MANAGEMENT DISCUSSION & ANALYSIS

2018

Coastal Community Credit Union

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About Coastal Community Credit Union

Providing services for over 70 years, parent company Coastal Community Credit Union (CCCU) is the largest Vancouver Island-based financial services organization and among the 21st largest credit unions in Canada when measured by asset size. CCCU provides personal, business and commercial banking services, complemented by its wholly-owned subsidiaries Coastal Community Insurance Services (2007) Ltd., which offers personal and commercial insurance solutions, and Coastal Community Financial Management Inc., which provides wealth management services through its Coastal Community Private Wealth Group division.

The Coastal Community* family of companies serves Vancouver Island and the Gulf Islands, from Victoria to Port Hardy. With more than $3.3 billion in total assets under management, CCCU operates a network of 24 full-service locations and one centralized contact centre with extended service hours. Coastal Community's experts offer caring and helpful service to meet all your financial and protection needs in retail banking, regional business services, insurance**, wealth management†, trust and estates***.

CCCU continues to help build healthier communities in part through donations, sponsorships, scholarships and fundraising efforts totaling over half-a-million dollars each year.

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"

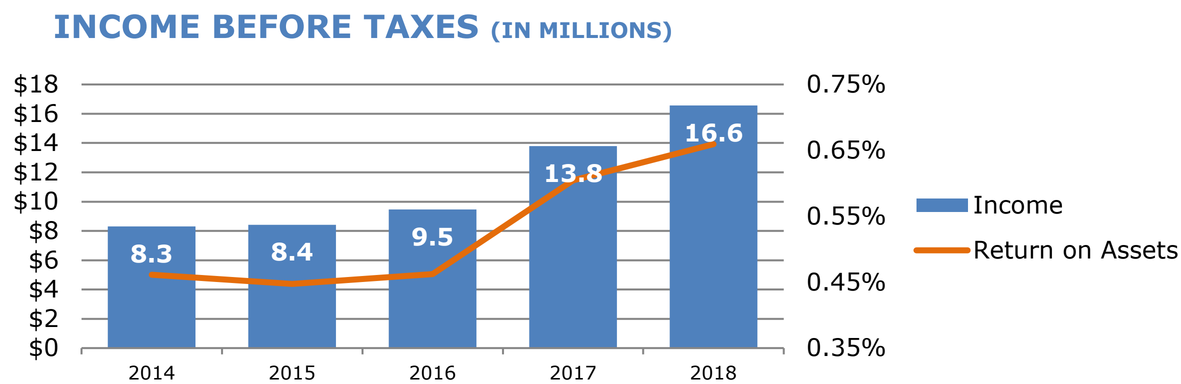
**References to "insurance" refer to insurance services provided through Coastal Community insurance Services (2007) Ltd., which is a wholly owned subsidiary of Coastal Community Credit Union

†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

***Trust and Estate services provided through Concentra Trust, a wholly-owned subsidiary of Concentra Bank.

Coastal Community Credit Union

2018 Financial Performance



(2018 includes a gain from disposition of $1.2 million)

Summary

2018 was an outstanding year for Coastal Community with many areas of growth.

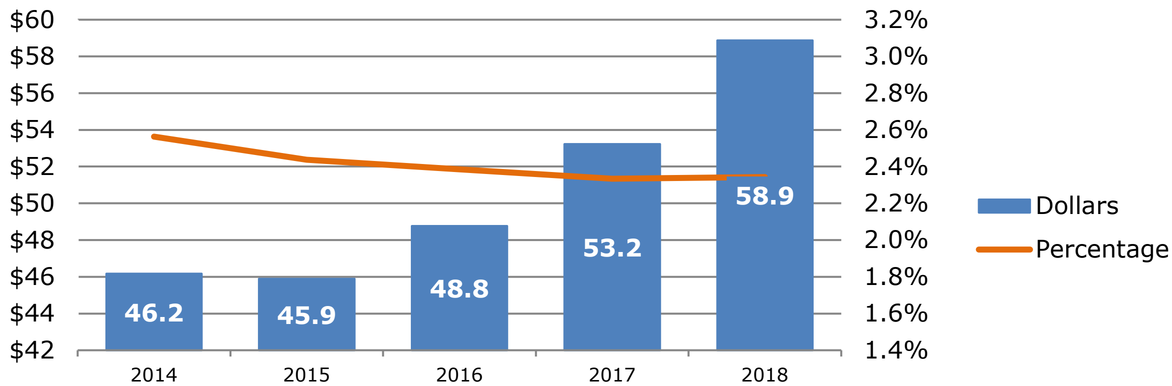
Loan balances grew a strong 8.3%, following two years of record growth, propelling consolidated total assets to more than $2.6 billion. Deposit balances increased a healthy 6.6% with the shortfall funded by securitization borrowings.

Consolidated income before taxes was $16.6 million compared to $13.8 million in 2017. Net interest income was higher due to the Bank of Canada rate increases plus strong lending growth. 2018 included a gain from disposition of $1.2 million. Operating expenses were higher but well controlled. Loan impairment reflected a recovery this year. Consolidated net income, which is our consolidated income after taxes, was $13.6 million.

Return on average assets improved to 66 basis points.

Supported by our further expansion in the Victoria region, 2018’s consolidated financial performance was well ahead of plan.

NET INTEREST INCOME (IN MILLIONS)



Net Interest Income

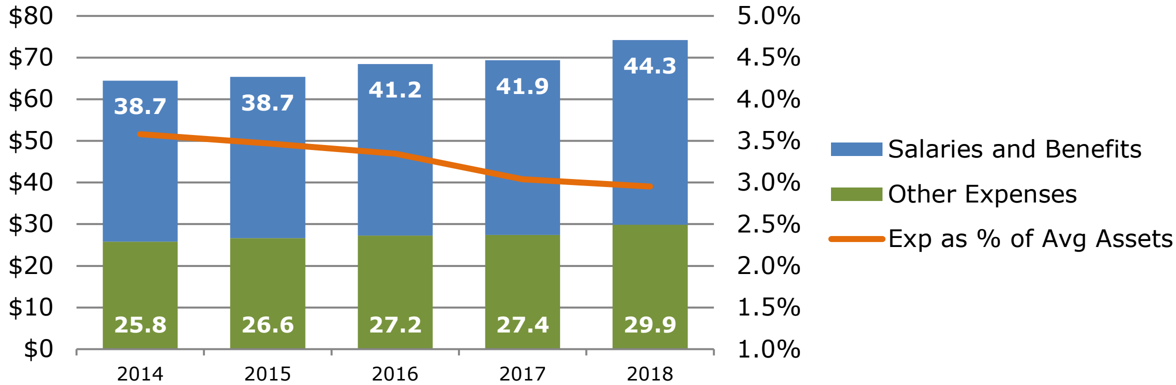
Net interest income, the largest source of revenue for Coastal Community, represents the interest we earn on investments and member loans less the interest expense we pay on member deposits and borrowings. Net interest income increased $5.6 million to $58.9 million, primarily due to higher loan volumes. The Bank of Canada increased its overnight target rate three times in 2018 resulting in higher variable and fixed consumer and commercial lending rates. Deposit rates increased by a slightly lesser extent, while borrowing rates increased significantly. As a percentage of average assets, interest income improved 17 basis points over the prior year with interest expense increasing 16 basis points. As a result, net interest income as a percentage of average assets increased from 2.33% in 2017 to 2.34% for 2018.

With rates forecast to rise, but at a much slower pace, and continued deposit pricing pressure, we expect net interest income as a percentage of average assets to decline in 2019.

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. Other income was virtually unchanged from the prior year.

OPERATING EXPENSES (IN MILLIONS)



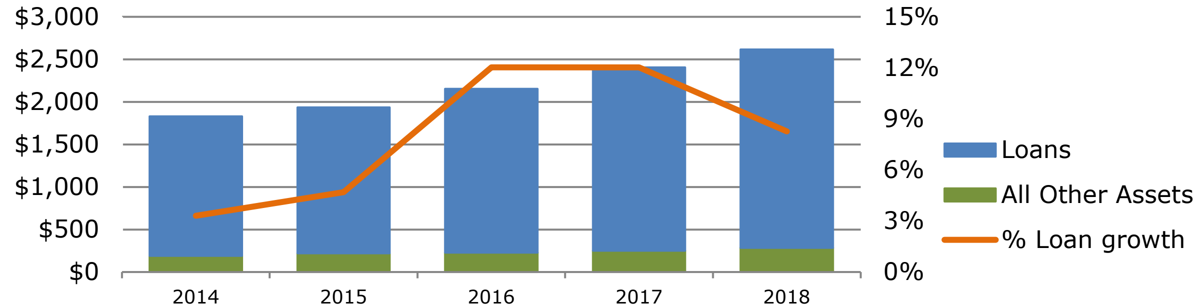
Operating Expenses

In an environment with relatively flat net interest income as a percentage of average assets, Coastal Community focuses on increasing efficiencies and innovating in order to help mitigate operating cost pressures. As our operations grew, salaries, benefits, premises and consulting costs increased, and we incurred expense related to ineffective swaps that are used to hedge our interest rate exposure. Amortization costs declined as some intangible assets are now fully amortized. Total operating expenses are well managed at 3.0% of average assets in 2018, unchanged from 2017.

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 loss recorded for 2018 reflects a deterioration in the underlying markets. The cumulative unrealized gain or loss will net to zero when the derivative matures.

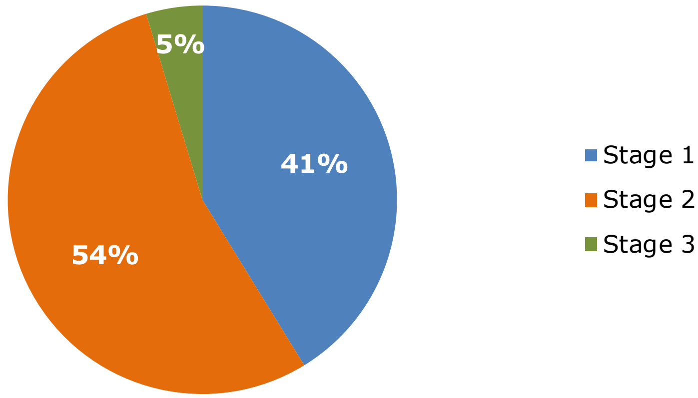
ASSETS (IN MILLIONS)



Loans

Total assets increased from $2.41 billion to $2.62 billion or by 8.7%. Member loans make up the largest proportion of total assets. We ended the year with a loan portfolio of $2,334 million, up $178 million or 8.3% over 2017. This is following the record loan growth in 2017 and 2016. The majority of the growth was in residential mortgages. At December 31, 2018, residential mortgage loans totaled $1,723 million growing by $123 million compared to last year. The strong growth reflects the demand for housing in our trade areas. Personal loans ended the year at $88 million declining $10 million compared to 2017. Commercial loans grew by an impressive $63 million to $523 million.

ALLOWANCE FOR CREDIT LOSSES



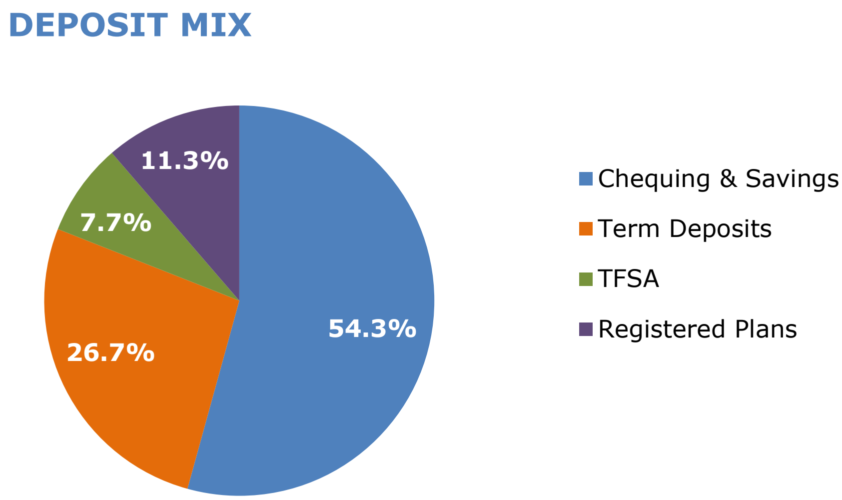
Allowance for Credit Losses

Effective January 1, 2018, IFRS 9 replaced the 'incurred loss' model in IAS 39 with an expected credit loss ("ECL") model. The new ECL model results in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual impairment. The ECL 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).

On transition to IFRS 9, the $5.5 million closing allowance under IAS 39 as of December 31, 2017 was equal to the opening ECL allowance on January 1, 2018 although the proportion of each loan type changed. The allowance declined slightly to $5.3 million at the end of 2018.

The total allowance at December 31, 2018 represents 0.23% of total loans which is slightly lower than for 2017.

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 9 of the audited consolidated financial statements.



Deposits

Member deposits are the largest component of liabilities. Deposits grew by 6.6% or $140 million exceeding $2,334 million at the end of the year. This followed two years of very high deposit growth. Chequing and savings accounts hold the largest proportion of member deposits. We were successful in increasing the proportion of term deposits our members hold with us by providing personalized expert advice.

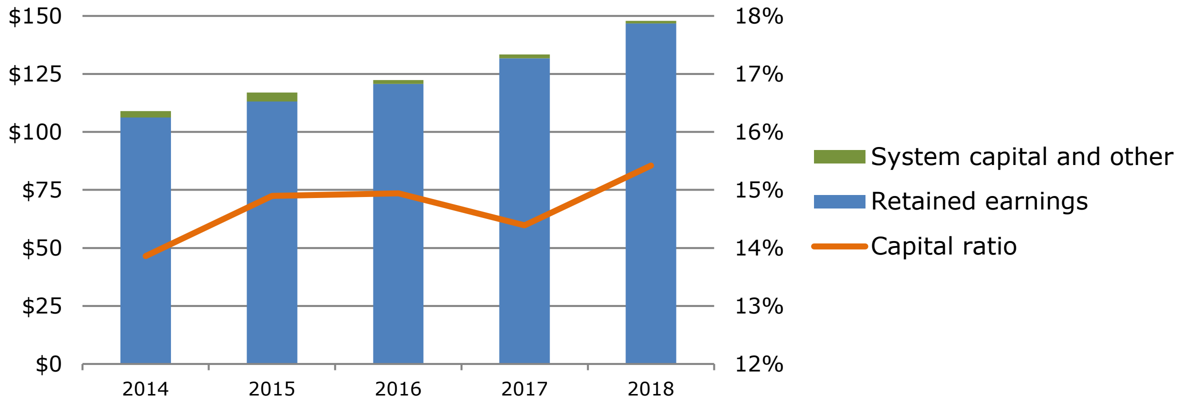
Tax-Free Savings deposit products include a high interest savings account and a full suite of term deposits. Registered plans include RRSPs, RRIFs, RDSPs and RESPs.

Borrowings

The Credit Union maintains operating lines of credit with Central 1 Credit Union and another financial institution. Access to borrowing facilities is an important part of effective liquidity management. Outstanding short-term borrowings declined by $19 million at December 31, 2018.

During the year, Coastal Community participated in the Canada Mortgage Bond program by selling mortgages to third parties in order to fund mortgage growth. At the end of 2018, the carrying amount of secured borrowings increased to $161 million.

CAPITAL (IN MILLIONS)



Retained Earnings and Capital

Retained earnings, which represent the main source of capital for Coastal Community Credit Union, grew by $15.0 million to $146.8 million in 2018. 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 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, 2018 improved from 14.39% to 15.42%.

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 22 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.

2019 Outlook

Looking ahead to 2019, the Credit Union expects net interest income to compress as rates rise at a much slower pace. Due to even greater market competition for deposits, deposit rates will be elevated relative to loan rates. Member loan and deposit growth are expected to slow compared to 2018 but remain strong as our branches in the Capital Regional District expand their member base and all market areas experience population migration.

Coastal Community Credit Union has been an established Vancouver Island company for over 70 years. Along with being the largest Island-based credit union and 100% Island operated, Coastal Community 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 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 heathier communities will allow us to continue to do *Great Things* well into the future.