FIRST WEST CREDIT UNION **2015 ANNUAL REPORT**

Comprehensive Financial Analysis

Management's Discussion & Analysis

FIRSTWEST
CREDIT UNION

Comprehensive Financial Analysis

BALANCE SHEET MANAGEMENT

Total assets

Total assets grew $2.2 billion, or 33.7% in 2015, primarily due to the merger with Island Savings, which accounted for $1.5 billion of the increase. During the year, asset growth from operations was $654.2 million, or 8.1%, compared with 6.3% in 2014.

Loans

Total loans to members increased $1.6 billion, or 28.3% in 2015, primarily due to the merger with Island Savings, which accounted for $1.4 billion of the increase. During the year, total loan growth from operations was $204.7 million, or 2.9%, compared with 3.0% in 2014. Total personal loans to members grew $78.9 million, or 1.6%, while commercial loans grew $131.4 million, or 6.3%.

Deposits

Total deposits increased $1.9 billion, or 32.7% in 2015, primarily due to the merger with Island Savings, which accounted for $1.4 billion of the increase. During the year, we continued to focus on attracting deposits and as a result grew an additional 7.4%.

At the end of 2015, total borrowings were $437.0 million, which were comprised of structured borrowings from securitizations.

CREDIT QUALITY

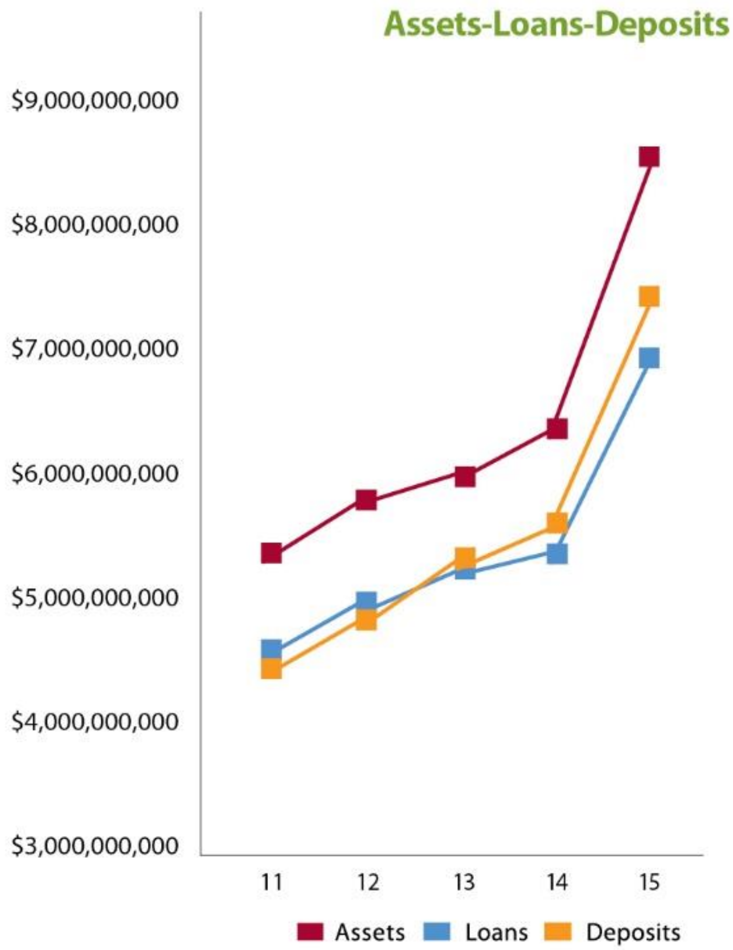
Allowance for credit losses

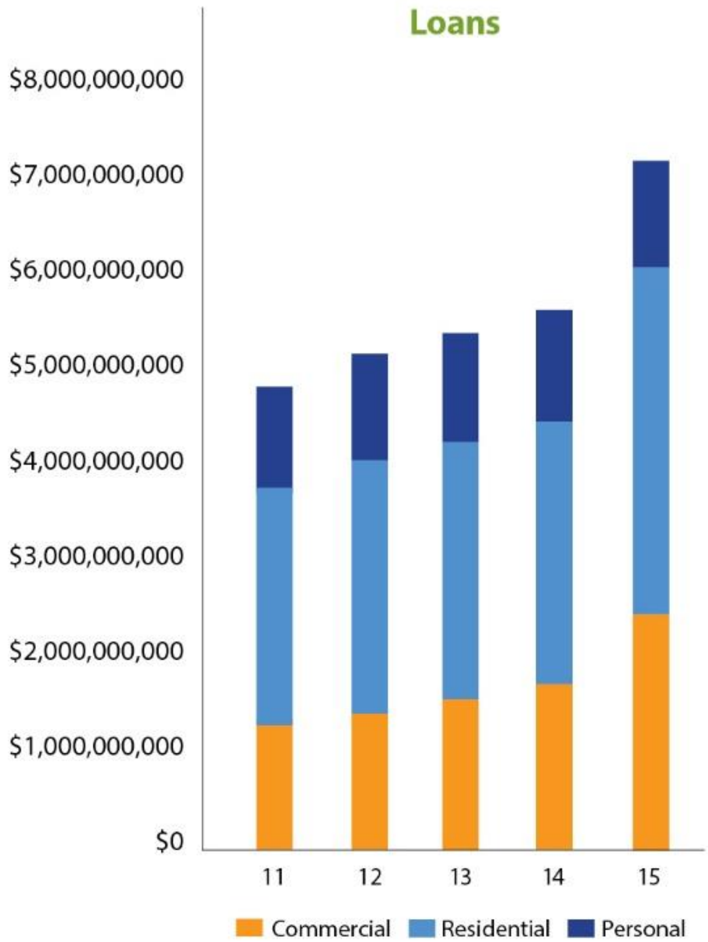
Our combined balance sheet allowance for credit losses as of December 31, 2015, was $19.0 million compared to $14.9 million in 2014, an increase of $4.1 million, or 39.9%. This increase was a result of the increased lending portfolio from the merger with Island Savings as well as the additional portfolio growth during the year. As a result, the year-end allowance for credit losses represents 0.26% of total loans and accrued interest, compared with 0.27% 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, 2015. In addition to maintaining a collective allowance of 0.20% 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, 2015, the credit union had a capital ratio of 14.2% 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.




Loans
$8,000,000,000
$7,000,000,000
$6,000,000,000
$5,000,000,000
$4,000,000,000
$3,000,000,000
$2,000,000,000
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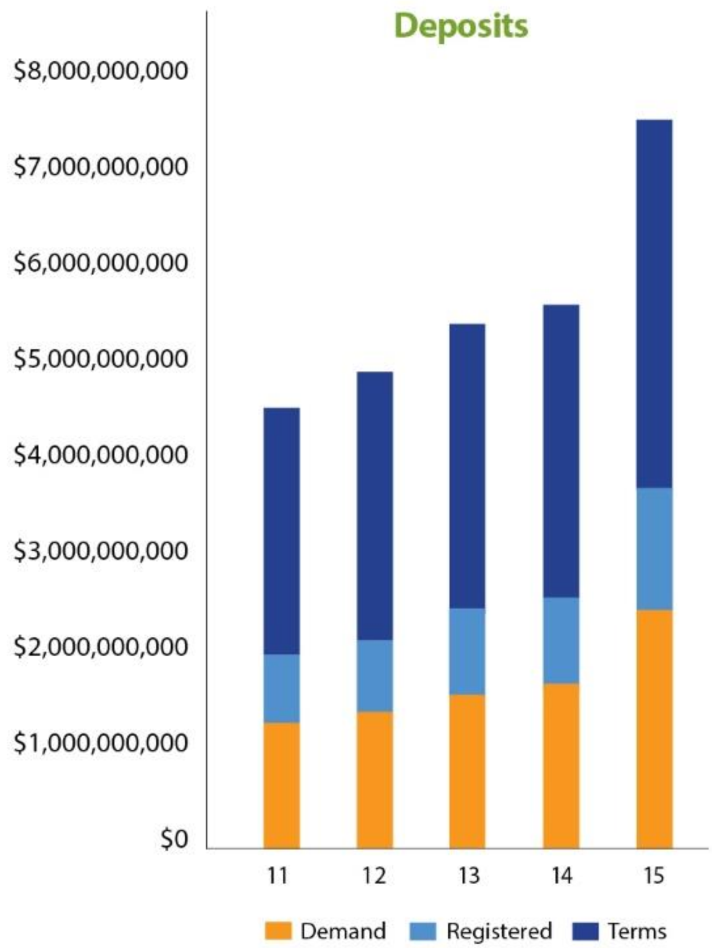
14
15
Commercial
Residential
Personal


Deposits
$8,000,000,000
$7,000,000,000
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$2,000,000,000
$1,000,000,000
$0
11
12
13
14
15
Demand
Registered
Terms

Net interest income

In 2015, net interest income—interest and investment income earned on assets less interest incurred on deposits and borrowings—increased $30.8 million, or 22.6%, to $167.0 million year over year. Net interest income as a percentage of average assets decreased year over year to 1.99%.

Canadian financial institutions continue to experience unprecedented, prolonged financial margin pressure. Prime rate had remained at 3.0% since September 2010, but decreased to 2.85% on Jan. 29, 2015, and decreased again to 2.70% on July 17, 2015. 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 2015, non-interest income increased $27.4 million, or 38.9%, to $97.8 million. All areas increased due to the merger with Island Savings; however we saw steady increases in results from operations. 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 2015 were $218.8 million, compared with $159.8 million in 2014. This increase was primarily due to the added expenses from Island Savings, as well as additional integration-related expenses for ensuring a smooth merger.

The combined impact of our increase in assets and the additional merger-related expenses resulted in our expense ratio increasing to 2.61% from 2.53% in 2014. 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. We expect this ratio to return to pre-merger levels as economies of scale efficiencies take root, leveraging the strength of the First West multi-brand model.

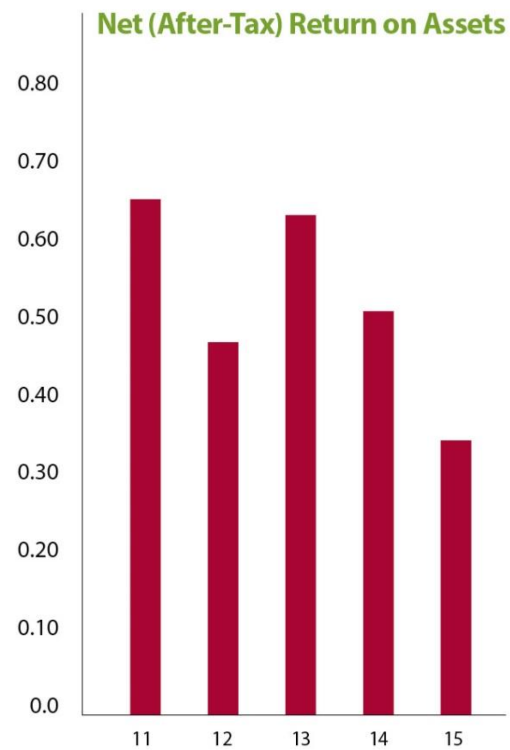
Operating efficiency

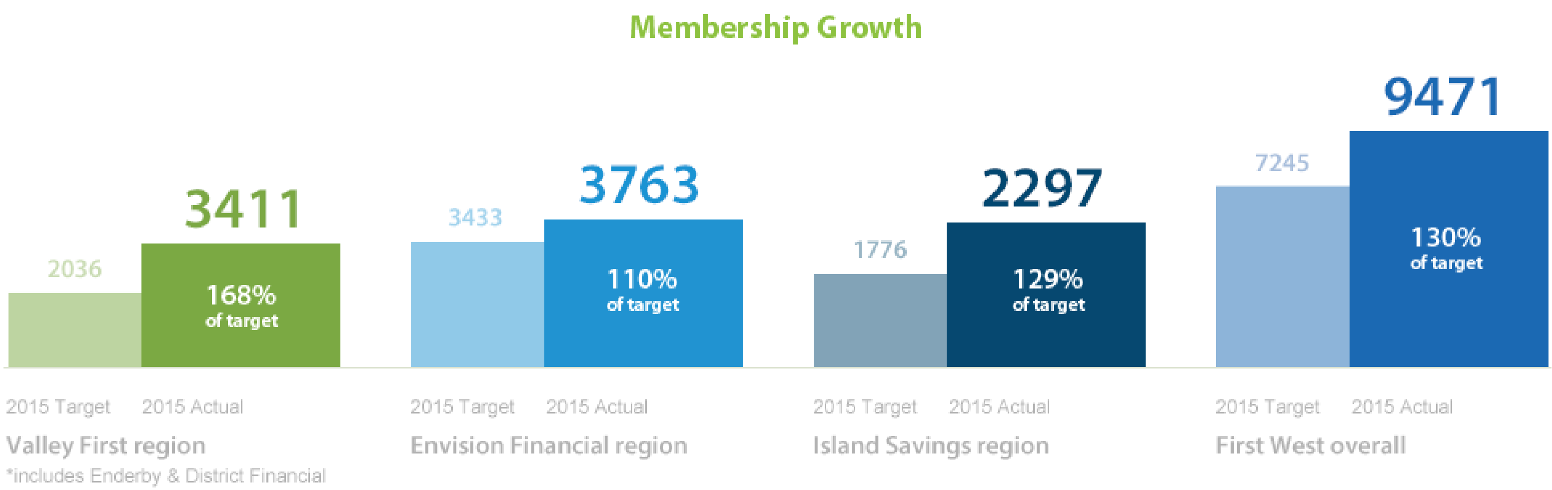
The operating efficiency ratio is calculated by dividing our operating expenses by revenue and is a key measure of our ability to remain economically sustainable. A lower ratio indicates a more efficient business operation.

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 2015, our operating efficiency was 86.6% compared to 81.0% in 2014. This was primarily due to additional expenses from merger activities needed for a successful integration of Island Savings. Our focus over the next three years will be to return to pre-merger efficiency levels and align to the Island Savings merger business case, building on efficiencies and leveraging the expanded brand network.

First West's management team remains focused on positioning First West to take advantage of growth opportunities as they arise. On January 1, 2015, First West merged with Island Savings Credit Union, increasing our portfolio by more than 30%, our branch network by 43%, and our membership by 32.5%. With this merger we will be able to gain efficiencies from operations, leverage our larger capital base, and serve more communities across B.C. than organic growth would have allowed. We will continue to invest in our branch network, create innovative banking technologies, and introduce additional products, all to deliver on our brand promise—Keeping it Simple™—for our members.




Membership Growth
2036
3411
168%
of target
3433
3763
110%
of target
1776
2297
129%
of target
7245
9471
130%
of target
2015 Target
2015 Actual
Valley First region
*includes Enderby & District Financial
2015 Target
2015 Actual
Envision Financial region
2015 Target
2015 Actual
Island Savings region
2015 Target
2015 Actual
First West overall

5-Year Overview – Financial Highlights

($ in thousands)	YOY % change	**Audited 2015**	Audited 2014	Audited 2013	Audited 2012	Audited 2011
Consolidated Balance Sheet						
Cash resources	21.5%	466,727	384,048	95,894	111,590	202,522
Residential mortgages	37.8%	3,788,651	2,749,708	2,721,682	2,659,239	2,455,617
Personal loans	3.8%	1,151,769	1,109,436	1,109,933	1,061,810	1,011,816
Commercial loans	29.0%	2,230,089	1,728,545	1,592,778	1,447,530	1,280,109
Accrued interest	14.2%	9,906	8,674	8,925	8,815	8,194
Allowance for credit losses	27.2%	(18,959)	(14,900)	(11,848)	(10,193)	(12,102)
Total Loans	28.3%	7,161,456	5,581,463	5,421,470	5,167,201	4,743,634
Investments and other	103.6%	1,014,788	498,384	560,578	558,453	466,452
Premises and equipment	39.9%	74,458	53,225	51,497	49,439	46,338
TOTAL ASSETS	33.8%	8,717,429	6,517,120	6,129,439	5,886,683	5,458,946
Demand deposits	46.9%	2,531,491	1,722,996	1,570,274	1,432,256	1,294,388
Term deposits	24.2%	3,905,230	3,144,659	3,013,436	2,761,223	2,569,089
Registered savings plans	36.3%	1,123,635	824,506	806,376	770,480	697,824
Class A shares	-0.1%	6,255	6,260	6,284	6,455	6,522
Accrued interest and dividends	24.9%	44,397	35,534	38,360	37,034	34,588
Total Deposits	32.7%	7,611,008	5,733,955	5,434,730	5,007,448	4,602,411
Payables and accruals	45.6%	89,089	61,191	50,322	43,891	51,065
Borrowings	51.5%	437,032	288,451	242,094	463,848	445,868
TOTAL LIABILITIES	33.8%	8,137,129	6,083,597	5,727,146	5,515,187	5,099,344
Equity shares	10.9%	36,991	33,364	36,646	40,381	43,961
Accumulated and other comprehensive income	132.7%	21,184	9,103	5,485	10,688	20,756
Contributed surplus	167.1%	163,651	61,270	61,270	57,957	57,957
Retained earnings	8.7%	358,474	329,786	298,892	262,470	236,928
TOTAL LIABILITIES & EQUITY	33.8%	8,717,429	6,517,120	6,129,439	5,886,683	5,458,946
Allowance for Credit Losses						
Opening balance	25.8%	14,900	11,848	10,193	12,102	12,636
Less: write-offs	46.4%	6,473	4,421	5,145	5,659	4,284
Plus: provision	40.9%	10,532	7,473	6,800	3,750	3,750
Closing Balance	27.2%	18,959	14,900	11,848	10,193	12,102

($ in thousands)	YOY % change	**Audited 2015**	Audited 2014	Audited 2013	Audited 2012	Audited 2011
Consolidated Statements of Income						
Interest income	20.5%	278,456	230,991	224,323	219,586	219,823
Interest expense	17.6%	111,498	94,809	95,092	95,672	94,094
Net interest income	22.6%	166,958	136,182	129,231	123,914	125,729
Provision for credit losses	40.9%	(10,532)	(7,473)	(6,800)	(3,750)	(3,750)
Non-interest income	38.9%	97,839	70,437	73,450	73,028	79,315
Total revenue	27.7%	254,265	199,146	195,881	193,192	201,294
Operating expense	36.9%	218,815	159,793	155,066	161,799	161,314
Net income before income taxes	-9.9%	35,450	39,353	40,815	31,393	39,980
Income taxes	-26.0%	5,388	7,279	3,093	4,823	5,978
Net Income	-6.3%	30,062	32,074	37,722	26,570	34,002
Financial Statistics (expressed as %)						
Asset growth		33.8	6.3	4.1	7.8	7.4
Loan growth		28.3	3.0	4.9	8.9	6.5
Deposit growth		32.7	5.5	8.5	8.8	3.7
Operating efficiency		86.6	81.0	79.9	84.1	80.5
Percent of Average Assets						
Net interest income		1.99	2.15	2.15	2.18	2.39
Other income		1.17	1.11	1.22	1.29	1.51
Operating expense		2.61	2.53	2.58	2.85	3.06
Operating return on assets		0.42	0.62	0.68	0.55	0.76
Net (after-tax) return on average assets		0.36	0.51	0.63	0.47	0.65
Other Statistics						
Retail branches		54	37	39	37	37
Insurance offices		38	28	27	28	28
Mutual funds under administration ($000's)		2,159,985	1,666,056	1,463,826	1,058,918	969,865
Loans under administration ($000's)		58,057	93,281	115,074	107,222	186,014
Book of business ($000's)		16,990,506	13,074,755	12,435,100	11,340,789	10,501,924
Average assets ($000's)		8,379,313	6,323,280	6,008,061	5,672,815	5,269,883