AGRICULTURE FINANCIAL SERVICES CORPORATION

FINANCIAL STATEMENTS
Year ended March 31, 2014

Independent Auditor's Report

To the Board of Directors of the Agriculture Financial Services Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of the Agriculture Financial Services Corporation, which comprise the statement of financial position as at March 31, 2014, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Agriculture Financial Services Corporation as at March 31, 2014, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 4, 2014
Edmonton, Alberta

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2014
(dollars in thousands)

	2014	2013
ASSETS		
Cash	$ 232,017	$ 261,039
Accounts receivable (Note 3)	11,992	10,877
Due from Government of Alberta	40,176	110,445
Due from Government of Canada	116,260	147,835
Loans receivable (Note 4)	1,954,399	1,777,381
Investments (Note 5)	1,634,743	1,119,771
Tangible capital assets (Note 6)	43,959	45,190
	$ 4,033,546	$ 3,472,538
LIABILITIES		
Accounts payable and accrued liabilities (Note 7)	$ 16,719	$ 22,839
Indemnities payable (Note 8)	133,828	202,743
Borrowing from Government of Alberta (Note 9)	1,946,568	1,808,219
Deferred revenue (Note 10)	23,978	27,578
	2,121,093	2,061,379
NET ASSETS		
Net assets at beginning of year	1,411,159	1,350,581
Adjustment to opening net assets (Note 2)	-	(14,205)
Net operating results	501,294	74,783
Net assets at end of year	1,912,453	1,411,159
	$ 4,033,546	$ 3,472,538

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

Approved by the Board:

George Groeneveld, Chair of the Board

Bill Daye, Chair of the Board Audit Committee

Brad Klak, President and Managing Director

Darryl Kay, Chief Financial Officer

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2014
(dollars in thousands)

	2014 Budget	2014 Actual (Schedule 1)	2013 Actual
Revenues:			
Premiums from insured persons	$ 313,216	$ 378,967	$ 314,114
Interest	93,580	85,149	80,485
Contribution from Government of Alberta	310,414	328,198	306,878
Contribution from Government of Canada	276,860	258,570	245,737
Investment income	30,397	32,810	30,598
Fees and other income	12,569	14,200	24,189
	1,037,036	1,097,894	1,002,001
Expenses:			
AgriInsurance	366,208	371,944	616,863
Agriculture Income Support	139,709	73,151	112,142
Lending	113,056	90,471	103,987
Hail Insurance	49,089	42,576	64,111
Livestock Insurance	6,313	8,740	24,859
Wildlife Damage Compensation	7,491	9,718	5,256
	681,866	596,600	927,218
Net operating results	$ 355,170	$ 501,294	$ 74,783

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2014
(dollars in thousands)

	2014	2013
Operating activities:		
Net operating results	$ 501,294	$ 74,783
Non-cash items included in operating results		
Amortization of capital assets	9,516	8,582
Deferred capital contribution recognized as revenue	(4,838)	(3,184)
Amortization of premiums and discounts	7,499	5,694
Unearned revenue recognized as revenue	(11,566)	(12,976)
Allowance for doubtful accounts and for losses	(3,273)	10,102
Gain on sale of investments	(3,907)	(2,972)
Loss on disposal of capital assets	1	(46)
Unearned revenue received	5,732	11,566
Changes in assets and liabilities relating to operations	23,836	(7,656)
Net cash provided by operating activities[(1)]	524,294	83,893
Investing activities:		
Proceeds from repayments of loans receivable	327,660	316,571
Loan disbursements	(502,067)	(502,915)
Purchase of investments	(1,088,998)	(524,675)
Proceeds on disposal of investments	574,696	483,866
Net cash utilized by investing activities	(688,709)	(227,153)
Capital activities:		
Purchase of tangible capital assets	(8,286)	(7,244)
Proceeds on disposal of tangible capital assets	-	46
Net cash utilized by capital activities	(8,286)	(7,198)
Financing activities:		
Borrowing from the Government of Alberta	330,000	355,000
Contributions restricted for capital	7,072	4,991
Repayment of borrowing from the Government of Alberta	(193,393)	(226,053)
Net cash provided by financing activities	143,679	133,938
Net decrease in cash during the year	(29,022)	(16,520)
Cash at beginning of year	261,039	277,559
Cash at end of year	$ 232,017	$ 261,039

(1) Net cash provided by operating activities includes $69,691 (2013 $68,397) of interest paid.

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

Note 1 Authority and Purpose

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

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

Note 2 Significant Accounting Policies and Reporting Practices

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

Basis of Financial Reporting:

(a) Revenue Recognition

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

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

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

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

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) Net Assets

Net assets represent the difference between the carrying value of assets held by the Corporation and its liabilities.

Canadian public sector accounting standards require a “net debt” presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as “net debt” or “net financial assets” as an indicator of the future revenues required to pay for past transactions and events. The Corporation operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(d) 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 foreign currency transactions, these statements do not present a Statement of Re-measurement Gains and Losses as the Corporation has no re-measurement gains or losses.

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

(e) 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).

(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 are recorded at the lower of cost and net recoverable value. 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.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

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

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

General allowance – two types of general allowance are recorded. The first type is for estimated potential 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 balance sheet date. A methodology is applied to determine the Corporation's risk exposure to potential losses on individual loan accounts not subject to a specific allowance. The second type is for the aggregate amount owing for individual loans under a specific program or industry sector or a geographical area. In determining the allowance, management considers economic and market conditions and uncertainties affecting recoverability of such loans.

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

(h) Concessionary Loans and Loan Discounts

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

(i) Investments

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

(j) Borrowing from Government of Alberta

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

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(k) Tangible Capital Assets including Capital Leases

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

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

(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 15).

In addition, the Corporation carries reinsurance through private reinsurance companies for AgriInsurance and Hail insurance programs. Amounts recoverable from private reinsurers on premiums and indemnities are recorded in Accounts receivable.

Reinsurance recoveries are reported gross; they are included in fees and other revenue. Reinsurance expenses are reported at gross amounts and are separately disclosed in Schedule 1.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(n) AgriInsurance Net Assets Balance Restriction

In accordance with the Federal/Provincial Agricultural Policy Framework Implementation Agreement, amounts in the AgriInsurance net assets are restricted for AgriInsurance purposes only.

(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 14).

(q) Prior Year Adjustment to Opening Net Assets

Effective April 1, 2012 the Corporation changed its policy for recording contributions received from the Federal and Provincial governments that are restricted for the acquisition of tangible capital assets. Previously, restricted capital contributions were recorded as revenue when the tangible capital assets were acquired. As a result of this policy change, restricted capital contributions are recognized as deferred revenue upon receipt and amortized to revenue over the useful life of capital assets. This policy was adopted retroactively without restatement of comparatives. The opening net assets for the prior year decreased by $14,205.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 3 Accounts Receivable

	2014	2013
AgriStability & Canadian Agricultural		
Income Stabilization (CAIS) programs:		
Overpayments	$ 19,434	$ 19,361
Administration fees	549	613
Premiums from insured persons		
AgriInsurance program	2,020	7,368
Livestock insurance program	2,918	561
Hail insurance program	379	196
Amounts due under Western Livestock		
Price insurance program	1,368	-
Other	4,942	2,665
	31,610	30,764
Allowances for doubtful accounts		
At beginning of year	(19,887)	(21,611)
Decrease (increase) for this year	70	1,469
Write offs, net of recoveries	199	255
At end of year	(19,618)	(19,887)
	$ 11,992	$ 10,877

Included in the allowances for doubtful accounts is $19,434 (2013 $19,361) representing the amount of overpayments under AgriStability and CAIS programs in recognition of the Corporation's role as an agent for collection. Also included in the allowances is $184 (2013 $526) for premiums from insured persons. 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.

(dollars in thousands)

Note 4 Loans Receivable

Loans receivable are comprised of the following:

	2014			2013
	Farm	Commercial	Total	Total
Performing loans - non concessionary	$ 1,475,764	$ 447,741	$ 1,923,505	$ 1,745,540
Performing loans - concessionary	7,274	-	7,274	10,373
Impaired loans	4,576	25,459	30,035	33,787
	1,487,614	473,200	1,960,814	1,789,700
Accrued interest	24,065	2,201	26,266	25,199
Loan discount	(90)	-	(90)	(126)
	1,511,589	475,401	1,986,990	1,814,773
Allowances	(11,888)	(20,703)	(32,591)	(37,392)
Net carrying value	$ 1,499,701	$ 454,698	$ 1,954,399	$ 1,777,381

Impaired loans balance includes $1,480 (2013 $1,480) for properties held for sale acquired as a result of foreclosure actions.

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	2014	2013
At beginning of year	$ 14,255	$ 23,287	$ 37,542	$ 34,168
Increase (decrease) for the year	(2,164)	(1,039)	(3,203)	11,569
Write-offs	(203)	(1,545)	(1,748)	(8,345)
At end of year	$ 11,888	$ 20,703	$ 32,591	$ 37,392
Specific allowance	$ 1,283	$ 14,339	$ 15,622	$ 17,447
General allowance	10,605	6,364	16,969	19,945
	$ 11,888	$ 20,703	$ 32,591	$ 37,392

Valuation allowances of receivables 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 $3,749 (2013 $3,326).

(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:

	2014	2013
Effective annual Interest Rate		
Less than or equal to 2%	$ 76,218	$ 75,870
2.01% to 3.00%	206,650	158,685
3.01% to 4.00%	501,610	385,337
4.01% to 5.00%	446,125	453,332
5.01% to 6.00%	373,657	322,421
6.01% to 7.00%	289,545	293,929
7.01% to 8.00%	55,365	84,915
Over 8%	11,554	15,085
	1,960,724	1,789,574
Accrued interest	26,266	25,199
Allowance for doubtful accounts	(32,591)	(37,392)
	$ 1,954,399	$ 1,777,381
Weighted average annual interest rate	4.52%	4.67%

Note 5 Investments

	2014	2013
Bonds and debentures:		
Government of Canada, direct and guaranteed	$ 843,492	$ 516,450
Other provincial, direct and guaranteed	135,728	180,011
	979,220	696,461
Corporate securities:		
Asset backed securities, AAA rated	329,595	222,665
Senior bank notes	316,952	193,872
	646,547	416,537
	1,625,767	1,112,998
Accrued interest	8,976	6,773
	$ 1,634,743	$ 1,119,771

The fair value of investments at March 31, 2014 is $1,639,850 (2013 $1,132,523). Fair value is based on quoted market prices excluding accrued interest.

(dollars in thousands)

Note 5 Investments (continued)

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

	Term to Maturity [1] Within 1 Year	1 to 5 Years	6 to 10 Years	2014	2013
Bonds and debentures	$ 117,318	$ 835,991	$ 25,911	$ 979,220	$ 696,461
Yield [2]	0.95%	1.44%	2.23%	1.40%	1.30%
Corporate Securities	-	582,535	64,012	646,547	416,537
Yield [2]	-	1.83%	2.58%	1.90%	1.73%
	117,318	1,418,526	89,923	1,625,767	1,112,998
Accrued interest	625	7,972	379	8,976	6,773
	$ 117,943	$ 1,426,498	$ 90,302	$ 1,634,743	$ 1,119,771

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

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

Note 6 Tangible Capital Assets

	Land	Building	Furniture and Fixtures	Computer Equipment and Software		
Estimated Useful Life	Indefinite	25 - 40 years	5 - 10 years	2 - 10 years	2014	2013
Cost						
At beginning of year	$ 347	$ 9,987	$ 7,992	$ 89,166	$ 107,492	$ 101,470
Additions	-	-	2,297	5,989	8,286	7,244
Disposals	-	-	-	(870)	(870)	(1,221)
	347	9,987	10,289	94,285	114,908	107,493
Accumulated amortization						
At beginning of year	-	4,336	4,864	53,103	62,303	54,942
Amortization expense	-	362	949	8,204	9,515	8,582
Disposals	-	-	-	(869)	(869)	(1,221)
	-	4,698	5,813	60,438	70,949	62,303
Net book value at March 31, 2014	$ 347	$ 5,289	$ 4,476	$ 33,847	$ 43,959	
Net book value at March 31, 2013	$ 347	$ 5,651	$ 3,129	$ 36,063		$ 45,190

Computer equipment and software costs include $5,260 (2013 $4,656) of costs incurred that are not amortized because they are still in the development stage.

(dollars in thousands)

Note 7 Accounts Payable and Accrued Liabilities

	2014	2013
Supplies and services	$ 8,090	$ 15,348
Salaries, wages and employee benefits	7,425	6,281
Reinsurance Premiums to Government of Canada	515	543
Other	689	667
	$ 16,719	$ 22,839

Note 8 Indemnities Payable

	2014 (Note 2(m))	2013 (Note 2(m))
AgriStability (previously CAIS program), AgriInvest, AgriRecovery and related programs		
Current claim year	$ 84,564	$ 131,419
Prior claim years	33,905	36,713
	118,469	168,132
AgriInsurance	11,745	25,955
Wildlife compensation	2,030	1,315
Livestock price insurance	1,415	6,363
Hail insurance	169	978
	$ 133,828	$ 202,743

Estimated indemnities payable of $133,828 and corresponding contributions and receivables from the Governments of Canada and Alberta are subject to measurement uncertainty because they could change materially in the future, if factors and assumptions considered by management in establishing the estimates were to change significantly.

Estimated indemnities for the current claim year for AgriStability and AgriInvest program 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 $67,259 to $115,832.

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

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 9 Borrowing from Government of Alberta

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

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

	2014	2013
Effective annual Interest Rate		
Less than or equal to 2%	$ 120,000	$ -
2.01% to 3.00%	433,000	383,000
3.01% to 4.00%	784,238	734,238
4.01% to 5.00%	514,751	574,751
5.01% to 6.00%	75,634	99,027
	1,927,623	1,791,016
Accrued interest	14,045	14,266
Unamortized premium	4,900	2,937
	$ 1,946,568	$ 1,808,219
Weighted average annual interest rate	3.62%	3.98%

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

Year ending March 31,	2015	$ 45,479
	2016	228,642
	2017	65,506
	2018	68,780
	2019	186,092
	Thereafter	1,333,124
		$ 1,927,623

The estimated fair value of borrowings as at March 31, 2014 is $2,025,893 (2013 $1,945,413). Fair value is an approximation of market value to the holder.

(dollars in thousands)

Note 10 Deferred Revenue

	2014	2013
Unearned revenue	$ 5,732	$ 11,566
Spent deferred capital contributions	18,246	16,012
	$ 23,978	$ 27,578

Unearned revenue

	2014				2013
	Government of Canada	Non-government	Government of Alberta	Total	Total
Balance at beginning of year	$ -	$ 11,566	$ -	$ 11,566	$ 12,976
Received during year	-	5,732	-	5,732	11,566
Less amounts recognized	-	(11,566)	-	(11,566)	(12,976)
Balance at end of year	$ -	$ 5,732	$ -	$ 5,732	$ 11,566

Spent deferred capital contributions

	2014				2013
	Government of Canada	Non-government	Government of Alberta	Total	Total
Balance at beginning of year	$ 9,607	$ -	$ 6,405	$ 16,012	$ 14,205
Transferred capital assets received	3,792	752	2,528	7,072	4,991
Less amounts recognized as revenue	(2,903)	-	(1,935)	(4,838)	(3,184)
Balance at end of year	$ 10,496	$ 752	$ 6,998	$ 18,246	$ 16,012

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

(dollars in thousands)

Note 11 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. The expense for these pension plans is equivalent to the annual contributions of $6,155 for the year ended March 31, 2014 (2013 $5,479).

At December 31, 2013, the Alberta Management Employees Pension Plan reported a surplus of $50,457 (2012 deficiency $303,423) and the Alberta Public Service Pension Plan reported a deficiency of $1,254,678 (2012 deficiency $1,645,141). At December 31, 2013, the Supplementary Retirement Plan for Alberta Public Service Managers had a deficiency of $12,384 (2012 deficiency $51,870). The Corporation's share of these pension plans' deficiency is not determinable. The Corporation is not responsible for future funding of the plan deficits other than through contribution increases.

Note 12 Contingencies and Contractual Obligations

Contingent Liability

	2014	2013
Loan guarantees	$ 10,226	$ 1,944
Less allowances for losses	(150)	(150)
	10,076	1,794
Legal actions	-	397
Total contingencies	$ 10,076	$ 2,191

Included in loan guarantees is $8.75 million 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.

(dollars in thousands)

Note 12 Contingencies and Contractual Obligations (continued)

The Corporation has not been named in any legal matters of which the outcome is not determinable (2013 one).

Contractual Obligations

	2014	2013
Approved, undisbursed loans	$ 181,981	$ 153,436
Reinsurance	25,170	25,441
Operating leases	6,246	3,609
Other contracts	2,556	-
Total commitments	$ 215,953	$ 182,486

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

Note 13 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:

	2014	2013
Loans receivable	$1,954,399	$1,777,381
Investments	1,634,743	1,119,771
Due from Government of Canada	116,260	147,835
Due from Government of Alberta	40,176	110,445
Accounts receivable	11,992	10,877
Loan guarantees	10,226	1,944
Total commitments	$3,767,796	$3,168,253

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.

(dollars in thousands)

Note 13 Financial Instruments and Financial Risk Management (continued)

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.

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.

	2014		2013	
	Dollar	Percentage	Dollar	Percentage
Loans receivable by individual sector:				
Grain and Oilseeds	$ 945,750	48%	$ 832,017	47%
Cattle	472,814	24%	442,863	25%
Accommodations and Other Services	122,898	6%	110,349	6%
Manufacturing	101,849	5%	87,934	5%
Other Livestock	69,352	4%	66,545	4%
Trade - Retail and Wholesale	68,073	3%	69,063	4%
Commercial and Industrial	49,174	3%	52,096	3%
Transportation and Warehousing	38,092	2%	33,598	2%
Professional Services	30,674	2%	26,055	1%
Other	88,314	5%	94,253	5%
Allowance	(32,591)	-2%	(37,392)	-2%
	$ 1,954,399	100%	$ 1,777,381	100%

(dollars in thousands)

Note 13 Financial Instruments and Financial Risk Management (continued)

Interest Rate Risk

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

Investments – Interest rate risk on investments is mitigated by AFSC's Investment Policy for surplus funds. The investment policy is approved by the Board of Directors and compliance with the policy is reported to the Board Audit Committee at least twice a year. Duration of investments are set to match management's best estimate of when investments may be needed to be liquidated to meet financial commitments.

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

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

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

	Scheduled Repayment[1]				Not [2] Interest Rate Sensitive	2014	2013
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years		Total	Total
Loan balances	$ 177,499	$ 588,352	$ 566,444	$ 613,664	$ 8,440	$ 1,954,399	$ 1,777,381
Yield	4.69%	4.33%	4.41%	3.75%	-	4.34%	4.77%
Borrowing from							
Government of Alberta	$ 45,479	$ 549,020	$ 752,403	$ 580,721	$ 18,945	$ 1,946,568	$ 1,808,219
Yield [3]	3.69%	3.76%	3.61%	3.12%	-	3.64%	3.72%
Net gap	$ 132,020	$ 39,332	$ (185,959)	$ 32,943	$ (10,505)	$ 7,831	$ (30,838)

(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 specific and general allowance, accrued interest and unamortized loan discount.

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

(dollars in thousands)

Note 13 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 AgriInsurance and Hail Insurance providing significant protection against catastrophic losses. If all of the above are exhausted, the AgriInsurance program has a reinsurance agreement with the Government of Canada and the Government of Alberta to provide additional funding for claim payments. Additionally, the Corporation has access to advances from the Government of Alberta to meet short-term cash flow needs.

Note 14 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 management in the Corporation.

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:

	2014	2013
Revenues:		
Grants	$ 323,397	$ 302,065
Other	4,801	4,813
	$ 328,198	$ 306,878
Expenses:		
Accommodation	$ 784	$ 799
Other services	1,717	1,579
Interest	67,752	66,157
	$ 70,253	$ 68,535
Payable to:		
Ministry of Agriculture and Rural Development	$ 520	$ 500
Ministry of Treasury Board and Finance	1,946,568	1,808,219
Ministry of Service Alberta	4	4
Receivable from:		
Ministry of Agriculture and Rural Development	40,176	110,445
Ministry of Municipal Affairs	-	-
Deferred Revenue from:		
Ministry of Agriculture and Rural Development	6,998	6,405
	$ 1,994,266	$ 1,925,573

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 15 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(n)):

	AgriInsurance Reinsurance Fund of Alberta		AgriInsurance Reinsurance Fund of Canada for Alberta	
	2014	2013	2014	13
Opening net assets	$ 30,379	$ 27,549	$ 31,056	$ 28,226
Contributions	3,262	2,830	3,262	2,830
Closing net assets	$ 33,641	$ 30,379	$ 34,318	$ 31,056

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

Note 16 Comparative Figures

The 2013 figures have been reclassified where necessary to conform to 2014 presentation.

Schedule 1

AGRICULTURE FINANCIAL SERVICES CORPORATION
SCHEDULE OF OPERATIONS
YEAR ENDED MARCH 31, 2014
(dollars in thousands)

	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	AgriInsurance	AgriInsurance	Agriculture Income Support	Agriculture Income Support	Lending	Lending	Hail Insurance	Hail Insurance	Livestock Insurance	Livestock Insurance	Wildlife Damage Compensation	Wildlife Damage Compensation	Total	Total
	Note 2(n)	Note 2(n)												
Revenues:														
Premiums from insured persons	$ 309,142	$ 259,074	$ -	$ -	$ -	$ -	$ 46,392	$ 46,549	$ 23,433	$ 8,491	$ -	$ -	$ 378,967	$ 314,114
Interest	719	442	1,300	662	82,984	79,298	100	77	46	6	-	-	85,149	80,485
Contribution from Government of Alberta	266,860	225,959	37,893	59,867	16,404	16,481	-	-	2,173	1,898	4,868	2,673	328,198	306,878
Contribution from Government of Canada	232,233	205,379	21,282	37,783	-	-	-	-	400	-	4,655	2,575	258,570	245,737
Investment income	31,929	28,594	327	629	461	1,161	193	245	(76)	(23)	(24)	(8)	32,810	30,598
Fees and other income	158	64	10,441	11,734	3,149	3,047	383	9,065	(2)	233	71	46	14,200	24,189
	841,041	719,512	71,243	110,675	102,998	99,987	47,068	55,936	25,974	10,605	9,570	5,286	1,097,894	1,002,001
Expenses:														
Indemnities	306,355	552,193	52,201	92,019	-	-	37,773	58,506	5,803	22,623	8,607	4,614	410,739	729,955
Salaries, wages and employee benefits	23,273	22,987	13,007	13,229	17,009	17,448	1,182	1,225	1,680	1,225	618	374	56,769	56,488
Supplies and services	11,139	11,482	5,001	5,841	5,964	5,567	1,038	1,880	810	585	354	241	24,306	25,596
Amortization of tangible capital assets	2,755	2,152	2,751	2,555	2,776	2,683	734	739	443	426	57	27	9,516	8,582
Interest	4	-	2	-	67,925	66,719	-	-	-	-	-	-	67,931	66,719
Reinsurance	28,693	27,966	-	-	-	-	1,918	1,810	-	-	-	-	30,611	29,776
Allowance for doubtful accounts													-	
and for losses (Note 3 & 4)	(275)	83	189	(1,502)	(3,203)	11,570	(69)	(49)	4	-	82	-	(3,272)	10,102
	371,944	616,863	73,151	112,142	90,471	103,987	42,576	64,111	8,740	24,859	9,718	5,256	596,600	927,218
Net operating results	469,097	102,649	(1,908)	(1,467)	12,527	(4,000)	4,492	(8,175)	17,234	(14,254)	(148)	30	501,294	74,783
Net assets at beginning of year	1,332,736	1,239,041	5,165	11,778	67,015	71,015	16,079	24,254	(11,225)	3,029	1,389	1,464	1,411,159	1,350,581
Adjustment to opening net assets (Note 2)	-	(8,954)	-	(5,146)	-	-	-	-	-	-	-	(105)	-	(14,205)
Adjusted net assets at beginning of year	1,332,736	1,230,087	5,165	6,632	67,015	71,015	16,079	24,254	(11,225)	3,029	1,389	1,359	1,411,159	1,336,376
Net assets at end of year	$ 1,801,833	$ 1,332,736	$ 3,257	$ 5,165	$ 79,542	$ 67,015	$ 20,571	$ 16,079	$ 6,009	$ (11,225)	$ 1,241	$ 1,389	$ 1,912,453	$ 1,411,159

Schedule 2

AGRICULTURE FINANCIAL SERVICES CORPORATION

SCHEDULE OF SALARIES AND BENEFITS

YEAR ENDED MARCH 31, 2014

(dollars in thousands)

	2014				2013
	Base Salary[1]	Other Cash Benefits[2]	Other Non-cash Benefits[3]	Total	Total
Chairman of Board	$ 66	$ -	$ 1	$ 67	$ 82
Board members[4]	289	-	7	296	271
President and Managing Director	475	40	155	670	671
Vice-Presidents					
Senior Vice-President, Corporate Services	266	35	83	384	346
Chief Operating Officer	241	26	75	342	340
Vice-President, Human Resources & Culture	237	21	74	332	320
Vice-President, Sales & Market[5]	209	18	63	290	310
Vice-President, Innovation & Product Development(6)	222	2	66	290	125
Chief Information Officer(6)	191	16	57	264	95
Chief Financial Officer(6)	181	3	53	237	80

(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. There were no bonuses paid during the year.

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

(4) The amounts relate to eleven Board members during 2013/14 (eleven in 2012/13).

(5) Position was for eleven months.

(6) Positions commenced December 1, 2012.