NACCA

FISCAL 2008

ABORIGINAL FINANCIAL INSTITUTIONS

"A Billion Dollar Payback"

Prepared by: Kevin Schindelka
Director Corporate Development

"A Billion Dollar Payback"

Executive Summary

History of Aboriginal Financial Institutions (AFIs)

Aboriginal Financial Institutions (AFIs) were formed by Federal Government and Aboriginal leaders in the 1980s and 1990s under the CAEDS strategy, to respond to barriers associated with Aboriginal small business entry into the Canadian economy. Barriers recognized by the CAEDS strategy included without limitation; Indian Act restrictions on the use of property which deprived Aboriginal people from using real property to leverage equity; limited business skills and management experience; remoteness from mainstream Financial Institutions (FIs), and limited FI risk tolerance levels imposed by regulatory authorities.

The original INAC/ABC capital investment of $167 million, coupled with the Regional Agencies investment of approximately $20 million in the AFI network, was at the time viewed by many government and Aboriginal leaders as simply another five year program. Today, twenty some years later, there are a total of 59 independent Aboriginal owned and controlled AFIs. The combined AFI asset base is now $366 million. AFIs remain committed to the development of Aboriginal businesses and entrepreneurs, including the provision of developmental loans essentially unobtainable from mainstream lenders. In light of federal financial restraints prevalent during the period from 1994 to 1999 government support for AFIs came into question from an AFI perspective. The consolidated AFI gross loan portfolio (GLP) hovered slightly above the $100 million mark during this era. In 1996 the Paquin Rice report commissioned by INAC recognized AFIs "have developed a know-how not shared by their conventional lender counterparts." Many AFIs at the time felt the Paquin Rice paper represented a significant turning point in terms of government support for AFIs.

For further background details a summary of significant AFI network milestones and events is provided in appendix "H."

The AFI Track Record

The Indian Economic Development Fund (IEDF) was the last Aboriginal small business loan program administered by government before AFI formation. In IEDF's last year it provided total loans of $6 million. Over the life of IEDF programming it reflected average write offs of 25% in relation to loans provided.

In contrast AFIs are providing in the range of $80 million to $90 million in loans each year. Historical AFI write offs are 6.29%. Since inception AFIs have provided in excess of 32,000 loans totaling more than $1.3 billion. The operational success of AFIs is largely attributable to the high degree of autonomy afforded AFIs which in turn encompasses a built in ownership driven repayment incentive not duplicable by government or any other external third party. In 2008 repayment of AFI loans surpassed the $1 billion mark. The average AFI repayment efficiency is 76.80% including the outstanding gross loan portfolio. The third party Don Allen study relating to the five year success rate study for AFI supported business is 58% compared to the Canadian norm of 33. AFIs have therefore proven to be an extremely efficient community based, low cost job creation mechanism, possessing a unique national cohesion.

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Continued federal support for AFIs was evidenced in 2000 by way of Access to Capital (ATC) programming and capital top ups for AFIs that were loaned out. In the eight subsequent years the consolidated AFI GLP has grown to $225 million – a net increase of 103%. An estimated 3,500 Aboriginal businesses now have in the range of 4,500 active loans with AFIs at any given time.

2007-08 AFI Network Highlights

- AFIs provided 483 new loans to startup businesses aggregating $25.7 million creating an estimated 370 new Aboriginal owned businesses generating 780 new jobs
- AFIs provided 549 new loans aggregating $51.0 million ($26.2 million by comparable[1] AFIs) to existing businesses to expand
- AFIs provided an overall total of 1,170 loans aggregating $86.8 million including $10.1 million of refinancing
- Consolidated AFI repayable and contributed loan capital reached $221.6 million in 2008
- Consolidated AFI GLP is comprised of 4,477 loans aggregating $225.2 million in 2008
- Consolidated AFI assets reached $366 million in 2008 (refer Appendix "A" for detailed breakdown)
- For the past seven years the consolidated AFI GLP exceeded repayable and contributed loan capital provided by government
- Average AFI loan amount increased to $50,308
- Average AFI interest yield decreased to 7.05%
- Consolidated AFI operating loss was ($372k) after loan loss provisions of $7.2 million (refer Appendix "B" for details).
- 45% of AFIs (29% 2007) have loan capital liquidity levels of 15% or less in relation to their GLPs
- A total of 39 AFIs provided leverage data in 2009 evidencing total leverage of $28 million ($12 million client equity, $9 million government programming, $4 million conventional lenders and $3 million from other AFIs)
- In some cases inadequate AFI capital levels resulted in curtailment of lending activities e.g. reduced maximum loan limits, limited marketing activities, and in other instances a conscious shift toward lower risk loans
- In 2008 a total of 61AFI employees took the formal training course "Evaluating a Business Plan."
- At the Feb 2009 AFI General Managers meeting the 40 General Managers in attendance prioritized AFI training modules "Analyzing a Business Plan,' "Financial Management," and "Strategic Planning."
- As of March 31, 2008 24 AFIs have a liquidity level of less than 15% of their gross loan portfolios (16 ACCs, 4 North of 60 AFIs, 3 Regional Agency AFIs and 1 other AFI)

State of the AFI Network March 31, 2008

The most significant off balance sheet asset AFIs have is people; Management, staff, Board members, and the existing and potential client base, refer to appendix "D" for AFI staffing details.

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[1] Excludes Arctic Development Co-op

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The most significant balance sheet asset held by AFIs is their GLP at $225 million. In 2008 a total of 30 AFIs provided data enabling a contractual delinquency calculation revealing 74% of their portfolio is up to date, 1-30 day arrears are 3%, 31-60 day arrears are 2%, 61-90 day arrears are 2%, 91-120 day arrears are 11% and over 120 day arrears are 8%. In other words The 30 AFIs reported $26.8 million in loans over 90 days in arrears and a portfolio at risk totaling $33.1 million. The corresponding loan loss reserve for the same 30 AFIs at $19.5 million provides risk coverage of 58.9% indicating the 30 AFIs (53% of the AFI network) expect 41.1% of the portfolio at risk will be recovered from realization on security.

Sufficient data also existed to apply recently developed INAC performance measurements to 37 separate AFIs revealing 2% as “A” performers, 22% “B” performers, 41% “C” (average) performers and 35% as “D” performers.

The AFI cost of developmental lending (CODL) was 25.84% in 2008. CODL has averaged 27.94% over the most recent five year period. In 2008 the collective total AFI loan related income (includes recoveries and fees) yield on the GLP was 8.97% averaging 9.68% over the most recent five year period. It is apparent the original AFI model is unsustainable e.g. 12% yield, 6% operating costs and 5% write offs = a 1% profit. AFIs are unable to self generate new capital and inflation continues to take its toll, threatening the medium term survival of many AFIs. AFIs are therefore left with limited alternatives in terms of preserving loan capital; either raise yields to the 25% range, decrease risk to match overall yield, seek capital top ups which have (when available) been distributed to select AFIs, or seek activity based risk compensation programming of 17% - 18%, accessible by all AFIs, as agreed with ABC/INAC some years ago via Risk Premium Offset (RPO) programming. The on again, off again, RPO program has done little to engender goodwill among AFIs. It perhaps inadvertently conveys a message of fragmented government policies and may further indicate government does not place the establishment of a viable AFI financial model sufficiently high on its priority list, thereby alienating many AFIs. Consequently, although the AFI network presents an unparalleled opportunity to cost effectively and efficiently devolve additional federal programming on a selective basis, devolution of federal programming is not universally attractive to AFIs.

In the continued absence of RPO or similar positive incentive based programming, particularly in light of current strains prevalent in the economy, the importance of RPO cannot be overstated, nor can the need for enhanced business service support for AFI clients. AFIs are well aware of their needs, as well as those of their clients however, AFIs are unable to generate adequate revenue to meet those needs independently at this time.

The second most significant asset held by AFIs is cash. The consolidated AFI cash of $104 million is comprised of cash from a wide variety of sources including programming and project cash. Consequently a large portion is unavailable to fund loans. Government loan capital contributions and repayable capital provided to AFIs (ACFs and ACCs) totaled $220 million as of March 31, 2008 ($40 million ACFs and $180 million ACCs). The corresponding gross loan portfolio for the same AFIs totaled $203 million as of March 31, 2008. The combined ACF and ACC net unexpended government loan capital position is therefore $17 million ($13 million ACFs and $4 million ACCs). Further analysis reveals on an individual AFI basis a growing number of AFIs are encountering loan capital constraints while a relatively few AFIs are in a very strong available loan capital position.

New Developments Underway

Representatives of AFIs, namely General Managers or in a few cases designates, regularly form AFI working groups to develop innovate solutions to many of the challenges AFIs need to meet. In broad terms each of the working groups assist all AFIs, as virtually all of the projects undertaken seek to build AFI capacity in one form or another. Projects currently under development by AFI GM working groups are briefly described below.

The Enhanced Business Service Officer (BSO Services project will assist AFIs and government by updating the 2005 AFI Time Study to better quantify AFI BSO support requirements, develop a BSO checklist and a reference manual for new BSOs.

The Increasing AFI Loan Capitalization project will assist AFIs and stakeholders by developing a loan capital forecasting tool to enable AFIs and INAC to more effectively plan for required loan capitalization needs on a longer term basis. Private sector capital sources will also be identified with corresponding terms and conditions generally described.

The AFI Performance Measures and Benchmarking project will seek to develop a “dashboard” reference of 36 AFI performance measures for internal AFI use by General Managers and Boards.

The Fishing Sector project will identify critical and cost effective support services for AFIs engaged in provision of support to the fishing industry. Operational issues arising out of DFO and Integrated Fisheries Initiatives will be reviewed and appropriate support services for fishery clients will be identified.

The AFI Regional Communications Strategy will explore the needs, methodologies, and advantages of regional based communications strategies in addition to individual AFI communications strategies already in place.

The Specific Best Practices and Critical Standard Definitions project will focus on identifying key critical standard definitions and specific best practices relating to loan portfolio management, resulting in an increased level of synchronization in terms of audited financial statement reporting.

Continued Developments

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The Risk Premium Offset (RPO) project is arguably the most important development in the history of AFIs. The five year rolling average cost of developmental lending for all AFIs is 27.94%. The five year rolling average AFI yield for all AFIs is 8.18%. The shortfall is therefore 19.76%. The on again off again RPO programming, indicated as coming in "September" during at least two General Managers meetings and at least one NACCA AGM is urgently needed to cover the shortfall.

The Regional AFI Loan Syndication Pool (LSP) project will considerably strengthen the AFI network by:

- facilitating placement of larger debt offerings than currently possible by individual AFIs;
- enhancing the overall risk management profile of the AFI network;
- leveraging private sector capital;
- facilitating knowledge transfer between AFIs and the private sector;
- enhancing the capacity of the existing AFI infrastructure;
- Synergizing regional AFI LSPs with other existing and contemplated AFI initiatives.

NACCA Board Identified AFI Priorities

1. Implementation of Risk Premium Offset programming for **all** AFIs
2. Implementation of a quantifiable BSO support program for **all** AFIs demonstrating a need
3. Implementation of regional loan syndication pools for AFI clients requiring debt capital beyond individual AFI capacity

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Section I the AFI Network

The AFI network provides direct employment for 340 to 375 people. A full 60% of AFI employees are of Aboriginal descent. The Network is comprised of 59 AFIs (57 lending AFIs and 2 business support service AFIs) located in every Province and Territory in Canada. A total of 56 (54 lending and 2 business support service) AFIs provided audited financial statements and 39 supporting data sheets were gathered to produce this report. Supporting data sheets include information often not provided in audited financial statements e.g. loan advance, aged portfolio, leverage, and staffing particulars.

Current Provincial and Territorial AFI representation is as follows:

YK	NT	NU	BC	AB	Sask	Man	Ont	PQ	Atlantic
1	7	5	12	5	6	8	9	5	1

AFIs deliver a complex array of Aboriginal business and community development products and support services, inclusive of small business loans to Aboriginal businesses engaged in all sectors of the Canadian economy. Collectively AFIs comprise an Aboriginal financial infrastructure which, with the assistance of the ATC initiative and in particular the Enhanced Access program, spans the entire Country.

The AFI Model

The first AFIs commenced small business loan and support service transactions in 1986. The original self sustaining AFI model in 1986, when the central bank rate was in the 8% to 9% range, was premised on a yield of 12%, operating costs of 6% and loan losses of 5% resulting in a CODL of 11%, generating an annual net profit of 1% to allow for growth. It was assumed the average AFI with a $5 million capital base would be self sufficient.

The central bank rate is now 0.05%. AFI yield achieved in 2008 was 7.05%. The cost of developmental lending (CODL) in 2008 was 25.84%. The five year rolling average CODL stands at 27.94%. The average annualized inflation rate since AFI inception is 2.49% rendering the $5 million capital base inadequate in terms of self sufficiency – unless fundamental changes are implemented. Inflation has reduced the AFI's ability to provide financing for $5million in assets to $3,794,500. Clearly, the original AFI model is fundamentally flawed.

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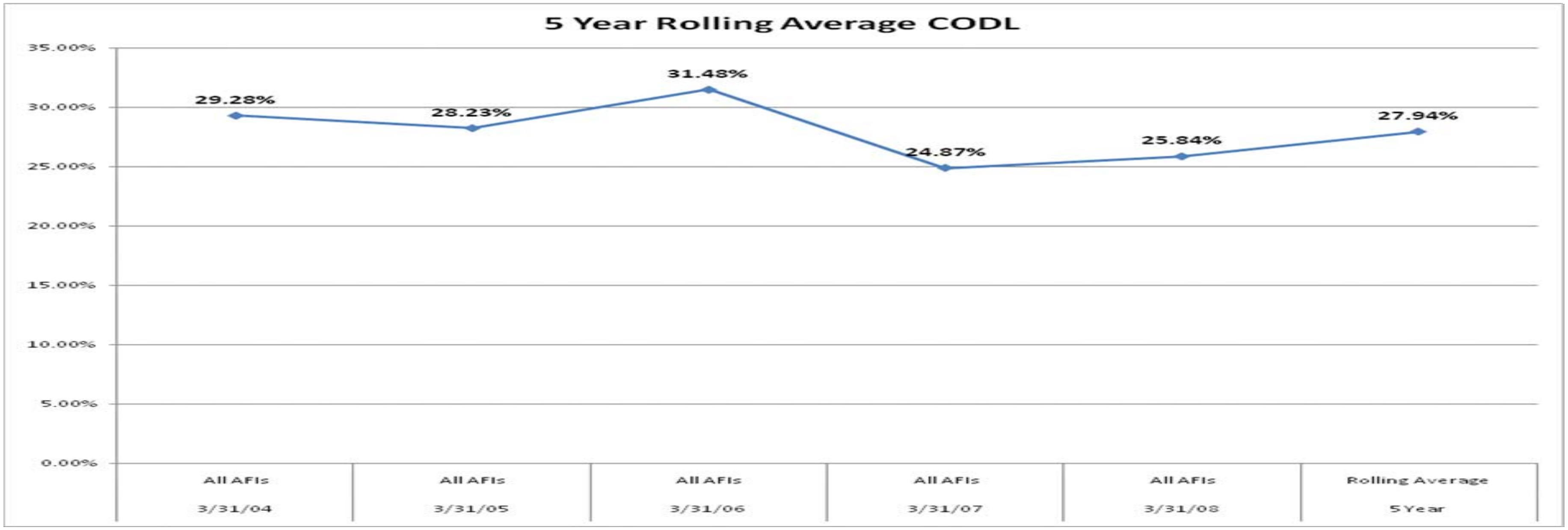


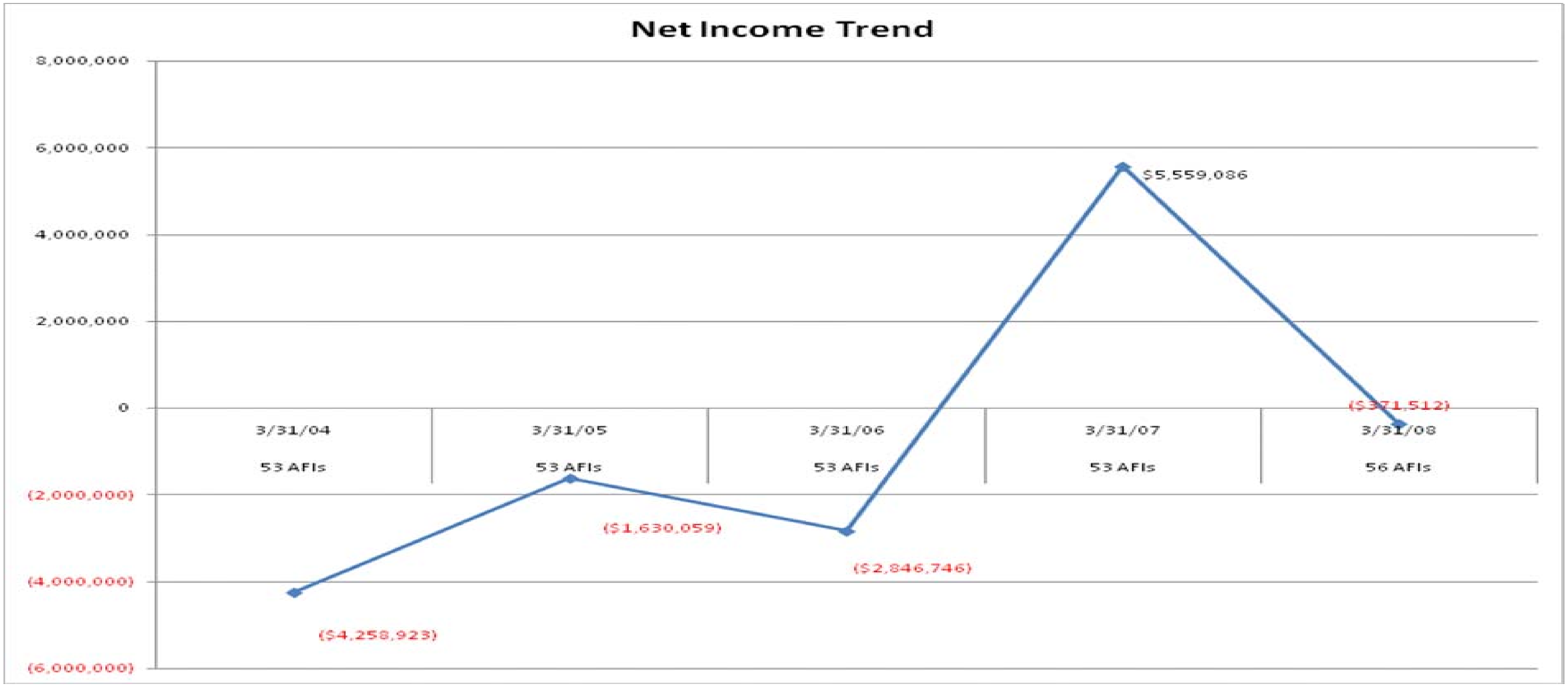
AFIs were created specifically to engage in the provision of high risk loans which do not fall within the risk parameters of conventional lenders however; AFIs are left with relatively few stark choices:

1. Status quo – until losses erode loan capital bases and business ceases
2. Increase interest rates to the 25% range to cover lending costs
3. Reduce the level of risk (lending or operating costs) until marketable rates adequately cover costs
4. Receive financial support in the range of 17.5% which combined with a yield in the 7% to 8% range would cover costs
5. A combination of 2, 3, or 4 above

The underlying purpose of establishing AFIs to improve efficiencies in program design and delivery through increased Aboriginal control have proven to be very worthwhile. AFI principal loan repayments have now surpassed the $1 billion mark, and the Aboriginal business success rate of 58% (versus the Canadian norm of 33%) after five years in business, are clear indicators that program design, delivery and efficiencies are sound.

Notwithstanding the 58% success rate of AFI clients, the combined effects of providing high risk loans and the flawed AFI business model has resulted in financially unsustainable AFIs. In recognition of the high costs of developmental lending, an activity based Risk Premium Offset (RPO) initiative was developed some years ago which will, if/when rolled out, enable AFIs to significantly close the gap on developmental lending revenues and costs, without the need to raise interest rates charged on loans in order to cover costs, or reduce risk tolerance levels to contain costs within current market pricing limits.

Collective AFI financial losses, which in effect erode AFI loan capital, have been incurred in four of the last five years.



Note: the 2007 spike in net income appears largely attributable to increased interest earnings coupled with a concurrent reduction in the provisions for loss expense. If 2007 provisions for loss were restated at a year rolling average a loss would be evident for 2007.

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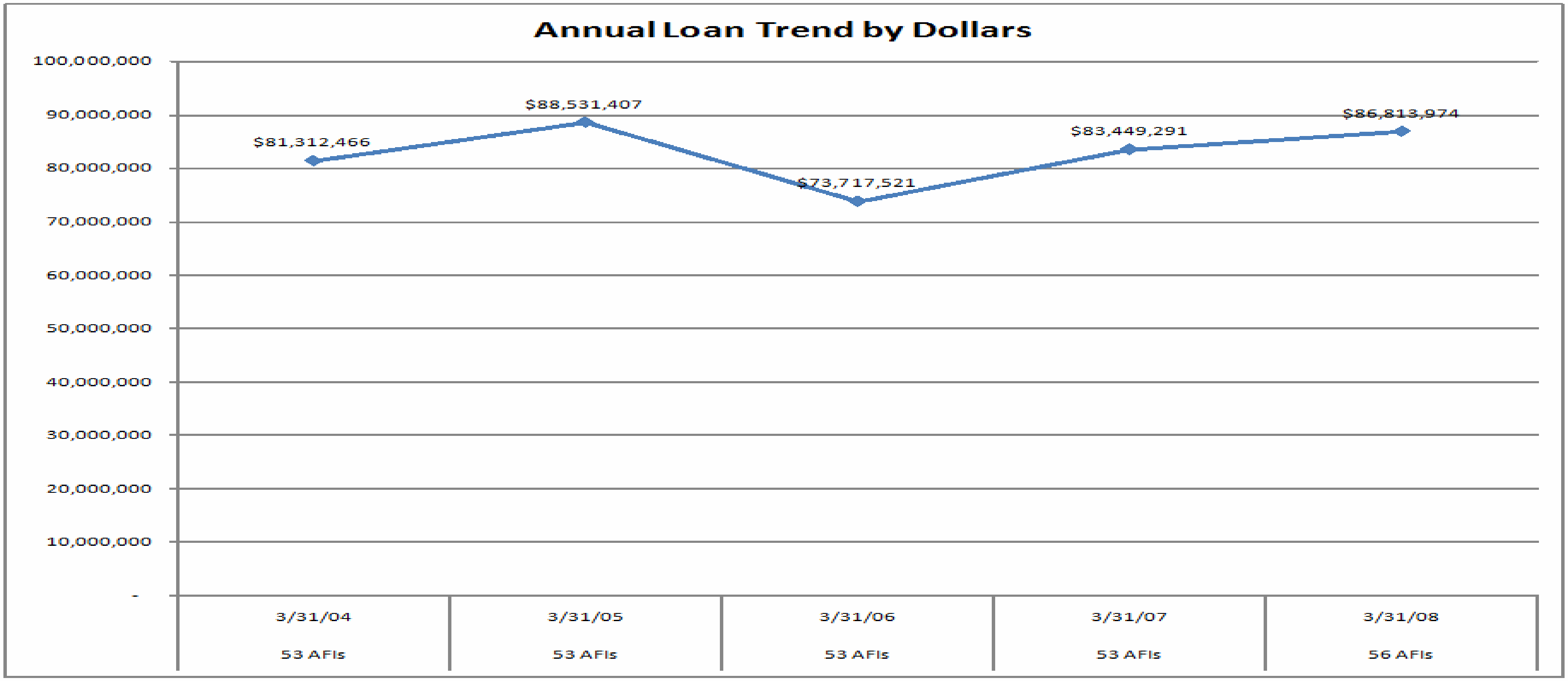
The AFI Network Lending and Loan Portfolio

The chart below reflects the most recent five years of historical annual loan disbursements.



In the last 10 years AFIs provided loans totaling $712 million. As of March 31, 2008 AFI cumulative AFI loans surpassed $1.3 billion.

The collective AFI GLP as of March 31, 2008 was comprised of 4,477 loans aggregating a record $225 million, a $110 million or 96% GLP increase over the last ten year period.

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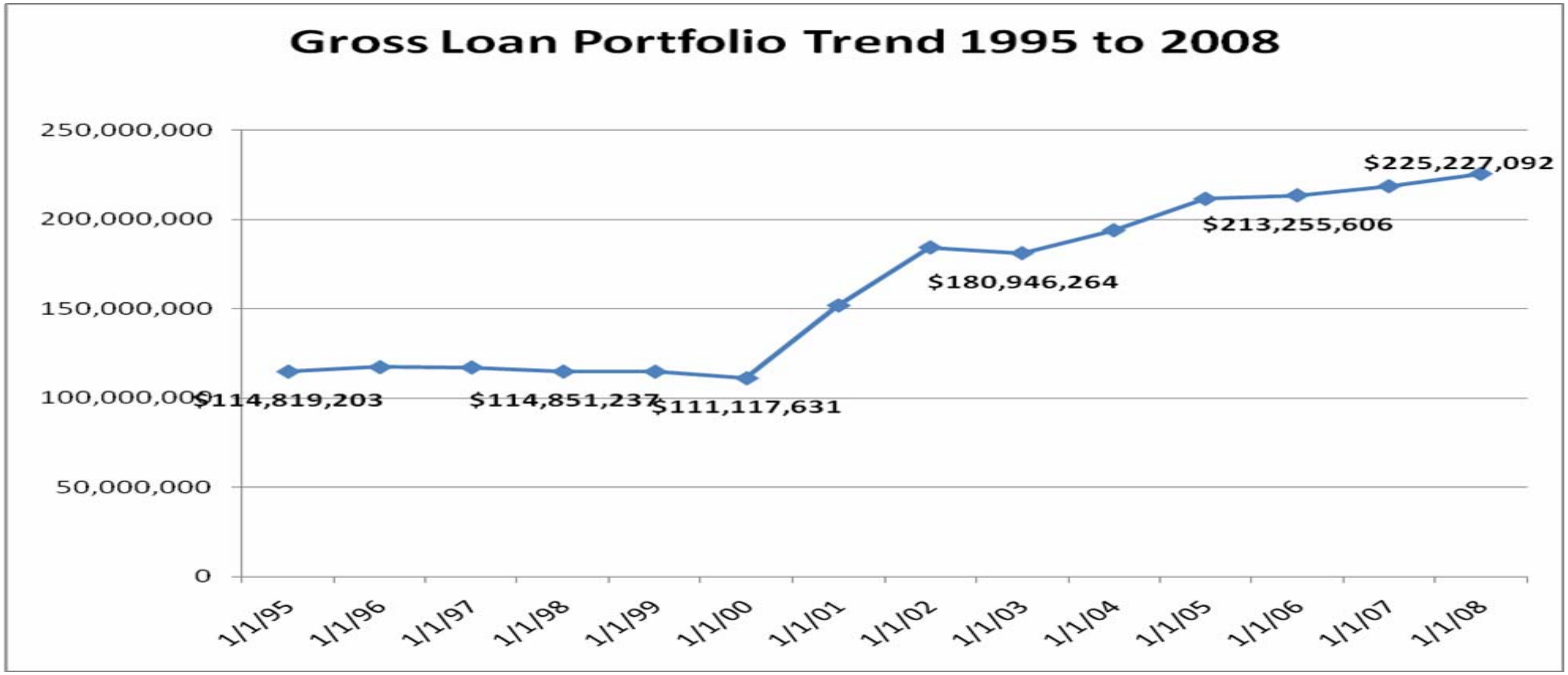

It is to be noted the GLP declined slightly from 1995-96 to 1999-00 in conjunction with uncertainty associated with continued government support for AFIs. However, the GLP escalated sharply from 2000-01 to 2006-08 in concert with the roll out of government's Access to Capital (ATC) programming. The slight dip in the GLP evident in 2002-03 may be attributable to AFI uncertainty with respect to the renewal of the ATC initiative. GLP growth commencing in 2000 appears to be clear evidence growth acceleration coincided closely with well planned consultative initiatives driven by AFIs such as accessing private capital by way of Access to Capital programming.

In 2008, 29 of the 39 AFIs that provided supplemental data sheets also provided data resulting in an ability to produce a consolidated contractual delinquency picture of their corresponding loan portfolio. The pie chart immediately below reflects the consolidated contractual delinquency picture.

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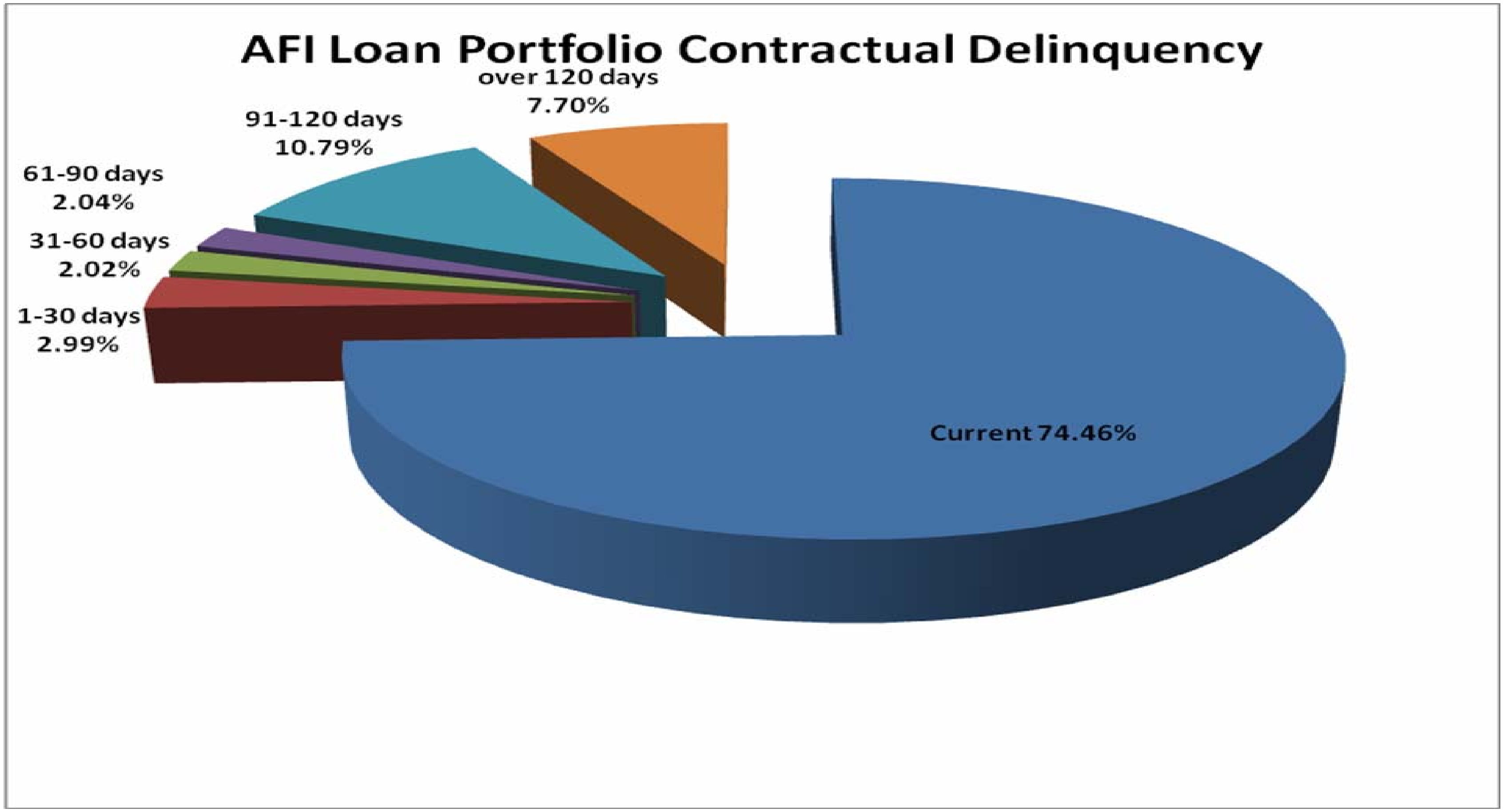

In recent years the collective AFI GLP has exceeded the level of loan capitalization (both contributed and repayable) government has provided to AFIs. Through introduction of the ATC initiative, AFI confidence levels were boosted and some AFIs were motivated to convert idle cash into loans while other AFIs with depleted cash levels were able to attract nominal amounts of private sector capital utilizing the Interest Rate Buy-down (IRB) element. A few other AFIs also attracted small amounts of loan capital from unconventional sources such as Tribal Councils and Métis Settlements.

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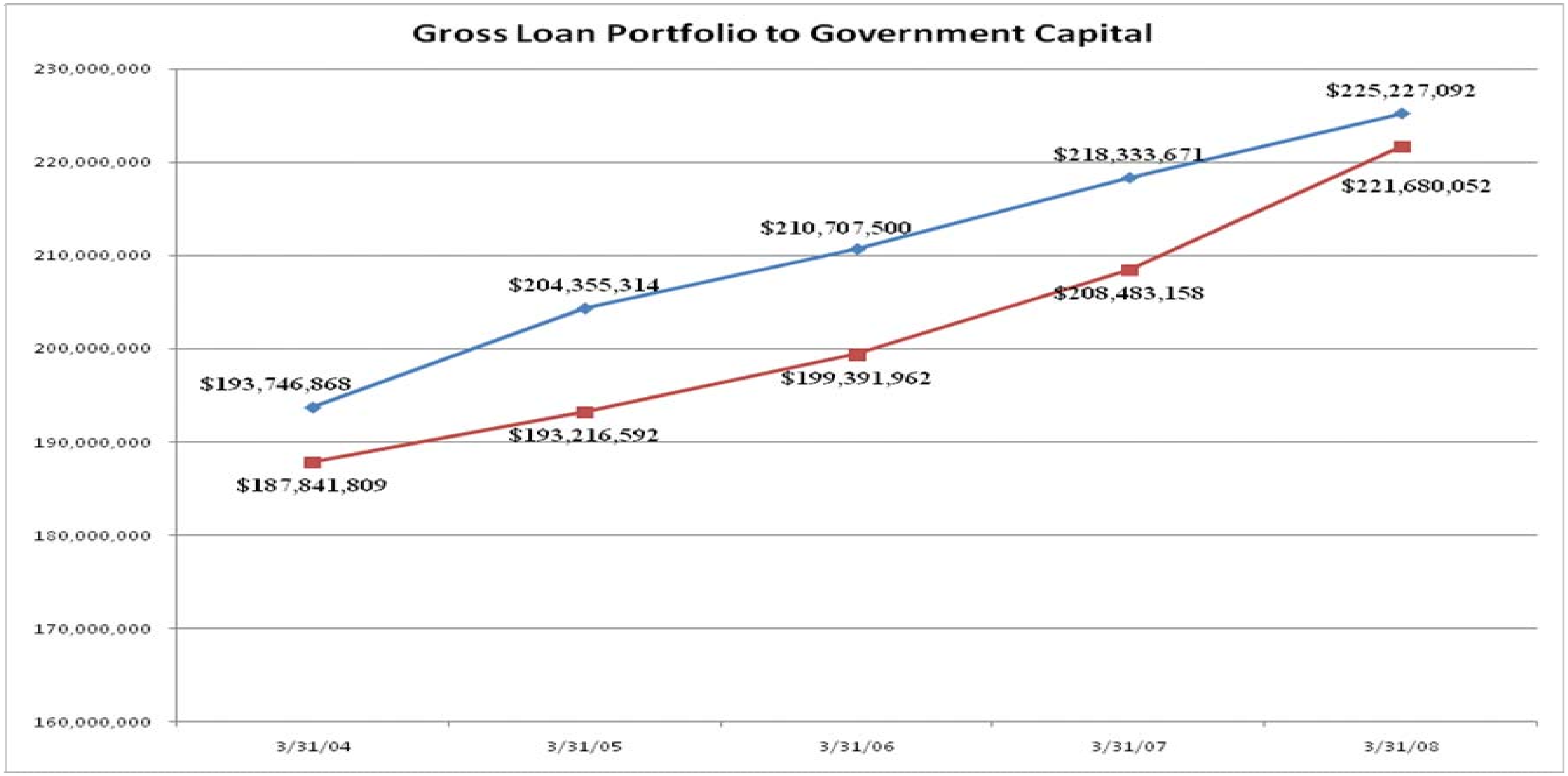

The gap between collective contributed and repayable capital and the collective GLP narrowed slightly in 2008. Possibly a harbinger conventional credit tightening since March 31, 2008 may result in greater reluctance for conventional lenders to extend IRB supported credit lines to some AFIs, further exacerbating the loan capital squeeze. It is also to be recognized IRB was introduced as part of ATC programming as a temporary band-aid solution to inadequate AFI capitalization.

The Government loan capital investment of $222 million in AFIs has facilitated the provision of $1.3 billion loans, an existing loan portfolio of $225 million and a nationwide network now providing in the range of $90 million loans per year (refer appendix "C" for detailed consolidated loan statistics).

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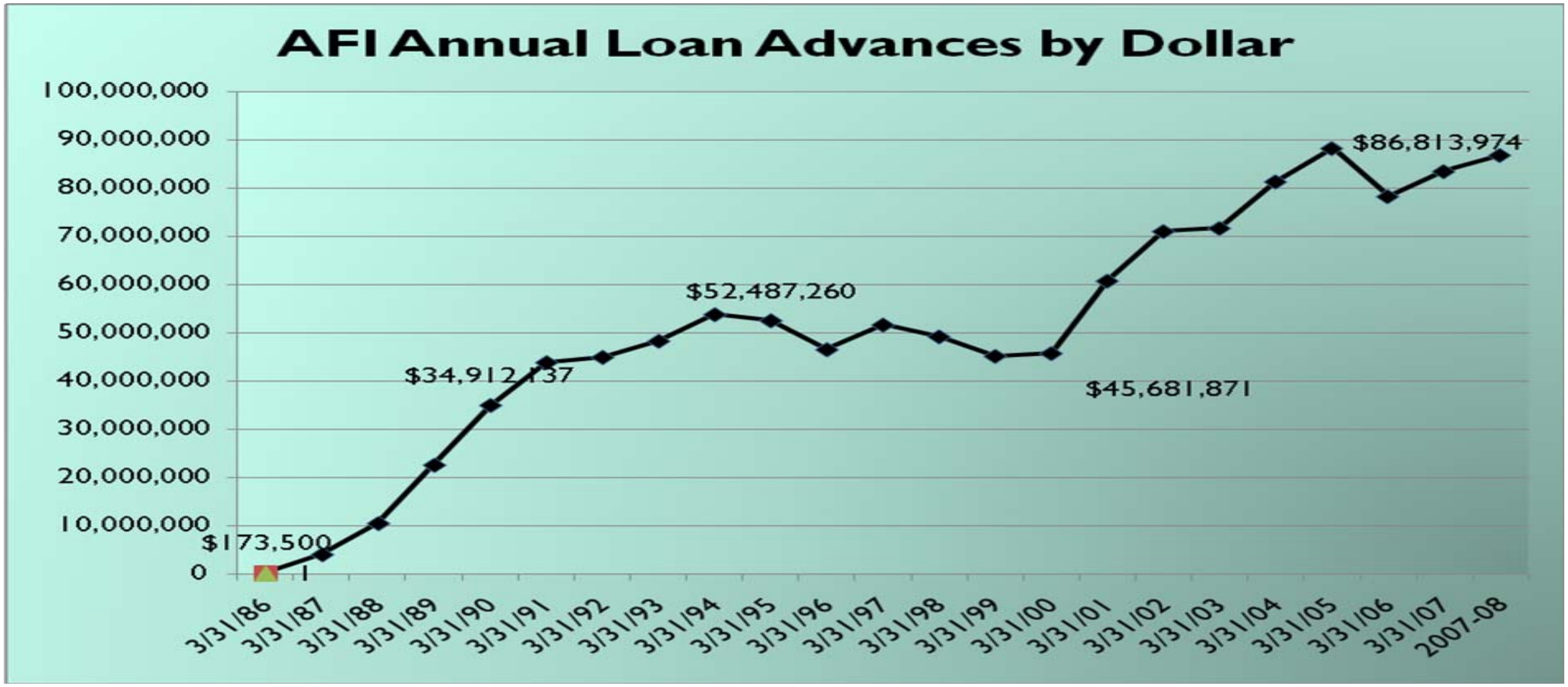

A 2005 NACCA survey revealed the average AFI client had 1.3 loans. Based on this finding and in light of the number of loans AFIs advance each year it would appear nearly 500 Aboriginal owned new business startups obtain financing from AFIs each year.

AFI Network Financial Results
Revenues totaled $72 million (2007 $70 million).

Overall operating expenses for the 56 AFIs comprising the 2008 report totaled $72.3 million in 2008 ($63.9 million 2007).

AFI Developmental Lending Costs
The cost of capital, or lending cost, is a function of four elements which dictate the rate to be charged for loans:

1. adjusted administrative expenses (AAE)

2. adjusted loan losses (ALL)
3. cost of funds (CoF)
4. desired capitalization rate[2] (CR)

Comprehensive cost of developmental lending explanations as well as the calculation methodology was provided in ABORIGINAL FINANCIAL INSTITUTIONS *"AFIs in Progre*ss 2007." The AFI cost of developmental lending (CODL) without allowance for a capitalization rate is calculated as follows:

$$\text{CODL} = \frac{\text{AAE} + \text{ALL} + \text{CoF}}{\text{GLP}}$$

Utilizing the above formula, the 2008 AFI CODL is summarized in the table immediately below.

	All AFIs 2008	**All AFIs 5 Year Average**	**2008 All SR AFIs**	**2008 SR Unprofitable AFIs**	**2008 SR Profitable AFIs**	**2008 All LR AFIs**	**2008 LR Unprofitable AFIs**	**2008 LR Profitable AFIs**
CODL	25.84%	27.29%	27.29%	31.70%	23.97%	24.91%	28.38%	23.46%
Yield	7.05%	8.18%	6.54%	5.05%	7.66%	7.43%	9.76%	8.84%
Gap	**18.79%**	**19.11%**	**20.75%**	**26.65%**	**16.31%**	**17.48%**	**18.62%**	**14.62%**

Aboriginal Business Canada determined some years ago that Larger Region AFIs would be defined as only those serving an entire Province or Territory with the exception of Ohwistha Capital Corporation which serves a large portion of Ontario. Appendix G details the 38 Smaller Region and 18 Larger Region AFIs.

[2] A capitalization rate is commonly built into loan pricing by lending institutions to allow for growth and expansion of capacity e.g. Micro Financial Institutions (MFIs) have built in a capitalization rate in the range of 5% in recent years.

It is to be expected the overall 2008 CODL gap evident at 18.79% would be essentially offset by RPO programming or combined RPO/BSO programming. Consequently loan capital erosion would be expected subside over time and could reverse itself in light of risk measurement, management and mitigation tools associated with RPO programming.

Ongoing Developments
AFIs in concert with and through their national association NACCA and INAC are working to enhance both AFI operational and financial performance results.

AFIs:
- An estimated 56 AFIs have utilized ATC programming (IRB element) to access private sector borrowed capital
- Identified the need for comprehensive developmental lending training programs to refine AFI staff skill sets. A total of 60 AFI employees took this training in 2008.
- Are starting to form clusters to pursue common objectives in the most cost efficient manner e.g. Saskatchewan region AFIs have syndicated larger loans for 6+ years, Ontario, Manitoba, and BC AFIs are jointly developing a communications strategy, BC AFIs jointly propose to finance a green energy project
- NACCA has developed a business plan to implement a National Loan Syndication Pool (LSP) enabling AFIs to provide loans larger than individual AFI loan capital bases could prudently accommodate, in order to fill a gap well documented by a Growth Connections feasibility study in 2004. In 2006 government indicated an inability to fund such an undertaking based on demand identified in the third party feasibility study and a business plan prepared by Price Waterhouse Cooper's. In 2007-08 some sectoral AFIs are beginning to contemplate the establishment of a sectoral loan syndication pools for larger debt offerings

NACCA
- Has managed the deliver the ATC program for v10 years to approximately 56 AFIs
- Is assisting AFIs to update the 2005 AFI Time Study to quantify BSO support requirements
- Is assisting AFIs to develop a loan capital forecasting tool to enable AFIs and INAC to more effectively plan for required loan capitalization needs on a longer term basis
- Is assisting AFIs to identify AFI analysis and performance measurements as well as benchmarks to enhance AFI performance
- Is assisting AFIs to refine loan management systems to better meet AFI and government stakeholder needs
- Is assisting AFIs heavily engaged in the fishing sector to better meet market needs
- Is assisting AFIs to develop regional and national communications strategies to better inform Aboriginal people, Provincial/Territorial, Federal and Aboriginal governments with respect to Aboriginal business success
- Is assisting AFIs in the development of specific best practices and standards

- Have documented and disseminated AFI best practices to positively impact on both financial performance and stability, as well as provision of support services to clients
- Annually compile and dispatch AFI statistical comparison reports to AFIs for use as management aids
- Have together with INAC from 2004 to 2008 developed a Risk Premium Offset (RPO) initiative to better recognize, manage and be compensated for select levels of loan related risk

Government:

- Have and continue to provide support to AFIs via ATC programming
- Have and continue to provide funding to support the AFI National office (NACCA)
- Have provided specific funding to research, document and disseminate AFI Best Practices throughout the AFI network
- Have provided $25.7 million in AFI capital top ups since March 31, 2001 to ACCs demonstrating need. In addition ACOA has provided $6.0 million, and FEDNOR nearly $2 million during the same time span
- Have supported up to 75% of BSO costs to 22 AFIs assisting them to fill 28 BSO positions

Near Term AFI Priorities

1. **Risk Premium Offset (RPO) Programming**

The original AFI model has proven to be deficient e.g. a 12% interest rate to offset administration costs of 6%, loan losses of 5% leaving a profit of 1% to offset inflation and allow for growth. In reality the five year rolling average developmental lending cost is 27.29% versus a five year rolling average interest yield of 8.18% resulting in a shortfall of 19.11%. The trend is improving as fiscal 2008 reflected a developmental lending cost of 25.84% and a yield of 7.05% resulting in a shortfall of 18.79%. RPO programming jointly designed by INAC/ABC and NACCA generated a risk measurement tool to quantify levels of risk associated with the developmental loans AFIs provide. The RPO model subsequently developed contemplates a 0% premium for Very Low and Low risk loans, a 15% premium for Medium risk developmental loans and a 20% premium for High and Very High risk developmental loans. Utilizing the risk measurement tool developed for the RPO initiative, the 2006 Don Allen study involving approximately 20 AFIs revealed the AFI risk profile for new loan advances was:

- 41.40% medium risk developmental loans
- 43.10% high risk developmental loans
- 1.00% very high risk developmental loans

The 39 AFIs that provided startup loan data and new loan advance data for 2008 advanced new loan dollars totaling $52 million ($47 million in 2007). Extending the average of the 39 AFIs to all AFIs would not yield meaningful results because the 17 AFIs that did not provide new dollar loan advance data in 2008 had only provided an average of $182k new loans each (total $3.1 million) in the most recent year they had provided new loan data. Accordingly, based on a $50 million annual new loan advance volume, the RPO initiative would generate additional annual loan revenue in the range of $7.5 million to AFIs equating to an average 17.5% of RPO supported loans. Combined with the enhanced risk measurement and management practices enshrined in the RPO initiative, the RPO initiative will significantly preserve existing AFI loan capital and substantially strengthen financial and management capacities of the AFI Network. Refer to the table on the following page for summary details.

Fiscal 2008	Loan Profile	Premium Rate	RPO Payments to AFIs
Very Low and Low Risk	$7,250,000	0%	$0
Medium Risk	$20,700,000	15.0%	$3,105,000
High Risk	$21,550,000	20.0%	$4,310,000
Very High Risk	$500,000	20.0%	$100,000
Total	**$50,000,000**		**$7,515,000**

Implementation of RPO programming will significantly reduce the erosion of loan capital and thereby positively impact on available AFI loan capital. As of March 31, 2008, 24 of 53 or 45% of AFIs (29% in 2007) had liquidity levels of less than 15% of their GLPs, including program related cash which cannot be used for loans. An increasing number of AFIs are now curtailing or delaying the provision of loans because of loan capital constraints. In terms of preserving and enhancing AFI loan capital limited use of IRB supported credit lines indicates increased incentives to use IRB or the identifications of alternate capital solutions are also required.

2. **Business Service Officer (BSO) support**

The ability of AFIs to have adequate staffing to provide needed support services to clients was a fundamental component of RPO programming. Since the RPO concept was formed BSO support programming has been developed and extended to 22 AFIs effectively reducing RPO requirements. It may therefore be timely to review original RPO cost projections contemplating BSO and RPO costs on a combined basis. An estimated 18% of AFIs are unable to offer adequate BSO pre-care support to Aboriginal businesses based on existing loan portfolio size and annual intake volumes. Concurrently 33 of 56 AFIs or 59% of AFIs are unable to offer adequate BSO pre and post-care support to Aboriginal businesses based on existing loan portfolio size.

3. Regional Loan Syndication Pools (RLSPs)

Both the 2004 Growth Connections feasibility study and the 2005 Price Waterhouse Coopers business plan verified the need and the sustainability of a national loan syndication pool to augment AFI loan capital and meet the needs of Aboriginal borrowers with debt capital requirements in excess of current AFI capacity. Although ABC confirmed $25 million over a 5 year period to seed a national loan syndication pool at a NACCA AGM, ABC subsequently withdrew the commitment. Alternatively INAC began discussing Regional Loan Syndication Pools with NACCA in 2007 however nothing has materialized to date and discussions are no longer occurring.

The NACCA Board prioritized AFI programming initiatives as follows:

1. *To implement Risk Premium Offset programming for **all** AFIs*
2. *To design and implement a BSO support program for **all** AFIs demonstrating a need*
3. *To implement the LSP for all AFI clients requiring levels of debt capital in excess of individual AFI capacity*

Section II Average AFI Statistics and Operating Results/Impacts
The purpose of the following section is to document collective and average AFI activity results as of March 31, 2008 providing those concerned with AFI statistics or benchmarks with which to gauge the operation of individual AFIs.

Qualifications
There are a total of 59 AFIs.

- Not all AFIs use identical revenue and expense category terms/phrases. Some discretion was therefore necessary to consolidate the financial results
- 57 AFIs provide developmental loans to Aboriginal owned small businesses
- 2 AFIs do not provide developmental loans but rather specialize in the provision of business support services
- 56 audited AFI financial statements and related supporting information from AFIs were consolidated to produce this report
- The most recent year end data available was used for 8 AFIs that did not provide March 31, 2008 audited financial statements
- Although 84% (47) of AFI year ends occur March 31st 16% (9) year ends occur after March 31st
- Four of the 9 AFIs with year ends after March 31 were able provide fiscal 2008 audited financial statements for this review. The most recent year end data on hand for the remaining 4 AFIs were used to compile collective 2008 AFI results.

Wherever possible, the data contained in this paper was extracted directly from audited AFI financial statements. In some cases AFI audited financial statements did not indicate: (1) the number or dollars of loans advanced during the year (2) the number of loans in the loan portfolio at year-end (3) the total number and dollars of loans written off during the year. None of the AFI audited financial statements indicated the number or dollar amounts of new loans to startup businesses, or the number and dollar amounts of new loans to existing businesses. Accordingly supplemental data pertaining to new loan advances, loan write off, portfolio aging, leverage and staffing was collected directly from the 39 AFIs who were able to provide same.

Smaller Region (SR) and Larger Region (LR) AFIs
In 2004 it was recognized commonalities emerged amongst AFIs when they were clustered into geographical sizes[3]. Consequently tables and charts, as well as dialogue within this section may reflect data in SR and LR AFI categories and where deemed useful by SR profitable and SR unprofitable and/or LR profitable and LR unprofitable categories. Refer to appendices "E" and "F" for details pertaining to key revenue, expense, liquidity and loan capital leverage data.

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[3] Aboriginal Business Canada determined some years ago that Larger Region AFIs would be defined as only those serving an entire Province or Territory with the exception of Ohwistha Capital Corporation which serves a large portion of Ontario. Appendix G details the 38 Smaller Region and 18 Larger Region AFIs.

AFI Management and Oversight

Governance
AFI Boards are independent and autonomous. They are comprised of individuals from the regions they serve. Generally, if an AFI Board does not consider itself to have a sufficiently strong business, financial or academic representation on its Board, one or often two outside directors (possessing one or more of the required attributes) are recruited to sit on the AFI Board.

Operational Management and Staff
As of March 31, 2008 AFIs directly employed a total of 348 people (367 in 2007). A 2006 NACCA survey revealed the overall average experience levels for AFI management positions were: General Managers 9 years, Account Managers 6 years and Business Service Officers 7 years.

Many AFIs combine Account Manager (AM) and Business Support Officer (BSO) functions in light of prevailing financial constraints. Similarly, many AFI Loan Support staff duties are intermingled due to financial constraints.

Liquidity
As of March 31, 2008, 24 of 53 or 45% of AFIs (29% in 2007) had government capital liquidity levels of less than 15% of their GLPs.

2008 AFI Loan Statistics
In fiscal 2008 a total of 1,170 loans aggregating $87 million were provided to Aboriginal entrepreneurs (2007 – 1,458 $85 million).

In fiscal 2008 39 (2007 41) comparable[4] AFIs provided data with respect to new loan advances to startup businesses and new loan advances to existing businesses. The 39 AFIs provided 1,032 new loans totaling $52.0 million (2007 1,097 for $46.8 million). Of total 483 loans for $25.8 million or 49.6% of dollars loaned were to start up businesses and 549 for $26.2 million or 50.4% were new advances to existing businesses (2007 47% and 53% respectively.

[4] In keeping with ABC tradition, comparable AFIs exclude Arctic Development Co-op

"A Billion Dollar Payback"

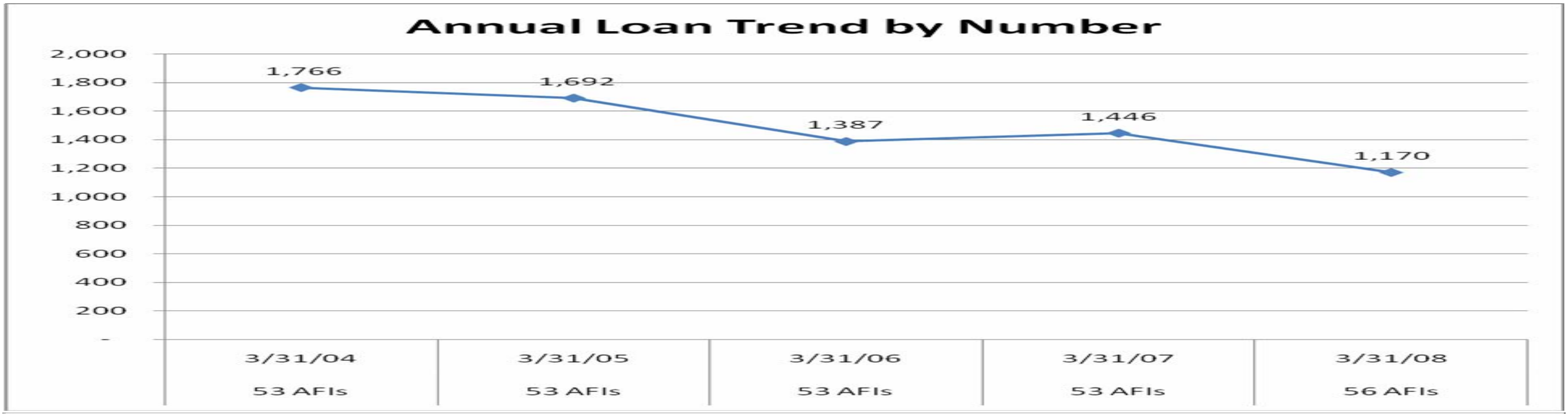
A summary of average Smaller Region (SR) and Larger Region (LR) AFI new loan advance activity is reflected in the table below.

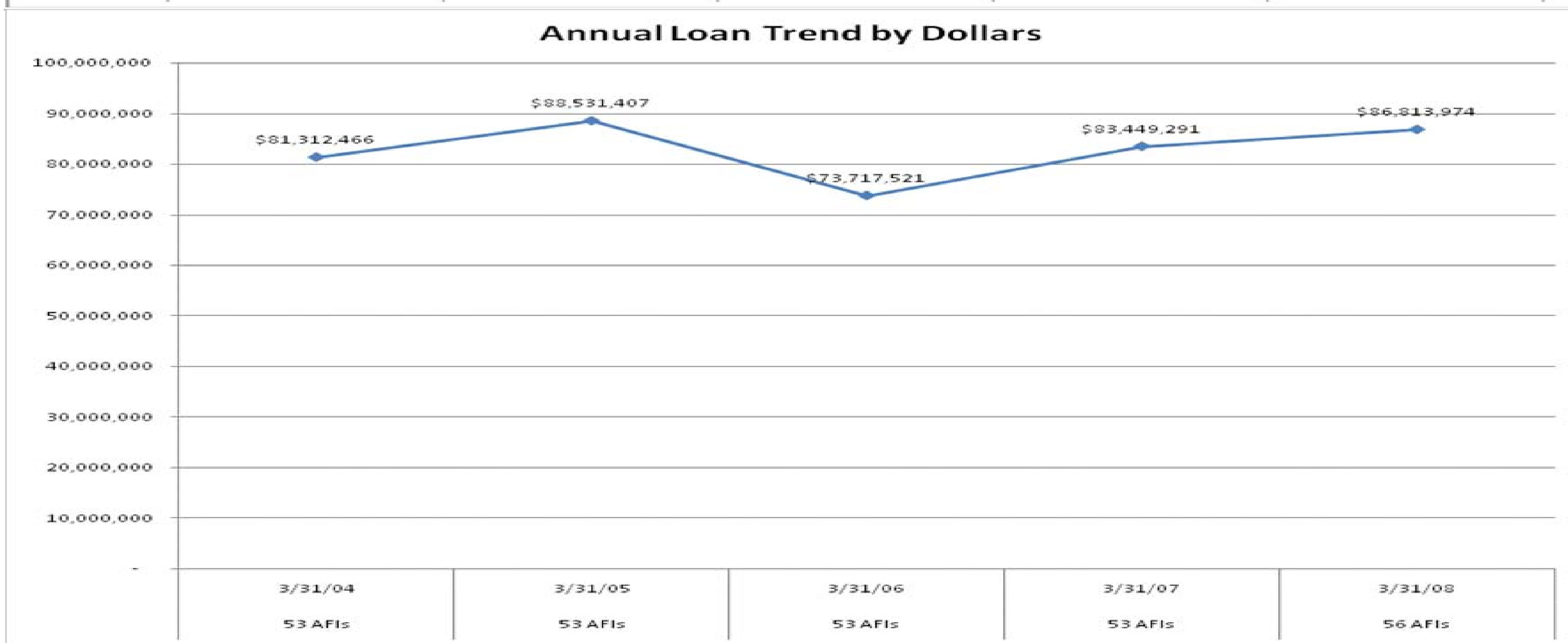
	Average Smaller Region AFI				Average Larger Region AFI			
New Dollar Advances Only	**#**	**% of #**	**$**	**% of $**	**#**	**% of #**	**$**	**% of $**
Start ups	5	50.0%	$294,935	50.6%	16	44.4%	$827,027	47.3%
Existing businesses	5	50.0%	$287,240	49.4%	20	55.6%	$916,679[5]	52.7%
Totals	**10**	**100%**	**$582,175**	**100%**	**36**	**100%**	**$1,746,706**	**100%**

Over the past five years the annual number of loans advanced has been declining, with the exception of 2007, despite a continued strong economy up to March 31, 2008. The downward trend in numbers of loans combined with increased dollar amounts per loan suggests AFIs are attempting to improve fiscal efficiencies by increasing revenue and holding administrative costs. In other words, administrative costs are the same for one Account Manager to manage 50 loans of $25,000 each or 50 loans of $50,000 each. If the interest yield –say 8% is equal for both portfolios, the first portfolio will produce annual interest revenue of $100,000, while the second portfolio will produce annual interest revenue of $200,000, all other factors remaining equal.

[5] Excludes ACDF

“A Billion Dollar Payback”



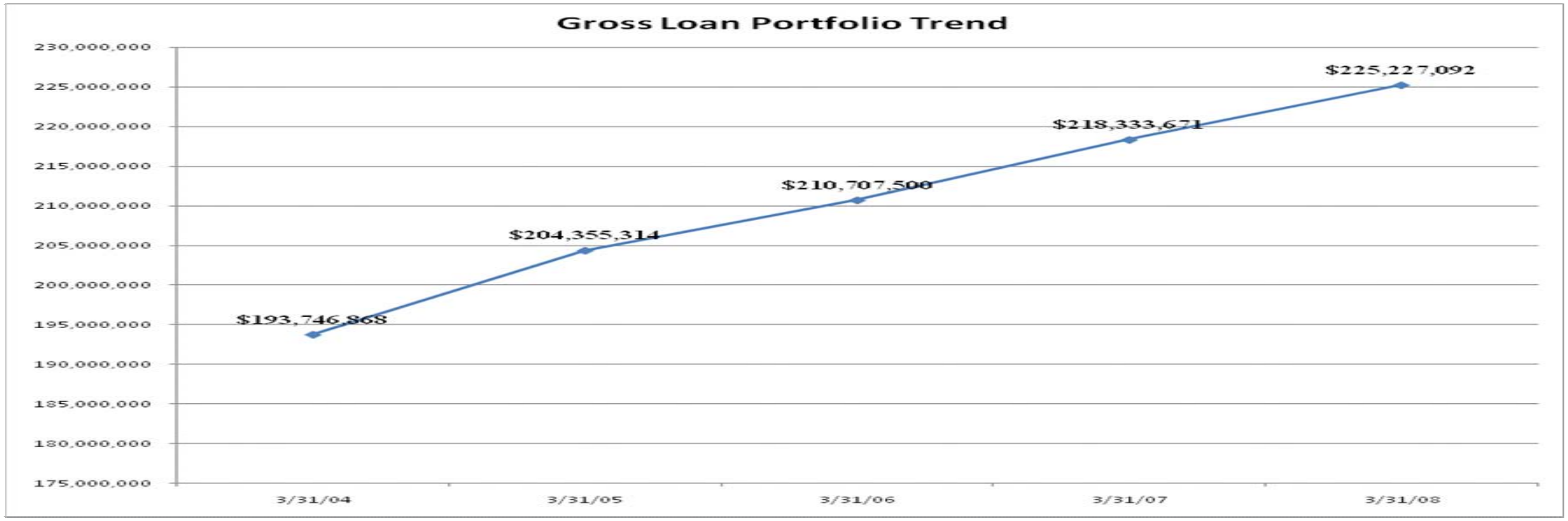


Over the past five years annual loan disbursements have ranged between $70 million to $90 million.

The above data reveals the average size of a new loan advance has increased from $46,383 in 2004 to $74,265 in 2008. In the continued absence of Risk Premium Offset programming this trend may continue.

AFI Gross Loan Portfolio Growth History

The collective AFI GLP exhibits steady growth of $31.5 million or 16% over the past five years.



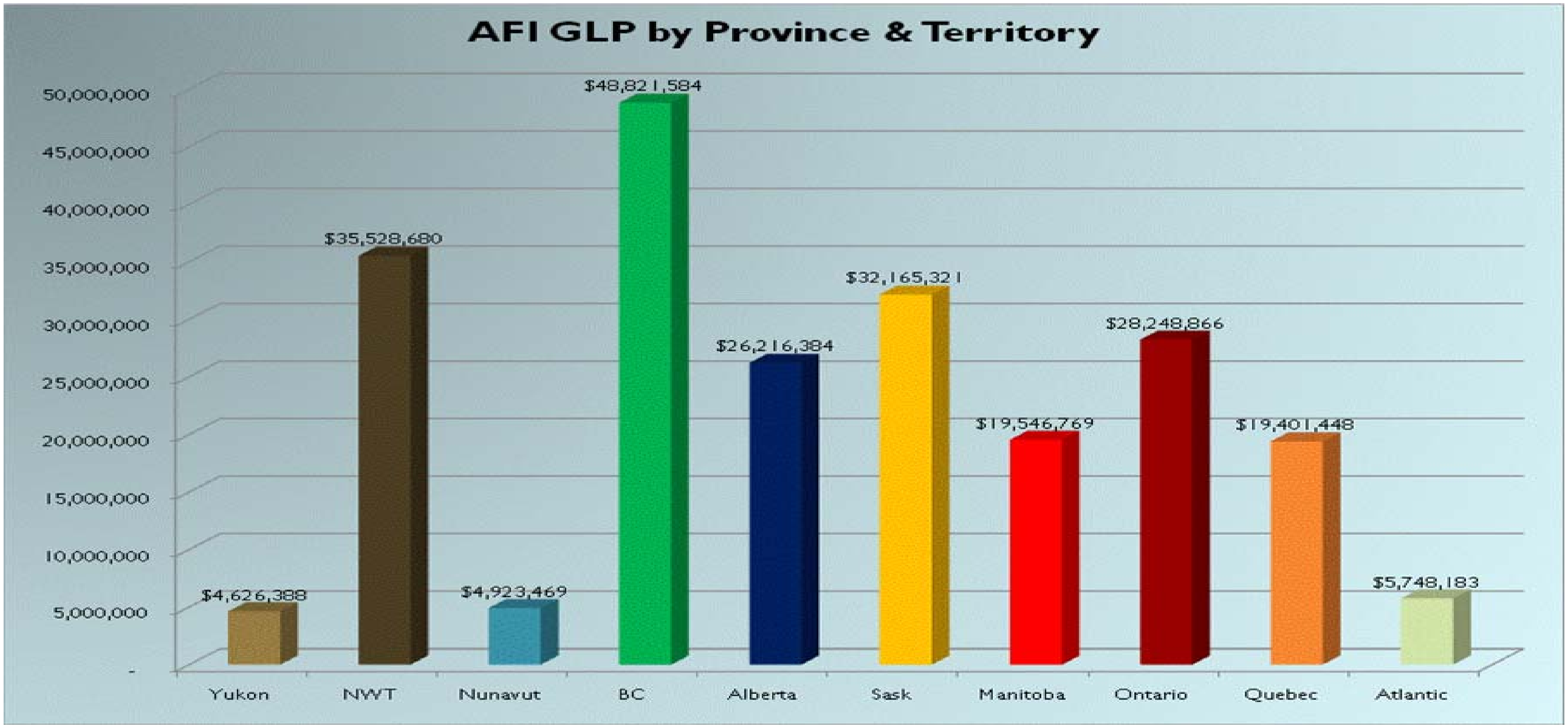
2008 AFI Gross Loan Portfolio by Province/Territory

Current Provincial and Territorial AFI representation is as follows:

YK	NT	NU	BC	AB	Sask	Man	Ont	PQ	Atlantic
1	7	5	12	5	6	8	9	5	1

The chart below depicts the 2008 Provincial/Territorial distribution of the AFI loan portfolio.

"A Billion Dollar Payback"



# of AFIs	1	7	5	12	5	6	8	9	5	1

Note: One AFI with its Head Office in the NWT has substantial loans in Nunavut. However, all of its loans are reflected in the above chart as being in the NWT.

Repayment Efficiency by Province & Territory

Repayment efficiency calculations eliminate inconsistencies sometimes evident with respect to adequate loan loss reserves or write offs. Repayment efficiencies by Province and Territory also appear to indicate where additional AFI and/or entrepreneurial resources might best be deployed. It should also be recognized a recent healthy upward trend in GLP growth can adversely affect repayment efficiency calculations.

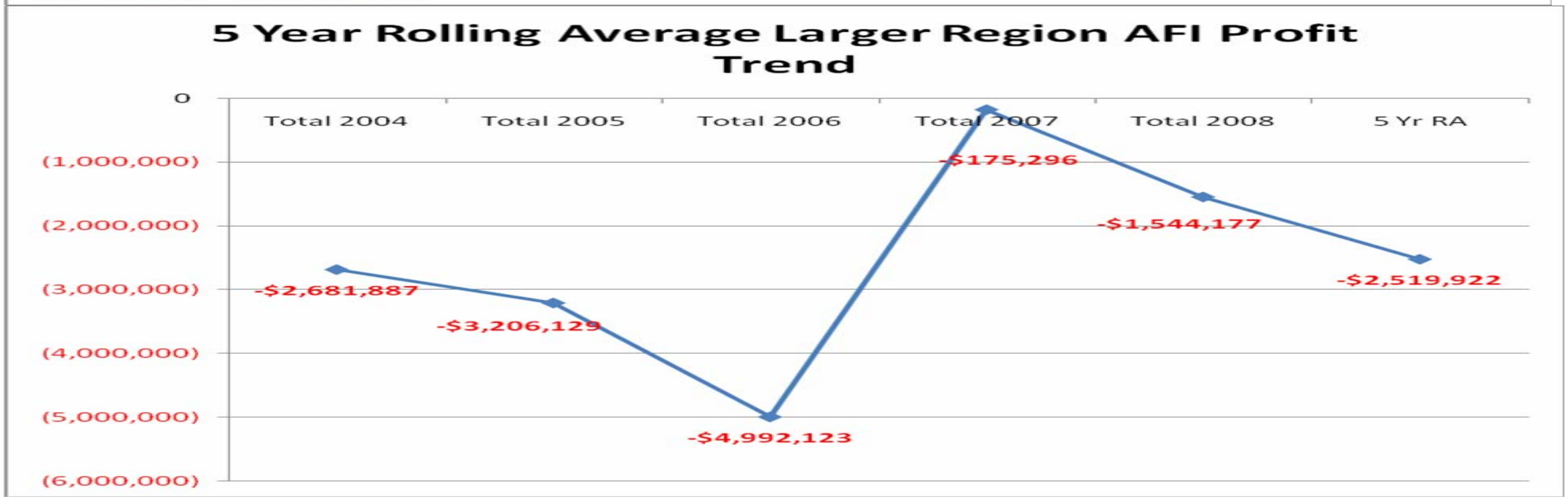
	Yukon	NWT	NU	BC	Alberta	Sask	Man	Ont	Quebec	Atlantic
Repayment Efficiency	81%	90%	80%	70%	78%	76%	57%	65%	62%	68%

Average Smaller Region (SR) and Larger Region (LR) AFI Financial Results
Fiscal 2008 audited financial statement results have been categorized into SR and LR AFIs.

			% SR AFIs	**% SR AFIs**	**% LR AFIs**	**% LR AFIs**
Fiscal Year	All SR AFIs	All LR AFIs	Profitable	Unprofitable	Profitable	Unprofitable
2000 $ Profit (loss)	49,270	(1,042,687)	64%	36%	42%	58%
2001 $ profit (loss)	1,100,064	(424,908)	58%	42%	44%	56%
2002 $ profit (loss)	3,861,490	(2,851,318)	56%	44%	37%	63%
2003 $ profit (loss)	1,788,597	(2,540,284)	61%	39%	47%	53%
2004 $ profit (loss)	(1,495,250)	(2,481,887)	42%	58%	39%	61%
2005 $ profit (loss)	1,756,121	(3,153,213)	48%	52%	39%	61%
2006 $ profit (loss)	2,052,638	(4,888,879)	51%	49%	56%	44%
2007 $ profit (loss)	5,802,082	(93,683)	52%	48%	50%	50%
2008 $ profit (loss)	1,172,665	(1,544,177)	50%	50%	61%	39%
Nine year average	**1,787,581**	**(2,113,448)**	**54%**	**46%**	**46%**	**54%**

"A Billion Dollar Payback"

Collectively Smaller Region AFIs have been profitable in four of the last five years. Smaller Region AFIs receive operational subsidies for a wide range of support services they provide. Consequently they are not as dependent upon loan related revenue as Larger Region AFIs.



Collectively Larger Region AFIs have been unprofitable in each of the last five years.

Revenues

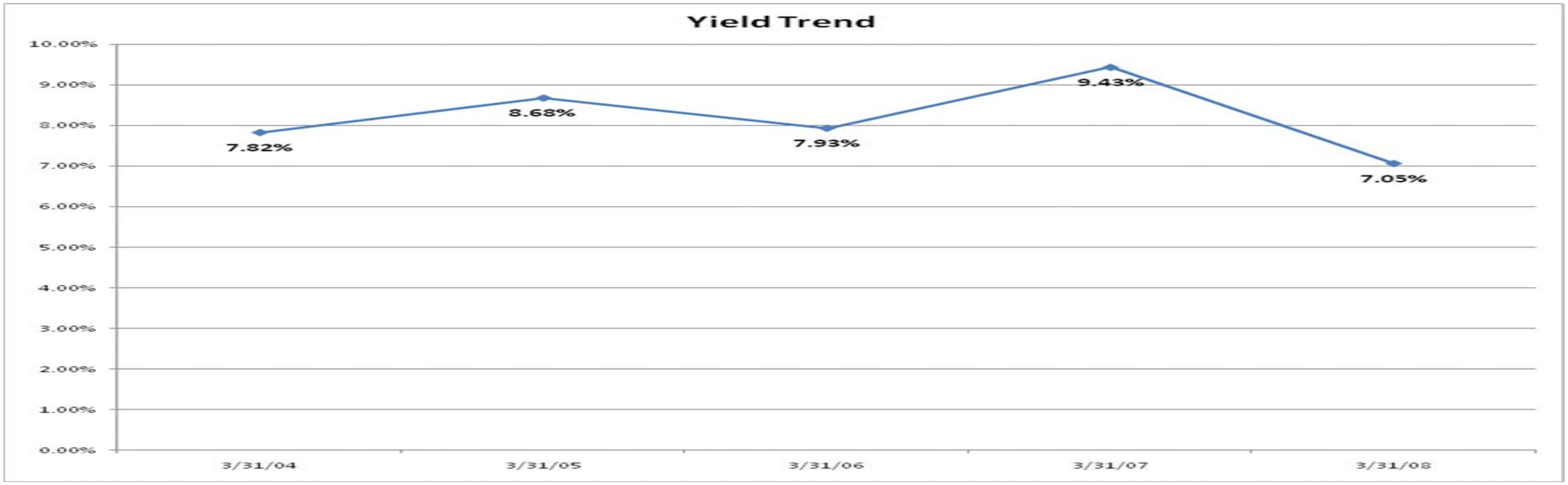
Fiscal 2008 revenue and expense line items have been itemized and reflected as a percentage of the gross loan portfolio.

	Average Unprofitable SR AFI		Average Profitable SR AFI		Average Unprofitable LR AFI		Average Profitable LR AFI	
Assets	**3,359,651**		**5,390,710**		**7,433,321**		**13,426,513**	
Loans advanced during year	**455,004**		**1,087,375**		**918,713**		**4,643,433**	
Gross Loan Portfolio	**2,144,567**		**2,851,992**		**5,490,309**		**8,350,937**	
Revenues		**% GLP %**		**% GLP**		**% GLP**		**% GLP**
Net Interest - loans	108,378	5.05%	218,374	7.65%	414,411	7.55%	616,229	7.37%
Bad debt recoveries	5,930	0.27%	23,589	0.82%	43,768	0.80%	56,204	0.67%
Interest on deposits	103,723	4.83%	61,221	2.14%	80,075	1.46%	46,424	0.55%
Fee and misc. income	37,823	1.76%	33,217	1.16%	94,258	1.72%	101,987	1.22%
Subtotal loan portfolio income	***255,854***	***11.91%***	***336,401***	***11.77%***	***632,552***	***11.53%***	***820,884***	***9.81%***
Operating subsidies	137,650	6.41%	303,716	10.64%	119,242	2.17%	125,421	1.50%
Program revenue	151,719	7.07%	928,273	32.54%	280,989	5.12%	818,100	9.79%
Other	10,774	0.50%	237,984	8.34%	24,995	0.46%	56,643	0.67%
Subtotal - other income	***300,143***	***13.98%***	***1,469,973***	***52.03%***	***269,496***	***7.75%***	***1,000,164***	***11.96%***
Total revenue	**555,997**	**25.89%**	**1,806,374**	**63.80%**	**902,048**	**19.28%**	**1,821,048**	**21.77%**

“A Billion Dollar Payback”

Comments:

Interest Yield
The total loan portfolio income generated by both SR and LR AFIs in both profitable and unprofitable categories is in the 10% to 12% range. Interest income yield alone varies between LR and SR AFIs from a low of 5.05% to a high of 7.65%. The five year AFI yield trend is reflected below.



Operating subsidies, program revenue and other (project revenue) considerably enhances the SR AFI revenue stream, particularly as these sources of revenue are expressed in terms of a percentage of the GLP.

Expenses

	Average Unprofitable SR AFI		Average Profitable SR AFI		Average Unprofitable LR AFI		Average Profitable LR AFI	
Assets	**3,359,651**		**5,390,710**		**7,433,321**		**13,426,513**	
Total loans advanced during year	**455,004**		**1,087,375**		**918,713**		**4,643,433**	
Gross Loan Portfolio	**2,144,567**		**2,851,992**		**5,490,309**		**8,350,937**	
Expenses		**% GLP**		**% GLP**		**% GLP**		**% GLP**
Advertising & promotions	7,756	0.36%	15,543	0.55%	32,285	0.59%	27,641	0.33%
Collection expense	1,061	0.05%	1,429	0.05%	5,381	0.10%	1,290	0.02%
Communications	7,836	0.37%	15,482	0.54%	14,339	0.26%	18,198	0.22%
Depreciation/Amortization	9,499	0.44%	11,739	0.41%	27,955	0.51%	18,224	0.22%
Interest & Bank Charges	4,158	0.19%	9,640	0.34%	21,539	0.39%	19,257	0.23%
Meetings	27,350	1.28%	34,455	1.21%	64,188	1.17%	60,097	0.72%
Office & Admin	42,788	2.00%	70,363	2.47%	114,501	2.09%	87,606	1.05%
Premises costs	30,070	1.40%	37,993	1.33%	68,291	1.24%	39,927	0.48%
Professional fees	54,054	2.52%	36,171	1.27%	94,463	1.72%	67,535	0.81%
Provision for losses	135,078	6.30%	55,835	1.96%	341,283	6.22%	109,754	1.31%
Salaries	253,906	11.84%	288,570	10.12%	473,932	8.63%	420,346	5.03%
Training & development	1,284	0.06%	3,500	0.12%	3,912	0.07%	17,632	0.21%
Travel	32,442	1.51%	40,952	1.44%	54,243	0.99%	33,109	0.40%
Program expense	67,651	3.15%	886,742	31.09%	123,849	2.26%	648,416	7.76%
Other	80,304	3.74%	19,771	0.69%	0	0.00%	148,994	1.78%
Total expenses	**755,240**	**35.22%**	**1,529,499**	**53.63%**	**1,440,162**	**26.23%**	**1,718,026**	**20.57%**
Net Income	**(199,244)**	**-9.29%**	**260,963**	**9.15%**	**(382,425)**	**-6.97%**	**102,982**	**1.23%**

All expense line items are expressed as an average percentage of each SR or LR AFI category's average gross loan portfolio refer to appendix "H" for expense definitions.

Comments on expense items of an average of $50,000 or greater for either the SR or the LR groups:

Meetings
This category is predominantly Board and Committee meeting expenses ranging from a low of $27k for unprofitable SR AFIs to a high of $64k for unprofitable LR AFIs. It is of interest to note unprofitable AFIs reflect higher Board and Committee meeting expense than profitable AFIs. Expressed as a percentage of GLP, meeting expenses range from a low of .72% for LR profitable AFIs to a high of 1.28% for unprofitable SR AFIs.

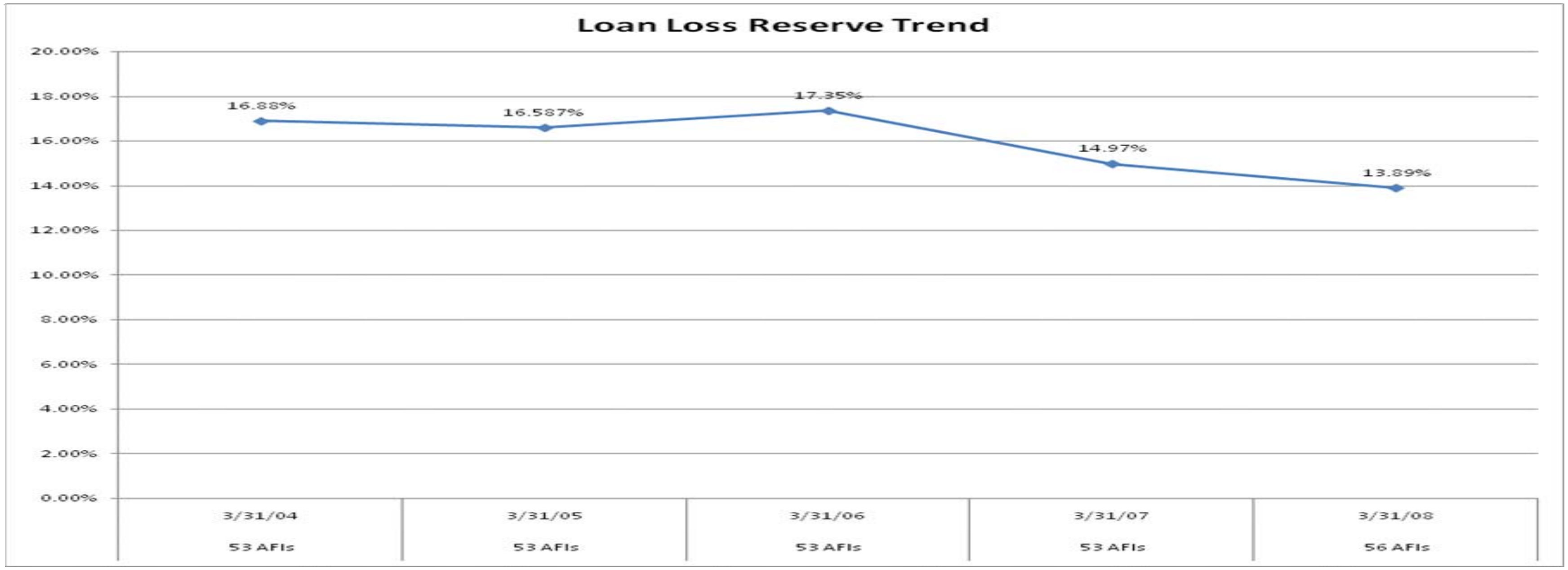
Office and Administration
This category ranges from a low of $43k for unprofitable SR AFIs to a high of $115k for unprofitable LR AFIs. Expressed as a percentage of GLP, office and administration expenses range from a low of 1.05% for profitable LR AFIs to a high of 2.47% for profitable SR AFIs.

Premises costs
Premises costs range from a low of $30k for SR unprofitable AFIs to a high of $68k for unprofitable LR AFIs. Premises costs expressed as a percentage of GLP, range from a low of .48% for profitable LR AFIs to a high of 1.40% for unprofitable SR AFIs.

Professional fees
Professional fees range from a low of $36k for profitable SR AFIs to a high of $94k for unprofitable LR AFIs. Expressed as a percentage of GLP, professional fees range from a low of .81% for profitable LR AFIs and a high of 2.5% for unprofitable SR AFIs.

Provisions for loss
Methodology for estimating loan losses is not inconsistent within the AFI network. Some AFIs policies stipulate a fixed percentage of the gross loan portfolio be set aside as a loan loss reserve; others perform an analysis on delinquent loans to identify specific potential losses; others review delinquent loans to identifying potential specific losses and add an additional percentage as a general provision.

The average AFI loan loss reserve is 13.89% of GLP as of March 31, 2008. The trend appears to be decreasing.



The table below provides detail with respect to loan loss reserves and loan loss provisions.

	Loan Loss Reserve on GLP	Loan Loss Provision % of 2008 loans advanced
SR Average Unprofitable 2008	24.09%	28.45%
SR Average Profitable 2008	11.88%	4.76%
LR Average Unprofitable 2008	14.45%	37.15%
LR Average Profitable 2008	7.07%	4.15%
All AFIs Average 2008	13.89%	8.32%
Five year rolling average all AFIs	16.66%	10.06%

Loss provisioning and the establishment of reserves for loss are not and will never be an exact science in light of both internal and external factors in play at any given time. The global financial sector turmoil which erupted in 2008 is glaring evidence that even a banking industry hundreds of years old has not mastered the art of loss provisions and reserves.

Possible reasons for the 2008 loan loss provision of unprofitable SR and LR AFIs being a higher percentage than the loan loss reserve are:

- Loan loss provisions in prior years were underestimated and a correction is occurring
- The decreases in AFI staffing from 367 in 2007 to 348 in 2008 may not enable AFIs to provide a level of aftercare support which should be provided

Possible reasons for the 2008 loan loss provisions of profitable AFIs being a lower percentage than the loan loss reserve are:

- 2008 loan loss provisions may be underestimated
- The prevailing loan loss reserve profitable AFIs had going into 2008 was adequate
- Profitable AFIs have adopted better risk mitigation and management practices than their unprofitable counterparts

Salaries

As of March 31, 2008 AFIs employed a total of 348 people (363 in 2007). A 2007 NACCA survey revealed 67% of AFI employees are of Aboriginal decent. Salary costs range from a low of $254k for unprofitable SR AFIs to a high of $474k for LR unprofitable AFIs. Expressed as a percentage of GLP salary costs ranged from a low of 5.03% for profitable LR AFIs to a high of 11.84% for SR profitable AFIs.

It is noted SR AFIs employed 211 staff while LR AFIs employed 137 staff. It should also be recognized approximately 65% of SR AFIs receive annual operating assistance from government.

The table below summarizes staffing of SR and LR profitable and unprofitable AFIs as of March 31, 2007.

2008	SR Average	SR Profitable	SR Unprofitable	LR Average	LR Profitable	LR Unprofitable
Average # loans o/s	62	71	54	123	123	122
Average loan balance	$42,603	$39,274	$47,838	$48,784	$51,282	$45,161
Average GLP	$2,633,840	$2,803,696	$2,605,602	$5,983,193	$6,323,212	$5,490,309
Account Managers	1.61	1.74	1.39	2.19	1.95	2.57
BSOs	0.69	0.95	0.39	1.38	1.62	1.00
Loan Support Staff	1.54	1.55	1.45	2.17	1.92	2.57
Total Staff	3.69	5.34	5.74	7.66	7.31	8.21
Loans/Account Manager	38.40	42.91	32.79	55.49	62.37	47.28

Profitable AFIs (both SR and LR) have higher levels of Business Services Officer (BSO) staffing than unprofitable AFIs.

Travel

Travel expense reflects a low of $32k for SR unprofitable AFIs and a high of $54k for LR unprofitable AFIs. Expressed as a percentage of GLP, travel expense reflects a low of .40% for LR profitable AFIs and a high of 1.51% for SR profitable AFIs. It should also be recognized many of the communities served by AFIs North of 60 as well as the NAN territory in Ontario are fly in only.

Program expense

Program expenses range from a low of $67k for unprofitable SR AFIs to a high of $887k for SR profitable AFIs. Expressed as a percentage of GLP, program expense ranges from a low of 2.26% for LR unprofitable AFIs to a high of 31.09% for profitable SR AFIs.

The program expense category reflects the out flow of program dollars as well as staffing and applicable overhead costs associated with related program delivery. Not all AFIs use fund accounting. Program revenue is identified as a separate line item however, program related expenses are not. Consequently some program delivery costs are merged with overall AFI operational expenses e.g. wages and benefits, rent etc. The stable of programs delivered by AFIs varies widely from AFI to AFI. It is also arguable that program delivery detracts from developmental lending activities.

Other
Other expense reflects a low of $0 for LR AFIs and a high $149k for profitable LR AFIs. Expressed as a percentage of GLP other expense represents a low of 0% for LR unprofitable AFIs and a high of 3.74% for unprofitable SR AFIs.

The other expense category essentially reflects the out flow of specific project dollars as well as a portion of project related delivery expenses. Not all AFIs use fund accounting. Project revenue is typically identified as a separate line item however, project related expenses are not. Consequently some project delivery costs are merged with overall AFI operational expenses e.g. wages and benefits, rent etc. The stable of projects managed by AFIs varies widely from AFI to AFI. It is also arguable that project management detracts from developmental lending activities.

Actions to be considered by INAC

- Continue the ATC initiative in light of positive impacts it has produced e.g. 96% increase in GLP – since introduction of the ATC initiative
- Implement the Risk Premium Offset initiative for <u>all</u> AFIs as expediently as possible to enable some measured recovery of AFI developmental lending costs concurrently building AFI risk mitigation and management capacities
- Expand and enhance the current BSO support program for <u>all</u> AFIs demonstrating a quantifiable need
- Establish regional AFI loan syndication pools to strengthen the AFI network's financial viability and broaden the AFI network's impact on Aboriginal small business
- Coordinate federal related federal and provincial economic development efforts synergizing programming at both levels of government wherever possible
- Establish one central INAC AFI unit to manage national AFI initiatives. The current method of dealing with AFIs through regional offices has resulted in significant inequities from AFI to AFI e.g. the 2007 NACCA survey of AFIs revealed Manitoba AFIs ranked support from ABC regional offices the highest while BC and Ontario were ranked lowest
- Plan, establish and clearly communicate eligibility requirements and processes for AFI capital top ups, concurrently identifying required internal and external resources. The current method of inviting only certain AFI top up or program delivery applications and distributing budget remnants near the end of each fiscal year is neither transparent nor fair, in light of the poor relationships which appear to exist between some regional offices and some AFIs.

Section III Appendices

Appendix A 2008 Consolidated Balance Sheets

	SR Unprofitable	SR Profitable	LR Unprofitable	LR Profitable	Total All AFIs
Assets	**Av AFI**	**Av AFI**	**Av AFI**	**Av AFI**	**SR & LR**
Cash & term	1,384,770	2,453,306	1,269,232	2,880,794	104,052,595
Accrued Interest	16,907	41,463	57,928	108,442	2,707,398
Accounts receivable	235,822	326,764	718,689	2,617,200	44,509,167
Collateral & Loans - Net	1,618,149	2,456,965	4,696,740	7,604,410	193,952,851
Other	21,599	3,581	506,167	19,491	4,235,984
Capital assets	82,405	108,630	184,565	196,176	7,079,542
Total Assets	**3,359,651**	**5,390,710**	**7,433,321**	**13,426,513**	**365,981,741**
Liabilities					
Payables	118,205	258,719	117,481	390,641	12,280,970
Other (includes credit lines)	26,343	4,627	85,864	304,964	4,544,084
Deferred revenue	26,131	144,466	64,509	2,613,996	32,446,855
Long term debt	103,462	881,271	66,262	35,223	19,561,217
Equity					
Equity Capital	6	1,928	315,321	1,781,395	21,839,335
Contributed surplus	2,423,175	4,025,152	8,632,895	8,997,355	281,919,370
Surplus -Deficit	662,329	74,548	(1,849,012)	(697,061)	(6,610,090)
Total liabilities & Equity	**3,359,651**	**5,390,710**	**7,433,321**	**13,426,513**	**365,981,741**

Appendix B 2008 Consolidated Income Statements

	SR Unprofitable	SR Profitable	LR Unprofitable	LR Profitable	Total All AFIs
Revenue	**Av AFI**	**Av AFI**	**Av AFI**	**Av AFI**	**SR & LR**
Interest on loans & investments	108,378	218,374	414,411	616,229	15,887,689
Provision for losses: Interest	0	0	0	0	0
Net Interest on loans	108,378	218,374	414,411	616,229	15,887,689
Recovery on loans & interest	5,930	23,589	43,768	56,204	1,183,162
Interest on investments	103,723	61,221	80,075	46,424	4,205,125
Fee and misc. income	37,823	33,217	94,258	101,987	3,131,408
Operating subsidies	137,650	303,716	119,242	125,421	10,441,277
Program revenue	151,719	928,273	280,989	818,100	31,644,852
Other	10,774	237,984	24,995	56,643	5,524,434
Total revenue	**555,996**	**1,790,462**	**1,057,737**	**1,821,008**	**72,017,947**
Expenses					
Advertising & promotions	7,756	15,543	32,285	27,641	972,743
Collection expense	1,061	1,429	5,381	1,290	99,161
Communications	7,836	15,482	14,339	18,198	743,599
Depreciation/Amortization	9,499	11,739	27,955	18,224	799,684
Interest & Bank Charges	4,158	9,640	21,539	19,257	624,765
Meetings	27,350	34,455	64,188	60,097	2,284,678
Office & Admin	42,788	70,363	114,501	87,606	3,915,044
Premises costs	30,070	37,993	68,291	39,927	2,223,517
Professional fees	54,054	36,171	94,463	67,535	3,130,285
Provision for losses	135,078	55,835	341,283	109,754	7,223,627
Salaries	253,906	288,570	473,932	420,346	18,248,398
Training & development	1,284	3,500	3,912	17,632	312,226
Travel	32,442	40,952	54,243	33,109	2,138,383
Program expense	67,651	886,742	123,849	648,416	26,132,985
Other	80,304	19,771	0	148,994	3,540,364
Total expenses	**755,240**	**1,529,499**	**1,440,162**	**1,718,026**	**72,389,459**
Net Income	**(199,244)**	**260,963**	**(382,425)**	**102,982**	**(371,512)**

Appendix C 2008 Consolidated Loan Statistics

	SR Unprofitable	SR Profitable	LR Unprofitable	LR Profitable	Total All AFIs
	Av AFI	Av AFI	Av AFI	Av AFI	SR & LR
Cumulative loans provided by $	9,331,751	11,383,752	32,152,538	64,039,239	1,332,478,818
Cumulative loans provided by #	246	353	1,207	992	32,103
Historical loans w/o #	25	51	154	105	3,687
Historical loans w/o $	756,383	777,533	3,250,973	2,906,416	83,871,783
% loans w/o by #	8.11%	6.83%	12.78%	10.59%	11.48%
% loans w/o by $	10.25%	14.51%	10.11%	4.54%	6.29%
# of loans to startup businesses in year	2	8	9	21	483
$ of loans to startup businesses in year	87,169	487,178	348,016	1,131,852	25,799,072
# of new loans to existing businesses in year	2	8	19	21	549
$ of new loans to existing businesses in year	196,830	362,532	398,769	3,424,268	51,086,209
Total # of all loans provided during year	7	17	31	45	1,170
Total $ of all loans provided during year	455,004	1,087,375	918,713	4,643,433	86,813,974
Loan Loss Reserve $	526,418	395,027	793,569	746,528	31,274,241
Loan Loss Reserve % of GLP	24.55%	13.85%	14.45%	8.94%	13.89%
# loans Outstanding	46	75	122	122	4,477
Net loan portfolio	1,618,149	2,456,965	4,696,740	7,604,410	193,952,851
Gross Loans Portfolio	2,144,567	2,851,992	5,490,309	8,350,937	225,227,092
Average loan amount	46,889	38,268	45,161	68,501	50,308
Gross interest yield on GLP	5.05%	7.66%	9.76%	8.84%	7.05%
Days Interest Accrual	57	69	51	64	62
Repayment Efficiency	69%	68%	73%	82%	76.80%

Appendix D 2008 Consolidated Staffing Data

	SR Unprofitable	SR Profitable	LR Unprofitable	LR Profitable	Total All AFIs
	Av AFI	Av AFI	Av AFI	Av AFI	SR & LR
# Account Managers	1.39	1.74	2.57	1.95	2
# of loan support employees	1.45	1.55	2.57	1.92	2
# Total employees	5.74	5.34	8.21	7.31	6
# of loans per Account Manager	32.79	42.91	47.28	62.37	45.22
# of loans per all loan employees	31.29	46.92	24	31	22.95
$ of loans per Account Manager	1,477,573	1,669,535	2,395,784	3,494,152	2,275,021
$ of loans per all loan employees	745,805	896,517	1,061,991	1,665,695	1,154,419

Appendix E 2008 Consolidated Revenue, Expense and Liquidity Data

	SR Unprofitable	SR Profitable	LR Unprofitable	LR Profitable	Total All AFIs
	Av AFI	Av AFI	Av AFI	Av AFI	SR & LR
Operational Data					
Bad debt recovery as % Rev	1.07%	1.32%	4.14%	3.09%	1.64%
Fee Rev as % of total rev	6.80%	1.86%	8.91%	5.60%	4.35%
Loan Interest as % of total Rev	19.49%	12.20%	39.18%	33.84%	22.06%
Program Rev as % of total Rev	27.29%	51.85%	26.57%	44.93%	43.94%
Revenue- % of total Assets	16.55%	33.21%	14.23%	13.56%	19.68%
Expenses %of Total Revenue	135.84%	85.42%	136.16%	94.34%	100.52%
Expenses per Loan	16,513	20,523	13,491	7,166	7,867
% Expenses of Net Loan Portfolio	46.67%	62.25%	30.66%	22.59%	37.32%
Net Profit as % of Revenue	-35.84%	14.58%	-36.16%	5.66%	-0.52%
Net Profit as % of Total Assets	-5.93%	4.84%	-5.14%	0.77%	-0.10%
Cost of Developmental Lending (CODL)	592,747	363,242	1,134,179	843,284	35,220,173
CODL % of Gross Loan Portfolio	31.70%	23.97%	28.38%	23.46%	25.84%
Liquidity					
Loan Capital Contributions	1,893,694	2,608,186	7,847,339	7,382,997	221,680,052
Total Assets % Loan Capitalization	177.41%	206.68%	94.72%	181.86%	165.09%
Liquid cash	1,147,700	2,266,041	1,181,748	152,362	75,558,517
Loan Capital Contribution Deployment	113%	109%	70%	113%	101.60%
Self sufficiency					
Operational efficiency	73.62%	117.06%	73.45%	105.99%	99.49%
Financial self sufficiency	77.07%	80.62%	73.19%	63.32%	70.10%

Appendix F 2008 Loan Capital and Leverage Data

	SR Unprofitable	SR Profitable	LR Unprofitable	LR Profitable	Total All AFIs
	Av AFI	Av AFI	Av AFI	Av AFI	SR & LR
Loan Capital Absorption Rate	493%	436%	410%	867%	601.08%
Liquid Cash as Percentage of GLP	53.52%	79.45%	21.52%	1.82%	33.55%
Leverage					
Client equity	137,327	92,026	179,151	609,747	12,318,981
Government contributions	126,558	222,085	107,702	163,276	9,174,164
Conventional lenders	39,611	41,724	45,500	167,909	3,710,870
Other AFI Network lenders	21,224	99,684	93,737	0	2,953,406
Total leveraged	324,719	4,051,474	426,090	940,933	**96,480,550**

Appendix G Smaller and Larger Geographical Region AFI Listing

Smaller Region AFIs	**Smaller Region AFIs continued**	**Larger Region AFIs**
1. ABDC	**20. NEFI**	**1. ACDF**
2. ATC	**21. NEDC**	**2. AIIC**
2. AMCC	**22. NFA**	**3. AMDI**
3. BBCDS	**23. NWCFDC**	**4. ANTCO**
4. BBDC	**24. NIC**	**5. DNV**
5. BLNDC	**25. SBDC**	**6. FNALA**
6. BRCFDC	**26. SCFDC**	**7. IBC**
7. CCDF	**27. SEMCFDC**	**8. IAPO**
8. CDEM	**28. STO:LO**	**9. LRCC**
9. CIFN	**29. T7EDC**	**10. MDDF**
10. CLCFDC	**30. TACC**	**11. NADF**
11. Deh Cho	**31. TBLF**	**12. OCC**
12. DOCFDC	**32. TBDS**	**13. SIC**
13. DACFDC	**33. TDC**	**14. SIEF**
14. EEYOU	**34. TRCDC**	**15. SNEDCO**
15. HG	**35. TRICORP**	**16. SOCCA**
16. KA	**36. VNCFDC**	**17. TWCC**
17. KBDC	**37. Wakenagun**	**18. UDG**
18. KCFDC	**38. Waubetek**	
19. NCDC		

Appendix H Expense Definitions

Advertising and promotions
Promotional and advertising materials and events

Collection expense
Generally legal, repossession, storage, refurbishment, and other costs related to the collection of a debt through realization on security.

Communications
Communication expense relates to telephone, facsimile and in some cases identified internet costs.

Depreciation and Amortization
Primarily office equipment however a few AFIs do own the office space they are domiciled in.

Interest and Bank charges

Self explanatory however a small number of AFIs may incur a mortgage interest or credit line expense.

Meetings
Predominantly Board meeting expense costs inclusive of travel, accommodation, incidental expense and honourariums. It is noted honourariums are usually only associated with ACCs.

Office and administration (averages)
Costs incurred relating to office expenses such as office supplies, small equipment purchases under $500, Insurance, licenses and dues, and membership expenses.

Premises costs (averages)

Premises costs include rent, and other occupancy costs such as utilities and common costs etc. Mortgage interest for AFI owned office premises are also included in this category.

Professional fees

Professional fees typically include legal, audit and third party consultant expenditures.

Provisions for loan losses
The amount of loans estimated as uncollectable subsequent to realization of security.

Salaries

Program expense
A consolidation of all program expenses and disbursements relating to programs delivered by AFIs

Travel
Relates primarily to AFI employee travel costs associated with client visits and marketing activities

Other
Primarily costs associated with specific projects undertaken by AFIs from time to time.

"A Billion Dollar Payback"

Appendix I Significant AFI milestones and events:

- 1985± - the concept of AFIs is developed; to create financial institutions to "to improve efficiencies in program design and delivery through increased Aboriginal control"
- 1988-1991 – ABC encouraged the formation of an ACC network. The majority of ACCs reject the idea as it was felt it would be controlled by ABC. Consequently membership fees collected from some ACCs were refunded in the early 1990s
- 1991 – six years after creation of the first AFI, collective AFI loans advanced exceed $100 million
- 1992 - the infamous Coopers Lybrand report is commissioned by ABC setting the stage for fiscal restraints which put the future of AFIs in doubt; funding obligations totaling $18 million under at least 12 separate AFI funding agreements are withdrawn;
- 1994 – the consolidated AFI Gross Loan Portfolio surpasses the $100 million mark; six ACCs develop a loose affiliation to address issues of common concern e.g. withdrawn loan capital agreements; payback of AFI loans surpass $100 million;
- 1996 – the number of AFI loans provided exceeds 10,000; the loose ACC affiliation formalizes as the National Aboriginal Capital Corporations Association (NACCA) with 22 founding members; ABC indicates 22 of 31 ACCs is not a substantial majority of ACCs and refuses to recognize NACCA as the national ACC voice; the six ACCs develop an ACC Treasury Plan for the benefit of all ACCs to restore and enhance AFI loan capitalization; the Paquan Rice report commissioned by INAC confirms AFIs "have developed a know-how not shared by their conventional lending counterparts;"
- 1998 – NACCA establishes a national office in Edmonton; NACCA membership increases to 31 (100% of ACCs); NACCA members design/develop the First Nations and Inuit Youth Business program later funded by INAC and delivered by most NACCA member AFIs; the AFI Treasury Plan morphs into the Access to Capital (ATC) program; ABC insists NACCA deliver future ATC programming to all Aboriginal controlled developmental lending institutions; Aboriginal Community Futures Development Corporations (ACFDs) begin to assist ABC, INAC and NACCA with the design of ATC programming;
- 1999 - ATC programming is announced; the AFI gross loan portfolio hovers around the $100 million mark throughout the period of AFI uncertainty from 1994 to 2000;
- 2000 - NACCA membership is opened to all AFIs; NACCA receives Deputy Minister's award for role in ATC programming;
- 2001 – ATC programming begins to impact AFI operations; confidence in government support for AFIs restored as a result of ATC programming, NACCA membership exceeds 50 AFIs; the AFI gross loan portfolio surpasses the $150 million mark;
- 2002 - the number of AFI loans provided exceeds 20,000; payback of AFI loans surpasses the $500 million mark; CAC audit conducted at NACCA resulting in a 3 month funding disruption; NACCA head office relocates from Edmonton to Ottawa;
- 2004 – cumulative AFI loans surpass the $1 billion dollar mark; a feasibility study conducted by Growth Connections verifies a national Loan Syndication Pool is feasible; the concept of developing incentive based programming Risk Premium Offset (RPO) to offset the high costs of developmental lending materializes; ABC confirms $25 million funding over a five year period for the LSP at the NACCA AGM;

"A Billion Dollar Payback"

- 2005 - the AFI gross loan portfolio surpasses the $200 million mark exceeding the amount of government capital contributions and repayable loans by more than $11 million; INAC ABC indicate at AFI GMs meeting and NACCA AGM that RPO programming should roll out in September; Price Waterhouse Coopers completes a comprehensive national Loan Syndication Pool business plan , confirming need and evidencing potential success; ABC representative was asked to leave meeting room during business portion of AGM;
- 2006 – ABC/INAC recipient Audit conducted on NACCA resulting in funding cut to NACCA administration dollars that lasts more than a year; ABC advises required financial resources for national LSP are not available and LSP is cancelled; INAC ABC again indicate at AFI GMs meeting Risk Premium Offset (RPO) programming should roll out in September; after 20 years of AFI operations write offs at 6% of historical loans provided versus a reported 25% average write off over the life of the IEDF program managed by INAC; all but two AFIs vote in overwhelming support (98+%) of NACCA, at Calgary AFI meeting attended by INAC and ABC;
- 2007 – the number of cumulative AFI loans exceeds the 30,000 mark; government capital contributions and repayable loans to AFIs tops $200 million; the concept of establishing regional LSPs is raised by INAC as an alternative to a national AFI LSP
- 2008 – payback of AFI loans surpasses the $1 billion mark[6]; AFIs press for RPO and regional/sectoral LSP programming;

[6] Total loans provided $1,023,281,068, less loan losses $83,871,783, plus March 31, 2008 GLP $225,227,092 = $1,023,281,068 payback