

FIRST WEST CREDIT UNION 2017 ANNUAL REPORT

Outlook & Strategy

Management's Discussion & Analysis



Outlook & Strategy

Our Strategy: Work big. Work local.

First West's current strategic plan covers the three-year period 2017 to 2019. The plan addresses:

- a) why First West exists: to simplify lives, helping members and communities thrive; and
- b) how we are doing it: our collective size, strength and local expertise creates greater value for our members and communities. We work big in order to work more locally.

Our growth strategy rests on four strategic priorities:

1. Accelerate success through people

We are creating a thriving culture in which team members grow professionally, lead in our communities and First West succeeds collectively. The future of work at First West is being shaped by a shift away from traditional expectations for work, career and professional fulfillment, as well as by rapid advancements in technology. We are preparing our employees to succeed in a dynamic business environment where diversity, inclusion and holistic workplace health is championed and technology enables continuous improvement and work-life flexibility.

2. Grow through partnerships and national opportunities

We are aiming to expand strategically into new, high-potential markets and transform and grow our revenue streams. Our belief in building and maintaining strong, collaboration-based partnerships—an essential part of how we operate—enables us to deliver industry-leading technology and transformative solutions faster and more effectively than we could on our own. Increased financial stability through these efforts will allow us to create more value for our members.

3. Reinvent our core business

We know our members value choices. Life is not static and neither are the financial needs of our members, so we are investing heavily in re-imagining the banking experience and creating new ways for our members to bank when, where and how they want. Localness—the hallmark of our model—will remain unchanged, with our members continuing to benefit from the same strong, local relationships they have with us today, but enjoying improvements and access to our full line-up of services and products.

4. Simplify to optimize

We will boost efficiency and improve member value by digitizing, harmonizing, standardizing and rationalizing our business. Our members will enjoy easy-to-use financial tools, the simplicity of improved banking and lending processes, and seamless access through new technology.



Executing Our Strategy

Our operating model combines the efficiency, sustainability and financial strength of a big organization with the flexibility and responsiveness of a local credit union.

Our structure enables our regions to apply customized operational strategies to meet the unique conditions of their local markets. Each of our three distinct regions—the Envision Financial region, the Island Savings region, and the Valley First region—operates under the direction of its own president, with strategic direction from the First West leadership team. Each president is closely connected with the members and communities in their respective regions. The regional presidents and local management teams direct the growth of regional business segments: retail banking, business banking and wealth management. Insurance services growth is directed by the Chief Operating Officer, in collaboration with the regional presidents.

Strategies for insurance services and wealth management are determined by First West to achieve synergies in program development and supplier relationships. First West Capital and First West Leasing, meanwhile, operate autonomously under the direction of First West to serve the needs of our members and non-credit union clients.

First West supports its branch network through the provision of corporate shared services and programs that promote operational efficiency. These include treasury and financial management, credit and credit recovery, risk management, corporate security, human resource management, communications and public relations, operations and marketing. By providing operational support and strategic oversight, First West enables its network to deliver sophisticated services and financial advice and to access large capital facilities that improve overall effectiveness and, in turn, the financial lives of its members. The First West senior leadership team consists of the following leaders:

- Launi Skinner | Chief Executive Officer
- Shelley Besse | Chief Operating Officer
- Tom Webster | Chief Financial Officer
- Darrell Jagers | Chief Information & Digital Transformation Officer
- Liz Bailey-Connor | Chief People & Culture Officer
- Jim Lamond | Chief Credit Officer
- Bryan Mavrow | Chief Brand Innovation Officer
- Leslie Castellani | Senior Vice-President, Corporate Initiatives
- Mike Cooke | Senior Vice-President, Risk
- Peta Wales | Senior Vice-President, Operations
- Mark Moreland | Vice-President, Finance
- Susan Ewanick | President, Valley First and Enderby & District Financial
- David Lanphear | President, Envision Financial
- Randy Bertsch | President, Island Savings



Objectives for 2018

First West's yearly objectives, defined in our three-year strategic plan, are reviewed with the board of directors twice yearly and with the executive team on a quarterly basis. The primary objectives for our business, members and employees in 2018 are outlined below and are subject to change under a variety of influences that include, but are not limited to, general business and economic conditions and changes in financial markets.

Our Business

Balance sheet. Our balance sheet strategy is to focus on loan and deposit pricing, and to strategically grow in absolute dollars and by portfolio segments. Treasury actions to hedge and optimize our portfolio will be done where appropriate. We will also continue to focus on improving our balance sheet structure by securing profitable, cost-effective deposits because we believe that a strong deposit base provides funding strength. We will use securitization and borrowings to balance our growth when necessary.

Loan growth. We are forecasting total loan growth of 4.4%, with our consumer loan portfolio increasing approximately 3.6% and our commercial loan portfolio rising 5.9%. Our lending strategy is to continue to be selective to protect our credit position and to achieve pricing commensurate with credit risk and credit spreads. We will continue to leverage our competitive advantage in serving the needs of small- and medium-sized businesses by providing specialized banking and financing services, including offering large non-traditional financing through our First West Capital line of business.

Deposit growth. We expect total deposits to increase by 4.8%, with retail deposits increasing by 5.3% and commercial deposits increasing by 4.3%. We expect our marketing efforts and continued investment in innovation and technology to help grow membership, while investments in our existing branch network and our advice-based member service model to stimulate growth in our core retail and commercial deposits.

Revenue growth. Optimizing revenue by maintaining financial margin in a challenging rate environment, increasing non-interest income and diversifying lending with high-yield products is an important objective. We expect total revenue to grow by approximately 3.0% in 2018, and are forecasting growth across all of our lines of business. In particular, our insurance line of business stands to make a significant contribution to non-interest income, as our staff continues to leverage the enterprise-wide broker management system implemented last year.

Operational efficiency. Operational efficiency remains a key priority for First West through a combination of cost management and revenue development. We will continue to focus on procurement and improved cost management to capitalize on First West's greater purchasing power as a larger organization and to achieve permanent expense reductions. Balanced with these savings will be strategic investments in technology and process improvement as we work to digitize, harmonize and standardize aspects of our business for increased simplicity and access for members.



Our Members

Member experience. Keeping banking simple is essential to our goal of making a difference in the financial lives of our members. In 2018, efficiency improvements through process standardization and system harmonization will continue to help our teams provide easy and seamless service. Our Voice of the Member research program—which was transformed in 2017—provided us with some great insights on our members’ product and communication needs and wants. We also launched a new two-part research project at the end of 2017 with the intent of gaining a better understanding of our business members’ needs. The first part, conducted in 2017, was a quantitative study of more than 450 current business members. The second part of the study will take place in early 2018 and will consist of one-on-one interviews with business members, to hear and understand first-hand the challenges they face in 2018 and beyond. The results of this study and the Voice of the Member research will be used to prioritize banking enhancements in 2018 and beyond.

We remain committed to innovation and technological and operational advancements that provide greater access and value for our members, knowing that our members value the flexibility of banking where, when and how they want. To keep us in step with our members’ evolving needs and our focus on digital transformation, this year will see several developments, including:

- Introduction of a new credit card line-up with a wide array of features able to meet all types of member needs
- Expansion of our mobile pay offerings, including Android™ Pay using Interac® Flash technology
- Enhancement of time-saving, efficiency-boosting electronic content management (initiated in 2017), including:
 - digital signatures for business banking
 - remote digital signature capability
 - expansion of digital storage to commercial lending and term deposit activities
- Service improvements across First West and new products for some of our brands as a result of operational standardization and harmonization efforts
- MoneyView™ personal financial management for members doing business at Island Savings and Enderby & District Financial
- Mobile device cheque deposit for business, providing even more access for our busy business members
- New foreign exchange service to provide our members with more flexibility for the business or personal needs

In addition to these advancements, we also believe our advanced analytics, research and use of tools such as Power BI allow us to identify new ways to improve the member experience. Furthermore, our use of CRM technology enables our financial experts to provide rich and personalized financial advice to our members.

Our strategic partnerships, such as our partnership with Microsoft, will continue to support the adoption of industry-leading tools and drive the evolution of digital processes and services at First West, leading to increasingly efficient member service.

First West’s success is due to the great care we have taken to remain a locally focused credit union—we are proud to be a co-operative that still believes credit unions are about neighbour helping neighbour. This



approach has meant tens of thousands of British Columbians have joined First West over the past eight years. While we are—and always will be—a community-based credit union, our successful approach means we are no longer a small credit union. We are one of the country's largest credit unions, managing \$9.9 billion in assets directly and \$12.5 billion in on-and off-book assets.

As First West has grown, our members' needs and expectations have also grown and changed. We are asked to provide increasingly sophisticated banking options for personal and business needs. We receive regular requests from members to provide greater digital services and solutions—ones that extend beyond provincial boundaries. We have conversations with long-time members who want us to partner with them in financing a property outside of B.C. or funding a new business operation in another part of Canada. Unfortunately, we cannot meet those needs easily or at all today because we are limited to doing business in British Columbia.

For these reasons the board of directors has asked management to explore whether First West members would benefit from becoming a federal credit union, enabling it to provide financial services beyond the constraints of provincial boundaries. This move would require First West, as a federal credit union, to be regulated by the Office of the Superintendent of Financial Institutions (OSFI) and its federal statutes. OSFI is regarded as one of the world's leading financial services regulatory bodies.

Over the months to come and in keeping with our grassroots nature, the credit union will begin an extensive engagement process with our members, as well as with our employees, the broader credit union system and other key stakeholders.

The process to become a federally regulated credit union is complex and expected to take several years. At a high level, First West must first submit a pre-application to OSFI, which includes comprehensive business planning and financial modelling. OSFI will then provide feedback in the form of an Expectations Letter, which the First West board will consider before any decision to bring a motion to our members. Members will then have the opportunity to consider and vote on a Special Resolution for the credit union to apply to OSFI for continuance into the federal regime. Following this, FICOM, the provincial regulator, will need to provide its consent; FICOM's consent decision will not mean it has assessed what is in the best interest of members. Finally, a formal application will be made; OSFI will assess the submission and make recommendations to the Federal Minister of Finance, who has the ultimate responsibility for approving the letters patent of continuance.

As we move forward in this journey, First West will continue to keep its members informed regarding this process as well as the benefits and differences of membership under federal and provincial regulation.

Membership growth. We expect our commitment to providing tailored financial advice, brand awareness and marketing activities, our Simply Free Account®, innovations and technological improvements, and process and procedure enhancements to lead to a minimum of 3% growth in membership in 2018.

Our Employees

Employee engagement. In 2017, we conducted a pulse-check to assess progress on employee engagement action plan goals that were developed based on an employee engagement assessment in 2016. The results demonstrated we are making improvements on the issues of importance to our employees: making our



processes easier and ensuring they have the tools and information to do their jobs well. These areas will continue to be in the spotlight in 2018, in addition to communication, capacity and leadership.

Employee development. Our focus in 2017 was supporting employees to develop greater digital and business acumen. We also implemented comprehensive certification programs for several sales and leadership roles, and created a “boot camp” in partnership with our insurance line of business to support recruitment, development and retention in that line of business. In 2018, we will have 11 certification programs available for employees to develop their knowledge, skills and abilities, and build their confidence for their current or future roles. We will continue to advance our talent strategies to ensure robust succession and development plans are in place.

Providing personalized advice to our members is a top priority. In 2017, we introduced new training and customized coaching to support the building of our leaders and employees skills in providing tailored financial advice to our members. In 2018, we will expand our organizational training and coaching bench strength by building a faculty of facilitators in each region to deliver components of our advisory sales curriculum.

Employee recruitment and retention. In 2017, we created a highly skilled talent acquisition team and implemented a new talent acquisition website as a tool to enhance the candidate and hiring manager experiences in recruitment. We also put in place plans to enrich the onboarding program for new employees, with the goal of reducing turnover of our talent, especially those that leave within their first year at First West. Looking forward, we are exploring fast-track programs and secondments, and focusing our attention on retaining employees.

Advancing a healthy workplace. We founded our Healthy Workplace strategy in 2017, for the purpose of developing a flexible, innovative and change-resilient workforce. The strategy focuses on mental, physical, financial, and social/spiritual health. In 2018, the majority of the strategy’s tactics will be introduced across the credit union.

Community leadership. First West is a leading employer in British Columbia and leveraging our organizational resources to help better our communities is an important way we make a meaningful difference in the communities where we live and work. Our social vision, Lead Well, supports the development of individual leaders in our workplace, in our communities and in our world, and is a differentiating factor in our value proposition for employees and community partners. Increased employee attraction, job satisfaction and employee retention are all key benefits of this strategy.

A key component of Lead Well is our innovative, online social platform which was developed in partnership with a Kelowna-based fintech company. The Do Some Good platform (formerly called Volinspire) matches volunteers with local causes they care about and benefits non-profit agencies by connecting them with talented people who are passionate about helping them fulfill their missions. Through Do Some Good, volunteers enhance their skills by lending their knowledge and leadership skills—not just physical labour—to organizations that matter in their community. In 2018, we will benchmark Lead Well engagement, identifying where and how First West employees are making a difference in our communities through activities such as:

- Board appointments
- Advisory councils
- Youth involvement



- Front line and operational support

We will grow our employees' leadership capabilities through new education programs like our Lead Well Board Readiness program. Designed in partnership with Vantage Point, this eight-part e-learning series provides First West employees will key insights for leading and contributing to a non-profit organization.

In addition to fostering community leadership through Lead Well, we will continue to celebrate the community impact First West employees and its members make in communities across B.C. through Simple Generosity and our employee-focused Lead Well Recognition program. Introduced in 2017, Simple Generosity recognizes community leadership and volunteerism contributed by members of our communities to causes that matter to them.

Risks and Uncertainties

Our strategies and objectives are subject to a number of risks and uncertainties, including:

- Potential lag in the Canadian economy
- High consumer debt levels, which may impact housing markets and loan losses
- Aggressive competition from major banks, other credit unions and non-regulated entities
- Increasing commoditization of financial services
- Changes to the regulatory environment
- Global factors

Our outlook recognizes these realities and the need to prepare for the unexpected.

Caution Regarding Forward-Looking Statements

The projections and targets included in this section involve numerous assumptions. A variety of factors may cause actual results to differ materially from expectations. These factors include but are not limited to general business and economic conditions and changes in financial markets. The reader should, therefore, not place undue reliance on these projections.

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