



Management Discussion and Analysis Report



Gulf and Fraser Fishermen's Credit Union
Year ended December 31, 2020

Management Discussion and Analysis Report

Introduction

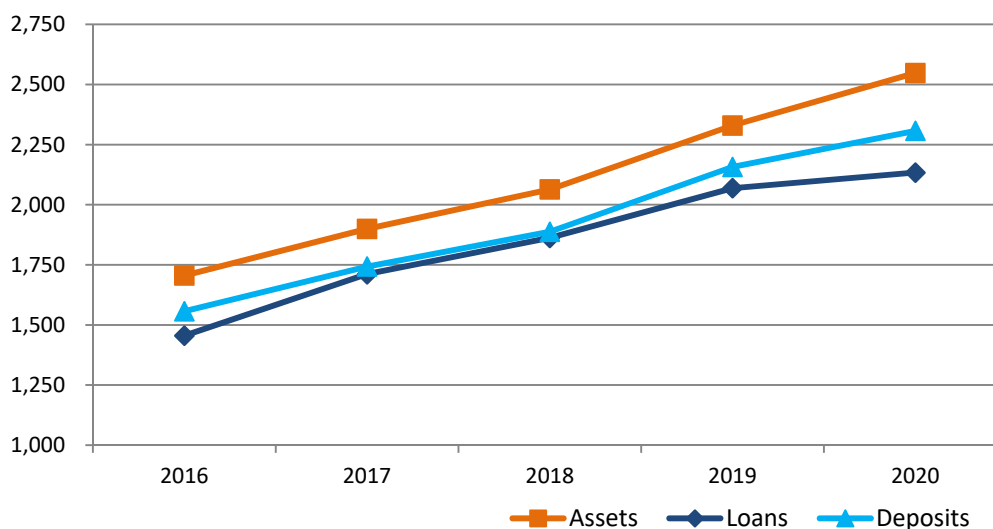
Gulf and Fraser Fishermen’s Credit Union, operating as G&F Financial Group (“G&F” or “the credit union”) is a BC based credit union serving members in the Lower Mainland for 80 years offering a full range of products and services including personal and business banking, wealth management and retail and commercial lending solutions. G&F serves over 35 thousand members and administers over \$3.02 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 strong results in 2020, maintaining financial resiliency and stability despite the unprecedented challenges of the COVID-19 pandemic. Assets increased by \$218 million or 9.4%, while our membership reached 35,579 as we welcomed 1,377 net new members into our network. Loans increased by \$65 million or 3.1%, while deposits grew by \$150 million or 7.0%. In addition, wealth management assets under administration grew by \$35.5 million, or 13.8%. To support the ongoing growth of the credit union, we completed the construction of our new corporate office (named the “G&F Hub”) and moved into our new Edmonds branch in September 2020. G&F also entered into a Memorandum of Understanding with Aldergrove Credit Union on September 14, 2020 to explore merging the two credit unions.

Assets, Loans and Deposits (in \$millions)



Earnings from operations in 2020 was \$16.7 million, an increase of 16.0% over 2019, 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 6.5% year over year, it decreased as a percentage of assets from 1.61% in 2019 to 1.53% in 2020 as the credit union managed its costs given the pandemic conditions and continued to realize efficiencies through growth, economies of scale and engaging in collaborative opportunities. Furthermore, the operating efficiency improved from 70.29% in 2019 to 65.23% in 2020.

Total comprehensive income for 2020 was \$15.6 million resulting in an 12.8% growth in members' equity. G&F was proud to be able to share this success with the local communities we serve by distributing \$405 thousand through the credit union and the G&F Financial Group Foundation. The Board of Directors approved a dividend return of 3.0% on member equity shares and 4.0% on investment equity shares. G&F remains well capitalized with a capital adequacy ratio of 14.55% at the end of 2020, well above the 8% regulatory requirement.

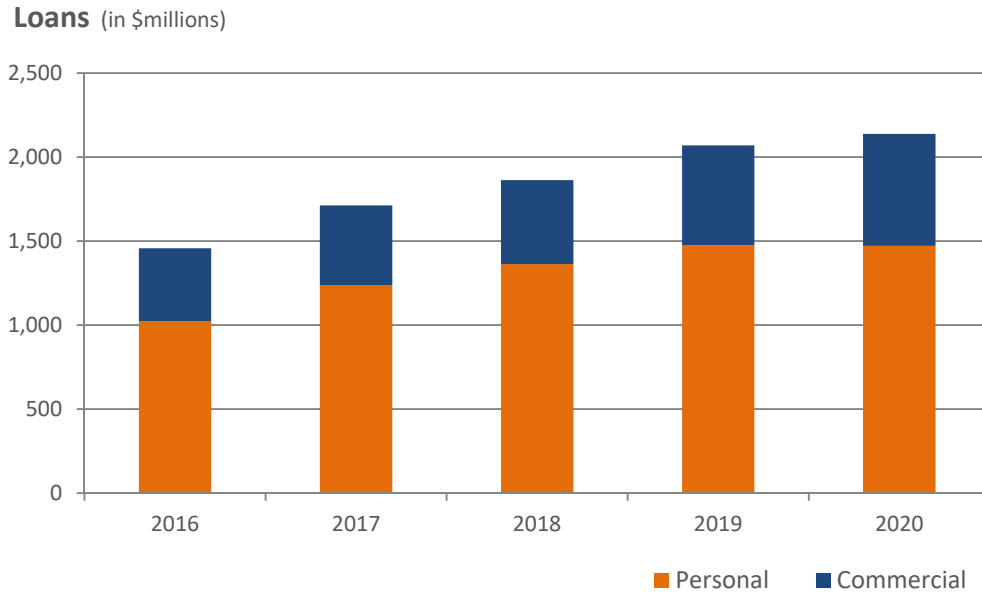
2020 Financial Performance

Total assets grew by \$218 million, or 9.4%, due to growth in both our loan and deposit portfolios. Assets now total \$2.55 billion versus \$2.33 billion in 2019. Our liquidity position ended the year at 14.76%, which was well above the statutory requirement of 8%. We also saw our membership grow by 4.0% and now have 35,579 members connecting and doing business with G&F.

LOANS

Loans to members grew by \$65 million, or 3.1%, reaching \$2.13 billion at the end of 2020 versus \$2.07 billion at the end of 2019. Despite the impact from shutdowns and recessionary conditions of the economy caused by the pandemic, the loan growth was supported by a historically low interest rate environment and a pent up demand rebound in the Lower Mainland real estate market in the second half of 2020.

The total residential mortgages and personal loans portfolio decreased marginally by \$3 million to \$1.47 billion at the end of 2020. The commercial lending portfolio grew by \$72 million (12.1%) totaling \$666 million at the end of 2020 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.



ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses increased by \$3.4 million to \$8.2 million at the end of 2020 from \$4.8 million at the end of 2019. The increase in the allowance for credit losses was a result of a higher provision under the IFRS 9 Expected Credit Loss (ECL) model driven by a weakening Canadian economy and BC economic indicators. The provision for credit losses was offset by loans written off (net of recoveries) of \$29 thousand. The allowance for credit losses allocated to the residential mortgage and personal loans portfolio was \$1.3 million or 16% while the allowance for credit losses allocated to the commercial lending portfolio was \$6.9 million or 84%.

ASSET HELD-FOR-SALE

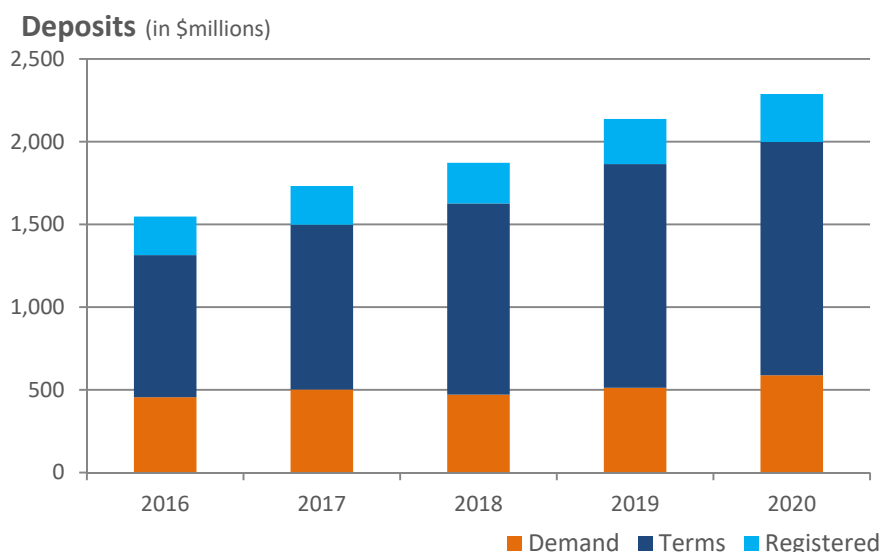
Asset held-for-sale was \$2.3 million at the end of 2020 which reflects a reclassification of \$1.5 million from premises and equipment and \$797 thousand from investment property as the Credit Union entered into a Purchase Sale Agreement for the sale of its previous corporate office and its investment properties.

PREMISES AND EQUIPMENT

Premises and equipment increased by \$2.4 million to \$38.5 million at the end of 2020 from \$36.1 million at the end of 2019. This increase reflects the addition of construction and furniture and equipment costs of the new G&F Hub and Edmonds branch, leasehold improvements in the branch network and right-of-use asset lease commitments. Offsetting these increases is the reclassification of \$1.5 million to asset held-for-sale and depreciation of the premises and equipment.

DEPOSITS

Member deposits increased by \$150 million or 7.0% totaling \$2.31 billion at the end of 2020 versus \$2.16 billion at the end of 2019. Demand deposits increased by \$75.6 million, term deposits grew by \$58.1 million, and registered deposits (i.e., RRSP, RRIF, RESP and TFSA) grew by \$17.4 million, offset by an accrued interest payable decrease of \$1.1 million during the year. The increase in demand deposits reflected member preferences for more liquid savings during an uncertain economic environment.

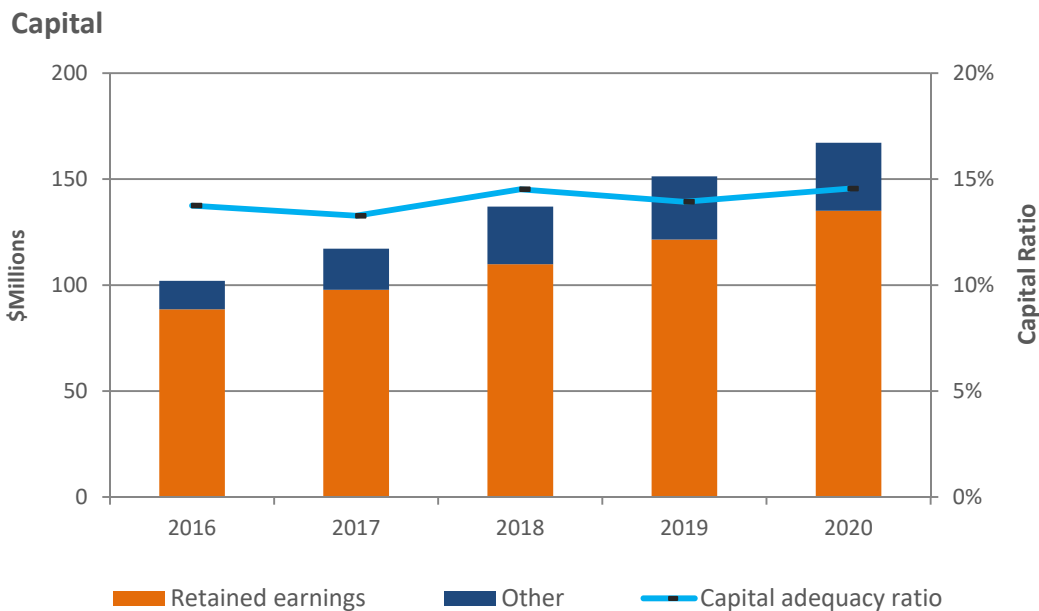


SECURED BORROWING

During 2020, G&F increased its available operating line and term facility with Central 1 to \$144 million from \$136 million at the end of 2019. In addition, G&F maintains a credit facility agreement with Fédérations des caisses Desjardins du Québec of \$30 million. As at December 31, 2020, there was no amount 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 \$72.4 million at the end of 2020, an increase of \$47.0 million from the balance at the end of 2019 of \$25.4 million.

MEMBERS' EQUITY

G&F achieved net income of \$13.6 million, and a net unrealized gain from cash flow hedges (net of tax) of \$2.0 million in 2020 resulting in total comprehensive income of \$15.6 million - a return on members' equity of 12.8%. Capital adequacy at the end of 2020 was 14.55%, well exceeding the regulatory requirement of 8% and the supervisory target of 10%.



NET INTEREST INCOME

With the COVID health pandemic leading to a shutdown of the global economy and severe recessionary conditions in Canada, the Bank of Canada (BofC) dropped its overnight target rate by 150 bps in March to 0.25% to support an expedited economic recovery. Accordingly, G&F's prime rate decreased from 3.95% at the end of 2019 to 2.45% at the end of 2020.

G&F's net interest income as a percentage of assets decreased from 1.80% in 2019 to 1.74% in 2020 mainly as a result of the lower interest rate 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 \$3.3 million, or 8.2% to \$42.9 million benefiting from the growth in the 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 \$1.4 million or 13.2% to \$11.6 million in 2020 largely due to higher member services income offset by a higher provision for credit losses. Included in member services income for 2020 is a modification gain of \$2.1 million on deposits held as investments with Central 1, in anticipation of a transition to a new statutory liquidity structure on January 1, 2021.

OPERATING EXPENSES

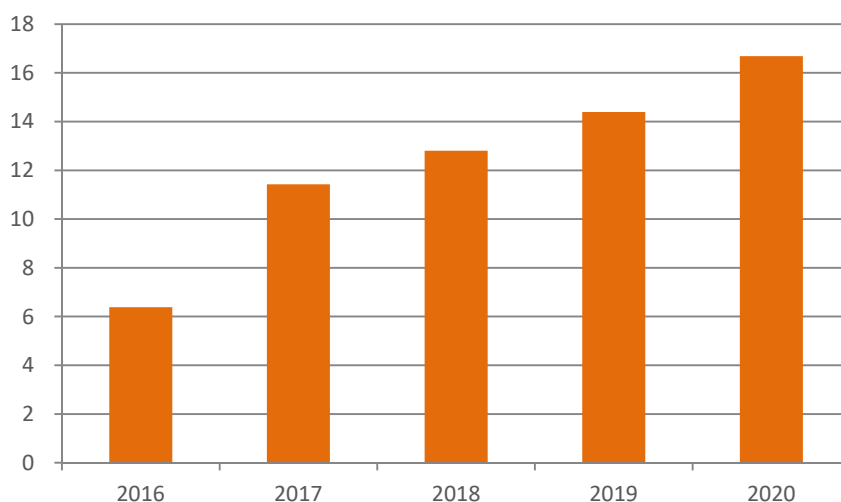
Operating expenses increased by \$2.3 million or 6.5% to \$37.8 million in 2020 mainly as a result of increases in salaries and employee benefits as our credit union continues to expand, higher depreciation and occupancy related to the new G&F Hub and Edmonds Branch and increases in data processing attributable to digital initiatives such as licensing and enhancements to our customer relationship management system and digital banking platform and implementation of Microsoft Teams that will provide a better experience for our staff and members. Offsetting these were decreases in office and other administrative, advertising and promotion and dues in 2020 compared to 2019. Our strong financial results in 2020 led us to contribute \$100 thousand to our G&F Financial Group Foundation continuing our commitment to community investment. As a percentage of assets, the operating expenses decreased from 1.61% in 2019 to 1.53% in 2020 as the credit union managed its costs given the pandemic conditions and benefited from asset growth, related economies of scale and engaging in collaborative opportunities with other like-minded organizations.

EARNINGS FROM OPERATIONS

Earnings from operations were \$16.7 million in 2020, up \$2.3 million or 16.0% compared to 2019. G&F has continued to make long-term strategic investments by upgrading to a new corporate office and Edmonds branch, improving sales and service delivery and overall member experience and investing in digital initiatives. The attraction of new members and growing the loan, deposit and wealth portfolios contributed to the strong financial performance for 2020.

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 \$405 thousand or 2.4% of earnings from operations in 2020.

Earnings from Operations (in \$millions)



TOTAL COMPREHENSIVE INCOME

The total comprehensive income for 2020 was \$15.6 million which included a 3.0% dividend on members' equity shares of \$87 thousand and a 4.0% dividend on investment equity shares of \$209 thousand approved by the Board of Directors, a provision for income taxes of \$2.8 million and a net unrealized gain from cash flow hedges (net of tax) of \$2.0 million.

FUNDS UNDER ADMINISTRATION

Funds under administration by G&F comprise of syndicated loans, Canada Emergency Business Account (CEBA) loans and investment portfolios and mutual funds

Commercial loans 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 2020 at \$171 million, an increase of \$42.8 million for the year.

Loans issued by the credit union in its capacity as an agent under the CEBA program totaled \$10 million at the end of 2020.

Investments and mutual fund accounts that are managed by our wealth management specialists on behalf of members grew by \$35.5 million or 13.8% in 2020 to end the year at \$293 million (at market value).

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, cyber security, technology 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.

2021 Outlook

Last year, the COVID-19 pandemic was an unexpected shock event which started out as a public health crisis that quickly transformed into an economic crisis with the shutdown of the global economy and severe recessionary conditions in Canada. All levels of government responded by implementing fiscal measures to help mitigate the impact on households and businesses and support an accelerated economic recovery. The BofC actioned monetary policy and stimulus measures by reducing their overnight target rate by 150 bps to 0.25% and implemented an asset buyback program to ensure ample access to liquidity and low interest rates across the yield curve.

Moving into 2021, the pandemic continues to adversely affect the economy. While GDP growth is expected to rebound in 2021 and 2022 considerable uncertainty remains with the evolution of COVID-19 and its variant strains and the measures used to contain its spread which will determine the speed, duration and path of the economic recovery. Certain sectors in the economy such as professional, financial services and technology have performed fairly well while other sectors more impacted by public health order restrictions such as hospitality, tourism and retail will be the last to return back to normal. The BofC has indicated they will maintain a low interest rate environment into the medium term with rates near zero possibly until 2023 to support the economic recovery.

The Lower Mainland real estate market has seen a significant rebound since the summer and surprising price appreciation. A combination of pent-up demand during the onset of the pandemic, historically low borrowing costs and a change in consumer preferences for more space and less density has caused a surge in sales activity, particularly in the single detached market. Market conditions now favor sellers but forecasting the real estate market behaviour remains difficult pending the evolution of the pandemic and economy.

In this context, G&F is cautiously optimistic in forecasting a year of steady growth in its loans, deposits and wealth management portfolios with an ongoing focus on digital transformation to enhance the experience and advice we provide for our members. In 2021, G&F will make further investments in our branch network by completing renovations and rightsizing our large Main Street and Richmond Centre branches and opening new branches in the Sunset community in Vancouver and the Guildford community in Surrey. G&F will move forward with the possible merger with Aldergrove Credit Union which will provide greater scale and a stronger presence across the Lower Mainland delivering the advice, products and services our members expect. G&F's business plan for 2021 focuses on 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)

	2020	2019	2018	2017	2016
ASSETS					
Cash and investments	\$362,487	\$218,762	\$186,850	\$176,694	\$238,253
Loans	2,133,861	2,068,805	1,862,404	1,711,125	1,455,277
Asset held-for-sale	2,297	0	0	0	0
Premises, equipment, intangible assets, properties	39,036	37,379	8,765	7,767	7,768
Other assets	9,284	4,260	5,603	3,913	4,312
	\$2,547,505	\$2,329,206	\$2,063,622	\$1,899,499	\$1,705,610

Liabilities and Members' Equity

Deposits	\$2,306,930	\$2,156,900	\$1,887,475	\$1,742,843	\$1,557,016
Members' shares	9,455	8,854	8,047	6,943	3,522
Secured borrowings	72,407	25,419	51,455	45,299	49,758
Other liabilities	21,080	15,972	6,676	6,130	6,189
	2,409,872	2,207,145	1,953,653	1,801,215	1,616,485
Members' equity					
Accumulated other comprehensive income	2,577	600	153	496	524
Retained earnings	135,056	121,461	109,816	97,788	88,601
	137,633	122,061	109,969	98,284	89,125
	\$2,547,505	\$2,329,206	\$2,063,622	\$1,899,499	\$1,705,610

Consolidated Statement of Comprehensive Income (unaudited)

	2020	2019	2018	2017	2016
Interest income	\$83,206	\$82,087	\$70,028	\$56,655	\$47,735
Interest expense	40,355	42,488	31,170	22,156	18,917
Net Interest Income	42,851	39,599	38,858	34,499	28,818
Other income	11,611	10,254	8,404	8,420	7,177
Operating margin	54,462	49,853	47,262	42,919	35,995
Operating expenses	37,774	35,461	34,459	31,493	29,613
Earnings from operations	16,688	14,392	12,803	11,426	6,382
Distributions to members	(296)	(369)	(315)	(157)	(109)
Income before income taxes	16,392	14,023	12,488	11,269	6,273
Provision for income taxes	2,797	2,379	2,126	2,082	1,058
Net income from continuing operations	13,595	11,644	10,362	9,187	5,215
Net unrealized gain from cash flow hedges (net of tax)	1,977	448	603	(975)	(343)
Net unrealized gain on financial investments (net of tax)	0	0	0	947	0
Total comprehensive income	\$15,572	\$12,092	\$10,965	\$9,159	\$4,872

	2020	2019	2018	2017	2016
<i>Financial Statistics (unaudited)</i>					
Asset growth	9.4%	12.9%	8.6%	11.4%	21.6%
Loan growth	3.1%	11.1%	8.8%	17.6%	18.3%
Deposit growth	7.0%	14.3%	8.3%	11.9%	22.4%
Operating efficiency	65.23%	70.29%	71.85%	72.09%	80.92%
<i>Percent of average assets (unaudited)</i>					
Net interest income	1.74%	1.80%	1.96%	1.90%	1.85%
Other income	0.47%	0.47%	0.42%	0.46%	0.46%
Operating expenses	1.53%	1.61%	1.74%	1.73%	1.90%
Operating return on assets	0.68%	0.65%	0.65%	0.63%	0.41%
Net (after-tax) return on assets	0.55%	0.53%	0.52%	0.51%	0.33%
<i>Other statistics (unaudited)</i>					
Retail branches	16	16	16	15	14
Membership	35,579	34,202	32,388	30,969	30,027
Investment portfolios and mutual funds, at market value	\$292,502	\$257,028	\$223,673	\$222,456	\$197,646
Syndicated and CEBA loans	\$180,644	\$128,058	\$103,789	\$97,638	\$47,350
Assets under administration	\$3,020,651	\$2,714,293	\$2,391,083	\$2,219,593	\$1,950,606