Rating Report
First Nations Finance Authority

DBRS Morningstar
October 18, 2023

Contents

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Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	AA (low)	Assigned	Stable
Long-Term Debt	AA (low)	Assigned	Stable
Commercial Paper	R-1 (middle)	Confirmed	Stable

Rating Rationale

On October 4, 2023, DBRS Limited (DBRS Morningstar) assigned an Issuer Rating and a Long-Term Debt rating of AA (low) with Stable trends to the First Nations Finance Authority (FNFA or the Authority). Concurrently, DBRS Morningstar confirmed the Authority's Commercial Paper (CP) rating at R-1 (middle) with a Stable trend. FNFA is a not-for-profit, nonshare capital corporation with a mandate to provide cost-effective financing, capital planning, and investment management services to First Nations communities in Canada. The credit ratings are predicated on the strength of the legislative framework that provides FNFA with (1) the ability to intercept generally high-quality revenues provided as security through the establishment of secured revenue trust accounts, (2) the ability to replenish debt reserves through a joint and several obligation of borrowers with outstanding loans, (3) the right to require third-party intervention in a borrowing member's finances, and (4) credit characteristics of the underlying borrowers. Constraining the credit ratings, however, are the untested nature of the FNFA's intervention and debt reserve fund (DRF) replenishment mechanisms, as well as uncertainty regarding the future composition of an expanding portfolio.

As of June 30, 2023, FNFA's loan portfolio totalled approximately $1.83 billion, up from $1.66 billion for the prior-year period. Loan sizes range between $0.4 million and $173.9 million, with an average loan size of approximately $16.1 million. Over the years, FNFA's portfolio has increasingly diversified, with borrowing members located across nine Canadian provinces and one territory.

As provided for under the First Nations Fiscal Management Act (the Act), First Nations governments can borrow against property tax revenues or other revenues that can come from a variety of eligible sources, including royalty payments, leases on reserve lands, contract revenues, band businesses, provincial or municipal transfers, and interest income (herein referred to as other revenues).

DBRS Morningstar notes that the majority of approved borrowers currently exhibit credit characteristics consistent with BB-range to BBB-range credit ratings, unchanged from the prior year. In addition, sound underwriting practices are intended to ensure that the quality of the borrowing pool is not materially diluted over time. For each loan financed by the Authority to a First Nation, 5% of the gross loan value is withheld in the DRF, subject to replenishment. This replenishment mechanism creates a joint and several obligation among borrowing members with outstanding loan amounts. DBRS Morningstar notes that the joint and several nature of membership promotes discipline in the future expansion of the pool as existing members will be mindful of not tying themselves to unduly weak borrowers.

The credit profile also benefits from a $53.2 million credit enhancement fund provided by the federal government to supply immediate, temporary liquidity to the DRF. Further, FNFA has a $400 million CP program that is used to fund the bridge financing program prior to loans being financed by long-term fixed-rate debentures. The CP program complies with the *DBRS Morningstar Global Criteria: Commercial Paper Liquidity Support for Nonbank Issuers*.

On June 20, 2023, the Act was amended to expand the potential pool of borrowers as well as revenue streams that FNFA can intercept, among other changes and clarifications. This leads DBRS Morningstar to believe that the number of First Nations borrowers and the size of the associated loan portfolio are expected to grow steadily over time, providing the pool with greater fiscal capacity to support the joint and several obligation to replenish the DRF. However, there exists the risk that new borrowing members may meet only the minimum established underwriting criteria, which could potentially lead to a gradual dilution in the quality of the pool over time. Conversely, intercepted revenue streams arising from federal revenues or provincial contracts have the potential to increase the quality of FNFA's loan portfolio.

A positive credit rating action could result from improvement in the quality of the underlying borrowing pool or improvement in available credit enhancement relative to the overall portfolio size. A negative credit rating action could arise from (1) a material deterioration in the quality of the underlying loan portfolio; (2) a material reduction in funds available for credit enhancement relative to the overall portfolio size; and/or (3) evidence that structural features, such as the DRF replenishment mechanisms, oversight, and intervention of borrowers, do not work as intended.

Issuer Description

FNFA is a not-for-profit, nonshare capital corporation established through federal legislation and wholly owned by First Nation governments. However, it does not act as a Crown agent or benefit from a federal guarantee. FNFA's mandate is to provide cost-effective loans, capital planning advice, and investment options to First Nation communities within Canada. The FNFA is governed by borrowing members.

Rating Considerations

Strengths

1. Joint and several obligation of borrowing members to replenish the DRF

For each loan financed by the Authority to a First Nation, 5% of the gross loan value is withheld in the DRF. (The Act was recently amended to amalgamate the other revenues' DRF and property tax revenues' DRF to promote First Nations to borrow through property tax revenues.) In the event that the balance of the DRF falls below the total amount contributed by 50% or more, the Authority must direct all members with outstanding loans to pay amounts sufficient to replenish the funds, which is required by the Act.

Conservatively, FNFA’s Board policy is that any DRF accessed be replenished through a mechanism that creates a joint and several obligation among these borrowing members.

2. Revenue intercept mechanism

For First Nations that secure loans with other revenues, the pledged revenues are deposited into a Secured Revenues Trust Account (SRTA) directly by the payor, pursuant to an irrevocable direction from the borrowing member that continues for the life of the loan. Revenues intercepted must equal or exceed the debt service coverage ratio (DSCR) established by FNFA, which varies depending on the perceived risk of each stream. For property tax revenues, SRTAs are not used, and funds are collected in segregated local revenue accounts in each First Nation community as prescribed by the First Nations Tax Commission (FNTC). Property tax revenue payments are then made directly to the Authority. Other revenue loans are supported by approximately $223.4 million in intercepted other revenues (as of June 30, 2023), and roughly $1.15 billion in other revenues that are not intercepted are available for quick capture if necessary.

3. Sound underwriting practices and oversight

To become a borrowing member, a First Nation must at least meet the minimum underwriting criteria established by the First Nations Financial Management Board (FMB) and FNFA. The requirements include being a band named in the schedule to the Act; obtaining a Financial Performance Certificate from the FMB; implementing a Financial Administration Law compliant with FMB standards; and, if leveraging property taxes, adopting a law compliant with FNTC standards. After meeting these requirements, unanimous consent of the FNFA Board of Directors is required to admit a new member, and another one prior to issuing a loan based on a review of the borrowing member's credit metrics. Similarly, unanimous consent of all borrowing members and full repayment of loans are required before a First Nation can cease to be a borrowing member and thus end its joint and several obligation to replenish the DRF. This creates an incentive among members to ensure credit quality of the pool is maintained. In addition, both the FMB and FNFA perform annual reviews of all borrowing members.

4. Direct intervention mechanism

The Act affords the Authority the right to direct the FMB to intervene in the financial management of any borrowing member and assume control of treasury functions if a First Nation defaults on a payment obligation or if the Authority judges there to be a serious risk of default. Intervention requests made by the Authority must be carried out by the FMB and may take the form of either a co-management or third-party management arrangement. During an intervention, the FMB or its delegates have the authority to act in place of Chief and Council to manage all property tax revenues or other revenues, even beyond those pledged against loans, to satisfy payment obligations to the Authority. DBRS Morningstar notes that some revenues are not available for intervention, including Crown-Indigenous Relations and Northern Affairs Canada (CIRNAC) health or housing-related transfers.

5. Credit enhancement fund

As of March 31, 2023, the credit enhancement fund (CEF) totals $53.2 million. The CEF was established through contributions from the federal government intended to provide temporary liquidity support to the DRF should it fall below the total amounts contributed by borrowing members. The CEF can be used to meet bondholder obligations or to make sinking fund contributions in the event of nonpayment by one or more borrowing members. The CEF must be topped up within 18 months of the first drawdown of funds, using the same replenishment and intervention mechanisms described for the DRF. DBRS Morningstar notes, while the federal government continues to make ad hoc contributions to the CEF, there is no requirement for the CEF to grow in line with the portfolio and, therefore, this liquidity support may be diluted as the loan portfolio grows.

Challenges

1. Untested legal framework and limitations in financial transparency

The debt reserve replenishment and intervention mechanisms contemplated under the Act and associated regulations (now amalgamated into the Act) remain untested from a practical and legal standpoint, as no FNFA member has experienced a late or an insufficient loan payment. FNFA and FMB oversight and underwriting standards contribute to a minimum level of financial competency; however, transparency and reporting among individual First Nation communities vary, making external validation and due diligence more challenging.

2. Potential changes in portfolio composition

The loan portfolio has increasingly diversified, with borrowing members located across nine Canadian provinces and one territory. Additionally, the loan portfolio is secured almost entirely by revenue streams other than property tax revenues. As its member base continues to grow, FNFA projects the loan portfolio will grow steadily over time (averaging roughly $350 million annual growth over the medium term). While unlikely, there exists the potential that new borrowing members may only meet the minimum level of creditworthiness under the Authority's underwriting criteria, which could potentially lead to a gradual dilution in the quality of the pool.

3. Potential erosion from existing members' growing appetite for debt

Most approved borrowing members exhibit a meaningful amount of unused borrowing capacity as calculated by FNFA. DBRS Morningstar believes that this may lead existing members to increase leverage, especially in light of the increased availability of cost-effective financing provided through FNFA. As a result, the credit metrics of individual borrowers may experience erosion, weakening the overall quality of the pool.

4. Asset and liability mismatches

Given the range of loan terms made available to First Nation borrowers, there is the likelihood of a mismatch between the term to maturity of FNFA’s assets and its liabilities. While borrowing members are able to hedge interest rate risk by locking in longer-term fixed rates through a swap contract, the Authority itself may be exposed to potential refinancing risk should it lose market access. FNFA ensures the revenue streams pledged for the loans will flow for the entire term of the loan or longer, and has the authority to intercept revenues for the life of the loan.

Operating Performance

Growth in the lending portfolio has allowed FNFA's operations to be self-sustaining, in turn, reducing the Authority's reliance on federal operating grants. Interest from loan programs is the primary source of revenue, accounting for around 79.6% of total revenues in 2022–23.

FNFA has posted positive results driven by a steadily improving operating performance over the last few years. For the year ended March 31, 2023, FNFA recorded a surplus from operations of $6.4 million, or 8.7% of revenues, compared with a surplus of $6.1 million (12.2% of revenues) for the previous year, and higher than its $2.8 million budgeted surplus.

Excluding nonrecurring items of $40.8 million (includes contingency fund contributions and CEF contributions), total revenues increased by 46.8% to $74.0 million. Interest from loan programs contributes roughly 80% of total revenues. In 2022–23, the majority of the revenue growth resulted from interest from loan programs (+51.8% year over year (YOY)) reflecting increased lending activity stemming from a growing portfolio; investment income (+153.2% YOY) generally benefitting from higher interest rates and a large portfolio that includes nonborrower First Nation funds deposited with FNFA; and management fees (+181.0% YOY) as FNFA expands its investment management program for members.

The Authority receives operating funding provided by the federal government through Indigenous Services Canada. This includes two agreements that are reviewed annually: the Grant Agreement (set at $1.0 million for core operations), and the Comprehensive Funding Arrangement (based on FNFA's financial performance and funding needs to deliver specific programs and services).

Total expenditures (excluding nonrecurring items) similarly rose (+52.6%), mainly driven by interest expenses on financing, which comprised the largest component of operating costs at approximately 79%, with modest increases across other expenditure categories.

Outlook

FNFA's 2023–24 operating budget projects $4.9 million surplus. DBRS Morningstar anticipates healthy operating results to continue over the medium term, benefitting from growth in its member base, lending activity, investment income, and, to a lesser extent, ongoing support through federal grants, given the funding agreements in place. In addition, FNFA is in the process of developing a surplus policy under its five-year strategic plan to ensure financial sustainability and to explore community reinvestment opportunities.

Loan Portfolio

Exhibit 1 Geographic Distribution (As a Percentage of Total Loan Portfolio)

Exhibit 1a Borrowing Members

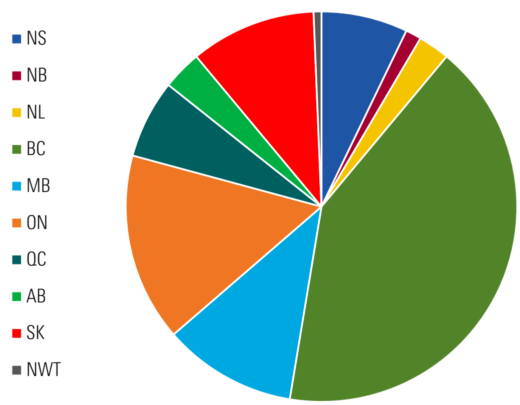
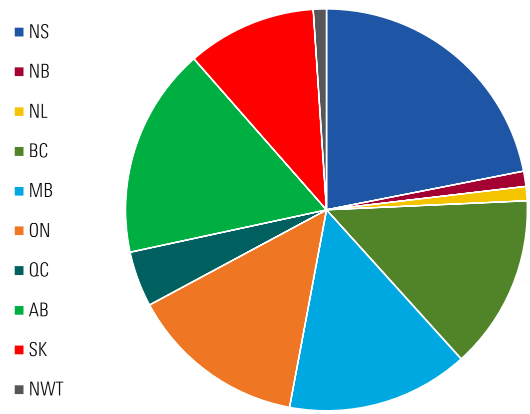


Exhibit 1b Loan Values



Source: DBRS Morningstar.

There are a total of 634 First Nations recognized across Canada, of which 342 First Nations/self-governing communities are included in the FNFMA schedule and operate under the requirements of the Act, which is the first step to becoming an approved borrowing member. FNFA's loan portfolio should continue to expand in light of a growing number of participating First Nations (as defined under the Indian Act) and proposed FNFMA amendments to allow FNFA to lend to federally funded authorities and tribal councils, and to treaty/self-governing bands that operate under the provinces.

As of June 30, 2023, FNFA's loan portfolio totalled approximately $1.8 billion, up from $1.7 billion relative to the same period in the prior year. Loan sizes range between $0.4 million and $173.9 million, with an average loan size of approximately $16.1 million and a weighted-average remaining term of 23.9 years for the portfolio. Increasingly, many communities are using these loans to identify and support economic opportunities, in addition to community infrastructure.

Over the years, FNFA's portfolio has increasingly diversified, with borrowing members located across nine Canadian provinces and one territory. The majority of the borrowing members are located in B.C. (33%), Ontario (19%), Manitoba (15%), Saskatchewan (11%), and Nova Scotia (11%), with fewer numbers of borrowing members in Québec, Alberta, New Brunswick, Newfoundland and Labrador, and the Northwest Territories. The largest concentration to a single borrower is roughly 18% of total loan value, although a majority of pledged revenues are tied to provincial sources.

The location of the borrowing communities has been factored into DBRS Morningstar's assessment of the loan portfolio, with communities in considerably smaller, more remote locations being scored lower on that factor, compared with those that are closer to large urban centres. This approach reflects DBRS Morningstar's view that First Nations communities that are more centrally located are likely to exhibit relatively greater economic resilience and have access to a wider, more diverse set of revenue sources.

An assessment of the approved borrowing members reveals that most demonstrate credit characteristics consistent with BB- to BBB-range local governments, followed by some members on par with A (low) range. A large proportion of the portfolio exhibits reasonable fiscal performance and moderate debt burdens and debt servicing requirements in relation to revenues available for interception. An extensive certification process is required for a borrower to be approved as a member by the FNFA, and the oversight and intervention framework facilitated through the Act further influences this view on the credit profiles of participating entities. Furthermore, DBRS Morningstar's assessment of the individual revenue streams being pledged and the quality of the corresponding payors suggest most to be from investment-grade sources.

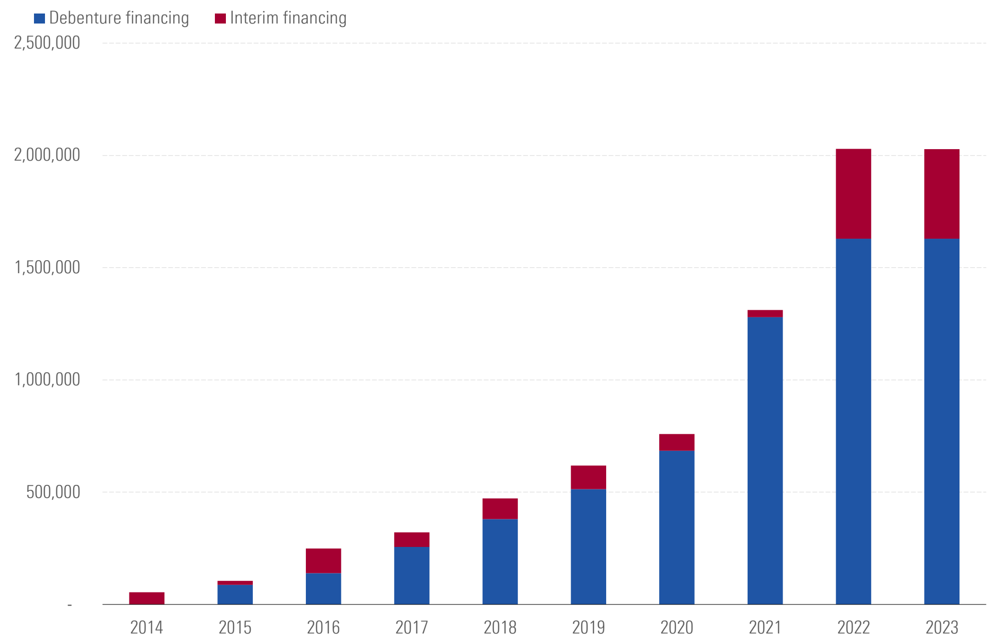
Outlook

DBRS Morningstar believes that the requirements established under the Act to qualify to become a borrowing member are sufficiently comprehensive, such that acceptance of additional First Nations members will not necessarily dilute the creditworthiness of the pool. Furthermore, DBRS Morningstar takes comfort in the continual monitoring and oversight by FNFA and the FMB to ensure First Nation governments remain compliant with all requirements of the program.

While inflated costs and supply shortages weigh on construction activity, and thereby, growth of loan portfolio, the newly added First Nations Infrastructure Institute (FNII) under FNFMA should help accelerate capital financing to borrowers.

Debt and Liquidity

Exhibit 2 FNFA Debt (thousands)



Sources: FNFA and DBRS Morningstar.

At March 31, 2023, the Authority had a total debt of $2.0 billion, which has been used to finance the loan portfolio. Debt comprises $1.6 billion in secured debenture financing and a $400 million CP and credit facility (used to backstop the CP program) outstanding at fiscal year-end 2023. FNFA maintains CP outstanding at the program limit, with any unused proceeds being invested in high-quality, short-term assets. DBRS Morningstar understands that significant new debt issuance will likely be accompanied by an expansion of borrowing authority through the CP program.

CP Program

FNFA has a $400 million CP program that is used to fund the bridge financing program. The commercial paper program complies with the *DBRS Morningstar Global Criteria: Commercial Paper Liquidity Support for Nonbank Issuers* because the program is backstopped by the secured credit facility with a syndicate of six chartered banks and provides for same-day availability in the event that it is required to repay CP. DBRS Morningstar notes there is healthy investor demand for FNFA's CP program largely coming from pension funds, asset managers, money market funds, with some demand from corporate, government, and other investors.

Debt Reserve Fund

The Authority is required to withhold 5% of the amount of any loan secured by borrowing members and deposit it into a DRF. The DRF is intended to be sufficient to cover approximately 24 months of interest obligations of the FNFA. DRF member contributions are only repaid at the later of when a member has fully repaid its loan or when the Authority's debenture matures. The DRF replenishment mechanism is the primary means by which the benefit of the joint and several obligation of borrowers is transmitted to the credit. While in theory, one could assume replenishment calls could be made repeatedly following defaults by members, DBRS Morningstar believes that the limited fiscal capacity of each individual borrower limits the number of times this mechanism can reasonably be expected to be applied successfully. To mitigate this risk, FNFA strives to maintain a diversified loan portfolio, so that no one member would be required to contribute a material amount. Further, the FNFA has the authority to intercept the SRTA revenues for replenishment needs before releasing net revenues to borrowing communities. The DRF balance stood at $101.1 million as at March 31, 2023.

Credit Enhancement Fund

In addition to liquidity available through the SRTA and the DRF, the Authority is required to maintain the CEF ($53.2 million as at March 31, 2023) established through an agreement with the federal government, which can be used to temporarily offset any shortfalls in the DRF and/or strengthen FNFA's credit profile.

Sinking Funds

All long-term financing provided by FNFA to approved borrowing members will be in the form of amortizing loans with repayment terms ranging from five to 30 years. All borrowing members in receipt of long-term loans are required to make principal repayments that will be deposited into a sinking fund maintained by the Authority to satisfy the Authority's own repayment obligations upon debt maturity. At March 31, 2023, sinking fund assets totalled $160.3 million (up from $110.9 million in the prior fiscal year).

However, DBRS Morningstar notes that the term mismatch between FNFA's own obligations and the loans it provides to borrowers leave it exposed to refinancing risk. To minimize refinancing risk, FNFA ensures revenue streams pledged for the loans will flow for the entire term of the loan or longer.

Contingency Fund

Established in F2022 following an agreement with CIRNAC, the $33.7 million contingency fund is meant to provide short-term relief to borrowing members in the event of widespread economic shocks arising because of federal mandates (such as pandemic-related restrictions) or similar senior government guidelines that adversely affect pledged revenues to FNFA. Funds are held in a deposit account and can be requested by affected borrowing members semi-annually to cover existing loan interest payments up to a maximum period of 24 months.

Outlook

The Authority anticipates that the demand for loans will grow as the number of borrowing members continues to grow. Taking this into account, the Authority is projecting loan growth of roughly $180 million over the next six months, and an annual growth of around $350 million over the medium term. Based on portfolio details that the Authority shared with DBRS Morningstar, identified revenue streams are sufficient for debt servicing, with no material concerns highlighted for borrowing members.

Underwriting/Loan Approval Process

FNFA's primary objective is to make public financing available to as many First Nations in Canada that qualify as borrowing members, without discrimination based on size, location, economic, or social conditions. However, to qualify as a borrowing member, each First Nation seeking financing through FNFA is required to demonstrate a reasonable track record of financial performance and a minimum degree of management sophistication, thereby limiting credit risk.

Once a First Nation becomes a borrowing member, the First Nation must identify the revenue streams it intends to leverage and provide all the supporting documentation to FNFA to determine potential borrowing capacity. An eligible revenue stream can only be leveraged up to 75% of the potential borrowing capacity. Moreover, for loans supported by other revenues, minimum DSCR thresholds are applied, resulting in the SRTA collecting a greater amount than is required to fulfill an individual borrowing member's loan obligations. The extent of excess coverage varies depending on FNFA's perceived risk of the revenue stream. FNFA intercepts the full amount of the revenue stream from the payor; therefore actual revenues received into the SRTA are much greater than the minimum requirement. For loans backed by property tax revenues, SRTAs are not used, and funds are collected in segregated property tax revenue accounts by each First Nation as prescribed by the FNTC. Property tax revenue payments are then made directly to the Authority.

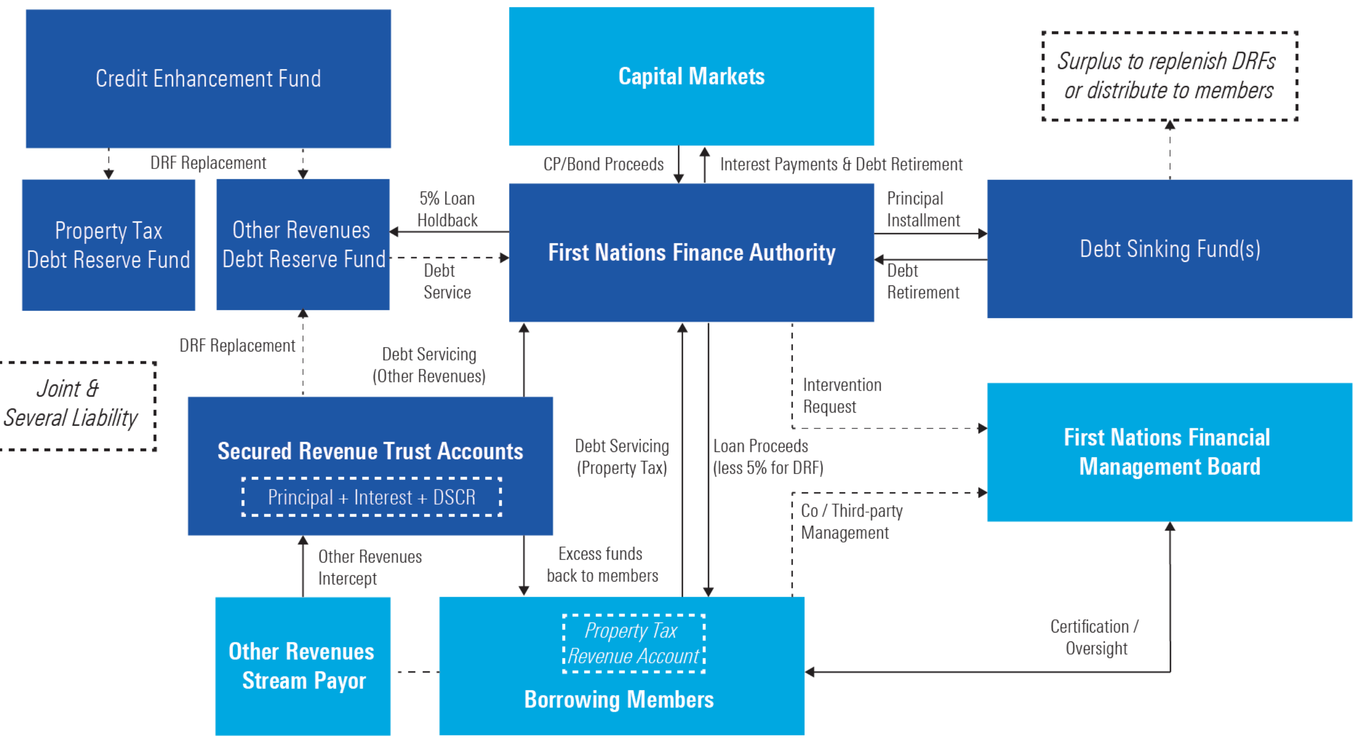
At June 30, 2023, board-approved SRTA intercepted revenues (pledged revenues) were $212 million, while actual SRTA intercepted revenue flows (actual revenue intercepted) were $233 million. Compared with the interest obligation of $57.0 million, the board expected interest coverage ratio was 3.72 (pledged revenues), while the actual interest coverage ratio (actual revenues intercepted) was 4.10. The difference between pledged and actual revenues is due to certain annual per capita and population adjustments outlined in the revenue agreements. In addition, approximately $1.8 billion in FNFA members' other revenues, not intercepted, remain available to FNFA should a pledged revenue become inadequate for loan service, if needed.

Approval of a loan then requires the unanimous approval of the FNFA Board of Directors, which gives consideration to the preservation of FNFA's credit rating in all its decisions. An SRTA does not apply in the case of loans supported by property tax revenues; however, monies owed by individual members to a property tax revenue account will be collected at least seven days in advance of any corresponding liabilities to FNFA bondholders.

Organizational Structure

The FNFA is a not-for-profit, nonshare capital corporation established under the FNFMA, whose purpose is to provide low-cost loan financing, investment management, and capital planning advisory services to First Nations communities in Canada. The Authority is not a Crown Agent or Crown Corporation, nor does it benefit from any guarantees from the Government of Canada. The FNFA is independently governed by a Board of Directors comprising at least five and up to 11 members who are elected to one-year terms by representatives of First Nations that are borrowing members. The Board is responsible for approving all new members and loans, and approval requires unanimous agreement, given the joint and several nature of member obligations. This ultimately mitigates potential erosion in the FNFA's credit profile.

Exhibit 3 Operational Structure of Lending Activities



Sources: FNFA and DBRS Morningstar.

The Act creates a forceful, though untested, intervention mechanism, which can be activated by any of the three entities—FNFA, FMB, or FNTC—if there is a serious risk of default by a borrowing member or if default occurs. The FMB would intervene to assume control of treasury functions, via either a co-management or a third-party management arrangement, to ensure financial obligations are met and financial viability is restored. This provides an incentive to borrowing members to remain current on their obligations or risk loss of autonomy and additional protection to bondholders. FNFA has confirmed that DBRS Morningstar will be notified in the event of default or risk of default requiring FMB intervention.

In the event of an insolvency of a borrowing member, the Act grants the Authority priority over those creditors of the First Nation whose claim was created after the date on which the First Nation requested financing from the Authority for loans secured by other revenues. Loans backed by property tax revenues may only be secured through the FNFA, ensuring there are no other creditors with a claim on these revenues.

Rating Approach

The complete rating approach is described in more detail in DBRS Morningstar's *General Corporate Methodology Appendix 3 – Canadian Government Pooled Lending Vehicles*. Below is a summary of the approach.

DBRS Morningstar assesses each borrowing member's fiscal position, debt burden, and debt service requirements (as a share of revenues that FNFA can access to service the loan obligations) to arrive at a band rating for each borrowing member.

DBRS Morningstar evaluates the quality of the existing revenue streams that are pledged for FNFA loans. In cases where a revenue stream comes from a highly rated entity, DBRS Morningstar may provide one rating category of uplift to the individual borrowing member's score.

DBRS Morningstar uses a modified collateralized loan obligation (CLO) approach to arrive at a long-term rating. This rating incorporates the available credit enhancement (including replenishable funds in a debt service reserve) and other qualitative considerations.

The commercial paper program is then assessed using the *DBRS Morningstar Criteria: Commercial Paper Liquidity Support for Nonbank Issuers*. FNFA's CP program is backstopped by the secured credit facility and provides for same-day availability in the event that it is required to repay CP.

Statement of Operations (CAD thousands)

Revenue	2023	2022	2021	2020	2019
Grants and contributions (from CIRNAC)	2,248	4,810	3,939	4,147	3,655
Interest from members	58,899	38,796	28,672	22,932	18,603
Debenture issuance premium amortization	2,872	2,888	2,351	1,622	1,182
Investment income	7,549	2,981	1,276	2,937	1,712
Management fees[1]	2,279	811	381	441	386
Other	178	132	23	20	–
Subtotal	**74,025**	**50,418**	**36,642**	**32,099**	**25,538**
Nonrecurring items[2]	-	40,838	(983)	12,432	355
Total Revenues	**74,025**	**91,256**	**35,569**	**44,531**	**25,893**

Expenses					
Interest expenses	54,092	34,397	26,891	21,677	17,538
Discount or premium amortization	395	357	353	354	214
Debenture issuance costs amortization	1,391	1,177	924	700	609
Interim financing fees amortization	-	-	110	104	264
Financing fees	1,532	1,220	820	541	517
Professional fees	564	840	496	395	368
Travel and workshops	969	211	100	512	355
Salaries and benefits	3,149	3,084	2,302	1,984	1,579
Operation and management	710	524	475	507	408
Investment income due to members	4,261	2,312	1,535	1,089	873
Amortization and depreciation	520	166	104	43	51
Total Expenses	**67,582**	**44,287**	**34,110**	**27,906**	**22,778**
Surplus (Deficit) from Operations	**6,443**	**6,131**	**2,532**	**4,193**	**2,760**
Nonrecurring items[2]	-	40,838	(983)	12,432	355
Surplus (Deficit) as Reported	**6,442**	**46,968**	**1,549**	**16,625**	**3,115**

1. Related to fees earned for the management of pooled investment funds.
2. In 2021–22, 2020–21, 2019–20, 2018–19, 2017–18, and 2016–17, includes $7.7 million, $3 million, $12 million, $0.5 million, $10 million, and $10 million contribution from CIRNAC to credit enhancement fund, respectively. 2021–22 also includes a one-time Contingency Fund contribution amounting to $32.6 million.
3. In 2017–18 includes $103,422 Goods and Services Tax recovery.
4. In 2021–22, 2020–21, 2019–20, and 2018–19 also includes net realized remeasurement gains and losses of $0.7 million, ($4.0) million, $0.4 million, and ($0.2) million, respectively.

	As at March 31				
Balance Sheet (CAD thousands)	**2023**	**2022**	**2021**	**2020**	**2019**
Assets					
Cash and cash equivalents	224,730	405,117	20,555	14,348	9,259
Credit enhancement fund	53,163	53,163	45,500	42,529	30,529
Contingency fund	33,665	32,550	–	–	–
Accounts receivable	–	–	–	–	–
Prepaid expenses	1,332	494	342	306	483
Sinking fund investments	160,313	110,870	73,179	49,517	34,084
Debt reserve fund Investments	101,096	86,795	68,535	40,853	32,610
Loans to members	1,676,518	1,540,542	1,234,793	711,000	585,977
Restricted cash and cash equivalents[1]	82,167	60,204	30,779	25,562	30,787
Tangible capital assets	1,645	1,986	1,047	234	178
Total Assets	**2,334,630**	**2,291,722**	**1,474,730**	**884,349**	**723,906**
Liabilities					
Accounts payable and accrued liabilities	895	878	380	306	253
Accrued interest payable	12,728	12,728	9,411	6,475	5,277
Deferred contributions	1,095	–	115	199	610
Due to members (debt reserve fund)	101,096	86,795	68,535	40,853	32,610
Funds held due to members	62,686	19,834	16,589	15,829	22,149
Interim financing	400,000	400,000	31,239	74,803	104,470
Debenture financing	1,628,566	1,629,652	1,279,793	684,353	513,934
Principal and interest payments received in advance	19,157	40,046	13,866	9,409	8,313
Total Liabilities	**2,226,223**	**2,189,933**	**1,419,928**	**832,227**	**687,616**
Accumulated surplus (deficit)	108,407	101,789	54,802	52,122	36,290
Total Liabilities & Equity	**2,334,630**	**2,291,722**	**1,474,730**	**884,349**	**723,906**

1. Includes members' capital of $324,000 for all years contributed by a predecessor organization, FNFA Inc., on April 1, 2006. Upon dissolution of the FNFA, contributions shall be first distributed to public bodies having an interest in members' capital. Since 2014, also includes principal and interest payments received in advance and funds held due to members since 2019.

Debt & Liquidity (CAD thousands)

	Year ended March 31						
Debt Outstanding	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**
Commercial paper	400,000	400,000	–	–	–	–	–
Series 2014-1 Bonds	251,000	251,000	251,000	251,000	251,000	251,000	251,000
Series 2017-1 Bonds	427,000	427,000	427,000	427,000	264,000	126,000	–
Series 2020-1 Bonds	594,000	594,000	594,000	–	–	–	–
Series 2022-1 Bonds	354,000	354,000	–	–	–	–	–
Secured credit facility	–	–	31,239	74,803	104,470	92,663	64,978
Total Debt	**2,026,000**	**2,026,000**	**1,303,239**	**752,803**	**619,470**	**469,663**	**315,978**

Debt Maturity Profile	Year ended March 31						
(As at March 31, 2023; CAD thousands)	**2024**	**2025**	**2026**	**2027**	**2028**	**Thereafter**	**Total**
Commercial paper	400,000						**400,000**
Series 2014-1 Bonds		251,000					**251,000**
Series 2017-1 Bonds						427,000	**427,000**
Series 2020-1 Bonds						594,000	**594,000**
Series 2021-1 Bonds						354,000	**354,000**
Total debt	400,000	251,000				1,375,000	**2,026,000**
% of total debt	**19.7**	**12.4**	**0.0**	**0.0**	**0.0**	**67.9**	**100.0**

Debt Outstanding

(As at March 31, 2023; CAD millions)	**Maturity**	**Amount**
Commercial paper		400.0
Series 2014-1 Bonds	26-Jun-24	251.0
Series 2017-1 Bonds	1-Jun-28	427.0
Series 2020-1 Bonds	16-Jun-30	594.0
Series 2022-1 Bonds	1-Jun-32	354.0
Total Debt		**2,026.0**

Liquidity	**Limit**	**Used**	**Available**
(As at March 31, 2023; CAD thousands)			
Cash and cash equivalents			224,730
Sinking fund investments			160,313
CEF			53,163
DRF			101,096
Total			**539,302**

1. Subsequent to fiscal year-end, the credit facility maturity date has been extended to October 9, 2024.

ESG Credit Risk Considerations

Environmental

There were no environmental factors that had a relevant or significant effect on the credit analysis. For more details about which environmental factors could have an effect on the credit analysis, please refer to the following checklist.

Social

There were no social factors that had a relevant or significant effect on the credit analysis. For more details about which social factors could have an effect on the credit, please refer to the following checklist.

Governance

There were no governance factors that had a relevant or significant effect on the credit analysis. For more details about which governance factors could have an effect on the credit analysis, please refer to the following checklist.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the *DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* at https://www.dbrsmorningstar.com/research/396929.

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis:	Y/N**	Extent of the Effect on the ESG Factor on the Credit Analysis: None (N), Relevant (R) or Significant (S)*
Environmental		**Overall:**	**N**	**N**
	Emissions, Effluents, and Waste	Do the costs or risks result in changes to a government's financial standing or relationship with other governments, and does this affect the assessment of credit risk?	N	N
	Carbon and GHG Costs	Does a government face coordinated pressure from a higher-tier government or from numerous foreign governments as a result of its GHG emissions policies, and does this affect the assessment of credit risk?	N	N
		Will recent regulatory changes have any adverse impact on economic resilience or public finances?	N	N
	Resource and Energy Management	Does the scarcity of key resources impose high costs on the public sector or make the private sector less competitive?	N	N
		Is the economy reliant on industries vulnerable to import or export price shocks?	N	N
	Land Impact and Biodiversity	Is there a risk to a government's economic or tax base for failing to effectively regulate land impact and biodiversity activities?	N	N
	Climate and Weather Risks	Will climate change and adverse weather events potentially destroy a material portion of national wealth, weaken the financial system, or disrupt the economy?	N	N
Social		**Overall:**	**N**	**N**
	Human Capital and Human Rights	Compared with regional or global peers, how competitive, flexible, and productive is the domestic labour force?	N	N
		Are labour and social conflicts source of economic volatility?	N	N
		Are individual and human rights broadly respected and in line with the population's expectations?	N	N
		Is the government exposed to heavy, coordinated international pressure as a result of its respect for fundamental human rights?	N	N
		Human Capital and Human Rights:	**N**	**N**
	Access to Basic Services	Does a failure to provide adequate basic services deter investment, migration, and income growth within the economy?		
Governance		**Overall:**	**N**	**N**
	Bribery, Corruption, and Political Risks	Does widespread evidence of official corruption and other weaknesses in the rule of law deter investment and contribute to fiscal or financial challenges?	N	N
	Bribery, Corruption, and	**Bribery, Corruption, and Political Risks:**	**N**	**N**
	Institutional Strength, Governance, and Transparency	Compared with other governments, do institutional arrangements provide a similar degree of accountability, transparency, and effectiveness?	N	N
		Are regulatory and oversight bodies protected from inappropriate political influence?	N	N
		Are government officials exposed to public scrutiny and held to high ethical standards of conduct?	N	N
		Institutional Strength, Governance, and Transparency:	**N**	**N**
	Peace and Security	Is the government likely to initiate or respond to hostilities with neighbouring governments?	N	N
		Is the government's authority over certain regions contested by domestic or foreign militias?	N	N
		Is the risk of terrorism or violence sufficient to deter investment or to create contingent liabilities for the government?	N	N
		Peace and Security:	**N**	**N**
		Consolidated ESG Criteria Output:	**N**	**N**

Rating History

	Current	2022	2021	2020	2019	2018
Issuer Rating	AA (low)	–	–	–	–	–
Senior Secured Debt	AA (low)	–	–	–	–	–
Commercial Paper	R-1 (middle)	R-1 (middle)	R-1 (middle)	–	–	–

Previous Report

- First Nations Finance Authority: Rating Report, October 19, 2022.

Related Research

- DBRS Morningstar *General Corporate Methodology* - Appendix 3- Canadian Government Pooled Lending Vehicles, March 22, 2023.
- *DBRS Morningstar Global Criteria: Commercial Paper Liquidity Support for Nonbank Issuers*, February 24, 2023.

Notes:
All figures are in Canadian dollars unless otherwise noted.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 4,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

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