Accountability Report

2015–2016

Nova Scotia Farm Loan Board

NOVA SCOTIA

ANNUAL ACCOUNTABILITY REPORT

for the fiscal year
ending March 31, 2016

Nova Scotia
Farm Loan Board

Accountability Statement

The Nova Scotia Department of Agriculture has the honour of presenting the 84th Annual Report of the Nova Scotia Farm Loan Board for the fiscal year ending March 31, 2016.

This report incorporates accountability reporting of the Nova Scotia Farm Loan Board for the year ended March 31, 2016 and is prepared pursuant to 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 2015-2016. The reporting of Nova Scotia Farm Loan Board outcomes necessarily includes estimates, judgements and opinions by Board management.

The Nova Scotia Department of Agriculture acknowledge that this accountability report is the responsibility of management and the Nova Scotia Farm Loan Board. The report is, to the best extent possible, a complete and accurate representation of outcomes relative to the goals and priorities set out in the Nova Scotia Farm Loan Board 2015-2016 Business Plan.

Honourable Keith Colwell
Minister, Department of Agriculture

Arnold Park
Chair of Board of Directors,
Farm Loan Board

Greg Cox
Director Crown Agencies

CONTENTS

Board Directors and staff as at March 31, 2016:

Board Directors

Chair	Arnold Park
Vice-chair	Andrew Vermeulen
Director	William Versteeg
Director	Greg Sheffer
Director	Lee Thompson
Director	Jim MacAfee
Director	Stephen Brown

Principal Officers & staff as at March 31, 2016:

Director	Greg Cox, MSc, MBA, PAg
Solicitor to Board	Sean Rooney, Department of Justice
Auditor	PricewaterhouseCoopers LLP

Truro Office

Manager, Finance	Philip Green, CPA CMA, MPA
Credit Manager	Maria McCurdy BSc (Agr) PAg
Sr Risk Manager	Matthew Reeves,BSc (Agr), MBA, PAg
Senior Credit Officer (Special Credit)	John Murray,BSc(Agr),CRA,PAg.
Loan Officer	Jim Neary M.Ed, P Ag
Loan Officer	Paul Arnfast,BSc.(Agr) P.Ag.
Administrative Assistant	Vickie Birch
Loan Assistant	Kimberley Bezubiak
Paralegal & Client Service Support	Jody Graham
Financial Analyst	Susan Archibald
Financial Services Officer	Robbie Rushton
Accounting Clerk	Debbie Delaney
Accounting /Reception	Norma MacKay

Kentville Office

Senior Loan Officer	Heather Montgomery, BBA, PAg
Loan Officer	Andrew Kellock, BA, MSc, PAg
Loan Assistant	Wanda Lenihan

Message from the Director

It is a pleasure to present this Accountability Report to demonstrate the significant effort and diligence applied by the Board of Directors; Management; and staff of the Nova Scotia Farm Loan Board on behalf of the citizens of Nova Scotia.

It has been my pleasure to have lead the NSFLB for the latter half of the fiscal year, as the Management and staff transitioned to a new operational format that that sees a much closer relationship and integration of management roles between the two Boards; the Nova Scotia Farm Loan Board and the Nova Scotia Fisheries and Aquaculture Loans Board.

This will be the 84th Accountability Report that the Nova Scotia Farm Loan Board has presented. The NSFLB has a storied history in the development of Agriculture in Nova Scotia. From 1932 until the early 1970's the NSFLB was the main source of long term financing for Nova Scotian farmers. The commercial banks played their role as supplier of working capital and equipment financing but it was the NSFLB that held the vast majority of long term, mortgage type, debt. In the early seventies Farm Credit Canada enhanced its offerings into Eastern Canada and now play a significant role in long term financing in the Province parallel to the NSFLB.

Over the long history of the NSFLB the agricultural scene has changed radically and the need for long term stable capital has followed these changes. In the early days of the Board, loans were itemized for such things as a bag of oats, or a single horse, with loans often less than $50.00. In the 70's a large debt load would have been $500,000. We now have farms in Nova Scotia that are carrying in excess of $10 million in long term debt. One would be hard pressed to find a commercial scale farm in Nova Scotia that has not used the financial tools of the NSFLB to help develop the operation at some point in the farm's history. The impact of this developmental lending has lead to the very significant improvement, not only on the individual farm, but to the overall impact on the Provincial economy. Farm gate receipts in 1975 were approximately $250 million and for F2015/16 were approaching $550 million more than double the 1975 level.

The need to manage risk is taken very seriously by the Board of Directors and Management of the NSFLB. With the scale of farming today the risk profile on a given farm has increased and can impact the quality of the Board's entire loan portfolio. The Board utilizes strong risk management methodologies and has a dedicated Special Credit unit to deal with arrears in a timely fashion. Maintaining the balance between conservative, disciplined lending, and developmental, high risk lending, remains an ongoing challenge for the Nova Scotia Farm Loan Board.

Greg Cox
Director Crown Agencies

Board Operation Overview

Direct Loans

During its 84th year of operation, the Board of Directors met on ten occasions. There were 127 new and refinanced loan requests approved during the 2015-2016 fiscal year. A total of 831 active loans (Farm and Timber) were in effect as of March 31, 2016.

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	2.65	3.25	3.90	4.45	4.80	5.10
10yr term		3.25	3.65	4.00	4.00	4.05
5yr term	2.65	2.95	3.10	3.15	3.15	3.20
3yr term	2.45	2.60	2.65	2.70	2.70	2.70

Timber Loans

There were Timber Loan Board loans to two clients as of March 31, 2016, which totalled $138,000.

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

Land Lease Programs

The Land Lease Programs were initiated during the 1970s to assist industry by purchasing land for lease back to farmers. The Nova Scotia Farm Loan Board administered the leasing of these properties. In total, seven properties were under lease, with a total outstanding principal at year-end of $218,000.

FarmNEXT Programs (Administered by Programs and Business Risk Management Division)

There were nine applicants approved under this program during the 2015-2016 fiscal year. Program expenditures were $230,000.

Results (Progress and Accomplishments)

Priority: **Lending**

! Provide up to $35 million of new loan capital to the agricultural and timber industries in the 2015-2016 fiscal year.

Result: There were 127 loan applications approved during the year, with total funds advanced of $25.7 million. Principal repayments were $25.7 million, with an additional $1.2 million of principal written off from past bad debt. Interest rates have continued to be extremely low. Loan advances were well below the maximum $35 million authorized mainly due to the transition of several staff positions and related lower lending capability, combined with a somewhat weaker demand for credit during the year. A more aggressive market program will be carried out in the 2016-2017 fiscal year as staffing capacity and capability is enhanced.

! **Credit Counselling and Risk Management**

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. All farmers applying for credit were provided with a certain amount of counselling, especially with regard to their selections of terms, amortization and interest rates. The objective was to ensure that cash flow generated was matched to the debt service requirements of the loan.

The Risk Management function provided an additional level of adjudication to mitigate against loan losses. The Risk Manager, in the process of carrying out this function, provided a training session for each Loans Officer to discuss their evaluation of the credit under consideration.

Support for New Farmers

Result: Loan Officers met with new and often younger clients to discuss lending needs and provide other financial counselling. New farmers often have special needs and equity going into a new deal is often a critical factor. The Farm Next Program was developed to help overcome this hurtle.

Actual/Budget Comparison - Loan Operating

Description	2015-2016 Actual ($ 000)	2015-2016 Budget ($ 000)	Change ($ 000)
Interest	6,409	7,400	(991)
Fee revenue and other income*	384	204	180
Other Revenue	1,745	0	1,745
Life Insurance program net revenue*	22	27	(5)
Total revenue	8,560	7,631	(929)
Interest	5,004	5,500	(496)
Operating expenses*	1,470	1,606	(136)
Bad debt expense	2,152	253	1,899
Total expenses	8,626	7,359	1,267
Income (Deficit)	(66)	272	(338)
Government contributions	66	(272)	338
Net Income	0	0	0

See Financial Statements for complete financial information and notes.

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

Significant variations from Budget:

Interest Revenue and Expense: The average cost of funds borrowed and average loan interest rate have declined throughout the year. As a result of continued low interest rates and refinancing of existing loans that had been booked at higher rates, interest income was below budget.

Fee revenue has increased as the result of restructure fees.

Total Expenses were well above budget mainly due to problems associated with the mink industry. There was a large Bad Debt Expense booked to reflect potential losses from this commodity in the future.

Other Revenue was allocated from the Agriculture budget to offset larger than forecasted Bad Debt Expense that is associated with the hard hit taken by the mink industry due to lower pelt prices.

Actual/Budget Comparison - Capital Funds

Description	2015-2016 Actual ($ 000)	2015-2016 Budget ($ 000)	Change ($ 000)
Opening principal	180,876	179,621	1,255
Funds advanced	25,695	35,000	(9,305)
Principal repayments	(24,494)	(23,000)	(1,494)
Written off	(1,228)	(2,000)	772
Advanced principal at year-end	180,849	189,621	(8,772)
Allowance for impairment	(10,981)	(9,000)	(1,981)
Net principal at year-end	169,868	180,621	(10,753)

Significant variations from Budget:

- $ Opening principal: Budget Projections were final before the year in progress is complete and have been subjected to adjustment.
- $ Advances approved in budget were maximum authority at the high end of the expected range. Actual advances varied depending on client requirements and were generally less than the maximum provided for.
- $ Some accounts anticipated for write-off during the year were not finalized and will be carried forward for action in 2016-2017.
- $ Allowances for impairment remained higher than budgeted because fewer accounts were written off during the year than anticipated and additional allowance was required on some accounts, primarily in the mink sector.
- $ Note that the budget was established before the end of the previous fiscal year so all carry-forward balances may be different than anticipated at the time the budget was established.

Nova Scotia Farm Loan Board

Financial Statements
March 31, 2016

Management's Responsibility for the Financial Statements

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

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

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

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

On behalf of the Nova Scotia Farm Loan Board

Greg Cox, CEO

Arnold Park, Chairman

June 29, 2016

June 29, 2016

Independent Auditor's Report

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

We have audited the accompanying financial statements of **Nova Scotia Farm Loan Board** (the "Board"), which comprise the statement of financial position as at March 31, 2016 and the statements of operations and accumulated surplus, changes in net debt and cash flows for the year then ended and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained 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, 2016 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Accountants

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Nova Scotia Farm Loan Board

Statement of Financial Position

As at March 31, 2016

(in thousands of dollars)

	2016 $	2015 $
Financial assets		
Accounts receivable	21	21
Interest and other receivables, net (note 4)	1,410	2,689
Loans receivable (note 5)	166,108	168,474
Real estate held for resale, net (note 6)	1,541	2,162
	169,080	173,346
Liabilities		
Due to the Province of Nova Scotia	21	21
Advances from the Province of Nova Scotia (note 7)	171,278	173,651
	171,299	173,672
Net debt	(2,219)	(326)
Non-financial assets		
Real estate, net (note 8)	2,219	326
Accumulated surplus	–	–

Commitments (note 18)

Approved by the Board of Directors

Member

Member

The accompanying notes are an integral part of these financial statements.

Nova Scotia Farm Loan Board

Statement of Changes in Net Debt

For the year ended March 31, 2016

	2016 $	2015 $
Net surplus	–	–
Acquisition of real estate	(1,893)	–
	(1,893)	–
Net debt – Beginning of year	(326)	(326)
Net debt – End of year	(2,219)	(326)

The accompanying notes are an integral part of these financial statements.

(2)

Nova Scotia Farm Loan Board

Statement of Operations and Accumulated Surplus

For the year ended March 31, 2016

(in thousands of dollars)

	(Unaudited) Budget 2016 $	Actual 2016 $	Actual 2015 $
Revenue			
Interest on loans	7,400	6,409	7,303
Other revenue (note 9)	–	1,745	–
Loan processing and other fees (note 10)	204	384	258
Life insurance program revenue, net (note 14)	27	22	22
	7,631	8,560	7,583
Expenses			
Lending expenses (note 11)	7,359	8,626	7,648
Annual surplus (deficit) before distributions to (from) the Province of Nova Scotia	272	(66)	(65)
Distributions to (from) the Province of Nova Scotia	(272)	66	65
Annual surplus for the year and Accumulated surplus – Beginning and End of year	–	–	–

The accompanying notes are an integral part of these financial statements.

(3)

Nova Scotia Farm Loan Board

Statement of Cash Flows

For the year ended March 31, 2016

(in thousands of dollars)

	2016 $	2015 $
Cash flows provided by (used in)		
Operating activities		
Annual surplus	–	–
Net charges (credits) to income not involving cash		
Increase in accounts receivable	–	(1)
Increase in interest and other receivables	1,279	(203)
Increase (decrease) in due to the Province of Nova Scotia – net	–	1
Valuation allowance for impaired loans (including real estate held for resale)	2,152	719
Loans written-off during the year	(1,242)	(996)
	2,189	(480)
Financing activities		
Advances from the Province of Nova Scotia – net	(2,373)	1,802
Decrease (increase)in loans receivable (including real estate held for resale) – net	2,077	(1,322)
Decrease in real estate	(1,893)	–
	(2,189)	480
Net change in restricted cash for the year	–	–
Restricted cash – Beginning of year	–	–
Restricted cash – End of year	–	–

The accompanying notes are an integral part of these financial statements.

(4)

(in thousands of dollars)

1 Authority

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

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

Principal in loans outstanding is limited by regulation to $200 million. Maximum advances to be disbursed in any given year, are established through the annual budgeting process. For the year ended March 31, 2016, maximum new advances were $35 million, of which $25.7 million was advanced. The Board received loan principal repayments of $25.7 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

Basis of accounting

These financial statements are prepared in accordance with the Canadian public sector accounting standards (PSAS) as issued by the Canadian Accounting Standards Board.

Restricted cash and accounts receivable

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.

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

Loans receivable

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

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

(in thousands of dollars)

3 Significant accounting policies (continued)

Valuation allowance for loan impairment

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

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

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

Real estate

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

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

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

Revenue recognition

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

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

Government transfers are recognized as revenue when the transfer is authorized, any eligibility criteria are met, and reasonable estimates of the amounts can be made.

(in thousands of dollars)

3 Significant accounting policies (continued)

Financial instruments

The Board has adopted Handbook Section PS3450 "Financial Instruments" and is required to designate its financial instruments into one of the following two categories: (i) fair value; or (ii) cost or amortized cost. All of the Board's financial instruments are measured at amortized cost using the effective interest method.

The Board's financial instruments consist of accrued interest and other accounts receivable, loans receivable and real estate and are measured at amortized cost using the effective interest method. Transaction costs related to loans are recorded as part of the total amount outstanding.

Management estimates

Canadian public sector accounting standards require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, as described further in note 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.

Remeasurement gains and losses

Under PSAS, the Board is required to present a statement of remeasurement gains and losses. As the Board has no remeasurement gains and losses, a statement of remeasurement gains and losses has not been presented.

4 Interest and other receivables, net

	2016 $	2015 $
Interest receivable	93	1,404
Accrued interest	1,673	1,780
Other charges	112	131
	1,878	3,315
Less: Valuation allowance for interest on impaired loans	306	459
Valuation allowance for interest on real estate	162	167
	1,410	2,689

(in thousands of dollars)

5 Loans receivable

a) Loans receivable, net

The following schedule sets out the scheduled maturities of the financial assets as at March 31, 2016, together with the weighted average interest rates being earned on the financial assets.

				2016	2015
Performing loans	**Under 1 year $**	**1 – 5 years $**	**Over 5 years $**	**Total $**	**Total $**
Farm loans	22,069	68,231	58,648	148,948	149,779
Timber loans	48	72	18	138	84
	22,117	68,303	58,666	149,086	149,863
Average effective annual interest rate	3.7%	3.8%	3.6%		
Add: Impaired loans				26,604	26,289
Total loans				175,690	176,152
Less: Valuation allowance for loan impairment				(9,582)	(7,678)
				166,108	168,474

b) Allowance for impaired loans

Loans are considered impaired when they are risk rated as substandard or worse or when the loan is more than 90 days in arrears at year-end and there is insufficient collateral security valued at forced sale to cover the balance outstanding. 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.

(in thousands of dollars)

5 Loans receivable (continued)

b) Allowance for impaired loans (continued)

	2016		2015	
	Impaired loans $	Allowance for impairment $	Impaired loans $	Allowance for impairment $
Specific allowance	26,604	8,917	26,289	7,086
General allowance	–	665	–	592
	26,604	9,582	26,289	7,678

Significant judgment was exercised by management in making these estimates. As such, actual losses that occur on loans outstanding at March 31, 2016, 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.

c) Continuity of allowance for impaired loans

	2016 $	2015 $
Allowance for impaired loans – Beginning of year	8,137	8,134
Add: Valuation allowance for impaired loans	1,751	3
Allowance for impaired loans – End of year	9,888	8,137
Valuation allowance on principal	9,582	7,678
Valuation allowance on interest	306	459
	9,888	8,137

(in thousands of dollars)

5 Loans receivable (continued)

d) Loans past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they either (i) have a strong risk rating; (ii) have an arrears amount less than $1; or (iii) are fully secured and collection efforts are reasonably expected to result in repayment. Loans that are past due but not impaired are as follows:

	1-30 days $	31-60 days $	61-90 days $	91 or more days $	2016 $	2015 $
Farm loans	1,342	4,335	287	6,893	12,857	9,422

6 Real estate held for resale

a) Real estate held for resale, net

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

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

	2016 $	2015 $
Original funds advanced	2,941	4,398
Less: Valuation allowance for real estate	(1,400)	(2,236)
Real estate held for sale	1,541	2,162

b) Allowance for real estate

	2016 $	2015 $
Allowance for real estate – Beginning of year	2,403	2,393
Valuation allowance for real estate	401	716
Provision for changes in restructured loans	–	290
Less: Real estate written off	(1,242)	(996)
Allowance for real estate – End of year	1,562	2,403
Valuation allowance on principal	1,400	2,236
Valuation allowance on interest	162	167
	1,562	2,403

(in thousands of dollars)

7 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 11).

8 Real estate, net

	2016 $	2015 $
Real estate held for long-term use		
Former loan property under lease	1,925	–
Land bank	218	238
Agriculture and Rural Development Agreement	–	12
Property used by Nova Scotia Agricultural College and Community Pastures	76	76
	2,219	326

In the current year, the Board reached settlements with two loan clients such that the properties of these clients were transferred to the Board to settle the outstanding loan balances. The Board has recorded these properties as former loan properties under lease at the lower of the loan balance and the assessed value of the property. Subsequently, the Board entered onto lease agreements over the properties to allow the loan clients to continue to operate on the properties. The Board has not recorded amortization on these properties.

9 Other revenue

In the current year, the Board received a grant from the Nova Scotia Department of Agriculture to fund the allowance for bad debts related to the mink sector.

10 Loan processing and other fees

	2016 $	2015 $
Fees and other charges	234	207
Cost recoveries	150	51
	384	258

(in thousands of dollars)

11 Lending expenses

	2016 $	2015 $
Interest (note 12)	5,004	5,385
Payroll	1,253	1,301
Bad debt (note 13)	2,152	719
Supplies and services	55	100
Travel	42	49
Professional services/special services	83	56
Training and development	8	9
Equipment and other	29	29
	8,626	7,648

12 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.

13 Bad debt expense

	2016 $	2015 $
Bad debt expense (recovery) includes:		
Valuation allowance for impaired loans	1,751	3
Write-down of real estate held for resale	401	716
	2,152	719

(in thousands of dollars)

14 Financial instruments and risk management

(i) Fair value of financial instruments

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

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

(ii) Risk management

Credit risk

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

The total of loans receivable at March 31, 2016 is $175,690 (2015 - $176,152). The majority of loans are secured primarily by real property using mortgage or Agreement of Sale (providing rights similar to a mortgage). Dairy and poultry loans are generally also secured by an irrevocable assignment of production quota. Collateral security may also be provided by equipment, livestock or chattels. It is not practical to determine the maximum exposure to credit risk due to the cost associated in determining the fair value of security and collateral security on unimpaired loans.

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

The Board adjusts the valuation allowance for impairment to recognize management's estimate of recoveries on impaired accounts. Impairment is primarily identified by review of arrears, refinanced loans and accounts in sectors experiencing difficulty. A total of $4,049 (2015 - $1,098) was issued in refinanced loans during 2015 - 2016 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.

(in thousands of dollars)

14 Financial instruments and risk management (continued)

(ii) Risk management (continued)

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.

15 Government contributions

Expenses for the year ended March 31, 2016, 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.

16 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). Transactions with provincial entities were entered into in the normal course of business.

The Province of Nova Scotia pays certain expenses, including rent, building maintenance, computer networks and support, computerized accounting systems and miscellaneous office expenses in relation to building and computer systems, on behalf of the Board with no charge to the Board.

Loans and interest receivable includes $4,046 resulting from outstanding loans to Board members and immediate family of Board members. These loans were issued under normal terms and conditions using market interest rates.

(in thousands of dollars)

17 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 Public Service Superannuation Plan Trustee Inc. and any unfunded liability, as well as other obligations related to post-retirement benefits, are the responsibility of the pension plan. It is not anticipated that any such future costs would be allocated to the Board.

18 Commitments

The Board will hold interest rates for ninety days for any client from the date of loan approved. As of March 31, 2016, the Board has authorized loans of $7.5 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 2015-2016.

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: Total loans advanced. Fiscal year (April 1 - March 31) measure.

What this measure tells us:

By measuring the value of new loan advances, an indication of the requirement for Board lending is evaluated.

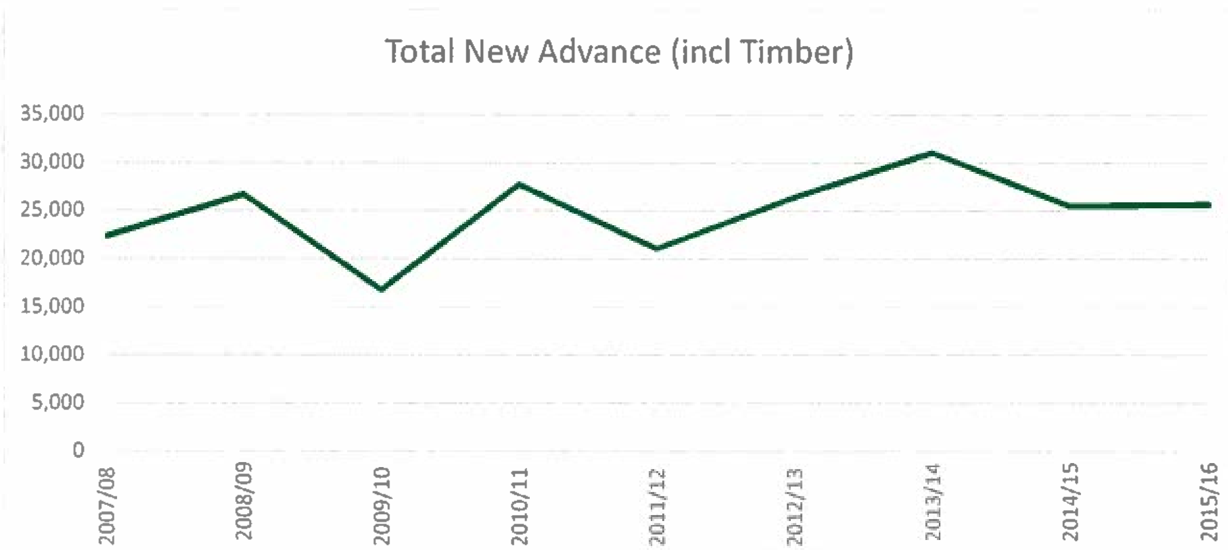
Where we are now:

Base year:	2011-12:	$21.1M
	2013-14:	$31.1M
	2014-15:	$25.5M
	2015-16	$25.7M

Where do we want to be?

Target 2015-2016: $30M

Requirement for loan funds has fluctuated from year to year. The board ended the year with $7.5 million in loan commitments for 2015-16.



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

What this measure tells us:

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

Use of this measure requires balance. 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:

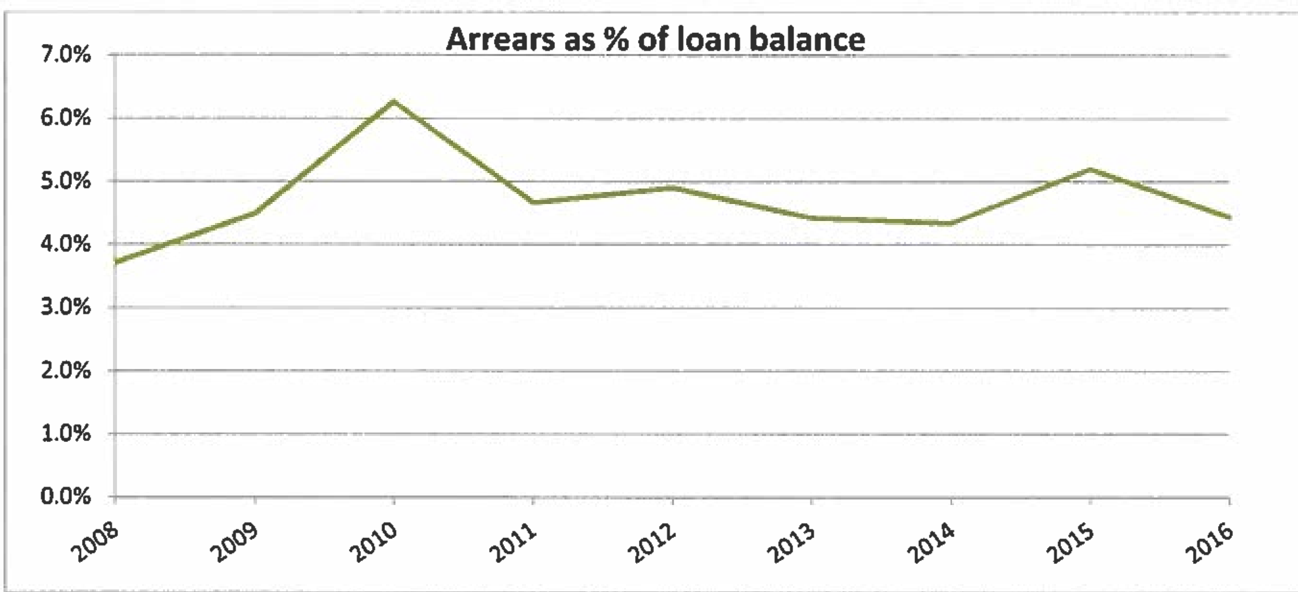
Base:	March 2007:	3.7% including default account arrears
	March 2015:	5.2%
	March 2016:	4.4%

The fur sector shows significantly higher arrears reflecting reduced mink prices. Settlement on a significant arrears client has reduced the overall total. Board staff are working to improve outstanding arrears.

Where do we want to be?

Target Mar 2016: 4.3% or less on all accounts

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



Client satisfaction based on client surveys

What this measure tells us:

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

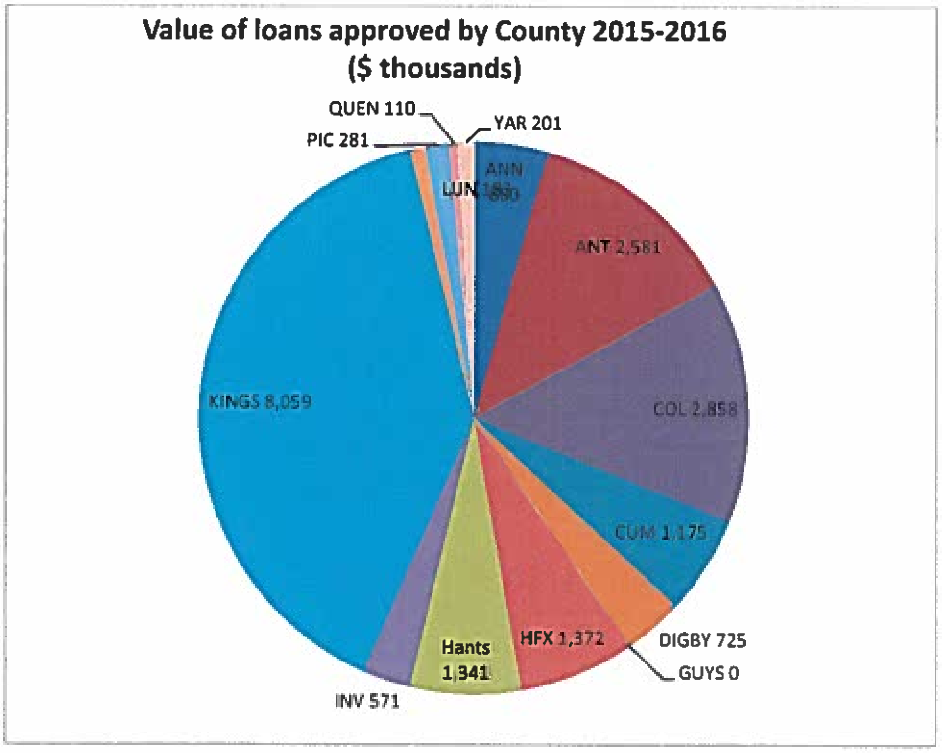
Where we are now:

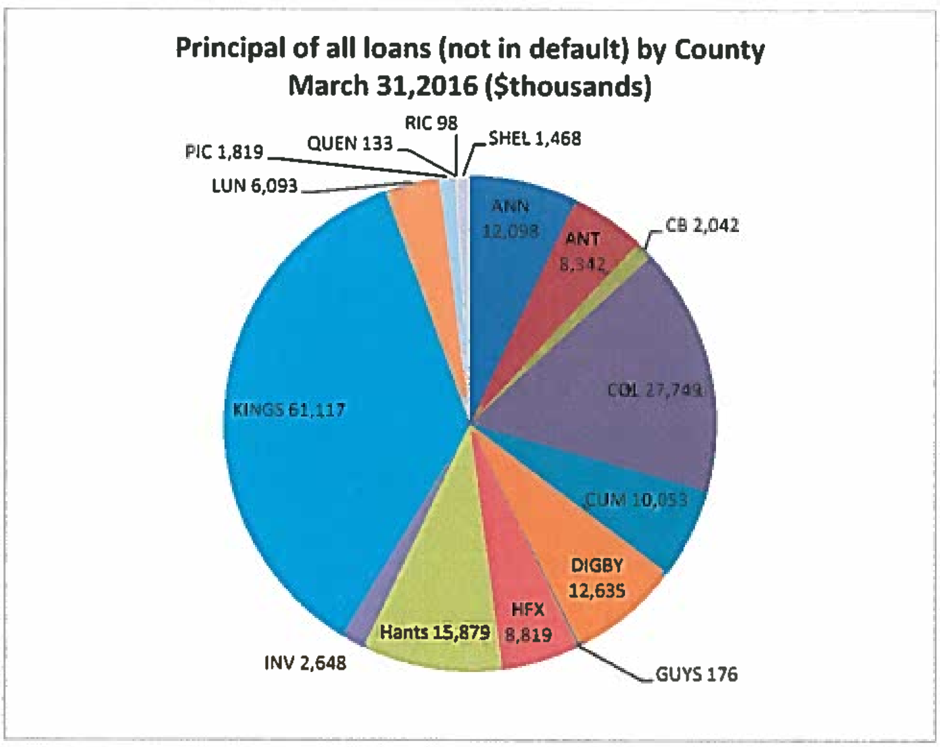
Percentage Good to Excellent:

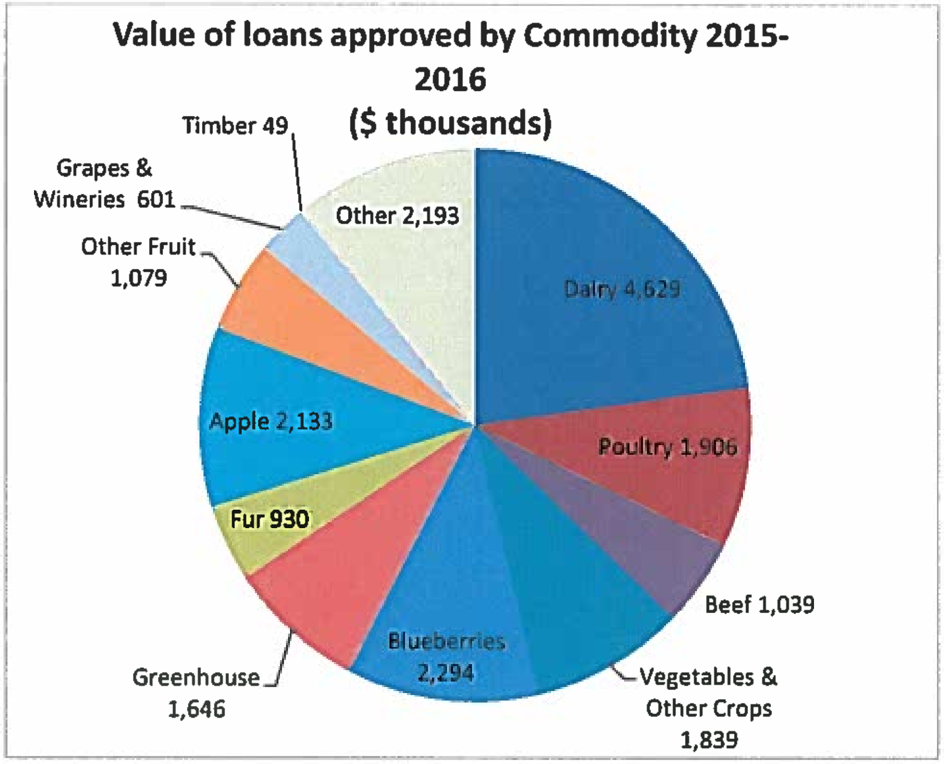
Base year: 2000-01: 92%
2013-14: 91%
2014-15: 93%
2015-16: 91%

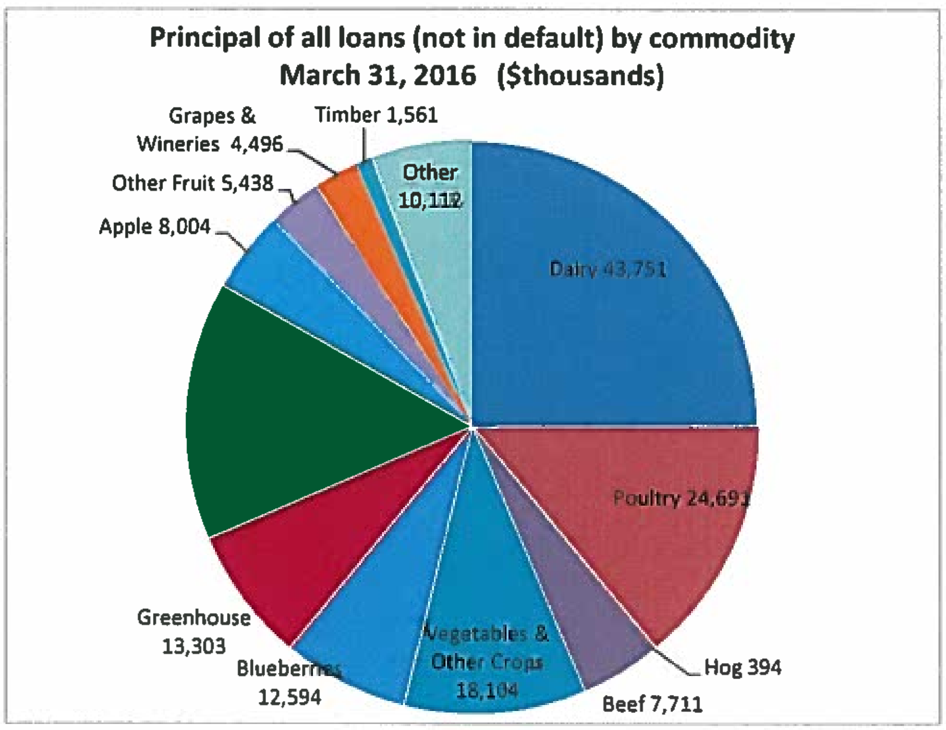
Where do we want to be?

Target 2015-2016: 90% or above


Value of loans approved by County 2015-2016
($ thousands)
QUEN 110
YAR 201
PIC 281
ANN
LUN
ANT 2,581
COL 2,858
KINGS 8,059
CUM 1,175
DIGBY 725
GUYS 0
HFX 1,372
Hants
1,341
INV 571


Principal of all loans (not in default) by County
March 31,2016 ($thousands)
RIC 98
PIC 1,819
QUEN 133
SHEL 1,468
LUN 6,093
ANN
12,098
ANT
8,342
CB 2,042
COL 27,749
KINGS 61,117
CUM 10,053
DIGBY
12,635
HFX
8,819
Hants 15,879
INV 2,648
GUYS 176


Value of loans approved by Commodity 2015-2016 ($ thousands)
Timber 49
Grapes & Wineries 601
Other Fruit 1,079
Other 2,193
Dairy 4,629
Apple 2,133
Poultry 1,906
Fur 930
Beef 1,039
Blueberries 2,294
Greenhouse 1,646
Vegetables & Other Crops 1,839


Principal of all loans (not in default) by commodity March 31, 2016 ($thousands)
Grapes & Wineries 4,496
Timber 1,561
Other Fruit 5,438
Other 10,112
Apple 8,004
Dairy 43,751
Poultry 24,691
Greenhouse 13,303
Blueberries 12,594
Vegetables & Other Crops 18,104
Hog 394
Beef 7,711