FIRST WEST CREDIT UNION **2016 ANNUAL REPORT**

Comprehensive Financial Analysis

Management's Discussion & Analysis

FIRSTWEST
CREDIT UNION

Comprehensive Financial Analysis

BALANCE SHEET MANAGEMENT

Total assets

Total assets grew $805.3 million, or 9.2% in 2016, compared with 33.7% in 2015. This growth was primarily the result of an increase in personal and commercial loans which increased $335 million, or 4.7% and investments which increased $432 million, or 54.2%. The previous year's growth included the growth due to the merger with Island Savings.

Loans

Total loans to members increased $335 million, or 4.7% in 2016, compared with 28.3% in 2015. Total personal loans to members grew $84.4 million, or 1.7%, while commercial loans grew $250.5 million, or 11.2%.

Deposits

Total deposits increased $829.9 million, or 10.9% in 2016, compared with 32.7% in 2015.

At the end of 2016, total borrowings were $403.3 million, which were comprised of structured borrowings from securitizations.

CREDIT QUALITY

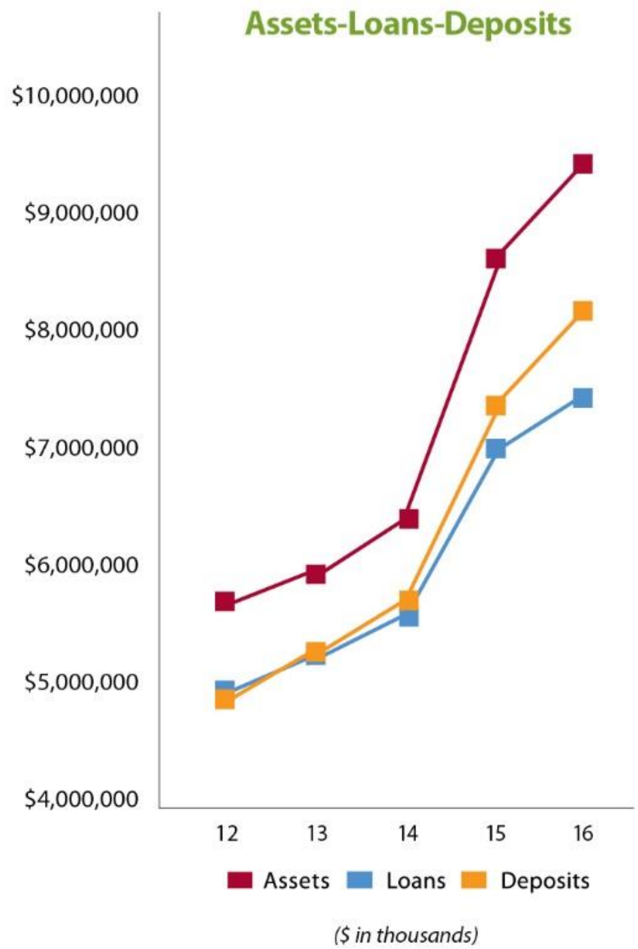
Allowance for credit losses

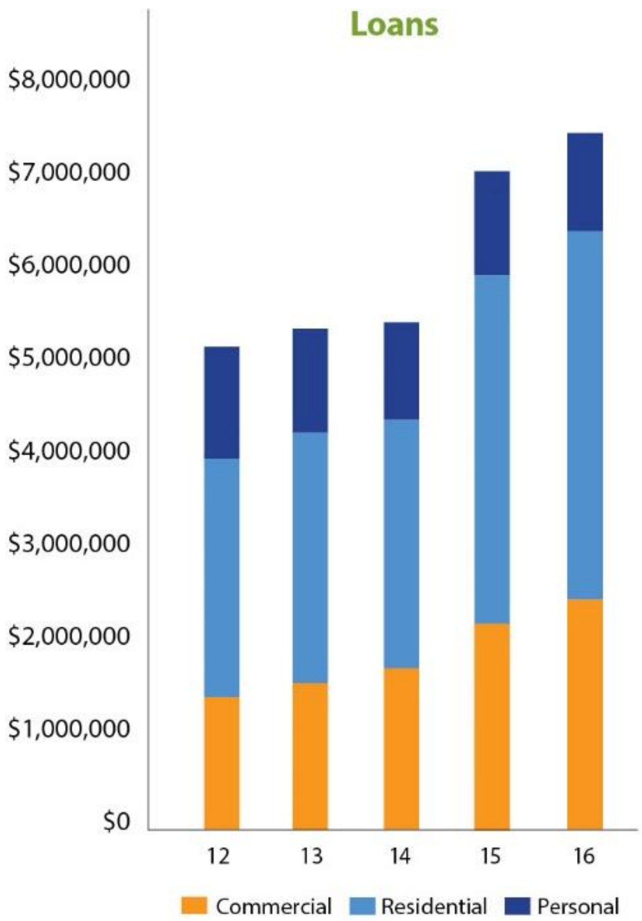
Our combined balance sheet allowance for credit losses as of December 31, 2016, was $20.9 million compared to $19.0 million in 2015, an increase of $1.9 million, or 10.0%. As a result, the year-end allowance for credit losses represents 0.28% of total loans and accrued interest, compared with 0.26% a 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, 2016. In addition to maintaining a collective allowance of 0.25% 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 10 of the consolidated financial statements.

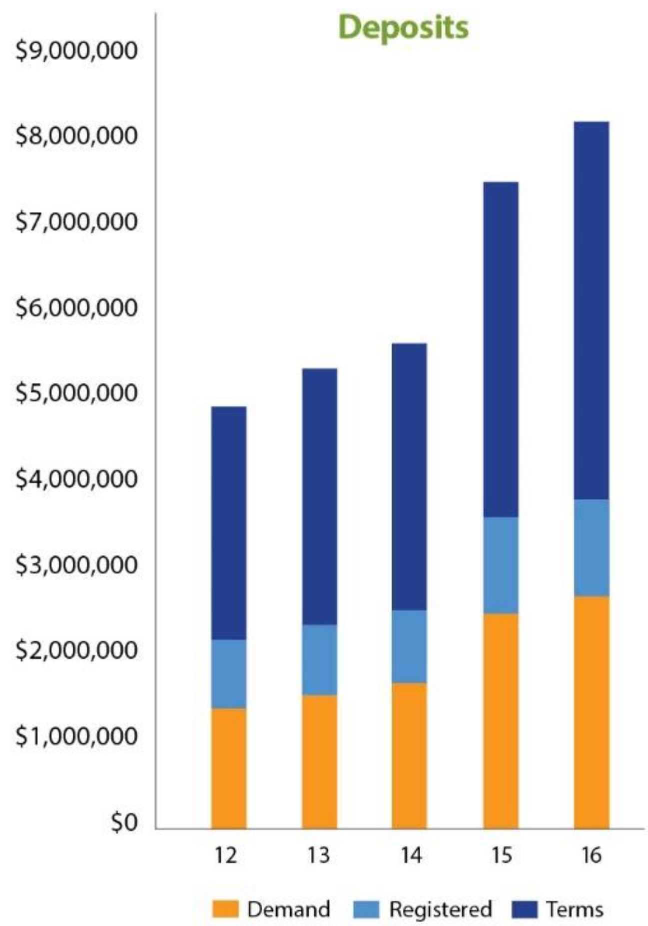
Capital management

As of December 31, 2016, the credit union had a capital ratio of 13.3% 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 6 of the consolidated financial statements.





($ in thousands)



($ in thousands)

Net interest income

In 2016, net interest income—interest and investment income earned on assets less interest incurred on deposits and borrowings—increased $2.3 million, or 1.4%, to $169,244 million year over year. Net interest income as a percentage of average assets decreased year over year to 1.86%.

Canadian financial institutions continue to experience unprecedented, prolonged financial margin pressure. Prime rate has remained consistent at 2.70%. Overall, interest rates have stayed low and the yield curve also remains relatively flat. However, First West's margin remains one of the best in the credit union system in British Columbia.

Non-interest income

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

In 2016, non-interest income increased $4.3 million, or 4.4%, to $102.2 million. The increases were primarily in insurance commissions, 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.

Operating expenses

Operating expenses in 2016 increased $10.7 million, or 4.9%, to $229.5 million. This increase was primarily in personnel expenses and administration expenses.

The impact of our increase in assets reduced our expense ratio to 2.52% in 2016, from 2.61% in 2015. 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 returned to pre-merger levels as our balance sheet is growing faster than our expenses, 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.

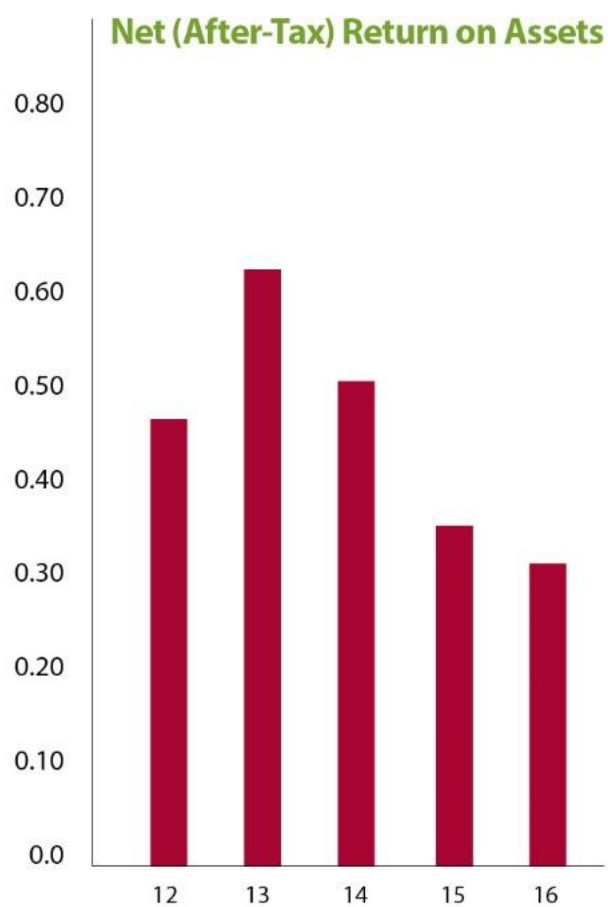
In the short-term, operating efficiency gives us the flexibility to respond effectively to competitive pressures in a dynamic marketplace. Longer term, operating efficiency allows us to maximize financial performance so we can expand into new markets, add new financial products and services and pay a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

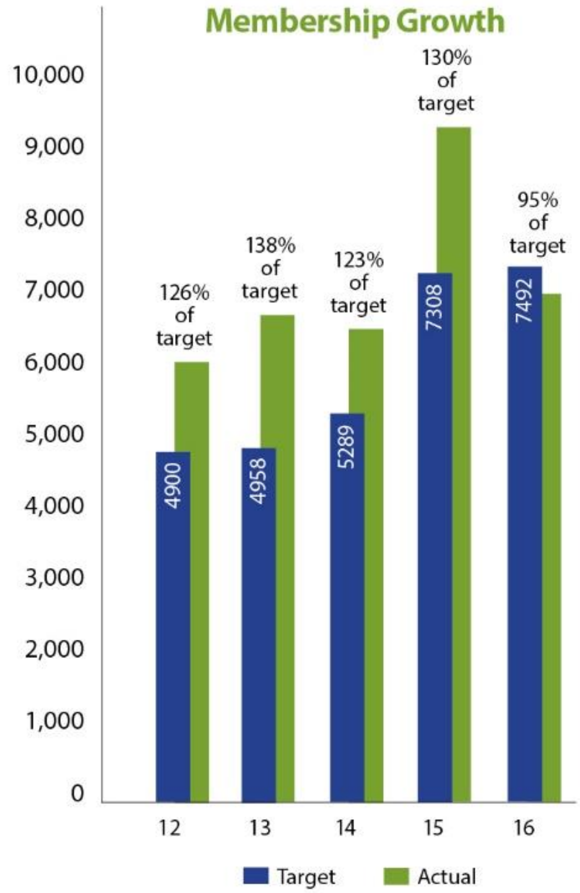
In 2016, our operating efficiency was 87.0% compared to 86.6% in 2015. Our focus over the next three years will be to improve efficiency levels by leveraging our multi-brand model and our scale.

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 $1.0 million to members, bringing total dividends paid to $9.1 million since 2010.




Membership Growth
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
126% of target
138% of target
123% of target
130% of target
95% of target
4900
4958
5289
7308
7492
12
13
14
15
16
Target
Actual

5-Year Overview – Financial Highlights

($ in thousands)	% growth	**Audited 2016**	Audited* 2015	Audited 2014	Audited 2013	Audited 2012
Consolidated Balance Sheet						
Cash resources	2.7%	479,200	466,727	384,048	95,894	111,590
Residential Mortgages	5.5%	3,996,332	3,788,651	2,749,708	2,721,682	2,659,239
Personal Loans	-10.7%	1,028,528	1,151,769	1,109,436	1,109,933	1,061,810
Commercial loans	11.2%	2,480,599	2,230,089	1,728,545	1,592,778	1,447,530
Accrued interest	19.8%	11,864	9,906	8,674	8,925	8,815
Allowance for credit losses	10.0%	(20,850)	(18,959)	(14,900)	(11,848)	(10,193)
Total Loans	**4.7%**	**7,496,473**	7,161,456	5,581,463	5,421,470	5,167,201
Investments and other	45.7%	1,478,422	1,014,788	498,384	560,578	558,453
Premises and equipment	-7.8%	68,653	74,458	53,225	51,497	49,439
TOTAL ASSETS	**9.2%**	**9,522,748**	8,717,429	6,517,120	6,129,439	5,886,683
Demand Deposits	11.7%	2,827,461	2,531,491	1,722,996	1,570,274	1,432,256
Term Deposits	13.9%	4,447,188	3,905,230	3,144,659	3,013,436	2,761,223
Registered savings plans	-0.8%	1,114,405	1,123,635	824,506	806,376	770,480
Class A shares	-1.0%	6,194	6,255	6,260	6,284	6,455
Accrued interest and dividends	2.9%	45,700	44,397	35,534	38,360	37,034
Total Deposits	**10.9%**	**8,440,948**	7,611,008	5,733,955	5,434,730	5,007,448
Payables and accruals	-6.0%	83,771	89,089	61,191	50,322	43,891
Borrowings	-7.7%	403,319	437,032	288,451	242,094	463,848
TOTAL LIABILITIES	**9.7%**	**8,928,038**	8,138,186	6,083,597	5,727,146	5,515,187
Equity shares	-5.7%	34,883	36,991	33,364	36,646	40,381
Accumulated and other comprehensive income	-55.6%	9,398	21,184	9,103	5,485	10,688
Contributed Surplus	0.0%	163,651	163,651	61,270	61,270	57,957
Retained Earnings	7.9%	386,778	358,474	329,786	298,892	262,470
	9.2%	**9,522,748**	8,717,429	6,517,120	6,129,439	5,886,683
Allowance for Credit Losses						
Opening balance	27.2%	18,959	14,900	11,848	10,193	12,102
Less: write-offs	-25.8%	4,801	6,473	4,421	5,145	5,659
Plus: provision	-36.5%	6,692	10,532	7,473	6,800	3,750
Closing balance	**10.0%**	**20,850**	18,959	14,900	11,848	10,193

($ in thousands)	% growth	**Audited 2016**	Audited* 2015	Audited 2014	Audited 2013	Audited 2012
Consolidated Statements of Income						
Interest income	-0.7%	276,467	278,456	230,991	224,323	219,586
Interest expense	-3.8%	107,223	111,498	94,809	95,092	95,672
Net interest income	**1.4%**	169,244	166,958	136,182	129,231	123,914
Provision for credit losses	-36.5%	(6,692)	(10,532)	(7,473)	(6,800)	(3,750)
Non-interest income	4.4%	102,163	97,839	70,437	73,450	73,028
Operating margin	**4.1%**	264,715	254,265	199,146	195,881	193,192
Operating expense	4.9%	229,549	218,815	159,793	155,066	161,799
Net income before income taxes	**-0.8%**	35,166	35,450	39,353	40,815	31,393
Income taxes	11.6%	6,011	5,388	7,279	3,093	4,823
Net income	**-3.0%**	**29,155**	30,062	32,074	37,722	26,570
Financial Statistics (expressed as %)						
Asset growth		9.2	33.7	6.3	4.1	7.8
Loan growth		4.7	28.3	3.0	4.9	8.9
Deposit growth		10.9	32.7	5.5	8.5	8.8
Operating efficiency		87.0	86.6	81.0	79.9	84.1
Percent of average assets						
Net interest income		1.86	1.99	2.15	2.15	2.18
Other income		1.12	1.17	1.11	1.22	1.29
Operating expense		2.52	2.61	2.53	2.58	2.85
Operating return on assets		0.39	0.42	0.62	0.68	0.55
Net (after-tax) return on average assets		0.32	0.36	0.51	0.63	0.47
Other Statistics						
Retail branches		54	54	40	40	37
Insurance offices		39	39	28	28	30
Mutual funds under administration ($000's)		2,371,144	2,159,985	1,666,056	1,463,826	1,058,918
Loans under administration ($000's)		27,007	58,057	93,281	115,074	107,222
Book of business ($000's)		18,335,572	16,990,506	13,074,755	12,435,100	11,340,789
Average assets ($000's)		9,120,089	8,379,313	6,323,280	6,008,061	5,672,815

*Merger with Island Savings

Retail Banking

2016 Highlights

- Retail deposits grew by $292.5 million, or 6.5%, to $4.8 billion
- Retail lending grew by $84.4 million, or 1.7%, to $5.0 billion
- Mutual fund asset sales grew by $102 million, or 14.3%, to $814 million
- 1,066 new members gained through member referral
- Continued to evolve our advice-based member service model with additional sales and coaching programs to assist our branch teams in broadening and deepening their knowledge to provide tailored advice to members
- Completed rollout of Interac Flash® MemberCards for our Envision Financial, Valley First and Island Savings regional brands
- Launched personal financial management tools in the online banking platform for our Envision Financial and Valley First regional brands

Outlook for 2017

Economic growth is expected to remain slow nationally, while we expect B.C.'s economy to outperform the Canadian economy, there will be moderation. The financial services market continues to remain highly competitive and price-sensitive, maintaining steady pressure on financial margin. We anticipate continued momentum in consumers choosing digital transactions over in-branch transactions. While we will continue to provide remarkable service regardless of channel, we will have a sharpened focus on evolving our branch experience to stay ahead of this trend. Lending for housing should remain steady but will cool, due in part to actions taken by the federal and provincial governments in 2016 to temper the housing market. We expect this to affect B.C.'s Lower Mainland more than the Okanagan and Vancouver Island and the Southern Gulf Islands. Retail lending is expected to grow by 1.7% in 2017, while deposits are expected to grow by 4.7%. Mutual fund assets should see growth of 15.0%.

Our advice-based member service model will continue pushing to new levels this year, with the launch of a new CRM system in January. By enabling capture of key information, CRM will provide our banking experts a more complete picture of members' relationships with us. In turn, this comprehensive view will help our banking experts to better anticipate members' future needs, offer better advice and recommend more products and services suited to their needs.

Welcoming new members is important to us, so this year we will launch a member onboarding program to create a remarkable first impression on new members. Called "Time for Nine", this new program looks to deepen our connection with new members at the most critical time in the relationship, which is the first 60 days.

A focus on portfolio management and member contact will also get underway to help us better understand how we can assist members in achieveing their financial goals. A new member survey approach will also help us connect with our members and understand how we are doing in serving their financial needs and where we can improve.

Technology innovations and improvements will feature prominently this year, with digital transformation of our business being at the forefront. Work to expand our mobile pay offerings will continue in 2017, along with other digital advancements. We also expect to take a digital leap forward—away from paper—with the implementation of electronic content management. This multi-year project will introduce technology that can drastically reduce or eliminate the need for printing and signing of pages and pages of documents for financial transactions, relying instead on digital capture. Signature capture stands to improve member experience, save the credit union millions of dollars annually in printing costs and continue our commitment to better environmental stewardship.

Also on the technology and innovation front, personal financial management will be rolled out for members at Island Savings. Unveiled for our Envision Financial and Valley First regional brands in 2016, this online banking feature helps members simplify the task of managing their financial information and offers budgeting and spending tools to help. Also in 2017, our next generation of online and mobile banking will see dramatic enhancements that improve the member experience, whether through mobile or desktop. We expect to trial our next generation of online banking with select members by year end.

Commercial Banking

2016 Highlights

- Commercial deposits grew by $536.6 million, or 17.4%, to $3.6 billion. Of note, our Island Savings regional brand attracted business from several Vancouver Island municipal districts
- Commercial lending grew by $212.2 million, or 9.6%, to $2.4 billion, driven by lending for real estate development
- Commercial lending mainly comprised of $2.2 billion of secured mortgages and $156 million of secured commercial loans and lines of credit
- Welcomed 485 new business banking members to First West
- Expanded our business banking team and invested in training to help them support the more than 176,000 small business owners in B.C.
- Introduced our Business Banking Advisor Certification Program to ensure our business banking advisors across First West have the right depth of knowledge and experience for providing the best advice to

members. Fifty per cent of our business banking advisors achieved certification in 2016.

Outlook for 2017

The low interest rate environment is expected to continue in 2017. Though the market remains highly competitive, we expect the prevalence of low rates to again stimulate commercial growth through capital investment lending for small- to medium-sized businesses and our real estate portfolio. While the provincial and federal governments put in place legislation that slowed the real estate market late in 2016, we believe the housing market will continue to be a primary driver of strong commercial lending growth. We anticipate a 2.2% decrease in commercial deposits and 5.2% growth in commercial lending.

We plan to invest in technology, staffing and process improvement to support our teams and to make banking with First West even simpler in 2017. Our advice-based member service model will continue pushing to new levels with the launch of our new CRM system in January. By enabling capture of key information, CRM will provide our banking experts a more complete picture of members' relationships with us. In turn, this comprehensive view will help our banking experts to better anticipate members' future needs, offer better advice and recommend more products and services suited to their needs.

Account opening process is slated for review and improvement and credit processes will be harmonized , ensuring that members receive a consistent experience across all First West regional brands. Members can also expect to see mobile device cheque deposit for businesses, invoicing, and payroll solutions, as well as a new low-fee chequing account, researched and designed to meet specific member needs.

We will continue to focus on serving the needs of the small business sector. We are well positioned to win in this marketplace with our product line-up, services and advice. A new commercial banking strategy in 2017 will aim to increase market share in specific business segments and for continued development of our advice-based member service model.

First West has a strong commitment to the non-profit sector, as seen through our own 20-year old charitable foundation, local community investment work and employee volunteering. We believe we can also make a difference by assisting non-profits with their banking. To this end, last year we developed a strategy for improving our service to the non-profit sector and in 2017 we expect to execute on several of the opportunities identified.

Insurance Services

2016 Highlights

- Completed phase two and three of an enterprise-wide broker management system conversion, consolidating three legacy systems into one for improved customer service and operational efficiency
- In partnership with ICBC, successfully executed the launch of a new policy issuance system and served over 82,000 customers in this product category
- Total revenue increased organically by $1.1 million, or 3.7%
- Core revenue lines (P&C and ICBC) increased through organic growth by $1.2 million, or 4.7%

- Restructured the business to establish consistency, elevated sales focus and alignment across divisions
- Continued to streamline and centralize processes—such as renewals, endorsements and company payables—freeing up our specialists to spend more time serving customers

Outlook for 2017

As in recent years, a rapid pace of change will continue to re-shape the insurance industry in 2017. Technology advances and innovations, and consolidation—including those in vertical markets—stand to be major drivers of the transformation, building intense competitive pressures in the marketplace. In particular, the digital disruption of the industry will increase competition as insurance consumers increase their usage via online and mobile channels,introducing more risk to our customer base.

A technology roadmap for First West Insurance has been developed to guide the execution of technology strategy and vision in order to help address these marketplace pressures. Last year's implementation of our new broker management system will also play a key role, driving efficiency, nimbleness and improved customer experience. Focus this year will turn to driving staff adoption and advanced application of the system, as well as developing new functionality for it, all 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.

This year will also see focus on staff training and operational efficiency. Consistent approaches to sales effectiveness and leadership practice will be complemented by continued efforts to standardize and harmonize processes across First West Insurance. Certification and onboarding programs for insurance advisors will also be introduced in 2017. We expect to centralize administration and undertake work to define clearly the roles of our commercial insurance staff. This will allow us to leverage changes made to our commercial lines structure in order to accelerate growth in this critical business line. The net effect of these efforts will be much-improved customer experiences.

In 2017, we will continue developing strategic partnerships. We believe there is opportunity to work more effectively with our insurance company partners, leveraging their customer and business insights to improve how we market and sell to our customers. New partnerships will continue to help us meet the ever-changing demands of the insurance marketplace.

Wealth Management

2016 Highlights

- Wealth management revenues grew by $5.0 million, or 53%, to $14.4 million
- Mutual fund*† assets under administration grew by $205 million, or 9.4%, to $2.4 billion
- Mutual Fund Dealers Association of Canada (MFDA)-based assets grew by $102 million, or 14.3%, to $814 million

- Investment Industry Regulatory Organization of Canada (IIROC)-based assets grew by $112 million, or 8%, to $1.6 billion
- Reached full compliance with the Canadian Securities Administrators CRM2 requirements, providing members with greater clarity on investment performance and costs
- 1366 hours of internal and external training, and continuing education completed by our advisors to keep pace with members' needs and industry and regulatory changes

Outlook for 2017

Our advice-based service approach will continue to be the primary focus in 2017 as we aim to help members meet their financial goals through a diverse line-up of financial services and a holistic view of their financial picture. In particular, we will undertake efforts in 2017 to increase awareness of the exceptional, second-to-none wealth management services available at First West. This will include driving visibility of the full range of investment options we provide access to, from discount brokerage all the way to discretionary portfolio management. Members can also expect to see robo advice join our stable of wealth management offerings.

A number of training and coaching initiatives are planned for this year to help drive consistent member experience of our advice-based service model. Of note, new performance standards for newly licensed advisors will help ensure they are providing holistic financial advice to members. With CRM2 compliance fully operational, our advisors will benefit from targeted coaching efforts to help them increase members' understanding of their investments' performance and costs.

Collaboration with our business banking team will continue, helping our business members put in place financial and risk management plans to protect the continuity of their business interests in succession scenarios.

*Securities and securities related financial planning services are offered through Qtrade Advisor, a division of Qtrade Securities Inc., Member of the Canadian Investor Protection Fund. Mutual funds and securities related financial planning services are also offered through Qtrade Asset Management Inc., Member MFDA.

†Island Savings partners with Credential Financial Inc., providing access to MFDA and IIROC regulated investment products. Mutual funds are offered through Credential Asset Management Inc. and mutual funds and other securities are offered through Credential Securities Inc. and Credential Direct, a division of Credential Securities Inc., which operates as a separate business unit. Credential Securities Inc. is a Member of the Canadian Investor Protection Fund.

First West Capital

2016 Highlights

- 19 deals approved, representing $48 million in disbursements
- Regional markets outside B.C. represented 37% of total deals funded

- Continued diversification of the portfolio, with expansion and working capital financings representing approximately 26% of deals funded
- Expanded our equity program through the launch of the First West Capital MBO Financing Package
- Expanded our presence in Ontario with the opening of our Toronto office and addition of a regional director for Ontario and a Toronto-based associate

Outlook for 2017

First West Capital will continue to anchor its presence in the Canadian marketplace by sourcing diversified and premium deal flow from quality partners. We will help small- to mid-sized businesses grow by funding deals ranging from $500,000 to $10 million in support of acquisitions, management and shareholder buyouts, growth, refinancing and high-ratio real estate financing for purchases of owner-occupied real estate. Our new First West Capital MBO Financing Package, launched in 2016, is expected to factor prominently in the growth of our business this year, as the boomer retirement trend continues and demand for succession financing rises. The growth of the overall portfolio will be managed through robust due diligence and credit structuring, careful and regular loan monitoring, and prudent risk management.

We expect business in regional markets outside of B.C. to remain strong this year, given that 37% of total deals originated outside the province last year. The Ontario market should be the primary driver of growth, due to its size and positive economic outlook, with the B.C. market yielding well due to continued economic resilience. We anticipate softness in the Alberta marketplace, but expect stabilization to take hold.

Building on the capacity added in 2016 through the addition of the regional director, Ontario, and Toronto-based associate roles, we will continue deepening our presence in Ontario. In B.C., we will boost the talent and capacity of our busy Vancouver-based team by adding an Associate and a Director of Operations.

First West Leasing

2016 Highlights

- Lease portfolio grew by $23.8 million, or 24%, to $123 million
- Increased new lease volume by more than 13% and 1,366 leases for $70 million
- Automobile leasing volumes increased by $13.9 million, or 31%
- Over 50 new dealers added to our network, building our reputation as a go-to business partner
- Improved payment processes for corporate customers with the addition of electronic billing
- Improved dealer delivery system for heavy trucks and equipment

Outlook for 2017

First West Leasing plans to increase new lease volume by at least $6 million to continue double-digit growth in 2017. Lease profitability will also be in sharp focus as we look for other means to increase revenues. The Alberta marketplace, while it continues its slow recovery, will yield business that helps increase our volumes this year.

We expect to expand First West Leasing into new geographic regions in 2017. Expanding into new markets provides regional and asset diversity, and insulates against marketplace risk. Efforts will also be taken to manage business continuity risk to ensure proper succession planning is in place.

To accommodate the growth trend in our lease volumes year over year, we will continue to analyze and improve the efficiency of our systems to make it easier and faster for clients to deal with us. Part of that effort will continue the work begun last year to provide easier online documentation for our fleet customers alongside other process and technology-related improvements identified in 2016.