

# 2014 MANAGEMENT DISCUSSION AND ANALYSIS

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## 2014



COASTAL COMMUNITY  
CREDIT UNION

# Coastal Community Credit Union

## 2014 Management Discussion and Analysis

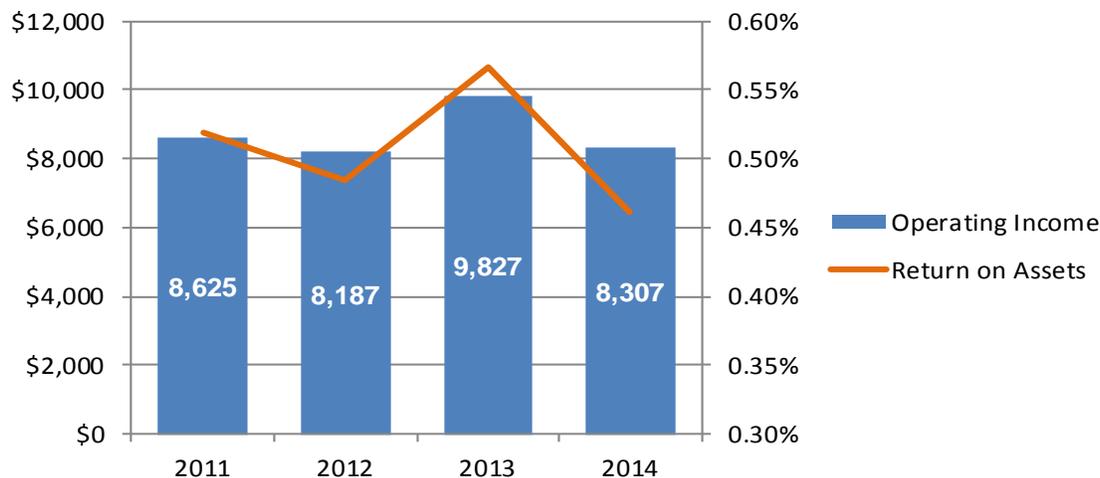
### About Coastal Community Credit Union

Coastal Community Credit Union is the largest credit union based on Vancouver Island and the Gulf Islands—a position held since 2005. With over \$2.3 billion in assets under management, Coastal Community\* is the 23rd largest credit union in Canada when measured by asset size. Coastal Community has a network of 21 branches, 15 insurance\*\* locations and three business service centres. Our experts in banking, insurance, and wealth management† offer caring and helpful service to meet all your financial and protection needs.

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 subsidiaries, Coastal Community Insurance Services (2007) Ltd., and its subsidiary Van Isle Insurance Services Ltd., and Coastal Community Financial Management Inc.

### 2014 Financial Performance

#### OPERATING INCOME (IN THOUSANDS)



(2013 includes a gain from dispositions of \$2,095)

### Summary

Coastal Community delivered another year of solid financial performance in 2014 against a backdrop of persistent low interest rates and modest economic growth. Consolidated operating income was \$8.3 million compared to \$9.8 million in 2013. The decline results from a lower gain from dispositions and higher loan impairment expense, which was partially offset by higher net interest income and higher other income. Operating expenses increased only slightly and 2014 financial performance exceeded budget for all companies.

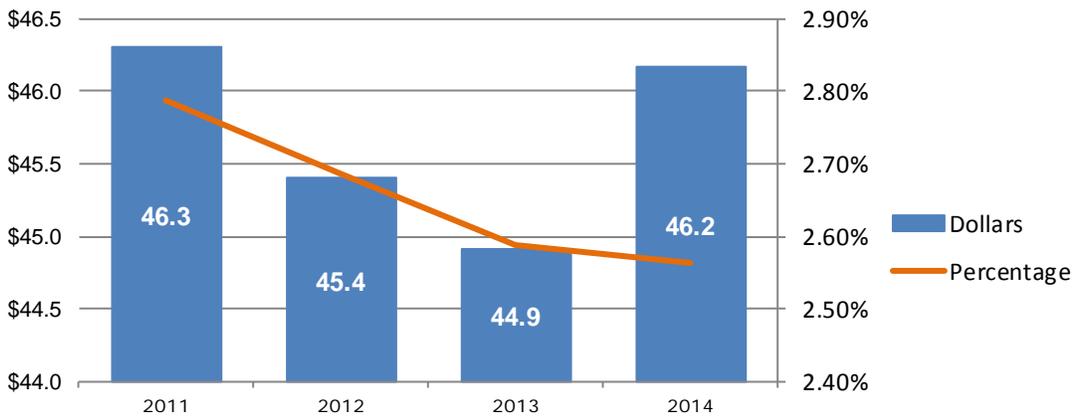
\*References to “Coastal Community” mean “Coastal Community Credit Union”

\*\*References to “insurance” refer to insurance services provided through Coastal Community insurance Services (2007) Ltd., which is a wholly owned subsidiary of Coastal Community Credit Union

†References to “wealth management” refer to the financial planning and investment services provided through Coastal Community Financial Management Inc., which is a wholly owned subsidiary of Coastal Community Credit Union



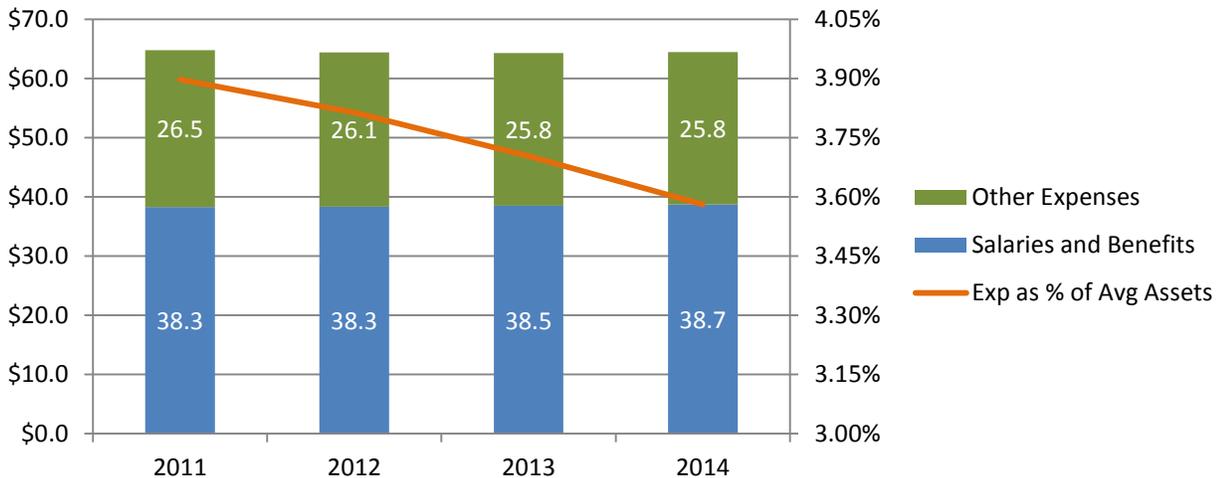
### NET INTEREST INCOME (IN MILLIONS)



### Net Interest Income

Net interest income, which is the difference between the *interest earned* on investments and member loans, and the *interest expense paid* on member deposits and financing, increased to \$46.2 million after several years of decline. When compared with the previous year, interest income was higher while interest expense was slightly lower. Net interest income as a percentage of average assets was 2.56% for 2014. The steady decline in the ratio, in spite of continued steady growth, reflects margin compression due to low interest rates coupled with intense competition.

### OPERATING EXPENSES (IN MILLIONS)



### Operating Expenses

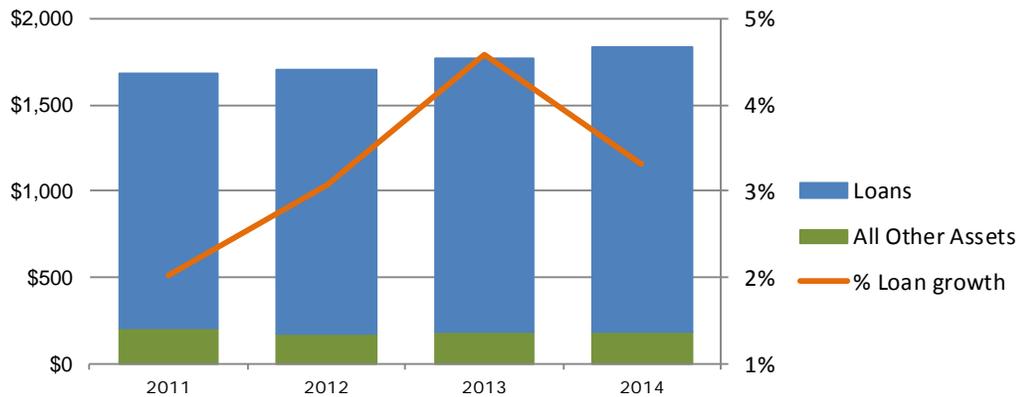
With net interest income as a percentage of average assets declining, efforts are continually focused on prudent expense management. Total operating expenses were virtually unchanged from 2013 despite inflation. Costs increased slightly year-over-year in salaries and benefit costs as well as data processing related to our core banking services. Lower costs were realized in premises-related expenditures.



## Other Income

Our strategy includes supplementing net interest income with diversified income sources including contributions from our insurance and wealth management subsidiaries. Other income comprises loan fees, service charges, insurance and financial commissions, foreign exchange, dividends on investments, and other miscellaneous revenues that are not interest related. In aggregate, other income increased \$563,000 over 2013 primarily in loan insurance income and higher dividends earned on required share holdings in Central 1.

## ASSETS (IN MILLIONS)

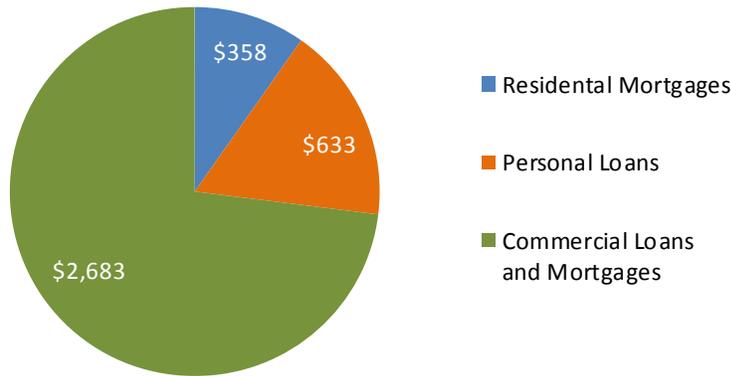


## Loans

Loans make up the largest proportion of total assets. Loans grew by 3.3% from \$1,588 million to \$1,641 million in 2014. This is a slower growth rate than 2013 but higher than the previous two years. The majority of the growth was in residential mortgages. At December 31, 2014, residential mortgage loans totaled \$1,124 million or 68.5% of total loans outstanding compared to \$1,065 million or 67.1% of total loans at December 31, 2013. Personal loans ended the year at \$136 million or 8.3% of total loans. Personal loans decreased by \$10 million compared to 2013. Commercial loans increased by \$5 million to \$381 million. They represented 23.2% of total loans at December 31, 2014 compared to 23.7% at December 31, 2013.



### PROVISION FOR IMPAIRED LOANS (IN THOUSANDS)



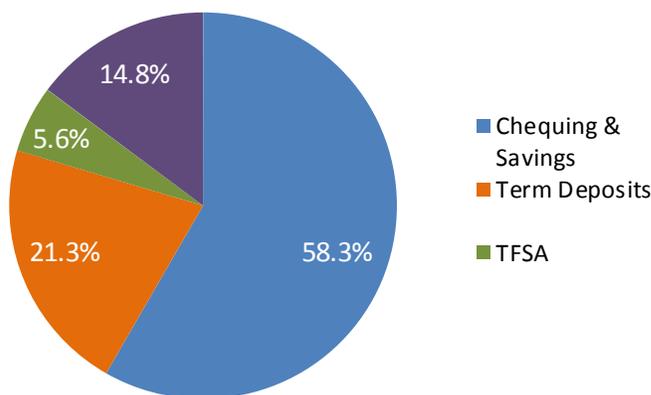
#### Provision for Impaired Loans

The provision for impaired loans increased to \$3.7 million from \$2.2 million in 2013. As of December 31, 2014, the provision for impaired loans consisted largely of commercial loans and mortgages, with a smaller proportion of personal loans and residential mortgages.

The year-end provision for impaired loans represents 0.22% of total loans compared with 0.14% a year earlier. Certain specific commercial loans classified as impaired accounted for a portion of this increase, along with an increase in the collective provision of loans for losses incurred but not specifically identified.

Loans written off decreased from \$1.6 million in 2013 to \$0.9 million in 2014. Loan loss expense recorded in 2014 increased by \$1.0 million year-over-year largely due to the increase in the provision for impaired loans. A complete analysis of our provision for impaired loans is provided in Note 8 of the audited consolidated financial statements.

### DEPOSIT MIX





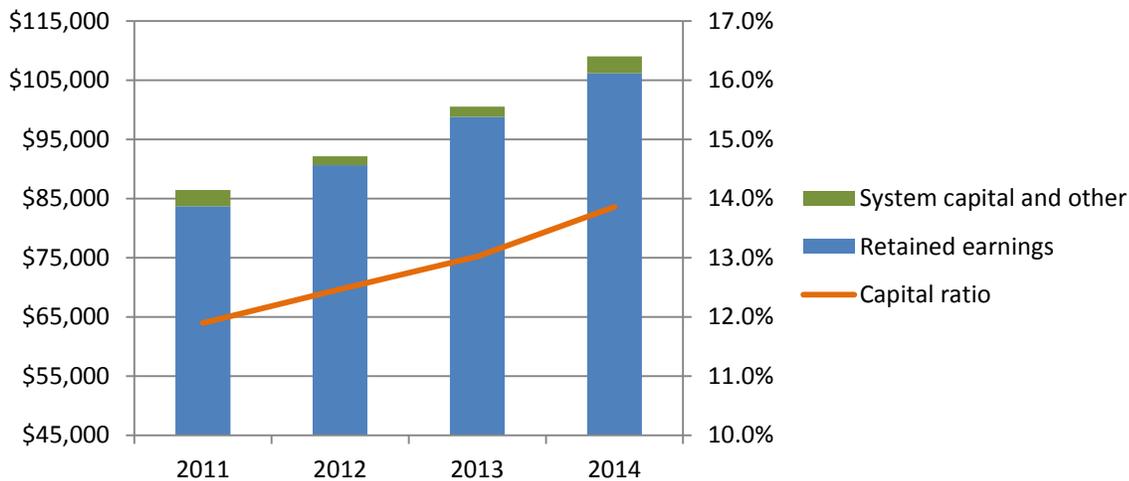
## Deposits

Deposits are the largest component of liabilities. Deposits grew by 3.2% from \$1,639 million to \$1,692 million in 2014. This is the same growth rate the Credit Union experienced in 2013. Chequing and savings accounts continue to hold the largest proportion of member deposits. Registered plans include RRSPs, RRIFs and RESPs. Tax-Free Savings deposit products include a high interest savings account and a full suite of term deposits.

## Borrowings

The Credit Union maintains operating lines of credit with Central 1 and Caisse centrale Desjardins (CCD). Access to borrowing facilities is an important part of effective liquidity management. Outstanding borrowings at December 31, 2014 were \$13.0 million compared to \$15.2 million at the end of 2013.

### CAPITAL (IN THOUSANDS)



## Members' Equity and Capital

Members' equity grew to \$105.8 million in 2014, comprised largely of retained earnings which represent the main source of capital for Coastal Community Credit Union. 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. Coastal Community's objectives with respect to capital management 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 its 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 Financial Institutions Commission of BC (FICOM). 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, 2014 increased to 13.86% from 13.02% in 2013.



## 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 reputation 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.

## 2015 Outlook

Looking ahead to 2015, the Credit Union expects further net interest income compression due to lower rates and a highly competitive marketplace. To help offset the lower income, there will be continued focus on growth and reducing operating costs through efficiencies. Member loan and deposit growth are expected to be higher due to expansion into the Capital Regional District.

The key aspects that set Coastal Community Credit Union apart from the rest is our focus on personalized, integrated, financial services—across our credit union, insurance and wealth management companies—and our 100% Island focus. The services and enhancements launched in 2014 will allow us to continue to do *Great Things* well into the future.