

FIRST WEST CREDIT UNION 2016 ANNUAL REPORT

Compensation Practice

Management's Discussion & Analysis



Compensation Practice

Employees of the credit union, including the chief executive officer and the executive group receive base salaries, short-term and long-term incentives, and a competitive flexible benefits package. Salaries are based on a review of a number of regional, national and financial market surveys, including Central 1, Hay, Mercer and Wynford, with a specific focus on the B.C. Lower Mainland, Island and Interior regions. We target a position in market where the majority of organizations pay, i.e. the “median” of market, for base salary ranges. Any differences in individual employee base salaries are based on performance levels.

In addition to market comparison, we obtain trends and projections surveys to determine an appropriate annual merit award budget. Employees participate in the corporate short-term incentive plan (STIP) with payouts based on a combination of business results and individual performance. The credit union contributes a percentage of base salary to a group RRSP, matches employee contributions to a maximum of 10% every year for exempt employees and provides a comprehensive flexible benefits package including but not limited to extended health, dental, life insurance, accidental death & dismemberment, short-term disability and long-term disability benefits. Employee perquisites include discounted employee banking and loan programs.

COMPENSATION PHILOSOPHY

At First West we recognize that attracting and retaining exceptional leadership and talent is critical to our success. Our overall compensation philosophy is based on the simple premise of “pay-for-performance.” We believe rewards should be tied to achieving the business strategy and structured to motivate desired performance while retaining capable talent. We are creating a high performance culture where people continuously strive to do better and are rewarded accordingly.

- Competitive and reasonable in the marketplace
- Aligns with First West business strategy
- Serves to attract, retain and motivate employees
- Promotes internal equity/fairness
- Effective in driving member value while managing risks
- Simple to communicate, flexible to administer and govern
- Links to objective and meaningful measures of performance
- Reasonable in the eyes of members and other stakeholders

COMPETITIVE POSITIONING

We target the 50th percentile of the marketplace as our desired competitive position. First West draws talent from a variety of industries, but we compare ourselves to other credit unions and financial institutions on a size-adjusted basis. For skills that are transferable outside the financial sector, we also compare to a broader cross-section of industries. The total compensation package is comprised of base salary, variable incentives and benefits programs.

We recognize that our industry is competitive and skilled employees who deliver desired results are highly valued. Therefore, we take a total compensation approach that sees the integration of the following elements:

- **Base Pay:** recognizes the role responsibilities and individual's expertise, experience, and performance.
- **Variable Incentives:** provides an opportunity to earn more than base salary if pre-determined goals (the 'What') are achieved and behaviours (the 'How') are consistent with our organizational values. The incentives are variable in that they do not payout if the performance achievement is not as expected. This serves to reduce fixed-cost risk.
- **Benefits:** provides protection in life events pertaining to health, welfare and retirement. We provide a flexible health benefits program that employees can customize to fit their individual needs.

BASE PAY DESIGN

Base pay is the fixed salary cost that is paid bi-weekly. Roles are grouped into families of similar levels of work and each role is managed within a salary range. The salary range will have a minimum, market rate and maximum. Market rate is the full market value for all the roles in the salary range. The range from minimum to maximum can vary as the size of the role increases.

Base pay growth is dependent upon growth in market rates, individual performance and affordability within the annual budget. An individual's salary will grow toward the market rate based upon performance and as he/she gains experience. It is possible with sustained performance that exceeds expectations, an individual can progress from market rate to maximum of the salary range.

INCENTIVE PLANS

The short-term incentive plan (STIP) is the variable incentive plan for employees and executives. It is focused on the achievement of annual corporate performance targets and its payout will vary depending on the level of achievement and affordability. Payouts are on an annual basis if targets are met. The typical target categories are:

- Net operating income;
- Total asset growth;
- Expense control; and
- Net membership growth.

Depending on the employees pay grade, a percentage of base salary is paid out if the company achieves its annual net operating income target. Payouts within that percentage vary based on the level of individual performance. There are no incentive payments if the company does not reach at least 80% of its annual target and in that case, reduced target payouts are possible.

OTHER VARIABLE INCENTIVE PLANS

Some positions may have their own incentive plan designed to be market competitive and to attract, motivate and retain these special skill sets. As with the First West STIP program, the target incentive is paid when pre-determined goals, which are driven by the strategic plan, are attained. These incentive awards are calculated and may be paid out on a more frequent basis than annually.

FLEX-BENEFIT DESIGN

Employees receive a competitive flexible benefits package, some of which includes options for MSP, extended health, dental, life insurance, short-term disability, long-term disability, accidental death and dismemberment insurance, and optional insurances including critical illness. The company also provides Best Doctors, employee and family assistance, and the ability to purchase additional vacation days. Enhanced features offered include a health care spending account, wellbeing account and the ability to make charitable donations. First West also provides a group RRSP for retirement purposes. Some employees continue to participate in a legacy defined benefit (DB) pension plan.

We use a similar comparator group to determine competitive positioning for all other elements of our total compensation.

The plan design is based on the following criteria:

- provides a core of “catastrophic coverage” for each employee;
- employees have key responsibility for their own health and welfare and share a portion of some costs ;
- provides flexible health coverage and wellness choices that suit individuals and families; and
- cost-effective for both the employee and the company.

Employee perquisites include an employee discount program on financial products.

CHIEF EXECUTIVE OFFICER COMPENSATION STRUCTURE

We believe our CEO compensation should be:

- Aligned with First West business strategy;
- Structured to attract, retain and motivate;
- Effective in driving business results and managing risks;
- Incentives should be formulaic and tied to meaningful performance measures; and
- Reasonable in the eyes of members and other stakeholders.

The board of directors has approved the competitive market positioning outlined below:

- Competitive market for CEO role is other similar-sized credit unions;
- Target 50th percentile of the marketplace as our desired competitive position for base salary;

- Total cash compensation including short-term and long-term performance-based incentives set at 75th percentile for delivering pre-defined target; and
- The total rewards package is comprised of base salary, variable incentives and benefits programs.



CEO COMPENSATION PACKAGE

Base Salary	The CEO compensation design was established in 2011. The base salary is reviewed on an annual basis through the annual merit process along with that of other eligible employees at First West. Any increases applied are based on the CEO's performance rating and the approved annual budget for merit awards. The most recent merit award was 2.5%, effective April 3, 2016.
Short-Term Incentive Plan (STIP)	<p>The CEO participates in the corporate short-term incentive plan (STIP) available to all eligible employees at First West. The STIP is designed to provide annual rewards if defined targets are achieved. These targets are performance based and use both company and individual objectives.</p> <p>Company performance measures are established by executive management and the board. In fiscal 2015 the core performance areas and weightings were: financial (50%), process improvement (30%) and member experience (20%).</p> <p>The achievement of pre-defined metrics produces a target payout of 40% of base salary, with a maximum potential payout, for <i>significant overachievement of pre-defined metrics</i>, capped at 50% of annual earnings. The STIP specifies that payouts under the plan are contingent on corporate performance and sufficient financial stability in a given year, with board oversight and approval of any payments under the plan.</p>
Long-Term Incentive Plan (LTIP)	<p>The CEO participates in a long-term incentive plan (LTIP) intended to align performance to the long-term goals or objectives of the credit union. A new plan starts a rolling three-year cycle each year and performance is tracked over the three-year period with any payments under the LTIP contingent on achievement of the three-year goals established. No payment is committed or made until the end of the three-year cycle. Future payments depend on continued organizational and individual performance, and continued employment in the CEO role.</p> <p>Performance measures and metrics for the LTIP are established by the human resources committee (HRC) on behalf of the board of directors and may change from time to time. The board of directors or the HRC have the discretion to amend the term, vesting, final payout or any provision of a payment under the plan. The plan is reviewed each year or as deemed necessary by the board of directors.</p> <p>Payouts under the plan are calculated on the CEO's base salary in place at year 1 of each plan and on both company and individual performance achievement. Payout for company achievement of 100% of target and an individual performance level of <i>"proficient and demonstrates full competence with all goals being met at a level of professionalism and service that is expected for the role"</i> is set at 40% of base salary. The minimum payout is 32% with company achievement of 80% of target and individual performance level of <i>"performance that is not meeting some of the expectations and goals of the role."</i> The maximum potential is set at 50% for <i>"significant overachievement of pre-defined metrics."</i></p>
Pension and SERP	The CEO participates in the First West Employee Group RRSP Program with a matching contribution made by the employee. The employer's contribution is vested immediately. This approach is an alternative to providing a defined benefits (DB) plan, which would have similar order of magnitude investment for the organization, but would also add risk and administration for the organization. In addition, the CEO participates in a supplemental executive retirement plan (SERP) that restores pension benefits capped by the income tax maximum limits.
Group Benefits & Perquisite Plan	The CEO participates in the First West Flexible Benefits Program with the same terms offered to all employees. Additional benefits and a flexible perquisite account are also provided.
Severance	The CEO employment contract provides a severance package of 12 months' salary in the event of termination of employment.



Details of the compensation paid to First West's chief executive officer for fiscal 2016 are outlined in Table A.

Table A

2016 Target Total Cash Compensation ¹				2016 Actual Total Cash Compensation ²			
Base Salary	STIP Target ³	LTIP Target ⁴	Target Total Cash	Annual Earnings	STIP Payout ³	LTIP Payout ⁴	Total Cash
\$463,426	40%	40%	\$834,166	\$460,383	\$224,773	\$210,000	\$895,156

Notes to Table A:

1. Target Total Cash Compensation reflects the annual base salary for the incumbent and the target STIP and LTIP based on First West and individual employee achieving 100% of short-term and/or long-term goals.
2. Actual Total Cash Compensation reflects the CEO's annual earnings in 2016 and actual STIP/LTIP amounts paid out based on annual achievements for fiscal 2015.
3. STIP payment made first quarter of 2016 for fiscal 2015. Company achievement at 113.6% of annual goals and an individual performance level of *"significant overachievement of pre-defined metrics."* The combination of company and individual achievement provided for a maximum payout capped at 50% of 2015 annual earnings.
4. LTIP payment made first quarter of 2016 for company achievement at 120% of the three-year goals related to fiscal 2013-2015 and an individual three-year average performance rating set at *"significant overachievement of pre-defined metrics."* The combination of company and individual achievement provided for a maximum payout capped at 50% of the individual's annual base salary in year 1 of plan (i.e., 2013 base salary was \$420,000).

DESCRIPTION OF COMPENSATION ELEMENTS

Target	The target amount for any compensation element is the goal or objective amount (in contrast with the “actual” amount as discussed below). For example, target STIP or target bonus typically describes the amount that would be payable should payout criteria (which might, for example, include individual and organizational performance measures) are fully met. Where base salary is concerned, the term policy is often used as an alternative to target.
Actual	The actual amount for any compensation element is the specific amount paid in practice. It may be higher or lower than the target amount.
Base Salary	Base salary is the guaranteed portion of an employee’s compensation, the fixed amount paid on a regular basis by the employer in return for work performed.
Short-Term Incentive Plan (STIP)	Short-term incentives may be called by other names, such as bonuses, profit sharing or annual incentives. These are non-guaranteed cash payments that are linked to specified measures. “Short-term” typically indicates that they are earned over a year or less, in contrast with long-term incentives.
Long-Term Incentive Plan (LTIP)	Long-term incentives are non-guaranteed payments (cash or, in some sectors, equity instruments) that are linked to specified measures, just as short-term Incentives are, but are earned over multi-year periods.
Pension Contribution	This is the amount that a given party contributed to a pension for an employee. Typically, in disclosure, the focus would be on the employer’s contribution. For defined contribution (DC) plans, this is the primary focus.
Pension Valuation	This is the value of the pension as determined by actuarial methods.
Supplemental Executive Retirement Plan (SERP)	A SERP is a retirement or pension plan that provides for retirement income payments in excess of those provided under “registered pension plans” (which are qualified or tax-assisted plans). Registered pension plans are subject to “defined benefit” or “defined contribution” limits designed to limit the benefits that may be funded through such plans on a tax-assisted basis. Because of those limits, registered pension plans often do not provide adequate income replacement for higher income employees and SERPs are commonly used to supplement or “top up” the benefits provided under registered pension plans.
Benefits	Benefits are types of non-wage compensation provided to employees. Typically this includes group insurance plans (health, dental, life, etc.), disability income protection, leaves and vacation, statutory benefits and other similar elements. The definition may be broadened to include perquisites, allowances, pension and other components, depending on usage.
Benefits Valuation	Benefits may also be measured using methodologies that assess their value as opposed to what they cost the employer to provide.
Perquisites	Typically the term perquisite is used to refer to a benefit that is difficult to quantify or may be more discretionary.
Severance	A severance package consists of the compensation (pay, benefits and other key terms) that an employee receives when their employment ends.