FIRST WEST CREDIT UNION **2018 ANNUAL REPORT**

Comprehensive Financial Analysis

Management's Discussion & Analysis

FIRSTWEST
CREDIT UNION

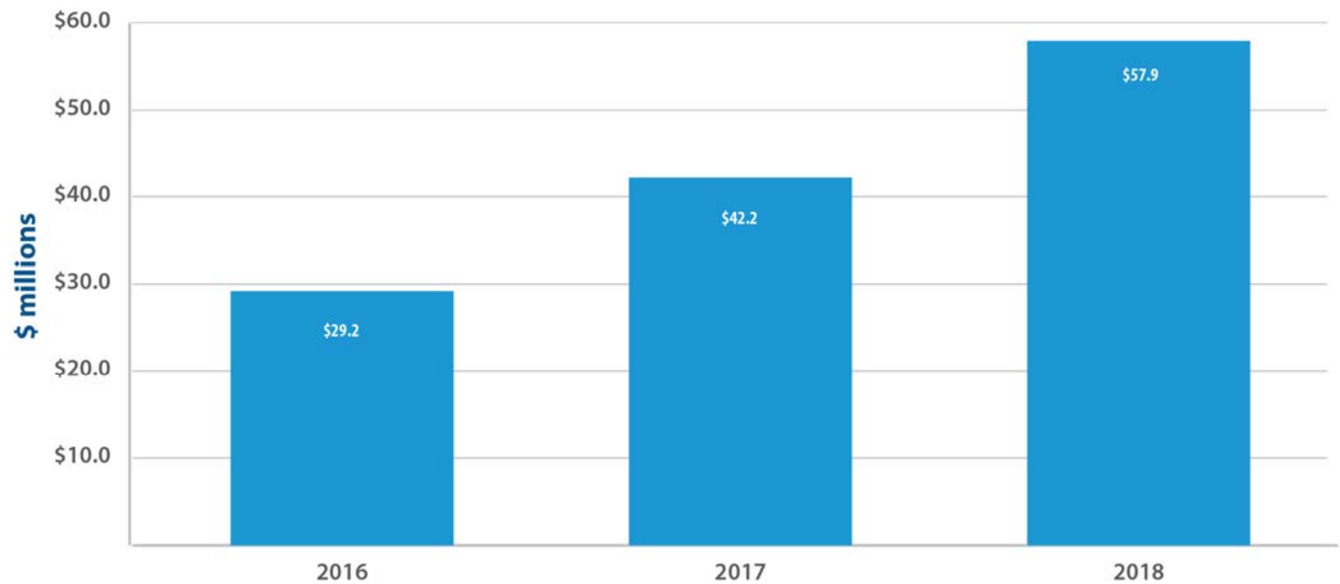
Comprehensive Financial Analysis

FINANCIAL PERFORMANCE HIGHLIGHTS

Profit for the year | $57.9 million

Profit for the year after tax (Figure 1) grew $15.7 million, or 37.3%, to $57.9 million in 2018, compared with $42.2 million in 2017. Higher financial margin, improved operating efficiency through a focus on cost management and asset growth were all contributory factors to the improvement in financial performance.

Figure 1 - Profit for the year after tax



Assets | $10.3 billion

Assets grew $413.3 million, or 4.2% in 2018, compared with 3.6% in 2017. This growth was primarily the result of an increase in residential and commercial loans, which increased $397.3 million, or 4.0%.

Loans to members | $8.6 billion

Loans to members increased $356.0 million, or 4.3% in 2018, compared with 9.8% in 2017. Residential mortgages to members grew $288.4 million, or 6.6%, while commercial loans grew $108.9 million, or 3.8%.

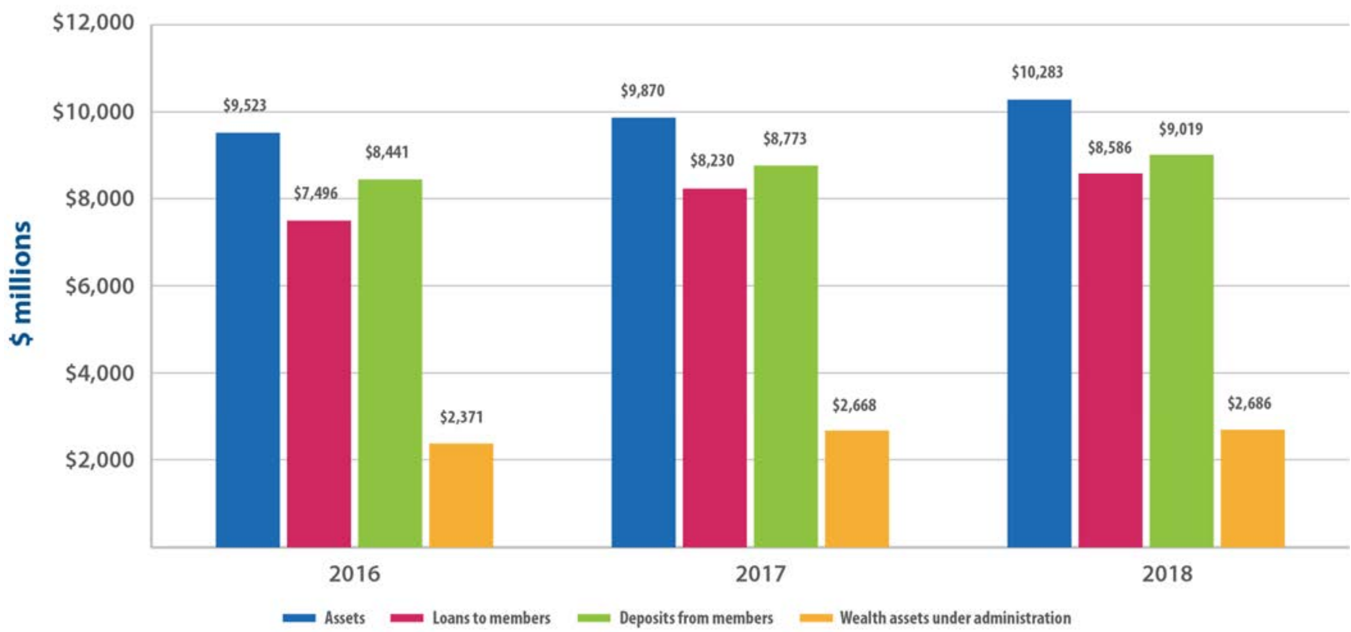
Deposits from members | $9.0 billion

Deposits from members increased $245.7 million, or 2.8% in 2018, compared with 3.9% in 2017.

Wealth assets under administration | $2.7 billion

Wealth assets under administration increased $17.6 million, or 0.7% in 2018, compared with 12.5% in 2017.

Figure 2 - Assets, Loans to members, Wealth assets under administration



Membership

In 2018, we recorded net growth of 0.7%. This growth marks a change from past years due to a re-focus on building loyalty with members who seek the value of a deep service and advice relationship. We continue to attract as many members as in the past, but our realignment to retaining and building the loyalty of members who desire a holistic approach to financial service and advice has also changed our approach to assessing our membership growth. In particular, the new approach tracks inactive accounts differently than before, but has provided us with deeper understanding of our membership base. This insight continues to help us adapt our business as we learn more about our members' evolving needs and what they desire from us to meet their needs and further build loyalty.

Figure 3 - Membership growth

5-Year Overview – Financial Highlights

($ in thousands)	% growth	**Audited 2018**	Audited 2017	Audited 2016	Audited* 2015	Audited 2014
Consolidated Statement of Financial Position						
Cash resources and investments	151.3%	222,414	88,516	479,200	466,727	384,048
Residential mortgages	6.6%	4,689,051	4,400,651	3,996,332	3,788,651	2,749,708
Personal loans	-3.7%	966,639	1,004,170	1,028,528	1,151,769	1,109,436
Commercial loans	3.8%	2,944,772	2,835,844	2,480,599	2,230,089	1,728,545
Accrued interest	5.6%	13,600	12,873	11,864	9,906	8,674
Allowance for credit losses	18.7%	(28,443)	(23,961)	(20,850)	(18,959)	(14,900)
Loans to Members	**4.3%**	**8,585,619**	**8,229,577**	7,496,473	7,161,456	5,581,463
Investments and other	-5.0%	1,411,846	1,486,655	1,478,422	1,014,788	498,384
Premises and equipment	-2.8%	63,205	65,002	68,653	74,458	53,225
ASSETS	**4.2%**	**10,283,084**	**9,869,750**	9,522,748	8,717,429	6,517,120
Demand deposits	2.5%	3,259,348	3,179,227	2,827,461	2,531,491	1,722,996
Term deposits	2.2%	4,499,854	4,400,873	4,447,188	3,905,230	3,144,659
Registered savings plans	4.7%	1,198,144	1,144,397	1,114,405	1,123,635	824,506
Class A shares	-0.9%	5,932	5,984	6,194	6,255	6,260
Accrued interest and dividends	30.3%	55,425	42,549	45,700	44,397	35,534
Deposits from Members	**2.8%**	**9,018,703**	**8,773,030**	8,440,948	7,611,008	5,733,955
Payables, accruals and other	10.3%	121,669	110,329	83,771	89,089	61,191
Borrowings	25.5%	471,412	375,481	403,319	437,032	288,451
LIABILITIES	**3.8%**	**9,611,784**	**9,258,840**	8,928,038	8,138,186	6,083,597
Equity shares	-4.7%	31,325	32,865	34,883	36,991	33,364
Accumulated other comprehensive income	-4.8%	(13,070)	(13,735)	9,398	21,184	9,103
Contributed surplus	0.0%	163,651	163,651	163,651	163,651	61,270
Retained earnings	14.3%	489,394	428,129	386,778	358,474	329,786
	4.2%	**10,283,084**	**9,869,750**	9,522,748	8,717,429	6,517,120
Provision for Credit Losses						
Opening balance	16.9%	24,371**	20,850	18,959	14,900	11,848
Less: write-offs	-18.4%	2,928	3,589	4,801	6,473	4,421
Plus: provision	4.5%	7,000	6,700	6,692	10,532	7,473
Closing balance	**18.7%**	**28,443**	**23,961**	20,850	18,959	14,900

*Merger with Island Savings
** Post-IFRS 9 adoption adjustment of $410

($ in thousands)	% growth	**Audited 2018**	Audited 2017	Audited 2016	Audited* 2015	Audited 2014
Consolidated Statements of Profit or Loss						
Interest income	11.9%	330,754	295,533	276,467	278,456	230,991
Interest expense	21.9%	134,468	110,346	107,223	111,498	94,809
Net interest income	**6.0%**	196,286	185,187	169,244	166,958	136,182
Provision for credit losses	4.5%	(7,000)	(6,700)	(6,692)	(10,532)	(7,473)
Fee, commission and other income	9.1%	123,296	113,057	102,163	97,839	70,437
Operating margin	**7.2%**	312,582	291,544	264,715	254,265	199,146
Operating expenses	1.0%	241,573	239,275	229,549	218,815	159,793
Profit before income taxes	**35.9%**	71,009	52,269	35,166	35,450	39,353
Income taxes	29.7%	13,106	10,105	6,011	5,388	7,279
Profit for the year	**37.3%**	**57,903**	**42,164**	29,155	30,062	32,074
Financial Statistics (expressed as %)						
Asset growth		4.2	3.6	9.2	33.7	6.3
Loan growth		4.3	9.8	4.7	28.3	3.0
Deposit growth		2.8	3.9	10.9	32.7	5.5
Operating efficiency		77.8	82.5	87.0	86.6	81.0
Dividends paid ($000s)		1,217	981	1,042	1,634	1,493
Percent of average assets						
Net interest income		1.95	1.91	1.86	1.99	2.15
Fee, commission and other income		1.22	1.17	1.12	1.17	1.11
Operating expenses		2.40	2.47	2.52	2.61	2.53
Operating margin		3.10	3.01	2.90	3.34	3.15
Operating return on assets		0.70	0.54	0.39	0.42	0.62
Net (after-tax) return on average assets		0.57	0.43	0.32	0.36	0.51
Capital and Risk Weighted Assets						
Risk weighted assets ($000s)		5,371,338	5,393,223	4,698,888	4,158,545	3,247,282
Total capital ($000s)		760,091	674,796	636,853	603,780	459,583
Capital adequacy (%)		14.2	12.5	13.3	14.2	13.9
Other Statistics						
Retail branches		52	53	54	54	40
Insurance offices		38	38	39	39	28
Wealth assets under administration ($000s)		2,685,892	2,668,267	2,371,144	2,159,985	1,666,056
Loans under administration ($000s)		99,569	4,261	27,007	58,057	93,281
Book of business ($000s)		20,389,783	19,675,135	18,335,572	16,990,506	13,074,755
Average assets ($000s)		10,076,417	9,696,249	9,120,089	8,379,313	6,323,280

*Merger with Island Savings

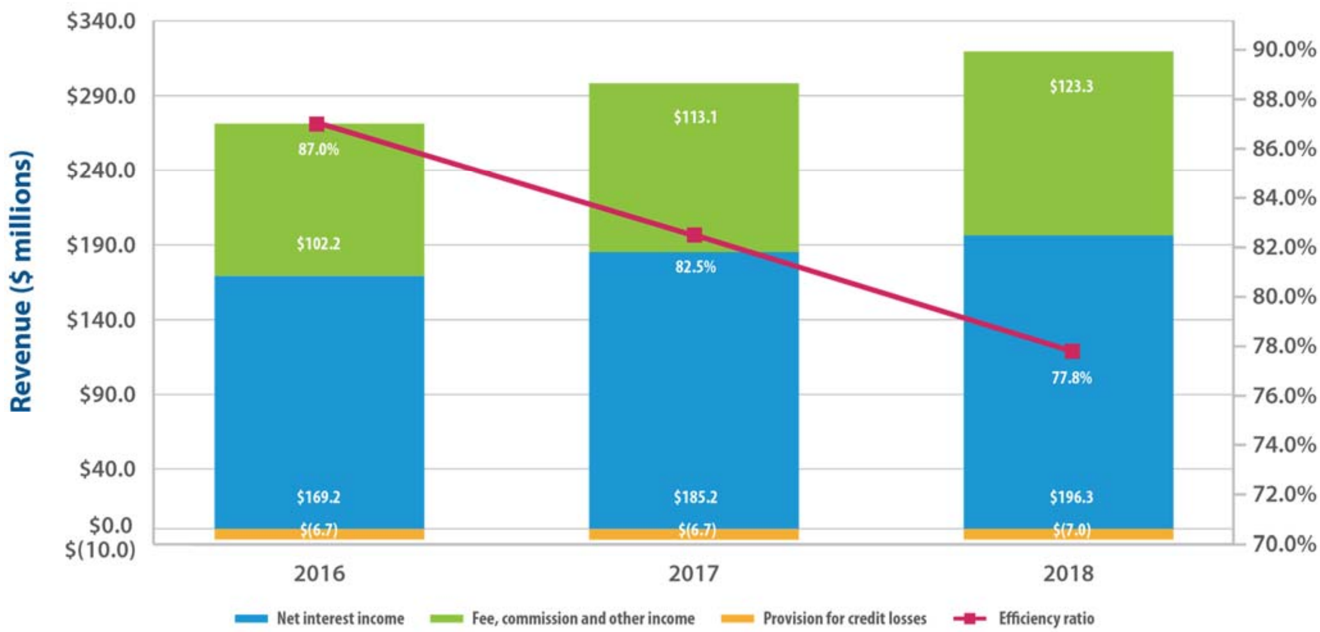
CONSOLIDATED STATEMENT OF PROFIT OR LOSS

In 2018, profit before income tax expense increased from $52.3 million in 2017 to $71.0 million, an increase of 35.9%. First West operates a unique business model, comprised of:

- Retail banking, commercial banking, wealth management and insurance, operating under locally known brands
- Vehicle and equipment leasing subsidiary
- Subordinated debt, mezzanine and equity financing through the First West Capital subsidiary

All areas of the credit union turned in a strong performance in 2018.

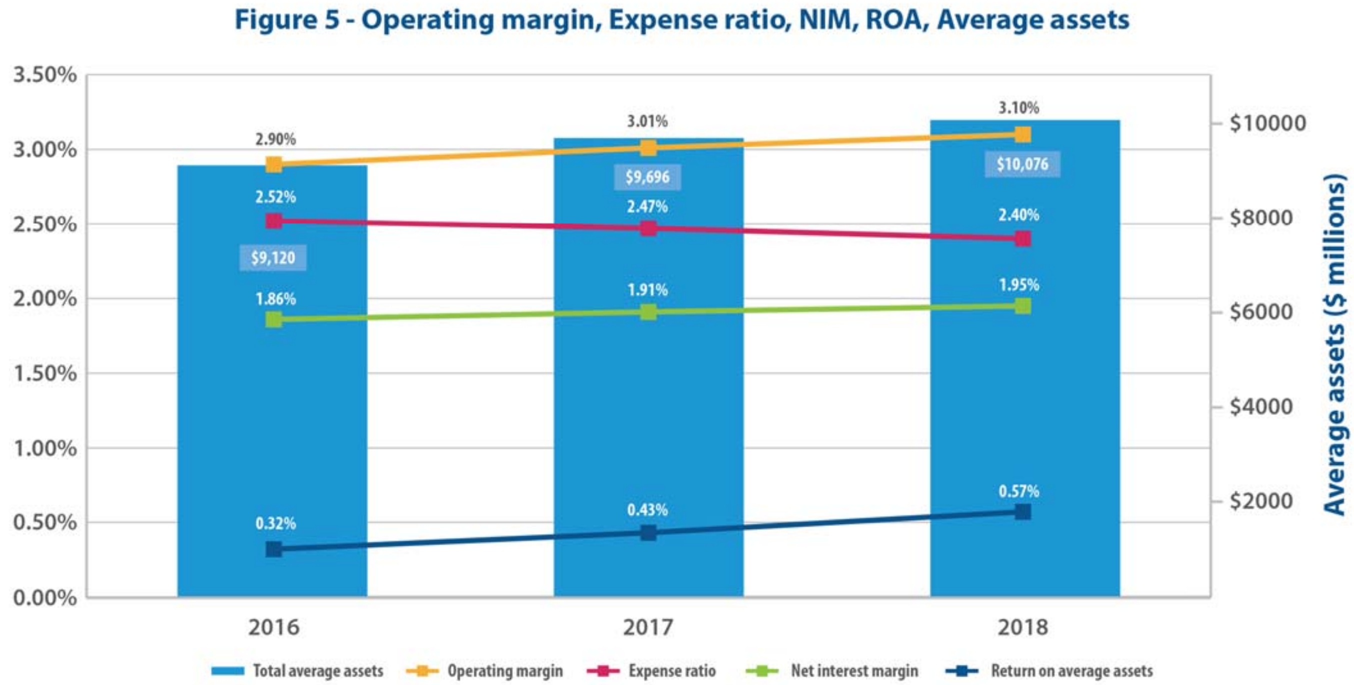
Figure 4 - Revenue mix vs. Efficiency



Net interest income

In 2018, net interest income—interest and investment income earned on assets less interest incurred on deposits and borrowings—increased $11.1 million, or 6.0%, to $196.3 million year over year (Figure 4). Net interest income as a percentage of average assets increased year over year to 1.95% from 1.91% (Figure 5).

Economic conditions resulted in a steepening of the yield curve and three 25 basis point rate increases by the Bank of Canada. That, combined with strong asset growth in the early part of the year, well-managed deposit costs, lower-cost funding alternatives and other treasury related transactions all contributed to the strong margin performance. As a result, First West's financial margin remains near the top of our credit union peer group.



Fee, commission and other income

In 2018, fee, commission and other income increased $10.2 million, or 9.1%, to $123.3 million (Figure 4). The increase was partly due to an extraordinary gain on the disposal of investment holdings of $6.8 million, with the remainder arising primarily from increases in wealth management and insurance commissions, leasing and lending fee revenue.

Our strategy includes diversifying fee, commission and other income—which comprises all income other than net interest income—and to serve more of our members' financial needs in becoming their primary financial services provider. To support that strategy, we are continuing to invest substantially in a new and improved suite of products, expanding our First West Capital team to enhance our ability to offer non-traditional financing solutions and leveraging our wealth management capabilities through the newly created Aviso Wealth platform.

Operating margin and operating expenses

The improvement in net interest income helped our operating margin, which increased by $21.0 million, or 7.2%, in 2018, while operating expenses in 2018 increased $2.3 million, or 1.0%, to $241.6 million. This reflected a continuing focus on managing our expenses prudently.

The impact of the increase in assets and improved expense management reduced our expense ratio to 2.40% in 2018 (Figure 5), from 2.47% in 2017. 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. The ratio has improved as synergies have been achieved through mergers, 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.

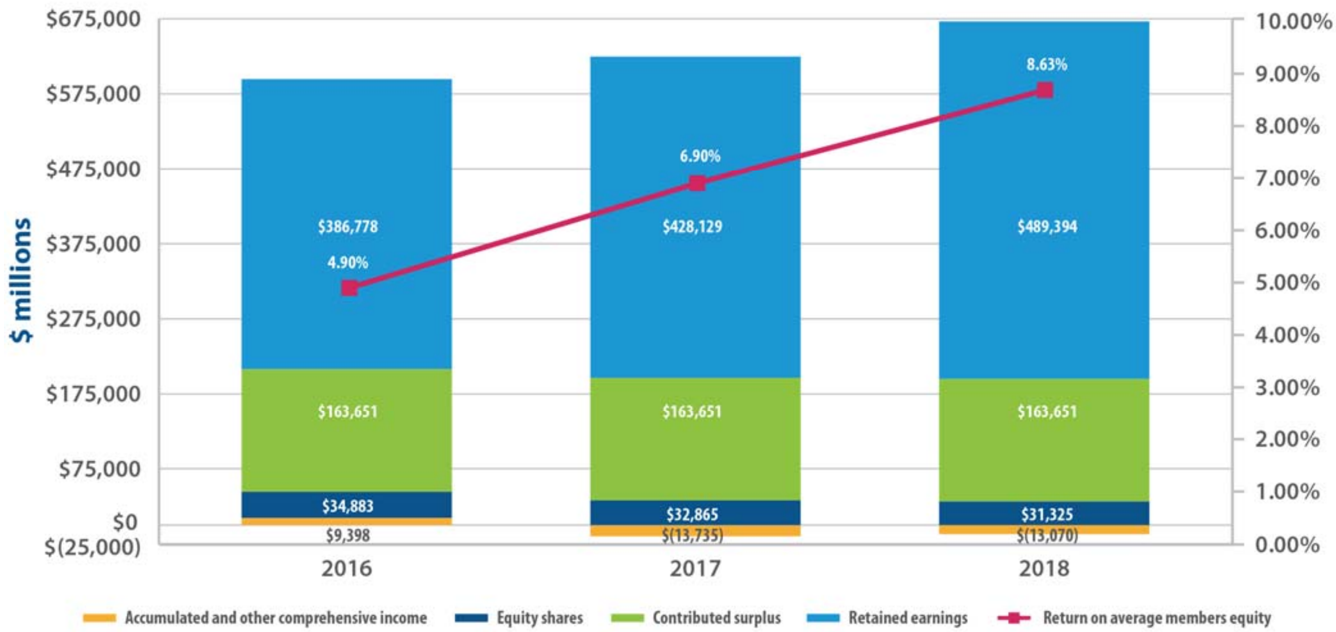
In 2018, our operating efficiency continued to improve and was 77.8% compared to 82.5% in 2017 (Figure 4). Over the next three years, we will continue to focus on improving efficiency levels by leveraging the strength of our unique business model, which combines locally known brands with our scale.

We remain focused on positioning First West to take advantage of growth opportunities as they arise and will continue to create innovative banking technologies and introduce additional products to deliver on our brand promise—Keeping it Simple™—for our members.

Return on average members' equity and dividends to members

First West paid dividends of $1.2 million to members, bringing total dividends paid to $11.4 million since 2010. Return on average members' equity was 8.63% in 2018, compared to 6.9% in 2017 (Figure 6).

Figure 6 - ROE and Member equity

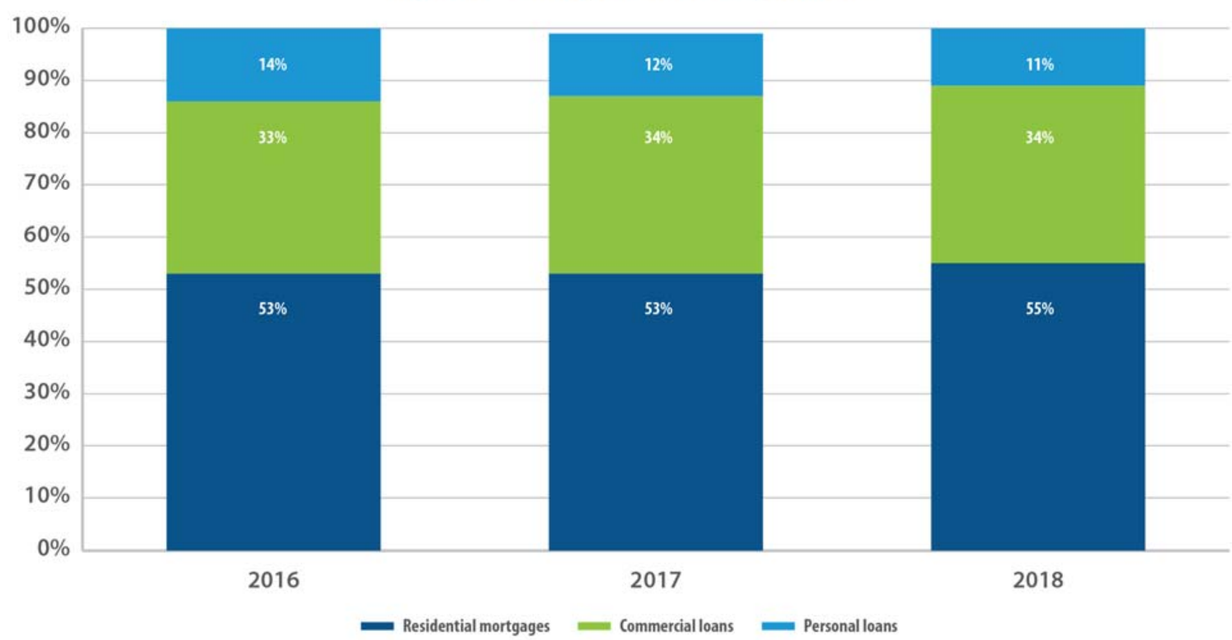


CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Loan portfolio

A summary of the loan portfolio by type as a percentage of the overall portfolio is presented in Figure 7.

Figure 7 - Loan portfolio composition



The loan portfolio continued to see steady growth to reach $8.6 billion in 2018, an increase of 4.3% compared to $8.2 billion in 2017 (Figure 8). Commercial loans grew $108.9 million, or 3.8% in 2018, while residential mortgages grew by $288.4 million, or 6.6%. Personal loans decreased by $37.5 million, or 3.7%.

Figure 8 - Loans by type and Provision for credit losses

Provision for credit losses

Our provision for credit losses as of December 31, 2018, was $28.4 million compared to $23.9 million in 2017, an increase of $4.5 million, or 18.7%. As a result, the year-end provision for credit losses represents 0.33% of total loans and accrued interest, compared with 0.29% a year earlier (Figure 8).

We adopted a new accounting standard, IFRS 9 Financial Instruments, in 2018 and the methodology for calculating the provision for credit losses has changed from an 'incurred loss' model under the previous accounting standard IAS39 to an 'expected loss' model—in other words, it has become forward looking. While the overall level of the provision has not changed significantly for 2018, there is the possibility of greater volatility in the provision going forward.

We believe that the provision for credit losses is adequate based on the new methodology and our analysis of the loan portfolio as of December 31, 2018. A complete analysis of our provision for credit losses is provided in Notes 6 and 10 of the consolidated financial statements.

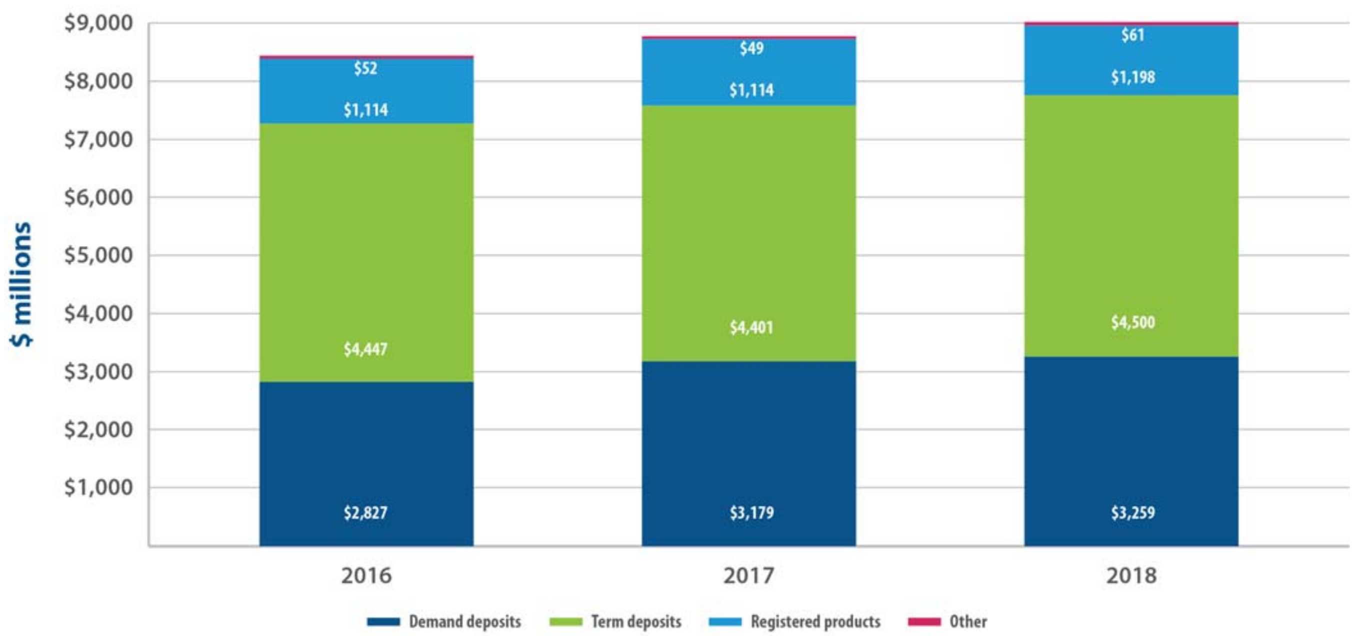
Funding and liquidity

Our funding and liquidity profile remains strong, with a balance sheet that is primarily deposit-funded. In addition, First West further benefits from a mandatory liquidity pool that is externally managed by Central 1 for all credit unions in B.C.

Leveraging our strong franchise position and close relationship with our members, we generate most of our deposits through our branch network. In 2018, deposits totalled $9.0 billion, up 2.8% compared with the prior year (Figure 9).

First West also has other alternative sources of funding available and has participated in securitizations through the CMHC-sponsored Canada Mortgage Bond and NHA Mortgage-Backed Securities Program. In 2018, First West issued $187 million in securitization transactions under these programs.

Figure 9 - Deposits by type



Our liquidity ratios remained healthy in 2018 and are comfortably above regulatory requirements.

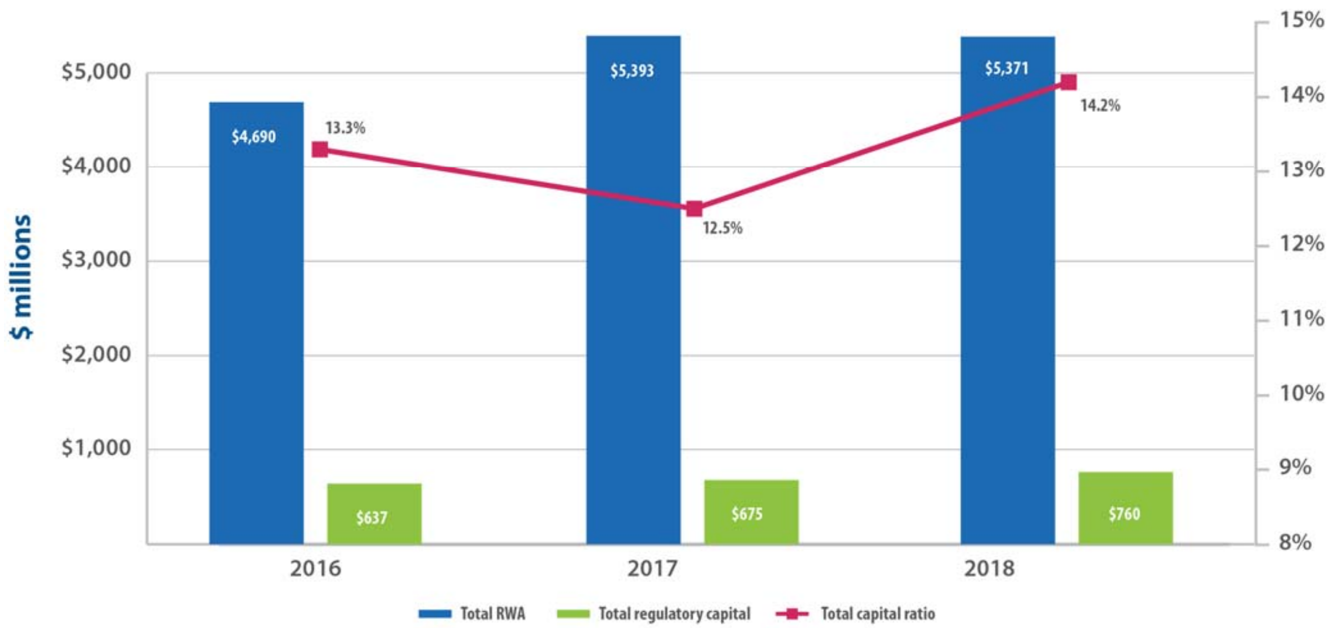
We have policies and processes in place to ensure that a sufficient level of liquidity is maintained at all times to make certain we have the ability to meet our financial obligations in a timely and cost-efficient manner as they become due.

Capital management

As of December 31, 2018, the credit union had a capital ratio of 14.2% on a risk-weighted basis (Figure 10). The capital position of the credit union remains strong and compares favourably with the regulatory prescribed minimum ratio of 8.0% of total risk-weighted assets and a management target of 10.0%.

The capital ratio of 14.2% has increased from 12.5% in 2017, primarily as a result of the growth in regulatory capital while risk weighted assets decreased very slightly by 0.4% to $5.4 billion even though loans to members grew by $356.0 million during the year.

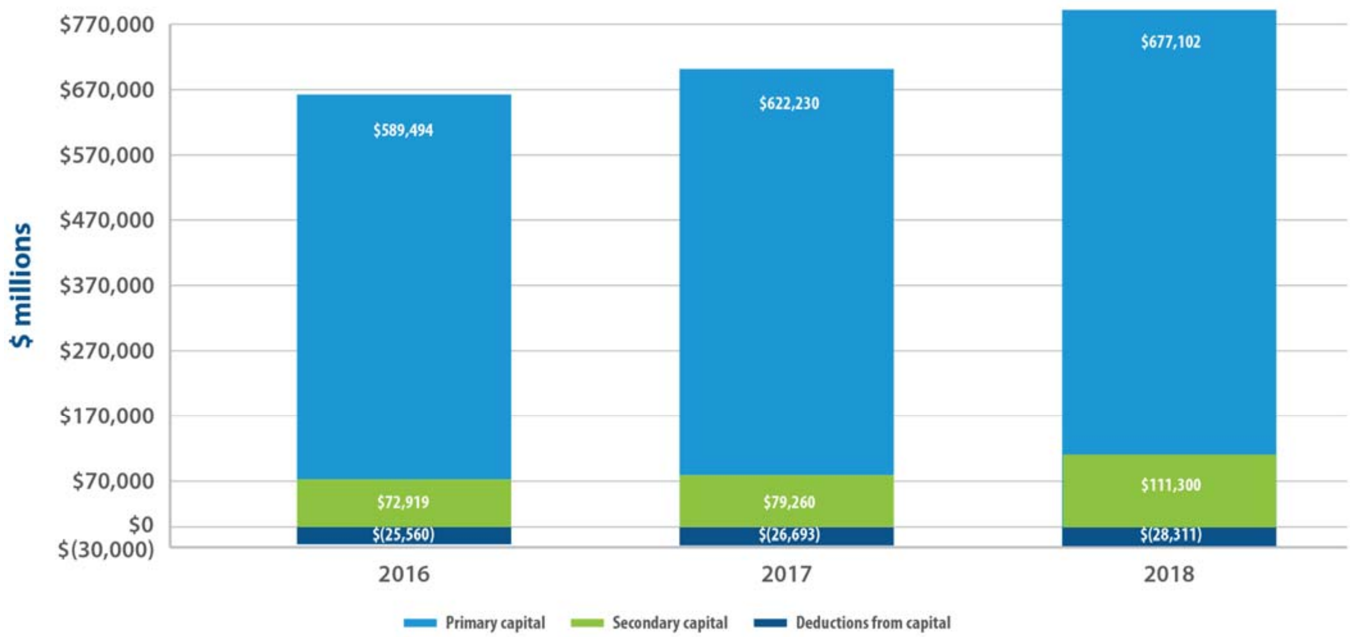
Figure 10 - Capital adequacy and Risk-weighted assets (RWA)



Total regulatory capital consists of primary capital and secondary capital after taking into account specified deductions from capital. Primary capital includes the credit union's membership shares, contributed surplus and retained earnings, while secondary capital primarily consists of the credit union's allowable share of system retained earnings and other equity instruments.

The largest contributor to growth in total regulatory capital is the growth in retained earnings, helping us build our capital buffer with total regulatory capital reaching $760.1 million in 2018 compared to $674.8 million in 2017 (Figure 11).

Figure 11 - Total regulatory capital composition



Line of Business Highlights and Outlook

RETAIL BANKING

2018 Highlights

- Retail deposits grew by $110.9 million, or 2.2%, to $5.1 billion
- Retail lending grew by $250.9 million, or 4.6%, to $5.7 billion
- Introduced our new line-up of premium Mastercards® that features market-leading points value, a US dollar card and low fee options
- Unveiled ClickSWITCH®, a web-based service that enables new members to easily move any of their day-to-day banking from another financial institution to First West

Outlook for 2019

The themes in personal banking in 2018—innovation and consumer debt—will continue into 2019. Last year, high household debt was a significant concern in the face of rising interest rates, nudged upward by a strengthening Canadian economy. However, in 2019, rate increases may not materialize as strongly as anticipated, with some economic cooling occurring, especially in the first quarter of the year.

We expect more Canadians will take advantage of the momentary reprieve from interest rate increases by seeking ways to pay down their non-residential debt. Anticipating this trend, we will proactively identify members who may have this need and work to provide financial advice to help meet this financial need.

When it comes to financial needs and advice, our members have told us (through our Voice of the Member surveys) they are looking for ways to maximize savings and manage their household finances better. They have also asked us to be more proactive when it comes to financial advice. In response, we will work to identify more opportunities to provide advice for our members' needs.

Technological advancements that bring more simplicity to the banking experience will also be at the forefront of our efforts in 2019. A new, web-based application will allow members to book appointments with their financial advisors, complete with emails for reminder and related information. Our focus on digitization—which includes electronic document signing—will advance, as we continue to assess our operations for new opportunities to improve the member experience by favouring digital document storage over excessive paper documentation.

Our holistic approach to financial advice creates real value for our members. In 2019, members can look forward to increasingly insightful expert advice, when our wealth advisors begin using the CRM platform that we rolled out to our banking advisors in 2017. This advancement will allow our advisors to understand and analyze members' complete financial situation in order to provide advice that truly aligns with members' needs.

Members will also benefit from enhancements to our Collabria credit card experience. New features like auto-pay (pre-authorized payment), will put more convenience at our members' finger tips.

In 2019, we will also continue to support the growth of our members' financial understanding and know-how through advice-based events that focus on our core business: banking, borrowing, investing and insuring.

COMMERCIAL BANKING

2018 Highlights

- Commercial deposits grew by $134.8 million, or 3.6%, to $3.9 billion.
- Commercial lending grew by $108.9 million, or 3.8%, to $2.9 billion.
- Introduced Business Financial Snapshot, enabling our advisors to provide product or service recommendations or market information that can add value, save time or save money for business members
- Introduced Payline by ICE to give business members the convenience of performing secure, web-based foreign exchange trades and payments from anywhere, at anytime

- New, premium business credit cards with low annual fees, rewards and options to suit any business owner
- Multiple business member engagements across our marketplaces: business leadership symposiums, appreciation events and executive visits

Outlook for 2019

The B.C. economy is expected to see moderately strong growth in 2019, before shifting down to moderate and steady by 2021. Residential investment, a primary driver of recent economic vigor, will continue to weaken, contributing to a slower pace of housing starts and to overall economic moderation throughout 2019. Prevailing negative overtones in trade conditions and the low export prices for domestic oil could negatively impact the national economy and local economies may experience tempering as a result.

Considering that 2019 may challenge business owners more than recent years have, our aim is to create real value for our business members through simple, yet remarkable banking experiences. Keeping that aim in sharp focus, we expect to enhance our digital banking services by improving the business banking experience on desktop and mobile devices. This effort is a direct result of a member survey that told us more and more of our members are relying on the convenience afforded by technology to manage their businesses.

Business owners have also said they want us to share more information about products and services that can save time or money, as well as provide industry insights. In response, we will be enhancing our websites' business-related content, taking more steps to keep in touch and sharing information relevant to your business, through email or in-branch advisor meetings.

In a fast-moving and complex world, simpler and quicker access to money to support growing business operations or new projects is always a priority for our business owners. Enhancements to our internal lending systems and processes in 2019 will address this need by helping our teams get lending decisions to our members more quickly.

We will also connect with our members more regularly in 2019 to gather their feedback on our performance and to understand more deeply what matters to them. Our business members' voice will help us keep their needs firmly in the centre of our plans for continuous improvement of the business banking experience at First West.

*Note: Commercial banking and business banking are synonymous terms.

INSURANCE SERVICES

2018 Highlights

- Total revenue increased by $3.6 million, or 12.5%
- Core revenue lines (P&C and ICBC) increased through organic growth by $1.6 million, or 7.3%

- Launched customizable home insurance product Right For Me™ and exceeded sales target by 200%

Outlook for 2019

Technology will continue transforming the insurance industry in 2019, as insurers continue to leverage emerging and evolving technologies—such as cloud computing and application platform interfaces (APIs)—for competitive advantage. This, along with changing consumer needs and continued innovations in delivery and service, will keep competitive pressures high. Innovation and digital disruption of the insurance industry will remain one of the more significant risks to our customer base as insurance consumers consider new digital options.

This year may see some hardening on pricing, as two straight years of substantial losses endured by insurers is likely to impact their capacities and appetites. Auto insurance may continue to struggle in 2019, as it has for most insurers across Canada for some time. Auto reform in B.C. will require our advisors to be prepared to help clients through impending changes to the ICBC auto insurance product, rate design and overall underwriting process.

Despite disruptive forces, we expect to continue to dominate insurance distribution in our markets with a firmly established broker channel. Our network is mature and well established, putting us ahead of an industry trend toward the broker channel that has seen several big names—such as Wawanesa, State Farm and Google Capital—recently change course toward the broker delivery model.

In 2019, we will focus sharply in three areas: simplifying our business, building a proactive sales culture and developing our people. We expect our technology capabilities and newly developed contact centre to play a key role in addressing competitive pressures. For example, advancements to the e-signature capability that we rolled out in 2018 and new text message communication options will help drive efficiency and provide more communication options for our customers. This year will also see completion of the process standardization and harmonization initiative that will ensure consistency in processes across our operation and generate added efficiency and improved customer experience.

Development of our teams to advance their advisory capabilities will centre on consistent approaches to sales effectiveness and leadership practices and leveraging our internal certification programs.

WEALTH MANAGEMENT

2018 Highlights

- Wealth management revenues grew by $3.8 million, or 20.5%, to $22.3 million
- Wealth management assets under administration grew by $17.6 million, or 0.7%, to $2.7 billion
- More than 7,600 financial plans created to help members with their financial, retirement or investment needs

- More than 7,000 hours of accredited coursework completed by our wealth advisors to enhance their skills in response to industry and market place changes and member needs
- Held more than 68 events to help members learn about our wealth management advisory services and related topics, such as retirement planning, estate planning, investment types and accounts and more

Outlook for 2019

Simplicity and holistic experiences continue to emerge as the underlying trends in all types of financial service, including wealth management. Technology advancements over the last decade have dramatically shifted consumers' expectations and the wealth management industry is no exception. Increasingly simple technology experiences are driving consumers to expect easy and seamless access and comprehensive service for their financial needs.

In 2019, we will be focused on fulfilling members' expectations with a more consistent holistic wealth management experience that simplifies their lives. Part of these efforts involves extending our wealth advisory model to our Island Savings division. This approach has been successful for our Envision Financial and Valley First divisions for a number of years now. The model benefits members by providing access to knowledgeable advisors that can provide a broad range of expert financial advice and service, from day-to-day banking to wealth management. The rollout of this approach will see all Island Savings financial advisors and branch managers obtain their mutual fund licensing and the introduction of new roles to ensure members are receiving the right level of advice and support for their needs. The introduction of the model will complete the integration of our wealth management operations across the credit union, resulting in efficiency gains and creating advisory capacity.

Further enhancements to our wealth management model will enable our Envision Financial and Valley First divisions to provide holistic advice for members that have more complex financial scenarios.

FIRST WEST CAPITAL

2018 Highlights

- 15 funded or approved deals, representing $38 million in disbursements
- Exited our first equity investment, ESPRO
- Completed a comprehensive refresh of the First West Capital brand to better align our business with our target market, entrepreneurs
- Expanded our presence in Winnipeg through a new agency relationship with strategic consulting firm, Acumen Corporate Development
- Entered into a limited partnership with Regimen Equity Partners, a private equity firm specializing in the ownership transition of small- to mid-size Canadian organizations

Outlook for 2019

The junior capital market will continue to be competitive, however, we expect healthy deal flow in both Ontario and B.C., where the economies are expected to maintain modest growth. Additions made to the teams in our main Vancouver and Toronto offices in 2018 will help drive the business's growth in these commercially dynamic regions as we work to increase our presence coast to coast in Canada and selectively in the United States.

We will continue to strengthen our competitiveness in the marketplace in response to current trends. Our refocus on reaching entrepreneurs directly and targeting high-growth companies is expected to accelerate First West Capital's growth by developing high-quality mid-market deals. We will also introduce an expanded product line-up in response to the demand for customized growth financing for technology-based businesses.

To ensure that we have the capacity to grow, we plan to build the First West Capital team in key areas in 2019: origination, operations and marketing.

FIRST WEST LEASING

2018 Highlights

- Profit after tax increased by $0.5 million or 43.4%
- Leasing revenue grew by $1.7 million, or 15.1% to $12.7 million
- Leasing portfolio receivables grew to $199.3 million, increasing by 23.5%
- Significant regional growth in all areas with Alberta gaining the most as a percentage of the overall leasing portfolio

Outlook for 2019

Our leasing business—under strong leadership and a knowledgeable team of experts—continues to perform very well, making significant contributions to the credit union's non-interest income. In early 2018, senior management assessed the subsidiary in light of the credit union's future strategy and direction. After a thorough review, management decided to divest the subsidiary and shared the decision with the board of directors, which provided its support. Management aims to find a suitable buyer in 2019 to ensure a fair agreement is reached for the credit union and for employees of the leasing line of business. Until such an agreement is in place, the business will be operated with the same strategic growth approach that has directed it for the past several years.