A Portrait of Aboriginal Financial Institutions Fiscal 2010

NACCA

NATIONAL ABORIGINAL CAPITAL CORPORATIONS ASSOCIATION

CONTENTS

2010 HIGHLIGHTS

AFI Economic Impact

- loans provided $98,424,150 [1]
- leveraged $45,249,854 for total direct capital impact of $143,740,040
- provided 499[2] start-up business loans creating 1,386 new jobs
- provided 635[3] expansion loans to existing businesses creating/maintaining 2,476 jobs
- each AFI loan to a start-up business creates an average of 2.78 jobs(includes data received subsequent to release of study)
- each AFI expansion loan to an existing business creates\maintains an average of 3.90 jobs
- the consolidated portfolio of 4,242 loans is estimated to support in the range of 11,792 to 15,984 full time equivalent jobs
- each job created\maintained by an AFI loan costs Government an average of $12,480
- the consolidated AFI gross loan portfolio grew 2.5% to $246 million
- historical AFI loans total 35,724 for $1.49 billion
- AFIs injected $36.0 million[4] into the economy (program\project expense excluded)
- TWCC5 recognized as Manitoba's 12th fastest growing company
- TWCC named the 2010 CANDO Economic Developer of year award winner

1 Includes $35.5M provided by ACDF

2 Based on the 41 AFIs that reported job creation\maintenance data (one AFI provided data after study was completed) ACDF did not provide start-up loans

3 Based only on the 41 AFIs that reported job creation\maintenance data

4 Total expenses minus depreciation, loan loss provisions, program disbursements, and project disbursements

5 Tribal Wi-Chi-Way-Win Capital Corporation

AFI Portfolio Management

- the AFI gross loan portfolio (GLP) is comprised of 4,242 loans
- interest yield on the GLP is 6.39%
- aged GLP composition is: 80% current, 2% 1-30 days, 2% 31-60 days,[6] 1% 61-90 days and 15% over 90 days
- consolidated AFI portfolio at risk and over 90 days is 17.46% of GLP
- the consolidated AFI loan loss reserve is 15.01%
- historical loan repayments surpassed 27,418 loans and $1.15 billion
- 40 AFIs accessed Support and Training programming
- an AFI specific Board Training course was developed
- SIEF[7] becomes the first entrepreneurial focused AFI to obtain over $50 million in loan repayments

AFI Liquidity

- AFI loan capital now stands at $256 million including $15 million private capital. Contributed and repayable capital totals $241 million including $6 million EA and $5 million supported by IRB.
- including private capital and specific program\project cash 20% of lending AFIs (11) have liquidity levels of 15% or less of GLP
- the AFI GLP continues to exceed repayable and contributed government loan capital

AFI Profitability

- Consolidated AFI profit after loan loss provisions was $2.9 million
- Expenses per loan were $7,605
- consolidated AFI assets grew by $10 million from $411 million to $421 million

AFI Network Lending

For the second consecutive year, annual AFI loan disbursements were in the $100 million range[8].

6 78% of active lending AFIs provided contractual aging summaries in dollars of loans

7 Saskatchewan Indian Equity Foundation

8 98.0 million 2010, $100.2 million 2009

INTRODUCTION

The Portrait of Aboriginal Financial Institutions (AFI) was first produced for the financial year ending 2001 solely for the benefit of AFIs. It was and remains intended to be a management tool for AFI General Managers and Boards which find it useful to compare their individual AFI results with other AFIs. Concurrently, some AFIs have utilized some of the data provided as an advocacy resource when dealing with Federal, Provincial, Territorial or Aboriginal governments.

Around 2002 consultants and others providing support services to AFIs began to utilize the AFI Portrait as a resource document.

Around 2004 the Federal Government began to draw on the AFI Portrait as a source of information.

Accordingly with the number of different users drawing on the AFI Portrait from time to time continuously increasing, it has evolved to its present form.

The purpose of the AFI Portrait, in its entirety, is to provide readers:

- background information on AFIs
- a consolidated summary of Aboriginal Financial Institutions as at each fiscal year end
- statistical comparative data for use by Aboriginal Financial Institution General Managers and Boards e.g. a management tool
- an awareness of the challenges confronting AFIs
- solutions to AFI challenges that AFIs have developed or are in the process of developing

In essence, this paper is intended to tell the AFI story.

EXECUTIVE SUMMARY

Background[9]

Aboriginal Financial Institution (AFI) is a collective term encompassing Aboriginal Capital Corporations (ACCs), Aboriginal controlled Community Futures Development Corporations\Centres (CFDCs), Business Development Centres (BDCs), privately capitalized Aboriginal Developmental Lenders (ADLs) and Aboriginal Business Development Centres (ABDCs). ABDCs proffer business support products and services but do not provide loans.

The AFI predecessor was the Indian Economic Development Fund (IEDF), an INAC managed repayable loan program delivered directly to Aboriginal people through INAC Regional offices. In its last year of operation IEDF reportedly provided loans totalling $6 million. Loan losses over the life of the IEDF program were reportedly 25%.

AFI formation was in part a response to problems encountered by IEDF as well as conventional lending institutions i.e. collection difficulties, Indian Act restrictions, limited business management skills, remoteness from mainstream financial institutions and risk tolerance levels inherent to regulated conventional lending institutions. AFIs were created (with the exception of ADLs) by the Federal Government in consultation with Aboriginal leaders in the latter 1980s and early 1990s. AFIs were created specifically to provide developmental loans and related business and community support services to Aboriginal entrepreneurs and communities.

In 1997 twenty two AFIs formed a member owned association, the National Aboriginal Capital Corporations Association incorporated under Part II of the Canada Corporations Act, to further common AFI interests. ***The National Aboriginal Capital Corporations Association is referred to in this paper as: NACCA, or AFIs, or the AFI network, or the AFI association, or the association***.

Three years after NACCA incorporation membership had grown to and remains over fifty AFIs from all of the Provinces and Territories in Canada. NACCA Board members are elected by NACCA members from each Province or Territory, to reflect Provincial or Territorial AFI perspectives and aspirations.

AFI Successes

The successes AFIs have achieved are largely attributed to:

- the high degree of autonomy extended to AFI Boards in terms of stewardship of capital resources
- leadership and oversight provided by localized Aboriginal Boards of Directors
- management and staff 67% of whom are Aboriginal
- the strong desire for self reliance on the part of Aboriginal entrepreneurs

AFIs have been efficient stewards of capital, in respect to Aboriginal business and community development. The Federal Government has invested $232 million loan capital in AFIs over the last 25 years. Subsequently, AFIs have provided a reported 35,724 loans aggregating $1.49 billion [10] since AFI inception, to thousands of Aboriginal business enterprises. Loan losses to March 31, 2010 are 6.3% of total loans advanced.

In each of the last two years AFIs provided loans in the range of $100 million. The March 31, 2010 consolidated gross loan portfolio was $246 million[11]. The AFI network consolidated gross loan portfolio has reflected consistent stable growth since 2003.

9 A concise chronological AFI history is provided in Appendix J "Significant AFI milestones and events" attached to this report.

10 Inclusive of $388M provided by ACDF to Co-ops in the NWT and NT

11 Inclusive of a loan loss reserve of $36,807,799 or 15% of GLP

AFIs are one of the most cost efficient Canadian job creation mechanisms available to Government. A 2010 analysis[12] revealed a cost to government of $12,479 per job created\maintained. Each new AFI loan advance produces\ maintains 3.41[13] full time equivalent jobs. In addition to the provision of loans the **AFI network directly contributed $37 million into the Canadian economy in 2010 via direct operating expenses (excluding depreciation, loan loss provisions and program\project disbursements)**. Program and project disbursements would account for a further $33 million essentially flowing from government through AFIs into the economy.

A 2003 third party (Don Allen) pilot study, based on Stats Can filings relating to the five year success rate for AFI supported business, revealed a success rate of 58% compared to the Canadian norm of 33%.

AFI Network Priorities

AFI programming developed jointly with Government over the past ten years has contributed significantly to AFI success i.e. **in 2000 Government rolled out Access to Capital programming for AFIs, which have since recorded a 114% increase in the consolidated AFI gross loan portfolio**. The co-operative model of joint (AFI/NACCA/Government) program development has been most effective. It would appear highly desirable to carry it forward in concert with identified programming improvements.

AFIs meet twice annually and have identified three broad priorities to be addressed in the three year period ending 2011:

1. **Sustainability** – Clear evidence confirms the original business models developed for AFIs 25 years ago are not sustainable. There is an urgent requirement to develop programming, such as the Risk Adjusted Return on Capital (RAROC) based Performance Allocation (PA) proposal AFIs have put forward that effectively addresses AFI sustainability.
2. **Additional loan capital** - Following satisfactory resolution of the AFI sustainability issue, increased access to capital for Aboriginal small businesses requires programming designed to attract fresh arms length capital to AFIs e.g. if the GLP growth trend over the last ten years is repeated over the next ten years, new loan capital in the amount of $106 million will be required.
3. **Innovative Aboriginal youth and contractor programming** - Subsequent to the resolution of 1 and 2 above, new programming needs for AFIs are required; in particular youth and contractor programming. A concept paper concerning Aboriginal Youth Programming utilizing existing AFI loan capital has been developed. Aboriginal Contractor Programming has been designed and implemented on a pilot basis.

12 The full text of the “AFI Job Creation\Maintenance Cost Efficiencies” analysis is available from NACCA. Additional data received subsequent to the release of the study marginally reduced the cost per job

13 Average of start-up and expansion loans – refer page 35 for details

The identification of the above noted broad priorities culminated in NACCA's establishment and refinement of six goals in 2009-10.

1. **Enhancing financial and operational capacity.** Eight specific projects are currently underway.
2. **Strengthening Advocacy.** Four specific projects are currently underway.
3. **Improving National and Regional Communications.** One specific project is underway.
4. **Ensuring Sound Operating Standards.** Four specific projects are underway.
5. **Introducing New Products.** Five specific projects are underway.
6. **Ongoing Operations** The responsibilities of NACCA's National Office management and staff are undertaken on an ongoing basis and are not specific project-oriented with the exception of ATC Program Management which represents the only project underway.

It is recognized the priority INAC placed on the development and promulgation of the new policy framework for economic development in 2008-09 and 2009-10 precluded any significant progress in these areas pending finalization of the framework.

It is also recognized the achievement of the six goals identified above is both a complex and ambitious undertaking that, for informational purposes, will initially encompass some 24 specific project undertakings. Further project details are provided herein.

AFI priorities, goals, and planned projects, have been conveyed to government on an annual basis each year and were reiterated by the NACCA Board at the February 2010 INAC Engagement session.

SECTION I
THE AFI NETWORK

The AFI Network Association

The purpose of this section is to provide the reader with a concise picture of the AFI network on a consolidated, as opposed to an individual AFI basis. For detail with respect to the creation and evolution of the formal AFI network association "National Aboriginal Capital Corporations Association" (NACCA) please refer to Appendix J Significant AFI milestones and events.

NACCA membership includes over 50 AFIs from all regions of Canada. The network of NACCA member AFIs provides an exclusive apolitical national reach to Aboriginal small business and community development.

NACCA member AFIs provide in excess of $150,000 in annual membership fees every year, which together with $621k from INAC in 2009-10 enabled NACCA to pursue AFI common interests at a National level. National AFI common interests are broadly expressed by NACCA's vision and mission statements: **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 will be focused on sustainability as applicable to developmental lending; enhanced access to loan capital; Aboriginal youth and Aboriginal contractor businesses.

AFI Network Comparable

The Indian Economic Development Fund (IEDF) was the last national Aboriginal small business loan program prior to the advent of AFIs. Reportedly in IEDF's last year of operation $6 million in loans was provided. IEDF recorded average write offs of 25%. In contrast, AFI loans were in the range of $100 million in each of the last two years. Historical AFI write offs are 6.3%.

Repayment of AFI loans has surpassed the $1.15 billion mark. The average AFI repayment efficiency[14] rate is 93.66%. As of March 31, 2010 an estimated 3,200 Aboriginal businesses in all Provinces and Territories are supported by over 4,200 AFI loans aggregating $246 million. Since inception AFIs have provided 35,724 loans totalling $1.49 billion.

There are no relevant non- Aboriginal developmental network comparables available for Canada.

The AFI network provides direct employment for 337 people, 67% of whom are Aboriginal. The Network is now comprised of 60 AFIs (55 active lending AFIs, 3 relatively inactive lending AFIs, and 2 business support service AFIs) located in every Province and Territory in Canada. This analysis draws on 2010 audited financial statement data for 46 (84%) of the 55 active lending AFIs.

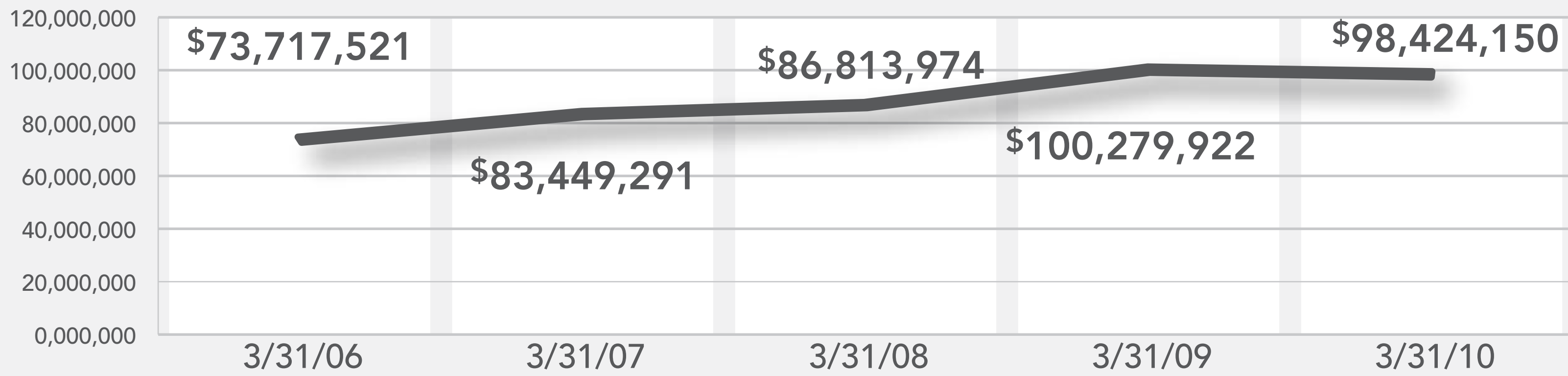
YK	NT	NU	BC	AB	Sask	Man	Ont	PQ	Atlantic
1	8	4	11*	5	6	10*	8	4*	1

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) programming and in particular the Enhanced Access (EA) program, covers the entire Country.

* Denotes one inactive lending AFI

14 Gross loan portfolio not discounted

5 AFI YEAR LOAN TREND



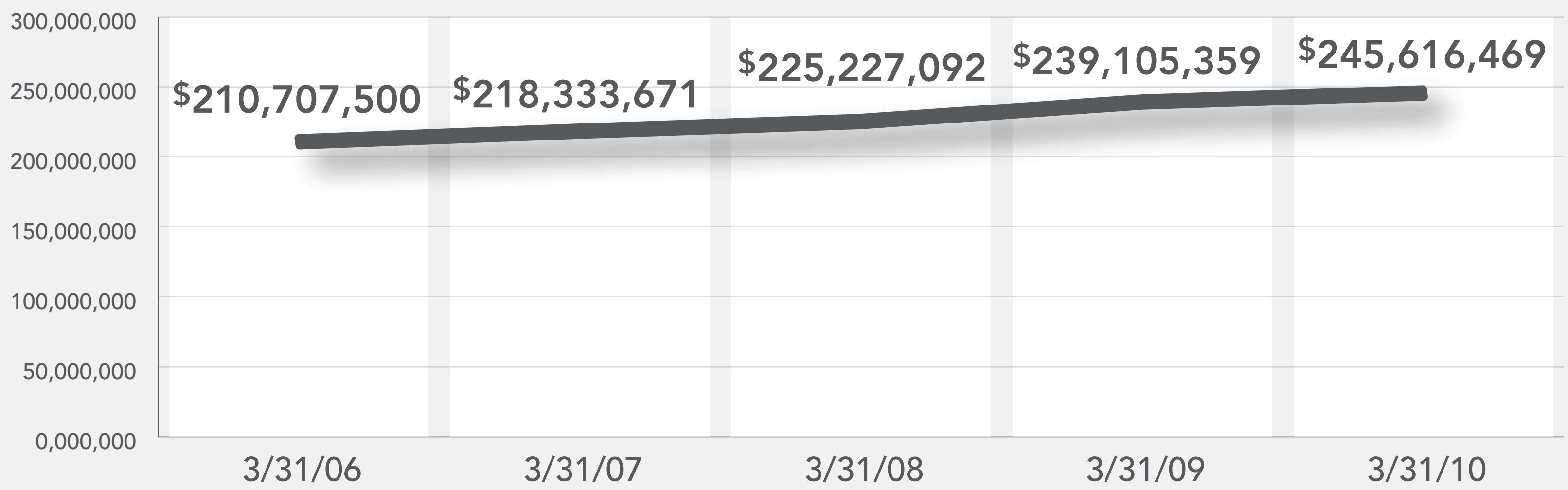
A $232 million Federal Government loan capital investment over 25 years has facilitated the provision of $1.49 billion loans, an active loan portfolio of $246 million, and a nationwide AFI network now providing loans in the range of $100 million per year. Each AFI supported business has an average of 1.3 [15] loans indicating AFIs support 3,200 small businesses.

15 Source - 2005 NACCA survey

AFI Network Consolidated Loan Portfolio

The collective AFI GLP as of March 31, 2010 was comprised of 4,242 loans aggregating a record $246 million reflecting a $94 million or 62% GLP increase over the ten year period from 2001 to 2010. GLP growth has been stable.

GROSS LOAN PORTFOLIO TREND



NACCA began collecting and disseminating confidential consolidated summary aged AFI loan portfolio data in fiscal 2006 to provide AFIs with an additional management tool. In 2010, 44 of the 46 AFIs that provided audited annual financial statements also provided aged loan portfolio data. The contractual delinquency pie chart immediately following reflects consolidated AFI contractual delinquency. The line graph following the pie chart depicts the five year loan loss reserve trend. The estimated 2010 portfolio at risk (PAR) and over 90 day arrears is 17.46%[16] of the GLP. The 2010 loan loss reserve is 15.01%[17].

16 Estimate based on the 44 AFI aged delinquency reports received

17 Based on 46 audited AFI financial statements received

CONTRACTUAL DELINQUENCY

79.94% Current

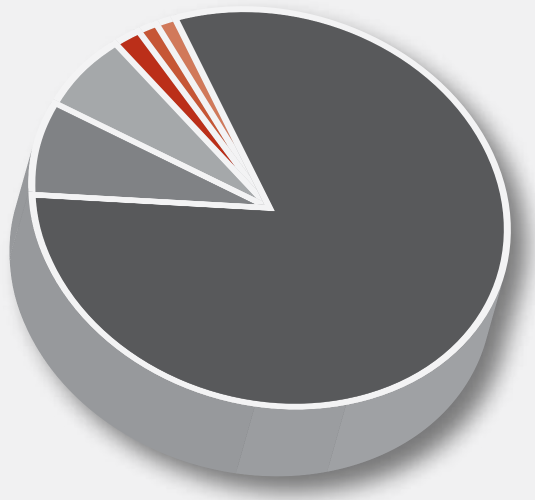
9.86% Over 120 days

4.88% 90-119 days

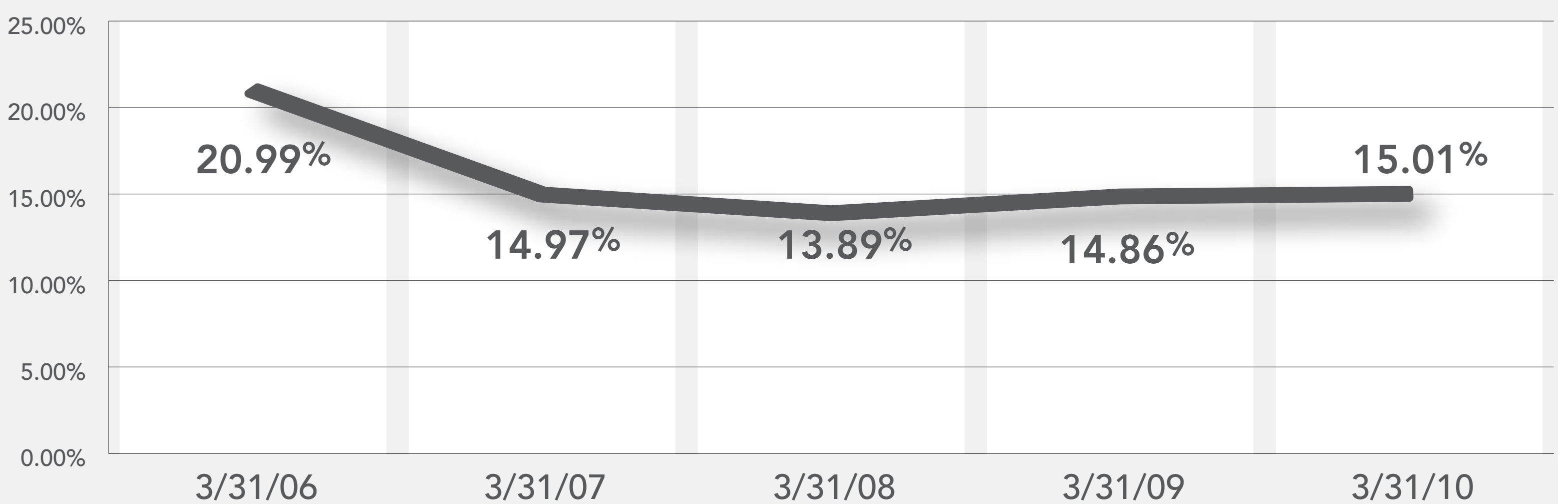
2.02% 31-60 days

1.92% 1-30 days

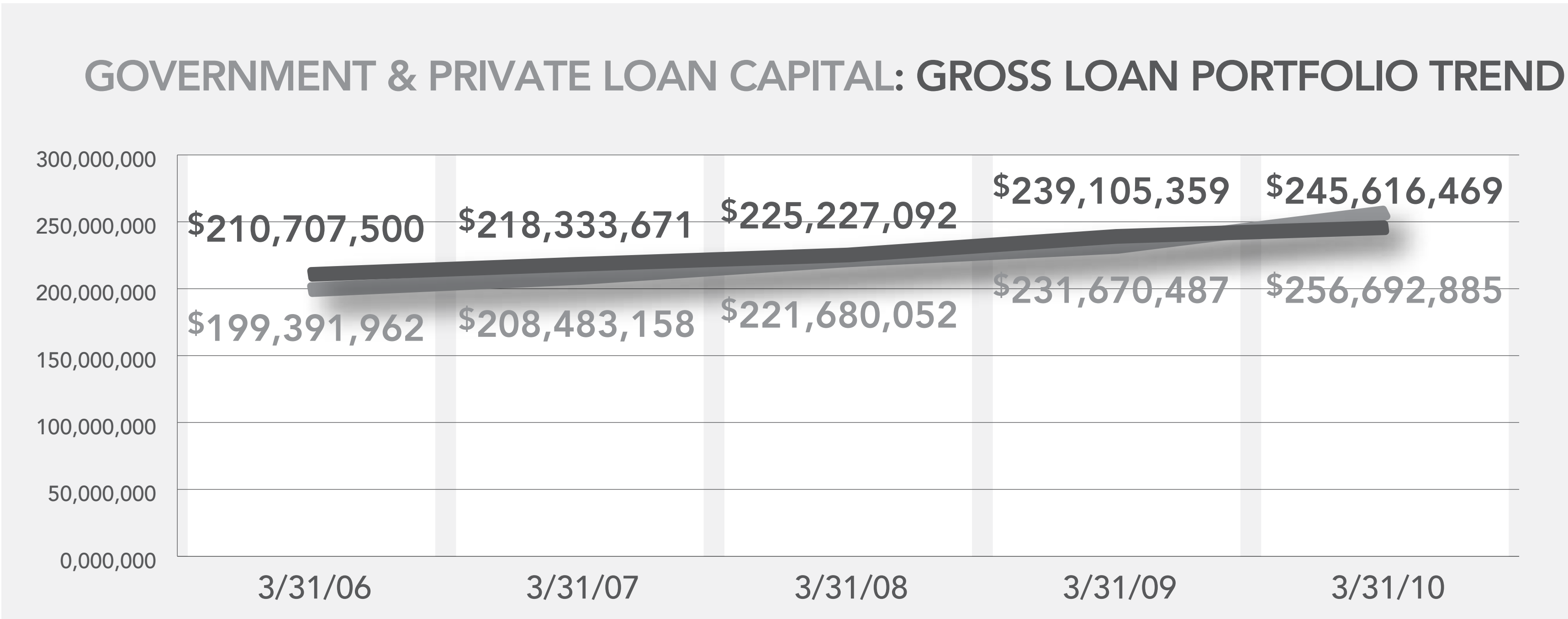
1.36% 61-90 days



LOAN LOSS RESERVE AS % OF GLP TREND



The AFI GLP continues to exceed government provided AFI capital before inclusion of $15 million private capital.



AFI NETWORK – NACCA PRIORITIES

1. Enhancing Financial and Operational Capacity

The goal includes two related streams of initiatives. The first activity stream pertains to program initiatives designed to enhance the AFIs' financial capacity e.g. developing and securing an acceptable risk recognition, management, and compensation initiative; enhancing the BSO programming by designing, developing and sharing tools for BSOs, examining a support services program for the fisheries sector; increasing AFI capitalization through formalization of the top-up program; designing and developing programming options enhancing the environment for attracting wholesale private capital.

A second stream of activity relates to further development of the AFI network's operational capacity. Initiatives will include; ongoing intelligence gathering and advocacy, particularly representing AFIs in the program renovation process for INAC's Aboriginal economic Development programming; expanding the number and availability of NACCA's university accredited custom AFI training courses; providing compliance auditing support services; analyzing all AFIs' audited financial statements to identify strengths, weaknesses and needs; compiling all AFI statements to establish, update and disseminate network statistics and benchmarks; refining AFI performance measurement standards; and undertaking a study of the economic impact of AFIs.

Also in this stream NACCA will continue to manage the ATC program on behalf of the AFIs and will enhance its management and operational efficiency in so doing by: implementing a new ATC process control framework and related documentation, introducing web services to its program management offerings, and providing more flexible EA funding for AFIs e.g. perhaps evergreen lines for select Enhanced Access user AFIs.

Lastly, in developing its own operational capacity NACCA will seek to: establish a prudent funding framework for FY 2011-2012; continue to enhance its web presence to increase efficiencies in terms of product and service delivery costs and undergo a governance evaluation review of the governance plan that was recently completed.

Projects currently underway in support of this goal are:

1.1 Risk Adjusted Return on Capital (RAROC)

1.2 Enhanced BSO Programming

1.3 Enhanced Capital Top up Programming

1.4 Commercial Wholesale Capital

1.5 AFI Liquidity Pool (subsequently merged with

1.4 Commercial Wholesale Capital

1.6 AFI Custom Training

1.7 Benchmarking and Performance Measures

1.8 Economic Impact Analysis

1.9 Governance Evaluation

2. Strengthening Advocacy

Initiatives will seek to: further the AFIs' interest with INAC through participation in the program renovation process; build upon the completed advocacy strategy to develop links with Aboriginal governments to investigate the replication of the AFI model and examine Aboriginal sources of capital; and to further relationships with mainstream financial institutions as a potential source of capital and best practices.

The projects in this section focus on developing existing business relationships with a broad range of Federal Government, Aboriginal, and commercial financial institutions with the overall objective of AFI business development.

The approach involves establishing related priorities, levering NACCA's internal analytical resources, and incorporating sector strategic issues as these emerge. NACCA will also respond to its historical advocacy deficiencies by developing and deepening its partnerships with Aboriginal governments and Aboriginal stakeholders.

Concurrently NACCA will participate in, but not lead, efforts under way to forge closer relationships and working partnerships with other Aboriginal focused institutions with mandates related to Aboriginal Economic Development. NACCA and AFOA, in particular, have begun examining the potential for cross-utilisation of training materials developed in the field. NACCA will also work with the Council for Advancement of Native Development Officers (CANDO), the Canadian Council for Aboriginal Business (CCAB) and the Canadian Executive Service Organization (CESO) in this respect.

Projects currently underway in support of this goal are:

1.10 INAC Partnership

1.11 AFI - Aboriginal Government Partnerships

1.12 AFI – Financial Institution Partnerships

1.13 Membership Development

3. Improving National and Regional Communications

The goal is to provide support to individual AFIs and regional AFI groupings that have established their own basic partnering and communications strategies, structures, and resources for working with their key stakeholders. Each regional grouping now needs to engage their respective Provincial and Territorial Governments in order to develop functioning operational partnerships similar to those that have already been established at the national level with organizations such as INAC. Establishing effective communications networks will be a fundamental prerequisite for this initiative.

Projects currently underway in support of this goal are:

3.1 Provincial – Territorial Liaison

4. Ensuring Sound Operating Standards

Consistent with its strategic objective of achieving the highest professional operating standards, NACCA is becoming increasingly capable and professional. The Association's continuing focus on sound operating standards and building a "credit union central" capacity is reflected in the four major projects outlined below.

Projects currently underway in support of this goal are:

4.1 Best Practices and Critical Standards

4.2 LMS – TEA Implementation

4.3 Member Advisory Services

4.4 Personnel Manual

5. Introducing New Products

NACCA's highest priorities with respect to new product initiatives focus on AFI Financial Viability i.e. those initiatives described at Section 3.1 and most particularly those initiatives comprising Risk-Adjusted Return on Capital, Enhanced Capital Top-Ups, Additional Private Sector Loan Capital, and Enhanced BSO Programming. However, as noted in the Executive Summary, the priority placed by INAC during FY 2009 and much of FY 2010 on the development and promulgation of a new Policy Framework for Economic Development precluded any significant progress in these areas pending finalization of that Framework.

In addition to refocusing on these priorities in FY 2011, NACCA will initiate, continue, or complete development of selected new programming initiatives as time, available resources, and the program renovation activities related to the new Policy Framework permit. The following five one-time initiatives should further contribute to the organizational and operational effectiveness of NACCA and the AFI network.

Projects currently underway in support of this goal are:

5.1 Program devolution

5.2 NACSI (formerly SILU) Rationalization

5.3 Aboriginal Youth Business Initiative

5.4 Fishery Business Support Services

5.5 INAC Women's Micro Enterprise Pilot

6. Ongoing Operations

This section outlines the responsibilities of NACCA's National Office management and staff that are undertaken on an ongoing basis and are not project-oriented

Notwithstanding the ongoing nature of these functions, NACCA has established project numbers and related project reporting systems to facilitate identification of annual deliverables and monitoring of progress.

Projects currently underway in support of this goal are:

6.1 Ongoing ATC Program Management

SECTION II 2010 AFI STATISTICS AND OPERATING RESULTS/ IMPACTS

The purpose of this section is to document collective and average AFI activity results as of March 31, 2010 providing AFI General Managers/Boards statistics for comparative performance purposes.

Qualifications

Data reflected in this section and throughout this paper is derived from a complex Excel data base containing 20+ sub spreadsheets reflecting a vast array of data sorts. A separate historical annual summary data base has been maintained since 2004. Wherever possible, data is extracted from audited AFI financial statements. In some cases audited financial statements do not indicate:

- the number or dollars of loans advanced during the year
- the number of loans in the loan portfolio at year-end
- the total number and dollars of loans written off during the year

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.

Not all AFIs use identical revenue and expense category terms/phrases. Accordingly, some discretion was necessary to consolidate financial results.

- There are a total of 60 AFIs, three of which are relatively inactive in terms of providing developmental loans [18]
- 2 AFIs [19] specialize exclusively in the provision of business support services and do not provide loans to Aboriginal small businesses
- Therefore, 55 AFIs actively provide developmental loans to Aboriginal owned small businesses
- It is also to be noted 1 AFI provides resupply credit lines to Aboriginal owned and controlled co-ops North of 60
- 46 audited AFI financial statements were consolidated to produce this report (84% of the 55 AFIs)
- The most recent audited year end data available was used for the 9 AFIs that did not provide March 31, 2010 data
- Although 84% (46) of AFI year ends occur March 31st, 16% (9) year ends occur after March 31st. The most recent year end data on hand for these 9 AFIs were used to compile collective 2010 results on the assumption they would fairly closely replicate the most recent results in 2010

18 Anishinabe Mazaska Capital Corporation, Bella Bella Community Development Society and Tewatohnhi' Sakatha Business Loan Guarantee Fund which provides loan guarantees

19 Prince George Aboriginal Business Development Centre and Kitikmeot Economic Development Commission

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

For some years recognized commonalities have emerged among AFIs when they were clustered into geographical sizes. [20] 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 SR and LR AFIs and key data for average SR and average LR profitable and unprofitable results.

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, 2010 AFIs directly employed a collective staff of 337.

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

Including private capital as of March 31, 2010, 11 of 55 or 20% of AFIs had capital liquidity levels of less than 15%.

2010 AFI Loan Statistics

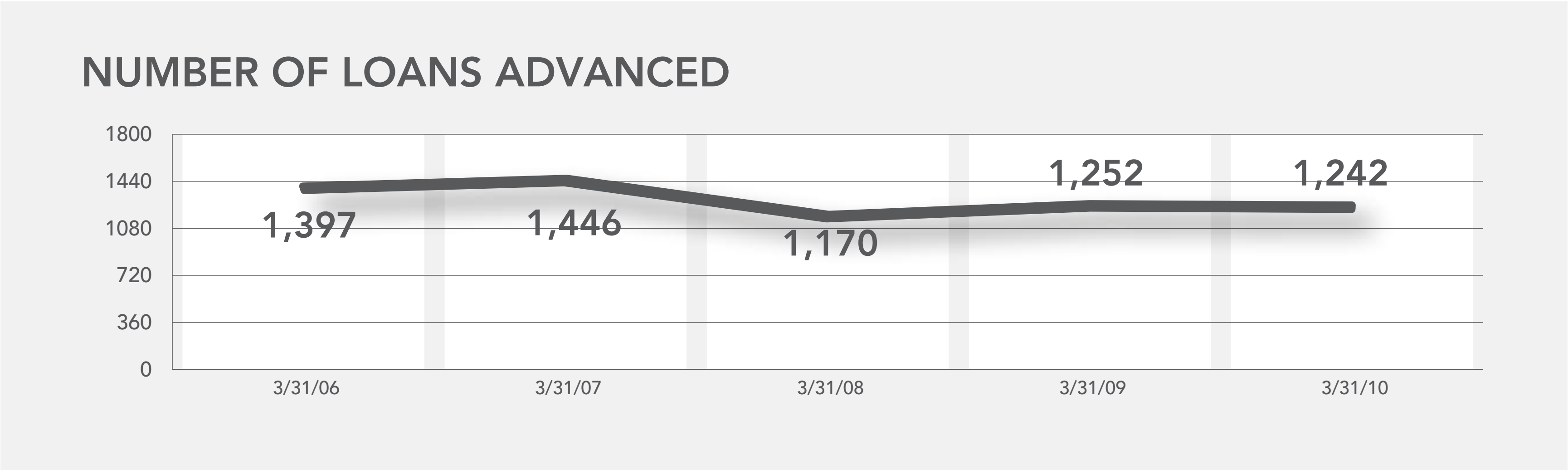
In fiscal 2010 AFIs provided a total of 1,242 loans aggregating $98,424,150 million. Detailed new loan advance data from 46 AFIs were provided. A total of 1,134 new loans aggregating $93.3 million were provided by the 46 AFIs. Of this new loan advance total, 499 loans or 44% aggregating $24.9 million were provided to start up businesses and 635 new loan advances or 56% aggregating $68.4 million were provided to existing businesses.

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

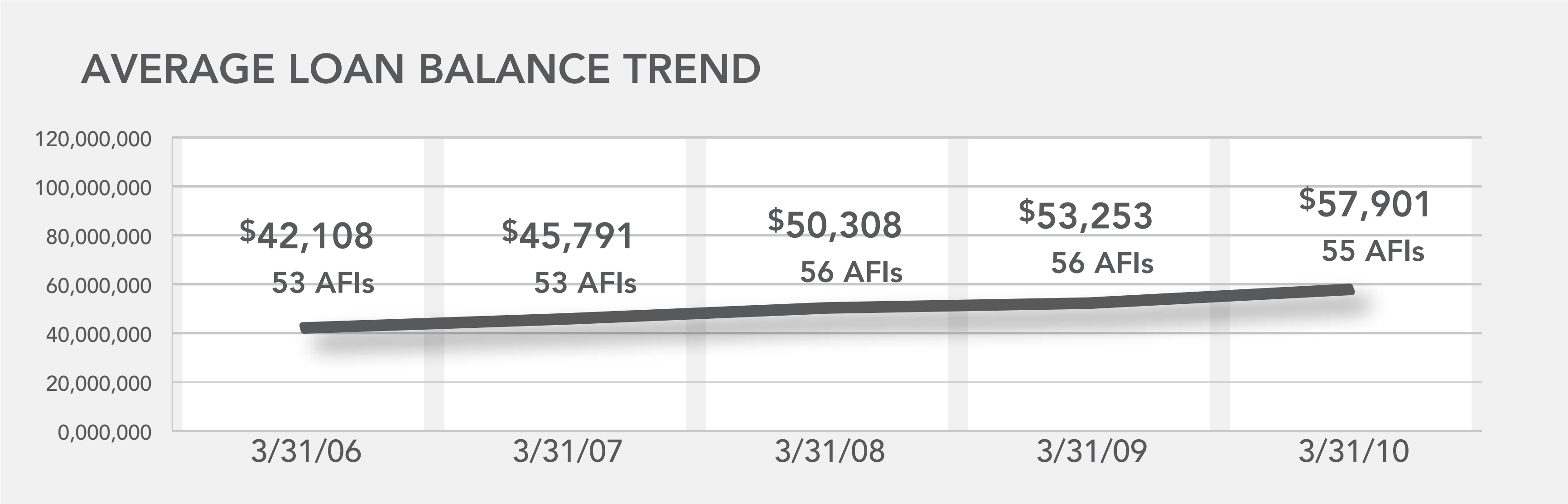
	Average Smaller Region AFI				Average Larger Region AFI			
New Dollar Advances Only	#	% by #	$	% by $	#	% by #	$	% by $
Start ups	6	46%	$347,874	46%	14	47%	$609,285	39%
Existing businesses	7	54%	$411,484	54%	16	53%	$938,594	61%
Totals	13	100%	$759,358	100%	30	100%	$1,547,879	100%

20 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 H details the 41 Smaller Region and 19 Larger Region AFIs.

The annual number of loans provided over each of the last 5 years has seesawed downward. Refer to chart below for details.

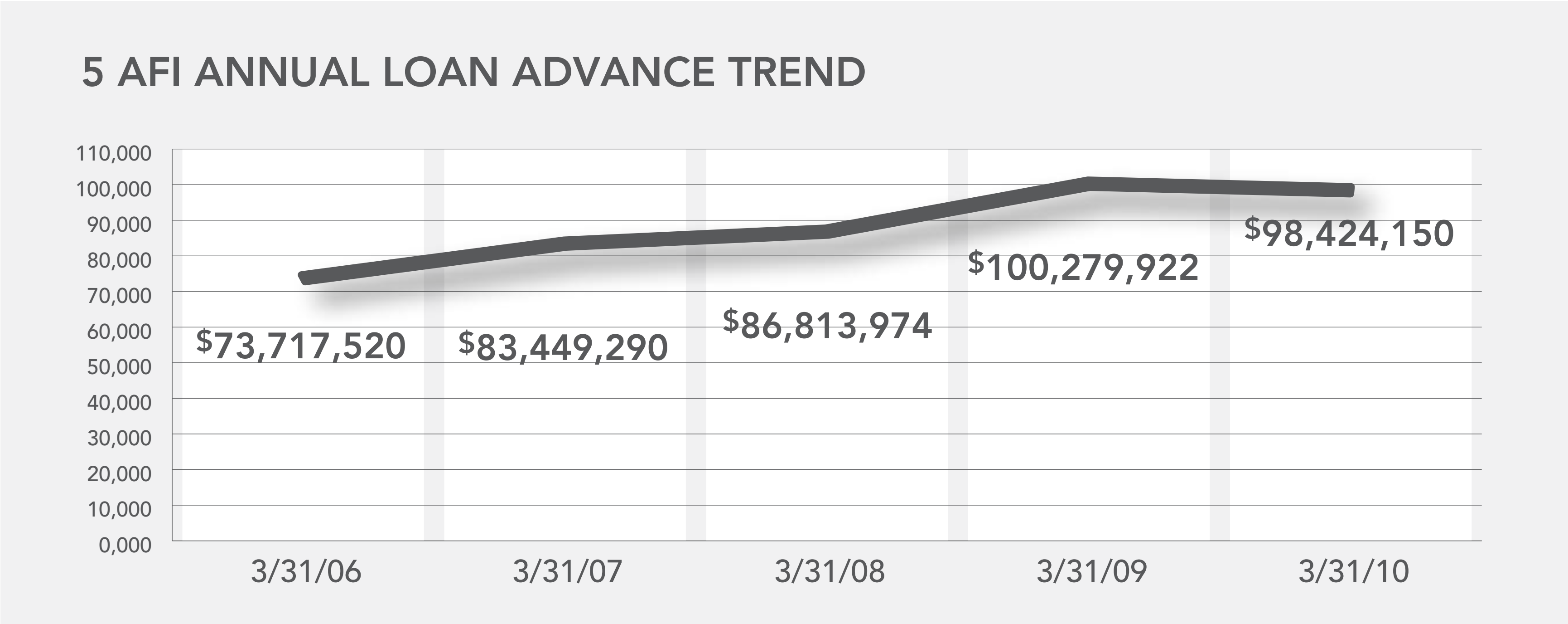


The average loan balance of outstanding loans has consistently increased over the last 7 years from $34,377 in 2004 to $57,901in 2010. The graph immediately below reflects average loan balance outstanding changes over the most recent five year period.



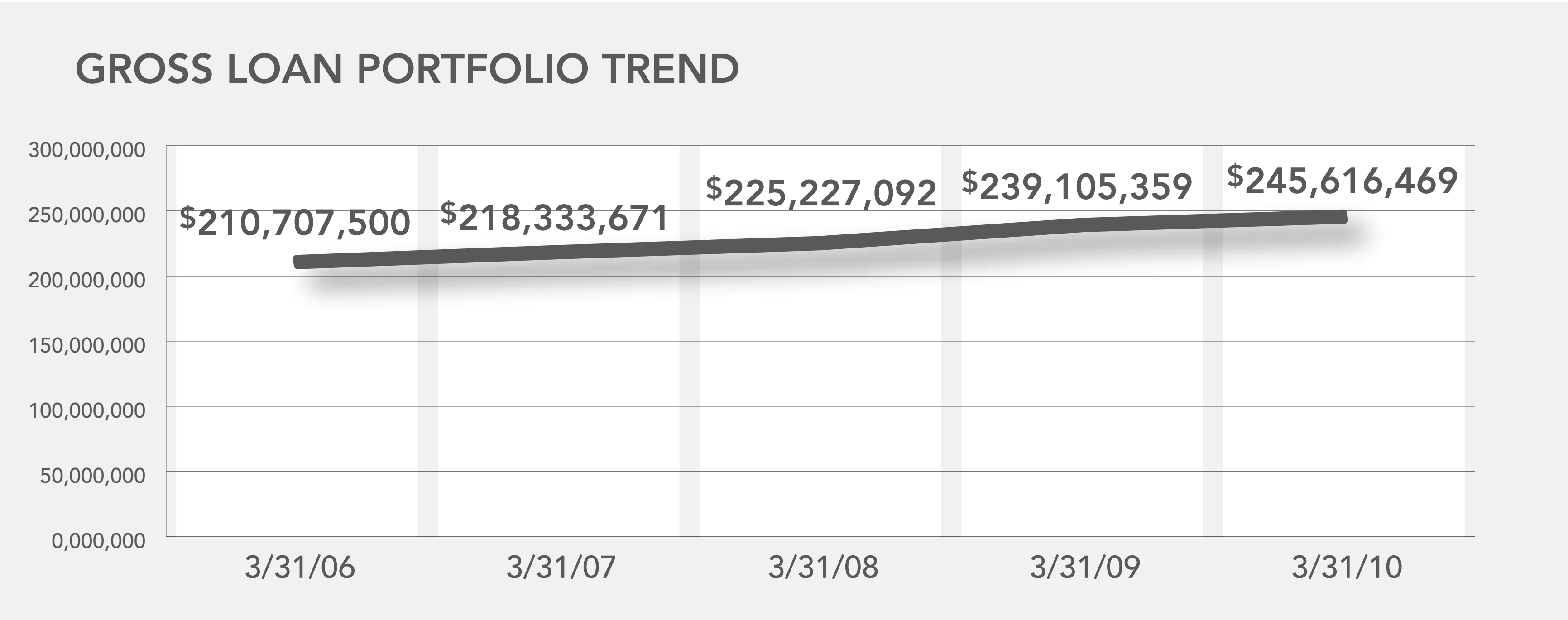
The apparent downward trend in numbers of loans combined with increased dollar amounts per average outstanding loan, relatively stable contractual delinquency levels, and loan loss reserves commensurate with portfolio at risk, all indicate AFIs are either improving risk mitigation and management practices or taking less risk, leading to enhanced fiscal efficiencies.

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



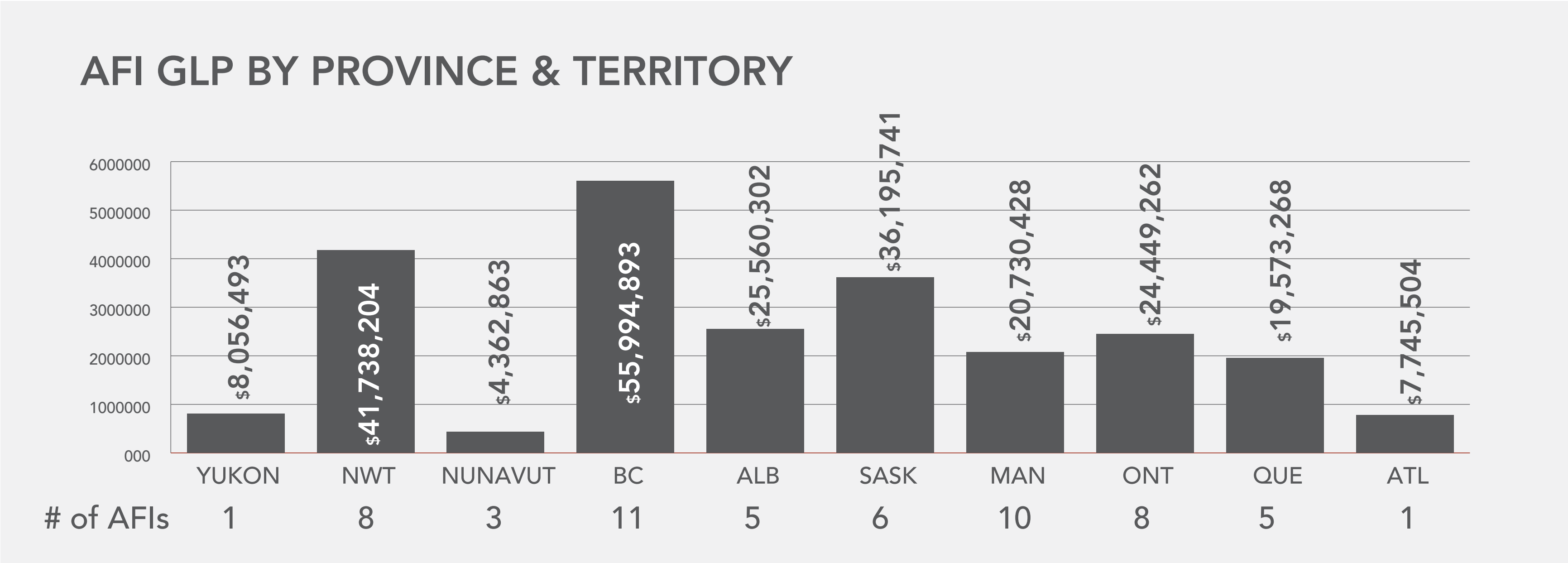
Gross Loan Portfolio Growth Trend

The consolidated AFI Gross Loan Portfolio has exhibited steady growth of 17% or $34.9 million over the past five years



2010 Gross Loan Portfolio by Province/Territory

The chart immediately below depicts the 2010 Provincial/Territorial distribution of the loan portfolio of the 58 lending AFIs.



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 discounting the GLP eliminate inconsistencies sometimes related to adequacy of loan loss reserves or write offs. [21]

	Yukon	NWT	NU	BC	Alberta	Sask	Man	Ont	Quebec	Atlantic
Repayment Efficiency	76%	89%[22]	81%	70%	79%	75%	67%	70%	68%	66%

21 Cautionary note: GLP discounted as a recent sharp upward increase in AFI GLP would adversely distort repayment efficiency

22 Includes ACDF repayment efficiency of 90.84%

Average Smaller Region (SR) and Larger Region (LR) AFI Financial Results[23]

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

Fiscal Year	All SR AFIs	All LR AFIs	% SR AFIs Profitable	% SR AFIs Unprofitable	% LR AFIs Profitable	% LR AFIs Unprofitable
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%
2010 $ profit (loss)	1,170,115	1,733,148	54%	46%	74%	26%
5 year average	2,095,528	(607,829)	51%	49%	58%	42%

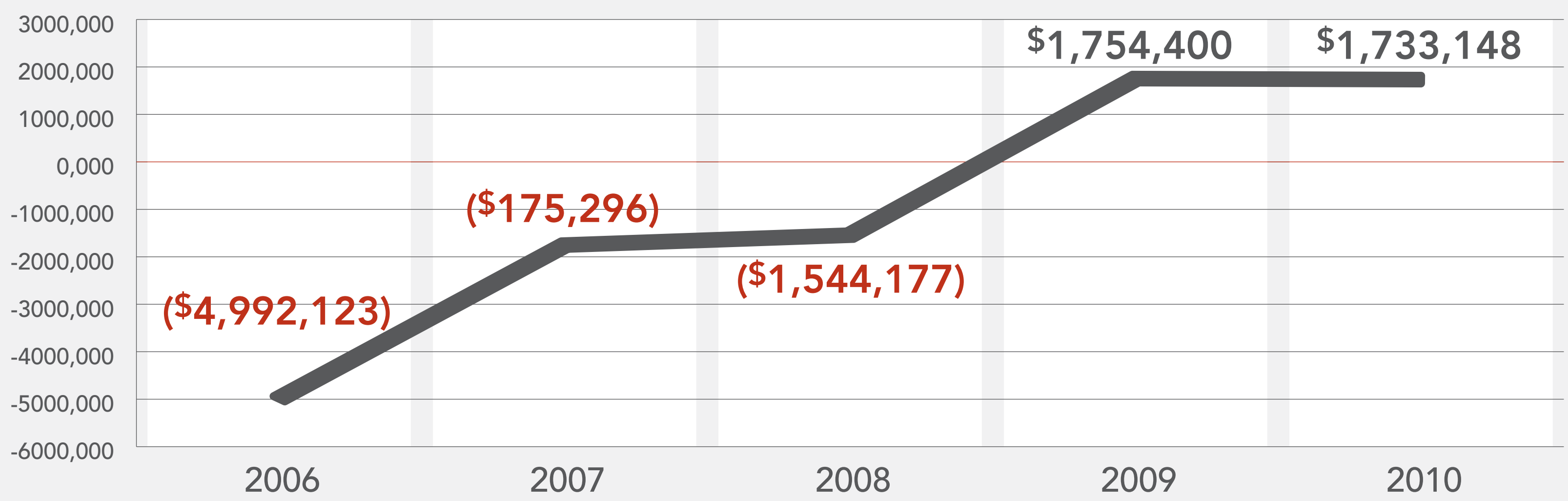
Collectively Smaller Region AFIs have been profitable in each of the last five years. **86% of SR AFIs received formula driven operational subsidies totalling $9.7 million in 2010 from Regional Agencies and Territorial governments**[24]. Consequently, most Smaller Region AFIs are not as dependent upon self generated revenue as Larger Region AFIs.

23 Rational for providing certain SR and LR profitable and unprofitable results is provided on page 18 (first paragraph)

24 BLNDC, CDEM, NFA, NEFI, TAC, and TRICORP are the only SR AFIs that do not receive operational subsidies

Currently, 99% of the Larger Region AFIs must rely on self generated revenue to achieve profitability. Collectively Larger Region AFIs have been profitable in each of the last two of the most recent five years. **Some of larger region AFIs, confirm they are intentionally moving down the risk scale, while it is evident others are making selective strategic business investments to augment revenue streams in order to subsidize developmental lending costs.**

LARGER REGION AFI PROFIT TREND



2010 Revenue Summary

Fiscal 2010 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	**3,144,950**		**4,285,836**		**9,150,242**		**17,073,055**	
Loans advanced during year	**584,851**		**785,855**		**4,862,846**		**2,169,728**	
Gross Loan Portfolio	**2,400,060**		**2,794,926**		**7,834,401**		**6,785,031**	
Revenues		**% GLP**		**% GLP**		**% GLP**		**% GLP**
Net Interest - loans	101,348	4.22%	133,002	4.76%	559,017	7.14%	474,618	7.00%
Bad debt recoveries	8,421	0.35%	24,175	0.86%	30,386	0.39%	15,991	0.24
Interest on deposits	24,512	1.02%	35,056	1.25%	19,515	0.25%	79,859	1.18%
Fee and misc. income	25,284	1.05%	72,085	2.58%	59,384	0.76%	360,560	5.31%
Subtotal loan portfolio income	***159,565***	***6.65%***	***264,348***	***9.46%***	***668,302***	***8.54%***	***931,028***	***13.73%***
Operating subsidies	155,524	6.48%	311,734	11.15%	112,025	1.43%	124,052	1.83%
Program revenue	89,468	3.73%	1,148,111	41.08%	174,687	2.23%	954,520	14.07%
Other	3,455	0.14%	271,682	9.72%	37,296	0.48	573,068	8.45%
Subtotal - other income	***248,447***	***10.35%***	***1,731,527***	***61.95%***	***324,008***	***4.14%***	***1,651,640***	***24.34%***
Total revenue	**408,012**	**17.00%**	**1,995,875**	**71.41%**	**992,310**	**12.68%**	**2,582,668**	**38.07%**

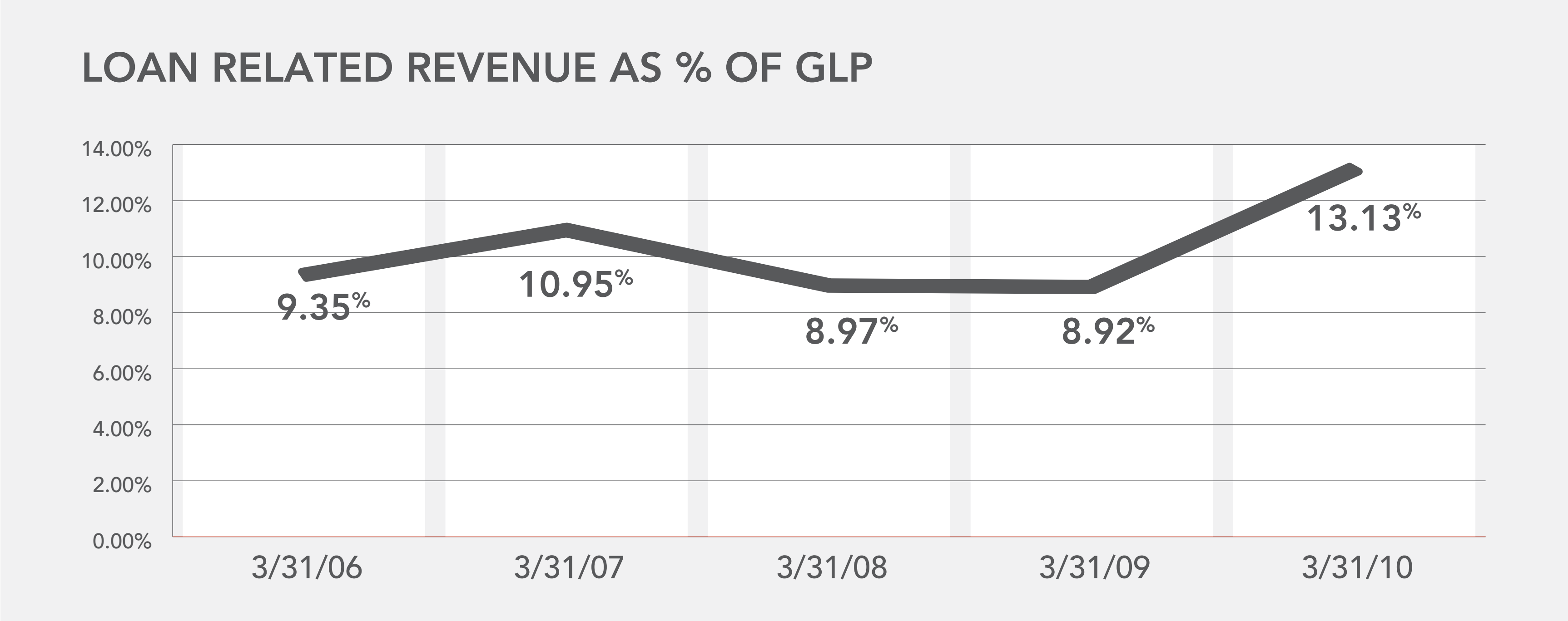
Observations: The percentage of self generated loan portfolio related income in relation to the GLP, for both SR and LR profitable AFIs is higher than that achieved by unprofitable SR and LR AFIs. The percentage of secondary income in relation to the GLP for both SR and LR profitable AFIs is higher than that achieved by unprofitable SR and LR AFIs.

Loan Related Revenue Observations:

Loan Portfolio Revenue

The range of 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 expanded considerably in 2010 from a low of 6.65% to a high of 13.73% respectively (range was 10% to 12% in 2009).

Interest income yield alone varies between LR and SR AFIs from a low of 4.2% to a high of 7.1%. The five year consolidated AFI total loan revenue trend is reflected below.



The sharp uptick in 2010 is noteworthy. Further analysis revealed actual bad debt recoveries as well as interest income on loans and deposits each nominally decreased over the most recent five year period. However, fees and miscellaneous income consistently increased each year. Essentially fee and miscellaneous income doubled from $3 million in 2006 to $5.9 million in 2010. From 2008 to 2009 fee and miscellaneous income increased by 50.52%.

Again, from 2009 to 2010, fee and miscellaneous income increased by a further 24.29%. Possible reasons for this dramatic increase may relate to guarded lending activity by the conventional lending sector arising from the economic downturn coupled with AFI desire for financial sustainability. AFI loan volumes increased 15.51% from 2008 to 2009 and remained fairly constant in 2010.

2010 Expense Summary

Fiscal 2010 expenses have been itemized and reflected as a percentage of the GLP. Refer to appendix “C” for expense definitions.

	Average Unprofitable SR AFI		Average Profitable SR AFI		Average Unprofitable LR AFI		Average Profitable LR AFI	
Assets	**3,144,950**		**4,285,836**		**9,150,242**		**17,073,055**	
Total loans advanced during year	**584,851**		**785,855**		**4,862,846**		**2,169,728**	
Gross Loan Portfolio	**2,400,060**		**2,794,926**		**7,834,401**		**6,785,031**	
Expenses		**% GLP**		**% GLP**		**% GLP**		**% GLP**
Advertising & promotions	7,797	0.32%	12,462	0.45%	16,802	0.21%	46,218	0.68%
Collection expense	2,034	0.08%	251	0.01%	7,331	0.09%	1,271	0.02%
Communications	8,990	0.37%	12,427	0.45%	12,856	0.16%	16,759	0.25%
Depreciation/Amortization	7,258	0.30%	8,926	0.32%	16,864	0.22%	30,932	0.46%
Interest & Bank Charges	4,558	0.19%	7,077	0.26%	8,697	0.11%	21,543	0.32%
Meetings	29,052	1.21%	28,962	1.04%	77,326	0.99%	48,708	0.72%
Office & Admin	31,835	1.33%	54,420	1.96%	47,041	0.60%	118,380	1.74%
Premises costs	22,845	0.95%	45,354	1.64%	34,079	0.43%	59,727	0.88%
Professional fees	74,047	3.09%	39,031	1.41%	75,687	0.97%	82,623	1.22%
Provision for losses	117,151	4.88%	89,684	3.24%	464,149	5.92%	(3,380)	-0.05%
Salaries	189,001	7.87%	327,751	11.82%	294,736	3.76%	657,830	9.70%
Training & development	4,427	0.18%	6,049	0.22%	4,306	0.05%	5,908	0.09%
Travel	19,849	0.83%	33,531	1.21%	37,520	0.48%	53,062	0.78%
Program expense	55,927	2.33%	1,054,028	38.03%	54,434	0.69%	767,374	11.31%
Other	1,707	0.07%	43,478	1.57%	225,702	2.88%	55,118	0.81%
Total expenses	**578,000**	**24.08%**	**1,763,428**	**63.62%**	**1,377,529**	**17.58%**	**1,962,075**	**28.92%**
Net Income	**(169,990)**	**-7.08%**	**217,615**	**7.85%**	**(385,219)**	**-4.92%**	**620,593**	**9.15%**

Comments on expense line items average $50,000 +

Meetings

This category is predominantly Board and Committee meeting expenses ranging from a low of $29k for unprofitable SR AFIs (2009 $29k for unprofitable SR AFIs) to a high of $77K for unprofitable LR AFIs (2009 $61k for unprofitable LR AFIs). Expressed as a percentage of GLP, meeting expenses range from a low of .72% for profitable LR AFIs (2009 .77% for unprofitable LR AFIs), to a high of 1.21% for unprofitable SR AFIs (2009 1.18% for unprofitable SR AFIs).

Office and Administration

This category ranges from a low of $32k for unprofitable SR AFIs (2009 $38k for unprofitable SR AFIs) to a high of $118k for profitable LR AFIs (2009 $92k for profitable LR AFIs). Expressed as a percentage of GLP, office and administration expenses range from a low of .60% for unprofitable LR AFIs (2009 .92% for unprofitable LR AFIs) to a high of 1.1.96% for profitable SR AFIs (2009 1.52% for unprofitable SR AFIs).

Premises costs

Premises costs range from a low of $23k for unprofitable SR AFIs (2009 $28k for SR unprofitable AFIs) to a high of $60k for unprofitable LR AFIs (2009 $54k for profitable LR AFIs). Premises costs expressed as a percentage of GLP, range from a low of .43% for unprofitable LR AFIs (2009 .58% for unprofitable LR AFIs) to a high of 1.64% for profitable SR AFIs (2009 1.14% for profitable SR AFIs).

Professional fees

Professional fee costs range from a low of $39k for profitable SR AFIs (2009 $47k for profitable SR AFIs) to a high of $83k for profitable LR AFIs (2009 $79k for unprofitable SR AFIs). Expressed as a percentage of GLP, professional fees range from a low of .97% for unprofitable LR AFIs (2009 .80% for unprofitable LR AFIs) and a high of 3.09% for unprofitable SR AFIs (2009 3.17% 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 at year end 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 2010 consolidated AFI loan loss reserve is 15.01% of the GLP (14.86% 2009). 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	31.05% (30.38% 2009)	20.03% (25.34% 2009)
SR Average Profitable	15.56% (13.21% 2009)	10.37% (7.23% 2009)
LR Average Unprofitable	11.24% (12.56% 2009)	9.54% (6.32% 2009)
LR Average Profitable	6.70% (6.84% 2009)	-0.16% (3.81% 2009)
All AFIs Average	15.01% (14.86% 2009)	8.98% (8.83% 2009)
Five year rolling average all AFIs	15.94% (16.26% 2009)	9.72% (9.55% 2009)

Possible reasons for each category of AFI 2010 loan loss reserve being a higher percentage than the loan loss provision are:

- AFI risk recognition and mitigation methods are improving as a result of the AFI risk measurement tool and specialized training developed
- Loan loss provisions in prior years may have been overestimated
- Loan loss provisions in 2010 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, 2010, AFIs employed a total of 337 people (346 in 2009). 67% of AFI employees [25] are of Aboriginal decent. The maximum number of employees in an AFI is 22, the median is 5, and the minimum is 1.

Salary costs range from a low of $189k for unprofitable SR AFIs (2009 $234k for unprofitable SR AFIs) to a high of $658k for profitable LR AFIs (2009 $455k for LR profitable AFIs). Expressed as a percentage of GLP salary costs ranged from a low of 3.76% for unprofitable LR AFIs (2009 5.20% for unprofitable LR AFIs) to a high of 11.82% for profitable SR AFIs (2009 9.51% for SR profitable AFIs).

The data provided in the table below may be a meaningful guideline or reference for General Managers.

Program expense

The stable of programs delivered by AFIs, generally for the Federal Government, varies widely from AFI to AFI. 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.

It is argued by some that program delivery detracts from the level of developmental lending support an AFI is able to provide borrower businesses. Conversely it is argued by others that program delivery assists to reduce reliance on loan interest revenue to cover employee costs as program delivery staff also undertakes work not associated with program delivery.

Program expenses range from a low of $54k for unprofitable LR AFIs (2009 $27k for profitable LR AFIs) to a high of $767k for profitable LR AFIs (2009 $2,458k for SR profitable AFIs). Expressed as a percentage of GLP, program expense ranges from a low of .69% for unprofitable LR AFIs (2009 .43% for LR profitable AFIs) to a high of 38.03% for profitable SR AFIs (2009 31.11% for unprofitable LR AFIs).

2010	SR Average	SR Profitable	SR Unprofitable	LR Average	LR Profitable	LR Unprofitable
Average # loans o/s	59	62	46	106	88	121
Average loan balance	$47,520	$44,398	$51,949	$69,462	$76,812	$64,640
Average GLP	$2,794,926	$2,771,714	$2,400,060	$7,337,331	$6,785,031	$7,834,401
Account Managers	1.46	1.50	1.20	1.96	2.61	1.38
BSOs	0.76	0.81	0.60	1.39	1.67	1.15
Loan Support Staff	1.53	1.57	1.25	2.11	2.72	1.56
Total Staff	5.09	5.26	4.15	7.53	10.50	4.87
Loans/Account Manager	40.27	41.62	38.50	53.81	33.83	87.83

25 2007 NACCA salary range survey

Other

It is arguable that project management detracts from developmental lending activities. 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.

Other expense reflects a low of $2K for unprofitable SR AFIs (2009 $.8k for SR unprofitable AFIs) and a high of $226K for unprofitable LR AFIs (2009 $278k for unprofitable LR AFIs). Expressed as a percentage of GLP other expense represents a low of .07% for SR unprofitable AFIs (2009 .03% for SR unprofitable AFIs) and a high of 2.88% for unprofitable LR AFIs (2009 3.52% for unprofitable LR AFIs).

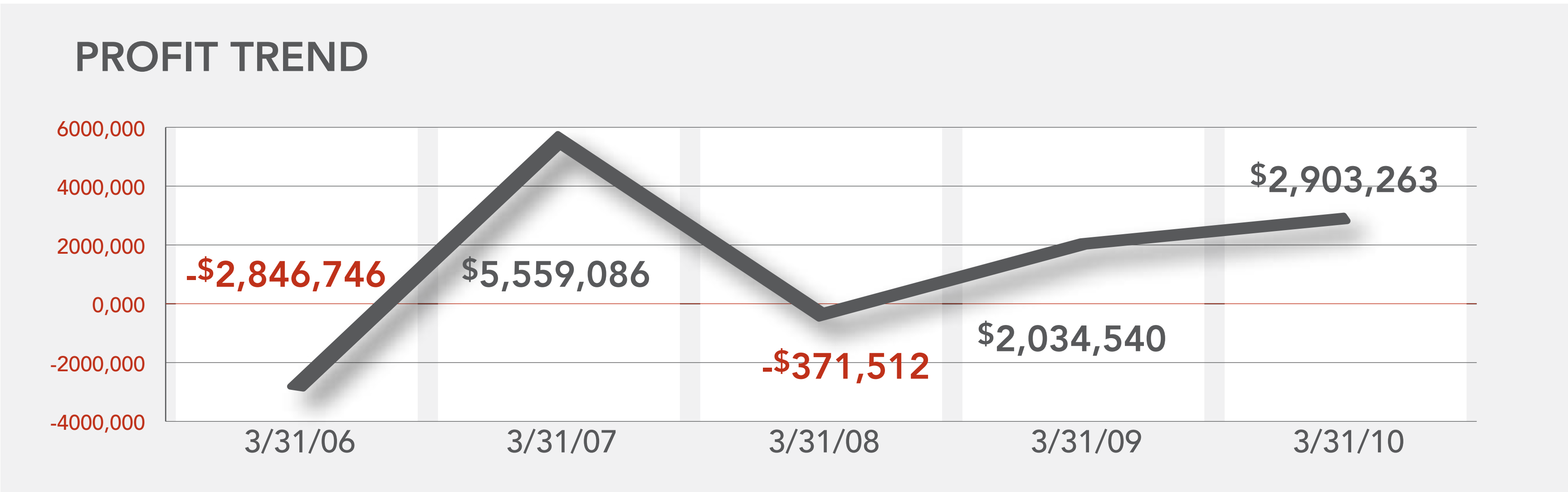
Profitability

Collectively AFIs have reflected profitable results in three of the last five years despite the fact loan loss reserves were increased nearly 6% during the analogous time period. Concurrently loan volumes, as well as the consolidated GLP reflected consistent growth, despite the strained economic environment.

Consolidated profitability results sorted by AFI type reveals ACCs incurred losses in each of the past five years.

Programming to correct AFI model deficiencies and perpetuate the provision of developmental loans has now been under discussion with government for seven years. During this time AFIs have taken some steps to reduce the Cost of Capital on their own: improved risk management practices through tools developed; utilization of 29 Business Service Officers (BSOs) without any INAC support funding; some AFIs (an apparently increasing number) have developed alternate revenue streams to subsidize their cost of capital; some AFIs have reduced risk tolerance levels, and others have introduced two or more of the foregoing remedies. In light of reduced risk tolerance levels on the part of some AFIs, when the cost of developmental lending is calculated without inclusion of a 15% loan loss allowance, the most recent five year cost of capital[26] is reflected in the following chart.

Borrowing rates on the other hand have been steadily declining ever since AFIs were created. The central bank rate is now 0.5%. The current low interest rate climate exerts immense pressure on AFIs to proffer lower interest rates for loans. AFIs are unable to generate loan portfolio revenue sufficient to recover their cost of capital.



26 Based on actual loan losses

Year	Total All AFIs	ACFs	ADLs	ACCs	Business Support
2006	(2,846,746)	530,006	1,753,460	(5,119,707)	(10,505)
2007	5,559,086	136,330	5,755,827	(179,355)	(153,716)
2008	(371,512)	974,668	(145)	(1,186,494)	(159,541)
2009	2,034,540	7,610	3,613,785	(1,613,925)	27,070
2010	2,903,263	1,939,384	2,902,919	(1,966,110)	27,070

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. The conceptual self sustaining AFI model was developed prior to 1986, when the central bank rate was in the 8% to 9% range. 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 inflation and growth. It was assumed the average AFI with a $5 million capital base would be self sufficient.

AFIs by way of NACCA have proposed a Risk Adjusted Return on Capital (RAROC) based Performance Allocation program that would correct the AFI model deficiency over time. The proposed program focuses on lending activity as well as measurement and management of risk.

The AFI Cost of Capital\ AFI Cost of Developmental Lending

The cost of capital is easily and often confused with cost of funds. It is a common misconception that AFIs have a zero cost of capital because government initially contributed loan capital to AFIs. It needs to be recognized that a cost of funds is applicable to lenders that accept deposits and incur a related cost i.e. Banks, Credit unions and Trust Companies etc. To a very limited extent some AFIs that borrow funds from conventional institutions or other arms length lenders incur a cost of funds however the vast majority of AFIs 90%+ do not. Cost of Capital on the other hand is quite different. Cost of capital is a function of four elements which determine the interest rates a lender needs to charge for loans:

Administrative expenses (AE) - the amount of administrative expense expressed as a percentage of the loan

Loan losses (LL) – the amount of loan loss expected, based on probability of default expressed as a percentage of the loan

Cost of funds (COF) – the amount of interest paid to a depositor expressed as a percentage of the principal of the loan

Desired capitalization rate[27] (CR) – the amount allowed for profit and growth expressed as a percentage of the loan

Cost of capital is therefore calculated as follows:

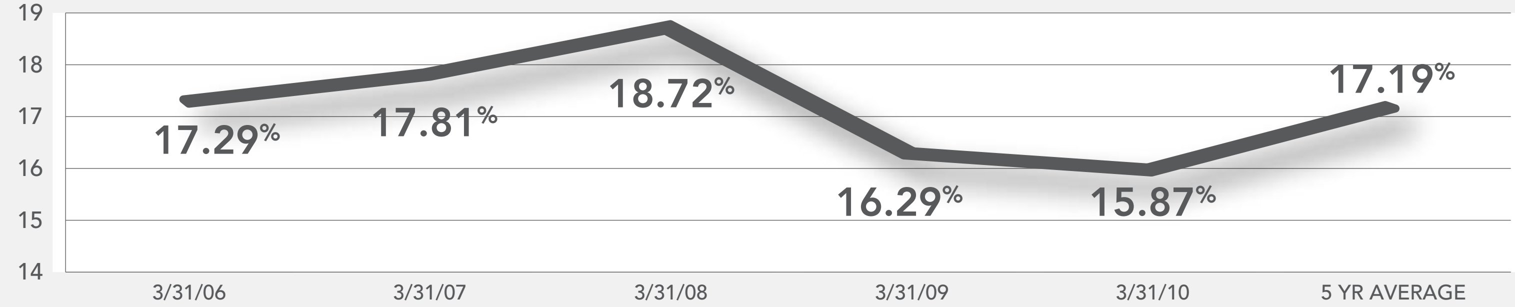
$$\frac{AE + LL + COF + CR}{GLP} = \text{Interest rate charged}$$

The AFI Cost of Capital calculation has always utilized a 15% loan loss assumption[28] which is widely believed to be applicable to AFIs fully engaged in the provision of developmental loans.

27 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. A capitalization rate is not included in AFI cost of capital calculations.

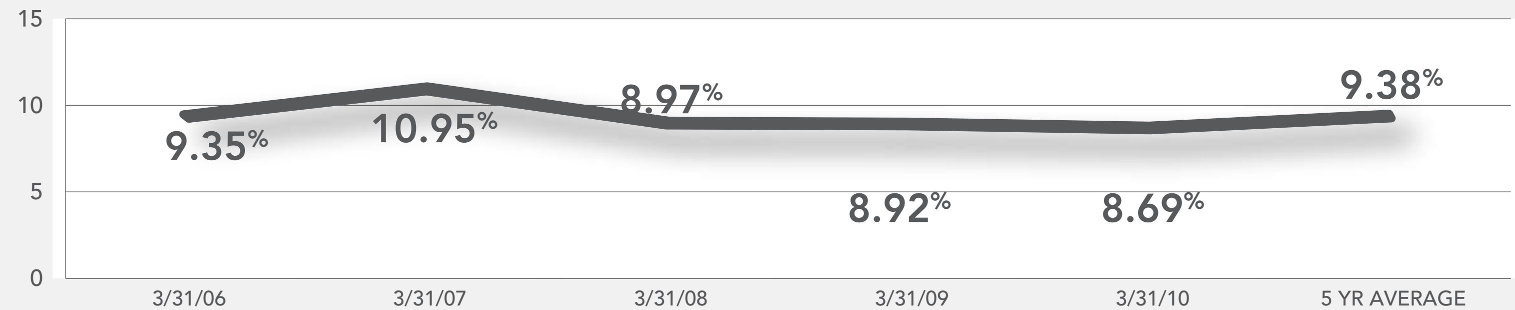
28 Yovhan Burega former Senior V.P. Toronto Dominion Bank under contract with INAC 2004-05

5 YEAR ROLLING AVERAGE COST OF CAPITAL



The cost of capital versus revenue shortfall ranged from a high of 9.75% in 2008 to a low of 6.86% in 2007. The resultant five year rolling average shortfall is 7.81% before consideration of a cap rate to offset inflation and\or provide for growth. [29] **Ergo sustainability is the number one priority for AFIs receiving no or inadequate operational financial support.**

5 YEAR ROLLING AVERAGE LOAN PORTFOLIO REVENUE



Details with respect to the 5 year rolling average cost of capital of capital shortfall calculation are provided in Appendix “H”

29 17.19% five year rolling average cost of capital minus the five year rolling average 9.38% loan portfolio revenue equals 7.36% shortfall

SECTION III AFI JOB CREATION\MAINTENANCE COST EFFICIENCIES

The purpose of this section is to provide a view of the AFI network not previously reflected that of a national job creation\maintenance mechanism impacting on the Aboriginal economy, rather than that of strictly a developmental lender.

In conjunction with the fiscal year ending March 31, 2010, NACCA undertook a job creation\maintenance cost efficiency analysis to determine:

1. the cost to Government in terms of jobs created and maintained through provision of AFI loans and AFI pre and post loan care
2. the collective number of jobs created in a year through the provision of AFI start-up business loans
3. the average number of jobs created by provision of each AFI start-up business loan
4. the collective number of jobs maintained annually by provision of new AFI loans to expand or modernize an existing business
5. the average number of jobs maintained by an AFI loan provided to modernize or expand an existing business

The 55 lending AFIs were requested via email to complete and return a one page survey indicating: (1) the number of projected new jobs to be created in the businesses receiving start up loans and (2) the number of jobs in existence at the time new loans were provided to established small businesses. A total of 41[30] AFIs or 75% of all 55 active lending AFIs provided data for the job creation\maintenance cost efficiency analysis.

The full text of the AFI Job Creation\Maintenance Efficiency Study is available on the NACCA website. Summary findings are provided below.

30 One AFI provided data after the study was completed

2010 Government Cost per AFI Created\Maintained Job

Government costs associated with AFI job creation\maintenance can be grouped in two categories. First, Government has and continues to contribute loan capital to AFIs. Second, the Federal Government and Territorial Governments provide ongoing support to AFIs. The analysis contemplated both loan capital and supplemental AFI support costs.

It is to be recognized in some cases other support job creation programming may have participated in the creation of AFI supported jobs e.g. entrepreneurial programming, EI programming, disability programming etc. On the other hand, the same observation would logically apply equally to the other job creation programs.

2010 Capital Cost

Total AFI cost of capital for the fiscal year ending March 31, 2010 was $31,005,211.[31]

2010 Support Cost

Combined Federal and Territorial Government AFI support costs for the fiscal year ending March 31, 2010 were $17,201,034.[32]

31 The cost to Government of capital provided via repayable loans was estimated to be 3.9% which is reportedly the long term borrowing rate available to Government. The cost of capital under active contribution agreement was calculated at the face value of active or existing contribution agreements.

32 Includes Federal and Territorial government operation subsidies provided to AFIs, all Access to capital programming costs, all AFI network (NACCA) support costs as well as INAC Business Services Officer and Alternate Service Delivery costs

AFI Job Creation\Maintenance Cost Efficiency Summary

The combined AFI capital and support costs to the Federal and territorial Governments in 2010 were $48,206,245.

In the year ending March 31, 2010 AFIs provided 499 start-up loans creating 1,386[33] full time equivalent (FTE) jobs. The average number of FTEs per start up loan was 2.78.

Concurrently, AFIs provided 635 new loans to small businesses to expand or modernize creating\maintaining 2,476[34] FTE jobs. The average number of FTE jobs created\maintained per AFI new loan advance to an existing business was 3.90.

The combined total of start-up and expansion\modernization loans were 1,134 which created\maintained a total of 3,863[35] FTE jobs in 2010, equating to an average of 3.41 FTEs per AFI loan, at a cost of $12,479[36] per job created\maintained.

Although the survey was not designed to determine the total jobs supported by the outstanding gross loan portfolio of 4,242 loans, based on the survey findings of 2.78 FTEs for AFI start-up loans and 3.90 FTEs for AFI existing loans, it is postulated AFIs are supporting Aboriginal owned small businesses which employ in the range of 11,792 to 15,984 FTEs[37].

33 Part time and seasonal job equivalents estimated as .4 of a full time job

34 Part time and seasonal job equivalents estimated as .4 of a full time job

35 Part time and seasonal job equivalents estimated as .4 of a full time job

36 Combined AFI capital and support costs of $48,206,245 divided by 3,863 FTEs = $12,480

37 A low of 4,242 loans @ 2.78 FTEs per loan = 11,792 and a high of 499 loans @2.78 FTEs per loan plus 3,743 loans @ 3.90 FTEs per loan = 15,984 FTEs

SECTION IV

Appendix A 2010 Consolidated Balance Sheet

	SR Unprofitable	SR Profitable	LR Unprofitable	LR Profitable	Total All AFIs
Assets	Av AFI	Av AFI	Av AFI	Av AFI	
Cash & term	1,280,960	2,077,897	1,656,324	4,976,065	130,602,871
Accrued Interest	23,585	37,236	107,297	29,293	2,590,277
Accounts receivable	88,451	429,785	250,626	1,067,087	22,904,553
Collateral & Loans - Net	1,678,829	2,340,309	6,954,067	6,330,637	209,239,475
Other	6,200	385,707	42,850	4,463,966	48,828,037
Capital assets	66,924	101,459	0	206,007	6,713,973
Total Assets	**3,144,950**	**5,372,394**	**9,150,242**	**17,073,055**	**420,879,186**
Liabilities					
Payables	77,906	295,955	292,359	714,330	17,125,737
Other (includes credit lines)	571	52,755	79,304	309,258	3,944,517
Deferred revenue	18,133	66,553	266,036	69,042	5,042,012
Long term debt	219,598	729,063	41,635	4,626,040	61,753,004
Equity					
Equity Capital	10	5	2,238,468	118,588	23,452,274
Contributed surplus	2,267,131	4,218,694	7,495,652	11,327,718	310,841,180
Surplus -Deficit	561,601	45,136	(1,263,212)	(91,921)	(1,279,538)
Total liabilities & Equity	**3,144,950**	**5,372,394**	**9,150,242**	**17,073,055**	**420,879,186**

Appendix B 2010 Consolidated Income Expense 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	101,348	133,002	559,017	536,768	15,241,080
Provision for losses: Interest	0	0	0	(62,149)	(559,344)
Net Interest on loans	101,348	133,002	559,017	474,618	14,681,736
Recovery on loans & interest	8,421	24,175	30,386	15,991	813,052
Interest on investments	24,512	35,056	19,515	79,859	2,140,292
Fee and misc. income	25,284	72,085	59,384	360,560	5,858,333
Operating subsidies	155,524	311,734	112,025	124,052	11,670,183
Program revenue	89,468	1,148,111	174,687	954,520	36,460,650
Other	3,455	271,682	37,296	573,068	11,304,986
Total revenue	**408,011**	**1,995,845**	**992,310**	**2,582,668**	**82,929,232**
Expenses					
Advertising & promotions	7,797	12,462	16,802	46,218	1,001,615
Collection expense	2,034	251	7,331	1,271	130,690
Communications	8,990	12,427	12,856	16,759	720,171
Depreciation/Amortization	7,258	8,926	16,864	30,932	779,633
Interest & Bank Charges	4,558	7,077	8,697	21,543	520,620
Meetings	29,052	28,962	77,326	48,708	2,400,883
Office & Admin	31,835	54,420	47,041	118,380	3,315,330
Premises costs	22,845	45,354	34,079	59,727	2,302,696
Professional fees	74,047	39,031	75,687	82,623	3,816,454
Provision for losses	117,151	89,684	464,149	(3,380)	8,837,451
Salaries	189,001	327,751	294,736	657,830	19,530,626
Training & development	4,427	6,049	4,306	5,908	311,807
Travel	19,849	33,531	37,520	53,062	1,953,898
Program expense	55,927	1,054,028	54,434	767,374	30,703,835
Other	1,707	43,478	225,702	55,118	3,700,263
Total expenses	**578,000**	**1,763,428**	**1,377,529**	**1,962,075**	**80,025,969**
Net Income	**(169,990)**	**217,615**	**(385,219)**	**620,593**	**2,903,263**

Appendix C 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
Self explanatory – includes employee benefits

Training and development
Costs incurred by an AFI to provide employees or Board Members training. Entrepreneurial training costs for clients are not included in this section.

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 D 2010 Consolidated 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 $	8,722,365	12,814,251	69,067,822	38,884,189	1,493,567,352
Cumulative loans provided by #	250	405	1,263	914	35,724
Historical loans w/o #	44	37	117	140	4,064
Historical loans w/o $	795,715	896,103	3,388,339	2,881,704	94,551,190
% loans w/o by #	9.12%	6.99%	9.24%	15.29%	11.38%
% loans w/o by $	17.44%	9.03%	4.91%	7.41%	6.33%
# of loans to startup businesses in year	4	7	17	11	499
$ of loans to startup businesses in year	198,883	440,074	528,772	698,743	24,901,261
# of new loans to existing businesses in year	5	9	19	11	635
$ of new loans to existing businesses in year	384,586	378,317	608,036	1,201,591	68,410,447
Total # of all loans provided during year	9	18	48	23	1,242
Total $ of all loans provided during year	584,851	865,023	4,862,846	2,169,728	98,424,150
Loan Loss Reserve $	745,215	431,404	880,335	454,394	36,856,678
Loan Loss Reserve % of GLP	31.05%	15.56%	11.24%	6.70%	15.01%
# loans Outstanding	46	62	121	88	4,242
Net loan portfolio	1,654,845	2,340,309	6,954,067	6,330,637	208,759,791
Gross Loans Portfolio	2,400,060	2,771,714	7,834,401	6,785,031	245,616,469
Average loan amount	51,949	44,398	64,640	76,812	57,901
Gross interest yield on GLP	4.22%	4.80%	8.48%	7.75%	6.39%
Days Interest Accrual	85	102	70	20	62
Repayment Efficiency	63.36%	71.38%	83.75%	75.14%	77.22%

Appendix E 2010 Consolidated Staffing Data

	SR Unprofitable	SR Profitable	LR Unprofitable	LR Profitable	Total All AFIs
	Av AFI	**Av AFI**	**Av AFI**	**Av AFI**	
# Account Managers	1.20	1.50	1.38	2.61	93
# of loan support employees	1.25	1.57	1.56	2.72	98
# Total employees	4.15	5.26	4.87	10.50	337
# of loans per Account Manager	38.50	41.62	87.83	33.83	45.71
# of loans per all loan employees	39.75	20.33	41.29	16.56	22.23
$ of loans per Account Manager	2,000,050	1,847,809	5,677,102	2,598,522	2,646,729
$ of loans per all loan employees	979,616	902,418	2,669,302	1,272,193	1,286,961

Appendix F 2010 Consolidated 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	2.06%	1.21%	3.06%	0.62%	0.98%
Fee Rev as % of total rev	6.20%	3.61%	5.98%	13.96%	7.06%
Loan Interest as % of total Rev	24.84%	6.66%	56.33%	18.38%	17.70%
Program Rev as % of total Rev	21.93%	57.53%	17.60%	36.96%	43.97%
Revenue- % of total Assets	12.97%	37.15%	10.84%	15.13%	19.70%
Expenses %of Total Revenue	141.66%	88.35%	138.82%	75.97%	96.50%
Expenses per Loan	12,511	28,247	11,366	22,212	7,605
% Expenses of Net Loan Portfolio	34.93%	75.35%	19.81%	30.99%	38.33%
Net Profit as % of Revenue	-41.66%	10.90%	-38.82%	24.03%	3.50%
Net Profit as % of Total Assets	-5.41%	4.05%	-4.21%	3.63%	0.69%
Cost of Capital	485,078	343,636	1,143,204	836,280	32,260,333
Cost of Capital % of GLP	29.50%	23.15%	23.81%	20.59%	23.88%
Cost of Capital per Outstanding Loan	10,500	5,504	9,432	9,467	7,605
Liquidity					
Gov't Loan Capital Contributed/Repayable	2,341,001	2,077,897	6,916,097	10,039,377	256,692,885
Total Assets % Loan Capitalization	134.34%	224.04%	132.30%	170.06%	163.96%
Liquid cash	1,167,447	1,586,430	1,306,180	3,975,520	105,505,443
Loan Capital Contribution Deployment	97.54%	86.52%	113.28%	67.58%	95.68%
Self sufficiency					
Operational efficiency	70.59%	113.18%	72.04%	131.63%	103.63%
Financial self sufficiency	46.95%	78.72%	53.91%	81.41%	83.70%

Appendix G 2010 Consolidated 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	372.59%	534.38%	998.65%	387.32%	581.85%
Liquid Cash as Percentage of GLP	48.64%	57.24%	16.67%	58.59%	42.96%
Leverage					
Client equity	210,102	94,452	255,259	400,540	12,195,737
Government contributions	83,482	152,479	124,670	268,849	9,145,443
Conventional lenders	245,303	86,581	186,152	96,988	20,810,582
Other AFI Network lenders	77,262	25,415	33,552	102,211	3,334,377
Total leveraged	**616,150**	**358,927**	**599,632**	**868,589**	**45,486,139**

Appendix H Net AFI Cost of Capital Calculation

Total Loan Portfolio Revenue	9.35%	10.95%	8.97%	8.92%	8.69%	9.38%
Administration expense	11.37%	11.30%	12.15%	9.66%	9.32%	10.76%
Loan Losses	5.73%	6.25%	6.29%	6.37%	6.33%	6.20%
Cost of Funds	0.19%	0.25%	0.28%	0.26%	0.21%	0.24%
Cost of Capital	17.29%	17.81%	18.72%	16.29%	15.87%	17.19%
Cost of Capital Shortfall	-7.94%	-6.86%	-9.76%	-7.37%	-7.17%	-7.82%

Appendix I Smaller and Larger Geographical Region AFI Listing

Smaller Region AFIs	Smaller Region AFIs continued	Larger Region AFIs
1 Aboriginal Business Development Centre	21 Native Fishing Association*	1 Alberta Indian Investment Corporation
2 Akaitcho Business Development Corporation	22 North Central Manitoba CFDC	2 All Nations Trust Company
3 Anishinabe Mazaska Capital Corporation	23 Northern Enterprise Fund Inc.	3 Apeetogosan (Métis) Development Inc
4 Atuqtuarvik Corporation	24 Northwest Manitoba CFDC	4 Arctic Cooperative Development Fund
5 Baffin Business Development Corporation	25 Nunavik Investment Corporation	5 Clarence Campeau Development Fund
6 Burns Lake Native Development Corp	26 Nuu-chah-nulth Economic Development	6 Däna Näye Ventures
7 Beaver River Community Futures Development	27 Rainy Lake Tribal Area Business & Financial*	7 First Nations Agricultural Lending Association
8 Bella Bella Community Development Centre	28 Sahtu Business Development Centre	8 First Peoples Economic Growth Fund Inc*
9 CFDC of Central Interior First Nations	29 Southeast Resource Development	9 Indian Agricultural Program of Ontario
10 Cedar Lake CFDC	30 Sto:Lo Development Corporation	10 Indian Business Corporation
11 Corporation Développement Économique Montagnaise	31 Tale' Awtxw Aboriginal Capital Corp	11 Louis Riel Capital Corporation
12 Dakota Ojibway CFDC	32 Tewatohnhi' Saktha Business Loan Fund	12 Nishnawbe Aski Development Fund
13 Deh Cho Business Development Centre	33 Thebacha Business Development Services	13 N.W.T. Métis-Dene Development Fund Ltd.
14 Dogrib Area Community Futures	34 Tecumseh Development Corporation	14 Ohwistha Capital Corporation
15 EEYOU Economic Group/CFDC Inc.	35 Treaty Seven Economic Development Corp	15 Saskatchewan Indian Equity Foundation Inc.
16 Haida Gwaii	36 Tribal Resources Investment Corp.	16 Sask Métis Economic Development Corp
17 Kakivak Association	37 Two Rivers Community Development Centre	17 Settlement Investment Corporation
18 Keewatin Business Development Centre (Kivalliq)	38 Visions North CFDC	18 Société de crédit commercial autochtone
19 Kitayan CFDC	39 Wakenagun Community Futures Dev. Corp.	19 Tribal Wi-chi-way-win Capital Corporation
20 Kitikmeot Community Futures Inc.	40 Waubetek Business Development Corp	20 Ulnooweg Development Group Inc.

Sincere appreciation is extended to AFIs whose names are italicized for their provision of current audited financial statements and supporting data enabling the compilation of this report.

*Denotes missing supplemental AFI data

Appendix J 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." Applications to establish self sufficient AFIs after five years of operation far exceed Government expectations. As a result none of the AFIs were capitalized at levels adequate to attain self sufficiency in accordance with their professionally prepared third party business plans.

- 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 via contribution agreement terms and conditions. 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. AFIs remain unaware.

- 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 totalling $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 – Six ACCs formed a "loose affiliation" as a result of Aboriginal Business Canada's (ABC) development of an MOU with Business Development Canada (BDC). The MOU would have resulted in Aboriginal Capital Corporations (ACCs) reporting to Business Development Canada (BDC) a non Aboriginal entity, which was viewed as an unacceptable change. The six AFIs began to pursue common interests on their own accord. 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 six ACCs develop an ACC Treasury Plan for the benefit of all ACCs to restore and enhance ACC loan capitalization; Price Waterhouse Coopers produces a third party business plan substantiating the need for an ACC Treasury, the Paquan Rice report commissioned by INAC confirms AFIs "have developed a know-how not shared by their conventional lending counterparts;"

- 1997 – The loose affiliation of six ACCs designs and develops the First Nations and Inuit Youth Business Program (FN&IYBP) later to be funded by INAC; INAC required the formation of a National entity to deliver the FN&IYBP; the loose affiliation of six ACCs contemplates forming an association; Jean Vincent of SOCCA suggests the formal organization be called the National Aboriginal Capital Corporations Association (NACCA); at a meeting in Quebec City hosted by SOCCA, NACCA is formed with 22 founding members committing to annual membership fees of $1,000; Letters Patent are registered March 4, 1997; ABC subsequently indicates 22 of 31 ACCs is not a substantial majority of ACCs and refuses to recognize NACCA as the national ACC voice;

- 1998 – NACCA establishes a national office in Edmonton; NACCA membership increases to 31 ACCs (100%); membership passes resolution to use 50% of membership fees to assist with Board meeting costs while remaining 50% is to be set aside for future NACCA undertakings, NACCA begins tabulating historical AFI loan data and subsequently for the first time informs AFIs of the related milestones they have achieved; NACCA members begin delivering the FN&YBP which is eventually delivered by most NACCA member AFIs; ABC dismisses the ACC Treasury Plan; the ACC 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;

- 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 that lasts from January 17, 2006 to October 31, 2006; ABC/INAC insist 100% of NACCA membership fees must be expended before government dollars flow to NACCA effectively overturning 1998 NACCA member resolution to only use 50% of membership fees for Board meeting costs while retaining 50% of membership fees for future NACCA endeavours, 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; INAC and ABC merge under the INAC banner;

- 2007 – the number of cumulative AFI loans exceeds the 30,000 mark; government capital contributions and repayable loans to AFIs tops $200 million; new INAC management team installed; RPO discussions stall; the concept of establishing regional LSPs is raised by INAC as an alternative to a national AFI LSP;

- 2008 – New INAC management team settles in; INAC engages E&Y to complete AFI reviews to determine capacity to deliver increased INAC programming; RPO discussions do not progress; regional LSP discussions do not progress

- 2009 – for the first time min AFI history, AFIs provide more than $100 million in loans in a one year period; cumulative historical AFI loans surpass the $1.4 billion mark; payback of AFI loans surpasses the $1billion mark; RPO programming is cancelled despite previous commitments by INAC/ABC, 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 many AFIs; INAC undertakes another round of management changes effecting the AFI file; a NACCA member AFI initiates legal action against INAC seeking a judicial review and files complaints with the Auditor General and Treasury Board;

- 2010 – NACCA member SIEF becomes the first entrepreneurial focused AFI to attain more than $50 million in loan repayments; NACCA member TWCC wins CANDO Economic Developer of year award and receives recognition as Manitoba’s 12th fastest growing company; new INAC management team settles in and begins discussions relating to AFI priorities; 46 of 55 AFIs advance $98 million in loans (9 had yet to report as of this update); historical AFI loans nudge $1.5 billion level; an AFI loan creates\maintains an average of 3.6 full time equivalent jobs at an average cost of $13,079 per job

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