Financial Statements

First Nations Bank of Canada

October 31, 2007 and 2006

AUDITORS' REPORT

To the Shareholders of
First Nations Bank of Canada

We have audited the balance sheets of **First Nations Bank of Canada** as at October 31, 2007 and 2006 and the statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
March 14, 2008.

First Nations Bank of Canada

BALANCE SHEETS

[in thousands of dollars]

As at October 31

	2007 $	2006 $
ASSETS		
Cash *[note 5[a]]*	**83,940**	51,944
Loans, net of allowance for credit losses *[note 3]*		
Mortgage loans	**33,089**	29,758
Other loans	**106,277**	97,564
	139,366	127,322
Interest receivable	**1,042**	1,090
Future tax assets *[note 8]*	**564**	258
Capital assets, net *[note 4]*	**1,261**	194
Deferred costs	**116**	549
Other receivable	**38**	—
	226,327	181,357
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Borrowings		
Notice deposits	**118,422**	106,153
Medium-term certificates	**30,791**	21,490
Loans from The Toronto-Dominion Bank *[note 5[c]]*	**22,856**	24,887
	172,069	152,530
Cheques and other items in transit, net *[note 5[h]]*	**23,206**	9,532
Payable to The Toronto-Dominion Bank	**3,628**	3,191
Interest payable	**924**	753
Income taxes payable	**(72)**	703
Other liabilities	**708**	273
Shareholder loan *[note 5[d]]*	**—**	375
Total liabilities	**200,463**	167,357
Shareholders' equity		
Share capital *[note 6]*	**23,259**	13,135
Retained earnings	**2,605**	865
Total shareholders' equity	**25,864**	14,000
	226,327	181,357

See accompanying notes

On behalf of the Board:

Keith Martell

Director

Director

First Nations Bank of Canada

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

[in thousands of dollars]

Years ended October 31

	2007 $	2006 $
INTEREST INCOME		
Term and bank deposits	**2,523**	1,813
Loans		
Mortgage loans	**1,696**	1,577
Other loans	**6,367**	5,635
	10,586	9,025
INTEREST EXPENSE		
Notice deposits	**2,675**	1,915
Medium-term certificates	**945**	665
Loans from The Toronto-Dominion Bank *[note 5[c]]*	**1,074**	1,182
	4,694	3,762
Net interest income	**5,892**	5,263
(Recovery of) provision for credit losses *[note 3]*	**(12)**	262
Net interest income after (recovery of) provision for credit losses	**5,904**	5,001
Other income	**2,181**	1,819
Net interest and other income	**8,085**	6,820
NON-INTEREST EXPENSES *[note 5[b]]*		
Salary and staff benefits	**2,679**	2,019
Occupancy	**498**	368
Marketing	**214**	180
Professional fees	**177**	256
Central services	**595**	589
Travel	**130**	120
Master Services Agreement	**475**	547
Other	**869**	560
	5,637	4,639
Income before income taxes	**2,448**	2,181
Provision for income taxes *[note 8]*	**784**	791
Net income for the year	**1,664**	1,390
Other comprehensive income for the year	—	—
Comprehensive income for the year	**1,664**	1,390

See accompanying notes

First Nations Bank of Canada

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[in thousands of dollars]

Years ended October 31

	2007 $	**2006** $
Share capital *[note 6]*	**23,259**	13,135
Retained earnings (deficit), beginning of year	**865**	(496)
Future tax income (expense) for share issuance	**386**	(29)
Dividend to The Toronto-Dominion Bank	**(310)**	—
Net income for the year	**1,664**	1,390
Retained earnings, end of year	**2,605**	865
Comprehensive income for the year	—	—
Total shareholders' equity, end of year	**25,864**	14,000

See accompanying notes

First Nations Bank of Canada

STATEMENTS OF CASH FLOWS

[in thousands of dollars]

Years ended October 31

	2007 $	2006 $
OPERATING ACTIVITIES		
Net income for the year	**1,664**	1,390
Add (deduct) items not involving cash		
(Recovery of) provision for credit losses	**(12)**	262
Future income taxes	**(306)**	21
Depreciation and amortization	**68**	28
Future tax income (expense) for share issuance	**386**	(29)
Changes in non-cash working capital balances related to operations		
Interest receivable	**48**	(2)
Interest payable	**171**	(13)
Income taxes (recoverable) payable	**(775)**	603
Other assets	**395**	8,579
Other liabilities	**14,171**	9,309
Cash provided by operating activities	**15,810**	20,148
FINANCING ACTIVITIES		
Notice deposits, net	**12,269**	16,038
Medium-term certificates, net	**9,301**	3,129
Loans from The Toronto-Dominion Bank, net	**(2,031)**	(938)
Issuance of common shares	**14,000**	—
Share issue costs	**(1,491)**	—
Redemption of preferred shares	**(2,695)**	—
Dividend to The Toronto-Dominion Bank	**(310)**	—
Issuance of preferred shares	**310**	—
Cash provided by financing activities	**29,353**	18,229
INVESTING ACTIVITIES		
Capital assets	**(1,135)**	(49)
Mortgage loans	**(3,331)**	(1,426)
Other loans, net of amounts written off	**(8,701)**	(19,034)
Cash used in investing activities	**(13,167)**	(20,509)
Net increase in cash during the year	**31,996**	17,868
Cash, beginning of year	**51,944**	34,076
Cash, end of year	**83,940**	51,944
Supplemental cash flow information		
Interest paid	**4,523**	3,775
Income taxes paid	**1,480**	218

See accompanying notes

First Nations Bank of Canada

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2007 and 2006

1. INCORPORATION

First Nations Bank of Canada [the "Bank"] was incorporated under the Bank Act [1992 as amended] by Letters Patent dated November 19, 1996.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Bank, including the accounting requirements of the Superintendent of Financial Institutions Canada, conform with Canadian generally accepted accounting principles and include the following significant accounting policies:

Use of estimates

The preparation of the financial statements of the Bank requires management to make estimates and assumptions based on information available as of the date of the financial statements. Therefore, actual results could differ from those estimates. The accounting for loan losses, fair value of financial instruments and income taxes are areas where management makes such estimates and assumptions.

Changes in accounting policies

Financial instruments

The Bank adopted The Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3861, *Financial Instruments – Disclosure and Presentation*; Section 1530, *Comprehensive Income*; and Section 3251, *Equity* on November 1, 2006. The adoption of these new Financial Instruments standards did not result in changes to the recorded amounts of any assets, liabilities or components of shareholders' equity on the date of adoption.

Financial assets and financial liabilities

Prior to the adoption of the new standards, the Bank classified all of its financial assets as loans and receivables. Loans were stated net of unearned income and an allowance for credit losses. All of the bank’s financial liabilities were recorded on an accrual basis.

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification. The classification depends on the purpose for which the financial instruments were acquired and their characteristics.

Future accounting and reporting changes

Capital disclosures

The CICA issued a new accounting standard, Section 1535, *Capital Disclosures*, which requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. This new standard is effective for the Bank beginning November 1, 2007.

Financial instruments

The CICA issued two new accounting standards, Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*, which apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. These new standards are effective for the Bank beginning November 1, 2007.

Loans

Loans are recorded at amortized costs using the effective interest rate method, net of an allowance for credit losses and net of unearned income. Interest income is recorded on an accrual basis until such time as the loan is classified as impaired. Interest on impaired loans subsequently received is recorded as income only when management has reasonable assurance as to the timely collection of the full amount of the principal and interest. An impaired loan is any loan where, in management's opinion, there has been a deterioration of credit quality to the extent that the Bank no longer has reasonable assurance as to the timely collection of the full amount of the principal and interest.

Mortgage loans

Mortgage loans are carried at cost net of unamortized discounts, premiums and buy-down fees. Interest received on prepayment and discharges of mortgages is recorded in income.

Allowance for credit losses

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

The allowance consists of specific and general allowances.

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

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

Actual write-offs, net of recoveries, are deducted from the allowance for credit losses. The provision for credit losses, which is charged to the statements of income, is added to bring the allowance to a level which management considers adequate to absorb probable credit-related losses in the portfolio.

Capital assets

Equipment, including furniture and fixtures and leasehold improvements, are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are provided over the estimated useful lives of the assets using the following annual rates and methods:

Computer equipment	30% declining balance
Furniture, fixtures and other equipment	20% declining balance
Leasehold improvements	straight-line over the term of the lease

Deferred costs

Legal, accounting and other direct costs related to private placement of common shares are deferred and deducted from the related capital account when the issuance of such shares is complete. Deferred costs also include the cash rebates paid on cashback mortgages which are deferred and amortized over the term of the mortgage.

During the year, the common share offering was consummated and the related deferred costs were netted against share proceeds.

Income taxes

The Bank follows the liability method of tax allocation for accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

[in thousands of dollars unless otherwise indicated]

Employee future benefits

The Bank's employees are covered by The Pension Fund Society of The Toronto-Dominion Bank, which is a defined benefit plan for which membership is voluntary. The employees are also covered by The Toronto-Dominion Bank's ["TD Bank"] post-retirement benefits, post-employment benefits, compensated absences and termination benefits plans. The costs of these pension and non-pension benefit plans are not specifically allocated to, or funded separately by, the Bank. As a result, the Bank is not able to identify its share of the underlying assets and liabilities and the benefit plans are accordingly accounted for as defined contribution plans.

3. LOANS, IMPAIRED LOANS AND ALLOWANCE FOR CREDIT LOSSES

	2007					
	Gross amount of loans $	**Specific allowance** $	**General allowance** $	**Total allowance** $	**Net amount of loans** $	**Gross impaired loans** $
Mortgage loans	**33,093**	**—**	**4**	**4**	**33,089**	**71**
Other loans	**106,898**	**—**	**621**	**621**	**106,277**	**36**
	139,991	**—**	**625**	**625**	**139,366**	**107**

	2006					
	Gross amount of loans $	**Specific allowance** $	**General allowance** $	**Total allowance** $	**Net amount of loans** $	**Gross impaired loans** $
Mortgage loans	29,776	—	18	18	29,758	133
Other loans	98,253	—	689	689	97,564	31
	128,029	—	707	707	127,322	164

[in thousands of dollars unless otherwise indicated]

Allowance for credit losses

	2007 $	2006 $
Balance, beginning of year	**707**	658
Write-offs	**(70)**	(213)
(Recovery of) provision for credit losses charged to statements of income		
Specific	**68**	92
General	**(80)**	170
	(12)	262
Balance, end of year	**625**	707

Mortgage loans include $31,559 [2006 - $28,017] of insured loans. Other loans include $30,146 [2006 - $30,590] of government guaranteed loans.

4. CAPITAL ASSETS

Capital assets consist of the following:

	2007			2006
	Cost $	Accumulated depreciation and amortization $	Net book value $	Net book value $
Computer equipment	**18**	**16**	**2**	3
Furniture, fixtures and other equipment	**165**	**73**	**92**	23
Leasehold improvements	**1,429**	**262**	**1,167**	168
	1,612	**351**	**1,261**	194

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2007 and 2006

5. RELATED PARTY TRANSACTIONS

[a] Cash

Cash is held with TD Bank.

[b] Services

The Bank has entered into the TD/FNBC Services Agreement (2007), pursuant to which TD Bank performs banking, financial and discretionary services, including but not limited to financial accounting and reporting, head office and divisional support, corporate secretarial and treasury services. Payments to TD Bank for its services are on market terms and conditions. Some of the Bank's capital assets are also supplied monthly from TD Bank. During the year, the Bank incurred $1,189 [2006 - $1,236] for these services.

[c] Loans from TD Bank

The Bank has entered into agreements under which TD Bank has agreed to provide the Bank with credit facilities for purposes of managing liquidity and interest rate risk. The credit facilities are established at market terms and interest rates. At October 31, 2007, the available credit facilities totalled $29,856 [2006 - $31,887]; the total outstanding balance was $22,856 [2006 - $24,887] and matures between October 2008 and February 2011. Interest payable to TD Bank as at October 31, 2007 amounted to $395 [2006 - $420].

[d] Shareholder loan

The Bank entered into an agreement with TD Bank to receive nil [2006 - $375] to cover costs incurred in obtaining an Order to Commence Business. The loan is non-interest bearing.

[e] Guarantee

For the purposes of obtaining Canada Deposit Insurance Corporation ["CDIC"] insurance coverage, TD Bank has guaranteed to CDIC the Bank's deposit liabilities up to $40 million of the Bank's deposit liabilities to the extent that they are in respect of deposits that are, or are required to be, insured pursuant to the CDIC Act. A guarantee fee of 1/22 of 1% of the insured deposits as at April 30, 2006 was paid to TD Bank in July 2006 and the guarantee fee of $14 was payable to TD Bank at year end.

The Bank has also guaranteed to the Cree Regional Authority daily outstanding deposit liabilities on behalf of certain beneficiaries in the amount of $13,702 at October 31, 2007.

[f] Assets under administration

The Bank has monies invested with related parties on behalf of clients of approximately $4,190 [2006 - $2,546].

[g] Loans to directors and employees

At October 31, 2007, loans provided to the Bank's directors and employees at discounts to customer rates amounted to $1,291 [2006 - $764].

[h] Cheques and other items in transit, net

The Bank uses TD Bank as its settlement agent. The balance from the daily settlement with TD Bank at October 31, 2007 is $6,365 [2006 - $5,342] and net payable of $16,841 [2006 - $4,190] to TD Bank.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2007 and 2006

6. SHARE CAPITAL

Share capital consists of the following:

	2007		2006	
	#	$	#	$
Authorized				
Unlimited common shares				
Unlimited Class A non-voting preferred shares				
Unlimited Class B voting preferred shares				
Unlimited Class C non-voting preferred shares				
Issued and outstanding				
Common shares				
Balance, beginning of year	**1,052,071**	**1,089**	1,052,071	1,089
Share issuance	**6,222,240**	**14,000**	—	—
Class A preferred shares conversion	**2,813,086**	**4,046**	—	—
Class B preferred shares conversion	**997,655**	**2,246**	—	—
Share issue costs	**—**	**(1,491)**	—	—
Balance, end of year	**11,085,052**	**19,890**	1,052,071	1,089
Class A preferred shares				
Balance, beginning of year	**2,813,086**	**4,046**	2,813,086	4,046
Conversion to common shares	**(2,813,086)**	**(4,046)**	—	—
Balance, end of year	**—**	**—**	2,813,086	4,046
Class B preferred shares				
Balance, beginning of year	**8,000,000**	**8,000**	8,000,000	8,000
Conversion at $2.25 per share	**(8,000,000)**	**(8,000)**	—	—
Conversion at $2.25 per share	**3,555,555**	**8,000**	—	—
Conversion to common shares	**(997,655)**	**(2,246)**	—	—
Redemption	**(1,197,959)**	**(2,695)**	—	—
Share issuance	**137,778**	**310**	—	—
Balance, end of year	**1,497,719**	**3,369**	8,000,000	8,000
Total share capital		**23,259**		13,135

[in thousands of dollars unless otherwise indicated]

Under the terms of the By-laws of the Bank, common shares may be owned only by First Nations Investors as defined in the By-laws and by TD Bank or one of its affiliates. The Class B voting preferred shares may be owned only by TD Bank or one of its affiliates. Owners of all classes of shares are entitled to dividends, if declared by the Board of Directors of the Bank. No dividends may be declared on common shares unless the Bank concurrently declares or pays an equal dividend per Class B preferred share.

Effective October 26, 2007, the Bank successfully closed the common share offering and By-law No. 2 became effective resulting in the following transactions:

The 2,813,086 Class A non-voting preferred shares were converted to common shares on the basis of one common share for one Class A preferred share.

The 8,000,0000 Class B preferred shares held by TD Bank were consolidated into 3,555,555 Class B preferred shares. 997,655 Class B preferred shares held by TD Bank after the foregoing consolidation were converted into 997,655 common shares. 1,197,959 Class B preferred shares were redeemed for $2,695. 137,778 Class B preferred shares were issued to TD Bank in satisfaction of the dividend declared December 11, 2006 in the amount of $310.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2007		**2006**	
Balance sheets	**Carrying value** $	**Estimated fair value** $	**Carrying value** $	**Estimated fair value** $
ASSETS				
Loans, net	**139,366**	**140,771**	127,322	129,472
LIABILITIES				
Borrowings	**172,069**	**172,904**	152,530	153,706

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:

In the case of items which are short-term in nature or contain variable rate features, fair value is considered to be equal to carrying value.

[in thousands of dollars unless otherwise indicated]

The estimated fair value of loans reflects changes in general interest rates which have occurred since the loans were originated and the creditworthiness of individual borrowers. For fixed-rate loans, estimated fair value is determined by discounting the expected future cash flows related to these loans at market interest rates for loans with similar credit risks.

The estimated fair value of borrowings, other than short-term items, is determined by discounting the contractual cash flows using interest rates currently offered for deposits with similar terms.

8. INCOME TAXES

Significant components of the Bank's future tax assets are as follows:

	2007 $	**2006** $
Future tax assets		
Allowance for credit losses	**209**	248
Capital assets	**—**	36
Other	**355**	(26)
	564	258

Significant components of the provision for income taxes are as follows:

	2007 $	**2006** $
Current income tax expense	**704**	799
Future income tax provision (recovery) relating to origination and reversal of temporary differences	**80**	(8)
Provision for income taxes	**784**	791

The provision for income taxes shown in the statements of income differs from that obtained by applying statutory tax rates to the income before incomes taxes for the following reasons:

	2007		**2006**	
	$	%	$	%
Income before income taxes	**2,448**	**—**	2,181	—
Income taxes at statutory rate	**861**	**35.2**	796	36.5
Other	**(77)**	**(3.1)**	(5)	(0.2)
Effective income tax rate	**784**	**32.1**	791	36.3

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2007 and 2006

9. INTEREST RATE RISK

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 which are shown at contractual maturity but which often prepay earlier, and certain borrowings, which are shown at contractual maturity but which are often cashed before their contractual maturity.

	2007						
	Floating rate $	**Less than 1 year** $	**1 to 2 years** $	**2 to 3 years** $	**Over 3 years** $	**Non-interest rate sensitive** $	**Total** $
ASSETS							
Cash	83,940	—	—	—	—	—	83,940
Mortgage loans	—	6,780	8,404	8,455	9,450	—	33,089
Effective yield	—	*5.78*	*5.75*	*5.12*	*5.75*		
Other loans	70,847	5,513	3,733	4,650	21,534	—	106,277
Effective yield	—	*6.70*	*7.23*	*7.13*	*6.03*		
Other	—	—	—	—	—	3,021	3,021
	154,787	12,293	12,137	13,105	30,984	3,021	226,327
LIABILITIES AND SHAREHOLDERS' EQUITY							
Borrowings	100,311	22,471	7,545	7,375	34,367	—	172,069
Effective yield	*1.44*	*3.79*	*4.4*	*4.48*	*4.56*		
Other	—	—	—	—	—	5,188	5,188
Cheques and other items in transit, net	—	—	—	—	—	23,206	23,206
Shareholder loan	—	—	—	—	—	—	—
Shareholders' equity	—	—	—	—	—	25,864	25,864
	100,311	22,471	7,545	7,375	34,367	54,258	226,327

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2007 and 2006

	2006						
	Floating rate $	Less than 1 year $	1 to 2 years $	2 to 3 years $	Over 3 years $	Non-interest rate sensitive $	Total $
ASSETS							
Cash	51,944	—	—	—	—	—	51,944
Mortgage loans	—	6,223	6,196	7,835	9,504	—	29,758
Effective yield		*6.00*	*5.82*	*5.80*	*5.58*		
Other loans	52,730	19,727	2,197	2,314	20,596	—	97,564
Effective yield	—	*7.15*	*6.71*	*6.62*	*5.88*		
Other	—	—	—	—	—	2,091	2,091
	104,674	25,950	8,393	10,149	30,100	2,091	181,357
LIABILITIES AND SHAREHOLDERS' EQUITY							
Borrowings	105,572	22,471	2,522	2,481	19,484	—	152,530
Effective yield	*1.13*	*1.54*	*4.34*	*4.28*	*4.55*		
Other	—	—	—	—	—	4,920	4,920
Cheques and other items in transit, net	—	—	—	—	—	9,532	9,532
Shareholder loan	—	—	—	—	—	375	375
Shareholders' equity	—	—	—	—	—	14,000	14,000
	105,572	22,471	2,522	2,481	19,484	28,827	181,357

[in thousands of dollars unless otherwise indicated]

10. LEASE COMMITMENTS

The Bank has obligations under long-term, non-cancellable leases for premises as follows:

	$
2008	258
2009	214
2010	212
2011	210
2012	171

11. CONTINGENT LIABILITIES, COMMITMENTS AND GUARANTEES

In the normal course of operations, the Bank, as set out in its By-laws, 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.

12. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been re-classified from statements previously presented to conform to the presentation of the 2007 financial statements.

Financial Statements

First Nations Bank of Canada

October 31, 2008 and 2007

AUDITORS' REPORT

To the Shareholders of
First Nations Bank of Canada

We have audited the balance sheets of **First Nations Bank of Canada** as at October 31, 2008 and 2007 and the statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
December 19, 2008.

First Nations Bank of Canada

BALANCE SHEETS

[in thousands of dollars]

As at October 31

	2008 $	**2007** $
ASSETS		
Cash and cash equivalents *[note 5[a]]*	**115,417**	83,940
Loans, net of allowance for credit losses *[note 3]*		
Mortgage loans	**32,752**	33,089
Other loans	**100,484**	106,277
	133,236	139,366
Cheques and other items in transit, net *[note 5[g]]*	**1,208**	—
Interest receivable	**1,285**	1,042
Future tax assets *[note 9]*	**407**	564
Capital assets, net *[note 4]*	**1,510**	1,261
Deferred costs	**135**	116
Other receivable	**1**	38
	253,199	226,327
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Borrowings		
Notice deposits	**158,049**	118,422
Medium-term certificates	**41,662**	30,791
Loans from The Toronto-Dominion Bank *[note 5[c]]*	**20,780**	22,856
	220,491	172,069
Cheques and other items in transit, net *[note 5[g]]*	—	23,206
Payable to The Toronto-Dominion Bank	**3,991**	3,628
Interest payable	**778**	924
Other liabilities	**495**	636
Total liabilities	**225,755**	200,463
Contingent liabilities, commitments and guarantees *[notes 12 and 13]*		
Shareholders' equity		
Share capital *[note 6]*	**23,259**	23,259
Retained earnings	**4,185**	2,605
Total shareholders' equity	**27,444**	25,864
	253,199	226,327

See accompanying notes

On behalf of the Board:

Keith Martell

Director

Director

First Nations Bank of Canada

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

[in thousands of dollars]

Years ended October 31

	2008 $	2007 $
INTEREST INCOME		
Term and bank deposits	**3,982**	2,523
Loans		
Mortgage loans	**1,753**	1,696
Other loans	**6,271**	6,367
	12,006	10,586
INTEREST EXPENSE		
Notice deposits	**2,770**	2,675
Medium-term certificates	**1,438**	945
Loans from The Toronto-Dominion Bank *[note 5[c]]*	**1,009**	1,074
	5,217	4,694
Net interest income	**6,789**	5,892
Provision for (recovery of) credit losses *[note 3]*	**236**	(12)
Net interest income after provision for (recovery of) credit losses	**6,553**	5,904
Other income	**2,383**	2,181
Net interest and other income	**8,936**	8,085
NON-INTEREST EXPENSES *[note 5[b]]*		
Salary and staff benefits	**2,957**	2,679
Occupancy	**716**	498
Marketing	**209**	214
Professional fees	**372**	177
Central services	**668**	595
Travel	**149**	130
Master Services Agreement	**448**	475
Capital taxes	**462**	438
Other	**560**	431
	6,541	5,637
Income before income taxes	**2,395**	2,448
Provision for income taxes *[note 9]*	**705**	784
Net income for the year	**1,690**	1,664
Other comprehensive income for the year	**—**	—
Net income and other comprehensive income	**1,690**	1,664

See accompanying notes

First Nations Bank of Canada

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[in thousands of dollars]

Years ended October 31

	2008 $	2007 $
Share capital *[note 6]*	**23,259**	23,259
Retained earnings, beginning of year	**2,605**	865
Future tax income (expense) for share issuance	**(110)**	386
Dividend to The Toronto-Dominion Bank	—	(310)
Net income for the year	**1,690**	1,664
Retained earnings, end of year	**4,185**	2,605
Total shareholders' equity, end of year	**27,444**	25,864

See accompanying notes

First Nations Bank of Canada

STATEMENTS OF CASH FLOWS

[in thousands of dollars]

Years ended October 31

	2008 $	2007 $
OPERATING ACTIVITIES		
Net income for the year	**1,690**	1,664
Add (deduct) items not involving cash		
Provision for (recovery of) credit losses	**236**	(12)
Future income taxes	**157**	(306)
Depreciation and amortization	**99**	68
Future tax income (expense) for share issuance	**(110)**	386
Changes in non-cash working capital balances related to operations		
Interest receivable	**(243)**	48
Interest payable	**(146)**	171
Other assets	**(1,190)**	395
Other liabilities	**(22,984)**	13,396
Cash provided by (used in) operating activities	**(22,491)**	15,810
FINANCING ACTIVITIES		
Notice deposits, net	**39,627**	12,269
Medium-term certificates, net	**10,871**	9,301
Loans from The Toronto-Dominion Bank, net	**(2,076)**	(2,031)
Issuance of common shares	—	14,000
Share issue costs	—	(1,491)
Redemption of preferred shares	—	(2,695)
Dividend to The Toronto-Dominion Bank	—	(310)
Issuance of preferred shares	—	310
Cash provided by financing activities	**48,422**	29,353
INVESTING ACTIVITIES		
Capital assets	**(348)**	(1,135)
Mortgage loans	**337**	(3,331)
Other loans, net of amounts written off	**5,557**	(8,701)
Cash provided by (used in) investing activities	**5,546**	(13,167)
Net increase in cash and cash equivalents during the year	**31,477**	31,996
Cash and cash equivalents, beginning of year	**83,940**	51,944
Cash and cash equivalents, end of year	**115,417**	83,940
Supplemental cash flow information		
Interest paid	**5,363**	4,523
Income taxes paid	**598**	1,480

See accompanying notes

First Nations Bank of Canada

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2008 and 2007

1. INCORPORATION

First Nations Bank of Canada [the "Bank"] was incorporated under the Bank Act [1992 as amended] by Letters Patent dated November 19, 1996.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Bank, including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada ["OSFI"], conform with Canadian generally accepted accounting principles and include the following significant accounting policies:

Use of estimates

The preparation of the financial statements of the Bank requires management to make estimates and assumptions based on information available as of the date of the financial statements. Therefore, actual results could differ from those estimates. The accounting for loan losses, fair value of financial instruments and income taxes are areas where management makes such estimates and assumptions.

Changes in accounting policies

Capital disclosures

Effective November 1, 2007, the Canadian Institute of Chartered Accountants ["CICA"], Section 1535, *Capital Disclosures,* was implemented, which requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The new guidance did not have an effect on the financial position or earnings of the Bank.

Financial instruments

Effective November 1, 2007, the accounting and disclosure requirements of the CICA's two new accounting standards, Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*, were implemented. The new guidance did not have an effect on the financial position or earnings of the Bank.

The Bank adopted CICA Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3861, *Financial Instruments – Disclosure and Presentation*; Section 1530, *Comprehensive Income*; and Section 3251, *Equity* on November 1, 2006. The adoption of these new financial instruments standards resulted in changes in the accounting for financial instruments as well as the recognition of certain transition adjustments that have been recorded in opening retained earnings or opening accumulated other comprehensive income.

Financial assets and financial liabilities

Prior to the adoption of the new standards, the Bank classified all of its financial assets as loans and receivables. Loans were stated net of unearned income and an allowance for credit losses. All of the Bank’s financial liabilities were recorded on an accrual basis.

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification. The classification depends on the purpose for which the financial instruments were acquired and their characteristics.

Cash and cash equivalents

Cash and cash equivalents consist of cash and amounts due from The Toronto-Dominion Bank ["TD Bank"].

Loans

Loans are recorded at amortized costs using the effective interest rate method, net of an allowance for credit losses and net of unearned income. Interest income is recorded on an accrual basis until such time as the loan is classified as impaired. Interest on impaired loans subsequently received is recorded as income only when management has reasonable assurance as to the timely collection of the full amount of the principal and interest. An impaired loan is any loan where, in management's opinion, there has been a deterioration of credit quality to the extent that the Bank no longer has reasonable assurance as to the timely collection of the full amount of the principal and interest.

Mortgage loans

Mortgage loans are carried at cost net of unamortized discounts, premiums and buy-down fees. Interest received on prepayment and discharges of mortgages is recorded in income.

Allowance for credit losses

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

The allowance consists of specific and general allowances.

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

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

Actual write-offs, net of recoveries, are deducted from the allowance for credit losses. The provision for credit losses, which is charged to the statements of income and comprehensive income, is added to bring the allowance to a level which management considers adequate to absorb probable credit-related losses in the portfolio.

Capital assets

Capital assets are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are provided over the estimated useful lives of the assets using the following annual rates and methods:

Computer equipment	30% declining balance
Furniture, fixtures and other equipment	20% declining balance
Leasehold improvements	straight-line over the term of the lease

Deferred costs

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

Income taxes

The Bank follows the liability method of tax allocation for accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Employee future benefits

The Bank's employees are covered by The Pension Fund Society of The Toronto-Dominion Bank, which is a defined benefit plan for which membership is voluntary. The employees are also covered by TD Bank's post-retirement benefits, post-employment benefits, compensated absences and termination benefits plans. The costs of these pension and non-pension benefit plans are not specifically allocated to, or funded separately by, the Bank. As a result, the Bank is not able to identify its share of the underlying assets and liabilities and the benefit plans are accordingly accounted for as defined contribution plans.

[in thousands of dollars unless otherwise indicated]

3. LOANS, IMPAIRED LOANS AND ALLOWANCE FOR CREDIT LOSSES

	2008					
	Gross amount of loans $	Specific allowance $	General allowance $	Total allowance $	Net amount of loans $	Gross impaired loans $
Mortgage loans	**32,756**	**—**	**4**	**4**	**32,752**	**—**
Other loans	**101,164**	**—**	**680**	**680**	**100,484**	**56**
	133,920	**—**	**684**	**684**	**133,236**	**56**

	2007					
	Gross amount of loans $	Specific allowance $	General allowance $	Total allowance $	Net amount of loans $	Gross impaired loans $
Mortgage loans	33,093	—	4	4	33,089	71
Other loans	106,898	—	621	621	106,277	36
	139,991	—	625	625	139,366	107

Allowance for credit losses

	2008 $	2007 $
Balance, beginning of year	**625**	707
Write-offs	**(177)**	(70)
Provision for (recovery of) credit losses		
Specific	**177**	68
General	**59**	(80)
	236	(12)
Balance, end of year	**684**	625

Mortgage loans include $31,174 [2007 - $31,559] of insured loans. Other loans include $15,793 [2007 - $30,146] of government guaranteed loans.

[in thousands of dollars unless otherwise indicated]

Loans past due but not impaired

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

Gross amount of loans past due but not impaired as at October 31, 2008

	1-30 days	**31-60 days**	**61-89 days**	**90 days or more**	**Total**
Residential mortgages	232	315	—	74	621
Consumer instalment and other personal loans	46	—	23	3	72
Business and government	2,635	—	—	—	2,635
	2,913	**315**	**23**	**77**	**3,328**

4. CAPITAL ASSETS

Capital assets consist of the following:

	2008			**2007**
	Cost $	**Accumulated depreciation and amortization** $	**Net book value** $	**Net book value** $
Computer equipment	**—**	**—**	**—**	2
Furniture, fixtures and other equipment	**317**	**99**	**218**	92
Leasehold improvements	**1,624**	**332**	**1,292**	1,167
	1,941	**431**	**1,510**	1,261

[in thousands of dollars unless otherwise indicated]

5. RELATED PARTY TRANSACTIONS

All related party transactions are measured at carrying value.

[a] Cash and cash equivalents

Cash and cash equivalents are held with TD Bank and consist of the following:

	2008 $	**2007** $
Deposit bearing accounts	**35,417**	83,940
Term deposit bearing interest at 3.2% per annum, maturing November 4, 2008	**20,000**	—
Term deposit bearing interest at 3.2% per annum, maturing November 10, 2008	**10,000**	—
Term deposit bearing interest at 3.2% per annum, maturing December 8, 2008	**30,000**	—
Term deposit bearing interest at 3.2% per annum, maturing January 6, 2009	**20,000**	—
	115,417	83,940

[b] Services

The Bank has entered into the TD/FNBC Services Agreement (2007), pursuant to which TD Bank performs banking, financial and discretionary services, including but not limited to financial accounting and reporting, head office and divisional support, corporate secretarial and treasury services. Payments to TD Bank for its services are on market terms and conditions. Some of the Bank's capital assets are also supplied monthly from TD Bank. During the year, the Bank incurred $1,339 [2007 - $1,189] for these services.

[c] Loans from TD Bank

The Bank has entered into agreements under which TD Bank has agreed to provide the Bank with credit facilities for purposes of managing liquidity and interest rate risk. The credit facilities are established at market terms and interest rates. At October 31, 2008, the available credit facilities totalled $27,780 [2007 - $29,856]; the total outstanding balance was $20,780 [2007 - $22,856] and matures between February 2009 and February 2011. Interest payable to TD Bank as at October 31, 2008 amounted to $373 [2007 - $395].

[d] Guarantee

For the purposes of obtaining Canada Deposit Insurance Corporation ["CDIC"] insurance coverage, TD Bank has guaranteed to CDIC the Bank's deposit liabilities up to $40 million to the extent that they are in respect of deposits that are, or are required to be, insured pursuant to the CDIC Act. A guarantee fee of 1/22 of 1% of the insured deposits as at April 30, 2007 and 2008 was paid to TD Bank in January 2008 and June 2008, respectively.

TD Bank has also guaranteed to the Cree Regional Authority daily outstanding deposit liabilities on behalf of certain beneficiaries in the amount of $24,205 at October 31, 2008.

[e] Assets under administration

The Bank has monies invested with related parties on behalf of clients of approximately $2,702 [2007 - $4,190].

[f] Loans to directors and employees

At October 31, 2008, loans provided to the Bank's directors and employees at discounts to customer rates amounted to $1,554 [2007 - $1,291].

[g] Cheques and other items in transit, net

The Bank uses TD Bank as its settlement agent. The balance from the daily settlement with TD Bank at October 31, 2008 was a receivable of $1,436 [2007 – payable of $6,365] and a payable of $228 [2007 - $16,841].

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2008 and 2007

6. SHARE CAPITAL

Share capital consists of the following:

	2008		2007	
	#	$	#	$
Authorized				
Unlimited common shares				
Unlimited Class A non-voting preferred shares				
Unlimited Class B voting preferred shares				
Unlimited Class C non-voting preferred shares				
Issued and outstanding				
Common shares				
Balance, beginning of year	**11,085,052**	**19,890**	1,052,071	1,089
Share issuance	—	—	6,222,240	14,000
Class A preferred shares conversion	—	—	2,813,086	4,046
Class B preferred shares conversion	—	—	997,655	2,246
Share issue costs	—	—	—	(1,491)
Balance, end of year	**11,085,052**	**19,890**	11,085,052	19,890
Class A preferred shares				
Balance, beginning of year	—	—	2,813,086	4,046
Conversion to common shares	—	—	(2,813,086)	(4,046)
Balance, end of year	—	—	—	—
Class B preferred shares				
Balance, beginning of year	**1,497,719**	**3,369**	8,000,000	8,000
Conversion at $2.25 per share	—	—	(8,000,000)	(8,000)
Conversion at $2.25 per share	—	—	3,555,555	8,000
Conversion to common shares	—	—	(997,655)	(2,246)
Redemption	—	—	(1,197,959)	(2,695)
Share issuance	—	—	137,778	310
Balance, end of year	**1,497,719**	**3,369**	1,497,719	3,369
Total share capital		**23,259**		23,259

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2008 and 2007

Under the terms of the By-laws of the Bank, common shares may be owned only by First Nations Investors as defined in the By-laws and by TD Bank or one of its affiliates. The Class B voting preferred shares may be owned only by TD Bank or one of its affiliates. Owners of all classes of shares are entitled to dividends, if declared by the Board of Directors of the Bank. No dividends may be declared on common shares unless the Bank concurrently declares or pays an equal dividend per Class B preferred share. No dividends were declared during the year.

[in thousands of dollars unless otherwise indicated]

7. 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 which 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, 2008, Tier 1 capital includes items such as common shares and preferred shares and retained earnings.

During the year ended October 31, 2008, 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. For the comparative period, the Bank complied with the capital adequacy requirements guidelines issued by OSFI under the Basel I Capital Accord ["Basel I"].
The Bank's regulatory capital position as at October 31, 2008 and 2007 was as follows:

	2008[1] [Basel II]	**2007**[1] [Basel I]
Tier 1 capital	**$27,444**	$23,259
Tier 1 capital ratio	**22.3%**	28.0%
Total capital[2]	**$27,444**	$23,259
Total capital ratio[3]	**22.3%**	28.0%
Assets-to-capital multiple[4]	**9.2**	8.6

1 The Bank's capital positions were calculated based on Basel II as at October 31, 2008 and Basel I as at October 31, 2007, and as a result may not provide comparable information.
2 Tier 1 capital ratio is calculated as Tier 1 capital divided by risk-weighted assets ["RWA"].
3 Total capital ratio is calculated as total capital divided by RWA.
4 The assets-to-capital multiple is calculated as total assets plus off-balance sheet credit instruments, such as certain letters of credit and guarantees divided by total adjusted capital.

OSFI's target Tier 1 and total capital ratios for the Bank is 10%.

[in thousands of dollars unless otherwise indicated]

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2008		2007	
Balance sheets	**Carrying value** $	**Estimated fair value** $	**Carrying value** $	**Estimated fair value** $
ASSETS				
Loans, net	**133,236**	**136,190**	139,366	140,771
LIABILITIES				
Borrowings	**220,491**	**222,122**	172,069	172,904

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:

In the case of items which are short-term in nature or contain variable rate features, fair value is considered to be equal to carrying value.

The estimated fair value of loans reflects changes in general interest rates which have occurred since the loans were originated and the creditworthiness of individual borrowers. For fixed-rate loans, estimated fair value is determined by discounting the expected future cash flows related to these loans at market interest rates for loans with similar credit risks.

The estimated fair value of borrowings, other than short-term items, is determined by discounting the contractual cash flows using interest rates currently offered for deposits with similar terms.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2008 and 2007

9. INCOME TAXES

Significant components of the Bank's future tax assets are as follows:

	2008 $	**2007** $
Future tax assets		
Allowance for credit losses	**216**	209
Capital assets	**(51)**	—
Other	**242**	355
	407	564

Significant components of the provision for income taxes are as follows:

	2008 $	**2007** $
Current income tax expense	**658**	704
Future income tax expense relating to origination and reversal of temporary differences	**47**	80
Provision for income taxes	**705**	784

The provision for income taxes shown in the statements of income and comprehensive income differs from that obtained by applying statutory tax rates to the income before income taxes for the following reasons:

	2008		**2007**	
	$	%	$	%
Income before income taxes	**2,395**	—	2,448	—
Income taxes at statutory rate	**785**	**32.8**	861	35.2
Other	**(80)**	**(3.3)**	(77)	(3.2)
Effective tax	**705**	**29.5**	784	32.0

[in thousands of dollars unless otherwise indicated]

10. INTEREST RATE RISK

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 which are shown at contractual maturity but which often prepay earlier, and certain borrowings, which are shown at contractual maturity but which are often cashed before their contractual maturity.

	2008						
	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	**115,417**	**—**	**—**	**—**	**—**	**—**	**115,417**
Mortgage loans	**—**	**6,086**	**9,308**	**8,567**	**8,791**	**—**	**32,752**
Effective yield	**—**	***5.72***	***5.26***	***5.90***	***5.84***		
Other loans	**65,776**	**6,750**	**5,128**	**21,535**	**1,295**	**—**	**100,484**
Effective yield	**—**	***6.24***	***7.25***	***6.04***	***7.21***		
Other	**—**	**—**	**—**	**—**	**—**	**3,338**	**3,338**
Cheques and other items in transit, net	**—**	**—**	**—**	**—**	**—**	**1,208**	**1,208**
	181,193	**12,836**	**14,436**	**30,102**	**10,086**	**4,546**	**253,199**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Borrowings	**143,130**	**28,521**	**9,983**	**25,534**	**13,323**	**—**	**220,491**
Effective yield	***0.77***	***3.33***	***4.37***	***4.57***	***4.65***		
Other	**—**	**—**	**—**	**—**	**—**	**5,264**	**5,264**
Shareholders' equity	**—**	**—**	**—**	**—**	**—**	**27,444**	**27,444**
	143,130	**28,521**	**9,983**	**25,534**	**13,323**	**32,708**	**253,199**

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2008 and 2007

	2007						
	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	83,940	—	—	—	—	—	83,940
Mortgage loans	—	6,780	8,404	8,455	9,450	—	33,089
Effective yield	—	*5.78*	*5.75*	*5.12*	*5.75*		
Other loans	70,847	5,513	3,733	4,650	21,534	—	106,277
Effective yield	—	*6.70*	*7.23*	*7.13*	*6.03*		
Other	—	—	—	—	—	3,021	3,021
	154,787	12,293	12,137	13,105	30,984	3,021	226,327
LIABILITIES AND SHAREHOLDERS' EQUITY							
Borrowings	100,311	22,471	7,545	7,375	34,367	—	172,069
Effective yield	*1.44*	*3.79*	*4.40*	*4.48*	*4.56*		
Other	—	—	—	—	—	5,188	5,188
Cheques and other items in transit, net	—	—	—	—	—	23,206	23,206
Shareholders' equity	—	—	—	—	—	25,864	25,864
	100,311	22,471	7,545	7,375	34,367	54,258	226,327

11. RISK MANAGEMENT

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. Management monitors its credit exposures daily.

Liquidity risk

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 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 10% of total non-term deposits and term deposits expiring within 30 days. The Bank also measures and monitors concentration of funding sources.

Interest rate risk

The Bank's exposure to the risk of changes in market interest rates relates primarily to mismatches in the Bank's assets and liabilities. The Bank's policy is to measure and manage interest rate risk exposure in earnings and economic value perspectives. The Bank analyzes 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.

[in thousands of dollars unless otherwise indicated]

12. LEASE COMMITMENTS

The Bank has obligations under long-term, non-cancellable leases for premises as follows:

	$
2009	214
2010	215
2011	221
2012	171
2013	92

13. CONTINGENT LIABILITIES, COMMITMENTS AND GUARANTEES

In the normal course of operations, the Bank, as set out in its By-laws, 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.

14. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 financial statements.

Financial Statements

First Nations Bank of Canada

October 31, 2009 and 2008

AUDITORS' REPORT

To the Shareholders of
First Nations Bank of Canada

We have audited the balance sheets of **First Nations Bank of Canada** as at October 31, 2009 and 2008 and the statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
January 8, 2010.

First Nations Bank of Canada

BALANCE SHEETS

[in thousands of dollars]

As at October 31

	2009 $	2008 $
ASSETS		
Cash and cash equivalents *[note 5[a]]*	**99,406**	115,417
Loans, net of allowance for credit losses *[note 3]*		
Mortgage loans	**35,327**	32,752
Other loans	**124,898**	100,484
	160,225	133,236
Cheques and other items in transit, net *[note 5[e]]*	**3,580**	1,208
Interest receivable	**894**	1,285
Future tax assets *[note 9]*	**296**	407
Capital assets, net *[note 4]*	**2,028**	1,510
Deferred costs	**117**	135
Other receivable	**1**	1
	266,547	253,199
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Borrowings		
Notice deposits	**172,100**	158,049
Medium-term certificates	**45,236**	41,662
Loans from The Toronto-Dominion Bank *[note 5[c]]*	**18,654**	20,780
	235,990	220,491
Payable to The Toronto-Dominion Bank	**1,028**	3,991
Interest payable	**458**	778
Other liabilities	**821**	495
Total liabilities	**238,297**	225,755
Contingencies, commitments and guarantees *[note 12]*		
Shareholders' equity		
Share capital *[note 6]*	**23,259**	23,259
Retained earnings	**4,991**	4,185
Total shareholders' equity	**28,250**	27,444
	266,547	253,199

See accompanying notes

On behalf of the Board:

Keith Martell

Director

Director

First Nations Bank of Canada

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

[in thousands of dollars]

Years ended October 31

	2009 $	2008 $
INTEREST INCOME		
Term and bank deposits	**1,280**	3,982
Loans		
Mortgage loans	**1,780**	1,753
Other loans	**5,860**	6,271
	8,920	12,006
INTEREST EXPENSE		
Notice deposits	**563**	2,770
Medium-term certificates	**528**	1,438
Loans from The Toronto-Dominion Bank *[note 5[c]]*	**875**	1,009
	1,966	5,217
Net interest income	**6,954**	6,789
Provision for credit losses *[note 3]*	**321**	236
Net interest income after provision for credit losses	**6,633**	6,553
Other income	**2,460**	2,383
Net interest and other income	**9,093**	8,936
NON-INTEREST EXPENSES *[note 5[b]]*		
Salary and staff benefits	**3,770**	2,957
Occupancy	**813**	617
Marketing	**284**	209
Professional fees	**497**	372
Central services	**754**	668
Travel	**186**	149
Service Agreement	**398**	448
Capital taxes	**470**	462
Other	**598**	560
Depreciation and amortization	**134**	99
	7,904	6,541
Income before income taxes	**1,189**	2,395
Provision for income taxes *[note 9]*	**383**	705
Net income for the year	**806**	1,690
Other comprehensive income for the year	—	—
Net income and other comprehensive income	**806**	1,690

See accompanying notes

First Nations Bank of Canada

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[in thousands of dollars]

Years ended October 31

	2009 $	2008 $
Share capital *[note 6]*	**23,259**	23,259
Retained earnings, beginning of year	**4,185**	2,605
Future tax expense for share issuance	—	(110)
Net income for the year	**806**	1,690
Retained earnings, end of year	**4,991**	4,185
Total shareholders' equity, end of year	**28,250**	27,444

See accompanying notes

First Nations Bank of Canada

STATEMENTS OF CASH FLOWS

[in thousands of dollars]

Years ended October 31

	2009 $	2008 $
OPERATING ACTIVITIES		
Net income for the year	**806**	1,690
Add (deduct) items not involving cash		
Provision for credit losses	**321**	236
Future income taxes	**111**	47
Depreciation and amortization	**134**	99
Changes in non-cash working capital balances related to operations		
Interest receivable	**391**	(243)
Interest payable	**(320)**	(146)
Other assets	**(2,354)**	(1,190)
Other liabilities	**(2,637)**	(22,984)
Cash used in operating activities	**(3,548)**	(22,491)
FINANCING ACTIVITIES		
Notice deposits, net	**14,051**	39,627
Medium-term certificates, net	**3,574**	10,871
Loans from The Toronto-Dominion Bank, net	**(2,126)**	(2,076)
Cash provided by financing activities	**15,499**	48,422
INVESTING ACTIVITIES		
Purchase of capital assets	**(652)**	(348)
Mortgage loans	**(2,575)**	337
Other loans, net of amounts written off	**(24,735)**	5,557
Cash (used in) provided by investing activities	**(27,962)**	5,546
Net (decrease) increase in cash and cash equivalents	**(16,011)**	31,477
Cash and cash equivalents, beginning of year	**115,417**	83,940
Cash and cash equivalents, end of year	**99,406**	115,417
Supplemental cash flow information		
Interest paid	**2,286**	5,363
Income taxes paid	**350**	598

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2009 and 2008

1. INCORPORATION

First Nations Bank of Canada [the "Bank"] was incorporated under the Bank Act [1992 as amended] by Letters Patent dated November 19, 1996.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Bank, including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada ["OSFI"], conform with Canadian generally accepted accounting principles and include the following significant accounting policies:

Use of estimates

The preparation of the financial statements of the Bank requires management to make estimates and assumptions based on information available as of the date of the financial statements. Therefore, actual results could differ from those estimates. The accounting for loan losses, fair value of financial instruments and income taxes are areas where management makes such estimates and assumptions.

Changes in accounting policies

Financial instruments disclosures

In March 2009, the Accounting Standards Board ["AcSB"] amended The Canadian Institute of Chartered Accountants ["CICA"] Handbook Section 3862, Financial Instruments – Disclosures, to enhance the disclosure requirements regarding fair value measurements including the relative reliability of the inputs used in those measurements and the liquidity risk of financial instruments. The standard also requires disclosure of a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The amendments are effective for the Bank's 2009 annual Financial Statements and its adoption did not have an impact on the financial position, cash flows, or earnings of the Bank as Section 3862 relates to disclosures.

Cash and cash equivalents

Cash and cash equivalents consist of cash and amounts due from The Toronto-Dominion Bank ["TD Bank"].

Loans

Loans are recorded at amortized cost using the effective interest rate method, net of an allowance for credit losses and net of unearned income. Interest income is recorded on an accrual basis until such time as the loan is classified as impaired. Interest on impaired loans subsequently received is recorded as income only when management has reasonable assurance as to the timely collection of the full amount of the principal and interest. An impaired loan is any loan where, in management's opinion, there has been a deterioration of credit quality to the extent that the Bank no longer has reasonable assurance as to the timely collection of the full amount of the principal and interest.

Mortgage loans

Mortgage loans are carried at cost net of unamortized discounts, premiums and buy-down fees. Interest, including amounts received on prepayment and discharges of mortgages is recorded in income using the effective interest rate method.

Allowance for credit losses

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

The allowance consists of specific and general allowances.

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

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

Actual write-offs, net of recoveries, are deducted from the allowance for credit losses. The provision for credit losses, which is charged to the statements of income and comprehensive income, is added to bring the allowance to a level that management considers adequate to absorb probable credit-related losses in the portfolio.

Capital assets

Capital assets are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are provided over the estimated useful lives of the assets using the following annual rates and methods:

Furniture, fixtures and other equipment	20% declining balance
Leasehold improvements	straight-line over the term of the lease
Website development	straight-line over three years

Deferred costs

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

Income taxes

The Bank follows the liability method of tax allocation for accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Future Accounting and Reporting Changes

Conversion to International Financial Reporting Standards

The AcSB of the CICA confirmed that Canadian Generally Accepted Accounting Principles for publicly accountable entities will converge with International Financial Reporting Standards ["IFRS"]. For the Bank, IFRS will be effective for the year beginning November 1, 2011. The fiscal 2012 financial statements will include comparative fiscal 2011 financial results under IFRS. The Bank is assessing the impact of IFRS on its financial statements upon adoption in 2012.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2009 and 2008

3. LOANS, IMPAIRED LOANS AND ALLOWANCE FOR CREDIT LOSSES

	2009					
	Gross amount of loans $	**Specific allowance** $	**General allowance** $	**Total allowance** $	**Net amount of loans** $	**Gross impaired loans** $
Mortgage loans	**35,332**	**—**	**5**	**5**	**35,327**	**—**
Other loans	**125,734**	**—**	**836**	**836**	**124,898**	**48**
	161,066	**—**	**841**	**841**	**160,225**	**48**

	2008					
	Gross amount of loans $	**Specific allowance** $	**General allowance** $	**Total allowance** $	**Net amount of loans** $	**Gross impaired loans** $
Mortgage loans	32,756	—	4	4	32,752	—
Other loans	101,164	—	680	680	100,484	56
	133,920	—	684	684	133,236	56

Allowance for credit losses

	2009 $	**2008** $
Balance, beginning of year	**684**	625
Write-offs	**(164)**	(177)
Provision for credit losses		
Specific	**164**	177
General	**157**	59
	321	236
Balance, end of year	**841**	684

Mortgage loans include $33,363 [2008 - $31,174] of insured loans. Other loans include $14,876 [2008 - $15,793] of government guaranteed loans.

[in thousands of dollars unless otherwise indicated]

Loans past due but not impaired

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

Gross amount of loans past due but not impaired as at October 31, 2009

	1-30 days	31-60 days	61-89 days	90 days or more	Total
Residential mortgages	**224**	**648**	**—**	**—**	**872**
Consumer instalment and other personal loans	**20**	**4**	**5**	**—**	**29**
Business and government	**2,504**	**—**	**—**	**—**	**2,504**
	2,748	**652**	**5**	**—**	**3,405**

Gross amount of loans past due but not impaired as at October 31, 2008

	1-30 days	31-60 days	61-89 days	90 days or more	Total
Residential mortgages	232	315	—	74	621
Consumer instalment and other personal loans	46	—	23	3	72
Business and government	2,635	—	—	—	2,635
	2,913	315	23	77	3,328

[in thousands of dollars unless otherwise indicated]

4. CAPITAL ASSETS

Capital assets consist of the following:

	2009			2008
	Cost $	Accumulated depreciation and amortization $	Net book value $	Net book value $
Furniture, fixtures and other equipment	**363**	**126**	**237**	218
Leasehold improvements	**2,181**	**435**	**1,746**	1,292
Website development	**50**	**5**	**45**	—
	2,594	**566**	**2,028**	1,510

5. RELATED PARTY TRANSACTIONS

All related party transactions are measured at carrying value.

[a] Cash and cash equivalents

Cash and cash equivalents are held with TD Bank and consist of the following:

	2009 $	2008 $
Deposit bearing accounts	**59,406**	35,417
Term deposit bearing interest at 3.20% per annum, maturing November 4, 2008	—	20,000
Term deposit bearing interest at 3.20% per annum, maturing November 10, 2008	—	10,000
Term deposit bearing interest at 3.20% per annum, maturing December 8, 2008	—	30,000
Term deposit bearing interest at 3.20% per annum, maturing January 6, 2009	—	20,000
Term deposit bearing interest at .61% per annum, maturing November 19, 2009	**20,000**	—
Term deposit bearing interest at .59% per annum, maturing December 29, 2009	**20,000**	—
	99,406	115,417

[b] Services

The Bank has entered into the TD/FNBC Services Agreement (2007), pursuant to which TD Bank performs banking, financial and discretionary services, including but not limited to financial accounting and reporting, head office and divisional support, corporate secretarial and treasury services. Payments to TD Bank for its services are on market terms and conditions. Some of the Bank's capital assets are also supplied monthly from TD Bank. During the year, the Bank incurred $1,195 [2008 - $1,339] for these services.

[c] Loans from TD Bank

The Bank has entered into agreements under which TD Bank has agreed to provide the Bank with credit facilities for purposes of managing liquidity and interest rate risk. The credit facilities are established at market terms and interest rates. At October 31, 2009, the available credit facilities totalled $23,654 [2008 - $27,780]; the total outstanding balance was $18,654 [2008 - $20,780] and matures between January 2010 and February 2011. Interest payable to TD Bank as at October 31, 2009 amounted to $344 [2008 - $373].

[d] Loans to directors and employees

At October 31, 2009, loans provided to the Bank's directors and employees amounted to $2,143 [2008 - $1,554]. Loans provided to employees are at discounts to customer rates.

[e] Cheques and other items in transit, net

The Bank uses TD Bank as its settlement agent. The balance from the daily settlement with TD Bank at October 31, 2009 was a receivable of $4,572 [2008 - payable of $1,436] and a payable of $992 [2008 - $228].

[in thousands of dollars unless otherwise indicated]

6. SHARE CAPITAL

Share capital consists of the following:

	2009		2008	
	#	$	#	$
Authorized				
Unlimited common shares				
Unlimited Class A non-voting preferred shares				
Unlimited Class B voting preferred shares				
Unlimited Class C non-voting preferred shares				
Issued and outstanding				
Common shares				
Balance, beginning of year	**11,085,052**	**19,890**	11,085,052	19,890
Balance, end of year	**11,085,052**	**19,890**	11,085,052	19,890
Class B preferred shares				
Balance, beginning of year	**1,497,719**	**3,369**	1,497,719	3,369
Balance, end of year	**1,497,719**	**3,369**	1,497,719	3,369
Total share capital		**23,259**		23,259

Under the terms of the By-laws of the Bank, common shares may be owned only by First Nations Investors as defined in the By-laws and by TD Bank or one of its affiliates. The Class B voting preferred shares may be owned only by TD Bank or one of its affiliates. Owners of all classes of shares are entitled to dividends, if declared by the Board of Directors of the Bank. No dividends may be declared on common shares unless the Bank concurrently declares or pays an equal dividend per Class B preferred share. No dividends were declared during the year.

[in thousands of dollars unless otherwise indicated]

7. 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, 2009 and 2008, Tier 1 capital includes items such as common shares and preferred shares and retained earnings.

During the years ended October 31, 2009 and 2008, 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 is as follows:

	2009	**2008**
Tier 1 capital	**$28,250**	$27,444
Tier 1 capital ratio	**19%**	22.3%
Total capital[1]	**$28,250**	$27,444
Total capital ratio[2]	**19%**	22.3%
Assets-to-capital multiple[3]	**9.45**	9.20

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 assets-to-capital multiple is calculated as total assets plus off-balance sheet credit instruments, such as certain letters of credit and guarantees divided by total adjusted capital.

OSFI's target Tier 1 and total capital ratios for the Bank are 7% and 10%.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2009 and 2008

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

Balance sheets	2009 Carrying value $	2009 Estimated fair value $	2008 Carrying value $	2008 Estimated fair value $
ASSETS				
Loans, net	**160,225**	**162,124**	133,236	136,190
LIABILITIES				
Borrowings	**235,990**	**236,069**	220,491	222,122

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:

In the case of items which 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 which have occurred since the loans and borrowings were originated.

[in thousands of dollars unless otherwise indicated]

9. INCOME TAXES

Significant components of the Bank's future tax assets are as follows:

	2009 $	2008 $
Future tax assets		
Allowance for credit losses	**259**	216
Capital assets	**(115)**	(51)
Other	**152**	242
	296	407

Significant components of the provision for income taxes are as follows:

	2009 $	2008 $
Current income tax expense	**272**	658
Future income tax expense relating to origination and reversal of temporary differences	**111**	47
Provision for income taxes	**383**	705

The provision for income taxes shown in the statements of income and comprehensive income differs from that obtained by applying statutory tax rates to the income before income taxes for the following reasons:

	2009		2008	
	$	%	$	%
Income before income taxes	**1,189**	**—**	2,395	—
Income taxes at statutory rate	**377**	**31.71**	785	32.78
Other	**6**	**0.50**	(80)	(3.34)
Effective tax	**383**	**32.21**	705	29.44

[in thousands of dollars unless otherwise indicated]

10. INTEREST RATE RISK

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 which are shown at contractual maturity but which often prepay earlier, and certain borrowings, which are shown at contractual maturity but which are often cashed before their contractual maturity.

	2009						
	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	**59,406**	**40,000**	**—**	**—**	**—**	**—**	**99,406**
Effective yield	**—**	***0.60***	**—**	**—**	**—**	**—**	
Mortgage loans	**967**	**12,758**	**5,665**	**7,654**	**8,283**	**—**	**35,327**
Effective yield	**—**	***5.37***	***5.57***	***5.47***	***5.38***	**—**	
Other loans	**55,089**	**26,661**	**29,587**	**6,095**	**7,466**	**—**	**124,898**
Effective yield	**—**	***5.11***	***5.97***	***5.49***	***5.04***	**—**	
Other	**—**	**—**	**—**	**—**	**—**	**3,336**	**3,336**
Cheques and other items in transit, net	**—**	**—**	**—**	**—**	**—**	**3,580**	**3,580**
	115,462	**79,419**	**35,252**	**13,749**	**15,749**	**6,916**	**266,547**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Borrowings	**172,100**	**47,772**	**15,039**	**873**	**206**	**—**	**235,990**
Effective yield	**—**	***0.99***	***4.48***	***3.39***	***3.70***	**—**	
Other	**—**	**—**	**—**	**—**	**—**	**2,307**	**2,307**
Shareholders' equity	**—**	**—**	**—**	**—**	**—**	**28,250**	**28,250**
	172,100	**47,772**	**15,039**	**873**	**206**	**30,557**	**266,547**

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2009 and 2008

	2008						
	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	115,417	—	—	—	—	—	115,417
Mortgage loans	—	6,086	9,308	8,567	8,791	—	32,752
Effective yield	—	*5.72*	*5.26*	*5.90*	*5.84*	—	
Other loans	65,776	6,750	5,128	21,535	1,295	—	100,484
Effective yield	—	*6.24*	*7.25*	*6.04*	*7.21*	—	
Other	—	—	—	—	—	3,338	3,338
Cheques and other items in transit, net	—	—	—	—	—	1,208	1,208
	181,193	12,836	14,436	30,102	10,086	4,546	253,199
LIABILITIES AND SHAREHOLDERS' EQUITY							
Borrowings	143,130	28,521	9,983	25,534	13,323	—	220,491
Effective yield	*0.77*	*3.33*	*4.37*	*4.57*	*4.65*	—	
Other	—	—	—	—	—	5,264	5,264
Shareholders' equity	—	—	—	—	—	27,444	27,444
	143,130	28,521	9,983	25,534	13,323	32,708	253,199

11. RISK MANAGEMENT

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. Management monitors its credit exposures daily.

Liquidity risk

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 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 10% of total non-term deposits and term deposits expiring within 30 days. The Bank also measures and monitors concentration of funding sources.

Interest rate risk

The Bank's exposure to the risk of changes in market interest rates relates primarily to mismatches in the Bank's assets and liabilities. The Bank's policy is to measure and manage interest rate risk exposure in earnings and economic value perspectives. The Bank analyzes 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.

[in thousands of dollars unless otherwise indicated]

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES

Lease commitments

The Bank has obligations under long-term, non-cancellable leases for premises as follows:

	$
2010	455
2011	443
2012	359
2013	192
2014	192

Guarantees

Letters of credit have been provided to third parties in the amount of $566,058 [2008 - $494,978].

In the normal course of operations, the Bank, as set out in its By-laws, 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.

13. SUBSEQUENT EVENT

Effective November 1, 2009, all of the Class B preferred shares owned by TD Bank were converted to Common Shares on the basis of one Common Share for one Class B preferred share.

Financial Statements

First Nations Bank of Canada

October 31, 2010 and 2009

AUDITORS' REPORT

To the Shareholders of
First Nations Bank of Canada

We have audited the balance sheets of **First Nations Bank of Canada** as at October 31, 2010 and 2009 and the statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Edmonton, Canada,
December 16, 2010.

Chartered Accountants

First Nations Bank of Canada

BALANCE SHEETS
[in thousands of dollars]

As at October 31

	2010 $	**2009** $
ASSETS		
Cash and cash equivalents *[note 6[a]]*	**96,484**	99,406
Loans, net of allowance for credit losses *[note 3]*		
Mortgage loans	**40,889**	35,327
Other loans	**154,413**	124,898
	195,302	160,225
Cheques and other items in transit, net *[note 6[e]]*	**—**	3,580
Interest receivable	**911**	894
Future tax assets *[note 10]*	**193**	296
Property and equipment, net *[note 4]*	**2,489**	1,983
Intangible assets, net *[note 5]*	**211**	45
Deferred costs	**199**	117
Other receivables	**59**	1
	295,848	266,547
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Borrowings		
Notice deposits	**178,064**	172,100
Medium-term certificates	**61,813**	45,236
Loans from The Toronto-Dominion Bank *[note 6[c]]*	**16,574**	18,654
	256,451	235,990
Cheques and other items in transit, net *[note 6[e]]*	**7,580**	—
Payable to The Toronto-Dominion Bank	**940**	1,028
Interest payable	**494**	458
Other liabilities	**1,269**	821
Total liabilities	**266,734**	238,297
Contingencies, commitments and guarantees *[note 13]*		
Shareholders' equity		
Share capital *[note 7]*	**23,259**	23,259
Retained earnings	**5,855**	4,991
Total shareholders' equity	**29,114**	28,250
	295,848	266,547

See accompanying notes

On behalf of the Board:

Director

Director

First Nations Bank of Canada

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

[in thousands of dollars]

Years ended October 31

	2010 $	2009 $
INTEREST INCOME		
Term and bank deposits	**744**	1,280
Loans		
Mortgage loans	**1,901**	1,780
Other loans	**6,490**	5,860
	9,135	8,920
INTEREST EXPENSE		
Notice deposits	**290**	563
Medium-term certificates	**372**	528
Loans from The Toronto-Dominion Bank	**785**	875
	1,447	1,966
Net interest income	**7,688**	6,954
Provision for credit losses *[note 3]*	**361**	321
Net interest income after provision for credit losses	**7,327**	6,633
Other income	**2,868**	2,460
Net interest and other income	**10,195**	9,093
NON-INTEREST EXPENSES *[note 6[b]]*		
Salary and staff benefits	**4,420**	3,770
Occupancy	**980**	813
Marketing	**352**	284
Professional fees	**738**	497
Central services	**789**	754
Travel	**199**	186
Service Agreement	**110**	398
Capital taxes	**208**	470
Other	**662**	598
Depreciation and amortization	**294**	134
	8,752	7,904
Income before income taxes	**1,443**	1,189
Provision for income taxes *[note 10]*	**485**	383
Net income for the year	**958**	806
Other comprehensive income for the year	—	—
Net income and other comprehensive income	**958**	806

See accompanying notes

First Nations Bank of Canada

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[in thousands of dollars]

Years ended October 31

	2010 $	2009 $
Share capital *[note 7]*	**23,259**	23,259
Retained earnings, beginning of year	**4,991**	4,185
Net income for the year	**958**	806
Dividends paid	**(94)**	—
Retained earnings, end of year	**5,855**	4,991
Total shareholders' equity, end of year	**29,114**	28,250

See accompanying notes

First Nations Bank of Canada

STATEMENTS OF CASH FLOWS

[in thousands of dollars]

Years ended October 31

	2010 $	2009 $
OPERATING ACTIVITIES		
Net income for the year	**958**	806
Add (deduct) items not involving cash		
Provision for credit losses	**361**	321
Future income taxes	**103**	111
Depreciation and amortization	**294**	134
Changes in non-cash working capital balances related to operations		
Interest receivable	**(17)**	391
Interest payable	**36**	(320)
Other assets	**3,440**	(2,354)
Other liabilities	**7,940**	(2,637)
Cash provided by (used in) operating activities	**13,115**	(3,548)
FINANCING ACTIVITIES		
Notice deposits, net	**5,964**	14,051
Medium-term certificates, net	**16,577**	3,574
Loans from The Toronto-Dominion Bank, net	**(2,080)**	(2,126)
Dividends paid	**(94)**	—
Cash provided by financing activities	**20,367**	15,499
INVESTING ACTIVITIES		
Property and equipment	**(780)**	(602)
Intangible assets	**(186)**	(50)
Mortgage loans	**(5,562)**	(2,575)
Other loans, net of provision for credit losses	**(29,876)**	(24,735)
Cash used in investing activities	**(36,404)**	(27,962)
Net decrease in cash and cash equivalents during the year	**(2,922)**	(16,011)
Cash and cash equivalents, beginning of year	**99,406**	115,417
Cash and cash equivalents, end of year	**96,484**	99,406
Supplemental cash flow information		
Interest paid	**1,411**	2,286
Income taxes paid	**184**	350

See accompanying notes

First Nations Bank of Canada

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2010 and 2009

1. INCORPORATION

First Nations Bank of Canada [the "Bank"] was incorporated under the Bank Act [1992 as amended] by Letters Patent dated November 19, 1996.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Bank, including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada ["OSFI"], conform with Canadian generally accepted accounting principles and include the following significant accounting policies:

Use of estimates

The preparation of the financial statements of the Bank requires management to make estimates and assumptions based on information available as of the date of the financial statements. Therefore, actual results could differ from those estimates. The accounting for loan losses, fair value of financial instruments and income taxes are areas where management makes such estimates and assumptions.

Changes in accounting policies

Intangible assets

During the year, the Bank adopted Canadian Institute of Chartered Accountants [“CICA”] Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces CICA Handbook Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. The new section establishes standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard resulted in the reclassification of website development costs from property and equipment to intangible assets with a cost and net book value of $50 and $45, respectively.

Financial instruments disclosures

In March 2009, the Accounting Standards Board [“AcSB”] amended CICA Handbook Section 3862, *Financial Instruments – Disclosures*, to enhance the disclosure requirements regarding fair value measurements including the relative reliability of the inputs used in those measurements and the liquidity risk of financial instruments. The standard also requires disclosure of a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The amendments were effective for the Bank’s 2009 annual financial statements and its adoption did not have an impact on the financial position, cash flows, or earnings of the Bank as Section 3862 relates to disclosures.

Cash and cash equivalents

Cash and cash equivalents consist of cash and amounts due from The Toronto-Dominion Bank ["TD Bank"].

Financial Instruments

All financial instruments are classified into one of the following five categories: held for trading, held to maturity investments, loans and receivables, available for sale financial assets and other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. The Bank had no available for sale investments during the years ended October 31, 2010 and 2009. All financial instruments are initially measured on the balance sheet at fair value except for loans and receivables, other financial liabilities and financial instruments that arise on certain related party transactions that are required to be recorded at carrying amounts. Subsequent measurement and changes in fair value classification will depend on initial classification.

Loans

Loans are recorded at amortized cost using the effective interest rate method, net of an allowance for credit losses and net of unearned income. Interest income is recorded on an accrual basis until such time as the loan is classified as impaired. Interest on impaired loans subsequently received is recorded as income only when management has reasonable assurance as to the timely collection of the full amount of the principal and interest. An impaired loan is any loan where, in management's opinion, there has been a deterioration of credit quality to the extent that the Bank no longer has reasonable assurance as to the timely collection of the full amount of the principal and interest.

Mortgage loans

Mortgage loans are carried at cost net of unamortized discounts, premiums and buy-down fees. Interest, including amounts received on prepayment and discharges of mortgages is recorded in income using the effective interest rate method.

Allowance for credit losses

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

The allowance consists of specific and general allowances.

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

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

Actual write-offs, net of recoveries, are deducted from the allowance for credit losses. The provision for credit losses, which is charged to the statements of income and comprehensive income, is added to bring the allowance to a level that management considers adequate to absorb probable credit-related losses in the portfolio.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided over the estimated lives of the assets using the following annual rates and methods:

Furniture, fixtures and other equipment	20% declining balance
Leasehold improvements	straight-line over the expected lease term

Intangible assets

Intangible assets with finite lives are stated at cost less accumulated amortization. Amortization is provided over the estimated lives of the assets using the following annual rates and methods:

Website development	straight-line over three years
Computer systems	straight-line over three years

Deferred costs

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

Income taxes

The Bank follows the liability method of tax allocation for accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Future accounting and reporting changes

Conversion to International Financial Reporting Standards

The AcSB of the CICA confirmed that Canadian generally accepted accounting principles for publicly accountable entities will converge with International Financial Reporting Standards ["IFRS"]. For the Bank, IFRS will be effective for the year beginning November 1, 2011. The fiscal 2012 financial statements will include comparative fiscal 2011 financial results under IFRS. The Bank is assessing the impact of IFRS on its financial statements upon adoption in 2012.

[in thousands of dollars unless otherwise indicated]

3. LOANS, IMPAIRED LOANS AND ALLOWANCE FOR CREDIT LOSSES

	2010					
	Gross amount of loans $	**Specific allowance** $	**General allowance** $	**Total allowance** $	**Net amount of loans** $	**Gross impaired loans** $
Mortgage loans	**40,898**	**—**	**9**	**9**	**40,889**	**—**
Other loans	**155,562**	**204**	**945**	**1,149**	**154,413**	**2,060**
	196,460	**204**	**954**	**1,158**	**195,302**	**2,060**

	2009					
	Gross amount of loans $	**Specific allowance** $	**General allowance** $	**Total allowance** $	**Net amount of loans** $	**Gross impaired loans** $
Mortgage loans	35,332	—	5	5	35,327	—
Other loans	125,734	—	836	836	124,898	48
	161,066	—	841	841	160,225	48

Allowance for credit losses

	2010 $	**2009** $
Balance, beginning of year	**841**	684
Write-offs	**(44)**	(164)
Provision for credit losses		
Specific	**248**	164
General	**113**	157
	361	321
Balance, end of year	**1,158**	841

Mortgage loans include $37,439 [2009 - $33,263] of insured loans. Other loans include $28,776 [2009 - $14,876] of government guaranteed loans.

[in thousands of dollars unless otherwise indicated]

Loans past due but not impaired

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

Gross amount of loans past due but not impaired as at October 31, 2010

	1-30 days	31-60 days	61-89 days	90 days or more	Total $
Residential mortgages	**204**	**411**	**69**	**—**	**684**
Consumer instalment and other personal loans	**42**	**15**	**1**	**—**	**58**
Business and government	**—**	**—**	**—**	**—**	**—**
	246	**426**	**70**	**—**	**742**

Gross amount of loans past due but not impaired as at October 31, 2009

	1-30 days	31-60 days	61-89 days	90 days or more	Total $
Residential mortgages	224	648	—	—	872
Consumer instalment and other personal loans	20	4	5	—	29
Business and government	2,504	—	—	—	2,504
	2,748	652	5	—	3,405

[in thousands of dollars unless otherwise indicated]

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2010			2009
	Cost $	Accumulated depreciation and amortization $	Net book value $	Net book value $
Furniture, fixtures and other equipment	**303**	**181**	**122**	237
Leasehold improvements	**3,022**	**655**	**2,367**	1,746
	3,325	**836**	**2,489**	1,983

Depreciation and amortization of property and equipment for the year ended October 31, 2010 totalled $274 [2009 - $129].

5. INTANGIBLE ASSETS

Intangible assets consist of the following:

	2010			2009
	Cost $	Accumulated depreciation and amortization $	Net book value $	Net book value $
Website development	**65**	**25**	**40**	45
Computer systems	**171**	**—**	**171**	—
	236	**25**	**211**	45

Amortization of finite life intangibles for the year ended October 31, 2010 totalled $20 [2009 - $5].

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2010 and 2009

6. RELATED PARTY TRANSACTIONS

TD Bank is a 19% shareholder of the Bank that provides banking services pursuant to the TD/FNBC Services Agreement. All related party transactions are measured at carrying value.

[a] Cash and cash equivalents

Cash and cash equivalents are held with TD Bank and consist of the following:

	2010 $	**2009** $
Deposit bearing accounts	**76,484**	59,406
Term deposit bearing interest at 1.29% per annum, maturing December 7, 2010	**20,000**	—
Term deposit bearing interest at 0.61% per annum, maturing November 19, 2009	—	20,000
Term deposit bearing interest at 0.59% per annum, maturing December 29, 2009	—	20,000
	96,484	99,406

[b] Services

Payments to TD Bank for its services are on market terms and conditions. Some of the Bank's property and equipment are also supplied monthly from TD Bank. During the year, the Bank incurred $899 [2009 - $1,195] for these services.

[c] Loans from TD Bank

The Bank has entered into agreements under which TD Bank has agreed to provide the Bank with credit facilities for purposes of managing liquidity and interest rate risk. The credit facilities are established at market terms and interest rates. At October 31, 2010, the available credit facilities totalled $16,574 [2009 - $23,654]; the total outstanding balance was $16,574 [2009 - $18,654] and matures between November 2010 and February 2011. Interest payable to TD Bank as at October 31, 2010 amounted to $317 [2009 - $344].

[d] Loans to directors and employees

At October 31, 2010, loans provided to the Bank's directors and employees amounted to $2,909 [2009 - $2,143]. Loans provided to employees are at discounts to customer rates.

[e] Cheques and other items in transit, net

The Bank uses TD Bank as its settlement agent. The balance from the daily settlement with TD Bank at October 31, 2010 was a payable of $7,580 [2009 – receivable of $3,580].

[in thousands of dollars unless otherwise indicated]

October 31, 2010 and 2009

7. SHARE CAPITAL

Share capital consists of the following:

	2010		2009	
	#	$	#	$
Authorized				
Unlimited common shares				
Issued and outstanding				
Common shares				
Balance, beginning of year	**11,085,052**	**19,890**	11,085,052	19,890
Class B preferred shares conversion	**1,497,719**	**3,369**	—	—
Balance, end of year	**12,582,771**	**23,259**	11,085,052	19,890
Class B preferred shares				
Balance, beginning of year	**1,497,719**	**3,369**	1,497,719	3,369
Conversion to common shares	**(1,497,719)**	**(3,369)**	—	—
Balance, end of year	—	—	1,497,719	3,369
Total share capital		**23,259**		23,259

Under the terms of the By-laws of the Bank, common shares may be owned only by First Nations Investors as defined in the By-laws and by TD Bank or one of its affiliates.

Effective November 1, 2009 the Class B preferred shares were converted to common shares on the basis of one common share for one Class B preferred share.

Dividends of $94 [2009 – nil] were declared and paid during the year.

[in thousands of dollars unless otherwise indicated]

8. 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, 2010 and 2009, Tier 1 capital includes items such as common shares and preferred shares and retained earnings.

During the years ended October 31, 2010 and 2009, 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, 2010 and 2009 was as follows:

	2010	**2009**
Tier 1 capital	$**29,114**	$28,250
Tier 1 capital ratio	**17.64%**	19.00%
Total capital[1]	$**29,114**	$28,250
Total capital ratio[2]	**17.64%**	19.00%
Assets-to-capital multiple[3]	**10.18**	9.45

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 assets-to-capital multiple is calculated as total assets plus off-balance sheet credit instruments, such as certain letters of credit and guarantees divided by total adjusted capital.

OSFI's target Tier 1 and total capital ratios for the Bank are 7% and 10% respectively.

[in thousands of dollars unless otherwise indicated]

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

The table below sets out the fair values of financial instruments using the valuation methods and assumptions referred to below the table. The table does not include assets and liabilities that are not considered financial instruments.

	2010		**2009**	
Balance sheets	**Carrying value** $	**Estimated fair value** $	**Carrying value** $	**Estimated fair value** $
ASSETS				
Loans, net	**195,302**	**198,714**	160,225	162,124
LIABILITIES				
Borrowings	**256,451**	**256,488**	235,990	236,069

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:

In the case of items which 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 which have occurred since the loans and borrowings were originated.

The allowance for credit losses is used as a proxy for any potential change in credit spreads on assets as it is not otherwise observable, given the nature of the Bank's portfolio.

[in thousands of dollars unless otherwise indicated]

10. INCOME TAXES

Significant components of the Bank's future tax assets are as follows:

	2010 $	2009 $
Future tax assets		
Allowance for credit losses	**273**	259
Property and equipment	**(153)**	(115)
Other	**73**	152
	193	296

Significant components of the provision for income taxes are as follows:

	2010 $	2009 $
Current income tax expense	**382**	272
Future income tax expense relating to origination and reversal of temporary differences	**103**	111
Provision for income taxes	**485**	383

The provision for income taxes shown in the statements of income and comprehensive income differs from that obtained by applying statutory tax rates to the income before income taxes for the following reasons:

	2010		2009	
	$	%	$	%
Income before income taxes	**1,443**		1,189	
Income taxes at statutory rate	**443**	**30.73**	377	31.71
Other	**42**	**2.72**	6	0.50
Effective tax	**485**	**33.45**	383	32.21

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2010 and 2009

11. INTEREST RATE RISK

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 which are shown at contractual maturity but which often prepay earlier, and certain borrowings, which are shown at contractual maturity but which are often cashed before their contractual maturity.

				2010			
	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	**76,484**	**20,000**	**—**	**—**	**—**	**—**	**96,484**
Effective yield		***1.29***					
Mortgage loans	**885**	**8,774**	**10,673**	**6,443**	**14,114**	**—**	**40,889**
Effective yield		***5.08***	***5.13***	***5.03***	***4.77***		
Other loans	**58,955**	**61,981**	**10,519**	**6,388**	**16,570**	**—**	**154,413**
Effective yield		***4.38***	***5.35***	***5.24***	***4.52***		
Other	**—**	**—**	**—**	**—**	**—**	**4,062**	**4,062**
	136,324	**90,755**	**21,192**	**12,831**	**30,684**	**4,062**	**295,848**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Borrowings	**178,064**	**73,725**	**1,268**	**2,163**	**1,231**		**256,451**
Effective yield		***1.85***	***1.82***	***2.18***	***3.18***		
Other	**—**	**—**	**—**	**—**	**—**	**10,283**	**10,283**
Shareholders' equity	**—**	**—**	**—**	**—**	**—**	**29,114**	**29,114**
	178,064	**73,725**	**1,268**	**2,163**	**1,231**	**39,397**	**295,848**

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2010 and 2009

	2009						
	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	59,406	40,000	—	—	—	—	99,406
Effective yield	—	*.60*					
Mortgage loans	967	12,758	5,665	7,654	8,283	—	35,327
Effective yield	—	*5.37*	*5.57*	*5.47*	*5.38*		
Other loans	55,089	26,661	29,587	6,095	7,466	—	124,898
Effective yield	—	*5.11*	*5.97*	*5.49*	*5.04*		
Other	—	—	—	—	—	3,336	3,336
Cheques and other items in transit, net	—	—	—	—	—	3,580	3,580
	115,462	79,419	35,252	13,749	15,749	6,916	266,547
LIABILITIES AND SHAREHOLDERS' EQUITY							
Borrowings	172,100	47,772	15,039	873	206	—	235,990
Effective yield	—	*.99*	*4.48*	*3.39*	*3.70*		
Other	—	—	—	—	—	2,307	2,307
Shareholders' equity	—	—	—	—	—	28,250	28,250
	172,100	47,772	15,039	873	206	30,557	266,547

12. RISK MANAGEMENT

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. Management monitors its credit exposures daily.

Liquidity risk

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 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 10% of total non-term deposits and term deposits expiring within 30 days. The Bank also measures and monitors concentration of funding sources.

Interest rate risk

The Bank's exposure to the risk of changes in market interest rates relates primarily to mismatches in the Bank's assets and liabilities. The Bank's policy is to measure and manage interest rate risk exposure in earnings and economic value perspectives. The Bank analyzes 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.

Effective November 1, 2010, the Bank entered into a fixed for floating amortizing interest rate swap with TD Bank in order to hedge against interest rate fluctuations. The notional value of the swap is $13.4 million. It is the Bank's intention to apply hedge accounting to this transaction.

[in thousands of dollars unless otherwise indicated]

13. CONTINGENCIES, COMMITMENTS AND GUARANTEES

Lease commitments

The Bank has obligations under long-term, non-cancellable leases for premises as follows:

	$
2011	565
2012	525
2013	435
2014	319
2015	241
Thereafter	773
	2,858

Guarantees

Letters of credit have been provided to third parties in the amount of $599 [2009 - $566].

In the normal course of operations, the Bank, as set out in its By-laws, 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.

Legal Matter

There has been a lawsuit filed against the Bank in the ordinary course of business. The outcome of the lawsuit is not determinable and the amount of the loss, if any, cannot be reasonably estimated. Management considers the exposure to the lawsuit, to the extent not covered by the Bank’s insurance policies, not to be material to these financial statements.

Financial Statements

First Nations Bank of Canada

October 31, 2011 and 2010

AUDITORS' REPORT

To the Shareholders of
First Nations Bank of Canada

We have audited the accompanying financial statements of **First Nations Bank of Canada** which comprise the balance sheets as at October 31, 2011 and 2010 and the statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of **First Nations Bank of Canada** as at October 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Edmonton, Canada,
December 15, 2011

Chartered Accountants

First Nations Bank of Canada

BALANCE SHEETS

[in thousands of dollars]

As at October 31

	2011 $	2010 $
ASSETS		
Cash and cash equivalents *[note 8[a]]*	**90,217**	88,904
Loans, net of allowance for credit losses *[note 3]*		
Mortgage loans	**45,413**	40,889
Personal loans	**9,482**	9,422
Business loans	**161,293**	144,991
	216,188	195,302
Future tax assets *[note 12]*	**97**	193
Property and equipment, net *[note 4]*	**2,407**	2,489
Intangible assets, net *[note 5]*	**1,857**	211
Other assets *[note 6]*	**1,201**	1,169
	311,967	288,268
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Borrowings		
Notice deposits	**212,983**	178,064
Medium-term certificates	**65,841**	61,813
Loans from The Toronto-Dominion Bank *[note 8[c]]*	**—**	16,574
	278,824	256,451
Derivative liability *[note 15]*	**229**	—
Other liabilities *[note 7]*	**2,616**	2,703
Total liabilities	**281,669**	259,154
Contingencies, commitments and guarantees *[note 16]*		
Shareholders' equity		
Share capital *[note 9]*	**23,259**	23,259
Retained earnings	**7,039**	5,855
Total shareholders' equity	**30,298**	29,114
	311,967	288,268

See accompanying notes

On behalf of the Board:

Director

Director

First Nations Bank of Canada

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

[in thousands of dollars]

Years ended October 31

	2011 $	2010 $
INTEREST INCOME		
Term and bank deposits	**1,110**	744
Loans		
Mortgage loans	**2,028**	1,901
Personal loans	**663**	587
Business loans	**6,651**	5,903
	10,452	9,135
INTEREST EXPENSE		
Notice deposits	**659**	290
Medium-term certificates	**780**	372
Loans from The Toronto-Dominion Bank *[note 8[c]]*	**40**	785
	1,479	1,447
Net interest income	**8,973**	7,688
Provision for credit losses *[note 3]*	**481**	361
Net interest income after provision for credit losses	**8,492**	7,327
Other income	**3,011**	2,868
Net interest and other income	**11,503**	10,195
NON-INTEREST EXPENSES		
Salary and staff benefits	**5,026**	4,420
Occupancy	**1,270**	980
Marketing	**363**	352
Professional fees	**825**	738
Central services *[note 8[b]]*	**830**	789
Travel	**200**	199
Service Agreement *[note 8[b]]*	**125**	110
Other	**683**	870
Depreciation and amortization *[notes 4 and 5]*	**334**	294
	9,656	8,752
Income before income taxes	**1,847**	1,443
Provision for income taxes *[note 12]*	**569**	485
Net income and other comprehensive income	**1,278**	958

See accompanying notes

First Nations Bank of Canada

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[in thousands of dollars]

Years ended October 31

	2011 $	**2010** $
Share capital *[note 9]*	**23,259**	23,259
Retained earnings, beginning of year	**5,855**	4,991
Net income for the year	**1,278**	958
Dividends paid *[note 9]*	**(94)**	(94)
Retained earnings, end of year	**7,039**	5,855
Total shareholders' equity, end of year	**30,298**	29,114

See accompanying notes

First Nations Bank of Canada

STATEMENTS OF CASH FLOWS

[in thousands of dollars]

Years ended October 31

	2011 $	2010 $
OPERATING ACTIVITIES		
Net income for the year	**1,278**	958
Add (deduct) items not involving cash		
Provision for credit losses	**481**	361
Future income taxes	**96**	103
Depreciation and amortization	**334**	294
Changes in non-cash working capital balances related to operations		
Other assets	**(32)**	(157)
Derivative liability and other liabilities	**142**	396
Cash provided by operating activities	**2,299**	1,955
FINANCING ACTIVITIES		
Notice deposits	**34,919**	5,964
Medium-term certificates	**4,028**	16,577
Loans from The Toronto-Dominion Bank	**(16,574)**	(2,080)
Dividends paid	**(94)**	(94)
Cash provided by financing activities	**22,279**	20,367
INVESTING ACTIVITIES		
Property and equipment	**(230)**	(780)
Intangible assets	**(1,668)**	(186)
Mortgage loans	**(4,528)**	(5,562)
Personal loans	**(144)**	(571)
Business loans	**(16,695)**	(29,305)
Cash used in investing activities	**(23,265)**	(36,404)
Net increase (decrease) in cash and cash equivalents during the year	**1,313**	(14,082)
Cash and cash equivalents, beginning of year	**88,904**	102,986
Cash and cash equivalents, end of year	**90,217**	88,904
Supplemental cash flow information		
Interest paid	**1,685**	1,411
Income taxes paid	**281**	184

See accompanying notes

First Nations Bank of Canada

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2011 and 2010

1. INCORPORATION

First Nations Bank of Canada [the "Bank"] was incorporated under the Bank Act [1992 as amended] by Letters Patent dated November 19, 1996.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Bank, including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada ["OSFI"], conform with Canadian generally accepted accounting principles and include the following significant accounting policies:

Use of estimates

The preparation of the financial statements of the Bank requires management to make estimates and assumptions based on information available as at the date of the financial statements. Therefore, actual results could differ from those estimates. The accounting for loan losses, fair value of financial instruments and income taxes are areas where management makes such estimates and assumptions.

Revenue Recognition

Other income includes fees, commissions and service charges. Other income is recognized as earned.

Revenue recognition policies related to loans and interest income are described in the accounting policies below.

Financial instruments

All financial instruments are classified into one of the following five categories: held for trading, held to maturity investments, loans and receivables, available for sale financial assets and other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially measured on the balance sheets at fair value except for loans and receivables, other financial liabilities and financial instruments that arise on certain related party transactions that are required to be recorded at carrying amounts. Subsequent measurement and changes in fair value classification will depend on initial classification.

The Bank categorizes its fair value measurements according to a three level hierarchy. The hierarchy prioritizes the inputs used by the Bank’s valuation techniques. A level is assigned to each fair value measurement based on the lowest level input. The three levels of the fair value hierarchy are:

- Level 1 fair value measurements are those inputs derived from quoted prices in active markets for identical assets and liabilities.
- Level 2 fair value measurements are those inputs derived from observable data other than quoted prices.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable data.

Derivatives and hedge accounting

Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. The Bank uses derivative financial instruments, primarily interest rate swaps, in order to manage interest rate exposure. Derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value.

To date, the Bank has only entered into fair value hedges. The Bank designates fair value hedges primarily as part of interest rate risk management strategies that use derivatives to hedge changes in the fair value of fixed rate loans provided to its customers. Changes in fair value attributed to the hedged interest rate risk are accounted for as adjustments to the hedged fixed rate loans and are recognized in interest income. Changes in fair value from the hedging derivatives are also recognized in interest income. Accordingly, any hedge ineffectiveness, representing the difference between changes in fair value of the hedging derivative and changes in the basis adjustment to the fixed rate loans, is also recognized in interest income.

Loans

Personal and business loans are recorded at amortized cost using the effective interest rate method, net of an allowance for credit losses and net of unearned income. Interest income is recorded on an accrual basis until such time as the loan is classified as impaired.

Mortgage loans are carried at cost net of unamortized discounts, premiums and buy-down fees. Interest, including amounts received on prepayment and discharges of mortgages, is recorded in income using the effective interest rate method.

An impaired loan is any loan where, in management's opinion, there has been a deterioration of credit quality to the extent that the Bank no longer has reasonable assurance as to the timely collection of the full amount of the principal and interest. Impairment is measured as the difference between the carrying value of the loan at the time it is classified as impaired and the present value of the expected cash flows [“estimated realizable amount”], using the interest rate inherent in the loan at the date it was classified as impaired. When the timing and amounts of future cash flows cannot be reasonably estimated, either the fair value of the underlying collateral, net of costs to realize the collateral, or the current market price of the loan may be used to measure the estimated realizable amount.

At the time a loan is classified as impaired, interest income will cease to be recognized, and any accrued interest will be added to the carrying value of the loan. Subsequent payments received on an impaired loan are recorded as a reduction to the carrying value of the loan. Interest on impaired loans subsequently received is recorded as income only when management has reasonable assurance as to the timely collection of the full amount of the principal and interest.

Allowance for credit losses

An allowance is maintained that is considered adequate to absorb all credit-related losses in the Bank's portfolio of loans and mortgages. The allowance is deducted from the applicable asset in the balance sheets. The allowance consists of specific and general allowances.

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

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

Actual write-offs, net of recoveries, are deducted from the allowance for credit losses. A provision for credit losses is then recorded, which is charged to the statements of income and comprehensive income to bring the allowance to a level that management considers adequate to absorb probable credit-related losses in the portfolio.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided over the estimated useful lives of the assets using the following annual rates and methods:

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

Intangible assets

Intangible assets with finite lives are stated at cost less accumulated amortization. Amortization is provided over the estimated lives of the assets using the following annual rates and methods:

Website development	straight-line over three years
Computer systems	straight-line over three to ten years

Deferred costs

Deferred costs include prepaid insurance costs and prepaid chip card stock.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2011 and 2010

Income taxes

The Bank follows the liability method of tax allocation for accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Conversion to International Financial Reporting Standards

International Financial Reporting Standards ["IFRS"] will be effective for the Bank for the year beginning November 1, 2011. The fiscal 2012 financial statements will include comparative fiscal 2011 financial results under IFRS. The Bank is in the final stages of completion which is the implementation stage. Areas of impact are expected to include financial instruments (including recognition, measurement and hedging) and financial statement disclosures. The quantitative impact of the adjustments, if any, will be made to the opening statement of financial position as of the transition date, November 1, 2010. The Bank will continue to monitor ongoing changes to IFRS during the transition to IFRS.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2011 and 2010

3. LOANS, IMPAIRED LOANS AND ALLOWANCE FOR CREDIT LOSSES

	2011					
	Gross amount of loans $	**Specific allowance** $	**General allowance** $	**Total allowance** $	**Net amount of loans** $	**Gross impaired loans** $
Mortgage loans	**45,426**	**—**	**13**	**13**	**45,413**	**—**
Personal loans	**9,736**	**—**	**254**	**254**	**9,482**	**35**
Business loans	**162,577**	**408**	**876**	**1,284**	**161,293**	**1,855**
	217,739	**408**	**1,143**	**1,551**	**216,188**	**1,890**

	2010					
	Gross amount of loans $	**Specific allowance $**	**General allowance $**	**Total allowance $**	**Net amount of loans $**	**Gross impaired loans $**
Mortgage loans	40,898	—	9	9	40,889	—
Personal loans	9,680	—	258	258	9,422	21
Business loans	145,882	204	687	891	144,991	2,039
	196,460	204	954	1,158	195,302	2,060

Allowance for credit losses

	2011 $	**2010 $**
Balance, beginning of year	**1,158**	841
Write-offs	**(88)**	(44)
Provision for credit losses		
Specific	**293**	248
General	**188**	113
	481	361
Balance, end of year	**1,551**	1,158

Mortgage loans include $39,651 [2010 - $37,439] of insured loans. Business loans include $12,875 [2010 - $28,776] of government guaranteed loans.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2011 and 2010

Loans past due but not impaired

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

Gross amount of loans past due but not impaired as at October 31, 2011

	1-30 days	31-60 days	61-89 days	90 days or more	Total $
Mortgage loans	**214**	**35**	**616**	**638**	**1,503**
Personal loans	**307**	**1**	—	**41**	**349**
Business loans	—	—	—	—	—
	521	**36**	**616**	**679**	**1,852**

Gross amount of loans past due but not impaired as at October 31, 2010

	1-30 days	31-60 days	61-89 days	90 days or more	Total $
Mortgage loans	204	411	69	—	684
Personal loans	456	15	1	—	472
Business loans	—	—	—	—	—
	660	426	70	—	1,156

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2011 and 2010

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2011		
	Cost	**Accumulated depreciation and amortization**	**Net book value**
	$	$	$
Furniture, fixtures and other equipment	**346**	**173**	**173**
Leasehold improvements	**3,104**	**975**	**2,129**
Computer equipment	**105**	**—**	**105**
	3,555	**1,148**	**2,407**

	2010		
	Cost	**Accumulated depreciation and amortization**	**Net book value**
	$	$	$
Furniture, fixtures and other equipment	303	181	122
Leasehold improvements	3,022	655	2,367
Computer equipment	—	—	—
	3,325	836	2,489

Depreciation and amortization of property and equipment for the year ended October 31, 2011 totalled $312 [2010 - $274]. Computer equipment of $105 [2010 – nil] is not currently in use and is not subject to amortization.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2011 and 2010

5. INTANGIBLE ASSETS

Intangible assets consist of the following:

	2011		
	Cost $	**Accumulated depreciation and amortization** $	**Net book value** $
Website development	**65**	**47**	**18**
Computer systems	**1,839**	**—**	**1,839**
	1,904	**47**	**1,857**

	2010		
	Cost $	**Accumulated depreciation and amortization** $	**Net book value** $
Website development	65	25	40
Computer systems	171	—	171
	236	25	211

Amortization of finite life intangibles for the year ended October 31, 2011 totalled $22 [2010 - $20]. Computer systems of $1,839 [2010 - $171] relates to applications and systems currently under development and is not subject to amortization.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2011 and 2010

6. OTHER ASSETS

Other assets consist of the following:

	2011 $	**2010** $
Interest receivable	**731**	911
Deferred costs	**270**	199
Other receivables	**42**	59
Capital tax receivable	**158**	—
	1,201	1,169

7. OTHER LIABILITES

Other liabilities consist of the following:

	2011 $	**2010** $
Interest payable	**288**	494
Payable to The Toronto-Dominion Bank	**748**	940
Other liabilities	**1,418**	1,136
Capital tax payable	—	38
Income tax payable	**162**	95
	2,616	2,703

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2011 and 2010

8. RELATED PARTY TRANSACTIONS

The Toronto-Dominion Bank [“TD Bank”] is a 19% shareholder of the Bank that provides banking services pursuant to the TD/FNBC Services Agreement. All related party transactions are measured at carrying value for loans and deposits and at the exchange amount for services.

[a] Cash and cash equivalents

Cash and cash equivalents are held with TD Bank and consist of the following:

	2011 $	**2010** $
Deposit bearing accounts	**41,027**	76,484
Term deposit bearing interest at 1.45% per annum, maturity date of December 28, 2011	**20,000**	—
Term deposit bearing interest at 1.45% per annum, maturity date of January 16, 2012	**20,000**	—
Term deposit bearing interest at 1.29% per annum, maturity date of December 7, 2010	—	20,000
Cheques and other items in transit, net	**9,190**	(7,580)
	90,217	88,904

Included in deposit bearing accounts is $290 that has been pledged as cash collateral for the Interest Rate Swap (recorded at carrying value).

[b]Services

Payments to TD Bank for its services are on market terms and conditions. Some of the Bank's property and equipment are also supplied monthly from TD Bank. During the year, the Bank incurred $955 [2010 - $899] for these services.

[c] Loans from TD Bank

The Bank has entered into agreements under which TD Bank has agreed to provide the Bank with credit facilities for purposes of managing liquidity and interest rate risk. The credit facilities are established at market terms and interest rates. At October 31, 2011, the available credit facilities totalled nil [2010 - $16,574]; the total outstanding balance was nil [2010 - $16,574]. Interest payable to TD Bank as at October 31, 2011 amounted to nil [2010 - $317].

[d] Loans to directors and employees

At October 31, 2011, loans provided to the Bank's directors and employees amounted to $2,182 [2010 - $2,196]. Loans provided to employees are at discounts to customer rates.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2011 and 2010

9. SHARE CAPITAL

Share capital consists of the following:

	2011		2010	
	#	$	#	$
Authorized				
Unlimited common shares				
Issued and outstanding				
Common shares				
Balance, beginning of year	**12,582,771**	**23,259**	11,085,052	19,890
Class B preferred shares conversion	—	—	1,497,719	3,369
Balance, end of year	**12,582,771**	**23,259**	12,582,771	23,259
Class B preferred shares				
Balance, beginning of year	—	—	1,497,719	3,369
Conversion to common shares	—	—	(1,497,719)	(3,369)
Balance, end of year	—	—	—	—
Total share capital	**12,582,771**	**23,259**	12,582,771	23,259

Effective November 1, 2009 the Class B preferred shares were converted to common shares on the basis of one common share for one Class B preferred share.

Dividends of $94 [2010 – $94] were declared and paid on common shares during the year.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2011 and 2010

10. 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, 2011 and 2010, Tier 1 capital includes items such as common shares and preferred shares and retained earnings.

During the years ended October 31, 2011 and 2010, 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, 2011 and 2010 was as follows:

	2011	**2010**
Tier 1 capital	**$30,339**	$29,114
Tier 1 capital ratio[1]	**15.48%**	17.64%
Total capital	**$30,339**	$29,114
Total capital ratio[2]	**15.48%**	17.64%
Assets-to-capital multiple[3]	**10.31**	10.18

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 assets-to-capital multiple is calculated as total assets plus off-balance sheet credit instruments, such as certain letters of credit and guarantees divided by total adjusted capital.

OSFI's target Tier 1 and total capital ratios for the Bank are 7% and 10%, respectively.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2011 and 2010

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 Level 2 inputs in a present value or other suitable technique and are not necessarily representative of the amounts realizable in an immediate settlement of the instrument.

The fair value of interest rate swap recorded in the balance sheets was determined using a valuation technique with observable market data (Level 2 inputs). 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.

The table below sets out the fair values of financial instruments using the valuation methods and assumptions referred to below the table. The table does not include assets and liabilities that are not considered financial instruments.

	2011		**2010**	
Balance sheets	**Carrying value** $	**Estimated fair value** $	**Carrying value** $	**Estimated fair value** $
ASSETS				
Loans, net	**216,188**	**221,704**	195,302	198,714
LIABILITIES				
Borrowings	**278,824**	**278,925**	256,451	256,488
Derivative liability	**229**	**229**	—	—

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:

In the case of items which contain variable rate features, fair value is considered to be equal to carrying value.

The estimated fair value reflects changes in general interest rates which have occurred since the loans and borrowings were originated.

The allowance for credit losses is used as a proxy for any potential change in credit spreads on assets as it is not otherwise observable, given the nature of the Bank's portfolio.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2011 and 2010

12. INCOME TAXES

Significant components of the Bank's future tax assets are as follows:

	2011 $	**2010** $
Future tax assets		
Allowance for credit losses	**328**	273
Property and equipment	**(247)**	(153)
Other	**16**	73
	97	193

Significant components of the provision for income taxes are as follows:

	2011 $	**2010** $
Current income tax expense	**530**	382
Future income tax expense relating to origination and reversal of temporary differences	**39**	103
Provision for income taxes	**569**	485

The provision for income taxes shown in the statements of income and comprehensive income differs from that obtained by applying statutory tax rates to the income before income taxes for the following reasons:

	2011		**2010**	
	$	%	$	%
Income before income taxes	**1,847**		1,443	
Income taxes at statutory rate	**540**	**29.21**	443	30.73
Other	**29**	**1.59**	42	2.72
Effective tax	**569**	**30.80**	485	33.45

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2011 and 2010

13. INTEREST RATE RISK

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 which are shown at contractual maturity but which often prepay earlier, and certain borrowings, which are shown at contractual maturity but which are often cashed before their contractual maturity.

	2011						
	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	**41,027**	**40,000**	**—**	**—**	**—**	**9,190**	**90,217**
Effective yield	***—***	***1.45***					
Mortgage loans	**2,931**	**13,186**	**7,948**	**9,161**	**12,187**	**—**	**45,413**
Effective yield	***—***	***5.22***	***4.90***	***4.82***	***4.50***		
Personal loans	**5,011**	**3,360**	**561**	**337**	**213**	**—**	**9,482**
Effective yield	***—***	***7.40***	***9.54***	***8.91***	***8.52***		
Business loans	**79,321**	**29,354**	**12,482**	**16,564**	**23,572**	**—**	**161,293**
Effective yield	***—***	***3.90***	***4.86***	***4.66***	***4.15***		
Other	**—**	**—**	**—**	**—**	**—**	**5,562**	**5,562**
	128,290	**85,900**	**20,991**	**26,062**	**35,972**	**14,752**	**311,967**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Borrowings	**212,983**	**55,211**	**3,175**	**3,015**	**4,440**	**—**	**278,824**
Effective yield	***—***	***1.01***	***2.08***	***2.35***	***2.89***		
Other	**—**	**—**	**—**	**—**	**—**	**2,845**	**2,845**
Shareholders' equity	**—**	**—**	**—**	**—**	**—**	**30,298**	**30,298**
	212,983	**55,211**	**3,175**	**3,015**	**4,440**	**33,143**	**311,967**
Derivative financial instrument	**(12,839)**	**1,168**	**1,208**	**1,249**	**9,214**	**—**	**—**
Effective yield	***—***	***3.34***	***3.34***	***3.34***	***3.34***	***—***	***—***
	200,144	**56,379**	**4,383**	**4,264**	**13,654**	**33,143**	**311,967**
Net 2011 Position	**(71,854)**	**29,521**	**16,608**	**21,798**	**22,318**	**(18,391)**	**—**

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2011 and 2010

	2010						
	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	68,904	20,000	—	—	—	—	88,904
Effective yield	—	*1.29*					
Mortgage loans	885	8,774	10,673	6,443	14,114	—	40,889
Effective yield	—	*5.08*	*5.13*	*5.03*	*4.77*		
Personal loans	6,799	1,683	489	273	178	—	9,422
Effective yield	—	*7.73*	*10.20*	*9.85*	*9.92*		
Business loans	52,154	60,298	10,030	6,117	16,392	—	144,991
Effective yield	—	4.28	*5.11*	*5.03*	*4.46*		
Other	—	—	—	—	—	4,062	4,062
	128,742	90,755	21,192	12,833	30,684	4,062	288,268
LIABILITIES AND SHAREHOLDERS' EQUITY							
Borrowings	178,064	73,725	1,268	2,163	1,231		256,451
Effective yield	—	*1.85*	*1.82*	*2.18*	*3.18*		
Other	—	—	—	—	—	2,703	2,703
Shareholders' equity	—	—	—	—	—	29,114	29,114
	178,064	73,725	1,268	2,163	1,231	31,817	288,268
Net 2010 Position	(49,322)	17,030	19,924	10,670	29,453	(27,755)	—

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2011 and 2010

14. RISK MANAGEMENT

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. The Audit and Risk Management Committee and the Credit Committee oversee the management of credit risk through the following: approval of credit policy, approval of limits of authority allocated to management and credit approval in excess of management limits. Credit risk is managed through the credit risk policies, management guidelines and discretionary limits of the Bank. Management monitors its credit exposures daily.

The Bank uses internal scoring measures to assess the credit quality of business borrowers. These measures are derived from the underlying credit experience, collateral, management expertise, and other objective financial measures. Credit quality of personal borrowers is measured in part by a standardized credit rating system, which considers payment history, current debt, age of accounts, type of credit and credit enquiries.

Liquidity risk

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 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 to meet cash outflow requirements that may arise from a disruption to the normal course of business. This requirement is defined as a minimum of the following: 1/5 of the average of the top 5 depositors to cover depositor concentration risk, 10% of total non-term deposits and term deposits expiring within 30 days. As at October 31, 2011, the Bank had $90,217 of cash and cash equivalents and complied with the requirement. The Bank also measures and monitors concentration of funding sources.

Interest rate risk

The Bank's exposure to the risk of changes in market interest rates relates primarily to mismatches in the Bank's assets and liabilities. The Bank's policy is to measure and manage interest rate risk exposure in earnings and economic value perspectives. The Bank analyzes 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 or 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 or decrease in market interest rates to 5% of shareholders' equity. At October 31, 2011, a 1% increase in market interest rates would result in a 0.8% decrease of annual net interest income and 2.3% decrease of shareholders' equity. The Bank has complied with this requirement.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars unless otherwise indicated]

October 31, 2011 and 2010

15. DERIVATIVE LIABILITY

Effective November 1, 2010, the Bank entered into a fixed for floating amortizing interest rate swap with TD Bank in order to hedge against interest rate fluctuations. No ineffectiveness from the hedge was recognized in net income during the year. A summary of the interest rate swap as at October 31, 2011 is provided below:

	2011						
Counterparty	**Notional Amount** $	**Maturity Date**	**Paying rate index**	**Receiving rate index**	**Paying rate** $	**Receiving rate** $	**Fair Value** $
TD Bank	12,839	1-Nov-15	Fixed	3-month CDOR	3.344%	CDOR + 1.31%	229

16. CONTINGENCIES, COMMITMENTS AND GUARANTEES

Lease commitments

The Bank has obligations under long-term, non-cancellable leases for premises as follows:

	$
2012	584
2013	497
2014	337
2015	262
2016	247
Thereafter	554
	2,481

Guarantees

Letters of credit have been provided to third parties in the amount of $997 [2010 - $599].

In the normal course of operations, the Bank, as set out in its By-laws, 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.

Contingencies

From time to time, the Bank is subject to claims and lawsuits arising in the normal course of operations. The Bank carries liability insurance, subject to certain deductibles and policy limits, against such claims. Based on advice and information provided by legal counsel, management believes that no provision for these matters is required and that their ultimate resolution will not have a material adverse affect on the financial position of the Bank or its operations. The amount of loss, if any, incurred upon resolution of these matters will be recorded in the period in which the uncertainty regarding such matters is resolved and the amount of the loss can be reasonably estimated.

17. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2011 financial statements.