

**Alternatives for Providing
Credit Union Service
To Nunavut**

Arctic Co-operatives Ltd.

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SUMMARY

This Options Paper offers a description of one framework, the Credit Union model, to bring advanced banking products to the most remote communities in Canada. It is not a detailed feasibility analysis of this model but a general description of the potential that exists within it and a description of some options for how it could be implemented.

This model is made possible by using an existing network of co-op commercial locations, local self help development and electronic technology.

This paper does not propose a “best” solution nor does it compare “banks” to “credit unions”. Its purpose is to provide information on the credit union alternatives available. Its main conclusion is that there are feasible means by which existing businesses (co-operatives) can enable delivery of financial services to Nunavut communities.

The concept is to put in place one to three main offices (credit unions or branches of other Credit Union institutions) that serve a series of sub-branches located in co-operatives in the various Nunavut communities. A sub-branch is a full or part time bank teller located in the store who is connected with the main branch via computer. A member will be able to access his/ her account from any sub-branch or on-line.

The main branch is in turn linked to a southern service bureau, credit union central or large credit union, or even to all three. These linkages will provide access to clearings, national financial systems, investment networks, information processing and banking expertise.

The financial and developmental advantage of the credit union option is found in using the existing co-operatives. These co-operatives offer existing physical facilities, electronic network and local volunteer networks. Importantly, they offer an example and focus for implementing peer lending programs and financial education processes without needing to create a credit union in each community or installing a loans officer at each location.

Under the initial guidance of the co-operative board, an organizing committee of volunteers in each community can be responsible for initial promotion and for raising initial owners’ capital. After the location becomes a sub-branch of a credit union this organizing committee can evolve into the local loans committee and local development committee.

Options

Two sets of solutions are possible, depending upon location of regulation and deposit guarantee:

- a. Use organizations formed under existing Nunavut legislation.
 - i. Form a credit union system.

- ii. Form 2 or 3 credit unions with multiple sub-branches.
(option i, above, is not proposed here as a current working alternative. It was the basis for the past business plan, however.)
- b. Use an existing (southern) credit union /co-operative framework
- i. Use Co-operative trust
 - ii. Make an agreement for a southern credit union to branch into Nunavut.
 - iii. Negotiate a contract to obtain a branch from a credit union subsidiary schedule B bank (such as Citizens or Alterna).

Either a developmental credit union central or a Nunavut holding company can be formed to supervise and negotiate the development. One possible structure is as follows:

- Three directors elected by credit union members at large.
- Three directors appointed by investors, for example, NTI.
- One director appointed by the Government of Nunavut.
- One director appointed by Arctic Co-ops.
- One director appointed by a southern operating partner.

Governance in credit unions is based on members owning the financial services themselves. Governance structures have also been established that reflect the source of initial investment and that evolve based on the increasing role of members in the ownership of the assets employed. The increase in ownership of assets is affected through the placement of the deposits of members and the retention of net profit or net savings within the equity structure of the credit union.

As shown in the diagram on page 8 the banking operation will have three tiers:

1. Sub-branches co-located with local co-operatives.
2. Main branches with more complex member services.
3. Service support for development, clearings, investments and information processing.

There are several ways by which lending services can be implemented:

1. All loans are referred to a branch for processing and decision; or
2. A local committee of volunteers reviews loan applications and recommends decisions to the branch; or
3. A local committee of volunteers is given authority to approve loans up to a certain level (which might vary according to purpose) and recommend on others to the branch; or
4. A pool of loanable funds is allocated to a separate local entity that is allowed to set its own rules, make loans and collect loans, within a set of parameters.

Conventional business credit will be provided through main branch offices while developmental or “incubator” credit can be offered through the local group.

Compared to previous credit union development proposals, these options have fewer credit unions formed and are technologically more sophisticated. The sequence of start-ups is also more rapid than in the previous business plan. It is proposed to set up a credit union central or a development corporation that either establishes one main branch or arranges a main branch from the southern system. In the first year two or three sub-branches are established as pilot projects and then 5 or 6 sub-branches are set up each year until about 20 are in place.

By taking all the communities and their income together, a reasonable prospect for long term financial success can be seen. In the short term however, costs relating to development and start-up as well as the costs of technology must be borne. Therefore outside capital is required to set up this financial services delivery solution. Risk management requirements also show the need for outside injections of funds. A successful financial institution will have a capital and reserve structure sufficient to protect against liquidity risk, loans risk, operational risk, or, indeed, the risk that deposit growth will be slower than expected.

The funding requirements will not vary much among the different options. In the case of a southern institution branching into Nunavut, a channeling of financial business by NTI and Arctic Co-ops might offset some capital injections. However this is a matter for future negotiation.

This report does not imply that support capital is committed or which sources may provide it. The maximum amount of total capital is identified and different forms of support are suggested as follows:

- Member / customer initial share purchase equivalent to \$150 per household.
- \$ 5 million non-member share capital by investor corporations.
- \$ 30 million interest bearing term deposits.
- Direct short-term operations subsidies similar to those sought in the previous business plan. These could be in two forms:
 - Technology subsidies.
 - Training subsidies.

The operations subsidies are projected at \$300,000 annually for the first 3 years. If such subsidies can be obtained they reduce the need for large scale deposits by about \$15 million (\$30 million instead of \$45 million). Possible sources of subsidies could be:

- Government funding, such as obtained by Anishinabek Nation Credit Union.
- Technology development support from governments such as offered under federal rural development programs.
- Outside credit union or co-operative organizations, perhaps “in kind” support for training and community development.
- Provision of a communications network from Arctic co-ops.
- Etc..

Some \$ 28 million in personal deposit potential is identified in the Nunavut communities. It is expected that at least an additional \$28 million in deposits is available from co-operatives, other businesses and local governments / administrations. Over the first 5 years it is expected that about \$ 32 million can be developed as a deposit base (about 60% of the identified total deposit base). This lower deposit realization occurs because there will be a phasing in of sub-branch start-ups and because it takes time to market the business and encourage use of the institution by the residents. All deposit projections have a 5 year phase in period, starting from the time a branch or sub-branch is opened in the community. The deposit projections need to be confirmed when a detailed business plan is prepared.

The government of Nunavut has a role to play in this development. If credit union corporations are incorporated in Nunavut, the government will need to implement regulation and supervision and may wish to ensure that deposit guarantee arrangements have been made. The government will also be concerned about how the development supports its economic development goals. Further, the Nunavut government can enhance the prospects of the credit union approach by channeling at least part of its funds flow through the new institution and using it as a vehicle for delivering some financial components of its programs, such as any lending or grants.

Pro-forma financial worksheets have been prepared based on the projected deposit base. They do not constitute a “forecast” or “business plan”. Rather they are a representation of what can be reasonably expected from a Nunavut development. A summary follows:

Summary projected financial outcomes

	Year 1	Year 3	Year 5
Number of members	1,260	3,875	5,280
Number of main branches	one	one	two
Number of sub-branches	4	15	22
Total assets	37,263,842	50,028,434	69,354,922
Total member deposits	2,074,842.35	14,003,418	32,684,280
Total member loans	726,195	4,901,196	11,439,498
Total development deposits	30,000,000	30,000,000	30,000,000
Member shares	189,000	581,175	791,925
Contributed shares	5,000,000	5,000,000	5,000,000
Total reserves & undivided surplus	0	443,841	878,717
Non-interest revenue – operations	372,638	500,284	693,549
- grants	300,000	300,000	0
Non-interest expense	1,021,447	1,489,892	1,913,378
Interest Income	1,223,351	1,750,988	2,557,816
Interest expense	621,267	743,535	935,014
Allocation to reserves	93,160	125,071	173,387
Operating surplus	155,050	186,417	221,527

Financial services in Nunavut will be high cost for a number of reasons. Probably the most important is the cost of the sub-branches. There is little point to merely establishing one or two offices similar to existing bank branches and expecting the remaining communities to carry out long distance banking as they do now. The main objective is to improve the community infrastructure and increase their capacity for economic growth. Direct contact with the financial system is required for all residents and that means a sub-branch system is required. Other higher costs are related to travel, training, board activities and community development work.

It is estimated that the non-interest costs of operations for two main branches and some 18 co-op sub-branches in the 5th year after start-up is about 2 ½ times as high as costs for a single office. The favourable outcome, of course, is service delivery in all Nunavut communities and a platform for further community economic development.

The different options do not have large differences in costs. There will be variation related to three areas:

- The number of full service branches; the projections include two such branches after 5 years but there may only be one if service is acquired from a southern institution.
- Reduced costs because some “head office” costs are handled in an existing southern office, if service is acquired from a southern institution. Of course, the saving may not be as large as first appears because of added transportation costs with that scenario.
- The costs of information and communications may be lower if the development can “tap into” the systems used by southern institutions.

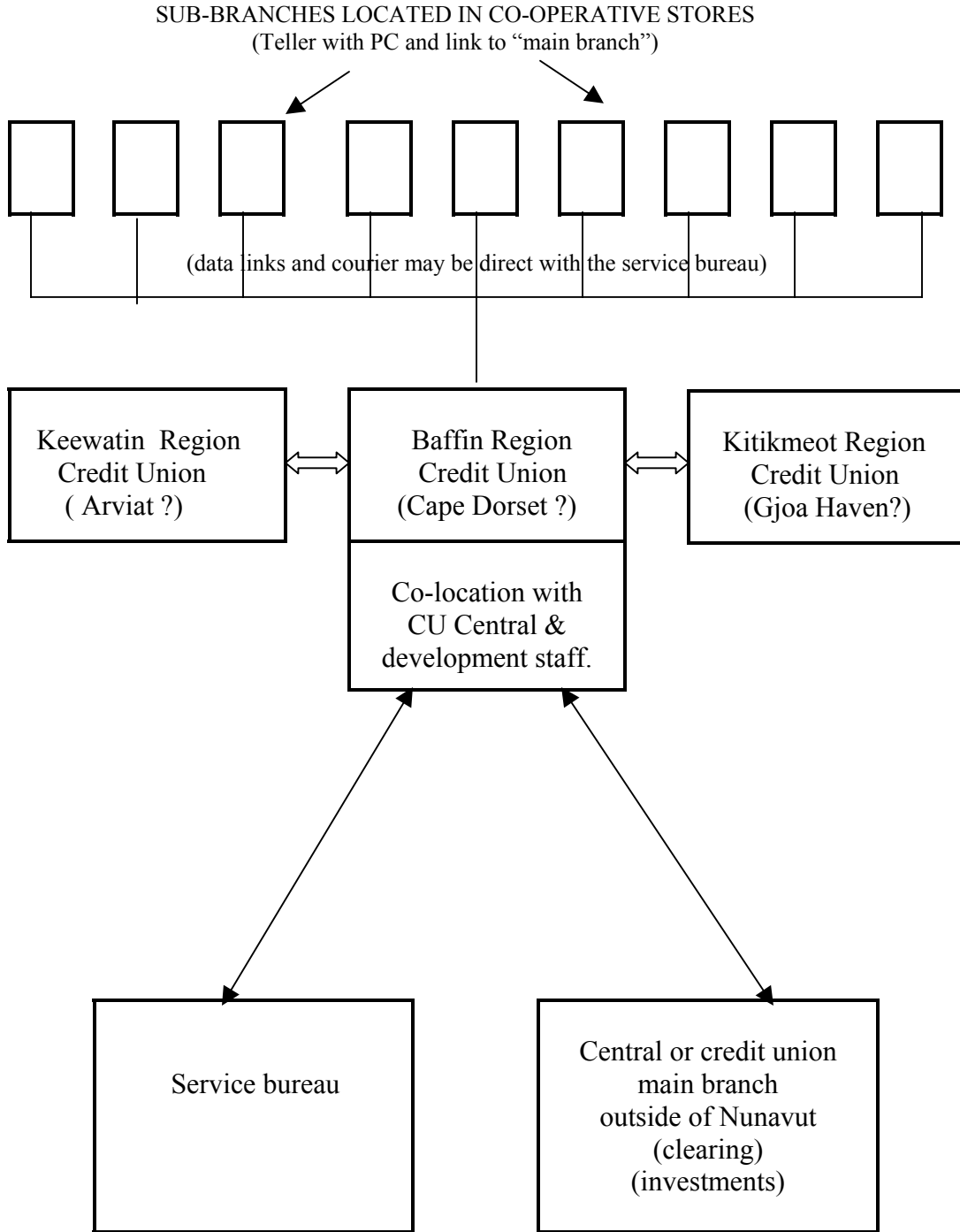
The net effect of such changes could reduce total operating costs by about 10% which in turn could reduce the developmental term deposit about 1/3 by year 5 of the development.

Decisions about development of financial service networks for Nunavut will not turn on the operational details, selection of product offering or minor elements of the financial structure. These questions will need to be dealt with in a business plan.

Instead, choices need to be made about the degree of support that can be offered, the kind of control structure desired, the form of institution most likely to generate local support and the policy position of the Nunavut government.

PROPOSED OPERATING STRUCTURE

(Uses corporations permissible under existing Nunavut Legislation)



Nunavut credit union main office will start with one co-location for all three credit unions and may evolve to three as member growth permits or requires. An option involving a southern institution may never move beyond one main branch office.

SUMMARY OF PRINCIPAL OPTIONS

	Nunavut Credit Union (self management)	Nunavut Credit Union (contract management)	Southern Branch (credit union branch)	Southern Branch (branch of CU bank)
Nunavut Incorporations	2 Cus; CUC; Deposit Guarantee	2 CUs; CUC; Deposit Guarantee	Development / Investment Corp.	Development / Investment Corp.
Number of full service branches	One; potential for three	One; potential for three	One	One
Type of service points	One full service branch up to 20 sub-branches	One full service branch up to 20 sub-branches	One full branch Negotiable sub-branches	One full branch Negotiable sub-branches
Number of service points	Up to 21	Up to 21	Negotiable	Negotiable
Aboriginal language	All sub-branches & an aboriginal call center	All sub-branches & an aboriginal call center	All sub-branches ; call center unknown	All sub-branches ; call center unknown
Ownership and control	100% in Nunavut	100% in Nunavut	Control separated from ownership	Control separated from ownership
Equity	Local shares issued and \$5million class B	Local shares issued and \$5million class B	\$5million in Dev., Corp with some reinvest in partner	\$5million in Dev., Corp with some reinvest in partner
Deposit guarantee	To be developed in Nunavut (contract inspections)	To be developed in Nunavut (contract inspections)	In an outside province	Federal
Supervision & regulation	Nunavut responsible	Nunavut responsible	In an outside province	Federal
Banking & clearings	With outside CUC	With outside CUC	Through branching credit union	Through "mother" credit union
Investments	Through outside CUC	Through outside CUC	Through branching credit union	Through "mother" credit union
Banking system	Needs to be developed or purchased	May be available from contract credit union	Use that of branching operation	Use that of branching operation
Lending approach	All options available	All options available	More difficult to achieve local lending	More difficult to achieve local lending
Community capacity develop.	Part of the option	Part of the option	Needs to be implemented separately	Needs to be implemented separately
Subsidies proposed	\$30 million deposit; \$300,000 operations. subsidies	\$30 million deposit \$300,000 operations subsidies	Unknown amount of deposit; NTI & Co-op business; Probably initial subsidy for sub-branch set-up	Unknown amount of deposit; NTI & Co-op business; Probably initial subsidy for sub-branch set-up

1. INTRODUCTION

This report identifies several ways by which a credit union / co-operative vehicle can be used to provide financial service throughout Nunavut. This may also eventually be used to offer financial service to other parts of the north, such as NWT, Yukon and Nunavik if interest and support were to be generated in those locations.

A partnership involving Arctic Co-operatives, local co-operatives, NTI and parts of the southern credit union system is proposed. The result can be a series of corporations owned, or controlled, by the residents of Nunavut that puts financial branches and sub-branches in most of the Nunavut communities.

The lack of payments services to all communities has been an issue of long standing concern. Communities throughout the north have proposed establishing local credit unions many times at many locations over the past 10 to 15 years. The local community proponents of the various options also recognized that credit unions could do much more than offer basic access to the payments system.

For many decades and throughout the world, credit unions have always resulted in:

- Development of local financial intermediation that reflects the needs expressed by the local residents.
- Development of a savings and credit self help philosophy that has proven successful in assisting community economic development.
- Increased community capacity to carry out business. This includes business skills development from participating in the credit union process.
- Promotion of better management of personal cash flows and credit.
- Mobilization of local capital
- More economical provision of services.

Co-operative principles sometimes seem out of step with the modern complex financial world in which the credit union movement participates. However, we should be aware that the credit union movement, while following the path of self-help, has been a powerful driver in Canada's financial evolution. Some examples are:

1. Pioneered the open mortgage in the 1940s.
2. Canada's first daily interest savings account (1969).
3. First trustee RRSPs (1980s).
4. Part of Canada's first multi-institutional ATM network (1980s).
5. Canada's first debit card (1982).
6. First line-of-credit reverse mortgage (1990).
7. First equity-linked GIC (1993).
8. First Canadian Home Banking System program (1995).

Within this progressive movement there are still examples of active smaller credit unions serving small groups or remote locations. The credit union system is flexible and adaptable.

This options paper offers a framework to bring advanced banking products to the most remote communities in Canada. This is made possible by using an existing network of co-op commercial locations, local self help development and electronic technology.

The concept is to put in place one to three main offices (credit unions or branches of other institutions) that serve a series of sub-branches located in co-operatives in the various Nunavut communities. A sub-branch is a full or part time bank teller located in the store who is connected with the main branch via on-line computer. The main branch is in turn linked to a southern service bureau, credit union central or large credit union, or even all three.

The financial and developmental advantage of this concept is found in using the existing co-operatives. These co-operatives offer existing physical facilities, electronic network and local volunteer networks. Importantly, they offer an example and focus for implementing peer lending programs and financial education processes without needing to create a credit union in each community or installing a loans officer at each location.

Large scale co-operative federations use the local advisory committee to retain a high level of local control and input. In Nunavut under the initial guidance of the co-operative board, an organizing committee of volunteers can be responsible for initial promotion and then for raising initial owners' capital. After the location becomes a sub-branch of a credit union this organizing committee can evolve into the local loans committee and local development committee.

The socio-economic ideal is for each community to have its own locally owned credit union, responsive to local needs. In this paper this ideal is compromised in the interests of cost control and more rapid establishment of a service network. All alternatives use at least one main branch and a series of sub-branches. The overall costs do not vary much among the alternatives.

Decisions about development of financial service networks for Nunavut will not turn on the operational details, selection of product offering or minor elements of the financial structure. These questions need to be dealt with in a business plan.

Instead, choices need to be made about the degree of support that can be offered, the kind of control structure desired, the form of institution most likely to generate local support and the policy position of Nunavut Tunngavik Incorporated and the Nunavut government.

2. OPTIONS

The basic premise is to operate a financial network under an umbrella agreement with Arctic Co-ops Ltd. where service points are co-located with local co-ops in a number of communities. The options described below are all capable of implementing such an approach. There are several components of development that need to be considered. The following elements are possible with all the options:

- a. Aboriginal language
- b. Aboriginal / community ownership and control.
- c. Appropriate equity control structure
- d. Access to deposit guarantee
- e. Access to supervision/regulation of credit unions
- f. Access to investment / clearing / service structure.
- g. Support for community capacity development.
- h. Community based lending structure.

Deposit Insurance

All financial institutions in Canada are subject to federal or provincial regulation. Whether it is a provincial credit union or small federal bank there are planning, regulation and incorporation standards that must be met. One key ingredient that needs to be satisfied with any alternative is provision of deposit guarantee or insurance.

Typically, credit unions within a province have their deposits guaranteed, to greater or lesser degree, by one or more deposit guarantee corporations. These corporations are regulated by the relevant provincial legislation and normally have a “guarantee fund” which has been accumulated from dues from the insured credit unions. In some cases this guarantee corporation administers regulations and carries out inspections of credit unions. Some guarantee corporations operate independently, others have been managed under an agreement with a credit union central.

A long term difficult question has been: “how large a guarantee fund is required to make an effective deposit insurance fund”? Although different answers have been suggested there is no clear cut adequacy of any level of fund. The potential draw upon a fund varies according to the strictness of regulation, the business practices of the credit unions and the timeliness of intervention when difficulties at a credit union become apparent.

Credit union systems have dealt with the implications of this unknown by promoting stronger capital structures for individual credit unions, by ensuring early warning of financial difficulties and by intervening where necessary. One bench mark that is evolving is a credit union equity structure that is around 5% of assets as member share equity and about 10% as total equity, including retained earnings.

The Government of Nunavut does not have an obligation to guarantee deposits, at this time. The Credit Union Act calls for the establishment of a Credit Union Mutual Aid Depository to act as a guarantee fund. When this question was considered for the NWT proposal, a fund was to be established and \$ 1 million contributed to the fund. However, the main guarantee function was seen to be restrictive operating standards and regulations and regular inspection of credit union operations.

Although credit unions are started in some other countries without provision of deposit insurance, this is not seen as an option in Canada. Some form of deposit guarantee needs to be in place for a credit union to be able to market itself to prospective members.

The various options identified are separated according to the source of deposit insurance.

Development under the existing Nunavut legislation

- 1. Form a Credit Union System in Nunavut;** i.e. several credit unions and a “central”.

This is the approach in the 1994 NWT Credit Union Business Plan but it may not be practically possible any longer. This is partly because of the negative perception of new small credit unions within the mainstream credit union system. Also, 10 or 15 small credit unions in the same number of communities might be very difficult and risky to establish within a short timeframe.

As well, the technology of banking has grown. The possibility of internet tellers now allows starting with fewer credit unions and a more integrated operating approach.

- 2. Form two or three credit unions with multiple sub-branches.**

- (a) As an operating entity; or
- (b) Contract all services from a southern body.

These alternatives all have strong Nunavut ownership. The main question is whether or not the Nunavut government is willing to establish a deposit guarantee regime and implement supervision. A deposit guarantee regime does not necessarily mean that a deposit guarantee fund or corporation is established. For example, if two credit unions were incorporated with a high level of permanent capitalization and strict operating requirements enacted, the government may feel comfortable with a legislative guarantee. This amounts to a promise by the government that deposits are guaranteed to a certain limit, for example, \$40,000 per account (or member).

A southern Credit Union Deposit Guarantee Corporation (CUDGC) cannot provide a deposit guarantee for independent credit unions in Nunavut. However it could undertake inspections of a credit union on a contract basis. This would require a fee for service. The

Government of Nunavut would still be required to appoint a supervisor of credit unions and enact the necessary regulations. Such an approach may be only an interim means of ensuring supervision or it may evolve into a long-term relationship.

Possible structure

As the Credit Union Act of Nunavut currently exists, two or more credit unions may form a federation (central credit union). It is for this reason that the minimum number of credit unions is identified as two; to enable the legal establishment of a credit union central as a development and service corporation. The population base of Nunavut can be served by one credit union through a series of community sub-branches. On the other hand, there are three administrative regions in Nunavut and the population may prefer and support a credit union for each one. The reasoning here would be the same as that for government decentralization.

This report proposes two credit unions incorporated and operating in 5 years with eventual provision for a third. However, these incorporated bodies can operate out of a single branch office along with the central. Legal and financial structure is separated from the operating structure. When a preferred option is selected and a business plan is being prepared, representatives from Nunavut will need to decide if legislative change to enable one credit union is to be sought or if the residents prefer two or three credit unions.

Investments from outside bodies will be required to make the structure feasible. This investment could be placed within the “central” as shares, loans or deposits.

The important question is how to structure the capital holding organization to meet a number of competing needs. If a credit union development body is incorporated in Nunavut, shares will to be issued to outside investors and positions in the control structure reserved for the representatives of the investors.

One way to view the development of credit union(s) is that they will be founded upon three groups:

1. The users of financial services; the local members of the financial co-operative(s),
2. The investing organizations which make the development process possible,
3. The “partners” that enable the operations and supervision of the credit union service points. These partners include:
 - The government of Nunavut with its interest in for supervision, guarantee and regulation.
 - The co-operatives which are the hosts for the co-locations for the credit union service points.
 - The service organizations such as a southern central, large credit union or other corporation which enables interconnection with financial networks.

A useful model could be to allocate 1/3 of the board of director positions at the central corporation to each of the three groups so the board looks like this:

- Three directors elected by credit union members at large.
- Three directors appointed by, for example, NTI.
- One director appointed by the Government of Nunavut.
- One director appointed by Arctic Co-ops.
- One director appointed by the southern operating partner.

All interests are therefore represented at the table.

The central corporation would be formed at the beginning with a provisional board of directors to conduct the development work necessary to bring about the formation of credit unions and develop the sub-branch network.

The principle difference in this structure compared to the one proposed during the 1990s is the dramatic reduction in the number of credit unions and fewer local boards. It is expected that each credit union will have representatives from each community of its district as delegates to general meetings and the credit union board of directors will be elected from these delegates. One position on each credit union board could be reserved for a representative of the outside investors.

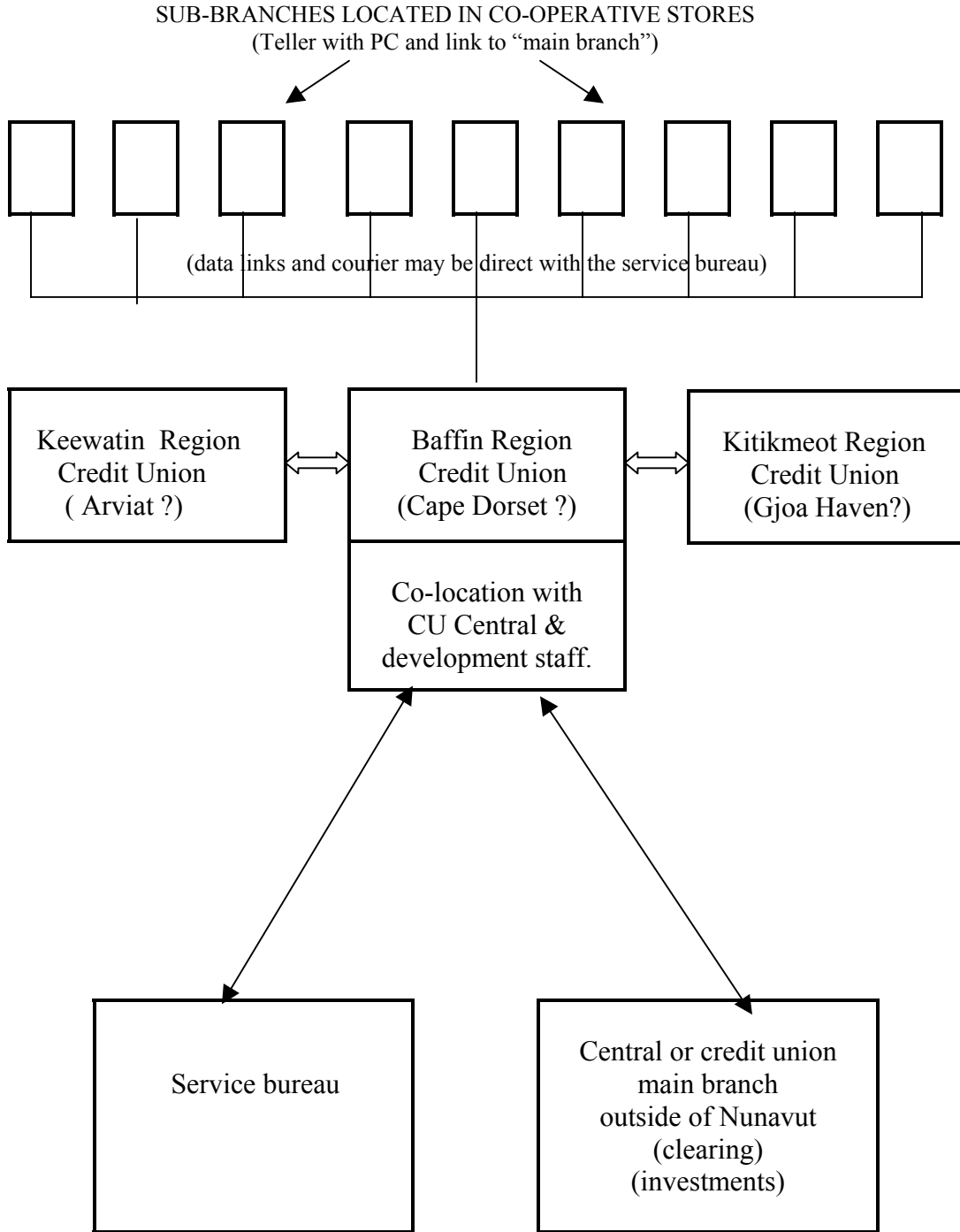
Similar to the Anishinabek Nation Credit Union, it is proposed here that there be two classes of shares in the credit unions and central. One class will be for the credit union members. The second class will be for the external investors. Voting at general meetings of credit unions will be on the co-operative model; one member-one vote.

It is worth noting that there could be one “office” that contains the “main branch” and the central staff. Or, there could be two or three “offices” with one co-located with a central. This ownership and control structure does not preclude any contractual arrangement by individual credit unions or by the central with any other service provider.

The following drawing shows one main branch and operating office which also contains the credit union central and development staff. The three credit unions will joint-venture a main branch office which serves all members until growth permits or requires the credit unions to begin operating separate offices in the different districts.

PROPOSED OPERATING STRUCTURE

(Uses corporations permissible under existing Nunavut Legislation)



Nunavut credit union main office will start with one co-location for all three credit unions and evolve to three as member growth permits or requires.

Use existing (southern) credit union / co-operative framework

The options under this part are all subject to deposit guarantee and regulation originating in another jurisdiction. These options have the large advantage of already having in place the internal systems, investment linkages and access to the clearing system.

i. Establish co-operative financial branches through Co-op Trust.

Co-op Trust does not currently operate any retail branches. Its trust related products are offered through credit unions. Because it does not operate retail branches, Co-op Trust has not been approached. It is listed as an option because its national incorporation could conceivably be a vehicle for creating a service body in Nunavut.

ii. Make an agreement for a southern credit union to branch into Nunavut.

A Credit Union or Caisse Populaire located in southern Canada might be willing to set up a branch in Nunavut.

All credit unions and caisses populaire are provincial corporations subject to provincial regulation. As described elsewhere in this report, these provincial corporations also operate under provincial deposit guarantee regimes.

Provincial legislation can be interpreted as allowing a credit union to operate a branch outside of its home province. Establishing such a branch will be subject to approval to the provincial regulators and examination by the relevant deposit guarantee corporation.

iii. Negotiate a contract to obtain branches from (for example):

(a) Citizens Bank

Citizens Bank is a schedule B bank owned by VanCity Credit Union in Vancouver BC. This bank operates nationally as a virtual (internet) bank.

(b) Alterna Bank

This is a schedule B bank owned by CS Co-op (credit union) of Ottawa. The bank operates both as a virtual bank and a physical bank. It has 2 bank branches in Quebec and is co-located with the credit union at 20 sites in Ontario.

Alterna Bank may be a good practical alternative because there are many air links to Nunavut through Ottawa.

These banks have been incorporated to allow the sponsoring credit union to carry out business outside of the credit union's provincial boundaries.

Implementation

This approach can facilitate any of the foregoing branching into Nunavut. The concept has not been endorsed by any organization. It is intended to serve only as an example. Other co-op institutions or banks could play a similar role.

In general **the notion is to use the financial resources of Arctic Co-ops, NTI and perhaps other institutions as a lever to obtain services.** This means that in return for financial contributions or business from these organizations a bank or credit union would establish a branch(s) and a series of service points in Nunavut.

This model might be made attractive to a bank or credit union if all or some of the following are offered:

- Some subsidization of initial start-up costs,
- A capital investment is made in the bank or credit union,
- Large scale deposits are made through the bank or credit union,
- Nunavut co-operatives flow operating funds through the bank or credit union,
- Co-operatives and/or Arctic Co-ops use the institution as their source of some of their credit.

A Nunavut corporation would be formed to supervise the implementation of the agreement and hold capital if necessary. Main components of the agreement would be:

1. Locations of branches.
2. Selection and implementation of sub-branches.
3. Agreements with local co-operatives.
4. Representation of remote communities in the decision making process.
5. Community development programs.
6. Process for lending services.

Even though Nunavut corporations might invest capital in the southern partner it will not likely be enough to determine the decisions made by that corporation. This is the reason an agreement will need to be in place to govern the service parameters and the cost sharing procedures.

Lending Options

All the options above are expected to provide lending services. In the 1990s business plan loans were to be made by the numerous local credit unions within a regime of regulations supervised by a central credit committee. Without the system of local loans officers in local credit unions different approaches must be devised.

In general credit will be extended to residents of each community beginning after a sub-branch service point is established and a certain amount of deposits are made.

Consumer credit will be the first loans extended. The co-operatives and other stores already make consumer loans through credit accounts. This process can be converted to the credit union by using one of the alternatives listed below.

In the conventional credit union model, credit is extended by local offices using either a loans officer or a credit committee. Any option that does not contain local community credit union offices can potentially have difficulties extending credit. Chartered banks have encountered this problem and needed to set up special verification processes for remote members who were not known to the lending branch.

For those communities where a staffed office, including managerial or loans staff, is located the conventional model will apply. Those communities served by a sub-branch, remote teller or remote electronic station will need a different approach.

Some financial institutions make loans using a distant branch. The application is made by mail, telephone, fax, or internet screen. If an approval is made documents are sent to the customer for completion before the funds are disbursed. Fax documents may be used. Typically it is consumer and established business credit needs that are met in this fashion. The greater the distance from the branch the more difficult it is to make this approach work because of communication difficulties or problems in gathering information about the prospective borrower.

Lending requires a degree of independence of lender from borrower. The small credit union model has used peer group evaluation to meet this need. A credit committee becomes an entity in its own right and the group self regulates. Lending decisions include more points of view and peer pressure within the group helps maintain objectivity.

A credit union incorporated in or branched into Nunavut has four available ways of implementing remote lending:

1. All loans are referred to a branch for processing and decision.
2. A local committee of volunteers reviews loan applications and recommends decisions to the branch.

3. A local committee of volunteers is given authority to approve loans up to a certain level (which might vary according to purpose) and recommend on others to the branch.
4. A pool of loanable funds is allocated to a separate local entity that is allowed to set its own rules, make loans and collect loans, within a set of parameters. Certain classes of loans such as major business loans or lines of credit could not be made by such a group. One or more of these bodies, for different purposes, could exist in a community at one time.

Under the option where a southern bank or credit union establishes a branch in Nunavut all of these approaches are also available. They become less acceptable if a financial institution wishes to serve agencies or remote branches from the south because it is more difficult to support the local committees.

Two levels of business credit could be made available from the credit union(s):

- Conventional business credit, usually available from the “main” branch. This is credit available for established businesses, mature ideas or larger projects.
- Incubator credit should be available at the community level. There are numerous models for delivering such loans both within and outside the credit union system.

There are several sources of business credit available in Nunavut. These sources include government loans or grants, regional land claim loans programs, Nunavut Business Credit Corporation, Autuqtuarvik Corporation, Business Development Bank of Canada, Community Futures Corporations, etc.

However, almost all the communities have large numbers of part-time wage earners which is often a sign of opportunity for business development. This usually means that additional micro-credit can contribute to community economic capacity building. There may also be a shortfall in the areas of training, non-financial support or idea generation. Credit unions help with all these tasks by offering a proven model for incubator credit.

There may also be a shortage of delivery networks. In which case a third role for credit unions might be delivery of loan programs originating with someone else. For example, acting as an agency for a government program or aboriginal program.

Finally, after the deposit base of a credit union(s) grows there is the possibility of sharing loans with other lenders. The credit union might take part of a loan and act as the contact point with the borrower.

3. INFORMATION AND COMMUNICATIONS TECHNOLOGY

The credit union system and related service bureaus have a wide range of technological tools. There are no apparent limitations presented by banking or communications technology.

For start-up in remote communities the primary point of contact will be a teller. For a new service point there is a learning curve for new members which can most easily be met on a person to person basis. Also, there are retail financial documents that need to be handled directly. Telephone, fax, mail, ATM and Internet links for individual members will always be available and may evolve into a major portion of account activities.

There are seven companies that are known to provide banking systems to credit unions outside of Quebec. Of these, four offer “in house” solutions and three operate as service bureaus. As an illustration of the services supplied by credit union centrals, the Credit Union Central of BC offers:

- VPN connectivity to all branches and other access points.
- Internet banking.
- Hosting sites for websites or banking systems.
- Payments processing (cheques processing, payrolls, pre-authorized payments, bill payments, wires, etc.)
- Treasury functions (managing liquidity).

There are PC based stand alone computer accounting systems such as were contemplated in the previous business plan. Although such systems are still in use they probably will not be supported in the long run. Their loss will be mourned by some credit union managers; smaller credit unions will likely resist quick departure from using these systems. On the other hand, the rapid pace of amalgamations of credit union tends to promote larger in-house systems or service bureau applications.

One drawback of the PC based system is often found in account updating. Card transactions are not entered directly to accounts but rather as part of a daily batch. Therefore, account balances do not always reflect latest debit card transactions.

One of the smaller example credit unions used as background for this paper combines two branches, four teller stations, and an internal PC accounting system. The credit union offers member internet banking whereby members conduct account transactions by logging onto the credit union’s website which is on the internal pc system. An ATM card and a debit card are offered to members. Card transactions take place through a central card server corporation that updates member accounts for card transactions over a daily “dial up” transmission. Clearing transport is via courier. As a matter of interest, the average cost for computer, clearing, banking, courier and communications is about \$100 per member per year (based on two years).

The credit union system has two internet banking products:

- a. A member direct internet approach that allows members to bank direct with their credit union over the internet. This can be licensed for various applications. Numerous examples of this application are in use. One consequence is that credit unions now have internet based members who are resident outside the province where the credit union is located. Member direct internet is being widely used, often under a brand name for a particular credit union.
- b. An internet based internal accounting approach where tellers are on line over the internet. Unlike the PC systems, card transactions are updated to accounts immediately with on line systems. The host for such systems can be anywhere, and usually is.

An example rural credit union was reviewed which uses an internet approach within a multi-branch situation. One of the branches is a one person location with a PC that is on line over the internet to the main branch. The main branch is connected over a data line to the server corporation. In this Saskatchewan credit union the clearing house is in Calgary and account statements are printed in Calgary.

The key ingredient to internet banking appears to be the Virtual Private Network (VPN) technology (black box) that enables encrypted information flow, permitting use of the internet instead of dedicated data links.

There are stand alone, electronic tellers which allow card based, remote, unattended branches. These point of sale devices allow withdrawals and deposits and account related transaction, such as bill payments.

Such terminals are relatively expensive (between, say, \$20,000 and \$80,000 per location) and other alternatives may be better suited to Nunavut. Instead of a remote unattended branch, a contract site within business premises using a teller and PC offers the same level of service with personal assistance. (Although not 24 hour access).

Emerging changes are cheque imaging and statement imaging. This means that cheques are not returned to the member; rather, an image of the cheque is stored and available for verification purposes. Statement imaging means that paper statements are not printed and mailed. An on-screen statement is provided and presumably could be printed out by the member.

Although not strictly speaking a technological advance, some credit unions are implementing on line loans approvals and loans management processes. In general, this is a loan application and approval process for preferred customers with a known, high level credit rating, probably with previous history as a customer.

Once a northern credit union is connected to central clearing and accounting networks there are a series of ancillary services available. These include direct deposit, payroll, investment options, pre-authorized payments, transfer services and card services including debit cards.

Despite the flourishing credit union linkages, technological and otherwise, the credit union system is not yet seamless, with a common service platform. Members remain members of individual credit unions and accounts or loans are not automatically transferable between credit unions. This has implications for service to Arctic Co-op stores in the south because it will be more difficult to move funds inter-account when store are located in different cities and may not be able to hold accounts at the same credit union.

In Nunavut, however, there will be a common service platform with a centralized processing point. All credit union members / customers can access their account at all tellers in Nunavut regardless if there is one credit union or ten. Because our processing will be seamless, government or business can easily use their account from any site.

4. LEGISLATION AND REGULATION

The Credit Union Act in Nunavut is the same legislation that was in place in the NWT and used for the previous business plan and the recommendations for regulations. It is noteworthy that this legislation permits a credit union from outside the territory to operate in Nunavut provided they get a certificate from the supervisor of credit unions. Because the Nunavut Act is a copy of that in NWT, we therefore know that the NWT legislation will permit branching into NWT by a Nunavut credit union.

It is noteworthy that the Manitoba Act states that the general purpose of a credit unions is to "...provide a comprehensive range of financial services...". On the other hand the Nunavut act says the purpose is to "...provide for the economic welfare of its members by encouraging thrift....etc".

The Credit Union Act of Nunavut contemplates the Credit Union System style of approach. It requires a credit union to be a member of "the" central and contemplates the existence of a Credit Union Mutual Aid Depository.

The legislation in the provinces, such as Saskatchewan and Manitoba has been evolving in the meantime. The federal Bank Act and the Co-operative Credit Associations Act have been amended.

1. The federal Bank Act now allows the formation of closely held small chartered banks. Arctic Co-ops could form and own a chartered bank or, indeed, the Arctic Co-operative Development Fund could be converted into a chartered bank. Of course, Arctic Co-ops would not do this alone but a new bank could be a partnership with NTI.

Within its province a credit union, supported by a relationship with the existing credit union system, can provide all the consumer financial services that can be provided by a bank. The main differences are in the form of control and the ability of the small bank to operate across provincial / territorial boundaries. The credit union operates on the basis of local member based co-operative control while a small bank is controlled by shareholder voting. Credit Unions have traditionally been community based and a preferred vehicle for consumer and small business banking.

2. The Co-operative Credit Associations Act has been amended to allow national co-operative financial corporations to be formed and to carry out retail financial business. These provisions have not so far been used but such national corporations may be formed by :
 1. Any two centrals.
 2. Any 10 credit unions from at least two provinces.
 3. 2 or more credit union leagues.

In essence, this act has been brought into line with and parallel to the Bank Act. The regulatory requirements and guidelines for incorporation are essentially the same as those applying to new banks. These corporations would be eligible to be licensed for CDIC deposit insurance (but it is not automatic) and be subject to regulation by the Office Of The Superintendent of Financial Institutions.

Setting up such a corporation requires a minimum of \$5 million in capital and compliance with guidelines for incorporation issued by the regulators. These guidelines apply to any federal financial institution.

3. Provincial credit union legislation is undergoing an evolution as well. A new act was put in place in Saskatchewan in 1998. This act closely follows the bank act structure and permits credit unions to undertake most of the types of retail business that chartered banks can. This extension of powers is accompanied by tighter regulations and an increase in the powers of the Credit Union Deposit Guarantee Corporation. The consequence has been some change in compliance expected from credit unions, meaning credit unions are increasingly expected to demonstrate planned risk management practices.

The act provides for the ability of the credit union to raise outside capital. Up to 1/3 of the directors may be reserved for representatives of this capital but ownership voting remains based on “one member – one vote”.

The philosophy represented by this legislation is being adopted by the different provincial jurisdictions across Canada, to greater or lesser degree.

4. A section of the Manitoba Credit Union Act reads as follows:

“ Subject to the approval of the registrar, a credit union has the capacity to carry on its business, conduct its affairs and exercise its powers in any jurisdiction outside Manitoba to the extent that the laws of that jurisdiction permit.”

Therefore not only can Nunavut accept credit union branches from outside there is an apparent ability of Manitoba credit unions to branch into Nunavut. This is somewhat unsure because the relevant regulators must decide if this ability to carry on business means branches and then approve branching plans; in practice this also involves review and comment by the Deposit Guarantee Corporation. Whether or not such permissions would be granted is problematical because there is no precedent for out-of-province branches.

A branch to serve Nunavut would need a business case to fit into the overall business plan of the Manitoba credit union before any approval would be possible. Similar regulatory situations exist in other provinces.

5. The Manitoba Credit Union Act permits several classes of shares of credit unions, subject to approval. There is a limit of 10% of shares for any one individual.

Role of the Government of Nunavut

The government of Nunavut has role to play in credit union development. If credit union corporations are incorporated in Nunavut, the government will need to implement regulation and supervision and may wish to ensure that deposit guarantee arrangements have been made.

In the previous business plan recommended standard bylaws and regulations were prepared for government consideration. Copies of these have been provided to the Government of Nunavut (Sustainable Development) and can provide a basis for future discussions.

Some parts of the development effort await determination of the government position. For example, if the government is willing to entertain amendments to the credit union act it could be possible to reduce the number of corporations or credit unions that need to be formed or the structure of deposit guarantee. At the least, the government will need to proclaim regulations and appoint the necessary officials, as called for under the Act.

The Nunavut government can enhance the prospects for the credit union approach in other ways:

1. By channeling at least part of its funds flow through the new institution.
2. By considering using credit unions as a vehicle for delivering some of its programs. Credit unions can become payment sites for government collections and access points for financial programs such as lending or grants programs.
3. By using the credit unions for payroll and direct deposit requirements.

5. OPERATING APPROACH

The expressed need by residents of Nunavut communities is for affordable access to the payments system and better value access to consumer credit and other personal loans. This is probably coupled with a desire for convenience when using such services; this is a driving force in selection of a financial institution for all consumers.

Business and government use might be essential for the success of a Nunavut financial institution. Such institutions have a higher level need for service which may be described as “cash flow management”. In practice, a daily interest business chequing account, direct deposit features, collection and remittance services, short term investments and transfer services are all part of this. Business and government need to be serviced by a full service branch. This need not mean that a branch needs to be placed in each community where the government has a decentralized office but does mean that access to branch level of service is required.

Regardless of the corporate option chosen, the service package can be made up of three tiers:

Tier one, the consumer delivery point:

Sub-branches will be co-located with local co-operatives. They will consist of a separate counter, safekeeping equipment, a personal computer with data link up (internet) and a part-time teller. The teller is expected to be a co-op employee who is trained in the different aspects of counter operations. Over time the teller may become full time. The sub-branch could contain a second PC where members with a password can access their accounts over the internet.

The teller is not a loans officer. Loans will be made under the authority of the main branch. Some portions of the local loans operation can be delegated to the local loans committee.

Key parts of the member’s contact are:

- Deposit, withdrawal, enquiries over a counter at the co-operative,
- Using a teller employed by the credit union or by the co-op depending on whether the location is a remote branch or an agency. The difference between an agency and remote branch largely relates to the amount of business at the location.
- Communication to the main branch via the teller’s terminal. The member will also have direct interaction with main branch by telephone or internet.
- A safe will be at the location which, in addition to providing security to the credit union could be available for members’ safekeeping needs.

- After the deposit base at the location has matured and grown, consumer credit can be obtained from the main branch which loans officer works with a local advisory / credit committee.
- Debit card service applications.
- Sale of products such a term deposits, money orders, etc.

Tier two, the “main branch”:

At maturity, there might be three conventional branches or individual credit union offices. Alternatively, three credit unions could jointly operate one office or a southern institution could operate a branch office with all other locations served as remote branches.

The branch office would be a conventional walk in office that contains:

- Full aboriginal language service to members and remote tellers.
- Telephone service center for all remote tellers.
- A teller and investment service officer.
- A loans officer(s).
- Community development staff. This staff works on adding remote tellers/branches/agencies and on the issues relating to capacity development in communities with existing remote branches.
- Business account services
- Government and business transfer/investment services.

The complement of staff would be at least six. Account enquiries and account access is available for all “tier two” members, such as businesses, at all remote branches / agencies, but, primary service such as new products, new accounts, investment services or trouble shooting for business and government is at the tier two branch.

Tier 3, service support

Tier 3 contains the “back office” operations of the institution. The parts include:

1. Central services in Nunavut that are mainly the sub-branch development people and those responsible for community work and training
2. The “bankers” for the system. This will probably be a central or large credit union in the south where clearing and investments are accessed.
3. The data processing service bureau.

Clearing and banking operations

Any financial institution in Nunavut needs communication and banking channels to the national payments system. These involve financial data exchange and transfer of cheques to and from the clearing system. Typically credit unions accomplish this by interacting with a credit union central which has access to the clearing centers either directly as a member of the Canadian Payments Association or through another institution such as a chartered bank. A service point in Nunavut will accomplish the physical interaction via data links and courier, based on the most efficient structure.

Clearings can be accomplished by opening a deposit account at a branch of a chartered bank in Nunavut. It will probably be better to operate through a credit union central, however. We need to remember that liquidity and investment management also need to be accomplished and an agreement with a central can make this less burdensome.

Those options in this paper that involve a Nunavut incorporated credit union will have an operational appearance very similar to that of NFLD And Labrador credit unions. There is no NFLD credit union central but there is a NFLD deposit guarantee. NFLD credit unions enter into individual agreements with the Credit Union Central of Nova Scotia (NSCUC).

The clearing is through the Bank of Nova Scotia facilitated by NSCUC. The agreements with NSCUC include liquidity agreements, clearing account operations, borrowing and other treasury matters. The NFLD credit unions purchase shares in the NSCUC but only at ½ the level of NS credit unions. There is also a League Data corporation owned by NS credit unions which offers banking systems services.

For Nunavut it is anticipated that a similar operating arrangement will be entered into with a credit union central in one of the nearby provinces. Of course, if contract management or southern branch is used then clearings and banking operations will be those of the contracting party.

Investment and clearings were examined in detail in the previous business plan. These should be reviewed and refined when a future business plan is developed.

6. STAGING

The model for sequence of start-ups here is more rapid than the previous business plan. Once the process is refined, implementing a remote sub-branch should be easier and quicker than starting a small independent credit union. Also, the support organizations will likely expect results sooner, in return for their investment. Therefore most of the communities are projected for service by the end of 5 years.

A community should not get a sub-branch until it has contributed a minimum level of share investment to the credit union and the local co-op and administrations or other businesses have pledged account and deposit activity. It is suggested that a community will receive a sub-branch after an initial capital raising phase has been completed. The equivalent of \$150 per household in the community should be invested by the residents to help offset the initial capital costs, develop a risk management base and demonstrate commitment to the new institution. Those who invest in the credit union are most likely to use the services and be interested in the community development aspects of its operation.

Threshold services would also apply. In general, at start-up such services would be basic payments services and account services.(almost at the agency level). Loan services and more complex account options could become available after deposit growth is achieved.

The start-up schedule for service points will take place over a number of years:

1. Either form one credit union or open one branch of a southern bank or credit union in a larger community that has a history of seeking financial services. For example, Cape Dorset.

(An open question is the role of Iqaluit. It may be reasonable to open the first branch there because of the larger population and proximity to the center of government. If there is a “central” co-located with the branch office it may be more important to do the first location in Iqaluit. However Iqaluit has 3 bank branches as direct competitors.)

2. In the first year two or three remote sub-branches should be established. These would be the pilot project locations where the establishment process, training and operation of such facilities is learned and modified. The provision of support service would be refined and the creation of a pool of trained northern people would begin in this first year. During this pilot project phase aboriginal language documentation should be brought into being or adapted.

The first communities expected for this service are Arviat, Igloodik, Pond Inlet, Gjoa Haven. This is because there has been some form of credit union activity at these locations in the past and they are somewhat larger in population.

3. Four or five remote locations may be added each year thereafter until an expected 20 remote tellers are in place, probably by year five. It is conceivable that this may happen more quickly.

An important planning question will be how rapidly the organizing and service group can respond to requests for service points. Will every community that puts in place the minimum financial commitments get immediate service? Probably the limiting factor will not be financial or technological. Rather, the ability to train staff and give support during the first year of a service point's operation will limit how fast they may come on to the system.

4. In year three a second branch office or credit union should be formed at one of the remote teller locations. This will bring tier 2 services closer to a group of communities. There is no projection at this time as to how many remote locations will grow into "full branches".

7. FINANCIAL SUPPORT

Interviews with credit union managers and some bank personnel show a low expectation of short run profitability for branches in smaller communities in Nunavut. Indeed, if self sustaining branches were viewed as profitable they would already be there. Even branches that could show long run profits are not seen as feasible during the start-up phase.

Financial services in Nunavut will be high cost for a number of reasons. Probably the most important is the cost of the sub-branches. There is little point to merely establishing one or two offices similar to existing bank branches and expecting the remaining communities to carry out long distance banking as they do now. The main objective is to improve the community infrastructure and increase their capacity for economic growth. Direct contact with the financial system is required for all residents and that means a sub-branch system is required. Other higher costs are related to travel, training, board activities and community development work.

It is estimated that the non-interest costs of operations for two main branches and some 18 co-op sub-branches in the 5th year after start-up is about 2 ½ times as high as costs for a single office. The favourable outcome, of course, is service delivery in all Nunavut communities and a platform for further community economic development.

By taking all the communities and their income together prospects for long term financial success can be seen. In the short term, costs relating to development and start-up as well as the costs of interconnection must be borne. As well, the rate at which deposit base will grow in new locations is always uncertain.

Risk management requirements also show the need for outside injections of funds. A successful financial institution will have a capital and reserve structure sufficient to protect against liquidity risk, loans risk and operational risk. In southern credit unions these reserves have been accumulated over ½ a century. In Nunavut an initial capital structure will need to be provided for and then maintained by appropriate management.

- a. The first and most important capital source is **member (owners) capital**. There is no compelling reason for outside groups to provide services to communities if the residents do not show commitment by investing initial capital.

Threshold share capital could be equivalent to \$150 per household. For Igloolik, for example, this total would be more than \$40,000. If this is applied to all Nunavut communities the total possible individual capital contributed is near \$ 1 million. This level of individual investment is consistent with requirements for new credit unions in the south. Coincidentally it is about the same amount as raised by the new Anishinibek Nation Credit Union in Ontario. It also represents around 3% of the estimated personal deposit potential shown in this current report.

- b. Non-member share capital** can be contributed by investor corporations. This capital will augment the ability to bear risk in the early years and be a pool of earning funds that can help offset startup costs. \$ 5 million is the recommended amount. With the addition of reserves and retained earnings at the end of a 5 year start-up period the overall equity position of the operation would be near 10% of assets.
- c.** Outside investors also have the opportunity to support development by making **large term deposits in the development corporation.** The financial margin on these funds is a substantial support to initial development costs. In the model for this report a deposit of \$ 30 million is used.
- d.** It may prove useful to give direct subsidies to the new initiative. The 1994 business plan used this as one means to get the development “up and running”. In the current concept two kinds of direct subsidies are included, for a three year term:
- (i) Technology subsidies;** related to the costs of starting the banking network necessary to serve the sub-branches. Arctic Co-ops Ltd. might be able to make a contribution here through the networks installed in the individual stores. This category will also include initial hardware and software purchase.
 - (ii) Training subsidies;** related to the high costs of training for remote tellers and local credit committees in the initial years.

The operations subsidies are projected at \$300,000 annually for the first 3 years. If such subsidies can be obtained they reduce the need for large scale deposits by about \$15 million (\$30 million instead of \$45 million). It is possible that government funding may be obtained for parts of these support initiatives. There is precedent for this in various federal programs.

Some sources of subsidies could be:

- Federal Government funding, such as obtained by Anishinabek Nation Credit Union.
- Technology development support from governments such as offered under federal rural development programs.
- Outside credit union or co-operative organizations, perhaps “in kind” support for training and community development.
- Provision of a communications network from Arctic Co-ops.
- Etc.

The subsidies are expected to terminate at the end of three years when the majority of start-up costs have been incurred.

These kinds of financial support can be given to an initiative either to start Nunavut credit unions or to attract branches from outside institutions. In the latter case a holding company can be used to maintain control for Nunavut-based investors.

One other kind of support should be considered. That is the **channeling of business** from Arctic Co-ops or other businesses in Nunavut through a southern partner. This could be a substitute for some of the large scale deposit described above.

Arctic Co-ops has consistently shown its commitment to supporting the credit union initiative. It has always been the intention of Arctic Co-operatives Limited to use arctic-based financial services to do its banking, if and when they exist. The formal commitment by Arctic Co-ops needs to be considered and approved by its Board of Directors.

8. FINANCIAL OUTCOMES

Pro forma financial worksheets are included here. These financial results are consolidated as if there was one corporation; the possibility of several different credit unions and a central is ignored for these illustrative purposes.

Cost comparison among options

As mentioned in part 7 of this paper, initiating the sub-branch operation is relatively high cost. In addition, the different options do not have large differences in costs. There will be variation related to three areas:

- The number of full service branches; the projections include two such branches after 5 years but there may only be one if service is acquired from a southern institution.
- Reduced costs because some “head office” costs are handled in an existing southern office if service is acquired from a southern institution. Of course, the saving may not be as large as first appear because of added transportation costs with that scenario.
- The costs of information and communications may be lower if the development can “tap into” the systems used by southern institutions.

The net effect of such changes could reduce total operating costs by about 10% which in turn could reduce the developmental term deposit by about 1/3 by year 5 of the development.

Deposit expectations

Personal income in Nunavut is considerably higher than when the earlier business plans were constructed. In the previous plans the deposit estimates for NWT were partly based on banking habits at aboriginal credit unions elsewhere in Canada. In 1992 the average deposit potential was estimated at between \$800 and \$1000 per resident over age 15. Based solely on income growth, the average estimate in this report rises to \$1,600 per resident over 15. This is about 25% below the average member deposits in medium sized southern credit unions. The personal deposit potential is considered obtainable over a five year period.

Because some communities already have financial services only 10% of the overall deposit potential in those locations (Iqaluit, Cambridge Bay and Rankin Inlet) is deemed accessible by credit unions in the short run.

Using the same parameters as earlier work, business deposit potential is set at 15% of the total personal deposit potential while potential for local government and administration deposits are assumed to be 60% of personal levels. Although there was a methodology applied in original feasibility studies, at this stage such estimates are “guesstimates” and will need to be carefully reviewed when the business plan stage is reached. Further,

business and government deposits will vary according to community and willingness of local governments to use the credit union.

Management options

a. In house management

This involves hiring an experienced manager to undertake the development and operation of the institution. Ideally this individual would also be the interim development field staff who would interact with the communities before start-up. This person should have an understanding of the issues and the approach required in Nunavut.

It may be possible to follow the example of Anishinabek Nation Credit Union where a start up manager was hired (experienced in both international and first nation credit union development) for the pre operation and start-up operation stages with the understanding that he would train a replacement from within the credit union staff (which has in fact taken place at Anishinabek).

The advantages of this approach include having hands on management always present in the Nunavut credit union.

b. Contract management

A Nunavut credit union can enter into a contract with a southern credit union for management. The credit union should be one that has some experience with remote credit union operations. A branch manager would be appointed for the day-to-day operations of the credit union while senior management functions are carried out through the head office of the contract credit union.

Functionally, this approach is not unlike that used by a bank branch located in Nunavut. Indeed, this is operationally similar to the model where a branch of a southern credit union is opened in Nunavut.

This alternative brings a stronger initial management approach to the credit union start up but locates many managerial functions outside of the territory.

Some credit union centrals such as Saskatchewan operate programs where the central provides general management under contract with a credit union. This functionally is similar to the foregoing. It is not known at this time if a central would consider providing this service.

c. Branch management

This is essentially the same operational approach as contract management except that the credit union operates wholly as a branch of a southern institution. The management and operating structure is the responsibility of the branching credit union and the group in Nunavut has no direct managerial involvement.

There will be only marginal differences in cost among these alternatives. The main differences among them are the amount of autonomy and control that resides in Nunavut.

During the business plan process, a working group can develop a terms of reference for the management function and solicit proposals and bids for the management functions from individuals and credit unions or subsidiary banks.

Summary Community Personal Deposit Estimate

	Bank Branch	Gov't. Centre	2001 POP.	Number 15 - 64	Estimated Per. Inc.	Deposit Potential
BAFFIN REGION			14,372			
Arctic Bay			646	400	7,403,213	740,321
Cape Dorset		X	1,148	680	13,246,690	1,324,669
Clyde River			785	440	7,818,791	781,879
Grise Fiord			163	90		
Hall Beach			609	340	5,052,110	505,211
Igloolik		X	1,286	700	12,597,500	1,259,750
Iqaluit	X	XXX	5,236	3,670	141,054,054	14,105,405
Kimmirut			433	260	5,029,676	502,968
Nanisivik			77	65		
Pangnirtung		X	1,276	760	15,436,070	1,543,607
Pond Inlet		X	1,220	690	13,785,315	1,378,531
Resolute Bay			215	140		
Sanikiluaq			684	390	6,676,805	667,680
						15,094,985
KEEWATIN REGION			7,557	4,325		
Arviat		X	1,899	1,045	19,651,708	1,965,171
Baker Lake		X	1,507	860	16,884,243	1,688,424
Chesterfield Inlet			345	210	3,664,307	366,431
Coral Harbour			712	365	6,938,739	693,874
Rankin Inlet	X	X	2,177	1,340	41,585,709	4,158,571
Repulse Bay			612	330	6,064,446	606,445
Whale Cove			305	170	3,430,739	343,074
						7,742,704
KITIKMEOT REGION			4,816	2,865		
Bathhurst Inlet			5			
Cambridge Bay	X	X	1,309	845	25,101,296	2,510,130
Gjoa Haven		X	960	545	9,847,888	984,789
Kugaaruk			605	315	6,616,938	661,694
Kugluktuk		X	1,212	740	17,784,707	1,778,471
Taloyoak			720	415	7,781,903	778,190
Umingmaktok			5			
						5,458,208
Nunavut total			26,745			28,295,897

Summary projected financial outcomes

	Year 1	Year 3	Year 5
Number of members	1,260	3,875	5,280
Number of main branches	one	one	two
Number of sub-branches	4	15	22
Total assets	37,263,842	50,028,434	69,354,922
Total member deposits	2,074,842.35	14,003,418	32,684,280
Total member loans	726,195	4,901,196	11,439,498
Total development deposits	30,000,000	30,000,000	30,000,000
Member shares	189,000	581,175	791,925
Contributed shares	5,000,000	5,000,000	5,000,000
Total reserves & undivided surplus	0	443,841	878,717
Non-interest revenue - operations	372,638	500,284	693,549
- grants	300,000	300,000	0
Non-interest expense	1,021,447	1,489,892	1,913,378
Interest Income	1,223,351	1,750,988	2,557,816
Interest expense	621,267	743,535	935,014
Allocation to reserves	93,160	125,071	173,387
Operating surplus	155,050	186,417	221,527

Financial assumptions

Throughout the presentation of this financial model, which is intended as a blended representation of the various options, a conservative approach in terms of establishing profitability has been applied. The financial results as exhibited may be significantly poorer than those actually achieved if one of the options presented were to be developed into a more detailed business case.

To facilitate preparing the model, financial statements have been obtained from several example credit unions:

- A small \$2.5 million rural credit union that uses courier / mail and manual accounting.
- A \$26 million rural credit union with two branches using an in house PC based accounting system and courier access to clearing. This credit union offers internet customer banking and debit card services.
- A larger \$200 million rural credit union that has minimal branching and uses a service bureau.

- A very large urban credit union of \$700 million with multiple branching and use of a service bureau.
- The projections used for the possible Yukon credit union.
- Summary projections used in formation of Anishinabek Nation Credit Union.

Expense projections for a Nunavut institution are considerably higher than the foregoing examples for a number of reasons:

- The proposed sub-branch network has a relatively high cost associated with initial development and training as well as the capital costs. There are also ongoing costs such as rent and staff at these sub-branches.
- Both development and ongoing operations travel costs are high. For example, the board of directors has costs much higher than in the south because of travel costs.
- Northern operations costs and salaries are expected to be higher than in the southern credit unions.

Example detailed interest revenue and interest cost worksheets have also been obtained. A net interest margin of about 3% is attainable in credit unions with loans equivalent to about 70% of total assets. That level of lending will likely not be reached by the Nunavut entities in the foreseeable future and this will place limits on the overall margin.

The net interest margin used in the 1994 business plan for the NWT credit union proposal was much higher than 3%. The interest rate regime has changed since then and in this work a margin of between 2% and 3% should be expected

i. Interim development board and start-up field staff.

There will be an interim board of directors to be composed of representatives of NTI, and Arctic Co-ops Ltd. and individuals from communities. This board will be supported by a contracted manager and clerical staff. This board should expect to work for about one year.

To operate this start-up effort for the first year will require costs generally as follows:

- Salaries of about \$ 125,000
- Travel and operations costs of about \$100,000.
- Board costs of about \$80,000 (10,000 per meeting).

ii. Start-up capital assets and data processing system.

This is composed mainly of safekeeping and computer costs. A safe and fireproof cabinet suitable for each location, for the north, will be about \$10,000 and the computer and office equipment will be about \$5,000 each on average (head office about \$25,000). For 24 sub-branches and main branch this amounts to \$370,000.

Use of existing infrastructure already in place in the Co-operatives in those communities would substantially reduce these costs.

Software costs for licenses and banking programs are not included.

iii. Service bureau costs

Two service companies currently serving credit unions were contacted to obtain operating cost information. Although they were helpful, they declined to provide any detailed cost information on service to Nunavut. Therefore, an average service bureau fee of \$2.50 per month per member was used, with a minimum charge of 5000 members. This is a cost of \$150,000 per year from the very first year. Again, at the business plan stage these costs can be confirmed. No doubt the service corporations will be better able to respond to a more specific proposal.

iv. Head office and main branch.

The main branch will evolve from the interim board. The first main branch will function as the main banking point, CUC office and the office for continuing development. A second branch or credit union office will likely open in year three of operations and eventually a third so each regional credit union has its own location.

Staff compliment in the first office will be larger, made up of:

- General manager
- Loans officer
- Community development officer
- Clerical workers
- Tellers

v. Sub-branch operations

The annual sub-branch operating costs are estimated at \$15,000 per ½ time teller and \$3,000 for other costs, including rent to the co-op.

vi. Start-up training.

It is expected that the general manager and the principle field workers will be experienced in credit unions and financial management and operations. Therefore the main part of the training will be the tellers in the main office and the sub-branches. An efficient way is to bring the individuals to a central location for group training. The training costs reflect this approach. Another important cost related to training is the materials required and their translation into aboriginal language. A major cost is allocated for this in the first year and a lesser amount in each later year.

A consultant is expected to be the trainer. Main branch staff are also expected to spend time at each sub-branch in the period following opening. This will include additional teller training, orientation for the board of the co-operative host and basic training for the local loans/advisory committee.

vii. Community development and administration of local loans programs.

In Nunavut, an organizing committee of volunteers in each community can be responsible for the initial promotion of the idea and then for raising initial owners' capital. This can start under the auspices of a local co-operative board but it should evolve to become a separate group.

After the location becomes a sub-branch of the credit union the organizing committee can become a local loans committee and local development committee. The credit union movement internationally has a large "toolbox" of financial development offerings. These include "show and tell" materials for borrowing, wise consumerism, savings clubs, financial life training modules for schools, budgeting and personal planning, micro credit methodologies and many others. The local committee can plan and offer those items which it feels suit the time in their community.

Most of these modules are designed for self teaching so outside human resource required is small. An initial orientation /training session and review of the modules should be sufficient.

viii. Deposit guarantee costs

As described above it is suggested that the Nunavut government could make a legislative guarantee if there are to be credit unions incorporated under Nunavut law, in response to a high level of capital in the credit union(s).

Therefore this report does not include the establishment of a separate deposit guarantee Corporation as an operating corporation in Nunavut. Those alternatives that involve a branch from a southern institution have their deposit guarantee needs met under their existing structure.

The deposit guarantee costs shown in this financial model are two fold:

- The cost of inspections and monitoring.
- An annual assessment payable to a Nunavut group or to the deposit guarantee corporation governing the sponsoring southern financial institution.

ix. Non-interest costs and revenues

These costs are modified to apply to the Nunavut context.

Salaries will be those anticipated for clerical and professional workers in the north. For example a main branch manager with development experience will have a minimum cost of about \$80,000 plus northern allowances and local teller costs should be in the range of \$30,000 per person year. Other staff will range between these two levels.

Operating costs which depend on supply from Nunavut are based on southern costs increased by 100%.

Fees, dues, assessments and other organizational costs are be set at the same level as experienced by southern credit unions.

APPENDIX A.

BACKGROUND

a. First business plan

Many people have been involved in the project to bring credit unions to the north. This includes those living in Nunavut communities such as Gjoa Haven, Pond Inlet, Cape Dorset, Cambridge Bay and Igloolik. Because no other source of banking service was offering to serve their small communities, these people decided to do it for themselves.

The people were supported by the board and staff of Arctic Co-operatives Ltd. and the Arctic Co-operative Development fund. A business plan was constructed using technical advice and support from the established credit union sector in the south. A major lobbying effort was undertaken by the Canadian Co-operative Association and substantial support was obtained from government and the co-operative sectors.

The business plan included three major elements:

1. A number of local credit unions.
2. A credit union Central.
3. A Deposit Guarantee Corporation.

The seed capital requirement was identified as \$ 6 million (with an additional \$1 million to be allocated to the deposit guarantee fund). Of that amount, \$4 million was committed. However, the commitments were based on all the capital being in place. None of the money could be accessed unless there was evidence that the full amount was committed. The end of the Economic Development Agreement in the NWT caused the first commitment of money to fall off the table. After that happened, the other committed funds were withdrawn.

No doubt the climate of fiscal frugality and deficit fighting prevalent in government circles in the mid 1990s was a strong contributor to withdrawal of proposed funding. There were too many competing uses for budget resources for the funds to be held available indefinitely.

b. Other recent attempts

A number of activities have taken place to try and find different approaches to the problem of financial services in the north. One recent effort was a 1999 consideration of using agencies of Citizens Bank in the various communities in conjunction with the co-operatives. This was an initiative by the Desjardins – Laurentian group and Citizens Bank.

A business plan was prepared for a pilot project in Pond Inlet by Citizens Bank, working with local representatives, Arctic Co-ops and a representative of Desjardins. The project

stopped when Citizens Bank encountered internal issues that served to redirect the interests of its managers.

We are aware of discussion between Canada Post and the Bank of Montreal about agency service. Some discussions also have taken place about bank service to Cape Dorset but nothing has occurred.

Three communities do have bank service and account for about 1/3 of the total Nunavut residents. The cost/benefit of agencies for the remaining population is probably not too attractive for banks, which tend to set higher earning standards.

As well, the growth of internet banking probably made agencies less urgent for these institutions. Internet banking has penetrated Nunavut. Internet banking is usually used first by higher income customers, and these are the preferred bank customers. In short, banks tend to “cherry pick” higher profit customers and may feel that this has been accomplished in Nunavut.

The CEO of Alterna Bank of Ottawa reports that his bank was in discussions with Canada Post to implement a network of service points in post offices in the north. The plan did not progress, partly because of the “high” transaction fees required by Canada Post. A similar effort by Canada Post and a chartered bank in Newfoundland Labrador is reported to have failed.

The relatively small population base and limited opportunities for service fee revenue make provision of services by established institutions unlikely

This paper does not offer agencies as a serious option. Agencies are mentioned under some options as a means of creating a “service point”. However, a stand alone agency network is a low profit operation and does not offer adequate loans service, community building support or full financial services for each community. This paper views such components as essential for long term financial services development.

c. Quebec Desjardins developments

Current proposals for a caisse populaire initiative in northern Quebec are still in the analysis or planning stage. Representatives contacted declined to share details and suggested that they would have completed feasibility documents about June 2004.

The general manager of FCNQ was contacted and he stated that there is some interest at the FCNQ level but that they are awaiting a reaction from Desjardins. He also mentioned that the project is not getting sustained, continuous attention by the executives of FCNQ. It appears it gets attention whenever time is available and interest waxes and wanes.

One substantive comment related to financial feasibility. The thinking appears to be that it would not be a worthwhile project if only “savings and loans clubs” were created (his words). However, if the different municipal and other local administrations contributed

their accounts and cash flow, a larger institution could be constructed and more complex services offered.

The Desjardins movement is well known for its assistance in support of new initiatives. This support does extend beyond the provincial borders but more often outside of Canada. There is no indication that the Desjarins initiatives are unique compared to other aboriginal credit unions initiatives elsewhere in Canada such as Anishinabec Credit Union in Ontario. The part that may be unique is a greater willingness to consider giving support.

The Ontario Savings Office operated agencies in remote areas of Ontario and was an example used in the 1999 evaluation of the agency concept. Ontario Savings Office was purchased by the Desjardins group and is now operated in Ontario as “Desjardins Credit Union” and is reputed to be the largest credit union in Ontario.

d. Yukon credit union evaluation

In 2000 an evaluation of the prospects for formation of a credit union in Yukon was carried out by the Community Credit Society of the Yukon. The evaluation considered the following approaches:

- An independent credit union in the Yukon under Yukon legislation and regulation (which does not currently exist).
- An independent credit union operating under BC legislation (requires a legislative amendment).
- Subsidiary of a BC credit union.
- Branch of a BC credit union.
- Limited service option (i.e. part time or limited services).

In the case of the independent credit union options, a three tier capital structure was proposed:

1. Membership shares at \$75.00 each.
2. Investment shares of \$5,000.00 units by members.
3. Non-voting equity to be contributed by the territorial government, unions, churches, First Nations, etc.

It was proposed that about \$1.5 million in subordinated capital would be required to support viability of the credit union. Profitability was expected in year 5 of operation. This would be a one branch credit union with about 2,000 members.

The two most cost effective options are considered to be a stand alone credit union within the BC credit union system (a credit union with nominal head office in BC operating in the Yukon) or a branch of a BC credit union operating in the Yukon. Various management approaches were considered including contract management by the credit union system. The branch of a BC credit union is

considered the least cost, most viable option which has the advantage of avoiding raising outside subordinated capital. Its principle disadvantage is seen to be the difficulty in marketing a credit union which is not locally owned.

The Yukon has a smaller aboriginal population and perhaps somewhat different consumer financial needs. At this time there is no indication that there has been further progress towards developing a Yukon credit union option.

e. Changes in the credit union system

The various papers and reports on the subject of credit union development in the NWT all expected a role to be played by the southern credit union system. Although many of the organizations and structures remain in place, there have been changes in their willingness and ability to play the support role.

1. There has been an accelerating trend of credit union amalgamation, especially among community based credit unions.
2. Credit Union Centrals have downsized, especially insofar as the provision of field development work is concerned. Centrals that had credit union development workers 10 or 15 years ago now have none, except in some technical areas. Centrals, especially the larger ones, have fewer employees. For example, the proponents of Anishinabec Credit Union were able to obtain some consulting support from Ontario CUC that would not be available today.

Work that previously may have been done by staff of a central is now done internally by the larger credit unions or by independent consultants. It will be difficult to obtain development work as an “in kind” contribution to northern credit unions. There are however former employees of centrals or the Canadian Co-operative Association who work as consultants in credit union planning and development. These people are available to conduct field consulting for a Nunavut initiative. Similarly, recently retired credit union executives have been suggested as a source of expertise.

Saskatchewan CUC still operates a contract management program similar to that which existed 10 years ago so it may be possible to use such a platform to obtain credit union management, as was contemplated in 1996. However, it is by no means clear that Sask CUC would be willing to undertake such work.

3. More subsidiary corporations have been formed to carry out specific functions, often with centrals from more than one province participating. One example useful for a Nunavut project is CELARO, a joint venture in information and banking technology by the three prairie Credit Union Centrals, Co-op Trust and CUETS (the provider of card services). This corporation is able to offer all the technological tools necessary for a development in the north. Of course, other service bureaus also serve credit unions.

4. The province of NFLD and Labrador no longer has a functioning credit union central. Banking functions and support for credit unions are provided by the Credit Union Central of Nova Scotia. The central still exists on paper. The operation of the NFLD system is therefore an example for Nunavut because the credit unions use service bodies located out of province while there is a provincial (NFLD) deposit guarantee.
- f. **Anishinabek Nation Credit Union** in Ontario was formed about 4 years ago after raising near 5% of projected assets as member shares. The time elapse in that formation was at least a decade, depending upon which source one refers to.

The credit union raised about \$770,000 as equity before start-up. The regulatory requirement was for a minimum of 80% of a 5% equity position on projected 5th year assets.

Equity: Class A non-redeemable shares purchased by members of the credit union. About \$270,000 was raised. The shares have a defined flat rate dividend.

Class B non-redeemable shares purchased by institutional investors such as First Nations groups. About \$500,000 was received. The dividend is defined but phased in over the first five years.

No dividends are paid until the credit union reaches a surplus position (about year 6).

Operational funding

Aboriginal Business Canada paid about \$700,000 (on a 75% matching basis) for up front development costs such as the first versions of the business plan, start-up manager and start-up board expenses. This helped pay for consulting work through and/or by Ontario CUC.

INAC paid \$90,000 directly, through the First Nations Secretariat as an operating subsidy. Another \$40,000 of indirect funding was obtained through the Union Of Ontario Indians.

The credit union is one branch. It uses an in house computer system which cost about \$70,000. It does not have its own ATM or internet banking.

APPENDIX B

	Year 1	year 2	Year 3	Year 4	Year 5
NON-INTEREST INCOME					
- Member transaction fees	372,638	421,067	500,284	598,911	693,549
- CU dues	n/a	n/a	n/a	n/a	n/a
- Management fees					
- Training Grants	150,000	150,000	150,000	0	0
- Technology grants	150,000	150,000	150,000	0	0
Total non-interest income	672,638	721,067	800,284	598,911	693,549
NON-INTEREST EXPENSE					
- Main branch staff cost	229,000	263,500	298,000	332,500	367,000
- Co-op Contracts	72,000	162,000	270,000	396,000	396,000
- Bonding and Liab Insur.	5,000	10,000	16,000	23,000	23,000
- Audit	10,000	10,000	12,000	15,000	15,000
- Operations Training					
- materials & translation	40,000	10,000	10,000	10,000	10,000
- Consultants	25,000	25,000	25,000	25,000	25,000
- travel	12,000	15,000	18,000	21,000	0
- Dir. Exp & ann. Meeting	192,000	192,000	192,000	192,000	192,000
- Insurance & maintenance	5,000	6,250	7,813	9,766	12,207
- travel					
- Tel, Fax, postage & courier	32,000	40,000	50,000	62,500	78,125
- Data links	7,500	15,000	24,000	34,500	34,500
- prof. & consult.	50,000	50,000	50,000	50,000	50,000
- supplies	30,000	36,000	43,200	51,840	62,208
- member relations (advert).	10,000	12,000	14,400	17,280	20,736
- organizational fees & dues					
- rent - sub-branches					
- main branches	14,400	14,400	28,800	28,800	43,200
- depreciation		17,000	28,600	40,880	53,704
- accounting service bureau	150,000	150,000	150,000	150,000	150,000
- Miscellaneous	20,000	20,000	20,000	20,000	20,000
- deposit guarantee asses.	93,160	105,267	125,071	149,728	173,387
- service charges and clearing fees	5,187	16,268	35,009	58,360	81,711
- cost of cash	19,200	43,200	72,000	105,600	105,600
Total non-interest expense	1,021,447	1,212,885	1,489,892	1,793,753	1,913,378
NET NON-INTEREST INCOME	(348,808)	(491,818)	(689,608)	(1,194,842)	(1,219,829)

	Year 1	year 2	Year 3	Year 4	Year 5
INTEREST INCOME					
- loans to members	51,352	161,052	346,585	577,760	808,936
- other loans					
- short term Investments	166,789	189,837	228,818	277,388	325,958
- daily interest/clearing	10,585	12,047	14,521	17,603	20,686
- term investments	983,398	1,047,142	1,145,663	1,268,600	1,380,297
- Southern shares	11,226	12,778	15,401	18,670	21,939
Total interest income	1,223,351	1,422,856	1,750,988	2,160,023	2,557,816
INTEREST COST					
- Savings deposits	10,374	32,536	70,017	116,719	163,421
- daily interest accounts	519	1,627	3,501	5,836	8,171
- Term deposits	10,374	32,536	70,017	116,719	163,421
- Rrsp/rrif					
- Borrowings					
- line of Credit					
- Development deposits	600,000	600,000	600,000	600,000	600,000
Total interest cost	621,267	666,698	743,535	839,274	935,014
NET INTEREST REVENUE	602,084	756,157	1,007,453	1,320,748	1,622,803
INCOME BEFORE ALLOCATIONS	253,275	264,340	317,845	125,906	402,974
TO: - doubtful loans					
- patronage refund	0	0	0	0	0
-					
Net taxable income	253,275	264,340	317,845	125,906	402,974
- tax provision	5,066	5,287	6,357	2,518	8,059
- reserve allocation	93,160	105,267	125,071	149,728	173,387
OPERATING SURPLUS	155,050	153,786	186,417	(26,340)	221,527

PROJECTED BALANCE SHEET

ASSETS	Year 1	year 2	Year 3	Year 4	Year 5
- Short term investment	6,414,968	7,301,430	8,800,684	10,668,770	12,536,856
- Other investments	24,264,207	25,813,468	28,201,539	31,181,573	33,880,581
- Loans to members	726,195	2,277,502	4,901,196	8,170,347	11,439,498
- Other loans					
- shares of southern partner	320,748	365,071	440,034	533,438	626,843
- Cash	2,245,239	2,555,500	3,080,239	3,734,069	4,387,900
- Deposit accounts	3,207,484	3,650,715	4,400,342	5,334,385	6,268,428
- Doubtful loans allow.					
- Fixed assets	85,000	143,000	204,400	268,520	214,816
Total assets	37,263,842	42,106,687	50,028,434	59,891,103	69,354,922
LIABILITIES					
- Non-interest chequing	414,968	1,301,430	2,800,684	4,668,770	6,536,856
- Savings deposits	1,037,421	3,253,574	7,001,709	11,671,925	16,342,140
- Daily interest accounts	207,484	650,715	1,400,342	2,334,385	3,268,428
- Term deposits	414,968	1,301,430	2,800,684	4,668,770	6,536,856
- Rrsp/rrif					
- Development deposits	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000
- Lines of credit					
-					
Total liabilities	32,074,842	36,507,149	44,003,418	53,343,849	62,684,280
RESERVES AND EQUITY					
- Member Equity	189,000	414,750	581,175	791,925	791,925
- Contributed Capital	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
- General reserve		93,160	198,427	323,498	473,226
- Undivided surplus		91,628	245,414	431,831	405,491
Total reserves and equity	5,189,000	5,599,538	6,025,016	6,547,254	6,670,642
TOTAL LIABILITIES AND EQUITY	37,263,842	42,106,687	50,028,434	59,891,103	69,354,922

Projected year 5 margin analysis

	Balance	Mix	Income	Yield	Margin
INTEREST INCOME					
ASSETS					
- Short term investment	12,536,856	18.08	325,958	2.60	0.47
- Other investments	33,880,581	48.85	1,380,297	4.07	1.99
- Loans to members	11,439,498	16.49	808,936	7.07	1.17
- Other loans	0	0.00	0		0.00
- shares of southern partner	626,843	0.90	21,939	3.50	0.03
- Cash	4,387,900	6.33	0	0.00	0.00
- Deposit accounts	6,268,428	9.04	20,686	0.33	0.03
- Doubtful loans allow.	0	0.00	0		0.00
- Fixed assets	214,816	0.31	0	0.00	0.00
Total assets	69,354,922	100.00	2,557,816		3.69
LIABILITIES					
- Non-interest chequeing	6,536,856	9.43	0	0.00	0.00
- Savings deposits	16,342,140	23.56	163,421	1.00	0.24
- Daily interest accounts	3,268,428	4.71	8,171	0.25	0.01
- Term deposits	6,536,856	9.43	163,421	2.50	0.24
- Rrsp/rrif	0	0.00	0		0.00
- Development deposits	30,000,000	43.26	600,000	2.00	0.87
- Lines of credit	0	0.00	0		0.00
- Borrowings	0	0.00	0		0.00
Total liabilities	62,684,280	90.38	935,014		
Total reserves and equity	6,670,642	9.62	0	0.00	0.00
TOTAL LIABILITIES AND EQUITY	69,354,922	100.00			1.35
NET INTEREST MARGIN					2.34
NON-INTEREST REVENUE			693,549		1.00
NON-INTEREST COSTS			1,913,378		2.76
NET INCOME BEFORE ALLOCATIONS			402,974		0.58
TAX AND ALLOCATIONS			181,447		0.26
OPERATING SURPLUS			221,527		0.32

