

FIRST WEST CREDIT UNION 2013 ANNUAL REPORT

Outlook & Strategy

Management's Discussion & Analysis



Outlook & Strategy

OUR STRATEGY: WORKING BIG. WORKING LOCAL.

First West's strategic plan covers the three-year period 2014 to 2016. It addresses a) why First West exists: to make a real difference in the financial lives of members, and b) how we are doing it: by creating a network of like-minded credit unions with the size to work big and the grassroots common sense to work local.

Our growth strategy rests on five strategic priorities:

1. High-performance culture

We're equipping our team with the knowledge, skills and tools they need to be entrepreneurial, act as business owners and lead in their communities.

2. Continuous improvement organization

We're leveraging our Lean skills and knowledge, simplifying our processes to make it easier to serve our members and clients, and improving our efficiency.

3. Meaningful, simple member experience

We're building on the strength of our advisory sales model to make it simple for our members to bank, borrow, insure and invest where, when and how they want.

4. Profitable, sustainable growth

We're developing innovative, profitable products and services across all lines of business.

5. Multi-brand operating model

We're advancing First West's entrepreneurial spirit and unique model, building enduring connections with local communities and new partners beyond our borders.

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 multi-brand structure enables our Envision Financial, Valley First and Enderby & District Financial brands to apply customized operational strategies to meet the unique conditions of their local markets. Each of our two distinct regions—the Envision region and the Valley First region—operates under the direction of its own president as a standalone business unit. The regional presidents and local management teams direct the growth of regional business segments: retail banking, commercial banking, insurance services and wealth management.

In 2014, we are looking to bring a fourth credit union into our network. With 16 branches from Victoria to Nanaimo to Salt Spring, Island Savings is the fastest-growing financial institution based on Vancouver Island and manages a total portfolio of \$2.8 billion under administration. Currently, the First West and Island Savings merger business case is with the Financial Institutions Commission and we anticipate a favourable response from the regulator with a positive vote from the Island Savings membership before year-end 2014.

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

First West supports its three brands—Envision Financial, Valley First and Enderby & District Financial—with corporate services and programs that promote operational efficiency. These include treasury and financial management, risk management, corporate security, human resource management, communications and public relations, and marketing. By providing operational support and strategic oversight, First West enables its brands to deliver sophisticated services and access a larger capital base that improves overall financial performance. This, in turn, improves the financial lives of our members by providing them with a greater array of products and services at competitive prices including our Simply Free Account and Unlimited Chequing for Business account.

OBJECTIVES FOR 2014

First West's yearly objectives in our three-year strategic plan are reviewed with the Board twice yearly and with the executive team on a quarterly basis. The primary objectives for our business, members and employees in 2014 are outlined below.

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 utilize securitization and borrowings to balance our growth.

Loan growth. We are forecasting total loan growth of 4.2%, with our consumer loan portfolio increasing approximately 2.7% and our commercial loan portfolio rising 7.9%. 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 plan to capitalize on our competitive advantage in serving the needs of small to medium-sized businesses by providing specialized banking and financing services, including offering large non-traditional financing through our First West Capital division.

Deposit growth. We expect deposits from members to increase by 5.1% in 2014, with demand deposits increasing by 6.0% and term deposits increasing 4.5%. We expect our marketing efforts to grow membership and our new investments in our branch network to lead to growth in our retail and commercial deposits. Additionally, we will continue to focus on growing our municipalities, universities, school and hospitals portfolios.

Revenue growth. Optimizing revenue by improving financial margin, increasing non-interest income and diversifying lending with high-yield products is an important objective. We expect total revenue to grow 3.4% in 2014 with financial margin growing 6.4% as a result of our loan and deposit growth and balance sheet strategy.

Cost management. Operational efficiency remains a priority for First West. In 2014, our goal is to continue to manage expenses and invest only in strategic areas of our business. Our consolidated operating efficiency target is 72.8%. 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 achieve permanent expense reductions. Some of these savings will be offset by our strategic investments including new, innovative products, services and technology to better enable us to keep banking simple for our members. We will also continue to invest in our branch network to ensure our branches are in the right locations and neighbourhoods and properly reflect our brand so that we can better serve our members in our communities.

Our Members

Membership growth. We expect brand awareness, our Simply Free Account, Unlimited Chequing for Business account and other marketing activities to lead to 3% growth in membership in 2014.

Our Employees

Employee engagement. We measure employee engagement through a standardized biannual assessment, with benchmarks being established in 2011 and 2013. In 2014 we will continue focusing on developing our employees' leadership abilities and financial acumen; in 2015 we will measure our progress on employee engagement and put in place action plans where necessary.

RISKS AND UNCERTAINTIES

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

- possible increases in the prime rate in 2014 that may slow loan growth;
- high consumer debt levels, which may impact housing markets and loan losses;
- aggressive competition from major banks and other credit unions;



- increasing commoditization of financial services; and
- changes to the regulatory environment.

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.

