

ANNUAL ACCOUNTABILITY REPORT

*for the fiscal year  
ending March 31, 2012*

**Nova Scotia  
Farm Loan Board**

## Accountability Statement

We have the honour of presenting the 80th Annual Report of the Nova Scotia Farm Loan Board covering the fiscal year ending March 31, 2012.

This report incorporates accountability reporting of the Nova Scotia Farm Loan Board for the year ended March 31, 2012, and is prepared pursuant to the Section 12 of the *Agriculture and Rural Credit Act*, 1989, as well as the *Provincial Finance Act* and government policy and guidelines. These authorities require the reporting of outcomes against the Board's business plan information for the fiscal year 2011-2012. The reporting of Board outcomes necessarily includes estimates, judgements and opinions by Board management.

We acknowledge that this accountability report is the responsibility of management and the Nova Scotia Farm Loan Board. The report is, to the extent possible, a complete and accurate representation of outcomes relative to the goals and priorities set out in the Board's business plans for the year.

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John M<sup>ac</sup>Donell  
Minister, Department of Agriculture

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Stephen Healy  
Chairman of Board of Directors  
Farm Loan Board

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Cheryl Burgess  
Chief Executive Officer,  
Farm Loan Board

## CONTENTS

### Page

Accountability Statement .....	2
Board Members and staff .....	4
Chief Executive Officer's Report .....	5
Board Operation Overview.....	6
Results (Progress and Accomplishments) .....	8
Actual/Budget Comparison .....	10
Financial Statements, March 31, 2012 .....	12
Measuring Our Performance .....	29

Board Members and staff as at March 31, 2012:

Board Members

Leo Cox	Chairman
Stephen Healy	Vice-Chair
Greg Sheffer	Member
Hank Bosveld	Member
Angela Hunter	Member

Principal Officers & staff as at March 31, 2012:

Chief Executive Officer	Cheryl Burgess, MHSA
Solicitor to Board	Sean Rooney, Department of Justice
PricewaterhouseCoopers LLP	Auditor

Truro Office

Manager, Finance	Philip Green, CMA, MPA
Credit Supervisor	Robb MacMillan, P.Ag.
Senior Loan Officer	Maria McCurdy, P.Ag.
Special Credit Officer	John Murray, P.Ag.
Loan Officer	Jim Neary, P.Ag.
Loan Officer	Paul Arnfast, A.Ag.
Administrative Assistant	Vickie Birch
Client Service Support	Colleen Frizzell
Paralegal & Client Service Support	Jody Graham
Financial Analyst	Susan Archibald
Financial Services Officer	Robbie Rushton
Accounting Clerk	Marlene Allen
Reception	Norma MacKay

Kentville Office

Senior Loan Officer	Pam Fraser, P.Ag.
Loan Officer	Sam Lacey, BSc
Client Service Support	Wanda Lenihan

## Chief Executive Officer's Report

It is a privilege to lead an organization that serves such an important and vibrant industry. The Nova Scotia agriculture and agri-food industry is modern and competitive.

Nova Scotia Farm Loan Board is proud to be the only Provincial financial institution in Nova Scotia focused exclusively on the agriculture value chain. We are committed to helping our customers achieve their goals through good and challenging times. Our customers range from traditional agriculture (such as poultry, mink, dairy, bee, and blueberries) to wine producers, greenhouses, and value-added agribusinesses. Each are industries in their own right and are very different from each other in terms of how they are impacted by weather, market forces, regulations and changing consumer demands.

Our purpose is to enhance rural Nova Scotia by providing specialized and personalized business and financial services and products that address unique aspects of agriculture. We provide access to capital and our products and services are tailored to the special needs of agriculture and agri-food, including a next generation of producers.

We believe the future of farming depends on our ability to attract new farmers with the skills needed to take over farms and other agribusinesses. The Nova Scotia Farm Loan Board and Department of Agriculture support them at every stage with financing, learning opportunities and more. Agriculture is a dynamic and progressive industry that needs our best and brightest. The new FarmNEXT program supports new farmers with both a capital grant and ongoing business coaching. The program will provide guidance in the critical years of business development.

A long standing, trustworthy and stable financial partner that understands the business of agriculture has never been more important. We are very proud to work with the people involved in agriculture. Agriculture is more than a career. Those who work in the industry manage complex operations. They are resilient, agile and innovative.

At the Farm Loan Board, we know the industry and we love it too. We're here to support our farmers and other agribusinesses and help them succeed every step of the way.

Cheryl Burgess  
Chief Executive Officer

## Board Operation Overview

### Direct Loans

During its 80th year of operations the Board met on nine occasions encompassing sixteen days. One hundred and sixty-seven loan requests were approved during the 2011-2012 fiscal year. A total of 920 active loans (Farm and Timber) were in effect at March 31, 2012.

Interest rates on loans at year-end were:

Amortization period:	1 - 5 years	6 - 10 years	11 - 15 years	16 - 20 years	21 - 25 years	26 - 30 years
Effective dates						
Full Term	2.90	3.50	4.20	5.55	5.75	5.90
5yr term	2.80	3.05	3.15	3.20	3.25	3.25
3yr term	2.60	2.60	2.80	2.80	2.85	2.85

Loans for 5 and 3 year term lengths are restricted to clients meeting additional risk criteria.

### Timber Loans

There were three Timber Loan category loans on March 31, 2012 totalling \$156,000.

Farm Loan Board Staff are responsible for administrative detail with respect to receiving applications, preparing documents, disbursing loans and maintaining loan records. Personnel of the Department of Natural Resources carry out loan appraisals, prepare reports and provide recommendations on timber loan requests. In addition, the Department of Natural Resources supervises requests to cut forest products from land held as security for loans and establishes stumpage rates for material removed.

### Land Purchase and Lease (Land bank program)

This program was initiated during the 1974-75 fiscal year to assist industry by purchasing land for lease back to farmers. The Nova Scotia Farm Loan Board administers the leasing of these properties.

In total, thirteen properties remain under this program, with a total outstanding principal at year-end of \$398,000.

## **New Entrants to Agriculture / FarmNEXT Programs**

The New Entrants to Agriculture program was discontinued and no new applications were accepted during 2011-2012. Payments of \$573,000 were made to previously approved applicants. The FarmNEXT program was approved as a replacement program, with applications to open April 1, 2012.

## **Life Insurance**

The Farm Loan Board administers a creditor group life insurance for clients. The policy is held with the Sun Life Assurance Company of Canada. Total insurance in force at the end of 2011-2012 was \$94.4 million. A review of this program was undertaken during the year using an external consultant. The conclusion of the report was that the program was not sustainable without modification. As a result, a modified insurance arrangement was negotiated. This arrangement, to be finalized and implemented during 2012–2013, will include age-adjusted rates for all new and refinanced loans. An important element, given the high average age of clients, is that existing clients will be protected from the full effect of this change because their insurance will continue to be calculated using a rate that is not age adjusted (at a somewhat increased rate to ensure viability of the program). Under the new arrangement the insurance carrier will absorb fluctuations in year-to-year results, reducing risk to the Board, and will also assume administrative aspects of the program including calculation and collection of fees directly.

## Results (Progress and Accomplishments)

### Priority: Lending

- Provide up to \$30 million of new loan capital to the agricultural and timber industries in the 2011-2012 fiscal year.

*Result:* 167 loan applications were approved during the year with total funds advanced of \$21.1 million. Principal repayments were \$24.5 million with an additional \$4.9 million of principal written off. Interest rates continued to be extremely low. Credit availability from other lenders was strong. Loan advances were below the maximum \$30 million authorized. Long term lending needs appear to have been met. Clients have shown a preference for short-term lending arrangements.

- Confidential Credit Counselling

*Result:* Loan officers met with clients to discuss lending needs and provide other financial counselling, attended information sessions and presented information to meetings of interest to the agricultural community.

- Marketing and Business Development

*Result:* Whenever appropriate, clients are encouraged to use the business assistance resources of the Department of Agriculture. Assistance to beginning farmers is of particular interest. Business planning and coaching has been built into the FarmNEXT program.

- Timber Loans

*Result:* The Board maintained the existing loan program and offered lending to agriculturally related forest ventures. It continues to be available to modify products and services to meet needs for growth and development within this industry. Demand for woodland and timber loans was very low throughout 2011-2012, and no new loans were issued under Timber Loan Board regulations during this year.

- Reporting

*Result:* Board staff continued to work with Department of Finance (CCC) staff to improve client and administrative reporting during the year. Some planned process changes were implemented and others identified for future efforts.

- Account Maintenance

*Result:* Arrears level declined slightly from \$5.306 million in 2011 to \$5.119 million at March 31, 2012 however increased as a percentage of the portfolio from 2.9% of the portfolio at March 31, 2011 to 3.0% March 31, 2012 because of declines in the total portfolio. Both years are a marked improvement from 5.1% reported for March 2010. Effort to improve collection by loan officers and the special credit officer continue. The beef and blueberry sector contributed a significant portion of arrears. Considerable attention and staff time has been directed to assisting these clients and recovering on accounts. The effects of anticipated future losses have been recognized in the Board's bad debt expense and provision for impairment. Accounts of twelve clients were submitted for write-off during the year, totalling \$5.0 million or 3.0% of the loan portfolio. These are the result of shortfalls in security on unpaid loans in earlier years. 88% of the write-off was for accounts involved in the collapsed hog industry.

**Priority:** Program Administration

- Administer a New Entrants / FarmNEXT Program in concert with the Nova Scotia Department of Agriculture.

*Result:* No new applications were accepted during 2011-2012 as the program is in transition to a new 'FarmNEXT' program. Annual budget authority to date of \$574,000 was applied to fund grants approved in previous years (\$573,000).

### Actual/Budget Comparison - Loan Operating

Description	2011-2012 Actual (\$ 000)	2011-2012 Budget (\$ 000)	Change (\$ 000)
Interest	8,127	9,655	(1,528)
Life Insurance program revenue*	401	628	(227)
Fee revenue and other income*	705	431	274
Total revenue	9,233	10,714	(1,481)
Interest	7,794	9,300	(1,506)
Operating expenses*	1,540	1,484	56
Life insurance program expense	252	291	(39)
Bad debt expense	-	-	-
Total expenses	9,586	11,075	(1,489)
Income (Deficit) before govt. contributions	(353)	(361)	8
Government contributions	353	361	(8)
Net Income	0	0	0

See Financial Statements for complete financial information and notes.

Items marked \* are budgeted as part of the Department of Agriculture estimates. Items not marked are not identified in approved estimates at this level of detail but are included in the Board's annual business plan.

### Significant variations from Budget:

- Interest Revenue and Expense: The loan portfolio has declined over the year, rather than growing as originally expected; both borrowing and lending interest rates for new and refinanced loans are down significantly.
- Insurance Revenue: Fluctuates annually depending on death claims. Although death claim costs were low during 2011-12, the estimate assigned for life insurance revenue required higher revenues.

### Actual/Budget Comparison - Capital Funds

<b>Description</b>	<b>2011-2012 Actual (\$ 000)</b>	<b>2011-2012 Budget (\$ 000)</b>	<b>Change (\$ 000)</b>
Opening principal	174,190	176,836	(2,646)
Funds advanced	21,056	30,000	(8,944)
Principal repayments	(24,536)	(21,000)	(3,536)
Written off	(4,914)	(6,000)	1,086
Advanced principal at year-end	165,796	179,836	(14,040)
Allowance for impairment	(10,463)	(9,794)	(669)
Net principal at year-end	155,333	170,042	(14,709)

#### Significant variations from Budget:

- Opening principal: Budget Projections are final before the year in progress is complete and have been subject to adjustment.
- Amount written off include former hog accounts identified as complete and submitted for write off in the fall of 2011, reducing both total principal all allowance accounts.
- New loans advanced were significantly less than funding approved due to low demand, and repayments somewhat higher than anticipated. Continued loan short-term interest rates and availability of lending by commercial lenders.

### Actual/Budget Comparison - Grant Programs

<b>Description</b>	<b>2011-2012 Actual (\$ 000)</b>	<b>2011-2012 Budget (\$ 000)</b>	<b>Change (\$ 000)</b>
New Entrants Grants Disbursed	573	574	(1)

#### Significant variations from Budget:

- None

**Nova Scotia Farm Loan  
Board**

**Financial Statements**

**March 31, 2012**

## **Management's Responsibility for the Financial Statements**

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the financial statements and schedules, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control and exercises these responsibilities through the Board of Directors. The Board of Directors reviews internal financial statements on a monthly basis and external audited financial statements yearly.

The external auditor, PricewaterhouseCoopers LLP, conducts an independent examination, in accordance with Canadian auditing standards, and expresses their opinion on the financial statements. The external auditor has full and free access to financial management of the Nova Scotia Farm Loan Board and meets when required.

On behalf of the Nova Scotia Farm Loan Board

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Cheryl Burgess, CEO

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Stephen Healy, Chairman

June 28, 2012



**pwc**

June 28, 2012

## **Independent Auditor's Report**

### **To the Members of the Legislative Assembly; and To the Minister of Agriculture**

We have audited the accompanying financial statements of **Nova Scotia Farm Loan Board** (the "Board"), which comprise the statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010 and the statements of operations and accumulated surplus and cash flows for the years ended March 31, 2012 and March 31, 2011, and the related notes, which comprise 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**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2012, March 31, 2011 and April 1, 2010 and the results of its operations and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian public sector accounting standards.

*PricewaterhouseCoopers LLP*

#### **Chartered Accountants**

*PricewaterhouseCoopers LLP, Chartered Accountants  
710 Prince Street, PO Box 632, Truro, Nova Scotia, Canada B2N 3E3  
T: (902) 895 1641, F: +1 (902) 893 0460*

\*PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

# Nova Scotia Farm Loan Board

## Statement of Financial Position

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(in thousands of dollars)

	March 31, 2012 \$	Restated (note 5) March 31, 2011 \$	April 1, 2010 \$
<b>Financial assets</b>			
Restricted cash (note 4)	1,075	934	1,410
Interest and other receivables, net (note 6)	2,158	2,344	2,695
Loans receivable (note 7)	151,882	154,757	152,573
Real estate held for resale (note 8)	1,981	2,629	2,508
	<u>157,096</u>	<u>160,664</u>	<u>159,186</u>
<b>Liabilities</b>			
Due to the Province of Nova Scotia	1,075	934	1,765
Advances from the Province of Nova Scotia (note 9)	157,490	161,209	159,001
	<u>158,565</u>	<u>162,143</u>	<u>160,766</u>
<b>Net debt</b>	(1,469)	(1,479)	(1,580)
<b>Non-financial assets</b>			
Real estate, net (note 10)	1,469	1,479	1,580
<b>Accumulated surplus</b>			
<b>Commitments</b> (note 19)			

**Approved by the Board of Directors**

\_\_\_\_\_ Member \_\_\_\_\_ Member

**Nova Scotia Farm Loan Board**  
**Statements of Operations and Accumulated Surplus**  
**For the years ended March 31, 2012 and 2011**

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(in thousands of dollars)

	<b>(Unaudited) Budget 2012 \$</b>	<b>Actual 2012 \$</b>	<b>Actual 2011 \$</b>
<b>Revenue</b>			
Interest on loans	9,655	8,127	8,978
Loan processing and other fees (note 11)	431	705	699
Life insurance program revenue, net (note 15)	337	149	
	<hr/> 10,423	<hr/> 8,981	<hr/> 9,677
<b>Expenses</b>			
Lending expenses (note 12)	10,784	9,334	11,061
Life insurance program expense, net (note 15)	—	—	275
	<hr/> 10,784	<hr/> 9,334	<hr/> 11,336
<b>Annual deficit before government contributions</b>	(361)	(353)	(1,659)
<b>Government contributions</b>	361	353	1,659
	<hr/> 361	<hr/> 353	<hr/> 1,659
<b>Annual surplus for the year and Surplus — Beginning and End of year</b>			
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

# Nova Scotia Farm Loan Board

## Statements of Cash Flows

For the years ended March 31, 2012 and 2011

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(in thousands of dollars)

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Annual surplus		
Net charges (credits) to income not involving cash		
Decrease (increase) in interest and other receivables	186	351
Increase (decrease) in due to the Province of Nova Scotia	141	(831)
Valuation allowance for impaired loans (including real estate held for resale)	(241)	656
Loans written-off during the year	(5,007)	(10,266)
	(4,921)	(10,090)
<b>Financing activities</b>		
Advances from the Province of Nova Scotia	(3,719)	2,208
Decrease (increase) in loans receivable (including real estate held for resale)	8,771	7,305
	5,052	9,513
<b>Investing activities</b>		
Decrease (increase) in real estate	10	101
<b>Net change in cash for the year</b>	141	(476)
<b>Restricted cash — Beginning of year</b>	934	1,410
<b>Restricted cash — End of year</b>	1,075	934

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# Nova Scotia Farm Loan Board

## Notes to Financial Statements

### For the years ended March 31, 2012 and 2011

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(in thousands of dollars)

#### **1 Authority**

Nova Scotia Farm Loan Board (the "Board") provides loans to the agriculture and forestry sector for farms operating in rural Nova Scotia.

The Board is a provincial agency and operates under the authority of the Agriculture and Rural Credit Act and the Forests Act (for timber loans).

Principal in loans outstanding is limited by regulation to \$200 million. Maximum advances to be disbursed in any given year, are established through the annual budgeting process. For the year ended March 31, 2012, maximum new advances were \$30 million, of which \$21.1 million was advanced. The Board received loan principal repayments of \$24.5 million during the year.

Loans in excess of \$2 million and any loan write-offs require approval by Governor in Council.

#### **2 Capital management**

As an agency of the Province of Nova Scotia, the Board does not maintain its own capital. Operations are funded by capital contributions from the Province.

#### **3 Conversion to Canadian Public Sector Accounting Standards**

Commencing with the 2012 fiscal year, the Board has adopted Canadian public sector accounting standards. These financial statements are the first financial statements for which the Board has applied Canadian public sector accounting standards ("PSAS").

There was no impact of the conversion to Canadian public sector accounting standards on the annual or accumulated surplus (deficit) at the date of transition.

#### **4 Significant accounting policies**

##### **Restricted cash**

The Board operates as an agency of the Province of Nova Scotia. All cash is received and disbursed through accounts managed centrally by the Province.

Restricted cash reported consists of funds held by Sun Life Assurance Company of Canada in relation to the Board's Creditor Group Life Insurance Program.

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# Nova Scotia Farm Loan Board

## Notes to Financial Statements

### For the years ended March 31, 2012 and 2011

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(in thousands of dollars)

#### 4 Significant accounting policies (continued)

##### Loans receivable

Loans receivable are the principal portion of loans outstanding, net of the valuation allowance for loan impairment.

Loans are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest.

##### Valuation allowance for loan impairment

The valuation allowance for loan impairment represents management's best estimate of losses due to impaired loans in the Board's portfolio. The valuation allowance is determined based on management's identification and evaluation of the problem accounts and estimated losses that exist in the remaining portfolio. These judgments are influenced by the composition and quality of the portfolio, general economic conditions, and conditions affecting specific commodities, as well as the Board policy to act as a patient lender, providing additional time for repayment where full future repayment appears reasonable.

The Board records a specific valuation allowance based on a loan-by-loan review. Impaired loans are valued at the lower of their recorded investment or the estimated net recoverable value of their underlying security.

In addition, the Board records a general valuation allowance for loans in the portfolio not assessed in the specific reserve. This is an estimate of incurred but unidentifiable losses based on a review of historic loan write-offs on an industry sector basis.

##### Real estate

Real estate acquired through foreclosure is initially recorded at the lower of the recorded investment in the foreclosed loan and the estimated fair value based on the resale value of the security held, less disposal costs.

Net operating costs incurred on real estate are added to the carrying value of the property. The related provision is used to adjust the carrying value to net recoverable value, resulting in inclusion of these costs in bad debt expenses if the carrying value exceeds net recoverable value.

The Board also holds land purchased under a Provincial "Landbank" program and under a Federal-Provincial "Agriculture and Rural Development Agreement" ("ARDA"). Both of these programs have ceased to exist; however, existing properties and leases continue with renewable five-year terms. Property acquired under these programs is valued at the lower of cost and recoverable amount. Lease clients are entitled to purchase the related property at its original purchase cost.

# Nova Scotia Farm Loan Board

## Notes to Financial Statements

### For the years ended March 31, 2012 and 2011

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(in thousands of dollars)

#### 4 Significant accounting policies (continued)

##### Revenue recognition

Interest income is recorded on an accrual basis until such time as a loan is classified as impaired. The loan reverts to an accrual status when all provisions for impairment are reversed and the ultimate collection of the principal interest is likely.

All loan related fees are reported as revenue in the period in which they were earned.

The Board elected to early adopt PSA Handbook Section PS345o "Government Transfers" on transition to PSAS. This section was applied prospectively and as such had no impact on the prior year figures. As a result of adopting this section, transfers are recognized as revenue when the transfer is authorized, any eligibility criteria are met, and reasonable estimates of the amounts can be made.

##### Financial instruments

The Board elected to early adopt PSA Handbook Section PS345o "Financial Instruments" on transition to PSAS. As a result, the Board is required to designate its financial instruments into one of the following two categories: (i) fair value; or (ii) cost or amortized cost. All of the Board's financial instruments are measured at amortized cost using the effective interest method.

The Board's financial instruments consist of restricted cash, accrued interest and other accounts receivable, loans receivable and real estate. Transaction costs related to loans are recorded as part of the total amount outstanding. The carrying value of loans receivable approximates its net recoverable value.

##### Management estimates

Canadian public sector accounting standards require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, as described further in note 6, these estimates are subject to measurement uncertainty and any changes in those estimates could have an impact on the results of future period financial statements.

#### 5 Restatement of previous period

During the March 31, 2011 fiscal year, a group of loans were transferred from impaired loans to real estate held for resale. These loans were reflected in the impaired loan balance as at March 31, 2011. In the current year, the loan board became aware that the title on these loans had not completely been transferred to the loan board and the loans should not have been transferred out of impaired loans.

As a result of this information, impaired loans have increased by \$2,285, the valuation allowance for impaired loans has increased by \$752 (a net increase of \$1,533) and real estate held for resale and the valuation allowance for real estate held for resale has decreased by the corresponding amounts for the period ended March 31, 2011 from amounts previously reported. There is no impact on the statement of operations as a result of this adjustment to the prior period.

**Nova Scotia Farm Loan Board**  
**Notes to Financial Statements**  
**For the years ended March 31, 2012 and 2011**

(in thousands of dollars)

**6 Interest and other receivables, net**

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Interest receivable	1,750	1,867
Accrued interest	1,164	1,182
Other charges	230	248
	<u>3,144</u>	<u>3,297</u>
Less: Valuation allowance for interest on impaired loans	849	777
Valuation allowance for interest on real estate	137	176
	<u>2,158</u>	<u>2,344</u>

**7 Loans receivable**

**a) Loans receivable, net**

The following schedule sets out the scheduled maturities of the financial assets as at March 31 2012, together with the weighted average interest rates being earned on the financial assets.

<b>Performing loans</b>	<b>2012</b>			<b>Restated (note 5) 2011</b>	
	<b>Under 1 year</b>	<b>1 - 5 years</b>	<b>Over 5 years</b>	<b>Total</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Farm loans	18,816	69,878	44,235	132,929	124,996
Timber loans	13	48	8	69	78
	<u>18,829</u>	<u>69,926</u>	<u>44,243</u>	132,998	125,074
Average effective annual interest rate	4.6%	4.7%	4.8%		
Add: Impaired loans				<u>27,338</u>	<u>38,106</u>
Total loans				160,336	163,180
Less: Valuation allowance for loan impairment				<u>(8,454)</u>	<u>(8,423)</u>
				<u>151,882</u>	<u>154,757</u>

# Nova Scotia Farm Loan Board

## Notes to Financial Statements

For the years ended March 31, 2012 and 2011

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(in thousands of dollars)

### 7 Loans receivable (continued)

#### b) Allowance for impaired loans

Loans are considered impaired when there has been deterioration in credit quality to the extent the Board no longer has reasonable assurance of timely collection of the full amount of principal and interest. The allowance is comprised of two components, the specific allowance for individually identified impaired loans and a general allowance for impaired loans.

The specific allowance for individually identified impaired loans was established based upon a review of a large sample of impaired loans. Primary factors considered in estimating the specific allowance on individual loans were the security pledged and the financial condition of the borrower and/or, where applicable, guarantors.

The general allowance for impaired loans is management's best estimate of the loss that is likely to be experienced on impaired loans that were not known to be impaired at the year-end. The general allowance was determined based on management's judgment and recent experience by calculating the average estimated historical loss ratio by loan type and then applying these ratios to the current portfolio of unimpaired loans.

Significant judgment was exercised by management in making these estimates. As such, actual losses that occur on loans outstanding at March 31, 2012 will differ from these estimates and the differences could be material. Management estimates that the actual realization of impaired loans could result in significant variance from the estimated amounts.

	<b>2012</b>		<b>Restated (note 5) 2011</b>	
	<b>Impaired loans \$</b>	<b>Allowance for impairment \$</b>	<b>Impaired loans \$</b>	<b>Allowance for impairment \$</b>
Specific allowance	27,338	7,893	38,106	7,352
General allowance		561		1,071
	<b>27,338</b>	<b>8,454</b>	<b>38,106</b>	<b>8,423</b>

**Nova Scotia Farm Loan Board**  
**Notes to Financial Statements**  
**For the years ended March 31, 2012 and 2011**

(in thousands of dollars)

**7 Loans receivable** (continued)

**c) Continuity of allowance for impaired loans**

	<b>2012</b>	<b>Restated (note 5) 2011</b>
Allowance for impaired loans — Beginning of year	9,200	16,957
Add: Provision for changes in restructured loan balances		475
Add: Valuation allowance for impaired loans	163	1,231
Less: Loans written-off	(60)	(9,463)
	<hr/>	<hr/>
Allowance for impaired loans — End of year	9,303	9,200
	<hr/>	<hr/>
Valuation allowance on principal	8,454	8,423
Valuation allowance on interest	849	777
	<hr/>	<hr/>
	9,303	9,200
	<hr/>	<hr/>

**8 Real estate held for resale**

**a) Real estate held for resale, net**

The assets held for sale, comprising land, buildings and equipment, have been written-down to estimated recoverable value. Recoverable value was estimated by management, utilizing external appraisals for the land and buildings, based on the expected selling prices, net of estimated closing costs.

Real estate held for resale has been written down from the original loan amounts as follows:

	<b>2012</b>	<b>Restated (note 5) 2011</b>
	<b>\$</b>	<b>\$</b>
Original funds advanced	3,990	9,594
Less: Valuation allowance for real estate	(2,009)	(6,965)
	<hr/>	<hr/>
Real estate held for sale	1,981	2,629
	<hr/>	<hr/>

**Nova Scotia Farm Loan Board**  
**Notes to Financial Statements**  
**For the years ended March 31, 2012 and 2011**

(in thousands of dollars)

**8 Real estate held for resale (continued)**

**b) Allowance for real estate**

	<b>2012</b>	<b>Restated (note 5) 2011</b>
	<b>\$</b>	<b>\$</b>
Allowance for real estate — Beginning of year	7,141	7,079
Valuation allowance for real estate	(404)	(575)
Less: Provision for changes in restructured loans	356	1,440
Less: Real estate written off	(4,947)	(803)
	<hr/>	<hr/>
Allowance for real estate — End of year	2,146	7,141
	<hr/>	<hr/>
Valuation allowance on principal	2,009	6,965
Valuation allowance on interest	137	176
	<hr/>	<hr/>
	2,146	7,141
	<hr/>	<hr/>

**9 Advances from the Province of Nova Scotia**

Advances are provided by the Province of Nova Scotia to fund loans issued by the Farm Loan Board. Interest expense is calculated in accordance with a Memorandum of Understanding with the Nova Scotia Department of Finance (note 13).

**10 Real estate, net**

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Real estate held for long-term use		
Land bank	399	411
Agriculture and Rural Development Agreement ("ARDA")	12	20
Less: Federal government share of ARDA properties	—	(10)
Property used by Nova Scotia Agricultural College and Community Pastures	1,058	1,058
	<hr/>	<hr/>
	1,469	1,479
	<hr/>	<hr/>

**11 Loan processing and other fees**

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Fees and other charges	446	638
Cost recoveries	18	61
Bad debt recovery (note 14)	241	—
	<hr/>	<hr/>
	705	699
	<hr/>	<hr/>

(7)

**Nova Scotia Farm Loan Board**  
**Notes to Financial Statements**  
**For the years ended March 31, 2012 and 2011**

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(in thousands of dollars)

**12 Lending expenses**

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Interest (note 13)	7,794	8,928
Bad debt (note 14)	—	656
Payroll	1,192	1,162
Supplies and services	66	115
Travel	64	53
Professional services/special services	137	100
Training and development	30	16
Equipment and other	51	31
	<hr/>	<hr/>
	<b>9,334</b>	<b>11,061</b>
	<hr/>	<hr/>

**13 Interest expense**

Since April 1, 1998, a Memorandum of Understanding ("MOU") between the Board and the Nova Scotia Department of Finance has formalized the Board's funding arrangement. Under the MOU arrangement, the Board estimates projected lending requirements on a quarterly basis. The Nova Scotia Department of Finance arranges the requested financing for terms requested and provides this financing to the Board at interest rates related to the terms and volumes requested. Funding is maintained to cover the Board's investment in loans receivable and in real estate. The Board tracks the draws arranged with the Nova Scotia Department of Finance and computes the interest cost based on the terms of these draws. Actual financing costs are included as interest costs of the Province.

**14 Bad debt expense**

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Bad debt expense (recovery) includes:		
Valuation allowance for impaired loans	163	1,231
Write-down (recovery) of real estate held for resale	(404)	(575)
	<hr/>	<hr/>
	<b>(241)</b>	<b>656</b>
	<hr/>	<hr/>

In the current year, bad debt expense was in a recovery position and has therefore been included in loan processing and other fees revenue (see note ii).

# Nova Scotia Farm Loan Board

## Notes to Financial Statements

### For the years ended March 31, 2012 and 2011

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(in thousands of dollars)

#### 15 Financial instruments and risk management

##### (i) Fair value of financial instruments

The Board is exposed to financial risk that arises from the credit quality of the individuals and entities to which it provides loan services. Credit risk arises from the possibility that the individuals and entities to which the Board provides loan services may experience financial difficulty and be unable to fulfill their obligations.

The Board has recorded a valuation allowance for potential credit losses after an extensive review of the loan portfolio by management. Due to the number of factors which would affect the fair value of the loan portfolio, including the credit rating of the borrower and the related risk premium, interest rates and valuation of the security; it is not practical to determine the fair value of this financial asset with sufficient reliability.

##### (ii) Risk management

###### Credit risk

The risk that clients may not pay amounts owing on loans and lease accounts, resulting in a loss to the Board, is managed through an initial assessment of the client's ability to pay, and by review and follow-up of delinquent accounts by loan officers. In cases in which the client is unable to make payments, due to cyclical industry or other temporary difficulties, it is the Board's policy to work with the client on an individual basis to provide time for recovery.

The total of loans receivable at March 31, 2012 is \$160,336 (2011 - \$163,180). The majority of loans are secured primarily by real property using mortgage or Agreement of Sale (providing rights similar to a mortgage). Dairy and poultry loans are generally also secured by an irrevocable assignment of production quota. Collateral security may also be provided by equipment, livestock or chattels. It is not practical to determine the maximum exposure to credit risk due to the cost associated in determining the fair value of security and collateral security on unimpaired loans.

All clients are involved in agriculture in Nova Scotia. Involvement in processing is limited to on-farm processing. Regulations provide that loans must not exceed 90% of security value without approval by the Board. Collateral held for security is assigned a value by the loan officer considering the loan based on known transactions of similar property, with additional information provided by property assessments and external assessments, where available.

# Nova Scotia Farm Loan Board

## Notes to Financial Statements

### For the years ended March 31, 2012 and 2011

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(in thousands of dollars)

#### 15 Financial instruments and risk management (continued) (ii) Risk management (continued)

##### Credit risk (continued)

The Board adjusts the valuation allowance for impairment to recognize management's estimate of recoveries on impaired accounts. Impairment is primarily identified by review of arrears, refinanced loans and accounts in sectors experiencing difficulty. A total of \$3,445 (2011 - \$3,695) was issued in refinanced loans during 2011-2012 to clients with significant arrears.

##### Liquidity risk

The Province of Nova Scotia provides funding and cash management services to the Board. There is no risk that funds will be unavailable to meet lending commitments except to the extent of legislative and budgetary limitations on spending authority as identified in note 1.

##### Interest rate risk

In order to mitigate the risk that future changes in interest rates may affect net interest revenue, the Board attempts to match terms of loans offered with those of funds drawn through the Province. All loans provide for an optional 10% repayment at any time during each calendar year and an optional full repayment on each 5 year anniversary. All loans are contracted for the full term of their amortization which may range from 1 to 30 years. Funds drawn through the Province provide for 10% annual and 5 year full optional repayments.

##### Life insurance risk

The Board requires borrowers to participate in a group life insurance program administered by the Board unless the borrower has arranged alternative life insurance coverage. The net annual gain or loss under contract with the insurance provider (premium revenue less the cost of life insurance claims) to a maximum of \$250 on any claim, plus administrative costs, are costs or revenues of the Board and may vary from year to year.

#### 16 Government contributions

Expenses for the year ended March 31, 2012 were paid by the Department of Agriculture on behalf of the Board. Interest expense on funds borrowed to make loans is an expense of the Nova Scotia Department of Finance. Accordingly, these expenses are included in Government Contributions in the Statement of Operations.

# Nova Scotia Farm Loan Board

## Notes to Financial Statements

For the years ended March 31, 2012 and 2011

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(in thousands of dollars)

### 17 Related party transactions

The Board is related to all other departments, agencies, boards and commissions of the Province of Nova Scotia. The Nova Scotia Department of Finance is the sole source of funding for loans (see note 1). Property used by the Nova Scotia Agricultural College is property purchased by the Board for college use and will eventually be transferred to another government department. Transactions with other provincial entities were entered into in the normal course of business.

The Province of Nova Scotia pays certain expenses, including salaries and benefits, rent, travel, professional fees and miscellaneous office expenses, on behalf of the Board with no charge to the Board.

### 18 Pension and post-retirement benefits

All full-time employees of the Board are entitled to receive pension benefits pursuant to the provisions of a pension plan established under the Public Service Superannuation Act. The plan is funded by equal employee and employer contributions. The employer's contributions are included in the Board's operating expenses. The Public Service Superannuation Fund is administered by the Province of Nova Scotia and any unfunded liability, as well as other obligations related to post-retirement benefits, is the responsibility of the Province. It is not anticipated that any such future costs would be allocated to the Board.

### 19 Commitments

The Board will hold interest rates for ninety days for any client from the date of receipt of a loan application. As of March 31, 2012, the Board has authorized loans of \$5.4 million which had not been disbursed.

## Measuring Our Performance

The following sections provide results of performance measures identified in the Board's Business Plan for 2010-2011.

### Core Business Area I: Lending

This is the primary focus of the Board. Although lending activities address all three of the strategic goals, lending most directly bears upon ensuring access to stable, cost effective long-term developmental credit. The following measures provide an indication of the Board's success in pursuit of this goal:

Measure I-1: Net Income (before government contributions) as a percentage of the average active loan balance. Fiscal year (April 1 - March 31) measure.

What this measure tells us:

By comparing net income to the size of the loan portfolio, this measure provides an indication of the Board's efficiency assuming stable interest margins and costs.

Where we are now:

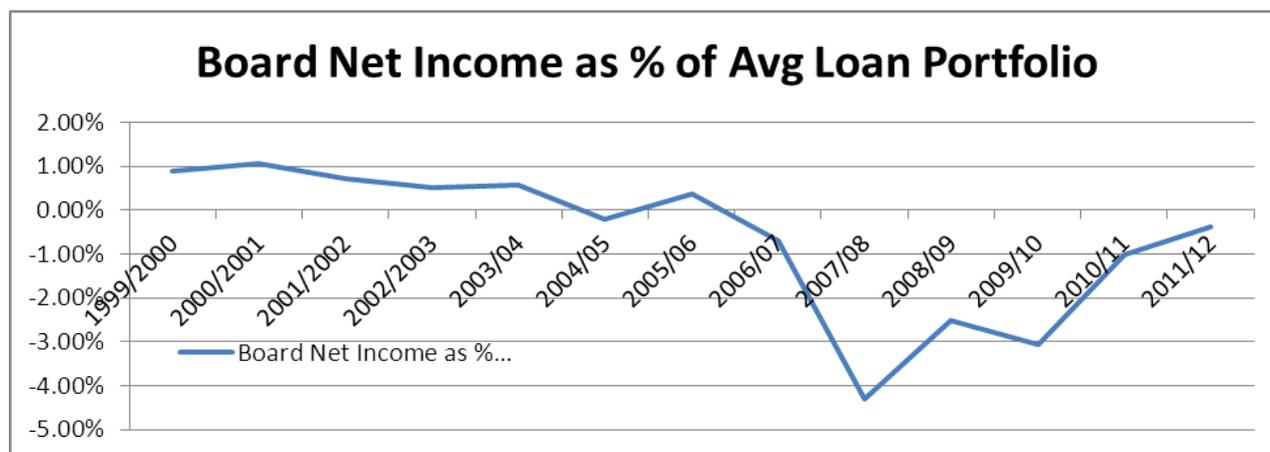
Base year:	1998-99:	0.1%
	2010-11:	-1.0%
	2011-12:	-0.4%

Interest margin remained low due to a number of impaired accounts.

Where do we want to be?

Target 2011- 2012: Loss of \$1,300,000 or -0.7% of the average loan portfolio

The lower than planned loss in 2011-2012 (-0.4% vs targeted -0.7%) was the result of better than expected life insurance program results and bad debt expense recoveries.



Measure I-2: Successful Clients - Arrears (>\$100) as a percent of the value of all accounts  
 Measured at end of fiscal year (March 31)

What this measure tells us:

This measure provides an indication of Client Success overall. It also measures the performance of the Board's policies and procedures for monitoring arrears and assisting clients in difficulty. Arrears as measured at March 31 of each year.

Use of this measure is a balancing act. Strict limitation of arrears conflicts with the intent of the Board to act as a patient lender for clients and sectors facing cyclical or other temporary downturns.

Where we are now:

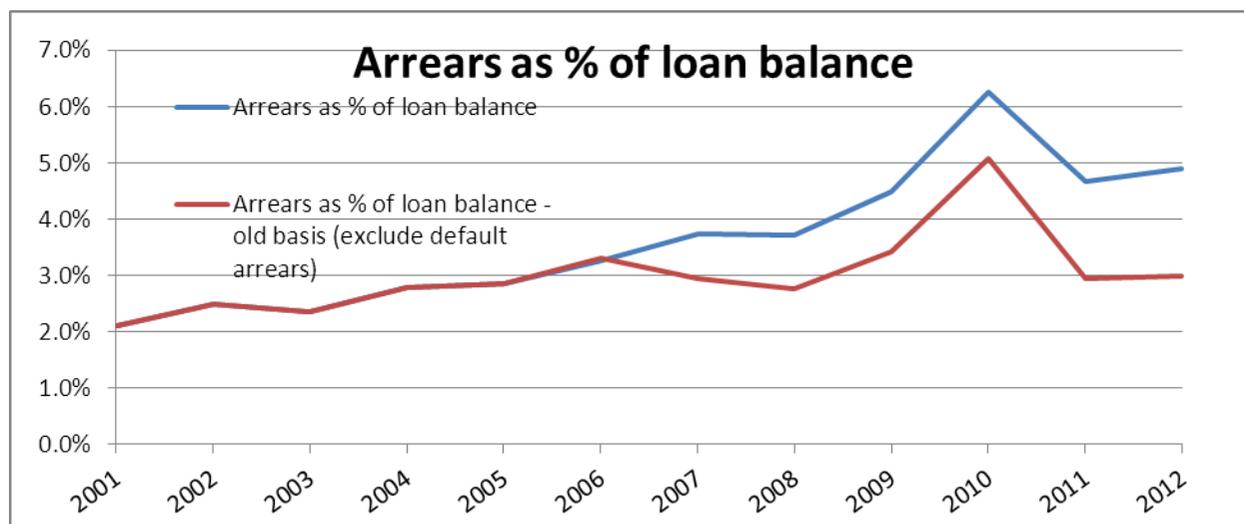
Base:	March 2001:	2.1% excluding default account arrears
	March 2011:	2.9% excluding defaults, or 4.7% all accounts
	March 2012:	3.0% excluding defaults, or 4.9% all accounts

Original statistics omitted arrears on loans classified as 'in default' and in process of collection on security. The new basis includes all arrears regardless of account status. A number of loan payouts by strong clients transferring to short-term loans have limited the portfolio size and reduced the average strength of clients remaining. Difficulties experienced by hog producers, most of who have now ceased production, as well as clients in the beef and blueberry sectors have contributed to high arrears.

Where do we want to be?

Target Mar 2012: 4.5% or less on all accounts

High levels of arrears are a concern to the Board and client. Client contact and arrears follow-up are being pursued to ensure delinquent accounts are brought up to date where possible. At the same time the Board continues to recognize the difficulty faced by some sectors and work with borrowers for the best long term resolution even if that does not result in an immediate reduction in arrears.



Client satisfaction based on client surveys

What this measure tells us:

This measure provides the client's view of services provided and may identify areas for improvement.

Where we are now:

Percentage Good to Excellent:

Base year: 2000-01: 92%  
2010-11: 95.7%  
2011-12: 97.6%

Where do we want to be?

Target 2011-2012: 90% or above

## Core Business Area II: Programs Administration

The Board administers loan-based assistance programs on behalf of the Department of Agriculture allowing it to take advantage of systems and information already in place to deliver programs efficiently and to support credit based goals of the Board.

Measure II-1: Number of approved applications to the New Entrant Program

What this measure tells us:

This measure indicates the relevance of the program by measuring take-up by qualified applicants.

Where we are now:

Base year:	2000-01:	48
	2009-10:	32
	2010-11:	43
	2011-12:	- No new applicants accepted. Program in transition to FarmNEXT starting April 1, 2012.

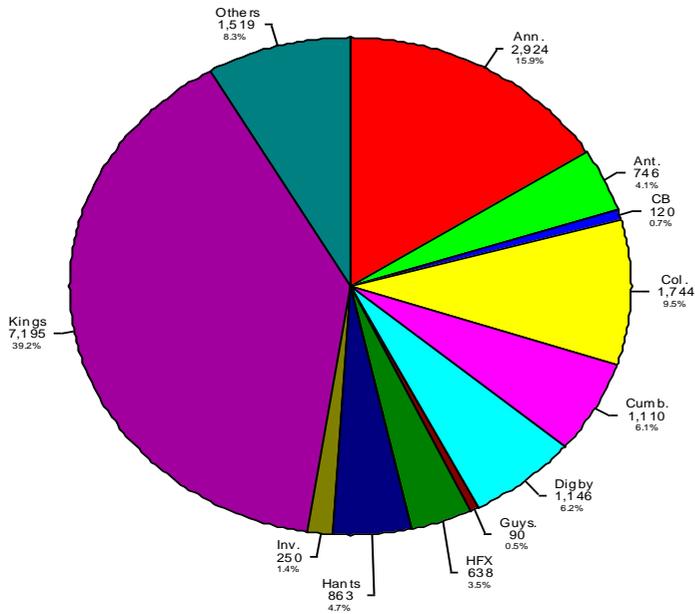
Where do we want to be?

Target calendar 2011-2012: 30 – 50

Approvals are limited by the number of valid applications received.

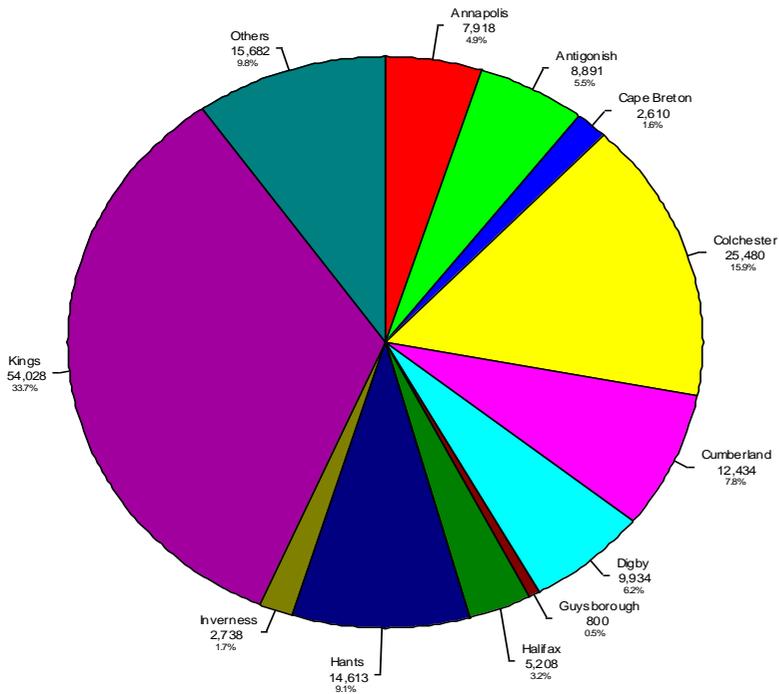
### Value of loans approved during the year by County

(\$ Thousands)

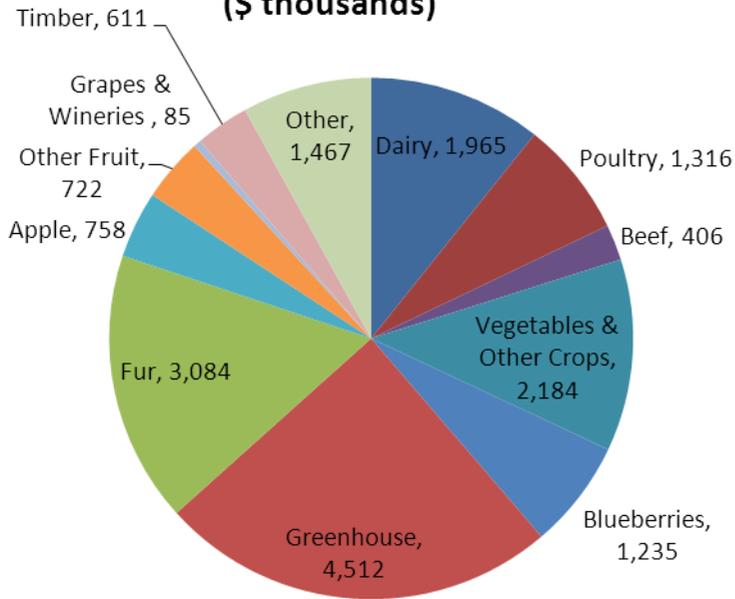


### Principal of all loans (not in default) at year-end by County

(\$ Thousands)



**Value of loans approved by commodity  
2011-2012  
(\$ thousands)**



**Principal of all loans (not in default) by commodity  
March 31, 2012 (\$thousands)**

