

**NOVA SCOTIA FISHERIES AND
AQUACULTURE LOAN BOARD**

BUSINESS PLAN

2017 - 2018

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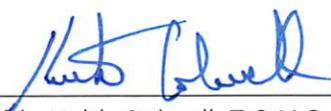
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Nova Scotia Fisheries and Aquaculture Loan Board Business Plan 2017-2018

Message from the Minister and the Board Chair

We are pleased to present the Nova Scotia Fisheries and Aquaculture Loan Board business plan for 2017-2018. The plan outlines the Board's goals and priorities for the coming year in line with its mission and mandate.

The primary focus of the Board continues to be the provision of fisheries and aquaculture financing to encourage, sustain, improve and develop the fishing and aquaculture industry in Nova Scotia.

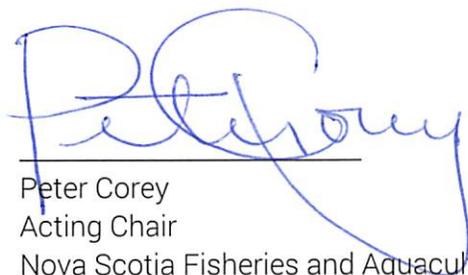


Honourable Keith Colwell, E.C.N.S.

Minister

Nova Scotia Department of Agriculture

Nova Scotia Department of Fisheries and Aquaculture



Peter Corey

Acting Chair

Nova Scotia Fisheries and Aquaculture Loan Board

Mission

The Nova Scotia Fisheries and Aquaculture Loan Board supports the development of fisheries and aquaculture businesses in Nova Scotia through responsible lending.

Vision

The Nova Scotia Fisheries and Aquaculture Loan Board (NSFALB) is a recognized leader in fisheries and aquaculture lending, creating opportunities in rural Nova Scotia through its market focus and service-orientation. The NSFALB adapts and responds along with the industry it serves to deliver competitive, relevant and meaningful products. Maintaining a balanced and diversified portfolio, and supporting industry succession and development while managing and taking calculated risks is fundamental to success.

Mandate

The mandate of the NSFALB is to support the fisheries and aquaculture industry through the provision of capital financing. The NSFALB operates as a Crown Corporation under the authority of the *Fisheries and Coastal Resources Act*. This Act provides authority to the NSFALB to make loans to, or guarantee loans of a borrower for any purpose which, in the opinion of the Governor in Council, will encourage, sustain, improve or develop the fishing industry in the Province. Regulations made under the Act govern the terms and conditions of loans provided by the NSFALB.

Operations

The NSFALB is a fisheries and aquaculture development agency, acting to build a financially stable and sustainable fisheries base in Nova Scotia since 1936. It supports fisheries and aquaculture and rural business development by providing short, medium and long term capital with competitive, fixed rates of interest. The NSFALB has developed several products designed to serve specific lending needs. These include: loans for licenses; new vessel construction loans; used vessel purchase loans; aquaculture loans; and; loans for shore-based infrastructure and operations.

The position of Director of Crown Agencies was established in 2012 to work cooperatively with the two departmental lending agencies and their respective Boards of Directors. The Director acts as the Chief Executive Officer for both Boards. This new organizational structure has resulted in a great deal of harmonization between the two Board's. Crown Agency Managers report directly to the Director of Crown Agencies. The Director of Crown Agencies is responsible for the operations of both the Nova Scotia Fisheries and Aquaculture Loan Board and the Nova Scotia Farm Loan Board. The Director of Crown Agencies reports to the Deputy Minister of Agriculture and is also responsible to the Minister of Agriculture, and Fisheries and Aquaculture.

Staff that support the NSFALB are primarily trained in fisheries and aquaculture lending and know these sectors very well. Many maintain in-depth knowledge of fisheries and aquaculture businesses and are well-equipped to understand the inner-workings of fisheries and aquaculture finance. The NSFALB staff are committed to the industry and are interested in serving their client base effectively, with the right product at the right time. Staff are part of the larger Department of Agriculture and maintain very close connection with the Department of Fisheries and Aquaculture and thus can access many additional resources.

Capital can be acquired for both short and long-term developments, utilizing fixed-rate loans. Term loans of five and ten years with fixed rates are available for short to medium length developments. Long term financing with a maximum of 20-year amortization and an accompanying fixed rate of interest are available for several loan types, including new vessel construction and license purchases. The maximum amortization of some other types of loans is dependent on the working life of the asset as determined by the NSFALB.

Portfolio Management

The developmental nature of the NSFALB means that, in practical terms, the Board is willing to take on more credit risk than a traditional bank. The result of this is that the board carries larger arrears than would be acceptable to a mainstream, institutional lending organization. To better manage this risk and provide greater certainty around collection, more emphasis has been placed on credit assessment, risk assessment, and special credit roles.

The role of Finance Manager is to maintain the integrity of the accounting as it relates to the entire portfolio. This broad definition includes: loan bookings and disbursements; posting of payments; receipting of payments and maintaining accurate, balanced records; tracking of term maturities; changes in interest rates as the provincial borrowing rates change; development of an accurate provision for arrears accounts and working with external auditors to develop annual financial statements. To cover all the above responsibilities and those not specifically referenced, the Finance Manager has a staff with strong skill sets in accounting procedures.

The role of Credit Manager is critical to supervision of solid lending practices carried out by the Loans Officer. The Credit Manager helps the Loan Officers structure an effective application. The Credit Manager must ensure that the deal is both good for the client and the Board. The Credit Manager will typically be looking for potential policy breaches especially as it relates to applicable interest rates and to security required to provide a back door exit for the Board in the event of default. The position requires the ability to coach and mentor less experienced Loans Officers in good lending practices.

The role of the Risk Manager is to provide adjudication to assess the risk presented with a given credit application. The Risk Manager may assign conditions under which a loan will be made to better protect the investment. Authorization limits at the Loan Officer and Senior Loan Officer level have been removed and authorization limits are restricted to the Board; the Director; Credit Manager and Senior Risk Manager.

The role of the special credit staff is to provide focused special credit activities with the objective of re-establishing the fishery or aquaculture business to a regular payment regime; or coming to an agreeable resolution to the arrears problem that works for all parties concerned. The role of special credit staff is to actively manage the arrears/default portion of the loan portfolio so that the Board is protected from unwarranted losses to as great an extent as possible.

Alignment with the Provincial Economy

The NSFALB forms a critical link in the capitalization of rural Nova Scotia businesses with an investment of \$100 million in Nova Scotia fisheries and aquaculture businesses. The capital is used to: buy or construct fishing vessels; purchase commercial fishing licenses; purchase aquaculture equipment and seed stock; modify or upgrade commercial fishing vessels; and adopt new fisheries or aquaculture equipment or technology.

These investments make Nova Scotia a better and more productive place to harvest, grow or process fish as well as provide opportunities for Nova Scotians to purchase local seafood. These investments support a great deal of related industries including: building and materials suppliers; boat builders; marine brokers; and provide a very significant spin-off impact through the entire Nova Scotia economy.

The Nova Scotia Department of Fisheries and Aquaculture has identified five strategic themes:

Enabling Responsible Economic Growth: As discussed above, the NSFALB has a positive and significant impact on the rural economy of Nova Scotia. The staff that support the NSFALB and its Board Directors are very aware of the responsibility they have as stewards of this provincial investment. When it makes good business sense the NSFALB will partner with other lenders to allocate risk and complete a deal. Portfolio management is critical and is top of mind.

Supporting Research and Innovation: The NSFALB supports innovative fisheries and aquaculture businesses in their quest to extract value from new fisheries and species and in the adoption of new technologies.

Building Public Trust and Market Acceptance: The NSFALB disburses more than \$20 million annually. These funds are used to improve seafood production, to improve processes and in general improve the quality of seafood available to local consumers. Much of this money is used to construct and improve fishing vessels or aquaculture operations to maintain or enhance the quality of the seafood produced. Significant investment in primary production ensures that the highest quality possible seafood is grown and harvested, ensuring premium quality products are generated from Nova Scotia resources.

Increasing Trade and Market Access: Fish and seafood is currently Nova Scotia's largest export. In 2016, Nova Scotia exported \$1.81 billion of fish and seafood. Lobster, crab, scallop and shrimp were the largest fish exports in 2016 valued at \$953 million, \$225 million, \$141 million and \$113 million, respectively. The NSFALB has made significant investments in many of these sectors and, in particular the lobster sector, whose exports increased by over \$564 million from 2007 to

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2016. The board also supports the province's fisheries and aquaculture sector as they diversify their markets and leverage the negotiation of trade agreements in key regions. The board also supports the province's fisheries and aquaculture sector as they diversify their markets and leverage the negotiation of trade agreements in key regions.

Encouraging Value Added Opportunities: The NSFALB recently expanded eligibility to include shore-based infrastructure and operations. This will allow the fisheries and aquaculture industry to increase the value of the products it provides while ensuring the sustainable and responsible use of the related resources. Risks can be higher for value added operations, but so are the economic impacts. This expanded eligibility will provide further support to clients when taking on value added opportunities with good business potential.

Review is underway to update the Board's regulatory and policy framework to enhance Board effectiveness in addressing industry changes; improve service quality; develop innovative and creative programs and financing solutions; and alleviate undue risk to Board investments.

Budget Context

NOVA SCOTIA FISHERIES AND AQUACULTURE LOAN BOARD OPERATIONAL INCOME STATEMENT

Description	2016-2017 Estimate (\$000)	2016-2017 Forecast (\$000)	2017-2018 Estimate (\$000)
Interest revenue	7,500	6,400	6,500
Loan fees	164	226	204
Total revenue	7,664	6,626	6,704
Interest expense	4,900	4,300	4,300
Operating expenses	838	706	692
Bad debt expense	78	1,382	78
Total Expenses	5,816	6,388	5,070
Net income (loss)	1,848	238	1,634
Transferred to the province	(1,848)	(238)	(1,634)
Remaining	0	0	0

Notes:

See year-end annual reports for complete financial information and notes (<http://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.

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Capital Funds

Description	2016-2017 Estimate (\$000)	2016-2017 Forecast (\$000)	2017-2018 Estimate (\$000)
Opening principal	102,482	103,915	103,915
Add loan advances	30,000	26,000	35,000
Less repayments	(25,000)	(27,000)	(25,000)
Less principal written off	(1,000)	(631)	(2,000)
Closing principal	106,482	102,284	111,915
Provision for impaired accounts			
Opening provision	1,685	1,438	2,393
Less accounts written off	(1)	(631)	(2,000)
Additions (principal portion of bad debt expense +/- adjustments)	78	1,586	78
Closing allowance	1,762	2,393	471
Net portfolio at year end	104,720	99,891	109,777

Outcomes and Past Performance Measurements

Outcome	Measure Rationale	Data	Targets 2017-18	Ultimate Target	Strategic Priorities to Address
<p>Growth in the rural economy</p>	<p>Total new funds advanced during the year (in millions) [As a measure of new economic activity]</p>	<p>2005-2006: 14 2012-2013:16 2013-2014:18 2014-2015: 25 2015-2016: 21 2016-2017: 26</p>	<p>Increase annual advances</p>	<p>Increase annual advances over previous year</p>	<p>Be more flexible and responsive to industry needs</p> <p>Enhance service orientation and market focus</p> <p>Provide more relevant and meaningful products</p> <p>Be more competitive</p> <p>Support industry succession and development</p> <p>Manage and take calculated risks</p> <p>Increase Awareness and Profile Create a balanced and diversified portfolio</p>

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<p>Increase the number and success of participants in the fisheries and aquaculture sectors</p>	<p>Average age of loan applicants</p> <p>2014-2015: 44 2015-2016: 42 2016-2017: 38 (forecast)</p> <p>% (by #) of loan applicants aged 19-35</p> <p>2015-2016: 5% 2016-2017: 4%</p> <p>% (by #) of applicants applying as new entrants or new species</p> <p>2014-2015: 44 2015-2016: 14 2016-2017: 20 (forecast)</p>	<p>2014-2015: 44 2015-2016: 42 2016-2017: 38 (forecast)</p> <p>2015-2016: 5% 2016-2017: 4%</p> <p>2014-2015: 44 2015-2016: 14 2016-2017: 20 (forecast)</p>	<p>Maintain below 45</p> <p>Increase % of applications annually from this cohort</p> <p>Increase the number of new entrants who successfully qualify for loan board financing</p>	<p>Facilitate business and industry succession</p>	<p>Enhance service orientation and market focus</p> <p>Support industry succession and development</p> <p>Manage and take calculated risks</p> <p>Increase awareness and profile</p>
<p>Increase in stable, successful clients</p>	<p>Percentage of accounts in arrears</p> <p>[As an indication of client strength]</p>	<p>2005-06: 1.3 2012-13: 3.7 2013-2014: 4.1 2014-2015: 2.7 2015-2016: 3.0 2016-2017: 2.5</p>	<p>Maintain at less than 3.0%</p>	<p>Less than 3.0%</p>	<p>Create a balanced and diversified portfolio</p> <p>Manage and take calculated risk</p>