

FIRST WEST CREDIT UNION 2015 ANNUAL REPORT

# Outlook & Strategy

## Management's Discussion & Analysis



# Outlook & Strategy

## Our Strategy: Work big. Work local.

First West's current 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. A new strategic plan is currently being written for 2017 – 2020.

## 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 and wealth management. Insurance services growth is directed by the senior vice-president, 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 access large capital facilities that improve overall effectiveness and, in turn, the financial lives of its members.

### Objectives for 2016

First West's yearly objectives, defined 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 2016 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 3.5%, with our consumer loan portfolio increasing approximately 1.4% and our commercial loan portfolio rising 6.5%. 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 3.6% in 2016, with demand deposits increasing by 7.3% and term deposits increasing 0.6%. 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. We expect total revenue to grow 1.6% in 2016 with financial margin growing 1.9%. A significant aspect of growing non-interest income in 2016 are the advancements within our insurance line of business. The implementation of an enterprise-wide broker

management system will increase operational efficiency, while a new and comprehensive business strategy will ensure our advice-based sales model continues to help grow share of wallet.

**Island Savings integration.** With the acquisition of Island Savings, First West grew its market presence, adding 16 credit union branches and 11 insurance locations on Vancouver Island and the Southern Gulf Islands. The merger increased our balance sheet from \$6.5 billion to \$8.4 billion on Jan. 1, 2015 (details are provided in Note 2 of the consolidated financial statements). First West will have greater earnings capacity and strength with the addition of Island Savings, but this is dependent on successful integration, targeted for completion in 2016. When completely integrated, First West will be in a position to fully leverage economy of scale to improve cost structure, while continuing to grow its diverse revenue streams.

**Cost control.** Operational efficiency remains a priority for First West. Starting in 2016 and over the next three years, 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

**Member experience.** Keeping banking simple is essential to our goal of making a difference in the financial lives of our members. In 2016, efficiency improvements through process standardization and system harmonization will continue to help our teams to provide easy and seamless service. We will build on the advancements made in auto-adjudication for business loans in 2015, enhancing this capability for three of our four divisions and strengthening our ability to keep decisions closer to our business members.

We remain committed to innovation and 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:

- the launch of our Mobile Pay service for Android™ devices using Interac® Flash and continued rollout of Interac® Flash card technology;
- a feature-packed update with several improvements for all our mobile apps, making banking on the go even easier;
- the arrival of next-generation online banking, which provides new, powerful, easy-to-use financial tools to help members gain greater insight into their financial picture;
- a redesigned Island Savings website, featuring an improved user experience, expert advice articles and financial tools; and
- the rollout of our updated BIGChange® Program, allowing our members even more choices for saving, paying down debt or charitable giving.

Our new Member Contact Centre, launched in 2015 to support three of our divisions, will continue to evolve, allowing us to connect to and serve members through yet another channel.

**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 2016.

## Our Employees

**Employee engagement.** We measure employee engagement through a standardized biannual assessment, with benchmarks being established in 2011 and 2013. In 2016 we will conduct an engagement survey in Q2 and report the results in Q3. We will also continue to focus on helping our employees grow their leadership abilities and financial acumen.

**Employee development.** First West promotes the growth of employees' expertise, as they contribute to the evolution of our high-performance culture and advice-based approach to member service. On-going training, coaching and introduction of new tools and knowledge supports continual professional development, ensuring employees are able to provide trusted advisory services to our members.

**Leadership development.** Our framework for developing leadership 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 provides coaching, mentoring opportunities, and leadership development programs and experiences.

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 emerging social vision, Lead Well, supports the development of individual leaders in our workplace, in our communities and 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 Volinspire, our innovative social software platform that matches volunteers with local causes they care about. Volinspire benefits non-profit agencies by connecting them with talented people who are passionate about helping them fulfill the mission of their organization. Volunteers enhance their skills by lending their knowledge to organizations that matter in their community. We launched Volinspire in our Valley First region in 2015 and anticipate a broader rollout in 2016.

## 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;
- increased costs related to the integration of Island Savings; and

- increased costs related to the implementation of a new First West-wide insurance broker management system.

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.

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