

Crown Corporation

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

FOR THE FISCAL YEAR 2014–2015

Nova Scotia Fisheries and Aquaculture Loan Board

Business Plan 2014–2015

Table of Contents

Message from the Minister and Board Chair	
Mission Statement	
Mandate	
Planning Context	
Strategic Goals	
Core Business Area	
Priorities for 2014–2015	
Budget Context	
Outcomes and Performance Measures	
Board of Directors	

Message from the Minister and the Board Chair

We are pleased to present the Nova Scotia Fisheries and Aquaculture Loan Board business plan for 2014–2015. The plan outlines the board's goals and priorities for the coming year.

The primary objective of the board continues to be the provision of financing in order to encourage, sustain, improve, and develop the fishing and aquaculture industry in Nova Scotia.

The Nova Scotia Fisheries and Aquaculture Loan Board is proud to support the province's fishers and aquaculturists in their pursuit of the many exciting opportunities that exist at home and abroad.

The Honourable Keith Colwell, Minister
Nova Scotia Department of Agriculture
Nova Scotia Department of Fisheries and Aquaculture

Mr. Roy Surette, Chair
Nova Scotia Fisheries and Aquaculture Loan Board

Mission

To serve, develop and optimize the Nova Scotia fish harvesting and aquaculture industries, for the betterment of our coastal communities and the province as a whole.

Mandate

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

The board operates as a corporation of the Crown under the authority of the Fisheries and Coastal Resources Act 1996 (the act) and in accordance with Fisheries and Aquaculture Loan Regulations made under Section 42 of the act and with board and government policy.

The act provides authority to the board, subject to the regulations to make loans and guarantees of loans to or on behalf of fishers, aquaculturists, companies, co-operatives, associations, or other persons engaged directly in the fishing industry or to or on behalf of any person for any purpose which, in the opinion of the Governor in Council, will encourage, sustain, improve or develop the fishing industry in the province.

Our History

As the primary lending and economic development agency for fisheries in the

province, the Nova Scotia Fisheries and Aquaculture Loan Board has provided more than half a billion dollars in loans to fisheries and aquaculture businesses since its establishment in 1936.

The board supports growth and development in the fisheries and aquaculture industry through the provision of long-term, fixed-rate loans and financial counselling, and by providing opportunities for new operators and enterprises to enter the industry. As a Crown corporation, the board works closely with all provincial government lenders and services providers, in particular, but not limited to, the Nova Scotia Department of Fisheries and Aquaculture and the Nova Scotia Department of Agriculture.

Some of the primary strengths of the board are the availability of credit with fixed rates and stable terms, the provision of programs specifically designed to address industry needs, and an expert understanding of the fisheries and aquaculture industries.

The board maintains a significant portfolio of fisheries and aquaculture accounts. At March 31, 2013, the board's portfolio consisted of 778 accounts totaling \$108,918,961.

Primary stakeholders in the Nova Scotia Fisheries and Aquaculture Loan Board include individual and potential borrowers and the Province of Nova Scotia, in particular the Departments of Agriculture, Fisheries and Aquaculture, Economic and Rural Development and Tourism, and Finance. Other key stakeholders include the various associations, groups, and councils representing industry interests, commercial lenders, boat builders, equipment and feed suppliers, and the wholesale and retail sectors; the many organizations involved in

shipping and moving products around the world; and others interested in economic growth and development of rural and coastal Nova Scotia.

Planning Context

General

The fisheries and aquaculture sectors are key economic drivers of the provincial economy and are particularly important to rural and coastal communities across the province. The impacts of these sectors are apparent in communities from the tip of Cape Breton to the shores of Cape Sable Island.

Due to its export-centric nature, this industry plays a key role in bringing foreign dollars and investment to the province. The sector annually generates close to \$1 billion in export value to the provincial economy. This makes fish and seafood products Nova Scotia's second largest export commodity.

As a global player, this industry is affected by many factors inherent in competing in today's global arena (such as fluctuating exchange rates, competition from low-cost-of-production regions, rising input costs, and increasing regulatory standards), not to mention local challenges such as weather and succession. Despite these factors, the outlook for this industry is very optimistic. Global demand for fish and seafood products is reaching an all-time high and is expected to continue to climb as key global economies and populations grow and develop. The province's fishers and aquaculturists possess a resolve that has already seen this industry through some very challenging times.

There is significant interest in the industry, from new entrants, that has the potential to breathe life into the many opportunities that this growing global demand represents. For example, while trade with traditional partners remains strong, there is also increasing opportunity to diversify into non-traditional markets, such as the European Union, as demonstrated by the proposed free trade agreement between the European Union and Canada, the Comprehensive Economic and Trade Agreement (CETA).

The Nova Scotia Fisheries and Aquaculture Loan Board is keenly aware of the many opportunities and challenges that exist for the fish, aquaculture, and seafood industries of Nova Scotia. The board understands and is committed to supporting industry growth and development and will continue to support the fisheries and aquaculture industry through the provision of long-term, fixed-rate lending products to those clients demonstrating sound business fundamentals and commitment to the future growth and sustainability of the industry.

Interest rates

Interest rates have remained low during the fiscal year. The Bank of Canada maintained its policy overnight rate at 1 per cent throughout 2013–2014 (unchanged since October 2010), keeping rates stable and low. Low rates have benefited industry by expanding the range of potential funding sources and allowing earlier repayment. In some cases, amounts borrowed may be higher because of these lower-than-usual rates.

Requirements for board financing are influenced by levels of investments in

fisheries and aquaculture businesses, rates of capitalization, general economic conditions, and the availability of funding from commercial lenders. The board continues to offer fixed-interest-rate loans, with rates fixed for the full amortization period of the loan. Other loan options may be considered for implementation in the coming fiscal years. Decisions on loan product changes will follow and flow from the board's mandate review and strategic planning process, which is currently underway and scheduled to be completed in 2014–2015.

Lending demand

Total new loan advances over the past decade have ranged from \$14 million to \$25 million. Requirements for 2014–2015 are expected to be in the upper end of this range. The capital authority of \$35 million in 2014–2015 is expected to provide flexibility in responding to client borrowing needs.

The board will seek to operate on a cost-effective basis and meet client credit needs, providing credit services, support to new entrants, risk analysis, and collaboration with departments and industry. The board intends to remain flexible in its approach and will be open to any type of development, loan products, or ventures that aid fisheries and aquaculture development in Nova Scotia.

Ongoing Planning Focus

Lending

The board understands its role in supporting, through lending, the long-term viability and development of the fisheries and aquaculture industries of the province. The primary role is to ensure that loan

financing is available to clients who have a reasonable likelihood of success but are unable to obtain financing at reasonable rates because they are new, they participate in a sector that has cycles of profitability, or for other reasons they find that banks are tightening credit.

The board also lends to clients who may have access to commercial lending. It does this to provide stability in the availability of funds and interest rates by offering fixed rates for up to 20 years. This allows those successful clients to continue a financing relationship that may span many years, and build into their risk profile the stability that comes with a lender that has a long-term commitment to fisheries and aquaculture, offers fixed rates, and can be patient during poor business cycles.

The board may, on occasion, act to assist fisheries and aquaculture businesses or clients who experience financial difficulty when dealing with a commercial lender even though the business itself appears viable, given patience, and any lending losses already experienced are borne by the initial lender.

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

When it is possible to broaden services available to clients by collaboration with other lenders, joint lending relationships will be pursued.

While ability to repay remains the basic criterion for granting loans, business planning practices and procedures will continue to be considerations required for industry and individual growth and sustainability.

The risk manager function, implemented in 2013–2014, has improved risk analysis and loan criteria and has been made a part of the board’s ongoing loan approval process. The board will continue to work toward strengthened lending and management information to meet lending, decision-making, and financial reporting requirements.

To ensure that Nova Scotia Fisheries and Aquaculture Loan Board is optimizing its contribution to industry growth and development in the current industry and credit environment, a mandate review, which began in 2013–2014, will continue to completion in 2014–2015. This review will assess how well the board’s programs and services align with industry needs, and it will identify opportunities to better align with those needs.

Strategic Goals

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

1. Growth in the rural economy, specifically in coastal communities.

Providing flexible loan products adapted to the needs of the fisheries and aquaculture industry.

2. Increase in the number and success of participants in fisheries and aquaculture sectors.

Providing lending support at the development and entry level for fisheries and aquaculture businesses so as to ensure that the industry will be maintained and have an opportunity to grow; and accepting that this focus may entail relatively high risk.

3. Sound board and client loan performance.

Financial counselling provides guidance to clients as they manage business income and resources. Project assessments help the industry to be successful and also reduce the potential of delinquent accounts.

Core Business Areas

In keeping with the goals of the board, the Department of Fisheries and Aquaculture, and government, the following represents the board’s priorities for 2014–2015.

Core Business Area: Lending

Providing long-term, fixed-rate, asset-based credit for the development of the fish harvesting and aquaculture industries is the primary mandate of the Nova Scotia Fisheries and Aquaculture Loan Board. This includes loan product development, loan service development, client service and administration, and efficient and responsible financial management. It also includes financial analysis and counselling.

Financial counselling is provided by loan officers as a component of loan-analysis meetings with clients and potential clients and includes assessment of projects under consideration. Loan officers assist in sourcing the best available credit.

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

Loan demand was stronger than average throughout 2013–2014, and this is expected to continue into 2014–2015. Loan requirements are affected by the availability of credit and rates available from commercial lenders, developments within the industry, and expectations about future interest rates.

Priorities for 2014–2015

Lending

Provide up to \$35 million of new loan capital to the fisheries and aquaculture industry in the 2014–2015 fiscal year.

Lending capacity at this level supports the industry's need for access to fixed-rate, long-term loans. It supports the development of fisheries and aquaculture businesses by allowing for sustainability, improved efficiency, productivity and profitability, adoption of new technologies and practices,

and growth and development of new and existing operations. During 2013–2014, the board is forecast to advance \$17.34 million and receive principal repayments of \$16.6 million. Actual lending requirements vary from year to year depending on opportunities identified.

The board will continue to investigate possible new loan products to meet client needs in 2014–2015 and forward.

Credit Counselling and Risk Management

The board places importance on maintaining an understanding of the fisheries and aquaculture industry, on the development of relationships with clients and understanding their needs, on flexibility in dealing with individual circumstances, and on confidential credit counselling services.

Accounts are managed so that write-offs and arrears conditions are monitored and minimized in relation to the portfolio size, while supporting industries and individuals through cyclical downturns and working toward the best outcome for all parties.

This approach includes accurate and appropriate security appraisals and evaluations for loans, monitoring arrears and financial counselling, particularly for new clients and clients identified as having financial difficulty.

Lending will continue to be directed toward viable enterprises and projects with potential to repay and acceptable security to support the loan. During financially difficult times, the board is committed to assisting those operations that appear to have a long-term future and

a commitment to meet their obligations. This may include deferral of payments, restructuring of debt, financial counselling, and/or referral to other relevant services.

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

The independent credit risk assessment position implemented in 2013–2014 has been demonstrated to add significant value to board decisions and will be funded on a permanent basis.

Support for New Entrants

The board recognizes the importance of assisting new entrants to the fishing and aquaculture industry. It will do so by providing guidance and advice, working with other staff and programs of the department, and funding projects with viable business plans but limited experience.

The board also delivers the Loans for Licenses program, which was established in 2009–2010. This program supports succession in the industry, providing loans with attractive terms to new entrants or those who want to diversify their business operations to include the harvest of species they haven't harvested in the past. The board's new-entrants programs are designed to reduce the initial capital investment required by the borrower in order to provide increased opportunity for business success.

Mandate Review

To ensure that Nova Scotia Fisheries and Aquaculture Loan Board is optimizing its contribution to industry growth and development in the current industry and credit environment, a mandate review, which began in 2013–2014, will continue to completion in 2014–2015. This review will assess how well the board's programs and services align with industry needs, and it will identify opportunities to better align with those needs.

Budget Context

Nova Scotia Fisheries and Aquaculture Loan Board Operational Income Statement

	Estimate 2013-14 (\$ 000)	Forecast 2013-14 (\$ 000)	Estimate 2014-15 (\$ 000)
Revenues			
Interest revenue	7,800	7,500	7,800
Loan fees	150	150	150
Total revenue	7,950	7,650	7,950
Expenses			
Interest expense	4,600	4,600	4,600
Operating expenses	687	903	762
Bad debt expense	78	0	78
Total expenses	5,365	5,503	5,440
Net income (loss)	2,585	2,147	2,510
Transferred to the province	(2,585)	(2,147)	(2,510)
Remaining	0	0	0

Notes:

See year-end annual reports for complete financial information and notes (www.novascotia.ca/fish/about-us/business-plans-and-accountability-reports/).

Interest expense is established under terms of a Memorandum of Understanding arranged with the Department of Finance.

Capital Funds

	Forecast 2013-14 (\$ 000)	Estimate 2014-15 (\$ 000)
Opening principal	106,436	107,083
Add loan advances	17,340	25,000
Less repayments	(16,600)	(20,800)
Less principal written off	(93)	(2,000)
Closing principal	107,083	109,283
 <i>Provision for impaired accounts</i>		
Opening provision	2,446	2,353
Less accounts written off	(93)	(2,000)
Additions (principal portion of bad-debt expense +/- adjustments)	0	78
Closing allowance	2,353	431

Outcomes and Performance Measures

Core Business Area Lending

Outcome	Measures	Data	Targets 2014-15	Ultimate Target	Strategies to Achieve Target
Development of new fishery enterprises	Loan Advances	2006-07: \$16 million	Increase annual advances	Increase annual advances over previous year	Work with industry and government Provide financing for the harvesting of underutilized species Loan advances as of March 31, 2013 were \$16 million
		2007-08: \$15 million			
		2008-09: \$7 million			
		2009-10: \$25 million			
		2010-11: \$15 million			
		2011-12: \$21 million			
2012-13: \$16 million					
Improved lending programs for the fishing and aquaculture industries	Increase in loan portfolio	2006-07: \$83 million	Annual increase in loan portfolio	Annual increase in loan portfolio over previous year	Support financially viable operations As of March 31, 2013, the loan portfolio was \$106 million
		2007-08: \$90 million			
		2008-09: \$84 million			
		2009-10: \$95 million			
		2010-11: \$104 million			
		2011-12: \$109 million			
2012-13: \$106 million					
Arrears level	% of accounts in arrears	2006-07: 1.6%	Less than 5%	Less than 5% year to year	Fisheries Loan Board loans remain secure when considering boat values and aquaculture securities Loan balances reducing as per repayment schedule As of March 31, 2013, 3.7% of principal was in arrears
		2007-08: 2.0%			
		2008-09: 3.7%			
		2009-10: 5.79%			
		2010-11: 3.3%			
		2011-12: 3.3%			
2012-13: 3.7%					

Board of Directors

The board currently consists of the following directors, with successful careers in fisheries, aquaculture and related businesses, who govern policies, consider loan requests, receive reports on operations and clients, and provide strategic direction for the board.

Mr. Roy J. Surette, Chair

Roy was appointed to the Nova Scotia Fisheries and Aquaculture Loan Board effective June 7, 2011, for a term expiring June 6, 2014. Roy is a retired career banker, having worked in various locations in the province. He has served on various boards both federally and provincially, including the Atlantic Fisheries Licensing Appeal Board (AFLAB), Nova Scotia Community College (NSCC), and Université Sainte-Anne. He has been involved with the Nova Scotia Fisheries and Aquaculture Loan Board since 2009, serving both as member and chair.

Mr. G A (Jerry) Amirault, CA, Director

Jerry was appointed to the Nova Scotia Fisheries and Aquaculture Loan Board effective July 3, 2012, for a term expiring July 2, 2015. Jerry has been active with many Canadian industries for the past 40 years in a senior management role, always with an interest in facilitating change where the challenges are many. Since 2000, he had been involved in lobster, snow crab, and herring, facilitating co-operation in all the industry sectors to advance their growth. From 2005 to 2011, he was a member of the team at the Atlantic Veterinary College Lobster Science Centre (AVCLSC) as the executive director. He was born in

Yarmouth and currently lives on his farm in Tatamagouche, NS, where he is also very active in the community.

Mr. Edmond AuCoin, Director

Edmond was appointed to the Nova Scotia Fisheries and Aquaculture Loan Board effective December 10, 2012, for a term expiring December 9, 2015. Edmond possesses a diverse range of industry-related experience, including approximately 20 years in harvesting, processing, buying, and selling fish and fish products. He has served on various boards both federally and provincially, including the Atlantic Fisheries Licensing Appeal Board (AFLAB).

Mr. Peter Burnie, Director

Peter was appointed to the Nova Scotia Fisheries and Aquaculture Loan Board effective December 10, 2012, for a term expiring December 9, 2015. Peter grew up in a fishing family and has been extensively involved in the fishing industry as a fisherman and entrepreneur for more than 30 years. His experience spans many sectors of the industry, including harvesting, processing, buying, selling, and distributing both groundfish and shellfish. He is currently president and CEO of Mariners Choice Fish Products and Little Lahave Trawlers.