

FIRST WEST CREDIT UNION 2014 ANNUAL REPORT

Outlook & Strategy

Management's Discussion & Analysis



Outlook & Strategy

Our Strategy: Work big. Work 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 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 as a standalone business unit. The regional presidents and local management teams direct the growth of regional business segments: retail banking, business banking, insurance services and wealth management.



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 Ltd., 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 access large capital facilities that improve overall effectiveness and, in turn, the financial lives of its members.

Objectives for 2015

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 2015 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 use securitization and borrowings to balance our growth.

Loan growth. We are forecasting total loan growth of 5.0%, with our consumer loan portfolio increasing approximately 3.1% and our commercial loan portfolio rising 8.1%. 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- and 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 5.2% in 2015, with demand deposits increasing by 5.3% and term deposits increasing 4.8%. 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 municipal, university, school and hospital portfolios.

Revenue growth. Optimizing revenue by improving financial margin, increasing non-interest income and diversifying lending with high-yield products is an important objective. With the addition of Island Savings, we expect total revenue to grow 28.1% in 2015 with financial margin growing 26.1%.

Island Savings integration. First West will also have greater earnings capacity and strength due to the merger with Island Savings, with all key financial metrics showing improvement through 2018. Robust earnings strengthen an already solid starting capital position. The merged credit union's financial plan for the five-year

period shows a capital position above 13 per cent in each of the years. Furthermore, stress testing of the combined balance sheet demonstrates the credit union is well positioned to withstand capital hits caused by extreme credit and liquidity events. In addition, it reinforces that the merged entity has reduced its risk profile further from its current standing.

Through the due diligence process and business case development, it became evident that having Island Savings merge with First West would also create meaningful, tangible benefits for Island Savings members. For example, plans are underway to launch two of First West's highly competitive and best-in-class products in the Island Savings region in 2015—the Simply Free Account™ and the Unlimited Chequing for Business® account. These enhanced products will contribute to First West's membership growth targets and further differentiate Island Savings in the market.

Cost control. Operational efficiency remains a priority for First West. In 2015, our goal is to improve our operational efficiency 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. Some of these savings will be offset by our strategic investments including new branches, branch renovations and technology expenditures, as well as ongoing lower service charge revenue as a result of the popularity of our Simply Free Account™.

Our Members

Membership growth. We expect brand awareness, our Simply Free Account™ and other marketing activities to lead to a minimum of 3% growth in membership in 2015.

Our Employees

Employee engagement. We measure employee engagement through a standardized biannual assessment, with benchmarks being established in 2011 and 2013. While 2015 would be the next survey year, we will adjust the measurement cycle due to activities related to the merger with Island Savings. In 2015 we will focus on developing our employees' leadership abilities and financial acumen.

Risks and Uncertainties

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

- 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 and other credit unions;
- increasing commoditization of financial services;
- changes to the regulatory environment;
- increased costs related to the integration of Island Savings; and
- increased costs related to the Valley First banking system conversion.

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.

The integration of Island Savings into First West involves a two-year transition phase focused on people, processes and technology. Integration is an inherently complex activity that can bring risk. The Island Savings team in the region and First West shared services have applied careful consideration in the creation of a thoughtful transition plan to minimize these risks and achieve business case objectives. A dedicated transition team is in place supported by executive sponsors and strong project governance. Throughout this period a significant focus is also being placed on executing a smooth transition for employees and members.