

# 2018-19 ANNUAL REPORT



Agriculture Financial Services Corporation





“As farmers/ranchers it is important that we mitigate our industry risks to the extent that we can. Purchasing good insurance is an important business decision to help alleviate the risk of weather and/or fluctuations in commodity markets. We’ve been in the industry for many, many years and we’ve seen how financially crippling it can be for producers that have not insured.”

2018 Perennial Insurance Survey Respondent

## Vision

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

## Mission

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

## Values



### RESPECT

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



### TRUST

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



### INTEGRITY

We behave ethically and are open, honest and fair.



### ACCOUNTABILITY

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



### EXCELLENCE

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

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# Letter of transmittal

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May 30, 2019

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

Dear Minister Dreeshen:

On behalf of the Board of Directors, we are pleased to submit the 2018-19 annual report of the Agriculture Financial Services Corporation (AFSC).

As required by Section 15 of the *Agriculture Financial Services Act* (RSA 2000, c.A-12), the report contains a summary of the transactions and affairs of the corporation, its revenues and expenditures for the fiscal year ended March 31, 2019.

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

Yours truly,

[Original signed by Jennifer Wood]

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Board Chair

[Original signed by Steve Blakely]

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CEO

# Minister of Agriculture and Forestry message

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As Minister, it is my pleasure to highlight the crucial role Agriculture Financial Services Corporation (AFSC) plays in supporting Alberta's producers and entrepreneurs. Alberta's agriculture and food sector is foundational to our economy, and will be a vital contributor to future growth and diversification.

Agriculture is an often risky but extremely important industry. Farmers and ranchers must overcome the uncertainty of Alberta weather, the risks of world trade, and the volatility of international markets to deliver top quality grains oilseeds and livestock. Our growing agribusinesses hold tremendous potential to maximize the value of our commodities, open up new markets, and create employment opportunities.

AFSC is a key piece in building and maintaining a strong agriculture and agri-food sector in Alberta, and has been a mainstay for more than 80 years. Primary producers have access to peace of mind through the risk management tools that AFSC delivers. Crop insurance, livestock price insurance, and AgriStability are offerings that provide an effective backstop against risks beyond a producers ability to manage.

Providing financial solutions for young and new producers, agri-businesses, and food processors will help these businesses and the agriculture sector grow and thrive. In support of this, AFSC launched new lending programs in the fall of 2018, designed to effectively deliver debt capital to enable investment and employment to grow in the sector.

I'm encouraged by the progress AFSC has made under the direction of the Board and I thank them for their leadership. Implementing a new lending mandate, revising lending products, and increasing the lending limit ensure that AFSC will continue to be a valuable partner in helping the agriculture and agri-food sector to prosper. I'm confident that AFSC's Board and management team will enable our agriculture and food sectors, and the rural communities they depend on, to thrive in the coming years.

Devin Dreeshen

Minister of Agriculture and Forestry

# Message from the Chair of the Board

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Agriculture Financial Services Corporation (AFSC) has provided Alberta's agricultural producers, agribusinesses and small businesses with loans, crop insurance and farm income-stabilization programs for over 80 years. Our role within Alberta's agriculture industry is invaluable as we aim to provide leading, innovative and client focused financial and risk management solutions that will grow agriculture in Alberta.

This past year at AFSC was spent strengthening the organization and focusing its efforts on better serving our industry. My colleagues on the board and I are proud to have had a role in the progress made this year, and are committed to the ongoing success of the corporation.

I was pleased to see the early results of Executive Management Team's efforts to move AFSC forward through the execution of a number of initiatives including:

- The adoption of a continuous improvement focus to simplify and streamline processes and procedures to improve our client experience;
- A new program named Everyone Has a Client that engaged each employee to focus on placing the client first;
- A revised performance management program for all employees;
- A People Strategy establishing the support and partnership between the corporation and its people;
- A revised approach and methodology to strategic planning, and the introduction of the Balanced Scorecard to help establish clear targets for corporate achievement in the areas of Financial, Client, People, and Process; and
- A revised organizational structure to support the corporate strategies and to provide employees a line of sight from their personal goals and objectives through to the corporate strategic plan which supports the Government of Alberta's strategic goals.

At AFSC, we understand that our agriculture, agri-food and small business sectors contribute enormously to Alberta's overall economic health. The board and I are dedicated to ensuring that AFSC is both an enduring presence and a leader in Alberta agriculture.

We welcome the newly elected Alberta government and look forward to a strong and productive relationship with Minister of Agriculture and Forestry Devin Dreeshen. I would like to thank the Ministry of Agriculture and Forestry for working collaboratively with us to move AFSC forward with 6 revised lending products and an increase in our lending limit to \$15 million.

I offer my thanks to the Board for their knowledge, skill and efforts to oversee the organization's evolution to help fulfill this crucial role. I would also like to express my gratitude to the Executive Leadership Team and to all the employees of AFSC. My colleagues on the Board know the connection our employees have to the places where they live and work.

At AFSC, we're on a solid path to providing improved client service and corporate performance in all aspects of the organization, and I anticipate even greater achievements in 2019-20.

Jennifer Wood

Board Chair



“We have the most volatile business partner anyone could ever have - Mother Nature; she is incredibly unpredictable and can have a devastating or fantastic influence on our bottom line.

“AFSC insurance allows us to sleep at night and to be the very best farmers we can be.”

Nichole Neubauer  
Neubauer Farms  
Medicine Hat, AB



# About Agriculture Financial Services Corporation

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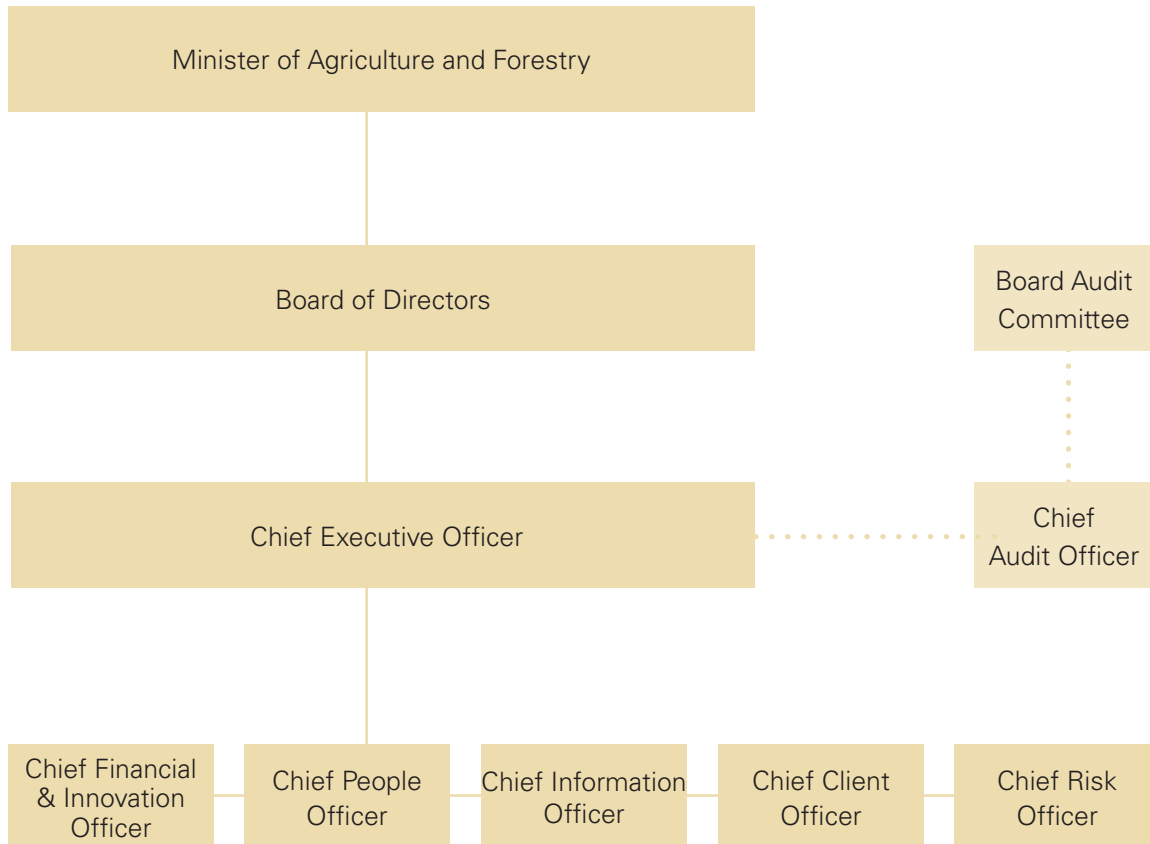
Agriculture Financial Services Corporation (AFSC) is a provincial Crown corporation that provides producers, agribusinesses and other small businesses with financing, crop insurance and farm income disaster assistance. AFSC has provided Alberta farmers with hail insurance for more than 80 years, and has grown into a diverse corporation dedicated to developing and maintaining high quality relationships with clients to manage the risks associated with working in the agriculture industry.

In 2019, AFSC is celebrating 81 years of helping Albertans, giving producers peace of mind. AFSC products and services address gaps in the marketplace where similar products are not consistently and reliably available from other sources. AFSC works with agricultural producers, agribusinesses, and rural businesses to support and advance agricultural development, to create new opportunities for businesses and to improve the quality of life for rural Albertans.



# Corporate governance

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



## Board of Directors

The Board of Directors provides leadership and direction to the Corporation, overseeing management and performances.

On March 31, 2019 the Board of Directors consisted of eight directors appointed by the Minister of Agriculture and Forestry on April 27, 2017. The directors have a variety of skills and experience as entrepreneurs, primary agricultural producers and agribusiness owners/operators.



Jennifer Wood, Chair



Gerald (Jerry) Bouma



Gordon Cove



Peter Galloway



Harvey Hagman



Jo-Ann Hall



Anna Harder



Kiren Singh

## Board and committee structure

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

<b>Governance and Human Resources Committee</b>	The Governance and Human Resources Committee assists the Board in fulfilling its corporate governance and management oversight responsibilities.
	Members: Jo-Ann Hall, Chair, Gordon Cove, Anna Harder, Jennifer Wood
<b>Audit Committee</b>	The Audit Committee oversees the fiscal management, financial reporting, as well as internal/external audit plans, reports and internal controls.
	Members: Anna Harder, Chair, Peter Galloway, Jo-Ann Hall, Jennifer Wood, ex-officio
<b>Risk Committee</b>	The Risk Committee oversees the enterprise-wide risk management practices and makes recommendations on the adequacy, appropriateness and effectiveness of AFSC’s enterprise-wide risk management practices.
	Members: Gordon Cove, Chair, Gerald (Jerry) Bouma, Harvey Hagman, Kiren Singh, Jennifer Wood, ex-officio

## Executive leadership team



Steve Blakely,  
Chief Executive Officer



Darryl Kay,  
Chief Financial and  
Innovation Officer



Karla Kochan,  
Chief People Officer



JJ Campbell,  
Chief Information Officer



David Maddox,  
Interim Vice-President,  
Operations and Sales



Walker Rogers\*,  
Chief Risk Officer  
*\* Effective February 6, 2019*



# 2018-19 at a glance

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## Economic climate

Alberta's economy continued to grow in the 2018-19 fiscal year, although at a slower pace than the previous year.

- While the energy resource sector continued to be the key driving force for growth, significant price discounts to Western Canada Select (WCS) oil in the U.S market slowed bitumen exports.
- The Bank of Canada raised the benchmark interest rate two times in the year, ending at 1.75 per cent. The Canadian dollar continued to trade at a weakened rate against the U.S. currency, boosting Canada's commodity exports. Uncertainty over tariffs and international trade policies, however, remained a significant barrier to increasing investor confidence in the provincial economy.
- Alberta's real GDP growth stood at 2.4 per cent at the end of 2018, down from 4.4 per cent at the end of 2017. The minimum wage was raised to \$15, and the unemployment rate in the province was 6.9 per cent at the end of 2018, above the national average of 5.8 per cent. Farm land values increased by an average of 7.4 per cent, led by growth in Southern Alberta for irrigated land to be put into potato production.

## Annual crops

Mother Nature has a direct effect on overall farming and crop performance.

- A late spring initially delayed seeding across the province but with the return to more reasonable warm, dry weather, seeding progressed rapidly and was 95 per cent complete by the end of May.
- Conditions throughout the summer were dry in most areas, particularly in the south, with sporadic rain across other parts of the province.
- Harvest started mid-August but, due to unsettled weather patterns, it slowed, lagging behind the five-year average. Harvest stopped mid-September due to cold temperatures, rain and snow. Producers were concerned about a possible repeat of the 2016 harvest, which saw the highest number of unharvested acres in recent history. AFSC was prepared to respond in case this occurred, but fortunately, warmer temperatures prevailed in mid-to-late October. Harvest progressed quickly and was wrapped up by early November.

## Perennial crops

Alberta's weather continued to pose challenges for producers throughout 2018, as soil moisture levels remained low for most of the year due to below-average precipitation. Perennial crops were more heavily affected by the dry conditions. The number of claims and the indemnities paid to perennial crop producers increased substantially compared to 2017, resulting in a 272 per cent loss/premium ratio.

## Livestock


- Beef demand remained strong in North America throughout 2018, which meant a quieter period for the Western Livestock Price Insurance Program (WLPIP).
- The hog sector saw significant international instability, with trade tariffs putting downward pressure on prices, and an outbreak of the African swine fever in China pushing prices up.
- Alberta's feedlot capacity was at record levels, which could have pushed prices down, but healthy demand kept prices strong.
  - Calf prices remained steady and feeder prices were up on feedlot demand in the latter half of 2018.
  - Feeder basis returned to negative in 2018 from positive levels in 2017.
  - Fed prices were generally steady or declining in 2018. While fed basis continued to be positive in 2018, it returned to negative levels in early 2019.
- During the fiscal year, Alberta producers increased the number of insured units over the prior year, but with fewer overall policies purchased. Insured fed and feeder cattle numbers rose while insured calf figures declined. Total policies purchased in 2018-19 stood at 3,276, down from 3,454 in the previous fiscal year.

## Corporate enhancements

Two key enhancements were introduced in 2018-19.

- The Minister of Agriculture and Forestry's announcement of a new suite of lending programs marked an important enhancement in the services AFSC provides to rural communities in 2018-19.
- In November 2018, AFSC presented the 2018 Roadmap, a strategy that lays out how client services and organizational performance will be improved. Management was restructured and a process of continuous improvement was implemented. Through the initiatives outlined in the strategy, AFSC aims to increase client satisfaction, improve employee engagement, boost productivity, reduce operational costs and shorten turnaround times.


# Supporting agriculture in Alberta



**SERVING  
19,739  
CLIENTS**

**OVER \$6.3 BILLION**  
IN RISK COVERED ACROSS ALL PROGRAMS

**5 REVISED LENDING PROGRAMS**  
**\$10,000,000**  
LENDING LIMIT INCREASE



LIVE CHAT  
ADDED TO AFSC  
CONNECT

**NEW AFSC.CA**  
LAUNCHED IN DECEMBER



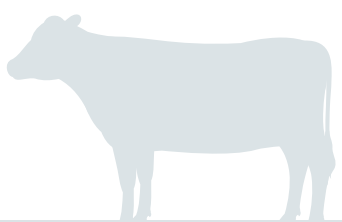
**53,732**  
BEE HIVES  
INSURED

**81 YEARS**  
PROVIDING ALBERTANS PEACE OF MIND



**22.1**  
MILLION  
ACRES  
INSURED

**191**  
SUBSCRIPTIONS  
UNDER NEW CROP  
INSURANCE INITIATIVE



**658,000\***  
PRICE-PROTECTED CATTLE

\* APPROX HEAD BASED ON 6.1M CWT



# Supporting our community



**\$223,108**  
SPONSORSHIP  
INVESTMENTS

**4H** SILVER  
CLOVER  
SPONSOR



**7**  
COMMUNITY  
PARTNERS



**179**

STAFF ATTENDED  
CORPORATE  
TRADESHOWS

**36** CORPORATE EVENTS & TRADE SHOWS SPONSORED

# Supporting our people



**664**  
EMPLOYEES

**92** NEW  
HIRES

**\$723**

AVERAGE SPENT ON TRAINING PER EMPLOYEE

**41**

LONGEST  
YEARS OF  
SERVICE



**25**

SUMMER STUDENTS HIRED

**42**

OFFICES  
ACROSS  
ALBERTA



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

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CANADA'S TOP  
100 EMPLOYER **10 YEARS**





# Program highlights

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“I think the secret to the insurance program is the ability to market and have peace of mind. I think AFSC makes everything very stable and very sure.”

Chris Sloan  
Sloan Cattle Co  
Ashmont, AB

## Programs at a glance

<b>Income Stabilization</b>	<b>2017*</b>	<b>2016</b>	<b>2015</b>
Total Claims Processed	4,509	10,360	11,835
Total Payments (\$,000)	\$36,465.3	\$213,892.3	\$56,764.3
% Alberta Farm Cash Receipts Covered through AgriStability	57%	65%	65%
<b>Insurance</b>	<b>2018-19</b>	<b>2017-18</b>	<b>2016-17</b>
Annual and Perennial			
Total Insured Acres (million)	22,126	21,860	22,993
Total Coverage (\$ billion, liability)	\$4.83	\$4.53	\$4.67
Total Premium (\$ million)	\$654.9	\$694.6	\$750.1
Total Indemnities paid to date (\$ million)	\$523.1	\$437.1	\$499.9
WLPPI			
Total Policies	3,276	3,454	3,098
Total Coverage (\$ millions, liability)	\$1,083.9	\$828.1	\$778.4
Total Premium (\$ million)	\$20.1	\$22.7	\$22.3
Total Indemnities paid to date (\$ million)	\$1.4	\$12.3	\$12.0
<b>Lending</b>	<b>2018-19</b>	<b>2017-18</b>	<b>2016-17</b>
Total Loans Approved	1,446	1,522	1,847
Total Loan Authorizations (\$ million)	\$429.8	\$385.0	\$433.5
Loan Portfolio (\$ billion)	\$2.30	\$2.25	\$2.25

\*4,509 claims processed out of 9,394 total AgriStability claims as of March 31, 2019

Claims are processed with a one year lag



# Income Stabilization

## AgriStability

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

### Key Program Details

- AgriStability is funded under the Canadian Agricultural Policy (CAP) agreement.
- The Government of Canada covers 60 per cent of AgriStability claim payments and administrative costs; Government of Alberta funds the remaining 40 per cent.
- Eligible participants receive compensation when their program margin declines by more than 30 per cent of their support level in a fiscal year.
- The support level is based on the lesser of the average of production margins selected from three of the previous five years and the average of the corresponding allowable expenses.
  - To participate, eligible applicants must report farming income (including losses) in Canada for income tax purposes.
  - They must also have a minimum of six months of continuous farming activity, along with the completion of a production cycle. Enrolment is required by April 30 of the program year, and Participants must pay an enrolment fee.

### 2018-19 Program Year Review

Note: Producer tax information is required to process an AgriStability claim, so reporting under this program is a year behind other programs reported in this document. AgriStability reporting is based on the 2017 production year. Here are the highlights:

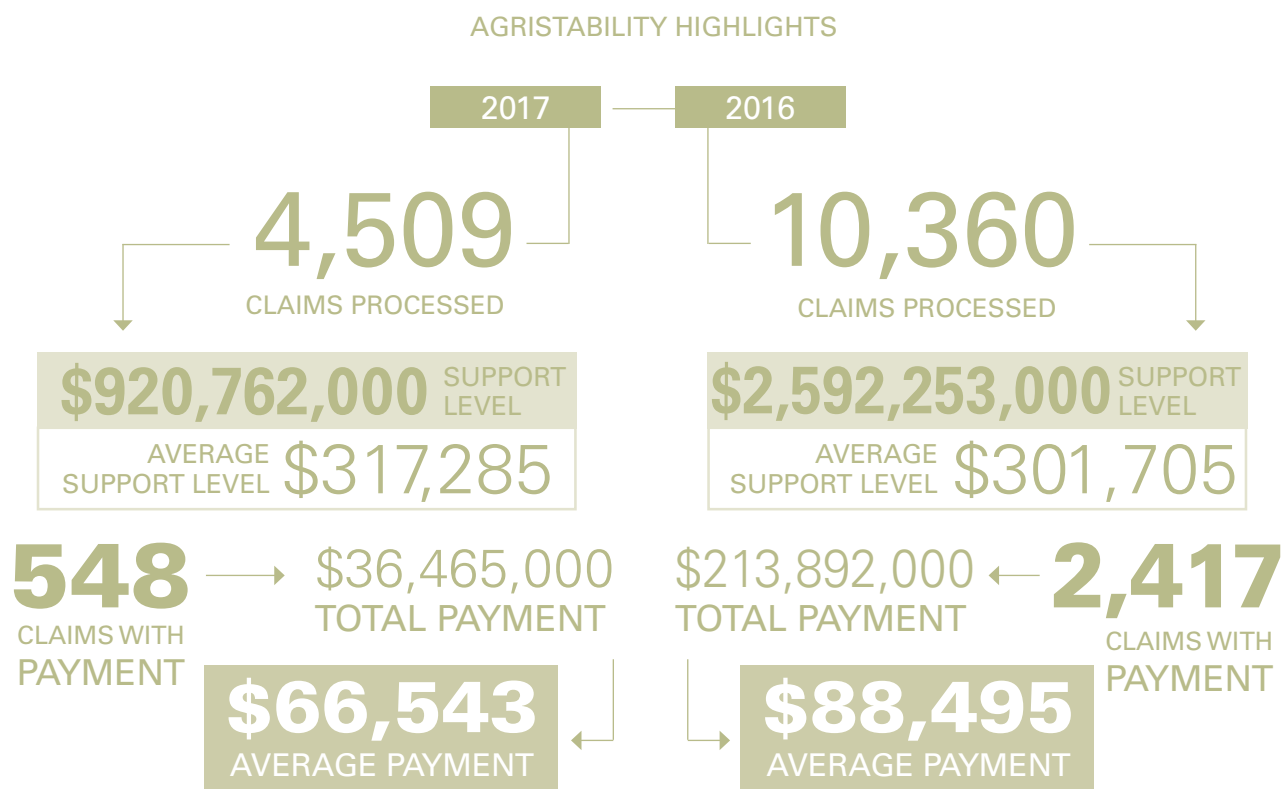
- For annual crops, 2017 started off with a wet spring and unharvested crops from the previous season. Seeding was delayed and the weather during the season was not uniform across the province, resulting in variable seeding and harvest progress, yields and crop quality. As of October 31, harvesting across the province was completed.
- For perennial crops, 2017 started with pasture and forage conditions rated as good to excellent with very good moisture, but growth was slow due to cooler temperatures. By July, dry conditions in the south coupled with wet conditions in the north resulted in the deterioration of the quality and quantity for forage and pastures.
- Cattle prices started low in 2017, and increased throughout the year, resulting from: U.S. expansion of its national herd after five years of stagnancy; increased local demand; and a weaker Canadian dollar, which improved prices for the export market.

## 2018-19 Results

Participants were paid 36.5 million in benefits resulting from 48 per cent of claims processed as of March 31, 2019. Of paid claims, 12 per cent of Participants received payments compared to the 23 per cent claims paid in 2016.

Participation in AgriStability continued to decline in terms of the number of applications received. Approximately 9,394 claims were received for the 2017 program compared to 10,448 claims for the 2016 program year.

Producers who participated in the 2017 AgriStability program year represented 57 per cent of Alberta's farm cash receipts. This is down from 65 per cent for the 2016 program year. The average support level for producers increased from \$301,705 to \$317,285 in 2017 indicating that the larger farms continue to participate in the program.



\*4,509 claims processed out of 9,394 total AgriStability claims as of March 31, 2019

Claims are processed with a one year lag

## AgrilInvest

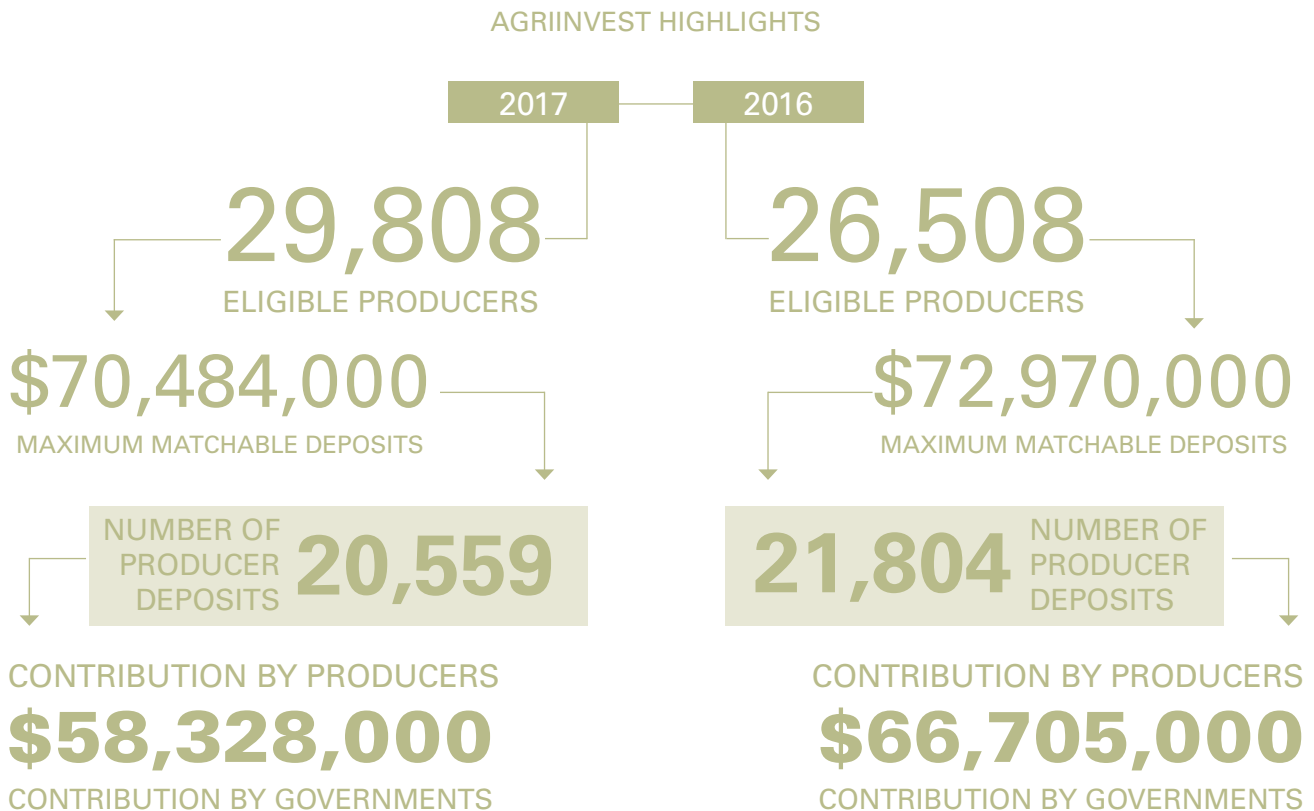
**What is it?** AgrilInvest is a matching deposit-based program for producers to access when they face margin declines. The program is simple, responsive, predictable and bankable, and allows participants to easily predict government contributions to producer-managed accounts each year. AgrilInvest funds,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

### Key Program Details

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

### 2018-19 Results

As of March 31, 2019, 20,559 Alberta producers deposited \$58 million in AgrilInvest accounts for the 2017 claim year. The total value of 24,552 account balances is \$648 million, up from the previous year's total of \$617 million. The average account balance is \$26,395.



Claims are processed with a one year lag



# Insurance

## Production-based AgrilInsurance products

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

### Key Program Details

- The primary perils covered under these products are drought and hail.
- For most annual crops, coverage is based on the client's individual insured yield records.
- Premium rates vary according to crop type, risk area, cropping practice and selected coverage level.
- Producers can choose coverage levels of 50, 60, 70 or 80 per cent (90 per cent for sugar beets) of their individual normal yield.
- For hay crops, coverage is based on an indexing system in which individual yields are compared to the area's average yields for the crop type.
  - This comparison results in a coverage adjustment for each insured producer.
  - The coverage adjustment is then multiplied by the risk area long-term normal yield to determine an individual's normal yield.
  - As with annual crops, hay producers can select yield coverage of 50, 60, 70 or 80 per cent of their individual normal yield. Hay producers also have two price options for insurance.

## Area-based AgrilInsurance products

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

### Key Program Details

- The parameters and payment triggers selected for area-based programs are based on events that occur near the producer's farm. Payments are intended to reflect losses on the insured's farm or ranch.
- The area-based programs offered by AFSC are: Satellite Yield Insurance (SAT) and Moisture Deficiency Insurance (MDI) for pasture, Silage Greenfeed Insurance for annual feed crops, Corn Heat Unit (CHU) Insurance for irrigated corn and the Moisture Deficiency Endorsement (MDE) for hay.
- There are times when the situation on a producer's farm is different than what is recorded at a particular weather station with the satellite measurements, or with the proxy crop.

## Additional benefits – an overview

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

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

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

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

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

**Spot-Loss Fire Benefit** is included on insured pasture acres under both SAT and MDI programs and protects against accidental fire and fire caused by lightning.

## Annual Crop Insurance

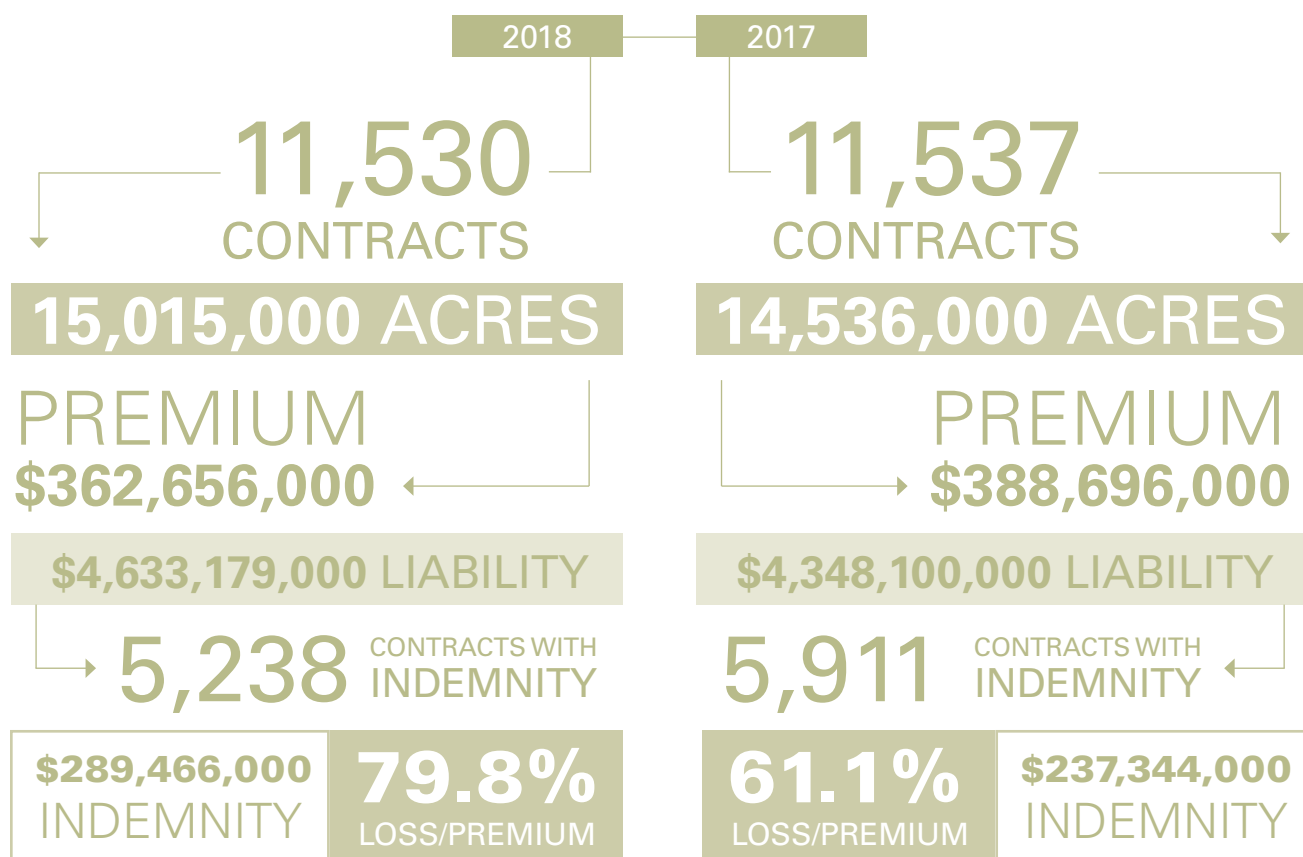
Annual Crop Insurance provides a production guarantee based on a method referred to as Individual Coverage in which individual yield records provide the basis for coverage. Producers also have the option to purchase the Hail Endorsement and Spring Price Endorsement with their crop insurance policies.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

### 2018-19 Annual Crop Insurance indemnities

For the second consecutive year, hail claims were well below the historical average. Yields and quality concerns were prevalent, with 44 per cent of producers reporting a production loss, resulting in more than 5,000 post-harvest claims.

The indemnities paid were primarily a result of post-harvest production losses caused by dry conditions through the growing season and wet conditions during harvest.

#### ANNUAL CROP INSURANCE HIGHLIGHTS



Note that indemnities represent amounts paid out as of March 31, 2019.



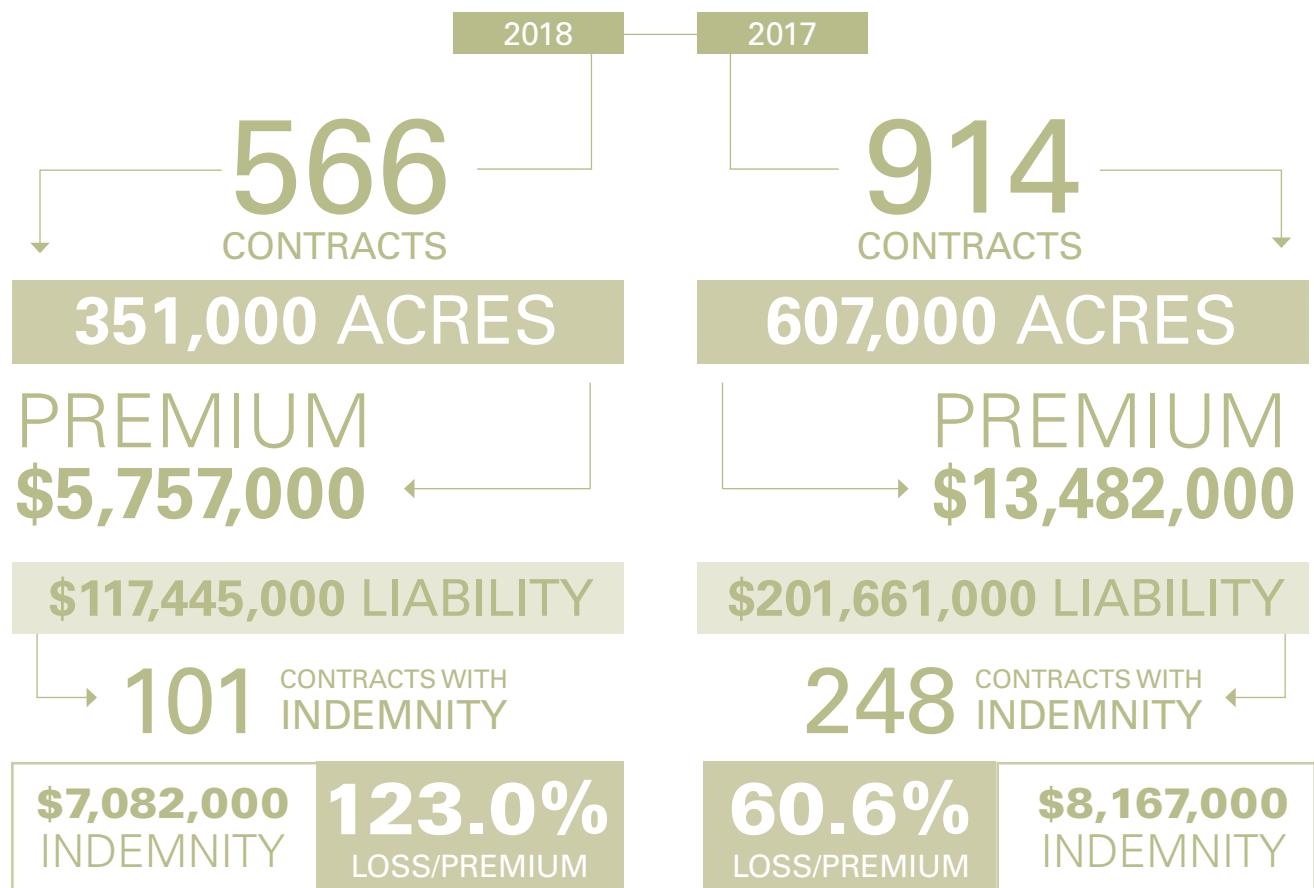
## Annual Crop Insurance endorsements

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

**Spring Price Endorsement (SPE)** offers protection for within-year price declines of more than 10 per cent between the spring insurance price and the fall market price, limited to a maximum decrease of 50 per cent. Prior to 2018, the entire drop-in price was covered once the SPE triggered. In response to producer concerns about the cost of the SPE, a 10 per cent deductible was introduced in 2018. This resulted in premium rate reductions of between 20 and 30 per cent depending on the crop.

- For 2018, four crops (durum wheat, chickpeas, lentils and mustard), triggered the Spring Price Endorsement. The price reductions for these crops ranged from 16 per cent for durum wheat to in excess of 50 per cent for kabuli chickpeas.
- AFSC covered 351,000 acres under SPE with a total liability of \$117 million. The loss-to-premium ratio of 123 per cent was a result of \$7.1 million in losses paid to 101 clients as compared to \$5.8 million collected in premiums.

### SPRING PRICE ENDORSEMENT HIGHLIGHTS



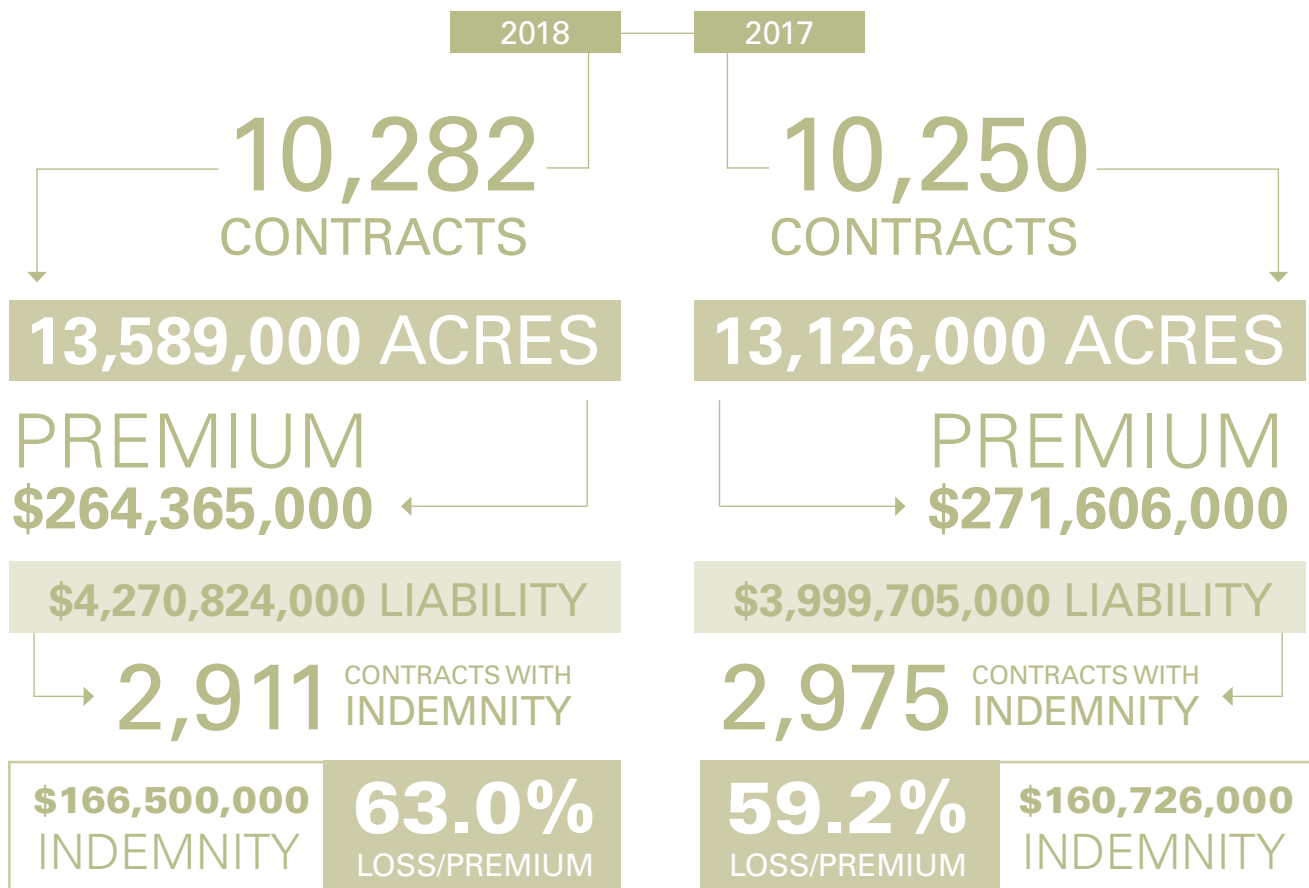
**Hail Endorsement** provides spot-loss coverage for damage caused by hail, accidental fire and fire caused by lightning for both production and area-based insurance.

**Key Program Details**

- Coverage under the Hail Endorsement is the same as the coverage under the annual crop program for each insured crop, and is not available for crops insured at the 50 per cent coverage level.
- Premiums for the Hail Endorsement are significantly lower than Straight Hail premiums.
- Producers pay only 33 per cent to 37 per cent of the Straight Hail premium rate for the township, depending on the type of crop.
- Premiums are cost-shared among clients (50 per cent), the Government of Alberta (37 per cent) and the federal government (13 per cent).

Hail events were slightly higher in 2018 with a losses paid rate 3.6 per cent higher than the previous year, but they remained well below the longer-term averages. AFSC coverage increased by 6.8 per cent, with 10,282 contracts encompassing 13.6 million acres, totaling \$4.3 billion in liability in 2018. Only 2,911 clients received indemnities of \$166.5 million resulting in a loss-to-premium ratio of 63 per cent as compared to 59.2 per cent in 2017.

**HAIL ENDORSEMENT HIGHLIGHTS**



## Perennial Crop Insurance

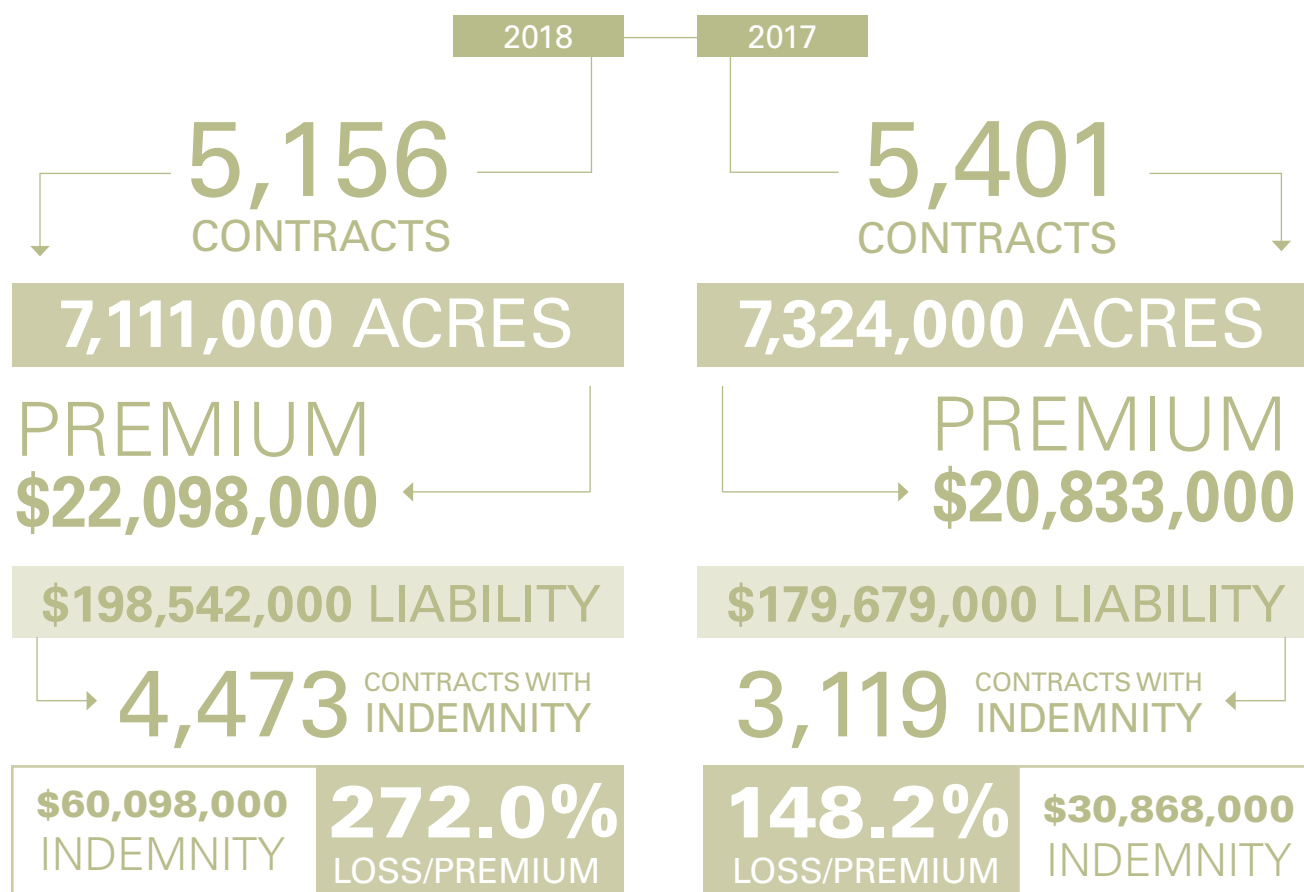
Perennial Crop Insurance provides a production-based guarantee for hay crops and area-based coverage for pastures. Producers can also choose to purchase the area-based Moisture Deficiency Endorsement with Hay Insurance.

### 2018-19 Year in Review

Of the 5,156 contracts, 87 per cent received \$60.1 million in indemnities. This compares to the \$30.9 million paid out to 58 per cent of perennial crop clients last year. This resulted in a 272 per cent loss-to-premium ratio in 2018, which was significantly higher than the 148.2 per cent ratio in 2017.

The pasture programs (Satellite Yield Insurance Program and Moisture Deficiency Insurance Program) paid out \$52.2 million in indemnities while the Hay Insurance Program paid \$7.9 million.

### PERENNIAL CROP INSURANCE HIGHLIGHTS



## Straight Hail Insurance

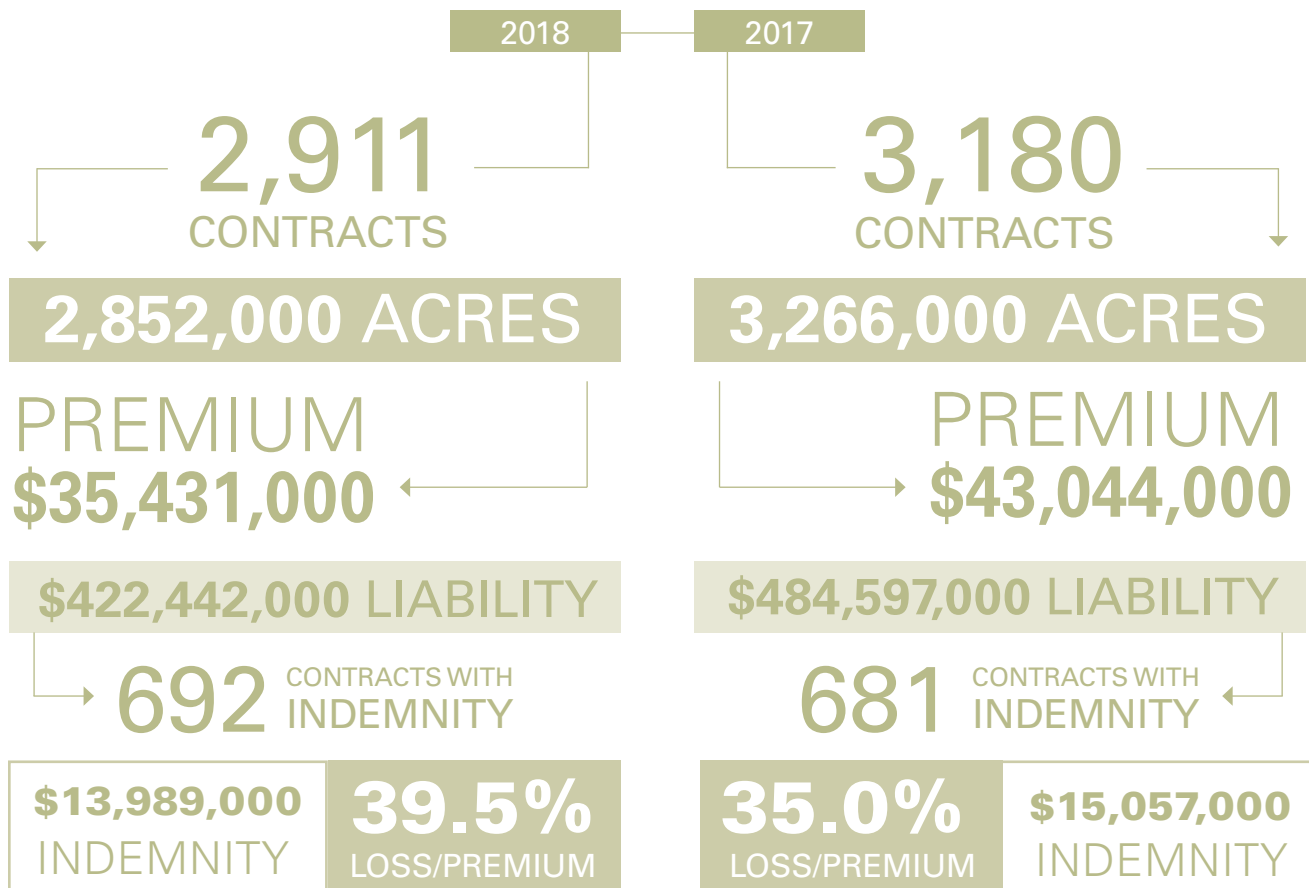
Straight Hail Insurance provides producers with spot-loss crop protection from hail damage, accidental fire or fire by lightning. Anyone can purchase Straight Hail Insurance, whether they are a producer, a tenant or a crop-share landlord. Coverage is available from the time the crop emerges until it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

### 2018-19 Year in Review

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

2017 was also mild in terms of hail indemnities, with only 681 insured producers suffering losses totaling \$15.1 million. A total of 3.3 million acres were covered, resulting in \$484.6 million in liability, with total premiums of \$43 million and a loss-to-premium ratio of 35.0 per cent.

#### STRAIGHT HAIL INSURANCE HIGHLIGHTS



## Wildlife Damage Compensation Program (WDCP)

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

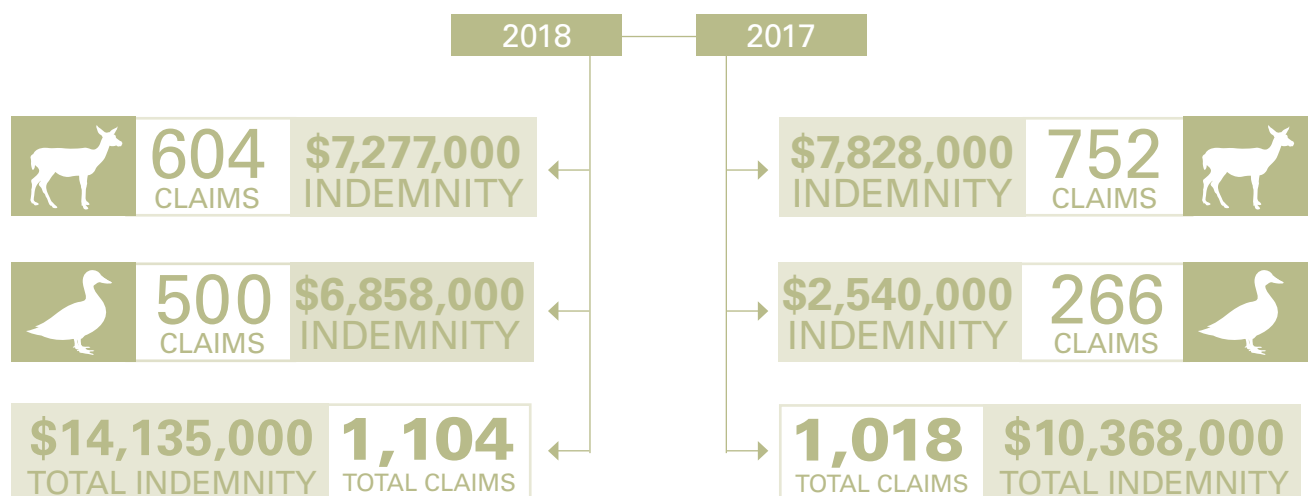
- Spot-loss coverage for unharvested crops damaged by waterfowl, big game animals or upland game birds. The program applies to all commercially grown annual crops and hay that can be insured under production-based and Straight Hail Insurance programs. Crops grown for pasture are not eligible;
- Excreta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

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

### 2018-19 Year in Review

The fall wildlife losses are set out below. Due to a small number of unharvested acres left out over the winter, there will be additional spring wildlife losses. The losses for 2018 crops paid to March 31, 2019 total \$14.1 million.

### WILDLIFE DAMAGE COMPENSATION PROGRAM HIGHLIGHTS



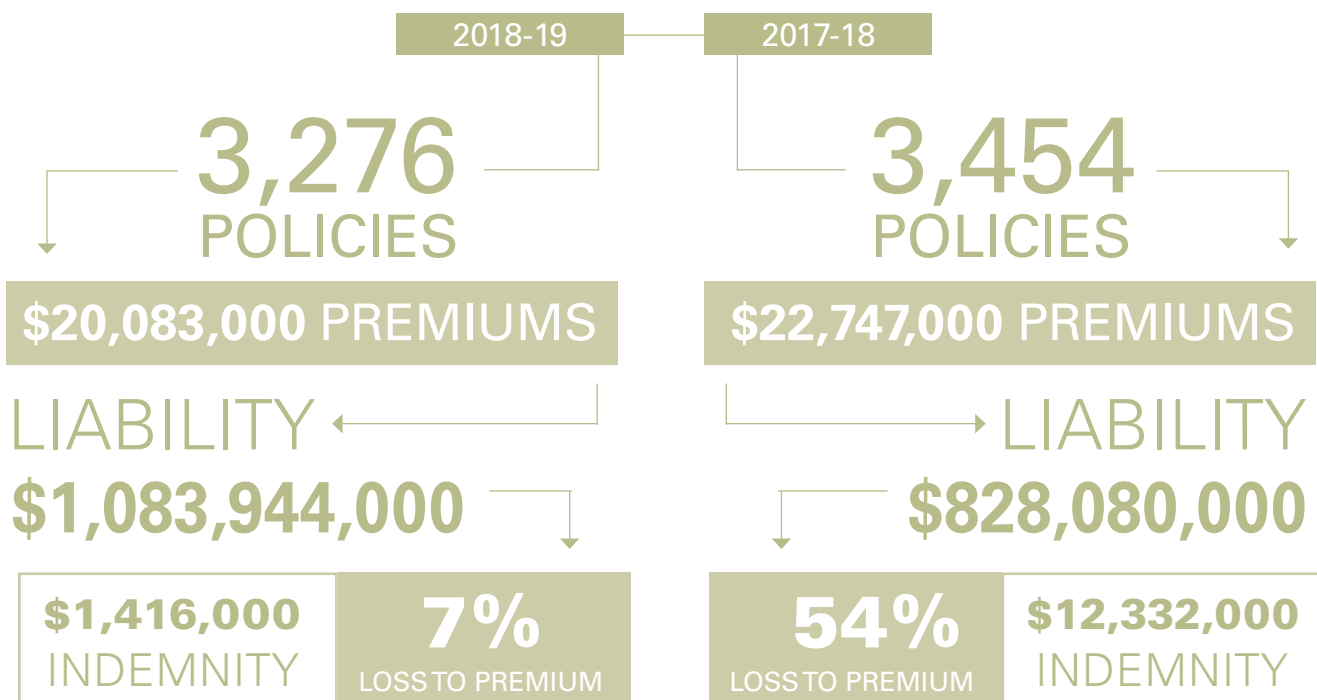
## The Western Livestock Price Insurance Program (WLPIP)

WLPIP experienced a slight year-over-year decline in the overall number of policies purchased and premiums collected. There was, however, an increase in total insured units of 30 per cent, and in total liability.

### Key Program Details

- Producers purchased price protection on 215,000 fed cattle, 221,000 feeders and 222,000 calves. Compared to the previous year, these head totals equal about 56 per cent more fed cattle and 51 per cent more feeder cattle insured, but 17 per cent fewer calves.
- Cumulatively, liability coverage amounted to just more than \$1 billion, premiums totaled \$20.1 million, and indemnities of approximately \$1.4 million (as of March 31, 2019) were paid to participating producers. The majority of payments were made to participants in the feeder program in early 2019.
- The strongest year-over-year participation increase in WLPIP was in the fed product, with short-term policies purchased to cover producers into the peak of the fat cattle marketing run into May and June. Feeder also saw a surge in purchases late in the fiscal year for coverage through the summer grazing months.
- AFSC continues to work on strategic initiatives to enhance WLPIP to make it more relevant for producers and to ensure its longevity within the industry. Multiple concurrent projects are underway that will carry forward into the next fiscal year to capitalize on industry changes and consumer demands.

### WESTERN LIVESTOCK PRICE INSURANCE PROGRAM HIGHLIGHTS





# Lending

AFSC’s new lending mandate was approved by the agriculture and forestry minister in January 2018. The mandate directs AFSC to focus on providing financial assistance to new and young producers, developing and mature producers, agribusinesses and rural commercial businesses.

In September 2018, AFSC introduced a new suite of lending programs. The new programs are the Next Generation Loan, the Developing Producer Loan, the Alberta Producer Loan, the Agribusiness Loan and the Rural Business Loan. These new programs replaced the Alberta Farm Loan Program, the Value Added and Agribusiness Program and the Commercial Loan Program, which were phased out in November of 2018. The Revolving Loan Program was unchanged, and continues to be offered.

In July, 2018, the lending limit increased from \$5 million to \$15 million. This increase enables AFSC to expand its ability to support agricultural producers, value-added businesses and rural businesses to start, grow and develop their operations.

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

These new lending programs address market gaps and the needs of Alberta’s entrepreneurs, who can now choose financial options that work for them.

## 2018-19 Year in Review

AFSC authorized 1,446 new direct loans for the period ending March 31, 2019, totaling \$430 million, above the \$385 million reported for 2017-18. This generated \$485 million in investments in the province’s agriculture, agribusiness and rural commercial sectors. AFSC’s lending portfolio increased to \$2.3 billion.

## Next Generation Loan Program (NGLP)

The NGLP program was effective September 4, 2018. It facilitates succession planning to provide new entrants and young agriculture producers with a consistent source of fixed-rate term loans to establish, grow and re-finance their agriculture operation. The Young Producer Incentive (YPI) helps reduce borrowing costs by an additional one per cent for up to five years.

### NEXT GENERATION LOAN AUTHORIZATIONS (since program inception)



## Developing Producer Loan Program (DPLP)

The DPLP was effective September 4, 2018. It helps existing agricultural producers to invest in their operation to allow the growth and expansion of their business.

### DEVELOPING PRODUCER LOAN AUTHORIZATIONS (since program inception)



## Alberta Producer Loan Program (APLP)

The APLP was effective September 4, 2018. It ensures existing agricultural producers have access to long term financing to maintain and sustain their operations.

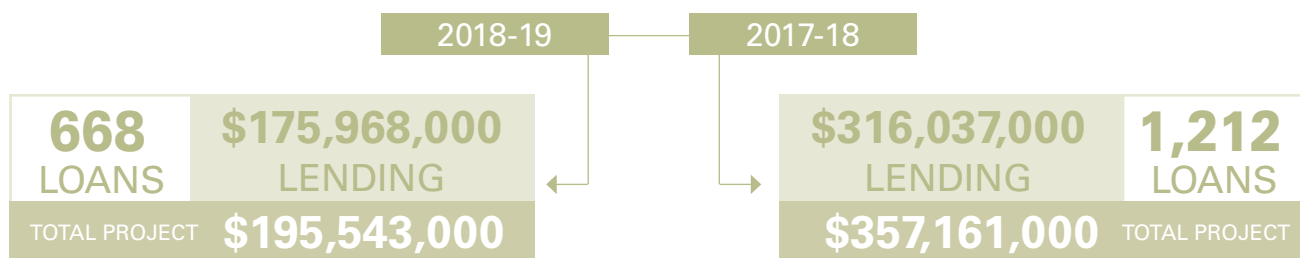
### ALBERTA PRODUCER LOAN PROGRAM AUTHORIZATIONS (since program inception)



## Alberta Farm Loan Program (AFLP)

The AFLP was discontinued November 2018 and replaced by the Next Generation Loan Program, the Developing Producer Loan Program and the Alberta Producer Loan Program. AFLP offered working capital to facilitate land and equipment purchases, and refinance existing debt. The Beginning Farmer Incentive helped producers by reducing borrowing costs by an additional 1.5 per cent for the first five years of the loan.

### ALBERTA FARM LOAN PROGRAM AUTHORIZATIONS (This program was discontinued November 5, 2018)





## Agribusiness Loan Program (ABLP)

The ABLP was effective September 4, 2018. It was established to support investment in Alberta's agribusiness sector to generate and maintain jobs, or support the sales and export of products.

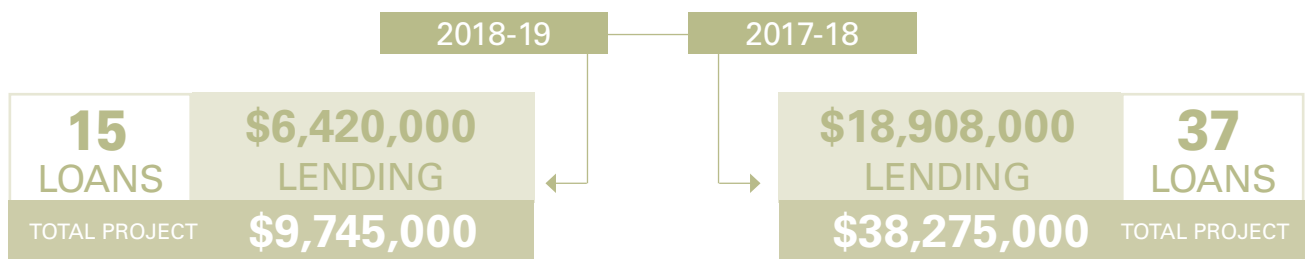
### AGRIBUSINESS LOAN AUTHORIZATIONS APPROVED (since program inception)



## Value-Added and Agribusiness Program (VAAP)

The VAAP program was discontinued in November 2018 and replaced by the Agribusiness Loan Program. It provided assistance to businesses supporting agriculture and agricultural-focused, value-added enterprises with fixed-rate terms for purchases including land, buildings, equipment, refinancing existing debt and working capital.

### VALUE-ADDED AND AGRIBUSINESS PROGRAM AUTHORIZATIONS (This program was discontinued November 5, 2018)



## Rural Business Loan Program (RBLP)

This RBLP was effective September 4, 2018. It was established to ensure Alberta’s rural small and medium-sized enterprises have access to much-needed financing.

### RURAL BUSINESS LOAN AUTHORIZATIONS

(since program inception)

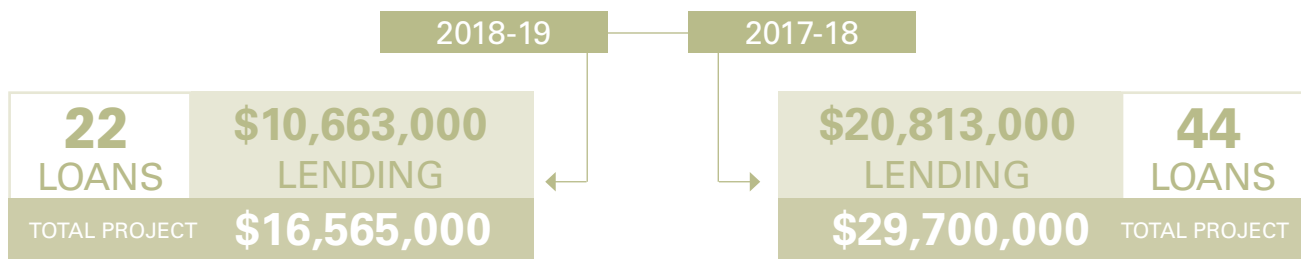


## Commercial Loan Program (CLP)

This CLP was discontinued November 2018 and replaced by was the Rural Business Loan Program. It provided capital to help both rural and urban commercial businesses grow their operations by providing fixed-rate loans. The total number of commercial loans approved for the 2018-19 year was 22, down from 44 in 2017-18.

### COMMERCIAL LOAN AUTHORIZATIONS

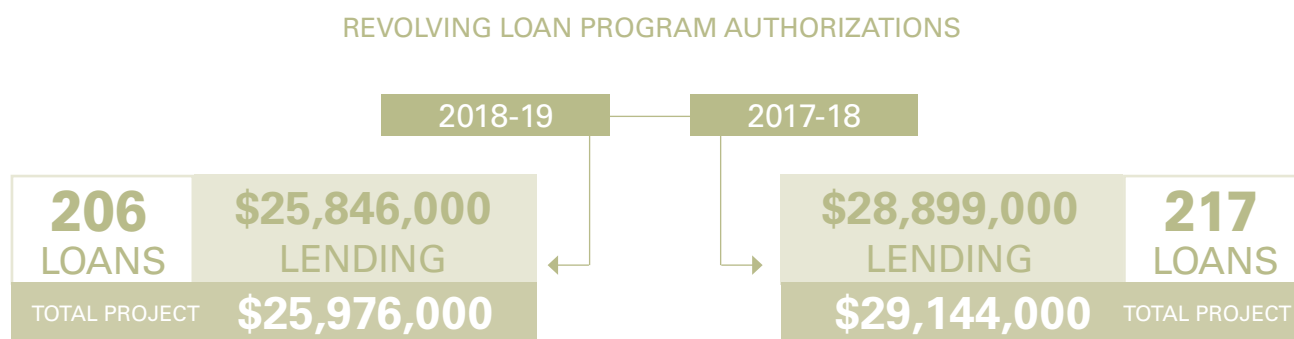
(This program was discontinued November 5, 2018)



## Revolving Loan Program (RLP)

The RLP was unchanged in 2018-19, and enables producers to borrow through a self-serve online account that can be accessed at any time. Funds can be used for input costs such as feed, seed, fuel and fertilizer. The program offers competitive fixed-rate terms for up to three years with no annual fees. Loans can be renewed upon expiry.

- The number of revolving loans approved for the 2018-19 year decreased slightly to 206 from 217 in the 2017-18 year. This program continues to be useful for clients who need convenience and flexibility in managing cash flow and the ability to continually re-advance funds as the loan is paid down.



## Lending portfolio performance

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

- Total loans approved: \$430 million for 2018-19, compared to the target of \$427 million. This is a 12 per cent increase from the prior year. The increase in the lending limit, as well as revitalized lending programs, have strengthened AFSC's ability to be competitive with other lenders. It has also enabled the organization to attract new borrowers and retain existing clients;
- The lending portfolio increased to \$2.305 billion from \$2.248 billion, representing a 2.5 per cent gain; and
- Overall lending arrears as of March 31, 2019 were 5.3 per cent, outperforming the target of 6.0 per cent. This is an improvement from 2017-18 when overall arrears were 5.8 per cent.



# Operational highlights

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“I really enjoyed using the new system. I greatly appreciated being able to fill out my crop reports online. Filling out the forms previously by hand was very tedious.”

2018 Client Survey Respondent  
referencing AFSC Connect,  
online client self-serve platform



## Client experience

The Client experience at AFSC is rooted in the development of its employees as the backbone of the organization and a vital link to providing the high level of service that Alberta producers and business owners deserve. Each interaction that a client has with AFSC should leave them feeling valued, heard and respected.

As the organization moves forward, client experience will be at the forefront of everything AFSC does. Frontline employees and those who support them in the Lacombe Central Office will be focused on enhancing the client experience through continuous improvement.

In 2018-19, AFSC continued to develop online solutions to provide clients with digital access and more options for conducting business. In one year since the successful launch of the client interaction system, *AFSC Connect: your business, your way*, clients have been using this tool to manage their business exchanges with the organization and to provide feedback. AFSC continues to offer multi-channel options to clients, including Live Chat as a tool for simpler, client-friendly interactions.

Feedback and trend analysis ensure that AFSC is meeting client expectations. It also provides employees with the online tools needed to support them. Surveys and information gathering sessions are two of the many ways feedback is collected.

AFSC conducted 13 client surveys in 2018-19 focusing on Lending (monthly) and Annual and Perennial Crop Insurance (annually). The average response rate to these surveys was 11 per cent. The surveys found that:

- 93 per cent of clients are either satisfied or very satisfied with their representative's knowledge;
- 89 per cent of clients indicated that AFSC employees take the time to understand their business; and
- 93 per cent of clients agree that AFSC employees have a pleasant attitude.

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



# Continuous improvement

Continuous improvement is a practice that improves products, services or processes. Improvements are made by constantly reviewing how work is done, how processes are carried out, and how technology is used to ensure that products and services are delivered effectively and efficiently.

At AFSC, continuous improvement will enable the corporation to adopt a client-first approach; increase client satisfaction; increase productivity; streamline business processes; reduce turnaround time; reduce operating costs; and improve employee engagement.

A full-time, dedicated continuous improvement team was formalized in December, 2018. This team works to find and resolve problems and positively affect the way AFSC operates.

AFSC employees are receiving training on the fundamentals of continuous improvement through the use of information centres to conduct daily huddles. This training began in 2018-19 and will be complete before the end of 2019.

Beginning in 2019-20 continuous improvement initiatives will reduce claim turnaround times, increase client satisfaction, increase client education, reduce administration costs and simplify our processes. The focus in the year ahead is on streamlining the insurance claims process and AgriStability claim processing.

The continuous improvement team will work to put our clients first by incorporating the concept of *Everyone Has a Client* across AFSC by developing a service catalogue and standardized service level agreements. This practice will establish a clear link between internal service and the external client experience, which will increase responsiveness throughout the organization.



## People

During this past year, AFSC implemented a number of corporate initiatives that saw a renewed focus on our employees. This will continue to result in creating a collaborative work environment.

- The People Strategy is a three-year plan focused on the workforce, using different methods such as learning and development, training, succession planning and ensuring a strong commitment to fill roles within AFSC. Through this strategy, services will be reformed to engender a sense of pride and confidence in the organization's ability to deliver excellence to the producers of Alberta. AFSC is committed to a high level of engagement and improved people management across the corporation. It is vital for the workforce to feel connected to the organization and to know how they contribute to agriculture in Alberta.
- Leadership development has been a strong focus, and training workshops were held with all levels of management across the corporation. Through this training, the entire organization will be well versed in leadership principles and practices by the end of fiscal 2019-20.
- AFSC.ca was launched in December, 2018 with a modernized look and improved analytics, to help better support employees who can then support clients' needs.

AFSC is proud to have been named a Top 100 Employer in Canada for 2018 and a Top 75 Employer in Alberta. These are never easy achievements and the organization is extremely proud to be able to celebrate these accomplishments for 10 years as Top 100 and 11 straight years for Top 75.

“It is only by learning that we can ever hope to change, grow and develop. AFSC is committed to investing in our people's learning to ensure we are supporting our producers and growing agriculture in Alberta.”

Kristine Wolski, Manager, Corporate Learning



# Community involvement

The 2018-19 fiscal year saw AFSC support several major trade shows and events, including: the Organic Grain Conference, Agri-Trade, Green Industry Show & Conference, Prairie Barley Summit, Alberta Potato Growers Conference, FarmTech, Ag Expo, Calgary Stampede, Advancing Women in Agriculture Conference, Canadian Bull Congress, Peace Country Classic, Farmfair International, Alberta Beef Industry Conference, Growing the North Conference and Farming Smarter.

AFSC also provided sponsorship to numerous agricultural conferences, 4-H Alberta clubs and local community and agriculture educational events, offering scholarships and programs.

## 2018 partnerships

### Ag for Life

Ag for Life provides agricultural education to school children, farm safety training to producers and acts as an advocate for farming with the public. AFSC's partnership includes recognition in Ag for Life's Agriculture 101 program, See Yourself in Ag Careers (formerly ThinkAg) and the What's in the Field initiative.

### Alberta Food Processors Association (AFPA)

In September, 2018, AFSC signed a two-year partnership with the organization, which represents, responds to and promotes members of the food and beverage industry in Alberta.

### 4-H Alberta

AFSC has been involved with 4-H Alberta for decades and is officially recognized as a Silver Clover Sponsor. In 2018-19, AFSC provided \$27,000 to Club Week and the Key Leaders programs and three \$1,000 scholarships. 4-H empowers youth to be skilled, engaged, responsible leaders who are passionate about making meaningful contributions to the world around them. 4-H Alberta believes in achieving results and excellence in communities—values that fit AFSC's community investment goals.

### AFSC 4-H Alberta Club Fund

The 4-H Alberta Club Fund is a new initiative for 2018-19. The funding supports 4-H Alberta clubs, districts and regions to help defray costs associated with starting new clubs and developing programs and activities. In addition to its annual partnership agreement with 4-H Alberta, AFSC granted \$30,112 to 112 clubs across the province.





# Community engagement

## **AFSC Client Appreciation Days**

In 2018, a total of 3,600 clients attended this one-week event. This was an impressive 37 per cent increase based on the most recent and recorded years and all branches participated.

Clients enjoyed snacks and beverages over the week and were given a thank-you package that included a card, an AFSC 80th Anniversary hat, a rain gauge and a tote bag. Clients could also enter to win a smoker. An additional entry was counted if clients signed up for AFSC Connect. A smoker was awarded to a client served by each delivery team.

## **AFSC Visual Arts Contest**

AFSC held a visual arts contest to commemorate 80 years of serving Alberta producers. Young artists from all over Alberta submitted their work, which highlighted this milestone and showcased the longstanding agriculture industry in Alberta.

## **AFSC Harvest Cheer**

Harvest 2018 brought its challenges and was a busy and often stressful time for clients and employees. That's why AFSC branches spent time delivering treats and refreshments to producers who were harvesting in the fields, spreading Harvest Cheer.

The Harvest Cheer initiative included AFSC-branded cooler bags to hold goodies and refreshments for clients. It was a meaningful way to touch base with them to make sure their needs were met. It was also a great opportunity to help them check out AFSC Connect and explore the platform in person.

The program continued into late October as AFSC clients worked to get their crops harvested.

## **Canadian Foodgrains Bank**

Canadian Foodgrains Bank provides a practical way for Canadian farmers to share their harvest with the less fortunate. This past year, AFSC sponsored 27 projects in 20 locations across Alberta, totaling more than 3,670 acres. AFSC supported these efforts by providing \$20,665 in Straight Hail Insurance for crops slated for donation.



# Whistleblower Protection Program

The Program provides a confidential and anonymous mechanism for AFSC employees and members of the public to disclose actions or events that they believe may constitute a form of wrongdoing as it concerns the affairs of AFSC. The disclosures of alleged wrongdoing are assessed by the Program's Designated Officer against the definition of "Wrongdoing" found in the *Public Interest Disclosure (Whistleblower Protection) Act*, SA 2012, c. P-39.5 (the "**PID Act**"). What constitutes a Wrongdoing under the PID Act may be significantly different than what a person unfamiliar with the PID Act may believe.

## Purposes of the Program

The purposes of the program are to:

- Establish and maintain whistleblower policies and procedures that comply with the PID Act that are designed to promote public confidence in the administration of AFSC;
- Facilitate the disclosure and investigation of wrongdoings that an employee believes may be unlawful, dangerous to the public or injurious to the public interest;
- Promote ethical behaviour by AFSC employees, managers and employees;
- Deter and detect improper activity within AFSC to positively affect the reputation, effectiveness and finances of AFSC;
- Enhance the working environment for employees, managers and employees; and
- Protect from retaliatory action any employee, manager, employee or other individual, who, in good faith, discloses improper activity occurring within AFSC. Protection from retaliation is also known as whistleblower protection.

## Program Annual Report

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

Disclosures Received	Disclosures Acted Upon	Disclosures Not Acted Upon	Investigations Commenced	Findings of Wrongdoing	Disclosures Closed
20	20	0	9	0	13

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



# Enterprise Risk Management

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

From this process, the ERM team produces a suite of risk reports which enables board oversight and drives effective management action in terms of deciding whether to accept more risk or mitigate existing risk. Through a partnership with all the functions in AFSC and clients, this standardized and co-ordinated approach allows the organization to pursue the realization of its vision, mission, and strategic goals.

The five risk areas monitored include credit, interest rate, liquidity, insurance and operations. Additional details can be found in the notes to the Financial Statements.

# Financial highlights

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“It gives me peace of mind that in event of crop losses I can still fulfill my financial obligations.”

2018 Client Survey Respondent  
referencing AFSC's Crop  
Insurance Program





## Financials at a glance

Overall, AFSC recorded revenue of \$1,011 million and expenses of \$861 million, which resulted in a net surplus of \$150 million. The surplus for 2018-19 was because of lower crop losses relative to premiums mainly due to another year of dry conditions resulting in fewer hail storms and hail indemnities.

AFSC's assets increased from \$5.398 billion to \$5.539 billion of which \$2.558 billion (46 per cent of all assets) represents investment of AgriInsurance surplus fund. AFSC's liabilities decreased from \$2.534 billion to \$2.526 billion.

The surplus balance carried over increased to \$2.995 billion. Included in the surplus balance is \$2.814 billion in the Crop Insurance Fund.

### AgriStability statistical summaries

Income Stabilization - AgriStability including Alberta Initiatives

Program Year	Number of Claims Processed	Support Level \$ ,000	Average Support Level \$	Number of Participants with Payment	Total Payment \$ ,000	Average Payment \$
2017*	4,509	920,762	317,285	548	36,465	66,543
2016	10,360	2,592,253	301,705	2,417	213,892	88,495
2015	11,835	2,564,557	261,689	801	56,764	70,867
2014	13,856	2,524,672	225,015	953	34,748	36,461
2013	16,598	2,516,211	196,441	1,819	68,617	37,722
2012	17,830	2,974,747	197,644	1,459	52,173	35,760

\* 4,509 Claims processed out of 9,394 total AgriStability claims as of March 31, 2019.

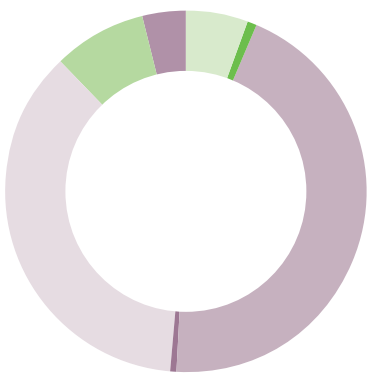
Claims are processed with a one year lag

## AgrilInsurance statistical summaries

AgrilInsurance for Annual and Perennial Crops as at March 31, 2019

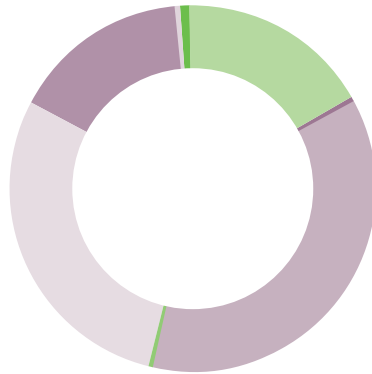
Crop Year	Number of Contracts	Acres \$,000	Liability \$,000	Premium \$,000	Loss \$,000	Loss/ Premium %
2018	16,686	22,126	4,831,721	654,876	523,147	79.9%
2017	16,938	21,860	4,527,779	694,617	437,104	62.9%
2016	18,056	22,993	4,669,386	750,114	499,919	66.6%
2015	17,030	21,422	4,042,181	617,889	483,466	78.2%
2014	17,428	21,324	3,522,122	584,862	373,221	63.8%
2013	18,418	21,698	4,364,681	780,420	308,535	39.5%

2018 Risk



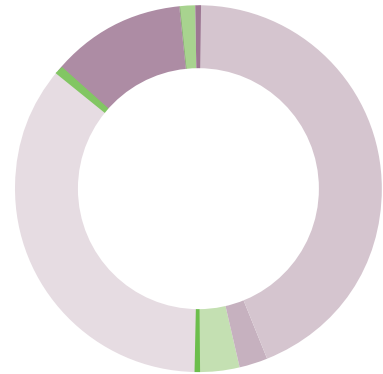
- Cereal, 44.64%
- Oilseed, 36.64%
- Pulse, 8.23%
- Forage, 5.79%
- Vegetables, 3.72%
- Sugar Beets, 0.66%
- Honey, 0.32%

2018 Loss



- Cereal, 36.72%
- Oilseed, 29.07%
- Forage, 16.94%
- Pulse, 15.76%
- Unseeded, 0.92%
- Vegetables, 0.29%
- Honey, 0.28%
- Sugar Beets, 0.02%

2018 Cause of Loss

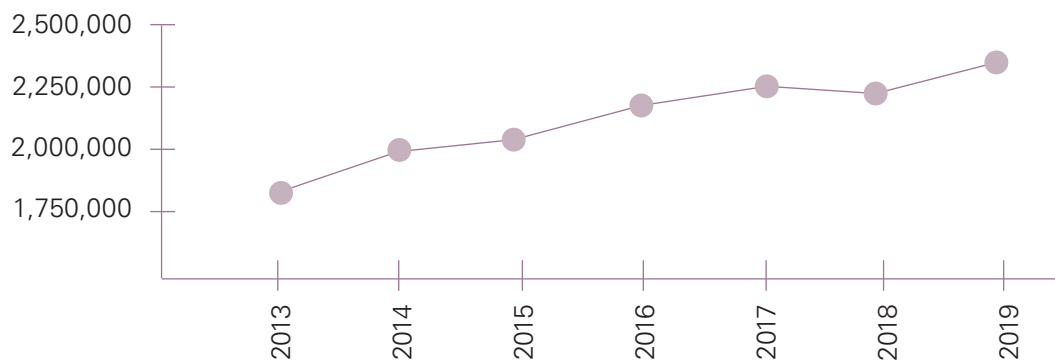


- Drought, 43.97%
- Hail, 35.80%
- Other, 12.28%
- Frost, 3.97%
- Excess moisture, 2.52%
- Price, 1.36%
- Insect Infestation, 0.05%
- Wind, 0.04%
- Plant Disease, 0.01%

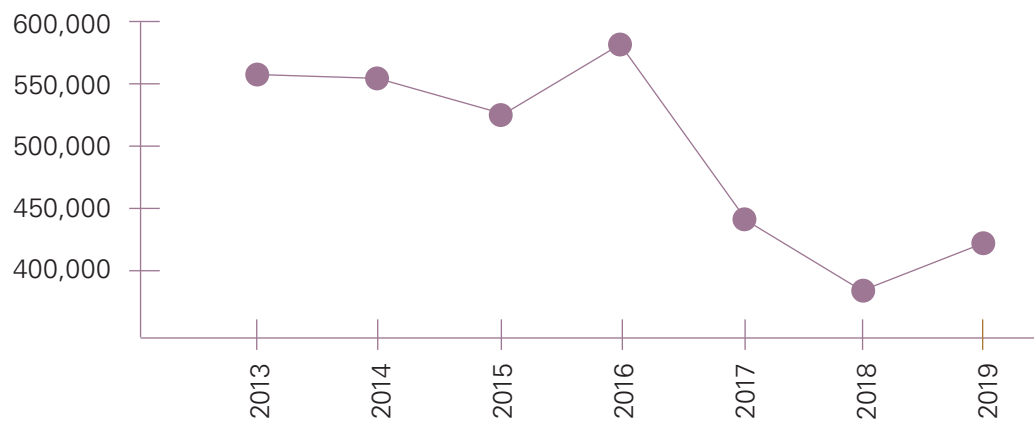
## Lending statistical summaries

March 31	New Loan Approvals \$,000	Portfolio Outstanding \$,000
2019	429,806	2,304,982
2018	384,957	2,247,876
2017	443,522	2,251,215
2016	562,053	2,177,536
2015	522,868	2,077,493
2014	551,068	1,959,334
2013	552,898	1,789,700

Portfolio Outstanding



New Loan Approvals



# Management's responsibility for financial reporting

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

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

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

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

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



# Financial statements

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AGRICULTURE FINANCIAL SERVICES CORPORATION

FINANCIAL STATEMENTS

MARCH 31, 2019

Independent Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Change in Net Financial Assets

Statement of Cash Flows

Notes to the Financial Statements

Schedule of Operations

Schedule of Salaries and Benefits

To the Board of Directors of the Agriculture Financial Services Corporation

## **Report on the Financial Statements**

### **Opinion**

I have audited the financial statements of the Agriculture Financial Services Corporation, which comprise the statement of financial position as at March 31, 2019, and the statements of operations, change in net financial assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Agriculture Financial Services Corporation as at March 31, 2019, and the results of its operations, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### **Basis for opinion**

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

### **Other information**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

May 30, 2019  
Edmonton, Alberta

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2019

(dollars in thousands)

	<u>2019</u>	<u>2018</u>
<b>FINANCIAL ASSETS</b>		
Cash	\$ 380,348	\$ 294,430
Accounts receivable (Note 3)	5,586	11,834
Due from Government of Alberta	57,820	106,461
Due from Government of Canada	194,824	226,853
Loans receivable (Note 4)	2,306,379	2,248,045
Investments (Note 5)	<u>2,558,113</u>	<u>2,472,038</u>
	5,503,070	5,359,661
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (Note 6)	17,723	15,255
Due to other Provincial Governments (Note 7)	4,566	2,832
Indemnities payable (Note 8)	248,335	288,540
Borrowing from Government of Alberta (Note 9)	2,248,721	2,220,290
Deferred revenue (Note 10)	<u>7,084</u>	<u>7,336</u>
	<u>2,526,429</u>	<u>2,534,253</u>
Net Financial Assets (Net Debt)	<u>2,976,641</u>	<u>2,825,408</u>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets (Note 11)	31,411	34,639
Prepaid expenses	<u>4,205</u>	<u>3,934</u>
	<u>35,616</u>	<u>38,573</u>
Net assets before deferred capital contributions	<u>3,012,257</u>	<u>2,863,981</u>
Spent deferred capital contributions (Note 10)	<u>\$ 17,544</u>	<u>\$ 19,282</u>
Net Assets	<u>\$ 2,994,713</u>	<u>\$ 2,844,699</u>
Net Assets		
Accumulated surplus	<u>\$ 2,994,713</u>	<u>\$ 2,844,699</u>

Contingencies, Contractual Obligations and Commitments (Note 13)

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

[Original signed by Jennifer Wood]

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

[Original signed by Steve Blakely]

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

[Original signed by Anna Harder]

\_\_\_\_\_  
Audit Chair

[Original signed by Darryl Kay]

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2019

(dollars in thousands)

	2019		2018
	Budget	Actual (Schedule 1)	Actual
Revenues:			
Premiums from insured persons	\$ 375,386	\$ 322,776	\$ 348,131
Interest	88,826	88,643	85,835
Contribution from Government of Alberta	314,840	299,524	356,855
Contribution from Government of Canada	265,055	238,159	316,013
Investment income	46,434	48,922	36,574
Fees and other income	14,233	12,955	14,434
	<u>1,104,774</u>	<u>1,010,979</u>	<u>1,157,842</u>
Expenses:			
Agrilnsurance	395,796	618,572	501,291
Agriculture Income Support	120,487	89,395	224,160
Lending	105,778	97,922	99,033
Hail Insurance	54,831	22,170	25,282
Livestock Insurance	34,814	13,082	21,117
Wildlife Damage Compensation	7,889	19,824	(1,475)
	<u>719,595</u>	<u>860,965</u>	<u>869,408</u>
Annual surplus	<u>\$ 385,179</u>	150,014	288,434
Accumulated surplus at beginning of year		<u>2,844,699</u>	<u>2,556,265</u>
Accumulated surplus at end of year		<u>\$ 2,994,713</u>	<u>\$ 2,844,699</u>

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



AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

YEAR ENDED MARCH 31, 2019

(dollars in thousands)

	2019		2018
	Budget	Actual	Actual
Net operating results	\$ 385,179	\$ 150,014	288,434
Acquisition of tangible capital assets	7,573	(5,481)	(6,902)
Amoritzation of tangible capital assets (Note 11)	9,440	8,235	9,526
Loss on disposal of tangible capital assets	-	443	-
Proceeds on sale tangible capital assets	-	31	6
Change in prepaid expenses	-	(271)	329
Change in spent deferred capital contributions	-	(1,738)	(193)
Increase in net financial assets in the year	402,192	151,233	291,200
Net financial assets, beginning of year	2,825,408	2,825,408	2,534,208
Net financial assets, end of year	<u>\$ 3,227,600</u>	<u>\$ 2,976,641</u>	<u>\$ 2,825,408</u>

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2019

(dollars in thousands)

	<u>2019</u>	<u>2018</u>
Operating activities:		
Net operating results	\$ 150,014	\$ 288,434
Non-cash items included in operating results		
Amortization of capital assets	8,235	9,526
Deferred capital contribution recognized as revenue	(5,183)	(5,061)
Amortization of premiums and discounts	136	(1,751)
Allowance for doubtful accounts and for losses	(778)	829
Gain on sale of investments	5,955	4,154
Loss (gain) on disposal of capital assets	443	(1)
Unearned revenue received	7,084	7,336
Changes in assets and liabilities relating to operations	<u>44,029</u>	<u>(88,325)</u>
Net cash provided by operating activities <sup>(1)</sup>	<u>209,935</u>	<u>215,141</u>
Investing activities:		
Proceeds from repayments of loans receivable	378,003	376,610
Loan disbursements	(437,101)	(389,373)
Purchase of investments	(1,047,287)	(1,403,900)
Proceeds on disposal of investments	<u>955,465</u>	<u>1,052,106</u>
Net cash utilized by investing activities	<u>(150,920)</u>	<u>(364,557)</u>
Capital activities:		
Purchase of tangible capital assets	(5,481)	(6,902)
Proceeds on disposal of tangible capital assets	<u>31</u>	<u>6</u>
Net cash utilized by capital activities	<u>(5,450)</u>	<u>(6,896)</u>
Financing activities:		
Borrowing from the Government of Alberta	850,000	1,145,000
Contributions restricted for capital	3,445	4,868
Repayment of borrowing from the Government of Alberta	<u>(821,092)</u>	<u>(1,128,779)</u>
Net cash provided by financing activities	<u>32,353</u>	<u>21,089</u>
Net increase (decrease) in cash during the year	85,918	(135,223)
Cash at beginning of year	<u>294,430</u>	<u>429,653</u>
Cash at end of year	<u>\$ 380,348</u>	<u>\$ 294,430</u>

<sup>(1)</sup> Net cash provided by operating activities includes \$68,234 (2018 \$68,028) of interest paid.

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

(dollars in thousands)

Note 1 Authority and Purpose

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

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

Note 2 Significant Accounting Policies and Reporting Practices

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

Basis of Financial Reporting:

(a) Revenue Recognition

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

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

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

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(a) Revenue Recognition (continued)

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

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

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

(b) Expenses

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

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

(c) Valuation of Financial Assets and Liabilities

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

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(d) Measurement Uncertainty

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

(e) Non-Financial Assets

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

(f) Cash

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

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

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

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

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

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

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

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

(h) Concessionary Loans and Loan Discounts

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

(i) Investments

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

(j) Borrowing from Government of Alberta

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(k) Tangible Capital Assets including Capital Leases

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

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

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

(l) AgriStability, AgriInvest and AgriRecovery Program

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

(m) Reinsurance

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

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(m) Reinsurance (continued)

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

(n) AgriInsurance Accumulated Surplus Restriction

In accordance with the Federal/Provincial Agricultural Policy Framework Implementation Agreement, the AgriInsurance accumulated surplus of \$2,814,351 (2018 \$2,694,432) is restricted for AgriInsurance purposes only (see Schedule 1).

(o) Pensions

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

(p) Transactions with Related Parties

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

(q) PS3260 Liability for Contaminated Sites

Contaminated sites are a result of contamination being introduced into air, soil, water, or sediment of a chemical, organic, or radioactive material, or live organism that exceeds an environmental standard. AFSC recognizes a liability for the sites no longer in use where the contamination has exceeded the relevant environmental standards and where AFSC has accepted responsibility. Included in Accounts Payable and Accrued Liabilities (Note 6) is a liability of \$1,256 for the estimated remaining remediation (2018 \$1,330).

(r) Net Debt Model

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



AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(r) Net Debt Model (continued)

A net financial asset balance indicates the extent of AFSC's dependence on government transfers and operating revenues to net assets resulting from settlement of its financial assets and liabilities.

(s) Future Accounting Changes

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

- **PS 3280 Asset Retirement Obligations (effective April 1, 2021)**  
Effective April 1, 2021, this standard provides guidance on how to account for and report liabilities for retirement of tangible capital assets.
- **PS 3400 Revenue (effective April 1, 2022)**  
This standard provides guidance on how to account for and report on revenue, specifically, it addresses revenue arising from exchange transactions and unilateral transactions.

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

Note 3 Accounts Receivable

	2019	2018
AgriStability & Canadian Agricultural Income Stabilization (CAIS) programs:		
Overpayments	\$ 3,982	\$ 5,047
Administration fees	337	328
Premiums from insured persons		
Livestock insurance program	2,308	1,064
AgriInsurance program	2,004	3,708
Hail insurance program	204	542
Other	1,834	7,394
	10,669	18,083
Allowances for doubtful accounts		
At beginning of year	(6,249)	(9,248)
Decrease (increase) for this year	1,193	1,199
Write offs, net of recoveries	(27)	1,800
At end of year	(5,083)	(6,249)
	\$ 5,586	\$ 11,834

Included in the allowances for doubtful accounts is \$3,982 (2018 \$5,047) representing the amount of overpayments under AgriStability and CAIS programs in recognition of the Corporation's role as an agent for collection. The allowance for doubtful accounts is subject to measurement uncertainty as it is an estimate based on management's assessment of collectability of outstanding balance. Actual write-offs realized in future periods could be materially different from management's estimates.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

(dollars in thousands)

Note 4      Loans Receivable

Loans receivable are comprised of the following:

	2019			2018
	Farm	Commercial	Total	Total
Performing loans - non concessionary	\$ 2,013,912	\$ 247,623	\$ 2,261,535	\$ 2,215,176
Performing loans - concessionary	1,443	-	1,443	2,130
Impaired loans	2,391	39,613	42,004	30,570
	<u>2,017,746</u>	<u>287,236</u>	<u>2,304,982</u>	<u>2,247,876</u>
Accrued interest	26,450	1,202	27,652	26,026
Loan discount	(18)	-	(18)	(27)
	<u>2,044,178</u>	<u>288,438</u>	<u>2,332,616</u>	<u>2,273,875</u>
Allowances	<u>(3,615)</u>	<u>(22,622)</u>	<u>(26,237)</u>	<u>(25,830)</u>
Net carrying value	<u>\$ 2,040,563</u>	<u>\$ 265,816</u>	<u>\$ 2,306,379</u>	<u>\$ 2,248,045</u>

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

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

Allowances for doubtful accounts for loans are as follows:

	Farm	Commercial	2019	2018
At beginning of year	\$ 4,807	\$ 21,023	\$ 25,830	\$ 36,768
Increase (decrease) for the year	(1,191)	1,606	415	2,028
Write-offs	(1)	(7)	(8)	(12,966)
At end of year	<u>\$ 3,615</u>	<u>\$ 22,622</u>	<u>\$ 26,237</u>	<u>\$ 25,830</u>
Specific allowance	\$ 552	\$ 19,379	\$ 19,931	\$ 13,687
General allowance	3,063	3,243	6,306	12,143
	<u>\$ 3,615</u>	<u>\$ 22,622</u>	<u>\$ 26,237</u>	<u>\$ 25,830</u>

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

Loans receivable are secured by tangible assets consisting predominantly of land followed by buildings, equipment and other assets. The estimated values of such assets are \$5,190,911 (2018 \$4,966,477).

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

(dollars in thousands)

Note 4 Loans Receivable (continued)

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

	2019	2018
Effective annual Interest Rate		
Less than or equal to 2%	\$ 175,509	\$ 198,672
2.01% to 3.00%	294,212	430,595
3.01% to 4.00%	716,110	706,808
4.01% to 5.00%	729,605	504,046
5.01% to 6.00%	267,725	285,645
6.01% to 7.00%	112,169	108,179
7.01% to 8.00%	8,553	11,691
Over 8%	1,081	2,213
	2,304,964	2,247,849
Accrued interest	27,652	26,026
Allowance for doubtful accounts	(26,237)	(25,830)
	<u>\$ 2,306,379</u>	<u>\$ 2,248,045</u>
Weighted average annual interest rate	4.01%	3.85%

Note 5 Investments

	2019	2018
Bonds and debentures:		
Government of Canada, direct and guaranteed	\$ 1,278,851	\$ 1,283,128
Other provincial, direct and guaranteed	96,885	87,921
	1,375,736	1,371,049
Corporate securities:		
Asset backed securities, AAA rated	684,433	602,882
Senior bank notes	485,858	486,282
	1,170,291	1,089,164
	2,546,027	2,460,213
Accrued interest	12,086	11,825
	<u>\$ 2,558,113</u>	<u>\$ 2,472,038</u>

The fair value of investments at March 31, 2019 is \$2,560,272 (2018 \$2,430,696). Fair value is based on quoted market prices excluding accrued interest.

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

(dollars in thousands)

Note 5 Investments (continued)

	Term to Maturity <sup>(1)</sup>			2019	2018
	Within 1 Year	1 to 5 Years	6 to 10 Years		
Bonds and debentures	\$ 151	\$ 1,375,585	\$ -	\$ 1,375,736	\$ 1,371,049
Yield <sup>(2)</sup>	1.73%	1.75%	-	1.75%	2.02%
Corporate Securities	3,920	1,156,371	10,000	1,170,291	1,089,164
Yield <sup>(2)</sup>	2.35%	2.28%	2.46%	2.29%	2.49%
Accrued interest	4,071	2,531,956	10,000	2,546,027	2,460,213
	3	11,970	113	12,086	11,825
	<u>\$ 4,074</u>	<u>\$ 2,543,926</u>	<u>\$ 10,113</u>	<u>\$ 2,558,113</u>	<u>\$ 2,472,038</u>

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

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

Note 6 Accounts Payable and Accrued Liabilities

	2019	2018
Supplies and services	\$ 12,788	\$ 9,759
Salaries, wages and employee benefits	4,852	4,935
Reinsurance Premiums to Government of Canada	18	19
Other	65	542
	<u>\$ 17,723</u>	<u>\$ 15,255</u>

Note 7 Due (to) from Other Provincial Governments

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

(dollars in thousands)

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

Breakdown of the amounts owing is as follows:

	2019	2018
Premiums collected	\$ 27,514	\$ 22,703
Indemnities paid	(17,709)	(17,247)
Administration costs receivable	(154)	(364)
Reinsurance premiums	(7,438)	(4,613)
Reinsurance expense net of ceded premiums	2,353	2,353
	\$ 4,566	\$ 2,832

Note 8 Indemnities Payable

	2019	2018
	(Note 2(l))	(Note 2(l))
AgriStability (previously CAIS program), AgriInvest, AgriRecovery and related programs		
Current claim year	\$ 148,686	\$ 149,300
Prior claim years	49,461	110,198
	198,147	259,498
AgriInsurance	44,092	17,860
Wildlife compensation	2,469	1,022
Hail insurance	93	-
Livestock price insurance	3,534	10,160
	\$ 248,335	\$ 288,540

Estimated indemnities payable of \$248,335 and corresponding contributions and receivables from the Governments of Canada and Alberta are subject to measurement uncertainty because they could change materially in the future, if factors and assumptions considered by management in establishing the estimates were to change significantly.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

(dollars in thousands)

Note 8 Indemnities Payable (continued)

Estimated indemnities for the current claim year for the AgriStability and AgriInvest programs are based on a variety of factors such as number of participants, estimated reference margins, estimated claim year margins based on projected forecast commodity prices, crop yields, inventory changes and forecast changes in eligible income and expenses on an aggregate basis for different types of agriculture industry. Based on the above key assumptions and using a statistical model for projections estimated indemnities for the current year would be in the range of \$116,330 to \$187,574. In four of the past five years, actual indemnities fell outside of the range.

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

Estimated indemnities payable for the AgriInsurance program are based upon number of claims remaining to be paid and average claim payment amounts. The indemnities payable also includes claims deferred by producers. Based on that information the projected estimated indemnities would be in the range of \$32,995 to \$55,187.

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

Note 9 Borrowing from Government of Alberta

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

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

(dollars in thousands)

Note 9 Borrowing from Government of Alberta (continued)

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

	2019	2018
Effective annual Interest Rate		
Less than or equal to 2%	\$ 370,000	\$ 355,000
2.01% to 3.00%	833,000	683,000
3.01% to 4.00%	657,373	759,238
4.01% to 5.00%	375,751	400,751
5.01% to 6.00%	-	9,227
	2,236,124	2,207,216
Accrued interest	14,839	14,198
Unamortized premium	(2,242)	(1,124)
	\$ 2,248,721	\$ 2,220,290
Weighted average annual interest rate	3.07%	3.06%
Year ending March 31,		
2020	\$ 393,109	
2021	225,000	
2022	181,432	
2023	136,431	
2024	294,431	
Thereafter	1,005,721	
	\$ 2,236,124	

The estimated fair value of borrowings as at March 31, 2019 is \$2,336,510 (2018 \$2,272,966). Fair value is an approximation of market value to the holder.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

(dollars in thousands)

Note 10 Deferred Revenue

	<u>2019</u>	<u>2018</u>
Unearned revenue	\$ 7,084	\$ 7,336
Spent deferred capital contributions	<u>17,544</u>	<u>19,282</u>
	<u>\$ 24,628</u>	<u>\$ 26,618</u>

	<u>2019</u>			<u>2018</u>
	<u>Government of Canada</u>	<u>Non- government</u>	<u>Government of Alberta</u>	<u>Total</u>
Unearned revenue				<u>Total</u>
Balance at beginning of year	\$ -	\$ 7,336	\$ -	\$ 7,336
Received during year	-	7,084	-	7,084
Less amounts recognized	-	<u>(7,336)</u>	-	<u>(7,336)</u>
Balance at end of year	<u>\$ -</u>	<u>\$ 7,084</u>	<u>\$ -</u>	<u>\$ 7,084</u>

	<u>2019</u>			<u>2018</u>
	<u>Government of Canada</u>	<u>Non- government</u>	<u>Government of Alberta</u>	<u>Total</u>
Spent deferred capital contributions				<u>Total</u>
Balance at beginning of year	\$ 11,220	\$ 582	\$ 7,480	\$ 19,282
Transferred capital assets received	2,067	-	1,378	3,445
Less amounts recognized as revenue	<u>(3,052)</u>	<u>(97)</u>	<u>(2,034)</u>	<u>(5,183)</u>
Balance at end of year	<u>\$ 10,235</u>	<u>\$ 485</u>	<u>\$ 6,824</u>	<u>\$ 17,544</u>

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



AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

(dollars in thousands)

Note 11 Tangible Capital Assets

	<u>Land</u>	<u>Building</u>	<u>Furniture and Fixtures</u>	<u>Computer Equipment and Software</u>		
Estimated Useful Life	<u>Indefinite</u>	<u>25 - 40 years</u>	<u>5 - 10 years</u>	<u>2 - 10 years</u>	<u>2019</u>	<u>2018</u>
<b>Cost</b>						
At beginning of year	\$ 1,831	\$ 10,259	\$ 12,179	\$ 112,004	\$ 136,273	\$ 134,337
Additions	596	-	394	4,491	5,481	6,902
Disposals	-	-	(191)	(3,213)	(3,404)	(4,967)
	<u>2,427</u>	<u>10,259</u>	<u>12,382</u>	<u>113,282</u>	<u>138,350</u>	<u>136,272</u>
<b>Accumulated amortization</b>						
At beginning of year	-	6,196	9,814	85,624	101,634	97,068
Amortization expense	-	186	648	7,401	8,235	9,526
Disposals	-	-	(122)	(2,808)	(2,930)	(4,961)
	<u>-</u>	<u>6,382</u>	<u>10,340</u>	<u>90,217</u>	<u>106,939</u>	<u>101,633</u>
Net book value at						
March 31, 2019	<u>\$ 2,427</u>	<u>\$ 3,877</u>	<u>\$ 2,042</u>	<u>\$ 23,065</u>	<u>\$ 31,411</u>	
Net book value at						
March 31, 2018	<u>\$ 1,831</u>	<u>\$ 4,063</u>	<u>\$ 2,365</u>	<u>\$ 26,380</u>		<u>\$ 34,639</u>

Computer equipment and software costs include \$4,284 (2018 \$3,056) of costs incurred that are not amortized because they are still in the development stage.

Note 12 Pensions

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

AFSC does not have sufficient plan information to follow the standards for defined benefit accounting, and therefore, follows the standards for defined contribution accounting. Accordingly, pension expense recorded for the plans is comprised of employer contributions to the plan that are required for its employees during the year, which are calculated based on actuarially pre-determined amounts that are expected to provide the plan's future benefits. The expense for these pension plans is equivalent to the annual contributions of \$5,218 for the year ended March 31, 2019 (2018 \$5,808).

At December 31, 2018, the Alberta Management Employees Pension Plan reported a surplus of \$670,700 (2017 surplus \$866,006), the Local Authorities Pension Plan reported a surplus of \$3,469,347 (2017 surplus \$4,835,515), the Alberta Public Service Pension Plan reported a surplus of \$519,218 (2017 surplus \$1,275,843) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of \$70,310 (2017 deficiency \$54,984). The Corporation's share of these pension plans' deficiency is not determinable. The Corporation is not responsible for future funding of the plan deficits other than through contribution increases.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

(dollars in thousands)

Note 13 Contingencies, Contractual Obligations and Commitments

Contingent Liability

	2019	2018
Loan guarantees	\$ 5,933	\$ 9,686

Included in loan guarantees is \$2,955 (2018 \$7,365) guaranteed under the Alberta Flood Recovery Loan Guarantee Program (AFRLGP), which was established to assist Alberta businesses directly impacted by the June 2013 flood in southern Alberta. Under the AFRLGP, the Corporation has entered into agreements with financial institutions guaranteeing repayment of up to 75% of loans issued under this program.

The Corporation has not been named in any legal matters of which the outcome is not determinable (2018 two claims totaling \$312).

Contractual Obligations

	2019	2018
Reinsurance	5,962	28,898
Operating leases	9,513	11,187
Other contracts	6,259	6,636
Total contractual obligations	\$ 21,734	\$ 46,721

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

Year ending March 31,		\$	
	2020		12,856
	2021		2,826
	2022		1,856
	2023		1,136
	2024		879
	Thereafter		2,181
		\$	21,734

AFSC entered into a quota share reinsurance contract which is a pro rata reinsurance contract in which the insurer and the reinsurer share in premiums and indemnities according to a fixed percentage. The fixed percentages are 55% for Livestock insurance and 30% for Hail insurance.

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

(dollars in thousands)

Note 13 Contingencies, Contractual Obligations and Commitments (continued)

Commitments

	2019	2018
Approved, undisbursed loans	\$ 204,655	\$ 195,932

Note 14 Financial Instruments and Financial Risk Management

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

Credit Risk

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

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

	2019	2018
Loans receivable	\$ 2,306,379	\$ 2,248,045
Investments	2,558,113	2,472,038
Due from Government of Canada	194,824	226,853
Due from Government of Alberta	57,820	106,461
Accounts receivable	5,586	11,834
Loan guarantees	5,933	9,686
Total commitments	\$ 5,128,655	\$ 5,074,917

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

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

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

(dollars in thousands)

Note 14 Financial Instruments and Financial Risk Management (continued)

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

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

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

	<u>2019</u>		<u>2018</u>	
	<u>Dollar</u>	<u>Percentage</u>	<u>Dollar</u>	<u>Percentage</u>
Loans receivable by individual sector:				
Grain and Oilseeds	\$ 1,260,479	55%	\$ 1,189,275	53%
Cattle	681,432	29%	635,419	28%
Accommodations and Other Services	118,061	5%	137,467	6%
Other Livestock	77,807	3%	73,872	3%
Manufacturing	63,416	3%	83,456	4%
Trade - Retail and Wholesale	31,966	1%	34,905	1%
Commercial and Industrial	16,459	1%	20,669	1%
Transportation and Warehousing	13,143	1%	21,457	1%
Professional Services	12,725	1%	15,943	1%
Other	57,128	2%	61,412	3%
Allowance	(26,237)	-1%	(25,830)	-1%
	<u>\$ 2,306,379</u>	<u>100%</u>	<u>\$ 2,248,045</u>	<u>100%</u>

Interest Rate Risk

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

(dollars in thousands)

Note 14 Financial Instruments and Financial Risk Management (continued)

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

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

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

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

	Scheduled Repayment <sup>(1)</sup>				Not <sup>(2)</sup> Interest Rate Sensitive	2019	2018
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years		Total	Total (Restated)
Loan balances	\$ 199,742	\$ 625,076	\$ 642,976	\$ 814,315	\$ 24,270	\$ 2,306,379	\$ 2,248,045
Yield	3.87%	4.05%	4.17%	4.22%	-	4.09%	3.88%
Borrowing from							
Government of Alberta	\$ 393,109	\$ 837,294	\$ 755,721	\$ 250,000	\$ 12,597	\$ 2,248,721	\$ 2,220,290
Yield <sup>(3)</sup>	3.14%	3.19%	3.10%	3.09%	-	3.16%	3.21%
Net gap	<u>\$ (193,367)</u>	<u>\$ (212,218)</u>	<u>\$ (112,745)</u>	<u>\$ 564,315</u>	<u>\$ 11,673</u>	<u>\$ 57,658</u>	<u>\$ 27,755</u>

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

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

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

(dollars in thousands)

Note 14 Financial Instruments and Financial Risk Management (continued)

Liquidity Risk

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

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

Note 15 Related Party Transactions

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

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

	<u>2019</u>	<u>2018</u>
Revenues:		
Grants	\$ 299,524	\$ 356,855
Other	-	60
	<u>\$ 299,524</u>	<u>\$ 356,915</u>
Expenses:		
Accommodation	\$ 602	\$ 619
Other services	2,739	2,362
Interest	68,349	67,953
	<u>\$ 71,690</u>	<u>\$ 70,934</u>
Payable to:		
Ministry of Agriculture and Forestry	\$ 650	\$ -
Ministry of Treasury Board and Finance	2,248,721	2,220,290
Receivable from:		
Ministry of Agriculture and Forestry	57,820	106,461
Deferred Revenue from:		
Ministry of Agriculture and Forestry	6,824	7,480
	<u>\$ 2,314,015</u>	<u>\$ 2,334,231</u>

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

(dollars in thousands)

Note 16 Crop Reinsurance Funds

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

	AgrilInsurance Reinsurance Fund of Alberta		AgrilInsurance Reinsurance Fund of Canada for Alberta	
	2019	2018	2019	2018
Opening net assets	\$ 33,641	\$ 33,642	\$ 34,530	\$ 34,531
Contributions	-	(1)	-	(1)
Closing net assets	<u>\$ 33,641</u>	<u>\$ 33,641</u>	<u>\$ 34,530</u>	<u>\$ 34,530</u>

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

Note 17 Reinsurance Expense

	AgrilInsurance	Hail Insurance	Livestock Insurance	2019	2018
Brokerage					
Brokerage rebate	\$ (905)	\$ (160)	\$ (216)	\$ (1,281)	\$ (1,358)
Excess loss					
Reinsurance expense	17,077	917	2,850	20,844	22,614
Recoveries	-	-	-	-	-
Quota Share					
Ceded premiums and commissions	-	11,055	8,011	19,066	21,769
Ceded losses	-	(5,643)	(832)	(6,475)	(13,495)
Net reinsurance expense	<u>\$ 16,172</u>	<u>\$ 6,169</u>	<u>\$ 9,813</u>	<u>\$ 32,154</u>	<u>\$ 29,530</u>

Note 18 Budget

The budget reported in the Statement of Operations was included in the 2018/19 Government Estimates.

Note 19 Comparative Figures

The 2018 figures have been reclassified and restated where necessary to conform to 2019 presentation.

**AGRICULTURE FINANCIAL SERVICES CORPORATION**  
**SCHEDULE OF OPERATIONS**  
**YEAR ENDED MARCH 31, 2019**  
(dollars in thousands)

	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>
	<u>AgrilInsurance</u>	<u>AgrilInsurance</u>	<u>Agriculture Income Support</u>	<u>Agriculture Income Support</u>	<u>Lending</u>
	Note 2(n)	Note 2(n)			
<b>Revenues:</b>					
Premiums from insured persons	\$ 267,683	\$ 282,834	\$ -	\$ -	\$ -
Interest	680	541	133	66	87,671
Contribution from Government of Alberta	229,614	242,670	45,927	101,775	12,955
Contribution from Government of Canada	194,308	203,150	33,100	112,252	-
Investment income	46,328	35,203	758	271	763
Fees and other income	(122)	48	9,833	10,336	2,788
	<u>738,491</u>	<u>764,446</u>	<u>89,751</u>	<u>224,700</u>	<u>104,177</u>
<b>Expenses:</b>					
Indemnities	557,515	439,683	77,292	210,716	-
Salaries, wages and employee benefits	28,091	26,332	8,488	9,411	19,003
Supplies and services	13,533	12,800	3,834	4,035	6,422
Amortization of tangible capital assets	3,320	4,004	881	1,087	2,833
Interest	-	-	-	-	69,250
Reinsurance (Note 17)	16,172	18,587	-	-	-
Allowance for doubtful accounts and for losses (Note 3 & 4)	(59)	(115)	(1,100)	(1,089)	414
	<u>618,572</u>	<u>501,291</u>	<u>89,395</u>	<u>224,160</u>	<u>97,922</u>
Annual surplus	119,919	263,155	356	540	6,255
Accumulated surplus at beginning of year	2,694,432	2,431,277	1,761	1,221	85,175
Accumulated surplus at end of year	<u>\$ 2,814,351</u>	<u>\$ 2,694,432</u>	<u>\$ 2,117</u>	<u>\$ 1,761</u>	<u>\$ 91,430</u>



2018	2019	2018	2019	2018	2019	2018	2019	2018
Lending	Hail Insurance	Hail Insurance	Livestock Insurance	Livestock Insurance	Wildlife Damage Compensation	Wildlife Damage Compensation	Total	Total
\$ -	\$ 35,010	\$ 42,534	\$ 20,083	\$ 22,763	\$ -	\$ -	\$ 322,776	\$ 348,131
85,052	114	95	45	81	-	-	88,643	85,835
12,547	-	-	794	737	10,234	(874)	299,524	356,855
-	-	-	1,103	1,089	9,648	(478)	238,159	316,013
532	554	245	591	329	(72)	(6)	48,922	36,574
2,805	263	393	93	716	100	136	12,955	14,434
100,936	35,941	43,267	22,709	25,715	19,910	(1,222)	1,010,979	1,157,842
-	14,267	14,779	904	16,375	18,287	(3,168)	668,265	678,385
19,643	657	662	1,118	1,127	924	937	58,281	58,112
5,969	613	600	657	594	499	623	25,558	24,621
2,988	485	699	602	615	114	133	8,235	9,526
68,405	-	-	-	-	-	-	69,250	68,405
-	6,169	8,525	9,813	2,418	-	-	32,154	29,530
2,028	(21)	17	(12)	(12)	-	-	(778)	829
99,033	22,170	25,282	13,082	21,117	19,824	(1,475)	860,965	869,408
1,903	13,771	17,985	9,627	4,598	86	253	150,014	288,434
83,272	30,691	12,706	31,093	26,495	1,547	1,294	2,844,699	2,556,265
\$ 85,175	\$ 44,462	\$ 30,691	\$ 40,720	\$ 31,093	\$ 1,633	\$ 1,547	\$ 2,994,713	\$ 2,844,699

AGRICULTURE FINANCIAL SERVICES CORPORATION

SCHEDULE OF SALARIES AND BENEFITS

YEAR ENDED MARCH 31, 2019

(dollars in thousands)

	2019				2018
	Base Salary <sup>(1)</sup>	Other Cash Benefits <sup>(2)</sup>	Other Non-cash Benefits <sup>(3)</sup>	Total	Total
Chair of Board <sup>(4)</sup>	\$ 43	\$ -	\$ 1	\$ 44	\$ 48
Board Members <sup>(5)</sup>	89	-	2	91	106
Executive Members					
Chief Executive Officer <sup>(6)</sup>	286	-	61	347	-
Chief Financial & Innovation Officer <sup>(7)</sup>	210	9	51	270	-
Vice-President, Legal & Compliance, General Counsel <sup>(8)</sup>	80	148	19	247	234
Interim Vice-President, Innovation & Product Development <sup>(9)</sup>	182	4	44	230	249
Interim Vice-President, Operation & Sales	173	7	42	222	222
Chief People Officer	173	4	42	219	199
Chief Information Officer	174	-	42	216	229
Chief Risk Officer <sup>(10)</sup>	37	-	13	50	-
Interim CEO <sup>(11)</sup>	20	-	5	25	318
Interim Chief Financial Officer <sup>(12)</sup>	15	1	3	19	154
Chief Operating Officer <sup>(13)</sup>	-	-	-	-	81

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

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

(3) Other non-cash benefits include employer's share of all employee benefits and contributions or payments made on behalf of employees, including health care, dental, medical and vision care, group life insurance benefits, pension and supplementary retirement plan, employment insurance, accidental death/dismemberment and long-term disability insurance, workers' compensation and professional memberships.

(4) The amounts relate to twelve months during 2018/19 (eleven months in 2017/18).

(5) The amounts relate to twelve months during 2018/19 (eleven months in 2017/18).

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

(7) The amounts relate to eleven months during 2018/19.

(8) The amounts relate to six months during 2018/19 (twelve months in 2017/18). Included in other cash benefits is \$134 in severance benefits paid as a result of a termination agreement.

(9) The amounts relate to eleven months during 2018/19 (twelve months in 2017/18).

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

(11) The amounts relate to one month during 2018/19 (twelve months in 2017/18).

(12) The amounts relate to one month during 2018/19 (eight months during 2017/18).

(13) The amounts relate to one month during 2017/18.





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