FIRST WEST CREDIT UNION **2017 ANNUAL REPORT**

Comprehensive Financial Analysis

Management's Discussion & Analysis

FIRSTWEST CREDIT UNION

Comprehensive Financial Analysis

FINANCIAL PERFORMANCE

Assets | **$9.9 billion**

Total assets grew $347.0 million, or 3.6% in 2017, compared with 9.2% in 2016. This growth was primarily the result of an increase in personal and commercial loans which increased $735.2 million, or 9.8%.

Loans | **$8.2 billion**

Total loans to members increased $733.1 million, or 9.8% in 2017, compared with 4.7% in 2016. Total personal loans to members grew $380.0 million, or 7.6%, while commercial loans grew $355.2 million, or 14.3%.

Deposits | **$8.8 billion**

Total deposits increased $332.1 million, or 3.9% in 2017, compared with 10.9% in 2016.

CREDIT QUALITY

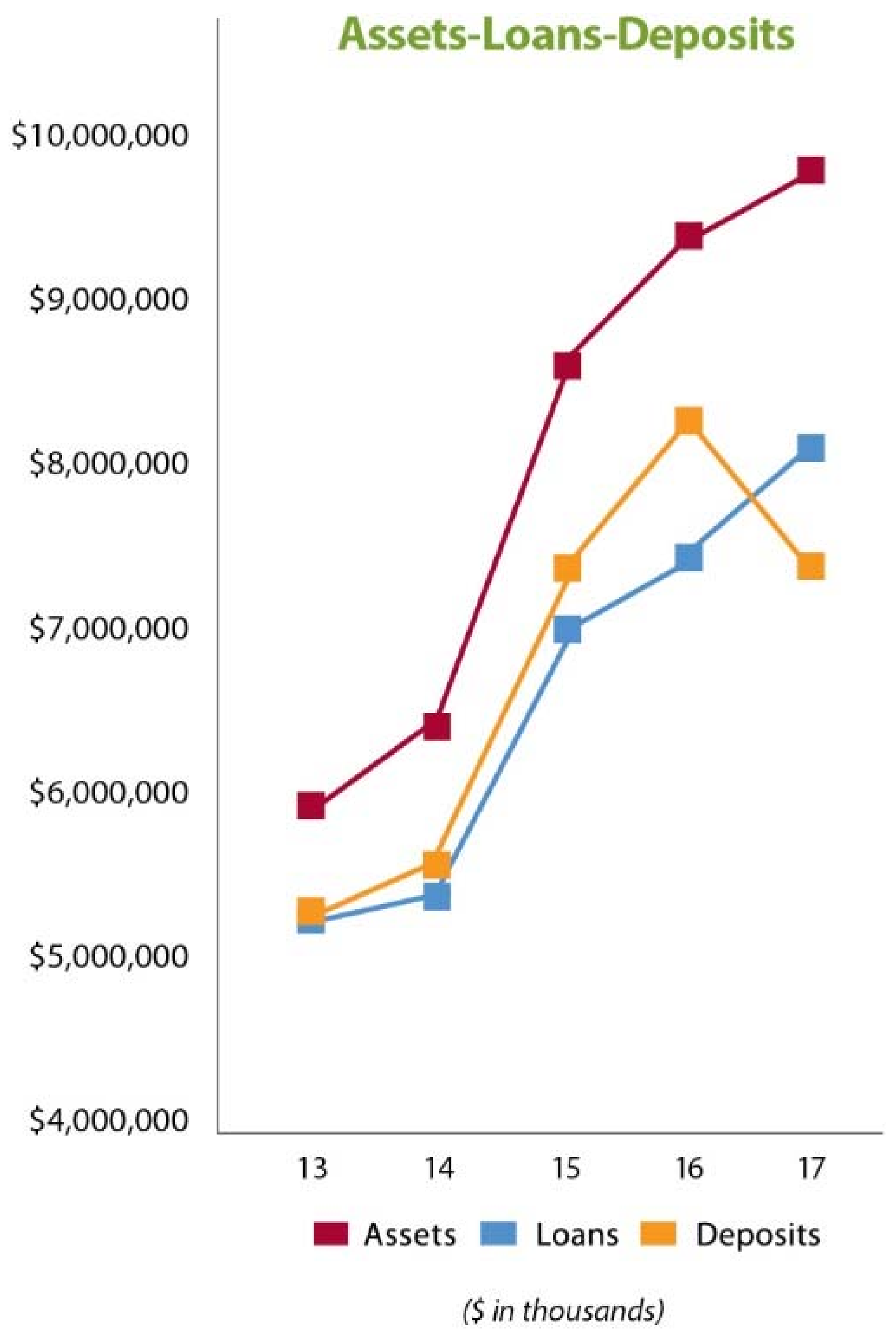
Allowance for credit losses

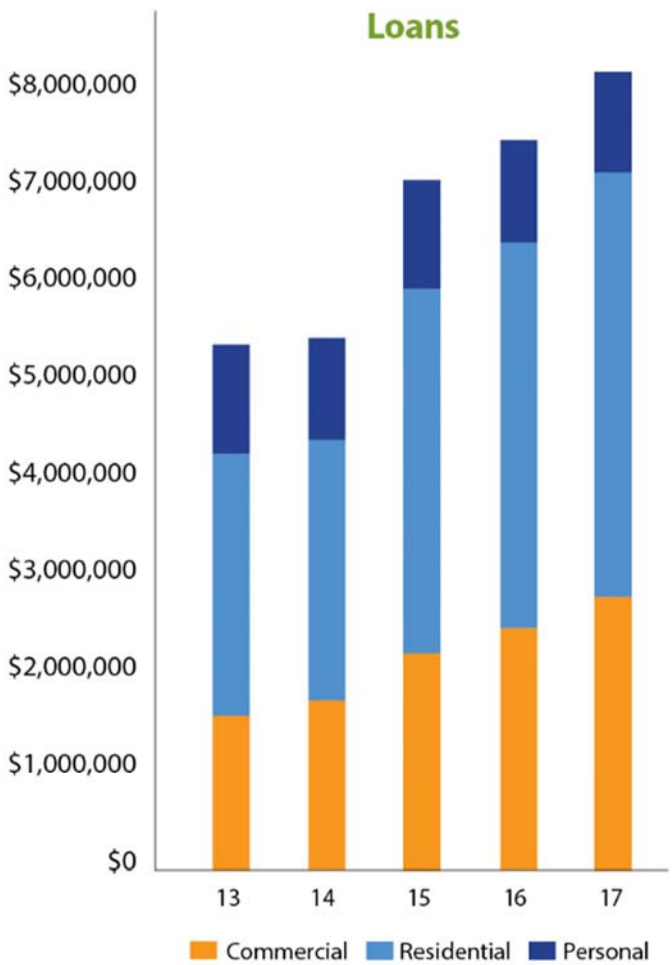
Our combined balance sheet allowance for credit losses as of December 31, 2017, was $24.0 million compared to $20.9 million in 2016, an increase of $3.1 million, or 14.9%. As a result, the year-end allowance for credit losses represents 0.29% of total loans and accrued interest, compared with 0.28% a year earlier.

We believe that the total allowance for credit losses is adequate based on current economic factors and our analysis of the loan portfolio as of December 31, 2017. In addition to maintaining a collective allowance of 0.26% of loans for losses incurred but not specifically identified, specific allowances are evaluated monthly on an account-by-account basis. A complete analysis of our allowance for credit losses, including impaired loans, is provided in Note 9 of the consolidated financial statements.

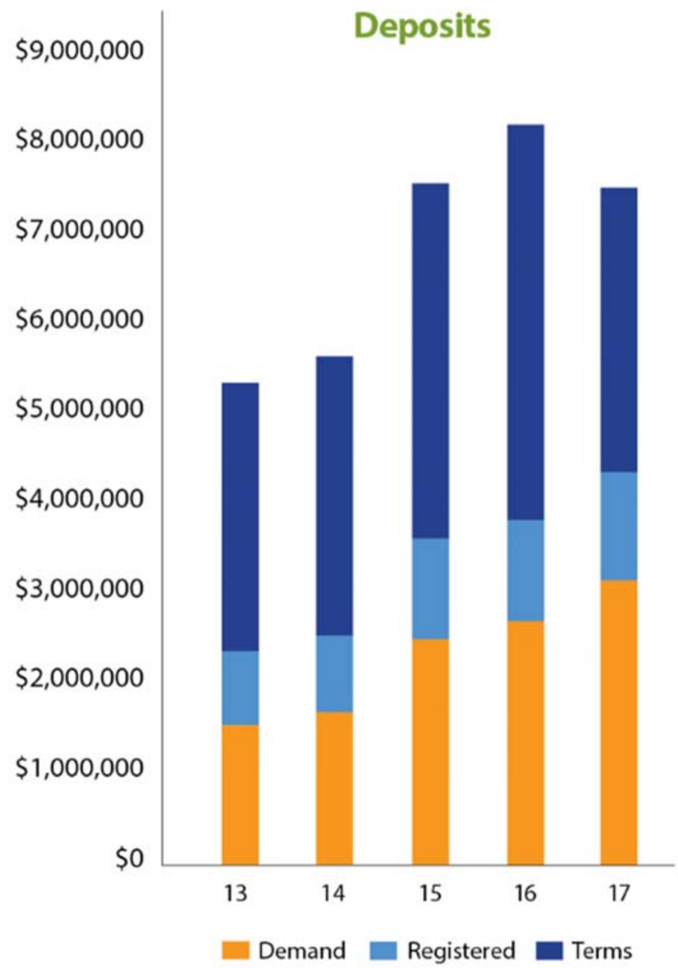
Capital management

As of December 31, 2017, the credit union had a capital ratio of 12.51% on a risk-weighted basis. This compares favourably with the prescribed minimum ratio of 8.0% of total risk-weighted assets. A complete analysis of our capital management objectives and policies is provided in Note 5 of the consolidated financial statements.





($ in thousands)



($ in thousands)

INCOME STATEMENT

In 2017, net income before tax increased from $35.2 million in 2016 to $52.3 million, an increase of 48.6%. First West operates a unique business model, comprised of:

- Retail banking, commercial banking, wealth management and insurance, operating under locally known brands
- Vehicle and equipment leasing subsidiary
- Subordinated debt, mezzanine and equity financing subsidiary

All areas of the credit union turned in strong performance in 2017.

Net interest income

In 2017, net interest income—interest and investment income earned on assets less interest incurred on deposits and borrowings—increased $15.9 million, or 9.4%, to $185.2 million year over year. Net interest income as a percentage of average assets increased year over year to 1.91%.

Prolonged margin pressures relented slightly in 2017 as stronger anticipated economic conditions and two 25-basis-point-rate increases by the Bank of Canada drove the yield curve both higher and slightly steeper. The financial system saw a widening of spreads between investment and lending revenues and funding costs. As a result of wider product spreads, strong asset growth and treasury-related transactions, First West's financial margin strengthened in 2017 and remains one of the best in the credit union system in British Columbia.

Non-interest income

In 2017, non-interest income increased $10.9 million, or 10.7%, to $113.1 million. The increases were primarily in investment revenue, wealth management commissions and lending fee revenue. Our diversified portfolio allows us to offset the impacts of lower margins and helps us mitigate the impacts of flat yield curves.

Our strategy includes diversifying non-interest income—which comprises all income other than net interest income—and to serve more of our members' financial needs and become their primary financial services provider. To support the strategy, we are investing substantially in a new and improved suite of credit card products, expanding our First West Capital team and leverging a new wealth management platform through the creation of Aviso Wealth.

Operating expenses

Operating expenses in 2017 increased $9.7 million, or 4.2%, to $239.3 million. The increase was primarily in personnel expenses and data processing expenses.

The impact of our increase in assets reduced our expense ratio to 2.47% in 2017, from 2.52% in 2016. This ratio is calculated by dividing the expenses by our average assets. It is a critical measure of how well we are able to leverage our expenses as we grow our balance sheet and the credit union. The ratio has improved as synergies have been achieved through mergers, leveraging the strength of the First West multi-brand model.

Operating efficiency

The operating efficiency ratio is calculated by dividing our operating expenses by revenue and is a key measure of our ability to remain economically sustainable. A lower ratio indicates a more efficient business operation.

In the short-term, operating efficiency gives us the flexibility to respond effectively to competitive pressures in a dynamic marketplace. Longer term, operating efficiency allows us to maximize financial performance so we can expand into new markets, add new financial products and services and pay a sustainable dividend to members. Operating efficiency is improved either by reducing expenses or by increasing our revenue while maintaining the same expense level.

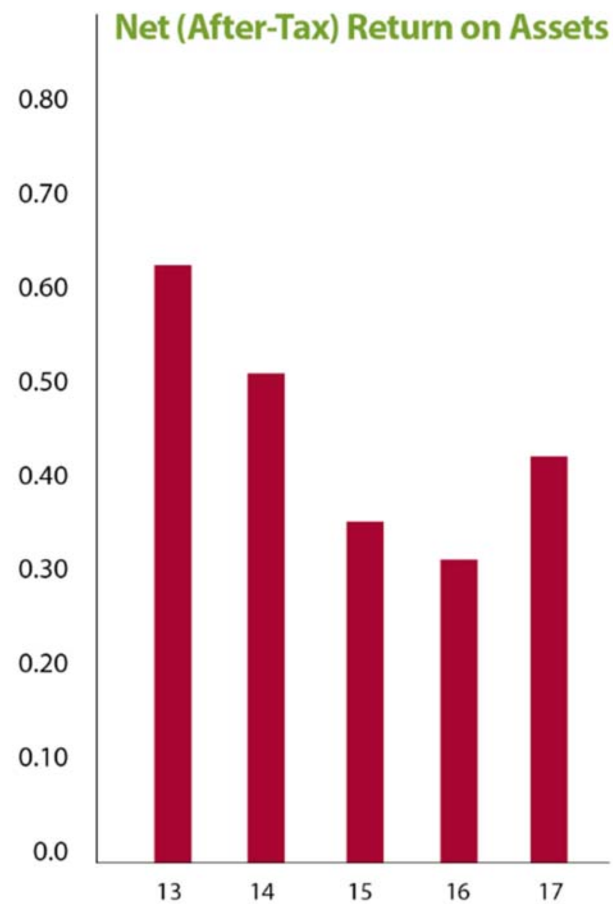
In 2017, our operating efficiency was 82.5% compared to 87.0% in 2016. Over the next three years, our focus is on improving efficiency levels by leveraging our locally known brand model and our scale.

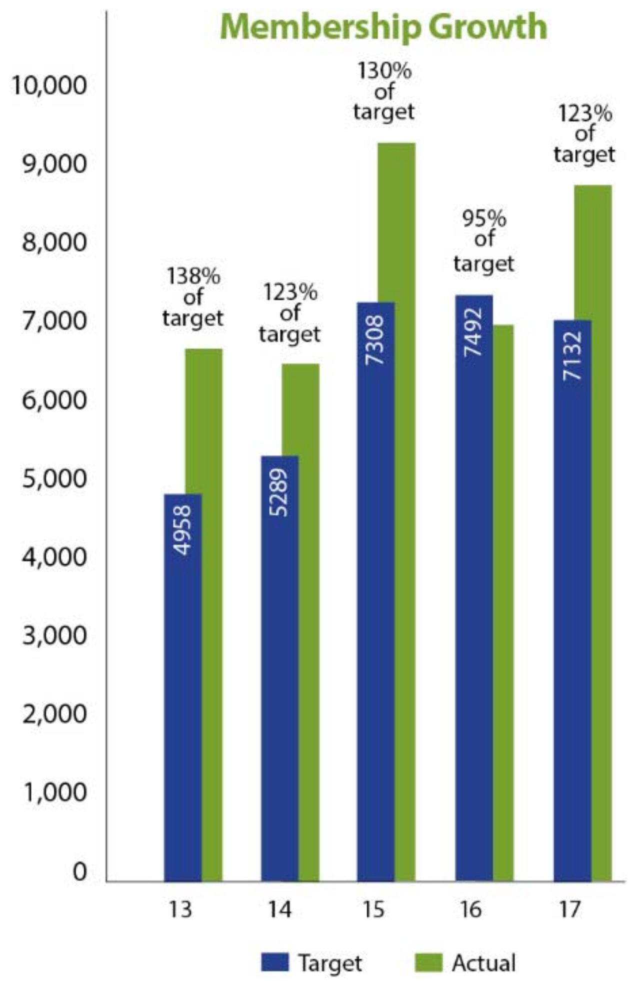
First West's management team remains focused on positioning First West to take advantage of growth opportunities as they arise. We will continue to create innovative banking technologies and introduce additional products, all to deliver on our brand promise—Keeping it Simple™—for our members.

Dividends to members

First West paid dividends of $981 thousand to members, bringing total dividends paid to $10.2 million since 2010.


Consolidated Net Income
$50,000
$40,000
$30,000
$20,000
$10,000
$0
13
14
15
16
17
($ in thousands)


Net (After-Tax) Return on Assets
0.80
0.70
0.60
0.50
0.40
0.30
0.20
0.10
0.0
13
14
15
16
17


Membership Growth
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
138% of target
123% of target
130% of target
95% of target
123% of target
4958
5289
7308
7492
7132
13
14
15
16
17
Target
Actual

5-Year Overview – Financial Highlights

($ in thousands)	% growth	**Audited 2017**	Audited 2016	Audited* 2015	Audited 2014	Audited 2013
Consolidated Balance Sheet						
Cash resources	-81.5%	88,516	479,200	466,727	384,048	95,894
Residential mortgages	10.1%	4,400,651	3,996,332	3,788,651	2,749,708	2,721,682
Personal loans	-2.4%	1,004,170	1,028,528	1,151,769	1,109,436	1,109,933
Commercial loans	14.3%	2,835,844	2,480,599	2,230,089	1,728,545	1,592,778
Accrued interest	8.5%	12,873	11,864	9,906	8,674	8,925
Allowance for credit losses	14.9%	(23,961)	(20,850)	(18,959)	(14,900)	(11,848)
Total Loans	**9.8%**	**8,229,577**	7,496,473	7,161,456	5,581,463	5,421,470
Investments and other	0.6%	1,486,655	1,478,422	1,014,788	498,384	560,578
Premises and equipment	-5.3%	65,002	68,653	74,458	53,225	51,497
TOTAL ASSETS	**3.6%**	**9,869,750**	9,522,748	8,717,429	6,517,120	6,129,439
Demand deposits	12.4%	3,179,227	2,827,461	2,531,491	1,722,996	1,570,274
Term deposits	-1.0%	4,400,873	4,447,188	3,905,230	3,144,659	3,013,436
Registered savings plans	2.7%	1,144,397	1,114,405	1,123,635	824,506	806,376
Class A shares	-3.4%	5,984	6,194	6,255	6,260	6,284
Accrued interest and dividends	-6.9%	42,549	45,700	44,397	35,534	38,360
Total Deposits	**3.9%**	**8,773,030**	8,440,948	7,611,008	5,733,955	5,434,730
Payables, accruals and other	31.7%	110,329	83,771	89,089	61,191	50,322
Borrowings	-6.9%	375,481	403,319	437,032	288,451	242,094
TOTAL LIABILITIES	**3.7%**	**9,258,840**	8,928,038	8,138,186	6,083,597	5,727,146
Equity shares	-5.8%	32,865	34,883	36,991	33,364	36,646
Accumulated other comprehensive income	-246.1%	(13,735)	9,398	21,184	9,103	5,485
Contributed surplus	0.0%	163,651	163,651	163,651	61,270	61,270
Retained earnings	10.7%	428,129	386,778	358,474	329,786	298,892
	3.6%	**9,869,750**	9,522,748	8,717,429	6,517,120	6,129,439
Allowance for Credit Losses						
Opening balance	10.0%	20,850	18,959	14,900	11,848	10,193
Less: write-offs	-25.2%	3,589	4,801	6,473	4,421	5,145
Plus: provision	0.1%	6,700	6,692	10,532	7,473	6,800
Closing balance	**14.9%**	**23,961**	20,850	18,959	14,900	11,848

*Merger with Island Savings

($ in thousands)	% growth	**Audited 2017**	Audited 2016	Audited* 2015	Audited 2014	Audited 2013
Consolidated Statements of Income						
Interest income	6.9%	295,533	276,467	278,456	230,991	224,323
Interest expense	2.9%	110,346	107,223	111,498	94,809	95,092
Net interest income	**9.4%**	185,187	169,244	166,958	136,182	129,231
Provision for credit losses	0.1%	(6,700)	(6,692)	(10,532)	(7,473)	(6,800)
Non-interest income	10.7%	113,057	102,163	97,839	70,437	73,450
Operating margin	**10.1%**	291,544	264,715	254,265	199,146	195,881
Operating expense	4.2%	239,275	229,549	218,815	159,793	155,066
Net income before income taxes	**48.6%**	52,269	35,166	35,450	39,353	40,815
Income taxes	68.1%	10,105	6,011	5,388	7,279	3,093
Net income	**44.6%**	**42,164**	29,155	30,062	32,074	37,722
Financial Statistics (expressed as %)						
Asset growth		3.6	9.2	33.7	6.3	4.1
Loan growth		9.8	4.7	28.3	3.0	4.9
Deposit growth		3.9	10.9	32.7	5.5	8.5
Operating efficiency		82.5	87.0	86.6	81.0	79.9
Percent of average assets						
Net interest income		1.91	1.86	1.99	2.15	2.15
Other income		1.17	1.12	1.17	1.11	1.22
Operating expense		2.47	2.52	2.61	2.53	2.58
Operating return on assets		0.54	0.39	0.42	0.62	0.68
Net (after-tax) return on average assets		0.43	0.32	0.36	0.51	0.63
Other Statistics						
Retail branches		53	54	54	40	40
Insurance offices		38	39	39	28	28
Wealth assets under administration ($000's)		2,668,267	2,371,144	2,159,985	1,666,056	1,463,826
Loans under administration ($000's)		4,261	27,007	58,057	93,281	115,074
Book of business ($000's)		19,675,135	18,335,572	16,990,506	13,074,755	12,435,100
Average assets ($000's)		9,696,249	9,120,089	8,379,313	6,323,280	6,008,061

*Merger with Island Savings

Retail Banking

2017 Highlights

- Grew retail deposits by $238.0 million, or 5.0%, to $5.0 billion
- Grew retail lending by $380 million, or 7.6%, to $5.4 billion
- Grew mutual fund asset sales by $101.4 million, or 15.8%, to $743.4 million
- Gained 994 new members through member referral
- Introduced our Digital Concierge to help members experience how simple it is to use our banking technologies for their maximum convenience and value
- Introduced a fully digitized personal account opening process and new end-to-end mortgage process complete with electronic signature capture

Outlook for 2018

B.C.'s economy will remain one of the strongest regional economies in Canada, but there will be moderation compared with the previous few years. The financial services market will remain highly competitive and price-sensitive, maintaining steady pressure on financial margin, as interest rates will likely remain low. We expect lending for housing to remain strong, as expected tempering has not substantially materialized despite policy measures taken by the federal and provincial governments in recent years.

While we continue to provide remarkable in-branch service, in 2018 we will continue with a razor-sharp focus on the digital transformation of our business. This multi-year focus began in 2017 and will improve members' access to our products and services via online, mobile and in-branch channels. Digitization in 2018 will include several of our core lending and banking product processes—complete with e-signature capability—and the introduction of remote signature capability.

We expect to improve sales and the member experience in 2018 with activities designed in response to member survey feedback received in 2017. Our financial advisors will intensify their focus on providing remarkable advisory sales experiences, as many members told us they want to hear from us more often on ways we can help them simplify and improve their banking.

Members will also benefit this year from a new credit card line-up with a wide array of features able to meet all types of member credit needs. Notably, the new card line-up will include our first-ever US dollar Mastercard, a product we have worked hard to secure in response to members' requests.

Our Member Contact Centre, launched as a pilot in 2015, continues to be successful in its mission to provide another channel of remarkable service to our members. The role of the centre continues to grow within our multi-channel approach as an important complement to our in-branch member service. By January 2018, we expect it to be a key point of in-person contact for inbound calls to our branches, ensuring that our members are assisted quickly or connected with the right financial expert for their need.

Commercial Banking

2017 Highlights

- Commercial deposits grew during the year by $97.4 million, or 2.7%, to $3.7 billion
- Commercial lending grew during the year by $355.2 million, or 14.3%, to $2.8 billion
- Commercial lending mainly comprised of $2.6 billion of secured mortgages and $256.0 million of commercial loans and lines of credit
- Welcomed 1,206 new business members
- Enhanced our product offerings: introduced the low fee BizSimple™ Business Account and enabled business members to scan and deposit cheques from their place of business with BizSimple™ Cheque Deposit
- Implemented a Customer Relationship Management (CRM) system to further improve member experience by giving our business banking experts enhanced insights into business members' relationships with First West
- Simplified or eliminated business banking administrative processes and policies to free up our experts' time for more activities that members value

Outlook for 2018

With 41% of Canadian business owners indicating they will transition out of their businesses in the next five years, B.C.'s business sector—driven largely by more than 350,000 locally owned businesses—will continue to see momentum in ownership transitions. The staff profile of these businesses will remain largely unchanged, with the vast majority of them employing four or less people.

We will continue to support these homegrown businesses with products, tools and services that fit their unique operational needs and simplify their business banking. Technology will play a primary role in this area in 2018, driving faster, more efficient processing through digitization. Key developments are a next-generation commercial lending platform and the expansion of loan auto-adjudication. We will also bring Business Financial Snapshot to business banking members. This interactive, digital tool provides business owners with recommendations for simplifying or enhancing their business administration. Business members can also expect to see a new credit card specifically designed with their needs in mind.

Our advice-based sales approach will continue to adapt, with a focus on several key areas to keep in step with the changing needs of members. Introduction of the Commercial Advisor Certification Program will ensure our business banking advisors have the right depth of knowledge and experience to serve and advise our business members. Our banking experts will also work closely with our business insurance experts to ensure business banking members have the right insurance coverage for their business, inclusive of future growth plans. Advisors will also partner closely with other First West peer experts in wealth management and mezzanine financing to ensure the full range of our business members' needs are considered. Ownership transitions will be of particular focus as we look to provide expert advice to an increasing number of business members who are making succession plans for their businesses. Our business banking experts will help develop financial and risk management plans to protect the continuity of business owners' interests and also support purchasing owners in their start-up phase.

We also plan to leverage the results of a business member survey conducted in 2017. The results will be used to prioritize business banking enhancements based on what members have told us through the survey. We anticipate receiving more insights from members through a series of one-on-one member experience interviews, which will supplement the 2017 survey information and resulting priorities.

*Note: Commercial banking and business banking are synonymous terms.

Insurance Services

2017 Highlights

- Increased total revenue organically by $1.2 million, or 4.0%
- Increased core revenue lines (P&C and ICBC) through organic growth by 1.9%
- Obtained Coverholder status and Binding Authority directly with Lloyd's
- Enhanced the functionality of our broker management platform with the addition of performance management and mobile modules for advanced business intelligence and improved business mobility
- Enrolled 54 insurance employees in industry-recognized Canadian Accredited Insurance Broker (CAIB) courses to add to their expertise and further their ability to provide trusted advice to our clients
- Completed more than 13,400 training hours to enhance the skills of our advisors in response to client needs and industry changes

Outlook for 2018

A rapid pace of change will continue to transform the insurance industry in 2018. Changing consumer behaviors, advances in technology and innovation, and continued consolidation in the industry stand to be major drivers of the transformation, building intense competitive pressures. Digital disruption of the industry will continue to increase risk to our customer base as competitive pressures hold and insurance consumers consider emerging digital options, both online and mobile.

With financial consumers demanding more options, our focus will remain on anticipating insurance industry trends, and bringing more options and more flexibility to our insurance product line-up. Along these lines, we anticipate our new Right For Me™ insurance product—developed in partnership with Lloyd's—to generate growth, as we look to attract the credit union's members who currently insure with other providers.

We expect our recently implemented broker management system to continue to play a key role in addressing these pressures by driving efficiency, nimbleness and improved customer experience. Focus this year will turn to capitalizing on the automation capabilities of the system and use of additional functionality, such as a customer self-serve portal, to increase our ability to meet and exceed customer expecations. Also in view for better customer experience are functionality improvements to our online and mobile channels, and introduction of time-saving e-signature technology.

Staff training and operational efficiency will continue to be a key focus in order to reinforce consistent approaches to sales effectiveness and leadership practice. Training efforts will centre on certifying our advisors through the certification program that was created last year and launching our new insurance manager certification program. Efforts to standardize and harmonize processes across First West Insurance that began late in 2017 will continue to be a primary focus driving operational efficiency that translates into client experience improvements. We will optimize changes made to our commercial lines structure earlier in 2017 to accelerate growth in this critical business line.

Wealth Management

2017 Highlights

- Wealth management revenues grew by $0.8 million, or 5.9%, to $15.2 million
- Wealth management assets under administration grew by $195.7 million, or 11.3%, to $1.9 billion
- Held more than 38 wealth workshops that attracted more than 1,200 attendees and helped them learn about our wealth management advisory services and explore financial and estate planning topics
- More than 5,200 financial plans created to help members with their financial, retirement or investment needs
- More than 7,500 hours of accredited coursework completed by our wealth advisors to enhance their skills in response to industry and marketplace changes and member needs

Outlook for 2018

Investing options for consumers will continue to grow as disruptive innovation and technology work make further inroads into the marketplace.

We believe our advice-based wealth management approach provides a competitive and attractive experience under prevailing market conditions and pressures. A significant focus for our advice-based service this year centres on having conversations with members that guide them to an understanding of their complete financial picture and needs and our comprehensive line-up of investment products and services. Family financial planning will also be an emerging discipline with our advisors.

Following on the positive response to the wealth workshops we held last year, we will hold several more in all three of our regions in 2018. The workshops will focus on the increasingly popular topics of financial and estate planning, as well as raise awareness of our full range of investment options, from discount brokerage all the way to discretionary portfolio management.

Our advice-based approach this year will also intensify efforts to create opportunities to partner with other First West lines of business to ensure our members have a comprehensive view of their financial picture and any unmet or critical financial needs.

Finally, we expect the merger of our current wealth management partners, Qtrade Canada Inc. and Credential Financial, with NEI Investments, to boost our competitive position in the marketplace and benefit our members through new investing options and efficiencies gained through operational streamlining.

First West Capital

2017 Highlights

- Approved 21 deals, representing $43.0 million in disbursements
- Completed a follow-on round for our first equity investment
- Funded a $7.5 million deal—our largest of the year—out of our Edmonton office, despite the recovering economy in Alberta
- Implemented a new team structure to facilitate operational efficiencies, create additional professional development opportunities for our team and to better serve our clients

Outlook for 2018

Competition in the junior capital market will continue to intensify in 2018, as it has for the past several years. The quality of deal flow in Alberta and Saskatchewan has been adversely affected in the recent past by weakness in the energy sector, but we are optimistic about 2018 based on early signs of recovery. We expect healthy deal flow in both Ontario and B.C., where the economies are expected to remain strong.

In 2018, we will continue to bolster our relevance and competitiveness in the marketplace in response to current trends. We have shifted our focus in favor of sourcing deals directly from entrepreneurs and anticipate that rapidly growing companies will fuel our growth. Extending our product range will be key to ensuring we provide entrepreneurs and business owners with a full suite of junior capital solutions across Canada and selectively in the United States.

We will also commit to adding significant value in relationships with our growing clients through consulting and advisory servcies in order to manage risk and leverage opportunities to provide additional capital as their operations expand. In 2018, we will also undertake a refresh of the First West Capital brand with a focus on increasing awareness among entrepreneurs.

We plan to grow our teams in our Langley, Vancouver, Edmonton and Toronto offices, based on activity levels in these markets and the availability of best-in-class talent.

First West Leasing

2017 Highlights

- Grew lease receivables by $30.8 million, or 23.6%, to $161.4 million
- Increased new lease volume by more than 14.0% and 94 leases for $77.0 million
- Increased automobile leasing volumes by $8.5 million, or 19.5%
- Expanded the First West Leasing team with the addition of an account executive in Alberta
- Improved customer service by adding an additional credit adjudicator

Outlook for 2018

We anticipate the auto market to remain dynamic in 2018, with continued strong growth in auto sales following on from 2017's record pace. First West Leasing expects double-digit growth, driven in part by additional volume generated through the continued expansion of our teams in B.C., Alberta and Ontario. Profitable growth throughout Canada will be a main focus, as we currently lease in all provinces except Quebec. The addition of these sales executives will not only increase volume and regional expansion, but they will also impact the customer experience, enabling even greater responsiveness to our customers' needs.

As leading vehicle and equipment lease experts, we aim to remain flexible and adaptable in our operations and diligent in monitoring the auto market and its ever-changing manufacturer incentives. We also anticipate renewed focus on developing and growing our business. Last year, the wildfire season—the worst in B.C. since record keeping began in 1950—took considerable effort away from our day-to-day business operations as we worked to help lessees through their time of need as fire threatened their vehicles and fleets. Part of our re-focused energy will be aimed toward technology enhancements that generate more efficiency.