Annual Report
2016

Taking financial expertise to new heights.
# 2016 Annual Report of BlueShore Financial Credit Union

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Leadership Viewpoints

Message from Board and Management

With changes in the economy and the real estate market, our clients’ financial picture is evolving and so are their goals. Their need for quality financial advice is even more essential.

For 75 years we have managed the financial wellness of our clients through continuously enhancing our expertise to provide peace of mind.

We believe that as the financial well-being of our clients grows, so does our business. In 2016, we accomplished impressive financial results reaching $4.5 billion in Assets Under Administration, along with strong growth in total loans and deposits. In addition to our outstanding financial growth, we continued to exceed client expectations. For yet another year, on our client experience survey, clients ranked BlueShore Financial significantly higher than other financial institutions in providing an exceptional experience and expert advice.

Our success is powered by our engaged employees, who go above and beyond to meet the needs of our clients. In 2016, we achieved our highest ever employee engagement score and for the sixth year in a row, were named a Best Small and Medium Employer in Canada. This is a reflection of our organizational commitment to fostering a great place to work that is client-focused, results-driven, and nurtures diversity and inclusiveness.

In the changing global and local economic landscape, we are well equipped to help our clients reach their financial and lifestyle goals. Our focus on personal, proactive service saves clients’ time and helps them grow and preserve their wealth.

Sincerely,

Dave Davenport, Chair, Board of Directors        Chris Catliff, President and CEO
Delivering Financial Well-Being

We know that financial wellness is the result of careful planning with an advisor who understands your immediate needs and long-term goals. We take the time to get to know you – to discover what you need today as well as your aspirations for your future. We look at your complete financial picture and create a plan, your blueprint for building and maintaining a strong financial foundation. This approach is paying off for our clients, and in our 2016 client experience survey, they told us just that.

By working with a highly trained accredited advisor, clients receive a customized financial plan to help grow and protect their wealth.

Our clients have the opportunity to work with dedicated advisors who are highly trained and accredited, providing expert financial advice and exceptional service in our sophisticated Financial Spas®. The BlueShore Financial model is not a cookie-cutter approach. It’s personal, proactive and uniquely tailored to you.

Recognizing the value our clients place on their relationships with experienced, professional advisors, in 2016 we increased our advisory services team by over 10%. Today, nearly half of our branch staff are focused on providing advisory services to our clients. We continuously assess the changing needs of our clients, adapting and developing our processes, technology and people to help clients achieve their financial goals.

We also recognize that one individual won’t have all the answers. That’s why, unlike many other financial institutions, we use an integrated team approach to your financial planning. As your personal and business financial needs become more complex, we engage the expertise of experienced investment, insurance and, if needed, business specialists.

Led by your dedicated Financial Advisor, they’ll take a holistic approach to your financial picture, offering customized investment and tax strategies, insurance options and any other services to help grow and protect your wealth.

Our commitment is to align your aspirations with a full range of banking, wealth management and insurance solutions – supported by expert advice and long-term planning.

© BlueShore Financial Credit Union
Achievements & Advancements

We celebrated our 75th anniversary in 2016, along with many more accomplishments throughout the year.

Expanding our Financial Spas® to meet client needs
Due to our continued business growth and our clients’ increasing need for advisory services, we enhanced a number of our Financial Spa branches. New features incorporated into our Park Royal and West Broadway locations include more private meeting spaces for client-advisor collaboration and financial planning discussions.

In 2016, we also secured a location in Vancouver’s Kerrisdale neighbourhood for our next Financial Spa, as we expand our presence in the Vancouver region. The branch is scheduled to open in late 2017.

Sharing deep financial expertise
More so than ever, BlueShore Financial advisors and our executive team were sought out by the media for their financial expertise. We were featured over 200 times by local and national media outlets including the Globe and Mail, Financial Post, BNN, CBC Radio, CTV, BC Business, and Business in Vancouver.

Equipping our clients for digital defence
Whether you use a personal computer, a tablet or a smartphone, connecting online has never been easier. With this ease of access come cybersecurity threats. To help empower our clients to protect themselves we’ve created a number of resources, including a suite of new alerts within Online Banking that enables clients to set up alerts on their accounts to notify them immediately if something appears out of the ordinary.

To help inform our clients about external fraud, scams, and viruses we have an array of helpful articles on our website about how to protect passwords, and detect phishing emails and common scams.

Helping our communities thrive
Giving back to local communities is ingrained in our values. In 2016, we were the presenting sponsor of the Vancouver Sun Run, an iconic local event fostering physical and community wellness, and through the Shoe Renu program we collected over 400 pairs of shoes for those in need. Our support of physical wellness continued with our sponsorship of the Spirit of the Shore Half Marathon, Whistler Half Marathon, and the Longest Day Road Race among others (supporting the Juvenile Diabetes Research Foundation).

Supporting local arts and culture ensures our communities remain vibrant and dynamic. In 2016 BlueShore Financial supported the Bard on the Beach Shakespeare Festival, Whistler’s Cornucopia food and wine festival, Chor Leoni Men’s Choir, and the Gordon Smith Gallery of Canadian Art’s jazz concert series. We also continued to showcase local artists in many of our Financial Spa branches.

In addition to sponsorships, BlueShore Financial donated funds to over 30 local organizations including Family Services of the North Shore, BC Children’s Hospital Foundation and Burnaby Neighbourhood House.

Fostering a great workplace
We recognize that our employees make us better every day, and go the extra mile to deliver exceptional client experiences. We value our employees, and our commitment to a positive corporate culture is reflected in our achievement of our highest ever employee engagement score of 82%. As a result, for the sixth year in a row, Aon recognized BlueShore Financial as a Best Small and Medium Employer in Canada.

Our Executive Management Team places significant importance on ensuring that BlueShore Financial is a great place to work. In our 2016 Employee Opinion Survey, more than 90% of staff provided high ratings for senior leadership providing a clear direction for the future, and said they are proud to be part of the organization. Our President and CEO Chris Catliff’s dedication to a strong culture was recognized by the HRMA’s “Keeping People First: CEO Award” for outstanding leadership in people practices. Additionally, our SVP, Human Resources and Communications, Marni Johnson, was featured on the HRD Magazine Hotlist, recognizing her leadership in innovative HR practices.
Advancing Growth & Profitability

Financial discussion and analysis

The Canadian economy had a lacklustre performance in 2016. Regional recessions in oil-producing provinces, Alberta wildfires and the housing slowdown combined to dampen growth. Economic growth of 1.4% is now estimated for the year as a whole, with British Columbia leading the provinces at 3.8%. However, the regulatory and tax changes from Federal and Provincial governments, introduced in the latter part of the year, significantly cooled the housing market in major centres like Vancouver, and negatively impacted economic growth in the fourth quarter.

The US Federal Reserve Board remained on the sidelines for most of 2016 despite repeatedly intimating it would raise rates. In December 2016, faced with record low unemployment, significant anticipated infrastructure spending and rising inflation expectations, the Federal Reserve Board Chair relented and lifted the Fed Funds rate by 25 basis points (bps).

In Canada, however, the Bank of Canada kept its overnight rate unchanged throughout the whole year. The gyrations of the oil price and its impact on the Canadian dollar, together with continued excess capacity in the economy and its dismal performance, contributed to the Bank’s decision to hold fast. Despite some speculation that a cut in the Bank rate may be coming, the consensus view seems to be that, in the absence of any major deterioration in trade terms with the U.S., no change in the overnight rate is expected in 2017. At the longer end of the yield curve, bond rates rose significantly in the final quarter of 2016, following the Trump victory in the U.S. presidential election. This led to some increases in mortgage rates, but they were short lived, particularly after the regulatory and tax changes, negatively affecting housing and mortgage demand, were fully digested. The cooling effect of these measures is likely to persist in the coming year.

2016 Financial Performance

BlueShore Financial’s Assets Under Administration surpassed $4.5 billion at the end of 2016 (2015, $4 billion). Balance Sheet Assets increased by $400 million to $3.5 billion (2015, $3.1 billion). Total Loans grew $341 million (an increase of 12.6%) and deposits rose by $306 million (up 11.1%).

Net Interest Margin exceeded the prior year’s performance, principally due to very strong loan growth in the first half. This laid a strong foundation for loan interest income for the year, despite the compression in margin per cent experienced. At mid-year, in recognition of the frothy real estate market, the late stage in the housing cycle and the impact of regulatory and tax changes by Federal and Provincial governments, the Credit Union slowed its pace of growth. Nevertheless, double-digit loan growth was again achieved.

Non-Interest Income exceeded the previous year, as industry-leading Wealth Management results and higher loan fee income were posted.

Non-Interest Expenses were well-managed but exceeded the prior year, mainly due to higher allowances for loan losses, a write-down of property held for sale and budgeted additional staff to advance strategy and support client services.

Net Operating Income (NOI) was $12.6 million (2015, $10.8 million). Return on Retained Earnings (RORE) was 9.1% (2015, 8.3%) and Return on Average Assets (ROAA) was 37 bps (2015, 37 bps).

For more information:
Full Financial Statements
Management Discussion & Analysis
2017 Economic Outlook

The combination of fiscal spending, lower taxes and higher wages should propel the U.S. economy forward into 2017. A gradual but consistent raising of the Fed Funds rate is anticipated as inflation emerges and employment gains continue.

For Canada, potential new trade agreements with the U.S., and the threat of tariff protection on Canadian exports introduce significant uncertainty for the Canadian economic outlook. In the absence of major disruptions, a modest level of growth is anticipated for 2017. Residential investment, however, is expected to decline further in continued response to regulatory and tax measures imposed in 2016 and the late cycle stage of the housing market.

BlueShore Financial has set its 2017 targets to recognize the changes continuing to unfold in the year ahead. The slower real estate market will dampen demand for loans to some degree, but the Credit Union is nevertheless budgeting for steady growth in both loans and deposits. Its Wealth Management and Insurance contributions are also targeted to grow strongly in 2017 and a new Financial Spa® is planned for the Kerrisdale neighbourhood of Vancouver. Balance Sheet strength remains strong with very healthy liquidity, a solid capital base, and outstanding asset quality.

*Bill Keen, Chief Financial Officer*

February 16, 2017

To the Members of BlueShore Financial Credit Union

The accompanying summarized consolidated financial statements, which comprise the summarized consolidated statement of financial position as at December 31, 2016, and the summarized consolidated statement of income and retained earnings for the year then ended, are derived from the audited consolidated financial statements of BlueShore Financial Credit Union (“the Credit Union”) as at and for the year ended December 31, 2016. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated February 16, 2017.

The summarized consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summarized consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of the Credit Union.

Management’s Responsibility for the Summarized Consolidated Financial Statements

Management is responsible for the preparation of the summarized consolidated financial statements on the basis described in note 1.

Auditors’ Responsibility

Our responsibility is to express an opinion on the summarized consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (“CAS”) 810, Engagements to Report on Summary Financial Statements.

Opinion

In our opinion, the summarized consolidated financial statements derived from the audited consolidated financial statements of the Credit Union as at and for the year ended December 31, 2016 are a fair summary of those consolidated financial statements, on the basis described in note 1.

Other Matter

The consolidated financial statements of BlueShore Financial Credit Union as at and for the year ended December 31, 2015 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on February 17, 2016.

Chartered Professional Accountants

Vancouver, Canada
## Financial Results

### Summarized Consolidated Statement of Financial Position
as at December 31, 2016 (in thousands of dollars)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents</td>
<td>36,722</td>
<td>22,994</td>
</tr>
<tr>
<td>Loans</td>
<td>3,053,550</td>
<td>2,712,066</td>
</tr>
<tr>
<td>Interest-bearing Deposits</td>
<td>297,571</td>
<td>272,033</td>
</tr>
<tr>
<td>Financial Assets and Investments</td>
<td>52,214</td>
<td>33,111</td>
</tr>
<tr>
<td>Premises and Equipment</td>
<td>56,694</td>
<td>58,056</td>
</tr>
<tr>
<td>Intangible Assets</td>
<td>7,357</td>
<td>8,154</td>
</tr>
<tr>
<td>Other Assets</td>
<td>10,500</td>
<td>7,783</td>
</tr>
<tr>
<td>Deferred Income Tax</td>
<td>2,616</td>
<td>3,010</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$3,517,224</strong></td>
<td><strong>$3,117,207</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND MEMBERS’ EQUITY</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members’ Accounts:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demand Deposits</td>
<td>691,124</td>
<td>648,018</td>
</tr>
<tr>
<td>Term Deposits</td>
<td>2,040,259</td>
<td>1,804,230</td>
</tr>
<tr>
<td>Registered Deposits</td>
<td>319,854</td>
<td>290,518</td>
</tr>
<tr>
<td>Accrued Interest</td>
<td>20,140</td>
<td>22,326</td>
</tr>
<tr>
<td><strong>Total Members’ Accounts</strong></td>
<td><strong>$3,517,224</strong></td>
<td><strong>$3,117,207</strong></td>
</tr>
<tr>
<td>Borrowings and Debt Liabilities</td>
<td>233,364</td>
<td>164,069</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>32,390</td>
<td>18,660</td>
</tr>
<tr>
<td>Membership and Preferred Equity Shares</td>
<td>1,253</td>
<td>1,230</td>
</tr>
<tr>
<td>Members’ Equity:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>141,793</td>
<td>132,569</td>
</tr>
<tr>
<td>Equity Shares</td>
<td>33,883</td>
<td>29,852</td>
</tr>
<tr>
<td>Accumulated Other Comprehensive Income</td>
<td>3,164</td>
<td>5,735</td>
</tr>
<tr>
<td><strong>Total Liabilities and Members’ Equity</strong></td>
<td><strong>$3,517,224</strong></td>
<td><strong>$3,117,207</strong></td>
</tr>
</tbody>
</table>

**Total Assets under Administration (in $ billions)**
- **2016**: $4.5
- **2015**: $4.0

### Summarized Consolidated Statement of Income and Retained Earnings
for the year ended December 31, 2016 (in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</td>
<td>108,430</td>
<td>98,788</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>47,559</td>
<td>44,408</td>
</tr>
<tr>
<td><strong>Net Interest Income</strong></td>
<td><strong>60,871</strong></td>
<td><strong>54,380</strong></td>
</tr>
<tr>
<td>Fee, Commission and Other Income</td>
<td>13,755</td>
<td>13,260</td>
</tr>
<tr>
<td><strong>Net Operating Income</strong></td>
<td><strong>74,626</strong></td>
<td><strong>67,640</strong></td>
</tr>
<tr>
<td>Non-interest Expenses</td>
<td>60,454</td>
<td>55,793</td>
</tr>
<tr>
<td>Loan Impairment Expense</td>
<td>1,600</td>
<td>1,041</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td><strong>12,572</strong></td>
<td><strong>10,806</strong></td>
</tr>
<tr>
<td>Donations</td>
<td>126</td>
<td>108</td>
</tr>
<tr>
<td>Income Tax Expense</td>
<td>1,972</td>
<td>1,995</td>
</tr>
<tr>
<td><strong>Retained Earnings - Net of Tax</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Retained Earnings - End of Year</strong></td>
<td><strong>$141,793</strong></td>
<td><strong>$132,569</strong></td>
</tr>
</tbody>
</table>

**Note 1 - Message to Members**

The accompanying summarized consolidated financial statements have been prepared, in accordance with Section 128 (4) of the Financial Institutions Act, from the consolidated balance sheet of BlueShore Financial Credit Union as at December 31, 2016, and the consolidated statements of income, comprehensive income and changes in members’ equity for the year then ended. Readers are cautioned that these summarized consolidated financial statements do not include all the disclosures necessary for a complete presentation. Complete audited consolidated financial statements for the year ended December 31, 2016, together with the auditors’ report thereon, are available from the Credit Union and will be presented at the annual general meeting of members on April 19, 2017.

Please note: Copies of the complete audited consolidated financial statements are also available on request at all BlueShore Financial locations or online at blueshorefinancial.com.
Accountability & Transparency

Committed to excellence in corporate governance

BlueShore Financial is governed by a highly experienced nine-person Board of Directors. In addition to approving long-range objectives and policies, the Board closely monitors the Credit Union’s progress. The Board continually reviews its corporate governance practices to ensure they reflect the appropriate oversight, independence and accountability our clients and stakeholders expect and deserve.

In 2016, our Board continued its focus on:

1. Reviewing the organization’s long-term strategic plan and monitoring management’s execution of the plan.
2. Ensuring the organization has a comprehensive enterprise-wide risk management process and is monitoring risk, including emerging risks due to global uncertainties, on an ongoing basis.
3. Reviewing results of ongoing client surveys to understand feedback on what is important to clients and to ensure we are achieving or exceeding expectations.
4. Ensuring the Board has the appropriate regulatory (and other) committees and the expert resources to accomplish their oversight responsibilities.
5. Adhering to the “Standards of Sound Business and Financial Practices,” as recommended by Stabilization Central Credit Union, our industry self-regulator.
6. With assistance from industry compensation experts, setting the compensation and performance objectives for the Chief Executive Officer, reviewing the compensation for Executive Management and overseeing the compensation philosophy for the organization.
7. Conducting formal evaluations of overall Board performance, facilitated by a third-party expert.
8. Reviewing the skills and experience required for Board members through the Nominations and Election Committee, and proactively seeking out individuals who they believe best possess the skills required.
9. Completing mandatory industry director education sessions and staying current with governance best practices through leading governance organizations such as the Institute of Corporate Directors.
10. Engaging with management and internal and external auditors to review the internal controls, accounting and auditing to ensure timely and accurate financial reporting.

In 2017, the Board will continue to commit significant time and resources to ensure governance policies reflect best practices for credit unions, including adherence to the Governance Guideline issued by our industry regulator, the Financial Institutions Commission (FICOM).
BlueShore Financial Board of Directors

The following Directors served during fiscal 2016

Dave Davenport
Board Chair

Allan Achtechuck
Board Vice-Chair

Brian Atkins
Nominations and Election Committee Chair

Bill Crawford (Resigned October 2016)
Investment and Loan Committee Chair

Yuri Fulmer
Human Resources and Compensation Committee Chair

Peter Leitch
Audit Committee Chair

Julie McGill (Elected April 2016)

Don Risk (Retired April 2016)

Justin Webb

Victoria Withers
Governance and Conduct Review Committee Chair

Head Office & Administration
1250 Lonsdale Avenue
North Vancouver, BC

BlueShore Financial Branches

Burnaby
4403 Hastings Street

North Vancouver
101 - 3053 Edgemont Blvd
1250 Lonsdale Avenue
110 - 1200 Lynn Valley Road
1080 Marine Drive
3680 Mt Seymour Parkway

Pemberton
2 - 7438 Prospect Street

Squamish
102 - 40147 Glenalder Place

Vancouver
110 - 1100 Melville Street
2212 West Broadway

West Vancouver
Park Royal Village, 815 Main Street

Whistler
101 - 4321 Village Gate Blvd

BlueShore Financial Executive Management

Chris Catliff
President and Chief Executive Officer

Fred Cook
Chief Information Officer

Marni Johnson
Senior Vice President, Human Resources and Communications

Bill Keen
Chief Financial Officer

Reg Marrinier
Senior Vice President, Retail and Business Banking

Doug Smith
Senior Vice President, Governance

BlueShore Financial Subsidiaries

BlueShore Capital Corporation
BlueShore Leasing Ltd.
BlueShore Strata Finance Ltd.
BlueShore Transport Finance Ltd.
BlueShore Wealth Ltd.
Morningside Properties Ltd.

BlueShore Financial is an equal partner with Capital West Mortgage Inc. in a Joint Venture that manages Pacifica Mortgage Investment Corporation.