

## **Financial Statements**

### **First Nations Bank of Canada**

October 31, 2014

# AUDITORS' REPORT

To the Shareholders of **First Nations Bank of Canada**

We have audited the accompanying financial statements of **First Nations Bank of Canada**, which comprise the statement of financial position as at October 31, 2014 and the statements of comprehensive income (loss), changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## **Management's Responsibility for the Financial Statements**

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

## **Auditors' Responsibility**

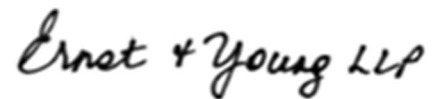
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

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

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

## **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of **First Nations Bank of Canada** as at October 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Edmonton, Canada  
December 30, 2014

Chartered Accountants

# First Nations Bank of Canada

## STATEMENT OF FINANCIAL POSITION

As at October 31,  
[in thousands of dollars]

	Notes	2014	2013
<b>Assets</b>			
Cash and balances with banks	5	82,391	63,466
Loans and advances to customers	6		
Mortgage loans		67,262	57,573
Personal loans		8,865	8,870
Business loans		211,101	178,418
		287,228	244,861
Tax receivable		—	894
Property and equipment	9	3,439	2,420
Intangible assets	10	3,998	4,485
Other assets	7	1,554	1,360
<b>Total assets</b>		<b>378,610</b>	<b>317,486</b>
<b>Liabilities</b>			
Due to customers			
Notice deposits		233,588	224,456
Medium-term certificates		107,677	56,982
		341,265	281,438
Derivative financial instrument	15	95	153
Deferred tax liability	13	893	1,048
Other liabilities	8	4,615	4,134
<b>Total liabilities</b>		<b>346,868</b>	<b>286,773</b>
<b>Equity</b>			
Issued capital	12	24,141	23,259
Retained earnings		7,601	7,454
<b>Total equity</b>		<b>31,742</b>	<b>30,713</b>
<b>Total liabilities and equity</b>		<b>378,610</b>	<b>317,486</b>

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

Approved by the Board of Directors



Director



Director

## First Nations Bank of Canada

### STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the year ended October 31

[in thousands of dollars]

	Notes	2014	2013
<b>INTEREST INCOME</b>			
Term and bank deposits		710	866
Loans and advances to customer			
Mortgage loans		2,318	2,063
Personal loans		600	644
Business loans		8,827	7,722
		<b>12,455</b>	<b>11,295</b>
<b>INTEREST EXPENSE</b>			
Notice deposits		792	824
Medium-term certificates		1,283	960
		<b>2,075</b>	<b>1,784</b>
Net interest income		<b>10,380</b>	9,511
Impairment of credit losses	6	301	289
Net interest income after provision for credit losses		<b>10,079</b>	9,222
Fees and commission		2,929	2,654
		<b>13,008</b>	<b>11,876</b>
<b>NON-INTEREST EXPENSES</b>			
Salary and staff benefits		6,212	5,852
Rent and occupancy		1,615	1,411
Marketing		326	264
Professional fees		884	1,107
Banking platform		1,761	1,829
Travel		388	335
Other operating expenses		396	1,058
Depreciation and amortization		1,011	1,006
<b>Total operating expenses</b>		<b>12,593</b>	<b>12,862</b>
Income (loss) before income taxes		415	(986)
Income tax expense (recovery)	13	142	(412)
<b>Net income (loss) for the year</b>		<b>273</b>	<b>(574)</b>
Other comprehensive income for the year		—	—
<b>Total comprehensive income (loss)</b>		<b>273</b>	<b>(574)</b>

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

## First Nations Bank of Canada

### STATEMENT OF CHANGES IN EQUITY

[in thousands of dollars]

	Issued capital	Retained earnings	Total equity
<b>As at November 1, 2012</b>	<b>23,259</b>	<b>8,154</b>	<b>31,413</b>
Total comprehensive loss for the year			
Net loss for the year		(574)	(574)
Other comprehensive income		—	—
<b>Total comprehensive loss for the year</b>		<b>(574)</b>	<b>(574)</b>
Contributions by and distributions to equity holders			
Dividends to equity holders		(126)	(126)
<b>As at October 31, 2013</b>	<b>23,259</b>	<b>7,454</b>	<b>30,713</b>
Total comprehensive income for the year			
Net income for the year		273	273
Other comprehensive income		—	—
<b>Total comprehensive income for the year</b>		<b>273</b>	<b>273</b>
Contributions by and distributions to equity holders			
Share issuance	1,000	—	1,000
Share issue costs	(118)	—	(118)
Dividends to equity holders		(126)	(126)
<b>As at October 31, 2014</b>	<b>24,141</b>	<b>7,601</b>	<b>31,742</b>

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

## First Nations Bank of Canada

### STATEMENT OF CASH FLOWS

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

	2014	2013
<b>OPERATING ACTIVITIES</b>		
Income (loss) for the year	273	(574)
Adjustments:		
Provision for credit losses	301	289
Deferred income taxes	(155)	520
Depreciation and amortization	1,011	1,006
	<b>1,430</b>	<b>1,241</b>
Adjustments for changes in:		
Interest receivable	(82)	58
Interest payable	439	19
Other receivables	(112)	944
Current tax receivable	894	(359)
Derivative financial instrument and other liabilities	(16)	201
	<b>1,123</b>	<b>863</b>
Changes in:		
Mortgage loans	(9,705)	(6,049)
Personal loans	(48)	(166)
Business loans	(32,915)	(11,785)
Notice deposits	9,132	35,564
Medium-term certificates	50,695	(5,503)
	<b>17,159</b>	<b>12,061</b>
<b>Net cash provided by operating activities</b>	<b>19,712</b>	<b>14,165</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(1,522)	(428)
Additions to intangible assets	(21)	(286)
<b>Net cash used in investing activities</b>	<b>(1,543)</b>	<b>(714)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of common shares	1,000	—
Share issue costs	(118)	
Dividends paid to equity holders	(126)	(126)
<b>Net cash provided by (used in) financing activities</b>	<b>756</b>	<b>(126)</b>
<b>Net increase in cash and balances with banks during the year</b>	<b>18,925</b>	<b>13,325</b>
Cash and balances with banks, beginning of year	63,466	50,141
<b>Cash and balances with banks, end of year</b>	<b>82,391</b>	<b>63,466</b>

**Operational cash flows from:**

Interest paid	1,636	1,765
Income taxes paid	(781)	91

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

## **First Nations Bank of Canada**

### **NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, unless otherwise indicated]

October 31,

#### **1. INCORPORATION AND NATURE OF OPERATIONS**

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

#### **2. BASIS OF PRESENTATION**

##### **Statement of compliance**

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

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

The financial statements were authorized for issue by the Board of Directors on December 18, 2014.

##### **Basis of measurement**

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

##### **Use of estimates and judgements**

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

## First Nations Bank of Canada

### NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars, unless otherwise indicated]

October 31,

#### 2. BASIS OF PRESENTATION (continued)

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is discussed below and included in note 6: Loans and advances to customers and note 14: Financial assets and liabilities. Other significant estimates are discussed below.

##### *Depreciation/amortization policies and useful lives*

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

##### *Impairment losses on loans and advances*

The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions and actual results may differ, resulting in future changes to the allowance. Management determines whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio, and management judgements on the effect of concentrations of risks on each portfolio classification. The impairment loss on loans and advances is disclosed in more detail in note 6.

##### *Taxes*

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

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



## **First Nations Bank of Canada**

### **NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, unless otherwise indicated]

October 31,

### **3. SIGNIFICANT ACCOUNTING POLICIES**

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

#### **Functional and presentation currency**

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

#### **Foreign currency translation**

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

#### **Cash and balances with banks**

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

#### **Financial instruments**

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

- 1) derivatives recorded at fair value through profit or loss,
- 2) held for trading,
- 3) at fair value through profit or loss,
- 4) available-for-sale investments,
- 5) held-to-maturity financial investments; and
- 6) loans and receivables.

## First Nations Bank of Canada

### NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars, unless otherwise indicated]

October 31,

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial assets

##### *Fair value through profit or loss*

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

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

##### *Loans and receivables*

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

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

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

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

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

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

## First Nations Bank of Canada

### NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars, unless otherwise indicated]

October 31,

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Financial assets - derecognition*

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

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

#### *Renegotiated loans*

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

#### **Financial liabilities**

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

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

#### *Derivatives recorded at fair value through profit or loss*

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

#### *Other payables*

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

## **First Nations Bank of Canada**

### **NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, unless otherwise indicated]

October 31,

### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### ***Financial liabilities - derecognition***

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

#### **Fair value of financial instruments**

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

#### **Offsetting of financial instruments**

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

#### **Impairment allowance for credit losses**

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

The impairment allowance consists of individual and collective allowances.

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

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

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

## **First Nations Bank of Canada**

### **NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, unless otherwise indicated]

October 31,

### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Hedge accounting**

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

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

#### **Fair value hedges**

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

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

#### **Share-based payments - Cash-settled transactions**

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

## First Nations Bank of Canada

### NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars, unless otherwise indicated]

October 31,

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property and equipment

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

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

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

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

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

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

#### Intangible assets

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

Expenditures on internally generated intangible assets are recognized as assets when the Bank is able to demonstrate its intention and ability to complete the development and use the intangible assets in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalized costs of internally generated intangible assets include all costs directly attributable to developing the intangible assets and capitalized borrowing costs, and are amortized over their useful lives.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

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

- Website development straight-line over 3 years
- Computer systems straight-line over 10 years

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

**NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, unless otherwise indicated]

October 31,

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of non-financial assets**

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

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

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

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

**Deferred costs**

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

## First Nations Bank of Canada

### NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars, unless otherwise indicated]

October 31,

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Income taxes

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

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

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

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

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

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

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

#### Leases - Bank as lessee

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

Leases that transfer substantially all the benefits and risks of ownership to the Bank are recorded as finance lease assets within property and equipment. Costs for all other leases are recorded as operating expense as incurred. For further details on operating leases please refer to note 16.



## **First Nations Bank of Canada**

### **NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, unless otherwise indicated]

October 31,

### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Provisions**

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

#### **Contingencies**

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

#### **Income and expense recognition**

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

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

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

#### **Fee and commission income**

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

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

## First Nations Bank of Canada

### NOTES TO FINANCIAL STATEMENTS [in thousands of dollars, unless otherwise indicated]

October 31,

#### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### New standards adopted

The Bank has adopted the following new and revised IFRS issued by the IASB:

##### *IFRS- Disclosures - Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7*

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32, *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will become effective for annual periods beginning on or after January 1, 2013, which was November 1, 2013 for the Bank.

The adoption of this amendment has had no material impact on the financial statements of the Bank.

##### *IFRS 10- Consolidated Financial Statements*

IFRS 10 provides a revised definition of control and related application guidance so that a single control model can be applied to all entities. Control is determined based on whether the reporting entity is exposed to the variable returns of the other entity and has the ability to affect those returns through its power over the investee. IFRS 10 is effective for annual periods beginning on or after January 1, 2013, which was November 1, 2013 for the Bank. The adoption of this standard had no impact on the financial statements.

##### *IFRS 11- Joint Arrangements*

IFRS 11 replaced IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Ventures*. IFRS 11 removes the option to account for jointly controlled entities ("JCEs") using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The adoption of this standard had no impact on the financial statements.

##### *IFRS 12- Disclosure of Interests in Other Entities*

IFRS 12 is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, which was November 1, 2013 for the Bank. The adoption of this standard has had no impact on the financial statements.

## First Nations Bank of Canada

### NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars, unless otherwise indicated]

October 31,

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *IFRS 13- Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The adoption of this standard has had no impact on the financial statements; however the standard resulted in additional fair value disclosures which are disclosed in Note 14 of the financial statements

#### *IAS 1- Presentation of Financial Statements*

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that would be reclassified (or recycled) to profit or loss at a future point in time are to be presented separately from items that will never be reclassified. The adoption of this standard has had no impact on the financial statements.

### Standards issued but not yet effective

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

#### *IFRS 9- Financial Instruments*

IFRS 9 "Financial Instruments" – Issued July 2014, IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 is mandatorily effective for annual periods beginning on or after January 1, 2018, which would have been on November 1, 2018 for the Bank. Although early application is permitted if an entity applies all the requirements of the standard early, OSFI has issued a draft advisory for comment that would require that the Canadian banks with October 31 year ends adopt IFRS 9 for their annual period beginning on November 1, 2017, one year earlier than mandatorily required by the IASB.

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

## First Nations Bank of Canada

### NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars, unless otherwise indicated]

October 31,

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *IFRS 15- Revenue from Contracts with Customers*

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

IFRS 15 also significantly expands the current disclosure requirements about revenue recognition. The effective date for this standard is for reporting periods beginning on or after January 1, 2017, which will be November 1, 2017, for the Bank. The Bank is currently assessing the impact to its current revenue recognition policies and reporting processes.

#### *Novation of Derivatives and Continuation of Hedge Accounting*

In June 2013, the IASB issued amendments to IAS 39 which provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedge accounting instrument meets certain criteria. The IAS 39 amendments are effective for annual periods beginning on or after January 1, 2014, which will be November 1, 2014 for the Bank, and is to be applied retrospectively. The IAS 39 amendments are not expected to have a material impact on the financial position, cash flows or earnings of the Bank.

#### *IFRIC 21- Levies*

In May 2013, the IFRS Interpretations Committee (IFRIC), with the approval by the IASB, issued IFRIC 21, *Levies* (IFRIC 21). IFRIC 21 provides guidance on when to recognize a liability to pay a levy imposed by the government that is accounted for in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014, which will be November 1, 2014 for the Bank, and is to be applied retrospectively. The Bank is currently assessing the impact of adopting this interpretation.

#### *IAS 32- Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32*

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. It will be necessary to assess the impact to the Bank by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Currently, transactions settled through clearing systems are, in most cases, deemed to achieve simultaneous settlement. While many settlement systems are expected to meet the new criteria, some may not. Any changes in offsetting are expected to impact leverage ratios, regulatory capital requirements, etc. As the impact of the adoption depends on the Bank’s examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria. The Bank is currently assessing the impact of adopting this amendment.

These amendments become effective for annual periods beginning on or after January 1, 2014, which will be November 1, 2014 for the Bank.

## **First Nations Bank of Canada**

### **NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, unless otherwise indicated]

October 31,

#### **4. FINANCIAL RISK MANAGEMENT**

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

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

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

##### **Risk management framework**

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

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

##### **(a) Credit risk**

Credit risk is the potential for financial loss if a borrower or counterparty in a transaction fails to meet its agreed payment obligations. Credit risk is managed through the credit risk policies, management guidelines and discretionary limits of the Bank. Guidelines are established to monitor and limit industry risk and group exposure in the portfolio. Refer to note 6 for credit risk exposure.

##### **Analysis of risk concentration**

The Bank's concentrations of risk are managed by client and by industry sector. The maximum credit exposure to any client as at October 31, 2014 was \$9,215 [2013: \$10,464], before taking account of collateral or other credit enhancements.

## First Nations Bank of Canada

### NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars, unless otherwise indicated]

October 31,

#### 4. FINANCIAL RISK MANAGEMENT (continued)

##### Analysis of risk concentration (continued)

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

Industry	2014 \$	2013 \$
Financial services	4,123	315
Government – others	9,215	10,464
Government First Nation	100,031	108,271
Health and social	10,244	5,873
Professional and recreation	10,637	5,348
Real estate	48,767	30,556
Retail	4,009	3,124
Transportation	1,707	2,976
Others	22,368	11,491
	<b>211,101</b>	<b>178,418</b>

##### (b) Liquidity risk

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

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

##### (c) Interest rate risk

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

As at October 31, 2014, with other variables unchanged, an increase (decrease) of 1% in interest rates would increase (decrease) annualized net income before tax by approximately \$218 thousand.

**First Nations Bank of Canada**

**NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, unless otherwise indicated]

October 31,

**4. FINANCIAL RISK MANAGEMENT (continued)**

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

	<b>2014</b>						
	<b>Floating rate \$</b>	<b>Less than 1 year \$</b>	<b>1 to 2 years \$</b>	<b>2 to 3 years \$</b>	<b>Over 3 years \$</b>	<b>Non- interest rate sensitive \$</b>	<b>Total \$</b>
<b>ASSETS</b>							
Cash and cash equivalents	62,391	20,000	—	—	—	—	82,391
<i>Effective yield</i>	—						
Mortgage loans	5,775	21,826	14,411	9,008	16,242	—	67,262
<i>Effective yield</i>	—	3.83	3.59	3.57	3.57		
Personal loans	7,964	541	227	86	47	—	8,865
<i>Effective yield</i>	—	10.47	9.93	9.33	8.88		
Business loans	94,582	44,163	26,668	19,500	26,188	—	211,101
<i>Effective yield</i>	—	3.97	4.41	4.80	4.89		
Other	—	—	—	—	—	8,991	8,991
	170,712	86,530	41,306	28,594	42,477	8,991	378,610
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>							
Due to customers	233,568	74,328	21,765	10,364	1,240	—	341,265
<i>Effective yield</i>		1.58	2.33	2.45	2.36		
Other	—	—	—	—	—	5,603	5,603
Shareholders' equity	—	—	—	—	—	31,742	31,742
	233,568	74,328	21,765	10,364	1,240	37,345	378,610
<b>Net 2014 Position</b>	<b>(62,856)</b>	<b>12,202</b>	<b>19,541</b>	<b>18,230</b>	<b>41,237</b>	<b>(28,354)</b>	<b>—</b>

**First Nations Bank of Canada**

**NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, unless otherwise indicated]

October 31,

**4. FINANCIAL RISK MANAGEMENT (continued)**

	<b>2013</b>						
	<b>Floating rate</b>	<b>Less than 1 year</b>	<b>1 to 2 years</b>	<b>2 to 3 years</b>	<b>Over 3 years</b>	<b>Non- interest rate sensitive</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$	\$
<b>ASSETS</b>							
Cash and cash equivalents	53,466	10,000	—	—	—	—	63,466
<i>Effective yield</i>	—						
Mortgage loans	4,872	21,419	9,448	11,788	10,046	—	57,573
<i>Effective yield</i>	—	4.09	4.21	3.67	3.69		
Personal loans	7,654	634	364	156	62	—	8,870
<i>Effective yield</i>	—	9.85	9.87	8.54	7.74		
Business loans	81,270	40,926	19,334	18,158	18,730	—	178,418
<i>Effective yield</i>	—	4.14	4.35	4.26	4.80		
Other	—	—	—	—	—	9,159	9,159
	147,262	72,979	29,146	30,102	28,838	9,159	317,486
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>							
Due to customers	225,967	48,207	2,766	3,856	642	—	281,438
<i>Effective yield</i>	—	1.44	2.58	2.53	2.15		
Other	—	—	—	—	—	5,335	5,335
Shareholders' equity	—	—	—	—	—	30,713	30,713
	225,967	48,207	2,766	3,856	642	36,048	317,486
Net 2013 Position	<b>(68,705)</b>	<b>14,772</b>	<b>26,380</b>	<b>26,246</b>	<b>28,196</b>	<b>(26,889)</b>	—



## First Nations Bank of Canada

### NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars, unless otherwise indicated]

October 31,

#### 4. FINANCIAL RISK MANAGEMENT (continued)

##### (d) Operational risk

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

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

##### (e) Foreign exchange risk

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

The table that follows provides an indication of the Bank's exposure to changes in the value of the U.S. dollar relative to the Canadian dollar as at October 31, 2014. The analysis is based on financial and monetary assets and liabilities denominated in U.S. dollars at the end of the reporting period ("statement of financial position exposure") and U.S. dollar denominated revenue and operating expenses during the year ("operating exposure").

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

	Approximate Canadian dollars	
	October 31, 2014	October 31, 2013
	\$	\$
Exposure in financial assets	3,268	1,919
Exposure in financial liabilities	3,280	1,951
Net statement of financial position exposure	(12)	(32)
Exposure impact rate	5%	5%
<b>Increase/decrease in comprehensive income (loss)</b>	<b>—</b>	<b>(2)</b>

## First Nations Bank of Canada

### NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars, unless otherwise indicated]

October 31,

#### 4. FINANCIAL RISK MANAGEMENT (continued)

##### (f) Capital management

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

##### Regulatory capital

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

The Bank's objectives include:

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

The Bank's total capital consists of one tier of capital approved under OSFI's regulatory capital guidelines. As at October 31, 2014 and 2013, Tier 1 capital includes items such as common shares and retained earnings.

During the years ended October 31, 2014 and 2013, 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, 2014 and 2013 was as follows:

	2014	2013
Common Equity Tier 1 capital	\$28,381	\$30,713
Common Equity Tier 1 capital ratio	11.3%	13.9%
Tier 1 Capital	\$28,381	N/A
Tier 1 Capital ratio	11.3%	N/A
Total capital <sup>1</sup>	\$28,381	\$30,713
Total capital ratio <sup>2</sup>	11.3%	13.9%
Assets-to-capital multiple <sup>3</sup>	12.26	10.37

<sup>1</sup> Tier 1 capital ratio is calculated as: Tier 1 capital divided by risk-weighted assets ["RWA"].

<sup>2</sup> Total capital ratio is calculated as: total capital divided by RWA.

<sup>3</sup> 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 common equity Tier 1, Tier 1 and total capital ratios for the Bank are 7%, 8.5% and 10.5%, respectively.

**First Nations Bank of Canada**

**NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, unless otherwise indicated]

October 31,

**5. CASH AND BALANCES WITH BANKS**

	2014 \$	2013 \$
Cash on hand	3,129	2,412
Cash at The Toronto-Dominion Bank	28,568	31,939
Term deposit bearing interest at 1.30% per annum, maturity date of November 9, 2014	10,000	10,000
Term deposit bearing interest at 1.40% per annum, maturity date of January 8, 2015	10,000	—
Cheques and other items in transit, net	—	(1,263)
Cash with other banks	30,694	20,378
	<b>82,391</b>	<b>63,466</b>

**6. LOANS AND ADVANCES TO CUSTOMERS**

	2014					
	Gross amount of loans \$	Individual impairment \$	Collective impairment \$	Total impairment \$	Net amount of loans \$	Gross impaired loans \$
Mortgage loans	67,317	—	55	55	67,262	—
Personal loans	9,090	—	225	225	8,865	—
Business loans	212,345	25	1,219	1,244	211,101	260
	<b>288,752</b>	<b>25</b>	<b>1,499</b>	<b>1,524</b>	<b>287,228</b>	<b>260</b>

	2013					
	Gross amount of loans \$	Individual impairment \$	Collective impairment \$	Total impairment \$	Net amount of loans \$	Gross impaired loans \$
Mortgage loans	57,612	—	39	39	57,573	—
Personal loans	9,097	—	227	227	8,870	—
Business loans	179,431	—	1,013	1,013	178,418	—
	<b>246,140</b>	<b>—</b>	<b>1,279</b>	<b>1,279</b>	<b>244,861</b>	<b>—</b>

**First Nations Bank of Canada**

**NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, unless otherwise indicated]

October 31,

**6. LOANS AND ADVANCES TO CUSTOMERS (continued)**

**Impairment allowance for loans and advances to customers**

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

	2014 \$	2013 \$
<b>Balance, beginning of year</b>	1,279	1,268
Write-offs	(56)	(278)
<b>Impairment allowance</b>		
Individual	25	204
Collective	276	85
	<b>301</b>	289
<b>Balance, end of year</b>	<b>1,524</b>	1,279

Mortgage loans include \$45,054 [2013 – \$40,720] of insured loans. Other loans include \$9,215 [2013 – \$10,464] of government guaranteed loans.

**Loans past due but not impaired**

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

**Gross amount of loans past due but not impaired as at October 31, 2014:**

	1-30 days	31-60 days	61-89 days	90 days or more	Total \$
Mortgage loans	519	59	—	—	578
Personal loans	98	27	21	10	156
Business loans	952	—	—	77	1,029
	<b>1,569</b>	<b>86</b>	<b>21</b>	<b>87</b>	<b>1,763</b>

**First Nations Bank of Canada**

**NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, unless otherwise indicated]

October 31,

**6. LOANS AND ADVANCES TO CUSTOMER (continued)**

Gross amount of loans past due but not impaired as at October 31, 2013:

	1-30 days	31-60 days	61-89 days	90 days or more	Total \$
Mortgage loans	223	255	—	288	766
Personal loans	168	20	—	—	188
Business loans	964	—	—	118	1,082
	<b>1,355</b>	<b>275</b>	<b>—</b>	<b>406</b>	<b>2,036</b>

**7. OTHER ASSETS**

Other assets consist of the following:

	2014 \$	2013 \$
Interest receivable	890	808
Prepaid expenses and deferred costs	664	535
Capital tax receivable	—	17
	<b>1,554</b>	<b>1,360</b>

**8. OTHER LIABILITIES**

Other liabilities consist of the following:

	2014 \$	2013 \$
Interest payable	787	348
Other liabilities	3,828	3,786
	<b>4,615</b>	<b>4,134</b>

**First Nations Bank of Canada**

**NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, unless otherwise indicated]

October 31,

**9. PROPERTY AND EQUIPMENT**

	<b>Furniture, fixtures and other equipment</b>	<b>Leasehold improvements</b>	<b>Computer equipment</b>	<b>Branch prototype project</b>	<b>Total</b>
<b>COST</b>					
Balance at November 1, 2012	487	3,197	317	—	4,001
Additions	75	43	15	295	428
Balance at October 31, 2013	562	3,240	332	295	4,429
Balance at November 1, 2013	562	3,240	332	295	4,429
Additions	108	1,092	354	(32)	1,522
<b>Balance at October 31, 2014</b>	<b>670</b>	<b>4,332</b>	<b>686</b>	<b>263</b>	<b>5,951</b>
<b>ACCUMULATED DEPRECIATION</b>					
Balance at November 1, 2012	210	1,270	18	—	1,498
Depreciation for the year	65	341	105	—	511
Balance at October 31, 2013	275	1,611	123	—	2,009
Balance at November 1, 2013	275	1,611	123	—	2,009
Depreciation for the year	69	294	138	2	503
<b>Balance at October 31, 2014</b>	<b>344</b>	<b>1,905</b>	<b>261</b>	<b>2</b>	<b>2,512</b>
<b>CARRYING AMOUNTS</b>					
At October 31, 2013	287	1,629	209	295	2,420
<b>At October 31, 2014</b>	<b>326</b>	<b>2,427</b>	<b>425</b>	<b>261</b>	<b>3,439</b>

**First Nations Bank of Canada**

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**10. INTANGIBLE ASSETS**

	Website development	Computer systems	Small market branch	Total
<b>COST</b>				
Balance at November 1, 2012	65	4,759	9	4,833
Acquisitions	—	258	28	286
<b>Balance at October 31, 2013</b>	<b>65</b>	<b>5,017</b>	<b>37</b>	<b>5,119</b>
Balance at November 1, 2013	65	5,017	37	5,119
Acquisitions	3	9	9	21
<b>Balance at October 31, 2014</b>	<b>68</b>	<b>5,026</b>	<b>46</b>	<b>5,140</b>
<b>ACCUMULATED AMORTIZATION</b>				
Balance at November 1, 2012	65	74	—	139
Amortization for the year	—	495	—	495
<b>Balance at October 31, 2013</b>	<b>65</b>	<b>569</b>	<b>—</b>	<b>634</b>
Balance at November 1, 2013	65	569	—	634
Amortization for the year	1	507	—	508
<b>Balance at October 31, 2014</b>	<b>66</b>	<b>1,076</b>	<b>—</b>	<b>1,142</b>
<b>CARRYING AMOUNTS</b>				
At October 31, 2013	—	4,448	37	4,485
<b>At October 31, 2014</b>	<b>2</b>	<b>3,950</b>	<b>46</b>	<b>3,998</b>

## First Nations Bank of Canada

### NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars, unless otherwise indicated]

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#### 11. RELATED PARTY TRANSACTIONS

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

The Toronto-Dominion Bank (TD Bank) is a 19% shareholder of the Bank that provided banking services until September 7, 2012 pursuant to the TD/FNBC Services Agreement. All related party transactions are measured at exchange amount.

##### (a) Cash and cash equivalents

Cash and cash equivalents held with TD Bank are disclosed in note 5.

##### (b) Loans to directors and employees

At October 31, 2014, loans provided to the Bank's directors and employees amounted to \$3,061 [2013 - \$3,438]. Loans provided to employees are at discounts to customer rates.

##### Transactions with key management personnel

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

	2014	2013
	\$	\$
Salaries, director fees and short-term benefits	1,608	1,495
Post-employment benefits	—	—

##### Amount owed from related parties (key management):

	2014	2013
	\$	\$
Maximum balance during the year	1,031	679
Balance as at	953	620

The above-mentioned outstanding balances arose from the ordinary course of business. The interest rates charged to employees are at discounts to customer rates. Majority of the outstanding balances at the year-end are secured. There have been no guarantees provided or received for any related party receivables or payables. For the year ended October 31, 2014, the Bank has not made any provision for doubtful debts relating to amounts owed by related parties [2013 - \$nil].



**First Nations Bank of Canada**

**NOTES TO FINANCIAL STATEMENTS**

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**12. ISSUED CAPITAL**

Issued capital consists of the following:

	<b>2014</b>		<b>2013</b>	
	#	\$	#	\$
<b>Authorized</b>				
Unlimited common shares				
<b>Issued and outstanding</b>				
<b>Common shares</b>				
Balance, beginning of year	<b>12,582,771</b>	<b>23,259</b>	12,582,771	23,259
Share issuance	<b>363,636</b>	<b>1,000</b>	—	—
Share issue costs	—	<b>(118)</b>	—	—
Balance, end of year	<b>12,946,407</b>	<b>24,141</b>	12,582,771	23,259
<b>Total issued capital</b>	<b>12,946,407</b>	<b>24,141</b>	12,582,771	23,259

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

Dividends of \$126 [2013 – \$126] were declared and paid during the year.

**First Nations Bank of Canada**

**NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, unless otherwise indicated]

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**13. INCOME TAXES**

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

	<b>2014</b>	<b>2013</b>
	\$	\$
<b>Deferred tax liability</b>		
Impairment for credit losses	<b>410</b>	350
Property and equipment	<b>(275)</b>	(308)
Intangible assets	<b>(1,041)</b>	(1,104)
Others	<b>13</b>	14
	<b>(893)</b>	(1,048)

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

	<b>2014</b>	<b>2013</b>
	\$	\$
Current income tax charge	<b>298</b>	(933)
Deferred income tax expense relating to origination and reversal of temporary differences	<b>(156)</b>	521
Income tax expense (recovery) reported in the statements of comprehensive income (loss) through profit or loss	<b>142</b>	(412)

The reconciliation of income tax expense (recovery) applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense (recovery) at the Bank's effective income tax rate for the years ended October 31, 2014 and October 31, 2013 is as follows:

	<b>2014</b>		<b>2013</b>	
	\$	%	\$	%
Income (loss) before income taxes	<b>415</b>		(986)	
Income taxes at statutory rate	<b>113</b>	<b>27.29</b>	(271)	27.50
Other	<b>29</b>	<b>6.92</b>	(141)	14.30
Income tax (recovery) expense and effective tax	<b>142</b>	<b>34.21</b>	(412)	41.80

## First Nations Bank of Canada

### NOTES TO FINANCIAL STATEMENTS

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#### 14. FINANCIAL ASSETS AND LIABILITIES

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

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

#### Fair value

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

Statement of financial position	2014		2013	
	Carrying value \$	Estimated fair value \$	Carrying value \$	Estimated fair value \$
<b>Financial assets</b>				
Loans and advances to customers	287,228	291,849	244,861	248,056
<b>Financial Liabilities</b>				
Due to customers	341,265	341,773	281,438	281,300
Derivative financial instruments	95	95	153	153

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

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

**Level 1:** quoted (unadjusted) prices in active markets for identical assets or liabilities.

**Level 2:** other techniques for which all inputs which have a significant effect on the recorded fair value are based on observable market data, either directly or indirectly.

**Level 3:** techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

**First Nations Bank of Canada**

**NOTES TO FINANCIAL STATEMENTS**

[in thousands of dollars, unless otherwise indicated]

October 31,

**14. FINANCIAL ASSETS AND LIABILITIES (continued)**

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

The table below presents the fair values by level within the fair value hierarchy for those assets and liabilities in which fair value is not assumed to be equal the carrying value:

	<b>2014</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	\$	\$	\$
<b>Financial assets</b>			
Loans and advances to customers	-	-	120,136
<b>Financial liabilities</b>			
Due to customers	-	-	108,206
Derivative financial instruments	-	95	-
	-	95	228,342
	<b>2013</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	\$	\$	\$
<b>Financial assets</b>			
Loans and advances to customers	-	-	154,222
<b>Financial liabilities</b>			
Due to customers	-	-	56,844
Derivative financial instruments	-	153	-
	-	153	211,066

During the reporting period ended October 31, 2014 and 2013, there were no transfers between leveling categories.

**First Nations Bank of Canada**

**NOTES TO FINANCIAL STATEMENTS**

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**15. DERIVATIVE FINANCIAL INSTRUMENTS**

Effective November 1, 2010, the Bank entered into a fixed for floating amortizing interest rate swap with TD Bank in order to hedge against interest rate fluctuations. No ineffectiveness from the hedge was recognized in net income during the year. A summary of the interest rate swap as at October 31, 2014 is provided below:

Counterparty	2014						
	Notional Amount	Maturity Date	Paying rate index	Receiving rate index	Paying rate	Receiving rate	Fair value (negative)
	\$						\$
TD Bank	9,215	1-Nov-15	Fixed	3-month CDOR	3.344%	CDOR +1.31%	95

**15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

Counterparty	2013						
	Notional Amount	Maturity Date	Paying rate index	Receiving rate index	Paying rate	Receiving rate	Fair value (negative)
	\$						\$
TD Bank	10,464	1-Nov-15	Fixed	3-month CDOR	3.344%	CDOR + 1.31%	153

## First Nations Bank of Canada

### NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars, unless otherwise indicated]

October 31,

#### 16. CONTINGENCIES, COMMITMENTS AND GUARANTEES

##### Lease commitments

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

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

	\$
2015	1,327
2016	1,185
2017	1,015
2018	696
2019	408
Thereafter	567
	5,198

##### Guarantees

Letters of guarantee have been provided to third parties by the Bank to make payments on behalf of customers in the event of a specific transactions amount to \$2,247 [October 31, 2013 – \$1,462].

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

#### 17. SHARE-BASED COMPENSATION

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

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

Expense arising from cash-settled share-based payment transactions amounts to nil [2013 – nil]. The carrying amount of the liability (note 8) relating to the cash-settled options at statement of financial position date and prior years is \$69.