursue the realization of our vision, mission, and strategic goals.

The five risk areas we monitor include credit, interest rate, liquidity, insurance and operations. Additional details are found in the notes section of the Financial Statements.

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“AFSC has a good understanding of the agricultural industry and has the ability to adapt and change programs according to the challenges that exist in farming.”

2019 AFSC Brand Research Survey

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# Whistleblower Protection Program

On January 1, 2016, AFSC launched our Whistleblower Protection Program (the “Program”). The Program provides a confidential and anonymous mechanism for AFSC employees and members of the public to disclose actions or events that they believe may constitute a form of wrongdoing as it concerns the affairs of AFSC. Disclosures of alleged wrongdoing are assessed by the Program’s Designated Officer against the definition of “Wrongdoing” found in the Public Interest Disclosure (Whistleblower Protection) Act, SA 2012, c. P39.5 (the “PID Act”). It is important to note that what constitutes a Wrongdoing under the PID Act may be significantly different than what a person unfamiliar with the PID Act may believe is a wrongdoing.

## Purposes of the Program:

- establish and maintain whistleblower policies and procedures that comply with the PID Act that are designed to promote public confidence in the administration of AFSC;
- facilitate the disclosure and investigation of “Wrongdoing” as defined in the PID 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;
- promote ethical behavior by AFSC employees, managers and staff members;
- deter and detect improper activity within AFSC to positively impact the reputation, effectiveness and finances of our organization;
- enhance the working environment for our employees, managers and staff members; and
- 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.

## Program Annual Report

The following are the statistics that are required to be kept by the designated officer with respect to the Program pursuant to section 32 of the PID Act:

Disclosures Received	Disclosures Acted Upon	Disclosures Not Acted Upon	Investigations Commenced	Findings of Wrongdoing	Disclosures Closed
6	6	0	0	0	13*

\*There were seven disclosures of alleged wrongdoing that were still subject to investigations at fiscal year-end (March 31, 2019).



# Financials at a Glance

Overall, we recorded revenue of \$1.207 million and expenses of \$1.362 million, which resulted in a net deficit of \$155 million. The deficit for 2019-20 was mainly due to higher losses relative to premiums for the AgriInsurance due to seasonal challenges as well as market volatility and livestock price fluctuation in the Western Livestock Price Insurance Program.

Our assets increased from \$5.539 billion to \$5.776 billion of which \$2.612 billion (45 per cent of all assets) represents investment of AgriInsurance surplus fund. Our liabilities increased from \$2.526 billion to \$2.921 billion.

The surplus balance carried over decreased to \$2.840 billion. Included in the surplus balance is \$2.690 billion in the Crop Insurance Fund.

## AgriStability Statistical Summaries

Income Stabilization - AgriStability including Alberta Initiatives

Program Year	Number of Claims Processed	Support Level \$ ,000	Average Support Level \$	Number of Participants with Payment	Total Payment \$,000	Average Payment \$
2018	5,839	\$1,590,414	\$349,465	971	\$87,862	\$90,486
2017	9,411	\$2,449,897	\$317,139	817	\$57,184	\$69,993
2016	10,425	\$2,609,098	\$301,421	2,457	\$218,988	\$89,128
2015	11,826	\$2,566,361	\$261,607	803	\$56,954	\$70,926
2014	13,830	\$2,524,535	\$225,003	953	\$34,725	\$36,438
2013	16,533	\$2,516,211	\$196,441	1,819	\$68,617	\$37,722

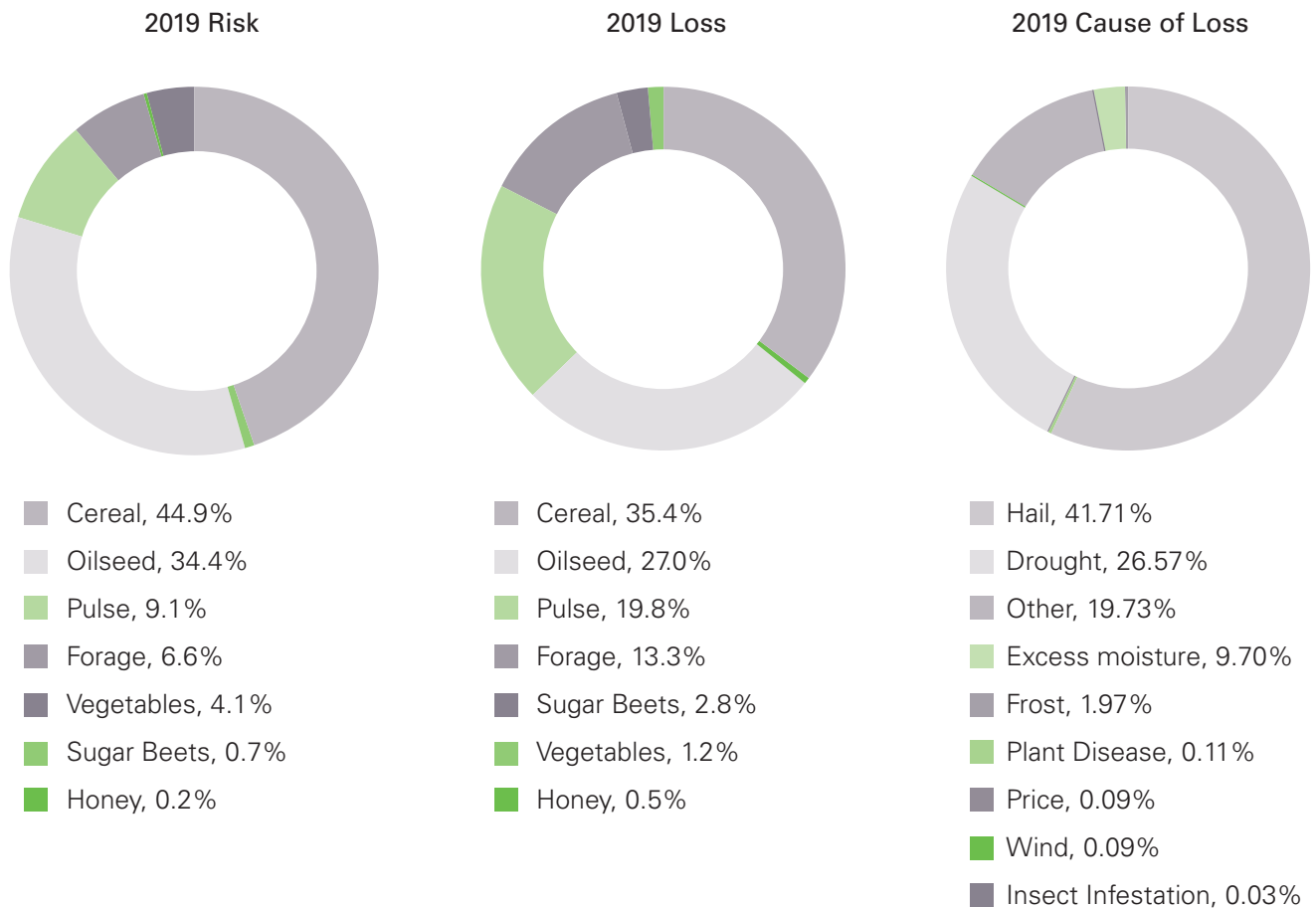
\*5,839 claims processed out of 9,332 total AgriStability claims as of March 31, 2020

Claims are processed with a one year lag

# AgrilInsurance Statistical Summaries

AgrilInsurance for Annual and Perennial Crops as at March 31, 2020

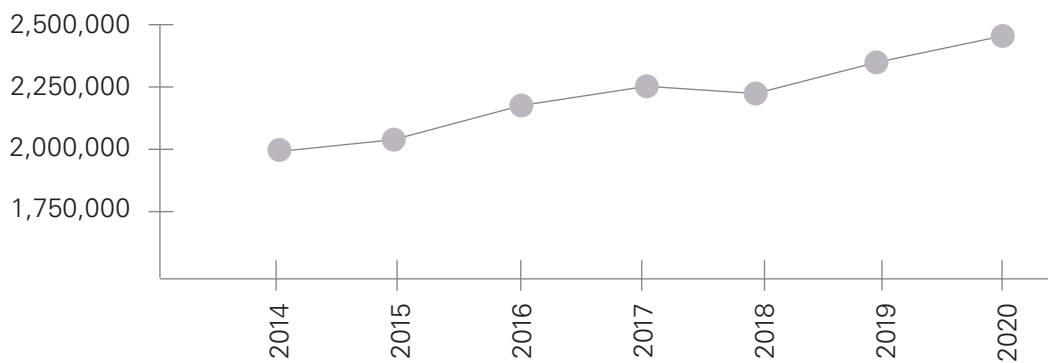
Crop Year	Number of Contracts	Acres ,000	Liability \$,000	Premium \$,000	Loss \$,000	Loss/ Premium %
2019	16,598	22,602	4,902,499	665,861	714,887	107.4%
2018	16,685	22,125	4,831,054	654,576	569,428	87.0%
2017	16,938	21,860	4,527,779	694,617	437,104	62.9%
2016	18,056	22,993	4,669,386	750,114	499,919	66.6%
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%



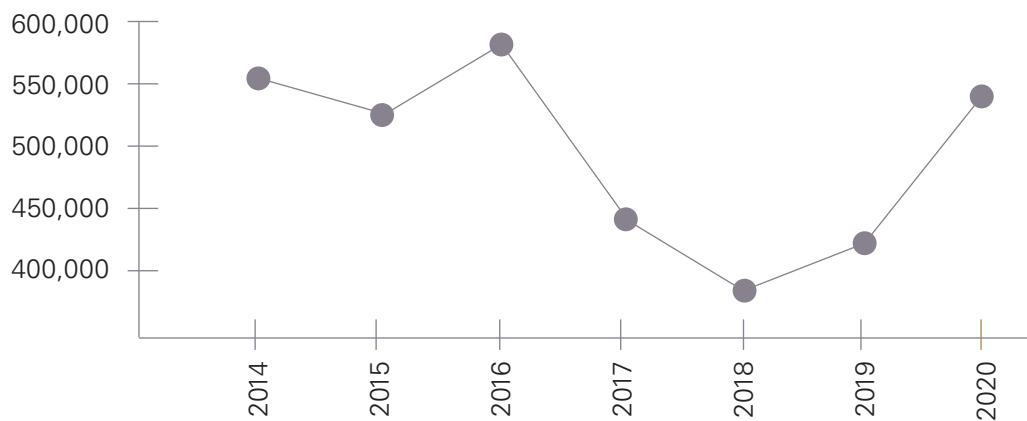
## Lending Statistical Summaries

March 31	New Loan Approvals \$,000	Loans Outstanding \$,000
2020	549,795	2,448,269
2019	429,806	2,304,982
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

Loans Outstanding



New Loan Approvals





# Management's Responsibility for Financial Reporting

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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.



# Financial Statements

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AGRICULTURE FINANCIAL SERVICES CORPORATION

FINANCIAL STATEMENTS

MARCH 31, 2020

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

## Independent Auditor's Report

To the Board of Directors of the Agriculture Financial Services Corporation

### Report on the Financial Statements

#### Opinion

I have audited the financial statements of the Agriculture Financial Services Corporation, which comprise the statement of financial position as at March 31, 2020, and the statements of operations, change in net financial assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Agriculture Financial Services Corporation as at March 31, 2020, and the results of its operations, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

#### Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Agriculture Financial Services Corporation in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Other information

Management is responsible for the other information. The other information comprises the information included in the *Annual Report*, but does not include the financial statements and my auditor's report thereon. The *Annual Report* is expected to be made available to me after the date of this auditor's report.

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

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

## **Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Agriculture Financial Services Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Agriculture Financial Services Corporation's financial reporting process.

## **Auditor's responsibilities for the audit of the financial statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agriculture Financial Services Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Agriculture Financial Services Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Agriculture Financial Services Corporation to cease to continue as a going concern.



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

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

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

May 28, 2020  
Edmonton, Alberta

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2020

(dollars in thousands)

	2020	2019
<b>FINANCIAL ASSETS</b>		
Cash and Cash Equivalents	\$ 360,089	\$ 380,348
Accounts receivable (Note 3)	35,340	5,586
Due from Government of Alberta	88,491	57,820
Due from Government of Canada	209,056	194,824
Loans receivable (Note 4)	2,436,388	2,306,379
Investments (Note 5)	2,612,013	2,558,113
	5,741,377	5,503,070
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (Note 6)	10,005	17,723
Due to other Provincial Governments (Note 7)	2,191	4,566
Indemnities payable (Note 8)	458,636	248,335
Borrowing from Government of Alberta (Note 9)	2,442,330	2,248,721
Deferred revenue (Note 10)	7,616	7,084
	2,920,778	2,526,429
Net Financial Assets	2,820,599	2,976,641
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets (Note 11)	28,678	31,411
Prepaid expenses	5,895	4,205
	34,573	35,616
Net assets before deferred capital contributions	2,855,172	3,012,257
Spent deferred capital contributions (Note 10)	\$ 15,611	\$ 17,544
Net Assets	\$ 2,839,561	\$ 2,994,713
Net Assets		
Accumulated surplus	\$ 2,839,561	\$ 2,994,713

Contingencies, Contractual Obligations and Commitments (Note 13)

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

[Original signed by Mabel Hamilton]

\_\_\_\_\_  
Chair of the Board of Directors

[Original signed by Jerry Bouma]

\_\_\_\_\_  
Interim Chief Executive Officer

[Original signed by Darryl Kay]

\_\_\_\_\_  
Chief Financial & Innovation Officer

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2020  
(dollars in thousands)

	2020		2019
	Budget	Actual (Schedule 1)	Actual
Revenues:			
Premiums from insured persons	\$ 309,926	\$ 321,197	\$ 322,776
Interest	89,370	95,943	88,643
Contribution from Government of Alberta	278,684	357,381	299,524
Contribution from Government of Canada	227,775	319,431	238,159
Investment income	47,962	61,664	48,922
Fees and other income	13,924	51,428	12,955
	<u>967,641</u>	<u>1,207,044</u>	<u>1,010,979</u>
Expenses:			
AgrilInsurance	350,923	886,975	618,572
Agriculture Income Support	90,405	231,613	89,395
Lending	100,557	117,441	97,922
Hail Insurance	32,317	28,418	22,170
Livestock Insurance	16,566	78,767	13,082
Wildlife Damage Compensation	11,173	18,982	19,824
	<u>601,941</u>	<u>1,362,196</u>	<u>860,965</u>
Annual (deficit) surplus	<u>\$ 365,700</u>	<u>(155,152)</u>	<u>150,014</u>
Accumulated surplus at beginning of year		<u>2,994,713</u>	<u>2,844,699</u>
Accumulated surplus at end of year		<u>\$ 2,839,561</u>	<u>\$ 2,994,713</u>

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, 2020

(dollars in thousands)

	2020		2019
	Budget	Actual	Actual
Annual (deficit) surplus	\$ 365,700	\$ (155,152)	\$ 150,014
Acquisition of tangible capital assets (Note 11)	7,573	(6,314)	(5,481)
Amortization of tangible capital assets (Note 11)	(7,464)	8,288	8,235
Loss on disposal of tangible capital assets	-	594	443
Proceeds on sale tangible capital assets	-	165	31
Change in prepaid expenses	-	(1,690)	(271)
Change in spent deferred capital contributions	-	(1,933)	(1,738)
(Decrease) increase in net financial assets in the year	365,809	(156,042)	151,233
Net financial assets, beginning of year	2,976,641	2,976,641	2,825,408
Net financial assets, end of year	<u>\$ 3,342,450</u>	<u>\$ 2,820,599</u>	<u>\$ 2,976,641</u>

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2020

(dollars in thousands)

	2020	2019
Operating transactions:		
Annual (deficit) surplus	\$ (155,152)	\$ 150,014
Non-cash items included in operating results		
Amortization of tangible capital assets (Note 11)	8,288	8,235
Deferred capital contribution recognized as revenue (Note 10)	(5,144)	(5,183)
Amortization of premiums and discounts	(6,393)	136
Allowance for doubtful accounts and for losses	21,157	(778)
Gain on sale of investments	(319)	5,955
Gain on disposal of capital assets	594	443
Unearned revenue received	7,616	7,084
Changes in assets and liabilities relating to operations	113,857	44,029
Cash (utilized) provided by operating transactions <sup>(1)</sup>	(15,496)	209,935
Investing transactions:		
Proceeds from repayments of loans receivable	372,395	378,003
Loan disbursements	(522,563)	(437,101)
Purchase of investments	(1,199,951)	(1,047,287)
Proceeds on disposal of investments	1,146,678	955,465
Cash applied to investing activities	(203,441)	(150,920)
Capital transactions:		
Aquisition of tangible capital assets	(6,314)	(5,481)
Proceeds on disposal of tangible capital assets	165	31
Cash applied to capital transactions	(6,149)	(5,450)
Financing transactions:		
Borrowing from the Government of Alberta	2,819,725	850,000
Contributions restricted for capital (Note 10)	3,211	3,445
Repayment of borrowing from the Government of Alberta	(2,618,109)	(821,092)
Cash provided by financing transactions	204,827	32,353
(Decrease) increase in cash and cash equivalents	(20,259)	85,918
Cash and cash equivalents at beginning of year	380,348	294,430
Cash and cash equivalents at end of year	\$ 360,089	\$ 380,348

<sup>(1)</sup> Net cash provided by operating activities includes \$66,842 (2019 \$68,234) of interest paid.

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

(dollars in thousands)

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, AgrilInsurance, 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 Summary of 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 AgrilInsurance and Hail Insurance programs. A corresponding premium contribution from the Governments of Canada and Alberta is also recognized on policies sold under the AgrilInsurance 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)), AgrilInvest, 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, 2020

(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 and cash equivalents, 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.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

(dollars in thousands)

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, 8 and 17).

The World Health Organization declared on March 11, 2020 the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus and provide financial assistance as necessary. The duration and impact of COVID-19 are unknown at this time and it is not possible to reliably estimate the full effect of these developments on the financial statements. Additional information on the financial impact of COVID-19 has been disclosed in the relevant notes in the financial statements (See Notes 4, 8, 17 and 18).

(e) Non-Financial Assets

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

(f) Cash and Cash Equivalents

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, 2020

(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.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

(dollars in thousands)

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 Corporation's 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 the 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, 2020

(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 or fees and other income if the indemnities recovered are greater than the ceded premiums. 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 \$2,690,189 (2019 \$2,814,351) 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 \$1,128 for the estimated remaining remediation (2019 \$1,256).

(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.

AGRICULTURE FINANCIAL SERVICES CORPORATION

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Note 2 Significant Accounting Policies and Reporting Practices (continued)

(r) Net Debt Model (continued)

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.

(s) Future Accounting Changes

The Public Sector Accounting Board has approved the following accounting standards:

- **PS 3280 Asset Retirement Obligations (effective April 1, 2021)**

Effective April 1, 2021, this standard provides guidance on how to account for and report liabilities for retirement of tangible capital assets.

- **PS 3400 Revenue (effective April 1, 2022)**

This standard provides guidance on how to account for and report on revenue, specifically, it addresses revenue arising from exchange transactions and unilateral transactions.

Management is currently assessing the impact of these standards on the financial statements.

Note 3 Accounts Receivable

	2020	2019
Due from reinsurers		
Livestock insurance program	\$ 31,702	\$ 1,224
AgriStability & Canadian Agricultural Income Stabilization (CAIS) programs:		
Overpayments	3,526	3,982
Administration fees	310	337
Premiums from insured persons		
Livestock insurance program	2,035	2,308
AgriInsurance program	1,971	2,004
Hail insurance program	273	204
Other	48	610
	39,865	10,669
Allowances for doubtful accounts		
At beginning of year	(5,083)	(6,249)
Decrease for this year	544	1,193
Write offs (recoveries)	14	(27)
At end of year	(4,525)	(5,083)
	\$ 35,340	\$ 5,586

Included in the allowances for doubtful accounts is \$3,526 (2019 \$3,982) 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.



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Note 4      Loans Receivable

Loans receivable are comprised of the following:

	2020			2019
	Farm	Commercial	Total	Total
Performing loans - non concessionary	\$ 2,181,499	\$ 224,612	\$ 2,406,111	\$ 2,261,535
Performing loans - concessionary	1,167	-	1,167	1,443
Impaired loans	4,041	36,950	40,991	42,004
	<u>2,186,707</u>	<u>261,562</u>	<u>2,448,269</u>	<u>2,304,982</u>
Accrued interest	29,040	1,053	30,093	27,652
Loan discount	(14)	-	(14)	(18)
	<u>2,215,733</u>	<u>262,615</u>	<u>2,478,348</u>	<u>2,332,616</u>
Allowances	(5,922)	(36,038)	(41,960)	(26,237)
Net carrying value	<u>\$ 2,209,811</u>	<u>\$ 226,577</u>	<u>\$ 2,436,388</u>	<u>\$ 2,306,379</u>

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.

Allowances for doubtful accounts for loans are as follows:

	Farm	Commercial	2020	2019
At beginning of year	\$ 3,615	\$ 22,622	\$ 26,237	\$ 25,830
Increase for the year	2,497	19,205	21,702	415
Write-offs	(190)	(5,789)	(5,979)	(8)
At end of year	<u>\$ 5,922</u>	<u>\$ 36,038</u>	<u>\$ 41,960</u>	<u>\$ 26,237</u>
Specific allowance	\$ 1,124	\$ 26,019	\$ 27,143	\$ 19,931
General allowance	4,798	10,019	14,817	6,306
	<u>\$ 5,922</u>	<u>\$ 36,038</u>	<u>\$ 41,960</u>	<u>\$ 26,237</u>

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

An additional allowance has been included in both the Specific allowance (\$4,646,640) and the General allowance (\$8,849,825) to estimate the additional risk due to the COVID-19 pandemic.

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 \$5,658,542 (2019 \$5,190,911).

AGRICULTURE FINANCIAL SERVICES CORPORATION

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Note 4      Loans Receivable (continued)

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

	2020	2019
<b>Effective annual Interest Rate</b>		
Less than or equal to 2%	\$ 145,093	\$ 175,509
2.01% to 3.00%	266,267	294,212
3.01% to 4.00%	903,574	716,110
4.01% to 5.00%	789,177	729,605
5.01% to 6.00%	252,498	267,725
6.01% to 7.00%	85,441	112,169
7.01% to 8.00%	5,326	8,553
Over 8%	879	1,081
	2,448,255	2,304,964
Accrued interest	30,093	27,652
Allowance for doubtful accounts	(41,960)	(26,237)
	<b>\$ 2,436,388</b>	<b>\$ 2,306,379</b>
Weighted average annual interest rate	3.99%	4.01%

Note 5      Investments

	2020	2019
<b>Bonds and debentures:</b>		
Government of Canada, direct and guaranteed	\$ 1,269,056	\$ 1,278,851
Other provincial, direct and guaranteed	116,076	96,885
	1,385,132	1,375,736
<b>Corporate securities:</b>		
Asset backed securities, AAA rated	718,607	684,433
Senior bank notes	495,909	485,858
	1,214,516	1,170,291
	2,599,648	2,546,027
Accrued interest	12,365	12,086
	<b>\$ 2,612,013</b>	<b>\$ 2,558,113</b>

The fair value of investments at March 31, 2020 is \$2,643,630 (2019 \$2,560,272). Fair value is based on quoted market prices excluding accrued interest.

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

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Note 5 Investments (continued)

	Term to Maturity <sup>(1)</sup>			2020	2019
	Within 1 Year	1 to 5 Years	6 to 10 Years		
Bonds and debentures	\$ 1,205	\$ 1,383,927	\$ -	\$ 1,385,132	\$ 1,375,736
Yield <sup>(2)</sup>	0.53%	0.84%	-	0.84%	1.75%
Corporate Securities	2,677	1,211,839	-	1,214,516	1,170,291
Yield <sup>(2)</sup>	2.00%	2.23%	-	2.23%	2.29%
	3,882	2,595,766	-	2,599,648	2,546,027
Accrued interest	19	12,346	-	12,365	12,086
	<u>\$ 3,901</u>	<u>\$ 2,608,112</u>	<u>\$ -</u>	<u>\$ 2,612,013</u>	<u>\$ 2,558,113</u>

<sup>(1)</sup> Term to maturity classifications are based on contractual maturity date of the security.

<sup>(2)</sup> Yield represents the rate which discounts future cash receipts to the carrying amount.

Note 6 Accounts Payable and Accrued Liabilities

	2020	2019
Supplies and services	\$ 5,434	\$ 12,788
Salaries, wages and employee benefits	4,342	4,852
Reinsurance Premiums to Government of Canada	18	18
Other	211	65
	<u>\$ 10,005</u>	<u>\$ 17,723</u>

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.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

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Note 7 Due (to) from Other Provincial Governments (continued)

Breakdown of the amounts owing is as follows:

	2020	2019
Premiums collected	\$ 33,286	\$ 27,514
Indemnities paid	(28,556)	(17,709)
Administration costs receivable	(128)	(154)
Reinsurance premiums	(4,764)	(7,438)
Reinsurance expense net of ceded premiums	2,353	2,353
	\$ 2,191	\$ 4,566

Note 8 Indemnities Payable

	2020	2019
	(Note 2(l))	(Note 2(l))
AgriStability (previously CAIS program), AgriInvest, AgriRecovery and related programs		
Current claim year	\$ 215,667	\$ 148,686
Prior claim years	61,819	49,461
	277,486	198,147
AgriInsurance	128,121	44,092
Wildlife compensation	5,561	2,469
Hail insurance	2	93
Livestock price insurance	47,466	3,534
	\$ 458,636	\$ 248,335

Estimated indemnities payable of \$458,636 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.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

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Note 8 Indemnities Payable (continued)

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 \$176,410 to \$264,062. In four of the past six years, actual indemnities fell outside the range.

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 \$42,243 to \$200,362.

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.

The COVID-19 pandemic impacts to the livestock industry have caused a substantial decline in cattle prices since March 31, 2020. This has caused estimated indemnities payable and the corresponding reinsurance recoveries to significantly fluctuate since March 31, 2020 within the following ranges:

Indemnities payable \$76,640 to \$153,104

Reinsurance recoveries \$37,239 to \$87,967

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.

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

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(dollars in thousands)

Note 9 Borrowing from Government of Alberta (continued)

	2020	2019
Effective annual Interest Rate		
Less than or equal to 2%	\$ 510,725	\$ 370,000
2.01% to 3.00%	1,137,000	833,000
3.01% to 4.00%	500,721	657,373
4.01% to 5.00%	289,294	375,751
	2,437,740	2,236,124
Accrued interest	10,515	14,839
Unamortized premium	(5,925)	(2,242)
	<u>\$ 2,442,330</u>	<u>\$ 2,248,721</u>
Weighted average annual interest rate	2.72%	3.07%

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

Year ending March 31,	2021	\$ 515,725
	2022	181,432
	2023	136,431
	2024	294,431
	2025	120,000
	Thereafter	1,189,721
		<u>\$ 2,437,740</u>

The estimated fair value of borrowings as at March 31, 2020 is \$2,546,063 (2019 \$2,336,510). Fair value is an approximation of market value to the holder.



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NOTES TO THE FINANCIAL STATEMENTS

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Note 10 Deferred Revenue

	<u>2020</u>	<u>2019</u>			
Unearned revenue	\$ 7,616	\$ 7,084			
Spent deferred capital contributions	<u>15,611</u>	<u>17,544</u>			
	<u>\$ 23,227</u>	<u>\$ 24,628</u>			
Unearned revenue	<u>2020</u>			<u>2019</u>	
	<u>Government of Canada</u>	<u>Non- government</u>	<u>Government of Alberta</u>	<u>Total</u>	<u>Total</u>
Balance at beginning of year	\$ -	\$ 7,084	\$ -	\$ 7,084	\$ 7,336
Received during year	-	7,616	-	7,616	7,084
Less amounts recognized	<u>-</u>	<u>(7,084)</u>	<u>-</u>	<u>(7,084)</u>	<u>(7,336)</u>
Balance at end of year	<u>\$ -</u>	<u>\$ 7,616</u>	<u>\$ -</u>	<u>\$ 7,616</u>	<u>\$ 7,084</u>
Spent deferred capital contributions	<u>2020</u>			<u>2019</u>	
	<u>Government of Canada</u>	<u>Non- government</u>	<u>Government of Alberta</u>	<u>Total</u>	<u>Total</u>
Balance at beginning of year	\$ 10,235	\$ 485	\$ 6,824	\$ 17,544	\$ 19,282
Transferred capital assets received	1,927	-	1,284	3,211	3,445
Less amounts recognized as revenue	<u>(3,028)</u>	<u>(97)</u>	<u>(2,019)</u>	<u>(5,144)</u>	<u>(5,183)</u>
Balance at end of year	<u>\$ 9,134</u>	<u>\$ 388</u>	<u>\$ 6,089</u>	<u>\$ 15,611</u>	<u>\$ 17,544</u>

Unearned revenue represents premiums received from producers for AgriInsurance programs, fees collected for the AgriStability program relating to the next fiscal year. Spent deferred capital contributions represent contributions received from the federal and provincial governments that are restricted for the acquisition of tangible capital assets.

AGRICULTURE FINANCIAL SERVICES CORPORATION

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Note 11 Tangible Capital Assets

	<u>Land</u>	<u>Building</u>	<u>Furniture and Fixtures</u>	<u>Computer Equipment and Software</u>		
Estimated Useful Life	Indefinite	25 - 40 years	5 - 10 years	2 - 10 years	2020	2019
<b>Cost</b>						
At beginning of year	\$ 2,427	\$ 10,259	\$ 12,382	\$ 113,282	\$ 138,350	\$ 136,273
Additions	-	-	133	6,181	6,314	5,481
Disposals	(720)	(49)	(19)	(2,073)	(2,861)	(3,404)
	<u>1,707</u>	<u>10,210</u>	<u>12,496</u>	<u>117,390</u>	<u>141,803</u>	<u>138,350</u>
<b>Accumulated amortization</b>						
At beginning of year	-	6,382	10,340	90,217	106,939	101,634
Amortization expense	-	184	477	7,627	8,288	8,235
Disposals	-	(19)	(19)	(2,064)	(2,102)	(2,930)
	<u>-</u>	<u>6,547</u>	<u>10,798</u>	<u>95,780</u>	<u>113,125</u>	<u>106,939</u>
Net book value at March 31, 2020	<u>\$ 1,707</u>	<u>\$ 3,663</u>	<u>\$ 1,698</u>	<u>\$ 21,610</u>	<u>\$ 28,678</u>	
Net book value at March 31, 2019	<u>\$ 2,427</u>	<u>\$ 3,877</u>	<u>\$ 2,042</u>	<u>\$ 23,065</u>		<u>\$ 31,411</u>

Computer equipment and software costs include \$4,286 (2019 \$4,284) 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 \$5,078 for the year ended March 31, 2020 (2019 \$5,218).

At December 31, 2019, the Alberta Management Employees Pension Plan reported a surplus of \$1,008,135 (2018 surplus \$670,700), the Alberta Public Service Pension Plan reported a surplus of \$2,759,320 (2018 surplus \$519,218) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of \$44,698 (2018 deficiency \$70,310). 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.

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Note 12 Pensions (continued)

The fair value of the pension plans are subject to significant market volatility due to the economic crisis stemming from the global pandemic COVID-19 virus. To the extent that the pension plans may not recover market-losses during the remainder of 2020, the funded status of the plans would experience a correlated decline. The financial market impact of the outbreak has been rapidly evolving, which precludes a reasonable estimate of the impact.

Note 13 Contingencies, Contractual Obligations and Commitments

Contingent Liability

	<u>2020</u>	<u>2019</u>
Loan guarantees	<u>\$ 1,476</u>	<u>\$ 5,933</u>

There are no loans for 2020 (2019 \$2,955) included in loan guarantees 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 not been named in any legal matters of which the outcome is not determinable (2019 zero claims totaling \$0).

Contractual Obligations

	<u>2020</u>	<u>2019</u>
Reinsurance	5,199	5,962
Operating leases	9,953	9,513
Other contracts	<u>8,262</u>	<u>6,259</u>
Total contractual obligations	<u>\$ 23,414</u>	<u>\$ 21,734</u>

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

Year ending March 31,	2021	\$ 12,481
	2022	4,499
	2023	2,259
	2024	1,214
	2025	1,126
	Thereafter	<u>1,835</u>
		<u>\$ 23,414</u>

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 48.25% for Livestock insurance and 30% for Hail insurance.

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

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(dollars in thousands)

Note 13 Contingencies, Contractual Obligations and Commitments (continued)

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

Commitments

	<u>2020</u>	<u>2019</u>
Approved, undisbursed loans	<u>\$ 210,335</u>	<u>\$ 204,655</u>

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:

	<u>2020</u>	<u>2019</u>
Investments	\$ 2,612,013	\$ 2,558,113
Loans receivable	2,436,388	\$ 2,306,379
Due from Government of Canada	209,056	194,824
Due from Government of Alberta	88,491	57,820
Accounts receivable	35,340	5,586
Loan guarantees	<u>1,476</u>	<u>5,933</u>
Total commitments	<u>\$ 5,382,764</u>	<u>\$ 5,128,655</u>

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. Interest rates for loans and interest rates for borrowing are both set by the government of Alberta. In order to mitigate the exposure of interest rate fluctuations, AFSC maintains a balance of short term funds.

Investments - AFSC invests surplus funds generated by Production 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.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

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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.

	<u>2020</u>		<u>2019</u>	
	<u>Dollar</u>	<u>Percentage</u>	<u>Dollar</u>	<u>Percentage</u>
Loans receivable by individual sector:				
Grain and Oilseeds	\$ 1,369,701	56%	\$ 1,260,479	55%
Cattle	745,895	31%	681,432	29%
Accommodations and Other Services	101,964	4%	118,061	5%
Other Livestock	75,608	3%	77,807	3%
Manufacturing	65,567	3%	63,416	3%
Trade - Retail and Wholesale	29,917	1%	31,966	1%
Other	89,696	4%	99,455	5%
Allowance	(41,960)	-2%	(26,237)	-1%
	<u>\$ 2,436,388</u>	<u>100%</u>	<u>\$ 2,306,379</u>	<u>100%</u>

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.

AGRICULTURE FINANCIAL SERVICES CORPORATION

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Note 14 Financial Instruments and Financial Risk Management (continued)

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.

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 <sup>(1)</sup>				Not <sup>(2)</sup> Interest Rate Sensitive	2020	2019
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years		Total	Total
Loan balances	\$ 203,552	\$ 645,697	\$ 668,136	\$ 901,278	\$ 17,725	\$ 2,436,388	\$ 2,306,379
Yield	3.84%	4.01%	4.14%	4.14%	-	4.05%	4.09%
Borrowing from							(Restated)
Government of Alberta	\$ 515,725	\$ 732,294	\$ 939,721	\$ 250,000	\$ 4,590	\$ 2,442,330	\$ 2,248,721
Yield <sup>(3)</sup>	2.88%	2.96%	2.78%	2.05%	-	2.89%	3.16%
Net gap	<u>\$ (312,173)</u>	<u>\$ (86,597)</u>	<u>\$ (271,585)</u>	<u>\$ 651,278</u>	<u>\$ 13,135</u>	<u>\$ (5,942)</u>	<u>\$ 57,658</u>

(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.



AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

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Note 14 Financial Instruments and Financial Risk Management (continued)

Liquidity Risk

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

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 Livestock Price Insurance and Hail Insurance providing significant protection against catastrophic losses. If all of the above are exhausted, the AgrilInsurance 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. Any amounts incurred were in the normal course of business, therefore do not require to be reported.

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:

	<u>2020</u>	<u>2019</u>
Revenues:		
Grants	\$ 357,381	\$ 299,524
Expenses:		
Accommodation	\$ 571	\$ 602
Other services	2,619	2,739
Interest	68,146	68,349
	<u>\$ 71,336</u>	<u>\$ 71,690</u>
Payable to:		
Ministry of Agriculture and Forestry	\$ 650	\$ 650
Ministry of Treasury Board and Finance	2,442,330	2,248,721
Service Alberta	1	-
Receivable from:		
Ministry of Agriculture and Forestry	88,490	57,820
Deferred Revenue from:		
Ministry of Agriculture and Forestry	<u>6,090</u>	<u>6,824</u>
	<u>\$ 2,537,561</u>	<u>\$ 2,314,015</u>

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

(dollars in thousands)

Note 16 Crop Reinsurance Funds

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

	AgrilInsurance Reinsurance Fund of Alberta		AgrilInsurance Reinsurance Fund of Canada for Alberta	
	2020	2019	2020	2019
Opening net assets	\$ 33,641	\$ 33,641	\$ 34,530	\$ 34,530
Contributions	-	-	-	-
Closing net assets	<u>\$ 33,641</u>	<u>\$ 33,641</u>	<u>\$ 34,530</u>	<u>\$ 34,530</u>

The closing net assets balance in the AgrilInsurance Reinsurance Fund of Alberta is consolidated in the AgrilInsurance Fund in Schedule 1.

Note 17 Reinsurance Expense

	<u>AgrilInsurance</u>	<u>Hail Insurance</u>	<u>Livestock Insurance</u>	<u>2020</u>	<u>2019</u>
Brokerage					
Brokerage rebate	\$ -	\$ -	\$ -	\$ -	\$ (1,281)
Excess loss					
Reinsurance expense		806	2,522	3,328	20,844
Recoveries	-	-	(14,009)	(14,009)	-
Quota Share					
Ceded premiums and commissions	-	7,804	8,695	16,499	19,066
Ceded losses	-	(7,873)	(34,447)	(42,320)	(6,475)
Net reinsurance expense	<u>\$ -</u>	<u>\$ 737</u>	<u>\$ (37,239)</u>	<u>\$ (36,502)</u>	<u>\$ 32,154</u>

The COVID-19 pandemic impacts to the livestock industry have caused a substantial decline in cattle prices since March 31, 2020. This has created the estimated reinsurance recoveries to significantly fluctuate since March 31, 2020 within the following range \$37,239 to \$87,261. The net livestock insurance reinsurance expense is included in fees and other income on Schedule 1.

Note 18 Subsequent Event

On May 5, 2020, the Alberta Government announced an AgriRecovery Set Aside Program for Fed Cattle under the federal-provincial-territorial AgriRecovery framework within the Canadian Partnership Agreement. This is due to the unprecedented challenges resulting from COVID-19 with the loss of foodservice business and reduced processing capacity due to temporary closures of three meat processing plants. Without the ability to sell market-ready cattle in a timely manner, fed cattle will continue to be held back from slaughter. These are extraordinary costs for cattle feeders. The program is estimated to cost \$43,200 to be shared by the parties as per the agreement. The cost and the corresponding contributions from the Government of Canada and the Government of Alberta are subject to measurement uncertainty.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

(dollars in thousands)

Note 19 Budget

The budget reported in the Statement of Operations was included in the 2020/19 Government Estimates.

Note 20 Comparative Figures

The 2019 figures have been reclassified where necessary to conform to 2020 presentation.

**AGRICULTURE FINANCIAL SERVICES CORPORATION**  
**SCHEDULE OF OPERATIONS**  
**YEAR ENDED MARCH 31, 2020**  
(dollars in thousands)

	2020	2019	2020	2019	2020	2019
	<u>AgrilInsurance</u>	<u>AgrilInsurance</u>	<u>Agriculture Income Support</u>	<u>Agriculture Income Support</u>	<u>Lending</u>	<u>Lending</u>
	Note 2(n)	Note 2(n)				
<b>Revenues:</b>						
Premiums from insured persons	\$ 275,206	\$ 267,683	\$ -	\$ -	\$ -	\$ -
Interest	681	680	166	133	94,973	87,671
Contribution from Government of Alberta	233,469	229,614	105,980	45,927	7,407	12,955
Contribution from Government of Canada	194,241	194,308	114,847	33,100	-	-
Investment income	59,055	46,328	736	758	810	763
Fees and other income	161	(122)	10,278	9,833	3,380	2,788
	<u>762,813</u>	<u>738,491</u>	<u>232,007</u>	<u>89,751</u>	<u>106,570</u>	<u>104,177</u>
<b>Expenses:</b>						
Indemnities	841,320	557,515	219,160	77,292	-	-
Salaries, wages and employee benefits	29,134	28,091	8,053	8,488	17,969	19,003
Supplies and services	12,976	13,533	3,677	3,834	5,766	6,422
Amortization of tangible capital assets	3,618	3,320	1,169	881	2,509	2,833
Interest	-	-	-	-	69,496	69,250
Reinsurance (Note 17)	-	16,172	-	-	-	-
Allowance for doubtful accounts and for losses (Note 3 & 4)	(73)	(59)	(446)	(1,100)	21,701	414
	<u>886,975</u>	<u>618,572</u>	<u>231,613</u>	<u>89,395</u>	<u>117,441</u>	<u>97,922</u>
Annual (deficit) surplus	(124,162)	119,919	394	356	(10,871)	6,255
Accumulated surplus at beginning of year	2,814,351	2,694,432	2,117	1,761	91,430	85,175
Accumulated surplus at end of year	<u>\$ 2,690,189</u>	<u>\$ 2,814,351</u>	<u>\$ 2,511</u>	<u>\$ 2,117</u>	<u>\$ 80,559</u>	<u>\$ 91,430</u>

2020	2019	2020	2019	2020	2019	2020	2019
Hail Insurance	Hail Insurance	Livestock Insurance	Livestock Insurance	Wildlife Damage Compensation	Wildlife Damage Compensation	Total	Total
\$ 28,545	\$ 35,010	\$ 17,446	\$ 20,083	\$ -	\$ -	\$ 321,197	\$ 322,776
87	114	36	45	-	-	95,943	88,643
-	-	714	794	9,811	10,234	357,381	299,524
-	-	1,069	1,103	9,274	9,648	319,431	238,159
713	554	398	591	(48)	(72)	61,664	48,922
159	263	37,332	93	118	100	51,428	12,955
<u>29,504</u>	<u>35,941</u>	<u>56,995</u>	<u>22,709</u>	<u>19,155</u>	<u>19,910</u>	<u>1,207,044</u>	<u>1,010,979</u>
26,105	14,267	76,640	904	17,585	18,287	1,180,810	668,265
670	657	1,069	1,118	860	924	57,755	58,281
477	613	620	657	437	499	23,953	25,558
454	485	438	602	100	114	8,288	8,235
-	-	-	-	-	-	69,496	69,250
737	6,169	-	9,813	-	-	737	32,154
(25)	(21)	-	(12)	-	-	21,157	(778)
<u>28,418</u>	<u>22,170</u>	<u>78,767</u>	<u>13,082</u>	<u>18,982</u>	<u>19,824</u>	<u>1,362,196</u>	<u>860,965</u>
1,086	13,771	(21,772)	9,627	173	86	(155,152)	150,014
<u>44,462</u>	<u>30,691</u>	<u>40,720</u>	<u>31,093</u>	<u>1,633</u>	<u>1,547</u>	<u>2,994,713</u>	<u>2,844,699</u>
<u>\$ 45,548</u>	<u>\$ 44,462</u>	<u>\$ 18,948</u>	<u>\$ 40,720</u>	<u>\$ 1,806</u>	<u>\$ 1,633</u>	<u>\$ 2,839,561</u>	<u>\$ 2,994,713</u>

AGRICULTURE FINANCIAL SERVICES CORPORATION

SCHEDULE OF SALARIES AND BENEFITS

YEAR ENDED MARCH 31, 2020

(dollars in thousands)

	2020			2019	
	Base Salary <sup>(1)</sup>	Other Cash Benefits <sup>(2)</sup>	Other Non- cash Benefits <sup>(3)</sup>	Total	Total
Chair of Board	\$ 41	\$ -	\$ 1	\$ 42	\$ 44
Board Members <sup>(4)</sup>	86	-	2	88	91
Executive Members					
Chief Executive Officer <sup>(5)</sup>	305	78	27	410	347
Chief Risk Officer <sup>(6)</sup>	250	57	12	319	50
Chief Client Officer <sup>(7)</sup>	239	-	60	299	-
Chief Financial & Innovation Officer <sup>(8)</sup>	224	1	52	277	270
Chief People Officer	173	10	40	223	219
Chief Information Officer	175	4	40	219	216
Interim Vice-President, Operation & Sales <sup>(9)</sup>	14	-	4	18	222
Interim CEO <sup>(10)</sup>	-	-	-	-	25
Interim Chief Financial Officer <sup>(11)</sup>	-	-	-	-	19
Vice-President, Legal & Compliance, General Counsel <sup>(12)</sup>	-	-	-	-	247
Interim Vice-President, Innovation & Product Development <sup>(13)</sup>	-	-	-	-	230

(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 severance. 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.

(4) The amounts relate to eight Board Members for six months and seven Board Members for six months 2019/20 (eight months in 2018/19).

(5) The amounts relate to twelve months during 2019/20 (eleven months in 2018/19).

(6) The amounts relate to two months during 2018/19.

(7) The position commenced April 2, 2019.

(8) The amounts relate to twelve months during 2019/20 (eleven months in 2018/19).

(9) The amounts relate to twelve months during 2018/19.

(10) The amount relates to one month during 2018/19.

(11) The amount relates to one month during 2018/19.

(12) The amount relates to six months during 2018/19.

(13) The amount relates to eleven months during 2018/19.





