



G&F
FINANCIAL
GROUP

life beyond banking

Management Discussion and Analysis Report

Gulf & Fraser Fishermen's Credit Union
Year ended December 31, 2019

Management Discussion and Analysis Report

Introduction

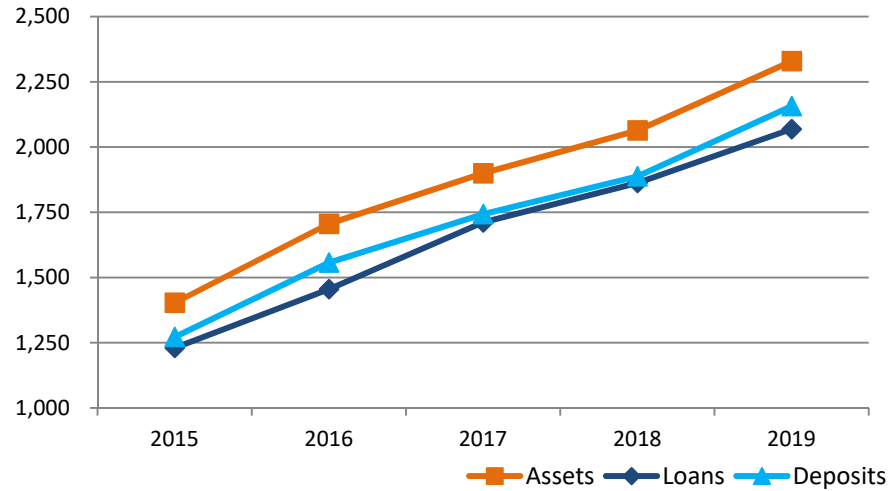
Gulf and Fraser Fishermen's Credit Union, operating as G&F Financial Group ("G&F" or "the credit union") is a BC based credit union serving members in the Lower Mainland for 79 years offering a full range of products and services including personal and business banking, wealth management and retail and commercial lending solutions. G&F serves over 34 thousand members and administers over \$2.71 billion in assets under administration through a network of 16 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 and outstanding financial performance in 2019. Assets increased by \$266 million or 12.9%, while our membership reached 34,202 as we welcomed 1,814 net new members into our network. Loans increased by \$206 million or 11.1%, while deposits grew by \$269 million or 14.3%. In addition, wealth management assets under administration grew by \$33.4 million, or 14.9%. To support the ongoing growth of our credit union, we purchased four floors at the Kings Crossing development at Kingsway and Edmonds for the construction of our new corporate office (named the "G&F Hub") and our new Edmonds branch which we anticipate moving in summer 2020.

Assets, Loans and Deposits (in \$millions)



G&F experienced record earnings from operations in 2019 of \$14.4 million, an increase of 12.4% over 2018 as a result of improved operating margin (net interest income and other income) due to the growth in our loan, deposit and wealth management portfolios. While operating expenses increased on an absolute dollar basis by 2.9% year over year, it decreased as a percentage of assets from 1.74% to 1.61% as the credit union continued to realize efficiencies through engaging in collaborative opportunities, growth and economies of scale. Furthermore, the operating efficiency improved from 71.85% in 2018 to 70.29% in 2019.

Total comprehensive income for 2019 was \$12.1 million resulting in an 11.0% growth in members' equity. G&F was proud to be able to share this success with the local communities we serve by distributing \$580 thousand through the credit union and the G&F Financial Group Foundation. The Board of Directors approved a dividend return of 4.25% on member equity shares and 5.25% on investment equity shares. G&F remains well capitalized with a capital adequacy ratio of 13.93% at the end of 2019, well above the 8% regulatory requirement.

2019 Financial Performance

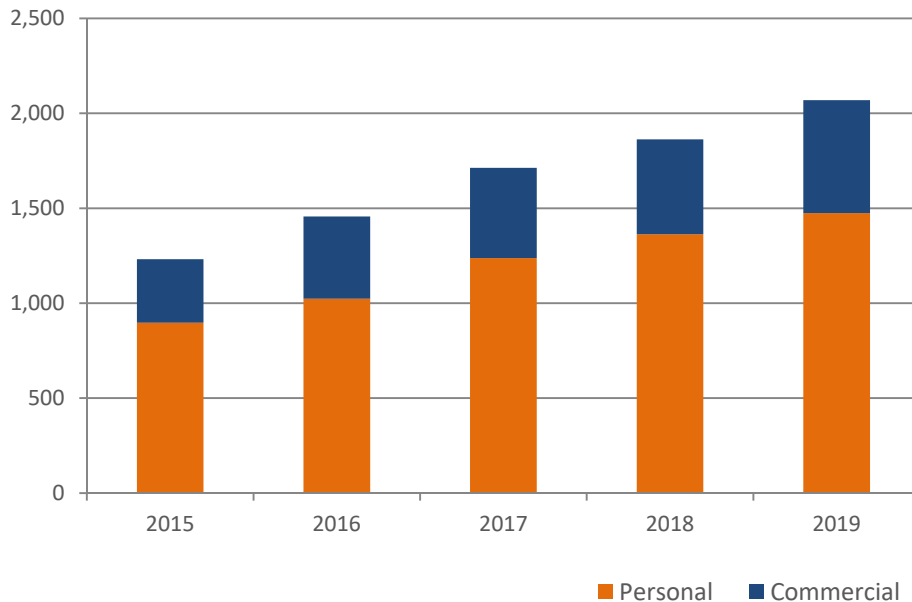
Total assets grew by \$266 million, or 12.9%, due to growth in both our loan and deposit portfolios. Assets now total \$2.33 billion versus \$2.06 billion in 2018. Our liquidity position ended the year at 9.5%, which was above the statutory requirement of 8%. We also saw our membership grow by 5.6% and now have 34,202 members connecting and doing business with G&F.

LOANS

Loans to members grew by \$206 million, or 11.1%, reaching \$2.07 billion at the end of 2019 versus \$1.86 billion at the end of 2018. The loan growth was supported by an inverted yield curve and a more active real estate market in the Lower Mainland, particularly for condos and townhomes during the second half of 2019.

The residential mortgages and personal loans portfolio increased by \$112 million (8.2%) totaling \$1.47 billion at the end of 2019. The commercial lending portfolio, which equates to 29% of our total loan portfolio, grew by \$94 million (18.9%) totaling \$594 million at the end of 2019 as G&F utilized available excess capital to grow the commercial business. 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 CREDIT LOSSES

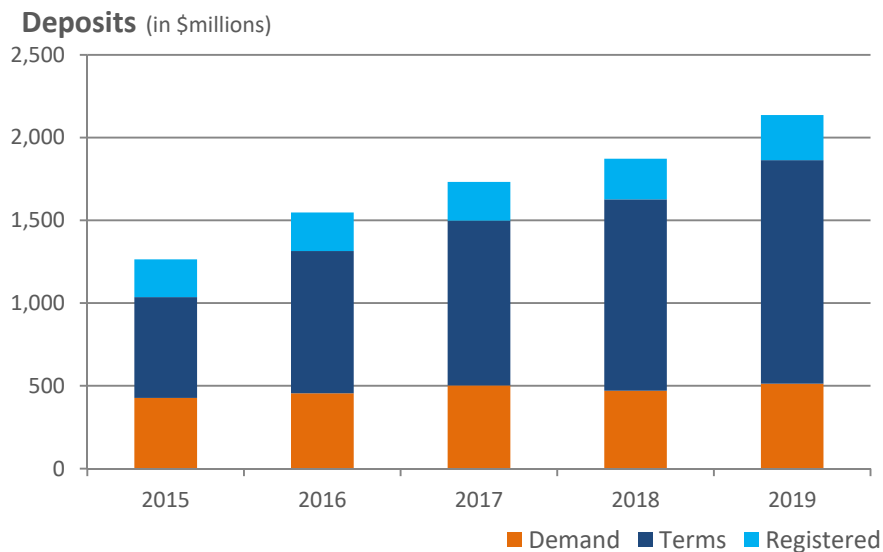
The allowance for credit losses increased by \$548 thousand to \$4.8 million at the end of 2019 from \$4.2 million at the end of 2018. The increase in the allowance for credit losses during the year included a provision for credit losses of \$597 thousand reflecting a larger loan portfolio, offset by loans written off (net of recoveries) of \$49 thousand. The allowance for credit losses allocated to the residential mortgages and personal loans portfolio was \$1.4 million or 29.4% while the allowance for credit losses allocated to the commercial portfolio was \$3.4 million or 70.6%.

PREMISES AND EQUIPMENT

Premises and equipment increased by \$28.7 million to \$36.1 million at the end of 2019 from \$7.4 million at the end of 2018. This increase reflects the purchase of the new G&F Hub and new Edmonds branch along with the transition to new International Financial Reporting Standards (IFRS) 16 for leases effective January 1, 2019. The transition to IFRS 16 resulted in capitalizing the present value of our branch premises lease commitments as a right-of use asset. The corresponding lease liability is included in Other Liabilities.

DEPOSITS

Member deposits increased by \$269 million or 14.3% totaling \$2.16 billion at the end of 2019 versus \$1.89 billion at the end of 2018. Demand deposits increased by \$42.2 million while term deposits grew by \$195.3 million, registered deposits (i.e., RRSP, RRIF, RESP and TFSA) grew by \$26.8 million and accrued interest payable grew by \$5.1 million during the year. The significant growth in term deposits reflected member preferences for our term promotional offerings during an uncertain interest rate environment.

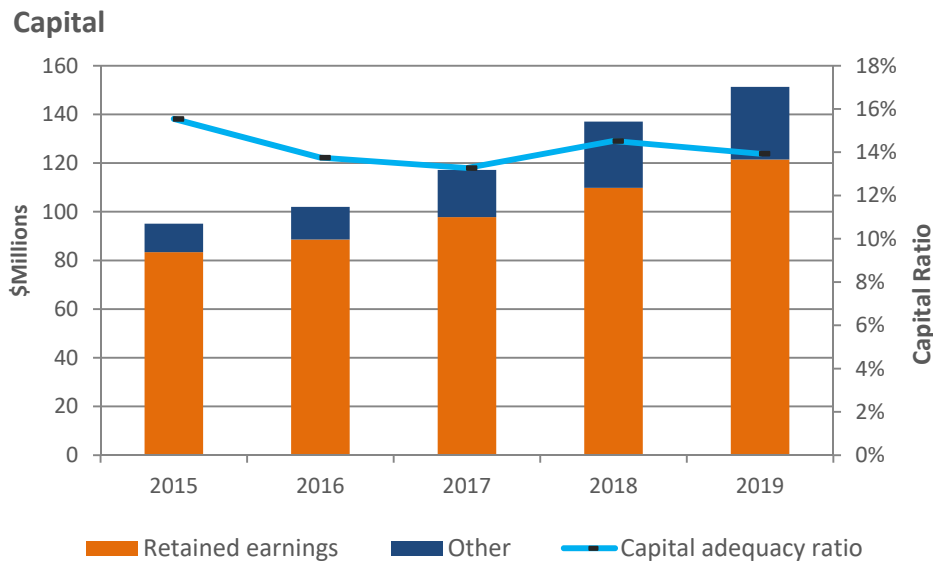


SECURED BORROWING

During 2019, G&F increased its available operating line and term facility with Central 1 to \$136 million from \$105 million at the end of 2018. In addition, G&F maintains a credit facility agreement with Fédérations des caisses Desjardins du Québec of \$30 million. As at December 31, 2019, there was no amounts drawn against these credit facilities. As part of the credit union's ongoing management of liquidity, capital, and interest rate risk, G&F securitizes residential mortgages thereby entering into a secured borrowing arrangement with Central 1. The outstanding secured borrowing with Central 1 was \$25.4 million at the end of 2019, a decrease from the balance at the end of 2018 of \$36.5 million.

MEMBERS' EQUITY

G&F achieved net income of \$11.6 million, and a net unrealized gain from cash flow hedges (net of tax) of \$448 thousand in 2019 resulting in total comprehensive income of \$12.1 million - a return on members' equity of 11.0%. Capital adequacy at the end of 2019 was 13.93%, well exceeding the regulatory requirement of 8% and the supervisory target of 10%.



NET INTEREST INCOME

While the Canadian economy maintained healthy growth in 2019, there remained global concerns regarding trade tensions between the US and China. In response, many Central banks around the world lowered their interest rates while the Bank of Canada (concerned about the high outstanding debt levels of Canadians), chose to maintain its overnight target rate of 1.75%, keeping G&F's prime rate at 3.95% throughout the 2019 year.

G&F's net interest income as a percentage of assets decreased from 1.96% in 2018 to 1.80% in 2019 mainly as a result of the impact from the inverted yield curve environment. 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 secured borrowings) increased by \$741 thousand, or 1.9% to \$39.6 million benefiting from the increase in our overall 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 provisions for credit losses. Other income increased \$1.9 million or 22.0% to \$10.3 million in 2019 largely due to higher loan commitment fees generated from the growth experienced in the lending portfolio.

OPERATING EXPENSES

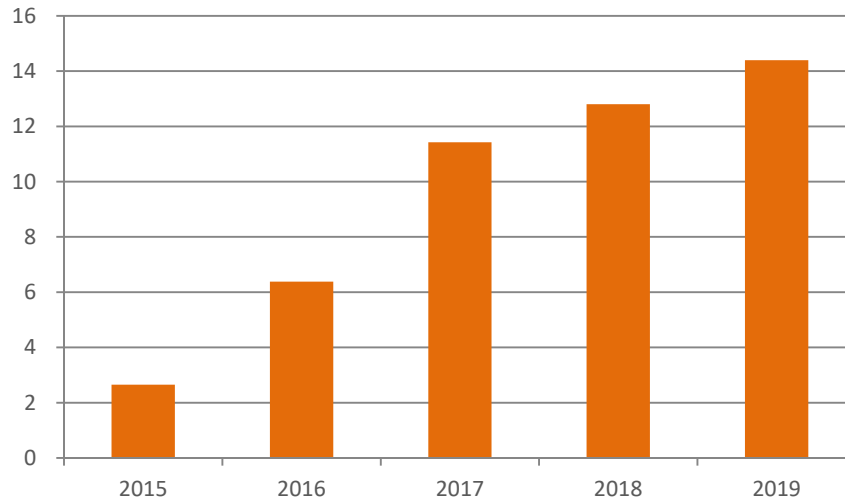
Operating expenses increased by \$1.0 million or 2.9% to \$35.5 million in 2019 mainly as a result of increases in salaries and employee benefits as our credit union continues to expand (which includes the first full year of operations for our West End branch) combined with higher data processing costs attributable to new digital initiatives (including a new Customer Relationship Management system and a new digital banking platform) that will provide a better experience for our staff and members. Offsetting these were decreases in advertising and promotion, dues and other expenses in 2019 compared to 2018. Our strong financial results in 2019 led us to contribute \$100 thousand to our G&F Financial Group Foundation continuing our commitment to community investment. The new IFRS 16 accounting treatment for leases resulted in a different classification of expenses from 2018 (occupancy) compared to 2019 (depreciation and other interest expense). As a percentage of assets, the operating expenses decreased from 1.74% in 2018 to 1.61% in 2019 as the credit union benefited from asset growth, related economies of scale and engaging in collaborative opportunities with other like-minded organizations.

EARNINGS FROM OPERATIONS

G&F experienced record earnings from operations of \$14.4 million in 2019, up \$1.6 million or 12.4% compared to 2018. G&F has continued to make long-term strategic investments by expanding the branch network, improving the sales and service delivery and overall member experience and investing in digital initiatives. Although these are significant investments over several years with initial start-up costs, the cumulative benefit of attracting new members and growing the loan, deposit and wealth portfolios contributed to the strong financial performance for 2019.

G&F has a long history of sharing our profits with the local communities in which we live and serve by way of donations, sponsorships, educational bursaries, and scholarships. Total distributions from both the credit union and G&F Financial Group Foundation totaled \$580 thousand or 4.0% of earnings from operations in 2019.

Earnings from Operations (in \$millions)



TOTAL COMPREHENSIVE INCOME

The total comprehensive income for 2019 was \$12.1 million which included a 4.25% dividend on members' equity shares of \$124 thousand and a 5.25% dividend on investment equity shares of \$245 thousand approved by the Board of Directors, a provision for income taxes of \$2.4 million and a net unrealized gain from cash flow hedges (net of tax) of \$448 thousand.

FUNDS UNDER ADMINISTRATION

Funds under administration by G&F comprise of commercial loans that are managed by the credit union and syndicated with other financial institutions for purposes of risk sharing, liquidity management and to service members who have loan amounts above the credit union's single member cap. The syndicated loan balance ended 2019 at \$128 million, an increase of \$24.3 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 \$33.4 million or 14.9% in 2019 to end the year at \$257 million.

Risk Management

G&F is subject to a variety of risks that are inherent to the industry in which it operates. The credit union's principal risks are credit risk, liquidity risk and market risk given the nature of our business is holding financial instruments as identified in Note 22 of the audited consolidated financial statements. Other risks the credit union faces are strategic, operational, legal, regulatory and reputational risks. To mitigate these risks the credit union has policies and procedures, controls and monitoring 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.

2020 Outlook

The Bank of Canada left its key interest rate unchanged for 2019 but cited some concerns around the Canadian economy's recent slowdown and left the door open to rate cuts if warranted by incoming data. Progress on several trade developments around the world should support a modest turnaround in trade and investment flows, but may be offset by uncertainty about the impact of the COVID-19 outbreak. The Bank is projecting Canada's GDP growth to be at 1.6% in 2020 while BC's economy is set to outpace most other provinces and is forecast to grow by 2.8% in 2020. This growth is driven by stabilization of the residential real estate market after two years of turbulence and price drops, buoyant non-residential construction, major project investment such as the buildout of the LNG natural gas plant and elevated population growth.

In this context, G&F anticipates a year of steady growth in its loans, deposits and wealth management portfolios with a focus on digital transformation, specifically leveraging our new technology platforms to enhance the experience and advice we provide for our members. In addition, G&F will put significant emphasis in real estate and premises in 2020 with the build out of our new G&F Hub and the new Edmonds Branch, resizing and renovating our large Main Street and Richmond Centre branches and opening our 17th branch in the Sunset community on Vancouver's Fraser Street. G&F's business plan for 2020 continues to focus on the five strategic pillars – Grow the Business, Member Experience, People and Culture, Financial Strength and Community Investment.

Five-Year Overview - Financial Highlights

(Expressed in thousands of dollars)

Consolidated Statement of Financial Position (unaudited)

	2019	2018	2017	2016	2015
ASSETS					
Cash and investments	\$218,762	\$186,850	\$176,694	\$238,253	\$161,000
Loans	2,068,805	1,862,404	1,711,125	1,455,277	1,230,167
Premises, equipment, intangible assets, properties	37,379	8,765	7,767	7,768	7,516
Other assets	4,260	5,603	3,913	4,312	4,386
	\$2,329,206	\$2,063,622	\$1,899,499	\$1,705,610	\$1,403,069
Liabilities and Members' Equity					
Deposits	\$2,156,900	\$1,887,475	\$1,742,843	\$1,557,016	\$1,271,819
Members' shares	8,854	8,047	6,943	3,522	3,547
Secured borrowings	25,419	51,455	45,299	49,758	37,459
Other liabilities	15,972	6,676	6,130	6,189	5,991
	2,207,145	1,953,653	1,801,215	1,616,485	1,318,816
Members' equity					
Accumulated other comprehensive income	600	153	496	524	867
Retained earnings	121,461	109,816	97,788	88,601	83,386
	122,061	109,969	98,284	89,125	84,253
	\$2,329,206	\$2,063,622	\$1,899,499	\$1,705,610	\$1,403,069

Consolidated Statement of Comprehensive Income (unaudited)

	2019	2018	2017	2016	2015
Interest income	\$82,087	\$70,028	\$56,655	\$47,735	\$43,265
Interest expense	42,488	31,170	22,156	18,917	17,204
Net Interest Income	39,599	38,858	34,499	28,818	26,061
Other income	10,254	8,404	8,420	7,177	6,232
Operating margin	49,853	47,262	42,919	35,995	32,293
Operating expenses	35,461	34,459	31,493	29,613	29,638
Earnings from operations	14,392	12,803	11,426	6,382	2,655
Gain on sale of premises	0	0	0	0	3,348
Distributions to members	(369)	(315)	(157)	(109)	(110)
Income before income taxes	14,023	12,488	11,269	6,273	5,893
Provision for income taxes	2,379	2,126	2,082	1,058	662
Net income from continuing operations	11,644	10,362	9,187	5,215	5,231
Net unrealized gain (loss) from cash flow hedges (net of tax)	448	603	(975)	(343)	549
Net unrealized gain on financial investments (net of tax)	0	0	947	0	0
Total comprehensive income	\$12,092	\$10,965	\$9,159	\$4,872	\$5,780

	2019	2018	2017	2016	2015
<i>Financial Statistics (unaudited)</i>					
Asset growth	12.9%	8.6%	11.4%	21.6%	10.1%
Loan growth	11.1%	8.8%	17.6%	18.3%	9.7%
Deposit growth	14.3%	8.3%	11.9%	22.4%	10.6%
Operating efficiency	70.29%	71.85%	72.09%	80.92%	88.17%
<i>Percent of average assets (unaudited)</i>					
Net interest income	1.80%	1.96%	1.90%	1.85%	1.93%
Other income	0.47%	0.42%	0.46%	0.46%	0.46%
Operating expenses	1.61%	1.74%	1.73%	1.90%	2.20%
Operating return on assets	0.65%	0.65%	0.63%	0.41%	0.20%
Net (after-tax) return on assets	0.53%	0.52%	0.51%	0.33%	0.39%
<i>Other statistics (unaudited)</i>					
Retail branches	16	16	15	14	13
Membership	34,202	32,388	30,969	30,027	29,247
Investment portfolios and mutual funds, at market value	\$257,028	\$223,673	\$222,456	\$197,646	\$179,697
Syndicated loans	\$128,058	\$103,789	\$97,638	\$47,350	\$26,446
Assets under administration	\$2,714,293	\$2,391,083	\$2,219,593	\$1,950,606	\$1,609,212