



Crown Corporation

B U S I N E S S P L A N S

FOR THE FISCAL YEAR 2011–2012

Nova Scotia Farm Loan Board ***Business Plan 2011–2012***

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Message from the Minister and Board Chair

We are pleased to present the Nova Scotia Farm Loan Board business plan for 2011–2012. The plan outlines the board's goals and priorities for the coming year in line with its mission and mandate.

The primary focus of the board continues to be the provision of agricultural financing and of credit counselling in order to advance, encourage, and support the development of agricultural and timber businesses in Nova Scotia.

The Honourable John M^{ac}Donell
Minister,
Nova Scotia Department of Agriculture

Mr. Leo Cox
Chairman

Mission

The Nova Scotia Farm Loan Board supports the development of sustainable agriculture and agri-rural business in Nova Scotia through responsible lending.

Vision

The Nova Scotia Farm Loan Board is a leader in agricultural lending, creating opportunities in rural Nova Scotia.

Mandate

The mandate of the Farm Loan Board is to support the agricultural industry through the provision of long-term, fixed-rate lending products to those clients demonstrating sound business fundamentals and commitment to the future growth and sustainability of the industry.

The board operates as a corporation of the Crown under the authority of the Agriculture and Rural Credit Act, Revised Statutes, Nova Scotia 1989, Chapter 7. This act provides authority to the board to make or guarantee loans for the purpose of acquiring or improving any farm, plant, machinery, or equipment; to acquire, hold, and dispose of farms, buildings, livestock, machinery, and lands; to collaborate with the Department of Agriculture personnel; and to take on other purposes, duties, and powers as the minister approves.

The board functions as the Timber Loan Board (for loans to forest-product mills) as well as the Nova Scotia Farm Loan Board. The Timber Loan Board's authority is from regulations made pursuant to the Revised Statutes of Nova Scotia, 1989, The Forest Act, in Section 20 of Chapter 179. This act provides for credit to acquire forested land for forest-product mills and refers to the Agriculture and Rural Credit Act for authority, board members, and staff.

Our Board of Directors

Five board members, with successful careers in agriculture and business, govern policies, receive reports on operations and clients, and provide strategic direction for the board. Board members are appointed for terms of up to five years by the Governor in Council and are accountable to the Minister of the Department of Agriculture.

Current Board members

Chair: Leo Cox. Leo has been a member (and chair) of the board since March 2000. His current term expires April 2012. Leo is from Mabou and has a long background in agriculture, having served with the Department of Agriculture in livestock and extension services for 30 years. He owned a cow-calf farm and is still actively involved in the operation of Lake Mabou Farms. Leo has served on numerous boards and is the current chairman of the Inverness Consolidated Memorial Hospital Charitable Foundation.



Vice-Chair: Stephen Healy. Steve has been a member of the board since November 2003, with his current term expiring December 2012. He lives with his wife in Kentville, NS, near his three grown children, where he operates a financial planning firm. Steve is a graduate of NSAC and the University of Guelph (BSc (Agri)). He has been involved in the Kentville Town Council, the Kings branch of the VON, and the Rotary Club (past president). Community projects such as the Annual Acadia Hockey Celebrity Dinner and the NSAC Foundation continue to be of importance to Steve and his family.

Member: Angela Hunter. Angela was appointed to the board February 2008, and her term expires February 2012. She operates Knoydart Farms with her family, an organic dairy and sheep farm on the Pictou-Antigonish border.

Member: Hank Bosveld. Hank has been a member of the board since September 2000. His term expires September 2011. Hank lives in Lakeville, Kings County, where he operated a greenhouse and orchard until transferring ownership to his son. He remains actively involved in the operation. Hank is also actively involved in the Kings County and Nova Scotia Federation of Agriculture.

Member: Victor Moses. Victor has been a member of the board since March 2000. His current term expires February 2012. A graduate of the Nova Scotia Agricultural College and MacDonald College, Victor served for more than eight years as

Agricultural Representative with Department of Agriculture, followed by 40 years in management with food processing and vegetable fruit production in the Annapolis Valley. He is presently CEO of a large fruit and vegetable operation. Victor is heavily involved in volunteer work and lives in New Minas, Kings County, Nova Scotia.

Our History

Active since 1932, the Nova Scotia Farm Loan Board is an agricultural development agency acting to build greater prosperity. It supports agricultural and rural business development by providing long-term loans at fixed interest rates and financial counselling services. A corporation of the Crown, the board collaborates with the Nova Scotia Department of Agriculture. The board's mandate includes operation as the Timber Loan Board in dealing with applicable loans.

Availability of credit with stable term and long-term rates and understanding of the agricultural industry, including cyclical swings in profitability, are considered to be strengths of the board in encouraging development of this industry.

At last year-end (March 31, 2010), the board's loan portfolio totalled \$179 million in loan principal. Including lease property accounts, total lending to agriculture represents approximately 23 per cent of the debt capital of Nova Scotia farmers. Timber loans provided to forest mills to ensure a sustainable wood supply totalled \$730,000

for the forest industry. Primary stakeholders in both the Nova Scotia Farm Loan Board and Timber Loan Board roles include individual and potential borrowers and the province, in particular the Departments of Agriculture, Natural Resources, and Finance. Other important stakeholders include the Nova Scotia Federation of Agriculture and the various commodity groups, commercial lenders, equipment and feed suppliers, the wholesale and retail sectors for products produced in Nova Scotia, and others concerned with economic development within rural areas.

Planning Context

External Context

In General

An environmental scan of the agricultural industry indicates powerful trends that have significant implications for lenders like the Farm Loan Board. Producers identified weather and commodity prices as the main factors contributing to financial risks on their farm operations.

This scan provides insights into the nature of the Farm Loan Board's changing business environment.

The agricultural industry is affected by local weather and other conditions affecting production. It is also affected by conditions in competing regions, which may affect general

price levels for commodities produced as well as market conditions, including the effects of branding, consolidation and national purchasing, and market access. Weather conditions and any change in expected patterns present an obvious concern to agriculture.

We continue to see a trend toward fewer, larger farms, a trend particularly noticeable in the dairy and poultry sectors. The succession of farms and intergenerational transfers is a priority for the industry. Changing technology, food safety concerns, and implementation of related health protection measures are common challenges.

Technology is providing for increased mechanization and automation and is being felt in a wide range of applications. This trend is supporting a broader trend toward consolidation of agricultural operations into larger units in attempts to gain efficiency through economies of scale. In most sectors, entry as a producer involves significant initial cost for specialized buildings and equipment and quota (for supply-managed sectors). Larger operations and high start-up costs present difficulties to new entrants and for intergenerational transfer of family businesses, which must be addressed.

Producers must be constantly aware of environmental concerns and maintain up-to-date skills, procedures, and facilities and equipment to meet today's standards.



Fluctuation in the value of the Canadian dollar relative to the U.S. dollar has affected exports to the United States as well as the cost of some competitive imports. This is expected to have an effect on most sectors to some extent, but particularly on commodities closely linked to external markets. Hogs, beef, fur, blueberries, cranberries, and other fruit and vegetables for export are expected to be most strongly affected.

Industry representatives suggest that additional emphasis should be placed on assisting new entrants and counselling services. Many clients have indicated that they would prefer additional flexibility in loan options available from the board, possibly variable rates, and asset-secured operating or working capital loans. There are numerous credit offerings available in the marketplace, and some industry experts argue that the industry is over-leveraged as it stands.

The board will lend to support success in agriculture while continuing to bear in mind the current economic environment.

Through the development of sound lending practices and comprehensive financial analysis and risk assessment tools, the mandate of the Farm Loan Board must be focused on the provision of long-term and term-fixed lending rates in support of higher-risk borrowers demonstrating sound business fundamentals and incremental contribution to the growth of the agricultural industry in Nova Scotia.

Interest rates

Although there has been some upward movement, interest rates have remained low for the entire fiscal year. The Bank of Canada has increased policy overnight rate to 1 per cent from 0.25 per cent during the latter part of 2010.

Requirements for board financing are influenced by levels of investment in agriculture and timber businesses, rates of capitalization, general economic conditions, and the availability of funding from commercial lenders. The board continues to offer fixed-interest loans with rates fixed for the full amortization period of the loan, but it also provides three- and five-year terms on loans amortized over a longer term. These loans provide for lower interest rates than full amortization loans and are restricted to clients who can bear the risk of a potential interest rate increase at the end of the term. Other loan options may be considered for implementation during 2011–2012, including flexible lending secured by real property. Decisions on loan product changes will follow and flow from the board's mandate review and strategic planning process.

Demand for board loans is expected to remain strong during 2011–2012. Requested capital authority of \$30 million is expected to provide flexibility to respond to lending needs in 2011–2012.

Requirement for loan capital by the forestry sector continues to be of interest to the board, both in response to need of the industry itself and because of the relationship between forestry and agriculture. Many farms include woodland as part of the overall operation, and forestry management parallels crop management in many aspects, including some equipment.

The board will seek to operate on a cost-effective basis and meet client credit needs, providing credit services, support to new entrants, analyzing risk, and collaborating with departments and industry. The board intends to remain flexible in its approach and will be open to any type of development, loan products, or ventures that will assist agricultural development in this province.

Ongoing Planning Focus

The board focus is to support long-term health and development of agriculture in Nova Scotia.

Lending program services will support this by providing knowledge of agriculture, long-term client relationships, a client focus in developing and providing services, flexibility in lending services and repayment, counselling services, support for new entrants, and long-term lending.

This mandate is to build on the key priorities of the Department of Agriculture as noted in the Farm Loan Board's business plan:

- Support competitiveness and self-sufficiency through stable financing, financing of new initiatives, and financial counselling and advice.
- Expand investment in the agriculture and agri-product industries to capture growth opportunities through board funding of capital to enable growth and marketing and other activities necessary to grow and develop opportunities.
- Increase the value of Nova Scotia's agricultural sector in support of investment, growth, and competitiveness through long-term stable financing.

The board recognizes that training and development is an ongoing requirement in order to understand client issues, identify and use best lending and administrative practices, and maintain a professional staff.

While ability to repay remains the basic criterion for granting loans, sound environmental and business planning practices and procedures will continue to be requirements, recognizing that these are required for industry and individual growth and sustainability.

While working to meet client needs, the board will also work toward strengthened lending and management information to meet lending, decision-making, and financial reporting needs.



Strategic Goals

The following goals have been developed to meet the board's mandate and at the same time support the established goals of the Province of Nova Scotia:

1. To ensure industry access to stable, cost-effective, asset-backed developmental credit

- To create conditions that help the rural economy grow, support sustainable and environmentally responsible development of agricultural industries, and support development of a competitive business climate to support economic growth and increase jobs in rural communities.
- Provide flexible loan products adapted to the needs of the agricultural industry.

2. To demonstrate sound financial administration, efficiency, responsibility in administration of public funds, and accountability in the board's own operations

- To develop and enhance loan management capability, including risk-rating abilities, corporate loan and collateral information, and annual review and other processes and procedures to improve management information and auditability.

3. To explore Nova Scotia Farm Loan Board's role as a developmental engine in the agricultural industry and to ensure that clients have access to resources in the Nova Scotia Department of Agriculture (support to be focused on sustainable business models and innovative ideas)

4. To provide support at the development and entry level of farming operations to ensure that the agricultural industry will be maintained and have an opportunity to grow.

Core Business Areas

Core Business Area 1: Lending

Providing flexible, asset-based credit for development of agricultural and timber businesses is the primary mandate of the Farm Loan Board. This includes loan product development, loan service development, client service and administration, efficient and responsible financial management. It also includes financial analysis and counselling. The financial counselling function is provided by loan officers in conjunction with meetings with clients and potential clients and includes assessment of

projects under consideration. Loan officers assist in sourcing the best available credit.

By providing a reliable source of flexible, asset-financed credit, the board directly provides for development and growth of the agricultural and timber industries and indirectly influences credit availability at reasonable rates through influence on, and partnership with, other participants in the lending industry.

Loan demand was high in the early part of 2010–2011, levelling off mid-year and expected to be strong in the spring. Loan requirements are affected by the availability of credit and rates available from commercial lenders.

Core Business Area 2: Programs Administration

Programs administration supports the development and implementation of departmental loan-based assistance programs in areas related to the board's financial operations and expertise, including the ongoing New Entrants to Agriculture program and other programs as they arise. This area of responsibility is funded by departmental resources distinct from the board's lending program but administered by board lending staff. Program expenditures are reported with departmental accountability reports, separate from and not included in the board financial report. This program will be reviewed in 2011–2012 together with other new farmer initiatives.

Priorities for 2011–2012

Lending

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

The focus is on development and long-term stability. During 2010–2011 the board is forecast to advance \$32 million and receive principal repayments of \$24 million.

Statistics Canada reports indicate that total farm debt by Nova Scotian farms grew by approximately 40 per cent between 2004 and 2009. The board provided 22.9 per cent of total agricultural credit to Nova Scotia farms in 2009.

The board will continue to investigate possible new loan products to meet client needs in 2011–2012. (Areas of investigation include a mortgage loan for shorter-term needs and changes to permit quicker response to funding requests on well-secured clients). In order to promote understanding of the flexibility available to clients, the board will work toward development and presentation of specifically targeted and identified loan product offerings, reducing reliance on individual customization without limiting current options.



Confidential Credit Counselling

The board places importance on maintaining an understanding of agriculture, development of relationships with clients and understanding their needs, flexibility in dealing with individual circumstance, confidential credit counselling services, and specific loan product offerings.

Marketing and Business Development

Nova Scotia Department of Agriculture marketing and business development teams will continue to support the initiatives of the agricultural industry in developing agri-rural business. In 2011–2012 the team will achieve this by working to drive more alignment of its activities to the business goals for clients of the Nova Scotia Farm Loan Board. This includes, for example, business planning, coaching, mentoring, and training opportunities for clients.

Timber Loans

The board will work to provide funding for agriculturally related forest ventures and will work with the Department of Natural Resources to enhance services to modify products and services to meet needs for growth and development within the timber industry as interest develops.

Reporting

The board will work with new technology and systems to improve client and administrative reporting.

Account Maintenance

The board will manage accounts in such a way that writeoffs and arrears conditions are monitored and minimized in relation to the portfolio size while supporting industries and individuals through cyclical downturns and working toward the best outcome for all parties.

This approach includes accurate and appropriate appraisal and evaluation of security arrangements for loans, monitoring arrears and financial counselling, particularly for new clients and clients identified as having financial difficulty.

Lending will continue to be directed toward viable enterprises and projects with potential to repay and acceptable security to support the loan. During financially difficult times the board is committed to assisting those operations that appear to have a long-term future and a commitment to meet their obligations. This may include deferral of payments, restructuring of debt, financial counselling, or referral to other relevant services.

The board will provide credit counselling and follow-up for clients with repayment difficulties.

Life Insurance Program

The Farm Loan Board has offered loan life insurance since 1951. More than 700 lives are insured under this optional program, which provides insurance to the lesser of a maximum amount (\$250,000 or \$500,000)

or the balance of insured loans at a fixed cost for all age groups until age 65. The life insurance plan is underwritten by Sun Life Assurance Company of Canada.

Coverage and costs have been modified by the carrier. The board is reviewing the insurance program in light of the recommended rules for coverage, overall costs, volatility of results, budgetary issues, and volatility of annual results as well as the appropriateness of coverage.

See notes following Operational and Capital Funds statements for information regarding forecasts and estimate requests.

Financial Management

Effective financial management is a priority for the board.

Beginning with the 2007–2008 fiscal year, loan account reviews have been initiated to support the provision for impairment and bad-debt expense, with a focus on higher-risk loans to meet management, financial reporting, and audit requirements. Considered necessary to meet informational requirements, this process consumes considerable staff time and requires support of information systems not yet in place. Refinement of this process and establishment of systems support will be priorities during 2011–2012.

The board has determined that the Public Sector Accounting Board (PSAB) will be the appropriate source of generally accepted accounting principles beginning with the 2012–2013 fiscal year.



Budget Context

Nova Scotia Farm Loan Board Operational Income Statement

| Description | Estimate* 2010–11 (\$ 000) | Forecast 2010–11 (\$ 000) | Estimate Request 2011–12 (\$ 000) |
|-----------------------------|---|--|--|
| Interest | 9,550 | 9,577 | 9,655 |
| Life insurance revenue | 628 | 251 | 628 |
| Fee revenue/recoveries | 428 | 505 | 428 |
| Total revenue | 10,606 | 10,333 | 10,711 |
| Interest | 9,400 | 8,916 | 9,300 |
| Operating expenses | 1,495 | 1,499 | 1,484 |
| Life insurance costs | 291 | 471 | 291 |
| Bad debt expense | — | 524 | — |
| Total expenses | 11,186 | 11,410 | 11,075 |
| Net income (loss) | (580) | (1,077) | (364) |
| Transferred to the province | 580 | 1,077 | 364 |
| Remaining | 0 | 0 | 0 |

* The 2010–2011 estimate as reported above was finalized subsequent to, and with some differences from, the “Estimate Request 2010–11” presented in the 2010–2011 business plan.

Notes: See year-end financial statements for complete financial information and notes.

Interest expense is established under terms of a memorandum of understanding arranged with the Department of Finance.

See notes accompanying the following two tables.

Capital Funds

| Description | Estimate 2010-11 (\$ 000) | Forecast 2010-11 (\$ 000) | Estimate Request 2011-12 (\$ 000) |
|--|--|--|--|
| Opening principal | 179,642 | 179,102 | 173,836 |
| Add loan advances | 30,000 | 32,000 | 30,000 |
| Less repayments | (21,000) | (24,000) | (21,000) |
| Less principal written off | (1,600) | (10,266) | (6,000) |
| Closing principal | 187,042 | 176,836 | 179,836 |
| <i>Provision for Impaired Accounts</i> | | | |
| Opening provision | 23,490 | 24,036 | 14,294 |
| Less accounts written off | (1,600) | (10,266) | (5,000) |
| Additions (principal portion of bad debt expense +/- adjustments) | 0 | 524 | 500 |
| Closing allowance | 21,890 | 14,294 | 9,794 |
| Net portfolio at year end | 165,152 | 162,542 | 170,042 |

The board funds loans by arranging financing through the Department of Finance for terms similar to loans issued on a quarterly basis under an arrangement established in 1997. This arrangement allows the board to track and report an interest cost that is directly related to the revenue generated and to report a net income including interest margins.

Accounting adjustments are subject to the approval of the Department of Agriculture. The board is assigned budgetary authority through the department and is required to conform the forecast and estimate

authority to the amount assigned. Authority assigned for insurance, fees, operations, and bad-debt expense is based on funding availability. The significant problems in the hog industry have resulted in much higher than usual bad-debt experience in the past three years and higher than usual writeoff requests for 2010-2011, and they have resulted in a large group of non-performing loans still on the books, reducing forecast income.

Significant portions of the board's expenses, most notably insurance costs under the board's life insurance program and bad-



debt expense, are variable, somewhat unpredictable, and beyond short-term control. Actuaries have advised that the results of this program will fluctuate from year to year. A review of current insurance arrangements has begun and is expected to be completed during 2011–2012.

The required allocation of staff to meet the board’s mandate for the coming year will be reviewed with the Department of Agriculture upon implementation of the strategic plan. Budgetary allocations are assigned based on staffing now in place.

Budget for Core Business 2: Program Administration:

Note that the board staff administer the following programs, but the programs are reported separately under the Department of Agriculture and are not included in the operational income statement of the board

| Description | Estimate 2010–11 (\$ 000) | Forecast 2010–11 (\$ 000) | Estimate Request 2011–12 (\$ 000) |
|---|--|--|--|
| New entrants to Agriculture Program—expenditures | 600 | 500 | 600 |
| New entrants to Agriculture Program—approvals (grants cover interest in the two years following approval) | 600 | 600 | 600 |
| Total Staff—FTEs | 17.3 | 17.3 | 17.3 |

Outcomes and Performance Measures

Core Business Area 1

Lending

| Outcome | Measure and Rationale | Base Year Data | Targets | Trends | Strategies to Achieve Target |
|----------------------------|--|----------------|---|---|---|
| Efficient program delivery | Net income of the board (before government contribution) as a % of the average active loan balance | 1998-99: 0.1% | Current Year 2010-11: -0.3% 2011-12: -0.7% (\$1,300,000) | 2004-05: 0.5% 2006-07: 0.7% 2007-08: -4.3% 2008-09: -2.5% 2010-11: -3.1% | The strategic plan will identify needs of clients and new lines of business for the board. Maintain interest rate margins in accordance with regulations while matching draws used to fund loans as closely as possible to loans issued in term and amount. Continue to develop additional loan products to meet client needs, including clients with lower inherent risk and less likelihood of loss. Minimize operating expenses by efficient operating structure, practices, training, and electronic systems. Income is expected to improve now that the hog industry situation has been fully provided for. The insurance program will be reviewed as part of an effort to make these costs more predictable. |
| | | | | Net interest revenue and bad-debt expense from 2008-2010 affected by difficulties in the hog sector as well as life insurance program experience. | |



Core Business Area 1 Lending

| Outcome | Measure and Rationale | Base Year Data | Targets | Trends | Strategies to Achieve Target |
|---|--|----------------|--|---|--|
| Successful clients (as indicated by the proportion of accounts in difficulty) | Total arrears as percentage of value of all accounts (Note this measure is revised effective for 2009-2010 to include arrears on accounts classified as "in-default" and replaces both the previous arrears measure and the previous measure of defaulted accounts) | 2006-07: 3.7% | 2010-11: 4.5% or less 2011-12: 4.5% or less | 2007-08: 3.7% 2010-09: 4.5% 2009-10: 5.0% 2010-11: 6.3% forecast | Monitor account status, contacting clients in arrears and referring them to industry resources where appropriate. Maintain contact and work with client and work out arrangements for payment. Include larger arrears accounts in annual review process. Arrears and defaulted accounts will vary from year to year depending on performance of the various agricultural sectors represented in the board's loan portfolio. Working with clients to achieve the best long-term outcome is the board's primary goal. Continue to improve a balance of high risk and lower risk clients by broadening loan products available to meet a range of requirements. Hog sector difficulties will take some time to work through wind-up of loans. This will make maintenance of current arrears levels a challenge. One staff member has been dedicated to working with clients in arrears or experiencing difficulty to achieve the best chance of success in the long term (see arrears strategies above). Clear up existing accounts in process for recovery as rapidly as possible subject to legal procedures and fairness processes and timing necessary to achieve the best value. |
| Client satisfaction | Combined results for courtesy, promptness, knowledge, and commitment on client survey | 2000-01: 92% | 2010-2011: 90% or above 2011-2012: 90% or above | 2005-06: 94% 2006-07: 89% 2008-09: 94% 2009-10: 96% 2010-11: 93% forecast | Monitor survey results. Review procedures for efficiency gains. Work to improve promptness score through reallocation of staff to permit focus on struggling clients, analysis, and documentation, while maintaining capacity for new loan. |

Core Business Area 2 *Program Administration*

| Outcome | Measure and Rationale | Base Year Data | Targets | Trends | Strategies to Achieve Target |
|---------------------------|---------------------------------|----------------|------------------------------------|---|--|
| New entrances facilitated | Number of approved applications | 2000-01: 49 | 2010-2011: 30-50 2011-12: 30-50 | 2008-09: 22 2009-10: 31 2010-11: 39 forecast | This program will be reviewed in 2011-12 together with other new farmer initiatives. |

