Gulf & Fraser™

2022

Management Discussion & Analysis Report

Gulf and Fraser Fishermen's Credit Union
Year ended December 31, 2022

Gulf & Fraser
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GULF AND FRASER FISHERMEN'S CREDIT UNION
2022 ANNUAL REPORT

Management Discussion and Analysis Report

Introduction

Gulf and Fraser Fishermen's Credit Union, operating as Gulf & Fraser (or "the credit union") is a BC based credit union that for over 82 years has served British Columbians with a full range of products and services including personal and business banking, wealth management and retail and commercial lending solutions. With the mergers of Gulf & Fraser, Mount Lehman Credit Union ("MLCU") and VP Credit Union ("VPCU"), the credit union offers an expansive branch network in the Lower Mainland and Fraser Valley that serves over 63 thousand members and administers over $5.40 billion in assets under administration through a network of 27 branches, four insurance offices, a locally based Member Hub, online, mobile, and telephone banking channels as well as a mobile team of experts who meet with members at their convenience.

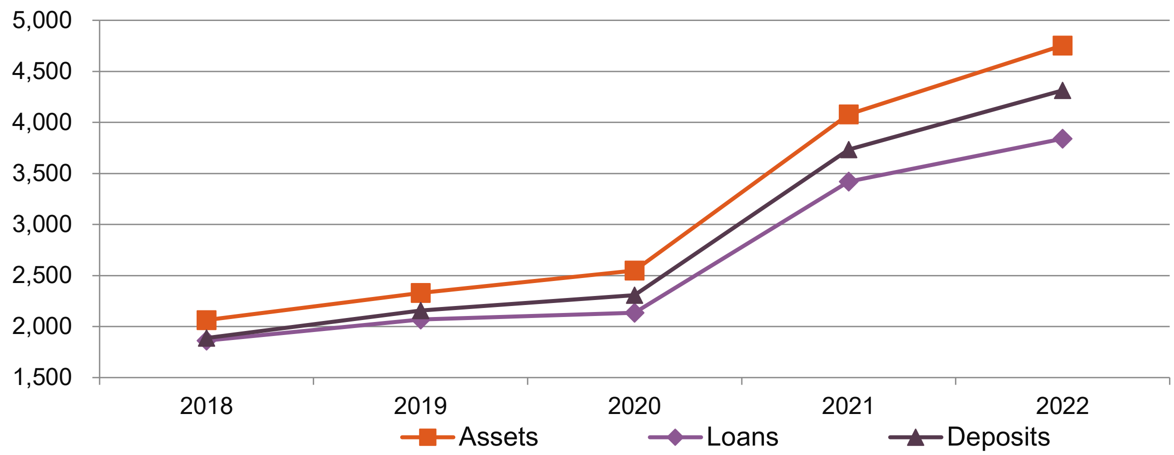
The mergers with MLCU and VPCU were accounted for using the acquisition method under IFRS 3 Business Combinations, with Gulf & Fraser acquiring 100% of the net assets of MLCU and VPCU to form a single credit union under Gulf & Fraser. On the merger date of January 1, 2022, the fair values of the assets and liabilities of MLCU and VPCU were determined with net assets acquired of $2.6 million and $8.4 million, respectively, which represent the balance of contributed surplus on the consolidated statement of financial position as at December 31, 2022. The results for the year ended December 31, 2022 include the results for the combined credit union after the merger date.

This Management Discussion and Analysis provides an overview of the credit union's financial and operating performance. It is intended to complement our audited consolidated financial statements and should be read in conjunction with those financial statements. The discussion may contain forward looking statements concerning Gulf & Fraser's activities and strategies. Readers are cautioned that such statements may involve risk and uncertainties with respect to the economic, legislative, regulatory and competitive environments, which could cause actual results to differ from the forward-looking statements in this report.

Highlights

Gulf & Fraser achieved outstanding results in 2022 despite the backdrop of a tumultuous economy with elevated inflation and unprecedented pace of policy rate increases by the Bank of Canada ("BofC"). In addition, the mergers with MLCU and VPCU increased the credit union's financial strength with combined resources and scale to better serve our members and invest in our future. Assets increased by $675.0 million or 16.5% (including organic growth of 11.3%) to $4.75 billion while our membership reached 63,192 as we welcomed 6,509 net new members into our network. Loans increased by $421.1 million or 12.3% (including organic growth of 8.3%), while deposits grew by $578.7 million or 15.5% (including organic growth of 10.0%). Wealth management assets under administration contracted by $43.0 million to $541.5 million due to market losses.

Assets, Loans and Deposits (in $ millions)



Earnings from operations for 2022 was a record high at $32.9 million, an increase of 24.8% over 2021. Operating margin (net interest income and other income) increased by 29.9% year over year supported by a full year of operations from the Aldergrove Credit Union (ACU) merger effective August 1, 2021, mergers with VPCU and MLCU combined with organic growth in our loan and deposit portfolios. Correspondingly, operating expenses increased by 32.3% year over year as a combined organization, related merger/integration costs and the opening of a new Guildford branch in Surrey during the year.

Net income for 2022 was $26.5 million reflecting a 11.7% return on retained earnings. Total comprehensive loss for 2022 was $4.4 million which included net unrealized losses on cash flow hedges (net of tax recovery) of $26.5 million and net unrealized losses from financial instruments (net of tax recovery) of $4.5 million. Gulf & Fraser was proud to recognize our financial success by contributing $1.5 million to our Gulf & Fraser Foundation. The Board of Directors approved a dividend return of 5.0% on member equity shares and 6.5% on investment equity shares. Gulf & Fraser remains well capitalized with a capital adequacy ratio of 14.92% at the end of 2022, well above the 8.0% regulatory requirement.

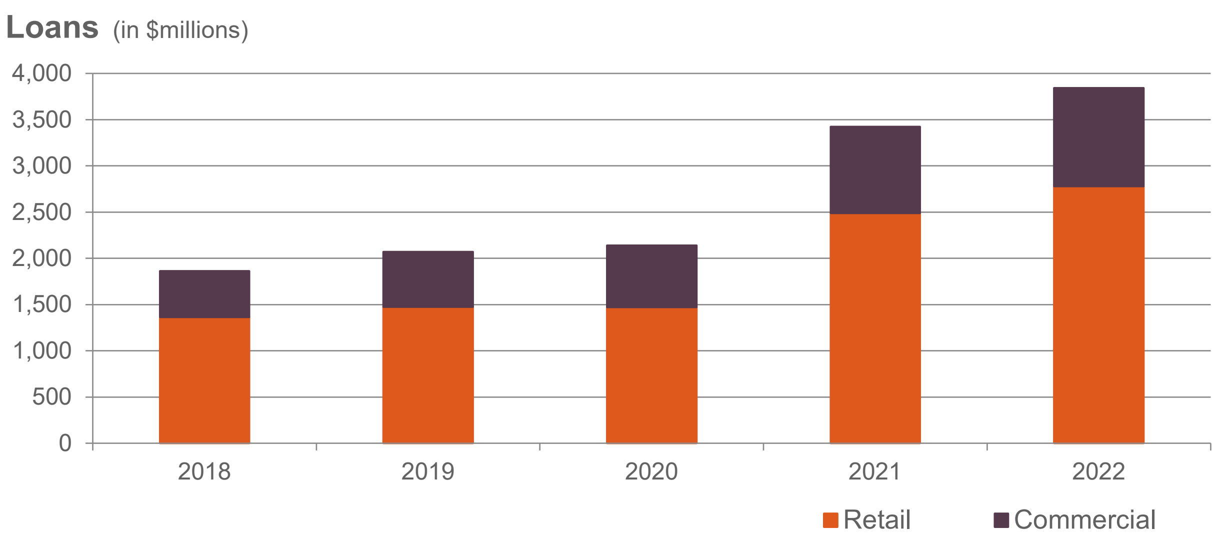
2022 Financial Performance

Total assets grew by $675.0 million, or 16.5% which encompasses the mergers with MLCU and VPCU (including organic growth of $459.7 million, or 11.3%) reflecting increases in both our loan and deposit portfolio. Assets now total $4.75 billion at the end of 2022 versus $4.08 billion at the end of 2021. Our total liquidity ratio ended the year at 19.1%, which was well above the statutory requirement of 8%. We also saw our membership grow by 6,509 or 11.5% (including organic growth of 2,140 or 3.8%) and we now have 63,192 members connecting and doing business with Gulf & Fraser.

LOANS

Total loans to members (including allowance for credit losses) grew by $421.1 million, or 12.3% (including organic growth of $282.2 million, or 8.3%) reaching $3.84 billion at the end of 2022. The 2022 real estate market sales in the Lower Mainland and Fraser Valley were concentrated in the first half of the year as the impact of policy rate hikes significantly slowed down retail lending activity towards the later part of the year. Commercial lending remained steady and the pipeline active throughout the year.

The total residential mortgages and personal loans portfolio increased by $290.0 million to $2.78 billion while the commercial lending portfolio grew by $129.8 million to $1.06 billion. Gulf & Fraser's Investment and Lending Policy has established a limit on the commercial lending portfolio (funded and unfunded) of 35% of the credit union's asset base which the credit union was in compliance.



ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses under the IFRS 9 Expected Credit Loss (ECL) model increased by $3.1 million to $11.8 million at the end of 2022. As a percentage of the loan portfolio, the allowance for credit losses increased from 0.25% in 2021 to 0.31% in 2022 driven by forecasted BC and Canada economic indicators incorporated in the ECL model associated with the elevated inflationary and rising interest rate environment and potential for a recession in 2023. The provision for credit losses was offset by loans written off (net of recoveries) of $59 thousand. The allowance for credit losses allocated to the residential mortgage and personal loans portfolio was $3.8 million or 32.6% while the allowance for credit losses allocated to the commercial lending portfolio was $8.0 million or 67.4%.

ASSET HELD-FOR-SALE

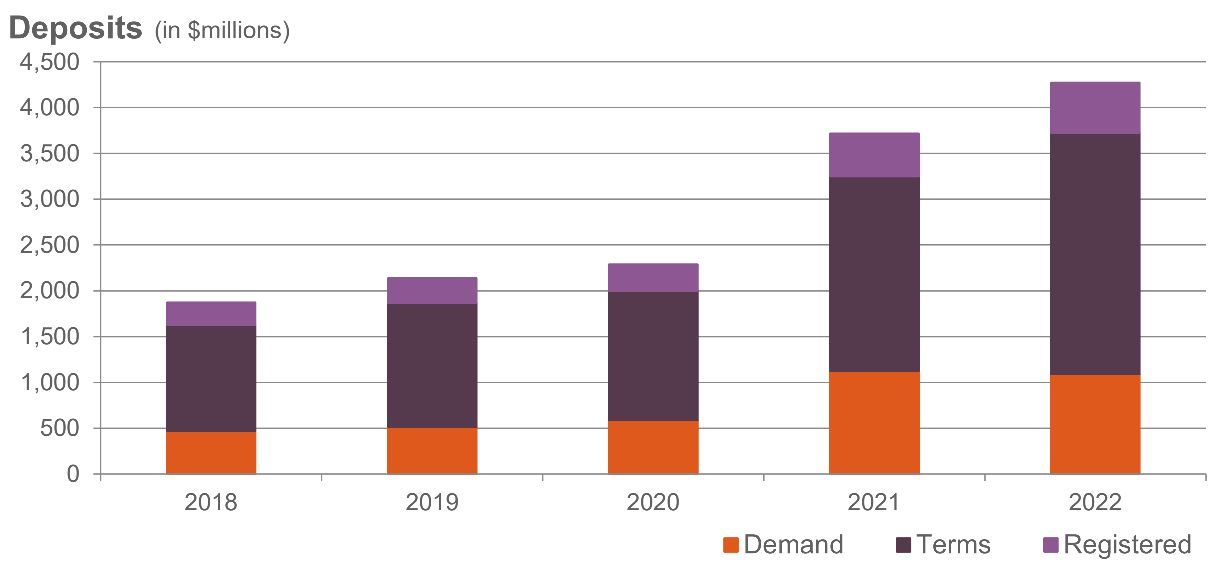
Asset held-for-sale was $2.3 million at the end of 2022 which comprises the previous Gulf & Fraser corporate office and two adjacent investment properties which the credit union is actively marketing for sale.

PREMISES AND EQUIPMENT

Premises and equipment decreased by $4.0 million to $62.3 million at the end of 2022 from $66.3 million at the end of 2021. This net decrease is comprised of the business combination of MLCU and VPCU's property and premises totaling $6.6 million, additions in leasehold improvements, furniture and equipment and right-of-use assets of $5.0 million during the year offset by disposals mainly related to the sale of our Abbotsford and Victoria Drive branches of $8.6 million and depreciation expense for the year of $7.0 million.

DEPOSITS

Member deposits increased by $578.7 million or 15.5% (including organic growth of $375.0 million, or 10.0%) totaling $4.31 billion at the end of 2022. Demand deposits fell by $33.7 million, term deposits grew by $510.6 million, registered deposits (i.e., RRSP, RRIF, RESP and TFSA) grew by $79.2 million, and accrued interest grew by $22.6 million during the year. The decrease in demand deposits was mainly attributed to a combination of members spending accumulated savings during the pandemic, drawing funds to address higher costs of living and migrating to term deposits to take advantage of higher rates of return on investment.

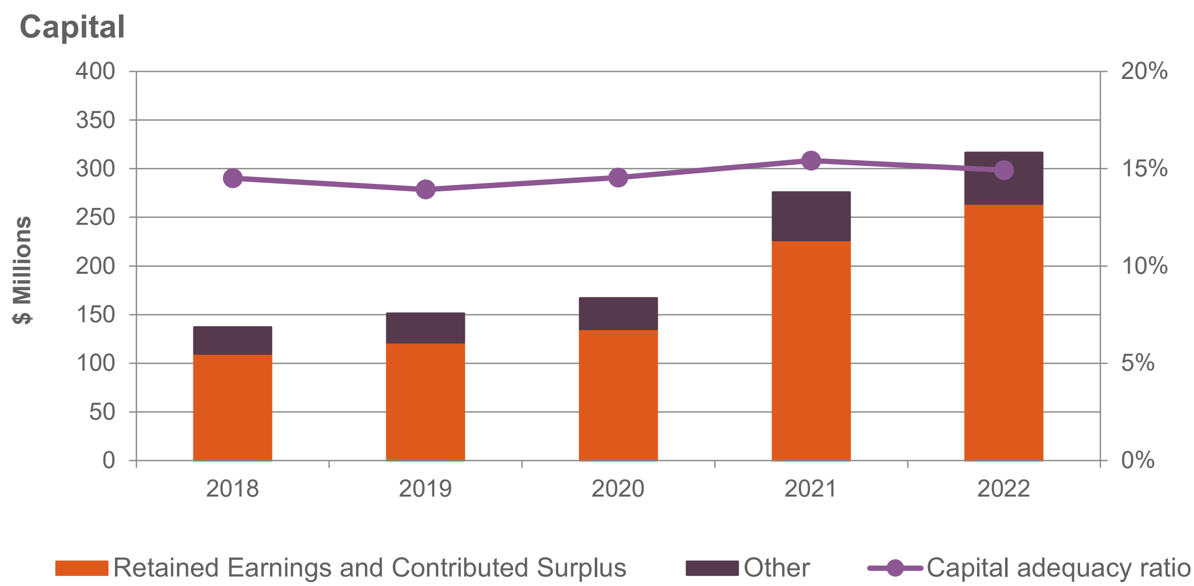


SECURED BORROWING

During 2022, Gulf & Fraser increased its available operating line and term facility with Central 1 from $169.1 million at the end of 2021 to $202.4 million at the end of 2022. In addition, Gulf & Fraser has a credit facility agreement with Fédérations des caisses Desjardins du Québec (Desjardins) which remained at $70.0 million at the end of 2022. As at December 31, 2022, there were no amounts drawn against these credit facilities. As part of the credit union's ongoing management of liquidity, capital and interest rate risk, Gulf & Fraser securitizes residential mortgages thereby entering into a secured borrowing arrangement with Central 1. The outstanding secured borrowing with Central 1 was $129.4 million at the end of 2022, an increase of $52.1 million from the balance at the end of 2021.

MEMBERS' EQUITY

In 2022, Gulf & Fraser achieved net income of $26.5 million, net unrealized losses from cash flow hedges (net of tax recovery) of $26.5 million, net unrealized losses from financial instruments (net of tax recovery) of $4.5 million and contributed surplus of $10.9 million with the business combinations of VPCU and MLCU resulting in an increase in members' equity of $6.5 million to end the year at $232.1 million. Capital adequacy at the end of 2022 was 14.92%, well exceeding the regulatory requirement of 8% and the supervisory target of 10%.



NET INTEREST INCOME

The BofC's goal to tame inflation by decelerating the economy through higher costs of borrowing led to rapid policy rate increases in 2022. The yield curve inverted as the economy began showing signs of slowing and the potential for a recession mounting.

In this economic context, Gulf & Fraser's net interest income (the difference between interest earned on loans and investments and interest paid on deposits and secured borrowings) as a percentage of assets fell slightly from 2.04% in 2021 to 2.01% in 2022. The rising rate environment had the benefit of higher interest income on variable rate mortgages (tied to the prime rate) offset by higher interest expense on term deposits that re-priced upwards on renewal at maturity.

On an absolute dollar basis, the credit union's net interest income increased by $25.5 million, or 39.7% to $89.7 million benefiting from the growth in the credit union's overall asset base.

OTHER INCOME

Other income includes member services income (such as loan fees and penalties, demand account fees, wealth management income and foreign exchange income), hedge ineffectiveness on cash flow hedges and other revenue earned by Gulf & Fraser Insurance Services Ltd. (a wholly owned subsidiary of the credit union providing life insurance and wealth management products and services). Other income increased $1.6 million or 8.3% to $20.4 million in 2022 reflecting the increase in membership that are utilizing these products and services.

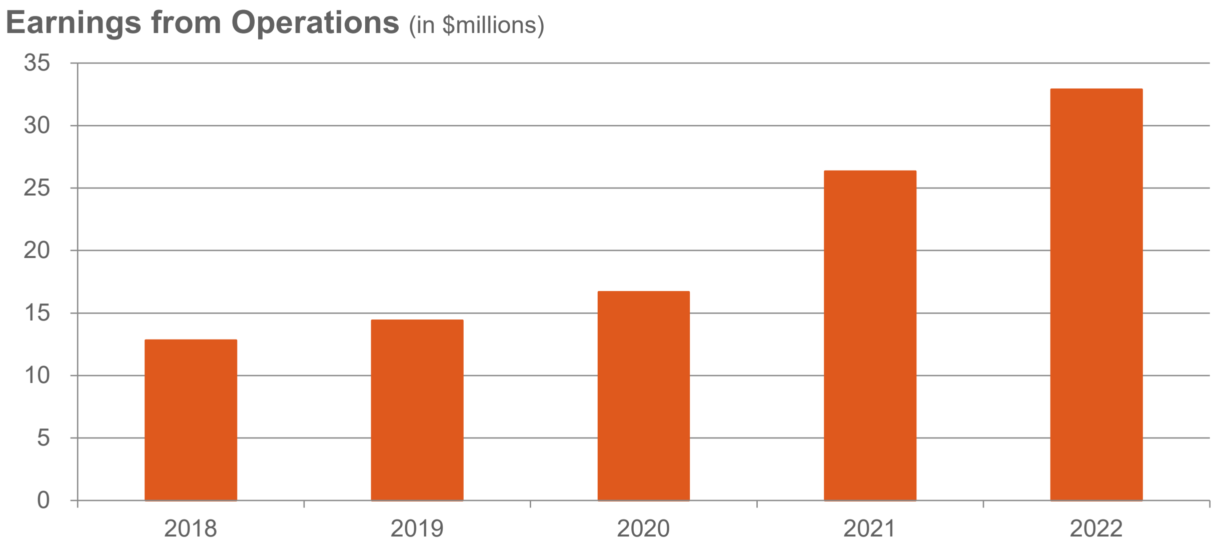
OPERATING EXPENSES

Operating expenses increased by $18.1 million or 32.3% to $74.3 million in 2022 driven by the business combinations of Gulf & Fraser, MLCU and VPCU, a full year's operating results from the ACU merger in 2021 along with organic asset growth of the credit union. Other notable operating expenses in 2022 included merger integration costs related to ACU/VPCU/MLCU (harmonization of banking system and other technology licenses/platforms), advertising and promotion (launch of new brand and member rewards program), opening our new Guildford branch and professional service fees related to the Gulf & Fraser and Grand Forks District Savings Credit Union (GFCU) merger to occur effective January 1, 2023 (legal, due diligence and regulatory). As a percentage of assets, the operating expenses decreased from 1.78% in 2021 to 1.67% in 2022 benefitting from economies of scale and efficiencies of the combined business combinations. In recognition of our strong financial results in 2022, a contribution was made of $1.5 million to our Gulf & Fraser Foundation.

EARNINGS FROM OPERATIONS

Earnings from operations was a record high at $32.9 million in 2022, up $6.5 million or 24.8% compared to 2021 reflecting our growth and mergers with ACU, MLCU and VPCU. Gulf & Fraser has continued to make long-term strategic investments by expanding/renovating our branch network, improving the sales and service delivery and overall member experience by investing in digital initiatives. The attraction of new members and growing the loan, deposit and wealth portfolios contributed to the exemplary financial performance for 2022.

Gulf & Fraser has a long history of sharing our profits with the local communities in which we live and serve by way of donations, sponsorships, educational bursaries and scholarships. Total distributions from both the credit union and Gulf & Fraser Foundation totaled $1.2 million which translates to 3.7% of earnings from operations in 2022.



TOTAL COMPREHENSIVE INCOME

Net income for 2022 was $26.5 million after accounting for a loss on sale of our Abbotsford and Victoria Drive branch premises of $105 thousand, distribution to members of $806 thousand and provision for income taxes of $5.5 million resulting in a return on retained earnings of 11.7%. The Board of Directors approved a dividend return of 5.0% on member equity shares and 6.5% on investment equity shares. The total comprehensive loss for 2022 was $4.4 million which included net unrealized losses on cash flow hedges (net of tax recovery) of $26.5 million and net unrealized losses from financial instruments (net of tax recovery) of $4.5 million.

FUNDS UNDER ADMINISTRATION

Funds under administration by Gulf & Fraser comprise of syndicated loans, Canada Emergency Business Account (CEBA) loans and investment portfolios and mutual funds (at market value).

Commercial loans are managed by the credit union and syndicated with other financial institutions for purposes of risk sharing, liquidity management and to service members who have loan amounts above the credit union's single member cap. The syndicated loan balance ended 2022 at $85.3 million, a decrease of $46.3 million for the year.

Loans issued by the credit union in its capacity as an agent under the CEBA program totaled $25.2 million at the end of 2022, a decrease of $2.3 million for the year.

Investments and mutual fund accounts that are managed by our wealth management specialists on behalf of members experienced net sales of $17.6 million (growth of 3.0%) offset by market losses in the funds under administration of $60.6 million totaling $541.5 million at the end of 2022.

Gulf & Fraser amalgamated its two wholly-owned subsidiaries, Gulf and Fraser Insurance Services Ltd. and Aldergrove Financial Services Ltd. effective January 1, 2022 with the amalgamated entity continuing operations as Gulf and Fraser Insurance Services Ltd. Gulf and Fraser Insurance Services Ltd. provides life insurance and wealth management products and services to members.

Risk Management

Gulf & Fraser is subject to a variety of risks that are inherent to the industry in which it operates. The credit union's principal risks are credit risk, liquidity risk and market risk given the nature of our business is holding financial instruments as identified in Note 23 of the audited consolidated financial statements. Other risks the credit union faces are strategic, operational, legal, regulatory, cyber security, technology, reputational and climate risks. To mitigate these risks the credit union has policies and procedures, controls and monitoring in place. The Board of Directors has overall responsibility for the establishment and oversight of the credit union's strategic direction, risk management framework and risk appetite. The executive management team, primarily through the Risk Management Function, is responsible for implementing strategies and policies approved by the board and for developing processes that identify, measure, monitor and mitigate risks. The credit union also has internal and external audit functions which are independent of management and report to the Audit and Risk Committee.

2023 Outlook

As COVID concerns began to fade in 2022, inflation sparked by supply chain disruptions, labour shortages and amplified by the war in Ukraine quickly occupied the headline story. In order to tame inflation, the BofC began an unprecedented rate hike cycle increasing its policy rate from 0.25% to 4.25% by the end of 2022, a level not seen since 2007. Economic data indicates that higher interest rates are slowing economic activity and weighing on consumer consumption with the lagged effects of the monetary policy expected to inch the Canadian economy closer to a recession in 2023.

Although inflation has likely peaked, the BofC has indicated that the economy remains overheated with a tight job market risking re-igniting inflation. Consequently, there is potential for further rate increases hinged upon the progression of inflation with rate cuts not expected to occur until inflation returns to the BofC's target inflation rate of 2%. The BofC is hoping to avert a recession and navigate a soft landing for the economy with anticipated improvements in supply chains and the impact from higher interest rates slowing household spending, business investment, hiring and the labour market. Ultimately, the path of inflation and interest rates will underpin the direction of the economy.

The Lower Mainland and Fraser Valley real estate market was volatile in 2022 as the red-hot market of springtime quickly turned sluggish for the balance of the year due to affordability erosion caused by price appreciation during the pandemic and rising mortgage rates. The Real Estate Board of Greater Vancouver (REBGV) reported 2022 residential home sales down 34% year-over-year compared to 2021 and the benchmark price down 3.3%. Prices have only declined marginally with a strong labour market limiting instances of panic selling and a downward price spiral, however; British Columbians carry the heaviest household debt loan in Canada and are especially sensitive to rising interest rates. Therefore, a pullback in residential investment and household spending is expected in 2023.

In this context, Gulf & Fraser is forecasting modest growth in its loans, deposits and wealth management portfolios with an ongoing focus on digital transformation initiatives to enhance the experience and advice we provide for our members. In 2023, Gulf & Fraser will make further investments in our branch network by opening a new branch in the Oakridge community of Vancouver, relocating our Mission and Aldergrove branches to locations with greater growth potential and completing renovations at two branches in accordance with our property and premises plan. Continuing to partner with like-minded organizations, Gulf & Fraser will merge with GFCU effective January 1, 2023 which will provide greater scale and a stronger presence, to span from downtown Vancouver across the southern region of the province to include the Boundary Region of BC, delivering the advice, products and services that members desire. Furthermore, Gulf & Fraser entered into a Memorandum of Understanding on October 3, 2022 to explore a possible merger with Interior Savings Credit Union which would result in a branch footprint that extends into the Interior regions of BC. Gulf & Fraser's business plan for 2023 focuses on five strategic pillars – Grow the Business, Member Experience, People and Culture, Financial Strength and Community Impact.

GULF AND FRASER FISHERMEN'S CREDIT UNION

Five-Year Overview – Financial Highlights

(Expressed in thousands of dollars)

Consolidated Statement of Financial Position (unaudited)

	2022	2021	2020	2019	2018
ASSETS					
Cash and investments	$826,309	$581,357	$362,487	$218,762	$186,850
Loans	3,840,196	3,419,054	2,133,861	2,068,805	1,862,404
Asset held-for-sale	2,297	2,297	2,297	-	-
Premises and equipment, intangible assets, investment properties	64,975	69,025	39,036	37,379	8,765
Other assets	20,314	7,386	9,824	4,260	5,603
	$4,754,091	**$4,079,119**	**$2,547,505**	**$2,329,206**	**$2,063,622**
LIABILITIES AND MEMBERS' EQUITY					
Deposits	$4,313,815	$3,735,085	$2,306,930	$2,156,900	$1,887,475
Members' shares	15,257	13,378	9,455	8,854	8,047
Secured borrowings	129,438	77,305	72,407	25,419	51,455
Other liabilities	63,476	27,771	21,080	15,972	6,676
	4,521,986	3,853,539	2,409,872	2,207,145	1,953,653
Members' equity					
Accumulated other comprehensive income (loss)	(31,702)	(792)	2,577	600	153
Contributed surplus	10,926	70,331	-	-	-
Retained earnings	252,881	156,041	135,056	121,461	109,816
	232,105	225,580	137,633	122,061	109,969
	$4,754,091	**$4,079,119**	**$2,547,505**	**$2,329,206**	**$2,063,622**

Consolidated Statement of Comprehensive Income (unaudited)

	2022	2021	2020	2019	2018
Interest income	$156,199	$97,321	$83,206	$82,087	$70,028
Interest expense	66,456	33,103	40,355	42,488	31,170
Net Interest Income	**89,743**	**64,218**	**42,851**	**39,599**	**38,858**
Other income	20,415	18,856	15,057	10,851	9,101
Provision for credit losses	(3,027)	(601)	(3,446)	(597)	(697)
Operating margin	**107,131**	**82,473**	**54,462**	**49,853**	**47,262**
Operating expenses	74,253	56,135	37,774	35,461	34,459
Earnings from operations	**32,878**	**26,338**	**16,688**	**14,392**	**12,803**
Loss on sale of premises	(105)	-	-	-	-
Distribution to members	(806)	(562)	(296)	(369)	(315)
Income before income taxes	**31,967**	**25,776**	**16,392**	**14,023**	**12,488**
Provision for income taxes	5,458	4,791	2,797	2,379	2,126
Net income	**26,509**	**20,985**	**13,595**	**11,644**	**10,362**
Net unrealized gains (losses) from cash flow hedges (net of tax)	(26,456)	(2,157)	1,977	448	603
Net unrealized losses from financial instruments held at FVOCI (net of tax)	(4,454)	(1,212)	-	-	-
Total comprehensive income (loss)	**($4,401)**	**$17,616**	**$15,572**	**$12,092**	**$10,965**

	2022	2021	2020	2019	2018
Financial Statistics (unaudited)					
Asset growth	16.5%	60.1%	9.4%	12.9%	8.6%
Loan growth	12.3%	60.2%	3.1%	11.1%	8.8%
Deposit growth	15.5%	61.9%	7.0%	14.3%	8.3%
Operating efficiency	67.41%	67.57%	65.23%	70.29%	71.85%
Percent of average assets (unaudited)					
Net interest income	2.01%	2.04%	1.74%	1.80%	1.96%
Other income	0.46%	0.60%	0.61%	0.50%	0.46%
Provision for credit losses	0.07%	0.02%	0.14%	0.03%	0.04%
Operating expenses	1.67%	1.78%	1.53%	1.61%	1.74%
Earnings from operations	0.73%	0.84%	0.68%	0.65%	0.65%
Net income	0.59%	0.67%	0.55%	0.53%	0.52%
Other statistics (unaudited)					
Retail branches	27	24	16	16	16
Membership	63,192	56,683	35,579	34,202	32,388
Investment portfolios and mutual funds, at market value	$541,492	$584,511	$292,502	$257,028	$223,672
Syndicated and CEBA loans	$110,441	$158,963	$180,644	$128,058	$103,789
Assets under administration	$5,406,023	$4,822,593	$3,020,651	$2,714,293	$2,391,083