













ANNUAL REPORT
2008-2009

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June 26, 2009

The Honourable George Groeneveld
Minister of Agriculture and Rural Development
424 Legislature Building
Edmonton, Alberta
T5K 2B6

Dear Minister Groeneveld:

On behalf of the Board of Directors, we are pleased to submit the fourteenth annual report of the Agriculture Financial Services Corporation.

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 the application of its expenditures for the fiscal year ended March 31, 2009.

The report also contains audited financial statements, including a statement of financial position, a statement of operations, and a statement of cash flows.

Yours truly,



H.D. (Harry) Haney
Chairman



Brad Klak
President & Managing Director



Message from the Minister of Agriculture and Rural Development

As Minister of Alberta Agriculture and Rural Development, I have seen Alberta's agricultural

producers and agribusinesses undergo tremendous change. This year Alberta farms endured record high hail storms, turbulent commodity prices, new recessionary pressures, and increased global competition.

In June 2008, AFSC assisted by quickly delivering Alberta Farm Recovery Plan II payments to over 25,000 livestock producers, as a component of the Alberta Livestock and Meat Strategy. This helped many producers begin the transition to a more competitive business model. Further assistance was delivered in January 2009 to those in compliance with the new traceability requirements. I'm also happy to report that the vast majority of Alberta livestock producers have now adopted age verification and traceability practices, which became law in 2009 under the *Animal Health Act*. Truly this team effort between the department, the Alberta Livestock and Meat Agency Ltd., AFSC, Honourable Gerry Ritz, Minister of Agriculture and Agri-Food Canada, and thousands of producers has set the stage to opening markets for age verified animals.

In 2008, AFSC also delivered assistance under the new AgriRecovery program to those seed potato growers affected by the potato cyst nematode and resulting border closures. Producers with hail insurance who incurred damage to their increasingly high-valued crops received record fund payments in compensation this past year. The Government of Alberta continues to consult

and engage industry to effectively focus public resources in the delivery of its programs.


The impact of the global financial crisis has affected the availability of credit and AFSC's lending activities will be at the forefront in supporting our producers and Agribusinesses as they continue to diversify now and for years to come. This past year AFSC successfully obtained legislative approvals to increase its lending limits, effective April 1, 2009, to increase access to much needed loan capital.

Lingering effects of the past five years have negatively impacted primary producers financially. In some cases, this has eroded commitments with their lenders, putting a strain on existing and new lending requirements. I know our farmers, agribusinesses and value-added industries need a stable source of capital to start, develop and sustain their operations, even more so now than in the past. AFSC will be better positioned to assist farmers and agribusinesses during these uncertain times.

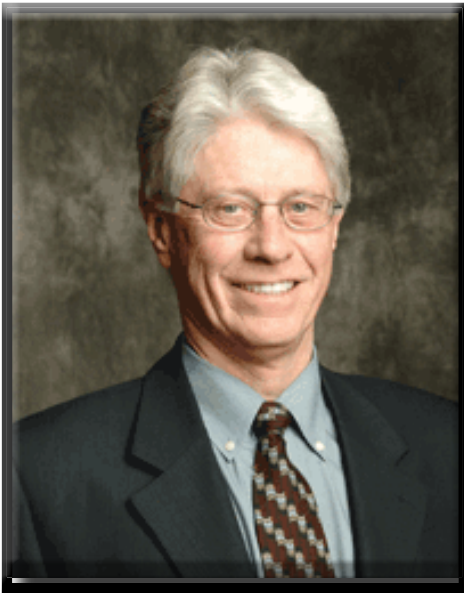
The Government of Alberta is committed to ensuring that Alberta producers have access to effective financial services, insurance programs, and adequate support to agriculture through responsive business risk management programs. Growing Forward programs delivered by Alberta through AFSC are AgriInsurance, AgriStability, and AgriRecovery. We continue to refine programs to address producer concerns for timeliness and simplicity. AFSC deserves some of the credit for the collective work that puts Alberta in a position from which we can take this province confidently into the future, work that has and will allow Albertans to also measure our performance as a government.

I must congratulate AFSC in achieving the Best Overall Workplace and for being chosen one of Alberta's Top 40 Employers in 2009, two prestigious awards that will ultimately benefit our producers, through attracting and retaining the best and brightest now and in the future. In 2008, AFSC was also recognized for demonstrating superior client service through the implementation of the myAFSC website and electronic forms project, resulting in the Gold Premier's Award of Excellence in recognition of staff motivation, ingenuity, and commitment.

I would like to thank AFSC's Board, Management and staff for their help and hard work in supporting Alberta's agriculture industry and advancing agricultural best practices in Alberta and around the globe. Please accept my best wishes.



George Groeneveld
Minister



CHAIRMAN'S *message*

2008 presented the Corporation with a good number of challenges. In addition to the worldwide economic

downturn, which impacted all sectors of the Alberta economy, we witnessed tremendous volatility in commodity markets as well as record high hail claims in many areas of the province – further underscoring the importance of our risk management, insurance and lending products. I wish to say thank you to AFSC staff for putting in many extra hours to ensure AFSC supported Alberta producers with the challenges they faced.

AFSC was pleased to support the Minister in his initiatives to assist agriculture in general and the livestock industry in particular. AFSC played a major role in the Alberta Livestock and Meat Strategy through the delivery of \$300 million in payments to over 25,000 livestock producers. Also part of the Strategy, AFSC obtained the necessary legislative approvals to implement livestock insurance, the first offering of which will be the Cattle Price Insurance Program (CPIP).

The Lending Division continued their role of providing access to capital for farmers as well as agribusiness, value-added operations, and commercial enterprises. These important sectors of the Alberta economy will now have access to an increased, stable source of capital as a result of legislative changes which increased lending limits effective April 1, 2009. This is part of our ongoing efforts to support both the primary production and commercial sectors in Alberta.

The Board of Directors said goodbye to Mr. Kim McConnell, and to Mr. Joe Makowecki. On behalf of the Board I must thank these two gentlemen for their tireless service and commitment to AFSC. This year the Board welcomed newcomers Mr. Darcy Davis, Mr. Mel McNaughton, and Mr. Bill Daye to the Board. I am delighted with their

enthusiasm and the fresh perspectives they bring to the table. I am also very pleased to have Ms. Gail Surkan reappointed for another term, as we rely on her expertise in a variety of areas, one of the most important being that of maintaining and refining governance best practices.

AFSC goals this past year were to become a partner of choice, a provider of choice, and an employer of choice. Last year, I mentioned our work on technological advances to enhance service delivery from AFSC. I am pleased to say AFSC was the 2008 Gold Recipient of the Premier's Award of Excellence for the myAFSC website and electronic forms project, demonstrating superior client service, business excellence, and the values of the Alberta Public Service.

In October 2008, I was thrilled that AFSC was named as one of Alberta's Top 40 Employers for 2009 and again in March when we received recognition as Alberta Venture Magazine's 2009 Best Overall Workplace in Alberta for 101-750 employees.

This speaks to an exceptional group of people: a diverse and talented Board of Directors; an enthusiastic and innovative Executive Management Team; and a committed, diligent AFSC staff. Again, on behalf of AFSC's board of directors, I must say thank you for your continuing hard work in supporting our industrious, inventive and devoted clientele. I look forward to further opportunities to provide exceptional client service in the coming year.

A handwritten signature in dark ink, appearing to read "H. D. Haney". The signature is fluid and cursive, with a long horizontal stroke at the end.

H. D. (Harry) Haney
Chairman

CORPORATE GOVERNANCE

AFSC operates under the authority of the *Agriculture Financial Services Act* as a provincial Crown corporation. AFSC serves in a public policy role for the Government of Alberta (GOA). The Board of Directors provides leadership and direction to the corporation and oversees management and performance.

MANDATE

The Board is responsible to the Minister of Alberta Agriculture and Rural Development. The roles and responsibilities of the Board are set out in the *Agriculture Financial Services Act* and in a Memorandum of Understanding (MOU) between the Minister and the Board, which is reviewed annually.

COMPOSITION OF THE BOARD

As of March 31, 2009, the Board consisted of ten Directors. There are nine independent Directors and the President and Managing Director. The Minister of Agriculture and Rural Development appoints all Board members. The Board members have varied skills and experience and are entrepreneurs, primary agricultural producers, and agri-business owners/operators. The Board Chair and four Committee Chairs are all independent members.

GOVERNANCE

The Board members adhere to the Board Governance Handbook. New Board members are provided with orientation as soon as they assume their duties. The Board Code of Conduct and Ethics is reviewed annually, with each Board member annually confirming compliance in writing. The Board, its Committees and individual Board members assess performance annually through a structured process of self-evaluation. The Board continually identifies areas of potential development to enhance effectiveness in governance and in pursuing strategies to achieve continuous improvement.

The Board and Committees meet as often as required, and hold in-camera sessions. The Board ensures that public policy is considered in all decisions. Board members also participate in seminars and conferences to further enhance their skills in dealing with corporate business issues and governance.

BOARD COMMITTEE MEMBERSHIP AND RESPONSIBILITIES AS AT MARCH 31, 2009

For effective conduct of its affairs the Board utilizes four committees to oversee certain functions, each with its own reporting requirements and Terms of Reference, updated annually.

Minister of Agriculture and Rural Development: *Honourable George Groeneveld*

AFSC Board of Directors:

H.D. (Harry) Haney, Chair
Darcy Davis
Bill Daye
Barry Holmes, Vice - Chair
Brad Klak, President and Managing Director
Mel McNaughton
Ken Skoberg
Gail Surkan
John Van Tryp
Tony Yelenik

AFSC Directors' Responsibilities:

Communication with Stakeholders
Corporate Governance and Stewardship
Enterprise Risk Management
Fiscal Responsibilities and Financial Reporting
Integrity and Ethical Conduct
Strategic Management

Governance and Human Resources Committee

Harry Haney, Chair

Barry Holmes, Brad Klak, Ken Skoberg, Gail Surkan

The Governance and Human Resources Committee makes recommendations to the Board with respect to governance practices, committee structure and membership, enterprise risk management, corporate performance, strategic management of human resources, and corporate communication.

Audit Committee

Barry Holmes, Chair

Darcy Davis, Bill Daye, Mel McNaughton, John Van Tryp, Tony Yelenik

The Audit Committee oversees the fiscal management, financial reporting, annual budgets/quarterly forecasts, quarterly/annual financial statements, as well as internal/external audit plans, reports, and internal controls. The committee is also responsible for enterprise risk management relating to the above items.

BOARD COMMITTEE MEMBERSHIP AND RESPONSIBILITIES AS AT MARCH 31, 2009 (CONTINUED)

Credit Committee

Gail Surkan, Chair

Harry Haney, Barry Holmes, Brad Klak, Mel McNaughton

The Credit Committee oversees the lending operations and credit risk exposure. The Committee ensures that lending programs are appropriate and sound lending principles are maintained.

Risk Management Programs Committee

Ken Skoberg, Chair

Bill Daye, Darcy Davis, Brad Klak, John Van Tryp, Tony Yelenik

The Risk Management Programs Committee reviews changes to new and existing risk management programs and oversees delivery of risk management programs.

AFSC EXECUTIVE MANAGEMENT TEAM

Brad Klak
President and Managing Director

Richard Bell
Vice-President, Lending

Donna Bryden
Vice-President, Human Resources & Community Relations

Merle Jacobson
Vice-President, Risk Management

R. (Krish) Krishnaswamy
Vice-President, Finance & Corporate Affairs

MANAGEMENT DISCUSSION AND ANALYSIS

We are pleased to share Management's Discussion and Analysis, which offers a detailed look at our successful 2008-09 operations in support of all our stakeholders and industry.

OVERVIEW OF AFSC PROGRAMS

AFSC offers a wide variety of risk management products and financial services to fit the business needs of farmers, the agriculture industry and small businesses in Alberta. Its products and services are unique and not readily available from conventional sources to the industry. AFSC provides loans and guarantees to primary agriculture producers as well as emerging and expanding commercial operations. AFSC also delivers Business Risk Management (BRM) programs to primary agriculture producers such as income stabilization, disaster assistance, and insurance on crops.

GROWING FORWARD

Many of AFSC's key risk management products are governed by the federal/provincial/territorial Growing Forward Framework Agreement that is in effect from 2008/09 to 2012/13. This agreement provides for a suite of BRM programs that include AgriInsurance, AgriStability, AgriInvest, AgriRecovery and Wildlife Damage Compensation.

AGRISTABILITY (AGRICULTURE INCOME STABILIZATION)

The AgriStability program protects farmers against declines in farm margin. AgriStability provides compensation for producers when the program margin in a fiscal year declines more than 15 per cent of the reference margin. The reference margin is an average of the difference between eligible income and expenses for three of the past five years. The decline could be caused by circumstances such as production shortfalls, falling prices or rising input costs.

AgriStability is funded in accordance with the federal-provincial-territorial Growing Forward Agreement. The Government of Canada funds 60 per cent of AgriStability claim payments and administrative costs, while the GOA funds the remaining 40 per cent. Provincial enhancements which pay Alberta producers above the national program parameters are fully funded by the GOA.

AGRIINSURANCE

AgriInsurance, also known as crop insurance, provides coverage for crop losses due to designated perils. AgriInsurance provides Alberta farmers with a production guarantee on crop losses caused by natural perils including drought, snow, excess moisture, insect infestations, fire

caused by lightning, hail, wind, plant disease, frost and wildlife damage. With four coverage levels of 50, 60, 70 and 80 per cent (and 90 per cent for sugar beets), more than 50 types of crops are insurable, including grains and oilseeds, hay, grain corn, sugar beets, vegetables, pulse crops and a number of specialty crops and honey. The producer's share of the premium varies according to the crop insurance coverage levels selected.

In addition to the production guarantee, AgriInsurance also includes the following benefits: reseeded benefit (provides compensation when a crop is reseeded), unseeded acreage benefit (compensates producers when it is too wet to seed), unharvested acreage benefit (provides compensation when producers are unable to harvest their crop due to the onset of winter), and the Variable Price Benefit (VPB), providing additional coverage when prices increase by 10 per cent or more from spring to fall.

For extra protection, producers can choose to purchase endorsements in addition to basic AgriInsurance. The Hail Endorsement (HE) provides spot loss hail coverage, while the Spring Price Endorsement (SPE) provides protection when prices drop by more than 10 per cent from spring to fall. Hay producers have the option of adding the Moisture Deficiency Endorsement (MDE) to their policies. Under MDE claims are triggered when soil moisture and/or rainfall at a weather station(s) selected by the producer falls below 80 per cent of the long-term normal.

A Crop Insurance Fund is established to account for all revenue and expenses related to the Insurance programs. In accordance with the federal-provincial-territorial Growing Forward Framework Agreement, premiums are to be shared among producers, the Government of Canada and the GOA in the ratio of 40:36:24 respectively. Because some of the enhancements made to crop insurance programs such as HE, SPE, Revenue Insurance Coverage (RIC) and VPB are either fully funded by producers and the GOA, or cost shared to a lesser extent by the federal government, the actual share of premiums for producers, the Government of Canada and the GOA for 2008/09 is in the ratio of 38:30:32 respectively.

Results for AgriInsurance in Schedule 1 of the financial statement include both the national program and Alberta initiatives.

PASTURE INSURANCE

AFSC continued to offer two distinct pasture programs for the 2008 crop year: Satellite Yield Insurance (SAT) and Moisture Deficiency Insurance (MDI).

The SAT program, available only in selected areas of southern Alberta, is an area-based insurance option. SAT provides protection for pasture producers when township-wide pasture growth in a given year falls below the normal expected pasture growth. SAT uses satellite imagery data from a producer's township to assess pasture conditions and determine payments.

The MDI program is a province wide, area-based insurance option. MDI uses moisture information from weather stations and spring soil moisture measurements taken on stubble fields. Participating producers are compensated when accumulated moisture at one or more selected weather stations falls below the normal expected moisture.

Funding parameters for Annual Pasture Insurance programs are the same as those provided for AgrilInsurance (shared between producers, the GOA, and the Government of Canada).

AGRIRECOVERY

AgriRecovery is a framework focusing on specific regions or industries affected by a disaster, assisting producers in resuming business operations or with quick mitigation of disaster impacts. The purpose of AgriRecovery is to allow governments to provide timely assistance to producers impacted by disasters, when existing programs may not provide coverage. Once a disaster has been declared the federal and provincial governments assess the situation, including what is available from existing programs, and develop an appropriate response. AgriRecovery claim payments and administration costs are shared by the Government of Canada and the GOA in a 60:40 ratio.

AGRIINVEST

AgrilInvest is a matching-deposit based program. Under AgrilInvest producers can contribute a certain percentage of their allowable net sales each year into their AgrilInvest account held in commercial banks, which is then matched by a government contribution. These funds can be used to address small margin declines, to mitigate risk, or to make other investments. The matching government contribution and administration costs are shared between the Government of Canada and Alberta in a 60:40 ratio. The program is delivered by the Government of Canada. The financial statements of AFSC reflect only the GOA share of contribution and claim payments. For the 2007 claim year only, the producer deposit requirement was waived and the accounts were held by government.

WILDLIFE DAMAGE COMPENSATION PROGRAM

The Wildlife Damage Compensation Program (WDCP) provides spot loss coverage for crop damage caused by waterfowl, big game animals or upland game birds. The program applies to all commercially grown annual crops that are eligible for AgrilInsurance, including hay.

There are no premiums charged under the Wildlife Damage Compensation Program. However, a non-refundable appraisal fee of \$25 is charged for each section of land for which a claim is submitted. The GOA funds 52 per cent of indemnities, and the Government of Canada funds the remaining 48 per cent. The Government of Canada funds 60 per cent of the administration and adjusting costs, and the GOA funds the remaining 40 per cent.



STRAIGHT HAIL

The Straight Hail Insurance program provides producers with affordable spot-loss protection for damage to crops due to hail or accidental fire. Participants can purchase Straight Hail Insurance at any time throughout the year, either in combination with AgrilInsurance or on its own. Straight Hail Insurance is available to any individual with an interest in an insurable crop, including producers, tenants or landlords with a crop share lease agreement. The combined dollar coverage of all insured parties cannot exceed the maximum dollar coverage per acre limit. Losses are paid based on the percentage of damage that occurs to the crop.

Straight Hail Insurance is a sustainable program fully funded by producer premiums. Governments do not contribute to either administration expenses or premium cost.

LOANS AND GUARANTEES

AFSC offers loans for farms, disaster assistance, commercial operations, agribusinesses and value added enterprises as well as loan guarantees and capital sourcing services. Flexible terms and long-term fixed interest rates provide stability for farm and business planning as well as managing future cash flows in industries where income and expenses can be volatile. Our farm and commercial loan programs offer competitive and in some cases preferred interest rates with flexible terms and reasonable conditions. AFSC finances loans with terms and fixed interest rates up to 20 years. We offer various repayment schedules including monthly, semi-annual, quarterly and annual frequencies. In addition, our customers have the ability to prepay or pay in full any loan without penalty. AFSC loans are generally secured by land, buildings, and equipment.

ALBERTA FARM LOAN PROGRAM (AFLP)

The AFLP provides access to a consistent source of capital with competitive interest rates and flexible terms and conditions to individuals and companies involved in primary agriculture in Alberta. The program was enhanced in 2007, to enable producers to borrow and invest in an agribusiness enterprise. A unique feature of the AFLP is an incentive which offers an interest rate reduction to qualifying borrowers up to a maximum of five years.

ALBERTA DISASTER ASSISTANCE LOAN PROGRAM (ADALP)

ADALP was designed as a stand-by emergency response loan program. It is intended to assist eligible primary producers who have suffered an agricultural disaster, helping them maintain or regain viability. The maximum loan of \$1 million can be used to restore working capital and financial viability to an operation through

flexible terms and a preferred interest rate of five per cent for a maximum period of 10 years.

COMMERCIAL LOAN PROGRAM

The Commercial Loan Program provides an alternative source of loan capital to individuals and businesses involved in commercial enterprises in Alberta. This program promotes economic growth for most sectors and industries as well as the general growth and diversification of Alberta's economy. With a maximum loan of \$5 million, participants take advantage of competitive fixed interest rates in addition to flexible terms and conditions.

VALUE ADDED & AGRIBUSINESS PROGRAM (VAAP)

We continued our support of the Value Added and Agribusiness industries through this unique loan program, which provides innovative financing solutions with reasonable interest rates and flexible terms and conditions. Business owners can use VAAP loans to start, expand, purchase, or upgrade facilities, equipment or other capital assets. The VAAP also covers working capital expenditures, including training costs that support new or expanded products or services, and change of ownership.

LOAN GUARANTEE PROGRAM

This program enables eligible farm or commercial applicants to obtain financing from other financial institutions in situations supported by a loan guarantee from AFSC. In addition to standard guarantees to support a loan, AFSC can also arrange guarantees to support a letter of credit, bid bonds or performance guarantees.

CAPITAL SOURCING

The Capital Sourcing Program encourages the expansion of agriculture, agribusiness, value added enterprises and commercial operations in Alberta by providing our customers direct access to capital through other lenders. AFSC works with other financial institutions that are able to provide financial support to farm and business owners. This ensures our customers get the capital they need to develop or expand their business. Capital sourcing services can be provided as a stand-alone fee-based service or in conjunction with our other loan programs.

AFSC lending programs are funded by interest and fee revenue generated from our borrowers, and through contributions received from the GOA.

ALBERTA'S AGRICULTURE INDUSTRY: CROP YEAR 2008

In 2008 producers were faced with volatile markets, input costs and weather. Prices for many crops reached record levels through the summer but returned to normal levels in the fall. The year also brought dramatic changes in economic conditions, affecting grain, livestock and other producers in Alberta. Livestock producers struggled as the prices for their livestock fell or remained low.

Energy based inputs (fuel and fertilizer) tracked along with oil prices and reached record highs in the spring and summer of 2008. As a result producers saw their direct expenses increase significantly. Producers have since seen the price of these inputs return to more normal levels as oil prices fell.

The 2008 crop went into the ground later than normal in many areas because of wet conditions in the spring. During the growing seasons moisture was adequate in most areas with the exception of the Grande Prairie, Edmonton and the central east part of the province. 2008 however, brought with it the record hail damage. AFSC paid out in excess of \$265 million under the hail endorsement and the straight hail program. Two large and severe storms in southern Alberta on July 10 and July 15 resulted in losses in excess of \$120 million.



Hail and cool weather resulted in delayed crop development and delayed harvest for the 2008 growing season. By the time 90 per cent of the crop was in the bin, it was the first week of October. While drought was seen in some areas, most areas saw good moisture throughout the growing season and a later than average fall frost. This resulted in above average crop yields and quality.

Alberta seed potato producers were affected by late 2007 border closures after detection of the potato cyst nematode, a quarantine pest that can eventually reduce yields of potatoes and other host crops, such as tomatoes.

The ability of producers to manage risk is affected by price volatility. The increase in the price of feed grains had significant consequences on cattle and hog producers. Canola and wheat prices were also up and down throughout the growing season. Fertilizer prices spiked in the fall of 2008, and leveled off somewhat in early 2009, but still rose faster than the crop prices.

ASSISTANCE FOR ALBERTA'S AGRICULTURE SECTOR

The following core programs assisted producers and industry this year, as part of Growing Forward. AFSC plays an important role especially in times of economic hardship. We continually seek new and innovative ways to provide our customers with the financial and risk management tools they need to recover from the crisis and disasters.

AGRIStABILITY

AFSC delivered its AgriStability payments to Alberta producers affected by a wide variety of factors. Claims are normally processed on a one year lag basis. Claims (for the 2007 claim year) processed to March 31, 2009 amounted to \$64 million in assistance with an additional \$23 million of provincial top ups being paid.

AGRIINSURANCE

Over 13,000 producers carried multi-peril crop insurance on more than 12.5 million acres of annual crop production insured in 2008, up from 11.7 million acres in 2007. Increased commodity prices in 2008 resulted in a record \$2.7 billion in risk insured on annual crops, compared to \$2.2 billion in 2007, and \$1.6 billion in 2006.

Most 2008 claims arose from drought and hail resulting in 3,078 claims of \$63 million with a loss to premium ratio of 19.6 per cent. In 2007, losses were paid on 5,645 contracts for \$87.9 million with a loss to premium ratio of 42.9 per cent.

For 6.7 million acres of insured production on perennial crops, there was a further \$89.1 million in risk insured. In the 2008 crop year, insured acreage increased to 6.7 million acres from 6.2 million in 2007.

In 2008, losses were paid on 2,318 perennial contracts for \$6.6 million with a loss-to-premium ratio of 38.6 per cent. This compares to 2007, when losses were paid on 2,361 contracts for \$13.3 million with a loss to premium ratio of 79.5 per cent.

For the 2008 crop year, 6.2 million acres were insured under SAT and MDI, compared to 5.7 million acres in 2007. Hay and pasture claims (including Hay, Export Timothy, SAT MDI and MDE) totalled \$6.6 million, about half the \$13.3 million paid for 2007 claims. In 2008, there were \$5.3 million in payments under both SAT and MDI when compared to 2007 (\$12.6 million). Many areas of Alberta in 2007 experienced hot, dry conditions in June, July and August, compared to the cooler year overall in 2008.

Using automated adjusting practices, AFSC has been able to respond to hail claims more quickly and efficiently than before. Hail claims were completed in late September this year, after many staff worked extra days throughout the summer to enhance timely delivery. Many of our 146 hail adjusters worked seven days per week to catch up with damage from tremendous storms in many areas, and extra staff workload was involved in processing over 9,400 total hail inspection requests, over 7,700 of these resulting in payments, slightly more than 2007. Adjusters are equipped with hand-held computers that help them calculate claims immediately in the field. This saves hours of paperwork and a return trip to obtain the farmer's signature.

Significant hail damage, combined with the higher crop values due to strong commodity prices, caused increased HE payments compared to the previous year. There were 3,928 HE contracts with claims totalling \$191.6 million in 2008 with a loss to premium ratio of 178.4 per cent. This compares to 3,962 HE contracts with claims totalling \$137.2 million in 2007 with a loss to premium ratio of 206.3 per cent.

The hail damage also impacts Straight Hail Insurance with 2,750 contracts with claims in 2008 totalling \$73.6 million with a loss to premium ratio of 163 per cent. This compares to 2,209 contracts with claims in 2007 totalling \$40.3 million with a loss to premium ratio of 122.7 per cent.

For 2008, AFSC implemented changes in the method for setting yield coverage. The new method is called Individual Coverage and promotes and rewards best farm management practices by creating a direct link between an individual's production history for a crop and the yield coverage offered for that crop. This resulted in 80 per cent of producers receiving the same or higher coverage.

In 2008, Wildlife Damage Compensation Program payments were less than the previous year. Farmers were able to harvest their crops before the snow came, reducing over-winter crop damage caused by wildlife. There were 679 wildlife and waterfowl damage claims in 2008 totalling \$4.3 million, compared to 825 claims totalling \$7.6 million in 2007.

AGRIRECOVERY

AFSC delivered its first AgriRecovery payments to Alberta seed potato producers affected by border closures after detection of the potato cyst nematode. In 2008 AFSC developed and implemented a response for a number of seed potato producers affected by border closures. This response paid \$16 million to 39 affected producers.

ADDITIONAL PROGRAMS

In our efforts to meet the needs of Alberta's agriculture sector AFSC has researched and implemented a number of new initiatives during the year in addition to the core programs offered.

This year Legislative amendments were made to the *Agriculture Financial Services Act* allowing AFSC to expand its insurance from crops to all agriculture products. This allowed AFSC to design a price insurance product for fed cattle and to cover overwintering death losses for honey bees. Both of these products are planned for launching in mid 2009.

ALBERTA FARM RECOVERY PLAN II

To provide interim stability while the longer term Alberta Livestock and Meat Strategy was implemented, the Alberta Farm Recovery Plan II (AFRP II) was developed and delivered by AFSC this year to livestock producers, and fully funded by the GOA.

AFSC was responsible for delivering \$300 million in provincially funded benefits through AFRP II, announced in June 2008 in conjunction with the Alberta Livestock and Meat Strategy. AFSC delivered AFRP II in two installments utilizing existing AgriStability staff, and by March 31, 2009, over 25,000 producers had received financial assistance.



LENDING

AFSC continued to grow its lending business throughout Alberta's farm and business communities. New direct loans totalled \$282.5 million for the year ending March 31, 2009, as compared to \$280 million for the previous year.

The total amount of investment leveraged by loans is an important indication of AFSC's contribution to growth in Alberta. The 2008-09 lending investment contributed significantly to the Alberta economy. By fiscal year end, the \$283.8 million in lending translated to leveraged investment, or total project dollars, of more than \$508.6 million.

In 2008-09, the loan portfolio reached \$1.2 billion, as compared to \$1.1 billion for the previous year. Total arrears on the lending portfolio continue to be well managed. Customers give our services high ratings. When surveyed by an independent firm this past year, more than 90 per cent of customers agreed that AFSC financing has helped establish or grow their farm or business.

We also obtained legislative changes to increase lending limits to provide enhanced access to capital for primary producers and commercial enterprises. Cumulative individual loan limits increased to \$5 million and limits for projects increased to \$25 million.

During the past fiscal year, AFSC provided 197 commercial loans to Alberta businesses totaling \$50 million. These loans were leveraged with investors' and other lenders' funds for total project values of \$123.6 million.

The commercial loan portfolio has grown to \$198 million. The portfolio continues to perform well and our efforts contributed to a significant reduction in total commercial loan arrears on a year over year basis.

During the past fiscal year, AFSC authorized 78 loans under the Value Added and Agribusiness program for \$29.1 million with project dollars totaling \$132.7 million. Clients and stakeholders acknowledge the positive impact of this loan program on these important segments of the Alberta economy.

During the past year, ASFC continued to build strong relationships with other financial institutions. The Corporation provided capital sourcing services to 26 borrowers for projects totaling \$12.8 million.

FINANCIAL HIGHLIGHTS

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

We are pleased to report that 2008-09 has been yet another successful year of operations for AFSC. The Corporation recorded revenue of \$1.293 billion and expenses of \$1.130 billion resulting in a surplus of \$163.5 million. The surplus was mainly due to lower crop losses than premiums for the year. The surplus balance carried over increased to \$925.6 million.

The surplus balance of \$833 million in the Crop Insurance Fund is made up of a \$718 million surplus representing the national program, a \$94 million surplus representing Alberta initiatives, and a surplus of \$21 million representing the Crop Reinsurance Fund of Alberta.

ENTERPRISE RISK MANAGEMENT

The business activities of AFSC involve Risk. Risk management is vital to protecting AFSC's customers, business interests and long-term viability. The Corporation has a comprehensive Enterprise Risk Management plan to mitigate identified risks to acceptable levels. The plan ensures that risk-taking activities and practices are appropriate to meet customer needs while fulfilling AFSC's corporate strategy and goals.

The Board of Directors and its Committees have oversight responsibility for the Enterprise Risk Management plan and practices. The Executive Management Team is responsible for managing corporate-wide enterprise risk. Management at all levels is responsible for the ongoing monitoring of risks and implementing appropriate measures to mitigate them.

The following discussion identifies some of the key risks the Corporation faces and how these risks are managed.

STRATEGIC PLANNING

The Board at its annual strategic planning retreat reviews the corporate vision, mission, goals and strategic priorities following an environmental scan. During the planning retreat, the Board also reviews the mandates of the Corporation and its core programs and deals with strategies to address key risks.

CREDIT RISK

Credit risk is the possibility that a debtor will not pay amounts owing to AFSC, thus resulting in a loss. Security requirements for a loan or guarantee depend on the risk involved in each individual operation. Higher security levels are 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. These measures do not eliminate risk, but they do diminish the risk of significant losses. The breakdown of our loan portfolio by business is provided in Note 14 (a) to the financial statements.

AFSC invests surplus funds generated by Production and Hail Insurance operations. To lessen the risk of potential non-realization of investment, funds are invested in bonds of federal or provincial governments or securities of corporations that have superior credit ratings.

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. AFSC mitigates this risk by:

- Providing a rebate for repayments within 90 days from notification of overpayment
- Converting overpayments to an interest-bearing loan with a repayment period of up to 10 years

The Corporation also has a right of offset against payments under AgriStability and other programs such as Production Insurance delivered by AFSC. Where AFSC is not able to recover overpayments from future program payments, the Corporation is committed to recovering the overpayment by pursuing collection through other means.

AFSC provides insurance coverage on crops, effective at the signing of a contract of 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 monitor outstanding premiums and promptly take collection action when required. Insurance contracts are not renewed for future years if premiums for the prior year are outstanding at the time of renewal.

AFSC enters into reinsurance arrangements with private sector reinsurance companies to reduce the Corporation's exposure to insurance program risk. AFSC, through our reinsurance broker, mitigates credit risk related to non-recoverability of reinsurance proceeds from private reinsurance companies. AFSC monitors the concentration of credit risk for the reinsurance contracts within the portfolio. The financial position of each reinsurer is closely evaluated to ensure no significant reliance is placed on any one reinsurer.

INTEREST RATE RISK

Interest rate risk is the impact that future changes in interest rates have on cash flows and fair value of assets and liabilities. To mitigate interest rate risk, AFSC focuses on matching the repayment timing of amounts borrowed with the repayment timing of loans made. AFSC allows its borrowers to repay loans in part or in full at any time without penalty. Repayment of loans by customers in part or in full prior to the contract date is a normal feature of our lending programs. The Corporation strives to minimize the gap between loan repayment and debt repayment on a regular basis. As loan repayments before maturity are not determinable with reasonable certainty, gaps are identified and dealt with when new borrowings are made. At March 31, 2009, there was a reasonable gap between the amount of loan and debt repayments due for periods of one to five years and six to ten years. The gap position as of March 31, 2009 is presented in Note 14 (b) to the financial statements.

AFSC's Investment Policy of surplus funds related to Production Insurance, Hay and Pasture Insurance, and Hail Insurance program operations further mitigates interest rate risk. The investment policy is approved by the Board 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 need to be liquidated to meet financial commitments.

LIQUIDITY RISK

Liquidity risk is the potential for financial loss if AFSC cannot meet its financial commitments for cash. As an integral part of liquidity management, the Corporation uses sound cash management practices through cash flow statements, with the objective of maintaining sufficient funds to meet business needs at all times. AFSC mitigates liquidity risks by retaining adequate bank balances in operating accounts. These accounts yield a reasonable rate of return through the GOA Consolidated Cash Investment Trust Fund. 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. Additionally, the Corporation has access to advances from the GOA to meet short term cash flow needs.

INSURANCE RISK

Insurance risk is the potential for financial loss if insurance claims exceed program premiums and reserves in a year. We mitigate insurance risk by setting premium rates that reflect actuarially sound business principles. Our processes take into account the past results of the program as well as the amount of carried over surplus in the Insurance Fund. The major insurance programs are certified by independent actuarial firms for long-term sustainability and premium setting methodology.

To mitigate risks inherent in the insurance business, the Corporation carries reinsurance for its Crop Insurance risks through reinsurance funds of the federal and provincial governments, described in more detail in Note 2 (e) to the financial statements. A summary of transactions in the two reinsurance funds is under Note 16 to the financial statements.

In order to further mitigate risks inherent in the insurance business, management has secured private sector reinsurance arrangements. This limits the Corporation's exposure to insurance program losses in the event that insurance claims exceed program premiums and reserves.

OPERATIONAL RISK

Operational risk refers to the risk of loss resulting from insufficient or failed internal processes. AFSC's Enterprise Risk Management plan provides a framework and common understanding of risk and mitigation measures. In addition, corporate policies and procedures are in place to ensure adequate internal controls to reduce the exposure to operational risks.

Formal processes are in place to monitor compliance with policies and procedures. Managers oversee operational risk in their respective work areas. Finance, Human Resources, Administrative Services and Information Technology manage operational risks specific to their areas as follows:

- **Business Manager:** operational risks inherent in businesses and processes
- **Finance:** credit, interest rate, liquidity and financial controls
- **Human Resources:** employee recruitment, retention, succession planning and employee discipline
- **Administrative Services:** physical facilities and assets, employee safety and security, corporate liability and business continuity
- **Information Technology:** computer information processing systems, electronic information, security, data integrity, disaster recovery and storage, retrieval, and destruction of electronic information

As part of overall Corporate Enterprise Risk Management, the Internal Audit department plans and conducts operational and functional audits based on risk assessments. This department also examines internal process controls and compliance with policies and procedures regularly. The external auditors review the effectiveness of internal controls annually. Both external and internal auditing groups report their findings to the Audit Committee. The management team takes timely action in addressing the internal and external audit recommendations. Management presents progress reports on implementation of audit recommendations to the Audit Committee periodically.



COMMUNITY INVESTMENT

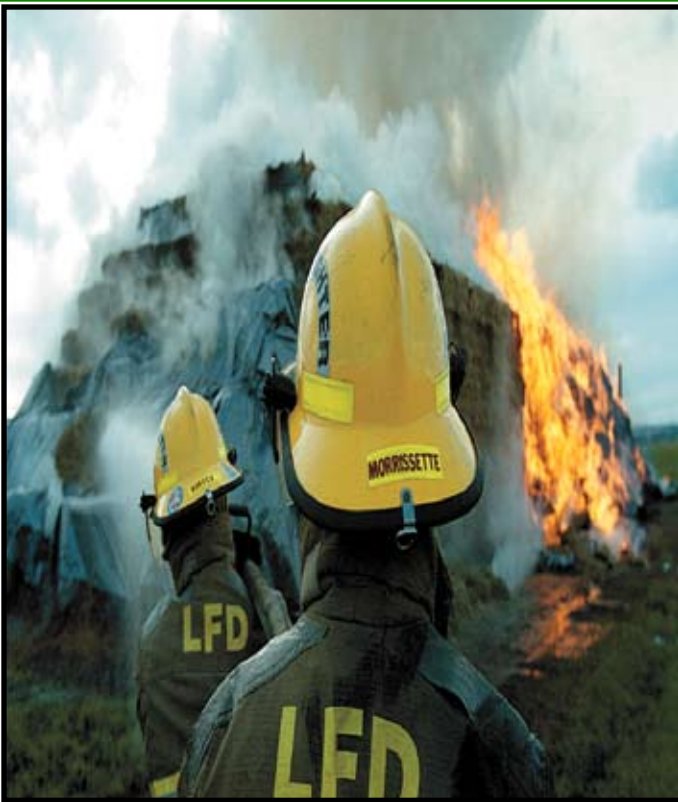
Investing in communities across Alberta is a vital part of who we are and providing the necessary grassroots support for communities across this great province is the cornerstone of AFSC. In good times and in bad, AFSC understands it has a responsibility to continually promote and enable community growth and development. Even though AFSC has an unwavering desire to provide customer service excellence, it is equally passionate about supporting the communities in which we work and live.

AFSC's support reaches much further than the 50+ offices we have across the province. In fact, directly and indirectly, AFSC's contributions to communities touch a majority of communities across this province. Let's take a look at how AFSC and our staff invested time and money in 2008/2009.

The majority of AFSC's community investment initiatives was injected directly into community organizations and their events. This included organizations such as the Chamber of Commerce, Rotary, 4-H, the Lions Club, the Legion, various senior's organizations, food banks, local agricultural societies, fire fighters and schools. Events supported consisted of tradeshow and conferences, agriculture tours and seminars, farm safety days, community suppers, farmer appreciation days, local community events, and educational events including awards and scholarships.

The Canadian Foodgrains bank is another important organization that AFSC supports. The Canadian Foodgrains Bank was established in 1983 as a practical way for Canadian farmers to share their abundant harvests with the less fortunate of the world. Its primary purpose is to serve as a centralized grain banking and distribution system to alleviate world hunger. In 2008/2009 AFSC sponsored 22 locations in Alberta which totaled 3,243 acres. AFSC supported these efforts by providing Straight Hail insurance free of charge on crops donated by partnering communities in Alberta.

AFSC as an organization supports employees volunteering for local community events. In 2008/2009, AFSC employees were actively involved in supporting communities by volunteering in excess of 350 hours. That is roughly seven hours per week.



STATISTICAL SUMMARIES

as at March 31, 2009
INCOME STABILIZATION

AGRIStABILITY

Claim Year	Number of Claims Processed	Number of Claims with Payment	Payment \$ 000,000	Average Total Payment \$ (excluding Alberta Initiatives)
2007	24,647	3,553	87	24,486
2006	31,374	11,614	243	20,923

ALBERTA FARM RECOVERY PLAN (AFRP)

Year	Number of Claims with Payment	Payment \$ 000,000
2008		
AFRP II a	25,113	\$211
AFRP II b	17,288	\$71
AFRP II Total		\$282
2007		
AFRP	16,558	\$274

PRODUCTION INSURANCE FOR ANNUAL CROPS (AgrilInsurance)

Crop Year	Number of Contracts	Acres ,000	Risk ,000	Premium ,000	Contracts with losses	Loss \$,000	Loss/Premium Per cent
CROP INSURANCE							
2008	13,180	12,521	2,674,555	321,738	3,078	63,030	19.6%
2007	12,901	11,668	2,175,440	205,074	5,645	87,886	42.9%

HAIL ENDORSEMENT

2008	11,222	10,975	2,415,017	107,408	3,928	191,642	178.4%
2007	10,682	9,788	1,932,603	66,503	3,962	137,188	206.3%

SPRING PRICE ENDORSEMENT

2008	883	467	98,709	5,929	56	247	4.2%
2007	2,740	1,842	343,158	18,439	0	0	0.0%

REVENUE INSURANCE COVERAGE

2008	883	467	98,709	n/a	0	0	n/a
2007	2,740	1,842	343,158	n/a	0	0	n/a

Totals are for crop insurance, processing vegetables, honey, corn heat unit insurance and silage/greenfeed insurance programs

PRODUCTION INSURANCE FOR PERENNIAL CROPS (AGRIINSURANCE)

Crop Year	Number of Contracts	Acres ,000	Risk \$,000	Premium \$,000	Contracts with Losses	Loss \$,000	Loss/ Premium Per cent
HAY INSURANCE (INCLUDING EXPORT TIMOTHY HAY)							
2008	2,319	476	27,686	5,745	353	1,141	19.9%
2007	2,560	520	44,484	6,539	177	560	8.6%
SATELLITE YIELD INSURANCE (Agrilnsurance)							
2008	924	3,309	23,288	5,302	236	1,052	19.8%
2007	917	3,195	33,26	4,454	691	5,255	118.0%
HAY INSURANCE - MOISTURE DEFICIENCY ENDORSEMENT (MDE)							
2008	600	144	1,458	179	279	183	102.1%
2007	422	99	1,310	178	116	198	111.2%
MOISTURE DEFICIENCY INSURANCE (PASTURE)							
2008	2,661	2,930	36,680	5,992	1,450	4,271	71.3%
2007	2,506	2,518	47,958	5,604	1,377	7,332	130.9%
HAIL INSURANCE							
2008	7,565	6,582	763,661	45,136	2,750	73,574	163.0%
2007	6,854	5,520	581,269	32,825	2,209	40,265	122.7%

WILDLIFE DAMAGE COMPENSATION AND EXCRETA PROGRAMS

Crop Year	Number of Wildlife Losses	Wildlife Loss \$,000	Number of Waterfowl Losses	Waterfowl Loss \$,000	Total Number of Losses	Total Loss \$,000
2008	492	3,325	187	975	679	4,300
2007	500	5,257	325	2,323	825	7,580

LENDING	Authorizations 2008-2009		Authorizations 2007-2008	
	No.	\$M	No.	\$M
Direct Loans				
Farm Loans	1,172	203.4	1,292	213.9
Commercial Loans	275	79.1	242	66.1
Total Direct Loans	1,447	282.5	1,534	280.0
Guarantees				
Guaranteed Loans	7	1.3	4	1.4
Corporate Grand Total	1,454	283.8	1,538	281.4

In addition to the above, for 2008-2009, AFSC also facilitated 26 capital sourcing projects with a total investment value of \$13 million, with no loans or guarantees from AFSC.

(In the previous 2007-08 year, 27 projects were facilitated for \$40 million)





The accompanying financial statements of Agriculture Financial Services Corporation and all other information relating to the corporation contained in this annual report are the responsibility of management. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles, using methods appropriate for the industry in which the corporation operates and 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 Alberta Auditor General is responsible to express a professional opinion on these financial statements. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, composed of Directors who are not employees of the corporation. The Audit Committee meets regularly with management, the internal auditors and the external auditors to discuss auditing and financial matters, to gain assurance that management is carrying out its responsibilities, and to review and approve the financial statements. The internal and external auditors have full and free access to the Audit Committee.

A handwritten signature in black ink, appearing to read "Brad Klak", written over a horizontal line.

Brad Klak
President and Managing Director

A handwritten signature in black ink, appearing to read "R. (Krish) Krishnaswamy", written over a horizontal line.

R. (Krish) Krishnaswamy, B. Comm., C.M.A.
Vice-President , Finance and Corporate Affairs



To the Board of Directors of the Agriculture Financial Services Corporation

I have audited the statement of financial position of the Agriculture Financial Services Corporation as at March 31, 2009 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Original signed by Fred J. Dunn

Edmonton, Alberta
May 22, 2009

FCA
Auditor General

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2009

(dollars in thousands)

	<u>2009</u>	<u>2008</u>
		(Restated) (Note 2(k))
ASSETS		
Cash	\$ 389,660	\$ 267,451
Accounts receivable (Note 4)	38,527	79,724
Due from Province of Alberta	73,446	26,603
Due from Government of Canada	188,349	171,497
Loans receivable (Note 5)	1,173,185	1,073,056
Investments (Note 6)	468,996	438,592
Property and equipment (Note 7)	41,033	35,350
	<u>\$ 2,373,196</u>	<u>\$ 2,092,273</u>
LIABILITIES AND SURPLUS		
Accounts payable and accrued liabilities	\$ 15,900	\$ 13,912
Indemnities payable (Note 8)	299,972	303,183
Due to Crop Reinsurance Fund of Canada for Alberta	625	210
Allowance for losses on loan guarantees (Note 13)	511	652
Notes payable (Note 9)	1,123,448	1,006,719
Unearned revenue (Note 10)	7,168	6,576
	<u>1,447,624</u>	<u>1,331,252</u>
Surplus (Note 3c)	925,572	762,021
	<u>\$ 2,373,196</u>	<u>\$ 2,093,273</u>

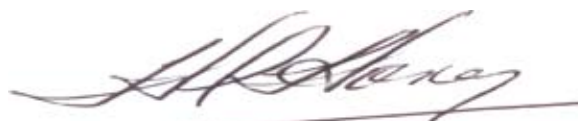
Contingencies and commitments (Note 13)

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

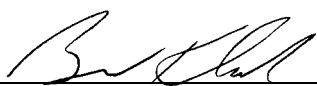
Approved by the Board:



Barry Holmes, Chair of Audit Committee



Harry Haney, Chair of the Board



Brad Klak, President and Managing Director

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2009

(dollars in thousands)

	<u>2009</u>		<u>2008</u>
	<u>Budget</u> (Note 3(a))	<u>Actual</u> (Schedule 1)	<u>Actual</u> (Restated) (Note 2(k))
Revenue:			
Premiums from insured persons	\$ 170,774	\$ 209,465	\$ 146,101
Interest	80,762	72,769	67,598
Contribution from Province of Alberta	295,630	689,166	261,816
Contribution from Government of Canada	322,353	268,421	94,950
Investment income	29,843	31,202	37,196
Fees and other income	13,120	22,370	12,907
	<u>912,482</u>	<u>1,293,393</u>	<u>620,568</u>
Expense:			
Indemnities	657,665	974,870	421,204
Administration (Schedule 2)	75,595	76,592	73,242
Interest	53,262	57,287	46,488
Reinsurance	9,245	12,872	15,698
Farm loan incentives	2,635	2,617	3,574
Provision for doubtful accounts and for losses (Note 12)	6,062	3,124	6,190
Selling commissions	1,724	2,480	2,122
	<u>806,188</u>	<u>1,129,842</u>	<u>568,518</u>
Surplus for the year	<u>\$ 106,294</u>	163,551	52,050
Surplus at beginning of year		<u>762,021</u>	<u>709,971</u>
Surplus at end of year		<u>\$ 925,572</u>	<u>\$ 762,021</u>

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2009

(dollars in thousands)

	<u>2009</u>	<u>2008</u>
Operating transactions:		
Surplus for the year	\$ 163,551	\$ 52,050
Non-cash items included in Surplus	8,241	14,205
Changes in assets and liabilities relating to operations	<u>(25,969)</u>	<u>(88,616)</u>
Net cash provided (utilized) by operating activities ⁽¹⁾	<u>145,823</u>	<u>(22,361)</u>
Investing transactions:		
Proceeds from repayments of loans receivable and sale of properties	192,742	179,785
Loan disbursements	(290,278)	(253,805)
Purchase of investments	(296,771)	(285,766)
Proceeds on disposal of investments	268,371	270,644
Purchase of property and equipment	(11,515)	(9,469)
Proceeds on disposal of property and equipment	<u>16</u>	<u>32</u>
Net cash utilized by investing activities	<u>(137,435)</u>	<u>(98,579)</u>
Financing activities:		
Borrowing from the Province of Alberta	113,861	791,031
Repayment of borrowing from the Province of Alberta	<u>(40)</u>	<u>(718,660)</u>
Net cash provided by financing activities	<u>113,821</u>	<u>72,371</u>
Net increase (decrease) in cash from operating, investing and financing activities	122,209	(48,569)
Cash at beginning of year	<u>267,451</u>	<u>316,020</u>
Cash at end of year	<u>\$ 389,660</u>	<u>\$ 267,451</u>

⁽¹⁾ Net cash provided by operating activities includes \$54,964 (2008 \$43,940) of interest paid.

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

AGRICULTURE FINANCIAL SERVICES CORPORATIONNOTES TO THE FINANCIAL STATEMENTSYEAR ENDED MARCH 31, 2009

(dollars in thousands)

Note 1 Authority and Purpose

The Agriculture Financial Services Corporation (the "Corporation") operates under the authority of the *Agriculture Financial Services Act*, Chapter A-12 RSA 2000.

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

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements are prepared primarily in accordance with generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

(a) Cash

Cash consists of balances in accounts with the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta to provide competitive interest income while maintaining maximum security and liquidity of funds.

(b) 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 straight-line method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

(c) Notes Payable

Notes payable are carried at amortized cost. Premiums and discounts on notes payable are amortized to interest expense using the effective yield method over the period to maturity.

(d) Fair Value of Assets and Liabilities

Because of the relatively short period to maturity, short-term financial instruments are valued at cost and adjusted for any applicable allowance for doubtful accounts. This is considered to be equivalent to fair value and applies to Cash, Accounts receivable, Due from Province of Alberta, Due from Government of Canada, Accounts payable and accrued liabilities, indemnities payable and Due to Crop Reinsurance Fund of Canada for Alberta. Fair values of Investments and Notes payable are disclosed in their respective notes.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(e) Reinsurance

The Corporation carries reinsurance to cover production insurance risks through the 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. 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 production insurance surplus of the Corporation. Contributions to and withdrawals from the Funds are made in accordance with terms and conditions of the agreement (see Note 16). In addition, the Corporation carries reinsurance through private insurance companies. Amounts recoverable from private reinsurers on premiums and indemnities are recorded in Accounts receivable.

Reinsurance recoveries are not netted against indemnities; they are included in fees and other revenue. Reinsurance expenses are not netted against premiums from insured persons or contributions from the Province and Government of Canada; they are separately disclosed under expenses.

(f) Loan Discounting

Loans made under the Alberta Disaster Assistance Loan Program, Alberta Farm Income Disaster Program, and amounts previously deferred under the Indexed Deferral Plan are discounted when they involve significant concessionary elements. The amounts discounted are being amortized to revenue over the lives of the concessionary terms.

(g) Revenue Recognition

All revenues including Contributions from the Government of Alberta and Canada are recognized on an accrual basis. For the Canadian Agriculture Income Stabilization (CAIS) program and AgriInvest and AgriStability programs, government contributions are based on program benefit payments to producers. For production insurance programs, it is based on premiums invoiced to producers.

Interest revenue on loans receivable is recognized on an accrual basis unless the ultimate collectability of the loan is in doubt. When a loan is classified as impaired, interest revenue is no longer recognized. An impaired loan is a loan in which there is risk of loss to the Corporation for full and timely collection of the debt. Impairment may be due to a security deficiency, inadequate cash flow, economic factors in a specific segment of the industry or a catastrophic event.

Loan fees are recognized when received or at the time of loan disbursement. Other fees are recorded when the Corporation completes the applicable service.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(h) Pensions

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

(i) Provision for Losses on Loans and Guarantees

Provisions are established for specifically identified potential losses on loans and guarantees. When a loan is identified as impaired, a specific provision is established. Specific provisions are established by reducing the recorded investment in the loan by the discounted fair value of the security and the estimated costs to collect. Specific provisions are determined in this manner because the amounts and timing of future cash flows cannot be estimated with reasonable reliability. The provision for doubtful accounts is adjusted for the change in the present value of the security held.

In addition to the specific provision, the Corporation establishes a general allowance for doubtful accounts not meeting the specific provision criteria. The general allowance is management's estimate of loss on loan balances based on assessed risk for each account. Risk for each account is determined based on credit risk score, arrears, certain amendments to loan terms and shortfalls of security covering loan balances.

(j) Transactions with Related Parties

The Province of Alberta and the Government of Canada significantly influence the programs delivered by the Corporation and are major contributors to the funding of the programs. Therefore, both governments are considered related parties. All related party transactions with the Province and the Government of Canada have been recorded at the amount of consideration paid or received as agreed to by the related party (see Note 15).

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(k) AgriInvest and AgriStability Program

Indemnities and administration expenses for the AgriStability program and corresponding contributions from the Governments of Canada and Alberta are recorded at 100% because the program is delivered by the Corporation. Indemnities and administration expenses under the AgriInvest program and corresponding contributions are recorded at 40% reflecting the Government of Alberta's share of program payments and costs because the program is delivered by Agriculture and Agri-Food Canada. In 2009, Agriculture and Agri-Food Canada started to deliver this program necessitating the change in accounting. The change in accounting and disclosure for indemnities and administration expenses for the AgriInvest program has been applied retroactively. The Statement of Financial Position at March 31, 2008 and the Statement of Operations for the year ended March 31, 2008 have been restated accordingly.

	<u>Previously Reported</u>	<u>Restated</u>
Statement of Financial Position		
Due from Government of Canada	\$ 212,704	\$ 171,497
Indemnities Payable	344,390	303,183
Statement of Operations		
Contribution from Government of Canada	136,157	94,950
Indemnities	462,411	421,204

Note 3 Financial Structure

(a) Budget

The Board of Directors approved the Corporation's budget in September 2007. Provincial funding for the approved budget of \$295,630 was authorized by the Legislative Assembly. An additional contribution of \$392,519 towards the Alberta Farm Recovery Programs was approved by the Legislative Assembly during the year.

(b) Crop Fund Balance Restriction

In accordance with the Federal/Provincial Agricultural Policy Framework Implementation Agreement, the crop insurance fund is restricted to being used for production insurance purposes.

(c) Other Revenue and Expenses

The Other column in the Schedule of Operations includes the wildlife program, the cattle price insurance program and consulting fees and expenses that are not attributable to any of the programs disclosed in the Schedule.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 4 Accounts Receivable

	2009	2008
Canadian Agricultural Income		
Stabilization program:		
Overpayments and advances	\$ 34,016	\$ 69,572
Administration fees	3,104	4,680
Premiums from insured persons:		
Production insurance program	9,392	8,589
Hail insurance program	530	177
Prepaid expenses	1,328	1,216
Other	291	2,151
	48,661	86,385
Less allowances for doubtful accounts (Note 12)	(10,134)	(6,661)
	\$ 38,527	\$ 79,724

CAIS overpayments are non-interest bearing until December 31, 2008. If the overpayment is not repaid or converted to a loan, the Corporation will pursue collection. Collection will include the recovery of the overpayment from future payments under the programs delivered by the Corporation as well as programs administered by the Province of Alberta and Government of Canada.

The allowance for doubtful accounts of \$10,134 (2008 \$6,661) for estimated losses on premiums receivable and overpayments is also subject to measurement uncertainty. The allowance estimate is based on an assessment of the ability to collect the outstanding balance.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 5 Loans Receivable

Loans receivable are comprised of the following:

	2009			2008
	Farm	Commercial	Total	Total
Recorded investment	\$ 976,287	\$ 197,731	\$ 1,174,018	\$ 1,078,149
Specific allowance	(735)	(11,516)	(12,251)	(12,680)
General allowance	(11,247)	(973)	(12,220)	(14,588)
	<u>964,305</u>	<u>185,242</u>	<u>1,149,547</u>	<u>1,050,881</u>
Accrued interest	24,165	1,056	25,221	24,451
Accrued incentives	(1,090)	-	(1,090)	(1,522)
Loan discounts	(493)	-	(493)	(754)
Net carrying value	<u>\$ 986,887</u>	<u>\$ 186,298</u>	<u>\$ 1,173,185</u>	<u>\$ 1,073,056</u>

Impaired loans included in the preceding schedule:

	2009			2008
	Farm	Commercial	Total	Total
Recorded investment	\$ 898	\$ 13,164	\$ 14,062	\$ 22,403
Specific allowance	(735)	(11,516)	(12,251)	(12,680)
Net carrying value	<u>\$ 163</u>	<u>\$ 1,648</u>	<u>\$ 1,811</u>	<u>\$ 9,723</u>

The impaired loans balance includes property held for sale which has been acquired as a result of foreclosures, quit claims and other actions. There is a specific allowance of \$2,330 (2008 \$2,146) on property balances outstanding of \$2,799 (2008 \$2,591).

Included in the above loans receivable balance are loans with concessionary terms which, before discounting, have principal amounts outstanding of:

	2009	2008
Alberta Disaster Assistance Loan Program	\$ 24,886	\$ 29,742
Alberta Farm Income Disaster loans	8,949	12,949
Indexed Deferral Plan	77	341
	<u>\$ 33,912</u>	<u>\$ 43,032</u>

Included in Loans receivable is a specific allowance of \$12,251 (2008 \$12,680) and a general allowance of \$12,220 (2008 \$14,588) that are subject to measurement uncertainty. The amount established for specific and general allowances of \$24,471 to cover estimated losses on loans (see Note 2(i)) could change substantially in the future, if factors considered by management in establishing these estimates were to change significantly.

Loans Receivable is secured by tangible assets consisting predominantly of land followed by building, equipment and other assets. The estimated values of such tangible securities are \$2,089,431 (2008 \$1,996,813)

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 5 Loans Receivable (continued)

Fair values of loans receivable are not disclosed. Loans receivable consists of developmental loans with uncommon terms such as interest rate rebates/incentives, concessionary interest rates, provision for prepayments with no penalties, fixed interest rates with longer terms and loans with relatively higher financial risks. Determining the fair values of loans receivable with sufficient reliability is not practical due to the absence of verifiable information from established financial markets for such loans.

Note 6 Investments

	2009	2008
Bonds and debentures:		
Government of Canada, direct and guaranteed	\$ 172,113	\$ 228,040
Other provincial direct and guaranteed	128,052	46,424
	300,165	274,464
Corporate securities	163,366	159,648
	463,531	434,112
Accrued interest	5,465	4,480
	\$ 468,996	\$ 438,592

The fair value of investments at March 31, 2009 is \$475,504 (2008 \$443,770). Fair value is based on quoted market prices including accrued interest.

Note 7 Property and Equipment

	Land Infinite	Building 25 - 40 years	Furniture and Fixtures 10 years	Computer Equipment and Software 2 - 10 years	2009 Totals	2008 Totals
Cost						
Beginning of year	\$ 347	\$ 9,793	\$ 4,551	\$ 57,458	\$ 72,149	\$ 67,376
Additions	-	166	1,012	10,337	11,515	9,469
Disposals and writedown	-	-	(984)	(704)	(1,688)	(4,696)
	347	9,959	4,579	67,091	81,976	72,149
Accumulated amortization						
Beginning of year	-	2,601	3,545	29,653	35,799	32,981
Amortization expense	-	355	317	6,145	6,817	7,382
Disposal and writedown	-	-	(978)	(695)	(1,673)	(4,564)
	-	2,956	2,884	35,103	40,943	35,799
Net book value at						
March 31, 2009	\$ 347	\$ 7,003	\$ 1,695	\$ 31,988	\$ 41,033	
Net book value at						
March 31, 2008	\$ 347	\$ 7,192	\$ 1,006	\$ 27,805		\$ 36,350

Computer equipment and software costs include \$12,203 (2008 \$4,742) of costs incurred that are not amortized because they are still in the development stage. Amortization is recorded on a straight-line basis over the estimated useful lives of the assets.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 8 Indemnities Payable

	<u>2009</u>	<u>2008</u> (Restated) (Note 2(k))
AgriInvest and AgriStability		
and related programs (previously CAIS program)	\$ 290,561	\$ 297,702
Production insurance	7,145	4,802
Wildlife compensation	1,617	212
Hail insurance	<u>649</u>	<u>467</u>
	<u>\$ 299,972</u>	<u>\$ 303,183</u>

Estimated indemnities payable of \$290,561 and corresponding contributions and receivables from the Province of Alberta and Government of Canada for the AgriInvest and AgriStability programs (replacement of CAIS, effective the 2007 claim year) are subject to measurement uncertainty because they could change significantly in the future, if factors considered by management in establishing the estimates were to change significantly.

AgriInvest and AgriStability indemnities payable includes estimated payments for the 2008 claim year of \$185,150 for the vast majority of claims that have not been received yet because the deadline for submission of complete information is after the end of the fiscal year. The program payments are triggered when the participants claim year program margin falls below their support level. Indemnities payable includes 100% estimated payments of \$202,517 for claims under the AgriStability program and only the Government of Alberta's 40% share of claims under the AgriInvest program of \$45,610.

The two factors impacting estimated indemnities payable for the 2008 claim year are the number of participants and estimated program margins. The estimated number of participants for the 2008 claim year is based on the number of farm operations participating in the program during the 2007 claim year. The estimated program margins are based on forecasted changes in eligible income and expenses between 2007 and 2008. Based on historical experience of variability between forecasts and actual results of key assumptions, the estimated indemnities for the 2008 claim year of \$196,080 would range from \$165,496 to \$226,634.

Indemnities payable includes estimated payments of \$75,298 for claims received but not processed for the 2007 and prior claim years (2008 \$72,176 for the 2006 and prior claim years). The estimates for the 2007 claim year are based on the number of claims received but not yet processed and the estimated average payment per claim. Indemnities payable also includes estimated payments of \$30,113 for related programs (2008 \$65,920). The related programs were approved by the Government of Alberta for the 2006 and 2007 claim years. The estimate is based on historical payment ratios for claims processed.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 9 Notes Payable

Notes payable to the Province of Alberta are comprised of the following:

Remaining Term to Maturity	Effective Interest Rate	2009	Effective Interest Rate	2008
Within 1 year	0.38%	\$ 40,000	2.25% - 3.75%	\$ 140,000
1 to 5 years	3.25% - 7.64 %	454,957	3.43% - 7.64%	319,877
6 to 10 years	4.21% - 5.93%	301,672	4.21% - 6.52%	377,084
Over 10 years	4.43% - 4.97%	313,294	4.43% - 5.12%	159,142
Accrued interest		15,108		12,934
Unamortized discount		(1,583)		(2,318)
		<u>\$ 1,123,448</u>		<u>\$ 1,006,719</u>

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

Year ending March 31, 2010	\$ 89,438
2011	\$ 278,687
2012	\$ 84,425
2013	\$ 46,053
2014	\$ 83,393

The approximate fair value at March 31, 2009 is \$1,174,308 (2008 \$1,047,981). Fair value is an approximation of market value to the holder.

Note 10 Unearned Revenue

Unearned revenue is comprised of \$7,168 (2008 \$6,576) of premiums received from producers for production insurance programs relating to the next fiscal year.

Note 11 Pensions

The Corporation participates in the multi-employer Management Employees Pension Plan and Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of \$3,251 for the year ended March 31, 2009 (2008 \$2,821).

At December 31, 2008, the Management Employees Pension Plan reported a deficiency of \$568,574 (2007 deficiency \$84,341) and the Public Service Pension Plan reported a deficiency of \$1,187,538 (2007 deficiency \$92,509). At December 31, 2008, the Supplementary Retirement Plan for Public Service Managers had a deficiency of \$7,111 (2007 surplus \$1,510). The Corporation's share of these pension plans' surplus or deficiency is not determinable.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 12 Allowances for Doubtful Accounts and for Losses

	Accounts Receivable (Note 4)	Farm Lending Loans Receivable (Note 5)	Commercial Lending Loans Receivable (Note 5)	Loan Guarantees (Note 13)	2009 Total	2008 Total
Allowances at beginning of year	\$ 6,661	\$ 14,264	\$ 13,004	\$ 652	\$ 34,581	\$ 40,953
Provisions	4,479	(2,229)	1,015	(141)	3,124	6,190
Write-offs, net of recoveries	<u>(1,006)</u>	<u>(53)</u>	<u>(1,530)</u>	-	<u>(2,589)</u>	<u>(12,562)</u>
Allowances at end of year	<u>\$ 10,134</u>	<u>\$ 11,982</u>	<u>\$ 12,489</u>	<u>\$ 511</u>	<u>\$ 35,116</u>	<u>\$ 34,581</u>

Note 13 Contingencies and Commitments

Contingent Liability

	2009	2008
Loan guarantees	\$ 13,998	\$ 19,587
Less allowances for losses (Note 12)	<u>(511)</u>	<u>(652)</u>
	13,487	18,935
Legal actions	<u>880</u>	<u>180</u>
Total contingencies	<u>\$ 14,367</u>	<u>\$ 19,115</u>

The majority of loan guarantees relate to loans made by other financial institutions with repayment guaranteed by the Corporation.

Legal actions represent amounts claimed or amounts claimed in excess of what was accrued. The outcome of the legal actions is not determinable at this time.

Commitments

	2009	2008
Approved, undisbursed loans	\$ 43,978	\$ 59,250
Reinsurance	23,090	9,229
Estimated farm loan incentives	4,045	7,400
Operating leases	<u>1,976</u>	<u>740</u>
Total commitments	<u>\$ 73,089</u>	<u>\$ 76,619</u>

The operating lease commitments are for accommodations with terms up to five years.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 14 Credit Risk and Interest Risk

(a) Credit Risk

Credit risk is the risk that a debtor may not pay amounts owing thus resulting in a loss.

The following breakdown of the loan receivables provides an indication of the concentration of credit risk on the loan portfolio. Significant information is provided throughout these statements to disclose other concentrations of credit risk.

	<u>2009</u>	<u>2008</u>
Loans receivable by sector:		
Grain and Oilseeds	\$ 523,574	\$ 469,071
Cattle	379,086	365,791
Other Livestock	62,749	60,404
Manufacturing	50,125	45,599
Accommodations and Other Services	47,439	45,458
Trade - Retail and Wholesale	37,157	31,184
Other	97,526	82,817
Allowance	<u>(24,471)</u>	<u>(27,268)</u>
	<u>\$ 1,173,185</u>	<u>\$ 1,073,056</u>

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 14 Credit Risk and Interest Risk (continued)

(b) Interest Risk

Loans Receivable and Notes Payable

Interest rate risk is the impact future changes of interest rates have on cash flows and fair value of assets and liabilities. The gap position presented in the following table is determined as at the close of business on March 31, 2009. 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 full prior to the contractual maturity date. Therefore, the following position of AFSC Lending Operations may change significantly due to loan customer payment preferences and the Corporation's risk management practices.

	Scheduled Repayment ⁽¹⁾				Not ⁽²⁾ Interest	2009	2008
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Rate Sensitive	Total	Total
Loan balances	\$ 107,438	\$ 366,302	\$ 340,991	\$ 353,592	\$ 4,862	\$ 1,173,185	\$ 1,073,056
Yield ⁽³⁾	5.80%	6.04%	6.21%	5.81%		6.02%	6.05%
Notes payable							
Province of Alberta	\$ 89,438	\$ 492,557	\$ 214,634	\$ 313,294	\$ 13,525	\$ 1,123,448	\$ 1,006,719
Yield ⁽³⁾	4.60%	4.98%	4.96%	4.24%		4.82%	4.81%
Net gap	<u>\$ 18,000</u>	<u>\$ (126,255)</u>	<u>\$ 126,357</u>	<u>\$ 40,298</u>	<u>\$ (8,663)</u>	<u>\$ 49,737</u>	<u>\$ 66,337</u>

(1) For loan balances, scheduled repayments of principal and interest are based on amortization of loans for the remaining term up to maturity at applicable interest rates. For notes payable, scheduled repayments reflect contractual payments of interest and repayment of principal. The interest rates are fixed until maturity. Repayment is either by semi-annual, annual installments or full repayment at maturity of principal.

(2) Includes specific and general allowance, accrued interest, accrued beginning farmer incentive and unamortized loan discount.

(3) For notes payable yield represents the rate which discounts future cash receipts to the carrying amount.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 14 Credit Risk and Interest Risk (continued)

(b) Interest Risk (continued)

Investments

The above gap analysis does not include the investment portfolio, which is disclosed separately below. Investments are not included because investments relate to insurance program cash flows which are managed separately from lending program cash flows.

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

	Term to Maturity ⁽¹⁾			2009	2008
	Within 1 Year	1 to 5 Years	6 to 10 Years	Total	Total
Bonds and debentures	\$ 701	\$ 217,461	\$ 82,003	\$ 300,165	\$ 274,463
Yield ⁽²⁾	0.52%	1.94%	2.59%	2.11%	4.29%
Corporate Securities	13,489	138,283	11,595	163,367	159,649
Yield ⁽²⁾	4.57%	5.49%	5.97%	5.44%	4.56%
Accrued interest	14,190	355,744	93,598	463,532	434,112
	233	4,034	1,198	5,465	4,480
	<u>\$ 14,423</u>	<u>\$ 359,778</u>	<u>\$ 94,796</u>	<u>\$ 468,997</u>	<u>\$ 438,592</u>

⁽¹⁾ For investments, term to maturity classifications are based on contractual maturity date of the security.

⁽²⁾ For investments yield represents the rate which discounts future cash receipts to the carrying amount.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 15 Related Party Transactions

Sufficient information is provided throughout these statements to disclose significant related party transactions the Corporation entered into, except for the following:

	<u>2009</u>	<u>2008</u>
Interest expense - Province of Alberta	\$ 57,287	\$ 46,402
Administration expense - Province of Alberta	1,725	1,710
Administration expense - Government of Canada	881	661

Note 16 Crop Reinsurance Funds

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

	<u>Crop Reinsurance Fund of Alberta</u>		<u>Crop Reinsurance Fund of Canada for Alberta</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Opening surplus	\$ 18,978	\$ 17,713	\$ 19,655	\$ 18,513
Contributions	1,946	1,265	1,946	1,142
Closing surplus	<u>\$ 20,924</u>	<u>\$ 18,978</u>	<u>\$ 21,601</u>	<u>\$ 19,655</u>

Note 17 Comparative Figures

The 2008 figures have been reclassified and restated where necessary to conform to 2009 presentation.

AGRICULTURE FINANCIAL SERVICES CORPORATION
SCHEDULE OF OPERATIONS
YEAR ENDED MARCH 31, 2009
(dollars in thousands)

	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>
	<u>AgriInvest and AgriStability</u>	<u>AgriInvest and AgriStability</u>	<u>Production Insurance</u>	<u>Production Insurance</u>	<u>Lending</u>
		(Restated) (Note 2(k))			
Revenue:					
Premiums from insured persons	\$ -	\$ -	\$ 166,015	\$ 114,452	\$ -
Interest	332	107	1,010	656	71,287
Contribution from Province of Alberta	532,006	146,654	151,485	108,667	1,217
Contribution from Government of Canada	117,364	(13,152)	147,576	102,504	-
Investment income	(529)	7,119	29,648	28,092	1,239
Fees and other income	8,508	10,020	9	62	2,055
	<u>657,681</u>	<u>150,748</u>	<u>495,743</u>	<u>354,433</u>	<u>75,798</u>
Expense:					
Indemnities	630,266	131,514	264,930	241,080	-
Administration (Schedule 2)	22,112	19,757	28,214	27,695	21,477
Interest	-	-	-	-	57,287
Reinsurance	-	-	11,913	15,000	-
Farm loan incentives	-	-	-	-	2,617
Provision for doubtful accounts and for losses (Note 12)	4,636	(1,978)	(303)	(363)	(1,355)
Selling commissions	-	-	-	-	-
	<u>657,014</u>	<u>149,293</u>	<u>304,754</u>	<u>283,412</u>	<u>80,026</u>
Surplus (deficit) for the year	667	1,455	190,989	71,021	(4,228)
Surplus at beginning of year	14,184	12,729	642,539	571,518	76,901
Surplus at end of year	<u>\$ 14,851</u>	<u>\$ 14,184</u>	<u>\$ 833,528</u>	<u>\$ 642,539</u>	<u>\$ 72,673</u>

AGRICULTURE FINANCIAL SERVICES CORPORATION
SCHEDULE OF OPERATIONS
YEAR ENDED MARCH 31, 2009
(dollars in thousands)

Schedule 1

<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<u>Lending</u>	<u>Hail Insurance</u>	<u>Hail Insurance</u>	<u>Other</u>	<u>Other</u>	<u>Total</u>	<u>Total</u> (Restated) (Note 2(k))
\$ -	\$ 43,450	\$ 31,649	\$ -	\$ -	\$ 209,465	\$ 146,101
66,624	117	98	23	113	72,769	67,598
1,989	-	-	4,458	4,506	689,166	261,816
-	-	-	3,481	5,598	268,421	94,950
576	746	1,436	98	(27)	31,202	37,196
1,704	11,702	418	96	703	22,370	12,907
<u>70,893</u>	<u>56,015</u>	<u>33,601</u>	<u>8,156</u>	<u>10,893</u>	<u>1,293,393</u>	<u>620,568</u>
-	73,574	40,265	6,100	8,345	974,870	421,204
21,111	2,809	2,427	1,980	2,252	76,592	73,242
46,402	-	-	-	86	57,287	46,488
-	959	698	-	-	12,872	15,698
3,574	-	-	-	-	2,617	3,574
8,667	(1)	(132)	147	(4)	3,124	6,190
-	2,480	2,122	-	-	2,480	2,122
<u>79,754</u>	<u>79,821</u>	<u>45,380</u>	<u>8,227</u>	<u>10,679</u>	<u>1,129,842</u>	<u>568,518</u>
(8,861)	(23,806)	(11,779)	(71)	214	163,551	52,050
85,762	26,673	38,452	1,724	1,510	762,021	709,971
<u>\$ 76,901</u>	<u>\$ 2,867</u>	<u>\$ 26,673</u>	<u>\$ 1,653</u>	<u>\$ 1,724</u>	<u>\$ 925,572</u>	<u>\$ 762,021</u>

AGRICULTURE FINANCIAL SERVICES CORPORATION

SCHEDULE OF ADMINISTRATION EXPENSE

YEAR ENDED MARCH 31, 2009

(dollars in thousands)

	2009		2008
	Budget	Actual	Actual
	(Note 3(a))		
Salaries and benefits (Note 11)	\$ 50,787	\$ 48,925	\$ 46,267
Amortization of capital assets	7,313	6,817	7,382
Office accomodation costs	3,297	4,846	3,694
Travel and training	4,561	3,949	4,002
Contracted services	2,787	3,783	4,078
Data processing	1,185	1,973	1,639
Stationery and supplies	1,580	1,780	2,581
Advertising	802	1,300	1,010
Telecommunications	927	977	856
Postage and freight	528	675	520
Professional services	775	539	474
Equipment, rental and maintenance	409	459	252
Directors' fees and expenses	515	423	362
Miscellaneous	129	146	125
	<u>\$ 75,595</u>	<u>\$ 76,592</u>	<u>\$ 73,242</u>

Schedule 3

AGRICULTURE FINANCIAL SERVICES CORPORATION
SCHEDULE OF SALARIES AND BENEFITS
YEAR ENDED MARCH 31, 2009
(dollars in thousands)

	2009			2008	
	Base Salary ⁽¹⁾	Other Cash Benefits ⁽²⁾	Other Non- cash Benefits ⁽³⁾	Total	Total
Chairman of Board	\$ 81	\$ -	\$ -	\$ 81	\$ 78
Board members ⁽⁴⁾	195	-	-	195	152
President and Managing Director	302	91	68	461	401
Executive/Vice-Presidents					
Vice-President, Finance & Corporate Affairs	190	53	45	288	241
Vice-President, Lending Operations	190	29	45	264	230
Vice-President, Risk Management	190	37	45	272	248
Vice-President, Human Resources & Community Relations ⁽⁵⁾	174	35	42	251	-

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

⁽²⁾ Other cash benefits include bonuses, vacation payments and lump sum payments.

⁽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 allowance, group life insurance benefits, pension and supplementary retirement plan, employment insurance, accidental death/dismemberment and long-term disability insurance, workers' compensation and professional memberships. No amount is included in other non-cash benefits for an automobile provided to the President and Managing Director.

⁽⁴⁾ The amounts relate to eight Board members during 2008/09 (eight in 2007/08).

⁽⁵⁾ This is a new position created effective April 1, 2008.

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Athabasca AB T9S 1E2
Insurance Phone: (780) 675-4007
Lending Phone: (780) 675-8161
Fax: (780) 675-3827

BARRHEAD

Box 4533
Provincial Building Main Floor
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Barrhead AB T7N 1A4
Insurance Phone: (780) 674-8282
Lending Phone: (780) 674-8216
Fax: (780) 674-8362

BROOKS

Provincial Building
220 - 4th Avenue W
Brooks AB T1R 0G1
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Fax: (403) 362-8078

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Deerfoot Atrium North
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Calgary AB T2E 7H7
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Fax: (403) 297-8461

CAMROSE

Bag 5000 Station M
4910 - 52nd Street
Camrose AB T4V 4E8
CAIS Analyst: (780) 679-1319
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Lending Phone: (780) 679-1229
Fax: (780) 679-1758

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Lending Phone: (403) 653-5138
Fax: (403) 653-5156

CASTOR

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4902 - 50th Avenue
Castor AB T0C 0X0
Insurance Phone: (403) 882-3770
Fax: (403) 882-2746

CLARESHOLM

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109 - 46th Avenue W
Claresholm AB T0L 0T0
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Fax: (403) 625-2862

DRUMHELLER

Box 2319
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Lending Phone: (403) 823-1677
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EDMONTON

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7000-113th Street
Edmonton AB T6H 5T6
Lending Phone: (780) 415-1216
Fax: (780) 415-1218

EDSON

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Provincial Building
Edson AB T7E 1T2
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Fax: (780) 835-5834

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701 Main Street
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FOREMOST

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MSG Investment Building
218 Main Street
Foremost AB T0K 0X0
Insurance Phone: (403) 867-3666
Fax: (403) 867-2038

FORT VERMILION

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4601 - 46th Avenue
Fort Vermilion AB T0H 1N0
Insurance Phone: (780) 927-4209
Lending Phone: (780) 927-3715
Fax: (780) 927-3838

GRANDE PRAIRIE

102 - 10625 Westside Drive
Grande Prairie AB T8V 8E6
CAIS Analyst: (780) 538-5234
Lending Phone: (780) 538-5220
Insurance Phone (780) 538-5355
Fax: (780) 532-2560

GRIMSHAW

Box 802
5306 - 50th Street
Grimshaw AB T0H 1W0
Phone: (780) 332-4494
Fax: (780) 332-1044

HANNA

Box 7 (Insurance)
Box 349 (Lending)
Provincial Building
401 Centre Street
Hanna AB T0J 1P0
Insurance Phone: (403) 854-5525
Lending Phone: (403) 854-5505
Fax: (403) 854-2590

HIGH PRAIRIE

Provincial Building
Box 1259
5226 - 53rd Avenue
High Prairie AB T0G 1E0
Insurance Phone: (780) 523-6507
Fax: (780) 523-6569

HIGH RIVER

Box 5208
129 - 4th Avenue SW
High River AB T1V 1M4
Phone: (403) 652-8313
Fax: (403) 652-8306

LACOMBE CENTRAL OFFICE

5718 – 56th Avenue
Lacombe AB T4L 1B1
Phone: (403) 782-8200

LACOMBE DISTRICT OFFICE

Bay 105 - 4425 Heritage Way
Lacombe AB
Mail: 5718 – 56th Avenue
Lacombe AB T4L 1B1
Insurance Phone: (403) 782-6800
Fax: (403) 782-6753

LAMONT

Box 487
5014 - 50th Avenue
Lamont AB T0B 2R0
Insurance Phone: (780) 895-2266
Lending Phone: (780) 895-2459
Fax: (780) 895-7755

LEDUC

6547 Sparrow Drive
Leduc AB T9E 7C7
Phone: (780) 986-4088
Fax: (780) 986-1085

LETHBRIDGE

County of Lethbridge Building
Unit 200 - 905 - 4th Avenue S
Lethbridge AB T1J 0P4
CAIS Analyst: (403) 382-4383
Insurance Phone: (403) 381-5240
Lending Phone: (403) 381-5102
Fax: (403) 381- 4527

MANNING

Box 147
116 - 4th Avenue SW
Manning AB T0H 2M0
Insurance Phone: (780) 836-3573
Fax: (780) 836-2844

MEDICINE HAT

Bay 111 - 7 Strachan Bay SE
Medicine Hat AB T1B 4Y2
CAIS Analyst: (403) 488-4507
Insurance Phone: (403) 488-4509
Lending Phone: (403) 488-4508
Fax (403) 488-4516

OLDS

Provincial Building
101 - 5030 - 50th Street
Olds AB T4H 1S1
CAIS Analyst: (403) 556-4263
Phone: (403) 556-4334
Fax: (403) 556-4255

OYEN

Box 426
201 Main Street
Oyen AB T0J 2J0
Insurance Phone: (403) 664-3677
Fax: (403) 664-2687

PEACE RIVER

Bag 900 -23
9809 - 98th Avenue
Peace River AB T8S 1J5
Phone: (780) 624-6387
Fax: (780) 624-6493

PONOKA

Box 4426
Provincial Building
250 - 5110 - 49th Avenue
Ponoka AB T4J 1S1
CAIS Analyst Phone: (403) 783-7040
Insurance Phone: (403) 783-7071
Lending Phone: (403) 783-7011
Fax: (403) 783-7925

PROVOST

Box 716
Provincial Building
5419 - 44th Street
Provost AB T0B 3S0
Phone: (780) 753-2150
Fax: (780) 753-2876

RED DEER

Unit #1 – 7710 Gaetz Avenue
Red Deer AB T4P 2A5
Insurance Phone: (403) 340-5379
Insurance Fax: (403) 340-7999
Lending Phone: (403) 340-5326
Lending Fax: (403) 340-7004

RIMBEY

Box 888
Provincial Building
5025 - 55th Street
Rimbey AB T0C 2J0
Phone: (403) 843-4516
Fax: (403) 843-4150

SEDGEWICK

Box 266
4701 – 48th Avenue
Sedgewick AB T0B 4C0
Insurance Phone: (780) 384-3880
Fax: (780) 384-2156

SMOKY LAKE

Box 602
Provincial Building
108 Wheatland Avenue
Smoky Lake AB T0A 3C0
Insurance Phone: (780) 656-3644
Fax: (780) 656-3669

SPIRIT RIVER

Box 547
Provincial Building
1st Floor 4602 - 50th Street
Spirit River AB T0H 3G0
Phone: (780) 864-3896
Fax: (780) 864-2529

ST. PAUL

Provincial Building
Box 406
5025 - 49th Avenue
St. Paul AB T0A 3A4
Insurance Phone: (780) 645-6221
Lending Phone: (780) 645-6453
Fax: (780) 645-2848

STETTLER

Box 1807
5020 – 50th Street
Stettler AB T0C 2L0
Insurance Phone: (403) 742-7536
Lending Phone: (403) 742-7904
Fax: (403) 742-7911

STONY PLAIN

Provincial Building
4709 - 44th Avenue
Stony Plain AB T7Z 1N4
CAIS Analyst: (780) 968-4952
Insurance Phone: (780) 963-0600
Lending Phone: (780) 963-4720
Fax: (780) 963-1251

STRATHMORE

(includes Blackfoot Reserve)
325 - 3rd Avenue
Strathmore AB T1P 1B4
CAIS Analyst: (403) 361-9637
Phone: (403) 934-3616
Fax: (403) 934-5018

TABER

Provincial Building
Box 4 - 5011 - 49th Avenue
Taber AB T1G 1V9
Insurance Phone: (403) 223-7900
Lending Phone: (403) 223-7920
Fax: (403) 223-7985

THORHILD

Box 400
County Administration Building
801 - 1st Street
Thorhild AB T0A 3J0
Insurance Phone: (780) 398-3933
Fax: (780) 398-2087

THREE HILLS

Box 40
Provincial Building
160 - 3rd Avenue S
Three Hills AB T0M 2A0
Insurance Phone: (403) 443-8515
Lending Phone: (403) 443-8510
Fax: (403) 443-7519

VALLEYVIEW

Box 1046
Provincial Building
5112 - 50th Avenue
Valleyview AB T0H 3N0
Insurance Phone: (780) 524-3838
Fax: (780) 524-4565

VEGREVILLE

Box 1440
Vinet's Village Mall
Suite 138 4925 - 50th Avenue
Vegreville AB T9C 1S6
Phone: (780) 632-5431
Fax: (780) 632-3385

VERMILION

Box 10
Provincial Building
4701 - 52nd Street
Vermilion AB T9X 1J9
CAIS Analyst: (780) 853-8238
Phone: (780) 853-8266
Fax: (780) 853-1982

VULCAN

Box 847
102 - 1st Street S
Vulcan AB T0L 2B0
Insurance Phone: (403) 485-2766
Lending Phone: (403) 485-5141
Fax: (403) 485-2947

WAINWRIGHT

Provincial Building
Unit 1 - 810 - 14th Avenue
Wainwright AB T9W 1R2
Insurance Phone: (780) 842-7547
Lending Phone: (780) 842-7542
Fax: (780) 842-4948

WESTLOCK

Provincial Building
2 - 10003 - 100th Street
Westlock AB T7P 2E8
CAIS Analyst: (780) 349-6253
Insurance Phone: (780) 349-4544
Lending Phone: (780) 349-4529
Fax: (780) 349-5240

