2018 Annual Report of BlueShore Financial Credit Union

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Leadership Viewpoints

Message from Board and Management

At BlueShore Financial, our team of expert advisors works with your best interests in mind to give you the confidence that we’re looking after your financial picture at every life stage. Whether entering retirement, starting a new business venture, sending kids to university, or investing in your dream home, we’ll provide the right advice to prepare you for what’s next.

In 2018, BlueShore entered into a new stage of its own by expanding into the Kerrisdale community. Our newest Financial Spa® branch extends our financial and wealth management expertise into this vibrant neighbourhood and reflects our organization’s continued evolution.

Our financial performance remained strong and steady as we reached $5.7 billion in Assets Under Administration (AUA) and saw continued growth in total loans and deposits.

Our passion for helping clients improve their overall financial well-being stems from the commitment of our employees and our strong corporate culture. As evidence of this, BlueShore was named a Best Small and Medium Employer in Canada by Aon for the eighth consecutive year and one of Canada’s Most Admired Corporate Cultures by Waterstone Human Capital for the third time. This recognition reflects our commitment to fostering a great workplace that is client-focused and results-driven.

Looking ahead, we are well equipped to manage what’s next. From technology advancements, evolving banking needs, shifts in the housing market and uncertainties in the economy, BlueShore is well prepared for the future.

Thank you for trusting us as your financial partner. We look forward to an exciting road ahead.

Sincerely,

Allan Achtemichuk, Chair, Board of Directors

Chris Catliff, President and CEO
Helping You Prepare For What’s Next

Continual changes in the world economy and local real estate market, coupled with the complexities of your own financial picture, can make it challenging to prepare for what’s next. Our goal is to provide you with the peace of mind and expert advice you need to prepare for your financial future.

A strategy that looks further down the road

At BlueShore Financial, we provide you with the comfort of knowing we’re one step ahead. A unique aspect of our client experience is our advisory team approach. We bring together experts from all areas of our business to create a plan that is tailored to you. Our experienced financial, investment, insurance and business specialists take a holistic view of your current financial picture while also looking ahead to your goals and aspirations.

BlueShore client Kelly Hardman shares how BlueShore Financial helped her create a financial strategy that gave her confidence in the future:

“Since we’ve used a financial advisor, we now have a long term plan, we have retirement strategies. Dealing with [our financial advisor] has just been a pleasure. He really listened to us, understands who we are. I just feel like we have a much better grasp on our retirement. And our financial future feels brighter than it did before.”

– Kelly Hardman, BlueShore client (view Kelly’s story)

The unique BlueShore client experience

Expert advice is at the forefront of our promise. Our knowledgeable financial advisors hold the Certified Financial Planner (CFP) designation, the highest accreditation in the industry. They are valued by clients for their advice, knowledge and experience.

Our 2018 client experience survey confirms that we’re making a positive impact on our clients’ financial well-being to a great extent, which sets us apart from other financial institutions.

The power of word-of-mouth recommendations is undeniable. Most recently, 91% of our clients who work with a Financial Advisor said they would recommend BlueShore - a compelling testament to our unique client experience.

Learn more about what clients are saying about their BlueShore experience.

A distinct branch experience

Our comprehensive advisory approach is enhanced by our premium branch environment. Known as Financial Spas® for their unique relaxing ambiance, our branch experience is unlike any other. A concierge service, local art displays, specialty coffees and private consultation areas are just some of the unique features you will encounter. Set against a West Coast design, our Financial Spas are also equipped with the latest technology to enhance our personalized advisory experience. Click here for a video tour.
Achievements & Advancements

From opening our newest Financial Spa® to national awards, we had many achievements to celebrate in 2018.

Growing to meet our clients’ needs
Assets under Administration grew well past our 2017 milestone of $5 billion and ended the year at $5.7 billion. This fast-paced growth is due to our employees’ continued focus on our strategy and results, and their exceptional efforts to improve our clients’ overall financial well-being.

As our business continued to grow, we followed suit to meet our clients’ growing need for specialized, proactive advisory services. In 2018, we opened our newest Financial Spa® branch in the heart of the Kerrisdale neighbourhood in Vancouver, welcoming new personal and business clients alike. The relocation process of our downtown Vancouver Melville branch to a newly built Financial Spa on Pender Street is nearing completion and is set to open in early 2019. Work also began on our Burnaby branch with renovations underway to transform our current location into one of our unique Financial Spa experiences.

Providing expert advice for all stages of life
We continued to build our reputation for exceptional financial planning and highly personalized service.

BlueShore advisors and executives were frequently sought out by the media for their financial expertise and industry insights. BlueShore was featured over 200 times in local and national media outlets including Global News, CBC, Financial Post, Globe and Mail, Vancouver Sun, CTV, Montecristo magazine, and Business in Vancouver. Topics included estate planning and financial literacy, among others.

Making a mark in our communities
Giving back to the communities in which we live and work is one of our core values, and it’s important to our clients too. Through our online client research panel, our clients told us that social services, physical and mental health, education, and the environment are important community giving areas to them.

This year, BlueShore supported over 50 organizations including Big Sisters, Alzheimer Society of BC, the BC Children’s Hospital, Burnaby Neighbourhood House, and Lions Gate Hospital. Keeping our communities happy, healthy and vibrant is a cornerstone of our values.

We sponsored over 25 events that fostered healthy lifestyles and arts and culture within the community, such as the BlueShore Financial Mother’s Day Run in Vancouver, Cornucopia Festival in Whistler, and Bard on the Beach Festival.

We continued our commitment to encouraging financial literacy by providing informative and complimentary in-branch seminars hosted by our knowledgeable Financial Advisors and industry experts. Popular topics included smart strategies to maximize your earnings at every life stage and changes in home ownership rules.

Cultivating a positive corporate culture
Our exceptional team of employees and their continuous commitment to our strategy, values and direction are reflected in our strong employee engagement. As a result, we were honoured as an Aon Best Small and Medium Employer in Canada for the eighth year in a row.

Our strategy is only as strong as the employees we empower to deliver it; that is why we are committed to fostering a respectful culture where innovation and diversity are valued. We are proud that our corporate culture was recognized as one of Canada’s Most Admired Corporate Cultures by Waterstone Human Capital.

Continuous learning in the digital age
Keeping pace with the ever-changing technology landscape is critical for our organization. We pride ourselves on providing continuous learning opportunities for staff to hone their skills, particularly when it comes to digital literacy and cybersecurity awareness.

This year we continued to invest in our employees’ digital literacy by providing resources for learning, digital ambassadors (peer trainers), active practising, and assessments to evaluate the effectiveness of our digital literacy programs. Our goal is to ensure our employees have the tools and skills they need to do their jobs well while also protecting our clients’ personal and financial information, and our organization.
Advancing Growth & Profitability

Financial Discussion and Analysis

Canada’s economic growth of 2.0% remains close to the front of the pack of the G-7 countries, but fell behind the U.S. in 2018. Provincially, growth was lower relative to 2017; however, growth was relatively strong compared to other provinces.

South of the border, the U.S. Federal Reserve Board tightened monetary conditions in 2018, following through with four rate hikes to a target range of 2.25% to 2.5% on the back of robust economic growth and strong labour market.

After 10 years of expansion since the global financial crisis, stimulative monetary policy was no longer required in 2018. The Bank of Canada introduced three rate hikes in January, July and October in response to strong economic data, thereby increasing the overnight rate from 1.0% to 1.75%. The national unemployment rate remained at the lowest jobless rate since comparable data became available in 1976, finishing the year at 5.8%. With the economy considered to be operating close to capacity, the annual inflation rate in Canada tracked at or above the Bank of Canada’s target rate of 2.0% for the majority of the year, closing the year at 2.0%.

2018 Financial Performance

BlueShore Financial’s Assets Under Administration, including wealth management assets, grew $474 million (an increase of 9.1%) to end the year at $5.7 billion (2017, $5.2 billion). Balance Sheet Assets increased by $459 million to $4.5 billion (2017, $4.0 billion). Total Loans grew $370 million (an increase of 10.7%) and Total Deposits rose by $484 million (an increase of 13.9%).

Net Operating Income (NOI) was $22.0 million (2017, $23.8 million1) making 2018 our highest grossing profitable year from core operations after normalizing for one-time property gains. Return on Retained Earnings (RORE) was 12.6% (2017, 15.6%) and Return on Average Assets (ROAA) was 51 basis points (bps) (2017, 62 bps).

Net Interest Margin exceeded the prior year’s performance by another impressive year of double-digit loan growth. The pace of loan growth and deposit growth slowed considerably in the second half of the year as the housing market finally succumbed to the cumulative effect of government and regulatory cooling measures to address consumer debt and improve housing affordability.

Non-Interest Income was above the previous year after normalizing for property gains. In addition, BlueShore achieved impressive industry-leading wealth management and insurance results in spite of the decline and volatility in the equity markets in the second half of the year.

Non-Interest Expenses were well managed but exceeded the prior year, mainly due to the planned opening of the new Kerrisdale Financial Spa® branch in Vancouver in August 2018, conversion of our credit card provider to Collabria (Mastercard), growth in regulatory costs in line with deposits and rate increases, and budgeted additional staff to advance strategy and support client services.

Additionally, DBRS Limited assigned BlueShore Financial Credit Union a Long-Term Issuer Rating of BBB (high) and a Short-Term Issuer Rating of R-1 (low). The trend on all ratings is Stable. The rating is further affirmation of BlueShore’s financial stability and strong business strategy.

1 Includes $5.3 million related to the gain on the sale of Marine Drive property in March 2017

“We continue to build on our track record of growth, strength and stability.” - Richard Butterworth, Chief Financial Officer
2019 Economic Outlook
Global economic growth is expected to remain steady at 3.5%, according to International Monetary Fund projections. Concerns over trade, rising tariffs and the strained U.S.-China relationship are all factors in the revised forecast, down from 3.9% in July 2018.

For Canada, we enter 2019 on a more subdued tone than previous years with the Bank of Canada forecasting growth to be 1.7% in 2019, primarily because of lower oil prices. The Bank of Canada expects inflation to be slightly below the 2% target through most of 2019.

BlueShore Financial has set its 2019 targets to recognize the softer housing market conditions and changes continuing to unfold in the year ahead, including the new Employer Health Tax introduced in January 2019. The slower real estate market is expected to dampen demand for loans to some degree, but the Credit Union is nevertheless budgeting for moderate growth in both loans and deposits. Wealth Management is also targeted to grow steadily in 2019. In addition, BlueShore will be upgrading systems, relocating the existing downtown Vancouver branch to a new and expanded Financial Spa on West Pender Street, and upgrading to a remodelled Financial Spa at our Burnaby location. Our strong balance sheet will continue to reflect healthy liquidity, a solid capital base, and outstanding asset quality.

Richard Butterworth, Chief Financial Officer

For more information:
Full Financial Statements
Management Discussion & Analysis

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To the Members of BlueShore Financial Credit Union

Opinion
The summarized consolidated financial statements of BlueShore Financial Credit Union (the Credit Union), which comprise:

• the summarized consolidated statement of financial position as at December 31, 2018

• the summarized consolidated statement of income and retained earnings for the year then ended

• and related notes

are derived from the audited consolidated financial statements of BlueShore Financial Credit Union as at and for the year ended December 31, 2018.

In our opinion, the accompanying summarized consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements, in accordance with the criteria disclosed in Note 1 in the summarized consolidated financial statements.

Summarized Consolidated Financial Statements
The summarized consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading summarized consolidated financial statements and the auditors’ report thereon, therefore, is not a substitute for reading the Credit Union’s audited consolidated financial statements and the auditors’ report thereon.

The summarized consolidated financial statements and the audited consolidated financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited consolidated financial statements.

Management’s Responsibility for the Summarized Consolidated Financial Statements
Management is responsible for the preparation of the summarized consolidated financial statements in accordance with the criteria disclosed in Note 1 in the summarized consolidated financial statements.

Auditors’ Responsibility
Our responsibility is to express an opinion on whether the summarized consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements, based on our procedures, which were conducted in accordance with Canadian Auditing Standards 810, Engagements to Report on Summary Financial Statements.

Chartered Professional Accountants
February 13, 2019
Vancouver, Canada
Financial Results

Summarized Consolidated Statement of Financial Position
as at December 31, 2018 (in thousands of dollars)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents</td>
<td>127,924</td>
<td>63,815</td>
</tr>
<tr>
<td>Loans</td>
<td>3,825,120</td>
<td>3,454,912</td>
</tr>
<tr>
<td>Interest-bearing Deposits</td>
<td>412,002</td>
<td>341,879</td>
</tr>
<tr>
<td>Financial Assets and Investments</td>
<td>31,212</td>
<td>70,393</td>
</tr>
<tr>
<td>Premises and Equipment</td>
<td>54,968</td>
<td>54,422</td>
</tr>
<tr>
<td>Intangible Assets</td>
<td>6,824</td>
<td>6,549</td>
</tr>
<tr>
<td>Other Assets</td>
<td>3,963</td>
<td>10,597</td>
</tr>
<tr>
<td>Deferred Income Tax</td>
<td>1,605</td>
<td>1,605</td>
</tr>
<tr>
<td><strong>Total Assets under Administration</strong></td>
<td><strong>$4,463,618</strong></td>
<td><strong>$4,004,172</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND MEMBERS’ EQUITY</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members’ Accounts: Demand Deposits</td>
<td>678,100</td>
<td>695,454</td>
</tr>
<tr>
<td>Term Deposits</td>
<td>2,848,747</td>
<td>2,428,691</td>
</tr>
<tr>
<td>Registered Deposits</td>
<td>404,804</td>
<td>336,649</td>
</tr>
<tr>
<td>Accrued Interest</td>
<td>35,798</td>
<td>22,679</td>
</tr>
<tr>
<td>Borrowings and Debt Liabilities</td>
<td>248,597</td>
<td>287,441</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>32,919</td>
<td>38,309</td>
</tr>
<tr>
<td>Membership and Preferred Equity Shares</td>
<td>1,306</td>
<td>1,274</td>
</tr>
<tr>
<td>Members’ Equity: Retained Earnings</td>
<td>179,164</td>
<td>161,158</td>
</tr>
<tr>
<td>Equity Shares</td>
<td>39,812</td>
<td>200,025</td>
</tr>
<tr>
<td>Accumulated Other Comprehensive Loss</td>
<td>(5,629)</td>
<td>(6,350)</td>
</tr>
<tr>
<td><strong>Total Liabilities and Members’ Equity</strong></td>
<td><strong>$4,463,618</strong></td>
<td><strong>$4,004,172</strong></td>
</tr>
</tbody>
</table>

**Total Assets under Administration** | **$5,663,013** | **$5,189,018**

Summarized Consolidated Statement of Income and Retained Earnings
for the year ended December 31, 2018 (in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</td>
<td>151,710</td>
<td>122,508</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>74,686</td>
<td>52,068</td>
</tr>
<tr>
<td><strong>Net Interest Income</strong></td>
<td><strong>77,024</strong></td>
<td><strong>70,440</strong></td>
</tr>
<tr>
<td>Fee, Commission and Other Income</td>
<td>18,614</td>
<td>20,861</td>
</tr>
<tr>
<td><strong>Total Operating Income</strong></td>
<td><strong>95,638</strong></td>
<td><strong>91,301</strong></td>
</tr>
<tr>
<td>Non-interest Expenses</td>
<td>71,476</td>
<td>64,782</td>
</tr>
<tr>
<td>Loan Impairment Expense</td>
<td>2,158</td>
<td>2,685</td>
</tr>
<tr>
<td><strong>Net Operating Income</strong></td>
<td><strong>22,004</strong></td>
<td><strong>23,834</strong></td>
</tr>
<tr>
<td>Community Investment</td>
<td>220</td>
<td>238</td>
</tr>
<tr>
<td>Income Tax Expense</td>
<td>3,511</td>
<td>2,743</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td><strong>18,273</strong></td>
<td><strong>20,853</strong></td>
</tr>
<tr>
<td>Retained Earnings - Beginning of Year</td>
<td>161,158</td>
<td>141,793</td>
</tr>
<tr>
<td>Prior period adjustment, IFRS 9 adoption</td>
<td>1,342</td>
<td>-</td>
</tr>
<tr>
<td>Dividends on Equity Shares - Net of Tax</td>
<td>(1,609)</td>
<td>(1,488)</td>
</tr>
<tr>
<td><strong>Retained Earnings - End of Year</strong></td>
<td><strong>$179,164</strong></td>
<td><strong>$161,158</strong></td>
</tr>
</tbody>
</table>

Allan Achetemichuk, Chair  Peter Leitch, Audit Committee Chair

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 statement of financial position of BlueShore Financial Credit Union as at December 31, 2018, 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, 2018, 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 17, 2019.

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.
BlueShore Financial is governed by a nine-person Board of Directors. These Directors hold a targeted mix of skills, experience and competencies, which is reviewed annually and assessed for any gaps. Their combined expertise guides BlueShore’s strategic success.

In 2018, BlueShore welcomed Diana Chan to the Board of Directors. View the biographies for all our Directors.

Governance principles and responsibilities
The Board continually reviews its corporate governance practices to ensure they reflect the highest level of oversight, independence and accountability our members and stakeholders expect and deserve.

BlueShore Financial meets or exceeds the principles and standards set out in the BC Financial Institutions Commission Governance Guideline, which ensures strong governance and risk management practices.

The primary responsibilities of the Board are to:
- Approve and monitor BlueShore’s adherence to its risk appetite.
- Approve and monitor BlueShore’s strategic plan and performance.
- Ensure BlueShore’s risk governance framework is comprehensive, adequately resourced, forward looking, strategic, effective, diligently monitored and communicated.
- Assemble an effective management team. This includes selecting a CEO, monitoring the CEO’s performance towards achieving mutually established objectives, and planning for the CEO’s succession.
- Demonstrate accountability to BlueShore’s members and promote disclosure to allow members to engage with BlueShore as owners.

Directors adhere to Code of Ethics and Conflict of Interest policies, which are reviewed regularly to ensure they reflect current best practices. In 2018, the Board introduced a new guideline on Director independence. The Guideline provides a framework to assess and proactively resolve situations that may introduce real or perceived conflicts of interest.

Director education
BlueShore Financial places a strong emphasis on Director learning and development. In 2018, Board education sessions were held on subjects such as:
- Business intelligence to enhance the client experience
- The evolution of banking including financial technology (FinTech) and Open Banking
- Legislative terminology and impacts to BlueShore Financial

Directors are eligible for reimbursement of certain education expenses, in line with the Director Education Policy. In 2018, Directors pursued individual education opportunities through the Institute of Corporate Directors and CUSource®. In addition, four Directors attended industry conferences to learn and share best practices.

Director learning plans are reviewed annually as part of the Board evaluation and effectiveness process. Conducted by a third party, the evaluation also assesses the performance of the Board overall. In addition, the Board reviews its performance informally at the end of every meeting without Management present.

Further Information
For information on Director attendance, compensation, and expenses please refer to our Management Discussion and Analysis.
BlueShore Financial
Board of Directors

The following Directors served during fiscal 2018:

Allan Achtemichuk
Board Chair

Peter Leitch
Board Vice-Chair

Diana Chan (Elected April 2018)

Dave Davenport
Chair, Nominations & Election Committee

Rod Dewar

Yuri Fulmer
Chair, Human Resources & Compensation Committee

Gordon Janzen

Julie McGill
Chair, Investment and Loan Committee

Justin Webb (Term ended April 2018)

Victoria Withers
Chair, Governance and Conduct Review Committee

BlueShore Financial
Locations

Head Office
& Administration
1250 Lonsdale Avenue
North Vancouver, BC

Branches
Burnaby
North Vancouver
Pemberton
Squamish
Vancouver
West Vancouver
Whistler

BlueShore Financial
Executive Management

Chris Catliff
President and Chief Executive Officer

Richard Butterworth
Chief Financial Officer

Fred Cook
Chief Information Officer

Marni Johnson
Senior Vice President, Human Resources and Corporate Affairs

Reg Marrinier
Senior Vice President, Retail and Business Banking

BlueShore Financial
Subsidiaries

BlueShore Capital Corporation
BlueShore Leasing Ltd.
BlueShore Strata Finance Ltd.
BlueShore Transport Finance Ltd.
BlueShore Wealth Ltd.
Morningside Properties Ltd.
0977916 B.C. Ltd.

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

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