ABORIGINAL FINANCIAL INSTITUTIONS FISCAL 2009

The AFIs' First $100 Million Year

NACCA

NATIONAL ABORIGINAL CAPITAL CORPORATIONS ASSOCIATION

NACCA

CONTENTS

EXECUTIVE SUMMARY

Introduction

Aboriginal Financial Institutions (AFIs) were created by Indian and Northern Affairs Canada (INAC) and Industry Canada (IC) via Aboriginal Business Canada (ABC) in consultation with Aboriginal leaders.

The AFI precursor was the Indian Economic Development Fund (IEDF), an Indian and Northern Affairs Canada (INAC) managed program delivered directly to Aboriginal people through the INAC Regional office network. AFI formation occurred in the mid to late 1980s in partial response to difficulties experienced by IEDF e.g. limited loan activity and extensive write offs. A key role of AFIs was to shift the mindset of the Aboriginal business community away from government grants to the concept of repayable loans. It was thought at the time AFIs might, because of Aboriginal ownership, overcome collection difficulties and other access to capital barriers such as; Indian Act restrictions on the use of property depriving 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.

AFIs are deeply grounded in the cultures of the regions they serve. Boards governing AFIs are predominantly comprised of Aboriginal representatives from the communities served. Since their inception AFIs have been heavily engaged in Aboriginal business and community development. Activities undertaken by AFIs include (1) business services – counseling, pre-business planning assistance, small interest bearing repayable business loans, post business support services (2) community economic development planning assistance.

The success of AFIs can arguably be attributed firstly to their conceptual design extending a high degree of autonomy to AFI Boards; secondly leadership and oversight provided, thirdly day to day management, and fourthly a deep desire on the part of Aboriginal entrepreneurs to succeed in business thereby improving the quality of life for entrepreneurs and their families. In retrospect the establishment of AFIs was a bold innovative move on the part of INAC/ABC that continues to provide remarkable returns.

The AFI Network - NACCA

In 1994, six ACCs formed a "loose affiliation" as a result of Aboriginal Business Canada's (ABC) development of an MOU with Business Development Canada (BDC) that would have seen Aboriginal Capital Corporations (ACCs) report to Business Development Canada (BDC). The six AFIs began to pursue common interests on their own accord. This "loose affiliation" of six ACCs grew to 22 ACCs and became the National Aboriginal Capital Corporation (NACCA) incorporated in 1996 under Part II of the Canada Corporations Act. In 1999 NACCA received the INAC Deputy Ministers award in recognition of its participation with INAC and ABC in the development of Access to Capital (ATC) programming. Federal government support ($18 million for twelve ACCs) which had been retracted in 1995 was restored in 2000. NACCA has, since 2002, had a membership of well over 50 AFIs from Truro Nova Scotia, to Norman Wells NWT, to Masset in the Queen Charlotte Islands. Through its member AFIs NACCA therefore provides an exclusive apolitical national reach to Aboriginal small business and community development.

NACCA members provide in excess of $150,000 in annual membership fees assisting NACCA to pursue National AFI common interests. National AFI common interests are broadly expressed as; **vision** "NACCA will be a national network of financially sustainable AFIs which are committed to realizing vibrant Aboriginal economies; **mission** "Building the capacity of Aboriginal financial institutions to assist Aboriginal business development and thereby increase their communities' economic self-reliance." In keeping with NACCA's mission statement the 2010-11 emphasis is focused on risk management as applied to developmental lending; enhanced access to loan capital; and Aboriginal youth business. For details refer to the NACCA 2010 omnibus paper.

AFI Network Comparable

The Indian Economic Development Fund (IEDF) was the last Aboriginal small business loan program (managed by INAC Regional offices) before AFI formation. Reportedly, in IEDF's last year of operation it provided loans of $6 million. Historically IEDF recorded average write offs of 25%. In contrast, in 2009 alone, AFI loan advances were $100 million. Historical AFI write offs are 6.37%.

In 2009 repayment of AFI loans surpassed the $1.1 billion mark. The average AFI repayment efficiency rate is 92.34% excluding the outstanding gross loan portfolio of $239 million (76.83% including the outstanding gross loan portfolio). As of March 31, 2009 in the range of 3,500 Aboriginal businesses are supported by 4,490 active AFI loans totaling $239 million. Since inception AFIs have provided in excess of 33,000 loans totaling over $1.4 billion.

AFI Successes

The original INAC/ABC capital investment of $187 million was at the time viewed by many government and Aboriginal leaders as simply another five year program. The 1996 William Paquin/Michael Rice report commissioned by INAC recognized AFIs "have developed a know-how not shared by their conventional lender counterparts."

The March 31, 1999 consolidated AFI gross loan portfolio (GLP) hovered slightly below the $115 million mark; the March 31, 2009 consolidated AFI GLP is $239 million; the consolidated AFI asset base is now $411 million (refer Appendix "A"). Today, twenty some years after AFI inception, there are a total of 57 autonomous AFIs providing loans to Aboriginal small businesses.

The 2005 third party Don Allen pilot study relating to the five year success rate for AFI supported business revealed a success rate of 58% compared to the Canadian norm of 33%. The operational success of AFIs has been largely attributed to the high degree of autonomy afforded AFIs encompassing a built in ownership driven repayment incentive not duplicable by others. AFIs have proven to be an extremely efficient community based low cost job creation mechanism possessing a unique national cohesion.

William Paquin and Michael Rice have indeed been proven correct in their 1996 observation.

AFI NETWORK HIGHLIGHTS

Economic Impact

- For the first time in AFI history, more than $100 million in loans were provided in a single year (2009)
- AFIs leveraged a further $52 million in 2009[1]
- AFIs provided 489 startup business loans for $27 million
- AFIs provided 639 expansion loans for $67 million to existing businesses
- The average startup loan advance is trending up $55,080 in 2009 ($53,128 in 2008)
- The average outstanding loan is trending up (2009 $53,253 from 2008 $50,009)
- Historical AFI loans surpassed 33,000 by number and $1.4 billion by dollar
- Through direct general operating expenses, AFIs injected $36 million into the economy including employment of 346[2] people for $18.8 million and paid professional and third party contractor fees of $3.6 million

1 42 AFIs (75% of all lending AFIs) provided leverage data evidencing leverage of $39 million – by extension $52 million

2 The 2006 survey also revealed 67% of all AFI employees were Aboriginal; 57% of senior managers; 78% of Support Managers and 71% of support staff.

Portfolio Management

- Specialized AFI training is now accredited University course
- 40 AFIs accessed Support and Training programming in 2008-09
- The AFI gross loan portfolio (GLP) is comprised of 4,490 loans aggregating $239 million
- Historical loan repayments reached 29,378 for $1.1 billion - repayment efficiency rate is 92.34% (76.8% discounting the GLP)
- Yield on the GLP is trending slightly up 7.17% (2008 7.06%)
- 81% of AFI loans are current, 1-30 day arrears 1%, 31-60 days 2%, 61-90 days 1% and over 90 days 18%3
- March 31, 2009 AFI loan loss reserve was 14.86%
- AFI cost of capital is trending down at 24.13%

Liquidity

- Cumulative (initial plus top up) repayable and contributed loan capital of $232 million and has turned over 6.1 times
- 26 AFIs (46% of all lending AFIs) now have loan capital liquidity levels of 15% or less of corresponding GLPs
- The AFI GLP has consistently outstripped repayable and contributed government loan capital for more than five years

Profitability

- AFI assets are trending up at $411 million
- Expenses per loan are trending slightly lower at $7,253
- Collective operating profit in 2009 was $2 million - due to $3.6 million profit for privately capitalized AFIs

3 72% of AFIs (representing 70% of consolidated GLP) provided contractual aging summaries in dollars of loans

STATE OF THE AFI NETWORK MARCH 31, 2009

The most significant balance sheet asset held by AFIs is the GLP which at $239 million reflects an increase of 6.6% over the 2008 GLP of $224 million. Contractual loan portfolio aged data was provided by 39 AFIs. Current loans represent 81% of the GLP (74% in 2008), 1-30 day arrears 1% (3% in 2008), 31-60 day arrears 2% (2% in 2008), 61-90 day arrears 1% (2% in 2008) and over 90 - day arrears 15% (19% in 2008). The 2009 loan loss reserve is 15% (14% in 2008). The trend appears to be improving.

INAC performance measurements were applied to 79% of the INAC/ABC capitalized AFIs. In 2009, 40% performed above mid tier level, 30% performed at mid tier level and 30% performed below mid tier.

It has for a number of years been abundantly clear the original AFI model developed in the 1980s is fundamentally flawed e.g. 12% yield minus an 11% cost of capital (inclusive of loan losses) = a 1% profit. The 2009 AFI cost of capital[4] was 24.13% (25.63% in 2008). Collective AFI loan related income including bad debt recoveries and fees remained flat at 8.92% (8.97% in 2008). AFIs are unable to self generate new capital; inflation continues to erode existing capital; the financing capacity, of the AFI capital base despite the fact limited capital top ups have been provided on a selective basis, continues to erode. AFIs are well aware of this issue. ***A Risk Adjusted Return on Capital (RAROC) based Performance Allocation (PA) incentive that responds to the fundamentally flawed model is urgently required. The continued absence of PA or similar positive incentive based programming is severely limiting AFI capacity at a time when the current economic recovery depends heavily upon the availability of credit for small businesses.***

The second most significant balance sheet asset held by AFIs is liquid cash of $76 million[5]. It is also important to note that of the $76 million $49 million is concentrated among 9 AFIs. The inability of AFIs in need of additional capital, to source additional loan capital to meet demand, is increasingly restraining their ability to impact on the Aboriginal economy. For the past ten years the consolidated AFI GLP has exceeded repayable and contributed loan capital provided by the Federal government. In a growing number of cases, inadequate AFI loan capital levels are resulting in curtailment of lending activities e.g. reduced maximum loan limits, inability to fund loans until repayments occur, limited marketing activities, and in a few cases a shift toward lower risk loans in an effort to better preserve remaining capital. In addition, more AFIs are creating subsidiary for profit businesses to enhance their AFI bottom line.

There is an acute need to develop well defined AFI capitalization criteria, INAC policies, procedures, corresponding budgets, and incentive mechanisms to assist AFIs in the attraction of private capital.

4 AFI cost of capital is calculated using the following formula ((Total expenses - provisions – Program Revenue – Project Revenue)/GLP+ (cost of funds/GLP) - (Interest earned on cash deposits/GLP)) +15% for adequate developmental lending provisions.

5 After deduction of deferred revenue $49 million, contingent liabilities of $16 million, and $31 million held by AFIs not capitalized by the federal government.

Over the 10 year period from 1999 to 2008 the AFI GLP increased by $109 million or 95% (from $115 million to $224 million). The NACCA Omnibus Paper contemplates GLP growth of 67% or 5.5%[6] per year, totaling $150 million from 2008 through to 2020 resulting in a GLP of $375 million in 2020. To maintain a minimal 15% liquidity AFIs will require $56 million. ***The combined liquidity increase and loan capital need to 2020 would therefore equate to $157[7] million.***

Collective AFI Projects Underway

Representatives of AFIs, namely General Managers or in a few cases designates, regularly form AFI working groups to collaborate on the development of innovate solutions to challenges confronting AFIs. In broad terms each of the working groups assist all AFIs, as virtually all of the projects undertaken seek to build AFI capacity and enhance AFI impact in one form or another. In addition to projects undertaken by working groups NACCA staff is from time to time directed to undertake certain projects.

NACCA's operational plan catalogues AFI projects in three groups; **ATC Program Operation**s e.g. LMS TEA development; **Recurring Operation**s e.g. Best Practices – Critical Standards; and **Non-Recurring Operation**s e.g. AFI Job Creation Study. In financial year 2009-10 a total of 26 projects were undertaken with 17 completed/to be completed by March 31, 2010,[7] rescheduled for completion in 2011 and 2 becoming recurring annual projects. A further 25 projects are planned for 2010-11[8].

6 Actual GLP growth from 2008 to 2009 was $15 million or 6.6% - well above the 5.5% projection

7 $150 million required for GLP growth + $56 million needed to maintain liquidity = $206 million less $49 million now on hand = $157 million new capital

8 Refer to Annex II and Annex III in the NACCA operating plan for a comprehensive 2010 and 2011 list of projects as well as individual project summary sheets for further detail.

Significant Underlying Issue

AFI/INAC relations have become increasingly strained since 2006-07 and 2007-08 with some carry over into 2008-09. The five plus year wait for already developed programming to address the flawed ACC business model appears to be at the root of the strain. Although a fresh INAC management team is now in place an uncertainty about ultimate INAC intent remains. In other words; is the INAC vision for AFIs merely an extension of the department or; will AFIs remain autonomous organizations? This uncertainty is compounded by the current AFI review process which has done little to engender goodwill. The stated purpose of the review and the actual review appear in the eyes of some to be unrelated. Provision of Loan Loss Reserve programming to conventional non Aboriginal lenders with AFIs excluded has further exacerbated the situation.

A growing number of AFIs are beginning to muse about a different future e.g. Do we continue to try to work with INAC or go our own way?

In light of the foregoing it would seem timely for NACCA and INAC to open a dialogue with a view to resolving outstanding issues.

SECTION I
THE AFI NETWORK

The AFI network provides direct employment for 346 people, 67% of whom are Aboriginal.

The Network is comprised of 59 AFIs (57 lending AFIs and 2 business support service AFIs) located in every Province and Territory in Canada. The 2009 Portrait of AFIs draws on the audited financial statement data of 56 AFIs (54 lending and 2 business support service AFIs). Supplemental AFI data e.g. loan activity was provided by 36 AFIs for 2008-09.

The 57 AFI developmental lending operations are domiciled as follows:

YK	NT	NU	BC	AB	Sask	Man	Ont	PQ	Atlantic
1	7	3	11	5	6	10	8	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 small business financial infrastructure which, with the assistance of the Access to Capital (ATC) initiative and in particular the Enhanced Access (EA) program, covers the entire Country.

The AFI Model

AFIs were created specifically to engage in the provision of small business support services and high risk loans which do not fall within the risk parameters of regulated conventional financial institutions. AFIs began delivering small business support services and loans in 1986. The original self sustaining AFI model was developed prior to 1986, when the central bank rate was in the 8% to 9% range. It was assumed by ABC[9] the average AFI with a $5 million capital base would be self sufficient. The model was premised on a yield of 12% and a cost of capital of 11%. Theoretically the model was to generate an annual net profit of 1% to allow for growth.

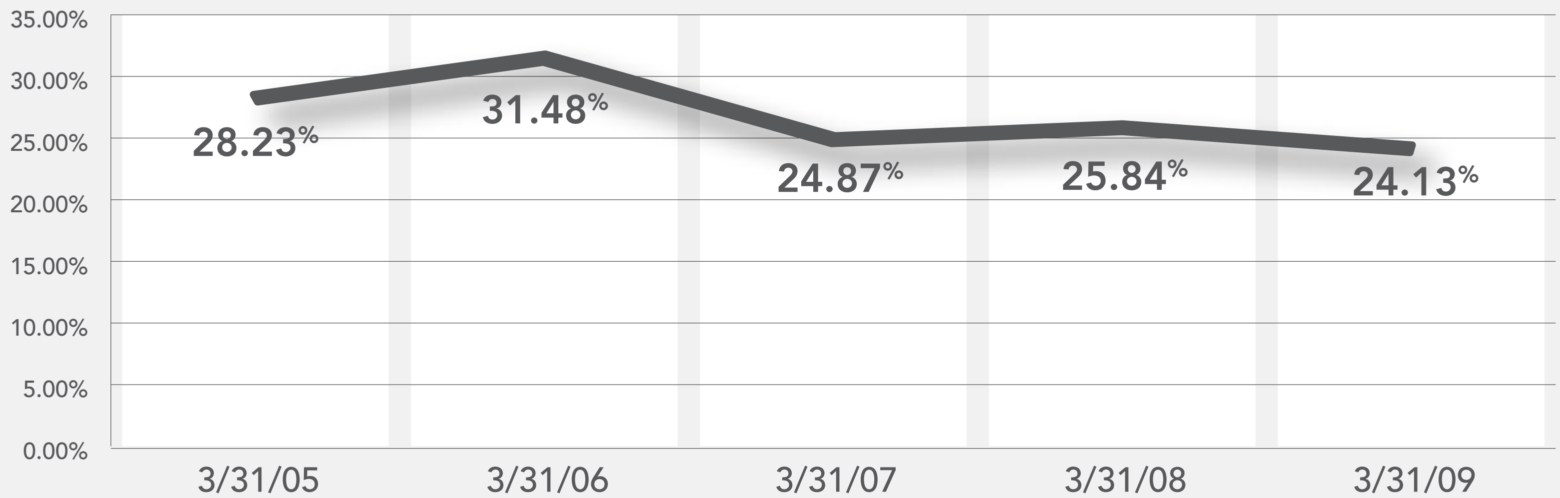
The central bank rate is now 0.05%. AFI yield achieved in 2009 was 7.2%. AFI cost of capital was 24.1% in 2009.

The five year rolling average cost of capital now stands at 26.9%. Cost of Capital combined with the average annualized inflation rate since AFI inception in the range of 2% render the original contemplated $5 million capital base woefully inadequate.

Discussions to correct AFI model deficiencies with ABC/INAC began in 2004.

9 Reportedly the demand for the establishment of AFIs far outstripped budgeted resources resulting in the budget envelope being cut into substantially smaller pieces than third party AFI business plans called for.

COST OF CAPITAL

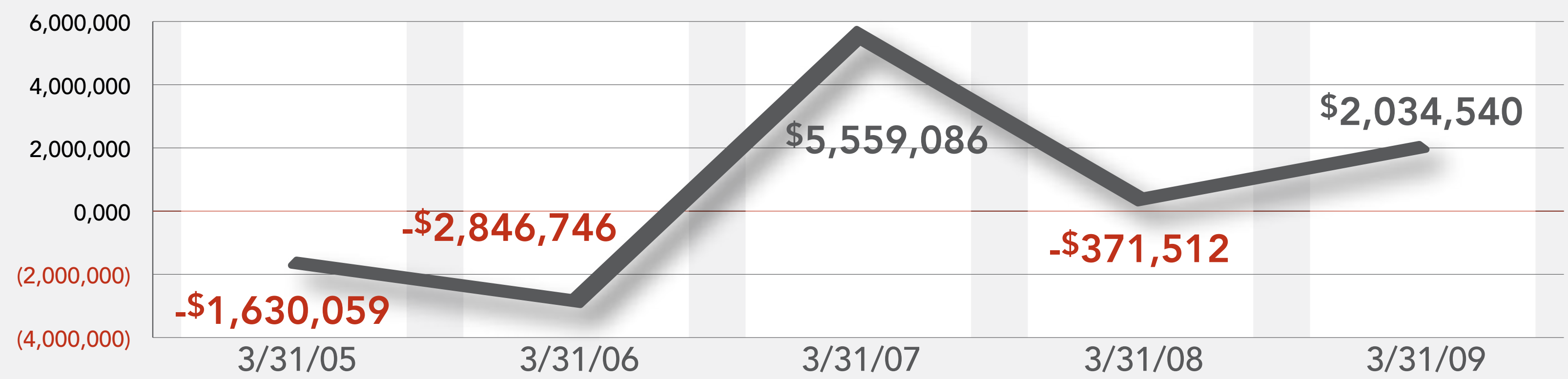


In the absence of fundamental AFI model corrections e.g. Risk Adjusted Return on Capital (RAROC) based programming AFIs are left with relatively few choices:

1. Status quo – until losses erode loan capital and business ceases
2. Set up wholly owned businesses to generate profit to cover AFI cost of capital shortfall (**arguably a developing trend**)
3. Increase interest rates to the 25% range to cover the cost of capital
4. Reduce capital costs (tolerance for risk) until market rates provide adequate cover
5. Arrange financial support which combined with fair and equitable borrower rates would cover the cost of capital
6. A combination of 2, 3, 4 and 5 above

Collective AFI financial losses have been incurred in three of the last five years. The overall five year profit picture charted below turned from negative to positive again in 2009 as a result of profits recorded by privately capitalized AFIs.

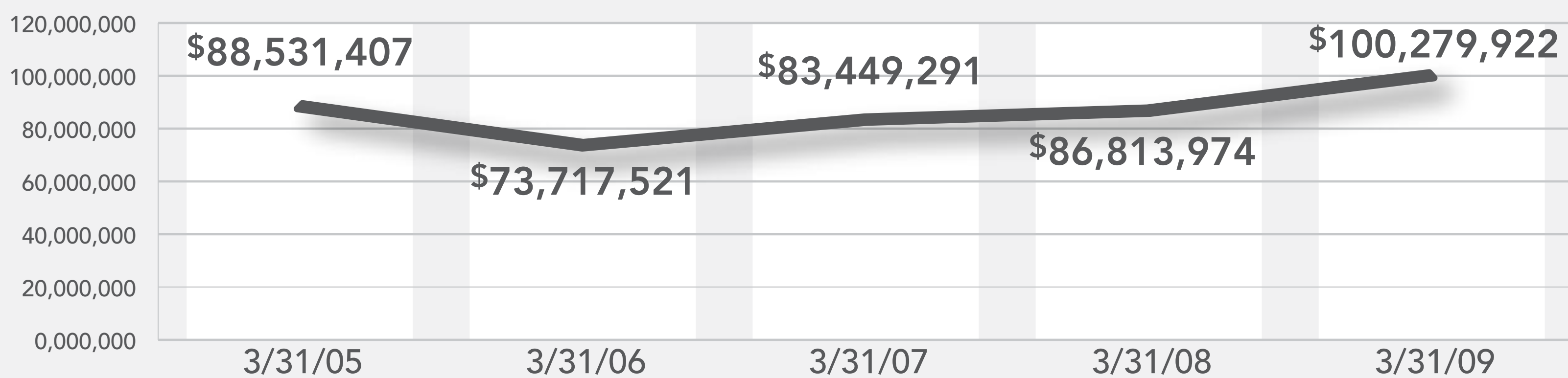
FIVE YEAR PROFIT TREND



Consolidated Lending and Loan Portfolio

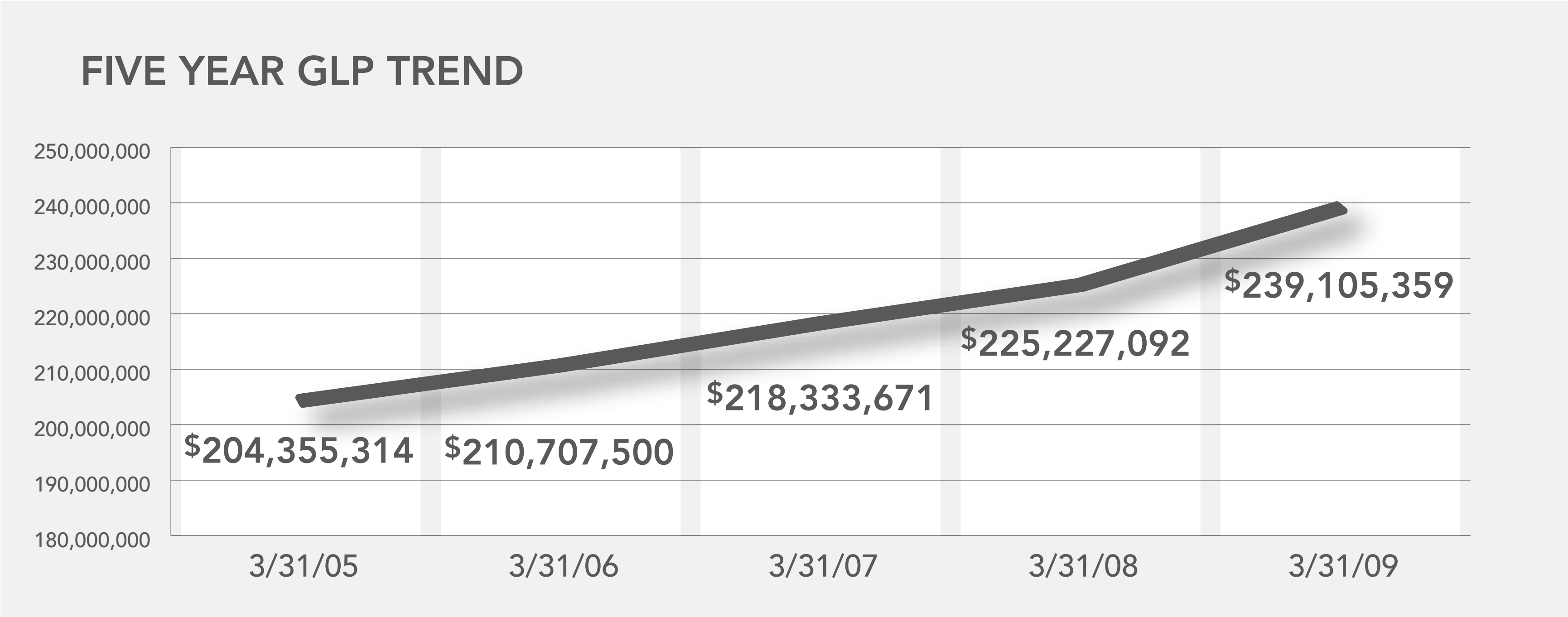
For the first time in AFI history, annual AFI loan disbursements exceeded $100 million in a one year period. The chart below reflects the most recent five years annual loan disbursements.

FIVE YEAR LOAN TREND



A federal government loan capital investment of $232 million over 20+ years has facilitated the provision of $1.4 billion loans, an active loan portfolio of $239 million, and a nationwide AFI network now providing loans in the range of $100 million per year (refer appendix "C"). In the last 10 years AFIs provided loans totaling $769 million. 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 every year.

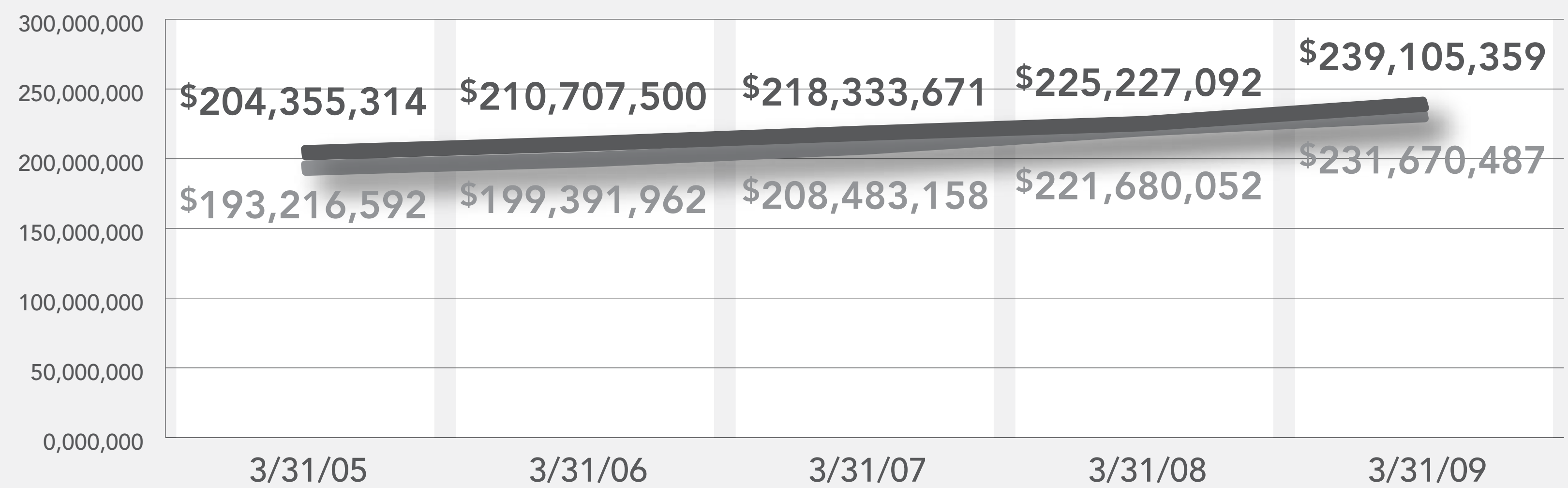
The collective AFI GLP as of March 31, 2009 was comprised of 4,490 loans aggregating a record $239 million reflecting a $128 million or a 115% GLP increase over the ten year period from 2000 to 2009. Growth has been stable over the last 5 years.



Through introduction of the ATC initiative, AFI confidence levels[10] with respect to government support were significantly boosted. Many AFIs were motivated to convert idle cash into loans. Other AFIs with depleted cash levels were able to attract nominal amounts of private sector capital utilizing the Interest Rate Buy-down (IRB) programming. A few other AFIs were able to attract small amounts of loan capital from unconventional sources such as Tribal Councils and Métis Settlements. For some years now the collective AFI GLP has exceeded combined contributed and repayable government loan capitalization.

10 ACC confidence levels in terms of Government support were severely diminished in the mid 1990s by ABC actions e.g. MOU with BDC etc.

GOVERNMENT LOAN CAPITAL: GROSS LOAN PORTFOLIO



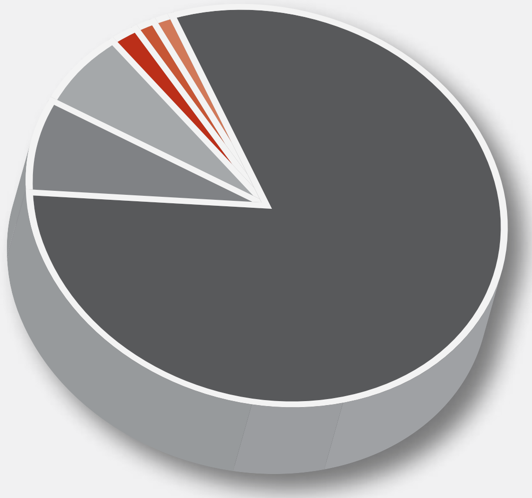
The gap between government provided AFI capital and the GLP widened slightly again in 2009.

Conventional lender credit tightening since March 31, 2009 may result in greater reluctance for conventional lenders to extend IRB supported credit lines to AFIs, further exacerbating the AFI loan capital squeeze.

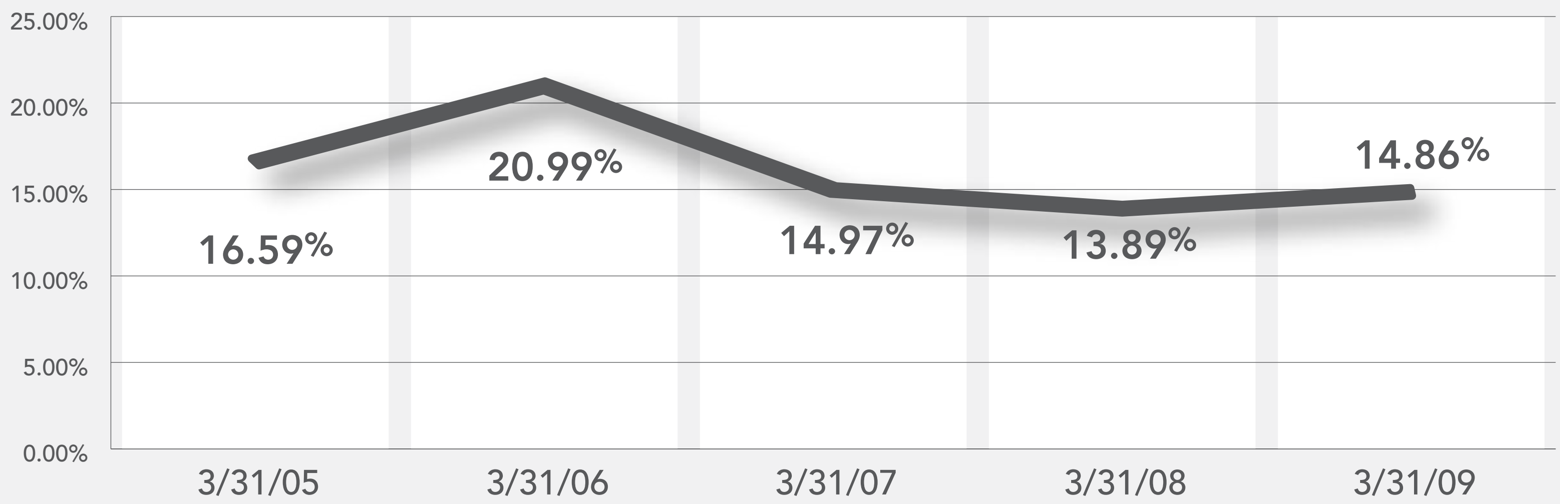
In respect to the AFI GLP quality, AFIs first began providing aged loan portfolio data in fiscal 2006. In 2009, 39 of the 46 AFIs that provided audited annual financial statements also provided aged loan portfolio data. The contractual delinquency pie chart immediately following reflects corresponding contractual delinquency. The line graph following the pie chart depicts the five year loan loss reserve trend. The portfolio at risk (PAR) over 90 days is 15%. The 2009 loan loss reserve at 15% offsets the PAR.

CONTRACTUAL DELINQUENCY

80.84% Current
7.86% Over 120 days
6.78% 90-119 days
1.89% 31-60 days
1.40% 1-30 days
1.22% 61-90 days



LOAN LESS RESERVE TREND



Cost of Capital

The cost of capital is a function of four elements which dictate the interest rate requirements for loans provided:

1 adjusted administrative expenses (AAE) program and project revenues subtracted from expenses

2. adjusted loan losses (ALL) 15%

3. cost of funds (CoF) conventional capital borrowed by AFIs bears a net cost despite IRB programming

4. desired capitalization rate[11] (CR) to allow for growth – a cap rate is not contemplated in AFI cost of capital

Comprehensive cost of capital explanations as well as the calculation methodology was provided in Aboriginal Financial Institutions *"AFIs in Progress 2007."* The AFI cost of capital without inclusion of a capitalization rate is calculated as follows:

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

11 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.

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 39 Smaller Region and 19 Larger Region AFIs. Utilizing the above formula, the 2009 AFI cost of capital is summarized in the table immediately below.

It is expected the overall 2009 cost of capital gap evident at 16.96% would be essentially offset by Risk Adjusted Return on Capital (RAROC) based Performance Allocation (PA) programming. Consequently loan capital erosion would subside and could eventually reverse itself in light of risk measurement, management and mitigation tools associated with RAROC.

	All AFIs 2009	All AFIs 5 Year Average	2009 All SR AFIs	2009 SR Unprofitable AFIs	2009 SR Profitable AFIs	2009 All LR AFIs	2009 LR Unprofitable AFIs	2009 LR Profitable AFIs
Cost of Capital	24.13%	26.91%	26.40%	27.61%	20.44%	22.49%	25.73%	17.89%
Yield	7.17%	8.05%	6.86%	5.02%	8.10%	7.65%	9.64%	6.06%
Gap	**16.96%**	**18.86%**	**19.54%**	**22.59%**	**12.34%**	**14.84%**	**16.09%**	**11.83%**

ONGOING DEVELOPMENTS

AFIs: Access to Capital (ATC) Programming

AFIs received approval for 133 Access to Capital (ATC) Support and Training (S&T) applications in 2008-09 enabling AFI strategic planning, staff training and development, board training and development, policy and procedure enhancements, loan accounting and computer training. Complete details of S&T activity along with the other two ATC programming elements (Enhanced Access and Interest Rate buy down programming) are available in the ATC Program Manager's annual report "Fiscal 2008-09".

Collective AFI Projects Underway

NACCA, under the direction of AFIs, and in consultation with INAC are continuously endeavouring to enhance AFI operational and financial performance results. Representatives of AFIs, namely General Managers or in a few cases designates, regularly form AFI working groups to collaborate on the development of innovate solutions to challenges confronting AFIs. Each of the working groups assists all AFIs, as virtually all of the projects undertaken seek to build AFI capacity and enhance AFI impact in one form or another. In addition to projects undertaken by working groups NACCA staff is also directed from time to time to undertake certain projects providing periodic progress reports to General Managers in order to obtain feedback and guidance.

AFIs are also beginning to form clusters to pursue common interests in the most cost efficient manner e.g. Agricultural AFIs jointly design, develop and deliver agriculture specific support programming; Saskatchewan region AFIs have syndicated larger loans for 7+ years; Ontario, Manitoba AFIs are developing communications strategies; two BC AFIs jointly financed a green energy project.

In financial year 2008-09 a total of 27 projects were undertaken. Projects undertaken by AFIs are catalogued in three groups; ATC Program Operations e.g. LMS TEA development; Recurring Operations e.g. Best Practices – Critical Standards; and Non-Recurring Operations e.g. AFI Job Creation Study. Refer to the NACCA 2008-09 operating plan Annex I for complete details.

Government:

- Provide funding to support the AFI National office (NACCA)
- Provide support to AFIs via ATC programming Support and Training, Enhanced Access and Interest Rate Buy down
- Provided $38.8 million in AFI capital top ups since March 31, 2002 to ACCs demonstrating need. In addition ACOA has provided $6.0 million, and FEDNOR nearly $2 million during the same time span
- Support up to 75% of BSO costs to 22 AFIs assisting them to fill 33 BSO positions[12]

NEAR TERM PRIORITIES

Priorities fall into three categories, risk adjusted return on capital, enhanced access to capital, and Aboriginal youth business.

1. Risk Adjusted Return on Capital (RAROC)

This initiative would assist AFIs by addressing fundamental deficiencies in the original AFI model. It will address long-standing needs to (1) establish a structured program which recognizes the high financial risks associated with Aboriginal small business lending (2) engender a desire among AFIs to deploy idle capital in the form of loans and (3) encourage AFIs to recognize and manage risk with the primary focus being client small business success. For these reasons RAROC based Performance Allocation (PA) programming continues to be the highest priority issue for AFIs.

12 Some AFIs approved for more than 1 BSO

PA programming is proposed to be jointly designed by AFIs and NACCA/INAC. A 2005 NACCA/INAC developed risk measurement tool quantifying risk for purposes of managing risk as opposed to determining probability of default is already in use by many AFIs. A third party (Don Allen) study involving approximately 20 AFIs has been completed. The study utilized the AFI risk measurement tool to reveal 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 38 comparable AFIs that provided startup loan data and new loan advance to existing business data for 2008-09 advanced new loan dollars totaling $59.8 million. Based on previous year activity for AFIs that did not provide 2008-09 new loan advance data approximately $5 million should be added to the reported total bringing it up to the $65 million range. Utilizing this estimated volume the proposed PA initiative would generate additional annual revenue in the range of $9.7 million closing the existing cost of capital gap. Combined with the enhanced risk measurement and management practices enshrined in the PA initiative, PA programming would significantly preserve existing AFI loan capital and substantially strengthen financial and management capacities of the AFI Network. Refer to the following table for summary details.

Fiscal 2009	AFI Loan Profile	PA Rate	PA Payments to AFIs
Very Low and Low Risk	$9,425,000	0%	$0
Medium Risk	$26,910,000	15.0%	$4,036,500
High Risk	$28,015,000	20.0%	$5,603,000
Very High Risk	$650,000	20.0%	$130,000
Total	$65,000,000		$9,769,500

A vast array of options is available in terms of capping PA incentives should loan volumes escalate beyond expectations.

2. Enhanced Access to Loan Capital

This initiative has two primary objectives (1) to ensure adequate AFI loan capital liquidity levels and (2) leverage of private sector loan capital. Consequently it is dependent to some degree on and supplementary to the RAROC initiative in that Performance Allocation combined with the Liquidity component of Enhanced Loan Capital initiative, will ensure that the AFIs are financially viable. This financial viability will make then the AFIs more attractive borrowers/partners for private sources of capital and help AFIs lever private capital to finance the fast growing demand for developmental loans. Through 2020, the AFI gross loan portfolio is expected to grow from the current $239 million to $375 million. To maintain the prevailing 15% liquidity requirement guideline AFIs will require $56 million. The combined liquidity increase and loan capital need would therefore equate to $157[13] million.

3. Aboriginal Youth Business Programming

This initiative will address a key vacuum in the current suite of INAC programs by offering customized, comprehensive support services and financing to Aboriginal youth who are at risk or are entering the job market. This program will provide Aboriginal youth with career development options, with successful participants helping increase the sustainability of Aboriginal economic development. Program costs are estimated at $1.6 million annually comprising $1.1 million for participant mentoring and financing subsidies, and $0.5 million for AFI Risk Recognition offsets and administration costs.

13 $150 million required for GLP growth + $56 million needed to maintain liquidity = $206 million less $49 million now on hand = $157 million new capital

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, 2009 providing AFI General Managers/Boards with AFI statistics for comparative purposes.

Qualifications

Not all AFIs use identical revenue and expense category terms/phrases. Some discretion was therefore necessary to consolidate the financial results.

- There are a total of 59 AFIs
- 56 AFIs provide developmental loans to Aboriginal owned small businesses
- 1 AFI provides resupply credit lines to Aboriginal owned and controlled co-ops North of 60
- 2 AFIs specialize exclusively in the provision of business support services
- 46 current audited AFI financial statements and related supporting information were consolidated to produce this report
- The most recent available audited year end data available was used for the 11 AFIs that did not provide March 31, 2009 data
- Although 84% (47) of AFI year ends occur March 31,st 16% (9) year ends occur after March 31st
- One of the 9 AFIs with year ends after March 31 was able provide fiscal 2009 audited financial statements for this review. The most recent year end data on hand for the remaining 8 AFIs were used to compile collective 2009 results on the assumption they would roughly replicate 2008 results in 2009

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 AFIs.

Smaller Region (SR) and Larger Region (LR) AFIs

In 2004 it was recognized commonalities emerged amongst AFIs when they were clustered into geographical sizes[14]. 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 "A" through "F" for details pertaining to key data for average SR and average LR profitable and unprofitable results.

14 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 39 Smaller Region and 19 Larger Region AFIs.

AFI Management and Oversight

Governance

AFI Boards are made up of individuals from the regions served by the AFI. Generally, if an AFI Board does not consider itself to have a sufficiently strong business, financial or academic representation on its Board, one or more outside directors (possessing one or more of the required attributes) are recruited to sit on the Board.

Operational Management and Staff

Many AFIs combine Account Manager (AM) and Business Support Officer (BSO) functions in light of financial constraints. Similarly, many AFI Loan Support staff duties are intermingled due to financial constraints. As of March 31, 2009 AFIs directly employed a total of 346 people.

A 2006 NACCA survey revealed the average experience levels for AFI management positions were: General Managers 9 years, Account Managers 6 years and Business Service Officers 7 years. The survey also revealed 67% of all AFI employees were Aboriginal; 57% of senior managers; 78% of Support Managers and 71% of support staff.

Liquidity

As of March 31, 2009, 27 of 57 or 47% of AFIs had government capital liquidity levels of less than 15%.

2009 AFI Loan Statistics

In fiscal 2009 AFIs provided a total of 1,252 loans aggregating $100.3 million. Detailed new loan advance statistics from 42 comparable AFIs are in hand (39 for the current year and 3 from the previous year). A total of 1,068 new loans aggregating $61.6 million were provided by the 42 comparable AFIs. Of this total, 639 loans for $26.9 million or 43.7% of new dollars loaned were to start up businesses and 579 new loan advances for $34.7 million or 56.3% were to existing businesses.

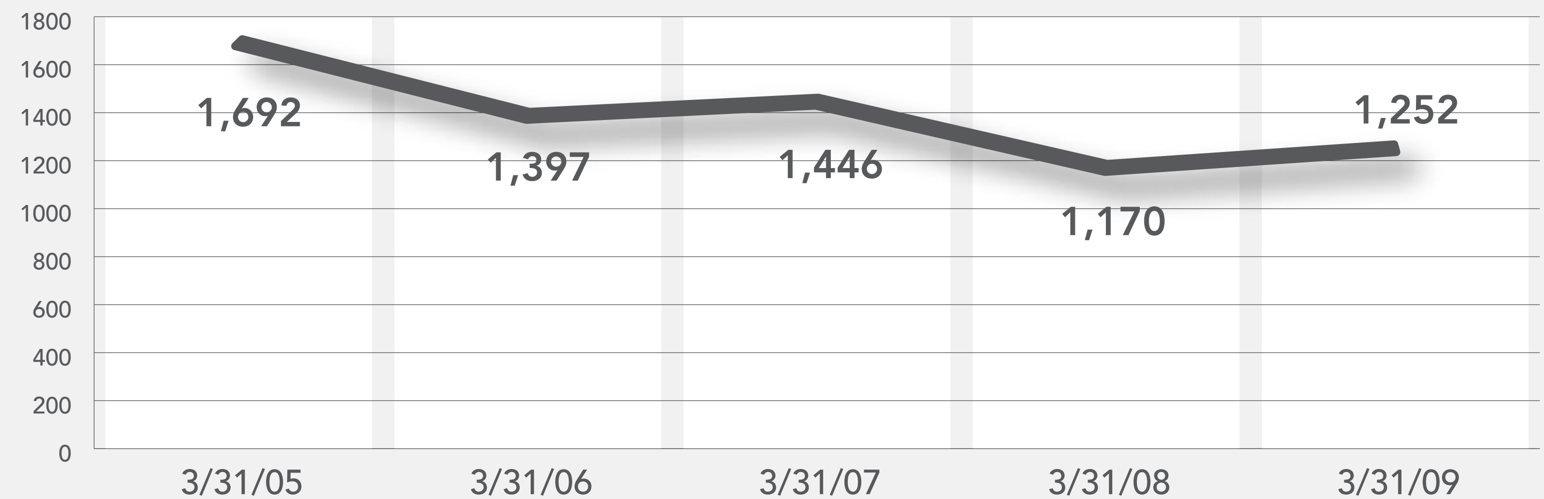
A summary of average Smaller Region (SR) and Larger Region (LR) AFI new loan advance activity is reflected in the table below.

	Average Smaller Region AFI				Average Larger Region AFI			
New Dollar Advances Only	#	% by #	$	% by $	#	% by #	$	% by $
Start ups	6	46%	$302,021	46%	14	44%	$813,535	41%
Existing businesses	7	54%	$351,707	54%	18	56%	$1.187,4101[15]	59%
Totals	13	100%	$653,728	100%	32	100%	$2,000,945	100%

15 Excludes ACDF

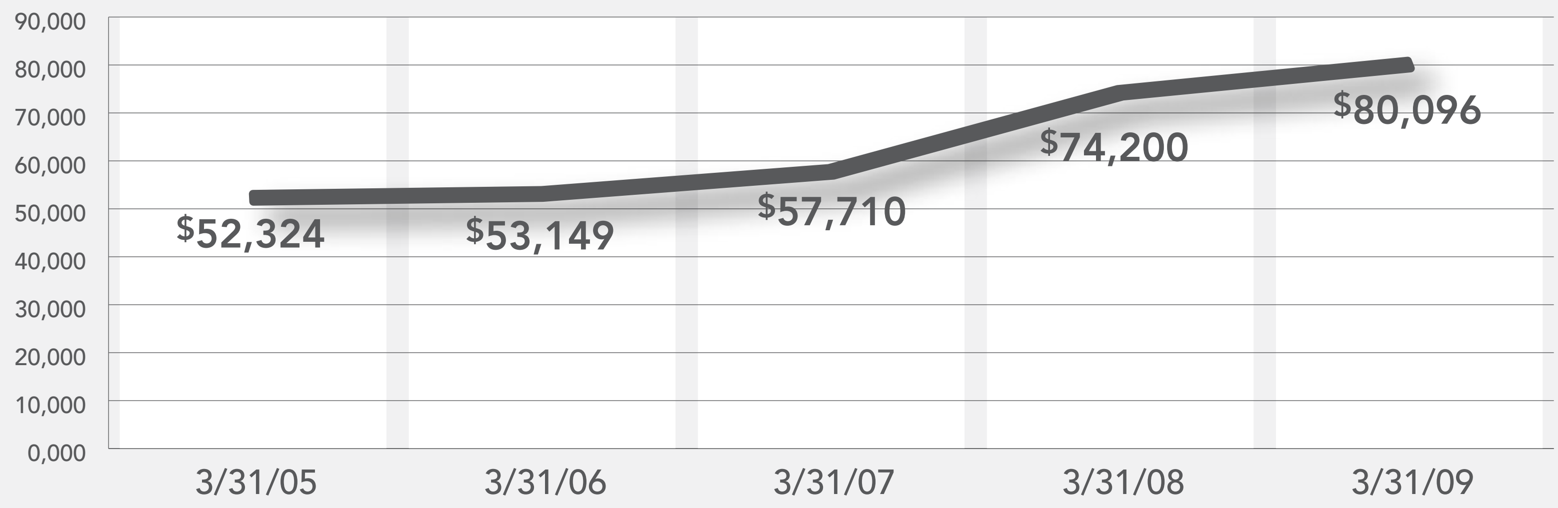
The five year rolling average number of loans provided per year is 1,389. Although the annual number of loans provided over the last 5 years has seesawed it would appear a downward trend may be developing.

ANNUAL AFI LOAN TREND BY NUMBER



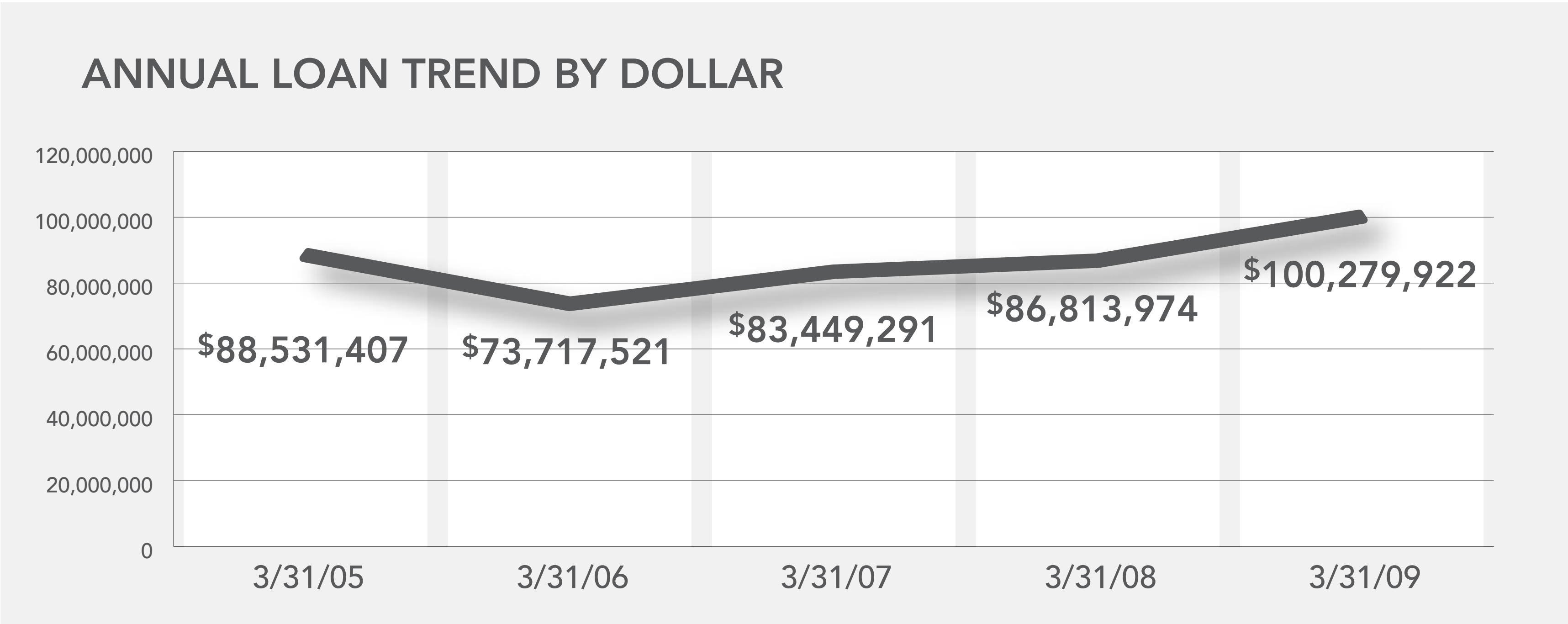
The average size of a new loan advance has consistently increased over the last 5 years from $52,323 in 2005 to $80,095 in 2009. In the continued absence of a Performance Allocation type of programming this trend may continue.

AVERAGE LOAN ADVANCE TREND

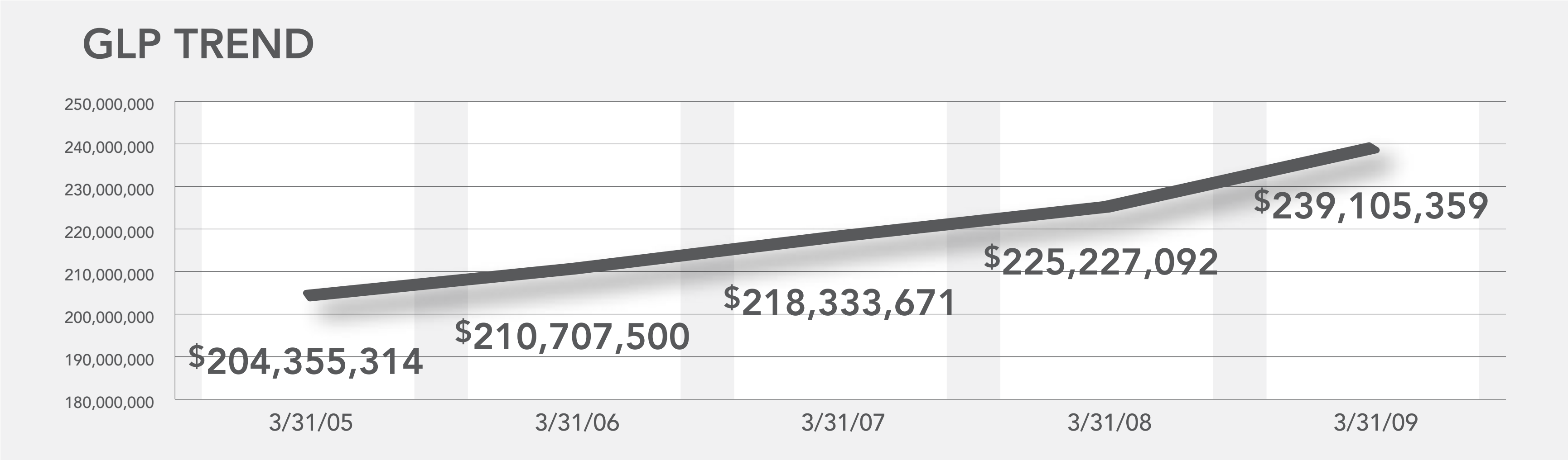


The apparent downward trend in numbers of loans combined with increased dollar amounts per loan suggests AFIs may be attempting to improve fiscal efficiencies. In other words, administrative costs are the same for one Account Manager to manage 50 loans of $25,000 each or 50 loans of $50,000 each. If 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. If all other factors, including salary and benefit costs of the Account Manager remain equal it is easily understandable why the trend to fewer larger loans is unfolding.

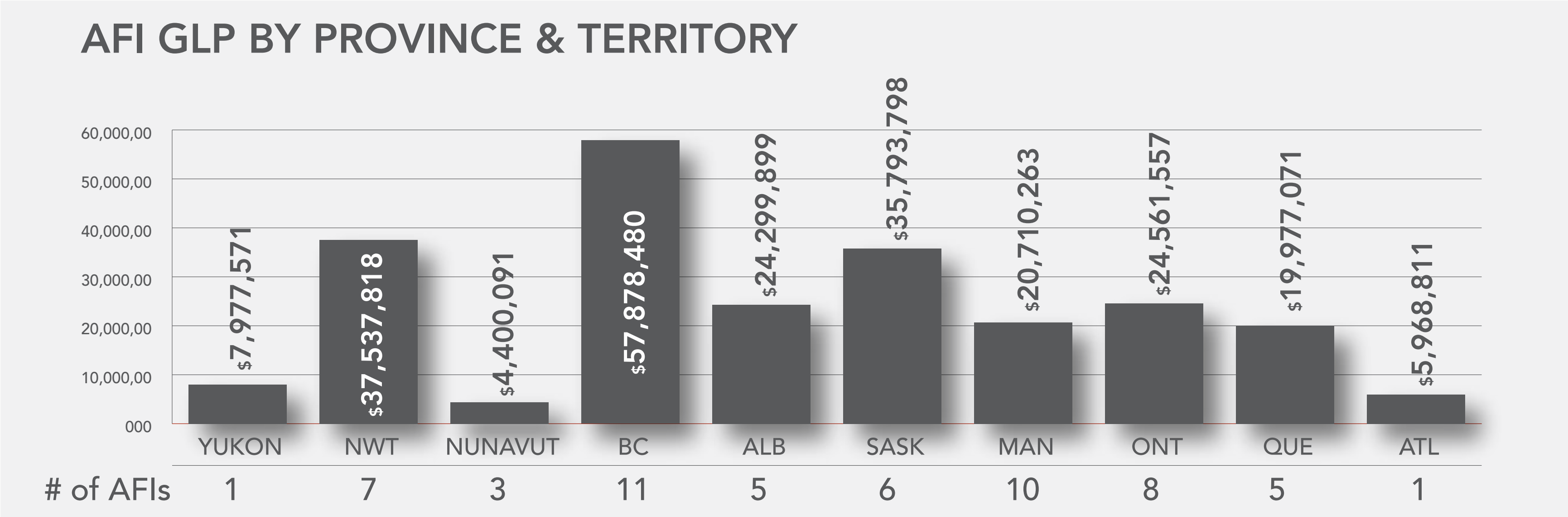
Over the past five years total annual loan disbursements have ranged between $74 million to $100 million



Gross Loan Portfolio Growth Trend ***The consolidated AFI GLP exhibits steady growth of $34.7 million or 17% over the past five years.***



2009 Gross Loan Portfolio by Province/Territory The chart immediately below depicts the 2009 Provincial/Territorial distribution of the loan portfolio.



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 the adequacy of loan loss reserves or write offs by excluding outstanding GLPs. 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 noted a recent sharp upward growth trend adversely distorts repayment efficiency calculations as does the recent provision of a capital top up.

	Yukon	NWT	NU	BC	Alberta	Sask	Man	Ont	Quebec	Atlantic
Repayment Efficiency	75%	90%	81%	68%	79%	74%	56%	69%	65%	68%

Average Smaller Region (SR) and Larger Region (LR) AFI Financial Results

Five year audited statement results have been consolidated and categorized below into profitable and unprofitable SR and LR AFIs.

			% SR AFIs	% SR AFIs	% LR AFIs	% LR AFIs
Fiscal Year	All SR AFIs	All LR AFIs	Profitable	Unprofitable	Profitable	Unprofitable
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%
2009 $ profit (loss)	280,140	1,754,400	47%	53%	47%	53%
5 year average	2,212,729	(1,935,639)	50%	50%	51%	49%

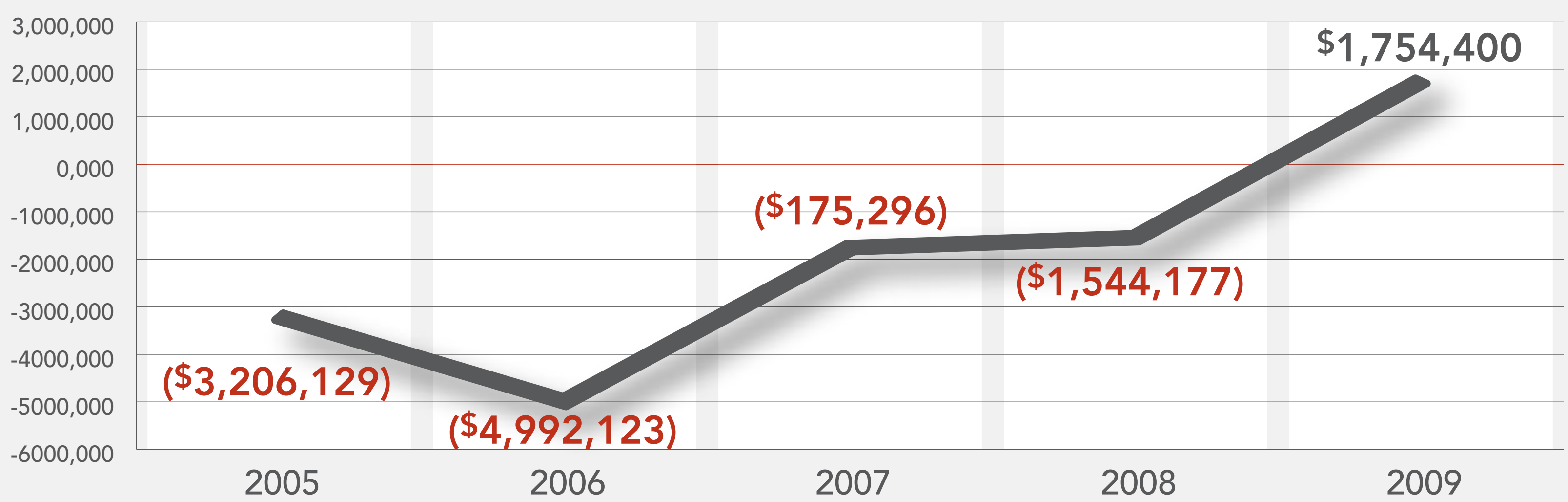
Collectively Smaller Region AFIs have been profitable in each of the last five years. The vast majority of Smaller Region AFIs or 86% receive formula driven operational subsidies from Regional Agencies for a wide range of support services they provide. Consequently Smaller Region AFIs are not as dependent upon loan related revenue as Larger Region AFIs.

FIVE YEAR SR AFI PROFIT TREND

Only two of the nineteen larger region AFIs receives formula driven operational subsidies from Regional Agencies.

Collectively Larger Region AFIs have been unprofitable in four of the last five years. Further analysis of the 2009 (the only year out of the last five years in which they have been profitable as a collective group) profit results of LR AFIs reveals they are only profitable as a collective group because of the profits associated with privately capitalized LR AFIs.

FIVE YEAR LR AFI PROFIT TREND



Revenue Summary

Fiscal 2009 revenues have been itemized and reflected as a percentage of respective gross loan portfolios.

	Average Unprofitable SR AFI		Average Profitable SR AFI		Average Unprofitable LR AFI		Average Profitable LR AFI	
Assets	**3,527,499**		**6,315,289**		**10,655,129**		**14,478,494**	
Loans advanced during year	**728,208**		**920,333**		**4,811,204**		**2456188**	
Gross Loan Portfolio	**2,485,066**		**3.192,418**		**7,901,525**		**6,193,753**	
Revenues		**% GLP**		**% GLP**		**% GLP**		**% GLP**
Net Interest - loans	101,010	4.06%	222,648	6.97%	545,669	6.90%	463,467	7.48%
Bad debt recoveries	1,418	0.05%	35,865	1.12%	20,451	0.25%	33,391	0.53%
Interest on deposits	28,844	1.16%	62,208	1.94%	30,128	0.38%	59,683	0.96%
Fee and misc. income	37,738	1.51%	68,422	2.14%	111,364	8.95%	188,966	3.05%
Subtotal loan portfolio income	***169,010***	***6.78%***	***320,721***	***12.17%***	***707,612***	***16.64%***	***745,507***	***12.02%***
Operating subsidies	153,300	5.38%	199,766	6.25%	195,217	2.47%	52,052	0.84%
Program revenue	614,249	25.12%	889,142	27.85%	2,587,292	32.74%	204,880	3.30%
Other	13,564	0.54%	172,350	5.39%	62,061	0.78%	582,390	9.40%
Subtotal - other income	***781,113***	***13.98%***	***1,261,258***	***39.49%***	***2,844,570***	***7.75%***	***839,322***	***11.96%***
Total revenue	**950,123**	**31.04%**	**1,581,979**	**51.66%**	**30,552,182**	**36.00%**	**1,584,829**	**25.69%**

Note: Loan portfolio income for LR unprofitable AFIs is higher as a % of GLP than profitable LR AFIs. Program revenue for unprofitable LR AFIs is 12.6 times greater than profitable LR AFIs. Unprofitable LR AFIs have a higher loan provision cost than profitable AFIs however the difference is only about 2% of assets. Unprofitable LR AFIs may not be as effective in terms of managing their loan portfolios; perhaps because of time and energy spent on delivering unprofitable programs?

Comments on Revenue Line Items:

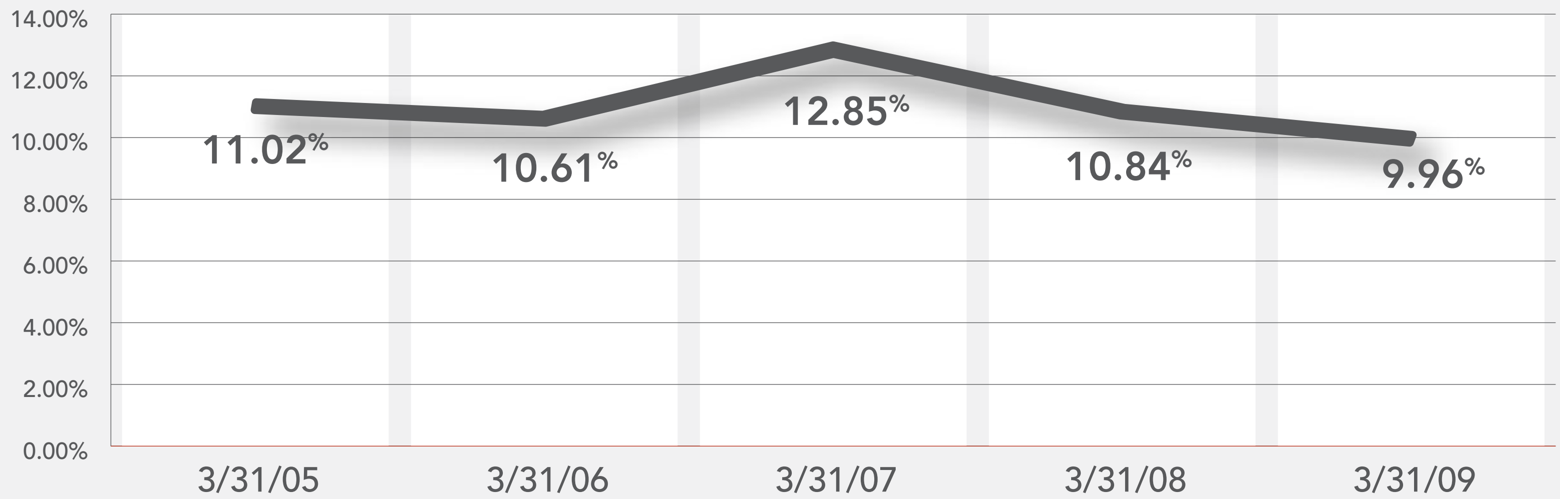
Interest Yield

The total loan portfolio income (loan interest, bad debt recovery, application fees etc.) generated by both SR and LR AFIs in both profitable and unprofitable categories are in the 10% to 12% range.

Interest income yield alone varies between LR and SR AFIs from a low of 4% to a high of 12%. The five year consolidated AFI total loan revenue trend is reflected below.

Operating subsidies from Regional Agencies considerably augment the vast majority of SR AFI revenue streams. However, operating subsidies fromregional agencies only affect two of the 19 LR AFIs.

LOAN REVENUE PERCENTAGE OF GLP



Expense Summary

Fiscal 2009 expenses have been itemized and reflected as a percentage of the gross loan portfolio refer to appendix "H" for expense definitions.

	Average Unprofitable SR AFI		Average Profitable SR AFI		Average Unprofitable LR AFI		Average Profitable LR AFI	
Assets	**3,527,499**		**6,315,289**		**10,655,129**		**14,478,494**	
Total loans advanced during year	**728,208**		**920,333**		**4,811,204**		**2456188**	
Gross Loan Portfolio	**2,485,066**		**3.192,418**		**7,901,525**		**6,193,753**	
Expenses		**% GLP**		**% GLP**		**% GLP**		**% GLP**
Advertising & promotions	7,157	0.29%	17,109	0.54%	28,701	0.36%	36,178	0.58%
Collection expense	2,867	0.12%	1,471	0.05%	2,915	0.04%	3,349	0.05%
Communications	8,069	0.32%	11,925	0.37%	12,560	0.16%	19,865	0.32%
Depreciation/Amortization	6,131	0.25%	9,295	0.29%	16,433	0.21%	24,213	0.39%
Interest & Bank Charges	4,024	0.16%	6,467	0.20%	8,909	0.11%	30,102	0.49%
Meetings	29,310	1.18%	36,294	1.14%	61,228	0.77%	55,761	0.90%
Office & Admin	37,686	1.52%	43,808	1.37%	72,547	0.92%	92,094	1.49%
Premises costs	27,967	1.13%	36,247	1.14%	45,928	0.58%	54,529	0.88%
Professional fees	78,721	3.17%	46,963	1.47%	63,054	0.80%	75,628	1.22%
Provision for losses	156,529	6.30%	66,555	2.08%	304,131	3.85%	93,650	1.51%
Salaries	233,980	9.42%	303,685	9.51%	410,724	5.20%	454,996	7.35%
Training & development	2,005	0.08%	3,101	0.10%	19,179	0.24%	7,610	0.12%
Travel	23,884	0.96%	35,999	1.13%	39,829	0.50%	38,830	0.63%
Program expense	513,337	20.66%	708,617	22.20%	2,458,364	31.11%	26,610	0.43%
Other	767	0.03%	29,795	0.93%	278,111	3.52%	76,000	1.23%
Total expenses	**1,132,432**	**45.57%**	**17,109**	**42.52%**	**3,822,613**	**48.38%**	**1,089,417**	**17.59%**
Net Income	**(240,052)**	**-9.66%**	**274,680**	**8.60%**	**(270,431)**	**-3.42%**	**495,412**	**8.00%**

Comments on expense line items averaging $50,000:

Meetings

This category is predominantly Board and Committee meeting expenses ranging from a low of $29k for unprofitable SR AFIs (2008 $27k for unprofitable SR AFIs) to a high of $61K for unprofitable LR AFIs (2008 $64k for unprofitable LR AFIs). Expressed as a percentage of GLP, meeting expenses range from a low of .77% for profitable LR AFIs (2008 .72% for profitable LR AFIs), to a high of 1.18% for unprofitable SR AFIs (2008 1.28% for unprofitable SR AFIs).

Office and Administration

This category ranges from a low of $37k for unprofitable SR AFIs (2008 $43k for unprofitable SR AFIs) to a high of $92k for profitable LR AFIs (2008 $115k for unprofitable LR AFIs). Expressed as a percentage of GLP, office and administration expenses range from a low of .92% for unprofitable LR AFIs (2008 1.05% for profitable LR AFIs) to a high of 1.52% for unprofitable SR AFIs (2008 2.47% for profitable SR AFIs).

Premises costs

Premises costs ranges from a low of $28k for unprofitable SR AFIs (2008 $30k for SR unprofitable AFIs) to a high of $54k for profitable LR AFIs (2008 $68k for unprofitable LR AFIs). Premises costs expressed as a percentage of GLP, range from a low of .58% for unprofitable LR AFIs (2008 .48% for profitable LR AFIs) to a high of 1.14% for profitable SR AFIs (2008 1.40% for unprofitable SR AFIs).

Professional fees

Professional fee costs range from a low of $47k for profitable SR AFIs (2008 $36k for profitable SR AFIs) to a high of $79k for unprofitable SR AFIs (2008 $94k for unprofitable LR AFIs). Expressed as a percentage of GLP, professional fees range from a low of .80% for unprofitable LR AFIs (2008 .81% for profitable LR AFIs) and a high of 3.17% for unprofitable SR AFIs (2008 2.5% for unprofitable SR AFIs).

Provisions for loss

Methodology for estimating loan losses is inconsistent throughout the AFI network. Some AFI's 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 identify potential specific losses and add an additional percentage as a general provision.

The consolidated AFI loan loss reserve is 14.86% of the GLP as of March 31, 2009. 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 2009 loans advanced
SR Average Unprofitable 2009	30.38% (24.55% 2008)	25.34% (29.69% 2008)
SR Average Profitable 2009	13.21% (13.85% 2008)	7.23% (5.13% 2008)
LR Average Unprofitable 2009	12.56% (14.45% 2008)	6.32% (37.15% 2008)
LR Average Profitable 2009	6.07% (8.94% 2008)	3.81% (2.36% 2008)
All AFIs Average 2009	14.86% (13.89% 2008)	8.83% (8.32% 2008)
Five year rolling average all AFIs	16.26% (16.66% 2008)	9.55% (10.06% 2008)

The narrowest gap between loan loss provisions and the loan loss reserve is evident in large region profitable AFIs at 2.26%. The widest gap is evident in LR unprofitable AFIs at 6.07%.

Possible reasons for each category of AFI 2009 loan loss reserve being a higher percentage than the loan loss provision are:

- The AFI risk measurement tool developed and specialized training is producing a favourable result
- Loan loss provisions in prior years were overestimated
- Loan loss provisions in 2009 may be inadequate

Loss provisioning and reserves for loss will never be an exact science in view of a vast array of internal and external factors that can be in play at any given time. The global financial sector difficulties which surfaced in 2008 is glaring evidence that even a well established banking industry hundreds of years old has not mastered the art of loss provisions and reserves.

Salaries

As of March 31, 2009 AFIs employed a total of 346 people (348 in 2008). A 2007 NACCA survey revealed 67% of AFI employees are of Aboriginal decent. Salary costs range from a low of $234k for unprofitable SR AFIs (2008 $254k for unprofitable SR AFIs) to a high of $455k for profitable LR AFIs (2008 $474k for LR unprofitable AFIs). Expressed as a percentage of GLP salary costs ranged from a low of 5.20% for unprofitable LR AFIs (2008 5.03% for profitable LR AFIs) to a high of 9.51% for profitable SR AFIs (2008 11.84% for SR profitable AFIs). It should also be noted SR AFIs employed 206 staff (2008 211 staff) while LR AFIs employed 140 staff (2008 137 staff).

The following table summarizes staffing of SR and LR profitable and unprofitable AFIs as of March 31, 2009. Profitable AFIs (both SR and LR) have higher levels of Business Services Officer (BSO) staffing than unprofitable AFIs.

2009	SR Average	SR Profitable	SR Unprofitable	LR Average	LR Profitable	LR Unprofitable
Average # loans o/s	60	83	47	116	108	123
Average loan balance	$45,487	$38,627	$53,412	$61,366	$57,587	$64,345
Average GLP	$2,745,956	$3,192,418	$2,485,066	$7,092,580	$6,193,753	$7,901,525
Account Managers	1.42	1.53	1.29	2.08	1.78	2.36
BSOs	0.63	0.76	0.26	1.17	1.22	1.13
Loan Support Staff	1.57	1.71	1.61	2.21	2.28	2.16
Total Staff	5.42	5.94	5.74	7.39	7.06	7.69*
Loans/Account Manager	42.48	54.04	36.08	55.52	60.50	52.14

Program expense

Program expenses range from a low of $27k for profitable LR AFIs (2008 $67k for unprofitable SR AFIs) to a high of $2,548,364 for unprofitable LR AFIs (2008 $887k for SR profitable AFIs). Expressed as a percentage of GLP, program expense ranges from a low of .43% for profitable LR AFIs (22008 .26% for LR unprofitable AFIs) to a high of 31.11% for unprofitable LR AFIs (2008 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 often 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.

INAC's expressed intent to utilize AFIs as INAC program delivery outlets appears to require thorough evaluation and careful consideration. It appears the more program dollars that flow through a LR AFI the greater the financial loss incurred.

Possible reasons could be delivery of programs detracts from the level of developmental lending support risk management the AFI is able to provide borrower businesses, or allowed program administration fees are inadequate.

Other

Other expense reflects a low of $.8K for unprofitable SR AFIs (2008 $0 for LR unprofitable AFIs) and a high of $278K for unprofitable LR AFIs (2008 $149k for profitable LR AFIs). Expressed as a percentage of GLP other expense represents a low of .03% for SR unprofitable AFIs (2008 0% for LR unprofitable AFIs) and a high of 3.52% for unprofitable LR AFIs (2008 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 often 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 arguable that project management detracts from developmental lending activities. INAC's expressed intent to utilize AFIs as INAC project delivery outlets appears to require thorough evaluation and careful consideration. It appears the more project dollars that flow through a LR AFI the greater the financial loss incurred. Possible reasons could be delivery of projects detracts from the level of developmental lending support the AFI is able to provide borrower businesses, or allowed project administration fees are inadequate.

Actions to be considered by INAC

- Continue the ATC initiative in light of positive impacts it has produced e.g. 115% increase in GLP in 10 years;
- Implement RAROC based Performance Allocation programming for all AFIs as expediently as possible to enable measured recovery of AFI cost of capital concurrently building AFI risk mitigation and management capacities;
- Implement Enhanced Access to Loan Capital programming increasing AFI capacity to respond to market demand;
- Implement Aboriginal Youth Business programming to address a key vacuum in the current suite of INAC programs;
- Expand and enhance the current BSO support program for all AFIs demonstrating a quantifiable need via AFI Time Studies;
- ***Establish longer programming and loan capitalization authorities coupled with multiyear funding agreements*** effective April 1st to bring about greater certainty for AFIs in terms of their own operational plans.[15] In essence the current methodology forces AFIs to gamble, then react, rather than plan and execute most efficiently and effectively;
- Establish an AFI loan syndication pool(s) to strengthen the AFI network's financial viability and broaden the AFI network's impact on Aboriginal small business;
- Coordinate related Federal and Provincial/Territorial economic development efforts synergizing programming at all 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 and region to region.

15 2009 BSO funding agreements were not received until half way through the fiscal year.

SECTION III APPENDICES

Appendix A 2009 Balance Sheet

	SR Unprofitable	SR Profitable	LR Unprofitable	LR Profitable	Total All AFIs
Assets	**Av AFI**	**Av AFI**	**Av AFI**	**Av AFI**	
Cash & term	1,214,770	2,848,641	2,954,908	7,858,021	172,691,209
Accrued Interest	24,626	52,275	71,495	93,431	2,824,003
Accounts receivable	203,384	280,799	536,200	421,983	18,821,078
Collateral & Loans - Net	1,730,048	2,770,620	6,909,125	5,817,553	203,583,473
Other	6,021	283,304	41,389	78,321	6,051,599
Capital assets	87,002	79,649	142,010	209,186	6,970,987
Total Assets	**3,527,499**	**6,315,289**	**10,655,129**	**14,478,494**	**410,942,349**
Liabilities					
Payables	219,332	284,719	560,968	150,952	16,335,626
Other (includes credit lines)	60,150	69,490	120,883	416,403	5,490,516
Deferred revenue	47,487	143,839	579,055	4,579,949	49,930,084
Long term debt	66,253	627,086	47,977	676,067	24,767,076
Equity					
Equity Capital	5	2,155	2,060,360	118,599	21,707,728
Contributed surplus	2,796,943	5,242,047	8,577,287	8,753,393	299,056,321
Surplus -Deficit	374,971	(11,977)	(1,291,401)	(216,868)	(6,345,002)
Total liabilities & Equity	**3,527,499**	**6,315,289**	**10,655,129**	**14,478,494**	**410,942,349**

Appendix B 2009 Income Statement

	SR Unprofitable	SR Profitable	LR Unprofitable	LR Profitable	Total All AFIs
Revenue	**Av AFI**	**Av AFI**	**Av AFI**	**Av AFI**	
Interest on loans & investments	101,010	222,648	545,669	463,467	15,454,290
Provision for losses: Interest	0	0	0	0	0
Net Interest on loans	101,010	222,648	545,669	463,467	15,454,290
Recovery on loans & interest	13,418	35,865	20,451	33,391	1,154,796
Interest on investments	38,844	62,008	30,128	59,683	2,497,453
Fee and misc. income	37,738	68,422	111,364	188,966	4,713,458
Operating subsidies	153,300	199,766	195,217	52,052	10,780,587
Program revenue	614,249	889,142	2,587,292	204,880	53,572,453
Other	13,564	172,350	62,061	582,390	10,473,649
Total revenue	**972,123**	**1,632,011**	**3,552,182**	**1,584,829**	**98,646,686**
Expenses					
Advertising & promotions	7,157	17,109	28,701	36,178	1,065,863
Collection expense	2,867	1,471	2,915	3,349	143,401
Communications	8,069	11,925	12,560	19,865	771,600
Depreciation/Amortization	6,131	9,295	16,433	24,213	733,371
Interest & Bank Charges	4,024	6,467	8,909	30,102	611,310
Meetings	29,310	36,294	61,228	55,761	2,325,078
Office & Admin	37,686	43,808	72,547	92,094	3,189,492
Premises costs	27,967	36,247	45,928	54,529	2,354,741
Professional fees	78,721	46,963	63,054	75,628	3,572,486
Provision for losses	156,529	66,555	304,131	93,650	8,850,921
Salaries	233,980	303,685	410,724	454,996	18,823,131
Training & development	2,005	3,101	19,179	7,610	440,164
Travel	23,884	35,999	39,829	38,830	2,002,080
Program expense	513,337	708,617	2,458,364	26,610	47,727,448
Other	767	29,795	278,111	76,000	4,001,060
Total expenses	**1,132,432**	**1,357,331**	**3,822,613**	**1,089,417**	**96,612,146**
Net Income	**(240,052)**	**274,680**	**(270,431)**	**495,412**	**2,034,540**

Appendix C 2009 Loan Statistics

	SR Unprofitable	SR Profitable	LR Unprofitable	LR Profitable	Total All AFIs
	Av AFI	**Av AFI**	**Av AFI**	**Av AFI**	
Cumulative loans provided by $	10,068,691	13,513,438	67,070,102	35,924,869	1,423,147,563
Cumulative loans provided by #	252	385	1,173	910	33,248
Historical loans w/o #	28	40	129	115	3,870
Historical loans w/o $	873,875	734,971	3,362,089	2,617,259	90,663,096
% loans w/o by #	11.15%	10.29%	10.99%	12.64%	11.64%
% loans w/o by $	8.68%	5.44%	5.01%	7.29%	6.37%
# of loans to startup businesses in year	2	9	9	19	489
$ of loans to startup businesses in year	142,120	465,431	530,997	1,127,467	26,933,952
# of new loans to existing businesses in year	3	7	21	12	639
$ of new loans to existing businesses in year	388,925	233,072	1,035,542	1,224,217	66,529,757
Total # of all loans provided during year	9	19	39	33	1,252
Total $ of all loans provided during year	728,208	920,333	4,811,204	2,456,188	100,279,922
Loan Loss Reserve $	755,018	421,798	992,399	376,201	35,521,886
Loan Loss Reserve % of GLP	30.38%	13.21%	12.56%	6.07%	14.86%
# loans Outstanding	47	83	123	108	4,490
Net loan portfolio	1,730,048	2,770,620	6,909,125	5,817,553	203,583,473
Gross Loans Portfolio	2,485,066	3,192,418	7,901,525	6,193,753	239,105,359
Average loan amount	53,412	38,627	64,345	57,587	53,253
Gross interest yield on GLP	4.06%	6.97%	8.19%	8.54%	7.17%
Days Interest Accrual	89	86	48	74	67
Repayment Efficiency	66.64%	70.94%	83.21%	75.47%	76.83%

Appendix D 2009 Staffing Data

	SR Unprofitable	SR Profitable	LR Unprofitable	LR Profitable	Total All AFIs
	Av AFI	**Av AFI**	**Av AFI**	**Av AFI**	
# Account Managers	24.50	1.53	2.36	1.78	94
# of loan support employees	30.50	1.71	2.16	2.28	102
# Total employees	109.00	5.94	7.69	7.06	346
# of loans per Account Manager	36.08	54.04	52.14	60.50	8.00
# of loans per all loan employees	66.58	55.74	34	29	3.01
$ of loans per Account Manager	1,927,194	2,087,350	3,355,212	3,778,175	2,555,910
$ of loans per all loan employees	858,477	986,747	102,817	1,576,000	1,225,553

Appendix E 2009 Operational and Liquidity Data

	SR Unprofitable	SR Profitable	LR Unprofitable	LR Profitable	Total All AFIs
Operational Data	**Av AFI**	**Av AFI**	**Av AFI**	**Av AFI**	
Bad debt recovery as % Rev	1.38%	2.20%	0.58%	2.11%	1.17%
Fee Rev as % of total rev	3.88%	4.19%	0.85%	11.92%	4.78%
Loan Interest as % of total Rev	10.39%	13.64%	3.14%	29.24%	15.67%
Program Rev as % of total Rev	63.19%	54.48%	5.50%	12.93%	54.31%
Revenue- % of total Assets	27.56%	25.84%	33.34%	10.95%	24.00%
Expenses %of Total Revenue	116.49%	83.17%	107.61%	68.74%	97.94%
Expenses per Loan	24,340	16,423	31,129	10,129	7,253
% Expenses of Net Loan Portfolio	65.46%	48.99%	55.33%	18.73%	47.46%
Net Profit as % of Revenue	-24.69%	16.83%	-7.61%	31.26%	2.06%
Net Profit as % of Total Assets	-6.81%	4.35%	-2.54%	3.42%	0.50%
Cost of Capital	504,619	295,840	1,173,260	651,776	32,566,044
Cost of Capital % of GLP	27.61%	20.44%	25.73%	17.89%	24.13%
Liquidity					
Gov't Loan Capital Contributed/Repayable	2,237,064	3,074,965	7,652,734	6,735,222	231,670,487
Total Assets % Loan Capitalization	157.68%	205.38%	139.23%	214.97%	177.38%
Liquid cash	1,158,567	2,480,050	2,293,240	2,273,850	107,394,219
Loan Capital Contribution Deployment	111%	104%	103%	92%	103.21%
Self sufficiency					
Operational efficiency	85.84%	120.24%	92.93%	145.48%	102.11%
Financial self sufficiency	54.34%	113.68%	57.87%	67.19%	80.09%

Appendix F 2009 Loan Capital and Leverage Data

	SR Unprofitable	SR Profitable	LR Unprofitable	LR Profitable	Total All AFIs
	Av AFI	**Av AFI**	**Av AFI**	**Av AFI**	
Loan Capital Absorption Rate	450%	439%	876%	533%	614.30%
Liquid Cash as Percentage of GLP	46.62%	77.69%	29.02%	36.71%	44.92%
Leverage					
Client equity	112,407	112,246	199,630	645,349	15,440,721
Government contributions	34,234	156,001	118,896	561,160	10,492,204
Conventional lenders	19,743	125,866	202,911	225,357	6,726,441
Other AFI Network lenders	18,158	28,744	60,054	493,974	6,513,049
Total leveraged	**184,542**	**1,037,313**	**581,491**	**1,979,826**	**39,172,415**

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. RLTAB	6. FNALA
6. BRCFDC	26. SBDC	7. FP
7. CCDF	27. SCFDC	8. IBC
8. CDEM	28. SEMCFDC	9. IAPO
9. CIFN	29. STO:LO	10. LRCC
10. CLCFDC	30. T7EDC	11. MDDF
11. Deh Cho	31. TACC	12. NADF
12. DOCFDC	32. TBLF	13. OCC
13. DACFDC	33. TBDS	14. SIC
14. EEYOU	34. TDC	15. SIEF
15. HG	35. TRCDC	16. SNEDCO
16. KA	36. TRICORP	17. SOCCA
17. KBDC	37. VNCFDC	18. TWCC
18. KCFDC	38. Wakenagun	19. UDG
19. NCDC	39. Waubetek	

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.

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 12 separate AFI funding agreements are withdrawn; AFIs begin the process of discovering each other and begin communicating on a nationwide basis;
- 1994 – the consolidated AFI Gross Loan Portfolio surpasses the $100 million mark and payback of AFI loans surpass the $100 million level although AFIs remain unaware of these milestones; six ACCs develop a loose affiliation to address issues of common concern e.g. withdrawn loan capital agreements;
- 1996 – the number of AFI loans provided exceeds 10,000 (AFIs remain unaware); 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 ACC 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 ACCs (100%); NACCA tabulates historical AFI loan data subsequently and for the first time informing AFIs of the related milestones they have achieved; NACCA members design/develop the First Nations and Inuit Youth Business program funded by INAC and later 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 - the AFI gross loan portfolio hovers around the $100 million mark throughout the period of AFI uncertainty from 1994 to 2000; ATC programming is announced;
- 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;

- 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 the need and the potential for success; ABC representative was asked to leave AGM 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; 98+% of AFIs vote in support of NACCA at Calgary AFI meeting attended by INAC and ABC representatives;

- 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;

- 2009 – cumulative AFI loans surpass the $1.4 billion mark; payback of AFI loans surpasses the $1billion mark; Loan Loss Reserve program rolled out to conventional FIs but AFIs excluded; E&Y review of AFIs does not appear to be what it was described to be in the eyes of some AFIs;

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