



Annual Report

2021

coastcapital

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Coast Capital acknowledges that we live and work on the traditional and ancestral homelands of Indigenous People and Nations across Canada, each with their own unique traditions, history and culture. Our headquarters stand on the traditional territory of the Semiahmoo, Tsawwassen, Kwantlen, Katzie, the Kwikwetlem, and the Qayqayt First Nations. We are committed to strengthening relationships with Indigenous communities and the journey of reconciliation in alignment with the Truth and Reconciliation Commission's 94 Calls to Action.



About Us

At Coast Capital¹, we're not dreaming about a better future, we're building one. Owned by more than 592,000 members, we're Canada's largest credit union by membership and B.C.'s first federal credit union.

We offer personal and business banking and investment services across Canada digitally, by phone and through our 48 branches in the Metro Vancouver, Fraser Valley, Vancouver Island and Okanagan regions of British Columbia.

We believe every Canadian deserves a financial partner who cares how things turn out. With our 80-year legacy of unlocking financial opportunities, we provide trusted and personalized advice along with a broad suite of banking products and financial services that enable our members to save, spend and invest with confidence at every stage in life.

We also recognize that not every person has the same opportunity to thrive. Driven by our social purpose, we're determined to be a catalyst for the kind of meaningful change that lifts our members, our employees and our communities. Today, as many individuals, families and

businesses face economic and social challenges and inequalities, we're playing an essential role in empowering them on their journey towards financial well-being while building better futures for all Canadians.

A Certified B Corporation®, we're part of a global movement advocating for a more inclusive, equitable and regenerative economic system. By embracing a social purpose business model, we're setting the standard for making positive social contributions by integrating our purpose into our day-to-day operations and across every dimension of our business. Over the past two decades, our investments into our communities totalled over \$91 million. We're deeply committed to making our financial cooperative a great place to work as demonstrated by some of our accolades. Coast Capital is a platinum member of Canada's Best Managed Companies, one of Canada's Most Admired Corporate Cultures, and a BC Top Employer.

Meet our subsidiaries.

In addition to our day-to-day banking products for our personal and business members, Coast Capital, its subsidiaries and partners offer additional financial services.

coastcapital

WEALTH MANAGEMENT

Investment and financial planning to get the most out of your hard-earned savings.

coastcapital

FINANCIAL MANAGEMENT

Life and disability insurance products to help you and your business plan for the unexpected.

coastcapital

AUTO AND EQUIPMENT FINANCE

Commercial and industrial equipment leasing, auto leasing and financing solutions to launch and grow your business.

1. Also known as Coast Capital Savings Federal Credit Union.

Board Chair's Message

As our members, employees and communities continue to feel the impacts of the COVID-19 pandemic, social inequities and climate change, Coast Capital's commitment to building better futures for all Canadians is stronger than ever.

Building better futures together.

At Coast Capital, we're helping everyday Canadians unlock financial opportunities. At the same time, we recognize not everyone has the same opportunities to thrive. In 2021, as the world continued to navigate the impacts of COVID-19, social inequities and climate change, many Canadians faced ongoing income uncertainty.

Research tells us that Canadians are experiencing income insecurity and debt at unprecedented levels. There is also a widening gap between high- and low-income earners. All of this is exacerbated by COVID-19, which has disproportionately affected marginalized communities.

Guided by our purpose of building better futures together, Coast Capital is determined to be a catalyst for positive change and to help all individuals and businesses manage their finances and debt, grow their wealth and build brighter financial futures for themselves and their families. We are working harder than ever to address some of today's most pressing social issues including economic disparity, inequality, and climate change.

Coast Capital is a Certified B Corporation™ and is honoured to be working alongside other leaders in a global movement to build inclusive, equitable and regenerative economies. This past year, we received our B Corp recertification with an 11.8% increase over our previous score, an accomplishment of which we are particularly proud as many organizations saw a decrease in their score in 2021. As we expand nationally to bring financial well-being to even more people across Canada, our B Corp certification is a reflection of our commitment to placing our purpose at the heart of everything we do.

Delivering meaningful change.

The COVID-19 pandemic has exposed long-held systemic barriers and inequities and reinforced the need for companies, organizations and individuals to push harder for meaningful change. Coast Capital's

commitment to equity and inclusion is rooted in the financial cooperative movement, which for over 120 years has innovated to help serve the underserved. As we look ahead, we recognize that meaningful change doesn't happen overnight—it requires a steadfast commitment to being there for the long haul. There is much more work to be done to ensure we're creating equitable opportunities for people of all backgrounds, lived experiences and worldviews.

In 2021, Coast Capital developed its five-year Equity, Diversity and Inclusion (EDI) Strategy—a bold, transformational and intentional strategy designed to deliver meaningful outcomes. This plan sets out the sustained, proactive and urgent steps we are taking to advance financial inclusion and social justice.

In September, employees came together across the organization for team huddles to engage in meaningful dialogue to build their understanding of and share their feelings about the intergenerational impacts of residential schools in Canada. We also donated \$30,000 to the Indian Residential School Survivors Society (IRSS), an organization with a 20-year history of providing critical services and support to the Indian residential school survivors, their families and those dealing with intergenerational trauma. With a dedication to self-education and reflection, we are committed to creating reconciliation goals in partnership with local Indigenous communities.

We are also committed to helping our employees build careers with real impact, and to creating a great place to work where diverse perspectives are respected and valued. It's important that the inside of our organization reflects the communities we serve and we're actively working to create opportunities for those who identify as women, Indigenous, Black and People of Colour, members of the LGBTQ2S+ community, and people with disabilities. Our organization-wide learning journey is another area of focus and our conversations on topics such as anti-racism and being an active bystander in the workplace will continue in 2022 and beyond.

Responding to the impacts of climate change.

In 2021, the impacts of climate change were undeniable. Both in Canada and on a global scale, we experienced record-breaking temperatures, floods, forest fires and extreme weather events. British Columbian communities were impacted by several weather-related emergencies that took lives, wreaked havoc on agriculture, infrastructure and economies, displaced thousands and created additional challenges for local businesses already struggling with the pandemic. To address immediate needs following the B.C. floods and wildfires, Coast Capital donated \$65,000 to disaster relief efforts and is continuing to support members affected by November's floods through payment deferrals and grants.

With a long-term view in mind, we became part of collective action on climate change and joined the Net-Zero Banking Alliance (NZBA)—a global, industry-led initiative designed to accelerate and support efforts to address climate change and achieve net-zero emission by 2050. We also contributed \$300,000 to support initiatives that address social and economic inequity tied to climate change.

Investing in our communities.

As communities wrestled with the challenges 2021 brought, they also looked to the future. This past year, we invested \$4.061 million in programs and organizations to help communities build better futures across B.C., Alberta and Ontario. There are many other inspiring programs supported through our community investments, including:

- Investing \$115,000 to support Prosper Canada in its work to advance financial knowledge and access to the financial system for Canadians across the country
- Providing each of 43 high school students from 26 school districts across B.C. with a \$3,500 Standing Tall Award to support their educational goals
- Donating \$100,000 to regional and local food banks in B.C., Alberta and Ontario in support of urgent needs

We also continued to support our employees' efforts to give back to local communities through volunteering. Our Help Heroes employee volunteer program empowers employees to volunteer in their communities for up to 7.5 paid volunteer hours annually and provides them with \$10 per hour of volunteer time (up to \$1,000 annually) to donate to a Canadian charity of their choice.

Despite the challenges presented by the pandemic, our employees volunteered in support of 287 community causes in 2021.

Continuing to govern through change.

As our Board of Directors continued to work remotely in 2021, we never lost sight of our core responsibilities or commitment to supporting management in the second full year of the pandemic. As a group, we ensure Coast Capital has a robust strategy and the resources to create long-term value for our business and society.

In 2021, we said farewell to Board Director Christian Morrison, who retired after 12 years on the board. She oversaw several important initiatives to ensure the credit union's long-term success. In her capacity, she provided outstanding partnership to me and was an extremely strong and effective voice for our members. I thank her for her outstanding leadership and commitment to Coast Capital and its members.

On behalf of the board, I'd also like to thank our executive team for its leadership and dedication to building a brighter future for all Canadians, and to Coast's employees who are connected by a shared purpose to delivering exceptional service and financial advice to our members every day. Finally, I'm incredibly grateful to our members who continue to partner with us on their journey to financial well-being. Thank you.



A handwritten signature in black ink, appearing to read 'Bob Armstrong', written in a cursive style.

Bob Armstrong
Chair, Board of Directors

President and CEO's Message

In 2021, Coast Capital employees came together to support our members and communities, and build better futures for all Canadians.

Conducting business for good.

At Coast Capital, we know business can be a force for good. Our cooperative credit union roots, extending back more than 80 years, directly shape our operations and corporate culture. With the social and economic challenges facing our members, employees, and communities today, we are taking a hard look at how we can best contribute to positive change in the world.

Canadians need a financial partner they can trust in these uncertain times—a partner who cares about them and their life goals. This past year, we rolled out our new corporate strategy, Coast 2025. It is a roadmap for the organization's future and a clear articulation of how we're placing our social purpose of *building better futures together* firmly at the heart of everything we do. It is this strategy, along with our commitment to making membership meaningful and growing our organization responsibly that reconfirmed Coast Capital as a Platinum Club member of Canada's Best Managed Companies in 2021.

Unlocking financial opportunity.

Our strategic focus on driving income growth and unlocking financial opportunity in 2021 placed Coast Capital in a strong position and allowed us to invest in people, products, technology and partnerships.

Our total assets under administration increased by more than \$1.4 billion (5.7%), to nearly \$27 billion. Asset growth during the year was supported by an increase in net deposits of \$665 million (3.8%). Wealth investment assets under administration also saw healthy growth during the year (16%) supported by favourable market conditions and strong sales activity by our team of experienced and accredited wealth management professionals.

Our total loan portfolio grew by \$407 million (2.8%). Growth of our retail lending portfolio, primarily residential mortgages, remained healthy at \$379 million (3.1%). Our total commercial lending portfolio growth was also positive for the year, with some softness in our equipment financing portfolio related to global supply chain issues. Total commercial lending portfolio growth for the year was \$28 million (0.5%).

In addition to these achievements, we successfully maintained our long-term and short-term credit ratings of BBB (high) and R-1 (Low) from DBRS Morningstar, the international bond-rating agency. Our credit ratings demonstrated the soundness of our financial position, especially in light of past years' economic headwinds, and provided assurance to our members and capital market participants.

Supporting members through COVID-19.

We've seen, first-hand, the pandemic's impact on Canadians. We care deeply for our members and made it a priority to continue offering members a variety of ways to access their funds and financial advice safely and conveniently through 2021—whether online or through our mobile app, by phone through our Advice Centre, or in-person at a branch or with our mobile team.

We also offered affected borrowers tailored solutions to meet their individual needs, and to help them minimize the financial impact of COVID-19. That's why, in 2021, we continued to work with our retail and business members on a case-by-case basis to provide flexible solutions for their situations. We also continued to offer debt relief through federal loan deferral programs including the Canadian Emergency Business Account (CEBA), supporting 5,850 business members as they operated through the challenges of the pandemic.

Evolving to meet the needs of members.

At Coast Capital, we're building an innovative and empathetic approach to responsible financial management, sustainable wealth creation and income growth that deepens our relationships with our members, engages new members and helps us build better futures together.

Part of building better futures for Canadians means putting our members' interests at the heart of what we do. This past year, we adopted the Code of Conduct for the Delivery of Banking Services to Seniors (also known as the Seniors Code), reinforcing our longstanding commitment to keeping senior members and their money safe. We also began taking steps to ensure Coast Capital is able to demonstrate compliance with the federal government's Financial Consumer Protection

Framework that will come into effect in mid-2022. These important consumer protection measures are designed to ensure Canadians are treated fairly and have the information they need to make informed decisions. While the framework's principles are already embedded in Coast Capital's trusted advice process, we prioritized this work in 2021 to ensure our policies, procedures and training are all aligned to strengthen our bond of trust with our members.

We also focused our energy in 2021 on creating more innovative and accessible ways for our members to manage their money online, recognizing the growing demand for digital banking services. We launched Money Chat, a free online tool co-designed with our members and employees, to offer an upgraded discovery and advice experience to help our members understand their current financial health and ambitions, and how they'll achieve those expectations. We also enhanced our digital banking and membership opening platforms with features that improved accessibility, and day-to-day financial management. This effort to give Canadians access to the technology they need to best manage their financial health garnered Coast Capital the number one position as the best credit union for mobile banking experience in Surviscor's Canadian Mobile Banking Review.

Empowering our employees.

Over the past year, our credit union stayed firmly committed to the safety, health and happiness of our employees—creating an environment that allowed people to do their best work.

We engaged with our employees to gather their thoughts on the future of work at Coast Capital. We rolled out the myWork and Digital Workspace programs to support new and flexible ways of working based on the nature of their roles, and included technologies to facilitate effective collaboration among our employees.

Whether working on-site or from home, we supported our employees through initiatives and resources that contributed directly to their physical and mental health and well-being. This included an ongoing focus on equity, diversity, and inclusion, and routinely seeking feedback from employees about how we were doing and what we needed to improve. It is our commitment to creating a culture where everyone feels safe to be who they really are, that contributed to Coast Capital's reputation as an employer of choice and garnered our credit union the BC Top Employer Award in 2021 for the sixth consecutive year.

Finally, we adopted our refreshed values developed in consultation with Coast Capital employees. They captured the heart and essence of our culture in a way that aligned with our roots, strategic priorities and brand. Our three values—*We Build Connection*, *We Act with Courage*, and *We Re-imagine*—set a clear path forward for us to best support our members, communities and each other. It is how we work together and show up for one another and our members that sets Coast Capital apart. Through these shared values, we will bring our aspirations to build a better today and a better tomorrow into reality.

Making a difference.

As we look ahead, we'll continue to put our energies into delivering our corporate strategy, building the best workplace for our employees, and above all, supporting our members and communities on their journey to unlocking financial opportunities.

I want to thank our employees for their continued dedication to providing Coast Capital members with exceptional and caring support and guidance. During these uncertain times, your willingness to embrace our purpose made all the difference as we have come together as people and partners to build better futures for Canadians.



A stylized, handwritten signature in black ink, appearing to read 'Calvin MacInnis'.

Calvin MacInnis
President & CEO

Social Purpose

Our social purpose drives everything we do.

At Coast Capital, we want a better future for all Canadians.

With record debt levels, rising income inequality and gaps in access to education and training, our members are working harder than ever to get ahead. All of this is being exacerbated by COVID-19 and disproportionately affecting marginalized communities including women, Indigenous, Black, and People of Colour (IBPOC), LGBTQ2S+, single-parent households and people with disabilities.

We're determined to help all Canadians build better futures for themselves and their families. We are a committed agent of positive and lasting change—the kind of change that contributes to a more equitable, sustainable and inclusive society for all. As a Certified B Corporation™, we're part of a global movement working alongside other leaders to build inclusive, equitable and regenerative economies. We want to be better and also do better. That's why we're investing in our local communities, innovating our products, services and member-focused advice, addressing climate change, and committing ourselves to a bold, transformational and intentional Equity, Diversity and Inclusion (EDI) strategy.

In 2021, we made a public commitment to a more inclusive future and becoming an anti-racist organization². Our commitment is underpinned by a comprehensive equity, diversity and inclusion and anti-racism action plan.

We are committed to meaningfully improving diverse representation at all levels of our business and have set five-year goals to ensure the inside of our organization reflects the communities we serve.

In 2021, informed by our more than 80 years of helping our members get ahead, Coast Capital began work on its first-ever Social Purpose Impact Plan. A five-year strategic framework, our Social Purpose Impact Plan outlines how every part of our business will help us



achieve our vision of *building better futures together*. At the core of our social purpose is the belief that effectively addressing social and financial inequality requires equitable access to quality education and training, progressive and human-centered employment and a financial system that unlocks the capital all Canadians need to achieve their real goals.

Society faces big challenges that require big solutions. None of them can be properly addressed in isolation. Coast Capital's Social Purpose Impact Plan is designed with collaboration and our organization's wider community in mind. By supporting and partnering with other purpose businesses and organizations, and embedding our purpose into everything we do, we can help overcome systemic barriers and build relationships that advance our social purpose goals.

As we move forward, our social purpose will continue to drive everything we do at Coast Capital. We are committed to being the financial partner our members deserve while helping to create the kind of society in which our employees, members, communities and, quite frankly, the world needs to thrive.

1. Refers to gender and sexual identities, including lesbian, gay, bisexual, transgender, queer or questioning, and two-spirit individuals.
2. Find more information about our anti-racist commitment by visiting our website: www.coastcapitalsavings.com/about-us/building-an-inclusive-future.

Below are some of our 2021 highlights in alignment with the five impact categories of our B Corp recertification:

Governance

- Six UN Sustainable Development Goals to which our social purpose is aligned
- Successful Certified B Corporation recertification score of 112.8 and an 11.8% increase since 2018
- Adoption and implementation of the Code of Conduct for the Delivery of Banking Services to Seniors

Workers/Employees

- 100% of our senior leadership trained on EDI and anti-racism fundamentals
- All Staff town-hall to develop our shared understanding of race and racism
- Supported employees to participate in awareness raising and solidarity initiatives like Orange Shirt Day in support of residential school survivors
- Six lunch and learn sessions for all employees to learn more about our social purpose in action, and 92% of employees trained on social purpose principles
- Launch of refreshed corporate values, co-created with employees, aligned with our purpose, strategic priorities and brand
- 100% of employees paid a living wage

Customers/Members

- Launch of Money Chat, a free online financial assessment and advice tool, co-designed with members
- 5,850 business members supported through federal loan deferral programs as they operated through the challenges of the pandemic
- Engaged 191 small business through our partnership with Spring Activator on the Spring Business Resilience program which helps businesses access the advice they need to adjust to the impacts of the COVID-19 pandemic
- Hosted a social purpose workshop for 25 suppliers across 16 businesses

Environment

- Joined the Net-Zero Banking Alliance (NZBA) as a signatory partner to address climate change and achieve net-zero emission by 2050
- \$300,000 investment to support initiatives focused on addressing social and economic inequity tied to climate change
- \$65,000 donation to disaster relief efforts following the fires and floods in British Columbia

Community

- \$4.061 million invested in 117 community programs and organizations in B.C., Alberta and Ontario
- \$100,000 donation to regional and local food bank initiatives in B.C., Alberta and Ontario
- 6,000+ hours of employee volunteering contributed to 287 community causes during the pandemic

Governance

112.8

our Certified B Corporation™ score.

Workers/Employees

100%

of employees paid a living wage.

Customers/Members

35,000

personalized Money Chats completed with our members.



Environment

\$300,000

investment to support initiatives focused on addressing social and economic inequity tied to climate change.

Community

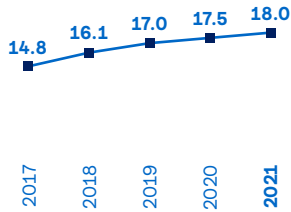
\$4 million+

invested in 117 community programs and organizations in B.C., Alberta and Ontario.

Financial Highlights at a Glance

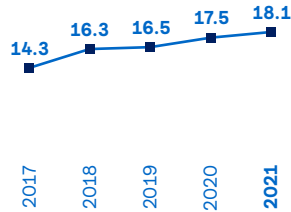
Loan Balance

Billions of dollars, net of allowance for credit losses



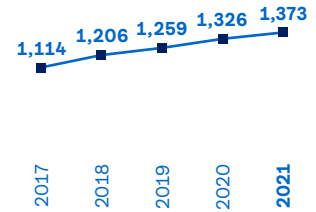
Deposit Balance

Billions of dollars



Members' Equity

Millions of dollars



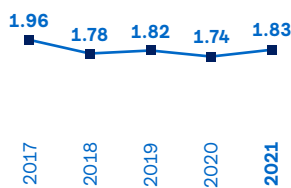
Net Interest Income

As a percentage of average assets



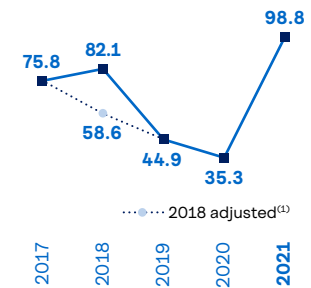
Non-interest Expenses

As a percentage of average assets



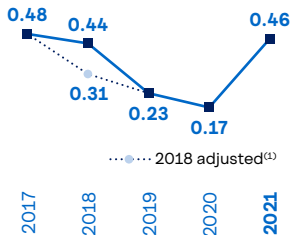
Net Income

Millions of dollars



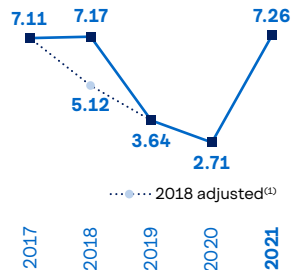
Net Income

As a percentage of average assets



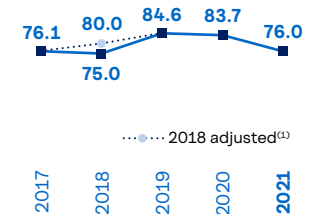
Net Income

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.

2021 Performance Against Targets

Loan Balance

Total loans, before allowance for credit losses



Deposit Balance

Total deposits



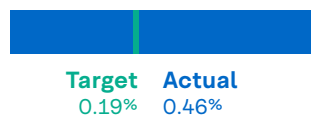
Net Income

All revenue less expenses and taxes



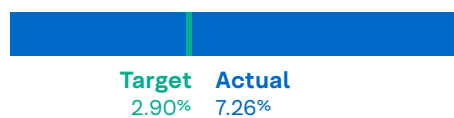
Return on Average Assets

Net income expressed as a percentage of average assets



Return on Average Equity

Net income expressed as a percentage of average equity



Non-interest Expense

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



Operating Efficiency

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



5-Year Financial Overview

As at or for the year ended December 31
(in thousands of dollars)

	2021	2020	2019	2018	2017
Balance Sheets					
Assets					
Cash and cash resources	414,551	188,546	180,109	172,012	467,204
Financial investments and Interest-bearing deposits	2,886,840	2,802,508	2,733,678	3,148,493	1,626,481
Loans, net of allowance for credit losses	17,950,804	17,543,213	16,988,951	16,098,150	14,767,421
Premises and equipment	80,757	95,668	105,464	24,886	28,672
Other	254,828	242,949	220,760	176,378	158,732
	21,587,780	20,872,884	20,228,962	19,619,919	17,048,510
Liabilities					
Deposits					
Demand	9,292,270	8,314,399	6,366,572	6,271,786	6,349,303
Fixed term redeemable	2,310,611	2,035,745	1,848,790	2,502,169	2,449,779
Fixed term – non redeemable	6,515,384	7,103,147	8,266,971	7,478,018	5,511,218
	18,118,265	17,453,291	16,482,333	16,251,973	14,310,300
Borrowings					
Secured borrowings	829,161	667,365	673,543	464,278	319,460
Subordinated debentures	644,993	823,401	1,184,006	1,155,211	1,118,025
Other	302,242	307,731	301,887	300,292	–
	319,855	294,923	327,827	241,963	186,294
	20,214,516	19,546,711	18,969,596	18,413,717	15,934,079
Members' Equity					
Share capital	24,330	25,890	27,534	29,221	31,432
Retained earnings	1,350,787	1,253,361	1,219,355	1,180,219	1,084,983
Accumulated other comprehensive income (loss)	(1,853)	46,922	12,477	(3,238)	(1,984)
	1,373,264	1,326,173	1,259,366	1,206,202	1,114,431
	21,587,780	20,872,884	20,228,962	19,619,919	17,048,510
Income Statements					
Interest income	588,559	643,541	686,702	611,902	476,269
Interest expense	185,858	305,069	356,093	285,221	157,775
Net interest income	402,701	338,472	330,609	326,681	318,494
Provision for credit losses	1,829	23,427	9,195	8,619	8,331
	400,872	315,045	321,414	318,062	310,163
Non-interest income	109,334	91,137	95,111	121,158	88,101
	510,206	406,182	416,525	439,220	398,264
Non-interest expense	389,254	359,658	360,063	336,013	309,432
Income before provision for income taxes	120,952	46,524	56,462	103,207	88,832
Provision for income taxes	22,173	11,175	11,586	21,108	13,055
Net income	98,779	35,349	44,876	82,099	75,777

5-Year Financial Overview

As at or for the year ended December 31
(in thousands of dollars, except as noted)

	2021	2020	2019	2018	2017
Financial Statistics In Per Cent					
Asset growth	3.4	3.2	3.1	15.1	13.9
Loan growth	2.3	3.3	5.5	9.0	15.0
Deposit growth	3.8	5.9	1.4	13.6	10.9
Operating efficiency	76.0	83.7	84.6	75.0	76.1
Total capital ratio ⁽¹⁾	14.0	14.2	14.6	15.7	N/A
Average assets	21,305,919	20,702,259	19,832,459	18,842,926	15,801,994
Percentage of Average Assets					
Net interest income	1.89	1.64	1.66	1.74	2.01
Non-interest income	0.51	0.44	0.48	0.64	0.56
Non-interest expenses	1.83	1.74	1.82	1.78	1.96
Net income	0.46	0.17	0.23	0.44	0.48
Average equity	1,360,411	1,303,621	1,233,739	1,144,538	1,065,533
Net Income percentage of average equity	7.26	2.71	3.64	7.17	7.11
Investment fund assets under administration	5,292,292	4,563,751	4,231,284	3,794,260	3,925,933
Total assets under administration	26,880,072	25,436,635	24,460,246	23,414,179	20,974,443
Allowance for credit losses, beginning of year	59,371	42,381	37,721	35,315 ⁽²⁾	32,413
Provisions for credit losses	1,829	23,427	9,195	8,619	8,331
Loans written off	(4,595)	(8,650)	(5,732)	(7,187)	(6,560)
Recoveries of loans written off	(1,259)	2,213	1,197	974	978
Allowance for credit losses, end of year	55,346	59,371	42,381	37,721	35,162
Impaired loans	6,708	16,334	12,799	11,244	13,716

1. Values presented for 2021, 2020, 2019, and 2018 only; 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.

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) section of the Annual Report provides an overview of Coast Capital Federal Credit Union's (Coast Capital, we, our) 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 24, 2022, and should be read in conjunction with Coast Capital's Audited Consolidated Financial Statements as at and for the year ended December 31, 2021 (the Consolidated Financial Statements). 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, regulatory or tax environment, accounting standards, capital markets, interest rates, competition and general economic conditions in the province of British Columbia (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.

The impacts of the COVID-19 pandemic continued to be the leading story related to economic conditions and growth in 2021, both globally and locally. The interruption of global growth following the emergence of the pandemic in early 2020 was unprecedented. Efforts by governments to contain the virus and reduce infection rates, or 'flatten the curve', were accompanied by financial support programs for households and businesses, as well as significant interest rate cuts by central banks designed to stabilize and stimulate economic activity. Increased government spending and extraordinarily low interest rates supported pushing the economy on its path to recovery during 2021.

Vaccine development, production and distribution programs continued to gather momentum during the year, leading to increased vaccination rates. At the same time, virus mutations, such as the more highly infectious Delta and Omicron variants, created headwinds to containment efforts. Rising vaccination rates, however, helped to reduce hospitalization rates relative to previous waves and enabled the implementation of vaccine passport (or health certificate) systems. These developments moderated the frequency and extent of large-scale shutdowns, supporting economic activity and growth.

Low interest rate policies by central banks and government fiscal stimulus programs were critical to maintaining global economic health through the pandemic crisis. In advanced economies, government support shielded income loss, even as opportunities to spend, particularly on services, were curtailed. The result was a buildup of household savings and pent-up demand. The recovery in spending during the year increased the demand for goods and overwhelmed global supply chains that continued to be challenged by pandemic-related disruptions. Initial labour shortages hindered the ability for businesses to increase capacity and supply relative to the pace of demand growth. This, combined with higher commodity and energy prices and strong housing demand, resulted in rising inflation rates. The combination of low interest rates, high levels of liquidity, and general optimism as to the trajectory of economic recovery also pushed global equity market indices to new record highs during the year.

Healthy job markets, low interest rates, and high levels of household savings available for down payments underpinned the strong demand for residential real estate. Strengthening real estate demand against less elastic supply conditions led to double-digit price increases during the year. Steep housing price increases, combined with higher debt loads, put pressure on affordability, even at the historically low mortgage rates.

Looking ahead to 2022, although uncertainty remains the overarching theme in economic forecasts, the trend towards economic recovery is expected to continue. With forecasts for economic growth generally positive, demand for labour exceeding supply, and inflation becoming an issue, interest rates are expected to increase. The Bank of Canada is indicating that the economic slack has been absorbed by the system which helps to clear the path for monetary policy to be utilized to combat inflation. While there are expectations for rate increases, both the quantity and timing of these increases are subject to many factors that affect inflation including the effect of supply bottlenecks, global economic growth and pandemic developments.

Forecasts for 2022 indicate that Canada's GDP growth will likely be lower than the strong growth reported in 2021, but will remain healthy and elevated relative to longer-term trends reflecting the continued economic recovery. The significant level of savings stockpiled by Canadian households and businesses is expected to provide considerable purchasing power to fuel the ongoing economic recovery. Despite higher interest rates, the robust level of activity experienced in the Canadian housing market is forecasted to continue into 2022, with demand for residential real estate outpacing supply leading to potentially higher home prices.

As the economic conditions evolve, we will continue to focus our efforts on learning what matters to our members and helping them achieve their real financial goals.

Management's Discussion and Analysis

Financial Performance Overview

While our annual 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 contribute to the communities in which we operate.

Financial Highlights of 2021

As at and for the year ended December 31
(in thousands of dollars)

	2021	2020	Change from 2020	
			\$	%
Net interest income	402,701	338,472	64,229	19.0
Non-interest income	109,334	91,137	18,197	20.0
Total revenue	512,035	429,609	82,426	19.2
Provisions for credit losses	1,829	23,427	(21,598)	(92.2)
Non-interest expenses	389,254	359,658	29,596	8.2
Income before provision for income taxes	120,952	46,524	74,428	160.0
Provision for income taxes	22,173	11,175	10,998	98.4
Net income	98,779	35,349	63,430	179.4
Assets				
Cash and financial investments	3,301,391	2,991,054	310,337	10.4
Loans (net of allowance for credit losses)	17,950,804	17,543,213	407,591	2.3
Premises and equipment, other	335,585	338,617	(3,032)	(0.9)
Total assets	21,587,780	20,872,884	714,896	3.4
Liabilities				
Deposits	18,118,265	17,453,291	664,974	3.8
Borrowings	1,776,396	1,798,497	(22,101)	(1.2)
Other liabilities	319,855	294,923	24,932	8.5
Total liabilities	20,214,516	19,546,711	667,805	3.4
Members' equity	1,373,264	1,326,173	47,091	3.6
Total liabilities and members' equity	21,587,780	20,872,884	714,896	3.4

(in per cent)	2021	2020	Change from 2020
Operating efficiency ratio	76.0	83.7	(7.7)
Liquidity coverage ratio	184.4	178.5	5.9
Total capital ratio	14.0	14.2	(0.2)
Common equity tier (CET) 1 capital ratio ⁽¹⁾	11.6	11.5	0.1
Tier 1 capital ratio ⁽¹⁾	11.8	11.6	0.2
Leverage ratio ⁽¹⁾	5.8	5.7	0.1

1. 2021 and 2020 ratios have been calculated after adjusting for transitional arrangements available to federally regulated deposit-taking institutions.

The COVID-19 pandemic continued to be an important factor impacting our operational decisions and results in 2021. The well-being of our members and employees, and the health of our communities, remained a priority. As public health restrictions eased during the year, we reopened branches that had been temporarily closed in 2020 and expanded our branch network operating hours back towards pre-pandemic levels. Throughout the year, a large number of our administrative employees continued to work remotely from home out of an abundance of caution, but also reflecting our success in adapting our business to fit the evolving needs and preferences of our employees.

Management's Discussion and Analysis

Our net income was \$98.8 million, an increase of \$63.4 million or 179.4% compared with the prior year. The year-over-year change reflects an increase in net interest and non-interest income, a notable decrease in our provision for credit losses, partially offset by an increase in non-interest expenses.

Total revenue during the year, before provisions for credit losses, was \$512.0 million, an increase of \$82.4 million or 19.2% compared with the prior year. Net interest income was \$402.7 million, an increase of \$64.2 million or 19.0% compared with the prior year. The primary driver of the increase was an improvement in our net interest margin. Net interest margin, calculated as a percentage of average total assets, increased by 25 basis points to 1.89% compared with 1.64% in 2020. The net interest margin increase was caused by the relative impacts of the ongoing interest rate adjustments within our asset and liability portfolios, following the sharp drop in interest rates experienced in 2020 at the onset of the COVID-19 pandemic. As new assets were originated and existing assets matured and renewed within the lower rate environment, the overall yield on our asset portfolio decreased, having an unfavourable impact on our interest income. Similarly, the lower interest rate environment impacted the interest rates applicable across our funding liability portfolio. The positive impact from rate reduction within our funding liability portfolio was augmented by a concurrent shift in our portfolio mix towards lower rate demand deposits. The overall decrease in our funding liability interest expense was greater than the decrease in our interest income from assets, having a favourable impact on net interest income. Positive growth of our average total assets, which increased by 2.9% during the year, also contributed to the net interest income increase.

Non-interest income was \$109.3 million, an increase of \$18.2 million or 20.0% compared with the prior year. The largest contributions to the increase came from our wealth management investment services as well as from gains recognized from the sale of financial investments during the year. Wealth management investment services revenue is generated from member investment Assets Under Administration (AUA), which are not included in the assets reported on our Consolidated Balance Sheet. At year-end, our investment AUA totalled almost \$5.3 billion, representing an increase of \$729 million or 16.0% compared with the prior year-end. Revenue from investment AUA was \$45.5 million, an increase of \$7.2 million or 18.9% compared with the prior year. Gains recognized from the sale of financial investments added \$7.9 million to the year-over-year variance. Other key non-interest revenue lines also experienced year-over-year increases, largely due to higher member transaction volumes, including services and activities related to day-to-day banking, credit cards, and foreign exchange.

Provision for credit losses (PCL) expense was \$1.8 million, a decrease of \$21.6 million compared with the prior year PCL expense of \$23.4 million. The majority of the year-over-year decrease relates to the PCL attributed to performing loans. General improvements in the forward-looking macroeconomic conditions between the comparative reporting periods allowed management to release a portion of the general allowance for credit losses against the loan portfolio, resulting in a reversal of PCL expense of \$1.8 million on performing loans. This was \$19.6 million lower than the \$17.8 million PCL expense reported on performing loans in the prior year. PCL attributed to impaired loans was also \$2.0 million lower than the prior year.

Total non-interest expense was \$389.3 million, an increase of \$29.6 million, or 8.2% compared with the prior year. Areas experiencing the largest year-over-year increase included employee compensation, technology and consultant expenditures. The increase in employee compensation-related expenses mainly reflects an increase in incentive compensation aligned with the achievement of stronger financial and non-financial performance results against target for the year as well as from growth of our employee count, measured on a full-time equivalency basis. Increased expenses for technology and consultants are attributed to ongoing initiatives to update and enhance our systems, automate existing processes, and support the achievement of our long-term strategic objectives. Included in our 2021 expenses was our ongoing commitment to community support through contributions totalling \$3.9 million to local programs and events.

Our operating efficiency ratio was 76.0%, a decrease of 7.7% compared with 83.7% reported in 2020. The efficiency ratio measures non-interest expenses as a percentage of total revenue before provision for credit losses. The decrease in the ratio reflects a higher pace of revenue growth relative to expense growth during the year.

Management's Discussion and Analysis

Our total asset growth for the year was \$715 million, or 3.4%, increasing our total assets at year-end to almost \$21.6 billion. Our total AUA, which also includes off-book wealth management assets, grew to almost \$26.9 billion. Asset growth was supported by healthy net deposit inflows during the year with reduced dependency on our borrowing activities. Total deposits grew by \$665 million, or 3.8%, compared with \$971 million or 5.9% in the prior year. Deposit growth during the year was generated both through our core retail and commercial member base, and through our institutional channel. Deposit growth reflected the continued focus on liquidity by our members, which resulted in exceptionally strong growth in our demand deposit portfolio while our term deposit portfolio decreased, similar to 2020. Our outstanding borrowing balance remained relatively flat during the year. Our liquidity coverage ratio remained strong throughout the year and was 184% at year-end.

Our total loan portfolio (net of allowance for credit losses) grew by \$408 million or 2.3%, which was lower compared with prior year growth of \$554 million or 3.3%. Growth of our residential mortgages, the largest asset group within our loan portfolio, remained healthy, but was lower year-over-year due to increased pay-down activity reflecting aggressive mortgage rate offers by competitors and an increase in member property sales supported by elevated real estate prices. Our commercial mortgage and loan growth was positive, however, elevated pay-downs during the year on completed project financing reduced overall portfolio growth. As well, a shortage of auto and equipment inventories, due to global supply chain disruptions, constrained new financing volume in our auto and equipment portfolios.

Our regulatory capital position remained strong, with a total capital ratio of 14.0% at year-end, and despite the challenges presented by the COVID-19 pandemic, our DBRS Morningstar credit ratings remained stable and were reconfirmed in 2021 without change.

Business Line Performance

Operational Overview

The COVID-19 pandemic continued to be a central theme in our 2021 operations, and remained an important consideration impacting operating decisions and activities during the year. Our initial response to the pandemic crisis in 2020 was focused on supporting the financial needs of our members and ensuring the safety of our employees, which aligned with the larger objectives of maintaining economic stability and reducing the spread of COVID-19 in our communities. The well-being of our members and employees, and the health of our communities, remained a priority in 2021. As such, we continued to be diligent in adjusting our operating activities to comply with public health guidelines related to the workplace, business travel and in-person interactions with our members. Despite the challenges, we were able to find new opportunities to help our members solve their real financial challenges and reach their real financial goals. As a result of our member-centric approach, we increased our total assets across our business lines by \$715 million or 3.4%, to almost \$21.6 billion. Additionally, our total member deposits increased by almost \$665 million or 3.8%, to over \$18.1 billion, and our total AUA, which includes wealth assets administered for members but not reported on our Consolidated Balance Sheet, increased by \$1.4 billion or 5.7%, to almost \$26.9 billion at year-end.

To help address the financial hardships faced by some of our retail and commercial members at the onset of the pandemic, in 2020 we initiated a Member Financial Relief Program. The program, directed at members who held mortgages, loan or lease accounts, provided an option to defer a specified number of scheduled payments. The interest portion of the deferred payment amount was applied to the principal portion of the mortgage or loan, similar to the programs offered by other financial institutions. Under the program, payment deferrals were approved for 5,200 retail accounts and for approximately 3,060 commercial and equipment financing accounts. All accounts participating in the program resumed normal scheduled payments by the end of the first quarter of 2021.

Management's Discussion and Analysis

In 2020, we implemented temporary branch closures, impacting a limited number of branches in our network. The closures were aligned with the sharp decrease in member branch visits, and were supportive of public health initiatives to reduce in-person interactions and control the spread of the COVID-19 virus. As part of these efforts, we also designated a number of our branches as Member Care Centres. Member Care Centre branches operated to facilitate advice-oriented member meetings, either virtually or in-person on an appointment-only basis. By early in 2021, all branches that were temporarily closed had been re-opened to full-service status or as Member Care Centres. During the remainder of 2021 the majority of our branches designated as Member Care Centres were returned to full-service status, and two of the branches were designated as permanent advice-only locations. As a result of the re-openings in 2021 our total branch service hours increased compared with 2020, and at year-end were at approximately 93% of the pre-COVID level.

Our branch network continues to play an integral role in our overall channel strategy. Although members have shifted many day-to-day banking transactions to our digital and mobile channels, branches remain an important resource for facilitating deeper, advice-based conversations with our members to help them with their holistic financial needs. As such, new investments made to expand and upgrade our branch network incorporate design elements that provide a welcoming, safe and private environment for our members. Our branch design approach also integrates technology to improve digital engagement and communication opportunities with members. Optimization of our branch network, to ensure our branches are located in the right places to attract new and to serve existing members, is an ongoing process. Through this process we identify opportunities to open new branches, relocate existing branches, and amalgamate branches. Three branch amalgamations were completed in 2021. In addition to meeting the evolving service needs and expectations of our members, resource efficiency and environmental sustainability are also important considerations in the management of our branch network. As such, our design process for new and renovated branches includes a review of opportunities to reduce the size or footprint of locations, improve energy efficiency, and apply the best available recycling processes.

Remote employee working arrangements provide opportunities and benefits for both employees and the credit union. Investments to develop and enhance our remote working capabilities have been ongoing for several years. The pandemic crisis provided a catalyst for accelerating the operationalization of our capabilities in this area. At the onset of the pandemic, in early 2020, employees in positions compatible with remote working were directed to work from home and were supported by management through the transition. In 2021 we implemented a redesigned suite of employee work arrangements, including permanent remote work arrangements. These arrangements are designed to improve the employee experience, increase productivity, and provide a flexible work environment that will motivate and retain diverse talent. The inclusion of remote work arrangements within our operational structure also allows us to expand our pool of available talent beyond the regions where our physical premises are located and positions us to significantly increase our market competitiveness in attracting such talent. Understanding that collaboration amongst employees remains critical to our long-term success, our corporate culture and values continue to emphasize the importance of building and maintaining effective connections with people and partners, either virtually or in person.

Management's Discussion and Analysis

Retail Division

Our retail division is focused on helping over 528,000 retail members achieve their real goals and address their real financial challenges. Through our personalized advice offer, we provide members with access to comprehensive day-to-day banking services, home mortgages and other credit products, as well as access to competitive wealth management and insurance services. Our multi-channel approach provides members with convenience and options in terms of how they prefer to connect with us. These channels include 48 branch locations, with additional personal service and support available through a full-service advice centre that operates on a state of the art, cloud-based platform. For self-service banking activities, our members have access to thousands of surcharge-free ATMs across Canada and to our award-winning digital banking system. Recognizing the growing demand for digital banking services, we are continuously improving our digital banking platform, which is highly ranked for its functionality, security and informative account analysis features. Our capabilities related to mortgage, wealth management and insurance services are further enhanced by our mobile teams. Employees in these mobile teams have the flexibility to accommodate personalized advice-based service needs at times and locations that work best for our members. Service delivery across multiple channels is coordinated through an industry-leading customer relationship management (CRM) system. Our CRM is the backbone of our member-centric approach, enabling us to understand the real goals and evolving needs of our members, and allowing us to proactively engage with members to unlock financial opportunities.

Retail Business Results

The circumstances presented by the COVID-19 pandemic continued to be an important factor for our retail operations and activities during 2021. The trend towards the increased use of digital transaction services by retail members, which accelerated in 2020, continued in 2021. Total member transaction volume, through both our branch network and digital banking platforms, increased compared with the prior year, but remained below the pre-pandemic levels. The easing of public health restrictions and a general increase in economic activity during the year supported our ability to more fully utilize the capacity of our branch network. Compared with the prior year, higher levels of branch traffic and ongoing efforts to connect with our members across all our service channels increased advice interactions and sales opportunities with our members. Member savings levels, which increased significantly due to factors related to the pandemic, remained elevated. Economic and market conditions that impacted our retail operations and results during the year included the continued low interest rate environment, an extremely active real estate market, and volatile but generally favourable equity investment markets.

While we continued to attract new members during the year, the total size of our retail member base remained relatively stable. This reflects our focus on deepening relationships with members. To accelerate and improve engagement with new members, we refreshed our member onboarding program. The refreshed program uses strategically paced touch points following the opening of new memberships, initiated through a multi-channel delivery process, to foster engagement. Through these meaningful touch points, the program provides new members with a comprehensive understanding of our service offer and value proposition, creating a foundation for long-term, mutually beneficial relationships with our members.

Our Money Chat service continues to be an important part of our member value proposition. Money Chat provides members with an overview of their financial health and an understanding of their financial strengths and opportunities. It also generates valuable insights for personalized advice delivery. Money Chat is complemented by our digital Money Manager, a personal financial management tool available to all our members at no cost through our digital banking platforms. Money Manager provides members with tools and alerts to help them track their spending and progress towards the goals they have set. Information from Money Manager also provides valuable insights to support the delivery of relevant and personalized advice to our members.

Management's Discussion and Analysis

In 2021, Money Chat was transformed through a redesign project that included input from both members and employees. The enhanced Money Chat provides a more in-depth, end-to-end experience, connecting members to an ecosystem of advisors and solutions to help them improve their financial well-being. Money Chat was also transitioned to a digital platform, allowing members to access the process directly through our Coast Online and Coast Mobile banking systems. The new digital platform also enables employees in our Advice Centre to work with members remotely on Money Chat. In 2021, we completed almost 35,000 personalized member Money Chats with our members.

Our retail mortgage portfolio increased by \$339 million or 2.9%, to \$12.2 billion at year-end, compared with an increase of \$363 million or 3.2% in the prior year. Mortgage portfolio growth was supported by an exceptionally active real estate market reflecting the low interest rate environment and other market factors. As a result, new term mortgage origination volume, based on total dollar value, was 27% higher year-over-year. Branch channel volume as a percentage of the total origination volume experienced a modest increase in 2021, after a pronounced decrease in 2020. The longer-term trend towards increased volume through our mobile mortgage channel accelerated in 2020 and continued the momentum in 2021. The proportion of new mortgage volume originated through external brokers declined in 2021. Despite strong new origination results, the total net growth of our retail mortgage portfolio was moderated by an increase in member pay-down activity within the portfolio. Several factors contributed to the increase in mortgage pay-downs experienced. These included highly competitive low-interest rate offers by other mortgage lenders aggressively pursuing market share, and an increase in member property sales due to elevated market demand and price conditions. During the year, we also experienced a decrease in our outstanding home equity line of credit (HELOC) balances, which reduced our overall mortgage growth by \$82 million. The decrease in outstanding HELOC balances was a continuation of the trend that began in 2020, reflecting adjustments our members made to their spending and borrowing activities based on the prevailing economic conditions. As part of our retail mortgage offer, we continued to offer Help Extras™ in 2021. The Help Extras program provides qualifying new mortgage members with cash rewards up to \$1,000. In 2021, we funded over \$3.2 million in Help Extras for our members, bringing the total amount provided to members since it first launched in 2015 to over \$30 million.

Our personal loan, auto financing and line of credit portfolios, combined, increased by \$40 million or 10.7%, compared with a decrease of \$22 million or 5.6% in the prior year. Growth was primarily attributed to our auto financing portfolio, which increased by \$42 million or 18.9%, compared with an increase of \$13 million or 6.0% in the prior year. Strong auto financing origination volumes were supported by our digital direct origination channel and related marketing activities, but were also constrained by the reduced availability of automobile inventories due to global supply chain disruptions. Growth of both our personal term loan and personal lines of credit portfolios was relatively flat during the year. The personal term loan portfolio decreased by approximately \$3 million during the year, consistent with the longer-term trend for this portfolio. The personal lines of credit portfolio, measured by outstanding balances, grew by approximately \$1 million during the year. This was a significant improvement compared with the prior year decrease of \$30 million, attributed to spending and saving adjustments made by our members at the onset of the pandemic crisis in 2020.

Our large retail member base is an important source of core deposit funding to maintain and grow our overall asset portfolio. Net retail deposit growth during the year was \$189 million or 1.9%, increasing our total retail deposit portfolio to \$10.0 billion. Deposit growth was lower compared with prior year at \$643 million or 7.0%. Demand account deposit balances continued to drive overall growth in 2021, similar to the prior year. Retail demand deposit balances grew by approximately \$538 million, while our retail term deposit balances decreased by approximately \$349 million. The difference in growth experienced across product types reflects the short-term liquidity focus of our members, given the ongoing economic uncertainty, as well as the interest rate environment, which provided only modest rate premiums for committing to longer-term holding periods. Generally favourable global equity market performance during the year also attracted longer-term savings away from term deposits and into equity market investments. Related to this, we maintain a market-linked term deposit portfolio, which offers members the potential to earn higher returns on their deposits linked to equity market performance. Our market-linked portfolio remains a relatively small part of our total term deposit portfolio, but this product did experience increased member interest and therefore growth during the year compared with prior years.

Management's Discussion and Analysis

Our wealth management business is closely aligned with our retail division but also works with our commercial division to meet the investment and insurance needs of our business members. Through our team of licensed advisors, financial planners, and insurance specialists, our wealth management group provides members with access to competitive investment and life insurance products. Member investment AUA, which are not included in the assets reported on our Consolidated Balance Sheet, surpassed the \$5.0 billion milestone in 2021, closing the year at almost \$5.3 billion. Our Coast Capital Mutual Funds, a co-branded mutual funds program managed by an external global portfolio management company, accounted for approximately \$2.3 billion or 43% of the total year-end investment AUA. The Coast Capital Mutual Funds program provides members with access to professionally managed investment portfolios at management fees that are lower than many comparable mutual fund products. Total investment AUA increased by \$729 million or 16.0%, compared with an increase of \$332 million or 7.9% during the prior year. Growth during the year reflects favourable market value impacts on the underlying AUA investments, as well as a record level of net sales generated by our experienced and accredited team of wealth management professionals. Through our sales efforts in 2021 we expanded both the number and depth of our wealth management member relationships.

Looking ahead to 2022, economic forecasts indicate a continuation of the recovery that began in 2021. Interest rates are expected to increase during the year, however, real estate market activity is likely to remain relatively strong, with the potential for a further increase in home prices. Against this backdrop, our operational plans, supported by a focus on deepening member relationships and leveraging enhancements made to our member engagement tools and processes, include positive growth expectations across our major retail portfolios. Growth of our retail mortgage portfolio is expected to be similar to our current year result. Household spending activity is expected to increase as the economy opens up, and we expect member transactional banking volumes to return to pre-pandemic levels. Higher interest rates are expected to support continued retail deposit growth, with term deposits becoming a more attractive savings option. Opportunities for strong wealth management AUA growth have also been identified, supported by the addition of a new series of mutual funds for our members that incorporate environmental, social and corporate governance (ESG) factors into the portfolio management process.

Commercial Division

The commercial division is an important part of our overall business operations. Backed by sound underwriting policies and practices, our commercial loan and lease portfolios provide an important lever for risk management supporting portfolio diversification while also giving us access to higher-yielding assets that strengthen our financial performance. Business members also have a broad array of financial needs that create expanded opportunities for non-interest income growth. Moreover, by providing trusted advice and solutions to help our business members succeed and thrive, we contribute to the health and vitality of the communities in which we operate.

The commercial division has operated nationally for a number of years through equipment financing activities, and through syndicated commercial financing arrangements on development properties located in major Canadian cities outside of B.C. In addition to improving the overall geographic diversification of our assets, these activities provide us with valuable experience and insights to support the expansion of other segments of our operations nationally.

In alignment with the diverse needs of our more than 51,000 business members, our commercial banking division is organized into several groups: Small Business Banking, Business Banking, Commercial Real Estate, Mezzanine Financing, Equipment Financing and Payments and Cash Management. Our support and service capabilities for business members also includes our Business Advice Centre, which acts as a centralized contact hub for member inquiries, while also facilitating proactive outreach activities to deepen our business member relationships. On a combined basis, as at year-end, the business members serviced by our commercial division accounted for approximately \$5.4 billion or 30% of our total loan and lease assets, and \$4.2 billion, or 23%, of our total deposit balances.

Management's Discussion and Analysis

To assist business members facing financial hardship arising from the pandemic crisis, a number of relief initiatives were implemented in 2020, and many continued into 2021. These included loan payment deferral programs and the development of internal processes to facilitate member access to government assistance programs. The government programs supported through our activities included the Canada Emergency Business Account (CEBA), the Highly Affected Sectors Credit Availability Program (HASCAP), and the Export Development Canada Business Credit Availability Program (BCAP). The CEBA program, which provided interest-free loans to small businesses and not-for-profit organizations, received the most attention and volume. The program, which was first implemented in 2020 and continued to be available into 2021, was updated a number of times as the government made changes to the qualification requirements and available loan amounts. Since the start of our CEBA support activities, we received and processed approximately 11,000 applications from our business members, resulting in over 9,300 approvals with a funded value of approximately \$313 million. The amount funded by our commercial banking division represented almost 5% of the total CEBA funding volume completed in the province of B.C., and provided important support for our business members in covering their operating costs during a period of revenue disruption. In addition to the pandemic, during the year a number of our business members experienced damage and operational disruptions due to severe flooding events. To assist these members, we implemented a dedicated Flood Relief Hotline at our Advice Centre, which provided financial relief through a loan and mortgage payment deferral program to impacted members.

Commercial Business Results

In 2021, our combined commercial loan and equipment lease asset growth was \$28 million or 0.5%, compared with growth of \$230 million or 4.5% in the prior year. The slowdown in asset growth during the year was reflected in the results across most of our main commercial lending portfolios. Challenges related to the low interest rate environment were exacerbated by intense market competition, which further compressed rates on new financing activity.

Mortgage secured commercial loans, which totalled approximately \$4.4 billion at year-end, represent the majority of our total commercial loan portfolio. Growth during the year was \$86 million or 2.0%, compared with prior year growth of \$269 million or 6.6%. New mortgage lending activity on development projects was strong, as was new mortgage financing activity on completed properties aligned with the industry sectors we focus on. Our variable-rate commercial mortgage portfolio, primarily associated with real estate development and construction lending, decreased by \$39 million or 1.9%, due to elevated pay-down volumes related to projects that completed during the year. Our fixed-rate commercial mortgage portfolio, primarily comprising owner- and non-owner-occupied commercial properties, increased by \$125 million or 5.4%. Syndicated mortgage portfolio activities contributed to the overall growth of our mortgage portfolio during the year, with the majority of our syndicated lending activity occurring in regions outside of B.C. Growth of our higher-yielding mezzanine portfolio, which provides financing for more complex and usually short-term needs, also contributed to the overall commercial mortgage portfolio growth during the year.

Non-mortgage secured commercial loan and lines of credit portfolios, combined, totalled \$219 million at year-end. Growth during the year was \$15 million or 7.5%, compared with prior year growth of \$36 million or 22.1%. The year-over-year growth variance primarily reflects the addition of several large loan facilities in 2020 producing very strong term-loan portfolio growth of \$54 million or 57.9%, compared with current year growth of \$16 million or 11.0%. The total outstanding balance of our commercial lines of credit portfolio remained relatively flat during the year, decreasing by \$1 million or 1.8%. The modest decrease represents an improvement compared with the prior year, which experienced a \$17 million or 24.1% decrease in total outstanding balances as business members responded to the emergence of the pandemic by managing spending and building up liquidity reserves. Enhancements made in 2021 to our line of credit offer, targeted at Red Seal trade businesses, were received very well by our commercial members.

Management's Discussion and Analysis

The total asset value of our equipment financing portfolio decreased by \$73 million or 8.7% during the year, to \$765 million at year-end. The current year change was similar to the prior year decrease of \$75 million or 8.2%. These growth results are attributed to reduced levels of capital investment by businesses, consistent with the general economic uncertainty created by the pandemic. Supply chain disruptions, also attributed to the pandemic, slowed equipment production and deliveries to dealers, reducing inventories and further constraining the origination of new equipment lease contracts.

Our commercial deposit portfolio totalled almost \$4.2 billion at year-end, an increase of \$361 million or 9.5% during the year, compared with prior year growth of \$391 million or 11.5%. Although slightly lower year-over-year, commercial deposit growth during the year remained strong, reflecting prudent cash flow management decisions by our business members and increased liquidity from government support programs. Deposit growth was positive across all of our commercial groups during the year. Members managed by our Small Business Banking Group are high-volume users of our transactional banking services, and by extension are the largest source of core deposit funding from our commercial operations. The Small Business Banking deposit portfolio increased by \$171 million or 7.4%, bringing the total portfolio managed by this group to approximately \$2.5 billion at year-end. Our Payments and Cash Management Group, which focuses on building relationships with business and organizations that have significant cash management needs, experienced portfolio growth of \$37 million or 4.3% during the year, increasing the total portfolio for this group to \$888 million at year-end. Our Business Banking and Commercial Real Estate Groups also experienced strong deposit growth at \$151 million or 23.7%, combined, bringing the combined total portfolio for these groups to \$785 million at year-end.

Similar to 2020, commercial deposit growth in 2021 was attributed to deposit balances held in demand accounts. Total commercial demand deposits increased by \$440 million while the term deposit portfolio decreased by \$79 million. Strong growth of demand deposits reflected a continued focus by business members on maintaining higher levels of liquidity than normal, given the ongoing economic uncertainty. The interest rate environment, which provided only modest rate premiums for committing to longer-term holding periods, was also a contributing factor.

Investments to enhance the service and advice we deliver to our commercial division members continued in 2021. During the year, we advanced our online banking platform capabilities by enabling business members to process wire transfers directly online. We also added small business lending capabilities to the services available through our Business Advice Centre. This year, as part of our member-centric approach, we launched a regular marketing newsletter to business members, which provides them with insights and information on topics like cash flow and debt management, business resiliency and cyber-crime prevention tips. Additional value-added support was provided through free access to a business resilience program offered through an external partner. The program provides small business members with online resources to assess the status of their business, create a plan to thrive, and equip them with tools to succeed.

To support employee engagement through career development opportunities and to enhance their skill sets, during the year we facilitated a cross-training and mentoring program between our Small Business and Business Banking groups.

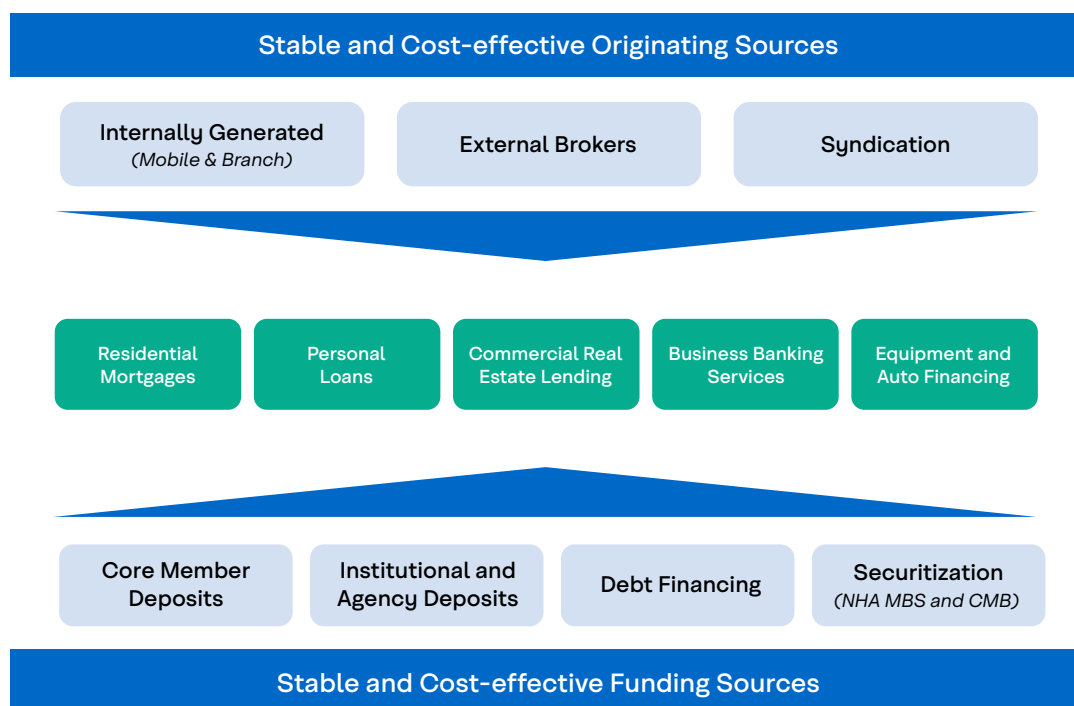
In 2022, we plan to further develop our product and service offerings targeted to the needs of Red Seal trade owner-operators. Red Seal trades include skilled and certified workers across a variety of high-demand trade areas. Our plans for 2022 also include the addition of a new team of wealth management advisors, with enhanced accreditation and training, who will collaborate closely with our commercial banking group to assist business members in achieving their financial goals. Based on our operational plans and forecasted economic conditions, in 2022 we expect the growth of our total commercial loan portfolio to strengthen relative to the current year results, and for our equipment finance portfolio to return to positive growth. Growth expectations for our commercial deposit portfolio are also positive, however, moderated in magnitude compared with the current year result.

Management's Discussion and Analysis

Net Interest Income

Net interest income is the difference between the interest income earned on loans and other financial assets and the interest expenses paid on deposits and other funding liabilities. 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 assets). Given the importance of loan and deposit services to our members, and net interest income to our overall financial performance, significant attention is given to asset and liability management decisions throughout the year. In managing the interest rates we offer on loans and deposits, we are careful to ensure that our members have access to rates that are both fair and competitive.

Our diversified portfolio of financial assets and liabilities is managed and maintained using a multi-channel approach for both asset origination and funding sources. In addition to the member activities through our business lines, we maintain external relationships that provide additional options to manage our balance sheet growth in a stable and sustainable manner.



Net interest income was \$402.7 million, an increase of \$64.2 million or 19.0% compared with the prior year. The primary driver of the increase was an improvement in our net interest margin. Growth of our average total assets, primarily made up of interest-earning assets, which increased by \$604 million, or 2.9%, also contributed to the year-over-year increase in net interest income.

Net interest margin, calculated as a percentage of average total assets, increased by 25 basis points to 1.89%, compared with 1.64% in 2020. In the first quarter of 2020, the Bank of Canada (BoC) implemented a series of decreases to its overnight lending rate totalling 150 basis points. The BoC rate decreases were mirrored by similar reductions in our prime lending rate, which decreased from 3.95% to 2.45%. Both the BoC rate and our prime lending rate remained unchanged in 2021. This has had a direct negative impact on our asset yields as new originations and existing renewals have since been completed within this lower rate environment. In the first half of 2021, a very active real estate market increased the turnover rate of our lending portfolio thereby increasing the unfavourable impact on our asset yields. The impact was further exacerbated by the loan portfolio originations and renewals that occurred in the prior year after the BoC rate adjustments, as these had a full-year impact on our interest income and yields within 2021.

Management's Discussion and Analysis

The lower interest rate environment had a similar but favourable impact on the interest rates applicable across our funding liability portfolios, which includes both deposits and borrowings. However, the favourable impact on our interest expense comes largely from the shift in our portfolio mix towards lower rate demand deposits.

Overall, the decrease in our funding liability interest expense was greater than the decrease in our interest income from assets year-over-year, having a favourable impact on net interest income.

Net Interest Income

For the year ended December 31

(in thousands of dollars)	2021				2020			
	Average balance	Mix %	Interest	Interest rate %	Average balance	Mix %	Interest	Interest rate %
Cash resources	3,144,668	14.8	36,897	1.17	3,043,783	14.7	53,516	1.76
Loans								
Residential	11,977,239	56.2	306,830	2.56	11,664,584	56.4	336,509	2.88
Commercial	4,658,854	21.9	174,518	3.75	4,413,949	21.3	172,492	3.91
Equipment financing	789,721	3.7	39,009	4.94	856,045	4.1	43,844	5.12
Personal	270,431	1.3	17,074	6.31	249,368	1.2	14,879	5.97
Lines of credit	127,816	0.6	8,672	6.78	142,109	0.7	10,218	7.19
Total loans	17,824,061	83.7	546,103	3.06	17,326,055	83.7	577,942	3.34
Derivatives	–	–	5,559	–	–	–	12,083	–
Total interest-earning assets	20,968,729	98.4	588,559	2.81	20,369,838	98.4	643,541	3.16
Other assets	337,190	1.6	–	–	332,421	1.6	–	–
Total assets	21,305,919	100.0	588,559	2.76	20,702,259	100.0	643,541	3.11
Deposits								
Demand	8,822,145	41.4	10,437	0.12	7,084,282	34.2	14,250	0.20
Fixed term								
non-redeemable	7,058,344	33.1	122,687	1.74	8,424,554	40.7	217,850	2.59
Fixed term redeemable	2,129,858	10.0	13,911	0.65	1,760,547	8.5	24,308	1.38
Total deposits	18,010,347	84.5	147,035	0.82	17,269,383	83.4	256,408	1.48
Borrowings	1,386,361	6.5	19,774	1.43	1,674,066	8.1	28,926	1.73
Subordinated notes	305,544	1.4	15,691	5.14	307,674	1.5	15,600	5.07
Lease obligation	77,521	0.4	3,358	4.33	85,188	0.4	4,135	4.85
Total interest-bearing liabilities	19,779,773	92.8	185,858	0.94	19,336,311	93.4	305,069	1.58
Other liabilities	165,735	0.8	–	–	62,327	0.3	–	–
Total liabilities	19,945,508	93.6	185,858	0.93	19,398,638	93.7	305,069	1.57
Share capital	24,963	0.1	–	–	26,585	0.1	–	–
Accumulated other comprehensive income (AOCI)	22,574	0.1	–	–	40,876	0.2	–	–
Retained earnings	1,312,874	6.2	–	–	1,236,160	6.0	–	–
Total liabilities and members' equity	21,305,919	100.0	185,858	0.87	20,702,259	100.0	305,069	1.47
Net interest income			402,701	1.89			338,472	1.64

Management's Discussion and Analysis

The average yield earned on our interest-earning assets decreased by 35 basis points to 2.81% in 2021, compared with 3.16% in 2020. This decrease is due to lower yields earned across most major financial asset portfolios during the year. Yields earned in 2021 also included a favourable impact from an increase in mortgage prepayment fee revenue compared with the prior year. Elevated prepayment volume was attributed to competition for retail mortgage market share, reflected in low interest rate offers, as well as an increase in property sales by members taking advantage of the strong real estate market with elevated price conditions favouring sellers. Overall yield impacts related to our interest-earning assets decreased our interest income by \$73.9 million, while volume growth increased our interest income by \$18.9 million, producing a net decrease in interest income of \$55.0 million compared with the prior year.

Our funding cost as a percentage of total interest-bearing liabilities decreased by 64 basis points to 0.94% compared with 1.58% in 2020. The primary driver of this rate reduction was the shift in our funding mix that saw the proportion of funding derived from higher-cost term deposits and borrowing liabilities decrease, while the proportion of funding through lower-cost demand deposits increased. Lower market interest rates on our deposits and borrowing liabilities also contributed to the improvement of our net interest margin during the year. The combined rate impacts related to our interest-bearing liabilities decreased our interest expense by \$126.2 million, while volume growth increased our interest expense by \$7.0 million, producing a net decrease in interest expense of \$119.2 million compared with the prior year. Overall, portfolio growth increased net interest income by \$11.9 million, and interest rate changes increased net interest income by \$52.3 million.

Net Interest Income Change

For the year ended December 31 (in thousands of dollars)	2021		
	Average balance change	Interest rate change	Total change
Interest-earning assets	18,921	(73,903)	(54,982)
Interest-bearing liabilities	(6,997)	126,208	119,211
Net interest income change	11,924	52,305	64,229

Provision for Credit Losses

Our total provision for credit losses (PCL) expense was \$1.8 million for the year, a decrease of \$21.6 million compared with the prior year PCL expense of \$23.4 million.

The majority of the year-over-year decrease relates to the Expected Credit Losses (ECL) attributed to performing loans, which was a net reversal of \$1.8 million for the year, thereby lowering the current year PCL expense on performing loans by \$19.6 million, compared to the \$17.8 million PCL expense reported on performing loans in the prior year. While 2020 saw a sharp increase in the ECL reserve on performing loans due to the unprecedented economic impacts of the COVID-19 pandemic, the current year noted improvements in forward-looking forecasts and overall credit quality of our lending book and therefore the related ECL on performing loans, as the Canadian economy headed towards recovery. However, the ECL release for performing loans was moderated due to the ongoing uncertainty caused by the spread of the more infectious strains of the COVID-19 variants and, on a smaller scale, due to our exposure to certain sectors within the commercial portfolio, which continue to remain impacted by the pandemic.

PCL expense attributed to impaired loans was \$4.9 million for the year, which was \$3.0 million lower than the prior year. PCL expense on impaired loans was a result of actual loan write-offs of \$4.6 million, a decrease of \$4.1 million compared with the prior year, and the increase in ECL reserve attributed to non-performing loans by \$0.3 million, an increase of \$1.1 million compared with the prior year. The PCL expense offset for loan loss recoveries was \$1.3 million, a decrease of \$1.0 million compared with the prior year.

Management's Discussion and Analysis

We maintain our ECL reserve at a level that we consider appropriate to absorb both identified and unidentified credit losses in the loan portfolio. The total ECL at year-end 2021 was \$57.9 million, a decrease of \$1.5 million or 2.5% compared with \$59.4 million at year-end 2020. ECL on performing loans decreased by \$1.8 million, from \$58.8 million as at December 31, 2020, to \$57.0 million as at December 31, 2021. The decrease reflects a general improvement in forecasted macroeconomic conditions as represented by the key economic variables utilized in our ECL models, moderated with caution due to ongoing uncertainty caused by the pandemic. The ECL impact also accounts for upgrades made to the models during the year, changes in the size and credit quality of our loan portfolio and other adjustments. ECL on impaired loans increased by \$0.3 million, from \$0.6 million as at December 31, 2020, to \$0.9 million as at December 31, 2021. Our total ECL as a percentage of total loans at year-end was 32 basis points. This represents a decrease of two basis points compared with the prior year-end, but remains elevated with respect to previous years (2017-19).

Additional details on PCL and ECL can be found in Note 7 to the Consolidated Financial Statements.

Credit Quality Ratios

As at and for the year ended December 31

(in thousands of dollars)

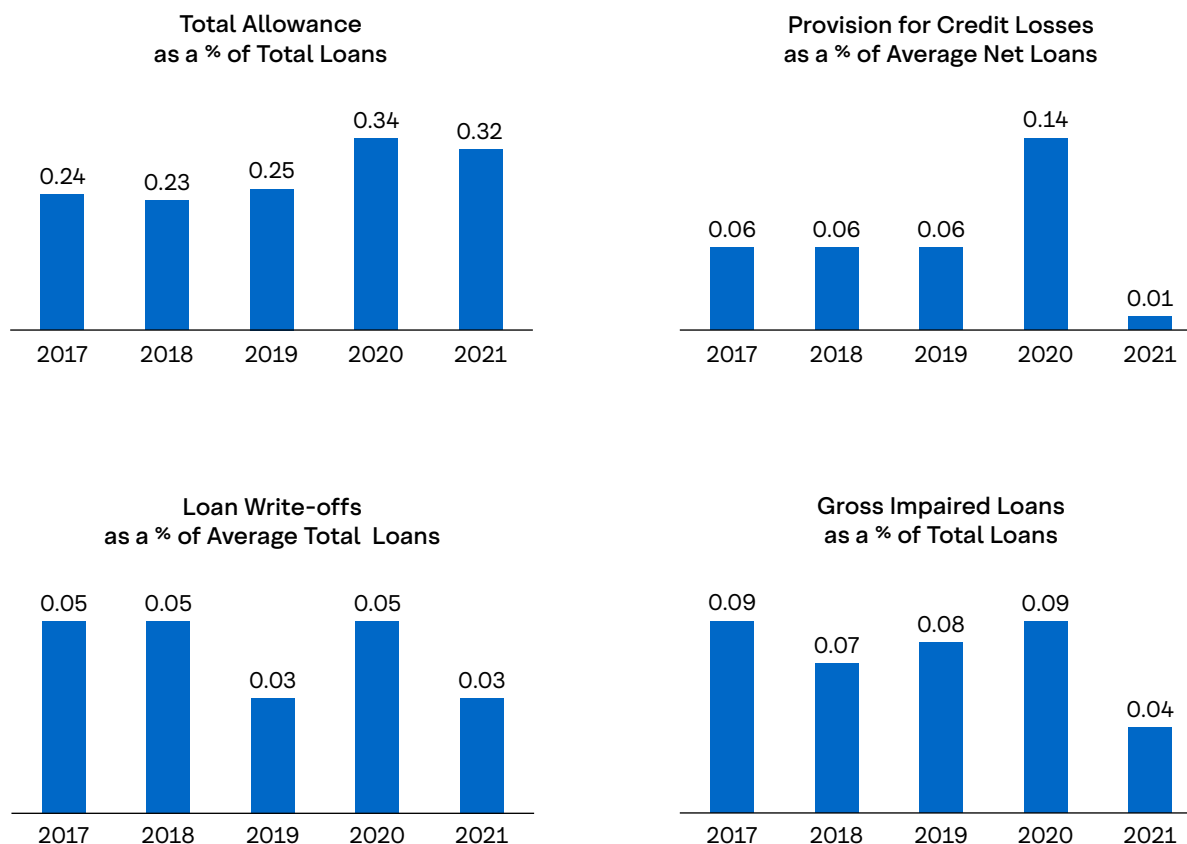
	2021	2020
Total loans (net of allowance for credit losses)	17,950,804	17,543,213
Provision for credit losses	1,829	23,427
Loan write-offs	4,595	8,650
Total allowance for credit losses	57,865	59,371
Impaired loans	6,708	16,334
Members' equity	1,373,264	1,326,173

(in per cent)

	2021	2020
Provision for credit losses as % of average net loans	0.01	0.14
Loan write-offs as % of average total loans	0.03	0.05
Gross impaired loans as % of total loans	0.04	0.09
Net impaired as % of members' equity	1.15	1.19
Total allowance as % of total loans	0.32	0.34

Management's Discussion and Analysis

Credit Quality Ratio Trends⁽¹⁾



1. We transitioned to International Financial Reporting Standards 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. Results for 2018-21 have been prepared in accordance with IFRS 9, and the comparative information for 2017 is presented under IAS 39 as previously published.

Non-Interest Income

In addition to loan and deposit activities that generate interest income, we also provide financial products and services to our members that generate fee and commission revenue. These include day-to-day banking services, credit cards, foreign exchange, insurance, and wealth management services. These business activities provide a stable and diversified source of revenue that supports our operations. Access to these products and services is also important to our members, helping them meet the broad spectrum of their financial needs. We regularly review the fees and commissions charged on these products and services to ensure we are providing members with excellent value while also considering our cost of delivery and the need to remain market competitive. Non-interest income is also generated through referral activities, and activities associated with the management and deployment of our assets, such as property rent and gains on financial asset sales and securitization activities. Total revenue from non-interest sources was \$109.3 million, an increase of \$18.2 million or 20.0% compared with the prior year. The year-over-year increase was primarily attributed to strong wealth management performance and gains from the sale of financial investments.

Management's Discussion and Analysis

Non-Interest Income

For the year ended December 31 (in thousands of dollars)	2021	2020	Change from 2020	
			\$	%
Wealth management investment commissions	45,472	38,250	7,222	18.9
Other fees and commissions	28,771	27,868	903	3.2
Credit card commissions	9,287	7,574	1,713	22.6
Insurance commissions	5,234	6,619	(1,385)	(20.9)
Foreign exchange	4,708	3,854	854	22.2
Gains from securitization activities	1,399	2,211	(812)	(36.7)
Gain from sale of financial investments	7,915	–	7,915	–
Other income	6,548	4,761	1,787	37.5
Total	109,334	91,137	18,197	20.0

Wealth management services represent a key component of our ability to help our members achieve their real goals. Our services in this area include advice and sales related to mutual and segregated fund investments, exchange-traded fund investments, and a variety of life insurance products provided through a team of financial planners, retail investment advisors, and insurance specialists. The majority of our wealth services revenue is generated from the investment assets we administer on behalf of members in partnership with an external dealer services provider. Member investment AUA are not included in the assets reported on our Consolidated Balance Sheet. At year-end, our investment AUA totalled almost \$5.3 billion, representing an increase of \$729 million or 16.0% compared with the prior year-end. Asset growth was attributed to strong sales results as well as positive asset value impacts from favourable global capital market performance. Revenue from investment AUA was \$45.5 million, an increase of \$7.2 million or 18.9%, compared with the prior year. The revenue increase reflects the growth of our AUA, as well as a modest increase in the revenue yield earned on these assets.

Other fees and commissions revenue is primarily generated through the day-to-day banking and transaction services 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 amount of revenue generated annually from these services depends on the volume and type of transactions completed, and on our rate schedule, which is amended from time to time to ensure our pricing is fair and competitive. Other fees and commissions revenue for the year was \$28.8 million, an increase of \$0.9 million or 3.2% compared with the prior year. The increase is aligned with our overall member transaction volumes, which increased on a year-over-year basis in 2021 by approximately 4%, after decreasing by approximately 8% in 2020. The 2020 decrease in transaction volumes reflected the initial impacts of the COVID-19 pandemic, which included: public health restrictions dampening overall economic activity, changes in member saving and spending behaviour, and limited temporary branch closures within our branch network as well as shortened branch operating hours. Constraints on member transaction activity related to the pandemic eased in 2021, supporting the increase in transaction volumes.

Management's Discussion and Analysis

Our credit card commission revenue, through our co-branded Desjardins Visa credit card offer, was \$9.3 million, representing an increase of \$1.7 million or 22.6% compared with the prior year. Similar to our banking services fee and commission revenue discussed above, the increase in credit card commission revenue was supported by higher member transaction volume in 2021, following the decrease experienced in 2020.

Total insurance commission revenue was \$5.2 million, a decrease of \$1.4 million or 20.9% compared with the prior year. Insurance commission revenue includes creditor insurance, generated as part of our mortgage and loan activity, and wealth management insurance services, which provide members with an array of insurance solutions to meet their broader financial planning needs. The year-over-year decrease in total insurance commission revenue is attributed to creditor insurance activities, while revenue from life insurance activities increased compared with the prior year. Initiatives were undertaken during the year to improve the member value proposition associated with our creditor insurance offer. Growth of revenue from our life insurance activities during the year reflected increased opportunity for insurance interactions and in-person meetings with members, as public health restrictions eased and member branch visits increased.

Foreign exchange revenue was \$4.7 million, an increase of \$0.9 million or 22.2% compared with the prior year. The increase reflects higher member transaction volumes, as well as exchange rate movements during the year resulting in positive revenue recognition. Gains from the sale of investment securities held within our treasury portfolio generated revenue totalling \$7.9 million during the year. Other income was \$6.5 million, an increase of \$1.8 million or 37.5% compared with the prior year. The year-over-year increase in other income is attributed to increased gains from the sale of leased equipment, and an increase in administration income from our ongoing activities helping small businesses participate in the CEBA program.

Non-Interest Expense

Non-interest expense includes all non-interest-related expenses except for provision for credit losses and provision for income taxes. We strive to manage our expenses in a diligent and efficient manner to support sustainable long-term capital growth while also recognizing the impact of spending decisions on the member experience. Total non-interest expense was \$389.3 million, an increase of \$29.6 million or 8.2% compared with the prior year. Areas experiencing the largest year-over-year increase included employee compensation, technology and consultants.

Management's Discussion and Analysis

Non-Interest Expense

For the year ended December 31

(in thousands of dollars)

	2021	2020	Change from 2020	
			\$	%
Salaries and Benefits				
Salaries including variable pay and incentives	175,650	152,157	23,493	15.4
Employee benefits, other	35,382	41,576	(6,194)	(14.9)
	211,032	193,733	17,299	8.9
Technology				
Hardware, software, data, supplies	43,175	39,836	3,339	8.4
Depreciation and amortization	16,548	15,502	1,046	6.7
	59,723	55,338	4,385	7.9
Premises and Equipment				
Maintenance, utilities, taxes	12,271	12,573	(302)	(2.4)
Depreciation	19,070	18,653	417	2.2
	31,341	31,226	115	0.4
Member Services Administration				
Banking services	19,284	18,640	644	3.5
Loan processing	4,200	4,196	4	0.1
Investments and life insurance	4,547	3,824	723	18.9
	28,031	26,660	1,371	5.1
Consultants	19,279	12,678	6,601	52.1
Marketing	12,020	10,812	1,208	11.2
Community Contributions	3,927	3,932	(5)	(0.1)
Legal and Audit	2,346	3,566	(1,220)	(34.2)
Stationery, Telephone, and Postage	1,555	2,648	(1,093)	(41.3)
Travel, Meals, and Entertainment	1,685	2,398	(713)	(29.7)
Bonding and Other Insurance	1,893	1,915	(22)	(1.1)
Training and Recruitment	1,631	1,028	603	58.7
Other	14,791	13,724	1,067	7.8
Total	389,254	359,658	29,596	8.2

Salaries and benefits expense, our largest expense area, was \$211.0 million in 2021, an increase of \$17.3 million or 8.9% compared with the prior year. Salaries, including variable pay and incentives, increased, aligned with growth in our number of employees, measured based on full-time equivalency, and the achievement of stronger financial and non-financial performance results against target. The decrease in employee benefits and other expenses reflects higher expenses in 2020 related to strategic restructuring costs incurred in that year.

Management's Discussion and Analysis

Technology platforms, to support service delivery, are a critical part of our value proposition. Our members increasingly seek the convenience of digitized services, covering an expanding range of banking activities, delivered with a quality experience in a secure environment. Additionally, the ability to maintain and improve the efficiency of our operations depends upon the use of technology-enabled automation solutions within our business processes. Technology-related expenses totalled \$59.7 million, an increase of \$4.4 million or 7.9% compared with the prior year. The increase is attributed to ongoing investments to improve our technology systems. In 2021 we implemented several new member-focused features and improvements, including the redesign of our Money Chat service as a digital offering, the addition of budgeting alerts within our Money Manager tools, and new digital capabilities that allow members to manage their debit cards directly and to use their Coast Capital digital banking credentials when signing into online government services. In 2021, technology investments were also made during the year as part of an ongoing project to explore a new business initiative in the amount of \$7.6 million. Adjusted for this item, expense for hardware, software data and supplies decreased compared with the prior year, including from general cost management efforts and reductions attributed to moving certain external services in-house.

Premises and equipment expenses were relatively flat year-over-year, increasing by \$0.1 million or 0.4% compared with 2020. We continue to adjust our premises footprint through branch amalgamations and other premises changes, as well as through new lease arrangements. We also renew lease agreements at costs that differ from the maturing agreements. These activities impact the annual depreciation expense recognized on the right-of-use assets associated with our lease agreements. The net impact during the year was a modest increase in our premises depreciation expense of \$0.4 million or 2.2%, compared with the prior year. Premises expenses that we are responsible for under our lease agreements, reported as maintenance, utilities and taxes, decreased by \$0.3 million or 2.4% compared with the prior year. Included in this group are janitorial and security expenses, which decreased by \$0.6 million. The decrease reflects the initial, pandemic-related, ramp-up of janitorial and security expenses required in 2020 to ensure the health and safety of our employees and members in our business locations and administrative offices. Although these expenses decreased in 2021, they remained elevated compared with the longer-term historical trend.

Member services administration expense increased by \$1.4 million or 5.1% compared with the prior year. The increase is attributed to banking services and wealth management dealer services expense areas, while our loan processing expense was relatively flat. The increase in banking services expense, \$0.6 million or 3.5%, is consistent with higher member banking transaction volumes, which increased by approximately 4% in 2021 compared with 2020. Our wealth management dealer services expense is primarily driven by the commission revenue generated from our wealth management AUA. The revenue increase attributed to the growth of these assets, compared with the prior year, resulted in a similar increase to our dealer services expense of \$0.7 million or 18.9%.

Expense for consultants, including contract labour, increased by \$6.6 million or 52.1% compared with the prior year. The increased expense in this area is attributed to ongoing initiatives to update and enhance our technology platforms, automate processes, and progress towards our long-term strategic initiatives. Marketing expense increased by \$1.2 million or 11.2% compared with the prior year, as we continue to build awareness of our differentiated market position under our 'We're for real' brand. Although the expenses related to consultants and marketing are higher than 2020, the current year expenses are consistent with the longer-term trend. The year-over-year variance also reflects additional cost saving measures undertaken in 2020 to manage these expenses in that year given the economic uncertainty and financial pressures present in the early stages of the pandemic crisis.

Decreases in our stationery, telephone, and postage expense of \$1.1 million or 41.3% compared with the prior year were primarily due to management cost-saving efforts related to our external supplier arrangements. Expenses for travel, meals, and entertainment were \$0.7 million or 29.7% lower year-over-year. This decrease is attributed to reductions in response to the pandemic, during the full year of operations in 2021, compared with the partial year impacts experienced in 2020. Legal and audit expense decreased by \$1.2 million or 34.2% compared to the prior year, aligning the total expense in 2021 with the longer-term trend after experiencing elevated expenses in 2020.

Management's Discussion and Analysis

In 2021, we maintained our long history of community support through our commitment to contribute approximately 10% of our budgeted bottom-line earnings to a wide range of community organizations and causes. We maintain our community support based on budgeted rather than actual earnings so that community organizations are able to rely on consistent funding from Coast Capital, regardless of our achievement against budget. When earnings are lower than budgeted the contribution will be greater than 10%; the contribution will drop below 10% when earnings are higher than budgeted. Community contributions for the year totalled \$3.9 million, similar to the prior year. As our budgeted earnings grow, so does the support we provide to the community.

Other Comprehensive Income

Other comprehensive income (OCI) was negative \$48.3 million after tax, compared with \$34.1 million in the prior year. Almost all of the OCI loss in the current year was attributed to the unwinding of the prior year unrealized gain on investments to net income, reflecting the maturity profile of investments, as well as unrealized losses resulting from the impact of interest rate increases on the market value of the securities.

Capital Expenditures

Investments in capital assets during the year totalled \$21.0 million, a decrease of \$26.1 million or 55.3% compared with the prior year. The majority of the expenditure during the year was related to technology projects. Combined capital expenditure on software and computer equipment accounted for over 72% of the total capital expenditure made during the year. This investment was necessary to update and support the continuous improvement of platforms and systems that are critical to delivering a quality banking experience to our members in a secure digital environment. Expanding our use of technology-enabled automated solutions is also important to improve the efficiency of our business operations. In addition to infrastructure and digital security projects, capital investment projects launched in 2021 included a redesigned and digitally enabled Money Chat experience, enhancements to our digital Money Manager budgeting tool, and new features within our digital banking platform that allow members to do more with their accounts conveniently and directly. Additional investments were also made during the year in technology to support remote work arrangements for our employees.

Software and computer equipment investments made in 2021 include projects that were operationalized during the year, and projects that extend beyond the fiscal year as work in progress initiatives to be operationalized in future periods.

Right-of-use asset additions, related to IFRS 16 Leases accounting, are included as \$4.9 million of our 2021 total capital expenditure. This amount reflects the valuation applied to one new and nine renewed or extended property lease agreements entered into during the year. During the year we also made capital investments, related to leasehold improvements and furniture and equipment, of \$0.9 million to maintain and improve the branch and administrative premises used by employees and members.

Capital spending plans in 2022 represent an increase compared with 2021 and will continue to focus on our technology platforms and digital capabilities intended to enhance our member experience, expand our service capabilities, and improve our operational efficiency.

Capital Expenditures

For the year ended December 31 (in thousands of dollars)	2021	2020	Change from 2020	
			\$	%
Software	13,860	34,596	(20,736)	(59.9)
Right-of-use assets	4,942	9,193	(4,251)	(46.2)
Computer equipment	1,324	1,519	(195)	(12.8)
Leasehold improvements	611	917	(306)	(33.4)
Furniture and equipment	293	868	(575)	(1.7)
Total	21,030	47,093	(26,063)	(55.3)

Management's Discussion and Analysis

Loan Portfolio

Total loan assets, including leases, grew by \$407 million or 2.3%, compared with growth of \$571 million or 3.4% in the prior year. Growth was positive across most of our main loan portfolios. Total retail loan portfolio growth, measured as a percentage of the prior year-end balance, was 3.1%, and total commercial loan portfolio growth, including the equipment financing portfolio, was 0.5%. As a result of these differential growth rates, our overall loan portfolio mix shifted by 0.5% from commercial loans to retail loans, contributing to a reduction in the interest rate yield from our loan portfolio.

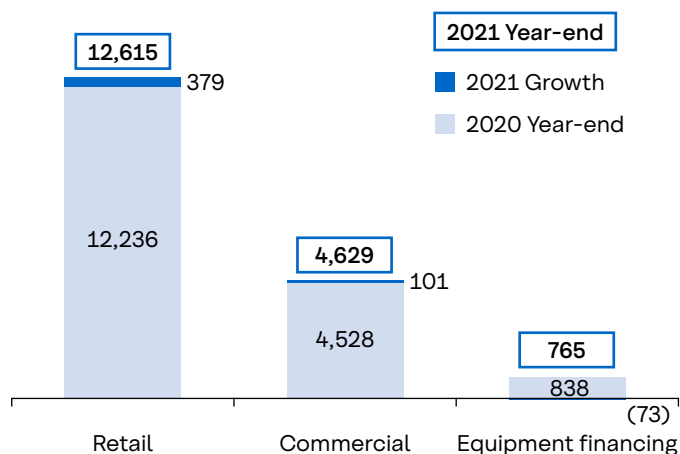
Loan Portfolio

As at December 31

(\$ millions, except as noted)	2021 ⁽¹⁾	Mix %	2020 ⁽¹⁾	Mix %	Change from 2020	
					\$	%
Retail						
<i>Residential mortgages:</i>						
Conventional	7,139	39.6	7,020	39.9	119	1.7
Revenue	2,485	13.8	1,954	11.1	531	27.2
Insured	1,732	9.6	1,955	11.1	(223)	(11.4)
High-ratio	3	0.0	12	0.1	(9)	(75.0)
Home equity lines of credit	842	4.7	921	5.2	(79)	(8.6)
Total residential mortgages	12,201	67.7	11,862	67.4	339	2.9
<i>Other:</i>						
Unsecured lines of credit	124	0.7	122	0.7	2	1.6
Loans and auto leases	290	1.6	252	1.4	38	15.1
Total personal loans & leases	414	2.3	374	2.1	40	10.7
Total retail	12,615	70.0	12,236	69.5	379	3.1
Commercial						
Mortgages, loans and lines of credit	4,629	25.7	4,528	25.7	101	2.2
Equipment financing	765	4.3	838	4.8	(73)	(8.7)
Total commercial	5,394	30.0	5,366	30.5	28	0.5
Total retail and commercial	18,009	100.0	17,602	100.0	407	2.3

1. Before allowance for credit losses.

Loan Portfolio (\$ millions)



Management's Discussion and Analysis

Retail residential mortgages, the largest asset group within our loan portfolio representing almost 68% of the total, increased by \$339 million or 2.9%, compared with an increase of \$363 million or 3.2% during the prior year. Our new mortgage origination volumes remained relatively high during the year, supported by the low interest rate environment, which contributed to the increased activity levels within the real estate market. Strong origination volume, however, was offset by increased pay-down activity attributed to aggressive low rate offers by competitors and member property sales transactions in response to elevated market prices for real estate. A trend towards lower outstanding home equity line of credit balances, as members adjusted spending and borrowing activities based on the prevailing economic conditions, contributed to the pay-down volume experienced during the year.

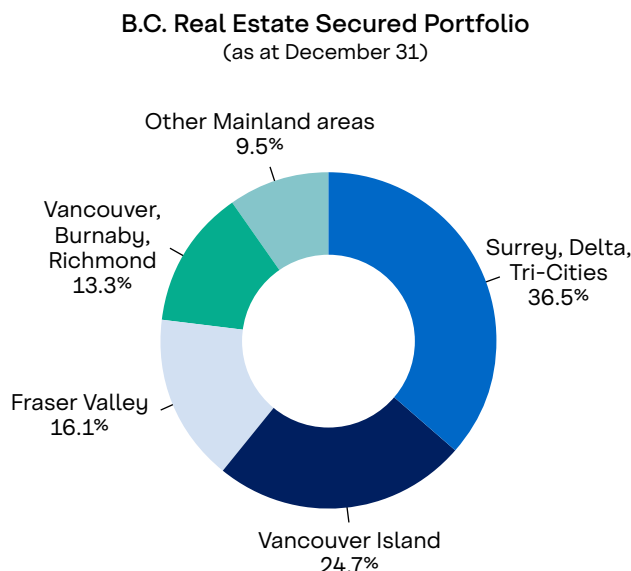
Non-mortgage secured personal loans, auto leases and lines of credit grew by \$38 million or 10.3%, combined, compared with growth of \$22 million or 5.6% in the prior year. The current year increase was primarily attributed to the growth of our auto financing portfolio, due to strong market demand for new vehicles. Overall growth, however, was constrained by the reduced availability of automobile inventories at dealers, as new automobile production was hampered by supply chain disruptions. Our unsecured lines of credit portfolio, reported based on outstanding balances, remained relatively flat during the year after declining by approximately 20% during the prior year. The decline experienced in 2020 reflected changes in member spending and savings activities aligned with the emergence of the COVID-19 pandemic.

Our commercial loan portfolio, including mortgages, loans and lines of credit portfolio grew by \$101 million or 2.2%, compared with growth of \$305 million or 7.2% in the prior year. Commercial mortgages represent the majority, approximately 96%, of our commercial loan portfolio. Our variable rate commercial mortgage portfolio, primarily associated with real estate development and construction lending, decreased by \$39 million or 0.9%, reflecting elevated pay-down volumes related to projects that completed during the current year. Our fixed-rate commercial mortgage portfolio, primarily comprises owner- and non-owner-occupied commercial properties, increased by \$125 million or 5.4%. Our non-mortgage secured commercial loans and lines of credit, which represent approximately 4% of our total commercial loan portfolio, increased by \$15 million or 7.5%, compared with \$36 million or 22.1% growth in the prior year. Growth of this portfolio was augmented in 2020 by the addition of several large loan facilities, which contributed to the year-over-year comparative growth variance.

Our equipment leasing portfolio decreased by \$73 million or 8.7%, compared with a decrease of \$75 million or 8.2% in the prior year. As a percentage of our total loan portfolio, equipment lease assets decreased to 4.2% at year-end 2021, compared with 4.8% at year-end 2020. Our commercial leasing division operates across Canada, supported by a network of equipment dealers that we have partnered with to offer our leasing program to their customers. A shortage of dealer equipment inventories, due to global supply chain disruptions, constrained new lease origination volume. Approximately 41% of our equipment leasing portfolio is located in Ontario, with 30% in B.C., 15% in Alberta, and the remaining 14% located in other provinces. The majority of the portfolio reductions experienced in 2021 occurred in our B.C. and Alberta portfolios.

Management's Discussion and Analysis

Retail secured, at approximately \$12.5 billion or 69% of our total year-end loan portfolio, represents the largest single concentration within the portfolio. The retail secured portfolio is primarily made up of real estate secured mortgages on properties located in B.C. The geographic breakdown of our retail real estate secured portfolio is provided below.



Deposits and Borrowing

Deposits

Deposit growth during the year was aligned to our asset funding growth and liquidity requirements. Total deposits grew by \$665 million or 3.8%, compared with \$971 million or 5.9% in the prior year. Deposit growth during the year was generated through our core retail and commercial member base, as well as through our institutional channel, while deposits attributed to our agency channel decreased.

Similar to 2020, our deposit growth benefitted from the response of our core retail and commercial members to the COVID-19 pandemic. Specifically, ongoing economic uncertainty and public health orders dampened consumer and business investment spending, resulting in increased savings. Government programs, implemented to reduce financial hardships caused by the pandemic, also supported member cash flows available for saving. In managing their savings, given the heightened economic uncertainty, our members favoured accounts that provided immediate access to funds if needed. Additionally, the interest rate environment provided only modest rate premiums for committing to longer-term holding periods. The net result was exceptionally strong growth of our demand deposit portfolio, similar to the prior year, while our term deposit portfolio decreased.

At year-end, our overall deposit portfolio mix by source remained concentrated in core member deposits, at 78.1% of the total portfolio, compared with 78.0% as at the prior year-end. We continue to maintain strong relationships across our network of external deposit agents and with our key institutional depositors. In our external agent and institutional channel portfolios we experienced a shift in the year-end mix, with the percentage allocation attributed to our external agent portfolio decreasing and the percentage allocation attributed to our institutional channel increasing. Changes in our portfolio mix reflect decisions related to our overall funding requirements during the year, as well as considerations related to the level of demand and prevailing interest rates across maturity tenures within our deposit channels.

Management's Discussion and Analysis

Deposit by Source

As at December 31 (in millions of dollars, except as noted)	2021	Mix %	2020	Mix %	Change from 2020	
					\$	%
Core retail and commercial members	14,157	78.1	13,607	78.0	550	4.0
External deposit agents	2,247	12.4	2,703	15.5	(456)	(16.9)
Institutional depositors	1,714	9.5	1,143	6.5	571	50.0
Total	18,118	100.0	17,453	100.0	665	3.8

In terms of product type, overall deposit growth was driven within the demand deposit portfolio, which increased by \$978 million or 11.8%. The strong demand portfolio growth experienced during the year is a continuation of the exceptional demand portfolio growth experienced in the prior year of \$1.9 billion or 30.6%. Our fixed term deposit portfolio decreased by \$313 million or 3.4% during the year. Despite the decrease in the total fixed term deposit portfolio, we did experience growth in certain product areas within the portfolio. Growth of redeemable term deposits, which mature on a specified date and are redeemable subject to certain conditions, was positive, as was the growth of our market-linked term deposit portfolio. Market-linked term deposits offer members the potential to earn higher returns on their deposits linked to equity market performance.

Deposit by Type

As at December 31 (in millions of dollars, except as noted)	2021	Mix %	2020	Mix %	Change from 2020	
					\$	%
Demand	9,292	51.3	8,314	47.6	978	11.8
Fixed term	8,826	48.7	9,139	52.4	(313)	(3.4)
Total	18,118	100.0	17,453	100.0	665	3.8

Based on the growth results experienced across deposit product types in our portfolio during the year, the demand deposit portfolio, as a percentage of total deposits, increased by 3.7% to 51.3% at year-end. This shift, combined with generally lower interest rates across our deposit product portfolios, supported a 0.66% decrease in the average interest rate applicable to the overall deposit portfolio funding during the year, which declined to 0.82% from 1.48% in the prior year.

Borrowing

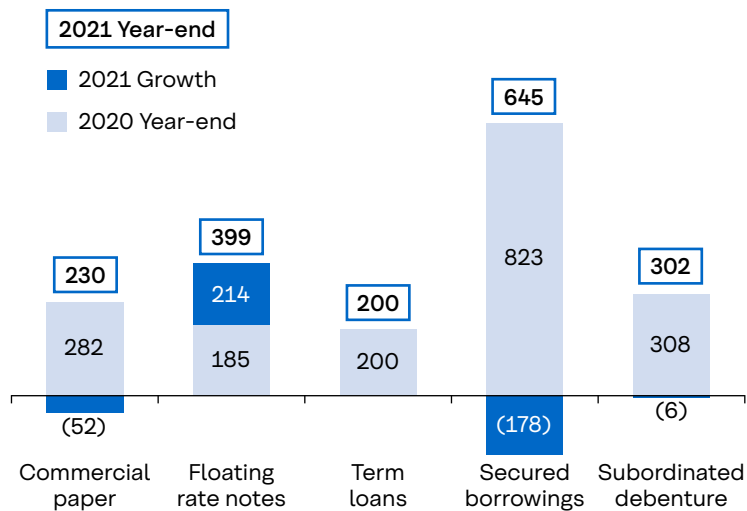
We maintain borrowing facilities through a number of channels and sources to assist in the management of short-term liquidity needs and to support longer-term growth opportunities. Our total borrowing, including subordinated debt, decreased by \$22 million or 1.2% during the year. The modest change in our borrowing balance reflected alternative funding through deposit growth during the year, aligned with loan and other asset growth, including liquidity requirements. Although total borrowing was relatively stable, there were changes in the mix, specifically a reduction in secured, subordinated debenture and commercial paper borrowing, partially offset by an increase in floating rate note borrowings.

Management's Discussion and Analysis

Borrowing by Source

As at December 31 (in thousands of dollars)	2021	Mix %	2020	Mix %	Change from 2020	
					\$	%
Commercial paper	229,845	12.9	282,469	15.7	(52,624)	(18.6)
Floating rate notes	399,316	22.5	184,896	10.3	214,420	116.0
Term loans	200,000	11.3	200,000	11.1	0	0.0
Secured borrowings	644,993	36.3	823,401	45.8	(178,408)	(21.7)
Subordinated debentures	302,242	17.0	307,731	17.1	(5,489)	(1.8)
Total	1,776,396	100.0	1,798,497	100.0	(22,101)	(1.2)

Borrowing by Source (\$ millions)



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. We do this by ensuring that adequate governance is in place and by developing the necessary policies, processes, controls and reporting required to monitor and manage these risks.

Management's Discussion and Analysis

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 culture, risk governance structure and management, risk appetite and risk taxonomy.

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 risks 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 risks 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.

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.

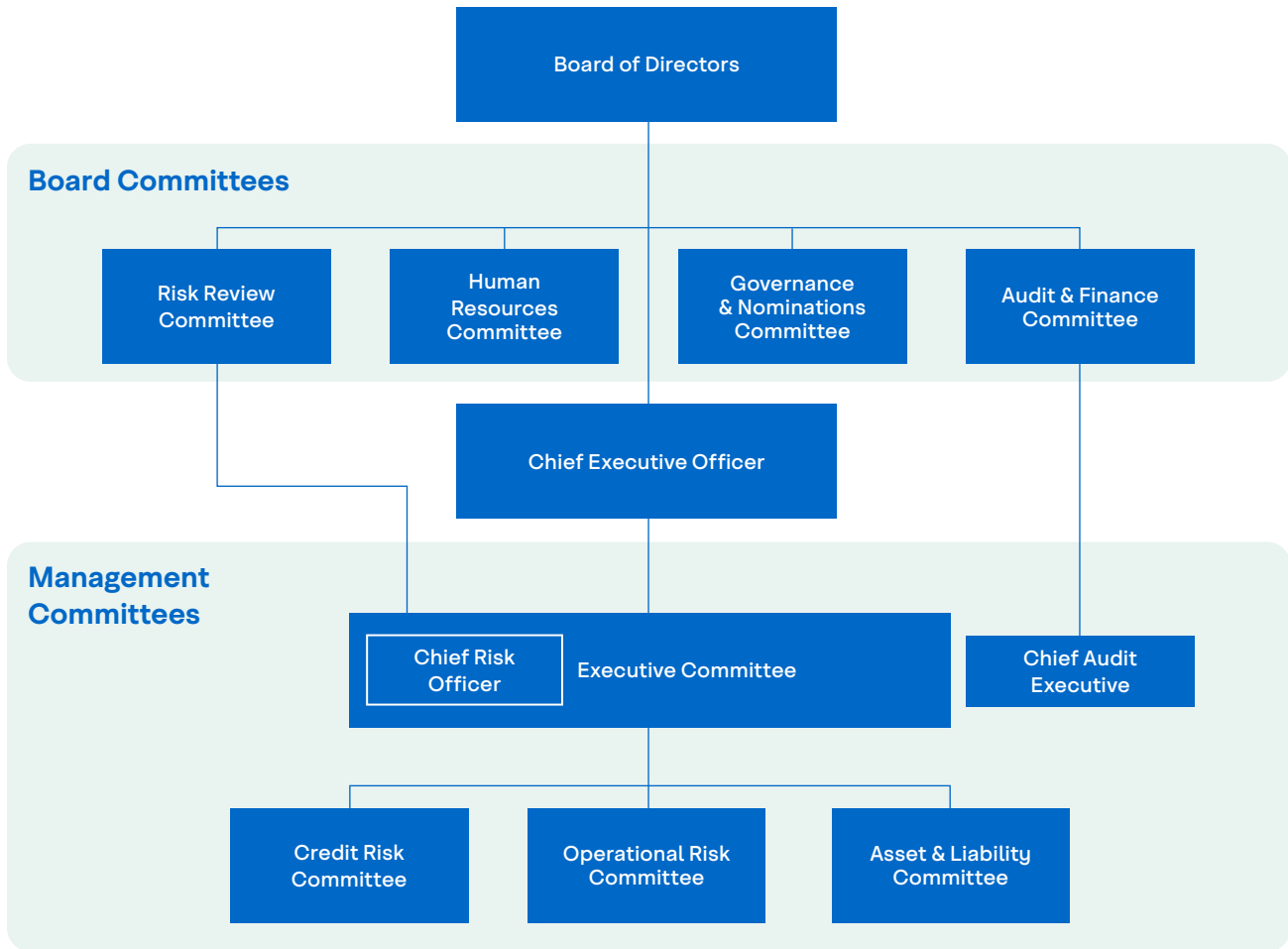
Risk Governance and Management

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 by our governance structure.

Management’s Discussion and Analysis

Risk Management Governance Structure



First Line of Defence	Second Line of Defence	Third Line of Defence
<p>Risk Owners</p> <ul style="list-style-type: none"> All employees across our lines of businesses and control groups Accountable for: <ul style="list-style-type: none"> Identification Assessment Measurement Mitigation Monitoring and reporting of risk against approved policies and appetite 	<p>Risk Oversight</p> <ul style="list-style-type: none"> The Chief Risk Officer (CRO), the Chief Compliance Officer (CCO) and the Chief Anti-Money Laundering Officer (CAMLO) have direct access to the Risk Committee Establishes risk management practices and provides risk guidance Provides oversight of the effectiveness of First Line risk management practices Monitors and independently reports on the level of risk against established risk appetite 	<p>Independent Assurance</p> <ul style="list-style-type: none"> Internal Audit Independent assurance to management and the Board on the effectiveness of risk management practices

Management's Discussion and Analysis

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 the annual operating plan, capital expenditure budgets and any material transactions, 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 and 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 assisting the Board of Directors in fulfilling its responsibilities for oversight of Coast Capital's risk management activities. It oversees the identification, measurement and monitoring of risks impacting and emanating from Coast Capital's strategic and business activities and ensures effective controls are in place. The RRC ensures Coast Capital's risk management activities are independent from operational management, adequately resourced and have appropriate status and visibility throughout the organization. The RRC is also responsible for overseeing the governance of projects undertaken by the Enterprise Project Management Office (previously performed by a separate Project Oversight Committee).
- The *Audit & 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. The AFC also ensures the independence and evaluation of 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 with and support Coast Capital's risk appetite.
- The *Governance & Nominations Committee* (GNC) is responsible for overseeing corporate governance practices to ensure alignment with best practices, regulatory expectations and our purpose and values. The GNC also identifies the priority skills and experience to be sought in director candidates, seeks appropriate candidates for nomination to the Board, and oversees the director nomination and election process.

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 or RRC (or both) 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/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/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.

Management's Discussion and Analysis

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 Categories

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)
- **Financial Risk:** The risk of loss associated with insufficient acquisition or inappropriate management of capital, inability to satisfy cash flow obligations, or market shifts
- **Credit Risk:** The risk of loss associated with the inability or unwillingness of a counterparty, borrower, obligor or guarantor to fulfill its contractual obligations for a financial transaction on a timely basis
- **Operational Risk:** The risk of loss resulting from people, inadequate or failed internal processes and systems, or from external events
- **Regulatory Compliance Risk:** The risk of not conforming to regulatory requirements

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 the changing business, economic and competitive environment.

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

- Supports the identification and assessment of inherent risks and emerging risks. 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

Management's Discussion and Analysis

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

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 Compliance Risk

Our approach to managing and mitigating regulatory compliance risk comprises 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.

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, people risk, model risk and legal risk but excludes strategic risk. Coast Capital's inability to adequately protect against operational risks or to adequately respond to unexpected situations could adversely affect the organization.

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 amongst the Three Lines of Defence with integrated assurance. Risk subject matter experts are responsible for overseeing specific operational risks and provide support and oversight to the First Line of Defence.

Emerging Risks

Coast Capital identifies and assesses emerging risks on an ongoing basis, evaluating the business and economic environment as well as internal operations for potential risks on the horizon. Looking ahead into 2022 and beyond, key emerging risks include:

Business and Economic Conditions

Supply chain bottlenecks caused by the pandemic have had a major impact on prices and inflation rates over the course of the financial year. Volatile energy markets and adverse weather events affecting food production have also contributed to the upward trend. Inflation rates were at an 18-year high of 4.7% in October, rising markedly from 1% recorded in January. With the rise in the number of infections linked to the Omicron variant and increasing restrictions to curtail spread, supply constraints may continue to affect costs of production inputs and consumer prices. Other factors that may contribute to a prolonged upward pressure on prices include labour shortages, climate change disruptions in key agricultural regions, increased money supply from a sustained low-interest rate regime and additional government stimulus programs. The potential consequences to Coast Capital of a prolonged upward trend in inflation include an extended period of increased business costs, policy rate hikes and a resultant economic slowdown impacting Coast Capital's customers. Inflation remains a key macro-economic indicator factored into Coast Capital's stress testing program to manage this risk and inform strategic, financial and capital planning as well as risk appetites.

Management's Discussion and Analysis

Cybercrime Increase and Sophistication

The cybercrime landscape is evolving rapidly, with ransomware events growing in number and size, as well as efficiency through system infection, compromised data and multiple extortion techniques. This leaves organizations exposed to operational disruptions, reputational damage and potential liability. In addition, we see the potential for increased vulnerabilities to digital identity and data privacy risks resulting from remote working models, or business email compromise resulting in member fraud, invoice fraud and potential for account takeovers. Lastly, organizations may see increased exposure from third-party relationships which might not have developed sufficient safeguards.

Labour Market Shifts and Paradigms

In the past two years, businesses invested heavily in digital transformations, and we can expect the pace of technological change to accelerate. In this environment, demand for technology workers is high, making it challenging for organizations to recruit and fill these roles. Simultaneously, pandemic-related fears, lasting remote working arrangements, and changes to roles may result in an unprecedented mass resignation as employees seriously consider opportunities with a different organization, in a different industry or field, and begin to reassess their work-life balance. This will force organizations to adjust their employee value proposition to meet new expectations and mitigate the loss of high-skill, high-performing employees.

Environment, Social & Governance (ESG) Implementation Challenges

Organizations could face challenges with increasing pressure to meet ESG regulatory requirements, investor expectations and customer expectations. The ability to manage ESG risks will be key as demand for sustainability-linked products grows and regulatory oversight materializes. The challenges would result from the imperative to demonstrate risk management and oversight for ESG commitment and diversity, equity and inclusion through reporting and disclosures, leading to higher levels of accountability around ESG progress. Financial institutions will also face challenges and opportunities in re-allocating their portfolios as the de-carbonization of the economy accelerates in years to come.

Climate Change Risk and Disclosures

Coast Capital supports the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). Although still in the early stages, we have begun to work with the TCFD framework to enhance our understanding and disclosure of the evolving risks and impacts associated with climate change, together with possible mitigation strategies.

Aligning with industry efforts to address climate change, Coast Capital joined the Net-Zero Banking Alliance in 2021, becoming part of the global, industry-led initiative to achieve net zero emissions by 2050. We have also maintained certification as a B Corporation™, or B Corp, since 2018, which requires Coast Capital to meet rigorous standards of social and environmental performance.

Governance

The Board of Directors, through its Risk Review Committee, oversees climate risk, which is an established risk category in our ERMF. Senior management reports on climate risk quarterly to the Board of Directors, including any new or emerging issues, progress on risk mitigation, and senior management's assessment of the overall posture of climate risk. Climate risk is captured as part of Coast Capital's risk appetite, for which the organization has Risk Appetite Statements that the Board reviews and considers as part of strategic planning.

Senior Management, in alignment with the requirements of our ERMF, is responsible for assessing climate risk. This includes evaluating the underlying drivers of the risk, implications for the organization, and arriving at a projected likelihood and consequence of climate risk for the organization. As a Strategic Risk, Senior Management reports and discusses climate risk monthly at the Operational Risk Committee (ORC), which has a mandate to oversee Operational, Regulatory, and Strategic Risks for Coast Capital. The Committee comprises senior leaders across the organization, and the Executive Committee receives information and results from the ORC monthly. Management, through its senior leaders, monitors any climate-related issues through ongoing tracking at the ORC.

Management's Discussion and Analysis

Strategy

We are at the initial stages of the process required to identify our climate-related risks and opportunities over the short-, medium-, and long-term. Completion of this process is necessary for us to determine the impact of climate-related risks and opportunities on our businesses, strategy, and financial planning, and to assess the resilience of our strategy, taking into consideration different climate-related scenarios. The steps we have taken in support of this process, general risk mitigation, and in recognition of opportunities are outlined below.

- We have created a climate action roadmap to assist in planning activities to meet the TCFD disclosure requirements and our long-term greenhouse gas (GHG) emission reduction targets. The roadmap includes the identification of internal resource requirements and the engagement of external partners necessary to build our capacity to conduct climate change scenario analysis, in line with the TCFD recommendations.
- We have begun to track and understand our operational GHG footprint through the development of a carbon emissions inventory. Initial GHG analysis has focussed on Scope 1 and Scope 2 operational emissions, as well as certain Scope 3 emissions. We plan to continue to develop and refine our emissions inventory and analysis to include the impacts from our investment and lending activities. This work will provide a baseline to establish targets and to develop disclosure in this area.
- We are engaged in ongoing education activities with our Board and management team as to the responsibilities and expectations with respect to the risks and opportunities relating to climate change.
- We actively monitor regulatory changes related to climate change both globally and nationally, in order to ensure the organization will be in a position to engage with regulators and meet regulatory expectations.
- As part of our wealth management service offer, we launched a new sustainable investment product for members, in partnership with an external asset management company, that integrates environmental, social and governance factors into the investment selection and asset management process.
- We also support collective action on the climate related risks through our community contributions.

Risk Management

Climate risk is defined in our risk taxonomy as the risk of event driven or longer-term shifts in climate patterns, including physical and transition risks, leading to business disruption, stranded assets, or misalignment to a shift to a lower-carbon economy. We identify and assess climate-related risks in accordance with the ERMF. Business units across the organization that are responsible for activities that relate to climate-related risks must identify emerging risks and report them to Risk Management. Management assesses risks using Coast Capital's Risk Rating System, which evaluates the likelihood and consequences of risk scenarios. Climate risk reporting is included in the regular reporting provided to the Board of Directors, through its Risk Review Committee.

We also include specific physical risks related to climate change impacts (such as flooding and fire) in our Internal Capital Adequacy Assessment Process modelling. Any material risk identified through this modelling means we will set aside capital reserves in the event these risks materialize.

Metrics and Targets

Given that we are in the early stages of the process, the metrics and targets used to assess and manage relevant climate-related risks and opportunities are currently a work in progress.

Management's Discussion and Analysis

Risk Information Specific to Our Financial Reporting

(Shaded information that follows on pages 56-60 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, the 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 is committed to maintaining a strong capital base to support the risks associated with its business. We manage our capital in accordance with our internal policy as reviewed and approved by our Board on an annual basis, with review and recommendations from its RRC. The internal policy includes considerations of federal regulations and guidelines as set out by the *Bank Act* and the Office of the Superintendent of Financial Institutions' (OSFI) Capital Adequacy Requirements (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, 2021, 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, which is generated through profitable business operations, remains our primary source of capital. This underscores the importance of our pricing decisions and our efforts to manage expenses prudently to ensure we earn positive and sufficient returns.

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

In accordance with Basel III, the minimum capital base comprises:

- 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
- Tier 2 capital 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.

Management's Discussion and Analysis

Coast Capital uses the Standardized Approach for calculating risk-weighted assets for capital adequacy purposes. Under the Standardized Approach, OSFI-recognized external credit rating agencies are used to determine the credit risk ratings of exposures. The external credit rating agencies used are Standard & Poor's, Moody's and DBRS Morningstar. To assign risk weights to credit exposures not rated by external credit agencies, 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 the date of continuance.

In response to the COVID-19 pandemic and as part of its support for deposit-taking institutions, OSFI introduced temporary regulatory relief measures in 2020 to provide operational capacity for such institutions to respond to and support the immediate financial stability priorities of the Canadian government. Further details are provided in Note 19b to the Consolidated Financial Statements. Coast Capital adopted such changes in line with OSFI's expectations and continues to apply them in our regulatory capital and leverage ratio calculations as at December 31, 2021.

Capital Structure and Regulatory Ratios

Our Common Equity Tier 1 (CET1) capital ratio at year-end was 11.7%, an increase from 11.6% as at the prior year-end. Our Tier 1 capital ratio was 11.8%, an increase from 11.7% as at the prior year-end. Both capital ratios remain strong, and above the internal and external limits. The increase in CET1 and Tier 1 ratios reflects a higher rate of positive capital growth during the year, attributed to retained earnings growth, relative to the rate of risk-weighted asset growth. Risk-weighted asset growth reflects both an increase in our total assets and a shift in our portfolio mix towards lower risk-weighted assets, such as retail residential mortgages and financial investments. Total assets, as measured for the calculation of risk-weighted assets, increased by 3.3%, compared with the prior year-end, while risk-weighted assets increased by 2.9% in the same period.

Our Total Capital ratio at year-end was 14.0%, a decrease from 14.2% as at the prior year-end. The decrease reflects the impact of the 10% phase-out requirements related to our non-qualifying subordinated debenture capital instruments, as discussed above.

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

Management's Discussion and Analysis

As at December 31 (in thousands of dollars)	OSFI line number	2021	2020
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	1	3,047	3,040
Retained earnings	2	1,348,744	1,253,136
Accumulated other comprehensive income (and other reserves)	3	(31)	46,922
Common Equity Tier 1 capital before regulatory adjustments	6	1,351,760	1,303,098
Common Equity Tier 1 Capital: Regulatory Adjustments			
Other deductions or regulatory adjustments to CET1 as determined by OSFI	26	6,364	9,693
Total regulatory adjustments to Common Equity Tier 1	28	(114,472)	(118,282)
Common Equity Tier 1 capital (CET1)	29	1,243,652	1,194,509
Common Equity Tier 1 capital (CET1) with transitional arrangements for ECL provisioning not applied	29a	1,237,288	1,184,816
Additional Tier 1 Capital: Instruments			
Additional Tier 1 capital (AT1)	44	15,709	18,327
Tier 1 capital (T1 = CET1 + AT1)	45	1,259,361	1,212,836
Tier 1 capital (T1 = CET1 + AT1) with transitional arrangements for ECL provisioning not applied	45a	1,252,997	1,203,144
Tier 2 Capital: Instruments and Allowances			
Directly issued capital instruments subject to phase out from Tier 2	47	180,000	210,000
Collective allowances	50	50,596	49,111
Tier 2 capital before regulatory adjustments	51	230,596	259,111
Tier 2 Capital: Regulatory Adjustments			
Tier 2 capital (T2)	58	230,596	259,111
Total capital (TC = T1 + T2)	59	1,489,957	1,471,947
Total capital (TC = T1 + T2) with transitional arrangements for ECL provisioning not applied	59a	1,489,957	1,471,947
Total risk-weighted assets	60	10,641,331	10,337,091
Capital Ratios			
Common Equity Tier 1 (as percentage of risk-weighted assets)	61	11.7	11.6
Common Equity Tier 1 (as percentage of risk-weighted assets) with transitional arrangements for ECL provisioning not applied	61a	11.6	11.5
Tier 1 (as percentage of risk-weighted assets)	62	11.8	11.7
Tier 1 (as percentage of risk-weighted assets) with transitional arrangements for ECL provisioning not applied	62a	11.8	11.6
Total capital (as percentage of risk-weighted assets)	63	14.0	14.2
Total capital (as percentage of risk-weighted assets) with transitional arrangements for ECL provisioning not applied	63a	14.0	14.2
OSFI Target			
Common Equity Tier 1 capital target ratio	69	7.0	7.0
Tier 1 capital target ratio	70	8.5	8.5
Total capital target ratio	71	10.5	10.5
Capital Instruments Subject to Phase-out Arrangements			
Current cap on T2 instruments subject to phase out arrangements	84	60%	70%
Amounts excluded from T2 due to cap (excess over cap after redemptions and maturities)	85	120,000	90,000

Management's Discussion and Analysis

The tables below 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

As at December 31

(in thousands of dollars)

	0%	20%	35%	50%	75%	100%	150% and greater	Total	2021 Risk- weighted assets
Corporate				91,848		4,654,709		4,746,557	4,700,633
Sovereign	1,688,736							1,688,736	0
Bank	264,366	776,313		31,522				1,072,201	171,022
Retail residential mortgages	1,681,923		10,343,574		167,178	1,927		12,194,602	3,747,562
Other retail Excluding small business entities					150,701		991	151,692	114,512
Small business entities				1,063,136			3,020	1,066,156	801,882
Equity Undrawn commitments			2,720		274			2,994	1,157
Operational risk Derivative exposures		15,501					68,128	68,128	851,596
Other	542,755	4				157,159	620	16,121	10,846
Off-balance sheet exposures	11,206				6,036	23,298	21,505	721,423	210,921
Total as at December 31, 2021	4,188,986	791,818	10,346,294	123,370	1,387,325	4,840,466	94,264	21,772,523	10,641,331
Total as at December 31, 2020	4,269,990	533,970	9,778,340	182,537	1,413,432	4,807,061	82,401	21,067,731	10,337,091

Management's Discussion and Analysis

Risk-Weighted Assets by Asset Type

As at December 31

(in thousands of dollars)

				2021	
	Cash, securities and resale agreements	Loans	Other items	Total	Risk-weighted assets
Corporate	128,777	4,617,780		4,746,557	4,700,633
Sovereign	1,688,736			1,688,736	0
Bank	1,072,201			1,072,201	171,022
Retail residential mortgages		12,194,602		12,194,602	3,747,562
Other retail					
Excluding small business entities		151,692		151,692	114,512
Small business entities		1,066,156		1,066,156	801,882
Equity	3,373			3,373	3,373
Undrawn commitments		2,994		2,994	1,157
Operational risk			68,128	68,128	851,596
Derivative exposures			16,121	16,121	10,846
Other	414,551		306,872	721,423	210,921
Off-balance sheet exposures			40,540	40,540	27,825
Total as at December 31, 2021	3,307,638	18,033,224	431,661	21,772,523	10,641,331
Total as at December 31, 2020	2,998,653	17,625,430	443,648	21,067,731	10,337,091

Leverage Ratio

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

Our leverage ratio was 5.8% as at December 31, 2021, unchanged from the prior year-end, and exceeded the current minimum requirement throughout the year.

Management's Discussion and Analysis

Impacts on Leverage Ratio

As at December 31 (in thousands of dollars)	OSFI line number	2021	2020
On-Balance Sheet Exposures			
On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	1	21,166,520	20,233,076
Asset amounts deducted in determining Basel III Tier 1 capital	4	(114,472)	(118,282)
Total on-balance sheet exposures (excluding derivatives and SFTs)	5	21,052,048	20,114,794
Derivative Exposures			
Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	6	5,405	11,517
Add-on amounts for PFE associated with all derivative transactions	7	5,667	2,319
Total derivative exposures	11	15,501	19,370
Securities Financing Transaction Exposures			
Gross SFT assets recognized for accounting purposes (with no recognition of netting), after adjusting for sale accounting transactions	12	288,569	236,617
(Netted amounts of cash payables and cash receivables of gross SFT assets)	13	(288,569)	(236,617)
Counterparty credit risk (CCR) exposure for SFTs	14	46,142	77,151
Total securities financing transaction exposures	16	46,142	77,151
Other Off-Balance Sheet Exposures			
Off-balance sheet exposure at gross notional amount	17	4,453,734	4,281,639
(Adjustments for conversion to credit equivalent amounts)	18	(3,974,431)	(3,812,978)
Off-balance sheet items	19	479,303	468,662
Capital and Total Exposures			
Tier 1 capital	20	1,259,361	1,212,836
Tier 1 capital with transitional arrangements for ECL provisioning not applied	20a	1,252,997	1,203,144
Total exposures	21	21,592,993	20,679,977
Basel III Leverage Ratio	22	5.8	5.8
Basel III Leverage Ratio with Transitional Arrangements for ECL Provisioning Not Applied	22a	5.8	5.7

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 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.

Management's Discussion and Analysis

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 recessions, liquidity and interest rate shocks, earthquakes and cyberattacks.
- Development of contingency plans to be deployed in the event that severe stresses materialize.
- 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 2021 confirms that our capital levels are healthy and sufficient for achieving our strategic plans and for successfully navigating through all stress scenarios considered. Federally regulated financial institutions must maintain robust and credible recovery plans that identify options to restore financial strength and viability when under severe stress. Coast Capital maintains and updates its recovery plan in line with OSFI requirements and industry best practices.

Other Regulatory Capital Developments

In January 2022, OSFI finalized and released updated version of its CAR, Leverage Requirements (LR), and Liquidity Adequacy Requirements (LAR) guidelines and issued the new Small- and Medium-Sized Deposit-Taking Institutions Capital and Liquidity Requirements (SMSB Capital and Liquidity Guideline) and Pillar 3 Disclosure Requirements for SMSB guidelines (collectively OSFI Reforms), which are applicable to Coast Capital. The OSFI Reforms incorporate the latest and final round of internationally agreed-upon Basel III reforms. The OSFI Reforms include, amongst other changes:

- Revised standardized approach for credit risk
- Introduction of new operational risk capital rules including a new Simplified Standardized Approach available to SMSBs
- Changes to the leverage ratio calculation requirements to align with revisions to the CAR guideline
- Separate SMSB capital, liquidity and disclosure requirements to align with the size and complexity of the federally regulated financial institutions

Based on the latest OSFI announced implementation timelines, revised Basel III requirements are effective Q2 2023. Coast Capital has started preparing for and working towards these regulatory changes.

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 ongoing and new business activities as well as to withstand a range of stresses, by maintaining sufficient levels of High Quality Liquid Assets (HQLA).

Management's Discussion and Analysis

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

Risk Management

As a federal credit union, Coast Capital must adhere to guidelines and requirements as set out by OSFI, including guidelines and requirements specific to maintaining adequate and appropriate forms of liquidity.

Liquidity Adequacy Requirements

Coast Capital manages its liquidity to comply with the regulatory liquidity metrics according to the OSFI 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 HQLAs to meet net short-term financial obligations over a 30-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 for liquidity throughout the year ended December 31, 2021.

Supplemental Liquidity Management Activities

Contingency Funding Plan. We maintain a liquidity Contingency Funding Plan, which includes ongoing monitoring of our liquidity levels, as well as the actions that will be taken should we experience a liquidity event (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. The Contingency Funding Plan is regularly tested and updated.

Resolution Plan. Federally regulated financial institutions must maintain robust and credible recovery plans that identify options to restore financial strength and viability when under severe stress. Coast Capital maintains and updates its recovery plan in line with OSFI requirements and industry best practices.

Stress Testing Program. We maintain a liquidity stress testing program that:

- Considers extreme but plausible scenarios that capture both Coast Capital 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 comprises primarily of securities issued or guaranteed by the Government of Canada, provinces or municipalities. As at December 31, 2021, liquid assets held by the Credit Union totalled \$2.7 billion and represented 12.5% of total assets.

Management's Discussion and Analysis

Liquid Assets

As at December 31

(in thousands of dollars)

2021

Cash and cash resources	58,110
Financial Investments	
Securities issued or guaranteed by sovereigns	57,700
<i>National Housing Act</i> (NHA) mortgage-backed securities	671,112
Canada Mortgage Bonds	378,899
Securities issued by provinces or municipalities	726,041
Securities purchased through reverse repurchasing agreements	288,569
Covered bonds (not self-issued)	44,660
Non-financial corporate bonds	143,654
NHA mortgage-backed securities (reported as loans at amortized cost)	339,245
Total Liquid Assets	2,707,990
Total Assets	21,587,780
Encumbered Assets	698,822
Unencumbered Assets	2,009,168

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 time-frame under consideration. Nevertheless, by their nature, certain assets 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 maintain suitable diversification of our funding sources. This includes diversification across tenors and across products, markets and providers of retail and wholesale liquidity, including retail and commercial deposits, institutional deposits, borrowing facilities, debt capital markets, securitization and repurchase agreements.

Diversification across funding sources reduces reliance on any single channel or source. Moreover, we recognize that funding relationships where we are able to build deeper connections, such as with our retail and commercial members, provide more stability and are preferable to single-point relationships, such as capital markets and institutional. This recognition is also aligned with our member-centric focus.

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. The limits established take into consideration, among other things, the volatility of the funding sources.

In addition, a monthly report is submitted to ALCO on our liquidity position, which includes:

- Information on our concentration of funding across a number of time horizons
- Market-related monitoring tools, such as:
 - Unsecured and secured funding rates for various tenors and by specific instrument 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

Management's Discussion and Analysis

Maintaining healthy borrowing facilities and options is an essential element for managing short-term funding needs and for realizing longer-term growth opportunities. Our borrowing channels include facilities with Central 1 and other financial institutions, and participation in the Government of Canada's *National Housing Act* Mortgage Backed Securities (NHA MBS) and Canada Mortgage Bond (CMB) programs. Additionally, to expand and diversify our funding options, we maintain DBRS Morningstar short-term and long-term issuer ratings.

The borrowing programs and facilities we currently maintain include:

- 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 2021, our borrowing through these programs decreased by \$178 million, to a total outstanding balance of \$645 million at year-end.
- Lines of credit and short-term borrowing facilities with Central 1 and other financial institutions. Borrowings through these facilities were maintained at \$200 million in 2021.
- Short-term commercial paper based on our DBRS Morningstar short-term issuer rating. Our short-term issuer rating of R-1 (low) was originally obtained in 2016 and was reconfirmed in 2021. At year-end, the outstanding balance of issued short-term commercial paper was \$230 million.
- Floating rate notes. Two floating rate notes were issued in 2021, with a combined principal amount of \$400 million. A previously issued floating rate note with a principal amount of \$185 million matured in 2021.
- Long-term subordinated debentures based on our DBRS long-term issuer rating. In 2018, we issued \$300 million in long-term subordinated debentures, which remained outstanding at year-end, under a DBRS confirmed issue rating of BBB. Further details are provided in Note 16 of the Notes to the Consolidated Financial Statements.

In addition to the above, at the onset of the COVID-19 pandemic the Bank of Canada initiated liquidity programs to assist financial institutions during the crisis as an additional risk mitigation measure. Coast Capital remains eligible for a number of programs established by the Bank of Canada including the Standing Term Liquidity Facility (STLF) and the Emergency Lending Assistance (ELA). Coast Capital did not utilize these programs during 2020 and 2021.

Our credit ratings demonstrate the soundness of our financial position, providing assurance to our members and to capital market participants. Changes to our credit ratings impact our 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. The credit ratings provided by rating agencies reflect the views of the rating providers and are subject to change based on a number of factors, including our financial strength, competitive position and liquidity, in addition to factors not entirely within our control, including the methodologies used by rating agencies and conditions affecting the overall financial services industry. Our DBRS Morningstar long-term issuer rating of BBB (high) and our short-term issuer rating of R-1 (low) were reconfirmed in 2021 without change.

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 related to credit commitments.

Note 28 in the Consolidated Financial Statements provides details of the mismatch between the contractual maturity of our on-balance sheet assets and liabilities. Under normal market conditions, these maturity gaps 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.

Management's Discussion and Analysis

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. Credit and counterparty risk includes credit default, credit concentration and settlement risk. Coast Capital supports a strong risk culture by maintaining a Credit Risk Management Framework and supporting policies 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 RRC, 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 approval from Credit Risk Management.

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 valuations, third-party valuations are used, such as appraisals and automated valuation models. To ensure that risk remains within established tolerance levels, monitoring and periodic reassessment 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-balance sheet. For on-balance sheet 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.

Management's Discussion and Analysis

Maximum Exposure to Credit Risk

As at December 31, 2021

(in thousands of dollars)

	Banking	Derivatives
On-Balance Sheet		
Cash held at Central 1	346,153	
Investments held at Central 1	45,000	
Other investments	2,910,238	
Loans	18,008,669	
Derivative instruments	–	5,405
Accounts receivable and accrued interest	38,636	
	21,348,696	5,405
Off-Balance Sheet		
Letters of credit	78,908	
Commitments to extend credit	4,372,653	
	4,451,561	–
Maximum exposure to credit risk	25,800,257	5,405

Credit Risk Mitigation

As at December 31, 2021 (in thousands of dollars)	Amounts in Consolidated Balance Sheet	Amounts covered by:		
		Financial collateral received or pledged	Guarantees/ credit derivatives	Net amounts
Financial Assets				
Loans				
Residential mortgages	12,200,883	–	1,681,923	10,518,960
Personal loans	414,424	14,328	–	400,096
Commercial loans and mortgages	4,628,522	3,878	–	4,624,644
Equipment financing	764,840	–	–	764,840
Financial investments	2,841,840	–	–	2,841,840
Derivatives	5,405	–	–	5,405
Total	20,855,914	18,206	1,681,923	19,155,784

Credit 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 68.0% of our total outstanding loans. 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 in areas serviced by our branches located in the central Vancouver Island region and in the B.C. Interior. Residential real estate prices in our region of operation have experienced significant price increases in recent years. 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.

Management's Discussion and Analysis

Distribution of Loans by Credit Portfolio and Industry

As at December 31 (in thousands of dollars)	Outstanding loans	Mix %	Undrawn commitments	Letters of credit	Total exposure
Retail mortgages	12,198,378	67.9	1,958,526		14,156,904
Retail loans	404,329	2.3	831,415		1,235,744
Commercial					
Accommodation and food services	275,274	1.5	14,054	176	289,504
Construction	1,731,782	9.6	940,471	56,054	2,728,307
Health care and social assistance	99,983	0.6	1,933	110	102,026
Management of companies and enterprises	42,397	0.2	1,479	520	44,396
Manufacturing	59,167	0.3	9,144	164	68,475
Other	191,013	1.1	19,900	13,899	224,812
Professional, scientific and technical services	24,062	0.1	3,920	1,007	28,989
Real estate and rental and leasing	1,983,723	11.1	70,859	4,747	2,059,329
Retail and wholesale trade	105,936	0.6	10,313	1,835	118,084
Transportation and warehousing	834,760	4.7	7,884	396	843,040
Total	17,950,804	100.0	3,869,898	78,908	21,899,610

Counterparty Credit Risk on Derivative Exposures

Over-the-counter derivative instruments are subject to credit risk as 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. Counterparty credit risk is mitigated through:

- Limiting transactions to approved counterparties
- Using master netting agreements, collateral pledging and approved issuer lists, which focus on strong credit quality
- Strong governance through a formal Investment policy, which provides limits and requirements for issuers, asset classes and credit risk ratings
- Active monitoring of compliance with all applicable limits

Details on counterparty credit risk exposure from our derivatives are provided in Note 29 of the Notes to the Consolidated Financial Statements.

Market Risk

Market risk relates to market fluctuations in interest rates and foreign exchange rates 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, as a result of the maturity mismatch between loans and deposits, deposit interest costs increase 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 prepayment or deposit redemption features). As our current statement of financial position profile has a larger proportion of variable-rate assets versus variable-rate liabilities, there is an immediate impact on our net interest income, which is compressed as interest rates decline.

Our Treasury department employs strategies to manage the spread between deposit and loan rates for different maturities while remaining within risk appetite policy limits. The Treasury department 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.

Management's Discussion and Analysis

Asset and Liability Maturities

As at December 31

(in thousands of dollars)

	2021			2020		
	Assets	Liabilities and equity	Differential	Assets	Liabilities and equity	Differential
Variable rate	6,898,110	6,736,198	161,912	6,089,293	5,998,604	90,689
Interest sensitive maturing:						
Under 3 months in 2021	1,100,205	2,584,680	(1,484,475)	969,176	2,060,504	(1,091,328)
Over 3 to 6 months in 2021	590,184	1,407,822	(817,638)	567,384	1,503,366	(935,982)
Over 6 to 12 months in 2021	1,123,816	3,703,712	(2,579,896)	1,411,650	3,296,905	(1,885,255)
Over 1 to 5 years in 2022 to 2026	10,817,645	2,007,844	8,809,801	11,078,740	3,378,057	7,700,683
Over 5 years in 2027 and beyond	288,564	307,678	(19,114)	209,949	307,010	(97,061)
Non-interest-bearing items ⁽¹⁾	769,256	4,839,846	(4,070,590)	546,692	4,328,438	(3,781,746)
	21,587,780	21,587,780	–	20,872,884	20,872,884	–

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 primarily comprises 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.

Management's Discussion and Analysis

Risk Metrics

We conduct sensitivity analysis related to our net interest income (NII) and our economic value of equity 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 generate stable and predictable earnings over time while also protecting economic value.

The table below provides an estimate of the sensitivity of our 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, that would result from a 1% change in interest rates.

(in thousands of dollars)	2021	2020
1% increase in rates	8,590	11,205
1% decrease in rates	(11,263)	(14,816)

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

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 International Financial Reporting Standards (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.

Management's Discussion and Analysis

Use of Critical Estimates and Judgments

The preparation of financial information requires the use of estimates and judgments about future conditions. Management's selection of Coast Capital's significant accounting policies, which contain critical estimates and judgments, are discussed in Note 2 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.

Management has considered and reflected, in its use of estimates and judgments, the impact from the global pandemic related to COVID-19. The full extent of the impact from the pandemic on the Canadian economy and Coast Capital's operations, including government and regulatory responses, remains uncertain and difficult to predict at this time.

Item	Further relevant information	
	Consolidated Financial Statements	MD&A
Allowance for expected credit losses	Notes 2(c), 7	Credit and counterparty risk
Valuation of financial instruments	Note 30	Market risk
Income taxes and deferred tax assets	Notes 2(h), 25	
Impairment of goodwill and other intangible assets	Notes 2(g), 10	
Leases	Notes 2(e), 18	

Future Accounting Changes

The International Accounting Standards Board (IASB) has issued and amended accounting standards that are effective for Coast Capital after December 31, 2021. Refer to Note 4 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, as well as the accounting systems from which they are derived, management maintains comprehensive internal controls over transactions and related accounting practices. 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, comprising five 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 and meet periodically with 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, 2021
- the consolidated statement of income for the year then ended
- the consolidated statement of 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 balance sheet of the Credit Union as at December 31, 2021 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 Consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 & 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 Charges with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, 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 consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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 Credit Union to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The logo for KPMG LLP, featuring the letters 'KPMG' in a large, bold, sans-serif font, with 'LLP' in a smaller font to the right. A horizontal line is drawn underneath the letters.

Chartered Professional Accountants

Vancouver, Canada
February 24, 2022

Consolidated Balance Sheet

As at December 31

(Amounts in thousands of Canadian dollars)

	Notes	2021	2020
Assets			
Cash and cash resources		414,551	188,546
Interest-bearing deposits with financial institution	5	45,000	49,594
Financial investments	6	2,841,840	2,752,914
Loans	7		
Residential mortgages		12,200,883	11,862,364
Personal loans		414,424	373,931
Commercial mortgages and loans		4,628,522	4,528,308
Equipment financing		764,840	837,981
		18,008,669	17,602,584
Allowance for loan losses	7	(57,865)	(59,371)
		17,950,804	17,543,213
Premises and equipment	9	80,757	95,668
Goodwill and intangible assets	10	111,603	112,502
Deferred tax assets	25	24,374	12,215
Derivative assets	29	5,405	11,517
Other assets	11	113,446	106,715
Total assets		21,587,780	20,872,884
Liabilities			
Deposits	12	18,118,265	17,453,291
Borrowings	13	829,161	667,365
Secured borrowings	14	644,993	823,401
Subordinated debentures	16	302,242	307,731
Derivative liabilities	29	61	154
Other liabilities	17	319,794	294,769
Total liabilities		20,214,516	19,546,711
Members' Equity			
Share capital	20	24,330	25,890
Retained earnings		1,350,787	1,253,361
Accumulated other comprehensive (loss) income		(1,853)	46,922
Total members' equity		1,373,264	1,326,173
Total liabilities and members' equity		21,587,780	20,872,884

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	2021	2020
Interest Income			
Loans	21	546,103	577,942
Cash and financial investments	21	36,897	53,516
Derivatives	21	5,559	12,083
		588,559	643,541
Interest Expense			
Deposits	21	147,035	256,408
Borrowings	21	38,823	48,661
		185,858	305,069
Net Interest Income			
Provision for credit losses	7	1,829	23,427
Net interest income after provision for credit losses		400,872	315,045
Non-Interest Income			
Fees and commission income	22	93,472	84,165
Net gain from securitization activities		1,399	2,211
Net gain from sale of financial investments		7,915	–
Other income		6,548	4,761
		109,334	91,137
Net interest and non-interest income		510,206	406,182
Non-Interest Expenses			
Salaries and employee benefits	23	211,032	193,733
Administration	24	83,231	75,429
Technology		43,175	39,836
Occupancy		12,271	12,573
Depreciation and amortization	9,10	35,618	34,155
Community contributions		3,927	3,932
		389,254	359,658
Income Before Provision for Income Taxes			
Provision for income taxes	25	22,173	11,175
Net income		98,779	35,349

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)

	2021	2020
Net Income	98,779	35,349
Other Comprehensive (Loss) Income, Net of Income Taxes		
Items that will not be reclassified subsequently to net income:		
Actuarial gains (losses) on defined benefit pension plans	427	(299)
- before income taxes	515	(360)
- income tax (provision) recovery	(88)	61
Items that will be reclassified subsequently to net income:		
Unrealized (losses) gains on financial investments classified at fair value through other comprehensive income	(47,727)	31,794
- before income taxes	(57,502)	38,492
- income tax recovery (provision)	9,775	(6,698)
Net (losses) gains on effective portion of cash flow hedges	(1,048)	2,651
- before income taxes	(1,263)	3,209
- income tax recovery (provision)	215	(558)
Total other comprehensive (loss) income	(48,348)	34,146
Total comprehensive income	50,431	69,495

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	2021	2020
Share Capital			
	20		
Balance at beginning of year		25,890	27,534
Shares issued		491	285
Shares redeemed		(2,051)	(1,929)
Balance at end of year		24,330	25,890
Retained Earnings			
Balance at beginning of year		1,253,361	1,219,355
Net income		98,779	35,349
Actuarial gains (losses) on defined benefit plans, net of income taxes		427	(299)
Share dividends		(319)	(374)
Income tax deduction on dividends	54	65	
Other equity adjustments		(1,515)	(735)
Balance at end of year		1,350,787	1,253,361
Accumulated Other Comprehensive Income			
Financial Investments Classified as FVOCI			
Balance at beginning of year		46,059	14,265
Other comprehensive (loss) income		(47,727)	31,794
Balance at end of year		(1,668)	46,059
Cash Flow Hedges			
Balance at beginning of year		863	(1,788)
Other comprehensive (loss) income		(1,048)	2,651
Balance at end of year		(185)	863
Total accumulated other comprehensive (loss) income		(1,853)	46,922
Total members' equity		1,373,264	1,326,173

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)

	2021	2020
Cash Flows from Operating Activities		
Income before provision for income taxes	120,952	46,524
Adjustment for non-cash items:		
Depreciation and amortization	35,618	34,155
Provision for credit losses	1,829	23,427
Unrealized foreign exchange (gains) losses within financial investments	(2,105)	2,390
Net gain on disposal of premises and equipment	(114)	–
Changes in operating assets and liabilities		
Change in other assets	6,633	(5,413)
Change in other liabilities	9,137	(37,567)
Net increase in loans	(409,420)	(577,689)
Net increase in deposits	664,974	970,958
Income taxes paid	(28,094)	(5,639)
Net cash from operating activities	409,410	451,146
Cash Flows from Investing Activities		
Net investment in financial investments	(139,731)	(32,728)
Purchase of premises, equipment and intangible assets, net of disposals	(19,694)	(47,024)
Net cash used in investing activities	(159,425)	(79,752)
Cash Flows from Financing Activities		
Net redemption of borrowings	(22,101)	(360,939)
Proceeds from share capital issued	491	285
Redemption of share capital	(2,051)	(1,929)
Dividends paid	(319)	(374)
Net cash used in financing activities	(23,980)	(362,957)
Net Increase in Cash and Cash Resources	226,005	8,437
Cash and cash resources, beginning of year	188,546	180,109
Cash and cash resources, end of year	414,551	188,546
Supplemental Disclosure of Cash Flow Information		
Cash flows from (used in) operating activities includes:		
Interest received	590,488	647,953
Interest paid	(148,428)	(256,169)
Dividends received	92	87

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

Notes to the Consolidated Financial Statements

Coast Capital Savings Federal Credit Union and its subsidiaries (Coast Capital, we, our) are located in Canada and provide financial services to members principally in the Metro Vancouver, Fraser Valley, Vancouver Island and Okanagan regions of British Columbia. Our head and registered office is located at 800-9900 King George Boulevard, Surrey, British Columbia.

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

Coast Capital is a member of the Canada Deposit Insurance Corporation.

The consolidated financial statements have been approved for issue by the Board of Directors (the Board) on February 24, 2022.

1. Basis of Presentation

a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the accounting guidelines as issued by the Office of the Superintendent of Financial Institutions Canada (OSFI), as required under Section 308(4) of the *Bank Act*. IFRS comprise accounting standards as issued by the International Accounting Standards Board (IASB) as well as interpretations issued by the IFRS Interpretations Committee.

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

b) Basis of Measurement

The consolidated financial statements have been prepared on a 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 the 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, Including Consideration of Impacts from COVID-19

The preparation of financial information requires the use of estimates and judgments about future conditions. The unprecedented COVID-19 pandemic continues to have ongoing but receding impacts on the markets where Coast Capital operates. Management has considered and reflected this uncertainty related to our macroeconomic environment in its use of estimates and judgments. 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 future reporting periods 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 disclosed below. It reflects the materiality of the items to which the policies are applied and the high degree of judgment and estimation uncertainty involved. The judgments and estimates impacted by the pandemic that have the most significant effect on amounts recognized in the consolidated financial statements pertain to estimation for allowance for expected credit losses.

Notes to the Consolidated Financial Statements

1. Basis of Presentation (Continued)

Allowance for Expected Credit Losses

Coast Capital's accounting policy for determining expected credit losses (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 including such conditions impacted by the pandemic. Details of such judgments and estimates are described further in Note 7 Loans and allowance for credit losses. 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 to.

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.
- 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.

Notes to the Consolidated Financial Statements

1. Basis of Presentation (Continued)

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

Leases

Coast Capital applies judgment in determining the appropriate lease term on a lease-by-lease basis. Facts and circumstances that create an economic incentive to exercise a renewal option or not to exercise a termination option are considered. The periods covered by renewal or termination option are only included in the lease term if it is reasonably certain that Coast Capital will exercise the option; management considers 'reasonably certain' to be a high threshold. Changes in economic environment may impact management's assessment of the lease term and any subsequent changes in this estimate may have a material impact on Coast Capital's Consolidated Balance Sheet and Consolidated Statement of Income.

In determining the carrying amount of right-of-use (ROU) assets and lease liabilities, Coast Capital is required to estimate the incremental borrowing rate specific to each leased asset or portfolio of leased assets if the interest rate implicit in the lease is not readily determinable. Coast Capital determines the incremental borrowing rate by incorporating Coast Capital's creditworthiness, the security, term and value of the ROU asset, and the economic environment in which the leased asset operates. The incremental borrowing rates are subject to change mainly due to changes in the macroeconomic environment.

2. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

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. Control is presumed with an ownership interest of more than 50% of the voting rights unless there are other factors that indicate that Coast Capital does not control the investee despite having more than 50% of the voting rights. 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, 2021, Coast Capital, either directly or indirectly through its subsidiaries, controls the following corporations for which head offices are 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%
Coast Capital Equipment Leasing Ltd.*	100	100%
Coast Capital Auto & Equipment Finance Ltd.*	76,000	50%

* As of January 1, 2022, Travelers Finance Ltd. changed its name to Coast Capital Auto & Equipment Finance Ltd. and Travelers Leasing Ltd. changed its name to Coast Capital Equipment Leasing Ltd.

Notes to the Consolidated Financial Statements

2. Significant Accounting Policies (Continued)

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 three 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 (SICR) since origination (Stage 2), and lifetime losses on assets in default (Stage 3).

The determination of an SICR 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 quarterly based on three 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 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.

Notes to the Consolidated Financial Statements

2. Significant Accounting Policies (Continued)

PD represents the likelihood a loan will not be repaid and will go into default in either a 12-month period or in the remaining lifetime of the arrangement if a significant increase in 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 British Columbia and 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 ECL. Our ECL methodology also requires the use of experienced credit judgment to incorporate the estimated impact of factors that are not captured in the modelled ECL results. We applied experienced credit judgment to reflect the continuing impact of the uncertain environment on credit conditions and the economy as a result of the COVID-19 pandemic. The allowance is sensitive to changes in both economic forecasts and the probability-weight assigned to each forecast scenario.

Coast Capital determines ECL using three probability-weighted forward-looking scenarios. These scenarios include a “base” case scenario that represents the most likely outcome and two additional scenarios representing the optimistic and pessimistic outcomes. These additional scenarios are designed to capture material non-linearity of potential credit losses in portfolios.

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.

Fee and Commission Income

Wealth Management Investment Commissions

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

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, but not limited to, Automated Teller Machines (ATM) transactions, cash withdrawals, issuance of paper account statements, wire transfers and money orders, Non-Sufficient Funds (NSF) fees, utilization of cheques, and e-Transfers. 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. Coast Capital also 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.

Notes to the Consolidated Financial Statements

2. Significant Accounting Policies (Continued)

Credit Card Commissions

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.

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.

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.

e) Leases

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 is included in Net interest income in the Consolidated Statement of Income and is 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. An ROU 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.

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 ROU 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 remeasured following a change in cash flows, which is 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 ROU asset.

The ROU 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, ROU assets are measured at cost less accumulated depreciation and impairment losses. ROU assets are depreciated over the shorter period of the lease term and useful life of the underlying asset.

ROU assets and lease liabilities are included in Premises and equipment and Other liabilities respectively, in the Consolidated Balance Sheet.

Notes to the Consolidated Financial Statements

2. Significant Accounting Policies (Continued)

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 Consolidated Statement of Income.

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

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

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.

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 its initial cost less accumulated impairment losses. 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, including those under development, 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

Coast Capital's income taxes comprise 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.

Notes to the Consolidated Financial Statements

2. Significant Accounting Policies (Continued)

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.

In determining the provision for income taxes, we interpret tax legislation, case law and administrative positions in numerous jurisdictions and, based on our judgment, record our estimate of the amount required to settle tax obligations. We also make assumptions about the expected timing of the reversal of deferred tax assets and liabilities. If our interpretations and assumptions differ from those of tax authorities or if the timing of reversals is not as expected, our provision for income taxes could increase or decrease in future periods. The amount of any such increase or decrease cannot be reasonably estimated.

In our calculation of the current and future income tax provision, Coast Capital performs an evaluation of the small business tax rate available to eligible credit unions under the *Income Tax Act* (ITA). In general, the small business tax rate applies until retained earnings reach five percent of amounts owing to members, including deposits and shares. Coast Capital's business plan includes an estimate of deposit, share and income growth in our forecast horizon, which provides the basis in determining the small business tax rate under the ITA.

Current tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities, usually in respect of income taxes levied by the same tax authority on the same taxable entity, and if Coast Capital intends to settle current tax liabilities and assets on a net basis or settle the tax assets and liabilities simultaneously.

Deferred tax assets and liabilities are offset if Coast Capital has a legally enforceable right to set off the deferred tax assets and liabilities related to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities, but the entities intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously for each future period, in which these differences reverse.

i) Employee Benefits

Coast Capital provides pension and other post-retirement benefit plans to its employees through both defined benefit and defined contribution plans.

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 also provides other post-retirement defined benefits to its eligible employees, and the obligations comprise 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 Consolidated Statement of Comprehensive Income and are not recycled to the Consolidated Statement of Income.

Notes to the Consolidated Financial Statements

2. Significant Accounting Policies (Continued)

Coast Capital is a participating member of the British Columbia Credit Union Employees' Pension Plan (the Plan), a multi-employer defined benefit plan. 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 manner as other defined benefit plans 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

As each member credit union participating in the Plan is exposed to the actuarial risks of the other employers, the result, in management's opinion, is that there is no reasonable way to allocate defined benefit obligations. The Plan has informed Coast Capital that it is 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.

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

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) Recognition, Classification and Measurement of Financial Instruments

Coast Capital's Consolidated Balance Sheet consists primarily of financial instruments, and the majority of our net income is derived from income and expenses, as well as gains and losses related to the respective financial instruments.

Financial instrument assets include cash and cash resources, interest-bearing deposits with financial institutions, financial investments, loans including securitization retained interests, derivative assets and other receivables. Financial instrument liabilities include deposits, borrowings, secured borrowings, subordinated debt, derivative liabilities and other liabilities.

Notes to the Consolidated Financial Statements

2. Significant Accounting Policies (Continued)

Financial assets and liabilities are recognized when Coast Capital becomes a party to their contractual provisions, namely the date of acquisition or issuance of the financial instrument. Regular-way purchases and sales of financial assets are recognized on a trade-date basis.

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)
- Amortized cost (AMC)

Financial Assets that are Debt Instruments

The classification of financial assets that are debt instruments is 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
- 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 comprises only 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 introduce 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 including transaction costs.

Notes to the Consolidated Financial Statements

2. Significant Accounting Policies (Continued)

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 on expected losses are recorded in the Consolidated Statement of Income.

AMC

Debt instruments are classified and measured at amortized cost when they are held in a business model where the objective is HTC and SPPI is met. 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 on expected 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 interest income unless only minor modifications (based on a present value of future cash flows test) were made to the loan, in which case the fees are deferred and amortized over the remaining term of the loan. Loan discharge and administration fees are recorded directly to income when the loan transaction is complete. Loan syndication fees are included in income when the syndication is completed and Coast Capital has retained no part of the package for itself or, if part has been retained, it bears the same effective interest as other participants.

FVTPL and Fair Value Option

Debt instruments are classified and measured at FVTPL unless it is classified in one of the preceding categories. Debt instruments measured at FVTPL are recorded at fair value, and any unrealized gains or losses arising due to changes in fair value are included in Non-interest income in the Consolidated Statement of Income. Any transaction cost for such instruments is expensed to 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. Coast Capital had designated some of its loans at FVTPL.

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 the Consolidated Statement of 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 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.

Notes to the Consolidated Financial Statements

2. Significant Accounting Policies (Continued)

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 neither been retained nor substantially transferred but control of the asset has transferred.

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.

If the transfer of an asset does not meet the criteria for derecognition, Coast Capital continues to recognize the financial asset and also recognizes a financial liability for the consideration received upon transfer, in the Consolidated Balance Sheet.

The derecognition criteria are also applied to part of an asset, rather than the whole asset, or to a group or similar financial assets in their entirety, when applicable. When it is applied to part of an asset, the part comprises specifically identified cash flows, a fully proportionate share of the asset, or a fully proportionate share of a specifically identified cash flow from the financial asset.

Securitization

Securitization is the process by which financial assets are transformed into marketable securities. Coast Capital securitizes residential and commercial mortgages through the Government of Canada's *National Housing Act* Mortgage-Backed Securities (NHA MBS) and Canada Mortgage Bond (CMB) programs, which are facilitated by the Canada Mortgage and Housing Corporation (CMHC). Coast Capital securitizes the pooled loans through the creation of MBS and the ultimate sale of MBS to third-party investors or through the CMB program.

Securitized Loans and Securitization Liabilities

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. As such, insured loans in MBS that are sold to third parties but do not qualify for derecognition continue to be classified as Loans on the Consolidated Balance Sheet. These are measured at amortized cost and are reported net of unamortized origination fees and insurance costs.

In addition, these MBS transactions are considered Secured Borrowings (see Note 14) and result in the recognition of securitization liabilities. Securitization liabilities are measured at amortized cost and are reported net of any unamortized premiums or discounts and transaction costs incurred in obtaining such financing.

Notes to the Consolidated Financial Statements

2. Significant Accounting Policies (Continued)

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 loans that were sold, over the yield paid to investors, less credit losses and other costs. The interest and fees collected, net of the yield paid to investors, are recorded in Net interest income in the Consolidated Statement of Income using the effective interest method over the term of the securitization.

Coast Capital provides reinvestment assets as collateral for the unsecured portion of secured borrowings created through amortization of the sold residential mortgages.

Net Gain from Securitization Activities

When an asset is derecognized, the related loans are removed from the Consolidated Balance Sheet, and a corresponding gain or loss is recognized in the Consolidated Statement of Income under Non-interest income – Net gain from securitization activities.

Securitization Retained Interest and Servicing Liability

For certain securitization transactions that qualify for derecognition, Coast Capital has a continuing involvement in the securitized asset that is limited to retained rights in future excess interest and the liability associated with servicing these assets. As required under IFRS, this retained interest is classified at AMC and presented under Other Assets on the Consolidated Balance Sheet. The servicing liability is presented as part of Other Liabilities on the Consolidated Balance Sheet. During the term of the securitization as cash is received for the underlying loans, the retained interest and servicing liability are amortized and recognized under Interest expense and Non-interest income – Net gain from securitization activities respectively, on the Consolidated Statement of Income.

n) Derivative Financial Instruments

Coast Capital uses derivative financial instruments primarily to manage exposure to interest rate risk. Derivative instruments that are typically utilized include interest rate swaps, bond forwards, total return swaps and equity options. Interest rate swaps are used to adjust exposure to interest rate risk by modifying the maturity characteristics of existing assets and liabilities. Bond forwards are used to hedge interest rate exposures for Coast Capital's loan commitment contracts. Total return swaps are used to hedge the reinvestment risk between the amortizing MBS and the bullet CMB related to its CMB activities.

When derivatives are held for non-trading purposes, and transactions meet the hedge accounting requirements of IAS 39, they receive hedge accounting treatment, as appropriate.

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.

Notes to the Consolidated Financial Statements

2. Significant Accounting Policies (Continued)

Fair Value Hedge

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but it does result 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 the Consolidated Statement of Income. 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 Non-interest income – Other Income in the Consolidated Statement of 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. 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 the Consolidated Statement of Income 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 Non-interest income – Other income, 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 the Consolidated Statement of Income. 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 Non-interest income – Other income 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 the Consolidated Financial Statements

2. 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.

q) Dividend Income

Dividend income on equity securities is recognized when Coast Capital's right to receive payment is established, which is on the ex-dividend date for listed equity securities.

r) Dividend on Membership and Other Equity Shares

Dividends on membership shares and other equity instruments are recognized as a liability and deducted from equity when they are declared and are no longer at the discretion of Coast Capital.

s) Government Lending Programs in Response to COVID-19

In 2020, the Canadian government introduced the Canada Emergency Business Account (CEBA) program to provide partially forgivable interest-free loans of up to \$60 for qualifying small businesses and not-for-profit organizations to help cover their operating costs and to support any revenue gaps from the impact of the COVID-19 pandemic. The CEBA program is funded by the Government of Canada through Export Development Canada (EDC) as its agent, and Coast Capital provides CEBA loans to eligible business members. The CEBA loans are not recognized on Coast Capital's Consolidated Balance Sheet because substantially all the risks and rewards to the loans, including exposure to credit losses and principal forgiveness, are assumed by the Government of Canada. The funding provided to Coast Capital by the Government of Canada in respect of the CEBA program represents an obligation to pass-through collections on the CEBA loans and is otherwise non-recourse to the credit union, and accordingly we are not required to repay amounts that our members fail to pay or that have been forgiven.

In our administrative capacity, Coast Capital earns a fee for these services, which is recognized in Non-interest income – Other income in the Consolidated Statement of Income.

3. Changes in Accounting Policies

Effective January 1, 2021, Coast Capital adopted the following changes in accounting standards as set out below.

a) Interbank Offered Rate Reform (IBOR Reform)

The IASB has approached the impact of IBOR Reform on financial reporting in two phases. Phase one addressed issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with alternative interest rates; phase two focuses on financial reporting issues at the time an existing interest rate benchmark is replaced.

Notes to the Consolidated Financial Statements

3. Changes in Accounting Policies (Continued)

Effective January 1, 2020, Coast Capital adopted the “Phase 1” amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*. These amendments modify certain hedge accounting requirements to provide relief from uncertainty caused by the IBOR Reform, prior to the transition to alternative interest rates. These amendments modify certain hedge accounting requirements that allow Coast Capital to assume the interest rate benchmark on which the cash flows of the hedged item and the hedging instrument are based are not altered as a result of IBOR Reform, thereby allowing hedge accounting to continue. They also provide an exception from the requirement to discontinue hedge accounting if a hedging relationship does not meet the effectiveness requirements as a result of IBOR Reform. Mandatory application of the amendments ends at the earlier of when the uncertainty regarding the timing and amount of interest rate benchmark-based cash flows is no longer present and discontinuation of the hedging relationship. Under IBOR Reform, certain benchmark rates may be subject to discontinuance, changes in methodology, increased volatility or decreased liquidity during the transition from IBORs to alternative rates.

In August 2020, the IASB finalized “Phase 2” amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosure* and IFRS 16 *Leases*. Phase 2 provides guidance on issues that may affect financial reporting when an existing interest rate benchmark is replaced. These amendments provide relief to accounting for modifications required by the IBOR Reform and hedge accounting. In addition, the amendments to IFRS 7 require additional disclosures related to IBOR Reform. The amendments are effective for Coast Capital on or after January 1, 2021, upon replacement of an existing interest rate benchmark with an alternative benchmark rate. Coast Capital adopted Phase 2 amendments effective January 1, 2021. As at December 31, 2021, Coast Capital did not hold any financial instruments for which an existing interest rate benchmark had been discontinued.

Our exposure to IBOR Reform as at December 31, 2021 is limited to financial instruments that are indexed to the Canadian Dollar Offered Rate (CDOR) and the USD LIBOR. Financial instruments indexed to 6-month and 12-month CDOR tenors were discontinued on May 17, 2021, while other tenors of CDOR will continue as a benchmark rate. The ICE Benchmark Administration (IBA), administrator of LIBOR, confirmed the cessation of USD LIBOR 1-week and 2-month tenors on December 31, 2021 and the cessation of the USD overnight and 1, 3, 6, and 12 month tenors on June 30, 2023. OSFI on June 22, 2021, has stated that Federally Regulated Financial Institutions should stop using USD LIBOR as a reference rate as soon as possible and should not enter into transactions using USD LIBOR as a reference rate after December 31, 2021.

On December 16, 2021, the Canadian Alternative Reference Rate (CARR) working group recommended the administrator cease publication of CDOR settings immediately after June 30, 2024 using a two-stage transition approach. By the end of first stage on June 30, 2023, they expect all new derivative contracts and securities to have transitioned to the Canadian Overnight Repo Rate Average (CORRA), with the exception of derivatives that hedge or reduce CDOR derivatives or securities transacted before June 30, 2023 or for loans, before June 30, 2024. All remaining CDOR exposures will be transitioned to CORRA by June 30, 2024, marking the end of the second stage. This proposal does not represent a public statement on official cessation date of CDOR as the administrator will need to finish consultations prior to a formal notice on an actual CDOR cessation date. We will adjust our project plans accordingly once a final announcement has been made.

Notes to the Consolidated Financial Statements

3. Changes in Accounting Policies (Continued)

The table below shows our exposures to financial instruments that have yet to transition to an alternative benchmark rate as at December 31, 2021.

	As at Dec 31, 2021			
	Non-derivative financial assets	Non-derivative financial liabilities	Derivatives	Loan commitments
	Carrying amount	Carrying amount	Notional value	Undrawn amount
CDOR	601,353	901,558	200,000	805,000
USD LIBOR	35,728	–	–	–
Total	637,081	901,558	200,000	805,000

The change to contractual terms of financial assets and financial liabilities with rates that are subject to IBOR Reform is not yet complete. Coast Capital continues to work towards meeting the regulatory and industry-wide recommended milestones and will be working with members and counterparties to issue products based on alternative reference rates. Coast Capital continues to manage the transition by evaluating potential changes to market infrastructures on our risk framework, models, systems and processes, and reviewing legal documents to ensure Coast Capital is prepared prior to the cessation of IBOR. These responsibilities are led by an organization wide cross-functional team that includes key stakeholders and decision makers from the Treasury, Finance, and Legal departments, and the frontline businesses.

4. Future Accounting Changes

Coast Capital actively monitors developments and changes in accounting standards from the IASB, as well as requirements from the other regulatory bodies, including OSFI. The following changes to accounting standards have been issued but are not yet effective for Coast Capital.

a) Classification of Debt as Current or Non-current (Amendments to IAS 1)

In January 2020, the IASB revised IAS 1 *Presentation of Financial Statements* to clarify the criterion for classifying a liability as non-current relating to the right to defer settlement of the liability for at least 12 months after the reporting period. The revision is effective for Coast Capital on January 1, 2023. Coast Capital is currently assessing the impact of adoption.

b) Disclosure of Accounting Policies (Amendments to IAS 1)

In February 2021, the IASB revised IAS 1, *Presentation of Financial Statements*, to require entities to disclose their material accounting policies rather than significant accounting policies. The amendment is effective for Coast Capital on January 1, 2023. Coast Capital is currently assessing the impact of adoption.

5. Interest-Bearing Deposits with Financial Institution

	As at Dec 31	
	2021	2020
Non-statutory deposits with Central 1, classified as FVOCI	45,000	49,594

Notes to the Consolidated Financial Statements

6. Financial Investments

	Term to Maturity				As at Dec 31	
	Under 1 year	1 to 5 years	Over 5 years	No specific maturity	2021	2020
					Total	Total
Debt Securities Measured at FVOCI						
Corporate, provincial, and municipal bonds	228,740	1,207,792	–	–	1,436,532	1,821,118
Mortgage backed securities	–	670,320	–	–	670,320	394,244
Reverse repurchase agreements	288,569	–	–	–	288,569	236,617
Bankers' acceptances	426,412	–	–	–	426,412	160,129
Treasury bills	–	–	–	–	–	79,981
Commercial paper	–	–	–	–	–	40,985
Investment funds	–	–	–	16,449	16,449	16,282
Equity Securities Measured at FVOCI						
Equity ⁽¹⁾	–	–	–	3,558	3,558	3,558
Total financial investments	943,721	1,878,112	–	20,007	2,841,840	2,752,914

1. Comprises equity investments of affiliated co-operative and other entities that complement and support the credit union system.

7. 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. The following table sets out maturity of the loans:

	Term to Maturity				As at	
	Under 1 year	1 to 5 years	Over 5 years	No specific maturity	Dec 31, 2021	
					Total	Total
Residential mortgage	1,498,779	9,827,430	34,992	839,682	12,200,883	
Personal loan	20,118	198,502	57,279	138,525	414,424	
Commercial	1,728,295	2,672,576	141,850	85,801	4,628,522	
Equipment financing	38,962	663,073	62,805	–	764,840	
Total loans	3,286,154	13,361,581	296,926	1,064,008	18,008,669	
Allowance for loan losses						(57,865)
Total loans net of allowances						17,950,804

Notes to the Consolidated Financial Statements

7. Loans and Allowance for Credit Losses (Continued)

	Term to Maturity				As at
					Dec 31, 2020
	Under 1 year	1 to 5 years	Over 5 years	No specific maturity	Total
Residential mortgage	1,901,143	9,024,520	13,455	923,246	11,862,364
Personal loan	45,462	150,722	40,382	137,365	373,931
Commercial	1,891,022	2,440,806	102,819	93,661	4,528,308
Equipment financing	42,511	733,440	62,030	–	837,981
Total loans	3,880,138	12,349,488	218,686	1,154,272	17,602,584
Allowance for loan losses					(59,371)
Total loans net of allowances					17,543,213

b) Credit Risk Exposure from Loans

The following tables set out our credit risk exposure for loans as at December 31, 2021, and December 31, 2020.

	2021			Total
	Stage 1	Stage 2	Stage 3	
Residential Mortgages				
Good	8,921,184	19,316	–	8,940,500
Satisfactory	2,765,381	72,932	–	2,838,313
Below satisfactory	383,836	32,806	–	416,642
Not rated	1,512	768	–	2,280
Impaired	–	–	3,148	3,148
Total residential mortgages	12,071,913	125,822	3,148	12,200,883
Allowance for expected credit losses	(2,059)	(281)	(165)	(2,505)
Residential mortgages less allowance	12,069,854	125,541	2,983	12,198,378
Personal Loans				
Good	73,366	298	–	73,664
Satisfactory	322,853	9,157	–	332,010
Below satisfactory	3,666	4,141	–	7,807
Not rated	227	360	–	587
Impaired	–	–	356	356
Total personal loans	400,112	13,956	356	414,424
Allowance for expected credit losses	(5,075)	(4,814)	(206)	(10,095)
Personal loans less allowance	395,037	9,142	150	404,329
Commercial Mortgages and Loans				
Good	1,744,215	2,576	–	1,746,791
Satisfactory	2,715,966	103,859	–	2,819,825
Below satisfactory	960	47,500	–	48,460
Not rated	13,443	3	–	13,446
Impaired	–	–	–	–
Total commercial mortgages and loans	4,474,584	153,938	–	4,628,522
Allowance for expected credit losses	(30,530)	(7,802)	–	(38,332)
Commercial mortgages and loans less allowance	4,444,054	146,136	–	4,590,190

Notes to the Consolidated Financial Statements

7. Loans and Allowance for Credit Losses (Continued)

				2021
	Stage 1	Stage 2	Stage 3	Total
Equipment Financing				
Satisfactory	748,861	12,775	–	761,636
Impaired	–	–	3,204	3,204
Total equipment financing	748,861	12,775	3,204	764,840
Allowance for expected credit losses	(6,251)	(149)	(533)	(6,933)
Equipment financing less allowance	742,610	12,626	2,671	757,907
Total loans less allowance	17,651,555	293,445	5,804	17,950,804
2020				
	Stage 1	Stage 2	Stage 3	Total
Residential Mortgages				
Good	8,510,875	48,978	–	8,559,853
Satisfactory	2,632,192	209,335	–	2,841,527
Below satisfactory	357,123	93,362	–	450,485
Not rated	2,358	2,989	–	5,347
Impaired	–	–	5,152	5,152
Total residential mortgages	11,502,548	354,664	5,152	11,862,364
Allowance for expected credit losses	(1,666)	(436)	(158)	(2,260)
Residential mortgages less allowance	11,500,882	354,228	4,994	11,860,104
Personal Loans				
Good	70,941	188	–	71,129
Satisfactory	285,271	6,059	–	291,330
Below satisfactory	3,400	6,724	–	10,124
Not rated	163	697	–	860
Impaired	–	–	488	488
Total personal loans	359,775	13,668	488	373,931
Allowance for expected credit losses	(14,634)	(3,717)	(203)	(18,554)
Personal loans less allowance	345,141	9,951	285	355,377
Commercial Mortgages and Loans				
Excellent	–	–	–	–
Good	1,797,604	9,524	–	1,807,128
Satisfactory	2,643,993	20,806	–	2,664,799
Below satisfactory	–	46,940	–	46,940
Not rated	1,938	5	–	1,943
Impaired	–	–	7,498	7,498
Total commercial mortgages and loans	4,443,535	77,275	7,498	4,528,308
Allowance for expected credit losses	(28,085)	(2,974)	–	(31,059)
Commercial mortgages and loans less allowance	4,415,450	74,301	7,498	4,497,249

Notes to the Consolidated Financial Statements

7. Loans and Allowance for Credit Losses (Continued)

				2020
	Stage 1	Stage 2	Stage 3	Total
Equipment Financing				
Satisfactory	829,238	5,547	–	834,785
Impaired	–	–	3,196	3,196
Total equipment financing	829,238	5,547	3,196	837,981
Allowance for expected credit losses	(7,235)	(56)	(207)	(7,498)
Equipment financing less allowance	822,003	5,491	2,989	830,483
Total loans less allowance	17,083,476	443,971	15,766	17,543,213

c) Allowance for Expected Credit Losses

The following tables set out the movement in our allowance for ECL for the twelve months ended December 31, 2021, and December 31, 2020. Any changes from an ongoing ECL model upgrade project, commenced during fiscal 2021, are captured within Net remeasurement of loss allowance.

The provision for credit losses in the Consolidated Statement of Income includes recoveries for \$1,260 for the year ended December 31, 2021 (2020 – \$2,214).

				2021
	Stage 1	Stage 2	Stage 3	Total
Residential Mortgages				
Balance as at Jan 1, 2021	1,666	436	158	2,260
Loan originations	839	–	–	839
Transfers to (from)				
Stage 1	272	(269)	(3)	–
Stage 2	(58)	58	–	–
Stage 3	–	–	–	–
Net remeasurement of loss allowance	(348)	144	87	(117)
Derecognitions and maturities	(312)	(88)	(52)	(452)
Write-offs	–	–	(25)	(25)
Balance as at Dec 31, 2021	2,059	281	165	2,505
Personal Loans				
Balance as at Jan 1, 2021	14,634	3,717	203	18,554
Loan originations	1,523	–	–	1,523
Transfers to (from)				
Stage 1	1,808	(1,808)	–	–
Stage 2	(861)	864	(3)	–
Stage 3	(35)	(122)	157	–
Net remeasurement of loss allowance	(11,004)	3,010	1,400	(6,594)
Derecognitions and maturities	(990)	(847)	(17)	(1,854)
Write-offs	–	–	(1,534)	(1,534)
Balance as at Dec 31, 2021	5,075	4,814	206	10,095

Notes to the Consolidated Financial Statements

7. Loans and Allowance for Credit Losses (Continued)

				2021
	Stage 1	Stage 2	Stage 3	Total
Commercial Mortgages and Loans				
Balance as at Jan 1, 2021	28,085	2,974	–	31,059
Loan originations	9,966	–	–	9,966
Transfers to (from)				
Stage 1	755	(755)	–	–
Stage 2	(929)	929	–	–
Stage 3	–	–	–	–
Net remeasurement of loss allowance	(352)	5,229	–	4,877
Derecognitions and maturities	(6,995)	(575)	–	(7,570)
Balance as at Dec 31, 2021	30,530	7,802	–	38,332
Equipment Financing				
Balance as at Jan 1, 2021	7,235	56	207	7,498
Loan originations	2,530	–	–	2,530
Transfers to (from)				
Stage 1	22	(17)	(5)	–
Stage 2	(164)	164	–	–
Stage 3	(180)	(26)	206	–
Net remeasurement of loss allowance	(2,566)	(15)	3,166	585
Derecognitions and maturities	(626)	(13)	(5)	(644)
Write-offs	–	–	(3,036)	(3,036)
Balance as at Dec 31, 2021	6,251	149	533	6,933
Total allowance	43,915	13,046	904	57,865
2020				
	Stage 1	Stage 2	Stage 3	Total
Residential Mortgages				
Balance as at Jan 1, 2020	10,850	1,873	305	13,028
Loan originations	429	64	–	493
Transfers to (from)				
Stage 1	1,172	(1,169)	(3)	–
Stage 2	(396)	396	–	–
Stage 3	(7)	–	7	–
Net remeasurement of loss allowance	(8,692)	(443)	78	(9,057)
Derecognitions and maturities	(1,690)	(285)	(18)	(1,993)
Write-offs	–	–	(211)	(211)
Balance as at Dec 31, 2020	1,666	436	158	2,260

Notes to the Consolidated Financial Statements

7. Loans and Allowance for Credit Losses (Continued)

				2020
	Stage 1	Stage 2	Stage 3	Total
Personal Loans				
Balance as at Jan 1, 2020	2,604	1,166	216	3,986
Loan originations	1,477	1,668	–	3,145
Transfers to (from)				
Stage 1	407	(397)	(10)	–
Stage 2	(68)	70	(2)	–
Stage 3	(15)	(48)	63	–
Net remeasurement of loss allowance	10,489	1,495	1,897	13,881
Derecognitions and maturities	(260)	(237)	(45)	(542)
Write-offs	–	–	(1,916)	(1,916)
Balance as at Dec 31, 2020	14,634	3,717	203	18,554
Commercial Mortgages and Loans				
Balance as at Jan 1, 2020	17,922	1,920	–	19,842
Loan originations	7,768	342	–	8,110
Transfers to (from)				
Stage 1	135	(135)	–	–
Stage 2	(318)	318	–	–
Stage 3	–	–	–	–
Net remeasurement of loss allowance	6,110	839	–	6,949
Derecognitions and maturities	(3,532)	(310)	–	(3,842)
Write-offs	–	–	–	–
Balance as at Dec 31, 2020	28,085	2,974	–	31,059
Equipment Financing				
Balance as at Jan 1, 2020	4,628	88	809	5,525
Loan originations	2,599	9	–	2,608
Transfers to (from)				
Stage 1	26	(26)	–	–
Stage 2	(43)	43	–	–
Stage 3	(71)	(30)	101	–
Net remeasurement of loss allowance	499	(1)	5,820	6,318
Derecognitions and maturities	(403)	(27)	–	(430)
Write-offs	–	–	(6,523)	(6,523)
Balance as at Dec 31, 2020	7,235	56	207	7,498
Total allowance	51,620	7,183	568	59,371

Notes to the Consolidated Financial Statements

7. Loans and Allowance for Credit Losses (Continued)

During the second quarter of 2020, Coast Capital introduced relief programs to its members impacted by the COVID-19 pandemic that allowed borrowers to temporarily defer payments of principal and/or interest on their loans and is also supporting various other government assistance programs for its members. Loans against borrowers opting under the pandemic relief payment deferral programs were not automatically assessed as having a SICR, notwithstanding any other underlying conditions that indicate changes in credit risk. Coast Capital stopped accepting new applications for its offer under the pandemic-related payment deferral program in the last quarter of fiscal 2020 and reverted to its standard SICR assessment criteria. At the end of the first quarter of fiscal 2021, all Coast Capital members had returned to making regular payments on their loans following the expiry of their payment deferral periods.

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 affects the estimated PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 ECL. Coast Capital maintains economic forecasts for the next two years from the reporting date. After this forecast period, management assumes that macroeconomic factors revert to their long-term averages.

The following tables show the key economic variables that were used to estimate ECL on performing loans during the forecast period. Macroeconomic variables were selected for each portfolio and used to model ECL. The values shown represent key economic variables utilized in the expected credit loss model as at the reporting period and include period averages for the forward-looking economic forecasts.

Driver	Base case scenario			
	As at Dec 31, 2021		As at Dec 31, 2020	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Canada real GDP ⁽¹⁾	3.70%	3.00%	4.90%	3.80%
BC unemployment rate ⁽²⁾	5.45%	5.15%	6.60%	5.85%
BC nominal GDP ⁽¹⁾	5.70%	4.00%	7.10%	6.10%
Housing price index % change ⁽¹⁾	2.00%	0.50%	0.20%	0.70%

Driver	Alternative scenario: Optimistic			
	As at Dec 31, 2021		As at Dec 31, 2020	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Canada real GDP ⁽¹⁾	4.70%	4.00%	5.90%	4.80%
BC unemployment rate ⁽²⁾	4.95%	4.65%	5.80%	5.35%
BC nominal GDP ⁽¹⁾	6.70%	5.00%	8.10%	7.10%
Housing price index % change ⁽¹⁾	7.00%	5.50%	5.60%	3.60%

Notes to the Consolidated Financial Statements

7. Loans and Allowance for Credit Losses (Continued)

Driver	Alternative scenario: Pessimistic			
	As at Dec 31, 2021		As at Dec 31, 2020	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Canada real GDP ⁽¹⁾	1.70%	1.00%	3.40%	1.80%
BC unemployment rate ⁽²⁾	6.65%	6.35%	8.30%	7.35%
BC nominal GDP ⁽¹⁾	3.70%	2.00%	5.60%	4.10%
Housing price index % change ⁽¹⁾	-5.00%	-6.50%	-9.00%	-4.00%

1. Calculated as annual % change.
2. Rate at the end of the forecast period.

The calculation of ECL 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, ECL responds 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.

The COVID-19 pandemic continued to remain the top economic theme of 2021. After a relatively slow start, Canada was able to vaccinate approximately 83% of its population with at least 1 dose and 77% of the population with both doses. As a result, provinces had removed most of the restrictions for the vaccinated population. However, during the last part of 2021 a new variant of the COVID-19 virus emerged in the communities where Coast Capital operates. Due to the highly contagious nature of the Omicron variant it has spread quickly which has slowed down the economic recovery. As well, it prompted some provinces to initiate lockdown measures to slow the spread of this variant adding further uncertainty.

While the Canadian economy has shown signs of recovery with high vaccination rates, the economic recovery is shaping out as a “K” recovery. Several sectors have materially benefited (energy and real estate), while others continue to be significantly impacted (hospitality, airlines), due to evolving requirements related to travel and COVID-19 restrictions. Concerns remain for the spread of more virulent COVID-19 variants among the unvaccinated population and mutation of the virus that could prove vaccine-resistant. Economic growth during the year was promising but slowed by ongoing supply chain disruptions. Looking ahead to next year and beyond, the outlook remains cautiously positive with the Canadian economy expected to transition from a pandemic recovery-driven growth to more normal growth in 2022.

The reported ECL for financial assets in Stage 1 and Stage 2 solely under the Base case macroeconomic conditions, with other assumptions held constant, including the application of experienced credit adjustment, would be \$54,537 (December 31, 2020 – \$57,070), compared to reported allowance for performing loans of \$56,961 (December 31, 2020 – \$58,803).

The reported ECL for financial assets in Stage 1 and Stage 2 solely under the Optimistic case macroeconomic conditions, with other assumptions held constant, including the application of experienced credit adjustment, would be \$44,939 (December 31, 2020 – \$48,089), compared to reported allowance for performing loans of \$56,961 (December 31, 2020 – \$58,803).

The reported ECL for financial assets in Stage 1 and Stage 2 solely under the Pessimistic case macroeconomic conditions, with other assumptions held constant, including the application of experienced credit adjustment, would be \$76,248 (December 31, 2020 – \$74,720), compared to reported allowance for performing loans of \$56,961 (December 31, 2020 – \$58,803).

Notes to the Consolidated Financial Statements

7. Loans and Allowance for Credit Losses (Continued)

The current environment is subject to change, and to the extent that certain effects of the pandemic are not fully incorporated into the model calculations, temporary quantitative and qualitative overlay adjustments have been applied to the determination of ECL at the end of the reporting period.

Actual credit loss results will differ due to stage migration, growth, risk mitigation actions as well as other factors.

e) Loans Past Due but Not Impaired⁽¹⁾

Loans past due but not impaired are loan amounts that are contractually past due but not assessed as impaired because the full amount of principal and interest payments are expected to be collected. The following table sets out loans past due but not impaired as at December 31, 2021, and December 31, 2020.

	As at Dec 31, 2021		
	31 to 60 days	61 to 90 days	Total
Residential mortgage	2,657	1,641	4,298
Retail loan	4,169	1,131	5,300
Commercial	3,432	–	3,432
Equipment finance	10,323	2,452	12,775
Total	20,581	5,224	25,805

	As at Dec 31, 2020		
	31 to 60 days	61 to 90 days	Total
Residential mortgage	6,091	4,310	10,401
Retail loan	1,891	276	2,167
Commercial	11,396	–	11,396
Equipment finance	3,726	1,821	5,547
Total	23,104	6,407	29,511

1. Loans past due 30 days or less are not presented as they are not administratively considered past due. For 2020, in cases where borrowers had opted to participate in payment deferral programs as a result of COVID-19, deferral of payments was not considered past due and such loans were not aged further during the deferral period. Regular ageing of the loans resumed after the end of the deferral period in 2021.

8. 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 the Risk Information Specific to Our Financial Reporting section of the 2021 Management's Discussion and Analysis and are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

9. Premises and Equipment

Original cost	Land	Buildings	Furniture and equipment	Right-of-use assets ⁽¹⁾	Leasehold improvements	Total
Balance at Jan 1, 2020	57	1,581	71,028	91,300	40,159	204,125
Additions during the year	–	–	2,388	9,193	917	12,498
Disposals during the year	–	–	(295)	–	(1,134)	(1,429)
Balance at Dec 31, 2020	57	1,581	73,121	100,493	39,942	215,194
Additions during the year	–	–	1,617	4,942	611	7,170
Disposals during the year	–	–	(445)	(369)	(827)	(1,641)
Balance at Dec 31, 2021	57	1,581	74,293	105,066	39,726	220,723

Accumulated depreciation	Land	Buildings	Furniture and equipment	Right-of-use assets ⁽¹⁾	Leasehold improvements	Total
Balance at Jan 1, 2020	–	1,251	53,683	13,620	30,107	98,661
Depreciation during the year	–	45	6,052	14,241	1,886	22,224
Disposals during the year	–	–	(295)	–	(1,064)	(1,359)
Balance at Dec 31, 2020	–	1,296	59,440	27,861	30,929	119,526
Depreciation during the year	–	232	5,336	14,389	1,990	21,947
Disposals during the year	–	–	(421)	(369)	(717)	(1,507)
Balance at Dec 31, 2021	–	1,528	64,355	41,881	32,202	139,966

Net book value, at Dec 31, 2020	57	285	13,681	72,632	9,013	95,668
Net book value, at Dec 31, 2021	57	53	9,938	63,185	7,524	80,757

1. Refer to Note 18 for further information on Coast Capital's right-of-use assets.

10. Goodwill and Intangible Assets

Original cost	Software	Goodwill	Customer lists, trademarks and other intangibles	Total
Balance at Jan 1, 2020	130,940	15,205	8,935	155,080
Additions during the year	34,596	–	–	34,596
Balance at Dec 31, 2020	165,536	15,205	8,935	189,676
Additions during the year	13,860	–	–	13,860
Disposals during the year ⁽¹⁾	(1,174)	–	–	(1,174)
Balance at Dec 31, 2021	178,222	15,205	8,935	202,362

1. Includes wind-downs.

Notes to the Consolidated Financial Statements

10. Goodwill and Intangible Assets (Continued)

	Software	Goodwill	Customer lists, trademarks and other intangibles	Total
Accumulated amortization				
Balance at Jan 1, 2020	59,743	–	5,500	65,243
Amortization during the year	11,123	–	808	11,931
Balance at Dec 31, 2020	70,866	–	6,308	77,174
Amortization during the year	12,871	–	800	13,671
Disposals during the year	(86)	–	–	(86)
Balance at Dec 31, 2021	83,651	–	7,108	90,759
Net book value at Dec 31, 2020	94,670	15,205	2,627	112,502
Net book value at Dec 31, 2021	94,571	15,205	1,827	111,603

Goodwill was assessed for annual impairment and no impairment was determined to exist.

11. Other Assets

	As at Dec 31	
	2021	2020
Accrued interest receivable	31,455	33,503
Prepaid expenses	31,632	31,630
Retained interest in commercial loans sold	17,037	11,978
Accounts receivable	7,181	9,197
Income taxes receivable	8,332	1,080
Other	17,809	19,327
Total other assets	113,446	106,715

12. Deposits

	As at Dec 31, 2021			
	Core retail and commercial members	External deposit agents	Institutional depositors	Total
Demand ⁽¹⁾	9,270,192	22,078	–	9,292,270
Fixed term redeemable ⁽²⁾	2,157,937	15,924	136,750	2,310,611
Fixed term non-redeemable ⁽³⁾	2,728,661	2,209,518	1,577,205	6,515,384
Total deposits	14,156,790	2,247,520	1,713,955	18,118,265

Notes to the Consolidated Financial Statements

12. Deposits (Continued)

As at Dec 31, 2020

	Core retail and commercial members	External deposit agents	Institutional depositors	Total
Demand ⁽¹⁾	8,283,117	31,282	–	8,314,399
Fixed term redeemable ⁽²⁾	1,913,362	42,615	79,768	2,035,745
Fixed term non-redeemable ⁽³⁾	3,411,156	2,628,869	1,063,122	7,103,147
Total deposits⁽⁴⁾	13,607,635	2,702,766	1,142,890	17,453,291

1. Demand deposits include accounts for which Coast Capital does not have the right to require notice of withdrawal, generally chequing accounts, and accounts for which Coast Capital can legally require notice of withdrawal, generally savings accounts. Repayment of demand deposits is subject to the Coast Capital Personal or Business Account and Services Agreements.
2. Fixed term redeemable deposits include all deposits that mature on a specified date and are redeemable subject to certain conditions, generally term deposits, guaranteed investment certificates and similar instruments.
3. Fixed term non-redeemable deposits include all deposits that mature on a specified date and are not redeemable or are redeemable only under exceptional circumstances, generally term deposits, guaranteed investments certificates and similar instruments.
4. Coast Capital had entered into fair value hedges, hedging interest rate risk on certain of its deposits. The hedge matured Dec 8, 2020. See Note 29 for detailed information on hedge accounting.

The table below sets out the contractual maturities of fixed-term redeemable and non-redeemable deposits.

	As at Dec 31	
	2021	2020
Under 1 year	7,261,873	6,371,609
1 to 5 years	1,556,444	2,760,273
Over 5 years	7,678	7,010
Total term deposits	8,825,995	9,138,892

13. Borrowings

As at Dec 31

	2021	2020
Commercial paper	229,845	282,469
Term loans	200,000	200,000
Floating rate notes	399,316	184,896
Total borrowings	829,161	667,365

Commercial Paper

Commercial paper pays a fixed weighted average interest rate of 0.36% (2020 – 0.46%) and matures from Jan 4, 2022, to March 30, 2022 (2020: from January 1, 2021 to March 29, 2021).

Term Loan

The term loan entered into on July 20, 2019, bears a floating interest rate with monthly repricing. The rate as at December 31, 2021, was 1.06% (2020 – 1.04%). The term loan matures on July 29, 2026 (2020: July 29, 2022).

Notes to the Consolidated Financial Statements

13. Borrowings (Continued)

Floating Rate Note

The floating rate note issued on June 9, 2021 with principal amount of \$200M, pays a floating interest rate of three-month CDOR plus 42 basis points, which was 0.92% on December 31, 2021 and matures on Dec 9, 2022.

The floating rate note issued on October 27, 2021 with principal amount of \$200M, pays a floating interest rate of three-month CDOR plus 33 basis points, which was 0.80% on December 31, 2021 and matures on October 27, 2023.

The floating rate note issued on January 21, 2020 with principal amount of \$185M, paid a floating interest rate of three-month CDOR plus 54 basis points, which was 0.98% on June 30, 2021 (1.03% – December 31, 2020) and matured on July 21, 2021.

14. Secured Borrowings

The weighted average interest rate on secured borrowings was 1.63% for the twelve months ended December 31, 2021 (1.64% for the year ended December 31, 2020).

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

	As at Dec 31	
	2021	2020
Secured borrowings	644,993	823,401
Residential mortgages sold (included in Loans)	357,019	561,271
Financial Investment – Re-investment assets provided as collateral	288,569	236,617
Total collateral	645,588	797,888

The table below shows the maturity of amounts borrowed under secured borrowings and the amount of residential mortgages sold. Reinvestment assets provided as collateral mature within three months and are typically rolled over upon maturity.

	Residential mortgages	Secured borrowings
2022	5,649	–
2023	33,543	31,062
2024	133,783	281,436
2025	129,632	234,194
2026	54,412	98,301
2027	–	–
Total	357,019	644,993

15. 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, 2021, Coast Capital has pledged residential mortgages and other securities in the amount of \$645,588 (December 31, 2020 – \$797,888) in relation to its secured borrowings and \$978,989 (December 31, 2020 – \$930,224) in relation to other borrowings.

Notes to the Consolidated Financial Statements

16. Subordinated Debentures

	As at Dec 31	
	2021	2020
Series 1 issued May 3, 2018	202,690	208,282
Series 2 issued Oct 29, 2018	99,552	99,449
Total subordinated debt	302,242	307,731

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 three-month CDOR plus 244 basis points per annum, payable quarterly in arrears.

Coast Capital has entered into a fair-value hedge to hedge against the interest rate risk on this subordinated note. Refer to Note 29 for further information.

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 three-month CDOR plus 242 basis points per annum, payable quarterly in arrears.

17. Other Liabilities

	As at Dec 31	
	2021	2020
Accounts payable and accruals	167,570	100,823
Accrued interest payable	60,974	98,973
Lease liabilities(18b)	72,767	82,159
Income taxes payable	10,123	6,777
Deferred tax liability	188	–
Other	8,172	6,037
Total	319,794	294,769

18. Leases

a) Right-of-Use Assets

The nature of our ROU assets comprise 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 \$1,728 for the year ended December 31, 2021 (\$1,809 for the year ended December 31, 2020). ROU assets are included under Premises and equipment in the Consolidated Balance Sheet. Refer to Note 9 for further information.

Notes to the Consolidated Financial Statements

18. Leases (Continued)

b) Lease Liabilities

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

	As at Dec 31	
	2021	2020
Balance at the beginning of year	82,159	86,162
Additions	6,301	8,649
Lease payments	(17,692)	(17,330)
Reassessment	(1,770)	544
Interest expense	3,769	4,134
Balance at the end year	72,767	82,159

The weighted average incremental borrowing rate applied to determine the balance of lease liabilities as at December 31, 2021, was 4.89% (4.91% – 2020).

The contractual maturity of future lease payments are as follows:

	As at Dec 31	
	2021	2020
1 year or less	15,777	16,588
1 to 5 years	45,881	47,883
More than 5 years	24,267	34,072
Total expected cash flow	85,925	98,543

19. 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 five-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 as at December 31, 2021.

Notes to the Consolidated Financial Statements

19. Capital Management (Continued)

Coast Capital manages its capital in accordance with its internal policy as reviewed and approved by its Board on an annual basis, with review, 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's 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, forecast, 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).

OSFI has established capital targets (including a mandated capital conservation buffer) that all financial institutions are expected to attain or exceed.

In accordance with Basel III, the minimum capital base comprises:

- 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
- Tier 2 capital, which consists of supplementary capital instruments

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

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.

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 response to the COVID-19 pandemic and as part of its support for deposit-taking institutions, OSFI continues to provide relief measures to provide operational capacity for such institutions to respond to and support the immediate financial stability priorities of the Canadian government. Two such relief measures applicable to Coast Capital are described below:

- Capital transitional relief, where a tax-adjusted increase in the collective allowance for credit losses from the amount recorded as at the year ended December 31, 2019, is allowed to be included in the CET 1 capital, which otherwise would have been included in Tier 2 capital. This benefit is calculated using a transitional scaling factor. As at December 31, 2021, the scaling factor applied is 50% (2020: 70%).
- Leverage ratio transitional relief, where sovereign securities that qualify as High Quality Liquid Assets (HQLA) under the Liquidity Adequacy Requirements guidelines are now allowed to be excluded from this exposure measure. This exemption was available until December 31, 2021.

Coast Capital uses the Standardized Approach for calculating risk-weighted assets for capital adequacy 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 Morningstar. To assign risk weights to credit exposures not rated by external credit agencies, we use OSFI's prescribed methodology under the Standardized Approach.

Notes to the Consolidated Financial Statements

19. Capital Management (Continued)

Our regulatory capital, risk-weighted assets, actual regulatory capital ratios and minimum regulatory required capital ratios are presented in the table below, including the same had the transitional arrangements had not been applied:

	2021		2020	
	Without transitional arrangements	With transitional arrangements	Without transitional arrangements	With transitional arrangements
Regulatory Capital				
Common equity Tier 1 capital ⁽¹⁾	1,351,760	1,351,760	1,303,098	1,303,098
Regulatory adjustments	(114,472)	(108,108)	(118,282)	(108,589)
Net common equity Tier 1 capital	1,237,288	1,243,652	1,184,816	1,194,509
Net Tier 1 capital	1,252,997	1,259,361	1,203,144	1,212,836
Net Tier 2 capital	236,960	230,596	268,803	259,111
Total capital	1,489,957	1,489,957	1,471,947	1,471,947
Risk-Weighted Assets Used in Capital Ratios	10,641,331	10,641,331	10,337,091	10,337,091
Actual Regulatory Capital Ratios				
Common equity Tier 1 capital ratio	11.6%	11.7%	11.5%	11.6%
Tier 1 capital ratio	11.8%	11.8%	11.6%	11.7%
Total capital ratio	14.0%	14.0%	14.2%	14.2%
Leverage ratio	5.8%	5.8%	5.7%	5.8%
Regulatory Capital Requirements				
Minimum common equity Tier 1 capital ratio	7.0%	7.0%	7.0%	7.0%
Minimum Tier 1 capital ratio	8.5%	8.5%	8.5%	8.5%
Minimum total capital ratio	10.5%	10.5%	10.5%	10.5%
Minimum leverage ratio	3.0%	3.0%	3.0%	3.0%

1. Includes Class A shares, retained earnings and accumulated other comprehensive income.

20. Share Capital

	As at Dec 31	
	2021	2020
Class A Shares		
Balance at the beginning of period	2,816	2,803
Shares issued	491	285
Shares redeemed	(484)	(272)
Balance at the end of period	2,823	2,816
Class B Shares		
Balance at the beginning of period	23,074	24,731
Shares redeemed	(1,567)	(1,657)
Balance at the end of period	21,507	23,074
Total share capital	24,330	25,890

Notes to the Consolidated Financial Statements

20. Share Capital (Continued)

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 dividend target for Class B shares is equal to Coast Capital's average posted rate of its five-year term deposits and was 1.45% for the twelve months ended December 31, 2021 (1.54% for the twelve months ended December 31, 2020).

21. Net Interest Income

	For the year ended Dec 31	
	2021	2020
Interest Income		
Financial instruments measured at amortized cost	546,103	577,942
Financial instruments measured at FVOCI	36,897	53,516
Derivatives	5,559	12,083
Total interest income	588,559	643,541
Interest Expense		
Deposits	147,035	256,408
Borrowings	12,151	16,864
Secured borrowings	10,981	16,197
Subordinated debt	15,691	15,600
Total interest expense	185,858	305,069
Net interest income	402,701	338,472

22. Fees and Commission Income

	For the year ended Dec 31	
	2021	2020
Wealth management investment commissions	45,472	38,250
Other fees and commissions	28,771	27,868
Credit card commissions	9,287	7,574
Insurance commissions	5,234	6,619
Foreign exchange	4,708	3,854
Total fees and commission income	93,472	84,165

Notes to the Consolidated Financial Statements

23. Salaries and Employee Benefits

	For the year ended Dec 31	
	2021	2020
Salaries	175,650	152,157
Benefits	21,626	21,958
Post retirement costs	11,973	11,218
Termination benefits	1,742	8,355
Other	41	45
Total salaries and employee benefits	211,032	193,733

24. Administration Expenses

	For the year ended Dec 31	
	2021	2020
Consultants	19,279	12,678
Professional services	6,893	7,390
Marketing	12,020	10,812
ATM/POS operations	8,313	8,088
Stationery, statements, telephone, and postage	3,615	4,885
Chequing service charges	4,642	4,451
Loan processing	4,200	4,196
Travel, meals, and entertainment	1,685	2,398
Bonding and other insurance	1,893	1,915
Training and recruitment	1,631	1,028
Courier	352	558
Other	18,708	17,030
Total administration expenses	83,231	75,429

25. Provision for Income Taxes

	As at Dec 31	
	2021	2020
Current Income Taxes		
Current year	34,143	15,649
	34,143	15,649
Deferred Income Taxes		
Origination and reversal of temporary differences	(10,794)	(4,474)
Change in estimates of tax rate	(1,176)	(0)
	(11,970)	(4,474)
Total income taxes	22,173	11,175

Coast Capital's income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 27% (2020 – 27%) to income before income taxes. The reasons for the differences are as follows:

Notes to the Consolidated Financial Statements

25. Provision for Income Taxes (Continued)

	Amount	2021 % of pre-tax income	Amount	2020 % of pre-tax income
Combined federal and provincial statutory income taxes	32,632	27.0%	12,536	27.0%
Reduction applicable to credit unions	(8,789)	(7.3%)	(1,827)	(3.9%)
Change in estimate of tax rates and reversals	(965)	(0.8%)	–	– %
Other	(705)	(0.5%)	466	1.0%
Effective income tax rate	22,173	18.4%	11,175	24.1%

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

	2021	2020
Allowance for credit losses	12,205	10,568
Loss carry-forwards	2,869	3,785
Restructuring costs	485	1,117
Employee future benefits	877	779
Capital and intangible assets	11,665	(408)
Deferred revenue/prepaid expense	(3,915)	(3,626)
Total deferred tax asset, net of deferred tax liabilities	24,186	12,215

As at December 31, 2021 and 2020, the Credit Union has considered contingent tax liabilities and uncertain tax treatments, as well as interest and penalties, and determined that no amount need be accrued in respect of such amounts.

26. 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:

	2021	2020
Lines of credit, unfunded	2,995,559	2,907,791
Letters of credit	78,908	96,879

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, 2021, \$15,618 (December 31, 2020 – \$15,086) 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.

27. Contingent Liabilities

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 establishes provisions when it becomes probable that a loss will realize and the amount can be reasonably estimated. In management's opinion, based on our current knowledge and consultation with legal counsel, Coast Capital does not expect the outcome of any of these proceedings, in aggregate, to have a material adverse effect on its consolidated balance sheet or consolidated cash flows.

Notes to the Consolidated Financial Statements

28. Interest Rate Sensitivity Position

Interest rate risk results from differences in the maturities or repricing 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.

	Floating rate	Fixed rate					Non-interest sensitive	2021
		Under 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years		
Assets								
Cash and investments	–	790,993	134,110	63,619	1,878,238	–	434,431	3,301,391
<i>Effective interest rate</i>		0.25%	0.41%	0.70%	1.27%			
Loans	6,898,110	309,212	456,074	1,060,197	8,939,407	288,564	(760)	17,950,804
<i>Effective interest rate</i>		3.73%	3.18%	3.24%	2.78%	1.56%		
All other assets ⁽¹⁾							335,585	335,585
	6,898,110	1,100,205	590,184	1,123,816	10,817,645	288,564	769,256	21,587,780
Liabilities and Equity								
Deposits	6,136,198	2,354,835	1,208,630	3,703,712	1,556,444	7,678	3,150,768	18,118,265
<i>Effective interest rate</i>		1.34%	1.01%	1.14%	1.74%	1.31%		
Borrowings	600,000	229,845					(684)	829,161
<i>Effective interest rate</i>		0.34%						
Secured borrowings			199,192		451,400		(5,599)	644,993
<i>Effective interest rate</i>			1.66%		1.37%			
Subordinated debentures						300,000	2,242	302,242
<i>Effective interest rate</i>						5.08%		
Other liabilities							319,855	319,855
Equity							1,373,264	1,373,264
	6,736,198	2,584,680	1,407,822	3,703,712	2,007,844	307,678	4,839,846	21,587,780
Balance sheet								
mismatch	161,912	(1,484,475)	(817,638)	(2,579,896)	8,809,801	(19,114)	(4,070,590)	–
Derivatives	–	(200,000)	–	–	200,000	–	–	–
Net mismatch	161,912	(1,684,475)	(817,638)	(2,579,896)	9,009,801	(19,114)	(4,070,590)	–

Notes to the Consolidated Financial Statements

28. Interest Rate Sensitivity Position (Continued)

	Floating rate	Fixed rate					Non-interest sensitive	2020
		Under 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years		
Assets								
Cash and investments	177,832	620,104	68,763	334,164	1,581,804	–	208,387	2,991,054
<i>Effective interest rate</i>		0.16%	0.19%	0.16%	0.40%			
Loans	5,911,461	349,072	498,621	1,077,486	9,496,936	209,949	(312)	17,543,213
<i>Effective interest rate</i>		2.38%	3.18%	3.05%	3.16%	1.82%		
All other assets ⁽¹⁾							338,617	338,617
	6,089,293	969,176	567,384	1,411,650	11,078,740	209,949	546,692	20,872,884
Liabilities and Equity								
Deposits	5,613,604	1,778,035	1,303,596	3,296,905	2,760,273	7,010	2,693,868	17,453,291
<i>Effective interest rate</i>		2.31%	1.81%	1.34%	2.14%	0.99%		
Borrowings	385,000	282,469					(104)	667,365
<i>Effective interest rate</i>		0.48%						
Secured borrowings			199,770		617,784		5,847	823,401
<i>Effective interest rate</i>			1.23%		1.41%			
Subordinated debentures						300,000	7,731	307,731
<i>Effective interest rate</i>						5.08%		
Other liabilities							294,923	294,923
Equity							1,326,173	1,326,173
	5,998,604	2,060,504	1,503,366	3,296,905	3,378,057	307,010	4,328,438	20,872,884
Balance sheet								
mismatch	90,689	(1,091,328)	(935,982)	(1,885,255)	7,700,683	(97,061)	(3,781,746)	–
Derivatives	–	(387,401)	100,000	100,000	187,401	–	–	–
Net mismatch	90,689	(1,478,729)	(835,982)	(1,785,255)	7,888,084	(97,061)	(3,781,746)	–

1. All other assets includes premises and equipment, goodwill and intangible assets, deferred tax assets, derivative assets, and other assets.

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.

Notes to the Consolidated Financial Statements

29. Derivative Instruments

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

Types of Derivatives

Coast Capital has entered into the following types of derivatives:

	Notional amounts			2021 Total	2021 Fair value
	Maturities of derivatives				
	Up to 12 months	Over 1-3 years	Over 3-5 Years		
Interest Rate Swaps					
Pay floating, receive fixed	–	200,000	–	200,000	3,368
Total interest rate swaps	–	200,000	–	200,000	3,368
Forward Contracts	6,791	–	–	6,791	(61)
Equity Options	1,564	20,193	14,140	35,897	2,038
Total derivative contracts	8,355	220,193	14,140	242,688	5,345
Derivative assets					5,405
Derivative liabilities					(61)

	Notional amounts			2020 Total	2020 Fair value
	Maturities of derivatives				
	Up to 12 months	Over 1-3 years	Over 3-5 Years		
Interest Rate Swaps					
Pay fixed, receive floating	–	12,599	–	12,599	(137)
Pay floating, receive fixed	200,000	200,000	–	400,000	10,548
Total interest rate swaps	200,000	212,599	–	412,599	10,411
Forward Contracts	2,246	–	–	2,246	(17)
Equity Options	4,103	5,723	493	10,319	969
Total derivative contracts	206,349	218,322	493	425,164	11,363
Derivative assets					11,517
Derivative liabilities					(154)

Notes to the Consolidated Financial Statements

29. Derivative Instruments (Continued)

- 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.
- Forward contracts: these are mainly bond-forward contracts that Coast Capital utilizes to hedge against changes in future cash flows from interest rate changes attributable to highly probable forecasted issuance of fixed-rate liabilities.
- 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. For the years ended December 31, 2021, and December 31, 2020, Coast Capital has not utilized any derivatives for the purpose of earning trading income. Realized and unrealized gains and losses are recorded in Non-interest income – Other income in the Consolidated Statement of Income. Unrealized gains and losses on trading derivatives are recorded in the Consolidated Balance Sheet as derivative assets and derivative liability, respectively.

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.

Coast Capital's over-the-counter derivatives subject to International Swaps and Derivatives Association's (ISDA) master netting agreements do not meet the criteria for offsetting in the Consolidated Balance Sheet as they give a right to set off that is enforceable only in the event of default, insolvency or bankruptcy.

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

During the year, Coast Capital recognized a gain of nil (2020 – gain of \$121) for ineffectiveness in cash flow hedges, which is recognized in Interest income – Derivatives in the Consolidated Statement of Income as it arises. See Note 2(n) for accounting policy of cash flow hedges.

Notes to the Consolidated Financial Statements

29. 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 the Consolidated Statement of Income:

2021:

There are no cash flow hedges outstanding as at December 31, 2021.

2020:

	Expected cash flow	Less than 1 year	1 to 5 years	More than 5 years
Receive fixed	2,211	2,211	–	–
Pay floating	942	942	–	–
Net cash inflow (outflow)	1,269	1,269	–	–

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 its change in fair value. 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 Non-interest income – Other Income in the Consolidated Statement of 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 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.

	2021			
	Notional amount of hedging item asset	Carrying amount of hedging item asset	Gains (losses) used to calculate hedge ineffectiveness ⁽¹⁾	Carrying amount of hedged item ⁽²⁾
Hedging items – interest rate swap contracts	200,000	3,368	3,368	–
Hedged item – subordinated debt	–	–	(3,089)	202,690
Total	200,000	3,368	279	202,690

Notes to the Consolidated Financial Statements

29. Derivative Instruments (Continued)

				2020
	Notional amount of hedging item asset	Carrying amount of hedging item asset	Gains (losses) used to calculate hedge ineffectiveness ⁽¹⁾	Carrying amount of hedged item ⁽²⁾
Hedging items – interest rate swap contracts	200,000	9,285	9,285	–
Hedged item – subordinated debt	–	–	(8,946)	208,282
Total	200,000	9,285	339	208,282

1. Amount also represents accumulated changes in fair value as the swaps were entered into during the year. The ineffectiveness is recorded in Non-Interest income – other income. In 2021, we recorded a loss of \$60 (2020 – gain of \$480).

2. Represents carrying value on the Consolidated Statement of Financial Position and includes amortized cost, plus fair value hedge adjustments.

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 collateral that 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 credit-worthiness of the counterparty calculated at the rates prescribed by the BIS.

				2021
	Notional	Replacement cost	Credit risk equivalent	Risk-weighted asset
Interest rate swaps	200,000	3,368	5,483	1,097
Equity options	35,897	2,037	10,018	2,004
Total	235,897	5,405	15,501	3,101

				2020
	Notional	Replacement cost	Credit risk equivalent	Risk-weighted asset
Interest rate swaps	400,000	10,548	16,168	3,234
Equity options	10,319	969	3,202	640
Total	410,319	11,517	19,370	3,874

30. 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 twelve months ended December 31, 2021.

(a) Fair Value of Financial Instruments Not Carried at Fair Value

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 and cash resources, 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.

Notes to the Consolidated Financial Statements

30. Fair Value of Financial Instruments (Continued)

The undernoted 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.

	As at Dec 31				
	Carrying value	Fair value	Level 1	Level 2	Level 3
2021					
Loans					
Residential mortgages	12,200,883	12,091,538	–	–	12,091,538
Personal loans	414,424	414,839	–	–	414,839
Commercial mortgages and loans and equipment financing ⁽¹⁾	5,393,362	5,379,894	–	–	5,379,894
	18,008,669	17,886,271	–	–	17,886,271
Deposits	18,118,265	18,158,718	–	18,158,718	–
Secured borrowings	644,993	647,860	–	647,860	–
Borrowings	829,161	829,491	–	829,491	–
Subordinated debentures	302,242	311,903	–	311,903	–
	19,894,661	19,947,972	–	19,947,972	–

	As at Dec 31				
	Carrying value	Fair value	Level 1	Level 2	Level 3
2020					
Loans					
Residential mortgages	11,862,364	12,011,131	–	–	12,011,131
Personal loans	373,931	374,347	–	–	374,347
Commercial mortgages and loans and equipment financing ⁽¹⁾	5,353,486	5,423,318	–	–	5,423,318
	17,589,781	17,808,796	–	–	17,808,796
Deposits	17,453,291	17,552,831	–	17,552,831	–
Secured borrowings	823,401	863,244	–	863,244	–
Borrowings	667,365	666,507	–	666,507	–
Subordinated debentures	307,731	320,237	–	320,237	–
	19,251,788	19,402,819	–	19,402,819	–

1. Excludes a commercial loan measured at FVTPL of \$0 (2020 – \$12,803). The loan matured in the second quarter of 2021 – refer to Note 30(c) for details.

Notes to the Consolidated Financial Statements

30. Fair Value of Financial Instruments (Continued)

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.

	As at Dec 31			
	Level 1	Level 2	Level 3	Total
Interest-bearing deposits with financial institution classified FVOCI	–	45,000	–	45,000
Financial investments				
Debt securities classified FVOCI	2,549,713	288,569	–	2,838,282
Equity securities designated FVOCI	–	–	3,558	3,558
Derivative assets classified FVTPL	2,037	3,368	–	5,405
Total financial assets	2,551,750	336,937	3,558	2,892,245
Derivative liabilities classified FVTPL	61	–	–	61
Total financial liabilities	61	–	–	61

	As at Dec 31			
	Level 1	Level 2	Level 3	Total
Interest-bearing deposits with financial institution classified FVOCI	–	49,594	–	49,594
Financial investments				
Debt securities classified FVOCI	2,512,739	236,617	–	2,749,356
Equity securities designated FVOCI	–	–	3,558	3,558
Loans				
Commercial loan designated FVTPL	–	–	12,803	12,803
Derivative assets classified FVTPL	969	10,548	–	11,517
Total financial assets	2,513,708	296,759	16,361	2,826,828
Derivative liabilities classified FVTPL	17	137	–	154
Total financial liabilities	17	137	–	154

Notes to the Consolidated Financial Statements

30. Fair Value of Financial Instruments (Continued)

The fair value of financial investments is determined by using quoted market values when available. For financial assets and liabilities where market quotes are not available, including for equity securities designated at FVOCI and loans designated at FVTPL, Coast Capital uses valuation techniques to estimate fair value. These techniques include discounted cash flow models based on interest rates being offered for similar types of assets and liabilities with similar terms and risks as at the 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 are determined based on redemption value. 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 6).

Fair value of loans is determined by discounting expected contractual cash flows using market interest rates charged for similar new loans at the reporting date and takes estimated prepayments into account. Changes in interest rates and in the creditworthiness of borrowers are the main causes of changes in the fair value of loans held by Coast Capital, which results in a favourable or unfavourable difference compared to their carrying amount. The fair value of impaired loans is assumed to be equal to their carrying amount.

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.

There were no transfers between Level 1, Level 2 and Level 3 for the twelve months ended December 31, 2021, and December 31, 2020.

(c) Changes in Level 3 Fair Value Measurements

The following table reconciles the opening and closing totals:

	Equity securities designated FVOCI	Commercial loan designated FVTPL	Total
Balance as at Jan 1, 2020	3,558	13,274	16,832
Loan payments received	–	(1,093)	(1,093)
Interest included in profit or loss	–	393	393
Fair value adjustments	–	229	229
Balance as at Dec 31, 2020	3,558	12,803	16,361
Loan payments received	–	(12,761)	(12,761)
Interest included in profit or loss	–	129	129
Fair value adjustments	–	(171)	(171)
Balance as at Dec 31, 2021	3,558	–	3,558

Notes to the Consolidated Financial Statements

31. Classification of Financial Assets and Liabilities

						2021	
	Classified FVOCI	Designated FVOCI	Classified FVTPL	Designated FVTPL	Amortized Cost	Total	
Financial Assets							
Cash and cash resources	–	–	–	–	414,551	414,551	
Interest-bearing deposits with financial institution	45,000	–	–	–	–	45,000	
Financial investments							
Debt securities	2,838,282	–	–	–	–	2,838,282	
Equity securities	–	3,558	–	–	–	3,558	
Loans	–	–	–	–	18,008,669	18,008,669	
Derivative assets	–	–	5,405	–	–	5,405	
Other assets	–	–	–	–	64,005	64,005	
Total financial assets	2,883,282	3,558	5,405	–	18,487,225	21,379,470	
Financial Liabilities							
Deposits	–	–	–	–	18,118,265	18,118,265	
Borrowings	–	–	–	–	829,161	829,161	
Secured borrowings	–	–	–	–	644,993	644,993	
Subordinated debt	–	–	–	–	302,242	302,242	
Derivative liabilities	–	–	61	–	–	61	
Other liabilities	–	–	–	–	311,434	311,434	
Total financial liabilities	–	–	61	–	20,206,095	20,206,156	
2020							
	Classified FVOCI	Designated FVOCI	Classified FVTPL	Designated FVTPL	Amortized Cost	Total	
Financial Assets							
Cash and cash resources	–	–	–	–	188,546	188,546	
Interest-bearing deposits with financial institution	49,594	–	–	–	–	49,594	
Financial investments							
Debt securities	2,749,356	–	–	–	–	2,749,356	
Equity securities	–	3,558	–	–	–	3,558	
Loans	–	–	–	12,803	17,589,781	17,602,584	
Derivative assets	–	–	11,517	–	–	11,517	
Other assets	–	–	–	–	42,700	42,700	
Total financial assets⁽¹⁾	2,798,950	3,558	11,517	12,803	17,821,027	20,647,855	
Financial Liabilities							
Deposits	–	–	–	–	17,453,291	17,453,291	
Borrowings	–	–	–	–	667,365	667,365	
Secured borrowings	–	–	–	–	823,401	823,401	
Subordinated debt	–	–	–	–	307,731	307,731	
Derivative liabilities	–	–	154	–	–	154	
Other liabilities	–	–	–	–	281,955	281,955	
Total financial liabilities⁽²⁾	–	–	154	–	19,533,743	19,533,897	

1. The other assets balance excludes prepaid expenses and others.

2. The other liabilities balance excludes deferred tax liability and other balance.

Notes to the Consolidated Financial Statements

32. 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:

	As at Dec 31	
	2021	2020
Outstanding loans	5,424	6,457
Outstanding deposits	261	321

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 (2020 – 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 comprise the President and CEO, Chief Financial Officer, Chief Commercial, Retail & Wealth Officer, Chief Risk Officer, Chief Legal, Regulatory and Corporate Affairs Officer, Chief People Officer, Chief Digital, Information & Technology Officer, Chief Strategy, Product & Marketing Officer and the Executive Vice President, Commercial Relationships.

	Compensation component			Compensation component		
	Fixed	Variable	2021	Fixed	Variable	2020
Short-term	3,778	2,144	5,922	4,389	1,014	5,403
Post-employment	523	–	523	771	–	771
Other long-term	–	1,254	1,254	–	864	864
	4,301	3,398	7,699	5,160	1,878	7,038
Termination	–	–	–	2,640	214	2,854
Total employee benefits	4,301	3,398	7,699	7,800	2,092	9,892

Employee benefits include amounts earned in that year. Short-term employee benefits are employee benefits that are payable within 12 months after December 31 of each year. This includes gross wages, incentive payments, all taxable/company-paid benefits, perquisite allowances and any discretionary payments made. 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 \$550 (2020 – \$627). Directors do not receive or pay preferred rates on products and services offered by Coast Capital and are only compensated with short-term Directors' fees and related statutory benefits.

Notes to the Consolidated Financial Statements

33. Pension Plan

Coast Capital provides employees with post-retirement benefits under the following plans:

a) Multi-Employer Defined Benefit Plan

Coast Capital is a participating member of the Plan. The Plan is governed by a Board of Trustees which oversees the management of the Plan, including the investment of the assets and administration of the benefits.

There is insufficient information from the Plan to account for the Plan using defined benefit accounting. Accordingly, Coast Capital's participation in the Plan is accounted for as a defined contribution plan with contributions recorded on an accrual basis.

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, the results for which will be available during 2022. Pension expense of \$7,245 (2020 – \$6,922) in respect of contributions paid into the Plan in 2021 has been charged to Salaries and employee benefits in the Consolidated Statement of Income. Contributions to the Plan in 2022 are expected to be \$7,200.

b) Defined Contribution Plan

Coast Capital provides a group RRSP to its eligible employees whereby all contributions are funded by Coast Capital. Pension expense of \$4,143 (2020 – \$3,922) in respect of contributions paid into this Plan in 2021 has been charged to Salaries and employee benefits in the Consolidated Statement of Income.

c) Other Post-Retirement Defined Benefits

Coast Capital provides other post-retirement benefits to its eligible employees (Other Post-Retirement Plans). The obligations comprise 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 their 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 eight years at December 31, 2021.

	2021	2020
Benefit obligation at beginning of year	4,582	4,110
Current service costs	500	375
Interest costs	94	124
Benefit payments	(713)	(387)
Actuarial (gain) loss, due to:		
Experience adjustments	(345)	144
Changes in financial assumptions	(170)	216
Benefit obligation at end of year	3,948	4,582

Pension expense of \$594 (2020 – \$499) 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.

Notes to the Consolidated Financial Statements

33. Pension Plan (Continued)

	2021	2020
Cumulative actuarial losses at beginning of year	(897)	(537)
Actuarial gains (losses)	515	(360)
Cumulative actuarial losses at end of year	(382)	(897)

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

	2021	2020
Discount rate	2.9%	2.1%
Dental benefits trend rate for 10 years	5.0%	5.0%
Extended health benefits trend rate for 10 years	6.5%	6.5%

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, 2021, 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.

	2021	2020
Discount rate (1% decrease)	215	275
Trend rates (1% increase)	88	114

34. Membership

The following membership data is as at December 31, 2021, and is annexed in accordance with subsection 308 (3) of the *Bank Act*. As at December 31, 2021, Coast Capital is organized and carrying on business on a cooperative basis in accordance with subsection 12(1) of the *Bank Act*.

	2021	2020
Number of members	592,251	594,483
Percentage of members who are natural persons	91.3%	91.4%
Percentage of financial services transacted with members on the basis of gross revenues (based on unconsolidated financial data of Coast Capital Savings Federal Credit Union)	97.3%	98.1%

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 supervising the management of 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, and is also guided by the Office of the Superintendent of Financial Institutions (OSFI) Corporate Governance Guideline which details OSFI's expectations with respect to corporate governance of federally regulated financial institutions.

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 four standing committees: Audit & Finance Committee (AFC), Governance & Nominations Committee (GNC), Human Resources Committee (HRC) and Risk Review Committee (RRC).

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. In a year when the Board Chair is up for re-election, the Board Chair will not be part of the GNC. The committees meet quarterly 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.

Audit & 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 & Nominations Committee: ensures the Board's governance practices are consistent with leading practices, regulatory expectations 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's Board with our members. The 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 in the future. All members of the committee must be independent directors, as defined in the Coast Capital Savings Federal Credit Union Rules (the "Rules") and the independence standards established by the Board, and no member of the committee may be currently eligible for re-election. The committee ensures the integrity of the election process for directors to the Board and reports the results of the election to Coast Capital members at the AGM.

Corporate Governance—Board of Directors

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 external 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.

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 the effectiveness of policies and internal controls and ensures Coast Capital complies 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.

Five Board meetings were held in 2021. 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, the Executive Committee and the membership are effective and further the best interests of Coast Capital.

The Board is required by law to act in the best interest of Coast Capital and to 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 CEO 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 2021

With the exception of Calvin MacInnis, our President and CEO, all other Board directors, including the Board Chair, are independent. Independence is defined by the Director Independence Policy, the Rules and the *Bank Act*.

Corporate Governance—Board of Directors

As of December 31, 2021, Coast Capital's directors are:

Bob Armstrong

Background/Experience:	Mr. Armstrong is a seasoned executive and corporate director who contributes his keen understanding of member-focused technology, financial expertise, and oversight experience to his role as Chair of Coast Capital's Board. He works with a number of companies and non-profit organizations in board and advisory roles, including serving as a director of Armstrong Hospitality Group (parent company of Rocky Mountaineer) and the Invest Vancouver Management Board (part of Metro Vancouver's governance structure). In addition to his corporate responsibilities, Mr. Armstrong is a board member and Treasurer of Ballet BC, chairs the board of the Chris Spencer Foundation, and is an active member of Social Venture Partners. 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. He is a Chartered Professional Accountant and received his Institute of Corporate Directors designation from the Institute of Corporate Directors.
Positions held in 2021:	Board Chair (as of December 10, 2018) and <i>ex officio</i> member of all Board committees. As Mr. Armstrong is standing for re-election in 2022, he only participated as an <i>ex-officio</i> member of the Governance & Nominations Committee until the conclusion of the 2021 AGM.
Director since:	2016
Current term expires:	2022 (standing for re-election)
Other current boards:	Armstrong Hospitality Group (Rocky Mountaineer), Ballet BC, Pennask Lake Fishing and Game Club, Chris Spencer Foundation, and the Invest Vancouver Management Board (Metro Vancouver)

Charlotte Burke

Background/Experience:	An experienced senior executive with national organizations operating in highly regulated businesses, Ms. Burke brings a focus on member-centricity, youth and the diverse needs of the community to Coast Capital's Board. She has served on both public and private boards for the past 15 years, including Halton Healthcare Services, Postmedia Networks, Ontario Lottery and Gaming Corporation, Acadia University and numerous early-stage companies. She is the Board Chair of Horizn Inc. Ms. Burke volunteers with several organizations in an advisory and advocacy capacity to help business start-ups, women and young entrepreneurs build the next generation of successful Canadian leaders and companies. During her career, Ms. Burke held numerous senior executive roles with Microsoft and Bell Canada. She led the Bell team through three major technology transformations, including the launch of digital cellular, the expansion of broadband internet and the introduction of internet-based TV. She has a Master of Business Administration from Harvard University and a Bachelor of Business Administration in accounting from Acadia University. Ms. Burke holds an Institute of Corporate Directors designation from the Institute of Corporate Directors.
Positions held in 2021:	Audit & Finance Committee member, Risk Review Committee member, and Chair, Human Resources Committee
Director since:	2019
Current term expires:	2022 (standing for re-election)
Other current boards:	Halton Healthcare Services, and Horizn Inc.

Corporate Governance—Board of Directors

Susan Dujmovic

Background/Experience:	During her 30-plus years with HSBC Bank, Ms. Dujmovic held a variety of executive management positions working with the bank's domestic and international sectors in the areas of enterprise-wide risk management, governance, regulatory compliance and corporate sustainability. She is a seasoned corporate director and is currently the Audit Committee Chair of Infrastructure BC, a provincial Crown corporation and procurement advisor for major infrastructure projects in B.C. She is also the past Board Chair and Audit Committee Chair of the Royal Canadian Mint and former director of the Mutual Fund Dealers Association. As a community leader, she remains committed to serving on the board of non-profit organizations, most recently as a director and Audit Committee Chair of the Hawaiian Legacy Reforestation initiative, a sustainable reforestation initiative and as director and Finance Committee Vice Chair of the Beach Grove Golf Club. Ms. Dujmovic has a Bachelor of Administration from the University of British Columbia and received her Institute of Corporate Directors designation from the Institute of Corporate Directors.
Positions held in 2021:	Audit & Finance Committee member, and Risk Review Committee member
Director since:	2021
Current term expires:	2024
Other current boards:	Infrastructure BC, Hawaiian Legacy Reforestation Initiative, and Beach Grove Golf Club

Leanna Falkiner

Background/Experience:	Ms. Falkiner is an accomplished marketing executive and entrepreneurial business builder. She brings her retail marketing, digital and national financial services experience to Coast Capital's Board. As founder of evoQ International, a strategy-consulting firm, she architects growth strategies, modernizes products, optimizes channels and guides digital transformations for companies, positioning them to excel in the digital economy. She has a passion for the outdoors and is an advocate for diversity and inclusion. Ms. Falkiner holds a Master of Science in International Economics from Tulane University and a Bachelor of Social Science from the University of Guelph. She also has obtained her Institute of Corporate Directors designation from the Institute of Corporate Directors.
Positions held in 2021:	Human Resources Committee member, Audit & Finance Committee member, and Governance & Nominations Committee member
Director since:	2020
Current term expires:	2023
Other current boards:	North York General Hospital Foundation, and Institute for Corporate Directors, GTA Chapter

Corporate Governance—Board of Directors

Frances Fiorillo

Background/Experience:	Ms. Fiorillo is a highly accomplished human resources leader who complements Coast Capital's Board with her diverse experience in organizational development, national expansion, workplace culture and consumer-oriented services. She has spent her career in the areas of human resources, customer service and operations. Prior to retirement from the airline industry, Ms. Fiorillo held a number of high-ranking positions at Virgin America, the BC Provincial Health Services Authority, Canadian Airlines International and Air Canada ZIP. She has a Bachelor of Arts with a major in Psychology from the University of British Columbia.
Positions held in 2021:	Chair, Human Resources Committee, Human Resources Committee member and Risk Review Committee member
Director since:	2019
Current term expires:	2022 (not standing for re-election)
Other current boards:	Vancouver Airport Authority

Pharid Jaffer

Background/Experience:	Mr. Jaffer is an independent consultant focused on providing thought leadership, digital and technology advisory services to local and global organizations. He has held senior roles and worked in technology, financial services, retail, and public sector organizations. These organizations include HSBC, Canaccord-Genuity and George Weston Limited. In addition to his consultancy responsibilities, he is active as a thought-leader, speaking on many topics ranging from FinTech to digital disruption to cyber resiliency. Mr. Jaffer continues to remain active in the community from mentoring MBA and undergrad students at SFU's Beedie School of Business to being active in many causes including autism. He is a graduate of the University of Waterloo.
Positions held in 2021:	Human Resources Committee member, and Risk Review Committee member
Director since:	2021
Current term expires:	2024
Other current boards:	None

Corporate Governance—Board of Directors

Valerie Lambert

Background/Experience:	Throughout her career, Ms. Lambert has combined a strong commitment to the business sector with a passion for community service. A graduate of the University of Toronto, she earned her CA certification in Ontario and spent the early years of her career in Toronto in public accounting. She relocated to Vancouver and became a BC-certified CA and now CPA, working in finance in the resource sector. She was VP, Treasurer of BC Gas and Treasurer of BC Hydro. Ms. Lambert worked internationally with The World Bank in the late 1990's in Southeast Asia and the Baltic countries following the collapse of the Soviet Union. Ms. Lambert has served on numerous corporate and NFP boards. She recently completed her term on the Board of BC Hydro where she chaired the Governance committee. She also chaired the Audit and Finance committee of Powerex. She is a Founding Director and Past Chair of BC Women's Hospital Foundation. She also served for many years as a Director of The Forum for Women Entrepreneurs. Her current role is as Executive Director of Big Brothers of Greater Vancouver. She also serves on the Finance committee of Shaughnessy Golf & Country Club of which she is past Chair. She was recently appointed to the Board of the Molly Towell Perinatal Research Foundation.
Positions held in 2021:	Chair, Audit & Finance Committee, and Governance & Nominations Committee member
Director since:	2017
Current term expires:	2023
Other current boards:	Big Brothers of Greater Vancouver, Molly Towell Perinatal Research Foundation, and Shaughnessy Golf & Country Club

Frank Leonard

Background/Experience:	With a focus on service, along with his strong background in financial governance, Mr. Leonard deepens Coast Capital's ability to remain strong and relevant for its members and the communities it serves. Mr. Leonard comes from a family business background, having managed Victoria Tire Ltd.'s three Kal Tire stores for more than 25 years prior to their sale in 1996. In addition to his small business experience, he brings to the Board leadership in stakeholder engagement and community building, gained through his extensive experience in the public service and as the former Mayor of the District of Saanich. He teaches a course on small business at the University of Victoria to support entrepreneurs in the community and is the Capital Campaign Co-Chair for Nigel House, assisted living in Saanich. Mr. Leonard has a Master's degree in History from the University of Victoria. He also has an Institute of Corporate Directors designation from the Institute of Corporate Directors.
Positions held in 2021:	Chair, Governance & Nominations Committee, Audit & Finance Committee member, and Human Resources Committee member
Director since:	2016
Current term expires:	2022 (not standing for re-election)
Other current boards:	Parkbridge Lifestyle Communities, and Victoria Airport Authority

Corporate Governance—Board of Directors

Nancy McKenzie

Background/Experience:	Ms. McKenzie is a corporate director and accounting professional who brings strategic, operational and executive leadership expertise to Coast Capital's board through her extensive experience across the transportation, manufacturing and industrial equipment industries. As a strong believer that education has the power to uplift the potential of all people, Nancy is currently the Chair (and past Finance Committee Chair) of the University of British Columbia Board of Governors. She also serves as the Audit Committee Chair for Swiss Water Decaffeinated Coffee Inc. (TSX:SWP) and is on another private company advisory board. She has a long history of community contributions to youth sports and education. 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 managed major capital projects. She holds an Honours Bachelor of Business Administration degree from Wilfrid Laurier University. Ms. McKenzie is also a Chartered Professional Accountant and was awarded a Fellowship by the Chartered Professional Accountants of BC. She has also received an Institute of Corporate Directors designation from the Institute of Corporate Directors.
Positions held in 2021:	Vice Chair, Board of Directors, Audit & Finance Committee member, Chair, Risk Review Committee, and Governance & Nominations Committee member
Director since:	2018
Current term expires:	2024
Other current boards:	University of British Columbia, Swiss Water Decaffeinated Coffee Inc. (TSX:SWP) and is on another private company board

Chris Trumpy

Background/Experience:	Mr. Trumpy was an accounting professional and a former Deputy Minister of Finance for the Province of British Columbia. He was responsible for the legislation and government policies related to the Financial Institutions Commission and the Credit Union Deposit Insurance Corporation. He has worked as a consultant on several projects, as well as serving on other boards. He brings a significant level of governance and financial experience to Coast Capital's Board of Directors. With a strong commitment of service to the community, he also dedicates his time as a board member for the BC/Yukon Cancer Society. Mr. Trumpy holds a Bachelor of Commerce degree from the University of British Columbia and an Institute of Corporate Directors designation from the Institute of Corporate Directors.
Positions held in 2021:	Risk Review Committee member, Chair, Governance & Nominations Committee, and Human Resources Committee member
Director since:	2012
Current term expires:	2024
Other current boards:	Coast Opportunities Fund, 94Forward, and Puget Sound Energy

Corporate Governance—Board of Directors

2021 Past Directors:

Christian Morrison

Background/Experience:	Ms. Morrison contributed her extensive experience in retail banking, corporate financial management, leadership development and member care to the Coast Capital board, gained through her background in the national financial services sector. We thank her for her contributions.
Term Served	2009 – 2021

Remuneration for Directors, Senior Management and Employees

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

Coast Capital senior management 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 comprises 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 Capital.

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, 2021, the compensation of our Material Risk Takers, which includes senior management and members of the Board of Directors, is disclosed in Note 32 to our 2021 audited annual consolidated financial statements.

Additionally, there were no guaranteed special project achievement or sign-on bonuses. Further remuneration detail is provided below.

Director Remuneration

Coast Capital's director remuneration is set in accordance with a member-approved remuneration philosophy. 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
Meeting Fee paid for four hours (or longer) of travel to and from meetings (excluding same day travel)	\$1,000

The total remuneration paid to directors in 2021 was \$547,697; (2020 – \$605,716), 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

2021 Calendar Year Board and 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			
Bob Armstrong, Board Chair	5 of 5	100%	Audit & Finance Governance & Nominations ⁽²⁾ Human Resources Risk Review	4 of 4 3 of 3 5 of 5 4 of 4	100%	\$96,000
Charlotte Burke	5 of 5	100%	Audit & Finance Risk Review Human Resource (from May 2021) ⁽³⁾ (Chair)	1 of 1 4 of 4 4 of 4	100%	\$46,167
Susan Dujmovic (from May 2021)	4 of 4	100%	Audit & Finance Risk Review	3 of 3 3 of 3	100%	\$33,000
Leanna Falkiner	5 of 5	100%	Audit & Finance Governance & Nominations Human Resources until May 2021)	4 of 4 6 of 6 1 of 1	100%	\$45,500
Frances Fiorillo	5 of 5	100%	Human Resources ⁽⁴⁾ Risk Review Committee	5 of 5 4 of 4	100%	\$44,167
Pharid Jaffer (from May 2021)	4 of 4	100%	Human Resources Risk Review	3 of 3 3 of 3	100%	\$32,000
Valerie Lambert	5 of 5	100%	Audit & Finance (Chair) Governance & Nominations	4 of 4 9 of 9	100%	\$52,500
Frank Leonard	5 of 5	100%	Audit & Finance Governance & Nominations ⁽⁵⁾ Human Resources (from May 2021)	3 of 3 3 of 3 5 of 5	100%	\$45,167
Calvin MacInnis President & CEO	5 of 5	100%	N/A	N/A	100%	N/A
Nancy McKenzie	5 of 5	100%	Audit & Finance Governance & Nominations Risk Review (Chair) ⁽⁶⁾	1 of 1 6 of 6 4 of 4	100%	\$53,500
Christian Morrison (termed out in 2021)	1 of 1	100%	Governance & Nominations Human Resources (Chair) Governance & Nominations ⁽⁷⁾	3 of 3 2 of 2	100%	\$18,167
Chris Trumpy	5 of 5	100%	Governance & Nominations (Chair) ⁽⁸⁾ Human Resources Risk Review	6 of 6 5 of 5 1 of 1	100%	\$48,833

1. The total remuneration paid includes the annual retainers, meeting fees, meetings on certain business matters as required, and any industry-related events (as approved by the Board Chair and GNC Chair), travel to and from meetings if commute is longer than four hours, 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 that Coast Capital is required by law to pay.

2. Bob Armstrong was *ex-officio* on the Governance and Nominations Committee up to the Annual General Meeting April 29, 2021

3. Charlotte Burke became Chair of the HRC Committee effective September 1, 2021

4. Frances Fiorillo served as Chair of the HRC Committee until August 31, 2021

5. Frank Leonard served as Chair of the Governance & Nominations Committee up to the Annual General Meeting April 29, 2021

6. Nancy McKenzie became Chair of the RRC Committee immediately following the Annual General Meeting April 29, 2021

7. Christian Morrison served on the Governance & Nominations Committee and as HRC Chair until the close of the 2021 AGM

8. Chris Trumpy became Chair of the Governance and Nominations Committee immediately following the Annual General Meeting April 29, 2021

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 & Nominations 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 2021 education sessions included:

- Market Conduct Rules with the Financial Consumer Agency of Canada, presented by Tory's LLP
- Overview of Member Shares and Common Equity Tier 1 (CET1) Capital
- Payments Modernization Update including Current Ecosystem of Canadian Payments
- State of Financial Services and Fintechs in Canada
- Purpose Driven Organizations
- The Importance of Culture in Mergers
- Credit Union Landscape in Canada
- Integration of Robotics and use of Artificial Intelligence
- Anti-Money Laundering Terrorist Financing in British Columbia
- Governance of Cooperatives
- Equity, Diversity and Inclusion – A Conversation on Race & Racism
- Risk Adjusted Return on Capital (RAROC)

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 directors.
- 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 of \$20,000.

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 & Nominations Chair.

Corporate Governance—Board of Directors

Director Total Expenses

Director	Total Expenses	Description of 2021 Expenses
Bob Armstrong Board Chair and <i>ex officio</i> member of all committees	Total: \$5,618	Includes travel and attendance at Board-related events as Coast Capital's representative at Peer Group 5 meetings and Director Development & Continuous Learning expenses.
Charlotte Burke Audit & Finance Committee member, Risk Review Committee member and Chair, HRC Committee (effective September 2021)	Total: \$2,728	Includes travel to and from principal residence (Toronto, ON) and attendance at Board-related events.
Susan Dujmovic Risk Review Committee member, and Audit & Finance Committee member	Total: \$7,245	Includes expenses relating to Director Development & Continuous Learning.
Leanna Falkiner Audit & Finance Committee Member, Governance & Nominations Committee member, and previous Human Resources Committee member	Total: \$3,042	Includes expenses relating to Director Development & Continuous Learning.
Frances Fiorillo Human Resources Committee member (former Chair) and Risk Review Committee member	Total: \$0	No expenses claimed in 2021.
Pharid Jaffer Human Resources Committee member and Risk Review Committee member	Total: \$0	No expenses claimed in 2021.
Valerie Lambert Chair, Audit & Finance Committee, and Governance & Nominations Committee member	Total: \$2,650	Includes expenses relating to Director Development & Continuous Learning.
Frank Leonard Audit and Finance Committee member, Chair, Governance & Nominations Committee (until May 2021), and Human Resources Committee member	Total: \$2,601	Includes travel to and from principal residence (Victoria, BC), attendance at a Board-related event and expenses relating to Director Development & Continuous Learning.
Nancy McKenzie Audit & Finance Committee member, and Chair, Risk Review Committee	Total: \$2,388	Includes expenses relating to Director Development & Continuous Learning.
Chris Trumpy Chair, Governance & Nominations Committee (eff May 2021) and Human Resources Committee member	Total: \$0	No expenses claimed in 2021.

Corporate Governance—Board of Directors

Board Performance Reviews

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 challenging and giving approval to Coast Capital's five-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. Annually, the GNC recommends to the Board a process for the evaluation at a frequency appropriate to Coast Capital, and in May 2018 this was determined to be that it would be prudent to do a formal evaluation every two years. 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.

A comprehensive review was conducted in 2021. The 2021 evaluation was administered by an external governance consultant and involved the elements listed below:

- Confidential online director evaluation survey distributed by the consultant to all directors to self-assess their 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 conducted by the consultant with select members of senior management to obtain input on the Board's performance.
- Comprehensive surveys administered and structured interviews conducted by the consultant with each director to discuss their performance as a Coast Capital director and to obtain input on peer performance, the performance of the Board, the Board's committees and the Board Chair.
- The Board was provided with a comprehensive report on Board performance, highlighting strengths and providing recommendations for continual improvement.

- An in-depth debriefing session on Board performance held with the consultant, the Governance & Nominations Committee, and the Board Chair. Final recommendations were reviewed at the Governance & Nominations Committee and Board meetings in February, 2022
- The Board Chair met 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 GNC Chair met 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 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.

Corporate Governance—Board of Directors

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% 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 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 2021 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, 2021, Coast Capital's CEO position earned the following total cash compensation.

	Year	Base salary earnings	2021 Annual incentive	Long-term incentive (earned)	Total cash compensation
Chief Executive Officer	2021	\$607,156	\$716,771.78	\$528,999.89	\$1,852,927.24

Corporate Governance—Board of Directors

Base Salary

Base salary for the CEO takes into consideration the 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.

Variable Pay

Variable pay comprises a short-term incentive plan and a long-term incentive plan, based on a balanced scorecard containing financial and member metrics.

Short-Term Incentive Plan (STIP)

The annual short-term incentive plan links compensation to the achievement of performance objectives set in our annual business plan. The CEO STIP target is set at 80% of base salary (weighted at 30% for individual performance and 70% for corporate performance), with an opportunity to earn up to a maximum of 120% of base salary for exceptional performance. If the CEO does not meet threshold performance, Coast Capital does not make a payout under this plan. The 2021 CEO corporate STIP measures, notated below, are to provide prudent fiscal and operational management so the organization can continue to support its members and communities.

Measures

- Normalized Operating Income
- Total Revenue

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
- 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 2019–2021 at 80% of base salary and maximum 160%. To remain aligned with the market peer group benchmark, the LTIP target payout increases for performance period 2021–2023 to 110% of base salary, with a maximum of 220% for exceptional performance. If threshold performance targets are not met, there is no payout. 2021 performance is measured within three rolling LTIP performance periods: 2019–2021, 2020–2022, and 2021–2023. The LTIP amount reported in the Compensation Summary is the 2019–2021 grant level that was earned in this time frame. The payment for 2019–2021 will be made in June 2021. The CEO 2019–2021 LTIP measures are:

Measures

- Return on Risk-Weighted Assets
- Operating Efficiency Ratio
- Community Brand & Engagement Score

The LTIP paid in 2021, for performance period 2018–2020, was \$360,640.

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 2021 were 7.4% of base salary. This includes the new BC Employer Health Tax that came into effect in 2020 and professional development taken by the CEO in 2020. The CEO is also provided a perquisite allowance of 8.2% of base salary to cover costs for out-of-pocket expenses such as car allowances and memberships.

Corporate Governance—Board of Directors

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 DBP program and also participates in a Supplemental Executive Retirement Plan (SERP). Both programs are based on salary and STIP paid in 2021. Coast Capital contributed 15.8% of base salary for 2021 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%.

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 is based on the results achieved and overall financial health and stability of the organization. Payments are contingent on Board approval.

Benefits—Health and Wellness

Coast Capital provides the same competitive, flexible benefits program to all its benefits-eligible employees as it provides 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 time to support work-life balance and tuition and educational assistance to help grow their skills and careers with us.

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 Shepell 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.

Corporate Governance—Board of Directors

Managing Risk in Compensation

Coast Capital manages compensation programs to ensure that these programs do not cause regulatory, financial, reputational, operational, and talent retention risks. Coast Capital's Group Risk Management and Internal Audit functions provide independent oversight and review over compensation programs to ensure these risks are managed within Coast Capital's risk appetite.

Coast Capital reinforces its desired risk culture by linking compensation to management's performance against the risk appetite. Key risks are considered in the development of Objectives and Key Results (OKRs) as well as the Annual Operating Plan (AOP) and the outcomes of these activities are cascaded to individuals as part of their performance assessment in addition to being used in the creation of team and corporate balanced scorecards. All employees are expected to observe the organization's risk principles and work within its risk appetite in the attainment of the organization's OKRs and AOP. The Group Risk Management function tracks Board-approved risk appetite measures including measures tied to compensation (such as voluntary staff turnover, code violations and first-year turnover rate) and reports breaches to the Risk Review Committee and the Board on a quarterly basis.

Nomination of Directors

Each year, the number of vacancies on Coast Capital's Board may vary. Typically, each director's term runs for a three-year term, up to a maximum of four terms or 12 years.

Diversity of thought, experience and perspective at the Board table enables the Board to best serve Coast Capital's members. The GNC's responsibility is to recommend qualified and diverse candidates for the following year for election to the Board. From the membership, the committee seeks qualified candidates with a diversity of skills, experience, gender, race, national or ethnic origin, colour, religion, age, sex, sexual orientation and gender identity or expression. The committee 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 diverse 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 GNC Chair

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 Directors' Code of Conduct and Conflict of Interest Policy (the Directors' 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 Directors' 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 HRC is responsible for reviewing the Code and the Directors' 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 cumulative amount of depreciation on tangible assets, such as buildings and equipment, and intangible assets, such as computer software.

Actuarial gains (or losses) on defined benefit pension plans: decrease or increase in the amount of defined benefit pension plan obligations due to changes in projections used to value the obligation.

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 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 Dealer 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 (Risk-Weighted Asset (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, that primarily comprises member's equity (class B shares, retained earnings and accumulated other comprehensive income) less deductions for goodwill, intangible assets and other items as prescribed by OSFI, divided by risk-weighted assets.

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

Deferred tax assets and liabilities: 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.

Glossary

Derecognition: the removal of a previously recognized financial asset or financial liability from the balance sheet. Derecognition can occur when a financial asset or liability 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.

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.

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.

International Accounting Standards (IAS): older accounting standards issued by the International Accounting Standards Council and form part of IFRS.

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.

Glossary

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 comprises 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.

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.

Corporate Information

Board of Directors (as of December 31, 2021)

Bob Armstrong, *Board Chair*
Charlotte Burke, *Chair, Human Resources Committee*
Leanna Falkiner
Frances Fiorillo
Valerie Lambert, *Chair, Audit & Finance Committee*
Frank Leonard, *Chair, Governance & Nominations Committee*
Nancy McKenzie, *Vice Chair of the Board of Directors, Chair, Risk Review Committee*
Christian Morrison
Chris Trumpy, *Chair, Governance & Nominations Committee*
Leanna Falkiner
Susan Dujmovic
Pharid Jaffer
Calvin MacInnis, *President and Chief Executive Officer*

Executive Committee (as of December 31, 2021)

Calvin MacInnis <i>President and Chief Executive Officer</i>	Helen Blackburn <i>Chief Financial Officer</i>	Ania Cox <i>Chief People Officer</i>	Mauro Manzi <i>Chief Commercial, Retail & Wealth Officer</i>
Peter Roberts <i>Chief Risk Officer</i>	Lisa Skakun <i>Chief Legal, Regulatory and Corporate Affairs Officer</i>	Jeff Wong <i>Chief Digital, Information and Technology Officer</i>	Catherine Wood <i>Chief Strategy, Product and Marketing Officer</i>

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

Contact Information

Help Headquarters

Suite 800 – 9900 King George Blvd.
Surrey, B.C. V3T 0K7
T: 604.517.7400

Victoria Administration Office

Suite 400 – 2950 Jutland Rd.
Victoria, B.C. V8T 5K2

Advice Centre

Monday – Saturday:
8:00 am – 8:00 pm (PT)
Sunday: 9:00 am – 5:30 pm (PT)
T: 1.888.517.7000 (toll-free)
T: 604.517.7000 (Metro Vancouver)
T: 250.483.7000 (Victoria)

Coast Capital offers external messages relay services to members who experience hearing or speech difficulties

Website

coastcapitalsavings.com

Facebook

facebook.com/coastcapitalsavings

Instagram

instagram.com/coast_capital

LinkedIn

linkedin.com/company/coast-capital-savings

Twitter

twitter.com/coast_capital

Annual General and Special Meeting

Our Annual General and Special Meeting (AGSM) on Thursday, April 28, 2022 at 4:30 pm PT will be hosted virtually via live webcast. Visit www.coastcapitalsavings.com/AGM for more information.

coastcapital