



things we believe



things we believe

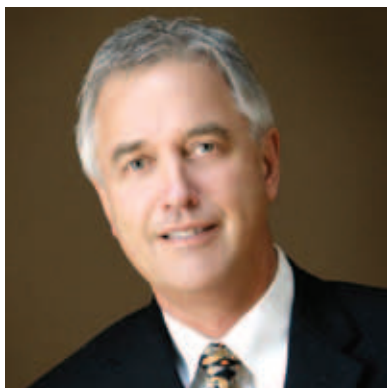


1. Succeed together
2. Act local
3. Value all
4. Make common-sense decisions
5. Create good things
6. Inspire exceptional results

Message from the board chair **2** Message from the CEO **6** Governance report **8** Board of directors **10**
First West leadership team **12** Management's discussion and analysis **14** Financial statements **39** Notes to the financial statements **44**



It takes courage to be different



TERRY ENNS,
Board Chair, First West Credit Union

Let's start at the beginning. Actually, a new beginning, when First West Credit Union opened for business on January 1, 2010 as Canada's newest financial services organization. The groundbreaking event heralded the integration of the financial assets, membership and operations of the Valley First and Envision credit unions into First West.

Despite the magnitude and significance of this change, our members noticed little if any difference in their local credit union branches. No name changes. No brand overhauls. No member confusion. That was exactly how we wanted to start things off and how we plan to grow—by preserving the localness of our operations.

That's the beauty of the First West way. Our unique operating model enables local credit unions to come together and realize greater collective strength as First West without sacrificing their distinct identities, local decision-making abilities and deep community roots. It takes courage to be different, but we believe in forging a new path for the good of our members and our communities.

Our first year of operation was a stepping stone to a promising future for First West. We gained operational efficiencies and produced solid financial results, establishing a firm financial footing heading into 2011.

Over the next few years, we plan to fully develop our innovative multi-brand operating model in partnership with other credit unions. Working together under First West, we can all retain the

benefits of our credit unions' individuality and localness, while leveraging the financial strength and efficiencies of a larger, more diversified financial services organization.

Introducing a new three-year strategic plan

To help us achieve that vision, the board and management developed a new three-year strategic plan in 2010. Our planning took us through a creative process that explored and developed new ideas. We also shifted our focus—instead of fixating merely on what it is that we do, we took a broader and longer-term perspective by asking a more profound question: why do we exist?

Answering that question was central to our planning. It pushed us to think about what we stand for as an organization and what is most relevant to our stakeholders. Our answer: We exist to make a real difference in the financial lives of our members. It's simple, but it's powerful. We developed our six big ideals—succeed together, act local, value all, make common sense decisions, create good things and inspire exceptional results—to keep us focused on this.

The next question of course was, how do we do make a real difference? Our answer: By creating a network of like-minded credit unions with the size to **work big** and the grassroots common sense to **work local**.

Our strategic plan also recognizes the real world in which we live and work. Namely, we operate in an environment with ever-increasing competition from the banks, non-traditional financial institutions and other credit unions.

The key to First West winning in its markets is to continue to offer members the locally focused, locally responsive products and services that differentiate us in the marketplace. As we move ahead, we are embracing five priorities to create our competitive advantage and deliver value to our members. They are:

Create a meaningful member experience

Become even more relevant to our members by providing an individual experience based on trust, by knowing our members and by recognizing and rewarding our members for their loyalty.

Create a high-performance culture

Foster a culture that brings out the best in our people, creates accountability and rewards high performance.



Transform to a continuous improvement organization

Be a lean organization: one that invests continuously to find a better way for its members and encourages problem solving to bring positive change.

Optimize revenue

Increase non-interest income and diversify lending while serving the lifestyle stages of our members and differentiating First West through centres of excellence.

Develop a multi-brand operating model

Evolve into a unique multi-brand model, gaining credibility, momentum and appeal with potential credit union partners.

Looking out for the best interests of members

First West's inaugural board of directors comprised 10 former directors of Envision and eight former directors of Valley First. During 2010, the board retained a corporate governance advisor to assist in reviewing its structure with a view to best practices for the credit union. We also sought to streamline decision-making, reduce costs and achieve equal representation for both First West regions, which was one of the main principles of the merger.

After an extended process, the board was reduced to 12 members—six from Envision and six from Valley First. This was a difficult process for all directors, but especially for those who voluntarily resigned. I thank each of you for your many years of exemplary service and for your willingness to continue to serve the best interests of our members through our regional councils, which are critical to the success of our business model.

Our regional councils support the growth strategies of our Valley First and Envision regions. Each council is focused on the unique needs of its region's members, employees and communities. The councils' mandates, which are broad and still evolving, range from business development and strategic planning to understanding regional issues, encouraging corporate social responsibility and identifying candidates for director elections.

While I'm on the topic of leadership, I thank Gord Huston, First West's founding CEO, for leading First West and one of its predecessors with vision and grace for 14 years. Gord retired in April 2010, leaving a legacy of innovation and growth as

well as a stronger credit union system. Meanwhile, our current CEO, Launi Skinner, has quickly proven to be a dynamic leader. The board and I appreciate Launi's experience in developing incisive new ideas, making them work and inspiring others in the process.

Succeeding together

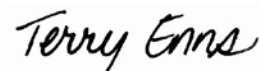
As 2010 drew to a close, the benefits of integrating the operations of Valley First and Envision Financial started to pay dividends. We enjoyed operational efficiencies and synergies that, together with an improving economic environment in British Columbia, enabled First West to exceed nearly all of its key performance targets in 2010. As you will read elsewhere in this report, First West started 2011 in a solid financial position.

We nevertheless face numerous challenges. Interest rates, although still low, are expected to rise in 2011. Higher rates will affect the housing sector and increase the threat that rising levels of consumer debt already pose to Canada's economic growth. The global economy in the meantime is still struggling to achieve a synchronized recovery from the recent recession.

I am optimistic that our early financial and operating success will continue. I'm also excited by our new strategic plan. It recognizes that even though we don't have the size and scale of a big bank, we can compete and win in local markets by delivering better service and more innovative products and by leveraging the strengths of the credit union system.

In closing, I thank our members for their loyalty during 2010. Rest assured that we don't take it for granted. I also thank management and staff for their ongoing efforts in making First West a model to follow in the credit union industry. I also thank each of the board and regional council members for their support to the credit union and in my role as chair. It has been a privilege—one that only grows as we forge ahead.

Sincerely,



Terry Enns, Board Chair



How it works

To make a real difference in the financial lives of our members, we're creating

a network of like-minded credit unions with the size to **WORK BIG**

and the grassroots common sense to **WORK LOCAL.**



work big. work local.



How it works

WORK BIG

SAVINGS AND EFFICIENCY

By working together as a common organization, First West's regions save on costs, work more efficiently and hold greater collective influence.

GREATER STABILITY AND DIVERSIFICATION

As a larger organization First West is financially stronger, with more diverse revenue sources and risk that's spread out over a larger geographic area.

SHARED BACK-OFFICE FUNCTIONS

First West's distributed workforce operates out of multiple administrative offices, offering specialized services to the regions in key areas like IT, human resources, credit and treasury.

FUTURE NETWORK

First West is laying the foundations for a broad network of credit union branches to better serve members.

WORK LOCAL

LOCAL IDENTITY

Credit unions keep their names when they join First West—local brands are retained.

LOCAL GOVERNANCE

As First West grows, our democratic tradition is upheld through regional director elections and through regional councils that represent the distinct needs and interests of their local members.

LOCAL LEADERSHIP

Each of First West's regions is led by a regional president who works with a team of locally autonomous, locally accountable regional senior leaders.

LOCAL DECISION-MAKING

Decisions are made close to members in the regions where they live and bank.

LOCAL CORPORATE CITIZENSHIP

First West's regions take the lead in all corporate citizenship activities, giving back to the communities they serve.



Making a real difference with our six big ideals



LAUNI SKINNER,
CEO, First West Credit Union

Dear members,

There's something special about being part of a community where people know your name, where what you say actually matters, where you feel like you belong.

Much of my professional life has been about creating those kinds of communities—inclusive, appealing environments that people want to be a part of. I think back on my time leading Starbucks U.S. We strove to make Starbucks what we called “the third place”—a warm, inviting space outside the home and office. Now, here at First West, we're creating our own new and exciting vision for an even more relevant, simple, welcoming environment and culture that makes our members feel like they belong. In 2010, we invested a great deal of effort into laying the groundwork to become the kind of credit union that not only meets the changing financial needs of British Columbians today, but also leaves people saying, “Wow. I belong here. I love being part of First West, or Valley First, or Envision Financial, and I want others to be part of it too.”

It began with asking ourselves a simple but profound question: Why are we here? After all, there are many banks out there with similar products, services and rates. But what is our reason for being? The answer to our “why?” was surprisingly direct: Each of us, each day is here to make a real difference in the financial lives of our members. That's why we get up, come to work, turn on the lights and open the doors. It's for our members and their well-being.

Once we had clearly defined our “why?” we had to figure out our “how?”—how could we be the kind of credit union that could consistently make a difference in the financial lives of our members? It required us to tap into our longstanding roots and traditions—what we needed to do wasn't “new” but more along the lines of “re-new.” We identified six principles—six big ideals—that when lived out can enable us to change the way British Columbians think about banking:

1. Succeed together

Each person in the First West family plays an integral role in achieving success. The reality is, we're interconnected. When I do my job really well, someone can do his or her job really well. And that's good for our members. And when members succeed, we succeed. We believe in working through change together—sharing, learning, improving. Every day in every way, we help one another do what's right.

2. Act local

Acting local is central to what it means to be a credit union. After all, we're all neighbours. Around here, we believe in greeting members by name and with a smile. We see things through the eyes of our members and communities. As a result, decisions are made from across the desk, not from across the country. We strive to be responsive, easy to deal with, empowered to do the right thing—right away. Our bottom line is this: Be a good neighbour—be friendly, fast to respond, ready to make things happen for our members.

3. Value all

Everyone has value. Moms and dads and students and kids. Grandparents, local business owners. Neighbours with less than some of us have. It's our privilege to invest in them all through accessible banking, competitive products, donations for a cause and a smile. The truth is, lifelong relationships are priceless—we treat everyone with dignity, respect and honesty.

4. Make common-sense decisions

Because we share a goal to improve the financial health of our members each day, our staff work to make good, common-sense decisions for our members, every day. We're working to simplify our processes so that good sense makes sense.



5. Create good things

We know that it takes courage to be different. To stand out, we want to be known for how we listen, anticipate and scout out trends. We're keen to learn, to do what hasn't been done in ways that haven't been tried. To innovate. Everyday, we strive to be better—always learning, trying, doing.

6. Inspire exceptional results

How we achieve results is as important as the results we achieve. Like creating environments where our teams thrive, learn, and perform. We are fully accountable for being financially stable and profitable. For being competitive and efficient. For always keeping our eye on bottom-line results. At the end of the day we achieve exceptional results, through inspirational leadership and a belief in the power of people.

To sum it up simply, we want your credit union to be a place where you feel that you belong—a place where each interaction you have with us makes you feel more connected and valued. We're proud of you, our members—proud that you've chosen to do business with us. We're striving to be an organization that you're proud to be associated with and one that you would enthusiastically refer to your friends and neighbours because the experience you have with us is so good that you just have to share it.

And when we live out our six big ideals, we'll be a place where other credit unions feel they belong too. As my predecessors have shared with you in the past, First West was created so that other healthy, strong credit unions can be part of our family. As part of the First West family, we want them to be able to enjoy the benefits of local decision making that comes with a local president and leadership team, a local brand and continued local connection to the communities they're a part of.

At the same time, we want credit unions that join First West to experience all the benefits that come with being part of a larger organization—a better branch network, better diversification of risk, better efficiency and better ability to serve their members. In short, we want other credit unions to catch the vision. We want them to take this vision across the province and the country—local credit unions making a real difference in the financial lives of Canadians every day, everywhere.

It's not a small undertaking, but I believe it can be achieved. As someone new to the organization, I can say without bias that your credit union has many exceptional people here—hard working, passionate people who are committed to making this vision a reality.

Already we're seeing results. In addition to maintaining the ongoing engagement of our employees and satisfaction of our members, we've shown excellent financial performance. In fact, our first year performance has far exceeded our merger business-plan expectations. We achieved record earnings this year. Our return on assets before tax for 2010 was 0.89%, and our net interest income increased 37.3% to \$129.0 million in 2010—we were one of the top-performing financial institutions in the entire province. For 2010, First West's net operating income before taxes increased 17.3% to a record high of \$43.6 million. We enjoyed strong deposit growth, which increased \$241.5 million, or 5.8%, to a total of \$4.4 billion in 2010. Our loans to members increased in 2010 by \$399.9 million, or 9.8%, to a total of \$4.5 billion.

Indeed, these are exciting times for our organization, and there is much that awaits us on the horizon. We continue to prudently steward the financial assets entrusted to us by our members, and strive to lead the industry in financial performance. Over the next three years as we bring First West's vision to life, I anticipate even greater results.

The journey has already begun. Every day, we are becoming more of the community we want to be—the kind of place where every member, every client, every employee and even every future credit union partner can feel that refreshing sense of belonging and pride. Each one of us at First West is excited to live out our six big ideals so that we can make a real difference for you, our members. We hope you catch that same spirit of excitement to be part of this very special community.

Sincerely,

Launi Skinner

Launi Skinner, CEO, First West Credit Union



Governance report

First West Credit Union is a member-owned, democratic co-operative financial institution. Our board of directors oversees the strategic direction and financial stewardship of the organization, ensuring that the credit union prospers and thrives while complying with regulatory and statutory requirements.

ROLE OF THE BOARD

First West's directors are elected by the credit union's members and are responsible for shaping the strategic direction of the organization. Directors have the authority and the obligation to approve the strategic direction and ensure that appropriate processes and controls are in place to identify, manage and monitor the business risks that follow from the organization's business strategy. The board selects the CEO, establishes the CEO's accountabilities and responsibilities and evaluates the CEO's performance. The board also facilitates transparent communication with members, clients and stakeholders by being accessible and reporting on its activities through channels that include (but are not limited to) this annual report and the annual general meeting. At First West Credit Union, the board's role revolves around one primary, unchanging objective: **to represent and advance the best interests of the credit union's most important asset—its members.**

BOARD STRUCTURE

The rules of the credit union allow for a board of eighteen to twelve directors. First West's board presently comprises 12 directors, each elected by the members of the credit union. Each director serves a three-year term and is expected to protect and uphold the credit union's values, exercising objective judgment with honesty and integrity. Directors must be independent from the credit union and the financial services industry in general; they must not have an interest or relationship with First West that could be seen to interfere with their ability to act in the best interests of the credit union and its members. The conduct review committee of the board regularly reviews compliance with this requirement.

The board recognizes that creating an effective and scalable governance structure is critical to the success of the credit union's new operating model. Following the merger of Envision Credit Union and Valley First Credit Union on January 1, 2010, the board undertook a well thought-out process to downsize from eighteen to twelve directors. Downsizing enabled First West's board to achieve a number of advantages, such as improved communication between directors, better decision-making ability and lower board-related costs. Furthermore, a key principle promoted to members before the merger was that both regions would be equally represented on the First West board. Through the downsizing that took effect October 1, 2010, we are pleased to report that this equality has been established.

As the regular annual democratic process moves forward, the board (through the nominations committee) will seek to ensure that each of the regions served by First West is effectively represented on the board itself and on the regional councils.

First West's board now comprises six directors who previously served on Valley First's former board, and six directors who previously served on Envision Financial's former board. The former First West directors who voluntarily resigned during the downsizing process each agreed to serve as special advisors on their respective regional councils for three-year terms. Their breadth of experience and commitment to sustaining our local community heritage and roots is fundamental to our credit union's operating model and to our values.



REGIONAL COUNCILS

First West's two regional councils—one representing Valley First and one representing Envision Financial—exist to ensure that First West's founding credit unions, and new credit unions that join in the future, retain their local identity, local decision-making and community focus while benefiting from combining assets and support functions under a single corporate entity. They act as ambassadors on behalf of the board for our two distinct regions.

The regional councils are focused specifically on the unique needs and interests of their regions' members, customers, employees and communities. They devote special attention to their regions within the greater First West Credit Union context—from business development to strategic planning to regional issues to community investment and corporate social responsibility.

GOVERNANCE STANDARDS

First West's governance practices guide how the board of directors functions, makes decisions and holds itself accountable. The board measures governance practices against standards issued by the Canadian Coalition for Good Governance, a not-for-profit organization that promotes corporate practices that best align the interests of boards and management with those of the shareholder.

In 2010, First West introduced a new board governance manual to strengthen our governance standards and refine our practices. The new manual reflects First West's continual pursuit of outstanding performance in governance.

MEMBER INVOLVEMENT

First West's members are the credit union's owners. By participating in the democratic process, members have the opportunity to shape and direct First West's future. The board encourages all members to take part in First West's annual general meeting and to vote in the annual director elections and on special resolutions. Unless they are First West employees, family of First West employees, or employees of other financial institutions, members may also stand for election to the First West board of directors or be considered for appointment to their respective regional council.

For more information about First West's board of directors and regional councils, visit www.firstwestcu.ca/content/board-directors.



Board of directors



Terry Enns
Board Chair



Colleen Lister
Vice-Chair



Shawn Neumann
Secretary



David Letkemann



Larry Stevens



Peter Scherle



Henry Jansen



Ken Voth



Paul Durose



Stewart Ladyman



Ramesh Rikhi



Wayne Becker



Succeed together

Every day in every way, we help one another do what's right



First West leadership team



Launi Skinner
CEO, First West
Credit Union



Bev Brown
President,
Envision Financial



Paulette Rennie
President,
Valley First



Jackie Baron
Senior
Vice-President,
Governance and
Corporate Strategy



Shelley Besse
Senior
Vice-President,
Operations, Sales
and Member
Experience



Barry Delaney
Senior
Vice-President,
Lines of Business
Strategy



Bryan Mavrow
Senior
Vice-President,
Marketing



Michele Morgan
Chief Information
Officer



Lee Rhodes
Senior
Vice-President,
People Services



Paul von Saarn
Senior
Vice-President,
Risk Management
and Credit



Tom Webster
Chief Financial
Officer



Act local

Be a good neighbour, be friendly, be fast to respond,
be ready to make things happen for our members



Management's discussion & analysis

Management's Discussion and Analysis (MD&A) provides additional commentary and information on the results of operations and financial condition of First West Credit Union for the year ended December 31, 2010.

The MD&A is an integral part of the consolidated financial statements. The statements in this annual report compare audited 2010 financial statements of First West with audited 2009 financial statements of Envision Credit Union, as required by general accepted accounting principles in Canada.

The MD&A, meanwhile, compares audited 2010 financial statements of First West with 2009 unaudited financial statements for the combined operations of Valley First Credit Union and Envision Credit Union. This comparison assumes that those credit unions merged on January 1, 2009. Management believes that these comparative figures provide the most meaningful year-over-year financial comparisons for members. A five-year history of comparative financial highlights is provided on last page of the MD&A.

Like the financial statements, the MD&A gives First West the opportunity to demonstrate accountability to its members through effective stewardship of resources and meeting strategic objectives. The financial statements reflect what happened, while the discussion and analysis explains why it happened. The following discussion and analysis is the responsibility of management and is as of February 28, 2011.

2010 financial highlights **15** Comprehensive financial analysis **18** Review of financial position **26** Outlook and strategy for 2011 **28** Risk management **32**
Additional information **34** Financial highlights **35** Financial statements **39** Notes to financial statements **44**



2010 financial highlights

Record high net operating income

- Net interest income increased 37.3% to \$129.0 million
- Non-interest income growth in two key areas: Wealth Management revenues up 25% to \$7.9 million and Automotive Financing revenues up 36% to \$13.5 million
- Net operating income before tax increased 17.3% to a record \$43.6 million

Strong balance sheet growth

- Total assets increased \$400.2 million, or 8.6%, to \$5.1 billion
- Loans to members rose \$399.8 million, or 9.8%, to \$4.5 billion
- Deposits from members up \$241.5 million, or 5.8%, to \$4.4 billion

Sustained overall performance

- Return on assets before tax: 0.89%, the highest among major credit unions in B.C.
- Operating efficiency improved to 79.5%, an improvement of 30 basis points from 2009
- Paid dividends of \$1.3 million to members, bringing total dividends paid over the last 10 years to \$14.4 million
- Invested nearly 4% of profits in corporate citizenship activities

PERFORMANCE SCORECARD

The following scorecard compares First West's 2010 key performance indicators to its original targets for 2010. A discussion of 2010 performance results is provided under Comprehensive Financial Analysis and Review of Financial Position. The scorecard also includes targets for 2011, which are more fully described under Outlook and Strategy for 2011.

Key Performance Indicator

Key Performance Indicator	Performance for 2010		Targets for 2011	
	Original Targets	Actual Results		
Loan growth				
All loans	3.1%	✓	9.8%	5.7%
Consumer loans	2.7%	✓	10.2%	5.9%
Business loans	3.2%	✓	8.9%	5.3%
Deposit growth				
All deposits	4.8%	✓	5.8%	1.4%
Demand deposits	6.1%	x	(0.2%)	3.6%
Term deposits	4.0%	✓	8.1%	0.0%
Operating efficiency				
After one-time merger costs	86.5%	✓	79.5%	74.1%
Before one-time merger costs	83.3%	✓	78.8%	n/a
Balance sheet				
Capital ratio	12.0%	✓	14.6%	14.7%

✓ Met or exceeded target x Missed target



INDUSTRY DESCRIPTION AND TRENDS

Credit unions hold competitive market-share positions

First West, like other credit unions, competes primarily in the banking sector, which includes 22 domestic banks and 26 foreign bank subsidiaries and manages close to \$3.1 trillion in assets. The sector is dominated by six large banks, which compete aggressively for retail and business banking and investment and financial services.

The credit union system, meanwhile, comprises 396 credit unions nationwide and serves 5.1 million members. Over the last 10 years, Canadian credit union system assets have grown at an average annual rate of 8.4%, reaching \$127.4 billion by December 2010.

Credit unions held 5% of the financial-sector domestic-asset market in 2009, as well as competitive market-share positions in prime areas of mortgage, consumer, small business and farm lending. Credit union residential mortgages market share in 2009 was 6.2%: virtually unchanged over the last five years.

System remains strongly profitable and service-oriented

The credit union system remains strongly profitable. In 2009, despite difficult economic circumstances, the system reported its second most profitable year on record, with a return on assets of 0.7% and return on equity of 10.6%, according to Credit Union Central of Canada.

Credit unions are rated higher by their members on a vast majority of service attributes than banks are rated by their customers. Credit unions ranked first in overall quality of service in 2010 among all financial institutions for a sixth straight year, according to Synovate, a market research firm. Credit unions also dominate in serving the small-business market, ranking first in terms of financing, fees and services with respect to micro-sized and small business, according to a 2010 survey by the Canadian Federation of Independent Business.

Mergers provide competitive advantage

This financially successful system has evolved significantly over the last 20 years, with a dramatic decline in the number of credit unions and an equally dramatic increase in assets. The two trends are reflected in a rapid increase in the size of the average credit union.

Mergers between like-minded credit unions offer effective solutions in meeting the competitive challenges of a rapidly changing financial services industry, permitting growth and diversification opportunities into a larger market. Credit unions continue to join forces to reduce overhead costs, afford new technology and offer competitive financial services.

First West, meanwhile, is executing a unique merger model that in 2010 resulted in the integration of the operations of the Envision and Valley First credit unions. Under that model, each credit union retains its local brand identity and operates as a connected yet distinct entity in its respective trade areas.

FINANCIAL GOVERNANCE

Financial governance is the process by which First West maintains the integrity and transparency of financial reporting to its stakeholders. This process ensures that the credit union's financial statements are understandable and fairly reflect its financial affairs.

The board's audit and risk committee is responsible for financial governance. Committee members are elected by the board after each annual general meeting and must be independent and financially literate.

The purpose of the committee includes:

- reviewing with the external auditor their final audit report, audited annual financial statements and management's representation letter to the auditors
- reviewing and recommending to the board for approval the quarterly financial statements
- reviewing all regulatory filings and financial information issued by the credit union prior to publication in any annual report or public disclosures
- receiving reports from the internal and external auditors on material issues related to internal control or financial reporting controls
- receiving and reviewing quarterly risk reports from the risk department

First West's financial governance processes are comparable to industry standards and provide reasonable assurance to the board that important information is communicated to it in a timely fashion. This in turn ensures that complete and reliable financial information is communicated to First West's members.



Value all

Lifelong relationships are priceless—we treat everyone with dignity, respect and honesty



Comprehensive financial analysis

OPERATING EFFICIENCY

Operating efficiency—the expense-to-revenue ratio—measures the relationship between operating expenses and revenue. It is calculated as non-interest expense divided by total revenue (net interest income plus non-interest income), expressed as a percentage: the lower the percentage, the greater the efficiency. Operating efficiency is a key measure of our ability to remain economically viable.

In the short-term, operating efficiency gives us the flexibility to respond quickly and effectively to competitive pressures in a dynamic marketplace. Longer term, operating efficiency ensures that we maximize financial performance so that we are able to expand into new markets, add new financial products and services and pay a sustainable dividend to members. These activities also require that we sustain strong asset and deposit growth.

In 2010, our operating efficiency improved to 79.5% from 79.8% in 2009. The improvement resulted from a 15.6% increase in revenue (net interest income and non-interest income combined) while operating expense increased only 14.8%. After adjusting for one-time merger costs related to establishing First West in 2010, operating efficiency further improved to 78.8%.

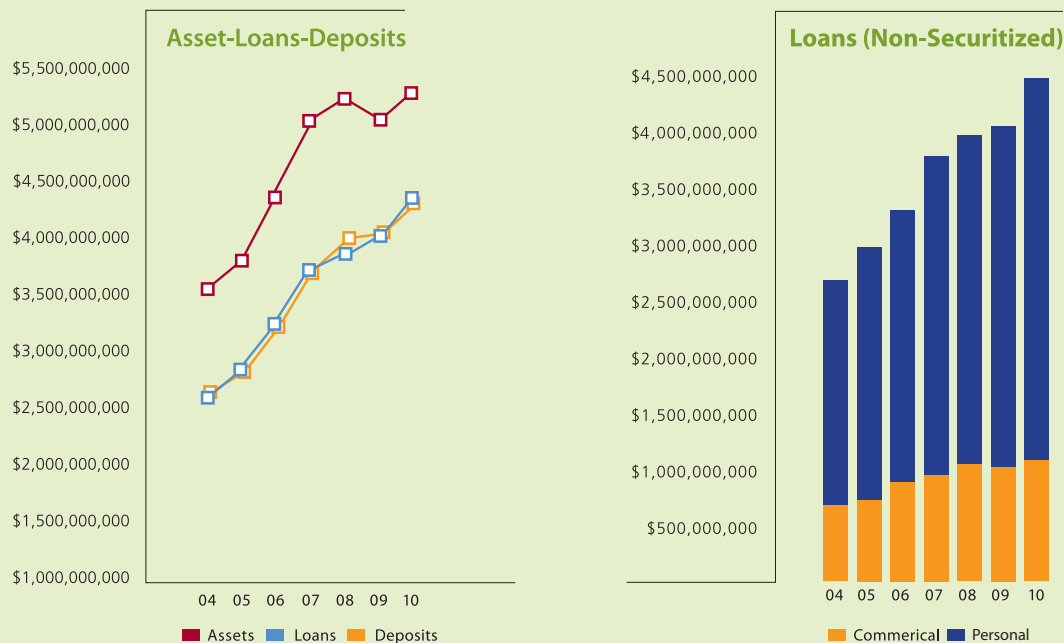
Management is committed to continuously improving operational efficiency as it is considered a strategic imperative in today's highly competitive banking environment. The components of our operational efficiency ratio are addressed in the following sections.

NET INTEREST INCOME

In 2010, net interest income—interest and investment income earned on assets less interest incurred on deposits and borrowings—increased \$35.0 million, or 37.3%, to \$129.0 million from a year earlier. Net interest income as a percentage of average assets increased from 2.04% in 2009 to 2.65% in 2010, one of the highest in the British Columbia credit union system.

During 2010, the cost of borrowing and pricing for deposits remained low. That in turn lowered our cost of funds and improved our margin. The decrease in funding costs was partially offset by lower yields on prime-based loans, which declined because of historically low interest rates. Low interest rates, however, led to improved performance in the derivative portfolio, which helps to increase our margin.

Dividends paid to members by First West declined to \$1.3 million, or 13%, compared with \$1.5 million in 2009. The decrease resulted from a realignment of dividend rates to ensure consistent dividends to members following the merger of Valley First and Envision credit unions.



PROVISION FOR CREDIT LOSSES

Our income statement provision for credit losses at December 31, 2010, was \$3.9 million compared to \$3.0 million a year ago. Loan write-offs during 2010 were \$3.2 million, resulting in the overall balance sheet provision for credit losses increasing by \$0.7 million. Loan write-offs were relatively low in 2010, despite the lingering effects of the brief recession in B.C. during 2009, and reflect the overall high quality of our loan portfolio. A full discussion of this provision is provided in Notes 3 and 8 of the consolidated financial statements, and additional discussion is provided in Allowance for Credit Losses on page 26.

NON-INTEREST INCOME

A key part of our strategy is to diversify non-interest income, which comprises all income other than net interest income, by establishing subsidiary companies that provide insurance, wealth management and automotive financing services. In 2010, non-interest income decreased \$6.4 million, or 7.1%, to \$83.4 million primarily because of lower mortgage renewals fees and securitized income. The decrease was partially offset by an increase in automotive financing revenues, which rose 36% to \$3.6 million. A discussion and analysis of the operations and results of our subsidiary companies is provided below in Business Segments and on pages 20 to 25.

NON-INTEREST EXPENSES

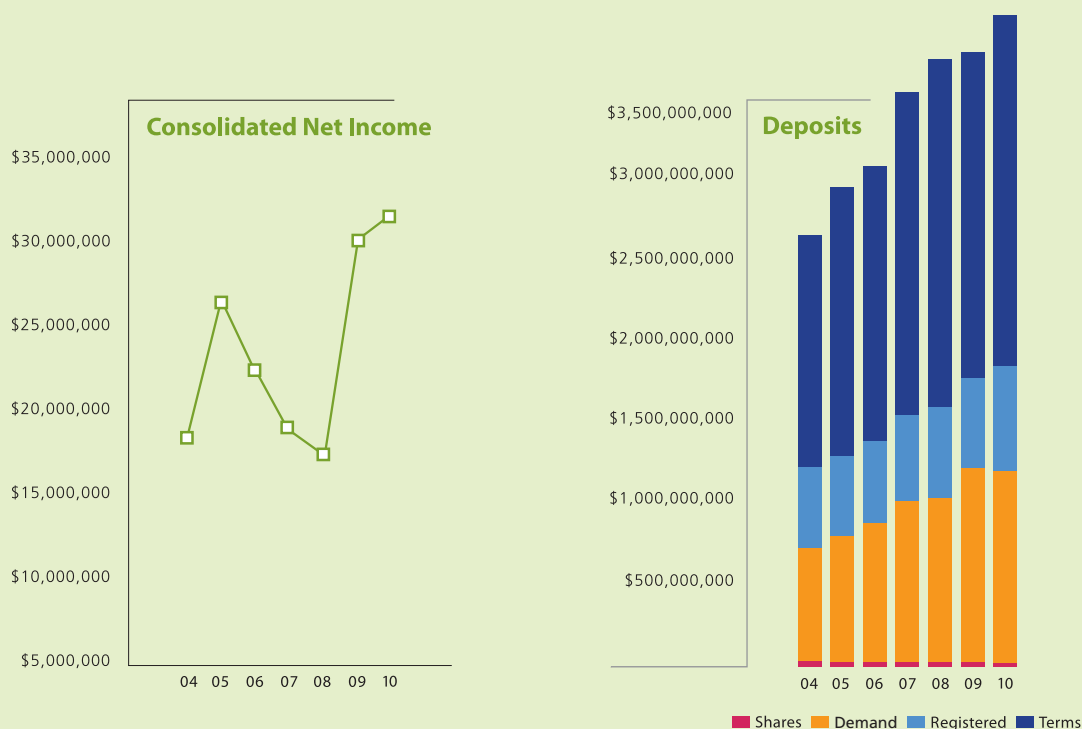
Non-interest or operating expenses in 2010 increased \$21.3 million, or 14.8%, to \$164.8 million compared with 2009. The largest increases were salaries and benefits, which increased \$9.2 million, or 11.4%, to \$89.7 million because of higher staffing levels and compensation rates, and administration and occupancy costs, which increased \$7.2 million, or 18.4%.

First West incurred one-time costs of \$1.4 million related to the merger of the Envision and Valley First credit unions. These costs compare favourably to our overall budget of \$4.7 million. In 2011, we expect our operating model to gain further efficiencies, enabling us to contain costs through process improvements, procurement management and other merger-related efficiencies.

Our income tax rate, net of credit union and other reductions, increased in 2010 to 25% from 15%, as rising taxable income pushed the credit union into a higher tax bracket. This resulted in a 108.2% increase in income taxes to \$10.9 million compared with 2009.

BUSINESS SEGMENTS

Non-interest or operating expenses in 2010 increased \$21.3 million, or 14.8%, to \$164.8 million compared with 2009. The largest increases were salaries and benefits, which increased \$9.2 million, or 11.4%, to \$89.7 million because of higher staffing levels and compensation rates, and administration and occupancy costs, which increased \$7.2 million, or 18.4%.



Retail Banking

Profile

Retail banking operates at 37 retail branches located throughout B.C., operating under the brand names of Envision Financial (21 branches) and Valley First (16 branches). We provide a full range of competitively priced financial products and services to our members, ranging from Envision Financial's innovative Redfrog account and Valley First's Magic Mortgage to credit cards and chequing accounts, among others.

2010 Highlights

- Personal loans increased \$300.7 million or 10.2%
- Completed MemberCard conversion to new chip technology in the Envision region

Performance Review

B. C. emerged from a short but deep recession in 2010. As the provincial economy recovered, consumer spending and demand for residential mortgages increased during the year. We faced continued strong competition from other financial services institutions, nevertheless, including credit unions and non-traditional financial services providers, for residential mortgages and deposits.

Interest rates remained at historical lows during 2010, however, we improved our financial margin by managing loan and deposit pricing effectively. In the Envision region we issued new MemberCards during the year that feature chip technology that adds higher levels of security for automated bank machine and in-store transactions. Member satisfaction increased because of activities such as streamlining borrowing procedures and introducing new members to our full range of products and services.

Our total loans to retail members increased by \$300.7 million, or 10.2%, compared with 2009. The increase was primarily the result of growth in residential mortgages from the reopening of Envision Financial's mortgage brokerage centre and competitively priced products. We increased deposits from retail members in 2010 through our business development and member retention activities.

Industry and Market Review

Canada's major banks dominate the retail banking market in B.C. However, we continue to see an increase in non-traditional competitors for deposits and loans. First West, therefore, must compete aggressively for residential mortgages, savings accounts and term deposits. Retail banking at First West seeks to earn market share and to build a loyal membership base by developing competitively priced, innovative products and services. We also seek to provide exceptional in-branch experiences to our members with locally responsive and locally focused service.

Business Outlook and Strategy

We expect favourable operating conditions in 2011, as B.C.'s economy is expected to grow at a moderate rate and consumer spending expands. Housing starts, however, are forecast to remain near 2010 levels. We believe that these conditions will lead to growth in consumer lending from increased demand for residential mortgages, consumer loans and lines of credit.

Interest rates are expected to increase by approximately one percentage point in 2011. Consequently, this will result in higher interest payments for consumers, many of whom have taken on excessive debt loads. We are, therefore, maintaining a cautious balance sheet growth strategy.

Our priorities in 2011 are to continue to integrate delivery processes, gain efficiencies and control costs by leveraging the strengths of our large, growing organization. We will also focus on internal growth by differentiating our services from the competition and strengthening member relationships and brand recognition. We also plan to drive membership growth with a focused marketing strategy.



Business Banking

Profile

First West's business banking group operates under the Envision Financial and Valley First brand names. We provide financial products and services to our business members, from self-employed entrepreneurs to large organizations. We serve these businesses with a full range of financial products and services to meet our members' borrowing, payroll, investment and daily operating needs.

2010 Highlights

- Commercial loans increased \$99.1 million or 8.9%
- Expanded our small business banking team
- Secured full banking relationship with District of Mission and deposit account from City of Penticton

Performance Review

In 2010, business banking continued to specialize in commercial real estate lending while increasing market penetration in the small to medium-sized enterprise (SME) market. A more stable economic environment and low interest rates resulted in a rebound in real estate markets from recession-related declines in 2009. This trend was most evident in B.C.'s Lower Mainland. Business activity in the SME and institutional sectors increased as we added staff to increase awareness of our services and to raise service levels.

Our financial margin improved in 2010 as the cost of funds declined and we followed a disciplined pricing model for new commercial loans. Loans to our business members increased \$99.1 million, or 8.9%, compared with 2009.

Our commercial real estate loan portfolio grew strongly during 2010. This was largely the result of renewed efforts to increase our business in commercial loans amid improving local economies and housing markets. We also increased business-member deposits as a result of active marketing programs. Additionally, First West's increased financial capacity resulted in new business from large institutional accounts, including the City of Penticton and District of Mission.

Industry and Market Review

B.C.'s business banking sector remains highly competitive, although, credit unions enjoy competitive advantage in the SME market, according to a recent independent survey. Our business banking division competes with Canada's principal banks, regional banks and other credit unions for loans and deposits. Our advantage is our local decision-making and insight into local business conditions, which allow us to approve loans faster and build stronger relationships with business owners.

Business Outlook and Strategy

The outlook for moderate economic growth in B.C. in 2011 is expected to provide stable market conditions for business banking. However, slower growth in some real estate markets, such as the B.C. Interior, is expected to result in aggressive loan pricing by bank and non-bank competitors.

We will continue to emphasize local decision-making and insight into local businesses to maintain a competitive advantage in all of our markets. We will also seek to diversify operations by increasing market share in areas such as institutional deposit accounts and the professional services sector. We continue to maintain a cautious lending strategy, focusing on the support of existing developers in our portfolios while entertaining new lending on a selective basis.

First West Capital

Profile

First West Capital was formed in November 2010 to extend our business banking services to include specialized non-traditional financing. These include subordinated debt and mezzanine financing and other cash-flow-based debt that can be used to finance business growth, succession and acquisitions.

2010 Highlights

- Established \$60 million target for small and medium-sized business financing
- Recruited an experienced corporate-lending and investment-banking team

Performance Review

Drawing on the increased financial strength and flexibility of First West, we launched this new division on November 4, 2010. For the remainder of the year, we were involved primarily in start-up activities, including targeting \$60 million for financing and recruiting a team with extensive experience in financing small and medium-sized businesses. By February 2011, First West Capital had completed several transactions.

Business Outlook and Strategy

Our objective is to provide creative financing to help small and medium-sized businesses fund initiatives such as inter-generational ownership transfers, market expansion and business acquisitions. Many of these activities require financings other than traditional loans, mortgages or lines of credit. First West Capital, however, can structure flexible terms, conditions and repayment options that meet the unique needs of a business.

We will focus on investments and financings ranging from \$500,000 to \$5 million. Our objectives in 2011 are to complete 10 to 15 transactions valued at approximately \$10 million in total.



Insurance Services

Profile

First West operates 30 insurance offices throughout B.C., primarily under the Envision Financial and Valley First brands. We offer a comprehensive range of property and casualty insurance and risk-management services that provide peace of mind to our members and clients. First West emphasizes internal growth of its insurance offices by increasing the integration of these businesses with its other business segments.

2010 Highlight

- Property and casualty insurance revenue increased 0.9%

Performance Review

First West's insurance business continued to deepen relationships with its customers, increase awareness of its services and improve service delivery in 2010. However, the lingering effects of the recession in B.C. during 2009 and higher insurance premiums in 2010 resulted in lower overall growth in our insurance business. Both consumers and businesses sought to reduce insurance costs by reducing optional coverages and increasing deductibles. Consequently, revenues slipped 1.6% to \$14.7 million in 2010. Renewal rates, however, remained high, as customers continue to appreciate the value of our services.

Industry and Market Review

The Canadian property and casualty insurance industry is highly fragmented and competitive. Our principal competition for insurance products and services is other independent insurance agencies. The ongoing consolidation of these agencies, however, threatens to heighten that competition, as does the increase in the number of direct insurance providers. Our insurance services group competes by offering a broad range of insurance services that complement the services and products of other First West business segments.

Business Outlook and Strategy

We will continue in 2011 to promote internal growth in personal and commercial insurance sales and to streamline and integrate operations with other First West business segments. Our objective is to increase revenue by enhancing the value of our organization to members, generating referrals for new business and integrating regional brands. We will also seek to increase operating efficiencies through process improvement, including information technology and staff training.

Wealth Management

Profile

First West helps its members manage their wealth with a broad range of products and services offered directly through Envision Financial and Valley First. In partnership with Qtrade Securities Inc., we indirectly offer Qtrade Investor, Canada's leading independent online brokerage, Qtrade Advisor, a full-service online brokerage, and Qtrade Asset Management for mutual fund services. Our products include stocks, bonds and mutual funds, featuring Ethical Funds, a proprietary mutual fund developed and delivered in partnership with Northwest Ethical Investments.

2010 Highlights

- Mutual funds under administration increased 16.9% to \$923.5 million
- Revenues increased 24.6% to \$7.9 million

Performance Review

Revenues increased because of a strong flow of internal referrals from other First West business segments and further refinements to our product line. Global equity and bond markets were also stronger in 2010, following significant declines in 2008 and 2009. This led to increased investor confidence as the economic outlook improved.

Wealth management revenues, which include sales of mutual funds, wealth management services and life insurance, increased to \$7.9 million, up 24.6% from \$6.3 million in 2010. Mutual funds under management increased in value by \$176.8 million, or 16.9%, compared with an industry average increase of 12.3%, as measured by the Investment Funds Institute of Canada.

Industry and Market Review

The wealth management industry in Canada is dominated by the major Canadian banks. These organizations maintain competitive advantage with national distribution networks for proprietary wealth management products and for investment advisory services.

First West's wealth management group centres its business development strategy on furnishing personalized financial planning and advice to members. It seeks to increase its share of the wealth management market by building on relationships within its Envision Financial and Valley First regions and by offering a variety of competitively positioned investment products and services.

Business Outlook and Strategy

We expect bond and equity market conditions to be generally positive in 2011 as economic growth forecasts for Canada and the United States remain optimistic. Consequently we are forecasting continued strong growth in assets under administration. Revenues from mutual fund trailer fees, meanwhile, are expected to grow at a slower pace in the year ahead.

Our priorities are to add mutual fund and insurance sales representatives, increase the sale of proprietary mutual funds and expand financial planning services into areas such as estate and succession planning for business members. We also plan to achieve further operating efficiencies through the integration of First West's operations.

Automotive Financing

Profile

First West's automotive financing operates through two subsidiaries, Envision Leasing Ltd. and CU DealerLink Ltd. These companies work with select automotive dealers throughout B.C. to deliver on-the-spot financing to credit union members and non-members who are buying or leasing a vehicle.

CU DealerLink adjudicates, authorizes and finances by way of conditional sales contracts the purchase of new and used passenger vehicles and light trucks. Envision Leasing operates in the new and nearly new vehicle markets, offering open- and closed-end leases for cars, trucks and vans.

2010 Highlights

- Envision Leasing's revenue increased 43% to a record \$12.5 million
- CU DealerLink's revenue decreased 8.9% to \$987,000

Performance Review

We continued to broaden our dealer network in 2010, and both subsidiaries benefited from growing consumer awareness of their services and from higher vehicles sales in B.C. Automotive financing revenues increased 36.3% to \$13.5 million in 2010 as we capitalized on the continuing reduction of traditional leasing programs, such as manufacturer-provided leases.

Our portfolio of leases and conditional sales contracts maintained attractive margins as a result of favourable pricing conditions in the automotive financing market and a modest increase in lease administration fees. Envision Leasing's lease portfolio increased 46%, and its revenue increased 43% to a record \$12.5 million by maintaining a strategy of offering fairly priced leases and conservative residual values.

CU DealerLink adjudicated the purchase of more than 2,474 vehicles in 2010, compared with 3,775 vehicles in 2009. In 2010, CU DealerLink's revenue decreased 8.9% and the volume of conditional sales contracts assigned to First West decreased 23.4% to \$44.3 million, from \$57.8 million in 2009 as we shifted our focus to higher margin business in the automotive leasing segment. The portfolio of these contracts at year-end was \$104.7 million.

Industry and Market Review

The automotive financing industry is dominated by major Canadian banks and to a lesser extent by the financial arms of the automakers. It is a dynamic industry with constantly changing product offerings. Drawing on their credit union roots, CU DealerLink and Envision Leasing provide attractive and convenient financing options to consumers seeking alternatives to traditional financing.

Business Outlook and Strategy

For the year ahead, automotive financing's objectives are to continue the expansion of its B.C. operations, enter the Alberta market and introduce new products and services. We plan to increase revenues 50% over the next three years by providing fast, efficient service on loan and leasing applications and by matching competitors' periodic special-pricing programs.



Review of financial position

BALANCE SHEET MANAGEMENT

Total Assets

Total assets increased \$400.2 million, or 8.6%, in 2010 compared with 3.3% in 2009. The improved performance was primarily the result of an increase in personal loans to members (\$300.7 million or 10.2%), as both the B.C. economy and consumer confidence improved following a recession in 2009. Investments and other assets remained virtually unchanged from the previous year.

Deposit Gathering Activities

Member deposits increased \$241.5 million, or 5.8%, during 2010. The increase was primarily due to our focus on attracting term deposits and short-term demand deposits, which increased 4.5%.

Financing Activities

Our requirement for financing improved in 2010 as loan growth slowed during a period of economic recovery in B.C. Deposits increased as our members adopted a more cautious approach to investing and took advantage of attractive deposit product and interest-rate offerings. As a result, we funded growth in assets with short-term borrowing and increases in member deposits.

Loans

Total loans to members increased \$399.8 million, or 9.8%, compared with 2009. The increase occurred primarily in residential mortgages, which rose \$498.0 million, or 21.2%, and commercial mortgages, which increased \$96.9 million, or 9.9%. Those increases were partially offset by a decline in personal lines of credit, which fell \$187.4 million, or 47.1%.

CREDIT QUALITY

Allowance for Credit Losses

Our combined balance sheet allowance for credit losses as of December 31, 2010 was \$12.6 million compared to \$16.4 million a year ago, a decrease of \$3.8 million, or 23.0%. The decrease stems primarily from the First West merger, which required an adjustment of \$4.5 million to the fair value of loans acquired from Valley First Credit Union. The net increase in our provision for credit losses described above accounts for the remaining difference.

The year-end allowance for credit losses represents 0.28% of total loans and accrued interest, compared with 0.39% a year earlier. Without the fair-value adjustment, the allowance at year-end would be 0.33%.

We believe that the total allowance for credit losses is adequate based on current economic factors and our analysis of the loan portfolio as of December 31, 2010. In addition to maintaining a general allowance of 0.24% of loans, specific allowances are evaluated monthly on an account-by-account basis. A complete analysis of our allowance for credit losses, including impaired loans, is provided in Note 8 of the consolidated financial statements.

CAPITAL MANAGEMENT

As of December 31, 2010, the credit union had a capital ratio of 14.6% on a risk-weighted basis. This compares favourably with the prescribed minimum ratio of 8% of total risk-weighted assets. A complete analysis of our capital management objectives and policies is provided in Note 6 of the consolidated financial statements.



Make common-sense decisions

We're all leaders who can make decisions to do what makes sense for our members



Outlook and strategy for 2011

BRITISH COLUMBIA ECONOMIC FORECAST 2011-2013¹

Stable Economic Growth Expected in B.C.

B.C. will enjoy moderate economic growth of about 3% a year for the next three years, according to an economic analysis by Central 1 Credit Union.

The B.C. economy grew by 3.6% in 2010, powered by the 2010 Olympic winter games. Growth, however, will slow to about 3% in 2012 and 2013 because of forecast lower natural gas prices and fewer major mining and energy projects.

Construction Industry Will Post Highest Growth

Domestic sectors remain the main drivers of B.C.'s economy. The construction industry will post the highest growth rate: 16% between 2010 and 2013 compared to about 10% for all industries. Retail and wholesale trade is the next best sector, expanding at roughly a 4% annually on moderately robust consumer spending.

Tourism received a temporary boost from the 2010 Olympic winter games, but it has subsequently returned to previous levels. The outlook for U.S. tourism into B.C. remains poor, as U.S. consumer discretionary spending is still below normal. B.C.'s tourism industry will nevertheless expand at a modest pace because of growth in Asian and domestic traffic.

Housing Starts to Remain Near 2010 Levels

Interest rates are expected to rise by one percentage point in each of the next three years, which will impact the housing sector. The rest of the economy, however, is expected to cope well.

Housing starts in 2011 are forecast to remain near 2010 levels, approaching 27,000 units after crashing to 16,000 in 2009. Pent-up housing demand is expected to lead to higher housing starts in 2012 and 2013.

Housing sales and prices ended 2010 on an uptrend that should extend into 2011, as mortgage rates remain low and the economy is growing. However clouds are gathering on the horizon: mortgage rate increases and a possible tightening in federal mortgage insurance underwriting criteria could undermine consumer confidence and, in turn, housing prices.

Growth in Consumer Spending Remains Stable

Consumer spending is forecast to expand 5.5% in current dollars during 2011 and 3.5% after inflation. Growth is forecast to fluctuate near these rates through to 2013 on moderate job, income and population growth. B.C.'s population, however, is expected to grow at a slower rate in the latter part of that period as Alberta's hotter economy attracts job hunters.

Unemployment in B.C. remains high at 7.6%. Growth in jobs, however, will push the unemployment rate down to 7.3% in 2011, 6.7% in 2012 and 6.1% in 2013. A moderate increase in jobs and a growing labour force will keep annual wage increases in the 2% to 3% range.

Strong Canadian Dollar Keeps Inflation in Check

Inflation is forecast to rise 1.5% in 2010 to 2.1% in 2011 on higher energy prices. The Canadian dollar is expected to remain near parity with the U.S. dollar for the next three years. That will keep import prices down and overall inflation in check.

1. Forecast information provided by Central 1 Credit Union



HST Referendum Adds Uncertainty

If the harmonized sales tax (HST) is removed and replaced with a provincial sales tax (PST), it would alter the consumer and business investment spending forecast.

Consumer spending would increase, particularly in sectors such as restaurants. Business investment, meanwhile, would fall, as the tax policy flip-flop would undermine business confidence. The switch back to a PST would also reduce government revenue and increase the deficit.

OUTLOOK AND STRATEGY FOR FIRST WEST

Our Strategy: Working big. Working local.

First West's inaugural strategic plan covers the three-year period 2011 to 2013. The plan is dynamic and will be reviewed regularly to modify priorities and tactics as needed.

The plan addresses why First West exists: to make a real difference in the financial lives of members and how we are doing it: by creating a network of like-minded credit unions with the size to work big and the grassroots common sense to work local.

Our organizational growth strategy rests on the following five strategic priorities and associated objectives:

1. Create a meaningful member experience

We believe that we can stand out from our competitors—and become even more relevant to the needs of our members—by providing an individual experience based on trust, by knowing our members and by recognizing and rewarding our members for their loyalty. We will be become known for being refreshingly simple.

2. Create a high-performance culture

We will foster a culture that brings out the best in our people, creates accountability and rewards high performance.

3. Transform into a continuous improvement organization

Our goal is to be recognized as a lean organization: one that invests continuously to find a better way for its members and encourages problem solving to bring positive change.

4. Optimize revenue

We will leverage core competencies to increase non-interest income and diversify lending while serving the lifestyle stages of our members and differentiating First West through centres of excellence.

5. Develop a multi-brand operating model

First West will evolve into a unique multi-brand model, gaining credibility, momentum and appeal with potential credit union partners.

Executing Our Strategy

Our operating model combines the efficiency, stability and financial strength of a big organization with the flexibility and responsiveness of a local credit union.

We manage our business using a multi-brand structure that enables our Envision Financial and Valley First regions to customize operational strategies to meet the unique conditions in which they operate. Each region operates under the direction of its own president as a standalone business unit, with its own regional brand (either Envision or Valley First) and banking system. The regional presidents and local management teams direct the growth of regional business segments: retail banking, business banking, insurance services and wealth management.

Strategies for insurance services and wealth management are determined by First West to achieve synergies in program development and supplier relationships. First West Capital and automotive financing, meanwhile, operate autonomously under the direction of First West to serve the needs of our members and non-credit union members.

First West supports the two regions with corporate services and programs that promote operational efficiency. These include treasury and financial management, risk management, human resource management and marketing. By providing operational support and strategic oversight, First West enables both regions to deliver sophisticated services and access large capital facilities that improve overall effectiveness and, in turn, the financial lives of its members.

Capability to Deliver

With our business model, we have the capability to draw on essential regional skills and resources, including:

- strong local brand presence and awareness
- a full line of competitive financial services
- talented and motivated employees
- an experienced management team

We can also leverage substantial organizational resources to execute strategies and deliver results, including:

- the collective strength and scale of a large branch network
- ready access to capital markets
- the financial capacity to fund large credit facilities and strategic priorities
- scalable information technology and administrative infrastructure to support strategic initiatives with other credit unions

The external operating environment further supports First West's growth objectives and reduces risk:

- B.C.'s economy is among the strongest in Canada
- the Lower Mainland, Okanagan and Similkameen regions are economically diverse and robust
- the political environment is becoming more favourable to intra-provincial or national expansion
- credit union market penetration in B.C. is the highest in Canada

Objectives for 2011

First West has established medium-term objectives for its three-year strategic plan that will be reviewed annually. The primary objectives for our business, members and people in 2011 are outlined below.

Our Business

Revenue growth. Optimizing revenue by improving financial margin, increasing non-interest income and diversifying lending with high-yield products is an important objective. We expect, however, total revenue to decline 2.8% in 2011 because of a lower financial margin resulting from an increase in cost of funds. We expect the reduction in financial margin to be partially offset by an increase in revenue from other lines of business.

Loan growth. We are forecasting total loan growth of 5.7%, with our consumer loan portfolio increasing approximately 5.9% and our commercial loan portfolio rising 5.3%. Our lending strategy is to be selective to protect our credit position and to achieve pricing commensurate with credit risk and credit spreads.



We plan to capitalize on our competitive advantage in serving the needs of small to medium-sized businesses by providing specialized banking and financing services, including offering large non-traditional financing through our newly-formed First West Capital division.

Deposit growth. We expect deposits from members to increase by 1.4% in 2011, with demand deposits increasing by 3.6% and term deposits remaining flat.

Cost control. Our priority is to stabilize expenses while growing revenue through improved spending and process efficiencies. Our three-year goal is to continually reduce expenses as a percentage of assets and improve operating efficiency. In 2011, we will control operating expense through initiatives such as procurement management to capitalize on First West's greater purchasing power as a larger organization.

We expect to incur additional one-time costs related to the finalization of First West's operating model. Our expenses are budgeted to increase 1.8% in 2011. The largest increases will be in marketing and public relations and in facilities in support of brand-awareness and member-service activities. Personnel costs are also expected to rise as we continue to invest in our people and maintain staffing levels to meet members' needs.

Operating efficiency. Operating efficiency in 2011 is targeted to improve to 74.1%, as a result of our conservative revenue estimates and reinvestment in multiple brands and human resources.

Balance sheet. Our balance sheet strategy is to reduce borrowing levels as a percentage of assets to below 5%. Our capital management strategy for 2011 is to achieve a capital ratio of 14.7% on a risk-weighted basis compared with 14.6% in 2010, and a prescribed minimum ratio of 8.0%.

Our Members

Membership growth. We expect brand awareness and other marketing activities to lead to 3% growth in membership in 2011 and to 17% growth overall by 2013.

Loyalty program. We will develop a member-loyalty program, establishing the base in 2011.

Our People

Employee engagement. We will promote employee engagement through a standardized biannual assessment, setting the benchmark in 2011.

Risks and Uncertainties

Despite a positive economic and business outlook for 2011, our strategies and objectives are subject to a number of risks and uncertainties, including:

- possible increases in the prime rate in 2011 that may slow loan growth
- high consumer debt levels, which may impact housing markets and loan losses
- aggressive competition from major banks and other credit unions
- increasing commoditization of financial services

Our outlook recognizes these realities and the need to prepare for the unexpected.

Caution Regarding Forward-Looking Statements

The projections and targets included in this section involve numerous assumptions. A variety of factors may cause actual results to differ materially from expectations. These factors include but are not limited to general business and economic conditions and changes in financial markets.

The reader should, therefore, not place undue reliance on these projections.



Risk management

Our business activities require that we prudently measure and manage risks to ensure the financial sustainability of the credit union. Risk is defined as the likelihood of an event occurring that impedes the achievement of an organization's objectives. Risk management is the process for identifying, assessing, managing and monitoring all risk factors that may adversely affect the operations, financial results and reputation of the credit union.

The categories of significant risks affecting First West are strategic, operational, credit, market, liquidity and regulatory. We have established a risk profile to assess our risk levels, their trends and actions being taken on a quarterly basis. This framework includes appropriate tolerances, risk reporting and board and management risk policies to effectively manage and monitor risk. Management reports quarterly to the board through the audit and risk committee on our risk profile and compliance with risk policies.

Strategic Risk

Strategic risk arises from ineffective business strategies, the absence of integrated business strategies, the inability to implement strategies and the inability to adapt strategies to changes in the business environment. Strategic risks are monitored, assessed and managed by management with oversight from the board.

Operational Risk

Operational risk is inherent in all business activities. It is the risk of loss resulting from inadequate or failed internal processes and systems, human error, or from external events. This risk may impact our earnings, reputation, regulatory penalties, competitive position, or failure to manage other risks. The board is responsible for providing oversight and ensuring that appropriate policies are implemented to manage operational risk.

Fraud is an additional operational risk faced by all financial institutions.

Fraud is an ever-evolving issue in the financial services industry and although it is impossible to prevent all fraud, we have rigorous controls, procedures and advanced security measures in place to safeguard the funds that our members entrust to us.

The strategies employed to manage operational risk include:

- establishing standards of professional conduct
- implementing policies and procedural controls
- reviewing internal control effectiveness and strengthening areas where needed

- initiating employee training programs
- managing property, liability and financial bond insurance programs to provide additional protection from loss
- updating and testing procedures and plans for disaster recovery and business continuity with our technology systems and data
- establishing a process for employees to confidentially report suspicious activities
- maintaining regular audits for compliance and effectiveness of controls by independent internal and external audit teams, which provide senior management and the audit and risk committee with recommendations to improve internal controls
- issuing quarterly risk reports to the board

Credit Risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a 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 8 of the financial statements, but also from interest rate swaps (derivatives).

Please refer to Note 18 of the financial statements for more information on credit risk.

Market 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, optionality risk and interest rate path risk.

The primary objectives of our market risk management process include:

- maximizing earnings and return on capital within acceptable and controllable levels of the above risks
- providing for growth that is sound, profitable and balanced without sacrificing the quality of service and
- managing and maintaining policies that are consistent with the short- and long-term strategic goals of the board

Please refer to Note 18 of the financial statements for more information on market risk.



Create good things

We strive to be better—always learning, trying, doing



Liquidity Risk

Liquidity risk is the risk of being unable to fund assets with the appropriate duration and cost, as well as the risk of not being able to meet unexpected cash needs.

The liquidity risk policy of the credit union is that liquidity is managed on both an operational and strategic level on a total company 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 liquidity deposits must be held with Central 1 Credit Union according to the credit union's deposit-loan agreement. The statutory liquidity ratio is 8.0% of deposits and borrowings as at the reporting date. Based on total deposits and borrowings as at December 31, 2010, the statutory liquidity requirement exceeds minimum requirements by \$59.6 million.

Please refer to Note 18 of the financial statements for more information on liquidity risk.

Regulatory Risk

Regulatory risk is the risk of negative impact to our earnings or reputation as a result of failure to comply with or adapt to legal and regulatory requirements, industry practices, or ethical standards. Our operations are governed by various acts and regulations, and we are expected to meet a high standard in business dealings and transactions.

Senior management has identified First West's legal and regulatory requirements, developed appropriate compliance policies and assigned responsibility for meeting these policies. Senior management also engages external legal counsel to assist in identifying areas of potential regulatory risk and establishes processes to manage these risks.

Our Standards of Professional Conduct contain guidance for all employees on identifying actions that may have a legal impact on the organization.

Reputational Risk

Reputational risk arises from a deterioration of reputation with stakeholders, such as members, employees, the media, rating agencies and regulators that could cause a decline the credit union's value, brand, liquidity or member base. An organization's reputation is a valuable business asset. Consequently, we manage reputation risk in all aspects of our activity.

First West uses various means to ensure sound reputation risk management, including governance practices, awareness sessions and its risk management framework. Officers and employees are required to perform their duties in accordance with these practices and the organization's values.

Additional information

International Financial Reporting Standards

Starting January 1, 2010, the Canadian Institute of Chartered Accountants transitioned Canadian generally accepted accounting principles (GAAP) for publicly accountable entities such as First West to International Financial Reporting Standards (IFRS). We will prepare financial statements in accordance with IFRS commencing January 1, 2011, and will include comparative 2010 results under IFRS. Even though much of Canadian GAAP is similar to IFRS, the transition to IFRS may significantly impact our processes and financial results. Please refer to Note 5 of the consolidated financial statements for more information on our transition to IFRS.



Financial highlights

(\$ in thousands)	% Increase (Decrease)	Audited	Unaudited, proforma combined performance			
		2010	2009	2008	2007	2006
Consolidated Balance Sheet						
Cash resources	(60.2%)	77,304	194,069	195,127	170,075	162,019
Personal loans	10.2%	3,252,188	2,951,517	2,813,739	2,780,218	2,426,039
Business loans	8.9%	1,207,186	1,108,077	1,125,981	1,010,475	905,348
Accrued interest	2.2%	7,160	7,008	7,391	7,611	7,127
Allowance for credit losses	(23.0%)	(12,636)	(16,419)	(17,716)	(13,172)	(12,559)
Total Loans	10.0%	4,453,898	4,050,183	3,929,395	3,785,132	3,325,954
Investments and other	30.6%	491,226	376,073	351,404	295,273	244,859
Premises and equipment	(3.6%)	50,581	52,478	48,600	47,659	51,356
TOTAL ASSETS	8.6%	5,073,009	4,672,803	4,524,526	4,298,139	3,784,188
Demand deposits	(0.2%)	1,202,024	1,203,954	1,087,668	1,048,464	898,447
Term deposits	6.9%	2,541,308	2,377,079	2,353,032	2,146,925	1,830,601
Registered savings plans	13.0%	648,019	573,319	574,727	525,980	516,844
Class A shares	(5.8%)	7,116	7,554	7,422	7,523	7,720
Accrued interest and dividends	14.3%	39,353	34,439	49,943	48,037	42,659
Total Deposits	5.8%	4,437,820	4,196,345	4,072,792	3,776,929	3,296,270
Payables and accruals	18.7%	57,413	48,384	70,242	64,173	54,543
Borrowings	78.6%	261,310	146,296	139,716	248,845	234,849
TOTAL LIABILITIES	63.7%	318,723	194,680	209,958	313,018	289,392
Equity shares	(7.2%)	48,575	52,368	37,694	38,624	38,772
Accumulated and other comprehensive income	52.5%	9,683	6,351	12,359	(5,645)	–
Contributed surplus	–	57,957	–	–	–	–
Retained earnings	(10.2%)	200,251	223,059	191,723	175,213	159,754
	8.6%	5,073,009	4,672,803	4,524,526	4,298,139	3,784,188
Allowance for Credit Losses						
Opening balance	(32.9%)	11,883	17,716	13,172	12,559	11,247
Less: write-offs	(25.3%)	3,189	4,271	1,504	1,265	1,127
Plus: provision	32.5%	3,942	2,974	6,048	1,878	2,440
Closing balance	(23.0%)	12,636	16,419	17,716	13,172	12,559



(\$ in thousands)	% Increase (Decrease)	Audited	Unaudited, proforma combined performance			
		2010	2009	2008	2007	2006
Consolidated Statements of Income						
Interest income	7.3%	209,491	195,259	218,478	224,915	189,053
Interest expense	-20.5%	80,537	101,363	137,426	132,383	101,817
Net interest income	37.3%	128,954	93,896	81,052	92,532	87,236
Provision for credit losses	32.5%	(3,942)	(2,974)	(6,048)	(1,878)	(2,440)
Non-interest income	-7.1%	83,372	89,773	80,734	56,289	49,927
Operating margin	15.3%	208,384	180,695	155,738	146,943	134,723
Operating expense	14.8%	164,785	143,518	135,051	122,932	107,666
Net income before unusual item and income taxes	17.3%	43,599	37,177	20,687	24,011	27,057
Income taxes	108.2%	10,892	5,232	2,786	4,989	4,965
Net income	2.4%	32,707	31,945	17,901	19,022	22,092
Financial Statistics (expressed as %)						
Asset growth		8.6	3.3	5.3	13.6	11.9
Loan growth		10.0	3.1	3.8	13.8	6.6
Deposit growth		5.8	3.0	7.8	14.6	10.5
Operating efficiency		79.5	79.8	87.2	83.9	80.3
Percent of average assets						
Net interest income		2.65	2.04	1.84	2.29	2.43
Other income		1.71	1.95	1.83	1.39	1.39
Operating expense		3.38	3.12	3.06	3.04	3.01
Operating return on assets		0.89	0.81	0.47	0.59	0.76
Net (after-tax) return on average assets		0.67	0.69	0.41	0.47	0.62
Other Statistics						
Retail branches		37	37	36	34	34
Insurance offices		30	30	29	28	28
Mutual funds under administration (\$ in thousands)		923,512	790,128	669,880	771,641	712,772
Loans under administration (\$ in thousands)		252,733	510,171	859,617	864,450	807,122
Book of business (\$ in thousands)		10,067,963	9,533,229	9,514,922	9,183,341	8,128,752
Average assets (\$ in thousands)		4,872,906	4,598,665	4,411,333	4,041,164	3,582,802



Inspire exceptional results

We achieve exceptional results, through inspirational leadership and a belief in the power of people



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 Committee composed of directors, oversees management's responsibilities for the financial reporting and internal control systems. Our external 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 Committee to discuss their audit and matters arising therefrom.

Launi Skinner

Launi Skinner
Chief Executive Officer

Thomas Webster

Thomas Webster
Chief Financial Officer

Independent auditors' report

To the members of First West Credit Union:

We have audited the accompanying consolidated financial statements of First West Credit Union, which comprise the consolidated balance sheet as at December 31, 2010, the consolidated statements of income, comprehensive income, changes in member equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of First West Credit Union as at December 31, 2010, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG LLP
Chartered Accountants
March 17, 2011
Vancouver, Canada



Consolidated balance sheet

FIRST WEST CREDIT UNION
December 31 (in thousands of dollars)

	2010	2009
ASSETS:		
Cash resources (Note 7)	\$ 77,304	\$ 70,353
Loans (Note 8)	4,453,898	2,772,030
Investments and other (Note 9)	491,226	329,187
Premises and equipment (Note 10)	50,581	33,394
	\$ 5,073,009	\$ 3,204,964
LIABILITIES AND MEMBERS' EQUITY:		
Deposits (Note 11)	\$ 4,437,820	\$ 2,853,587
Other (Note 12)	57,413	42,373
Borrowings (Note 13)	261,310	125,449
	4,756,543	3,021,409
MEMBERS' EQUITY:		
Equity shares (Note 14)	48,575	9,683
Contributed surplus	57,957	-
Retained earnings	200,251	168,892
Accumulated other comprehensive income	9,683	4,980
	316,466	183,555
	\$ 5,073,009	\$ 3,204,964

Commitments and contingencies (Note 26)

See accompanying notes to the consolidated financial statements.



Consolidated statement of income

FIRST WEST CREDIT UNION
Year Ended December 31 *(in thousands of dollars)*

	2010	2009
Interest income		
Loans	\$ 184,734	\$ 113,173
Cash resources and investments	24,757	10,725
	209,491	123,898
Interest expense		
Deposits	76,892	63,058
Borrowings	3,645	2,109
	80,537	65,167
Net interest income	128,954	58,731
Provision for credit losses (Note 8)	3,942	2,500
	125,012	56,231
Non-interest income (Note 20)	83,372	72,503
	208,384	128,734
Non-interest expenses (Note 21)	164,785	102,884
Income before the undernoted	43,599	25,850
Provision for income taxes (Note 22)	10,892	3,838
NET INCOME	\$ 32,707	\$ 22,012

See accompanying notes to the consolidated financial statements.



Consolidated statement of comprehensive income

FIRST WEST CREDIT UNION
Year Ended December 31 (in thousands of dollars)

	2010	2009
Net income	\$ 32,707	\$ 22,012
Other comprehensive income (loss)		
Unrealized gains (losses) on available for sale securities (net of income taxes of \$0, 2009: \$6)	5	(32)
Unrealized net gains on derivatives designated as cash flow hedges (net of income taxes of \$1,542, 2009: \$437)	8,737	2,476
Reclassification to net income of gains on cash flow hedges (net of income taxes of \$714, 2009: \$550)	(4,039)	(3,118)
Total other comprehensive income (loss)	4,703	(674)
COMPREHENSIVE INCOME	\$ 37,410	\$ 21,338

See accompanying notes to the consolidated financial statements.



Consolidated statement of changes in member equity

FIRST WEST CREDIT UNION
December 31 (in thousands of dollars)

	2010	2009
Equity shares		
Balance, beginning of year	\$ 9,683	\$ 10,561
Impact of business combination (Note 2)	42,685	-
Redemptions	(3,793)	(878)
Balance, end of year	\$ 48,575	\$ 9,683
Contributed Surplus		
Balance, beginning of year	-	-
Impact of business combination (Note 2)	57,957	-
Balance, end of year	57,957	-
Retained earnings		
Balance, beginning of year	168,892	147,212
Net income	32,707	22,012
Dividends net of related tax savings	(1,348)	(332)
Balance, end of year	200,251	168,892
Accumulated other comprehensive income, net of tax		
Balance, beginning of year	4,980	5,654
Other comprehensive income (loss)	4,703	(674)
Balance, end of year	9,683	4,980
TOTAL MEMBERS' EQUITY	\$ 277,574	\$ 184,433

See accompanying notes to the consolidated financial statements.



Consolidated statement of cash flows

FIRST WEST CREDIT UNION
Year Ended December 31 (in thousands of dollars)

	2010	2009
Cash flows provided by (used in)		
Operating activities		
Net income	\$ 32,707	\$ 22,012
Adjustments to determine net cash from (used in) operating activities		
Provision for credit losses (Note 8)	3,942	2,500
Amortization	14,537	8,993
Gain on sale of securitized loans	–	(226)
Gain on sale of property	(19)	–
Future income taxes (Note 22)	247	102
Change in accrued interest	15,782	(12,608)
Change in receivables and payables	14,793	(20,768)
Other	(5,528)	20,131
Cash flows from operating activities	76,461	20,136
Financing activities		
Net change in deposits	218,400	139,873
Net change in borrowings	106,785	(1,736)
Dividends paid	(1,348)	–
Net change in equity shares	(3,793)	(878)
Cash flows from financing activities	320,044	137,259
Investing activities		
Net change in loans to members	(397,888)	(151,041)
Proceeds from loan securitization	–	56,779
Cash acquired on merger	126,567	–
Net increase in investments	(93,788)	(28,636)
Purchase of premises and equipment	(5,381)	(4,620)
Proceeds from disposal of premises	1,044	–
Purchase of leased vehicles	(26,639)	(19,404)
Proceeds from disposal of leased vehicles	6,531	4,537
Cash flows used in investing activities	(389,554)	(142,385)
Net (decrease) increase in cash resources	6,951	15,010
Cash resources, beginning of year	70,353	55,343
Cash resources, end of year	\$ 77,304	\$ 70,353
Supplementary cash flow information		
Interest paid	\$ 71,518	\$ 77,564
Taxes paid	4,210	6,413

See accompanying notes to the consolidated financial statements.



Notes to the consolidated financial statements

FIRST WEST CREDIT UNION

December 31, 2010 (in thousands of dollars)

1. GOVERNING LEGISLATION AND OPERATIONS

First West Credit Union (the "credit union") is incorporated under the Credit Union Incorporation Act of British Columbia and its operations are subject to the Financial Institutions Act of British Columbia. The credit union is approved to operate throughout the Province of British Columbia and following the business combination described in Note 2, operates in the Lower Mainland, Fraser Valley, Kitimat, Smithers, Okanagan, Similkameen and Thompson areas of the province.

The credit union is an integrated financial institution that provides a wide range of financial products and services that comprise one operating business segment.

2. BUSINESS COMBINATION

On January 1, 2010, the former Envision Credit Union amalgamated with Valley First Credit Union to form First West Credit Union. The results of Valley First have been included in the Consolidated Financial Statements since that date. Valley First offers financial services, wealth management and insurance services throughout the Okanagan, Similkameen and Thompson regions of British Columbia.

The amalgamation took place to achieve economies of scale for the combined credit union, while allowing the pre-existing entities to retain their local identities.

The business combination is accounted for using the acquisition method, with the credit union acquiring 100% of the net assets of Valley First Credit Union for a total estimated consideration of \$100,640 as indicated below. The shares of Valley First Credit Union were exchanged for shares of First West Credit Union as follows:

Valley First Credit Union	# of shares	First West Credit Union	# of shares
Class A membership equity shares	1,379,018	Class A membership equity shares	1,379,018
Class B investment equity shares	27,867,271	Class C investment equity shares	27,867,271
Class C retirement plan equity shares	14,817,828	Class D retirement plan equity shares	14,817,828

Class A membership shares are included in deposits.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

Cash	\$ 126,567
Loans	1,284,807
Investments and other	46,504
Premises and equipment	18,776
Total assets acquired	<u>1,476,654</u>
Deposits	1,347,127
Borrowings	28,885
Total liabilities assumed	<u>1,376,012</u>
Estimated net assets acquired	<u>\$ 100,642</u>

The par value of equity shares issued was \$42,685. The credit union has recognized the excess of the estimated fair value of the net assets acquired over the par value of the equity interests of First West Credit Union issued as Contributed Surplus in the amount of \$57,957.



2. BUSINESS COMBINATION (continued)

Included within Investments and other are intangible assets of \$5,880 which relate to ICBC licenses acquired and are not subject to amortization as they are expected to contribute cash flows for an indefinite period of time.

Loans have a gross contractual amount of \$1,282,689 with expected losses of \$4,536.

During 2010, Valley First contributed \$71,698 in revenue and \$6,096 in net income to the operations of First West Credit Union.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). In preparing the financial statements, in conformity with Canadian GAAP, management has made estimates and assumptions that affect reported amounts of assets and liabilities, revenues and expenses and contingent assets and liabilities. Actual results may differ from these estimates.

Principles of consolidation

The consolidated financial statements include the accounts of First West Credit Union and its wholly-owned subsidiaries, Envision Insurance Services Ltd., Valley First Insurance Services Ltd., Envision Investment Services Ltd., Valley First Financial Services Ltd, CU DealerLink Ltd., Envision Leasing Ltd., 619547 B.C. Ltd., 637506 B.C. Ltd. and Western Interior Financial Ltd. In addition, the credit union owns 80% interest in Simmons, Black & Emsland Partnership and 50% interest in inUnison Financial Services Ltd. Through one of its wholly owned subsidiaries, the credit union owns 50% interest in Bulkley Valley Insurance Services Ltd. and 50% interest in McBain Insurance Agency Ltd.

Variable interest entities (VIEs) are entities that have insufficient equity and/or their equity investors at risk lack one or more of the specified essential characteristics of a controlling financial interest. The credit union is required to identify VIEs and determine if the credit union has a significant variable interest and/or is the primary beneficiary of the variable interest. The primary beneficiary is required to consolidate a VIE.

The credit union has identified that it has a significant variable interest and is the primary beneficiary of its 65% owned subsidiary, inUnison Technology Services Ltd. Consequently, the consolidated financial statements include 100% of the financial position of this company.

Cash

Cash resources consist of cash held as well as short term investments with maturities of less than 90 days from the date of acquisition. Cash resources have been designated as held for trading.

Financial instruments

All financial instruments are required to be classified as one of the following: held for trading ("HFT"), held to maturity ("HTM"), loans and receivables, available for sale ("AFS") or other financial liabilities. All financial instruments are measured at fair value on initial recognition and subsequently accounted for based on their classification. Fair values are based on quoted market prices where available from active markets; otherwise fair values are estimated using a variety of valuation techniques.

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

Measurement in subsequent periods depends on whether the financial instrument has been classified as HFT, HTM, AFS, loans and receivables or other financial liabilities. Management determines the classification of financial assets and liabilities at initial recognition and the designations made for each financial instrument are indicated in the notes. A description of the various designation classifications follows:

Held for trading

Financial instruments are classified under this category if they are:

- i. acquired principally for the purpose of selling or repurchasing in the near term
- ii. part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- iii. a derivative, except for a derivative that is a financial guarantee contract or a designated effective hedging instrument or
- iv. designated at fair value using the fair value option (FVO)



3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments cannot be transferred into or out of this category after inception. For designation using the FVO, fair values must be readily available. Gains and losses realized on disposal and unrealized gains and losses from market fluctuations are recorded in the Consolidated Statement of Income.

Held to maturity

HTM investments are non-derivative financial assets with fixed or determinable payments that the credit union's management has the intention and ability to hold until maturity. The financial assets are accounted for at amortized cost. The credit union has designated certain investments as HFT and others as HTM.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable repayment dates, usually with interest, that are not debt securities quoted in an active market or instruments designated as held for trading at initial recognition. The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument, or where appropriate a shorter period, to the net carrying amount of the financial asset or financial liability.

Available for sale

AFS financial assets are those non-derivative financial assets that are designated as available for sale or are not classified into any of the other classifications described above. AFS instruments are carried at fair value whereby the unrealized gains and losses are included in accumulated other comprehensive income until either sale or identification of other than temporary impairment, at which time the cumulative gain or loss is transferred to the Consolidated Statement of Income. AFS equity instruments that do not have quoted values in active markets are carried at cost.

Other financial liabilities

Other financial liabilities are non-derivative financial liabilities and are recorded at amortized cost, using the effective interest method. The credit union has designated certain financial liabilities and member deposits as HFT.

Loans

Loans are measured at amortized cost using the effective interest method net of an allowance for credit losses.

Interest income from loans is recorded on the accrual basis, except for loans that are considered to be impaired. A loan is classified as impaired when, in management's opinion, there is reasonable doubt as to the ultimate collectability, either in whole or in part, of principal and interest. Loans where interest or principal is contractually past due 90 days are automatically recognized as impaired, unless management determines there is no reasonable doubt as to the ultimate collectability of principal and interest. All loans are classified as impaired when interest or principal is past due 180 days. When a loan is classified as impaired, recognition of interest in accordance with the term of the original loan agreement ceases and accrued interest is reversed. Subsequent payments (interest or principal) received on an impaired loan are recorded as a reduction in principal. Loans are generally returned to accrual status when the timely collection of both principal and interest is reasonably assured and all delinquent principal and interest payments are brought current.

Loan origination fees are considered to be adjustments to loan yield and are deferred and amortized to interest income over the term of the loan. Commitment fees are treated on the same basis if there is a reasonable expectation that the commitment will be called upon and will result in a loan; otherwise, the fees are deferred and amortized to non-interest income over the term of the commitment. Mortgage prepayment fees are recognized in non-interest income, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are recognized over the remaining term of the original mortgage using the effective interest rate method. Other fees and commissions are recognized as the services are performed.

Allowance for credit losses

The credit union maintains specific and general allowances for credit losses in its portfolio of both on and off balance sheet items at a level that management considers adequate to provide for credit-related losses. The allowance is increased by a provision for loan impairment charged to income and reduced by write-offs during the year.

A specific allowance is established on an individual loan basis to reduce the carrying value to the loan's estimated net realizable amount. The estimated net realizable amounts are determined by either discounting the expected future cash flows or by reference to market prices for the loans or their underlying security, net of estimated costs of realization.

The credit union also maintains a general allowance to absorb credit losses that management estimates have occurred at the balance sheet date for which specific allowances cannot yet be determined. The credit union applies a methodology that incorporates loan loss history as the basis for estimating probability of default as well as changes in current economic conditions.



3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Transfers of loan receivables

Transfers of loan receivables to unrelated parties are treated as sales provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. If these criteria are not satisfied, then the transfers are treated as financing transactions. If treated as sales, the loans are removed from the Consolidated Balance Sheet, and a gain or loss based on the carrying value of the loans transferred, allocated between the assets sold and the retained interests in proportion to their fair values at the date of the transfer is recognized in Non-interest income. The fair values of loans sold and retained interests are determined using valuation models which take into account management's best estimates of key assumptions such as expected losses, prepayments and discount rates commensurate with the risks involved.

Where the credit union continues to service the loan receivables sold, a servicing liability is recognized and amortized over the servicing period as servicing fee revenue. These retained interests are recorded at their fair value at the time of sale and are periodically revalued with changes in fair value flowing through other comprehensive income and changes in estimates flowing through net income. The carrying value of the retained interests is reviewed annually for impairment and adjusted as required.

The credit union classifies its retained interests in securitizations as available for sale.

Business combinations, Goodwill and Other intangible assets

Business combinations are accounted for using the acquisition method. Identifiable intangible assets are recognized separately from Goodwill and are included as Intangible assets in Investments and other.

Goodwill represents the excess of the price paid for acquisition over the fair value of the net assets acquired. Goodwill impairment is assessed on at least an annual basis. Any excess of carrying value over fair value is charged to income in the period in which impairment is determined.

Intangible assets with a finite life are amortized over their estimated useful lives, not exceeding 10 years, and are reviewed for impairment annually.

Derivatives and Hedge Accounting

Derivative financial instruments are financial contracts that are utilized to manage financial risks such as changes in interest rates and other financial indices. In the ordinary course of business, the credit union uses derivative financial instruments, primarily interest rate swaps, to manage interest rate exposure. Options are used to manage the risks of changes in fair value of equity linked deposit contracts with members.

Derivatives are carried at fair value, and are reported as assets when they have a positive fair value and liabilities when they have a negative fair value. Non-hedging derivative instruments used in trading activities are marked to market and the resulting realized and unrealized gains and losses are recognized in Non-interest income in the Consolidated Statement of Income in the current period.

Interest rate swaps are used economically for hedging activities of groups of on-balance sheet assets or liabilities, and may be designated as either fair value or cash flow hedges. The credit union has designated hedges as cash flow hedges. Each hedge is documented at inception detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the group of assets or liabilities being hedged, the risk that is being hedged, the type of derivative used and how effectiveness will be measured. The credit union formally assesses, at the hedge's inception, retrospectively and prospectively on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of cash flows attributed to hedged risks.

In a cash flow hedging relationship, the effective portion of changes in fair value of the derivative is recognized in Other comprehensive income. The ineffective portion is recognized in the Consolidated Statement of Income. The amounts recognized in Accumulated other comprehensive income are reclassified to Net income in the same period that the hedged cash flows affect net income.

In a fair value hedge, the change in fair value of the hedged item attributable to the hedged risk is recorded on the Consolidated Statement of Income. This change in fair value of the hedged item, to the extent that the hedging relationship is effective, is offset by changes in the fair value of the hedging derivative.

When a hedging instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in accumulated other comprehensive income at that time remains in other comprehensive income and is either amortized into the Consolidated Statement of Income over the remaining term of the original hedge or recognized immediately when the hedged item is derecognized.

Investments and other

Leased vehicles are recorded at cost less amortization and adjusted for any impairment losses. Amortization is calculated using the straight-line method over the lease term. Lease income is recorded on the accrual basis.



3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Premises and equipment

Land is carried at cost. Buildings, equipment and furniture, and leasehold improvements are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the useful lives of the assets as follows:

Buildings	25-40 years
Equipment and furniture	3-5 years
Leasehold improvements	Lease term

Gains on disposals are recorded in Non-interest income in the Consolidated Statement of Income in the year of disposal. When premises and equipment are no longer in use or considered impaired, they are written down to their estimated net realizable amount.

Dividends

Dividends on equity shares less related income tax deductions are charged against retained earnings in the year that they are declared.

Funds under administration

Funds under administration by the credit union comprise loans that have been securitized and treated as sales, funds that are administered in the capacity as custodian and investment portfolios under management including mutual fund accounts managed on behalf of members. Funds under administration are kept separate from credit union assets and are not reflected in the Consolidated Balance Sheet.

Income taxes

The credit union uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Net future income tax assets and liabilities are included in investment and other assets or other liabilities, as applicable.

Employee benefit plans

The credit union accrues its obligations and the related costs, net of plan assets under the employee pension plan and sick leave benefit plan and has adopted the following policies:

the costs of pension and sick leave benefits earned by employees are actuarially determined using the projected benefit method prorated on service and management's best estimates of expected plan investment performance, salary escalation, retirement ages of employees and expected future health care costs.

Comparative figures

Certain comparative figures for 2009 have been reclassified to conform with the current year's presentation.

4. CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2010, the credit union adopted the CICA Handbook Section 1582, Business Combinations. This Section is aligned with the related IFRS standard, IFRS 3, Business Combinations and establishes revised standards for the recognition, measurement, presentation and disclosure of business combinations.

5. FUTURE ACCOUNTING CHANGES

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010. The objective is to improve financial reporting by having one single set of accounting standards that are comparable with other entities on an international basis. The credit union will provide consolidated financial statements in accordance with IFRS for the fiscal year ending December 31, 2011, including comparative figures for 2010.



6. CAPITAL MANAGEMENT

The credit union is regulated under the Financial Institutions Act of British Columbia ("the Act") and is required to maintain a capital level at a minimum of 8% of risk-weighted assets. The credit union has exceeded its minimum regulatory capital requirement at December 31, 2010.

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
- Other forms of capital as determined from time to time by the Board of Directors and approved as capital by the regulatory authority

Total value of the figures above are the reduced by:

- Goodwill and other intangible assets
- Investments with banks/trusts and other
- Securitization deferred payment accounts

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.

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 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 Investment & Loan Committee ("ILC") is responsible for developing and conducting an annual review of capital management procedures in place relative to the policy requirements established. The ILC reports its findings and recommends any corrective actions to the Board of Directors. The Board of Directors, which may be assisted by the ILC, reviews any written correspondence from the Financial Institutions Commission ("FICOM") regarding capital management matters, and investigates and responds as appropriate.

Total capital has been calculated as follows:

		2010		2009
Membership and investment shares, including dividends	\$	55,973	\$	16,239
Retained earnings and contributed surplus		258,208		175,772
System capital		32,734		19,642
Other		2,873		979
Goodwill and other intangible assets		(11,932)		(11,037)
Investments with banks/trusts and other		(305)		(305)
Securitization deferred payment accounts		(1,523)		(1,894)
TOTAL CAPITAL	\$	336,028	\$	199,396



7. CASH RESOURCES

	2010		2009	
Cash and current accounts	\$	38,862	\$	24,824
Term deposits and accrued interest		38,442		45,529
	\$	77,304	\$	70,353

8. LOANS

	2010		2009	
Residential mortgages	\$	2,252,362	\$	1,656,592
Personal loans		194,345		188,667
Personal lines of credit		805,481		252,255
Commercial mortgages		1,069,804		584,546
Commercial loans		55,845		54,322
Commercial lines of credit		81,537		43,487
Accrued interest		7,160		4,044
		4,466,534		2,783,913
Allowance for credit losses				
Specific		(1,729)		(1,593)
General		(10,907)		(10,290)
		(12,636)		(11,883)
	\$	4,453,898	\$	2,772,030

Allowance for credit losses

	Beginning balance	Provision	Write-offs	2010 Ending balance	2009 Ending balance
Residential mortgages	\$ 2,756	\$ -	\$ (75)	\$ 2,681	\$ 2,756
Personal loans	1,454	2,442	(1,962)	1,934	1,454
Personal lines of credit	1,911	1,250	(925)	2,236	1,911
Commercial mortgages	3,084	-	-	3,084	3,084
Commercial loans	1,513	50	(31)	1,532	1,513
Commercial lines of credit	1,165	200	(196)	1,169	1,165
	\$ 11,883	\$ 3,942	\$ (3,189)	\$ 12,636	\$ 11,883

Percentage of total loans and accrued interest

2010	0.28%
2009	0.43%

Impaired loans and related allowances

	Loan balances	Specific allowances	2010 Carrying amount	2009 Carrying amount
Personal loans				
Residential mortgages	\$ 3,440	\$ -	\$ 3,440	\$ 1,984
Loans and lines of credit	2,768	564	2,204	878
Commercial loans				
Commercial mortgages	9,724	619	9,105	77
Commercial loans and lines of credit	721	546	175	67
	\$ 16,653	\$ 1,729	\$ 14,924	\$ 3,006



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, and indicate the relative sensitivity of the credit union's performance to developments affecting a particular segment of borrowers or geographic region.

Geographic credit risk exists for the credit union due to its primary service area being the Lower Mainland, Fraser Valley, Kitimat, Smithers, Okanagan, Similkameen and Thompson areas of British Columbia. To reduce the impact of the geographic credit risk the credit union has 21% of its residential mortgages insured against credit loss.

9. INVESTMENTS AND OTHER

	2010		2009	
Investments				
Shares				
Central 1 Credit Union	\$	11,178	\$	7,634
Other		27,507		3,176
Term deposits callable or maturing in three months or more		336,299		229,938
Leased vehicles (net of accumulated amortization of \$13,727 (2009: \$9,408))		46,456		34,945
Accounts receivable and prepaid expenses		38,941		35,525
Derivative instruments		10,041		3,219
Intangible assets		9,335		3,455
Goodwill		11,469		11,295
	\$	491,226	\$	329,187

Investment in shares of Central 1 Credit Union is required by governing legislation and as a condition of membership in Central 1 Credit Union, are classified as available for sale and recorded at cost as there is no active market for these shares.

Amortization in respect to leased vehicles amounted to \$8,617 (2009: \$5,963).

10. PREMISES AND EQUIPMENT

	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Land	\$ 7,792	\$ -	\$ 7,792	\$ 4,388
Buildings	29,452	6,742	22,710	13,836
Leasehold improvements	16,560	7,247	9,313	8,366
Equipment and furniture	47,839	37,073	10,766	6,804
	\$ 101,643	\$ 51,062	\$ 50,581	\$ 33,394

Amortization in respect of the above, buildings, leasehold improvements and furniture and equipment amounted to \$5,920 (2009: \$3,030).

11. DEPOSITS

	2010		2009	
Demand	\$	1,202,024	\$	696,297
Term		2,541,308		1,753,333
Registered savings plans		648,019		377,134
Class "A" shares		7,116		6,175
Accrued interest and dividends		39,353		20,648
	\$	4,437,820	\$	2,853,587



11. DEPOSITS (continued)

Credit Union Deposit Insurance Corporation (CUDIC) guarantees all credit union deposits.

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" shares are membership preferred and redeemable, and accordingly classified as deposits. An unlimited number of Class "A" voting shares are authorized with a par value of \$1.

12. OTHER LIABILITIES

	2010		2009	
Accounts payable and accrued liabilities	\$	44,716	\$	31,549
Derivative instruments		–		6,187
Deferred revenue		8,601		2,445
Non-controlling interest in subsidiary		1,222		1,222
Future income taxes (Note 22)		2,874		970
	\$	57,413	\$	42,373

13. BORROWINGS

	2010		2009	
Money market loan	\$	185,758	\$	125,000
Other revolving facilities		74,912		–
		260,670		125,000
Accrued interest		640		449
	\$	261,310	\$	125,449

Maturity Date	Interest rate	2010		2009	
January 4, 2010	4.875%	–		25,000	
June 30, 2010	0.800%	–		100,000	
January 1, 2011	1.750%	35,758		–	
January 18, 2011	1.623%	25,000		–	
January 18, 2011	1.948%	49,912		–	
January 31, 2011	1.440%	25,000		–	
April 19, 2012	2.279%	125,000		–	
		\$	260,670	\$	125,000

Security provided on the money market loan is an assignment of loans to members, and accounts receivable, and a demand debenture to the lender.

The credit union has three approved lines of credit totaling \$759 million. Security for the first line of credit is as noted above. For the second line of credit, security is provided by a first charge against specific CMHC insured realty mortgages to a maximum of 110% of the approved credit facility. For the third line of credit, security is provided by a first charge against specific insured realty mortgages to a maximum of 110% of the outstanding balance.



14. EQUITY SHARES

The credit union has authorized Class "B", "C" and "D" 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", "C" and "D" shares may, at the discretion of the Board of Directors, be limited to 10% of the total issued and outstanding shares.

Class "B", "C" and "D" 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", "C" and "D" equity shares are not guaranteed by CUDIC.

The credit union has issued:

	2010		2009	
Class "B" non-voting investment equity shares, unlimited number authorized	\$	9,165	\$	9,683
Class "C" non-voting investment equity shares, unlimited number authorized		25,444		–
Class "D" non-voting investment equity shares, unlimited number authorized		13,966		–
	\$	48,575	\$	9,683

15. INTEREST RATE SENSITIVITY

Interest rate risk is the sensitivity of First West'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).

December 31, 2010

	Within 3 months		4-12 months		Over 1 year		Not interest sensitive	Total
	Principal	Rate	Principal	Rate	Principal	Rate		
Assets								
Cash resources	\$ 38,441	0.54%	\$ –	–%	\$ –	–%	\$ 38,863	\$ 77,304
Loans	2,089,204	4.03%	395,043	4.90%	1,974,716	4.64%	(5,065)	4,453,898
Other	41,197	2.54%	86,239	3.68%	222,623	3.50%	191,748	541,807
	2,168,842	3.88%	481,282	4.69%	2,197,339	4.50%	225,546	5,073,009
Liabilities								
Member deposits	1,362,999	1.87%	1,262,890	2.40%	1,007,596	2.94%	804,335	4,437,820
Borrowings and other	261,310	2.00%	–	–%	–	–%	57,413	318,723
	1,624,309	1.85%	1,262,890	2.40%	1,007,596	2.94%	861,748	4,756,543
Balance sheet mismatch	544,533		(781,608)		1,189,743		(636,202)	316,466
Derivatives, notional value								
Asset	–	–%	–	–%	725,000	2.41%	–	725,000
Liability	(725,000)	1.28%	–	–%	–	–%	–	(725,000)
Net mismatch	\$ (180,467)		\$ (781,608)		\$ 1,914,743		\$ (636,202)	\$ 316,466



15. INTEREST RATE SENSITIVITY (continued)

December 31, 2009

	Within 3 months		4-12 months		Over 1 year		Not interest sensitive	Total
	Principal	Rate	Principal	Rate	Principal	Rate		
Assets								
Cash resources	\$ 45,500	0.68%	\$ -	-%	\$ -	-%	\$ 24,853	\$ 70,353
Loans	1,410,726	3.17%	223,939	4.67%	1,133,322	5.29%	4,043	2,772,030
Other	-	-%	65,198	1.28%	169,023	3.86%	128,360	362,581
	1,456,226	3.09%	289,137	3.91%	1,302,345	5.11%	157,256	3,204,964
Liabilities								
Member deposits	1,005,638	1.02%	615,327	1.62%	970,889	4.08%	261,733	2,853,587
Borrowings and other	125,000	0.80%	-	-%	-	-%	42,822	167,822
	1,130,638	0.99%	615,327	1.62%	970,889	4.08%	304,555	3,021,409
Balance sheet mismatch	325,588		(326,190)		331,456		(147,299)	183,555
Derivatives, notional value								
Asset	550,000	0.43%	25,000	4.88%	170,000	2.37%	-	745,000
Liability	(195,000)	0.43%	-	-%	(550,000)	2.24%	-	(745,000)
Net mismatch	\$ 680,588		\$ (301,190)		\$ (48,544)		\$ (147,299)	\$ 183,555

16. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The carrying values of financial instruments by classification is as follows:

	2010	2009
Loans and receivables	\$ 4,476,995	\$ 2,784,335
Held-to-maturity	374,742	275,464
Available-for-sale	18,772	9,920
Held-for-trading	48,902	21,856
Other financial liabilities	4,742,069	3,006,373

17. 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 balance sheet 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 based on market price quotations.

These fair values, presented for information only, reflect conditions that existed only at the balance sheet date.



17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

	2010			2009		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets						
Cash resources	\$ 77,000	\$ 77,000	\$ -	\$ 70,000	\$ 71,000	\$ 1,000
Loans	4,454,000	4,506,000	52,000	2,772,000	2,810,000	38,000
Investments	363,000	371,000	8,000	234,000	243,000	9,000
Other	128,000	128,000	-	95,000	95,000	-
			60,000			48,000
Liabilities						
Deposits	4,438,000	4,462,000	(24,000)	2,854,000	2,869,000	(15,000)
Borrowing	261,000	261,000	-	125,000	125,000	-
Other	58,000	58,000	-	41,000	41,000	-
			(24,000)			(15,000)
Derivative contracts	10,000	10,000	-	(3,000)	(3,000)	-
Fair value difference			\$ 36,000			\$ 33,000

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;

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 and Level 2 during the year.

Financial assets at fair value December 31, 2010	Level 1	Level 2	Level 3	Total
Financial Assets				
Derivative Financial Instruments				
Interest Rate Swaps	-	9,716	-	9,716
Equity linked options	-	325	-	325
Financial investments available for sale				
Retained interests in securitizations	-	-	4,072	4,072
Government bonds	16,385	-	-	16,385
Mortgage investments	-	-	6,895	6,895
Financial Liabilities	-	-	-	-
Financial assets at fair value December 31, 2009				
Financial Assets	-	1,211	9,573	10,784
Financial Liabilities	-	4,235	-	-

The following table reconciles the credit union's Level 3 fair value measurements from December 31, 2009 to December 31, 2010:

Fair value measurements using Level 3 inputs

Balance as at December 31, 2009	\$ 9,573
Gain (loss) included in net income or OCI	(389)
Purchases	8,688
Settlements	(6,905)
Transfers in (out)	-
Balance as at December 31, 2010	\$ 10,967



18. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

The credit union is exposed to the following risks as a result of holding financial instruments: credit risk, market risk, and liquidity risk. The following is a description of those risks and how the credit union manages them.

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 8; but also from interest rate swaps (derivatives).

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 geographic and industry factors.

Risk measurement

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

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 our counterparties in other financial instruments, such as investments and derivatives, is assessed through published credit ratings.

Maximum exposure to credit risk

The credit union's exposure to credit risk is comprised of loans and derivatives. For these 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.

	2010		2009	
On balance sheet exposure				
Loans and accrued interest	\$	4,466,534	\$	2,783,913
Derivatives (net)		10,041		-
		4,476,575		2,783,913
Off balance sheet exposure				
Letters of credit		32,173		18,697
Commitments to extend credit		14,450		9,005
Unadvanced loans		756,621		467,133
		803,244		494,835
MAXIMUM EXPOSURE	\$	5,279,819	\$	3,278,748

Collateral and other credit enhancements

It is our lending policy to assess the customer's capacity to repay, rather than rely excessively on the underlying collateral security. Depending on the customer's standing and the type of product, facilities may be unsecured. Nevertheless, collateral can be an important mitigant of credit risk.

The credit union does not disclose the fair value of collateral held as security or other credit enhancements on either loans past due but not impaired or individually impaired loans, as it is not practical to do so.

Credit quality of financial assets neither past due nor impaired

The credit quality of the portfolio of loans that were neither past due nor impaired can be assessed by reference to the categories below, on which the following information is based:



18. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (continued)

	2010		2009	
Satisfactory risk	\$	4,317,315	\$	2,687,215
Special mention		70,602		29,924
	\$	4,387,917	\$	2,717,139

Satisfactory risk includes commercial facilities demonstrating financial conditions, risk factors and the capacity to repay ranging from satisfactory to excellent and retail facilities that are maintained within and outside of generally applicable product parameters without being impaired.

Special mention includes facilities that require varying degrees of special attention due to terms and conditions of credit that are not met.

Information in respect of geographic concentrations is included in Note 8.

Loans past due but not impaired

Examples of exposures considered past due but not impaired include loans that have missed the most recent payment date but on which there is no evidence of impairment; and loans fully secured by cash collateral. Loans past due greater than 60 days are included on the watch list.

The aging analysis below includes past due loans on which a general allowance has been assessed, though at their early stage of arrears, there is normally no identifiable impairment.

	2010		2009	
Past due up to 29 days	\$	40,471	\$	47,809
Past due 30-59 days		9,025		7,234
Past due greater than 60 days		12,468		7,132
	\$	61,964	\$	62,175

Impaired financial assets

When impairment losses occur, we reduce the carrying amount of the loan by the loss amount through the use of a specific allowance account.

Individual accounts are treated as impaired when they are past due 90 days, unless management determines there is no reasonable doubt as to the ultimate collectibility of principal and interest, or earlier if there is objective evidence that an impairment loss has been incurred.

Loans that were impaired amounted to \$16,653 as at December 31, 2010 (\$4,599 as at December 31, 2009).

Market 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, optionality risk and interest rate path risk.

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

Interest rate risk

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 composed 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



18. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (continued)

- 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
- 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:

- (a) the current balance sheet structure
- (b) scheduled maturity and re-pricing of the balance sheet
- (c) several hundred randomly generated interest rate paths composed around a base rate(s) forecast
- (d) a volatility % of randomly generated key rates and
- (e) assumptions regarding customer behaviour and balance sheet growth

Growth assumptions are based on business plans. Customer 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

A reduction in financial margin over the next 12 months of an amount not to exceed 10% of the next 12 months' financial margin resulting from a 2 standard deviation change in current interest rates held constant.

Duration of equity

The effective duration of equity is defined as the percentage change in the market value of equity (including 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, 2010:

	Policy Limit	2010	Impact
1. Earnings at risk	10%	4.1%	\$ 5,351
2. Duration of equity	+/-10%	4.1%	

As at December 31, 2010, the credit union was within policy limits.

Liquidity risk

Liquidity risk is the risk of being unable to fund assets with the appropriate duration and cost, as well as the risk of not being able to meet unexpected cash needs.

The liquidity risk policy of the credit union is that liquidity is managed on both an operational and strategic level on a total company 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 liquidity deposits must be held on deposit with the Central 1 Credit Union as per the credit union's Deposit-Loan Agreement. The statutory liquidity ratio is 8.0% of deposits and borrowings as at the reporting date. Based on total deposits and borrowings as at December 31, 2010 the statutory liquidity requirement exceeds minimum requirements by \$59.6 million.



19. FUNDS UNDER ADMINISTRATION

	2010		2009	
Sold loans	\$	252,733	\$	407,428
Mutual funds		923,512		582,465
Self-directed investments		111,812		98,907
	\$	1,288,057	\$	1,088,800

The credit union at times securitizes mortgages through the creation of mortgage pools. No securitization transactions occurred in 2010. The net gain on sale of the mortgages resulting from securitizations was recognized in the Statement of Income. The weighted average assumptions used to measure fair value of the retained rights to excess interest were as follows:

	2010		2009	
	Residential	Commercial	Residential	Commercial
Prepayment rate (average)	19.1%	N/A	20.0%	N/A
Excess spread (average)	1.53%	N/A	0.48%	N/A
Discount rate (average)	2.20%	N/A	4.15%	N/A
Average life (years)	1.6	N/A	2.6	N/A

The following table summarizes the credit union's sales during the year.

	2010		2009	
	Residential		Residential	
Net cash proceeds	\$	–	\$	56,566
Retained rights to cash reserves		–		–
Retained rights to excess interest		–		775
Retained servicing liability		–		(383)
Accrued interest		–		(179)
		–		56,779
Mortgages securitized		–		56,553
Net gain on sale	\$	–	\$	226

20. NON-INTEREST INCOME

	2010		2009	
Insurance commissions and fees	\$	20,684	\$	15,736
Securitization		2,335		11,423
Leasing revenue		12,490		8,682
Account service fees		12,275		8,556
IT services		8,884		8,695
Loan administration fees		11,881		6,910
Fees from fiduciary activities and mutual funds		7,698		6,003
Other		4,984		4,878
Foreign exchange		2,141		1,620
	\$	83,372	\$	72,503



21. NON-INTEREST EXPENSES

	2010		2009	
Salaries and benefits (Note 23)	\$	89,678	\$	56,903
Administration		35,016		19,208
Data processing		13,997		10,468
Amortization		14,537		8,993
Occupancy		11,557		7,312
	\$	164,785	\$	102,884

22. PROVISION FOR INCOME TAXES

	2010		2009	
Current income taxes	\$	11,139	\$	3,940
Future income taxes		(247)		(102)
	\$	10,892	\$	3,838

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before provision for income taxes. The reasons for the differences are as follows:

	2010		2009			
Combined federal and provincial income taxes	\$	12,426	28.5%	\$	7,641	30%
Income taxes adjusted for the effect of:						
Reduction for credit unions		(4,712)	(11%)		(3,695)	(14%)
Other		3,178	7.5%		(108)	(1%)
	\$	10,892	25%	\$	3,838	15%

The tax effects of temporary differences that give rise to significant portions of future income tax liabilities reported in other liabilities are as follows:

	2010		2009	
Future income tax assets:				
Allowance for impairment of loans	\$	2,049	\$	2,168
Other accrued expenses		472		21
Other		143		229
		2,664		2,418
Future income tax liabilities:				
Intangible assets		2,368		898
Other accrued expenses		2,120		2,418
Premises, equipment		1,050		72
		5,538		3,388
NET FUTURE INCOME TAX LIABILITY	\$	(2,874)	\$	(970)



23. RETIREMENT PROGRAMS

Supplemental Executive Retirement Program (SERP)

Effective January 1, 2006, the credit union adopted a SERP, an unregistered defined benefit retirement program. The SERP is only available to executives selected by the Board of Directors to participate in it. The SERP supplements the retirement benefits provided under the defined benefit registered pension plan by providing for the value of lifetime retirement benefits based on the executive's highest five-year average earnings and employment service after January 1, 2006 offset by the value of the retirement benefits provided, or deemed to be provided, under the registered pension plan.

The SERP benefits will be paid from the general revenue of the credit union as payments come due. Security will be provided for the SERP benefits through a letter of credit within a Retirement Compensation Arrangement Trust account still to be established.

The SERP uses actuarial valuation reports prepared by an independent actuary. The cost of retirement benefits earned is determined using the projected benefit method pro-rated on employment service and using management's best estimate of investment returns, salary escalation and retirement date. The excess of the net actuarial gain (or loss) over 10 percent of the accrued benefit obligation at the beginning of the period is amortized over the expected average remaining service period of the active employees ("EARSL"). Past service costs are also amortized over EARSL.

The following significant actuarial assumptions were used to determine the periodic pension cost:

	2010	2009
Discount rate - January 1	6.50%	7.25%
Discount rate - December 31	5.50%	6.50%
Expected long term rate of return	6.00%	6.00%
Rate of compensation increase	3.50%	3.50%
EARSL - January 1	9.85 years	10.23 years

The determination of the pension cost for the SERP is as follows:

	2010	2009
Current service cost	\$ 134	\$ 123
Interest cost on accrued benefit obligation	61	32
Actuarial losses (gains)	220	17
Pension cost incurred during year, before adjustments	\$ 415	\$ 172

	2010	2009
Pension costs recognized		
Pension cost incurred	\$ 415	\$ 172
Difference between actuarial gain (loss) recognized for year and actual actuarial gain (loss) on accrued benefit obligation	(231)	(17)
Pension cost recognized during year	\$ 184	\$ 155



23. RETIREMENT PROGRAMS (continued)

	2010		2009	
Components of pension cost				
Current service cost	\$	134	\$	123
Interest cost on accrued benefit obligation		61		32
Amortization of net actuarial (gains) losses		(11)		-
Pension cost recognized during year	\$	184	\$	155

	2010		2009	
Reconciliation of accrued benefit obligation				
Accrued benefit obligation, beginning of year	\$	546	\$	387
Balance acquired on merger (Note 2)		478		-
Current service cost (including employee contributions)		133		123
Interest on accrued benefit obligation		62		32
Actuarial loss (gain) during year *		220		17
Benefits paid during year		(49)		(13)
Accrued benefit obligation, end of year	\$	1,390	\$	546

* Actuarial loss predominately relates to retirement experience being other than assumed.

The SERP does not have assets. Contributions are deemed to be made as entitlements are paid.

	2010		2009	
Determination of accrued benefit liability as at December 31				
Accrued benefit liability, beginning of year	\$	(627)	\$	(492)
Balance acquired on merger (Note 2)		(481)		-
Plus contributions during period		49		13
Less pension cost for year		(184)		(148)
Accrued benefit liability, end of year	\$	(1,243)	\$	(627)

	2010		2009	
Funded status as at December 31 and reconciliation of accrued benefit liability:				
Accrued benefit obligation, end of year	\$	(1,390)	\$	(544)
Fair value of plan assets, end of year		-		-
Unfunded status		(1,390)		(544)
Unamortized net actuarial loss (gain)		147		(83)
Accrued benefit liability, end of year	\$	(1,243)	\$	(627)



24. PENSION OBLIGATIONS

The credit union participates in a multi-employer pension plan through Central 1 Credit Union.

As at December 31, 2009 the plan actuary reported that the plan had assets that are less than actuarial liabilities for accrued pension benefits. Since this is a multi-employer plan, the impact to the credit union is limited to increasing future contributions or modifying future benefits. The next actuarial review is scheduled for the period ending December 31, 2012.

The credit union's total pension benefits expense included in the Consolidated Statement of Income is \$4,518 (2009: \$2,832).

25. DERIVATIVE CONTRACTS

Derivative instruments are purchased for interest rate risk management purpose. Instruments such as interest rate swaps and forward rate agreements and caps are used to adjust exposure to interest rate risk by modifying the repricing or maturity characteristics of loans and deposits. Equity-linked swaps are used to fix costs on products which are based on movements in equity market indexes.

The following table summarizes the notional value of outstanding instruments.

	Notional amount			Total 2010	Net Fair Value	
	Within 3 months	4 to 12 months	Over 1 year		2010	2009
Interest rate swaps	\$ -	\$ -	\$ 725,000	\$ 725,000	\$ 9,300	\$ (3,300)
Interest rate caps	-	7,000	44,200	51,200	400	-
Equity linked options	-	623	5,795	6,418	300	300
	\$ -	\$ 7,623	\$ 774,995	\$ 782,618	\$ 10,000	\$ (3,000)

26. COMMITMENTS AND CONTINGENCIES

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.

Credit commitments

The following balances represent the additional credit that the credit union may be obligated to extend:

	2010	2009
Letters of credit	\$ 32,173	\$ 18,697
Commitments to extend credit	14,450	9,005
Unadvanced loans	756,621	467,133
	\$ 803,244	\$ 494,835

Premises, computer services and equipment

The credit union has branch lease commitments for its premises extending through to 2015 and thereafter.

For computer services and equipment, the credit union has computer services and hardware leases through to 2015 .



26. COMMITMENTS AND CONTINGENCIES (continued)

The following table summarizes the approximate lease payments over the next 5 years:

	Premises	Computer services and equipment
2011	5,931	2,102
2012	4,499	1,695
2013	3,820	1,014
2014	3,242	431
2015	2,330	181
thereafter	3,678	–

27. RELATED PARTY TRANSACTIONS

At December 31, 2010, outstanding loans to directors, officers and employees of the credit union amounted to \$169,575 (2009: \$129,973). All such loans were granted in accordance with normal lending terms.

The aggregate remuneration earned by directors of the credit union during 2010 was \$592 (2009: \$411).

The credit union has included in accounts payable a donation of \$694 (2009: \$629) to the credit union's charitable foundation, First West Foundation ("Foundation"). Certain directors of the credit union are directors of the Foundation.



NOTE: Dollar figures in this annual report refer to Canadian dollars.



Financial Planning, mutual funds and other securities are offered through Qtrade Advisor. Online brokerage services are provided through Qtrade Investor. Qtrade Advisor and Qtrade Investor are divisions of Qtrade Securities Inc., member IIROC and CIPF. Financial planning and mutual funds are also offered through Qtrade Asset Management Inc., member MFDA.





First West Credit Union
303-15252 32nd Avenue
Surrey B.C. V3S 0R7
604.501.4260
www.firstwestcu.ca



Envision Financial, a division of First West Credit Union
6470 201 Street
Langley B.C. V2Y 2X4
604.539.7300
www.envisionfinancial.ca



Valley First, a division of First West Credit Union
3rd Floor, 184 Main Street
Penticton B.C. V2A 8G7
250.490.2720
www.valleyfirst.com