2019 Annual Report

coastcapital®

Contents

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, and in 2018 we became B.C.'s first nationwide credit union. We are a financial co-operative owned by the 593,000 members who bank with us. We offer banking and investment services across Canada digitally and by phone, and through our 52 branches in the Metro Vancouver, Fraser Valley, Okanagan and Vancouver Island regions of British Columbia. Our total assets under administration were $24.5 billion as of December 31, 2019.

Our 1,885 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 10 per cent of our budgeted bottom line in youth-focused local programs, partnerships and events. In 2019, this resulted in Coast Capital investing $6.0 million in a wide range of community organizations and causes, with the goal of empowering young Canadians.

Our Purpose

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

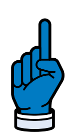
Our Vision

THE financial institution of choice for our members

Our Mission

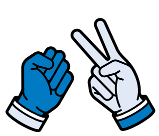
Improve **your** financial well-being

Our Values



Inspire

Connect



Challenge

Simplify

Deliver

Personal Banking, Investment and Insurance Services

Coast Capital offers banking, investment and insurance services including savings and chequing accounts, mortgages, loans, lines of credit, credit cards, term deposits and registered savings accounts (RRSPs, TFSAs, RRIFs, RESPs, and RDSPs). We also 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 also provide investment and financial planning services. 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

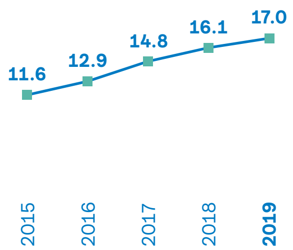
Coast Capital offers lending, leasing and deposit services to commercial real estate and small- and medium-sized businesses throughout B.C. This includes savings and chequing accounts, U.S. chequing accounts, business credit cards, merchant payment services, term loans, interim lending and long-term 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, is provided across Canada through Coast Capital Equipment Finance Ltd., Travelers Finance Ltd., and Travelers Leasing Ltd. (collectively known as Coast Capital Auto & Equipment Finance).

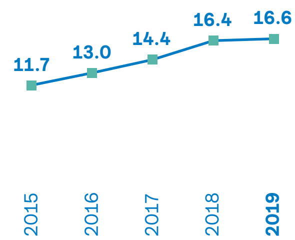
Businesses can access business and related insurance solutions for individuals or employees through Coast Capital Financial Management Ltd. Our insurance for business owners and partners includes personal living benefits, as well as group benefit plans and strategies related to succession planning and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

Financial Highlights at a Glance

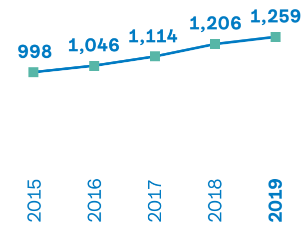
Loan Balance
Billions of dollars



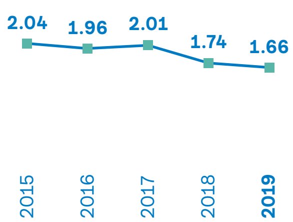
Deposit Balance
Billions of dollars



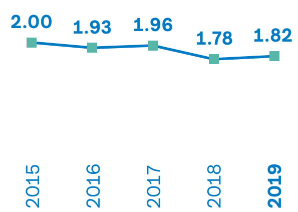
Members' Equity
Millions of dollars



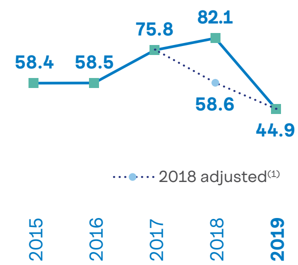
Net Interest Income
As a percentage of average assets



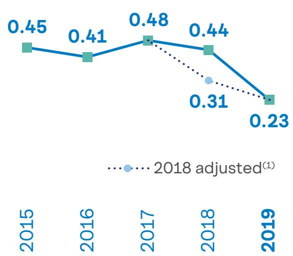
Non-Interest Expenses
As a percentage of average assets



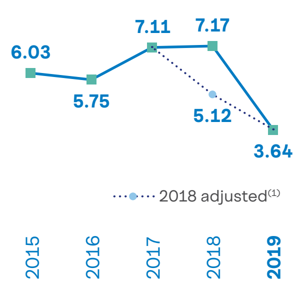
Net Income
Millions of dollars



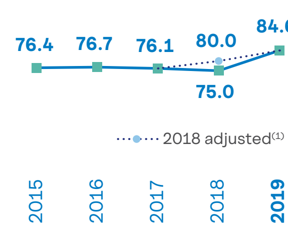
Net Income
As a percentage of average assets



Net Income
As a percentage of average equity



Operating Efficiency
In per cent



1. 2018 Adjusted reflects the 2018 result adjusted to remove a one-time increase in fee, commission and other income of $27.9 million. The increase is attributed to our transition to federal credit union status in 2018. The one-time increase in fee, commission and other income increased our 2018 net income by $23.5 million.

2019 Performance Against Targets

Loan Balance
Total loans

Actual $17.0 billion
Target $17.3 billion

Deposit Balance
Total deposits

Target $16.5 billion
Actual $16.6 billion

Net Income
All revenue less expenses and taxes

Target $41.8 million
Actual $44.9 million

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

Target 0.21%
Actual 0.23%

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

Target 3.40%
Actual 3.64%

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

Actual 1.82%
Target 1.86%

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

Actual 84.6%
Target 84.9%

5-Year Financial Overview

December 31 (in thousands of dollars)	2019	2018	2017	2016	2015
Balance sheets					
Assets					
Cash and cash resources	180,109	172,012	467,204	162,130	585,502
Financial investments	2,742,950	3,148,493	1,626,481	1,772,182	1,359,015
Loans	17,017,653	16,124,695	14,788,882	12,858,372	11,616,100
Premises and equipment	105,464	24,886	28,672	30,228	27,959
Other	182,786	149,833	137,271	146,306	147,517
	20,228,962	19,619,919	17,048,510	14,969,218	13,736,093
Liabilities					
Deposits					
Demand	6,358,841	6,266,221	6,098,255	5,947,260	5,257,179
Term	9,037,958	8,927,180	7,060,706	5,760,607	5,118,086
Registered	1,085,631	1,058,572	1,151,339	1,197,110	1,247,358
Accrued interest	144,235	122,691	53,551	53,317	53,667
	16,626,665	16,374,664	14,363,851	12,958,294	11,676,290
Borrowings	673,543	464,278	319,460	–	400,000
Secured borrowings	1,184,006	1,155,211	1,118,025	869,138	570,329
Subordinated debt	301,887	300,292	–	–	–
Other	183,495	119,272	132,743	96,085	91,726
	18,969,596	18,413,717	15,934,079	13,923,517	12,738,345
Members' equity					
Share capital	27,534	29,221	31,432	32,968	34,683
Retained earnings	1,219,355	1,180,219	1,084,983	1,010,375	952,949
Accumulated other comprehensive income (loss)	12,477	(3,238)	(1,984)	2,358	10,116
	1,259,366	1,206,202	1,114,431	1,045,701	997,748
	20,228,962	19,619,919	17,048,510	14,969,218	13,736,093
Income statements					
Interest income	686,702	611,902	476,269	428,671	421,753
Interest expense	356,093	285,221	157,775	148,622	157,277
Net interest income	330,609	326,681	318,494	280,049	264,476
Provision for credit losses	9,195	8,619	8,331	10,733	4,997
	321,414	318,062	310,163	269,316	259,479
Fee, commission and other income	95,111	121,158	88,101	78,934	76,674
	416,525	439,220	398,264	348,250	336,153
Non-interest expense	360,063	336,013	309,432	275,367	260,470
Income before undernoted	56,462	103,207	88,832	72,883	75,683
Income before provision for income taxes	56,462	103,207	88,832	72,883	75,683
Provision for income taxes	11,586	21,108	13,055	14,357	17,314
Net income	44,876	82,099	75,777	58,526	58,369

5-Year Financial Overview

December 31 (in thousands of dollars)	2019	2018	2017	2016	2015
Financial statistics in per cent					
Asset growth	3.1	15.1	13.9	9.0	9.0
Loan growth	5.5	9.0	15.0	10.7	6.1
Deposit growth	1.5	14.0	10.8	11.0	4.1
Operating efficiency	84.6	75.0	76.1	76.7	76.4
Total capital ratio(1)	14.6	15.7	N/A	N/A	N/A
Percentage of average assets					
Net interest income	1.66	1.74	2.01	1.96	2.04
Other income	0.48	0.64	0.56	0.55	0.59
Non-interest expenses	1.82	1.78	1.96	1.93	2.00
Percentage return on					
Average assets	0.23	0.44	0.48	0.41	0.45
Average equity	3.64	7.17	7.11	5.75	6.03
Average assets	19,832,459	18,842,926	15,801,994	14,299,277	12,993,903
Average equity	1,233,739	1,144,538	1,065,533	1,017,930	967,517
Mutual funds under administration	4,231,284	3,794,260	3,925,933	3,439,060	3,066,822
Securitized loans	1,085,631	1,155,211	1,118,025	869,138	570,329
Total assets under administration	24,460,246	23,414,179	20,974,443	18,408,278	16,802,915
Allowance for credit losses, beginning of year	37,721	35,315(2)	32,413	36,806	37,634
Provisions for credit losses	9,195	8,619	8,331	10,733	4,997
Loans written off	5,732	7,187	6,560	16,066	7,203
Recoveries of loans written off	1,197	974	978	940	1,378
Allowance for credit losses, end of year	42,381	37,721	35,162	32,413	36,806
Impaired loans	12,799	11,244	13,716	21,279	26,596

1. Values included only for 2018 and 2019; reflects requirements applicable to federally regulated financial institutions.
2. Included in this amount is an adjustment of $153 due to remeasurement of the allowance for credit losses upon adoption of IFRS 9 as at January 1, 2018.

Board Chair's Message

A reflection on 2019 cannot happen without first acknowledging the world we now find ourselves in at the time Coast Capital's Annual Report is being finalized—the COVID-19 pandemic is dramatically affecting the personal and professional lives of our global community. As the first federal credit union based in British Columbia, Canada's largest credit union by membership and a values-driven financial services institution, Coast Capital Savings plays a leadership role in supporting sustainable development for the people and communities we serve. That leadership role is now more important than ever.

Driven by Values and Ideals

Coast Capital's pioneer credit unions, established in the 1940s, were founded on a global co-operative philosophy of doing business in a different, fairer and better way. Since day one, we have put members first by delivering simple financial help, and we have always remained true to the ideals of our credit union roots and values.

Those values are reflected in our purpose: *Together, we help empower you to achieve what is important in your life*. They govern us in everything we do in improving the financial well-being of our members, enriching our communities and providing a great place to work for our employees.

Committed to Banking Made Safe, Simple and Accessible

As we see more and more Canadians facing financial hardship caused by COVID-19, financial well-being is now more important than ever. This means the role played by a member-owned financial institution during this time of uncertainty has never been more relevant. Helping our members is at the heart of Coast Capital, and we are committed to their financial well-being. In addition to maintaining strong financials and a healthy bottom line, we do this by:

- Making significant technology investments to ensure our members' banking experience is safe, simple and accessible. This includes introducing an enhanced online banking platform in 2019 that was recognized as the best overall mobile banking experience amongst Canadian credit unions and in the top three for all financial institutions in Canada*.
- Offering effective products and services that enable our personal and business members to better plan for their future by managing, saving, growing and protecting their money. These include our *Free Chequing, Free Debit and More Account®*, *Members Get It®* mortgage, *Help Extras®*, and the *Where You're At Money Chat®*.

Strategic About Expanding Our Community Investment Footprint

Putting our members first means making a positive social contribution by reinvesting our profits in local communities. Youth play a crucial role in the ongoing success and health of our communities; yet, they face challenges on their journey to financial independence. In response, Coast Capital has made a commitment to help empower youth to achieve what's important in their lives.

Each year, Coast Capital has been investing 10 per cent of our budgeted bottom line in programs and partnerships that give youth a hand-up and improve their financial well-being. These annual contributions in our Youth Community Investment Program have resulted in more than $83 million being invested in our communities since 2000. Through this program, we focus our support on helping youth:

- Build a strong financial future
- Succeed during their school years
- Prepare for the world of work
- Address basic social, emotional and physical needs

As part of our community investment program, we provide opportunities for youth to lead, learn and succeed by:

- Supporting our Youth Community Councils—$1.4 million in grants for local youth initiatives in 2019.
- Presenting Youth Education Awards—$2.4 million invested in 850 students towards their post-secondary education since 2004. In 2019, we presented more than $200,000 in Youth Education Awards to British Columbia students who have shown extraordinary commitment to pursue post-secondary studies in spite of significant adversity.
- Hiring Youth Get It Interns—19 paid in-branch service representatives and community ambassadors in 18 branches in 2019.
- Establishing the Power of Youth Challenge—$10,000 awarded in 2019 to empower four young change-makers to create a positive impact in their community.

* Surviscor's 2019 Canadian Mobile Banking scorCard

We take our role as a leader in making positive social contributions seriously, and we are proud to have been recognized for our work in this area. Coast Capital counts itself among a community of leaders who are setting the standard for corporate community investment and social responsibility by balancing profits with purpose to create positive impacts for our employees, members and community. In recognition of our efforts, we have been honoured with the following awards and designations:

- Imagine Canada Caring Company
- Certified B Corporation
- LBG Canada member (formerly London Benchmarking Group)

Focused on Governing with Integrity and Leadership

We are owned by the 593,000 members who bank with us. We welcome Canadians from all walks of life and invite them to participate in shaping their credit union by nominating and voting for the members of our Board with a democratic, one-member-one-vote system.

Coast Capital is led by a committed executive team and Board who bring a depth of experience and skill. This continues to add great value to the ongoing governance of our credit union. In 2019, Coast Capital welcomed Charlotte Burke, Frances Fiorillo and Coast President and CEO Calvin MacInnis to the Board. Mark Newman also joined our executive team as our Chief Risk Officer, and Catherine Wood filled the new role of Chief Strategy Officer.

2019's accomplishments would not have been possible without the remarkable Coast Capital team, and I am proud of how they are leaning into our credit union's purpose and facing the unprecedented circumstances that 2020 has brought. On behalf of the entire Board, I want to thank all employees for their continued dedication and commitment to our members, particularly in this new and challenging environment. And, I want to thank our members for being an integral part of Coast Capital and for trusting us as their advisor on their journey toward financial well-being.

Bob Armstrong
Chair, Board of Directors

President and CEO's Message

All of us at Coast Capital expected that the start of 2020 would create many opportunities to bring our Members First model to life. Instead, we are now in the midst of a pandemic, causing financial uncertainty and hardship for many of our personal and business members. It is undeniably one of the most challenging times that our communities have ever faced. We are here to help and doing all we can to support our members in finding solutions that meet their needs and individual situations during this very difficult time.

Looking Back at 2019

The Annual Report is typically a moment of reflection on the past year, but the COVID-19 pandemic also asks for a current perspective. Although we are now together in a time of significant hardship, Coast Capital remains in a healthy and stable position to face the challenges that lie ahead. Building on our strong performance over 2019, we will continue to support and work closely with our members and communities.

If there were one word to describe 2019 at Coast Capital, it would be "progressive." From our growth in membership, revenues and assets, to advancements in our employee culture, innovative products and technological investments, to bringing our services and member experience to more Canadians, we truly embraced the opportunity to spread our wings in every aspect of our business.

We also continued to stay true to our roots, while making strategic decisions that propelled Coast Capital forward as a leader in the financial services industry, by putting our members first.

Putting Care at the Heart of Our Member Experience

When it comes down to it, everything we do at Coast Capital is with our members' financial well-being in mind. We work hard to live up to our purpose: *Together, we help empower you to achieve what's important in your life*.

That's why in 2019, we deliberately embedded "care" into the member experience we deliver through the articulation of a *Culture of Care*, a natural evolution of Coast Capital's long history of putting our members first. Being a member-centric organization means providing a differentiated member experience—in person, online, by phone—with a focus on financial well-being and empowerment.

Our *Culture of Care* is our way of supporting our members towards their goals, by providing trusted advice and by embedding care into the design of processes, products, services, tools and policies. A key cornerstone of this is to approach every interaction with empathy and transparency. We truly care about building meaningful relationships with our members and employees, so every decision we make has our members' best interests at its heart.

Maintaining Sustainable Growth

Credit unions have strong roots in putting people before profit. As a co-operative, every dollar we make is used either to strengthen the credit union, to invest in new products and services for our members, or to support the larger community. Making social finance a core part of our business model allows us to continue leading and innovating in delivering integrity in our bottom-line performance and mobilizing capital to drive positive social and environmental outcomes.

Our strong financial performance in 2019 enabled us to continue making key investments to position ourselves for expansion opportunities, deepen the member relationship and continue delivering innovative products and services to more Canadians. This included making investments in a more robust Customer Relationship Management system, revamping our Contact Centre platform and introducing an award-winning digital banking experience—each designed to enhance and improve the service we provide our members.

Building a Culture that Enriches Our Workplace

With the myriad initiatives undertaken in 2019, the employees of Coast Capital demonstrated excellence and commitment in all they accomplished. I'm impressed with their dedication to our members and extend congratulations and thanks to our 1,885 employees for their hard work. I am truly grateful for their efforts.

Awards and Distinctions

As an organization dedicated to our members, we live out our purpose and values through all of our business practices, including how we support and develop our employees. Our commitment to making Coast Capital a great place to work was again recognized through prestigious business awards:

- Winner of 2019 BC Top Employer
- Platinum Club member of Canada's Best Managed Companies
- Canada's Most Admired Corporate Cultures™
- B Lab's Best for the World honoree in the Worker category (Scoring in the top 10% of all B Corporations worldwide for their employee-friendly practices, such as job flexibility and fair-chance hiring policies)
- BC's Most Influential Women 2019 honour bestowed on three of our senior leaders by *BCBusiness* magazine

Diversity and Inclusion

Our culture is one of inclusion, fairness and open-mindedness. We believe building a culture that celebrates diversity allows us to enrich our workplace, drive innovation and better understand and meet the needs of our members, employees and the communities we serve.

To foster this dynamic and shape our culture of inclusiveness, we engage the collective minds and perspectives of our people through an employee-led Diversity & Inclusion Council, affinity networks and task forces, as well as being a member of the Canadian Centre for Diversity and Inclusion. These factors ensure that everyone has an outlet for their voice to be heard. They provide us with many avenues to truly understand where needs exist and how we can meet them through the services and products we offer our members, through the support and development for our employees, and through initiatives in the community.

Looking to the Year Ahead

The impact of COVID-19 is profound. The health and safety of Canadians is weighing heavily on the minds of everyone, and the downturn of the economy has shaken many individuals' sense of financial well-being. All of us at Coast Capital understand and relate to the uncertainty so many are feeling during this time.

As a member-owned organization, we remain relentlessly committed to your financial well-being and will do everything we can to support you and your family, as we have done for the last 80 years. I am confident that, together, we can take on the challenges ahead, and I'm looking forward to emerging as an even stronger community.

Calvin MacInnis
President and
Chief Executive Officer

Driving Positive Change for our Members, Employees and Communities

As a credit union and member-owned co-operative, being a responsible change-maker is in our DNA. Our very foundation is built on finding the right balance between profit and purpose, and the idea that businesses can help drive positive change.

We advanced our commitment to this principle when we were named a Certified B Corporation® in 2018. This reflects our dedication to high standards of social and environmental performance, accountability and transparency. Coast Capital counts itself among a community of more than 3,200 B Corps in 150 industries and 70 countries around the world who harness the power of business to solve society's largest challenges.

B Corporations are certified by the non-profit B Lab®, which serves a global movement of people using business as a force for good.

In 2019, only a year after becoming certified, we were thrilled to be named by B Lab® as a *Best for the World* honouree in the Workers category. We scored in the top 10% of all B Corps for our employee-friendly practices and our efforts to make a significant impact on the lives of our employees well beyond work hours.

We're a Force for Good

As a Certified B Corporation®, we strive for continuous improvement in five impact areas: governance, workers, community, environment and members. In addition to our efforts to provide a meaningful career and culture of care at Coast Capital for our employees, we advanced in these remaining impact areas in 2019:

- **Governance**: Our members helped shape the future of Coast Capital by nominating and electing the members of our Board of Directors through a democratic one-member-one-vote system.
- **Community**: We reinvested $6 million, or a minimum of 10% of our budgeted bottom line, into our local communities with a focus on youth. In addition, our employees volunteered a record 14,950 hours, giving their time and expertise to their communities. By extension, staff received reward dollars for their volunteer efforts to donate to the community organizations or causes of their choice.
- **Environment**: Several of our branches received environmentally minded, energy-efficient renovations, including the use of LED lighting and innovative, sustainable materials such as Cradle-to-Cradle™ certified carpeting. In addition, we reduced our office paper use by 43% in the past 12 months. We also continued to support employees who commute to work more sustainably with carpool incentives and remote work opportunities.
- **Members (Customers)**: In 2019, we introduced an award-winning digital banking platform that improves our members' ability to access our services safely and simply. We also invested in an enhanced platform for our Contact Centre that allows us to better serve our members how and where they want to be served, evolve their banking experience and meet their lifetime needs.

We're Not All the Same, and We Like It That Way

We remained steadfast in our commitment to Diversity and Inclusion (D&I) by working hard to create an atmosphere where employees are encouraged to be themselves and are respected for their unique experiences and perspectives. We believe this benefits everyone and strengthens our organization.

While we're early in our D&I journey, we've developed a D&I Commitment Statement—*"We're not all the same, and we like it that way."* We launched these employee-led platforms for our staff to communicate and play an active role in making Coast Capital a more inclusive place:

- **Our Diversity & Inclusion Council** provides strategic direction and oversees internal D&I initiatives.
- **Our Task Forces** help identify potential employment barriers for designated groups as defined by the Employment Equity Act: women, people with disabilities, Indigenous people and visible minorities.
- **Our Affinity Networks** are focused on raising the awareness and appreciation for employees who self-identified as women, LGBTQ2+, Indigenous people, persons with disabilities, visible minorities, as well as youth. We hope these networks will provide a sense of belonging for those who self-identify with the respective network. We also encourage allies to get involved in the conversation.

Coast Capital has always done things a little differently and thrived as a result. We will continue to make progressive and responsible decisions to create a better world as we move forward, confident in the knowledge that each action we take has the best interests of our members, employees and communities as its foundation.

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.

The MD&A is current as of February 26, 2020, and should be read in conjunction with Coast Capital's audited consolidated financial statements as at and for the year ended December 31, 2019. All amounts are in thousands of Canadian dollars unless otherwise stated.

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About Forward-Looking Statements

This Annual Report contains forward-looking statements, which are usually identified by words such as "expect," and by the future or conditional tense, such as "will" or "would." These statements are subject to risks and uncertainties that may affect results, including but not limited to risks related to changes in the legislative or regulatory environment, accounting standards, capital markets, interest rates, competition and general economic conditions in B.C., Canada and globally. Readers should give careful consideration to these issues and not place undue reliance on our forward-looking statements. Coast Capital does not undertake to update any forward-looking statements in the Annual Report.

Management's Discussion and Analysis

Economic Environment

The outlook in this section 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 slowed in 2019 with real GDP growth forecasted at 2.9%, compared with 3.6% in 2018. Escalating trade conflicts hampered growth, reduced business confidence and investment while employment remained strong despite trade uncertainty. Many central banks responded to the trade headwinds by lowering interest rates to mitigate the economic impacts. While efforts to resolve trade issues showed promise in some areas, such as the Canada—United States—Mexico Agreement (CUSMA), at the close of 2019, significant global trade issues remained unresolved. Ongoing trade uncertainty is expected to continue to constrain economic growth in 2020. Similarly, adverse geopolitical circumstances/tensions in several regions are expected to continue into 2020. The instability caused by these situations adds to financial market volatility and uncertainty, constraining economic growth. Efforts to contain and manage the COVID-19 outbreak in China may also dampen global economic activity in 2020. To offset these impacts and stimulate growth, accommodative monetary conditions in the form of low interest rates are expected to remain in place through 2020 in most developed economies. Commitments to fiscal stimulus, in the form of government spending increases, are less certain in 2020 but remain a possibility. Overall, the forecast for global real GDP growth in 2020 is 3.0%, a modest improvement compared with 2019.

U.S. real GDP growth also slowed in 2019, from 2.9% in 2018 to an expected 2.3% in 2019. The year-over-year decrease is attributed to the fading positive impacts of fiscal stimulus measures and increased global uncertainty, exacerbated by trade issues, resulting in reduced business investment activity. The Federal Reserve responded to the slow down with three rate cuts totalling 75 basis points in the second half of 2019. Low interest rates combined with robust employment conditions and healthy household balance sheets encouraged consumer spending, which supported overall economic growth in 2019. Looking forward to 2020, it is expected that business investment will be dampened by lingering trade issues and uncertainty related to the U.S. election in November. Forecasts indicate the Federal Reserve will likely hold steady with the current low interest rates in 2020, and consumer spending will again be relied upon as the primary engine for U.S. economic growth. Real GDP growth in the U.S. is forecast to continue to lead other G7 countries, but will slow to 1.9% in 2020.

Following the global and U.S. trend, Canada's GDP also notched down in 2019, expected at 1.6% compared with 2.0% in 2018. Global trade and general economic uncertainty contributed to slowing 2019 business investment in Canada, as well as softening in the energy sector. Despite slower growth, with inflation trending near the 2% target and concerns that lower interest rates could encourage an increase in household debt, the Bank of Canada did not follow the global trend to lower policy interest rates in 2019. Favourable employment conditions in 2019 were offset by high levels of household debt. As a result, Canadian households remained cautious in terms of spending activity, and economic growth from consumer demand was muted. For 2020 Canada's GDP growth is forecast at 1.4%, a 0.2% reduction compared with the 2019 forecast at 1.6%. Although completion of the CUSMA is expected to have a positive impact on North American trade, demand for Canadian exports in 2020 will be constrained by weak global trading trends, reduced commodity prices and slower economic growth in the U.S. and China. Given these headwinds, after holding rates steady through 2019, the potential exists for a Bank of Canada rate cut in 2020. If the Bank does move rates, barring significant changes to the economic fundamentals, the consensus indicates it will be a modest reduction. The campaign pledge by the newly elected minority federal government to lower personal income taxes will leave more dollars in the hands of Canadian consumers providing a source of modest stimulus. The currency exchange rate saw the Canadian dollar strengthen against the U.S. dollar in 2019 while remaining in a relatively tight trading range. For 2020, the outlook is for the exchange rate to continue to trend in a range close to the 2019 year-end rate.

After experiencing 2.6% real GDP growth in 2018, the highest growth result amongst the provinces, B.C.'s real GDP growth slowed in 2019 to 2.1%. Although the B.C. labour market remained strong in 2019, consumer spending was constrained by the high cost of housing. Economic growth was also hampered by weak export demand and significant pressure on the forestry sector due to both declining output and reduced demand. Growth in service sector activity was a bright spot for B.C. in 2019. Forecasts indicate that B.C.'s economic growth prospects in 2020 are more favourable, with forecasted real GDP growth increasing to 2.4%. Although slower global and U.S. economic growth will weigh on demand for B.C. exports, growth stimulus is expected to come from increased non-residential building construction and a ramp-up in construction activity related to several large energy projects currently underway in the province. Service sector expansion is also expected to continue at a healthy pace in 2020. Low unemployment is expected

Management's Discussion and Analysis

to remain a good news story in 2020, but will also act as a constraint on growth as employers will be challenged to fill vacancies in a tight labour market. The headwinds facing B.C.'s forestry sector in 2019 will likely persist through 2020. B.C.'s housing market slowed in 2019, impacted by mortgage qualification stress test requirements, provincial measures to dampen demand, and affordability issues. While these factors will continue to influence the housing market in 2020, home sales activity has increased in recent months and expectations are that sales activity will continue to increase in 2020 due to an increase in demand, putting upward pressure on home prices.

Financial Performance

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.

Financial Highlights of 2019

Year ended December 31			Change from 2018	
(in thousands of dollars)	2019	2018	$	%
Net interest income	330,609	326,681	3,928	1.2
Fee, commission and other income	95,111	121,158	(26,047)	(21.5)
Total revenue	425,720	447,839	(22,119)	(4.9)
Provisions for credit losses	9,195	8,619	576	6.7
Non-interest expenses	360,063	336,013	24,050	7.2
Income before provision for income taxes	56,462	103,207	(46,745)	(45.3)
Provision for income taxes	11,586	21,108	(9,522)	(45.1)
Net income	44,876	82,099	(37,223)	(45.3)
Assets				
Cash and financial investments	2,923,059	3,320,505	(397,446)	(12.0)
Loans	17,017,653	16,124,695	892,958	5.5
Premises and equipment, other	288,250	174,719	113,531	65.0
Total assets	20,228,962	19,619,919	609,043	3.1
Liabilities				
Deposits	16,626,665	16,374,664	252,001	1.5
Borrowings	2,159,436	1,919,781	239,655	12.5
Other liabilities	183,495	119,272	64,223	53.8
Total liabilities	18,969,596	18,413,717	555,879	3.0
Members equity	1,259,366	1,206,202	53,164	4.4
	20,228,962	19,619,919	609,043	3.1

(in per cent)	2019	2018	Change from 2018
Operating efficiency ratio	84.6	75.0	9.6
Liquidity coverage ratio	192.6	214.0	(21.4)
Total capital ratio	14.6	15.7	(1.1)
Common equity tier (CET) 1 capital ratio	11.5	12.1	(0.6)
Tier 1 Capital ratio	11.7	12.3	(0.6)
Leverage ratio	5.7	5.7	0.0

Management's Discussion and Analysis

Our 2019 financial results reflect activities required to continue our transformation journey after becoming a federal credit union November 1, 2018, as well as new investments made to both broaden and deepen our organizational capabilities. In 2019 we made significant improvements to our technology platforms aligned to the needs and expectations of our current and future members. These improvements will position us for the growth opportunities that exist within our current markets and in new markets across Canada.

Reported net income of $44.9 million in 2019 represents a decrease of $37.2 million, or 45.3%, compared with 2018. This result reflects both a decrease in our total revenue, down $22.1 million year-over-year, and an increase in our non-interest expenses, up $24.1 million year-over-year. The variance in total revenue is attributed to our 2018 federal credit union transition, which resulted in a one-time increase in fee, commission and other income of $27.9 million. Adjusting for the one-time gain of $27.9 million, 2018 fee, commission and other income is reduced from $121.2 million to $93.3 million. Comparing 2019 against the adjusted 2018 result, our fee, commission and other income increased $1.8 million, or 1.9%, year-over-year. Our net income of $44.9 million, compared against the adjusted 2018 result of $58.6 million, decreased by $13.7 million, or 23.4%, year-over-year.

Adjusted Net Income

Year ended December 31 (in thousands of dollars)	2019	Adjusted 2018	Change from 2018 $	 %
Net interest income	330,609	326,681	3,928	1.2
Fee, commission and other income	95,111	93,314	1,797	1.9
Total revenue	425,720	419,995	5,725	1.4
Provisions for credit losses	9,195	8,619	576	6.7
Non-interest expenses	360,063	336,013	24,050	7.2
Income before provision for income taxes	56,462	75,363	(18,901)	(25.1)
Provision for income taxes	11,586	16,767	(5,181)	(30.9)
Net income	44,876	58,596	(13,720)	(23.4)

(in per cent)	2019	2018	Change from 2018
Operating efficiency ratio	84.6%	80.0%	4.6%

Our 2019 net interest income was $330.6 million, an increase of $3.9 million, or 1.2%, compared with 2018. The modest increase in our net interest income reflects positive growth of our financial assets during the year partially offset by a decrease in the net interest margin earned on these assets. Average total assets, primarily made up of financial assets, increased by $1.0 billion, or 5.3% compared to the prior year, favourably impacting our net interest income, while net interest margin, which declined 8 basis points from 1.74% in 2018 to 1.66% in 2019, had an unfavourable impact. The decline in our net interest margin reflects a larger relative increase in the interest rates we paid for deposits and borrowings in 2019, compared with the increase in the rates earned on our loan and other financial assets. Additionally, our implementation of IFRS 16 accounting for leases in 2019 added $4.2 million to our interest expense, contributing 2 basis points to the total 8 basis point decline in our net interest margin.

Fee, commission and other income decreased by $26.0 million or 21.5% compared with 2018. This year-over-year change includes the impacts from one-time events in 2018 related to our transition to federal credit union status. 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 investment in Central 1 Class E shares at their redemption value on November 1, 2018, resulting in a gain of $36.6 million. Additionally, as part of our transition to federal credit union status, significant investment portfolio balances 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 impact on 2018 results, specifically related to our transition to a federal credit union, was a $27.9 million gain. Adjusting for this gain, 2018 fee, commission and other income is reduced from $121.2 million to $93.3 million.

On an adjusted comparative basis our 2019 fee, commission and other income of $95.1 million represents a year-over-year increase of $1.8 million or 1.9%. The increase is attributed to income from investment and life insurance products and from banking and payment services. Income from investment and life insurance products increased by $1.5 million, or 3.9%, based on asset under administration growth. Banking and payment services income increased by $1.1 million, or 4.1%, driven largely by volume, attributed to growth of our overall member base. Loan fee income was relatively flat compared with 2018, while income from credit cards and foreign exchange decreased.

Our provision for credit losses was $0.6 million higher, consistent with our overall loan portfolio growth and shift towards commercial assets.

Non-interest expenses increased by $24.1 million, or 7.2%, in 2019 to $360.1 million compared with $336.0 million in 2018. The primary drivers of the expense increase in 2019 were salaries, technology and marketing. Expense increases in these areas are primarily attributed to activities and investments we made to improve our internal capabilities, adapt to change and enhance the service experience we deliver to our members. The enhanced services and systems we introduced in 2019 include new online banking and mobile banking platforms, expanded digital membership opening capabilities, an industry-leading member relationship management system and a modernized member contact centre. Ongoing transformation activities related to our 2018 transition to federal credit union status also impacted our expenses, as did 2018 changes to our Central 1 membership status. We maintained our commitment to community support through contribution of $5.8 million to local programs and events.

Our operating efficiency ratio increased to 84.6% in 2019, compared with the efficiency ratio reported for 2018 of 75.0%, and the adjusted 2018 efficiency ratio of 80.0%. The efficiency ratio represents non-interest expenses as a percentage of total revenue. A lower ratio indicates a more efficient business operation. The efficiency ratio is subject to fluctuation as we undertake transformational investments to improve our member experience and prepare for future growth. The increase in our 2019 efficiency ratio results from on-going transformation activities related to our transition from a provincial to a federal credit union, as well as the significant investments made to improve our technology platforms and member experience. As a result of these initiatives, our non-interest expenses increased at a faster rate than revenues.

In 2019, we achieved a new milestone with total year-end assets surpassing $20 billion. Our total asset growth was $609 million, or 3.1%. As expected, this growth was lower than the $2.6 billion growth experienced in 2018 when we built up substantial liquid asset holdings to prepare for our transition to a federal credit union. Our cash and financial investment assets decreased by 12.0% during the year, from $3.3 billion to $2.9 billion, aligned with our liquidity needs. We managed these assets down while maintaining a strong liquidity position, reflected in our 2019 year-end liquidity coverage ratio of 193%. Our total loan portfolio increased by $893 million, or 5.5%, to $17.0 billion. Commercial loans grew by 9.3%, and retail loans grew by 4.0%, aligned to real estate market trends.

Our regulatory capital remains strong, with a total capital ratio at December 31, 2019, of 14.6%, decreased from 2018 (15.7%) due to annual amortization of our subordinated debt and capital utilization to support our growth.

Business Line Performance

Retail

The retail division plays a lead role in improving the financial well-being of our 527,000 retail members. We connect with, and provide service and advice to, our retail members through multiple channels, including our 52 location branch network, a mobile service team, our Contact Centre and our digital banking platforms. Through these channels, we welcomed over 42,000 new retail members in 2019. Our strong new member growth was supported by our digital membership opening platform, first launched in 2017 and upgraded in 2019. The enhancements deliver a seamless digital experience and make it easier to become a Coast Capital member. In 2019, over 20,000 new retail memberships were opened digitally.

In furtherance of our purpose, to empower our members to achieve what is important in their lives, in 2019 we launched new systems that improve the way we connect with and understand the needs of our members. This included an award-winning new digital banking platform to deliver our website, online banking and mobile banking services. We also implemented an industry-leading member relationship management system that will help us better understand the evolving needs of our members, and enable our employees to proactively engage with members to improve their financial well-being. The relationship management system is integrated with a new cloud-based contact centre system, also launched in 2019.

In 2019, we delivered over 36,000 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 2019, we funded over 6,500 new mortgages and home equity lines of credit for our members and grew our retail mortgage portfolio by $418 million, or 3.8%, to $11.5 billion. Our 2019 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 2019, we funded over $3.5 million Help Extras for our members, bringing the total Help Extras provided to our members since 2015 to over $24 million.

Our 2019 retail mortgage growth of $418 million, or 3.8%, decreased from the $781 million growth generated in 2018. Slower year-over-year growth of our mortgage portfolio reflected a general cooling of the housing market in our trade areas as well as the impacts of new mortgage underwriting guidelines established for federally-regulated financial institutions. We adopted the new guidelines mid-2018 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. The continued growth of our retail mortgage portfolio was supported in 2019 by our expansion of sales to B.C. markets outside of our traditional trade areas. New markets included Prince George, Kamloops, Williams Lake, Port Alberni, Nelson and several others. In 2019, we also grew our retail non-mortgage loan portfolio by $41 million, or 11.5%.

Our large retail member base is a primary source of core deposits and overall funding growth. Retail deposit growth in 2019 was $215.5 million, or 2.4%, down from $1.1 billion in 2018. Our deposit growth in both years was aligned to our overall funding needs. In 2018, increased funding to strengthen our liquidity position in preparation for our transition to a federal credit union, as well as very strong overall loan growth during the year, necessitated stronger retail deposit growth. In 2019, our loan growth funding needs were moderated, and we were able to manage our liquid asset holdings down while still maintaining a strong liquidity position. Our 2019 deposit growth was positive across the major product groups, with the majority of the growth generated in term products.

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 and financial planners. While not included in the assets captured within our consolidated balance sheet, our mutual and segregated fund assets under administration totalled just over $4.2 billion at year-end 2019. These assets increased by $437 million in 2019, or 11.5%, from $3.8 billion at year-end 2018, with growth driven by both sales activities and positive market growth during the year. Our co-branded Low-fee, More-for-me Mutual Funds® program celebrated its ten year anniversary in 2019 and continues to be an important part of our member wealth offer. Low-fee, More-for-me Mutual Funds assets under administration increased by $190 million, or 10.0%, during the year to $2.1 billion at year-end. New digital capabilities implemented in 2019 significantly reduced manual processing activities for our advisors, increasing their efficiency, improving their mobile service capabilities, and enabling them to spend more time focused on meeting the wealth management needs of our members. We also launched a goals-based advice program in 2019, which provides a more personalized approach to investment advice and increases the value we deliver to our members.

Management's Discussion and Analysis

Looking ahead to 2020 within our retail division, we plan to continue our member first approach, with a focus on delivering more value through the advice we provide to our members. This will include additional investments in our employees to enhance their ability to meet the needs of our members. Related to this, we plan to expand the capabilities of our contact centre employees to transition the contact centre from a service-oriented channel to a more comprehensive and proactive advice and service channel. New product and account options are also planned for 2020. As well, we will continue our work to optimize the significant technology investments made in 2019, adding new tools, functions and features. Continuous advancement of our digital-direct service offerings, along with improvements that allow our employees to maximize the value of service opportunities, will further support our purpose of empowering members to achieve what's important in their lives.

Commercial

Our commercial division is a vital part of Coast Capital's operations; by helping our business members succeed and thrive, we are contributing to the health and vitality of the communities in which we operate.

Backed by sound underwriting policies and practices, our commercial loan and lease portfolios also provide an important lever for risk management by enhancing the diversification of the assets held in our loan portfolio, while also giving us access to higher-yielding assets that strengthen our financial performance. Commercial operations have also provided our business with geographic diversification through our Equipment Finance (Leasing) team and syndicated commercial financing arrangements on developments and properties located in major Canadian cities outside of B.C. Our commercial division has successfully engaged in these national activities for several years. As a result, in addition to diversification benefits, our national commercial operations provide us with experience and insights that will be valuable as we expand our retail operations nationally. Our business members also have broad financial needs, which create expanded opportunities to grow our non-interest revenue.

In recognition of the diverse needs of our business members, we have organized our commercial banking team into several groups: Small Business Banking, Business Banking, Commercial Real Estate, Equipment Financing (Leasing) and Payments and Cash Management. On a combined basis, at December 31, 2019, the business members serviced by our commercial division accounted for 30% of our total loan and lease assets and 21% of our total deposit balances. To further augment the service offering available to our business members, in 2019 we entered into a referral partnership with OnDeck Canada. The arrangement allows us to provide our small business members with faster access to term loan financing using OnDeck's proprietary technology.

In 2019, we launched a new digital banking platform for our small business members. The new platform, which has a phased launch that will continue into 2020, will improve the online and mobile banking experience of our small business members, and expand the range of digital banking services that we provide. We also extended our digital membership opening experience, originally launched for retail memberships, to include potential new business members. Using our new digital membership opening service, potential new business members now have the ability to complete the end-to-end new membership process online. In 2019 we welcomed almost 3,000 new business members. Also during the year, we launched an auto-adjudicated lending facility providing up to $35,000 of unsecured lending to businesses operating within certain skilled trade industries. Electronic deposit capture for business members with high volumes of cheque deposits was also added to our list of available business services in 2019. In addition, our new industry-leading member relationship management system, implemented in 2019, will enable our commercial banking employees to provide improved service and proactively identify opportunities to deliver increased value to our business members.

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In 2019, our total commercial loan and equipment lease assets increased by $439 million, or 9.3%, reaching a new milestone of $5.2 billion at year-end. Commercial mortgage and loan assets increased by $372 million, or 9.6%, to $4.2 billion at year-end. The growth was focused on mortgage secured assets, with non-mortgage loan and line of credit balances remaining flat during the year. Both the fixed and variable-rate mortgage portfolios experienced positive growth in 2019. Variable rate commercial mortgage growth slowed on a year-over-year basis but remained positive supported by our strong relationships with real estate developers in the multi-family construction market. Growth of our fixed rate, term commercial mortgage assets strengthened on a year-over-year basis, reflecting demand and opportunities in the market. In 2019, our Commercial Real Estate team financed the construction of approximately 1,500 multi-family residential units and 100 single-family homes.

Our Equipment Financing (Leasing) portfolio increased $67 million in 2019, or 7.9%, to $913 million. The growth is attributed to our expanding network of equipment vendor partnerships and to the activities of our internal sales team. Our Equipment Finance business operates on a national basis. Of the total portfolio growth generated in 2019, 30% is attributed to B.C., with the remaining 70% attributed to the other provinces, notably Ontario, Quebec and Alberta. At year-end 2019, 31.4% of our equipment leasing assets were held in B.C., with the remaining 68.6% held in other provinces, notably Ontario at 38.0% and Alberta at 18.7%.

Commercial deposit growth was also favourable in 2019. Total commercial deposits at year-end were over $3.4 billion, with growth of $171 million during the year, or 5.2%. Our 2019 deposit growth slowed from $416 million in 2018, aligned to our overall funding needs. Our large Small Business Banking member base has been a consistent source of core deposit growth, aligned to the transactional banking service needs of our small business members, and continues to account for the majority of our commercial deposits, totalling $2.1 billion at year-end. Our commercial Payments and Cash Management team, which develops relationships with organizations that have significant cash management needs, generated the majority of our commercial deposit growth in 2019 at $115 million, growing the total deposits managed by this team by 17.4% to $777 million at year-end. During the year, our Payments and Cash Management team continued to strengthen Coast's relationship with, and support of, indigenous communities in the regions that we serve.

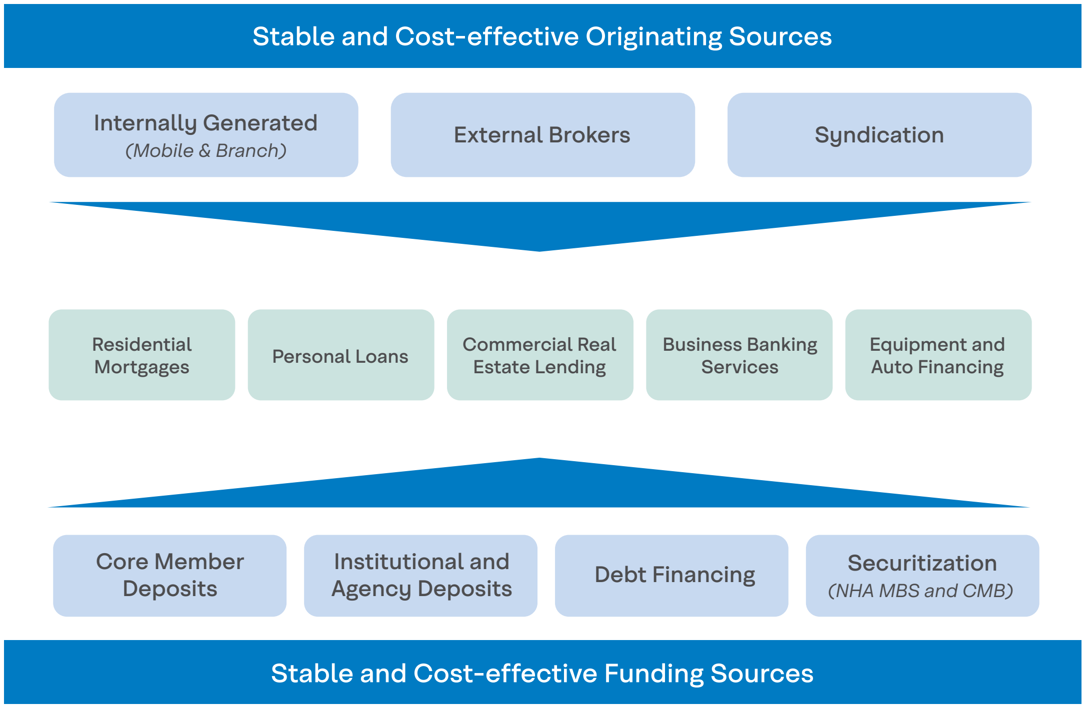
Looking ahead to 2020, we expect to drive additional benefits from the significant technology investments made in 2019, which will form a foundation for deeper relationships with our business members. Additional enhancements and investments to improve our capabilities and the digital services available to business members are planned for 2020, including implementation of a new lease management system. We expect continued strong growth of our commercial loan portfolio despite headwinds in certain geographies and markets that we operate in. Loan growth will be supported by our ability as a federal credit union to lead high-quality syndicated mortgage opportunities identified in markets outside of B.C. New opportunities for deposit growth have also been identified, which the commercial division will be pursuing in 2020.

Net Interest Income

Net interest income is the difference between the interest 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 the net interest margin earned (net interest margin is the net interest income we earn as a percentage of our average total assets). Given the importance of net interest income to our financial performance, significant attention is paid to asset and liability growth decisions and their impact on our interest margin. In managing the interest rates we offer on loans and deposits throughout the year, we are also careful to ensure that our members have access to rates that are both fair and competitive.

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

Diversified Asset and Liability Structure



Overall market conditions continued to compress our interest rate margin in 2019. Despite five consecutive increases to the Bank of Canada benchmark interest rate and our prime lending rate through 2017 and 2018, on a broad historic level, interest rates remained relatively low in 2019. Additionally, the yield curve, which compares short and long term interest rates, was generally flat and even inverted at points during 2019, hampering net interest rate margin benefits generally available through managing the maturity profiles of financial assets and liabilities.

Our prime interest rate was held flat through 2019. However, with three interest rate increases occurring at various points during 2018, our average prime rate in 2019 was higher on a year-over-year basis. This helped to increase the average rate earned on our loan portfolio in 2019 compared with 2018. The rates earned on our cash resources also increased in 2019. The improvement in rates earned on financial assets, however, was offset by stronger upward pressure on our deposit rates during the year. Overall, the net result was a year-over-year reduction in our net interest rate margin.

Our 2019 net interest income was $330.6 million, an increase of $3.9 million, or 1.2%, compared to 2018. The increase in net interest income is attributed to the growth of our assets and liabilities during the year. Average total assets, primarily made up of financial assets, increased by $1.0 billion, or 5.3% in 2019. This volume benefit was partially offset by a decrease in our net interest margin during the year. Calculated as a percentage of our average total assets, our net interest margin declined by 8 basis points, from 1.74% in 2018 to 1.66%. Implementation of IFRS 16 accounting for leases in 2019, which added $4.2 million or 2 basis points to our interest expense, contributed to the decrease in our net interest margin.

As noted in the table below, based on interest-bearing assets and liabilities, 2019 volume increases had a favourable impact of $7.4 million on net interest income, and rate changes had an unfavourable impact of $3.5 million.

Net Interest Income Volume and Rate Impacts

Year ended December 31 (in thousands of dollars)	2019 Increase (decrease) due to change in Average balance	Average rate	Net change
Interest bearing assets	30,574	44,226	74,800
Interest bearing liabilities	(23,161)	(47,711)	(70,872)
Net interest income	7,413	(3,485)	3,928

Net Interest Income

Year ended December 31

(in thousands of dollars)	2019 Average balance	Mix %	Interest	Interest rate %	2018 Average balance	Mix %	Interest	Interest rate %
Cash resources	3,019,079	15.2	62,009	2.05	3,221,831	17.1	56,530	1.75
Loans								
Residential	11,301,698	57.0	375,842	3.33	10,697,389	56.8	342,536	3.20
Commercial	4,028,454	20.3	177,254	4.40	3,690,027	19.6	151,173	4.10
Leasing	866,584	4.4	44,586	5.15	716,812	3.8	36,991	5.16
Personal	226,892	1.1	13,503	5.95	187,105	1.0	11,137	5.95
Lines of credit	158,267	0.8	12,812	8.10	155,043	0.8	12,068	7.78
Total loans	16,581,895	83.6	623,997	3.76	15,446,376	82.0	553,905	3.59
Other assets	231,485	1.2	–	–	174,719	0.9	–	–
Derivatives	–	–	696	–	–	–	1,467	–
Total	19,832,459	100.0	686,702	3.46	18,842,926	100.0	611,902	3.25
Deposits								
Demand	6,157,257	31.0	31,268	0.51	5,638,402	29.9	29,942	0.53
Term	8,332,579	42.0	222,903	2.68	8,062,260	42.9	186,784	2.32
Registered plans	2,074,508	10.5	47,168	2.27	1,855,238	9.8	35,679	1.92
Total deposits	16,564,344	83.5	301,339	1.82	15,555,900	82.6	252,405	1.62
Borrowings	1,575,642	7.9	35,045	2.22	1,432,566	7.6	25,026	1.75
Subordinated notes	302,563	1.5	15,472	5.11	148,893	0.8	7,790	5.23
Lease obligation	86,437	0.4	4,237	4.90				
Total financial liabilities	18,528,986	93.4	356,093	1.92	17,137,359	91.0	285,221	1.66
Other liabilities	69,734	0.4	–	–	561,029	3.0	–	–
Share capital	27,944	0.1	–	–	27,306	0.1	–	–
Accumulated other comprehensive income (AOCI)	10,995	0.1	–	–	(12,197)	(0.1)	–	–
Retained earnings	1,194,800	6.0	–	–	1,129,429	6.0	–	–
Total	19,832,459	100.0	356,093	1.80	18,842,926	100.0	285,221	1.51
Net interest income			330,609	1.66			326,681	1.74

The average yield earned on our total assets increased by 21 basis points to 3.46% in 2019, compared with 3.25% in 2018. The increase reflects higher average yields earned on our residential mortgages and commercial loans, as well as on our cash resources, consistent with the general interest rate environment in 2019. The increase in average yield was further supported by a shift in our asset portfolio mix from cash resources to relatively higher-yielding loan assets. Our portfolio allocation to cash resources, measured on an average balance basis, decreased to 15.2% in 2019 from 17.1% in 2018. In 2018, in preparation for our transition to a federally regulated credit union, we increased our liquid asset holdings to mitigate the impact of potential deposit outflows resulting from the change. In 2019, having completed our transition to federal status, we were able to reduce these lower-yielding holdings. Our average asset yield also benefited on a year-over-year comparative basis from a modest shift within our loan portfolio, from residential mortgages to higher-yielding commercial loans, equipment leases and personal loans.

Our overall funding cost as a percentage of total assets increased by 29 basis points, from 1.51% in 2018 to 1.80% in 2019. Given the favourable increase in our asset yield during the year, it was this increase in funding cost that compressed our net interest margin and constrained our net interest income growth. Several factors contributed to the funding cost increase in 2019, including generally higher market interest rates, which impacted both our deposit and borrowing cost.

The cost of funding through borrowing is, on average, higher than the cost of funding from deposits. In 2019, our borrowings, including subordinated notes, as a percentage of our average funding mix increased from 8.4% to 9.4%. In 2019, the average rates paid on term and registered plan deposits increased on a year-over-year basis, due to both market impacts and rate promotions that we offered. Contributing to this, the rate promotions on term and registered plan products that we offered mid-2018 in preparation for our transition to a federal credit union had a full-year impact in 2019. In addition, changes made in 2019 related to the implementation of IFRS 16 accounting for leases, as described in Note 17 in our Notes to the Consolidated Financial Statements, resulted in the recognition of lease interest expense of $4.2 million. In terms of the decrease in our net interest margin, calculated as a percentage of our average total assets, the IFRS 16 implementation contributed 2 basis points of the total 8 basis point decrease.

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 financial service 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 2018	
(in thousands of dollars)	2019	2018	$	%
Investment and life insurance products	39,830	38,332	1,498	3.9
Banking and payment services	27,902	26,803	1,099	4.1
Lending fees (includes creditor insurance)	9,210	9,305	(95)	(1.0)
Credit card revenues	8,341	8,697	(356)	(4.1)
Foreign exchange	4,022	4,402	(380)	(8.6)
Other	5,806	33,619	(27,813)	(82.7)
Total	95,111	121,158	(26,047)	(21.5)

In 2019, fee, commission and other income revenue declined by $26.0 million due to the one-time impacts of our transition to a federal credit union in 2018. This includes a one-time gain on the redemption of shares we held in Central 1 of $36.6 million and an $8.7 million loss on the liquidation of certain investments held at Central 1 as outlined in the Financial Highlights of 2019 section above. Adjusting for the $27.9 million net gain attributed to the one-time events in 2018, our 2019 fee, commission and other income revenue of $95.1 million increased $1.8 million, or 1.9%, compared with 2018.

Management’s Discussion and Analysis

Demand for wealth management services continues to grow. Our business in this area includes investment funds (mutual funds and segregated funds) and a variety of life insurance products sold through our team of financial planners, retail investment advisors and insurance specialists. In 2019, our revenue related to investment and life insurance product activities was $39.8 million, an increase of $1.5 million, or 3.9%, compared with 2018. The majority of this revenue is generated through the investment fund assets we administer on behalf of our members. Our assets under administration totalled $4.2 billion at year-end 2019, an increase of $437 million, or 11.5%, from year-end 2018. Revenue from investment fund assets under administration was $36.7 million in 2019, an increase of $1.7 million, or 4.5%, compared with 2018. Our life insurance revenue in 2019 was relatively flat at $3.1 million, compared with $3.3 million in 2018.

Fees for banking and payment services are generated through the day-to-day banking services that we provide to our retail and commercial members. These include savings and chequing accounts, various transaction services, official cheques, safety deposit boxes and other services. The annual fee revenue we generate from these services depends on the volume of services provided, as well as the type of services we offer and the rate schedule in place, both of which are amended from time to time. In 2019, revenue from banking and payment services totalled $27.9 million, an increase of $1.1 million, or 4.1% compared to 2018.

Lending fee revenue in 2019 was relatively flat at $9.2 million, compared with $9.3 million in 2018. Credit card commissions and foreign exchange revenue both decreased in 2019 based on volumes. Credit card commissions, through our co-branded Desjardins Visa credit card offer, decreased $0.4 million, or 4.1%, to $8.3 million. Foreign exchange revenue decreased $0.4 million, or 8.6%, to $4.0 million.

Provision for Credit Losses

Our total provision for credit losses (PCL) was $9.2 million, an increase of $0.6 million, or 6.7%, compared with 2018. Total PCL as a percentage of total loans was 5 basis points, unchanged from 2018. PCL on impaired loans was $5.0 million, compared with $4.2 million in 2018, reflecting higher provision amounts for retail loans and lease assets, partially offset by lower amounts for commercial loans. The PCL on performing loans was $4.2 million, $0.2 million lower compared with $4.4 million in 2018, with the year-over-year reduction attributed to the improvement of macroeconomic conditions that affect our modelling.

The total allowance for credit losses at year-end 2019 was $42.4 million, an increase of $4.7 million, or 12.4%, compared with $37.7 million at year-end 2018. The Stage 3 (impaired) allowance at year-end was $1.3 million, an increase of $0.4 million during the year. The combined Stage 1 and Stage 2 (performing) allowance at year-end was $41.1 million, an increase of $4.2 million during the year, related to loan growth, changes in the economic outlook and refinements to our scenario modeling.

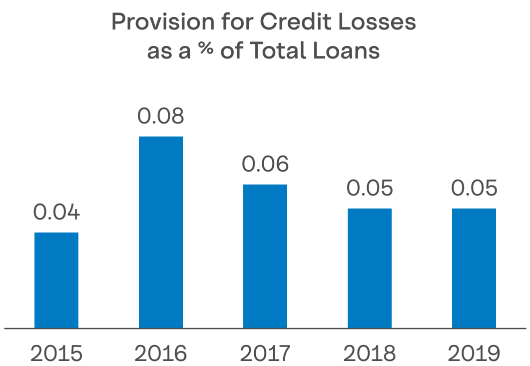
Credit Quality Ratios

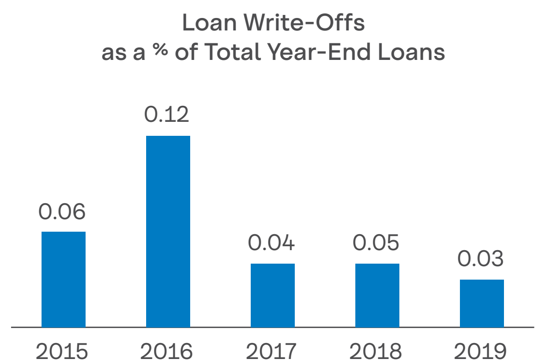
As at December 31

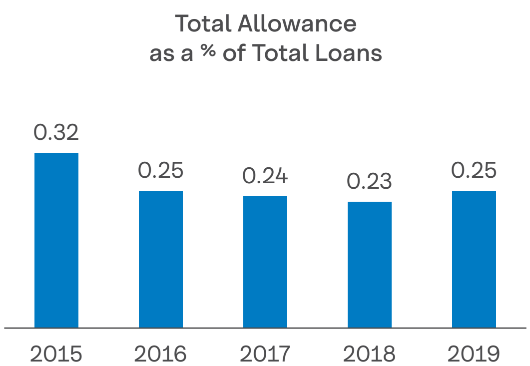
(in thousands of dollars)	2019	2018
Total loans	17,017,653	16,124,695
Provision for credit losses	9,195	8,619
Loan write-offs	5,732	7,187
Total allowance for credit losses	42,381	37,721
Impaired loans	12,799	11,244
Members’ equity	1,259,366	1,206,202

(in per cent)	2019	2018
Provision for credit losses as % of total loans	0.05	0.05
Loan write-offs as % of total loans	0.03	0.04
Impaired as % of total loans	0.08	0.07
Impaired as % of members’ equity	1.02	0.93
Total allowance as % of impaired loans	331.13	335.48
Total allowance as % of total loans	0.25	0.23

Management's Discussion and Analysis







We transitioned to IFRS 9 *Financial Instruments* (IFRS 9), effective January 1, 2018, which replaces IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). We elected to not restate the prior period comparative figures as permitted by the transition provisions of this standard. Accordingly, results for 2018 and 2019 have been prepared in accordance with IFRS 9, and the comparative information for 2017 and prior years is presented under IAS 39 as previously published.

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 expenses 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 2019 non-interest expenses increased by $24.1 million, or 7.2%, to $360.1 million compared with $336.0 million in 2018. The primary drivers of the 2019 expense increase were salaries, technology and marketing. Increases in expenses in these areas are primarily attributed to activities and investments made to improve our internal capabilities, adapt to change and enhance the service experience we deliver to our members. The projects that were successfully implemented in 2019 included a new digital banking platform to deliver our online banking and mobile banking services, an industry-leading member relationship management system, a cloud-based contact centre platform, and several other upgrades and enhancements. Additionally, as 2019 was our first full year of operations as a federal credit union, expenditures were undertaken to transform our reporting and operations to align with federal regulations and reporting requirements. Expenses in 2019 were also impacted by changes to our Central 1 membership status, made in 2018, and the implementation of IFRS 16 accounting for leases.

Management's Discussion and Analysis

Non-Interest Expenses

Year ended December 31 (in thousands of dollars)	2019	2018	Change from 2018 $	Change from 2018 %
Salaries and benefits				
Salaries including variable pay and incentives	157,935	140,708	17,227	12.2
Employee benefits, other	33,959	30,439	3,520	11.6
	191,894	171,147	20,747	12.1
Premises and equipment				
Rent, maintenance, utilities, taxes	11,949	27,156	(15,207)	(56.0)
Depreciation	17,975	4,711	13,264	281.6
	29,924	31,867	(1,943)	(6.1)
Member services administration				
Banking services	22,216	25,472	(3,256)	(12.8)
Loan processing	4,884	4,859	25	0.5
Investments and life insurance	3,678	3,196	482	15.1
	30,778	33,527	(2,749)	(8.2)
Technology				
Hardware, software, data, supplies	30,834	22,253	8,581	38.6
Depreciation	12,809	14,305	(1,496)	(10.5)
	43,643	36,558	7,085	19.4
Deposit insurance and regulatory fees	7,747	14,504	(6,757)	(46.6)
Legal and audit	2,198	2,642	(444)	(16.8)
Consultants	16,372	19,045	(2,673)	(14.0)
Telephone, postage	1,173	1,153	20	1.7
Marketing	16,224	7,957	8,267	103.9
Community contributions	5,793	5,940	(147)	(2.5)
Travel, meals and entertainment	4,735	4,084	651	15.9
Bonding and other insurance	1,663	2,388	(725)	(30.4)
Recruitment, training, conferences, dues	3,468	3,106	362	11.7
Other	4,451	2,095	2,356	112.5
	360,063	336,013	24,050	7.2

Salary and benefit expenses accounted for the largest area of expense increase in 2019, up $20.7 million, or 12.1%. This increase reflects growth in our total staff count during the year, along with annual salary increments related to inflation and merit. The overall expense impact was accentuated by a highly competitive market for talent resources in our primary operating region, as well as a shift in our workforce mix towards a higher proportion of knowledge workers in alignment with our business transformation needs and achievement of our strategic objectives.

Our technology expenses increased by $7.1 million, or 19.4%, to $43.6 million in 2019. Technology platforms to support service delivery are an increasingly important part of the financial services value proposition. Our members increasingly seek the convenience of digitized services, covering a broader range of banking activities, delivered with a quality experience, in a secure environment. Higher expenses in 2019 reflect our response to these expectations with significant enhancements to our technology platforms and capabilities. For 2019, the list of major upgrades includes as follows: a new digital banking platform to deliver the credit union's website, online banking and mobile banking services; an industry-leading member relationship management system; and a cloud-based contact centre system. We also made enhancements to our digital membership opening process and implemented a new intranet system to improve our internal information management capabilities and staff communications. Costs related to implementing and operating these new platforms added $8.6 million to our technology operating expenses for hardware, software data and supplies. The net book value of our technology assets increased by $12.4 million in

2019. Our 2019 technology depreciation expenses, however, decreased by $1.5 million, or 10.5%, due to accelerated depreciation expenses on specific technology assets recognized in 2018.

Marketing expenses increased by $8.3 million, or 103.9% in 2019 due to several initiatives and changes. As part of our transition to a federal credit union, Central 1 required Coast Capital to change from a Class A member to a Class B member. As part of this change, certain co-marketing support benefits provided by Central 1 to Coast Capital terminated. The result in 2019 is an increase in expenses for certain marketing activities that are now captured as marketing expense, with an offsetting reduction to our expenses for Central 1 dues, captured in banking services expense. Also impacting our 2019 marketing expense was work undertaken to refresh our brand and member acquisition initiatives. With respect to member acquisition, our member acquisition campaign in the second half of the year resulted in significant new member growth, which is expected to contribute to future revenue growth.

Expense decreases were experienced in a number of areas, most notably in member services administration, consultants and deposit insurance fees. Member services administration expenses for banking services decreased by $3.3 million, 12.8%, compared with 2018. The primary reduction drivers were lower fraud costs and changes in our Central 1 relationship. Specific to our Central 1 relationship, lower expenses in 2019 resulted from our change in membership from Class A to Class B, with associated changes in services received, as well as our move to an in-house platform for the delivery of internet and mobile banking services. Our expenses for consultants decreased by $2.7 million, or 14.0%, compared with 2018. Although lower year-over-year, our consultant expense remained relatively high in 2019 attributed to on-going work necessary to meet our regulatory and reporting requirements as a federal credit union, and to projects we initiated to advance our member service capabilities and achieve our operational and strategic objectives. Deposit insurance and regulatory fees decreased $6.8 million, or 46.6%. Assessments for deposit insurance premiums make up the largest component of this expense category. On November 1, 2018, upon becoming a federal credit union, we moved from the Credit Union Deposit Insurance Corporation of British Columbia to the Canadian Deposit Insurance Corporation program. The deposit insurance expense reduction represents differences in the applicable fee structure and favourable one-time impacts related to our transition between the two programs.

The reporting of premises and equipment expenses is impacted by accounting changes related to the implementation of IFRS 16 accounting for leases in 2019. Expense amounts for rent, maintenance, utilities and taxes decreased with an offsetting increase in depreciation relating to the amortization of the right-of-use asset created as a result of this change, as described in Note 17 in our Notes to Consolidated Financial Statements. Overall, our 2019 expense for premises and equipment decreased $1.9 million, or 6.1%, compared with 2018. This was offset by an associated increase in lease interest expense of $4.2 million captured in our net interest income.

In 2019 we maintained our commitment to community support through contribution of $5.8 million to local programs and events.

Capital Expenditures

Capital spending in 2019 totalled $42.9 million, $18.9 million higher than the $24.0 million spent in 2018. The addition of right of use assets, related to our adoption of IFRS 16 in 2019, accounts for $11.7 million of the year-over-year increase. We adopted IFRS 16 accounting for leases effective January 1, 2019, using the modified retrospective approach, which impacted the opening Consolidated Balance Sheet at January 1, 2019. The right of use assets capital expenditure of $11.7 million reflects valuation under IFRS 16 of the new lease agreements entered into in 2019.

Excluding right of use assets, capital spending in 2019 totalled $31.2 million, $7.2 million higher than 2018. The majority of our 2019 capital spending was focused on technology projects to update and improve our existing infrastructure and to expand and enhance our member services. Key projects involving capital investments implemented in 2019 include as follows: a new digital banking platform to deliver the credit union's website, online banking and mobile banking services; an industry-leading member relationship management system; a cloud-based contact centre system; and a new intranet system to improve our internal information management and communication capabilities. We also made investments to maintain and improve the various premises used by employees and members, including moving our Ocean Park branch to a new location.

Capital spending plans in 2020 are similar to 2019, both in terms of the amount and focus, as we continue to enhance our member and employee experience through our technology infrastructure and our digital capabilities, as well as our locations and premises.

Capital Expenditures

Year ended December 31 (in thousands of dollars)	2019	2018
Leasehold improvements	2,477	937
Computer equipment	5,681	2,353
Right of use assets	11,748	–
Software	20,773	19,521
Furniture and equipment	2,249	1,201
Total	42,928	24,012

Loan Portfolio

Total loans, including leases, increased in 2019 by $898 million, or 5.6%, to $17.1 billion. Our 2019 growth is lower than the $1.3 billion experienced in 2018, consistent with our expectations and reflecting market conditions. The mix of our total loan portfolio shifted slightly in 2019 towards commercial loans, which grew at 9.3%, compared with retail loans, which grew at 4.0%. As a percent of our total loan portfolio, total retail loans decreased by 0.9% and total commercial loans increased by 0.9%. This shift supported enhanced yield from our loan portfolio.

Loan Portfolio

As at December 31	2019				2018			
	Number	Total in millions of dollars[1]	Mix %	Average in thousands of dollars	Number	Total in millions of dollars[1]	Mix %	Average in thousands dollars
Retail								
Residential mortgages:								
Conventional	25,532	6,879	40.3	269	28,578	6,581	40.7	230
Revenue	4,678	1,640	9.6	351	4,336	1,492	9.2	344
Progressive	3	–	–	–	78	2	–	26
Insured	11,132	1,955	11.5	176	11,215	1,928	11.9	172
High-ratio	13	3	–	231	15	3	–	200
Home equity lines of credit	20,601	1,034	6.1	50	20,710	1,087	6.7	52
	61,959	11,511	67.5	186	64,932	11,093	68.5	171
Other:								
Unsecured lines of credit	134,515	155	0.9	1	139,127	152	0.9	1
Loans and auto leases	10,181	244	1.4	24	11,015	206	1.3	19
Personal loans and leases	144,696	399	2.3	3	150,142	358	2.2	2
Total retail loans	206,655	11,910	69.8	58	215,074	11,451	70.7	53
Commercial								
Commercial mortgages and loans	15,018	4,237	24.8	282	15,578	3,865	24.1	247
Equipment financing	13,230	913	5.4	69	11,744	846	5.2	72
Total commercial loans	28,248	5,150	30.2	182	27,322	4,711	29.3	172
Total loans	234,903	17,060	100.0	73	242,396	16,162	100.0	67

1. Before allowance for credit losses.

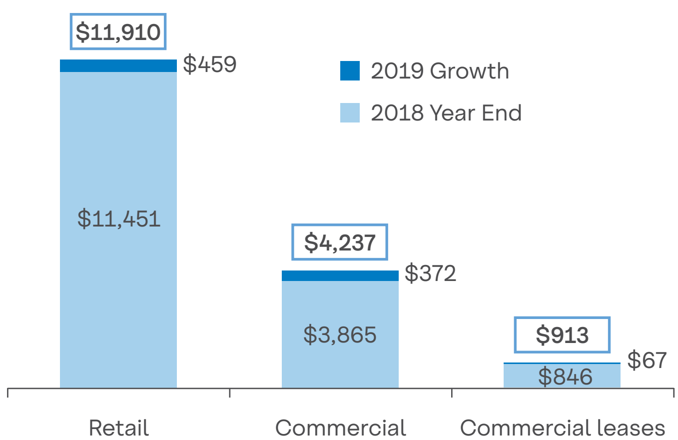
Management's Discussion and Analysis

Our retail residential mortgage portfolio increased by $418 million, or 3.8%, in 2019, compared with an increase of $780 million in 2018. Slower growth of our mortgage portfolio reflected a general cooling of the housing market in our main trade areas. Mortgage volumes in 2019 were also impacted to a greater extent by mortgage underwriting guidelines established for federally-regulated financial institutions, which we adopted mid-2018 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, reduce the maximum amount of mortgage funding that certain borrowers may qualify for, which in turn impacts overall mortgage lending volumes. Provincial measures to dampen real estate demand continued to be a factor during the year. Retail mortgage interest rates available to members trended downwards during the year, especially with respect to fixed-rate offerings. As a result, our fixed-rate retail mortgage portfolio increased during the year, while our variable rate portfolio decreased in 2019.

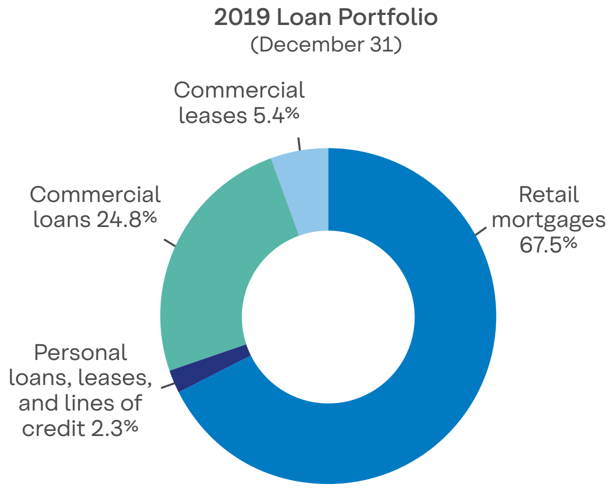
Our non-mortgage secured retail loan, lease and line of credit assets increased by $41 million, or 11.5%, in 2019, consistent with 2018. Continuing the trend from prior years, the majority of growth in this portfolio was attributed to our auto financing group.

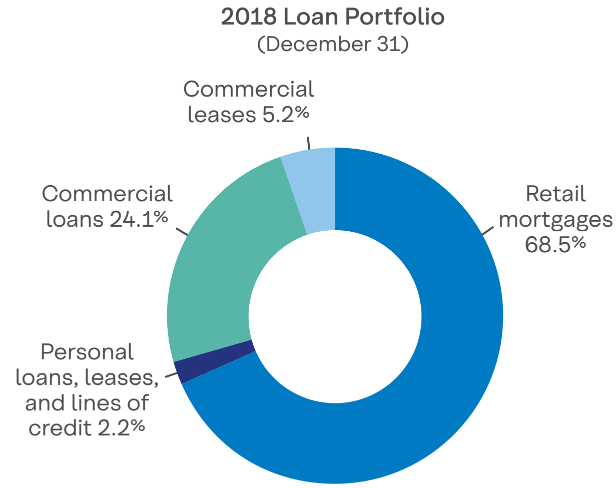
Our commercial loan portfolio, including mortgages, loans, and lines of credit, increased by $372 million in 2019, or 9.6%, to $4.2 billion. This compares favourably to our 2018 growth of $288 million, in line with our expectations. Commercial mortgages represent the majority of our commercial loan portfolio. Both the fixed- and variable-rate mortgage portfolios experienced positive growth in 2019. Variable-rate commercial mortgage growth, supported by our strong relationships with real estate developers in the multi-family construction market, slowed on a year-over-year basis, while fixed-rate, term commercial mortgage lending activity strengthened. Our non-mortgage commercial loans and lines of credit, which represent approximately 4% of our total commercial loan portfolio, decreased slightly by $2 million or 1.1% in 2019, similar to the relatively flat growth experienced in 2018.

Loan Portfolio ($ Millions)



Our equipment leasing assets increased by $67 million in 2019, or 7.9%, to $913 million. This result was higher than planned but lower than the $223 million growth experienced in 2018. Our commercial leasing division has operated across Canada for several years, supported by a network of equipment dealers that we have built relationships with and who have partnered with us to offer our leasing program to their customers. Approximately 30% of our 2019 equipment leasing asset growth is attributed to B.C., with the remaining 70% attributed to other provinces, most notably Ontario and Quebec. As a percentage of our total loan portfolio, equipment lease assets increased to 5.4% at year-end 2019 compared with 5.2% at year-end 2018.





Loan Portfolio Geographical Distribution

Year ended December 31, 2019
(in millions of dollars)

							2019		2018		Change	
	Retail	Mix %	Commercial	Mix %	Equipment leasing	Mix %	Total loans	Mix %	Total loans	Mix %	Total loans	Mix %
Not secured	220	1.8	287	6.8	–	–	507	3.0	447	2.8	60	0.2
Secured												
AB	13	0.1	213	5.0	171	18.7	397	2.3	346	2.1	51	0.2
BC	11,617	97.6	3,462	81.8	287	31.4	15,366	90.1	14,686	90.9	680	(0.8)
MB	1	–	52	1.2	25	2.7	78	0.5	73	0.5	5	–
NB	–	–	–	–	7	0.8	7	–	7	–	–	–
NL	–	–	8	0.2	3	0.3	11	–	3	–	8	–
NS	–	–	10	0.2	2	0.2	12	0.1	2	–	10	0.1
ON	59	0.5	205	4.8	347	38.0	611	3.6	545	3.4	66	0.2
PE	–	–	–	–	1	0.1	1	–	1	–	–	–
QC	–	–	–	–	54	5.9	54	0.3	35	0.2	19	0.1
SK	–	–	–	–	17	1.9	17	0.1	16	0.1	1	–
Total	11,910	100.0	4,237	100.0	914	100.0	17,061	100.0	16,161	100.0	900	

Deposits and Borrowing

Deposits

Our deposit portfolio increased by $253 million, or 1.5%, to $16.6 billion at year-end. As expected, this growth was lower than the $2.0 billion experienced in 2018, when we built up substantial liquid asset holdings to prepare for our transition to a federal credit union. Our 2019 deposit growth requirements were moderated by reduced funding requirements, related to lower loan portfolio growth, and our ability to manage our liquid asset holdings downward in line with our post-federal credit union transition targets.

Deposits generated through our network of external deposit agents increased by $462 million, or 20.0%, in 2019. This strong growth was supported by our transition to federal status, which extended the reach of our existing agency partner relationships to include partner offices located outside of B.C. Deposit growth through our core retail and commercial members was $387 million, or 3.2%, with both the retail and commercial divisions generating positive growth. Institutional deposits decreased by $596 million, or 33.4%, during the year. This reduction aligned to our expectations as we managed the higher cost institutional portfolio down while maintaining relationships with our key institutional partners.

Deposit Portfolio by Source

As at December 31			Change from 2018	
(in millions of dollars)	2019	2018	$	%
Core retail and commercial members	12,671	12,284	387	3.2
External deposit agents	2,768	2,306	462	20.0
Institutional depositors	1,188	1,784	(596)	(33.4)
Total	16,627	16,374	253	1.5

Our overall deposit portfolio mix by source, based on year-end balances, shifted in 2019. The percentage of total deposits provided by core retail and commercial members and by external agents increased, 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)	2019	2018
Core retail and commercial members	76.3	75.0
External deposit agents	16.6	14.1
Institutional depositors	7.1	10.9
Total	100.0	100.0

Our deposit portfolio mix by product type remained heavily weighted in term and registered plan products, compared with demand account products. Deposits held in registered plan products are more heavily weighted towards term deposit holdings than demand deposit holdings. The notable shift towards term and registered plan products beginning in 2018 was influenced by changes in market interest rates, which enhanced the rate premium available to members through term deposits compared with demand deposits. The shift was further supported by term deposit campaigns that we initiated in 2018 to strengthen our liquidity position in preparation for our transition to a federal credit union. The high proportion of term deposits in our overall deposit mix contributed to high deposit funding costs in 2019. The average rate paid on our deposit portfolio increased by 20 basis points in 2019 to 1.82%, compared with 1.62% in 2018.

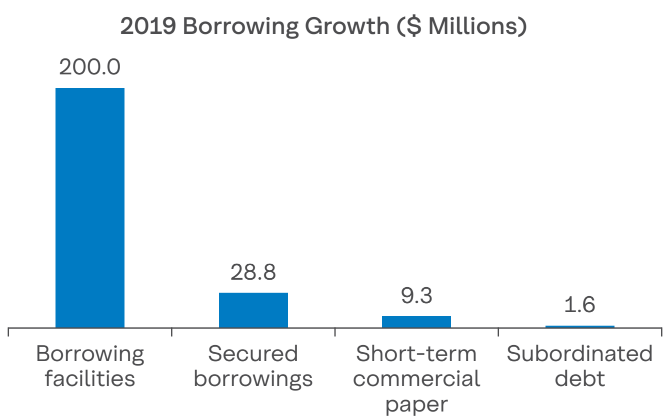
Management's Discussion and Analysis

Borrowing

Our total borrowing, including subordinated debt, increased by $240 million, or 12.5%, in 2019 to $2.2 billion compared with $1.9 billion at year-end 2018. Through our borrowing facilities, we accessed $200 million in borrowing mid-year, aligned to the timing of our loan growth funding and liquidity needs. During the year, we also increased our borrowing through short-term commercial paper debt by $9 million, and through secured borrowings, primarily through the Canada Mortgage Bond (CMB) program, by $29 million. Our increased use of borrowing in 2019, along with an overall increase in the interest rate paid on our borrowings, added $17.7 million to our borrowing costs compared with 2018.

Borrowings by Source

Year ended December 31			Change from 2018	
(in thousands of dollars)	2019	2018	$	%
Borrowing facilities	200,000	–	200,000	100.0
Secured borrowings	1,184,006	1,155,211	28,795	2.5
Short-term commercial paper	473,543	464,278	9,265	2.0
Subordinated debt	301,887	300,292	1,595	0.5
Total	2,159,436	1,919,781	239,655	12.5



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 the 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

Management's Discussion and Analysis

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.

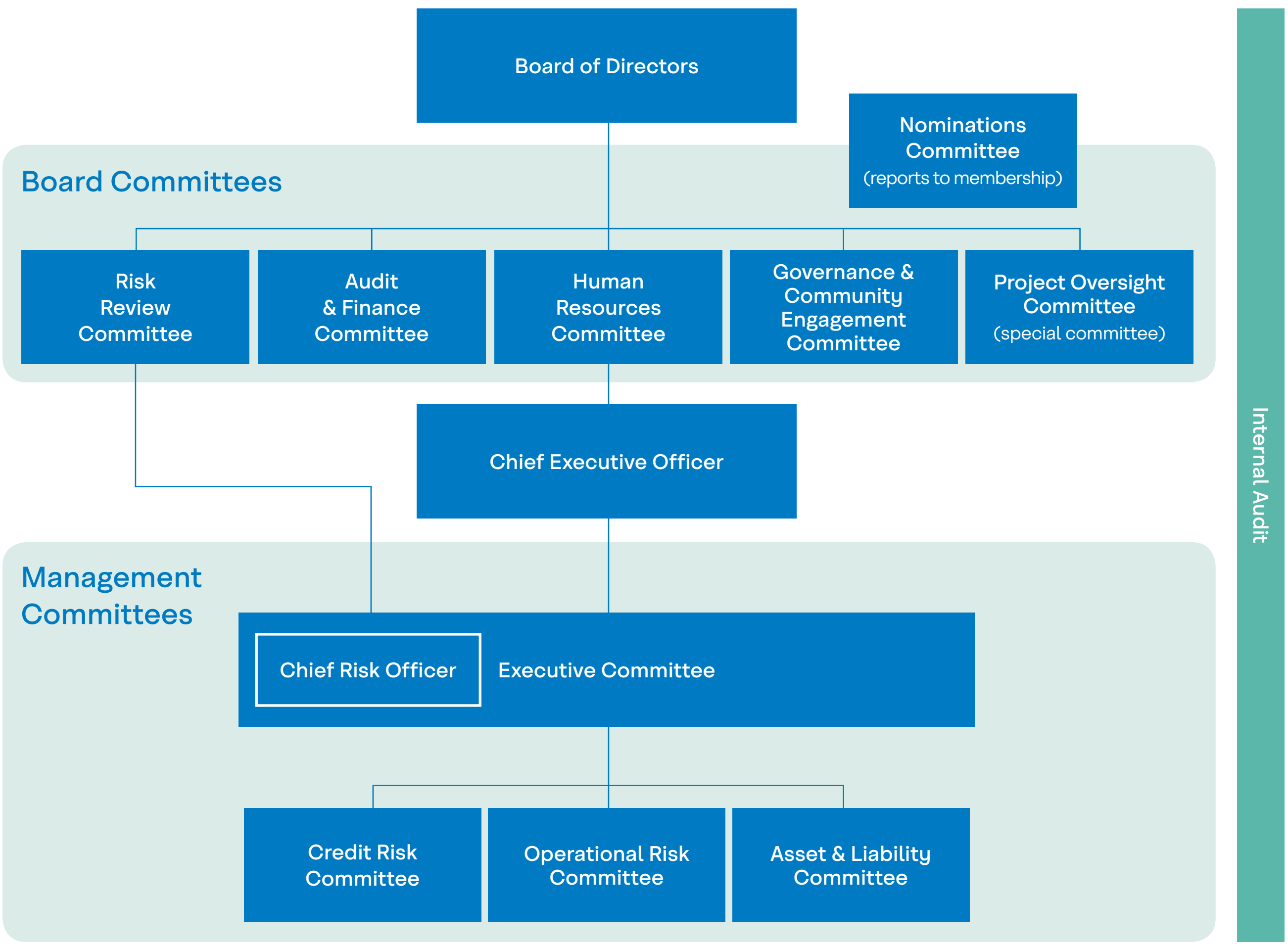


Figure 2: Coast Capital's Risk Management Governance Structure

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 Framework, the Internal Control Framework, 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, succession planning and workplace health and safety, and ensures compensation programs appropriately align to and support Coast Capital's risk appetite.
- The *Governance and 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 *Project Oversight Committee* is responsible for overseeing the governance of update projects undertaken by the Enterprise Project Management Office.

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 and 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 align 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 the identification of emerging risks and risk events, development of action plans to treat risks, assignment of action plan owners, escalation of issues to the EXCO or RRC (or both) 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 and risk events, development of action plans to treat risks, assignment of action plan owners, escalation of issues to the EXCO or RRC (or both) 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 to 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.

Risk Identification and Assessment

Risk identification and assessment focus on recognizing and understanding existing risks, risks that may arise from new or evolving business initiatives and risks that emerge from 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 our 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 or regulatory (or both) 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 our compliance obligations.

Emerging Risks

Digital innovations and disruption: Technology innovations and new entrants will create business disruption, threaten competitive advantage or affect pricing (or both) of products and services, which may threaten revenue or market share (or both). Financial institutions in Canada are making large investments in the digital space and launching new Fintech partnerships and offers. Mass personalization through analytics, APIs and Artificial Intelligence and consultations for open banking are emerging trends in Canada. Demographic expectations continue to evolve, requiring organizations such as Coast Capital to adopt agile strategies and consistently evaluate their approaches to digitalization.

Climate change: Long-term climate change is expected to have multiple physical impacts that will, in turn, affect the economy and real estate market, and the related members and investments Coast Capital maintains. Growing concern and awareness amongst the public is likely to continue increasing pressure on organizations, in addition to the government, to offer solutions for transitioning to a climate-friendly economy. Additionally, increasing regulatory oversight related to climate risk and associated financial disclosure has begun in Europe and the United Nations and will likely continue to form around the globe.

Trade conflicts and volatility: Protective US tariffs combined with, and leading to, retaliatory tariffs from trade partners, in addition to geopolitical uncertainty, will likely continue affecting domestic markets. While the Bank of Canada is optimistic the Canadian economy is resilient even as the global outlook worsens, there is still a potential for rate cuts in 2020. Geopolitical conflicts remain a risk, threatening the stability of oil prices and other commodities.

Risk Information Specific to Our Financial Reporting

(Shaded information that follows on pages 44-48 is 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 our business model. Capital, liquidity and market risk includes capital management risk, funding management and liquidity risk, foreign exchange risk, market risk, interest rate risk, pricing risk and securitization risk.

Capital Management

Regulatory Capital Requirements

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 from its RRC and input coming from its AFC. The internal policy includes considerations of federal regulations and guidelines as set out by the Bank Act and the OSFI’s Capital Adequacy Requirements (CAR) Guideline based on the Bank for International Settlements, Basel Committee on Banking Supervision (BCBS) capital guidelines commonly referred to as Basel III.

We have implemented processes to measure, track and report our regulatory capital ratios based on these guidelines. We remained fully compliant with the applicable regulatory capital requirements as at December 31, 2019, and throughout the year, then ended.

Maintaining a Sustainable Level of Regulatory Capital

Sustainable business growth and expansion of our member-focused products and services depends on our ability to maintain healthy capital ratios. 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, which is designed to ensure going concern, is the most permanent and highest quality of capital and consists of CET 1 capital and Additional Tier 1 (AT 1) capital; and
- Tier 2 capital, which is designed to absorb losses in the event of liquidation, 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.

2019 Impacts on Capital Ratio

Capital Structure and Regulatory Ratios

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

Year ended December 31 (in thousands of dollars)	2019	2018[1]
Common Equity Tier 1 capital: instruments and reserves		
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	3,026	2,667
Retained earnings	1,219,131	1,180,716
Accumulated other comprehensive income (and other reserves)	12,477	(3,238)
Common Equity Tier 1 capital before regulatory adjustments	1,234,634	1,180,145
Common Equity Tier 1 capital: regulatory adjustments		
Total regulatory adjustments to Common Equity Tier 1	95,617	82,946
Common Equity Tier 1 capital (CET1)	1,139,018	1,097,200
Additional Tier 1 capital: instruments		
Additional Tier 1 capital (AT1)	20,945	23,563
Tier 1 capital (T1 = CET1 + AT1)	1,159,963	1,120,763
Tier 2 capital: instruments and allowances		
Directly issued capital instruments subject to phase out from Tier 2	240,000	270,000
Collective allowances	41,051	36,832
Tier 2 capital before regulatory adjustments	281,051	306,832
Tier 2 capital: regulatory adjustments		
Tier 2 capital (T2)	281,051	306,832
Total capital (TC = T1 + T2)	1,441,014	1,427,595
Total risk-weighted assets	9,892,815	9,092,157
Capital ratios		
Common Equity Tier 1 (as percentage of risk-weighted assets)	11.5	12.1
Tier 1 (as percentage of risk-weighted assets)	11.7	12.3
Total capital (as percentage of risk-weighted assets)	14.6	15.7
OSFI target		
Common Equity Tier 1 capital target ratio	7.0	7.0
Tier 1 capital target ratio	8.5	8.5
Total capital target ratio	10.5	10.5
Capital instruments subject to phase-out arrangements		
Current cap on T2 instruments subject to phase out arrangements	80%	90%
Amounts excluded from T2 due to cap (excess over cap after redemptions and maturities)	60,000	30,000

1. In accordance with capital adequacy requirements, we have retrospectively applied the phase-out of non-qualifying capital instruments that were recognized as regulatory capital under provincial capital requirements prior to continuance. Accordingly, the comparative information above has been adjusted from the information previously presented in our 2018 Annual Report.

Management's Discussion and Analysis

The tables on pages 38 and 39 present our assets based on their risk-weighted values, as used in the calculation of our total risk-weighted assets and regulatory capital ratios.

Risk-Weighted Assets by Weighting Category

Year ended December 31
(in thousands of dollars)

									2019
	0%	20%	35%	50%	75%	100%	150% and greater	Total	Risk-weighted assets
Corporate		51,457		97,721		4,335,773		4,484,951	4,394,925
Sovereign	2,038,436	51,955						2,090,391	10,391
Bank	456,319	149,853						606,172	29,971
Retail residential mortgages	1,915,241		9,397,804		171,818	4,705		11,489,568	3,422,800
Other retail									
Excluding small business entities					186,945		700	187,645	141,259
Small business entities					1,136,288		5,323	1,141,611	860,201
Equity						3,373		3,373	3,373
Undrawn commitments			2,756		100			2,856	1,040
Operational risk							64,008	64,008	800,095
Derivative exposures		16,005					336	16,340	7,395
Other	284,631	6,147				176,232	3,643	470,654	186,569
Off balance sheet exposures	9,370				10,688	26,782		46,840	34,798
Total as at December 31, 2019	**4,703,998**	**275,417**	**9,400,560**	**97,721**	**1,505,840**	**4,546,865**	**74,009**	**20,604,409**	**9,892,815**
Total as at December 31, 2018	**5,066,118**	**412,201**	**8,933,032**	**–**	**1,454,536**	**4,014,043**	**70,132**	**19,950,062**	**9,092,157**

Risk-Weighted Assets by Asset Type

Year ended December 31
(in thousands of dollars)

					2019
	Cash, securities and resale agreements	Loans	Other items	Total	Risk-weighted assets
Corporate	247,366	4,237,584		4,484,951	4,394,925
Sovereign	2,090,391			2,090,391	10,391
Bank	606,172			606,172	29,971
Retail residential mortgages		11,489,568		11,489,568	3,422,800
Other retail					
Excluding small business entities		187,645		187,645	141,259
Small business entities		1,141,611		1,141,611	860,201
Equity	3,373			3,373	3,373
Undrawn commitments		2,856		2,856	1,040
Operational risk			64,008	64,008	800,095
Derivative exposures			16,340	16,340	7,395
Other	180,109		290,545	470,654	186,569
Off balance sheet exposures			46,840	46,840	34,798
Total as at December 31, 2019	**3,127,411**	**17,059,265**	**417,733**	**20,604,409**	**9,892,815**
Total as at December 31, 2018	**3,503,561**	**16,159,520**	**286,981**	**19,950,062**	**9,092,157**

On December 31, 2019, our total CET1 ratio was 11.5% (2018 – 12.1%) and continues to remain strong and well above internal and external limits. The impact of earnings net of member dividends and positive other comprehensive income were more than offset by the impact of strong risk-weighted asset growth during the year, and the IFRS 16 transitional adjustment to opening retained earnings. Tier 1 ratio was 11.7% (2018 – 12.3%), and Total Capital ratio was 14.6% (2018 – 15.7%), where the decrease from prior year was mainly driven by asset growth within higher risk-weighted categories as well as the 10% phase-out requirements described above related to our subordinated debentures.

Leverage Ratio

Under OSFI's Leverage Requirements (LR) 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 5.7% as at December 31, 2019, and exceeded current requirements throughout the year then ended.

Impacts on Leverage Ratio

Year ended December 31 (in thousands of dollars)	2019	2018[(1)]
On-balance sheet exposures		
On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	19,948,047	19,318,265
(Asset amounts deducted in determining Basel III Tier 1 capital)	(95,617)	(82,946)
Total on-balance sheet exposures (excluding derivatives and SFTs)	19,852,430	19,235,319
Derivative exposures		
Replacement cost associated with all derivative transactions (i.e., net of eligible cash variation margin)	6,604	4,234
Add-on amounts for PFE associated with all derivative transactions	4,828	6,396
Total derivative exposures	16,005	10,630
Securities financing transaction exposures		
Gross SFT assets recognized for accounting purposes (with no recognition of netting), after adjusting for sale accounting transactions	275,235	297,811
(Netted amounts of cash payables and cash receivables of gross SFT assets)	(275,235)	(297,811)
Counterparty credit risk (CCR) exposure for SFTs	170,631	127,879
Total securities financing transaction exposures	170,631	127,879
Other off-balance sheet exposures		
Off-balance sheet exposure at gross notional amount	4,346,705	4,330,299
(Adjustments for conversion to credit equivalent amounts)	(3,873,135)	(3,867,655)
Off-balance sheet items	473,571	462,644
Capital and total exposures		
Tier 1 capital	1,159,963	1,120,763
Total exposures	20,512,636	19,836,472
Basel III leverage ratio	5.7	5.7

1. In accordance with capital adequacy requirements, we have retrospectively applied the phase-out of non-qualifying capital instruments that were recognized as regulatory capital under provincial capital requirements prior to continuance. Accordingly, the comparative information above has been adjusted from the information previously presented in our 2018 Annual Report.

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 at minimum annually by the RRC and AFC 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, are key components 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 monitors required capital levels against available capital on a regular basis. The results of this assessment are shared with EXCO and Board Committees. The ICAAP report is drafted by Senior Management and approved by the Board on an annual basis. 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 2019 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 the protection of members' deposits. 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 adherence with appropriate risk management policies. The RRC provides ultimate oversight.

ALCO, RRC, AFC and the Board review Coast Capital's liquidity and funding risk policy on an annual basis and the Board provides final approval.

Risk Management

The Minister of Finance granted Coast Capital approval to operate as a federal credit union effective November 1, 2018. As a federal credit union, Coast Capital must 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

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, 2019.

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 which will be taken, should we experience a liquidity event, which 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 and internal liquidity stress tests. It is 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, 2019, liquid assets held by the Credit Union totalled $3.6 billion and represents 17.9% of total assets.

Liquid Assets

Year ended December 31

(in thousands of dollars)	2019
Cash and cash resources	52,833
Financial investments	
Securities issued or guaranteed by sovereigns	758,735
National Housing Act (NHA) mortgage-backed securities	267,476
Canada Mortgage Bonds	382,869
Securities issued by provinces or municipalities	677,005
Securities purchased through reverse repurchasing agreements	275,235
Covered bonds (not self-issued)	76,472
Non-financial corporate bonds	236,028
NHA mortgage-backed securities (reported as loans at amortized cost)	898,718
Total liquid assets	3,625,371
Total assets	20,228,962
Encumbered assets	1,357,005
Unencumbered assets	2,268,366

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) market 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

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 in 2016, and in 2018 we also obtained a DBRS long-term issuer rating. 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 partially drawn during 2019 and increased by $200 million as a result.
- *The NHA MBS and CMB programs*. These programs 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. In 2019, our borrowing through these programs increased by $203 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 2019. Under this rating, in 2019, we issued $300 million in short-term notes, reflecting a favourable market response to our offer.
- *Long-term subordinated debentures based on our DBRS long-term issuer rating*. Our long-term issuer rating of BBB (high) was originally obtained in 2018 and was reconfirmed in 2019. Under this rating, in 2018, we issued an 18-month floating rate note of $175 million. In 2018, we also issued $300 million in long-term subordinated debentures under a DBRS confirmed issue rating of BBB.

Credit ratings impact Coast Capital's borrowing costs and ability to raise funds. Rating downgrades could potentially result in higher financing costs, increased requirement to pledge collateral and reduced access to capital markets. Credit ratings provided by rating agencies reflect the views of the ratings providers and are subject to change based on a number of factors including Coast Capital's financial strength, competitive position and liquidity, in addition to factors not entirely within Coast Capital's control, including the methodologies used by rating agencies and conditions affecting the overall financial services industry.

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 credit commitments.

Note 26 in the Notes to the 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, obligor, guarantor or counterparty failing to meet their obligations for a financial transaction on a timely basis and in accordance with contractual terms. To track risk migration or deterioration, credit and counterparty risk is monitored and reassessed. Management and board committees receive Risk Migration reports in order to ensure that risk remains within tolerance.

Risk Management Overview

Through the granting of loans and leases to individuals and business members, credit and counterparty risk is created. 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. To support property values, third party valuations are used, such as appraisals and automated valuation models. To ensure that risk remains within established tolerance levels, monitoring and periodic re-assessment of collateral values take place depending on asset type based on external conditions. The RRC receives quarterly reporting.

Exposure to Credit Risk

The table below presents the maximum exposure to credit risk of financial instruments before taking into account collateral held or other credit enhancements. It includes financial instruments held both on and off of our statement of financial position. 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, 2019 (in thousands of dollars)	Banking	Derivatives
On balance sheet		
Cash held at Central 1	164,335	
Investments held at Central 1	50,418	
Other investments	2,708,306	
Loans	17,017,653	
Derivative instruments	–	6,604
Accounts receivable	10,308	
	19,951,020	6,604
Off balance sheet		
Letters of credit	93,680	
Commitments to extend credit	4,253,025	
	4,346,705	
Maximum exposure to credit risk	24,297,725	6,604

Credit Risk Mitigation

		Amounts covered by:		
As at December 31, 2019 (in thousands of dollars)	Amounts in consolidated balance sheet	Financial collateral received or pledged	Guarantees/ Credit derivatives	Net amounts
Financial assets				
Loans				
Residential mortgages	11,511,032	–	1,915,241	9,595,791
Personal loans	398,798	23,962	–	374,836
Commercial loans and mortgages	4,236,918	5,248	–	4,231,670
Equipment financing	913,286	–	–	913,286
Financial investments	2,692,842	–	–	2,692,842
Derivatives	6,604	–	–	6,604

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 68% of our total loan exposure. We carry out the majority of our residential lending activities in the Metro Vancouver, Fraser Valley and southern Vancouver Island regions of B.C., as well as through branches located in areas of the mid-Island and Interior of B.C. Residential real estate prices in our region of operation have experienced significant price increases in recent years. We have observed a contraction in real estate prices in 2019; however, we are expecting real estate prices in our region to rebound in 2020. 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, 2019

(in thousands of dollars)	Outstanding loans	%	Undrawn commitments	Letters of credit	Total Exposure
Retail mortgages	11,498,004	67.6	1,812,691	–	13,310,695
Retail loans	394,812	2.3	765,703	–	1,160,515
Commercial	–	–	–	–	–
Accommodation and food services	326,559	1.9	3,395	456	330,410
Construction	1,622,501	9.5	989,702	56,719	2,668,922
Health care and social assistance	81,838	0.5	1,788	170	83,796
Management of companies and enterprises	79,020	0.5	3,843	609	83,472
Manufacturing	46,233	0.3	6,319	20	52,572
Other	131,416	0.8	15,522	24,936	171,874
Professional, scientific and technical services	14,013	0.1	5,939	118	20,070
Real estate and rental and leasing	1,745,239	10.3	61,117	8,541	1,814,897
Retail and wholesale trade	108,719	0.6	8,754	1,795	119,268
Transportation and warehousing	969,299	5.7	8,255	316	977,870
Total	17,017,653	100.0	3,683,028	93,680	20,794,361

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 and credit risk ratings, which reduce the risk exposure.
- In regards to managing this portfolio, Coast Capital actively manages compliance with all applicable limits.

As at December 31, 2019

(in thousands of dollars)			2019			2018
	Replacement cost	Credit risk equivalent	Risk-weighted asset	Replacement cost	Credit risk equivalent	Risk-weighted asset
Interest rate swaps	5,449	12,359	2,472	3,844	9,314	1,863
Forward contracts	231	329	66	–	–	–
Equity options	924	3,317	663	389	1,316	263
Total	6,604	16,005	3,201	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. Additionally, we are impacted by volume mismatches between variable rate loans and deposits and the exercising of options included in our products (such as mortgage pre-payment or deposit redemption features). 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 strategies for managing market risk.

Asset and Liability Maturities

As at December 31

(in thousands of dollars)			2019			2018
	Assets	Liabilities and equity	Differential	Assets	Liabilities and equity	Differential
Variable rate	6,089,907	4,813,691	1,276,216	6,462,341	4,633,127	1,829,214
Interest sensitive maturing:						
Under 3 months in 2020	910,878	2,232,384	(1,321,506)	495,693	2,202,569	(1,706,876)
Over 3 to 6 months in 2020	639,180	1,450,564	(811,384)	615,940	1,204,986	(589,046)
Over 6 to 12 months in 2020	1,115,665	4,481,038	(3,365,373)	1,044,353	3,550,253	(2,505,900)
Over 1 to 5 years in 2021 to 2025	10,708,177	3,427,069	7,281,108	10,132,037	4,464,049	5,667,988
Over 5 years in 2026 and beyond	203,467	314,841	(111,374)	220,571	312,659	(92,088)
Non-interest bearing items[1]	561,688	3,509,375	(2,947,687)	648,984	3,252,276	(2,603,292)
	20,228,962	20,228,962	–	19,619,919	19,619,919	–

1. Assets include cash, accrued interest receivable, premises and equipment and other items. Liabilities and equity include accrued interest payable, retained earnings, accumulated other comprehensive income, share capital and other items.

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, or a reduction in the economic value of assets or an increase in the economic value of liabilities (or any or all three). 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 cause 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 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

We conduct net interest income (NII) sensitivity and economic value of equity sensitivity analysis to measure structural interest rate risk. NII sensitivity is the potential reduction in net interest income due to interest rate movements over a one-year horizon. Economic value of equity sensitivity is the potential reduction in economic value of equity due to interest rate movements.

Interest Rate Risk Exposures

We control our exposure to interest rate risk by managing the size of the static gap positions between interest sensitive assets and interest sensitive liabilities for future periods. To provide consistent earnings over time while also protecting economic value, we manage interest rate risk.

The table below displays the estimate of sensitivity of net interest income to a change in interest rates. The amounts represent the estimated change in net interest income over a one-year period, beginning December 31, 2019, 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.

	2019	2018
1% increase in rates	$ 4,234	$ 10,273
1% decrease in rates	$ (10,386)	$ (13,660)

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 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 cybersecurity, 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. We manage operational risk through collaboration between the First Line of Defence and the risk subject matter experts. Risk subject matter experts 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. 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.

Use of Critical Estimates and Judgments

The preparation of financial information requires the use of estimates and judgments about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of these items, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different estimates and judgments from those reached by management for the purposes of the consolidated financial statements. Management's selection of Coast Capital's accounting policies, which contain critical estimates and judgments, are listed below and discussed further in Note 1(d) to the consolidated financial statements. It reflects the materiality of the items to which the policies are applied and the high degree of judgment and estimation uncertainty involved.

	Further relevant information	
Item	Consolidated financial statements	MD&A
Allowance for expected credit losses	Notes 2(c), 6	Credit and counterparty risk
Valuation of financial instruments	Note 28	
Income taxes and deferred tax assets	Notes 2(h), 24	
Impairment of goodwill and other intangible assets	Notes 2(g), 9	

Future Accounting Changes

The International Accounting Standards Board (IASB) has issued and amended accounting standards that are effective for Coast Capital after December 31, 2019. Refer to Note 3 to the consolidated financial statements for further information on these changes.

Consolidated Financial Statements

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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 International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and the requirements of the *Bank Act*, which do not differ from IFRS. The consolidated financial statements 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; the 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, 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 independent directors, to review with management and auditors the annual consolidated 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 Credit Union), which comprise:

- The consolidated balance sheet as at December 31, 2019
- 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 Credit Union as at December 31, 2019, 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 Credit Union 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.

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 Credit Union'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 Credit Union or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Credit Union'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 Credit Union'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 Credit Union'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 Credit Union 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Credit Union to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
February 26, 2020

Consolidated Balance Sheet

As at December 31 *Amounts in thousands of Canadian dollars*	Notes	2019	2018
Assets			
Cash and cash resources		180,109	172,012
Interest bearing deposits with financial institutions	4	50,108	49,049
Financial investments	5	2,692,842	3,099,444
Loans	6, 13		
Residential mortgages		11,511,032	11,093,001
Personal loans		398,798	358,340
Commercial mortgages and loans		4,236,918	3,865,443
Equipment financing		913,286	845,632
		17,060,034	16,162,416
Allowance for credit losses	6	(42,381)	(37,721)
		17,017,653	16,124,695
Premises and equipment	8	105,464	24,886
Goodwill and intangible assets	9	89,837	80,095
Income taxes receivable		9,627	–
Deferred tax assets	24	9,557	5,427
Other assets	10	73,765	64,311
		20,228,962	19,619,919
Liabilities			
Deposits	11	16,626,665	16,374,664
Borrowings	12	673,543	464,278
Secured borrowings	13	1,184,006	1,155,211
Subordinated debt	15	301,887	300,292
Income taxes payable		–	13,638
Other liabilities	16	183,495	105,634
		18,969,596	18,413,717
Members' equity			
Share capital	19	27,534	29,221
Retained earnings		1,219,355	1,180,219
Accumulated other comprehensive income (loss)		12,477	(3,238)
		1,259,366	1,206,202
		20,228,962	19,619,919

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board of Directors:

Bob Armstrong
Chair, Board of Directors

Calvin MacInnis
President and Chief Executive Officer

Consolidated Statement of Income

For the year ended December 31 *Amounts in thousands of Canadian dollars*	Notes	2019	2018
Interest income			
Loans	20	623,997	553,905
Cash and financial investments	20	62,009	56,530
Derivatives	20	696	1,467
		686,702	611,902
Interest expense			
Deposits	20	301,339	252,405
Borrowings	20	54,754	32,816
		356,093	285,221
Net interest income		330,609	326,681
Provision for credit losses	6	9,195	8,619
		321,414	318,062
Fee and commission income			
Insurance commissions		7,199	7,876
Mutual and segregated fund commissions		36,715	35,028
Foreign exchange		4,022	4,402
Other fees and commissions		29,630	28,093
		77,566	75,399
Gains on financial investments measured at fair value	4, 5	–	27,955
Other income	21	17,545	17,804
Net operating income		416,525	439,220
Non-interest expenses			
Salaries and employee benefits	22	191,894	171,147
Administration	23	88,809	90,501
Technology		30,834	22,253
Occupancy		11,949	27,156
Depreciation and amortization		30,784	19,016
Community contributions		5,793	5,940
		360,063	336,013
Income before provision for income taxes		56,462	103,207
Provision for income taxes	24	11,586	21,108
Net income		44,876	82,099

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended December 31 *Amounts in thousands of Canadian dollars*	2019	2018
Net income	44,876	82,099
Other comprehensive income, 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 $14 (2018 – $29)	78	116
	78	116
Items that may be reclassified to profit or loss where conditions are met:		
Unrealized gains on financial investments classified at fair value through other comprehensive income, net of income tax of $2,267 (2018 – $1,118)	12,845	3,902
Gains on effective portion of cash flow hedges, net of income tax of $507 (2018 – $369)	2,870	1,341
	15,715	5,243
Total other comprehensive income	15,793	5,359
Total comprehensive income	60,669	87,458

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Members' Equity

For the year ended December 31 *Amounts in thousands of Canadian dollars*	Notes	2019	2018
Share capital			
Balance at beginning of the year		29,221	31,432
Shares issued		255	1,010
Shares redeemed		(1,942)	(3,221)
Balance at the end of the year		27,534	29,221
Retained earnings			
Balance at beginning of the year		1,180,219	1,084,983
Impact from adopting IFRS 9 *Financial instruments*		–	9,929
Impact from adopting IFRS 16 *Leases*	17	(7,028)	–
Net income		44,876	82,099
Actuarial gains on defined benefit plans		78	116
Share dividends		(574)	(583)
Income tax deduction on dividends		115	117
Other equity adjustments		1,669	3,558
Balance at the end of the year		1,219,355	1,180,219
Accumulated other comprehensive income			
Financial investments classified as FVOCI			
Balance at beginning of the year		1,420	4,015
Impact from adopting IFRS 9 *Financial instruments*		–	(6,497)
Other comprehensive income		12,845	3,902
Balance at the end of the year		14,265	1,420
Cash flow hedges			
Balance at beginning of the year		(4,658)	(5,999)
Other comprehensive income		2,870	1,341
Balance at the end of the year		(1,788)	(4,658)
Total accumulated other comprehensive income (loss)		12,477	(3,238)
Total members' equity		1,259,366	1,206,202

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended December 31 *Amounts in thousands of Canadian dollars*	2019	2018
Cash flows (used in) from operating activities		
Income before provision for income taxes	56,462	103,207
Adjustment for non-cash items:		
Depreciation and amortization	30,784	19,016
Provision for credit losses	9,195	8,619
Change in other assets	(10,707)	(2,468)
Change in other liabilities	(3,770)	(18,296)
Unrealized foreign exchange gains/losses within financial investments	15,771	(32,310)
Adjustment for investing and financing activities:		
Net gain on financial investments measured at fair value	–	(27,955)
Net gain on disposal of premises and equipment	–	(2)
Income taxes paid	(40,212)	(14,600)
	57,523	35,211
Net increase in loans	(902,153)	(1,344,585)
Net increase in deposits	252,001	2,010,813
Cash flows (used in) from operating activities	(592,629)	701,439
Cash flows from (used in) investing activities		
Net proceeds from (investment in) financial investments	404,884	(1,095,760)
Purchase of premises, equipment and intangible assets	(41,552)	(23,719)
Cash flows from (used in) investing activities	363,332	(1,119,479)
Cash flows from (used in) financing activities		
Net proceeds from borrowings	239,655	482,296
Proceeds from share capital issued	255	1,010
Redemption of share capital	(1,942)	(3,221)
Dividends paid	(574)	(583)
Cash flows from financing activities	237,394	479,502
Net increase in cash and cash resources	8,097	61,462
Cash and cash resources, beginning of period	172,012	110,550
Cash and cash resources, end of period	180,109	172,012
Supplemental disclosure of cash flow information		
Cash flows (used in) from operating activities includes:		
Interest received	684,274	604,401
Interest paid	(377,637)	(354,361)
Dividends received	1,851	2,360

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

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, 2019, 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 26, 2020.

1. Basis of Presentation

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*.

Certain comparative information has been amended to conform to current period presentation. These reclassifications had no significant impact on Coast Capital's net assets or profit or loss.

b) Basis of Measurement

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

c) Presentation and Functional Currency

The consolidated financial statements are presented in Canadian dollars, which is also its functional currency. Dollar amounts presented in the Notes to the Consolidated Financial Statements are presented in thousands of Canadian dollars unless otherwise stated.

d) Use of Critical Estimates and Judgments

The preparation of financial information requires the use of estimates and judgments about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different estimates and judgments from those reached by management for the purposes of the consolidated financial statements. Management's selection of Coast Capital's accounting policies, which contain critical estimates and judgments, are listed below. It reflects the materiality of the items to which the policies are applied and the high degree of judgment and estimation uncertainty involved.

Allowance for Expected Credit Losses

Coast Capital's accounting policy for determining expected credit loss (ECL) is described in Note 2(c). The most significant judgments relate to defining what is considered to be a significant increase in credit risk, determining the lifetime and point of initial recognition of revolving facilities, and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. The risk factors to estimate the ECL have a high degree of interdependency, and there is no single factor to which loan impairment allowances as a whole are sensitive.

1. Basis of Presentation (Continued)

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 that management considers 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.

Income Taxes and Deferred Tax Assets

Coast Capital's accounting policy for the recognition of income taxes and deferred tax assets is described in Note 2(h). Tax laws are complex and can be subject to interpretation. Management applies its own judgment to the application and interpretation of tax laws, but the interpretation by the relevant tax authorities may differ. Tax liabilities are recognized based on best estimates of the probable outcome. If the final outcome is in favour of the decisions made by the relevant tax authorities, additional liabilities and expense in excess of the amounts recorded may result.

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 that 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 16 *Leases* as noted under Note 2(e) and Note 17.

Notes to Consolidated Financial Statements

2. Significant Accounting Policies and Changes in Significant Accounting Policies (Continued)

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, 2019, Coast Capital, either directly or indirectly through its subsidiaries, controls the following corporations with head offices located at 800-9900 King George Boulevard, Surrey, British Columbia:

Corporate name of subsidiary	Carrying value of shares owned (in Canadian dollars)	Voting rights
Coast Capital Financial Management Ltd.	100	100%
Coast Capital Wealth Management Ltd.	100	100%
Coast Capital Real Estate Holdings Ltd.	100	100%
Coast Capital Holdings Ltd.	100	100%
Coast Capital Equipment Finance Ltd.	88	88%
Travelers Leasing Ltd.	100	100%
Travelers Finance Ltd.	76,000	50%

Coast Capital applies the anticipated acquisition method, where it has the right and the obligation to purchase any remaining non-controlling interest. Under this method the interests of the non-controlling shareholder are derecognized when Coast Capital's liability relating to the purchase of its shares is recognized. The recognition of the financial liability implies that the interests subject to the purchase are deemed to have been acquired already. Therefore, the corresponding interests are presented as if already owned by Coast Capital, even though legally they are still non-controlling interests. The initial measurement of the fair value of the financial liability recognized by Coast Capital forms part of the contingent consideration for the acquisition.

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.

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

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) Allowance for Expected Credit Losses

Coast Capital carries an allowance for expected credit losses for loans and debt securities classified at amortized cost and fair value through other comprehensive income, as well as loan commitments and financial guarantee contracts that are not measured at fair value through profit or loss. The allowance is calculated using an expected credit loss model which recognizes 12 months expected credit losses for performing assets (Stage 1), lifetime losses on performing assets that have experienced a significant increase in credit risk since origination (Stage 2), and lifetime losses on assets in default (Stage 3).

2. Significant Accounting Policies and Changes in Significant Accounting Policies (Continued)

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.
- Assets that 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 that 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.

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.

d) Revenue From Contracts with Customers

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. Coast Capital's revenue streams recognized 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.

2. Significant Accounting Policies and Changes in Significant Accounting Policies (Continued)

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.

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 offers 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) Leases

Effective January 1, 2019, Coast Capital has adopted the requirements of IFRS 16 *Leases* (IFRS 16) using the modified retrospective approach, which replaces IAS 17 *Leases* (IAS 17). Under the modified retrospective approach, the cumulative retrospective effects of adopting IFRS 16 was ecognized in retained earnings in the opening Consolidated Balance Sheet as at January 1, 2019. Refer to Note 17 for further information. Comparative information has not been restated and is presented under IAS 17, as previously published.

<u>Our new accounting policy under IFRS 16 effective January 1, 2019, is as follows:</u>

Coast Capital as Lessor

A lessor classifies lease agreements as finance leases when substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are transferred to the lessee. Accordingly, our lease financing agreements are classified as finance leases and are included within Loans in the Consolidated Balance Sheet. Interest income earned on finance leases are included in Net interest income in the Consolidated Statement of Income and are recognized using the effective interest method.

Coast Capital as Lessee

At inception of an agreement, we assess whether the agreement is or contains a lease. A right-of-use asset and corresponding lease liability is recognized with respect to all lease agreements in which we are a lessee, except for leases with a term of 12 months or less (short-term leases), and leases of assets with a value of $5 or less (low-value leases). For short-term and low-value leases, the lease payments are recognized on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the related assets are consumed.

2. Significant Accounting Policies and Changes in Significant Accounting Policies (Continued)

The lease liability is initially measured at the present value of the lease payments over the estimated term of the lease discounted by the estimated incremental borrowing rate. The estimated incremental borrowing rate is the rate that we would have to pay to borrow funds to obtain the right-of-use asset assuming a similar term and security provided. The estimated lease term includes extension or termination options that are reasonably certain to be exercised. Lease payments comprise fixed lease payments we are reasonably certain to pay less lease incentives. The lease liability is subsequently measured at amortized cost using the effective interest rate method.

The lease liability is subsequently re-measured following a change in cash flows, which based on the original terms and conditions of the lease; for example, a market rent review or exercising an extension option that was not previously planned to be exercised. The lease liability is remeasured by discounting the remaining estimated future lease payments using the incremental borrowing rate at the date of remeasurement with a corresponding adjustment to the right-of-use asset.

The right-of-use asset comprises the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial indirect costs. Subsequently, right-of-use assets are measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

Right-of-use assets and lease liabilities are included in Premises and equipment and Other liabilities, respectively, in the Consolidated Balance Sheet.

Our previous accounting policy under IAS 17 prior to January 1, 2019, is as follows:

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 within Loans in the Consolidated Balance Sheet. The finance income receivable is recognized in Net interest income in the Consolidated Statement of Income over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

All other leases are operating leases. When Coast Capital is the lessee, leased assets are not recognized in the Consolidated Balance Sheet. 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 recognized in profit or loss.

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

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.

2. Significant Accounting Policies and Changes in Significant Accounting Policies (Continued)

g) Goodwill and 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.

Intangible assets comprise computer software, customer lists, trademarks, and other intangibles. Intangible assets have definite lives and are measured at cost less accumulated amortization. Intangible assets are amortized using the straight-line method over their estimated useful lives as follows:

Computer software	2 to 15 years
Customer lists, trademarks and other intangibles	5 to 10 years

Intangible assets are assessed for indicators of impairment at the balance sheet date or when events or changes in circumstances indicate that the carrying amount may not be recoverable. An intangible asset is impaired when its carrying amount exceeds its recoverable amount, which is the higher of the asset's fair value, less costs to sell or its value in use. The carrying amount of an impaired intangible asset is written down to its recoverable amount.

h) Income Taxes

Effective January 1, 2019: Coast Capital adopted IFRIC 23, which provides guidance on the recognition and measurement of tax assets and liabilities under IAS 12 *Income taxes* when there is uncertainty over income tax treatments. The adoption of this interpretation did not have a significant impact on our consolidated financial statements.

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 balance sheet 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 balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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.

2. Significant Accounting Policies and Changes in Significant Accounting Policies (Continued)

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 Balance Sheet in respect of its defined benefit pension plans is the present value of the unfunded defined benefit obligations at the balance sheet date. 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 other comprehensive income and are not recycled to the Consolidated Statement of Income.

Coast Capital also provides a group Registered Retirement Savings Plan 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.

Charges to and reversals to provisions are recognized in the Consolidated Statement of Income under the items corresponding to the nature of the expenditure it is covered for.

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 balance sheet 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 principal 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.

l) Classification and Measurement of Financial Instruments

Financial Assets

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).

2. Significant Accounting Policies and Changes in Significant Accounting Policies (Continued)

Financial Assets That Are Debt Instruments

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.

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 amortized cost of the assets, and as such 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. 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.

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.

2. Significant Accounting Policies and Changes in Significant Accounting Policies (Continued)

AMC

A debt instrument is classified and measured at amortized cost when it is held in a HTC business model and its contractual cash flows represents SPPI. Interest revenue is recognized in the Consolidated Statement of Income by applying the effective interest rates to the amortized cost of the assets, and as such 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. Gains or losses on disposal and impairment losses are recorded in the Consolidated Statement of Income.

Coast Capital has classified its 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 they are 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.

Financial Assets That Are Equity Instruments

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. 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.

Non-Derivative Financial Liabilities

Non-derivative financial liabilities are measured at fair value on initial recognition and are subsequently measured and classified 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.

Derivative Assets and Liabilities

Derivative assets and liabilities are measured at fair value on initial recognition and are subsequently measured and classified at FVTPL.

m) 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.

When a financial asset or liability is derecognized in its entirety, a gain or loss is recognized in the Consolidated Statement of Income for an amount equal to the difference between the carrying amount and the value of the consideration received or paid respectively.

2. Significant Accounting Policies and Changes in Significant Accounting Policies (Continued)

n) Hedge Accounting

At the inception of a hedging relationship, Coast Capital documents the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. Coast Capital requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

Fair Value Hedge

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments but results in recognizing changes in the fair value of the hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognized in profit or loss. If a hedging relationship no longer meets the criteria for hedge accounting, the hedge accounting is discontinued; the cumulative adjustment to the carrying amount of the hedged item is amortized to profit or loss on a recalculated effective interest rate over the residual period to maturity unless the hedged item has been derecognized, in which case it is recognized to the profit or loss immediately.

Cash Flow Hedge

The effective portion of gains and losses on hedging instruments is recognized in other comprehensive income; the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognized immediately in profit or loss. The accumulated gains and losses recognized in other comprehensive income are reclassified to the Consolidated Statement of Income in the periods in which the hedged item affects profit or loss.

Hedge Effectiveness Testing

To qualify for hedge accounting, Coast Capital requires that, at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective both prospectively and retrospectively, on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed, and the method adopted by Coast Capital to assess hedge effectiveness will depend on its risk management strategy. For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated, with the effectiveness range being defined at 0.8 to 1.25. Hedge ineffectiveness is recognized in the Consolidated Statement of Income.

o) Offsetting Financial Assets and Liabilities

Financial assets and liabilities are offset and the net amount reported in the Consolidated Balance Sheet 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.

p) Loan Modification

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.

Notes to Consolidated Financial Statements

2. Significant Accounting Policies and Changes in Significant Accounting Policies (Continued)

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.

3. Future Accounting Changes

The following accounting standards have been issued but are not yet effective for Coast Capital.

a) 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. Coast Capital is currently assessing the impact of adoption on our Consolidated Financial Statements.

b) Interest Rate Benchmark Reform

In September 2019, the IASB issued amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures (Amendments), which modify certain hedge accounting requirements to provide relief from the potential effect of uncertainty caused by the Interest Rate Benchmark Reform, prior to the transition to alternative interest rates. The revision is effective for Coast Capital's fiscal year beginning January 1, 2020. Coast Capital is currently assessing the impact of adoption on our Consolidated Financial Statements.

c) Definition of Material

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors have been revised to incorporate amendments issued by the IASB in October 2018. The amendments clarify the definition of material and how it should be applied. In addition, the explanations accompanying the definition have been improved. The amendments ensure that the definition is consistent across all IFRS. The revision is effective for Coast Capital's fiscal year beginning January 1, 2020. Coast Capital is currently assessing the impact of adoption on our Consolidated Financial Statements.

4. Interest Bearing Deposits with Financial Institutions

	2019	2018
Non-statutory deposits with Central 1 classified as FVOCI	50,108	49,049

Following Continuance as a FCU in November 2018, Coast Capital redeemed all of its statutory deposits and a portion of its non-statutory deposits held with Central 1 Credit Union (Central 1) and recognized a loss of $8,544 and $201 respectively in Other Income on the Consolidated Statement of Income for the year ended December 31, 2018.

5. Financial Investments

Financial investments comprises of the following securities as at December 31:

	2019	2018
Debt securities, classified as FVOCI[1]	2,689,284	3,094,869
Equity securities, classified as FVOCI (irrevocable election)[2,3]	3,558	2,767
Equity securities, classified as FVTPL[3]	–	1,808
Total financial investments	2,692,842	3,099,444

1. Comprises mainly of investments in corporate, provincial and municipal bonds rated A (high) or higher; treasury bills; as well as reverse repurchase agreements.
2. Comprises of equity investments of affiliated co-operative and other entities that complement and support the credit union system.
3. Given insufficient information to establish a reliable estimate of fair value, these securities are carried at cost, which in management's view represents the best estimate of their fair value.

Following Continuance as a FCU in November 2018, Coast Capital redeemed its investment in Central 1 Class E shares, and recognized a gain of $36,590 in Other Income on the Consolidated Statement of Income for the year ended December 31, 2018.

6. Loans and Allowance for Credit Losses

(a) Maturity of Loans

The majority of Coast Capital's loans are written on properties and businesses located in the Metro Vancouver, Fraser Valley, Vancouver Island and Okanagan regions of British Columbia. Of the amounts reported, $12,369,855 (2018 – $13,943,153) is expected to be received more than 12 months after the reporting date.

(b) Credit Risk Exposure From Loans

The following tables set out our credit risk exposure for loans as at December 31, 2019, and December 31, 2018.

				2019
	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Good	8,038,075	15,203	–	8,053,278
Satisfactory	2,867,208	164,581	–	3,031,789
Below satisfactory	268,251	151,839	–	420,090
Impaired	–	–	5,875	5,875
Total residential mortgages	11,173,534	331,623	5,875	11,511,03
Allowance for credit losses	(10,850)	(1,873)	(305)	(13,028)
Residential mortgages less allowance	11,162,684	329,750	5,570	11,498,004
Personal loans				
Good	90,970	824	–	91,794
Satisfactory	283,965	6,126	–	290,091
Below satisfactory	8,811	6,829	–	15,640
Not rated	480	469	–	949
Impaired	–	–	324	324
Total personal loans	384,226	14,248	324	398,798
Allowance for credit losses	(2,604)	(1,166)	(216)	(3,986)
Personal loans less allowance	381,622	13,082	108	394,812

6. Loans and Allowance for Credit Losses (Continued)

				2019
	Stage 1	Stage 2	Stage 3	Total
Commercial mortgages and loans				
Excellent	66,963	–	–	66,963
Good	1,621,369	8,478	–	1,629,847
Satisfactory	2,486,173	43,613	–	2,529,786
Below satisfactory	333	8,129	–	8,462
Impaired	–	–	1,860	1,860
Total commercial mortgages and loans	4,174,838	60,220	1,860	4,236,918
Allowance for credit losses	(17,922)	(1,920)	–	(19,842)
Commercial mortgages and loans less allowance	4,156,916	58,300	1,860	4,217,076
Equipment financing				
Satisfactory	900,801	7,745	–	908,546
Impaired	–	–	4,740	4,740
Total equipment financing	900,801	7,745	4,740	913,286
Allowance for credit losses	(4,628)	(88)	(809)	(5,525)
Equipment financing less allowance	896,173	7,657	3,931	907,761
Total loans less allowance	16,597,395	408,789	11,469	17,017,653

				2018
	Stage 1	Stage 2	Stage 3	Total
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
Total residential mortgages	10,915,033	173,706	4,262	11,093,001
Allowance for credit losses	(12,215)	(1,810)	(118)	(14,143)
Residential mortgages less allowance	10,902,818	171,896	4,144	11,078,858
Personal loans				
Good	28,304	132	–	28,436
Satisfactory	287,864	3,735	–	291,598
Below satisfactory	31,769	4,953	–	36,722
Not rated	–	1,025	–	1,025
Impaired	–	–	559	559
Total personal loans	347,937	9,845	559	358,340
Allowance for credit losses	(1,579)	(299)	(266)	(2,144)
Personal loans less allowance	346,358	9,545	293	356,196

6. Loans and Allowance for Credit Losses (Continued)

				2018
	Stage 1	Stage 2	Stage 3	Total
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
Total commercial mortgages and loans	3,809,216	52,331	3,896	3,865,443
Allowance for credit losses	(15,988)	(523)	–	(16,511)
Commercial mortgages and loans less allowance	3,793,228	51,808	3,896	3,848,932
Equipment financing				
Satisfactory	839,715	3,406	–	843,121
Impaired	–	–	2,511	2,511
Total equipment financing	839,715	3,406	2,511	845,632
Allowance for credit losses	(4,388)	(30)	(505)	(4,923)
Equipment financing less allowance	835,327	3,376	2,006	840,709
Total loans less allowance	15,877,731	236,625	10,339	16,124,695

(c) Allowance for Expected Credit Losses

The following tables set out the movement in our allowance for expected credit losses for the year ended December 31, 2019, and December 31, 2018.

				2019
	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Balance as at Jan 1, 2019	12,215	1,810	118	14,143
Transfer to stage 1	888	(885)	(3)	–
Transfer to stage 2	(442)	442	–	–
Transfer to stage 3	(5)	(26)	31	–
	12,656	1,341	146	14,143
Net remeasurement of loss allowance	(3,178)	535	212	(2,431)
Loan originations	2,636	206	–	2,842
Derecognitions and maturities	(1,264)	(209)	(3)	(1,476)
Write-offs	–	–	(50)	(50)
Balance as at Dec 31, 2019	10,850	1,873	305	13,028
Personal loans				
Balance as at Jan 1, 2019	1,579	299	266	2,144
Transfer to stage 1	72	(48)	(24)	–
Transfer to stage 2	(31)	31	–	–
Transfer to stage 3	(7)	(7)	14	–
	1,613	275	256	2,144
Net remeasurement of loss allowance	541	753	2,619	3,913
Loan originations	577	328	9	914
Derecognitions and maturities	(127)	(190)	(109)	(426)
Write-offs	–	–	(2,559)	(2,559)
Balance as at Dec 31, 2019	2,604	1,166	216	3,986

6. Loans and Allowance for Credit Losses (Continued)

				2019
	Stage 1	Stage 2	Stage 3	Total
Commercial mortgages and loans				
Balance as at Jan 1, 2019	15,988	523	–	16,511
Transfer to stage 1	373	(373)	–	–
Transfer to stage 2	(107)	107	–	–
Transfer to stage 3	–	(25)	25	–
	16,254	232	25	16,511
Net remeasurement of loss allowance	(989)	1,913	(21)	903
Loan originations	6,224	4	–	6,228
Derecognitions and maturities	(3,567)	(229)	–	(3,796)
Write-offs	–	–	(4)	(4)
Balance as at Dec 31, 2019	17,922	1,920	–	19,842
Equipment financing				
Balance as at Jan 1, 2019	4,388	30	505	4,923
Transfer to stage 1	16	(16)	–	–
Transfer to stage 2	(26)	26	–	–
Transfer to stage 3	(83)	(8)	91	–
	4,295	32	596	4,923
Net remeasurement of loss allowance	(1,315)	6	2,998	1,689
Loan originations	2,013	54	334	2,401
Derecognitions and maturities	(365)	(4)	–	(369)
Write-offs	–	–	(3,119)	(3,119)
Balance as at Dec 31, 2019	4,628	88	809	5,525
Total allowance	36,004	5,047	1,330	42,381

				2018
	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Balance as at Jan 1, 2018	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 remeasurement 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 as at Dec 31, 2018	12,215	1,810	118	14,143

6. Loans and Allowance for Credit Losses (Continued)

	Stage 1	Stage 2	Stage 3	2018 Total
Personal loans				
Balance as at Jan 1, 2018	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 remeasurement 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 as at Dec 31, 2018	1,579	299	266	2,144
Commercial mortgages and loans				
Balance as at Jan 1, 2018	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 remeasurement of loss allowance	3,516	94	(15)	3,595
Loan originations	3,044	87	–	3,131
Derecognitions and maturities	(2,824)	(328)	–	(3,152)
Balance as at Dec 31, 2018	15,988	523	–	16,511
Equipment financing				
Balance as at Jan 1, 2018	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 remeasurement 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 as at Dec 31, 2018	4,388	30	505	4,923
Total allowance	34,170	2,662	889	37,721

(d) 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	
Driver	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Canada real GDP	1.60%	1.80%	2.00%	2.20%	1.10%	1.30%
BC unemployment rate	4.80%	4.80%	4.60%	4.60%	6.25%	6.25%
BC nominal GDP	4.20%	4.30%	4.60%	4.70%	2.00%	2.20%
Housing price index % change	8.10%	3.30%	11.10%	6.30%	4.10%	-0.70%

	Alternative scenario: average recession		Alternative scenario: severe recession	
Driver	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Canada real GDP	-0.30%	1.50%	-1.30%	0.90%
BC unemployment rate	8.50%	7.00%	13.00%	11.50%
BC nominal GDP	1.60%	2.50%	0.50%	2.15%
Housing price index % change	-20.00%	1.00%	-25.00%	-9.00%

The expected credit loss is sensitive to changes in economic forecasts and the probability weighting of each scenario. Probability weighting of economic scenarios are not equally weighted and will change over time. In addition, expected credit losses respond to changes in economic forecasts in a non-linear manner. Therefore depending on the attributes of the portfolio, the differences in economic forecasts can have minor or significant impact to ECL. Generally, under recessionary conditions we see a significant increase to expected credit loss; due in part to changes in real estate values.

The reported expected credit losses for financial assets in Stage 1 and Stage 2 under the Base case macroeconomic conditions, with other assumptions held constant including the application of experienced credit adjustment would be $16,768.

The reported expected credit losses for financial assets in Stage 1 and Stage 2 under the average recession case macroeconomic conditions, with other assumptions held constant including the application of experienced credit adjustment would be $92,309. Actual credit loss results during recessionary conditions (and other economic conditions) will differ due to stage migration, growth, risk mitigation actions as well as other factors.

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 2019 Management's Discussion and Analysis and are an integral part of the Consolidated Financial Statements.

8. Premises and Equipment

Original cost	Land	Buildings	Furniture and equipment	Right-of-use assets[1]	Leasehold improvements	Total
Balance at Jan 1, 2018	57	1,581	59,544	–	36,745	97,927
Additions during the year	–	–	3,554	–	937	4,491
Balance at Dec 31, 2018	57	1,581	63,098	–	37,682	102,418
Opening balance sheet adjustment	–	–	–	79,552	–	79,552
Additions during the period	–	–	7,930	11,748	2,477	22,155
Balance at Dec 31, 2019	57	1,581	71,028	91,300	40,159	204,125

Accumulated Depreciation	Land	Buildings	Furniture and equipment	Right-of-use assets[1]	Leasehold improvements	Total
Balance at Jan 1, 2018	–	1,157	42,162	–	25,936	69,255
Additions during the year	–	47	6,002	–	2,228	8,277
Balance at Dec 31, 2018	–	1,204	48,164	–	28,164	77,532
Additions during the period	–	47	5,519	13,620	1,943	21,129
Balance at Dec 31, 2019	–	1,251	53,683	13,620	30,107	98,661
Net book value, at Dec 31, 2018	57	377	14,934	–	9,518	24,886
Net book value, at Dec 31, 2019	57	330	17,345	77,680	10,052	105,464

1. Refer to Note 17(c) for further information on Coast Capital's right-of-use assets.

9. Goodwill and Intangible Assets

Original cost	Software	Goodwill	Customer lists, trademarks and other intangibles	Total
Balance at Jan 1, 2018	92,525	15,205	8,935	116,665
Additions during the year	19,521	–	–	19,521
Disposals during the year	(291)	–	–	(291)
Balance at Dec 31, 2018	111,755	15,205	8,935	135,895
Additions during the year	20,773	–	–	20,773
Disposals during the year	(1,588)	–	–	(1,588)
Balance at Dec 31, 2019	130,940	15,205	8,935	155,080

Accumulated depreciation	Software	Goodwill	Customer lists, trademarks and other intangibles	Total
Balance at Jan 1, 2018	41,153	–	3,908	45,061
Amortization during the year	9,939	–	800	10,739
Balance at Decr 31, 2018	51,092	–	4,708	55,800
Amortization during the year	10,239	–	792	11,031
Disposals during the year	(1,588)	–	–	(1,588)
Balance at Dec 31, 2019	59,743	–	5,500	65,243
Net book value at Dec 31, 2018	60,663	15,205	4,227	80,095
Net book value at Dec 31, 2019	71,197	15,205	3,435	89,837

10. Other Assets

	2019	2018
Prepaid expenses	25,858	26,154
Accounts receivable	10,308	10,286
Derivative assets (Note 27)	6,604	4,233
Other	30,995	23,638
Total other assets	73,765	64,311

11. Deposits

2019	Core retail and commercial members	External deposit agents	Institutional depositors	Total
Demand	6,338,775	20,066	–	6,358,841
Term	5,458,715	2,390,946	1,188,297	9,037,958
Registered plans	775,437	310,097	–	1,085,534
Class P non-equity shares	97	–	–	97
Accrued interest	97,698	46,537	–	144,235
Total	12,670,722	2,767,646	1,188,297	16,626,665

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 P non-equity shares	104	–	–	104
Accrued interest	79,928	42,763	–	122,691
Total	12,284,188	2,306,236	1,784,240	16,374,664

Of the amounts reported above, $2,856,165 (2018 – $3,550,408) 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 27 for detailed information on hedge accounting.

12. Borrowings

	2019	2018
Commercial paper	298,543	289,278
Floating rate note	175,000	175,000
Term loan	200,000	–
Total borrowings	673,543	464,278

Commercial Paper

Commercial paper pays a fixed weighted average interest rate of 1.99% (2018 – 2.25%) and matures from January 3, 2020 until April 6, 2020.

12. Borrowings (Continued)

Floating Rate Note

The floating rate note was issued on August 28, 2018; pays a floating interest rate of 3-month CDOR plus 65 basis points, which is 2.62% on December 31, 2019 (2.63% – December 31, 2018) and matures on February 28, 2020.

Term Loan

The term loan entered into on July 20, 2019; pays a fixed interest rate of 2.56% and matures on July 29, 2022.

13. Transfers of Mortgage Receivables

Coast Capital sells residential mortgages using the Canada Mortgage Bond (CMB) program, directly to third-party investors under the *National Housing Act* Mortgage-Backed Securities (NHA-MBS) program. In addition, Coast Capital sells pooled residential mortgages (using the NHA-MBS program) directly to unrelated third parties. Coast Capital assesses whether substantially all of the risks and rewards of or control over the loans have been transferred to determine whether they qualify for derecognition.

Under these programs, Coast Capital is entitled to the payment over time of the excess of the sum of interest and fees collected from members, in connection with the residential mortgages that were sold, over the yield paid to investors, less credit losses and other costs. Since Coast Capital continues to be exposed to substantially all the prepayment, interest rate and credit risk associated with the securitized residential mortgages, they do not qualify for derecognition. Coast Capital continues to recognize the residential mortgages and the related cash proceeds as secured borrowings in the Consolidated Balance Sheet. Coast Capital provides re-investment assets as collateral for the unsecured portion of secured borrowings created through amortization of the sold residential mortgages.

The interest and fees collected, net of the yield paid to investors, are recorded in net interest income using the effective interest method over the term of the securitization. The weighted average interest rate on secured borrowings was 1.69% (2018 – 1.67%).

The table below summarizes the amounts borrowed under secured borrowings, the amount of residential mortgages sold and the amount of re-investment assets provided as collateral.

	2019	2018
Secured borrowings	1,184,006	1,155,211
Residential mortgages sold (included in Loans)	738,496	792,310
Re-investment assets provided as collateral		
Loans	39,202	85,123
Financial investments	429,548	362,194
Total collateral	1,207,246	1,239,627

The sold residential mortgages and the secured borrowings mature as follows:

	Residential mortgages	Secured borrowings
2020	229,154	367,396
2021	284,015	455,352
2022	12,195	19,551
2023	86,938	139,385
2024	126,194	202,322
Total	738,496	1,184,006

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 that are pledged as collateral are related to proceeds from securitizations and other borrowings. As at December 31, 2019, Coast Capital has pledged residential mortgages and other mortgage backed securities in the amount of $1,207,246 (2018 – $1,239,627) in relation to its Secured borrowings, $932,710 (2018 – $1,177,991) in relation to other borrowings, and $Nil (2018 – $2,000) 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

	2019	2018
Series 1 issued May 3, 2018	202,535	201,036
Series 2 issued Oct 29, 2018	99,352	99,256
Total subordinated debt	301,887	300,292

Series 1

The subordinated debentures have a 10-year term maturing on May 3, 2028, at a par value of $200 million. Coast Capital has the option to redeem the subordinated debentures from May 3, 2023, until maturity at par plus accrued interest, subject to regulatory approval. The subordinated debentures bear interest at 5.0% per annum, payable semi-annually in arrears up to May 2, 2023. From May 3, 2023, the subordinated debentures bear interest at 3-month CDOR plus 2.44% per annum, payable quarterly in arrears.

Coast Capital entered into a fair value hedge to hedge against the interest rate risk on this subordinated note.

Series 2

The subordinated debentures have a 12-year term maturing on October 29, 2030, at a par value of $100 million. Coast Capital has the option to redeem the subordinated debentures from October 29, 2025, until maturity at par plus accrued interest, subject to regulatory approval. The subordinated debentures bear interest at 5.25% per annum, payable semi-annually in arrears up to October 28, 2025. From October 29, 2025, the subordinated debentures bear interest at 3-month CDOR plus 2.42% per annum, payable quarterly in arrears.

16. Other Liabilities

	2019	2018
Accounts payable and accruals	91,549	93,328
Lease liabilities (Note 17)	86,162	–
Deferred fee income	3,718	6,920
Derivative liabilities (Note 27, 28(b))	2,066	5,386
Total other liabilities	183,495	105,634

17. Leases

a) Impact of IFRS 16 *Leases* Adoption

The requirements of IFRS 16 *Leases* (IFRS 16) were adopted effective January 1, 2019, using the modified retrospective approach. Under the modified retrospective approach, retained earnings in the opening Consolidated Balance Sheet at January 1, 2019, was adjusted with the cumulative retrospective effects of adopting IFRS 16 up to this date. Comparative information has not been restated.

The impact of adoption on the opening Consolidated Balance Sheet at January 1, 2019, was as follows:

	As previously reported	IFRS 16 adjustments	Restated
Assets			
Premises and equipment(1)	24,886	79,552	104,438
Deferred tax assets	–	1,442	1,442
Other assets	64,311	(1,309)	63,002
Assets not impacted	19,530,722	–	19,530,722
	19,619,919	79,685	19,699,604
Liabilities			
Other liabilities(2)	105,634	86,713	192,347
Liabilities not impacted	18,308,083	–	18,308,083
	18,413,717	86,713	18,500,430
Members' equity			
Retained earnings	1,180,219	(7,028)	1,173,191
Members' equity not impacted	25,983	–	25,983
	1,206,202	(7,028)	1,199,174
	19,619,919	79,685	19,699,604

1. Includes right-of-use assets
2. Includes lease liabilities

The weighted average incremental borrowing rate applied to determine the opening balance of lease liabilities at January 1, 2019, was 4.98%.

b) Right-of-Use Assets

The nature of our right-of-use assets comprises of leased premises that house the majority of our branch premises, our head office and certain of our dedicated computer servers. We sublease certain of our leased premises. Our income from subleases was $1,955 for the year ended December 31, 2019. Right-of-use assets are included under Premises and equipment in the Consolidated Balance Sheet. Refer to Note 8 for further information.

c) Lease Liabilities

Lease liabilities are included under Other liabilities in the Consolidated Balance Sheet and comprises:

	2019
Opening balance	86,713
Additions	11,660
Lease payments	(16,537)
Re-assessment	89
Interest expense	4,237
Closing balance	86,162

17. Leases (Continued)

The contractual maturity of future lease payments are as follows:

	2019
1 year or less	15,824
1 to 5 years	56,368
More than 5 years	33,882
Total expected cash flow	106,074

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 high quality capital deemed sufficient to protect against unanticipated losses; providing prudent depositor security; maintaining favourable credit ratings, 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. 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's Risk Review Committee (RRC) with a detailed action plan to resolve any deviation.

b) Regulatory Capital

Coast Capital remained fully compliant with the applicable regulatory capital requirements, and the corresponding Board and management limits throughout the year ended December 31, 2019.

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 Audit and Finance Committee (AFC). Coast Capital's internal policy with respect to regulatory capital requirements adheres to regulations and guidelines as set out by the *Bank Act* and the OSFI Capital Adequacy Requirements (Federal Requirements).

Capital is managed in accordance with requirements of the Basel III Capital Adequacy Accord (Basel III). Coast Capital has 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, which is designed to ensure going concern, is the most permanent and subordinated form of capital and consists of Common Equity Tier 1 (CET 1) capital and Additional Tier 1 (AT 1) capital; and
- Tier 2 capital, which is designed to absorb losses in the event of liquidation, 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.

18. Capital Management (Continued)

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 included under the OSFI CAR Guidelines subject to a 10% phase-out per year starting at Continuance.

In accordance with OSFI's requirements, the minimum regulatory leverage ratio is 3%. This ratio is determined by dividing the Tier 1 capital by the exposure measure. The exposure measure is independent from risk and includes on-balance sheet exposures, securities financing transaction exposures, derivative exposure and off-balance sheet exposures.

The table below contains the capital structure and regulatory ratios as at December 31, 2019.

	2019	2018[2]
Regulatory capital		
Common equity tier 1 capital[1]	1,234,634	1,180,145
Regulatory adjustments	(95,617)	(82,946)
Net Common equity tier 1 capital	1,139,018	1,097,200
Net Tier 1 capital	1,159,963	1,120,763
Net Tier 2 capital	281,051	306,832
Total capital	1,441,014	1,427,595
Risk-weighted assets used in capital ratios	9,892,815	9,092,157
Actual regulatory capital ratios		
Common equity tier 1 capital ratio	11.5%	12.1%
Tier 1 capital ratio	11.7%	12.3%
Total capital ratio	14.6%	15.7%
Leverage ratio	5.7%	5.7%
Regulatory capital requirements		
Minimum common equity tier 1 capital ratio	7.0%	7.0%
Minimum tier 1 capital ratio	8.5%	8.5%
Minimum total capital ratio	10.5%	10.5%

1. Includes class A shares, retained earnings, and accumulated other comprehensive income.
2. We have retrospectively applied the phase-out of non-qualifying capital instruments, which were recognized as regulatory capital under provincial capital requirements prior to continuance, in accordance with capital adequacy requirements. Accordingly, the comparative information above has been adjusted from the information previously presented in our 2018 Annual Report.

Notes to Consolidated Financial Statements

19. Share Capital

	2019	2018
Class A shares		
Balance at beginning of the year	2,667	2,580
Shares issued	255	1,010
Shares redeemed	(119)	(923)
Balance at end of the year	2,803	2,667
Class B shares		
Balance at beginning of the year	26,554	28,851
Shares redeemed	(1,823)	(2,297)
Balance at end of the year	24,731	26,554
Total share capital	27,534	29,221

Class A Shares
An unlimited number of Class A shares are authorized for issue. Class A shares are a membership requirement, voting, without par value and issued shares are fully paid. Class A shares are redeemable subject to the *Bank Act* as well as the approval of the Board and the Superintendent of Financial Institutions. The declaration of dividends is subject to the approval of the Board.

Class B Shares
An unlimited number of Class B shares are authorized for issue. Class B shares are not a membership requirement, non-voting, without par value and issued shares are fully paid. Class B shares are redeemable subject to the *Bank Act* as well as the approval of the Board and the Superintendent of Financial Institutions. The declaration of dividends is subject to the approval of the Board. The Board has approved a dividend that is equal to Coast Capital's average posted rate of its 5-year term deposits and is 2.33% at December 31, 2019 (December 31, 2018 – 2.14%).

20. Net Interest Income

	2019	2018
Interest income		
Financial instruments measured at amortized cost	623,997	567,669
Financial instruments measured at FVOCI	62,009	40,958
Financial instruments designated at FVTPL	–	1,808
Derivatives	696	1,467
Total interest income	686,702	611,902
Interest expense		
Deposits	301,339	252,405
Secured borrowings	18,651	16,260
Borrowings	20,631	8,766
Subordinated debt	15,472	7,790
Total interest expense	356,093	285,221
Net interest income	330,609	326,681

Notes to Consolidated Financial Statements

21. Other Income

	2019	2018
Credit card revenues	8,341	8,697
Other income	7,854	7,711
Safety deposit box rental income	1,350	1,396
Total other income	17,545	17,804

22. Salaries and Employee Benefits

	2019	2018
Salaries	157,935	140,708
Benefits	20,944	16,504
Post retirement costs	10,480	9,336
Termination benefits	2,491	4,543
Other	44	56
Total salaries and benefits	191,894	171,147

23. Administration Expenses

	2019	2018
Marketing	16,224	7,956
Consultants	16,372	19,045
ATM/POS operations	9,317	10,648
Deposit insurance and other regulatory fees	7,747	17,020
Travel, meals, and entertainment	5,951	4,533
Professional services	5,877	5,839
Stationery, telephone, and postage	5,170	5,497
Chequing service charges	4,354	4,057
Loan processing	4,223	4,860
Training and recruitment	1,737	1,623
Bonding and other insurance	1,663	2,389
Courier	860	923
Other	9,314	6,111
Total administration expenses	88,809	90,501

24. Provision for Income Taxes

	2019	2018
Current income taxes		
Current year	13,933	24,452
Deferred income taxes		
Origination and reversal of temporary differences	(2,347)	(3,344)
Total income taxes	11,586	21,108

24. Provision for Income Taxes (Continued)

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 27% (2018 – 27%) to income before income taxes. The reasons for the differences are as follows:

	2019 Amount	2019 % of pre-tax income	2018 Amount	2018 % of pre-tax income
Combined federal and provincial statutory income taxes	15,195	27.0%	27,802	27.0%
Reduction applicable to credit unions	(2,152)	(3.8%)	(11,565)	(10.0%)
Change in estimate of tax reversals	(188)	(0.3%)	2,259	2.2%
Other	(1,269)	(2.4%)	2,612	1.3%
Effective income tax rate	11,586	20.5%	21,108	20.5%

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

	2019	2018
Allowance for credit losses	7,463	6,309
Deferred revenue/prepaid expense	(3,877)	(4,390)
Restructuring costs	424	579
Employee future benefits	712	725
Capital and intangible assets	(2,353)	(788)
Loss carry-forwards	5,780	2,850
Impact from adopting IFRS 16 *Leases*	1,442	–
Other	(34)	142
Total deferred tax asset	9,557	5,427

25. Commitments and Contingent Liabilities

a) Commitments

Coast Capital enters into various off-balance sheet commitments such as letters of credit and loan commitments. These are not reflected in the Consolidated Balance Sheet. 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:

	2019	2018
Lines of credit	2,752,335	2,715,466
Letters of credit	93,680	69,012

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, 2019, all but $75,078 (2018 – $53,080) 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.

25. Commitments and Contingent Liabilities (Continued)

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.

26. 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 balance sheet. 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.

		Fixed rate						
	Floating rate	Under 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest sensitive	2019
Assets								
Cash and investments	194,940	546,492	97,474	308,723	1,520,304		255,126	2,923,059
Effective interest rate		*1.73%*	*2.17%*	*2.29%*	*2.33%*			
Loans	5,894,967	364,386	541,706	806,942	9,187,873	203,467	18,312	17,017,653
Effective interest rate		*3.64%*	*3.61%*	*3.17%*	*3.51%*	*2.65%*		
Other assets							288,250	288,250
	6,089,907	910,878	639,180	1,115,665	10,708,177	203,467	561,688	20,228,962
Liabilities and equity								
Deposits	4,438,691	1,792,619	1,166,590	4,306,249	2,843,211	12,954	2,066,351	16,626,665
Effective interest rate		*2.43%*	*2.26%*	*2.62%*	*2.67%*	*2.41%*		
Borrowings	375,000	293,593	4,950					673,543
Effective interest rate		*1.99%*	*2.03%*					
Secured borrowings		146,172	279,024	174,789	583,858		163	1,184,006
Effective interest rate		*2.00%*	*1.35%*	*1.42%*	*1.63%*			
Subordinated debt						301,887		301,887
Effective interest rate						*5.05%*		
Other liabilities							183,495	183,495
Equity							1,259,366	1,259,366
	4,813,691	2,232,384	1,450,564	4,481,038	3,427,069	314,841	3,509,375	20,228,962
Balance sheet mismatch	1,276,216	(1,321,506)	(811,384)	(3,365,373)	7,281,108	(111,374)	(2,947,687)	–
Derivatives		(1,266,703)	120,000	760,000	386,703			–
Net mismatch	1,276,216	(2,588,209)	(691,384)	(2,605,373)	7,667,811	(111,374)	(2,947,687)	–

26. Interest Rate Sensitivity Position (Continued)

	Floating rate	Fixed rate Under 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest sensitive	2018
Assets								
Cash and investments		309,126	356,344	364,977	1,815,259		474,799	3,320,505
Effective interest rate		*1.45%*	*1.93%*	*2.23%*	*2.23%*			
Loans	6,462,341	186,567	259,596	679,376	8,316,778	220,571	(534)	16,124,695
Effective interest rate		*4.00%*	*3.78%*	*3.64%*	*3.44%*	*4.85%*		
Other assets							174,719	174,719
	6,462,341	495,693	615,940	1,044,353	10,132,037	220,571	648,984	19,619,919
Liabilities and equity								
Deposits	4,458,127	1,763,295	1,204,986	3,466,960	3,542,736	12,367	1,926,193	16,374,664
Effective interest rate		*2.07%*	*2.12%*	*2.29%*	*2.93%*	*1.81%*		
Borrowings	175,000	289,278						464,278
Effective interest rate		*2.25%*						
Secured borrowings		149,996		83,293	921,313		609	1,155,211
Effective interest rate		*2.00%*		*2.00%*	*1.50%*			
Subordinated debt						300,292		300,292
Effective interest rate						*5.08%*		
Other liabilities							119,272	119,272
Equity							1,206,202	1,206,202
	4,633,127	2,202,569	1,204,986	3,550,253	4,464,049	312,659	3,252,276	19,619,919
Balance sheet mismatch	1,829,214	(1,706,876)	(589,046)	(2,505,900)	5,667,988	(92,088)	(2,603,292)	–
Derivatives		(1,096,024)		30,000	880,000	186,024		–
Net mismatch	1,829,214	(2,802,900)	(589,046)	(2,475,900)	6,547,988	93,936	(2,603,292)	–

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.

27. Derivative Instruments

All derivative instruments, including hedging derivatives, are recorded at their fair value in the Consolidated Balance Sheet.

Types of Derivatives

Coast Capital enters into the following types of derivatives:

	Notional amounts Maturities of derivatives						
	Up to 12 months	Over 1 to 3 years	Over 3 to 5 years	2019 Total	2019 Fair value	2018 Total	2018 Fair value
Interest rate swaps							
Pay fixed, receive floating	–	13,297	–	13,297	(2,066)	13,976	(5,386)
Pay floating, receive fixed	880,000	200,000	200,000	1,280,000	5,449	1,110,000	3,844
Total interest rate swaps	880,000	213,297	200,000	1,293,297	3,383	1,123,976	(1,542)
Forward contracts	13,334	–	–	13,334	231	–	–
Equity options	5,194	6,276	509	11,979	924	12,875	389
Total derivative contracts	898,528	219,573	200,509	1,318,610	4,538	1,136,851	(1,153)

- 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 Balance Sheet.

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.

27. 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 loss of $57 (2018 – gain of $121) for ineffectiveness in cash flow hedges, which is recognized in interest expense in the Consolidated Statement of Income as it arises. See Note 2(n) 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(n) for accounting policy of fair value hedges.

				2019
	Notional amount of hedging item asset	Carrying amount of hedging item asset	Gains (losses) used to calculate hedge ineffectiveness [1]	Carrying amount hedged item[2]
Hedging items – interest rate swap contracts	800,000	5,302	5,302	–
Hedged items – deposits	–	–	(1,849)	601,849
Hedged item – subordinated debt	–	–	(3,452)	202,535
Total	800,000	5,302	1	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 Balance Sheet and includes amortized cost, plus fair value hedge adjustments.

27. 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:

				2019
	Less than 1 year	Over 1 to 5 years	More than 5 years	Total expected cash flow
Receive fixed	6,722	2,150	–	8,872
Pay floating	8,703	2,816	–	11,519
Net cash inflow (outflow)	(1,981)	(666)	–	(2,647)

				2018
	Less than 1 year	Over 1 to 5 years	More than 5 years	Total expected cash flow
Receive fixed	4,068	3,969	–	8,037
Pay floating	6,726	6,232	–	12,958
Net cash inflow (outflow)	(2,658)	(2,263)	–	(4,921)

The credit risk associated with derivative financial instruments refers to the risk that a counterparty will fail to honour its contractual obligations toward Coast Capital at a time when the fair value of the instrument is positive for Coast Capital. The table below presents the credit risk exposure from our derivatives. Replacement cost is the cost of replacing, at current market rates, all contracts with a positive fair value, without taking into consideration the impact of netting agreements or any that which may be obtained. Credit risk equivalent is the total replacement cost and future credit exposure, which is presented by the change in value determined using a formula prescribed by the Bank for International Settlements (BIS), excluding items prescribed by the BIS, such as the replacement cost of forwards exchange contracts with an original maturity of less than 14 days and exchange-traded derivatives subject to daily cash margining. The risk-weighted asset is the balance of the asset weighted by the risk related to the creditworthiness of the counterparty calculated at the rates prescribed by the BIS.

			2019
	Replacement cost	Credit risk equivalent	Risk-weighted asset
Interest rate swaps	5,449	12,359	2,472
Forward contracts	231	329	66
Equity options	924	3,317	663
Total	6,604	16,005	3,201

28. 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, 2019.

(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 balance sheet 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.

28. Fair Value of Financial Instruments (Continued)

	2019 Carrying value	2019 Fair value	2018 Carrying value	2018 Fair value
Loans				
Residential mortgages	11,511,032	11,528,194	11,093,001	11,014,463
Personal loans	398,798	399,183	358,340	358,608
Commercial mortgages, loans and equipment financing[1]	5,136,930	5,212,120	4,697,463	4,722,033
Total financial assets	17,046,760	17,139,497	16,148,804	16,095,104
Deposits	16,626,665	16,679,008	16,374,664	16,406,289
Secured borrowings	1,184,006	1,242,449	1,155,211	1,172,131
Borrowings	673,543	673,562	464,278	463,568
Subordinated debentures	301,887	306,637	300,292	301,579
Total financial liabilities	18,786,101	18,901,656	18,294,445	18,343,567

1. Amounts exclude a commercial loan designated as FVTPL for which the carrying value and fair value is $13,274 (December 31, 2018 – $13,612).

(b) Fair Value Hierarchy

For financial instruments measured at fair value in the Consolidated Balance Sheet, 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.

				2019
	Level 1	Level 2	Level 3	Total
Interest bearing deposits with financial institutions	–	50,108	–	50,108
Financial investments				
Debt securities classified FVOCI	2,366,707	322,577	–	2,689,284
Equity securities designated FVOCI	–	–	3,558	3,558
Loans				
Commercial loan designated FVTPL	–	–	13,274	13,274
Derivative assets classified FVTPL	1,155	5,449	–	6,604
Total financial assets	2,367,862	378,134	16,832	2,762,828
Derivative liabilities classified FVTPL	–	2,066	–	2,066
Total financial liabilities	–	2,066	–	2,066

28. Fair Value of Financial Instruments (Continued)

				2018
	Level 1	Level 2	Level 3	Total
Interest bearing deposits with financial institutions	–	49,049	–	49,049
Financial investments				
Debt securities classified FVOCI	2,161,126	933,743	–	3,094,869
Equity securities classified FVTPL	–	–	1,808	1,808
Equity securities designated FVOCI	–	–	2,767	2,767
Loans				
Commercial loan designated FVTPL	–	–	13,612	13,612
Derivative assets classified FVTPL	389	3,844	–	4,233
Total financial assets	2,161,515	986,636	18,187	3,166,338
Derivative liabilities classified FVTPL	–	5,386	–	5,386
Total financial liabilities	–	5,386	–	5,386

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 interest bearing deposits with financial institutions, loans, other assets, deposits, borrowings, secured borrowings, subordinated debt, income taxes payable, and other liabilities, 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 balance sheet 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 included under financial investments 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 balance sheet 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 may be 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, 2019, there were no transfers of financial instruments between the different levels of the fair value hierarchy.

28. Fair Value of Financial Instruments (Continued)

(d) Changes in Level 3 Fair Value Measurements

The following table reconciles the opening and closing totals:

	Equity securities classified FVTPL	Equity securities designated FVOCI	Commercial loan designated FVTPL	Total
Balance at Jan 1, 2018	12,165	2,608	14,268	29,041
Purchased	–	159	–	159
Sold	(48,758)	–	–	(48,758)
Loan payments received	–	–	(1,092)	(1,092)
Dividends/interest included in profit or loss	1,808	–	433	2,241
Fair value adjustments	36,593	–	3	36,596
Balance at Dec 31, 2018	1,808	2,767	13,612	18,187
Purchased	–	791	–	791
Sold	(1,808)	–	–	(1,808)
Loan payments received	–	–	(1,093)	(1,093)
Interest included in profit or loss	–	–	412	412
Fair value adjustments	–	–	343	343
Balance at Dec 31, 2019	–	3,558	13,274	16,832

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	(272)	279

29. Classification of Financial Assets and Financial Liabilities

						2019
	Classified FVOCI	Designated FVOCI	Classified FVTPL	Designated FVTPL	Amortized Cost	Total
Financial assets						
Cash and cash resources	–	–	–	–	180,109	180,109
Interest bearing deposits with financial institutions	50,108	–	–	–	–	50,108
Financial investments						
Debt securities	2,689,284	–	–	–	–	2,689,284
Equity securities	–	3,558	–	–	–	3,558
Loans	–	–	–	13,274	17,046,760	17,060,034
Derivative assets	–	–	6,604	–	–	6,604
Other assets	–	–	–	–	20,672	20,672
Total financial assets	2,739,392	3,558	6,604	13,274	17,247,541	20,010,369

29. Classification of Financial Assets and Financial Liabilities (Continued)

						2019
	Classified FVOCI	Designated FVOCI	Classified FVTPL	Designated FVTPL	Amortized cost	Total
Financial liabilities						
Deposits	–	–	–	–	16,626,665	16,626,665
Borrowings	–	–	–	–	673,543	673,543
Secured borrowings	–	–	–	–	1,184,006	1,184,006
Subordinated debt	–	–	–	–	301,887	301,887
Derivative liabilities	–	–	2,066	–	–	2,066
Other liabilities	–	–	–	–	91,549	91,549
Total financial liabilities	–	–	2,066	–	18,877,650	18,879,716

						2018
	Classified FVOCI	Designated FVOCI	Classified FVTPL	Designated FVTPL	Amortized cost	Total
Financial assets						
Cash and cash resources	–	–	–	–	172,012	172,012
Interest bearing deposits						
with financial institutions	49,049	–	–	–	–	49,049
Financial investments						
Debt securities	3,094,869	–	–	–	–	3,094,869
Equity securities	–	2,767	1,808	–	–	4,575
Loans	–	–	–	13,612	16,148,804	16,162,416
Derivative assets	–	–	4,233	–	–	4,233
Other assets	–	–	–	–	28,003	28,003
Total financial assets	3,143,918	2,767	6,041	13,612	16,348,819	19,515,157
Financial liabilities						
Deposits	–	–	–	–	16,374,664	16,374,664
Borrowings	–	–	–	–	464,278	464,278
Secured borrowings	–	–	–	–	1,155,211	1,155,211
Subordinated debt	–	–	–	–	300,292	300,292
Derivative liabilities	–	–	5,386	–	–	5,386
Other liabilities	–	–	–	–	101,228	101,228
Total financial liabilities	–	–	5,386	–	18,395,673	18,401,059

30. 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 and presented below:

	2019	2018
Outstanding loans	3,963	3,374
Outstanding deposits	527	2,289

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 specific provisions for expected credit losses have been recognized for these loans (2018 – Nil). Upon initial recognition, employee loans are recorded at fair value with the difference between fair value and funds advanced being recorded as Salaries and employee benefits in the Consolidated Statement of Income. Deposits are accepted at 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 CEO, Chief Member Experience Officer, Chief Commercial Officer, Chief Financial Officer, Chief People Officer, Chief Risk Officer, Chief Enterprise Solutions Officer, General Counsel and Chief Corporate Development Officer, Chief Digital Information and Technology Officer, and the Chief Strategy Officer.

	Compensation component			Compensation component		
	Fixed	Variable	2019	Fixed	Variable	2018
Short-term	3,911	1,492	5,403	3,350	1,177	4,527
Post-employment	695	–	695	644	–	644
Other long-term	–	892	892	–	817	817
	4,606	2,384	6,990	3,994	1,994	5,988
Termination	1,028	–	1,028	2,673	–	2,673
Total employee benefits	5,634	2,384	8,018	6,667	1,994	8,661

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 that 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 that are payable more than 12 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, who are also considered key management personnel under IFRS, received remuneration of $561 (2018 – $662). 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.

31. 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, 2018, and it was determined that the overall Plan was 104% funded on a going concern basis. The next actuarial review is scheduled for the period ending December 31, 2021. Pension expense of $6,291 (2018 – $5,535) in respect of contributions paid into the Plan in 2019 has been charged to Salaries and Employee Benefits in the Consolidated Statement of Income. Contributions to the plan in 2020 are expected to be $6,900.

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 $3,628 (2018 – $3,397) in respect of contributions paid into this plan in 2019 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, 2019 and the next valuation will be completed as at December 31, 2022.

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 8 years at December 31, 2019.

	2019	2018
Benefit obligation at beginning of year	4,261	4,740
Current service costs	420	408
Interest costs	149	20
Benefit payments	(628)	(762)
Actuarial (gain) loss, due to:		
Experience adjustments	7	(145)
Changes in financial assumptions	(99)	–
Benefit obligation at end of year	4,110	4,261

Pension expense of $569 (2018 – $428) 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.

31. Pension Plan (Continued)

	2019	2018
Cumulative actuarial losses at January 1	(629)	(774)
Actuarial gains in the year	92	145
Cumulative actuarial losses at December 31	(537)	(629)

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

	2019	2018
Discount rate	3.0%	3.6%
Dental benefits trend rate for 10 years	5.0%	5.0%
Extended health benefits trend rate for 10 years	6.5%	6.8%

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, 2019, 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.

	2019
Discount rate (1% decrease)	269
Trend rates (1% increase)	115

32. Membership

The following membership data is as at December 31, 2019, and is annexed in accordance with subsection 308 (3) of the *Bank Act*. As at December 31, 2019, Coast Capital is organized and carrying on business on a cooperative basis in accordance with subsection 12(1) of the *Bank Act*.

	2019	2018
Number of members	593,548	572,304
Percentage of members who are natural persons	91.4%	91.0%
Percentage of financial services transacted with members on the basis of gross revenues (Based on financial data of CCSFCU only)	98.0%	93.9%

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 Savings Federal Credit Union (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 managing 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 corporate policies and is responsible for overseeing management and ensuring that Coast Capital complies with regulatory and statutory requirements.

Coast Capital uses 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 meets a minimum of one time in each quarter for regular Board meetings and also holds strategy and planning sessions with management. The Board delegates specific governance responsibilities to five standing committees: Audit and Finance, Governance and Community Engagement, Human Resources, Nominations, and Risk Review. The Project Oversight (formerly DCU/R17) Committee is a special purpose committee that was established in 2017 to oversee the upgrade of Coast Capital's banking system, and this committee continues to meet routinely each quarter. The Committees are populated by a minimum of three directors, as well as the Board Chair, who sits as an ex officio member of each Committee, 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 and approves the charter and committee membership annually immediately following the Annual General Meeting (the AGM). Committees meet in camera as a matter of routine, make recommendations to the Board and, with the exception of the Nominations Committee, and 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 members' 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 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.

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). In 2019, the committee was re-named the **Project Oversight Committee**.

Seven Board meetings were held in 2019. A portion of each regularly scheduled Board meeting is set aside for a directors-only session with and without the CEO. The Board Chair, as the presiding Board member, ensures the relationships between the Board, the CEO, and 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 of Directors 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' finances. 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, regulators and other stakeholders.

Current and Past Directors for 2019

With the exception of Calvin MacInnis, our President and CEO, all other Board Directors, including the Board 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*.

Corporate Governance—Board of Directors

As of December 31, 2019, Coast Capital's directors are:

Bob Armstrong

Background/Experience:	Mr. Armstrong chairs the Coast Capital Board and is a director on the boards of Rocky Mountaineer and Ballet BC. He also serves in board and advisory roles with a number of community and non-profit groups, including chairing the board of the Chris Spencer Foundation and being an active partner with Social Venture Partners Vancouver. Prior to focusing on board and advisory work, Mr. Armstrong spent 18 years with Ritchie Bros. Auctioneers where he held several executive positions including Chief Financial Officer, Chief Operating Officer and Chief Strategic Development Officer. Mr. Armstrong is a Chartered Professional Accountant, has his ICD.D designation, and brings to the Coast Capital Board experience in customer-focused technology, financial management and strategy development.
Position:	Board Chair (as of December 10, 2018), and ex officio member of all Board Committees
Director Since:	2016
Current Term Expires:	2022
Other Current Boards:	Rocky Mountaineer, Ballet BC, and Chris Spencer Foundation

Charlotte Burke

Background/Experience:	Ms. Burke retired from Microsoft Canada in 2018 and was responsible for small to mid-market customers and the partner ecosystem. Prior to working with Microsoft, Ms. Burke was an executive with Bell Canada and led the Company through three major technology transformations including the launch of digital cellular, the expansion of broadband internet and the introduction of internet-based TV.
Director Since:	2019
Current Term Expires:	2022
Position:	Audit and Finance Committee member, and Project Oversight Committee member
Other Current Boards:	Halton Healthcare, and Horizon Studios Inc.

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, and Human Resources Committee member
Director Since:	2011
Current Term Expires:	2020, standing for re-election
Other Current Boards:	Assembli Restaurants Corp., Empresario Capital Partners Ltd., RAMMP Hospitality Brands Inc., and Valley Lube Holdings Ltd.

Corporate Governance—Board of Directors

Frances Fiorillo

Background/Experience:	Ms. Fiorillo retired as a Senior Vice President at Virgin America Inc. and prior to retiring held various executive roles in the airline industry, in both Canada and the USA, focused in the areas of human resources, customer service, as well as operations with start-ups and well-established airlines.
Position:	Human Resources Committee member, and Risk Review Committee member
Director Since:	2019
Current Term Expires:	2022
Other Current Boards:	Vancouver Airport Authority

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, Project Oversight Committee, and Nominations Committee member
Director Since:	2008
Current Term Expires:	2020 (served a maximum of four consecutive three-year terms)
Other Current Boards:	Superior Plus Corp., TimberWest Forest Corp., and Badger Daylighting Ltd.

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 & Finance Committee, and Governance and Community Engagement Committee member
Director Since:	2017
Current Term Expires:	2020 (standing for re-election)
Other Current Boards:	British Columbia Hydro and Power Authority, Powerex Corp., and Shaughnessy Golf & Country Club

Corporate Governance—Board of Directors

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:	Chair, Nominations Committee, Governance and Community Engagement Committee member, and Vice Chair of Board of Directors
Director Since:	2016
Current Term Expires:	2022
Other Current Boards:	Board Chair, Parkbridge Lifestyle Communities, and Victoria Airport Authority

Nancy McKenzie

Background/Experience:	Ms. McKenzie is a FCPA, FCA and has her ICD.D designation, along 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 Chief Financial Officer, she was responsible for leading Finance, Information Technology, Risk Management, Supply Chain Management, Facilities/Security and Corporate Communications, 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 and community involvement and brings a depth of business experience to Coast Capital.
Position:	Audit and Finance Committee member, and Risk Review Committee member
Director Since:	2018
Current Term Expires:	2021
Other Current Boards:	University of British Columbia, and UBC Investment Management Trust Inc.

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 of Royal Bank Mortgage Corporation; Chair of RBC Action Direct; and Vice President of Personal Markets, Lower Mainland BC. She has served on the boards of Interac, Acxsys, and Moneris. She is the founder of Sister Jazz Orchestra, Canada's first all-female professional jazz orchestra, as well as 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, and Nominations Committee member
Director Since:	2009
Current Term Expires:	2021
Other Current Boards:	None

Corporate Governance—Board of Directors

Chris Trumpy

Background/Experience:	Mr. Trumpy 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, and Project Oversight Committee member
Director Since:	2012
Current Term Expires:	2021
Other Current Boards:	Coast Opportunities Fund, 94Forward, and Puget Sound Energy

2019 Past Directors:

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.
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.
Director Since:	2007
Current Term Expires:	2019

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

Corporate Governance—Board of Directors

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 the Human Resources Committee of Board of Directors (HRC). The Committee is comprised of three or more directors, with the majority being independent, as determined by the Board and none of whom is an officer or employee of Coast.

The framework of Coast Capital's 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. Coast Capital's 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 Coast Capital's 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, 2019, the compensation of our Material Risk Takers, which includes senior management and members of the Board of Directors, is disclosed in Note 30 to our 2019 audited annual consolidated financial statements.

Additionally, the total amount of guaranteed bonuses was $100K and special project achievement bonuses were $87K. 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. In 2015, the Governance and Member Relations Committee established a member panel to review Director compensation as part of the Triennial Review Process. The member panel recommended increases to various components of Director remuneration; however, the Board of Directors deferred any increase. The next review of Director remuneration will take place in the next scheduled Triennial Review (2021). The following table sets out Director remuneration:

Board of Directors Remuneration

Coast Capital's remuneration structure is as follows:

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

The total remuneration paid to directors in 2019 was $575,664 (2018 – $686,267) including required contributions to Canada Pension Plan, Workers Compensation Board premiums, and the Employer Health Tax premiums (which came into effect in 2019), all 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

2019 Calendar Year Board & Committee Attendance and Corresponding Remuneration

	Board Meetings		Assigned Committees of the Board		Percentage of all Meetings Attended	Total Remuneration Paid for Year[1]
	Attended	Percentage	Meetings Attended			
Robert Armstrong, Board Chair	7 of 7	100%	Audit & Finance Human Resources Governance Community Engagement Nominations (after May 16, 2019) Project Oversight Risk Review	4 of 4 5 of 5 5 of 6 7 of 7 4 of 4 4 of 4	97%	$113,998
Charlotte Burke (from May 16)	6 of 6	100%	Audit & Finance (after May 16, 2019) Project Oversight (after May 16, 2019)	3 of 3 3 of 3	100%	$30,008
Robin Chakrabarti	7 of 7	100%	Risk Review (Chair) Human Resources (after May 16, 2019)	4 o 4 4 of 4	100%	$47,498
Frances Fiorillo (from May 16)	5 of 6	83%	Human Resources (after May 16, 2019) Risk Review (after May 16, 2019)	4 of 4 3 of 3	100%	$29,008
Mary Jordan	7 of 7	100%	Nominations (Chair until May 16, thereafter a member) Project Oversight (Chair)	9 of 9 4 of 4	100%	$53,164
Valerie Lambert	7 of 7	100%	Audit & Finance (Chair) Governance (from May 16) Project Oversight (up to May 16, 2019)	4 of 4 4 of 4 1 of 1	100%	$49,498
Frank Leonard	7 of 7	100%	Audit & Finance (up to May 16, 2019) Governance (from May 16, 2019) Risk Review (up to May 16, 2019) Nominations (Chair from May 16, 2019)	1 of 1 3 of 3 1 of 1 7 of 7	100%	$54,832
Calvin MacInnis	6 of 6	100%	President and CEO, elected to the Board of Directors May 16, 2019	N/A	N/A	N/A
Nancy McKenzie	7 of 7	100%	Audit & Finance Risk Review	4 of 4 4 of 4	100%	$42,500
Christian Morrison	7 of 7	100%	Human Resources (Chair) Nominations	5 of 5 9 of 9	100%	$55,498
Chris Trumpy	6 of 7	86%	Governance (Chair) Human Resources (up to May 16, 2019) Project Oversight (from May 16, 2019)	5 of 6 0 of 1 2 of 3	70%	$42,498
Bill Cooke (Board Chair up to December 10, 2018, and remained on the Board until May 16, 2019)	1 of 1	100%	Nominations (up to May 16, 2019)	3 of 3	100%	$12,500
Glenn Wong (up to May 16)	1 of 1	100%	Nominations (up to May 16, 2019)	3 of 3	100%	$12,500

1. The total remuneration paid includes the annual retainers, meeting fees and any industry related events (as approved by the Board Chair and GCEC Chair), which is paid at the rate of a meeting fee of $1,000. This table does not include any Canada Pension Plan contributions, Workers Compensation Board premiums or the Employer Health Tax premiums Coast Capital is required by law to pay.

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, 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 2019 education sessions included:

- Regulatory Landscape—Moving From Provincial Jurisdiction to Federal Jurisdiction
- Operational Readiness
- Director Internet Use Protocol
- Corporate Structure Rationale and Coast Culture
- Corporate Governance at a Federally Regulated Financial Institution
- Brand-Driven and Brand-Driving Customer Experience in the Digitalist Era
- Governance of a Financial Institution

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 & 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

Director	Total Expenses	Description of 2019 Expenses
Bob Armstrong Board Chair and ex officio member of all Committees	Total: $17,783	Includes travel and attendance at Board-related events attendance as Coast Capital's representative at Peer Group 5 meetings, CCUA Open Banking Forum (Calgary), CCUA Conference (Winnipeg), LCUC Chairs Meeting, and LCUC (Calgary).
Charlotte Burke Audit & Finance Committee member, and Project Oversight Committee member	Total: $6,786	Includes travel to and from principal residence (Toronto), and attendance at Board-related events.
Robin Chakrabarti Chair, Risk Review Committee, and Human Resource Committee member	Total: $449	Includes travel and attendance at Board-related events.
Frances Fiorillo Risk Review Committee member, and Human Resources Committee member	Total: $456	Includes travel and attendance at Board-related events.

Corporate Governance—Board of Directors

Mary Jordan Chair, Project Oversight Committee, and Nomination Committee member	Total: $573	Includes travel and attendance at Board-related events.
Valerie Lambert Chair, Audit & Finance Committee, and Governance and Community Engagement Committee member	Total: $786	Includes travel and attendance at Board-related events, and Director Development & Continuous Learning expenses.
Frank Leonard Chair, Nominations Committee, and Governance and Community Engagement Committee member	Total: $4,401	Includes travel to and from principal residence (Victoria, B.C.), attendance at Board-related events, and attendance as Coast Capital's representative at Central 1 conference.
Nancy McKenzie Audit and Finance Committee member, and Risk Review Committee member	Total: $7,248	Includes travel and attendance at Board-related events, and Director Development & Continuous Learning.
Christian Morrison Chair, Human Resources Committee, and Nominations Committee member	Total: $1,401	Includes travel and attendance at Board-related events.
Chris Trumpy Chair, Governance and Community Engagement Committee, and Project Oversight Committee member	Total: $3,155	Includes travel to and from principal residence (Victoria, B.C.), and attendance at Board-related events.

Board Performance Reviews

Each year the Board reviews the position descriptions for directors, the Board Chair, Committee Chairs and the CEO. As part of the process 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 2019. The evaluation is administered by an external governance consultant and involves the elements listed below:

- Confidential online director evaluation survey distributed by the consultant to all directors to self-assess their own performance and the performance of each director.
- Confidential online Board evaluation survey distributed by the consultant to all directors and select members of senior management to provide feedback on overall Board performance.
- Structured individual interviews are conducted by the consultant with select members of senior management to obtain input on the Board performance.
- Comprehensive surveys are administered and structured interviews are conducted by the consultant with each director to discuss their 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 a confidential report summarizing feedback on their performance.

- The Board is provided with a comprehensive report on Board performance, highlighting strengths and providing recommendations for continual improvement.
- An in-depth 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 benefit 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 as follows: 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 the 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 five strategic themes that focus on our culture, our members and our operations. Within these themes we have metrics that are measured on a pre-determined frequency and presented 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 2019 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, 2019, Coast Capital's CEO position earned the following total cash compensation.

	Year	Base Salary Earnings	Short-term (Annual) Incentive	Long-term Incentives (Grant Estimate)	Total Cash Compensation
Chief Executive Officer	2019	$575,000	$360,174	$460,000	$1,395,174

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. To remain aligned with the market peer group benchmark, the STIP target payout increases in 2020 to 80% of base salary, with a maximum of 120% for exceptional performance. If the CEO does not meet threshold performance, Coast Capital does not make a payout. The 2019 CEO corporate STIP measures, notated below, are to create a balance between supporting members and providing prudent fiscal and operational management:

Measures
- Deepening member relationships
- Member experience score
- Normalized operating income
- Active member growth (BC Net)

Long-Term Incentive Plan (LTIP)

The long-term incentive plan links eligible compensation to the actual achievement of performance objectives that support Coast Capital's long-term strategy and vision and create value for members. Coast Capital provides 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 improving youth financial well-being.

We measure the LTIP over a three-year performance period. At the start of each year, Coast Capital establishes 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 2017–2019 at 80 per cent of base salary and maximum 160 per cent. If threshold performance targets are not met, there is no payout. 2019 performance is measured within three rolling LTIP performance periods: 2017–2019, 2018–2020, and 2019–2021. The payment for 2017–2019 will not be made until July 2020. To allow for transparent comparison to peer credit unions, the LTIP amount reported in the Compensation Summary is the 2017–2019 grant level. The CEO 2017–2019 LTIP measures are:

Measures
- Revenue per active member growth
- Return on risk-weighted assets (as a % of Benchmark Median)
- Community brand score

The LTIP paid in 2019, for performance period 2016–2018, was $144,010.67.

Corporate Governance—Board of Directors

Benefits and Perquisites

Coast Capital believes in investing in the health and well-being of its employees. As such, a competitive, flexible benefit 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 2019 were 3.4% per cent of base salary. The CEO is also provided a perquisite allowance of 8.7% 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 2019. Coast Capital contributed 15.2% per cent of base salary for 2019 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

Coast Capital believes 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. Coast Capital targets the median for base salary ranges, with individual differences based on performance and tenure. In addition to market comparison, Coast Capital obtains 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. 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

Coast Capital provides the same competitive flexible benefit program to all its benefits-eligible employees as provided 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.

Corporate Governance—Board of Directors

Retirement Savings Programs

Coast Capital provides 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, Coast Capital will match them up to a maximum.

Perquisites

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

Nomination of Directors

Each year three or four vacancies occur on Coast Capital's 11 member Board for three-year terms. Immediately after the Annual General Meeting (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.
- Providing information to all Coast Capital members in a standard format for all candidates seeking election to the Board to ensure fairness.
- Recommending qualified candidates for election to the Board equal to the number of upcoming vacancies.
- 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 acknowledge 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

Accumulated other comprehensive income (AOCI): includes unrealized gains and losses reported in the equity section of the balance sheet that are netted below-retained earnings. **Other comprehensive income (OCI)** can consist of gains and losses on certain types of investments, pension plans and hedging transactions.

Accumulated depreciation: the total amount a credit union depreciated its assets, such as buildings, machinery, office equipment, vehicles, etc.

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

Allowance for credit losses: is provided at a level that management considers adequate to absorb all expected credit-related losses (ECL) 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 (AMC): 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.

Asset and Liability Committee (ALCO): a committee at the credit union that evaluates the risks associated with the credit union's assets and liabilities. It manages interest rate risk while ensuring adequate returns and liquidity.

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.

Bank for International Settlements (BIS): an international financial body that serves as a bank for central banks to foster international cooperation for the purposes of monetary and financial stability.

Canada Deposit Insurance Company (CDIC): a Canadian Federal crown corporation that insures Canadians' bank deposits up to $100,000 per personal account held in member Canadian banks.

Canada Mortgage Bond (CMB): debt securities fully backed by the Canada Mortgage and Housing Corporation (CMHC) that provide a continuing investment opportunity for investors and a cost-effective source of funding for mortgage lenders.

Canada-United States-Mexico Agreement (CUSMA): replacement of the North American Free Trade Agreement (NAFTA).

Canadian Dollar Offered Rate (CDOR): is the rate determined as being the average of the quotations of all financial institutions, which are Schedule I Banks for purposes of the *Bank Act* (Canada). It is a short-term lending rate at which banks would agree to lend to companies.

Capital adequacy ratio (CAR): ratio that shows the amount of a credit union's capital in relation to the amount of risk (RWA) it is taking.

Carrying value: amount at which an asset or liability is recognized on the Consolidated Balance Sheet.

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.

Glossary

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.

Derecognition: the removal of a previously recognized financial asset or financial liability from an entity's balance sheet, for example when an asset is sold, exchanged or abandoned.

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.

Exposure at default (EAD): the total value a credit union is exposed to when a loan defaults.

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 at a fixed price at a future date.

Gross domestic product (GDP): a monetary measure of market value of all the final goods and services produced in a specific time period in a geographical region.

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

Internal capital adequacy assessment process (ICAAP): provides a framework for determining the amount of capital that the credit union requires to manage unexpected losses arising from adverse economic and operational conditions.

Internal controls over financial reporting (ICFR): a set of means designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

Glossary

International Accounting Standards (IAS): older accounting standards issued by the International Accounting Standards Board (IASB).

International Financial Reporting Standards (IFRS): accounting standards issued by the International Accounting Standards Board (IASB).

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 (LCR): a regulatory metric, as defined by OSFI, that reflects the proportion of high-quality liquid assets (HQLA) held to ensure a financial institution's ongoing ability to meet its short-term obligations.

Loss given default (LGD): the amount of money a credit union loses when a loan defaults, depicted as a percentage of total exposure at the time of default.

***National Housing Act* Mortgage-Backed Securities (NHA MBS)**: investments that are backed by distinct pools of insured mortgages.

Net cumulative cash flow (NCCF): a liquidity metric that measures a credit union's survival horizon based on its net cumulative cash flows. It identifies potential future funding mismatches between contractual inflows and outflows for various time bands over and up to a 12-month time horizon.

Net interest income (NII): the difference between the interest earned on loans and other financial assets, and the interest paid on deposits and other funding sources.

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, 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.

Probability of default (PD): the likelihood that a loan defaults.

Provision for credit losses (PCL): 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 (RWA): 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 OSFI.

Glossary

Securitization: the conversion of an asset, especially a loan, into marketable securities, typically for the purpose of raising cash by selling them to other investors.

Subordinated debenture: an unsecured loan or bond that ranks below other, more senior loans or securities with respect to claims on assets or earnings.

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.

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, 2019)

Bob Armstrong, *Board Chair and ex officio member of all committees*
Charlotte Burke
Robin Chakrabarti, *Chair, Risk Review Committee*
Frances Fiorillio
Mary Jordan, *Chair, Project Oversight (DCU/R17) Committee*
Valerie Lambert, *Chair, Audit and Finance Committee*
Frank Leonard, *Chair, Nominations Committee*
Nancy McKenzie
Christian Morrison, *Chair, Human Resources Committee*
Chris Trumpy, *Chair, Governance and Community Engagement Committee*
Calvin MacInnis, *President and Chief Executive Officer*

Executive Committee (as of December 31, 2019)

Calvin MacInnis
President and Chief Executive Officer

Tracey Arnish
Chief Member and Employee Experience Officer

Wayne Berg
Chief Commercial Officer

Helen Blackburn
Chief Financial Officer

Sarah Jasper
Chief People Officer

Mark Newman
Chief Risk Officer

Bruce Schouten
Chief Enterprise Solution Officer

Lisa Skakun
General Counsel and Chief Corporate Development Officer

Jeff Wong
Chief Business Transformation Officer

Catherine Wood
Chief Strategy 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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T: 250-483-7000 (Victoria)

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coastcapitalsavings.com

Twitter
twitter.com/coast_capital

Facebook
facebook.com/coastcapitalsavings

Instagram
instagram.com/coast_capital

LinkedIn
linkedin.com/company/coast-capital-savings

Annual General Meeting

Our AGM will be held via live webcast this year, rather than our normal practice of an in-person gathering along with a webcast. This follows the directives of provincial and federal health and governmental authorities preventing the large gathering of people during this period of COVID-19.

The live webcast of our AGM will be able to be viewed at www.coastcapitalsavings.com/election on Thursday, May 14, 2020, at 4:30 pm (PST).

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