

FIRST WEST CREDIT UNION **2016 ANNUAL REPORT**

# Outlook & Strategy

## Management's Discussion & Analysis



# Outlook & Strategy

## Our Strategy: Work big. Work local.

First West's current strategic plan, new in 2017, 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, First West succeeds collectively and we lead in our communities.

### 2. Grow through partnerships and national opportunities

We are aiming to expand strategically into new, high-potential markets, forge pioneering partnerships and transform and grow our revenue streams. Increased financial stability through these efforts will allow us to create more value for our members.

### 3. Reinvent our core business

We are working to fundamentally transform the core of what we do as a financial institution and how we do it to dramatically improve our profitability and position First West and its members for financial success. 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 continued improvements and access to 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 senior vice-president, insurance, 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 Officer
- Liz Bailey-Connor | Senior Vice-President, People Services
- Mike Cooke | Senior Vice-President, Risk
- Loree Gray | Senior Vice-President, Insurance
- Jim Lamond | Senior Vice-President, Credit
- Bryan Mavrow | Senior Vice-President, Marketing
- Leslie Castellani | Vice-President, Strategic Initiatives & Corporate Affairs
- Susan Ewanick | President, Valley First and Enderby & District Financial
- David Lanphear | President, Envision Financial
- Randy Bertsch | President, Island Savings

## Objectives for 2017

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 2017 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 3.4%, with our consumer loan portfolio increasing approximately 1.7% and our commercial loan portfolio rising 5.2%. 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 1.7%, with retail deposits increasing by 4.7% and commercial deposits decreasing by 2.2%. 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 2.4% in 2017, 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.

**Cost control.** 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 2017, efficiency improvements through process standardization and system harmonization will continue to help our teams provide easy and seamless service. We began transforming our member experience research in 2016 and this year will mark the first full year of operation. The redesigned program provides more opportunity for members to provide feedback and insight about their experiences with First West. Members will also find opportunities to request contact on various topics, including information about products and services. This enhanced research approach will continue to help us learn more about our members' service experiences, while enriching communication with them.

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. This year will see several developments that keep us in step with our members' evolving needs and our focus on digital transformation. Notable among these are:

- A new member welcome program called Time for Nine, designed to ensure new members have a remarkable experience in their first 60 days with First West.
- Personal Financial Management for members doing business at Island Savings and Enderby & District Financial. Unveiled at Envision Financial and Valley First in 2016, this online banking feature helps members simplify the task of managing their financial information and offers budgeting and spending tools to help.
- Initiation of a multi-year electronic content management project to improve our members' experience by drastically reducing or eliminating the need for printing and signing of pages and pages of documents for financial transactions, relying instead on digital capture. This also stands to save the credit union millions of dollars annually in printing costs and continue our commitment to better environmental stewardship.
- A new low-fee chequing account for business members, as well as new invoicing and payroll solutions.
- Mobile device cheque deposit for business will provide even more access for our busy business members.
- Expansion of our mobile pay offerings.
- Next generation of our online and mobile banking experience featuring enhancements to improve the experience for mobile and desktop devices.

**Membership growth.** We expect brand awareness, our Simply Free Account®, innovations and technological improvements, and other marketing activities to lead to a minimum of 3% growth in membership in 2017.

## Our Employees

**Employee engagement.** We measure employee engagement through a standardized biannual assessment. In 2016, we conducted an engagement survey and in 2017 we will deliver on engagement action plans, with an organization-wide focus on key areas such as:

- Enabling work: ensuring we have the right processes, tools and resources
- Talent and staffing: ensuring we have the right people resources available, the right training and the right recognition practices

In the fall of 2017 we will conduct an employee engagement pulse-check to assess progress toward action plan goals. We will continue to focus on partnering with our employees to help them navigate their careers, through lateral moves to increase breadth of skills and experiential learning, as well as through promotions.

**Employee development.** A key employee development focus in 2017 will be developing employees that thrive in an environment where rapid advances in digital technology are transforming our business. We will create a healthy workplace strategy as an important aspect of supporting employees in our changing workplace.

Advancing our training and coaching, and introducing new tools and knowledge supports continual professional development, ensuring employees are able to provide expert financial advice to our members and insurance customers. To that end, new learning technology slated for implementation in 2017 will transform how our employees access learning.

**Leadership development.** Our framework for developing leaders takes a holistic approach, helping individuals to excel both personally and professionally. The framework is anchored by three key aspects of development: leading oneself (including modelling personal growth); leading others (including developing teams); and leading in the organization and in the community. To help employees develop in these areas, First West will continue to provide coaching, mentoring opportunities, and leadership development programs and experiences. In 2017 we will begin work on new offerings in these areas for both experienced and developing leaders.

**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 platform 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 Volinspire, volunteers enhance their skills by lending their knowledge and leadership skills—not just physical labour—to organizations that matter in their community. We completed the rollout of Volinspire across First West in 2016 and expect it to not only encourage continued investment in our communities, but also to change the way our employees think about volunteering.

## Risks and Uncertainties

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

- continued slowdown of the Canadian economy;
- further decreases in the prime rate that may negatively impact financial margin;
- 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; and
- 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.

