FIRSTWEST
CREDIT UNION

2020

ANNUAL REPORT

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1

A MESSAGE FROM THE BOARD CHAIR AND THE CEO

CHARACTER MEMBERS CAN COUNT ON

"Adversity does not build character, it reveals it." If this is true—and we believe it is—then 2020 was a year of personal and corporate character coming into plain sight. Just as spring arrived last year, First West Credit Union—along with all of Canada—was plunged into a season of adversity, the likes of which we had not seen in generations. How would we respond in the face of a global pandemic and what would it reveal about the character of our credit union? This question and a multitude of related ones ran through our minds, demanding answers.

As we look back one year later, we are proudly able to say that First West responded how we had hoped: thoughtfully, generously and confidently. Our "why"—t*o simplify lives and help our members and communities thrive*—and our co-operative values compel us to stand with and support one another in good times and in difficult times. That is why, when our province began to feel the impact of the pandemic, First West showed up. We were there for our members, employees and community partners.

A Helping Hand, However Possible

We recognized quickly that difficulties brought on by the pandemic would stretch resources within the charitable sector, which we have proudly partnered with for decades. To help alleviate some of the shortfall, the First West Foundation launched the *Community Response Fund* in May 2020. The fund provided $500,000 in grants to local charities wrestling with the impacts of COVID-19, especially those focused on food security and basic needs for youth, families and seniors.

In total we invested more than $3.4 million in our communities last year. When the challenges of COVID-19 began to emerge, we saw the needs around us and responded with:

- Complimentary housing for frontline health care workers in Victoria, Kamloops, Kelowna and Abbotsford
- More than $100,000 in responsive funding to local community and healthcare foundations
- $500,000 in funding to charitable organizations focused on food security and basic needs for youth, families and seniors impacted by COVID-19
- $481,000 to help charities in our communities address the economic impacts of COVID-19 in their organizations
- $110,000 to our signature causes The Full Cupboard and Feed the Valley, which support local food banks

What is more, our *Get a Meal, Give a Meal* campaign provided creative incentives for our members to continue supporting local member businesses and local food banks during public health orders in the summer of 2020. Through the program, we offered members a $25 discount on food purchases of $50 or more at participating member-owned restaurants, while triggering a $5 donation to a local food bank. Our efforts helped to generate more than $70,000 in business for local restaurants and $8,130 for local food banks, a total equivalent to 24,390 meals for those in need.

We are also happy to report that our annual *Make a Difference Days* went ahead as planned in October. More than 150 volunteer activities were completed by employees who took the opportunity to volunteer 203 hours with charities in our communities, virtually and physically, where approved safety precautions were in place.

Making a Way for Members

For many years First West's Board of Directors and senior leadership team has acted according to a firm belief that our members need a well-prepared, prudently managed, operationally agile and financially strong credit union, ready to weather seasons of difficulty. And so, when COVID-19 arrived at Canada's doorstep, we did not need to pivot, as many organizations did. Instead, we responded from a position of strength and concentrated on accelerating key components of our existing strategy, in order to address our members' most urgent day-to-day needs. Flexible options for banking services and safe in-person service and advice at branches quickly became paramount, and the significant investments we have made in new technologies in recent years to enhance our banking delivery channels rose to the fore. When our society needed to bank differently to stay safe—and keep others safe—we were ready:

- Through online and mobile banking, our Member Advice Centre and THE EXCHANGE® Network of ATMs, we continued to provide day-to-day banking service to members during the most severe phase of public health orders.
- We mobilized 50 additional employees for our telephone-and-email-accessible Member Advice Centre and extended its hours of operation.
- Within just a few days of B.C. declaring a state of emergency in March 2020, we leveraged our partnerships with industry-leading technology providers to transition many branch and back office employees to serve members securely and safely from home.
- We removed deposit holds on tens of thousands of accounts to ensure many of our members had instant access to funds when they deposited cheques at ATMs or with Deposit Anywhere™ on our mobile app.
- We accelerated releasing new features in our digital banking platform so members could make deferral payment requests, apply for Canada Emergency Business Account (CEBA) loans or make Canada Revenue Agency direct deposits safely online.
- We fast-tracked our e-signing technology for personal and business lending documents to enable members to sign from the safety and comfort of their own homes.
- We modified our branches according to health authority directions, for the safety of members and employees.
- We made it possible for members facing financial hardship resulting from the pandemic to fast-track their access to our *Back On Track* program, which provides financial relief in the form of a payment reduction or deferment.
- We were among the first credit unions in Canada to offer the federal government's CEBA to business members facing financial difficulty due to the pandemic.
- We partnered quickly with Export Development Canada and the Business Development Bank of Canada to provide small and medium businesses access to additional financial relief.

Our ability to be there for members in these ways and more during times of difficulty is a powerful testament to our size and financial strength. We would be remiss, however, if we failed to acknowledge that we also made the difficult-but-right decision to consolidate five branches, for the continued long-term health of the credit union. We acknowledge these consolidations resulted in a change for some of our members. Even so, we know that by making these changes, we can refocus resources toward new channels, which will help us reach even more British Columbians with the power and possibility of co-operative banking.

Added Value Never Taking a Backseat

We are extremely proud to say that despite the unusual challenges of 2020, we did not waver from our commitment to continually produce real value that improves our members ever-evolving banking experience. We expanded our digital banking features as we added the ability to open select chequing, savings and term deposit accounts within our online banking platforms and our mobile apps, and rolled out Google Pay™ and Samsung Pay. We also introduced members and potential members to Finley, our artificial intelligence-powered digital assistant, who's available 24/7 to answer questions and provide guidance on navigating our websites and digital banking platforms. Finley's abilities will continue to grow through continued interactions with members on our brand division websites.

We also invested in our employees as we intensified our concentration on building our expert financial advice capabilities for members: 120 of our personal and business banking advisors began their Personal Financial Planner® (PFP) training program. Attaining the industry-recognized PFP® certification will give our advisors a broadened and deepened knowledge base and skill set for providing expert advice to members in a wide range of financial situations. You can find the complete overview of what we did to better our members' banking experience in 2020 on page 17 of Management's Discussion & Analysis.

Defining Decision at Hand: Becoming a Federal Credit Union

Time stands still for no one, of course. Against the backdrop of 2020's realities, the Board of Directors remained intensely focused on the future: our mandate is to ensure First West is agile and adaptable in the face of accelerated digital disruption of financial services, ever-changing consumer behaviours and sustained competition. As First West faces these mounting pressures, it is now more important than ever that we take action to define our future on our terms.

We believe federal regulation is one of the keys to a truly flourishing future for First West. For several years, the Board of Directors has explored scenarios related to the credit union's long-term strategic direction, including becoming a federally regulated credit union. After extensive research, due diligence and important conversations with members and employees, we decided that applying to become a federal credit union—so that we are no longer constrained by provincial barriers—is in the best interests of members, employees and the credit union.

Even at this early stage, we have seen the evidence of the possibilities in federal regulation: the work we have been doing to prepare for federal regulation helped the credit union withstand the challenges of 2020. The liquidity and capital we built up, the process improvements, and the investments in digital infrastructure and technology—all these fortified our credit union, shoring our strength against difficult times, while allowing us greater flexibility to respond to the needs of our local communities and members. Our members did not have to wait for us to catch up; we were ready when they needed us most.

Now we need to keep a good thing growing by becoming federally regulated. We hope you share a tremendous sense of pride, as we do, that we are growing responsibly and thoughtfully, ensuring we give back to our members and communities along the way.

We are confident that with our long track record of acting locally and caring for members and communities, First West is ready to grow beyond our provincial borders. We are excited about the future of our credit union—but we need your support. Later this year, we will share with you the reasoning and risks to becoming a federally regulated credit union. **We will then ask for your support, to join us in voting YES on our special resolutions to keep First West's good thing growing as a federal credit union.**

We expect further adversity in the year ahead as we continue to navigate the impacts of the COVID-19 pandemic. With each new challenge we will respond by showing up for our members, communities and each other. Take care and thank you for continuing to choose First West.

Shawn Neumann

Shawn Neumann
Board Chair

Launi Skinner

Launi Skinner
Chief Executive Officer

2 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 2020 and its financial position as at December 31, 2020.

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 15, 2021, should be read in conjunction with the audited consolidated financial statements, which are prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and set out in the CPA Canada Handbook.

3 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. The uncertainty created by the COVID-19 pandemic heightened this risk given the increased challenge in making assumptions, predictions, forecasts, conclusions, or projections.

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, the severity, duration and spread of the COVID-19 pandemic, its impact on local, national or international economies, and its heightening of certain risks that may affect First West's future results, the possible impact on First West's business and operations of outbreak of disease or illness that affect local, national or international economies, 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 this 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.

4 BUSINESS PROFILE AND ORGANIZATIONAL OVERVIEW

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 1,250 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 almost $15.5 billion in total assets and assets under administration and more than 250,000 members, we're British Columbia's third-largest credit union. Our 46 branches give us the largest geographic reach among credit unions in the province.

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 have 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 **firstwestcu.ca**.

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 has access to 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

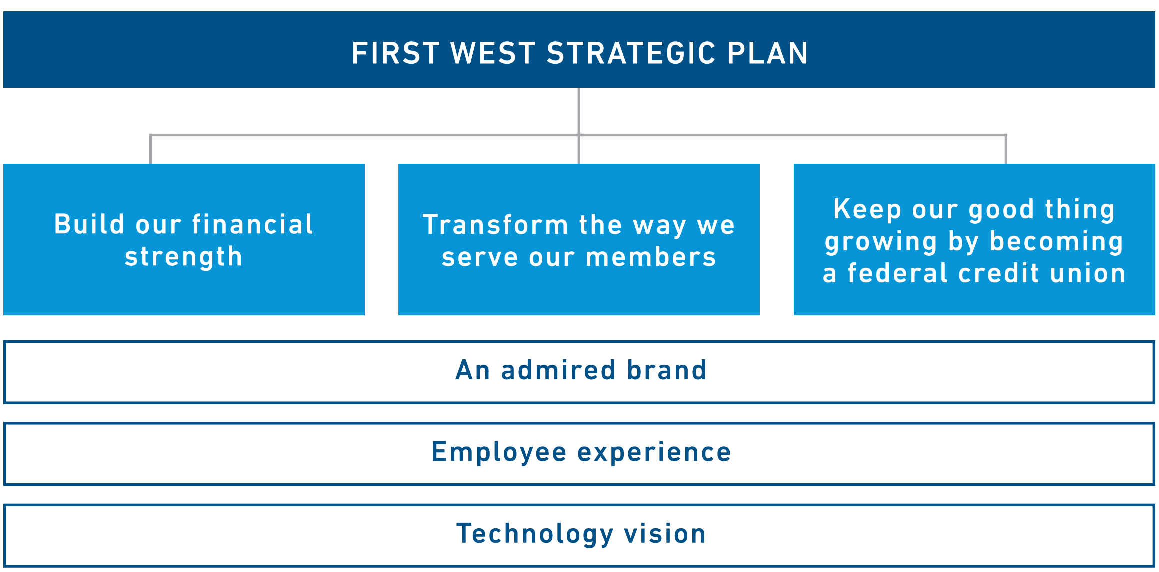
We offer a full suite of banking services and products for small- and medium-sized businesses, including chequing and savings accounts, term deposits, loans, lines of credit, letters of credit, mortgages, credit cards, and merchant services and payment solutions.

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

OUR STRATEGY

In 2020 First West made advances in all areas of its new five-year strategic plan that outlines long range progress in providing an unrivaled member advisory experience. In parallel, the plan encompasses strategies to achieving a top quartile outcome in organization health, growth of new members, asset accumulation, and earning the trust of members to be their primary financial institution.

Moving forward, in 2021 First West will prioritize three areas of strategic focus:



Centering First West's energy in the areas of building our financial strength, transforming the way we serve our members and becoming a federally regulated credit union will ensure we successfully achieve these strategic objectives, thereby ensuring long-term viability and sustainability of our credit union for our members.

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
- Carl Lamoureux | Chief Risk Officer
- Liz Bailey-Connor | Chief People & Culture Officer
- Shelley Besse | Chief Credit Officer
- Paul Brodeur | SVP Strategy & Market Growth
- Leslie Castellani | Chief Governance & Corporate Affairs Officer
- Susan Ewanick | Chief Member Officer
- Darrell Jaggers | Chief Transformation Officer

First West supports its branch and channel network through the provision of corporate shared services and programs that build new solutions for members and improve 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

Throughout 2020, First West continued the foundational work necessary to apply to become a federally regulated credit union. In light of the COVID-19 pandemic, however, the credit union intentionally paused its plans to engage with members on this initiative. Instead, First West pivoted its resources to focus on what mattered most—supporting our members, small businesses and communities during the upheaval brought about by the global health crisis. The credit union intends to bring forward its communication and engagement efforts with members on the matter of federal continuance in 2021.

First West's Board and Management believes that members' interests will be best served if the credit union moves under federal regulatory oversight and continues to responsibly grow across the country—strengthening the foundation that supports each of the credit union's local brands. This is why we will be asking members for permission to apply to become federally regulated by the Office of the Superintendent of Financial Institutions (OSFI).

Our long history of responsible growth achieved through an intentional focus on being a community-based co-operative has enabled the credit union to remain resilient through difficult times. For instance, throughout the COVID-19 pandemic and the accompanying economic turmoil, First West demonstrated its ability to use its size and financial strength when needed, while nimbly responding to the needs of our local communities and members. From the onset of the crisis, members did not have to wait for the credit union to catch up; we were ready when they needed us most.

- We kept thousands of members in their homes through deferred payments, ensuring members did not default on their mortgages and loans.
- We were able to offer critical government financing programs to small businesses almost as soon as they were introduced, ensuring our small business owners had access to the capital they needed to keep their businesses running.
- Without missing a beat, we extended hours and doubled the size of our telephone-accessible Member Advice Centre. As a result, we were able to assist with tens of thousands of member inquiries and at the same time make countless proactive calls to members—a reassuring outreach to offer assistance and a caring, understanding ear.
- We accelerated our roll-out of Forge—our digital banking platform—so that members could make deferral payment requests, apply for CEBA loans, or make CRA direct deposits safely online.
- We were able to distribute more than $1 million in COVID-19 community funding and support to keep our towns and cities strong during this crisis.

First West and our local divisions—Envision Financial, Valley First, Island Savings and Enderby & District Financial—were able to do all this and much more because we have continually adapted to and readied ourselves to meet the current and future needs of our members.

Creating options for long-term viability and sustainability of any organization is critical, which is why we're setting ourselves up for future growth opportunities and choice. **We want to keep a good thing growing by becoming a federally regulated credit union.** Gaining access to markets beyond B.C. means that when opportunity arises for the credit union or our members, we will be well positioned for success.

Six Important Reasons for First West to Become a Federal Credit Union

1. **Improve efficiency and create capacity by welcoming other credit unions into our model.**

   For more than a decade, First West has demonstrated that our multi-brand business model can be successful at working local while also leveraging the strength of our collective size. Together Island Savings, Envision Financial, Valley First and Enderby & District Financial have been able to provide more value for members than they could have on their own.

   Since coming together as First West, we have been able to:

   - Eliminate or reduce every-day banking fees through market-leading products. For example, members who hold our no-fee Simply Free Account® save approximately $190 in banking fees every year.[1]
   - Introduce leading online and mobile banking technologies. First West was the first credit union in Canada to release a brand-new mobile app, online banking portal and public website using the Forge Digital Banking Platform. This superior digital experience made it simpler, more intuitive and efficient for members to interact with us.
   - Safely serve members through our Member Advice Centre. Launched in 2014, our Member Advice Centre has responded to more than 1 million member calls. When COVID-19 required our members to bank differently to stay safe—and keep others safe—our Member Advice Centre was able to pivot, increasing its size and offerings in order to meet the demand.
   - Lead in our communities when they needed us most. Together as First West, the credit union has invested more than $28.1 million into our communities since 2010. In addition, throughout the COVID-19 crisis First West has been "in it together" with our communities and has contributed more than $1 million to local organizations to help with their pandemic recovery efforts.

   We do not intend at this time to grow across Canada by building new branches in communities outside of B.C. However, new branches in other provinces may be added to First West's branch network through any successful merger with other like-minded credit unions.

2. **Meet and anticipate the digital needs of our members.**

   Members use and expect more digital solutions to manage their finances. Not surprisingly, the COVID-19 pandemic has accelerated the demand and preference for more non-physical service options. These technologies and digital solutions, however, require significant financial and resource investments by the credit union. To achieve a reasonable return on investment for digital innovation, we would benefit from access to the larger Canadian market—not solely the B.C. marketplace.

3. **Further protect members' interests through stringent regulatory oversight.**

   Federal credit unions receive some of the highest levels of prudential oversight afforded to financial institutions in Canada through bodies such as OSFI, the Financial Consumer Agency of Canada (FCAC) and the Canada Deposit Insurance Corporation (CDIC). Stringent regulatory requirements protect our members' interests and help us continually strengthen and improve our practices.

[1] Average monthly fees are based on products with comparable features at major Canadian banks as at February 19, 2021.

4. **Extend banking services to existing members beyond B.C.**

   For many members, business and personal lives extend beyond B.C., whether through out-of-province job transfers, new business opportunities, children attending university or aging parents in other regions of the country. We can continue to serve our members and meet their needs outside of the province more fully by becoming federally regulated.

5. **Diversify markets and reduce the impact of regional economic downturns.**

   Since First West must currently 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, we have greater opportunity to withstand regional economic dips or recessions.

6. **Attract and develop skilled employees to lead and safeguard our members' assets.**

   With growth comes the need to attract and retain employees who have the experience and specialized skill to steward members' business with the credit union. As a federally regulated credit union, First West believes it can attract a broader range of skilled applicants from across Canada in critical areas such as cybersecurity, risk management, digital services and technology, and provide compelling career paths for current employees.

More information on First West's intentions to become a federally regulated credit union—including the risks and benefits—will be made available in 2021.

5

FINANCIAL HIGHLIGHTS

$12.2B

↑10.5%

Assets

$1.2 billion or 10.5% increase in 2020, compared with 7.3% in 2019.

$9.1B

↑0.0%

Loans

$3.3 million or 0.04% increase in 2020, compared with 6.5% in 2019.

$10.5B

↑9.2%

Deposits

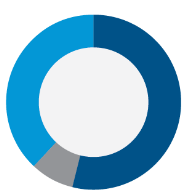
$885.4 million or 9.2% increase, compared with 7.0% in 2019.

$3.3B

↑9.4%

Wealth Assets Under Management

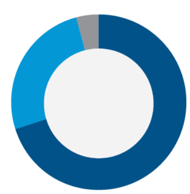
$282.6 million or 9.4% increase, compared with 12.3% in 2019.



	2020	2019
RESIDENTIAL MORTGAGES	54%	54%
PERSONAL LOANS	8%	10%
COMMERCIAL LOANS	38%	36%

Loans by Lending Sector (%)

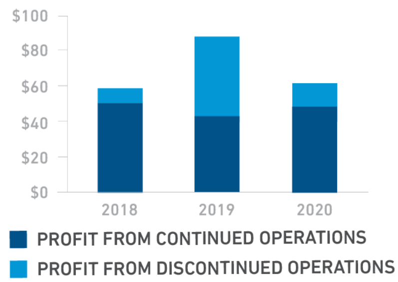
Stable portfolio product mix, with commercial lending increasing to 38% from 36% in 2020, and personal loans at 8% vs. 10% in 2019.

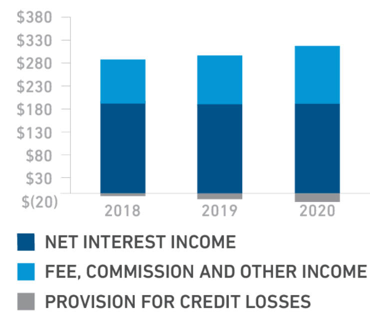


	2020	2019
CORE DEPOSITS	81%	81%
NON-CORE DEPOSITS	14%	15%
BORROWINGS	5%	4%

Total Funding Composition (%)

Strong funding and liquidity profiles, with deposits totaling $10.5 billion, an increase of 9.2% in 2020 from $9.7 billion in 2019.



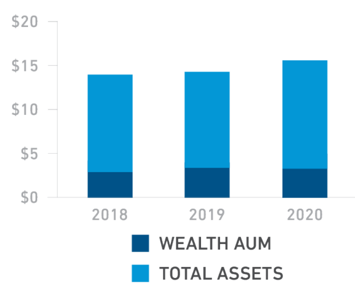


Profit ($M)

Profit for the year after tax at $61.6 million was $26.6 million or 30.1% lower in 2020, compared with $88.2 million in 2019. Profit from continuing operations at $48.8 million was $6.1 million or 14.2% higher in 2020, compared with $42.7 million in 2019.

Revenue Mix ($)

Continued strong diversification of interest, fee, commission and other income in 2020.



Total Assets and AUM ($B)

Including wealth assets under management, First West's total assets grew to approximately $15.5 billion, an increase of 10.2% from $14.1 billion in 2019.

BBB (HIGH)

Trend: STABLE

Credit Rating | Long-Term

Investment Grade Credit Rating (DBRS Morningstar). Long-term issuer rating.

R-1 (LOW)

Trend: STABLE

Credit Rating | Short-Term

Investment Grade Credit Rating (DBRS Morningstar). Short-term issuer rating / Short-term instruments.

15.9%

Strong Regulatory Capital Ratio

Capital buffer $461 million relative to minimum regulatory requirement of 8.0% *as defined by BCFSA.

Table 1 - Financial Highlights

(Expressed in thousands of dollars)	2020 Change	**2020**	2019	2018
Consolidated Statement of Financial Position				
Cash resources	431.4%	1,386,162	260,852	222,414
Residential mortgages	(0.3%)	4,909,328	4,925,583	4,689,051
Personal loans	(12.7%)	789,581	904,661	966,639
Commercial loans	4.1%	3,471,251	3,334,843	2,944,772
Accrued interest	(5.4%)	16,181	17,101	13,600
Allowance for credit losses	2.0%	(43,592)	(42,756)	(28,443)
Loans to members	**0.0%**	**9,142,749**	**9,139,432**	**8,585,619**
Investments and other assets	0.6%	1,532,472	1,522,891	1,411,846
Premises and equipment	14.2%	127,506	111,659	63,205
Total assets	**10.5%**	**12,188,889**	**11,034,834**	**10,283,084**
Demand deposits	29.4%	4,380,913	3,384,991	3,259,348
Term deposits	(3.2%)	4,713,083	4,868,948	4,499,854
Registered savings plans	4.3%	1,386,317	1,328,718	1,198,144
Class A shares	(0.8%)	5,659	5,706	5,932
Accrued interest and dividends	(19.2%)	51,266	63,436	55,425
Deposits from members	**9.2%**	**10,537,238**	**9,651,799**	**9,018,703**
Payables, accruals and others	2.6%	208,652	203,305	121,669
Borrowings	45.5%	600,670	412,766	471,412
Liabilities	**10.5%**	**11,346,560**	**10,267,870**	**9,611,784**
Equity shares	(6.0%)	28,083	29,870	31,325
Accumulated and other comprehensive income	514.6%	13,090	(3,157)	(13,070)
Contributed surplus	0.0%	163,651	163,651	163,651
Retained earnings	10.6%	637,505	576,600	489,394
Total liabilities and members' equity	**10.5%**	**12,188,889**	**11,034,834**	**10,283,084**
Allowance for Credit Losses				
Opening balance	50.3%	42,756	28,443	24,371[1]
Less: write-offs	909.4%	(24,580)	(2,435)	(2,928)
Plus: provision	51.8%	25,416	16,748	7,000
Closing balance	**2.0%**	**43,592**	**42,756**	**28,443**

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

Table 1 - Financial Highlights (continued)

(Expressed in thousands of dollars)	2020 Change	2020	2019	2018[2]
Consolidated Statement of Profit or Loss				
Interest income	(6.1%)	341,917	363,940	330,754
Interest expense	(13.0%)	145,428	167,120	134,468
Net interest income	**(0.2%)**	196,489	196,820	196,286
Provision for credit losses	51.8%	(25,416)	(16,748)	(7,000)
Fee, commission and other income	15.7%	120,355	104,042	91,459
Operating margin	**2.6%**	291,428	284,114	280,745
Operating expenses	0.6%	234,169	232,876	217,236
Profit before income taxes	**11.8%**	57,259	51,238	63,509
Income taxes	(0.7%)	8,461	8,521	12,185
Profit for the year from continuing operations	**14.2%**	**48,798**	**42,717**	**51,324**
Profit for the year from discontinued operations	(71.8%)	12,799	45,435	6,579[4]
Profit for the year	**(30.1%)**	**61,597**	**88,152**	**57,903**
Financial Statistics (expressed as %)				
Asset growth		10.5	7.3	4.2
Loan growth		0.0	6.5	4.3
Deposit growth		9.2	7.0	2.8
Operating efficiency		73.9	77.4	75.5
Dividends paid ($000s)		858	1,151	1,217
Percent of Average Assets				
Net interest income		1.65	1.84	1.93
Fee, commission and other income		1.01	0.97	0.90
Operating expenses		1.97	2.18	2.14
Operating margin		2.45	2.65	2.77
Operating return on assets		0.48	0.48	0.63
Net (after-tax) return on average assets		0.52	0.82	0.57
Capital and Risk Weighted Assets				
Risk weighted assets ($000s)	(5.1%)	5,870,826	6,186,434	5,371,338
Total capital ($000s)	6.2%	930,568	876,097	760,091
Capital adequacy (%)		15.9	14.2	14.2
Return on capital (%)		6.6	10.1	7.6
Leverage ratio		13.1	12.6	13.5
Other Statistics				
Branches	(8.0%)	46	50	53
Insurance offices		0	0[3]	38
Wealth assets under management ($000s)	9.4%	3,297,776	3,015,202	2,685,892
Loans under administration ($000s)	(27.7%)	69,054	95,571	99,569
Book of business ($000s)	5.2%	23,046,817	21,902,003	20,389,783
Average assets ($000s)	11.1%	11,888,358	10,703,055	10,153,393

[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 is included for comparative purposes only

PROFIT FOR THE YEAR

$61.6 MILLION

Profit for the year of $61.6 million was $26.6 million or 30.1% lower in 2020, compared with $88.2 million in 2019. The decrease from 2019 was primarily due to the prior year including $45.4 million from discontinued operations (mainly a gain realized on the disposal of assets from First West's Insurance business), and also a higher provision for credit losses in 2020, partially offset by higher revenue and lower tax expense.

Profit from continuing operations, however, was higher by $6.1 million or 14.2% from 2019 primarily due to higher fee, commission, and other income.

ASSETS

$12.2 BILLION

Assets grew $1.2 billion or 10.5% in 2020, compared with 7.3% in 2019. This growth was primarily the result of an increase in cash, up $1.1 billion or 431.4%, due to higher deposit balances with members' spending down during the COVID-19 pandemic.

LOANS TO MEMBERS

$9.1 BILLION

Total loans to members were essentially flat with an increase of $3.3 million or 0.04% in 2020, compared with 6.5% in 2019. Residential mortgages and personal loans to members decreased $131.3 million or 2.3%, while commercial lending grew $136.4 million or 4.1%.

DEPOSITS FROM MEMBERS

$10.5 BILLION

Deposits from members increased $885.7 million or 9.2% in 2020, compared with 7.0% in 2019.

WEALTH ASSETS UNDER ADMINISTRATION

$3.3 BILLION

Wealth assets under administration increased $282.6 million or 9.4% in 2020, compared with 12.3% in 2019.

MEMBERSHIP IN

2020

We recorded a net decline of 0.5% in 2020. While attrition rates improved year-over-year, our acquisition of new members was diminished because of our intentional focus on supporting existing members through COVID-19. Member acquisition campaigns, community engagement, and in-person marketing activities were limited and moreover, many of our branches were temporarily closed due to pandemic response. Our focus on acquisition was reaffirmed by the end of 2020 and will continue through 2021, with an emphasis on building loyalty with members who seek the value of a strong service and advisory relationship.

6 MEMBER, EMPLOYEE AND COMMUNITY HIGHLIGHTS

MEMBER EXPERIENCE

Keeping banking simple is essential to our vision of helping our members and communities thrive. We create real value for members through a comprehensive yet simple approach to financial services built around expert financial advice and innovative, convenient digital experiences. In 2020 we again delivered value for members, through many advice, product and service enhancements, all guided by our vision and our 2020–2024 strategic plan:

- Introduced Finley, our AI-powered digital assistant who's available 24 hours a day, seven days a week, to help members find advice, product and service information, and online banking help on our division websites
- Rolled out Google Pay™ and Samsung Pay across all our brand divisions, enabling mobile in-app and tap payment with Member Card® debit cards
- Implemented Apple Pay® provisioning and verification through our Forge Apple app (in our Envision Financial division), further enabling members an easy, secure and contactless way to pay through iPhone® and Member Card® integration
- Added the ability to open select chequing, savings and term deposit accounts in online banking and our mobile app
- Continued building our abilities in providing expert financial advice for members: 120 advisors across our network began their training for the industry-recognized Personal Financial Planner® designation
- Introduced the Member Advisor role to our branches, to provide members with better access to holistic banking service and advice, including day-to-day banking support, and digital banking education and help
- Made dozens of intuitive enhancements to online banking and our mobile app, making these banking channels even easier to use
- Introduced the ability to view Collabria credit card account and transactions within online banking and our mobile app
- Increased limits for incoming *Interac* e-Transfers: changed the maximum amount per day from $20,000 to $100,000, as well as the maximum per seven days from $140,000 to $300,000
- For personal banking members in our Island Savings division, we increased Deposit Anywhere™ remote cheque deposit limits from $25,000 to $100,000
- Advanced e-signing capabilities for many retail and commercial lending documents, making it easier for members to safely and securely sign lending documents remotely
- Launched our EarthLink™ market-linked GIC, a world-class environmentally responsible investing option for members
- Through our Member Advice Centre, continued to provide an unrivalled member experience—our advisors handled over 350,000 contacts from members, providing support and access to members from wherever they are.

We also completed the major standardization and harmonization project that began in 2017. This work made several critical advancements for our internal systems and harmonized nearly 3,000 policies, processes, procedures and guidelines in use across the credit union. In addition to immediate efficiency gains, the project's achievements will allow us to bring even more simplicity and convenience to the member experience and create greater value in our product and service offering. The harmonization of our banking system source code across First West was a key aspect of this project. This achievement has made it possible for members to bank at any First West branch regardless of their home brand division—providing value for members when they travel or build their businesses in other areas of the province.

Looking Ahead

While there is good reason for approaching 2021 with optimism as vaccines for COVID-19 arrive, we believe there will be a fair degree of uncertainty around a return to normal. In any case, First West was well positioned to deal with the operational challenges arising from provincial health orders in 2020 and we will be ready should a similar environment persist through 2021. Our digital banking and Member Advice Centre channels are key parts of the core banking experience at First West. These channels provided essential and remarkable service to our members throughout the public health emergency last year and continue to do so—and will continue to under almost any circumstance.

In 2021, members can look forward to several advancements that will deliver them more value, such as:

- **Improved response times and increased advice capabilities**
  Our focus on improving efficiency in underwriting and other administrative areas will shorten response times on members' lending requests and pre-approvals. It will also allow our in-branch advisors more time to provide in-depth, expert advice to members. Through a new "Express Service" for members contacting our Member Advice Centre, we will be able to provide simple, self-serve access to banking transaction history and quicker access to support. Our aim is to improve our ability to resolve members' requests on their initial call to the Member Advice Centre, with a focus on service best practices and benchmarks.
- **Enhanced security**
  As a pillar in our cybersecurity strategy, we will continue to reinforce member security through 2021. This includes technology enhancements to strengthen password requirements, enforce security questions and introduce biometric login and two-step verification for members across all First West divisions. We will also be enhancing member awareness training through a variety of channels and building out internal tools to proactively protect members from fraud.
- **Elevated wealth advice capabilities**
  By investing in Certified Financial Planner® (CFP) and Personal Financial Planner (PFP®) designations for our advisors, we're deepening their expertise and better enabling proactive member support with financial planning needs. Our focus on advisory conversations will be bolstered by our plans to better enable our ability to provide expert advice remotely through virtual appointments. Furthermore, we're increasing opportunities for member outreach and wealth management education by expanding our Wealthbeing™ podcast, and through seminars, speaker series and quarterly education events.
- **New products and services**
  We will continue our efforts to advance digital banking capabilities in the areas of self-serve, payments and product fulfillment. This includes enhancements to our digital mortgage application process—providing current and prospective members the ability to apply online for pre-approval in just a few short minutes. We're also simplifying our new online membership experience to be more efficient and easier-to-use. For business members, we will enhance *Interac* e-Transfer® capabilities, providing faster and easier ways to send and receive money.

OUR EMPLOYEES

Supporting our employees and maintaining safety and engagement through the COVID-19 pandemic has been a priority at First West. Our aim is to be a great place to work. To achieve this we foster collaborative innovation, an entrepreneurial mindset, employee involvement and consultative leadership. Because we are focused on understanding how employees feel about working at First West, we continue to solicit feedback that we use to improve the employee experience.

Talent Attraction and Employee Retention

Attracting top quality talent to First West is our goal. In 2020 this was supported by the launch of our new careers website—careers.firstwestcu.ca—and employee value proposition, "The Power of You." Quality hiring is a key driver for the success of our employee- and member-focused strategic initiatives. We continued our focus on attraction and retention and early success for new employees by improving our employee onboarding experience. Additionally, we began leveraging a student hiring program and enhanced our career development and experience-building practices for employees.

In 2021 we will continue to improve employee onboarding based on feedback and leverage new technology to further cultivate a positive experience for employees and leaders. The talent attraction team will begin implementing a new strategy that will enable First West to attract and retain more diverse talent by sourcing and building partnerships with post-secondary institutions that promote inclusion and diversity. We aim to be representative of our communities and member base.

Employee Development

We took several steps forward in our ability to enhance the skills and expertise of our employees in 2020—action that enables us to improve service to members. We continued to expand virtual classroom offerings which allows us to offer courses to employees throughout our regional divisions and maintain health and safety practices during the COVID-19 pandemic.

Additionally, we continued to design more interactive and engaging learning experiences, leveraging video and other digital platforms to create more effective and robust training. In 2021 we will continue to create meaningful, memorable and engaging learning for all employees, including a re-designed advisory sales program that will further enhance employees' member advisory expertise.

Building a Safe, Healthy and Thriving Workplace

By aligning Occupational Health and Safety with our Healthy Workplace program we were able to demonstrate a more holistic approach to fostering a psychologically healthy and safe workplace. In 2020 we formalized our joint Occupational Health & Safety program and trained employees on healthy and safe work procedures. We continued to leverage internal social media by sharing wellness information and support for global causes such as Occupational Health & Safety Week and Heart & Stroke Awareness Month to name a few. We responded swiftly when the COVID-19 pandemic was affecting our local communities and ensured that our employees and members were working and being served in a very safe manner, respecting and adhering to all provincial guidelines. We saw a significant portion of our workplace adjust to working from home and provided them the technological and emotional support to do so successfully.

As part of ensuring a safe, healthy and thriving workplace we worked with internal partners on First West's renovation and new building projects. We implemented enhanced physical accessibility standards in renovated buildings and ensured all buildings adhered to provincial health guidelines for COVID-19 safety. In early 2021 we moved employees from the Langley Regional Office to our new Langley location.

In 2021 we look forward to opportunities to share our practices and learnings with other organizations and build upon on our continuing success.

Promoting an Inclusive and Diverse Workplace Culture

In 2020 we affirmed our commitment to equity, inclusion and diversity with a published statement on our website. We also participated in the "Stop Hate for Profit Campaign," further solidifying that "First West believes that racism—including anti-Black, anti-Indigenous and anti-Asian racism—as well as sexism, homophobia, and discrimination of any kind, have no place in our organization, our communities or our society."

In 2020, our Inclusive and Accessible Building Standards came to life in our recently refreshed regional office in Penticton as well as our newly built office space in Langley. Several of our branches also positively benefited from this standard when we prioritized improvements such as automatic door openers, accessible and inclusive wayfinding, and gender-neutral washrooms. We remain committed to ensuring our physical spaces are accessible and cultivate an environment where people feel they belong.

Two of our four employee resource groups evolved to affinity networks; our LGBTQ2S+ and PossiAbilities groups that have a goal of effecting positive change welcomed new members, advocates and allies. We look forward to welcoming a third affinity network—our Indigenous Peoples affinity group—in early 2021 as well as continuing to support our Young Leaders and Women's networks.

This year we also launched three employee-focused e-learning modules with the goal of creating a common language and foundational understanding of what equity, inclusion and diversity looks like in action at First West.

Through living out our Big Ideals, First West cultivates a workplace that is equitable, inclusive and diverse and contributes to our communities so that everyone can thrive. Our journey continues and we know that we have more work to do.

Re-Imagining Total Rewards

We successfully launched our Employee Banking Advantages program, which offers programs and services to employees, with support and assistance from internal partners. These employee banking advantages are used to attract and retain great talent. As part of our employee benefits, we aligned our RRSP administrators with the support of our Credit Union Trust.

Due to the impact of COVID-19, there was a dramatic increase in those needing to work from home. We supported those employees who can perform their responsibilities remotely and set them up with technology to do so.

Looking ahead to 2021, we are working towards a partnership with a service provider to offer a suite of retirement benefit options that retirees can elect from for their health needs. We are also looking forward to how we empower our leaders to make decisions to effectively manage their team's compensation equitably.

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 impact 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.

In 2020 we saw shining examples of the value of our Lead Well philosophy as the unprecedented impacts of COVID-19 threatened the non-profit sector across British Columbia, nationally and internationally. More than $685,000 was directed to COVID-19 related charities and programs through our community investment and the First West Foundation. Local community investment programs received over $480,000 in unrestricted funding to support organizational needs resulting from cancelled events and fundraising programs.

Locally, employees rallied to support the YMCA of Okanagan Young Parents Program, contributing over 250 hours of volunteer time making hand crafted blankets which were donated to 18 infants and toddlers. Our Signature Cause programs, supporting 35% of registered food banks across B.C., were bolstered through continued employee-led fundraising and community partnerships, raising $469,936. Since 2010, First West has raised nearly $4.0 million and collected 194,498 pounds of food for local food banks.

Throughout the year, employees stayed connected through a new virtual program, #FWWednesday—themed Wednesdays on which employees commented and shared photos and sentiment, all for charity. Through this initiative more than $10,500 was donated to local charities and our signature cause.

Boots on the ground and knowledge in the boardroom are critical resources essential to a strong social sector. In 2020, First West employees contributed 4,314 hours of community leadership to more than 115 non-profit and charitable organizations throughout British Columbia. First West employees supported their communities through a variety of roles, including:

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

Recognizing the efforts of our employees and the number of personal hours committed to serving in the community, our Lead Well Employee Recognition program funded 80 $500 grants, totaling $40,000 supporting non-profits selected by our employees.

First West Foundation

Our grant making charity has been working to help communities thrive since 1996. In partnership with local organizations, First West Foundation seeks to actively contribute to meaningful projects that make a positive and lasting impact upon community life. It enriches communities through effective grant-making, encourages philanthropy and reinforces First West's commitment to its communities. Highlights from 2020 include:

- First West Foundation was proud to receive a significant $1.3 million donation from First West Credit Union. $1 million of this was allocated towards addressing the urgent economic impacts of COVID-19 on the charitable sector as part of a newly established Community Response Fund.
- In total, $1.2 million in unrestricted funding was granted through the Community Response Fund and First West Foundation's regular granting programming.
- $109,856 was generously donated by employees to First West Foundation's endowment funds which disperse money to causes in the community, our Feed the Valley and The Full Cupboard programs and to key community partners.
- 136 local charities were supported by First West Foundation to deliver programs and services to help communities thrive.

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ECONOMIC REVIEW AND OUTLOOK

The COVID-19 pandemic caused a sharp and significant decline in the world's economy starting in the first quarter of 2020 with travel and border restrictions, social and physical distancing limiting public and private gatherings, and forced closures of non-essential businesses and schools. The disruption to the global economy also caused declines in the stock markets. In response, governments around the world enacted aid programs and stimulus spending to households and businesses, and injected additional liquidity to the economy to stabilize financial markets and institutions.

Central banks around the world decreased interest rates to near zero in the first quarter to provide credit and liquidity, including 1.50% rate cuts from both the Bank of Canada and the U.S. Federal Reserve. Interest rates are currently expected to remain unchanged for 2021 and 2022 as the economic recovery will hinge on the progress of vaccine production and distribution leading to lowering of travel and business restrictions increasing economic activity.

Positive developments during the year included the ratification of the United States-Mexico-Canada (USMCA) trade agreement in July 2020, easing of geopolitical tensions in the Middle East, and the emergence of the first COVID-19 vaccines passing critical human trials and obtaining regulatory authorization.

The Canadian economy contracted from March to May 2020, causing unemployment levels to rise, drops in household consumer spending and travelling, and increased business losses. With the loosening of restrictions and re-opening of businesses in early summer 2020, the economy and financial markets rebounded. Then, the second wave of the pandemic subsequently forced some restrictions to be put back in place. With low interest rates and higher income earners having more cash on hand due to limited consumer spending, there was also higher demand in the resale home real estate market as sales volume increased in areas outside of city cores with homeowners looking for larger living and work spaces and working remotely.

The outlook for the Canadian economy is for a slow recovery in 2021 with lower unemployment, continued restrictions in some provinces, and largely hinging on the timely vaccination of the general population.

At a provincial level, British Columbia in pre-pandemic times was leading the country in job creation and had one of the higher real GDP gains. During the pandemic in 2020, the B.C. economy declined as its industry mix of tourism and recreation, services, and travel was among the most impacted by the COVID-19 restrictions. B.C. did have one of the stronger resale housing sales markets in Canada, mainly in Southern B.C., during the later half of 2020. This is expected to continue with strong sales volumes and higher house values.

For 2021 and beyond, real GDP is expected to grow at a higher level than 2020 as the economy grows with cautious optimism. The housing resale market is expected to be strong in the first half of 2021 and slow down in the later half with the moderation in demand for resale homes in the housing cycle. Economic growth in the province is expected to be gradual as the vaccine rollout will take time but will be among the strongest in Canada as the province was not forced to implement tighter restrictions compared to the rest of the country.

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FINANCIAL PERFORMANCE 2020 OVERVIEW AND LINE OF BUSINESS REVIEW

Table 2 - Financial Performance

(Expressed in thousands of dollars)	**2020**	2019	2020 Change	
			$	**%**
Net interest income	**196,489**	196,820	(331)	(0.2%)
Fee, commission and other income	**120,355**	104,042	16,313	15.7%
Total revenue	**316,844**	300,862	15,982	5.3%
Provision for credit losses	**25,416**	16,748	8,668	51.8%
Total operating expenses	**234,169**	232,876	1,293	0.6%
Operating income	**57,259**	51,238	6,021	11.8%
Income tax expense	**8,461**	8,521	(60)	(0.7%)
Profit for the year from continuing operations	**48,798**	42,717	6,081	14.2%
Profit for the year from discontinued operations	**12,799**	45,435	(32,636)	(71.8%)
Profit for the year	**61,597**	88,152	(26,555)	(30.1%)
Assets				
Cash resources	**1,386,162**	260,852	1,125,310	431.4%
Loans after allowance for credit losses	**9,142,749**	9,139,432	3,317	0.0%
Investments, premises and equipment, and other assets	**1,659,978**	1,634,550	25,428	1.6%
Total assets	**12,188,889**	11,034,834	1,154,055	10.5%
Liabilities				
Deposits	**10,537,238**	9,651,799	885,439	9.2%
Borrowings	**600,670**	412,766	187,904	45.5%
Other liabilities	**208,652**	203,305	5,347	2.6%
Total liabilities	**11,346,560**	10,267,870	1,078,690	10.5%
Members' equity	**842,329**	766,964	75,365	9.8%
Total liabilities and members' equity	**12,188,889**	11,034,834	1,154,055	10.5%
Ratios				
Operating efficiency	73.9%	77.4%	(3.5%)	(4.5%)
Liquidity ratio	19.5%	11.3%	8.2%	72.5%
Capital ratio	15.9%	14.2%	1.7%	11.6%

The underlying business was resilient in 2020 in the midst of an economy significantly disrupted by the COVID-19 pandemic.

Operating income increased to $57.3 million from $51.2 million (Table 2), primarily due to an increase in fee, commission, and other income more than offsetting a small decrease in net interest income and higher provision for credit losses. Operating expenses were fairly flat year over year.

Similarly, Profit from continuing operations increased to $48.8 million from $42.7 million due to the higher operating income.

Profit from discontinued operations of $12.8 million, compared to $45.4 million prior year, was an income tax recovery related to a dividend payment paid by First West Insurance Services Ltd. to First West Credit Union following the sale of insurance assets (details in Note 32 Discontinued operation).

Asset growth was $1.2 billion in 2020 with cash growth of $1.1 billion funded primarily by deposit growth from members of $885.4 million.

Our liquidity position was greatly strengthened with the liquidity ratio for 2020 at 19.5%, compared to 11.3% in 2019.

Our capital position was also stronger with the capital ratio for 2020 at 15.9%, compared to 14.2% in 2019.

LINE OF BUSINESS HIGHLIGHTS AND OUTLOOK

Retail Banking

In 2020, our retail lending portfolio contracted by $131.3 million or 2.3%, to $5.7 billion, driven by paydowns and payouts of residential and equity mortgages, while our core retail deposit portfolio grew by $590.3 million or 11.3%, to $5.8 billion, driven by strong growth in demand (chequing and savings) accounts.

From a lending perspective, we implemented differential pricing for insured/insurable and non-insurable mortgages in order to meet the needs of our credit union while at the same time providing pricing flexibility for members.

The retail banking division remains a key part of our core business and we ended the year with a retail membership base of approximately 223,000 members. We provide service and advice to our retail members through a multi-channel offering, including our physical branch network, a Member Advice Centre, and a market-leading digital banking platform.

Retail membership was essentially flat in 2020 (down approximately 0.5%), despite the challenging external environment. We continued our focus on a "core banking offer" (including banking products and digital engagement) to ensure we are fulfilling our new members' financial needs within the first 90 days of becoming a member, and moreover, throughout their entire member journey with us spanning all life stages.

In 2020 we consolidated five of our retail locations with neighbouring branches, with the strategic objective of defining branch types of the future and optimizing our branch footprint, while continuing to innovate across our Member Advice Centre and digital channels, ensuring an integrated and seamless experience for our members. Our physical locations continue to offer the value proposition of being a destination for holistic financial advice, the need for which amidst changing market conditions has never been higher.

Also in 2020 we continued building and maintaining meaningful relationships with members through our core business—banking, borrowing and investing—our depth of expertise and advice-based culture, and the features of our digital solutions. An example of successful digital adoption in 2020 was the double-digit growth experienced in volumes and first-time users for Deposit Anywhere™, which allows our members to use our mobile app to remotely deposit cheques.

We demonstrated our ability to adapt with speed in response to the global pandemic, and as such, our focus on digitization was more important than ever before. With the goals of efficiency, optimization and capability, we were able to continue meeting our members' needs and expectations, re-imagining the banking experience whether through face-to-face transactions, digital solutions or by engaging with our Member Advice Centre.

Members benefitted from the continued evolution of our Forge digital banking platform, including five new self-service functions to enhance their online banking experience, such as online demand account and term deposit opening, online application for emergency funding, and Collabria credit card integration. We also rolled out Google Pay™ and Samsung Pay across all our brand divisions, and implemented Apple Pay® provisioning and verification in our Forge Apple app, enabling our members to make safe, convenient, contactless purchases. Furthermore, auto-adjudication for retail lending was implemented for personal loans and residential mortgages, which expedited approval times, and advanced e-signing capabilities were introduced, allowing members to safely and securely sign lending documents from anywhere. We also introduced Finley, our 24/7 digital assistant that supports members in navigating our divisional brand websites and digital banking platforms at their convenience. These investments have enabled us to accelerate our strategy, delivering an unrivalled member experience today and into the future.

Commercial and Business Banking

In 2020, in spite of the global pandemic, our commercial division continued to build on the strategic partnerships and relationships we have developed with the communities in which we operate. Net membership growth in our commercial business was essentially flat in 2020, ending the year with just over 27,000 total commercial members.

Our commercial lending portfolio grew by $136.4 million or 4.1.% to $3.5 billion in 2020. The growth was driven by a strong performance in commercial mortgages which saw growth of $195.3 million or 6.4%. Commercial lending had a strong finish to the year, as our members' real estate development projects began to ramp back up in the second half, after some developers had paused earlier in the year.

Total commercial core deposits grew by $196.4 million or 6.8% to $3.1 billion during the year, with the growth driven by commercial chequing accounts and term deposits. Non-core deposits, which include MUSH (municipalities, universities, schools, and hospitals) demand accounts and terms, and deposit agency funds grew in the amount of $111.0 million or 7.5%, as such, bringing the portfolio balance to $1.6 billion at year-end. The non-core portfolio run-off was tactically planned in order to utilize excess liquidity and diversify into capital market channels for funding and continued focus on core deposits.

In 2020, we provided our members with access to the Canada Emergency Business Account (CEBA) Government of Canada loan program, providing critical funding to business owners. To the end of December, we administered more than 3,450 loans, totaling over $156 million from this program. We also offered special loan arrangements to many commercial members who were adversely impacted by the pandemic.

Moreover, to further expand our capabilities, in 2020 we continued putting resources into our specialized Agribusiness lending team, with the goal of deepening our sector expertise to build our membership base, increase revenues and diversify risk. This sector 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 2021, we expect to continue growing our commercial lending portfolio supporting our members as their businesses grow. We will remain focused on providing expert advice while further elevating our products and services.

Insurance Services

As previously announced, in the third quarter of 2019, Westland Insurance Group Ltd. acquired the assets of First West Insurance Services Ltd. 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 2020, residual income in the amount of $12.8 million was realized, driven by a one-time tax recovery, related to a dividend paid by First West Insurance Services Ltd. to First West Credit Union.

Wealth Management

The events of 2020 served as a reminder of the importance of our wealth management services to help our members achieve their financial goals and prepare for an increasingly uncertain future. We offer our members a full range of wealth advisory services and a comprehensive choice of investments through our partnership with Aviso Wealth, a national integrated financial services company.

Our wealth management revenues were $25.7 million in 2020, an increase of $1.3 million over 2019. Our assets under administration grew, through a combination of positive net sales and market movement, by $282.4 million or 9.4% to reach a total of $3.3 billion assets under management.

In 2020 we continued to strengthen our specialist sales force with our wealth planning specialists and wealth advisors and are able to offer wealth management and planning and advice services that are tailored to our members' needs and align with their financial goals and life journey. We refreshed our wealth brand in 2020 to reflect the wide range of advice we offer.

In 2021 we have plans to further grow our wealth management services, including further development of our multi-channel offerings and improving our operational effectiveness.

First West Capital

The economic environment and business climate during the COVID-19 pandemic have caused disruptions to Canadian businesses in 2020, with particularly negative effects on small and medium-sized firms.

During 2020 First West Capital funded seven deals for a total of $7.5 million in disbursements, down significantly from 2019 as many loan applications were canceled or deferred due to COVID-19 implications. Write-offs totalled $22.4 million in the year, and the total portfolio was $85.3 million at the end of 2020, down from $113.8 million in 2019. The portfolio experienced an increase in the provision for credit losses in 2020 which had a negative earnings impact.

Looking ahead to 2021, although the junior capital market will continue to be competitive, we see opportunities to expand our portfolio of high-growth mid-market businesses strategically and selectively during 2021.

First West Leasing

The previously announced decision to wind down the leasing business and cease from entering into new lease agreements became effective on March 10, 2020.

First West transitioned the servicing of all existing leases to Integrated Financial Technologies (IFT), an experienced servicing company with deep knowledge and expertise to assist our clients with all of their leasing needs.

In 2020, First West Leasing's portfolio contracted by $58.2 million or 30.5%, ending the year at $132.4 million. Revenue decreased by $2.0 million or 14.4% year-over-year, to $11.9 million, and will continue declining in the future as the portfolio runs off.

9

DISCUSSION ON FINANCIAL PERFORMANCE

NET INTEREST INCOME

Table 3 - Net Interest Analysis

(Expressed in thousands of dollars)	2020				2019			
	Average Balance	Mix %	Interest	Interest Rate %	Average Balance	Mix %	Interest	Interest Rate %
Cash resources and investments	2,297,055	19.3	14,055	0.6	1,494,490	14.0	21,378	1.4
Loans to members								
Residential mortgages	4,981,868	41.9	150,384	3.0	4,770,329	44.6	156,591	3.3
Personal loans	65,415	0.6	3,529	5.4	76,181	0.7	4,432	5.8
Retail LOC	788,405	6.6	30,705	3.9	860,973	8.0	41,747	4.8
Commercial mortgages	3,087,644	26.0	121,222	3.9	2,803,985	26.2	122,348	4.4
Commercial loans	160,348	1.3	15,406	9.6	146,667	1.4	15,002	10.2
Commercial lines of credit	106,938	0.9	2,391	2.2	132,624	1.2	6,388	4.8
Accrued interest	17,434	0.1	-	-	14,990	0.1	-	-
Allowance for credit losses	(43,082)	(0.4)	-	-	(33,269)	(0.3)	-	-
Loans to members	9,164,970	77.1	323,637	3.5	8,772,480	82.0	346,507	3.9
Derivatives	-	-	4,225	-	-	-	(3,945)	-
Other assets	426,333	3.6	-	-	436,085	4.1	-	-
Total assets	11,888,358	100.0	341,917	2.9	10,703,055	100.0	363,940	3.4
Deposits from members								
Retail demand deposits	1,870,217	15.7	1,460	0.1	1,648,402	15.4	4,568	0.3
Retail non-registered term deposits	2,319,000	19.5	45,092	1.9	2,317,666	21.7	51,688	2.2
Registered deposits	1,493,242	12.6	23,595	1.6	1,280,415	12.0	25,882	2.0
Commercial demand deposits	1,979,143	16.6	7,706	0.4	1,672,435	15.6	14,740	0.9
Commercial term deposits	2,539,540	21.4	51,052	2.0	2,374,872	22.2	56,724	2.4
Class A membership shares	5,834	-	-	-	5,880	0.1	-	-
Accrued interest and dividends	60,585	0.5	-	-	61,022	0.6	-	-
Deposits from members	10,267,561	86.4	128,905	1.3	9,360,692	87.5	153,602	1.6
Members' equity	810,181	6.8	-	-	720,164	6.7	-	-
Borrowings	631,423	5.3	13,958	2.2	452,107	4.2	10,582	2.3
Other liabilities	179,193	1.5	2,565	1.4	170,092	1.6	2,936	1.7
Total liabilities and equity	11,888,358	100.0	145,428	1.2	10,703,055	100.0	167,120	1.6
Total assets / net interest income	11,888,358		196,489	1.7	10,703,055		196,820	1.8

In 2020 net interest income, defined as interest and investment income earned on assets less interest expense on deposits and borrowings, decreased $0.3 million or 0.2%, to $196.5 million from $196.8 million (Table 3) due to higher deposit growth compared to loans.

Net interest income as a percentage of average assets decreased year over year to 1.7% in 2020, from 1.8% in 2019.

Economic conditions resulted in a lowering and flattening of the yield curve during the year. Yields on loans to members were lower due to a lower prime rate and lower mortgage rates experienced in 2020. Investment yields were also lower due to lower investment rates. A very competitive marketplace for deposits led to only slightly lower funding costs which had a negative impact on net interest spreads.

Strong asset growth, 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)	**2020**	2019	2020 Change	
			$	%
Fee and commission income:				
Insurance commissions and fees	**2,594**	2,629	(35)	(1.3%)
Account service fees	**11,974**	16,019	(4,045)	(25.3%)
Loan administration fees	**20,023**	16,745	3,278	19.6%
Fees from fiduciary activities and mutual funds	**25,733**	24,443	1,290	5.3%
Foreign exchange	**3,802**	3,698	104	2.8%
	64,126	63,534	592	0.9%
Other income:				
Leasing revenue	**11,851**	13,852	(2,001)	(14.4%)
Investment revenue	**22,860**	16,296	6,564	40.3%
Mastercard revenue	**2,916**	3,006	(90)	(3.0%)
Gain on disposal	**9,971**	35	9,936	28388.6%
Property rental income	**3,043**	2,043	1,000	48.9%
Securitization	**1,045**	59	986	1671.2%
Miscellaneous	**4,543**	5,217	(674)	(12.9%)
	56,229	40,508	15,721	38.8%
Total fee, commission and other income	**120,355**	104,042	16,313	15.7%

In 2020 fee, commission and other income increased year-over-year in the amount of $16.3 million or 15.7%, to $120.4 million (Table 4). The increase was partly due to increased investment revenue from investment holdings of $22.9 million, compared to $16.3 million in 2019. In 2020 we sold our Langley Regional Office (initiated prior to the onset of COVID-19), in preparation for moving into our new Langley facility in Q1 of 2021; this resulted in a gain on disposal of $10.1 million.

As the commercial lending portfolio grew, loan fees from the portfolio increased, while loan penalty fees exceeded plan significantly, as many members took advantage of refinancing their mortgages at a lower interest rate. Investment revenues also saw healthy growth during the year, driven by growth in trailer commissions from both the MFDA and IIROC 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 in a new and improved suite of products, enhancing our ability to strategically offer non-traditional financing solutions through First West Capital, growing our sales force of wealth specialists and advisors, and leveraging our wealth management capabilities through our partnership with Aviso Wealth.

OPERATING EXPENSES

Table 5 - Operating Expenses

(Expressed in thousands of dollars)	**2020**	2019	2020 Change	
			$	%
Personnel expenses				
Salaries	**107,150**	107,865	(715)	(0.7%)
Benefits	**15,390**	15,308	82	0.5%
Pension	**9,762**	8,626	1,136	13.2%
Other	**5,817**	6,886	(1,069)	(15.5%)
	138,119	138,685	(566)	(0.4%)
Depreciation and amortization	**15,966**	17,357	(1,391)	(8.0%)
Other expenses:				
Administration	**41,975**	43,606	(1,631)	(3.7%)
Data processing	**25,293**	23,527	1,766	7.5%
Occupancy	**12,816**	9,701	3,115	32.1%
	80,084	76,834	3,250	4.2%
Total operating expenses	**234,169**	232,876	1,293	0.6%
Efficiency ratio	**73.9%**	77.4%	(3.5%)	(4.5%)

Total operating expenses increased by $1.3 million in 2020, to $234.2 million (Table 5). While First West accelerated certain strategic initiatives, particularly those aimed at transforming our core business, we also paused other initiatives, due to COVID-19, which resulted in costs savings, as well as a reduction in personnel costs as we optimized our workforce and wound down our leasing business.

Key activities undertaken in 2020 included: completing upgrades to our banking system, commencing the implementation of a new enterprise resources planning (ERP) system which is going live in 2021, ongoing work on Forge and our products and pricing, and our continued work on our federal continuance initiative.

In 2020, we also incurred COVID-19 related costs and expenses that enabled us to adapt to our new environment with things like premium pay for branch employees serving members in-person, technology to enable a remote workforce, installing safety features and supplies in our branches and administration offices, and accelerating enhancements to digital tools to serve members. Some of these expenses are longer-term investments that set us up for future success in our industry, which is firmly in a state of accelerated digitization.

While we did have additional expenses in certain respects as a result of COVID-19, there were other areas of the organization where prudent expense management was possible. Furthermore, we realized approximately $1.6 million in savings in administration expenses, largely driven by a year-over-year decline in our Credit Union Deposit Insurance Corporation of British Columbia (CUDIC) deposit insurance premiums which benefited from a rate reduction in 2020.

Overall, the operating efficiency ratio improved from 77.4% in 2019 to 73.9% in 2020. 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)	2020	Portfolio%	2019	Portfolio%	2020 Change	
Residential mortgages	**4,909,328**	**54%**	4,925,583	54%	(16,255)	(0.3%)
Commercial lending	**3,471,251**	**38%**	3,334,843	36%	136,408	4.1%
Retail equity mortgages	**635,986**	**7%**	729,524	8%	(93,538)	(12.8%)
Personal loans and retail LOCs	**153,595**	**1%**	175,137	2%	(21,543)	(12.3%)
Total outstanding loans[1]	**9,170,160**	**100%**	**9,165,087**	**100%**	**5,073**	**0.1%**

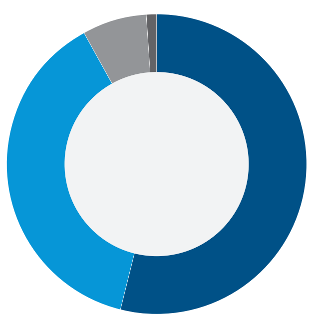
[1] Balances exclude accrued interest and allowance for credit losses

The loan portfolio ended 2020 at $9.2 billion (excluding accrued interest and the allowance for credit losses), an increase of 0.1% or $5.1 million compared to in the end of 2019 (Table 6). Commercial lending growth was particularly strong at $136.4 million in aggregate, or 4.1% in 2020, more than offsetting retail and residential lending, which decreased by $131.3 million or 2.3%.

The strongest growth in commercial lending was in commercial mortgages at $195.3 million or 6.4%, compared to 2019. We expect to see higher growth in the overall portfolio in 2021, largely in mortgages. A laser focus on reimagining personal lending, with growth aligned to our strategic priorities and product and channel capabilities is intended to drive the retail growth. Commercial growth is anticipated to be in line with our past trends, and with continued focus on the agribusiness sector.

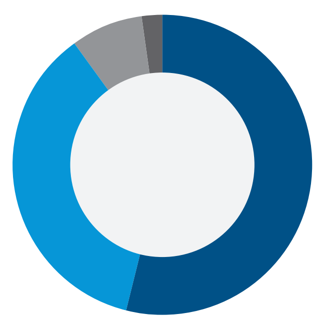
To assist members experiencing financial hardships caused by the pandemic, First West provided borrowers with loan payment deferral relief. By year end, the deferral activity was minimal, totaling approximately $21.1 million of loan principal deferrals, representing approximately 0.2% of total outstanding loans.

CHART 1 — 2020 Portfolio Breakdown



	2020
Residential Mortgages	54%
Commercial Lending	38%
Retail Equity Mortgages	7%
Personal Loans and Retail LOCs	1%

CHART 2 — 2019 Portfolio Breakdown



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

The product mix in our loan portfolio has remained relatively constant in 2020 (Charts 1 & 2).

Commercial lending grew to 38% of the portfolio in 2020, from 36% in 2019 and residential mortgages remained consistent in 2020 at 54% of the portfolio compared to 2019.

We also observed a slight decline in retail equity mortgages and personal loans and retail LOCs in 2020.

CREDIT QUALITY / ALLOWANCE FOR CREDIT LOSSES

Table 7 - Credit Performance

(Expressed in thousands of dollars)	2020	2019	2018
Total loans[1]	**9,186,341**	9,182,188	8,614,062
Allowance for expected credit losses	**43,592**	42,756	28,443
Provision for credit losses	**25,416**	16,748	7,000
Loan write-offs	**24,580**	2,435	2,928
Impaired loans (Stage 3 loans)	**45,353**	41,597	16,242
Members' equity	**842,329**	766,964	671,300

[1] Balances include accrued interest and exclude allowance for credit losses

	2020	2019	2018
Allowance for expected credit losses as % of total loans	**0.47%**	0.47%	0.33%
Provision for credit losses as % of total loans	**0.28%**	0.18%	0.08%
Loan write-offs as % of total loans	**0.27%**	0.03%	0.03%
Impaired loans (Stage 3 loans) as % of total loans	**0.49%**	0.45%	0.19%
Impaired loans (Stage 3 loans) as % of members' equity	**5.38%**	5.42%	2.42%

Our allowance for expected credit losses as of December 31, 2020 increased to $43.6 million, compared to $42.8 million in 2019, an increase of $0.8 million or 2.0% (Table 7). The provision for credit losses expense was higher at $25.4 million, an increase of $8.7 million or 51.8% from 2019 to reflect the impact of the COVID-19 pandemic on the economy and credit exposure.

CHART 3 — Allowance for credit losses

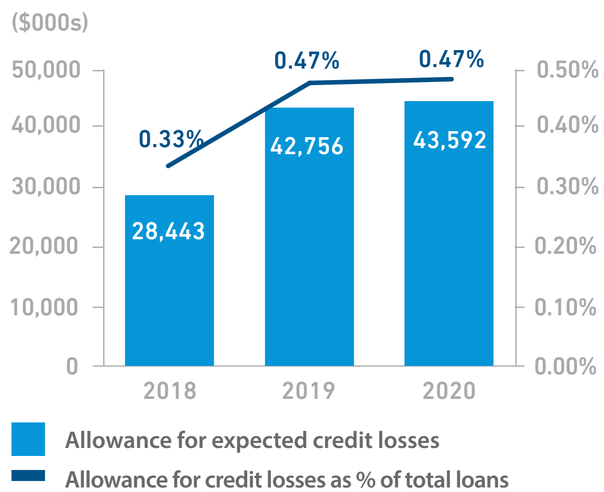


CHART 4 — Loan write-offs

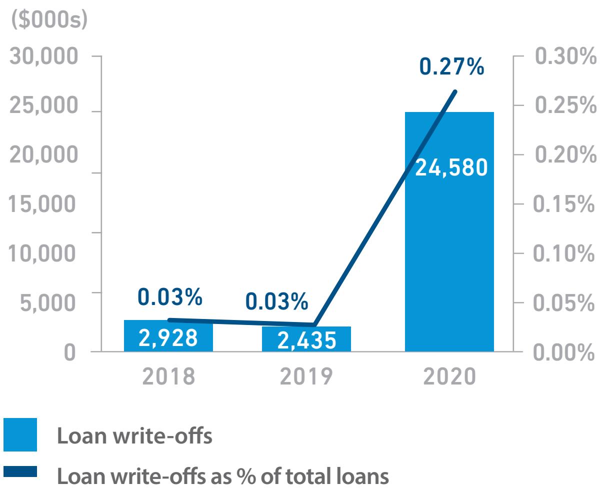
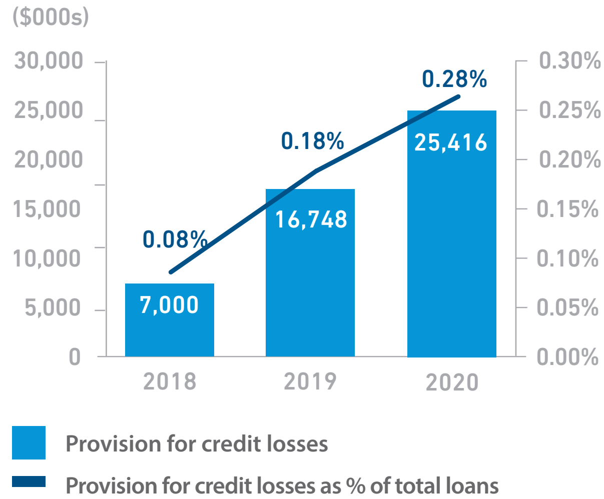


CHART 5 — Provision for credit losses



The year-end allowance for credit losses represented 0.47% of total loans and accrued interest, consistent with the prior year (Chart 3).

Loan write-offs as a percentage of total loans increased to 0.27% in 2020, from 0.03% the previous year (Chart 4). Driving the loan write-offs were three large loans in the commercial lending portfolio, specifically, First West Capital's portfolio, being written off in 2020.

The provision for credit losses as a percentage of total loans increased to 0.28% in 2020, from 0.18% the previous year (Chart 5). The total provision for credit losses for the year was $25.4 million, an increase of $8.7 million versus 2019.

The increase in the provision for credit losses in 2020 largely occurred within the First West Capital portfolio and reflected the impact of COVID-19 on the macroeconomic outlook and the impact of a more difficult and uncertain environment.

The allowance for credit losses is adequate based on our analysis of the loan portfolio as of December 31, 2020. 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.

Governance

The Board is responsible for overseeing the management of liquidity and funding risk and has delegated responsibility for monitoring adherence to policy to the Risk, Investment and Loan Committee (RILC).

The Board approves the Risk Appetite Framework, which emphasizes liquidity as a strategic resource enabling it to provide the necessary funding for operation of the credit union, and sets out the minimum acceptable levels for liquidity ratios, including Regulatory Liquidity Ratio and Liquidity Coverage Ratio (LCR).

The Board approves the Liquidity and Funding Policy and the Liquidity Contingency Plan (LCP) on an annual basis and, in conjunction with First West's strategic and financial plans, also reviews and approves the annual Liquidity Plan.

The RILC is charged with reviewing the Liquidity and Funding 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.

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 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)	2020	2019	2020 Change	
			$	%
Cash and cash resources	**1,386,162**	260,852	1,125,310	431.4%
Investments:				
Term deposits callable or maturing in three or more months	**783,762**	875,820	(92,058)	(10.5%)
Investments in pooled funds	**218,783**	158,991	59,791	37.6%
Other	**4,502**	4,502	0	0.0%
Total liquid assets	**2,393,209**	1,300,165	1,093,044	**84.1%**
Total assets	**12,188,889**	11,034,834	1,154,055	**10.5%**
Encumbered liquid assets	**201,812**	107,438	94,374	**87.8%**
Unencumbered liquid assets	**2,191,397**	1,192,727	998,670	**83.7%**
Total liquid assets / total assets	**19.6%**	11.8%	7.9%	**66.6%**

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 of December 31, 2020, liquid assets held totaled $2.4 billion and represented 19.6% of total assets. This compares to $1.3 billion and 11.8% in 2019. The significant increase in balance and as a proportion of total assets was due to an increase in cash funded primarily by deposit growth.

DEPOSITS AND FUNDING

Table 9 - Deposits and Funding

(Expressed in thousands of dollars)	2020	2019	2020 Change	
			$	%
Core deposits				
Retail demand deposits	**2,205,988**	1,700,794	505,194	29.7%
Retail non-registered term deposits	**2,203,826**	2,176,356	27,470	1.3%
Registered deposits	**1,386,317**	1,328,718	57,599	4.3%
	5,796,131	5,205,869	590,262	11.3%
Commercial demand deposits	**1,886,261**	1,497,580	388,681	26.0%
Commercial term deposits	**1,212,439**	1,404,708	(192,269)	(13.7%)
	3,098,700	2,902,288	196,412	6.8%
Class A membership shares	**5,659**	5,706	(47)	(0.8%)
Accrued interest and dividends	**51,266**	63,436	(12,170)	(19.2%)
Core deposits	**8,951,756**	8,177,299	774,457	9.5%
Non-core deposits				
MUSH demand accounts	**288,664**	186,616	102,048	54.7%
Deposit agency terms	**553,532**	504,083	49,449	9.8%
MUSH terms	**743,286**	783,801	(40,515)	(5.2%)
Non-core deposits	**1,585,482**	1,474,500	110,982	7.5%
Deposits from members	**10,537,238**	**9,651,799**	**885,439**	**9.2%**

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 (MLP) invested in marketable securities that is externally managed by Central 1 for all credit unions in B.C.

During 2020 the BC MLP was legally segregated from the Ontario MLP to further enhance the protection of credit union assets. Under the direction by the B.C. credit unions' regulator (BCFSA), the statutory liquidity reserve structure changed on January 1, 2021 to a new structure invested directly in marketable securities that qualify as high-quality liquid assets. To make this change, the credit union deposits held in the MLP were extinguished in exchange for a portfolio of high-quality liquid assets which are now held in a trust with the credit union the beneficiary, Central 1 the trustee and Credential Qtrade Securities Inc. the investment manager.

In anticipation of this change to a new statutory liquidity structure in 2021, the credit union recognized a modification gain of $4.9 million on MLP investments in deposits held with Central 1. (Further details of the transaction are provided in Financial Statement Note 22 Other income and Note 34 Subsequent event.) Leveraging our strong franchise position and close relationship with our members, we generate most of our deposits through our branch network.

In 2020, deposits totalled $10.5 billion, an increase of 9.2% 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, NHA Mortgage-Backed Securities Program, and the new

Insured Mortgage Purchase Program (IMPP) launched in 2020 as part of the Government of Canada's COVID-19 Economic Response Plan to provide lenders with funding. During 2020 we participated in securitization transactions as further described in Note 28 of the consolidated financial statements.

To expand and diversify our funding options, First West first obtained a DBRS Morningstar short-term issuer rating of R-1 (low) in January 2016 and subsequently a DBRS Morningstar long-term issuer rating of BBB (high) in October 2018. These ratings were confirmed by DBRS Morningstar, with stable outlooks, in August 2020.

Our liquidity ratios remained healthy in 2020 and are comfortably above regulatory requirements. Total deposit growth in 2020 was $885.4 million, of which $774.5 million was from core retail and commercial sources, while non-core deposits from institutional and other sources grew by $111.0 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
2020						
Demands	4,380,913	-	-	-	-	4,380,913
Terms[1]	310,131	697,970	2,744,324	955,424	56,500	4,764,349
Registered savings plans	249,758	138,515	556,560	407,184	34,300	1,386,317
Class A shares	5,659	-	-	-	-	5,659
Total deposits	**4,946,461**	**836,485**	**3,300,884**	**1,362,608**	**90,800**	**10,537,238**
2019						
Demands	3,384,991					3,384,991
Terms[1]	289,705	645,016	2,653,041	1,286,655	57,966	4,932,383
Registered savings plans	199,994	103,117	429,116	552,301	44,191	1,328,719
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**
Change	**1,066,065**	**88,352**	**218,727**	**(476,348)**	**(11,357)**	**885,439**

[1] Terms include accrued interest and dividends

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 12.00% at which point the CMCP would be activated.

As outlined in First West's Risk Appetite Framework and in the Capital Policy, capital adequacy below 11% is deemed to be intolerable.

A number of capital buffer thresholds are set above the 12.00% internal capital target with corresponding escalation protocol and management actions to be initiated when triggered. These tolerance levels are established to resolve unexpected capital impacts before the 11% intolerable threshold and 10% supervisory level is reached.

Table 11 - Regulatory Capital

(Expressed in thousands of dollars)	2020	2019	2020 Change	
			$	%
Regulatory Capital				
Primary capital	**827,576**	766,345	61,231	8.0%
Secondary capital	**123,455**	114,550	8,905	7.8%
Deductions from capital	**(20,463)**	(4,798)	(15,665)	326.5%
Total capital	**930,568**	876,097	54,471	6.2%
Risk weighted assets	**5,870,826**	6,186,434	(315,608)	(5.1%)
Total capital ratio	**15.9%**	**14.2%**	1.7%	11.9%

As of December 31, 2020, First West had a capital ratio of 15.9% 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 8.0% of total risk-weighted assets, the supervisory level of 10.0% and our internal capital target of 12.0%.

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 15.9% is above the 14.2% reported for 2019.

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 $930.6 million in 2020, compared to $876.1 million in 2019. Of the $315.6 million decrease in risk-weighted assets, the largest contributor is the reduction in risk-weighted loan balances, which decreased by $377.3 million, partially offset by a slight increase in the risk-weighted cash and investments balance.

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.

10

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.

2020 RISK HIGHLIGHTS

- Improved quantitative risk and stress testing capabilities to better prepare us for unforeseen events that could impact the credit union
- Enhanced risk governance structure and policies to better align with ongoing risk management processes and activities against emerging and developing risk areas
- Updated the Board Risk Appetite Statement and Risk Appetite Framework of the credit union
- Developed effective risk management tools and reporting to deal with pandemic risk
- 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

RISK MANAGEMENT OBJECTIVES	RISK MANAGEMENT PRINCIPLES
• 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	• 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 OSFI 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:

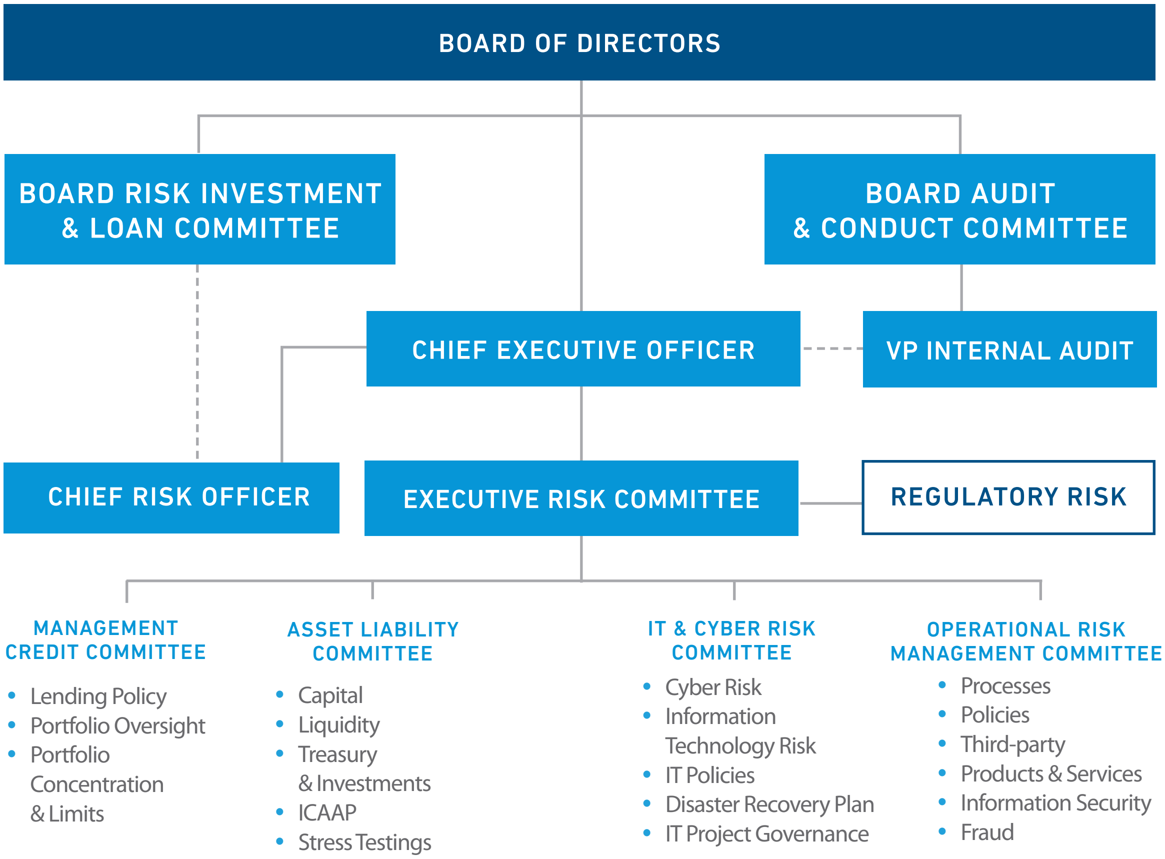


Figure 1: Risk Management Governance Structure

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.

Subcommittees 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 four subcommittees are as follows:

Credit Management 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.

IT & Cyber 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 cybersecurity policies. The committee also reviews action plans for improving management of IT and cyber risk.

Operational Risk Management 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

An effective risk management framework seeks to protect an organization's capital base and earnings without hindering growth. To that end, a risk management framework ensures that the outcomes of risk-taking are consistent with our overall risk appetite, our balanced growth and strategic objectives.

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
- Capital 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, and thus evaluated as a potential impact from the above specified risks.

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.

Capital Risk

Capital risk is the potential misalignment between the risk taken by the credit union and capital that is needed to be held to protect against that risk. If the capital available exceeds what is actually required to protect against the risk, we may reduce our Return on Equity. Whereas, if the capital available is short of what is actually required to protect against the risk taken, we would not have a sufficient buffer against the unexpected losses.

Operational Risk

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, people, systems, or external events. 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 reviews for compliance and effectiveness of controls by independent Internal Audit team and external audit when needed.
- 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.

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	QUANTITATIVE 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	• 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 2: Three Lines of Defence

First Line Responsibilities

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

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.

11 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.

12 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 listed below and described further in Note 3 to the consolidated financial statements.

	Further relevant information	
Item	Consolidated financial statements	MD&A
Expected credit losses on loans to members	Note 6(b),10	Loan Portfolio
Income taxes	Note 25	
Fair value of financial instruments	Note 30	

13 FUTURE CHANGES TO ACCOUNTING POLICIES

There are no standards issued, but which are not yet effective as of December 31, 2020, which are expected to materially impact the credit union's future financial statements.

14 COMPENSATION PRACTICE

Employees of First West, including the executive group, receive a comprehensive and competitive total rewards package. This includes base salary, incentives, perquisites, recognition and reward programs, career development opportunities and a comprehensive and competitive flexible benefits package. Base and variable pay programs are designed and updated based on a review of data from 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. The job evaluation system utilized by First West is a point factor plan that adheres to the pay equity elements which include skill, effort, responsibility and working conditions.

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, offers an employer matching program to contributions up 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, a well-being account, and access to Best Doctors and an Employee and Family Assistance Program.

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 goals are achieved and/or exceeded 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 may also be 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 (Cowbell 90)
- 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.

TOTAL REWARDS

Employees participate in a comprehensive and 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 flexible benefit plan design is based on the following criteria:

- Provides a minimum level of core "catastrophic coverage" for each employee
- Gives employees key responsibility for electing coverage that meets the needs of their health and wellbeing, and that of their families
- 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 a blended market of financial services peer group and general industry. Financial services peer group include the largest Canadian credit unions (based on assets and business complexity) and other financial services organizations of a reasonable size and scope relative to First West.

- 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 3.27%, effective January 1, 2020.
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 2020, 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 60% 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 70% of base salary. The maximum potential is set at 126% 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. 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 2020 are outlined in Table 12.

Table 12 - 2020 Target Total Cash Compensation[1]

Base Salary	STIP Target	LTIP Target[2]	Target Total Cash
$553,000	60%	70%	$1,271,900

Notes to Table 12:

1. Target Total Cash Compensation reflects the annual base salary for the CEO (as at January 1, 2020) 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 13 - Actual Total Cash Compensation[1]

Annual Earnings	STIP Payout[2]	LTIP Payout[3]	Other[4]	Total Cash
$573,798	$413,135	$459,000	$50,000	$1,495,933

Notes to Table 13:

1. Actual Total Cash Compensation reflects the CEO's actual annual earnings in 2020 (including additional pay period in 2020) and actual incentive amounts paid out based on annual achievements for fiscal 2020 (paid in early 2021).
2. STIP payment made in the first quarter of 2021 for fiscal 2020. Company achievement at 80% of annual goals and an individual performance level of "significant overachievement of pre-defined metrics."
3. LTIP payment made first quarter of 2021 for company achievement ending fiscal 2020 at 120% of the three-year goals (related to fiscal 2018-2020) and an individual three-year average performance rating set at "significant overachievement of pre-defined metrics." LTIP target was 50% for 2018-2020 performance.
4. Other includes $50,000 in the executive perquisites plan (inclusive of car allowance).

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) be 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 Risk Management 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 Risk Management 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, 2020
- 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, 2020, 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 15, 2021

FIRST WEST CREDIT UNION

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

December 31, 2020, with comparative information for 2019

	Notes		2020		2019
Assets					
Cash resources	8	$	1,386,162	$	260,852
Derivative assets	9		29,485		19,377
Loans to members	10		9,142,749		9,139,432
Investments	11		1,256,068		1,196,125
Assets held-for-sale	32		933		7,193
Premises and equipment	12		127,506		111,659
Intangible assets	13		20,636		6,759
Deferred tax assets	25		34,039		30,666
Other assets	14		191,311		262,771
		$	12,188,889	$	11,034,834
Liabilities and Members' Equity					
Deposits from members	15	$	10,537,238	$	9,651,799
Borrowings	16		600,670		412,766
Derivative liabilities	9		4,958		6,823
Deferred tax liabilities	25		30,660		28,804
Other liabilities	17		173,034		167,678
			11,346,560		10,267,870
Members' equity:					
Equity shares	19		28,083		29,870
Contributed surplus			163,651		163,651
Retained earnings			637,505		576,600
Accumulated other comprehensive income (loss) ("AOCI")			13,090		(3,157)
			842,329		766,964
Commitments and contingencies	27				
		$	12,188,889	$	11,034,834

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, 2020, with comparative information for 2019

	Notes		2020		2019
Interest income:					
Loans		$	323,637	$	346,507
Cash resources and investments			18,280		17,433
			341,917		363,940
Interest expense:					
Deposits			128,905		153,602
Borrowings			13,958		10,582
Lease liabilities			2,565		2,936
			145,428		167,120
Net interest income	20		196,489		196,820
Provision for credit losses	10		25,416		16,748
			171,073		180,072
Fee and commission income	21		64,126		63,534
Other income	22		56,229		40,508
			291,428		284,114
Personnel expenses	23		138,119		138,685
Depreciation and amortization			15,966		17,357
Other expenses	24		80,084		76,834
			234,169		232,876
Profit before income tax expense from continuing operations			57,259		51,238
Income tax expense	25		8,461		8,521
Profit from continuing operations			48,798		42,717
Profit from discontinued operations, net of tax	32		12,799		45,435
Profit for the year		$	61,597	$	88,152

See accompanying notes to consolidated financial statements.

FIRST WEST CREDIT UNION

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

Year ended December 31, 2020, with comparative information for 2019

		2020		2019
Profit for the year	$	61,597	$	88,152
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 $(3,884); (2019 - $(2,146))		16,247		9,913
Total other comprehensive income, net of income taxes		16,247		9,913
Comprehensive income	$	77,844	$	98,065

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, 2020, with comparative information for 2019

	Equity shares	AOCI Hedging reserve	AOCI Fair value reserve	Contributed surplus	Retained earnings	2020 Total
Balance at December 31, 2019	$ 29,870	$ (3,152)	$ (5)	$ 163,651	$ 576,600	$ 766,964
Profit for the year	-	-	-	-	61,597	61,597
Other comprehensive income, net of income taxes:						
Hedging reserve (cash flow hedges):						
Effective portion of changes in fair value	-	16,247	-	-	-	16,247
Total other comprehensive income	-	16,247	-	-	-	16,247
Comprehensive income	-	16,247	-	-	61,597	77,844
Contributions by and distribution to members:						
Dividends, net of related tax savings	-	-	-	-	(692)	(692)
Redemptions of equity shares	(1,787)	-	-	-	-	(1,787)
Total distribution to members	(1,787)	-	-	-	(692)	(2,479)
Balance at December 31, 2020	$ 28,083	$ 13,095	$ (5)	$ 163,651	$ 637,505	$ 842,329

	Equity shares	AOCI Hedging reserve	AOCI 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

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, 2020, with comparative information for 2019

	Notes	2020	2019
Cash provided by (used in):			
Cash flows from operating activities:			
Profit for the year		$ 61,597	$ 88,152
Adjustments for:			
Provision for credit losses		25,416	16,748
Depreciation and amortization		15,966	17,843
Net interest income		(196,489)	(196,820)
Income tax (recovery) expense		(4,338)	28,010
Gain on sale of discontinued operations	32	-	(60,980)
Gain on sale of asset held-for-sale		(10,120)	-
Changes in:			
Derivative assets and liabilities		9,437	(9,154)
Loans to members		(29,653)	(567,060)
Other assets		71,462	(13,096)
Deposits from members		897,609	625,085
Other liabilities		26,976	12,523
Interest received		341,557	359,343
Interest paid		(155,144)	(156,046)
Dividends paid		(858)	(1,151)
Income tax paid		(21,980)	(24,523)
Net cash flows provided by operating activities		1,031,438	118,874
Cash flows from investing activities:			
Acquisition of investments		(89,148)	(88,204)
Proceeds from sale of investments		28,824	7,271
Proceeds from disposal of discontinued operations	32	-	75,979
Proceeds from sale of asset held-for-sale		17,313	-
(Acquisition) disposal of:			
Premises and equipment, net		(25,723)	(7,702)
Intangible assets, net		(16,189)	331
Net cash flows used in investing activities		(84,923)	(12,325)
Cash flows from financing activities:			
Proceeds from borrowings		511,823	100,000
Repayment of borrowings		(323,808)	(158,773)
Repayment of lease liabilities		(7,433)	(7,883)
Redemption of equity shares		(1,787)	(1,455)
Net cash flows provided by (used in) financing activities		178,795	(68,111)
Net increase in cash resources		1,125,310	38,438
Cash resources, beginning of year		260,852	222,414
Cash resources, end of year	8	$ 1,386,162	$ 260,852

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 19933 88 Avenue, 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, 2020 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.

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic with various cities and countries around the world responding in different ways to address the outbreak. The full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on the Credit Union's business remains uncertain and difficult to predict at this time.

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 15, 2021.

(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 full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on the economies and the Credit Union's business remains uncertain and difficult to predict at this time. By their very nature, the judgments and estimates we make for the purposes of preparing

3. Use of estimates and judgments (continued):

our financial statements relate to matters that are inherently uncertain. However, we have detailed policies and internal controls that are intended to ensure these judgments and estimates are well controlled, independently reviewed, and our policies are consistently applied from period to period. We believe that our estimates of the value of our assets and liabilities are appropriate as at December 31, 2020.

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.

In addition, the COVID-19 outbreak has directly impacted the measurement of the ECL. A higher level of uncertainty with respect to future economic outlook has resulted in an increased reliance on management's judgement to determine the data and assumptions used in the ECL model. Management has applied adjustments for the quantitative and qualitative impacts of the unprecedented macroeconomic scenarios.

(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.

(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

3. Use of estimates and judgments (continued):

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. (up until disposal in fiscal 2020 (note 32)). 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.

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

4. Significant accounting policies (continued):

(b) Foreign currency (continued):

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.

(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; and

(*iv*) interest and expense on settlement of derivative contracts.

(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) Leases:

(*i*) 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.

(*ii*) 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.

(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.

4. Significant accounting policies (continued):

(h) Income taxes (continued):

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.

(*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 (continued):

Financial assets (continued):

<u>Business model assessment:</u>

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; and
- 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.

<u>Assessment of whether contractual cash flows are SPPI:</u>

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.

<u>Reclassifications:</u>

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 2020 or 2019.

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.

4. Significant accounting policies (continued):

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

(*iii*) Derecognition (continued):

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.

(*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.

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.

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

4. Significant accounting policies (continued):

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

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

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.

(*vii*) 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.

<u>Assessment of significant increase in credit risk:</u>

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 cases where borrowers have opted to participate in payment deferral programs we offered as a result of the COVID-19 pandemic, deferred payments are not considered to be past due and were not necessarily considered an immediate trigger of significant increase in credit risk.

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.

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 (continued):

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.

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.

4. Significant accounting policies (continued):

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

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

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.

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.
- 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.

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.

4. Significant accounting policies (continued):

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

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

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.

(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.

4. Significant accounting policies (continued):

(k) Derivatives and hedge accounting (continued):

(*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.

(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 or 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.

4. Significant accounting policies (continued):

(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.

(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.

4. Significant accounting policies (continued):

(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.

(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.

(*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.

4. Significant accounting policies (continued):

(t) Employee benefits (continued):

(*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. New accounting standards and interpretations not yet effective:

There are no standards issued, but which are not yet effective as of December 31, 2020, which are expected to materially impact the Credit Union's future financial statements.

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.

6. Financial risk management (continued):

(b) Credit risk (continued):

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.

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, 2020 and 2019. The amounts in the table represent the carrying amounts of loans to members.

At December 31, 2020	Stage 1	Stage 2	Stage 3	Total
Residential mortgages:				
Credit score > 800 (excellent)	$ 1,979,784	$ -	$ -	$ 1,979,784
Credit score 710 - 799 (good - very good)	1,878,736	-	339	1,879,075
Credit score 650 - 709 (fair - good)	668,558	14,244	916	683,718
Credit score 600 - 649 (poor)	145,332	78,281	1,865	225,478
Credit score < 600 (less than satisfactory)	24,280	106,599	3,034	133,913
Deferred fees	7,052	299	9	7,360
Loss allowance	(1,996)	(2,283)	(520)	(4,799)
	$ 4,701,746	$ 197,140	$ 5,643	$ 4,904,529
Personal:				
Credit score > 800 (excellent)	$ 387,562	$ 5	$ 79	$ 387,646
Credit score 710 - 799 (good - very good)	261,780	74	-	261,854
Credit score 650 - 709 (fair - good)	95,971	2,216	-	98,187
Credit score 600 - 649 (poor)	18,220	10,220	-	28,440
Credit score < 600 (less than satisfactory)	3,314	10,022	118	13,454
Deferred fees	-	-	-	-
Loss allowance	(3,555)	(3,738)	(103)	(7,396)
	$ 763,292	$ 18,799	$ 94	$ 782,185
Commercial:				
R1 - R2 (excellent - good)	$ 261,852	$ -	$ -	$ 261,852
R3 (satisfactory)	2,785,744	370	10	2,786,124
R4 - R6 (less than satisfactory)	231,040	142,420	42	373,502
R7 - R8 (unsatisfactory)	-	13,288	16,545	29,833
R9 - R10 (credit-impaired)	-	-	22,424	22,424
Deferred fees	(2,344)	(112)	(28)	(2,484)
Loss allowance	(4,110)	(3,834)	(23,453)	(31,397)
	$ 3,272,182	$ 152,132	$ 15,540	$ 3,439,854

6. Financial risk management (continued):

(b) Credit risk (continued):

Credit quality and credit risk exposure (continued):

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

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.

6. Financial risk management (continued):

(b) Credit risk (continued):

Credit quality and credit risk exposure (continued):

		2020		2019
Exposure recognized on the consolidated statement of financial position:				
Loans and accrued interest	$	9,186,341	$	9,182,188
Derivatives (net)		29,485		19,377
Term deposits and other securities		2,492,124		1,351,513
Other assets		166,018		243,537
		11,873,968		10,796,615
Exposure not recognized on the consolidated statement of financial position:				
Letters of credit		74,371		88,803
Unadvanced loans and lines of credit		1,955,034		1,830,391
		2,029,405		1,919,194
Maximum exposure	$	13,903,373	$	12,715,809

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.

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 13% (2019 - 11%) 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

6. Financial risk management (continued):

(c) Liquidity risk (continued):

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, 2020 the Credit Union's liquidity exceeds minimum statutory requirements by $1,538.3 million (2019 - $471.7 million).

(d) Market risk:

Market risk arises from changes in market prices and rates (including interest rates, credit spreads, equity prices, and foreign exchange rates), the correlations between them and their levels of volatility. 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. The Asset Liability Committee ("ALCO") provides tactical and strategic direction and is responsible for ongoing oversight, review, and endorsement of operational guidelines on a regular basis. ALCO is assisted by Treasury in its day-to-day monitoring activities.

The Credit Union utilizes earnings tests to produce monthly forecasts of net interest income for the upcoming 12-months based on the current balance sheet structure and the scheduled maturity and re-pricing of the balance sheet. 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 which models the forecasts.

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%.

6. Financial risk management (continued):

(d) Market risk (continued):

The following table shows the results of these forecast simulations as at December 31, 2020 and 2019:

	Policy limit	2020	Impact	2019	Impact
Earnings at risk	10%	0.77%	$ (1,684)	5.2%	$ (11,278)
Duration of equity	+/-10%	2.9%	-	3.5%	-

As at December 31, 2020 and 2019, the Credit Union was within policy limits.

(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, 2020 and 2019, the Credit Union has met its minimum regulatory requirements.

Capital Adequacy calculation as defined by the Act:

	2020	2019
Primary capital	$ 827,576	$ 766,345
Secondary capital	123,455	114,550
Deductions from capital	(20,463)	(4,798)
Total capital	$ 930,568	$ 876,097

Capital funds are managed in accordance with policies and plans that are regularly reviewed and approved by Board of Directors and take into account forecasted capital needs and market trends. The goal is to maintain adequate regulatory capital to meet the Credit Union's capital requirement, protect member deposits, and provide capacity for internally generated growth and strategic opportunities. Effective procedures and controls are established by management to achieve this goal and appropriate reporting is provided to Board of Directors on capital position and procedures and controls for managing the capital on a regular basis.

6. Financial risk management (continued):

(e) Capital management (continued):

In addition to the regular risk management practices, the 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, 2020 and 2019:

2020	FVTPL	Amortized cost	FVOCI-debt instruments	FVOCI-equity instruments	Total
Cash resources	$ -	$ 1,386,162	$ -	$ -	$ 1,386,162
Derivative assets	29,485	-	-	-	29,485
Loans to members	-	9,142,749	-	-	9,142,749
Other assets	-	166,018	-	-	166,018
Term deposits and other	247,672	784,262	3500	502	1,035,936
Investment in pooled funds	218,783	-	-	-	218,783
Derivative liabilities	4,958	-	-	-	4,958
Deposits from members	-	10,537,238	-	-	10,537,238
Borrowings	-	600,670	-	-	600,670
Accounts payable and accrued liabilities	-	159,881	-	-	159,881

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
Other assets	-	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	-	145,411	-	-	145,411

8. Cash resources:

		2020		2019
Cash and current accounts	$	148,757	$	101,186
Term deposits and accrued interest		1,237,405		159,666
	$	1,386,162	$	260,852

9. Derivatives:

	Fair value							
	2020				2019			
		Asset		Liability		Asset		Liability
Interest rate swaps used to manage interest rate risk:								
Receive fixed swaps	$	17,928	$	-	$	3,569	$	6,823
Pay fixed swaps		-		4,958		1,018		-
Other derivatives:								
Equity linked options		11,557		-		14,790		-
Total fair value	$	29,485	$	4,958	$	19,377	$	6,823

The fair value of derivatives includes net accrued interest receivable (payable) of $923 (2019 - $(357)).

	Notional amount							
		Within 1-year		Over 1-year		2020		2019
Interest rate swaps used to manage interest rate risk:								
Receive fixed swaps	$	245,000	$	550,000	$	795,000	$	1,345,000
Pay fixed swaps		-		100,000		100,000		100,000
		245,000		650,000		895,000		1,445,000
Other derivatives:								
Equity linked options		73,259		167,307		240,566		301,670
Total notional amount	$	318,259	$	817,307	$	1,135,566	$	1,746,670

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:

2020	Expected cash flows	Less than 1-year	1 to 5 years	Greater than 5-years
Assets	$ 20,369	$ 12,604	$ 7,765	$ -
Liabilities	-	-	-	-
Total cash inflow	$ 20,369	$ 12,604	$ 7,765	$ -

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	$ -

During the year, the Credit Union recognized a loss of $327 (2019 - $289) 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:

	2020	2019
Residential mortgages	$ 4,909,328	$ 4,925,583
Personal:		
Personal loans	57,068	71,799
Personal lines of credit	732,513	832,862
Commercial:		
Commercial mortgages	3,238,214	3,042,951
Commercial loans	140,396	176,479
Commercial lines of credit	92,641	115,413
Accrued interest	16,181	17,101
	9,186,341	9,182,188
Allowance for expected credit losses	(43,592)	(42,756)
	$ 9,142,749	$ 9,139,432

10. Loans to members (continued):

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

2020	Stage 1	Stage 2	Stage 3	Total
Residential mortgages:				
Balance, December 31, 2019	$ 2,019	$ 5,742	$ 495	$ 8,256
Net remeasurement	484	(3,161)	(84)	(2,761)
Originations	515	252	-	767
Derecognitions and maturities	(369)	(835)	(187)	(1,391)
Transfers to (from):				
Stage 1	(652)	-	-	(652)
Stage 2	-	297	-	297
Stage 3	-	-	355	355
Gross write-offs	(1)	(12)	(59)	(72)
Balance, December 31, 2020	$ 1,996	$ 2,283	$ 520	$ 4,799
Personal:				
Balance, December 31, 2019	$ 2,842	$ 8,523	$ 302	$ 11,667
Net remeasurement	1,990	(4,898)	375	(2,533)
Originations	521	298	-	819
Derecognitions and maturities	(340)	(811)	(95)	(1,246)
Transfers to (from):				
Stage 1	(1,182)	-	-	(1,182)
Stage 2	-	1,085	-	1,085
Stage 3	-	-	97	97
Gross write-offs	(276)	(459)	(576)	(1,311)
Balance, December 31, 2020	3,555	3,738	103	7,396
Commercial:				
Balance, December 31, 2019	1,889	1,373	19,571	22,833
Net remeasurement	12,966	1,307	16,361	30,634
Originations	689	113	784	1,586
Derecognitions and maturities	(267)	(137)	(55)	(459)
Transfers to (from):				
Stage 1	(11,073)	-	-	(11,073)
Stage 2	-	1,180	-	1,180
Stage 3	-	-	9,893	9,893
Gross write-offs	(94)	(2)	(23,101)	(23,197)
Balance, December 31, 2020	4,110	3,834	23,453	31,397
Total loans to members:				
Balance, December 31, 2019	6,750	15,638	20,368	42,756
Net remeasurement	15,440	(6,752)	16,652	25,340
Originations	1,725	663	784	3,172
Derecognitions and maturities	(976)	(1,783)	(337)	(3,096)
Transfers to (from):				
Stage 1	(12,907)	-	-	(12,907)
Stage 2	-	2,562	-	2,562
Stage 3	-	-	10,345	10,345
Gross write-offs	(371)	(473)	(23,736)	(24,580)
Balance, December 31, 2020	$ 9,661	$ 9,855	$ 24,076	$ 43,592

10. Loans to members (continued):

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

2019	Stage 1	Stage 2	Stage 3	Total
Residential mortgages:				
Balance, 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, December 31, 2019	$ 2,019	$ 5,742	$ 495	$ 8,256
Personal:				
Balance, 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, December 31, 2019	2,842	8,523	302	11,667
Commercial:				
Balance, 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, December 31, 2019	1,889	1,373	19,571	22,833
Total loans to members:				
Balance, 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, December 31, 2019	$ 6,750	$ 15,638	$ 20,368	$ 42,756

10. Loans to members (continued):

(c) Forecasting forward-looking information:

Forward-looking information is incorporated into both the assessment of whether a loan has experienced a SICR since its initial recognition and the estimation of ECL. The models used to estimate ECL consider macroeconomic factors that are most closely correlated with credit risk in the relevant portfolios.

COVID-19 and the measures taken by Canadian federal, provincial and municipal governments to limit its spread have had a material adverse impact on the Canadian economy. To mitigate the economic impact, governments enacted policy measures to provide economic stimulus and financial support to individuals and businesses, and to settle financial market volatility.

The forward-looking macroeconomic scenario described below reflects our best estimate as at December 31, 2020. The rapidly evolving nature of this pandemic and its impacts on the economy, along with government relief and stimulus, has led to continuously changing macroeconomic assumptions. Hindsight cannot be used, so while these evolving assumptions may result in future forecasts that differ from those used in the ECL estimation as at December 31, 2020, those changes will be reflected in future years.

The primary macroeconomic variables impacting ECL for the residential mortgage, personal and commercial portfolios are the unemployment rate in B.C., change in house pricing index in B.C., change in real GDP, the 3-month Bankers' Acceptance Rate, the 3-month Government of Canada bond rate, and change in debt ratio. These primary macroeconomic variables for the next 12-months and for the remaining forecast period thereafter, used to estimate ECL, are as follows:

	Base-case scenario	
	Net 12-months (%)	Remaining forecast period (%)
Unemployment Rate – BC (average %)	6.8	5.2
Change in house pricing Index – BC	3.1	9.4
Change in real GDP	4.6	7.6
3-month Bankers' Acceptance Rate (average %)	0.3	1.2
3-month Government of Canada Bond Rate (average %)	0.2	0.8
Change in debt ratio	0.6	5.0

We make forecasts of multiple forward looking and macroeconomic scenarios (base, upside and downside) and their estimated impacts to the ECLs. During 2020 and 2019, 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 following table presents a comparison of the Credit Union's ECL using only the base-case scenario and downside scenario instead of the probability-weighted scenarios for performing loans:

	2020	2019
ECL – Three probability-weighted (actual)	$ 43,592	$ 42,756
ECL – Base-case scenario only	43,489	42,582
ECL – Downside scenario only	45,508	47,038
Difference – Actual versus base-case scenario	$ 103	$ 174
Difference – Actual versus downside scenario	(1,916)	(4,282)

10. Loans to members (continued):

(d) 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, 2020 was $19,006 (2019 - $21,936). 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, 2020, accrued interest of $3,795 (2019 - $2,219) has been accrued on the credit-impaired loans but an allowance for ECL of $3,795 (2019 - $2,219) has been established to reduce the carrying value of this accrual to its estimated net realizable value.

11. Investments:

	2020	2019
Central 1 Credit Union shares	$ 45,860	$ 45,096
Term deposits callable or maturing in three months or more	783,762	875,820
Leased vehicles net of accumulated amortization of $803 (2019 - $1,174)	1,349	4,278
Principal and interest reinvestment accounts	201,812	107,438
Investment in pooled funds	218,783	158,991
Other	4,502	4,502
	$ 1,256,068	$ 1,196,125

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 $309 (2019 - $542).

12. Premises and equipment:

Premises and equipment comprise owned and leased assets:

	2020	2019
Premises and equipment owned	$ 72,680	$ 55,144
Right-of-use assets	54,826	56,515
	$ 127,506	$ 111,659

Premises and equipment owned 2020	Land	Buildings	Leasehold improvements	Other equipment	Total
Cost:					
Balance, December 31, 2019	$ 8,555	$ 30,292	$ 35,146	$ 29,983	$ 103,976
Acquisitions	-	20,778	2,425	2,634	25,837
Disposals	-	(1,801)	(4,997)	(13,521)	(20,319)
Transferred to held-for-sale	(276)	(1,041)	-	-	(1,317)
Balance, December 31, 2020	$ 8,279	$ 48,228	$ 32574	$ 19,096	$ 108,177
Accumulated depreciation and impairment losses:					
Balance, December 31, 2019	$ -	$ 9,305	$ 19,042	$ 20,485	$ 48,832
Disposals	-	(1,630)	(5,020)	(13,512)	(20,162)
Depreciation	-	1,159	3,170	2,882	7,211
Transferred to held-for-sale	-	(384)	-	-	(384)
Balance, December 31, 2020	$ -	$ 8,450	$ 17,192	$ 9,855	$ 35,497
Carrying amounts:					
Balance, December 31, 2020	$ 8,279	$ 39,778	$ 15,382	$ 9,241	$ 72,680

12. Premises and equipment (continued):

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

Right-of-use assets 2020	Buildings	Other equipment	Total
Balance, December 31, 2019	$ 55,574	$ 941	$ 56,515
Additions/lease modifications	5,011	-	5,011
Disposals	(640)	-	(640)
Depreciation	(5,839)	(221)	(6,060)
Balance, December 31, 2020	$ 54,106	$ 720	$ 54,826

Right-of-use assets 2019	Buildings	Other equipment	Total
Balance, January 1, 2019	66,148	1,107	67,255
Additions/lease modifications	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:

2020	Goodwill	ICBC licenses	Customer list	Software	Total
Cost:					
Balance, December 31, 2019	$ 173	$ 600	$ -	$ 23,344	$ 24,117
Acquisitions	-	-	-	16,789	16,789
Disposals	-	(600)	-	(5,838)	(6,438)
Balance, December 31, 2020	$ 173	$ -	$ -	$ 34,295	$ 34,468
Accumulated amortization and impairment losses:					
Balance, December 31, 2019	$ -	$ -	$ -	$ 17,358	$ 17,358
Disposals	-	-	-	(5,838)	(5,838)
Amortization	-	-	-	2,312	2,312
Balance, December 31, 2020	$ -	$ -	$ -	$ 13,832	$ 13,832
Carrying amounts:					
Balance, December 31, 2020	$ 173	$ -	$ -	$ 20,463	$ 20,636

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

14. Other assets:

	2020	2019
Accounts receivable	$ 22,367	$ 33,918
Financing lease receivables	143,651	209,619
Prepaid expenses	25,293	19,234
	$ 191,311	$ 262,771

15. Deposits from members:

		2020		2019
Demand	$	4,380,913	$	3,384,991
Term		4,713,083		4,868,948
Registered savings plans		1,386,317		1,328,718
Class A membership shares		5,659		5,706
Accrued interest and dividends		51,266		63,436
	$	10,537,238	$	9,651,799

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
2020	$	4,946,461	$	836,485	$	3,300,884	$	1,362,608	$	90,800	$	10,537,238
2019		3,880,396		748,133		3,082,157		1,838,956		102,157		9,651,799

16. Borrowings:

		2020		2019
Revolving facilities	$	100,000	$	100,000
Obligation under CMB program (note 28)		500,485		312,470
Accrued interest		185		296
	$	600,670	$	412,766

16. Borrowings (continued):

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, 2020:

			Non-cash changes	
	December 31, 2019	Cash flow changes	Accrued interest	December 31, 2020
Revolving facilities	$ 100,217	$ -	$ (56)	$ 100,161
Obligations under the CMB Program	312,549	188,015	(55)	500,509
	$ 412,766	$ 188,015	$ (111)	$ 600,670

17. Other liabilities:

	2020	2019
Accounts payable and accrued liabilities	$ 102,901	$ 86,939
Lease liabilities (note 18)	56,980	58,472
Deferred revenue	13,153	22,267
	$ 173,034	$ 167,678

18. Lease liabilities:

The following table presents the contractual undiscounted cash flows for lease obligations as at year end:

	2020	2019
Maturity analysis		
Less than one year	$ 7,625	$ 7,617
Between one and five years	27,724	27,490
More than five years	44,401	47,014
Total undiscounted lease liabilities	$ 79,750	$ 82,121
Lease liabilities included in other liabilities:		
Less than one year	$ 4,699	$ 4,982
More than one year	52,281	53,490
Total	$ 56,980	$ 58,472

18. Lease liabilities (continued):

The Credit Union use incremental borrowing rates ranging from 4.12% to 5.11% (2019 - 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:

		2020		2019
Income from sub-leasing right-of-use assets	$	1,685	$	337
Expenses relating to short-term leases		3,692		5,041

During the year ended December 31, 2020, the total cash outflow for leases was $7,433 (2019 - $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		
		2020		2019
Class B non-voting investment equity shares	$	28,083	$	29,870

20. Net interest income:

		2020		2019
Interest income:				
Cash resources	$	14,055	$	21,378
Financial assets:				
Derivatives, net		4,225		(3,945)
Loans to members		312,341		342,402
Assets pledged as collateral		11,296		4,105
		341,917		363,940
Interest expense:				
Deposits from members		128,905		153,602
Secured borrowings		11,243		8,358
Wholesale borrowings		2,715		2,224
Lease liabilities		2,565		2,936
		145,428		167,120
Net interest income	$	196,489	$	196,820

21. Fee and commission income:

		2020		2019
Insurance commissions and fees	$	2,594	$	2,629
Account service fees		11,974		16,019
Loan administration fees		20,023		16,745
Fees from fiduciary activities and mutual funds		25,733		24,443
Foreign exchange		3,802		3,698
	$	64,126	$	63,534

22. Other income:

		2020		2019
Leasing revenue	$	11,851	$	13,852
Investment revenue		22,860		16,296
Other		21,518		10,360
	$	56,229	$	40,508

In 2020, the Credit Union recognized a modification gain of $4,876 on mandatory liquidity pool investments in deposit held with Central 1, in anticipation of a transition to a new statutory liquidity structure on January 1, 2021 (note 34). In addition, the Credit Union also recognized a gain of $10,120 on sale of its head office building (note 32(d)).

23. Personnel expenses:

		2020		2019
Salaries	$	107,150	$	107,865
Benefits		15,390		15,308
Pension		9,762		8,626
Other		5,817		6,886
	$	138,119	$	138,685

24. Other expenses:

		2020		2019
Administration	$	41,975	$	43,606
Data processing		25,293		23,527
Occupancy		12,816		9,701
	$	80,084	$	76,834

25. Income taxes:

		2020		2019
Current income tax	$	9,977	$	11,439
Deferred income tax		(1,516)		(2,918)
	$	8,461	$	8,521

Reconciliation of effective tax rate:

	2020 %	2019 %
Combined federal and provincial statutory tax rate	27.0	27.0
Credit Union preferred rate reduction	(10.1)	(11.1)
Other	(2.1)	0.7
	14.8	16.6

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

		2020		2019
Deferred tax assets:				
Allowance for impairment of loans	$	5,101	$	5,582
Non-capital loss carryforwards		-		10,007
Other accrued expenses		15,746		15,032
Other		13,192		45
	$	34,039	$	30,666
Deferred tax liabilities:				
Investments and other	$	3,596	$	2,702
Premises, equipment, and leases		27,064		26,102
	$	30,660	$	28,804

Deferred tax that is expected to reverse to the year 2030 has been measured using the effective rate that will apply for the period, which is 20.64% (2019 - 21.00%). The weighted average applicable tax rate was 22.53% (2019 - 21.84%).

As at December 31, 2020, deferred tax liabilities for temporary differences of $26,901 (2019 - $81,609) 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.

A subsidiary of the Credit Union declared and paid dividends to the Credit Union which resulted in an income tax recovery of $12,799 to the subsidiary in 2020. Further details are provided in note 32.

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, 2020 (prior period was measured at December 31, 2019). The effective date of the last actuarial valuation report for funding purposes was December 31, 2020 and the effective date of the next required actuarial valuation report will be December 31, 2021.

Amounts included in personnel expenses (note 23):

		2020		2019
Pension benefits:				
Defined contribution and multi-employer plan expense	$	9,649	$	8,512
Defined benefit plan expense		113		114
	$	9,762	$	8,626

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, 2020, has about 3,630 active employees and approximately 1,185 retired plan members, with reported assets of approximately $923.6 million.

At least once every 3-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 $31.6 million and a solvency deficiency of $99.5 million, based on market value assets of approximately $735 million. 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 $2,314 for employer contributions to the plan in fiscal year 2020 (2019 - $2,564).

27. Commitments and contingencies:

(a) Computer service contracts:

The Credit Union has computer service contracts through to 2025 and thereafter.

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

2021	$	19,251
2022		13,283
2023		8,109
2024		5,666
2025		2,590
Thereafter		106

(b) Head office building:

The Credit Union committed to purchase a new office building with a closing date no later than October 2021 or earlier at the option of the vendor based on achieving certain terms and conditions outlined in the purchase agreement. The final purchase price shall be based on the building value which is either be agreed upon between the parties or calculated based on building net annual rent divided by the capitalization rate described in the purchase agreement. The exact final purchasing price is yet to be determined.

(c) 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 $411,823 (2019 - nil). The Credit Union also has recognized $411,823 (2019 - nil) 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 1.19% (2019 - 1.67%) 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.

28. Securitizations (continued):

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	$	616,643	$	-

28. Securitizations (continued):

The secured borrowings mature as follows:

Maturity		% Rate	Secured borrowings
June 1	2021	2.14	$ 1,887
June 15	2021	1.01	45,052
July 1	2021	1.79	2,152
July 1	2021	1.79	3,069
September 1	2021	2.14	10,626
September 1	2021	1.79	9,741
October 1	2021	1.60	17,853
December 1	2021	1.69	7,109
December 1	2021	1.79	9,875
January 1	2022	1.69	7,186
May 1	2022	0.58	3,067
June 1	2022	0.79	9,813
June 1	2022	0.64	10,848
June 1	2022	0.64	15,903
June 1	2022	0.59	14,653
July 1	2022	0.61	3,647
July 1	2022	2.19	7,536
September 1	2022	1.39	24,612
September 1	2022	1.39	18,562
October 1	2022	2.19	10,274
October 1	2022	1.79	6,901
October 1	2022	0.68	1,654
October 1	2022	0.68	3,209
November 1	2022	0.71	4,557
December 1	2022	2.19	17,491
December 1	2022	0.88	11,548
January 1	2023	0.70	10,994
February 1	2023	1.39	10,701
March 1	2023	1.39	17,445
March 1	2023	1.94	8,874
August 1	2023	0.92	24,648
September 1	2023	0.94	21,466
October 1	2023	2.00	5,954
October 1	2023	0.96	17,524
March 1	2024	0.40	8,010
July 1	2024	0.46	5,634
September 1	2024	1.07	5,291
November 1	2024	0.48	14,781
December 1	2024	1.10	16,081
January 1	2025	0.51	5,981
January 1	2025	0.50	15,506
February 1	2025	1.06	16,404
March 1	2025	1.38	16,366
			$ 500,485

29. Interest rate sensitivity:

Interest rate risk is the sensitivity of the Credit Union's financial position to movements in interest rates. The Credit Union is exposed to interest rate risk as a result of a gap between the maturing or repricing behavior of interest sensitive assets and liabilities. The following is a summary of the Credit Union's interest rate gap position on non-trading portfolios. The interest rate repricing gap table analyses the full-term structure of interest rate mismatches with the Credit Union's interest sensitive assets and liabilities based on either maturing or repricing behavior.

	Within 3-months		4 – 12-months		Over 1-year			
2020	Principal	%Rate	Principal	%Rate	Principal	%Rate	Not-interest sensitive	Total
Assets:								
Cash resources	$ 1,338,400	0.23	$ -	-	$ -	-	$ 47,762	$ 1,386,162
Loans	2,866,613	3.63	1,249,771	3.38	5,053,776	3.29	(27,411)	9,142,749
Other	706,609	0.44	118,990	0.69	651,515	1.64	182,864	1,659,978
	4,911,622	2.24	1,368,761	3.15	5,705,291	3.10	203,215	12,188,889
Liabilities:								
Member deposits	2,964,605	1.18	3,124,038	1.46	953,314	1.43	3,495,281	10,537,238
Borrowings and other	134,295	1.39	176,033	1.79	290,158	2.20	208,836	809,322
	3,098,900	1.19	3,300,071	1.48	1,243,472	1.61	3,704,117	11,346,560
Balance sheet mismatch	1,812,722		(1,931,310)		4,461,819		(3,500,902)	842,329
Derivatives, notional value:								
Asset	100,000	0.48	245,000	1.39	350,000	2.06	-	695,000
Liability	(595,000)	0.49	-		(100,000)	1.87	-	(695,000)
	(495,000)		245,000		250,000		-	-
Net mismatch	$ 1,317,722		$ (1,686,310)		$ 4,711,819		$ (3,500,902)	$ 842,329

	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	700,501	1.82	169,439	1.92	261,389	1.81	503,221	1,634,550
	3,974,818	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	2.09	2,888,237	10,267,870
Balance sheet mismatch	1,079,610		(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	$ 34,610		$ (1,430,676)		$ 4,546,148		$ (2,383,118)	$ 766,964

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.

	2020			2019		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets:						
Cash resources	$1,386,162	$ 1,386,161	$ (1)	$ 260,852	$ 260,716	$ (136)
Derivatives	29,485	29,485	-	19,377	19,377	-
Loans	9,142,749	9,195,373	52,624	9,139,432	8,922,613	(216,819)
Investments	1,256,068	1,269,186	13,118	1,196,125	1,207,631	11,506
Other	166,018	167,254	1,236	243,537	243,537	-
			66,977			(205,449)
Liabilities:						
Deposits	10,537,238	10,553,965	(16,727)	9,651,799	9,650,349	1,450
Borrowing	600,670	608,159	(7,489)	412,766	411,428	1,338
Derivatives	4,958	4,958	-	6,823	6,823	-
Other	159,881	159,881	-	145,411	145,411	-
			(24,216)			2,788
Fair value difference	$		$ 42,761			$ (202,661)

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, Level 2 or Level 3 during the year.

As at December 31, 2020, the Credit Union held cash and current accounts of $148,757 (2019 - $101,186) which is classified within Level 1 of the fair value hierarchy. All other financial instruments are classified within Level 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, 2020 were loans of $3,920 (2019 - $3,156) and deposits of $3,839 (2019 - $2,527). No stage 3 ECL have been recognized with respect to these loans in 2020 or 2019.

At December 31, 2020, outstanding loans to directors, officers and employees of the Credit Union amounted to $274,335 (2019 - $248,596). 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:

		2020		2019
Salaries and short-term employee benefits	$	7,360	$	7,128
Post-retirement and termination benefits		659		268
	$	8,019	$	7,396

The aggregate remuneration earned by directors of the Credit Union during 2020 was $564 (2019 - $597).

The Credit Union has included in accounts payable and other expenses a donation of $1,500 (2019 - $1,500) to the Credit Union's charitable foundation, First West Foundation ("Foundation"). Certain directors of the Credit Union are directors of the Foundation.

(c) Subsidiaries and joint operations:

	% ownership of common shares outstanding	
	2020	2019
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

As part of the sale of its head office building (note 32(d)), the Credit Union sold its shares of 637506 BC Ltd., the consideration being the par value of the shares.

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.

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

In 2020, First West Insurance Services Ltd. paid a dividend of $35,000 to the parent, First West Credit Union, to realize a refundable dividend tax on hand of $12,799.

(a) Results of discontinued operation:

		2020		2019
Revenue	$	-	$	24,744
Expenses		-		20,800
Results from operating activities		-		3,944
Income tax (recovery)		(12,799)		640
Results from operating activities, net of tax		12,799		3,304
Gain on sale of discontinued operations		-		60,980
Income tax		-		18,849
Profit from discontinued operations, net of tax	$	12,799	$	45,435

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

		2020		2019
Net cash from (used in) operating activities	$	-	$	(4,479)
Net cash from (used in) investing activities		-		75,979
Net cash from (used in) financing activities		-		-
Net cash flows for the year	$	-	$	71,500

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

		2020		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

32. Discontinued operation and assets held-for-sale (continued):

(d) Assets held-for-sale:

		2020		2019
Premises and equipment	$	933	$	7,193
Assets held-for-sale	$	933	$	7,193

On September 14, 2020, the Credit Union announced its intention to close five branches and consolidate their operations to other existing branches in the similar geographic locations across BC. The Credit Union owns the buildings and lands of two of these five branches, with carrying value of $933 as at December 31, 2020. The Credit Union was committed to a plan to sell these buildings and land. As a result, the buildings and lands were presented as asset held-for-sale as at December 31, 2020.

In December 2019, the Credit Union was committed to a plan to sell its head office building. Accordingly, the head office building was presented as assets held-for-sale. In September 2020, the Credit Union has sold this head office building. The gain on sale of the head office building was $10,120 and recognized in other income for the year ended December 31, 2020.

33. Off balance sheet arrangements:

During the year the Government of Canada (the "Government") has launched the Canada Emergency Business Account ("CEBA") Program, where the Credit Union issued loans that were funded by the Government. The Credit Union determined these loans meets the pass-through criteria, the risks and rewards were transferred to the Government, therefore these loans are derecognized from the consolidated statement of financial position. In addition to CEBA, the Credit Union also participate in a co-lending program launched by Business Development Bank of Canada ("BDC") where the Credit Union issued loans that are 80% funded by the government. Since the risks and rewards for this 80% were transferred to BDC, the Credit Union does not recognize this portion of the loans on the consolidated statement of financial position.

34. Subsequent event:

Prior to 2021, the Credit Union maintained its statutory liquidity requirement in the form of a mandatory liquidity pool investment in deposits with Central 1. Central 1 invested the funds from these deposits in marketable securities that qualified as high-quality liquid assets. As mandated by BC credit unions' regulator ("BCFSA"), this structure changed on January 1, 2021.

In the new structure, the Credit Union maintains its statutory liquidity requirement by investing directly in marketable securities that qualify as high qualify liquidity assets. To transition to this new structure, the deposits held in the mandatory liquidity pool by the Credit Union of $926,340 were extinguished in exchange for a portfolio of high quality liquid assets which are held in a trust, with the Credit Union as the beneficiary, Central 1 as the trustee and Credential Qtrade Securities Inc. as the investment manager.

As part of this restructuring, the Credit Union recognized a modification gain of $4,876 on mandatory liquidity pool investments in deposit held with Central 1. This gain is included in other income for 2020. In addition, Central 1 redeemed at par the Credit Union's investment in Central 1 Class F shares for proceeds of $42,171 on January 8, 2021.

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 (AGM) and other channels, and by being accessible by email and in person at credit union or community events.

SIGNIFICANT ACTIVITIES IN 2020

- Independent member advisory committee recommended changes to Board compensation
- British Columbia Financial Services Authority (BCFSA) authorized extension for the mailing of the Notice of Annual General Meeting and the date in which to host the event due to the COVID-19 pandemic
- Four incumbent directors elected by acclamation to the First West Board
- First West appointed a new Corporate Secretary reporting to the Board Chair and appointed an Assistant Corporate Secretary
- Director, Renee Merrifield resigned from the First West Board
- Board approved engaging external expertise to assist in its director recruitment

In May 2020, the Board approved changes to its compensation as recommended by an independent member advisory committee. The committee reviewed the Board's current compensation, industry trends and compensation paid to directors of other like-sized organizations in developing its recommendations. The Board accepted all of the recommendations, however, because of the COVID-19 pandemic, the Board agreed to defer changes to the compensation structure and to revisit the issue in October of 2020. At that time, since the credit union's financial performance had not been unduly impacted by the pandemic, the Board agreed to move ahead with the recommended changes effective November 1.

In order to address the challenges presented by the COVID-19 pandemic, the Board adapted its processes and beginning in March of 2020 held its Board meetings and committee meetings remotely. Throughout 2020, Management provided specific updates regarding the COVID-19 pandemic at Board and committee meetings in order to ensure that the directors received the necessary information as it related to the COVID-19 pandemic. Also due to the evolving nature of the COVID-19 pandemic, the Risk, Investment and Loan Committee held additional meetings to ensure that the committee and the Board were aware of the changing environment and risks presented by the COVID-19 pandemic, aware of the changes and strategies implemented by management in order to address the needs of the credit union's members and the needs of the business, and to provide support to management.

With respect to the 2020 AGM, BCFSA authorized the delay for the mailing of First West's Notice of AGM and an extension for First West to host its AGM beyond the requirement outlined under CUIA S. 27 — Annual General Meeting as a result of the COVID-19 pandemic and health authority orders of no gatherings of more than 50 people. Originally scheduled in mid-May as an in-person event, to keep members and employees safe, the Board approved the decision to host the AGM entirely online. The challenge to host the AGM completely online was one that had never been done before, and the opportunity to host the event in this style meant First West members throughout B.C. and beyond could attend compared to previous years when the meeting was held in person. Members responded favorably to the online format.

The terms of four directors expired at the conclusion of the 2020 AGM. Following the nomination period, four candidates were endorsed—incumbents Jeff Dyck, Cathy McIntyre, Renee Merrifield, and Shawn Neumann—and were declared elected by acclamation. Two new candidates submitted nomination forms and chose to withdraw their nominations after the endorsement meeting.

Effective Aug. 28, Corporate Secretary Paul Skelhorne resigned from his position and the Board appointed Leslie Castellani as Corporate Secretary and Barinder Sidhu as Assistant Corporate Secretary.

After three years of service, Director Renee Merrifield resigned from her seat on First West's Board of Directors after it was announced she had won the riding for Kelowna-Mission as a member of the Legislative Assembly of British Columbia. Renee's last day representing First West members was Nov. 30. The Board agreed to keep the seat vacant until the 2021 directors' election, at which time the seat will be filled as a two-year term.

Considering the number of expiring terms and the additional vacant seat, the Board approved the engagement of external and corporate governance experts WATSON Advisors Inc. to assist with recruitment of qualified and high-calibre director candidates.

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, education and remuneration, please see Appendix 1. More information about directors, including director backgrounds and experience, is also available on the First West website at firstwestcu.ca/our-leadership/board-of-directors/.

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. In 2020, Tekara Organizational Effectiveness, a leadership and organizational effectiveness firm, was retained by the Board to conduct the biennial director and board chair evaluations.

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 2020 is included with each director profile in Appendix 1.

GOVERNANCE STANDARDS

First West's governance practices guide how the Board 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
- 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 AGM 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.

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

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.

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 2020, adopted in May 2020 and made effective November 1, 2020.

In 2020, director compensation included:

January 1 to October 31

- Annual retainers of $35,000 for directors and $70,000 for the Board Chair; the Audit and Risk Management Committee chairs received an additional retainer of $10,000 and the chairs of other committees received additional retainers of $5,000

November 1 to December 31

- Annual retainers of $38,600 for directors and $77,200 for the Board Chair; the chairs of the Audit and Conduct Review Committee and the Risk, Investment and Loan Committee receive an additional retainer of $10,500 and the chairs of other committees receive additional retainers of $5,250

Total Board compensation for 2020 was $554,753 which includes $8,600 for travel fees and $30,000 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, 2020

- ### Audit and Conduct Review

  The Audit and Conduct Review Committee is 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

  The Risk, Investment and Loan Committee is responsible for fulfilling 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

  The Governance and Nominations Committee 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, and 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 AGM 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

  The Government Relations and Partnership Committee 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

  The Human Resources Committee is 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.

APPENDIX 1

2020 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 (resigned)	Ken Voth
CURRENT TERM EXPIRES	2023	2021	2022	2022	2021	2023	2022	2021	2021	2023	2023	2022
DIRECTOR SINCE	1998	2006	2019	2019	2018	2017	2006	2018	2006	2017	2017	1980
MEETING ATTENDANCE												
Board	8/8	8/8	8/8	8/8	8/8	8/8	8/8	8/8	8/8	8/8	6/8	8/8
COMMITTEES JAN. 1 – JUNE 17, 2020 (UP TO AGM)												
Audit and Conduct Review		3/3 Chair	3/3	3/3		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 Chair	1/1
Human Resources	2/2	2/2			2/2	2/2	2/2			2/2 Chair		
Nominations Task Force							1/1	1/1	1/1 Chair			
Risk, Investment and Loan			2/2	2/2	2/2			2/2	2/2			2/2 Chair
COMMITTEES JUNE 17 (POST AGM) – DEC 31, 2020												
Audit and Conduct Review		3/3	3/3	3/3 Chair		3/3	3/3			3/3	0/3	
Governance and Nominations	2/2				2/2		2/2		2/2 Chair	2/2	1/2	
Government Relations and Partnership	3/3			1/1					2/3		1/3	3/3 Chair
Human Resources	3/3	2/3				3/3		3/3	3/3	3/3 Chair		
Nominations Task Force	2/2						2/2			2/2 Chair	1//2	
Risk, Investment and Loan			5/5	5/5	5/5			5/5	5/5		2/5	5/5 Chair
REMUNERATION AND EXPENSES												
Total Honorarium	74,100	42,100	37,100	42,200	37,100	37,100	37,100	37,100	44,600	42,500	37,400	48,000
Total Travel fees	-	500	-	500	-	-	500	-	-	1,000	500	-
Total Expenses	482	408	354	338	588	11,947	390	75	299	8,045	5,798	-

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 (resigned)	Ken Voth
ICD Director Education Program						•					•	
Conference Borad of Canada Conference – Corporate Culture										•		
Harvard Business School – Compensation Committees										•		
BC Lobbyists Transparency Act Training	•	•	•	•	•	•	•	•	•	•	•	•

2020 REMUNERATION AND EXPENSES PAID TO NOMINATIONS TASK FORCE MEMBERS AT-LARGE:

Joy Playford, Gloria Daly and Jen Temple

Meeting + travel fees: $5,600

Expenses: $1,278

FIRSTWEST
CREDIT UNION