Coastal Community Credit Union

2015 Management Discussion and Analysis

About Coastal Community Credit Union

Coastal Community Credit Union (CCCU) is the largest credit union based on Vancouver Island and the Gulf Islands—a position held since 2005. With nearly $2.5 billion in assets under management, Coastal Community* is the 23rd largest credit union in Canada when measured by asset size. Operations grew in 2015 with the much-anticipated launch of two full service locations in the Victoria region. CCCU now has a network of 23 branches, 16 insurance** offices, four regional business service centres and one centralized contact centre with extended service hours. Coastal Community's experts in banking, insurance, and wealth management† offer caring and helpful service to meet all your financial and protection needs.

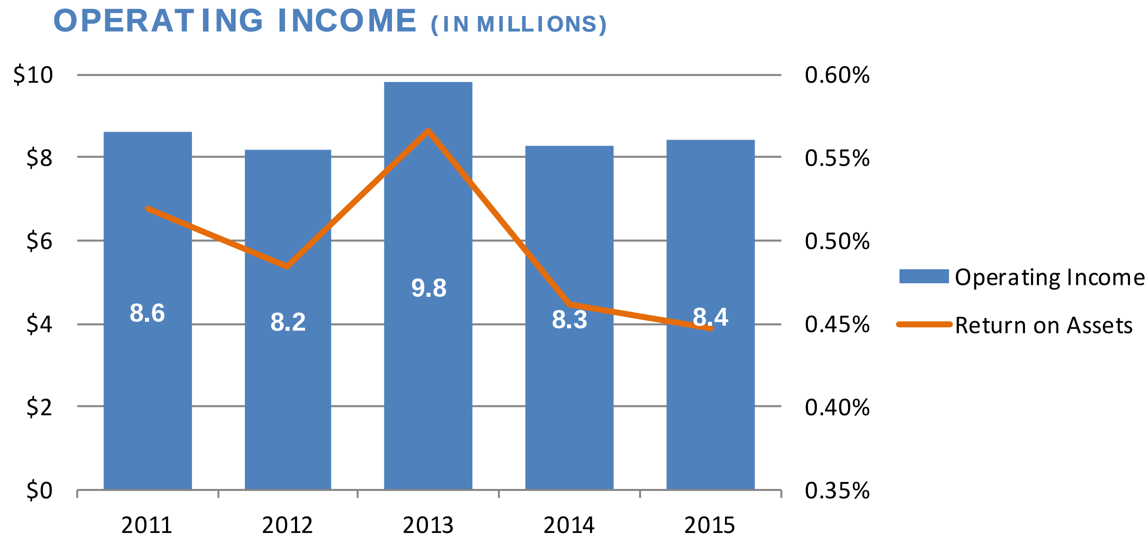
This Management Discussion and Analysis is prepared in conjunction with the audited consolidated financial statements. It is presented to provide management's overview of Coastal Community Credit Union's financial and operating performance which includes information on its wholly owned subsidiaries, Coastal Community Insurance Services (2007) Ltd., and its subsidiary Van Isle Insurance Services Ltd., and Coastal Community Financial Management Inc.

*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," "financial planning" and "investments" refer to the financial planning and investment services provided through Coastal Community Private Wealth Group, a division of Coastal Community Financial Management Inc., which is a wholly owned subsidiary of Coastal Community Credit Union

2015 Financial Performance



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

Summary

Overall Coastal Community's financial results were strong despite the challenging economic environment.

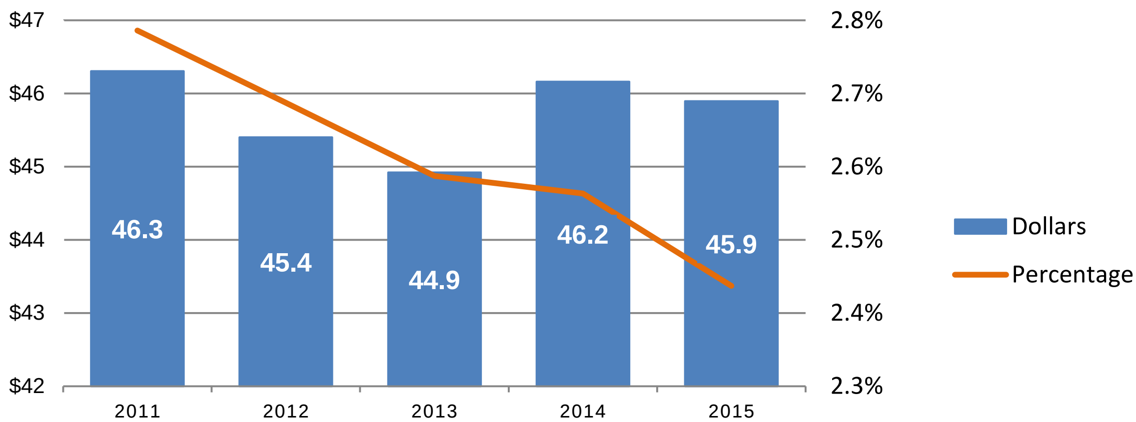
Loan balances increased 4.7% with consolidated total assets approaching $2 billion. Deposit balances increased 6.7% allowing us to eliminate our short term borrowings.

Consolidated operating income was $8.4 million compared to $8.3 million in 2014. A slight decline in net interest income was offset by higher other income. An increase in operating expenses was mostly offset by a decrease in loan impairment expense. Consolidated net earnings, which is our consolidated operating income after tax, was $7.0 million.

Return on Average Assets is generally declining as we earned lower interest income on our assets due to very low interest rates driven lower by two Bank of Canada rate cuts.

Supported by our expansion in the Victoria region, 2015's financial performance exceeded plan for all companies.

NET INTEREST INCOME (IN MILLIONS)



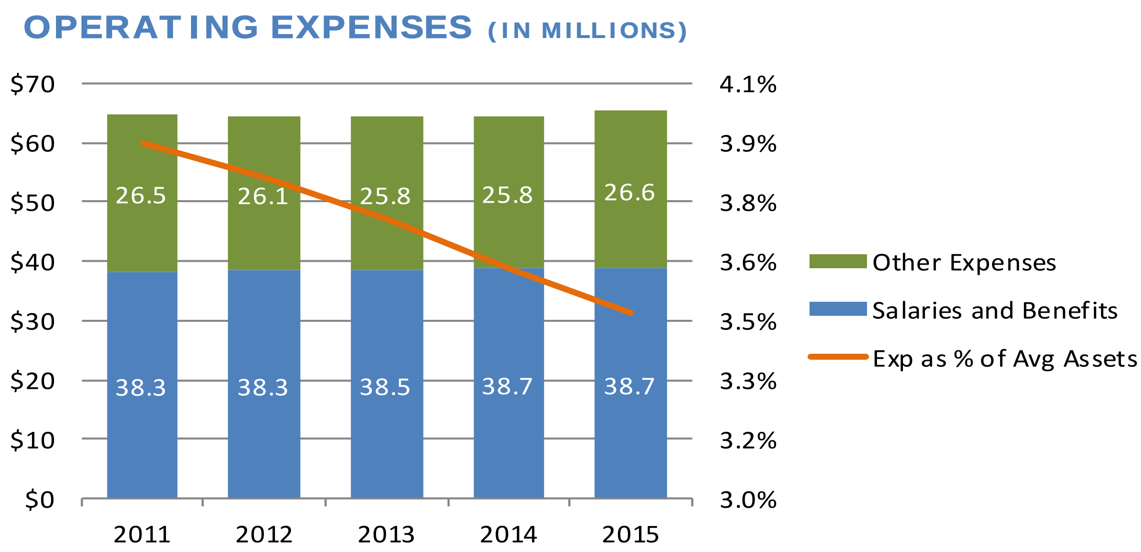
Net Interest Income

Net interest income, which is the difference between the interest we earn on investments and member loans, and the interest expense we pay on member deposits and borrowings, declined slightly to $45.9 million. While we have experienced sustained asset growth every year, the yield on those assets has steadily declined. The two rate reductions by the Bank of Canada pushed already low loan rates proportionally lower than deposit rates, further compressing net interest income. Net interest income as a percentage of average assets was 2.44% for 2015.

With low rates forecast to persist, we expect further margin compression.

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 $296,000 over 2014 primarily as a result of higher insurance and financial commissions, and increased mortgage payout fees.



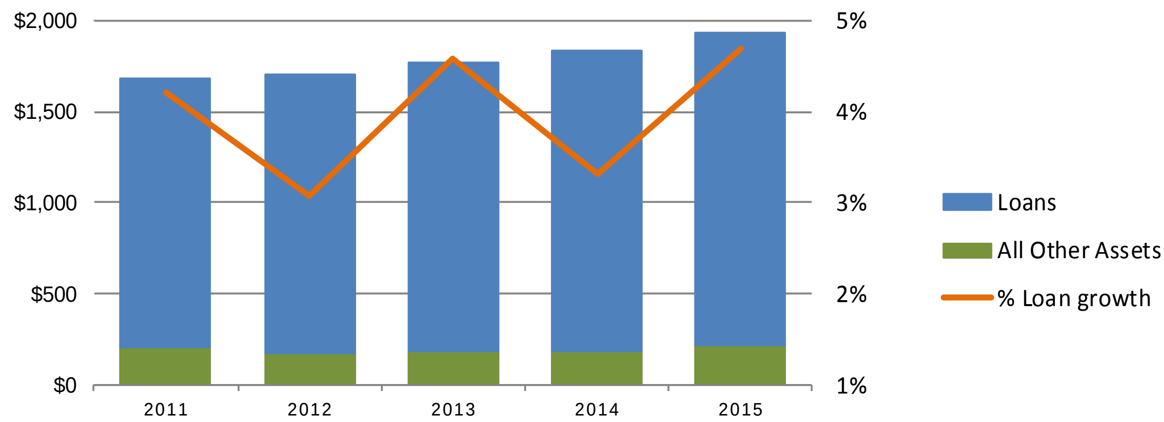
Operating Expenses

In an environment with declining interest income as a percentage of average assets, Coastal Community focuses on increasing efficiencies and innovating in order to help mitigate operating cost pressures. This is demonstrated by the decline in operating expenses as a percentage of average assets to 3.5% in 2015. Total operating expenses increased $0.9 million from 2014 largely as a result of the expansion in the Victoria region, including increased data processing, premises and depreciation costs. Personnel costs remained unchanged from 2014 levels.

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 are recorded in other comprehensive income or loss. The large loss recorded for 2015 reflects the decline in the underlying markets. The cumulative unrealized gain or loss will net to zero when the derivative matures.

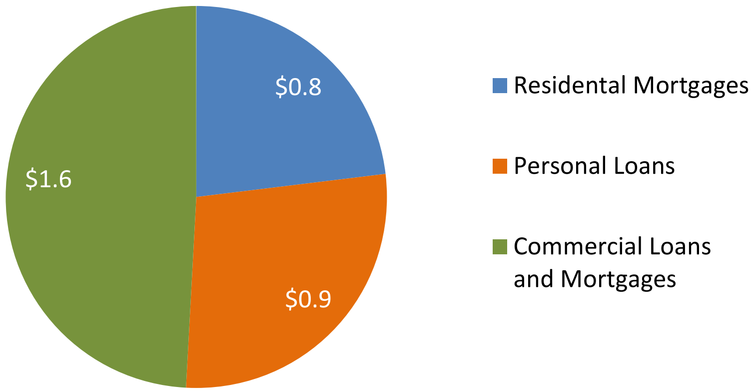
ASSETS (IN MILLIONS)



Loans

Total assets increased from $1.83 billion to $1.94 billion. Member loans make up the largest proportion of total assets. We ended the year with a loan portfolio of $1,718 million, 4.7% higher than 2014. This was our highest growth rate in the past five years. The majority of the growth was in residential mortgages. At December 31, 2015, residential mortgage loans totaled $1,228 million growing by $104 million compared to 2014. The strong growth reflects the improving housing market in our trade areas. Personal loans ended the year at $123 million declining $13 million compared to 2014. Commercial loans declined by $15 million to $367 million.

PROVISION FOR IMPAIRED LOANS
(IN MILLIONS)



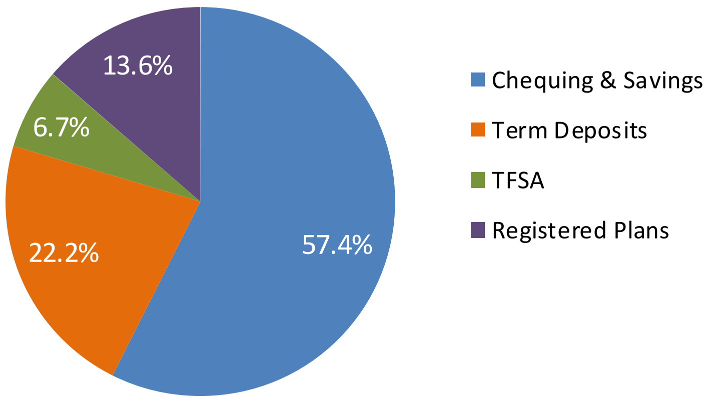
Provision for Impaired Loans

The provision for impaired loans decreased to $3.3 million from $3.7 million in 2014. At December 31, 2015 the provision for impaired loans consisted largely of commercial loans and mortgages, with a smaller proportion of personal loans and residential mortgages.

The total provision for impaired loans at December 31, 2015 represents 0.19% of total loans which is slightly lower than a year earlier. While the provision for individually impaired loans declined in 2015, the collective provision was increased to mitigate future loan losses that may result from the challenging economic environment.

Loans written off increased to $1.9 million in 2015 compared to $0.9 million in 2014, largely due to one larger commercial file that was written off during the year. Loan impairment expense recorded in 2015 decreased by $1.0 million as loans written off were not replaced with newly 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

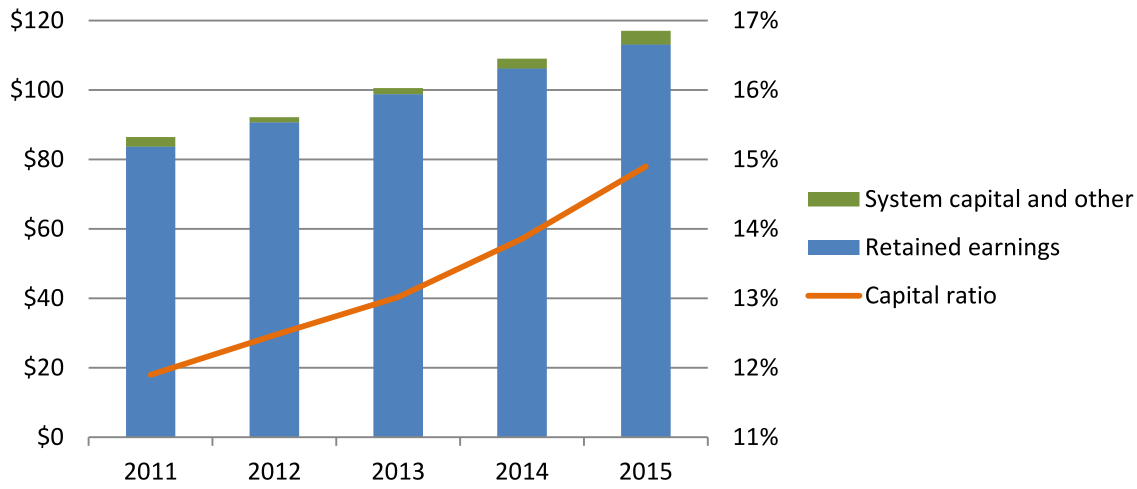
Member deposits are the largest component of liabilities. Deposits grew by 6.7% or $113 million to $1,805 million in 2015. This was the highest growth rate the Credit Union experienced in the past five years. Chequing and savings accounts continue to hold the largest proportion of member deposits. We were successful in increasing the proportion of term deposits and TFSA products our members hold with us by providing caring advice.

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 Caisse centrale Desjardins (CCD). Access to borrowing facilities is an important part of effective liquidity management. Due to the strong growth in member deposits we had no outstanding borrowings at December 31, 2015.

CAPITAL (IN MILLIONS)



Retained Earnings and Capital

Retained earnings, which represent the main source of capital for Coastal Community Credit Union, grew by $7.0 million to $113.1 million in 2015. 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. 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 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 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, 2015 increased to 14.90% from 13.86% in 2014.

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.

2016 Outlook

Looking ahead to 2016, the Credit Union expects further net interest income compression due to lower rates and a highly competitive marketplace. Member loan and deposit growth are expected to remain high as our new branches in the Capital Regional District expand their member base. Coastal Community expects to reach $2 billion in total assets in 2016, an important milestone for our Credit Union!

Coastal Community Credit Union has been an established Vancouver Island company for 70 years. Along with being the largest Island-based credit union and 100% Island operated, CCCU remains one of the top ten largest credit unions in British Columbia when measured by asset size. The key aspects that set Coastal Community apart from the rest are our focus on personalized, integrated, financial services—across our Credit Union, Insurance and Wealth Management companies—and our 100%, Island focus. Our differences, along with the services and enhancements launched in 2015, will allow us to continue to do *Great Things* well into the future.