

GULF AND FRASER FISHERMEN'S CREDIT UNION
2015 ANNUAL REPORT

Management Discussion and Analysis Report



Gulf and Fraser Fishermen's Credit Union
2015 ANNUAL REPORT

Management Discussion and Analysis Report

Introduction

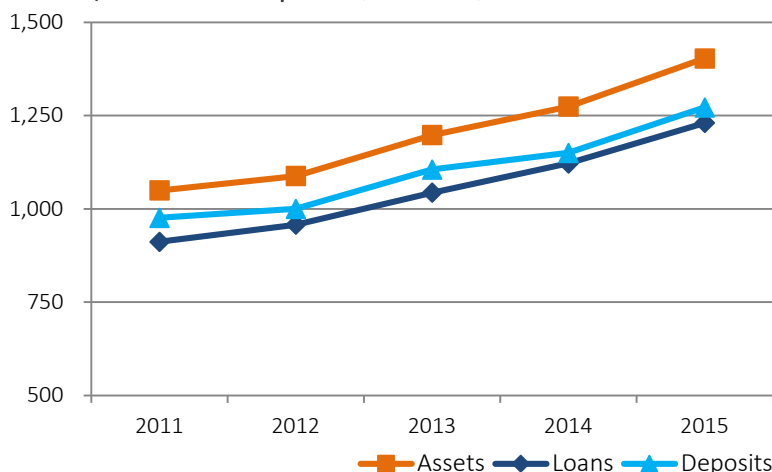
Gulf and Fraser Fishermen's Credit Union, operating as G&F Financial Group ("G&F" or "the credit union") is a BC based credit union serving members in the Lower Mainland offering a full range of products and services including personal and business banking, wealth management and commercial lending solutions. G&F serves over 29 thousand members and administers over \$1.6 billion in assets under administration through a network of 13 branches, a locally based Member Hub, online, mobile, and telephone banking channels as well as a mobile team of experts who meet with members at their convenience.

This Management Discussion and Analysis provides an overview of the credit union's financial and operating performance. It is intended to complement our audited consolidated financial statements and should be read in conjunction with those financial statements. The discussion may contain forward looking statements concerning G&F's activities and strategies. Readers are cautioned that such statements may involve risk and uncertainties with respect to the economic, legislative, regulatory and competitive environments, which could cause actual results to differ from the forward-looking statements in this report.

Highlights

G&F achieved exceptional growth in several key areas in 2015 despite heightened competition, a challenging low interest rate environment and continued volatility in equity markets. Membership reached 29,247 as we welcomed 1,439 net new members into our network, and assets increased by a record \$129 million, or 10.1%. Loan and deposit growth for the year also hit record highs of \$108 million, or 9.7%, and \$122 million, or 10.6%, respectively. In addition, wealth management assets under management grew by a notable \$19 million, or 11.9%.

Assets, Loans and Deposits (in \$millions)



Earnings from operations for 2015 were \$3.7 million, an increase of 11.4% over 2014, as a result of improved net interest income and member services income. This was offset by a higher provision for impaired loans and higher operating expenses as a result of expanding our branch network and investing in technology initiatives. Although expenses did increase on an absolute dollar basis, as a percentage of assets our operating expenses decreased from 2.29% to 2.12% as efficiency improved through growth and economies of scale.

Total comprehensive income for 2015 was \$5.8 million compared to \$3.0 million in 2014. During 2015, the Hastings branch premises was sold resulting in a gain on sale of \$3.3 million. In recognition of our strong performance, G&F donated \$1 million to the G&F Financial Group Foundation to commemorate our 75th anniversary and the Board of Directors approved a dividend return of 4% on member equity shares. G&F remains very well capitalized with a capital adequacy ratio exceeding 15% at the end of 2015, well above the 8% regulatory requirement.

2015 Financial Performance

TOTAL ASSETS

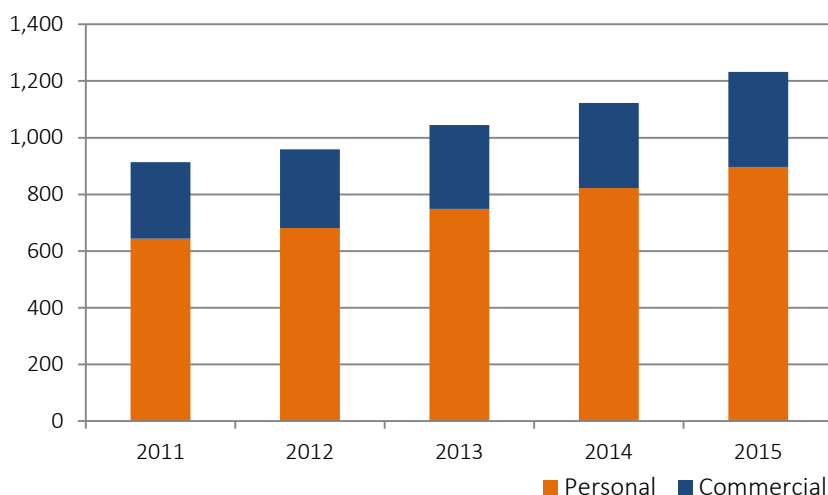
Total assets grew by \$129.1 million, or 10.1%, due to growth in both our loan and deposit portfolios. Assets now total \$1.40 billion versus \$1.27 billion in 2014. As deposit growth outpaced loan growth, cash and financial investments grew by \$22.8 million totaling \$161 million at the end of 2015. Our liquidity position ended the year at 11.9%, which was in compliance with the statutory requirement of 8%. We also saw our membership grow by over 5% and now have 29,247 members connecting and doing business with G&F.

LOANS

Loans to members grew by \$108.4 million or 9.7% reaching \$1.23 billion at the end of 2015 versus \$1.12 billion at the end of 2014. This loan growth was fueled by a persistent low interest rate environment and a buoyant real estate market, particularly in the Lower Mainland.

The residential mortgages and personal loans portfolio increased by \$74.7 million (9.1%) totaling \$897 million at the end of 2015. The commercial lending portfolio, which equates to 27% of our total loan portfolio, grew by \$33.8 million (11.2%) totaling \$335 million at the end of 2015. G&F's Investment and Lending Policy has established a limit on the commercial lending portfolio (funded and unfunded) of 35% of the credit union's asset base with which the credit union was in compliance.

Loans (in \$millions)

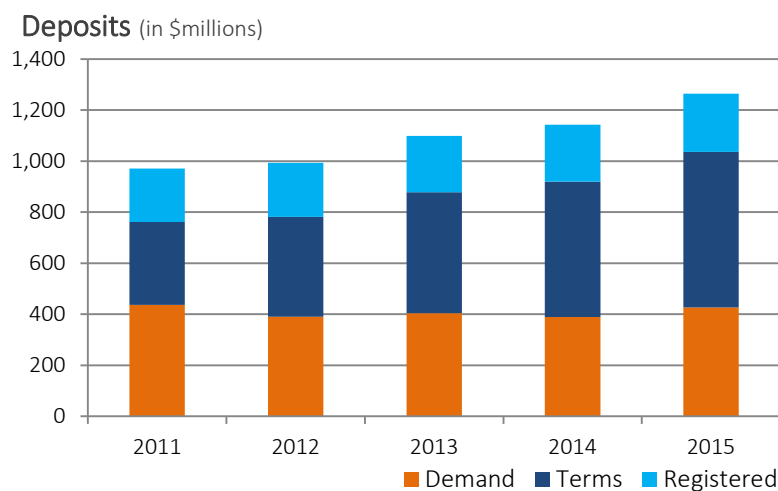


ALLOWANCE FOR IMPAIRED LOANS

The allowance for impaired loans decreased by \$0.5 million to \$3.4 million at the end of 2015 from \$3.9 million at the end of 2014. The reduction in the allowance for impaired loans during the year is a result of loans written off (net of recoveries) of \$1.8 million offset by a provision for impaired loans of \$1.3 million. The allowance for impaired loans allocated to the residential mortgage and personal loans portfolio is \$0.7 million or 22% while the allowance for impaired loans allocated to the commercial portfolio is \$2.7 million or 78%.

DEPOSITS

Member deposits increased by \$121.7 million or 10.6% totaling \$1.27 billion at the end of 2015 versus \$1.15 billion at the end of 2014. Demand deposits grew by \$38.1 million, term deposits grew by \$78.7 million and registered deposits (i.e., RRSP, RRIF, RESP and TFSA) grew by \$4.1 million during the year. With a low interest rate environment, TFSAs increased by \$9.2 million as members sought out higher tax-free returns on deposits and took advantage of the annual contribution limit rising from \$5,500 to \$10,000 in 2015. For 2016, the TFSA annual contribution limit rolled back to \$5,500.



BORROWING

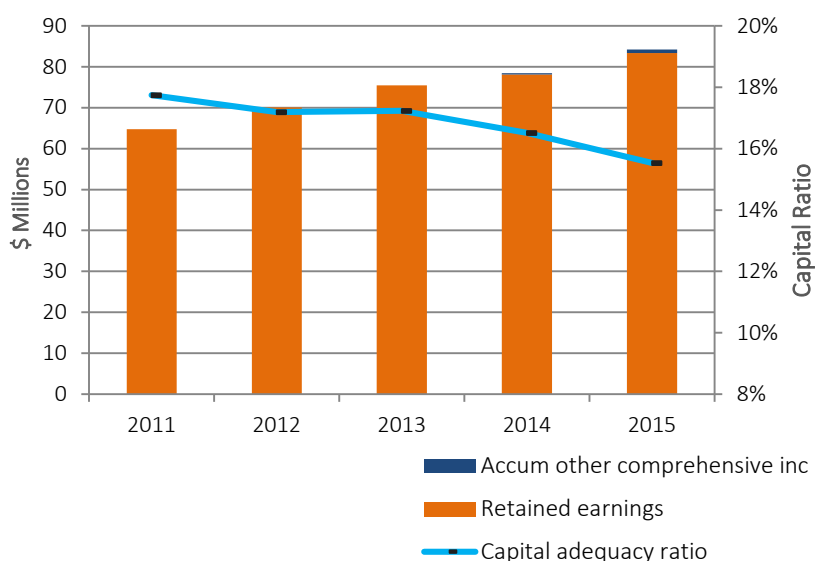
G&F maintains an available operating line and term facility with Central 1 of \$57.5 million that was not utilized in 2015. In addition, as part of the credit union's program of liquidity, capital, and interest rate risk management, G&F securitizes residential mortgages thereby entering into a secured borrowing arrangement with Central 1. The outstanding secured borrowing with Central 1 was \$37.5 million at the end of 2015, down from \$38.8 million at the end of 2014.

MEMBERS' EQUITY

G&F achieved net income of \$5.2 million and a net unrealized gain from cash flow hedges (net of tax) of \$549 thousand in 2015 resulting in total comprehensive income of \$5.8 million – a return on members' equity of 7.4%. Consequently, members' equity at the end of 2015 rose to \$83 million with a capital adequacy of 15.5%, well exceeding the regulatory requirement of 8% and the supervisory target of 10%.

Pursuant to G&F's strategic plan, the credit union has been deploying and optimizing its excess capital by growing the credit union and investing in the expansion and redistribution of the branch network, technology initiatives, staff training and business analytics to provide an overall better experience for members.

Members' Equity and Capital Ratio



NET INTEREST INCOME

A tightening of financial margin continued to impact G&F and the financial services sector as a whole in 2015 with a deteriorating economy led by falling oil prices and elevated competition for market share. In an attempt to jump start the economy, the Bank of Canada dropped its overnight target rate twice by 0.25% during the year ending at 0.50%. Accordingly G&F, along with most other financial institutions, lowered its' prime rate from 3.00% at the end of 2014 to 2.70% at the end of 2015.

With the compression in financial margin combined with loan rates at historical lows in the market, G&F's net interest income as a percentage of assets decreased from 2.08% in 2014 to 1.93% in 2015. However, on an absolute dollar basis, the credit union's net interest income (the difference between interest earned on loans and investments and interest paid on deposits and borrowings) increased by \$782 thousand, or 3.1% to \$26.1 million due to a larger asset base.

OTHER INCOME

Other income includes member services income (such as loan fees and penalties, demand account fees, wealth management income and foreign exchange income), hedge ineffectiveness on cash flow hedges, other income earned by Gulf & Fraser Insurance Services Ltd. (a wholly owned subsidiary of the credit union providing life insurance products and services) and provision for impaired loans. Other income totaled \$6.2 million in 2015, an increase of \$355 thousand or 6.0% over 2014 mainly due to higher loan fees and penalties offset by a higher provision for impaired loans.

OPERATING EXPENSES

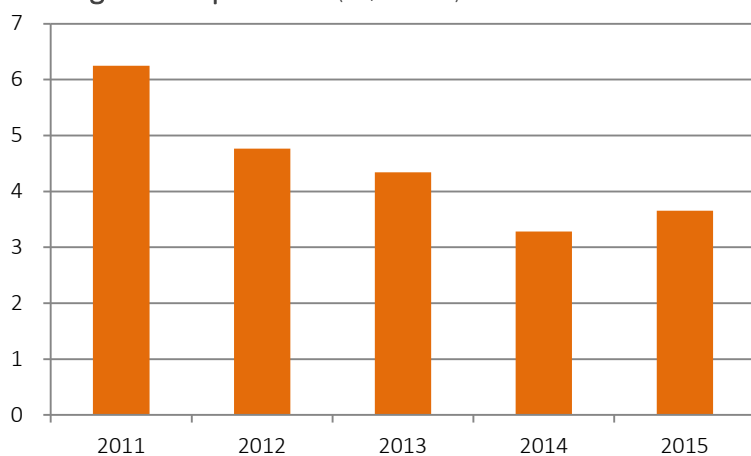
Operating expenses increased by \$762 thousand or 2.7% to \$28.6 million in 2015 mainly in the area of salary and employee benefits reflecting general increases to wages and the staffing costs associated with operating the new Willoughby and West Broadway branches (opened during 2014) for the entire year in 2015.

Notwithstanding, the operating expenses as a percentage of assets decreases from 2.29% in 2014 to 2.12% in 2015 as the credit union benefited from asset growth and related economies of scale.

EARNINGS FROM OPERATIONS

Earnings from operations were \$3.7 million in 2015, up \$384 thousand or 11.7% compared to 2014. Over the last five years, the financial services sector has contended with shrinking margins while at the same time G&F has been executing on its strategic plan of deploying its excess capital back into the credit union operations and making investments to improve the sales and service delivery to its members. In particular, G&F opened a new West Richmond Branch and a new North Burnaby Branch in 2012 along with the Member Hub. Furthermore in 2014, two new branches were opened, the Willoughby branch in Langley and the West Broadway branch in Vancouver. With the initial start-up costs, these branches will take time to generate a positive return; however, they have immediately begun to contribute by servicing existing members, attracting new members and growing the overall loans, deposits and assets of the credit union.

Earnings from Operations (in \$millions)



G&F has a long history of sharing our profits with the local communities in which we live and serve in the form of donations, sponsorships, educational bursaries, and scholarships. Total distributions from both the credit union and G&F Financial Group Foundation were \$395,081, or 10.8% of earnings from operations in 2015.

TOTAL COMPREHENSIVE INCOME

The total comprehensive income for 2015 was \$5.8 million which included a gain on sale of the Hastings branch premises of \$3.3 million, a donation to the G&F Financial Group Foundation of \$1 million to commemorate the credit union's 75th Anniversary, a 4% return on members' equity shares approved by the Board of Directors of \$110 thousand, a provision for income taxes of \$662 thousand and a net unrealized gain from cash flow hedges (net of tax) of \$549 thousand.

FUNDS UNDER ADMINISTRATION

Funds under administration by G&F comprise of commercial loans that are administered by the credit union and syndicated with other financial institutions due to the loan amount being above the credit union's single member cap or above the credit union's risk tolerance to fund on its own. The syndicated loan balance ended 2015 at \$26.4 million, an increase of \$25.7 million for the year.

Also included in funds under administration are investments and mutual fund accounts that are managed by our wealth management specialists on behalf of members. This portfolio (at market value) grew by \$19.1 million or 11.9% in 2015 to end the year at \$180 million.

Risk Management

As a financial institution, G&F is subject to a variety of risks that are inherent to the business. The credit union's principal risks are credit risk, liquidity risk and market risk as a result of the nature of our business of holding financial instruments as identified in Note 20 of the audited consolidated financial statements. In addition, the credit union is exposed to strategic, operational, legal, regulatory and reputational risks, for which planning, policies and procedures, controls and monitoring are in place. The Board of Directors has overall responsibility for the establishment and oversight of the credit union's strategic direction, risk management framework and risk appetite. The executive management team is responsible for implementing strategies and policies approved by the board and for developing processes that identify, measure, monitor and mitigate risks. The credit union also has internal and external audit functions which are independent of management and report to the Audit Committee.

2016 Outlook

Global growth concerns have led to sharp declines in commodity prices and a lower currency, which has dampened expectations for the Canadian economy in 2016. Despite national weakness, BC is expected to outperform the rest of the country with steady expansion lifted by household demand, housing investment and increased export activity in tourism, services and non-resource goods. Historical low mortgage rates will continue as it is anticipated the Bank of Canada will keep rates on hold. Metro Vancouver home prices have been in the spotlight with surging detached home prices. This trend is showing few signs of stopping given a severe shortage of inventory and rising demand. Continuation of low interest rates and modest regional economic and employment growth will drive elevated sales and further price momentum in Metro Vancouver through 2016.

With this backdrop, the credit union is expecting to increase its total assets under administration with another year of solid loan, deposit and wealth management growth. A new boutique branch situated in the Brentwood area in Burnaby has been secured with a 2016 mid-year target opening date which will augment growth and add new members. Further general erosion in net interest income occurring in the financial services industry will be offset by the credit union finding efficiencies through scale and collaborative opportunities with other like-minded organizations. G&F's business plan for 2016 focuses on five strategic areas – Service Excellence, People and Culture, Grow the Business, Financial Strength and Community Investment.

GULF AND FRASER FISHERMEN'S CREDIT UNION

Five-Year Overview – Financial Highlights

(Expressed in thousands of dollars)

Consolidated Statement of Financial Position (unaudited)

	2015	2014	2013	2012	2011
ASSETS					
Cash and investments	\$161,000	\$138,179	\$142,032	\$111,484	\$120,667
Loans	1,230,167	1,121,748	1,043,286	957,405	911,815
Premises, equipment, intangible assets, properties	7,516	9,365	8,064	9,062	6,712
Other assets	4,386	4,656	4,188	10,067	9,962
	\$1,403,069	\$1,273,948	\$1,197,570	\$1,088,018	\$1,049,156
LIABILITIES AND MEMBERS' EQUITY					
Deposits	\$1,271,819	\$1,150,106	\$1,105,640	\$999,976	\$976,154
Members' shares	3,547	3,593	3,682	3,734	3,818
Borrowings	37,459	38,755	9,975	10,850	1,196
Other liabilities	5,991	3,021	2,839	3,420	3,201
	1,318,816	1,195,475	1,122,136	1,017,979	984,369
Members' equity					
Accumulated other comprehensive income	867	318	0	0	0
Retained earnings	83,386	78,155	75,434	70,039	64,787
	\$1,403,069	\$1,273,948	\$1,197,570	\$1,088,018	\$1,049,156

Consolidated Statement of Comprehensive Income (unaudited)

	2015	2014	2013	2012	2011
Interest income	\$43,265	\$41,940	\$40,310	\$40,134	\$39,807
Interest expense	17,204	16,661	15,560	14,780	15,357
Net Interest Income	26,061	25,279	24,750	25,354	24,450
Other income	6,232	5,877	5,452	5,585	6,338
Operating margin	32,293	31,156	30,202	30,939	30,788
Operating expenses	28,638	27,876	25,863	26,172	24,541
Earnings from operations	3,655	3,280	4,339	4,767	6,247
Gain on sale of premises	3,348	0	2,372	0	0
Gain on sale of general insurance business	0	0	0	1,454	0
Loss on sale of assets held-for-sale	0	0	(84)	0	0
Donations to G&F Financial Group Foundation	(1,000)	0	0	0	0
Distributions to members	(110)	(109)	(113)	(112)	(114)
Income before income taxes	5,893	3,171	6,514	6,109	6,133
Provision for income taxes	662	450	941	720	1,293
Net income from continuing operations	5,231	2,721	5,573	5,389	4,840
Net loss from assets held-for-sale	0	0	(178)	(137)	(305)
Net income	5,231	2,721	5,395	5,252	4,535
Net unrealized gain from cash flow hedges (net of tax)	549	318	0	0	0
Total comprehensive income	\$5,780	\$3,039	\$5,395	\$5,252	\$4,535

Financial Statistics (unaudited)

Asset growth	10.1%	6.4%	10.1%	3.7%	6.1%
Loan growth	9.7%	7.5%	9.0%	5.0%	7.8%
Deposit growth	10.6%	4.0%	10.6%	2.4%	6.1%
Operating efficiency	85.20%	87.92%	84.24%	83.78%	79.05%

Percent of average assets (unaudited)

Net interest income	1.93%	2.08%	2.20%	2.39%	2.41%
Other income	0.56%	0.53%	0.53%	0.55%	0.65%
Operating expenses	2.12%	2.29%	2.29%	2.46%	2.41%
Earnings from operations	0.27%	0.27%	0.38%	0.45%	0.61%
Net income	0.39%	0.22%	0.48%	0.49%	0.45%

Other statistics (unaudited)

Retail branches	13	13	12	12	12
Membership	29,247	27,808	26,675	26,358	26,343
Investment portfolios and mutual funds, at market value	\$179,697	\$160,616	\$132,310	\$96,092	\$92,158
Syndicated loans	\$26,446	\$748	\$1,897	\$1,079	\$1,903
Assets under administration	\$1,609,212	\$1,435,312	\$1,331,777	\$1,185,189	\$1,143,217