



## AUDITOR'S REPORT

**To the Board of Directors of the  
Agriculture Financial Services Corporation**

I have audited the balance sheet of the Agriculture Financial Services Corporation as at March 31, 2005 and the statements of revenue, expense and surplus, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by]  
Fred Dunn  
FCA  
Auditor General

Edmonton, Alberta  
May 13, 2005

[The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.]

**Agency – continued****Agriculture Financial Services Corporation – Financial Statements 2004-2005****Balance Sheet as at March 31, 2005***(in thousands)*

	2005	2004
<b>Assets</b>		
Cash	\$ 75,456	\$ 61,775
Accounts receivable <i>(Note 4)</i>	120,904	7,876
Due from Province of Alberta	50,669	46,242
Due from Government of Canada	293,189	208,634
Loans receivable <i>(Note 5)</i>	977,460	988,182
Investments <i>(Note 6)</i>	171,229	100,297
Property and equipment <i>(Note 7)</i>	26,747	23,174
	<b>\$1,715,654</b>	<b>\$1,436,180</b>

**Liabilities and Surplus**

Accounts payable and accrued liabilities	\$ 31,481	\$ 24,950
Estimated indemnities payable <i>(Note 8)</i>	449,849	263,024
Due to Crop Reinsurance Fund of Canada for Alberta	13,737	4,740
Allowance for losses on loan guarantees <i>(Note 14)</i>	1,186	1,263
Notes payable <i>(Note 9)</i>	910,653	924,652
Deferred revenue <i>(Note 10)</i>	21,935	19,018
	<b>1,428,841</b>	<b>1,237,647</b>
Surplus	286,813	198,533
	<b>\$1,715,654</b>	<b>\$1,436,180</b>

Contingencies and commitments *(Note 14)*

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

**Agency – continued****Agriculture Financial Services Corporation – Financial Statements 2004-2005****Statement of Revenue, Expense and Surplus for the Year Ended March 31, 2005***(in thousands)*

	2005 Budget (Note 3(a))	2005 Actual (Schedule 1)	2004 Actual
<b>Revenue</b>			
Premiums from insured persons	\$ 153,139	\$135,941	\$145,960
Interest	81,029	71,242	75,424
Contribution from Province of Alberta	218,083	319,922	288,808
Contribution from Government of Canada	235,637	431,378	340,225
Reinsurance recoveries	–	2,163	9,000
Investment income	2,889	10,022	10,970
Fees and other income	3,324	5,374	3,067
	<b>694,101</b>	<b>976,042</b>	873,454
<b>Expense</b>			
Indemnities	553,487	720,436	617,849
Administration <i>(Schedule 2)</i>	58,517	60,019	52,341
Interest	52,627	45,647	47,212
Reinsurance	63,369	44,889	67,907
Farm loan incentives	7,560	5,077	5,728
Provision for doubtful accounts and for losses <i>(Note 13)</i>	4,144	1,595	5,070
Adjusting	8,504	8,072	9,573
Selling commissions	1,950	2,027	1,662
	<b>750,158</b>	<b>887,762</b>	807,342
Surplus (deficit) for the year	<b>\$(56,057)</b>	<b>88,280</b>	66,112
Surplus at beginning of year		198,533	132,421
<b>Surplus at end of year</b>		<b>\$286,813</b>	<b>\$198,533</b>

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

**Agency – continued****Agriculture Financial Services Corporation – Financial Statements 2004-2005****Statement of Cash Flows for the Year Ended March 31, 2005***(in thousands)*

	2005	2004
<b>Operating Activities</b>		
Surplus for the year	\$ 88,280	\$ 66,112
Changes not affecting cash	1,700	3,278
Changes in assets and liabilities relating to operations	3,208	(121,954)
Net cash provided (utilized) by operating activities <sup>(1)</sup>	<b>93,188</b>	<b>(52,564)</b>
<b>Investing Activities</b>		
Proceeds from repayments of loans receivable and sale of properties	181,109	159,862
Loan disbursements	(171,973)	(184,923)
Purchase of investments	(523,780)	(218,446)
Proceeds on disposal of investments	454,501	224,412
Purchase of property and equipment	(9,494)	(8,549)
Proceeds on disposal of property and equipment	381	50
Net cash utilized by investing activities	<b>(69,256)</b>	<b>(27,594)</b>
<b>Financing Activities</b>		
Borrowing from the Province of Alberta	1,828,362	1,103,226
Repayment of borrowing from the Province of Alberta	(1,840,186)	(1,081,805)
Government of Canada funding for property and equipment	619	2,094
Province of Alberta funding for property and equipment	954	1,372
Net cash (utilized) provided by financing activities	<b>(10,251)</b>	<b>24,887</b>
Net increase (decrease) in cash from operating, investing and financing activities	<b>13,681</b>	<b>(55,271)</b>
Cash at beginning of year	61,775	117,046
<b>Cash at end of year</b>	<b>\$ 75,456</b>	<b>\$ 61,775</b>

<sup>(1)</sup> Net cash provided by operating activities includes \$47,533,000 (2004 \$47,075,000) of interest paid.

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

## **Agency – continued**

### **Agriculture Financial Services Corporation – Financial Statements 2004-2005**

#### **Notes to the Financial Statements March 31, 2005**

##### **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 lending and insurance services and compensation programs. Its core programs and services include loans to beginning farmers, commercial lending, crop insurance, hail insurance and agricultural income stabilization payments. It also delivers other programs and services including loans to developing farmers, disaster loans, loan guarantees, and business planning/counseling.

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##### **Note 2 Significant Accounting Policies and Reporting Practices**

These financial statements are prepared in accordance with Canadian generally accepted accounting principles.

###### **(a) Cash**

Cash consists of a deposit in the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital.

###### **(b) Investments**

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

###### **(c) Property and Equipment**

Property and equipment are carried at cost less accumulated amortization. Amortization is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Building	25 - 40 years
Software development costs	3 - 10 years
Equipment and furniture	10 years
Vehicles	5 years
Computer equipment	5 years

###### **(d) Notes Payable**

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

###### **(e) Fair Value of Financial Instruments**

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

###### **(f) Reinsurance**

In accordance with the Federal/Provincial Agricultural Policy Framework Implementation Agreement, two crop reinsurance funds were established. On behalf of the Province, the Corporation administers the provincial fund called the Crop Reinsurance Fund of Alberta. Canada holds the federal fund called the Crop Reinsurance Fund of Canada for Alberta. The Crop Reinsurance Fund of Alberta is included as part of the crop insurance surplus of the Corporation. Contributions to and withdrawals from the Funds are made in accordance with terms and conditions of the agreement (see Note 17).

Estimates of amounts recoverable from non-government reinsurers on indemnities and adjusting expenses are recorded in Accounts receivable. Reinsurance recoveries are not netted against indemnities, they are separately disclosed under revenue. Reinsurance expenses are not netted against premiums from insured persons or contributions from the Province and Government of Canada; they are separately disclosed under expenses.

## **Agency – continued**

### **Agriculture Financial Services Corporation – Financial Statements 2004-2005**

#### **Note 2** Significant Accounting Policies and Reporting Practices (continued)

##### **(g) Loan Discounting**

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

##### **(h) Revenue Recognition**

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

Premiums from insured persons, including federal and provincial government contributions, are recognized as income when invoiced to producers.

Federal and provincial contributions for property and equipment acquisitions are recorded as deferred revenue until that revenue is recognized on the same basis as those property and equipment costs are amortized.

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

##### **(i) Pensions**

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

##### **(j) Provision for Losses on Loans and Guarantees**

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

The majority of the Corporation's loan portfolio is with beginning and developing business operations and hence, is subject to high risk. The Corporation recognizes this by providing significant general allowances for doubtful accounts. In establishing the general component of the allowance, management estimates loss percentages and applies them to loans receivable balances categorized into risk pools. Risk pools are established based on land value trends, the impact of federal and provincial government programs, international trade criteria, future commodity price trends, climatic conditions and the financial stability of the borrower.

##### **(k) Transactions with Related Parties**

The Province and the Government of Canada significantly influence the programs delivered by the Corporation and are major contributors to the funding of the programs. Therefore, both governments are considered related parties. All related party transactions with the Province and the Government of Canada have been recorded at the amount of consideration paid or received as agreed to by the related party (see Note 16).

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**Agency – continued****Agriculture Financial Services Corporation – Financial Statements 2004-2005****Note 3 Financial Structure****(a) Budget**

The Board of Directors approved the Corporation's budget in February 2004. Contribution from the Province of Alberta of \$219,386,000 was authorized by the Legislative Assembly and is reflected in the Corporation's budget approved by the Board. The budgeted contribution from the Province of Alberta was adjusted by \$1,303,000 for deferred revenue.

**(b) Crop Fund Balance Restriction**

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

**(c) Other Revenue and Expenses**

The Other column in the Schedule of Revenue, Expense and Surplus includes the wildlife program, the Farm Income Disaster Program and consulting fees and expenses that are not attributable to any of the programs disclosed in the Schedule.

**Note 4 Accounts Receivable**

	2005	2004
	<i>(in thousands)</i>	
Canadian agricultural income stabilization program		
Overpayments and advances	\$105,640	\$ –
Administration fees	2,612	–
Premiums from insured persons		
Crop insurance program	12,432	7,803
Hail insurance program	265	178
Prepaid expenses	692	543
Other	392	456
	<u>122,033</u>	<u>8,980</u>
Less allowances for doubtful accounts (Note 13)	<u>(1,129)</u>	<u>(1,104)</u>
	<u>\$120,904</u>	<u>\$ 7,876</u>

Accounts receivable is subject to measurement uncertainty. The accounts receivable amount could change substantially in the future, if factors considered by management in establishing the estimates were to change significantly. The amount to be received for the Canadian Agricultural Income Stabilization (CAIS) program overpayments may be more or less than the amount recorded because the estimate is made before the majority of the CAIS program claims have been finalized. The CAIS program overpayments are non-interest bearing.

The Corporation will pursue collection of CAIS overpayments including recovery from future payments under programs delivered by the Corporation as well as programs administered by the Province and the Government of Canada.

**Note 5 Loans Receivable**

Loans receivable are comprised of the following:

	2005			Net	2004
	Recorded	Specific	General	Carrying	Net
	Investment	Allowance	Allowance	Value	Carrying
			(in thousands)		Value
Farm lending	\$818,614	\$ (1,443)	\$(26,428)	\$790,743	\$806,233
Commercial lending	180,428	(11,410)	(3,462)	165,556	160,860
	<u>\$999,042</u>	<u>\$(12,853)</u>	<u>\$(29,890)</u>	956,299	967,093
Accrued interest				25,701	26,547
Accrued incentives				(2,451)	(2,580)
Loan discounts				<u>(2,089)</u>	<u>(2,878)</u>
				<u>\$977,460</u>	<u>\$988,182</u>

Impaired loans included in the preceding schedule:

	2005			2004
	Recorded	Specific	Net	Net
	Investment	Allowance	Carrying	Carrying
			Value	Value
		(in thousands)		
Commercial lending	\$19,205	\$(11,410)	\$ 7,795	\$11,978
Farm lending	5,442	(1,443)	3,999	5,329
	<u>\$24,647</u>	<u>\$(12,853)</u>	<u>\$11,794</u>	<u>\$17,307</u>

The impaired loans balance includes property held for sale which has been acquired as a result of foreclosures, quit claims and other actions. There is a specific allowance of \$2,518,000 (2004 \$1,227,000) on property balances outstanding of \$3,691,000 (2004 \$2,372,000).

Loans receivable does not include prepaid balances of \$12,668,000 (2004 \$12,311,000) which are included in Accounts payable and accrued liabilities.

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

	2005	2004
	(in thousands)	
Alberta disaster assistance loan program	\$ 84,865	\$56,899
Alberta farm income disaster loans	27,458	33,683
Indexed deferral plan	809	1,381
	<u>\$113,132</u>	<u>\$91,963</u>

Loans receivable of \$977,460,000 is subject to measurement uncertainty. The amount established for specific and general allowances of \$42,743,000 to cover estimated losses on loans (see Note 2(j)) could change substantially in the future, if factors considered by management in establishing these estimates were to change significantly.

The approximate fair value of loans receivable at March 31, 2005 is \$967,192,000 (2004 \$988,452,000 restated). The restatement was a result of an incorrect discount rate being used. Fair value is based on future cash flows discounted by rates equivalent to the market rates on loans with similar terms and credit risk.



**Agency – continued****Agriculture Financial Services Corporation – Financial Statements 2004-2005****Note 6 Investments**

	2005	2004
	<i>(in thousands)</i>	
Bonds and debentures		
Government of Canada, direct and guaranteed	\$124,308	\$ 46,044
Other provincial direct and guaranteed	14,293	20,405
	138,601	66,449
Corporate securities	31,075	32,759
	169,676	99,208
Accrued interest	1,553	1,089
	<u>\$171,229</u>	<u>\$100,297</u>

The fair value of investments at March 31, 2005 is \$173,697,000 (2004 \$104,806,000). Fair value is based on quoted market prices including accrued interest.

**Note 7 Property and Equipment**

	Cost	2005 Accumulated Amortization	Net Book Value	2004 Net Book Value
	<i>(in thousands)</i>			
Software development costs	\$24,940	\$11,481	\$13,459	\$12,073
Building	9,113	1,536	7,577	5,011
Computer equipment	7,330	5,266	2,064	2,315
Equipment and furniture	4,825	2,342	2,483	2,842
Vehicles	1,347	853	494	653
Land	670	–	670	280
	<u>\$48,225</u>	<u>\$21,478</u>	<u>\$26,747</u>	<u>\$23,174</u>

Software development costs include \$3,983,000 (2004 \$1,872,000) and building costs include \$1,242,000 (2004 \$3,380,000) of costs incurred that are not amortized because they are still in the developmental or construction stage.

**Note 8 Estimated Indemnities Payable**

	2005	2004
	<i>(in thousands)</i>	
Canadian agricultural income stabilization program	\$408,064	\$241,504
Crop insurance	28,761	4,648
Wildlife compensation	12,573	505
Hail insurance	451	66
Farm income disaster program	–	16,301
	<u>\$449,849</u>	<u>\$263,024</u>

Estimated indemnities payable of \$408,064,000 and corresponding contributions and receivables from the Province of Alberta and the Government of Canada for the CAIS program are subject to measurement uncertainty. The estimated indemnities payable and corresponding contributions for the CAIS program could change substantially in the future, if factors considered by management in establishing the estimates were to change significantly. The CAIS program indemnities to be paid may be more or less than the amount recorded because the estimate is made before the necessary information to process a claim is received. It is also difficult to predict the estimated indemnities because of the wide variation business risks may have on individual program margins.

**Agency – continued****Agriculture Financial Services Corporation – Financial Statements 2004-2005****Note 9 Notes Payable**

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

Remaining Term to Maturity	Effective Interest Rate	2005	Effective Interest	2004
		<i>(in thousands)</i>		
Within 1 year	2.45% - 5.23%	\$137,050	2.14% - 6.15%	\$123,845
1 to 5 years	2.57% - 5.93%	283,771	3.64% - 5.54%	177,605
6 to 10 years	4.28% - 7.64%	179,796	5.43% - 7.64%	294,799
Over 10 years	5.04% - 6.52%	298,898	5.04% - 6.52%	315,431
Accrued interest		11,138		12,972
		<u>\$910,653</u>		<u>\$924,652</u>

Net unamortized discounts of \$3,724,000 (2004 \$3,346,000) are included in the balances disclosed.

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

	<i>(in thousands)</i>
Year ending March 31, 2006	\$184,804
2007	\$130,704
2008	\$ 87,629
2009	\$159,688
2010	\$ 56,088

The approximate fair value at March 31, 2005 is \$950,615,000 (2004 \$977,596,000 restated). The restatement was a result of an incorrect duration being used. Fair values for notes are based on the net present value of future cash flows. Each individual cash flow payment is discounted at a rate which matches the term of the cash flow payment and is adjusted for a yield premium to reflect several factors. They include the following:

- (a) a liquidity premium to reflect that there is a limited pool of these securities for trading in the market, they would be new to the market and are not direct issues of the Province,
- (b) a factor to reflect the blended payment structure of the notes.

**Note 10 Deferred Revenue**

	2005	2004
	<i>(in thousands)</i>	
Premiums from insured persons	\$10,861	\$ 6,094
Province of Alberta property and equipment	5,853	7,146
Government of Canada property and equipment	5,221	5,778
	<u>\$21,935</u>	<u>\$19,018</u>

**Note 11 Reinsurance**

In addition to the protection provided by reinsurance arrangements between the provincial and federal governments, the Corporation has obtained reinsurance from non-government sources. For crop insurance, the Corporation reinsured a maximum of \$130,686,000 of the risk from non-government sources. For hail insurance, the Corporation reinsured a maximum of \$5,786,000 of the risk from non-government sources.

**Agency – continued****Agriculture Financial Services Corporation – Financial Statements 2004-2005****Note 12 Pensions**

The Corporation participates in the multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of \$1,865,000 for the year ended March 31, 2005 (2004 \$1,791,000).

At December 31, 2004, the Management Employees Pension Plan reported a deficiency of \$268,101,000 (2003 \$290,014,000) and the Public Service Pension Plan reported a deficiency of \$450,068,000 (2003 \$584,213,000). At December 31, 2004, the Supplementary Retirement Plan for Public Service Managers had a surplus of \$9,404,000 (2003 \$9,312,000).

**Note 13 Allowances for Doubtful Accounts and for Losses**

	Accounts Receivable (Note 4)	Farm Lending Loans Receivable	Commercial Lending Loans Receivable	Loan Guarantees (Note 14)	Total
			<i>(in thousands)</i>		
Allowances at March 31, 2003	\$1,035	\$27,565	\$12,214	\$1,492	\$42,306
Provision for 2003-04	84	4,305	910	(229)	5,070
Write-offs in 2003-04, net of recoveries	<u>(15)</u>	<u>(742)</u>	<u>(1,123)</u>	<u>–</u>	<u>(1,880)</u>
Allowances at March 31, 2004	1,104	31,128	12,001	1,263	45,496
Provision for 2004-05	59	(2,308)	3,921	(77)	1,595
Write-offs in 2004-05, net of recoveries	<u>(34)</u>	<u>(949)</u>	<u>(1,050)</u>	<u>–</u>	<u>(2,033)</u>
Allowances at March 31, 2005	<u>\$1,129</u>	<u>\$27,871</u>	<u>\$14,872</u>	<u>\$1,186</u>	<u>\$45,058</u>

**Note 14 Contingencies and Commitments**

	2005	2004
	<i>(in thousands)</i>	
Loan guarantees	\$34,716	\$38,829
Less allowances for losses (Note 13)	<u>(1,186)</u>	<u>(1,263)</u>
	33,530	37,566
Legal actions	<u>692</u>	<u>79</u>
Total contingencies	<u>\$34,222</u>	<u>\$37,645</u>

The majority of loan guarantees relate to loans made by other financial institutions with repayment guaranteed by the Corporation under the Alberta Farm Development Loans program. The loans outstanding at March 31, 2005 made by other financial institutions were \$52,788,000 (2004 \$71,961,000). Loan guarantees under the Alberta Farm Development Loans program include the maximum liability on loan guarantees of \$23,153,000 (2004 \$29,200,000) to which the Corporation is exposed under the terms of the agreements with the financial institutions subject to recoveries on underlying securities.

The outcome of the legal actions is not determinable at this time.

**Agency – continued****Agriculture Financial Services Corporation – Financial Statements 2004-2005****Note 14** Contingencies and Commitments (continued)

	<b>2005</b>	<b>2004</b>
	<i>(in thousands)</i>	
Approved, undisbursed loans	\$42,861	\$40,606
Reinsurance	15,615	–
Estimated farm loan incentives	14,612	16,205
Operating leases	1,371	1,961
Building costs	<u>217</u>	<u>2,521</u>
Total commitments	<u>\$74,676</u>	<u>\$61,293</u>

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

**Note 15 Credit Risk and Interest Risk****(a) Credit Risk**

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

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

	<b>2005</b>	<b>2004</b>
	<i>(in thousands)</i>	
Loans receivable by sector		
Grain	\$ 410,817	\$ 423,167
Beef	320,280	312,111
Accommodation and food services	29,769	34,708
Trade – retail and wholesale	28,438	27,141
Hog	27,860	33,063
Manufacturing	24,713	18,807
Processors/feedmills	7,767	10,108
Other	<u>170,559</u>	<u>172,206</u>
	1,020,203	1,031,311
Allowance	<u>(42,743)</u>	<u>(43,129)</u>
	<u>\$ 977,460</u>	<u>\$ 988,182</u>

**Agency – continued****Agriculture Financial Services Corporation – Financial Statements 2004-2005****Note 15** Credit Risk and Interest Risk (continued)**(b) Interest Risk**

Interest rate risk is the impact future changes of interest rates have on cash flows and fair value of assets and liabilities. The following provides a breakdown of the gaps between the notes payable and the loan portfolio. Because there are no early repayment penalties on most loan programs, the gap analysis includes an adjustment for expected repayments based on historical patterns.

	Term to Maturity <sup>(1)</sup>				Not Interest Rate Sensitive <sup>(2)</sup>	2005 Total	2004 Total
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years			
	<i>(in thousands)</i>						
Farm loans	\$ 72,928	\$262,344	\$241,427	\$238,033	\$ (2,594)	\$812,138	\$827,395
Yield <sup>(3)</sup>	6.79%	6.93%	6.91%	6.63%	–	6.87%	7.05%
Commercial loans	\$ 69,379	\$ 87,055	\$ 10,261	\$ –	\$ (1,373)	\$165,322	\$160,787
Yield <sup>(3)</sup>	6.97%	7.73%	5.30%	–	–	7.17%	8.28%
Total	\$ 142,307	\$349,399	\$251,688	\$238,033	\$ (3,967)	\$977,460	\$988,182
Yield <sup>(3)</sup>	6.81%	6.98%	6.87%	6.33%	–	6.89%	7.11%
Notes payable Province of Alberta	\$ 184,804	\$434,109	\$214,796	\$ 69,531	\$ 7,413	\$910,653	\$924,652
Yield <sup>(3)</sup>	5.13%	5.54%	5.84%	5.40%	–	5.50%	5.58%
Net gap before prepayment adjustment	\$(42,497)	\$(84,710)	\$ 36,892	\$168,502	\$(11,380)	\$ 66,807	\$ 63,530
Estimated prepayment	44,477	73,927	(23,977)	(94,427)	–	–	–
Net gap	<u>\$ 1,980</u>	<u>\$(10,783)</u>	<u>\$ 12,915</u>	<u>\$ 74,075</u>	<u>\$(11,380)</u>	<u>\$ 66,807</u>	<u>\$ 63,530</u>

The gap positions represent the mismatching of the financing with the loan portfolio at March 31, 2005. The gaps provide an indication of the potential risks to the Corporation if interest rates change. At March 31, 2005 an immediate and sustained increase in interest rates of 1% would increase the net fair market value of loans and financing for the next fiscal year by \$8,324,000 based on the net gap before prepayment adjustment. A corresponding decrease in interest rates would decrease the net fair market value of loans and financing by a similar amount over the same period.

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

**Agency – continued****Agriculture Financial Services Corporation – Financial Statements 2004-2005****Note 15** Credit Risk and Interest Risk (continued)

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

	Term to Maturity <sup>(1)</sup>				2005 Total	2004 Total
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years		
	<i>(in thousands)</i>					
Bonds and debentures	\$ –	\$123,028	\$ 6,146	\$9,427	\$138,601	\$ 66,449
Yield <sup>(3)</sup>	–	3.79%	5.10%	5.77%	3.98%	4.62%
Corporate securities	5,000	14,820	11,255	–	31,075	32,759
Yield <sup>(3)</sup>	5.40%	5.18%	5.00%	–	5.15%	5.21%
	5,000	137,848	17,401	9,427	169,676	99,208
Accrued interest	131	1,092	177	153	1,553	1,089
	<u>\$5,131</u>	<u>\$138,940</u>	<u>\$17,578</u>	<u>\$9,580</u>	<u>\$171,229</u>	<u>\$100,297</u>

<sup>(1)</sup> For loans, term to maturity reflects the period of time until an interest rate renegotiation date or the maturity date of the loan. For notes payable, term to maturity reflects the contractual maturity date of the debt. The interest rates are fixed until maturity. Repayment is either by semi-annual, annual installments or full repayment at maturity of principal. For investments, term to maturity classifications are based on contractual maturity date of the security.

<sup>(2)</sup> Includes general provisions, accrued interest and unamortized loan discount.

<sup>(3)</sup> For notes payable and investments, yield represents the rate which discounts future cash receipts to the carrying amount. For loans, yield represents the rate which discounts the stream of future payments from the reporting date to the next interest rate renegotiation date or the rate which discounts future cash receipts to the carrying amount.

**Note 16** Related Party Transactions

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

	2005	2004
	<i>(in thousands)</i>	
Interest expense – Province of Alberta	\$45,057	\$47,212
Administration expense – Province of Alberta	1,864	1,964
Administration expense – Government of Canada	271	–

**Note 17** Crop Reinsurance Funds

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

	Crop Reinsurance Fund of Alberta		Crop Reinsurance Fund of Canada for Alberta	
	2005	2004	2005	2004
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Opening deficit	\$(20,819)	\$(44,889)	\$(61,841)	\$(94,407)
Contributions	23,662	24,070	32,013	32,566
Closing surplus (deficit)	<u>\$ 2,843</u>	<u>\$(20,819)</u>	<u>\$(29,828)</u>	<u>\$(61,841)</u>

**Note 18** Comparative Figures

The 2004 figures have been reclassified where necessary to conform to 2005 presentation.

**Agency – continued****Agriculture Financial Services Corporation – Schedule of Revenue, Expense and Surplus for the Year Ended March 31, 2005**

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**Schedule 1***(in thousands)*

	2005 Canadian Agricultural Income Stabilization	2004 Canadian Agricultural Income Stabilization	2005 Crop Insurance	2004 Crop Insurance	2005 Lending	2004 Lending
Revenue						
Premiums from insured persons	\$ –	\$ –	\$115,047	\$134,063	\$ –	\$ –
Interest	3	–	363	422	70,806	74,937
Contribution from Province of Alberta	202,160	105,501	86,928	116,607	8,146	10,191
Contribution from Government of Canada	293,483	158,251	115,307	121,115	–	–
Reinsurance recoveries	–	–	–	9,000	–	–
Investment income	763	–	5,957	6,988	310	315
Fees and other income	2,608	–	62	73	2,192	2,472
	<u>499,017</u>	<u>263,752</u>	<u>323,664</u>	<u>388,268</u>	<u>81,454</u>	<u>87,915</u>
Expense						
Indemnities	487,887	261,794	156,877	231,168	–	–
Administration, Schedule 2	11,130	1,958	20,670	20,413	25,719	24,095
Interest	–	–	–	–	45,057	47,212
Reinsurance	–	–	44,469	67,588	–	–
Farm loan incentives	–	–	–	–	5,077	5,728
Provision for doubtful accounts and for losses	–	–	30	88	1,557	4,965
Adjusting	–	–	7,206	8,960	–	–
Selling commissions	–	–	–	–	–	–
	<u>499,017</u>	<u>263,752</u>	<u>229,252</u>	<u>328,217</u>	<u>77,410</u>	<u>82,000</u>
Surplus (deficiency) of revenue over expense before recoveries	–	–	94,412	60,051	4,044	5,915
Recoverable from Government of Canada	–	–	–	–	–	–
Recoverable by Province of Alberta	–	–	–	–	–	–
	–	–	–	–	–	–
Surplus (deficit) for the year	–	–	94,412	60,051	4,044	5,915
Surplus at beginning of year	–	–	90,564	30,513	57,594	51,679
Surplus at end of year	<u>\$ –</u>	<u>\$ –</u>	<u>\$184,976</u>	<u>\$ 90,564</u>	<u>\$61,638</u>	<u>\$57,594</u>

**Agency – continued****Agriculture Financial Services Corporation – Schedule of Revenue, Expense and Surplus for the Year Ended March 31, 2005****Schedule 1 – continued***(in thousands)*

	2005 Hail Insurance	2004 Hail Insurance	2005 Other	2004 Other	2005 Total	2004 Total
Revenue						
Premiums from insured persons	\$ 20,894	\$11,897	\$ –	\$ –	\$135,941	\$145,960
Interest	57	47	13	18	71,242	75,424
Contribution from Province of Alberta	–	–	22,688	56,509	319,922	288,808
Contribution from Government of Canada	–	–	22,588	60,859	431,378	340,225
Reinsurance recoveries	2,163	–	–	–	2,163	9,000
Investment income	2,992	3,401	–	266	10,022	10,970
Fees and other income	309	183	203	339	5,374	3,067
	<u>26,415</u>	<u>15,528</u>	<u>45,492</u>	<u>117,991</u>	<u>976,042</u>	<u>873,454</u>
Expense						
Indemnities	32,281	12,329	43,391	112,558	720,436	617,849
Administration, Schedule 2	1,323	840	1,177	5,035	60,019	52,341
Interest	–	–	590	–	45,647	47,212
Reinsurance	420	319	–	–	44,889	67,907
Farm loan incentives	–	–	–	–	5,077	5,728
Provision for doubtful accounts and for losses	8	17	–	–	1,595	5,070
Adjusting	569	371	297	242	8,072	9,573
Selling commissions	2,027	1,662	–	–	2,027	1,662
	<u>36,628</u>	<u>15,538</u>	<u>45,455</u>	<u>117,835</u>	<u>887,762</u>	<u>807,342</u>
Surplus (deficiency) of revenue over expense before recoveries	(10,213)	(10)	37	156	88,280	66,112
Recoverable from Government of Canada	–	–	–	33	–	33
Recoverable by Province of Alberta	–	–	–	(33)	–	(33)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Surplus (deficit) for the year	(10,213)	(10)	37	156	88,280	66,112
Surplus at beginning of year	49,871	49,881	504	348	198,533	132,421
Surplus at end of year	<u>\$ 39,658</u>	<u>\$49,871</u>	<u>\$ 541</u>	<u>\$ 504</u>	<u>\$286,813</u>	<u>\$198,533</u>



**Agency – continued****Agriculture Financial Services Corporation – Schedule of Administration Expense for the Year Ended March 31, 2005****Schedule 2***(in thousands)*

	<b>2005 Budget (Note 3(a))</b>	<b>2005 Actual</b>	<b>2004 Actual</b>
Salaries and benefits (Note 12)	\$36,134	\$37,581	\$31,528
Contracted services	5,826	7,210	7,086
Amortization of capital assets	4,550	4,501	3,683
Office accommodation costs	3,475	3,050	3,011
Stationery and supplies	1,173	1,645	1,150
Data processing	976	1,165	1,090
Advertising	1,233	902	904
Travel and automobile	1,377	795	974
Telecommunications	784	724	593
Professional services	612	613	628
Postage and freight	372	554	362
Directors' fees and expenses	457	401	398
Training, meetings, seminars, conferences	817	378	406
Equipment, rental and maintenance	488	360	349
Miscellaneous	243	140	179
	<u>\$58,517</u>	<u>\$60,019</u>	<u>\$52,341</u>

**Agency – continued****Agriculture Financial Services Corporation – Schedule of Salaries and Benefits for the Year Ended March 31, 2005****Schedule 3***(in thousands)*

	2005			2004	
	Base Salary <sup>(1)</sup>	Other Cash Benefits <sup>(2)</sup>	Other Non-cash Benefits <sup>(3)</sup>	Total	Total
Chairman of Board	\$ 78	\$ –	\$ –	\$ 78	\$ 66
Board members <sup>(4)</sup>	233	–	–	233	232
President and Managing Director <sup>(5)</sup>	128	34	22	184	215
Executive/Vice-Presidents					
Vice-President, Finance	133	25	26	184	174
Vice-President, Lending Operations <sup>(6)</sup>	127	67	24	218	178
Vice-President, Risk Management <sup>(7)</sup>	34	7	8	49	–
Vice-President, Insurance <sup>(8)</sup>	99	18	17	134	184
Vice-President, Information Technology <sup>(8)</sup>	96	27	17	140	178
Executive Consultant and Research Director <sup>(9)</sup>	132	28	25	185	194

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

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

(3) Other non-cash benefits include employer's share of all employee benefits, including health care, dental and vision care allowance, group life insurance benefits, pensions, employment insurance, accidental death/dismemberment and long-term disability insurance, workers' compensation and professional memberships. No amount is included in other non-cash benefits for an automobile provided to the President and Managing Director.

(4) The amounts relate to eight Board members during 2004/05 (eight – 2003/04).

(5) The current President and Managing Director commenced employment on February 1, 2005. An Acting President held that position for the months of December 2004 and January 2005. The Outgoing President held that position from April to November 2004.

(6) The current Vice-President commenced employment in December 2004. The previous incumbent held the position from April to November 2004.

(7) This is a new position created effective January 1, 2005. Pay and benefits relate to the period January 1, 2005 to March 31, 2005.

(8) These positions were abolished December 31, 2004.

(9) This position was abolished March 31, 2005.