2018
Annual Report

coastcapital®
SAVINGS

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About Us

Coast Capital Savings Federal Credit Union (or Coast Capital, as our friends like to call us) is Canada's largest credit union by membership. We are a co-operative company owned by the 572,000 members who bank with us, and in 2018 we became the first credit union in British Columbia to receive approval to be a federal credit union. We offer banking and investment services through our 52 branches in the Metro Vancouver, Fraser Valley, Okanagan and Vancouver Island regions of British Columbia. Our total assets under administration were $23.4 billion as of December 31, 2018.

Our 1,800 employees are dedicated to improving the financial well-being of our members and their communities. We deliver helpful and innovative products such as Canada's first free chequing account from a full-service financial institution and our Help Extras®, which enable members to invest in their future. Coast Capital has earned recognition as one of B.C.'s Top Employers, is amongst Canada's 10 Most Admired Corporate Cultures™ and is a Platinum Club member of Canada's Best Managed Companies. As an Imagine Canada Caring Company, we make our communities stronger by investing 7 per cent of our budgeted pre-tax profits in local programs, partnerships and events focused on youth. In 2018, this resulted in Coast Capital investing $5.9 million in a wide range of community organizations and causes, with the goal of empowering young Canadians.

Purpose

- Together, we help empower you to achieve what's important in your life

Vision

- THE financial institution of choice for our members

Mission

- Improve your financial well-being

Values

- Inspire
- Connect
- Challenge
- Simplify
- Deliver

Personal Banking, Investment and Insurance Services

Coast Capital offers banking services including savings and chequing accounts, mortgages, loans, lines of credit, credit cards, term deposits and registered savings accounts (RRSPs, TFSAs, RRIFs, RESPs). We provide digital services, in-branch teller services, access to a surcharge-free network of more than 4,000 ATMs across Canada, and telephone, internet and mobile banking services, with extended hours of support via telephone and email.

Through our subsidiary, Coast Capital Wealth Management Ltd., we provide investment and financial planning service. Working in partnership with Worldsource Financial Management Inc. we also provide our members with advice and service relating to mutual funds.

Our subsidiary, Coast Capital Financial Management Ltd., offers life and disability insurance products including life, critical illness, disability and long-term care insurance, as well as segregated funds and annuities. Life and disability insurance services are offered through dedicated offices and by a team of mobile specialists.

Business Services

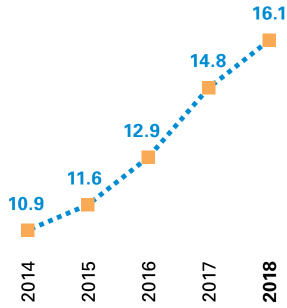
Coast Capital offers lending, leasing and deposit services to commercial real estate and small- and medium-sized businesses throughout B.C. This includes savings and chequing accounts, U.S. chequing accounts, business credit cards, merchant payment services, term loans, interim lending and long-term commercial mortgages, letters and lines of credit, automated funds transfers and online banking capabilities.

Coast Capital also provides commercial and industrial equipment leasing for businesses in B.C. through our equipment finance division. Commercial and industrial equipment leasing, as well as auto leasing and financing, are provided across Canada through Coast Capital Equipment Finance Ltd., Travelers Finance Ltd., and Travelers Leasing Ltd. (collectively known as "Coast Capital Auto & Equipment Finance").

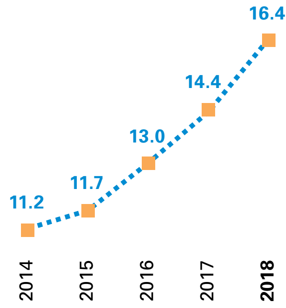
Businesses can access business and related insurance solutions for individuals or employees through Coast Capital Financial Management Ltd. Our insurance for business owners and partners includes personal living benefits, as well as group benefit plans and strategies related to succession planning and protecting the business. Our mobile insurance experts provide our business-related insurance solutions.

Financial Highlights at a Glance

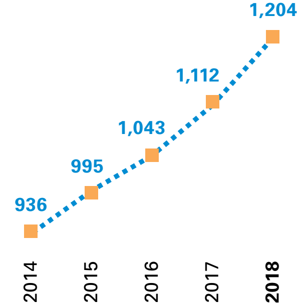
Loan balance
Billions of dollars



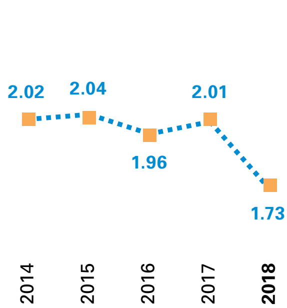
Deposit balance
Billions of dollars



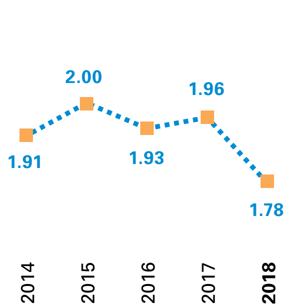
Members' equity
Millions of dollars



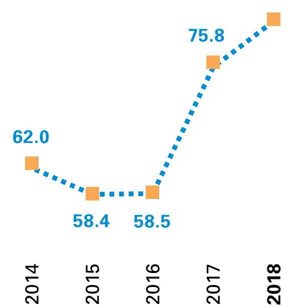
Net interest income
As a percentage of average assets



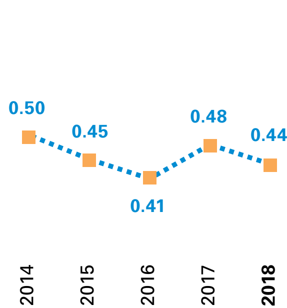
Non-interest expenses
As a percentage of average assets



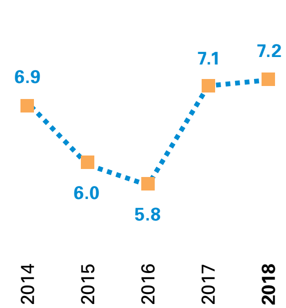
Net income
Millions of dollars



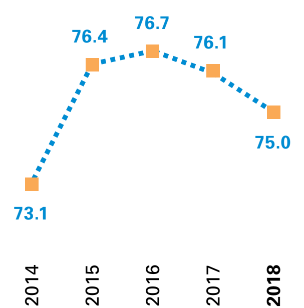
Net income
As a percentage of average assets



Net income
As a percentage of average equity



Operating efficiency
In per cent

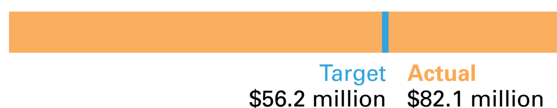


2018 Performance Against Targets

Loan balance after allowance for credit losses
Total loans

Deposit balance
Total deposits

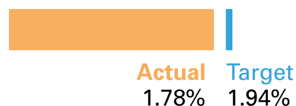
Net income
All revenue less expenses and taxes



Return on average assets
Net income expressed as a percentage of average assets

Return on average equity
Net income expressed as a percentage of average equity

Non-interest expenses
All costs that are not interest-related, with the exception of provisions for credit losses and income taxes expressed as a percentage of average assets



Operating efficiency
Coast Capital's cost to earn $1, equal to all non-interest expenses divided by the sum of net interest income and other income

5-Year Financial Overview

December 31 (in thousands of dollars)	2018	2017	2016	2015	2014
Balance sheets					
Assets					
Cash and cash resources	172,012	467,204	162,130	585,502	146,808
Financial investments	3,148,493	1,626,481	1,772,182	1,359,015	1,146,909
Loans after allowance for credit losses	16,124,695	14,788,882	12,858,372	11,616,100	10,949,852
Premises and equipment	24,886	28,672	30,228	27,959	23,902
Other	149,833	137,271	146,306	147,517	132,831
	19,619,919	17,048,510	14,969,218	13,736,093	12,400,302
Liabilities					
Deposits					
Demand	6,266,221	6,098,255	5,947,260	5,257,179	4,742,835
Term	8,927,180	7,060,706	5,760,607	5,118,086	5,062,766
Registered	1,058,572	1,151,339	1,197,110	1,247,358	1,350,703
Class A shares	2,667	2,581	2,524	2,470	2,411
Accrued interest	122,691	53,551	53,317	53,667	61,922
	16,377,331	14,366,432	12,960,818	11,678,760	11,220,637
Borrowings	464,278	319,460	–	400,000	–
Borrowings secured by loans	1,155,211	1,118,025	869,138	570,329	167,378
Subordinated debt	300,292	–	–	–	–
Other	119,272	132,743	96,085	91,726	76,610
	18,416,384	15,936,660	13,926,041	12,740,815	11,464,625
Members' equity					
Class B shares	26,554	28,851	30,444	32,213	34,482
Retained earnings	1,180,219	1,084,983	1,010,375	952,949	895,983
Accumulated other comprehensive income	(3,238)	(1,984)	2,358	10,116	5,212
	1,203,535	1,111,850	1,043,177	995,278	935,677
	19,619,919	17,048,510	14,969,218	13,736,093	12,400,302
Income statements					
Interest income	611,902	476,269	428,671	421,753	428,569
Interest expense	285,221	157,775	148,622	157,277	176,005
Net interest income	326,681	318,494	280,049	264,476	252,564
Provision for credit losses	8,619	8,331	10,733	4,997	5,379
	318,062	310,163	269,316	259,479	247,185
Fee, commission and other income	121,158	88,101	78,934	76,674	73,761
	439,220	398,264	348,250	336,153	320,946
Non–interest expense	336,013	309,432	275,367	260,470	238,552
Income before undernoted	103,207	88,832	72,883	75,683	82,394
Income before provision for income taxes	103,207	88,832	72,883	75,683	82,394
Provision for income taxes	21,108	13,055	14,357	17,314	20,373
Net income	82,099	75,777	58,526	58,369	62,021

5-Year Financial Overview

December 31 (in thousands of dollars)	2018	2017	2016	2015	2014
Financial statistics in per cent					
Asset growth	15.08	13.89	8.98	9.02	(1.03)
Loan growth	9.03	15.01	10.69	6.08	(0.48)
Deposit growth	14.00	10.85	10.98	4.08	(0.85)
Operating efficiency	75.03	76.10	76.71	76.35	73.10
Capital ratio[1]	15.69				
Liquidity ratio	20.24	14.07	14.48	16.21	11.36
Percentage of average assets					
Net interest income	1.73	2.01	1.96	2.04	2.02
Other income	0.64	0.56	0.55	0.59	0.59
Non–interest expenses	1.78	1.96	1.93	2.00	1.91
Percentage return on					
Average assets	0.44	0.48	0.41	0.45	0.50
Average equity	7.19	7.11	5.75	6.03	6.88
Average assets	18,842,880	15,801,994	14,299,277	12,993,903	12,517,385
Average equity	1,141,822	1,065,533	1,017,930	967,517	901,669
Mutual funds under administration	3,794,260	3,925,933	3,439,060	3,066,822	2,720,090
Securitized loans	1,155,211	1,118,025	869,138	570,329	184,334
Total assets under administration	23,414,179	20,974,443	18,408,278	16,802,915	15,120,392
Allowance for credit losses, beginning[2]	35,315	32,413	36,806	37,634	38,862
Provisions for credit losses	8,619	8,331	10,733	4,997	5,379
Loans written off	7,187	6,560	16,066	7,203	7,853
Recoveries of loans written off	974	978	940	1,378	1,246
Allowance for credit losses, end	37,721	35,162	32,413	36,806	37,634
Impaired loans	11,244	13,716	21,279	26,596	23,515

1 Value included only for 2018; reflects requirements applicable to federally regulated financial institutions.
2 The balance at January 1, 2018 has been adjusted as a result of the adoption of IFRS 9. Refer to note 28(b) to the Consolidated Financial Statements for further information.

Board Chair's Message

Financial well-being means something different for each us; however, the reality is that many Canadians are struggling to achieve their financial goals. For every dollar earned, Canadian households owed $1.79 in outstanding debt as of the end of 2018, according to Statistics Canada. As well, almost half of Canadians don't have enough money saved to cover their expenses for more than three months if anything unexpected happens.

The challenges that come with financial instability can be difficult, so our dedicated team at Coast Capital strives every day to help our members build better money habits. We have assisted countless British Columbians with improving their financial well-being and gaining control of their finances with products and services that put them in control; like *The Free Chequing, Free Debit and More Account®*, *The Where You're At Money Chat®* and the *Take Charge Money Manager™*. With a focus on encouraging saving for the future, we are elated that our members generated record-high deposit growth of $2.0 billion in 2018. Through our innovative and cooperative approach to empowering our members, this is just an example of how Coast Capital is helping the people of B.C. attain financial well-being, and we are pleased to be able to extend that help to even more Canadians.

Going National

In 2018, Coast Capital, Canada's largest credit union by membership, became the first credit union in British Columbia to be incorporated federally and only the second in Canada. This process was a long time in the making, but began to take shape in 2016 when 79.2% of nearly 80,000 members voted in favour of moving forward with this initiative. The B.C. Financial Institutions Commission (FICOM) then undertook a comprehensive assessment, culminating in the granting of approval to proceed; our federal incorporation came into effect on November 1, 2018, following an extensive review by the Office of the Superintendent for Financial Institutions (OSFI). Now, our long-term goal of providing members with Coast Capital solutions no matter where they live in the country is on its way to becoming a reality.

Investing In Our Community

For nearly 80 years, community involvement has been in our DNA, and since 2000 we have invested $77 million in communities within our market areas. Because youth face many challenges on their journey to independence, Coast Capital strategically invests 7 per cent of our budgeted pre-tax profits in local programs, partnerships and events, and works alongside our community partners to break down many of the barriers that young people face. In 2018, that investment amounted to $5.9 million.

A focus on youth

At Coast Capital we truly believe that young people are our future. That is why our Youth Get It Community Investment Strategy focuses on promoting financial empowerment, educational success and healthy minds among youth.

In 2018, this resulted in the disbursement of $1.2 million under our Youth Get Financial Empowerment funding stream; $1.3 million towards our Youth Get Educational Success path, which assists youth to realize academic success during their school years; and $1.8 million in the Youth Get Healthy Minds area, which supports building a sense of community and belonging for youth to decrease stress and depression. In addition, we invested $1.5 million in support of employee volunteerism, corporate campaigns, community sponsorships and community investment program management.

Striving for Excellence

We have always taken pride in our innovation and commitment to excellence as a leader in the financial services sector. From being the first full-service financial institution to launch a free chequing account, to taking digital banking to new heights with our new digital membership account opening platform and *Take Charge Money Manager™*, we continue to engage in tangible ways to not only be a great financial institution but a valuable member of our community.

To this end, our commitment to making Coast Capital a great place to work was recognized when we were named one of B.C.'s Top Employers. Also, for the 17th time, Coast Capital was named one of the Best Managed Companies in Canada. We are honoured to be an Imagine Canada Caring Company as well, and we are a Certified B Corporation®, meaning Coast Capital meets rigorous standards that balance profits with purpose to create positive impacts for our employees, community and environment.

Leading Strategically. Leading with Integrity

Finally, as with any successful organization, it takes strong leadership to keep us on course and moving forward to meet the needs of our members, staff and community. We are fortunate to have that in our executive team, which was most capably led for the majority of 2018 by interim CEO Bruce Schouten. Bruce spearheaded a number of important achievements, including overseeing our application to OSFI to operate as a federal credit union, streamlining our corporate priorities and instituting one of the most robust strategic planning exercises our organization has ever undertaken.

We also owe thanks to Bill Cooke, our former Board Chair, who retired after a four-year tenure of remarkable growth, member engagement and ultimately the successful achievement in obtaining approval for Coast Capital to become a federal credit union. His steady leadership was most appreciated.

I have confidence that we are poised for an exceptional year ahead. My optimism partly comes from knowing that we have a capable leader driving our progress forward as we welcomed our new CEO Calvin MacInnis, who joins us with the abilities and proven track record to lead our continued efforts helping Canadians achieve financial well-being.

On behalf of the Board, I also extend my sincere thanks to our members for giving us the privilege of serving as your representatives, and to Coast Capital employees for their ongoing dedication to fulfilling our purpose every day – "Together, we help empower you to achieve what's important in your life."

Bob Armstrong
Chair, Board of Directors

CEO's Message

2018 was a transformational year for Coast Capital as we expanded our services for our members and our reach in Canada while remaining steadfastly committed to our cooperative roots. Our total assets increased by 15.1%, enabling us to end the year at $19.6 billion, and retained earnings—the primary source of capital for a credit union—grew by 8.7%. We continued to invest in supporting our employees' growth and development within a culture that acknowledges that the strength of our organization is in our people. And, as always, we remained true to our members' financial well-being and purpose: *Together, we help empower you to achieve what's important in your life.*

Expanding our horizons and innovating through digital developments

Receiving approval to become a federal credit union in 2018 was a testament to the strength of our organization, the foresight of our members and a reflection of the contribution Coast Capital is making in the Canadian financial services industry. With a thoughtful and prudent approach, our efforts in 2018 provided a foundation from which we will continue to grow within British Columbia while looking ahead to reaching more Canadians through our digital offerings and by forging strategic brick-and-mortar partnerships.

Recognizing the opportunities afforded by expanding our digital services, we introduced new ways for members to manage and analyze their financial health. Specifically, the *Take Charge Money Manager™* gives members the opportunity to gain a big-picture understanding of their financial health, provides the opportunity to view spending activity in a dynamic, visual format and analyze their daily transactions, create monthly budgets and aggregate account information from other financial institutions. It is available across three channels—Coast Online Banking, Coast Online Banking for Small Business and Mobile Banking.

Maintaining strong and stable financial growth while investing in our people and values

Increasing our membership to 572,000 (from 555,000 in 2017) was a significant achievement for Coast Capital, indicating the strong trust we have earned from British Columbians. In addition to holding assets under administration over $23 billion (up from $21 billion in 2017), we obtained a long-term debt rating of BBB High from international bond rating agency DBRS. This, along with our DBRS-designated strong investment grade rating of R-1 Low, enabled Coast Capital to raise funding through the capital markets for terms longer than one year, issue $300 million in subordinate notes and offer an additional $175 million in senior deposit notes in 2018.

Helping our members achieve financial well-being is only possible if there is a strong commitment among all 1,800 of our employees to fulfilling that mission and linking it to our larger purpose to empower our members to achieve what's important in their lives. To this end, our staff engaged in a process to identify five key values that unite us: Inspire, Connect, Challenge, Simplify and Deliver capture the essence of our purpose-driven culture and will be considered with every step we take as we move forward strategically, including in the development of our people, and the products and services we provide our members.

Expressing gratitude

Giving thanks to our staff is something our leadership team strives to do regularly because without them we couldn't achieve the successes we have so far. While a simple "thank you" is often enough, we also employ a number of initiatives throughout the year to recognize employees who do their job in an exemplary fashion. And in this, I would like to take this opportunity to thank all 1,800 of our employees for embracing our purpose and values and working in the best interest of our members every day.

Joining the leadership team of Coast Capital has introduced me to a group of dedicated leaders, passionate about the people they work with and our organization. The executive team and Board of Directors are tireless in their commitment to enhancing member experience and employee growth in innovative and highly effective ways. I extend congratulations and thanks to them for positioning Coast Capital so well for the next phase of our evolution. I also extend my appreciation to Bruce Schouten for leading Coast Capital through 2018 with a sense of purpose, integrity and passion for what we do.

It is an exciting time in the financial services industry, and Coast Capital will continue to be a leader, both in British Columbia and across Canada, as we share our unique ways of doing business. At the heart of everything we do are our members, whom I thank for your continued trust and support. I promise that in every step we take moving forward, protecting and enhancing your financial well-being will be the guiding consideration behind each decision we make.

Calvin MacInnis
President and
Chief Executive Officer

Caring for Our Members, Employees and Communities

We're working hard to be a force for good in financial service, and in 2018 we took a big step in our efforts to be a responsible corporate citizen by becoming a Certified B Corporation®. This certification reflects our determined commitment to taking action to do what is in the best interest of our members, employees and communities, and keeping our purpose at the heart of everything we do.

B Corporations are certified by the non-profit B Lab® organization whose purpose is to address some of society's biggest challenges by harnessing the power of business. Coast Capital has joined over 2,700 companies in 60 countries that meet B Lab's high standards of social and environmental performance, accountability and transparency; we recognize that there can be a balance between profit and purpose.

Coast Capital was measured in five categories as part of the rigorous B Corp certification process:

- governance
- workers
- community
- environment
- customers (or members in our case).

The certification also helps to set goals for continuous improvement, and in 2018 Coast Capital advanced our impact in several ways.

As a member-driven organization with a member-elected Board of Directors, supporting our members' financial well-being is at the forefront of everything Coast Capital does. We placed particular emphasis on this in 2018 by introducing services like our *Take Charge Money Manager™*.

We also recognize that our biggest asset in supporting members is our team of dedicated staff. In 2018, we reinforced our commitment to diversity and inclusion in our workplace by taking steps to ensure our culture is one of fairness and open-mindedness. We launched several training initiatives in this regard and formed the Business Women's Network and Pride Inclusivity Network employee groups.

Our commitment to employees' career development was strengthened by adding signature leadership development programs and providing every employee with an opportunity to share feedback on our leadership. In 2018, 585 employees had the opportunity to grow their careers within Coast Capital.

Going beyond the walls of our workplace, our staff embrace Coast Capital's commitment to the community as well—evidenced by the more than 12,000 hours of volunteer time they gave local organizations in 2018 through our refreshed Help Heroes employee volunteer program. As part of this program, employees who volunteer receive reward dollars, which they can donate to a community organization or cause.

Coast Capital has a history of doing more than volunteering by investing 7% of our budgeted pre-tax profits in local community efforts. This 7% means that in 2018, we gave $5.9 million back to our communities with a focus on youth through our community investment program.

In addition to doing right by the people we serve and work with, Coast Capital also took steps in 2018 to reduce our environmental footprint. We relocated our Vancouver Island administration employees to LEED Gold certified facilities, created programs to support employees who commuted to work in sustainable ways and shifted our office paper to an ecologically-minded option that is 100% recycled.

We are proud of our efforts to be part of the worldwide shift in redefining business success and helping to build a more sustainable and inclusive world economy. Coast Capital has always done things a little differently, and since being a good corporate citizen is embedded in our DNA, obtaining B Corp certification was a natural progression. We're passionate about changing our world for the better and empowering others to make a positive impact.

Management's Discussion and Analysis

The Management's Discussion and Analysis ("MD&A") section of the Annual Report provides an overview of Coast Capital's operations and financial position. The MD&A also includes a discussion on risk management and an analysis of our capital structure. The information provided demonstrates our commitment to balancing strong financial performance, within our established risk appetite, with the delivery of exceptional value to our members. Our decision-making model takes both into account so that we can continue to improve the financial well-being of our members while supporting the communities in which we work and live.

This section is current as of February 27, 2019, and should be read with the audited consolidated financial statements, which are prepared according to the International Financial Reporting Standards ("IFRS").

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About Forward-Looking Statements

This Annual Report contains forward-looking statements about our operations, goals, and expected financial performance. These statements are subject to risks and uncertainties that may affect results, including changes in the legislative or regulatory environment, interest rates, and general economic conditions in B.C. and Canada (among others). Readers should give careful consideration to these issues and not rely too heavily on our forward-looking statements.

Management's Discussion and Analysis

Economic Environment

Economic Environment in 2018

The Canadian economy grew at a moderate pace in 2018, although the pace of growth was slower than 2017. Consumer spending was supported by a healthy labour market and continued wage growth, however spending slowed in response to higher interest rates and moderation in the housing market. While export growth accelerated in 2018, business investment slowed following trade uncertainty and price volatility in the energy markets. Trade talks between Canada, U.S. and Mexico concluded with a new trade agreement, the United States-Mexico-Canada Agreement (USMCA). With growth and inflation broadly in line with the Bank of Canada's expectations, the Bank of Canada continued its gradual pace of rate increases, increasing its policy rate three times in 2018 up to 1.75%.

In the U.S., the pace of economic growth strengthened in 2018. The U.S. economy benefited from expansionary fiscal policies, including aggressive tax cuts coupled with strong employment growth. Consumer spending grew at a healthy pace supported by continued job creation and low unemployment.

In B.C., economic growth has been supported by a lower Canadian dollar benefiting B.C. manufacturing and exports, tourism and local TV and film production. Population expansion and infrastructure investment also contributed to a strong economy. The housing market moderated in 2018 following an increase in interest rates and market cooling measures enacted by government.

Economic Environment in 2019

Our 2019 outlook contains forecasts and predictions based on information and assumptions from sources we consider reliable. Actual outcomes may be materially different from the outlook.

Global economic growth is projected to average 3.4% for 2019, a moderately slower pace of growth compared to 2018. Canadian economic growth is expected to average 1.7% for 2019, a slightly lower growth rate than 2018. The Canadian housing market is expected to be supported by household income trends, job creation and population growth.

The U.S. economy is expected to continue growing in 2019 at a pace above its natural long term trend as a result of fiscal stimulus. In Canada, the conclusion of trade talks and the USMCA trade deal will reduce some trade uncertainty and potentially accelerate business investment decisions. Trade uncertainty will remain a risk that could impact the global economy, including Canada; although talks between U.S. and China are expected to prevent an escalation of trade tensions.

The Bank of Canada believes interest rates will need to increase over time to achieve its inflation target. The Bank of Canada has stressed it will remain data dependent and continue to assess appropriate timing for interest rate changes.

The outlook for B.C. includes a healthy economic growth of 2.5%. B.C.'s economy is supported by a diverse mix of economic activity. Growth engines for the economy include manufacturing, export growth and business investment. In 2018, a large $40 billion liquefied natural gas project in Kitimat B.C. was approved and is expected to boost growth for B.C. in 2019 and 2020 due to the significant size of the project. Higher interest rates and market cooling measures enacted by government are expected to continue to moderate growth in the housing sector.

Impacts on Our Members

For our members, the continuation of gradual rate increases over 2018 had mixed impacts. For members seeking to grow their savings or who depend on deposits and debt securities for income, the increase in interest rates will be welcomed. For savers, as interest rates increased, this provided additional income potential. Members entering the housing market and borrowing for their purchase, or for those with existing mortgages and other borrowings, may see more of their income allocated towards debt servicing costs. As we help our members meet their lifetime needs and balance financial priorities, the financial care we provide will continue to promote a balanced approach to building financial well-being.

Management's Discussion and Analysis

Financial Performance

Financial Highlights of 2018

Year ended December 31			Change from 2017	
in thousands of dollars	2018	2017	$	%
Net interest income	326,681	318,494	8,187	2.6
Fee, commission and other income	121,158	88,101	33,057	37.5
Total revenue	447,839	406,595	41,244	10.1
Provision for credit losses	8,619	8,331	288	3.5
Non-interest expenses	336,013	309,432	26,581	8.6
Income before provision for income taxes	103,207	88,832	14,375	16.2
Provision for income taxes	21,108	13,055	8,053	61.7
Net income	82,099	75,777	6,322	8.3
Assets				
Cash and financial investments	3,320,505	2,093,685	1,226,820	58.6
Loans after allowance for credit losses	16,124,695	14,788,882	1,335,813	9.0
Premises and equipment, other	174,719	165,943	8,776	5.3
Total assets	19,619,919	17,048,510	2,571,409	15.1
Liabilities				
Deposits	16,377,331	14,366,432	2,010,899	14.0
Borrowings	1,919,781	1,437,485	482,296	33.6
Other liabilities	119,272	132,743	(13,471)	(10.1)
Total liabilities	18,416,384	15,936,660	2,479,724	15.6
Members equity	1,203,535	1,111,850	91,685	8.2
	19,619,919	17,048,510	2,571,409	15.1

in per cent	2018	2017	Change from 2017
Operating efficiency ratio	75.0	76.1	(1.1)
Total liquidity ratio	20.2	14.1	6.1
Liquidity coverage ratio[1]	214.0		
Total capital ratio[1]	15.7		
Common equity tier (CET) 1 capital ratio[1]	12.1		
Leverage ratio[1]	5.6		

While our performance is based on more than just our financial results, sound financial results are fundamental to our ability to continually improve the services we offer to our members and critical to our long-term sustainability and growth. Maintaining a strong financial position also supports our ability to meet our employee commitments and to contribute to the communities in which we operate.

1 Value included only for 2018; reflect requirements applicable to federally regulated financial institutions.

Management's Discussion and Analysis

Our 2018 results reflect our investment in a better future for our members, employees and the communities we serve. In 2018 we achieved a long-term objective of becoming a federal credit union. In addition to moving to a new regulatory platform and expanding our future business regions to include all of Canada, we invested in our people and our capabilities with the objective of better serving the financial needs of our members. As a federal credit union, we have expanded opportunities for growth and for enhanced investment in products and services to meet the lifetime needs of our members.

Our reported net income in 2018 was $82.1 million, up $6.3 million or 8.3% from 2017. Total revenue in 2018 increased by $41.2 million or 10.1% over 2017. The increase in reported revenue reflects strong asset growth and higher net interest income growth, as well as a significant increase in reported fee, commission and other income. Fee, commission and other income was favourably impacted by two events in 2018 related to our federal credit union transition.

In 2018 we recognized a $36.6 million gain on the redemption of shares we held in Central 1. Due to our transition to federal credit union status, Central 1 required Coast Capital to change from a Class A member to a Class B member. As part of this transition, Central 1 redeemed Coast Capital's Class E shares at their redemption value on November 1, 2018, resulting in the gain as noted. Additionally, as part of our transition to federal credit union status, significant investments we held at Central 1 were required to be liquidated and moved to investments outside of Central 1. Based on interest rate conditions at the time of this transaction, a loss of $8.7 million was recognized in our consolidated statement of income, and is reported in fee, commission and other income. The net result of these events was an increase in fee, commission and other income of $27.9 million. Adjusting for the $27.9 million net gain, our 2018 fee, commission and other income is reduced from $121.2 million to $93.3 million.

Adjusted Net Income

Year ended December 31			Change from 2017	
in thousands of dollars	2018	2017	$	%
Net interest income	326,681	318,494	8,187	2.6
Fee, commission and other income	93,314	88,101	5,213	5.9
Total revenue	419,995	406,595	13,400	3.3
Provisions for credit losses	8,619	8,331	288	3.5
Non-interest expenses	336,013	309,432	26,581	8.6
Income before provision for income taxes	75,363	88,832	(13,469)	(15.2)
Provision for income taxes	16,767	13,055	3,712	28.4
Net income	58,596	75,777	(17,182)	(22.7)

in per cent	2018	2017	Change from 2017
Operating efficiency ratio	80.0	76.1	3.9

Our 2018 net interest income increased by $8.2 million, or 2.6%, to $326.7 million, resulting in total adjusted revenue of $420.0 million, an increase of $13.4 million or 3.3% compared to 2017. Provisions for credit losses in 2018 were $8.6 million, $0.3 million higher, while non-interest expenses increased $26.6 million, or 8.6% compared to 2017. On an adjusted basis our 2018 net income was $58.6 million, a decrease of $17.2 million, or 22.7%, compared to 2017.

The 2.6% increase in net interest income compared to 2017 trailed our overall asset growth in 2018 of 15.1%. Strong asset growth in 2018 supported an increase in our net interest income. The favourable impact of asset growth, however, was reduced by a decrease in our net interest margin. Our net interest margin decreased by 27 basis points, from 2.01% in 2017 to 1.74% in 2018. The decrease reflects a larger relative increase in the interest rates we paid for deposits and borrowings in 2018, compared to the increase in the rates experienced on our loan and cash assets.

Management's Discussion and Analysis

Fee, commission and other income in 2018, reported at $121.2 million, increased by $33.1 million or 37.5% compared to 2017. Adjusted, fee commission and other income is $93.3 million, an increase of $5.2 million, or 5.9%, compared to 2017. Excluding the items noted as adjusted, all major non-interest revenue lines experienced positive growth in 2018. Notable areas of growth include banking fees, up $2.8 million, investment and life insurance products, up $2.7 million, and credit card revenues up $1.2 million. Increases in these revenue lines represent both growth of our overall member base and deeper relationships with our members. Fee changes also had an impact on our revenue. We review our fees annually to ensure they are market competitive and that we are continuing to provide value to our members.

Non-interest expenses increased by $26.6 million, or 8.6%, in 2018. The primary drivers of our expense growth in 2018 were activities necessary to achieve continuance as a federal credit union and initiatives designed to enhance our member service offerings and member experience. These activities required increased spending on internal human capital resources, external consultants, and technology upgrades. We also maintained our commitment to community support through investments of $5.9 million, an increase of $0.3 million over 2017, into local programs and events.

Our total asset growth in 2018 was very strong at just under $2.6 billion, or 15.1%, bringing our total assets to $19.6 billion at year end. Asset growth was enabled through deposit campaigns, which generated deposit growth of over $2.0 billion, or 14.0%, our highest annual deposit growth result on record. Additional borrowing and retained earnings growth through profitable operations, also contributed funding to support our asset growth in 2018.

Liquid assets, in the form of cash and financial investments, grew by $1.2 billion, while our loans grew by $1.3 billion. The growth of our liquid assets, which increased by almost 59% had a significant impact on our liquidity ratios and was directly attributable to the deposit campaigns we initiated to strengthen our liquidity position in preparation for our planned transition from a provincially regulated credit union to a federally regulated credit union. At year-end 2018, our liquid assets totalled $3.3 billion, our total liquidity ratio increased to 20.2% from 14.1% at year-end 2017, and our liquidity coverage ratio was 214%. Our regulatory capital also increased in 2018, due to growth in both retained earnings and borrowings in the form of subordinated debentures issued during the year. This resulted in a total capital ratio, as measured in accordance with federal capital adequacy requirements, of 15.7% at year-end.

Business Line Performance

Retail

Our retail division plays a lead role in improving the financial well-being of our 495,000 retail members. We connect with, and provide service and advice to, our retail members through a multi-channel offering which includes: a branch network with 52 locations, a mobile service team, our Contact Centre, and our digital banking platforms. Through these channels we welcomed over 26,000 new retail members in 2018. New member growth in 2018 was supported by our digital membership opening platform, first launched in the fourth quarter of 2017. Using the digital platform, new members can join Coast Capital in as few as five minutes, from anywhere they choose. In 2018, the first full year of operations for this service, almost 9,000 new retail memberships were opened digitally.

In 2018 we also delivered over 26,000 *Where You're At Money Chats®* to our members. The Money Chat service provides members with a snapshot of their overall personal or business financial health, and identifies ways Coast Capital can help improve this going forward. In furtherance of our mission to improve the financial well-being of our members, in 2018 we launched our *Take Charge Money Manager™*. This new digital tool provides members with the ability to aggregate their account information from other financial institutions to keep track of their account balances and transactions in one place; analyze their day-to-day transactions in a visual format; and set up monthly budgets to keep on top of their spending. The *Take Charge Money Manager™* is an evolving platform, with new tools and features expected to be added over time. At the end of 2018, over 8,000 of our members were regular users of the tool.

In 2018 we funded almost 15,000 new mortgages and home equity lines of credit for our members, and grew our retail mortgage portfolio by $781 million, or 7.6%, to $11.1 billion. Our 2018 mortgage offer included Help Extras®, first launched in 2015. Under the Help Extras program, members who obtain or renew their mortgages with us receive up to $1,000 in the form of deposits or investments aligned to their personal financial goals. In 2018 we funded over $3.7 million Help Extras for our members. In 2018, we also grew our retail non-mortgage loan and leasing portfolio by $41 million, or 13.0%, with the majority of this growth coming from our auto financing group.

Our retail mortgage growth of $781 million in 2018 represents a decrease from the record $1.3 billion growth generated in 2017. Slower growth of our mortgage portfolio reflected a general cooling of the housing market in our trade areas as well as new mortgage underwriting guidelines established for federally-regulated financial institutions. We adopted the new guidelines mid-year in alignment with our focus on member financial well-being, and in preparation for becoming federally regulated. The 'stress test' guideline, intended to ensure mortgage affordability and reduce risk for both borrowers and lenders, reduces the maximum amount of mortgage funding that certain borrowers may qualify for, which in turn impacts overall mortgage lending volumes. Our mortgage growth in 2018 was also moderated by our focus on growing our liquid asset portfolio.

As we prepared to become a federal credit union in 2018, strengthening our liquidity position through deposit growth was an important objective. Our large retail member base is a primary source of core deposit growth. Of our total $2.0 billion deposit growth achieved in 2018, approximately $1.1 billion was generated through our retail division. The majority of this growth came in the first half of the year, and was concentrated in term deposits, consistent with the product offers we made available to our members.

Our retail division also includes our wealth management business. This business provides members with access to industry leading investment and life insurance products through licensed advisors. While not included in the assets captured within our consolidated statement of financial position, our mutual and segregated fund assets under administration totalled just under $3.8 billion at the end of 2018. These assets decreased by $132 million in 2018, or 3.4%, from $3.9 billion at the end of 2017. Our net sales results were positive in 2018, despite volatile capital markets, however, this growth was offset by negative market valuation impacts during the year. Our co-branded Low-fee, More-for-me Mutual Funds® program continues to be an important part of our wealth offer, growing $34 million in 2018 to $1.8 billion, and accounting for 50% of our total investment fund assets under administration at year-end.

Looking ahead to 2019, we plan to enhance our retail digital banking services, building on current capabilities with the objective of continuing to meet the needs of our members and employees. This includes the launch of a new online and mobile banking platform, and investments that will improve our processes and technologies.

Commercial and Leasing

Our commercial division continues to grow through our efforts to empower commercial members. The work we do to help our business members succeed also contributes to the health and vitality of the communities in which we operate. In 2018, we welcomed over 3,000 new commercial members, bringing our total commercial member count to over 51,000. Combined, at December 31, 2018, our commercial members accounted for approximately 29% our total loan and lease assets, and 20% of our total deposit balances. Our commercial members also provide an important source of non-interest revenue through the many banking services they require.

Recognizing the diverse needs of our commercial members, we organize our commercial banking team into several groups: Small Business Banking, Business Banking, Commercial Real Estate, Equipment Financing (Leasing) and Payments and Cash Management.

Backed by sound underwriting policies and practices, our commercial loan and lease portfolios provide an additional lever for risk management by enhancing the diversification of our overall loan portfolio, while also giving us access to higher yielding assets that strengthen our financial performance. Our commercial operations also provide geographic diversification through the Equipment Finance (Leasing) team, which operates nationally, and through participation in syndicated loan arrangements on commercial development projects and properties located in major Canadian cities outside of B.C. In 2018, our total commercial loan and equipment lease assets grew by $510 million, or 12.2%, to $4.7 billion.

Commercial loans grew by $287 million in 2018, or 8.1%, to $3.9 billion. Almost all of this growth was mortgage secured, with non-mortgage loan and line of credit balances remaining flat during the year. Commercial mortgage growth in 2018 was split relatively evenly between variable rate financing of development projects, and fixed rate term financing of completed commercial properties. Development financing loans tend to have shorter terms, but offer higher yields when compared to term mortgages on completed commercial properties. Continued positive growth of our multi-family residential development portfolio by our Commercial Real Estate team in 2018 was achieved through strong relationships with both large established developers and smaller local home builders. Growth of our fixed rate commercial mortgage portfolio in 2018 was supported by both our Business Banking team, which deals primarily with owner occupied properties, and our Commercial Real Estate team.

Our Equipment Financing (Leasing) portfolio grew $223 million in 2018, or 35.8%, to $846 million. This represents our strongest single year growth on record for this portfolio. The growth is attributed to increased volumes generated through our growing partnership network with equipment vendors. The majority of new equipment lease production in 2018 occurred in markets outside of B.C., notably Ontario and Alberta. At the end of 2018, 31.5% of our equipment leasing assets were held in B.C., with the remaining 68.5% held in other provinces, notably Ontario at 38.9% and Alberta at 19.2%.

As we prepared to become a federal credit union in 2018, strengthening our liquidity position through deposit growth was an important objective. Of our $2.0 billion total deposit growth in 2018, $416 million was raised through our commercial division. Our Small Business Banking member base has been a consistent source of core deposits growth, aligned to the needs of our small business members for transactional banking services. Our commercial Payments and Cash Management team is also focused on deposit gathering activities, and contributed approximately $150 million in deposit growth in 2018 through relationships targeted at organizations with cash management needs.

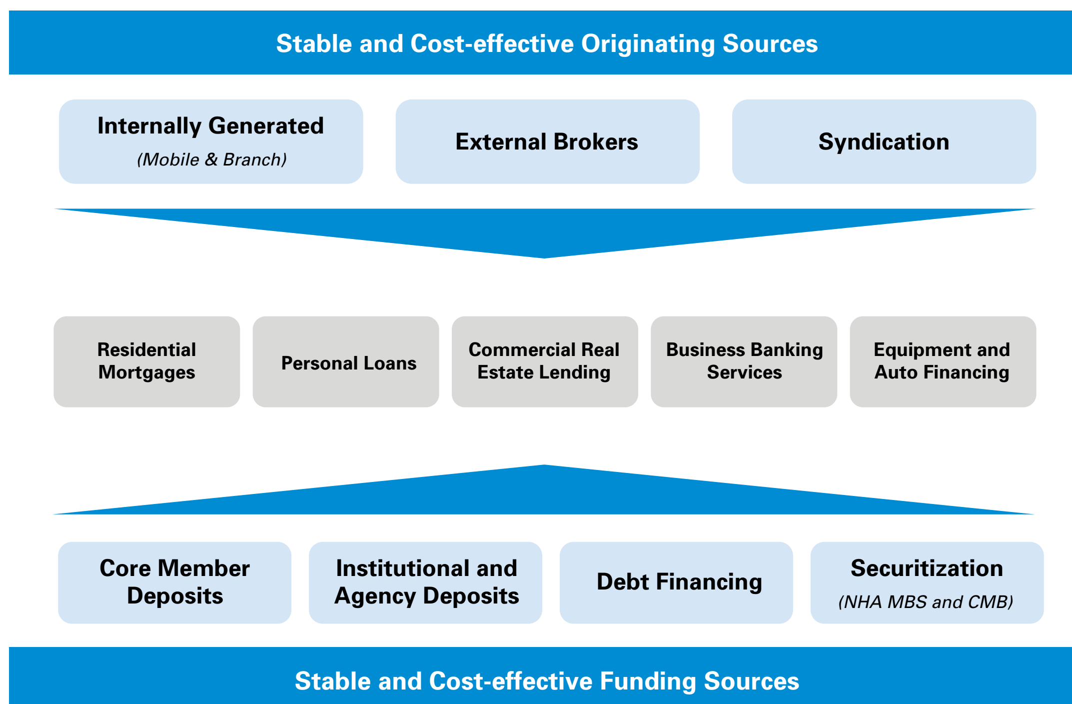
Looking ahead to 2019, we expect continued strong growth of our commercial loan portfolio. Although headwinds are expected to persist, including a cooling off of the housing market and strong competition in the fixed term commercial mortgage market, our transition to a federal credit union will help to mitigate these impacts on our production. We plan to continue to pursue high quality syndicated mortgage deals outside of B.C. and, as a federal credit union, will be able to act as the lead lender on new syndicated mortgages in other provinces. In 2019 we also plan to offer more tools to help our business members succeed, including: expanded availability of electronic statements, electronic deposit capture services for business members with high volumes of cheque deposits, and on-line foreign exchange transactions. We also plan to complete our initiative to enable small businesses to open new memberships digitally.

Net Interest Income

Net interest income is the difference between the interest income earned on loans and other financial assets, and the interest paid on deposits and other funding sources. It is impacted by both the size of our balance sheet and our net interest margin (i.e., the percentage spread between the yield earned on assets and the rate cost of liabilities to fund the assets). Given the importance of net interest income to our overall financial performance, significant attention is paid to asset and liability growth decisions and their impacts on our interest margin. In managing the interest rates we offer throughout the year, we are also careful to ensure that our members have access to rates on loans and deposits that are both fair and competitive.

Management's Discussion and Analysis

We maintain a diversified portfolio of loan assets, in terms of both type and source, supported by a number of different funding options we have established and maintain. Having access to multiple business lines and channels within our asset and liability structure provides diversification, and creates options for managing our balance sheet growth in a stable and sustainable manner.



Our 2018 net interest income was $326.7 million, an increase of $8.2 million, or 2.6%, compared to 2017. Strong overall asset growth of 15.1% had a favourable impact on our net interest income, while changes to our net interest margin, which declined to 1.74% in 2018, from 2.01% in 2017, had an unfavourable impact. The 27 basis point decline in our net interest margin reflects a larger relative increase in the interest rates we paid for deposits and borrowings in 2018, compared to the increase in rates we earned on our loan and cash assets.

Changes in Net Interest Income

			2018
Year ended December 31	Increase (decrease) due to change in		
in thousands of dollars	Average Balance	Average Rate	Net Change
Total loans, cash resources and derivatives	92,358	43,275	135,633
Total financial liabilities	(28,987)	(98,459)	(127,446)
Net interest income	63,371	(55,184)	8,187

Net Interest Income

Year ended December 31
in thousands of dollars

	2018				2017			
	Average balance	Mix %	Interest	Interest rate %	Average balance	Mix %	Interest	Interest rate %
Cash resources and financial investments	3,221,831	17.1	56,530	1.75	1,910,011	12.0	25,915	1.36
Loans								
Residential	10,697,389	56.8	342,536	3.20	9,569,275	60.6	277,784	2.90
Commercial	3,690,027	19.6	151,173	4.10	3,209,252	20.3	117,821	3.67
Equipment Leasing	716,812	3.8	36,991	5.16	642,906	4.1	34,363	5.34
Personal	187,105	1.0	11,137	5.95	143,590	0.9	8,870	6.18
Lines of credit	155,043	0.8	12,068	7.78	161,017	1.0	11,482	7.13
Total loans	15,446,376	82.0	553,905	3.59	13,726,040	86.9	450,320	3.28
Other Assets	174,719	0.9	–	–	165,943	1.1	–	–
Derivatives	–	–	1,467	–	–	–	34	–
Total	18,842,926	100.0	611,902	3.25	15,801,994	100.0	476,269	3.01
Deposits								
Demand	5,638,402	29.9	29,942	0.53	6,287,340	39.8	21,682	0.34
Term	8,062,260	42.8	186,784	2.32	5,605,874	35.5	100,019	1.78
Registered plans	1,855,238	9.8	35,679	1.92	1,307,493	8.3	16,137	1.23
Total deposits	15,555,900	82.5	252,405	1.62	13,200,707	83.6	137,838	1.04
Borrowings	1,432,566	7.6	25,026	1.75	1,276,885	8.1	19,937	1.56
Subordinated notes	148,893	0.8	7,790	5.23	–	–	–	–
Total financial liabilities	17,137,359	90.9	285,221	1.66	14,477,592	91.6	157,775	1.09
Other Liabilities	561,029	3.0	–	–	256,622	1.6	–	–
Class B Shares	27,306	0.1	–	–	29,311	0.2	–	–
Accumulated other comprehensive income (AOCI)	(12,197)	(0.1)	–	–	(1,927)	–	–	–
Retained Earnings	1,129,429	6.0	–	–	1,040,396	6.6	–	–
Total	18,842,926	100.0	285,221	1.51	15,801,994	100.0	157,775	1.00
Net interest income			326,681	1.74			318,494	2.01

Interest rate margin compression, due to historically low interest rates and a flat yield curve, has been a challenge across the industry for several years. Beginning mid-2017 and through 2018 both the Bank of Canada rate and the prime lending rate experienced five consecutive increases. A trend towards higher market interest rates has the potential to increase net interest margins. Our net interest margin, however, declined as the higher rates earned on our assets were offset by the notably higher rates applied to our funding sources.

The yield on our total average assets increased by 24 basis points to 3.25% in 2018, from 3.01% in 2017. The increase reflects higher yields across most of our major loan portfolios, as well as higher yields on our portfolio of cash resources and financial investments, which is indicative of the higher interest rate environment in 2018. The overall impact of the higher rates was, however, constrained by an overall shift in our asset mix from loans to relatively lower yielding cash resources and financial investments in 2018. The allocation of cash resources and financial investments within our asset portfolio increased from 12.0% in 2017 to 17.1% in 2018, on an average balance basis.

Our overall funding cost as a percentage of total assets increased by 51 basis points, from 1.00% in 2017 to 1.51% in 2018, resulting in an overall reduction in our net interest margin. Multiple factors contributed to the increase in the rates paid on deposits and other funding sources in 2018. Interest rates in general trended upwards in 2018, with the increases reflected in rates paid on our various deposit products. The rate premium available to members through longer term deposits also increased in 2018, resulting in a shift in our deposit mix towards longer term, higher interest rate, products. This impact was accentuated by deposit product offers and campaigns we initiated during the year to strengthen our liquidity position. Initiatives to strengthen our liquidity position were related to our transition from a provincially regulated credit union to a federally regulated credit union, specifically to the potential impact on deposit flows related to our change from the B.C. provincial deposit insurance program to the federal deposit insurance program. We considered it prudent to maintain increased liquidity in preparation for our transition to mitigate the impacts of any significant deposit outflows resulting from the change. Our overall funding cost was also increased as a result of new subordinated, long-term debt issues completed in 2018. Two notes were issued in 2018 with a combined value of $300 million. These notes provided a source of increased funding and, due to their subordinated structure, also provided regulatory capital benefits. The structural terms and long-term nature of these notes attracted higher interest rates than those applied to our other funding sources.

Fee, Commission and Other Income

In addition to loan and deposit activities that generate interest income, we help to meet our members' financial well-being needs through the provision of financial products and services that generate fee and commission revenue. These include day-to-day banking services, credit cards, foreign exchange, life insurance, and mutual and segregated fund investments. These services are important to members, helping them meet their diverse banking and financial services needs, while also providing a stable and diversified source of revenue to support our financial operations. We regularly review the fees and commissions we charge on these products and services to ensure we are providing our members with excellent value, while considering our cost of delivery and the need to remain market competitive.

Fee, Commission and Other Income

Year ended December 31			Change from 2017	
in thousands of dollars	2018	2017	$	%
Lending fees (includes creditor insurance)	9,305	8,731	574	6.6
Banking and payment services	26,803	23,997	2,806	11.7
Investment and life insurance products	38,332	35,676	2,656	7.4
Credit card revenues	8,697	7,500	1,197	16.0
Foreign Exchange	4,402	3,918	484	12.4
Other	33,619	8,279	25,340	306.1
Total	121,158	88,101	33,057	37.5

In 2018, we experienced a $33.1 million, or 37.5%, increase in our reported fee, commission, and other income revenue. The most notable increase, captured in Other above, is attributed to two events related to our transition to federal credit union status. The net result of these two events was an increase in other income of $27.9 million.

- Other income was increased in 2018 by $36.6 million related to a gain on the redemption of shares we held in Central 1. Due to our transition to federal credit union status, Central 1 required Coast Capital to change from a Class A member to a Class B member. As part of this transition, Central 1 redeemed Coast Capital's Class E shares at their redemption value on November 1, 2018, resulting in the noted gain.
- As part of our transition to federal credit union status, significant investments held at Central 1 were required to be liquidated and moved to investments outside of Central 1. Based on interest rate conditions at the time of this transaction, a loss of $8.7 million was recognized in our consolidated statement of income, and is reported here as other income.

Adjusting for this net gain our 2018 fee, commission and other income is reduced from $121.2 million to $93.3 million. Based on this adjusted amount, our 2018 fee, commission, and other income increased $5.2 million, or 5.9%. Excluding the items noted as adjusted, all major non-interest revenue lines experienced positive growth in 2018.

Lending fee revenue increased by $0.6 million, or 6.6%, to $9.3 million from $8.7 million in 2017, attributed to growth in our loan and lease portfolios and the related fee income generated. Banking and payment services revenue, generated through the fees associated with the day-to-day banking services we provided to both our retail and commercial members, increased by $2.8 million, or 11.7%, to $26.8 million from $24.0 million in 2017. Both fee changes and higher transaction volumes contributed to this increase. Fee changes made in 2018 include both increases and decreases, as well as changes to how fees for some products and services are applied, such as adjustments to threshold transaction counts used to determine fee application. The 2018 increase in fee revenue also includes the full-year benefit from fees changed in mid-2017, which would have had a partial-year impact in 2017.

Revenues from investment and life insurance products increased in 2018 by $2.7 million, or 7.4%, to $38.3 million. This business includes investment funds (mutual funds and segregated funds) and a variety of life insurance products sold through our team of financial planners and insurance specialists. The investment fund assets administered on behalf of our members account for $35.0 million of the $38.3 million in 2018 revenue reported on this line. Our assets under administration totalled just under $3.8 billion at the end of 2018, a decrease of $132 million, or 3.4%, from $3.9 billion at the end of 2017. The majority of the decrease occurred in the fourth quarter as a result of unfavourable capital market impacts. Despite the year-end spot balance decrease, our average investment fund assets in 2018 were $205 million higher than in 2017. Higher average balances contributed to the $2.8 million revenue growth from our investment fund assets under administration in 2018. Life insurance revenue was relatively flat in 2018, decreasing by $0.2 million, or 5.3%, to $3.3 million in 2018 from $3.5 million in 2017.

Credit card revenue, through our co-branded Desjardins Visa credit card offer, increased $1.2 million, or 16%, to $8.7 million from $7.5 million in 2017. The increase represents growth in the number of active cards, and an increase in the level of utilization by cardholders. Foreign exchange revenue increased $0.5 million, or 12.4%, to $4.4 million from $3.9 million in 2017. The 2018 result for foreign exchange revenue follows similar favourable growth experienced in 2017, however, the continued low valuation of the Canadian dollar relative to the U.S. dollar combined with increased competition for foreign exchange business has constrained volume growth and compressed exchange rate spreads.

Provision for Credit Losses

In 2018, our provision for credit losses was $8.6 million, an increase of $0.3 million compared to 2017. The net increase was comprised of a decrease of $2.3 million in our specific provision, offset by an increase in our collective provisions. The decrease in specific provision is attributable to improved credit quality in our loan portfolios and in particular, the equipment financing portfolio. Meanwhile, the increase in collective provisions is the result of transitioning to IFRS 9 Financial Instruments (IFRS 9), effective January 1, 2018, which replaces IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). Coast Capital has elected to not restate the prior period comparative figures as permitted by the transition provisions of this standard. Accordingly, current period results for 2018 have been prepared in accordance with IFRS 9 and the comparative information for 2017 is presented under IAS 39 as previously published. As a result, the collective provisions are $2.6 million higher than the amount reported in 2017 due to the application of a new methodology in accordance with the requirements of IFRS 9.

Similarly, our total allowance for credit losses increased to $37.7 million, a $2.6 million increase compared to $35.2 million at the end of 2017 which is primarily attributable to the transition to IFRS 9. The collective allowance for losses increased by $4.6 million to $36.8 million as at the end of 2018, reflecting the changes in the estimation methodology and inputs in accordance with the new requirements of IFRS 9, in spite of the continuing strength of the credit quality in the lending portfolios. This increase is partially offset by a decrease in specific allowances for credit losses of $2.0 million, which is largely the result of write-offs attributable to impairments in the equipment financing portfolio which were identified in prior years.

Management's Discussion and Analysis

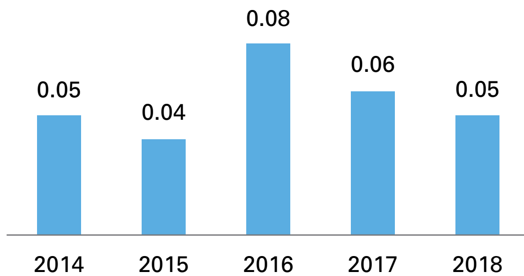
Credit Quality Performance

As at December 31

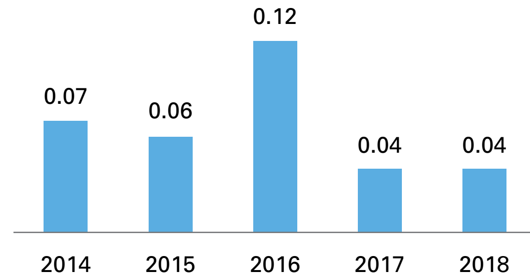
in thousands of dollars	2018	2017
Total loans	16,124,695	14,788,882
Provision for credit losses	8,619	8,331
Loan write-offs	7,187	6,560
Total allowance for credit losses	37,721	35,162
Impaired loans	11,244	13,716
Members' equity	1,203,535	1,111,850

in per cent	2018	2017
Provision for credit losses as % of total loans	0.05	0.06
Loan write-offs as % of total loans	0.04	0.04
Impaired as % of total loans	0.07	0.09
Impaired as % of members' equity	0.93	1.23
Total allowance as % of impaired loans	335.48	256.36
Total allowance as % of total loans	0.23	0.24

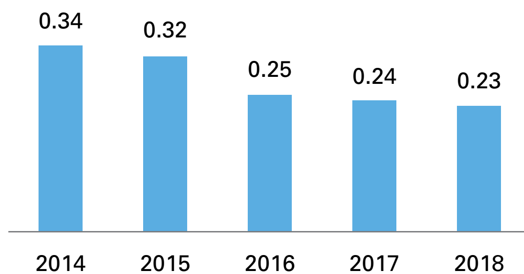
Provision for credit losses as a % of total loans



Loan write-offs as a % of total loans



Total allowance as a % of total loans



Non-Interest Expenses

Non-interest expenses include all expenses that are not interest-related, excluding provisions for credit losses and income taxes. We strive to manage our operating costs in a diligent and efficient manner, while also recognizing the impact of spending decisions on the member experience and on long-term capital growth to support sustainability. Our non-interest expenses in 2018 increased by $26.6 million, or 8.6%, to $336.0 million compared to $309.4 million in 2017. The primary drivers of the expense increase were salaries and benefits, consultants, technology and regulatory costs. Additional spending in these areas was largely due to activities necessary to achieve continuance as a federal credit union, as well as initiatives designed to enhance our member service offerings and experience.

Non-Interest Expenses

Year ended December 31			Change from 2017	
in thousands of dollars	2018	2017	$	%
Salaries and benefits				
Salaries including variable pay and incentives	140,708	132,312	8,396	6.3
Employee benefits, other	30,439	28,774	1,665	5.8
	171,147	161,086	10,061	6.2
Premises and equipment				
Rent, maintenance, utilities, taxes	27,156	26,424	732	2.8
Depreciation	4,711	5,135	(424)	(8.3)
	31,867	31,559	308	1.0
Member services administration				
Banking services	25,472	25,720	(248)	(1.0)
Loan processing	4,859	5,279	(420)	(8.0)
Investments and life insurance	3,196	3,216	(20)	(0.6)
	33,527	34,215	(688)	(2.0)
Technology				
Hardware, software, data, supplies	22,253	15,717	6,536	41.6
Depreciation	14,305	17,812	(3,507)	(19.7)
	36,558	33,529	3,029	9.0
Regulatory	14,504	12,447	2,057	16.5
Professional services	2,642	2,718	(76)	(2.8)
Consultants	19,045	9,290	9,755	105.0
Telephone, postage	1,153	1,418	(265)	(18.7)
Marketing	7,957	7,828	129	1.6
Community contributions	5,940	5,600	340	6.1
Travel, meals and entertainment	4,084	3,511	573	16.3
Bonding and other insurance	2,388	2,238	150	6.7
Recruitment, training, conferences, dues	3,106	3,212	(106)	(3.3)
Other	2,095	781	1,314	168.2
	336,013	309,432	26,581	8.6

Staff salary and benefit expenses accounted for the largest area of expense increase in 2018, up $10.1 million, or 6.2%, compared to 2017. This increase reflects growth in our total staff count (measured on a full-time equivalency basis) during the year, as well as salary increases attributed to inflation, merit and a highly competitive market for talent resources. Spending on consultants was another notable expense growth area in 2018, increasing 105.0% to $19.0 million from $9.3 million in 2017. Our increased use of external resources and expertise relates to initiatives to evolve and improve our organization for our members. The most notable initiative in 2018 was our transition to, and continuance as, a federal credit union. Understandably, this also accounted for the largest single consultancy spend and largest increase in spending related to external consultants. This work was necessary to achieve approval to continue as a federal credit union and to establish the systems and processes required to operate as a federally regulated financial institution. Members will ultimately benefit through improved processes and enhanced opportunities provided by our federal credit union status. Other areas where we experienced increased spending on consultants in 2018 include: work to better understand the service expectations and experience of our members, on-going improvements to general technology and information security, end-to-end lending process redesign, and enhancements to our contact centre platform.

Technology expenses also increased significantly in 2018 in the area of hardware, software, data, and supplies, while our technology depreciation expense decreased. The increase in hardware, software, data, and supplies expense reflects improvements we made to expand and enhance the services available to our members on digital platforms. Our new digital membership account opening platform, first launched in November 2017 and enhanced in 2018, is one example of these improvements. The digital platform makes it possible for new members to join Coast Capital in as little as five minutes from anywhere they choose. In 2018, the first full year of operations for this service, almost 9,000 new retail memberships were opened on the platform. In January 2018 we launched our *Take Charge Money Manager™*. This new digital tool provides members with the ability to aggregate their account information from other financial institutions to keep track of their account balances and transactions in one place; analyze their day-to-day transactions in a visual format; and help them set up monthly budgets to keep on top of their spending. At the end of 2018, over 8,000 of our members were regular users of the *Take Charge Money Manager* tool. The decrease in technology depreciation expenses, down $3.5 million, or 19.7%, to $14.3 million from $17.8 million in 2017, is attributed to assessments made in 2017 to accelerate the depreciation schedules of specific software assets. This inflated our 2017 depreciation expense relative to 2018, which did not include a similar acceleration.

Regulatory costs increased by $2.1 million, or 16.5%, in 2018. This increase is primarily due to our assessment for deposit insurance. During the majority of 2018 we operated under the Credit Union Deposit Insurance Corporation (CUDIC) program, which calculates premiums based on the prior year-end deposit balance and a risk-based rate assessment. Our deposit balance at the end of 2017 (used to determine the 2018 assessment) was 9.8% higher year-over-year, and the base rate applied under the CUDIC program for 2018 was 6.4% higher. Our overall deposit insurance expense for 2018 was also impacted by our transition to the federal Canada Deposit Insurance Corporation (CDIC) program during the final two months of 2018.

Capital Expenditures

Capital spending in 2018 totaled $30.8 million, $17.1 million higher than the amount spent in 2017. The majority of our 2018 spending was attributed to technology investments in software to build on our existing infrastructure and to expand digital services for our members, a continuation of the work that began in 2017. Some of the notable software investments made in 2018 include enhancements to the digital membership opening platform, as well as expenditures associated with the early phases of work related to our new digital banking platform.

Capital Expenditures
Year ended December 31

in thousands of dollars	2018	2017
Leasehold improvements	937	124
Computer equipment	2,353	5,587
Software	26,300	6,741
Furniture and equipment	1,201	1,231
Total	30,791	13,683

Capital spending in 2019 is expected to be higher than 2018, and will be focused on further enhancing the member experience though both our existing service delivery channels, as well as new digital channels.

Loan Portfolio

Total loans, including leases, increased in 2018 by over $1.3 billion, or 9.0%, to $16.2 billion, before allowance for credit losses. Although not as strong as the $1.9 billion growth experienced in 2017, loan growth in 2018 was higher than planned. Overall loan growth in 2018 was managed in consideration of our objective to grow non-loan liquid assets during the first three quarters of the year in support of our transition from a provincial credit union to a federal credit union in the fourth quarter of 2018.

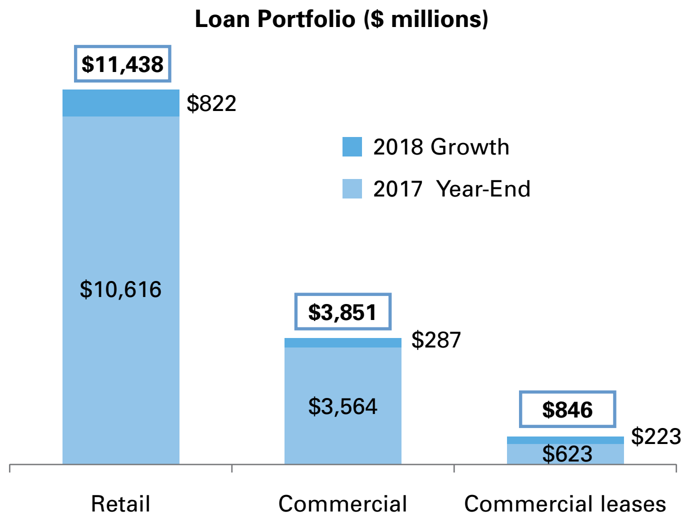
The mix of our overall loan portfolio shifted slightly in 2018. Compared to year-end 2017, retail mortgages decreased by 1.2% and commercial leases increased by 1.0%, as a per cent of the total loan portfolio. This shift favours a higher yield mix for our loan portfolio.

The table below provides a breakdown of our loan portfolios. Prior year values have been revised to reflect requirements applicable to federally regulated financial institutions, specifically in regards to the definition of high-ratio retail mortgages.

Loan Portfolio

Year ended December 31	2018				2017			
	Number	Total in millions of dollars[1]	Mix %	Average in thousands of dollars	Number	Total in millions of dollars[1]	Mix %	Average in thousands of dollars
Retail								
Mortgages:								
Conventional	28,578	6,570	40.7	230	28,847	5,825	39.4	202
Revenue	4,336	1,492	9.2	344	4,285	1,460	9.9	341
Progressive	78	2	0.0	26	48	11	0.1	229
Insured	11,215	1,928	11.9	172	11,432	1,964	13.3	172
High-ratio	15	3	0.0	200	33	5	0.0	152
Mortgage secured lines of credit	20,710	1,087	6.7	52	19,916	1,036	7.0	52
Subtotal mortgages	64,932	11,082	68.5	171	64,561	10,301	69.7	160
Other:								
Other lines of credit	139,127	152	0.9	1	143,374	149	1.0	1
Personal loans and leases	11,015	204	1.3	19	11,306	166	1.1	15
Subtotal other	150,142	356	2.2	2	154,680	315	2.1	2
Subtotal retail	215,074	11,438	70.7	53	219,241	10,616	71.8	48
Commercial								
Commercial loans	15,578	3,851	24.1	247	15,846	3,564	24.0	225
Commercial leases	11,744	846	5.2	72	6,421	623	4.2	97
Subtotal commercial	27,322	4,697	29.3	172	22,267	4,187	28.2	188
Subtotal retail and commercial	242,396	16,135	100.0	67	241,508	14,803	100.0	61
Accrued interest	–	27	–	–	–	21	–	–
Total loan portfolio	242,396	16,162	100.0	67	241,508	14,824	100.0	61

1 Before allowance for credit losses.

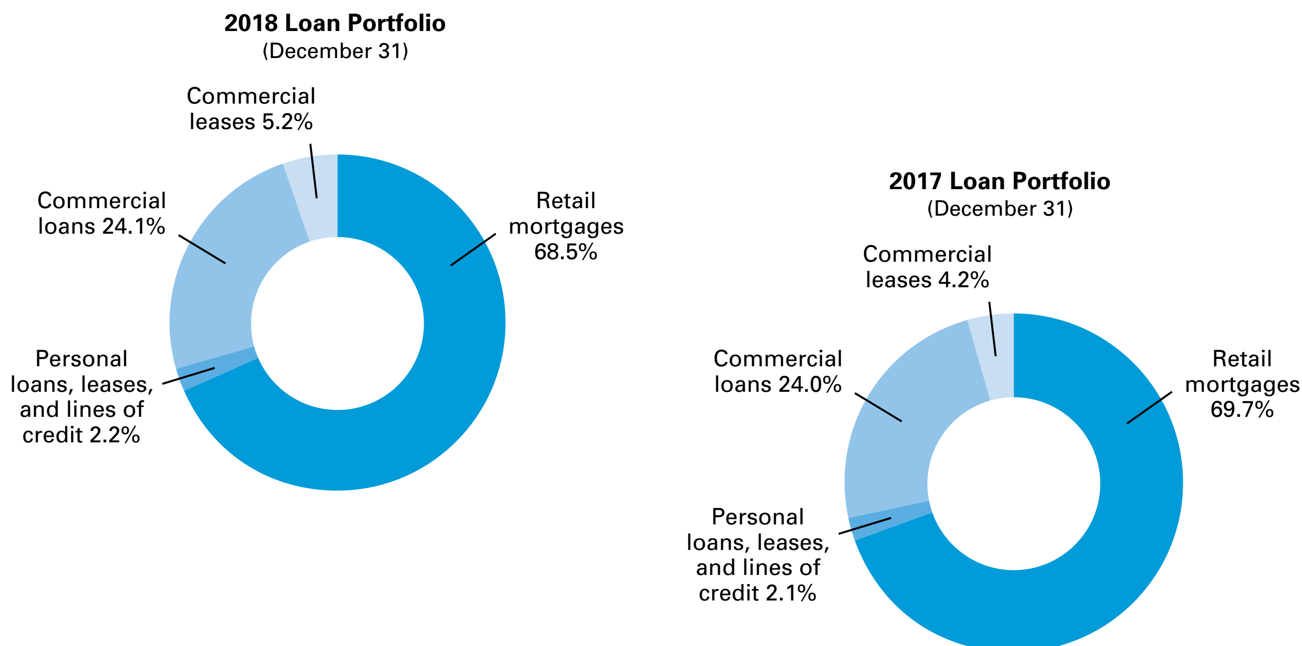


Our retail mortgage portfolio grew by $781 million, or 7.6%, notably lower than the $1.3 billion in growth generated in 2017. Slower growth of our mortgage portfolio reflected a general cooling of the housing market in our trade areas and was also moderated by our focus on growing our liquid asset portfolio in 2018. New mortgage underwriting guidelines established for federally-regulated financial institutions also impacted our mortgage growth. We adopted the new guidelines mid-year in alignment with our focus on member financial well-being and in preparation for becoming federally regulated. The 'stress test' guidelines, intended to ensure mortgage affordability and reduce risk for both borrowers and lenders, reduces the maximum amount of mortgage funding that certain borrowers may qualify for, which in turn impacts overall mortgage lending volumes.

Over 80% of our retail mortgage growth in 2018 was in fixed rate products as members responded to the rising interest rate environment. The prime lending rate increased twice in the second half of 2017 and three more times in 2018, highlighting the risk of variable rate borrowing. Our non-mortgage retail loan, lease and line of credit portfolio grew by $41 million, or 13.0%, in 2018, with the majority of this growth attributed to increased auto financing volumes.

Commercial loans (including mortgages, loans, and lines of credit) grew by $287 million in 2018, or 8.1%, to $3.9 billion. Growth of commercial loans in 2018 was significantly lower than the $563 million growth generated in 2017. As a percentage of our overall loan portfolio, commercial loans increased slightly to 24.1%, from 24.0% at year-end 2017. For commercial mortgages, which represent the majority of our commercial loan portfolio, growth of both fixed and variable rate products was similar. Continued steady growth in variable rate commercial mortgages was supported by our strong relationships with real estate developers in the multi-family construction market, which remained healthy in 2018. Term commercial mortgage lending was constrained by strong competition in this market, which made yields on this business less attractive. Growth of non-mortgage commercial loans and lines of credit, approximately 5% of our total commercial loan portfolio, was flat in 2018.

Our equipment financing (commercial leases) portfolio grew by $223 million in 2018, or 35.8%, to $846 million from $623 million at year-end 2017. Growth in 2018 represents a significant change from 2017, which saw the portfolio decrease by $6 million during the year. Increased sales volumes during the year were supported by an expansion and deepening of relationships within our network of equipment dealers that have partnered with us to offer our leasing program to their customers. As a trade-off, this channel offers slightly lower yields than are available through direct-to-purchaser originations. Unlike our credit union operations, our equipment leasing division has benefitted from the ability to operate across Canada for several years. In 2018, the majority of new sales growth came from dealer partners located in Ontario. As a percentage of our total loan portfolio, equipment leases increased in 2018 by 1.0%, to 5.2%, from 4.2% at year-end 2017.



Loan Portfolio Geographical Distribution
Year ended December 31
in millions of dollars

	Retail	Mix %	Commercial	Mix %	Equipment Leasing	Mix %	Total	Mix %
Not Secured	211	1.8	237	6.1	–	0.0	447	2.8
Secured								
AB	8	0.1	176	4.6	162	19.2	346	2.1
BC	11,188	97.7	3,232	83.6	266	31.5	14,686	90.9
MB	–	–	47	1.2	24	2.9	73	0.5
NB	–	–	–	–	7	0.8	7	–
NF	–	–	–	–	3	0.3	3	–
NS	–	–	–	–	2	0.2	2	–
NT	–	–	–	–	–	–	–	–
ON	44	0.4	173	4.5	329	38.9	545	3.4
PE	–	–	–	–	1	0.2	1	–
QC	–	–	–	–	35	4.1	35	0.2
SK	–	–	–	–	16	1.9	16	0.1
YT	–	–	–	–	–	–	–	–
Total	11,451	100.0	3,865	100.0	846	100.0	16,162	100.0

Deposits and Borrowings

Deposit growth to fund continued positive loan growth and liquid asset growth, in preparation for our planned transition from a provincially regulated credit union to a federally regulated credit union, was an important objective in 2018. Deposit growth in 2018 was very strong at $2.0 billion, or 14.0%, our highest annual deposit growth result on record. The majority of our growth, $1.6 billion, was generated through our core retail and commercial members, with strong growth of $368 million also experienced through our network of external deposit agents. Growth through our institutional depositors was relatively flat at $36 million, or 2.1%. Reduced institutional depositor growth was expected as a result of our transition from the B.C. provincial deposit insurance to the federal deposit insurance program.

Deposit Portfolio by Source

As at December 31 in millions of dollars	2018	2017	Change from 2017 $	 %
Core retail and commercial members	12,287	10,680	1,607	15.0
External deposit agents	2,306	1,938	368	19.0
Institutional depositors	1,784	1,748	36	2.1
Total	16,377	14,366	2,011	14.0

Our overall deposit mix by source shifted in 2018, with the percentage of total deposits provided by both core member (retail and commercial) and external agents increasing, while the proportion of our portfolio provided by institutional depositors decreased.

Deposits by Source – Mix

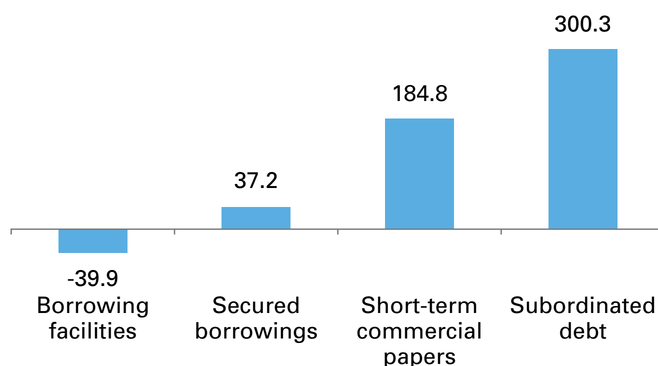
As at December 31 As a percentage of total deposits	2018	2017
Core retail and commercial members	75.0	74.3
External deposit agents	14.1	13.5
Institutional depositors	10.9	12.2
Total	100.0	100.0

In addition to changes in our source mix, we also saw a shift in our deposit portfolio towards fixed term deposits. Five consecutive Bank of Canada interest rate increases, beginning mid-2017 and continuing through 2018, expanded the rate premium available to members through longer term deposits, making these products more attractive. The attractiveness of term products relative to demand deposit products was further enhanced by term deposit campaigns that we initiated early in 2018 to strengthen our liquidity position. Comparing our average deposit balances in 2018 to 2017, term and registered plan deposits (primarily term products) as a percentage of total deposits increased to 63.8% from 52.4%. The resulting shift in our deposit portfolio towards higher rate term products, in addition to generally higher market interest rates, increased the interest rate paid on our average deposits in 2018 by 58 basis points, to 1.62%, from 1.04% in 2017.

Our total borrowings, including subordinated debt, increased by $482 million in 2018, or 33.6%, to $1.9 billion from $1.4 billion at year-end 2017. Our lines of credit and short-term borrowing facilities with Central 1 and other financial institutions were paid down to zero in 2018, and our secured borrowings, primarily through the Canada Mortgage Bond (CMB) program, increased by $37 million, or 3.3%. The majority of our new borrowing in 2018 was sourced through capital markets. In 2018 we completed two subordinated, long-term, debt issues with a combined value of $300 million. These debt issues were made possible through our DBRS long-term issuer rating obtained in January 2018. These notes provided a source of increased funding and, due to their subordinated structure, also provide regulatory capital benefits. The growth in our short-term commercial paper debt was primarily the result of an 18 month, $175 million, floating note issued in the third quarter of 2018.

Borrowings by Source

Year ended December 31 in thousands of dollars	2018	2017	Change from 2017 $	 %
Borrowing facilities	–	39,937	(39,937)	(100.0)
Secured borrowings	1,155,211	1,118,025	37,186	3.3
Short-term commercial papers	464,278	279,523	184,755	66.1
Subordinated debt	300,292	–	300,292	–
	1,919,781	1,437,485	482,296	33.6



Risk Management

To achieve our objectives and goals, we understand that we must selectively and prudently take and manage risks within our established risk appetite and tolerances, and that a strong risk culture and approach to managing risk is fundamental to our success. Our risk management framework enables us to understand the risks that we are taking and ensure that amount of such risk is acceptable by ensuring adequate governance is in place and by developing the necessary policies, processes, controls and reporting required to monitor and manage these risks.

The Enterprise Risk Management group (ERM), a department within Group Risk Management (GRM), develops and maintains the Enterprise Risk Management Framework (ERMF). This framework encompasses risk principles, risk cultures, risk governance structure and management, risk appetite and risk inventory.

Risk Principles

At Coast Capital, we believe in, and support the need for a strong risk culture rooted in the following principles:

1. **We all understand that we take risk every day.** As part of our strategy to grow our business, we recognize the need to take acceptable risks, and manage the level of exposure it brings us, while also protecting our members' financial well-being.
2. **We are all responsible for managing the risk that we take on in a prudent and balanced way.** Certain risks are clearly owned, understood, and actively managed by management, with an understanding that all employees, individually and collectively, have the responsibility of managing the day-to-day risks of their job.
3. **We integrate managing risk into everything we do.** We integrate risk management disciplines and activities into our daily routines, decision-making, and strategy in a systematic, structured, and timely manner (as appropriate). We also understand that responsibility for managing risk spans all areas, including relationships with third parties.
4. **We have a culture that supports transparent and effective communication.** We recognize that mistakes happen, and that we need to recover quickly and gracefully when they occur. We support a culture that ensures that matters relating to risk are communicated and escalated in a timely, accurate, and forthright manner. It is important to understand how mistakes happen so that we can work together to quickly fix them and mitigate the risk going forward.
5. **We support the independent oversight provided by the risk management division.** While acknowledging that the business "owns the risk," we also understand the need for independent and objective review of risk policies, monitoring, and reporting.

To support our Risk Principles, we have adopted the "Three Lines of Defence" approach. Figure 1 below describes the respective accountabilities of each line:

First Line of Defence	Second Line of Defence	Third Line of Defence
Business Segment and Corporate Line Accountabilities	**Governance, Risk, and Oversight Function Accountabilities**	**Internal Audit Accountabilities**
IDENTIFY AND CONTROL	**SET STANDARDS, ASSESS AND CHALLENGE**	**INDEPENDENT ASSURANCE**
• Identify and assess the risk within the respective business unit and assess the impact of risks to the respective business units • Establish appropriate mitigating controls • Oversee and report on the business line's risk profile and supporting operations within the approved risk appetite • Ensure timely and accurate escalation of material issues • Deliver training, tools and advice to support its accountabilities	• Establish and communicate enterprise governance, risk and control strategies, policies, and practices • Monitor and report on compliance with risk appetite and policies • Provide effective, objective assessment of risk management practices, processes, controls, and assessments prepared by the First Line of Defence • Review and contribute to the monitoring and reporting of our risk profile • Provide training, tools, and advice to support the First and Second Lines in carrying out their accountabilities	• Verify independently that our ERMF is appropriately designed and operating effectively • Validate the effectiveness of the First and Second Lines in fulfilling their mandates and managing risk

Figure 1: Three Lines of Defence

Risk Culture

At Coast Capital, we strive to create a risk culture that promotes accountability, fosters learning through past experiences, and encourages open communication and transparency on all aspects of risk taking. Our risk culture embodies the "tone at the top," which is set by the Board of Directors (Board) and the Executive Committee (EXCO). It informs, and is informed by, our mission, corporate values, professional standards, and conduct. The governing objectives developed by the Board and EXCO describe the attitudes and behaviours that we seek to foster among our employees in building a culture where all employees understand the importance of managing risk and the role they play.

Risk Governance and Management

We employ a risk management structure that emphasizes and balances strong central oversight and control of risk with clear accountability for—and ownership of—risk within each business line and corporate function.

Our Risk Principles emphasize that managing risks is a shared responsibility and that everyone plays a role in effective management of risks within the desired risk appetite, as outlined in Figure 2 below.

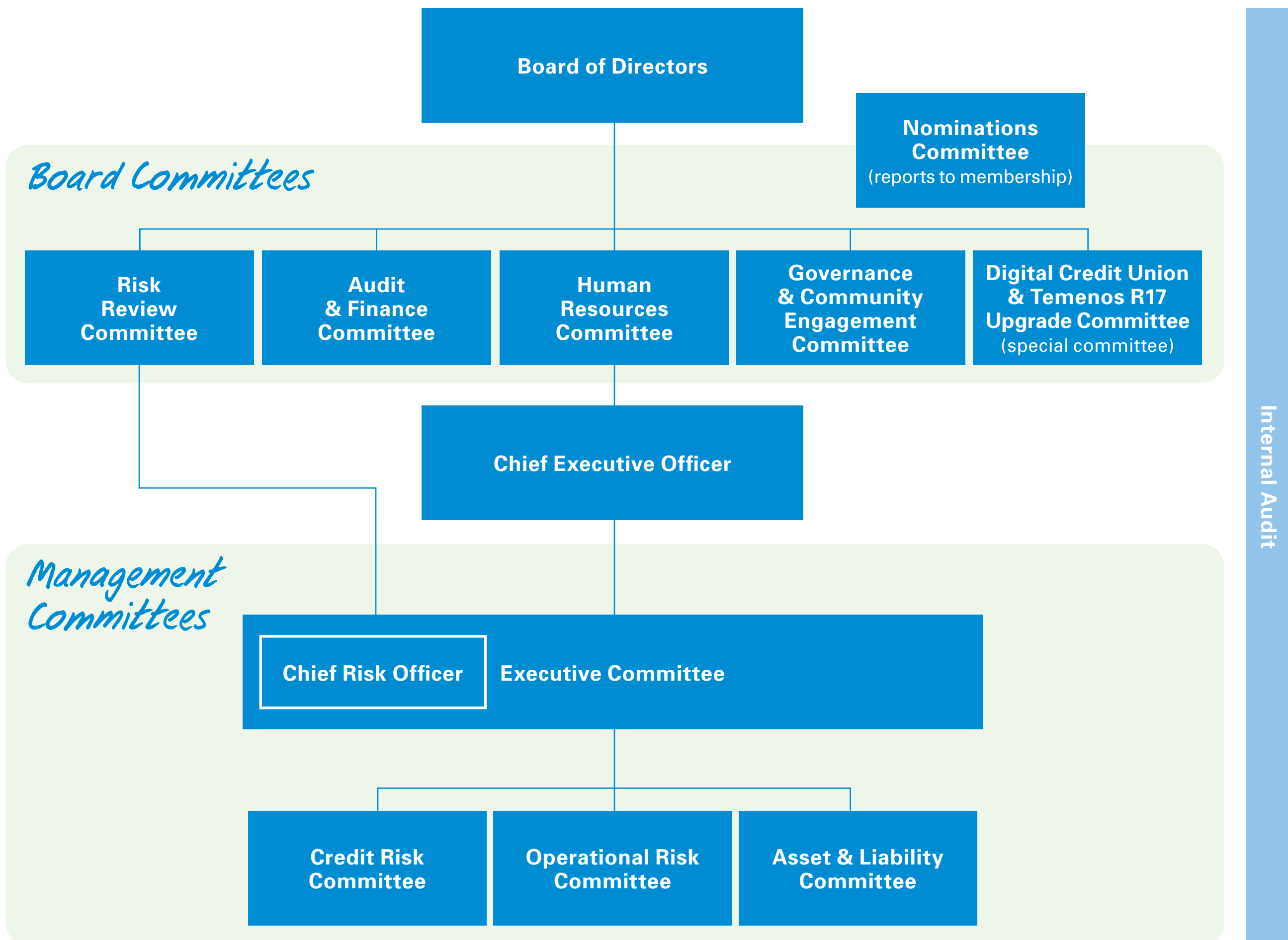


Figure 2: Coast Capital's Risk Management Governance Structure

Roles and Responsibilities of Board of Directors and Board Committees

- The Board oversees and approves the strategic plans and priorities of Coast Capital related to the management of capital and liquidity, including annual operating and capital expenditure budgets and operating plans, taking into account the risk impact of strategic decisions and the purpose, mission, vision and values of Coast Capital. The Board approves the risk appetite and provides risk oversight, including monitoring and evaluation of key risks by ensuring appropriate risk frameworks and policies are in place. The Board fulfills its oversight responsibilities through its established committees.
- The *Risk Review Committee* (RRC) is responsible for overseeing our risk profile and performance against the defined risk appetite. The RRC approves the ERMF and related frameworks and policies to manage the risk to which we are exposed.
- The *Audit and Finance Committee* (AFC) is responsible for overseeing our financial reporting and internal control activities; assisting the Board in fulfilling its responsibilities for oversight of capital and liquidity management and ensuring the independence and evaluating the performance of the Internal Audit and external audit functions.
- The *Human Resources Committee* (HRC) is responsible for overseeing the people-related risks, including employment practices and workplace health and safety, and ensures compensation programs appropriately align to, and support Coast Capital's risk appetite.
- The *Governance & Community Engagement Committee* (GCEC) is responsible for overseeing corporate governance practices to ensure alignment with best practices, regulatory expectations and our purpose and values.
- The Digital Credit Union (DCU) and Temenos R17 Upgrade (R17) Committee (Committee) is responsible for overseeing the governance of Digital Credit Union and Temenos R17 Upgrade projects.

Roles and Responsibilities of Other Risk Management Committees

- The EXCO is responsible for overseeing the overall governance, operations, and activities of Coast Capital; these activities include but are not limited to corporate strategy, business & financial performance, income, liquidity and capital performance and risk appetite. EXCO defines our overall risk strategy, in consultation with and subject to approval by the Board. Each member of EXCO is responsible for developing, executing, and managing strategies for their business areas, and ensuring such strategies are aligned with our risk appetite.
- The *Credit Risk Committee* (CRC) is responsible for overseeing key credit risks and controls to ensure alignment with the risk appetite of Coast Capital. These responsibilities include but are not limited to, identification of emerging risks/risk events, development of action plans to treat risks, assignment of action plan owners, escalation of issues to the EXCO and/or RRC and reporting risk appetite and measures to the RRC.
- The *Operational Risk Committee* (ORC) is responsible for overseeing the effective identification and management of operational risks and internal controls across Coast Capital. These responsibilities include but are not limited to, identification of emerging risks/risk events, development of action plans to treat risks, assignment of action plan owners, escalation of issues to the EXCO and/or RRC and reporting risk appetite and measures to the RRC.
- The *Asset and Liability Committee* (ALCO) is responsible for overseeing the balance sheet (including capital management, funding and liquidity management, and asset liability management) both under normal operating conditions as well as in periods of stress. These responsibilities include but are not limited to, identification of emerging risks/risk events, development of action plans to treat risks, assignment of action plan owners, escalation of issues to the EXCO and/or RRC and reporting risk appetite and measures to the RRC.

Risk Appetite

Our risk appetite is the aggregate level and types of risk that we are willing to accept, or avoid, in order to achieve our strategic and business objectives.

As we endeavour to improve our members' financial well-being, we consider the risks associated with the strategies available to achieve this goal, our capacity to take such risks, and our appetite for such risks. Risk appetite considerations are an integral part of management decision-making, guided by Board oversight and approval of management actions. This includes considering risk appetite in short- and long-term strategic planning, in budget planning, and in assessing new products, services, activities, and markets.

Our risk appetite is both driven by and informs:

- Coast Capital's strategy
- Coast Capital's risk principles
- Our risk capacity and constraints

Risk Inventory

We define risk as the possibility that an event will occur and adversely affect the achievement of our objectives. The ERMF defines and categorizes risks as outlined below:

- **Strategic Risk:** The risk that business strategies are ineffective, unclear, not executed effectively, or not responsive to changes in the external environment (economic, political, competition, industry and customer) impacting the ability to achieve organizational objectives.
- **Regulatory Risk:** The risk of non-compliance with governing legislation.
- **Capital, Liquidity and Market Risk:** The risk of inappropriate management of capital, inability to satisfy cash flow obligations, interest rate fluctuations and volatile foreign exchange markets impacting the organization's capacity to grow and execute its business model.
- **Credit and Counterparty Risk**: The risk of loss emanating from a borrower or counterparty failing to meet their obligation in accordance with contractual terms or a decrease in the value of the assets due to a decrease in the credit quality of the borrower, counterparty guarantor or the assets (collateral) supporting the credit exposure.
- **Operational Risk:** The risk of loss resulting from people, inadequate or failed internal processes and systems, or from external events. It includes legal risk but excludes strategic and reputational risk.

Reputational risk is an outcome that may arise from failure to manage key risks. The impact of reputational damage is considered when assessing key risks.

Risk Identification and Assessment

Risk identification and assessment is focused on recognizing and understanding existing risks, risks that may arise from new or evolving business initiatives and risks that are emerging as a result of the changing business, economic, and competitive environment.

Our objective is to establish and maintain an integrated risk identification and assessment process that:

- Considers how risk types intersect
- Supports the identification and assessment of inherent risk
- Supports the identification and assessment of emerging risk
- Identifies existing controls and evaluates the effectiveness of those controls
- Assesses residual risk and determines the appropriate risk response and mitigation strategies
- Assesses the effectiveness of the mitigation strategies

Risk Measurement

The ability to quantify risk is a key component of our risk management process. Our risk measurement processes align with regulatory requirements such as adequacy of capital and liquidity levels, stress testing, and maximum credit exposures guidelines established by regulators. We have processes in place to measure and quantify risks to provide accurate and timely measurements of the risks that we assume.

Strategic Risk

Strategic risk is the risk related to business strategies being ineffective, unclear, not executed effectively, or not responsive to changes in the external environment (economic, political, competition, industry and customer) impacting the ability to achieve organizational objectives.

We ensure that its strategic risks align with the risk appetite set by the Board. The EXCO and the Senior Leadership Team (SLT) evaluate strategic risks with consideration of the strategic goals established for Coast Capital. A robust Strategic Risk Management Framework and a set of supporting protocols to identify, assess, communicate, manage, monitor and report on Strategic Risk to the EXCO and RRC are in place.

Regulatory Risk

Regulatory Risk is the risk that a flaw in design or operation, human error, oversight, or indifference results in not conforming to legal and/or regulatory requirements. Our approach to managing and mitigating Regulatory Risk is comprised of: Risk Identification and Assessment, Control, Testing, Monitoring and Reporting. We have implemented the Regulatory Compliance Management Policy to establish the required standards, limits, processes, organizational structures and personnel requirements that we will have in place to meet its compliance obligations.

Risk Information Specific to Our Financial Reporting

(Shaded information that follows on pages 40–44 are an integral part of the audited financial statements)

Capital, Liquidity and Market Risk

Capital, liquidity and market risk is the risk of insufficient acquisition or inappropriate management of capital; inability to satisfy cash flow obligations; and risk of interest rate fluctuations and volatile foreign exchange markets that impact our capacity to grow and execute its business model. Capital, liquidity and market risk includes capital management risk, funding management & liquidity risk, foreign exchange risk, market risk, interest rate risk, pricing risk and securitization risk.

Capital Management

Regulatory Capital Requirements

On November 1, 2018, Coast Capital continued as a federal credit union under the *Bank Act*. Coast Capital manages its capital in accordance with its internal policy as reviewed and approved by its Board on an annual basis, with review and recommendations and input coming from its RRC and its AFC. The internal policy includes considerations of federal regulations and guidelines as set out by the *Bank Act* and the Office of the Superintendent of Financial Institutions (OSFI) Capital Adequacy Requirements, and those elements became effective on November 1, 2018.

Prior to continuance as a federal credit union, Coast Capital adhered to regulatory capital adequacy requirements set by the Financial Institutions Commission of British Columbia (FICOM) based on the ratio of capital to risk-weighted assets.

The move to OSFI regulation changed the risk weightings assigned to the different assets we hold, and changed how we calculate our regulatory capital. Our capital is managed in accordance with requirements of the Basel III Capital Adequacy Accord (Basel III). In 2018 we have implemented processes to measure, track, and report our regulatory capital ratios based on OSFI guidelines, which are based on the Basel III requirements.

We remained fully compliant with the applicable regulatory capital requirements throughout the year ended December 31, 2018.

Maintaining a Sustainable Level of Regulatory Capital

Sustainable business growth and expansion of our helpful products and services depends on our ability to maintain a healthy capital ratio. Retained earnings growth remains our primary source of capital, which is generated through profitable business operations, underscoring the importance of our pricing decisions and our efforts to manage expenses prudently to ensure we earn sufficient returns.

In accordance with federal capital adequacy requirements, Coast Capital must maintain a minimum capital base, plus an incremental internal target, based on a ratio of capital to risk weighted assets.

In accordance with Basel III, the minimum capital base is comprised of;

- Tier 1 capital, the most permanent and subordinated forms of capital and consists of CET 1 capital and Additional Tier (AT) 1 capital; and
- Tier 2 capital, which consists of supplementary capital instruments.

In accordance with OSFI's requirements, the minimum regulatory capital ratios, including a 250 basis point capital conservation buffer, are 7.0% CET1, 8.5% Tier 1 and 10.5% Total Capital.

Coast Capital uses the Standardized Approach for calculating risk-weighted assets for capital measurement purposes. Under the Standardized Approach, Coast Capital uses OSFI-recognized external credit rating agencies to determine the credit risk ratings of exposures. The external credit rating agencies used are Standard & Poor's, Moody's and DBRS. To assign risk weights to the exposures of Coast Capital based on the credit risk ratings, we use OSFI's prescribed methodology under the Standardized Approach. The capital adequacy requirements also require the allocation of capital to support operational risk. Coast Capital uses the Basic Indicator approach to measure operational risk.

OSFI also provides additional guidance regarding the treatment of non-qualifying capital instruments that specifies that certain capital instruments, which were eligible capital instruments under provincial guidelines prior to continuance as a federally regulated institution, would be subject to inclusion under the OSFI CAR Guidelines and a 10% phase-out per year starting at continuance.

2018 Impacts on Capital Ratio

Capital Structure and Regulatory Ratios

The following table outlines the regulatory capital and risk-weighted assets (RWA) used to calculate regulatory capital ratios.

Year ended December 31
in thousands of dollars

Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	29,222
2	Retained earnings	1,180,716
3	Accumulated other comprehensive income (and other reserves)	(3,238)
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	–
6	**Common Equity Tier 1 capital before regulatory adjustments**	1,206,700
Common Equity Tier 1 capital: regulatory adjustments		
28	**Total regulatory adjustments to Common Equity Tier 1**	82,946
29	**Common Equity Tier 1 capital (CET1)**	1,123,754
Additional Tier 1 capital: instruments		
44	Additional Tier 1 capital (AT1)	–
45	Tier 1 capital (T1 = CET1 + AT1)	1,123,754
Tier 2 capital: instruments and allowances		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	–
47	Directly issued capital instruments subject to phase out from Tier 2	300,000
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	–
50	Collective allowances	36,832
51	Tier 2 capital before regulatory adjustments	336,832
Tier 2 capital: regulatory adjustments		
57	**Total regulatory adjustments to Tier 2 capital**	–
58	**Tier 2 capital (T2)**	336,832
59	**Total capital (TC = T1 + T2)**	1,460,586
60	**Total risk-weighted assets**	9,308,607
Capital ratios		
61	**Common Equity Tier 1 (as percentage of risk-weighted assets)**	12.07
62	**Tier 1 (as percentage of risk-weighted assets)**	12.07
63	**Total capital (as percentage of risk-weighted assets)**	15.69
OSFI target		
69	Common Equity Tier 1 capital target ratio	7.00
70	Tier 1 capital target ratio	8.50
71	Total capital target ratio	10.50
Capital instruments subject to phase-out arrangements		
84	Current cap on T2 instruments subject to phase out arrangements	100.00
85	Amounts excluded from T2 due to cap (excess over cap after redemptions and maturities)	–

On December 31, 2018, our total capital ratio, including Tier 1 and Tier 2 capital, was 15.69%. The increase is attributable to activities that benefit the capital adequacy ratios including borrowings in the form of subordinated debentures and increases in retained earnings as a result of profitable growth. Growth of assets with a positive risk weighting, which we experienced in 2018, has an immediate impact on the capital ratio denominator; however, the income generated by those assets will generally occur over time, accumulating in retained earnings and contributing to capital growth in future periods. Therefore, the main factor that increased the capital ratio in 2018 was an increase in borrowings in the form of subordinated debentures issued during the year.

Significant factors impacting our 2018 total capital ratio, calculated in accordance with federal requirements:

- Risk-weighted asset growth of 10.3% was driven by strong overall asset growth of 15.1%, of which a significant portion was in loan growth which requires a relatively higher amount of capital allocation in comparison to cash resources and financial investments. Coast Capital holds liquid assets primarily in securities issued or guaranteed by sovereigns, provinces or municipalities which are assigned a relatively lower risk weight.
- As an additional tool for raising and maintaining sufficient capital levels, in January 2018 we obtained a DBRS long-term issuer rating of BBB (high). This rating provides us with the ability to access capital markets to generate new sources of capital funding if required. In May and October of 2018, we successfully raised $300 million of additional capital in the form of subordinated debentures, which are included in Tier 2 capital subject to the phase-out requirements. The subordinated debentures are due on May 3, 2028 and October 29, 2030, and Coast Capital may redeem the notes on or after May 3, 2023 and October 29, 2025, respectively.
- As a result of the capital issuances in 2018, our total capital growth of $387 million, or 36%, was significantly higher than the growth in prior years. Furthermore, our increase in retained earnings from profitable operations contributed an additional $82 million.

Leverage Ratio

The Basel III capital reforms introduced a non-risk-based leverage ratio requirement to act as a supplementary measure to the risk based capital requirements. Under OSFI's Leverage Requirements Guideline, federally regulated deposit-taking institutions are expected to maintain a Basel III leverage ratio that meets or exceeds 3% at all times. The leverage ratio is defined as the Tier 1 capital divided by unweighted on-balance sheet assets and off-balance sheet commitments, derivatives and securities financing transactions, as defined within the requirements.

As detailed in the table below, our leverage ratio stood at 5.62% as at December 31, 2018 and exceeded current requirements.

Year ended December 31
In thousands of dollars

On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	19,318,265
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	82,946
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	19,235,319
Derivative exposures		
4	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	4,234
5	Add-on amounts for PFE associated with all derivative transactions	6,396
11	**Total derivative exposures (sum of lines 4 to 10)**	10,630

Securities financing transaction exposures		
12	Gross SFT assets recognised for accounting purposes (with no recognition of netting), after adjusting for sale accounting transactions	297,811
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(297,811)
14	Counterparty credit risk (CCR) exposure for SFTs	127,879
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	127,879
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	4,330,299
18	(Adjustments for conversion to credit equivalent amounts)	(3,694,495)
19	**Off-balance sheet items (sum of lines 17 and 18)**	635,804
Capital and Total Exposures		
20	**Tier 1 capital**	1,123,754
21	**Total Exposures (sum of lines 3, 11, 16 and 19)**	20,009,632
Leverage Ratios		
22	**Basel III leverage ratio**	5.62

Monitoring Capital Adequacy Risk

Our Internal Capital Adequacy Assessment Process (ICAAP) is jointly led by our Finance and Group Risk Management teams. The ICAAP is reviewed annually by the RRC with additional review and approval by the Board. The ICAAP provides a framework for determining the amount of capital that we require to manage unexpected losses arising from adverse economic and operational conditions. Modelling and stress testing, applied to near-term and longer-term planning, forecasting, and strategic objectives, is a key component of the ICAAP.

Our ICAAP includes the following elements:

- Identification and assessment of material risks and of risk mitigants.
- Internal calculation of required capital levels based on the financial plan for the upcoming fiscal year and on current and prospective risk profiles.
- Assessment of internal capital targets for reasonableness relative to internal and regulatory capital requirements
- Projection of capital levels forward over multiple years and assessment against regulatory and internal capital requirements.
- Stress testing, which assesses the potential impact of severe but plausible events, such as severe economic recession, liquidity and interest rate shocks, earthquakes, and cyberattacks.
- Monitoring and reporting, which ensures that Senior Management regularly monitors required capital levels against available capital on a regular basis. The results of this assessment are shared with EXCO and Board Committees on a regular basis. The ICAAP Report is drafted by Senior Management and approved by the Board on an annual basis. In between regular ICAAP cycles, the ICAAP is updated (if needed) to reflect material changes in the risk profile of the organization.
- Internal control review, which describes the governance process in place to ensure adequate review and challenge of ICAAP conclusions by Senior Management, the Board, and Internal Audit.

Application of the ICAAP in 2018 confirms that our capital levels are healthy and sufficient for achieving our strategic plans and for successfully navigating through all stress scenarios considered.

Liquidity and Funding Risk

Liquidity and funding risk is the risk of insufficient acquisition or inappropriate management of funding which threatens the capacity to grow and the exposure to loss as a result of the inability to satisfy cash flow obligations in a timely and cost-effective manner, impacting our ability to achieve business objectives.

Risk Governance

Coast Capital prudently manages its liquidity and funding risk to ensure sufficient liquidity for its business strategy as well as to withstand a range of stresses by maintaining sufficient levels of liquidity.

The Board defines the overall liquidity risk tolerance and ensures that it supports Coast Capital's business strategy, its role in the financial system, and to ensure that the deposits of members are protected. The Treasury and Finance departments manage liquidity risk within established limits and ensure business and strategic planning aligns with those limits. GRM and ALCO provide independent oversight to ensure that appropriate risk management policies are followed. Ultimate oversight is provided by the RRC.

Coast Capital's liquidity and funding risk policy is reviewed on an annual basis by ALCO, RRC, AFC, and the Board, with approval by the Board.

Risk Management

Coast Capital was granted approval by the Minister of Finance to operate as a federal credit union effective November 1, 2018. As a federal credit union, Coast Capital is required to adhere to guidelines and requirements as set out by OSFI, including guidelines and requirements around maintaining adequate and appropriate forms of liquidity.

Liquidity Adequacy Requirements

Prior to continuance as a federally regulated financial institution, Coast Capital adhered to regulations set by the *Financial Institutions Act* (FIA) to manage its liquidity. Upon continuance, Coast Capital manages its liquidity to comply with the regulatory liquidity metrics in the OSFI Liquidity Adequacy Requirements (LAR) Guideline. These metrics include the Liquidity Coverage Ratio (LCR), based on the Basel III liquidity framework, and the OSFI-designed Net Cumulative Cash Flow (NCCF) supervisory tool. The LCR requires that banks maintain a sufficient stock of unencumbered High-quality liquid assets (HQLAs) to meet net short-term financial obligations over a thirty day period in an acute stress scenario. In addition to these minimum standards, Coast Capital establishes a Board limit above the OSFI minimum for each of these measures, along with management limits that are used for the day to day management of liquidity.

Coast Capital remained fully compliant with applicable regulatory requirements throughout the year ended December 31, 2018.

Supplemental Liquidity Management Activities

Contingency Funding Plan. We also maintain a liquidity Contingency Funding Plan which includes ongoing monitoring of our liquidity levels, as well as the actions to be taken, should we experience a liquidity event and was formulated taking into account the outcomes of our liquidity risk stress testing programs. The plan details the approach for analyzing and responding to actual and potential liquidity events, outlines an appropriate governance structure for the management and monitoring of liquidity events and establishes clear lines of responsibility, as well as invocation and escalation procedures and is regularly tested and updated.

Stress Testing Program. Coast Capital has a liquidity stress testing program that:

- considers extreme but plausible scenarios which capture both Coast specific and systemic market wide disruptions
- compares the outcomes of stress tests to the liquidity risk tolerance established by the Board
- informs the limit setting decisions of various liquidity metrics such as the LCR and NCCF
- provides information for assessing the adequacy of the Liquidity Contingency Funding Plan

Stock of Liquid Assets. The stock of HQLAs is designed to ensure continuous compliance with policy limits of the LCR and NCCF, internal liquidity stress tests, and tested periodically to ensure the eligibility for repurchase agreements and central bank pledging.

Coast Capital holds liquid assets in the form of cash and cash resources and marketable debt securities, including securities purchased under reverse repurchasing agreements. The financial investments are comprised primarily of securities issued or guaranteed by the Government of Canada, provinces or municipalities. As at December 31, 2018, liquid assets held by Coast Capital totaled $3.9 billion and represent 20% of total assets.

Liquid Assets
Year ended December 31

in thousands of dollars	2018
Cash and cash resources	46,947
Financial investments	
Securities issued or guaranteed by sovereigns	1,193,884
National Housing Act (NHA) mortgage-backed securities	346,537
Canada Mortgage Bonds	487,973
Securities issued by provinces or municipalities	765,424
Securities purchased through reverse repurchasing agreements	297,811
NHA mortgage-backed securities (reported as loans at amortized cost)	793,062
Total Liquid Assets	3,931,638
Total Assets	19,619,919
Encumbered Assets	1,163,122
Unencumbered Assets	2,768,516

Assets are considered to be HQLA if they can be easily and immediately converted into cash at little or no loss of value. The liquidity of an asset depends on the underlying stress scenario, the volume to be monetized and the timeframe under consideration. Nevertheless, certain assets, by their nature, are more likely to generate funds without incurring large discounts in sale or repurchase agreement (repo) markets sales even in times of stress.

Funding

To improve our ability to respond to and manage liquidity and funding requirements, we ensure that we have suitable diversification of funding sources across tenors and across products, markets, and providers of retail and wholesale liquidity including retail and commercial deposits, institutional deposits, debt capital markets, borrowing facilities, securitization, and repurchase agreements.

Coast Capital recognizes that diversification of funding sources reduces reliance on any single channel or source. In addition, funding relationships in which we can build a deeper connection with members (such as retail and commercial) provide more stability and are preferable to single point relationships (such as capital markets and institutional). This is also aligned with our stated purpose to help empower members to achieve what's important in their lives.

In order to maintain sound diversification, target limits by source have been established as part of the overall liquidity policy and are monitored regularly to ensure adherence. Those limits are established, taking into consideration, among other things, the volatility of the funding sources.

In addition to this, a monthly report is submitted to ALCO on Coast Capital's liquidity position which, among other items, covers the following areas:

- Concentration of funding for a number of different time horizons.
- Market-related monitoring tools such as:
  - Unsecured and secured funding costs for various tenors and by specific instruments issued
  - Current short term secured and unsecured funding spreads
  - Material balances held at central banks or other financial institutions
  - Trends in collateral flows, net balances, and stress test projections
  - Trends in cross border flows

We maintain borrowing facilities with Central 1 and other financial institutions, and make use of the NHA MBS and CMB programs. To expand and diversify our funding options, we obtained a DBRS short-term issuer rating (R-1 (low)) in 2016, and in January of 2018 we also obtained a DBRS long-term issuer rating (BBB (high)). These ratings demonstrate our sound financial position, providing assurance to our members and to capital market participants.

Maintaining healthy borrowing facilities and options is an essential element for managing short-term funding needs and for realizing on longer-term growth opportunities. The borrowing programs and facilities we currently maintain include:

- Lines of credit and short-term borrowing facilities with Central 1 other financial institutions. Borrowings through these facilities were fully repaid during 2018 and decreased by $40 million as a result.
- The NHA MBS and CMB programs which allow us to obtain low-cost funding through a process of securitizing existing mortgages, or using the NHA MBS as security in repurchasing agreements. The long-term nature of CMB program funding is especially attractive in periods of exceptionally low interest rates, as was the case in 2018. In 2018, our borrowing through these programs increased by $37.2 million.
- Short-term commercial paper based on our DBRS short-term issuer rating. Our short-term issuer rating of R-1 (low) was originally obtained in 2016 and was reconfirmed in 2017. Under this rating, in 2018 we issued $184.8 million in short-term notes, reflecting a continued favourable market response to our offer.
- Long-term subordinated debentures offered through capital markets. To further diversify our funding options, in January 2018 we obtained a DBRS long-term issuer rating of BBB (high). This supported activities later in the year which resulted in the issuance of two debentures totalling $300 million, further establishing Coast Capital's favourable presence with investors.

Contractual Obligations. Coast Capital's liquidity position is impacted by contracts that it enters into in the normal course of business that give rise to contractual obligations. Aside from the obligations related to deposits and borrowings discussed above, Coast Capital also has off-statement obligations from lease commitments and credit commitments. The contractual maturity of lease commitments is summarized below. Note 24 in the annual consolidated financial statements provides further information.

Maturity of Lease Commitments

As of December 31

in thousands of dollars	2018	2017
Not later than 1 year	15,535	15,268
Later than 1 year and less than 5 years	52,842	48,553
Later than 5 years	42,325	47,539
Total	110,702	111,360

Note 25 in the annual consolidated financial statements provides details of the mismatch between the contractual maturity of Coast Capital's on-statement assets and liabilities. These maturity gaps, under normal market conditions, are generally funded by members rolling over or renewing their deposits as, typically, credit union deposits are growing.

Details of contractual maturities and commitments to extend funds are a source of information for the management of liquidity risk and are monitored and reported to ALCO on a regular basis.

Credit and Counterparty Risk

Credit and counterparty risk is the risk of loss emanating from a borrower, guarantor or counterparty failing to meet their obligation in accordance with contractual terms.

Credit and counterparty risk is monitored and reassessed to track risk migration or deterioration. Risk Migration is reported to management and board committees to ensure that risk remains within tolerance.

Risk Management Overview

Credit and counterparty risk is created through the granting of loans and leases to individuals and business members. Risk includes credit default, credit concentration and settlement risk. Coast Capital supports a strong risk culture by maintaining a Credit and Counterparty Risk Management Framework and supporting policies that are designed to describe risk appetite, principles, methodologies, limits, roles and responsibilities, and controls to manage credit risk within the organization.

Risk Governance

The responsibility for managing credit and counterparty risk is enterprise-wide and shared broadly following the three lines of defence governance model. Coast Capital maintains a Credit and Counterparty Risk Management Framework and supporting policies that are designed to describe the principles, methodologies, roles and responsibilities, systems, controls, acceptable practices, and reports for managing credit and counterparty risk within the organization.

The Board, through its Risk Review Committee, delegates credit risk approval limits to the President & CEO and CRO on an annual basis. To facilitate day-to-day business operations, the CRO further delegates credit risk approval limits to individuals within a centralized Credit Risk Management function and the Retail business line, as necessary.

Each business line is responsible for adhering to the established credit risk assessment standards and must comply with established policies, exception procedures, and credit approval limits. Any credit decisions beyond their discretionary limits must obtain Credit Risk Management's approval.

Credit Risk Management is accountable for oversight of credit risk by developing frameworks, policies, and procedures that govern and control portfolio risks. The Credit Risk Committee oversees the management of credit risk and approves certain significant credit risk policies.

Credit Risk Mitigation

Coast Capital has documented framework, policies and procedures that set out the requirements for the mitigation of credit risk. The extent of the risk mitigation provided by the collateral security depends on the amount, type, and quality of the collateral security taken. In the retail and commercial business lines, collateral security is primarily non-financial and includes: residential and commercial real estate, including real estate under development, automobiles, and other business assets, such as equipment, inventory and accounts receivable. Coast Capital may take liquid assets, securities, and guarantees to reduce the risk in its credit exposures. Coast Capital uses a risk-based approach to property valuation when adjudicating loans collateralized by real estate. Third party valuations, such as appraisals and automated valuation models are used to support property values. Collateral values are monitored and periodically re-assessed depending on asset type based on external conditions to ensure that risk remains within established tolerance. Reporting is provided quarterly to the RRC.

Exposure to Credit Risk

The table below presents the maximum exposure to credit risk of financial instruments including both on and off our statement of financial position, before taking into account collateral held or other credit enhancements. For statement of financial position assets, the credit risk exposure equals their carrying amount. For financial guarantees granted, the exposure is the maximum amount that we would have to pay if counterparties called upon the guarantees. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure is the full amount of the committed facilities.

Maximum Exposure to Credit Risk

As at December 31, 2018

in thousands of dollars	Banking	Derivatives
On balance sheet		
Cash held at Central 1	164,026	
Investments held at Central 1	50,418	
Shares in Central 1	1,808	
Other investments	3,104,253	
Loans	16,124,695	
Derivative instruments	–	4,233
Accounts receivable	10,286	
	19,455,486	4,233
Off balance sheet		
Letters of credit	69,012	
Commitments to extend credit	4,261,287	
	4,330,299	–
Maximum exposure to credit risk	23,785,785	4,233

Credit Risk Mitigation

As at December 31, 2018 in thousands of dollars	Amounts in Consolidated Balance Sheet	Amounts Covered By: Financial Collateral Received or Pledged	Guarantees/ Credit Derivatives	Net Amounts
Financial Assets				
Loans				
Residential Mortgages	11,093,001	–	1,888,986	9,204,015
Personal Loans	358,340	20,778	–	337,562
Commercial Loans and Mortgages	3,865,443	5,879	–	3,859,564
Equipment Financing	845,632	–	–	845,632
Financial investments	3,099,444	–	–	3,099,444
Derivatives	4,233	–	–	4,233

Concentration Risk

Concentration risk arises through larger value exposures, where a number of borrowers are engaged in similar economic activities or are located in the same geographic region. Residential mortgages represent our largest concentration of loan assets at 69% of our total loan exposure. We carry out the majority of our lending activities in the Metro Vancouver, Fraser Valley, and southern Vancouver Island regions of B.C. and also carry out activities through branches located in areas of the mid-Island and Interior of B.C., specifically Courtenay and Kelowna. Residential real estate prices in our region of operation have experienced significant price increases in recent years and have started to moderate in 2018. Understanding that prices often move and fluctuate in cyclical patterns, we monitor our residential real estate exposure on an ongoing basis, including delinquency trending and modelling of price change impacts on collateral value. This monitoring, combined with sound underwriting practices, ensures our residential real estate risk exposure is maintained within an acceptable level.

Distribution of Loans by Credit Portfolio and Industry

As at December 31, 2018 in thousands of dollars	Outstanding Loans	%	Undrawn Commitments	Letters of Credit	Total Exposure
Retail Mortgages	11,078,858	69%	2,007,307		13,086,165
Retail Loans	356,196	2%	1,032,412		1,388,608
Commercial					
Accommodation and Food Services	167,049	1%	51,493	1,995	220,537
Construction	1,654,687	10%	1,015,210	50,247	2,720,144
Health Care and Social Assistance	93,962	1%	5,114	324	99,400
Management of Companies and Enterprises	31,419	0%	5,015	521	36,955
Manufacturing	48,349	0%	7,929	20	56,298
Other	121,213	1%	16,015	9,372	146,600
Professional, Scientific and Technical Services	15,055	0%	7,823	68	22,946
Real Estate and Rental and Leasing	1,568,827	10%	82,275	4,373	1,655,475
Retail and Wholesale Trade	102,024	1%	14,588	1,819	118,431
Transportation and Warehousing	887,056	6%	16,106	273	903,435
Total	16,124,695	100%	4,261,287	69,012	20,454,994

Counterparty Credit Risk

Over-the-counter derivative instruments are subject to credit risk because the counterparties to these arrangements may default on their obligations while the exposures have a positive value to Coast Capital at the time of the default.

- Investment and security portfolio, including derivative transactions, are transacted with approved counterparties.
- Risk is mitigated by netting agreements and approved issuer lists which focus on strong credit quality.
- Investment policy provides limits on issuers, asset classes, credit risk ratings, which reduces the risk exposure.
- In regards to managing this portfolio, Coast Capital actively manages compliance with all applicable limits.

Credit Risk Exposure to Derivatives

As at December 31, 2018 in thousands of dollars	Replacement Cost	Credit Risk Equivalent	Risk Weighted Asset
Interest rate swaps	3,844	9,314	1,863
Interest rate and currency options	–	–	–
Forward contracts	–	–	–
Equity options	389	1,316	263
Total	4,233	10,630	2,126

Market Risk

Market risk relates to interest rate and foreign exchange market fluctuations that can impact our profitability, capital and ability to achieve business objectives. The majority of our revenue is generated from the spread between the interest we earn on loans and the interest we pay on deposits. The mismatch between the timing and volume of loan and deposit maturities creates interest rate risk. If the maturity mismatch between loans and deposits results in deposit interest costs increasing at a faster pace than the interest earned from loans, our spreads will decline. We are additionally impacted by volume mismatches between variable rate loans and deposits. As our current statement of financial position profile has a larger proportion of variable rate assets versus variable rate liabilities, our income is compressed as interest rates decline.

Our treasury team use strategies to manage the spread between deposit and loan rates for different maturities, while making sure to stay within risk appetite policy limits. The treasury team also provides recommendations to our ALCO. ALCO meets regularly to review our interest rate risk profile in conjunction with the current economic environment and sets direction for management to develop and implement.

Asset and Liability Maturities

			2018			2017
As at December 31 in thousands of dollars	Assets	Liabilities and equity	Differential	Assets	Liabilities and equity	Differential
Variable rate	5,527,908	4,659,681	868,227	6,366,382	4,701,613	1,664,769
Interest sensitive						
Maturing within 1 year	2,858,101	6,957,808	(4,099,707)	2,013,574	6,192,232	(4,178,658)
Maturing between						
1-2 years 2020	2,342,843	2,844,396	(501,553)	1,303,739	1,387,400	(83,661)
2-3 years 2021	2,593,347	807,822	1,785,525	1,698,175	1,049,907	648,268
3-4 years 2022	2,709,092	447,800	2,261,292	2,513,359	323,094	2,190,265
4+ years 2023+	2,939,643	671,995	2,267,648	2,826,295	450,625	2,375,670
Non-interest bearing items[1]	648,985	3,230,417	(2,581,432)	326,986	2,943,639	(2,616,653)
	19,619,919	19,619,919	–	17,048,510	17,048,510	–

1 Assets include cash, accrued interest receivable, premises and equipment and other items. Liabilities and equity include accrued interest payable, retained earnings, Class B shares and other items.

Interest Rate Risk

Interest rate risk captures the effect of changing interest rates on earnings and economic value of equity. Interest rate risk results from mismatches in the maturities or repricing dates of the interest rate sensitive asset and liability position, both on and off the Consolidated Statement of Financial Position.

Structural interest rate risk arises when changes in interest rates affect the cash flows, earnings and values of assets and liabilities. Structural interest rate risk management seeks to balance earnings and economic value volatility while adhering to set risk limits and tolerances.

Duration mismatch between assets and liabilities drives structural interest rate risk. Interest rate movements may cause reduced earnings; and/or a reduction in the economic value of assets; and/or an increase in the economic value of liabilities. Structural interest rate risk is primarily comprised of duration mismatch risk and option risk embedded within the structure of products. Differences in the scheduled maturity, repricing dates or reference rates of assets, liabilities and derivatives causes duration mismatch. The net duration mismatch is managed to a risk tolerance using both on balance sheet exposures and derivatives. When product features allow customers to alter scheduled maturity or repricing dates this results in product-embedded option risk. These features include deposit early redemption options, loan prepayment options, and interest rate commitments on mortgages yet to be funded.

Changes in market interest rates can affect net interest income by altering the amount and timing of cash flows and spreads. Changes in market interest rates can also affect the economic value of assets, liabilities and off-balance sheet (OBS) positions. The economic value of an instrument is the present value of the expected net cash flows, discounted to reflect market rates. The economic value reflects a view of the sensitivity of value to changes in interest rates. Other factors impacting earnings sensitivity include forecasted business volumes, mortgage prepayments and deposit redemptions. The maturity or repricing profiles change daily in the ordinary course of business as members select different terms of mortgages, member loans and deposits.

Management of structural interest rate risk balances short-term income volatility against volatility in the long-term value of equity. Treasury manages this exposure to set risk tolerances as approved by ALCO and the Board.

Risk Metrics

Structural interest rate risk is measured mainly through earnings sensitivity and economic value sensitivity analysis. Earnings sensitivity is defined as the potential reduction in net interest income due to interest rate movements over a one-year horizon. Economic value sensitivity is defined as the potential reduction in economic value of equity due to interest rate movements.

Interest Rate Risk Exposures

Exposure to interest rate risk is controlled by managing the size of the static gap positions between interest sensitive assets and interest sensitive liabilities for future periods. Interest rate risk is managed to provide consistent earnings over time while also protecting economic value.

The estimate of sensitivity of net interest income to a change in interest rates is captured in the table below. The amounts represent the estimated change in net interest income over a one year period, beginning December 31, 2018, as a result of a 1% change in interest rates. The key assumptions used to calculate the estimated impacts include changes to interest rates, such as prime rate.

	2018	2017
1% increase in rates	$ 10,273	$ 26,632
1% decrease in rates	$ (13,660)	$ (21,948)

Based on the earnings sensitivity analysis above, and our sensitivity of economic value of equity analysis, our exposure to interest rate risk is within our established risk tolerances.

Operational Risk

Operational Risk is defined as the risk of loss resulting from people, inadequate or failed internal processes and systems, or from external events. Operational risk is inherent in the normal course of business and in all our activities. Operational risk includes process ineffectiveness, information breaches and cyber security, data governance, regulatory compliance, third party supplier/vendor failures, technology failures and damages, business disruption, internal and external theft and fraud, employment practice and workplace safety, model risk, and legal risk but excludes strategic risk. Failure of Coast Capital to adequately protect against operational risks, or to adequately respond to unexpected situations could adversely affect Coast Capital.

We have developed the Operational Risk Management Framework to ensure that all stakeholders understand how we manage operational risk. Operational risk is managed through collaboration between the First Line of Defence and the risk subject matter experts who are responsible for their specific operational risk and provide support and oversight to the First Line of Defence over the related operational risk.

Internal Controls over Financial Reporting and Disclosures

Internal Controls over Financial Reporting (ICFR) are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. However, because of its inherent limitations, ICFR may not prevent or detect misstatements on a timely basis. We are always looking for best practices in financial reporting and corporate governance. To this end, similar to public companies, we have a process in place to evaluate the design and operating effectiveness of our ICFR. Through this evaluation process we strive to continually strengthen our system of internal controls over financial reporting.

Critical Accounting Estimates

This section describes areas in our financial statements where we have made judgments. Where possible, we indicate the impact on our estimate if our assumptions were changed. Our estimates are well-documented and appropriate.

Allowance for Credit Losses

Coast Capital adopted an expected credit loss (ECL) model in the provision of the allowance for expected credit losses, which is applied to loans and debt securities classified at amortized cost and loan commitments and financial guarantee contracts that are not measured at fair value through profit and loss.

The ECL model requires recognition of credit losses based on 12 months of expected losses from the date the financial asset is first recognized (Stage 1) and the recognition of lifetime expected losses on performing loans that have experienced a significant increase in credit risk since initial recognition (Stage 2).

The determination of a significant increase in credit risk takes into account many factors and will vary by product and risk segment. The main factors considered in making this determination are relative changes in probability-weighted probability of default (PD) since origination and certain other criteria such as 30-days past due, qualitative management review, and other indicators of significant increase in credit risk. The allowance for expected credit losses in Stage 2 is higher than those in Stage 1 as a result of the longer time horizon associated with this stage. A financial asset is recognized as (Stage 3) where objective evidence that the asset is impaired has been identified. Stage 3 requires the provision of lifetime credit losses.

Coast Capital considers past events, current market conditions and reasonable supportable information about future economic conditions, in determining whether there has been a significant increase in credit risk, and in calculating the amount of expected credit losses. Future economic conditions are based on an unbiased, probability-weighted assessment of possible future outcomes. In considering the lifetime of an instrument, Coast Capital uses the contractual period adjusted for pre-payment, extension and other options.

The allowance for performing loans is sensitive to changes in both economic forecasts and the probability-weight assigned to each forecast scenario. Each macroeconomic scenario used affects the estimated probability of default (PD), loss given default (LGD) and exposure at default (EAD) inputs used to estimate Stage 1 and Stage 2 expected credit losses. A five year projection of macroeconomic conditions was performed, and the assumption that PD, LGD, and EAD will revert to the long term average is in years 3 to 5.

The following table shows the key economic variables that were used to estimate expected credit loss on performing loans during the forecast period. Macroeconomic variables were selected for each portfolio and used to model expected credit loss. Values shown represent key economic variables in the expected credit loss model at the end of period averages for the first 12 months, and the period averages for the remaining horizon.

As at December 31, 2018 in per cent	Base case scenario		Alternative scenario Optimistic		Alternative scenario Pessimistic	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Driver						
Canada real GDP	2.12	1.75	2.25	1.82	2.02	1.68
B.C. unemployment rate	4.98	5.00	4.93	4.83	5.03	5.17
B.C. nominal GDP	4.57	4.57	5.21	5.21	4.04	4.04
Housing price index % Change	2.25	2.25	3.71	3.71	1.07	1.07

The reported expected credit losses for financial assets in Stage 1 and Stage 2 under the optimistic macroeconomic conditions, with other assumptions held constant including the application of experienced credit adjustment would be $33,088.

The reported expected credit losses for financial assets in Stage 1 and Stage 2 under the pessimistic macroeconomic conditions, with other assumptions held constant including the application of experienced credit adjustment would be $41,805.

Additional information on the process and methodology for determining expected credit losses can be found in the Credit and Counterparty Risk section of the MD&A, as well as Notes 6 and 7 of the audited consolidated financial statements.

Financial Instruments Measured at Fair Value

We record all securities, derivatives, and certain loans at their fair value. In the case of a derivative liability, fair value represents our estimate of what we would receive or pay, in a transaction between two willing parties. The best evidence of fair value is a quoted bid or ask price, as appropriate, in an active market.

Where bid and ask prices are unavailable, we use the closing price of the most recent transaction of that instrument. Where quoted prices are not available for a particular financial instrument, we estimate fair value using the quoted price of a financial instrument with similar characteristics and risk profile, or observable market-based inputs that drive internal or external valuation models.

Determining fair value for instruments that trade actively and have quoted market prices (Level 1) requires minimal subjectivity. We have to apply judgment to value other instruments. We value derivatives using readily available market information that can be input to internal models (Level 2). We validate the outputs by comparing our valuations with counterparties. When we use internal models without observable market information (Level 3), we use general assumptions such as internal pricing spreads over observable market inputs. All modelled valuations consider credit risk adjustments, as appropriate. We disclose these valuations in Note 27.

We record changes in fair value to the income statement unless we have elected a security to be fair value through other comprehensive income (under IFRS 9) or available for sale (under IAS 39) or have designated a derivative as an effective cash flow hedge. On December 31, 2018, we carried $3.2 billion, or 16.1%, of our financial assets and $5.4 million of our financial liabilities (all derivative instruments) at fair value. Included in the financial assets is $13.6 million ($14.3 million as of December 31, 2017) of loans where we have made a fair value option in order to match valuations of hedged and hedging items.

Asset Impairment (Goodwill and Intangible Assets)

On December 31, 2018, total goodwill was $15.2 million, identifiable intangible assets with a definite life were $4.2 million, and software was $60.7 million. The combined total of these amounts increased in 2018 by $26.3 million due to software additions, and decreased by $10.7 million from amortization and by $7.1 million from disposals of software. Goodwill represents the excess of consideration exchanged for the acquisition of a subsidiary over the fair value of the net assets acquired. The majority of our goodwill balance at year-end resulted from our 2014 acquisition of the prime equipment and vehicle finance business of Travelers Financial Corporation.

At least annually, we are required to test these assets for impairment. These impairment tests consist of comparing the carrying value with the fair value of the reporting unit. We apply judgment in measuring fair value when estimating future cash flows expected to result from the use of the asset and its eventual disposition, and in determining the useful life of these intangible assets in order to determine annual amortization. We had no impairment of goodwill during the year.

Contingent Liabilities

In the ordinary course of our business, we are party to a number of legal proceedings. In accordance with accounting standards, we accrue amounts if in our opinion, we believe that a future event will confirm existence of a liability at the date of the financial statements, and if we can reasonably estimate the amount of the loss.

At times, however, it is either not possible for us to determine the existence of a liability or to reasonably estimate the amount, until the case is closer to resolution. In such cases, we do not accrue any amounts until that time. If the reasonable estimate of loss involves a range within which a particular amount appears to be a better estimate, we will accrue that amount. If we have no better estimate within a range, we accrue the minimum amount in the range.

It is inherently difficult to predict the outcome of such matters. For this reason, we regularly assess the adequacy of our contingent liability accrual and make adjustments to incorporate new information as it becomes available. Based on current knowledge and consultation with legal counsel, we do not expect the outcome of any of these matters (individually or in aggregate) to have a material adverse effect on our consolidated financial position. However, the outcome of any such matters, individually or in aggregate, may be material to our operating results for a particular year.

Income Taxes

We use sound judgment when estimating income taxes and deferred income tax assets and liabilities. In addition to estimating our actual current tax exposure, we assess temporary differences that result from the different treatments of items for tax and accounting purposes, as well as any tax loss carry-forwards.

Depending on our ability to grow deposits, we have access to a B.C. credit union deduction that can reduce our effective tax rate. We previously also had access to a Federal credit union deduction; this was fully phased out at the end of 2016.

When valuing our deferred income tax assets and liabilities, we estimate future reversing tax rates based on our forecast growth for deposits and income before taxes. If we estimate our future reversing rate to be one per cent higher, our net deferred income tax assets will be impacted minimally. As of December 31, 2018, we had available deferred income tax assets of $19.9 million ($20.3 million in 2017) and deferred income tax liabilities of $14.4 million ($17.2 million in 2017). One driver of adjustments to future reversing rates is changes to enacted tax rates such as the announcement by the Province of B.C. to increase the general business tax rate by 1% effective January 1, 2018, and to decrease the small business tax rate by 0.5% effective April 1, 2017.

We have to assess whether realizing our deferred income tax assets prior to their expiration is more likely than not. If we believe we will have future taxable profits that will allow us to claim deductible temporary differences, we recognize the full deferred income tax assets. The factors we use to assess this likelihood include:

- Past experience of income and capital gains
- Forecast of future net income before taxes
- Available tax planning strategies that could be implemented to realize the deferred income tax assets
- The remaining expiration period of tax loss carry-forwards

We believe, based on all available evidence, that we will realize the remaining deferred income tax assets prior to their expiration.

Future Changes to Accounting Policies

The International Accounting Standards Board (IASB) has issued new standards and amendments to existing standards that were not yet effective for the year ended December 31, 2018. These accounting changes will be applicable beginning January 1, 2019, at the earliest.

IFRS 16: Leases

In January 2016, the IASB issued IFRS 16 – *Leases* (IFRS 16), which sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a lease contract. IFRS 16 replaces the previous leases standard, IAS 17 – *Leases* (IAS 17), and related interpretations. IFRS 16 requires most leases, including operating leases, to be recorded on the balance sheet as right-of-use assets, resulting in an increase in lease assets and corresponding lease liabilities. We are currently assessing the potential impact of the adoption of IFRS 16 and the recognition of lease assets and financial liabilities on its consolidated financial statements and regulatory capital ratios. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

Conceptual Framework for Financial Reporting

In March 2018, the IASB issued a revised version of the Conceptual Framework for Financial Reporting which assists the IASB in developing IFRS standards and serves as an accounting policy guide when no IFRS standard applies. The revision is effective for Coast Capital's fiscal year beginning January 1, 2020 with early adoption permitted. We are in the process of assessing the impact of the framework.

Management's Responsibility for Financial Reporting

The consolidated financial statements and all other information contained in the Annual Report are the responsibility of management and have been approved by the Board of Directors (the "Board"). The consolidated financial statements have been prepared by management in accordance with the requirements of the *Bank Act* and International Financial Reporting Standards, and include amounts based on informed judgments and estimates of the expected effects of current events and transactions. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements. In meeting its responsibility for the reliability of financial data, management relies on comprehensive internal accounting, operating and system controls. Controls include an organizational structure providing for effective segregation of responsibilities, delegation of authority and personal accountability, and careful selection and training of personnel; the application of accounting and administrative policies and procedures necessary to ensure adequate internal control over transactions, assets and records; and a continued program of extensive internal audits. These controls are designed to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets and that assets are safeguarded against unauthorized use or disposition. The Board has appointed an Audit and Finance Committee, comprised of four directors, to review with management and auditors the annual financial statements prior to submission to the Board for final approval. KPMG LLP has been appointed by the membership as independent auditors to examine and report on the consolidated financial statements, and their report appears on the next page. They have full and free access to the internal audit staff and the Audit and Finance Committee of the Board.

Helen Blackburn
Chief Financial Officer

Calvin MacInnis
President and Chief Executive Officer

Independent Auditors' Report

To the Members of Coast Capital Savings Federal Credit Union

Opinion

We have audited the consolidated financial statements of Coast Capital Savings Federal Credit Union (the Entity), which comprise:

- The consolidated statement of financial position as at December 31, 2018
- The consolidated statement of income for the year then ended
- The consolidated statement of other comprehensive income for the year then ended
- The consolidated statement of changes in members' equity for the year then ended
- The consolidated statement of cash flows for the year then ended,
- And notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *"Auditors' Responsibilities for the Audit of the Financial Statements"* section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Change in Accounting Policy

We draw attention to Note 2 to the financial statements, which indicates that the Entity has changed its accounting policies for accounting for financial instruments in 2018 due to the adoption of IFRS 9 – Financial Instruments.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information, and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained Management's Discussion and Analysis as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants

Vancouver, Canada
February 27, 2019

Consolidated Financial Statements

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Consolidated Statement of Financial Position

As at December 31, 2018, with comparative information for 2017

All amounts in thousands of dollars, unless otherwise stated	Notes	2018	2017
Assets			
Cash and cash resources		172,012	110,550
Interest bearing deposits with financial institutions	4	49,049	1,539,055
Financial investments	5	3,099,444	444,080
Loans	6,7,13		
Residential mortgages		11,093,001	10,309,861
Personal loans		358,340	316,630
Commercial mortgages and loans		3,865,443	3,574,846
Equipment financing		845,632	622,707
		16,162,416	14,824,044
Allowance for credit losses	6	(37,721)	(35,162)
		16,124,695	14,788,882
Premises and equipment	8	24,886	28,672
Goodwill and intangible assets	9	80,095	71,604
Deferred tax assets	23	5,427	3,096
Other assets	10	64,311	62,571
		19,619,919	17,048,510
Liabilities			
Deposits	11	16,377,331	14,366,432
Borrowings	12	464,278	319,460
Secured borrowings	13	1,155,211	1,118,025
Subordinated debt	15	300,292	–
Income taxes payable		14,276	3,400
Other liabilities	17	104,996	129,343
		18,416,384	15,936,660
Members' Equity			
Class B shares		26,554	28,851
Retained earnings		1,180,219	1,084,983
Accumulated other comprehensive income		(3,238)	(1,984)
		1,203,535	1,111,850
		19,619,919	17,048,510
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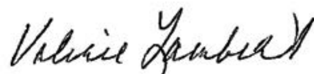
On behalf of the Board of Directors:



Bob Armstrong
Chair, Board of Directors

Valerie Lambert
Chair, Audit and Finance Committee

Calvin MacInnis
President and
Chief Executive Officer

Consolidated Statement of Income

As at December 31, 2018, with comparative information for 2017

All amounts in thousands of dollars, unless otherwise stated	Notes	2018	2017
Interest Income			
Loans	19	553,905	450,320
Cash and financial investments	19	56,530	25,915
Derivatives	19	1,467	34
		611,902	476,269
Interest Expense			
Deposits	19	252,405	137,838
Borrowings	19	32,816	19,937
		285,221	157,775
Net interest income		326,681	318,494
Provision for credit losses	6	8,619	8,331
		318,062	310,163
Fee and commission income			
Insurance commissions		7,876	7,992
Mutual and segregated fund commissions		35,028	32,187
Foreign exchange		4,402	3,918
Other fees and commissions		28,093	24,934
		75,399	69,031
Gains on financial investments measured at fair value	4,5	27,955	111
Other income	20	17,804	18,959
Net operating income		439,220	398,264
Non-interest expenses			
Salaries and employee benefits	21	171,147	161,086
Administration	22	90,501	77,658
Technology		22,253	15,717
Occupancy		27,156	26,424
Depreciation and amortization		19,016	22,947
Community contributions		5,940	5,600
		336,013	309,432
Income before provision for income taxes		103,207	88,832
Provision for income taxes	23	21,108	13,055
Net income		82,099	75,777

Consolidated Statement of Comprehensive Income

As at December 31, 2018, with comparative information for 2017

All amounts in thousands of dollars, unless otherwise stated	Notes	2018	2017
Net income		82,099	75,777
Other comprehensive income (loss), net of taxes			
Items that will never be reclassified to profit or loss:			
Actuarial gains on defined benefit pension plans, net of income tax of $29 (2017 – $36)		116	178
		116	178
Items that may be reclassified to profit or loss where conditions are met:			
Unrealized gains on available for sale securities – Central 1 Class E shares, net of income tax of nil (2017 – $2,083)	5	–	10,082
Unrealized gains on fair value through other comprehensive income securities, net of income tax of $1,118 (2017 – nil)		3,902	–
Unrealized losses on other available for sale securities, net of income tax of nil (2017 – $(1,830))		–	(8,834)
Gains (losses) on effective portion of cash flow hedges, net of income tax of $369 (2017 – $(1,135))		1,341	(5,590)
Other comprehensive income (loss)		5,359	(4,164)
Total comprehensive income		87,458	71,613

Consolidated Statement of Changes in Members' Equity

As at December 31, 2018, with comparative information for 2017

All amounts in thousands of dollars, unless otherwise stated	Notes	2018	2017
Class B shares			
Balance at beginning of the year		28,851	30,444
Share dividends		583	588
Share redemptions		(2,880)	(2,181)
Balance at the end of the year		26,554	28,851
Retained earnings			
Balance at beginning of the year		1,084,983	1,010,374
Impact from adopting IFRS 9	28(b)	9,929	–
Net income		82,099	75,777
Actuarial gains on defined benefit plans		116	178
Share dividends		(583)	(588)
Income tax deduction on dividends		117	99
Other equity adjustments		3,558	(857)
Balance at the end of the year		1,180,219	1,084,983
Accumulated other comprehensive income – FVOCI			
Balance at beginning of the year		4,015	2,767
Impact from adopting IFRS 9	28(b)	(6,497)	–
Other comprehensive income		3,902	1,248
Balance at the end of the year		1,420	4,015
Accumulated other comprehensive income – cash flow hedges			
Balance at beginning of the year		(5,999)	(409)
Other comprehensive income		1,341	(5,590)
Balance at the end of the year		(4,658)	(5,999)
Total accumulated other comprehensive income		(3,238)	(1,984)
Total equity		1,203,535	1,111,850

Class B shares are not a membership requirement. These shares are non-transferable, non-cumulative and non-voting. Retraction and redemption of Class B shares including terms, conditions and dividends are set at the discretion of the Board of Directors. The dividend rate is a floating rate and is currently 2.14% (2017 – 2.01%). These shares have a par value of $1 each. Coast Capital has authorized an unlimited number of Class B shares and all issued shares are fully paid.

Consolidated Statement of Cash Flows

As at December 31, 2018, with comparative information for 2017 *All amounts in thousands of dollars, unless otherwise stated*	Notes	2018	2017
Cash flows from operating activities			
Net income before provision for income taxes		103,207	88,832
Adjustments for:			
Amortization and depreciation		19,016	22,947
Provision for credit losses		8,619	8,331
Interest income		(610,094)	(473,292)
Interest expense		285,221	157,775
Dividend income		(1,808)	(2,977)
Changes in other non-cash operating items		(13,096)	21,634
Interest income received		604,485	471,254
Interest expense paid		(216,081)	(157,541)
Dividends received		2,332	2,391
Net income taxes paid		(12,563)	(2,593)
		169,238	136,761
Net decrease in loans		(1,341,906)	(1,934,945)
Net increase in deposits		1,941,673	1,405,323
Cash flows from (used in) operating activities		769,005	(392,861)
Cash flows used in investing activities			
Net decrease in investments		(1,165,358)	(148,115)
Net purchase of premises, equipment and intangible assets		(23,721)	(12,716)
Cash flows used in investing activities		(1,189,079)	(160,831)
Cash flows from financing activities			
Net increase in borrowings		484,330	568,345
Net redemption of Class A and B shares		(2,794)	(2,124)
Cash flows from financing activities	16	481,536	566,221
Net increase in cash and cash resources		61,462	12,529
Cash and cash resources, beginning of year		110,550	98,021
Cash and cash resources, end of year		172,012	110,550

Notes to Consolidated Financial Statements

Year ended December 31, 2018, with comparative information for 2017
All amounts in thousands of dollars, unless otherwise stated

Coast Capital Savings Federal Credit Union ("Coast Capital") is incorporated under the *Bank Act* and its subsidiaries are incorporated under the *Canada Business Corporations Act*.

On November 1, 2018, Coast Capital was continued as a Federal Credit Union ("FCU") under the *Bank Act* ("Continuance") by letters patent issued by the federal Minister of Finance and commenced operations pursuant to an order to commence and carry on business issued by the Office of the Superintendent of Financial Institutions ("OSFI"). Coast Capital is also a member of the Canada Deposit Insurance Corporation.

Prior to November 1, 2018, Coast Capital was incorporated under the *British Columbia Credit Union Incorporation Act* with the name Coast Capital Savings Credit Union.

Coast Capital is located in Canada and its head and registered office is located at 800-9900 King George Blvd, Surrey, British Columbia. As at December 31, 2018, Coast Capital provides financial services to members principally in the Metro Vancouver, Fraser Valley, Vancouver Island and Okanagan regions of British Columbia.

The consolidated financial statements have been approved for issue by the Board of Directors (the "Board") on February 27, 2019.

1. Basis of presentation

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency.

Certain comparative period balances have been amended to conform to current period presentation. On the Consolidated Statement of Financial Position, the line labelled "Cash and cash resources" previously included mandatory and non-mandatory deposits held with Central 1 with original maturities of three months or less and the line labelled "Financial investments" included mandatory and non-mandatory deposits held with Central 1 with original maturities of more than three months; all Central 1 deposits are now presented under a new line labelled "Interest bearing deposits with financial institutions". The Consolidated Statement of Cash Flows has been amended accordingly to reconcile to the amended Cash and cash resources amount. On the Consolidated Statement of Financial Position, the line previously labelled "Loans" has been disaggregated to show each category of loans as a separate line item.

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and the accounting requirements of OSFI, which is in accordance with subsection 308 (4) of the *Bank Act*.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for financial instruments classified as fair value through profit or loss which includes derivatives and financial assets classified as fair value through other comprehensive income, which are measured at fair value.

c) Use of significant estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make significant estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the Statement of Financial Position date and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of estimates and judgments include the estimation of the allowance for credit losses, the classification of financial assets, the valuation of financial instruments, the recognition of deferred tax assets, as well as the impairment of goodwill and intangible assets. Estimates and judgments related to the allowance for credit losses and the classification of financial assets have been revised following adoption of IFRS 9 Financial Instruments ("IFRS 9") to conform to IFRS 9, effective January 1, 2018 as follows:

1. Basis of presentation (continued)

Allowance for credit losses

Coast Capital adopted an expected credit loss ("ECL") model in the provision of the allowance for expected credit losses, which is applied to loans and debt securities classified at amortized cost and loan commitments and financial guarantee contracts that are not measured at fair value through profit loss.

The ECL model requires recognition of credit losses based on 12 months of expected losses from the date the financial asset is first recognized ("Stage 1") and the recognition of lifetime expected losses on performing loans that have experienced a significant increase in credit risk since initial recognition ("Stage 2").

The determination of a significant increase in credit risk takes into account many factors and will vary by product and risk segment. The main factors considered in making this determination are relative changes in probability-weighted probability of default ("PD") since origination and certain other criteria such as 30-days past due, qualitative management review, and other indicators of significant increase in credit risk. The allowance for expected credit losses in Stage 2 is higher than those in Stage 1 as a result of the longer time horizon associated with this stage. A financial asset is recognized as ("Stage 3") where objective evidence that the asset is impaired has been identified. Stage 3 requires the provision of lifetime credit losses.

Coast Capital considers past events, current market conditions and reasonable supportable information about future economic conditions, in determining whether there has been a significant increase in credit risk, and in calculating the amount of expected credit losses. Future economic conditions are based on an unbiased, probability-weighted assessment of possible future outcomes. In considering the lifetime of an instrument, Coast Capital uses the contractual period adjusted for pre-payment, extension and other options.

Additional information regarding the allowance for credit loss is included in Note 2(c), Note 6, Note 7, and Note 28(b).

Classification of financial assets

Financial assets are classified based on the business model for managing assets and the contractual cash flow characteristics of the asset. Judgment is exercised in determining the business model for managing the assets as discussed in Note 2(c) and whether cash flows comprise solely of payments of principal and interest.

Valuation of financial instruments

The best evidence of fair value is a quoted price in an actively traded principal market. In the event that the market for a financial instrument is not active, and the valuation technique uses only observable market data, the reliability of the fair value measurement is high. In absence of observable valuation inputs, due to lack of or a reduced volume of similar transactions, management judgment is required to assess the price at which an arm's length transaction would occur under normal business conditions, in which case management may rely on historical prices for that particular financial instrument or on recent prices for similar instruments.

The main assumptions and estimates which management consider when applying a model with valuation techniques are:

- The likelihood and expected timing of future cash flows on the instrument where judgment may be required to assess the counterparty's ability to service the instrument in accordance with its contractual terms. Future cash flows may be sensitive to changes in market rates;
- Selecting an appropriate discount rate for the instrument, judgment is required to assess what a market participant would regard as the appropriate spread of the rate for an instrument over the appropriate risk-free rate; and
- Judgment to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

When applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments are based on some market observable inputs even when unobservable inputs are significant.

1. Basis of presentation (continued)

Deferred tax assets

The recognition of a deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profits and future reversals of existing taxable temporary differences. The most significant judgments relate to expected future profitability.

Impairment of goodwill and other intangible assets

Goodwill and other intangible assets are tested for impairment under circumstances described in Note 2(g) Management exercises significant judgment in estimating the recoverable amount which is used to determine if goodwill and other intangible assets are impaired.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis.

2. Significant accounting policies and changes in significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements with the exception of IFRS 9 and IFRS 15 as noted under 2(c) and 2(d) below.

a) Basis of consolidation

The financial position, operating results and cash flows of other entities are included in these consolidated financial statements if Coast Capital controls these investees. Coast Capital controls an investee when it is exposed to, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Accordingly, these consolidated financial statements include the financial position, operating results and cash flows of Coast Capital and its subsidiaries. As at December 31, 2018, Coast Capital either directly or indirectly through its subsidiaries, controls the following subsidiaries:

Corporate name of subsidiary	Head office location	Book value of shares owned by Coast Capital (in dollars)	Percentage of voting rights owned by Coast Capital
Coast Capital Financial Management Ltd.	800-9900 King George Blvd, Surrey, British Columbia	100	100%
Coast Capital Wealth Management Ltd.	800-9900 King George Blvd, Surrey, British Columbia	100	100%
Coast Capital Wealth Holdings Ltd.	800-9900 King George Blvd, Surrey, British Columbia	100	100%
Coast Capital Holdings Ltd.	800-9900 King George Blvd, Surrey, British Columbia	100	100%
Coast Capital Equipment Finance Ltd.	800-9900 King George Blvd, Surrey, British Columbia	88	88%
Travelers Leasing Ltd.	800-9900 King George Blvd, Surrey, British Columbia	100	100%
Travelers Finance Ltd.	800-9900 King George Blvd, Surrey, British Columbia	76,000	50%

All inter-company transactions and balances have been eliminated. The consolidated financial statements have been prepared using consistent accounting and valuation policies for similar transactions and events under similar circumstances.

2. Significant accounting policies and changes in significant accounting policies (continued)

There are no significant restrictions on Coast Capital's ability to access or use its assets and settle its liabilities and those of its subsidiaries, other than those resulting from regulatory requirements.

b) Cash and cash resources

For the purposes of the Consolidated Statement of Cash Flows, cash and cash resources comprise balances with less than 3 months maturity from the date of acquisition, including cash on hand, cheques and other items in transit to Coast Capital.

c) Financial instruments

Effective January 1, 2018, Coast Capital has adopted IFRS 9 Financial Instruments ("IFRS 9"), which replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39").

Coast Capital has recognized adjustments to opening retained earnings as at January 1, 2018, the date of adoption, to reflect the application of the new requirements of IFRS 9. The total impact to opening retaining earnings and member's equity is an increase of $3,432. The adjustment to opening retained earnings is comprised of an increase of $3,585 as a result of the new classification and measurement requirements of financial instruments, offset by a decrease of $153 relating to changes in the provision for credit losses. Refer to Note 28 (b) for further details with respect to the impact to the opening balance sheet at January 1, 2018.

Coast Capital has elected to not restate the prior period comparative figures as permitted by the transition provisions of this standard. Accordingly, current period results for 2018 have been prepared in accordance with IFRS 9 and the comparative information for 2017 is presented under IAS 39 as previously published.

Our new accounting policy under IFRS 9 for financial instruments effective January 1, 2018 is as follows:

Allowance for expected credit losses

Allowance for credit loss is recorded using an expected credit loss model where recognition of credit losses was based on 12 months expected credit losses for performing loans (Stage 1), recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination (Stage 2), and recognition of lifetime losses on loans in default (Stage 3).

The determination of a significant increase in credit risk takes into account many different factors and varies by product and risk segment. Our assessment of credit risk requires significant expert judgment and is assessed on a regular basis. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses. We perform an assessment of changes in credit risk at least annually based on 3 factors:

- Identification of increase in credit risk using established thresholds that determine whether a significant increase in credit risk has occurred since initial recognition.
- Identification of transactional behaviours that indicate an increase in credit risk, such as delinquency behaviour or rejected transactions due to insufficient funds.
- Instruments which are 30 days past due are generally considered to have experienced significant increase in credit risk, even if our other metrics do not indicate that a significant increase in credit risk has occurred.

The definition of default is consistent with the definition of default used for internal credit risk management purposes. The definition of default may differ across products and consider both quantitative and qualitative factors, such as terms of financial covenants, bankruptcy, and days past due. Instruments which are 90 days past due are generally considered to be in default.

For each exposure, the calculation of expected credit loss is calculated based on the probability of default ("PD"), loss given default ("LGD"), exposure at default ("EAD") that considers the timing of the loss, incorporation of forward looking economic information, and expert judgment to reflect factors that are not captured by the model.

2. Significant accounting policies and changes in significant accounting policies (continued)

PD represents the likelihood a loan will not be repaid and will go into default in either a 12 month period, or in the remaining lifetime of the arrangement if a significant increase credit risk is identified. LGD is the amount that may not be recovered in the event of a default. EAD represents an estimate of the amount outstanding at the time of default. For off-balance sheet and undrawn amounts, EAD includes an estimate of additional drawn amounts at the time of default.

We have developed models that incorporate specific macroeconomic variables that affect PD, LGD, and EAD, by product type. Key economic variables incorporated into the models include unemployment rate, housing price index, interest rates, and gross domestic product of Canada ("GDP"). The forecast is based on publicly available external data and our view of future economic conditions. We exercise experienced credit judgment to incorporate multiple economic forecasts which are probability-weighted in the determination of the final expected credit loss. The allowance is sensitive to changes in both economic forecasts and the probability-weight assigned to each forecast scenario.

Modification of loans

Coast Capital may modify the contractual terms of loans for either commercial or credit reasons. The terms of a loan in good standing may be modified for commercial reasons to provide competitive pricing and other terms to members. Loans may also be modified for credit reasons where the contractual terms are modified to grant a concession to a member that may be experiencing financial difficulty.

Upon the modification of the contractual terms of a financial asset, an assessment is made if the modified contractual terms are considered significant. Coast Capital considers one or a combination of the following factors as a significant change: a substantial interest rate reduction, an extension of the repayment term at a below market stated interest rate, a forgiveness of principal or accrued interest, or substantial changes to the collateral provided.

When the modification is considered to be significant, the carrying amount of the original financial asset is derecognized and the fair value of the modified financial asset is recognized with the resulting gain or loss recognized in the Consolidated Statement of Income. For the purposes of assessing if the financial asset experienced a significant increase in credit risk, the modification date is considered to be the origination date of the modified financial asset.

When the modification is not considered to be significant, the gross carrying amount of the modified loan is recalculated based on the present value of the modified cash flows discounted at the original effective interest rate and any gain or loss from the modification is recorded in the Consolidated Statement of Income. The origination date of the financial asset prior to the modification continues to be used for the purposes of assessing if the financial asset experienced a significant increase in credit risk.

Classification and measurement of financial assets that are debt instruments (IFRS 9)

All financial assets are measured initially at fair value, and subsequently based on their classification measured at:

- Fair value through profit or loss ("FVTPL");
- Fair value through other comprehensive income ("FVOCI"); or
- Amortized cost ("AMC").

The classification of financial assets that are debt instruments are based on an assessment of the business model under which the financial assets are managed and the contractual cash flow characteristics of such financial assets.

Business model assessment

The business model determines how Coast Capital manages its financial assets to generate cash flows. Coast Capital has determined its business models to fall into the following three categories:

- Held to Collect ("HTC"): The objective is to hold financial assets to collect contractual cash flows.
- Held to Collect and Sell ("HTC&S"): The objective is to hold financial assets to collect contractual cash flows and to sell the assets.
- Other: These business models are neither HTC nor HTC&S, and primarily represent models where financial assets are held-for-trading or managed on a fair value basis.

2. Significant accounting policies and changes in significant accounting policies (continued)

Judgment is used to determine the business model, which includes an overall assessment of:

- The level of segregation of financial assets into portfolios that reflect how the financial assets are collectively managed to achieve a particular business objective;
- The purpose of the portfolio as determined by management as guided by applicable policies and mandates;
- The volume and frequency of sales, and reason for such sales, both historical and future expectations; and
- Metrics used to measure and report on portfolio performance to management.

Contractual cash flow characteristics

An assessment is made as to whether the contractual cash flows of a debt instrument represent solely payments of principal and interest ("SPPI").

- Contractual cash flows represent SPPI when they consist of only payments of principal and interest on the principal amount outstanding that are consistent with a basic lending arrangement. In a basic lending arrangement, interest is comprised only of consideration for the time value of money, credit risk, liquidity risk, cost and profit margin.
- Contractual cash flows do not represent SPPI when the contractual terms of a debt instrument introduces exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices.

FVOCI

Debt instruments are classified and measured at FVOCI when they are held in a business model where the objective is HTC&S and SPPI is met. These debt instruments may be sold in response to or in anticipation of changes in interest rates and resulting prepayment risk, changes in credit risk, changes in foreign currency risk, changes in funding sources or terms, or to meet liquidity needs. Debt instruments in this category are measured using fair value.

Interest revenue is recognized in the Consolidated Statement of Income by applying the effective interest rates to the fair value of the assets. Changes in fair value are recorded in other comprehensive income; gains or losses on disposal, foreign exchange translation, and impairment losses are recorded in the Consolidated Statement of Income.

AMC

Debt instruments are classified and measured at amortized cost when they are held in a business model where the objective is HTC and SPPI is met. Debt instruments in this category are measured using the effective interest rate method and interest revenue is recognized in the Consolidated Statement of Income by applying the effective interest rates to the amortized cost of the assets. Gains or losses on disposal and impairment losses are recorded in the Consolidated Statement of Income.

For both FVOCI and amortized cost instruments, premiums, discounts and transaction costs are amortized over the term of the instrument on an effective interest rate basis as an adjustment to interest income.

Coast Capital classified most loans as AMC. Loan origination fees, including commitment, renewal and renegotiation fees, are considered to be adjustments to loan yield and are deferred and amortized to loan interest income over the term of the loans using the effective interest method. Mortgage prepayment penalty fees are recognized in income unless only minor modifications (based on a present value of future cash flows test) were made to the loan, in which case the fees are deferred and amortized over the remaining term of the loan. Loan discharge and administration fees are recorded directly to income when the loan transaction is complete. Loan syndication fees are included in income when the syndication is completed and Coast Capital has retained no part of the package for itself or, if part has been retained, it bears the same effective interest as other participants.

FVTPL and fair value option

Debt instruments are classified and measured at FVTPL unless it is classified in one of the preceding categories. Debt instruments measured at FVTPL are recorded at fair value and any unrealized gains or losses arising due to changes in fair value are included in Other Income in the Consolidated Statement of Income.

Debt instruments meeting criteria for measurement at FVOCI or AMC can be designated at initial recognition as measured at FVTPL, provided the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring these assets on a different basis.

2. Significant accounting policies and changes in significant accounting policies (continued)

Classification and measurement of financial assets that are equity instruments (IFRS 9)

Equity instruments are measured at fair value through profit or loss unless an election is made to measure at FVOCI, in which case gains and losses are never recognized in income. All investments in equity instruments and contracts on those instruments must be measured at fair value. Equity instruments may be measured at cost when this basis of measurement is deemed the best representation of fair value in cases where there is insufficient more recent information available to establish a reasonable estimate of fair value; or when there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

Classification and measurement of non-derivative financial liabilities

Non-derivative financial liabilities are classified as other financial liabilities and are recorded at fair value on initial recognition and are subsequently accounted for at amortized cost using the effective interest method. Interest expense on non-derivative financial liabilities is recognized in Net Interest Income in the Consolidated Statement of Income.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial liability. The amortized cost of a financial liability is the amount at which the financial liability is measured at initial recognition, minus principal payments, plus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount.

Other financial liabilities consist of accounts payable, deposits and member shares.

IFRS 9 fair value changes of non-derivative liabilities under the fair value option are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

Derecognition of financial assets and liabilities

Financial assets are derecognized when the contractual rights to receive cash flows from the assets have expired or transferred and either all of the risks and rewards of ownership have been substantially transferred; or the risks and rewards of ownership have not been retained nor substantially transferred but control has not been retained. Financial liabilities are derecognized when they are extinguished, that is when the obligation is discharged, is cancelled or is expired.

Hedge accounting

IFRS 9 introduces a new hedge accounting model that aims to provide a better link between an entity's risk management activities and the impact of hedging on the financial statements. Also, IFRS 9 is expected to allow for application of the hedge accounting requirements to a broader array of hedging relationships and no longer specifies quantitative measures for effectiveness testing and does not permit hedge de-designation. Accounting requirements for macro hedging have been separated from IFRS 9 and therefore, entities may choose to continue applying the current hedge accounting requirements under IAS 39 until the IASB finalizes its macro hedge accounting project, which Coast Capital has elected. However, as required by the standard, Coast Capital has adopted the new hedge accounting disclosures. Refer to Note 26.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position when there is a legally enforceable right to offset the recognized amounts with the same counterparty and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2. Significant accounting policies and changes in significant accounting policies (continued)

Our previous accounting policy under IAS 39 prior to January 1, 2018 is as follows:

Allowance for credit losses

Coast Capital assesses, at each Consolidated Statement of Financial Position date, whether there is objective evidence that a loan or group of loans is impaired. A loan or a group of loans is impaired and impairment losses are recorded only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and the loss event(s) has (have) an impact on the estimated future cash flows of the loan or group of loans that can be reliably estimated.

For the purposes of a specific evaluation of impairment, the amount of the impairment loss on a fixed rate loan is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the Consolidated Statement of Income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For the purposes of a collective evaluation of impairment, for which specific allowances cannot be determined, financial assets are categorized on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparties' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group, taking into account resolution rates, work out costs and discount factors.

Coast Capital adjusts its collective allowance methodology, taking into account factors such as historical loss experience and adjusting for current observable data that did not impact the period, on which the historical loss experience was based. Estimates of changes in future cash flows for groups of assets reflect and are directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, real estate prices, payment status or other factors indicative of changes in the probability of losses by Coast Capital and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by Coast Capital to reduce any differences between loss estimates and actual loss experience. The collective allowance is adjusted through the use of an allowance account and the amount of the adjustment in the collective provision is recognized in the Consolidated Statement of Income.

When a loan is uncollectible, it is written off after all the necessary procedures, such as restructuring or collection activities, have been completed and the amount of the loss has been determined.

Classification and measurement of non-derivative financial assets

Non-derivative financial assets are classified as one of the following: loans and receivables, financial assets at fair value through profit or loss ("FVTPL"), or available for sale ("AFS"). Financial assets are recorded at fair value on initial recognition and are subsequently accounted for based on their classification. Classification depends on the purpose for which the financial instruments were acquired and their characteristics. Interest income on non-derivative financial assets is recognized in Net Interest Income using the effective interest method in the Consolidated Statement of Income. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus principal payments, plus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Financial assets are required to be classified as FVTPL if they are acquired principally for the purpose of selling in the near term; or if they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial assets may also be designated as FVTPL when the designation eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial assets, or from recognizing gains and losses on them, on different bases.

2. Significant accounting policies and changes in significant accounting policies (continued)

The fair value designation, once made, is irrevocable. Gains and losses on assets classified as FVTPL are recorded in Other Income in the Consolidated Statement of Income. At December 31, 2017, Coast Capital has designated a select commercial loan and an investment in an euro-denominated bond as FVTPL. The objective of these designations is to significantly reduce a measurement inconsistency that would have otherwise occurred from measuring associated derivative instruments that were obtained to structure an economic hedge against interest rate risk in these financial assets.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that are classified or designated as FVTPL or as AFS. They are accounted for at amortized cost using the effective interest method. Coast Capital's loans and receivables principally consist of loans and advances to members and other amounts receivable.

AFS financial assets are those non-derivative financial assets that are designated as AFS or that are not designated or classified as FVTPL or as loans and receivables. AFS instruments are carried at fair value whereby the unrealized gains and losses are included in Accumulated Other Comprehensive Income until sale or identification of impairment at which time the cumulative gain or loss is transferred to the Consolidated Statement of Income. Realized gains and losses, impairment losses and foreign exchange gains and losses are recognized immediately in Other Income. Interest income on monetary AFS assets is calculated using the effective interest method and is recognized in the Consolidated Statement of Income. Dividends on AFS equity instruments are recognized in the Consolidated Statement of Income when Coast Capital's right to receive payment is established. Coast Capital's AFS assets consist of statutory deposits and certain investments with Central 1 and certain holdings of bankers' acceptances, bonds and equity investments.

Investments are accounted for on a trade date basis and are classified as HTM, FVTPL or AFS.

Derivative instruments and hedges

Derivative instruments are financial contracts whose value is derived from interest rates, foreign exchange rates or other financial indices. Derivative instruments are recorded at fair value on initial recognition and are subsequently classified and measured at FVTPL.

In the ordinary course of business, Coast Capital enters into various derivative contracts, including interest rate forwards, swaps and options. Derivative contracts are either exchange-traded contracts or negotiated over-the-

counter contracts. Coast Capital enters into such contracts principally to manage its exposures to interest rate fluctuations as part of its asset/liability management program.

Coast Capital formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities in the Consolidated Statement of Financial Position or to specific firm commitments or forecasted transactions. Coast Capital also formally assesses, at the hedge's inception, retrospectively and prospectively on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows attributed to hedged risks. Hedges are designated as either fair value or cash flow hedges and are carried in the Consolidated Statement of Financial Position at fair value, either as assets or liabilities depending on whether they have a positive or negative fair value.

In a cash flow hedging relationship, the effective portion of the change in fair value of the derivative is recorded in Other Comprehensive Income ("OCI"). The ineffective portion is recognized in Other Income. The amounts recognized in Accumulated Other Comprehensive Income are reclassified to Net Income in the same period that the hedged cash flows affect Net Income. For cash flow hedges that are discontinued prior to the end of the original hedge term, the unrealized gain or loss in OCI is amortized to Interest Income in the Consolidated Statement of Income as the hedged item impacts earnings. If the hedged item is sold or settled, the entire unrealized gain or loss is recognized in Interest Income in the Consolidated Statement of Income.

In a fair value hedging relationship, the change in the fair value of the hedged item attributable to the hedged risk is recorded in the Consolidated Statement of Income. This change in fair value of the hedged item, to the extent that the hedging relationship is effective, is offset by changes in the fair value of the hedging derivative. If the derivative expires or is sold, terminated or exercised, no longer meets the criteria for fair value hedge accounting or the designation is revoked, hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item for which the effective interest rate is used is amortized to the Consolidated Statement of Income as part of the recalculated effective interest rate of the item over its remaining life.

2. Significant accounting policies and changes in significant accounting policies (continued)

Non-hedging derivative instruments used in trading activities are marked to market and the resulting realized and unrealized gains or losses are recognized in Other Income in the Consolidated Statement of Income in the current period, with a corresponding asset or liability in the Consolidated Statement of Financial Position.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position when there is a legally enforceable right to offset the recognized amounts with the same counterparty and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

d) Revenue from contracts with customers ("IFRS 15")

On January 1, 2018, Coast Capital adopted IFRS 15 which replaced the revenue recognition guidance from IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations. The new standard provides a single, principles-based five step model to be applied to all sales contracts, based on the transfer of control of goods and services to customers. As such, Coast Capital has amended its accounting policies for revenue recognition as detailed below. Revenues outside of the scope of IFRS 15 include interest and dividend income, securities gains/losses, lease income, and income which forms an integral part of the effective interest rate of a financial instrument. For example, certain loan commitment fees are recognized as an adjustment to the effective interest rate and recorded in Interest Income under the scope of IFRS 9.

In accordance with IFRS 15's transition options, Coast Capital has applied IFRS 15 using the cumulative retrospective method with the cumulative effect of initially applying the standard recognized as an adjustment to opening retained earnings as at the date of transition of January 1, 2018. Coast Capital has assessed the impact of IFRS 15 and has determined that the standard has no significant effect when applied to its Consolidated Financial Statements. Therefore, no adjustment to retained earnings has been made to the Consolidated Financial Statements.

Under IFRS 15, revenue is recognized when Coast Capital satisfies a performance obligation by transferring the promised good or service to the customer and the customer obtains control of the good or service. The recognition of revenue can either be over time or at a point in time depending on when the performance obligation is satisfied. Determining the timing and transfer of control, at a point in time or over time, requires judgment. Revenues arising from streams within the scope of IFRS 15 are recognized based on contracts from customers. The consideration received does not include any significant financing components that are not included in the transaction price. Coast Capital's revenue streams recognized in accordance with IFRS 15 are described below.

Fees and commission income

Insurance commissions

Coast Capital earns upfront commission for sale or renewal of insurance policies made on behalf of third party insurance providers. The commission is earned and recognized into income, net of clawbacks, at the point in time when the sale or renewal of an insurance policy is made.

Mutual and segregated fund commissions

Coast Capital primarily earns trailing commissions on sales of mutual and segregated funds to its members on behalf of the fund dealer. Trailing commissions are calculated based on the asset base and yield of the underlying fund and are paid to Coast Capital on a biweekly or monthly basis as long as the member holds the funds. Trailer fees are recognized over time as the funds giving rise to the commission are continued to be held by the respective members.

Foreign exchange

Foreign exchange fees represent the foreign exchange spread on sale of foreign currency and are recognized at a point in time when the sale of foreign currency to the member is completed.

2. Significant accounting policies and changes in significant accounting policies (continued)

Other fees and commissions

The majority of other fees and commissions are derived from day-to-day banking fees. Coast Capital provides services for member chequing and savings accounts that generate fees from various activities including: ATM transactions, cash withdrawals, account statements, wire transfers and money orders, utilization of cheques, debit cards and internet and phone, and banking account statements. The fees for these services are established in the member account agreement and are either billed individually at the time the service is performed and the performance obligation is met, or on a monthly basis for a package or bundle of services as the services are performed and the performance obligation is met. Banking fees billed individually at the time the service is performed are recognized into revenue at the point in time the service is performed. Where monthly services are provided over time throughout the month, revenue is recognized over time with full recognition at the end of each month.

Other income

Credit card revenues

Coast Capital issues credit cards to its members who satisfy the credit card approval process. The cardholder agreement is between the member and a third party credit card company; Coast Capital receives monthly commission income from the credit card company. The commission income is based on the number of active cardholders and the balance incurred on the credit card. The ongoing commission is recognized into income over time on a monthly basis.

Safety deposit box rental income

Coast Capital receives an annual fee from members who rent safety deposit boxes at its branch locations. The annual fee is recognized into income on a straight-line basis over the annual rental period.

e) Finance and operating leases

Agreements that transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When Coast Capital is a lessor under finance leases, the amounts due under the leases are included as Loans in the Consolidated Statement of Financial Position. The finance income receivable is recognized in Net Interest Income over the periods of the leases so that a constant rate of return on the net investment is recognized in the leases.

All other leases are operating leases. When Coast Capital is the lessee, leased assets are not recognized in the Consolidated Statement of Financial Position. Lease amounts payable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in Non-Interest Expenses in the Consolidated Statement of Income.

f) Premises and equipment

Land is carried at cost. Buildings, leasehold improvements, computer and telephone equipment, furniture and other equipment are carried at cost, less accumulated depreciation. Subsequent expenditures are included in the assets' carrying amount or are recognized as separate assets only when it is probable that future economic benefits associated with the items will flow to Coast Capital and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the Consolidated Statement of Income.

Asset classes are further categorized for depreciation where significant differences in the estimated useful life of the various components of individually significant assets are identified. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 to 50 years
Leasehold improvements	Lease term
Computer and telephone equipment	3 to 15 years
Furniture and other equipment	4 to 10 years

2. Significant accounting policies and changes in significant accounting policies (continued)

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Gains and losses on disposal are recorded separately in the Consolidated Statement of Income.

g) Business combinations, goodwill and other intangible assets

Business combinations are accounted for using the acquisition method. Identifiable intangible assets are recognized under Other Intangible Assets.

Goodwill represents the excess of the consideration transferred for the acquisition of subsidiaries over the fair value of the net assets acquired and is recognized at cost. For the purpose of impairment testing, goodwill is allocated to a cash-generating unit, which is tested for impairment, annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is tested by comparing the carrying amount of the cash-generating unit, including the goodwill, with the recoverable amount of the cash-generating unit. If the recoverable amount of the cash-generating unit exceeds the carrying amount of the cash-generating unit, the cash-generating unit and the goodwill allocated to that cash-generating unit is not considered impaired. Otherwise, the impairment loss is allocated to reduce the carrying amount of any goodwill and then to reduce the other assets of the cash-generating unit on a pro rata basis of the carrying amount of each asset in the cash-generating unit. The recoverable amount of the cash-generating unit is the greater of its fair value less costs to sell and its value in use.

Other intangible assets include computer software, customer lists, trademarks, and other intangible assets. The intangible assets have definite lives and are measured at cost and amortized using the straight-line method over their estimated useful lives as follows:

Computer software	2 to 15 years
Customer lists	10 years
Trademarks	10 years
Other	5 to 10 years

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The writedown is recognized in the Consolidated Statement of Income. The recoverable amount is the higher of the asset's fair value less costs to sell or its value in use.

h) Income taxes

Coast Capital's income taxes are comprised of current and deferred income taxes.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to income tax payable in respect of previous years.

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current income tax liabilities against current income tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current income tax liabilities and assets on a net basis or their income tax assets and liabilities will be realized simultaneously.

2. Significant accounting policies and changes in significant accounting policies (continued)

i) Employee benefits

Coast Capital participates in a number of post-retirement benefit plans, including defined benefit and defined contribution plans as well as a multi-employer pension plan.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. Coast Capital provides post-retirement benefits to its eligible employees and the obligations are comprised of the amount of future benefits that employees have earned in return for their service in the current and prior periods. The liability recognized in the Consolidated Statement of Financial Position in respect of its defined benefit pension plans is the present value of the unfunded defined benefit obligations at the date of the Consolidated Statement of Financial Position. The defined benefit obligations are calculated annually by independent actuaries by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized immediately in OCI and are not recycled to the Consolidated Statement of Income.

Coast Capital also provides a group RRSP to its employees, whereby all of the contributions are funded by Coast Capital. For these defined contribution plans, Coast Capital pays a specified flat rate for employer contributions. Coast Capital has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense in the periods during which services are rendered by employees.

Coast Capital is a participating member of the British Columbia Credit Union Employees' Pension Plan ("the Plan"), a multi-employer defined benefit plan. Each member credit union is exposed to the actuarial risks of the other employers with the result that, in Coast Capital's opinion, there is no reasonable way to allocate any defined benefit obligations. The Plan has informed Coast Capital that they are not able to provide defined benefit information on a discrete employer basis as the investment records are not tracked by individual employer and each employer is exposed to the actuarial risks of the Plan as a whole. Accordingly, Coast Capital's participation in the Plan is accounted for as a defined contribution plan with contributions recorded on an accrual basis.

j) Provisions

A provision is recognized if, as a result of a past event, Coast Capital has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

k) Foreign currency translation

Transactions in foreign currencies are translated to the functional currency at the exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items carried at amortized cost is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period and the amortized cost in foreign currency translated at the spot exchange rate at the end of the reporting period. Revenues and expenses are translated using average spot exchange rates. Foreign currency differences arising on translation are recognized in the Consolidated Statement of Income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3. Future accounting changes

a) IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 Leases ("IFRS 16"), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a lease contract. IFRS 16 replaces the previous leases standard, IAS 17 Leases ("IAS 17"), and related interpretations. IFRS 16 requires most leases, including operating leases, to be recorded on the balance sheet as right-of-use assets, resulting in an increase in lease assets and corresponding lease liabilities. Coast Capital is currently assessing the potential impact of the adoption of IFRS 16 and the recognition of lease assets and financial liabilities on its consolidated financial statements and regulatory capital ratios. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

b) Conceptual framework for financial reporting

In March 2018, the IASB issued a revised version of the Conceptual Framework for Financial Reporting which assists the IASB in developing IFRS standards and serves as an accounting policy guide when no IFRS standard applies. The revision is effective for Coast Capital's fiscal year beginning January 1, 2020 with early adoption permitted. Coast Capital is in the process of assessing the impact of the framework.

4. Interest bearing deposits with financial institutions

Deposits consist of financial assets purchased through Central 1 and are classified as at December 31, 2018 under IFRS 9 and as at December 31, 2017 under IAS 39 as follows:

	2018	2017
	IFRS 9	IAS39
Statutory deposits with Central 1, classified as available for sale	–	1,127,885
Non-statutory deposits with Central 1, classified as loans and receivables	–	411,170
Non-statutory deposits with Central 1, classified as FVOCI	49,049	–
	49,049	1,539,055

As a FCU, Coast Capital is no longer required to hold statutory deposits with Central 1. Accordingly, on Continuance as a FCU in November 2018, Coast Capital redeemed all its statutory deposits with Central 1. Upon redemption, a loss of $8,544 was recognized in Other Income as the fair value of $1,219,671 was higher than the carrying amount of the deposits of $1,228,215.

In November 2018, Coast Capital also redeemed a portion of its non-statutory deposits with Central 1. Upon redemption, a loss of $201 was reclassified from Other Comprehensive Income to Other Income as the fair value of the deposits of $427,339 was lower than the cost of the deposits of $427,540.

5. Financial investments

Financial investments are classified as at December 31, 2018 under IFRS 9 and as at December 31, 2017 under IAS 39 as follows:

	2018	2017
	IFRS 9	IAS39
Debt securities, classified as FVTPL (designated)[1]	–	23,586
Debt securities, classified as available for sale	–	348,556
Debt securities, classified as FVOCI	3,094,869	–
Equity securities, classified as available for sale	–	71,938
Equity securities, classified as FVTPL	1,808	–
Equity securities, classified as FVOCI (irrevocable election)	2,767	–
	3,099,444	444,080

Financial investments consist of investments in both debt securities and equity securities. Investments in debt securities consist of bankers' acceptances with Canadian chartered banks, corporate, provincial and municipal bonds rated AA or higher and commercial paper rated R1 low or higher. Equity securities classified as FVTPL are comprised of membership shares in Central 1; equity securities classified as FVOCI (irrevocable election) are comprised of equity investments outside of Central 1.

Effective December 31, 2017, Central 1 announced that 24.95% of Coast Capital's Class E shares would be redeemed at a value of $100 per share subsequent to year-end. These shares were recorded at a fair value of $100 per share, with the gain of $10,082 being recorded in Other Comprehensive Income ("OCI"), net of tax of $2,083 under IAS 39.

In March 2018, Central 1 proceeded to redeem 24.95% of Coast Capital's Class E shares at a value of $100 per share as it had previously announced. On transition to IFRS 9 effective January 1, 2018, Coast Capital retrospectively applied the FVTPL classification of Central 1 shares and accordingly, recorded an adjustment of $10,082 to its opening retained earnings comprised of the $10,082 previously sitting in OCI under IAS 39, net of tax of $2,083.

In September 2018, Central 1 approved the redemption of Coast Capital's Class E shares at its redemption value of $100 per share. The redemption was contingent on Coast Capital receiving formal approvals to become a FCU. Coast Capital received formal approval on October 30, 2018 to become a FCU effective November 1, 2018. Upon receiving approval, Coast Capital adjusted the carrying value of Class E shares to its redemption value of $100 per share for a total of $36,593 with a gain of $36,590 recorded in Other Income. Coast Capital received the redemption value from Central 1 in November 2018 upon full redemption by Central 1.

Coast Capital also has equity investments in other affiliated co-operative entities that complement and support the credit union system. All such shares are classified as FVOCI using an irrevocable election under IFRS 9. Given insufficient information, attempts to establish fair valuation models have resulted in significant variability, and as such, cost is used to measure such equity securities, as it represents the best estimate of fair value.

1 These securities matured in January 2018 and Coast did not hold similar securities as at December 31, 2018.

6. Loans and allowance for credit losses

a) Maturity of loans

Substantially all of Coast Capital's loans are written on properties and businesses located in the Metro Vancouver, Vancouver Island and Okanagan regions of British Columbia. Of the amounts reported, $13,943,153 (2017 – $12,284,685) is expected to be received more than 12 months after the reporting date.

b) Allowance for expected credit losses

				2018
	Stage 1	Stage 2	Stage 3	Total
Loans: Residential mortgages				
Balance beginning of year	10,942	2,085	302	13,329
Transfer to Stage 1	1,433	(1,318)	(115)	–
Transfer to Stage 2	(332)	332	–	–
Transfer to Stage 3	(4)	(12)	16	–
	12,039	1,087	203	13,329
Net remeasurment of loss allowance	(487)	627	(74)	66
Loan originations	1,931	312	–	2,243
Derecognitions and maturities	(1,268)	(216)	–	(1,484)
Write-offs	–	–	(11)	(11)
Balance end of year	12,215	1,810	118	14,143
Loans: Personal loans				
Balance beginning of year	1,672	242	–	1,914
Transfer to Stage 1	70	(61)	(9)	–
Transfer to Stage 2	(19)	35	(16)	–
Transfer to Stage 3	(9)	(7)	16	–
	1,714	209	(9)	1,914
Net remeasurment of loss allowance	(394)	37	2,159	1,802
Loan originations	413	174	79	666
Derecognitions and maturities	(154)	(121)	(24)	(299)
Write-offs	–	–	(1,939)	(1,939)
Balance end of year	1,579	299	266	2,144

6. Loans and allowance for credit losses (continued)

	Stage 1	Stage 2	Stage 3	Total
Loans: Commercial mortgages and loans				
Balance beginning of year	11,980	952	5	12,937
Transfer to Stage 1	354	(354)	–	–
Transfer to Stage 2	(82)	82	–	–
Transfer to Stage 3	–	(10)	10	–
	12,252	670	15	12,937
Net remeasurment of loss allowance	3,516	94	(15)	3,595
Loan originations	3,044	87	–	3,131
Derecognitions and maturities	(2,824)	(328)	–	(3,152)
Write-offs	–	–	–	–
Balance end of year	15,988	523	–	16,511

	Stage 1	Stage 2	Stage 3	Total
Loans: Equipment financing				
Balance beginning of year	4,448	107	2,580	7,135
Transfer to Stage 1	29	(29)	–	–
Transfer to Stage 2	(36)	36	–	–
Transfer to Stage 3	(60)	(37)	97	–
	4,381	77	2,677	7,135
Net remeasurment of loss allowance	(2,627)	(16)	2,840	197
Loan originations	3,225	9	263	3,497
Derecognitions and maturities	(591)	(40)	(38)	(669)
Write-offs	–	–	(5,237)	(5,237)
Balance end of year	4,388	30	505	4,923

c) Key economic variables

The allowance for performing loans is sensitive to changes in both economic forecasts and the probability-weight assigned to each forecast scenario. Each macroeconomic scenario used affects the estimated PD, LGD, and EAD inputs used to estimate Stage 1 and Stage 2 expected credit losses. A five year projection of macroeconomic conditions was performed, and the assumption that PD, LGD, and EAD will revert to the long term average is in years 3 to 5.

The following table shows the key economic variables that were used to estimate expected credit loss on performing loans during the forecast period. Macroeconomic variables were selected for each portfolio and used to model expected credit loss. Values shown represent key economic variables in the expected credit loss model at the end of period averages for the first 12 months, and the period averages for the remaining horizon.

6. Loans and allowance for credit losses (continued)

	Base case scenario		Alternative scenario optimistic		Alternative scenario pessimistic	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Driver						
Canada real GDP	2.12	1.75	2.25	1.82	2.02	1.68
BC unemployment rate	4.98	5.00	4.93	4.83	5.03	5.17
BC nominal GDP	4.57	4.57	5.21	5.21	4.04	4.04
Housing price index % change	2.25	2.25	3.71	3.71	1.07	1.07

The reported expected credit losses for financial assets in Stage 1 and Stage 2 under the optimistic macroeconomic conditions, with other assumptions held constant including the application of experienced credit adjustment would be $33,088.

The reported expected credit losses for financial assets in Stage 1 and Stage 2 under the pessimistic macroeconomic conditions, with other assumptions held constant including the application of experienced credit adjustment would be $41,805.

7. Risk management

Coast Capital has established an Enterprise Risk Management Framework (ERMF) that defines a risk management methodology that ensures risks are effectively identified, assessed, measured, controlled, monitored, and reported within an approved risk appetite. The key risks related to our financial instruments are classified as liquidity and funding risk, credit and counterparty risk, concentration risk, market risk, and interest rate risk. Risk management practices and key measures are disclosed in the text and tables presented in Risk Information Specific to Our Financial Reporting section of the 2018 Management's Discussion and Analysis and are an integral part of the Consolidated Financial Statements.

The following tables present the gross carrying amount of loans measured at amortized cost as at December 31, 2018. Stage 1 represents those performing loans carried with a 12 month expected credit loss, Stage 2 represents those performing loans carried with a lifetime expected credit loss, and Stage 3 represents those loans with a lifetime credit loss that are credit impaired.

				2018
	Stage 1	Stage 2	Stage 3	Total
Loans: Residential mortgages				
Good	7,904,802	18,158	–	7,922,960
Satisfactory	2,839,658	49,968	–	2,889,626
Below satisfactory	170,573	105,580	–	276,153
Impaired	–	–	4,262	4,262
Allowance for credit losses	(12,215)	(1,810)	(118)	(14,143)
Carrying amount	10,902,818	171,896	4,144	11,078,858
Loans: Personal loans				
Good	28,304	132	–	28,436
Satisfactory	287,938	3,660	–	291,598
Below satisfactory	31,769	4,953	–	36,722
Not rated	(74)	1,099	–	1,025
Impaired	–	–	559	559
Allowance for credit losses	(1,579)	(299)	(266)	(2,144)
Carrying amount	346,358	9,545	293	356,196

7. Risk management (continued)

	Stage 1	Stage 2	Stage 3	Total
Loans: Commercial mortgages and loans				
Good	1,231,940	9,479	–	1,241,419
Satisfactory	2,577,276	40,871	–	2,618,147
Below satisfactory	–	1,965	–	1,965
Impaired	–	16	3,896	3,912
Allowance for credit losses	(15,988)	(523)	–	(16,511)
Carrying amount	3,793,228	51,808	3,896	3,848,932
Loans: Equipment Financing				
Satisfactory	839,715	3,406	–	843,121
Impaired	–	–	2,511	2,511
Allowance for credit losses	(4,388)	(30)	(505)	(4,923)
Carrying amount	835,327	3,376	2,006	840,709

8. Premises and equipment

Original cost	Land	Buildings	Furniture and equipment	Leasehold improvements	Total
Balance at January 1, 2017	57	1,581	53,250	36,655	91,543
Additions during the year	–	–	6,818	124	6,942
Disposals during the year	–	–	(524)	(34)	(558)
Balance at December 31, 2017	57	1,581	59,544	36,745	97,927
Additions during the year	–	–	3,554	937	4,491
Disposals during the year	–	–	–	–	–
Balance at December 31, 2018	57	1,581	63,098	37,682	102,418

Accumulated Depreciation	Land	Buildings	Furniture and equipment	Leasehold improvements	Total
Balance at January 1, 2017	–	1,110	36,759	23,446	61,315
Additions during the year	–	47	5,585	2,496	8,128
Disposals during the year	–	–	(182)	(6)	(188)
Balance at December 31, 2017	–	1,157	42,162	25,936	69,255
Additions during the year	–	47	6,002	2,228	8,277
Disposals during the year	–	–	–	–	–
Balance at December 31, 2018	–	1,204	48,164	28,164	77,532
Net book value, at December 31, 2017	57	424	17,382	10,809	28,672
Net book value, at December 31, 2018	57	377	14,934	9,518	24,886

9. Goodwill and intangible assets

Original cost	Software	Goodwill	Other intangible assets	Total
Balance at January 1, 2017	86,381	15,205	8,935	110,521
Additions during the year	6,741	–	–	6,741
Disposals during the year	(597)	–	–	(597)
Balance at December 31, 2017	92,525	15,205	8,935	116,665
Additions during the year	26,300	–	–	26,300
Disposals during the year	(7,070)	–	–	(7,070)
Balance at December 31, 2018	111,755	15,205	8,935	135,895

Accumulated depreciation	Software	Goodwill	Other intangible assets	Total
Balance at January 1, 2017	27,134	–	3,108	30,242
Amortization during the year	14,019	–	800	14,819
Disposals during the year	–	–	–	–
Balance at December 31, 2017	41,153	–	3,908	45,061
Amortization during the year	9,939	–	800	10,739
Disposals during the year	–	–	–	–
Balance at December 31, 2018	51,092	–	4,708	55,800
Net book value at December 31, 2017	51,372	15,205	5,027	71,604
Net book value at December 31, 2018	60,663	15,205	4,227	80,095

As at December 31, 2018, other intangible assets are comprised of purchased customer lists. Amortization of computer software and customer lists is recognized in Depreciation and Amortization in the Consolidated Statement of Income.

10. Other assets

	2018	2017
Accounts receivable	10,286	7,041
Prepaid expenses	26,154	21,735
Derivatives (Note 26)	4,233	(48)
Other	23,638	33,843
	64,311	62,571

11. Deposits

				2018
	Core retail and commercial members	External deposit agents	Institutional depositors	Total
Demand	6,248,507	17,714	–	6,266,221
Term	5,206,897	1,936,043	1,784,240	8,927,180
Registered plans	748,752	309,716	–	1,058,468
Class A membership shares	2,667	–	–	2,667
Class P non-equity shares	104	–	–	104
Accrued interest	79,928	42,763	–	122,691
Total	12,286,855	2,306,236	1,784,240	16,377,331

				2017
	Core retail and commercial members	External deposit agents	Institutional depositors	Total
Demand	6,316,079	27,774	–	6,343,853
Term	3,714,909	1,598,148	1,747,545	7,060,602
Registered plans	617,427	288,314	–	905,741
Class A membership shares	2,581	–	–	2,581
Class P non-equity shares	104	–	–	104
Accrued interest	29,466	24,085	–	53,551
Total	10,680,566	1,938,321	1,747,545	14,366,432

Of the amounts reported above, $3,550,408 (2017 – $2,251,534) is expected to be recovered or settled more than 12 months after the reporting date.

Coast Capital entered into fair value hedges, hedging interest rate risk on certain of its deposits. See Note 26 for detailed information on hedge accounting.

	Class A membership shares	Class P non-equity shares
Balance January 1, 2017	2,524	104
Issued during the year	912	–
Redeemed during the year	(855)	–
Balance December 31, 2017	2,581	104
Issued during the year	1,010	–
Redeemed during the year	(924)	–
Balance December 31, 2018	2,667	104

Class A shares are a membership requirement and are redeemable on demand upon cessation of membership and accordingly are classified as deposits. These are voting shares with a par value of $1 each. Coast Capital has authorized an unlimited number of Class A shares. All issued shares are fully paid.

Amounts contributed by members for Class P shares can be withdrawn on demand or redeemed at any time by Coast Capital and accordingly are classified as deposits. These shares have a life insurance component such that the shareholder's estate is paid double the value of the share upon death of the shareholder. These shares do not participate in any annual dividend. Coast Capital has authorized an unlimited number of Class P shares, each with a par value of $1. All issued shares are fully paid.

12. Borrowings

				2018		2017	
	Currency	Interest rate	Maturity date	Face value	Carrying amount	Face value	Carrying amount
Commercial papers	CAD	2.17-2.36 %	January 2, 2019 to March 14, 2019	290,000	289,278	280,000	279,523
Floating rate note	CAD	2.63 %	February 28, 2020	175,000	175,000	–	–
Term loan	CAD	1.34 %	January 15, 2018	–	–	40,000	39,937
Total borrowings				465,000	464,278	320,000	319,460

On August 28, 2018, Coast Capital issued $175,000 of floating rate deposit notes with interest calculated and paid quarterly using a floating rate based on 3-month CDOR.

On January 15, 2018, Coast Capital fully paid its term loan at its face value of $40,000.

13. Transfers of mortgage receivables

As part of its program of liquidity, capital and interest rate risk management, Coast Capital enters into arrangements to fund mortgage growth by selling loans to unrelated third parties. Coast Capital reviews these securitization arrangements in order to determine whether they should result in all or a portion of the transferred mortgages being derecognized from the Consolidated Statement of Financial Position. The derecognition requirements include an assessment of whether Coast Capital's rights to contractual cash flows have expired or have been transferred or whether an obligation has been undertaken by Coast Capital to pay the cash flows collected on the underlying transferred assets over to a third party. The derecognition standards also include an assessment of whether substantially all the risks and rewards of ownership have been transferred.

The amount of residential mortgages, including accrued interest, that were transferred but that were not derecognized at December 31, 2018 was $793,085 (December 31, 2017 – $844,037). Coast has also recognized $1,155,211 (December 31, 2017 – $1,118,025) of secured borrowing relating to securitization transactions and repurchasing agreements collateralized by mortgage-backed securities as Coast Capital did not transfer substantially all of the risks and rewards of ownership, principally because it did not transfer prepayment, interest and credit risk of the mortgages in the securitization. The residential mortgages are categorized as loans and they are held as security for this secured borrowing. The average weighted average interest rate on the secured borrowing was 1.67% (2017 – 1.64%) and mature at the same rate as the underlying mortgages.

As a result of the transactions, Coast Capital receives the net differential between the monthly interest receipts of the mortgages and the interest expense on the borrowings.

The following table summarizes quantitative information about mortgages securitized by Coast Capital as at December 31, 2018:

Type of loan	Total principal amount of mortgages	Principal amount of loans over 60 days past due	Average balances
Residential	792,309	–	784,187

Coast Capital has no obligation to repurchase the securitized mortgages. The mortgages and the secured borrowing mature as follows:

	Mortgages	Secured borrowings
2019	59,482	86,726
2020	293,449	427,857
2021	331,227	482,939
2022	14,110	20,572
2023	94,042	137,117
Total	792,310	1,155,211

14. Assets pledged as collateral

In the normal course of business, Coast Capital pledges assets to secure credit facilities and other financing arrangements. Asset pledging transactions are conducted under terms that are common and customary to standard financing activities. Standard risk management controls are applied with respect to asset pledging.

Assets which are pledged as collateral are related to proceeds from securitizations and other borrowings. As at December 31, 2018, Coast Capital has pledged $1,155,211 (2017 – $1,118,025) of residential mortgages in relation to its Secured borrowings, $1,177,991 (2017 – $262,484) in relation to other borrowings, and $9,069 (2017 – nil) in relation to its derivative position with a counterparty. Prior to Continuance, Coast Capital pledged its assets to Central 1 through a general security agreement in relation to its borrowing line; the general security agreement was released on November 1, 2018 upon Continuance.

15. Subordinated debentures

Interest rate	Maturity date	Earliest redemption date at par value	2018	2017
5.00% (i)	May 3, 2028	May 3, 2023	201,036	–
5.25% (ii)	Oct 29, 2030	October 29, 2025	99,256	–
Total			300,292	–

i) On May 3, 2018, Coast Capital issued $200.0 million principal amount of Series 1 subordinated notes due May 3, 2028. The notes bear interest at a fixed rate of 5.0% per annum, payable in equal semi-annual payments in arrears on May 3 and November 3 of each year, commencing November 3, 2018, but excluding May 3, 2023. Interest payments including and after May 3, 2023 are at a floating rate based on 3-month CDOR plus 244 basis points payable quarterly. Subject to regulatory approval, Coast Capital has the option to redeem the notes on or after May 3, 2023, at par, plus accrued and unpaid interest to, but excluding, the date fixed for redemption. The subordinated note is recorded, net of transaction costs of $1.2 million, at amortized cost using the effective interest rate method.

Coast Capital entered into a fair value hedge to hedge against the interest rate risk on this subordinated note. See Note 26 for detailed information on hedge accounting.

ii) On October 29, 2018 Coast Capital issued $100.0 million principal amount of Series 2 subordinated notes due October 29, 2030. The notes bear interest at a fixed rate of 5.25% per annum, payable in equal semi-annual payments in arrears on April 29 and October 29 of each year, commencing April 29, 2019, but excluding October 29, 2025. Interest payments including and after October 29, 2025 are at a floating rate based on 3-month CDOR plus 242 basis points payable quarterly. Subject to regulatory approval, Coast Capital has the option to redeem the notes on or after October 29, 2025, at par, plus accrued and unpaid interest to, but excluding, the date fixed for redemption. The subordinated note is recorded, net of transaction costs of $0.7 million, at amortized cost using the effective interest rate method.

16. Changes in liabilities arising from financing activities

Accumulated depreciation	Beginning balance January 1, 2018	Cash flow from financing activities	Ending balance December 31, 2018
Borrowings	319,460	144,818	464,278
Secured borrowings	1,118,025	37,186	1,155,211
Subordinated debt	–	302,326	302,326
Total borrowings	1,437,485	484,330	1,921,815
Class B shares	28,851	(2,880)	25,971
Class A shares	2,524	86	2,610
Total share redemption	31,375	(2,794)	28,581
Total	1,468,860	481,536	1,950,396

Accumulated depreciation	Beginning balance January 1, 2017	Cash flow from financing activities	Ending balance December 31, 2017
Borrowings	–	319,460	319,460
Secured borrowings	869,138	248,887	1,118,025
Subordinated debt	–	–	–
Total borrowings	869,138	568,347	1,437,485
Class B shares	30,444	(2,181)	28,263
Class A shares	2,524	57	2,581
Total share redemption	32,968	(2,124)	30,844
Total	902,106	566,223	1,468,329

17. Other liabilities

	2018	2017
Accounts payable and accruals	92,690	117,937
Derivatives (Note 26, 27(b))	5,386	9,013
Deferred fee income	6,920	2,393
	104,996	129,343

18. Capital management

a) Objectives, policies and processes

Coast Capital's objectives in managing financial capital resources include: generating value to all stakeholders but primarily to members while ensuring the long term viability of the credit union by holding a level of capital deemed sufficient to protect against unanticipated losses; providing prudent depositor security; and exceeding applicable regulatory requirements and long-term internal targets.

Coast Capital's policy is to hold capital in a range of different forms and from diverse sources but with an emphasis on growing retained earnings. Retained earnings represent the highest quality, the most stable, and the least expensive form of capital.

To ensure processes are in place to meet its objectives, Coast Capital follows policies approved by the Board of Directors. Management monitors capital levels on a regular basis. The capital plan is updated annually and provides a forecast of capital requirements over a three-year horizon.

Coast Capital's Finance and Treasury departments manage compliance with policies monthly, with regular monitoring by the Asset and Liability Committee ("ALCO"). ALCO is chaired by the Vice President, Treasury, and includes the senior executive management team. Departures from policy are reported to the Board of Director's Risk Review Committee ("RRC") with a detailed action plan to resolve any deviation.

18. Capital management (continued)

b) Regulatory capital

Coast Capital remained fully compliant with the applicable regulatory capital requirements throughout the year ended December 31, 2018 as well as Board and management limits.

2018 under OSFI Requirements at Continuance

Coast Capital manages its capital in accordance with its internal policy as reviewed and approved by its Board of Directors on an annual basis, with review and recommendations and input coming from its Risk Review Committee and its Audit and Finance Committee. On Continuance, Coast Capital's internal policy was developed to adhere to regulations and guidelines as set out by the *Bank Act* and the OSFI Capital Adequacy Requirements ("Federal Requirements"). Prior to Continuance, Coast Capital adhered to regulatory capital requirements set by the Financial Institutions Commission of British Columbia (FICOM) based on the ratio of capital to risk-weighted assets.

The move to OSFI regulation changed the risk weightings assigned to the different assets Coast Capital holds, and changed how Coast Capital calculates its regulatory capital. Capital is managed in accordance with requirements of the Basel III Capital Adequacy Accord (Basel III). In 2018, Coast Capital have implemented processes to measure, track, and report its regulatory capital ratios based on OSFI guidelines, which are based on minimum Basel III capital ratios adopted by the Basel Committee on Banking Supervision (BCBS).

Under Federal Requirements, Coast Capital must maintain a minimum capital base, plus an incremental internal target, based on a ratio of capital to risk weighted assets.

In accordance with Basel III, the minimum capital base is comprised of:

- Tier 1 capital, the most permanent and subordinated forms of capital and consists of Common Equity Tier (CET) 1 capital and Additional Tier (AT) 1 capital; and
- Tier 2 capital, which consists of supplementary capital instruments.

In accordance with OSFI's requirements, the minimum regulatory capital ratios, including a 250 basis point capital conservation buffer, are 7.0% CET1, 8.5% Tier 1 and 10.5% Total Capital.

Coast Capital uses the Standardized Approach for calculating risk-weighted assets for capital measurement purposes. Under the Standardized Approach, Coast Capital uses OSFI-recognized external credit rating agencies to determine the credit risk ratings of exposures. The external credit rating agencies used are Standard & Poor's, Moody's and DBRS. To assign risk weights to the exposures of Coast Capital based on the credit risk ratings, we use OSFI's prescribed methodology under the Standardized Approach.

OSFI provides additional guidance regarding the treatment of non-qualifying capital instruments that specifies that certain capital instruments, which were eligible capital instruments under provincial guidelines prior to continuance as a federally regulated institution, would be subject to inclusion under the OSFI CAR Guidelines and a 10% phase-out per year starting at continuance.

The table below contains the capital structure and regulatory ratios as at December 31, 2018. Coast Capital was in compliance with OSFI's capital requirements throughout the year.

	2018
Regulatory capital, net of deductions	
Common equity tier 1	1,123,754
Tier 1	1,123,754
Total	1,460,586
Total risk-weighted assets	9,308,607
Regulatory capital ratios	
Common equity tier 1	12.07
Tier 1	12.07
Total	15.69
Leverage ratio	5.62

18. Capital management (continued)

2017 and 2018 prior to Continuance under FICOM Requirements

In 2017 and 2018, prior to Continuance, capital requirements were regulated by the Financial Institutions Commission of British Columbia ("FICOM") using the risk-weighted approach developed by the Bank for International Settlements ("BIS"). Under FICOM, total capital is comprised of both primary and secondary capital. FICOM established a minimum regulatory capital standard based on a ratio of capital to risk-weighted assets of 8% and a supervisory target of 10% which were $644,512 and $805,640, respectively, in 2017. FICOM also required a credit union to set its own internal capital target above this limit, which Coast Capital set at 13% or $1,047,333 in 2017. At least 50% of a credit union's capital base, for the purpose of meeting the standard, must consist of primary capital, known as Tier 1.

Tier 1 capital is the permanent capital of Coast Capital, comprised primarily of retained earnings but also voting shares, qualifying investment shares, and contributed surplus. It is offset by deferred income tax assets and various capital deductions such as goodwill as prescribed by FICOM. Investment share redemption is subject to limitations, reviewed at least annually, ensuring adequate capital for both regulatory and operational purposes.

Secondary capital, also known as Tier 2 capital, includes subordinated debentures, other investment shares, and 50% of a credit union's portion of retained earnings in the Credit Union Deposit Insurance Corporation ("CUDIC"), Central 1 and Stabilization Central Credit Union ("Stab Central").

A credit union's assets are weighted according to six categories of relative risk ranging from 0% to 200%. Residential mortgages, the largest portion of Coast Capital's assets, are risk-weighted on average at 35%, while commercial loans, the second largest portion, are risk-weighted at 100%.

As at December 31, 2017, Coast Capital's capital ratio of 14.69% was greater than the minimum requirement and Coast Capital reported the following components of regulatory capital:

	2017
Tier 1 capital	1,056,988
Tier 2 capital	126,807
Total regulatory capital	1,183,795

19. Net interest income

Interest income	2018	2017
Financial instruments, designated at FVTPL	1,808	628
Financial instruments, measured at FVOCI	40,958	–
Financial instruments, measured at amortized cost	567,669	454,551
Financial instruments, measured at AFS[1]	–	21,056
Derivatives	1,467	34
	611,902	476,269
Interest expense		
Deposits	252,405	137,838
Borrowings	8,766	4,615
Secured borrowings	16,260	15,322
Subordinated debt	7,790	–
	285,221	157,775
	326,681	318,494

1 Reported under IAS 39.

20. Other income

	2018	2017
Credit card revenues	8,697	7,500
Safety deposit box rental income	1,396	1,432
Other income	7,711	10,027
	17,804	18,959

21. Salaries and employee benefits

	2018	2017
Salaries	140,708	132,312
Benefits	16,504	15,353
Post retirement costs	9,336	9,102
Termination benefits	4,543	4,264
Other	56	55
	171,147	161,086

22. Administration expenses

	2018	2017
ATM/POS operations	10,648	11,231
CUDIC assessments	11,212	11,342
CDIC assessments	1,956	–
Assessments to Central 1 and FICOM assessments	3,852	3,501
Chequing service charges	4,057	3,913
Marketing	7,956	7,828
Bonding and other insurance	2,389	2,239
Professional services	5,839	5,934
Consultants	19,045	9,290
Stationery, telephone, and postage	5,497	5,765
Travel, meals, and entertainment	4,533	3,950
Loan processing	4,860	5,279
Courier	923	991
Training and recruitment	1,623	1,852
Other	6,111	4,543
	90,501	77,658

23. Provision for income taxes

	2018	2017
Current income taxes		
Current year	24,452	15,853
	24,452	15,853
Deferred income taxes		
Origination and reversal of temporary differences	(3,344)	(960)
Change in estimates of tax rate	–	(1,838)
	(3,344)	(2,798)
Total income taxes	21,108	13,055

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 27% (2017 – 26%) to income before income taxes. The reasons for the differences are as follows:

	2018		2017	
	Amount	% of pre-tax income	Amount	% of pre-tax income
Combined federal and provincial statutory income taxes	27,802	27.0%	23,016	26.0%
Reduction applicable to credit unions	(11,565)	(10.0%)	(5,951)	(6.7%)
Change in estimate of tax rates	–	–	(1,838)	(2.1%)
Change in estimate of tax reversals	2,259	2.2%	(161)	(0.2%)
Other	2,612	1.3%	(2,011)	(2.3%)
Effective income tax rate	21,108	20.5%	13,055	14.7%

The components of the net deferred income tax asset are as follows:

	2018	2017
Allowance for credit losses	6,309	6,543
Deferred revenue/prepaid expense	(4,390)	(7,090)
Restructuring costs	579	449
Employee future benefits	725	805
Capital and intangible assets	(788)	415
Loss carry-forwards	2,850	2,008
Other	142	(34)
	5,427	3,096

24. Commitments and contingent liabilities

a) Commitments

Lease commitments

Coast Capital occupies premises under long-term leases extending to 2030. Aggregate basic annual lease payments are as follows:

	2018	2017
Not later than 1 year	15,535	15,268
Later than 1 year and less than 5 years	52,842	48,553
Later than 5 years	42,325	47,539
	110,702	111,360

24. Commitments and contingent liabilities (continued)

During the year ended December 31, 2018 an amount of $23,247 was recognized as an expense in the Statement of Income in respect of operating leases for minimum lease payments (2017 – $22,730) and $195 was recognized as an expense in the Statement of Income in respect of operating leases for sublease payments (2017 – $196).

Coast Capital leases a number of premises for its administrative functions and for its branch operations. The leases typically run for a period of 5 to 15 years and most agreements have an option to renew the leases for an additional 5 to 10 years after that date at rates which reflect prevailing market prices. Also, at two branch locations, Coast Capital has the right of first refusal to purchase the leased premises from the lessors.

Credit instruments

Coast Capital enters into various Off-Statement of Financial Position commitments such as letters of credit and loan commitments. These are not reflected in the Consolidated Statement of Financial Position. In the normal course of business, many of these arrangements will expire or terminate without being drawn upon, and therefore the actual credit risk is expected to be less than the amounts set forth. Details of these are as follows:

	2018	2017
Lines of credit, unfunded	2,715,466	2,588,634
Letters of credit	69,012	70,715

Coast Capital, as part of its commercial lending services program, issues letters of credit and guarantees. These are issued in the normal course of business. Coast Capital issues guarantees that commercial clients will perform certain work or services on behalf of third parties. Additionally, Coast Capital may issue guarantees to facilitate commercial trade of goods and services between clients and third parties. Coast Capital's policy for requiring collateral security with respect to these instruments held is generally the same as for loans. As at December 31, 2018, all but $53,080 (2017 – $54,203) of the total letters of credit and guarantees issued were secured by deposits by the borrower with Coast Capital. Management estimates that there will be no losses under these obligations that require an allowance for credit losses.

b) Contingencies

Coast Capital is involved in various claims arising in the normal course of business and provisions for these claims have been included in liabilities where management has considered this to be appropriate. Coast Capital does not expect the outcome of any of these proceedings, in aggregate, to have a material effect on the consolidated financial position or our results of operations.

25. Interest rate sensitivity position

Interest rate risk results from differences in the maturities or re-pricing dates of interest rate sensitive assets and liabilities, both on and off the Consolidated Statement of Financial Position. The resultant mismatch, or gap, as it is commonly called, may produce favourable or unfavourable variances on interest margins depending on the direction of the gap, the direction of interest rate movements and/or the volatility of those interest rates. The maturity or repricing profiles change daily in the ordinary course of business as members select different terms of mortgages, member loans and deposits.

25. Interest rate sensitivity position (continued)

2018	Variable Rate	Fixed-rate terms 0-3 months	4-6 months	7-12 months	1-3 years	3 years +	Non-interest sensitive	Total	%
Asset									
Cash and investments	–	309,126	356,344	364,977	861,137	954,122	474,799	3,320,505	1.25
Loans	5,527,908	426,540	483,813	917,301	4,075,053	4,694,613	(533)	16,124,695	3.79
Residential mortgages	4,817,513	82,499	154,614	398,441	2,618,312	3,007,476	–	11,078,855	3.30
Personal loans	204,515	4,123	245	1,400	29,957	115,970	–	356,210	6.59
Commercial mortgages and loans	505,880	338,669	325,452	499,312	1,171,755	1,008,386	(533)	3,848,921	4.32
Equipment financing	–	1,249	3,502	18,148	255,029	562,781	–	840,709	6.54
Other assets	–	–	–	–	–	–	174,719	174,719	–
	5,527,908	735,666	840,157	1,282,278	4,936,190	5,648,735	648,985	19,619,919	
Asset yield	4.22%	1.52%	1.22%	2.13%	2.74%	2.97%	0.00%	–	3.32
Liabilities									
Deposits	4,458,127	1,763,295	1,204,986	3,466,960	2,986,653	563,755	1,933,555	16,377,331	2.21
Borrowings	175,000	289,278	–	–	–	–	–	464,278	1.39
Secured borrowings	–	149,996	–	83,293	665,565	255,748	609	1,155,211	1.39
Subordinated debt	–	–	–	–	–	300,292	–	300,292	2.95
Income taxes payable	–	–	–	–	–	–	14,276	14,276	–
Other liabilities	–	–	–	–	–	–	104,996	104,996	–
	4,633,127	2,202,569	1,204,986	3,550,253	3,652,218	1,119,795	2,053,436	18,416,384	
Total liability cost	0.71%	1.62%	2.01%	2.16%	2.48%	1.54%	0.00%	–	1.51
Members' equity									
Class B shares	26,554	–	–	–	–	–	–	26,554	–
Retained earnings	–	–	–	–	–	–	1,180,219	1,180,219	–
Accumulated other comprehensive income	–	–	–	–	–	–	(3,238)	(3,238)	–
	26,554	–	–	–	–	–	1,176,981	1,203,535	
Statement of financial position mismatch	868,227	(1,466,903)	(364,829)	(2,267,975)	1,283,972	4,528,940	(2,581,432)	–	–
Derivatives									
Asset	–	13,976	–	30,000	880,000	200,000	–	1,123,976	0.51
Liabilities	–	1,110,000	–	–	–	13,976	–	1,123,976	2.23
	–	(1,096,024)	–	30,000	880,000	186,024	–	–	–
Net mismatch	868,227	(2,562,927)	(364,829)	(2,237,975)	2,163,972	4,714,964	(2,581,432)	–	–

25. Interest rate sensitivity position (continued)

2017	Variable Rate	Fixed-rate terms 0-3 months	4-6 months	7-12 months	1-3 years	3 years +	Non-interest sensitive	Total	%
Asset									
Cash and investments	–	481,615	205,067	144,685	281,040	814,911	166,367	2,093,685	1.25
Loans	6,366,382	228,260	345,570	608,377	2,720,871	4,524,746	(5,324)	14,788,882	3.11
Other assets	–	–	–	–	–	–	165,943	165,943	–
	6,366,382	709,875	550,637	753,062	3,001,911	5,339,657	326,986	17,048,510	
Asset yield	3.47%	1.61%	2.15%	3.28%	3.36%	2.80%	0.00%	–	2.85
Liabilities									
Deposits	4,672,762	1,342,401	782,704	3,589,704	1,876,776	374,758	1,727,327	14,366,432	1.78
Borrowings	–	314,500	4,960	–	–	–	–	319,460	1.39
Secured borrowings	–	108,753	27,823	21,387	560,531	398,961	570	1,118,025	1.52
Income taxes payable	–	–	–	–	–	–	3,400	3,400	–
Other liabilities	–	–	–	–	–	–	129,343	129,343	–
	4,672,762	1,765,654	815,487	3,611,091	2,437,307	773,719	1,860,640	15,936,660	
Total liability cost	0.51%	1.26%	1.41%	1.71%	1.70%	1.79%	0.00%	–	1.10
Members' equity									
Class B shares	28,851	–	–	–	–	–	–	28,851	–
Retained earnings	–	–	–	–	–	–	1,084,983	1,084,983	–
Accumulated other comprehensive income	–	–	–	–	–	–	(1,984)	(1,984)	–
	28,851	–	–	–	–	–	1,082,999	1,111,850	–
Statement of financial position mismatch	1,664,769	(1,055,779)	(264,850)	(2,858,029)	564,604	4,565,938	(2,616,653)	–	–
Derivatives									
Asset	–	35,529	–	–	210,000	100,000	–	345,529	1.33
Liabilities	–	330,895	–	–	–	14,634	–	345,529	1.55
	–	(295,366)	–	–	210,000	85,366	–	–	–
Net mismatch	1,664,769	(1,351,145)	(264,850)	(2,858,029)	774,604	4,651,304	(2,616,653)	–	–

In managing interest rate risk, Coast Capital relies primarily upon its contractual interest rate sensitivity position adjusted for certain assumptions regarding customer behaviour preferences, which are based upon historical trends. Adjustments made include assumptions relating to early repayment of loans and customer preferences for demand, notice and redeemable deposits.

26. Derivative instruments

All derivative instruments, including hedging derivatives, are recorded at their fair value in the Consolidated Statement of Financial Position.

Types of derivatives

Coast Capital enters into the following types of derivatives:

	Notional amounts Maturities of derivatives						
	0-12 Months	1-3 Years	3-5 Years	Total 2018	Total 2017	Fair values 2018	Fair values 2017
Interest rate swaps							
Pay fixed	–	–	13,976	13,976	35,529	(5,386)	(9,013)
Receive fixed	30,000	880,000	200,000	1,110,000	310,000	3,844	388
Total interest rate swaps	30,000	880,000	213,976	1,123,976	345,529	(1,542)	(8,625)
Options							
Forward contracts	5,172	5,085	2,618	12,875	7,870	389	(436)
Total options	5,172	5,085	2,618	12,875	7,870	389	(436)
Total derivative contracts	35,172	885,085	216,594	1,136,851	353,399	(1,153)	(9,061)

- Interest rate swaps: these are contractual agreements between two parties to exchange a series of cash flows and are tools that Coast Capital uses to manage interest rate risk. Generally, counterparties exchange fixed and floating rate interest payments on a notional value. These contracts are linked to and adjust the interest rate sensitivity of a specific asset, liability, forecasted transaction or a specific pool of transactions with similar risk characteristics. Notional amounts are not exchanged.
- Options: these are contractual agreements that convey to the buyer the right but not the obligation to either buy or sell a specified amount of a currency, commodity, interest rate sensitive financial instrument or security at a fixed future date or at any time within a fixed future period.

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of volume of outstanding transactions, but do not represent credit or market risk exposure.

In addition, Coast Capital can classify the derivatives it uses into two broad categories according to their intended purpose:

Trading derivatives

Trading derivatives are transacted to generate trading income or include interest rate swaps that do not qualify as hedges for accounting purposes. Realized and unrealized gains and losses are recorded in Other Income in the Consolidated Statement of Income. Unrealized gains on trading derivatives are recorded as Other Assets and unrealized losses on trading derivatives are recorded as Other Liabilities in the Consolidated Statement of Financial Position.

Hedging derivatives

Coast Capital uses both cash flow and fair value hedges as part of its risk management strategy to hedge its exposure to interest rates. A derivative will qualify as a hedge if the hedge relationship is designated and formally documented at inception, detailing the particular risk management objective and strategy for the hedge, the specific asset, liability or cash flow being hedged, as well as how effectiveness will be assessed.

26. Derivative instruments (continued)

Cash Flow Hedges

Cash flow hedges are a type of hedging derivative used to modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted issuance of fixed-rate liabilities. A hypothetical derivative is used to measure the hedge risk of the hedged instrument. The hypothetical derivative matches the critical terms of the hedged items identically, and it perfectly offsets the hedged cash flow. The effectiveness of these hedging relationships is evaluated at inception of the hedge and on an ongoing basis, both retrospectively and prospectively using quantitative statistical measures of correlation. The main sources of ineffectiveness in cash flow hedges used by Coast Capital are differences in interest rate indices, tenor and reset/settlement frequencies between the hedging instrument and the hedged item.

During the year, Coast Capital recognized a gain of $121 (2017 – loss of $58) for ineffectiveness in cash flow hedges, which is recognized in interest expense in the Consolidated Statement of Income as it arises. See Note 2(c) for accounting policy of cash flow hedges.

Fair Value hedges

Fair value hedges modify exposure to changes in a fixed rate instrument's fair value caused by changes in interest rates. These hedges economically convert fixed rate assets and liabilities to floating rate. Interest rate swaps are used to hedge interest rate risk. A hypothetical derivative is used to measure the hedge risk of the hedged instrument. The hypothetical derivative matches the critical terms of the hedged items identically, and it perfectly offsets the hedged cash flow. To the extent that the change in the fair value of the derivative does not offset changes in the fair value of the hedged item for the risk being hedged, the net amount (hedge ineffectiveness) is recorded directly in Other Income. The main sources of ineffectiveness are the counterparty effect and Coast Capital's credit risk on the fair value of the swap, and the difference in terms such as fixed interest rate or reset/settlement frequency between the swap and the hedged item.

On May 4 and May 8, 2018, Coast Capital entered into two fair value hedges on certain of its fixed interest term deposits to hedge against interest rate risk. The hedged item is 76% of the selected deposits. Coast Capital entered into an interest rate swap that calls for receipt of interest at a fixed rate and payment of interest at a variable rate.

On May 3, 2018, Coast Capital entered into a fair value hedge on the subordinated note to hedge against interest rate risk. The hedged item is 100% of the 60 month 5.0% fixed rate of the subordinated note. Coast Capital entered into an interest rate swap that calls for receipt of interest at a fixed rate and payment of interest at a variable rate.

The amounts relating to derivatives designated as fair value hedging instruments, hedged items and hedge ineffectiveness for the year are as follows. See Note 2(c) for accounting policy of fair value hedges.

						2018
	Notional amount of hedging item		Carrying amount of hedging item		Gains (losses) used to calculated hedge ineffectiveness[1]	Carrying amount of hedged item[2]
	Asset	Liability	Asset	Liability		
Hedging item – interest rate swap contracts	800,000	–	3,537	–	3,537	–
Hedged item – deposit	–	–	–	–	(1,175)	601,175
Hedged item – subordinated debt	–	–	–	–	(2,192)	201,036
Total	800,000	–	3,537	–	170	802,211

1 Amount also represents accumulated changes in fair value as the swaps were entered into during the year. The ineffectiveness is recorded in other income.
2 Represents carrying value on the Consolidated Statement of Financial Position and includes amortized cost, plus fair value hedge adjustments.

26. Derivative instruments (continued)

The following tables indicate the periods in which the hedged cash flows associated with cash flow hedges are expected to occur and affect profit or loss:

2018	Expected cash flows	Less than 1 year	1 – 5 years	More than 5 years
Assets	8,037	4,068	3,969	–
Liabilities	12,958	6,726	6,232	–
Net cash inflow (outflow)	(4,921)	(2,658)	(2,263)	–

2017	Expected cash flows	Less than 1 year	1 – 5 years	More than 5 years
Assets	11,985	4,089	7,896	–
Liabilities	18,784	5,508	13,276	–
Net cash inflow (outflow)	(6,799)	(1,419)	(5,380)	–

The following table presents the Credit Risk Exposure of Derivatives:

			2018
	Replacement cost	Credit risk equivalent	Risk weighted asset
Interest rate swaps	3,844	9,314	1,863
Interest rate and currency options	–	–	–
Forward contracts	–	–	–
Equity options	389	1,316	263
Total	4,233	10,630	2,126

27. Fair value of financial instruments

There have been no significant changes to Coast Capital's approach and methodologies used to determine fair value measurements during the year ended December 31, 2018.

a) Fair value of financial instruments not carried at fair value on the balance sheet

The following table presents the fair values of Coast Capital's financial instruments that are currently not carried at fair value. Accordingly, the table below excludes financial instruments with a carrying value approximating fair value, such as cash, other assets, and other liabilities, and value of assets that are not financial instruments, such as premises and equipment, goodwill and intangible assets, and deferred tax assets.

The under noted fair values, presented for information only, reflect conditions that existed only at the respective statement of financial position dates and do not necessarily reflect future value or the amounts Coast Capital might receive or pay if it were to dispose of any of its financial instruments prior to their maturity.

27. Fair value of financial instruments (continued)

	2018		2017	
	Carrying value	Fair value	Carrying value	Fair value
Interest bearing deposits with financial institutions	–	–	1,127,650	1,127,650
Loans				
Residential Mortgages	11,093,001	11,014,463	10,309,861	10,253,515
Personal Loans	358,340	358,608	316,630	317,292
Commercial mortgages and loans and equipment financing[1]	4,697,463	4,722,033	4,183,285	4,209,037
	16,148,804	16,095,104	14,809,776	14,779,844
Deposits	16,377,331	16,408,956	14,366,432	14,385,797
Secured borrowings	1,155,211	1,172,131	1,118,025	1,096,042
Borrowings	464,278	463,568	319,460	319,460
Subordinated debentures	300,292	101,287	–	–
	18,297,112	18,145,942	15,803,917	15,801,299

b) Fair value hierarchy

For financial instruments measured at fair value in the Consolidated Statement of Financial Position, Coast Capital follows a three-level hierarchy to categorize the inputs used in valuation techniques to measure fair value. The hierarchy is as follows:

- Level 1: Inputs that are based on quoted prices in active markets.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments' valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect the differences between the instruments.

The following tables represent the fair values of Coast Capital's financial instruments, including derivatives, classified in accordance with the fair value hierarchy.

27. Fair value of financial instruments (continued)

Classified under IFRS 9				2018
	Level 1	Level 2	Level 3	Total
Financial Assets				
Interest bearing deposits with financial institutions				
Non-statutory deposits with Central 1, classified as FVOCI	–	49,049	–	49,049
Financial investments				
Debt securities, classified as FVOCI	2,161,127	933,742	–	3,094,869
Equity securities, classified as FVTPL	–	–	1,808	1,808
Equity securities, classified as FVOCI (irrevocable election)	–	–	2,767	2,767
Loans				
Commercial loan, classified as FVTPL	–	–	13,612	13,612
Derivative assets	389	3,844	–	4,233
	2,161,516	986,635	18,187	3,166,338
Financial Liabilities				
Term deposits	–	–	–	–
Subordinated debentures	–	–	–	–
Derivative liabilities	–	5,386	–	5,386
	–	5,386	–	5,386

Classified under IAS 39				2017
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial investments				
Debt securities, classified as available for sale	80,724	1,127,919	–	1,208,643
Debt securities, classified as trading securities	23,628	–	–	23,628
Equity securities, classified as available for sale	–	–	12,165	12,165
Loans				
Commercial loan, classified as FVTPL	–	–	14,268	14,268
Derivative assets	321	(369)	–	(48)
	104,673	1,127,550	26,433	1,258,656
Financial Liabilities				
Derivative liabilities	–	(9,013)	–	(9,013)
	–	(9,013)	–	(9,013)

1 Excludes a loan measured at FVTPL of $13,612 thousand (2017 – $14,268).

27. Fair value of financial instruments (continued)

The fair value of financial investments is determined by using quoted market values when available. For financial assets and liabilities where market quotes are not available, including loans, deposits, financial liabilities designated at FVTPL, Coast Capital uses valuation techniques to estimate fair value. These techniques include discounted cash flow models based on interest rates being offered for similar types of assets and liabilities with similar terms and risks as at the statement of financial position date. These techniques incorporate Coast Capital's estimate of assumptions that a market participant would make when valuing the instruments.

Fair values for equity securities are determined based on redemption value and where redemption value is not available and there is insufficient information to determine fair value, cost is used as it represents the best estimate of fair value (Note 5). Fair values of derivative financial instruments have been based on market price quotations.

The above noted fair values, presented for information only, reflect conditions that existed only at the respective statement of financial position dates and do not necessarily reflect future value or the amounts Coast Capital might receive or pay if it were to dispose of any of its financial instruments prior to their maturity.

c) Significant transfers

From time to time, transfers between various fair value hierarchy levels may result as there be may changes in the availability of quoted market prices or observable market inputs as a result of changes in market conditions. Transfers are recognized at the end of the reporting period. During the year ended December 31, 2018, there were no transfers of financial instruments between the different levels of the fair value hierarchy.

d) Changes in level 3 fair value measurements

The following table reconciles the opening and closing totals:

	Fair value at December 31, 2017	Issuances/ purchases	Redemptions/ settlements/ maturities	Dividends/ interest included in profit or loss	Fair value adjustments included in profit or loss	Fair value at December 31, 2018
Financial assets						
Equity securities, classified as FVTPL	12,165	–	(48,758)	1,808	36,593	1,808
Equity securities, classified as FVOCI	2,608	159	–	–	–	2,767
Commercial loan, classified as FVTPL	14,268	–	(1,092)	433	3	13,612
	29,041	159	(49,850)	2,241	36,596	18,187

Holding other assumptions constant, changing the current market rate used in the model to reasonably possible alternative assumptions would change the fair value of the commercial loan as follows:

	1% increase	1% decrease
Change in fair value	(391)	406

28. Financial assets and liabilities

a) Classification of financial assets and liabilities

2018 – Classified under IFRS 9	Note	FVOCI	FVOCI (designated)	FVTPL	FVTPL (designated)	Amortized cost	Total carrying amount
Financial assets							
Cash		–	–	–	–	172,012	172,012
Financial investments							
Interest bearing deposits with financial institutions	4	49,049	–	–	–	–	49,049
Debt securities	5	3,094,869	–	–	–	–	3,094,869
Equity securities	5	–	2,767	1,808	–	–	4,575
Loans	27	–	–	–	13,612	16,148,804	16,162,416
Derivatives	27	4,233	–	–	–	–	4,233
Other assets	10	–	–	–	–	28,003	28,003
Total financial assets		3,148,151	2,767	1,808	13,612	16,348,819	19,515,157
Financial liabilities							
Deposits		–	–	–	–	16,377,331	16,377,331
Borrowings		–	–	–	–	464,278	464,278
Secured borrowings		–	–	–	–	1,155,211	1,155,211
Subordinated debt		–	–	–	–	300,292	300,292
Income taxes payable		–	–	–	–	14,127	14,127
Derivatives	17	–	–	5,386	–	–	5,386
Other liabilities	17	–	–	–	–	101,228	101,228
Total financial liabilities		–	–	5,386	–	18,412,467	18,417,853

2017 – Classified under IAS 39	Note	AFS	AFS (designated)	FVTPL	FVTPL (designated)	Amortized cost	Total carrying amount
Financial assets							
Cash		–	–	–	–	110,550	110,550
Financial investments							
Interest bearing deposits with financial institutions	4	–	1,127,885	–	–	411,170	1,539,055
Debt securities	5	348,556	–	–	–	–	348,556
Equity securities	5	71,938	–	–	23,586	–	95,524
Loans	27	–	–		14,268	14,774,614	14,788,882
Derivatives	27	–	–	(48)	–	–	(48)
Other assets	10	–	–	–	–	34,248	34,248
Total financial assets		420,494	1,127,885	(48)	37,854	15,330,582	16,916,767
Financial liabilities							
Deposits		–	–	–	–	14,366,432	14,366,432
Borrowings		–	–	–	–	319,460	319,460
Secured borrowings		–	–	–	–	1,118,025	1,118,025
Income taxes payable		–	–	–	–	3,400	3,400
Derivatives	17	–	–	9,013	–	–	9,013
Other liabilities	17	–	–	–	–	120,330	120,330
Total financial liabilities		–	–	9,013	–	15,927,647	15,936,660

28. Financial assets and liabilities (continued)

b) Transition to IFRS 9

The following table summarizes the classification and measurement impact of adopting IFRS 9 as at January 1, 2018. Reclassifications represent movements of the carrying amount of financial assets and liabilities which have changed their classification. Remeasurement represents changes in the carrying amount of the financial assets and liabilities due to changes in their measurement. Impairment represents certain balances against allowance for credit losses based on the ECL model under IFRS 9.

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and AOCI as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model in which a financial asset is held and whether it meets the SPPI test.
- The determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss as it impacts the classification of financial liabilities.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

IFRS 9 is not applied to financial assets or liabilities that have been derecognized as at January 1, 2018.

28. Financial assets and liabilities (continued)

	IAS 39 measurement category	IFRS 9 measurement category	IAS 39 carrying amount	Reclassification	Remeasurement	IFRS 9 carrying amount	Note
Assets							
Cash	Amortized cost	Amortized cost	110,550	–	–	110,550	
Financial investments							
Debt securities							
	AFS (designated)	Amortized cost	1,127,885	–	6,005	1,133,890	(a)
	Amortized cost	FVOCI	411,170	–	(1,692)	409,478	(b)
	AFS	FVOCI	348,556	–	–	348,556	(c)
	FVTPL (designated)	FVTPL	23,586	–	–	23,586	(d)
Equity securities							
	AFS	FVTPL	69,330	–	–	69,330	(e)
	AFS	FVOCI (designated)	2,608	–	–	2,608	(f)
Total cash and financial investments			2,093,685	–	4,313	2,097,998	
Loans							
Residential mortgages	Amortized cost	Amortized cost	10,309,862	–	–	10,309,862	
Personal loans	Amortized cost	Amortized cost	316,632	–	–	316,632	
Commercial mortgages and loans	FVTPL	FVTPL	14,268	–	–	14,268	(g)
Commercial mortgages and loans and equipment financing	Amortized cost	Amortized cost	4,183,282	–	–	4,183,282	
Total loans			14,824,044	–	–	14,824,044	
Allowance for credit losses							
Residential	N/A	N/A	(6,650)	–	(6,679)	(13,329)	(h)
Personal loans	N/A	N/A	(2,355)	–	441	(1,914)	(h)
Commercial mortgages and loans	N/A	N/A	(26,157)	8,368	4,852	(12,937)	(h)
Equipment finance and auto loans	N/A	N/A	–	(8,368)	1,233	(7,135)	(h)
Total allowance for credit losses			(35,162)	–	(153)	(35,315)	(h)
Total loans net of allowance for credit losses			14,788,882	–	(153)	14,788,729	
Derivatives	FVTPL	FVTPL	(48)	–	–	(48)	
Remaining financial assets	Amortized cost	Amortized cost	34,248	–	–	34,248	
Non financial assets	N/A	N/A	131,743	–	(728)	131,015	
Total assets			17,048,510	–	3,432	17,051,942	
Liabilities and equity							
Deposits	Amortized cost	Amortized cost	14,366,432	–	–	14,366,432	
Secured borrowings	Amortized cost	Amortized cost	1,118,025	–	–	1,118,025	
Borrowings	Amortized cost	Amortized cost	319,460	–	–	319,460	
Income taxes payable	Amortized cost	Amortized cost	3,400	–	–	3,400	
Derivatives	FVTPL	FVTPL	9,013	–	–	9,013	
Remaining financial liabilities	Amortized cost	Amortized cost	120,330	–	–	120,330	
Total liabilities			15,936,660	–	–	15,936,660	
Other equity	N/A	N/A	28,851	–	–	28,851	
Retained earnings	N/A	N/A	1,084,983	–	9,929	1,094,912	(h),(i)
Accumulated other comprehensive income	N/A	N/A	(1,984)	–	(6,497)	(8,481)	(a),(b),(i)
Total liabilities and equity			17,048,510	–	3,432	17,051,942	

28. Financial assets and liabilities (continued)

(a) Statutory liquidity deposits held at Central 1 were reclassified from available-for-sale to amortized cost as they are held with the intent to collect contractual cash flows and those cash flows represented solely payments of principal and interest. The change in classification resulted in a remeasurement gain of $6,005 recorded to opening accumulated comprehensive income.

(b) Non statutory liquidity deposits held at Central 1 were reclassified from amortized cost to fair value through other comprehensive income as they are held with the intent to collect contractual cash flows and also with the intention to make sales in order to maximize returns while meeting portfolio mandates. The change in classification resulted in remeasurement loss of $1,692 recorded to opening accumulated comprehensive income.

(c) Non statutory liquidity investments held outside of Central 1 were reclassified from available-for-sale to fair value through other comprehensive income as they are held with the intent to collect contractual cash flows and also with the intention to make sales in order to maximize returns while meeting portfolio mandates. The change in classification did not result in a change in measurement.

(d) A euro-denominated bond measured at fair value through profit loss matured in January 2018.

(e) Holdings in Central 1 Shares were reclassified from available-for-sale to fair value through profit loss as required by IFRS 9 (refer to note 5) and did not require an election to value at fair value through other comprehensive income as allowed under IFRS 9 if such equity holdings met qualifying conditions.

(f) Certain equity investments outside of Central 1 were reclassified from available for sale and irrevocably designated as fair value through other comprehensive income classification. The change in classification did not result in a change in measurement.

(g) As at the date of transition, one commercial loan that is hedged, continues to be classified and measured at fair value through profit or loss on the basis that the designation will allow for reduction in the accounting mismatch that would otherwise occur as the related swap is measured at FVTPL.

(h) The impairment is the result of the adoption of the ECL model under IFRS 9. Equipment finance & auto loans was presented as part of Commercial mortgages and loans in 2017.

(i) Reclassification of gain of $10,082 (net of tax of $2,083) on Central 1 shares from AOCI to opening retained earnings upon transition from AFS under IAS 39 to FVTPL under IFRS 9.

29. Related-party transactions

Related parties of Coast Capital include subsidiaries, key management personnel and close family members of key management personnel.

A number of transactions were entered into with key management personnel in the normal course of business:

	2018	2017
Outstanding loans	3,374	4,139
Outstanding deposits	2,289	1,362

Loans are advanced to employees at interest rates that range from market rates to preferred rates, but directors are not eligible for this employee benefit. No individual allowances for credit losses have been recognized with respect to these loans (2017 – nil). Employee loans are recorded at their fair value in the Consolidated Statement of Financial Position with the difference between market values and carrying values being recognized as Salaries and Employee Benefits in the Consolidated Statement of Income.

The deposits possess the same terms and conditions as those extended to unrelated parties.

During the year, the following compensation was charged to Salaries and Employee Benefits in the Consolidated Statement of Income for key management personnel who are managers of Coast Capital and who have the authority and responsibility for planning, directing and controlling the activities of Coast Capital, directly or indirectly. These key management personnel are comprised of the President and Chief Executive Officer, Chief Financial Officer, Chief Commercial Officer, Chief Marketing Officer, Chief Business Transformation Officer, Chief Member and Employee Experience Officer, Chief Strategy & Innovation Officer, Chief Risk Officer, and General Counsel and Chief Corporate Development Officer.

			2018			2017
	Fixed compensation component	Variable compensation component	Total	Fixed compensation component	Variable compensation component	Total
Short-term employee benefits	3,350	1,177	4,527	3,164	1,829	4,993
Post-employment benefits	644	–	644	511	–	511
Other long-term benefits	–	817	817	–	392	392
	3,994	1,994	5,988	3,675	2,221	5,896
Termination benefits	2,673	–	2,673	952	–	952
	6,667	1,994	8,661	4,627	2,221	6,848

29. Related-party transactions (continued)

Employee benefits include amounts earned in that year. Short-term employee benefits are employee benefits which are payable within twelve months after December 31 of each year. This includes gross wages, incentive payments, all taxable/company-paid benefits, and perquisite allowances. Post-employment benefits are employee benefits which are payable after the completion of employment and this includes compensation made to retirement and pension plans. Other long-term employee benefits are employee benefits which are payable more than twelve months after December 31 of each year. This includes compensation under the long-term incentive plan. Termination benefits are employee benefits payable as a result of an employee's employment being terminated and include severance payments and accruals for pending severance offers.

During the year, members of the Board of Directors, who are also considered key management personnel under IFRS, received remuneration of $662 (2017 – $587). Directors do not receive or pay preferred rates on products and services offered by the credit union and are only compensated with short-term Directors' fees and related statutory benefits.

30. Pension plan

Coast Capital is a participating member of the B.C. Credit Union Employees' Pension Plan, a multi-employer contributory defined-benefit plan which is administered by a third-party administrator (TPA). The Plan's trustees employ an executive director who manages the TPA.

Under IFRS, an employer is required to account for its participation in a multi-employer plan in respect of its proportionate share of assets, liabilities and costs in the same fashion as for any other defined benefit plan except in the circumstances where the information is not available to the employer, as follows:

- There is insufficient information available to enable the employer to use defined benefit accounting.
- The Plan exposes the participating employers to actuarial risks associated with the current and former employees of other entities with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual entities participating in the Plan.

The Plan has informed Coast Capital that insufficient information is available to enable defined benefit accounting for the Plan. In particular, the investments made from contributions are not tracked on an individual employer basis to enable an apportionment of Plan assets to the respective member employers. Furthermore, the Plan exposes each of the employers to common actuarial risks of all of the members with the consequence that, in management's opinion, there is no reasonable and consistent basis of allocation of the actuarial assets (liabilities).

An actuarial valuation of the overall Plan was carried out as at December 31, 2015 and it was determined that the overall Plan was 96% funded on a going concern basis. The next actuarial review is scheduled for the period ending December 31, 2018 and should be available in September 2019. Pension expense of $5,535 (2017 – $5,261) in respect of contributions paid into the Plan in 2018 has been charged to Salaries and Employee Benefits in the Consolidated Statement of Income. Contributions to the plan in 2019 are expected to be $6,045.

In addition to the Plan, Coast Capital also provides a group RRSP to its employees, whereby all of the contributions are funded by Coast Capital. Pension expense of $3,397 (2017 – $3,407) in respect of contributions paid into this plan in 2018 has been charged to Salaries and Employee Benefits in the Consolidated Statement of Income.

Coast Capital also provides other post-retirement benefits to its eligible employees ("Other Post-Retirement Plans"). The obligations are comprised of the amount of future benefits that employees have earned in return for their service in the current and prior periods and the benefits are discounted to determine its present value.

Actuarial valuation of the Other Post-Retirement Plans is obtained once every three years. The latest actuarial valuation was performed as at December 31, 2016 and the next valuation will be completed as at December 31, 2019.

Risks associated with this plan are similar to those of similar benefit plans, including market risk, interest rate risk, bankruptcy/insolvency risk, currency risk, longevity risk, etc.

The weighted-average duration of the defined benefit obligation is 9 years at December 31, 2018.

30. Pension plan (continued)

	2018	2017
Benefit obligation – beginning of year	4,740	4,804
Current service costs	408	266
Interest costs	20	187
Benefit payments	(762)	(303)
Actuarial (gain) loss, due to:		
Experience adjustments	(145)	(214)
Changes in demographic assumptions	–	–
Changes in financial assumptions	–	–
Benefit obligation – end of year	4,261	4,740

Pension expense of $428 (2017 – $409) has been charged to Salaries and Employee Benefits in the Consolidated Statement of Income. Any actuarial gains and losses are recognized in OCI in the period in which they arise.

	2018	2017
Cumulative actuarial losses at January 1	(744)	(988)
Actuarial gains (losses) in the year	145	214
Cumulative actuarial losses at December 31	(599)	(774)

The main actuarial assumptions used for the accounting valuation are summarized in the following table.

Assumptions	2018	2017
Discount rate	3.6%	3.3%
Provincial medical services plan trend rate for 10 years	0.0%	4.0%
Dental benefits trend rate for 10 years	5.0%	5.0%
Extended health benefits trend rate for 10 years	6.8%	7.0%

Assumptions regarding future mortality have been based on published statistics and mortality tables.

The following table shows how the defined benefit obligation as at December 31, 2018 would have been affected by changes that were reasonably possible at that date, in each of the actuarial assumptions that were considered significant to the valuation of the benefit obligation.

Assumptions	2018
Discount rate (1% increase)	304
Trend rates (1% increase)	110

31. Membership

The following membership data is as at December 31, 2018 and is annexed in accordance with subsection 308 (3) of the *Bank Act*. As at December 31, 2018, Coast Capital is organized and carrying on business on a cooperative basis in accordance with subsection 12(1) of the *Bank Act*.

	2018
Number of members	572,304
Percentage of members who are natural persons	91%
Percentage of financial services transacted with members on the basis of gross revenues[1]	94%

1 Based on financial data of CCSFCU only.

Corporate Governance – Board of Directors

The member-elected Board of Directors (the "Board") must bring the skills, experience and competencies required to effectively guide and oversee one of Canada's largest co-operative financial institutions. Both the Board and Management Team of Coast Capital are committed to excellence in sound business practices and the achievement of responsible economic, social and environmental objectives. The Board is responsible for overseeing Coast Capital's business and affairs. It has the statutory authority and obligation to protect and enhance the assets of the credit union. The Board reviews and approves Coast Capital's strategic direction and risk appetite, sets and monitors adherence to key corporate policies and is responsible for overseeing management and ensuring that Coast Capital complies with regulatory and statutory requirements.

Coast Capital uses the Office of the Superintendent of Financial Institutions' ("OSFI") Corporate Governance Guidelines, and the Corporate Governance Guidelines for Building High Performance Boards published by the Canadian Coalition for Good Governance as a baseline of best practices, and as they would apply to a non-public company and member-controlled financial co-operative. These include:

A high-performance board is accountable and independent

Guideline 1	Facilitate shareholder (member) democracy	✓
Guideline 2	Ensure at least two-thirds of directors are independent of management	✓
Guideline 3	Separate roles of Chair and Chief Executive Officer	✓

A high-performance board has experienced, knowledgeable and effective directors and committees, and the highest level of integrity

Guideline 4	Ensure that directors are competent and knowledgeable	✓
Guideline 5	Ensure the goal of every director is to make integrity the hallmark of the company	✓
Guideline 6	Establish reasonable compensation and share ownership guidelines for directors	✓
Guideline 7	Evaluate board, committee and individual director performance	✓

A high-performance board has clear roles and responsibilities

Guideline 8	Establish mandates for Board committees and ensure committee independence	✓
Guideline 9	Adopt well-defined board processes and procedures that support board independence	✓
Guideline 10	Oversee strategy	✓
Guideline 11	Oversee risk management	✓
Guideline 12	Assess the Chief Executive Officer and plan for succession	✓
Guideline 13	Develop and oversee executive compensation plans	✓

A high-performance board engages with shareholders (members)

Guideline 14	Report governance policies and initiatives to shareholders (members)	✓
Guideline 15	Engage with shareholders (members) within and outside the annual meeting	✓

Board Committees and Meetings

The Board of Directors meets a minimum of one time in each quarter for regular board meetings and holds strategy and planning sessions with management. The Board delegates specific governance responsibilities to five standing committees and one special purpose committee: Audit and Finance, Governance and Community Engagement, Human Resources, Nominations, Risk Review and Digital Credit Union & Temenos R17 Upgrade (a special purpose committee). The Committees are populated by a minimum of three directors and meet throughout the year and as required to fulfill their responsibilities. The Committees draw upon management resources as appropriate and are authorized by the Board to engage outside advisors as required. The Board determines the authority and responsibilities of each committee. Committees meet as a matter of routine, make recommendations to the Board and, with the exception of the Nominations Committee, report regularly to the Board. The Nominations Committee is accountable to and reports directly to the membership.

Audit and Finance Committee: oversees the quality, integrity, accuracy and clarity of Coast Capital's financial reporting and the effectiveness of systems of internal control. The Committee is the liaison between internal audit, the external auditors and the Board. The Committee

is also responsible for monitoring the performance of the external auditors and reviewing legal and regulatory matters as they relate to financial reporting and controls.

Governance and Community Engagement Committee: Ensures the Board's governance practices are consistent with leading practices and the needs of Coast Capital. The Committee recommends to the Board an evaluation process for individual directors, the Board as a whole, committees and the Board and committee chairs. The Committee oversees the relationship of Coast Capital and the Board with members and the community as well as Coast Capital's Community Leadership Strategy.

Human Resources Committee: Ensures human resources policies are in place, implemented and maintained. The Committee reviews and recommends policy and strategy with respect to employee salaries, benefits and incentive compensation and succession planning. It engages an independent outside advisor to assist in the determination and approval of executive compensation and directs the annual evaluation process for CEO performance. The Committee is responsible for overseeing the conduct of Coast Capital's directors, officers and employees.

Nominations Committee: Under the Coast Capital Rules, operates independently from the Board to ensure there are qualified candidates recommended for election to fill all upcoming vacancies on the Board. The Committee ensures the integrity of the election process for directors to the Board and reports the results of the election to the members at the AGM.

Risk Review Committee: Identifies and monitors the key risks at Coast Capital and evaluates the management of risks. The Committee approves key risk management policies, ensures policies and related internal controls are in place and assesses Coast Capital's business strategies and plans from a risk perspective. The Committee reviews and monitors adherence to and the effectiveness of policies and internal controls and ensures Coast Capital is in compliance with legal and regulatory requirements. It provides a forum for macro analysis of future risks, which includes considering emerging risks, significant events and trends.

Special Purpose Committee: In addition to these standing committees, the Board may establish ad hoc Special Purpose Committees, which are disbanded upon completion of their purpose. In November 2017, the DCU/R17 Committee was established to provide governance oversight on two major strategic projects (Digital Credit Union and Temenos R17 Upgrade).

Fourteen Board meetings were held in 2018. The number of meetings increased from eight in 2017 to 14 in 2018 to accommodate the transition of an interim CEO and the hiring of a permanent CEO. A portion of each regularly scheduled Board meeting is set aside for a directors-only session with and without the CEO. The Chair, as the presiding Board member, ensures the relationships between the Board, the CEO, the Executive Committee and the membership are effective, efficient and further the best interests of Coast Capital. The Board (led by the Governance and Community Engagement Committee) undertakes a regular process of identifying and reviewing the overall skills and experience required amongst directors to strengthen the Board and to meet the needs of Coast Capital's governance, both now and for the future. The Board represents the membership and is held accountable by law to act in the best interest of Coast Capital and oversee the processes required to ensure the safety of the organization and the members' money. The Board oversees the management of Coast Capital and holds the Chief Executive Officer accountable for achieving specific short- and long-term performance goals.

To do this effectively, the collective skills and experience of the Board are applied on behalf of the membership to:

- Effectively carry out oversight responsibilities by ensuring that strong management is in place and that policies, systems and practices that manage risk and protect the members' assets are established and followed.
- Provide insight to management to guide and approve Coast Capital's strategic plan and process. This includes understanding the business, its environment and its future opportunities and strategies.
- Engage with and report to the members, regulator and other stakeholders.

Current and Past Directors for 2018

All Directors, including the Chair, are independent. Independence is defined within the Director Independence Policy and pursuant to the Coast Capital Savings Federal Credit Union Rules and the *Bank Act*. As of December 31, 2018, Coast Capital's directors are:

Corporate Governance – Board of Directors

Bob Armstrong

Background/Experience:	Mr. Armstrong is a seasoned executive and Board Director. In his 18 years with Ritchie Bros. Auctioneers Incorporated, he held the executive positions of Chief Financial Officer, Corporate Secretary, Chief Operating Officer and Chief Strategic Development Officer. Mr. Armstrong is a Chartered Professional Accountant and has his ICD.D designation. He brings to the Coast Capital Board experience in customer-focused technology, financial and oversight expertise. Mr. Armstrong's community activities include serving on the boards of the Crescent Beach Swimming Club and the Pennask Lake Fishing and Game Club (he is a past-president of both organizations), chairing the board of the Chris Spencer Foundation and being an active partner with Social Venture Partners Vancouver.
Position:	Board Chair (as of December 10, 2018), Chair Audit & Finance Committee (to December 10, 2018) Human Resources Committee Member, CEO Search Committee Member, and DCU/R17 Committee Member. As Board Chair, Mr. Armstrong is an ex officio member of all Committees on which he was not previously a member.
Director Since:	2016
Current Term Expires:	2019
Other Current Boards:	Central 1 Credit Union: September 30, 2017 to November 1, 2018; Rocky Mountaineer (Armstrong Hospitality Group) since September 2015; Traction on Demand (Advisory Board) since May 2015; Heffel Gallery Limited (Advisory Board) since December 2017; Crescent Beach Swimming Club since June 2016; Pennask Lake Fishing & Game Club since April 2008; Chris Spencer Foundation since January 1995; and Pennask Lake Company Ltd. since April 2015.

Bill Cooke

Background/Experience:	Mr. Cooke retired in 2006 as CEO of MD Investment Management, a national, member-based investment and wealth management firm. Mr. Cooke has held senior management positions in public companies, financial institutions and provincial government. Mr. Cooke has been a director and board committee chair of publicly traded and private corporations, educational institutions and non-profit organizations.
Director Since:	2007
Current Term Expires:	2019
Position:	Board Chair (to December 10, 2018), Governance and Community Engagement Committee Member, Nominations Committee Member and Human Resources Committee Member. As Board Chair, Mr. Cooke was an ex officio member of all Committees on which he was not a member.
Other Current Boards:	None

Robin Chakrabarti

Background/Experience:	Mr. Chakrabarti is a founding partner of Empresario Capital Partners, which has investment holdings and operational involvement in the food service, retail automotive and energy productivity industries. Mr. Chakrabarti brings significant executive operational, commercial banking and corporate finance expertise, as well as experience in developing and leading strategy.
Position:	Chair, Risk Review Committee; Governance and Community Engagement Committee Member
Director Since:	2011
Current Term Expires:	2020
Other Current Boards:	Assembli Restaurants Corp. since 2017; Empresario Capital Partners Ltd. since 2008; RAMMP Hospitality Brands Inc. since 2009; Valley Lube Holdings Ltd. since 2010.

Corporate Governance – Board of Directors

Mary Jordan

Background/Experience:	Ms. Jordan has held senior executive positions with American Airlines, Canadian Airlines and Air Canada. She served as Provincial Executive Director of the BC Centre for Disease Control and was Executive Vice President, Human Resources and Communications at Laidlaw International.
Position:	Chair, DCU/R17 Committee and Chair, Nominations Committee
Director Since:	2008
Current Term Expires:	2020
Other Current Boards:	Superior Plus since 2014; Timberwest Forest Products since 2013; Vancouver Airport Authority since 2004; Vancouver Opera: 2009 to 2018.

Valerie Lambert

Background/Experience:	Ms. Lambert is the Executive Director of Big Brothers of Greater Vancouver, Big Brothers of Greater Vancouver Foundation and Renew Crew Foundation and prior to that served for seven years as Treasurer at BC Hydro. She is a CPA, CA, ICD.D. and has run large and complex Treasury Departments, including Risk Management at both BC Hydro and BC Gas.
Position:	Chair, Audit and Finance Committee (from December 10, 2018); CEO Search Committee Member, DCU/R17 Committee Member, and Governance and Human Resources Committee Member.
Director Since:	2017
Current Term Expires:	2020
Other Current Boards:	BC Hydro since 2015; Powerex since 2017; Shaughnessy Golf and Country Club (Chair) since 2018.

Frank Leonard

Background/Experience:	Mr. Leonard has 28 years of Public Service as Mayor/Councillor of the District of Saanich in addition to over 15 years of co-operative experience. He has chaired or served on many public and private boards, including serving as Chair of the Agricultural Land Commission. Mr. Leonard brings his oversight and financial governance strengths to the Coast Capital Board.
Position:	Vice Chair of the Board since December 10, 2018; Audit & Finance Committee Member, Risk Review Committee Member
Director Since:	2016
Current Term Expires:	2019
Other Current Boards:	Parkbridge Lifestyle Communities since 2012; Victoria Tire since 1972; Lengai Properties since 2014.

Corporate Governance – Board of Directors

Nancy McKenzie

Background/Experience:	Ms. McKenzie is an FCPA, FCA with significant experience in executing strategy and guiding an organization through a significant growth period. During her 19-year career with Seaspan ULC, the last 12 of which were as CFO, she was responsible for leading the Finance, Information Technology, Risk Management, Supply Chain Management, Facilities/Security and Corporate Communications and teams, and managing major capital projects that resulted in decreased costs and improving efficiencies. Ms. McKenzie is an experienced corporate director with deep roots in youth sports community involvement and brings a depth of business experience to Coast Capital.
Position:	Member of the Audit and Finance and Risk Review Committees
Director Since:	2018
Current Term Expires:	2021
Other Current Boards:	University of British Columbia since 2017; UBC Investment Management Trust Inc. since 2018.

Christian Morrison

Background/Experience:	Ms. Morrison is a former Senior Vice President of RBC Financial Group with 29 years of experience in financial services across Canada, including roles as CEO and President, Royal Bank Mortgage Corporation; Chair, RBC Action Direct; and Vice President Personal Markets, Lower Mainland BC. She has also served on the boards of Interac, Acxsys, Moneris and NYO Canada. An active community music director, festival organizer and volunteer musician, Ms. Morrison has also served on the board of the National Youth Orchestra of Canada and donated her time as a volunteer mentor for the Forum for Women Entrepreneurs.
Position:	Chair, Human Resources Committee, Chair, CEO Search Committee, Nominations Committee Member
Director Since:	2009
Current Term Expires:	2021
Other Current Boards:	None

Chris Trumpy

Background/Experience:	Mr. Trumpy holds a CPA (CGA) designation and is a former Deputy Minister of Finance for the Province of B.C. As Deputy Minister, he held responsibility for the legislation and government policies related to the Financial Institutions Commission and the Credit Union Deposit Insurance Corporation.
Position:	Chair, Governance and Community Engagement Committee, Human Resources Committee Member
Director Since:	2012
Current Term Expires:	2021
Other Current Boards:	Coast Opportunities Fund since 2010; 94Forward since 2012; Puget Sound Energy since 2010; BC and Yukon Cancer Society since 2017.

Glenn Wong

Background/Experience:	Mr. Wong is the founder of strategy consulting company, Catalyst Solutions Ltd. Mr. Wong has served as President/CEO of Electronic Arts Canada, Rogers Cable TV BC and BC Hot House and serves or has served on the Boards of the Canadian Media Fund and LIFT Philanthropy, Vancouver Police Board, Ecomm911, the BC Cancer Foundation and S.U.C.C.E.S.S. Mr. Wong also serves as Board Chair of LIFT Philanthropy Partners, a national non-profit organization that helps at-risk and vulnerable Canadians.
Position:	Nominations Committee Member
Director Since:	2007
Current Term Expires:	2019
Other Current Boards:	LIFT Philanthropy Partners since 2014; Cascade Public Media since 2015; Ora, Inc. since 2017.

More detailed biographies available at www.coastcapitalsavings.com/about-us/our-leadership-team/board-of-directors

Interlocking Board Service

Interlocking Boards occur when directors sit on the same boards. No Coast Capital Directors sit on interlocking boards.

2018 Past Directors:

Shauna Turner

Background/Experience:	Ms. Turner provided executive experience in technology, finance and healthcare, with prior service as a CEO in both the private and public sector. Her experience includes leading enterprise technology transformation in Fortune 500 companies in Canada and the US, serving F500 global media firms, financial institutions and government. Ms. Turner serves as an advisor and mentor to digital health and cloud-based innovation startups.
Position:	Chair, DCU/R17 Committee (to May 10, 2018), Governance and Community Engagement Committee Member (to May 10, 2018) and Risk Review Committee Member (to May 10, 2018).
Director Since:	2015
Current Term Expired:	2018

Remuneration for Directors, Senior Management, Executives and Employees

At Coast Capital we provide remuneration to our Directors, senior management, executives and employees.

Coast Capital senior management, executive and employee remuneration is based on both business and individual performance objectives and is structured to incentivize employees to meet strategic business objectives in a manner that is aligned with our Board-approved risk appetite policy and framework and applicable governing legislation.

Our compensation structure is overseen by HRC. The Committee is comprised of three or more directors, all independent, as determined by the Board.

The framework of our compensation program consists of base salary and a general incentive plan (a staff incentive plan and an executive incentive plan, which includes Senior Management and the CEO) with thresholds and maximums. Base salary is reviewed for all employees annually and as required by market conditions. Our incentive plan is paid to eligible participants annually if threshold goals are achieved. The general incentive targets are expressed as a percentage of base salary determined by position and level within the organization. The HRC has been delegated the responsibility of reviewing and approving our incentive plans. Coast Capital is governed by its Board of Directors, and Senior Management has the authority and responsibility for planning, directing and controlling corporate activities.

For the year ended December 31, 2018, the compensation of our material risk takers, which includes senior management and members of the Board of Directors, is disclosed in Note 29 to our 2018 audited annual consolidated financial statements.

Additionally, the total amount of guaranteed bonuses was $50,000, and special project achievement bonuses were $75,000. There were no sign-on bonuses.

Further remuneration detail is provided below.

Director Compensation

Coast Capital director remuneration is set in accordance with a member-approved remuneration philosophy. Following our triennial review requirements, in 2019 the Governance and Community Engagement Committee retained WillisTowers Watson, a leading advisory firm, as the independent remuneration consultant to conduct the review. As required by the Philosophy, the consultant compared rates of remuneration against two sample groups consisting of other cooperatives and public companies in the financial services sector that are comparable in size to Coast Capital.

The consultant's report concluded that the current levels of director remuneration continued to be consistent with the Philosophy: remuneration is below that of all of the comparable public companies group and is situated in the highest quartile of cooperatives.

Based on this investigation, the Governance and Community Engagement Committee recommended no changes to director remuneration.

The next review of Director Remuneration will take place in the next scheduled Triennial Review (2022). The following table sets out Director Remuneration:

Board of Directors Remuneration	
Annual Board Chair Retainer	$65,000
Annual Director Retainer	$25,500
Annual Committee Chair Retainers	$5,000
Board and Committee Meeting Fee	$1,000

Total remuneration paid to directors in 2018 was $659,912 (2017 – $587,570) including matching Canada Pension Plan contributions as required by law. Directors do not receive any product or service preferences that are not available to the general membership. The following table provides the total remuneration paid for the year to each director for attendance at all Board and committee meetings and at other designated meetings and events deemed eligible for payment.

Corporate Governance – Board of Directors

2018 Calendar Year Board & Committee Attendance and Remuneration

Director	Board Meetings Attended	Board Meetings Percentage	Assigned Committees of the Board: Meetings	Assigned Committees of the Board: Attended	Assigned Committees of the Board: Percentage	Percentage of all Meetings Attended	Total Remuneration Paid for Year
Robert Armstrong (Board Chair from Dec 10)	13 of 14	93%	Audit & Finance (Chair to Dec 10) CEO Search DCU/R17 (from May 10) Human Resources	5 of 5 11 of 11 4 of 4 5 of 5	100%	97%	$77,311
Robin Chakrabarti	14 of 14	100%	Risk Review (Chair) Governance (from May 10) Nominations (to May 10)	2 of 4 2 of 3 4 of 4	73%	88%	$53,498
Bill Cooke (Board Chair to Dec 10)	14 of 14	100%	Audit & Finance (ex officio) CEO Search (ex officio) Governance (ex officio) Human Resources (ex officio) Nominations (ex officio) Risk Review (ex officio) DCU/R17 (ex officio)	5 of 5 11 of 11 4 of 4 5 of 5 7 of 10 3 of 4 4 of 4	91%	93%	$117,585
Mary Jordan	12 of 14	86%	Nominations (Chair from May 10) DCU/R17 (Chair from May 10)	10 of 10 4 of 4	100%	93%	$58,164
Valerie Lambert	14 of 14	100%	Audit & Finance (Chair from Dec 10) Risk Review (to May 10) CEO Search Governance (from May 10) DCU/R17	5 of 5 1 of 1 11 of 11 3 of 3 4 of 4	100%	100%	$63,778
Frank Leonard	14 of 14	100%	Audit & Finance (from May 10) Governance (to May 10) Risk Review (from May 10) Human Resources (to May 10) Nominations (Chair to May 10)	3 of 3 1 of 1 3 of 3 2 of 2 4 of 4	100%	100%	$59,166
Nancy McKenzie (from May 10)	7 of 9	78%	Audit & Finance (from May 10) Risk Review (from May 10)	3 of 3 3 of 3	100%	93%	$29,000
Christian Morrison	13 of 14	93%	CEO Search (Chair) Human Resources (Chair) Nominations (from May 10)	11 of 11 5 of 5 6 of 6	100%	97%	$81,246
Shauna Turner (to May 10)	5 of 5	100%	Risk Review (to May 10) DCU/R17 (Chair to May 10) Governance (to May 10)	1 of 1 1 of 1 1 of 1	100%	100%	$18,166
Chris Trumpy	14 of 14	100%	Governance (Chair) Human Resources (from May 10)	4 of 4 2 of 3	86%	95%	$52,498
Glenn Wong	14 of 14	100%	Audit & Finance (to May 10) Risk Review (to May 10) Nominations (from May 10)	2 of 2 1 of 1 6 of 6	100%	100%	$49,500

Corporate Governance – Board of Directors

Director Education

Directors are required to engage in learning activities that will expand their knowledge in areas of corporate governance, financial literacy, risk management, the financial services sector generally, and the company's impact on members/customers, employees and other stakeholder groups. Coast Capital provides funding of up to $20,000 per director for each three-year term (Director Development & Continuous Learning allotment) to facilitate active participation in individual continuous learning. The Governance and Community Engagement Committee determines and facilitates periodic learning opportunities for all directors by way of special presentations made by topical experts at Board meetings and planning sessions. Other committees suggest education sessions for Board meetings, and some provide committee specific education sessions during their meetings.

In 2018 the Board of Directors held the following education sessions:

- Superior Member Experience – Evolution of Call Centres
- Enterprise Transformation through the Empower Me Initiative
- Data Governance
- Community Leadership and National Expansion
- Youthful Cities with guest speaker Robert Barnard
- Canadian Credit Union Association with guest speakers M. Durdin and A. Mentzelopoulos
- IT Infrastructure – Technology Overview

Director Expenses

Directors are reimbursed for all reasonable expenses incurred in carrying out their duties and responsibilities as a director of Coast Capital. Reasonable expenses can include:

- Meals and entertainment while carrying out their duties as a director.
- Travel expenses such as airfare, ferry, rental car, tolls, taxi and parking, or mileage expense from the director's place of principal residence to regularly scheduled meetings.
- Technology expenses may include a laptop or tablet that meets Coast Capital's specifications, purchased as necessary to access the online Board portal on which all Board and Committee meeting packages are posted. The cost of the laptop or tablet will be reimbursed, up to $3,000 per three-year term, and will be deducted from the director's individual Director Development and Continuous Learning allotment.

Directors are expected to use restraint and good judgment to ensure consistency and equity in spending. Expenses are reviewed by the Board Chair prior to reimbursement, or in the case of the Board Chair, expenses are reviewed by the Governance and Community Engagement Chair.

Director Total Expenses

Description of 2018 Expenses

Director	Total Expenses	Description of 2018 Expenses
Bob Armstrong Board Chair from December 10, Chair Audit & Finance Committee to December 10	Total: $7,183.43	Includes travel and attendance at Board-related events (Kelowna), attendance as Coast Capital's representative at Peer Group 5 meetings, Canadian Credit Union Association conference (Toronto), credit union system outreach and Director Development and Continuous Learning expenses.
Bill Cooke Board Chair to December 10	Total: $4,662.95	Includes travel and attendance at Board-related events (Victoria and Kelowna), credit union system outreach and Director Development and Continuous Learning expenses.
Robin Chakrabarti Chair, Risk Review Committee	Total: $3,000	Includes Technology expenses.
Mary Jordan Chair, Nominations & DCU/R17 Committees	Total: $668.46	Includes travel and attendance at Board-related events (Kelowna) and Director Development and Continuous Learning expenses.

Valerie Lambert Chair, Audit and Finance Committee (from December 10)	Total: $1,565.32	Includes travel and attendance at Board-related events (Victoria and Kelowna) and Director Development and Continuous Learning expenses.
Frank Leonard	Total: $12,806.34	Includes travel to and from principal residence (Victoria, BC) and attendance at Board-related events (Kelowna), attendance as Coast Capital's representative at Central 1 conference (Toronto) and Director Development & Continuous Learning expenses.
Nancy McKenzie	Total: $16,298.60	Includes travel and attendance at Board-related events (Victoria and Kelowna) and Director Development and Continuous Learning expenses.
Christian Morrison Chair, Human Resources and CEO Search Committees	Total: $4,078.66	Includes travel and attendance at Board-related events (Kelowna), attendance as Coast Capital's representative at Waterstone Culture conference (Toronto) and Director Development & Continuous Learning expenses.
Shauna Turner Chair DCU/R17 Committee (to May 10)	Total: $9,527.39	Includes travel to and from principal residence (San Jose, CA) and attendance at Board-related events and Director Development and Continuous Learning and Technology expenses.
Chris Trumpy Chair, Governance and Community Engagement Committee	Total: $5,107.70	Includes travel to and from principal residence (Victoria, BC), attendance at Board-related events (Kelowna), attendance as Coast Capital's representative at Regulatory events and Director Development and Continuous Learning expenses.
Glenn Wong	Total: $1,689.50	Includes travel and attendance at Board-related events (Victoria and Kelowna) and Director Development and Continuous Learning expenses.

Board Performance Reviews

The Board reviews the position descriptions for directors, the Board Chair, Committee Chairs and the CEO. In anticipation of continuance as a federal credit union, all Board, Chair and Committee Charters and Mandates received comprehensive reviews and amendments. A director's job is to use their skills and experience to work with the Board in providing strategic advice and business oversight of Coast Capital's operations. This includes critiquing and giving approval to Coast Capital's three-year strategic plan and annual operating capital expenditure plans. Directors are required to act honestly, in good faith and in Coast Capital's best interests. In doing so, they must take into account the interests of the members, depositors, employees and other stakeholders.

The Board undertakes periodic comprehensive evaluations to review the effectiveness of the Board's governance and performance. This review process is based on the duties and responsibilities of the Board, individual directors and the Board Chair as described in their respective charters. Annually, the Governance and Community Engagement Committee recommends to the Board a process for the evaluation at a frequency appropriate to Coast Capital. A comprehensive review was conducted in late 2017 and will be conducted again in late 2019. The evaluation is administered by an external governance consultant and involves the elements listed below:

- Structured individual interviews are conducted by the consultant with members of senior management to obtain input on the performance of the Board, the Board's committees and the Board and Committee Chairs.
- Structured interviews are conducted by the consultant with each director to discuss self-performance as a Coast Capital director and obtain input on peer performance, the performance of the Board, the Board's committees and the Board Chair. Each director is provided with the consultant's findings in respect of their performance.

- An in-depth governance review and debriefing session on Board performance is held with the consultant and all directors. Board goals for the next 12 months are determined and the responsibility for achieving each goal is assigned.
- The Board Chair meets privately with each director to discuss their peer evaluation results with a view to determining how the director could contribute more effectively to the Board.
- The Governance and Community Engagement Chair meets privately with the Board Chair to discuss the Board Chair's evaluation results.

CEO Evaluation and Compensation

The Board's responsibilities include choosing and evaluating the CEO, along with determining the CEO's compensation plan. Our executives make a significant and important contribution to Coast Capital's performance and long-term growth and success. The Board of Directors recognizes that a competitive compensation and benefits package is a fundamental tool in attracting, motivating and retaining high-performing executive leadership with the requisite skills and dedication. Accordingly, Coast Capital's executive compensation and benefits programs are designed to:

- Attract, motivate, and retain individuals with the competencies, values and commitment to support Coast Capital's success and culture.
- Deliver fair compensation for the contributions that are made.
- Be competitive and aligned with practices in comparable organizations.
- Link pay with performance on key organization and individual goals and objectives.
- Be accountable and transparent to members and other stakeholders.

Our CEO compensation disclosure meets or exceeds legislative and regulatory requirements.

Industry Positioning and Comparator Groups

The Board retains an independent compensation consulting firm to provide advice on the total compensation elements of the executive compensation program that includes base salary, variable pay, benefits, vacation, perquisites and retirement savings. We design our pay programs to be competitive with comparable types of organizations from which we recruit qualified executives.

The peer group is made up of organizations from across the financial services sector including large credit unions, banks and other financial service organizations. It also includes organizations outside of the financial services sector for certain jobs that are not specific to our industry. Pay is targeted at the median of the peer group and adjusted for our relative size.

Chief Executive Officer Performance and Compensation Reviews

One of the Board's important annual responsibilities is the assessment of the CEO's performance and setting of their compensation. Pay-for-performance is an important component of the CEO's total compensation, and it is based primarily on Coast Capital's performance and the CEO's individual performance against goals. The CEO's total direct compensation (salary and incentive compensation) is designed so that at least 50 per cent of potential target compensation opportunities are in the form of variable "at risk" pay, which is based on individual and corporate performance. If performance goals exceed expectations, payouts may pay up to and within the top quartile of the peer group. If threshold performance goals are not met, no payouts are made.

Our corporate performance is based on four strategic pillars: Superior Member Experience, Innovation and Growth, Operational Excellence and Community Leadership. Within these pillars we have metrics that are measured on a predetermined frequency and presented quarterly to the Human Resources Committee and the Board for review. Individual performance, evaluated semi-annually, is based on the progressive achievement of Coast Capital's strategic plan. Our 2018 results are keeping the credit union aligned and on track to achieve its long-term strategy and goals.

Components of CEO Compensation and Summary

For the fiscal year ending December 31, 2018, Coast Capital's CEO position earned the following total cash compensation. The position was occupied by three (3) incumbents over the year: former CEO January 1 – March 9, 2018; interim CEO January 8, 2018 – September 23, 2018; and current, permanent CEO September 24, 2018 – December 31, 2018.

	Year	Base Salary Earnings	Short-term (Annual) Incentive	Long-term Incentives (Grant Estimate)	*Total Cash Compensation
Chief Executive Officer	2018	$518,793	$178,049	$219,308	$916,150

Base Salary

Base salary for the CEO takes into consideration scope of responsibilities, experience and past performance, as well as comparison to the targeted primary comparator group. The CEO salary is reviewed annually and, if appropriate, adjusted accordingly. Base Salary Earnings, per IFRS, reflect the number of days' pay earned over the course of the fiscal year.

Short-term Incentive Program ("STIP")

The annual incentive plan links compensation to the achievement of performance objectives set in our annual business plan. The CEO STIP target is set at 60 per cent of base salary (weighted at 30 per cent for individual performance and 70 per cent for corporate performance), with an opportunity to earn up to a maximum of 90 per cent of base salary for exceptional performance. If the CEO does not meet threshold performance, we do not make a payout. The 2018 CEO corporate STIP measures, notated below, are to create a balance between supporting members and providing prudent fiscal and operational management:

Measures

Financial
- Normalized Operating Income

Member
- Deepening Member Relationships
- Member Experience Score

Innovation and Growth
- Active Membership Growth (Net)
- Youth Member Growth (0 – 29)

Long-term Incentive Plan ("LTIP")

The long-term incentive plan links eligible compensation to the actual achievement of performance objectives that support our long-term strategy and vision and create value for members. We provide the LTIP to the CEO and executives to serve as an attraction and retention tool and to prioritize their long-term focus. The goals of the LTIP are to:

- Ensure Coast Capital's long-term health and growth so we can continue to serve our members.
- Increase the depth of member relationships through innovative products and services.
- Build upon our community contributions with a goal of building a richer future for youth in our communities.

We measure the LTIP over a three-year performance period. At the start of each year, we establish specific metrics and targets for the new three-year performance period with an established target payout ("grant") percentage of current base salary if these metrics are successfully achieved. The LTIP is a variable pay program, with target payout for performance period 2016-2018 at 50 per cent of base salary and maximum 100 per cent. To incent greater long-term value for our members, the LTIP target payout increases to 80 per cent, to a maximum of 160 per cent for exceptional performance, effective performance period 2018–2020. If threshold performance targets are not met, there is no payout. 2018 performance is measured within three rolling LTIP performance periods: 2016–2018, 2017–2019, and 2018–2020. The payment for 2016–2018 would not be made until July 2019. To allow for transparent comparison to peer credit unions, the LTIP amount reported in the Compensation Summary is the 2016–2018 grant level. The CEO 2016–2018 LTIP measures are:

Measures

Financial
- Return on Risk Weighted Assets

Member
- Revenue Per Member

Community
- Community Brand Score

The CEO role was in transition in 2018, and as the former CEO left prior to payout, LTIP paid in 2018, for performance period 2015-2017, was $ 0.

Benefits and Perquisites

We believe in investing in the health and well-being of our employees. As such, a competitive flexible benefits program protects employees and their families through the following components: health, dental, disability, life, critical illness and accidental death and dismemberment insurance, employee and family assistance, vacation and personal leave, and tuition and educational assistance. In addition, an annual physical (optional) is provided to the CEO and executives. Total contributions towards the CEO's benefits for 2018 were 13.1% per cent of base salary. The CEO is also provided a perquisite allowance of 8.1% per cent of base salary to cover costs for out-of-pocket expenses such as car allowances and memberships.

Retirement Income Programs

We provide a Defined Benefit Pension ("DBP") plan or a Group RRSP program to all employees who meet the eligibility criteria. The CEO has elected to participate in the Group RRSP program and also participates in a Supplemental Executive Retirement Plan ("SERP"). Both programs are based on salary and STIP paid in 2018. Coast Capital contributed 27.9% per cent of base salary for 2018 towards the CEO's retirement savings.

Termination and Change in Control Benefits

The CEO has an employment agreement that includes provisions covering position, term, duties, obligations, compensation (including base salary and variable pay), pension, benefits, vacation and provisions covering termination for cause and without cause. If the CEO's employment is terminated without cause, 24 months of severance continuance will be payable (including salary, bonus, and benefits). If employment at another financial institution commences within the 24 months, any amount owing is payable at 50 per cent.

Compensation Policies and Practices

Eligible employees, like the CEO, participate in comprehensive compensation and benefits programs.

In addition to a compensation philosophy for executive roles, we have a non-executive employee-specific compensation philosophy that includes the following guiding principles:

- Market Competitive
- Fair
- Performance Linked
- Easily Understood by Employees
- Cost Conscious
- Scalable

Base Salary

We believe in providing wages that are not only market-competitive but also ensure a reasonable standard of living for all employees. Nationally recognized compensation surveys are used to evaluate the competitiveness of our salary ranges. We target above the median for base salary ranges, with individual differences based on performance and tenure. In addition to market comparison, we obtain cost of living data to ensure our starting salary ranges are sufficient to provide a reasonable standard of living to employees.

Variable Incentive Pay

Eligible front-line, administrative and management staff also participate in an annual short-term incentive program based on a combination of overall achievement against pre-defined team metrics and individual metrics subject to overall achievement against pre-defined Corporate Normalized Operating Income performance, team metrics and individual metrics; executives are measured on pre-defined corporate and individual metrics. Payout potential varies per level of role and payments are contingent on board approval, which is based on the results achieved, overall financial health and stability of the organization.

Benefits – Health and Wellness

We provide the same competitive flexible benefits program to all our benefits-eligible employees as we provide to the executive team and CEO. Employees select their benefits coverage level, within allocated credit amounts, according to personal need. The program, named FlexWise, is flexible and encourages wise decisions by the employees in choice of coverage and in usage. FlexWise components include health, dental, disability, life, critical illness and accidental death and dismemberment insurance, employee and family assistance, and sick and personal leave. Employees also receive vacation to support work-life balance and tuition and educational assistance to help grow their skills and careers with us.

Retirement Savings Programs

We provide pension plan programs to all employees who meet the eligibility criteria to support their retirement savings goals. Under the DBP, both the employee and employer contribute as per a pre-defined age-graded table. The DBP is administered by Morneau Sheppell as a multiemployer plan with oversight by the Pension and Benefits Trustees. Under the Group RRSP program effective July 1, 2014, employees are not required to contribute to the plan, but if they wish to make voluntary contributions, we will match them up to a maximum.

Corporate Governance – Board of Directors

Perquisites

Employees are offered additional perquisites that include an employee loan program and on-site fitness centres at the administrative offices. We also provide paid volunteer time and charitable donations of up to $1,000 per year on behalf of individual employees through our Help Heroes Employee Volunteer program.

Nomination of Directors

Each year three or four vacancies occur on Coast Capital's 10-member Board for three-year terms. Immediately after the AGM, the Board appoints a Nominations Committee (the "Committee") whose responsibility is to recommend qualified candidates in the following year for election to the Board. The Committee reports directly to the membership, not to the Board. The composition of the Committee is restricted to directors who will not be standing for re-election in the ensuing year. The Committee seeks qualified candidates from the membership and retains the services of an expert governance consultant to assist in seeking out and screening for highly qualified nominees. In keeping with its charter and adhering to corporate governance best practices, the Committee carries out a due diligence review of all nominees, including a structured full committee interview of new nominees whose stated skills and experience most closely match the current year's Ideal Director Candidate Description. Following the interviews and at the completion of all the due diligence reviews, the Committee determines those candidates it will recommend for election to the Board. The Committee is responsible for:

- Approving an updated Ideal Director Candidate Description for the current year based on a gap analysis of the required skills and experience required within the Board to guide and oversee the implementation of Coast Capital's strategic plan.
- Sourcing candidates for election to the Board who best match the skills and experience set out in the Ideal Director Candidate Description.
- Recommending qualified candidates for election to the Board equal to the number of upcoming vacancies.
- Providing information to all Coast Capital members in a standard format for all candidates seeking election to the Board to ensure fairness.
- Recommending to the Board the appointment of an independent returning officer to supervise the election.
- Receiving certified election results from the returning officer. The results of each year's Directors election are announced at the AGM by the Chair of the Nominations Committee.

Ethical Business Conduct

The Board embraces and promotes a culture of ethical behaviour at Coast Capital and is accountable for ensuring Coast Capital meets public, regulatory and member expectations in complying with existing laws. The Board has a Code of Conduct and Conflict of Interest (the "Director's Code") that establishes the standards that govern the manner in which directors conduct themselves and in particular how they consider the interests of members, employees and other stakeholders. Annually, each director is required to formally adopt and agree to the Director's Code. Coast Capital also has a Code of Conduct and Business Ethics Corporate Policy ("The Code") that applies to the Board, officers and employees. The Code states the values upheld by Coast Capital and the standards of behaviour expected. Every director, officer and employee at Coast Capital is required to acknowledge and sign The Code each year. The Board's Human Resources Committee is responsible for reviewing The Code and the Director's Code at least annually, reviewing any incidents of non-compliance and the resulting consequences and reporting to the Board. More information regarding governance is available at www.coastcapitalsavings.com/governance.

Glossary

Actuarial gains (or losses) on defined benefit plans: Gains (or losses) resulting from differences between the assumptions used to value defined benefit pension plans and what actually occurred, and the effects of changes in the assumptions.

Allowance for credit losses: Allowance provided at a level that management considers adequate to absorb all expected credit-related losses from its loan and debt securities portfolios. The allowance is estimated considering future macroeconomic scenarios for performing assets and net realizable value for non-performing assets.

Amortized cost: Amount at which a financial instrument is measured at initial recognition, minus principal payments, plus or minus cumulative amortization of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Assets under administration: Total assets plus financial assets that are managed by a third party on behalf of members and clients. The credit union provides administrative services such as placing trades on behalf of members and clients.

Carrying value: Amount at which an asset or liability is recognized on the Consolidated Statement of Financial Position.

Cash flow hedges: Derivatives used to hedge exposure to variability in cash flows that are attributable to a particular risk associated with a recognized asset or liability that could affect profit or loss.

- **Effective portion of cash flow hedges:** Degree to which a cash flow hedge is effective in achieving offsetting changes in cash flows attributable to the hedged risk.

Central 1 Credit Union (Central 1): The financial facility and trade association for the B.C. and Ontario credit union systems. Owned and funded by the credit unions, Central 1 provides services for over 250 financial institutions across Canada.

Common Equity Tier 1 (CET 1) Ratio: A component of capital, as defined by OSFI, which is primarily comprised of member's equity (class B shares, retained earnings and accumulated other comprehensive income) less deductions for goodwill, intangible assets and other items as prescribed by OSFI, divided by risk-weighted assets.

Credit risk: Risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Deferred tax assets: Amounts of income taxes payable or recoverable in future periods as a result of temporary differences between the carrying amount of an asset or liability in the financial statements and its carrying amount for tax purposes.

Derivative financial instruments: Financial contracts whose value is derived from interest rates, foreign exchange rates or other financial indices.

Effective interest rate: Rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument to the net carrying amount of the financial instrument.

Fair value: The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Adjusting to fair value is referred to as "mark-to-market."

Fair value hedges: Derivatives used to hedge exposure to changes in fair value that are attributable to a particular risk associated with a recognized asset or liability that could affect profit or loss.

- **Effective portion of fair value hedges:** Degree to which a fair value hedge is effective in achieving offsetting changes in fair value attributable to the hedged risk.

Financial assets at fair value through other comprehensive income (FVOCI): Designated equity instruments and debt instruments that meet the criteria that are measured at fair value with fair value adjustments recorded in other comprehensive income within equity.

Financial assets or liabilities at fair value through profit or loss (FVTPL): Financial instruments that are acquired principally for the purpose of selling in the near term or for which there is evidence of a recent actual pattern of short-term profit-taking. Financial instruments may also be designated as FVTPL when the designation eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial assets, or from recognizing gains and losses on them, on different bases.

Financial Institutions Commission of British Columbia (FICOM): Regulatory agency of the provincial Ministry of Finance responsible for regulating B.C. credit unions under the *Financial Institutions Act* and the *Credit Union Incorporation Act.*

Forward contracts: Contracts that oblige one party to the contract to buy and the other party to sell an asset for a fixed priced at a future date.

Hedging: Risk management strategy used to manage exposures to interest rate fluctuations, foreign currency risk and other market factors as part of its asset/liability management program.

Impairment: Harm that occurs when objective evidence is identified suggesting that a portion or all of an asset's carrying value is not expected to be recovered.

Leverage ratio: A regulatory metric that measures the financial health of a financial institution, as defined by OSFI, and which reflects Tier 1 capital divided by the sum of on-balance sheet and specified off-balance sheet exposures, net of specified adjustments.

Liquidity coverage ratio: A regulatory metric, as defined by OSFI, that reflects the proportion of highly liquid assets held to ensure a financial institution's ongoing ability to meet its short-term obligations.

Net interest income: Difference between revenues generated by interest-bearing assets, primarily loans, and the cost of servicing interest-bearing liabilities, primarily deposits.

Net interest margin: Net interest income expressed as a percentage of average total assets.

Non-interest expenses: Operating expenses, incurred by a financial institution, that are not related to deposit costs or financing expenses.

Notional amount: Amount on which cash flows for derivative financial instruments are based.

Office of the Superintendent of Financial Institutions (OSFI): Independent agency of the Government of Canada that supervises and regulates federally regulated financial institutions, trust and loan companies, as well as private pension plans subject to federal oversight.

Operating efficiency ratio: Ratio that shows the organization's efficiency by comparing non-interest expenses to revenues, which for a financial institution is comprised of net interest income, fees and commission, and other income.

Options: Contracts in which one party grants the other party the future right to buy or to sell an exchange rate, interest rate, financial instrument or commodity at a predetermined price at or by a specified future date.

Other comprehensive income (OCI): Fair value adjustments of financial assets that, in accordance with International Financial Reporting Standards, are not recognized in the Consolidated Statement of Income but that affect Members' Equity directly.

Provision for credit losses: Amount added to or subtracted from the allowance for credit losses in a reporting period to bring it to a level that management considers adequate to absorb all credit-related losses in its loan portfolio.

Provisions: Liabilities of uncertain timing or amount that are unrelated to credit issues.

Return on average assets: Indicator used to assess the profitability of the organization and to evaluate how efficiently it is utilizing its assets in comparison to peers in the same industry. The ratio is calculated by taking net income and dividing by average total assets.

Return on average equity: Indicator used to assess the profitability of the organization by evaluating how much profit it generates with the funds retained in the organization by members. The ratio is calculated by taking net income and dividing by average total equity.

Risk-weighted assets: Total assets adjusted by applying regulatory predetermined risk-weight factors ranging from 0 per cent to 200 per cent to on- and off-balance sheet exposures. The risk-weight factors are regulated by FICOM.

Securitization: Arrangement where loans are sold to unrelated third parties to raise liquidity or to fund additional mortgage growth.

Swaps: Contracts that involve the exchange of fixed and/or floating interest rate payment obligations and/or currencies for a specified period of time.

Tier 1 capital: The most permanent and subordinated forms of capital, as defined by OSFI, consisting of Common Equity Tier 1 (CET 1) capital and Additional Tier 1 (AT 1) capital. Coast has no AT 1 capital issued at December 31, 2018. As a result, Tier 1 capital comprises CET 1 capital.

Tier 2 capital: Supplementary capital instruments, as defined by OSFI, consisting of subordinated debentures and collective allowances.

Total capital: Comprises both Tier 1 (primary) and Tier 2 (secondary) capital, as defined by OSFI.

Trailer fee revenues: Revenues earned from mutual fund managers for selling their fund(s) and providing advice to investors. The fee is applied to the market value of the assets held by investors.

Corporate Information

Board of Directors (as of December 31, 2018)

Bob Armstrong, *Board Chair*

Robin Chakrabarti, *Chair, Risk Review Committee*

Bill Cooke

Mary Jordan, *Chair, DCU/R17 and Chair, Nominations Committee*

Valerie Lambert, *Chair, Audit & Finance Committee*

Frank Leonard

Nancy McKenzie

Christian Morrison, *Chair, Human Resources Committee and Chair, CEO Search Committee*

Chris Trumpy, *Chair, Governance & Community Engagement Committee*

Glenn Wong

Executive Committee (as of December 31, 2018)

Calvin MacInnis
President and Chief Executive Officer

Tracey Arnish
Chief Member and Employee Experience Officer

Wayne Berg
Chief Commercial Officer

Helen Blackburn
Chief Strategy and Innovation Officer

Lawrie Ferguson
Chief Marketing Officer

David Gaskin
Chief Financial Officer

Bruce Schouten
Chief Risk Officer

Lisa Skakun
General Counsel and Chief Corporate Development Officer

Jeff Wong
Chief Business Transformation Officer

Biographies of our Board of Directors and Executive Committee are available at www.coastcapitalsavings.com/about-us/our-leadership-team.

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Annual General Meeting

Thursday, May 16, 2019, at 5:00 pm (PT)
Civic Hotel
13475 Central Avenue, Surrey, B.C. V3T 4B8

The meeting will also be available by webcast at coastcapitalsavings.com/AGM.

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