

FIRST WEST CREDIT UNION 2018 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 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, lead in our communities and First West succeeds collectively. The future of work at First West is being shaped by a shift away from traditional expectations for work, career and professional fulfillment, as well as by rapid advancements in technology. We are preparing our employees to succeed in a dynamic business environment where diversity, inclusion and holistic workplace health is championed and technology enables continuous improvement and work-life flexibility.

2. Grow through partnerships and national opportunities

We are aiming to expand strategically into new, high-potential markets and transform and grow our revenue streams. Our belief in building and maintaining strong, collaboration-based partnerships—an essential part of how we operate—enables us to deliver industry-leading technology and transformative solutions faster and more effectively than we could on our own. Increased financial stability through these efforts will allow us to create more value for our members.

3. Reinvent our core business

We know our members value choices. Life is not static and neither are the financial needs of our members, so we are investing heavily in re-imagining the banking experience and creating new ways for our members to bank when, where and how they want. 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 improvements and access to our full line-up of 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 Chief Member Officer, 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
- Tom Webster | Chief Financial Officer
- Liz Bailey-Connor | Chief People & Culture Officer
- Shelley Besse | Chief Credit Officer
- Leslie Castellani | Chief Governance & Corporate Affairs Officer
- Mike Cooke | Senior Vice-President, Risk
- Susan Ewanick | Chief Member Officer
- Darrell Jagers | Chief Digital & Technology Officer
- Bryan Mavrow | Chief Business Innovation Officer

Objectives for 2019

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 2019 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

Economic Outlook. The B.C. economy is expected to see slower growth overall in 2019 following a strong period of expansion in recent years. The economic outlook will differ across regions, with Northern B.C. benefiting from the construction of LNG Canada's \$40 billion liquefied natural gas plant and associated pipeline, while B.C.'s South Coast and Southern Interior will see a slower pace of growth.

Subdued housing market activity due to the impacts of rising interest rates, the introduction of the federal mortgage stress test and provincial government tax policies will continue to impact larger, more expensive housing markets like Metro Vancouver and to a lesser extent Victoria and Kelowna, with slower sales and flat prices forecast for 2019. The slowdown is expected to contribute significantly to lower housing construction trends through to 2020.

However, the broad economic environment and outlook remains reasonably robust, supported by business investment, a tight labour market and population growth. Other factors which are supportive of growth include tight industrial capacity, solid exports and manufacturing trends, growth in the high-tech sector and government spending.

Employment growth in B.C. is forecast to weaken slightly to 1.2% in 2019, with the provincial unemployment rate expected to hold steady at just below 5.0%.

Balance sheet. We will manage our balance sheet prudently with targeted growth in selected areas to ensure profitable loan growth with continued strategic diversification of funding sources. We will continue to ensure that we have access to a broad range of funding sources, including securitization and other borrowing facilities, but with a focus on building our core deposits to enhance our liquidity position. This will enable us to take advantage of opportunities as they arise and to support our preparations in seeking approval for federal continuance (see Our Members section, below).

Loan growth. We expect to see our loan portfolio continue to grow steadily in 2019 with higher growth in the business lending portfolio than in our residential portfolio. Our approach is to be selective in our lending in order to maintain a high level of credit quality in our portfolio and to achieve pricing commensurate with the risk we take. 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 non-traditional financing solutions through our First West Capital line of business.

Deposit growth. While we have developed other sources of funding, core deposits remain a focus for us as a reliable, stable and cost-effective source of funding to support our growth plans, enhance our liquidity position and fund our loan growth primarily through deposit growth. Our marketing efforts and continued investment in innovation and technology in our existing branch network and our advice-based member service model will help us grow our membership and stimulate growth in our core retail and commercial deposit base.

Revenue growth. Optimizing revenue by maintaining financial margin in a slowing economic environment and increasing non-interest income from existing business lines is a key focus. We expect total revenue to see a slight drop-off in 2019, contingent on the divestment of our leasing business this year. In early 2018, senior



management, with support from the board of directors, decided to sell the subsidiary in light of the credit union's future direction and strategy (see *Federal continuance: Working to go and grow with our members* section below and Comprehensive Financial Analysis, First West Leasing section, for more details). However, we are forecasting growth across our existing lines of business, particularly in wealth management and insurance.

Operational efficiency. 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 continue working to digitize, harmonize and standardize aspects of our business for increased efficiency, simplicity and improved access for members.

Our Members

Member experience. Keeping banking simple is essential to our goal of simplifying lives to help our members and communities thrive. In 2019, efficiency improvements through process standardization and system harmonization will continue to help our teams provide easy and seamless service.

We remain committed to providing expert financial advice, making technological and operational advancements, and fostering innovation to create real value for our members, knowing that they value the flexibility of banking where, when and how they want.

To keep us in step with our members' evolving needs and our focus on digital transformation, this year will see several developments, including:

- Online appointment booking, complete with email reminders and related information
- Auto-pay (pre-authorized payment) and other options for our Collabria Mastercard® suite
- Increased frequency of needs-based communication with members, to help them save time and money
- Improved business banking advice-based content and information on our websites, in response to what business members have told us
- Quicker commercial lending decisions for members, made possible by improvement to our internal lending systems and processes
- Improved wealth management experience for members, through continued enhancements to our holistic approach to advice and service
- Continued digital transformation of our business processes: Automation of high impact processes to save time, create efficiency and ultimately improve the member and employee experience

Members can also expect an improved digital experience. A key priority for our newly formed digital experience team will be transitioning our websites, mobile and online banking platform to a next-generation, omni-channel platform. The new platform will deliver a superior experience through improved speed, ease of use, personalization and increased security measures. This platform will also give First West faster innovation cycles, enabling us to release online and mobile banking enhancements more quickly. We expect the platform will also improve our ability to make changes with greater agility based on data from our members' engagement with new features.



Developing a deep understanding of our members' experience has become an essential discipline for our credit union. First West's research programs will continue to provide insights that help us deliver the digital and in-person experiences members expect in 2019 and beyond. Last year, we continued to build on our 2017 Voice of the Member research and conducted research and analysis to better understand our business members. This new research program, Voice of the Member for Business, will provide insights into business members' needs and experience with First West and inform our business banking strategy throughout 2019.

We also surveyed our personal members to better understand what we can do to retain their business and what types of communication they want from us when it comes to focusing on meeting their financial needs. Based on what members told us, we plan to increase the amount of contact we have with our members and to provide more proactive advice for them.

Use of advanced analytics continues to help us to better understand the financial needs of individual members. Advanced analytics, combined with our use of customer relationship management technology, enables our financial experts to provide rich and personalized advice to our members. This year, we will improve our ability to use analytics to identify and address a member's financial needs through appropriate channels.

Federal continuance: Working to go and grow with our members. In 2018, First West took an important step to serve our members' interests beyond the borders of British Columbia by submitting the initial information required for becoming a federal credit union to the Office of the Superintendent of Financial Institutions (OSFI).

First West's board and management believe moving to federal oversight will serve to further strengthen the credit union's member-centred approach to doing business. First West takes great pride in seeing how its co-operative business model has, over the past nine years, returned real value to its member-owners through new no- or low-fee products, enhanced wealth and advisory services, increased social investment, and leading-edge digital services, as well as through local job creation and community economic development.

Provincial regulation limits the ability for credit unions to provide credit union services outside of their home provinces. As a result, members who have personal or business activities beyond provincial borders must engage another financial institution to meet those needs—very often a bank. In recent years, changes were made to federal legislation, enabling credit unions to move from provincial to federal regulatory oversight. Through a federal credit union, members' financial needs can be more fully addressed regardless of provincial boundary.

The process of becoming a federally-regulated credit union is extensive and takes several years. With the pre-application submitted to OSFI, First West will engage in detailed discussions with the federal regulator, our members and our employees to gain deeper insight on the risks and benefits of such a move.

In moving to federal regulatory oversight, First West is focused on remaining true to our values and business model. As a result, we are looking to apply our federal license to extend First West's local credit union approach in three ways:

- 1 | Going and growing with our members.** Many of our existing members have needs that extend beyond the Rockies. Whether this is helping their children with post-secondary education in another province, expanding a successful B.C. small business outside B.C. or enabling a community organization



to positively impact more Canadians, there is opportunity for First West to meet those needs more fully than can be achieved under provincial regulation.

2 | Creating a digital financial co-operative. There is a significant segment of Canadians who are either underserved by lack of bricks-and-mortar banking services or who would prefer to bank online. We seek to enter the digital space with the co-operative principles that distinguish First West from its competitors.

3 | Inviting likeminded credit unions to be part of our multi-brand success. Over the past nine years, First West's multi-brand model has demonstrated that we can be local in our service delivery, branding and decision-making, while also leveraging our size and stability to offer lower-cost products and services to members (such as the Simply Free Account® and Unlimited Chequing for Business®) and technology-based banking options. We intend to extend our business reach by aggregating with select Canadian credit unions who are member-centred and well-managed.

Throughout 2019 and into 2020, First West will increase engagement with our members on federal continuance, ensuring our members and other key stakeholders are informed and consulted. We anticipate that members will be invited to vote on becoming a federal credit union in 2020. A successful vote would allow the credit union to submit a formal application of its intent to become a federal credit union to the federal and provincial regulators.

Membership growth. With a renewed focus on campaigns to attract new members, advances in our digital services, and a heightened agenda of valuable advisory engagement to ensure our existing members are benefitting most from their credit union, we expect to reach a minimum net growth of 1.5% in 2019.

Our Employees

Building a healthy and thriving workplace. In 2018, we advanced our Healthy Workplace strategy and implemented new programs and education focused on our four pillars: healthy mind, healthy body, healthy finances and healthy relationships. A key initiative of our Healthy Workplace strategy and occupational health and safety program was deploying automatic external defibrillators (AED) and 72-hour emergency kits to all our locations and training all employees how to use AEDs, as well as how to provide hands-only CPR. We also conducted a review of our occupational health and safety program and identified areas for enhancement. The structure of this program will continue to unfold in 2019. We also plan to launch a new continuous listening approach and survey tool for gathering insights from employees about their experience in the workplace.

We also continue to evolve the way we work at First West, driven by innovation, progress and excellence. As technological capabilities continue to shift expectations and experiences of work, we aim to embed these drivers in our corporate culture by providing work environments, options and tools that support and enhance collaboration, accessibility, flexibility and mobility. Some of this evolution has already touched our branches, where digital technology such as e-signatures and digital documentation has introduced more ease and simplicity into processes our branch employees use to provide remarkable service to our members. This journey to transform our business holds much opportunity for members and employees alike.



Employee development. In 2018 we focused on helping employees to develop greater digital acumen through a digital literacy training series. Continuing on the digital pathway, this year and into 2020 we will convert our current learning materials to digital and micro formats to better suit our employee and organizational needs. In 2018, we established a sales faculty of experts to help our employees develop deeper advisory skills through our advisor sales curriculum. This year, we plan to enhance advisory sales coaching skills for performance leaders. Efforts will include the creation of timely and concise web-based blended learning advisory sales skill training aimed at improving learning retention. We will also continue to build change resilience across the organization with new tools to build flexible, innovative and change-enabled teams.

Employee recruitment and retention. In 2018, we made enhancements and improvements to our recruitment and selection processes and practices and launched a revised and improved new employee onboarding training program. We also launched a new recruitment and selection training program designed for leaders, to help them develop the capability and confidence to make great hiring decisions for First West.

We will continue to build on these efforts in 2019, to positively impact employee retention. A compelling employee value proposition for current and future employees will be created and used, in part, to develop robust social media hiring and talent pipeline tactics to attract and retain talent. In addition, we will introduce a new student hiring program, enhance our career development practices and explore how to create experience-building opportunities for our employees.

Promoting an inclusive and diverse workplace culture. In 2018 we unveiled a strategy aimed at fostering a healthy, vibrant and inclusive workplace culture that reflects the diversity of the local communities we serve. Part of this work involved an organization-wide survey to better understand employees' experience around sense of belonging, fairness in treatment, voice in decisions and psychological health and safety. We also provided unconscious bias training workshops for leaders.

Supported by the survey findings, we will advance this strategy into 2019. Leaders and their teams will continue to work through action plans based on the survey results. Reviews of our recruitment and selection practices, as well as accessibility, will complete in 2019. These efforts will help uncover and address existing barriers experienced by current and potential employees.

Re-imagining Total Rewards. In 2018, we embarked on the first year of a three-year journey to re-imagine our employee programs and offerings to employees in the area of our total rewards compensation approach. With purposeful intent, we redesigned our salary structure to be more attractive and fluid in how we manage compensation for our employees. In 2019, we will focus our efforts on other total reward aspects and programs, such as mobile working, time off, recognition, retirement off-boarding, performance management and career development to name just a few.

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 where we live and work. Our social vision, Lead Well, is a differentiating factor in our value proposition for employees and our community partners. Lead Well supports the development of individual leaders in our workplace, in our communities and in our world. Increased employee attraction, job satisfaction and employee retention are all key benefits of this strategy.



Boots on the ground and knowledge in the boardroom are critical resources essential to a strong social sector. In 2018, First West employees contributed over 15,250 hours of community leadership to more than 280 non-profit and charitable organizations throughout British Columbia. First West employees supported their communities through a variety of roles, including:

- Board appointments
- Advisory councils
- Youth involvement
- Front line and operational support

Recognizing the efforts of our employees and the number of personal hours committed to serving in the community, our Lead Well Employee Recognition program funded 60 \$500 grants to non-profits selected by our employees.

The Do Some Good platform—developed in partnership with First West—continues to make a difference in our communities. In 2018, a mobile app was introduced for this innovative, online social platform, helping our employees, members and non-profit partners enhance their engagement with the platform and the community. Since its launch in December 2015, Do Some Good has tracked 1,072,906 hours of volunteerism benefiting 7,330 agencies across British Columbia and Canada.

Risks and Uncertainties

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

- Slowing of the Canadian economy
- 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
- 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.

