



First Nations Bank of Canada Report to Shareholders Fiscal 2017 Results

FULL YEAR FINANCIAL HIGHLIGHTS, compared with last year:

- Reported total assets were \$480 million, compared with \$407 million.
- Reported total loans and mortgages were \$334 million, compared with \$301 million.
- Reported net income was \$1.207 million, compared with \$0.7 million.
- Cash earnings were \$2.8 million, compared with \$2.3 million.

Saskatoon, SK – December 12, 2017 – First Nations Bank of Canada reported net income for the year ended October 31, 2017 of \$1.207 million, a 72% increase over last year. This increase was due to growth in total assets and an increase in the rates of interest realized on earning assets, by end of fiscal 2017

The growth of year-over-year assets continued in the fourth quarter with total assets at October 31, 2017 of \$480 million, a \$72.8 million (17.9%) increase over the prior year. This growth in total assets included growth in all categories of earning assets including \$40.3 million (41%) in cash resources, \$27.1 million (13.2%) in business loans, \$5.3 million (6.1%) in mortgage loans, and \$689 thousand (6.8%) in retail loans.

Overall credit quality remains high, however, due to a downgrading of one loan, a specific provision totaling \$52 thousand was expensed in the year. Based on an assessment of loans and mortgages, a recovery of the collective provision for loan impairment of \$28 thousand offset some of this specific provision, resulting in an expense for impairment of credit losses of \$24 thousand.

The primary driver of growth in cash resources over last year was the significant increase of \$69.6 million (19.1%) in customer deposits. The increase was due to growth in notice deposits of \$78.9 million (34.8%), offset by a decrease in medium-term deposits of \$9.3 million (6.7%). Most of the decrease in term deposits was a planned decrease in higher cost brokered term deposits from non-core customers.

There was a 5 basis point decline in the year of average total net interest margin due to a slightly greater proportion of the total assets being in lower earning assets (i.e. cash resources) rather than in higher earning loan and mortgage assets. The Bank of Canada increased the Bank Rate by 0.25% twice during fiscal 2017 on July 14, 2017 and on September 6, 2017. The Bank correspondingly increased our prime interest rate twice by 0.25% to end the fiscal year at 3.20%. This 0.50% increase in our prime rate had an immediate positive impact on the interest earned on variable prime rate based loans which totaled \$116.7 million at October 31, 2017. This increase in variable loan rates partially resulted in the total average net interest margin on loan and mortgage assets for the month of October 2017 of 4.27% compared to 4.10% in October 2016.

Cash earnings¹ for the twelve months ended October 31, 2017 were \$2.8 million, an increase of \$503 thousand, or 22.3%, compared with the prior year.

¹Cash Earnings are earnings before income taxes and non-cash expenses for depreciation, amortization and general provision for credit losses.

A dividend of \$0.015 per common share was approved by the Board of Directors on December 12, 2017. The decision to increase the dividend by 50% was due to increased profitability of the Bank and the increase in total earning assets and interest rates which are expected support the sustainability of the increased dividend. Dividends payable to shareholders as at January 31, 2018 will be paid on March 1, 2018. The Bank also announced the introduction of a Dividend Reinvestment Program which offers existing shareholders the option for the cost effective and automatic reinvest of their dividends in common shares of the Bank.

Fourth Quarter 2017 Results (three months ended October 31, 2017) – Comparison to Prior Quarter (three months ended July 31, 2017)

- Net interest income totaled \$2,966 thousand, increasing \$122 thousand or 4.3 %. The net interest margin increased 19 basis points to 2.72%. Total average earning assets decreased \$5.4 million or 1.2%, mostly due to higher average cash resources in Q3 2017 due to First Nations Government deposits.
- Loans totaled \$334.2 million, an increase of \$19 million, or 6%, reflecting the increase of \$18.0 million (8.4%) in business loans, \$752 thousand (.8%) in mortgage loans, and \$266 thousand (2.5%) in retail loans.
- Total deposits totaled \$434.7 million, an increase of \$21.1 million, or 5.1%, primarily due to increases in customer notice deposits, offset by planned decreases in non-core customer term deposits.
- Other income totaled \$1 million, an increase of \$35 thousand.
- Non-interest expenses totaled \$3.4 million, decreasing \$55 thousand. The decrease was primarily due to a decrease in depreciation and amortization.
- Cash earnings¹ were \$807 thousand, an increase of \$161 thousand, or 25%.

Fiscal 2017 Results – Comparison to Prior Year (year ended October 31, 2017 and 2016)

- Net interest income totaled \$11,251 thousand, increasing \$933 thousand or 9%. The net interest margin decreased 5 basis points to 2.60% due to the mix of lower earning assets (i.e. cash resources) being slightly higher than higher earning assets during 2017. Total average earning assets increased \$62.9 million or 13.9%, primarily due to increases in cash resources from customer deposits.
- Loans totaled \$334.2 million, an increase of \$33.1 million, or 11%, which includes an increase of \$27.1 million (13.2%) in business loans, \$5.3 million (6.1%) in mortgage loans and \$689 thousand (6.8%) in retail loans.
- Total customer deposits totaled \$434.7 million, an increase of \$69.6 million, or 19.1%, primarily due to increases in customer notice deposits, offset by planned decreases in non-core customer term deposits.
- Other income totaled \$3.8 million, an increase of \$375 thousand due primarily to slightly increased service charges and fees and prepayment penalties.
- Non-interest expenses totaled \$13.4 million, increasing \$764 thousand. The increase was primarily due to an increase in Salary and Staff Benefits and Travel expenses and an increase in Other expenses primarily due to a non-credit loss expensed in the year.
- Cash earnings¹ were \$2.8 million, an increase of \$503 thousand, or 22.3%.

About First Nations Bank of Canada

First Nations Bank of Canada remains focused on providing financial services to the Aboriginal marketplace in Canada. With over 80% First Nations and Inuit ownership, the Bank is the only widely held Aboriginal chartered bank and the largest widely held, multi-province based, Aboriginal owned business in Canada. Shareholders include Aboriginal groups from Nunavut, Northwest Territories, Yukon, Alberta, Saskatchewan, Manitoba and Quebec. These Aboriginal shareholders are progressive, like-minded organizations, culturally and linguistically diverse, and all respected leaders in their regional economies.

The Bank operates eight full service branches and five Community Banking Centres in four provinces and all three territories. Our head office is located in Saskatoon, Saskatchewan. A ninth branch is in construction at the Enoch Cree Nation (adjacent to Edmonton) and the Bank is establishing a Community Banking Centre for the Whapmagoostui Cree Nation in the James Bay Cree region of Quebec. We continue to explore possible expansion of our network into other regions which also have significant Aboriginal population, growing economies and are underserved by other financial institutions.

While current capital fully supports the existing operations and planned expansions, the Bank has initiated a share offering to raise capital to support the continued growth of the Bank.

Keith Martell

Cheryl Foster

Chief Executive Officer

Chief Financial Officer

This report may contain forward-looking statements, including statements regarding the business and anticipated financial performance of First Nations Bank of Canada. These statements are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause such differences include the risks and uncertainties concerning pending and proposed legislative and regulatory developments; competition resulting from established competitors and new entrants; technological changes; global capital market activity, inflation, interest rate fluctuation, currency value fluctuation; general economic conditions; and First Nations Bank of Canada's success in managing the costs associated with the expansion of existing distribution channels, the development of new ones and the realization of increased revenue from these channels. This list is not exhaustive of the factors that may affect any of the First Nations Bank of Canada's forward-looking statements. Forward-looking statements contained in this report or in other public statements should be considered in light of these factors and undue reliance should not be placed on First Nations Bank of Canada's forward-looking statements. There can be no assurance that such factors or other factors will not affect the accuracy of such forward-looking statements and First Nations Bank of Canada does not undertake to update any forward-looking statements.

Notes to Financial Statements

- The accounting policies followed by the Bank, including the accounting requirements of the Superintendent of Financial Institutions Canada, conform to International Financial Reporting Standards. These unaudited financial statements do not include all the information and footnotes required by the Bank's accounting policies and therefore should be read in conjunction with the audited financial statements and notes for the year ended October 31, 2017. The 2017 audited year-end financial statements are available on the web at www.fnbc.ca.

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