



Agriculture Financial Services Corporation

2020-21
ANNUAL REPORT



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Being involved in an industry such as agriculture that provides endless career opportunities, high-quality products in a safe, responsible, and humane way to feed the world makes me incredibly proud to develop a sustainable future for generations to come.

Makenzie Rowley
Product Coordinator LPI
AFSC Lacombe Central Office

Vision

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

Mission

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

Values



RESPECT

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



TRUST

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



INTEGRITY

We behave ethically and are open, honest and fair.



ACCOUNTABILITY

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



EXCELLENCE

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

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Letter of Transmittal

May 30, 2021

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

Dear Minister Dreeshen:

On behalf of the Board of Directors, we are pleased to submit the 2020-21 annual report of the Agriculture Financial Services Corporation (AFSC).

As required by Section 15 of the *Agriculture Financial Services Act* (RSA 2000, c.A-12), the report contains a summary of the transactions and affairs of the Corporation, its revenues and expenditures for the fiscal year ended March 31, 2021.

The report also contains audited financial statements, comprising the statement of financial position, statement of operations, statement of cash flows and notes to the financial statements.

Yours truly,

[Original signed by Shannon Marchand]

Chair of the Board of Directors

[Original signed by Darryl Kay]

Chief Executive Officer

Message from the Minister of Agriculture and Forestry

Agriculture Financial Services Corporation (AFSC) has an essential role in supporting Alberta's producers and agri-entrepreneurs. Alberta's agriculture and food sectors are part of the foundation of our province, and will be a key contributor to Alberta's economic recovery as we respond to the impacts of the COVID-19 pandemic.

Despite the challenges faced as a result of the pandemic, AFSC continued to help producers build and maintain a strong agriculture and food sector in Alberta. AFSC showed support for clients facing financial difficulties due to circumstances beyond their control, offering proven business risk management programs to help get them back on track.

When there were temporary closures or slow-downs in meat-packing plants, the AgriRecovery cattle set-aside and hog programs allowed affected livestock producers to hold slaughter-ready animals on maintenance feed rations. To support producers, the AgriStability interim payment was increased from 50 per cent to 75 per cent for the hog and potato industries and the deadline was extended to July 3, 2020.

A 20 per cent reduction to AgriInsurance premiums was announced for the 2021 crop year, which is expected to save farmers more than \$55 million on crop insurance premiums and help ease the financial burden on Alberta's producers.

In early 2021, I announced an increase to AFSC's individual lending limit from \$15 million to \$30 million to support larger agricultural opportunities in Alberta and encourage economic growth and recovery, starting in 2021-22. AFSC's total borrowing limit will increase to \$3.6 billion by 2023-24 to increase access to capital to support primary producers, agribusinesses, and value-added agri-processors.

While responding to the COVID-19 pandemic and the changing needs of producers, AFSC remained focused on their core business and on continuous improvement. We asked AFSC to take a close look at their programs and how they are delivered and AFSC certainly stepped up to improve client experience and make it easier to do business with them.

Honourable Devin Dreeshen
Minister, Agriculture and Forestry

Message from the Board Chair

The events of this fiscal year show just how unpredictable the agriculture industry can be. The 2020-21 farming season was not easy for Alberta producers, as weather, trade disruptions, and other challenges had significant impact on farming operations across the province.

COVID-19 created significant additional challenges for the agriculture sector in 2020-21, and Agriculture Financial Services Corporation (AFSC) continued to provide business risk management programs to help farmers manage the impacts of market disruptions and production challenges.

This past fiscal year, AFSC had a strong focus on improving lending practices and policies to deliver more efficiently on our lending mandate. As part of the government-led Red Tape Reduction initiative and our focus on continuous improvement, AFSC worked to identify and implement opportunities to streamline processes and remove complexities for our clients. We are always looking for ways to offer convenient access to programs, eliminate redundant processes, use technology to enhance our products and service delivery and empower decision-making and accountability in our people.

AFSC is guided by a private sector Board of Directors whose knowledge and experience is key to our success. The board members provide essential oversight to ensure the agency's programs and services are delivered effectively and meet the needs of rural Alberta. The board members represent a broad and diverse cross-section of the industry to ensure the best service for Alberta agribusinesses while working to streamline AFSC to improve its services and responsiveness to farmers.

I offer my sincere thanks to the Board for their knowledge, skill and hard work to oversee AFSC's continuous improvement. I would also like to thank the Executive Leadership Team and all AFSC employees - we're on a solid path to providing improved client service and corporate performance in all aspects of the organization, and I anticipate even greater achievements in 2021-22.

Shannon Marchand
Chair, Agriculture Financial Services Corporation Board of Directors

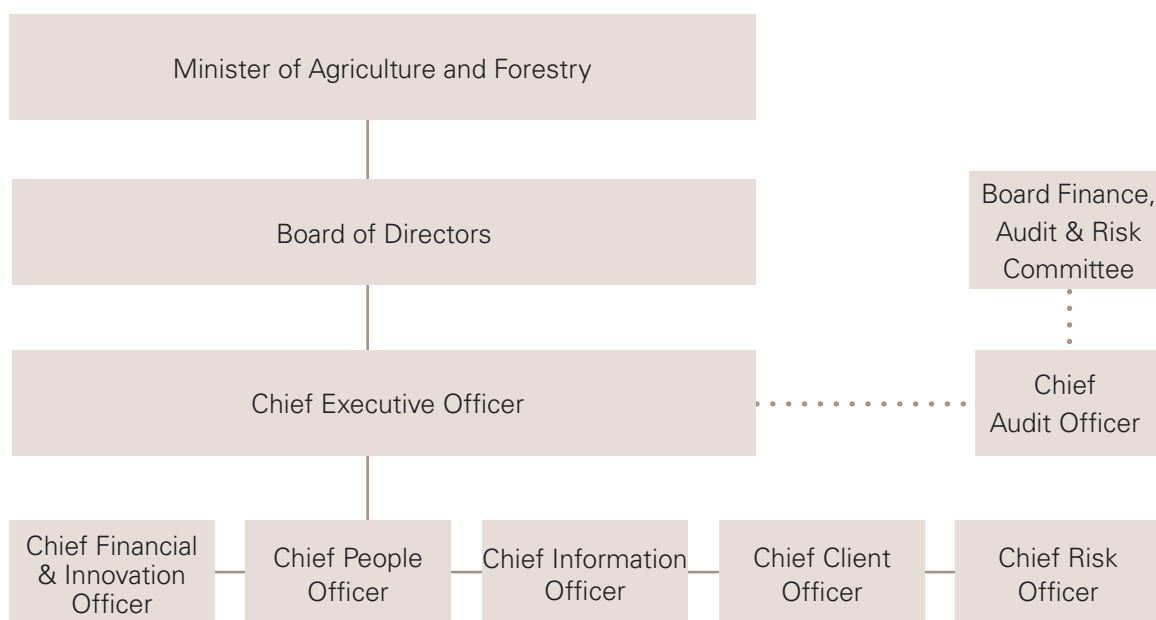
About AFSC

Agriculture Financial Services Corporation (AFSC) provides leading, innovative, client-focused financial and risk-management solutions to grow agriculture in Alberta. As a provincial Crown corporation, we've provided hail insurance to Alberta farmers for over 80 years. As we've matured into a diverse corporation, we remain dedicated to developing strong client relationships while managing risks within the agriculture industry.

AFSC's products and services address marketplace gaps, offering products that are not consistently or reliably available from other sources. We work with agricultural producers and agribusinesses 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, 2021 the Board of Directors consisted of seven board members appointed by the Minister of Agriculture and Forestry. The board have a variety of skills and experience as entrepreneurs, primary agricultural producers and agribusiness owners/operators.



Shannon Marchand,
Board Chair



Gerald Bouma



Rodney Bradshaw



Renata Colic



Trevor MacLean



Kiren Singh



Chioma Ufodike

Board and Committee Structure

The AFSC Board of Directors has the flexibility to appoint members to committees; however, currently the board meets as a Committee of the Whole. 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.

<p>Governance and Human Resources Committee</p>	<p>The Governance and Human Resources Committee assists the board in fulfilling its corporate governance and management oversight responsibilities.</p>
<p>Finance, Audit and Risk (FAR) Committee</p>	<p>The FAR Committee oversees the fiscal management, financial reporting, as well as internal/external audit plans, reports and internal controls. They oversee the enterprise-wide risk management practices and make 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.</p>

Executive Leadership Team

As of March 31, 2021 the Executive Leadership Team consisted of five Chief Officers.



Darryl Kay,
Chief Executive Officer



JJ Campbell,
Chief Information Officer



Karla Kochan,
Chief People Officer



Steve Janz,
Chief Client Officer



Walker Rogers
Chief Risk Officer

Vacant - Chief Financial and Innovation Officer

2020-21 at a Glance



2020-25 Strategic Plan

In 2018, AFSC developed a roadmap, which was an 18-24 month plan to focus the corporate vision by enhancing the client experience, improving corporate performance and simplifying processes. To enact the roadmap, a one-year balanced scorecard was developed for 2019-20, placing equal emphasis on the financial, client, people and process perspectives required to achieve the roadmap vision.

With the experience of defining and executing the roadmap and the 2019-20 Balanced Scorecard behind us, the corporation has now defined a five-year strategic plan to boldly move AFSC into the role of industry leadership. The strategic plan responds to key environmental factors and recognizes that direct alignment with the Alberta government is critical; further, it draws on six strategic objectives as directed by the board, including:



Deliver an exceptional client experience



Prepare for the workforce of the future



Inspire innovation in our products and how we conduct business



Embrace and adapt to new technologies



Refresh our brand



Maximize value to the Government of Alberta and all stakeholders

While the strategic plan provides direction for the next five years, annually the organization reviews the economic environment, progress made, government priorities, and client expectations to ensure the objectives outlined still accurately reflect our reality.

The direction of the strategic plan informs annual tactical planning to ensure progress. In addition, it allows individuals to have a line of sight between their daily activities and their support of the greater purpose. A balanced scorecard, focused on the perspectives of finance, client, people and process, is developed annually to identify the specific measures put in place each fiscal year to ensure successful achievement of the strategic objectives. The foundation of continuous improvement, red tape reduction, and providing exceptional client experience remain cornerstones of this plan.



Economic Climate

The fiscal year started with a global health crisis that plunged most countries into deep economic contractions. Canada introduced several containment measures to reduce the impact of the pandemic on the economy. Despite these measures, Canada's real GDP contracted by 5.5 per cent in 2020. In Alberta, the estimated real GDP growth for 2020 declined 7.8 per cent.

The COVID-19 pandemic put an extra strain on the already fiscally challenged Alberta economy. The lack of pipeline capacity in the energy sector, lack of market access for canola exports to China, and low oil prices persisted throughout the year. West Texas Intermediate oil spot price plummeted into negative territory for the first time in history on April 20, 2020. The cancellation of the Keystone XL pipeline was a setback to the growth of Alberta's oil sector.

The agricultural sector was a major cushion to the Alberta economy during the pandemic. Strong commodity prices resulted in increased farm cash receipts to producers. Farm cash receipts increased by 8.1 per cent in Canada and 3.1 per cent in Alberta.

The Canadian dollar saw sustained strengthening this past fiscal year, which offset some of the benefits of the current low interest rate environment. The Bank of Canada maintained the overnight lending interest rate at 0.25 per cent throughout the fiscal year with signals of it remaining there until the second half of 2022.

Despite the economic challenges in 2020, farmland values remained resilient, increasing by 5.4 per cent nationally. In Alberta, farmland values increased from a growth rate of 3.3 per cent in 2019 to 6.0 per cent in 2020.



COVID-19 Response

In March 2020, AFSC initiated its response to the COVID-19 pandemic. Branch offices maintained restricted access, with appointments required and clients accessing online service through AFSC Connect to support their needs. AFSC leadership ensured employee and client safety by introducing COVID-19 protocols, based on AHS guidelines. The AFSC branch network continued to serve producers online, over the phone or in person.

The COVID-19 pandemic created a disruption to the slaughter capacity of cattle and later, hogs, in Alberta. This resulted in two joint AgriRecovery Responses: the 2020 Canada-Alberta Fed Cattle Feed Cost Offset Initiative (established in March 2020); and the Canada-Alberta Hog Recovery Initiative: Hog Maintenance Feed Component (February 2021).



Annual Crops

The 2020 crop year started with over one million insured acres left unharvested from the previous crop year. Provincially, close to 70 per cent of the spring harvested cereal crops came off as good quality feed; spring harvested canola was also good quality with 84 per cent coming off as 3 Canada or better.

Variable weather was experienced across Alberta, causing soil drying in some areas, and adding more moisture in others. The rain was welcomed in the eastern half of the province, while there was excessive soil moisture in the Peace and northern regions. Highlights included:

- In late May, a major weather system brought a significant amount of moisture to many parts of the province, halting seeding and spring harvesting operations across the province.
- By the first week in June, despite seeding delays, 98 per cent of crop was estimated to be in the ground.
- By June 20, as a result of the carried-over acres and the excessive moisture, close to 560,000 acres were reported as unseeded.
- In addition to the unseeded acres, excessive moisture severely impacted the growth of seeded crops in northern regions, some of which became non-viable.
- AFSC recognized the challenges many farmers in the northern regions faced, dealing with back-to-back years of excessive moisture. In response, AFSC offered a premium refund on severely impacted fields insured under Hail Endorsement or Straight Hail Insurance for 2020. The table below summarizes the number of Hail Endorsement and Straight Hail subscriptions, premium dollar amounts and number of acres in which hail premiums were refunded.

Programs	Subscriptions	Premium Dollars Refunded	Acres (in which premiums were refunded)
Hail Endorsement	718	\$1,825,570	212,238
Straight Hail	152	\$397,405	38,269
GRAND TOTAL	870	\$2,222,975	250,507

- Excessive moisture caused flooding in the northern and Peace regions, which reduced yields in those wet areas and led to acres being plowed under or abandoned.
- July and August brought a range of normal to moderately warm, to unseasonably cool temperatures, along with rain and hail in varying amounts across the provinces. Crop conditions continued to be good to excellent throughout most of the province for the remainder of the growing season, with the exception of the northwest region.
- End of August and early September favourable weather conditions allowed most Alberta producers to start harvesting spring seeded crops. By early September, warmer, drier weather in many parts of the northern and Peace regions helped advance crop maturity.
- By the third week of October, most of the province's crops were in the bin. Based on a five-year average, crop yields were at, or above average, for the South and Central regions, on par for the North East; and below average in the Peace and North West.
- Conditions across the province resulted in variability in yields and quality, although, on a provincial level, both yields and grades were higher than normal.



Perennial Crops

In spite of the cooler spring temperatures, tame hay and pasture growth was close to average compared to the past five years, while perennial crops were reported as stronger than recent years.

- Haying was well underway throughout the province at the end of June, and by mid-July, pasture and tame hay fields were in good shape in most parts of the province. However, in some wet areas, pastures were flooding and dying off. In these areas, hay fields were soaked in water, making it impossible for producers to start haying.
- By mid-August, provincially, first cut hay was near completion, with the yield and quality above the five-year average.

The second half of the summer saw drier conditions in the south and southeast regions of the province, stressing pastures that had experienced consecutive years of dry conditions.





Livestock

This past year, the Canadian cattle industry experienced many firsts, as well as extreme market volatility. At the beginning of 2020, cattle feeders were optimistic, however, that optimism quickly faded. The onset of COVID-19 filled the futures market with an abundance of uncertainty while trying to anticipate supply and demand needs for retail and export markets.

In January 2020, Alberta fed cattle prices started in the low \$160's, which was \$5 -10 off the five-year average for that time period. By spring, packing plants started to see COVID-19 impact their staff and were forced to temporarily close, address COVID-19 safety guidelines, and ensure staff could return to work safely. These closures brought massive backups of fat cattle, estimated to be as high as 130,000 head, to be processed in the busiest time of year.

By May 2020, the Alberta fed cash price had reached a bottom, and the Livestock Price Insurance program published a low of \$106.66 (May 11, 2020). Policies purchased in the 2019-20 fiscal year continued to expire during this 2020 downturn, resulting in significant payouts. Disruptions in the supply chain as a result of COVID-19 led to \$115M in Livestock Price Insurance indemnities paid to participating Alberta producers for all product lines for the 2019-20 fiscal year. The majority of the 2019-20 policies were paid out in 2020-21 fiscal year as policies expired.

During this time, the packing plants had an endless supply of fat cattle to process, making it vital to be able to continue processing at maximum capacity. This large supply drove the cash price down and packer margins up, while retail demand exceeded expectations, which kept prices stable for the consumer.

Summer brought favourable grazing and growing conditions for crops. Feed supply for cattle producers over the winter was sufficient and there continued to be a strong export demand for Canadian grains, including barley. China continued to aggressively purchase Canadian commodities, including grains, which drove up the barley price to record highs over \$320/tonne in early 2021. This directly impacted the cost of production for cattle feeders.

As finishing operations continued to lose money, backlogged cattle were still present, which strengthened Canadian currency and high grain prices. This created downward pressure on feeder cattle and calves in the fall. However, feeder and calf markets stayed stronger than expected, and as 2020 came to a close, fed cattle prices started a slow and steady upward trend.

In early 2021, the Alberta hog market saw a disruption when the Red Deer Olymel processing plant experienced a temporary shut down due to a COVID-19 outbreak. Despite this, hog prices were strong and climbed since the low in summer of 2020 due to China's halt of Canadian pork imports and ASF outbreak. Domestic and export demand has been very strong for Canadian pork.

Two AgriRecovery initiatives were brought into place to assist Alberta producers with the extra feeding costs associated to retain finished cattle (Canada-Alberta Fed Cattle Fed Cost Initiative) and hogs (Canada-Alberta Hog Recovery Initiative) while waiting for plant capacity.

Markets continue to be encouraged by global populations receiving COVID-19 vaccinations, extremely strong export demand and a path to economic recovery.



AgriRecovery Program

AgriRecovery is part of the Canadian Agricultural Partnership agreement, guiding federal and provincial governments in determining how and when to provide assistance to producers impacted by disasters when other existing programs may not offer coverage.

AgriRecovery is funded 60 per cent by the Government of Canada and 40 per cent by the Government of Alberta. Once a disaster has been declared, the federal and provincial governments assess the situation, including the amount of funding available from existing programs, and develop an appropriate response. Programs vary depending on the individual disaster. As the delivery agent for AgriRecovery in Alberta, AFSC works with the federal and provincial governments, and is involved in the disaster assessment and any initiative development phases as necessary.

COVID-19 led to two separate AgriRecovery responses

The COVID-19 pandemic created a disruption to the slaughter capacity of cattle in Alberta. A joint Canada-Alberta AgriRecovery initiative called the 2020 Canada-Alberta Fed Cattle Feed Cost Offset Initiative (CAFCFCOI) was established in March 2020, as a response to industry disruptions. Members from Alberta Agriculture and Forestry, AFSC, and industry collaborated to form this unique response.

The initiative compensated producers for the extraordinary cost of keeping slaughter-ready cattle on maintenance rations. Beef producers could hold back market-ready cattle for several weeks, allowing the supply of animals to more evenly match demand and processing capacity.

The first component of the initiative was the Fed Cattle Feed Assistance, a retroactive payment for cattle set aside from May 1 to June 30. On June 12, 2020 fed cattle producers began to apply for support for fed cattle set aside between May 1 and June 30, 2020. The second component was a Bid Set-Aside process for cattle set aside starting June 29, 2020. The last week of accepting bids was January 18, 2021, with all cattle released from set aside prior to March 31, 2021

As of March 31, 2021, 251 participants received benefits through the CAFCFCOI response; \$12,007,174 was paid out under the FCFA component and \$10,705,806 was paid out under the Set Aside component. The average payment was \$90,490. An additional \$5M is estimated to be paid upon proof of retirement of eligible animals in the next fiscal year.

In February 2021, COVID-19 created a similar disruption to the slaughter capacity of hogs in Alberta. In response, a second AgriRecovery response was created: the Canada-Alberta Hog Recovery Initiative: Hog Maintenance Feed Component. This initiative compensated producers for the extraordinary cost of keeping market-ready hogs on maintenance rations due to reduced processing capacity at the Red Deer Olymel plant.

Alberta hog producers who owned market-ready hogs intended for processing at the Red Deer Olymel plant between February 8 and March 31, 2021 that were held back from shipping due to reduced processing capacity, were eligible for the initiative. The Canada-Alberta Hog Recovery Initiative paid producers \$0.95 per day per animal to cover the costs of keeping these market-ready animals on maintenance rations.

Under this initiative, 53 applications received \$1,188,139. Of this amount, \$652,957, was cost shared with the federal government (60/40) and \$535,182 was contributed by the Alberta government as a provincial top-up. The average payment was \$22,418.



Corporate Enhancements

As COVID-19 became a worldwide pandemic, AFSC administered swift responses to our branch network and Lacombe Central Office. Branch offices restricted access, with appointments required and clients accessing online service through AFSC Connect to support their needs. Staff in Lacombe Central Office went to remote work by mid-March and staff remained working from home. Health and safety protocols remained in place for all staff and clients.

In October of 2020, AFSC appointed Darryl Kay as its new Chief Executive Officer. Kay has been with AFSC for close to 10 years and brings over 20 years of senior leadership experience to the role. He has served in a number of different capacities at AFSC, including interim CEO in 2017. Kay replaces Board Member and Interim CEO Jerry Bouma, who had acted as Interim CEO since former CEO Steve Blakely's retirement in April 2020.

In early 2021, AFSC launched a Mental Health Strategy. The additional stress and mental health concerns created by COVID-19, coupled with the challenges the agriculture sector faces regularly, led to an organizational decision to increase focus on the mental health of employees. A corporate wide launch included an overview of the strategy, information on our partnership with the Mental Health Commission of Canada and guest speaker Lesley Kelly.

The AFSC lending program is expected to be boosted by the increase to the overall borrowing limit, from \$2.8 billion to a projected \$3.6 billion by 2024. This ensures that Alberta farmers, ranchers and food producers have reliable access to capital. In addition to the increase in overall borrowing, AFSC will double the individual lending limit for producers from \$15 million to \$30 million. This increased limit will help to better support larger agriculture deals in the province.

In January 2021, AFSC introduced the 20 per cent reduction in crop insurance premiums for the 2021 crop year. The Alberta Premium Reduction will save farmers more than \$55 million on their crop insurance premiums in 2021. The reduction in premiums is possible because of a healthy crop fund reserve. This fund protects against any future insurance payments, and is now at a point where it can help support discounted premiums, without posing significant risk to the overall program. This also means that there is enough money in the fund to mitigate a major event, such as a province-wide disaster in 2021 or beyond.

The multi-year Reimagining Claims Project was initiated in spring 2020 with a focus on reviewing, simplifying and streamlining our claims processes to provide an excellent and consistent client experience. The phases of this project required leadership and collaboration from across the organization, and to date has evolved through four phases of projects including hail, wildlife, post-harvest, and unseeded/unharvested work.

From a business perspective, the goals were to reduce turnaround time to allow for payment to client faster, reduce time needed for verification processes, reduce red tape on election forms, reduce processing time, offer consistency for staff less variance across the province, and reduce duplication of effort.

The results included:

- Decreased average turnaround times in hail, exceeding the 30 day claim to payment goal at 28.14 days
- Increased number of crops paid through payment by declarations (small claims)
- Reduced amount of red tape requirements from 40 to 32 (20 per cent reduction)



“

We're supporting a great industry in the province. We have great staff.

At the end of the day, we want to ensure we continue to build deep relationships with our clients, that our programs are working for them, and that we're providing good support. So that's spending time with them, understanding their operation, and making sure that we're a true, trusted partner in supporting their farming operation.

Darryl Kay
Chief Executive Officer





SUPPORTING OUR
CLIENTS

“

We are grateful to the team at AFSC, as we have been able to commercialize our model here in Alberta because of their financial support. AFSC has a mandate to support agribusiness and diversification in Alberta, and they are true to their word.

When some institutions wouldn't give us the time of day, AFSC took the time to truly understand our vision and business. They came to events, meetings, walked fields, and documentation. Not every company will do that. As we continue to expand, we are confident AFSC will be a great partner for years to come.

Aaron Barr
Chief Executive Officer
Canadian Rockies Hemp Corp





Client Experience

Our work 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 all our team members. AFSC team members 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.

Two important strategic initiatives in 2020-21 were increasing AFSC Connect usage and the development and implementation of the Client Road Map tool. Both of these initiatives advance our goal of being less transactional and having more relationship-based conversations with our clients.

AFSC has a large amount of client data—and it was essential to transform that data into something useful for front line team members to support client conversations using the new Client Road Map tool.

In 2020-21, we continued to develop online solutions that provide our clients with enhanced digital access for conducting their business. Since the launch of our client interaction system, AFSC Connect, 7,864 clients have used this tool to manage their business exchanges with the organization and to provide feedback.

Data shows our clients are electing to connect with us through different channels, including live chat, email or calls to our Client Service Centre. In the last few years, we have seen an increase of over 3,000 interactions/month through these methods. In fall 2020, online Wildlife Claim functionality was added and we received over 400 submissions through this channel. Additionally, we received 33 per cent (2,827) of our Harvest Production Reports and 37 per cent (2,600) of our AgriStability submissions through the AFSC Connect platform.

With increasing usage of self-service channels, AFSC continues to process claims more efficiently and get funds into the hands of clients sooner. AFSC conducted monthly transactional surveys and three annual client surveys in 2020-21, focusing on Lending, Insurance and AgriStability. The surveys found that:

- 92 per cent of clients are satisfied with the assistance they receive from AFSC team members
- 82 per cent of clients are satisfied with AFSC's products
- 82 per cent of clients are satisfied with AFSC's online transaction

These results are key indicators of the positive client experience AFSC provides our clients.



Programs at a Glance

Income Stabilization	2019*	2018	2017
Total Claims Processed	5,507	9,248	9,475
Total Payments (\$,000)	\$68,437.1	\$122,603.3	\$58,777.8
Per cent Alberta Farm Cash Receipts covered through AgriStability	60%	61%	57%
Insurance	2020-21	2019-20	2018-19
Annual and Perennial			
Total Insured Acres (million)	22,333	22,654	22,125
Total Coverage (\$ billion, liability)	\$5.30	\$4.90	\$4.83
Total Premium (\$ million)	\$640.2	\$665.8	\$654.6
Total Indemnities paid to date (\$ million)	\$720.7	\$780.5	\$569.4
LPI			
Total Policies	2,207	2,393	3,280
Total Premium (\$ million)	\$15.7	\$175	\$20.1
Total Liability (\$ million)	\$434.4	\$831.6	\$1,084.7
Total Indemnities paid to date (\$ million)	\$2.9	\$115.1	\$30.6
Loss to Premium	18.1%	658.4%	152.2%
Lending	2020-21	2019-20	2018-19
Total Loans Authorized	1,844	1,637	1,446
Total Loan Authorizations (\$ million)	\$667.3	\$549.8	\$429.8
Loans Outstanding (\$ billion)	\$2.52	\$2.45	\$2.30

*AgriStability results reported on one year delay



Income Stabilization

AgriStability

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 Partnership 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, eligible applicants must report farming income (including losses) in Canada for income tax purposes.
- They 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 must pay an enrolment fee.

2020-21 Program Year Review

Producer tax information is required to process an AgriStability claim, so reporting under this program is a year behind other programs reported in the 2020-21 AFSC Annual Report. The AgriStability information we are reporting on is based on the 2019 production year.

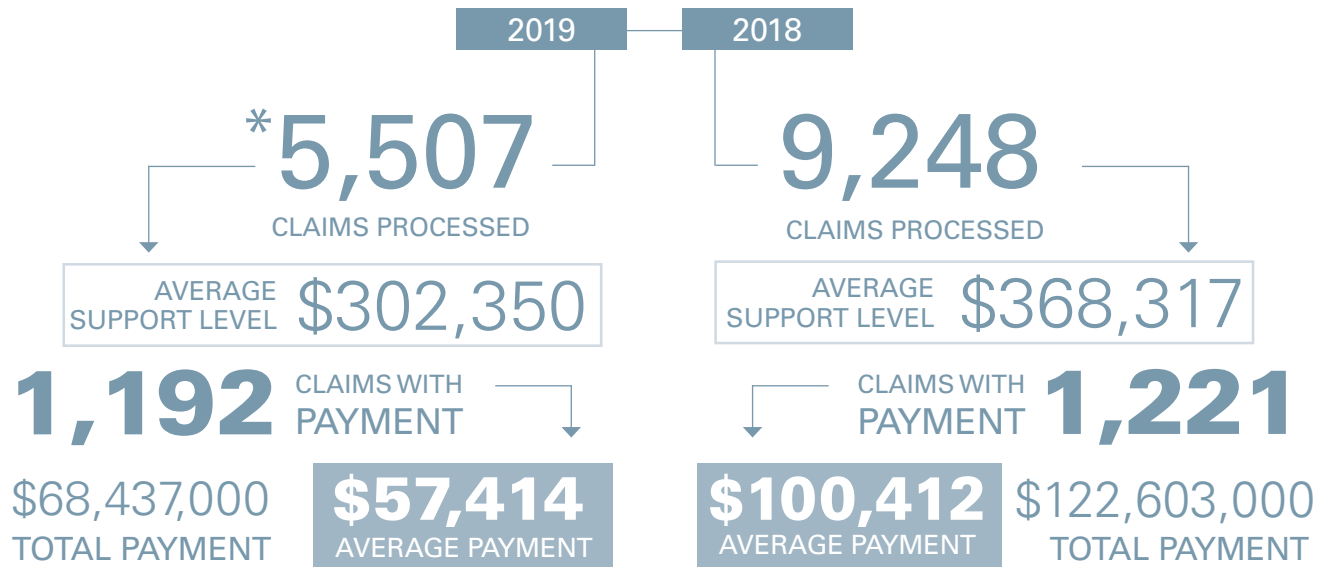
Participants in the 2019 program year were paid \$68.4 million in benefits resulting from 64 per cent of claims processed as of March 31, 2021. Of paid claims, 22 per cent of participants received payments compared to the 13 per cent claims paid in 2018.

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

As of March 31, 2021, 8,573 claims were received for the 2019 program compared to 9,349 claims for the 2018 program year.

Producers who participated in the 2019 AgriStability program year represented 60 per cent of Alberta's farm cash receipts. This is down slightly from 61 per cent for the 2018 program year. The average support level for producers decreased from \$368,317 to \$302,350 in 2019.

AGRISTABILITY HIGHLIGHTS



*5,507 claims processed out of 8,573 total AgriStability claims as of March 31, 2021

Claims are processed with a one year lag

AgriStability Updates

For the 2020 AgriStability program year, two program enhancements were announced.

1. Changes to private insurance payments:

- Indemnity payments from private insurance programs that are fully producer-funded are non-allowable in the program year margin and allowable in the reference margin where they relate to:
 - price or revenue insurance associated with the sale of allowable commodities
 - price insurance associated with the purchase of allowable expenses
 - production insurance covering the production of allowable commodities (e.g. private hail insurance)
 - other income insurance, such as margin-based or guaranteed minimum income insurance
- Indemnity payments from private insurance programs not outlined above, that compensate participants for the replacement of eligible agricultural commodities or allowable expense items, are included as allowable income in both the program year margin and the reference margin (e.g. payments for inputs destroyed by fire).

2. Removal of the reference margin limit, announced March 25, 2021:

Canada's federal, provincial, and territorial (FPT) Ministers of Agriculture agreed to remove the reference margin limit for AgriStability, one of the business risk management programs under the Canadian Agricultural Partnership. The removal of the reference margin limit will be made retroactive to the 2020 program year. In addition, the deadline for producers to enrol in the 2021 program year will be extended to June 30, 2021.

Removing the reference margin limit could increase the overall amount AgriStability pays out to farmers by approximately \$95 million nationally.

The deadline extension allows producers additional time to decide to enrol. The April 30 deadline was also extended for both the 2018 and 2019 program years.

AgrilInvest

AgrilInvest is a matching deposit-based program for producers to access when they face margin declines. The program is simple, responsive, predictable and bankable. It allows participants to 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

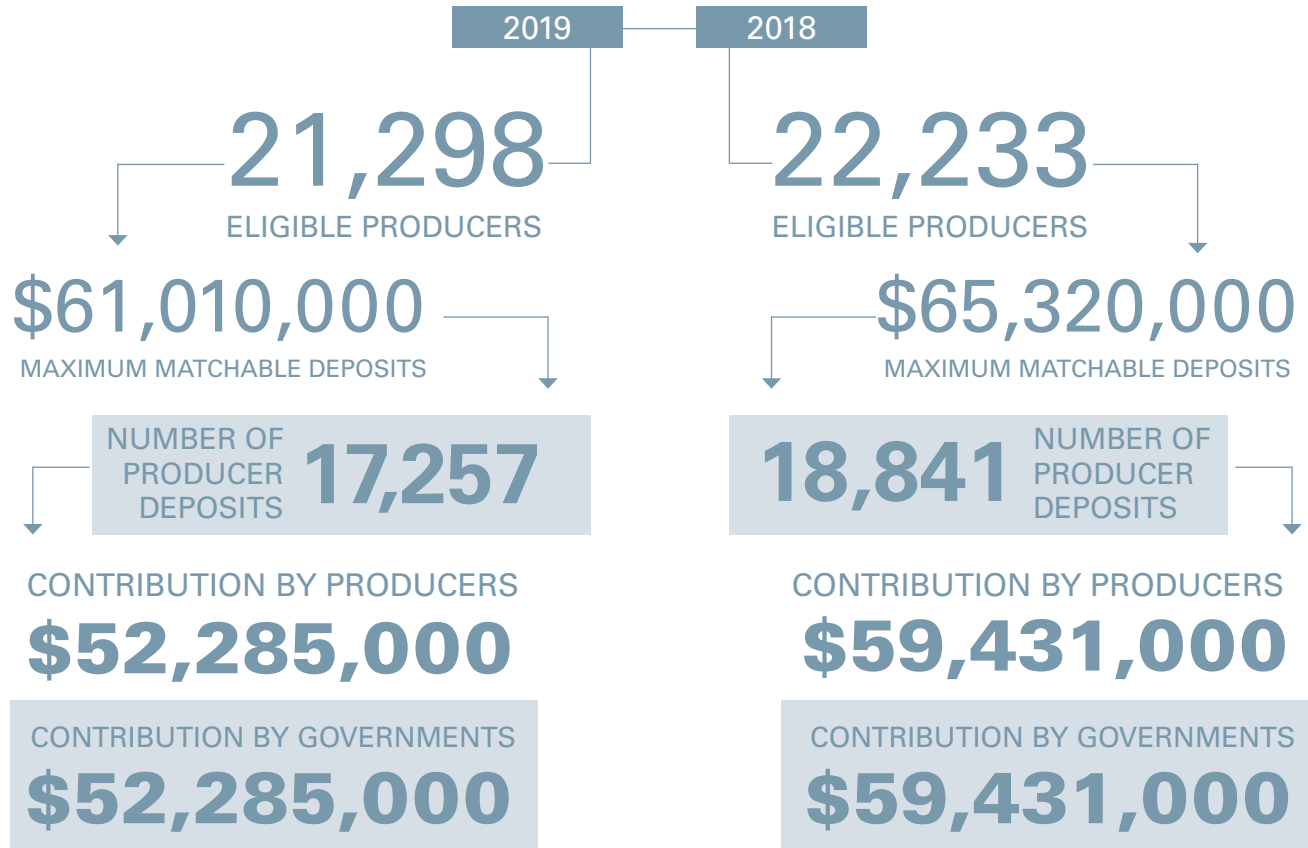
As of March 21, 2021, 17,257 Alberta producers deposited \$52.3 million in AgrilInvest accounts for the 2019 claim year. The total value of 23,078 account balances with \$10 or more in their account is \$649.7 million. The average account balance is \$28,151.



An amazing perk about working with AFSC and out in the fields with Alberta producers, is the ability to experience firsthand the seasonal progression, from bare soil and empty trees in the spring to mature colourful crops and woodlands in the fall. Nature never takes a day off and despite the always changing conditions, never ceases to carry on and showcase its beauty.

David Alackson
Adjuster
AFSC Leduc Branch

AGRIINVEST HIGHLIGHTS



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

*Values as of March 31, 2021



Insurance

New for the 2020 crop year

Water Allocation Restriction Benefit

The Water Allocation Restriction Benefit supports clients who have their water allocation restricted by the provider during a crop year. This benefit allows them to maintain their irrigation coverage provided a minimum of 50 per cent of the restricted water allocation is applied to insured fields.

Expansion of Risk Area boundaries

With more land being brought into production in the northern area of Alberta, the eligible land base for Risk Area 22 was expanded to include additional townships.

Organic Crop Price Enhancement

This past year, AFSC and Organic Alberta worked together to create improvements to determine organic spring insurance prices used for coverage. Prices from Organicbiz.ca will now be used in most cases to create the premium to conventional factor on an annual basis. If no recent price history is available from the Organicbiz.ca source, AFSC will seek alternative sources to create a spring insurance price. The result will be a relevant reflection of markets AFSC organic clients participate in.

Additional Crops for New Crops Insurance Initiative

Intercropping intended for harvest will be insurable under three intercropping categories. The categories are based on the mixture of the crop types grown and include:

- Intercrop – Cereal
- Intercrop – Pulse
- Intercrop – Oilseed

Annual crops grown outside of their restricted area (e.g. chickpeas, durum wheat, mustard, etc.) are insurable under New Crop Insurance Initiative. Clients who insure the same crop within the restricted area under Crop Insurance, and outside under New Crop Insurance Initiative, will be required to store, report, and sell their production separately.

Pasture Yield Normals

The historical pasture normal yields were recalculated resulting in an increase to coverage for pasture insurance this year.

Perennial Price Options

The price options were reviewed and increased to include a transportation cost of \$13 per ton to reflect the cost of trucking replacement feed.

Production-based AgrilInsurance Products

AFSC offers 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

- Producers are covered for a list designated perils which include drought, excess moisture, frost 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 have two price options for insurance.

Area-based AgrilInsurance Products

AFSC 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.
- AFSC offers these area-based programs: Satellite Yield Insurance (SAT) and Moisture Deficiency Insurance (MDI) for pasture, Silage Greenfeed Insurance (SG) for annual feed crops, 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.

Re seeding Benefit provides compensation for acres damaged prior to June 20 by a designated peril. This is intended to partially compensate for the cost of re seeding the original crop (most annual crops).

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 (acres intended to be seeded to 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 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 Variable Price Benefit 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.



AFSC does an excellent job for us farmers. It allows us to sleep at night and brightens our future. The staff are very knowledgeable, helpful, and personable. They do an excellent job!

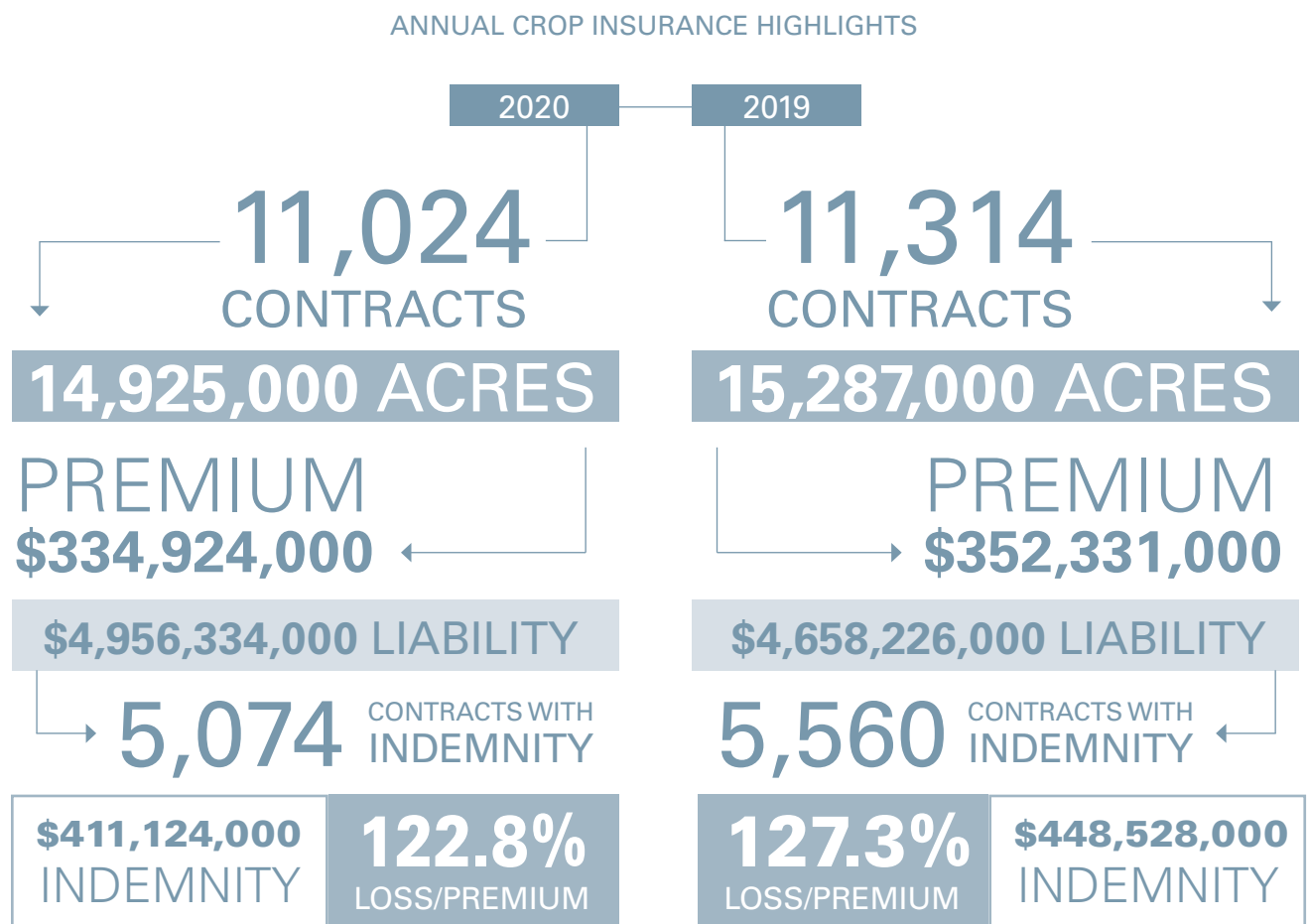
2021 AFSC Insurance Survey Respondent

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 for an additional premium.

2020-21 Annual Crop Insurance Indemnities

As indicated in the 2020-21 at a Glance section, there were variable growing conditions throughout the province. Indemnities paid in 2020-21 were primarily a result of the varied growing conditions, drought, excess moisture and hail.



Annual Crop Insurance Endorsements

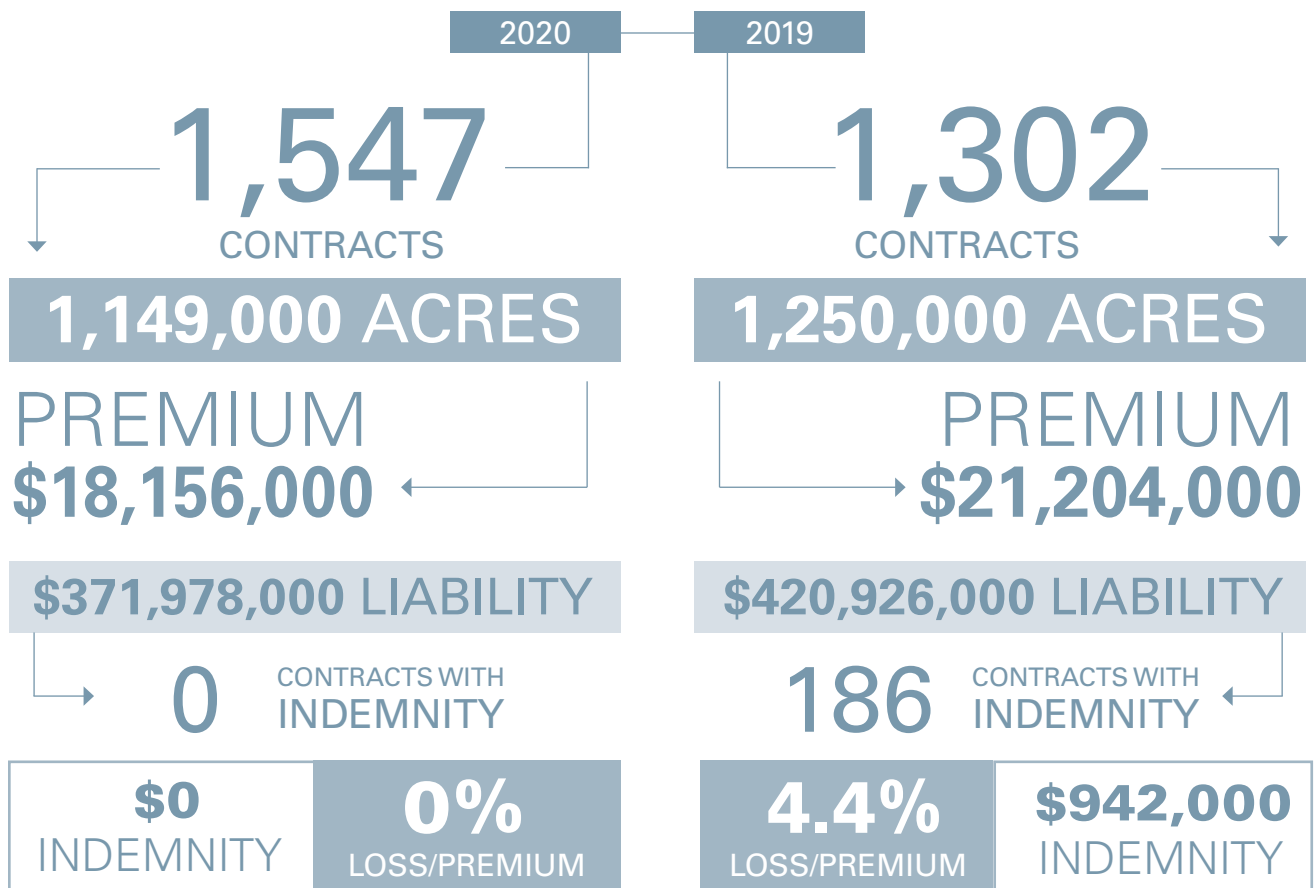
AFSC offers two additional optional endorsements for Annual Crop Insurance—Spring Price Endorsement and Hail Endorsement. These endorsements allow producers to customize their coverage to their operation’s needs. Endorsements add supplemental coverage, which clients can opt to purchase for an additional 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 the 2020 crop year, no crops triggered the Spring Price Endorsement. In March 2021, AFSC announced the cancellation of the Spring Price Endorsement.

Under SPE, though the number of contracts increased this year, AFSC covered slightly less acres at 1.15 million acres, with a total liability of \$372.0 million. As no crops triggered SPE, the loss-to-premium ratio was 0 per cent resulted in no losses paid to clients as compared to \$18 million collected in premiums.

SPRING PRICE ENDORSEMENT HIGHLIGHTS



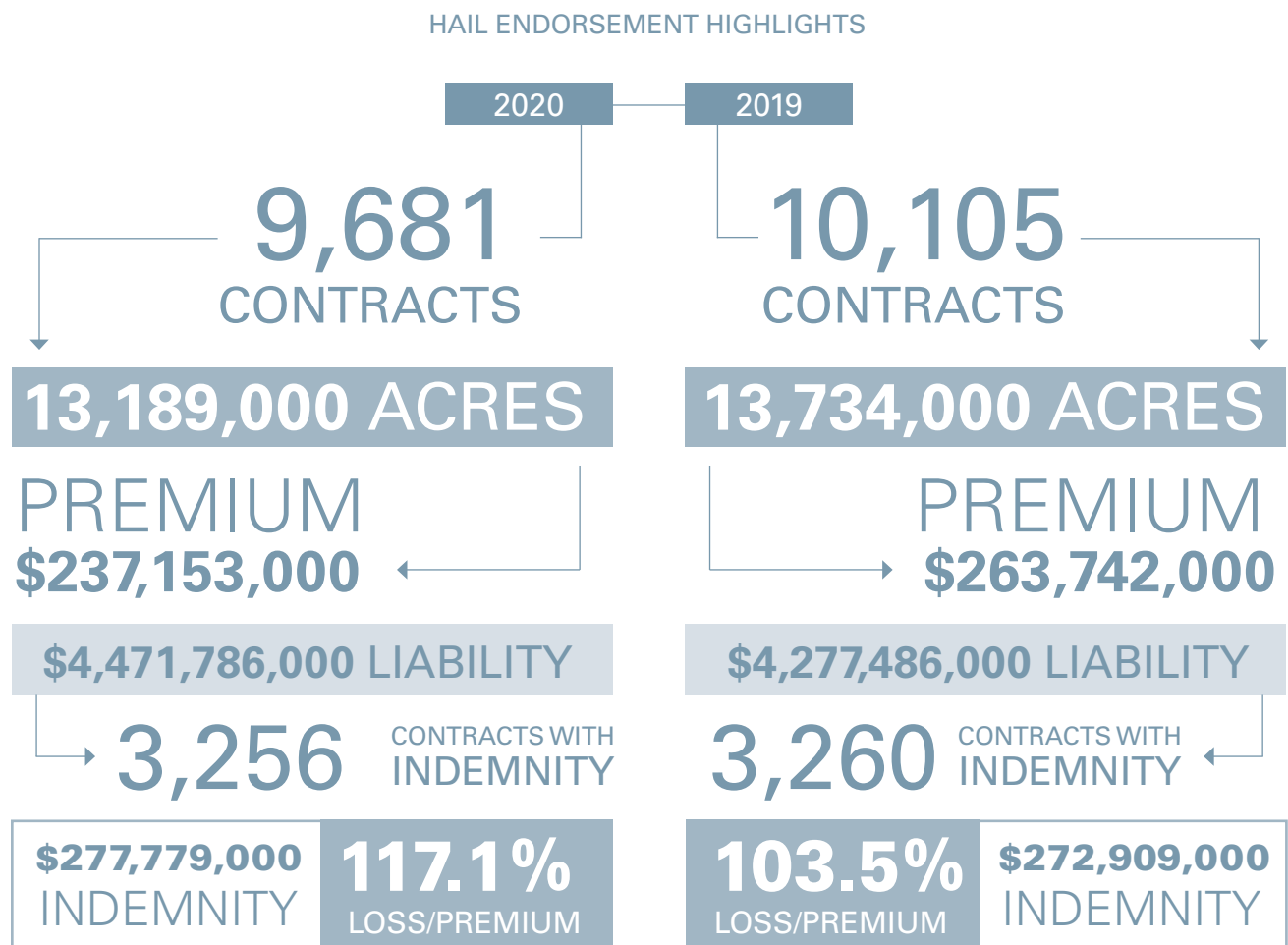
Hail Endorsement

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 (54 per cent), the Government of Alberta (33 per cent) and the federal government (13 per cent).

The 2020 crop year saw slightly fewer contracts and acres than the 2019 crop year, however liability was up over the previous year. Losses were also higher than 2019, with a similar number of clients receiving indemnities totaling \$277.8 million for a loss to premium ratio of 117 per cent - up 14 points over last year.



Perennial Crop Insurance

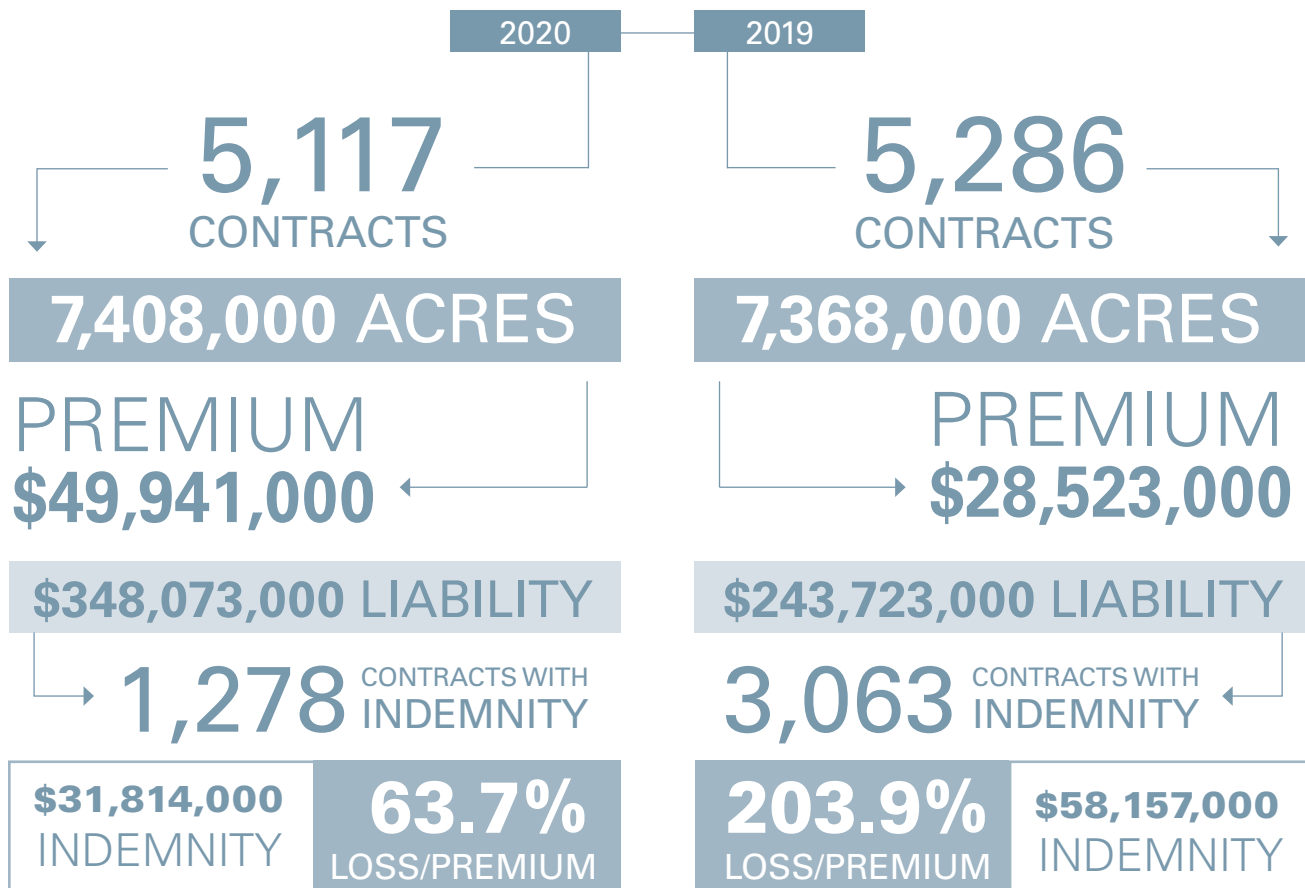
Perennial Crop Insurance provides a production-based guarantee for hay crops and area-based coverage for pastures. Producers can also choose to purchase the area-based Moisture Deficiency Endorsement with Hay Insurance.

2020-21 Year in Review

Of the 5,117 contracts, 25.0 per cent received \$31.8 million in indemnities. This compares to \$58.2 million paid out to 57.9 per cent of perennial crop clients in 2019. This resulted in a 63.7 per cent loss-to-premium ratio in 2020, which was lower than the 203.9 per cent ratio in 2019.

The pasture programs (Satellite Yield Insurance Program and Moisture Deficiency Insurance Program) paid out \$30.1 million in indemnities while the Hay Insurance Program, including Moisture Deficiency Endorsement, paid \$1.7 million.

PERENNIAL CROP INSURANCE HIGHLIGHTS

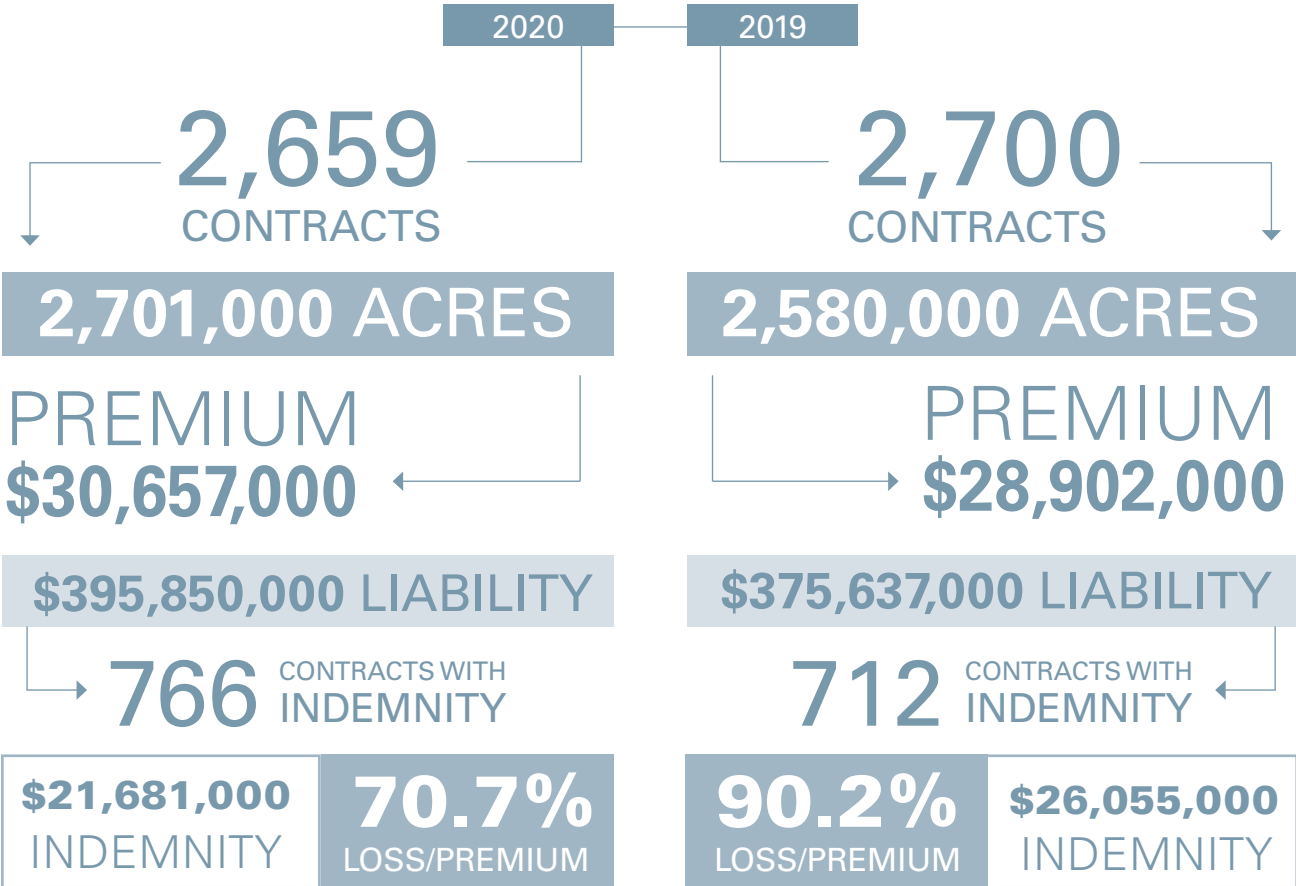


Straight Hail Insurance

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.

This past year experienced lower losses than the previous with \$21.7 million paid out to 766 clients and a loss to premium ratio of 70.7 per cent. Similar participation numbers were seen in terms of the number of contracts, although acres were up over 121,000 as was the associated liability and premiums.

STRAIGHT HAIL INSURANCE HIGHLIGHTS



Wildlife Damage Compensation Program

Crop damage caused by wildlife and waterfowl is a risk in agriculture. AFSC compensates producers on behalf of the provincial and federal governments for this type of 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.

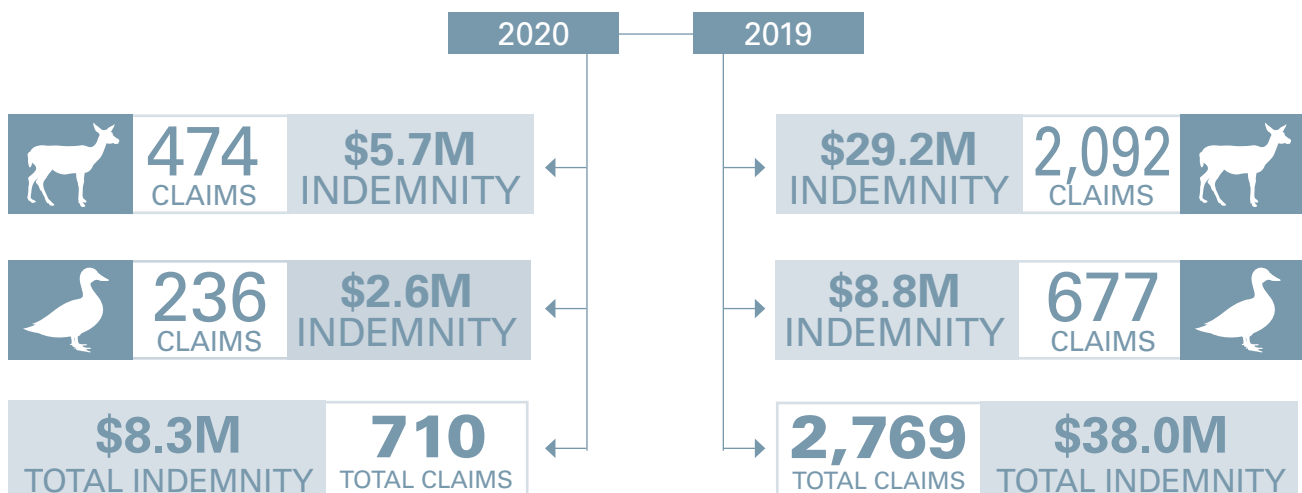
2020-21 Year in Review

Over one million acres from the 2019 crop remained unharvested and were left out over winter. Additional spring wildlife losses were realized increasing total indemnity payments for the 2019 crop to over \$38 million.

The 2020 harvest was mostly completed by the end of October. As a result, there were significantly lower losses than in the 2019 crop year. In 2020, there were a total of 710 wildlife claims paying \$8.3 million in indemnities. This compares to 2,769 claims paid out for \$38 million in indemnities in 2019.

In March 2021, AFSC announced the elimination of the 20 per cent top up payment for the Wildlife Damage Compensation Program.

WILDLIFE DAMAGE COMPENSATION PROGRAM HIGHLIGHTS



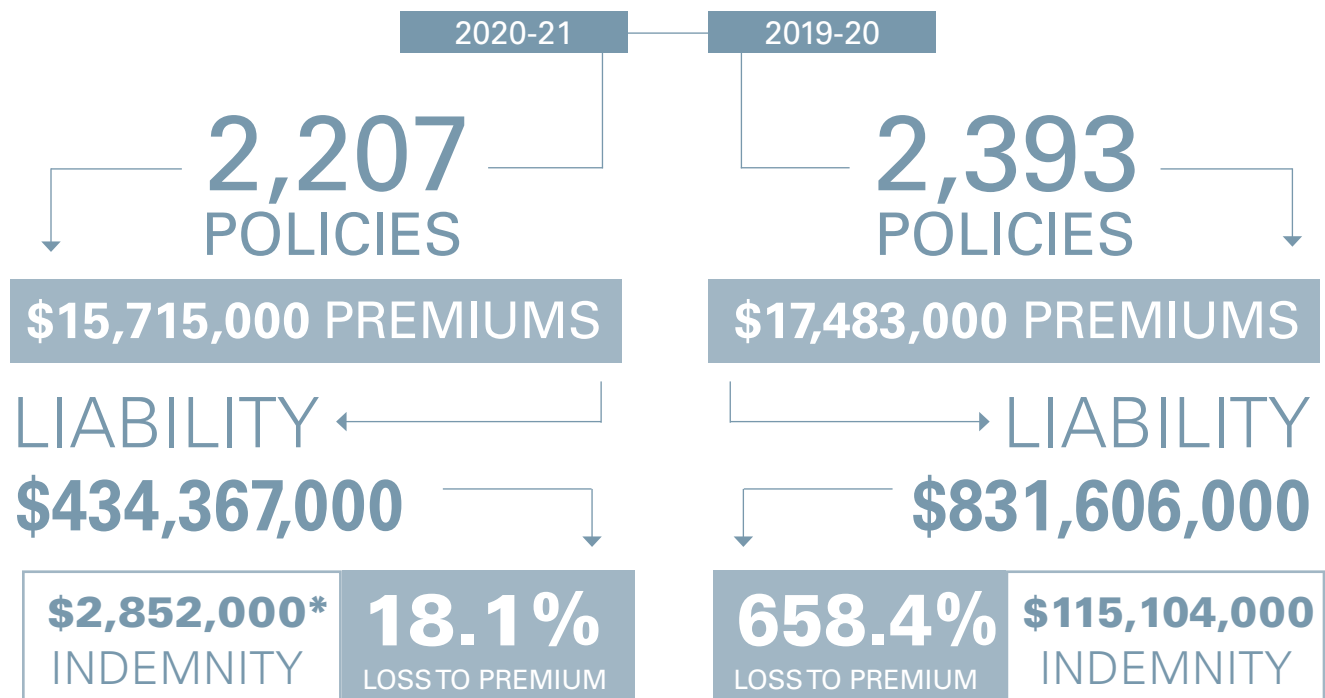
The Livestock Price Insurance Program

The recently rebranded Livestock Price Insurance (LPI) program experienced a slight year-over-year decline in the overall number of policies purchased, insured units, liability and premiums collected. Extreme market volatility throughout the 2020-21 fiscal year decreased coverage and challenged the affordability of the program with high premiums in the midst of COVID-19.

Key Program Details

- Producers purchased price protection on 51,600 fed cattle, 91,000 feeders and 161,800 calves. Compared to the previous year, these head totals equal about 26.4 per cent more calves, however 31 per cent fewer feeders and 77 per cent fewer fed cattle insured.
- Cumulatively, liability coverage amounted to just more than \$430 million, premiums totaled \$15.7 million, and indemnities of approximately \$2.9 million (as of March 31, 2021) were paid to participating producers. Total indemnities at the end of the fiscal year were paid to participants in the calf program (received 96 per cent), feeder (1.8 per cent), fed (1.3 per cent), and hog (0.4 per cent) programs*.
- The strongest year-over-year participation increase in LPI was in the calf product, with short-term policies purchased to cover producers into the peak of the fall calf market run from September through December.
- Policies purchased in the 2019-20 fiscal year continued to expire into 2020-21 time frame with significant payouts. Disruptions in the supply chain as a result of COVID-19 led to over \$115M in LPI indemnities paid to participating Alberta producers for 2019-20 policies.
- We continue to work on strategic initiatives to enhance LPI, making it more relevant for Alberta producers and ensuring its longevity in the industry. Multiple concurrent projects are underway that will carry forward into the next fiscal year to capitalize on industry changes and producer feedback.

LIVESTOCK PRICE INSURANCE PROGRAM HIGHLIGHTS



*Policies still set to expire at time of publishing.



Lending

AFSC's current suite of lending programs continues to be successful in assisting Alberta businesses, with a focus on providing financial assistance to new and young producers, developing and mature producers and agribusinesses.

In February 2021, the Government of Alberta announced its intent to increase AFSC's lending limit from \$15 million to \$30 million, to individuals or connected groups of borrowers. This increased limit will expand our ability to support larger agribusiness transactions and agricultural producers that are looking to start, grow and develop their operations. The lending limit increase became effective in April 2021.

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. This renewed emphasis will enable AFSC to attract investment into Alberta, create an agribusiness and economic development climate, and support growth in the agriculture and food-processing sectors.

Our lending programs continue to address market gaps and the requirements of Alberta's entrepreneurs, who can now choose financial options that suit their individual needs.

In 2020-21, we provided financing to clients under the age of 40 for more than \$423 million. These loans will help young producers start and develop their farming operation.

During the past fiscal year, AFSC authorized loans of over \$68 million to the agribusiness sector. Significant opportunities continue to exist for agribusiness and agri-foods industries in Alberta and AFSC remains committed to supporting these initiatives that will help grow a strong and diversified Alberta.

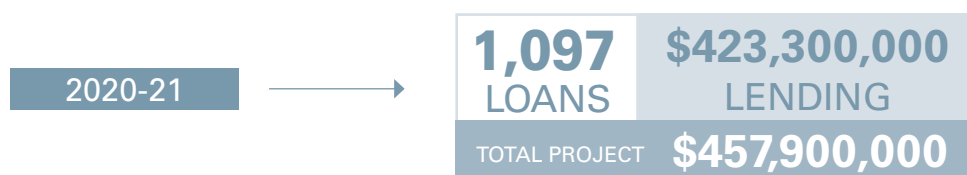
2020-21 Year in Review

We authorized 1,844 new direct loans in the 2020-21 fiscal year, totaling \$667 million, above the \$549 million reported for 2019-20. This generated \$787 million in investments in the province's agriculture, agribusiness and rural commercial sectors. AFSC's lending portfolio increased to \$2.5 billion.

Next Generation Loan Program

The Next Generation Loan Program (NGLP) facilitates intergeneration farm transitions and 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 offering up to a one per cent rate reduction for the first five years of the loan.

NEXT GENERATION LOAN AUTHORIZATIONS



Developing Producer Loan Program

The Developing Producer Loan Program (DPLP) helps existing agricultural producers invest, grow and expand their operations.

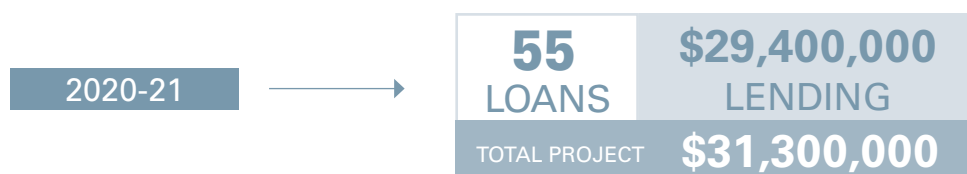
DEVELOPING PRODUCER LOAN AUTHORIZATIONS



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 total dollars approved under the revolving loans increased to \$32.2 million as compared to the previous year at \$28.5 million. 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

AFSC's three key performance indicators for the lending portfolio are loan authorizations, portfolio balance and arrears:

- Total loan authorizations for 2020-21 were \$667 million, compared to \$549 million in 2019-20. This is a 21 per cent increase from the year earlier. Lending limit increases approved in July 2018 and April 2021 have attracted new borrowers and will help retain existing clients.
- The lending portfolio balance increased to \$2.524 billion from \$2.448 billion, representing a 3 per cent gain.
- Overall lending arrears as of March 31, 2021 were 4.9 per cent, outperforming the prior year result of 5.7 per cent.



I am proud to be a lender at AFSC and by being personally involved in agriculture I understand first-hand the trials and triumphs of farming. My favourite part of my job is that I get to help producers make their first land, cattle, or equipment purchase that kick-starts the rest of their farming/ranching journey. I always appreciate meeting with clients and taking in the knowledge and passion they have for the industry.

Nichole Martin
Relationship Manager Lending
AFSC Drumheller Branch



SUPPORTING OUR
COMMUNITY

“

AFSC’s generous donation to provide hail insurance coverage to Albertan growing projects like ours provides a great sense of relief when storm clouds come rolling in. Hail can really devastate a crop, and knowing we are protected helps keep our project growing. Not only is this donation an incredibly valuable asset to help ensure our crop’s security, the staff at our local AFSC branch are always helping and welcoming.

Mikaela LeMay
Project Coordinator,
Young Guns Growing Project

21



Canadian Foodgrains
Bank Projects

21 LOCATIONS
2,982 ACRES

\$21,425

Investment in 4-H Alberta
Grassroots Fund



135 CLUBS
3,900 YOUTHS

81.5

HOURS SPENT BY STAFF
ON CHARITABLE PROJECTS





Community Investment

While the expectations and opportunities for community initiatives changed due to COVID-19, AFSC continued to invest in steadfast partnerships. These partnerships nurture, grow, and protect our relationships with our clients and employees, and strengthen our province.

We believe that investing where our employees and clients live and work helps ensure the well-being of these communities. We support organizations, events and initiatives that align with the agriculture, education, outreach & training, and community well-being focus areas.

Through these partnerships, our people attend and participate in numerous events province-wide, often using their one paid day per year towards community service. Many of our branches and team members also chose to dedicate their time and money to charities, fundraising and community service initiatives of their choice. These events further support our efforts to assist relevant and memorable experiences for rural Albertans.

Here are highlights from this past year:

Agriculture

AFSC partners with organizations that enrich the agriculture industry and support events that encourage the development and advancement of agriculture, agribusiness and agri-food industry, and the next generation of agriculture of in Alberta.

4-H Alberta

AFSC continues to support 4-H Alberta as a Gold Clover sponsor, helping to nurture the next generation's love for agriculture. 4-H encourages youth to develop life-long skills such as co-operation, leadership, interpersonal relations, critical thinking, decision making, public speaking and community service. AFSC supports 4-H Alberta provincial scholarships and financially supports 4-H Alberta programs such as Uncover the Leader in You, Club Week, Key Leader Training, Counsellors in Training, and more. AFSC also contributes locally to 4-H Alberta through its 4-H Alberta Grassroots Fund.

The AFSC 4-H Alberta Grassroots Fund provides financial support for 4-H clubs, districts, and regions in Alberta to assist with programs and initiatives that align with AFSC's focus areas (agriculture, education, outreach & training, community well-being) and can be used to support workshops, speaker/trainer fees, starting a new club, developing or purchasing resources and activities materials, etc. In early 2021 we granted \$21,425.00 to 135 4-H clubs across the province, in turn supporting more than 3,900 Alberta youth.

Agriculture for Life

Our partnership with Agriculture for Life (Ag for Life) allows us to work together to grow and increased public understanding of the role agriculture plays in Alberta's culture and economy. In non-COVID-19 times, our team members typically volunteer their time through speaking engagements and supporting agriculture education in the classroom.



I would like to thank you for your support through the AFSC 4-H Alberta Scholarship! It means a lot to have businesses like AFSC supporting 4-H, agriculture and post-secondary education! Your financial assistance is a huge help in covering the extensive costs that come with university and will help me achieve my goals of becoming a veterinarian!

This year I am in my third year of animal science at the University of Alberta. It has been an adjustment moving to online classes but it is going fairly smooth and it is nice to be able to be home on the farm to help out a bit more than usual!

Leah Trenson

AFSC 2020 4-H Alberta Scholarship Recipient

Education, Outreach & Training

AFSC teams up with organizations that contribute to the education, awareness and increased knowledge related to agriculture, agriculture financial literacy and agriculture risk management in order to help maintain stable high quality food development. These investments are where our clients and employees gather, helping AFSC to serve and protect our clients' business and grow the agriculture community.

Young Agrarians

We established a new partnership with the Young Agrarians to help launch and deliver their Business Bootcamp, a 10-week online, community-based program, packed full of content and activities that give new and inspiring farmers the space and skills to write (or rewrite) a stellar business plan for a farm enterprise. A team of carefully selected first-generation farmers and business experts – including representatives from AFSC – provide guidance to registrants as they get their farm off the ground.

Associations and Virtual Events

2020-21 saw us partner with associations such as the Foothills Forage & Grazing Association and the Grey Wooded Forage Association to support virtual events and sessions, and attend virtual events such as the Red-Bow Ranching Conference and the Organic Alberta Conference. All of these events are key to the development and advancement of agriculture in Alberta.

Community Well-Being

AFSC empowers communities by contributing to organizations that offer programs and services that uniquely engage our local operating areas, build community capacity, and contribute to healthy vibrant communities and workplace environments.

Alberta Association of Agricultural Societies

The Alberta Association of Agricultural Societies (AAAS) provides information, education, and support for the 292 Agricultural Societies in Alberta as well as the 58,000 volunteers involved. We partnered with AAAS in order to present a focus on well-being via opening keynote speaker, Brenda Robinson, at the AAAS Annual General Meeting.

AFSC believes agricultural societies, and their unique community events, play a vital role in improving the quality of life and mental well-being for persons living in and around rural communities. Rural Albertans depend on these societies to provide a place to gather and spend time with their family, friends and others in the community. Agricultural societies have a positive effect on mental health by allowing rural Albertans to stay connected socially.

Canadian Foodgrains Bank

The Canadian Foodgrains Bank is a practical way Canadian farmers can help end hunger around the world and in their local communities by sharing their harvest with the less fortunate. In the 2020 crop year, AFSC sponsored 21 projects in 20 locations across Alberta, totaling 2,982 acres. AFSC supported these efforts by providing \$16,443 in Straight Hail Insurance for crops slated for donation through the Canadian Foodgrains Bank organization.

Client Care Campaign

This year to celebrate our clients and show appreciation for the relationships we have built together, we initiated the Client Care campaign. This initiative allowed us to connect with clients across the province during COVID-19 times for socially distanced meetings while supplying them with 'COVID care packages'. They included all things for COVID-19 safety; masks, sanitizer, disinfectant wipes and rubber gloves.

Do More Agriculture Foundation

Annually, AFSC partners with the Do More Agriculture Foundation to help remove the stigma around mental health in the agriculture community. The partnership helps build a community of support and resources for those impacted by mental health issues, which is a prevalent risk in the agriculture industry. AFSC is proud to support this organization's groundbreaking work to lead the discussion to change the narrative around mental health in agriculture.

Meals in the Field

AFSC's support of the CFCW Meals in the Field project provided Alberta farmers with the opportunity to win a lunch break (wellness break) during the harvest season. This wellness break included a visit from CFCW radio personalities. During the events, AFSC shared their appreciation for farm families and provided a welcomed break and experience. AFSC recognizes farming is hard work that takes drive, dedication and determination. The Meals in the Field initiative allowed AFSC to say thank you to farmers for everything they do to feed Albertans and the world.

Thanks for Farming Tour

Our partnership with the Thanks for Farming Tour (Red Deer) allowed for AFSC to say thank you to the agriculture community and support the well-being of Alberta's farmers and farm communities through a co-sponsorship of the Tour's featured mental health speaker Lesley Kelly. Kelly's keynote focused on addressing mental health in agriculture. We also partnered with the Resource Centre for Suicide Prevention to support mental health and wellness, ensuring a variety of resources were available at the event.



I know speaking about mental health can be difficult at the best of times but the people that came and spoke to me, got exactly what they needed, and quite a few other exhibitors spoke to me away from the booth in addition to the attendees, so I feel like they also appreciated the opportunity.

I don't count the value in attendance but in the people who got what they needed from a face-to-face interaction with someone who can give direction and resources – and the people that I spent time with really appreciated it.

Ainsley Miller
General Manager
Resource Centre For Suicide Prevention
(Thanks for Farming Tour Participant)



SUPPORTING OUR
PEOPLE



AFSC has provided me opportunities to grow a career where I am more than just a number. I am a friend, a colleague and have a voice that matters and has an impact. Every role in AFSC has an impact on the producers of Alberta. I love that AFSC provides unwavering support for the agriculture industry in Alberta whether that is from the small family farm in the North to a booming feedlot in the South. AFSC has become a household name for many Alberta producers and is an organization that I am proud to be a part of.

Pamela Oickle
 Team Leader Client Service (North)
 AFSC Lacombe Central Office





People

AFSC has been a Top 100 Employer in Canada for 12 years and a Top 75 Employer in Alberta for 13 years. These are remarkable achievements, and we recognize the tremendous work involved across the organization.

This past year saw continued progress in our People Strategy, and we continue to commit to a high level of engagement and improved people management across the organization.

Mental Health and Wellness

Mental health and wellness is a priority for AFSC. COVID-19 plus the regular stressors of the agriculture industry are two reasons for prioritizing our mental health strategy.

In March 2021, we launched our corporate wide mental health strategy, 'It's Okay to Not be Okay.' Town halls shared an overview of the strategy, information on our partnership with the Mental Health Commission of Canada and a guest presentation from Lesley Kelly, a mental health advocate in the agriculture industry and co-founder of Do More Ag Foundation.

Our four-year strategy outlines our integrated approach to workplace mental health, preventing psychological harm, promoting positive mental health, and supporting employees experiencing mental illness. Our goals align with this integrated approach, and include an additional goal related to spreading this work beyond our branches and into the communities we work in.

We have partnered with the Mental Health Commission of Canada as one of the pilot project organizations, where they will support us and ensure alignment with The National Standard for Psychological Health and Safety in the Workplace and our strategy.

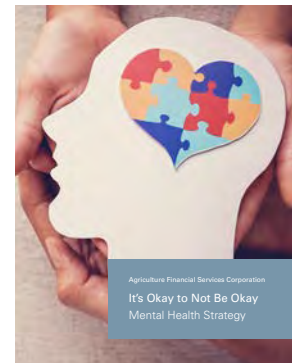
As we implement our strategy, we are focused on establishing common language with respect to mental health, destigmatizing mental illness, and providing employees with the tools and resources to maintain positive mental health. This includes increasing employees' awareness and use of existing mental health resources, adding to what is available to them, encouraging conversations about mental health, and providing mental health training for all employees.

To further our commitment to mental health and wellness, a Wellness Coordinator role was created to ensure mental and health and wellness is top of mind at AFSC.

Keeping Our People Safe

Our Health and Safety program integrates health and safety practices into everyday business processes. It also enables our people to feel empowered through open discussions and accept responsibility to protect themselves, coworkers, and their environment. In 2020-21, we continue our path towards our Certificate of Recognition (COR) to ensure AFSC has established health and safety programs that meet government standards.

Our Business Services team has equipped all AFSC offices with COVID-19 appropriate measures for physical distancing, necessary sanitation supplies and equipment with increased janitorial presence. We continue to focus on planning for the return of normal business activities for all locations by implementing additional safeguards to provide the safest environment for our staff and clients.



Developing Our People

Adapting to the virtual world of learning and development, our employees are engaged in remote training sessions offered through Microsoft Teams to encourage interaction and inclusivity.

Highlights include:

- The Skills Framework initiative identifies skills, assesses gaps and provides clear learning paths within our organization. This helps employees remain competitive and prepare for future positions within the organization.
- AFSC offers health and safety orientations, personal protective equipment use, hazard assessment, WHMIS, wildlife awareness, first aid, and fall protection and rescue training.
- Ceridian Dayforce Learning offers online learning materials with tracking results.
- Through our Skillsoft licence, employees have increased access to e-Learning content, including courses, videos, books, audiobooks, practice labs, tests and certifications.
- The Diversity, Equity & Inclusion Strategy, introduced in February 2021, provides training on topics such as unconscious bias, anti-racism, and inclusive leadership behaviours.



I have been a member of the AFSC team for over 13 years and have always been fully supported in my career development opportunities. I have most recently completed the Management Development Program at the University Of Alberta School Of Business. This program has helped me develop and grow as a leader at AFSC.

I have been able to achieve this through the support and guidance of my leadership as well as my fellow AFSC team members. I appreciate all that AFSC has done and continues to do to help me grow as a leader. This is just one of the many reasons that AFSC is a great place to work.

Viola Linthorne
Supervisor, Digital Foundations & Operations
AFSC Lacombe Central Office

Engaging Our People

In 2020, we engaged with McLean & Company, who specialize in research, HR diagnostics and HR advisory services to implement our employee engagement survey. Through McLean, AFSC receives a comprehensive engagement plan which includes a wider scope of questions, in-depth and user-friendly reports, and most importantly activities to aid managers in sharing results and creating action plans.

Diversity, Equity & Inclusion Strategy

In February, 2021, AFSC launched the Diversity, Equity & Inclusion Strategy, which provides an operational strategy that will build upon the Diversity and Inclusion Framework formalized last year. The DE&I strategy will build the foundations to ensure all employees feel a sense of belonging, valued for who they are and empowered to participate and contribute freely.

The Diversity, Equity, and Inclusion Strategy involves four key objectives:

1. Effective and skilled leaders taking individual responsibility will be key to delivering our ambition. DE&I will be woven through all of our management and leadership programs. Everyone must role model and engage with DE&I agenda for use to make real progress.
2. We will achieve a positive shift in our workplace culture.
3. Widen representation and build a talent pipeline of people from a variety of ethnic backgrounds based on our regional demographics.
 - 3.1. We will increase the representation and engagement of people with disabilities and mental health concerns. We will better attract and retain people with disabilities and mental health concerns to create an environment where people feel comfortable disclosing this.
 - 3.2. We will build on our good work already done on gender equality. However, we recognize that we have more to do. We must build a talent pipeline at all stages and better understand the reasons why female representation falls at particular levels. We will also continue our work to address the gender pay gap through reconsidering our long term approach to pay and reward. We will also seek to better understand the contributing factors to the gender pay gap to enable it to be addressed.
 - 3.3. We will build an environment ensuring that LGBTQ+ colleagues can be their authentic selves in the workplace. We will drive improvements in meeting the needs of our LGBTQ+ colleagues, starting with the capturing of data on gender identity and expression.
4. Attract, engage and retain individuals from a range of generations, faith and belief systems and socio-economic and educational backgrounds. Committing to ensure that we can all maximize our potential.

Inclusion Council

The Inclusion Council is a group of individuals that represent the broader AFSC community and are accountable to guide and advise the Corporation on activities that are important to our people. The Inclusion Council, in partnership with the People and Culture team, will drive the direction for diversity, equity, and inclusion activities in the Corporation, and will be part of the information gathering and implementation phases.

Some examples of initiatives that the Inclusion Council and People and Culture team members will take on are: Diversity month, International Women's Day, and Pride Month. The Council share meaningful research and experiences with Corporation to help educate our employees, clients, and potential future employees (on social media).

The Inclusion Council grew in members this past year. This council meets monthly to discuss and plan for events, goals and ensuring that diversity, equity and inclusion is at the forefront in all we do.



I joined the AFSC Inclusiveness Council because I believe the power of a collective is exponentially more than the individuals who make it up. The role gives me license and responsibility to work towards us all being heard at equal volume.

It also gives me an opportunity to learn new perspectives and grow my ability to understand what those who are different than me experience.

Michael Holden

Team Leader, Lending and Inclusion Council Member
AFSC Camrose Branch

Everyone Has A Client Initiative (EHAC)

As the agriculture industry continues to change, we need to be more responsive and adjust to the demands of our external client. It is essential for the business support areas to adopt the same level of agility in order to effectively support the needs of the delivery teams. We are all accountable for our roles in serving the client and shaping client experience, regardless if you are in a branch offices, or in a supporting role within Lacombe Corporate Office.

The Everyone Has a Client (EHAC) initiative has been implemented along with the Everyone Has A Client Coordinator. This position and mandate took hold towards the end of the year and look forward to the work that we will be able to see in the upcoming year.

The mandate of Everyone Has A Client is to liaison/partner with the delivery and corporate Teams. Building on the Everyone Has A Client foundation, we will identify ways to ensure that all of AFSC has a clear line of sight to our producers. We will continue to build on the four pillars:

Pillar 1 - A Renewed Focus on the Client

Pillar 2 - Service Level Agreements (SLA) & Catalogues

Pillar 3 - Continuous Improvement& EHAC Culture

Pillar 4 – Performance Management

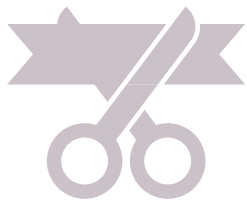


SUPPORTING OUR
STAKEHOLDERS

“

I am proud to work for an organization that builds strong relationships not only with our clients, but with each other as well. We focus on strengthening Alberta’s agriculture community, which for some includes helping their families, neighbours, and friends, which is very rewarding.

Alejandra Lendvay
System Workflow Coordinator
AFSC Lacombe Central Office



672

RED TAPE
REDUCTION
INITIATIVES



246

CONTINUOUS
IMPROVEMENT
INITIATIVES

\$4.9M

REDUCTION IN
ADMINISTRATIVE COSTS





Continuous Improvement

Continuous improvement is the practice of improving products, services or processes. Improvements happen by continually reviewing how our work is done, how processes are carried out, and how technology is used to ensure that products and services are delivered effectively and efficiently.

Information Centres and Team Huddles

In 2020, the Continuous Improvement team continued to support teams in using information centres and huddles across the organization. Like organizations world-wide, AFSC has faced many obstacles this past year, and has adjusted to new ways to work in a global pandemic, providing opportunity to review, assess and support our people in working remotely.

AFSC provides a safe working environment that creates team engagement and daily connections. This past year saw AFSC move from physical huddle boards to virtual boards, utilizing technology platforms such as MS Teams for huddles to support working remotely. Some of the benefits of adopting information centres and huddles are:

- Improved employee engagement and a cadence where/when teams connect
- Developed a safe working environment and check-in with team members to foster an environment for physiological well-being
- Improved corporate performance, tracking team and individual performance with key measures of success and providing a line of sight of how each employee and team contributes in order to meet organization strategic objectives
- Generated two-way conversations that foster a culture of continuous improvement corporate-wide
- Provided a tool for process improvement and waste reduction, aimed at improving and streamlining our client experience while generating efficiencies for the corporation
- Empowered all team members to bring forward, discuss, and action their ideas and opportunities for improvement
- Increased communication within teams while working remotely
- Provided a line of sight for all levels of the organization on improvements currently underway and problems that need solving in order to move us forward

Throughout this past year our Continuous Improvement team focused on:

- Reimagining Claims, a corporate-wide initiative to review and improve multiple insurance processes, including hail claims. This large scale review consisted of 16 different functions within the claims process.
- Electronic Funds Transfer for outgoing payments
- Document interaction and document imaging

Together, as an organization, we are continually working to collect, analyze and incorporate new information into AFSC's products and processes.



Red Tape Reductions

In 2019, the Government of Alberta introduced the Red Tape Reduction Act. The Act mandates that every department within the Government of Alberta must reduce their regulatory and administrative requirements. The Government of Alberta has committed to reducing regulatory requirements by one-third by March 31, 2023.

- Regulatory requirements are the pieces of information that external clients must provide on AFSC forms to access AFSC's products/services.
- Administrative requirements are the processes and steps that external clients must take to access AFSC products/services. The Government of Alberta has also committed to reducing administrative requirements but there is no set goal/target.

In February of 2020, an inventory of all regulatory requirements of was developed which then formed the baseline count. A target of one-third reduction of regulatory requirements against the baseline count has been committed by government.

The achievement of these reductions will reduce time, money and effort for Alberta producers and external clients to access AFSC's products and services. The result will have a direct impact will be ease of doing with business with AFSC with our clients. This initiative will also result in reduction of backend processing, improved turnaround times, and enhanced client experience and interactions.

AFSC red tape reductions included updating 35 client-facing forms and removing 13 forms entirely.

AFSC had a goal of reducing the baseline count by 12 per cent before March 31, 2021. The goal was met and exceeded in advance of this deadline.



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 which 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, this standardized and coordinated approach allows us to pursue the realization of our vision, mission, and strategic goals.

The risk categories we monitor against our risk appetites and associated tolerance levels include credit, compliance, operational, insurance, financial, information, information technology and investment risk. This active monitoring ensures that risks are managed and escalated as required.



Well how do you rate an insurance product tailored to the specific farm needs, run by people familiar with local conditions, backed and subsidized by both federal and provincial governments? 10+.

2021 AFSC Insurance Survey Respondent



Whistleblower Protection Program

Purpose of the Program

On January 1, 2016, AFSC launched the Whistleblower Protection Program (the “Program”). The Program provides a confidential and anonymous mechanism for AFSC staff 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, The 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.

- 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
3	3	0	0	0	1*

*There are two disclosures of alleged wrongdoing that are open as at March 31, 2021 fiscal year-end.



Financials at a Glance

Overall, we recorded revenue of \$1.095 billion and expenses of \$1.069 billion, which resulted in a net surplus of \$26 million. The surplus was mainly due to higher premiums relative to losses for the AgriInsurance program. This was mainly due to no losses relating to the Spring Price Endorsement program.

Our assets decreased from \$5.776 billion to \$5.635 billion of which \$2.569 billion (46 per cent of all assets) represents investment of AgriInsurance surplus fund. Our liabilities decreased from \$2.921 billion to \$2.760 billion.

The surplus balance carried over increased to \$2.865 billion. Included in the surplus balance is \$2.711 billion in the Crop Insurance Fund.

AgriStability Statistical Summaries

Program Year	Number of Claims Processed	Support Level \$,000	Average Support Level \$	Number of Participants with Payment	Total Payment \$,000	Average Payment \$
2019	5,507	\$1,156,379	302,350	1,192	\$68,437	\$57,414
2018	9,248	\$2,624,993	368,317	1,221	\$122,603	\$100,412
2017	9,475	\$2,472,090	317,790	834	\$58,778	\$70,477
2016	10,443	\$2,613,246	301,378	2,462	\$221,000	\$89,764
2015	11,829	\$2,566,361	261,607	802	\$56,882	\$70,925
2014	13,830	\$2,524,616	225,010	951	\$34,680	\$36,467

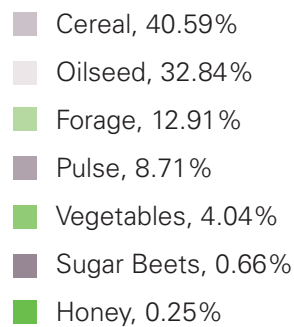
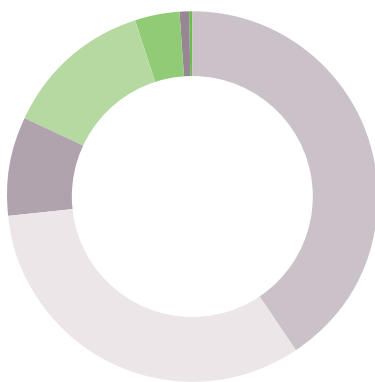
*5,507 claims processed out of 8,573 total AgriStability claims as of March 31, 2021

Claims are processed with a one year lag

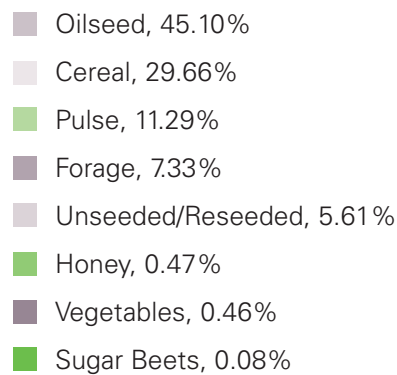
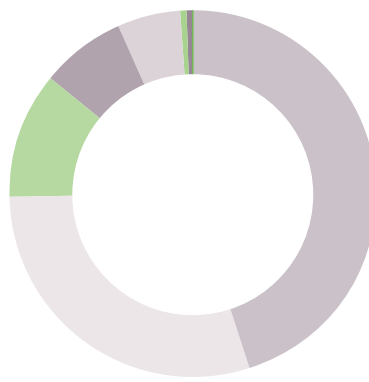
AgrilInsurance Statistical Summaries

Crop Year	Number of Contracts	Acres ,000	Liability \$,000	Premium \$,000	Loss \$,000	Loss/Premium %
2020	16,141	22,333	5,304,408	640,174	720,718	112.6%
2019	16,600	22,654	4,901,949	665,800	780,536	117.2%
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%

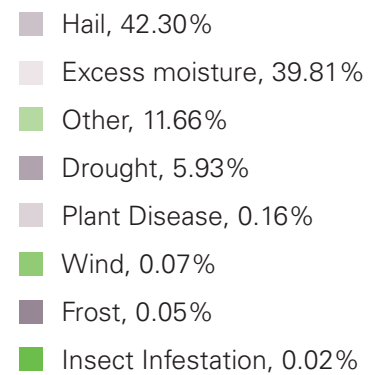
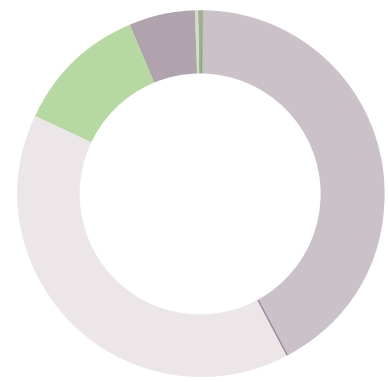
2020 Risk



2020 Loss



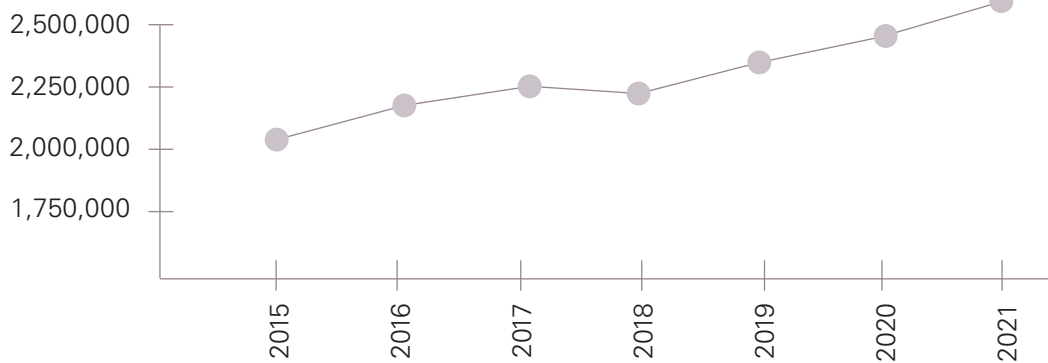
2020 Cause of Loss



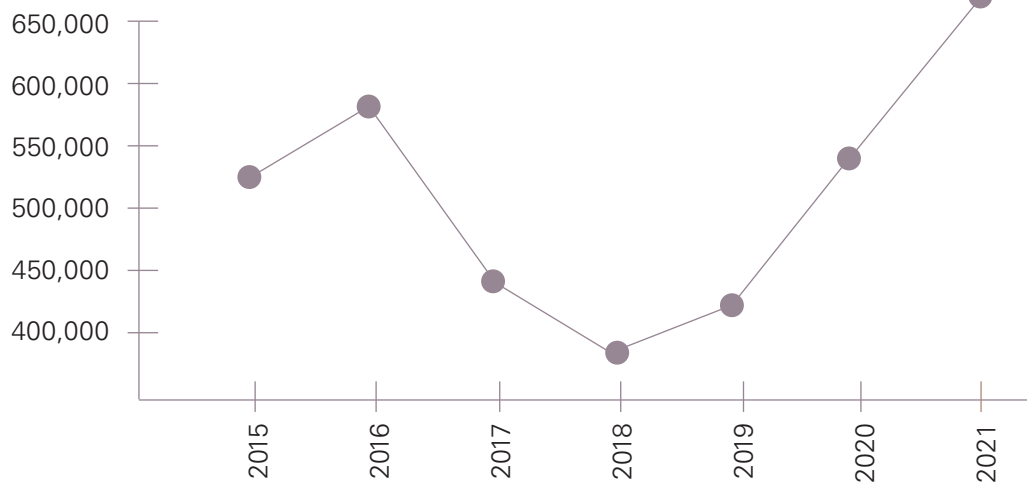
Lending Statistical Summaries

March 31	New Loan Approvals \$,000	Loans Outstanding \$,000
2021	667,341	2,523,578
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

Loans Outstanding



New Loan Approvals



Management's Responsibility for Financial Reporting

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

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

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

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

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

Financial Statements



AGRICULTURE FINANCIAL SERVICES CORPORATION

FINANCIAL STATEMENTS

MARCH 31, 2021

Independent Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Change in Net Financial Assets

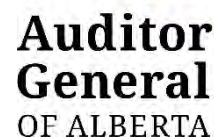
Statement of Cash Flows

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 (the Corporation), which comprise the statement of financial position as at March 31, 2021, 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 Corporation as at March 31, 2021, 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 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 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 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 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 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 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, 2021
Edmonton, Alberta

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2021

(in thousands)

	<u>2021</u>	<u>2020</u>
FINANCIAL ASSETS		
Cash and cash equivalents	\$ 354,286	\$ 360,089
Accounts receivable (Note 4)	3,274	35,340
Due from Government of Alberta	29,807	88,491
Due from Government of Canada	130,310	209,056
Loans receivable (Note 5)	2,520,276	2,436,388
Investments (Note 6)	<u>2,569,034</u>	<u>2,612,013</u>
	5,606,987	5,741,377
LIABILITIES		
Accounts payable and other accrued liabilities (Note 7)	13,058	10,005
Due to other Provincial Governments (Note 8)	3,768	2,191
Indemnities payable (Note 9)	256,144	458,636
Borrowing from Government of Alberta (Note 10)	2,480,111	2,442,330
Deferred revenue (Note 11)	<u>7,307</u>	<u>7,616</u>
	<u>2,760,388</u>	<u>2,920,778</u>
Net Financial Assets	<u>2,846,599</u>	<u>2,820,599</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 12)	20,575	28,678
Prepaid expenses	<u>7,615</u>	<u>5,895</u>
	<u>28,190</u>	<u>34,573</u>
Net assets before deferred capital contributions	<u>2,874,789</u>	<u>2,855,172</u>
Spent deferred capital contributions (Note 11)	<u>9,535</u>	<u>15,611</u>
Net Assets	<u>\$ 2,865,254</u>	<u>\$ 2,839,561</u>
Net Assets Accumulated surplus	<u>\$ 2,865,254</u>	<u>\$ 2,839,561</u>

Contingencies, Contractual Obligations and Commitments (Note 14)

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

[Original signed by Shannon Marchand]

Chair of the Board of Directors

[Original signed by Darryl Kay]

Chief Executive Officer

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2021
(in thousands)

	2021		2020
	Budget	Actual (Schedule 1)	Actual
Revenues:			
Premiums from insured persons	\$ 338,950	\$ 319,096	\$ 321,197
Interest	98,861	95,127	95,943
Contribution from Government of Alberta	280,422	293,618	357,381
Contribution from Government of Canada	243,077	256,816	319,431
Investment income	58,257	71,042	61,664
Fees and other income	15,285	59,362	51,428
	<u>1,034,852</u>	<u>1,095,061</u>	<u>1,207,044</u>
Expenses:			
AgriInsurance	351,785	722,992	886,975
Agriculture Income Support	89,578	123,663	231,613
Lending	106,496	95,163	117,441
Hail Insurance	25,511	27,157	28,418
Livestock Insurance	18,646	69,253	78,767
Wildlife Damage Compensation	12,055	31,140	18,982
	<u>604,071</u>	<u>1,069,368</u>	<u>1,362,196</u>
Annual surplus (deficit)	<u>\$ 430,781</u>	25,693	(155,152)
Accumulated surplus at beginning of year		<u>2,839,561</u>	<u>2,994,713</u>
Accumulated surplus at end of year		<u>\$ 2,865,254</u>	<u>\$ 2,839,561</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, 2021

(in thousands)

	2021		2020
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
Annual (deficit) surplus	\$ 430,781	\$ 25,693	\$ (155,152)
Acquisition of tangible capital assets (Note 12)	(7,573)	(4,124)	(6,314)
Amortization of tangible capital assets (Note 12)	6,883	12,227	8,288
Loss on disposal of tangible capital assets	-	-	594
Proceeds on sale tangible capital assets	-	-	165
Change in prepaid expenses	-	(1,720)	(1,690)
Change in spent deferred capital contributions	-	(6,076)	(1,933)
	<u>430,091</u>	<u>26,000</u>	<u>(156,042)</u>
Increase (decrease) in net financial assets in the year	430,091	26,000	(156,042)
Net financial assets, beginning of year	<u>2,820,599</u>	<u>2,820,599</u>	<u>2,976,641</u>
Net financial assets, end of year	<u>\$ 3,250,690</u>	<u>\$ 2,846,599</u>	<u>\$ 2,820,599</u>

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2021

(in thousands)

	2021	2020
Operating transactions:		
Annual surplus (deficit)	\$ 25,693	\$ (155,152)
Non-cash items included in operating results		
Amortization of tangible capital assets (Note 12)	12,227	8,288
Deferred capital contribution recognized as revenue (Note 11)	(8,180)	(5,144)
Amortization of premiums and discounts	1,472	(6,393)
Allowance for doubtful accounts and for losses	(1,603)	21,157
Gain on sale of investments	(19,878)	(319)
(Gain) loss on capital assets	(560)	594
(Decrease) increase in net deferred revenue	(310)	532
Increase in prepaid expenses	(1,720)	(1,689)
Decrease (increase) in accounts receivable	35,828	(31,026)
Increase (decrease) in environment liabilities	1,001	(128)
(Decrease) increase in indemnities payable	(202,492)	210,300
Increase (decrease) in accounts payable and other accrued liabilities	4,145	(9,238)
Increase (decrease) in due to provincial and federal governments	113,719	(47,278)
	<u>(40,658)</u>	<u>(15,496)</u>
Cash applied to operating transactions ⁽¹⁾		
Investing transactions:		
Proceeds from repayments of loans receivable	484,967	372,395
Loan disbursements	(571,705)	(522,563)
Purchase of investments	(1,028,804)	(1,199,951)
Proceeds on disposal of investments	1,092,293	1,146,678
	<u>(23,249)</u>	<u>(203,441)</u>
Cash applied to investing activities		
Capital transactions:		
Acquisition of tangible capital assets	(3,564)	(6,314)
Proceeds on disposal of tangible capital assets	-	165
	<u>(3,564)</u>	<u>(6,149)</u>
Cash applied to capital transactions		
Financing transactions:		
Borrowing from the Government of Alberta	865,725	2,819,725
Contributions restricted for capital (Note 11)	2,104	3,211
Repayment of borrowing from the Government of Alberta	(831,450)	(2,618,109)
Borrowing from the Government of Canada	51,646	-
Repayment of borrowing from the Government of Canada	(26,357)	-
	<u>61,668</u>	<u>204,827</u>
Cash provided by financing transactions		
Decrease in cash and cash equivalents	(5,803)	(20,259)
Cash and cash equivalents at beginning of year	360,089	380,348
Cash and cash equivalents at end of year	<u>\$ 354,286</u>	<u>\$ 360,089</u>

⁽¹⁾ Net cash applied to by operating activities includes \$65,653 (2020 \$66,842) 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, 2021

(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, AgriInsurance, livestock price insurance and loans and guarantees to primary agriculture producers in Alberta. Loans and guarantees are also provided to commercial Alberta businesses.

Note 2 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 AgriInsurance and Hail Insurance programs. A corresponding premium contribution from the Governments of Canada and Alberta is also recognized on policies sold under the AgriInsurance programs and is included in Contributions from the Governments of Canada and Alberta. Premiums received by the Corporation in advance of the related policy term are recorded as deferred revenue until earned.

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

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

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2021

(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, interest on arrears 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, 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, accounts receivables, due from Government of Alberta, due from Government of Canada, loans receivable, investments, accounts payable and other accrued liabilities, due to other Provincial Governments, 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, 2021

(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 4, 5, 9 and 18).

On March 11, 2020, the World Health Organization declared 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 still 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 5, 9, 18 and 19).

(e) Non-Financial Assets

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

(f) Cash and Cash Equivalents

Cash and cash equivalents 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.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2021

(in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

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

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.

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, 2021

(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 the Corporation'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 17).

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 specified limit.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2021

(in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(m) Reinsurance (continued)

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 18).

(n) AgrilInsurance Accumulated Surplus Restriction

In accordance with the Federal/Provincial Agricultural Policy Framework Implementation Agreement, the AgrilInsurance accumulated surplus of \$2,710,916 (2020 \$2,690,189) is restricted for AgrilInsurance 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 16).

(q) Environmental Liabilities

Contaminated sites are a result of contamination of a chemical, organic or radioactive material or live organisms that exceeds an environment standard, being introduced into soil, water or sediment. The Corporation 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 Other Accrued Liabilities (Note 7) is a liability of \$2,129 for the estimated remaining remediation (2020 \$1,128).

(r) Net Debt Model

Net debt model has been adopted for the presentation of the financial statements. Net financial asset or net debt is measured as the difference between AFSC's financial assets and liabilities.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2021

(in thousands)

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.

Note 3 Future Changes in Accounting Standards

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

- **PS 3280 Asset Retirement Obligations (effective April 1, 2022)**
This standard provides guidance on how to account for and report liabilities for retirement of tangible capital assets.
- **PS 3400 Revenue (effective April 1, 2023)**
This standard provides guidance on how to account for and report on revenue, specifically, it differentiates between revenue arising from exchange transactions and non-exchange transactions.
- **PSG-8 Purchased Intangibles (effective April 1, 2023)**
This accounting guideline provides guidance on how to recognize purchased intangibles as non-financial assets.

AFSC has not yet accepted these standards. Management is currently assessing the impact of these standards on the financial statements.

Note 4 Accounts Receivable

	2021	2020
Due from reinsurers		
Livestock insurance program	\$ 386	\$ 31,702
AgriStability & Canadian Agricultural Income Stabilization (CAIS) programs:		
Overpayments	1,141	3,526
Administration fees	397	310
Premiums from insured persons		
Livestock insurance program	1,846	2,035
AgrilInsurance program	1,046	1,971
Hail insurance program	49	273
Other	126	48
	4,991	39,865
Allowances for doubtful accounts		
At beginning of year	(4,525)	(5,083)
Decrease for this year	2,145	544
Write offs (recoveries)	663	14
At end of year	(1,717)	(4,525)
	\$ 3,274	\$ 35,340

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2021

(in thousands)

Note 4 Accounts Receivable (continued)

Included in the allowances for doubtful accounts is \$1,141 (2020 \$3,526) 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 balances. Actual write-offs realized in future periods could be materially different from management's estimates.

Note 5 Loans Receivable

Loans receivable are comprised of the following:

	2021			2020
	Farm	Commercial	Total	Total
Performing loans - non concessionary	\$ 2,303,972	\$ 185,740	\$ 2,489,712	\$ 2,406,111
Performing loans - concessionary	888	-	888	1,167
Impaired loans	2,964	30,014	32,978	40,991
	<u>2,307,824</u>	<u>215,754</u>	<u>2,523,578</u>	<u>2,448,269</u>
Accrued interest	28,338	834	29,172	30,093
Loan discount	(11)	-	(11)	(14)
	<u>2,336,151</u>	<u>216,588</u>	<u>2,552,739</u>	<u>2,478,348</u>
Allowances for doubtful accounts for loans	<u>(6,330)</u>	<u>(26,133)</u>	<u>(32,463)</u>	<u>(41,960)</u>
Net carrying value	<u>\$ 2,329,821</u>	<u>\$ 190,455</u>	<u>\$ 2,520,276</u>	<u>\$ 2,436,388</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	2021	2020
At beginning of year	\$ 5,921	\$ 36,038	\$ 41,959	\$ 26,237
Increase for the year	413	129	542	21,702
Write-offs	(4)	(10,034)	(10,038)	(5,979)
At end of year	<u>\$ 6,330</u>	<u>\$ 26,133</u>	<u>\$ 32,463</u>	<u>\$ 41,960</u>
Specific allowance	\$ 897	\$ 17,372	\$ 18,269	\$ 27,143
General allowance	5,433	8,761	14,194	14,817
	<u>\$ 6,330</u>	<u>\$ 26,133</u>	<u>\$ 32,463</u>	<u>\$ 41,960</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 \$3,853 (2020 \$4,647) and the General allowance \$7,160 (2020 \$8,850) to estimate the additional risk due to the COVID-19 pandemic.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2021

(in thousands)

Note 5 Loans Receivable (continued)

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 \$5,703,140 (2020 \$5,658,542).

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

	2021	2020
Effective annual Interest Rate		
Less than or equal to 2%	\$ 219,253	\$ 145,093
2.01% to 3.00%	524,083	266,267
3.01% to 4.00%	824,279	903,574
4.01% to 5.00%	718,936	789,177
5.01% to 6.00%	172,077	252,498
6.01% to 7.00%	61,127	85,441
7.01% to 8.00%	3,057	5,326
Over 8%	755	879
	2,523,567	2,448,255
Accrued interest	29,172	30,093
Allowance for doubtful accounts for loans	(32,463)	(41,960)
	\$ 2,520,276	\$ 2,436,388
Weighted average annual interest rate	3.68%	3.99%

Note 6 Investments

	2021	2020
Bonds and debentures:		
Government of Canada, direct and guaranteed	\$ 1,106,676	\$ 1,269,056
Other provincial, direct and guaranteed	275,521	116,076
	1,382,197	1,385,132
Corporate securities:		
Asset backed securities, AAA rated	691,567	718,607
Senior bank notes	482,211	495,909
	1,173,778	1,214,516
	2,555,975	2,599,648
Accrued interest	13,059	12,365
	\$ 2,569,034	\$ 2,612,013

The fair value of investments at March 31, 2021 is \$2,602,642 (2020 \$2,643,630). Fair value is based on quoted market prices excluding accrued interest.

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2021

(in thousands)

Note 6 Investments (continued)

	Term to Maturity ⁽¹⁾		2021	2020
	Within 1 Year	1 to 5 Years		
Bonds and debentures	\$ 12,575	\$ 1,369,622	\$ 1,382,197	\$ 1,385,132
Yield ⁽²⁾	0.21%	0.74%	0.74%	0.84%
Corporate Securities	163,397	1,010,381	1,173,778	1,214,516
Yield ⁽²⁾	0.42%	0.94%	0.87%	2.23%
	175,972	2,380,003	2,555,975	2,599,648
Accrued interest	691	12,368	13,059	12,365
	<u>\$ 176,663</u>	<u>\$ 2,392,371</u>	<u>\$ 2,569,034</u>	<u>\$ 2,612,013</u>

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

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

Note 7 Accounts Payable and Other Accrued Liabilities

	2021	2020
Supplies and services	\$ 7,548	\$ 5,434
Salaries, wages and employee benefits	5,410	4,342
Reinsurance Premiums to Government of Canada	18	18
Other	82	211
	<u>\$ 13,058</u>	<u>\$ 10,005</u>

Note 8 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

MARCH 31, 2021

(in thousands)

Note 8 Due to (from) Other Provincial Governments (continued)

Breakdown of the amounts owing is as follows:

	<u>2021</u>	<u>2020</u>
Premiums collected	\$ 41,897	\$ 33,286
Indemnities paid	(35,022)	(28,556)
Administration costs receivable	(147)	(128)
Reinsurance premiums	(7,205)	(4,764)
Reinsurance expense net of ceded premiums	<u>4,245</u>	<u>2,353</u>
	<u>\$ 3,768</u>	<u>\$ 2,191</u>

Note 9 Indemnities Payable

	<u>2021</u>	<u>2020</u>
	(Note 2(l))	(Note 2(l))
AgriStability (previously CAIS program), AgriInvest, AgriRecovery and related programs		
Current claim year	\$ 148,051	\$ 215,667
Prior claim years	<u>89,431</u>	<u>61,819</u>
	237,482	277,486
AgriInsurance	17,288	128,121
Wildlife compensation	1,203	5,561
Livestock price insurance	105	47,466
Hail insurance	<u>66</u>	<u>2</u>
	<u>\$ 256,144</u>	<u>\$ 458,636</u>

Estimated indemnities payable of \$256,144 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

MARCH 31, 2021

(in thousands)

Note 9 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.

There are some inherent limitations to the model such as the intrinsic uncertainty in agriculture market forecasts as well as uncertainty in forecasting participation. Applying macro adjustments may not be reflective of the sample of participants and the model cannot forecast disasters as it is biased to prior year results.

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 \$110,709 to \$180,549. In four out of the past five years, actual indemnities have fallen 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 \$13,757 to \$20,819.

Note 10 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:

	<u>2021</u>	<u>2020</u>
Effective annual Interest Rate		
Less than or equal to 2%	\$ 385,000	\$ 510,725
2.01% to 3.00%	1,397,000	1,137,000
3.01% to 4.00%	400,721	500,721
4.01% to 5.00%	<u>289,294</u>	<u>289,294</u>
	2,472,015	2,437,740
Accrued interest	15,519	10,515
Unamortized premium	<u>(7,423)</u>	<u>(5,925)</u>
	<u>\$ 2,480,111</u>	<u>\$ 2,442,330</u>
Weighted average annual interest rate	2.67%	2.72%

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2021

(in thousands)

Note 10 Borrowing from Government of Alberta (continued)

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

Year ending March 31, 2022	\$ 256,432
2023	136,431
2024	294,431
2025	120,000
2026	120,000
Thereafter	<u>1,544,721</u>
	<u>\$ 2,472,015</u>

The estimated fair value of borrowings as at March 31, 2021 is \$2,575,394 (2020 \$2,546,063). Fair value is an approximation of market value to the holder.

Note 11 Deferred Revenue and Contributions

	<u>2021</u>	<u>2020</u>			
Deferred revenue	\$ 7,307	\$ 7,616			
Spent deferred capital contributions	<u>9,535</u>	<u>15,611</u>			
	<u>\$ 16,842</u>	<u>\$ 23,227</u>			
Deferred revenue	<u>2021</u>				<u>2020</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	\$ -	\$ 7,616	\$ -	\$ 7,616	\$ 7,084
Received during year	-	7,307	-	7,307	7,616
Less amounts recognized	-	(7,616)	-	(7,616)	(7,084)
Balance at end of year	<u>\$ -</u>	<u>\$ 7,307</u>	<u>\$ -</u>	<u>\$ 7,307</u>	<u>\$ 7,616</u>
Spent deferred capital contributions	<u>2021</u>				<u>2020</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	\$ 9,134	\$ 388	\$ 6,089	\$ 15,611	\$ 17,544
Transferred capital assets received	1,262	-	842	2,104	3,211
Less amounts recognized as revenue	<u>(4,850)</u>	<u>(97)</u>	<u>(3,233)</u>	<u>(8,180)</u>	<u>(5,144)</u>
Balance at end of year	<u>\$ 5,546</u>	<u>\$ 291</u>	<u>\$ 3,698</u>	<u>\$ 9,535</u>	<u>\$ 15,611</u>

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2021

(in thousands)

Note 11 Deferred Revenue and Contributions (continued)

Deferred 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.

Note 12 Tangible Capital Assets

	<u>Land</u>	<u>Building</u>	<u>Furniture and Fixtures</u>	<u>Computer Equipment and Software</u>		
Estimated Useful Life	<u>Indefinite</u>	<u>25 - 40 years</u>	<u>5 - 10 years</u>	<u>2 - 10 years</u>	<u>2021</u>	<u>2020</u>
Historical Cost						
At beginning of year	\$ 1,707	\$ 10,210	\$ 12,496	\$ 117,390	\$ 141,803	\$ 138,350
Additions	560	-	244	3,320	4,124	6,314
Disposals including write-downs	-	-	-	(3,100)	(3,100)	(2,861)
	<u>2,267</u>	<u>10,210</u>	<u>12,740</u>	<u>117,610</u>	<u>142,827</u>	<u>141,803</u>
Accumulated amortization						
At beginning of year	-	6,547	10,798	95,780	113,125	106,939
Amortization expense	-	184	417	11,626	12,227	8,288
Effect of disposals including write-downs	-	-	-	(3,100)	(3,100)	(2,102)
	<u>-</u>	<u>6,731</u>	<u>11,215</u>	<u>104,306</u>	<u>122,252</u>	<u>113,125</u>
Net book value at March 31, 2021	<u>\$ 2,267</u>	<u>\$ 3,479</u>	<u>\$ 1,525</u>	<u>\$ 13,304</u>	<u>\$ 20,575</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>

Computer equipment and software costs include \$1,908 (2020 \$4,286) of costs incurred that are not amortized because they are still in the development stage.

Note 13 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 \$4,696 for the year ended March 31, 2021 (2020 \$5,078).

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2021

(in thousands)

Note 13 Pensions (continued)

At December 31, 2020, the Alberta Management Employees Pension Plan reported a surplus of \$809,850 (2019 surplus \$1,008,135), the Alberta Public Service Pension Plan reported a surplus of \$2,223,582 (2019 surplus \$2,759,320) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of \$59,972 (2019 deficiency \$44,698). 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.

As a result of the COVID-19 outbreak, declared a global pandemic on March 11, 2020, global financial markets and world economies have experienced significant volatility. Given the extent of the crisis, and varying levels of response and recovery of countries across the globe, additional uncertainty remains and will continue to exist with regards to fair value measurement of the pension plans investments.

Note 14 Contingencies, Contractual Obligations and Commitments

Contingent Liability

	2021	2020
Loan guarantees	\$ 1,170	\$ 1,476

The Corporation has been named in one (2020 none) claim of which the outcome is not determinable. Specified amount totals \$15 (2020 nil). The resolution of the indeterminable claim may result in a liability, if any, may be significantly lower than the claimed amount.

Contractual Obligations

	2021	2020
Operating leases	\$ 9,374	\$ 9,953
Reinsurance	6,641	5,199
Other contracts	13,338	8,262
Total contractual obligations	\$ 29,353	\$ 23,414

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

Year ending March 31,	2022	\$	20,658
	2023		3,488
	2024		1,702
	2025		1,444
	2026		1,064
	Thereafter		997
		\$	29,353

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2021

(in thousands)

Note 14 Contingencies, Contractual Obligations and Commitments (continued)

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 27.5% for Livestock insurance and 30% for Hail insurance.

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

Commitments

	2021	2020
Approved, undisbursed loans	\$ 301,947	\$ 210,335

Note 15 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:

	2021	2020
Investments	\$ 2,569,034	\$ 2,612,013
Loans receivable	2,520,276	2,436,388
Due from Government of Canada	130,310	209,056
Due from Government of Alberta	29,807	88,491
Accounts receivable	3,274	35,340
Loan guarantees	1,170	1,476
Total	\$ 5,253,871	\$ 5,382,764

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.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2021

(in thousands)

Note 15 Financial Instruments and Financial Risk Management (continued)

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.

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>2021</u>		<u>2020</u>	
	<u>Dollar</u>	<u>Percentage</u>	<u>Dollar</u>	<u>Percentage</u>
Loans receivable by individual sector:				
Grain and Oilseeds	\$ 1,402,862	56%	\$ 1,369,701	56%
Cattle	819,474	32%	745,895	31%
Accommodations and Other Services	90,684	4%	101,964	4%
Other Livestock	87,850	3%	75,608	3%
Manufacturing	46,775	2%	65,567	3%
Trade - Retail and Wholesale	24,416	1%	29,917	1%
Other	80,678	3%	89,696	4%
Allowance	(32,463)	-1%	(41,960)	-2%
	<u>\$ 2,520,276</u>	<u>100%</u>	<u>\$ 2,436,388</u>	<u>100%</u>

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2021

(in thousands)

Note 15 Financial Instruments and Financial Risk Management (continued)

Interest Rate Risk

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

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

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.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2021

(in thousands)

Note 15 Financial Instruments and Financial Risk Management (continued)

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

	Scheduled Repayment ⁽¹⁾				Not ⁽²⁾ Interest Rate Sensitive	2021	2020
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years		Total	Total
Loan balances	\$ 199,571	\$ 649,680	\$ 662,583	\$ 989,036	\$ 19,406	\$ 2,520,276	\$ 2,436,388
Yield	3.54%	3.68%	3.82%	3.69%	-	3.70%	4.05%
Borrowing from							
Government of Alberta	\$ 256,432	\$ 670,862	\$ 1,329,721	\$ 215,000	\$ 8,096	\$ 2,480,111	\$ 2,442,330
Yield ⁽³⁾	2.79%	2.65%	2.42%	1.76%	-	2.60%	2.89%
Net gap	<u>\$ (56,861)</u>	<u>\$ (21,182)</u>	<u>\$ (667,138)</u>	<u>\$ 774,036</u>	<u>\$ 11,310</u>	<u>\$ 40,165</u>	<u>\$ (5,942)</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.

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 16 Related Party Transactions

Related parties are those entities consolidated or accounted for on the modified equity basis in the Government of Alberta's consolidated financial statements. Related parties also include key management personnel and their close family members. Any amounts incurred were in the normal course of business and have been excluded from this schedule.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2021

(in thousands)

Note 16 Related Party Transactions (continued)

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>2021</u>	<u>2020</u>
Revenues:		
Grants	<u>\$ 293,618</u>	<u>\$ 357,381</u>
Expenses:		
Accommodation	\$ 560	\$ 571
Other services	2,421	2,619
Interest	<u>67,469</u>	<u>68,146</u>
	<u>\$ 70,450</u>	<u>\$ 71,336</u>
Payable to:		
Ministry of Agriculture and Forestry	\$ 587	\$ 650
Ministry of Treasury Board and Finance	2,480,111	2,442,330
Service Alberta	-	1
Receivable from:		
Ministry of Agriculture and Forestry	29,807	88,491
Deferred Revenue from:		
Ministry of Agriculture and Forestry	<u>3,698</u>	<u>6,089</u>
	<u>\$ 2,514,203</u>	<u>\$ 2,537,561</u>

Note 17 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)):

	<u>AgrilInsurance Reinsurance Fund of Alberta</u>		<u>AgrilInsurance Reinsurance Fund of Canada for Alberta</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
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.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2021

(in thousands)

Note 18 Reinsurance Expense

	<u>Hail Insurance</u>	<u>Livestock Insurance</u>	<u>2021</u>	<u>2020</u>
Excess loss				
Reinsurance expense	\$ 858	\$ 2,625	\$ 3,483	\$ 3,328
Recoveries	-	(51,704)	(51,704)	(14,009)
Quota Share				
Ceded premiums and commissions	7,672	5,657	13,329	16,499
Ceded losses	<u>(6,566)</u>	<u>(768)</u>	<u>(7,334)</u>	<u>(42,320)</u>
Net reinsurance expense (recoveries)	<u>\$ 1,964</u>	<u>\$ (44,190)</u>	<u>\$ (42,226)</u>	<u>\$ (36,502)</u>

The net livestock insurance reinsurance expense is included in fees and other income on Schedule 1.

Note 19 Budget

The budget reported in the Statement of Operations was included in the 2020/21 Government Estimates.

Note 20 Comparative Figures

The 2020 figures have been reclassified where necessary to conform to 2021 presentation.

AGRICULTURE FINANCIAL SERVICES CORPORATION
SCHEDULE OF OPERATIONS
YEAR ENDED MARCH 31, 2021
(in thousands)

	2021	2020	2021	2020	2021
	<u>AgrInsurance</u>	<u>AgrInsurance</u>	<u>Agriculture Income Support</u>	<u>Agriculture Income Support</u>	<u>Lending</u>
	Note 2(n)	Note 2(n)			
Revenues:					
Premiums from insured persons	\$ 273,004	\$ 275,206	\$ -	\$ -	\$ -
Interest	439	681	93	166	94,458
Contribution from Government of Alberta	211,208	233,469	61,416	105,980	4,083
Contribution from Government of Canada	189,052	194,241	51,324	114,847	-
Investment income	69,985	59,055	359	736	343
Fees and other income	31	161	10,741	10,278	3,946
	<u>743,719</u>	<u>762,813</u>	<u>123,933</u>	<u>232,007</u>	<u>102,830</u>
Expenses:					
Indemnities	681,501	841,320	111,232	219,160	-
Salaries, wages and employee benefits	25,735	29,134	8,451	8,053	16,933
Supplies and services	10,736	12,976	3,546	3,677	6,012
Amortization of tangible capital assets	4,920	3,618	2,684	1,169	2,179
Interest	-	-	-	-	69,497
Reinsurance (Note 17)	-	-	-	-	-
Allowance for doubtful accounts and for losses (Note 3 & 4)	100	(73)	(2,250)	(446)	542
	<u>722,992</u>	<u>886,975</u>	<u>123,663</u>	<u>231,613</u>	<u>95,163</u>
Annual surplus (deficit)	20,727	(124,162)	270	394	7,667
Accumulated surplus at beginning of year	2,690,189	2,814,351	2,511	2,117	80,559
Accumulated surplus at end of year	<u>\$ 2,710,916</u>	<u>\$ 2,690,189</u>	<u>\$ 2,781</u>	<u>\$ 2,511</u>	<u>\$ 88,226</u>

<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
<u>Lending</u>	<u>Hail Insurance</u>	<u>Hail Insurance</u>	<u>Livestock Insurance</u>	<u>Livestock Insurance</u>	<u>Wildlife Damage Compensation</u>	<u>Wildlife Damage Compensation</u>	<u>Total</u>	<u>Total</u>
\$ -	\$ 30,315	\$ 28,545	\$ 15,777	\$ 17,446	\$ -	\$ -	\$ 319,096	\$ 321,197
94,973	62	87	75	36	-	-	95,127	95,943
7,407	-	-	798	714	16,113	9,811	293,618	357,381
-	-	-	1,128	1,069	15,312	9,274	256,816	319,431
810	193	713	190	398	(28)	(48)	71,042	61,664
3,380	180	159	44,295	37,332	169	118	59,362	51,428
<u>106,570</u>	<u>30,750</u>	<u>29,504</u>	<u>62,263</u>	<u>56,995</u>	<u>31,566</u>	<u>19,155</u>	<u>1,095,061</u>	<u>1,207,044</u>
-	21,731	26,105	67,094	76,640	28,868	17,585	910,426	1,180,810
17,969	990	670	1,136	1,069	1,376	860	54,621	57,755
5,766	570	477	692	620	679	437	22,235	23,953
2,509	1,896	454	331	438	217	100	12,227	8,288
69,496	-	-	-	-	-	-	69,497	69,496
-	1,965	737	-	-	-	-	1,965	737
21,701	5	(25)	-	-	-	-	(1,603)	21,157
<u>117,441</u>	<u>27,157</u>	<u>28,418</u>	<u>69,253</u>	<u>78,767</u>	<u>31,140</u>	<u>18,982</u>	<u>1,069,368</u>	<u>1,362,196</u>
(10,871)	3,593	1,086	(6,990)	(21,772)	426	173	25,693	(155,152)
91,430	45,548	44,462	18,948	40,720	1,806	1,633	2,839,561	2,994,713
<u>\$ 80,559</u>	<u>\$ 49,141</u>	<u>\$ 45,548</u>	<u>\$ 11,958</u>	<u>\$ 18,948</u>	<u>\$ 2,232</u>	<u>\$ 1,806</u>	<u>\$ 2,865,254</u>	<u>\$ 2,839,561</u>

AGRICULTURE FINANCIAL SERVICES CORPORATION

SCHEDULE OF SALARIES AND BENEFITS

YEAR ENDED MARCH 31, 2021

(in thousands)

	2021			2020	
	Base Salary ⁽¹⁾	Other Cash Benefits ⁽²⁾	Other Non-cash Benefits ⁽³⁾	Total	Total
Chair of Board ⁽⁴⁾	\$ 19	\$ -	\$ -	\$ 19	\$ 42
Board Members ⁽⁵⁾	65	-	2	67	88
Executive Members					
Chief Executive Officer ⁽⁶⁾	206	109	34	349	410
Chief Client Officer ⁽⁷⁾	231	32	50	313	299
Chief Risk Officer	250	50	12	312	319
Chief Information Officer	221	2	48	271	219
Chief People Officer	221	-	48	269	223
Chief Financial & Innovation Officer ⁽⁸⁾	112	-	21	133	277
Interim Vice-President, Operation & Sales ⁽⁹⁾	-	-	-	-	18

(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 Chair of the Board was divided between two individuals (April 1, 2020 – April 11, 2020 and April 12, 2020 – October 8, 2020). The Chair of the Board for the remainder of the year was held by the Deputy Minister, Agriculture and Forestry.

(5) The amounts relate to six Board Members for six months and five Board Members for six months during 2020/21.

(6) The Chief Executive Officer amounts are divided between two individuals (one for April 1, 2020 – June 30, 2020 and the other October 1, 2020 – March 31, 2021) for nine months (twelve months in 2019/20). The period in between was handled by a contracted employee.

(7) The amounts relate to eleven months during 2020/21.

(8) The amounts relate to six months during 2020/21.

(9) The amount relates to one month during 2019/20.

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