

2025

Management Discussion & Analysis



COASTAL COMMUNITY
CREDIT UNION

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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, insurance¹ and wealth management² through partners³. Coastal Community Credit Union ended the year with \$3.5 billion in on-book credit union assets. We also hold \$1.2 billion in assets under management through our partner, Aviso Wealth². Coastal Community Private Wealth Group³, in partnership with Manulife Financial, holds a further \$64 million in assets under management. Total assets under management through partners are \$1.3 billion. CCCU operates a network of 24 branches, 14 insurance locations and one centralized contact center with extended service hours so our caring and helpful experts can meet all your financial and protection needs.

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

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.

¹References to insurance in this report refer to the property and casualty 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 Beem Credit Union, which in turn fully owns Coastal Community Insurance Services (2007) Ltd. and Interior Savings Insurance Services.

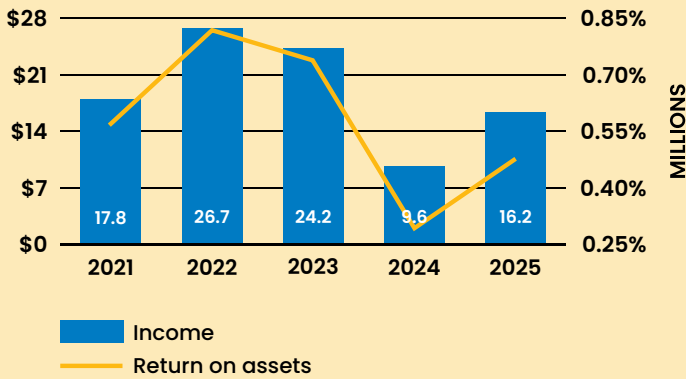
²Mutual funds and other securities are offered through Aviso Wealth. Online brokerage services are offered through Qtrade Direct Investing. Aviso Wealth, Qtrade Direct Investing, and Qtrade Guided Portfolios are divisions of Aviso Financial Inc.

³Coastal Community Private Wealth Group is a division of Coastal Community Financial Management Inc., which is a subsidiary of Coastal Community Credit Union. Coastal Community Financial Management Inc. is a licensed life insurance agency offering financial planning, life insurance and investments. All insurance products are subject to the limitations, terms and conditions in the applicable policy or insurance contract in force at the time of purchase or enrolment and applicable legislation. The products sold through Coastal Community Financial Management Inc. are not guaranteed or insured by a deposit insurer.



2025 Financial Performance

INCOME BEFORE TAXES:



SUMMARY

The 2025 year was fraught with economic uncertainty due to a volatile trade environment and persistent geopolitical tensions. Monetary policy was quieter, which stabilized the rate environment somewhat as central banks held rates, and the bond market saw minor adjustments back and forth as the markets adjusted based on continuously changing expectations.

Member loans increased by 7%, while deposits increased by 4%. Excess liquidity investments were utilized to fund the member loans for an improvement in financial margin year over year.

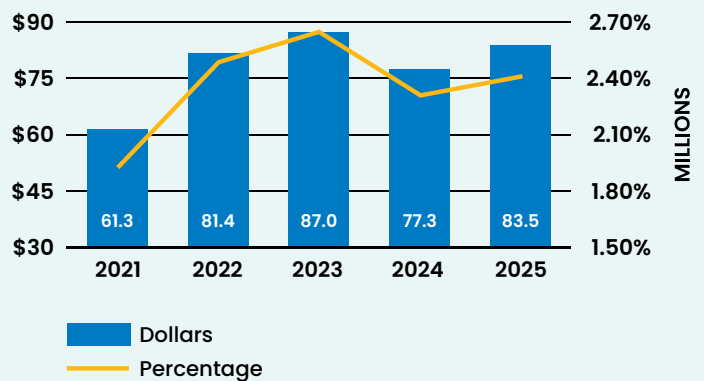
Consolidated income before taxes was \$16.2 million compared to \$9.6 million for 2024. Financial margin was up due to loan growth and a normalizing yield curve. Operating expenses increased in 2025; however, they were stable when measured as a percentage of assets. Provisions for loan losses did not differ materially from 2024. Consolidated net income, or our consolidated income after taxes, was \$13.2 million.

The credit union's return on average assets improved from 29 to 47 basis points.

NET INTEREST INCOME

Net interest income, the largest source of revenue for CCCU, represents the interest we earn on investments and member loans minus the interest expense we pay on member deposits and borrowings. In 2025 net interest income improved to \$83.5 million. The interest rate environment settled down after a few years of significant volatility. The fixed rate lending book started to re-price slightly higher, and short-term deposit rates came down slightly, which allows for some yield on longer term mortgages. The lending growth in 2025 also attributed to improved interest income as the yields are higher than short term investments. In this environment, there was both an improvement in interest income and a reduction in interest expenses. As a result, net interest income as a percentage of average assets increased to 2.41% from 2.31% in 2024.

Looking forward to the upcoming year, rates are anticipated to stay fairly stable with the possibility of one rate cut from both the Bank of Canada and the US Federal reserve in 2025 creating a bit more steepening to the yield curve. The rate environment should provide some margin lift for the credit union in 2026.



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 related to interest. Other income was higher in 2025 due to significant loan growth and associated fee revenue.

OPERATING EXPENSES

CCCU continued to focus on increasing efficiencies, improving processes, and innovating to help mitigate operating cost pressures. Despite continued high inflationary pressure on operating costs, the cost of growing our operations and investing in technology, the credit union reduced many expenses as a result of efficiencies gained. Salaries and benefits increases were aligned with inflation, consulting and legal was higher than planned and higher than 2024 due to costs associated with merger work.

Overall, total operating expenses as a percentage of average assets increased from 2.53% to 2.57%.

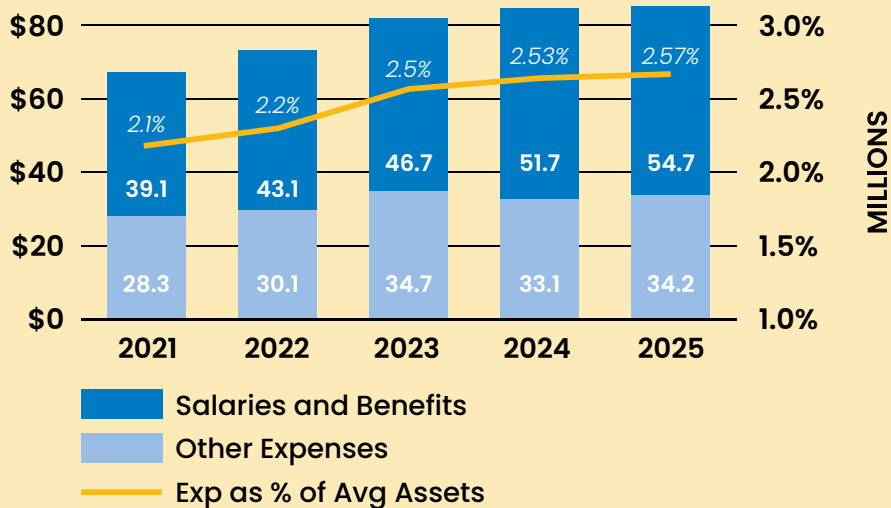
COMPREHENSIVE INCOME

Comprehensive income includes the net income of the credit union and other comprehensive income or loss (changes in market value of financial instruments).

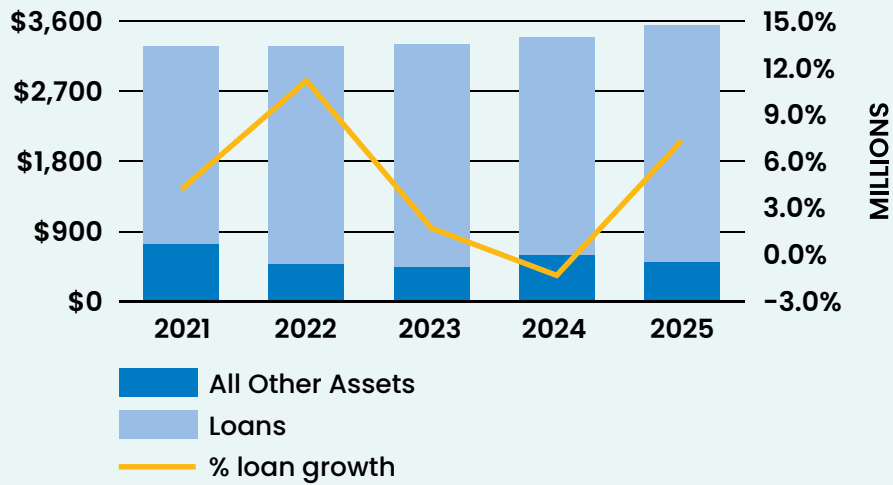
CCCU utilizes derivatives for interest rate risk management. The unrealized gains or losses from the change in the fair value of these derivatives, if the hedging relationship is effective, are recorded in other comprehensive income or loss. The interest rate and market environment in 2025 resulted in an unrealized loss on hedges of \$0.8 million after taxes. The cumulative unrealized gain or loss will net to zero as the derivatives mature.

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 in 2025 reflects a negative shift in anticipated market rates compared to when the securities were purchased. In anticipation of falling interest rates, we strategically increased the duration of a portion of the mandatory liquidity pool, securing improved results from that portfolio over a longer period of time.

OPERATING EXPENSES:



ASSETS:



LOANS

Total assets increased from \$3.4 billion to over \$3.5 billion as member loans and deposits grew in 2025. Member loans make up the largest proportion of total assets. We ended the year with a loan portfolio of \$3.0 billion, up \$205 million or 7% over 2024. Loan activity was robust in both the personal and commercial lending books with over \$158 million and \$47 million in growth, respectively. On December 31, 2025, personal loans and mortgages totaled \$2,261 million and Commercial loans ended the year at \$749 million.

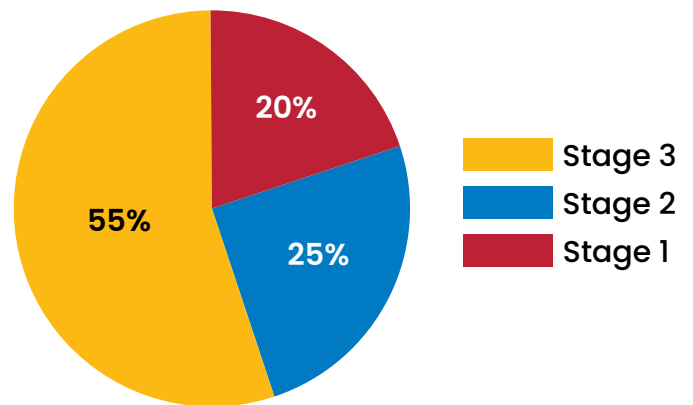
ALLOWANCE FOR CREDIT LOSSES

Accounting standards and prudent practice require that expected credit losses (ECL) are calculated and set up as an allowance based on future potential credit losses. An ECL is recorded on financial assets regardless of whether there has been an actual impairment. The model used to calculate ECL 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).

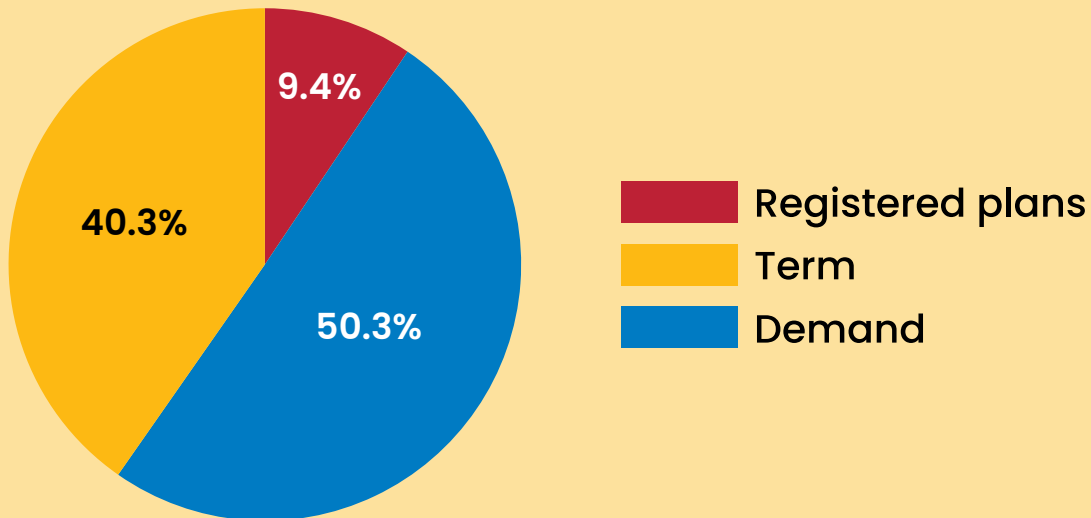
The allowance decreased to \$10.9 million compared to \$11.2 million at the end of 2024. This decrease is primarily due to the credit union adopting changes to its model used in calculating ECL.

The total allowance on December 31, 2025, represents 0.36% of total loans, slightly lower than the 0.40% for 2024. This allowance as a % of total loans is in line with the BC Credit Union system and our asset and peer group.

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 rose by 4% or \$126 million to \$3,161 million at the end of the year. There was a slight shift in holdings from term deposits back to chequing and savings accounts in 2025, a possible reflection of the uncertainty in the environment and members wanting to have cash available if needed.

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, 2025.

During the year, Coastal Community did not participate in the Canada Mortgage Bond program due to higher excess liquidity throughout the year. At the end of 2025, the carrying amount of secured borrowings decreased from \$40 million to \$36 million.

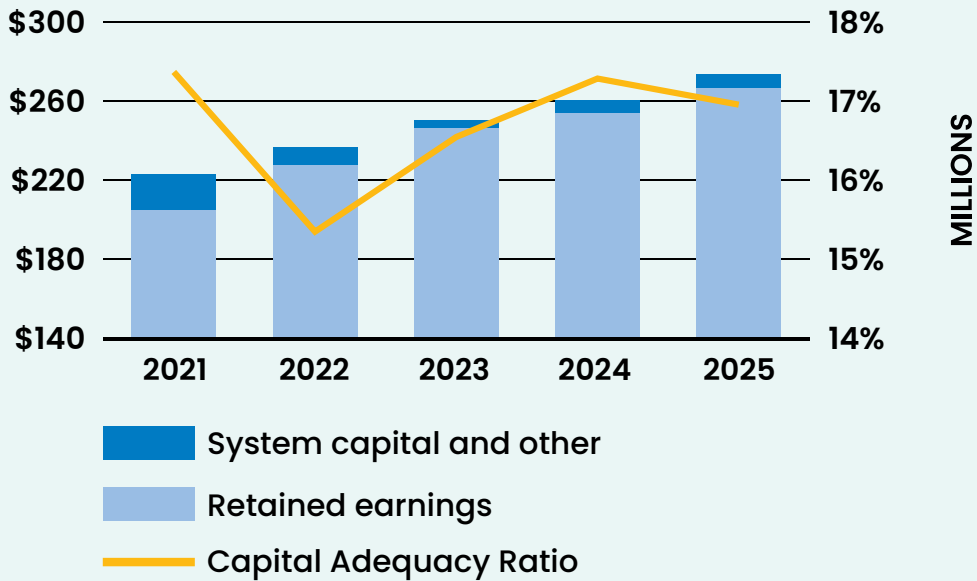
RETAINED EARNINGS AND CAPITAL

Retained earnings, which represent the main source of capital for Coastal Community Credit Union, grew by \$13.2 million, increasing total capital, to \$269 million in 2025. A strong and stable capital base provides security against unexpected events and supports ongoing growth. Increased capital allows us to pursue new initiatives including enhanced digital services for members and clients and branch networks that empower our communities. 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 deployed some capital adequacy in 2025 through balance sheet growth. The capital ratio at December 31, 2025, maintained a high level of stability at 16.97% as earnings growth offset risk weighted asset growth.



CAPITAL:



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.



2026 Outlook

Looking ahead to 2026, the Credit Union expects net interest income to continue to improve as longer-term rates remain stable, and short-term rates come down slightly. Market competition for deposits will intensify as inflationary and economic pressures push many Canadian households and businesses to tap into their savings. Loan growth may slow due to the economic environment but could also start to improve as the real estate prices start to come down, and markets move into buyer territory.

The merger with Integris Credit Union opens up new opportunities for growth in Northern BC, adding diversification and expanding the service network for all of our members.

Current economic forecasts are pricing in one quarter point reduction by the Bank of Canada in 2026. CCCU will continue its focus on the financial health and safety of its members and clients throughout this time. We remain grounded in our fundamentals and will navigate through this period of uncertainty.

The key aspect that sets CCCU apart from the rest is our commitment to delivering expert financial advice and personalized solutions tailored to our members, integrated seamlessly across all our business lines. 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.

