Financial Statements

First Nations Bank of Canada

October 31, 2017

Independent auditors' report

To the Shareholders of
First Nations Bank of Canada

We have audited the accompanying financial statements of **First Nations Bank of Canada,** which comprise the statement of financial position as at October 31, 2017 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of **First Nations Bank of Canada** as at October 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Saskatoon, Canada
December 14, 2017

Chartered Professional Accountants

First Nations Bank of Canada

STATEMENT OF FINANCIAL POSITION

As at October 31
[in thousands of Canadian dollars]

	Notes	2017	2016
ASSETS			
Cash and cash equivalents	*5*	**78,564**	58,365
Interest-bearing deposits with financial institutions	*6*	**60,100**	40,000
Loans and advances to customers	*7*		
Mortgage loans		**91,512**	86,228
Personal loans		**10,895**	10,206
Business loans		**231,812**	204,713
		334,219	301,147
Property and equipment	*10*	**2,242**	2,567
Intangible assets	*11*	**2,783**	3,253
Other assets	*8*	**2,001**	1,744
Total assets		**479,909**	407,076
LIABILITIES			
Due to customers			
Notice deposits		**305,338**	226,466
Medium-term certificates		**129,397**	138,693
		434,735	365,159
Derivative financial instrument	*17*	**186**	38
Deferred tax liability	*15*	**463**	643
Other liabilities	*9*	**6,117**	3,962
Subordinated debentures	*13*	**4,167**	4,109
Total liabilities		**445,668**	373,911
EQUITY			
Issued capital	*14*	**24,601**	24,601
Retained earnings		**9,640**	8,564
Total equity		**34,241**	33,165
Total liabilities and equity		**479,909**	407,076

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors

Director

Director

First Nations Bank of Canada

STATEMENT OF COMPREHENSIVE INCOME

For the year ended October 31
[in thousands of Canadian dollars]

	Notes	2017	2016
INTEREST INCOME			
Term and bank deposits		**1,280**	911
Loans and advances to customer			
Mortgage loans		**2,869**	2,809
Personal loans		**754**	726
Business loans		**9,179**	8,735
		14,082	13,181
INTEREST EXPENSE			
Notice deposits		**625**	375
Medium-term certificates		**1,878**	2,218
Subordinated debentures		**328**	270
		2,831	2,863
Net interest income		**11,251**	10,318
Impairment of credit losses	*7*	**24**	117
Net interest income after provision for credit losses		**11,227**	10,201
Fees and commission		**3,821**	3,446
		15,048	13,647
NON-INTEREST EXPENSES			
Salary and staff benefits		**6,375**	5,810
Rent and occupancy		**1,823**	1,827
Marketing		**316**	324
Professional fees		**920**	864
Banking platform		**1,698**	1,632
Travel		**345**	300
Other operating expenses		**737**	687
Depreciation and amortization		**1,232**	1,238
Total operating expenses		**13,446**	12,682
Income before income taxes		**1,602**	965
Income tax expense	*15*	**395**	265
Net income for the year		**1,207**	700
Other comprehensive income for the year		**-**	-
Total comprehensive income		**1,207**	700

The accompanying notes are an integral part of these financial statements.

First Nations Bank of Canada

STATEMENT OF CHANGES IN EQUITY

[in thousands of Canadian dollars]

	Issued capital	Retained earnings	Total equity
As at November 1, 2016	**24,601**	**7,995**	**32,596**
Total comprehensive income for the year			
Net income for the year		700	700
Total comprehensive income for the year		**700**	**700**
Share capital			
Dividends to equity holders		(131)	(131)
As at October 31, 2016	**24,601**	**8,564**	**33,165**
Total comprehensive income for the year			
Net income for the year		**1,207**	**1,207**
Total comprehensive income for the year		**1,207**	**1,207**
Share capital			
Dividends to equity holders		**(131)**	**(131)**
As at October 31, 2017	**24,601**	**9,640**	**34,241**

The accompanying notes are an integral part of these financial statements.

First Nations Bank of Canada

STATEMENT OF CASH FLOWS

For the year ended October 31
[in thousands of Canadian dollars]

	2017	2016
OPERATING ACTIVITIES		
Income for the year	**1,207**	700
Adjustments:		
Provision for credit losses	**24**	117
Deferred income taxes	**(180)**	(163)
Depreciation and amortization	**1,232**	1,238
Amortization of subordinated debentures	**58**	-
	2,341	1,892
Adjustments for changes in:		
Interest receivable	**(118)**	(292)
Interest payable	**(114)**	(638)
Other receivables	**(139)**	(40)
Derivative financial instrument	**148**	(22)
Other liabilities	**2,269**	(42)
	2,046	(1,034)
Changes in:		
Mortgage loans	**(5,255)**	(6,816)
Personal loans	**(633)**	(103)
Business loans	**(27,208)**	(3,304)
Notice deposits	**78,872**	(12,656)
Medium-term certificates	**(9,296)**	(23,775)
	36,480	(46,634)
Net cash provided by (used in) operating activities	**40,867**	(45,776)
INVESTING ACTIVITIES		
Purchase of property and equipment	**(323)**	(188)
Additions to intangible assets	**(114)**	(141)
Interest-bearing deposits with financial institutions	**(20,100)**	(40,000)
Net cash used in investing activities	**(20,537)**	(40,329)
FINANCING ACTIVITIES		
Dividends paid to equity holders	**(131)**	(131)
Net cash used in financing activities	**(131)**	(131)
Net increase (decrease) in cash and cash equivalents during the year	**20,199**	(86,236)
Cash and cash equivalents, beginning of year	**58,365**	144,601
Cash and cash equivalents, end of year	**78,564**	58,365
Operational cash flows from:		
Interest paid	**2,945**	3,501
Income taxes paid	**538**	395

The accompanying notes are an integral part of these financial statements.

First Nations Bank of Canada

NOTES TO FINANCIAL STATEMENTS

[in thousands of Canadian dollars, unless otherwise indicated]

October 31, 2017

1. INCORPORATION AND NATURE OF OPERATIONS

First Nations Bank of Canada (the Bank) is a bank domiciled in Canada. The Bank was incorporated under the Bank Act [1992 as amended] by Letters Patent dated November 19, 1996. The address of the Bank's registered office is 224 4th Avenue South, Saskatoon, Saskatchewan. The Bank is primarily involved in providing financial services to the Aboriginal marketplace in Canada.

2. BASIS OF PRESENTATION

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as set out in the Handbook of the Chartered Professional Accountants of Canada (CPA Canada Handbook).

The accounting policies followed by the Bank, including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada (OSFI), conform to IFRS and interpretations issued by the IFRS Interpretations Committee (IFRIC), as published by the IASB. The principal accounting policies applied in the preparation of the financial statements are set out below.

The financial statements were authorized for issue by the Board of Directors on December 12, 2017.

Basis of measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments that have been measured at fair value. The carrying values of recognized assets that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

Use of estimates and judgements

The preparation of the financial statements of the Bank in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

2. BASIS OF PRESENTATION (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is discussed below and included in note 7: Loans and advances to customers and note 16: Financial assets and liabilities. Other significant estimates are discussed below.

Depreciation/amortization policies and useful lives

The Bank depreciates property and equipment and amortizes intangible assets over the estimated useful lives of the assets. In determining the estimated useful life of these assets, significant judgment by management is required. In determining these estimates, the Bank takes into account expectations of the in-service period of these assets. The Bank assesses the estimated useful life of these assets on an annual basis to ensure that they match the anticipated life of an asset from a revenue producing perspective. If the Bank determines that the useful life of an asset is different from the original assessment, changes to depreciation and amortization will be applied prospectively.

Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions and actual results may differ, resulting in future changes to the allowance. Management determines whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio, and management judgements on the effect of concentrations of risks on each portfolio classification. The impairment loss on loans and advances is disclosed in more detail in note 7.

Taxes

The Bank's income tax expense reflects an estimate of the cash taxes it expects to pay for the current year, as well as a provision for changes arising in the values of deferred tax assets and liabilities during the year. The tax value of these assets and liabilities is impacted by factors such as accounting estimates inherent in these balances, management's expectations about future operating results, and previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authorities. Management assesses the likelihood of recovering value from deferred tax assets and adjusts the tax provision.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and the level of future taxable profits together with future tax planning strategies.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise indicated.

Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Bank's functional and presentation currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand unless otherwise indicated.

Foreign currency translation

Transactions denominated in a foreign currency are translated into Canadian dollars at actual exchange rates prevailing at the time the transactions occurred. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing on the financial position date and transactions are translated using the exchange rate prevailing at the date of transaction. Exchange gains or losses on translation of monetary assets and liabilities are included in net (loss) income in the period incurred.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non restricted current accounts and balances with financial institutionss as referred to in the statements of cash flow comprise cash on hand, non–restricted current accounts with financial institutions and amounts due on demand or with an original maturity of three months or less.

Financial instruments

At initial recognition, the Bank classifies its financial instruments in categories depending on the purpose for which the instruments were acquired including:

- derivatives recorded at fair value through profit or loss,
- held for trading,
- at fair value through profit or loss,
- available-for-sale investments,
- held-to-maturity financial investments; and
- loans and receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value, with changes in fair value recognized in the statements of comprehensive income through the profit and loss account.

The Bank does not have any financial assets that are classified as, at fair value through profit or loss, held for trading, available-for-sale investments and held-to-maturity investments.

Loans and receivables

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those:

- that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at fair value through profit or loss;
- that the Bank, upon initial recognition, designates as available-for-sale; and
- for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, and that the Bank does not intend to sell immediately or in the near term.

Loans are initially measured at fair value plus direct transaction costs and subsequently measured at amortized cost using the effective interest rate method, net of an impairment allowance for credit losses and income. Interest income is recorded on an accrual basis until such time as the loan is classified as impaired.

Interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The resultant carrying value is then continually assessed for impairment at each reporting period and, if necessary, additional impairment losses are recognized.

The Bank considers evidence of impairment for loans at both the individual and collective level.

An impaired loan is any loan where, in management's opinion, there has been a deterioration of credit quality to the extent that the Bank no longer has reasonable assurance as to the timely collection of the full amount of the principal and interest.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate (EIR) as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

Financial liabilities

Financial liabilities within the scope of IAS 39, "Financial Instruments: Recognition and Measurement" are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives, as appropriate. The Bank determines the classification of its financial liabilities at initial recognition.

The Bank does not have any financial liabilities that are classified at fair value through profit or loss. All financial liabilities are recognized initially at fair value plus, in the case of debts due to customers, directly attributable transaction costs. Financial liabilities are classified as current liabilities if payment is due within twelve months; otherwise, they are presented as non-current liabilities. The Bank's financial liabilities include interest-bearing deposits (i.e. due to customers) borrowings and other payables.

Derivatives recorded at fair value through profit or loss

The Bank uses interest rate swap derivatives to manage its exposure to interest rate risks. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. When hedge accounting is not applied, the change in the fair value of the derivative is always recognized in the comprehensive (loss) income.

Other payables

Liabilities for all other payables are carried at the value of the consideration to be paid in the future for services received, whether or not already billed to the Bank.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive (loss) income.

Fair value of financial instruments

Fair value is the amount for which a financial instrument could be exchanged between knowledgeable and willing parties in an arms' length transaction. The carrying amounts of the Bank's financial assets and financial liabilities do not significantly differ from their fair values due to their short maturities. The Bank utilizes derivatives to hedge its exposure to fluctuation in interest rates.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Impairment allowance for credit losses

An allowance is maintained that is considered adequate to absorb all credit-related losses in the Bank's portfolio of loans and mortgages. The allowance is deducted from the applicable asset in the statement of financial positions.

The impairment allowance consists of individual and collective allowances.

Individual allowances include all of the accumulated provisions for losses on particular assets required to reduce the book values to estimated realizable amounts in the ordinary course of business.

Collective allowances include all the accumulated provisions for losses that are considered to have occurred but cannot be determined on an item-by-item basis. The level of the collective allowance depends upon an assessment of business and economic conditions, historical and expected loss experience, loan portfolio composition and other relevant indicators. The resulting allowance is considered adequate, when combined with the individual allowances, to absorb all credit losses in the portfolio.

Loans are written off, either partially or in full, against the related allowance for credit losses when management judges that there is no realistic prospect of future recovery in respect of amounts written off.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedge accounting

The Bank makes use of interest rate swap derivative instruments to manage interest rates exposures. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria.

At inception of the hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and on an ongoing basis. At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the income statement.

Fair value hedges

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognized in the income statement. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also recognized in the statement of comprehensive (loss) income through profit or loss.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the recalculated EIR method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the income statement.

Share-based payments - Cash-settled transactions

The Company has a cash-based option plan for a senior executive. The cost of cash-settled transactions is measured initially at fair value at the grant date. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognised in employee benefits expense.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognized in non-interest income or expense in the statement of comprehensive (loss) income.

Depreciation is recognized over the estimated lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative years and depreciation methods are as follows:

Furniture, fixtures and other equipment	20% declining balance
Leasehold improvements	straight-line over the expected lease term
Computer equipment	straight-line over 3 years
Branch prototype project	straight-line over the expected lease term

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

Intangible assets

Intangible assets with finite lives are stated at cost less accumulated amortization and accumulated impairment losses.

Expenditures on internally generated intangible assets are recognized as assets when the Bank is able to demonstrate its intention and ability to complete the development and use the intangible assets in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalized costs of internally generated intangible assets include all costs directly attributable to developing the intangible assets and capitalized borrowing costs, and are amortized over their useful lives. Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. The estimated useful lives for the current and comparative year are as follows:

Website development	straight-line over 3 years
Computer systems	straight-line over 10 years
Small market branch	straight-line over the expected lease term

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

At the end of each reporting period, the Bank reviews the carrying amounts of its property and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the CGU for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Deferred costs

Deferred costs include the cash rebates paid on cash back mortgages which are deferred and amortized over the term of the mortgage. Deferred costs also include prepaid insurance costs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in income or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive (loss) income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable incomes will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Leases - Bank as lessee

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases that transfer substantially all the benefits and risks of ownership to the Bank are recorded as finance lease assets within property and equipment. Costs for all other leases are recorded as operating expense as incurred. For further details on operating leases please refer to note 18.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Contingencies

Management applies its judgment to the fact patterns and advice it receives from its legal counsel and other advisors in assessing if an obligation is probable (i.e. more likely than not) or remote. This judgment application is used to determine if the obligation is recognized as a liability, as a provision, or disclosed as a contingent liability.

Income and expense recognition

Income is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

For all financial instruments measured at amortized cost and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as “Interest income” for financial assets and “Interest expense” for financial liabilities.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and other management fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognized over the commitment period on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9- Financial Instruments

IFRS 9 "Financial Instruments" – Issued July 2014, IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 is mandatorily effective for annual periods beginning on or after January 1, 2018, which will be November 1, 2018 for the Bank. Although early application is permitted if an entity applies all the requirements of the standard early, OSFI has issued the final version of the Advisory titled "Early adoption of IFRS 9 *Financial Instruments* for Domestic Systemically Important Banks". All domestic systemically important banks (D-SIBs), are required to early adopt IFRS 9 for the annual period beginning November 1, 2017. All other Federally Regulated Entities (FREs) using October 31 year-end, including the Bank are also permitted to adopt IFRS 9 on November 1, 2017 if they wish. The Bank will be adopting IFRS 9 on November 1, 2018.

IFRS 9 provides a new approach for the classification of financial assets, which shall be based on the cash flow characteristics of the asset and the business model of the portfolio in which the asset is held. IFRS 9 also introduces an expected loss impairment model that is applied to all financial instruments held at amortized cost or fair value through OCI. Under the expected loss model, entities are required to recognize 12-month expected credit losses from the date a financial instrument is first recognized and to recognize lifetime expected credit losses when the credit risk on the financial instrument has increased significantly. Hedge accounting guidance has been changed to better align the accounting with risk management activities. However, IFRS 9 allows the existing hedge accounting requirements under IAS 39 to continue in place of the hedge accounting requirements under IFRS 9, pending the completion of the IASB's project on macro hedging.

The Bank is currently assessing the impact of adopting IFRS 9 on its financial statements supported by a governance framework and implementation plan.

IFRS 15- Revenue from Contracts with Customers

The IASB issued IFRS 15, which outlines a single comprehensive model for entities to use in accounting for revenue from customers. The standard outlines the principles an entity must apply to measure and recognize revenue relating to contracts with customers. The core principle is that an entity will recognize revenue when it transfers promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services.

IFRS 15 also significantly expands the current disclosure requirements about revenue recognition. In July 2015, the IASB confirmed a one-year deferral of the effective date to annual periods beginning on or after January 1, 2018, which will be November 1, 2018, for the Bank. The Bank is currently assessing the impact to its current revenue recognition policies and reporting processes.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

In January 2016, the IASB issued IFRS 16, Leases (IFRS 16), which will replace IAS 17, introducing a single lessee accounting model for all leases by eliminating the distinction between operating and financing leases. IFRS 16 requires lessees to recognize right-of-use assets and lease liabilities for most leases. Lessees will also recognize depreciation expense on the right-of-use asset and interest expense on the lease liability in the statement of income. Short-term leases, which are defined as those that have a lease term of 12 months or less; and leases of low-value assets are exempt. Lessor accounting remains substantially unchanged.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019, which will be November 1, 2019 for the Bank, and is to be applied retrospectively. Early adoption is permitted only if aligned with or after the adoption of IFRS 15. The Bank is currently assessing the impact of adopting IFRS 16.

Share-based Payment

In June 2016, the IASB published amendments to IFRS 2, Share-based Payment, which provide additional guidance on the classification and measurement of share-based payment transactions. The amendments clarify the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features for withholding tax obligations, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments to IFRS 2 are effective for annual periods beginning on or after January 1, 2018, which will be November 1, 2018 for the Bank, and is to be applied prospectively; however, retrospective application is permitted in certain instances. Early adoption is permitted. The amendments to IFRS 2 are not expected to have a material impact on the Bank.

4. FINANCIAL RISK MANAGEMENT

The Bank has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Interest rate risk
- Operational risk
- Foreign exchange risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit and Risk Management Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit and Risk Management Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Management Committee.

(a) Credit risk

Credit risk is the potential for financial loss if a borrower or counterparty in a transaction fails to meet its agreed payment obligations. Credit risk is managed through the credit risk policies, management guidelines and discretionary limits of the Bank. Guidelines are established to monitor and limit industry risk and group exposure in the portfolio. Refer to note 7 for credit risk exposure.

[in thousands of Canadian dollars, unless otherwise indicated]

4. FINANCIAL RISK MANAGEMENT (continued)

Analysis of risk concentration

The Bank's concentrations of risk are managed by client and by industry sector. The maximum credit exposure to any client as at October 31, 2017 was $8,070 [2016 - $7,419], before taking account of collateral or other credit enhancements.

The majority of personal loans are secured and a significant portion of mortgage loans are insured. The following table shows the risk concentration by industry for the business loans:

Industry

	2017 $	2016 $
Financial services	**207**	3,186
Government – others	**5,179**	6,578
Government First Nation	**91,149**	74,036
Health and social	**7,413**	7,167
Professional and recreation	**8,798**	10,017
Real estate	**75,854**	67,600
Retail	**6,906**	3,750
Transportation	**1,873**	2,164
Others	**35,793**	31,466
	233,172	205,964

(b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial assets.

The Bank monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets and projected cash flows from operations. The Bank's objective is to ensure that sufficient readily marketable assets are available at all times to cover three months of expected operational cash flows. The Bank also maintains a combination of readily marketable assets and available bank overdraft to meet cash outflow requirements that may arise from a disruption to the normal course of business. This requirement is defined as 6% of commercial term and non-term deposits, 10% of total non-term deposits and term deposits expiring within 30 days. The Bank also measures and monitors concentration of funding sources.

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Interest rate risk

The Bank's exposure to the risk of changes in market interest rates relates primarily to mismatches in the Bank's assets and liabilities. The Bank's policy is to measure and manage interest rate risk exposure in earnings and economic value perspectives. The Bank analyses interest rate shock scenarios to estimate the impact of changes in interest rates on both the annual earnings at risk and the economic value of the Bank's equity at risk. The Bank's policy is to limit the variation in annual net interest income caused by a 1% increase (decrease) in market interest to 5% of annual net interest income. In addition, the Bank's policy limits the change in the Bank's economic value caused by a 1% increase (decrease) in market interest rates to 5% of shareholders' equity.

As at October 31, 2017, with other variables unchanged, an increase (decrease) of 1% in interest rates would increase (decrease) annualized net income before tax by approximately $13 thousand.

First Nations Bank of Canada

NOTES TO FINANCIAL STATEMENTS

[in thousands of Canadian dollars, unless otherwise indicated]

October 31, 2017

4. FINANCIAL RISK MANAGEMENT (continued)

The following tables set out the assets and liabilities on the date of the earlier of contractual maturity or when they re-price. Use of these tables to derive information about the Bank's interest rate risk position is limited by the fact that the date the financial instruments re-price may be different from the earlier of contractual maturity or re-pricing date. Examples of this include mortgages that are shown at contractual maturity but which often prepay earlier, and certain borrowings, which are shown at contractual maturity but which are often redeemed before their contractual maturity.

				2017			
	Floating rate $	**Less than 1 year** $	**1 to 2 years** $	**2 to 3 years** $	**Over 3 years** $	**Non-interest rate sensitive** $	**Total** $
ASSETS							
Cash and cash equivalents	**78,564**	—	—	—	—	—	**78,564**
Effective yield	—						
Interest-bearing deposits with financial institutions	—	**60,100**	—	—	—	—	**60,100**
Effective yield							
Mortgage loans	**15,307**	**17,511**	**21,729**	**17,239**	**19,726**	—	**91,512**
Effective yield	—	***3.25***	***3.23***	***3.09***	***3.05***		
Personal loans	**10,177**	**419**	**165**	**79**	**55**	—	**10,895**
Effective yield	—	***11.79***	***9.96***	***8.62***	***6.17***		
Business loans	**107,596**	**35,650**	**34,852**	**18,655**	**35,059**	—	**231,812**
Effective yield	—	***3.86***	***4.67***	***4.36***	***4.04***		
Other	—	—	—	—	—	**7,026**	**7,026**
	211,644	**113,680**	**56,746**	**35,973**	**54,840**	**7,026**	**479,909**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to customers	**305,338**	**108,631**	**8,114**	**6,597**	**6,055**		**434,735**
Effective yield	—	***1.22***	***1.86***	***2.29***	***2.08***		
Subordinated debentures	—	—	—	**4,167**	—	—	**4,167**
Effective yield				***6.00***			
Other	—	—	—	—	—	**6,766**	**6,766**
Shareholders' equity	—	—	—	—	—	**34,241**	**34,241**
	305,338	**108,631**	**8,114**	**10,764**	**6,055**	**41,007**	**479,909**
Net 2017 Position	**(93,694)**	**5,049**	**48,632**	**25,209**	**48,785**	**(33,981)**	**—**

[in thousands of Canadian dollars, unless otherwise indicated]

4. FINANCIAL RISK MANAGEMENT (continued)

	2016						
	Floating rate $	**Less than 1 year** $	**1 to 2 years** $	**2 to 3 years** $	**Over 3 years** $	**Non-interest rate sensitive** $	**Total** $
ASSETS							
Cash and cash equivalents	58,365	—	—	—	—	—	58,365
Effective yield	—						
Interest-bearing deposits with financial institutions	—	40,000	—	—	—	—	40,000
Effective yield		*1.28*					
Mortgage loans	14,151	17,489	13,556	17,744	23,288	—	86,228
Effective yield	—	*3.42*	*3.29*	*3.34*	*3.15*		
Personal loans	9,643	338	140	54	31	—	10,206
Effective yield	—	*11.49*	*10.55*	*10.28*	*8.30*		
Business loans	94,237	40,196	17,628	31,161	21,491	—	204,713
Effective yield	—	*4.00*	*4.43*	*4.68*	*4.11*		
Other	—	—	—	—	—	7,564	7,564
	176,396	98,023	31,324	48,959	44,810	7,564	407,076
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to customers	226,369	116,563	9,999	4,324	7,904	—	365,159
Effective yield	—	*1.31*	*1.87*	*2.10*	*2.26*		
Subordinated debentures	—	—	—	—	4,109	—	4,109
Effective yield					*6.00*		
Other	—	—	—	—	—	4,643	4,643
Shareholders' equity	—	—	—	—	—	33,165	33,165
	226,369	116,563	9,999	4,324	12,013	37,808	407,076
Net 2016 Position	(49,973)	(18,540)	21,325	44,635	32,797	(30,244)	—

[in thousands of Canadian dollars, unless otherwise indicated]

4. FINANCIAL RISK MANAGEMENT (continued)

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

(e) Foreign exchange risk

The Bank's operations are subject to foreign exchange risk exposures arising from transactions denominated in a foreign currency. The Bank's objective with respect to foreign exchange risk is to minimize the impact of the volatility related to financial assets and liabilities denominated in a foreign currency where possible through effective cash flow management. Foreign currency exchange risk is limited to the portion of the Bank's business transactions denominated in currencies other than the Canadian dollar. The Bank's only foreign exchange risk arises with respect to the U.S. dollar. On an ongoing basis, management monitors changes in foreign currency exchange rates and considers long-term forecasts to assess the potential cash flow impact to the Bank.

The table that follows provides an indication of the Bank's exposure to changes in the value of the U.S. dollar relative to the Canadian dollar as at October 31, 2017. The analysis is based on financial and monetary assets and liabilities denominated in U.S. dollars at the end of the reporting period ("statement of financial position exposure") and U.S. dollar denominated revenue and operating expenses during the year ("operating exposure").

Based on the Bank's foreign currency exposures noted above, with other variables unchanged, a ±5% change in the Canadian dollar would have impacted net income (loss) before income taxes as follows:

	Approximate Canadian dollars	
	2017 **$**	**2016** **$**
Exposure in financial assets	**1,344**	1,077
Exposure in financial liabilities	**1,021**	1,104
Net statement of financial position exposure	**323**	(27)
Change in Canadian dollar rate	**±5%**	±5%
Increase (decrease) in comprehensive income	**16 (16)**	—

[in thousands of Canadian dollars, unless otherwise indicated]

4. FINANCIAL RISK MANAGEMENT (continued)

(f) Capital management

The Bank manages its capital considering both regulatory and economic capital.

Regulatory capital

The Bank manages its capital under guidelines established by OSFI. The regulatory capital guidelines measure capital in relation to credit, market and operational risks. The Bank has a capital management policy, procedures and controls that it utilizes to achieve its goals and objectives.

The Bank's objectives include:

- Ensure that the quality and quantity of capital is adequate, at a minimum, to meet all applicable regulatory requirements; and
- Provide that at least half of the Bank's capital is permanent, free from mandatory fixed charges and subordinate to the rights of depositors and other creditors.

The Bank's total capital consists of one tier of capital approved under OSFI's regulatory capital guidelines. As at October 31, 2017 and 2016, Tier 1 capital includes items such as common shares and retained earnings.

During the years ended October 31, 2017 and 2016, the Bank complied with the capital guidelines for capital ratios and asset-to-capital multiple. This guideline is based on the International *Convergence of Capital Measurement and Capital Standards – A Revised Framework* ["Basel II"] issued by the Basel Committee on Banking Supervision.

The Bank's regulatory capital position as at October 31, 2017 and 2016 was as follows:

	OSFI Target	2017	2016
Common Equity Tier 1 Capital		**$32,176**	$30,836
Common Equity Tier 1 Capital Ratio	**7.0%**	**11.0%**	12.1%
Tier 1 Capital		$**32,176**	$30,836
Tier 1 Capital Ratio	**8.5%**	**11.0%**	12.1%
Total Capital[1]		**$36,343**	$34,945
Total Capital Ratio[2]	**10.5%**	**12.4%**	13.7%
Leverage Ratio[3]		**6.7%**	7.6%

[1] Tier 1 capital ratio is calculated as: Tier 1 capital divided by risk-weighted assets ["RWA"].
[2] Total capital ratio is calculated as: total capital divided by RWA.
[3] The leverage ratio is calculated as: Tier 1 capital divided by total assets plus off-balance sheet credit instruments, such as certain letters of credit and guarantees.

NOTES TO FINANCIAL STATEMENTS

[in thousands of Canadian dollars, unless otherwise indicated]

October 31, 2017

5. CASH AND CASH EQUIVALENTS

	2017 $	2016 $
Cash on hand	**2,988**	2,319
Cash at The Toronto-Dominion Bank	**20,432**	34,162
Cash with other financial institutions	**25,165**	21,884
Treasury Bills	**29,979**	–
	78,564	58,365

6. INTEREST-BEARING DEPOSITS WITH FINANCIAL INSTITUTIONS

	2017 $	2016 $
Term deposit bearing interest at 1.35% per annum, maturity date of January 4, 2017	—	10,000
Term deposit bearing interest at 1.45% per annum, maturity date of April 6, 2017	—	20,000
Term deposit bearing interest at 1.00% per annum, maturity date of July 13, 2017	—	10,000
Term deposit bearing interest at 1.35% per annum, maturity date of April 28, 2018	**10,000**	—
Term deposit bearing interest at 1.35% per annum, maturity date of May 8, 2018	**10,000**	—
Term deposit bearing interest at 1.10% per annum, maturity date of July 3, 2018	**10,000**	—
Term deposit bearing interest at 1.10% per annum, maturity date of July 13 2018	**10,100**	—
Term deposit bearing interest at 1.95% per annum, maturity date of August 4, 2018	**10,000**	—
Term deposit bearing interest at 1.65% per annum, maturity date of September 20, 2018	**10,000**	—
	60,100	40,000

[in thousands of Canadian dollars, unless otherwise indicated]

7. LOANS AND ADVANCES TO CUSTOMERS

	2017					
	Gross amount of loans $	**Individual impairment** $	**Collective impairment** $	**Total impairment** $	**Net amount of loans** $	**Gross impaired loans** $
Mortgage loans	**91,573**	**—**	**61**	**61**	**91,512**	**—**
Personal loans	**11,005**	**—**	**110**	**110**	**10,895**	**—**
Business loans	**233,172**	**109**	**1,251**	**1,360**	**231,812**	**352**
	335,750	**109**	**1,422**	**1,531**	**334,219**	**352**

	2016					
	Gross amount of loans $	**Individual impairment** $	**Collective impairment** $	**Total impairment** $	**Net amount of loans** $	**Gross impaired loans** $
Mortgage loans	86,318	—	90	90	86,228	—
Personal loans	10,468	—	262	262	10,206	—
Business loans	205,964	57	1,194	1,251	204,713	190
	302,750	57	1,546	1,603	301,147	190

Impairment allowance for loans and advances to customers

A reconciliation of the allowance for impairment losses for loans and advances, by class, is as follows:

	2017 $	**2016** $
Balance, beginning of year	**1,603**	1,547
Write-offs	**(96)**	(61)
Impairment allowance		
Individual	**52**	18
Collective (recovery)	**(28)**	99
	24	117
Balance, end of year	**1,531**	1,603

[in thousands of Canadian dollars, unless otherwise indicated]

7. LOANS AND ADVANCES TO CUSTOMERS (continued)

Mortgage loans include $51,116 [2016 – $50,411] of insured loans. Other loans include $5,179 [2016 – $6,578] of government guaranteed loans.

Loans past due but not impaired

A loan is past due when a counterparty has failed to make a payment by the contractual due date. The following table provides aging information for loans that are past due but not impaired. A grace period has been incorporated if it is common to a product type and provided to the counterparties. The grace period represents the additional time period [e.g. three days] beyond the contractual due date during which a counterparty is permitted to make the payment without the loan being classified as past due.

Gross amount of loans past due but not impaired as at October 31, 2017:

	1-30 days	31-60 days	61-89 days	90 days & over	Total $
Mortgage loans	**557**	—	—	**414**	**971**
Personal loans	**204**	—	**4**	**11**	**219**
Business loans	**6,252**	**1,969**	—	**292**	**8,513**
	7,013	**1,969**	**4**	**717**	**9,703**

Gross amount of loans past due but not impaired as at October 31, 2016:

	1-30 days	31-60 days	61-89 days	90 days & over	Total $
Mortgage loans	307	21	—	209	537
Personal loans	105	19	—	22	146
Business loans	2,500	—	127	76	2,703
	2,912	40	127	307	3,386

NOTES TO FINANCIAL STATEMENTS

[in thousands of Canadian dollars, unless otherwise indicated]

October 31, 2017

8. OTHER ASSETS

Other assets consist of the following:

	2017 $	2016 $
Interest receivable	**1,266**	1,148
Prepaid expenses and deferred costs	**735**	596
	2,001	1,744

9. OTHER LIABILITIES

Other liabilities consist of the following:

	2017 $	2016 $
Interest payable	**684**	798
Other liabilities	**5,433**	3,164
	6,117	3,962

NOTES TO FINANCIAL STATEMENTS

[in thousands of Canadian dollars, unless otherwise indicated]

October 31, 2017

10. PROPERTY AND EQUIPMENT

	Furniture, fixtures and other equipment	Leasehold improvements	Computer equipment	Branch prototype project	Total $
COST					
Balance at November 1, 2015	737	4,530	766	263	6,296
Additions	—	185	3	—	188
Balance at October 31, 2016	737	4,715	769	263	6,484
Balance at November 1, 2016	**737**	**4,715**	**769**	**263**	**6,484**
Additions	**6**	**81**	**236**	—	**323**
Balance at October 31, 2017	**743**	**4,796**	**1,005**	**263**	**6,807**
ACCUMULATED DEPRECIATION					
Balance at November 1, 2015	417	2,322	473	31	3,243
Depreciation for the year	64	486	95	29	674
Balance at October 31, 2016	481	2,808	568	60	3,917
Balance at November 1, 2016	**481**	**2,808**	**568**	**60**	**3,917**
Depreciation for the year	**52**	**447**	**120**	**29**	**648**
Balance at October 31, 2017	**533**	**3,255**	**688**	**89**	**4,565**
CARRYING AMOUNTS					
At October 31, 2016	256	1,907	201	203	2,567
At October 31, 2017	**210**	**1,541**	**317**	**174**	**2,242**

NOTES TO FINANCIAL STATEMENTS

[in thousands of Canadian dollars, unless otherwise indicated]

October 31, 2017

11. INTANGIBLE ASSETS

	Website development	Computer systems	Small market branch	Total $
COST				
Balance at November 1, 2015	68	5,228	49	5,345
Acquisitions	77	42	22	141
Balance at October 31, 2016	145	5,270	71	5,486
Balance at November 1, 2016	**145**	**5,270**	**71**	**5,486**
Acquisitions	—	**71**	**43**	**114**
Balance at October 31, 2017	**145**	**5,341**	**114**	**5,600**
ACCUMULATED AMORTIZATION				
Balance at November 1, 2015	67	1,603	—	1,670
Amortization for the year	18	533	12	563
Balance at October 31, 2016	85	2,136	12	2,233
Balance at November 1, 2016	**85**	**2,136**	**12**	**2,233**
Amortization for the year	**26**	**543**	**15**	**584**
Balance at October 31, 2017	**111**	**2,679**	**27**	**2,817**
CARRYING AMOUNTS				
At October 31, 2016	60	3,134	59	3,253
At October 31, 2017	**34**	**2,662**	**87**	**2,783**

[in thousands of Canadian dollars, unless otherwise indicated]

12. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to directly or indirectly control the other party or exercise significant influence over the other party in making financial or operational decisions.

All related party transactions are measured at exchange amount.

(a) Cash and cash equivalents and derivative instruments

Cash and cash equivalents held with TD Bank are disclosed in note 5. The interest rate swap held with TD Bank is disclosed in note 17

(b) Loans to directors and employees

At October 31, 2017, loans provided to the Bank's directors and employees amounted to $4,673 [2016 - $4,319]. Loans provided to employees are at discounts to customer rates.

Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank's key management personnel include all directors and executives who have the authority and responsibility for planning, executing, and controlling the activities of the Bank. Key management personnel compensation for the year comprised:

	2017 **$**	**2016** **$**
Salaries, director fees and short-term benefits	**1,397**	1,416
Post-employment benefits	**—**	—

Amount owed from related parties (key management):

	2017 **$**	**2016** **$**
Maximum balance during the year	**1,763**	1,778
Balance as at	**1,647**	1,668

The above-mentioned outstanding balances arose from the ordinary course of business. The interest rates charged to employees are at discounts to customer rates. Majority of the outstanding balances at the year-end are secured. There have been no guarantees provided or received for any related party receivables or payables. For the year ended October 31, 2017, the Bank has not made any provision for doubtful debts relating to amounts owed by related parties [2016 – $nil].

[in thousands of Canadian dollars, unless otherwise indicated]

13. SUBORDINATED DEBENTURES

Subordinated debentures are direct unsecured obligations of the Bank and are subordinated in right of payment to the claims of depositors and certain other creditors. Redemptions, cancellations, exchanges, and modifications of subordinated debentures qualifying as regulatory capital are subject to the consent and approval of OSFI. The debentures contain non-viability contingent capital (NVCC) provisions necessary for the debentures to qualify as Tier 2 regulatory capital. Under the NVCC provisions, the debentures are convertible into a variable number of common shares upon either of two events: (i) the public announcement by OSFI that the Bank has ceased, or is about to cease, to be viable; or (ii) a federal or provincial government of Canada publicly announces that the Bank has accepted or agreed to accept a capital injection, or equivalent support, from the federal government or any provincial government or political subdivision or agent thereof without which the Bank would have been determined by OSFI to be non-viable.

Maturity date	**Interest Rate (%)**	**Earliest par redemption date**	**2017**	**2016**
July 2025	**6%[1]**	**August 2020**	**4,167**	4,109
			4,167	4,109

[1]For the period to but excluding the earliest par redemption date and thereafter at a rate of 3-month CDOR plus 4.40%.

REPAYMENT SCHEDULE

The aggregate remaining maturities of the Bank's subordinated debentures are as follows:

Maturities	**2017 $**	**2016 $**
Within 1 year	**—**	—
Over 1 year to 3 years	**—**	—
Over 3 years to 4 years	**—**	—
Over 4 years to 5 years	**—**	—
Over 5 years	**4,500**	4,500
	4,500	4,500

[in thousands of Canadian dollars, unless otherwise indicated]

14. ISSUED CAPITAL

Issued capital consists of the following:

	2017		2016	
	#	$	#	$
Authorized				
Unlimited common shares				
Issued and outstanding				
Common shares				
Balance, beginning of year	**13,128,226**	**24,601**	13,128,226	24,601
Balance, end of year	**13,128,226**	**24,601**	13,128,226	24,601
Total issued capital	**13,128,226**	**24,601**	13,128,226	24,601

Under the terms of the Bylaw of the Bank, a minimum of 67% of all common shares outstanding must be owned by Aboriginal Investors as defined in the Bylaw. The common shares have no par value.

Dividends of $131 [2016 – $131] were declared and paid during the year ($0.01 per share).

[in thousands of Canadian dollars, unless otherwise indicated]

15. INCOME TAXES

Significant components of the Bank's deferred tax liabilities are as follows:

	2017 **$**	**2016** **$**
Deferred tax liability		
Impairment for credit losses	**(393)**	(425)
Property and equipment	**138**	145
Intangible assets	**718**	923
Net deferred tax liability	**463**	643

Current and deferred income taxes are computed for the Bank by applying the applicable statutory tax rates:

	2017 $	**2016** $
Current income tax charge	**575**	428
Deferred income tax expense relating to origination and reversal of temporary differences	**(180)**	(163)
Income tax expense reported in the statements of comprehensive Income through profit or loss	**395**	265

The reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Bank’s effective income tax rate for the years ended October 31, 2017 and October 31, 2016 is as follows:

	2017		**2016**	
	$	%	$	%
Income before income taxes	**1,602**		965	
Income taxes at statutory rate	**439**	**27.40**	265	27.40
Other	**(44)**	**(3.42)**	—	—
Income tax expense and effective tax	**395**	**23.98**	265	27.40

[in thousands of Canadian dollars, unless otherwise indicated]

16. FINANCIAL ASSETS AND LIABILITIES

Several of the Bank's significant financial instruments, such as loans and deposits, lack an available trading market as they are not typically exchanged. Therefore, these instruments have been valued assuming they will not be sold, using present value or other suitable techniques and are not necessarily representative of the amounts realizable in an immediate settlement of the instrument.

Changes in interest rates are the main cause of changes in the fair value of the Bank's financial instruments. The carrying value of loans and deposits are not adjusted to reflect increases or decreases in fair value due to interest rate changes as the Bank's intention is to realize their value over time by holding them to maturity.

Fair value

The table below sets out the carrying amounts and estimated fair values of the Bank's financial assets and liabilities:

	2017		2016	
Statement of financial position	**Carrying value** $	**Estimated fair value** $	**Carrying value** $	**Estimated fair value** $
Financial assets				
Interest-bearing deposits with financial institutions	**60,100**	**60,100**	40,000	40,000
Loans and advances to customers	**334,219**	**334,108**	301,147	303,166
Financial Liabilities				
Due to customers	**434,735**	**434,185**	365,159	364,802
Subordinated debentures	**4,167**	**4,421**	4,109	4,508
Derivative financial instruments	**186**	**186**	38	38

Carrying values of loans and advances to customers and due to customers represent the amortized cost. The aggregate of the estimated fair value amounts presented does not represent management's estimate of the underlying value of the Bank. Moreover, fair values disclosed represent estimates of values made at a specific point in time and may not be reflective of future fair values.

Fair values are based on the following methods of valuation and assumptions:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are based on observable market data, either directly or indirectly.
Level 3: techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Derivative financial instruments fall in the level 2 category. For fixed rate loans, the fair value is determined by discounting the expected future contractual cash flows of these loans at interest rates estimated by using appropriate swap curve rates for the remaining term (Level 3). For fixed rate term deposits, the fair value is determined by discounting the expected future contractual outflows, using management's best estimates of average market interest rates currently offered for deposits with similar remaining terms (Level 3).

[in thousands of Canadian dollars, unless otherwise indicated]

16. FINANCIAL ASSETS AND LIABILITIES (continued)

In the case of items that are short-term in nature or contain variable rate features, fair value is considered to be equal to carrying value. The estimated fair value reflects changes in general interest rates that have occurred since the loans and borrowings were originated.

The table below presents the fair values by level within the fair value hierarchy for those assets and liabilities not carried at fair value:

	2017		
	Level 1 **$**	**Level 2** **$**	**Level 3** **$**
Financial assets			
Interest-bearing deposits with financial institutions	-	**60,100**	-
Loans and advances to customers	-		**134,500**
Financial liabilities			
Due to customers	-	-	**128,847**
Subordinated debentures	-	-	**4,421**
	-	**60,100**	**267,768**

	2016		
	Level 1 **$**	**Level 2** **$**	**Level 3** **$**
Financial assets			
Interest-bearing deposits with financial institutions	-	40,000	-
Loans and advances to customers	-	-	185,709
Financial liabilities			
Due to customers	-	-	138,336
Subordinated debentures			4,508
	-	40,000	328,553

During the reporting period ended October 31, 2017 and 2016, there were no transfers between leveling categories.

NOTES TO FINANCIAL STATEMENTS

[in thousands of Canadian dollars, unless otherwise indicated]

October 31, 2017

17. DERIVATIVE FINANCIAL INSTRUMENTS

Effective November 1, 2010, the Bank entered into a fixed for floating amortizing interest rate swap with TD Bank in order to hedge against interest rate fluctuations. No ineffectiveness from the hedge was recognized in net income during the year. A summary of the interest rate swap as at October 31, 2017 is provided below:

	2017						
Counterparty	**Notional Amount**	**Maturity Date**	**Paying rate index**	**Receiving rate index**	**Paying rate**	**Receiving rate**	**Fair value (negative)**
	$						$
TD Bank	**5,178**	**1-Nov-20**	**Fixed**	**3-month CDOR**	**2.521%**	**CDOR+1.42%**	**52**
TD Bank	**2,682**	**30-May-20**	**Fixed**	**1-month CDOR**	**4.400%**	**CDOR+3.29%**	**113**
TD Bank	**7,160**	**1-Dec-21**	**Fixed**	**1-month CDOR**	**3.750%**	**CDOR+2.29%**	**21**

	2016						
Counterparty	**Notional Amount**	**Maturity Date**	**Paying rate index**	**Receiving rate index**	**Paying rate**	**Receiving rate**	**Fair value (negative)**
	$						$
TD Bank	7,267	1-Nov-20	Fixed	3-month CDOR	2.521%	CDOR+1.42%	27
TD Bank	3,659	30-May-20	Fixed	1-month CDOR	4.400%	CDOR+3.29%	11

[in thousands of Canadian dollars, unless otherwise indicated]

18. CONTINGENCIES, COMMITMENTS AND GUARANTEES

Lease commitments

The Bank has entered into commercial lease obligations under long-term, non-cancellable leases for premises.

Future minimum lease payments under non–cancellable operating leases as at October 31 are as follows:

	$
2018	769
2019	468
2020	384
2021	283
2022	219
Thereafter	—
	2,123

Guarantees

Letters of guarantee have been provided to third parties by the Bank to make payments on behalf of customers up to $1,705 [October 31, 2016 – $1,481].

In the normal course of operations the Bank, as set out in its Bylaws, indemnifies directors and officers in certain circumstances, to the extent permitted by law, against certain claims that may be made against them as a result of their services to the Bank. The Bank may be required to indemnify directors, officers and such person's heirs or legal representatives for costs incurred as a result of civil, criminal or administrative actions to which such person is made a party in certain circumstances. The duty of the Bank to indemnify is further contingent on the director or officer meeting certain criteria in the By-laws, such as to have acted honestly and in good faith with a view to the best interest of the Bank. The nature of the indemnification prevents the Bank from making a reasonable estimate of the maximum potential amount that the Bank would be required to pay such persons. No amount has been accrued in the financial statements with respect to this indemnification.

19. SHARE-BASED COMPENSATION

A senior executive of the Bank receives remuneration in the form of share-based payment transactions. The cost of cash-settled transactions is measured initially at fair value at the grant date using a pricing model, taking into accounts the terms and conditions upon which the instruments were granted.

The Bank recognizes the services received, and a liability to pay for those services, as the employee renders service. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognized in the income statement in staff expenses.

Expense arising from cash–settled share–based payment transactions amounts to nil [2016 – $19]. The carrying amount of the liability (note 9) relating to the cash–settled options at statement of financial position date and prior year is $49.