

**Management's Discussion and Analysis of Results  
of Operations and Financial Condition 2009**



***Keeping Business Liquid***





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## Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A")

### Overview and Non-GAAP Financial Measures

The following discussion and analysis explains trends in Accord Financial Corp.'s ("Accord" or the "Company") results of operations and financial condition for the year ended December 31, 2009 compared with the years ended December 31, 2008 and, where presented, December 31, 2007. It is intended to help shareholders and other readers understand the dynamics of the Company's business and the factors underlying its financial results. Where possible, issues have been identified that may impact future results.

This MD&A should be read in conjunction with the Company's 2009 audited consolidated financial statements (the "Statements") and notes thereto, the ten year financial summary, and the Chairman's letter and President's message to the Shareholders, all of which form part of its 2009 Annual Report. Additional information pertaining to the Company, including its Annual Information Form, is filed under the Company's profile with SEDAR at [www.sedar.com](http://www.sedar.com).

All amounts discussed in this MD&A are expressed in Canadian dollars unless otherwise stated and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Please refer to note 3(b) to the Statements regarding the Company's use of accounting estimates in the preparation of its Statements in accordance with GAAP.

The Company uses a number of financial measures to assess its performance and some of these are presented herein to help the reader better understand certain aspects of the Company's operating performance. Some of these measures may not have standardized meanings or computations that would ensure consistency and comparability between companies

using these measures. The Company derives these measures from amounts presented in its Statements which are prepared in accordance with GAAP. The Company's focus continues to be on GAAP measures and any other information presented is purely supplemental to help the reader better understand its business. The non-GAAP measures presented in this MD&A are defined as follows:

- i) Return on average shareholders' equity ("ROE") - this is a profitability measure that presents the net earnings available to common shareholders as a percentage of the average shareholders' equity employed to earn the income. The Company includes all components of common shareholders' equity to calculate the average thereof.
- ii) Book value per share - book value is the net asset value of the Company calculated as total assets minus total liabilities and, by definition, is the same as total shareholders' equity. Book value per share is the net asset value divided by the number of shares outstanding as of a particular date.
- iii) Profitability ratios - Table 1 presents certain profitability measures. In addition to ROE, the return on average assets is also presented. This is the Company's net earnings expressed as a percentage of average assets. Also presented is net revenue (revenue minus interest expense) expressed as a percentage of average assets, and general and administrative expenses ("G&A") expressed as a percentage of average assets. These ratios are presented over a three year period which enables readers to see at a glance trends in the Company's profitability, yield and operating efficiencies.
- iv) Balance sheet composition - Table 2 contains the following percentages: (i) tangible equity (shareholders' equity less goodwill and future income tax assets) expressed as a percentage of total assets; (ii) shareholders' equity as a

percentage of total assets; (iii) debt (bank indebtedness and notes payable) as a percentage of shareholders' equity. These percentages provide information on trends in the Company's financial condition and leverage over the past three years.

- v) Credit quality - Table 3 presents information on the quality of the Company's total portfolio, namely, its factored receivables and loans (collectively "Loans" or "funds employed") and managed receivables. It presents the Company's year-end allowances for losses as a percentage of its total portfolio and its annual net charge-offs. It also presents the net charge-offs expense as a percentage of total factoring volume. The percentage of managed receivables past due is also presented in table 3.

The following discussion contains certain forward-looking statements that are subject to significant risks and uncertainties that could cause actual results to differ materially from historical results and percentages. Factors that may impact future results are discussed in the Risks and Uncertainties section below.

## Selected Annual Information

(audited, in thousands of dollars, except per share data)

	2009	2008	2007
Revenue	\$ 24,045	\$ 28,060	\$ 28,346
Net earnings	3,089	5,041	6,287
Earnings per share			
Basic	\$ 0.33	\$ 0.53	\$ 0.66
Diluted	0.33	0.53	0.66
Dividends per share	0.26	0.24	0.22
Total assets	\$ 97,937	\$ 103,498	\$ 107,133

## Accord's Business

Accord is a leading North American provider of factoring and other asset-based financial services to businesses, including financing, collection services, credit investigation and guarantees. The Company's financial services are discussed in its 2009 Annual Report. Its clients operate in a wide variety of industries, examples of which are set out in note 19(a) to the Statements.

The Company, founded in 1978, operates three factoring companies in North America, namely, Accord Financial Ltd. ("AFL") and Accord Financial

## Results of Operations

Years ended December 31 (in thousands unless otherwise stated)	2009		2008		% change from 2008 to 2009
	Actual	% of Revenue	Actual	% of Revenue	
Factoring volume (millions)	\$ 1,748		\$ 1,596		10.0%
<b>Revenue</b>					
Factoring commissions, discounts, interest and other income	\$ 24,045	100.0%	\$ 28,060	100.0%	-14.3%
<b>Expenses</b>					
Interest	1,180	4.9%	2,871	10.2%	-58.9%
General and administrative	13,290	55.3%	13,491	48.1%	-1.5%
Provision for credit and loan losses	3,648	15.2%	3,849	13.7%	-5.2%
Impairment of assets held for sale	1,265	5.3%	—	0.0%	n/m
Depreciation	181	0.7%	195	0.7%	-7.2%
	19,564	81.4%	20,406	72.7%	-4.1%
<b>Earnings before income tax expense</b>	4,481	18.6%	7,654	27.3%	-41.5%
Income tax expense	1,392	5.8%	2,613	9.3%	-46.7%
<b>Net earnings</b>	\$ 3,089	12.8%	\$ 5,041	18.0%	-38.7%
<b>Earnings per common share</b>					
Basic	\$ 0.33		\$ 0.53		-38.1%
Diluted	0.33		0.53		-38.2%

n/m - not meaningful

Inc. (“AFIC”) in Canada and Accord Financial, Inc. (“AFIU”) in the United States. AFL and AFIC were formerly known as Accord Business Credit Inc. and Montcap Financial Corp., respectively, and changed their names to their present ones in July 2009.

The Company’s business principally involves: (i) recourse factoring by AFIC and AFIU, which entails financing or purchasing receivables on a recourse basis, as well as asset-based lending, namely, financing other tangible assets, such as inventory and equipment; and (ii) non-recourse factoring by AFL, which principally involves providing credit guarantee and collection services on a non-recourse basis, generally without financing.

### Results of Operations

*Fiscal 2009: Year ended December 31, 2009 compared with year ended December 31, 2008*

The Company’s net earnings totalled \$3,089,000 in 2009, 39% below 2008’s net earnings of \$5,041,000 and 51% below 2007’s net earnings of \$6,287,000. Net earnings declined compared to 2008 principally as a result of lower revenue and an impairment charge related to assets held for sale. Net earnings declined compared to 2007 as a result of lower revenue, a higher provision for credit and loan losses and the above noted impairment charge. These items are discussed below. Diluted earnings per common share for 2009 decreased to 33 cents, 38% below the 53 cents earned last year and 50% below the 66 cents earned in 2007. The Company’s ROE declined to 6.7% in 2009 compared to 11.7% last year and 16.0% in 2007.

The volume of receivables factored by the Company in 2009 rose by 10% to a record \$1.748 billion compared with \$1.596 billion last year. Non-recourse factoring volume rose by 19%, while there was a small increase in recourse factoring volume. Non-recourse volume was higher as the demand for its credit guarantee services rose and international business increased. International volume rose by 20% to \$447 million compared to \$374 million in 2008. The increase was largely low rate, and low-risk, business. International volume comprised 26% of the Company’s total volume in 2009, up from 23% in 2008.

Revenue declined by \$4,015,000 or 14% to \$24,045,000 in 2009 compared to \$28,060,000 last year, while it declined by 15% compared to \$28,346,000 in 2007. Revenue declined compared to 2008 and 2007 as a result of a combination of lower funds employed and reduced factoring and loan yields. Yields declined in 2009 largely as a result of lower interest rates and an increase in non-performing loans against which charge-offs were recorded in the year.

Interest expense declined by \$1,691,000 or 59% to \$1,180,000 in 2009 compared to \$2,871,000 last year. The decrease resulted from lower interest rates and a 34% decrease in average borrowings (bank indebtedness and notes payable). The Company’s borrowing rates were lower in 2009, as the average Canadian prime rate of interest declined to 2.4% per annum from 4.8% in 2008, while the average U.S. prime rate of interest declined to 3.3% from 5.1% in 2008.

G&A comprise personnel costs, representing the majority of the Company’s G&A, occupancy costs, commissions to third parties, marketing expenses, professional fees, data processing, travel, telephone and general overheads. G&A declined by \$201,000 or 2% to \$13,290,000 in 2009 from \$13,491,000 last year as lower personnel costs offset the impact of severance costs of \$339,000 and a 7% rise in the average value of the U.S. dollar in 2009. The Company continues to manage its controllable expenses closely. G&A totalled 55% of revenue in 2009, up from 48% in 2008 on a 14% decline in revenue.

The provision for credit and loan losses declined by \$200,000 or 5% to \$3,648,000 in 2009 compared to \$3,848,000 last year. The provision is a combination of net charge-offs and a charge or recovery related to an increase or decrease in the Company’s total allowances for losses. The provision for credit and loan losses in 2009 and 2008 comprised:

Year ended Dec. 31 (in thousands)	2009	2008
Net charge-offs	\$ 4,633	\$ 2,950
(Recovery) charge related to (decrease) increase in total allowances for losses	(985)	898
	<b>\$ 3,648</b>	<b>\$ 3,848</b>

The provision for credit and loan losses, as a percentage of revenue, increased to 15% in 2009 compared to 14% in 2008 on lower revenue. The current year's net charge-offs included \$1,452,000 taken against non-performing Loans upon which specific allowances were established in 2008. Excluding these previously expensed allowances, net charge-offs would have totalled \$3,181,000 in 2009, 8% higher than the \$2,950,000 in 2008. The rise in net charge-offs in 2009 occurred in our U.S. operation, which suffered two significant charge-offs during the year. The Company's allowances for losses are discussed in detail below. While the Company manages its portfolio of Loans and managed receivables closely, as noted in the Risks and Uncertainties section below, financial results can be impacted by significant insolvencies. The Company employs a conservative approach to determining its allowances for losses and providing for charge-offs.

During 2009, the Company obtained title to certain foreclosed assets securing a defaulted loan and is currently actively marketing the assets for sale. An impairment charge of \$1,265,000 was taken against the assets held for sale in the year as the Company determined that the net realizable value of the assets had declined since it took title to same (see note 5 to the Statements and discussion below).

Income tax expense declined by 47% to \$1,392,000 in 2009 compared to \$2,613,000 last year largely as a result of a 42% decline in pre-tax earnings. The Company's effective corporate income tax rate for 2009 was 31.1% compared to 34.1% in 2008. The decrease in effective tax rate in 2009 principally resulted from: (i) our U.S. operation releasing a tax provision of \$69,000 in the year that was no longer required; and (ii) our U.S. operations earnings, which are subject to a higher tax rate than our Canadian earnings, forming a much lower percentage of the Company's consolidated earnings in 2009 resulting in a decrease in the Company's overall weighted average effective tax rate.

**Table 1—Profitability Ratios**

(as a percentage)	2009	2008	2007
Return on Average Assets	3.1	4.8	6.6
Return on Average Equity	6.7	11.7	16.0
Net Revenue / Average Assets	22.7	23.9	26.4
Operating Expenses / Average Assets	13.4	13.0	13.9

Table 1 highlights the Company's profitability in terms of returns on its average assets and shareholders' equity. In 2009, on lower net earnings, these percentages declined to 3.1% and 6.7%, respectively, the lowest in the last three years. Net revenue as a percentage of average assets declined to 22.7% in 2009 compared to 23.9% last year. The ratio of G&A to average assets rose to 13.4% in 2009 compared with 13.0% in 2008 as average assets declined at a faster pace than G&A.

#### *Canadian operations*

Net earnings from Canadian operations increased by \$380,000 or 16% to \$2,752,000 in 2009 compared to \$2,372,000 last year principally as a result of lower expenses, which offset the impact of a 16% decline in Canadian revenue (see note 21 to the Statements).

Revenue decreased 16% to \$16,985,000 in 2009 compared to \$20,264,000 last year as funds employed and yields declined in our Canadian recourse factoring operation offsetting the impact of an increase in non-recourse factoring volume and revenue. Expenses declined by \$3,830,000 or 23% to \$12,925,000 compared to \$16,755,000 last year. The provision for credit and loan losses decreased by \$1,950,000 or 50% to \$1,928,000, while interest expense fell by \$1,518,000 or 57% to \$1,148,000 on lower borrowings and interest rates. G&A was \$346,000 or 4% lower at \$9,695,000 despite incurring the above noted severance costs this year. Income tax expense rose by 15% to \$1,309,000 in 2009 on a similar increase in pre-tax earnings.

#### *U.S. operations*

Net earnings from U.S. operations declined by 87% to \$337,000 in 2009 compared to \$2,669,000 in 2008. In U.S. dollars, net income decreased by 95%. Revenue was \$734,000 or 9% lower at \$7,102,000 principally as a result of two significant loans

## Summary of Quarterly Financial Results\*

Quarters ended (in thousands unless otherwise stated)	2009				2008			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Factoring volume (millions)	\$ 516	\$ 449	\$ 380	\$ 402	\$ 429	\$ 419	\$ 365	\$ 383
<b>Revenue</b>								
Factoring commissions, discounts, interest and other income	\$ 6,633	\$ 5,664	\$ 5,677	\$ 6,071	\$ 6,753	\$ 6,785	\$ 7,094	\$ 7,427
<b>Expenses</b>								
Interest	364	271	245	301	574	628	789	880
General and administrative	3,198	3,073	3,544	3,475	3,388	3,342	3,340	3,421
Provision for credit and loan losses	1,059	1,176	1,083	331	2,005	760	248	835
Impairment of assets held for sale	1,265	—	—	—	—	—	—	—
Depreciation	34	45	50	51	51	47	50	47
	5,920	4,565	4,922	4,158	6,018	4,777	4,427	5,183
Earnings before income taxes	713	1,099	755	1,913	735	2,008	2,667	2,244
Income tax expense	108	390	261	633	273	676	908	756
<b>Net earnings</b>	\$ 605	\$ 709	\$ 494	\$ 1,280	\$ 462	\$ 1,332	\$ 1,759	\$ 1,488
<b>Earnings per common share</b>								
Basic	\$ 0.06	\$ 0.08	\$ 0.05	\$ 0.14	\$ 0.05	\$ 0.14	\$ 0.19	\$ 0.16
Diluted	0.06	0.08	0.05	0.14	0.05	0.14	0.18	0.16

\* Due to rounding the total of the four quarters may not agree with the reported total for a fiscal year.

becoming non-performing in the latter half of 2008. Expenses rose to \$6,682,000 in 2009 compared to \$3,691,000 in 2008. The provision for credit and loan losses increased to \$1,720,000 in 2009 compared to a recovery of \$29,000 last year as charge-offs were taken against the two non-performing loans in 2009. U.S. operations also incurred an impairment charge of \$1,265,000 related to the assets held for sale. This is discussed above. G&A rose by \$146,000 or 4% to \$3,595,000 as a result of a 7% rise in the average value of the U.S. dollar in 2009. Interest expense declined to \$74,000 compared with \$245,000 last year on lower interest rates and borrowings. Our U.S. operations income tax expense declined by 94% to \$83,000 in 2009 on a 90% decrease in pre-tax earnings and the above noted release of an income tax provision no longer required.

**Fourth quarter 2009:** Quarter ended December 31, 2009 compared with quarter ended December 31, 2008

Net earnings for the quarter ended December 31, 2009 rose by \$143,000 or 31% to \$605,000 compared to \$462,000 in the fourth quarter of 2008. Net earnings principally increased due to lower provision for credit and loan losses, interest expense, G&A and income tax expense. These reductions were offset to a large degree by the above noted impairment charge

of \$1,265,000 and somewhat lower revenue. Diluted earnings per common share increased to 6 cents in the quarter compared to 5 cents last year.

Factoring volume rose by 20% to a fourth quarter record \$516 million compared to \$429 million in last year's fourth quarter. Volume in the Company's non-recourse business increased by 29%, while volume in its recourse business rose by 13%.

Revenue declined by \$120,000 or 2% to \$6,633,000 in the fourth quarter of 2009 compared to \$6,753,000 last year largely as a result of a decrease in interest earned on asset-based loans to clients and lower deferred and other revenue. On a positive note, factoring commissions rose by \$330,000 in the fourth quarter on stronger volume.

Interest expense declined by 37% to \$364,000 in the fourth quarter compared to \$574,000 last year on a 31% decrease in average borrowings and lower interest rates.

G&A for the quarter declined by \$190,000 or 6% to \$3,198,000 compared to \$3,388,000 last year in large part due to the weaker U.S. dollar in the current quarter compared to the fourth quarter of 2008 and lower personnel costs.

The provision for credit and loan losses decreased by 47% to \$1,059,000 in the fourth quarter of 2009 compared to \$2,005,000 last year. The provision for credit and loan losses for the fourth quarter of 2009 and 2008 comprised:

Quarter ended Dec. 31 (in thousands)	2009	2008
Net charge-offs	\$ 887	\$ 1,224
Charge related to increase in total allowances for losses	172	781
	<b>\$ 1,059</b>	<b>\$ 2,005</b>

The impairment charge of \$1,265,000 relating to assets held for sale was incurred in the fourth quarter of 2009.

Income tax expense decreased to \$108,000 compared to \$273,000 in the fourth quarter of 2008 on lower pre-tax earnings and the release of a \$69,000 tax provision no longer required in our U.S. operation.

## Review of Balance Sheet

Shareholders' equity at December 31, 2009 totalled \$43,356,000, a decrease of \$4,823,000 from \$48,179,000 last year-end. Book value per share declined to \$4.61 at December 31, 2009 compared to \$5.10 a year earlier. The decrease in shareholders' equity in 2009 principally resulted from a \$5,201,000 decline in the accumulated other comprehensive loss balance. This is discussed below.

Total assets declined to \$97,937,000 at December 31, 2009 compared to \$103,498,000 last year-end. Total assets largely comprised Loans.

**Table 2—Balance Sheet Composition**

(as a percentage)	2009	2008	2007
Tangible Equity / Assets	43	45	35
Equity / Assets	44	47	37
Debt (bank indebtedness & notes payable) / Equity	106	97	147
Loans and Receivables (\$000)			
Loans	91,435	102,977	105,882
Managed Receivables	155,360	133,754	100,189
Total	<b>246,795</b>	<b>236,731</b>	<b>206,071</b>

Table 2 highlights the composition of the Company's balance sheet. The first two ratios in the table for

2009 (43% and 44%), detailing equity as a percentage of assets, were lower this year as shareholders' equity decreased at a greater rate than assets. These ratios indicate the Company's continued financial strength and overall low degree of leverage.

Excluding inter-company liabilities, 56% of identifiable assets were located in Canada and 44% in the United States at December 31, 2009 compared to 54% and 46%, respectively, at December 31, 2008 (see note 21 to the Statements).

Gross Loans (funds employed) before the allowance for losses thereon, declined by \$11,542,000 or 11% to \$91,435,000 at December 31, 2009 compared with \$102,977,000 a year earlier (see note 4 to the Statements). The decrease in funds employed had an adverse impact on revenue in 2009 and largely resulted from lower asset-based loans and a number of client liquidations, among other things. As part of the client liquidations, the Company obtained title to certain assets securing a defaulted loan in May 2009 (see details on assets held for sale below). Net of the allowance for losses thereon, Loans declined by \$10,083,000 to \$89,907,000 at December 31, 2009 compared with \$99,990,000 last year-end. Loans principally represent advances made by our recourse factoring and asset-based lending subsidiaries, AFIC and AFIU, to clients in a wide variety of industries. These businesses had approximately 150 clients at December 31, 2009. Four clients each comprised over 5% of gross Loans at December 31, 2009, of which the largest client comprised 8%.

In its non-recourse factoring business, the Company contracts with clients to assume the credit risk associated with respect to their receivables, usually without financing them. Since the Company does not take title to these receivables, they do not appear on its balance sheet. These non-recourse or managed receivables totalled \$155 million at December 31, 2009 compared to \$134 million last year-end. Managed receivables comprise the receivables of approximately 180 clients. The 25 largest clients comprised approximately 58% of non-recourse volume in 2009 compared to 59% in 2008. Most of the clients' customers are large "big box" and apparel, home furnishings and footwear retailers in Canada and the United States. At December 31, 2009, the

25 largest customers accounted for 66% of the total managed receivables, of which the largest two customers comprised 33%. Although the retail environment is suffering as a result of the current economic downturn, the Company's credit risk related thereto is closely monitored and its managed receivables continue to be well rated. The current adverse economic and retail environment was instrumental in the Company signing a number of significant new clients in the second half of 2009 as clients sought out its credit guarantee services to cover the credit risk relating to their receivables. This led to a healthy increase in the Company's non-recourse volume in 2009, particularly in the second half of the year.

The Company's total portfolio, which comprises both gross Loans and managed receivables, rose by 4% to \$247 million at December 31, 2009 compared to \$237 million last year-end as a result of the rise in managed receivables (see Table 2 for a three year history).

As described in note 19(a) to the Statements, the Company's business involves funding or assuming credit risk on the receivables offered to it by its clients, as well as funding other assets such as inventory and equipment. Credit is approved by a staff of credit officers, with larger amounts being authorized by supervisory personnel, management and, in the case of credit in excess of \$1,000,000, by the Company's President and the Chairman of its Board. Credit in excess of \$2,500,000 is approved by the Company's Credit Committee, which comprises three members of the Company's Board. The Company monitors and controls its risks and exposures through financial, credit and legal controls and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is subject.

Credit is subject to ongoing management review. Nevertheless, for a variety of reasons, there will inevitably be defaults by clients or their customers. The Company's primary focus continues to be on the creditworthiness and collectibility of its clients' receivables. Monitoring and communicating with its clients' customers is measured by, amongst other things, an analysis which indicates the amount of

receivables current and past due. The clients' customers have varying payment terms depending on the industries in which they operate, although most customers have payment terms of 30 to 60 days from invoice date. Of the total managed receivables for which the Company guarantees payment, 8.2% were past due more than 60 days at December 31, 2009 compared to 9.3% last year-end. In the Company's recourse factoring business, receivables become "ineligible" when they reach a certain pre-determined age, usually 75 to 90 days from invoice date, and are usually charged back to clients thereby limiting the Company's credit risk on such receivables.

The Company employs a client rating system to assess credit risk in its recourse factoring business, which reviews, amongst other things, the financial strength of each client and the Company's underlying security, principally its clients' receivables, while in its non-recourse factoring business it employs a customer credit scoring system to assess the credit risk associated with those client receivables that it guarantees (managed receivables). Credit risk is primarily managed by ensuring that, as far as possible, the receivables factored are of the highest quality and that any inventory, equipment or other assets securing loans are appropriately appraised. The Company assesses the financial strength of its clients' customers and the industries in which they operate, which, for a factoring company, is often more important than the financial strength of the clients themselves. The Company minimizes credit risk by limiting to \$10 million the maximum amount it will lend, as well as enforcing strict margins, and disallowing certain types of receivables. The Company also charges back receivables as they become older and confirms the validity of the receivables that it purchases. In its non-recourse business exposure to certain customers upon which credit guarantees have been granted may exceed \$10 million. All customer credit in excess of \$2.5 million is approved by the Company's Credit Committee on a case by case basis. At December 31, 2009, the Company has guaranteed accounts receivable in excess of \$10 million in respect of two customers. As a factoring company, which administers and collects the majority of its clients' receivables, the Company is able to quickly identify problems as and when they arise and act promptly to minimize credit and loan losses. This is particularly

important in today's adverse economic and credit environment. Note 19(a) provides details of the Company's credit exposure by industrial segment.

**Table 3—Credit Quality**

(as a percentage)	2009	2008	2007
Portfolio Turnover (days)	49	50	49
Managed Receivables past due more than 60 days	8.2	9.3	9.5
Reserves* / Portfolio	1.0	1.6	1.3
Reserves* / Net Charge-offs	56	125	147
Net Charge-Offs / Volume	0.27	0.18	0.12

\*Reserves comprise the total of the allowance for losses on Loans and on the guarantee of managed receivables.

Table 3 highlights the credit quality of the Company's portfolio, both Loans and managed receivables. The Company's allowance for losses on its Loans declined significantly in 2009 as the specific allowances established in 2008 were charged off against the underlying non-performing accounts this year. Net charge-offs of our managed receivables declined slightly to \$680,000 in 2009 compared to \$716,000 in 2008. Net charge-offs on managed receivables were 7 basis points of volume in 2009, compared to 9 basis points in 2008. Net charge-offs in the Company's recourse factoring business were \$3,953,000 in 2009 compared to \$2,235,000 last year. Net charge-offs in our recourse business in 2009 included \$1,452,000 relating to non-performing Loans upon which specific allowance for losses were established in 2008. Overall, the Company's total net charge-offs in 2009, as detailed in the Results of Operations section above, rose by 57% to \$4,633,000 compared with \$2,950,000 last year. Net charge-offs, the highest in the last three years, were 27 basis points of volume in 2009 compared to 18 basis points last year. Excluding the \$1,452,000 of net charge-offs upon which specific allowances were established and expensed in 2008, net charge-offs would have been \$3,181,000 in 2009. Over half of this occurred in our U.S. operation.

After the customary detailed year-end review of the Company's \$247 million portfolio, all problem Loans and accounts were identified and provided for. The Company maintains separate allowances for credit and loan losses on both its Loans and its guarantee of managed receivables, at amounts, which, in management's judgment, are sufficient to cover

losses thereon. The allowance for losses on Loans decreased by \$1,459,000 to \$1,528,000 at December 31, 2009 from \$2,987,000 last year-end. As set out in note 4 to the Statements, the allowance last year-end comprised a general allowance of \$1,535,000, as well as specific allowances of \$1,452,000 established against a number of non-performing Loans, while the allowance at December 31, 2009 comprised only a general allowance. The allowance for losses on the guarantee of managed receivables comprised a general allowance of \$1,089,000 at December 31, 2009, \$403,000 higher than the \$686,000 general allowance last year-end. This allowance represents the fair value of estimated payments to clients under the Company's guarantees to them. As these managed receivables are off-balance sheet, this allowance is included in the total of accounts payable and other liabilities. The increase in this allowance in 2009 resulted from higher managed receivables. The activity in both allowance for losses accounts for 2009 and 2008 is set out in note 4 to the Statements. The estimates of both allowance for losses are judgmental. Management considers them to be adequate.

Assets held for sale totalled \$4,997,000 at December 31, 2009 and comprised certain assets securing a defaulted loan upon which the Company foreclosed and obtained title in May 2009. As noted above, an impairment charge of \$1,265,000 was taken against the assets in the fourth quarter of 2009. The assets are currently being actively marketed for sale and will be sold as market conditions permit. The assets are stated at their net realizable value at December 31, 2009. There were no assets held for sale at December 31, 2008.

Cash declined to \$339,000 at December 31, 2009 compared to \$994,000 at the end of 2008. The Company endeavors to minimize cash balances as far as possible when it has bank indebtedness outstanding. However, due to the large volume of cash being processed daily it is necessary that a certain amount of cash be held to fund daily requirements. Fluctuations in cash balances are normal.

Future income tax assets, net, rose to \$576,000 at December 31, 2009 compared with \$211,000 last year-end. The increase pertains to the future income tax benefit of certain charges incurred in 2009 that

## Contractual Obligations and Commitments at December 31, 2009

(in thousands of dollars)	Payments due in				Total
	Less than one year	Two and three years	Four and five years	After five years	
Operating lease obligations	\$ 325	\$ 568	\$ 230	\$ 258	\$ 1,381
Purchase obligations	11	1	—	—	12
	\$ 336	\$ 569	\$ 230	\$ 258	\$ 1,393

will be deductible for income tax purposes in future years.

Capital assets declined by \$115,000 to \$520,000 at December 31, 2009 from \$635,000 last year-end as the Company's 2009 depreciation expense exceeded net capital additions. Capital assets acquired during the year, net of disposals, totalled \$86,000 compared to \$221,000 in 2008 and principally comprised automobiles, computers and office equipment.

Goodwill totalled \$1,011,000 at December 31, 2009 compared to \$1,171,000 at December 31, 2008. Goodwill is carried in our U.S. operation and is subject to an annual impairment test. In 2009 and 2008, the Company determined there was no impairment to the carrying value of goodwill. The decrease in goodwill balance in 2009 relates to the translation of our U.S. operation's goodwill balance of US\$962,000 into Canadian dollars at a lower year-end U.S. dollar exchange rate than at December 31, 2008.

Total liabilities at December 31, 2009 declined by \$736,000 to \$54,582,000 compared to \$55,318,000 last year-end. Changes in the Company's liabilities are discussed below.

Bank indebtedness totalled \$36,798,000 at December 31, 2009 compared to \$35,877,000 a year earlier. The Company has approved credit lines with a number of banks totalling approximately \$102 million and was in compliance with all loan covenants thereunder at December 31, 2009. The Company's major credit lines are typically renewed for a period of one or two years at a time as circumstances, such as pricing, dictate. Bank indebtedness usually fluctuates with the quantum of Loans outstanding. The Company has no term debt outstanding.

Amounts due to clients decreased by \$71,000 to \$4,517,000 at December 31, 2009 compared to \$4,588,000 at the end of 2008. Amounts due to clients principally consist of collections of receivables not yet remitted to clients. Contractually, the Company remits collections within a week of receipt. Fluctuations in amounts due to clients are not unusual.

Accounts payable and other liabilities increased by \$186,000 to \$3,266,000 at December 31, 2009 compared to \$3,080,000 last year-end. As noted above, accounts payable and other liabilities include the allowance for losses on the guarantee of managed receivables, which increased by \$403,000 in 2009.

Deferred income, which comprises the deferral of a portion of factoring commissions and discounts until collection of the underlying receivables (see note 3(c) to the Statements), declined by \$83,000 to \$746,000 at December 31, 2009 compared to \$829,000 last year-end.

Notes payable decreased by \$1,691,000 to \$9,253,000 at December 31, 2008 compared to \$10,944,000 last year-end. Please see Related Party Transactions section below and note 9 to the Statements. The decrease in 2009 represents net note redemptions.

Capital stock increased by \$176,000 in 2009 to \$6,908,000 at December 31, 2009 from \$6,732,000 a year earlier. There were 9,408,971 shares outstanding as at December 31, 2009 compared to 9,438,171 shares a year earlier. Note 10(b) to the Statements provides details of changes in the Company's issued and outstanding common shares and capital stock. During 2009, 49,000 stock options were exercised pursuant to the terms of the employee stock option plan for proceeds of \$194,000, while \$39,000 was transferred to capital stock from contributed surplus.

upon the exercise of these stock options. Offsetting these increases was a \$56,000 reduction in capital stock in respect of shares repurchased and cancelled by the Company pursuant to the terms of its normal course issuer bids (“Bids”). Note 10(c) to the Statements provides details of the Company’s Bids. During 2009, 78,200 common shares were repurchased and cancelled under the Company’s Bids at a cost of \$455,000 (an average price of \$5.82 per common share). This amount was applied to reduce capital stock and retained earnings by \$56,000 and \$399,000, respectively. At the date of this MD&A, March 1, 2010, 9,408,971 common shares remained outstanding.

Details of the Company’s stock option plans and options outstanding at December 31, 2009 are set out in note 10(e) to the Statements. The Company has issued no options to employees or directors since May 2004. During 2007, the Company established a share appreciation rights (“SARs”) plan whereby SARs may be granted to directors and key managerial employees of the Company and its subsidiaries. Details of the Company’s SARs plan are set out in note 10(f) to the Statements. During 2009, 100,000 SARs were granted by the Company to directors and employees at a strike price of \$6.03, while in 2008 95,000 SARs were granted at a strike price of \$7.25. These are the only SARs granted by the Company to date. At December 31, 2009, the 195,000 (2008 – 95,000) outstanding SARs had no intrinsic value. The 82,500 SARs issued to employees were not vested as of December 31, 2009.

Contributed surplus totalled \$43,000 at December 31, 2009 compared to \$82,000 at December 31, 2008. The decrease in 2009 comprised the \$39,000 that was transferred from contributed surplus to capital stock upon the exercise of stock options. Please refer to note 10(d) to the Statements.

Retained earnings increased by \$240,000 in 2009 to \$43,783,000 at December 31, 2009 compared to \$43,543,000 at December 31, 2008. The increase in 2009 comprised net earnings of \$3,089,000 less dividends paid of \$2,450,000 (26 cents per common share) and the \$399,000 premium paid on the shares repurchased under the Bids. Please refer to the Consolidated Statements of Retained Earnings on page 28 of the Company’s 2009 Annual Report.

Accumulated other comprehensive loss comprises the unrealized foreign exchange loss arising on the translation of the assets and liabilities of the Company’s self-sustaining U.S. subsidiary. The loss was \$7,379,000 at December 31, 2009 compared to a loss of \$2,178,000 at December 31, 2008. Please refer to note 17 to the Statements. The increased loss position in 2009 was caused by the 14% decline in value of the U.S. dollar against the Canadian dollar during the year. The U.S. dollar declined from \$1.218 at December 31, 2008 to \$1.051 at December 31, 2009. This reduced the Canadian dollar equivalent of the Company’s net investment in its U.S. subsidiary of approximately US\$31 million by \$5,201,000 in 2009.

### Liquidity and Capital Resources

The Company considers its capital resources to include shareholders’ equity and debt, namely, its bank indebtedness and notes payable. The Company has no term debt outstanding. The Company’s objectives when managing its capital are to: (i) maintain financial flexibility in order to meet financial obligations and continue as a going concern; (ii) maintain a capital structure that allows the Company to finance its growth using internally-generated cash flow and debt capacity; and (iii) optimize the use of its capital to provide an appropriate investment return to its shareholders commensurate with risk.

The Company’s financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital resources and makes adjustments to them in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital resources, the Company may, from time to time, change the amount of dividends paid to shareholders, return capital to shareholders by way of normal course issuer bid, issue new shares, or reduce liquid assets to repay debt. Amongst other things, the Company monitors the ratio of its equity to total assets, principally Loans, and its debt to shareholders’ equity. These ratios are presented as percentages in Table 2 for the last three years. The ratios at December 31, 2009 indicate the Company’s continued financial strength and overall low degree of leverage.

The Company's financing and capital requirements generally increase with the level of Loans outstanding. The collection period and resulting turnover of outstanding receivables also impact financing needs. In addition to cash flow generated from operations, the Company maintains bank lines of credit in Canada and the United States. The Company can also raise funds through its notes payable program.

The Company had bank credit lines totalling approximately \$102 million at December 31, 2009 and had borrowed approximately \$37 million against these facilities. Funds generated through operating activities, notes payable and share issues decrease the usage of, and dependence on, these lines.

As noted in the Review of Balance Sheet section above, the Company had cash of \$339,000 at December 31, 2009, a decrease of \$655,000 compared to \$994,000 at December 31, 2008. As far as possible, cash on hand is usually maintained at a minimum and surplus cash is used to repay bank indebtedness.

Management believe that current cash balances and existing credit lines together with cash flow from operations will be sufficient to meet the cash requirements of working capital, capital expenditures, operating expenditures, dividend payments and share repurchases and will provide sufficient liquidity and capital resources for growth over the next twelve months.

***Fiscal 2009 cash flows:*** Year ended December 31, 2009 compared with year ended December 31, 2008

Cash inflow from net earnings before changes in operating assets and liabilities totalled \$3,083,000 in 2009, a decrease of 50% compared with a cash inflow of \$6,114,000 last year. After changes in operating assets and liabilities are taken into account, there was a net cash inflow from operating activities of \$2,956,000 in 2009 compared with a net cash inflow of \$14,011,000 last year. The net cash inflow in 2009 principally arose from net earnings, while the net cash inflow in 2008 principally arose from collections of Loans of \$10,052,000 and net earnings.

Net cash outflow from financing activities totalled \$2,954,000 in 2009 compared to \$14,831,000 last

year. In 2009 dividends totalling \$2,450,000 were paid, \$1,615,000 of notes payable, net, were redeemed, while 78,200 common shares were repurchased under the Bids at a cost of \$455,000. Partly offsetting these outflows was an increase in bank indebtedness of \$1,372,000 and the \$194,000 received from the issuance of 49,000 shares pursuant to the exercise of stock options. In 2008, bank indebtedness of \$13,332,000 was repaid, while dividends totalling \$2,281,000 were paid and \$1,005,000 was expended on the repurchase of common shares under the Bids. Offsetting these outflows was \$1,276,000 received from the issue of notes payable, net, and \$510,000 received from the issuance of shares pursuant to the exercise of stock options.

The effect of exchange rate changes on cash in 2009 comprised a \$570,000 decrease compared to a \$886,000 increase in 2008. The decrease in 2009 was largely due to the impact of the decline in the value of the U.S. dollar against the Canadian dollar on our U.S. operations.

Overall, there was a net cash outflow of \$654,000 in 2009 compared to \$154,000 in 2008.

### **Related Party Transactions**

As noted above, the Company has borrowed funds (notes payable) on an unsecured basis from shareholders, management, employees, other related individuals and third parties. These notes are repayable on demand and bear interest at the bank prime rate less one half of one percent per annum, which is below the rate of interest charged by the Company's banks. Notes payable at December 31, 2009 decreased by \$1,690,000 to \$9,254,000 compared with \$10,944,000 at December 31, 2008. Interest expense on these notes declined to \$189,000 in 2009 compared to \$437,000 last year largely as a result of lower interest rates. A breakdown between amounts payable to related parties and to third parties and the respective interest expense is set out in note 9 to the Statements.

### **Financial Instruments**

All financial assets, including derivatives, are measured at fair value on the consolidated balance sheet with

the exception of Loans, which are recorded at cost; as these are short term in nature their carrying values approximate fair values. Financial liabilities that are held for trading or are derivatives or guarantees are measured at fair value on the consolidated balance sheet. Non-trading financial liabilities, such as bank indebtedness and notes payable, are measured at amortized cost.

At December 31, 2009, the Company had outstanding forward foreign exchange contracts with a financial institution that oblige the Company to sell Canadian dollars and buy US\$1,157,000 at exchange rates ranging from 1.0654 to 1.1081. These contracts were entered into on behalf of clients and similar contracts were entered into between the Company and the clients to sell US\$1,157,000 to and buy Canadian dollars from the clients. The contracts are discussed further in note 16 to the Statements.

### Critical Accounting Policies and Estimates

Critical accounting estimates represent those estimates that are highly uncertain and for which changes in those estimates could materially impact the Company's financial results. The following are accounting estimates that the Company considers critical to the financial results of its business segments:

- i) the allowance for credit and loan losses on both its Loans and its guarantee of managed receivables. The Company maintains a separate allowance for losses on each of the above items at amounts, which, in management's judgment, are sufficient to cover losses thereon. The allowances are based upon several considerations including current economic trends, condition of the loan and receivable portfolios and typical industry loss experience. These estimates are particularly judgmental and operating results may be adversely affected by significant unanticipated credit or loan losses, such as occur in a bankruptcy or insolvency.

The Company's allowances on its Loans and managed receivables may comprise specific and general components. A specific allowance may be established against Loans that are

identified as impaired, or non-performing, when the Company determines, based on its review, identification and evaluation of problem Loans, that the timely collection of interest and principal payments is no longer assured and that the estimated net realizable value of the Company's loan collateral is below its book value. Similarly, a specific allowance may be established against managed receivables where a clients' customer becomes insolvent and the Company's guarantee is called upon. In such cases, the Company will estimate the fair value of the required payments to the clients under their guarantees, net of any estimated recoveries resulting from the insolvent customer's estate.

A general allowance on both its Loans and managed receivables is established to reserve against losses that are estimated to have occurred but cannot be specifically identified as impaired on an item-by-item or group basis at a particular point in time. In establishing its general allowances, the Company applies percentage formulae to its Loans and managed receivables. The formulae are reviewed for adequacy on an ongoing basis. The Company has always been prudent in establishing its general allowances such that they have normally been sufficient to absorb substantial charge-offs.

Management believes that its allowances for losses are sufficient and appropriate and does not consider it reasonably likely that the Company's material assumptions will change. The Company's allowances are discussed above and are set out in note 4 to the Statements.

- ii) the extent of any provisions required for outstanding claims. In the normal course of business there is outstanding litigation, the results of which are not normally expected to have a material effect upon the Company. However, the adverse resolution of a particular claim could have a material impact on the Company's financial results. Management is not aware of any claims currently outstanding upon which significant damages could result.

## Change In Accounting Policy

In June 2009, the Canadian Institute of Chartered Accountants ("CICA") issued amendments to Canadian Handbook Section 3862, Financial Instruments – Disclosures, to expand disclosures of financial instruments consistent with new disclosure requirements necessary under International Financial Reporting Standards ("IFRS"). These amendments were effective for the Company commencing January 1, 2009 and introduce a three-level fair value hierarchy that prioritizes the quality and reliability of information used in estimating the fair value of financial instruments. The fair values for the three levels are based on:

- Level 1 - quoted prices in active markets;
- Level 2 - models using observable inputs other than quoted market prices; and
- Level 3 - models using inputs that are not based on observable market data.

## Future Changes in Accounting Policies

### *Transition to International Financial Reporting Standards*

Canadian public companies will be required to prepare their Statements in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), for financial years beginning on or after January 1, 2011. Effective January 1, 2011, the Company will adopt IFRS as the basis for preparing its Statements and will issue its financial results for the quarter ended March 31, 2011 prepared on an IFRS basis. The Company will also provide comparative financial information on an IFRS basis, including an opening balance sheet at January 1, 2010. The Company commenced its IFRS transition project in 2008. This project comprises four key phases:

- Project awareness and engagement - this included identifying the members for the Company's IFRS transition team, and other representatives as required. Continued communication, training and education are essential to the success of this conversion project. In addition, this phase included communicating the key project requirements with timelines and objectives to the Company's senior management, Board of Directors and Audit Committee.

- Diagnostic - this phase included an assessment of the differences between current GAAP and IFRS, focusing on the areas which will have the most significant impact on the Company.
- Design, planning and solution development – this phase focuses on determining the specific impacts on the Company based on application of the IFRS requirements. This included the development of detailed solutions and work plans to address implementation requirements. While no changes in accounting policies are currently anticipated, first-time adoption exemptions have been identified and draft statements and note disclosures will be developed.
- Implementation - this phase includes implementing the required changes necessary for IFRS compliance. The focus is on the finalization of the IFRS conversion plan, approval and implementation of accounting and tax policies, implementation and testing of new processes, systems and controls, and calculation of opening IFRS balances.

A transition team is in place and is responsible for making recommendations to the Company's Audit Committee and Board of Directors and implementing IFRS. The Company has completed the diagnostic assessment and design, planning and solution development phases by identifying the differences between GAAP and IFRS. Given the present IFRS framework applicable at this time, the Company has identified first time adoption exemptions applicable to the Company and the financial statement and note disclosures that are required. The Company is monitoring the IASB's active projects and all changes to IFRS prior to January 1, 2011 will be implemented as required.

Based on the current information available, the Company has compared the accounting policies that it presently follows under GAAP with the proposed accounting policies under IFRS. At this point in time, no changes in the current accounting policies are expected on adoption of IFRS although new International Accounting Standards ("IAS") may be introduced which may result in changes. The Company is, however, continuously monitoring

information to determine or estimate the impact on its financial position and results of operations for any of the IFRS conversion changes identified. In particular, the Company will review new IAS that are introduced in the future to determine the impact on the Company.

While there certainly will be changes in the disclosure and notes requirements as stipulated by IFRS, the Company does not anticipate any major changes in the business processes and information technology systems leading to the collection of information for the purpose of IFRS related reporting.

The Company will start preparing its 2010 IFRS compliant figures for comparative purposes by mid-2010. The Company does not envisage any significant change in its internal control over financial reporting and its disclosure and control procedures as it does not anticipate any major changes in its accounting policies and business processes at this time. The Company's Board of Directors and Audit Committee have been regularly briefed about the progress made in transitioning to IFRS. IFRS skills are being upgraded on a continuous and ongoing basis.

## Controls and Procedures

### *Disclosure controls and procedures*

The Company's management, including its President and Chief Financial Officer, are responsible for establishing and maintaining the Company's disclosure controls and procedures and has designed same to provide reasonable assurance that material information relating to the Company is made known to it by others within the Company on a timely basis. The Company's management has evaluated the effectiveness of its disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators ("CSA")) as at December 31, 2009 and has concluded that such disclosure controls and procedures are effective.

### *Management's annual report on internal control over financial reporting*

The following report is provided by the Company's management, including its President and Chief Financial Officer, in respect of the Company's internal

control over financial reporting (as defined in the rules of the CSA):

- (i) the Company's management is responsible for establishing and maintaining adequate internal control over financial reporting within the Company. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation;
- (ii) the Company's management has used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the design of the Company's internal control over financial reporting and test its effectiveness; and
- (iii) the Company's management has designed and tested the effectiveness of its internal control over financial reporting as at December 31, 2009 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with GAAP and advises that there are no material weaknesses in the design of internal control over financial reporting that have been identified by management.

## Risks and Uncertainties That Could Affect Future Results

Past performance is not a guarantee of future performance, which is subject to substantial risks and uncertainties. Management remains optimistic about the Company's long-term prospects. Factors that may impact the Company's results include, but are not limited to, the factors discussed below. Please refer to note 19 to the Statements, which discusses the Company's financial risk management practices.

### *Competition*

The Company operates in an intensely competitive environment and its results could be significantly affected by the activities of other industry participants. The Company expects competition to persist in the

future as the markets for its services continue to develop and as additional companies enter its markets. There can be no assurance that the Company will be able to compete effectively with current and future competitors. If these or other competitors were to engage in aggressive pricing policies with respect to competing services, the Company would likely lose some clients or be forced to lower its rates, both of which could have a material adverse effect on the Company's business, operating results and financial condition. The Company will not, however, compromise its credit standards.

### *The economy*

The Company operates in Canada and the United States. Economic weakness in either of the Company's markets can affect its ability to do new business as quality prospects become limited, although in a weak economy competition may be lessened, which could result in the Company seeing more prospects. Further, the Company's clients and their customers are often adversely affected by economic slowdowns and this can lead to increases in its provision for credit and loan losses.

### *Credit risk*

The Company is in the business of factoring its clients' receivables and making asset-based loans. The Company's portfolio totalled approximately \$247 million at December 31, 2009. Operating results may be adversely affected by large bankruptcies and/or insolvencies. Please refer to note 19(a) to the Statements.

### *Interest rate risk*

The Company's agreements with its clients (revenue) and lenders (interest expense) usually provide for rate adjustments in the event of interest rate changes so that the Company's spreads are protected to some degree. However, as the Company's floating rate Loans substantially exceed its borrowings, the Company is exposed to some degree to interest rate fluctuations. Please refer to note 19(c)(ii) to the Statements.

### *Foreign currency risk*

The Company operates internationally. Accordingly, a portion of its financial resources are held in currencies other than the Canadian dollar. The Company's policy is to manage financial exposure to foreign exchange

fluctuations and attempt to neutralize the impact of foreign exchange movements on its operating results where possible. In recent years, the Company has seen the weakening of the U.S. dollar against the Canadian dollar adversely affect its operating results when its U.S. subsidiary's results are translated into Canadian dollars. It has also caused a significant decrease in the value of the Company's net Canadian dollar investment in its U.S. subsidiary, which has reduced the accumulated other comprehensive income or loss component of shareholders' equity to a loss position. Please refer to notes 17 and 19(c)(i) to the Statements.

### *Potential acquisitions and investments*

The Company seeks to acquire or invest in businesses that expand or complement its current business. Such acquisitions or investments may involve significant commitments of financial or other resources of the Company. There can be no assurance that any such acquisitions or investments will generate additional earnings or other returns for the Company, or that financial or other resources committed to such activities will not be lost. Such activities could also place additional strains on the Company's administrative and operational resources and its ability to manage growth.

### *Personnel significance*

Employees are a significant asset of the Company. Market forces and competitive pressures may adversely affect the ability of the Company to recruit and retain key qualified personnel. The Company mitigates this risk by providing a competitive compensation package, which includes profit sharing, SARs, and medical benefits, as it continuously seeks to align the interests of employees and shareholders.

### *Outlook*

The Company's principal objective is managed growth – putting quality new business on the books while maintaining high underwriting standards. Marketing initiatives and alliances continue. We are seeing increased deal flow and our profile is increasing as the credit and capital markets remain depressed. Meanwhile, our non-recourse subsidiary is seeing record factoring volumes as international business

and the demand for its credit guarantee services rises in the current adverse economic climate. Lower funds employed, reduced interest rates and higher non-performing loans have adversely impacted revenues, while weak economic conditions have increased the Company's credit risk. This resulted in the Company incurring significantly higher credit and loan losses, and an impairment charge, in the past eighteen months. Many large industry players are currently having trouble securing funding and smaller finance companies are exiting the industry as a result of adverse economic and credit conditions. Accord, with its substantial capital and borrowing capacity, is well positioned to capitalize on these market opportunities.

Through experienced management and staff, coupled with its financial resources, the Company is well positioned to meet increased competition and develop new opportunities. It continues to look to introduce new financial and credit services to fuel growth in a very competitive and challenging environment.



Stuart Adair  
Vice President,  
Chief Financial Officer  
March 1, 2010

## Five Key Benchmarks

One of our primary functions at Accord is to manage risk and to assess credit quality. As detailed in Table 3, there are five key benchmarks which tell us how well we are doing.

### 1. Portfolio turnover

We try to minimize risk by turning our portfolio in as few days as possible. The turnover has been relatively consistent over the last three years and in 2009 was 49 days.

### 2. Past due receivables

We also try to keep our past due receivables as low as possible. Over the past three years, the percentage of managed receivables past due more than 60 days has ranged from 8.2% to 9.5%. At December 31, 2009, the percentage was 8.2%.

### 3. Reserves to portfolio

In an effort to minimize financial risk, we try to maximize this measure. Over the past three years, it has ranged between 1.0% and 1.6%, and was 1.0% at Dec. 31, 2009.

### 4. Reserves to net charge-offs

Ideally, this percentage should be greater than 50%, which is to say that the year-end reserves would absorb about six months of charge-offs. This percentage was 56% at Dec. 31, 2009, the lowest in the last three years as net charge-offs rose as a result of adverse economic conditions.

### 5. Net charge-offs to volume

This is an important benchmark in our business. The long term industry average ranges from 15 to 20 basis points. The figure in 2009 at 27 basis points was the highest in the last three years as current adverse economic conditions impacted the Company.



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