ANNUAL ACCOUNTABILITY REPORT

for the fiscal year
ending March 31, 2011

Nova Scotia
Farm Loan Board

Accountability Statement

We have the honour of presenting the 79th Annual Report of the Nova Scotia Farm Loan Board covering the fiscal year ending March 31, 2011.

This report incorporates accountability reporting of the Nova Scotia Farm Loan Board for the year ended March 31, 2011, 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 2010-2011. 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 MacDonell
Minister, Department of Agriculture

Leo Cox
Chairman

Cheryl Burgess
Chief Executive Officer

CONTENTS

Board Members and staff as at March 31, 2011:

Board Members

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

Principal Officers & staff as at March 31, 2011:

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.
Special Credit Officer	John Murray, P.Ag.
Loan Officer	Jim Neary, P.Ag.
Loan Officer	Paul Arnfast, A.Ag.
Secretary	vacant
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 2010-2011 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 $4.8 million after write-off of $9.4 million of loan principal primarily related to failed hog accounts. Before this write-off, loan principal increased $4.6 million. The Board offers long-term funding with lending terms matched to the loan amortization and the option of 3 and 5 year term lengths on loans of longer amortization.

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 decreased approximately $8.3 million after the $9.4 million write-off and arrears have improved significantly in other areas. The beef industry continues to struggle with prices remaining low. Blueberry producers, affected by significant price declines in the past, felt a significant improvement in the past year.

Forty-three 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. 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, 2011. 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 79th year of operations the Board met on ten occasions encompassing nineteen days and held three conference call meetings. Two hundred and nineteen loan requests were approved during the 2010-2011 fiscal year. A total of 934 active loans (Farm and Timber) were in effect at March 31, 2011.

Interest rates on loans at year-end were:

Amortization period: Effective dates	1 - 5 years	6 - 10 years	11 - 15 years	16 - 20 years	21 - 25 years	26 - 30 years
Full Term	3.65	4.50	5.20	6.50	6.70	6.80
5yr term	3.55	4.00	4.10	4.20	4.25	4.25
3yr term	3.15	3.25	3.60	3.65	3.65	3.70

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

Timber Loans

There were two Timber Loan category loans on March 31, 2011 totalling $78,000.

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, 2011, had a net outstanding principal of $20,000. Three 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, eighteen properties remain under this program, with a total outstanding principal at year-end of $421,000.

New Entrants to Agriculture Program

This is the eleventh 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 2010-2011 year, grants of $502,000 were disbursed and 43 applications were accepted resulting in a total commitment of $786,000 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 2010-2011 was $100.9 million.

Results (Progress and Accomplishments)

Priority: Lending

- Provide up to $30 million of new loan capital to the agricultural and timber industries in the 2010-2011 fiscal year.

Result: 219 loan applications were approved during the year with total funds advanced of $27.8 million. Principal repayments were $35.0 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. Further work has been planned for 2011-12.

- Account Maintenance

Result: Arrears decreased significantly to 2.9% of the portfolio at March 31, 2011 after write off of delinquent hog accounts and significant effort to improve collections, including creation of a special credit position. The beef 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. Accounts of seven clients were submitted for write-off during the year, totalling $10.3 million or 6.3% 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 eleventh year of this program, 43 new entrant grant applications were assisted, including 14 inter-generational transfers. Approved grants of $407,000 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 2010-11 were $502,000, 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	2010-2011 Actual ($ 000)	2010-2011 Budget ($ 000)	Change ($ 000)
Interest	8,978	9,550	(572)
Life Insurance program revenue*	248	628	(380)
Fee revenue and other income*	699	428	271
Total revenue	9,925	10,606	(681)
Interest	8,928	9,400	(472)
Operating expenses*	1,477	1,495	(18)
Life insurance program expense	523	291	232
Bad debt expense	656	-	656
Total expenses	11,584	11,186	398
Income (Deficit) before govt. contributions	(1,659)	(580)	(1,179)
Government contributions	1,659	580	1,179
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: Interest rates for new and refinanced loans are down significantly; and a significant proportion of loans have been identified as being impaired and therefore not interest accruing.
- Insurance Revenue: Fluctuates annually depending on death claims. Claims for 2010-11 were above the expected average the amount built into the budget for insurance.
- Bad Debt Expense: Formerly covered by Department of Finance authority, no allocation was included in Department of Agriculture Estimates for 2010-11. The 2010-11 business plan anticipated a $500,000 expense.

Actual/Budget Comparison - Capital Funds

Description	2010-2011 Actual ($ 000)	2010-2011 Budget ($ 000)	Change ($ 000)
Opening principal	179,092	179,642	(550)
Funds advanced	27,752	30,000	(2,248)
Principal repayments	(23,147)	(21,000)	(2,147)
Written off	(9,444)	(1,600)	(7,844)
Advanced principal at year-end	174,253	187,042	(12,789)
Allowance for impairment	(15,388)	(21,890)	6,502
Net principal at year-end	158,865	165,152	(6,287)

Significant variations from Budget:

- Opening principal: Budget Projections are final before the year in progress is complete and have been subject to adjustment.

Actual/Budget Comparison - Grant Programs

Description	2010-2011 Actual ($ 000)	2010-2011 Budget ($ 000)	Change ($ 000)
New Entrants Grants Disbursed	502	600	(98)

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 are dependent on grant applications accepted in the two previous years.

Nova Scotia Farm Loan Board

Financial Statements
March 31, 2011

PRICEWATERHOUSECOOPERS

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Chartered Accountants
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June 30, 2011

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 the **Nova Scotia Farm Loan Board** (the "Board") which comprise the balance sheet as at March 31, 2011 and the statements of operations and equity for the year then ended and the related notes including a summary of significant accounting policies.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk 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 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, 2011 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, 2011

(in thousands of dollars)

	2011 $	2010 $
Assets		
Restricted cash (note 3)	934	1,410
Interest and other receivables, net (note 4)	2,344	2,695
Loans receivable (note 5)	153,224	152,573
Real estate, net (note 6)	5,641	4,088
	162,143	160,766
Liabilities		
Due to the Province of Nova Scotia	934	1,765
Advances from the Province of Nova Scotia (note 8)	161,209	159,001
	162,143	160,766
Equity	–	–
	162,143	160,766

Commitments (note 15)

Approved on behalf of the Board of Directors

______________________________ Member   ______________________________ Member

Nova Scotia Farm Loan Board

Statement of Operations

For the year ended March 31, 2011

(in thousands of dollars)

	2011 $	2010 $
Revenue		
Interest on loans	8,978	9,426
Loan processing and other fees	699	584
	9,677	10,010
Expenses		
Interest	8,928	9,264
Life insurance program expense, net (note 11)	275	170
Operating expenses (note 10)	1,477	1,288
Bad debt (note 7)	656	4,664
	11,336	15,386
Deficit before government contributions	(1,659)	(5,376)
Government contributions (note 12)	1,659	5,376
	–	–

Nova Scotia Farm Loan Board

Statement of Equity

For the year ended March 31, 2011

(in thousands of dollars)

	2011 $	2010 $
Equity – Beginning of year	–	–
Deficit before government contributions	(1,659)	(5,376)
Government contributions (note 12)	1,659	5,376
Equity – End of year	–	–

(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, 2011, maximum new advances were $30 million, of which $27.8 million was advanced. The Board received loan principal repayments of $32.6 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

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.

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 timely collection of the full amount of principal and interest.

(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 0.9 % (2010 – 0.9%) of the portfolio not included 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 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.

(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 restricted cash, accrued interest and other accounts receivable and loans receivable. With the exception of loans receivable and interest and other receivables, 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

Canadian 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

Public Sector Accounting Standards ("PSAS")

The Canadian Accounting Standards Board announced that Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises will be replaced by Public Sector Accounting Standards ("PSAS") for fiscal years beginning on or after January 1, 2012. The Board has determined that Public Sector Accounting Standards will be appropriate GAAP for accounting periods after that date. Some of the standards are still under development by the Public Sector Accounting Board and the Loan Board is currently assessing the impact of PSAS on its financial statements.

(in thousands of dollars)

4 Interest and other receivables (net)

	2011 $	2010 $
Interest receivable	1,867	2,122
Accrued interest	1,182	1,626
Other charges	248	290
	3,297	4,038
Less: Provision for impairment on impaired loans	746	1,343
Provision for impairment on real estate	207	–
	2,344	2,695

5 Loans receivable

a) Allowance for 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 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, 2011 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.

(in thousands of dollars)

5 Loans receivable (continued)

a) Allowance for impaired loans (continued)

	2011		2010	
	Impaired loans $	**Allowance for impairment $**	**Impaired loans $**	**Allowance for impairment $**
Specific allowance	35,821	6,600	47,865	14,624
General allowance	–	1,071	–	989
	35,821	7,671	47,865	15,613

b) Continuity of allowance for impaired loans

	2011 $	**2010 $**
Allowance for impaired loans – Beginning of year	16,956	14,725
Add: Provision for impaired loans	448	4,133
Add: Provision for changes in restructured loan balances	475	–
Less: Loans written-off	(9,462)	(1,902)
Allowance for impaired loans – End of year	8,417	16,956
Provision on principal	7,671	15,613
Provision for interest	746	1,343
	8,417	16,956

(in thousands of dollars)

6 Real estate (net)

	2011 $	2010 $
Real estate held for long-term use		
Land bank	411	565
Agriculture and Rural Development Agreement ("ARDA")	20	21
Less: Federal government share of ARDA properties	(10)	(10)
Property used by Nova Scotia Agricultural College and Community Pastures	1,058	1,004
	1,479	1,580
Real estate held for sale	4,162	2,508
	5,641	4,088

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:

	2011 $	2010 $
Original funds advanced	11,879	9,326
Less: Provision for real estate	(7,717)	(6,818)
Real estate held for sale	4,162	2,508

7 Bad debt expenses

	2011 $	2010 $
Bad debt expenses include:		
Provision for impaired loans	448	4,133
Write-down of real estate held for resale	208	531
	656	4,664

(in thousands of dollars)

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.

10 Operating expenses

	2011 $	**2010 $**
Payroll	1,162	1,034
Supplies and services	115	94
Travel	53	50
Professional services/special services	100	69
Training and development	16	11
Equipment and other	31	30
	1,477	1,288

11 Financial instruments and risk management

(i) Fair value of financial instruments

Financial instruments

The carrying value of accrued interest and other accounts receivable 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.

(in thousands of dollars)

11 Financial instruments and risk management (continued)

(i) Fair value of financial instruments (continued)

***Financial instruments** (continued)*

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.

The total of loans at March 31, 2011 is $160,895 (2010 - $168,186). 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 $3,695 (2010 - $2,413) was issued in refinanced loans during 2010-2011 to clients with significant arrears.

(in thousands of dollars)

11 Financial instruments and risk management (continued)

(ii) Risk management (continued)

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.

Loans receivable (net)

The following schedule sets out the scheduled maturities of the financial assets as at March 31, 2011, together with the weighted average interest rates being earned on the financial assets.

				2011	2010
	Under 1 year $	**1 – 5 years** $	**Over 5 years** $	**Total** $	**Total** $
Farm loans	17,622	67,216	40,158	124,996	119,270
Timber loans	13	51	14	78	325
	17,635	67,267	40,172	125,074	119,595
Average effective annual interest rate	4.96%	4.99%	5.11%		
Add: Principal receivable on impaired loans (excluded from above)				35,821	48,591
Total principal				160,895	168,186
Less: Provision for loan impairment				(7,671)	(15,613)
				153,224	152,573

(in thousands of dollars)

11 Financial instruments and risk management (continued)

(ii) Risk management (continued)

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, 2011 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.

13 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.

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, 2011, the Board has authorized loans of $10.3 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:

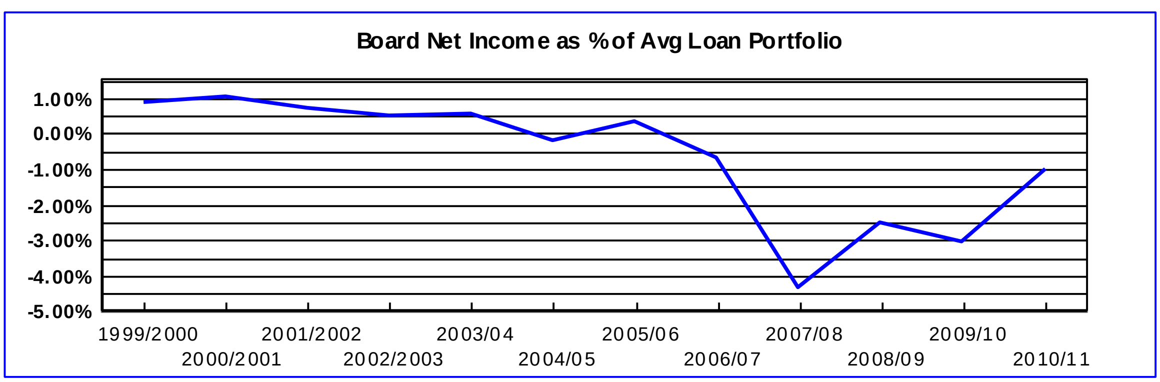
Base year:	1998-99:	0.1%
	2009-10:	-3.1% (revised)
	2010-11:	-1.0%

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

Where do we want to be?

Target 2010-2011: Loss of $600,000 or -0.3% of the average loan portfolio

The larger than planned loss in 2010-2011 was caused by account difficulties, driven by prices and market conditions, and resulting in slightly lower interest recoveries and somewhat higher bad debt expense than anticipated.



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}

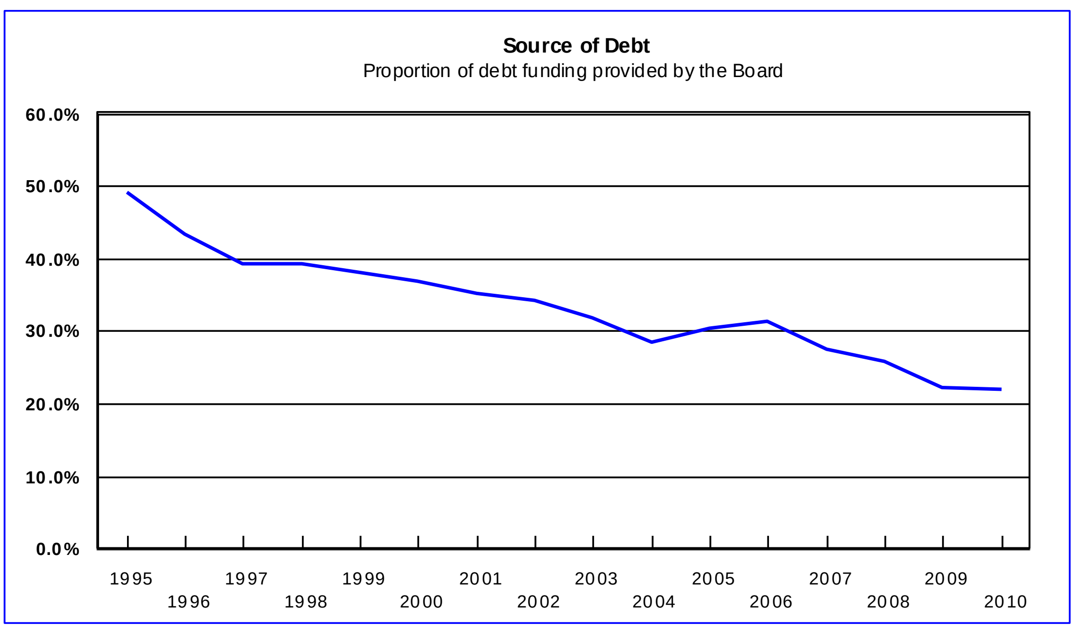
Where we are now: (calendar years)

2000: 36.9% Base year
2009: 22.2% Statistics Canada (includes annual revisions)
2010: 21.8% "

Total Farm Loan Board loans declined slightly during the year. Farm credit requirements remained strong in most sectors, however stronger producers have the option to borrow from commercial lenders and many have chosen to do so.

Where do we want to be?

Target calendar 2010: 25.0%
There was a significant decline in 2009 results. The Board's has maintained its availability to the agricultural and timber industries but did not introduce short term options until part way through 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:

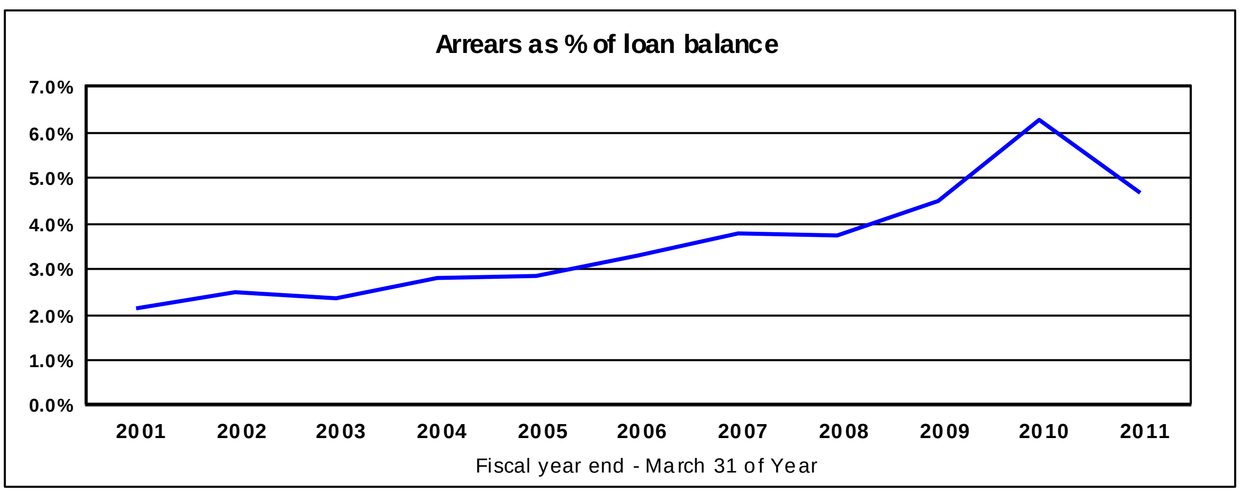
Base:	March 2001:	2.1%
	March 2009:	3.4%
	March 2010:	5.1% on original basis, or 6.3% new basis
	March 2011:	2.9% on original basis, or 4.7% new basis

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 2011: 4.5% or less

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.



Measure I-3: Client satisfaction based on client surveys
Based on survey results received during the fiscal year (ended March 31)

What this measure tells us:

This measures 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%
2008-09: 94.1%
2009-10: 97.9%
2010-11: 95.7%

Where do we want to be?

Target 2010-11: 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
	2008-09:	22
	2009-10:	32
	2010-11:	43

Where do we want to be?

Target 2010-2011: 30 – 50

Approvals are limited by the number of valid applications received.

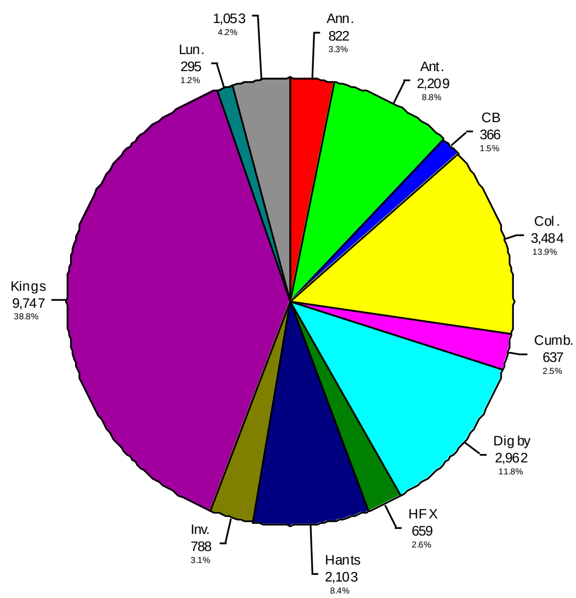
Table 1
Loan Principal approved and in place by County, 2010-2011 fiscal year

County	Approved this year			Total Loan Principal Not in Default	
	#	$ (‘000)	%	$ (‘000)	%
Annapolis	7	822	3.3%	8,275	5.1%
Antigonish	10	2,209	8.8%	6,871	4.3%
Cape Breton	4	366	1.5%	2,432	1.5%
Colchester	29	3,484	13.9%	26,468	16.5%
Cumberland	15	637	2.5%	9,728	6.0%
Digby	16	2,962	11.8%	9,016	5.6%
Halifax	7	659	2.6%	6,126	3.8%
Hants	17	2,103	8.4%	14,957	9.3%
Inverness	7	788	3.1%	2,823	1.8%
Kings	86	9,747	38.8%	53,447	33.3%
Lunenburg	8	295	1.2%	10,007	6.2%
Pictou	7	197	0.8%	7,303	4.5%
Yarmouth	3	155	0.6%	1,975	1.2%
			0.0%		0.0%
Guysborough, Victoria, Richmond Queens and Shelburne (Combined due to small number of loan requests)	3	678	2.7%	1,467	0.9%
Total Loans	219	25,102	100.0%	160,895	100.0%
Timber Board (incl in above)	0	0		1,831	1.1%

Value of loans approved during the year by County

2010/11 Fiscal Year

($ Thousands)



Principal of all loans at year-end by County

March 31, 2011

($ Thousands)

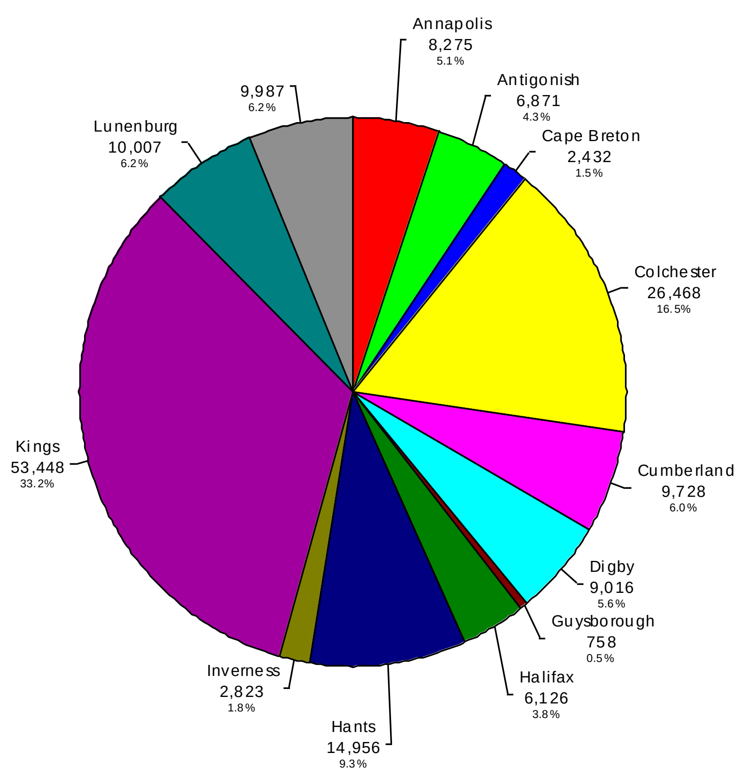
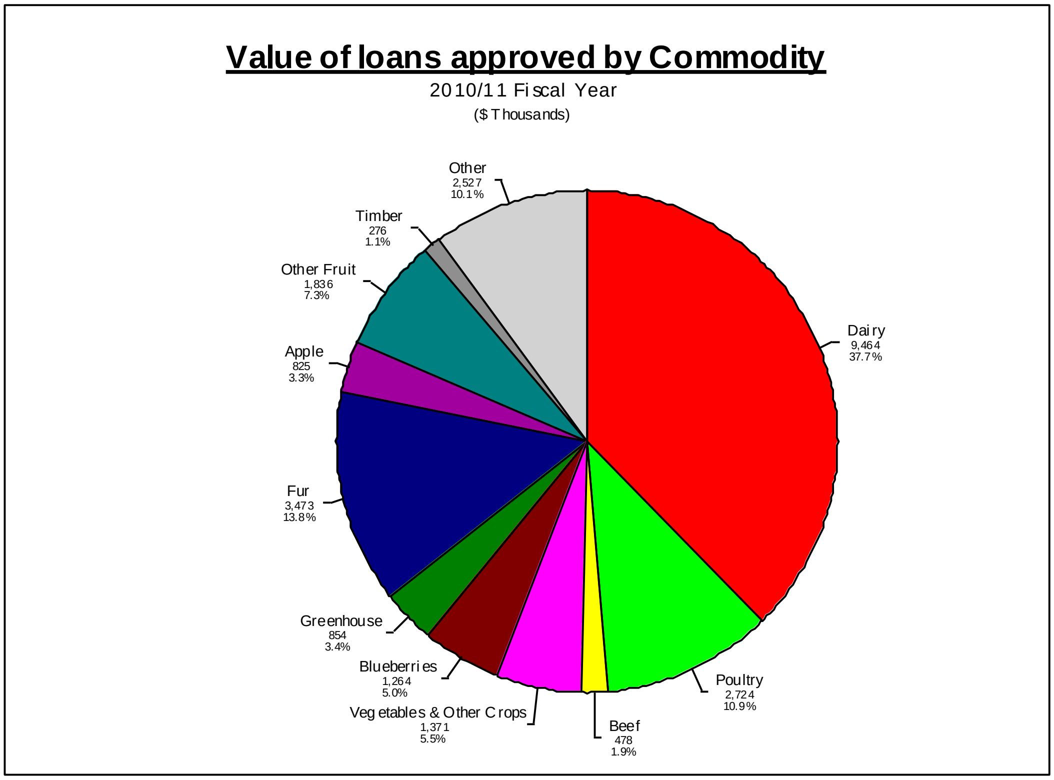
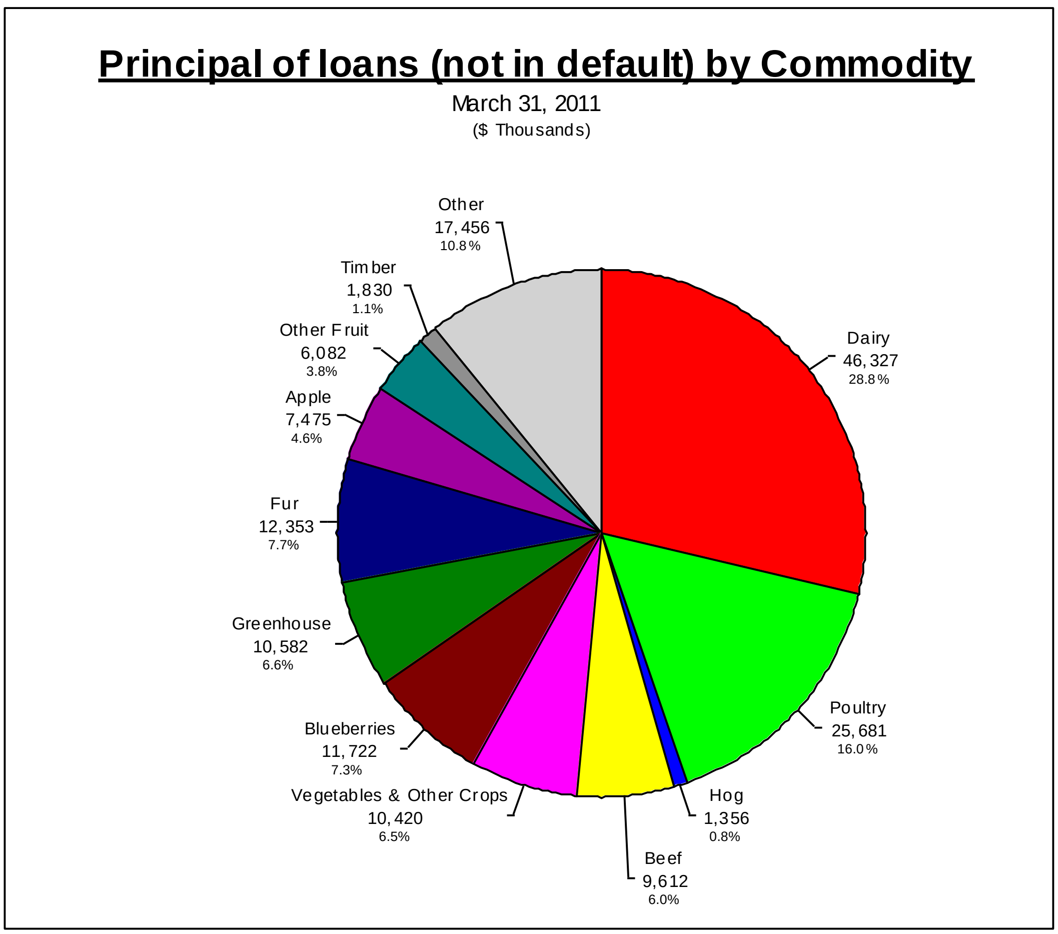


Table 2
Loan Principal approved and in place by Commodity, 2010-2011 fiscal year

Commodity	Approved this year			Loan principal outstanding at year end				
				Un-impaired	Impaired	In Default	Total Portfolio	
	#	$(‘000)	%	$ (‘000)	$ (‘000)	$ (‘000)	$ (‘000)	%
Dairy	41	9,465	37.7	45,347	980	0	46,327	26.8
Poultry	32	2,725	10.9	23,409	2,272	0	25,681	14.9
Hogs	0	0	0	817	537	7,025	8,379	4.8
Beef	20	479	1.9	6,179	3,433	3,356	12,968	7.5
Vegetable and other crops	20	1,372	5.5	8,244	187	304	8,735	5.1
Blueberries	23	1,264	5.0	7,169	4,553	26	11,748	6.8
Greenhouse	10	855	3.4	4,976	5,606	185	10,767	6.2
Fur	17	3,474	13.8	3,731	8,622	57	12,410	7.2
Apples	8	826	3.3	6,217	1,258	0	7,475	4.3
Other fruit	11	1,837	7.3	4,314	1,768	0	6,082	3.5
Timber and forestry	5	277	1.1	150	1,680	1	1,831	1.1
Other	32	2,528	10.1	14,521	4,925	924	20,370	11.8
Total Loans	219	25,102	100.0	125,074	35,820	11,879	172,773	100.0


Value of loans approved by Commodity
2010/11 Fiscal Year
($ Thousands)
Other
2,527
10.1%
Timber
276
1.1%
Other Fruit
1,836
7.3%
Apple
825
3.3%
Fur
3,473
13.8%
Greenhouse
854
3.4%
Blueberries
1,264
5.0%
Vegetables & Other Crops
1,371
5.5%
Beef
478
1.9%
Poultry
2,724
10.9%
Dairy
9,464
37.7%


Principal of loans (not in default) by Commodity
March 31, 2011
($ Thousands)
Other
17,456
10.8%
Timber
1,830
1.1%
Other Fruit
6,082
3.8%
Apple
7,475
4.6%
Fur
12,353
7.7%
Greenhouse
10,582
6.6%
Blueberries
11,722
7.3%
Vegetables & Other Crops
10,420
6.5%
Beef
9,612
6.0%
Hog
1,356
0.8%
Poultry
25,681
16.0%
Dairy
46,327
28.8%