

**ANNUAL ACCOUNTABILITY
REPORT**

*for the fiscal year
ending March 31, 2010*

**Nova Scotia
Farm Loan Board**

Accountability Statement

We have the honour of presenting the 78th Annual Report of the Nova Scotia Farm Loan Board covering the fiscal year ending March 31, 2010.

This report incorporates accountability reporting of the Nova Scotia Farm Loan Board for the year ended March 31, 2010, 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 2009-2010. 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.

**John M^{ac}Donell
Minister, Department of Agriculture**

**Leo Cox
Chairman**

**Cheryl Burgess
Chief Executive Officer**

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Board Members and staff as at March 31, 2010:

Board Members

Leo Cox	Chairman (current term ends 2011)
Stephen Healy	Vice-Chair (current term ends 2012)
Victor Moses	Member (current term ends 2011)
Hank Bosveld	Member (current term ends 2011)
Angela Hunter	Member (current term ends 2011)

Principal Officers & staff as at March 31, 2010:

Chief Executive Officer	Cheryl Burgess, MHSA
Solicitor to Board	Attorney General
Auditor	PricewaterhouseCoopers LLP

Truro Office

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

Kentville Office

Senior Loan Officer	Pam Fraser, P.Ag.
Loan Officer	Sam Lacey, BSc

Chief Executive Officer's Report

The Nova Scotia Farm Loan Board promotes, encourages and supports agricultural and rural business development through the provision of long-term, fixed interest rate loans and financial counselling services. The Board is a Corporation of the Crown and is an integral part of the Nova Scotia Department of Agriculture.

The Board works in close harmony with the Department of Agriculture and other departments involved in the growth of rural Nova Scotia and will continue to assist in the delivery of programs of benefit to the rural areas. The Board administers a New Entrants Program to attract and support new farmers. Involvement in these initiatives allows the Board to capitalize on opportunities for economic growth in the agricultural sector including, but not limited to, new crop and livestock investments and new technologies including those in biotechnology, value added activities, emerging and export markets, environmental improvements and agri-tourism.

The strategic goals for the Board as identified in the 2009-2010 business plan were:

- Ensure industry access to stable, cost effective long-term developmental credit
- Demonstrate sound financial administration, efficiency, responsibility in administration of public funds, and accountability in the Board's own operations.

The Board will continue to use the investment capital available to provide partnership opportunities within the financial community. Financing the growth of rural Nova Scotia can best be accomplished through partnerships with other lenders. The Board has traditionally provided long-term financing at fixed, reasonable interest rates which has included financing of commodities not traditionally covered by other lending agencies to provide the best available source of credit.

Interest rates, especially short term rates, have remained extremely low throughout the year as a result of the recession and stimulus efforts by the Bank of Canada. The Board's loan portfolio decreased during the year by \$14.5 million with higher than usual loan payouts especially early in the year, and relatively low demand for new loans until late in the year. The Board has traditionally offered long-term funding with lending terms matched to the loan amortization. During the 2009-2010 year clients were also offered the option of 3 and 5 year term lengths on loans of longer amortization, similar to those offered by commercial lenders. Loan demand increased toward the end of the year and is expected to result in additional loans during 2010-2011.

It is common for sectors within agriculture to experience cyclical fluctuations in price and supply. Most hog producers have left the industry and none of the remaining hog loans held by the Board are performing. The Board's provision for impaired loans increased approximately \$3.1 million primarily as a result of these difficulties which have reduced both opportunities for success, and the expected realization value of security. The beef industry continues to struggle with prices remaining low. Blueberry producers have been affected by significant declines in prices.

Thirty-two new entrants joined the agricultural industry during the year and were approved for grants through the New Entrants to Agriculture Program. The dairy and poultry industries continue to be strong, with consistent returns generated under supply management with the exception of the turkey sector which saw oversupply, reduced prices and reduced production. The apple industry continues to work with new plantings and varieties to maintain markets. The wine industry continues its expansion and the Board has worked closely with individuals to provide stable financing as opportunities are identified. The mink sector has benefited from several years of strong market prices.

It has been a pleasure for me to present this report for the year ending March 31, 2010. The Board has continued to provide developmental long-term lending programs, that are cost effective and has helped to create opportunities. We, as a Board, look forward to continuing to strengthen the rural fabric of the province of Nova Scotia.

**Cheryl Burgess
Chief Executive Officer**

Board Operation Overview

Direct Loans

During its 78th year of operations the Board met on eleven occasions encompassing twenty-three days. One hundred and fifty-three loan requests were approved during the 2009-2010 fiscal year. A total of 1,087 active loans (Farm and Timber) were in effect at March 31, 2010.

Interest rates on loans during the year were:

Amortization period:	1 - 5 years	6 - 10 years	11 - 15 years	16 - 20 years	21 - 25 years	26 - 30 years
Effective dates						
Apr 1 - June 30, 2009	4.25%	5.50%	6.45%	7.10%	7.55%	7.55%
July 1 - Sept 30, 2009	4.50%	5.95%	6.69%	7.14%	7.46%	7.58%
Oct 1 - Dec 31, 2009	3.34%	4.52%	5.16%	6.68%	7.06%	7.12%
5yr term	2.59%	3.24%	3.41%	3.50%	3.55%	3.58%
3yr term	1.82%	2.19%	2.71%	2.76%	2.80%	2.82%
Jan 1 - Mar 31, 2010	3.72%	4.90%	5.53%	7.02%	7.30%	7.39%
5yr term	3.47%	4.01%	4.18%	4.26%	4.31%	4.35%
3yr term	2.45%	2.84%	3.45%	3.52%	3.55%	3.57%

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

Timber Loans

There were seven Timber Loan category loans on March 31, 2010 totalling \$325,000.

Staff of the Farm Loan Board 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.

Farm Consolidation and Land Use

In the period 1965 to 1970, under the terms and conditions of a joint Government of Canada, Province of Nova Scotia Agricultural and Rural Development Act (ARDA) project, properties were purchased for leasing to enlarge commercial farm operations. The administration of properties under a lease is a continuing responsibility of the Board.

ARDA lease accounts at March 31, 2010, had a net outstanding principal of \$21,000. Four accounts remain under this program.

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, twenty-eight properties remain under this program, with a total outstanding principal at year-end of \$565,000.

New Entrants to Agriculture Program

This is the tenth year for this program. The program is funded by the Department of Agriculture and administered by the Farm Loan Board. The objective is to encourage new Nova Scotia farmers to purchase and develop successful farm operations. Funds available under this program will be extended to improve the viability of each farm operation as key areas requiring improvement are outlined by the new entrant in a business plan. Eligible applicants receive a grant in the amount of interest paid on qualifying loans for the first two years to a maximum of \$10,000 per year. During the 2009-2010 year, grants of \$486,000 were disbursed and 32 applications were accepted resulting in a commitment of \$440,000 to be disbursed over the following two years.

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 2009-2010 was \$110.6 million.

Results (Progress and Accomplishments)

Priority: Lending

- Provide \$28 to \$30 million of new loan capital to the agricultural and timber industries in the 2009-2010 fiscal year.

Result: 181 loan applications were approved during the year with total funds advanced of \$16.8 million. Principal repayments were \$31.2 million. Short-term interest rates declined more than long-term rates. 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.

- Financial 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.

- 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.

- Reporting

Result: Board staff continued to work with Department of Finance (CCC) staff to define requirements to improve client and administrative reporting during the year.

- Account Maintenance

Result: Arrears increased significantly to 5.1% of the portfolio at March 31, 2010 due to significant difficulties being experienced in the hog sector, along with continued weakness in beef sector and an overall decline in the portfolio. The fur and blueberry sector also 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 has been recognized in the Board's bad debt expense and provision for impairment. It will take some time to resolve those accounts which are unable to continue. Five accounts were submitted for write-off during the year, totalling \$1,862,000 or 1.0% of the loan portfolio. These are the result of shortfalls in security on unpaid loans in earlier years,

Priority: Program Administration

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

Result: **In the tenth year of this program, 32 new entrant grant applications were assisted, including 5 inter-generational transfers. Approved grants of \$440,000 over the next two years (subject to budgetary authority) are within the annual budget authority to date of \$600,000. Actual disbursements under this program for 2009-10 were \$486,000, somewhat less than the budget authority of \$600,000 because of lower approvals in the previous two years, lower interest charges in some cases, and the timing of grant requests. Disbursements have fluctuated over the past ten years, depending on demand, averaging \$564,000.**

Actual/Budget Comparison - Loan Operating

Description	2009-2010 Actual (\$ 000)	2009-2010 Budget (\$ 000)	Change (\$ 000)
Interest	9,426	10,980	(1,554)
Life Insurance program revenue*	295	542	(247)
Fee revenue and other income*	584	518	66
Total revenue	10,305	12,040	(1,735)
Interest	9,264	9,920	(656)
Operating expenses*	1,288	1,394	(106)
Life insurance program expense	465	321	144
Bad debt expense	4,664	-	4,664
Total expenses	15,681	11,635	4,046
Income (Deficit) before govt. contributions	(5,376)	405	(5,781)
Government contributions	5,376	(405)	(5,781)
Net Income	0	0	0
<p>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.</p>			

Significant variations from Budget:

- **Interest Revenue and Expense:** The active loan portfolio has declined by \$16.8 million during the year; interest rates for new and refinanced loans are down significantly; and a larger proportion of loans have been identified as being impaired and therefore not interest accruing.
- **Insurance Revenue:** Fluctuates annually depending on death claims. Claims for 2009-10 were above the expected average the amount built into the budget for insurance.
- **Operating Expenses:** Below authority due to reduced program expenditures.
- **Bad Debt Expense:** Formerly covered by Department of Finance authority, no allocation was included in Department of Agriculture Estimates for 2009-10. The 2009-10 business plan anticipated a \$500,000 expense. The bad debt expense was higher than anticipated due to continued worsening of expected recoveries in the hog sector and difficulties in other sectors.

Actual/Budget Comparison - Capital Funds

Description	2009-2010 Actual (\$ 000)	2009-2010 Budget (\$ 000)	Change (\$ 000)
Opening principal	193,542	192,914	628
Funds advanced	16,766	30,000	(13,234)
Principal repayments	(29,354)	(21,000)	(8,354)
Written off	(1,862)	(1,800)	(62)
Advanced principal at year-end	179,092	200,114	(21,022)
Allowance for impairment	(22,431)	(19,933)	(2,498)
Net principal at year-end	156,661	180,181	(23,520)

Significant variations from Budget:

- **Opening principal: Budget Projections are final before the year in progress is complete and have been subject to adjustment.**
- **Funds advanced: Loan demand has been low during 2009-10, picking up only late in the year. Repayments were very strong in the first three quarters with clients accessing short term funds from commercial lenders.**

Actual/Budget Comparison - Grant Programs

Description	2009-2010 Actual (\$ 000)	2008-2009 Budget (\$ 000)	Change (\$ 000)
New Entrants Grants Disbursed	486	600	(114)

Significant variations from Budget:

- **Actual disbursements are down based on prior year approvals and actual interest costs on approved loans. Approvals are for a two year grant. Year-to-year fluctuations in approvals may be dependent on grant applications accepted in the two previous years.**

Nova Scotia Farm Loan Board

**Financial Statements
March 31, 2010**

July 5, 2010

Auditors' Report

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

We have audited the balance sheet of Nova Scotia Farm Loan Board (the "Board") as at March 31, 2010 and the statements of operations and equity for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraphs, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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.

We were appointed auditors of the Board during the current year. The previous year's financial statements were audited by the office of the Auditor General who expressed an opinion that included a reservation in their report dated May 25, 2009, that they were not able to determine whether any adjustments might be necessary to the provision for loan impairment, or to the amount due to the Province of Nova Scotia and deficit. We were unable to satisfy ourselves that the opening balances for the current year's assets and liabilities were free of material misstatement and are not able to determine what the effect of these misstatements, if any, would have on the operating results of the current year, which could be material.

The Government of Nova Scotia has the ability to incur expenses on behalf of the Board, which may not have been charged to the Board; therefore, the completeness of the expenses of the Board are not susceptible to satisfactory audit verification. Accordingly, our verification of these expenses was limited to the amounts recorded in the records of the Board and we were not able to determine whether any adjustments might be necessary to expenses, and are unable to determine what the effect of the adjustments would have on operating results of the current year, which could be material.



In our opinion, except for the effect of adjustments, if any, which might have been determined had we been able to satisfy ourselves concerning opening balances and the completeness of expenses referred to in the preceding paragraphs, these financial statements present fairly, in all material respects, the balance sheet of the Board as at March 31, 2010 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Nova Scotia Farm Loan Board

Balance Sheet

As at March 31, 2010

(in thousands of dollars)

	2010	2009
	\$	\$
Assets		
Cash and cash equivalents (note 3)	1,410	1,611
Interest and other receivables, net (note 4)	2,695	3,451
Loans receivable (note 5)	152,573	168,477
Real estate, net (note 6)	4,088	4,745
	<u>160,766</u>	<u>178,284</u>
Liabilities		
Due to the Province of Nova Scotia	1,765	1,611
Advances from the Province of Nova Scotia (note 8)	159,001	176,673
	<u>160,766</u>	<u>178,284</u>
Equity	-	-
	<u>160,766</u>	<u>178,284</u>

Commitments (note 15)

Nova Scotia Farm Loan Board

Statement of Operations

For the year ended March 31, 2010

(in thousands of dollars)

	2010	2009
	\$	\$
Revenue		
Interest on loans	9,426	10,802
Life insurance operations, net (note 11)	—	222
Loan processing and other fees	584	218
	<u>10,010</u>	<u>11,242</u>
Expenses		
Interest	9,264	9,749
Life insurance program expense, net (note 11)	170	—
Operating expenses (note 10)	1,288	1,263
Bad debt (note 7)	4,664	4,763
	<u>15,386</u>	<u>15,775</u>
Deficit before government contributions	(5,376)	(4,533)
Government contributions (note 12)	<u>5,376</u>	<u>4,533</u>
	<u>—</u>	<u>—</u>

Nova Scotia Farm Loan Board

Statement of Equity

For the year ended March 31, 2010

(in thousands of dollars)

	2010	2009
	\$	\$
Equity – Beginning of year	–	–
Deficit before government contributions	(5,376)	(4,533)
Government contributions (note 12)	5,376	4,533
Equity – End of year	–	–

Nova Scotia Farm Loan Board

Notes to Financial Statements

For the year ended March 31, 2010

(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, is established through the annual budgeting process. For the year ended March 31, 2010, maximum new advances were \$30 million, of which \$16.8 million was advanced. The Board received loan principal repayments of \$31.2 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 Significant accounting policies

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.

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

Statement of cash flows

Except for funds held by the insurance carrier, the Board holds no cash. Disbursements are drawn and receipts are deposited to accounts managed by the Province. A statement of cash flows has not been provided because disclosure in the balance sheet and statement of operations is considered adequate.

Loans receivable

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

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

Nova Scotia Farm Loan Board

Notes to Financial Statements

For the year ended March 31, 2010

(in thousands of dollars)

3 Significant accounting policies (continued)

Provision for loan impairment

The provision for loan impairment represents management's best estimate of losses due to impaired loans in the Board's portfolio. The provision is determined based on management's identification and evaluation of the problem accounts and estimated losses that exist in the remaining portfolio. These judgements 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 provision based on a loan-by-loan review. Impaired loans are valued at the lower of their recorded investment or the estimated net realizable amount of their underlying security.

In addition, the Board records a general provision equal to 0.8% of the portfolio not included in the specific reserve. This is an estimate of probable but unidentifiable losses based on a review of historic loan write-offs on an industry sector basis.

Real estate

Real estate acquired through foreclosure and held for sale 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 held for sale are added to the carrying value of the property. The related provision is used to adjust the carrying value to net realizable value, resulting in inclusion of these costs in bad debt expenses if the carrying value exceeds net realizable 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 cost less the unamortized value of the Federal contribution to the ARDA program. The Federal contribution is amortized to other income when related properties are sold. Lease clients are entitled to purchase the related property at its original purchase cost.

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 reasonably assured.

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

Nova Scotia Farm Loan Board

Notes to Financial Statements

For the year ended March 31, 2010

(in thousands of dollars)

3 Significant accounting policies (continued)

Financial instruments

The Board is required to designate its financial instruments into one of the following five categories: (i) held for trading; (ii) available for sale; (iii) held to maturity; (iv) loans and receivables; or (v) other financial liabilities. All financial instruments are to be initially measured at fair value. Financial instruments classified as held-for-trading or available for sale are subsequently measured at fair value with any change in fair value recorded in the statement of operations or other comprehensive income. All other financial instruments are measured at amortized cost using the effective interest method.

The Board's financial instruments consist of cash, accrued interest and other accounts receivable, loans receivable and accounts payable. With the exception of loans receivable, which have been designated as loans and receivables, the Board's financial instruments have been designated as held for trading. Transaction costs related to loans are recorded as part of the total amount outstanding. The carrying value of loans receivable approximates its net realizable value. The Board holds all loans to maturity.

Management estimates

Generally accepted accounting principles 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 in note 5, 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.

Future accounting changes

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board announced that Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. Based on an analysis performed by the Province of Nova Scotia, the Board is not required to adopt IFRS for the year ended March 31, 2012. The Board is currently in the process of selecting the appropriate GAAP and as such, the future accounting changes at this time are unknown.

4 Interest and other receivables (net)

	2010	2009
	\$	\$
Interest receivable	2,122	2,209
Accrued interest	1,626	1,913
Other charges	290	280
	<hr/>	<hr/>
	4,038	4,402
Less: Provisions for impairment	1,343	951
	<hr/>	<hr/>
	2,695	3,451
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Nova Scotia Farm Loan Board

Notes to Financial Statements

For the year ended March 31, 2010

(in thousands of dollars)

5 Loans receivable

a) Allowance for impaired loans

The allowance for impaired loans is management's best estimate of the loss that the Board is likely to incur from impaired loans. Loans are considered impaired when there has been a 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 loans that were not impaired at the year-end. For specific types of loans considered to be higher risk, the general allowance was determined by estimating, based on management's judgment and recent experience, the percentage of the unimpaired loans by loan type that is likely to become impaired and then applying the average estimated loss ratio on similar types of impaired loans that were individually reviewed.

	2010		2009	
	Impaired loans \$	Allowance for impairment \$	Impaired loans \$	Allowance for impairment \$
Specific allowance	47,865	14,624	32,228	13,000
General allowance	–	989	–	1,102
	<u>47,865</u>	<u>15,613</u>	<u>32,228</u>	<u>14,102</u>

Significant judgment was exercised by management in making these estimates. As such, actual losses that occur on loans outstanding at March 31, 2010 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.

Nova Scotia Farm Loan Board

Notes to Financial Statements

For the year ended March 31, 2010

(in thousands of dollars)

5 Loans receivable (continued)

b) Continuity of allowance for impaired loans

	2010 \$	2009 \$
Allowance for impaired loans – Beginning of year	14,725	11,469
Add: Provision for impaired loans	4,133	3,256
Less: Loans written-off	(1,902)	–
Allowance for impaired loans – End of year	<u>16,956</u>	<u>14,725</u>
Provision on principal	15,613	14,102
Provision for interest	1,343	623
	<u>16,956</u>	<u>14,725</u>

6 Real estate (net)

	2010 \$	2009 \$
Real estate held for long-term use		
Land bank	565	671
Agriculture and Rural Development Agreement (“ARDA”)	21	21
Less: Federal government share of ARDA properties	(10)	(11)
Property used by Nova Scotia Agricultural College and Community Pastures	<u>1,004</u>	<u>876</u>
	1,580	1,557
Real estate held for sale	<u>2,508</u>	<u>3,188</u>
	<u>4,088</u>	<u>4,745</u>

Nova Scotia Farm Loan Board

Notes to Financial Statements

For the year ended March 31, 2010

(in thousands of dollars)

6 Real estate (net) (continued)

Real estate held for resale

The assets held for sale, comprising land, buildings and equipment, have been written-down to estimated realizable value. Realizable 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:

	2010	2009
	\$	\$
Original funds advanced	9,326	9,407
Less: Write-down to net realizable value	(6,818)	(6,219)
Real estate held for sale	<u>2,508</u>	<u>3,188</u>

7 Bad debt expenses

2010	2009
\$	\$

Bad debt expenses include:

Provision for impaired loans	4,133	3,256
Write-down of real estate held for resale (net of interest provision)	531	1,507
	<u>4,664</u>	<u>4,763</u>

8 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 9).

9 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.

Nova Scotia Farm Loan Board

Notes to Financial Statements

For the year ended March 31, 2010

(in thousands of dollars)

10 Operating expenses

	2010	2009
	\$	\$
Payroll	1,034	1,052
Supplies and services	94	61
Travel	50	56
Professional services/special services	69	61
Training and development	11	9
Equipment and other	30	24
	<hr/>	<hr/>
	1,288	1,263

11 Financial instruments and risk management

(i) Fair value of financial instruments

Financial instruments

The carrying value of cash, accrued interest and other accounts receivable and accounts payable approximate their fair value because of their short term-to-maturity.

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 provision 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.

Nova Scotia Farm Loan Board

Notes to Financial Statements

For the year ended March 31, 2010

(in thousands of dollars)

11 Financial instruments and risk management (continued)

(ii) Risk management (continued)

Credit risk (continued)

The total of loans at March 31, 2010 is \$168,186 (2009 - \$182,579). The majority of loans are secured primarily by real property using mortgage of 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.

The Board adjusts the provision 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 \$2,413 was issued in refinanced loans during 2009-2010 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.

Nova Scotia Farm Loan Board

Notes to Financial Statements

For the year ended March 31, 2010

(in thousands of dollars)

11 Financial instruments and risk management (continued)

(ii) Risk management (continued)

Loans receivable (net)

The following schedule sets out the scheduled maturities of the financial assets as at March 31, 2010, together with the weighted average interest rates being earned on the financial assets.

	<u>2010</u>			<u>2009</u>	
	<u>Under 1 year</u>	<u>1 – 5 years</u>	<u>Over 5 years</u>	<u>Total</u>	<u>Total</u>
	\$	\$	\$	\$	\$
Farm loans	8,602	39,189	71,479	119,270	149,969
Timber loans	86	137	102	325	382
	<u>8,688</u>	<u>39,326</u>	<u>71,581</u>	<u>119,595</u>	<u>150,351</u>
Average effective annual interest rate	6.02%	5.51%	6.04%		
Add: Principal receivable on impaired loans (excluded from above)				<u>48,591</u>	<u>32,228</u>
Total principal				<u>168,186</u>	<u>182,579</u>
Less: Provision for loan impairment				<u>(15,613)</u>	<u>(14,102)</u>
				<u>152,573</u>	<u>168,477</u>

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.

12 Government contributions

Expenses for the year ended March 31, 2010 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 year ended March 31, 2010

(in thousands of dollars)

13 Related party transactions

The Board is related to all other departments, agencies, board 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.

14 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 are the responsibility of the Province. It is not anticipated that any such future costs would be allocated to the Board.

15 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, 2010, the Board has authorized loans of \$9.7 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 2009-2010.

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: 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:

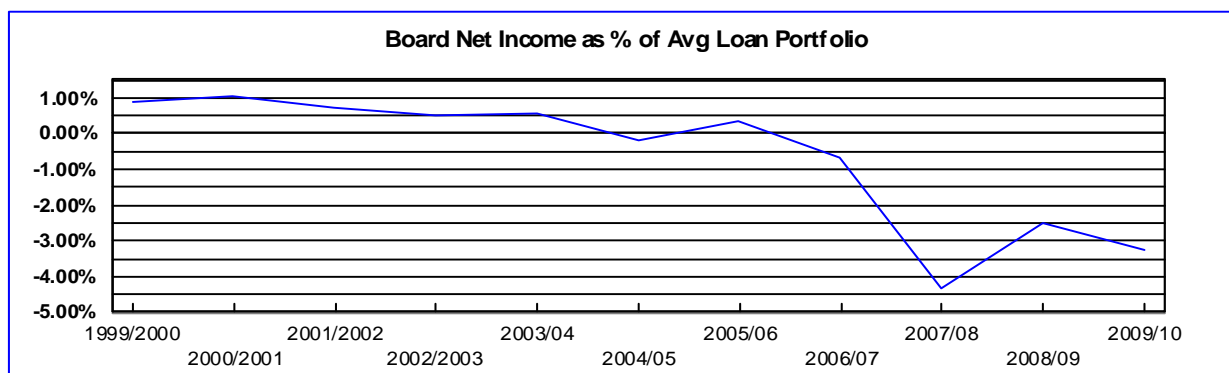
Base year:	1998-99:	0.1%
	2007-08:	-4.3%
	2008-09:	-2.4%
	2009-10:	-3.3%

Expected losses required recognition through an increase in the provision for impaired loans and bad debt expense (\$4,664,000). Accounts in the mink, beef, and blueberry sectors showed signs of weakness.

Where do we want to be?

Target 2009-2010: Loss of \$750,000 or -0.4% of the average loan portfolio

The larger than planned loss in 2009-2010 was caused account difficulties as noted above, driven by prices and market conditions. This has been a difficult year in some sectors as noted above for both producers and processors.



Measure I-2: Farm Loan Board loans as a percentage of total Nova Scotia Farm Debt
This measure is based on calendar year data (Jan 1 - Dec 31)

What this measure tells us:

Proportion of Nova Scotia farm debt provided by the Farm Loan Board. This is an indication of the Board's ability to meet industry needs . Total reported farm debt has increased significantly in recent years, with most of the increased debt being provided by commercial and other lenders. This increase in debt and debt availability has reduced the proportion of loans held by the Board without necessarily changing the need being met by the Board. {Reporting on this measure is for the previous calendar year, based on Statistics Canada data}

Where we are now: (calendar years)

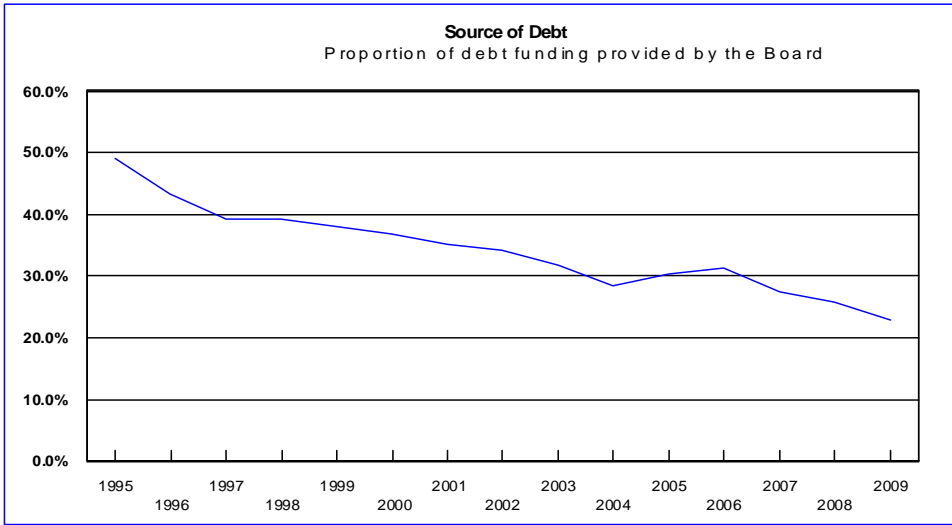
2000:	36.9%	Base year
2007:	27.5%	Statistics Canada (includes annual revisions)
2008:	25.6%	“
2009:	22.9%	

Farm credit requirements remained strong in most sectors, however many clients have taken loans with commercial lenders to take advantage of unusually low short-term interest. During the latter part of the 2009 calendar year (continuing into 2010) a number of large clients paid out their long-term loans with the Board resulting in a decrease in Board lending. Much of the percentage change is the result of increases in total debt to other lenders .

Where do we want to be?

Target calendar 2010: 25.0%

The Board's intention has been to maintain its availability to the agricultural and timber industries. Changes to lending terms were introduced during 2009-2010 to better meet client needs. The affect of these changes will only begin to be reflected in 2010 calendar results. The Board's focus remains on long term lending and feels that it is meeting its mandate regardless of the increase in commercial lending to agriculture.



**Measure I-3: 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:

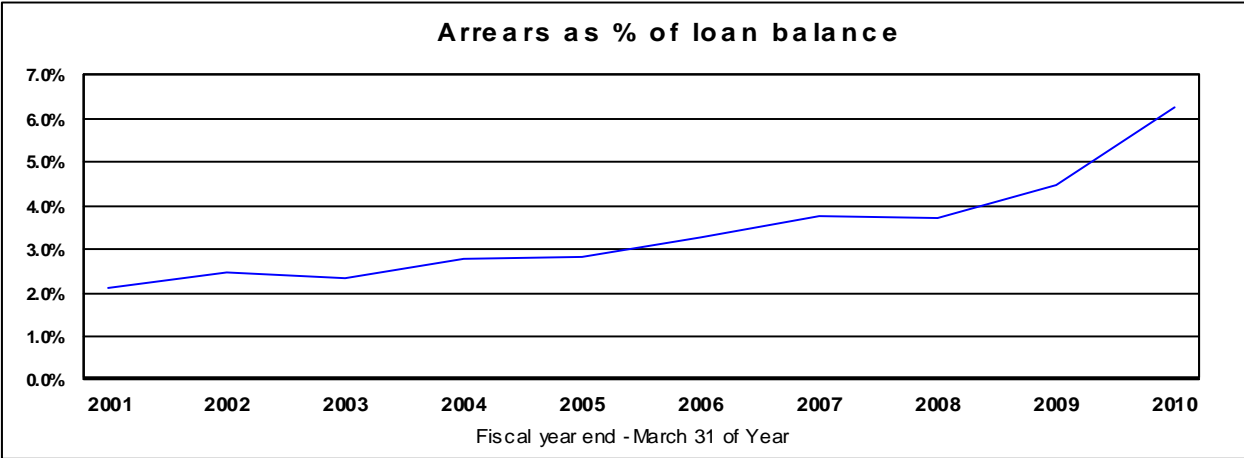
Base:	March 2001:	2.1%
	March 2008:	2.8%
	March 2009:	3.4%
	March 2010:	5.1% on original basis, or 6.2% new basis

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 whom have now ceased production, as well as clients in the mink, beef and blueberry sectors have contributed to high arrears.

Where do we want to be?

Target Mar 2010: 4.5% or less

Increased 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 economic downturn will affect many clients and 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%
2007-08: 88.5%
2008-09: 94.1%
2009-10: 97.9%

Where do we want to be?

Target 2009-10: 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
	2007-08:	31
	2008-09:	22
	2009-10:	32

Where do we want to be?

Target 2009-2010: 35 - 50

Approvals are limited by the number of valid applications received.

Measure II-2: Proportion of New Entrants who remain in agriculture after 5 years

What this measure tells us:

Measures the success of new entrants to agriculture helped by this program.

Where we are now:

2007-08	95% (9 new entrants who started since Apr 2003 have discontinued)
2008-09:	95% (9 new entrants who started since Apr 2004 have discontinued)
2009-10:	93% (9 new entrants who started since Apr 2005 have discontinued)

Where do we want to be?:

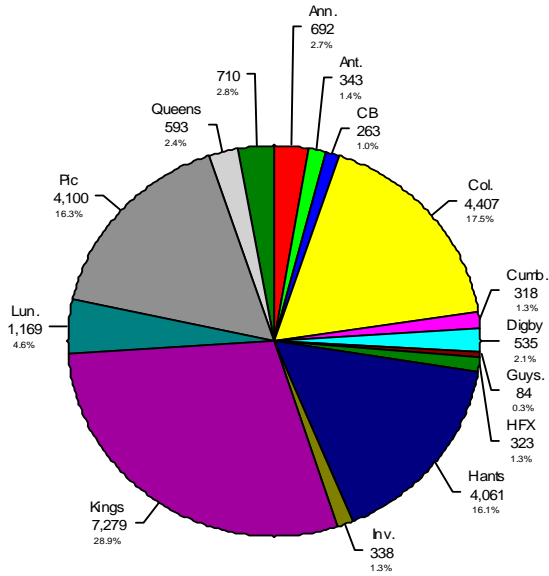
80% or more

Table 1
Loan Principal approved and in place by County, 2009-2010 fiscal year

County	Approved this year			Total Loan Principal Not in Default	
	#	\$ ('000)	%	\$ ('000)	%
Annapolis	7	692	2.7%	7,075	4.2%
Antigonish	9	343	1.4%	7,524	4.5%
Cape Breton	5	263	1.0%	2,257	1.3%
Colchester	41	4,407	17.5%	23,510	14.0%
Cumberland	7	318	1.3%	12,925	7.7%
Digby	5	535	2.1%	7,849	4.7%
Guysborough	1	84	0.3%	1,836	1.1%
Halifax	7	323	1.3%	6,145	3.7%
Hants	16	4,061	16.1%	13,281	7.9%
Inverness	7	338	1.3%	3,357	2.0%
Kings	47	7,279	28.9%	64,147	38.1%
Lunenburg	12	1,169	4.6%	9,971	5.9%
Pictou	14	4,100	16.3%	5,403	3.2%
Queens	1	593	2.4%	0	0.0%
			0.0%		0.0%
Victoria, Richmond Yarmouth and Shelburne (Combined due to small number of loan requests)	3	710	2.8%	2,906	1.7%
Total Loans	182	25,215	100.0%	168,186	100.0%
Timber Board (incl in above)	0	0		325	

Value of loans approved during the year by County

2009/10 Fiscal Year
(\$Thousands)



Principal of all loans at year-end by County

March 31, 2010
(\$ Thousands)

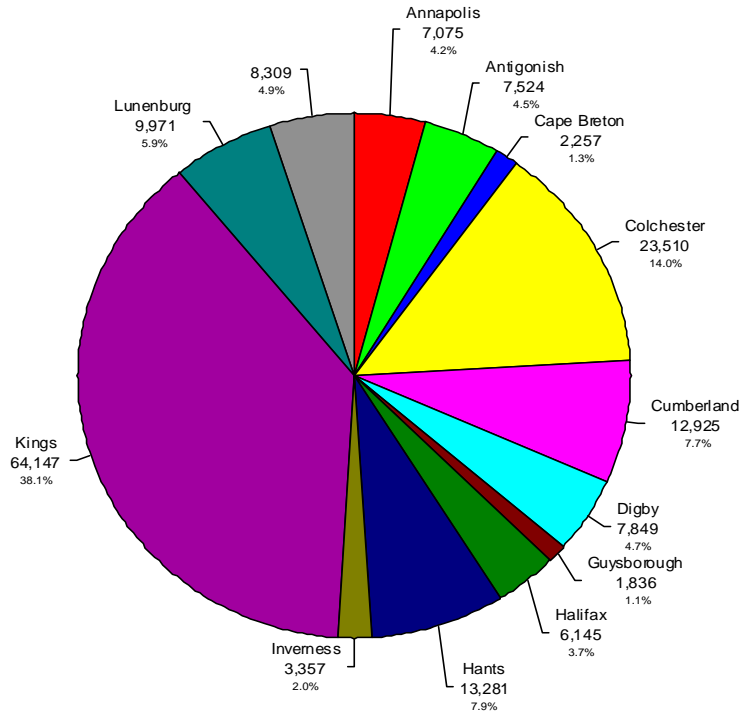
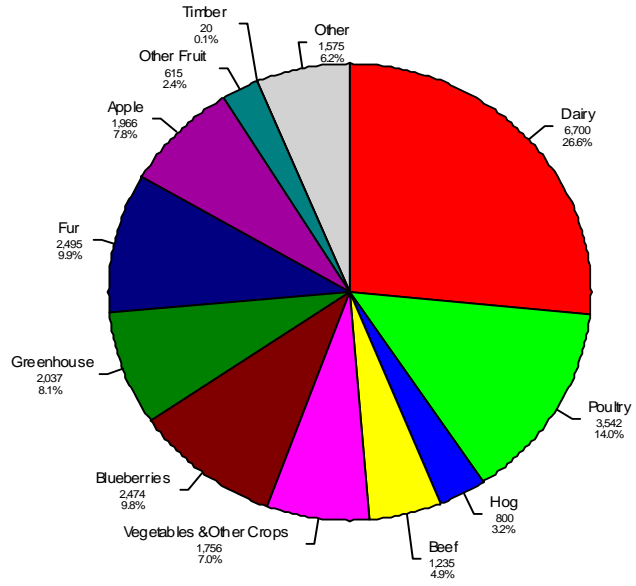


Table 2**Loan Principal approved and in place by Commodity, 2009-2010 fiscal year**

Commodity	Approved this year			Loan principal outstanding at year end				
	#	\$(‘000)	%	Un- impaired	Impaired	In Default	Total Portfolio	
				\$(‘000)	\$(‘000)	\$(‘000)	\$(‘000)	%
Dairy	36	6,700	26.6	40,087	1,011	0	41,098	23.2
Poultry	22	3,542	14.0	23,622	2,699	52	26,373	14.9
Hogs	2	800	3.2	433	13,316	6,678	20,427	11.5
Beef	22	1,235	4.9	7,460	4,573	1,357	13,390	7.5
Vegetable and other crops	11	1,756	7.0	8,474	331	296	9,101	5.1
Blueberries	22	2,474	9.8	6,046	4,033	28	10,107	5.7
Greenhouse	6	2,037	8.1	5,495	5,142	235	10,872	6.1
Fur	18	2,495	9.9	4,439	7,274	58	11,771	6.6
Apples	8	1,966	7.8	6,060	1,251	0	7,311	4.1
Other fruit	9	615	2.4	4,006	1,640	183	5,829	3.3
Timber and forestry	2	20	0.1	383	1,611	0	1,994	1.1
Other	24	1,575	6.2	13,090	5,710	439	19,239	10.9
Total Loans	182	25,215	100.0	119,595	48,591	9,326	177,512	100.0

Value of loans approved by Commodity

2009/10 Fiscal Year
(\$Thousands)



Principal of loans (not in default) by Commodity

March 31, 2010
(\$ Thousands)

