Comprehensive Financial Analysis

Management's Discussion & Analysis

FIRSTWEST
CREDIT UNION

Comprehensive Financial Analysis

BALANCE SHEET MANAGEMENT

Total assets

Total assets grew $242.8 million or 4.1% in 2013 compared with 7.8% in 2012. The growth was primarily the result of an increase in personal and commercial loans to members which increased $254.3 million or 4.9%.

Loans

Total personal loans to members grew $110.6 million or 3.0% compared with 2012, whereas business loans grew $145 million or 10.0%. The growth occurred primarily in residential mortgages, which rose $62million, or 2.3%, and commercial mortgages, which increased $119 million or 9.3%.

Deposit gathering activities

Member deposits increased $427 million, or 8.5%, during 2013. The increase was primarily due to our focus on attracting term deposits, which increased 9.1%, and short-term demand deposits, which increased 9.6%. The increase was also due to our focus on municipalities, universities, schools and hospitals.

At the end of 2013, total borrowings were $242 million, which were comprised of $25 million in third party borrowings, and $217 million in structured borrowings from securitizations.

CREDIT QUALITY

Allowance for credit losses

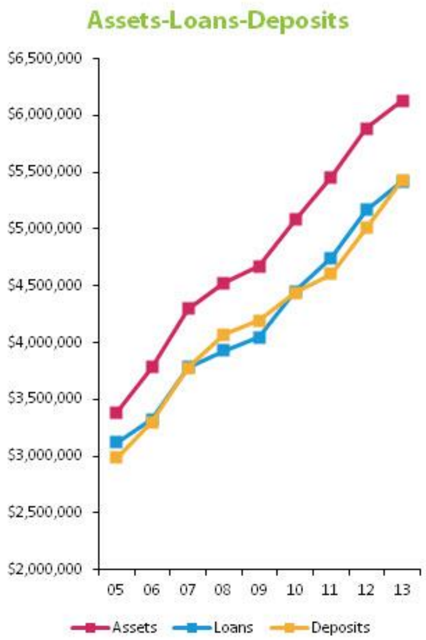
Our combined balance sheet allowance for credit losses as of December 31, 2013 was $11.8 million compared to $10.2 million in 2012, an increase of $1.7 million, or 16.2%.

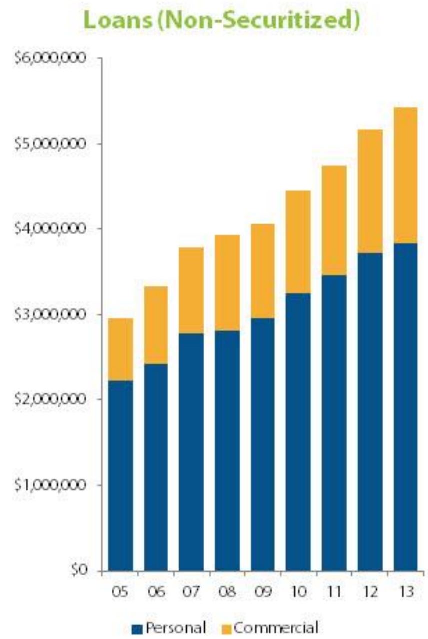
The year-end allowance for credit losses represents 0.22% of total loans and accrued interest, compared with 0.20% a year earlier.

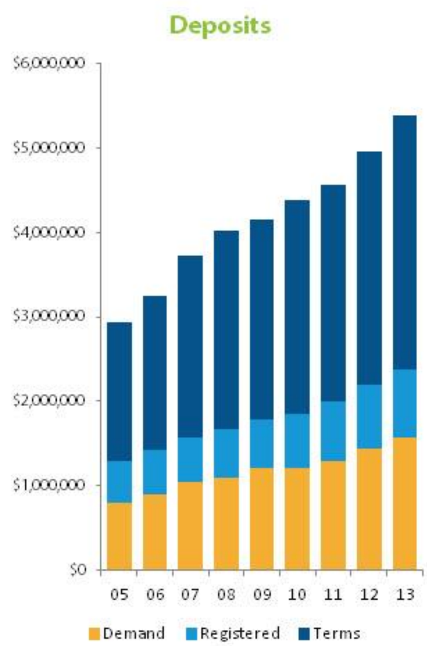
We believe that the total allowance for credit losses is adequate based on current economic factors and our analysis of the loan portfolio as of December 31, 2013. In addition to maintaining a collective allowance of 0.14% of loans for losses incurred but not specifically identified, specific allowances are evaluated monthly on an account-by-account basis. A complete analysis of our allowance for credit losses, including impaired loans, is provided in Note9 of the consolidated financial statements.

Capital management

As of December 31, 2013, the credit union had a capital ratio in excess of 13.6% on a risk-weighted basis. This compares favourably with the prescribed minimum ratio of 8% 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.







Net interest income

In 2013, net interest income—interest and investment income earned on assets less interest incurred on deposits and borrowings—increased/ $5.3million, or 4.3% to $129.2 million year over year. Net interest income as a percentage of average decreased from 2.18% in 2012 to 2.15% in 2013. First West's margin remains one of the best in the credit union system in British Columbia.

Canadian financial institutions continue to experience unprecedented, prolonged financial margin pressure. Prime rate has remained at 3% since September 2010 and overall, interest rates have stayed low. The yield curve also remains relatively flat. This has left us with little opportunity to generate financial margins due to external market competitiveness, which has impacted our yield on prime-based loans.

Dividends paid to members by First West were $1.3 million, compared with $1.0 million in 2012.

Non-interest income

Our strategy includes diversifying non-interest income, which comprises all income other than net interest income. A key strategic focus is on our lines of business that provide insurance, wealth management and automotive financing services. Our goal is to increase net member growth and net profitability growth targets.

In 2013, non-interest income which is comprised of services fee income, insurance fee commissions, and leasing revenue, increased $0.4 million, or 0.6%, to $73.50 million. Increases in insurance revenue and loan fees offset a reduction in monthly service fee revenue brought about from the introduction of the Simply Free account. Our diversified portfolio allows us to offsets the impacts of lower margins and helps us mitigate the impacts of flat yield curves.

Operating expenses

Operating expenses in 2013 were $155 million, compared with $161 million in 2012. Personnel expenses decreased $4.2 million, or 4.4%, to $90.7 million because of a reduction in the number of employees as a result of hiring freezes and position management activities.

With our increase in assets and expenses, our expense ratio improved to 2.58% from 2.85%. 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.

Operating efficiency

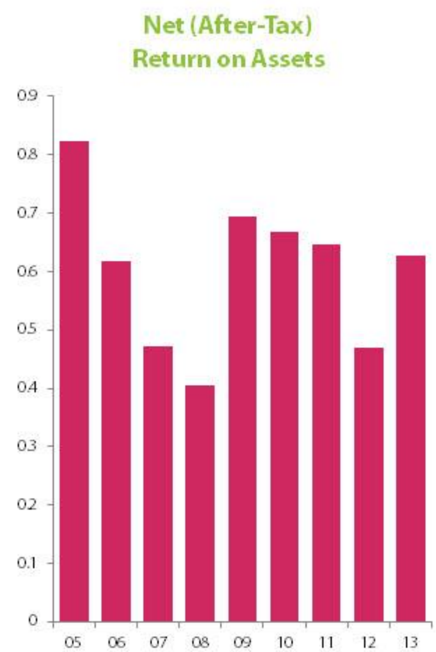
Operating efficiency is the ratio of operating expenses to revenue and is a key measure of our ability to remain economically viable.

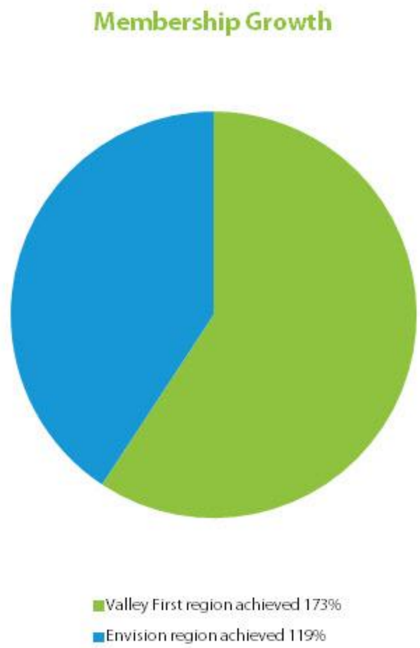
Despite the low margin, we've seen strong growth in our deposit and loan growth portfolios. Growth in our deposit base is critical for us to maintain the balance sheet structure necessary for funding our loan growth to achieve this financial margin.

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. These activities also require that we sustain strong asset and deposit growth.

In 2013, our operating efficiency improved to 79.9% from 84.1% in 2012. This resulted from the decrease in operating expenses and a 2.9% increase in revenue (net interest income and non-interest income combined).

First West's management team remains focused on positioning First West to take advantage of growth opportunities as they arise. In 2013 we continued decreasing our expenses, including salaries, consulting fees and general administration costs, and investing strategically in areas that enabled us to better serve our members. We continue pursuing this trajectory as we move forward. Our strategic investments include new branches to better serve our growing membership, innovative banking technologies that improve member access to products and services, and additional products that deliver on our brand promise—Keeping it Simple™—for our members.




Membership Growth
Valley First region achieved 173%
Envision region achieved 119%

5-Year Overview – Financial Highlights

($ in thousands)	% growth	**Audited 2013**	Audited 2012	Audited 2011	Audited 2010	Unaudited, Proforma combined historical performance 2009
Consolidated Balance Sheet						
Cash resources	-14.1%	95,894	111,590	202,522	77,304	194,069
Personal loans	3.0%	3,831,615	3,721,049	3,467,433	3,252,189	2,951,517
Business loans	10.0%	1,592,778	1,447,530	1,280,109	1,207,186	1,108,077
Accrued interest	1.2%	8,925	8,815	8,194	7,569	7,008
Allowance for credit losses	16.2%	(11,848)	(10,193)	(12,102)	(12,636)	(16,419)
Total Loans	4.9%	5,421,470	5,167,201	4,743,634	4,454,308	4,050,183
Investments and other	0.4%	560,578	558,453	466,452	500,624	376,073
Premises and equipment	4.2%	51,497	49,439	46,338	48,583	52,478
TOTAL ASSETS	4.1%	6,129,439	5,886,683	5,458,946	5,080,819	4,672,803
Demand Deposits	9.6%	1,570,274	1,432,256	1,294,388	1,202,024	1,203,954
Term Deposits	9.1%	3,013,436	2,761,223	2,569,089	2,541,308	2,377,079
Registered savings plans	4.7%	806,376	770,480	697,824	648,019	573,319
Class A shares	-2.6%	6,284	6,455	6,522	7,116	7,554
Accrued interest and dividends	3.6%	38,360	37,034	34,588	39,628	34,439
Total Deposits	8.5%	5,434,730	5,007,448	4,602,411	4,438,095	4,196,345
Payables and accruals	14.7%	50,322	43,891	51,065	61,363	48,384
Borrowings	-47.8%	242,094	463,848	445,868	261,310	146,296
TOTAL LIABILITIES	3.8%	5,727,146	5,515,187	5,099,344	4,760,768	4,391,025
Equity shares	-9.2%	36,646	40,381	43,961	48,300	52,368
Accumulated and other comprehensive income	-48.7%	5,485	10,688	20,756	9,830	6,351
Contributed Surplus	5.7%	61,270	57,957	57,957	57,957	
Retained Earnings	13.9%	298,892	262,470	236,928	203,964	223,059
	4.1%	6,129,439	5,886,683	5,458,946	5,080,819	4,672,803
Allowance for Credit Losses						
Opening balance	-15.8%	10,193	12,102	12,636	11,883	17,716
Less: write-offs	-9.1%	5,145	5,659	4,284	3,189	4,271
Plus: provision	81.3%	6,800	3,750	3,750	3,942	2,974
Closing balance	16.2%	11,848	10,193	12,102	12,636	16,419

($ in thousands)	% growth	**Audited 2013**	Audited 2012	Audited 2011	Audited 2010	Unaudited, Proforma combined historical performance 2009
Consolidated Statements of Income						
Interest income	2.2%	224,323	219,586	219,823	207,168	195,259
Interest expense	-0.6%	95,092	95,672	94,094	80,537	101,363
Net interest income	4.3%	129,231	123,914	125,729	126,631	93,896
Provision for credit losses	81.3%	(6,800)	(3,750)	(3,750)	(3,942)	(2,974)
Non-interest income	0.6%	73,450	73,028	79,315	83,087	89,773
Operating margin	1.4%	195,881	193,192	201,294	205,776	180,695
Operating expense	-4.2%	155,066	161,799	161,314	162,241	143,518
Net income before income taxes	30.0%	40,815	31,393	39,980	43,535	37,177
Income taxes	-35.9%	3,093	4,823	5,978	10,923	5,232
Net income	42.0%	37,722	26,570	34,002	32,612	31,945
Financial Statistics (expressed as %)						
Asset growth		4.1	7.8	7.4	8.7	3.3
Loan growth		4.9	8.9	6.5	10.0	3.1
Deposit growth		8.5	8.8	3.7	5.8	3.0
Operating efficiency		79.9	84.1	80.5	79.2	79.8
Percent of average assets						
Net interest income		2.15	2.18	2.39	2.60	2.04
Other income		1.22	1.29	1.51	1.70	1.95
Operating expense		2.58	2.85	3.06	3.33	3.12
Operating return on assets		0.68	0.55	0.76	0.89	0.81
Net (after-tax) return on average assets		0.63	0.47	0.65	0.67	0.69
Other Statistics						
Retail branches		40	37	37	37	37
Insurance offices		28	30	28	30	30
Mutual funds under administration ($000's)		1,463,826	1,058,918	969,865	923,512	790,128
Loans under administration ($000's)		115,074	107,222	186,014	252,733	510,171
Book of business ($000's)		12,435,100	11,340,789	10,501,924	10,068,648	9,533,229
Average assets ($000's)		6,008,061	5,672,815	5,269,883	4,876,811	4,598,665
		7,708,339	7,052,823	6,614,825		