Consolidated Financial Statements

First Nations Bank of Canada

October 31, 2022

Independent auditor's report

To the Shareholders of
First Nations Bank of Canada

Opinion

We have audited the accompanying consolidated financial statements of **First Nations Bank of Canada and its subsidiary** ["the Bank"]**,** which comprise the consolidated statement of financial position as at October 31, 2022 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of **the Bank** as at October 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Chartered Professional Accountants

Saskatoon, Canada
December 14, 2022

First Nations Bank of Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at October 31
[in thousands of Canadian dollars]

	Notes	2022	2021
ASSETS			
Cash and cash equivalents	*5*	**583,284**	469,419
Treasury bills	6	-	186,821
Interest-bearing deposits with financial institutions	*7*	**72,582**	77,011
Loans and advances to customers	8		
Mortgage loans		**110,427**	105,046
Personal loans		**14,981**	14,028
Business loans		**393,513**	338,158
		518,921	457,232
Derivative financial instrument	*20*	**5,554**	1,564
Right of use assets	*11*	**3,474**	4,030
Deferred tax asset	*18*	**153**	557
Property and equipment	*12*	**2,289**	2,286
Intangible assets	*13*	**491**	821
Other assets	*9*	**4,611**	2,619
Total assets		**1,191,359**	1,202,360
LIABILITIES			
Due to customers			
Notice deposits		**955,192**	975,197
Medium-term certificates		**150,098**	159,756
		1,105,290	1,134,953
Lease liabilities	*14*	**3,646**	4,180
Other liabilities	*10*	**10,295**	8,845
Subordinated debentures	*16*	**4,352**	4,310
Total liabilities		**1,123,583**	1,152,288
Guarantees	*21*		
EQUITY			
Issued capital	*17*	**42,423**	30,396
Retained earnings		**22,040**	18,807
Cash flow hedge reserve		**3,313**	869
Total equity		**67,776**	50,072
Total liabilities and equity		**1,191,359**	1,202,360

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

Approved by the Board of Directors

Director

Director

First Nations Bank of Canada

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Notes	2022	2021
INTEREST INCOME			
Term, bank deposits and treasury bills		**10,464**	2,283
Loans and advances to customer			
Mortgage loans		**3,279**	3,144
Personal loans		**1,085**	927
Business loans		**16,902**	13,490
		31,730	19,844
INTEREST EXPENSE			
Notice deposits		**8,782**	1,769
Medium-term certificates		**1,673**	1,182
Subordinated debentures		**341**	258
Interest on lease liabilities		**133**	163
		10,929	3,372
Net interest income		**20,801**	16,472
Provision for credit losses	*8*	**475**	275
Net interest income after provision for credit losses		**20,326**	16,197
Fees and commissions		**6,092**	6,604
Trust services revenue		**768**	535
		27,186	23,336
NON-INTEREST EXPENSES			
Salary and staff benefits		**11,145**	9,519
Rent and occupancy		**1,228**	960
Marketing		**431**	295
Professional fees		**1,807**	1,374
Banking platform		**3,415**	3,223
Travel		**658**	130
Other operating expenses		**835**	880
Depreciation and amortization		**2,607**	2,816
Total operating expenses		**22,126**	19,197
Income before income taxes		**5,060**	4,139
Income tax expense	*18*	**1,373**	1,092
Net income for the year		**3,687**	3,047
Other comprehensive income for the year net of tax	*20*	**2,444**	869
Total comprehensive income		**6,131**	3,916

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

First Nations Bank of Canada

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Issued capital	**Retained earnings**	**Cash flow hedge reserve**	**Total equity**
As at October 31, 2020	30,212	16,136	-	46,348
Net income for the year		3,047		3,047
Net unrealized gains on cash flow hedges, net of tax			869	869
Share capital issuance	184			184
Dividends to equity holders		(376)		(376)
As at October 31, 2021	30,396	18,807	869	50,072
Net income for the year		**3,687**		**3,687**
Net unrealized gains on cash flow hedges, net of tax			**2,444**	**2,444**
Share capital issuance, net of costs	**12,027**			**12,027**
Dividends to equity holders		**(454)**		**(454)**
As at October 31, 2022	**42,423**	**22,040**	**3,313**	**67,776**

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

First Nations Bank of Canada

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2022	2021
OPERATING ACTIVITIES		
Comprehensive income for the year	**6,131**	3,916
Adjustments:		
Provision for credit losses	**475**	275
Deferred income taxes	**404**	(181)
Depreciation and amortization	**2,607**	2,816
Amortization of subordinated debentures	**42**	40
	9,659	6,866
Adjustments for changes in:		
Interest receivable	**(1,911)**	177
Interest payable	**418**	(318)
Other receivables	**(81)**	(529)
Derivative financial instrument	**(3,990)**	(1,490)
Other liabilities	**1,032**	(3,378)
	(4,532)	(5,538)
Changes in:		
Mortgage loans	**(5,380)**	(5,254)
Personal loans	**(960)**	(702)
Business loans	**(55,822)**	(15,863)
Notice deposits	**(20,005)**	217,503
Medium-term certificates	**(9,658)**	19,622
	(91,825)	215,306
Net cash (used in) provided by operating activities	**(86,698)**	216,634
INVESTING ACTIVITIES		
Purchase of property and equipment	**(721)**	(215)
Additions to intangible assets	**(423)**	(82)
Treasury bills	**186,821**	(186,821)
Interest-bearing deposits with financial institutions	**4,429**	(501)
Net cash provided by (used in) investing activities	**190,106**	(187,619)
FINANCING ACTIVITIES		
Issuance of common shares, net of costs	**12,027**	184
Dividends paid to equity holders	**(454)**	(376)
Repayment of lease liability	**(1,116)**	(1,141)
Net cash provided by (used in) financing activities	**10,457**	(1,333)
Net increase in cash and cash equivalents during the year	**113,865**	27,682
Cash and cash equivalents, beginning of year	**469,419**	441,737
Cash and cash equivalents, end of year	**583,284**	469,419
Operational cash flows from:		
Interest paid	**10,511**	3,745
Income taxes paid	**2,042**	1,631

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[in thousands of Canadian dollars, unless otherwise indicated]

October 31, 2022

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 Bank's registered office is on the Yellow Quill First Nation at 224 4th Avenue South, Saskatoon, Saskatchewan. The Bank is primarily involved in providing financial services to the Indigenous marketplace in Canada.

2. BASIS OF PRESENTATION

Statement of compliance

The consolidated 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 International Accounting Standards Board (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 13, 2022.

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.

Basis of consolidation

The consolidated financial statements include the balances of the Bank and its wholly owned subsidiary FNB Trust as at October 31, 2022, after the elimination of intercompany transactions. The Bank consolidates those entities which it controls. The Bank has control when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiary are prepared for the same reporting period as the Bank, using consistent accounting policies.

2. BASIS OF PRESENTATION (continued)

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.

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 notes 8 and 18. 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.

Leases

The Bank used its incremental borrowing rate ("IBR") to measure all lease liabilities at the inception of a lease. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with similar security, the funds necessary to obtain an asset of similar value to the right of use asset in a similar economic environment. When no observable rates are available, the Bank estimates the IBR using observable inputs.

Impairment losses on loans and advances

The measurement of impairment losses under IFRS 9, *Financial Instruments* (IFRS 9) across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's expected credit loss (ECL) calculations are outputs of model with several underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit risk rating model, which is used to assess if there has been a significant increase in credit risk
- The Bank's assignment of loss rates to each individual risk rating
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs

2. BASIS OF PRESENTATION (continued)

- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on loss rates, exposure at default, and losses given default
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models
- Qualitative adjustments or overlays using expert credit judgment in the calculations of ECLs

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

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.

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 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 institutions 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are initially recognized in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Bank recognizes balances due to customers when funds are transferred to the Bank.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or less (FVTPL)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial assets

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification and measurement

The classification of financial instruments is dependent on the business model used for managing the instrument, and the cash flow characteristics of the instrument.

Financial assets are not reclassified subject to their initial recognition, unless the Bank changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change.

Amortized cost

The Bank classifies financial assets as amortized cost where they meet the following conditions and are not designated at fair value through profit or loss:

- Held to collect contractual cash flows; and
- Contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The carrying amount of these assets is adjusted by any expected credit loss allowance.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value through other comprehensive income – debt instruments

The Bank classifies financial assets as fair value through other comprehensive income (FVTOCI) where they meet the following conditions and are not designated at FVTPL:

- Held to collect contractual cash flows and to sell the corresponding financial assets; and
- Contractual terms give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

FVTOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in the fair value recognized in other comprehensive income (OCI). Interest income is recognized in profit and loss. When necessary, an expected credit loss allowance is recognized in other comprehensive income and accumulated in the fair value reserve and does not reduce the carrying amount of the financial asset in the statement of financial position. On derecognition, cumulative gains and losses previously recognized in OCI are reclassified from OCI to profit and loss.

Fair value through other comprehensive income – equity instruments

The Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVTOCI when the meet the definition of Equity under IAS 32 *Financial Instruments: Presentation* and are not held-for-trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognized in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVTOCI are not subject to an impairment assessment.

Financial assets or financial liabilities held-for-trading

The Bank classifies financial assets or financial liabilities as held-for-trading when they have been purchased or issued primarily for short-term profit-making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognized in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

Included in this classification are debt securities, equities, short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held-for-trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVTPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis, or
- The liabilities are part of a group of financial liabilities, which are managed, and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or
- The liabilities contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss, with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Bank's own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVTPL is accrued in interest income or interest expense, respectively, using the effective interest rate (EIR). Dividend income from equity instruments measured at FVTPL is recorded in profit or loss as other operating income when the right to the payment has been established. The Bank classifies financial assets that do not meet the criteria for amortized cost or FVTOCI at FVTPL.

Fair value measurement

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets.

Financial instruments are measured at a closing price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. Fair value is determined in the manner described in Note 19.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Bank recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The ECL model consists of three stages:

- Stage 1 – twelve-month ECLs for performing financial assets,
- Stage 2 – lifetime ECLs for financial assets that have experienced a significant increase in credit risk since initial recognition, and
- Stage 3 – lifetime ECLs for finance assets that are impaired.

ECLs are the difference between all contractual cash flows that are due to the Bank in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at the original effective interest rate. If a significant increase in credit risk has occurred since initial recognition, impairment is measured as lifetime ECLs. Otherwise, impairment is measured as twelve-month ECLs which represent the portion of lifetime ECLs that are expected to occur based on default events that are possible within twelve months after the reporting date. If credit quality improves in a subsequent period such that the increase in credit risk since initial recognition is no longer considered significant, the loss allowance reverts back to being measured based on twelve-month ECLs.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, there is consideration of both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward‑looking information that is available without undue cost or effort. The Bank utilizes information available to assign a risk rating to financial instruments which is used in determining whether there has been a significant increase in credit risk. When determining whether there has been a significant increase in credit risk since initial recognition of a financial asset, the Bank considers all reasonable and supportable information that is available without undue cost or effort about past events, current conditions, and forecast or future economic conditions.

Irrespective of the outcome of the above assessment, the Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Bank has reasonable and supportable information that demonstrates otherwise.

Definition of default

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments or loans with a borrower risk rating (BRR) of 9 for business loan exposures.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Forward-looking information

In calculating the ECL, the Bank utilizes a base economic forecast accompanied by probability-weighted indicators of possible upside and downside economic conditions. Indicators of upside and downside economic conditions that are considered by the Bank include unemployment rates, CPI index, interest rate projections and commodity index forecasts.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward‑looking information as described above. Expected life is the maximum contractual period the Bank is exposed to credit risk, including extension options for which the borrower has unilateral right to exercise.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Bank in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at the original effective interest rate.

Write-offs

The Bank writes-off financial assets when there is no reasonable expectation of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof.

Derecognition of financial assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the balance sheet.

On derecognition of a financial asset measured at amortized cost, the difference between the carrying amount of the asset, and the sum of the consideration received, and receivable is recognized in net income.

In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Bank has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the fair value reserve is not reclassified to profit or loss, but is transferred to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Bank, are measured in accordance with the specific accounting policies set out below.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading or (iii) it is designated as at FVTPL. The Bank does not have any financial liabilities measured at FVTPL.

Financial liabilities measured subsequently at amortized cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Bank exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of cumulative gain or loss on the hedging instrument is initially recognized directly in OCI within equity (Cash flow hedge reserve). The ineffective portion of the gain or loss on the hedging instrument is recognized in the statement of comprehensive income through profit or loss.

When a hedging instrument expires, is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognized in OCI at that time remains in OCI until the forecasted transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately transferred to the income statement.

Share-based payments - Cash-settled transactions

The Bank has a cash-settled Performance Share Unit ("PSU") and Phantom Share Option ("PSO") plans for senior executives. The cost of cash-settled transactions is measured initially at fair value at the grant date based on an estimate of the quantity of PSUs and PSOs expected to vest. 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 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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases - Bank as lessee

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Right of use assets and lease liabilities are recognized at the lease commencement date, that is, on the date when the underlying asset is available for use by the Bank. The Bank's right of use assets do not meet the definition of investment property.

Right of use assets are initially and subsequently measured at cost and depreciated over the shorter of the asset's useful life and the lease term, on a straight-line basis. The right of use assets are remeasured in the event of impairment in accordance with IAS 36 *Impairment of Assets*.

Lease liabilities are initially and subsequently measured at the present value of the lease payments which are unpaid as of the commencement date. The future lease payments are discounted using the interest rate implicit in the lease, if readily determinable. If not readily determinable, the Bank's incremental borrowing rate is used, which is the rate to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the right of use asset. After the commencement date, the carrying amount of lease liabilities are remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. Adjustments to the carrying amount of the lease obligation as a result of remeasurement are accounted for as a corresponding adjustment to the right of use asset.

Short-term leases include arrangements where the lease term is 12 months or less and do not contain a purchase option. Low value assets for the Bank include items such as information technology equipment & office equipment. Such leases are expensed on a straight-line basis over the lease term.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 considers 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, other management fees, trust consulting and trust 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.

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 8 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 outstanding to any client as at October 31, 2022 was $12,999 [2021 - $10,300], 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

	2022 **$**	**2021** **$**
Financial services	**-**	2,074
Government – others	**525**	950
Government First Nation	**131,261**	117,302
Health and social	**18,182**	16,914
Professional and recreation	**5,820**	4,817
Real estate	**128,109**	108,800
Retail	**33,599**	14,860
Transportation	**3,533**	2,911
Hotel and lodging	**32,068**	31,753
Others	**43,297**	40,191
	396,394	340,572

(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 asset.

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 the sum of 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. This is done through the use of interest rate swap agreements as disclosed in Note 20. 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, 2022, with other variables unchanged, an increase (decrease) of 1% in interest rates would (decrease) increase annualized net income before tax by approximately ($99) $ 99 thousand. Management continues to monitor this internal test and expects to be onside in the near future.

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.

[in thousands of Canadian dollars, unless otherwise indicated]

4. FINANCIAL RISK MANAGEMENT (continued)

	2022						
	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	**583,284**	**-**	**-**	**-**	**-**	**-**	**583,284**
Effective yield	***3.85***	-	-	-	-	-	-
Interest-bearing deposits	-	-	-	-	-	-	-
with financial institutions	**-**	**72,582**	**-**	**-**	**-**	**-**	**72,582**
Effective yield	-	***3.08***	-	-	-	-	-
Mortgage loans	**7,136**	**26,037**	**24,222**	**19,479**	**33,553**	**-**	**110,427**
Effective yield	***6.42***	***3.42***	***3.17***	***3.01***	***2.93***	**-**	**-**
Personal loans	**12,860**	**869**	**518**	**281**	**453**	**-**	**14,981**
Effective yield	***8.89***	***12.68***	***11.93***	***10.96***	***10.7***	**-**	**-**
Business loans	**160,551**	**44,919**	**63,160**	**50,423**	**74,460**	**-**	**393,513**
Effective yield	***6.98***	***4.61***	***4.89***	***4.29***	***4.87***	-	-
Other	-	-	-	-	-	**16,572**	**16,572**
	763,831	**144,407**	**87,900**	**70,183**	**108,466**	**16,572**	**1,191,359**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to customers	**955,191**	**132,695**	**15,493**	**1,181**	**730**	**-**	**1,105,290**
Effective yield	***1.91***	***2.35***	***2.32***	***1.60***	***.98***	-	-
Subordinated debentures	**4,352**	**-**	**-**	**-**	**-**	**-**	**4,352**
Effective yield	***8.69***	-	-	-	-	-	-
Lease liability	**-**	**1,101**	**729**	**556**	**1,260**	**-**	**3,646**
Effective yield	-	***3.25***	***3.25***	***3.25***	***3.25***	-	-
Other	-	-	-	-	-	**10,295**	**10,295**
Shareholders' equity	-	-	-	-	-	**67,776**	**67,776**
	959,543	**133,796**	**16,222**	**1,737**	**1,990**	**78,071**	**1,191,359**
Net 2022 Position	**(195,712)**	**10,611**	**71,678**	**68,446**	**106,476**	**(61,499)**	**-**

First Nations Bank of Canada

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4. FINANCIAL RISK MANAGEMENT (continued)

	2021						
	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	469,419	-	-	-	-	-	469,419
Effective yield	*.29*	-	-	-	-	-	-
Treasury bills	-	186,821	-	-	-	-	186,821
Effective yield	-	*.11*	-	-	-	-	-
Interest-bearing deposits	-	-	-	-	-	-	-
with financial institutions	-	77,011	-	-	-	-	77,011
Effective yield	-	*0.79*	-	-	-	-	-
Mortgage loans	6,952	26,218	19,596	18,636	33,644	-	105,046
Effective yield	*2.70*	*3.46*	*3.08*	*3.08*	*2.58*	-	-
Personal loans	12,549	852	386	161	80	-	14,028
Effective yield	*5.94*	*13.1*	*12.83*	*11.78*	*10.99*	-	-
Business loans	138,382	55,893	26,535	50,226	67,122	-	338,158
Effective yield	*3.62*	*3.90*	*4.56*	*4.89*	*4.32*	-	-
Other	-	-	-	-	-	11,877	11,877
	627,302	346,795	46,517	69,023	100,846	11,877	1,202,360
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to customers	975,197	146,614	6,517	6,118	507	-	1,134,953
Effective yield	*.22*	*.54*	*1.36*	*2.56*	*1.43*	-	-
Subordinated debentures	4,310	-	-	-	-	-	4,310
Effective yield	*4.9*	-	-	-	-	-	-
Lease liability	-	1,052	976	600	1,552	-	4,180
Effective yield		*3.25*	*3.25*	*3.25*	*3.25*	-	-
Other	-	-	-	-	-	8,845	8,845
Shareholders' equity	-	-	-	-	-	50,072	50,072
	979,507	147,666	7,493	6,718	2,059	58,917	1,202,360
Net 2021 Position	(352,205)	199,129	39,024	62,305	98,787	(47,040)	-

[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, 2022. 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 before income taxes as follows:

	Approximate Canadian dollars	
	2022 $	**2021 $**
Exposure in financial assets	**6,302**	**5,025**
Exposure in financial liabilities	**5,812**	**5,025**
Net statement of financial position exposure	**490**	**-**
Change in Canadian dollar rate	**±5%**	±5%
Increase (decrease) in comprehensive income	**25 (25)**	**(-) -**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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October 31, 2022

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, 2022 and 2021, Tier 1 capital includes items such as common shares, retained earnings and other reserves.

During the years ended October 31, 2022 and 2021, 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, 2022 and 2021 was as follows:

	OSFI Target	2022	2021
Common Equity Tier 1 Capital		**$67,627**	$49,798
Common Equity Tier 1 Capital Ratio	7.0%	**13.5%**	12%
Tier 1 Capital		**$67,627**	$49,798
Tier 1 Capital Ratio	8.5%	**13.5%**	12%
Total Capital[1]		**$71,979**	$53,928
Total Capital Ratio[2]	10.5%	**14.3%**	13%
Leverage Ratio[3]		**5.55%**	5.9%

[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.

[in thousands of Canadian dollars, unless otherwise indicated]

5. CASH AND CASH EQUIVALENTS

	2022 $	2021 $
Cash on hand	**2,823**	3,735
Cash with other financial institutions	**465,954**	265,690
Treasury bills	**114,507**	199,994
	583,284	469,419

6. TREASURY BILLS

	2022 $	2021 $
Treasury bill bearing interest at 0.105% per annum, maturity date of April 28, 2022	-	14,987
Treasury bill bearing interest at 0.11% per annum, maturity date of May 26, 2022	-	24,975
Treasury bill bearing interest at 0.11% per annum, maturity date of May 26, 2022	-	29,971
Treasury bill bearing interest at 0.08% per annum, maturity date of May 26, 2022	-	19,986
Treasury bill bearing interest at 0.12% per annum, maturity date of May 26, 2022	-	15,986
Treasury bill bearing interest at 0.11% per annum, maturity date of June 23, 2022	-	34,963
Treasury bill bearing interest at 0.11% per annum, maturity date of June 23, 2022	-	19,980
Treasury bill bearing interest at 0.12% per annum, maturity date of June 23, 2022	-	25,973
	-	186,821

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October 31, 2022

7. INTEREST-BEARING DEPOSITS WITH FINANCIAL INSTITUTIONS

	2022 $	2021 $
Term deposit bearing interest at 0.80% per annum, maturity date of April 11, 2022	-	20,000
Term deposit bearing interest at 0.75% per annum, maturity date of April 11, 2022	-	20,000
Term deposit bearing interest at 0.80% per annum, maturity date of August 22, 2022	-	10,768
Term deposit bearing interest at 0.80% per annum, maturity date of August 22, 2022	-	10,765
Term deposit bearing interest at 0.90% per annum, maturity date of May 11, 2022	-	5,196
Term deposit bearing interest at 0.90% per annum, maturity date of June 14, 2022	-	5,162
Term deposit bearing interest at 0.80% per annum, maturity date of January 28, 2022	-	5,120
Term deposit bearing interest at 2.25% per annum, maturity date of April 13, 2023	**20,161**	-
Term deposit bearing interest at 3.60% per annum, maturity date of June 14, 2023	**5,208**	-
Term deposit bearing interest at 3.08% per annum, maturity date of June 21, 2023	**10,839**	-
Term deposit bearing interest at 3.08% per annum, maturity date of June 21, 2023	**10,836**	-
Term deposit bearing interest at 3.35% per annum, maturity date of August 17, 2023	**10,269**	-
Term deposit bearing interest at 3.45% per annum, maturity date of August 17, 2023	**10,000**	-
Term deposit bearing interest at 4.50% per annum, maturity date of August 17, 2023	**5,269**	-
	72,582	77,011

[in thousands of Canadian dollars, unless otherwise indicated]

8. LOANS AND ADVANCES TO CUSTOMERS

	2022					
	Gross amount of loans $	**Stage 1 allowance** $	**Stage 2 allowance** $	**Stage 3 allowance** $	**Net amount of loans** $	**Gross impaired loans** $
Mortgage loans	**110,490**	**38**	**25**	**-**	**110,427**	**-**
Personal loans	**15,090**	**85**	**14**	**10**	**14,981**	**61**
Business loans	**396,394**	**974**	**1,745**	**162**	**393,513**	**162**
	521,974	**1,097**	**1,784**	**172**	**518,921**	**223**

Information on the specific and collective allowance from the comparative period is as follows:

	2021					
	Gross amount of loans $	**Stage 1 allowance $**	**Stage 2 allowance $**	**Stage 3 allowance $**	**Net amount of loans $**	**Gross impaired loans $**
Mortgage loans	105,110	35	29	-	105,046	-
Personal loans	14,130	79	13	10	14,028	62
Business loans	340,572	831	1,583	-	338,158	-
	459,812	945	1,625	10	457,232	62

Mortgage loans include $56,543 [2021 – $52,719] of insured loans. Business loans include $31,127 [2021 – $26,604] of government guaranteed loans.

Financial assets qualifying for derecognition

Under the Canada Emergency Business Account (CEBA) Program, the Bank provides loans to eligible businesses based on the requirements of this government program. The Bank receives an administration fee to recover the costs to administer the program for the Government of Canada. Loans issued under the program are not recognized on the Bank's Consolidated Statement of Financial Position, as the Bank transfers substantially all the risks and rewards in respect of the loans to the Government of Canada. As of October 31, 2022, the Bank had provided approximately 56 customers [2021 – 64] with CEBA loans and had funded approximately $2,883 [2021 – $3,279] in loans under the program.

[in thousands of Canadian dollars, unless otherwise indicated]

8. LOANS AND ADVANCES TO CUSTOMERS (continued)

The following table outlines the movement in loss allowance by category:

	Stage 1 **$**	**Stage 2** **$**	**Stage 3** **$**	**Total** **$**
Balance at October 31, 2020	1,171	1,265	10	2,446
Provision for credit losses	(133)	265	-	132
Transfers (to) from Stage 1	(328)	328	-	-
Transfers (to) from Stage 2	-	-	-	-
Transfers (to) from Stage 3	-	-	-	-
Derecognition of financial assets	(256)	(92)	-	(348)
New originations	491	-	-	491
Write offs	-	(141)	-	(141)
Balance at October 31, 2021	**945**	**1,625**	**10**	**2,580**
Provision for credit losses	**194**	**174**	**7**	**375**
Transfers (to) from Stage 1	**197**	**(197)**	**-**	-
Transfers (to) from Stage 2	**(379)**	**379**	**-**	-
Transfers (to) from Stage 3	**-**	**(155)**	**155**	-
Derecognition of financial assets	**(137)**	**(41)**	-	**(178)**
New originations	**277**	-	-	**277**
Write offs	-	**(1)**	-	**(1)**
Balance at October 31, 2022	**1,097**	**1,784**	**172**	**3,053**

[in thousands of Canadian dollars, unless otherwise indicated]

8. LOANS AND ADVANCES TO CUSTOMERS (continued)

Impairment allowance for loans and advances to customers

Business loans
The table below shows the credit quality and the carrying amount of business loans based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	$	**$**	**$**	**$**
Internal rating grade				
Performing				
Satisfactory (1 - 5)	**333,704**	**34,796**	**-**	**368,500**
Watch (6)	**2,274**	**22,574**	**-**	**24,848**
Classified (7-8)	**-**	**2,884**	**-**	**2,884**
Non-performing				
Individually impaired (9)	**-**	**-**	**162**	**162**
Total	**335,978**	**60,254**	**162**	**396,394**
Loss allowance	**974**	**1,745**	**162**	**2,881**
Carrying amount	**335,004**	**58,509**	**-**	**393,513**

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	$	**$**	**$**	**$**
Internal rating grade				
Performing				
Satisfactory (1 - 5)	279,370	45,358	-	324,728
Watch (6)	189	15,655	-	15,844
Classified (7-8)	-	-	-	-
Non-performing				
Individually impaired (9)	-	-	-	-
Total	279,559	61,013	-	340,572
Loss allowance	831	1,583	-	2,414
Carrying amount	278,728	59,430	-	338,158

[in thousands of Canadian dollars, unless otherwise indicated]

8. LOANS AND ADVANCES TO CUSTOMERS (continued)

Mortgage and personal loans
The table below shows the credit quality and the carrying amount of mortgage and personal loans based on the Bank's internal rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	$	**$**	**$**	**$**
Performing				
Not past due	**124,676**	**357**	**-**	**125,033**
Non-performing				
1-89 days past due	**-**	**340**	**-**	**340**
90+ days past due	**-**	**146**	**61**	**207**
Total	**124,676**	**843**	**61**	**125,580**
Loss allowance	**123**	**39**	**10**	**172**
Carrying amount	**124,553**	**804**	**51**	**125,408**

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	$	**$**	**$**	**$**
Performing				
Not past due	116,575	304	-	116,879
Non-performing				
1-89 days past due	-	2,300		2,300
90+ days past due	-	-	61	61
Total	116,575	2,604	61	119,240
Loss allowance	114	42	10	166
Carrying amount	116,461	2,562	51	119,074

8. LOANS AND ADVANCES TO CUSTOMERS (continued)

Forward-Looking Information

Relevant macroeconomic factors are incorporated in the development of the ECL model as appropriate. Additional macroeconomic factors that are industry-specific are also incorporated where relevant. The key macroeconomic variables that are incorporated in the Banks ECL model include credit card delinquency rates for consumer loans and arrears rates for mortgages. For commercial loans, the key macroeconomic factors include gross domestic product, unemployment rates, interest rates, and credit spreads. Refer to Note 3 for a discussion on how forward-looking information is considered in determining whether there has been a significant increase in credit risk and the measurement of the ECL.

The Bank has utilized forward-looking macroeconomic forecasts of TD Bank as part of the ECL process. A base economic forecast is developed along with an upside and downside forecast which are estimates of realistically possible economic conditions. These forecasts are reviewed each year and any substantial changes are factored into the ECL model.

Expert Credit Judgment

ECLs are recognized on initial recognition of the financial assets. Allowance for credit losses represents management's best estimate of the risk of default and ECLs on the financial assets at the balance sheet date. Management exercises expert credit judgment in assessing if an exposure has experienced significant increase in credit risk since initial recognition and in determining the amount of ECLs at each reporting date by considering reasonable and supportable information that is not already included in the quantitative models. Changes in these assumptions would have a direct impact on the provision for credit losses and may result in a change in the allowance for credit losses.

Sensitivity Analysis

The allowance for credit losses is sensitive to the inputs used in the developed models, macroeconomic variables in the forward-looking forecasts and respective probability weightings in determining the probability-weighted ECL, and other factors considered when applying expert credit judgement. Changes in these inputs, assumptions, models, and judgements would have an impact on the assessment for significant increase in credit risk and the measurement of the ECL.

The following table presents the base ECL scenario compared to the probability-weighted ECL derived from using base, good, and bad cases and weighting them based on probability of occurrence. The Bank has assigned a weight of 30% to the good case, 10% to the bad case and 60% to the base case. The Bank has assigned these weights to reflect management's view of the potential impact of the rising interest rate environment offset by decreased uncertainty relating to the COVID-19 pandemic.

[in thousands of Canadian dollars, unless otherwise indicated]

8. LOANS AND ADVANCES TO CUSTOMERS (continued)

Change from Probability-Weighted to Base ECL

	As at **October 31, 2022**
Probability-weighted ECL	**$3,053**
Base case ECL	**$2,993**
Difference – in amount	**$60**
Difference – in percentage	**1.97%**

The allowance for credit losses for performing loans consists of an aggregate amount of Stage 1 and Stage 2 probability-weighted ECL which are twelve-month ECLs and lifetime ECLs respectively. Transfers from Stage 1 to Stage 2 result when there is a significant increase in credit risk since the origination of the loan. The following table presents the estimated impact of calculating the ECL for all loans using the twelve-month ECLs compared to the current aggregate probability-weighted ECL.

Incremental Lifetime ECL Impact

	As at **October 31, 2022**
Aggregate Stage 1 and 2 probability-weighted ECL	**$3,053**
All performing loans using 12-month ECL	**$1,863**
Difference – in amount	**$1,190**
Difference – in percentage	**39.0%**

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.

[in thousands of Canadian dollars, unless otherwise indicated]

8. LOANS AND ADVANCES TO CUSTOMERS (continued)

Gross amount of loans past due but not impaired as at October 31, 2022:

	1-30 days	31-60 days	61+ days	Total $
Mortgage loans	**-**	**19**	**135**	**154**
Personal loans	**314**	**3**	**15**	**332**
Business loans	**5,519**	**-**	**-**	**5,519**
	5,833	**22**	**150**	**6,005**

Gross amount of loans past due but not impaired as at October 31, 2021:

	1-30 days	31-60 days	61+ days	Total $
Mortgage loans	1,946	5	-	1,951
Personal loans	231	49	70	350
Business loans	217	-	-	217
	2,394	54	70	2,518

9. OTHER ASSETS

Other assets consist of the following:

	2022 $	2021 $
Interest receivable	**3,416**	1,505
Prepaid expenses and deferred costs	**1,195**	1,114
	4,611	2,619

[in thousands of Canadian dollars, unless otherwise indicated]

10. OTHER LIABILITIES

Other liabilities consist of the following:

	2022 $	2021 $
Interest payable	**808**	390
Other liabilities	**9,487**	8,455
	10,295	8,845

11. RIGHT OF USE ASSETS

	2022 $	2021 $
COST – PREMISE LEASES		
Balance, opening	**6,259**	5,685
Additions	**582**	574
Balance, October 31	**6,841**	6,259
ACCUMULATED AMORTIZATION		
Balance, opening	**2,229**	1,028
Additions	**1,138**	1,201
Balance, October 31	**3,367**	2,229
CARRYING AMOUNTS	**3,474**	4,030

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[in thousands of Canadian dollars, unless otherwise indicated]

October 31, 2022

12. PROPERTY AND EQUIPMENT

	Furniture, fixtures and other equipment	Leasehold improvements	Computer equipment	Branch prototype project	Total $
COST					
Balance at November 1, 2020	945	4,919	1,044	273	7,181
Additions	69	66	80	-	215
Balance at October 31, 2021	1,014	4,985	1,124	273	7,396
Balance at November 1, 2021	1,014	4,985	1,124	273	7,396
Additions	53	143	525	-	721
Balance at October 31, 2022	**1,067**	**5,128**	**1,649**	**273**	**8,117**
ACCUMULATED DEPRECIATION					
Balance at November 1, 2020	705	2,798	703	178	4,384
Depreciation for the year	49	405	241	31	726
Balance at October 31, 2021	754	3,203	944	209	5,110
Balance at November 1, 2021	754	3,203	944	209	5,110
Depreciation for the year	59	443	185	31	718
Balance at October 31, 2022	**813**	**3,646**	**1.129**	**240**	**5,828**
CARRYING AMOUNTS					
At October 31, 2021	260	1,782	180	64	2,286
At October 31, 2022	**254**	**1,482**	**520**	**33**	**2,289**

[in thousands of Canadian dollars, unless otherwise indicated]

13. INTANGIBLE ASSETS

	Website development	Computer systems	Small market branch	Total $
COST				
Balance at November 1, 2020	76	5,945	483	6,504
Acquisitions	-	82	-	82
Balance at October 31, 2021	76	6,027	483	6,586
Balance at November 1, 2021	76	6,027	483	6,586
Acquisitions	-	286	137	423
Balance at October 31, 2022	**76**	**6,313**	**620**	**7,009**
ACCUMULATED AMORTIZATION				
Balance at November 1, 2020	76	4,614	187	4,877
Amortization for the year	-	754	134	888
Balance at October 31, 2021	76	5,368	321	5,765
Balance at November 1, 2021	76	5,368	321	5,765
Amortization for the year	-	623	130	753
Balance at October 31, 2022	**76**	**5,991**	**451**	**6,518**
CARRYING AMOUNTS				
At October 31, 2021	-	659	162	821
At October 31, 2022	**-**	**322**	**169**	**491**

[in thousands of Canadian dollars, unless otherwise indicated]

14. LEASE LIABILITIES

	2022 $	2021 $
Balance, opening	**4,180**	4,747
Additions	**582**	574
Interest	**131**	163
Repayments	**(1,247)**	(1,304)
Balance, October 31	**3,646**	4,180

The maturity of the undiscounted lease liability as at October 31, 2022, is as follows:

	$
2023	1,203
2024	800
2025	606
2026	522
2027	443
Thereafter	353
	3,927

[in thousands of Canadian dollars, unless otherwise indicated]

15. 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.

Loans to directors and employees

At October 31, 2022, loans provided to the Bank's directors and employees amounted to $5,464 [2021 - $5,593]. 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:

	2022 $	2021 $
Salaries, director fees and short-term benefits	**2,008**	1,857

Amount owed from related parties (key management):

	2022 $	2021 $
Maximum balance during the year	**872**	1,900
Balance as at October 31	**800**	1,122

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, 2022, the Bank has not made any provision for doubtful debts relating to amounts owed by related parties [2021 – $nil].

[in thousands of Canadian dollars, unless otherwise indicated]

16. 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	2022	2021
July 2025	**8.96%[1]**	**August 2020**	**4,352**	4,310
			4,352	4,310

[1]Subsequent to the earliest par redemption date the rate of 3-month CDOR plus 4.40% which was 8.96% at October 31, 2022. (October 31, 2021 – 4.90%). Prior to August 2020 the rate was fixed at 6%.

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

Maturities	2022 $	2021 $
Within 1 year	**-**	-
Over 1 year to 3 years	**4,500**	-
Over 3 years to 4 years	**-**	4,500
Over 4 years to 5 years	**-**	**-**
	4,500	4,500

[in thousands of Canadian dollars, unless otherwise indicated]

17. ISSUED CAPITAL

Issued capital consists of the following:

	2022		2021	
	#	$	#	$
Authorized				
Unlimited common shares				
Issued and outstanding				
Common shares				
Balance, beginning of year	**15,123,946**	**30,396**	15,068,255	30,212
Share issuance	**3,593,361**	**12,222**	55,691	184
Share issue costs		**(195)**		-
Balance, end of year	**18,717,307**	**42,423**	15,123,946	30,396
Total issued capital	**18,717,307**	**42,423**	15,123,946	30,396

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

Dividends of $454 [2021 – $376] were declared and paid during the year of $0.03 per share [2021 - $0.025 per share]. Dividends of $222 [2021 - $184] were reinvested through the dividend reinvestment program resulting in the issuance of 63,950 shares [2021 – 55,691] shares.

[in thousands of Canadian dollars, unless otherwise indicated]

18. INCOME TAXES

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

	2022 $	2021 $
Deferred tax asset (liability)		
Impairment for credit losses	**781**	694
Property and equipment	**(137)**	(117)
Intangible assets	**(70)**	(175)
Share based compensation	**517**	304
Other comprehensive income deposit hedge	**(1,218)**	(319)
Miscellaneous	**25**	9
Tax loss carry forward	**255**	161
Net deferred tax asset	**153**	557

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

	2022 $	2021 $
Current income tax charge	**1,873**	1,498
Deferred income tax expense relating to origination and reversal of temporary differences	**(500)**	(406)
Income tax expense reported in the statements of comprehensive Income through profit or loss	**1,373**	1,092

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, 2022 and October 31, 2021 is as follows:

	2022		2021	
	$	%	$	%
Income before income taxes	**5,060**	-	4,139	-
Income taxes at statutory rate	**1,359**	**26.85**	1,112	26.87
Other	**14**	**0.28**	(20)	(0.49)
Income tax expense and effective tax rate	**1,373**	**27.13**	1,092	26.38

[in thousands of Canadian dollars, unless otherwise indicated]

19. 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:

	2022		2021	
Statement of financial position	**Carrying value** $	**Estimated fair value** $	**Carrying value** $	**Estimated fair value** $
Financial assets				
Treasury bills	-	**-**	186,821	186,821
Interest-bearing deposits with financial institutions	**72,582**	**70,149**	77,011	77,011
Loans and advances to customers	**518,921**	**507,643**	457,232	461,543
Derivative financial instruments	**5,554**	**5,554**	1,564	1,564
Financial Liabilities				
Due to customers	**1,105,290**	**1,103,869**	1,134,953	1,134,989
Other liabilities	**10,295**	**10,295**	8,845	8,845
Subordinated debentures	**4,352**	**4,494**	4,310	4,494

Carrying values of loans and advances to customers due to customers, treasury bills, interest-bearing deposits with financial institutions and other liabilities 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.

[in thousands of Canadian dollars, unless otherwise indicated]

19. FINANCIAL ASSETS AND LIABILITIES (continued)

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 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:

		2022	
	Level 1	**Level 2**	**Level 3**
	$	**$**	**$**
Financial assets			
Loans and advances to customers	-	-	**336,222**
Financial liabilities			
Due to customers	-	-	**(148,676)**
Subordinated debentures	-	-	**(4,494)**
	-	-	**183,052**

		2021	
	Level 1	**Level 2**	**Level 3**
	$	**$**	**$**
Financial assets			
Loans and advances to customers	-	-	298,642
Financial liabilities			
Due to customers	-	-	(159,792)
Subordinated debentures	-	-	(4,494)
	-	-	134,356

During the reporting period ended October 31, 2022 and 2021, there were no transfers between leveling categories.

[in thousands of Canadian dollars, unless otherwise indicated]

20. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank has entered into multiple fixed for floating interest rate swaps with TD Bank in order to hedge against interest rate fluctuations that have been accounted for as both fair value and cash flow hedges. A summary of the interest rate swaps as at October 31, 2022 is provided below:

	2022						
Type of Hedge	**Notional Amount** $	**Maturity Date**	**Paying rate index**	**Receiving rate index**	**Paying rate**	**Receiving rate**	**Fair value (negative)** $
Fair value	**9,485**	**1-Mar-31**	**Fixed**	**1-month CDOR**	**1.975%**	**1-month CDOR**	**1,022**
Cash flow	**20,000**	**27-Aug-26**	**Fixed**	**TD Prime**	**3.308%**	**TD Prime**	**1,734**
Other*	**20,000**	**27-Aug-26**	**TD Prime**	**OIS**	**TD Prime**	**OIS+2.25%**	**(2)**
Cash flow	**30,000**	**27-Aug-24**	**Fixed**	**TD Prime**	**3.043%**	**TD Prime**	**1,664**
Other*	**30,000**	**27-Aug-24**	**TD Prime**	**OIS**	**TD Prime**	**OIS+2.25%**	**(2)**
Cash flow	**20,000**	**28-Jun-25**	**Fixed**	**TD Prime**	**5.551%**	**TD Prime**	**208**
Other*	**20,000**	**28-Jun-25**	**TD Prime**	**OIS**	**TD Prime**	**OIS+2.25%**	**(1)**
Cash flow	**15,000**	**9-Nov-25**	**Fixed**	**TD Prime**	**3.745%**	**TD Prime**	**932**
Other*	**15,000**	**9-Nov-25**	**TD Prime**	**OIS**	**TD Prime**	**OIS+2.25%**	**(1)**
							5,554

*The fair value of derivatives as of October 31, 2022 that do not qualify for hedge accounting and as a result have been recorded through profit and loss is $(6) [(2021 – ($4)]

	2021						
Type of Hedge	**Notional Amount** $	**Maturity Date**	**Paying rate index**	**Receiving rate index**	**Paying rate**	**Receiving rate**	**Fair value (negative)** $
Fair value	6,036	1-Dec-21	Fixed	1-month CDOR	3.750%	CDOR+2.29%	(10)
Fair value	6,491	3-May-24	Fixed	1-month CDOR	0.995%	1-month CDOR	103
Fair value	6,055	1-Apr-24	Fixed	1-month CDOR	0.940%	1-month CDOR	97
Fair value	8,388	1-Sep-25	Fixed	1-month CDOR	1.130%	1-month CDOR	131
Fair value	9,790	1-Mar-31	Fixed	1-month CDOR	1.975%	1-month CDOR	59
Cash flow	20,000	27-Aug-26	Fixed	TD Prime	3.308%	TD Prime	569
Other*	20,000	27-Aug-26	TD Prime	OIS	TD Prime	OIS+2.25%	(2)
Cash flow	30,000	27-Aug-24	Fixed	TD Prime	3.043%	TD Prime	619
Other*	30,000	27-Aug-24	TD Prime	OIS	TD Prime	OIS+2.25%	(2)
							1,564

[in thousands of Canadian dollars, unless otherwise indicated]

20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table presents the effect of fair value hedges on loans on the Bank's Consolidated Statement of Comprehensive Income.

Fair Value Hedges	**For the year ended October 31, 2022**				
	Change in value of hedged items	**Change in fair value of hedging instruments**	**Hedge ineffectiveness**	**Carrying amount for hedged items**	**Accumulated fair value adjustments on hedged items**
Loans	**(1,599)**	**1,599**	**-**	**9,485**	**(1,022)**
	For the year ended October 31, 2021				
Loans	(305)	305	-	36,380	(379)

The following table presents the effect of cash flow hedges on deposits on the Bank's Consolidated Statement of Comprehensive Income on a pre-tax basis. All changes in other comprehensive income are due to changes in the fair value of cash flow hedges used to manage interest rate risk.

Cash Flow Hedges	**For the year ended October 31, 2022**			
	Change in Value of hedged items	**Change in fair value of hedging instrument**	**Hedge ineffectiveness**	**Net change in other comprehensive income**
Interest rate risk	**(3.350)**	**3,350**	**-**	**(3,350)**
Cash Flow Hedges	**For the year ended October 31, 2021**			
Interest rate risk	(1,188)	1,188	-	(1,188)

21. GUARANTEES

Letters of guarantee have been provided to third parties by the Bank to make payments on behalf of customers up to $29,147 [2021 – $17,061].

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.

22. SHARE-BASED COMPENSATION

Senior executives of the Bank receive remuneration in the form of share-based payment transactions comprising of both Performance Share Units (“PSU”) and Phantom Share Options (“PSO”). 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 and the estimated number of PSUs and PSOs expected to vest.

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.

Expenses arising from cash–settled PSU share–based payment transactions amount to $303 [2021 – $134]. The carrying amount of the liability (Note 10) relating to the cash–settled options at the statement of financial position date and prior year is $506 [2021 – $203].

Expenses arising from cash–settled PSO share–based payment transactions amount to $708 [2021 – $277]. The carrying amount of the liability (Note 10) relating to the cash–settled options at the statement of financial position date and prior year is $1,426 [2021 – $869].