

# 2024

---

## Management Discussion & Analysis



COASTAL COMMUNITY  
CREDIT UNION



# Coastal Community Credit Union

## 2024 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 partners.\*\*\* Coastal Community Credit Union ended the year with \$3.4 billion in on-book credit union assets. We also hold \$1.1 billion in assets under management through our partner, Aviso Wealth.\*\* Coastal Community Private Wealth Group,\*\*\* in partnership with Manulife Financial, holds a further \$57.4 million in assets under management. Total assets under management through partners are \$1.2 billion. CCCU operates a network of 24 branches, 14 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 in this Annual 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.*

*\*\*Mutual 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.*

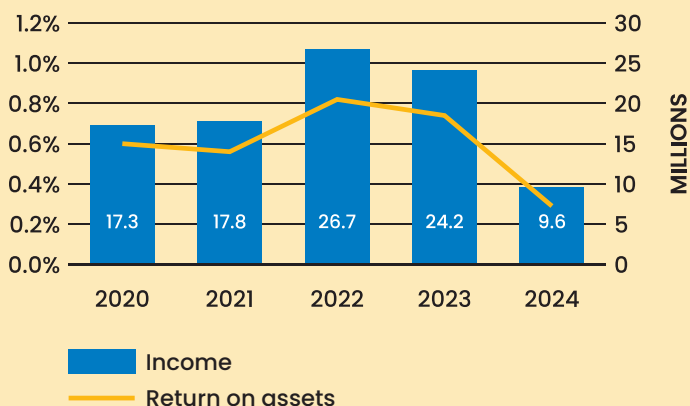
*\*\*\*Coastal Community Private Wealth Group is a division of Coastal Community Financial Management Inc., which is a subsidiary of Coastal Community Credit Union. Coastal Community Financial Management Inc. is a licensed life insurance agency offering financial planning, life insurance and investments. 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.*

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.



# 2024 Financial Performance

## INCOME BEFORE TAXES:



## SUMMARY

For many financial institutions 2024 was a challenging year as the economy transitioned to a declining rate environment, inflation normalized, and geopolitical tensions persisted.

Loan growth declined compared to the previous year; however, total assets grew due to higher cash and investment balances. This was driven by an increase in deposits as members locked in higher term deposit rates for their investments.

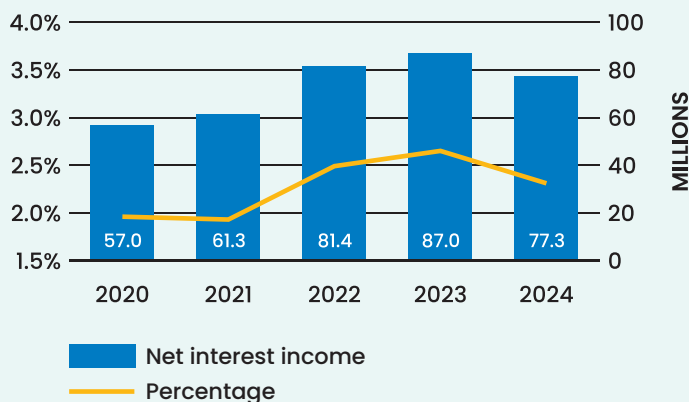
Consolidated income before taxes was \$9.6 million compared to \$24.2 million for 2023. Financial margin compressed due to multiple Bank of Canada rate cuts over the year and lower lending rates. Operating expenses increased from the previous year but came in less than budget as efficiencies were prioritized. Provisions for loan losses also increased from the prior year. Consolidated net income, or our consolidated income after taxes, was \$7.0 million.

Return on average assets slipped from 74 to 29 basis points.

## 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 declined to \$77.3 million. Fixed and variable consumer and commercial lending rates were lower as bond yields fell and the Bank of Canada cut interest rates throughout the year. Term deposit rates also decreased; however, balances increased significantly. Demand deposit balances fell moderately, as members chose higher interest rate terms. Overall, excess liquidity rose considerably as deposit growth exceeded loan growth. As a percentage of average assets, interest income improved 11 basis points over the prior year with interest expense increasing 45 basis points. As a result, net interest income as a percentage of average assets declined from 2.65% in 2023 to 2.31% for 2024.

Looking forward to the upcoming year, rates are anticipated to decline further into 2025, albeit not to the same extent seen in 2024. We expect net interest income as a percentage of average assets to decline but to a lesser extent than in 2024.



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 slightly lower due to a decline in commercial loan fees, which is reflective of the lower growth experienced this year.

OPERATING EXPENSES

As the Bank of Canada lowered the overnight lending rate by 1.75% during 2024, Coastal Community focused on increasing efficiencies and innovation to help mitigate operating cost pressures. This was despite continued high inflationary pressure on operating costs, the costs of growing our operations and investing in technology. Salaries and benefits increased year over year, while other expenses saw a moderate decline.

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

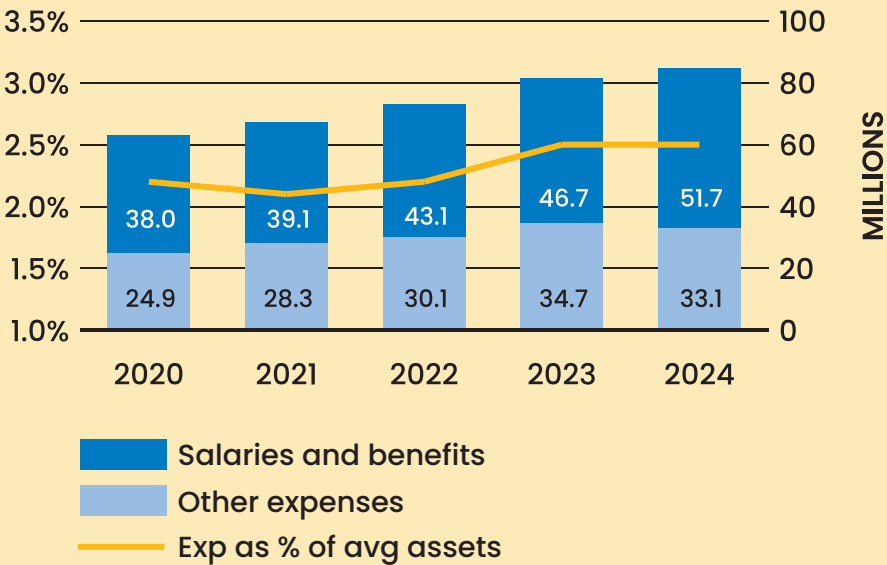
COMPREHENSIVE INCOME

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

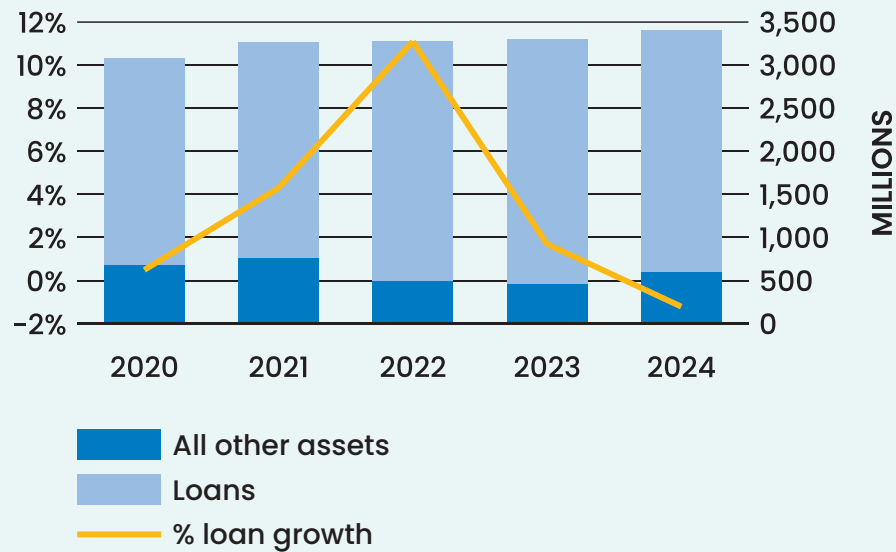
Coastal Community utilizes derivatives for risk management. The unrealized gains or losses from the change in the fair value of these derivatives, if the hedging relationship is effective, are recorded in other comprehensive income or loss. A small loss was recorded for 2024, reflecting modest deterioration in underlying market conditions compared to last year. 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 gain recorded for 2024 reflects an improvement in 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 securities which benefited from unrealized gains as interest rates fell.

OPERATING EXPENSES:



## ASSETS:



## LOANS

Total assets increased from \$3.29 billion to over \$3.40 billion as excess cash and investments rose at a greater pace than the decline in lending volumes. Member loans make up the largest proportion of total assets. We ended the year with a loan portfolio of \$2,802 million, down \$35 million or 1.2% over 2023. Loan activity slowed compared to 2023 with the increase in residential mortgages offset by a decline in the commercial loan book. On December 31, 2024, residential mortgage loans totaled \$2,048 million, growing by \$16.9 million for the year. Personal loans ended the year at \$54 million unchanged from the prior year. Commercial loans decreased by \$51 million to \$702 million.

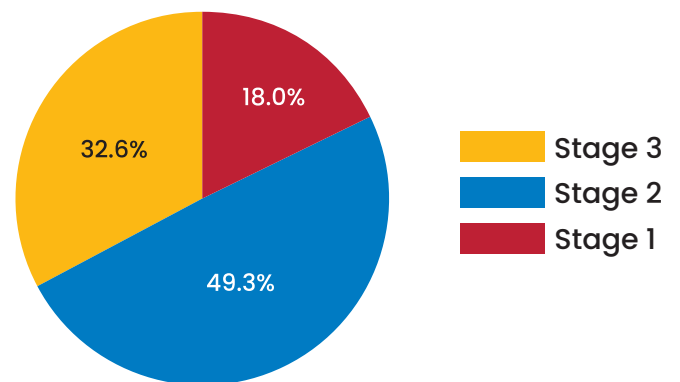
## ALLOWANCE FOR CREDIT LOSSES

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 \$11.2 million compared to \$9.4 million at the end of 2023 with the proportion in Stage 3 increasing the most.

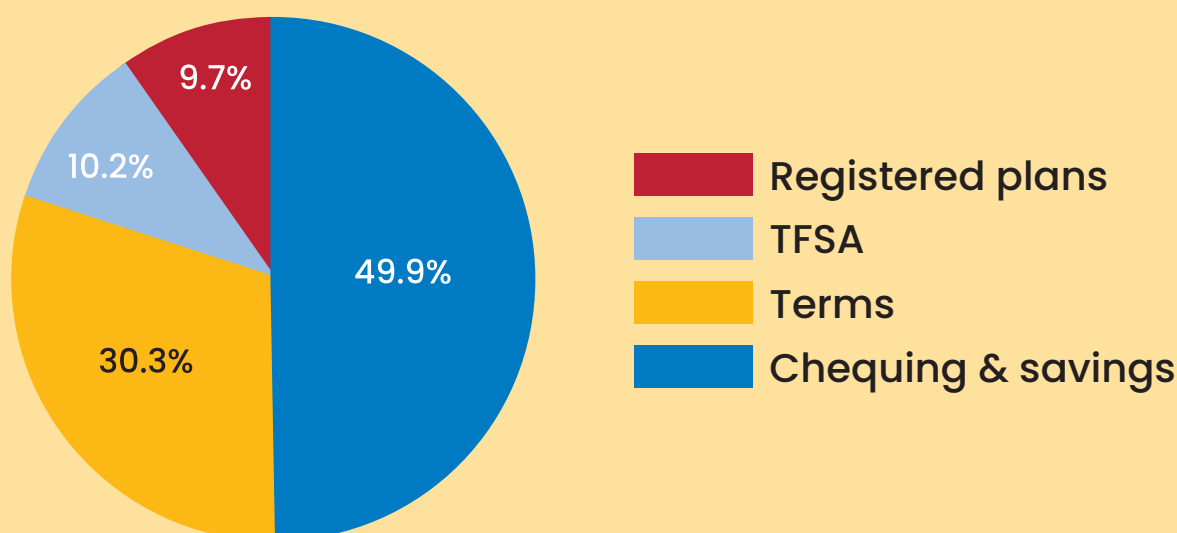
The total allowance at December 31, 2024 represents 0.40% of total loans which is higher than the 0.33% for 2023. While the improved economic outlook resulted in a lower allowance for Stage 1 and Stage 2 loans, the allowance was significantly higher for a select few borrowers in Stage 3.

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. See Allowance for credit losses chart below:





## DEPOSIT MIX:



## DEPOSITS

Member deposits are the largest component of liabilities. Deposits rose by 3.4% or \$101 million to almost \$3,066 million at the end of the year. Members took advantage of the elevated term deposit rates throughout most of the year. Similar to the previous year, members moved funds from chequing and savings accounts to term deposits to gain the additional yield.

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, 2024.

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 2024, the carrying amount of secured borrowings decreased from \$43 million to \$40 million.

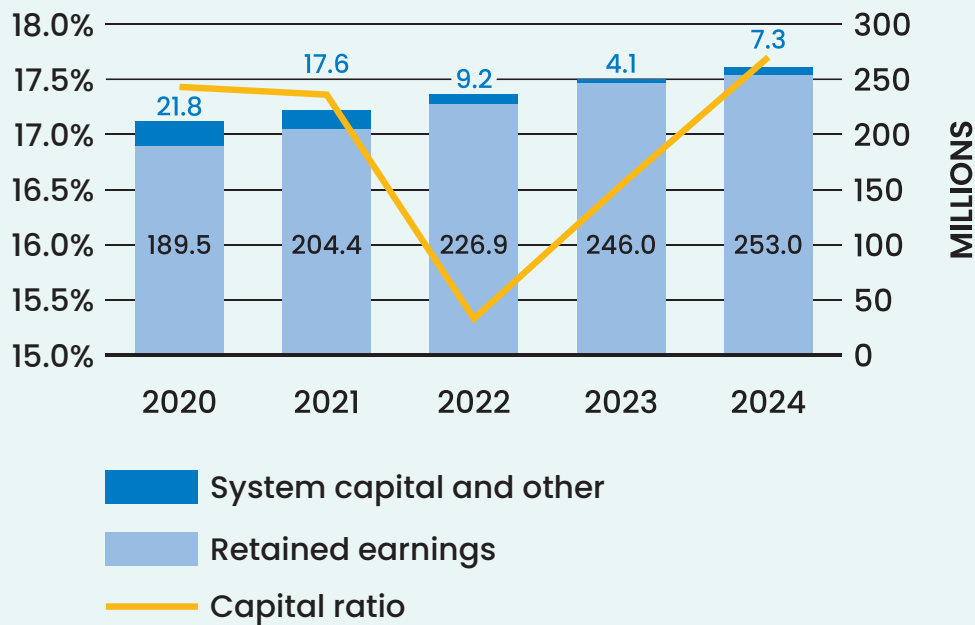
## RETAINED EARNINGS AND CAPITAL

Retained earnings, which represent the main source of capital for Coastal Community Credit Union, grew by \$10.4 million to \$257 million in 2024. 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, 2024 increased from 16.54% to 17.27%.



## 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.



# 2025 Outlook

Looking ahead to 2025, the Credit Union expects net interest income to decline as Prime and longer-term rates decline and members continue to shift funds from demand to term deposits. Market competition for deposits will intensify as liquidity declines. Loan growth will remain sluggish until rates drop sufficiently and the housing supply increases.

Current economic forecasts are pricing in three to four rate cuts by the Bank of Canada in 2025. There is considerable uncertainty as to the direction and magnitude of upcoming rate changes as global trade tensions rise. Tariffs themselves are inflationary but also could have a significant impact upon economic growth. The Credit Union 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 aspects that set Coastal Community apart from the rest are our integrated approach to providing expert financial advice and personalized solutions across all 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.

