FIRSTWEST
CREDIT UNION

2019

ANNUAL REPORT

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Credit Union
Deposit Insurance
Corporation of
British Columbia


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Asset Management


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OUTLOOK & STRATEGY

WHO WE ARE

First West is one of Canada's leading member-owned financial co-operatives. Our core business is traditional banking, the provision of personal daily banking and financial advice, and business banking services and business advice. We exist to simplify lives and help our members and communities thrive. Our 1,400 employees strive to create real value for our members by keeping banking simple, through low or no-cost daily account products, competitive lending facilities, segment-tailored service and financial advice, and innovative online and digital experiences.

With more than $14 billion in total assets and assets under management and over 250,000 members, we're British Columbia's third-largest credit union. Our 50 branches give us the largest geographic reach among credit unions in the province.

WE WORK BIG IN ORDER TO WORK MORE LOCAL

First West was formed in 2010 through the merger of Envision Credit Union and Valley First Credit Union, but our roots date back to 1946. We've experienced considerable growth since 2010, as likeminded credit unions like Enderby & District and Island Savings joined First West and we continued to bring new, innovative products and services to market through our locally known and trusted brand divisions. Our collective size, strength and local expertise enables us to create greater value for our members and communities.

Find more information about First West and our multi-brand business model online at **www.firstwestcu.ca.**

OUR BUSINESS

RETAIL FINANCIAL SERVICES

First West offers a full suite of personal banking services and products, including chequing and savings accounts, term deposits, loans, lines of credit, letters of credit, mortgages, credit cards and registered savings accounts. As part of our core banking offering, our members also enjoy a simple yet intuitive online and mobile banking experience.

For our members' diverse wealth management needs, First West offers comprehensive investment advice and products, as well as life, disability, critical illness and long-term care insurance to protect wealth assets.

COMMERCIAL AND BUSINESS FINANCIAL SERVICES

We offer a full suite of banking services and products for small- and medium-sized businesses, including chequing and savings accounts, term deposits, loans, lines of credit, letters of credit, mortgages, credit cards, and merchant services and payment solutions.

Our First West Capital subsidiary specializes in subordinated debt and mezzanine and equity financing solutions for mid-market businesses across Canada.

OUR STRATEGY

First West's success results from keeping our members at the centre of everything we do. Inspired by this reality, our new five-year strategic plan aims first and foremost at providing an unrivaled member advisory experience. The plan also focuses on achieving a top quartile outcome in organizational health and leading credit unions in new member growth, asset accumulation and primary relationships. The strategy is structured around three member-based strategic objectives, which we aim to achieve through priority initiatives focused on three critical outcomes: growth of our business, transformation of our business and evolution of our organizational foundation. We firmly anchor the strategy and its outcomes to our vision of simplifying lives and helping members and communities thrive, to our values-based "big ideals," and to our commitment to investing in and serving the local communities that we call home.

STRATEGIC OBJECTIVES

- Provide an unrivalled member advisory experience
- Lead credit unions in new member growth, asset accumulation and primary member relationships
- Achieve a top quartile outcome in our organizational health

4 GROWTH INITIATIVES

- Build a wealth-driven organization
- Cultivate agribusiness
- Transform core member experience
- Cultivate First West Capital

3 TRANSFORMATION INITIATIVES

- Adopt enterprise agile
- Transition to federal regulation
- Grow our balance sheet

2 ORGANIZATIONAL FOUNDATION INITIATIVES

- Champion new technologies
- Create amazing employee experiences

EXECUTING OUR STRATEGY

Our structure enables our divisions to apply customized operational strategies to meet the unique conditions of their local markets. Our four locally known and trusted divisions are:

- Island Savings (serving Vancouver Island and Gulf Island communities)
- Envision Financial (serving the Lower Mainland, Fraser Valley and North Coast communities)
- Valley First (serving Southern Interior communities)
- Enderby & District Financial (serving North Okanagan communities)

These divisions operate under the direction of three regional presidents. With strategic direction from the First West leadership team, the regional presidents and their local management teams direct the growth of divisional business segments: retail banking, business and commercial banking and wealth management. 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
- Angela Brown | Head, Brand Engagement
- Leslie Castellani | Chief Governance & Corporate Affairs Officer
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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 resources management, communications and public relations, operations and marketing. By providing operational support and strategic oversight, First West enables its network to deliver tailored financial services and advice that helps simplify our members' lives.

ADVANCING WORK ON FEDERAL CONTINUANCE

Historically, credit unions have been constrained by legislation to operating only within their home province. Credit union members who had personal or business banking interests beyond their province were required to use other financial institutions, very often a bank. Legislation was enacted in 2012 that allowed for provincial credit unions to continue as federal credit unions, preserving their co-operative structures and principles but under federal regulatory oversight.

In 2016, First West began research, analysis, business planning and evaluation of the benefits and risks of federal continuance for the credit union and its members, and whether federal continuance would be an appropriate direction for the sustainment and future growth of the credit union.

Throughout 2019 and as part of this lengthy and considered journey to become a federal credit union, First West's board and management engaged in an extensive review of its business with the Office of the Superintendent of Financial Institutions (OSFI), the senior regulatory body of federal financial institutions. The credit union also engaged with the BC Financial Services Authority (BCFSA, formerly FICOM), First West's current provincial regulator.

In addition, the credit union researched its members' banking interests within and outside of B.C. and conducted member focus groups related to federal continuance. Employees from across First West were also engaged through conversations, surveys, focus groups and small group conversations on the topic.

Following this, and along with work undertaken over the past several years, in January 2020 the First West board of directors approved putting forward a special resolution to the membership and holders of Class B Equity Shares seeking approval to apply to OSFI for continuance into the federal regime. The board also approved a second special resolution seeking member and shareholder approval of proposed federal credit union bylaws. It is anticipated that these two resolutions will be put forward to membership in 2021.

Board and management have identified six key reasons why First West should continue as a federal credit union:

1. **Create value and advantages for members through improved efficiency and capacity.** Over the past 10 years, First West has taken a thoughtful approach to welcoming credit unions to the First West network, ensuring that the resulting benefits are felt by members across the province. During that time, the credit union has harnessed the efficiencies and capacity realized as a result of its increased size to reduce fees to members, introduce best-in-class products and provide innovative mobile and online banking.

   For example, prior to the formation of First West, the predecessor credit unions (Envision Financial, Valley First, Enderby & District Financial and Island Savings) were unable to offer a no-fee chequing account. However, through the increased size of First West, the credit union has been able to provide significant daily-banking cost savings to all its members through the Simply Free Account®. From 2016 to 2019, the credit union estimates members have collectively saved more than $104 million through the Simply Free Account®.*

2. **Meet the increasing digital needs of members**. Members expect more digital solutions to help them manage their finances, yet such technology development requires significant investment. To achieve a reasonable return on investment for digital innovation, the credit union requires access to the larger Canadian market and to not be limited only to British Columbia.

3. **Enhance regulatory oversight to further protect members' interests.** Federal credit unions receive some of the highest levels of prudential oversight afforded to financial institutions in Canada through bodies such as OSFI and the Financial Consumer Agency of Canada (FCAC). Stringent regulatory requirements protect members' interests and help the credit union continually strengthen and improve its practices.

**Estimated savings comparisons based on fees associated with unlimited transaction chequing accounts available at various Canadian banks as of Dec. 2016-2019.*

4. **Go and grow with members.** Increasingly, members' professional and personal lives extend beyond B.C., whether through out-of-province job transfers, new business opportunities, children at university or aging parents in other provinces. Unlike federal credit unions, First West—as a provincial credit union—is restricted from fully serving its members' financial needs outside of the province.
5. **Diversify markets to reduce the impact of regional economic downturns.** Because First West can only operate in a single-province market, there is a risk to the credit union and its members if the province faces a significant economic downturn. By serving members and growing First West thoughtfully across Canada, First West can diversify its book of business and have a greater opportunity to withstand regional economic downturns or recessions.
6. **Attract and develop skilled employees to safeguard members' assets**. With growth comes the need to attract and retain employees who have the experience and, in many cases, specialized skill to steward our members' business with us. With a federal mandate, First West is confident it can attract the talent required for its growth plans.

The process to become a federal credit union is lengthy with several stages and decision approval points along the way. Throughout the year ahead, First West will continue to engage with members, employees, the credit union system and other stakeholders on the matter of federal continuance.

Some of the major upcoming milestones and decision points include:

- Members vote on federal continuance
- First West submits application to BCFSA and CUDIC
- BCFSA undertakes public consultation
- BCFSA and CUDIC provide consent to First West for continuance
- First West submits formal application to OSFI
- OSFI assesses formal application and recommends continuance to federal Minister of Finance
- Minister of Finance provides approval of letters patent for continuance
- First West continues as a federal credit union

OUR MEMBERS

MEMBER EXPERIENCE

Keeping banking simple is essential to our vision of simplifying lives to help our members and communities thrive. We're equally committed to providing expert financial advice and innovative online and digital experiences that create real value for our individual and business members. In 2019 we delivered several member-focused product and service enhancements, aligned to the final year of executing on the objectives of our 2017–2019 strategic plan:

- Launched a new digital banking experience built on Backbase, a world-class digital banking platform. Backbase allows us to be more nimble than ever, enabling us to advance our online banking experiences much faster in response to member feedback. The new experience is seamless, secure, intuitive and personalized, featuring all-digital self-serve banking functionality, including online banking that can be accessed through any web browser on any device (desktop, mobile and tablet).
- Through our Member Advice Centre, we continue to provide an unrivalled member experience—Member Advice Centre advisors handled over 392,000 contacts from members, providing support and access to members from wherever they are.
- Launched a new mobile banking app as part of our new digital banking experience.
- Simplified our product line-up, ensuring we provide remarkable experiences to our members with products that fit their financial needs, every time.
- Launched AgriInvest, our high interest savings account geared toward agricultural producers.
- Launched Apple Pay® for members with Collabria credit cards and iOS mobile devices.
- Added AutoPay (pre-authorized payment) capability for members with Collabria credit cards.
- Added self-serve balance transfer capability for members with Collabria credit cards.
- Revamped the Simple Advice section in the business area of our websites, including increased amounts of advice-based articles for business owners.
- Driven by our member research program, launched a business email program that features financial advice that business members told us they want to hear about most.
- Reached over 100,000 members with our enhanced email program, with topics ranging from savings, investment and financial planning advice to tips geared toward getting the most out of banking features, rate specials and the benefits of the Referral Perks loyalty program.

In 2020 we begin executing business plans aligned to the objectives outlined by a new five-year strategic plan, centred around our members and our vision of simplifying lives and helping communities thrive. Members can expect improvements in their banking and investing experience, with advancements in several areas. To help improve members' financial wellbeing, we will be working to deepen their knowledge and experience of the financial advisory relationship. Alongside this, we plan to make it even easier for members to contact our branches and Member Advice Centre, as well as build our ability to provide our members with remarkable banking experiences remotely. Our use of advanced analytics will help us

bring members more offers, promotions and solutions that are finely suited to their specific financial needs.

We will also continue intense focus on members' digital banking experience. Business members can expect new, intuitive banking platforms for their needs, while our retail banking members will benefit from digital enhancements such as newly advanced security capabilities and ability to integrate Collabria credit card accounts into online banking and mobile app experiences. We also plan to work on bringing more existing products into the digital realm to continue building convenience for our members, allowing them more flexibility to bank where and when they want.

OUR EMPLOYEES

We are intently focused on employees' perception of the credit union's overall functioning—also referred to as the organizational health index (OHI). OHI outcomes are critical planning tools for senior leadership and over the next five years the People Services team will be engaged in helping First West achieve top OHI scores by creating amazing employee experiences and fostering collaborative innovation, entrepreneurial mindset and consultative leadership.

TALENT ATTRACTION AND EMPLOYEE RETENTION

Building a high performing team at First West is a key driver for the success of our member-focused strategic initiatives. Focusing on retention and early success for new employees, in 2019 we improved the new employee onboarding experience. We also introduced a student hiring program and enhanced our career development and experience-building practices for our employees.

In 2020 we plan to make further improvements to employee onboarding, based on new employee feedback. A new employee value proposition (our promises to employees) and a refreshed career website featuring an updated digital experience for potential employees will help advance our ability to attract and retain diverse talent.

EMPLOYEE DEVELOPMENT

We took several steps forward in our ability to enhance the skills and expertise of our employees in 2019. Expanded virtual classroom offerings allowed us to offer more courses across all brand divisions, reducing employee travel costs and allowing us to reinvest and offer more courses across all divisions. We also continued to design more interactive and engaging learning experiences, leveraging video and other digital platforms to create more effective and robust training experiences. We will continue to create meaningful, memorable and motivational learning for all employees in 2020, including a re-designed advisory sales program that will continue to enhance employees' member advisory expertise.

BUILDING A SAFE, HEALTHY AND THRIVING WORKPLACE

We advanced our Healthy Workplace program in 2019 by aligning it with our Occupational Health program and working with community partners and in-house experts. This effort allowed us to offer an educational series focused on our four healthy workplace pillars: healthy mind, healthy body, healthy finances and healthy relationships. We also outfitted all locations with 72-hour emergency kits.

PROMOTING AN INCLUSIVE AND DIVERSE WORKPLACE CULTURE

In 2019 we made extensive progress in fostering a healthy, vibrant and inclusive workplace that reflects the diversity of the communities we serve. Leading the list of highlights was the launch of three employee resource groups—LGBTQ2S+, Persons with Disabilities and Young Leaders—which leveraged the success of our First West Women's Network and Inclusion and Diversity working group. The formation of these new groups reflects the high level of passion and engagement that First West's employees and leaders have for cultivating an inclusive and diverse workplace. Leader training on unconscious bias also continued in 2019 and we began development of employee-focused inclusion and diversity training, slated to launch early in 2020. We also worked to remove bias from our career development opportunities process to create a more equitable and accessible process for all employees.

Nine of our locations from across our three regions achieved accessibility certification through our partner, the Rick Hansen Foundation. The assessment process helped develop our knowledge in this area and led to the creation of new standards for inclusive and accessible buildings standards at First West.

RE-IMAGINING TOTAL REWARDS

Heading into 2019 employee banking advantages stood as one of our top priorities for refreshing our total rewards compensation. Employee banking benefits constitute a significant and attractive reward for employees' contributions to the credit union's success. We reviewed our Employee Banking Advantages and launched updated benefits in January 2020. Employees' banking benefits include employee rates on mortgages, lifestyle loans, safe deposit boxes, free bank drafts and much more.

As part of the total rewards approach, we also advanced flexible and mobile work arrangements, and make it easier for employees, depending on the situation, to split their time between working from home and working at the office.

We greatly value our retirees for their many contributions to the credit union and so in 2019 we established a Retiree Alumni Program. Through the program, our retirees now enjoy the same banking benefits as active employees, among other perks like periodic opportunities to reconnect with the regional Presidents, Chief Member Officer or other senior leaders.

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 2019, First West employees contributed 18,349 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

In 2019 we saw a shining example of the value of our Lead Well philosophy. In connection with our signature cause programs, Feed the Valley and The Full Cupboard, a group of employees used the Lean expertise they learned on the job to help the Central Okanagan Food Bank reduce food waste and transportation costs. Working with food bank leaders, the team also helped transform the food distribution process to a way that provides a much greater sense of dignity to those needing the assistance of the food bank. The efforts of this partnership between First West employees and the food bank also won a Concentra Empowering Your Community award, resulting in a $10,000 donation to the food bank. Overall, our signature causes raised $576,228 in 2019 and collected 21,515 pounds of food for local food banks across British Columbia. Since 2010, First West has raised $3,415,470 and collected 193,193 pounds of food for local food banks.

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 80 $500 grants, totaling $40,000 supporting non-profits selected by our employees. In a collaborative effort with the People Services team at First West, we partnered with the Heart & Stroke Foundation to develop a cardiopulmonary resuscitation (CPR) and automatic external defibrillator (AED) training program. Through this program, First West employees can learn hands-only CPR and how to use the AED devices in our locations, in the unfortunate event of a cardiac incident. The AED devices, installed in 2018, are registered with the BC Public Access to Defibrillation (PAD) program, which enables 9-1-1 dispatchers to know the location of the AEDs and allows them to give instructions to callers.

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.

DISCLAIMER ON FORWARD-LOOKING STATEMENTS

From time to time, First West Credit Union ("First West") makes written and verbal forward-looking statements. Statements of this type are included in the annual report and reports to members and may be included in filings with regulators or in other communications such as press releases and corporate presentations. Forward-looking statements include, but are not limited to, statements about First West's objectives and strategies, targeted and expected financial results, and the outlook for First West's businesses or for the Canadian economy. Forward-looking statements are typically identified by the words "believe", "expect", "anticipate", "intend", "estimate", "may increase", "may impact", "goal", "focus", "potential", "proposed" and other similar expressions, or future or conditional verbs such as "will", "should", "would" and "could".

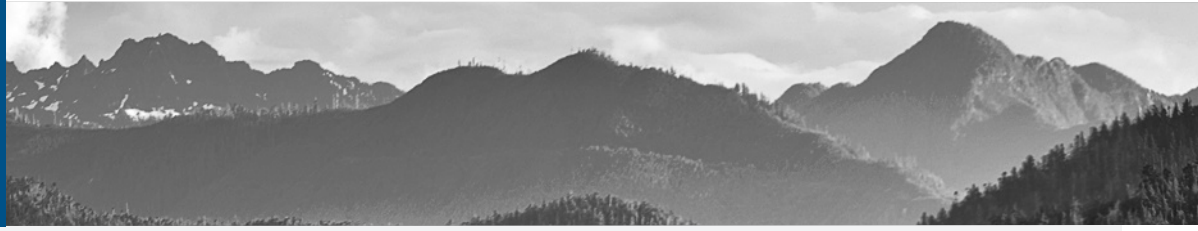
By their very nature, forward-looking statements involve numerous assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that Management's predictions, forecasts, projections, expectations and conclusions will not prove to be accurate, that its assumptions may not be correct and that its strategic goals will not be achieved.

A variety of factors, many of which are beyond First West's control, may cause actual results to differ materially from the expectations expressed in the forward-looking statements. These factors include, but are not limited to, general business and economic conditions in Canada, including housing market conditions, the volatility and level of liquidity in financial markets, fluctuations in interest rates and currency values, the volatility and level of various commodity prices, changes in monetary policy, economic and political conditions, legislative and regulatory developments, legal developments, the level of competition, the occurrence of natural catastrophes, changes in accounting standards and policies, information technology and cyber risk, the accuracy and completeness of information First West receives about customers and counterparties, the ability to attract and retain key personnel, the ability to complete and integrate acquisitions, reliance on third parties to provide components of business

infrastructure, changes in tax laws, technological developments, unexpected changes in consumer spending and saving habits, timely development and introduction of new products, and Management's ability to anticipate and manage the risks associated with these factors.

Additional information about these factors can be found in the Risk Management section of the MD&A. These and other factors should be considered carefully and readers are cautioned not to place undue reliance on these forward-looking statements, as a number of important factors could cause First West's actual results to differ materially from the expectations expressed in such forward-looking statements. Unless required by law, First West does not undertake to update any forward-looking statement, whether written or verbal, that may be made from time to time by it or on its behalf.

Assumptions about the performance of the Canadian economy over the forecast horizon and how it will affect First West's businesses are material factors considered when setting organizational objectives and targets. In determining expectations for economic growth, First West primarily considers economic data and forecasts provided by the Canadian government and its agencies, as well as certain private sector forecasts. These forecasts are subject to inherent risks and uncertainties that may be general or specific. Where relevant, material economic assumptions underlying forward-looking statements are disclosed within the outlook sections of this MD&A.



1 MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis ("MD&A") section of the Annual Report provides an overview and a narrative explanation through the eyes of Management of First West Credit Union's financial performance through 2019 and its financial position as at December 31, 2019.

The MD&A also includes a discussion on risk management and an analysis of our capital position. The information provided demonstrates our commitment to balancing strong financial performance with prudent financial management within our established risk appetite, while living up to our commitment to simplify lives and help our members and communities thrive by creating real value for our members through tailored service, relevant day-to-day banking products and commitment to innovative technology solutions.

This MD&A, dated as of March 16, 2020, should be read in conjunction with the audited consolidated financial statements, which are prepared according to the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB) and set out in the CPA Canada Handbook.

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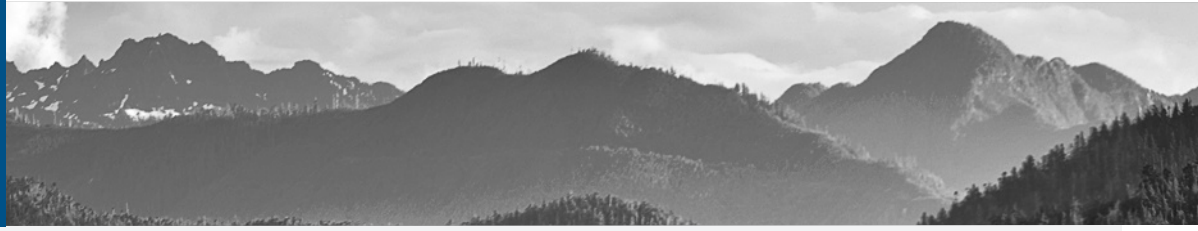

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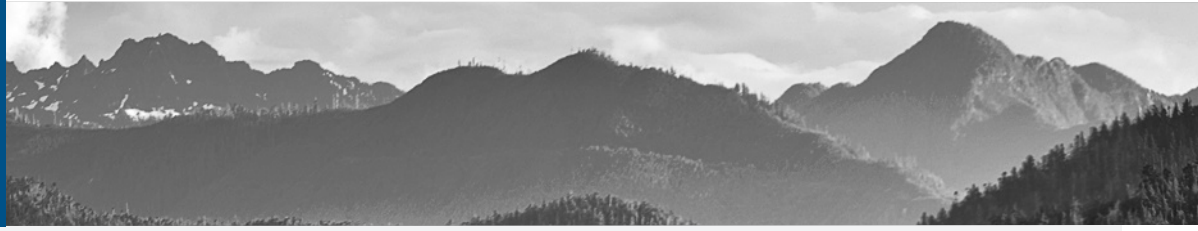

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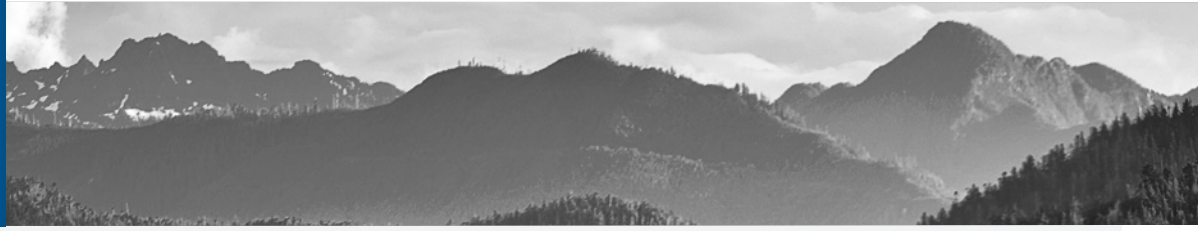


4 FINANCIAL HIGHLIGHTS

Table 1 - Financial Highlights

(Expressed in thousands of dollars)	% growth	2019	2018	2017
Consolidated Statement of Financial Position				
Cash resources	17.3%	260,852	222,414	88,516
Residential mortgages	5.0%	4,925,583	4,689,051	4,400,651
Personal loans	(6.4%)	904,661	966,639	1,004,170
Commercial loans	13.2%	3,334,843	2,944,772	2,835,844
Accrued interest	25.7%	17,101	13,600	12,873
Allowance for credit losses	50.3%	(42,756)	(28,443)	(23,961)
Loans to Members	**6.5%**	**9,139,432**	**8,585,619**	**8,229,577**
Investments and other assets	7.9%	1,522,891	1,411,846	1,486,655
Premises and equipment	76.7%	111,659	63,205	65,002
ASSETS	**7.3%**	**11,034,834**	**10,283,084**	**9,869,750**
Demand Deposits	3.9%	3,384,991	3,259,348	3,179,227
Term Deposits	8.2%	4,868,948	4,499,854	4,400,873
Registered savings plans	10.9%	1,328,718	1,198,144	1,144,397
Class A shares	(3.8%)	5,706	5,932	5,984
Accrued interest and dividends	14.5%	63,436	55,425	42,549
Deposits from Members	**7.0%**	**9,651,799**	**9,018,703**	**8,773,030**
Payables and accruals	67.1%	203,305	121,669	110,329
Borrowings	(12.4%)	412,766	471,412	375,481
LIABILITIES	**6.8%**	**10,267,870**	**9,611,784**	**9,258,840**
Equity shares	(4.6%)	29,870	31,325	32,865
Accumulated and other comprehensive income	(75.8%)	(3,157)	(13,070)	(13,735)
Contributed Surplus	0.0%	163,651	163,651	163,651
Retained Earnings	17.8%	576,600	489,394	428,129
LIABILITIES AND MEMBERS' EQUITY	**7.3%**	**11,034,834**	**10,283,084**	**9,869,750**
Provision for Credit Losses				
Opening balance	16.7%	28,443	24,371[1]	20,850
Less: write-offs	(16.8%)	(2,435)	(2,928)	(3,589)
Plus: provision	139.3%	16,748	7,000	6,700
Closing balance	**50.3%**	**42,756**	**28,443**	**23,961**

[1] Includes post IFRS 9 adoption adjustment of $410

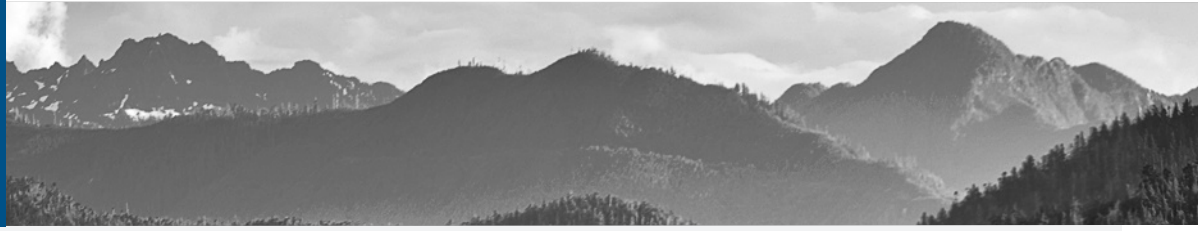
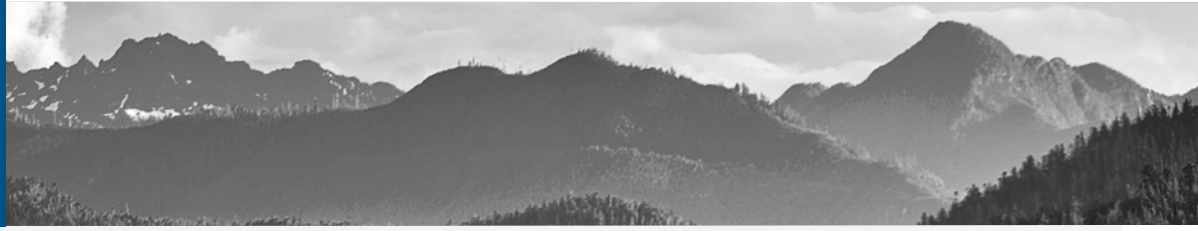


Table 1 - Financial Highlights (continued)

(Expressed in thousands of dollars)	% growth	2019	2018[2]	2017
Consolidated Statement of Profit or Loss				
Interest income	10.4%	365,048	330,754	295,533
Interest expense	24.3%	167,120	134,468	110,346
Net interest income	**0.8%**	**197,928**	**196,286**	**185,187**
Provision for credit losses	139.3%	(16,748)	(7,000)	(6,700)
Fee, commision and other income	12.5%	102,934	91,459	84,600
Operating margin	**1.2%**	**284,114**	**280,745**	**263,087**
Operating expenses	7.2%	232,876	217,236	215,387
Profit before income taxes	**(19.3%)**	**51,238**	**63,509**	**47,700**
Income taxes	(30.1%)	8,521	12,185	10,106
Profit for the year from continuing operations	**(16.8%)**	**42,717**	**51,324**	**37,594**
Profit for the year from discontinued operations	590.6%	45,435	6,579	4,570[4]
Profit for the year	**52.2%**	**88,152**	**57,903**	**42,164**
Financial Statistics (expressed as %)				
Asset growth		7.3	4.2	3.6
Loan growth		6.5	4.3	9.8
Deposit growth		7.0	2.8	3.9
Operating efficiency		81.0	77.8	82.5
Dividends paid ($000)		1,151	1,217	981
Percent of average assets				
Net interest income		1.84	1.93	1.91
Fee, commission and other income		0.96	0.90	1.17
Operating expenses		2.17	2.13	2.47
Operating margin		2.65	2.76	3.01
Operating return on assets		0.48	0.62	0.54
Net (after-tax) return on average assets		0.82	0.57	0.43
Capital and Risk Weighted Assets				
Risk weighted assets ($000's)	15.2%	6,186,434	5,371,338	5,393,223
Total capital ($000)	15.3%	876,097	760,091	674,796
Capital adequacy (%)		14.2	14.2	12.5
Return on capital (%)		10.1	7.6	6.2
Leverage ratio		12.6	13.5	14.6
Other Statistics				
Retail branches	(5.7%)	50	53	54
Insurance offices		0[3]	38	38
Wealth assets under management ($000's)	12.3%	3,015,202	2,685,892	2,668,267
Loans under administration ($000's)	(4.0%)	95,571	99,569	4,261
Book of business ($000's)	7.4%	21,902,003	20,389,783	19,675,135
Average assets ($000's)	5.8%	10,658,959	10,076,417	9,696,249

[2] Comparative information has been re-presented to reflect the presentation of discontinued operations
[3] Change due to sale of Insurance business assets in 2019
[4] The presentation of discontinued operations has not been audited and are included for comparative purposes only



PROFIT FOR THE YEAR
$88.2 MILLION

Profit for the year after tax at $88.2 million was $30.2 million or 52.2% higher in 2019, compared with $57.9 million in 2018. Included in this was $45.4 million from discontinued operations as First West disposed of the assets from its Insurance business in Q3 of 2019.

ASSETS
$11.0 BILLION

Assets grew $751.8 million or 7.3% in 2019, compared with 4.2% in 2018. This growth was primarily the result of an increase in residential and commercial lending, which increased $626.6 million or 8.2%.

LOANS TO MEMBERS
$9.1 BILLION

Total loans to members increased $553.8 million or 6.5% in 2019, compared with 4.3% in 2018. Residential lending to members grew $236.5 million or 5.0%, while commercial lending grew $390.1 million or 13.2%.

DEPOSITS FROM MEMBERS
$9.7 BILLION

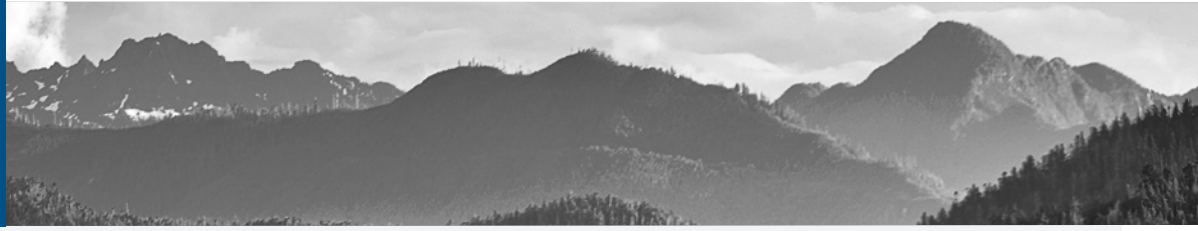
Deposits from members increased $633.1 million or 7.0% in 2019, compared with 2.8% in 2018.

WEALTH ASSETS UNDER ADMINISTRATION
$3.0 BILLION

Wealth assets under administration increased $329.3 million or 12.3% in 2019, compared with 0.7% in 2018.

MEMBERSHIP IN
2019

We recorded net growth of 1.3% in 2019. This growth marks a continued focus on building loyalty with members who seek the value of a strong service and advisory relationship.



5 ECONOMIC REVIEW AND OUTLOOK

After a marked deterioration in the third quarter of 2019, global economic growth showed signs of rebounding with an upturn in trade and manufacturing indicators in the fourth quarter of 2019.

Central banks around the world continued to ease their policies. The US Federal Reserve cut interest rates during the fourth quarter—its third rate cut in 2019—but signalled a more neutral stance going forward.

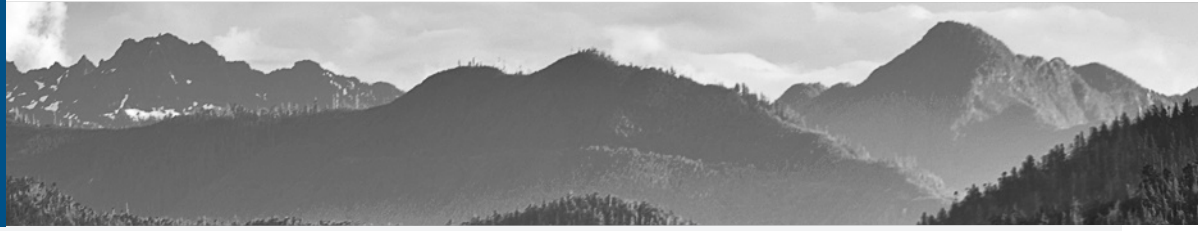
Recent positive developments include the Phase One China-US trade deal and the pending ratification of the Canada-United States-Mexico Agreement, although the potential for further trade disputes, uncertainty over the outcome of post-Brexit negotiations, the fallout from the coronavirus health crisis and rising geopolitical tensions (particularly in the Middle East) represent significant downside risks to the global growth outlook and will be a source of volatility in 2020.

The Canadian economy performed resiliently in 2019 despite global trade and geopolitical headwinds, which led to a slowdown in the second half of 2019. The economy operated close to capacity with a strong labour market and inflation near the Bank of Canada's (BoC) 2% target. The BoC kept its overnight rate at 1.75%, leaving it with one of the highest policy rates across developed market economies.

The outlook for the Canadian economy is for a return to trend or near trend levels of growth in 2020, supported by a healthy labour market and the continued recovery of the housing sector (albeit at a slower pace than in 2019). Consumer sentiment will remain cautious with household spending growth subdued.

At a provincial level, British Columbia is expected to show a slower rate of GDP growth in 2019 with weak exports a drag on the economy. Contributing factors were falling commodity prices due to the slowdown in China and the wider global economy with the forestry sector particularly impacted, as well as the fallout from the US-China trade war and subdued consumer spending growth.

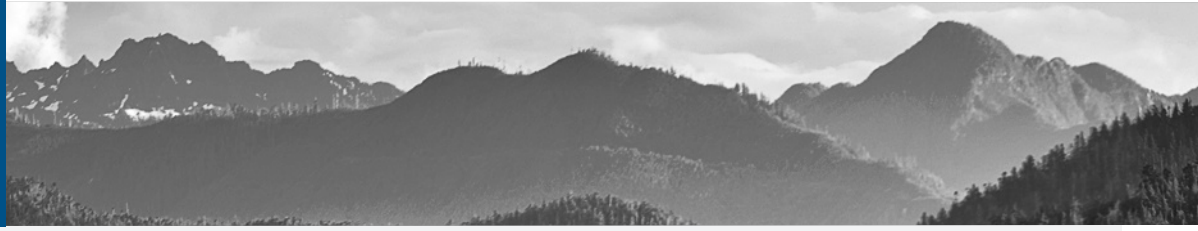
On a positive note, employment remains strong with earnings growth healthy and the housing sector is expected to continue its recovery, supported by cuts in mortgage rates, steady economic growth and a tight labour market. These factors, together with major investment projects such as the Shell-led LNG Canada project near Kitimat and the BC Hydro Site C dam, as well as other public works projects, point to stronger economic growth in 2020 with British Columbia expected to be one of the strongest growing provinces in Canada in 2020 and 2021.



6 FINANCIAL PERFORMANCE 2019 OVERVIEW AND LINE OF BUSINESS REVIEW

Table 2 - Financial Performance

(Expressed in thousands of dollars)	2019	2018	2019 Change	
			$	%
Net Interest Income	**197,928**	196,286	1,642	0.8%
Fee, Commission and other income	**102,934**	91,459	11,475	12.5%
Total Revenue	**300,862**	287,745	13,117	4.6%
Provision for credit losses	**16,748**	7,000	9,748	139.3%
Total operating expenses	**232,876**	217,236	15,640	7.2%
Operating income	**51,238**	63,509	(12,271)	(19.3%)
Income tax expense	**8,521**	12,185	(3,664)	(30.1%)
Profit for the year from continuing operations	**42,717**	51,324	(8,607)	(16.8%)
Profit for the year from discontinued operations	**45,435**	6,579	38,856	590.6%
Profit for the year	**88,152**	57,903	30,249	52.2%
Assets				
Cash resources	**260,852**	222,414	38,438	17.3%
Loans after allowance for credit losses	**9,139,432**	8,585,619	553,813	6.5%
Investments, premises and equipment, and other assets	**1,634,550**	1,475,051	159,499	10.8%
Total Assets	**11,034,834**	10,283,084	751,750	7.3%
Liabilities				
Deposits	**9,651,799**	9,018,703	633,096	7.0%
Borrowings	**412,766**	471,412	(58,646)	(12.4%)
Other Liabilities	**203,305**	121,669	81,636	67.1%
Total Liabilities	**10,267,870**	9,611,784	656,085	6.8%
Members Equity	**766,964**	671,300	95,664	14.3%
Ratios				
Operating efficiency	**81.0%**	77.8%	3.2%	4.1%
Liquidity ratio	**11.3%**	12.2%	(0.9%)	(7.6%)
Capital ratio	**14.2%**	14.2%	0.0%	0.1%



FINANCIAL PERFORMANCE 2019 OVERVIEW AND LINE OF BUSINESS REVIEW CONTINUED

The underlying business performed well in 2019 in a challenging rate environment.

Operating income decreased to $51.2 million from $63.5 million (Table 2), primarily due to an increase in provision for credit losses and increased operating expenses from higher personnel expenses as we embarked on a number of strategic initiatives to position the business for the future.

Profit from continuing operations decreased to $42.7 million from $51.3 million, partly due to a one-off gain from the sale of investments of $6.8 million recorded in 2018.

First West disposed of the assets from its Insurance business in Q3 of 2019, realizing a gain on disposal of $42.1 million after tax together with $3.3 million from discontinued operations during the year. This resulted in profit for the year of $88.2 million in 2019, compared to $57.9 million in 2018, an increase of $30.2 million or 52.2%.

Asset growth was a healthy $751.7 million in 2019 with loan growth of $553.8 million funded entirely by deposit growth from members of $633.1 million.

Our liquidity position remains healthy with the liquidity ratio for 2019 at 11.3%, compared to 12.2% in 2018.

Our capital position also remains strong with the capital ratio remaining unchanged at 14.2% in 2019.

LINE OF BUSINESS HIGHLIGHTS AND OUTLOOK

Retail Banking

In 2019, we grew our retail lending portfolio by $174.6 million or 3.1%, to $5.8 billion, driven by strong residential mortgage growth, while our core retail deposit portfolio grew by $195.3 million or 4.2%, to $4.9 billion, driven by growth in term deposits and tax-free savings accounts.

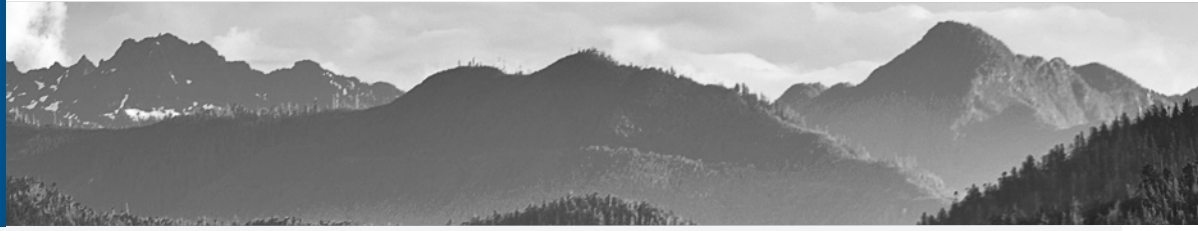
The retail banking division remains a key part of our core business and we ended the year with a retail membership base of over 224,000 members. We provide service and advice to our retail members through a multi-channel offering, including a branch network of 50 locations, a Member Advice Centre and a market-leading digital banking platform.

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

We gained over 16,550 new retail members and our continued focus on a "core banking offer" (including banking products and digital engagement) yielded positive results with a significant increase in a key metric which measures the number of financial needs met for a member within the first 90 days of becoming a member of First West.

In 2019 our focus on digitization resulted in several positive developments: in partnership with Central 1, First West led Canadian credit unions with the launch of a comprehensive Backbase online banking platform, which enables our members to interact with us in a more seamless, intuitive and personalized way, and gives us the ability to deliver an enhanced, digital experience to our members.

Members also benefited from enhancements to our Collabria credit card experience with new features like automatic payments to increase convenience for our members. We also launched a new web-based calendar booking application that allows members to interact digitally with their financial advisors, including booking appointments, receiving reminders and exchanging information. Further development of our digital document storage capabilities continued to enable us to reduce paper documentation and our overall carbon footprint.



In 2020, members can look forward to further technological advancements that will enhance our core member experience as we continue to work towards our goal of delivering an exceptional member advisory experience.

Future planned developments include the introduction of auto-adjudication for retail lending, as well as other enhanced services offered by our Member Advice Centre.

Commercial and Business Banking

In 2019 our commercial division continued to build on the strategic partnerships and relationships we have developed with the communities in which we operate, welcoming over 3,100 new commercial members and bringing our total commercial membership to over 27,000.

Our commercial lending portfolio grew by $390.1 million or 13.2% to $3.3 billion in 2019. The growth was driven by a strong performance in commercial mortgages and loans, which saw growth of 14.1% and 28.6% respectively.

Total commercial deposits grew by $332.3 million or 8.6% to $4.2 billion during the year, with the growth driven by commercial chequing accounts as well as term deposits.

To further expand our capabilities, in 2019 we established a specialized lending team to service the agribusiness sector. We see this as a promising opportunity to build our membership base and increase revenues, as well as diversifying risk by focusing on a sector that is a natural fit with our geographical footprint, centered around the Fraser, Okanagan and Cowichan Valleys where agriculture plays an important role in the economy of our communities.

As we look ahead to 2020, we expect to continue growing our commercial lending portfolio in support of our members as their businesses grow. We will also be looking to introduce our Backbase banking platform (currently available to retail banking members only) to our commercial members in 2020 as we continue to work on enhancing the user experience on our digital platform.

Insurance Services

Technology sustained its big impact on the insurance industry in 2019 as insurers continued to leverage new and evolving technologies for competitive advantage.

This, along with changing consumer needs and continued innovations in delivery and service, kept competitive pressures high.

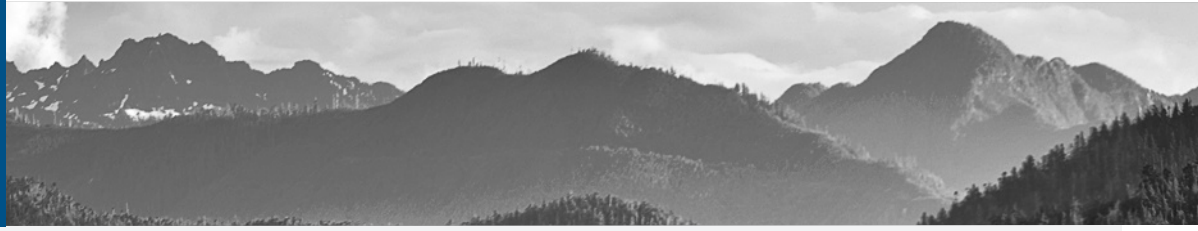
In the third quarter of 2019, Westland Insurance Group Ltd. acquired the assets of First West Insurance Services and the sale closed on September 30, 2019. The decision to sell the insurance business was reached after a review of our future strategic direction and to ensure the insurance business was best positioned to thrive in the rapidly evolving insurance industry. In Westland, the First West management team found a partner that inspired confidence, as Westland's culture is similar to First West's, they have strong leadership, clear vision and values, and are focused on growth, innovation and community.

Despite the competitive pressures in the market, First West Insurance Services performed well in 2019, increasing total revenue to $25.8 million as at September 30, 2019—the last operational month prior to divestment. The divestment resulted in a gain on sale of $42.1million net of applicable taxes and has been recorded in profit from discontinued operations in the consolidated income statement.

Wealth Management

Through our strategic partnership with Aviso Wealth, a national integrated financial services company, we provide our members with a comprehensive wealth advisory service (first introduced in late 2018) to help them achieve their financial goals.

We are proud to offer our members a comprehensive choice of investment options, including socially responsible investments through Northwest and Ethical



Investments. In 2019 we continued to expand the number of our financial advisors with MFDA licences so that we can offer more comprehensive advisory service to members and deepen relationships with them.

Our wealth management revenues were $25.9 million in 2019, an increase of $4.4 million over 2018 and our assets under administration grew, through a combination of positive net sales and market movement, by $329.3 million or 12.3% to reach a total of $3.0 billion assets under management.

Looking ahead to 2020, we have a number of planned initiatives, including the rollout of a customer relationship management (CRM) tool to improve the effectiveness of our operations and the development of a digital channel in our wealth management offerings.

We are planning to further expand our specialist sales force by 25% from 44 to 55, specifically wealth planning specialists and wealth advisors, in order to increase sales capacity.

First West Capital

The junior capital market continued to be active and we experienced healthy deal flow in both British Columbia and Ontario. Additions made to the teams in our main Vancouver and Toronto offices in 2018 aided in driving business growth in these regions in 2019 as we continue to work to increase our presence coast to coast in Canada and selectively in the United States.

During 2019 First West Capital funded 19 deals for a total of $29.9 million in disbursements with the total portfolio size reaching $113.8 million. Due to specific credit events, the portfolio experienced an increase in the provision for credit losses of $18.5 million in 2019 which had a negative earnings impact.

Looking ahead to 2020, the junior capital market will be competitive, although we see opportunities to continue growing our business.

With further additions made to the teams in our main Vancouver and Toronto offices in 2019 and Winnipeg in early 2020, we look to accelerate our growth by targeting high-growth mid-market businesses and expanding our portfolio strategically and selectively with a strong focus on underwriting.

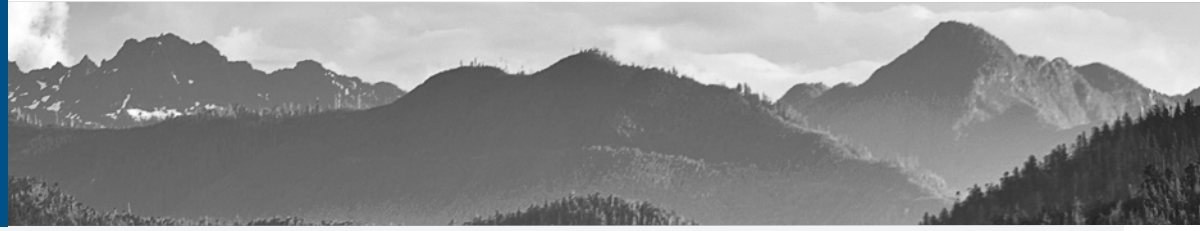
First West Leasing

Our leasing business continues to perform steadily, making a significant contribution to First West's revenue. In 2018, after a review of First West's strategic direction, a decision was made by the Board of Directors (the Board) to divest of the leasing business.

A thorough search for a suitable buyer was undertaken and after exhausting all avenues and options, the decision was made to wind down the Leasing business and cease from entering into new lease agreements as of March 10, 2020. First West has selected Integrated Financial Technologies (IFT) to service the existing leases on behalf of First West. We chose to partner with IFT, an experienced servicing company, because of its depth of expertise and ability to assist our clients with all their leasing needs.

In 2019 First West Leasing's revenue decreased by $0.2 million or 3.0%, to $7.4 million, while the portfolio's receivables grew to $213.0 million, an increase of 6.9%.

Regional diversity remains stable, with British Columbia representing 49% and Ontario 24% of the overall leasing portfolio.

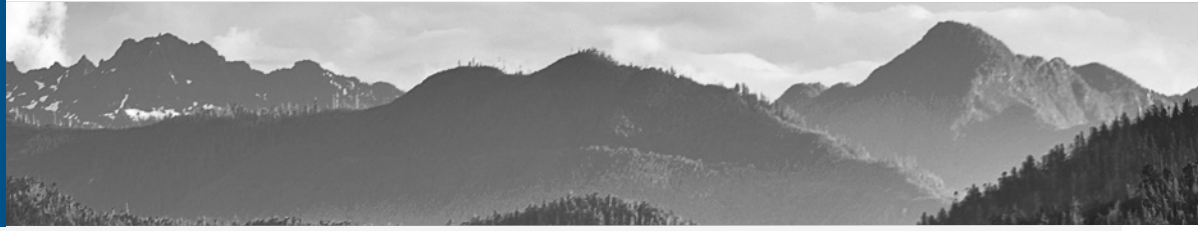


7 DISCUSSION ON FINANCIAL PERFORMANCE

NET INTEREST INCOME

Table 3 - Net Interest Analysis

(Expressed in thousands of dollars)	2019				2018			
	Average Balance	**Mix %**	**Interest**	**Interest Rate %**	Average Balance	Mix %	Interest	Interest Rate %
Cash resources and investments	**1,508,159**	**14.0**	**21,378**	**1.4**	1,415,259	13.9	14,629	1.0
Loans to members								
Residential mortgages	**4,777,442**	**44.5**	**151,749**	**3.2**	4,589,826	45.1	139,089	3.0
Personal loans	**75,846**	**0.7**	**4,432**	**5.8**	89,963	0.9	4,824	5.4
Retail LOC	**858,850**	**8.0**	**41,747**	**4.9**	903,429	8.9	40,280	4.5
Commercial mortgages	**2,815,410**	**26.2**	**123,084**	**4.4**	2,580,413	25.4	110,251	4.3
Commercial loans	**147,456**	**1.4**	**15,002**	**10.2**	126,935	1.2	12,859	10.1
Commercial lines of credit	**131,951**	**1.2**	**6,388**	**4.8**	133,940	1.3	6,255	4.7
Accrued interest	**15,106**	**0.1**	**0**	**-**	13,288	0.1	0	-
Allowance for credit losses	**(33,671)**	**(0.3)**	**0**	**-**	(26,256)	(0.3)	0	-
Loans to members	**8,788,392**	**81.8**	**342,402**	**3.9**	8,411,537	82.7	313,558	3.7
Derivatives	**16,694**	**0.2**	**(2,838)**	**-**	11,069	0.1	(1,105)	-
Other Assets	**425,147**	**4.0**	**4,105**	**1.0**	339,165	3.3	3,672	1.1
Total assets	**10,738,391**	**100.0**	**365,048**	**3.4**	10,177,030	100.0	330,754	3.3
Deposits from members								
Retail demand deposits	**1,645,732**	**15.3**	**6,046**	**0.4**	1,661,282	16.3	5,932	0.4
Retail non-registered term deposits	**2,325,175**	**21.7**	**62,902**	**2.7**	2,179,919	21.4	49,565	2.3
Registered deposits	**1,287,271**	**12.0**	**13,791**	**1.1**	1,187,351	11.7	11,259	0.9
Commercial demand deposits	**1,680,220**	**15.6**	**14,740**	**0.9**	1,636,836	16.1	11,673	0.7
Commercial term deposits	**2,383,430**	**22.2**	**56,122**	**2.4**	2,240,643	22.0	45,576	2.0
Class A membership shares	**5,875**	**0.1**	**0**	**-**	6,046	0.1	0	-
Accrued interest and dividends	**61,488**	**0.6**	**0**	**-**	47,494	0.5	0	-
Deposits from members	**9,389,192**	**87.4**	**153,602**	**1.6**	8,959,572	88.0	124,006	1.4
Members' Equity	**724,236**	**6.7**	**-**	**-**	640,244	6.3	-	-
Borrowings	**450,498**	**4.2**	**10,582**	**2.3**	460,824	4.5	10,462	2.3
Other Liabilities	**174,125**	**1.6**	**2,936**	**1.7**	116,391	1.1	-	0.0
Total liabilities and equity	**10,738,051**	**100.0**	**167,120**	**1.6**	10,177,031	100.0	134,468	1.3
Total assets / Net interest income	**10,738,391**		**197,928**	**1.8**	10,177,030		196,286	1.9

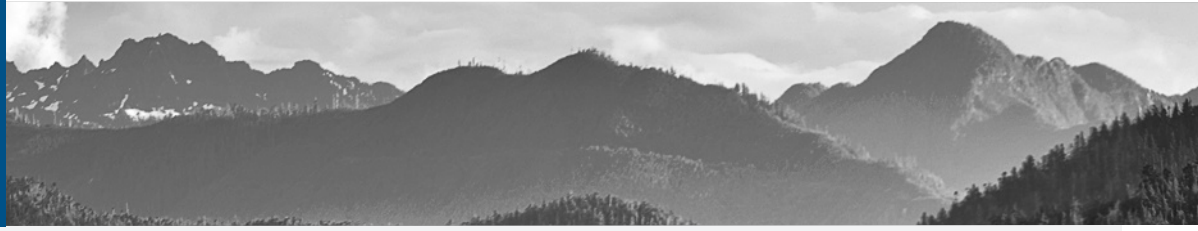


In 2019 net interest income, defined as interest and investment income earned on assets less interest expense on deposits and borrowings, increased $1.6 million or 0.8%, to $197.9 million from $196.3 million (Table 3).

Net interest income as a percentage of average assets decreased year over year to 1.8% in 2019, from 1.9% in 2018.

Economic conditions resulted in a flattening of the yield curve during the year. While we saw improvements in yields on the lending side, a very competitive marketplace and higher average prime rates led to increased funding costs which had a negative impact on net interest spreads (Table 3).

Strong asset growth, in particular towards the latter part of the year, careful management of deposit costs and other treasury-related transactions helped mitigate some of the negative impacts of the spread compression. As a result, First West's financial margin remains competitive among our credit union peer group.



FEE, COMMISSION AND OTHER INCOME

Table 4 - Fee, Commission and Other Income

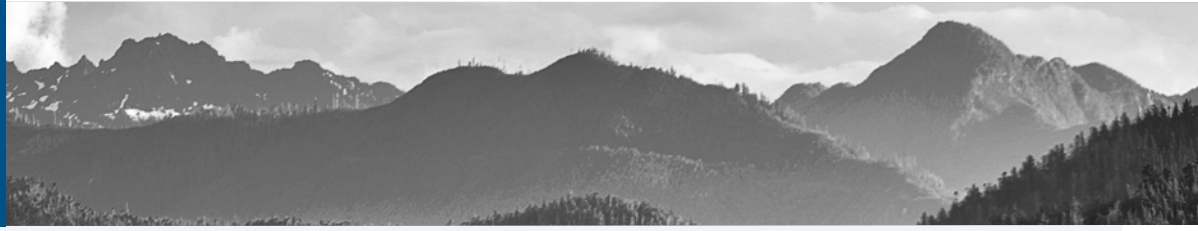
(Expressed in thousands of dollars)	**2019**	2018	2019 Change	
			$	%
Fee and commission income:				
Insurance commissions and fees	**2,629**	2,788	(159)	(5.7%)
Account service fees	**16,019**	16,237	(218)	(1.3%)
Lending insurance, fees & penalties	**16,745**	15,229	1,516	10.0%
Wealth management	**24,443**	22,297	2,146	9.6%
Foreign exchange	**3,698**	4,157	(459)	(11.0%)
	63,534	60,708	2,826	4.7%
Other income:				
Securitization	**59**	158	(99)	(62.7%)
Leasing revenue	**13,852**	12,715	1,137	8.9%
Mastercard revenue	**3,006**	3,343	(337)	(10.1%)
Miscellaneous	**22,484**	14,535	7,949	54.7%
	39,400	30,751	8,649	28.1%
Total fee, commission and other income	**102,934**	91,459	11,475	12.5%

In 2019 fee, commission and other income increased $11.5 million or 12.5%, to $102.9 million (Table 4). The increase was partly due to increased dividend revenue from investment holdings of $11.0 million, compared to $3.5 million in 2018.

As the commercial lending portfolio grew, loan fees from the portfolio increased, while wealth management revenues also saw healthy growth during the year, driven by growth in trailer commissions from both the MFDA and IIROC funds portfolios.

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, growing our sales force of wealth specialists and advisors, and leveraging our wealth management capabilities through partnership with Aviso Wealth.



OPERATING EXPENSES

Table 5 - Operating Expenses

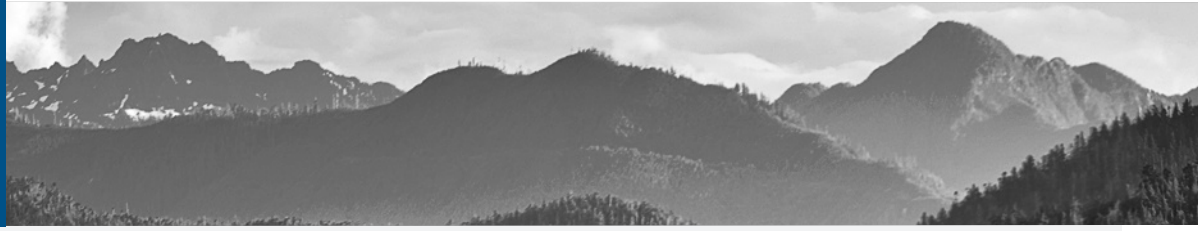
(Expressed in thousands of dollars)	**2019**	2018	2019 Change	
	Actuals	Actuals	$	%
Personnel expense				
Salaries	**107,865**	99,034	8,831	8.9%
Benefits	**15,308**	12,655	2,653	21.0%
Pension	**8,626**	8,247	379	4.6%
Other	**6,886**	4,359	2,527	58.0%
	138,685	124,295	14,390	11.6%
Depreciation and amortization	**17,357**	12,924	4,433	34.3%
Other expenses:				
Administration Expense	**43,606**	42,587	1,019	2.4%
Technology expenses	**23,527**	19,317	4,210	21.8%
Occupancy	**9,701**	18,113	(8,412)	(46.4%)
	76,834	80,017	(3,183)	(4.0%)
Total operating expenses	**232,876**	217,236	15,640	7.2%
Efficiency ratio	**81.0%**	77.8%		(3.2%)

Total operating expenses increased by $15.6 million in 2019 (Table 5) as First West embarked on a number of key strategic initiatives. These include applying for continuance as a federal credit union, selecting a new enterprise resource planning (ERP) system for implementation and enhancements to the banking system, as well as standardization of products and processes to increase our operational effectiveness.

The additional resources needed to support these strategic initiatives led to an increase in personnel expenses, which increased by $14.4 million or 11.6%, as well as technology and administration expenses, which increased by $4.2 million and $1.0 million respectively. As a result, the operating efficiency ratio increased from 77.8% in 2018 to 81.0% in 2019.

These increases in costs are necessary to position the business for the future and will enable First West to meet the ambitious growth targets in its long-term strategic plan.

Management will continue to focus on managing expenses prudently and sustainably, while ensuring the business has the capacity to grow and take advantage of opportunities as they arise.



LOAN PORTFOLIO

Table 6 - Loan Portfolio

(Expressed in thousands of dollars)	2019	Portfolio%	2018	Portfolio%		2019 Change
Residential mortgages	**4,925,583**	**54%**	4,689,051	55%	236,532	5.0%
Commercial lending	**3,334,843**	**36%**	2,944,772	34%	390,071	13.2%
Retail equity mortgages	**729,524**	**8%**	784,179	9%	(54,655)	(7.0%)
Personal loans and retail LOCs	**175,137**	**2%**	182,460	2%	(7,323)	(4.0%)
Total Outstanding Loans	**9,165,087**	**100%**	**8,600,462**	**100%**	**564,625**	**6.6%**

[1] Balances exclude accrued interest and provision for credit losses

The loan portfolio continued to see healthy growth to reach $9.2 billion in 2019, an increase of 6.6% compared to $8.6 billion in 2018 (Table 6). Commercial lending grew particularly strongly at $390.0 million in aggregate, or 13.2% in 2019, outstripping retail and residential lending, which grew by $174.6 million or 3.1%.

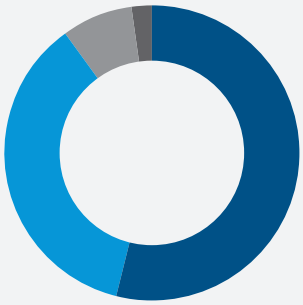
The strongest growth in commercial lending was in commercial loans at $39.8 million or 28.6%, compared to 2018. We expect to see a slower pace of growth in the overall portfolio in 2020, although commercial loans will continue to see the strongest growth, supported by our focus on the agricultural sector.

The product mix in our loan portfolio has remained relatively constant in 2019 (Charts 1 & 2).

Commercial lending grew to 36% of the portfolio in 2019, from 34% in 2018 and residential mortgages decreased slightly to 54%, from 55% of the portfolio in 2018.

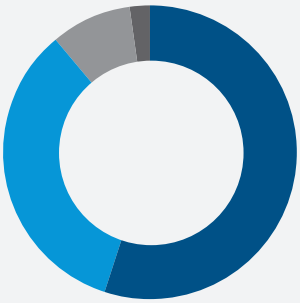
We also observed a relative decline in retail equity mortgages in 2019.

CHART 1 - 2019 PORTFOLIO BREAKDOWN

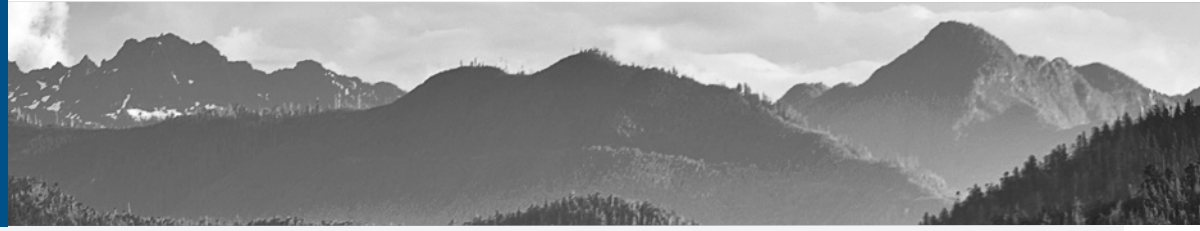


	2019
Residential Mortgages	54%
Commercial Lending	36%
Retail Equity Mortgages	8%
Personal Loans and Retail Locs	2%

CHART 2 - 2018 PORTFOLIO BREAKDOWN



	2018
Residential Mortgages	55%
Commercial Lending	34%
Retail Equity Mortgages	9%
Personal Loans and Retail Locs	2%



Credit quality / Allowance for credit losses

Table 7 - Credit Performance

(Expressed in thousands of dollars)	**2019**	2018	2017
Total loans [2]	**9,182,188**	8,614,062	8,253,538
Allowance for expected credit losses	**42,756**	28,443	23,961
Loan write-offs	**2,435**	2,928	3,589
Impaired loans	**20,654**	13,849	28,956
Members' equity	**766,964**	671,300	610,910

[2] Balances include accrued interest

	2019	**2018**	**2017**
Allowance for credit losses as % of total loans	**0.47%**	0.33%	0.29%
Loan write offs as % of total loans	**0.027%**	0.034%	0.043%
Impaired loans as % of total loans	**0.22%**	0.16%	0.35%
Impaired loans as % of members' equity	**2.69%**	2.06%	4.74%

Our allowance for credit losses as of December 31, 2019, was $42.8 million, compared to $28.4 million in 2018, an increase of $14.3 million or 50.3% (Table 7). The increase is primarily due to specific credit events within the commercial lending portfolio and is not an indication of a general deterioration in the credit quality of the overall lending portfolio, which is performing as expected. We have taken steps to address the underlying issues relating to these specific exposures within the portfolio and continue to strengthen our oversight and control processes.

CHART 3 - ALLOWANCE FOR CREDIT LOSSES AS % OF TOTAL LOANS

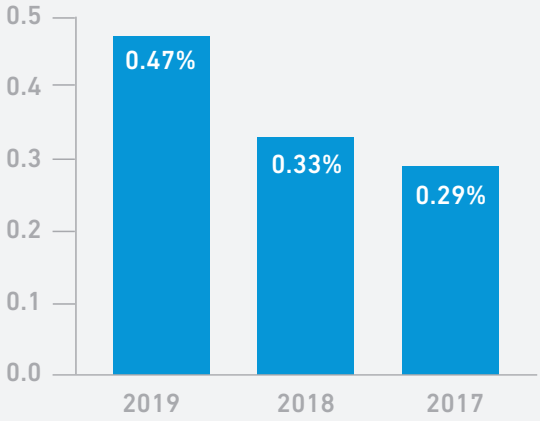
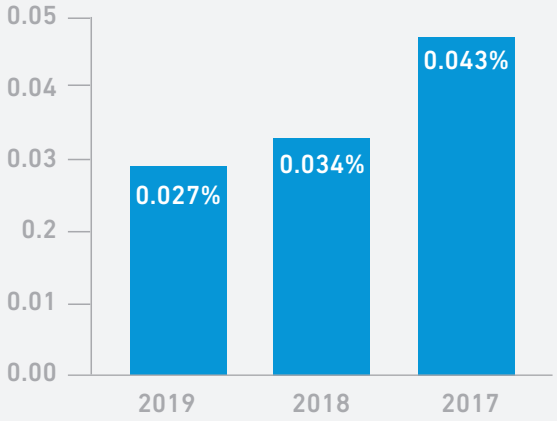
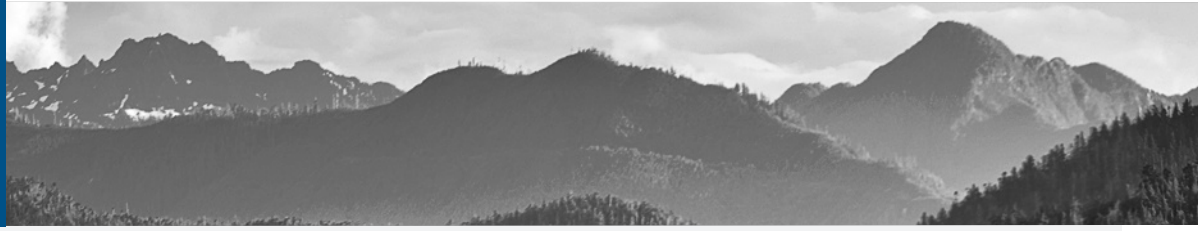


CHART 4 - LOAN WRITE OFFS AS % OF TOTAL LOANS



As a result, the year-end allowance for credit losses represents 0.47% of total loans and accrued interest (Chart 3), compared with 0.33% a year earlier. Loan write-offs as a percentage of total loans decreased to 0.027% in 2019, from 0.034% the previous year (Chart 4).

The allowance for credit losses is adequate based on our analysis of the loan portfolio as of December 31, 2019. A complete analysis of our allowance for credit losses is provided in Note 10 of the consolidated financial statements.



LIQUIDITY AND FUNDING

Liquidity and Funding Risk

Liquidity and funding risk is the risk of having insufficient funding resources to meet cash flow commitments and obligations as they fall due in a timely and cost-effective manner, leading to the potential for losses and the inability to survive specific or market-wide contingent stress events, impacting our ability to meet business objectives.

Risk Governance

As a financial institution, effective risk management is a key success factor for First West. First West has a liquidity and funding policy that provides a framework for liquidity risk management. Liquidity stress testing provides an additional layer of analysis to further quantify and support First West's liquidity management practices.

First West's liquidity risk management approach is informed by its risk appetite framework and strategic plan objectives, and is designed to ensure access at all times to sufficient sources of liquidity, within a diversified and cost-effective funding strategy.

Liquidity Adequacy Requirements

Currently First West adheres to the regulations set by the Financial Institutions Act (FIA) to manage its liquidity and is monitored and regulated by the British Columbia Financial Services Authority (BCFSA).

As we continue to work towards federal continuance, we are making preparations to ensure that we meet the Office of the Superintendent for Financial Institutions' (OSFI) mandated regulatory liquidity requirements.

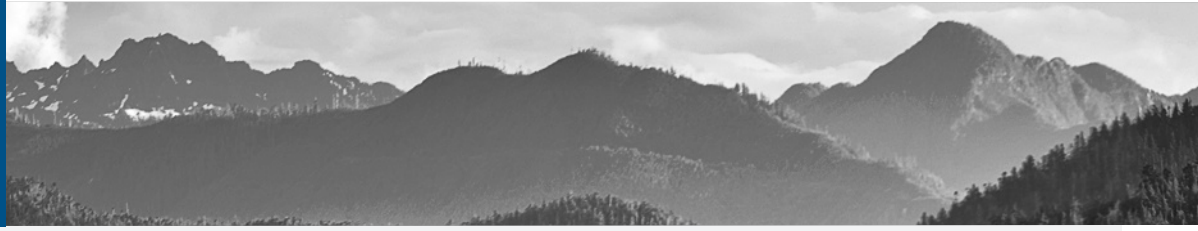
Under both regimes, the liquidity metrics are based on the Basel III Liquidity Framework which includes key metrics such as the Liquidity Coverage Ratio (LCR) and Net Cumulative Cash Flow (NCCF).

Further details of First West's approach to managing liquidity risk, including First West's Liquidity Contingency Plan (LCP), can be found in the Risk Management section of this report.

Liquid Assets

Table 8 - Liquid Assets

(Expressed in thousands of dollars)	**2019**	2018	2019 Change	
			$	%
Cash and Cash Resources	**260,852**	222,414	38,438	17.3%
Investments:				
Term deposits callable or maturing in three or more months	**875,820**	794,697	81,123	10.2%
Investments in pooled funds	**158,991**	149,736	9,255	6.2%
Other	**4,502**	5,484	(982)	(17.9%)
Total Liquid Assets	**1,300,165**	1,172,331	127,834	**10.9%**
Total Assets	**11,034,835**	10,283,084	751,751	**7.3%**
Encumbered Assets	**107,438**	119,902	(12,464)	**(10.4%)**
Unencumbered Assets	**1,192,727**	1,052,429	140,298	**13.3%**



First West holds liquid assets in cash and marketable debt securities (Table 8). The portfolio of securities comprises of short-term deposits held with Central 1 Credit Union and highly rated fixed income securities managed by two asset managers.

Assets held within this portfolio are deemed high-quality liquid assets, which are defined as assets that can be easily and immediately converted into cash at little or no loss of value. As at December 31, 2019, total liquid assets held totaled $1.3 billion and represent 11.8% of total assets. This compares to $1.2 billion and 11.4% in 2018.

DEPOSITS AND FUNDING

Table 9 - Deposits and Funding

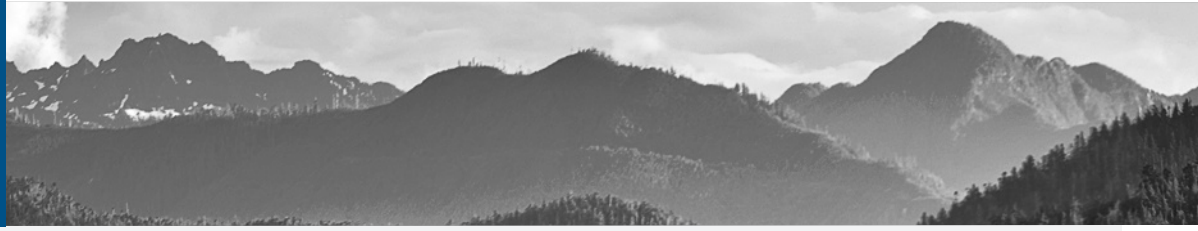
(Expressed in thousands of dollars)	**2019**	2018	2019 Change	
			$	%
Retail Deposits	**4,871,925**	4,676,594	195,331	4.2%
Commercial Deposits	**2,116,194**	2,038,466	77,727	3.8%
Class A membership shares	**5,706**	5,932	(226)	(3.8%)
Accrued interest and dividends	**63,436**	55,425	8,010	14.5%
Core Retail and Commercial Deposits	**7,057,260**	6,776,418	280,843	4.1%
External Deposit Agents	**504,083**	300,211	203,872	67.9%
Institutional and large depositors	**2,090,455**	1,942,074	148,381	7.6%
Deposits from agents and other sources	**2,594,538**	2,242,285	352,253	15.7%
Total Deposits	**9,651,799**	9,018,703	633,096	7.0%

Our funding and liquidity profiles remain strong, with a balance sheet that is primarily deposit-funded (Table 9). 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 2019, deposits totalled $9.6 billion, an increase of 7.0% compared with the prior year. 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, although in 2019 we did not participate in any new securitization transactions under these programs.

To expand and diversify our funding options, First West first obtained a DBRS short-term issuer rating of R-1 (low) in January 2016 and subsequently a DBRS long-term issuer rating of BBB (high) in October 2018. These ratings were confirmed by DBRS in October 2019.

Our liquidity ratios remained healthy in 2019 and are comfortably above regulatory requirements. Total deposit growth in 2019 was $633.1 million, of which $280.8 million was from core retail and commercial sources, while non-core deposits from institutional and other sources grew by $352.3 million.



The maturity profile of our deposits is as follows (Table 10):

Table 10 - Deposit Maturities

(Expressed in thousands of dollars)	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
2019						
Demands	3,384,991	-	-	-	-	3,384,991
Terms	289,705	645,016	2,653,041	1,286,655	57,966	4,932,383
Registered Savings Plans	199,994	103,116	429,116	552,301	44,191	1,328,718
Class A Shares	5,706	-	-	-	-	5,706
Total Deposits	**3,880,396**	**748,133**	**3,082,157**	**1,838,956**	**102,157**	**9,651,799**
2018						
Demands	3,259,348	-	-	-	-	3,259,348
Terms	223,339	329,388	2,745,642	1,205,526	51,384	4,555,279
Registered Savings Plans	203,642	101,362	392,065	450,867	50,207	1,198,144
Class A Shares	5,932	-	-	-	-	5,932
Total Deposits	**3,692,261**	**430,750**	**3,137,707**	**1,656,393**	**101,592**	**9,018,703**
Change	**188,135**	**317,382**	**(55,550)**	**182,563**	**565**	**633,096**

CAPITAL MANAGEMENT

First West's capital is maintained in accordance with regulations prescribed by the British Columbia Financial Services Authority (BCFSA) based on the ratio of total capital to risk-weighted assets. The required regulatory level for the capital ratio is 8%, while a 10% threshold is established before supervisory intervention will occur.

Governance

The Board is responsible for overseeing the management of capital and has delegated responsibility for monitoring adherence to this policy to the Risk, Investment and Loan Committee (RILC). The Board approves the Risk Appetite Framework, which sets out the minimum buffer to regulatory minimum capital levels that should be maintained as First West pursues its strategic plan.

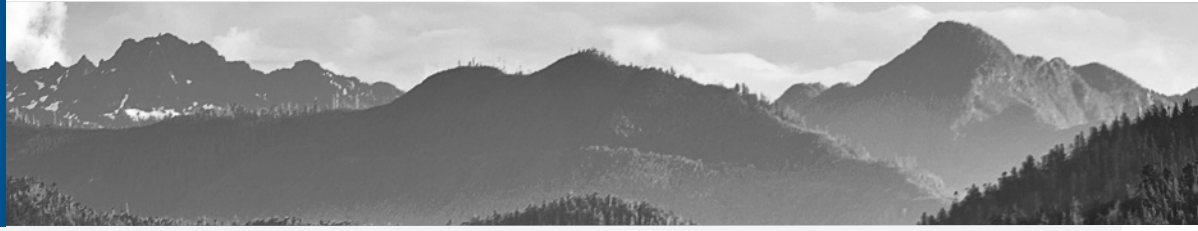
The Board approves the Capital Policy and the Capital Management Contingency Plan (CMCP) on an annual basis and, in conjunction with First West's strategic and financial plans, also reviews and approves the annual Capital Plan, and any subsequent changes to the plan and the Internal Capital Adequacy Assessment Process (ICAAP).

The RILC is charged with reviewing the Capital Policy annually, considering changes in the industry, the First West operating model and risk management practices, identifying necessary amendments and making recommendations for such changes to the Board for its consideration.

The RILC is also charged with reviewing the CMCP and the ICAAP annually and seeks assurances from Management that the current capital levels are adequate.

The RILC's role is to provide effective challenge to management assumptions that underlie the capital management, planning and adequacy assessment, seek assurances that the Capital Policy is being adhered to and on a quarterly basis, review reporting of capital levels relative to the approved Risk Appetite and the Capital Plan.

First West's ICAAP is led jointly by our Treasury and Enterprise Risk Management teams. The objective of the ICAAP is to assess capital requirements based upon First West's business and the prevailing and projected operating environment for the financial services sector.



The ICAAP:

- Identifies the material risks to which First West is exposed
- Provides the governance and risk management framework deployed to effectively manage material risks
- Provides an assessment of the projected capital position relative to our internal capital target
- The ICAAP supplements the annual Capital Plan to ensure:
- Consideration is given to all aspects of risk that could potentially impact First West's capital base
- Stress testing of various risks under severe but plausible stress events is undertaken in order to identify and address potential related impacts

The ICAAP evaluates capital adequacy relative to First West's risk profile in both a normal and a stressed business environment and establishes the appropriate internal capital target level and tolerance thresholds for the ensuing year. Through the ICAAP, our current internal capital target has been set at 13.75%.

As outlined in First West's Risk Appetite Framework and in the Capital Policy, capital adequacy below the 10% supervisory level is deemed to be intolerable, while capital adequacy in excess of the internal capital target is deemed acceptable.

Between these two levels are the 'managed' and 'managed with executive oversight' levels, upon which escalation protocols and management actions outlined within the CMCP would be initiated. These tolerance levels are established to resolve unexpected capital impacts before the 10% supervisory level is reached.

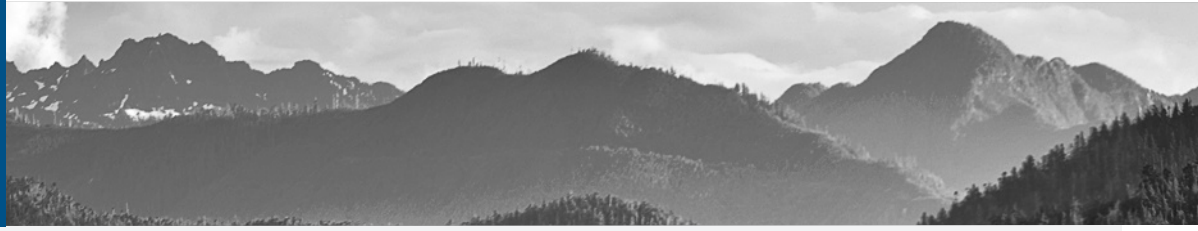
Table 11 - Regulatory Capital

(Expressed in thousands of dollars)	**2019**	2018	2019 Change	
			$	%
Regulatory Capital				
Primary capital	**766,345**	677,102	89,243	13.2%
Secondary capital	**114,550**	111,300	3,249	2.9%
Deductions from capital	**(4,798)**	(28,311)	23,513	(83.1%)
Total Capital	**876,097**	760,091	116,005	15.3%
Risk Weighted Assets	**6,186,434**	5,371,338	815,096	15.2%
Total Capital Ratio	**14.2%**	14.2%	0.0%	0.0%

As of December 31, 2019, First West had a capital ratio of 14.2% on a risk-weighted basis (Table 11). The capital position of First West remains strong and compares favourably with the regulatory prescribed minimum ratio of 8% of total risk-weighted assets, the supervisory level of 10% and our internal capital target of 13.75%.

Total regulatory capital consists of primary capital and secondary capital after taking into account specified deductions from capital. Primary capital includes First West's membership shares, contributed surplus and retained earnings, while secondary capital primarily consists of First West's allowable share of system retained earnings and other equity instruments. The capital ratio of 14.2% remains unchanged from 2018.

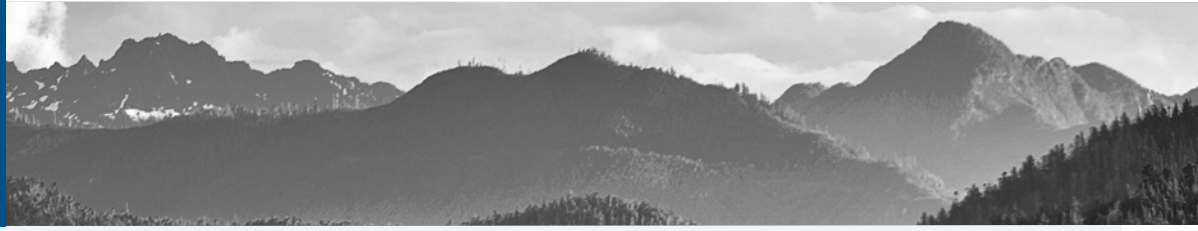
The largest contributor to growth in total regulatory capital is the growth in retained earnings, helping to build our capital buffer with total regulatory capital reaching $876.1 million in 2019, compared to $760.1 million in 2018. During the year, First West sold the assets of its Insurance business, which contributed $42.1 million to



primary capital. The remainder of the increase in primary capital is attributed to current year net income. Of the $815.1 million growth in risk-weighted assets, the largest contributor is the growth in risk-weighted loan balances, which increased by $631.1 million.

As we work towards receiving approval for federal continuance, we will be required to meet the regulatory capital adequacy requirements set by OSFI. OSFI regulations provide some differences to the BCFSA regulations with respect to the regulatory capital measurements and risk weighting assignments.

In 2018, we started developing a process to measure and report our regulatory capital ratios based on OSFI requirements.



8 RISK MANAGEMENT

First West enhanced its risk management framework to improve the risk management capabilities expected of a financial institution of its size and complexity.

2019 Risk Highlights

- Improved quantitative risk analysis and stress testing capabilities to better prepare us for unforeseen events that could impact the credit union
- Enhanced risk governance policies to better align ongoing risk management processes and activities against emerging and developing risk areas
- Enhanced cyber and technology risk management activities to defend against increased cyber attacks
- Introduced a new second line of defense program to improve transactional accuracy
- For each principle risk category, established management committees to oversee the effective management of risks across the credit union

APPROACH TO RISK MANAGEMENT

First West has established an integrated and balanced approach to risk management. This will enable the credit union to achieve long-term sustainable growth, provide security and stewardship of our members' deposits, and deliver innovative products and services. Our risk management framework guides us in prudent, balanced and measured risk-taking aligned with our balanced strategic growth objectives.

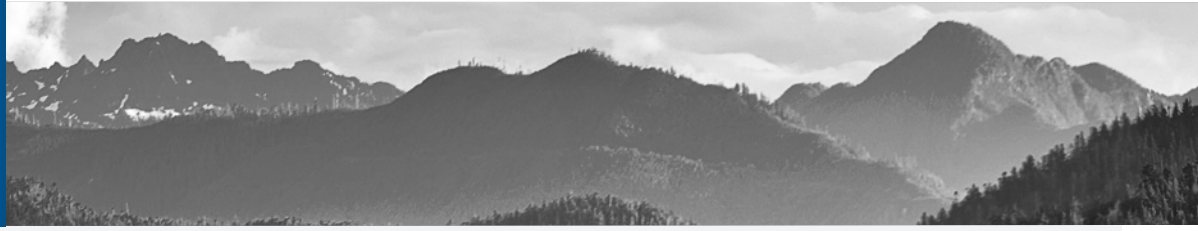
The corporate risk department develops and maintains our risk management framework. This framework encompasses risk culture, risk governance, risk appetite, risk policies, and risk management processes. The framework also provides independent review and oversight across the enterprise on risk-related issues. First West's core strategic objectives include an effective balance of risk and reward.

We consciously accept risks to create long-term sustainable value for our members and support the responsible and efficient delivery of products and services, provided those risks:

- Align with First West's strategic objectives
- Are thoroughly understood, measured and managed within the confines of well-communicated risk tolerances
- Serve to benefit our members, their communities, our employees, our creditors and our regulators

ENTERPRISE RISK MANAGEMENT

First West operates a distributed financial operation. We design risk management processes to complement our overall size, level of complexity, risk profile and risk philosophy. Management recognizes that taking risk is required in operating a successful financial organization. Our business activities expose us to a variety of risks throughout the organization and our ability to manage these risks is a key pillar in maintaining a strong credit union. In addition to our unique model with its locally known divisional brands, we operate specialized subsidiary operations that require specific risk management. Furthermore, regulatory reporting requirements continue to increase, which helps strengthen both First West and our industry.



Objectives and Principles

OBJECTIVES

- Ensure all risk-taking activities and risk exposures are within the Board-approved risk appetite, risk limits and corresponding capital and liquidity needs
- Maintain and ensure continued enhancement of the enterprise risk management framework and practices
- Provide independent and objective oversight of the management of risks arising from our operations and, when necessary, challenge decisions that give rise to material risks
- Maintain an effective enterprise-wide risk management process by working in partnership with all areas of First West

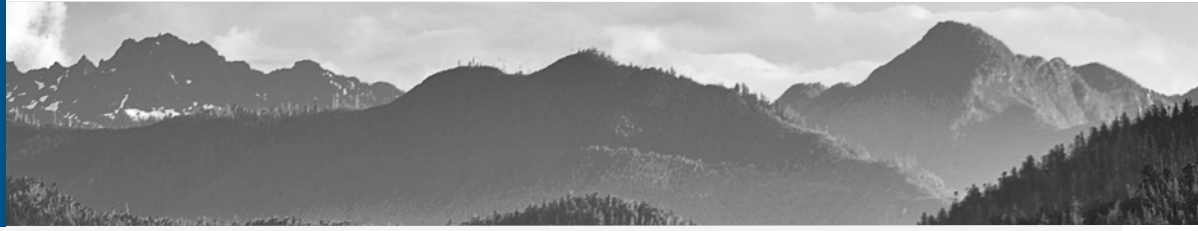
RISK MANAGEMENT PRINCIPLES

- Create value
- Be an integral part of organizational processes
- Challenge the decision-making criteria
- Explicitly address uncertainty and assumptions
- Be a systematic and structured process
- Provide evidence-based and data-driven recommendations
- Take human factors into account
- Be transparent and inclusive, dynamic, iterative and responsive to change
- Be capable of continual improvement and enhancement
- Balance costs and benefits of risk management activities

GOVERNANCE OF RISK MANAGEMENT

At the highest level, oversight and awareness of significant risks is a key accountability of the Board. The Board:

- Approves First West's enterprise risk management framework
- Defines the First West's risk appetite
- Understands the key risks to which First West is exposed
- Establishes prudent risk management governance and policies
- Reviews and approves the Enterprise Risk Governing Policy and other related risk policies on an annual basis
- Gains assurance that First West has an effective risk management process in place
- Gains assurance that the risk management policies are adhered to
- Monitors the level of risk and control over the risks through receipt of reports from management, the regulator and others (including internal and external auditors), and by making enquiries in order to determine if risk levels are appropriate
- Gains assurance that First West has established appropriate risk tolerance and appetite thresholds



CORPORATE RISK MANAGEMENT

First West maintains a corporate risk department that is led by the Chief Risk Officer (CRO). The CRO reports to the CEO and to the Risk, Investment and Loan Committee of the Board. The department is independent from other business units and is responsible for reporting and aggregating risks and keeping Management and the Board informed. The Corporate Risk team supports Management in the areas of enterprise risk management and regulatory compliance management, and is a resource to the Board and Senior Management team in the development of policies, and monitoring activities and tools.

The Corporate Risk team provides the following services:

- Independent oversight of risk-taking decisions
- Support for the Board and Executive Risk Committee in developing the Enterprise Risk Governance Policy, Risk Appetite Framework, and risk tolerance levels
- Identification of key enterprise risks, including emerging risks, and assistance with the development of effective risk management strategies
- Oversight of Management's operational risk management activities, including defining risk measurement methodology, developing risk models and tools, challenging business strategy, emerging risk trends and risk identification
- Independent validation of risk measurement, risk assessments, control design and effectiveness
- Monitoring and reporting risk exposures to the Executive Risk Committee and Board
- Advising on mitigation, framework, appetite and assessment/quantification of risk approaches

RISK MANAGEMENT GOVERNANCE STRUCTURE

The foundation of First West's enterprise risk management framework is a governance approach, consistent with the Office of the Superintendent of Financial Institutions' Corporate Governance Guideline, which includes a robust committee structure, a comprehensive set of corporate policies and limits approved by the Board, and supporting management policies and operating procedures. The risk management framework is governed through a hierarchy of committees and individual responsibilities, as outlined in Figure 1:

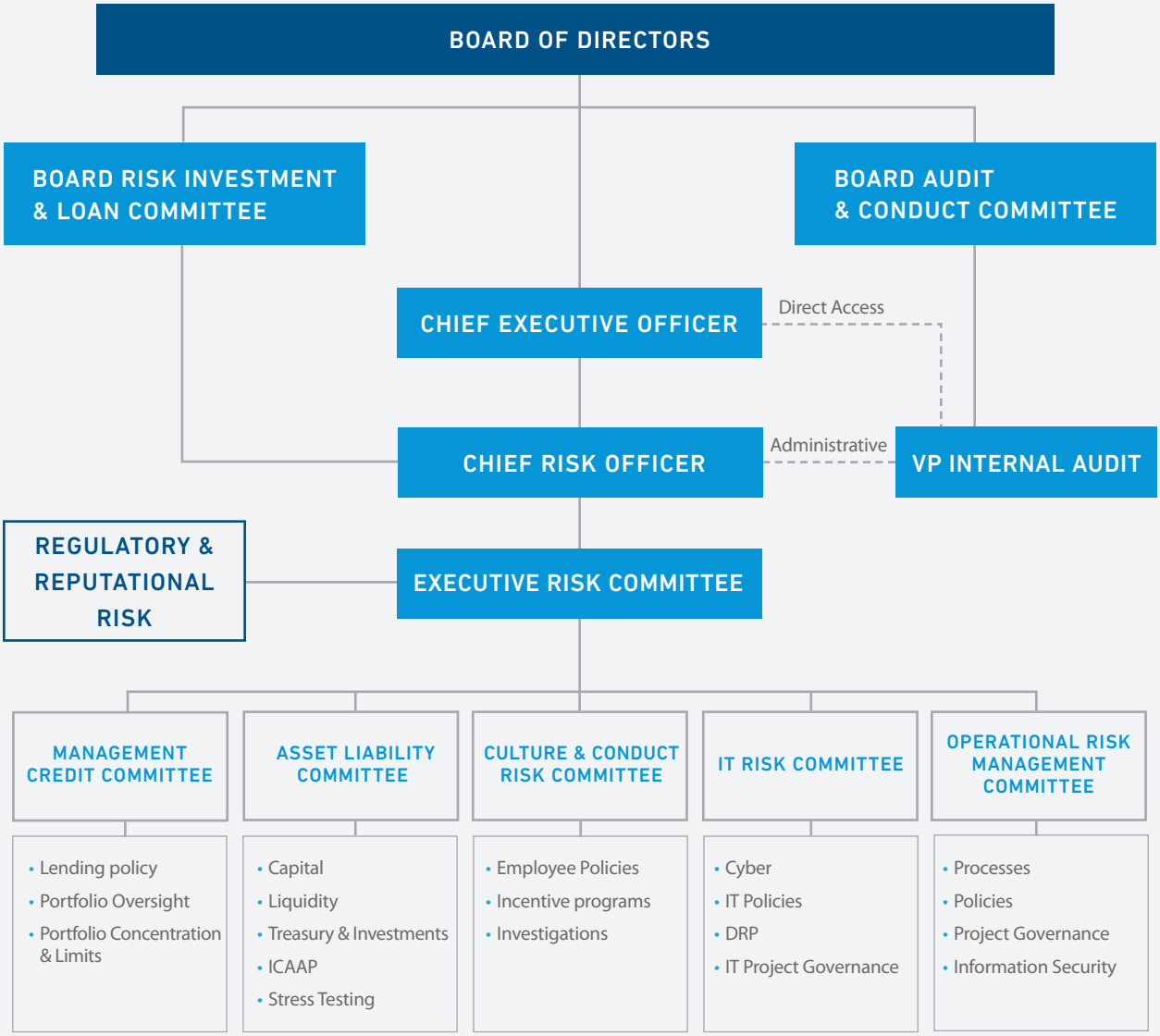


Figure 1: Risk management structure

Board of Directors

The Board is responsible for setting the strategies of First West and overseeing Management. Either directly or through its committees, the Board is responsible for oversight in the following areas: strategic planning, risk appetite, identification and management of risk, capital management, promotion of a culture of integrity, internal controls, evaluation of senior management and succession planning, public disclosure and corporate governance.

Board Risk Investment and Loan Committee

The Board Risk Investment and Loan Committee assists the Board in fulfilling its oversight responsibilities in relation to First West's identification and management of risk, adherence to corporate risk management policies and procedures, and compliance with risk-related regulatory requirements, investments and credit risk oversight.

Board Audit and Conduct Review Committee

The Board Audit and Conduct Review Committee assists the Board in fulfilling its oversight responsibilities with respect to financial reporting, effectiveness of internal controls, the performance of its internal and external audit functions, as well as developing corporate governance policies and practices.

Chief Risk Officer (CRO)

The CRO is the head of corporate risk and is responsible for providing leadership on risk issues, providing independent review and oversight of enterprise-wide risks, and developing and maintaining a risk management framework (which includes key risk metrics and risk policies) and fostering a strong risk culture across the enterprise. The CRO reports functionally to the Board Risk Investment and Loan Committee.

Executive Risk Committee

The Executive Risk Committee provides risk oversight and governance at the highest levels of management. This senior leadership committee reviews and discusses significant risk issues and action plans that arise in executing the enterprise-wide strategy, including regulatory risk and reputational risk. The committee is chaired by the CRO and its membership includes the full First West Senior Leadership Team.

Sub-Committees of the Executive Risk Committee

The various subcommittees oversee the processes whereby the risks assumed across the credit union are identified, measured, monitored, held within delegated limits and reported in accordance with policy guidelines. The five sub-committees are as follows:

Management Credit Committee

The committee is responsible for ensuring that appropriate credit policies are in place, approving loans within delegated limits and monitoring credit portfolio limits, concentration limits and credit stress testing. An additional subcommittee, referred to as the Executive Credit Committee, focuses on adjudication only.

Asset Liability Committee (ALCO)

ALCO reviews and approves operational guidelines and programs for liquidity management and control, funding sources, investments, foreign exchange risk, structural interest rate risk and derivatives risk. The committee also oversees capital adequacy, First West's regulatory capital plan, ICAAP and stress testing.

Culture and Conduct Committee

This committee reviews and approves changes to variable incentive plans, employee-related policies, and oversees investigations into employee conduct and whistleblower reports.

IT Risk Committee

The IT (Information Technology) Risk Committee reviews and approves the IT and cyber risk management framework, incident management, the disaster recovery plan, and technology and cyber security policies. The committee also reviews action plans for improving management of IT and cyber risk.

Operational Risk Committee

This committee reviews the operational risk management framework and oversees changes to operating policies and procedures, project governance, information security and business continuity plans. The Operational Risk Committee also reviews action plans for mitigating risk and improving the management of operational risk.

RISK CULTURE

First West's risk-management culture is embedded throughout the organization. Employees at all levels of the organization share a common philosophy on risk. Employees are accountable for achieving the best results for their business unit and for First West as a whole. Risk management is aligned with the organization's vision and strategy and engrained in our management practices. Business decisions are made at all levels of the organization and every team member has a role in managing risk, including identification, communication and escalation of risk concerns.

Risk Philosophy

Our risk philosophy is based on the premise that First West is in the business of accepting risks for appropriate return. In conducting its business activities, First West—driven by member expectations and the need for sustainable growth and competitive positioning in the marketplace—will accept risks that help meet these needs through the strategic objectives of the organization.

First West's enterprise risk management framework and risk appetite statement are the primary mechanisms for operationalizing our risk philosophy.

Risk Strategy

First West's enterprise risk management (ERM) framework is linked to the credit union's overall vision, mission and business objectives. The same set of internal factors (strengths and weaknesses) and external factors (opportunities and risks) used in our business strategy are fully considered in the formation of our risk appetite. The use of these same factors reflects the belief that risk appetite and business strategy need to be fully aligned and, ultimately, mutually reinforcing.

First West seeks to allocate its risk-taking capacity in a manner that generates sufficient capital to provide member benefits and sustainable growth. This implies that higher levels of risk appetite can be allotted to those risks most closely aligned with our vision, mission, risk management capabilities, member value creation and other risk preferences.

Stakeholder Interests & Risk Appetite

First West's risk appetite accounts for the respective interests of several key stakeholder groups, including members, employees, the communities in which First West operates and financial regulators. First West appropriately balances the various needs, expectations, risk and reward perspectives, and investment horizons of these stakeholders.

RISK MANAGEMENT FRAMEWORK

The primary goal of risk management is to ensure that the outcomes of risk-taking are consistent with our overall risk appetite, our balanced growth strategic objectives and related business activities. The enterprise risk management framework provides the foundation for achieving this goal.

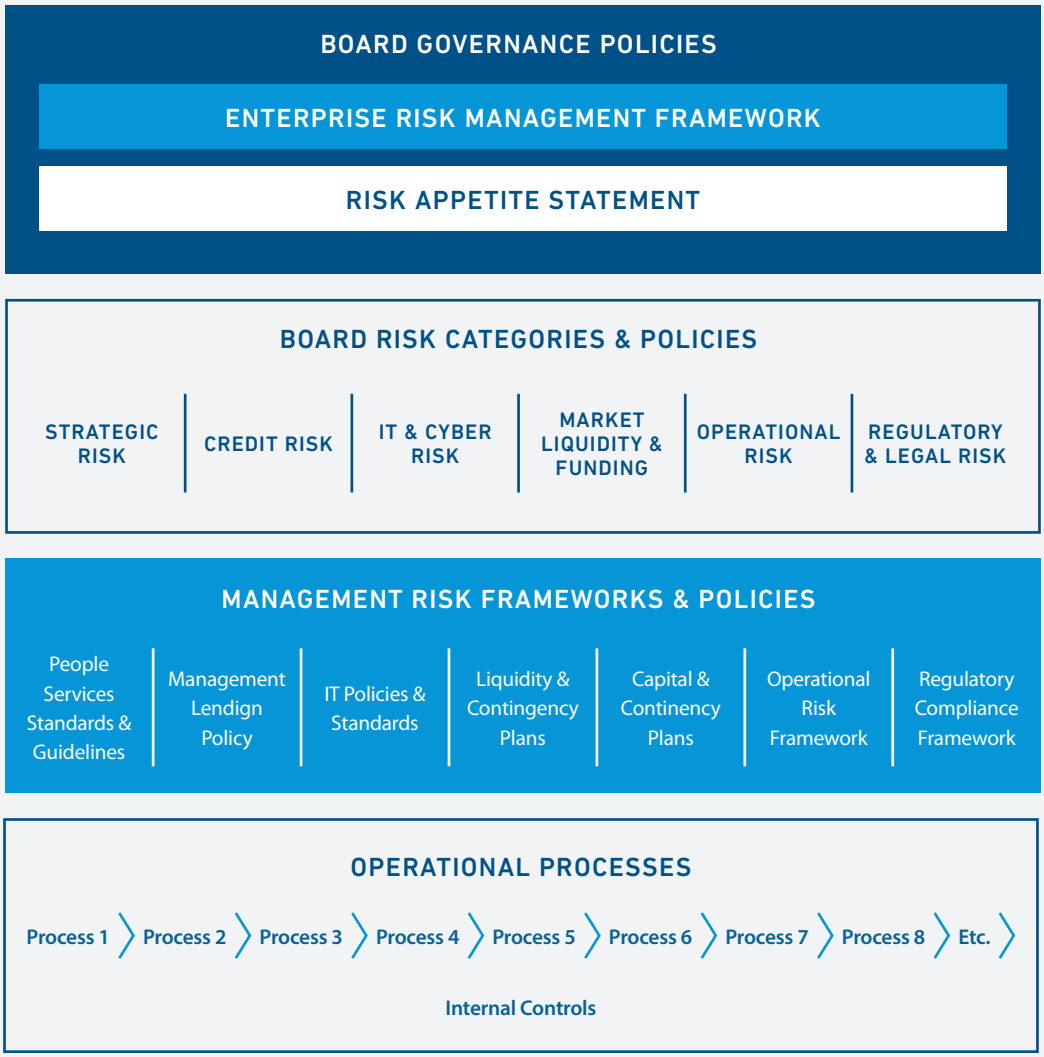


Figure 2: Enterprise Risk Management Framework

The enterprise risk management framework is comprised of the Board governance structure, the risk appetite statement, principle risk categories, management frameworks and oversight committees, and management level policies, processes, procedures and internal controls. The principle risk categories within our risk universe include:

- Strategic risk
- Operational risks
- Credit risk
- Legal and regulatory risks
- Market, liquidity and funding risk
- IT & Cyber risk

Reputational risk arises as a consequence of not effectively managing other risks effectively.

Each risk category has an established risk profile to assess risk levels and their related trends and is reported to the Board on a quarterly basis. This framework includes appropriate tolerances, risk reporting, and Board and management risk policies to effectively manage and monitor risk.

Significant risks affecting First West are monitored, assessed and managed by the management team, with oversight provided by the Executive Risk Committee, and risk positions reported to the Board on a quarterly basis. Areas of significant risk are subject to internal, external and regulatory audits.

Strategic Risk

Strategic risk includes risks related to business strategy execution, the credit union system, business continuity (or disruption) and the external environment in which the credit union operates. Strategic risk arises from inability to implement appropriate business strategies or the inability to adapt to changes in its business or economic environment, or both.

Operational Risk

Operational risk includes people, process, reporting and outsourcing risks.

Operational risk is inherent in all business activities. It is the risk of loss or missed opportunity resulting from inadequate or failed activities with regard to internal processes, systems and projects, human error, or external partners or vendors. This risk may impact our earnings, reputation, competitive position or result in regulatory penalties.

Fraud is an additional operational risk faced by all financial institutions. Fraud is an ever-evolving issue in the financial services industry and although it is impossible to prevent all fraud, we have rigorous controls, procedures and advanced security measures in place to safeguard the funds that our members entrust to us. To better protect our members from fraud, we have implemented a comprehensive cybersecurity strategy and expanded our Cybersecurity team.

Strategies employed to manage operational risk include:

- Establishing standards of professional conduct
- Implementing policies and procedural controls
- Reviewing internal control effectiveness and strengthening areas where needed
- Initiating employee training programs
- Managing property, liability and financial bond insurance programs to provide additional protection from loss
- Establishing a process for employees to confidentially report suspicious activities
- Establishing a process to monitor, prevent and detect suspicious transactions, including a team of specialists dedicated to preventing fraud and managing compliance to legislative requirements
- Maintaining regular audits for compliance and effectiveness of controls by independent internal and external audit teams, which provide Senior Management and the Audit and Risk Management Committee with recommendations to improve internal controls
- Issuing quarterly risk reports to the Board

Credit Risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a party or counterparty to discharge its contractual commitment or obligation to the credit union. Credit risk arises principally in lending activities that result in loans to members, but also from interest rate swaps (derivatives).

Please refer to Note 6(b) of the consolidated financial statements for more information on credit risk.

Market Liquidity and Funding Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. Interest rate risk arises when the values of assets and liabilities do not change by the same amount when interest rates change. Where portfolios are matched in terms of maturities, interest rate risk is reduced. This category also includes yield curve risk, basis risk and optionality risk. Market risk also incorporates price risk and foreign exchange risk.

Please refer to Note 6(d) of the consolidated financial statements for more information on market risk.

Liquidity and funding risk is the risk that insufficient access to or inappropriate management of funds and capital threatens the credit union's capacity to grow. The exposure to loss as a result of a poor investment or the inability to satisfy cash flow obligations in a timely and cost-effective manner impacts our ability to achieve our business objectives.

The liquidity and funding policy of the credit union addresses liquidity and funding risks on both an operational and strategic level. The desired liquidity level above the statutory requirement is determined by taking into account the balance between the cost of liquidity

and the yield achieved. Contingency liquidity is managed by having a plan in place that can be invoked quickly and provides access to a diverse range of funding sources when needed.

The credit union, at all times, maintains statutory liquidity levels as required by regulations. Statutory liquidity deposits must be held with Central 1 Credit Union according to the credit union's deposit-loan agreement. First West has created a Liquidity Contingency Plan (LCP) which establishes strategies for addressing liquidity shortfalls. Preparation includes an early warning system, contingent funding resources, a response plan identifying roles and responsibilities, creation of a crisis management team, and regular testing and review of the plan to ensure that it is operationally sound. Although the credit union has not experienced a significant outflow of client deposits during periods of credit or liquidity stress, this possibility must be considered in the plan. The credit union recognizes liquidity events are unexpected and various conditions can lead to increasing liquidity risk and emergency shortfall situations. This threat reinforces the importance of prudent management guidelines for normal market conditions and for highly stressful market developments. The LCP serves as a formal plan that proactively addresses any emerging funding crisis.

First West's LCP follows required guidelines within the following sections:

- Management of a range of stress environments: describes Management's execution of an action plan under a contingent event
- Strategies for addressing liquidity shortfalls: describes funding sources and how these may be impacted to boost liquidity levels
- Liquidity event management process: describes the model framework which ensures that liquidity risk is addressed; for example, this framework includes clear lines of responsibilities, escalation procedures and testing for operational soundness (the framework ensures testing processes are flexible and routinely updated)
- Monitoring framework for contingency events: describes how the credit union has developed a dashboard of early warning indicators
- Internal controls include how the third-party audit process ensures an operationally sound plan

First West monitors a number of early warning indicators to provide a buffer for Management to react to changes in liquidity and provide an opportunity to avoid any actual breach of any of the LCP triggers. Failure to maintain a Total Liquidity Ratio > 10.0% will result in immediate activation of the LCP. Based on total deposits and borrowings as at December 31, 2019, our total liquidity ratio was 11.3%.

Refer to Note 6(c) of the consolidated financial statements for more information on liquidity risk. First West will only enter into derivative or credit facilities with Central 1 Credit Union or other counterparties that have a minimum DBRS rating of R-1 (middle) or the equivalent.

Legal and Regulatory Risk

Legal and regulatory risk is the risk of negative impact to our earnings or reputation as a result of failure to comply with or adapt to legal and regulatory requirements, industry practices or ethical standards. Our operations are governed by various acts and regulations, and we are expected to meet a high standard in business dealings and transactions.

IT & Cyber Risk

Information technology risk includes infrastructure, IT project, disaster recovery plan, database, IT operational and cyber risks. It includes the risk that confidentiality, integrity and availability of information is not maintained and is inclusive of both internal and external threats.

First West takes seriously its responsibility to ensure our systems are secure, available, have high integrity and continue to meet members' needs. To ensure our systems remain current and robust, significant investments are made each year in infrastructure technologies and cybersecurity resources. First West employs rigorous monitoring activities, testing procedures and plans for disaster recovery and business continuity with our technology systems and data.

RISK APPETITE STATEMENTS

The risk appetite statement (RAS) defines the type and maximum comfortable amount of risk within our risk capacity that First West is willing to assume in pursuit of organizational objectives. The RAS comprises a description of risks First West generally prefers and the ones it generally avoids. We use the RAS as a foundation to define the aggregate level of risk First West may assume across multiple metrics.

QUALITATIVE STATEMENTS

- Manage risk exposures in line with board approved risk appetite
- Manage earnings volatility and exposure to future losses under normal and stressed conditions
- Avoid excessive concentrations of risk
- Ensure sound management of operational and regulatory compliance risk
- Ensure capital adequacy and sound management of market, liquidity and funding risk
- Maintain strong credit risk profile and prudently manage credit risk

QUANTITATIVE STATEMENTS

- Undertake only risks we understand; make thoughtful and future-focused risk decisions
- Effectively balance risk and reward to enable sustainable growth
- Maintain a healthy and robust control environment to protect First West and our members
- Always uphold our purpose and vision and consistently abide by our values, reputation and the trust of our members and communities
- Always be operationally prepared and financially resilient for a potential crisis

THREE LINES OF DEFENCE

First West has adopted the Three Lines of Defence model to help provide a consistent, transparent and clearly documented allocation of accountabilities and segregation of functional responsibilities. This segregation of responsibility helps to establish a robust control framework that improves our understanding and encourages continuous improvement of risk management at First West.

Figure 3: Three Lines of Defence

First Line Responsibilities

In general, some of the key first line of defence risk-related responsibilities include:

- Own and manage all risks within their lines of business
- Conduct business and take various risks to meet strategic objectives and performance goals within our risk appetite
- Act within their delegated risk-taking authority as set out in established policies
- Establish appropriate operating guidelines and internal control structures in accordance with risk policies
- Identify opportunities to optimize risk and responsibilities for ongoing effectiveness of controls

Second Line Responsibilities

In general, some of the key second line of defence risk-related responsibilities include independent challenge, independent assessment, coordination and risk monitoring, as well as providing risk management advice. These activities manifest in the following ways:

- Establish the ERM framework to provide a consistent and integrated view of risk exposures
- Set key risk metrics on which risk appetite and limits are based
- Establish policies, standards, processes and practices that address all significant risks across First West
- Independently assess, quantify, monitor, control and report all significant risk exposures against the risk appetite and limits
- Provide independent oversight and effective challenge of risk
- Independent validation of risk measurement and risk assessments
- Provid advice on mitigation, framework, appetite and assessment/quantification of risk approaches

Third Line Responsibilities

The internal audit function executes the third line of defence. Third line of defence responsibilities are distinct from first and second line of defence responsibilities:

- Provide independent assurance to the Audit Committee as to the effectiveness and appropriateness of (and adherence to) the risk framework
- Independent audit of the first and second line and report to the Audit Committee as to the effectiveness of internal controls
- Independent review of adherence to policies, controls, standards, guidelines, and regulations
- Provide updates to the Executive Risk Committee on its risk-related interactions with the regulators as the third line of defence
- Identify operational weaknesses and recommend improvements, as well as track remediation actions

PRIVACY POLICY

First West is committed to ensuring the confidentiality, privacy and protection of the personal information of all members and other individuals whose personal information is held or controlled by the credit union.

The credit union has a designated Chief Privacy Officer to oversee the protection of personal information in compliance with the BC Financial Institutions Act, the BC Personal Information Act and the credit union's privacy policies and practices.

SUSPICIOUS TRANSACTION REPORTING

First West is committed to preventing the proceeds of crime being laundered through the credit union, including tax evasion or terrorist financing activities.

The credit union has a designated Chief Anti-Money Laundering Officer (CAMLO) who oversees the organization's anti-money laundering and terrorist financing control framework. In addition, the CAMLO ensures compliance with:

- The federal Proceeds of Crime Money Laundering and Terrorist Financing Act
- The credit union's anti-money laundering policy

Suspicious transactions and potential tax evasion are reported to the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). This is a legislated requirement for all financial institutions in Canada.

WHISTLEBLOWER POLICY

The Board and Management is committed to maintaining a healthy work environment that is free of workplace harassment and empowers employees to report any suspected wrongdoing or employee misconducts without fear of recrimination. Our Whistleblower Policy encourages and enables employees to raise concerns. First West is proud of its reputation and our Whistleblower Policy ensures that all reported incidents or suspected wrongdoings are investigated.

9 INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURES

Internal Controls over Financial Reporting (ICFR) are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

However, because of its inherent limitations, ICFR may not prevent or detect misstatements on a timely basis. We are always looking to adopt best practices in financial reporting and corporate governance. To this end, First West has a process in place to evaluate the design and operating effectiveness of its ICFR, striving to continually strengthen its system of internal controls over financial reporting.

10 CRITICAL ACCOUNTING ESTIMATES

First West's significant accounting policies are outlined in Note 4 to the consolidated financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and requires Management to exercise its judgment in the process of applying First West Credit Union's accounting policies.

Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions are changed. The principal areas involving a higher degree of judgment or complexity and/or areas which require significant estimates are described below:

Expected credit losses on loans to members

First West regularly reviews its loan portfolio to assess for impairment using an expected credit loss (ECL) model under IFRS 9. The ECL model requires the recognition of credit losses based on 12 months of expected losses for performing loans (Stage 1) and recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination (Stage 2). Credit impaired loans require recognition of lifetime losses (Stage 3).

The determination of a significant increase in credit risk takes into account many different factors and varies by product and risk segment, which requires experienced credit judgment. The calculation of 12-month expected losses for Stage 1 loans and lifetime expected losses for Stage 2 and Stage 3 loans requires Management to make estimates of the probabilities of default, current collateral values and resulting loss given default, exposure at default, impacts of forward-looking information and forecasts of macroeconomic conditions to First West's ECLs and expected remaining lives of the loans. Changes in any one of the inputs to the ECL calculation can significantly affect the amount of loss allowance recognized in the consolidated financial statements.

Income taxes:

First West computes an effective tax rate which includes an evaluation of the small business rate applicable to credit unions under the Income Tax Act. An estimate of deposit, share and income growth based on the modeling of First West's business plan inclusive of economic indicators provides the basis in determining the applicability of the small business rate.

This rate forms the effective tax rate used in computing the income tax provision. To the extent that estimates differ from the final tax returns, profit or loss would be affected in the subsequent year.

Estimates and underlying assumptions are reviewed on an ongoing basis with revisions to estimates recognized in the period in which the estimate is revised and in any future periods affected.

Fair value of financial instruments:

The fair value of financial instruments, where no active market exists or where quoted prices are not otherwise available, is determined by using specific valuation techniques with observable data of similar financial instruments.

Where market observable data is not available, in areas such as credit risk and correlations, Management uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

Details of First West Credit Union's financial investments are provided in note 30 to the consolidated financial statements.

11 FUTURE CHANGES TO ACCOUNTING POLICIES

A number of new accounting standards are effective for annual periods beginning after January 1, 2020, and earlier application is permitted. First West has not early adopted the new or amended standards in preparing the consolidated financial statements for 2019.

The following amended standards and interpretations are not expected to have a significant impact on First West's consolidated financial statements:

- Definition of a Business (amendments to IFRS 3)
- Definition of Material (amendments to IAS 1 and IAS 8)

12 COMPENSATION PRACTICE

Employees of First West, including the executive group, receive a comprehensive and competitive total rewards package. This includes base salaries, short- and long-term incentives, perquisites, recognition and reward programs, career development opportunities and a competitive flexible benefits package. Base and variable pay programs are based on a review of a number of regional, national and financial market surveys, including Central 1, Korn Ferry, Mercer and Wynford Group, with a specific focus on the B.C. Lower Mainland, Island and Interior regions.

In addition to market comparisons, we obtain trends and projections surveys to determine an annual merit award budget and every two years consider salary structure adjustments, as appropriate. Employees participate in the First West short-term incentive plan (STIP) with payouts based on a combination of business results and individual performance. The credit union contributes a percentage of base salary to a group RRSP, matches employee contributions to a maximum of 10% every year for exempt employees and provides a comprehensive, flexible benefits package, including, but not limited to, extended health, dental, life insurance, accidental death and dismemberment, short-term disability and long-term disability benefits.

Employee perquisites include preferred pricing on various financial products as well as on products through partners.

COMPENSATION PHILOSOPHY

At First West we recognize that attracting and retaining exceptional leadership and talent is critical to our success. Our overall compensation philosophy is based on the simple premise of "pay-for-performance." We believe rewards should be tied to achieving the business strategy and structured to motivate desired performance while retaining talent. We are a culture where people continuously strive to do better, foster creativity and are rewarded accordingly.

Key guiding principles of our Total Rewards are:

- Attractive and competitive to the marketplace
- Aligned with First West business strategy
- Attracts, retains and motivates employees
- Promotes internal equity/fairness
- Simple to communicate, flexible to administer and govern
- Links to objective and meaningful measures of performance

COMPETITIVE POSITIONING

We target the 50th percentile of the marketplace as our desired competitive position on base salary. First West draws talent from a variety of industries and we compare ourselves to other credit unions and financial institutions on a size-adjusted basis as well as general industry.

We recognize that our industry is competitive and skilled employees who deliver desired results are highly valued. Therefore, we take a total compensation approach that sees the integration of the following elements:

- Base pay recognizes the role responsibilities and individual's expertise, experience and performance.
- Variable incentives provide an opportunity for individuals to earn more than base salary if pre-determined personal goals are achieved and behaviours are consistent with our organizational values. The incentives are variable in that they do not payout if the corporate and/or individual performance achievements are not met. This serves to reduce fixed cost risk.
- Benefits provide protection in life events pertaining to health, wellbeing and retirement. We provide a flexible benefits program that employees can customize to fit their individual and family needs.

BASE PAY DESIGN

Base pay is the fixed salary cost that is paid bi-weekly. Roles are grouped into families of similar levels of work and each role is managed within a salary range. The salary structure is designed to have a progressing range, a market range and a premium range. Individuals compensated within the market range, which is based on market data, are those we expect to be fully knowledgeable and competent in their roles. The opportunity to move from the market to premium range can vary based on individual performance and/or specialized skill set.

Base pay growth is dependent upon growth in market rates, individual performance and affordability within the annual budget.

INCENTIVE PLANS

The short-term incentive plan (STIP) is the variable incentive plan for employees and executives. Executive positions that report directly to the CEO are also eligible for a long-term incentive program. Short-term variable pay programs are focused on the achievement of annual corporate performance targets and its payout will vary depending on the level of achievement and affordability. Payouts are on an annual basis if targets are met. The typical target categories include:

- Net operating income
- Operating efficiency
- Financial needs served
- Net membership growth

Depending on the employee's pay grade, a percentage of base salary is paid out depending on the level of achievement of the corporate objectives for that fiscal year. Payouts within that percentage vary based on the level of individual performance and include a performance multiplier up to 150% for exceptional individual performance. There are no incentive payments if the company does not reach at least 80% of its annual net operating income target and in that case, reduced target payouts are possible. The maximum payout is two times the target amount.

OTHER VARIABLE INCENTIVE PLANS

Some positions have a custom incentive plan designed to be market competitive and to attract, motivate and retain these special skill sets. As with the First West STIP program, the target incentive is paid when pre-determined goals, which are driven by the strategic plan, are attained. These incentive awards are calculated and may be paid out on a more frequent basis than annually.

FLEX-BENEFIT DESIGN

Employees participate in a competitive flexible benefits program, which includes extended health, dental, life insurance, short-term disability, long-term disability, accidental death and dismemberment insurance, and optional insurances including critical illness. The company also provides Best Doctors, employee and family assistance, and the ability to purchase additional vacation days. Enhanced features include a health care spending account, wellbeing account and the ability to make charitable donations. First West also provides a group RRSP for retirement purposes. Some employees continue to participate in a legacy defined benefit (DB) pension plan. As part of our total rewards package, employees also have access to an unassigned number of paid personal days that can be used to take care of themselves or family members in the event of illness, unplanned situations or a study day for exam preparation. These are just a few examples of this highly valued employee benefit.

We use a similar comparator group to determine competitive positioning for all other elements of our total compensation.

The plan design is based on the following criteria:

- Provides a minimum level of core "catastrophic coverage" for each employee
- Employees have key responsibility for their own health and wellbeing and share a portion of some costs
- Provides flexible health coverage and wellness choices that suit individuals and families
- Is cost-shared by both the employee and the company

CHIEF EXECUTIVE OFFICER AND EXECUTIVE TEAM COMPENSATION STRUCTURE

We believe our CEO and executive compensation should be:

- Aligned with First West business strategy
- Structured to attract, retain and motivate
- Effective in driving business results and managing risks
- Formulaic regarding incentives and tied to meaningful performance measures
- Reasonable in the eyes of members and other stakeholders

The Board of Directors has approved the compensation philosophy and competitive market positioning for the CEO and executive team outlined below:

- Competitive market for CEO and executive roles is other similar-sized credit unions.
- Target base salary at the 50th percentile of organizations that are similar in size, scope, and complexity and reflect the market for executive talent.
- Total cash and total direct compensation between the 50th and 75th percentiles with flexibility to earn actual compensation in the range of the 75th percentile for exceptional performance and contributions. The total rewards package is comprised of base salary, variable incentives and benefits programs.

CEO COMPENSATION PACKAGE

BASE SALARY

The CEO compensation design was established in 2011. The base salary is reviewed on an annual basis through the annual merit process along with that of other eligible employees at First West. Any increases applied are based on the CEO's performance rating and the approved annual budget for merit awards. The most recent merit award was 5%, effective January 1, 2019.

SHORT-TERM INCENTIVE PLAN (STIP)

The CEO participates in the corporate short-term incentive plan (STIP), available to eligible employees at First West. The STIP is designed to provide annual rewards if defined targets are achieved. These targets are performance-based and use both company and individual objectives.

Company performance measures are established by executive management and the board. In fiscal 2018, the core performance areas and weightings were financial (50%), process improvement (25%) and member experience (25%).

The achievement of pre-defined metrics produces a target payout of 50% of base salary, with no maximum potential payout, for significant overachievement of pre-defined metrics for corporate performance. The STIP specifies that payouts under the plan are contingent on corporate performance and sufficient financial stability in a given year, with board oversight and approval of any payments under the plan.

LONG-TERM INCENTIVE PLAN (LTIP)

The CEO participates in a long-term incentive plan (LTIP) intended to align performance to the long-term goals or objectives of the credit union. A new plan starts a rolling three-year cycle each year and performance is tracked over the three-year period with any payments under the LTIP contingent on achievement of the three-year goals established. No payment is committed or made until the end of the three-year cycle. Future payments depend on continued organizational and individual performance, and continued employment in the CEO role.

Performance measures and metrics for the LTIP are approved by the human resources committee (HRC) on behalf of the board of directors and may change from time to time. The board of directors or the HRC have the discretion to amend the term, vesting, final payout or any provision of a payment under the plan. The plan is reviewed each year or as deemed necessary by the board of directors.

Payouts under the plan are calculated on the CEO's base salary in place at year 1 of each plan and on both company and individual performance achievement. Payout for company achievement at target and an individual performance level of "proficient and demonstrates full competence with all goals being met at a level of professionalism and service that is expected for the role" is set at 50% of base salary. The maximum potential is set at 90% for "significant overachievement of pre-defined metrics."

RRSP AND SERP

The CEO participates in the First West Employee Group RRSP Program with a matching contribution made by the employee. The employer's contribution is vested immediately. This approach is an alternative to providing a defined benefits (DB) plan, which would have similar order of magnitude investment for the organization, but would also add risk and administration for the organization. In addition, the CEO participates in a supplemental executive retirement plan (SERP) that restores pension benefits capped by the income tax maximum limits.

GROUP BENEFITS & PERQUISITE PLAN

The CEO participates in the First West Flexible Benefits Program with the same terms offered to all employees. Additional benefits and a flexible perquisite account are also provided.

SEVERANCE

The CEO employment contract provides a severance package of 12 months' salary in the event of termination of employment.

Details of the compensation paid to First West's chief executive officer for fiscal 2019 are outlined in Table A.

TABLE A

2019 Target Total Cash Compensation[1]

Base Salary	STIP Target	LTIP Target[2]	Target Total Cash
$535,500	60%	70%	$1,231,650

Notes to Table A

1. Target Total Cash Compensation reflects the annual base salary for the CEO (as at January 1, 2019) and the target STIP and LTIP (accrual), based on both First West and the individual achieving 100% of short-term and/or long-term goals.
2. LTIP target is 70% for plan years 2019-2021; target increased effective January 1, 2019.

TABLE B[1]

2019 Actual Total Cash Compensation

Annual Earnings	STIP Payout[2]	LTIP Payout[3]	Other[4]	Total Cash
$534,911	$568,076	$435,084	$130,000	$1,668,071

Notes to Table B

1. Actual Total Cash Compensation reflects the CEO's actual annual earnings in 2019 and actual incentive amounts paid out based on annual achievements for fiscal 2019 (paid in early 2020).
2. STIP payment made in the first quarter of 2020 for fiscal 2019. Company achievement at 118% of annual goals and an individual performance level of "significant overachievement of pre-defined metrics."
3. LTIP payment made first quarter of 2020 for company achievement ending fiscal 2019 at 120% of the three-year goals (related to fiscal 2017-2019) and an individual three-year average performance rating set at "significant overachievement of pre-defined metrics." LTIP target was 50% for 2017- 2019 performance.
4. Other includes $50,000 in the executive perquisites plan (inclusive of car allowance) and $80,000 retention payment.

DESCRIPTION OF COMPENSATION ELEMENTS

TARGET

The target amount for any compensation element is the goal or objective amount (in contrast with the "actual" amount as discussed below). For example, target STIP or target bonus typically describes the amount that would be payable should payout criteria (which might, for example, include individual and organizational performance measures) are fully met. Where base salary is concerned, the term policy or market rate is often used as an alternative to target.

ACTUAL

The actual amount for any compensation element is the specific amount paid in practice. It may be higher or lower than the target amount.

BASE SALARY

Base salary is the guaranteed portion of an employee's compensation, the fixed amount paid on a regular basis by the employer in return for work performed.

SHORT-TERM INCENTIVE PLAN (STIP)

Short-term incentives may be called by other names, such as bonuses, profit sharing or annual incentives. These are non-guaranteed cash payments that are linked to specified measures. "Short-term" typically indicates that they are earned over a year or less, in contrast with long-term incentives.

LONG-TERM INCENTIVE PLAN (LTIP)

Long-term incentives are non-guaranteed payments (cash or, in some sectors, equity instruments) that are linked to specified measures, just as short-term incentives are, but are earned over multi-year periods.

PENSION CONTRIBUTION

This is the amount that a given party contributed to a pension for an employee. Typically, in disclosure, the focus would be on the employer's contribution. For defined contribution (DC) plans, this is the primary focus.

PENSION

This is the value of the pension as determined by actuarial methods.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (SERP)

A SERP is a retirement or pension plan that provides for retirement income payments in excess of those provided under "registered pension plans" (which are qualified or tax-assisted plans). Registered pension plans are subject to "defined benefit" or "defined contribution" limits designed to limit the benefits that may be funded through such plans on a tax-assisted basis. Because of those limits, registered pension plans often do not provide adequate income replacement for higher income employees and SERPs are commonly used to supplement or "top up" the benefits provided under registered pension plans.

BENEFITS

Benefits are types of non-wage compensation provided to employees. Typically, this includes group insurance plans (health, dental, life, etc.), disability income protection, leaves and vacation, statutory benefits and other similar elements. The definition may be broadened to include perquisites, allowances, pension and other components, depending on usage.

Benefits may also be measured using methodologies that assess their value as opposed to what they cost the employer to provide.

PERQUISITES

Typically, the term perquisite is used to refer to a benefit that is difficult to quantify or may be more discretionary.

SEVERANCE

A severance package consists of the compensation (pay, benefits and other key terms) that an employee receives when their employment ends.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY

The accompanying statements of First West Credit Union have been prepared by management, which is responsible for their integrity, objectivity, and reliability as well as for selecting appropriate accounting policies that are consistent with generally accepted accounting principles in Canada. The financial statements necessarily include some amounts that are based on estimates and judgments of management with appropriate consideration to materiality.

The financial information presented elsewhere in this annual report is consistent with the information in the financial statements, unless otherwise noted.

The credit union's accounting and internal control systems and supporting procedures are designed and maintained to provide reasonable assurance that financial records are complete, reliable, and accurate and that assets are safeguarded against loss from unauthorized use or disposition. The procedures include training and selection of qualified staff, the establishment of an organizational structure that provides a well-defined division of responsibilities, and accountability for performance. In addition, the systems include policies and standards of business conducted that are communicated throughout the organization to prevent conflicts of interest and unauthorized disclosure of information.

The credit union's board of directors, acting through its Audit and Conduct Review Committee composed of directors, oversees management's responsibilities for the financial reporting and internal control systems. Our internal auditors review our systems and periodically are asked to undertake in-depth system reviews of specific functional operations. The Provincial Superintendents of Financial Institutions may conduct an examination and make such inquiries into the affairs of the credit union as they may deem necessary to satisfy themselves that the provisions of the appropriate legislation are being duly observed and that the credit union is in sound financial condition.

KPMG LLP, the independent auditors appointed by the members, have examined our financial statements and issued their report, which follows. The auditors have full and complete access to, and meet periodically with, the Audit and Conduct Review Committee to discuss their audit and matters arising therefrom.

Launi Skinner

Chief Executive Officer

Thomas Webster

Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Members of First West Credit Union

OPINION

We have audited the consolidated financial statements of First West Credit Union (the "Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2019
- the consolidated statement of profit or loss for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in members' equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is

materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Annual Report as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada

March 16, 2020

FIRST WEST CREDIT UNION

Consolidated Statement of Financial Position
(Expressed in thousands of dollars)

December 31, 2019, with comparative information for 2018

	Notes	2019	2018
Assets			
Cash resources	8	$ 260,852	$ 222,414
Derivative assets	9	19,377	8,414
Loans to members	10	9,139,432	8,585,619
Investments	11	1,196,125	1,117,996
Assets held for sale	32	7,193	-
Premises and equipment	12	111,659	63,205
Intangible assets	13	6,759	35,854
Deferred tax assets	25	30,666	6,937
Other assets	14	262,771	242,645
		$ 11,034,834	$ 10,283,084
Liabilities and Members' Equity			
Deposits from members	15	$ 9,651,799	$ 9,018,703
Borrowings	16	412,766	471,412
Derivative liabilities	9	6,823	18,169
Deferred tax liabilities	25	28,804	9,992
Other liabilities	17	167,678	93,508
		10,267,870	9,611,784
Members' equity:			
Equity shares	19	29,870	31,325
Contributed surplus		163,651	163,651
Retained earnings		576,600	489,394
Accumulated other comprehensive loss ("AOCI")		(3,157)	(13,070)
		766,964	671,300
Commitments and contingencies	27		
		$ 11,034,834	$ 10,283,084

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Wayne Becker

Wayne Becker

Meryle Corbett

Meryle Corbett

FIRST WEST CREDIT UNION

Consolidated Statement of Profit or Loss
(Expressed in thousands of dollars)

Year ended December 31, 2019, with comparative information for 2018

	Notes	2019	2018[1]
Interest income:			
Loans		$346,507	$316,475
Cash resources and investments		18,541	14,279
		365,048	330,754
Interest expense:			
Deposits		153,602	124,006
Borrowings		10,582	10,462
Lease liabilities		2,936	-
		167,120	134,468
Net interest income	20	197,928	196,286
Provision for credit losses	10	16,748	7,000
		181,180	189,286
Fee and commission income	21	63,534	60,708
Other income	22	39,400	30,751
		284,114	280,745
Personnel expenses	23	138,685	124,295
Depreciation and amortization		17,357	12,924
Other expenses	24	76,834	80,017
		232,876	217,236
Profit before income tax expense from continuing operations		51,238	63,509
Income tax expense	25	8,521	12,185
Profit from continuing operations		42,717	51,324
Profit from discontinued operations, net of tax	32	45,435	6,579
Profit for the year		$88,152	$57,903

See accompanying notes to consolidated financial statements.

[1] Comparative information has been re-presented to reflect the presentation of discontinued operations as described in note 32.

FIRST WEST CREDIT UNION

Consolidated Statement of Comprehensive Income
(Expressed in thousands of dollars)

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Profit for the year	$88,152	$57,903
Other comprehensive income, net of income taxes:		
Items that may be reclassified to profit or loss:		
Hedging reserve (cash flow hedges):		
Net unrealized gain, (net of income taxes of $2,146 (2018 - $1,115))	9,913	5,447
Total other comprehensive income, net of income taxes	9,913	5,447
Comprehensive income	$98,065	$63,350

See accompanying notes to consolidated financial statements.

FIRST WEST CREDIT UNION

Consolidated Statement of Changes in Members' Equity
(Expressed in thousands of dollars)

Year ended December 31, 2019, with comparative information for 2018

		AOCI				
	Equity shares	Hedging reserve	Fair value reserve	Contributed surplus	Retained earnings	2019 Total
Balance at December 31, 2018	$ 31,325	$ (13,065)	$ (5)	$ 163,651	$ 489,394	$ 671,300
Profit for the year	-	-	-	-	88,152	88,152
Other comprehensive income, net of income taxes:						
Hedging reserve (cash flow hedges):						
Effective portion of changes in fair value	-	9,913	-	-	-	9,913
Total other comprehensive income	-	9,913	-	-	-	9,913
Comprehensive income	-	9,913	-	-	88,152	98,065
Contributions by and distribution to members:						
Dividends, net of related tax savings	-	-	-	-	(946)	(946)
Redemptions of equity shares	(1,455)	-	-	-	-	(1,455)
Total distribution to members	(1,455)	-	-	-	(946)	(2,401)
Balance at December 31, 2019	$ 29,870	$ (3,152)	$ (5)	$ 163,651	$ 576,600	$ 766,964

		AOCI				
	Equity shares	Hedging reserve	Fair value reserve	Contributed surplus	Retained earnings	2018 Total
Balance at December 31, 2017	$ 32,865	$ (18,512)	$ 4,777	$ 163,651	$ 428,129	$ 610,910
Adjustment on initial application of IFRS 9, net of tax	-	-	(4,782)	-	4,372	(410)
Balance at January 1, 2018	32,865	(18,512)	(5)	163,651	432,501	610,500
Profit for the year	-	-	-	-	57,903	57,903
Other comprehensive income, net of income taxes:						
Hedging reserve (cash flow hedges):						
Effective portion of changes in fair value	-	5,447	-	-	-	5,447
Total other comprehensive income	-	5,447	-	-	-	5,447
Comprehensive income	-	5,447	-	-	57,903	63,350
Contributions by and distribution to members:						
Dividends, net of related tax savings	-	-	-	-	(1,010)	(1,010)
Redemptions of equity shares	(1,540)	-	-	-	-	(1,540)
Total distribution to members	(1,540)	-	-	-	(1,010)	(2,550)
Balance at December 31, 2018	$ 31,325	$ (13,065)	$ (5)	$ 163,651	$ 489,394	$ 671,300

See accompanying notes to consolidated financial statements.

FIRST WEST CREDIT UNION

Consolidated Statement of Cash Flows
(Expressed in thousands of dollars)

Year ended December 31, 2019, with comparative information for 2018

	Notes	2019	2018
Cash provided by (used in):			
Cash flows from operating activities:			
Profit for the year		$ 88,152	$ 57,903
Adjustments for:			
Provision for credit losses		16,748	7,000
Depreciation and amortization		17,843	13,304
Net interest income		(197,928)	(196,286)
Income tax expense		28,010	13,106
Gain on sale of discontinued operations	32	(60,980)	-
Changes in:			
Derivative assets and liabilities		(9,154)	5,195
Loans to members		(567,060)	(362,315)
Other assets		(13,096)	(34,265)
Deposits from members		625,085	232,797
Other liabilities		12,523	3,774
Interest received		360,451	331,756
Interest paid		(156,046)	(121,658)
Dividends paid		(1,151)	(1,217)
Income tax paid		(24,523)	(3,007)
Net cash flows provided by (used in) operating activities		118,874	(53,913)
Cash flows from investing activities:			
Acquisition of investments		(88,204)	(30,377)
Proceeds from sale of investments		7,271	130,990
Proceeds from disposal of discontinued operations	32	75,979	-
(Acquisition) disposal of:			
Premises and equipment, net		(7,702)	(7,351)
Intangible assets, net		331	93
Net cash flows provided by (used in) investing activities		(12,325)	93,355
Cash flows from financing activities:			
Proceeds from borrowings		100,000	212,463
Repayment of borrowings		(158,773)	(116,467)
Repayment of lease liabilities		(7,883)	-
Redemption of equity shares		(1,455)	(1,540)
Net cash flows provided by (used in) financing activities		(68,111)	94,456
Net increase in cash resources		38,438	133,898
Cash resources, beginning of year		222,414	88,516
Cash resources, end of year	8	$ 260,852	$ 222,414

See accompanying notes to consolidated financial statements.

1. Reporting entity:

First West Credit Union (the "Credit Union") is domiciled in Canada and its head office is located at 6470 201 Street, Langley, BC. The Credit Union is governed by the Credit Union Incorporation Act (British Columbia) and is also subject to the provisions of the Financial Institutions Act (British Columbia) ("the Act"). The consolidated financial statements of the Credit Union as at and for the year ended December 31, 2019 comprise the Credit Union and its subsidiaries (hereinafter together referred to as the "Credit Union" and individually as "Credit Union entities"). The Credit Union primarily is involved in retail and commercial banking, insurance brokerage (prior to classification as a discontinued operation (note 32)), leasing services, asset management services, and other integrated financial products and services.

2. Basis of preparation:

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on March 16, 2020.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis, except for the following:

(i) financial instruments measured at fair value; and

(ii) the liability for defined benefit obligations is recognized as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognized actuarial gains, less unrecognized past service cost and unrecognized actuarial losses.

(c) Functional currency:

These consolidated financial statements are presented in Canadian dollars, which is the Credit Union's functional currency.

3. Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Credit Union's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions have changed. The principal areas involving a higher degree of judgment or complexity and/or areas which require significant estimates are described below:

(a) Expected credit losses on loans to members:

The Credit Union regularly reviews its loan portfolio to assess for impairment using the "expected credit loss" ("ECL") model under IFRS 9. The ECL model requires the recognition of credit losses based on 12 months of expected losses for performing loans (Stage 1) and recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination (Stage 2). Credit impaired loans require recognition of lifetime losses (Stage 3). The determination of a significant increase in credit risk takes into account many different factors and varies by product and risk segment, which requires experienced credit judgment.

The calculation of 12-month expected losses for Stage 1 loans and lifetime expected losses for Stage 2 loans and credit-impaired loans requires management to make estimates of the probabilities of default, current collateral values and resulting loss given default, exposure at default, impacts of forward looking information and forecasts of macroeconomic conditions to the Credit Union's ECL and expected remaining lives of the loans. Changes in any one of the inputs to the ECL calculation can significantly affect the amount of loss allowance recognized in the consolidated financial statements.

(b) Income taxes:

The Credit Union computes an effective tax rate which includes an evaluation of the small business rate applicable to credit unions under the Income Tax Act. An estimate of deposit, share and income growth based on the modeling of the Credit Union's business plan inclusive of economic indicators provides the basis in determining the applicability of the small business rate.

This rate forms the effective tax rate used in computing the income tax provision. However, the actual amounts of income tax expense do not become final until the filing and acceptance of the income tax return by the relevant tax authorities, which occurs subsequent to the issuance of the consolidated financial statements. To the extent that estimates differ from the final tax returns, profit or loss would be affected in the subsequent year.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

3. Use of estimates and judgments (continued):

(c) Fair value of financial instruments:

The fair value of financial instruments, where no active market exists or where quoted prices are not otherwise available, is determined by using specific valuation techniques with observable data of similar financial instruments. Where market observable data is not available, the Credit Union uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Details of the Credit Union's financial investments are provided in note 30.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

4. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except as otherwise noted.

(a) Basis of consolidation:

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Credit Union and its subsidiaries: First West Insurance Services Ltd., FW Wealth Management Ltd., First West Leasing Ltd., FWCU Capital Corp., 619547 BC Ltd., and 637506 BC Ltd. All inter-corporate transactions and balances have been eliminated in preparing the consolidated financial statements.

(i) Business combinations:

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Credit Union. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Credit Union takes into consideration potential voting rights that currently are exercisable.

The Credit Union measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Credit Union elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

4. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

(*i*) Business combinations (continued):

Transaction costs, other than those associated with the issue of debt or equity securities, that the Credit Union incurs in connection with a business combination are expensed as incurred.

(*ii*) Subsidiaries:

Subsidiaries are entities controlled by the Credit Union. The consolidated financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(b) Foreign currency:

Transactions in foreign currencies are translated to the functional currency of the Credit Union at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(c) Discontinued operation:

A discontinued operation is a component of the Credit Union's business, the operations and cash flows of which can be clearly distinguished from the rest of the Credit Union and which; represents a separate major line of business or geographic area of operations; is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or, is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss is represented as if the operation had been discontinued from the start of the comparative year.

4. Significant accounting policies (continued):

(d) Interest:

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Credit Union estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all fees and basis points to be paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of profit or loss include:

(i) interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis;

(ii) interest on investment securities measured at FVOCI calculated on an effective interest basis;

(iii) the ineffective portion of fair value changes in qualifying hedging derivatives designated as cash flow hedges of variability in interest cash flows;

(iv) interest and expense on settlement of derivative contracts; and

(v) fair value changes on other derivatives held for risk management purposes.

(e) Fees and commissions:

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized in the period the related performance obligations are satisfied.

For performance obligations that are satisfied over time, revenue is recognized over the period that the services are performed. For performance obligations that are satisfied at a point in time, revenue is recognized when the member obtains control of the promised good or service.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

4. Significant accounting policies (continued):

(f) Dividends:

Dividend income is recognized when the right to receive income is established. Dividends are reflected as other income based on the classification of the underlying equity investment.

(g) Lease payments:

Policy applicable from January 1, 2019:

Lease definition:

At the inception of a contract, the Credit Union assesses whether a contract is or contains a lease based on the definition of a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Recognition and measurement:

The Credit Union recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use assets are initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations.

The right-of-use assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease, or, if that rate cannot be readily determined, the Credit Union's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured when there are changes in the following: i) in the lease term; ii) the Credit Union's assessment of whether it will exercise a purchase option; iii) a change in an index or a change in the rate used to determine the payments; and iv) amounts expected to be payable under residual value guarantees.

Policy applicable before January 1, 2019:

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

4. Significant accounting policies (continued):

(h) Income taxes:

Income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(i) Financial assets and financial liabilities:

(i) Recognition:

The Credit Union initially recognizes loans, deposits, and borrowings on the date at which they are originated. Regular way purchases and sales of financial assets are recognized on the trade date at which the Credit Union commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Credit Union becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

4. Significant accounting policies (continued):

(i) Financial assets and financial liabilities (continued):

(*ii*) Classification:

Financial assets:

On initial recognition, a financial asset is classified as measured at:

- amortized cost;
- fair value through other comprehensive income ("FVOCI"); or
- fair value through profit or loss ("FVTPL")

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL.

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI").

A debt security is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity instrument that is not held for trading, the Credit Union may irrevocably elect to present subsequent changes in fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Credit Union may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

4. Significant accounting policies (continued):

(i) Financial assets and financial liabilities (continued):

(*ii*) Classification:

Financial assets (continued):

Business model assessment:

The Credit Union makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Credit Union's management;
- the strategy of how the risks that affect the performance model are managed;
- frequency, volume and timing of sales in prior periods and the expectations about future sales activities are considered as part of the overall assessment of how the Credit Union's stated objective for managing the financial assets is achieved.

Assessment of whether contractual cash flows are SPPI:

In assessing whether the contractual cash flows are SPPI, the Credit Union considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Credit Union considers:

- contingent events that would change the amount and timing of cash flows;
- prepayment and extension terms; and
- terms that may adjust the contractual coupon rate.

Reclassifications:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing financial assets. There were no changes to any of the Credit Union's business models during 2019 or 2018.

4. Significant accounting policies (continued):

(i) Financial assets and financial liabilities (continued):

(*ii*) Classification:

Financial liabilities:

The Credit union classifies its financial liabilities, other than financial guarantees and loan commitments, measured at amortized cost or fair value through profit or loss. See notes 4(k) and 4(r).

(*iii*) Derecognition:

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of the transferred financial asset, it assesses whether it has retained control over the transferred asset. If control has been retained, the Credit Union recognizes the transferred asset to the extent of its continuing involvement. If control has not been retained, the Credit Union derecognizes the transferred asset.

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

The Credit Union periodically transfers loans to Special Purpose Entities ("SPE's") through securitizations or through transfers to independent third parties. In instances where the Credit Union's securitizations and other transfers of receivables do not result in a transfer of contractual cash flows of the receivables or an assumption of an obligation to pay the cash flows of the receivables to a transferee, the Credit Union fails de-recognition of the transferred receivables and records a secured borrowing with respect to any consideration received.

4. Significant accounting policies (continued):

(i) Financial assets and financial liabilities (continued):

(*iv*) Offsetting:

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Credit Union has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(*v*) Amortized cost measurement:

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(*vi*) Fair value measurement:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants on the measurement date.

Valuation techniques include net present value and discounted cash flow models, and comparison with similar instruments for which market observable prices exist. Assumptions used in valuation techniques include risk free and benchmark interest rates, credit spreads and discount rates.

The Credit Union uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, such as interest rate swaps and equity linked options that use only observable market data and require little management judgment and estimation. Availability of observable market prices and model inputs reduces the uncertainty associated with determining fair values.

4. Significant accounting policies (continued):

(i) Financial assets and financial liabilities (continued):

(*vi*) Fair value measurement (continued):

For more complex instruments, the Credit Union uses proprietary valuation models, which are developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Instruments involving significant unobservable inputs include certain mortgage investments and shares for which there is no active market and retained interest in securitizations. Management judgment and estimation are required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates.

Financial instruments classified at FVTPL are measured at fair value, with fair value changes recognized immediately in profit or loss.

For financial assets classified as measured at FVOCI, or an irrevocable election has been made, changes in fair value is recognized in OCI. For equity investments measured at FVOCI, the amounts recognized in OCI are never reclassified to profit and loss.

(vi) Identification and measurement of impairment:

The Credit Union recognizes a loss allowance for ECL at each reporting date for all financial assets that are measured at amortized cost and debt instruments measured at FVOCI.

Loss allowances are measured on either of the following bases:

- 12-month ECL: these are losses that result from possible default events within the 12 months after the reporting date; and
- lifetime ECL: these are losses that result from all possible default events over the expected life of a financial instrument.

ECL is measured as 12-month ECL unless the credit risk on a financial instrument has increased significantly since initial recognition.

4. Significant accounting policies (continued):

(i) Financial assets and financial liabilities (continued):

(*vii*) Identification and measurement of impairment (continued):

Assessment of significant increase in credit risk:

The assessment of significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. Factors considered in the assessment include macroeconomic outlook, delinquency and borrower credit conditions. The importance and relevance of each specific macroeconomic factor depends on the portfolio, characteristics of the financial instruments, and the borrower. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap.

In determining the amount of loss allowance for ECLs to recognize, the Credit Union assesses at each reporting date whether there has been a significant increase in credit risk ("SICR"). In assessing whether a SICR has occurred, the Credit Union considers quantitative factors and qualitative factors.

A SICR is considered to have occurred when any of three conditions are met. The conditions include a change in the probability of default in excess of predetermined thresholds, the backstop criterion based on delinquency has been met, or other portfolio specific considerations.

The predetermined thresholds are specific to each portfolio and the initial credit quality of the account. Generally, accounts with higher credit quality would require relatively larger changes in the probability of default to trigger a SICR, while lower credit quality accounts would require relatively smaller changes to trigger a SICR.

For all loans to members, the backstop criterion is met when an account is 30 days past due and will be transferred to Stage 2.

Loans to members are assessed and measured on a collective basis in groups of financial assets that share credit risk characteristics. For this purpose, the Credit Union has grouped its financial assets into segments on the basis of shared credit risk characteristics for each component of the ECL calculation.

For certain instruments with low credit risk as at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has a low risk of default and the borrower has the ability to fulfill their contractual obligations both in the short and long term, including periods of adverse changes in the economic or business environment.

4. Significant accounting policies (continued):

(i) Financial assets and financial liabilities (continued):

(*vii*) Identification and measurement of impairment (continued):

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls, which is the difference between the cash flows due in accordance with the contract and the cash flows expected to be received. The measurement of ECL is based primarily on the product of the following variables: probability of default (PD), loss given default (LGD), and exposure at default (EAD).

The PD is an estimate of the likelihood that a loan will not be repaid and will go into default in either a 12-month or lifetime horizon. The LGD is an estimate of the amount that may not be recovered in the event of default. The EAD is an estimate of the outstanding amount of credit exposure at the time a default may occur. These estimates are modelled based on historic data, current market conditions, and reasonable and supportable information about future economic conditions, where appropriate.

Probability of default:

ECLs for Stage 1 assets and lifetime ECLs for Stage 2 and Stage 3 assets are calculated using the 12-month PDs and lifetime PDs, respectively and are determined as follows:

- Residential mortgages, personal loans and lines of credit - based on credit scores, and the average historical annual default rate for the relevant PD segment.
- Commercial mortgages, loans and lines of credit - based on the current internal risk ratings assigned to the assets and the historical bond default rates provided by Moody's Investors Service, Inc., mapped to the relevant PD segment.

The lifetime PDs for all loans to members are calculated based on the 12-month PDs for the assets and the expected remaining life of the assets, assuming a constant default rate during the lifetime of the assets.

4. Significant accounting policies (continued):

(i) Financial assets and financial liabilities (continued):

(*vii*) Identification and measurement of impairment (continued):

Loss given default:

The LGD reflects the Credit Union's estimate of cash shortfalls in the event of default. The LGD input, expressed as a percentage of EAD, is primarily estimated based on the shortfall in the current collateral values of the financial assets compared to the current book value of the financial asset discounted for the time to obtain and collect on the collateral upon default and the estimated costs to obtain and collect on the collateral.

Forward looking information and macroeconomic factors:

- The forward looking information ("FLI") component represents management's estimate of the impact of FLI and forecasts of macroeconomic conditions to the Credit Union's ECLs. These macroeconomic factors are based on the credit risk management assessments and are consistent with industry guidelines on typical factors that are relevant to different types of lending products. Management makes forecasts of multiple forward looking and macroeconomic scenarios (base, upside and downside) and their estimated impacts to the ECLs. During 2019 and 2018, the base case scenario was assigned an 80% probability of occurring and the two less likely scenarios, upside and downside, were assigned a 10% probability of occurring. Multiple scenarios are forecasted to ensure that estimates of ECLs are unbiased.
- The forward looking and macroeconomic factors considered in determining the FLI inputs to the ECL calculation are GDP, interest rates, debt ratio, house pricing index and unemployment rate.

Exposure at default:

The EAD is an estimate of a loan exposure amount at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and payments of interest, prepayments, expected drawdowns on committed facilities or any other terms that may alter the cash flow characteristics of the loan.

The starting point for determining EAD is the amortization schedule (principal and interest payments) of each loan within the portfolio as set out in the contractual terms of the financial asset. The EAD is adjusted by the expected prepayments (partial or full) prior to maturity on a portfolio basis. For lines of credit, the EAD is determined based on the Credit Union’s expectations of drawdowns and repayments on the outstanding loan commitments on a portfolio basis.

4. Significant accounting policies (continued):

(i) Financial assets and financial liabilities (continued):

(*vii*) Identification and measurement of impairment (continued):

Time value of money:

The 12-month and lifetime ECLs at the reporting date represent the present value of the expected cash shortfalls resulting from the probability of defaults occurring over the relevant period after the reporting date. The cash shortfalls have been discounted to the reporting date using the effective interest rate of the underlying loans.

Credit-impaired financial assets:

At each reporting date, the Credit Union assesses whether financial assets measured at amortized cost or FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

When identifying loans to members that are credit-impaired for which the loss allowance for ECLs is calculated individually, as the difference between the gross carrying amount of the financial assets and the present value of estimated future cash flows, the Credit Union determines whether indicators of a borrower's unlikeliness to pay exist.

In addition to qualitative considerations, the Credit Union applies the following quantitative thresholds for identifying loans to members that are credit-impaired:

- commercial mortgages, loans and lines of credit with an internal risk rating of R9 – R10 (risk rated poor); or
- the borrower is more than 90 days past due on any credit obligation.

Write-off policy:

When a financial asset is credit-impaired and the Credit Union has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof, the carrying amount of the unrecoverable portion is written off, constituting a derecognition event.

(j) Cash resources:

Cash resources comprise unrestricted balances held with Central 1 Credit Union ("Central 1") and highly liquid financial assets with original maturities of less than three months from the acquisition date, which are subject to an insignificant risk of changes in their fair value, and are used by the Credit Union in the management of its short-term commitments.

Cash resources are carried at amortized cost in the consolidated statement of financial position.

4. Significant accounting policies (continued):

(k) Derivatives and hedge accounting:

Derivative instruments are financial contracts whose value changes in response to a change in a specified interest rate, exchange rate or other indices. In the ordinary course of business, the Credit Union enters into various derivative contracts, including interest rate swaps, caps and options. Derivative contracts are either exchange-traded contracts or negotiated over-the-counter contracts. The Credit Union enters into such contracts principally to manage its exposures to interest rate fluctuations as part of its asset and liability management program.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into. They are subsequently re-measured at their fair value and reported as assets where they have a positive fair value or as liabilities where they have a negative fair value.

The Credit Union designates certain derivatives as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Credit Union formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Credit Union makes qualitative and quantitative assessments, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument is effective in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated. The Credit Union makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

(*i*) Cash flow hedges:

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction, the amount recognized in accumulated other comprehensive income is reclassified through other comprehensive income to profit or loss as a reclassification adjustment in the same period the previously hedged cash flows affect profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other accumulated comprehensive income is reclassified immediately to profit or loss as a reclassification adjustment.

4. Significant accounting policies (continued):

(l) Loans to members:

Loans to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are classified as amortized cost.

Loans are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, less any impairment.

(m) Investments:

Investments are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification.

(n) Assets held for sale:

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets or deferred tax assets, which continue to be measured in accordance with the Credit Union's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in profit or loss.

Once classified as held-for-sale, intangible assets and premises and equipment are no longer amortized or depreciated.

(o) Premises and equipment:

Premises and equipment are initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in profit or loss and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Asset	Rate
Buildings	40 years
Other equipment	3 to 10 years
Leasehold improvements	Lease term

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

4. Significant accounting policies (continued):

(p) Intangible assets:

Intangible assets consist of computer software, goodwill, ICBC licenses and customer lists. Goodwill, ICBC licenses and customer lists arose from the acquisition of the Credit Union's subsidiaries. Intangible assets are initially recorded at cost. Intangible assets with finite lives are subsequently measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in profit or loss and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Asset	Rate
Goodwill	Indefinite
ICBC licenses	Indefinite
Software	3 to 10 years
Customer list	7 to 10 years

Indefinite life intangible assets, including goodwill, are assessed for impairment at least annually. All other intangible assets are assessed for impairment when impairment indicators are identified. When an impairment-triggering event has occurred, any excess of carrying value over fair value is charged to profit or loss in the period in which impairment is determined.

(q) Impairment of non-financial assets:

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. When the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating-unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognized in other comprehensive income.

(r) Deposits from members and borrowings:

Deposits from members and borrowings are the Credit Union's sources of primary funding.

The Credit Union classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits from members and borrowings are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

4. Significant accounting policies (continued):

(s) Provisions:

A provision is recognized if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Credit Union from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Credit Union recognizes any impairment loss on the assets associated with that contract.

(t) Employee benefits:

The Credit Union operates various pension plans. The plans are generally funded through contributions to trustee-administered funds determined by periodic actuarial calculations. The Credit Union has both defined benefit and defined contribution plans.

(*i*) Defined benefit pension plans:

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The liability is recognized in the Credit Union's consolidated statement of financial position. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income as they are incurred.

(*ii*) Post-employment health care benefits:

The Credit Union operates a number of post-employment health care benefit plans. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension plans.

4. Significant accounting policies (continued):

(t) Employee benefits (continued):

(*iii*) Defined contribution pension plans:

For defined contribution plans, the Credit Union pays a specified flat rate for employer contributions. The Credit Union has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense in the periods during which services are rendered by employees.

(*iv*) Participation in multi-employer pension plans:

The Credit Union provides defined retirement benefits to certain employees through a multi-employer plan administered by Central 1. Each member credit union is exposed to the actuarial risks of the other employers with the result that, in the Credit Union's opinion, there is no reasonable way to allocate any defined benefit obligations. The Plan has informed the Credit Union that they are not able to provide defined benefit information on a discrete employer basis as the investment records are not tracked by individual employer and each employer is exposed to the actuarial risks of the Plan as a whole. Accordingly, the Credit Union's participation in the Plan is accounted for as a defined contribution plan with contributions recorded on an accrual basis. The Credit Union has provided additional disclosure on the overall funding status of the multi-employer plan and future contribution levels in note 26.

5. Changes in accounting policies:

(a) New accounting standards effective January 1, 2019:

(*i*) IFRS 16 – Leases:

On January 1, 2019, the Credit Union adopted IFRS 16 which replaced IAS 17 and IFRIC 4. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The application of IFRS 16 resulted in the addition of a "right-of-use asset" and "lease obligation", included as a component of premises and equipment and other liabilities, on the consolidated statement of financial position.

As permitted by IFRS 16, the Credit Union has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019, without restating prior periods. The information presented for 2018 remains as previously reported under IAS 17.

5. Changes in accounting policies (continued)

(a) New accounting standards effective January 1, 2019 (continued):

(*i*) IFRS 16 – Leases (continued):

Transition impact from adopting IFRS 16:

On initial application, the Credit Union elected to record the right-of-use assets based on the corresponding lease liability. Right-of-use assets and lease liabilities of $67,979 were recorded as at January 1, 2019, with no impact on retained earnings for leases previously recognized as operating leases under IAS 17.

The Credit Union applied the following recognition exemptions and practical expedients:

- To not recognize short-term leases with a term less than 12 months or leases of low-value assets;
- To apply IFRS 16 only to contracts that were previously identified as leases; and
- To use hindsight when determining the lease term if the contract contained options to extend or terminate the lease.

The following table provides a reconciliation between operating lease commitments as at December 31, 2018 and lease liabilities recognized pursuant to adoption of IFRS 16 on January 1, 2019:

Operating lease commitment at December 31, 2018	$	63,898
Discounted using the incremental borrowing rate at January 1, 2019		5%
Lease liabilities recognized as at December 31, 2018		55,943
Recognition exemption for:		
Short-term leases		(2,241)
Leases of low-value assets		-
Existing service contracts with no embedded leases under IAS 17		(16,132)
Extension options reasonably certain to be exercised		30,409
Lease liabilities at January 1, 2019	$	67,979

(b) New accounting standards and interpretations not yet effective:

A number of new standards are effective for annual periods beginning after January 1, 2020 and earlier application is permitted. The Credit Union has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Credit Union's consolidated financial statements:

- Definition of a Business (amendments to IFRS 3)
- Definition of Material (amendments to IAS 1 and IAS 8)

6. Financial risk management:

(a) Introduction and overview:

The Credit Union is exposed to the following risks from holding financial instruments: credit risk, liquidity risk, market risk, operational risk and capital adequacy risk. The following is a description of those risks and how the Credit Union manages them.

(b) Credit risk:

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union. Credit risk arises principally in lending activities that result in loans to members as described in note 10; but also from derivatives as described in note 9.

Concentration of credit risk may arise when the ability of a number of borrowers or counterparties to meet their contractual obligations are similarly affected by external factors. Examples of concentration risk would include related entities risk, geographic and industry factors.

Management of credit risk:

Credit risk is managed in accordance with our Credit and Counterparty Risk Governing policy approved by the Board of Directors. Risk limits and credit authorities are delegated to the Management Credit Risk Committee, comprised of executive and senior credit management staff, which in turn delegates appropriate limits to lending staff. Credit exposures in excess of certain levels require approval from the Management Credit Risk Committee.

The Risk, Investment and Loan Committee ("RIL") of the board meets quarterly to review portfolio credit quality, industry and member concentrations, and adequacy of loan allowances. Policies relating to single member limits and industry and geographic concentration are approved by the Board.

The Credit Union's Credit Department reviews and adjudicates credit risk outside of branch managers' delegated lending limits and reviews branch credit decisions to ensure compliance to policy. The Credit Department may approve credits not meeting our lending guidelines on an exception basis with appropriate risk mitigation and reward considerations.

Loan exposures are managed and monitored through facility limits for individual borrowers, credit type, industry exposure and a credit review process. These reviews ensure the borrower complies with internal policy and underwriting standards. The Credit Union relies on collateral security typically in the form of a fixed and floating charge over the assets of its borrowers. Credit risk is also managed through regular analysis of the ability of members to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Credit risk for our counterparties in other financial instruments, such as investments and derivatives, is assessed through published credit ratings.

6. Financial risk management (continued):

(b) Credit risk (continued):

Credit quality and credit risk exposure:

The following tables set out information about the credit quality of the Credit Union's loans to members measured at amortized cost, by category of loss allowance at December 31, 2019 and 2018. The amounts in the table represent the carrying amounts of loans to members.

At December 31, 2019	Stage 1	Stage 2	Stage 3	Total
Residential mortgages:				
Credit score > 800 (excellent)	$ 1,194,809	$ 43,563	$ 200	$ 1,238,572
Credit score 710 – 799 (good – very good)	2,085,737	171,737	897	2,258,371
Credit score 650 – 709 (fair – good)	802,630	169,010	2,408	974,048
Credit score 600 – 649 (poor)	248,360	50,809	2,764	301,933
Credit score < 600 (less than satisfactory)	120,320	23,760	857	144,937
Deferred fees	6,990	721	11	7,722
Loss allowance	(2,019)	(5,742)	(495)	(8,256)
	$ 4,456,827	$ 453,858	$ 6,642	$ 4,917,327
Personal:				
Credit score > 800 (excellent)	$ 375,752	$ 48	$ -	$ 375,800
Credit score 710 – 799 (good – very good)	321,326	361	76	321,763
Credit score 650 – 709 (fair – good)	110,809	6,090	3	116,902
Credit score 600 – 649 (poor)	20,861	18,355	-	39,216
Credit score < 600 (less than satisfactory)	7,457	43,049	474	50,980
Deferred fees	-	-	-	-
Loss allowance	(2,842)	(8,523)	(302)	(11,667)
	$ 833,363	$ 59,380	$ 251	$ 892,994
Commercial:				
R1 – R2 (excellent - good)	$ 156,876	$ 23	$ 5	$ 156,904
R3 (satisfactory)	2,864,610	2,160	332	2,867,102
R4 – R6 (less than satisfactory)	205,712	20,331	542	226,585
R7 – R8 (Unsatisfactory)	-	53,451	12,699	66,150
R9 – R10 (credit-impaired)	-	-	20,352	20,352
Deferred fees	(2,176)	(51)	(23)	(2,250)
Loss allowance	(1,889)	(1,373)	(19,571)	(22,833)
	$ 3,223,133	$ 74,541	$ 14,336	$ 3,312,010

6. Financial risk management (continued):

(b) Credit risk (continued):

Credit quality and credit risk exposure (continued):

At December 31, 2018	Stage 1	Stage 2	Stage 3	Total
Residential mortgages:				
Credit score > 800 (excellent)	$ 1,651,268	$ 346	$ 188	$ 1,651,802
Credit score 710 – 799 (good – very good)	1,719,586	206	366	1,720,158
Credit score 650 – 709 (fair – good)	663,430	7,746	594	671,770
Credit score 600 – 649 (poor)	163,306	98,226	116	261,648
Credit score < 600 (less than satisfactory)	68,648	302,487	4,492	375,627
Deferred fees	7,333	703	10	8,046
Loss allowance	(1,922)	(5,920)	(303)	(8,145)
	$ 4,271,649	$ 403,794	$ 5,463	$ 4,680,906
Personal:				
Credit score > 800 (excellent)	$ 407,039	$ 465	$ -	$ 407,504
Credit score 710 – 799 (good – very good)	330,981	695	-	331,676
Credit score 650 – 709 (fair – good)	121,366	3,871	94	125,331
Credit score 600 – 649 (poor)	29,278	16,961	30	46,269
Credit score < 600 (less than satisfactory)	11,681	43,253	925	55,859
Deferred fees	-	-	-	-
Loss allowance	(3,123)	(8,308)	(448)	(11,879)
	$ 897,222	$ 56,937	$ 601	$ 954,760
Commercial:				
R1 – R2 (excellent - good)	$ 114,867	$ 4	$ 13	$ 114,884
R3 (satisfactory)	2,313,366	515	155	2,314,036
R4 – R6 (less than satisfactory)	324,959	109,081	68	434,108
R7 – R8 (Unsatisfactory)	-	74,281	342	74,623
R9 – R10 (credit-impaired)	-	-	8,856	8,856
Deferred fees	(1,620)	(108)	(7)	(1,735)
Loss allowance	(1,248)	(5,529)	(1,642)	(8,419)
	$ 2,750,324	$ 178,244	$ 7,785	$ 2,936,353

6. Financial risk management (continued):

(b) Credit risk (continued):

Credit quality and credit risk exposure (continued):

The following table presents the maximum exposure to credit risk of on balance sheet and off balance sheet financial instruments. For financial assets recognized on the balance sheet, the maximum exposure to credit risk without taking account of any collateral held, equals their carrying amount. For loan commitments and other credit-related commitments that are irrevocable, the maximum exposure to credit risk without taking account of any collateral held, is the full amount of the committed facilities.

	2019	2018
Exposure recognized on the consolidated statement of financial position:		
Loans and accrued interest	$ 9,182,188	$ 8,614,062
Derivatives (net)	19,377	8,414
Term deposits and other securities	1,351,513	1,238,881
Accounts receivable	243,537	223,335
	10,796,615	10,084,692
Exposure not recognized on the consolidated statement of financial position:		
Letters of credit	88,803	109,735
Unadvanced loans and lines of credit	1,830,391	1,804,578
	1,919,194	1,914,313
Maximum exposure	$ 12,715,809	$ 11,999,005

Collateral and other credit enhancements:

It is our lending policy to assess the member's capacity to repay, rather than rely excessively on the underlying collateral security. Depending on the member's standing and the type of product, facilities may be unsecured. Nevertheless, collateral can be an important mitigant of credit risk.

Concentrations of credit risk:

Concentrations of credit risk exist if a number of borrowers are engaged in similar economic activities or are located in the same geographic region, or otherwise related. This risk may indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographic region.

6. Financial risk management (continued):

(b) Credit risk (continued):

Concentrations of credit risk (continued):

Geographic credit risk is mitigated through the Credit Union's diversified geographic service area including the Lower Mainland, Fraser Valley, Thompson-Okanagan, Okanagan-Similkameen, Southern Vancouver Island and North Western British Columbia areas of British Columbia. To reduce any impact of the geographic credit risk the Credit Union has 11% (2018 - 12%) of its residential mortgages insured against credit loss.

(c) Liquidity risk:

Liquidity risk is the risk of the Credit Union being unable to meet its near term obligations in a timely manner without incurring significant costs in the process. This is usually a result of the inability to convert securities or other hard assets into cash, without incurring a significant loss on the value of those assets.

Liquidity risk is managed in accordance with our liquidity policy approved by the Board of Directors. The liquidity policy of the Credit Union is that liquidity is managed on both an operational and strategic level on a total basis. The desired liquidity level above the statutory requirement is determined by taking into account the balance between the cost of liquidity and the yield achieved. Contingent liquidity is managed within the board approved Liquidity Contingency Plan, that can be invoked quickly, utilizing diversified funding sources that can be accessed when needed. The Credit Union will at all times maintain statutory liquidity levels as required by regulations. Immediate corrective action will be taken if the ratio approaches the regulatory minimum. The liquidity deposits must be held on deposit with the Central 1 Credit Union as per the Credit Union's Deposit-Loan Agreement. The statutory liquidity ratio is 8.0% of deposits from members and borrowings as at the reporting date. Based on total deposits and borrowings as at December 31, 2019 the Credit Union's liquidity exceeds minimum statutory requirements by $471.7 million (2018 - $397.3 million).

6. Financial risk management (continued):

(d) Market risk:

The principal market risk to which the Credit Union is exposed to is the risk of loss from fluctuations in the future cash flows of a financial instrument because of changes in interest rates.

Interest rate risk arises when the market values of assets and liabilities do not change by the same amount when interest rates change. Where portfolios are matched in terms of maturities, interest rate risk is reduced. This interest rate risk includes yield curve risk, basis risk, optionality risk and interest rate path risk.

The primary objectives of the Credit Union's market risk management process include: maximize earnings and return on capital within acceptable and controllable levels of the above risks; provide for growth that is sound, profitable and balanced without sacrificing the quality of service; and manage and maintain policies and procedures that are consistent with the short and long term strategic goals of the Board of Directors.

Risk measurement:

The Credit Union's risk position is measured based upon the potential impact of changes in market conditions. The Asset Liability Committee ("ALCO") is a committee comprised of senior management that meets at least quarterly and ad-hoc as required. Responsibilities include:

- approval and review of pricing, investment, liquidity, derivative, foreign exchange and asset-liability policies;
- review of deviations between actual performance and projected plans;
- review of the management of interest rate sensitivity and financial margin including investing, liquidity management, hedging and securitization activities;
- approval of Asset-Liability Management (ALM) and hedging strategies to manage interest rate risk in order to achieve policies;
- evaluation of the current interest rate risk position and the potential effect on its ALM strategy; and
- review and monitoring of key risk modeling assumptions.

6. Financial risk management (continued):

(d) Market risk (continued):

Risk measurement (continued):

The Credit Union utilizes earnings tests to produce monthly forecasts of net interest income for the upcoming 12-months based on:

- the current asset and liability structure;
- scheduled maturity and re-pricing of the assets and liabilities;
- several hundred randomly generated interest rate paths composed around a base rate forecast;
- a volatility % of randomly generated key rates; and
- assumptions regarding member behaviour and changes in composition of assets and liabilities.

Growth assumptions are based on business plans. Member behaviour assumptions to assess embedded options in deposit and loan portfolios are based on analysis of trend information and management judgment.

The Credit Union will assess the results of the monthly forecast simulations. The maximum allowable risk exposure will be as follows:

Earnings at risk:

Earnings at risk is defined as the percentage of the reduction in the financial margin given a 1% increase and decrease in interest rates. A reduction in financial margin is not to exceed 10% of the next 12-months' financial margin resulting from this test.

Duration of equity:

The effective duration of equity is defined as the percentage change in the market value of equity (retained earnings, equity shares and derivatives) given a 1% range change in interest rates. The 1% change will consist of a 50 bp shock up and a 50 bp shock down. Given this 1% change, the effective duration of equity will not exceed a maximum of 10%.

The following table shows the results of these forecast simulations as at December 31, 2019 and 2018:

	Policy limit	2019	Impact	2018	Impact
Earnings at risk	10%	5.2%	$ (11,278)	1.6 %	$ (3,164)
Duration of equity	+/-10%	3.5%	-	3.7 %	-

As at December 31, 2019 and 2018, the Credit Union was within policy limits.

6. Financial risk management (continued):

(e) Capital management:

The Credit Union is regulated under the Act and is required to maintain a capital level at a minimum of 8% of risk-weighted assets.

When determining the sufficiency of capital, the Credit Union includes in its calculation amounts permitted by the Act including:

- retained earnings and contributed surplus;
- equity shares;
- system capital; and
- other forms of capital as determined from time to time by the Board of Directors and approved as capital by the regulatory authority.

Total capital above is reduced by:

- goodwill and other intangible assets;
- investments with banks/trusts and other;
- securitization deferred payment accounts; and
- investment in Venture Capital Corporations.

As at December 31, 2019 and 2018, the Credit Union has met its minimum regulatory requirements.

Capital Adequacy calculation as defined by the Act:

	2019	2018
Primary capital	$ 766,345	$ 677,102
Secondary capital	114,550	111,300
Deductions from capital	(4,798)	(28,311)
Total capital	$ 876,097	$ 760,091

6. Financial risk management (continued):

(e) Capital management (continued):

The Credit Union management ensures compliance with capital adequacy through the following:

- identifying the capital needed to support the current and planned operations of the Credit Union, including operations conducted or to be conducted through subsidiaries;
- developing and submitting to the Board of Directors for its consideration and approval appropriate and prudent capital management policies, including policies on the quantity and quality of capital needed to support the current and planned operations that reflect both the risks to which the Credit Union is exposed and its regulatory capital requirements;
- regularly measuring and monitoring capital requirements and capital position, and ensuring the Credit Union meets and will continue to meet its capital requirements;
- managing the capital in accordance with the capital management policies;
- establishing appropriate and effective procedures and controls for managing the capital, monitoring adherence to those procedures and controls, and reviewing them on a regular basis to ensure that they remain effective;
- providing the Board of Directors with appropriate reports on the capital position and on the procedures and controls for managing the capital; and
- providing the Board of Directors with appropriate reports that will enable it to assess whether the institution has an ongoing effective capital management process.

In addition to the regular risk management practices, Credit Union has developed a stress testing program that provides complimentary view on risk exposure and potential capital needs. A sufficient number of scenarios are performed to ensure capital level is sufficient to support the strategy.

A three-year capital plan is reviewed and approved by the Board of Directors annually.

Distributions of capital, such as share dividends, are only made after targets in the capital plan have been met. Each distribution must be approved by the Board of Directors.

The RIL is responsible for developing and conducting an annual review of capital management procedures relative to the policy requirements established. The RIL reports its findings and recommends any corrective actions to the Board of Directors. The Board of Directors, which may be assisted by the RIL, reviews any written correspondence from the BC Financial Services Authority ("BCFSA") regarding capital management matters, and investigates and responds as appropriate.

7. Financial assets and liabilities:

The tables below set out the classifications and carrying amounts of the Credit Union's financial assets and liabilities as at December 31, 2019 and 2018:

2019	FVTPL	Amortized cost	FVOCI-debt instruments	FVOCI-equity instruments	Total
Cash resources	$ -	$ 260,852	$ -	$ -	$ 260,852
Derivative assets	19,377	-	-	-	19,377
Loans to members	-	9,139,432	-	-	9,139,432
Accounts receivable	-	243,537	-	-	243,537
Term deposits and other	152,534	876,320	3,500	502	1,032,856
Investment in pooled funds	158,991	-	-	-	158,991
Derivative liabilities	6,823	-	-	-	6,823
Deposits from members	-	9,651,799	-	-	9,651,799
Borrowings	-	412,766	-	-	412,766
Accounts payable and accrued liabilities	-	86,939	-	-	86,939

2018	FVTPL	Amortized cost	FVOCI-debt instruments	FVOCI-equity instruments	Total
Cash resources	$ -	$ 222,414	$ -	$ -	$ 222,414
Derivative assets	8,414	-	-	-	8,414
Loans to members	-	8,585,619	-	-	8,585,619
Accounts receivable	-	223,335	-	-	223,335
Term deposits and other	163,615	795,197	2,500	2,484	963,796
Investment in pooled funds	149,736	-	-	-	149,736
Derivative liabilities	18,169	-	-	-	18,169
Deposits from members	-	9,018,703	-	-	9,018,703
Borrowings	-	471,412	-	-	471,412
Accounts payable and accrued liabilities	-	71,210	-	-	71,210

8. Cash resources:

	2019	2018
Cash and current accounts	$ 101,186	$ 97,065
Term deposits and accrued interest	159,666	125,349
	$ 260,852	$ 222,414

9. Derivatives:

	Fair value			
	2019		2018	
	Asset	Liability	Asset	Liability
Interest rate swaps used to manage interest rate risk:				
Receive fixed swaps	$ 4,587	$ 6,823	$ 2,232	$ 18,169
	4,587	6,823	2,232	18,169
Other derivatives:				
Equity linked options	14,790	-	6,182	-
Total fair value	$ 19,377	$ 6,823	$ 8,414	$ 18,169

The fair value of derivatives include net accrued interest payable of $357 (2018 - $739).

	Notional amount			
	Within 1 year	Over 1 year	2019	2018
Interest rate swaps used to manage interest rate risk:				
Receive fixed swaps	$ 150,000	$ 1,195,000	$ 1,345,000	$ 1,795,000
Pay fixed swaps	-	100,000	100,000	165,000
	150,000	1,295,000	1,445,000	1,960,000
Other derivatives:				
Equity linked options	62,551	239,119	301,670	209,320
Total notional amount	$ 212,551	$ 1,534,119	$ 1,746,670	$ 2,169,320

9. Derivatives (continued):

The following table summarizes the time periods in which the hedged cash flows are expected to occur and affect profit or loss:

2019	Expected cash flows	Less than 1 year	1 to 5 years	Greater than 5 years
Assets	$ 68,814	$ 32,300	$ 36,514	$ -
Liabilities	-	-	-	-
Total cash inflow	$ 68,814	$ 32,300	$ 36,514	$ -

2018	Expected cash flows	Less than 1 year	1 to 5 years	Greater than 5 years
Assets	$ 114,255	$ 40,815	$ 73,440	$ -
Liabilities	-	-	-	-
Total cash inflow	$ 114,255	$ 40,815	$ 73,440	$ -

During the year the Credit Union recognized a gain (loss) of $(289) (2018 - $72) for ineffectiveness in cash flow hedges, which is recognized in net interest income in the statement of profit or loss.

10. Loans to members:

(a) Loans to members measured at amortized cost as at December 31:

	2019	2018
Residential mortgages	$ 4,925,583	$ 4,689,051
Personal:		
Personal loans	71,799	80,198
Personal lines of credit	832,862	886,441
Commercial:		
Commercial mortgages	3,042,951	2,666,887
Commercial loans	176,479	137,195
Commercial lines of credit	115,413	140,690
Accrued interest	17,101	13,600
	9,182,188	8,614,062
Allowance for expected credit losses	(42,756)	(28,443)
	$ 9,139,432	$ 8,585,619

(b) Reconciliation of allowance for ECL for the year ended December 31:

2019	Stage 1	Stage 2	Stage 3	Total
Residential mortgages:				
Balance at December 31, 2018	$ 1,922	$ 5,920	$ 303	$ 8,145
Net remeasurement	2,003	(2,789)	(9)	(795)
Originations	541	1,491	-	2,032
Derecognitions and maturities	(242)	(701)	(139)	(1,082)
Transfers to (from):				
Stage 1	(2,203)	-	-	(2,203)
Stage 2	-	1,823	-	1,823
Stage 3	-	-	380	380
Gross write-offs	(2)	(2)	(40)	(44)
Balance at December 31, 2019	$ 2,019	$ 5,742	$ 495	$ 8,256

10. Loans to members (continued):

(b) Reconciliation of allowance for ECL for the year ended December 31 (continued):

2019 (continued)	Stage 1	Stage 2	Stage 3	Total
Personal:				
Balance at December 31, 2018	$ 3,124	$ 8,308	$ 447	$ 11,879
Net remeasurement	814	(4,528)	676	(3,038)
Originations	1,495	4,534	103	6,132
Derecognitions and maturities	(350)	(1,022)	(405)	(1,777)
Transfers to (from):				
Stage 1	(1,935)	-	-	(1,935)
Stage 2	-	1,765	-	1,765
Stage 3	-	-	170	170
Gross write-offs	(306)	(534)	(689)	(1,529)
Balance at December 31, 2019	$ 2,842	$ 8,523	$ 302	$ 11,667
Commercial:				
Balance at December 31, 2018	$ 1,249	$ 5,530	$ 1,640	$ 8,419
Net remeasurement	7,293	(2,565)	500	5,228
Originations	820	578	10,400	11,798
Derecognitions and maturities	(383)	(867)	(500)	(1,750)
Transfers to (from):				
Stage 1	(7,035)	-	-	(7,035)
Stage 2	-	(1,277)	-	(1,277)
Stage 3	-	-	8,312	8,312
Gross write-offs	(55)	(26)	(781)	(862)
Balance at December 31, 2019	$ 1,889	$ 1,373	$ 19,571	$ 22,833
Total loans to members:				
Balance at December 31, 2018	$ 6,295	$ 19,758	$ 2,390	$ 28,443
Net remeasurement	10,110	(9,882)	1,167	1,395
Originations	2,856	6,603	10,503	19,962
Derecognitions and maturities	(975)	(2,590)	(1,044)	(4,609)
Transfers to (from):				
Stage 1	(11,173)	-	-	(11,173)
Stage 2	-	2,311	-	2,311
Stage 3	-	-	8,862	8,862
Gross write-offs	(363)	(562)	(1,510)	(2,435)
Balance at December 31, 2019	$ 6,750	$ 15,638	$ 20,368	$ 42,756

10. Loans to members (continued):

(b) Reconciliation of allowance for ECL for the year ended December 31 (continued):

2018	Stage 1	Stage 2	Stage 3	Total
Residential mortgages:				
Balance at January 1, 2018	$ 1,749	$ 4,215	$ 255	$ 6,219
Net remeasurement	89	27	110	226
Originations	484	1,741	-	2,225
Derecognitions and maturities	(226)	(514)	(119)	(859)
Transfers to (from):				
Stage 1	52	-	-	52
Stage 2	-	539	-	539
Stage 3	-	-	173	173
Gross write-offs	(226)	(88)	(116)	(430)
Balance at December 31, 2018	$ 1,922	$ 5,920	$ 303	$ 8,145
Personal:				
Balance at January 1, 2018	$ 3,661	$ 7,331	$ 501	$ 11,493
Net remeasurement	366	(84)	331	613
Originations	335	1,062	-	1,397
Derecognitions and maturities	(482)	(860)	(451)	(1,793)
Transfers to (from):				
Stage 1	(117)	-	-	(117)
Stage 2	-	1,652	-	1,652
Stage 3	-	-	435	435
Gross write-offs	(639)	(793)	(369)	(1,801)
Balance at December 31, 2018	$ 3,124	$ 8,308	$ 447	$ 11,879
Commercial:				
Balance at January 1, 2018	$ 1,518	$ 2,471	$ 2,670	$ 6,659
Net remeasurement	160	701	(533)	328
Originations	323	1,864	1,047	3,234
Derecognitions and maturities	(328)	(400)	(1,198)	(1,926)
Transfers to (from):				
Stage 1	(84)	-	-	(84)
Stage 2	-	939	-	939
Stage 3	-	-	(34)	(34)
Gross write-offs	(340)	(45)	(312)	(697)
Balance at December 31, 2018	$ 1,249	$ 5,530	$ 1,640	$ 8,419
Total loans to members:				
Balance at January 1, 2018	$ 6,928	$ 14,017	$ 3,426	$ 24,371
Net remeasurement	615	644	(92)	1,167
Originations	1,142	4,667	1,047	6,856
Derecognitions and maturities	(1,036)	(1,774)	(1,768)	(4,578)
Transfers to (from):				
Stage 1	(149)	-	-	(149)
Stage 2	-	3,130	-	3,130
Stage 3	-	-	574	574
Gross write-offs	(1,205)	(926)	(797)	(2,928)
Balance at December 31, 2018	$ 6,295	$ 19,758	$ 2,390	$ 28,443

10. Loans to members (continued):

(c) Collateral held as security for credit-impaired loans:

The fair value of the collateral held by the Credit Union as security for credit-impaired loans as at December 31, 2019 was $21,936 (2018 – $31,183). The Credit Union has estimated the fair value of the collateral based on an updated assessment of the respective security appraisal undertaken at the original funding assessment and management's knowledge of current local economic conditions.

As at December 31, 2019, accrued interest of $2,219 (2018 – $190) has been accrued on the credit-impaired loans but an allowance for ECL of $2,219 (2018 – $190) has been established to reduce the carrying value of this accrual to its estimated net realizable value.

11. Investments:

	2019	2018
Central 1 Credit Union shares	$ 45,096	$ 43,713
Term deposits callable or maturing in three months or more	875,820	794,697
Leased vehicles net of accumulated amortization of $1,174 (2018 - $1,555)	4,278	4,464
Principal and interest reinvestment accounts	107,438	119,902
Investment in pooled funds	158,991	149,736
Other	4,502	5,484
	$ 1,196,125	$ 1,117,996

Investment in shares of Central 1 Credit Union are required by governing legislation and are a condition of membership in Central 1 Credit Union.

Amortization, for the year, in respect to leased vehicles amounted to $542 (2018 - $820).

12. Premises and equipment:

Premises and equipment comprise owned and leased assets:

	2019	2018
Premises and equipment owned	$ 55,144	$ 63,205
Right-of-use assets	56,515	-
	$ 111,659	$ 63,205

Premises and equipment owned 2019	Land	Buildings	Leasehold improvements	Other equipment	Total
Cost:					
Balance, December 31, 2018	$ 11,638	$ 33,790	$ 39,309	$ 40,781	$ 125,518
Acquisitions	-	3,742	3,410	1,691	8,843
Disposals	(240)	(568)	(7,573)	(12,489)	(20,870)
Transferred to Held-for-Sale	(2,843)	(6,672)	-	-	(9,515)
Balance, December 31, 2019	$ 8,555	$ 30,292	$ 35,146	$ 29,983	$ 103,976
Accumulated depreciation and impairment losses:					
Balance, December 31, 2018	$ -	$ 10,297	$ 23,010	$ 29,006	$ 62,313
Disposals	-	(177)	(6,928)	(12,348)	(19,453)
Depreciation	-	1,507	2,960	3,827	8,294
Transferred to Held-for-Sale	-	(2,322)	-	-	(2,322)
Balance, December 31, 2019	$ -	$ 9,305	$ 19,042	$ 20,485	$ 48,832
Carrying amounts:					
Balance, December 31, 2019	$ 8,555	$ 20,987	$ 16,104	$ 9,498	$ 55,144

Premises and equipment owned 2018	Land	Buildings	Leasehold improvements	Other equipment	Total
Cost:					
Balance, December 31, 2017	$ 11,536	$ 31,282	$ 38,074	$ 37,485	$ 118,377
Acquisitions	102	2,548	1,235	3,498	7,383
Disposals	-	(40)	-	(202)	(242)
Balance, December 31, 2018	$ 11,638	$ 33,790	$ 39,309	$ 40,781	$ 125,518
Accumulated depreciation and impairment losses:					
Balance, December 31, 2017	$ -	$ 8,890	$ 19,660	$ 24,825	$ 53,375
Disposals	-	(40)	-	(170)	(210)
Depreciation	-	1,447	3,350	4,351	9,148
Balance, December 31, 2018	$ -	$ 10,297	$ 23,010	$ 29,006	$ 62,313
Carrying amounts:					
Balance, December 31, 2018	$ 11,638	$ 23,493	$ 16,299	$ 11,775	$ 63,205

12. Premises and equipment (continued):

Right-of-use assets **2019**	Buildings	Other equipment	Total
Balance, January 1, 2019	$ 66,148	$ 1,107	$ 67,255
Additions	1,834	-	1,834
Disposals	(6,443)	-	(6,443)
Depreciation	(5,965)	(166)	(6,131)
Balance, December 31, 2019	$ 55,574	$ 941	$ 56,515

13. Intangible assets:

2019	Goodwill	ICBC licenses	Customer list	Software	Total
Cost:					
Balance, December 31, 2018	$ 11,915	$ 15,680	$ 2,205	$ 24,443	$ 54,243
Acquisitions	-	-	-	1,188	1,188
Disposals	(11,742)	(15,080)	(2,205)	(2,287)	(31,314)
Balance, December 31, 2019	$ 173	$ 600	$ -	$ 23,344	$ 24,117
Accumulated amortization and impairment losses:					
Balance, December 31, 2018	$ 1,294	$ -	$ 1,543	$ 15,552	$ 18,389
Disposals	(1,294)	-	(1,543)	(1,070)	(3,907)
Amortization	-	-	-	2,876	2,876
Balance, December 31, 2019	$ -	$ -	$ -	$ 17,358	$ 17,358
Carrying amounts:					
Balance, December 31, 2019	$ 173	$ 600	$ -	$ 5,986	$ 6,759

2018	Goodwill	ICBC licenses	Customer list	Software	Total
Cost:					
Balance, December 31, 2017	$ 12,510	$ 15,680	$ 2,205	$ 24,179	$ 54,574
Acquisitions	-	-	-	264	264
Disposals	(595)	-	-	-	(595)
Balance, December 31, 2018	$ 11,915	$ 15,680	$ 2,205	$ 24,443	$ 54,243
Accumulated amortization and impairment losses:					
Balance, December 31, 2017	$ 1,532	$ -	$ 1,323	$ 12,436	$ 15,291
Disposals	(238)	-	-	-	(238)
Amortization	-	-	220	3,116	3,336
Balance, December 31, 2018	$ 1,294	$ -	$ 1,543	$ 15,552	$ 18,389
Carrying amounts:					
Balance, December 31, 2018	$ 10,621	$ 15,680	$ 662	$ 8,891	$ 35,854

14. Other assets:

	2019	2018
Accounts receivable	$ 33,918	$ 28,304
Financing lease receivables	209,619	195,031
Prepaid expenses	19,234	19,310
	$ 262,771	$ 242,645

15. Deposits from members:

	2019	2018
Demand	$ 3,384,991	$ 3,259,348
Term	4,868,948	4,499,854
Registered savings plans	1,328,718	1,198,144
Class A membership shares	5,706	5,932
Accrued interest and dividends	63,436	55,425
	$ 9,651,799	$ 9,018,703

Credit Union Deposit Insurance Corporation ("CUDIC") guarantees all credit union deposits, with the exception of Class A shares which are not guaranteed.

Under agreements with trustees of the registered savings plans, members' contributions to the plans are deposited with the Credit Union at rates of interest determined by the Credit Union.

Class A membership shares are preferred and redeemable, and accordingly are classified as deposits. An unlimited number of Class A voting shares are authorized with a par value of $1.

Class A shares shall be entitled to dividends at such rate, payable at such time or times, and either cumulative or non-cumulative, as the Board of Directors, in their discretion may determine.

The following table summarizes the time periods in which deposits from members are contractually payable by the Credit Union:

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Greater than 3 years	Total
2019	$ 3,880,396	$ 748,133	$ 3,082,157	$ 1,838,956	$ 102,157	$ 9,651,799
2018	3,692,261	430,750	3,137,707	1,656,393	101,592	9,018,703

16. Borrowings:

	2019	2018
Revolving facilities	$ 100,000	$ 49,656
Obligation under CMB program (note 28)	312,470	421,587
Accrued interest	296	169
	$ 412,766	$ 471,412

The Credit Union has three approved lines of credit totaling $685 million. Security for the first line of credit is an assignment of loans to members, accounts receivable and a demand debenture to the lender. For the second line of credit, security is provided by a first charge against specific CMHC or Genworth insured realty mortgages to a minimum of 105% of the approved credit facility. For the third line of credit, security is provided by a first charge against specific CMHC or Genworth insured realty mortgages to a minimum of 110% of the approved credit facility.

Changes in borrowings arising from financing activities:

The following table summarizes the changes in borrowings arising from financing activities for the year ended December 31, 2019:

			Non-cash changes	
	December 31, 2018	Cash flow changes	Accrued interest	December 31, 2019
Revolving facilities	$ 49,698	$ 50,344	$ 175	$ 100,217
Obligations under the CMB Program	421,714	(109,117)	(48)	312,549
	$ 471,412	$ (58,773)	$ 127	$ 412,766

17. Other liabilities:

	2019	2018
Accounts payable and accrued liabilities	$ 86,939	$ 71,210
Lease liabilities (note 18)	58,472	-
Deferred revenue	22,267	22,298
	$ 167,678	$ 93,508

18. Lease liabilities:

The following table presents the contractual undiscounted cash flows for lease obligations as at December 31, 2019:

Maturity analysis		
Less than one year	$	7,617
Between one and five years		27,490
More than five years		47,014
Total undiscounted lease liabilities	$	82,121
Lease liabilities included in other liabilities		
Less than one year	$	4,982
More than one year		53,490
Total	$	58,472

The Credit Union has used an incremental borrowing rate of 5% to discount its lease liabilities.

The following table presents amounts recognized in the consolidated statement of profit or loss not already disclosed elsewhere in the financial statements:

		2019
Income from sub-leasing right-of-use assets	$	337
Expenses relating to short-term leases		5,041

During the year ended December 31, 2019, the total cash outflow for leases was $7,883.

19. Equity shares:

The Credit Union has authorized unlimited number of non-voting Class B equity shares, which have a par value and redemption value of $1 each.

The rules of the Credit Union state that the annual redemption of Class B shares may, at the discretion of the Board of Directors, be limited to 10% of the total issued and outstanding shares.

Class B shares shall be entitled to dividends at such rate, payable at such time or times and either cumulative or non-cumulative, as the Board of Directors, in their discretion may determine before the first issue of the class of shares.

Class B equity shares are not guaranteed by CUDIC.

	Issued and outstanding	
	2019	2018
Class B non-voting investment equity shares	$ 29,870	$ 31,325
	$ 29,870	$ 31,325

20. Net interest income:

	2019	2018
Interest income:		
Cash resources	$ 21,378	$ 14,630
Financial assets:		
Derivatives, net	(2,837)	(1,105)
FVOCI	-	754
Loans to members	342,402	313,558
Assets pledged as collateral	4,105	2,917
	365,048	330,754
Interest expense:		
Deposits from members	153,602	124,006
Secured borrowings	8,359	9,045
Wholesale borrowings	2,223	1,417
Lease liabilities	2,936	-
	167,120	134,468
Net interest income	$ 197,928	$ 196,286

21. Fee and commission income:

	2019	2018
Insurance commissions and fees	$ 2,629	$ 2,788
Account service fees	16,019	16,237
Loan administration fees	16,745	15,229
Fees from fiduciary activities and mutual funds	24,443	22,297
Foreign exchange	3,698	4,157
	$ 63,534	$ 60,708

22. Other income:

	2019	2018
Leasing revenue	$ 13,852	$ 12,715
Other	25,548	18,036
	$ 39,400	$ 30,751

23. Personnel expenses:

	2019	2018
Salaries	$ 107,865	$ 99,034
Benefits	15,308	12,655
Pension	8,626	8,247
Other	6,886	4,359
	$ 138,685	$ 124,295

24. Other expenses:

	2019	2018
Administration	$ 43,606	$ 42,587
Data processing	23,527	19,317
Occupancy	9,701	18,113
	$ 76,834	$ 80,017

25. Income taxes:

		2019		2018
Current income tax	$	11,439	$	12,762
Deferred income tax		(2,918)		(577)
	$	8,521	$	12,185

Reconciliation of effective tax rate:

	2019 %	2018 %
Combined federal and provincial statutory tax rate	27.0	27.0
Credit Union preferred rate reduction	(11.1)	(8.1)
Other	0.7	(0.4)
	16.6	18.5

The tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities are as follows:

		2019		2018
Deferred tax assets:				
Allowance for impairment of loans	$	5,582	$	4,579
Non-capital loss carryforwards		10,007		-
Other accrued expenses		15,032		1,763
Other		45		595
	$	30,666	$	6,937
Deferred tax liabilities:				
Intangible assets	$	-	$	4,086
Investments and other		2,702		2,298
Premises, equipment, and leases		26,102		3,608
	$	28,804	$	9,992

Deferred tax that is expected to reverse to the year 2029 has been measured using the effective rate that will apply for the period, which is 21.00% (2018 – 20.86%). The weighted average applicable tax rate was 21.84% (2018 - 18.10%).

25. Income taxes (continued):

As at December 31, 2019, deferred tax liabilities for temporary differences of $81,609 (2018 - $36,376) were not recognized as the Credit Union controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

Subsequent to December 31, 2019, a subsidiary of the Credit Union declared dividends payable to the Credit Union which would result in an income tax recovery of $12,825 to the subsidiary in the taxation year in which the dividend is paid.

26. Pension and post-retirement benefits:

The Credit Union provides pension benefits to employees through defined contribution, defined benefit, and supplemental retirement and multi-employer defined benefit plans. Other post-retirement benefits including life insurance, health care, dental benefits or cash alternatives are provided to eligible Credit Union employees upon or after retirement.

The Credit Union funds the defined benefit plans and multi-employer defined benefit plans based on actuarially prescribed amounts. The unfunded supplemental retirement and non-pension benefit plans are paid directly by the Credit Union at the time of entitlement. Contributions for the defined contribution plan are paid by the Credit Union on an annual basis.

Supplemental retirement plans:

The accrued benefit obligation and plan assets were actuarially measured for accounting purposes as of December 31, 2019 (prior period was measured at December 31, 2018). The effective date of the last actuarial valuation report for funding purposes was December 31, 2019 and the effective date of the next required actuarial valuation report will be December 31, 2020.

Amounts included in personnel expenses (note 23):

		2019		2018
Pension benefits:				
Defined contribution and multi-employer plan expense	$	8,512	$	7,683
Defined benefit plan expense		114		564
	$	8,626	$	8,247

26. Pension and post-retirement benefits (continued):

Participation in multi-employer plan (the "Plan"):

The Credit Union is one of several employers that participates in the BC Credit Union Employees' Pension Plan. The Plan is a contributory, multi-employer, multidivisional registered pension plan governed by a Board of Trustees which is responsible for overseeing the management of the Plan, including the investment of the assets and administration of the benefits. The Credit Union is one of several employers participating in the 1.75% Defined Benefit Division of the Plan. The Plan, as at September 30, 2019, has about 3,600 active employees and approximately 1,150 retired plan members, with reported assets of approximately $836M.

At least once every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding levels. The most recent actuarial valuation of the 1.75% Division of the Plan as at December 31, 2018 indicated a going concern surplus of $31.6M and a solvency deficiency of $99.5M, based on market value assets of approximately $735M. Employer contributions to the Plan are established by the Trustees upon advice from the Plan's actuaries, including amounts to finance any solvency deficiencies over time. The next formally scheduled actuarial valuation is for the reporting date of December 31, 2021 although the Trustees have the discretion of conducting a valuation for an earlier reporting date.

The Credit Union paid $2,564 for employer contributions to the plan in fiscal year 2019 (2018 - $2,765).

27. Commitments and contingencies:

(a) Computer service contracts:

The Credit Union has computer service contracts through to 2024 and thereafter.

The following table summarizes the approximate computer service contract payments over the next 5 years:

2020	$ 11,934
2021	5,735
2022	3,069
2023	2,659
2024	2,280
Thereafter	3,999

27. Commitments and contingencies (continued):

(b) Legal proceedings:

The Credit Union has claims and legal proceedings brought against it that arise from usual business activities. The Credit Union contests the validity of these claims and proceedings. While the outcome of outstanding actions cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material effect on the Credit Union's financial position.

28. Securitizations:

The Credit Union periodically enters into agreements with Central 1 and other third parties which may include securitization of residential mortgages into SPE's which issue bonds to third party investors at specified interest rates.

The Credit Union reviews transfer agreements in order to determine whether the transfers of financial assets should result in all or a portion of the transferred mortgages being derecognized from its consolidated statement of financial position. The derecognition requirements include an assessment of whether the Credit Union's rights to contractual cash flows have expired or have been transferred or whether an obligation has been undertaken by the Credit Union to pay the cash flows collected on the underlying transferred assets over to a third party. The derecognition standards also include an assessment of whether substantially all the risks and rewards of ownership have been transferred.

The amount of residential mortgages, including accrued interest, that were transferred but which were not derecognized for the period was $nil (2018 - $189,347). The Credit Union also has recognized $nil (2018 - $189,347) of secured borrowing relating to securitization transactions as the Credit Union did not transfer substantially all of the risks and rewards of ownership, principally because it did not transfer prepayment, interest and credit risk of the mortgages in the securitization. The residential mortgages are categorized as loans to members and they are pledged as security for this secured borrowing. The weighted average interest rate on the secured borrowing is 1.67% (2018 - 1.74%) and the borrowing matures at the same rate as the underlying mortgages or at maturity of the underlying mortgages. CMB pools are due at maturity with a bullet payment.

As a result of the transactions, the Credit Union receives the net differential between the monthly interest receipts of the mortgages and the interest expense on the borrowings.

Type of loan		Total principal		Principal amount over 60 days past due
Residential mortgages	$	211,851	$	-

28. Securitizations (continued):

The secured borrowings mature as follows:

Maturity		% Rate	Secured borrowings
June 15	2020	1.59	36,518
June 15	2020	1.51	6,651
June 15	2020	1.52	30,414
June 15	2020	1.47	19,184
June 1	2021	2.14	3,067
June 15	2021	1.01	45,052
July 1	2021	1.79	5,921
July 1	2021	1.79	5,598
September 1	2021	1.79	13,830
September 1	2021	2.14	14,900
October 1	2021	1.60	22,897
December 1	2021	1.79	13,432
December 1	2021	1.69	8,549
January 1	2022	1.69	9,923
July 1	2022	2.19	9,025
October 1	2022	1.79	9,644
October 1	2022	2.19	12,607
December 1	2022	2.19	24,193
March 1	2023	1.74	11,103
October 1	2023	2.00	9,962
			$ 312,470

29. Interest rate sensitivity:

Interest rate risk is the sensitivity of the Credit Union's financial position to movements in interest rates. The carrying amounts of interest sensitive assets and liabilities and the notional amount of swaps and other derivative financial instruments used to manage interest rate risk are presented below in the periods in which they next reprice to market rates and are summed to show the interest rate sensitivity gap (mismatch).

29. Interest rate sensitivity (continued):

	Within 3 months		4 – 12 months		Over 1 year			
2019	Principal	%Rate	Principal	%Rate	Principal	%Rate	Not-interest sensitive	Total
Assets:								
Cash resources	$ 233,299	1.07	$ -	-	$ -	-	$ 27,553	$ 260,852
Loans	3,041,018	4.88	1,258,089	3.84	4,865,980	3.37	(25,655)	9,139,432
Other	700,502	1.82	169,439	1.92	261,389	1.81	503,221	1,615,174
	3,974,819	4.11	1,427,528	3.61	5,127,369	3.29	505,119	11,034,834
Liabilities:								
Member deposits	2,783,944	2.08	2,884,779	2.17	1,298,349	2.08	2,684,727	9,651,799
Borrowings and other	111,264	2.67	123,425	1.91	177,872	2.18	203,510	616,071
	2,895,208	2.1	3,008,204	2.16	1,476,221		2,888,237	10,267,870
Balance sheet mismatch	1,079,611		(1,580,676)		3,651,148		$ (2,383,118)	$ 766,964
Derivatives, notional value:								
Asset	100,000	2.02	150,000	2.21	995,000	1.65	-	1,245,000
Liability	(1,145,000)	1.99	-	-	(100,000)	1.87	-	(1,245,000)
	(1,045,000)		150,000		895,000		-	-
Net mismatch	$ 34,611		$ (1,430,676)		$ 4,546,148		$ (2,383,118)	$ 766,964

29. Interest rate sensitivity (continued):

	Within 3 months		4 – 12 months		Over 1 year			
2018	Principal	%Rate	Principal	%Rate	Principal	%Rate	Not-interest sensitive	Total
Assets:								
Cash resources	$ 183,250	1.83	$ -		$ -	-	$ 39,164	$ 222,414
Loans	3,385,187	4.72	802,046	3.47	4,413,732	3.35	(15,346)	8,585,619
Other	688,964	1.88	111,071	1.83	253,836	1.87	421,180	1,475,051
	4,257,401	4.14	913,117	3.27	4,667,568	3.27	444,998	10,283,084
Liabilities:								
Member deposits	1,944,624	1.86	3,021,414	2.18	1,450,631	2.14	2,602,034	9,018,703
Borrowings and other	66,381	2.69	110,723	2.29	294,140	2.05	121,837	593,081
	2,011,005	1.89	3,132,137	2.18	1,744,771	2.12	2,723,871	9,611,784
Balance sheet mismatch	2,246,396		(2,219,020)		2,922,797		(2,278,873)	671,300
Derivatives, notional value:								
Asset	250,000	1.99	200,000	2.02	995,000	1.65	-	1,445,000
Liability	(1,445,000)	2.23	-		-		-	(1,445,000)
	(1,195,000)		200,000		995,000		-	-
Net mismatch	$ 1,051,396		$ (2,019,020)		$ 3,917,797		$ (2,278,873)	$ 671,300

30. Fair values of financial instruments:

The following table presents approximate fair values of the Credit Union's financial instruments, including derivatives. The fair values of financial assets and liabilities with fixed interest rates have been determined using discounted cash flow techniques based on interest rates being offered for similar types of assets and liabilities with similar terms and risks as at the statement of financial position date. Fair values of other financial assets and liabilities are assumed to approximate their carrying value, principally due to their short term nature. Fair values of derivative financial instruments have been determined based on market price quotations.

These fair values, presented for information only, reflect conditions that existed at the date of the statement of financial position.

	2019			2018		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets:						
Cash resources	$ 260,852	$ 260,716	$ (136)	$ 222,414	$ 222,384	$ (30)
Derivatives	19,377	19,377	-	8,414	8,414	-
Loans	9,139,432	8,922,613	(216,819)	8,585,619	8,424,334	(161,285)
Investments	1,196,125	1,207,631	11,506	991,539	990,235	(1,304)
Other	243,537	243,537	-	223,335	223,377	42
			(205,449)			(162,577)
Liabilities:						
Deposits	9,651,799	9,650,349	1,450	9,018,703	9,002,714	15,989
Borrowing	412,766	411,428	1,338	471,412	466,990	4,422
Derivatives	6,823	6,823	-	18,169	18,169	-
Other	86,939	86,939	-	71,210	71,210	-
			2,788			20,411
Fair value difference			$ (202,661)			$ (142,166)

The fair value measurements are analyzed according to a fair value hierarchy with three levels as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices in Level 1 that are observable for the asset or liability either directly or indirectly; and

Level 3: Inputs for the asset or liability that are not based on observable market data.

The level in the fair value hierarchy within which the fair value measurement is categorized shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

No transfer has been made into or out of Level 1 and Level 2 during the year.

30. Fair values of financial instruments (continued):

2019	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash resources	$101,186	$ 159,530	$ -	$ 260,716
Derivatives	-	19,377	-	19,377
Loans	-	8,922,613	-	8,922,613
Investments	-	1,207,629	2	1,207,631
Other	-	243,537	-	243,537
	$101,186	$10,552,686	$ 2	$10,653,874
Financial liabilities				
Deposits	$ -	$ 9,650,349	$ -	$ 9,650,349
Borrowing	-	411,428	-	411,428
Derivatives	-	6,823	-	6,823
Other	-	86,939	-	86,939
	$ -	$10,155,539	$ -	$10,155,539

2018	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash resources	$ 97,065	$ 125,319	$ -	$ 222,384
Derivatives	-	8,414	-	8,414
Loans	-	8,424,334	-	8,424,334
Investments	-	990,233	2	990,235
Other	-	223,377	-	223,377
	$ 97,065	$ 9,771,677	$ 2	$ 9,868,744
Financial liabilities				
Deposits	$ -	$ 9,002,714	$ -	$ 9,002,714
Borrowing	-	466,990	-	466,990
Derivatives	-	18,169	-	18,169
Other	-	71,210	-	71,210
	$ -	$ 9,559,083	$ -	$ 9,559,083

The following table reconciles the Credit Union's Level 3 fair value measurements from December 31, 2018 to December 31, 2019:

Fair value measurements using Level 3 inputs:	
Balance, December 31, 2018	$ 2
Transfers from Level 2	-
Gain included in OCI - Net change in fair value (unrealized)	-
Settlements	-
Transfers in (out)	-
Balance, December 31, 2019	$ 2

31. Related party information:

Related parties of the Credit Union include subsidiaries, associates, joint ventures, post-employment benefit plans, key management personnel, close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key management personnel or their close family members.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union including the Chief Executive Officer, Chief Financial Officer, Chief Member Officer, Chief Information & Digital Transformation Officer, Chief People and Culture Officer, Chief Credit Officer, Agile Enterprise Lead, Chief Risk Officer, Chief Governance and Corporate Affairs Officer, Head, Brand Engagement, President Envision Financial, President Valley First and the President Island Savings.

A number of transactions were entered into with key management personnel in the normal course of business:

(a) Loans and deposits:

The Credit Union provides banking services to key management personnel and persons connected to them. Balances outstanding at December 31, 2019 were loans of $3,156 (2018 - $3,748) and deposits of $2,527 (2018 - $2,508). No stage 3 ECL have been recognized with respect to these loans in 2019 or 2018.

At December 31, 2019, outstanding loans to directors, officers and employees of the Credit Union amounted to $248,596 (2018 - $246,341). All such loans were granted in accordance with normal lending terms. Employee loans are recorded at their fair value in the consolidated statement of financial position with the difference between market values and carrying values being recognized as personnel expenses in the consolidated statement of profit or loss.

(b) Key management compensation:

		2019		2018
Salaries and short-term employee benefits	$	7,128	$	6,192
Post-retirement and termination benefits		268		344
	$	7,396	$	6,536

The aggregate remuneration earned by directors of the Credit Union during 2019 was $597 (2018 - $561).

The Credit Union has included in accounts payable and other expenses a donation of $1,500 (2018 - $700) to the Credit Union's charitable foundation, First West Foundation ("Foundation"). Certain directors of the Credit Union are directors of the Foundation.

31. Related party information (continued):

(c) Subsidiaries and joint operations:

	% ownership of common shares outstanding	
	2019	2018
First West Insurance Services Ltd.	100	100
FW Wealth Management Ltd.	100	100
First West Leasing Ltd.	100	100
FWCU Capital Corp.	100	100
619547 BC Ltd.	100	100
637506 BC Ltd.	100	100
Bulkley Valley Insurance Services Ltd.	-	50

32. Discontinued operation and assets held for sale:

On September 30, 2019, the Credit Union sold assets related to the insurance operations which operates 36 locations across British Columbia. The Credit Union also sold its 50% share holdings in Bulkley Valley Insurance Services Ltd. effective December 31, 2019. The Credit Union made the decision to sell this segment in early 2019, following a strategic decision to place greater focus on the Credit Union's key competencies in providing banking and investment services to its members. .

The comparative consolidated statement of profit and loss has been represented to show the discontinued operation separately from continuing operations.

Subsequent to the disposal, the Credit Union is providing transitional services to the purchaser of the discontinued operation.

(a) Results of discontinued operation:

		2019		2018
Revenue	$	24,744	$	31,837
Expenses		20,800		24,337
Results from operating activities		3,944		7,500
Income tax		640		921
Results from operating activities, net of tax		3,304		6,579
Gain on sale of discontinued operations		60,980		-
Income tax		18,849		-
Profit from discontinued operations, net of tax	$	45,435	$	6,579

32. Discontinued operation (continued):

(b) Cash flow from (used in) discontinued operations:

		2019		2018
Net cash from (used in) operating activities	$	(4,479)	$	1,784
Net cash from (used in) investing activities		75,979		1,829
Net cash from (used in) financing activities		-		-
Net cash flows for the year	$	71,500	$	3,613

(c) Effect of disposal on the financial position of the Credit Union:

		2019
Cash proceeds (net of transaction costs of $3,236)	$	75,979
Held in escrow		1,400
Proceeds included in accounts receivable		5,630
Proceeds from disposal of discontinued operations		83,009
Intangible assets		25,888
Premises and equipment		276
Investments		2,262
Accounts payable and accrued liabilities		(6,397)
Net assets		22,029
Gain on sale of discontinued operations	$	60,980

(d) Assets held for sale:

		2019		2018
Premises and equipment	$	7,193	$	-
Assets held for sale	$	7,193	$	-

In December 2019 the Credit Union committed to a plan to sell its head office building. Accordingly, the head office building is presented as assets held for sale. Efforts to sell the head office building have started and a sale is expected by the end of March 2020.

GOVERNANCE REPORT

As a member-owned, democratic co-operative financial institution, First West is governed by a Board of Directors elected by the credit union's members.

The Board bears fiduciary responsibility for the credit union, protecting members' interests and financial assets. It shapes the organization's strategic direction, establishes the credit union's overall risk appetite and ensures appropriate processes and controls are in place to identify, manage and monitor applicable risks.

The Board selects the chief executive officer (CEO), establishes the CEO's accountabilities and evaluates the CEO's performance. The Board also communicates with members, clients and other stakeholders by reporting its activities through the annual report, the annual general meeting and other channels, and by being accessible by email and in person at credit union or community events.

SIGNIFICANT ACTIVITIES IN 2019

- Welcomed two new directors to the First West Board and saw two directors complete their service
- Approved and helped develop a new, five-year strategic plan for First West
- Oversaw and approved the sale of First West Insurance Services Ltd., a subsidiary of First West Credit Union, to Westland Insurance Group Ltd.
- Worked with Management to create a set of bylaws that members will be asked to approve if First West becomes a federal credit union
- Approved Management moving forward with the next steps in the federal continuance process, including submitting a member voting package and two special resolutions to BCFSA for review

The terms of four directors expired at the conclusion of the 2019 annual general meeting, held in Victoria, B.C. Following the nomination period, four candidates were endorsed—incumbent Richard Hill, incumbent Ken Voth and new candidates Paul Challinor and Meryle Corbett—and were declared elected by acclamation.

After 13 and seven years of service respectively, directors Quentin Bruns and Robin Middleton retired from the First West Board at the conclusion of the annual general meeting.

Keeping members at the heart of First West's strategic growth, in 2019 the Board of Directors approved a new, aspirational five-year strategic plan that focuses on new member growth, asset accumulation and continues to build member relationships.

The Board of Directors approved the sale of First West Insurance Services Ltd., a subsidiary of First West, to Westland Insurance Group Ltd. Westland is a top-five personal and commercial insurance provider with a network of 70 offices throughout B.C., Alberta and Saskatchewan. The Board saw Westland as a good partner that could realize the potential of First West's insurance teams and provide the best possible service for insurance customers in B.C.

In late 2019 the Governance and Nominations Committee reviewed and recommended for Board approval the member voting package for an anticipated federal continuance vote. This comprehensive member voting package provides deep insight into why First West is seeking member approval to continue as a federal credit union and the changes members can expect. It also includes a new set of bylaws that will be used following federal continuance, pending membership approval. After a thorough and engaging review, the Board approved submitting the member voting package to the BCFSA for review and approval as required.

BOARD STRUCTURE AND DIRECTORS

The credit union's rules allow for a board of 12 directors, rising to as many as 15 to accommodate a merger. Directors are normally elected to three-year terms, with four directors' terms ending each year.

Directors are responsible for stewarding the organization in the best interests of the credit union as a whole and for all First West Credit Union members, regardless of region. Directors protect and uphold the credit union's values, exercising judgment with honesty and integrity. They offer a broad range of knowledge and depth of experience, as well as an understanding of the principles and values of the credit union and its communities. Additionally, directors demonstrate business, financial and social acumen, and provide diverse views and up-to-date perceptions.

Directors must be independent from the credit union and financial services industry in general and must not have an interest or relationship with First West that could be seen to interfere with their ability to act in the best interest of the credit union and its members. The Board's Audit and Conduct Review Committee regularly reviews compliance with this requirement.

For a listing of each director's Board service history, roles, background, education and remuneration, please see appendix 1. More information about directors is also available on the First West website at **www.firstwestcu.ca.**

BOARD EFFECTIVENESS AND RENEWAL

To ensure they continue to provide an appropriate level of oversight and stewardship, directors conduct regular board and peer performance evaluations. These evaluations assess the Board's ability to work as a whole, as well as each director's skills, experience and contributions in a number of key areas, including finance, strategic planning, human resources, legal and regulatory matters and more. The evaluations help the Board identify gaps it may address by recruiting new directors or through its ongoing director education program.

DIRECTOR EDUCATION

Directors are encouraged to pursue educational opportunities and professional development to improve their contributions to governing the credit union. New directors are also required to complete Level A of the Credit Union Director Achievement program within 12 months of their appointment.

Recognizing that director education is directly linked to improvements in governance and oversight, the credit union provides each director with an education allowance to pay for registration, travel and accommodation related to courses and/or educational conferences. The education allowance totals $15,000 for a director's first three-year term and $12,000 for each subsequent three-year term.

A listing of the educational opportunities pursued by each director in 2019 is included with each director profile in appendix 1.

GOVERNANCE STANDARDS

First West's governance practices guide how the Board of Directors functions, makes decisions and holds itself accountable. The Board is guided, in part, by the BCFSA Governance Guideline for B.C. Credit Unions[1], which specifies standards related to:

- Risk governance, including the implementation of a risk governance framework
- Board competence with respect to strategy and oversight of operations
- An expectation that boards will be proactive in identifying best practices related to corporate governance and in adopting evolving best practices as they apply to their institutions
- Importance of internal oversight functions—ensuring the functions are sufficiently resourced and the heads of the functions (e.g. internal audit, risk) have sufficient stature, authority and independence from Management
- Greater accountability and transparency, including detailing CEO and individual director pay in the credit union's annual report

MEMBER INVOLVEMENT

By participating in the democratic process, members shape and direct First West's future. The Board encourages members to attend the First West annual general meeting and vote in director elections and on special resolutions. Unless they are First West employees, family of First West employees or employees of other financial institutions, First West members in good standing may also stand for election to the First West Board.

BOARD COMPENSATION

First West's directors are expected to devote considerable time and energy to fulfilling their obligation to oversee the credit union on behalf of members. Each year, directors are required to attend quarterly board meetings, a budget meeting, a planning session and a number of other planned and unplanned special meetings. In addition, each director is required to serve on at least two board committees, to travel as necessary and to prepare thoroughly for each meeting.

To attract and retain the best directors possible and pay them at a level that reflects the level of risk they accept, the professional expertise they offer and the level of contribution expected of them, compensation is set at a rate comparable with other large credit unions, regional financial institutions and publicly traded companies of similar size.

[1] https://www.bcfsa.ca/pdf/creditUnionsTrusts/GovernanceGuidelineCUs.pdf

First West's policies require the Board to regularly seek the input and advice of an independent panel of members to determine its compensation. Recommendations were made by an independent panel in early 2018, adopted in May 2018 and effective July 1, 2018.

In 2019, director compensation included annual retainers of $36,750 for directors and $73,500 for the Board Chair; the chairs of the Audit and Conduct Review Committee and the Risk, Investment and Loan Committee received an additional retainer of $10,000 and the chairs of other committees received additional retainers of $5,000.

Total board compensation for 2019 was $664,582 which includes $49,100 for travel fees and $101,659 for expenses. The amounts paid to each individual director are included with each director profile in appendix 1.

DIRECTOR EXPENSES

Beyond the honorariums and travel fees they receive, directors are reimbursed at the same level as the credit union's Management for reasonable expenses incurred in connection with authorized work performed on behalf of the credit union. Like Management, directors are required to supply receipts for all expenses they incur.

Expenses directors may be reimbursed for include mileage, flights, accommodations and meals.

Total expenses paid to each director is included with each director profile in appendix 1.

COMMITTEES OF THE BOARD AS AT DECEMBER 31, 2019

- **Audit and Conduct Review**

  Responsible for fulfilling the credit union's statutory duty to maintain an audit committee and conduct review committee as per Section 39.56 of the *Credit Union Incorporation Act* and Section 112 of the *Financial Institutions Act* respectively. The committee assists the Board in fulfilling its obligations and oversight responsibilities related to the audit process and financial reporting, ensures the requirements for dealing with related-party transactions set out in the *Financial Institutions Act* are met and appropriate procedures are in place, oversees the process for reviewing directors' conduct and oversees procedures for resolving conflicts of interest, restricting the use of confidential information and handling member complaints. The committee consists of a minimum of three members elected by the Board on the recommendation of the Board Chair.

- **Risk, Investment and Loan**

  Responsible to fulfill the statutory duties related to investments and lending of financial institutions detailed in Section 135 of the *Financial Institutions Act*. The committee recommends Board approval of and oversees the credit union's risk appetite and enterprise risk management framework. It reviews and recommends to the Board for approval and filing with BCFSA written investment and loan policies for the credit union and its subsidiaries, which the committee considers consistent with the *Financial Institutions Act* prudent standards and within the credit union's investment and loan strategy. The committee consists of a minimum of three members elected by the Board on the recommendation of the Board Chair.

- **Governance and Nominations**

Oversees key elements of the First West Board of Directors' operations, including corporate governance principles, practices and oversight, board assessment, evaluation and renewal, director recruitment, nominations and elections and director orientation, education and development. The committee consists of a minimum of five members elected by the Board on the recommendation of the Board Chair. Ideally each committee member will also be a member of at least one other committee to ensure informed governance discussions.

The Nominations Task Force, a sub-committee of the Governance and Nominations Committee, consists of three members of the Governance and Nominations Committee whose terms do not expire at the next annual general meeting and/or have indicated they will not stand for re-election, and two members at-large. The task force's main responsibility includes leading a search for eligible director candidates, approving the Call for Nominations package, participating in director candidate interviews and endorsing candidates who would bring the most overall value to the Board if elected.

- **Government Relations and Partnership**

Guides Management in advancing First West's multi-brand operating model. The committee reviews and counsels Management on First West's successful business model, monitors government relations activities and advocates for favourable legislative and regulatory environments that will allow First West to achieve its strategic goals. The committee also represents the Board in discussions with credit unions interested in First West's model. The committee consists of the Board Chair, Board Vice-Chair and two other directors appointed annually on the recommendation of the Board Chair.

- **Human Resources**

Responsible for assisting the Board with respect to all matters relating to human resources, ensuring sound human resources policies and practices are in place and are consistent with First West's values, vision, risk appetite and strategic plan. The committee consists of not less than three and not more than five members. Committee members and the committee chair are appointed by the Board on the recommendation of the Board Chair.

BOARD AND COMMITTEE ATTENDANCE

Although director attendance records can be used as a way to assess board performance, First West believes simple attendance does not constitute effective directorship. Rather, the credit union believes it is more important for directors to be thoroughly prepared, to be engaged in meetings and to make a sustained, positive contribution to the credit union's success.

Each director's performance is measured through annual board/peer assessments, the results of which are used to suggest educational and development opportunities, and to inform the Nominations Task Force's recruitment efforts.

Reporting attendance is, however, widely defined as a governance best practice and required by the BCFSA Governance Guideline for B.C. Credit Unions. Meeting attendance and profiles for each First West director is listed in appendix 1.

2019 DIRECTORS

	Shawn Neumann Chair	Wayne Becker	Paul Challinor	Meryle Corbett	Riyaz Devji	Jeff Dyck	Richard Hill	Darryl Kropp	David Letkemann Vice-Chair	Cathy McIntyre	Renee Merrifield	Ken Voth
CURRENT TERM EXPIRES	2020	2021	2022	2022	2021	2020	2022	2021	2021	2020	2020	2022
DIRECTOR SINCE	1998	2006	2019	2019	2018	2017	2006	2018	2006	2017	2017	1980
MEETING ATTENDANCE												
Board	9/9	7/9	5/6	6/6	9/9	9/9	9/9	8/9	9/9	9/9	9/9	8/9
COMMITTEES JAN. 1 - MAY 14, 2019 (UP TO AGM)												
Audit and Conduct Review		2/3 Chair				3/3				3/3	3/3	
Governance and Nominations	2/2						2/2	2/2	2/2 Chair	2/2	2/2	
Government Relations and Partnership	1/1								1/1		1/1	1/1 Chair
Human Resources	4/4				4/4	4/4	4/4			4/4 Chair		
Nominations Task Force									1/1	1/1	1/1 Chair	
Risk, Investment and Loan		2/2			2/2				2/2			2/2 Chair
COMMITTEES MAY 14 (POST AGM) – DEC 31, 2019												
Audit and Conduct Review		4/4 Chair	3/4	4/4		4/4						
Governance and Nominations	1/2						2/2	2/2	2/2 Chair	2/2	1/2	
Government Relations and Partnership	2/2								1/2		2/2 Chair	2/2
Human Resources	1/2	2/2			2/2	2/2	2/2			2/2 Chair		
Nominations Task Force							3/3	3/3	3/3 Chair			
Risk, Investment and Loan			2/3	3/3	3/3			3/3	3/3			3/3 Chair
REMUNERATION AND EXPENSES												
Total Honorarium	73,500	46,750	23,216	23,216	36,750	36,750	36,750	36,750	41,938	41,522	40,811	48,605
Total Travel fees	8,500	3,000	1,000	2,000	2,000	3,500	3,000	1,500	3,000	4,500	8,000	3,500
Total Expenses	24,782	3,606	-	7,446	2,147	6,967	2,955	2,407	5,716	11,818	22,181	8,603

EDUCATION

	Shawn Neumann Chair	Wayne Becker	Paul Challinor	Meryle Corbett	Riyaz Devji	Jeff Dyck	Richard Hill	Darryl Kropp	David Letkemann Vice-Chair	Cathy McIntyre	Renee Merrifield	Ken Voth
ICD Crystal Boards - How do boards make the right decisions?								•				
Corporate Board Member: Boardroom Summit										•		
Stress Testing Program		•		•	•	•	•	•	•	•		•
Level Up Executive Conference				•							•	
ICD Audit Committee Effectiveness						•						
Financial Crime	•	•	•	•	•	•	•	•	•	•	•	•
ICD Board Oversight of Culture							•			•		
CPA: Canada Audit Conference				•								
CUDA Level A: Foundations of Governance in Theory and Action				•								
Anti-money Laundering	•	•	•	•	•	•	•	•	•	•	•	•
ICD Governance and Climate Change	•											
ICD Human Resource Committee Effectiveness							•					
ICD Director Education Program											•	

2019 REMUNERATION AND EXPENSES PAID TO NOMINATIONS TASK FORCE MEMBERS AT-LARGE:

Sandra Richardson, Joy Playford and Gloria Daly

Meeting + travel fees: $3,600

Expenses: $1,820

DEPARTING DIRECTORS' BOARD SERVICE HISTORY, ROLES, BACKGROUND, EDUCATION AND REMUNERATION

Quentin Bruns
Retired from Board

Attendance		Education, Remuneration and Expenses	
Board	3/3	No education in 2019	
Human Resources	4/4	Honorarium:	$13,633
Risk, Investment and Loan	2/2	Meeting + Travel fees:	$1,000
		Expenses:	$884

Robin Middleton
Retired from Board

Attendance		Education, Remuneration and Expenses	
Board	3/3	No education in 2019	
Audit and Conduct Review	3/3	Honorarium:	$13,633
Human Resources	2/4	Meeting + Travel fees:	$1,000
Risk, Investment and Loan	2/2	Expenses:	$325

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