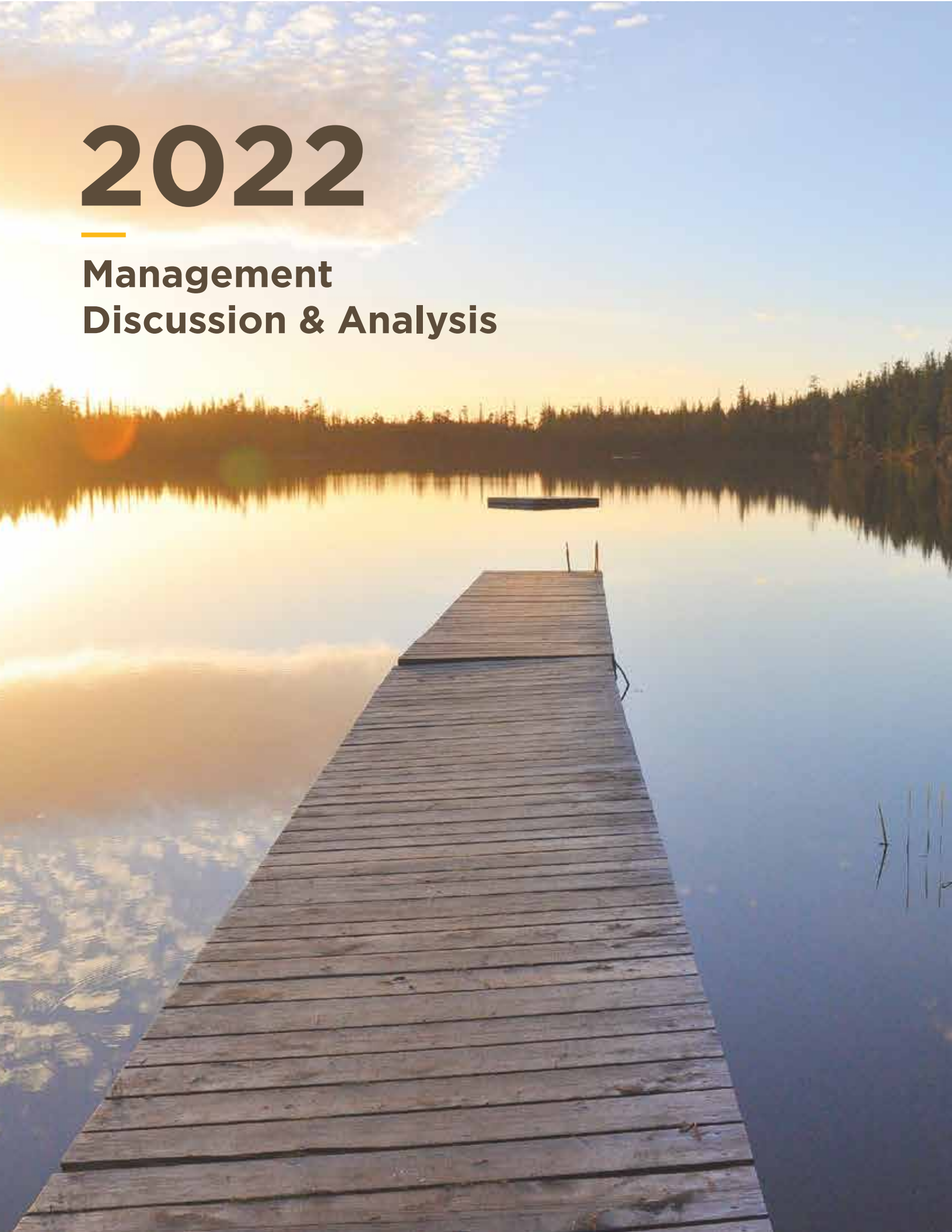


2022

Management Discussion & Analysis



Coastal Community Credit Union

2022 Management Discussion and Analysis

About Coastal Community Credit Union

Providing services for over 75 years, Coastal Community Credit Union (CCCU) is the largest Vancouver Island-based financial services organization, serving over 120,000 members and clients on Vancouver Island and the Gulf Islands.

To help our members and clients improve their financial health, our business lines offer a full range of products and services for personal, business and commercial banking, insurance* and wealth management** through Credential Securities. With more than \$4.2 billion in total assets under management, CCCU operates a network of 24 branches, 17 insurance locations and one centralized contact centre with extended service hours so our caring and helpful experts can meet all your financial and protection needs.

Coastal Community regularly invests over half a million dollars annually into communities across the Islands through community funding grants, education awards, sponsorships and fundraising initiatives.

*References to “Coastal Community” mean “Coastal Community Credit Union”

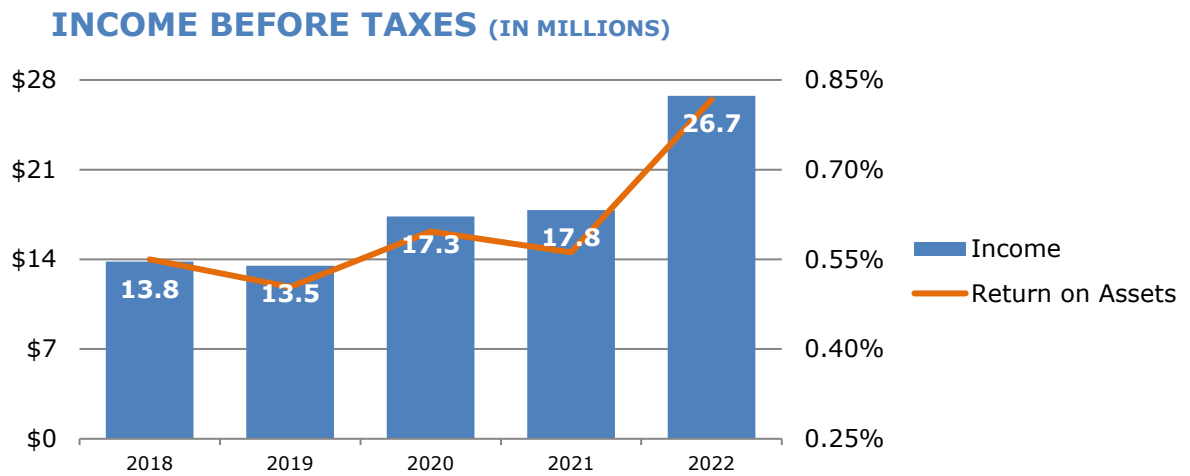
References to insurance refer to insurance services provided through Coastal Community Insurance Services (2007) Ltd. (CCIS). CCIS is a subsidiary of 1200089 B.C. Ltd., a company jointly owned by Coastal Community Credit Union and Interior Savings Credit Union, which in turn fully owns Coastal Community Insurance Services (2007) Ltd. and Interior Savings Insurance Services.

References to “wealth management,” “financial planning” and “investments” in this Annual Report refer to mutual funds, other securities and securities related financial planning services offered through Credential Securities, a division of Credential Qtrade Securities Inc. Credential Securities is a registered mark owned by Aviso Wealth Inc. Coastal Community Private Wealth Group is a division of Coastal Community Financial Management Inc., which is a wholly owned subsidiary of Coastal Community Credit Union. Coastal Community Financial Management Inc. is a licensed life insurance agency offering financial planning, life insurance and investments.

This Management Discussion and Analysis is prepared in conjunction with the audited consolidated financial statements. It is presented to provide management’s overview of Coastal Community Credit Union’s financial and operating performance which includes information on its wholly owned subsidiary, Coastal Community Financial Management Inc. and its 50% equity interest in 1200089 BC Ltd., a joint venture that owns Coastal Community Insurance Services (2007) Ltd. and Interior Savings Insurance Services Inc.



2022 Financial Performance



(2018 and 2019 exclude earnings from discontinued operations)

Summary

2022 was a very strong year for Coastal Community despite the challenges of rising interest rates, high inflation and global uncertainty.

Loan growth was the highest in 5 years while consolidated total assets increased only marginally. After two strong years, deposit balances grew at a slower pace as our members started to spend their savings.

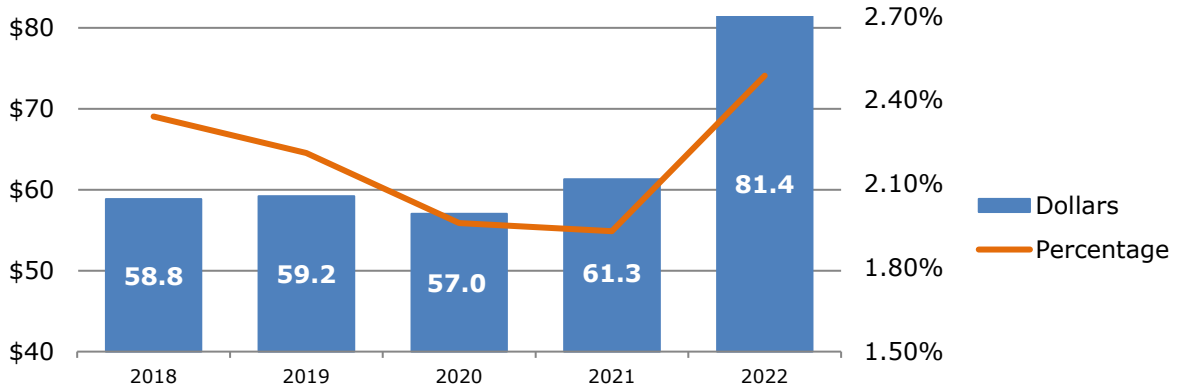
Consolidated income before taxes was \$26.7 million compared to \$17.8 million in 2021. Financial margin benefitted from the Bank of Canada rate hikes totaling 400 basis points over the year. Operating expenses increased as did the provisions for credit losses. Consolidated net income, which is our consolidated income after taxes, was \$22.5 million.

Return on average assets improved from 56 to 82 basis points.

Coastal's 2022 consolidated financial performance finished well ahead of plan.



NET INTEREST INCOME (IN MILLIONS)



Net Interest Income

Net interest income, the largest source of revenue for Coastal Community, represents the interest we earn on investments and member loans less the interest expense we pay on member deposits and borrowings. Net interest income improved to \$81.4 million. Fixed and variable consumer and commercial lending rates were higher plus balances were significantly higher. Term deposit rates also increased combined with significantly higher balances. Demand deposit rates increased by a smaller amount while balances fell considerably. Overall, excess liquidity declined as loan growth exceeded deposit growth reversing the trend of the prior two years. As a percentage of average assets, interest income improved 59 basis points over the prior year with interest expense increasing only 3 basis points. As a result, net interest income as a percentage of average assets increased from 1.93% in 2021 to 2.49% for 2022.

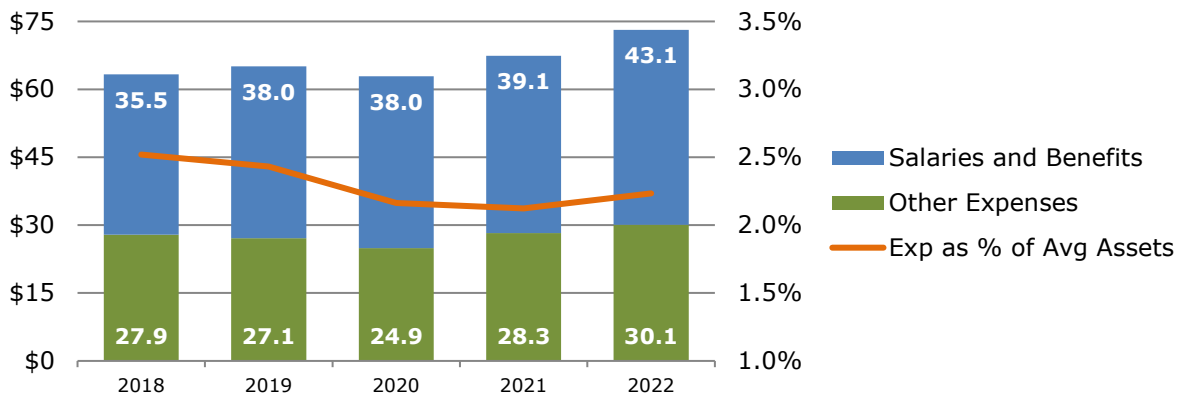
When rates start to decline once inflation is tamed, we expect net interest income as a percentage of average assets to decline.

Other Income

Our strategy includes supplementing net interest income with diversified income sources including contributions from our wealth management subsidiary and equity interest in a joint venture that owns two insurance subsidiaries. Other income comprises loan fees, service charges, insurance and financial commissions, foreign exchange, and other miscellaneous revenues that are not interest related. Other income was lower largely due to a decline in mortgage payout fees.



OPERATING EXPENSES (IN MILLIONS)



Operating Expenses

As the Bank of Canada increased rates throughout the year, Coastal Community focused on increasing efficiencies and innovating to help mitigate operating cost pressures. In addition to high inflation, growing our operations and investing in technology contributed to higher data processing costs in 2022. Salaries and benefits increased year over year as did other operating expenses and administration, as staffing and expenditures returned to pre-pandemic levels.

Overall, total operating expenses as a percentage of average assets increased slightly to 2.2% from 2.1% in 2021.

Comprehensive Income

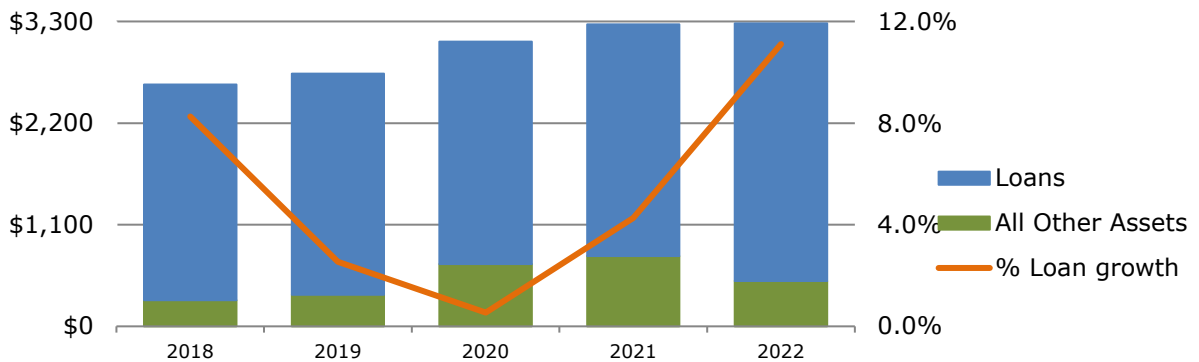
Comprehensive income includes the net income of the credit union and other comprehensive income or loss.

Coastal Community utilizes derivatives for risk management. The unrealized gains or losses from the change in the fair value of these derivatives, if the hedging relationship is effective, are recorded in other comprehensive income or loss. The gain recorded for 2022 reflects an improvement in the underlying markets. The cumulative unrealized gain or loss will net to zero when the derivative matures.

Mandatory liquidity pool securities are held at fair value through other comprehensive income. As a result, unrealized gains or losses from the change in the fair value of these securities are recorded in other comprehensive income or loss. The loss recorded for 2022 reflects an improvement in market rates compared to when the securities were purchased.



ASSETS (IN MILLIONS)

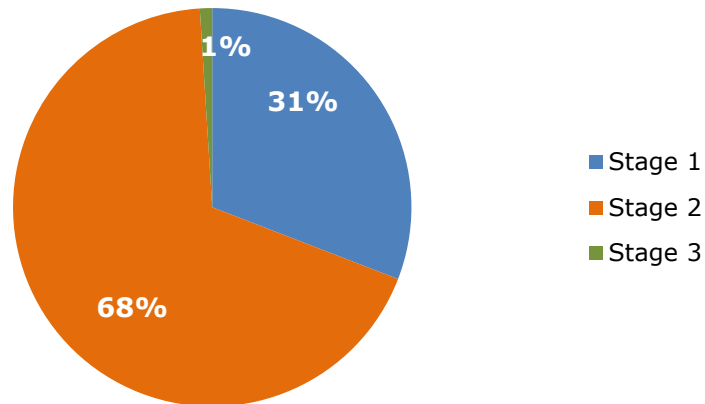


Loans

Total assets increased marginally from almost \$3.27 billion to almost \$3.28 billion as excess cash and investments were used to fund strong loan growth. Member loans make up the largest proportion of total assets. We ended the year with a loan portfolio of \$2,789 million, up \$279 million or 11.1% over 2021. Loan activity improved compared to 2021 with the majority of the increase in residential mortgages. At December 31, 2022, residential mortgage loans totaled \$1,956 million growing by \$169 million for the year. Personal loans ended the year at \$58 million declining \$2 million compared to 2021. Commercial loans grew \$112 million to \$776 million.



ALLOWANCE FOR CREDIT LOSSES



Allowance for Credit Losses

The expected credit loss (“ECL”) model results in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual impairment. The model requires the recognition of credit losses based on up to 12 months of expected losses for performing loans (Stage 1) and the recognition of lifetime expected losses on performing loans that have experienced a significant increase in credit risk since origination (Stage 2) and credit impaired assets (Stage 3).

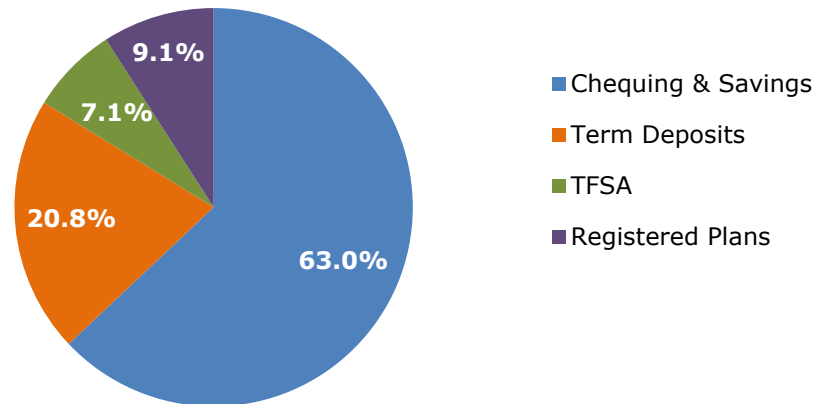
The allowance increased to \$8.8 million compared to \$6.5 million at the end of 2021 with the proportion in Stage 2 decreasing the most.

The total allowance at December 31, 2022 represents 0.32% of total loans which is higher than the 0.26% for 2021. While the economic outlook has improved, the impact of higher rates and a potential recession are unknown.

The Credit Union regularly reviews its loan portfolios for impairment and recommends specific loans to be written off where recovery of the debt is deemed unlikely. A complete analysis of our allowance for impaired loans is provided in Note 8 of the audited consolidated financial statements.



DEPOSIT MIX



Deposits

Member deposits are the largest component of liabilities. Deposits grew by 1.6% or \$48 million to over \$2,991 million at the end of the year. Growth was lower as members started to spend the savings they built up over the pandemic. The decline in deposits was expected. Chequing and Savings accounts declined the most as our members moved funds into Term Deposits. Growth in Term Deposits was a record high.

Tax-Free Savings deposit products include a high interest savings account and a full suite of term deposits. Registered plans include RRSPs, RRIFs, RDSPs and RESPs.

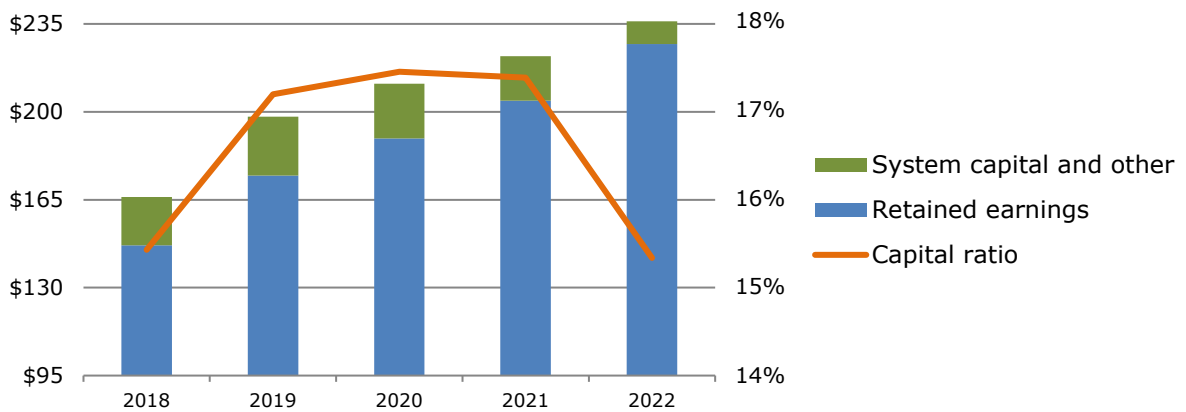
Borrowings

The Credit Union maintains operating lines of credit with Central 1 Credit Union and another financial institution. Access to borrowing facilities is an important part of effective liquidity management. Outstanding short-term borrowings remained at zero as of December 31, 2022.

During the year, Coastal Community did not participate in the Canada Mortgage Bond program as we had excess liquidity. At the end of 2022, the carrying amount of secured borrowings declined to \$27 million.



CAPITAL (IN MILLIONS)



Retained Earnings and Capital

Retained earnings, which represent the main source of capital for Coastal Community Credit Union, grew by \$22.5 million to \$226.9 million in 2022. A strong and stable capital base provides security against unexpected events and supports our ongoing growth. Increased capital allows us to pursue new initiatives including enhanced service to members and clients as well as expansion into the Capital region. Capital management objectives are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations. To ensure processes are in place to meet these objectives, Coastal Community follows policies approved by the Board of Directors. Management monitors capital levels on a regular basis.

Capital requirements are regulated by the BC Financial Services Authority (BCFSA). A minimum ratio of capital to risk-weighted assets of 8.0% must be maintained. Coastal Community Credit Union's capital adequacy ratio at December 31, 2022 changed from 17.36% to 15.33%.

Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Credit Union's Enterprise Risk Management (ERM) framework. This responsibility includes approving the ERM framework and the policies that comprise that framework and setting the organization's risk appetite. In addition to the risks identified in Note 21 of the audited consolidated financial statements, the Credit Union is also exposed to operational, strategic, legal, regulatory, and reputational risk. Coastal Community Credit Union has a solid framework in place that identifies and addresses these risks and maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. These systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate, and that the Credit Union's assets are appropriately accounted for and adequately safeguarded.



Coastal Community follows the three lines of defense model. The first line (risk owners): Operational employees and managers who understand and correctly carry out their roles and responsibilities following management and internal control measures; second line (Risk control and compliance as an oversight function): Independent oversight employees that monitor risk and compliance among operational employees; and third line (risk assurance): Internal audit, independent review, and legal review. The Corporate Governance of the Executive Team and the Board of Directors together oversee the 3 lines of defense functions to confirm they are performing at appropriate levels for risk tolerance and regulatory compliance.

2023 Outlook

Looking ahead to 2023, the Credit Union expects net interest income to decline as longer-term rates decrease and members' accumulated savings are drawn down further. Market competition for loans will intensify as the housing market reacts to higher rates. Loan growth will be slower than 2022 even as all market areas experience continued population migration.

Current inflation targets have markets pricing in flat rate decisions by the Bank of Canada for the remainder of 2023. There remains uncertainty in the forecast as the Bank of Canada attempts to bring inflationary targets in range. The Credit Union will continue its focus on the financial health and safety of its members and clients throughout this time.

The key aspects that set Coastal Community apart from the rest are our integrated approach to providing expert financial advice and personalized solutions across all of our business lines and our 100% Island focus. Our vision to improve financial health, enrich people's lives and build healthier communities will allow us to continue to do *Great Things* well into the future.