

NOVA SCOTIA FISHERIES AND AQUACULTURE LOAN BOARD

**ANNUAL ACCOUNTABILITY REPORT
FOR THE FISCAL YEAR 2009-2010**

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Accountability Statement

The accountability report of the Nova Scotia Fisheries and Aquaculture Loan Board for the year ended March 31, 2010, is prepared pursuant to the Finance Act and government policies and guidelines. These authorities require the reporting of outcomes against the Nova Scotia Fisheries and Aquaculture Loan Board business plan information for the fiscal year 2009-2010. The reporting of the Nova Scotia Fisheries and Aquaculture Loan Board outcomes necessarily includes estimates, judgements and opinions by Loan Board management.

The Department acknowledges that this accountability report is the responsibility of the Nova Scotia Fisheries and Aquaculture 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 Nova Scotia Fisheries and Aquaculture Loan Board business plan for the year.

Minister

Associate Deputy Minister

Message From The Chairman - It is my pleasure to present the 2009-2010 Annual Accountability Report for the Nova Scotia Fisheries and Aquaculture Loan Board. This report reflects the Loan Board's efforts to achieve the goals and priorities outlined in the Loan Board's 2009-2010 Business Plan.

I would like to express my thanks to the staff of the Loan Board for their hard work and commitment to providing excellent service to the aquaculture and fisheries industries, in the best interest of the people of Nova Scotia.

Loan Board Chairman

Introduction - The accountability report is based on the goals, priorities and outcomes set out in the Loan Board's 2009-2010 business plan.

The purpose of the report is to summarize the activities, accomplishments and outcomes of the previous fiscal year, and specifically reflect on the organizations business plan. The report is arranged so that readers may understand the Loan Board's accomplishments in line with our business plan.

During the year the Fisheries and Aquaculture Loan Board focused on its mission statement which is as follows:

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

The Fisheries and Aquaculture Loan Board has served the province and the fishing industry since 1936, by providing long term stable development funding. The Loan Board operates under the authority of the Fisheries and Coastal Resources Act. This Act, by its name emphasizes the coastal community development focus of the Board's operations and fosters the growth and development of the economy in our coastal communities as it relates to the harvesting and aquaculture sectors of the fishing industry in Nova Scotia.

Progress and Accomplishments

The goals and priorities from the 2009-2010 Business Plan are as follows:

Core Business Area 1:

Providing long term fixed rate loans for the development of the harvesting and aquaculture sectors of the fishing industry.

- \$20 million of developmental funding was approved to the fishing and aquaculture industries.
- 212 loan applications were assessed, of which 113 were for our new license program.
- loan approval limits were reviewed and no adjustment was necessary.
- loan approval conditions were combined to quicken the flow of legal documentation and the disbursement of funds.
- 10 new vessels were built and 7 upgrades to existing boats were completed.

Page 8 of this report provides Performance Measure to support this core business area.

Core Business Area 2:

Maintain a vessel inspection program for all new construction, used vessel purchases and

engine and equipment loans.

- New vessels were inspected biweekly during construction to ensure that they are built to rigid Loan Board standards. 54 inspections were carried out.
- 53 inspections were completed for used vessel purchases, engine/equipment and upgrade loans. These inspections ensure that the vessel is built to the Loan Board's standards and that the loan is secure in the value of the boat.
- 511 maintenance inspections were completed to ensure the Loan Board's security is being maintained.
- 10 new vessel construction plans and specifications were checked and approved by technical staff to ensure they met Loan Board standards.
- During these inspections technical advice is provided which relates to the construction of these new vessels.

Page 10 of this report provides Performance Measure to support this core business area.

Core Business Area 3:

Maintain a loan collection program on a monthly basis to keep loan arrears to a minimum.

- The arrears percentage as of March 31, 2010 was 5.51 per cent.
- The arrears percentage is a result of continued follow ups by staff using all available collection tools (letters, phone calls and field visits).

Page 11 of this report provides Performance Measure to support this core business area.

Core Business Area 4:

Provide financial counseling and assessments for proposed projects.

- The assessment of proposed projects and financial counseling to all new and existing applicants resulted in 119 approvals of 205 applications submitted.
- Continued to partner with industry, other lenders and other government departments to improve financial information and develop competitive lending packages for our clients.
- Continue to investigate new loan programs with flexible terms which will assist the fishing and aquaculture industries.
- Continue to assess the profitability of financing vessels which engage in the harvesting of non-traditional species.

Page 12 of this report provides Performance Measure to support this core business area.

Human Resources

The Loan Board had eight staff reporting in 2009-2010. Succession planning is a priority of the department and of this division.

Information Technology

Each of the eight Loan Board staff members have a computer and these will be upgraded and replaced on a rotating basis.

The Nova Scotia Farm Loan Board and the Nova Scotia Fisheries and Aquaculture Loan Board are currently involved in a process that will replace their current accounting software. The previous software for the Nova Scotia Fisheries and Aquaculture Loan Board was developed in the early 1980's.

| Financial Results | 2008 - 2009 | | 2009 - 2010 | |
|--------------------------|--------------------|----------------|--------------------|----------------|
| (\$ - Millions) | Budget | *Actual | Budget | *Actual |
| Capital Advances | \$20.0 | \$7.2 | \$45.0 | \$ 25.0 |
| Repayments | <u>\$14.0</u> | <u>\$13.0</u> | <u>\$16.0</u> | <u>\$15.8</u> |
| Net Advances | \$ 6.0 | \$(5.8) | \$ 29.0 | \$9.2 |

*Actual advance's do not include commitment un-advanced. In 2009-2010 that amount was \$10.5 million and in 2008-2009 that amount was \$1.2 million.

**NOVA SCOTIA
FISHERIES AND AQUACULTURE LOAN BOARD
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2009
(\$ THOUSANDS)**

| | Budget 2009/10 | Actual 2009/10 | Actual 2009 |
|---|---------------------------|---------------------------|------------------------|
| Revenues | | | |
| Interest income | \$6,400 | \$6,246 | \$6,143 |
| Loan fees | <u>118</u> | <u>224</u> | <u>49</u> |
| | <u>6,518</u> | <u>6,470</u> | <u>6,192</u> |
| Expenses | | | |
| Interest expense | 4,400 | 3,984 | 4,007 |
| Salaries and benefits (net of recoveries) | 732 | 533 | 576 |
| Board honoraria | 8 | 6 | 6 |
| Travel | 62 | 53 | 60 |
| Office expense | 19 | 65 | 68 |
| Bad debt expense (net of recoveries) | <u>50</u> | <u>75</u> | <u>50</u> |
| | <u>5,271</u> | <u>4,716</u> | <u>4,767</u> |
| Operating Surplus before Government contributions | 1,247 | 1,754 | 1,425 |
| Government Contributions | <u>5,271</u> | <u>4,716</u> | <u>4,767</u> |
| Surplus | 6,518 | 6,470 | 6,192 |
| Distribution to Consolidated Fund of the Province | <u>6,518</u> | <u>6,470</u> | <u>6,192</u> |
| Accumulated Surplus , end of year | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |

Performance Measures

The Outcome Measures reported upon are from the 2009-2010 Business Plan.

The Fisheries and Aquaculture Loan Board has four core business areas

Core Business Area 1

Providing long term fixed rate loans for the development of the harvesting and aquaculture sectors of the fishing industry. The outcomes for this core business area are sustainable fishery and aquaculture industries, increased landings and sales, development of new fishery enterprises, maintaining and creating jobs in Nova Scotia and improvement of lending programs for the fishing and aquaculture industries. The following measures are used to record movement towards achieving the outcomes.

Landed value of fish products.

What does the measure tell us?

With long term stable financing fishers can expand their operations and maintain/ increase their income and the landed value of fishery products.

Where are we now?

In 2000-2001 (base year) industry income was \$648 M and the target was to maintain industry stability. Since that time the landed value of fishery products for 2003-2004 was \$698 M and the average income of a lobster fisher was \$85,740, the landed value of fishery products for 2004-2005 was \$725 M and the average income of a lobster fisher was \$119,000, the landed value of fishery products for 2005-2006 was \$656M and the average income of a lobster fisher was \$109,498, and the landed value of fishery products for 2006-2007 was \$599M and the average income of a lobster fisher was \$90,438, and the landed value of fishery products for 2007-2008 was \$661M and the average income of a lobster fisher was \$115,026.

The industry experienced a \$62M increase in landed value for 2007-2008. Many variables (such as weather, quota, price & weight etc.) factor into the landed value of fish products.

Where do we want to go/be in the future?

With the assistance of a suitable lending program we expect the industry can maintain 3 per cent growth in annual income.

Amount of Loan Advances

What does the measure tell us?

The measure is the loan activity of the Loan Board and if their lending programs are meeting the needs of the industry.

Where are we now?

In 2000-2001 (base year) loan advances were \$18.5M and our target was to increase annual advances. Since that time loan advances for 2001-2002 were \$18.9M; for 2002-2003 they were \$20.5M; for 2003-2004 they were \$21.9M; for 2004-2005 they were \$24.7M; for 2005-2006 they were \$13.9M, for 2006-2007 they were \$16.5M, for 2007-2008 they were \$15.7M for 2008-2009 they were \$7.2M, and for 2009-2010 they were 35.8M.

Where do we want to go/be in the future?

The target for this measure is to increase annual advances yearly if the lending budget is made available each year.

Maintain and create jobs in Nova Scotia

What does the measure tell us?

The lending program of the Fisheries and Aquaculture Loan Board creates and maintains many jobs in the coastal communities of Nova Scotia. These would include jobs onboard the vessel in the construction and repair shop as well as suppliers to these facilities and the processing plants.

Where are we now?

In 2000-2001 (base year) 7,992 direct and indirect jobs were created or maintained and our target was to maintain and create jobs in Nova Scotia. As of March 31, 2003 - 8,173 jobs were created or maintained in the harvesting sector and spinoff industries and as of March 31, 2004 this had increased to 8,925 jobs. As of March 31, 2005 the number of jobs decreased to 8,253. As of March 31, 2006 the number of jobs decreased to 7,854. As of March 31, 2007 the number of jobs increased to 7,938. As of March 31, 2008 the number of jobs increased to 7,991. As of March 31, 2009 the number of jobs decreased to 7,571. As of March 31, 2010 the number of jobs increased to 8,421.

Where do we want to go/be in the future?

The target for this measure is to support industry initiatives and the harvesting of underutilized species which will create employment both in fishing and boatbuilding as new vessels will be required to fill the need.

Increase in the amount of the loan portfolio

What does the measure tell us?

An increase in the loan portfolio tells us that the lending program is suited to the needs of the fishing industry and that the Loan Board is a successful lender.

Where are we now?

In 2000-2001 (base year) the loan portfolio was \$53 M and our target was to increase by 15 per cent. Since that time, our loan portfolio increased to \$60.7M as of March 31, 2002, \$69.1M as of March 31, 2003, \$71.7M as of March 31, 2004, \$82.2M as of March 31, 2005, \$80.5M as of March 31, 2006, \$83.3M as of March 31, 2007, \$90.1M as of March 31, 2008, as of March 31, 2009 \$84.6M, and as of March 31, 2010 \$95M.

Where do we want to go/be in the future?

The target for this measure is to increase the balance of the loan portfolio per year by supporting financially viable operations.

Core Business Area 2

Maintain a vessel inspection program for all new construction, used vessel purchases, engines, equipment and upgrading loans. The outputs for this core business area are inspection of each new vessel under construction bi-weekly, yearly inspections of each financed vessel and to ensure that vessels related to used boat, engine, equipment and upgrading applications are appraised. The following measures are used to record movement towards achieving the outputs.

Number of vessels under construction inspected bi-weekly

What does the measure tell us?

All vessels under construction must be inspected bi-weekly to ensure that they are built to rigid safety standards.

Where are we now?

In 2000-2001 (base year) all new vessels under construction were inspected bi-weekly and the target was to conduct bi-weekly inspections on all new vessels under construction. Since that time our standard of conducting bi-weekly inspections on all vessels under construction was met.

Where do we want to go/be in the future?

The target for this measure is to maintain our standard bi-weekly inspections on all new vessels under construction and that bi-weekly progress payments are made to the boat builders.

Number of yearly maintenance inspections

What does the measure tell us?

Each vessel that is financed by the Loan Board should be inspected yearly to ensure that it is being kept in seaworthy condition.

Where are we now?

In 2000-2001 (base year) maintenance inspections were carried out and the target was to inspect all vessels annually. Since that time our standard of inspecting all financed vessels yearly was met.

Where do we want to go/be in the future?

The target for this measure is to ensure that each vessel financed by the Loan Board is inspected yearly and that a survey report is completed on each vessel. These inspections ensure that the Loan Board maintains an equity position in each vessel financed.

Number of vessel inspections related to used loan applications

What does the measure tell us?

Each loan application that is received for a used vessel loan, upgrading, engine or equipment loan must be inspected to determine if the loan would be secure in the value of the boat.

Where are we now?

In 2000-2001 (base year) all vessels were inspected for the purpose of used boat purchases, upgrades, new engines or equipment and our target was to conduct these types of inspections bi-weekly. Since that time our standard of inspecting all used vessels for which a loan application was received was met.

Where do we want to go/be in the future?

The target for this measure is to ensure that each vessel related to a loan application is inspected prior to approval to guarantee that the loan will be secure in the value of the boat and that an inspection report is completed.

Core Business Area 3

Maintain a loan collection program on a monthly basis to keep loan arrears to a minimum.

The outputs for this core business area are frequent collection activity. The following measure is used to record movement towards achieving the outcomes.

Per cent of accounts in arrears

What does the measure tell us?

Provides information on all overdue accounts which will receive collection activity on a monthly basis ie: phone calls, letters and visits.

Where are we now?

In 2000-2001 (base year) the per cent of accounts in arrears was 4.1 per cent and our target was a 3 per cent arrears level. As of March 31, 2010 the rate was 5.51 per cent.

Where do we want to go/be in the future?

The target for this measure is to reduce the per cent of principal in arrears to 3 per cent or less. The Loan Board requires adequate staff and operating budget to perform monthly collection visits and this will also ensure that the loan balances are reducing as per the repayment schedule.

Core Business Area 4

To provide financial counseling and assessments for proposed projects. An outcome that will contribute to this core business is harvesters successfully expanding their operations. The following measures are used to record movement towards achieving the outcome:

Increase in fishers income

What does the measure tell us?

If fishers can increase their income by utilizing all of their existing licenses and purchasing a larger vessel with Loan Board financing, the fishing industry and the Loan Board will be successful.

Where are we now?

In 2000-2001 (base year) individual lobster fisher's income was \$83,478 and the target was 5 - 10 per cent increase in fishers gross stock. Since that time the average income of a lobster fisher has increased. In 2002 it was \$110,390, in 2003 it was \$98,283, in 2004 it was \$85,740, in 2005 it was \$119,000 and in 2006 it was \$109,448, in 2007 it was \$90,438, and in 2008 it was \$115,026.

Where do we want to go/be in the future?

The target for this measure is an annual increase in the landed value of fishery products in Nova Scotia and the annual increase in fishers average annual income. With the Fisheries and Aquaculture Loan Board having suitable lending programs and well trained knowledgeable staff this should be achieved.

Per cent of Annual Writeoffs

What does the measure tell us?

This measure tells us if the Loan Board programs are suitable as well as loan repayment schedules. It also indicates if the Loan Board is analyzing loan applications properly.

Where are we now?

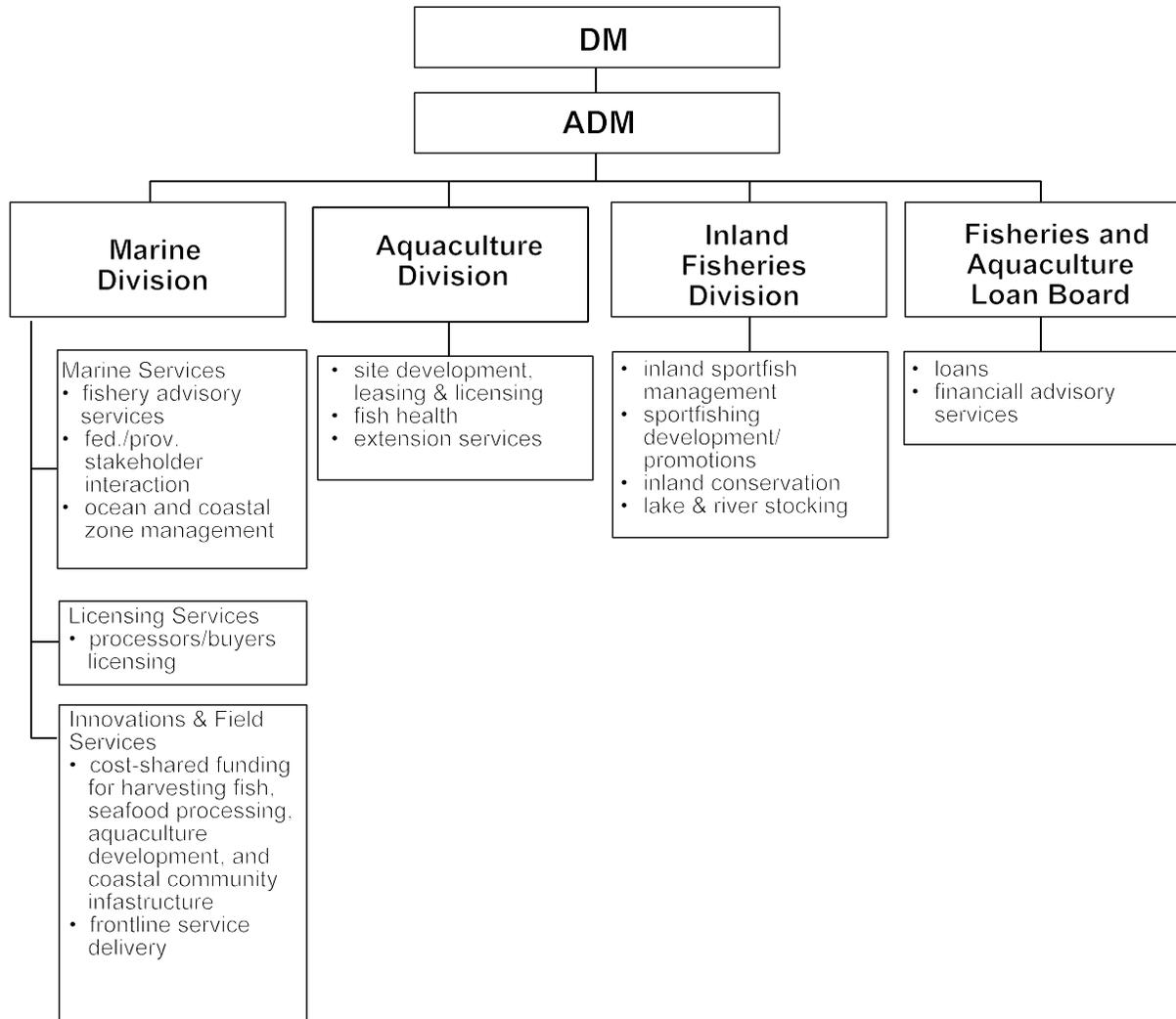
In 2000-2001 (base year) the per cent of annual writeoffs was 0.25 per cent and the target was no increase in writeoff amounts as a per cent of loan portfolio. Since that time the per cent of annual writeoffs has been under 0.25 per cent of the loan portfolio and this is also the case on March 31, 2010.

Where do we want to go/be in the future?

The target for this measure is to keep the annual writeoffs under 0.25 per cent of the total loan portfolio. This can be achieved by counseling fishers and aquaculturists, by having patient collection procedures and by monthly collection visits and phone calls to delinquent clients.

APPENDIX 1

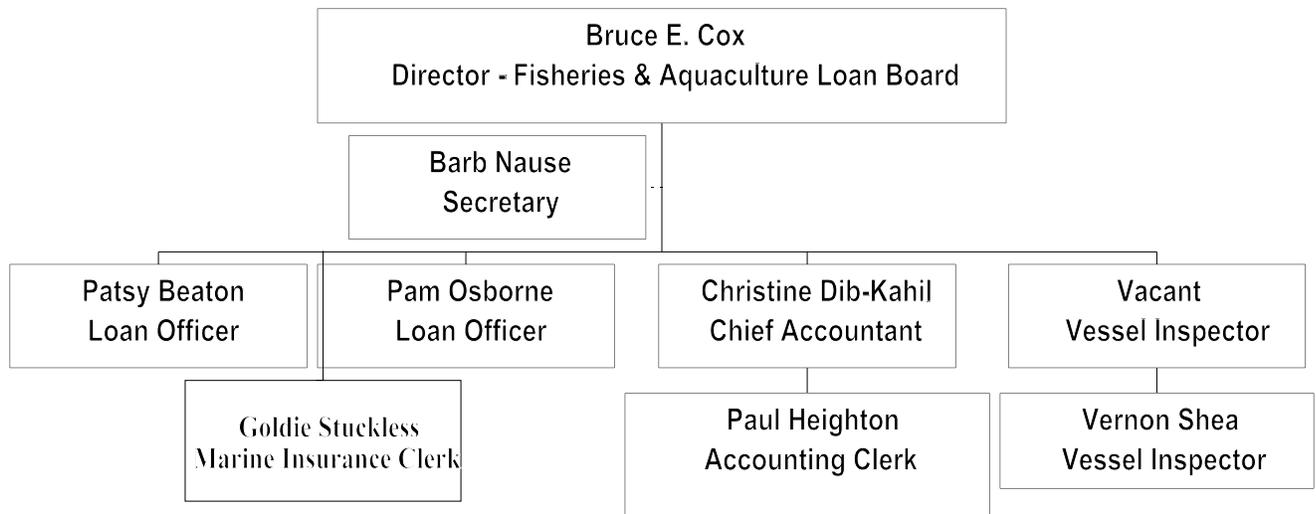
Nova Scotia Department of Fisheries and Aquaculture Functional Chart



Appendix 2

Nova Scotia Fisheries & Aquaculture Loan Board

Organization Chart



**NOVA SCOTIA
FISHERIES AND AQUACULTURE LOAN BOARD
FINANCIAL STATEMENTS
MARCH 31, 2009**

**NOVA SCOTIA
FISHERIES AND AQUACULTURE LOAN BOARD
FINANCIAL STATEMENTS
MARCH 31, 2009**

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AUDITOR'S REPORT

To the Members of the Legislative Assembly; and

To the Minister of Fisheries and Aquaculture

I have audited the balance sheet of the Nova Scotia Fisheries and Aquaculture Loan Board as at March 31, 2009 and the statements of operations, and continuity of fund for the year then ended. These financial statements are the responsibility of the Loan Board's management. My responsibility is to express an opinion on these financial statements based upon my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Nova Scotia Fisheries and Aquaculture Loan Board as at March 31, 2009 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Alan D. Horgan, CA
Deputy Auditor General

Halifax, Nova Scotia
June 22, 2009

**NOVA SCOTIA
FISHERIES AND AQUACULTURE LOAN BOARD
BALANCE SHEET
MARCH 31, 2009
(\$ Thousands)**

ASSETS

| | 2009 | 2008 |
|---|-------------------|-------------------|
| Loans receivable (net) (Note 5) | \$ 84,470 | \$ 88,990 |
| Interest receivable | 2,891 | 2,566 |
| Due from Consolidated Fund of the Province (Note 7) | <u>51,201</u> | <u>46,751</u> |
| | <u>\$ 138,562</u> | <u>\$ 138,307</u> |

LIABILITIES AND FUND BALANCE

Liabilities

| | | |
|---|-------------------|-------------------|
| Applicants' funds on deposit | \$ 11 | \$ 31 |
| Due to Consolidated Fund of the Province | <u>2,891</u> | <u>2,566</u> |
| | 2,902 | 2,597 |
| Fisheries and Aquaculture Development Fund | <u>135,660</u> | <u>135,710</u> |
| | <u>\$ 138,562</u> | <u>\$ 138,307</u> |

Commitments (Note 8)

APPROVED ON BEHALF OF THE BOARD

Chair

Member

**NOVA SCOTIA
FISHERIES AND AQUACULTURE LOAN BOARD
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2009
(\$ Thousands)**

| | Budget 2009 | Actual 2009 | Actual 2008 |
|---|----------------|--------------------|--------------------|
| Revenues | | | |
| Interest income | \$ 6,300 | \$ 6,143 | \$ 6,133 |
| Loan fees | <u>116</u> | <u>49</u> | <u>116</u> |
| | <u>6,416</u> | <u>6,192</u> | <u>6,249</u> |
| Expenses | | | |
| Interest expense (Note 9) | | 4,008 | 4,098 |
| Salaries and benefits (net of recoveries) | | 576 | 539 |
| Board honoraria | | 6 | 4 |
| Travel | | 61 | 63 |
| Supplies and services | | 24 | 19 |
| Professional services | | 22 | 33 |
| Bad debts expense (net of recoveries) | | <u>50</u> | <u>10</u> |
| | | <u>4,747</u> | <u>4,766</u> |
| Operating Surplus before Government contribution | | 1,445 | 1,483 |
| Government contributions (Note 10) | | <u>4,747</u> | <u>4,766</u> |
| Surplus | | 6,192 | 6,249 |
| Distribution to Consolidated Fund of the Province | | <u>6,192</u> | <u>6,249</u> |
| Accumulated surplus, end of year | | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |

(See accompanying notes to the financial statements)

**NOVA SCOTIA
FISHERIES AND AQUACULTURE LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2009
(\$ Thousands)**

1. Authority

The Fisheries and Aquaculture Development Fund is established pursuant to Section 34 of the Fisheries and Coastal Resources Act. The purpose of the Fund is to finance the loans and guarantees of the Nova Scotia Fisheries and Aquaculture Loan Board.

The objective and purpose of the Board is to make loans and guarantees of loans to fishermen, aquaculturists, companies, cooperatives, associations or other persons in order to encourage, sustain, improve and develop the fishing industry in the Province.

Principal in loans outstanding is limited by Order-in-Council to \$150 million, less \$14.3 million in bad debts since the inception of the fund. Maximum advances disbursed in any given year is established through the annual budgeting process, which requires approval of government. For the year ended March 31, 2009, maximum new advances were \$20 million of which \$7.2 million were advanced. The Board received repayments of loan principal of \$11.8 million during the year.

Loans in excess of \$1 million, and any loan write-offs, require approval by Governor-in-Council.

2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following are the significant accounting policies used in the preparation of these financial statements.

(a) Revenue recognition

Revenues are recorded on the accrual basis. The main components of revenue are interest and various fees for loans and guarantees. Interest on impaired loans is not recorded in the financial statements.

(b) Expenses

Expenses are recorded on the accrual basis. Net expenses include recoveries which are directly related to the expenses and are not normally considered to be revenues.

(c) Loans Receivable

Loans receivable are recorded at the principal amount of loans outstanding less an 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.

Loans usually bear interest at approximate market rates and normally have fixed repayment schedules.

**NOVA SCOTIA
FISHERIES AND AQUACULTURE LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2009
(\$ Thousands)**

2. Significant Accounting Policies (continued)

(d) Provision for Loan Impairment

The allowance for loan impairment represents management's best estimate of losses due to impaired loans in the Board's portfolio. It is determined based on management's review of individual loan accounts and identification of problem accounts.

Loan write offs must be approved by the Governor in Council.

Provisions are made for probable losses on certain loans and loan guarantees, and recorded in the statement of operations as bad debt expense. Bad debt expense also reduces the balance of the Fisheries and Aquaculture Development Fund. Recoveries of bad debts do not increase the Fund balance.

(e) Statement of Cash Flow

A statement of cash flow has not been included in these financial statements because disclosure in the balance sheet and statement of operations is considered adequate. Disbursements are drawn and receipts are deposited to accounts managed by the Province.

(f) Use of Estimates

Preparation of the Board's financial statements in accordance with Canadian generally accounting principles requires management to make estimates and assumptions that affect amounts reported. Significant assumptions are required in the determination of the allowance for impaired loans. Actual results may differ from the amounts recorded in the financial statements and these differences may be material.

(g) 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 an change in fair value recorded in the statements of operations and the continuity of fund, respectively. All other financial instruments are measured at amortized cost using the effective interest method.

Financial instruments consist of loans receivable, interest receivable, applicants' funds on deposit, and amounts due to and from the Province of Nova Scotia. With the exception of loans receivable, which have been designated as loans and receivables, the Board's financial instruments are designated as held for trading. Transaction costs associated with issuing loans become part of the total outstanding loan balance. The Board holds all loans to maturity.

**NOVA SCOTIA
FISHERIES AND AQUACULTURE LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2009
(\$ Thousands)**

3. Adoption of New Accounting Pronouncements

Effective April 1, 2008, the Board adopted the Canadian Institute of Chartered Accountants' Handbook Section 3862, Financial Instruments - Disclosures; and Section 3863, Financial Instruments - Presentation.

Section 3862, Financial Instruments - Disclosures, describes the required disclosures related to the significance of financial instruments on the Board's financial position and performance and the nature and extent of risks arising for financial instruments to which the entity is exposed and how the entity manages those risks.

Section 3863, Financial Instruments - Presentation, established standards for presentation of financial instruments and non financial derivatives.

As required by the transition provisions, these new standards have been applied without restatement of prior period amounts. The required disclosures of Sections 3862 and 3863 are included in Notes 4 and 12.

4. Risk Management

Credit Risk

The risk that clients may not pay amounts owing on loans, 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 a cyclical industry, or other temporary difficulties, it is the Board's policy to work with clients on an individual basis to provide time for recovery. See Note 5 for additional loan information.

The total of loans not in default at March 31, 2009, is \$84,058 (2008 - \$88,989). 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 the fishing or aquaculture industries in Nova Scotia. Regulations provide that loan deposits shall be a minimum of 10% of the total loan. Collateral held for security is assigned a value by the vessel inspector considering known transactions of similar vessels and condition of the vessel based on an inspection.

The Board adjusts the allowance for impaired loans to recognize management's estimate of recoveries on impaired accounts. Impairment is primarily identified by review of arrears.

**NOVA SCOTIA
FISHERIES AND AQUACULTURE LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008
(\$ Thousands)**

4. 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.

5. Loans Receivable (net)

| | 2009 | 2008 |
|--|-------------|-------------|
| Principal due on fishery loans: | | |
| Performing loans | \$ 81,912 | \$ 87,893 |
| Impaired loans | 547 | 150 |
| Allowance for impaired fishery loans | (135) | (149) |
| Principal due on aquaculture loans: | | |
| Performing loans | 2,146 | 1,096 |
| Impaired loans | 3 | 3 |
| Allowance for impaired aquaculture loans | (3) | (3) |
| Net loans receivable | \$ 84,470 | \$ 88,990 |

Summarized below are anticipated repayments based on loan payment schedules and maturities. Values represent the book value of loan funds disbursed less principal repayments to date. The provision for loan impairment adjusts the value of loans to their anticipated recoverable amounts.

**NOVA SCOTIA
FISHERIES AND AQUACULTURE LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2009
(\$ Thousands)**

5. Loans Receivable (net) (continued)

| | 2009 | | | Total | 2008 Total |
|---|-----------|-----------|-------------------|------------------|------------------|
| | Year 1 | Years 2-5 | Beyond 5 Years | | |
| Total performing loans | \$ 10,449 | \$ 32,318 | \$ 41,291 | \$ 84,058 | \$ 88,989 |
| Weighted average interest rate | 7.12% | 7.07% | 6.83% | | |
| Add: principal receivable on impaired loans | | | | 550 | 153 |
| Total principal | | | | 84,608 | 89,142 |
| Less: allowance for loan impairment | | | | 138 | 152 |
| Net loans receivable | | | | <u>\$ 84,470</u> | <u>\$ 88,990</u> |

6. Allowance for Loan Impairment Continuity

| | Fisheries Loans | Aquaculture Loans | 2009 Total Loans | 2008 Total Loans |
|--------------------------------------|--------------------|----------------------|------------------------|------------------------|
| Allowance , beginning of year | \$ 149 | \$ 3 | \$ 152 | \$ 429 |
| Write-offs | - | - | - | (242) |
| Current year adjustment | (14) | - | (14) | (35) |
| Allowance , end of year | <u>\$ 135</u> | <u>\$ 3</u> | <u>\$ 138</u> | <u>\$ 152</u> |

The Board did not repossess any boats in 2008-2009, and did not recover any amounts previously written off.

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7. Due from Consolidated Fund of the Province

The portion of the Fisheries and Aquaculture Development Fund that has not been advanced as loans is maintained in the Consolidated Fund of the Province. The maximum amount disbursed in any given year is established through the annual budgeting process, which requires approval by government (Note 1). Deposits provided to the Board by loan applicants are also maintained in the Consolidated Fund. Financial commitments made by the Board reduce the amount of this account which is available for additional loans.

| | 2009 | 2008 |
|--|------------------|------------------|
| Board commitments (Note 8) | | |
| Loans authorized but unadvanced | \$ 1,221 | \$ 1,571 |
| Applicants' funds on deposit | 11 | 31 |
| Funds available for additional loans (Note 1) | <u>49,969</u> | <u>45,149</u> |
| Due from Consolidated Fund of the Province | <u>\$ 51,201</u> | <u>\$ 46,751</u> |

8. Commitments

Commitments include loans of \$1,221 (2008 - \$1,571) which were approved by the Board but not advanced by year end.

9. Interest Expense

Loans provided by the Board are funded through advances from the Consolidated Fund of the Province. Interest is charged to the Board for these advances on the assumption that the funds are borrowed by the Province to lend to the Board. Interest expense is calculated by the Board based on an estimate by the Department of Finance of the rate at which the Province could borrow funds over the next quarter. The Board does not prepare an annual budget for interest expense.

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10. Contributions and Surplus

Administration expenses of the Board ended March 31, 2009 totalling \$4,747 (2008 - \$4,766) were paid by the Department of Fisheries and Aquaculture on behalf of the Board. Interest expense on funds borrowed to make loans in an expense of the Department of Finance. Accordingly these expenses are included in Government Contributions in the Statement of Operations.

11. 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 Government of Nova Scotia and any unfunded liability, as well as other obligations related to post-retirement benefits, are the responsibility of the Province.

12. Related Party Transactions

The fair value of the Board's financial instruments, excluding loans receivable, approximates their carrying amounts due to their relatively short terms to maturity.

The fair value and book value, excluding any reserves, of loans receivable as at March 31, 2009 are \$83,889 and \$84,608 respectively.

13. Related Party Transactions

The Board is related to all other departments, agencies, boards, and commissions of the Province of Nova Scotia. The Consolidated Fund of the Province entities were entered into in the normal course of business.

Appendix 4

Statistical Information

| | Year Ending March 31, 2010 | Year Ending March 31, 2009 | Year Ending March 31, 2008 | Year Ending March 31, 2007 |
|--------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Lending Budget | \$45.0 m | \$20.0 m | \$20.0 m | \$20.0 m |
| Loans Advanced | \$35.9 m | \$7.2 m | \$15.9 m | \$16.5 m |
| Principal Payments | \$15.8 m | \$13.0 m | \$10.1 m | \$12.9 m |
| Interest Payments | \$6.2 m | \$6.1 m | \$5.9 m | \$5.8 m |
| Loans Receivable | \$95.0 m | \$84.6 m | \$90.1 m | \$83.3 m |
| Doubtful Accounts | \$.2 m | \$.2 m | \$.2 m | \$.6 m |
| Interest Expense | \$3.9 m | \$4.0 m | \$4.0 m | \$3.8 m |
| Writeoffs | \$ nil | \$25,286 | \$241,804 | \$250,777 |
| Fees Collected | \$224,334 | \$49,000 | \$117,222 | \$111,901 |
| Net Income | \$6.4 m | \$6.2 m | \$6.2 m | \$6.1 m |