

FIRSTWEST
CREDIT UNION

2021

**ANNUAL
REPORT**





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Management's Discussion & Analysis

1 MESSAGE FROM THE BOARD CHAIR AND THE CEO

Forging ahead with clarity and confidence

Following the tumult of 2020, you could have expected that many organizations would see 2021 as a chance to catch their breath. Given that it seemed the world was beginning to come to grips with COVID-19, it would be reasonable to pause and recalibrate to new realities.

While COVID-19 forced many businesses to course correct, First West was steadfast in its direction. We were confident that our vision and strategy remained relevant and on target. In fact, we held that 2021 was the right time to *accelerate* several strategic objectives designed to meet the evolving needs of our members and communities. And we knew—based on how we responded in 2020—that we possessed the fortitude, capability and courage to succeed.

If 2020 was a year that revealed First West's depth of character and generosity of spirit, then 2021 was a year of moving forward with renewed resolve. It was a year of keeping our foot on the gas, of sharpened focus and hustling harder to continue building the strength of our credit union and securing our future.

Keeping our good thing growing

Last year marked an important milestone in First West's history: we asked for members' permission to apply to become a federally regulated credit union. They responded with a resounding yes.

In November 2021, members cast 26,235 votes on the special resolution to authorize First West to apply to become a federal credit union and 25,908 votes on the special resolution to adopt the new Bylaws. Of the members who voted, 84.2% voted in favour of First West applying to become a federal credit union and 84.1% voted in favour of adopting new Bylaws. This impressive turnout speaks volumes about the passion our members have for keeping First West's good thing growing for generations to come.

We finished 2021 on a high note, submitting an application to the provincial regulator, BC Financial Services Authority (BCFSA), to obtain its consent to continue from provincial jurisdiction to federal jurisdiction. After receiving consent from BCFSA, the Office of the Superintendent of Financial Institutions (OSFI) will formally receive our application for review. This 6,000-page application is the culmination of several years' worth of intense and incisive work by First West's dedicated and talented employees. While we don't anticipate becoming federally regulated before 2024, we're focused on fulfilling the remaining steps—you can read more about this on page 9, in Management's Discussion and Analysis.

The financial strength of the credit union continued to build in 2021, in part due to the path toward becoming a federal credit union. Federal credit unions receive some of the highest levels of prudential oversight afforded to financial institutions in Canada and these stringent regulatory requirements protect

our members' interests. A significant part of this focus involved continued enhancement of First West's liquidity and capital adequacy profiles to continue bringing them in alignment with OSFI's rigorous requirements. Reflective of these efforts, our Long-Term Issuer Rating of BBB (high), Short-Term Issuer Rating and Short-Term Instruments Rating of R-1 (low) were again confirmed by credit rating agency DBRS Morningstar in 2021.

We were also pleased to receive our first-ever ESG Risk Rating of 18.6 LOW from Sustainalytics, a leader in ESG evaluation. An ESG rating measures the environmental, social and governance risks to an organization and reflects how well—or how poorly—an organization is managing those risks in the operation of its business. Members can be proud of our low rating, which indicates that we're equipped to anticipate future risks and opportunities, inclined to longer-term strategic thinking and focused on prioritizing long-term value creation over short term gain. Moreover, it reflects the good things we've been focused on to help members thrive: we've built robust cybersecurity to protect our members' data and hard-earned money, increased access to banking through digital channels, recruited experienced, skilled and caring employees to create remarkable experiences for members and more. For more on our ESG Risk Rating, see page 9 in Management's Discussion and Analysis.

We also made substantial progress on our journey to become an end-to-end Agile enterprise. Essentially, Agile is a way of working that differs from traditional approaches—it aims to deliver value faster by introducing small improvements on a more regular basis. At First West, Agile gears our teams to maximize product and service value for members by empowering employees and teams to make timely, insightful decisions through regular user feedback cycles. The end result is quicker delivery of value-packed enhancements that better fit members' needs. Agile thinking—focused on continuous, timely, incremental improvement—has quickly permeated the way we think about and approach many aspects of the credit union's operation. This was never more apparent than in 2021, a year in which our teams confidently moved forward in creating value for members while remaining nimble and flexible in keeping our branches open and as safe as possible amid waves of the pandemic.

Here are just a few of the improvements Agile helped us deliver for members in 2021:

- > Refreshed, more intuitive online banking experience for retail and small business members
- > New and improved mobile app banking experience
- > Enhanced online security with two-step verification, further protecting members and First West against losses due to fraud
- > New, streamlined online membership account opening experience, providing choice and convenience to new members, complete with digital onboarding to ensure we get to know new members and understand their financial needs
- > Expanded the Digital Wealth Connector, which gives members the ability to schedule virtual or in-person appointments with their wealth advisors and includes notifications and ability to cancel or reschedule
- > Created a remote advisor capability to make it easier for members in rural locations to connect with an advisor by video

- > Improved the business membership account opening experience, making it a more seamless experience for members
- > Annual savings of an estimated \$365,000 by upgrading our legacy phone systems to Microsoft Teams Phone, a digital business communication solution that includes voice and video calling capabilities.

Agile represents a vital learning and development investment in our employees and teams—more than 100 employees have learned to work in Agile. Along similar lines, many employees at First West continue to grow by taking on new roles: 51% of all internal and external career opportunities are filled by current employees. This puts First West at nearly double the industry benchmark of 26% and speaks to our growth as an amazing place to work. We're also excited about the two new Employee Network Groups that launched in 2021, strengthening First West's commitment to equity, inclusion and diversity. You can read more about this and other member and employee highlights on page 18 of Management's Discussion and Analysis.

We're incredibly proud too of the way we created value for members through wealth management planning and advice. Each year, we engage more and more members in conversations around their financial futures and goals—and in 2021 we saw demand for our trusted wealth advice continue to grow. Members showed their confidence in us, resulting in the credit union surpassing \$550 million in net sales of licensed MFDA and IROC investments. This milestone, an incredible year-over-year increase of more than 300%, speaks to the trusting, solution-focused relationships our advisors maintain with members. Looking ahead, we're focused on bringing our expertise to even more members while continuing to hone our skills and knowledge to stay ahead of the evolving marketplace and anticipating our members' financial planning needs.

Leading as a trusted community partner when it's most needed

It's an incredible honour to be part of an organization that is deeply rooted in giving back, an organization whose members embrace the spirit of neighbour helping neighbour. Our loyal members continue to make it possible for First West to help our communities thrive. This couldn't have been truer in 2021, when the need for relief in our province escalated and we were able to answer the call, giving back more than we ever have in the history of the credit union. We activated our disaster relief funding more than once to support members and communities impacted by extreme weather events. First West donated more than \$123,000 to Food Banks BC, with an additional \$108,000 to agencies dedicated to relief efforts. Even more, our members trusted our community leadership and partnered with us in relief efforts, generously raising \$257,500 to aid their neighbour British Columbians. We also committed \$1 million to our Simple Generosity program, which supported members, non-profit partners and local businesses who continued to face unprecedented challenges and demands caused by the COVID-19 pandemic.

Our signature cause, The Full Cupboard and Feed the Valley, aimed at raising food, funds and awareness on food insecurity in our communities continued to hit milestones in 2021, way ahead of time. Be sure to learn more about this highlight and the other ways we helped build our communities in 2021, on pages 23 – 24 of Management's Discussion and Analysis.

Keeping the gear in “drive” to thrive in 2022

Receiving members’ approval to apply to become a federal credit union made 2021 a defining year for our credit union, but we realize the year was largely another difficult one for many British Columbians, including our members and employees. Yet, in the face of challenges and uncertainty for so many, we remain committed to our vision to help our members and communities thrive. In fact, the adversity of 2021 strengthened our resolve to stay focused on our vision and mission rather than taking a pause—to build on what we learned in 2020, to continue to create value for our members, communities and employees, and to strengthen First West for future generations. We owe so much to our members who make it possible for us to provide expert advice, competitive products and services, leading digital banking tools and so much more. On behalf of the First West executive team and the Board of Directors, thank you, for trusting our vision and choosing First West. Your belief and investment in your credit union has positioned us well to keep our good thing growing in 2022 and beyond.



Shawn Neumann
Board Chair



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 2021 and its financial position as at December 31, 2021.

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 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 14, 2022, 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 continuing impacts of 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 public health emergencies, outbreak of disease or illness and any related government policies 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. This list is not exhaustive of the factors that may affect any of our forward-looking statements.

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 help our members and communities thrive. Our 1,275 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 \$16.9 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, and a member advice call centre outfitted with robust banking service and financial advice.

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.

Advice-centred member experience

We anchor our competitive financial products and services with expert advice. Members' financial goals—in any stage of life or business—are our goals. Our advisors use their accredited knowledge and skills to create a holistic, advice-centred experience.

Our strategy

First West's current strategic plan guides the credit union's operation through to the end of 2024. In 2021, we reached a new stage of our strategic execution in which, having made progress on several strategic priorities, the strategy becomes anchored in six critical themes we call strategic pillars.

**TRANSFORM THE
WAY WE SERVE
OUR MEMBERS**

**KEEP A GOOD THING
GROWING**

**FOCUS ON FINANCIAL
STRENGTH**

An admired brand

Employee experience

Technology vision

As a maturing Agile enterprise, First West adopts an emergent approach to strategy, which is vital in a world where the pace of change is prevalingly rapid. The emergent mindset enables the credit union to adapt quickly to changes in its marketplace while more readily fostering spontaneous innovation that can be harnessed to create member-centred products, services and advice. In 2022, our focus turns to advancement on four broad priorities aligned to the strategic pillars: data-driven member growth, investing in our employees, the future needs of our members and readiness for federal regulation.

Executing our strategy: First West business model overview

Our structure enables our divisions to apply customized operational initiatives 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 and grow divisional business segments: retail banking, business and commercial banking, and wealth management. The following leaders comprise the First West Senior Leadership Team:

- > **Launi Skinner** | Chief Executive Officer
- > **Mark Moreland** | Chief Financial Officer
- > **Liz Bailey-Connor** | Chief People & Culture Officer
- > **Shelley Besse** | Chief Credit Officer
- > **Paul Brodeur** | Chief Strategy & Market Growth Officer
- > **Leslie Castellani** | Chief Governance & Corporate Affairs Officer
- > **Susan Ewanick** | Chief Member Officer
- > **Darrell Jagers** | Chief Transformation Officer
- > **Carl Lamoureux** | Chief Risk Officer
- > **Tom Webster** | Chief Treasury & Investment 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, information technology, credit and credit recovery, risk management, corporate security, human resources management, communications and public relations, operations, marketing, and cross-functional, multi-disciplinary Agile squads. 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.

Strengthening our commitment to sustainability

The world in which we live is wonderfully diverse and increasingly complex, one in which businesses must gauge their operations not only in terms of financial performance, but also in terms of impact—on our families, friends and neighbours, our communities and our planet. This reality resonates with our vision and who we are as an organization: a values-based financial cooperative striving to help our members, communities and world thrive.

As we continue to strategically grow and strengthen First West for future generations of members, our vision compels us to do it in a sustainable way. To help guide and measure our efforts, we engaged Sustainalytics, a leading ESG research, ratings and data firm to pursue an ESG Risk Rating. This type of rating measures an organization's environmental, social and governance risks through a comprehensive evaluation of ESG issues related to the organization's operation. A low ESG Risk Rating is desirable, indicating that an organization is better equipped to anticipate future risks and opportunities, more inclined to longer-term strategic thinking and focused on prioritizing long-term value creation over short-term gain. Research shows that companies that adhere to ESG principles have lower risk and are more resilient over time.

In August 2021, we received our first-ever ESG Risk Rating, achieving an 18.6 LOW rating. This score means that First West's risk of experiencing material financial impacts caused by ESG factors is considered to be low and places First West, globally, in the twelfth percentile in the banking industry and third percentile in the regional banking subindustry. We are proud of the rating we achieved and excited at the prospect of how we can use ESG as a lens through which we make decisions, and moreover, as a framework to view our strategic direction and priorities.

Our inaugural ESG Risk Rating marks the beginning of our journey to become a more sustainable organization. We are committed to continuously improving how we address the needs of our members, neighbours, communities and world. Our ESG commitment will continue to evolve and mature as we work to understand more in the near future about our members' perspectives on the environmental, social and governance challenges of today's world and how those align with our strategic business goals in the area of sustainability. As a member-owned co-operative, we want to ensure our members are a significant part of this journey; as such, we commit to being transparent as we move this initiative forward at First West.

Keeping a good thing growing

Following an extensive membership engagement period and subsequent three-week voting period (Nov. 1 – 21, 2021), the credit union received a favorable mandate from its Class A Membership Equity Shareholders and Class B Equity Shareholders to undertake the following:

- > Apply to become a federal credit union
- > Adopt new Bylaws, upon continuance

The special resolution to apply to become a federal credit union received an 84.2% favourable outcome from Class A Membership Equity Shareholders and an 83.5% favourable outcome from Class B Equity Shareholders. Likewise, the special resolution to adopt the new Bylaws received an 84.2% favourable outcome from Class A Membership Equity Shareholders and an 83.1% favourable outcome from Class B Equity Shareholders.

In December, First West submitted its application for continuance to the BC Financial Services Authority (BCFSA); after receiving consent from BCFSA, the Office of the Superintendent of Financial Institutions (OSFI) will formally receive the credit union's application for its review.

Although the member vote and submission of the application for continuance mark important milestones in our journey, there remain several more stages and decision points along the way prior to an anticipated continuance timeframe of 2024. Completed and future steps include:

- ✓ Board of Directors asks management to analyze the risks and opportunities of becoming federally regulated. (Completed)

- ✓ First West submits pre-application to OSFI. (Completed)

- ✓ OSFI reviews pre-application and engages in initial round of bi-weekly meetings with First West. (Completed)

- ✓ OSFI holds business plan review session with First West and issues Expectations Letter to First West Board of Directors. (Completed)

- ✓ Board of Directors considers Expectations Letter and decides whether to present special resolutions to membership. (Completed)

- ✓ Members vote on federal continuance. (Completed)

- ✓ First West submits application to BCFSA and CUDIC. (Completed)

- ✓ BCFSA undertakes public consultation. (Completed)

BCFSA and CUDIC considers First West's business case for continuance. First West requires BCFSA and CUDIC consent to proceed.

First West submits formal application to OSFI.

If the application meets the requirements as per the Bank Act and all applicable regulations, guidelines, necessary capital, technology, policies and processes are in place, the federal Minister of Finance will review the application and render her or his decision on the issuance of the Order for Letters Patent of Continuance.

If the Minister approves the application, First West Credit Union will commence its operations as a federal credit union.

Through First West's application for federal continuance, the credit union seeks to create options for its long-term viability and sustainability. We wish to situate First West for future growth opportunities and choice. Gaining access to markets beyond B.C. means that when opportunity arises for the credit union or its members, First West will be well positioned for success.

Applying the credit union's local business model within a federally regulated environment, we intend to:

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.

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, First West would benefit from access to the larger Canadian market.

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, FCAC and CDIC. Stringent regulatory requirements protect our members' interests and help the credit union continually strengthen and improve its practices.

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. First West can continue to serve its 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 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, the credit union has 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.

For 76 years, First West and its predecessor credit unions have contributed to the growth of British Columbia's economy and the betterment of our local communities. The credit union's local approach and values-based decision-making have made First West among the largest credit unions in Canada.

Today, we offer our members the financial strength, comprehensive product selection and extended branch network of a large financial institution while maintaining local brand identities and a unique grassroots service delivery model. This approach has made First West one of the country's leading financial co-operatives and for the best part of the last decade we've outperformed other credit unions in most, if not all, areas of business.

In fact, part of the reason First West was able to navigate the economic conditions resulting from COVID-19 and proactively help our members was because of the preparatory work we've been undertaking to become federally regulated. We built liquidity, grew capital, improved processes, and invested in digital technologies, putting us in a strong financial and operational position to withstand the extraordinary challenges of COVID-19. Our members did not have to wait for us to catch up—we were ready when they needed us most.

Visit [keepgrowing.ca](https://www.firstwest.ca/keepgrowing) for more information on First West's intentions to become a federally regulated credit union.

5 FINANCIAL HIGHLIGHTS

\$12.7B

↑4.0%

Assets

\$10.2B

↑11.2%

Loans

\$11.0B

↑4.3%

Deposits

\$4.2B

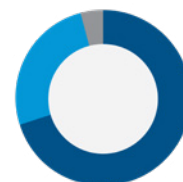
↑25.9%

Wealth Assets Under Administration



	2021	2020
RESIDENTIAL MORTGAGES	54%	54%
PERSONAL LOANS	7%	8%
COMMERCIAL LOANS	39%	38%

Loans by Lending Sector (%)

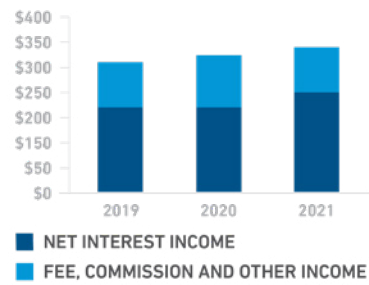


	2021	2020
CORE DEPOSITS	83%	81%
NON-CORE DEPOSITS	12%	14%
BORROWINGS	5%	5%

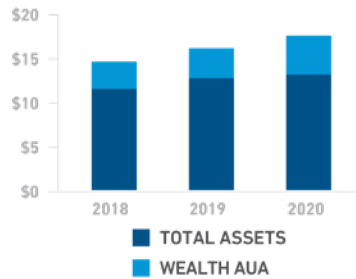
Total Funding Composition (%)



Profit (\$M)



Revenue Mix (\$M)



Total Assets and Wealth Assets Under Administration

BBB (HIGH)

Trend: **STABLE**

Credit Rating | Long-Term

R-1 (LOW)

Trend: **STABLE**

Credit Rating | Short-Term

14.6%

Strong Regulatory Capital Ratio

Table 1 - Financial Highlights

(Expressed in thousands of dollars)	2021	2020	2019	2018 ¹	2017 ¹
Consolidated Statement of Financial Position					
Cash resources	449,807	1,386,162	260,852	222,414	88,516
Residential mortgages	5,492,331	4,909,328	4,925,583	4,689,051	4,400,651
Personal loans	742,317	789,581	904,661	966,639	1,004,170
Commercial loans	3,936,348	3,471,251	3,334,843	2,944,772	2,835,844
Accrued interest	14,782	16,181	17,101	13,600	12,873
Allowance for credit losses	(23,406)	(43,592)	(42,756)	(28,443)	(23,961)
Loans to members	10,162,372	9,142,749	9,139,432	8,585,619	8,229,577
Investments and other assets	1,865,994	1,532,472	1,522,891	1,411,846	1,486,655
Premises and equipment	194,533	127,506	111,659	63,205	65,002
Total assets	12,672,706	12,188,889	11,034,834	10,283,084	9,869,750
Demand deposits	5,297,094	4,380,913	3,384,991	3,259,348	3,179,227
Term deposits	4,383,518	4,713,083	4,868,948	4,499,854	4,400,873
Registered savings plans	1,279,707	1,386,317	1,328,718	1,198,144	1,144,397
Class A shares	5,538	5,659	5,706	5,932	5,984
Accrued interest and dividends	23,966	51,266	63,436	55,425	42,549
Deposits from members	10,989,823	10,537,238	9,651,799	9,018,703	8,773,030
Payables, accruals and others	200,485	208,652	203,305	121,669	110,329
Borrowings	586,227	600,670	412,766	471,412	375,481
Liabilities	11,776,535	11,346,560	10,267,870	9,611,784	9,258,840
Equity shares	26,137	28,083	29,870	31,325	32,865
Accumulated and other comprehensive income	2,487	13,090	(3,157)	(13,070)	(13,735)
Contributed surplus	163,651	163,651	163,651	163,651	163,651
Retained earnings	703,896	637,505	576,600	489,394	428,129
Total liabilities and members' equity	12,672,706	12,188,889	11,034,834	10,283,084	9,869,750
Allowance for Credit Losses					
Opening balance	43,592	42,756	28,443	24,371	20,850
Less: write-offs	(12,042)	(24,580)	(2,435)	(2,928)	(3,589)
Plus: provision	(8,144)	25,416	16,748	7,000	6,700
Closing balance	23,406	43,592	42,756	28,443	23,961

Table 1 - Financial Highlights

(Expressed in thousands of dollars)	2021	2020	2019	2018 ¹	2017 ¹
Consolidated Statement of Profit or Loss					
Interest income	319,322	341,917	363,940	330,754	295,533
Interest expense	88,210	145,428	167,120	134,468	110,346
Net interest income	231,112	196,489	196,820	196,286	185,187
Provision for credit losses	8,144	(25,416)	(16,748)	(7,000)	(6,700)
Fee, commission and other income	104,285	120,355	104,042	91,459	84,600
Operating margin	343,541	291,428	284,114	280,745	263,087
Operating expenses	259,841	234,169	232,876	217,236	215,387
Profit before income taxes	83,700	57,259	51,238	63,509	47,700
Income taxes	16,811	8,461	8,521	12,185	10,106
Profit for the year from continuing operations	66,889	48,798	42,717	51,324	37,594
Profit for the year from discontinued operations	0	12,799	45,435	6,579 ²	4,570 ²
Profit for the year	66,889	61,597	88,152	57,903	42,164
Financial Statistics (expressed as %)					
Asset growth	4.0	10.5	7.3	4.2	3.6
Loan growth	11.2	0.0	6.5	4.3	9.8
Deposit growth	4.3	9.2	7.0	2.8	3.9
Operating efficiency	77.5	73.9	77.4	75.5	82.5
Dividends paid (\$000s)	611	858	1,151	1,217	981
Percent of Average Assets					
Net interest income	1.87	1.65	1.84	1.93	1.91
Fee, commission and other income	0.84	1.01	0.97	0.90	0.87
Operating expenses	2.10	1.97	2.18	2.14	2.22
Operating margin	2.78	2.45	2.65	2.77	2.71
Operating return on assets	0.68	0.48	0.48	0.63	0.49
Net (after-tax) return on average assets	0.54	0.52	0.82	0.57	0.43
Capital and Risk Weighted Assets					
Risk weighted assets (\$000s)	6,861,906	5,870,826	6,186,434	5,371,338	5,393,223
Total capital (\$000s)	999,207	930,568	876,097	760,091	674,796
Capital adequacy (%)	14.6	15.9	14.2	14.2	12.5
Return on capital (%)	6.7	6.6	10.1	7.6	6.2
Leverage ratio	12.7	13.1	12.6	13.5	14.6
Other Statistics					
Branches	46	46	50	53	53
Insurance offices	0	0	0 ³	38	38
Wealth assets under management (\$000s)	4,153,115	3,297,776	3,015,202	2,685,892	2,668,267
Loans under administration (\$000s)	42,082	69,054	95,571	99,569	4,261
Book of business (\$000s)	25,347,392	23,046,817	21,902,003	20,389,783	19,675,135
Average assets (\$000s)	12,352,123	11,888,358	10,703,055	10,153,393	9,696,249

¹ Comparative information has been re-presented to reflect the presentation of discontinued operations

² The presentation of discontinued operations has not been audited and is included for comparative purposes only

³ Change due to sale of Insurance business in 2019

PROFIT FOR THE YEAR
\$66.9 MILLION

Profit for the year of \$66.9 million was \$5.3 million or 8.6% higher in 2021, compared with \$61.6 million in 2020. The increase in 2021 was primarily due to increased net interest income and recovery in credit provision.

Profit from continuing operations was higher by \$18.1 million or 37.1% from 2020, primarily due to increased net interest income and recovery in credit provision.

ASSETS
\$12.7 BILLION

Assets grew \$0.5 billion or 4.0% in 2021, compared with 10.5% in 2020. This growth was primarily the result of an increase in loans, up \$1.0 billion or 11.2%, due to higher lending activity and a strong B.C. real estate market.

LOANS TO MEMBERS
\$10.2 BILLION

Total loans to members demonstrated strong growth with a net increase of \$1.0 billion or 11.2% in 2021, compared with 0.04% in 2020. Residential mortgages and personal loans to members increased \$535.7 million or 9.4%, while commercial lending grew \$465.1 million or 13.4%.

DEPOSITS FROM MEMBERS
\$11.0 BILLION

Deposits from members increased \$452.6 million or 4.3% in 2021, compared with 9.2% in 2020.

WEALTH ASSETS UNDER
ADMINISTRATION
\$4.2 BILLION

Wealth assets under administration increased \$855.3 million or 25.9% in 2021, compared with 9.4% in 2020.

MEMBERSHIP IN
2021

Membership grew by 0.75% in 2021, compared with a decline of 0.5% in 2020.

6 MEMBER, EMPLOYEE AND COMMUNITY HIGHLIGHTS

Member experience

Throughout a dynamic 2021, we anticipated members' needs—no matter their financial life stage or situation—and improved their experience at First West through enhancements to products, services and locations.

WE ENHANCED MEMBERS' DIGITAL BANKING TOOLS WITH SEVERAL SIGNIFICANT ENHANCEMENTS THAT MAKE IT EASIER TO BANK AND GET EXPERT ADVICE

- > Refreshed online and mobile banking experiences with a new interface that has been optimized for a more seamless, intuitive and personalized experience on practically any modern device
- > Built and launched a new online membership application, making it easier and faster to become a member, complete with a digital onboarding experience for members who prefer to interact with us predominantly via digital channels
- > Unveiled the Digital Wealth Connector, a simpler and faster way for members to manage their virtual and in-person appointments with our wealth experts
- > Enhanced the business membership account opening experience, providing a more seamless experience for business owners and the employees who serve them

MEMBERS' FINANCIAL SECURITY CONTINUED TO BE A TOP PRIORITY IN 2021 AND WE ADDED VALUE FOR MEMBERS IN 2021

- > Introduced two-step verification for online banking login, a critical feature for helping protect members' accounts and data from unauthorized access
- > Provided members three free seminars about fraud prevention, responsible investing and tax planning, co-hosted by our industry-leading partners at Aviso Wealth

OUR DEDICATION TO SERVING MEMBERS IN WELCOMING, COMFORTABLE AND ACCESSIBLE LOCATIONS CONTINUES— WE ADVANCED PLANNING AND PERMITTING FOR RENOVATIONS OF SEVERAL LOCATIONS, WHILE COMPLETING TWO MAJOR PROJECTS IN 2021

- > Relocated our Island Savings Lake Cowichan branch to a location in the heart of the Lake Cowichan community
- > Provided more flexible wealth management meeting options for members by adding new dedicated wealth management offices at our Mayfair and Jubilee Island Savings branches.
- > Opened our Island Innovation Quarters (Island IQ) in Victoria's Uptown Shopping Centre, from which many Island-based shared service employees support our branches and members
- > Opened our new head office in Langley, a capital investment that was five years in the making, demonstrating our commitment to British Columbians, their communities and local business communities

WE CONTINUED TO GIVE MEMBERS CONVENIENT WAYS TO CONNECT WITH US. IN 2021, SEVERAL ADVANCEMENTS MADE IT EASIER FOR OUR MEMBERS TO GET IN TOUCH WITH US.

- > Increased outreach to members and took on more member advice inquiries and banking requests through our Member Advice Centre, which provides vital branch team support
- > Launched the “Remote Advisor” pilot at our Princeton and Keremeos branch locations to provide the ability to better serve members living in rural areas without access to Wi-Fi in our Valley First region
- > Finley, our online digital assistant, helped members get information quickly by providing more than 42,000 answers through more than 14,000 unique chats, while growing its knowledge base from 100 to an incredible 700 answers and giving our advisors an additional 1,297 hours to help members who needed more personal assistance
- > Through our network of independent brokers, welcomed 2,100 members to the credit union and expanded their financial opportunities by introducing them to our advice-based banking experience

We also made a leap forward for members as they gave First West approval to apply to become a federal credit union. Becoming a federal credit union moves us toward a stronger and more sustainable future for members, employees and the local communities we serve. For more about our federal journey, see page 9, “Keeping a Good Thing Growing.”

Looking Ahead

While uncertainty around the trajectory of the COVID-19 pandemic and its impacts continue, we’re focused on bringing more value for members in the areas of strength we have leaned upon to ensure we continue to be there for our members when they need us most.

Members can expect more convenient ways to manage their money through enhancements to our digital banking experiences, as well as new payments capabilities and Interac e-Transfer improvements. Investments in preventative cybersecurity measures that provide even more peace of mind when using our digital channels will continue in 2022.

Following last year’s trend, we anticipate a greater need from members’ for managing their overall financial wellbeing in 2022. To help them manage, protect and grow their finances, we are dedicated to providing a comprehensive, advice-based financial service experience. As more and more of our advisors attain Certified Financial Planner® (CFP) and Personal Financial Planner (PFP®) certifications, branch teams will continue to engage members in deeper financial planning and advice conversations, centred around what’s important to them and their family.

OUR EMPLOYEES

First West aims to be an amazing place to work. We foster collaborative innovation, an entrepreneurial mindset, employee involvement and consultative leadership.

Wherever our employees imagine their careers going, we aim to help them toward their goals, support them in doing things that matter and celebrate their accomplishments. *The Power of You*, our employee value proposition, commits us to ensuring every employee can:

- > Elevate their potential
- > Thrive in an inclusive environment
- > Make meaningful impact
- > Feel genuinely rewarded

We routinely gather employee feedback to help leadership understand how employees feel about working at First West and to guide efforts to advance the employee experience.

Talent attraction and employee retention

Attracting and retaining top quality talent was a key focus for First West in 2021. The launch of a refreshed, robust employee orientation and onboarding program for new hires supported our attraction and retention efforts. We also advanced our talent sourcing and screening abilities through new recruitment tools, career fairs and enhanced use of social media channels for career advertisements and opportunities. Our student hiring program plays a key role in sourcing talent and received an overwhelmingly positive response from the more than 20 students we employed to learn skills and gain work experience with us in 2021. First West continued to promote quality leader-led conversations that focus on career and personal development with intention and empathy, helping employees develop and build their careers through internal lateral career opportunities that enhance their engagement.

As an organization, First West desires to be reflective of the communities and members we serve. In 2021, we continued to focus on attracting and retaining more diverse talent by engaging our equity, inclusion and diversity-focused employee network groups in deeper conversations and building strong referral partnerships with post-secondary institutions that promote equity, inclusion and diversity.

Employee development

We continued to grow our employee learning options in 2021, adding more bite-sized, “just-in-time” training, which provides learning at the optimal moment to enable immediate application. In March, we brought LinkedIn Learning to all employees. Throughout the remainder of the year, employees completed over 1,000 courses, watched over 21,000 learning videos and spent more than 1,100 hours training in the LinkedIn platform. We also leveraged our Microsoft enterprise platform by introducing training videos through the secure Stream enterprise video service. Using Stream, we introduced video training channels for the First West banking and enterprise resource planning systems to give employees quick, on-demand access to easy-to-consume training videos.

Agile continues to transform the way we work, empowering our teams to maximize value for members through continuous, timely, incremental improvements. Working in Agile fashion helps us better understand and even anticipate members' needs while keeping First West on the leading edge of the dynamic financial services industry. By the end of 2021, more than 80 employees had been trained in Agile methods and were working in Agile squads. Four Agile chapters had also been established to support the development of Agile workers' knowledge and skills in emerging Agile approaches.

Developing the skills and abilities of leaders to build our bench strength in preparation for future workforce needs will always be a priority at First West. Our focus on this area led to the launch of a new five-month "Leader as Coach" program, with 48 leaders completing the program in 2021. We also introduced a comprehensive learning portal through our partner Credit Union Executives Society (CUES) to help our Board of Directors and First West Young Leaders build their knowledge, skills and abilities on various topics relevant to First West's business and governance of the credit union. First West's Young Leader's network launched in 2019 and continues to be an integral means of professional development by providing opportunities for young leaders to develop transferable skills that will positively impact the credit union and the next generation of leaders at First West.

Our commitment to exceptional learning experiences empowers our employees to provide remarkable experiences for members. To that end, we continue to design and deliver engaging, relevant, and accessible multi-channel learning experiences for employees. One of the ways we plan to stay true to that commitment in 2022 is through the introduction of podcasts as means of employee training. Our new learning management system—launched in December 2021—will also enhance our ability to deliver more innovative learning experiences in 2022 and onward.

Employee health, safety & human resources risk

In 2021 we broadened the scope of our occupational health and safety practice to include employee health, safety and human resources risk. This expansion of focus allowed First West to continue in its commitment to advance a psychologically healthy and safe workplace where all employees experience a sense of belonging. We have been purposeful in working with our Poss-Ability Employee Network Group in promoting Mental Health Week in identifying and breaking down the silos and barriers for those with mental and physical disabilities. We are grateful and are always impressed with the courage shown by our employees to share stories, vulnerabilities and acts of strength and determination. We continue to seek out programs and services that support employees and families and this year we introduced an Internet-based (therapist-guided) Cognitive Behavioural Therapy Program which has been well accepted and utilized by employees and families of First West.

We continued to navigate the ongoing COVID-19 pandemic. The global health crisis has taken an emotional toll and supporting our employees and maintaining employee health, safety and engagement has been a priority for the credit union since the beginning. Throughout 2021, People Services partnered with the Facilities team and Joint Health & Safety Committee to ensure First West's new Langley head office and collaboration centre and Penticton, Victoria and Duncan collaboration centres were COVID-safety compliant and ready to welcome our shared services employees back to the office. We also partnered with divisional management teams to ensure continued compliance of COVID safety measures, for the health of our employees and members.

Amid evolving provincial COVID safety guidance, employees supported each other by rising to the challenge of adopting safety guidelines and protocols. Their commitment made our workspaces as safe as possible during a time of sustained uncertainty.

The expanded scope of health and safety at First West deepened collaboration with our Risk Management team and helped to ensure that the health and safety of our employees in a variety of situations, including floods and wildfires. We also updated related work guidelines and procedures that guide employees every day.

We evaluated various areas of human resources management from a risk perspective in 2021. This effort completed risk control assessments in the areas of annual performance and compensation, employee relations, executive compensation, leaves, offboarding, onboarding, employee recognition, recruitment, salary determination and adjustments and variable compensation.

Additionally, as part of preparing for First West's application to become a federally regulated credit union, we updated several human resources guidelines to align them with the requirements and expectations of the federal regulator, The Office of the Superintendent of Financial Institutions. This work included the addition of risk statements to all job profiles for all roles within First West Credit Union.

Advancing an inclusive and diverse workplace culture

Our commitment to Equity, Inclusion and Diversity (EID) is one of cultural transformation that educates employees on and addresses long-entrenched systemic barriers and inequalities, ultimately shaping who we are and how we behave at First West. We believe wholeheartedly in creating and maintaining a workplace where everyone feels they belong and has every opportunity to thrive.

Employee involvement remains a cornerstone of our EID journey. We welcomed two new employee-led Employee Network Groups (ENGs) in 2021: our Indigenous Persons group and our Persons of Asian Descent group, bringing the number of ENGs to six. First West and the ENGs marked several important equity, inclusion and diversity milestones in 2021:

- > We celebrated Pride month, which included our "Rainbow Day," and all proceeds raised during Pride month were given to QChat, an online support organization for LGBTQ2SAI+ youth.
- > Our Q&A Pride employee network group hosted an "Ask me Anything" session, cultivating meaningful connections with employees who are members of our LGBTQ2SAI+ community.
- > We recognized Canada's first National Day for Truth and Reconciliation by closing our locations and enabling all employees to participate in acknowledgement, recognition and reflection.
- > We supported Orange Shirt Society and the Indian Residential School Survivors Society through several fundraising efforts across the organization.
- > The Poss-Abilities employee network group contributed towards elevating awareness and generating dialogue on mental health and invisible disabilities.

We remain committed to creating environments in which everyone feels welcome and valued. In 2021, we continued to make strides in the area of accessible buildings with further adoption of our Inclusive and Accessible Building standards in our branches and collaboration centres. We gave back to the Rick Hansen Foundation to help other organizations move ahead in their inclusion and accessibility journeys.

Additionally, we donated funds to three local organizations—Pathways Abilities Society, Semiahmoo House Society, and Clements Centre Society—who are doing amazing work in their communities to create accessible and inclusive spaces for everyone.

Allyship training and opportunities to hear from experts in the fields of unconscious bias, racism and Indigenous cultural fluency training supported our employees on their EID learning journeys in 2021. We also proudly launched a scholarship and bursary fund for Indigenous youth seeking post-secondary education in 2021 and strengthened our resolve to support and partner with Indigenous communities.

Change management

In 2021, First West placed strategic focus on building a Change Management Centre of Expertise and expanding our existing change management program. The goal of this work is to continue building the organization's change management capabilities by clearly articulating expectations for how change is delivered and received, ultimately elevating the employee and member experiences. Our efforts involved introducing a change management policy and updating First West's change framework, tools and training. Next steps for our change management journey include training for all change leads and working to incorporate change management practices into the credit union's culture.

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.

Boots on the ground and knowledge in the boardroom are resources essential to a strong social sector. In 2021, First West employees contributed 3,191 hours of community leadership to more than 40 non-profit and charitable organizations throughout British Columbia. First West employees supported their communities through a variety of roles, including:

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

Recognizing the efforts of our employees and the number of personal hours committed to serving in the community, our *Lead Well* Employee Recognition program funded 60 \$500 grants, totaling \$30,000 supporting non-profits selected by our employees.

In 2021, First West also invested \$1 million into our multi-faceted Simple Generosity program to help our members and local non-profits and businesses who faced unprecedented challenges and demands due to the pandemic. Simple Generosity focused on four key areas: helping families thrive, sharing kindness

throughout our communities, giving learners of all ages opportunities to increase their potential and doing good things for local businesses. We invited members and our social media followers to generate donations by sharing words of gratitude and inspiration in our #CommentsOfKindness social media campaign. The response was overwhelming: we aimed at 6,000 comments and finished with just short of 11,000.

We also partnered with education-based charities, helping generate learning and mentoring opportunities for youth and seniors in our communities. Overall, Simple Generosity distributed 753 donations to organizations who help our communities thrive.

Our signature cause programs, supporting 33% of registered food banks across B.C., were bolstered through continued employee-led fundraising and community partnerships, raising \$479,500. Since 2010, First West has raised over \$4.4 million and collected 195,328 pounds of food for local food banks. In September 2021 we celebrated a major milestone of \$1 million raised for The Full Cupboard, two years ahead of the ten-year target date.

First West activated its disaster relief funding to support members and communities ravaged by the summer wildfires and then again with the devastating flooding and atmospheric river systems. We contributed more than \$123,000 to the relief efforts of our longstanding partner Food Banks BC and an additional \$108,000 to agencies dedicated to relief efforts, such as the Canadian Red Cross, Abbotsford Community Foundation, B.C. Agriculture Council, Princeton Food Bank and Princeton Flood Relief. Even more relief for impacted British Columbians came from our members, through online giving to our Feed the Valley and The Full Cupboard signature cause. First West members generously gave \$257,500, which was allocated to Food Banks BC's relief efforts.

First West Foundation

Our grant-making charity has been working to help communities thrive since 1996. The Foundation was established with a \$200,000 donation and since 2010, through the generosity of its donors, has grown from \$6 million to \$19 million. 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.

The foundation celebrated its 25th anniversary in 2021 with several meaningful highlights:

- > Received a \$1.349 million donation from First West Credit Union
- > Granted \$1.7 million in funding through the foundation's annual grant cycle, the second phase of its Community Response Fund and its giving programs
- > First West employees generously donated \$77,095 to the foundation's endowment funds which disperse money to causes in the community, our Feed the Valley and The Full Cupboard programs, and key community partners
- > Supported 768 local charities to deliver programs and services to help communities thrive

Sadly, we mourned the passing of former Envision Financial president and board director Peter Podovnikoff in December 2021. Peter, a well-known figure in the Canadian credit union system, played an instrumental, indispensable role in the creation of the First West Foundation and served on its board of directors for 25 years. The foundation's Peter Podovnikoff Scholarship Fund provides Kwantlen Polytechnic University students with scholarship opportunities and since 2006 the fund has granted more than \$28,600 to students in need.

7 ECONOMIC REVIEW AND OUTLOOK

The COVID-19 pandemic continued to impact the economy in 2021 with travel and border restrictions, social and physical distancing limiting public and private gatherings, and forced closures of non-essential businesses. As a result of the aid programs and stimulus spending enacted by governments in 2020, the Canadian economy recovered throughout 2021 outside of weak performance in the second quarter and in the face of waves of COVID-19, including a fifth wave in the fourth quarter fuelled by the Omicron variant.

The Bank of Canada overnight rate remained unchanged in 2021 but is expected to increase in 2022 as the economy has largely recovered and inflation has risen above pre-pandemic levels. With low interest rates and higher income earners having more cash on hand due to limited consumer spending, there was continued higher demand in the resale home real estate market, which, combined with a shortage of housing supply, drove home prices higher throughout 2021.

Inflation hit a 30-year high in December of 2021, and as a result the Bank of Canada lifted its inflation forecast. The Bank expects inflation to fall in 2022 and will look to reduce stimulus and raise rates to combat any persistent increase in inflation. The outlook for the Canadian economy is for continued modest growth in 2022 with lower unemployment and continued pandemic-related public health restrictions in some provinces. This growth has the potential to be challenged by the impact of increased inflation and supply chain impairment.

At a provincial level, British Columbia experienced multiple natural disasters in 2021 but was able to achieve among the strongest economic recoveries in Canada. In 2022 B.C. is expected to continue strong economic growth. The strong B.C. resale housing market is expected to cool to more moderate levels as interest rates rise and housing supply increases.

8 FINANCIAL PERFORMANCE 2021 OVERVIEW AND LINE OF BUSINESS REVIEW

Table 2 - Financial Performance

(Expressed in thousands of dollars)	2021	2020	2021 Change	
			\$	%
Net interest income	231,112	196,489	34,623	17.6%
Fee, commission and other income	104,285	120,355	(16,070)	(13.4%)
Total revenue	335,397	316,844	18,553	5.9%
Provision for credit losses	(8,144)	25,416	(33,560)	(132.0%)
Total operating expenses	259,841	234,169	25,672	11.0%
Operating income	83,700	57,259	26,441	46.2%
Income tax expense	16,811	8,461	8,350	98.7%
Profit for the year from continuing operations	66,889	48,798	18,091	37.1%
Profit for the year from discontinued operations	0	12,799	(12,799)	(100.0%)
Profit for the year	66,889	61,597	5,292	8.6%
Assets				
Cash resources	449,807	1,386,162	(936,355)	(67.6%)
Loans after allowance for credit losses	10,162,372	9,142,749	1,019,623	11.2%
Investments, premises and equipment, and other assets	2,060,527	1,659,978	400,549	24.1%
Total assets	12,672,706	12,188,889	483,817	4.0%
Liabilities				
Deposits	10,989,823	10,537,238	452,585	4.3%
Borrowings	586,227	600,670	(14,443)	(2.4%)
Other liabilities	200,485	208,652	(8,167)	(3.9%)
Total liabilities	11,776,535	11,346,560	429,975	3.8%
Members' equity	896,171	842,329	53,842	6.4%
Total liabilities and members' equity	12,672,706	12,188,889	483,817	4.0%
Ratios				
Operating efficiency	77.5%	73.9%	3.6%	4.8%
Regulatory liquidity ratio	12.5%	19.6%	(7.1%)	(36.1%)
Regulatory capital ratio	14.6%	15.9%	(1.3%)	(8.1%)

The underlying business came out strong in 2021 against the backdrop of an economy significantly disrupted by the COVID-19 pandemic in 2020.

Profit for the year increased to \$66.9 million from \$61.6 million (Table 2), primarily due to an increase in net interest income and recovery from credit losses. Operating expenses increased from prior year due to resumed strategic investments and inflationary pressures on salaries.

Asset growth was \$0.5 billion in 2021 with loan growth of \$1.0 billion funded primarily by deposit growth from members of \$452.6 million and a reduction in cash position of \$936.4 million.

Our liquidity position decreased during the year but remains strong and elevated above historical norms, with the regulatory liquidity ratio at 12.5% in 2021, compared to 19.6% in 2020.

Our capital position reduced to enable strong loan growth, with a regulatory capital ratio for 2021 at 14.6%, compared to 15.9% in 2020.

Line of business highlights and outlook

Retail Banking

In 2021, our retail lending portfolio increased by \$535.7 million or 9.4%, to \$6.2 billion, driven by growth in residential mortgages, while our core retail deposit portfolio declined by \$95.3 million or 1.6%, to \$5.7 billion.

From a lending perspective, we maintained 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 224,000 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 increased in 2021 by 0.6% 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.

We continued building and maintaining meaningful relationships with members and meeting their financial needs through our core business (banking, borrowing and investing), our depth of expertise and advice-based experience, and the features of our digital solutions. Digital transformation focused on efficiency, optimization and capability within the credit union’s business played a major role, particularly in the face of the ongoing pandemic. We continued to demonstrate our adaptability and responsiveness through major developments such as the next-generation digital banking platform Forge 2.0, a new online membership opening solution, mandatory two-step verification, increased capacity of our Member Advice Centre and Interac e-transfers for business receive (making us one of the first credit unions in Canada with this feature). Forge 2.0 provides members an enhanced digital experience through a refreshed modern design, allowing them to interact with us in a more seamless, intuitive, and personalized way, while the digital-world standard two-step verification for online banking login provides even more security for members’ online accounts and transactions. See page 18, “Member Experience,” for more 2021 highlights.

Commercial and Business Banking

In spite of the global pandemic our commercial division continued to build on the strategic partnerships and relationships we have developed within the communities in which we operate. Net membership growth in our commercial business was 1.9% in 2021, ending the year with just under 28,000 total commercial members.

Our commercial lending portfolio grew by \$465.1 million or 13.4%, to \$3.9 billion in 2021. The growth was driven by a strong performance in commercial mortgages which saw growth of \$495.2 million or 15.3%. Commercial lending remained strong throughout the year, as our members' real estate development projects continued to ramp up after pausing in early 2020.

Total commercial core deposits grew by \$760.4 million or 24.5%, to \$3.9 billion during the year, driven by commercial chequing accounts and term deposits. Non-core deposits, which include MUSH (municipalities, universities, schools and hospitals) demand accounts and terms, declined in the amount of \$185.1 million. 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.

As we look ahead to 2022, we expect to continue growing the commercial lending portfolio, helping to support our members as their businesses grow. We will remain focused on providing expert advice while further elevating our products and services.

Wealth Management

The continuing pandemic 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 \$34.2 million in 2021, an increase of \$6.5 million over 2020. Through a combination of strong net sales and market movement, our assets under administration grew by \$855.3 million or 25.9% to reach a total of \$4.2 billion in assets under management.

We continued to strengthen our specialist sales force through industry-standard learning pathways for our wealth planning specialists and wealth advisors. This approach continually builds First West's capability to offer wealth management and advice services tailored to our members' needs, financial goals and life journey.

In 2022 we plan to continue growing our wealth management services, including further development of our multi-channel offerings and improving our operational effectiveness.

First West Capital

Outlook for sustainable growth following the COVID-19 downturn in 2020 improved throughout 2021. Global economic recovery continued even as the pandemic resurged. The work in 2021 focused on fortifying the portfolio for future years, with significant recoveries and reduction of the allowance for credit losses balanced with a modest reduction in portfolio size. Prepayments and payouts totalled \$33.5 million in the year, and the total portfolio balance was \$56.8 million at the end of 2021, down from \$85.3 million in 2020. First West Capital funded five deals in 2021 for a total of \$13.9 million in disbursements.

The outlook for the economic rebound coming out of the COVID-19 crisis is positive and First West Capital is well positioned to grow strategically in the upcoming years.

9 DISCUSSION ON FINANCIAL PERFORMANCE

Net interest income

Table 3 - Net Interest Income Volume and Rate Impacts

2021

(Expressed in thousands of dollars)	Increase (decrease) in net interest income due to changes in		
	Average balance	Average rate	Net change
Interest earnings assets	13,338	(35,933)	(22,595)
Interest bearing liabilities	(5,673)	62,891	57,218
Net Interest Income	7,665	26,958	34,623

Table 4 - Net Interest Analysis

(Expressed in thousands of dollars)	2021				2020			
	Average Balance	Mix %	Interest	Interest Rate %	Average Balance	Mix %	Interest	Interest Rate %
Cash resources and investments	2,351,899	19.0	10,796	0.5	2,297,055	19.3	14,055	0.6
Loans to members								
Residential mortgages	5,201,704	42.1	134,887	2.6	4,981,868	41.9	150,384	3.0
Personal loans	51,479	0.4	2,635	5.1	65,415	0.6	3,529	5.4
Retail LOC	708,469	5.7	24,876	3.5	788,405	6.6	30,705	3.9
Commercial mortgages	3,466,323	28.1	123,198	3.6	3,087,644	26.0	121,222	3.9
Commercial loans	122,136	1.0	11,309	9.3	160,348	1.3	15,406	9.6
Commercial lines of credit	94,391	0.8	2,167	2.3	106,938	0.9	2,391	2.2
Accrued interest	14,704	0.1	0	-	17,434	0.1	0	-
Allowance for credit losses	(29,418)	(0.2)	0	-	(43,082)	(0.4)	0	-
Loans to members	9,629,788	78.0	299,072	3.1	9,164,970	77.1	323,637	3.5
Derivatives	-	-	9,454	-	-	-	4,225	-
Other assets	370,436	3.0	0	-	426,333	3.6	0	-
Total assets	12,352,123	100.0	319,322	2.6	11,888,358	100.0	341,917	2.9
Deposits from members								
Retail demand deposits	2,462,945	19.9	642	0.0	1,870,217	15.7	1,460	0.1
Retail non-registered term deposits	2,276,553	18.4	21,617	0.9	2,319,000	19.5	45,092	1.9
Registered deposits	1,291,725	10.5	15,680	1.2	1,493,242	12.6	23,595	1.6
Commercial demand deposits	2,604,811	21.1	7,038	0.3	1,979,143	16.6	7,706	0.4
Commercial term deposits	2,104,103	17.0	26,865	1.3	2,539,540	21.4	51,052	2.0
Class A membership shares	5,661	0.0	0	-	5,834	0.0	0	-
Accrued interest and dividends	31,840	0.3	0	-	60,585	0.5	0	-
Deposits from members	10,777,638	87.3	71,842	0.7	10,267,561	86.4	128,905	1.3
Members' equity	873,349	7.1	-	-	810,181	6.8	0	-
Borrowings	504,474	4.1	13,659	2.7	631,423	5.3	13,958	2.2
Other liabilities	196,662	1.6	2,709	1.4	179,193	1.5	2,565	1.4
Total liabilities and equity	12,352,123	100.0	88,210	0.7	11,888,358	100.0	145,428	1.2
Total assets / net interest income	12,352,123		231,112	1.9	11,888,358		196,489	1.7

In 2021, net interest income, defined as interest and investment income earned on assets less interest expense on deposits and borrowings, increased \$34.6 million or 17.6%, to \$231.1 million from \$196.5 million (Table 3) due to strong loan growth and decline in cost of funds.

Net interest income as a percentage of average assets increased year over year to 1.9% in 2021, from 1.7% in 2020.

Economic conditions resulted in a continued low-rate environment. Yields on loans to members were lower due to a lower prime rate and lower mortgage rates experienced in 2021. Investment yields were also lower due to lower investment rates. Funding costs reduced even more than asset yields due to increased concentration in retail and commercial demand deposits.

Strong asset growth, careful management of deposit costs and other treasury-related transactions helped strengthen net interest spreads throughout 2021. As a result, First West's financial margin remains competitive among our credit union peer group.

Fee, commission and other income

Table 5 - Fee, Commission and Other Income

(Expressed in thousands of dollars)	2021	2020	2021 Change	
			\$	%
Fee and commission income:				
Insurance commissions and fees	2,197	2,594	(397)	(15.3%)
Account service fees	12,154	11,974	180	1.5%
Loan administration fees	32,028	20,023	12,005	60.0%
Fees from fiduciary activities and mutual funds	31,836	25,733	6,103	23.7%
Foreign exchange	3,971	3,802	169	4.4%
	82,186	64,126	18,060	28.2%
Other income:				
Leasing revenue	6,874	11,851	(4,977)	(42.0%)
Investment revenue	6,573	22,860	(16,287)	(71.2%)
Mastercard revenue	3,260	2,916	344	11.8%
Gain on disposal	227	9,971	(9,744)	(97.7%)
Property rental income	1,490	3,043	(1,553)	(51.0%)
Securitization	10	1,045	(1,035)	(99.0%)
Miscellaneous	3,665	4,543	(878)	(19.3%)
	22,099	56,229	(34,130)	(60.7%)
Total fee, commission and other income	104,285	120,355	(16,070)	(13.4%)

In 2021, fee, commission and other income decreased year-over-year in the amount of \$16.1 million or 13.4%, to \$104.3 million (Table 5). The decrease was partly due to decreased investment revenue from investment holdings of \$6.6 million in 2021, compared to \$22.9 million in 2020. 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 continued to exceed historical norms significantly, as many members took advantage of refinancing their mortgages at a lower interest rate. Fees from fiduciary activities and mutual funds 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 continue 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 6 — Operating Expenses

	2021	2020	2021 Change	
(Expressed in thousands of dollars)			\$	%
Personnel expenses				
Salaries	123,232	107,150	16,082	15.0%
Benefits	15,733	15,390	343	2.2%
Pension	8,546	9,762	(1,216)	(12.5%)
Other	6,426	5,817	609	10.5%
	153,937	138,119	15,818	11.5%
Depreciation and amortization	19,755	15,966	3,789	23.7%
Other expenses:				
Administration	49,927	41,975	7,952	18.9%
Data processing	26,628	25,293	1,335	5.3%
Occupancy	9,594	12,816	(3,222)	(25.1%)
	86,149	80,084	6,065	7.6%
Total operating expenses	259,841	234,169	25,672	11.0%
Efficiency ratio	77.5%	73.9%	3.6%	4.8%

Total operating expenses increased by \$25.6 million in 2021, to \$259.8 million (Table 6). First West resumed many strategic initiatives in 2021, including those paused in 2020 due to COVID-19, which resulted in an increase to costs.

Key activities undertaken in 2021 included completion of the first phase of implementation of a new enterprise resources planning (ERP) system which went live in January 2021, migration of the phone system to a complete digital model (Microsoft Teams), ongoing work on the Forge banking platform and our products and pricing, and continued work toward becoming a federal credit union. The additional resources needed to support these strategic initiatives led to an increase in personnel expenses, which increased by \$15.8 million or 11.5%. The administration expenses were largely affected by a year-over-year increase in our

Credit Union Deposit Insurance Corporation of British Columbia (CUDIC) deposit insurance premiums. This cost was more than double the prior year's amount, due to the premium rate being exceptionally low in 2020 as a temporary relief measure in light of the COVID-19 pandemic.

The depreciation and amortization expenses increased by \$3.8 million in 2021 as a result of the implementation of the first phase of the ERP system and the acquisition of our new head office building in Langley. On the other hand, occupancy expense declined by \$3.2 million in 2021, largely driven by a tenant improvement allowance of \$2.9 million for the head office.

Overall, the operating efficiency ratio moved back to historical norms in 2021 with operating efficiency of to 77.5%, an increase from 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 7 — Loan Portfolio

(Expressed in thousands of dollars)	2021	Portfolio%	2020	Portfolio%	2021 Change	
Residential mortgages	5,492,331	54%	4,909,328	54%	583,003	11.9%
Commercial lending	3,936,348	39%	3,471,251	38%	465,097	13.4%
Retail equity mortgages	590,937	6%	635,986	7%	(45,049)	(7.1%)
Personal loans and retail LOCs	151,380	1%	153,595	2%	(2,215)	(1.4%)
Total outstanding loans¹	10,170,996	100%	9,170,160	100%	1,000,836	10.9%

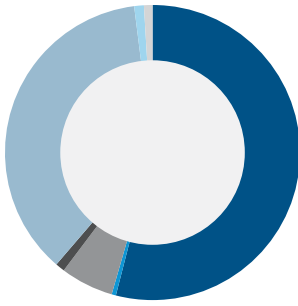
¹ Balances exclude accrued interest and allowance for credit losses

The loan portfolio ended 2021 at \$10.2 billion (excluding accrued interest and the allowance for credit losses), an increase of 10.9% or \$1.0 billion compared to 2020 (Table 7). Both commercial and residential lending had strong growth in 2021, with commercial lending growth of \$465.1 million in aggregate, or 13.4% in 2021, and retail and residential lending growth of \$535.7 million or 9.4%.

We expect to see continued strong growth in the overall portfolio in 2021, largely in residential and commercial mortgages. A laser focus on reimagining personal lending, with growth aligned to our strategic priorities and product and channel capabilities is intended to drive retail growth. Commercial growth is anticipated to be in line with our past trends, and with continued focus on the agribusiness sector.

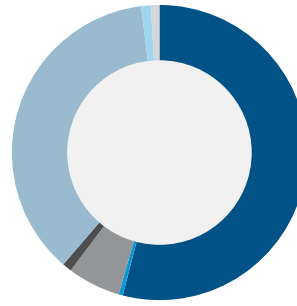
¹ Balances exclude accrued interest and allowance for credit losses

Chart 1 — 2021 Portfolio Breakdown



■ Residential mortgages	54%
■ Personal loans	0%
■ Retail equity mortgages	6%
■ Retail LOC	1%
■ Commercial mortgages	37%
■ Commercial loans	1%
■ Commercial lines of credit	1%

Chart 2 — 2020 Portfolio Breakdown



■ Residential mortgages	54%
■ Personal loans	1%
■ Retail equity mortgages	7%
■ Retail LOC	1%
■ Commercial mortgages	35%
■ Commercial loans	1%
■ Commercial lines of credit	1%

The product mix in our loan portfolio remained relatively constant in 2021 (Charts 1 and 2).

Commercial lending grew to 39% of the portfolio in 2021, from 38% in 2020, and residential mortgages remained consistent in 2021 at 54% of the portfolio, compared to 2020.

We also observed a slight decline in retail equity mortgages, personal loans and retail lines of credit in 2021.

Credit quality / Allowance for credit losses

Table 8 — Credit Performance

(Expressed in thousands of dollars)	2021	2020	2019
Total loans ¹	10,185,778	9,186,341	9,182,188
Allowance for expected credit losses	23,406	43,592	42,756
Provision for credit losses	(8,144)	25,416	16,748
Loan write-offs	12,042	24,580	2,435
Impaired loans (Stage 3 loans)	11,981	45,353	41,597
Members' equity	896,171	842,329	766,964

¹ Balances include accrued interest and exclude allowance for credit losses

	2021	2020	2019
Allowance for expected credit losses as % of total Loans	0.23%	0.47%	0.47%
Provision for credit losses as % of total loans	(0.08%)	0.28%	0.18%
Loan write offs as % of total loans	0.12%	0.27%	0.03%
Impaired loans (Stage 3 loans) as % of total loans	0.12%	0.49%	0.45%
Impaired loans (Stage 3 loans) as % of members' equity	1.34%	5.38%	5.42%

Our allowance for expected credit losses as of December 31, 2021, decreased to \$23.4 million, compared to \$43.6 million in 2020, a decrease of \$20.2 million or 46.3% (Table 8). The provision for credit losses expense decreased by \$33.6 million or 132.0% in 2021, with a net recovery of \$8.1 million, which reflects the improvement in the economy and credit exposure.

Chart 3 — Allowance for Credit Losses

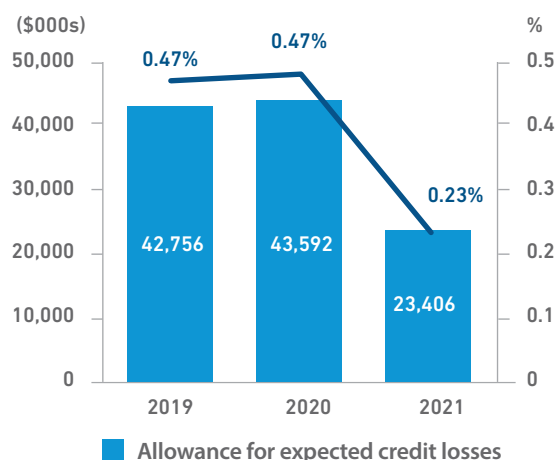


Chart 4 — Loan Write-Offs

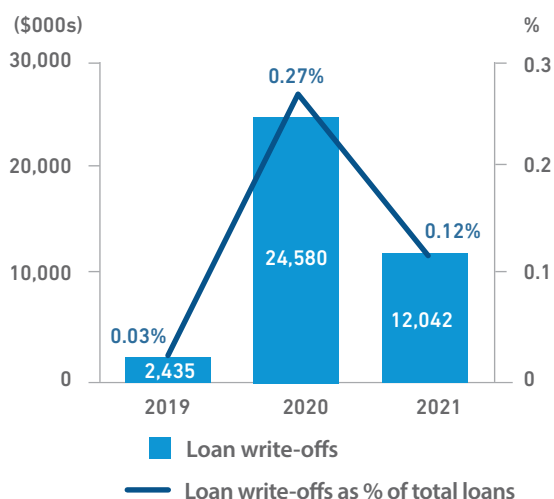


Chart 5 — Provision for Credit Losses

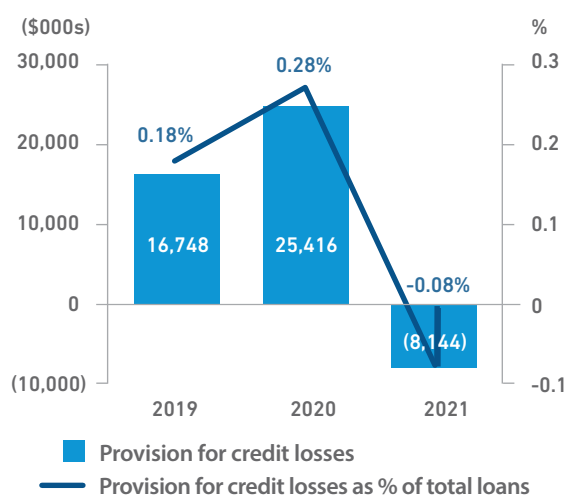
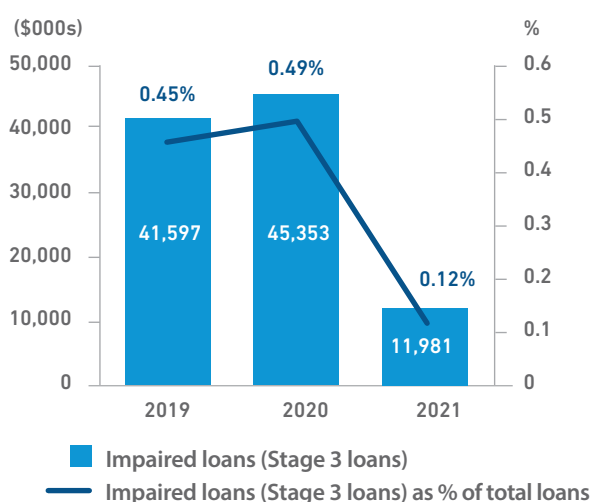


Chart 6 — Impaired Loans



The year-end allowance for credit losses represented 0.23% of total loans and accrued interest, a decrease from the prior year's result of 0.47% (Chart 3).

Loan write-offs as a percentage of total loans also decreased to 0.12% in 2021, from 0.27% the previous year (Chart 4).

The provision for credit losses as a percentage of total loans decreased to a recovery of 0.08% in 2021, from a 0.28% provision expense the previous year (Chart 5). The total provision for credit losses for the year was a net recovery of \$8.1 million, a decrease in provision of \$33.6 million versus 2020.

The impaired loans as a percentage of total loans decreased to 0.12% in 2021, from a 0.49% result in 2020 (Chart 6).

The recovery for credit losses in 2021 largely occurred within the First West Capital portfolio as Management successfully worked out several loans.

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 of Directors 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 9 — Liquid Assets

(Expressed in thousands of dollars)	2021	2020	2021 Change	
			\$	%
Cash and cash resources	449,807	1,386,162	(936,355)	(67.6%)
Investments:				
Debt investment securities at amortized cost	920,184	-	920,184	
Term deposits callable or maturing in three or more months	-	783,762	(783,762)	(100.0%)
Investments in pooled funds	215,619	218,783	(3,164)	(1.4%)
Other	4,476	4,502	(26)	(0.6%)
Total liquid assets	1,590,086	2,393,209	(803,123)	(33.6%)
Total assets	12,672,706	12,188,889	483,817	4.0%
Encumbered liquid assets	535,190	201,812	333,378	165.2%
Unencumbered liquid assets	1,054,896	2,191,397	(1,136,501)	(51.9%)
Total liquid assets / total assets	12.5%	19.6%	(7.1%)	(36.1%)

First West holds liquid assets in cash and marketable debt securities (Table 9).

Most 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, 2021, liquid assets held totalled \$1.6 billion and represented 12.5% of total assets. This compares to \$2.4 billion and 19.6% in 2020.

During 2020 the B.C. Mandatory Liquidity Pool (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 (HQLA). 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 Credit Union (Central 1) the trustee and Credential Qtrade Securities Inc. the investment manager. First West's MLP is invested in marketable securities that are externally managed by Central 1.

Deposits and funding

Table 10 — Deposits and Funding

(Expressed in thousands of dollars)	2021	2020	2021 Change	
			\$	%
Core deposits				
Retail demand deposits	2,232,655	2,205,988	26,667	1.2%
Retail non-registered term deposits	2,188,485	2,203,826	(15,341)	(0.7%)
Registered deposits	1,279,707	1,386,317	(106,610)	(7.7%)
	5,700,847	5,796,131	(95,284)	(1.6%)
Commercial demand deposits	2,313,140	1,886,261	426,879	22.6%
Commercial term deposits	1,545,987	1,212,439	333,548	27.5%
	3,859,127	3,098,700	760,427	24.5%
Class A membership shares	5,538	5,659	(121)	(2.1%)
Accrued interest and dividends	23,966	51,266	(27,300)	(53.3%)
Core deposits	9,589,478	8,951,756	637,722	7.1%
Non-core deposits				
MUSH demand accounts	325,232	288,664	36,568	12.7%
Deposit agency	426,067	553,532	(127,465)	(23.0%)
MUSH terms	649,046	743,286	(94,240)	(12.7%)
Non-core deposits	1,400,345	1,585,482	(185,137)	(11.7%)
Deposits from members	10,989,823	10,537,238	452,585	4.3%

Our funding and liquidity profiles remain strong, with a balance sheet that is primarily deposit-funded (Table 10).

Leveraging our strong franchise position and close relationship with our members, we generate most of our deposits through our branch network.

In 2021, deposits totalled \$11.0 billion, an increase of 4.3%, 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 2021 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 October 2021.

Our liquidity ratios remained healthy in 2021 and are comfortably above regulatory requirements. Total deposit growth in 2021 was \$452.6 million, of which \$637.7 million was from core retail and commercial sources, while non-core deposits from institutional and other sources declined by 185.1 million.

The maturity profile of our deposits is as follows (Table 11):

Table 11 — 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
2021						
Demands	5,297,094	-	-	-	-	5,297,094
Terms ¹	234,576	525,815	2,960,587	658,184	28,322	4,407,484
Registered savings plans	298,010	158,614	508,298	288,181	26,604	1,279,707
Class A shares	5,538	-	-	-	-	5,538
Total deposits	5,835,218	684,429	3,468,885	946,365	54,926	10,989,823
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
Change	888,757	(152,056)	168,001	(416,243)	(35,874)	452,585

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, to 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 12.65%, at which point the CMCP would be activated.

A number of capital buffer thresholds are set above the 12.65% internal capital target with corresponding escalation protocol and management actions to be initiated when triggered. These thresholds effectively create additional capital buffer. They are established to resolve unexpected capital impact before the 10% supervisory threshold is reached.

Table 12 — Regulatory Capital

(Expressed in thousands of dollars)	2021	2020	2021 Change	
			\$	%
Regulatory Capital				
Primary capital	895,095	827,576	67,519	8.2%
Secondary capital	127,006	123,455	3,551	2.9%
Deductions from capital	(22,894)	(20,463)	(2,431)	11.9%
Total capital	999,207	930,568	68,639	7.4%
Risk weighted assets	6,861,906	5,870,826	991,080	16.9%
Total capital ratio	14.6%	15.9%	(1.3%)	(8.1%)

As of December 31, 2021, First West had a capital ratio of 14.6% on a risk-weighted basis (Table 12). 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 12.65%.

Total regulatory capital consists of primary capital and secondary capital after taking into account specified deductions from capital. Primary capital includes First West's membership shares, contributed surplus and retained earnings, while secondary capital primarily consists of First West's allowable share of system retained earnings and other equity instruments. The capital ratio of 14.6% has decreased from the 15.9% reported for 2020.

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 \$999.2 million in 2021, compared to \$930.6 million in 2020. Of the \$1.0 billion increase in risk-weighted assets, the largest contributor is in risk-weighted loan balances, which increased by \$840.8 million.

As we work towards becoming federally regulated, we will be required to meet the regulatory capital adequacy requirements set by The Office of the Superintendent of Financial Institutions (OSFI). OSFI regulations provide some differences to BC Financial Services Authority regulations with respect to the regulatory capital measurements and risk-weighting assignments.

10 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.

11 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 in which 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	

12 FUTURE CHANGES TO ACCOUNTING POLICIES

The International Accounting Standards Board (IASB) has issued and amended accounting standards that are effective for First West after December 31, 2021. Refer to Note 5 in the Consolidated Financial Statements for further information on these changes.

13 RISK MANAGEMENT

First West enhanced its risk management framework in 2021 to improve the risk management capabilities expected of a financial institution of its size and complexity.

2021 risk highlights

- > Strengthened quantitative risk and stress-testing capabilities to better position the credit union to withstand stress events
- > Initiated the development of environmental and climate risk framework
- > Enhanced risk governance and strengthened the risk management team, upgraded risk management policies, frameworks and practice to align with changes in business environment
- > Updated the Board Risk Appetite Statement and Risk Appetite Framework
- > Implemented new risk management tools for Asset Liability Management (ALM) and Interest Rate Risk in the Banking Book (IRRBB)
- > Refined and matured risk management committees for each principal risk category

- > Signed up to the commitments under the newly introduced B.C Market Code of Conduct to strengthen consumer protection for our members
- > Implemented Regulatory Compliance framework and governance to enhance the management and oversight of compliance with applicable laws and regulations
- > Strengthened the Framework for the Anti-Money Laundering, Anti-Terrorist Financing and Sanctions Program

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 that is 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 frameworks, 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.

First West consciously accepts risks to create long-term sustainable value for its members and to 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 operation, with risk management processes designed to complement its overall size, level of complexity, risk profile, risk philosophy and appetite. Management recognizes that taking risk is required in operating a successful financial organization. First West's business activities expose the credit union to a variety of risks throughout the organization and the ability to manage these risks is a key pillar in maintaining a strong credit union. In addition to First West's 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 the industry.

Objectives and principles

RISK MANAGEMENT OBJECTIVES	RISK MANAGEMENT PRINCIPLES
<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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 agile• 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 of Directors. The Board undertakes the following:

- > Approves First West's enterprise risk governance framework
- > Defines 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 Framework and other related risk frameworks and 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, financial risk and regulatory compliance. It is also used as a resource to the Board and senior management team in the development of policies, frameworks and risk monitoring.

The Corporate Risk team provides the following services:

- > Independent oversight of risk-taking decisions
- > Supporting the Board and Executive Risk Committee in developing the Enterprise Risk Governance Framework, 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 operational risk management activities, including methodology, models and tools, as well as challenging business strategy
- > Independent validation of risk measurement, risk assessments, design of controls and assessment of risk mitigation effectiveness
- > Monitoring and reporting risk exposures to the Executive Risk Committee and the Board

Risk management governance structure

First West's approach to risk governance serves as the foundation of First West's enterprise risk management framework (ERM), which is consistent with the regulatory guidelines. This framework requires 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:

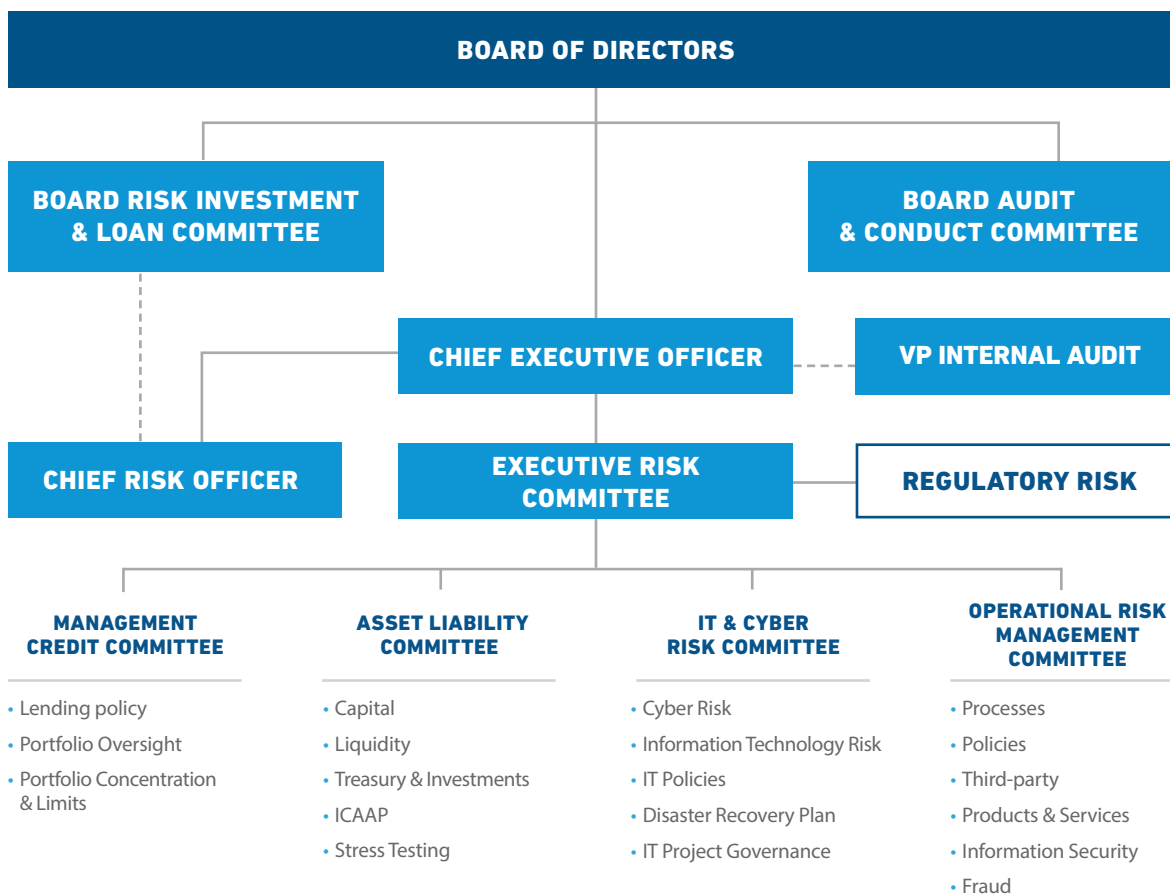


Figure 1: Risk Management Governance Structure

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), as well as 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—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, 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 culture is embedded within the organization. Employees at all levels of the organization share a common philosophy on risk. Every employee is accountable for achieving the best results for their business unit and for First West as a whole. Business decisions are made at all levels of the organization and each team member has a role in managing risk, including identification, communication and escalation of risk concerns. Risk management is aligned with the organization's vision and strategy and embedded within the credit union's management practices.

Risk philosophy

First West's 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 sustainable growth, member expectations and its marketplace positioning—will take on those risks that meet the strategic objectives of the organization.

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

Risk strategy

First West's ERM is linked to the credit union's overall vision and business objectives. Internal (strengths/weaknesses) and external (opportunities/risks) factors should be considered in the formation of the credit union's risk appetite. The use of these factors reflects the belief that risk appetite and business strategy need to be fully aligned and mutually reinforcing.

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

Stakeholder interests & risk appetite

First West's risk appetite needs to consider the respective interests of several key stakeholder groups, including members, employees, communities and regulators. It should appropriately balance 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, principal risk categories, management frameworks and oversight committees, and management level policies, processes, procedures and internal controls. The principal risk categories within our risk universe include:

- > Strategic risk
- > Capital risk
- > Operational risk
- > Credit risk
- > Legal and regulatory risk
- > Market, liquidity and funding risk
- > IT and cyber risk

Reputational risk arises as a consequence of not managing other risks effectively and is 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, and 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 the 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, the credit union may reduce its return on equity, whereas, if the capital available is short of what is actually required to protect against the risk taken, the credit union 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, First West has rigorous controls, procedures and advanced security measures in place to safeguard the funds that our members entrust to us.

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 from lending activities as well as derivative contracts.

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 failing to comply with laws, rules, regulations, and prescribed practices of the jurisdictions within which First West operates. First West manages this risk through the Regulatory Compliance Management (RCM) Governance Framework.

It and 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.

Risk Appetite Statements

The Risk Appetite Statement (RAS) defines the type and maximum level of risk within our risk capacity that First West is willing to assume in pursuit of its objectives.

The RAS provides a description of risks First West has a general preference to accept and the ones it generally avoids. We use the RAS as a foundation that provides the aggregate level of risk First West may assume across multiple risk areas.

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 internal control framework that improves the understanding and adoption of risk management within the credit union.

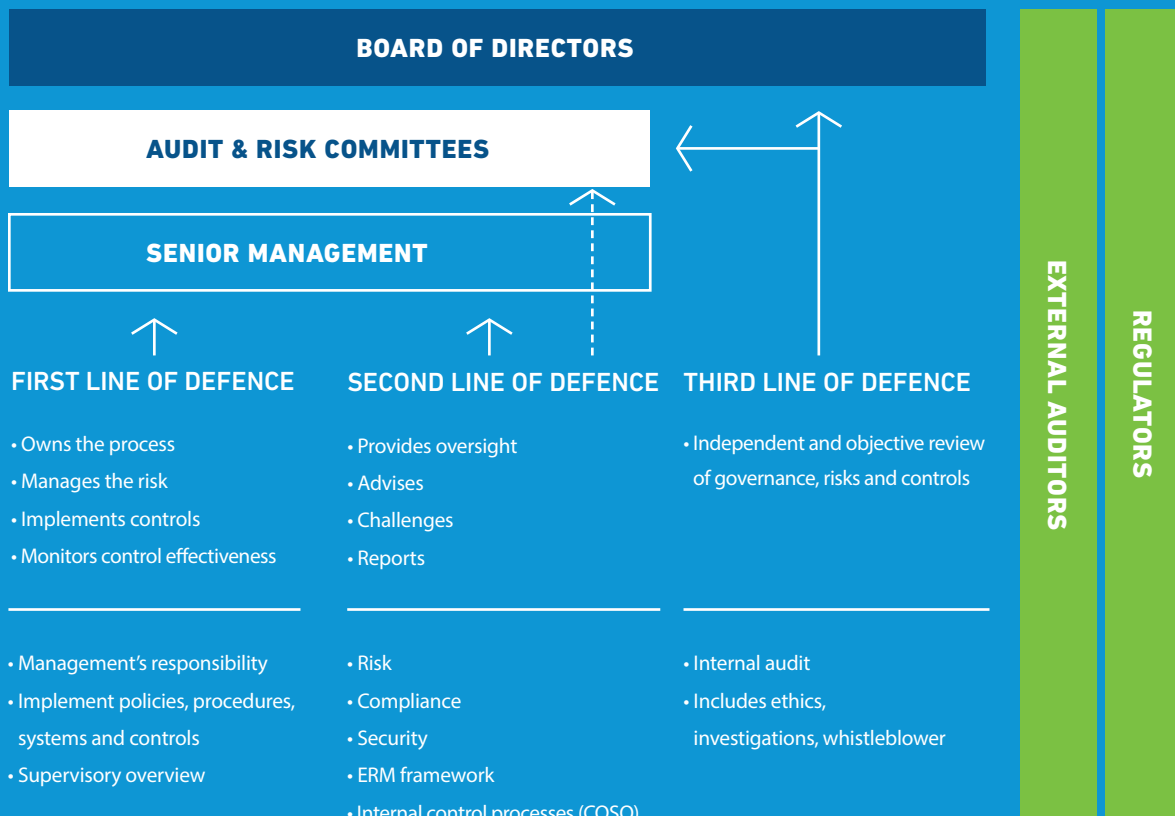


Figure 2: Three Lines of Defence

First Line responsibilities

In general, some of the key First Line of Defence risk-related responsibilities include:

- > Conducting business and taking various risks to meet strategic objectives and performance goals within the Risk Appetite
- > Identifying, managing and optimizing risks in day-to-day business operations
- > Designing and implementing controls, and ensuring the ongoing effectiveness of controls
- > Operating within risk tolerance limits, rules, laws, regulations, and policies

Second Line responsibilities

In general, some of the key Second Line of Defence risk-related responsibilities include independent challenge, independent assessment, coordination, risk monitoring, as well as providing risk management advice. These activities manifest themselves in the following ways:

- > Supporting the Board and Executive Risk Committee in developing the Enterprise Risk Framework, Risk Appetite Framework and various risk management policies
- > Providing continuous oversight of First Line of Defence, defining risk measurement methodology, developing risk models and tools, and challenging business strategy, emerging risk trends, and risk identification
- > Independently validating risk measurement and risk assessments
- > Monitoring and reporting risk exposures to the Risk, Investment and Lending Committee and the Board
- > Providing advice on mitigation, framework, appetite and assessment/quantification risk approaches

Third Line responsibilities

- > The internal audit function is the Third Line of Defence. Third Line of Defence responsibilities are distinct from First and Second Line of defence responsibilities:
- > Providing independent assurance to the Audit & Conduct Committee as to the effectiveness and appropriateness of, and the adherence to, company policies by means of independent auditing of both First and Second Lines of Defence
- > Providing updates to the Executive Risk Committee on its risk-related interactions with the regulators as the Third Line of Defence
- > Reviewing adherence to controls, policies, rules and regulations
- > Identifying operational weaknesses and recommending improvements, as well as tracking 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.

Anti-money laundering, anti-terrorist financing policy

First West is committed to preventing criminals from using the credit union to launder the proceeds of crime or for the purposes of financing terrorist activities.

First West has a designated Chief Anti-Money Laundering Officer (CAMLO) who oversees the organization's anti-money laundering, anti-terrorist financing and sanctions program. In addition, the CAMLO ensures compliance with:

- > The Proceeds of Crime Money Laundering and Terrorist Financing Act and associated regulations and guidance
- > First West's Anti-Money Laundering, Anti-Terrorist Financing and Sanctions policy

First West is committed to its obligations to report suspicious transactions to the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), in line with legislated requirements for all financial institutions in Canada.

Regulatory compliance management policy

First West is committed to ensuring compliance with all laws, rules, regulations and prescribed practices in any jurisdiction it operates in. Regulatory requirements are in place to ensure the stability, integrity and security of financial institutions, to protect consumers and to inhibit criminal organizations from gaining access to financial systems. Understanding applicable regulatory requirements and ensuring there is a process in place to meet them protects First West's members, employees and the credit union as a whole.

To manage and oversee compliance with all applicable laws and regulatory requirements, First West has established a governance framework and policy for managing regulatory compliance risk, which establishes the foundation and infrastructure for regulatory compliance management at First West.

First West has a designated Chief Compliance Officer who oversees the organization's regulatory compliance risk and ensures compliance with the framework and the associated Regulatory Compliance Management Policy.

Whistleblower policy

The Board and Management are 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.

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.

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 and behaviours while retaining talent. First West fosters a culture in which people continuously strive to do better, cultivate 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, 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 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
- > Member needs served
- > Net membership growth

Depending on the employee's pay grade, a percentage of base salary is paid out depending on the level of achievement of the corporate objectives for that fiscal year. Payouts within that percentage vary based on the level of individual performance and include a performance multiplier up to 150% for exceptional

individual performance. With the exception of the CEO, the maximum payout is two times the target amount. 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.

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

First West provides a group RRSP for retirement purposes. The credit union contributes a percentage of base salary to a group RRSP and offers an employer matching program with contributions up to a maximum of 10% every year for exempt employees. Some employees continue to participate in a legacy defined benefit (DB) pension plan. First West provides a comprehensive, flexible benefits program, including but not limited to extended health and dental coverage, life insurance, accidental death and dismemberment insurance, short-term and long-term disability insurance, critical illness insurance, access to Internet-based cognitive behavioural therapy, Best Doctors and an Employee and Family Assistance Program.

The flexible benefits program also offers a health care spending account, the ability to purchase additional vacation days and the ability to make charitable donations. As part of our total rewards package, employees 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.

Employee perquisites also include preferred pricing on various financial products from the credit union and its partners.

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 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 merit and/or salary adjustment budget. The most recent merit award was 7.5%, effective January 3, 2021.

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 2021, 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 established three-year goals. 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 80% of base salary, effective January 2021. The maximum potential is set at 144% 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 2021 are outlined in Table 12.

Table 12 - 2021 Target Total Cash Compensation¹

Base Salary	STIP Target	LTIP Target ²	Target Total Cash
\$594,475	60%	80%	\$1,271,900

Notes to Table 12:

1. Target Total Cash Compensation reflects the annual base salary for the CEO (as at January 1, 2021) 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 80% for plan years 2021-2023; target increased effective January 1, 2021.

Table 13 - 2021 Actual Total Cash Compensation¹

Annual Earnings	STIP Payout ²	LTIP Payout ³	Other ⁴	Total Cash
\$594,475	\$811,102	\$674,730	\$205,000	\$2,285,307

Notes to Table 13:

1. Actual Total Cash Compensation reflects the CEO’s actual annual earnings in 2021 and actual incentive amounts paid out based on annual achievements for fiscal 2021 (paid in early 2022).
2. STIP payment made in the first quarter of 2022 for fiscal 2021. Company achievement at 151.6% of annual goals and an individual performance level of “significant overachievement of pre-defined metrics.”
3. LTIP payment made first quarter of 2022 for company achievement ending fiscal 2021 at 120% of the three-year goals (related to fiscal 2019-2021) and an individual three-year average performance rating set at “significant overachievement of pre-defined metrics.” LTIP target was 70% for 2019-2021 performance.
4. Other includes \$50,000 in the executive perquisites plan (inclusive of car allowance) plus an additional lump sum bonus of \$155,000.

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	<p>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.</p> <p>Benefits may also be measured using methodologies that assess their value as opposed to what they cost the employer to provide.</p>
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 Conduct Review Committee to discuss their audit and matters arising therefrom.



Launi Skinner
Chief Executive Officer



Mark Moreland
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, 2021
- 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, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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) as issued by the International Accounting Standards Board (IASB), 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.

Chartered Professional Accountants

The image shows the handwritten signature 'KPMG LLP' in black ink. The letters are bold and slightly slanted. A horizontal line is drawn underneath the signature, starting from the left and extending past the end of the text.

Vancouver, Canada

March 25, 2022

FIRST WEST CREDIT UNION

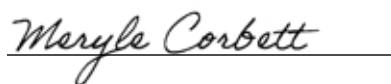
Consolidated Statement of Financial Position
(Expressed in thousands of dollars)

December 31, 2021, with comparative information for 2020

	Notes	2021	2020
Assets			
Cash resources	8	\$ 449,807	\$ 1,386,162
Derivative assets	9	24,314	29,485
Loans to members	10	10,162,372	9,142,749
Investments	11	1,679,920	1,256,068
Assets held-for-sale	32	899	933
Premises and equipment	12	194,533	127,506
Intangible assets	13	23,068	20,636
Deferred tax assets	25	23,630	34,039
Other assets	14	114,163	191,311
		\$ 12,672,706	\$ 12,188,889
Liabilities and Members' Equity			
Deposits from members	15	\$ 10,989,823	\$ 10,537,238
Borrowings	16	586,227	600,670
Derivative liabilities	9	4,907	4,958
Deferred tax liabilities	25	26,605	30,660
Other liabilities	17	168,973	173,034
		11,776,535	11,346,560
Members' equity:			
Equity shares	19	26,137	28,083
Contributed surplus		163,651	163,651
Retained earnings		703,896	637,505
Accumulated other comprehensive income ("AOCI")		2,487	13,090
		896,171	842,329
Commitments and contingencies	27		
		\$ 12,672,706	\$ 12,188,889

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



Director



Director

FIRST WEST CREDIT UNION

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

Year ended December 31, 2021, with comparative information for 2020

	Notes	2021	2020
Interest income:			
Loans		\$ 299,072	\$ 323,637
Cash resources and investments		20,250	18,280
		319,322	341,917
Interest expense:			
Deposits		71,842	128,905
Borrowings		13,659	13,958
Lease liabilities		2,709	2,565
		88,210	145,428
Net interest income	20	231,112	196,489
Provision for credit losses	10	(8,144)	25,416
		239,256	171,073
Fee and commission income	21	82,186	64,126
Other income	22	22,099	56,229
		343,541	291,428
Personnel expenses	23	153,937	138,119
Depreciation and amortization		19,755	15,966
Other expenses	24	86,149	80,084
		259,841	234,169
Profit before income tax expense from continuing operations		83,700	57,259
Income tax expense	25	16,811	8,461
Profit from continuing operations		66,889	48,798
Profit from discontinued operations, net of tax	32	-	12,799
Profit for the year		\$ 66,889	\$ 61,597

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, 2021, with comparative information for 2020

	2021	2020
Profit for the year	\$ 66,889	\$ 61,597
Other comprehensive income, net of income taxes:		
Items that may be reclassified to profit or loss:		
Hedging reserve (cash flow hedges):		
Net unrealized gain (loss), (net of income taxes of \$2,334; (2020 - \$(3,884))	(10,300)	16,247
Fair value reserve:		
Net change in fair value (net of income taxes of \$68 (2020 - nil)	(303)	-
Total other comprehensive income (loss), net of income taxes	(10,603)	16,247
Comprehensive income	\$ 56,286	\$ 77,844

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, 2021, with comparative information for 2020

	Equity shares	AOCI		Contributed surplus	Retained earnings	2021 Total
		Hedging reserve	Fair value reserve			
Balance at December 31, 2020	\$ 28,083	\$ 13,095	\$ (5)	\$ 163,651	\$ 637,505	\$ 842,329
Profit for the year	-	-	-	-	66,889	66,889
Other comprehensive income, net of income taxes:						
Hedging reserve (cash flow hedges):						
Effective portion of changes in fair value	-	(10,300)	-	-	-	(10,300)
Total other comprehensive income	-	(10,300)	-	-	-	(10,300)
Comprehensive income	-	(10,300)	(303)	-	66,889	56,286
Contributions by and distribution to members:						
Dividends, net of related tax savings	-	-	-	-	(498)	(498)
Redemptions of equity shares	(1,946)	-	-	-	-	(1,946)
Total distribution to members	(1,946)	-	-	-	(498)	(2,444)
Balance at December 31, 2021	\$ 26,137	\$ 2,795	\$ (308)	\$ 163,651	\$ 703,896	\$ 896,171

	Equity shares	AOCI		Contributed surplus	Retained earnings	2020 Total
		Hedging reserve	Fair value reserve			
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

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, 2021, with comparative information for 2020

	Notes	2021	2020
Cash provided by (used in):			
Cash flows from operating activities:			
Profit for the year		\$ 66,889	\$ 61,597
Adjustments for:			
Provision for credit losses		(8,144)	25,416
Depreciation and amortization		19,755	15,966
Net interest income		(231,112)	(196,489)
Income tax (recovery) expense		16,811	(4,338)
Gain on sale of asset held-for-sale		(217)	(10,120)
Changes in:			
Derivative assets and liabilities		(7,659)	9,437
Loans to members		(1,012,879)	(29,653)
Other assets		83,913	71,462
Deposits from members		479,885	897,609
Other liabilities		(1,144)	26,976
Interest received		320,494	341,557
Interest paid		(112,826)	(155,144)
Dividends paid		(611)	(858)
Income tax paid		(14,125)	(21,980)
Net cash flows (used in) provided by operating activities		(400,971)	1,031,438
Cash flows from investing activities:			
Acquisition of investments		(424,545)	(89,148)
Proceeds from sale of investments		474	28,824
Proceeds from sale of asset held-for-sale		251	17,313
Acquisition of:			
Premises and equipment, net		(81,063)	(25,723)
Intangible assets, net		(6,438)	(16,189)
Net cash flows used in investing activities		(511,321)	(84,923)
Cash flows from financing activities:			
Proceeds from borrowings		372,938	511,823
Repayment of borrowings		(387,356)	(323,808)
Repayment of lease liabilities		(7,699)	(7,433)
Redemption of equity shares		(1,946)	(1,787)
Net cash flows (used in) provided by financing activities		(24,063)	178,795
Net increase (decrease) in cash resources		(936,355)	1,125,310
Cash resources, beginning of year		1,386,162	260,852
Cash resources, end of year	8	\$ 449,807	\$ 1,386,162

See accompanying notes to consolidated financial statements.

FIRST WEST CREDIT UNION

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars, unless otherwise noted)

Year ended December 31, 2021

1. Reporting entity:

First West Credit Union (the "Credit Union") is domiciled in Canada and its head office is located at 19933 88th 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, 2021 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, leasing services, asset management services, and other intergrated 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 14, 2022.

(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.

FIRST WEST CREDIT UNION

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars, unless otherwise noted)

Year ended December 31, 2021

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 changed. The principal areas involving a higher degree of judgment or complexity and/or areas which require significant estimates are described below:

(a) Expected credit losses on loans to members:

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

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

(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 Canadian 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.

FIRST WEST CREDIT UNION

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars, unless otherwise noted)

Year ended December 31, 2021

3. Use of estimates and judgments (continued):

(c) Fair value of financial instruments:

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

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., and 619547 BC Ltd. All inter-corporate transactions and balances have been eliminated in preparing the consolidated financial statements.

(i) Business combinations:

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

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

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

FIRST WEST CREDIT UNION

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars, unless otherwise noted)

Year ended December 31, 2021

4. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

(i) Business combinations (continued):

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

(ii) Subsidiaries:

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

(b) Foreign currency:

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

(c) Discontinued operation:

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

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

FIRST WEST CREDIT UNION

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars, unless otherwise noted)

Year ended December 31, 2021

4. Significant accounting policies (continued):

(d) Interest:

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

(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.

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4. Significant accounting policies (continued):

(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 as a lessee:

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.

(iii) Recognition and measurement as a lessor:

Leases in which the Credit Union does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. The Leased assets are classified in premises and equipment and are carried at cost less accumulated depreciation, which takes into account their estimated residual value. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Rental income arising from operating leases is accounted for on a straight-line basis over the lease term based on contracts and is included in other income.

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4. Significant accounting policies (continued):

(h) Income taxes:

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

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

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

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

(i) Financial assets and financial liabilities:

(i) Recognition:

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

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

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4. Significant accounting policies (continued):

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

(ii) Classification:

Financial assets:

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

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

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4. Significant accounting policies (continued):

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

(ii) Classification (continued) :

Financial assets (continued):

Business model assessment:

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Credit Union's management;
- the strategy of how the risks that affect the performance model are managed; 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.

Assessment of whether contractual cash flows are SPPI:

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

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

Reclassifications:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing financial assets. There were no changes to any of the Credit Union's business models during 2021 or 2020.

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4. Significant accounting policies (continued):

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

(ii) Classification (continued):

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 (r).

(iii) Derecognition:

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

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

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

(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.

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4. Significant accounting policies (continued):

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

(v) Amortized cost measurement:

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

(vi) Fair value measurement:

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

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

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

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

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

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

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4. Significant accounting policies (continued):

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

(vi) Fair value measurement (continued):

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.

Assessment of significant increase in credit risk:

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

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

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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.

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4. Significant accounting policies (continued):

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

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

Probability of default:

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

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

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

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 impacts on the ECLs 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.

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4. Significant accounting policies (continued):

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

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

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.

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.

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4. Significant accounting policies (continued):

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

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

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.

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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 loans and receivables.

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.

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4. Significant accounting policies (continued):

(n) Assets held-for-sale (continued):

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.

(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	25 to 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, and ICBC licenses. Goodwill and ICBC licenses 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
Computer software	3 to 10 years

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4. Significant accounting policies (continued):

(p) Intangible assets (continued):

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

(q) Impairment of non-financial assets:

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

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

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

(r) Deposits from members and borrowings:

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

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

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

(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.

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4. Significant accounting policies (continued):

(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.

(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.

(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.

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5. New accounting standards and interpretations not yet effective:

Definition of Accounting Estimates (Amendments to IAS 8)

On February 12, 2021, the IASB issued *Definition of Accounting Estimates (Amendments to IAS 8)*.

The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an entity develops an accounting estimate to achieve the objective set out by an accounting policy.

The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted. The Credit Union is currently in the process of evaluating the impact of this standard to the consolidated financial statements.

Other standards

There are a number of standards which are issued but not yet effective as of December 31, 2021, which are not expected to materially impact the Credit Union's consolidated 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.

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Year ended December 31, 2021

6. Financial risk management (continued):

(b) Credit risk (continued):

Management of credit risk:

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

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

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

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

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Notes to Consolidated Financial Statements
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Year ended December 31, 2021

6. Financial risk management (continued):

(b) Credit risk (continued):

Credit quality and credit risk exposure:

The following tables set out information about the credit quality of the Credit Union's loans to members measured at amortized cost, by category of loss allowance at December 31, 2021 and 2020. The amounts in the table represent the carrying amounts of loans to members.

At December 31, 2021	Stage 1	Stage 2	Stage 3	Total
Residential mortgages:				
Credit score > 800 (excellent)	\$ 2,265,910	\$ -	\$ -	\$ 2,265,910
Credit score 710 - 799 (good - very good)	2,064,192	257	56	2,064,505
Credit score 650 - 709 (fair - good)	665,743	16,786	436	682,965
Credit score 600 - 649 (poor)	140,600	85,244	367	226,211
Credit score < 600 (less than satisfactory)	30,216	208,472	875	239,563
Deferred fees	12,426	747	4	13,177
Loss allowance	(1,574)	(3,407)	(103)	(5,084)
	\$ 5,177,513	\$ 308,099	\$ 1,635	\$ 5,487,247
Personal:				
Credit score > 800 (excellent)	\$ 359,591	\$ 5	\$ -	\$ 359,596
Credit score 710 - 799 (good - very good)	253,505	73	22	253,600
Credit score 650 - 709 (fair - good)	77,758	2,775	-	80,533
Credit score 600 - 649 (poor)	12,611	10,886	4	23,501
Credit score < 600 (less than satisfactory)	3,545	21,398	146	25,089
Deferred fees	-	-	-	-
Loss allowance	(2,356)	(6,198)	(134)	(8,688)
	\$ 704,654	\$ 28,939	\$ 38	\$ 733,631
Commercial:				
R1 - R2 (excellent - good)	\$ 283,374	\$ -	\$ -	\$ 283,374
R3 (satisfactory)	3,035,214	1,044	-	3,036,258
R4 - R6 (less than satisfactory)	452,985	97,831	53	550,869
R7 - R8 (Unsatisfactory)	-	58,867	-	58,867
R9 - R10 (credit-impaired)	-	-	10,026	10,026
Deferred fees	(2,917)	(122)	(8)	(3,047)
Loss allowance	(1,975)	(3,207)	(4,452)	(9,634)
	\$ 3,766,681	\$ 154,413	\$ 5,619	\$ 3,926,713

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Year ended December 31, 2021

6. Financial risk management (continued):

(b) Credit risk (continued):

Credit quality and credit risk exposure (continued):

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 701-799 (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 701-799 (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

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6. Financial risk management (continued):

(b) Credit risk (continued):

Credit quality and credit risk exposure (continued):

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

	2021	2020
Exposure recognized on the consolidated statement of financial position:		
Loans and accrued interest	\$ 10,185,778	\$ 9,186,341
Derivatives (net)	24,314	29,485
Term deposits and other securities	1,998,756	2,492,124
Accounts receivable	88,682	166,018
	<u>12,297,530</u>	<u>11,873,968</u>
Exposure not recognized on the consolidated statement of financial position:		
Letters of credit	95,713	74,371
Unadvanced loans and lines of credit	2,230,694	1,955,034
	<u>2,326,407</u>	<u>2,029,405</u>
Maximum exposure	<u>\$ 14,623,937</u>	<u>\$ 13,903,373</u>

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.

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6. Financial risk management (continued):

(b) Credit risk (continued):

Concentrations of credit risk (continued):

Geographic credit risk is mitigated through the Credit Union's diversified geographic service area including the Lower Mainland, Fraser Valley, Thompson-Okanagan, Okanagan-Similkameen, Southern Vancouver Island and North Western British Columbia areas of British Columbia. To reduce any impact of the geographic credit risk the Credit Union has 21% (2020 - 13%) 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 obligations associated with its financial liabilities that are settled by cash or other financial assets with the appropriate duration and cost, as well as the risk of not being able to meet unexpected cash needs.

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. Contingency liquidity is managed by having a plan in place that can be invoked very quickly, as well as having a diversity of funding sources arranged 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 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, 2021 the Credit Union's liquidity exceeds minimum statutory requirements by \$1,084.7 million (2020 - \$1,538.3 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.

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Year ended December 31, 2021

6. Financial risk management (continued):

(d) Market risk (continued):

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

Risk measurement

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

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

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

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

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6. Financial risk management (continued):

(d) Market risk (continued):

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

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

Earnings at risk:

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

Duration of equity:

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

The following table shows the results of these forecast simulations as at December 31, 2021 and 2020:

	Policy limit	2021	Impact	2020	Impact
Earnings at risk	10%	0.83%	\$ 2,046	0.77%	\$ (1,684)
Duration of equity	+/-10%	4.1%		2.9%	-

As at December 31, 2021 and 2020, 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.

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Notes to Consolidated Financial Statements
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Year ended December 31, 2021

6. Financial risk management (continued):

(e) Capital management (continued):

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, 2021 and 2020, the Credit Union has met its minimum regulatory requirements.

Capital Adequacy calculation as defined by the Act:

	2021	2020
Primary capital	\$ 895,095	\$ 827,576
Secondary capital	127,006	123,455
Deductions from capital	(22,894)	(20,463)
Total capital	\$ 999,207	\$ 930,568

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

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

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Notes to Consolidated Financial Statements
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6. Financial risk management (continued):

(e) Capital management (continued):

Stress testing of the capital level is performed at minimum on an annual basis. The tests include a variety of scenarios that vary the growth and income assumptions. They include a test for the current year as well as for the plan period. A sufficient number of scenarios are performed to ensure that sensitivity levels can be reasonably assessed and planned for.

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 British Columbia 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, 2021 and 2020:

2021	FVTPL	Amortized cost	FVOCI-debt instruments	FVOCI-equity instruments	Total
Cash resources	\$ -	\$ 449,807	\$ -	\$ -	\$ 449,807
Derivative assets	24,314	-	-	-	24,314
Loans to members	-	10,162,372	-	-	10,162,372
Other assets	-	88,682	-	-	88,682
Debt investment securities and other	538,942	920,684	3,572	404	1,463,602
Term deposits and other	-	-	-	-	-
Investment in pooled funds	215,619	-	-	-	215,619
Derivative liabilities	4,907	-	-	-	4,907
Deposits from members	-	10,989,823	-	-	10,989,823
Borrowings	-	586,227	-	-	586,227
Other liabilities	-	162,099	-	-	162,099

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7. Financial assets and liabilities (continued):

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	3,500	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
Other liabilities	-	159,881	-	-	159,881

8. Cash resources:

	2021	2020
Cash and current accounts	\$ 130,272	\$ 148,757
Term deposits and accrued interest	319,535	1,237,405
	\$ 449,807	\$ 1,386,162

9. Derivatives:

	Fair value			
	2021		2020	
	Asset	Liability	Asset	Liability
Interest rate swaps used to manage interest rate risk:				
Receive fixed swaps	\$ 4,777	\$ 4,378	\$ 17,928	\$ -
Pay fixed swaps	-	529	-	4,958
Other derivatives:				
Equity linked options	19,537	-	11,557	-
Total fair value	\$ 24,314	\$ 4,907	\$ 29,485	\$ 4,958

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9. Derivatives (continued):

The fair value of derivatives includes net accrued interest receivable (payable) of \$1,150 (2020 -\$923).

	Notional amount			
	Within 1-year	Over 1-year	2021	2020
Interest rate swaps used to manage interest rate risk:				
Receive fixed swaps	\$ -	\$ 600,000	\$ 600,000	\$ 795,000
Pay fixed swaps	-	100,000	100,000	100,000
	-	700,000	700,000	895,000
Other derivatives:				
Equity linked options	84,246	129,229	213,475	240,566
Total notional amount	\$ 84,246	\$ 829,229	\$ 913,475	\$ 1,135,566

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

2021	Expected cash flows	Less than 1-year	1 to 5 years	Greater than 5-years
Assets	\$ 70,886	\$ 13,542	\$ 57,344	\$ -
Liabilities	-	-	-	-
Total cash inflow	\$ 70,886	\$ 13,542	\$ 57,344	\$ -
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	\$ -

During the year, the Credit Union recognized a gain of \$359 (2020 - \$327 loss) for ineffectiveness in cash flow hedges, which is recognized in net interest income.

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10. Loans to members:

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

	2021	2020
Residential mortgages	\$ 5,492,331	\$ 4,909,328
Personal:		
Personal loans	47,743	57,068
Personal lines of credit	694,574	732,513
Commercial:		
Commercial mortgages	3,733,449	3,238,214
Commercial loans	107,912	140,396
Commercial lines of credit	94,987	92,641
Accrued interest	14,782	16,181
	10,185,778	9,186,341
Allowance for expected credit losses	(23,406)	(43,592)
	\$ 10,162,372	\$ 9,142,749

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

2021	Stage 1	Stage 2	Stage 3	Total
Residential mortgages:				
Balance, December 31, 2020	\$ 1,996	\$ 2,283	\$ 520	\$ 4,799
Net remeasurement	1,243	(745)	(224)	274
Originations	662	814	-	1,476
Derecognitions and maturities	(481)	(688)	(109)	(1,278)
Transfers to (from):				
Stage 1	(1,846)	-	-	(1,846)
Stage 2	-	1,753	-	1,753
Stage 3	-	-	93	93
Gross write-offs	-	(10)	(177)	(187)
Balance, December 31, 2021	\$ 1,574	\$ 3,407	\$ 103	\$ 5,084

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10. Loans to members (continued):

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

2021 (continued)	Stage 1	Stage 2	Stage 3	Total
Personal:				
Balance, December 31, 2020	\$ 3,555	\$ 3,738	\$ 103	\$ 7,396
Net remeasurement	3,014	(1,147)	71	1,938
Originations	484	456	31	971
Derecognitions and maturities	(380)	(536)	(20)	(936)
Transfers to (from):				
Stage 1	(4,113)	-	-	(4,113)
Stage 2	-	4,019	-	4,019
Stage 3	-	-	94	94
Gross write-offs	(204)	(332)	(145)	(681)
Balance, December 31, 2021	2,356	6,198	134	8,688
Commercial:				
Balance, December 31, 2020	4,110	3,834	23,453	31,397
Net remeasurement	97	(1,702)	(259)	(1,864)
Originations	764	761	80	1,605
Derecognitions and maturities	(1,255)	(1,319)	(7,756)	(10,330)
Transfers to (from):				
Stage 1	(1,716)	-	-	(1,716)
Stage 2	-	1,639	-	1,639
Stage 3	-	-	77	77
Gross write-offs	(25)	(6)	(11,143)	(11,174)
Balance, December 31, 2021	1,975	3,207	4,452	9,634
Total loans to members:				
Balance, December 31, 2020	9,661	9,855	24,076	43,592
Net remeasurement	4,354	(3,594)	(412)	348
Originations	1,910	2,031	111	4,052
Derecognitions and maturities	(2,116)	(2,543)	(7,885)	(12,544)
Transfers to (from):				
Stage 1	(7,675)	-	-	(7,675)
Stage 2	-	7,411	-	7,411
Stage 3	-	-	264	264
Gross write-offs	(229)	(348)	(11,465)	(12,042)
Balance, December 31, 2021	\$ 5,905	\$ 12,812	\$ 4,689	\$ 23,406

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10. Loans to members (continued):

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

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

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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, 2021. 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, 2021, 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 %)	5.2	4.4
Change in house pricing Index - BC	2.2	6.8
Change in real GDP	4.5	8.7
3-month Bankers' Acceptance Rate (average %)	0.8	2.5
3-month Government of Canada Bond Rate (average %)	0.6	2.2
Change in debt ratio	1.7	4.5

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10. Loans to members (continued):

(c) Forecasting forward-looking information (continued):

The Credit Union forecasts multiple forward looking and macroeconomic scenarios (base, upside and downside) to evaluate their estimated impacts to the ECLs. During 2021 and 2020, 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:

	2021	2020
ECL - Three probability-weighted (actual)	\$ 23,406	\$ 43,592
ECL - Base-case scenario only	23,350	43,489
ECL - Downside scenario only	25,206	45,508
Difference - Actual versus base-case scenario	\$ 56	\$ 103
Difference - Actual versus downside scenario	(1,800)	(1,916)

(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, 2021 was \$5,763 (2020 - \$19,006). 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, 2021, accrued interest of \$2,247 (2020 - \$3,795) has been accrued on the credit-impaired loans but an allowance for ECL of \$2,247 (2020 - \$3,795) has been established to reduce the carrying value of this accrual to its estimated net realizable value.

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11. Investments:

	2021	2020
Central 1 Credit Union shares	\$ 3,752	\$ 45,860
Debt investment securities at amortized cost	920,184	-
Term deposits callable or maturing in three months or more	-	783,762
Leased vehicles net of accumulated amortization of \$599 (2020 - \$803)	699	1,349
Principal and interest reinvestment accounts	535,190	201,812
Investment in pooled funds	215,619	218,783
Other	4,476	4,502
	<u>\$ 1,679,920</u>	<u>\$ 1,256,068</u>

Investments 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 \$218 (2020 - \$309).

(a) Debt investment securities at amortized cost:

As at December 31, 2021, the balances of debt investment securities at amortized cost are net of allowance, which is insignificant. The credit ratings of these securities fall mainly in AA+ and AAA categories as designated by well-known rating agencies (DBRS Morningstar, Standard & Poor's, and Moody's).

	2021	2020
Securities issued or guaranteed by:		
federal governments [1]	\$ 630,773	\$ -
provinces	141,921	-
municipalities	46,466	-
Other debt securities	101,024	-
	<u>\$ 920,184</u>	<u>\$ -</u>

[1] Including mortgage-backed securities that are fully guaranteed by the Canada Mortgage and Housing Corporation pursuant to the National Housing Act.

During the year ended 2021, the Credit Union sold certain debt investment securities measured at amortized cost for liquidity portfolio management purpose within regulatory framework. The carrying value of these securities, consisting of treasury bills and securities issued or guaranteed by government, was \$690,144 upon disposal in 2021 (2020 - nil). The Credit Union recognized a net gain of \$127 from these disposals in 2021.

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12. Premises and equipment:

Premises and equipment comprise owned and leased assets:

	2021	2020
Premises and equipment owned	\$ 144,079	\$ 72,680
Right-of-use assets	50,454	54,826
	\$ 194,533	\$ 127,506

Premises and equipment owned						
2021	Land	Buildings	Leasehold improvements	Other equipment	Total	
Cost:						
Balance, December 31, 2020	\$ 8,279	\$ 48,228	\$ 32,575	\$ 19,096	\$ 108,178	
Acquisitions	12,446	79,895	700	5,816	98,857	
Disposals	-	(17,905)	(871)	(2,459)	(21,235)	
Transferred to held-for-sale	(122)	-	-	-	(122)	
Balance, December 31, 2021	\$ 20,603	\$ 110,218	\$ 32,404	\$ 22,453	\$ 185,678	
Accumulated depreciation and impairment losses:						
Balance, December 31, 2020	\$ -	\$ 8,450	\$ 17,192	\$ 9,855	\$ 35,497	
Disposals	-	(52)	(871)	(2,457)	(3,380)	
Depreciation	-	2,756	3,139	3,587	9,482	
Transferred to held-for-sale	-	-	-	-	-	
Balance, December 31, 2021	\$ -	\$ 11,154	\$ 19,460	\$ 10,985	\$ 41,599	
Carrying amounts:						
Balance, December 31, 2021	\$ 20,603	\$ 99,064	\$ 12,944	\$ 11,468	\$ 144,079	

In October 2021, the Credit Union has entered as a lessor into operating leases with tenants for a portion of space in the head office location. The Credit Union's head office, include a carrying amount of \$12,446 in land, \$64,845 in buildings, and \$152 in other equipment as at December 31, 2021.

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12. Premises and equipment (continued):

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	\$ 32,574	\$ 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
Right-of-use assets					
2021		Buildings	Other equipment	Total	
Balance, December 31, 2020		\$ 54,106	\$ 720	\$ 54,826	
Additions/lease modifications		5,617	(28)	5,589	
Disposals		(3,911)	-	(3,911)	
Depreciation		(5,834)	(216)	(6,050)	
Balance, December 31, 2021		\$ 49,978	\$ 476	\$ 50,454	
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	

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13. Intangible assets:

2021	Goodwill	ICBC licenses	Software	Total
Cost:				
Balance, December 31, 2020	\$ 173	\$ -	\$ 34,295	\$ 34,468
Acquisitions	-	-	7,120	7,120
Disposals	-	-	(7,965)	(7,965)
Balance, December 31, 2021	\$ 173	\$ -	\$ 33,450	\$ 33,623
Accumulated amortization and impairment losses:				
Balance, December 31, 2020	\$ -	\$ -	\$ 13,832	\$ 13,832
Disposals	-	-	(7,282)	(7,282)
Amortization	-	-	4,005	4,005
Balance, December 31, 2021	\$ -	\$ -	\$ 10,555	\$ 10,555
Carrying amounts:				
Balance, December 31, 2021	\$ 173	\$ -	\$ 22,895	\$ 23,068
2020				
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

14. Other assets:

	2021	2020
Accounts receivable	\$ 12,564	\$ 22,367
Financing lease receivables	76,118	143,651
Prepaid expenses	25,481	25,293
	\$ 114,163	\$ 191,311

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15. Deposits from members:

	2021	2020
Demand	\$ 5,297,094	\$ 4,380,913
Term	4,383,518	4,713,083
Registered savings plans	1,279,707	1,386,317
Class A membership shares	5,538	5,659
Accrued interest and dividends	23,966	51,266
	<u>\$ 10,989,823</u>	<u>\$ 10,537,238</u>

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
2021	\$ 5,835,218	\$ 684,429	\$ 3,468,885	\$ 946,365	\$ 54,926	\$ 10,989,823
2020	4,946,461	836,485	3,300,884	1,362,608	90,800	10,537,238

16. Borrowings:

	2021	2020
Revolving facilities	\$ 100,000	\$ 100,000
Obligation under CMB program (note 28)	486,018	500,485
Accrued interest	209	185
	<u>\$ 586,227</u>	<u>\$ 600,670</u>

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16. Borrowings (continued):

The Credit Union has three approved lines of credit totaling \$685 million as at December 31, 2021 and 2020. 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, 2021:

	December 31, 2020	Cash flow changes	Non-cash changes Accrued interest	December 31, 2021
Revolving facilities	\$ 100,161	\$ -	\$ 48	\$ 100,209
Obligations under the CMB Program	500,509	(14,467)	(24)	486,018
	\$ 600,670	\$ (14,467)	\$ 24	\$ 586,227

17. Other liabilities:

	2021	2020
Accounts payable and accrued liabilities	\$ 107,862	\$ 102,901
Lease liabilities (note 18)	54,237	56,980
Deferred revenue	6,874	13,153
	\$ 168,973	\$ 173,034

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18. Lease liabilities:

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

	2021	2020
Maturity analysis:		
Less than one year	\$ 7,362	\$ 7,625
Between one and five years	26,597	27,724
More than five years	39,479	44,401
Total undiscounted lease liabilities	\$ 73,438	\$ 79,750
Lease liabilities included in other liabilities:		
Less than one year	\$ 4,819	\$ 4,699
More than one year	49,418	52,281
Total	\$ 54,237	\$ 56,980

The Credit Union use incremental borrowing rates ranging from 4.12% to 5.11% (2020 - 4.12% to 5.11%) 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:

	2021	2020
Income from sub-leasing right-of-use assets	\$ 1,169	\$ 1,685
Expenses relating to short-term leases	3,117	3,692

During the year ended December 31, 2021, the total cash outflow for leases was \$7,699 (2020 - \$7,433).

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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	
	2021	2020
Class B non-voting investment equity shares	\$ 26,137	\$ 28,083

20. Net interest income:

	2021	2020
Interest income:		
Cash resources and investments	\$ 10,796	\$ 14,055
Financial assets:		
Derivatives, net	9,454	4,225
Loans to members	282,957	312,341
Assets pledged as collateral	16,115	11,296
	319,322	341,917
Interest expense:		
Deposits from members	71,842	128,905
Secured borrowings	12,155	11,243
Wholesale borrowings	1,504	2,715
Lease liabilities	2,709	2,565
	88,210	145,428
Net interest income	\$ 231,112	\$ 196,489

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21. Fee and commission income:

	2021	2020
Insurance commissions and fees	\$ 2,197	\$ 2,594
Account service fees	12,154	11,974
Loan administration fees	32,028	20,023
Fees from fiduciary activities and mutual funds	31,836	25,733
Foreign exchange	3,971	3,802
	\$ 82,186	\$ 64,126

22. Other income:

	2021	2020
Leasing revenue	\$ 6,874	\$ 11,851
Investment revenue	6,573	22,860
Other	8,652	21,518
	\$ 22,099	\$ 56,229

In 2021, the Credit Union recognized a total rental revenue of \$140 for operating leases with tenants in the head office location (see Note 12). The following table shows minimum lease payments receivable from lessees under these non-cancellable operating leases.

	2021
Receivable within 1 year	\$ 2,996
Receivable within 1 to 5 years	12,738
Receivable over 5 years	34,987
	\$ 50,721

23. Personnel expenses:

	2021	2020
Salaries	\$ 123,232	\$ 107,150
Benefits	15,733	15,390
Pension	8,546	9,762
Other	6,426	5,817
	\$ 153,937	\$ 138,119

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24. Other expenses:

	2021	2020
Administration	\$ 49,927	\$ 41,975
Data processing	26,628	25,293
Occupancy	9,594	12,816
	\$ 86,149	\$ 80,084

25. Income taxes:

	2021	2020
Current income tax	\$ 10,457	\$ 9,977
Deferred income tax	6,354	(1,516)
	\$ 16,811	\$ 8,461

Reconciliation of effective tax rate:

	2021	2020
	%	%
Combined federal and provincial statutory tax rate	27.0	27.0
Credit Union preferred rate reduction	(6.8)	(10.1)
Over provided in prior years	(0.3)	-
Other	0.1	(2.1)
	20.0	14.8

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

	2021	2020
Deferred tax assets:		
Allowance for impairment of loans	\$ 3,627	\$ 5,101
Other accrued expenses	12,258	15,746
Other	7,745	13,192
	\$ 23,630	\$ 34,039
Deferred tax liabilities:		
Investments and other	\$ 2,912	\$ 3,596
Premises, equipment, and leases	23,693	27,064
	\$ 26,605	\$ 30,660

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25. Income taxes (continued):

Deferred tax that is expected to reverse to the year 2031 has been measured using the effective rate that will apply for the period. The weighted average applicable tax rate was 18.24% (2020 - 22.53%).

As at December 31, 2021, deferred tax liabilities for temporary differences of \$39,567 (2020 - \$26,901) 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.

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, 2021 (prior period was measured at December 31, 2020). The effective date of the last actuarial valuation report for funding purposes was December 31, 2021 and the effective date of the next required actuarial valuation report will be December 31, 2022.

Statement of profit or loss charge for (note 23)

	2021	2020
Pension benefits:		
Defined contribution and multi-employer plan expense	\$ 8,438	\$ 9,649
Defined benefit plan expense	108	113
	\$ 8,546	\$ 9,762

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

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

The Credit Union is one of several employers that participates in the BC Credit Union Employees' Pension Plan. The Plan is a contributory, multiemployer, 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, 2021, has about 3,500 active employees and approximately 1,400 deferred members and 1,330 retired plan members, with reported assets of approximately \$1,036 million. The assets under this multi-employer plan are pooled amongst the participating employers. The Plan does not track assets separately for each employer. All cash flows (including investment income, expenses and outgoing benefit payments) are applied and tracked at the aggregate Plan level rather than at the individual employer level. Each employer under the Plan shares the actuarial risks associated with the current and former employees of other participating employers.

Under IFRS, an employer is required to account for its participation in a multi-employer plan in respect of the proportionate share of assets, liabilities, and costs, in the same fashion as for any other defined benefit plan except in the circumstances where the information is not available to the employer, as follows:

- The entity does not have sufficient information to enable the employer to use defined benefit accounting
- The Plan exposes the participating employers to actuarial risks associated with the current and former employees of the entities with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to the individual entities participating in the Plan.

At least once every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding levels. The most recent actuarial valuation of the 1.75% Defined Benefit 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 actuarial valuation is scheduled for December 31, 2021 with results expected to be available in September 2022.

The Credit Union paid \$2,159 for employer contributions to the plan in fiscal year 2021 (2020 - \$2,314).

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27. Commitments and contingencies:

(a) Computer service contracts:

The Credit Union has computer service contracts through to 2026 and thereafter.

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

2022	\$	15,739
2023		10,255
2024		7,267
2025		4,201
2026		1,314
Thereafter		-

(b) Legal proceedings:

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

(c) Contingent liability:

As at December 31, 2021 and 2020, the Credit Union has considered contingent liabilities arising from its operations, as well as potential penalties, and determined that no amount need be accrued in respect of such amounts.

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.

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28. Securitizations (continued):

The amount of residential mortgages, including accrued interest, that were transferred but which were not derecognized for the period was \$272,937 (2020 - \$411,823). The credit union also has recognized \$272,937 (2020 - \$411,823) 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% (2020 - 1.19%) and the borrowing matures at the same rate as the underlying mortgages or at maturity of the underlying mortgages. CMB pools are at maturity with bullet payment.

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

Type of loan	Total principal	Principal amount over 60-days past due
Residential mortgages	\$ 485,414	\$ -

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28. Securitizations (continued):

The secured borrowings mature as follows:

Maturity	% Rate	Secured borrowings
May 1 2022	0.58	\$ 766
June 1 2022	0.79	5,555
June 1 2022	0.64	3,062
June 1 2022	0.64	3,587
June 1 2022	0.59	4,938
July 1 2022	0.61	1,774
July 1 2022	2.19	4,747
September 1 2022	1.39	13,166
September 1 2022	1.39	10,138
October 1 2022	2.19	6,187
October 1 2022	1.79	4,668
October 1 2022	0.68	989
October 1 2022	0.68	2,085
November 1 2022	0.71	2,055
December 1 2022	2.19	11,541
December 1 2022	0.88	7,021
December 1 2022	0.35	9,016
January 1 2023	0.70	7,816
February 1 2023	1.39	8,229
March 1 2023	1.39	10,524
March 1 2023	2.55	4,018
April 1 2023	0.20	3,135
June 1 2023	0.21	4,225
June 1 2023	0.26	3,399
August 1 2023	0.92	14,477
September 1 2023	0.94	14,467
October 1 2023	2.55	2,530
October 1 2023	0.96	9,450
October 1 2023	0.86	6,904
November 1 2023	0.37	5,991
December 1 2023	0.43	5,587
December 1 2023	0.40	684
January 1 2024	0.45	1,888
March 1 2024	0.95	4,701
June 1 2024	0.49	7,355
July 1 2024	0.95	2,204
September 1 2024	1.07	3,600
September 1 2024	1.25	6,907
September 1 2024	1.05	9,257
October 1 2024	1.07	9,330
November 1 2024	0.95	10,629
December 1 2024	1.10	13,238
December 1 2024	0.60	3,416
January 1 2025	0.95	5,731
January 1 2025	0.95	13,429
February 1 2025	1.06	10,050
March 1 2025	1.38	13,507
March 1 2025	1.25	16,859
March 1 2025	1.16	13,618
April 1 2025	0.72	4,143
April 1 2025	1.13	14,807
June 1 2025	1.28	8,622
September 1 2025	1.25	23,721
July 1 2026	1.55	96,275
		\$ 486,018

FIRST WEST CREDIT UNION

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars, unless otherwise noted)

Year ended December 31, 2021

29. Interest rate sensitivity:

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

FIRST WEST CREDIT UNION

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars, unless otherwise noted)

Year ended December 31, 2021

29. Interest rate sensitivity (continued):

2021	Within 3-months		4 - 12-months		Over 1-year		Not-interest sensitive	Total
	Principal	%Rate	Principal	%Rate	Principal	%Rate		
Assets:								
Cash resources	\$ 399,440	0.26	\$ -	-	\$ -	-	\$ 50,367	\$ 449,807
Loans	3,117,193	3.34	1,106,114	2.87	5,947,688	2.55	(8,623)	10,162,372
Other	810,683	0.82	310,053	1.58	601,455	1.93	338,337	2,060,528
	4,327,316	2.58	1,416,167	2.58	6,549,143	2.49	380,081	12,672,707
Liabilities:								
Member deposits	2,974,515	0.73	3,203,171	0.87	655,988	1.13	4,156,149	10,989,823
Borrowings and other	146,511	1.17	157,270	1.16	281,633	1.16	201,299	786,713
	3,121,026	0.75	3,360,441	0.88	937,621	1.14	4,357,448	11,776,536
Balance sheet mismatch	1,206,290		(1,944,274)		5,611,522		(3,977,367)	896,171
Derivatives, notional value:								
Asset	100,000	0.51	-	-	500,000	1.89	-	600,000
Liability	(500,000)	0.49	-	-	(100,000)	1.87	-	(600,000)
	(400,000)		-		400,000		-	-
Net mismatch	\$ 806,290		\$ (1,944,274)		\$ 6,011,522		\$ (3,977,367)	\$ 896,171

FIRST WEST CREDIT UNION

Notes to Consolidated Financial Statements

(Expressed in thousands of dollars, unless otherwise noted)

Year ended December 31, 2021

29. Interest rate sensitivity (continued):

	Within 3-months		4 - 12-months		Over 1-year		Not-interest sensitive	Total
	Principal	%Rate	Principal	%Rate	Principal	%Rate		
2020								
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

FIRST WEST CREDIT UNION

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars, unless otherwise noted)

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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.

	2021			2020		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets:						
Cash resources	\$ 449,807	\$ 449,751	\$ (56)	\$ 1,386,162	\$ 1,386,161	\$ (1)
Derivatives	24,314	24,314	-	29,485	29,485	-
Loans	10,162,372	10,121,037	(41,335)	9,142,749	9,195,373	52,624
Investments	1,679,221	1,672,921	(6,300)	1,256,068	1,269,186	13,118
Other	88,682	89,836	1,154	166,018	167,254	1,236
			(46,537)			66,977
Liabilities:						
Deposits	10,989,823	10,997,464	(7,641)	10,537,238	10,553,965	(16,727)
Borrowing	586,227	578,986	7,241	600,670	608,159	(7,489)
Derivatives	4,907	4,907	-	4,958	4,958	-
Other	162,099	162,099	-	159,881	159,881	-
			(400)			(24,216)
Fair value difference	\$		\$ (46,937)			\$ 42,761

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, 2021, the Credit Union held cash and current accounts of \$130,272 (2020 - \$148,757) which is classified within Level 1 of the fair value hierarchy. All other financial instruments are classified within Level 2.

FIRST WEST CREDIT UNION

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars, unless otherwise noted)

Year ended December 31, 2021

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 Treasury and Investments Officer, Chief Member Officer, Chief Transformation Officer, Chief People and Culture Officer, Chief Credit Officer, Chief Risk Officer, Chief Governance and Corporate Affairs Officer, Senior Vice President Strategy and Market Growth, 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, 2021 were loans of \$10,284 (2020 - \$3,920) and deposits of \$3,390 (2020 - \$3,839). No stage 2 or stage 3 allowances for credit losses have been recognized with respect to these loans (2020 - nil).

At December 31, 2021, outstanding loans to directors, officers and employees of the Credit Union amounted to \$326,214 (2020 - \$274,335). 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:

	2021	2020
Salaries and short-term employee benefits	\$ 8,325	\$ 7,360
Post-retirement and termination benefits	463	659
	<u>\$ 8,788</u>	<u>\$ 8,019</u>

The aggregate remuneration earned by directors of the Credit Union during 2021 was \$601 (2020 - \$564).

The Credit Union has included in accounts payable and other expenses a donation of \$1,000 (2020 - \$1,500) to the Credit Union's charitable foundation, First West Foundation ("Foundation"). Certain directors of the Credit Union are directors of the Foundation.

FIRST WEST CREDIT UNION

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars, unless otherwise noted)

Year ended December 31, 2021

31. Related party information (continued):

(c) Subsidiaries and joint operations:

	% ownership of common shares outstanding	
	2021	2020
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

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. Management 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 - i.e. providing banking and investment services to its members.

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

Subsequent to the disposal, the Credit Union is providing transitional services to the 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:

	2021	2020
Revenue	\$ -	\$ -
Expenses	-	-
Results from operating activities	-	-
Income tax (recovery)	-	(12,799)
Results from operating activities, net of tax	-	12,799
Gain on sale of discontinued operations	-	-
Income tax	-	-
Profit from discontinued operations, net of tax	\$ -	\$ 12,799

FIRST WEST CREDIT UNION

Notes to Consolidated Financial Statements
(Expressed in thousands of dollars, unless otherwise noted)

Year ended December 31, 2021

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

(b) Assets held-for-sale:

	2021	2020
Premises and equipment	\$ 899	\$ 933
Assets held-for-sale	\$ 899	\$ 933

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 sold these buildings and land in 2021. During 2021, the Credit closed one branch and is committed to sell this building and land. As a result, the building and land were presented as asset held-for-sale with a carrying value of \$899 as at December 31, 2021.

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.

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 appoints 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 2021

- > First West received its first Environmental, Social and Governance (ESG) Risk Rating
- > First West members passed two special resolutions:
 1. authorizing First West to apply to become a federal credit union; and
 2. approval to adopt new Bylaws upon federal continuance
- > First West submitted its application to continue as a federal credit union to the provincial regulator, the BC Financial Services Authority (BCFSA)
- > Annual General Meeting held in studio with members and guests attending via an online platform
- > Two incumbent directors and three new directors were elected by acclamation to the First West Board
- > Director Wayne Becker retired from the First West Board
- > Director Riyaz Devji completed his service on the First West Board
- > The Board approved engaging external expertise to assist in its director recruitment

In August 2021, First West received its first comprehensive ESG rating from a leading independent ESG and corporate governance firm. Research shows that companies that adhere to ESG principles are lower risk and more resilient over time. Months of reporting and interviewing took place across First West to ensure that the credit union received an accurate rating. Ultimately, First West received a rating of *18.6 low risk* of experiencing material financial impacts caused by ESG factors. This rating places First West, globally, in the twelfth percentile in the banking industry and third percentile in the regional banking subindustry. For additional information and details on ESG and First West's ESG rating, see "Strengthening Our Commitment to Sustainability" in the Business Profile and Organizational Overview section of the annual report.

In November 2021, eligible First West members approved special resolutions to authorize First West to apply to become a federal credit union and adopt new Bylaws upon federal continuance. In total, 26,235 votes were cast on the special resolution to authorize First West to apply to become a federal credit union and 25,908 votes were cast on the special resolution to adopt new Bylaws upon federal continuance. Of the members who voted, 84.2% voted in favour of First West applying to become a federal credit union and 84.1% voted in favour of First West adopting the new Bylaws upon federal continuance.

In December 2021, First West submitted its application to continue as a federal credit union to BCFSA. First West requires BCFSA's consent before submitting the application to The Office of the Superintendent of Financial Institutions.

To address the challenges presented by the COVID-19 pandemic, the Board continued with a flexible approach, holding Board and Committee meetings remotely in January 2021 when health authorities advised against large gatherings. When health orders eased, the Board and its Committees returned to in-person meetings for its regularly scheduled meetings in April, July and October. Throughout 2021, Management provided specific updates regarding the COVID-19 pandemic at Board and Committee meetings to ensure that the directors received necessary information relating to the COVID-19 pandemic.

In light of concerns relating to the COVID-19 pandemic, the 2021 AGM was hosted in studio with members and guests attending via an online platform.

The terms of four directors expired at the conclusion of the 2021 AGM. In addition, there was a vacancy owing to past Director Renee Merrifield resigning from her seat on First West's Board of Directors in November of 2020 to assume political office. The Board had previously agreed to keep the seat vacant until the 2021 directors' election, when it would be filled as a two-year term (this being the period remaining on Renee Merrifield's term). Five new candidates submitted nomination forms and chose to withdraw their nominations after the endorsement meeting. Following the nomination period and endorsement meeting, five candidates were endorsed—incumbents David Letkemann and Darryl Kropp, and new Directors Deborah Buszard, Archie Campbell and Balraj Mann—and were declared elected by acclamation. Director Darryl Kropp was elected for the two-year term (the period remaining with respect to Renee Merrifield's seat).

After 15 years of service, Director Wayne Becker retired from the First West Board at the conclusion of the AGM. The term for Director Riyaz Devji also expired at the conclusion of the AGM.

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-caliber director candidates.

BOARD STRUCTURE AND DIRECTORS

First West'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's 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 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.

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 2021 is included 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 Unions¹, 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

As part of the federal continuance process and the submission to BCFSa of its application to continue as a federal credit union, First West has also evaluated its governance practices against the OSFI Corporate Governance Guideline. First West will continue to enhance its governance practices as a provincial credit union and as it works to become federally regulated.

MEMBER INVOLVEMENT

By participating in the democratic process, members shape and direct First West's future. The Board encourages members to attend First West's 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.

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. An independent panel of members will again be put together in 2022 to provide input and advice on the Board's compensation.

¹ <https://www.bcfsa.ca/media/91/download>

In 2021, director compensation included 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.

In December 2021, on the recommendation of the Governance and Nominations Committee and pursuant to the Board's Director Compensation and Expense Policy, the Board approved a one-time payment of \$25,000 to the Board Chair in recognition of the extraordinary services provided. These services were related to engagement with members, employees and external stakeholders before and during the member vote, and the preparation and submission of First West's application to continue as a federal credit union.

Total Board compensation for 2021 was \$580,889.51, which includes \$15,400.00 for travel fees and \$13,777.34 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, 2021

> 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

Reporting attendance is 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.

In addition to director attendance, First West believes effective directorship should be measured by directors being thoroughly prepared to be engaged in meetings and to make sustained, positive contributions to the credit union's success.

Consequently, 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.

APPENDIX 1

2021 DIRECTORS

Shawn Neumann
(Chair)

Wayne Becker

Deborah Buszard

Archie Campbell

Paul Challinor

Meryle Corbett

Riyaz Devji

Jeff Dyck

Richard Hill

Darryl Kropp

David Letkemann
(Vice-Chair)

Balraj Mann

Cathy McIntyre

Ken Voth

CURRENT TERM EXPIRES	2023	2021	2024	2024	2022	2022	2021	2023	2022	2023	2024	2024	2023	2022
DIRECTOR SINCE	1998	2006	2021	2021	2019	2019	2018	2017	2006	2018	2006	2021	2017	1980

MEETING ATTENDANCE

Board	10/10	4/4	6/6	4/6	10/10	9/10	4/4	10/10	10/10	10/10	10/10	6/6	10/10	9/10
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COMMITTEES JAN. 1 – MAY 12, 2021 (UP TO AGM)

Audit and Conduct Review		3/3				3/3 Chair		3/3	3/3				3/3	
Governance and Nominations	3/3				3/3		3/3		3/3		3/3 Chair		3/3	
Government Relations and Partnership	2/2					1/1					2/2			1/2 Chair
Human Resources	3/3							3/3					3/3 Chair	
Nominations Task Force	5/5	3/3								3/3	2/3		5/5 Chair	
Risk, Investment and Loan						2/2	2/2		5/5					2/2 Chair

COMMITTEES MAY 12 (POST AGM) – DEC 31, 2021

Audit and Conduct Review			4/4	4/4	4/4	4/4 Chair		4/4			4/4		4/4	
Governance and Nominations	3/4		4/4					4/4		4/4	3/4 Chair			4/4
Government Relations and Partnership	1/1					2/2			1/1		1/1			1/1 Chair
Human Resources	2/2		2/2					2/2		2/2		2/2	2/2 Chair	
Nominations Task Force			1/1							11 Chair				1/1
Risk, Investment and Loan				2/3	3/3 Chair	3/3			3/3	3/3		3/3		3/3

REMUNERATION AND EXPENSES

Total Honorarium	102,200	14,136	24,632	24,632	44,863	49,100	14,136	38,600	38,600	39,475	43,850	24,632	46,038	46,820
Total Travel fees	1,500	-	1,000	-	500	500	-	500	1,500	500	500	500	1,500	500
Total Expenses	2,590	-	3,534	1,202	436	869	-	409	1,306	586	394	-	2,450	-

EDUCATION

	Shawn Neumann (Chair)	Wayne Becker	Deborah Buszard	Archie Campbell	Paul Challinor	Meryle Corbett	Riyaz Devji	Jeff Dyck	Richard Hill	Darryl Kropp	David Letkemann (Vice-Chair)	Balraj Mann	Cathy McIntyre	Ken Voth
Fitch Training	✓	✓			✓	✓	✓	✓	✓	✓	✓		✓	✓
Board oversight on Cyber Security Risk	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Enterprise Risk Training	✓		✓											
ICD.D								✓						

2021 Remuneration and Expenses paid to Nominations Task Force members at-large:

Joy Playford, Gloria Daly, Renee Merrifield and Ender Ilkay

Meeting + travel fees: \$6,400

Expenses: \$0