2017

Annual Report

coastcapital®
SAVINGS

What's Inside?

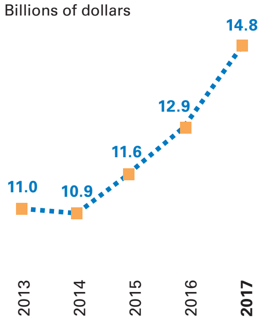
CANADA'S 10 MOST ADMIRED CORPORATE CULTURES™ Presented by Waterstone

CANADA'S BEST MANAGED COMPANIES Platinum member

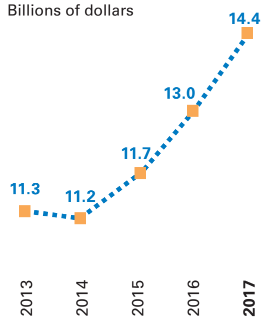
Imagine Caring Company Une entreprise généreuse

Financial Highlights at a Glance

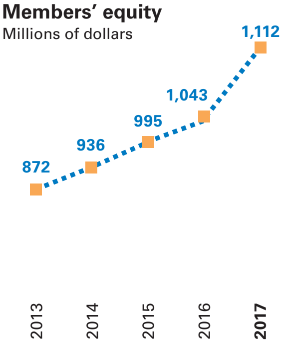
Loan balance
Billions of dollars



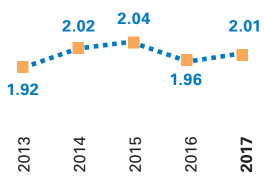
Deposit balance
Billions of dollars



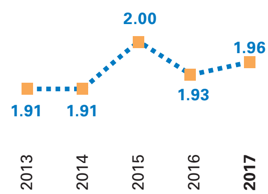
Members' equity
Millions of dollars



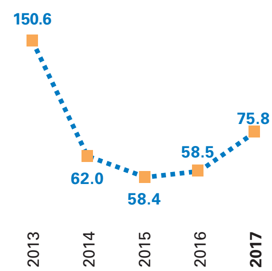
Net interest income
As a percentage of average assets



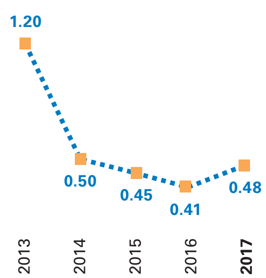
Non-interest expenses
As a percentage of average assets



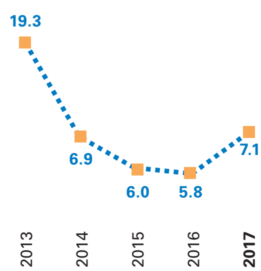
Net income
Millions of dollars



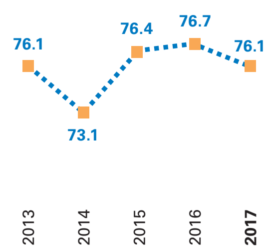
Net income
As a percentage of average assets



Net income
As a percentage of average equity



Operating efficiency
In per cent

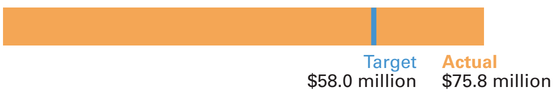


2017 Performance Against Targets

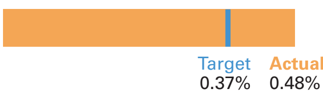
Loan balance
Total loans

Deposit balance
Total deposits

Net income
All revenue less expenses and taxes



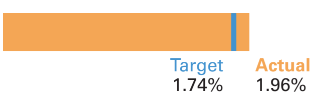
Return on average assets
Net income expressed as a percentage of average assets



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

Capital
Regulator-defined and primarily retained earnings plus share equity divided by total assets adjusted for risk

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



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

5-Year Financial Overview

December 31 (in thousands of dollars)	2017	2016	2015	2014	2013
Balance sheets					
Assets					
Cash and cash resources	467,204	162,130	585,502	146,808	152,121
Financial investments	1,626,481	1,772,182	1,359,015	1,146,909	1,250,619
Loans	14,788,882	12,858,372	11,616,100	10,949,852	11,002,775
Premises and equipment	28,672	30,228	27,959	23,902	25,465
Other	137,271	146,306	147,517	132,831	98,742
	17,048,510	14,969,218	13,736,093	12,400,302	12,529,722
Liabilities					
Deposits					
Demand	6,098,255	5,947,260	5,257,179	4,742,835	4,369,450
Term	7,060,706	5,760,607	5,118,086	5,062,766	5,437,663
Registered	1,151,339	1,197,110	1,247,358	1,350,703	1,445,200
Class A shares	2,581	2,524	2,470	2,411	2,344
Accrued interest	53,551	53,317	53,667	61,922	62,256
	14,366,432	12,960,818	11,678,760	11,220,637	11,316,913
Borrowings	319,460	–	400,000	0	175,000
Borrowings secured by loans	1,118,025	869,138	570,329	167,378	83,464
Other	132,743	96,085	91,726	76,610	82,024
	15,936,660	13,926,041	12,740,815	11,464,625	11,657,401
Subordinated debt	–	–	–	–	–
Members' equity					
Class B shares	28,851	30,444	32,213	34,482	36,454
Retained earnings	1,084,983	1,010,375	952,949	895,983	835,043
Accumulated other comprehensive income	(1,984)	2,358	10,116	5,212	824
	1,111,850	1,043,177	995,278	935,677	872,321
	17,048,510	14,969,218	13,736,093	12,400,302	12,529,722
Income statements					
Interest income	476,269	428,671	421,753	428,569	432,713
Interest expense	157,775	148,622	157,277	176,005	192,012
Net interest income	318,494	280,049	264,476	252,564	240,701
Provision for credit losses	8,331	10,733	4,997	5,379	5,794
	310,163	269,316	259,479	247,185	234,907
Fees, commission and other income	88,101	78,934	76,674	73,761	72,873
Gain on sale of assets and shares	–	–	–	–	111,993
	398,264	348,250	336,153	320,946	419,773
Non–interest expenses	309,432	275,367	260,470	238,552	238,712
Income before undernoted	88,832	72,883	75,683	82,394	181,061
Income before provision for income taxes	88,832	72,883	75,683	82,394	181,061
Provision for income taxes	13,055	14,357	17,314	20,373	30,430
Net income	75,777	58,526	58,369	62,021	150,631

5-Year Financial Overview

December 31 (in thousands of dollars)	2017	2016	2015	2014	2013
Financial statistics in per cent					
Asset growth	13.89	8.98	9.02	(1.03)	(0.55)
Loan growth	15.01	10.69	6.08	(0.48)	2.22
Deposit growth	10.85	10.98	4.08	(0.85)	1.15
Operating efficiency	76.10	76.71	76.35	73.10	76.13
Capital ratio	14.69	15.59	16.19	16.37	15.28
Liquidity ratio	14.07	14.48	16.21	11.36	12.12
Percentage of average assets					
Net interest income	2.02	1.96	2.04	2.02	1.92
Other income	0.56	0.55	0.59	0.59	0.58
Non–interest expenses	1.96	1.93	2.00	1.91	1.91
Percentage return on					
Average assets	0.48	0.41	0.45	0.50	1.20
Average equity	7.11	5.75	6.03	6.88	19.30
Average assets	15,801,994	14,299,277	12,993,903	12,517,384	12,508,923
Average equity	1,065,533	1,017,930	967,517	901,669	780,574
Mutual funds under administration	3,925,933	3,439,060	3,066,822	2,720,090	2,293,326
Securitized loans	1,118,025	869,138	570,329	184,334	91,457
Total assets under administration	20,974,444	18,408,278	16,802,916	15,120,392	14,823,048
Allowance for credit losses, beginning	32,413	36,806	37,634	38,862	42,507
Provisions for credit losses	8,331	10,733	4,997	5,379	5,794
Loans written off	6,560	16,066	7,203	7,853	10,676
Recoveries of loans written off	978	940	1,378	1,246	1,237
Allowance for credit losses, end	35,162	32,413	36,806	37,634	38,862
Impaired loans	13,716	21,279	26,596	23,515	39,607

2017 Highlights and 2018 Goals

2017 Highlights

- Welcomed a total of 25,390 new members
- Reached a new milestone in our total assets under administration, growing by over $2.6 billion in 2017 and surpassing the $20 billion mark
- Launched several innovative digital services to offer members a more seamless banking experience, including Interac Flash (debit card pay-by-tap), Apple Pay (the first credit union in Canada to enable members to pay using an iPhone, iPad, or Apple Watch), and digital membership account opening (new members can now join Coast Capital Savings in as few as five minutes, from anywhere they choose)
- Furthered our work on our federal credit union initiative. Two key developments in 2017:
    1) Special Resolution ballot in the spring in which 85.4% of nearly 50,000 voting members agreed to amend Coast Capital's credit union rules, allowing the credit union to align the rules with federal requirements
    2) The Financial Institutions Commission of British Columbia (FICOM) and the Credit Union Deposit Insurance Corporation (CUDIC) have approved our application for consent to continue as a federal credit union
- Used our DBRS short-term issuer rating, obtained in 2016, to bring an initial issuance of $280 million in short-term commercial paper to the market
- Received recognition through three prestigious business awards:
    - BC's Top Employers
    - Canada's Most Admired Corporate Cultures™
    - Canada's Best Managed Companies, Platinum Club designation
- Invested $5.6 million back into our communities, with a focus on helping youth (see *Building a Richer Future for Youth*)

2018 Goals

- Complete our journey to federal credit union status and provide more Canadians with a friendly, co-operative alternative to national banks. Expanding outside of B.C. will enable us to enter new markets and invest more resources into products and services that better serve our members' growing online and mobile banking needs. It also enhances our ability to maintain continuity of service to existing B.C. retail members who move, and to business members who expand their operations, to other provinces. Employees will also benefit through new job and career advancement opportunities.
- Continue to expand our digital service capabilities by offering new tools that will provide members with value-added insights into their financial activities and empower them to take control of their finances
- Invest internally in the skills and capabilities of our people to allow them to succeed as we embark on significant changes to our geographic service area, service channels, and member value proposition
- Obtain a long-term debt rating from DBRS to expand our funding options. In January, we made our rating of BBB (high) public. This investment grade rating provides further comfort to our depositors while also opening doors for us to access longer-term capital markets for the first time.

Building a Richer Future for Youth

Every year, Coast Capital invests 7% of our budgeted pre–tax profits towards local community causes. Since 2000, that's more than $71 million. In 2017, that meant we were able to put $5.6 million back into our communities, with a focus on helping youth. Because youth face many challenges on their journey to independence, Coast Capital strategically invests and works alongside our community partners to break down many of the barriers that young people face.

Through our Youth Get It Community Investment Program, we focused our support on three key areas: financial empowerment, educational success, and healthy minds.

Youth Get Financial Empowerment

We help youth in your community build a strong financial future.

- We invested $1.56 million in programs and events, engaging more than 19,000 youth
- We hired 20 Grade 11 and 12 students as Youth Get It Interns, helping them gain meaningful work experience
- We empowered 24 young leaders to help us allocate $1.6 million in grants to youth-serving organizations as part of our Youth Get It Community Councils
- As the sponsor of Dollars with Sense, a fun interactive financial literacy program delivered in classrooms across B.C., we helped deliver 404 Dollars with Sense workshops to 11,208 youth
- We supported programs that are working to address youth homelessness and teach independent-living skills, including support to Covenant House in Vancouver, Threshold Housing Society in Victoria, and Aunt Leah's Independent Lifeskills Society in New Westminster

Youth Get Educational Success

We help youth in your community succeed during their school years.

- We invested $1.46 million in programs and events, engaging more than 40,000 youth
- We presented 60 Youth Get It Education Awards to help youth who have overcome adversity attend post-secondary schooling. A total of $152,500 was awarded across 23 school districts.
- To advance our goal to build entrepreneurial leaders, we renewed our partnership with Simon Fraser University with a $1 million investment in the Coast Capital Savings Venture Connection, which has coached and mentored over 500 youth ventures since its inception in 2008
- We also continued to support young entrepreneurs at the University of Victoria (Coast Capital Savings Innovation Centre) and British Columbia Institute of Technology (Coast Capital Savings Entrepreneurial Skills for Trades and Technology), as well as at Kwantlen Polytechnic University (Coast Capital Savings Youth Entrepreneurship Award)

Youth Get Healthy Minds

We help youth in your community build a sense of belonging to decrease stress and depression.

- We invested $2.22 million in programs and events, engaging more than 1.42 million youth
- We helped raise over $300,000 to support youth-focused bullying prevention initiatives in B.C. through our role as Presenting Sponsor of Pink Shirt Day.
- This year also marked the 16th anniversary of Coast Capital's annual Charity Golf Tournament, through which we raised a record-breaking $256,000 for VGH & UBC Hospital Foundation in support of youth mental health
- Coast Capital continued to be the official Presenting Tour Sponsor of the 2017 Canadian Cancer Society Cops for Cancer Tours: our 20th year supporting this campaign. Through the combined efforts of employees and members, we raised over $135,000 to support life-saving pediatric cancer research and caring support programs like Camp Goodtimes, where 350 pediatric cancer patients, survivors, and their families can forget about this terrible disease for a while.
- We also supported community events, big and small, across B.C., including Canada Day celebrations in Surrey, Vancouver, Victoria, and Kelowna; Surrey Tree Lighting Festival; New Year's Eve Vancouver; Richmond World Festival; Khatsahlano Festival; and the Parksville Beach Festival

For more information about Coast Capital's community initiatives, visit coastcapitalsavings.com/OurCommunity.

About Us

We are Canada's second-largest credit union by assets and the largest based on our membership of 555,000. As a credit union, we are owned by our members, and our members and their financial well-being come first. Our membership has grown consistently over the past 10 years because we offer a better banking experience, along with innovative and competitive products. In 2017, we welcomed over 25,000 new members.

We serve members across B.C. through our online and mobile platforms, Contact Centre, and 52 branches located in Metro Vancouver, in the Fraser Valley, on Vancouver Island, and in the Okanagan. We also do business in other provinces across the country through our commercial lending syndication and leasing business activities.

Purpose, Mission, and Values

At Coast Capital, our purpose is: *Together, we help empower you to achieve what's important in your life.*

We're all about giving More Power to You™. We're on a mission to improve the financial well-being of Canadians, and banking with us gives our members more power in more ways. With a team of over 1,750 employees, we help our members build better money habits and realize their financial well-being through Simple financial help®. We also offer helpful products and services that put members in the driver's seat, including The Free Chequing, Free Debit and More Account®, the Take Charge Money Manager™, The Where You're At Money Chat®, and our Help Extras®.

We fulfill our purpose through our values: Inspire, Connect, Challenge, Simplify, and Deliver.

Financial Sustainability

While our performance as an organization is based on more than just our financial results, maintaining a strong financial foundation is fundamental to our ability to deliver on our purpose and mission. Through sustainable earnings and prudent risk management, we are able to invest in financial innovations that offer the best products and service experience to our members. Maintaining a strong financial position also supports our ability to meet our employee commitments and to contribute to the communities in which we operate.

How we can help

Retail Banking

Our retail banking team is dedicated to helping members with:

- Day-to-day banking needs, such as chequing and savings accounts, bank drafts, foreign exchange, and safety deposit boxes
- Home ownership through mortgages and home equity lines of credit
- General borrowing needs through lending products such as personal loans and lines of credit, car loans, student loans, and credit cards
- Saving and investment needs through a variety of products and accounts, including high interest savings accounts, term deposits, mutual funds, and segregated funds
- Life insurance products, through our licensed sales staff, and financial planning

Our retail services are available through multiple channels, including 52 branch locations, a network of automated teller machines, a telephone/Contact Centre, and our digital platforms (online and mobile banking). Additionally, mobile service providers are available to meet with members at their home or work.

Commercial Banking

Commercial banking services are a core part of our operations, providing diversification and expanded opportunities for our business, while also contributing to the strength of our communities. Our business banking team is skilled at understanding the specific needs and challenges of our members' businesses and their local markets, and providing unique solutions that work for them. We segment our commercial services delivery approach to better align to the needs of different types of businesses.

- Our Small Business Banking team is dedicated to helping small businesses with day-to-day transactions, deposit services, and credit facilities that provide the right solution for the business. Because we understand that a business owner's personal and commercial banking needs are often intertwined, our small business and retail banking teams work closely to meet the full needs of members.

- The Business Banking team focuses on the banking needs of larger companies. Requirements for these companies are generally more complicated and often include margined lines of credit or demand loans in excess of $1 million.
- The Commercial Real Estate team offers a wide range of full–service construction; and term lending products for single detached and multi-family development and construction; retail, office, and industrial development and construction and land acquisitions where imminent development is scheduled.
- Coast Travelers Group provides leasing and financing solutions for various types of commercial equipment and autos. Coast Travelers Group provides financing across Canada to meet a wide range of needs, from owner-operators who require one piece of machinery to companies seeking to acquire a fleet of heavy equipment.
- Our Payments and Cash Management team provides services for online business accounts through Coast Online Business Banking, Coast Automated Funds Transfer, Merchant Services, and Online Bill Payments. These services are important to both borrowing and non-borrowing commercial members, such as Property Managers and Societies.

In addition to our branch, automated teller machine, Contact Centre, and digital platform channels, service to commercial members is available through mobile service providers and at commercial banking centres located in downtown Vancouver, Richmond, Surrey, Langley, Greater Victoria, Nanaimo/Courtenay, and Kelowna.

Board Chair's Message

Every year, we see advances in consumer financial products and digital services in Canada – and yet, statistics tell a troubling story of the state of Canadians' finances:

- For every dollar earned, Canadians owe $1.71
- Over half of Canadians are $200 or less away from being unable to pay their bills
- 56% of retirees (Canadians age 50+) don't have a plan for retirement savings
- 47% of Canadians don't have an emergency fund that could cover their expenses for more than three months

While many financial institutions talk about helping improve their customers' financial well-being, the reality is that many Canadians still struggle to feel in control of their finances.

As a credit union built on strong co-operative values, Coast Capital Savings is uniquely positioned to lead the way in delivering true financial well-being to Canadians. As our members already know, Coast Capital is different from other financial institutions. We exist to help empower members to achieve what's important in their lives. Whether our member's goal is to purchase a home, pay off credit card debt, start a small business, save for retirement, or something else – we want to help them achieve it. That's why we're driven to help our members build better money habits and improve their financial well-being through Simple financial help.

An exciting future ahead

We are on a mission to financially empower Canadians from coast to coast. In 2017, we continued our focus on key strategic initiatives that will set the foundation for our journey ahead. We advanced toward our goal of becoming a federal credit union, receiving required approvals from both our members and our provincial regulators; we are working to obtain final federal approvals before the end of the year.

We also continued our work to develop a differentiated member experience that helps members chart a road map to financial well-being, and that inspires and equips them to act. We are transforming our entire organization to embed the delivery of financial well-being into all areas: our people, policies, processes, products, and services.

As we look to achieve our goals for 2018 and beyond, it has never been a more important time at Coast Capital – both for members and employees.

Foundations of our success

In our 78-year history, Coast Capital has a strong track record of success built upon key elements that will continue to play critical roles as we pursue our vision.

Empowered employees

Empowering members to achieve financial well-being begins with empowered employees. We are actively engaging staff in our transformational initiatives, from the development of our purpose and values, to changes in policies and practices, to piloting new products and services. Employees have embraced the call to become financial well-being champions, and their valuable contributions in 2017 were reflected in Coast Capital once again being recognized with three prestigious business awards: Canada's Most Admired Corporate Cultures, BC's Top Employers, and Canada's Best Managed Companies, Platinum Club designation.

Member trust

One of our strengths is the trust we have earned from our members. We will continue to build on this trust through our focus on creating a differentiated member experience that always puts members' needs first and is supported by innovative products, services, and technology. In 2017, Coast Capital's net promoter score, which tracks the likelihood of British Columbians recommending us to others, ranked higher than any other major financial institution in the province. We look forward to continuing to earn our members' trust and referrals.

Community leadership

In 2017, our community promise to help build a richer future for youth was backed by an investment of $5.6 million in programs and organizations across our market areas of Metro Vancouver, Fraser Valley, the Okanagan, and Vancouver Island. Our Youth Get It Community Investment Program disbursed 7% of Coast Capital's budgeted pre-tax earnings to activities that promote financial empowerment, educational success, and healthy minds among youth. In the years ahead, our community investments will remain focused on youth, allowing us to connect with a vital demographic that represents the future of Coast Capital and the communities we serve.

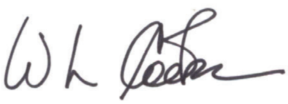
Strong governance

We will continue to honour our treasured credit union legacy in our governance process. Coast Capital will always be a purpose-driven, member-focused co-operative financial institution. Our members elect directors who provide guidance and oversight to management, and who serve our members' best interests. To ensure our ongoing success, we will continue our member engagement efforts, giving members the opportunity to elect experienced directors to the Board and to shape important decisions that affect the future of our credit union.

Thank you

I want to thank former President and CEO Don Coulter, who left the organization in January 2018 to pursue another opportunity within the larger credit union sector. We are grateful to Don for his contributions to Coast Capital, and we welcome Bruce Schouten as Interim President and CEO. Bruce's vast experience equips him well to move Coast Capital forward as we pursue these exciting goals. Thank you to the entire executive team for your excellent leadership.

On behalf of the board, I would also like to thank all members for giving us the opportunity to serve you. We consider it a great privilege to be your representatives. Finally, thank you to all Coast Capital employees for the passion they bring to work every day as we help members improve their financial well-being.



Bill Cooke
Chair, Board of Directors

CEO's Message

At Coast Capital Savings, we want to build a credit union of the future – one that's constantly evolving in order to remain relevant and competitive, while holding firmly to our cooperative roots. We are a purpose-driven organization and, over the last year, our leadership team established a solid foundation for the future through a forward-thinking strategy that supports our reinvigorated purpose: *Together, we help empower you to achieve what's important in your life.*

Investing in our future

We believe Canadians deserve a better kind of financial institution – one that listens to their needs and genuinely wants to help them achieve their goals. Coast Capital is that financial institution. In 2017, we began our journey towards embedding our purpose in everything we do, and more recently, we introduced our new values that will support the delivery of our purpose: Inspire, Connect, Challenge, Simplify and Deliver. Our values guide us in every decision as we propel our credit union into the future, ensuring we stay true to our purpose.

Of course, it's Coast Capital's employees who deliver our purpose by living our values every day. We are fortunate to have a talented team of 1,750 people who come to work with a passion for making a difference in our members' lives. Our employees are the heart of our success, and we will continue to invest in their future here at Coast Capital by building an empowering employee experience and supporting their development.

We're also continuing to invest in our members' experience, ensuring we are meeting their evolving needs through a range of innovative products and services. In 2017, we increased our focus on giving members more options to interact with us digitally, so they can do their banking anytime, from anywhere. We became the first credit union in Canada to offer Apple Pay for debit and credit and we launched our digital membership account opening platform, enabling Canadians to open a membership with Coast Capital online, in just a few minutes. We introduced Interac Flash, making it possible for members to "tap and go" with debit purchases. We also enhanced our mobile app with touch ID log in and extended our Contact Centre hours.

Our commitment to improving our members' financial well-being will always be reflected in how we help. Our current suite of products and services are specifically designed to support members in achieving their goals, including our Free Chequing, Free Debit, and More Account® and our unique Where You're at Money Chat®, which helps members uncover opportunities to save, protect, manage and grow their finances. We also recently launched the Take Charge Money Manager™ personal financial management tool to provide members with insights on their spending and help them plan for their goals. As we look to the future, we're excited to take help to the next level. In 2018, we'll launch a number of innovative offerings that will go beyond helping members to truly empowering them to achieve what's important in their lives.

These investments in Coast Capital's future will serve our members well as we advance toward becoming a federal credit union later this year. We're on an exciting, transformational journey to embed financial well-being in everything we do and deliver financial empowerment to our members.

Strong financial results and growth

Our investments in innovation and member financial well-being have been supported by strong financial results and growth that continue to fuel Coast Capital's ongoing success. In 2017, our membership grew to nearly 555,000, reconfirming Coast Capital as the largest credit union in Canada by membership. We experienced a record-breaking year, with strong growth supported by an active real estate market and the Bank of Canada's increases to prime interest rates. Notably, we reached a new milestone in our total assets under administration, growing by $2.5 billion to surpass $20 billion.

You can read more about our financial performance in the Management's Discussion and Analysis and Consolidated Financial Statements.

Thank you

I want to thank my predecessor Don Coulter for setting the path forward for Coast Capital and the solid groundwork he has laid for our future. I'm grateful to the Board of Directors for the opportunity to lead Coast Capital, and to my colleagues on the executive team for their expertise and support. A big thank you to all of our employees for living Coast Capital's purpose and values every day. Finally, our members are the reason we exist – my sincere thanks to you for entrusting your financial well-being to us.

Bruce Schouten
Interim President and CEO

Management's Discussion and Analysis

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

This section is current as of February 26, 2018, and should be read with the audited consolidated financial statements, which are prepared according to the International Financial Reporting Standards (IFRS).

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About Forward-Looking Statements

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

Management's Discussion and Analysis

Economic Environment in 2017

Despite heightened international political uncertainty, global economic growth accelerated in 2017. The global backdrop included U.S. policy changes related to immigration, taxes, and trade agreements; the beginning of Brexit negotiations between the U.K. and the European Union; and North Korean missile testing. Although economic growth was solid and labour markets tightened during the year, inflation remained surprisingly muted in most developed countries. As a result, interest rate increases were modest, and rates remained at generally low levels. Global equity markets responded favourably to these economic conditions, illustrated by the relatively stable upward price trends of major market indices.

In the U.S., real gross domestic product (GDP) growth accelerated to 2.3% in 2017, up from 1.5% in 2016. The upswing is attributed to increased business investment and continued strong consumer spending, with consumer confidence supported by healthy employment levels, rising wages, and wealth impacts through asset value increases.

After lacklustre GDP growth of 1.4% in 2016, the Canadian economy started 2017 extremely strong, posting an annualized GDP growth rate of 4.0% in the first half of the year. The pace of growth slowed in the second half to 1.8%, resulting in an impressive overall growth rate of 2.9% in 2017, placing Canada top among G-7 countries in terms of real GDP growth. Canada's primary economic drivers in 2017 were consumer spending, underpinned by strong employment and wage growth, and housing market activity. However, Canadian household debt levels continued to rise in 2017, placing Canada among the top developed countries in terms of household debt as a percentage of GDP.

In response to the rapid economic growth experienced early in the year, the Bank of Canada raised its benchmark overnight interest rate twice in Q3, by 0.25% each time. Including these increases, the Bank of Canada rate closed the year at 1.0%, which remains at a relatively low rate. Further rate increases during the remainder of the year were put on hold due to concerns over the prospect of NAFTA renegotiation and continued low inflation rates. The value of the Canadian dollar appreciated against the U.S. dollar during 2017, but remained relatively low, finishing the year near $0.80.

Wildfires were a prominent part of the news in B.C. through the summer months and disrupted economic activity in some areas of the province. However, B.C. continued its impressive multi-year economic growth trend in 2017, posting a real GDP growth rate of 3.2%, ranking B.C. second only to Alberta in terms of provincial growth rates. Stellar employment growth pushed the B.C. unemployment rate to a nine-year low of 4.8% at the end of 2017. Favourable job prospects and low interest rates bolstered consumer confidence and spending during the year, while the low Canadian dollar stimulated growth in goods exports and tourism. Government spending on utility, transportation, and public works projects also provided an economic boost in 2017, as did business investment. Regulation and policy changes designed to constrain housing market demand did little to diminish momentum within B.C.'s housing market in 2017. Although housing sales declined by 4.0% in 2017 relative to 2016, they remained at historically high levels. Strong demand resulted in higher house prices, which increased by 7.5% in 2017.

Impact on Us

Continued strong housing market activity in 2017 translated into strong growth in our residential mortgage and commercial construction mortgage portfolios. Interest rate increases removed some of the pressure on compressed interest rates spreads and, combined with higher loan volumes, increased the net interest income generated from our lending and deposit activities. Continued low interest rates and low unemployment assisted in maintaining a benign credit environment, which assisted in keeping delinquency rates low, and reduced loan loss provisioning requirements on our loan portfolio.

For our members, the continuation of a relatively low interest rate environment had mixed impacts. Existing homeowners benefited from low mortgage rates and enjoyed favourable wealth impacts through rising property values. For first-time homebuyers, however, low interest rates helped fuel a seller's market along with higher home prices. Depositors also continued to be challenged by low returns and, while healthy consumer spending provided a boost to the economy, rising personal debt levels increased member sensitivity to possible future interest rate increases.

Economic Outlook for 2018

While many of the elements contributing to global and economic uncertainty in 2017 will continue into 2018, there is also an expectation that global economic growth momentum from 2017 will continue into 2018. In the U.S., real GDP is expected to rise to from 2.3% in 2017 to 2.6% in 2018, with a boost from tax reform measures at the close of 2017 and continuing low unemployment. The Federal Reserve is expected to increase interest rates gradually through 2018. The U.K. and Euro-area are expected to experience generally favourable growth, hampered somewhat by ongoing Brexit trade negotiations.

The forecast for Canada in 2018 is for solid but slower growth of 1.9%, compared to 2.9% in 2017. Housing market activity is expected to be moderated by rising interest rates, elevated levels of consumer debt, and housing policy changes. Government spending, on both federal and provincial infrastructure projects, and stronger business investment are expected to take up some of the slack in 2018. Exports, including to the U.S., look favourable in 2018, subject to NAFTA developments. While questions related to the future of NAFTA present a risk to economic growth, it is possible that even if negotiations are unsuccessful, withdrawal notice periods and court challenges may result in trade continuing relatively unhindered through 2018, with possible negative impacts felt most in subsequent years.

Canada's continued healthy economic growth in 2018 along with low unemployment is expected to produce gradual upward pressure on inflation. As a result, the benchmark Bank of Canada overnight rate, which rose to 1.0% at the end of 2017, is forecast to increase to 1.75% or 2.00% by end of 2018. The first increase of 0.25%, to 1.25%, was experienced in January 2018. The value of the Canadian dollar relative to the U.S. dollar in 2018 is expected to trend at levels similar to 2017, with forecasted U.S. Federal Reserve interest rate increases expected to be similar to the Bank of Canada rate increases during the year.

The outlook for B.C.'s economy in 2018 remains favourable, if not quite as robust as 2017. Overall real GDP growth is forecast at 2.2%, down from 3.2% in 2017. Rising interest rates and more stringent mortgage rules are expected to cool the housing market. Home prices may continue to rise in 2018, but at a slower pace than experienced in recent years. Higher interest rates combined with rising personal debt levels will also slow consumer spending. These impacts will be tempered by a continuation of B.C.'s low unemployment rate, forecast to be among the lowest in Canada at 5.0% in 2018. Despite uncertainty related to NAFTA and the lingering softwood lumber dispute with the U.S., surveys indicate that small business owners in B.C. are optimistic when looking forward to 2018.

Impact on Us

While higher interest rates may slow the growth of our mortgage assets, they may also provide a welcome boost to net interest margins after several years of compressed spreads, and result in higher net interest income. For our members, higher rates will have mixed impacts. For those seeking to enter the housing market, higher rates without price adjustments will further reduce the affordability of home ownership. Members with existing mortgages and other debt may see more of their income allocated towards debt servicing costs. For members seeking to grow their savings or who depend on deposits for income, however, the increase in interest rates will be welcomed. For all of our members, the financial help we provide will likely rise in terms of both importance and value.

Management's Discussion and Analysis

Financial Performance

Financial Highlights of 2017

Year ended December 31 in thousands of dollars	2017	2016	Change from 2016 $	 %
Net interest income	318,494	280,049	38,445	13.7
Fee, commission and other income	88,101	78,934	9,167	11.6
Total revenue	406,595	358,983	47,612	13.3
Provisions for credit losses	8,331	10,733	(2,402)	(22.4)
Non–interest expenses	309,432	275,367	34,065	12.4
Income before provision for income taxes	88,832	72,883	15,949	21.9
Provision for income taxes	13,055	14,357	(1,302)	(9.1)
Net income	**75,777**	**58,526**	**17,251**	**29.5**

	2017	2016	Change from 2016 $	%
Assets				
Cash and financial investments	2,093,685	1,934,312	159,373	8.2
Loans	14,788,882	12,858,372	1,930,510	15.0
Premises and equipment, other	165,943	176,534	(10,591)	(6.0)
Total Assets	**17,048,510**	**14,969,218**	**2,079,292**	**13.9**
Liabilities				
Deposits	14,366,432	12,960,818	1,405,614	10.8
Borrowings	1,437,485	869,138	568,347	65.4
Other liabilities	132,743	96,085	36,658	38.2
Total liabilities	15,936,660	13,926,041	2,010,619	14.4
Members' equity	1,111,850	1,043,177	68,673	6.6
	17,048,510	**14,969,218**	**2,079,292**	**13.9**

	2017	2016	Change from 2016 Basis points increase/(decrease)
Operating efficiency ratio	76.10%	76.71%	(61)
Total liquidity ratio	14.07%	14.48%	(41)
Capital ratio	14.69%	15.58%	(89)

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

Several favourable results contributed to our overall strong core operating performance in 2017, summarized by our pre-tax income result of $88.8 million for the year, a 21.9% increase over 2016. Total revenue from operations, before provisions for credit losses, increased by $47.6 million, or 13.3%, compared to 2016. Revenue growth was strong in both net interest activities and other income. While non-interest expenses also increased by $34.1 million during the year, the rate of increase at 12.4% was lower than that of revenue growth. Additionally, credit provisioning expenses were slightly lower on a year-over-year basis, despite growth of our loan assets, reflecting benign credit conditions and risk management efforts.

Net interest income growth at 13.7% for the year was driven by both strong asset growth and improved net interest margins. Two prime rate increases, spawned by Bank of Canada rate increases, supported an improvement in our net interest margin, which increased from 1.96% in 2016 to 2.01% in 2017. Taking advantage of the robust housing market, we grew our loan assets by $1.9 billion, or 15.0%, during the year. Fee, commission, and other income growth of $9.2 million, 11.6%, year over year reflects increases in many areas, including banking services fees, wealth management commissions, credit card commissions, and foreign exchange activities. A Central 1-initiated redemption of Class E shares that we hold generated a $2.4 million gain, which also contributed to our other income result in 2017.

Non-interest expense growth of $34.1 million in 2017, while lower than revenue growth in both dollar value and percentage terms, had a notable impact on our overall financial performance. Several factors contributed to our expense growth in 2017. These included maintaining our commitment to community support through investing 7.0% of our budgeted pre-tax income, or $5.6 million, into local programs and events, and our commitments to staff in terms of wages and incentives. The rollout of new member services, development activities related to future service enhancements, and costs related to our federal credit union initiative also added to our 2017 expenses. Although our expenses increased on a year-over-year basis in 2017, the rate of expense growth at 12.4% was lower than our rate of revenue growth at 13.3% for the year. As a result, our operating efficiency ratio, which is a measure of expense efficiency, improved to 76.1%, a decrease of 61 basis points compared to 76.7% in 2016.

Our loan growth performance in 2017 was our highest single-year result on record at $1.9 billion or 15.0%. Our deposit growth, while also very strong at $1.4 billion, or 10.8%, was outpaced by our loan growth. This resulted in an increased use of borrowing to support our asset growth. Our exceptional loan growth performance also had knock-on impacts on our capital and liquidity ratios. Although these ratios declined in 2017, both ratios remained strong. Our total liquidity ratio, which basically measures liquid cash and investment assets against deposit liabilities, decreased by 41 basis points to 14.1% at the end of 2017, from 14.5% at the end of 2016. Our capital ratio, which measures capital against risk-weighted assets, decreased by 89 basis points to 14.7% at the end of 2017, compared to 15.6% at the end of 2016.

Business Line Performance

Retail

Through our branch network, Contact Centre, and digital platform, the retail division welcomed almost 21,000 new members in 2017 and delivered over 24,000 Where You're At Money Chats to our members. The Money Chat service provides members with a snapshot of their overall personal or business financial health, and identifies ways we can help to improve it. In addition to our unique service proposition, strong retail growth results in 2017 were assisted by additional production through two new branches, located in Courtenay and Kelowna, both opened in Q4 of 2016. Innovative service features launched in 2017 also contributed to our growth results. These include Interac Flash (debit card pay-by-tap), Apple Pay (the first credit union in Canada to enable members to pay using an iPhone, iPad, or Apple Watch), and digital membership account opening (new members can now join Coast Capital Savings in as few as five minutes, from anywhere they choose). 2017 also saw our Contact Centre service expanded to include Sunday hours.

We grew our retail loan assets (excluding leases) by a record $1.3 billion, over 14.3%, in 2017, reaching a new portfolio milestone of almost $10.5 billion. Mortgages make up the majority of our retail loan portfolio. Mortgage growth results in 2017 were supported by our Members Get It® Mortgages offer, which includes Help Extras of up to $1,000 to members who obtain or renew their mortgages with us. In 2017 we funded almost $6 million in Help Extras paid to members in the form of deposits or investments aligned to their personal financial goals.

Retail deposits grew by $342 million in 2017, or 4.6%, to $7.9 billion. Slower growth of retail deposits against much stronger growth of loan assets created added dependence on other funding channels, including agency deposits, institutional deposits, and borrowing. The need to expand the use of higher-cost funding channels constrained our ability to increase our net interest margin.

While not included as assets in our consolidated financial statements, our mutual and segregated fund assets under administration grew by $487 million in 2017, or 14.2%, to over $3.9 billion. Over half of the growth generated in 2017 occurred in our co-branded Low-fee, More-for-me Mutual Funds® offer. Mutual and segregated fund asset growth performance in 2017 was supported by generally favourable capital markets and by the sales and advice efforts of our staff licensed to sell these products.

Looking ahead to 2018, we plan to offer new digital tools that will provide members with value-added insights into their financial activities and empower them to take control of their finances. We expect strong loan growth to continue in 2018, although at a reduced rate compared to the growth experienced in 2017. Moderated loan growth will allow us to place more emphasis on helping our members save, which we expect will translate into stronger retail deposit growth, compared to 2017.

Commercial and Leasing

Our commercial banking division is an important part of our business operations, creating opportunity for enhanced financial performance and supporting our long-term financial stability. Offering financial services that help local businesses succeed is also strongly aligned with our community focus.

Commercial members account for a significant part of our total loan and lease assets. Backed by sound underwriting policies and practices, the commercial loan and lease portfolio provides diversification to assist in managing our overall portfolio risk, while also giving us access to higher yields on assets that strengthen our financial performance. Our commercial members also provide an important source of core funding through business deposit accounts, and generate additional revenue through the various banking services they require.

In 2017, the commercial division welcomed almost 3,000 new members, bringing the total commercial member count to a new milestone of over 50,000 at the end of the year. Our total commercial loan and lease assets grew by $617 million in 2017, or 16.6%, to $4.3 billion at the end of the year. The majority of our commercial asset growth in 2017 was driven by variable rate financing for multi-family development projects, reflecting the strong demand for residential real estate in 2017. We continue to focus on deposit growth opportunities in the commercial market. As a result of these efforts, in 2017 we increased our commercial deposit balances by $377 million, or 15.5%.

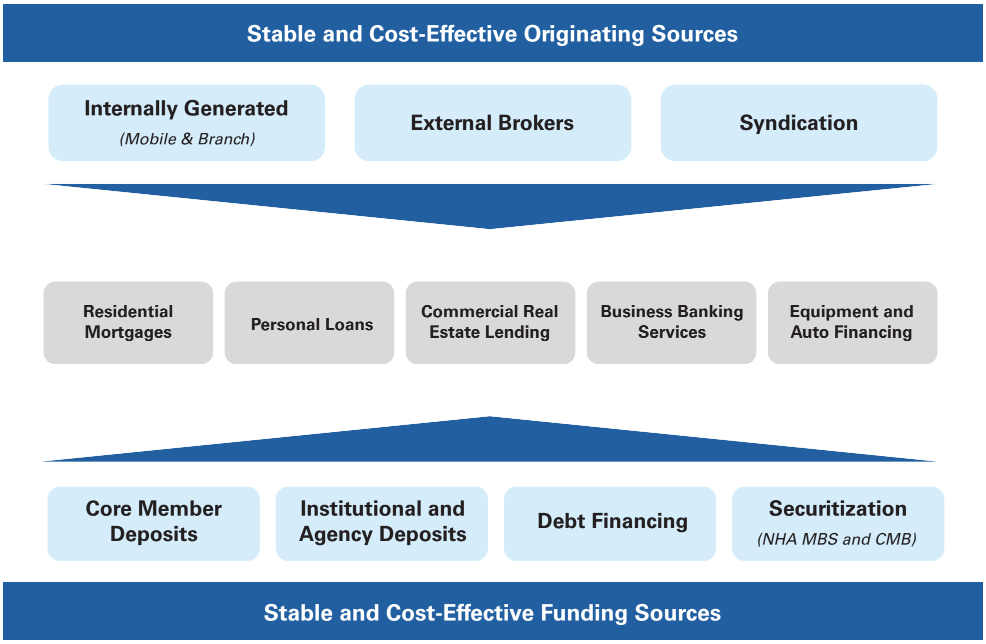
Supporting our commercial banking results in 2017 were several initiatives rolled out during the year designed to enhance the services available to commercial members, improve our commercial member banking experience, and attract new commercial members. These included the creation of a new dedicated business banking team at our Contact Centre, the addition of a mezzanine financing option, and campaigns with incentives for new commercial banking memberships. Additionally, the number of commercial members using our enhanced small businesses online banking platform, which was launched at the end of 2016, grew to over 17,000 by the end of 2017.

In 2018 we will be deepening our commitment to meeting the needs of our commercial members. At the end of 2017 we created a new vice-president of small business position to oversee our small business operations. We also plan to offer new digital tools to our commercial members that will provide them with value-added insights into their financial activities, and expand their digital transaction options. Similar to the digital membership opening capability made available to retail members in 2017, in 2018 we plan to make digital membership opening available to new small business members. We expect to experience continued strong growth in our commercial operations in 2018, although somewhat moderated compared to the growth results produced in 2017.

Net Interest Income

Net interest income is the difference between the interest earned on loans and other financial assets, and the interest paid on deposits and other funding sources. It is impacted by both the size of our balance sheet and the net interest rate margin earned (net interest margin is the net interest income we earn as a percentage of the average total assets). The interest rates we offer on loans and deposits are managed throughout the year to ensure members have access to rates that are both fair and competitive.

We maintain a diversified portfolio of loan assets, in terms of both type and source, that are supported by the various funding options we have established. The multiple business lines and channels included in our structure provide diversification and balance, allowing us to grow in a stable and sustainable manner.



Our 2017 net interest income of $318.5 million was $38.4 million, or 13.7% higher than in 2016. This increase is attributed to both strong balance sheet growth and increases in our net interest margin. Average asset balances in 2017 were $1.5 billion, or 10.5% higher than in 2016. Our net interest margin in 2017 was 2.01%, up 5 basis points from 1.96% in 2016. Two Bank of Canada rate increases in Q3 of 2017, totalling 50 basis points, helped to support our net interest margin increase.

Net Interest Margin

In general terms, net interest margin represents the difference between interest earned on assets and interest paid on deposits and other funding sources as a percentage of average total assets. Interest rate margin compression, due to historically low interest rates and a flat yield curve, has been a challenge across the industry for several years. In 2017 we experienced a modest improvement in our net interest margin, which increased by 5 basis points to 2.01%. This increase is primarily related to reductions in our funding costs, while the yield on our average assets remained relatively flat year over year.

Despite two Bank of Canada rate increases in Q3, matched by prime lending rate increases, the yield on our total loans declined by 4 basis points to 3.28% in 2017, down from 3.32% in 2016. During the first half of 2017 the yield earned on our loans declined, continuing the downward trend experienced in 2016, as new and maturing loans were priced at lower rates. Interest rate increases in Q3 had a favourable impact on the yields earned on variable rate loans. These yield gains, however, were tempered by continued downward pressure on fixed rate loan yields as maturing fixed rate loans repriced at rates lower than those that applied prior to their maturity. Potential yield enhancements from a slight increase in our commercial and personal loan portfolios as a percentage of our total loans were offset by reductions in the yields earned on these portfolios. An increase in the rates earned on our cash and financial instrument assets, from 1.18% in 2016 to 1.36% in 2017, helped improve our interest rate earned on our total assets to 3.01%, a 1 basis point increase over 2016.

Our overall funding cost as a percentage of total assets decreased by approximately 4 basis points, from 1.04% in 2016 to 1.00% in 2017, driving the majority of our net margin increase. Rates paid on deposits and other funding sources were impacted in several ways during 2017, resulting in an overall reduction in our funding costs as a percentage of total assets. Interest rates across funding sources continued to decline through the first half of 2017 before changing course following the Bank of Canada rate increases in Q3. Additionally, during 2017 our deposit portfolio made a further shift towards lower rate demand account balances. This last impact was a response to the continuing low interest rate environment, which offered members only modest rate premiums for accepting the conditions of longer–term deposit options. Offsetting these favourable funding cost impacts, in 2017 our core deposits from retail and commercial operations as a percentage of total deposits decreased from approximately 77% to 74% during the year. This shift increased our dependency on higher-cost agency and institutional deposits. We also increased our borrowings during the year, both in dollar amount and as a percentage of total liabilities, to meet our asset growth funding requirements. On average, rates paid on borrowings are higher than those paid on deposits.

Net Interest Income

Year ended December 31 in thousands of dollars				**2017**				**2016**
	Average balance	Mix %	Interest	Interest rate %	Average balance	Mix %	Interest	Interest rate %
Cash resources	1,910,011	12.0	25,915	1.36	1,922,162	13.6	22,701	1.18
Loans								
Residential	9,569,275	60.6	277,784	2.90	8,543,674	59.7	249,471	2.92
Commercial	3,852,158	24.4	152,184	3.95	3,423,585	23.9	139,991	4.09
Personal	143,590	0.9	8,870	6.18	62,403	0.4	3,986	6.39
Lines of credit	161,017	1.0	11,482	7.13	170,920	1.2	12,157	7.11
Total loans	726,040	86.9	450,320	3.28	12,200,582	85.2	405,605	3.32
Other Assets	165,943	1.1	–	13	176,533	1.2	–	–
Derivatives	–	–	34	–	–	–	365	–
Total	15,801,994	100.0	476,269	3.01	14,299,277	100.0	428,671	3.00
Deposits								
Demand	6,287,340	39.8	21,682	0.34	5,835,304	40.8	23,277	0.40
Term	5,605,874	35.5	100,019	1.78	5,061,482	35.4	93,729	1.85
Registered plans	1,307,493	8.3	16,137	1.23	1,348,185	9.4	18,689	1.39
Total deposits	13,200,707	83.6	137,838	1.04	12,244,971	85.6	135,695	1.11
Borrowings	1,276,885	8.1	19,937	1.56	785,259	5.5	12,927	1.65
Total financial liabilities	14,477,592	91.6	157,775	1.09	13,030,230	91.1	148,622	1.14
Other Liabilities	256,622	1.6	–	–	249,672	1.7	–	–
Class B Shares	29,311	0.2	–	–	31,121	0.2	–	–
Accumulated other comprehensive income (AOCI)	(1,927)	–	–	–	8,910	0.1	–	–
Retained Earnings	1,040,396	6.6	–	–	979,344	6.8	–	–
Total	15,801,994	100.0	157,775	1.00	14,299,277	100.0	148,622	1.04
Net interest income			318,494	2.01			280,049	1.96

Changes in net interest income

Our net interest income increase of $38.4 million in 2017 is attributed to both growth and rate impacts. Approximately $29.4 million, or 77%, of the increase was due to growth, with the remaining $9.0 million, or 23%, attributed to favourable rate impacts.

Year ended December 31 in thousands of dollars	2017 Increase (decrease) due to change in Average Balance	Average Rate	Net Change
Total loans and cash resources	45,934	1,664	47,598
Total financial liabilities	(16,509)	7,356	(9,153)
Net interest income	29,425	9,020	38,445

Fee, Commission, and Other Income

In addition to loan and deposit activities that generate interest income, we provide our members with many products and services that produce fee and commission revenue. These include day-to-day banking services, credit cards, foreign exchange, and life insurance, as well as mutual and segregated fund investments. These services are important to members, helping to meet their diverse financial services needs while also providing income stability and diversification to our financial operations. The fees and commissions earned on the products and services we provide are regularly reviewed to ensure they provide our members with excellent value while ensuring market-competitive and fair returns on our cost of delivery.

In 2017, revenue from fees, commissions, and other income totalled $88.1 million, an increase of $9.2 million, or 11.6%, compared to 2016. All revenue subgroups experienced growth in 2017, with the exception of lending fees. The largest increase in dollars was generated from our investment and life insurance products activities. These include mutual funds, segregated funds, and a variety of life insurance products sold through our team of financial planners and insurance specialists. Mutual and segregated fund assets administered on behalf of our members grew by $487.0 million, or 14.2%, in 2017 to $3.9 billion. Over half of this growth is attributed to our co-branded Low-fee, More-for-me Mutual Funds. These funds, which were first launched in 2009, have grown to almost $1.9 billion, or 47.0% of our total fund assets, at the end of 2017.

Banking and payment services revenue includes many of the traditional service fees associated with day-to-day banking for both our retail and commercial members. These include account and transaction fees, safety deposit boxes, bank drafts, and wire transfer services. Despite our growing member base, this is a revenue area where growth prospects have become more limited, due both to competition and to shifting transaction preferences as our members continue to embrace new service options that increase convenience while reducing both the cost of delivery and the fees they pay. The $1.9 million, or 8.6%, revenue growth from these fees in 2017 is primarily attributed to new paper statement fees, which were implemented in Q2 of 2017 in conjunction with the launch of our new, no-charge eStatement service. The fee is only paid by members who choose to keep receiving monthly paper statements, and will likely decrease over time as more members move to the eStatement option.

Lending fee revenue decreased in 2017 by $0.2 million, or 2.6%, related to reduced creditor insurance volumes, notably related to slower personal loan portfolio growth, and also to slower production in our leasing business. Credit card commissions increased $0.7 million, or 9.7%, reflecting continued momentum in the expansion of our co-branded Desjardins Visa credit card offer. Foreign exchange revenue grew in 2017 by $0.2 million, or 6.6%. The 2017 result represents a reversal of the declining revenue trend for foreign exchange activities experienced over the previous three years. The low valuation of the Canadian dollar relative to the U.S. dollar in recent years, combined with increased local market competition for foreign exchange business, has put added pressure on both volume growth and exchange rate spreads. Other revenue increased by $2.2 million in 2017, favourably impacted by a one-time gain of $2.4 million resulting from a Central 1-initiated redemption of Class E shares that we hold.

Fee, commission and other income

Year ended December 31 in thousands of dollars	2017	2016	Change from 2016 $	 %
Lending fees (includes creditor insurance)	8,731	8,964	(233)	–2.6%
Banking and payment services	23,997	22,092	1,905	8.6%
Investment and life insurance products	35,676	31,322	4,354	13.9%
Credit card revenues	7,500	6,839	661	9.7%
Foreign exchange	3,918	3,676	242	6.6%
Other	8,279	6,041	2,238	37.1%
Total	88,101	78,934	9,167	11.6%

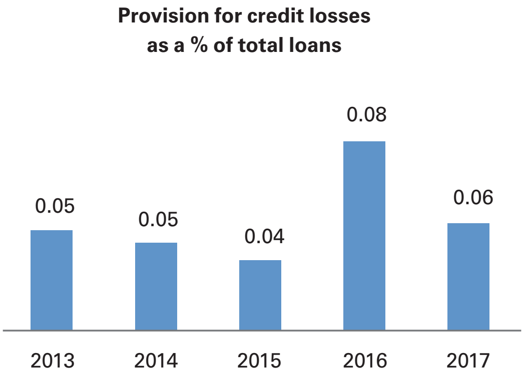
Provision for Credit Losses

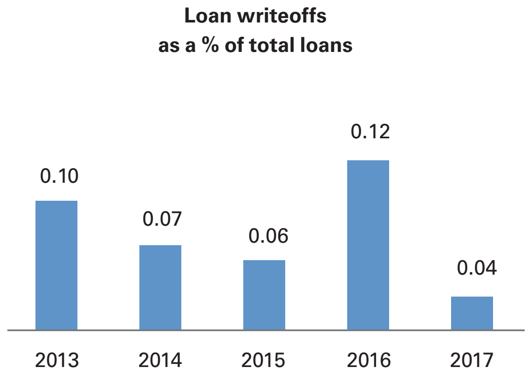
Our 2017 provision for credit losses was $8.3 million, $2.4 million lower than 2016. The decrease in 2017 is attributed to our specific provision amount, which was $4.1 million lower in 2017, while our collective provision was $1.8 million higher.

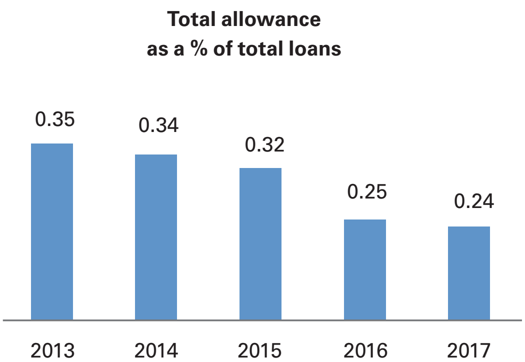
Our total allowance for credit losses increased to $35.2 million, a $2.7 million increase compared to $32.4 million at the end of 2016. Of the increase, approximately $1.0 million is attributed to our specific allowance and $1.8 million to our collective allowance. Given our very strong loan growth result in 2017, the total allowance as a percentage of our total loans decreased from 25 basis points to 24 basis points. Benign credit conditions and strong collateral values supported by rising real estate prices contributed to our favourable allowance result. These same conditions also assisted in reducing our loan writeoffs in 2017 compared to 2016, with additional impacts in comparing year-over-year writeoffs attributed to notable leasing portfolio writeoffs experienced in 2016.

Asset quality coverage

As at December 31 in thousands of dollars	2017	2016
Total loans	14,788,882	12,858,372
Provision for credit losses	8,331	10,733
Loan writeoffs	6,560	16,068
Total allowance for credit losses	35,162	32,413
Impaired loans	13,716	21,279
Members' equity	1,111,850	1,043,177
in per cent		
Provision for credit losses as % of total loans	0.06	0.08
Loan writeoffs as % of total loans	0.04	0.12
Impaired as % of total loans	0.09	0.17
Impaired as % of members' equity	1.23	2.04
Total allowance as % of impaired loans	256.36	152.32
Total allowance as % of total loans	0.24	0.25







Non-Interest Expenses

Non-interest expenses include all expenses that are not interest-related, excluding provisions for credit losses and income taxes. We strive to manage our operating costs in a diligent and efficient manner, while also recognizing the impacts of spending decisions on member service and long-term capital growth to support sustainability. Our 2017 non-interest expenses were $309.4 million, up $34.1 million, or 12.4%, compared to 2016. Although our expenses increased on a year-over-year basis in 2017, the rate of expense growth at 12.4% was lower than our rate of revenue growth at 13.3% for the year. As a result, our operating efficiency ratio, which is a measure of expense efficiency, improved to 76.1%, a decrease of 61 basis points compared to 76.7% in 2016.

Staff salaries and benefits accounted for the largest area of expense increase in 2017, up $20.6 million, or 14.6%, year over year. This increase reflects a 10.6% increase in our total staff count (measured on a full-time equivalency basis) during the year, as well as market salary increases and increases in variable and incentive pay. Notable areas of staffing growth in 2017 include our technology and transformation group, aligned to strategic and operational projects during the year, and our Contact Centre, related to the extension of service hours in 2017 to include Sundays.

Technology expenses also increased significantly, up $10.7 million, or 47.0%, year over year. Our higher technology costs reflect the improvements we have made to expand and enhance the services available to our members on digital platforms and through our Contact Centre. Depreciation expense accounted for the largest increase in our technology expenses. This increase is primarily the result of our assessments in 2017 to accelerate the depreciation schedule for certain software assets.

Professional services expenses at $12.0 million in 2017 were $2.9 million higher year over year. This increase reflects the work done during the year to further our business strategy, notably our initiative to become a federal credit union. Marketing costs increased by $2.0 million in 2017 as we expanded our use of digital media and communications to keep our members and the public informed and aware of our service offerings. Regulatory costs increased in 2017 largely due to our Credit Union Deposit Insurance Corporation (CUDIC) assessment. Our base CUDIC assessment rate was unchanged year over year; however, our strong deposit growth results in 2016 impacted the volume side of the annual CUDIC assessment calculation, which is based on prior year-end deposits.

Non-Interest Expenses

Year ended December 31 in thousands of dollars	2017	2016	Change from 2016 $	 %
Salaries and benefits				
Salaries including variable pay and incentives	132,312	115,133	17,179	14.9
Employee benefits, other	28,774	25,377	3,397	13.4
	161,086	140,510	20,576	14.6
Premises and equipment				
Rent, maintenance, utilities, taxes	26,424	26,667	(243)	(0.9)
Depreciation	5,135	5,561	(426)	(7.7)
	31,559	32,228	(669)	(2.1)
Member services administration				
Banking services	25,720	26,315	(595)	(2.3)
Loan processing	5,279	4,204	1,075	25.6
Investments and life insurance	3,216	2,737	479	17.5
	34,215	33,256	959	2.9
Technology				
Hardware, software, data, supplies	15,717	13,000	2,717	20.9
Depreciation	17,812	9,802	8,010	81.7
	33,529	22,802	10,727	47.0
Regulatory	12,447	11,323	1,124	9.9
Professional services	12,008	9,130	2,878	31.5
Telephone, postage	1,418	1,427	(9)	(0.6)
Marketing	7,828	5,806	2,022	34.8
Community contributions	5,600	5,598	2	0.0
Travel, meals and entertainment	3,511	3,212	299	9.3
Bonding and other insurance	2,238	2,349	(111)	(4.7)
Recruitment, training, conferences, dues	3,212	2,187	1,025	46.9
Other	781	5,539	(4,759)	(85.9)
	309,432	275,367	34,064	12.4

	2017	2016	Change from 2016 Basis points increase/(decrease)
Operating efficiency ratio	76.10%	76.71%	(61)

Capital Expenditures

Capital spending in 2017 was $13.7 million, 34% lower than the amount spent in 2016. The majority of our 2017 spending was attributed to technology investments in both hardware and software to maintain our infrastructure and expand digital services for our members. By contrast, 2016 spending was focused on leasehold improvements, furniture and equipment related to our new head office location, two new branches opened in Kelowna and Courtenay, and the move of our Central City branch to a new flagship location in our head office. A shift in recent years toward the use of cloud-based services to operate technology systems is also having an impact on capital spending. The emergence of cloud services has allowed us to shift some of our capital spending on local platforms to operating costs for cloud service platforms.

Year ended December 31 in thousands of dollars	2017	2016
Leasehold improvements	124	10,090
Computer equipment	5,587	3,480
Software	6,741	4,544
Furniture and equipment	1,231	2,702
Total	13,683	20,816

We expect our capital expenditures in 2018 to be higher compared to 2017. Spending in 2018 will focus on further enriching the digital service experience for our members. As well, we will be investing in automated processes for activities such as loan origination and approval, to increase simplicity and reduce turnaround times for our members. We will also be making necessary investments to maintain our core technology systems, and to refresh and update many of our existing branch locations.

Loan Portfolio

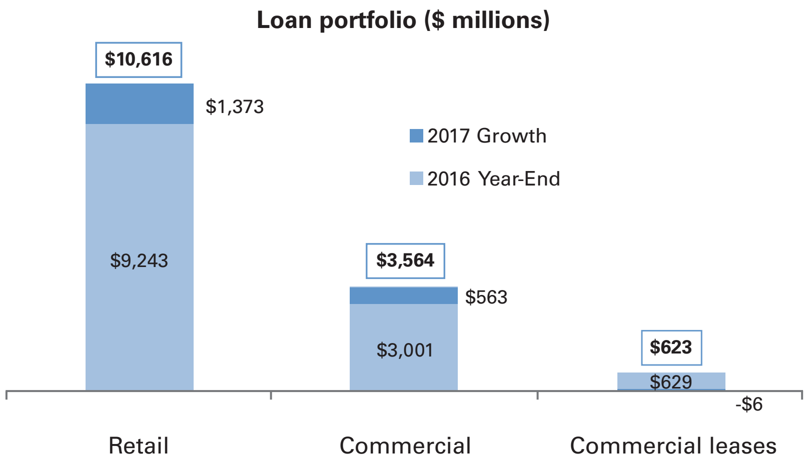
Total loans, including leases, increased by over $1.9 billion, or 15.0%, in 2017, representing our largest single-year loan growth result on record. Loan growth, attributed to the strength of the economy and the continuing robustness of the B.C. housing market, was stronger than planned for the year and almost 50% higher than in 2016. Retail mortgages and commercial construction mortgages experienced the strongest growth during the year. Growth related to commercial term financing and commercial leasing was more subdued in 2017.

Loan portfolio

As at December 31	2017				2016			
	Number	Total in millions of dollars[1]	Mix %	Average in thousands of dollars	Number	Total in millions of dollars[1]	Mix %	Average in thousands of dollars
Retail								
Mortgages								
Conventional	28,847	5,358	36.2	186	27,084	4,210	32.7	155
Revenue	4,285	1,460	9.9	341	3,895	1,224	9.5	314
Progressive	48	11	0.1	229	70	18	0.1	257
Insured	6,919	1,060	7.2	153	7,417	1,337	10.4	180
High-ratio	4,546	1,376	9.3	303	4,532	1,221	9.5	269
Mortgage-secured lines of credit	19,916	1,036	7.0	52	18,600	957	7.4	51
Subtotal mortgages	64,561	10,301	69.7	160	61,598	8,967	69.6	146
Other								
Other lines of credit	143,374	149	1.0	1	133,939	159	1.2	1
Personal loans and leases	11,306	166	1.1	15	11,724	117	0.9	10
Subtotal other	154,680	315	2.1	2	145,663	276	2.1	2
Subtotal retail	219,241	10,616	71.8	48	207,261	9,243	71.7	45

Commercial								
Commercial loans	15,846	3,564	24.0	225	16,052	3,001	23.4	187
Commercial leases	6,421	623	4.2	97	5,941	629	4.9	106
Subtotal commercial	22,267	4,187	28.2	188	21,993	3,630	28.3	165
Subtotal individuals and commercial	241,508	14,803	100.0	61	229,254	12,873	100.0	56
Accrued interest	–	21	–	–	–	18	–	–
Total loan portfolio	241,508	14,824	100.0	61	229,254	12,891	100.0	56

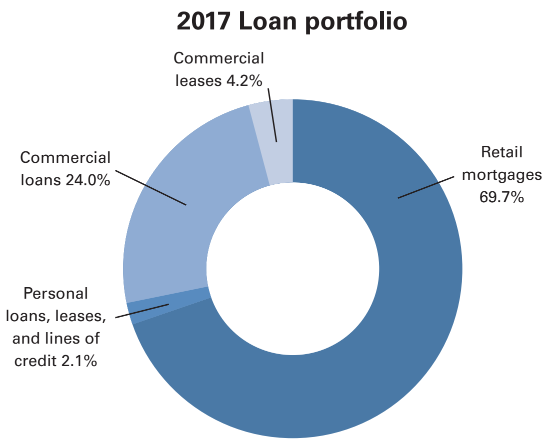
1 Before allowance for credit losses

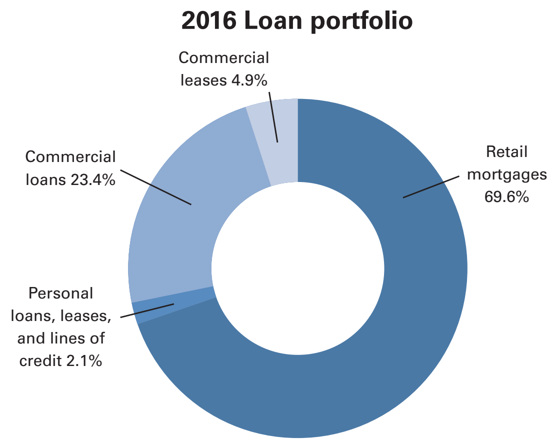


Our retail mortgage portfolio grew by almost $1.4 billion, 14.9%, in 2017 due to a combination of strong market demand, sales efforts, and our competitive Members Get It Mortgage offer. Mortgage growth was fairly balanced between variable and fixed-rate product through the first half of the year, but ended the year skewed towards fixed-rate product (80% of growth for the year) as members responded to prime rate increases in Q3.

Commercial mortgages, loans, and lines of credit grew by $563 million, or 18.8%, in 2017. Increased competition and compressed yields for commercial term mortgages suppressed the growth of our commercial term mortgage portfolio. The majority of our commercial loan portfolio growth in 2017 was generated in the development financing market, where both market demand and yields remained strong. As a result, in contrast to our retail portfolio, growth of our commercial loan portfolio was skewed towards variable rate product. Overall, as a percentage of our total loan portfolio, commercial loans increased from 23.4% to 24.0%.

Our total leasing division portfolio grew by $52 million, or 7.4%, in 2017. The leasing division auto financing portfolio (captured in our retail personal loans and leases category) grew by $58 million to $131 million, driven both externally through our dealer relationships and internally through our own members. This represents 81% growth in our leasing division auto financing portfolio, which started the year at $72 million. Our commercial equipment leasing portfolio finished the year at $623 million, a decrease of $6 million during the year. Application volumes for equipment leases were down 5% year over year, our application conversion ratio also decreased due to strong competition. As a percentage of our total loan portfolio, commercial leasing assets declined slightly in 2017, from 4.9% to 4.2%.





Deposits, Borrowing, and Liquidity

Deposits and Borrowing

Our deposit portfolio growth in 2017 was very strong at $1.4 billion or 10.8%. However, deposit growth generated by our core retail and commercial members during the year, at 7.2%, lagged behind the overall deposit growth rate. To achieve our total deposit growth result, and to support the funding of our exceptional loan growth during the year, we expanded the use of our established external deposit agent network and institutional depositor relationships. Deposits from these sources grew at 32.3% and 14.0%, respectively, in 2017:

Deposits by Source

As at December 31 in millions of dollars	2017	2016	Change from 2016 $	 %
Core retail and commercial members	10,680	9,962	719	7.2%
External deposit agents	1,938	1,465	473	32.3%
Institutional depositors	1,748	1,534	214	14.0%
Total	**14,366**	**12,961**	**1,406**	**10.8%**

Differences in the growth results across our deposit channels during the year resulted in a shift in our deposit portfolio towards non-core deposits. At the end of 2017, core retail and commercial member deposits accounted for 74.3% of our total deposits, down from 76.9% at the end of 2016.

Deposits by Source

As at December 31 in millions of dollars	2017	2016
Core retail and commercial members	74.3%	76.9%
External deposit agents	13.5%	11.3%
Institutional depositors	12.2%	11.8%
Total	**100.0%**	**100.0%**

Total deposit growth of $1.4 billion lagged our exceptional asset growth of almost $2.1 billion in 2017. The funding gap was accommodated through an increased use of borrowings. Total secured and unsecured borrowings grew $568 million or 65.4% in 2017, to $1.4 billion. At the end of 2017, total borrowings as a percentage of total liabilities increased to 9.0%, from 6.2% at the end of 2016.

Liabilities

Year ended December 31 in thousands of dollars	2017	2016	Change from 2016 $	%
Liabilities				
Deposits	14,366,432	12,960,818	1,405,614	10.8%
Borrowings	1,437,485	869,138	568,347	65.4%
Other liabilities	132,743	96,085	36,658	38.2%
Total liabilities	**15,936,660**	**13,926,041**	**2,010,619**	**14.4%**

Liabilities

Year ended December 31 As a percentage of total liabilities	2017	2016
Deposits	90.2%	93.1%
Borrowings	9.0%	6.2%
Other liabilities	0.8%	0.7%
Total	**100.0%**	**100.0%**

The increase in borrowings in 2017 were accommodated through a mix of term facility and secured borrowings, as well as through the issuance of short-term commercial papers.

Borrowings

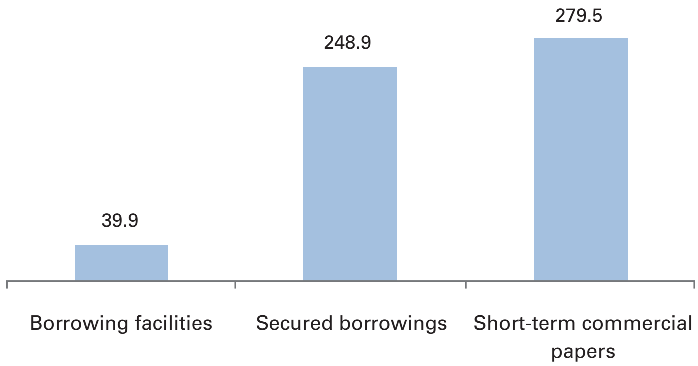
Year ended December 31 in thousands of dollars	2017	2016	Change from 2016 $	%
Borrowing facilities	39,937	–	39,937	7.0%
Secured borrowings	1,118,025	869,138	248,887	43.8%
Short–term commercial papers	279,523	–	279,523	49.2%
	1,437,485	**869,138**	**568,347**	**100.0%**

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

- Lines of credit and short-term borrowing facilities with Central 1 other financial institutions. Borrowings through these facilities increased by $40 million in 2017.
- The National Housing Act Mortgage-Backed Securities (NHA MBS) and Canada Mortgage Bond (CMB) programs, which allow us to obtain low-cost funding through a process of securitizing existing mortgages. The long-term nature of CMB program funding is especially attractive in periods of exceptionally low interest rates, as was the case in 2017. In 2017, our borrowing through these programs increased by $249 million.
- Short-term commercial paper based on our DBRS short-term issuer rating. Our short-term issuer rating of R-1 (low) was originally obtained in 2016 and was reconfirmed in 2017. Under this rating, in 2017 we issued $280 million in short-term notes, reflecting a favourable market response to our offer.

To further diversify our funding options, in January 2018 we obtained a DBRS long-term issuer rating of BBB (high).

2017 Borrowing growth ($ millions)



Liquidity

Liquidity is an important measure related to the ability to settle cash flow obligations in a timely and cost-effective manner. The total liquidity ratio used by the Financial Institutions Commission of British Columbia (FICOM) measures total cash and liquid investments as a percentage of total deposits. In 2017, while our total deposits grew by $1.4 billion or 10.8%, our liquid assets grew by $145 million or 7.7%. Liquid asset growth at a slower rate than total deposit growth in 2017 is attributed to exceptionally strong loan growth, which outpaced our deposit growth, combined with efforts to manage the use of higher-cost funding through borrowings. As a result, our year-end total liquidity ratio decreased to 14.1% in 2017, from 14.5% in 2016. Despite this decrease, our total liquidity ratio remains well above FICOM's minimum threshold requirement of 8.0%.

Looking forward to 2018, several factors are expected to support the strengthening of our liquidity position. These include moderation of housing market activity, a more selective approach to mortgage growth driven by regulatory changes, and increased management focus on deposit growth opportunities. Additionally, our DBRS long-term issuer rating of BBB (high), obtained in January 2018, creates an additional borrowing option that can be used to support long-term liquidity needs.

As we continue to work towards federal credit union status, we also monitor liquidity metrics used by the Office of the Superintendent of Financial Institutions (OSFI), namely the Liquidity Coverage Ratio (LCR) and the Net Cumulative Cash Flow (NCCF) metric. OSFI requirements related to these liquidity metrics, along with applicable specific limits, will be identified in our policies upon continuance as a federal credit union.

Capital Management

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

Regulatory Capital Requirements

Regulatory capital requirements set by the Financial Institutions Commission of British Columbia (FICOM) are based on the ratio of capital to risk-weighted assets. To maintain a stable capital ratio, increases in risk-weighted assets, whether through overall portfolio growth or through a shift towards higher-risk assets, requires additional capital. FICOM has set a supervisory minimum capital ratio for B.C. credit unions of 10%. Credit unions falling below this level are required to immediately improve their position to prevent supervisory intervention.

The regulatory capital formula identifies two types of capital – Tier 1 and Tier 2. FICOM requires that Tier 1 capital form at least 50% of the capital base. Tier 1 capital is comprised of retained earnings, voting shares, qualifying investment shares, and contributed surplus (net of deferred income tax assets, intangible assets, and goodwill). Tier 2 capital includes subordinated notes and other investment shares. It also includes 50% of our portion of system retained earnings, which includes Central 1 Credit Union (Central 1), CUDIC, and Stabilization Central Credit Union (Stab Central).

Assets in the regulatory capital formula are risk-weighted based on FICOM risk-weighting categories, which range from 0% to 150%. For example, conventional uninsured residential mortgages, the largest portion of our assets, are weighted at 35%, while commercial loans and leases, the second-largest portion, are weighted at 100%. Concentration risk factors, based on diversification within the portfolio, may also be applied to determine the risk-weighted asset amount.

The overall risk weighting of our asset portfolio for 2017 is 47.3%, up slightly from 46.5% in 2016. The change reflects the year-over-year increase in higher risk-weighted commercial loan and leasing assets.

2017 Impacts on Capital Ratio

On December 31, 2017, our total capital ratio, including Tier 1 and Tier 2 capital, was 14.7%, down from 15.6% at the end of 2016. The 2017 decrease reflects a higher growth rate for risk-weighted assets, at 15.8%, compared to our total regulatory capital growth at 9.2%. Growth of assets with a positive risk weighting, which we experienced in 2017, has an immediate impact on the capital ratio denominator; however, the income generated by those assets will generally occur over time, accumulating in retained earnings and contributing to capital growth in future periods.

Significant factors impacting our 2017 capital ratio:

- Risk-weighted asset growth of 15.8% was driven by strong overall asset growth of 13.9%, combined with an increase in our risk-weighted asset profile. During the year, our risk-weighted assets as a percentage of total assets increased from 46.5% to 47.3%. This increase reflects our increase in higher risk-weighted commercial loans and leases within our overall asset mix, and our decrease in cash and investments as a percentage of total assets during the year.
- Our total capital growth of $99.7 million in 2017, or 9.2%, was generated primarily by our increase in retained earnings from profitable operations, which contributed $74.6 million. Our portion of system equity (50% inclusion rate) added $21.6 million to our capital base in 2017, and a reduction in capital deductions year over year, related to goodwill and other intangible assets, had a $4.2 million favourable impact.

Tier 1 and 2 Capital

As at December 31

in thousands of dollars	**2017**	**2016**
Tier 1 capital		
Class A shares	2,581	2,524
Class B shares	28,851	30,444
Retained earnings	1,084,983	1,010,375
Deferred income taxes[1]	6,549	5,693
	1,122,964	1,049,036
Less: Capital deductions	(65,976)	(70,135)
	1,056,988	978,901
Tier 2 capital		
Portion of equity in Central 1, CUDIC, and Stab Central[2]	126,807	105,153
Total capital	1,183,795	1,084,054

[1] Statutory inclusion of only credit union deferred income taxes
[2] Portion of system related equity multiplied by 50%

Risk-Weighted Assets

As at December 31

in thousands of dollars	2017	2016		2017	2016
	Balance sheet amount	Balance sheet amount	BIS risk-weight (%)	Risk-weighted balance	Risk-weighted balance
Cash resources	1,656,527	1,426,134	–	–	–
Commercial paper	434,483	506,084	0-150	95,917	158,092
Residential mortgages	6,965,792	5,594,686	35	2,438,054	1,958,165
Insured mortgages	1,905,917	2,045,777	–	–	–
High-ratio mortgages 75 to 80% LTV	1,373,258	1,252,675	75	1,029,943	939,506
High-ratio mortgages > 80% LTV	5,192	1,083	75	3,894	812
Personal loans	183,871	204,075	75	128,682	141,411
Commercial loans and leasing	4,315,419	3,735,550	100	4,169,640	3,612,961
Other assets and investments	208,050	203,154	0-100	144,247	123,419
Off-balance-sheet exposure			0-100	46,026	21,813
	17,048,510	14,969,218	–	8,056,404	6,956,179

	2017	2016
Risk-weighted assets as a percentage of total assets in per cent	47.3%	46.5%
Ratio of capital to risk-weighted assets		
Primary capital to risk-weighted assets	13.12	14.07
Secondary capital to risk-weighted assets	1.57	1.51
Total capital ratio	14.69	15.58
Total collective allowance for credit losses	32,275	30,498
As a percentage of risk–weighted assets	0.40%	0.44%

Maintaining a Sustainable Level of Regulatory Capital

In addition to the supervisory minimum capital ratio, FICOM requires that we establish an internal capital target above 10%. The internal target provides a trigger to allow the Board and management time to resolve unexpected capital impacts before the supervisory minimum level is reached. Further to this requirement, we annually complete an Internal Capital Adequacy Assessment Process (ICAAP) to assess our level of capital in relation to our risk appetite, risk profile, and external conditions. Based on this, we have set our minimum internal capital target at 14.25%.

As we work towards continuing as a federal credit union, we are aware that this change will require us to meet the regulatory capital adequacy requirements set by the Office of the Superintendent of Financial Institutions (OSFI). The move to OSFI regulation will change the risk weightings assigned to the different assets we hold, will change how we calculate our regulatory capital, and will require additional capital related to an operational risk assessment. In 2017 we created processes to measure, track, and report our regulatory capital ratios based on OSFI requirements.

As an additional tool for raising and maintaining sufficient capital levels, in January 2018 we obtained a DBRS long-term issuer rating of BBB (high). This rating provides us with the ability to access capital markets to generate new sources of capital funding if required.

Monitoring Capital Adequacy Risk

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

Our ICAAP includes the following elements:

- Identification and assessment of material risks and of risk mitigants
- Internal calculation of required capital levels based on the financial plan for the upcoming fiscal year and on current and prospective risk profiles
- Assessment of internal capital targets for reasonableness relative to internal and regulatory capital requirements
- Projection of capital levels forward over multiple years and assessment against regulatory and internal capital requirements
- Stress testing, which assesses the potential impact of severe but plausible events, such as severe economic recession, liquidity and interest rate shocks, earthquakes, and cyberattacks

Application of the ICAAP in 2017 confirms that our capital levels are healthy and sufficient for achieving our strategic plans and for successfully navigating through all stress scenarios considered.

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 Enterprise Risk Management Framework (ERMF) defines our risk management methodology to ensure we effectively identify, assess, measure, control, monitor, and report risks within our approved risk appetite. Consistent application of the ERMF ensures ongoing and continuous reinforcement of an appropriate risk culture across the enterprise.

Risk Culture

Our risk culture embodies the tone at the top, which is set by the Board of Directors and the Executive Committee (EXCO), and 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. Our goal is to create a risk culture that promotes accountability, learning from past experiences, and encourages open communication and transparency on all aspects of risk taking.

Risk Appetite

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

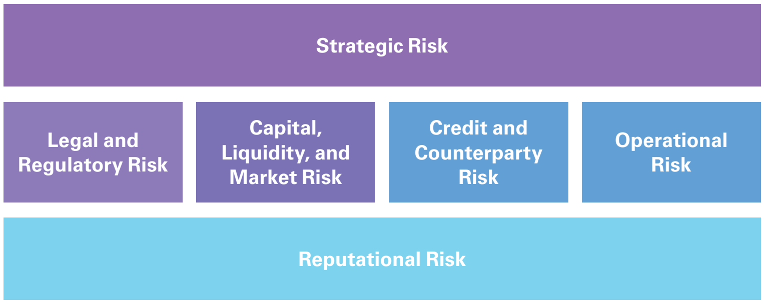
As we endeavour to improve our members' financial well-being through Simple financial help, we consider the risks associated with the strategies available to achieve this goal, our capacity to take such risks, and our appetite for such risks. Risk appetite considerations are an integral part of management 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.

Ultimately, our risk appetite is driven by:

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

Risk Inventory

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



Risk Principles

We believe in, and support the need for, a strong risk culture rooted in the following principles:

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

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 below:

Board of Directors

- The Board of Directors approves the risk appetite and provides risk oversight through its established committees
- The Risk Review Committee (RRC) is responsible for overseeing our risk profile and performance against the defined risk appetite. The RRC approves the ERMF and related frameworks and policies to manage the risk to which we are exposed.

Executive Committee

- Establishes tone at the top, provides strategic direction, manages strategic risk, and ensures our overall risk profile is aligned with our strategy, objectives, and goals
- Responsible for developing, executing, and managing strategies for their business areas, and ensuring such strategies are aligned with our risk appetite

Risk Committees

- The Credit Risk Committee (CRC) provides cross-functional oversight of key credit risks and controls in alignment with the risk appetite of Coast Capital Savings and is aligned with the risk governance, as a second line of defence, and risk management principles within the Credit and Counterparty Risk Management framework
- The Operational Risk Committee (ORC) is a management committee whose role is to oversee the effective management of operational risk across Coast Capital Savings and its related subsidiaries

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

Risk Identification and Assessment

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

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

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

Risk Measurement

The ability to quantify risk is a key component of our risk management process. Our risk measurement processes align with regulatory requirements such as adequacy of capital and liquidity levels, stress testing, and maximum credit exposure 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.

Risk Information Specific to Our Financial Reporting
(Information below is an integral part of the audited financial statements)

Credit and Counterparty Risk
Credit and counterparty risk is the risk of loss emanating from a borrower or counterparty failing to meet their obligation in accordance with contractual terms or a decrease in the value of the assets due to a decrease in the credit quality of the borrower, counterparty guarantor, or the assets (collateral) supporting the credit exposure. We control these risks using risk rating limits that include portfolio, industry, and single name caps. We then regularly monitor and report these caps to manage any potential issues. Our system for controlling credit risk is founded upon strict adherence to clearly defined credit policies and approval procedures. We review lending practices and activities on a regular basis to ensure adherence to policy.

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

Maximum Exposure to Credit Risk

As at December 31, 2017

in thousands of dollars	Banking	Derivatives
On balance sheet		
Cash held at Central 1	96,507	
Investments held at Central 1	1,545,019	
Shares in Central 1	69,330	
Other investments	382,829	
Loans	14,788,882	
Derivative instruments	–	(48)
Accounts receivable	7,041	
	16,889,608	(48)
Off balance sheet		
Letters of credit	70,715	
Commitments to extend credit	4,455,174	
	4,525,889	–
Maximum exposure to credit risk	21,415,498	(48)

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 63% of our total loan exposure. We carry out the majority of our lending activities in the Metro Vancouver, Fraser Valley, and southern Vancouver Island regions of B.C. New branch openings at the end of 2016 extended our activities to include the mid-Island and Interior of B.C., specifically Courtenay and Kelowna. Residential real estate prices in our region of operation have experienced significant price increases in recent years. 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.

As at December 31, 2017 in thousands of dollars	Outstanding	Undrawn commitments	Letters of credit	Derivatives	Total exposure
Residential mortgages	10,300,529	1,855,205			12,155,734
Personal loans	314,633	954,124			1,268,757
Commercial					
Construction	1,248,291	1,008,311	54,603		2,311,205
Food services and accommodation	97,154	31,602	470		129,226
Agriculture	48,793	2,550	29		51,372
Finance and Insurance	7,079	3,949	54		11,082
Manufacturing	116,997	26,214	20		143,231
Professional	21,715	25,678	68		47,461
Real estate	1,679,388	347,551	3,704		2,030,643
Retail and wholesale trade	137,149	40,077	1,780		179,006
Transportation	417,303	14,905	275		432,483
Other	413,553	145,008	9,712		568,273
	14,802,584	4,455,174	70,715	–	19,328,473

Market Risk

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

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

Asset and Liability Maturities

As at December 31 in thousands of dollars	2017			2016		
	Assets	Liabilities and equity	Differential	Assets	Liabilities and equity	Differential
Variable rate	6,366,382	4,701,613	1,664,769	5,650,701	4,762,583	888,118
Interest sensitive						
Maturing within 1 year	2,013,574	6,192,232	(4,178,658)	1,679,700	5,123,672	(3,443,972)
Maturing between						
1–2 years 2019	1,303,739	1,387,400	(83,661)	1,581,073	1,025,622	555,451
2–3 years 2020	1,698,175	1,049,907	648,268	1,059,697	560,113	499,584
3–4 years 2021	2,513,359	323,094	2,190,265	1,663,285	514,840	1,148,445
4+ years 2022+	2,826,295	450,625	2,375,670	3,005,856	340,253	2,665,603
Non–interest bearing items[1]	326,986	2,943,639	(2,616,653)	328,906	2,642,135	(2,313,229)
	17,048,510	17,048,510	–	14,969,218	14,969,218	–

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

Impact on Interest Income

We measure the impact of rate changes on our net interest income using modelling and assumptions applied to our year-end portfolio and expected portfolio changes looking forward 12 months. The impacts of a 1% rate increase and 1% rate decrease are significantly larger based on our 2017 analysis compared to our 2016 analysis. The main factors contributing to this result include significant year-over-year growth of both our assets and liabilities; changes to the mix of assets and liabilities in our portfolio in terms of interest rate sensitivity; changes in assumptions used to calculate the magnitude of rate change impacts on certain types of assets and liabilities held within our portfolio; and higher prevailing interest rates at the end of 2017, which broadens the range of impact of a 1% rate change on certain assets and liabilities held within our portfolio (notably with respect to the decrease in rates scenario).

	2017	2016
1% increase in rates	$ 26,632	$ 6,319
1% decrease in rates	$ (21,948)	$ (1,801)

Liquidity and Funding Risk

Liquidity and funding risk relates to the ability to satisfy cash flow obligations in a timely and cost-effective manner. The *Financial Institutions Act* (FIA) requires us to maintain a minimum of 8.0% of our total deposits and borrowings in a liquidity portfolio. As part of this regulation, we are also required to hold statutory liquidity with Central 1 equalling the greater of 6.0% of our total deposits and borrowings or 1.5% of the B.C. credit union system's assets. Central 1 deposits provide yields similar to those of Government of Canada treasury bills or bonds. In addition to our Central 1 liquidity portfolio, we hold other liquidity investments with a minimum credit rating of R-1 low (A-) or higher. Acceptable investments are identified in our liquidity and funding risk policy.

Our intention is to maintain a total liquidity portfolio at or above 10.0% of total deposits and borrowings. This level provides us with an operating cushion relative to the FIA minimum in the event of rapid asset growth or sudden deposit declines. Our Liquidity Contingency Management Plan includes ongoing monitoring to determine the health of our liquidity, as well as the actions needed, should we experience a liquidity event.

To improve our ability to respond to and manage liquidity and funding requirements, we maintain borrowing facilities with Central 1 and other financial institutions, and make use of the National Housing Act Mortgage-Backed Securities (NHA MBS) and Canada Mortgage Bond (CMB) programs. To expand and diversify our funding options, in 2016 we obtained a DBRS short-term issuer rating (R-1 (low)), and in January of 2018 we also obtained a DBRS long-term issuer rating (BBB (high)). These ratings demonstrate our sound financial position, providing assurance to our members and to capital market participants.

As we continue to work towards federal credit union status, we also monitor liquidity metrics used by the Office of the Superintendent of Financial Institutions (OSFI), namely the Liquidity Coverage Ratio (LCR) and the Net Cumulative Cash Flow (NCCF) metric. OSFI requirements related to these liquidity metrics, along with applicable specific limits, will be identified in our policies upon continuance as a federal credit union.

Internal Controls over Financial Reporting and Disclosures

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

Critical Accounting Estimates

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

Allowance for Credit Losses

We maintain an allowance for credit losses that we consider our best estimate of probable credit-related losses existing in our portfolio. The allowance has both specific and collective components.

Specific Allowance

Specific allowances reduce our loan asset value to realizable amounts for loans identified as impaired. We review all individual loans above a threshold that become delinquent, and we determine the realizable value of the loan by estimating future cash flows, which is often the value of the underlying security. We apply judgment on the realization period and on the valuation of the underlying security. Additionally, for significant loans, we may obtain third-party valuation of the collateral.

Collective allowance

Collective allowances provide for credit losses that we believe may exist but have not yet been specifically identified. Our collective allowance model incorporates a number of factors, applied to each loan portfolio type, such as:

- Size of the portfolio
- Probability of default
- Loss given default
- Estimated lag period between loss event and identification

Additionally, we consider current observable factors that influence losses in our portfolio. Deterioration in these factors, such as changes in unemployment rates and provincial GDP measures, will cause losses that we may not yet have detected in our model. We apply judgment in evaluating the severity of changes to these observable factors. While the performance of each of our portfolios drives the inputs to our model, we apply judgment when we have gaps in data or when results are counterintuitive. A uniform 10% increase in the probability of default across all portfolios causes the collective allowance to increase by approximately $3.0 million.

Financial Instruments Measured at Fair Value

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

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

Determining fair value for instruments that trade actively and have quoted market prices (Level 1) requires minimal subjectivity. We have to apply judgment to value other instruments. We value derivatives using readily available market information that can be input to internal models (Level 2). We validate the outputs by comparing our valuations with counterparties. When we use internal models without observable market information (Level 3), we use general assumptions such as internal pricing spreads over observable market inputs. All modelled valuations consider credit risk adjustments, as appropriate. We disclose these valuations in Note 26.

We record changes in fair value to the income statement unless we have elected a security to be available for sale or have designated a derivative as an effective cash flow hedge. On December 31, 2017, we carried $1.3 billion, or 7.4%, of our financial assets and $9.0 million of our financial liabilities (all derivative instruments) at fair value. Included in the financial assets is $14.3 million ($15.3 million as of December 31, 2016) of loans where we have made a fair value option in order to match valuations of hedged and hedging items.

Effective December 31, 2017, Central 1 announced that 24.9502% of Coast Capital's Class E shares would be redeemed at a value of $100 per share subsequent to year-end. These shares have been recorded at a fair value of $100 per share, with the gain of $10,082 (2016 – nil) being recorded in Other Comprehensive Income, net of tax of $2,083. All other investments in Class E shares are recorded at their cost of $0.01 per share, as the fair value cannot be reliably measured. There is no quoted market price for the shares, and the likelihood and timing of any future redemption of the shares cannot be determined.

Asset Impairment (Goodwill and Intangible Assets)

On December 31, 2017, total goodwill was $15.2 million, identifiable intangible assets with a definite life were $5.0 million, and software was $51.4 million. The combined total of these amounts increased in 2017 by $6.7 million due to software additions, and decreased by $14.8 million from amortization and by $0.6 million from disposals of software. Assessments were made in 2017 to accelerate the depreciation schedule for certain software assets. Goodwill represents the excess of consideration exchanged for the acquisition of a subsidiary over the fair value of the net assets acquired. The majority of our goodwill balance at year-end resulted from our 2014 acquisition of the prime equipment and vehicle finance business of Travelers Financial Corporation.

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

Contingent Liabilities

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

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

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

Income Taxes

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

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

When valuing our deferred income tax assets and liabilities, we estimate future reversing tax rates based on our forecast growth for deposits and income before taxes. If we estimate our future reversing rate to be 1% higher, our net deferred income tax assets will be impacted minimally. As of December 31, 2017, we had available deferred income tax assets of $20.3 million ($23.3 million in 2016) and deferred income tax liabilities of $17.2 million ($20.1 million in 2016). One driver of adjustments to future reversing rates is changes to enacted tax rates such as the announcement by the Province of B.C. to increase the general business tax rate by 1% effective January 1, 2018, and to decrease the small business tax rate by 0.5% effective April 1, 2017.

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

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

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

Future Changes to Accounting Policies

The International Accounting Standards Board (IASB) has issued new standards and amendments to existing standards on financial instruments, revenue from contracts with customers, and leases that were not yet effective for the year ended December 31, 2017. These accounting changes will be applicable beginning January 1, 2018, at the earliest. Additional information on the new standards and amendments to existing standards can be found in Note 3 to the annual consolidated financial statements.

IFRS 9: Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments* (IFRS 9), which will replace IAS 39 – *Financial Instruments: Recognition and Measurement* (IAS 39). The final version of IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Disclosures related to IFRS 9 will also be adopted on January 1, 2018. IFRS 9 addresses classification and measurement of financial instruments, impairment of financial assets, and general hedge accounting.

IFRS 9 does not require restatement of comparative period financial statements except in limited circumstances related to aspects of hedge accounting. Coast Capital does not plan to restate prior period comparative figures and will recognize an adjustment to opening retained earnings to reflect the application of the new requirements as at the date of transition.

The adoption of IFRS 9 will have a significant impact on our impairment processes and the resulting estimate of allowances for credit losses. We continue to refine our impairment processes and estimates in fiscal 2018; therefore, the actual impact on adoption may change and the final impact on our financial position, allowance for credit losses, and capital ratios cannot yet be determined with conclusiveness.

Project Status

The transition to IFRS 9 is a significant initiative, particularly in regards to the new impairment requirements. Key stakeholders and resources were identified early in the process to work on the various elements of the new standard. Furthermore, to address the new impairment requirements, an IFRS 9 working group, which includes joint leadership and representation from risk management and finance, and representation from other business function stakeholders, was set up when the project was initially launched to coordinate and execute the adoption of the new IFRS 9 impairment requirements in accordance with a robust project plan, which includes three main project phases.

Phase 1 – Planning and Scoping

This phase was completed in 2016. The objective of Phase 1 was to complete an assessment of the requirements in IFRS 9 and to evaluate the overall effort required to transition to IFRS 9. Phase 1 allowed the project resources and IFRS 9 working group to build knowledge with respect to IFRS 9 requirements and to complete diagnostic analyses to identify key differences between current practices and IFRS 9. Furthermore, a fuller understanding of the requirements allowed us to better define roles, responsibilities, project milestones, and deliverables.

Phase 2 – Analysis and Design

This phase started in 2016 and continued throughout 2017. The objective of Phase 2 involves performing analyses and developing methodologies to meet the requirements of IFRS 9. While the new classification and measurement and hedge accounting requirements may have important implications, the key elements of Phase 2 pertain to the impairment requirements. The latter involves defining risk methodologies and accounting policies, confirming data sources and requirements, developing methodologies to establish risk parameters, defining functional requirements for calculating the estimated allowances for credit loss, and developing an estimation approach and platform. Phase 2 also includes reviewing and analyzing the IFRS 9 disclosure requirements.

Phase 3 – Implementation and Review

This phase started during the latter part of 2017, as a significant portion of the work was completed during the year. Phase 3 consists mainly of efforts to implement the estimation processes and platforms and to refine the methodologies throughout 2018. Other implications such as financial statement disclosures, internal controls over financial reporting, and incorporation into planning and forecasting activities will begin as the analyses are completed, in advance of fiscal 2018 financial reporting. We are on track to meet the transition timelines and the focus, going into 2018, will be on the development and validation of an estimation platform.

Impairment

IFRS 9 introduces a new expected credit loss (ECL) model, which must be applied to all financial assets classified at amortized cost or fair value through other comprehensive income, for calculating impairment losses. The most significant impact is expected to be on loans. The model results in the recognition of an allowance for credit losses on financial assets regardless of whether a loss event occurred; the magnitude of the estimated ECL is based on changes in credit risk since initial recognition. This difference in the scope of its application is one of the most significant differences between IAS 39 and IFRS 9, in that IAS 39 requires application of an incurred-loss impairment model; therefore, an allowance for credit losses is only required for losses that are incurred but not yet identified, while IFRS 9 requires entities to recognize an allowance for all future expected losses.

IFRS 9 requires recognition of:

- 12-month ECL from the date a financial asset is first recognized ("stage 1 loans" or “performing loans”), which is measured as the amount of ECL occurring in the next 12 months
- Lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition ("stage 2 loans" or “underperforming loans”), which is measured as the amount of ECL occurring over the remaining life of the asset. In assessing whether credit risk has increased significantly, Coast Capital compares the risk of a default as at the reporting date, with the risk of default as at the date of initial recognition.
- Lifetime expected credit losses for financial assets that are assessed as credit impaired ("stage 3 loans", “impaired loans”, or “non-performing loans”)

ECLs will be a function of the probability of default (PD), loss given default (LGD), and exposure at default (EAD) discounted to the reporting date, measured as the probability-weighted ECL over 12 months or the remaining expected life of the financial instrument. The methodology and inputs will consider reasonable and supportable information about past events, current conditions, and forecasts of future events and economic conditions that impact the credit risk assessment. Examples of relevant macroeconomic factors include unemployment rates, housing price index, and interest rates, which is consistent with information used for other purposes, including forecasting and planning. Probability-weighted multiple scenarios will be considered when assessing changes in credit risk since initial recognition and measuring ECLs.

In regards to the credit risk assessment process, we will be using a combination of account- and/or borrower-specific attributes and relevant forward-looking variables to evaluate the changes in credit risk since initial recognition. IFRS 9 also requires the application of a rebuttable presumption that credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due. We do not expect to rebut this presumption for assessing changes in credit risk for its loans. Financial assets will be assessed as credit impaired when they are 90 days or more past due.

Under IFRS 9, ECLs will be recognized in profit or loss before a loss event has occurred, which will likely result in earlier recognition of credit losses, compared to the current model. Also, given that ECL will consider multiple scenarios and forecasts, and that assets will be moving between stages as the assessed risk of default improves and deteriorates over their lifetimes, allowances are expected to be more sensitive and volatile compared to the current IAS 39 model. Coast Capital’s specific allowances under IAS 39 will be replaced by the ECL for stage 3 loans and the collective allowances will be replaced by the ECL for stage 1 and stage 2 loans.

Classification and Measurement

IFRS 9 requires all financial assets to be classified in three categories (amortized cost, fair value through profit or loss (FVTPL), or fair value through other comprehensive income (FVOCI)), based on the contractual cash flow characteristics of the assets and the business model under which the assets are managed. We have substantially completed the assessment of our business models and the contractual cash flow characteristics of the financial assets in the scope of IFRS 9, and it is expected that certain assets may be reclassified upon transition to IFRS 9 on January 1, 2018.

IFRS 9 provides an irrevocable designation that can be made at initial recognition to measure a financial asset at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch. Furthermore, an irrevocable designation can be made at initial recognition to classify certain equity securities at fair value through other comprehensive income, but no subsequent recycling of gains and losses will be recognized in the Consolidated Statement of Income.

The classification and measurement of financial liabilities remain essentially unchanged from the current IAS 39 requirements, except for the measurement of financial liabilities elected to be measured at fair value. We have not made use of this election.

Hedge accounting

IFRS 9 introduces a new hedge accounting model that aims to provide a better link between an entity's risk management activities and the impact of hedging on the financial statements. Also, IFRS 9 is expected to allow for application of the hedge accounting requirements to a broader array of hedging relationships. Accounting requirements for macro hedging have been separated from IFRS 9; therefore, entities may choose to continue applying the current hedge accounting requirements under IAS 39 until the IASB finalizes its macro hedge accounting project. We have elected the accounting policy choice to continue applying the IAS 39 hedging requirements. However, the new hedge accounting disclosures will be adopted effective January 1, 2018.

IFRS 15: Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers* (IFRS 15), which establishes a comprehensive framework for the recognition, measurement, and disclosure of revenues. IFRS 15 applies to all contracts with customers (except for contracts that are within the scope of the standards on leases and financial instruments). IFRS 15 is effective for annual periods beginning on or after January 1, 2018. On transition, entities may either restate prior periods retrospectively or recognize the cumulative effect of the transition in opening retained earnings with no comparison for prior years. We have substantially completed the assessment of the potential impacts of IFRS 15 and currently do not expect a significant impact from adopting the new standard. We dos not plan to restate prior period comparative figures and will recognize an adjustment to opening retained earnings to reflect the application of the new requirements as at the date of transition.

IFRS 16: Leases

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

Management's Responsibility for Financial Reporting

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

Bruce Schouten
Interim President and Chief Executive Officer

David Gaskin, CPA, CA
Chief Financial Officer

Independent Auditors' Report

To the Members of Coast Capital Savings Credit Union

We have audited the accompanying consolidated financial statements of Coast Capital Savings Credit Union, which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statements of income, comprehensive income, changes in members' equity, and cash flows, for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error..

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Coast Capital Savings Credit Union as at December 31, 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

February 26, 2018
Vancouver, Canada

Consolidated Financial Statements

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Consolidated Statement of Financial Position

As at December 31 2017, with comparative information for 2016

All amounts in thousands of dollars, unless otherwise stated	Notes	2017	2016
Assets			
Cash and cash resources	4	467,204	162,130
Financial investments	5	1,626,481	1,772,182
Loans	6–9	14,788,882	12,858,372
Premises and equipment	10	28,672	30,228
Goodwill and intangible assets	11	71,604	80,279
Deferred income tax assets	22	3,096	3,189
Income taxes receivable		–	6,969
Other assets	12	62,571	55,869
		17,048,510	14,969,218
Liabilities			
Deposits	13	14,366,432	12,960,818
Secured borrowings	9	1,118,025	869,138
Borrowings	15	319,460	–
Income taxes payable		3,400	–
Other liabilities	16	129,343	96,085
		15,936,660	13,926,041
Members' equity			
Class B shares		28,851	30,444
Retained earnings		1,084,983	1,010,375
Accumulated other comprehensive income (loss)		(1,984)	2,358
		1,111,850	1,043,177
		17,048,510	14,969,218
Commitments and contingent liabilities	23		

On behalf of the Board of Directors:

Bill Cooke
Chair, Board of Directors

Bob Armstrong
Chair, Audit and Finance Committee

Consolidated Statement of Income

Year ended December 31, 2017, with comparative information for 2016

All amounts in thousands of dollars, unless otherwise stated	Notes	2017	2016
Interest income			
Loans	18	450,320	405,605
Cash and financial investments	18	25,915	22,701
Derivatives	18	34	365
		476,269	428,671
Interest expense			
Deposits	18	137,838	135,695
Borrowings	18	19,937	12,927
		157,775	148,622
Net interest income		318,494	280,049
Provision for credit losses	7	8,331	10,733
		310,163	269,316
Fee and commission income			
Insurance commissions		7,992	8,691
Mutual and segregated fund commissions		32,187	27,403
Foreign exchange		3,918	3,676
Other fees and commissions		24,934	23,092
		69,031	62,862
Other income	19	19,070	16,072
		398,264	348,250
Non–interest expenses			
Salaries and employee benefits	20	161,086	140,510
Administration	21	77,658	74,229
Technology		15,717	13,000
Occupancy		26,424	26,667
Depreciation and amortization		22,947	15,363
Community contributions		5,600	5,598
		309,432	275,367
Income before provision for income taxes		88,832	72,883
Provision for income taxes	22	13,055	14,357
Net income		75,777	58,526

Consolidated Statement of Comprehensive Income

Year ended December 31, 2017, with comparative information for 2016

All amounts in thousands of dollars, unless otherwise stated	Notes	2017	2016
Net income		75,777	58,526
Other comprehensive income (loss), net of taxes			
Items that will never be reclassified to profit or loss:			
Actuarial gains on defined benefit pension plans, net of income tax of $36 (2016 - $31)		178	136
		178	136
Items that may be reclassified to profit or loss where conditions are met:			
Unrealized gains on available for sale securities - Central 1 Class E shares, net of income tax of $2,083	5	10,082	–
Unrealized losses on other available for sale securities, net of income tax of $(1,830) (2016 - $(1,269))		(8,834)	(5,666)
Losses on effective portion of cash flow hedges, net of income tax of $(1,135) (2016 - $(469))		(5,590)	(2,092)
Other comprehensive loss, net of taxes		(4,164)	(7,622)
Total comprehensive income		71,613	50,904

Consolidated Statement of Changes in Members' Equity

Year ended December 31, 2017, with comparative information for 2016

All amounts in thousands of dollars, unless otherwise stated	2017	2016
Class B shares		
Balance at beginning of the year	30,444	32,213
Share dividends	588	542
Share redemptions	(2,181)	(2,311)
Balance at end of the year	28,851	30,444
Retained earnings		
Balance at beginning of the year	1,010,374	952,949
Net income	75,777	58,526
Actuarial gains on defined benefit plans	178	136
Share dividends	(588)	(542)
Cash dividends	–	(35)
Income tax deduction on dividends	99	104
Other equity adjustments	(857)	(763)
Balance at end of the year	1,084,983	1,010,375
Accumulated other comprehensive income – available for sale securities		
Balance at beginning of the year	2,767	8,432
Other comprehensive income (loss)	1,248	(5,666)
Balance at end of the year	4,015	2,766
Accumulated other comprehensive income – cash flow hedges		
Balance at beginning of the year	(409)	1,684
Other comprehensive loss	(5,590)	(2,092)
Balance at end of the year	(5,999)	(408)
Other comprehensive income (loss)	(1,984)	2,358
Total equity	1,111,850	1,043,177

Class B shares are not a membership requirement. These shares are non–transferable, non–cumulative and non–voting. Retraction and redemption of Class B shares including terms, conditions and dividends are set at the discretion of the Board of Directors. The dividend rate is a floating rate and is currently 2.01% (2016 – 1.85%). These shares have a par value of $1 each. Coast Capital has authorized an unlimited number of Class B shares and all issued shares are fully paid.

Consolidated Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

All amounts in thousands of dollars, unless otherwise stated	2017	2016
Cash flows from operating activities		
Net income before provision for income taxes	88,832	72,883
Adjustments for:		
Depreciation and amortization	22,947	15,363
Provision for credit losses	8,331	10,733
Interest income	(473,292)	(426,912)
Interest expense	157,775	148,622
Dividend income	(2,977)	(1,759)
Changes in other non–cash operating items	21,634	1,526
Interest income received	471,254	427,820
Interest expense paid	(157,541)	(148,972)
Dividends received	2,391	1,877
Net income taxes paid	(2,593)	(14,231)
Cash flows from operating activities before undernoted	136,761	86,950
Net increase in loans	(1,934,945)	(1,260,700)
Net increase in deposits	1,405,323	1,282,354
Cash flows from (used in) operating activities	(392,861)	108,604
Cash flows used in investing activities		
Net increase (decrease) in investments	144,430	(413,760)
Net purchase of premises and equipment	(12,716)	(14,768)
Cash flows from (used in) investing activities	131,714	(428,528)
Cash flows from financing activities		
Net increase (decrease) in borrowings	568,345	(101,191)
Net redemption of Class A and B shares	(2,124)	(2,257)
Cash flows from (used in) financing activities	566,221	(103,448)
Net increase (decrease) in cash and cash resources	305,074	(423,372)
Cash and cash resources, beginning of year	162,130	585,502
Cash and cash resources, end of year	467,204	162,130

Notes to Consolidated Financial Statements

Year ended December 31, 2017, with comparative information for 2016
All amounts in thousands of dollars, unless otherwise stated

Coast Capital Savings Credit Union ("Coast Capital") is incorporated under the British Columbia *Credit Union Incorporation Act* and its subsidiaries are incorporated under the British Columbia *Company Act* or the *Canada Business Corporations Act.*

Coast Capital is located in Canada and its registered office is in Surrey, British Columbia. The operation of Coast Capital is regulated under the British Columbia *Financial Institutions Act*. Coast Capital provides financial services to members principally in the Metro Vancouver, Fraser Valley, Vancouver Island and Okanagan regions of British Columbia.

The consolidated financial statements have been approved for issue by the Board of Directors (the "Board") on February 26, 2018.

1. Basis of presentation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for available for sale financial assets, financial assets and financial liabilities accounted for at fair value through profit or loss and derivative financial instruments, which are measured at fair value.

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

c) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the Statement of Financial Position date and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of estimates and judgments include the measurement of the allowance for credit losses, financial instruments measured at fair value, income taxes, goodwill and intangible assets. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis.

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. The financial statements 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, its wholly owned active subsidiaries Coast Capital Financial Management Ltd. ("CCFM") and Coast Capital Equipment Finance Ltd. ("CCEFL"), Travelers Leasing Ltd. ("TLL"), Travelers Finance Ltd. ("TFL"), and Coast Capital Holdings Ltd. ("CCHL"). 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

For the purposes of the Consolidated Statement of Cash Flows, cash and cash resources comprise balances with less than 3 months maturity from the date of acquisition, including cash and deposits with Central 1 Credit Union ("Central 1"), treasury bills and other eligible bills, amounts due from other banks and cheques and other items in transit.

2. Significant accounting policies (continued)

c) Non-derivative financial instruments

All non-derivative financial instruments, with certain exceptions, are classified as one of the following: held to maturity ("HTM"), loans and receivables, financial assets or liabilities at fair value through profit or loss ("FVTPL"), available for sale ("AFS") or other financial liabilities. All financial instruments are recorded at fair value on initial recognition and are subsequently accounted for based on their classification. Classification depends on the purpose for which the financial instruments were acquired and their characteristics. Interest income and interest expense on all non-derivative financial instruments are recognized in Net Interest Income using the effective interest method in the Consolidated Statement of Income. The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or 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 asset or financial liability.

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

HTM financial assets are non–derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, which an entity has the positive intention and ability to hold to maturity. These financial assets are accounted for at amortized cost. Coast Capital has not classified any financial assets as HTM financial assets.

Financial assets are required to be classified as FVTPL if they are acquired principally for the purpose of selling in the near term; or if they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial assets may also be designated as FVTPL when the designation eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial assets, or from recognizing gains and losses on them, on different bases. The fair value designation, once made, is irrevocable. Gains and losses on assets classified as FVTPL are recorded in Other Income in the Consolidated Statement of Income. At December 31, 2017, Coast Capital has designated a select commercial loan and an investment in an euro-denominated bond as FVTPL. The objective of these designations is to significantly reduce a measurement inconsistency that would have otherwise occurred from measuring associated derivative instruments that were obtained to structure an economic hedge against interest rate risk in these financial assets.

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

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

Financial liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than liabilities designated as FVTPL. A financial liability is required to be classified as FVTPL if it is incurred principally for the purpose of repurchasing it in the near term or if it is part of a portfolio of identified financial liabilities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Coast Capital has not designated or classified any financial liabilities as FVTPL at December 31, 2017. Financial liabilities consist of accounts payable, deposits and member shares.

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

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

2. Significant accounting policies (continued)

d) Impairment of financial assets

Coast Capital assesses, at each Consolidated Statement of Financial Position date, whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets not carried at FVTPL is considered impaired if there is objective evidence of impairment as a result of the occurrence of a loss event and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced by the amount of the impairment loss and recognized in the Consolidated Statement of Income. However, if the impairment pertains to an AFS financial asset, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is reclassified from accumulated other comprehensive income and recognized in the Consolidated Statement of Income.

For financial assets measured at amortized cost, if, the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognized; the previously recognized impairment loss is reversed and recognized in profit or loss. For equity instruments classified as AFS, impairment losses are not reversed through the Consolidated Statement of Income. For other AFS financial assets, the impairment loss is reversed through the Consolidated Statement of Income.

e) Fair value of financial instruments

Fair value is 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 in the principal or, in its absence, the most advantageous market to which Coast Capital has access at that date. The fair value of a liability reflects its non-performance risk.

When available, Coast Capital measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then Coast Capital uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received.

If an asset or a liability at fair value has a bid price and an ask price, then Coast Capital measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

Coast Capital recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

f) Loans

Loans are recorded at amortized cost using the effective interest method net of the allowance for credit losses.

Interest income is recorded on the accrual basis using the effective interest rate method. Uncollected interest continues to be accrued at the effective interest rate whenever loans are determined to be impaired, but Coast Capital will review these loans individually to assess whether a specific allowance is required. Coast Capital classifies a loan as impaired when, in the opinion of management, there is reasonable doubt as to the ultimate collectability, either in whole or in part, of principal or interest. Loans where interest or principal is contractually past due 90 days are automatically categorized as impaired, unless management determines there is no reasonable doubt as to the ultimate collectability of principal and interest. All loans are classified as impaired when interest or principal is past due 180 days.

2. Significant accounting policies (continued)

g) Loan fees

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

h) Allowance for credit losses

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

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

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

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

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

i) Derecognition of financial assets and liabilities

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

2. Significant accounting policies (continued)

j) Derivative instruments and hedges

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

In the ordinary course of business, Coast Capital enters into various derivative contracts, including interest rate forwards, swaps and options. Derivative contracts are either exchange–traded contracts or negotiated over-the-counter contracts. Coast Capital enters into such contracts principally to manage its exposures to interest rate fluctuations as part of its asset/liability management program.

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

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

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

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

k) Finance and operating leases

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

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

2. Significant accounting policies (continued)

l) Premises and equipment

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

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

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

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

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

m) Business combinations, goodwill and other intangible assets

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

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

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

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

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

2. Significant accounting policies (continued)

n) Income taxes

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

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

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

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

o) Employee benefits

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

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

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

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

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

p) 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.

2. Significant accounting policies (continued)

q) Foreign currency translation

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

3. Significant accounting changes

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* ("IAS 7") with the intention to improve disclosures of financing activities and help users to better understand an entity's liquidity position. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities. The amendment is effective for annual periods beginning on or after January 1, 2017. Management has adopted this standard for the year ended December 31, 2017. See Note 15 for details.

A number of new standards and amendments to standards and interpretations are not yet effective for the year ended December 31, 2017 and have not been applied in preparing these consolidated financial statements. Below is a discussion of the new standards applicable to the consolidated financial statements of Coast Capital.

a) IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* ("IFRS 9"), which will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). The final version of IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Disclosures related to IFRS 9 will also be adopted on January 1, 2018. IFRS 9 addresses classification and measurement of financial instruments, impairment of financial assets, and general hedge accounting. IFRS 9 does not require restatement of comparative period financial statements except in limited circumstances related to aspects of hedge accounting.

Impairment

IFRS 9 introduces a new expected credit loss ("ECL") model, which must be applied to all financial assets classified at amortized cost or fair value through other comprehensive income, for calculating impairment losses. IFRS 9 requires recognition of:

- 12-month ECL from the date a financial asset is first recognized ("stage 1 loans" or "performing loans"), which is measured as the amount of ECL occurring in the next 12 months
- Lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition ("stage 2 loans" or "underperforming loans"), which is measured as the amount of ECL occurring over the remaining life of the asset
- Lifetime expected credit losses for financial assets that are assessed as credit impaired ("stage 3 loans" or "impaired loans" or "non-performing loans")

ECLs will be a function of the probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") discounted to the reporting date, measured as the probability-weighted ECL over 12 months or the remaining expected life of the financial instrument. Probability-weighted multiple scenarios will be considered when assessing changes in credit risk since initial recognition and measuring ECLs.

Classification and Measurement

IFRS 9 requires all financial assets to be classified in three categories (amortized cost, fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("FVOCI")) based on the contractual cash flow characteristics of the assets and the business model under which the assets are managed.

IFRS 9 provides an irrevocable designation that can be made at initial recognition to measure a financial asset at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch. Furthermore, an irrevocable designation can be made at initial recognition to classify certain equity securities at fair value through **3. 3.**

3. Significant accounting changes (continued)

other comprehensive income, but no subsequent recycling of gains and losses will be recognized in the Consolidated Statement of Income.

The classification and measurement of financial liabilities remain essentially unchanged from the current IAS 39 requirements, except for the measurement of financial liabilities elected to be measured at fair value.

Hedge accounting

IFRS 9 introduces a new hedge accounting model that aims to provide a better link between an entity's risk management activities and the impact of hedging on the financial statements. Also, IFRS 9 is expected to allow for application of the hedge accounting requirements to a broader array of hedging relationships. Accounting requirements for macro hedging have been separated from IFRS 9 and therefore, entities may choose to continue applying the current hedge accounting requirements under IAS 39 until the IASB finalizes its macro hedge accounting project.

Transition

Coast Capital does not plan to restate prior period comparative figures and will recognize an adjustment to opening retained earnings to reflect the application of the new requirements as at the date of transition.

To coordinate and execute the adoption of IFRS 9, key stakeholders and resources were engaged early in the process and specifically, to address the new impairment requirements, an IFRS 9 Working Group, which includes joint leadership and representation from Group Risk Management and Finance, and representation from other business function stakeholders, was set up when the project was initially launched.

The adoption of IFRS 9 will have a significant impact on Coast Capital's impairment processes and the resulting estimate of allowances for credit losses. We continue to refine our impairment processes and estimates in fiscal 2018 and therefore, the actual impact on adoption may change and the final impact on Coast Capital's financial position, allowance for credit losses and capital ratios cannot be determined yet with conclusiveness.

b) IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"), which establishes a comprehensive framework for the recognition, measurement and disclosure of revenues. IFRS 15 applies to all contracts with customers (except for contracts that are within the scope of the standards on leases and financial instruments). IFRS 15 is effective for annual periods beginning on or after January 1, 2018. On transition, entities may either restate prior periods retrospectively or recognize the cumulative effect of the transition in opening retained earnings with no comparison for prior years. Coast Capital does not expect a significant impact from adopting the new standard. Coast Capital does not plan to restate prior period comparative figures and will recognize an adjustment to opening retained earnings to reflect the application of the new requirements as at the date of transition, if required.

c) IFRS 16 – Leases

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

4. Cash and cash resources

	2017	2016
Cash	110,550	98,022
Short–term financial investments, classified as available for sale	79,993	64,108
Short–term deposits with Central 1, classified as loans and receivables	276,555	–
Accrued interest	106	–
	467,204	162,130

Deposits with Central 1 earn interest at short–term market rates. The long-term portion is classified as financial investments. These funds are not available to finance Coast Capital's day-to-day operations and as such, are excluded from cash and cash resources.

5. Financial investments

	2017	2016
Financial investments, designated at FVTPL	22,602	22,225
Financial investments, classified as available for sale	1,461,697	1,522,019
Long-term deposits with Central 1, classified as loans and receivables	133,825	218,203
Accrued interest	8,357	9,735
	1,626,481	1,772,182

AFS financial investments are primarily comprised of statutory deposits and investments with Central 1, deposit notes and bankers' acceptances with Canadian chartered banks, corporate, provincial and municipal bonds rated AA or higher and commercial paper rated R1 low or higher.

Coast Capital is also required to hold a specified number of membership shares in Central 1 as a condition of membership. The amount of the required equity investment in Central 1 is determined based on Coast Capital's membership and assets. Coast Capital also has equity investments in other affiliated co-operative entities that complement and support the credit union system. All such shares are classified as AFS. Typically, the Central 1 shares are not available for trade in an active market; therefore, market values are not readily available.

On October 27, 2017, Central 1 redeemed 24,331 of the Coast Capital's Class E shares. These shares had a carrying value of $0.01 per share, equal to cost, and were redeemed at $100 per share resulting in a gain of $2,433 (2016 – nil) being recorded in Other Income on the Consolidated Statement of Income.

Effective December 31, 2017, Central 1 announced that 24.9502% of Coast Capital's Class E shares would be redeemed at a value of $100 per share subsequent to year-end. These shares have been recorded at a fair value of $100 per share, with the gain of $10,082 (2016 – nil) being recorded in Other Comprehensive Income, net of tax of $2,083.

All other investments in Class E shares are recorded at their cost of $0.01 per share as the fair value cannot be reliably measured. There is no quoted market price for the shares, and the likelihood and timing of any future redemption of the shares cannot be determined.

In accordance with provincial legislation, credit unions are required to maintain liquid investments at a minimum of 8% of their deposit and debt liabilities; as at December 31, 2017 this was $1,113,995 (2016 – $1,106,715).

6. Loans

December 31, 2017	Residential mortgages	Personal loans	Commercial mortgages and loans	Total
Loan principal	10,300,529	314,633	4,187,825	14,802,987
Fair value adjustment for loans at FVTPL	–	–	(403)	(403)
Accrued interest	9,333	1,999	10,128	21,460
Total loans	10,309,862	316,632	4,197,550	14,824,044
Allowances for credit losses	6,650	2,355	26,157	35,162
	10,303,212	314,277	4,171,393	14,788,882
Impaired loans	3,091	461	10,164	13,716
Less amounts where loss not expected	2,926	324	7,579	10,829
Specific allowances	165	137	2,585	2,887
Collective allowances				32,275
Total allowances for credit losses				35,162

December 31, 2016	Residential mortgages	Personal loans	Commercial mortgages and loans	Total
Loan principal	8,967,181	276,359	3,629,705	12,873,245
Fair value adjustment for loans at FVTPL	–	–	(25)	(25)
Accrued interest	7,425	1,726	8,414	17,565
Total loans	8,974,606	278,085	3,638,094	12,890,785
Allowances for credit losses	5,567	3,419	23,427	32,413
	8,969,039	274,666	3,614,667	12,858,372
Impaired loans	2,718	507	18,054	21,279
Less amounts where loss not expected	2,553	389	16,422	19,364
Specific allowances	165	118	1,632	1,915
Collective allowances				30,498
Total allowances for credit losses				32,413

Substantially all of Coast Capital's loans are written on properties and businesses located in the Metro Vancouver, Vancouver Island and Okanagan regions of British Columbia. Of the amounts reported above, $12,284,685 (2016 - $9,323,829) is expected to be received more than 12 months after the reporting date.

6. Loans (continued)

Commercial and personal loans also include finance lease receivables for leases of certain property and equipment where Coast Capital, CCEFL, TFL and TLL are the lessors:

2017	Gross investment in finance leases receivable	Unearned finance income	Net investment in finance leases receivable
Less than one year	26,387	(2,855)	23,532
Between one and five years	740,494	(84,696)	655,798
More than five years	82,825	(11,864)	70,961
	849,706	(99,415)	750,291

2016	Gross investment in finance leases receivable	Unearned finance income	Net investment in finance leases receivable
Less than one year	21,184	(3,124)	18,060
Between one and five years	708,920	(86,142)	622,778
More than five years	69,002	(10,349)	58,653
	799,106	(99,615)	699,491

7. Allowances for credit losses

2017	Residential mortgages	Personal loans	Commercial mortgages and loans	Total
Balance, beginning of year	5,567	3,419	23,427	32,413
Provision for credit losses	1,218	918	6,195	8,331
Loans written off	(149)	(2,201)	(4,210)	(6,560)
Recoveries of loans written off	14	219	745	978
Balance, end of year	6,650	2,355	26,157	35,162
Percentage of total loans	0.06%	0.75%	0.63%	0.24%

2016	Residential mortgages	Personal loans	Commercial mortgages and loans	Total
Balance, beginning of year	4,213	6,039	26,554	36,806
Provision for credit losses	1,729	(240)	9,245	10,734
Loans written off	(418)	(2,671)	(12,977)	(16,066)
Recoveries of loans written off	43	291	605	939
Balance, end of year	5,567	3,419	23,427	32,413
Percentage of total loans	0.06%	1.69%	0.64%	0.25%

The allowance for credit losses adjusts the value of loans to reflect their estimated realizable value. In assessing their estimated realizable value, Coast Capital must rely on estimates and exercise judgment as they relate to economic factors, historical loss experience and specific issues with respect to single borrowers. Changes in circumstances 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.

8. Credit quality

2017	Residential mortgages	Personal loans	Commercial mortgages and loans	Total
Grades				
1 to 3 – satisfactory risk	10,297,438	314,172	4,168,519	14,780,129
4 – watch list	–	–	8,721	8,721
5 – sub–standard but not impaired	–	–	18	18
Loans not impaired	10,297,438	314,172	4,177,258	14,788,868
Impaired	3,091	461	10,164	13,716
	10,300,529	314,633	4,187,422	14,802,584
Loans past due				
Past due up to 29 days	89,376	5,296	50,656	145,328
Past due 30 – 89 days	8,286	1,397	25,067	34,750
Past due 90 – 179 days	1,710	238	7,339	9,287
Past due over 180 days	2,764	348	4,435	7,547
	102,136	7,279	87,497	196,912
Loans past due but not impaired				
Past due up to 29 days	89,049	5,267	50,113	144,429
Past due 30 – 89 days	8,286	1,370	24,891	34,547
Past due 90 – 179 days	1,710	181	2,329	4,220
Past due over 180 days	–	–	–	–
	99,045	6,818	77,333	183,196
Loans impaired				
Past due up to 29 days	327	29	543	899
Past due 30 – 89 days	–	27	176	203
Past due 90 – 179 days	–	57	5,010	5,067
Past due over 180 days	2,764	348	4,435	7,547
	3,091	461	10,164	13,716

8. Credit quality (continued)

2016	Residential mortgages	Personal loans	Commercial mortgages and loans	Total
Grades				
1 to 3 – satisfactory risk	8,964,463	203,568	3,656,355	12,824,386
4 – watch list	–	–	27,544	27,544
5 – sub–standard but not impaired	–	–	10	10
Loans not impaired	8,964,463	203,568	3,683,909	12,851,940
Impaired	2,718	507	18,054	21,279
	8,967,181	204,075	3,701,963	12,873,219
Loans past due				
Past due up to 29 days	76,617	4,436	25,190	106,243
Past due 30 – 89 days	8,772	884	19,736	29,392
Past due 90 – 179 days	1,841	133	3,275	5,249
Past due over 180 days	2,385	467	12,007	14,859
	89,615	5,920	60,208	155,743
Loans past due but not impaired				
Past due up to 29 days	76,284	4,418	24,899	105,601
Past due 30 – 89 days	8,772	884	17,215	26,871
Past due 90 – 179 days	1,841	111	40	1,992
Past due over 180 days	–	–	–	–
	86,897	5,413	42,154	134,464
Loans impaired				
Past due up to 29 days	333	18	291	642
Past due 30 – 89 days	–	–	2,521	2,521
Past due 90 – 179 days	–	22	3,235	3,257
Past due over 180 days	2,385	467	12,007	14,859
	2,718	507	18,054	21,279

8. Credit quality (continued)

Credit grades are formally applied to commercial mortgages and loans and comply with provincial regulations. Residential mortgages and personal loans are tested for impairment on an ongoing basis. If a residential mortgage or personal loan is 14 days past due but determined to not be impaired, management has a formalized process which queues loans by age for regular monitoring.

Accrued interest of $3 (2016 - $400) has been accrued on the impaired loans but a specific allowance of $3 (2016 - $7) has been established to reduce the carrying value of this accrual to its estimated net realizable value.

The fair value of the collateral held by Coast Capital as security for impaired loans was $11,324 (2016 - $26,892). Coast Capital has estimated the fair value of collateral based on an updated assessment of the respective security appraisal undertaken at the original funding assessment and management's knowledge of current local economic conditions.

The collateral and other credit enhancements held by Coast Capital as security for loans include: (i) insurance, mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to the commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities.

9. Transfers of mortgage receivables

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

The amount of residential mortgages, including accrued interest, that were transferred but that were not derecognized at December 31 was $844,037 (2016 - $706,519). Coast has also recognized $1,118,025 (2016 - $869,138) of secured borrowing relating to securitization transactions and repurchasing agreements collateralized by mortgage-backed securities as Coast Capital did not transfer substantially all of the risks and rewards of ownership, principally because it did not transfer prepayment, interest and credit risk of the mortgages in the securitization. The residential mortgages are categorized as loans and they are held as security for this secured borrowing. The average weighted average interest rate on the secured borrowing was 1.64% (2016 - 1.61%) and mature at the same rate as the underlying mortgages.

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

The following table summarizes quantitative information about mortgages securitized by Coast Capital as at December 31, 2017:

Type of loan	Total principal amount of mortgages	Principal amount of loans over 60 days past due	Average balances
Residential	843,214	–	886,802

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

	Mortgages	Secured Borrowings
2018	35,546	47,131
2019	75,708	100,383
2020	343,358	455,262
2021	388,601	515,249

10. Premises and equipment

Original cost	Land	Buildings	Furniture and equipment	Leasehold improvements	Total
Balance at January 1, 2016	57	1,581	47,495	32,541	81,674
Additions during the year	–	–	6,140	9,955	16,095
Disposals during the year	–	–	(385)	(5,841)	(6,226)
Balance at December 31, 2016	57	1,581	53,250	36,655	91,543
Additions during the year	–	–	6,818	124	6,924
Disposals during the year	–	–	(524)	(34)	(558)
Balance at December 31, 2017	57	1,581	59,544	36,745	97,927

Accumulated depreciation	Land	Buildings	Furniture and equipment	Leasehold improvements	Total
Balance at January 1, 2016		1,063	31,096	21,556	53,715
Additions during the year	–	47	5,835	2,429	8,311
Disposals during the year	–	–	(172)	(539)	(711)
Balance at December 31, 2016	–	1,110	36,759	23,446	61,315
Additions during the year	–	47	5,585	2,496	8,128
Disposals during the year	–	–	(182)	(6)	(188)
Balance at December 31, 2017	–	1,157	42,162	25,936	69,255

	Land	Buildings	Furniture and equipment	Leasehold improvements	Total
Net book value, at December 31, 2016	57	471	16,491	13,209	30,228
Net book value, at December 31, 2017	57	424	17,382	10,809	28,672

11. Goodwill and intangible assets

Original cost	Software	Goodwill	Other intangible assets	Total
Balance at January 1, 2016	82,205	15,205	8,935	106,345
Additions during the year	4,544	–	–	4,544
Disposals during the year	(368)	–	–	(368)
Balance at December 31, 2016	86,381	15,205	8,935	110,521
Additions during the year	6,741	–	–	6,741
Disposals during the year	(597)	–	–	(597)
Balance at December 31, 2017	92,525	15,205	8,935	116,665

Accumulated depreciation	Software	Goodwill	Other intangible assets	Total
Balance at January 1, 2016	20,894	–	2,308	23,202
Amortization during the year	6,252	–	800	7,052
Disposals during the year	(12)	–	–	(12)
Balance at December 31, 2016	27,134	–	3,108	30,242
Amortization during the year	14,019	–	800	14,819
Disposals during the year	–	–	–	–
Balance at December 31, 2017	41,153	–	3,908	45,061

Net book value, December 31, 2016	59,247	15,205	5,827	80,279
Net book value, December 31, 2017	51,372	15,205	5,027	71,604

As at December 31, 2017, other intangible assets are comprised of purchased customer lists. Amortization of computer software and customer lists is recognized in Depreciation and Amortization in the Consolidated Statement of Income.

12. Other assets

	2017	2016
Accounts receivable	7,041	7,072
Prepaid expenses	21,735	19,178
Derivatives (note 25)	(48)	932
Other	33,843	28,687
	62,571	55,869

13. Deposits

	2017	2016
Demand	6,098,255	5,947,260
Term	7,060,602	5,760,503
Registered plans	1,151,339	1,197,110
Class A membership shares	2,581	2,524
Class P non–equity shares	104	104
Accrued interest	53,551	53,317
	14,366,432	12,960,818

Of the amounts reported above, $2,251,534 (2016 - $1,704,927) is expected to be recovered or settled more than 12 months after the reporting date.

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

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

	Class A membership shares	Class P non–equity shares
Balance at January 1, 2016	2,470	115
Issued during the year	778	–
Redeemed during the year	(724)	11
Balance at December 31, 2016	2,524	104
Issued during the year	912	–
Redeemed during the year	(855)	–
Balance at December 31, 2017	2,581	104

14. Assets pledged as collateral

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

Assets which are pledged as collateral are related to proceeds from securitizations and other borrowings. Coast Capital has pledged its assets to Central 1 through a general security agreement in relation to its borrowing line. As at December 31, 2017, Coast Capital has also pledged $1,118,025 (2016 - $869,138) of residential mortgages in relation to its Secured Borrowings, and $262,484 (2016 - $336,747) in relation to its other borrowings.

15. Borrowings

		2017				2016	
Maturity date	Currency	Interest rate	Maturity date	Face value	Carrying amount	Face value	Carrying amount
Commercial papers	CAD	1.33–1.63%	January 02, 2018–May 14, 2018	280,000	279,523	–	–
Term loan	CAD	1.34%	January 15, 2018	40,000	39,937	–	–
Total borrowings				320,000	319,460	–	–

Borrowings are secured by a debenture in favour of Central 1, creating a floating charge on the assets and undertakings of Coast Capital, and an assignment of book debts.

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

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

	Beginning balance, January 1, 2016	**Cash flow from financing activities**	**Ending balance, December 31, 2016**
Borrowings	400,000	(400,000)	–
Secured Borrowings	570,329	298,809	869,138
Total Borrowings	970,329	(101,191)	869,138
Class B Shares	32,755	(2,311)	30,444
Class A Shares	2,470	54	2,524
Total Share Redemption	35,225	(2,257)	32,968
Total	1,005,554	(103,448)	902,106

16. Other liabilities

	2017	2016
Accounts payable and accruals	117,937	91,129
Derivatives (note 25)	9,013	2,572
Deferred fee income	2,393	2,384
	129,343	96,085

17. Capital management

a) Objectives, policies and processes

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

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

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

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

b) Regulatory capital

Total capital comprises both primary and secondary capital. Capital requirements are regulated by the Financial Institutions Commission of British Columbia ("FICOM") using the risk–weighted approach developed by the Bank for International Settlements ("BIS"). FICOM established a minimum regulatory capital standard based on a ratio of capital to risk-weighted assets of 8% or $644,512 (2016 - $556,456). In addition, FICOM has now set a supervisory target of 10% or $805,640 and also requires a credit union to set its own internal capital target above this limit, which Coast Capital has set at 13% or $1,047,333. At least 50% of a credit union's capital base, for the purpose of meeting the standard, must consist of primary capital, known as Tier 1.

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

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

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

As at December 31, 2017 and 2016, Coast Capital's capital ratio of 14.69% was greater than the minimum requirement and Coast Capital reported the following components of regulatory capital:

	2017	2016
Tier 1 capital	1,056,988	978,901
Tier 2 capital	126,807	105,153
Total regulatory capital	1,183,795	1,084,054

18. Net interest income

Interest income	2017	2016
Loans	450,320	405,605
Financial assets, designated at FVTPL	628	642
Financial investments, classified as AFS	21,056	18,778
Deposits with Central 1, classified as loans and receivables	4,231	3,281
Derivatives	34	365
	476,269	428,671
Interest expense		
Deposits	137,838	135,695
Borrowings	4,615	1,342
Secured borrowings	15,322	11,585
	157,775	148,622
Net interest income	318,494	280,049

19. Other income

	2017	2016
Credit card revenues	7,500	6,840
Safety deposit box rental income	1,432	1,471
Gains (losses) on financial investments measured at FVTPL	111	(6)
Other	10,027	7,767
	19,070	16,072

20. Salaries and employee benefits

	2017	2016
Salaries	132,312	115,133
Benefits	15,353	14,591
Post retirement costs	9,102	8,516
Termination benefits	4,264	2,218
Other	55	52
	161,086	140,510

21. Administration expenses

	2017	2016
ATM/POS operations	11,231	12,230
CUDIC assessments	11,342	10,220
Central 1 and FICOM assessments	3,501	3,376
Chequing service charges	3,913	4,402
Marketing	7,828	5,806
Bonding and other insurance	2,239	2,350
Professional services	15,224	11,866
Stationery, telephone, and postage	5,765	6,120
Travel, meals, and entertainment	3,950	3,434
Loan processing	5,279	4,204
Courier	991	960
Training and recruitment	1,852	862
Other	4,543	8,399
	77,658	74,229

22. Provision for income taxes

	2017	2016
Current income taxes		
Current year	15,853	11,809
	15,853	11,809
Deferred income taxes		
Origination and reversal of temporary differences	(960)	2,460
Change in estimate of tax rate	(1,838)	88
	(2,798)	2,548
Total income taxes	13,055	14,357

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 26% (2016 - 26%) to income before income taxes. The reasons for the differences are as follows:

	2017		2016	
	Amount	% of pre–tax income	Amount	% of pre–tax income
Combined federal and provincial statutory income taxes	23,016	26.0%	18,925	26.0%
Reduction applicable to credit unions	(5,951)	(6.7%)	(3,506)	(4.8%)
Change in estimate of tax rates	(1,838)	(2.1%)	88	0.1%
Change in estimate of tax reversals	(161)	(0.2%)	(329)	(0.5%)
Other	(2,011)	(2.3%)	(821)	(1.1%)
Effective income tax rate	13,055	14.7%	14,357	19.7%

22. Provision for income taxes (continued)

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

	2017	2016
Allowance for credit losses	6,543	7,273
Deferred revenue/prepaid expense	(7,090)	(4,959)
Restructuring costs	449	285
Employee future benefits	805	1,211
Capital and intangible assets	415	(4,608)
Loss carry–forwards	2,008	4,039
Other	(34)	(52)
	3,096	3,189

23. Commitments and contingent liabilities

a) Commitments

Lease commitments

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

	2017	2016
Not later than 1 year	15,268	14,764
Later than 1 year and less than 5 years	48,553	41,962
Later than 5 years	47,539	50,279
	111,360	107,005

During the year ended December 31, 2017 an amount of $22,730 was recognized as an expense in the Statement of Income in respect of operating leases for minimum lease payments (2016 – $22,171) and $196 was recognized as an expense in the Statement of Income in respect of operating leases for sublease payments (2016 – $193).

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

Credit instruments

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

	2017	2016
Lines of credit, unfunded	2,588,634	2,315,626
Letters of credit	70,715	42,969

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, 2017, all but $54,203 (2016 – $27,679) of the total letters of credit and guarantees issued were secured by deposits by the borrower with Coast Capital. Management estimates that there will be no losses under these obligations that require an allowance for credit losses.

b) Contingencies

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

24. Interest rate sensitivity position

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

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

24. Interest rate sensitivity position (continued)

2016	Variable rate	Fixed–rate terms 0–3 months	4–6 months	7–12 months	1–3 years	3 + years	Non–interest sensitive	Total	%
Asset									
Cash and investments	–	260,013	14,011	160,692	583,838	751,442	164,316	1,934,312	1.25
Loans	5,650,701	204,991	449,232	590,761	2,056,932	3,917,699	(11,944)	12,858,372	2.86
Other assets	–	–	–	–	–	–	176,534	176,534	–
	5,650,701	465,004	463,243	751,453	2,640,770	4,669,141	328,906	14,969,218	
Asset yield	2.94%	2.28%	3.18%	3.00%	3.17%	3.02%	0.00%	–	2.46
Liabilities									
Deposits	4,732,139	1,258,777	1,052,549	2,679,443	1,453,232	251,694	1,532,984	12,960,818	1.64
Borrowings	–	–	–	–	–	–	–	–	–
Secured borrowings	–	98,892	–	34,011	132,503	603,399	333	869,138	1.58
Other liabilities	–	–	–	–	–	–	96,085	96,085	–
	4,732,139	1,357,669	1,052,549	2,713,454	1,585,735	855,093	1,629,402	13,926,041	
Total liability cost	0.49%	1.47%	1.54%	1.45%	1.53%	1.64%	0.00%	–	0.98
Members' equity									
Class B shares	30,444	–	–	–	–	–	–	30,444	–
Retained earnings	–	–	–	–	–	–	1,010,375	1,010,375	–
Accumulated other comprehensive income	–	–	–	–	–	–	2,358	2,358	–
	30,444	–	–	–	–	–	1,012,733	1,043,177	–
Statement of financial position mismatch	888,118	(892,665)	(589,306)	(1,962,001)	1,055,035	3,814,048	(2,313,229)	–	–
Derivatives									
Asset	–	36,168	–	–	30,000	280,000	–	346,168	0.90
Liabilities	–	310,000	–	–	20,895	15,273	–	346,168	0.41
	–	(273,832)	–	–	9,105	264,727	–	–	–
Net mismatch	888,118	(1,166,497)	(589,306)	(1,962,001)	1,064,140	4,078,775	(2,313,229)	–	–

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.

25. Derivative instruments

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

Types of derivatives

Coast Capital enters into the following types of derivatives:

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

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

Trading derivatives

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

Hedging derivatives

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.

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. Cash flows or changes in the fair value of the derivative must be highly effective in offsetting either cash flows or changes in the fair value, respectively, of on–statement of financial position items. Changes in the fair value of hedging derivatives, to the extent that they are effective, are either offset in the Consolidated Statement of Income against the changes in the fair value of the risk being hedged, or recorded in OCI, in the case of unrealized gains (losses) on cash flow hedges. During the year, Coast Capital recognized a loss of $58 (2016 - loss of $100) for ineffectiveness in cash flow hedges, which is recognized in interest expense in the Consolidated Statement of Income as it arises.

Cash flow hedges are a type of hedging derivative used to modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted issuance of fixed-rate liabilities. Coast Capital records interest receivable or payable on the derivative as an adjustment to interest in the Consolidated Statement of Income.

For cash flow hedges that are discontinued prior to the end of the original hedge term, the unrealized gain or loss in OCI is amortized to interest in the Consolidated Statement of Income as the hedged item impacts earnings. If the hedged item is sold or settled, the entire unrealized gain or loss is recognized in interest in the Consolidated Statement of Income.

25. Derivative instruments (continued)

Coast Capital has the following derivatives:

	Notional amounts Maturities of derivatives 0–12 months	1–3 years	3–5 years	Total 2017	Total 2016	Fair values 2017	Fair values 2016
Interest rate swaps							
Pay fixed	20,895	–	14,634	35,529	36,168	(9,013)	(2,572)
Receive fixed	–	210,000	100,000	310,000	310,000	388	784
Total interest rate swaps	20,895	210,000	114,634	345,529	346,168	(8,625)	(1,788)
Options							
Forward contracts	–	5,851	2,019	7,870	4,880	(436)	139
US currency options	–	–	–	–	–	–	9
Total options	–	5,851	2,019	7,870	4,880	(436)	148
Total derivative contracts	20,895	215,851	116,653	353,399	351,048	(9,061)	(1,640)

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.

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

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

2016	Expected cash flows	Less than 1 year	1–5 years	More than 5 years
Assets	16,100	4,105	11,995	–
Liabilities	16,460	3,586	12,874	–
Net cash inflow (outflow)	(360)	519	(879)	–

26. Fair value of financial instruments

The following table represents the fair values of Coast Capital's financial instruments, including derivatives.

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

Fair values of other financial assets and liabilities are assumed to approximate their carrying values, principally due to their short-term nature. Fair values of derivative financial instruments have been based on market price quotations. No fair values have been determined for capital assets or any other asset or liability that is not a financial instrument.

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

26. Fair value of financial instruments (continued)

	2017			2016		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets						
Cash and short–term investments	467,204	467,204	–	162,130	162,130	–
Financial investments at FVTPL	23,628	23,628	–	23,401	23,401	–
Financial investments, AFS	1,468,387	1,468,387	–	1,529,873	1,529,873	–
Loans	14,788,882	14,758,950	(29,932)	12,858,372	12,897,365	38,993
Other	40,884	40,884	–	35,758	35,758	–
	16,788,985	16,759,053	(29,932)	14,609,534	14,648,527	38,993
Liabilities						
Deposits	14,366,432	14,385,797	19,365	12,960,818	12,979,782	18,964
Secured borrowings	1,118,025	1,096,042	(21,983)	869,138	871,016	1,878
Borrowings	319,460	319,460	–	–	–	–
Other	120,330	120,330	–	94,588	94,588	–
	15,924,247	15,921,629	(2,618)	13,924,544	13,945,386	20,842
Derivatives	(9,061)	(9,061)	–	(1,640)	(1,640)	–

Derivatives are comprised of instruments in an asset position, with a carrying value as at December 31, 2017 of $(48) (2016 - $932) and instruments in a liability position, with a carrying value as at December 31, 2017 of $9,013 (2016 - $2,572). The change in the fair value of the derivatives is comprised of changes in market conditions and changes in counterparty credit risk. Coast Capital measures credit risk at each reporting date by incorporating a quantitative measure of credit risk, which is based on each counterparties' credit rating as determined by credit rating agencies, into its valuations of financial instruments.

Coast Capital follows a fair value hierarchy to categorize the inputs used to measure fair value. The fair value hierarchy is based on quoted prices in active markets (Level 1), models based on observable inputs (Level 2), or models using significant inputs that are not based on observable market data (Level 3).

2017	Available for sale securities	Trading securities	Financial asset designated as FVTPL	Derivative instruments Asset	Derivative instruments Liability	Financial assets disclosed at FV	Financial liabilities disclosed at FV
Level 1 – Valued using quoted market prices	80,724	23,628	–	321	–	–	–
Level 2 – Valued using internal models (with observable inputs)	1,127,919	–	–	(369)	(9,013)	–	–
Level 3 – Valued using internal models (without observable inputs)	12,165	–	14,268	–	–	14,799,835	(15,921,630)
Total	1,220,808	23,628	14,268	(48)	(9,013)	14,799,835	(15,921,630)

26. Fair value of financial instruments (continued)

2016

	Available for sale securities	Trading securities	Financial asset designated as FVTPL	Derivative instruments Asset	Derivative instruments Liability	Financial assets disclosed at FV	Financial liabilities disclosed at FV
Level 1 – Valued using quoted market prices	270,204	23,401	–	139	–	–	–
Level 2 – Valued using internal models (with observable inputs)	1,112,851	–	–	793	(2,572)	–	–
Level 3 – Valued using internal models (without observable inputs)	–	–	15,287	–	–	12,933,123	(13,944,497)
Total	1,383,055	23,401	15,287	932	(2,572)	12,933,123	(13,944,497)

During the year, there were no transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

Level 2 financial instruments consist of AFS securities, which are comprised of statutory deposits and investments with Central 1, other fixed income securities and money market instruments, and derivative instruments. Discounted cash flow valuation models are used to determine the present value of the securities. Discount rates are based on observable market inputs, other than quoted prices, which include relevant interest rates pertaining to the value of the assets.

Level 3 financial instrument consists of one (2016 - one) commercial loan that has been designated at FVTPL. A market comparison model is used to determine the current market price of a comparable commercial asset. The current market price is based on commercial lending rates in accordance with internal pricing guidelines and these rates are not entirely based on observable market inputs. As at December 31 2017, a comparable commercial asset would have been quoted a rate of 3.1% and would have an estimated value of $14,268. During the year, there were no transfers of financial instruments either in or out of Level 3 of the fair value hierarchy.

Level 3 financial instruments also consist of AFS securities, which are comprised of certain Class E shares held with Central 1 which are valued at its redemption value of $100 per share (Note 5). The redemption value is not based on observable market inputs, but is based on redemption value provided by Central 1.

The following table reconciles the opening and closing totals:

Valued using internal models (without observable inputs)	2017
Balance, beginning of year	15,287
Purchases	–
Redemptions	–
Issues	–
Settlements	(1,093)
Interest/Dividends	452
Fair value adjustments	11,787
Balance, ending of year	26,433

Fair value adjustments are included in Other Income in the Statement of Comprehensive Income.

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

	1% increase	1% decrease
Change in fair value	(447)	430

27. Classification of financial instruments

2017	FVTPL	AFS	HTM	Hedging	Loans and receivables	Financial liabilities	Non–financial instruments	Total
Financial assets								
Cash	–	–	–	–	110,550	–	–	110,550
Short–term investments	–	79,993	–	–	–	–	–	79,993
Short–term deposits with Central 1	–	–	–	–	276,555	–	–	276,555
Long–term deposits with Central 1	–	–	–	–	133,825	–	–	133,825
Other investments	22,602	1,461,697	–	–	–	–	–	1,484,299
Accrued interest	984	6,764	–	–	715	–	–	8,463
Loans	–	–	–	–	14,788,882	–	–	14,788,882
Derivatives	(48)	–	–	–	–	–	–	(48)
Premises and equipment	–	–	–	–	–	–	28,672	28,672
Deferred income tax assets	–	–	–	–	–	–	3,096	3,096
Other assets	–	–	–	–	34,248	–	99,975	134,223
	23,538	1,548,454	–	–	15,344,775	–	131,743	17,048,510
Financial liabilities and equity								
Deposits	–	–	–	–	–	14,366,432	–	14,366,432
Borrowings secured by loans	–	–	–	–	–	1,118,025	–	1,118,025
Borrowings	–	–	–	–	–	319,460	–	319,460
Derivatives	1,784	–	–	7,229	–	–	–	9,013
Income taxes payable	–	–	–	–	–	–	3,400	3,400
Other liabilities	–	–	–	–	–	120,330	–	120,330
Equity	–	–	–	–	–	–	1,111,850	1,111,850
	1,784	–	–	7,229	–	15,924,247	1,115,250	17,048,510

27. Classification of financial instruments (continued)

2016	FVTPL	AFS	HTM	Hedging	Loans and receivables	Financial liabilities	Non–financial instruments	Total
Financial assets								
Cash	–	–	–	–	98,022	–	–	98,022
Short–term investments	–	64,108	–	–	–	–	–	64,108
Short–term deposits with Central 1	–	–	–	–	–	–	–	–
Long–term deposits with Central 1	–	–	–	–	218,203	–	–	218,203
Other investments	22,225	1,522,019	–	–	–	–	–	1,544,244
Accrued interest	928	7,855	–	–	952	–	–	9,735
Loans	–	–	–	–	12,858,372	–	–	12,858,372
Derivatives	148	–	–	784	–	–	–	932
Premises and equipment	–	–	–	–	–	–	30,228	30,228
Deferred income tax assets	–	–	–	–	–	–	3,189	3,189
Other assets	–	–	–	–	29,477	–	112,708	142,185
	23,301	1,593,982	–	784	13,205,026	–	146,125	14,969,218
Financial liabilities and equity								
Deposits	–	–	–	–	–	12,960,818	–	12,960,818
Borrowings secured by loans	–	–	–	–	–	869,138	–	869,138
Borrowings	–	–	–	–	–	–	–	–
Derivatives	1,342	–	–	1,230	–	–	–	2,572
Income taxes payable	–	–	–	–	–	–	–	–
Other liabilities	–	–	–	–	–	93,513		93,513
Equity	–	–	–	–	–	–	1,043,177	1,043,177
	1,342	–	–	1,230	–	13,923,469	1,043,177	14,969,218

28. 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:

	2017	2016
Outstanding loans	4,139	1,618
Outstanding deposits	1,362	1,607

Loans are advanced to employees at interest rates that range from market rates to preferred rates, but directors are not eligible for this employee benefit. No individual allowances for credit losses have been recognized with respect to these loans (2016 - nil). Employee loans are recorded at their fair value in the Consolidated Statement of Financial Position with the difference between market values and carrying values being recognized as Salaries and employee benefits in the Consolidated Statement of Income.

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

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

	2017	2016
Short–term employee benefits	4,993	3,715
Post–employment benefits	511	450
Other long–term benefits	392	495
	5,896	4,660
Termination benefits	952	–
	6,848	4,660

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

During the year, members of the Board of Directors, who are also considered key management personnel under IFRS, received remuneration of $587 (2016 - $634). Directors do not receive or pay preferred rates on products and services offered by the credit union and are only compensated with short-term Directors' fees and related statutory benefits.

29. Pension plan

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

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

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

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

An actuarial valuation of the overall Plan was carried out as at December 31, 2015 and it was determined that the overall Plan was 96% funded on a going concern basis. The next actuarial review is scheduled for the period ending December 31, 2018 and should be available in September 2019. Pension expense of $5,261 (2016 - $4,739) in respect of contributions paid into the Plan in 2017 has been charged to Salaries and Employee Benefits in the Consolidated Statement of Income. Contributions to the plan in 2018 are expected to be $6,045.

In addition to the Plan, Coast Capital also provides a group RRSP to its employees, whereby all of the contributions are funded by Coast Capital. Pension expense of $3,407 (2016 - $3,408) in respect of contributions paid into this plan in 2017 has been charged to Salaries and Employee Benefits in the Consolidated Statement of Income.

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

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

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

The weighted-average duration of the defined benefit obligation is 9 years at December 31, 2017.

	2017	2016
Benefit obligation – beginning of year	4,804	4,876
Current service costs	266	228
Interest costs	187	164
Benefit payments	(303)	(297)
Actuarial (gain) loss, due to:		
Experience adjustments	(214)	(167)
Changes in demographic assumptions	–	–
Changes in financial assumptions	–	–
Benefit obligation – end of year	4,740	4,804

Pension expense of $409 (2016 - $392) 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.

29. Pension plan (continued)

	2017	2016
Cumulative actuarial losses at January 1	(988)	(1,155)
Actuarial gains (losses) in the year	214	167
Cumulative actuarial losses at December 31	(774)	(988)

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

Assumptions	2017	2016
Discount rate	3.3%	3.5%
Provincial medical services plan trend rate for 10 years	4.0%	4.0%
Dental benefits trend rate for 10 years	5.0%	5.0%
Extended health benefits trend rate for 10 years	7.0%	7.3%

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, 2017 would have been affected by changes that were reasonably possible at that date, in each of the actuarial assumptions that were considered significant to the valuation of the benefit obligation.

Assumptions	2017
Discount rate (1% increase)	334
Trend rates (1% increase)	113

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 Credit Union ("Coast Capital") are committed to excellence in sound business practices and the achievement of responsible economic, social, and environmental objectives. The Board is responsible for managing Coast Capital's business and affairs. It has the statutory authority and obligation to protect and enhance the assets of the credit union. The Board reviews and approves Coast Capital's strategic direction and risk appetite, sets and monitors corporate policies, and is responsible for overseeing management and ensuring that Coast Capital complies with regulatory and statutory requirements.

Coast Capital meets the principles and standards set out in the 2013 B.C. Financial Institutions Commission Governance Guideline, which is designed to ensure strong governance and risk management practices within the credit union system. We also use the Corporate Governance Guidelines for Building High Performance Boards published by the Canadian Coalition for Good Governance as a baseline of best practices and as they would apply to a non-public company and member-controlled financial co-operative. These include:

A high–performance board is accountable and independent		
Guideline 1	Facilitate shareholder (member) democracy	✓
Guideline 2	Ensure at least two–thirds of directors are independent of management	✓
Guideline 3	Separate roles of Chair and Chief Executive Officer	✓
A high–performance board has experienced, knowledgeable and effective directors and committees, and the highest level of integrity		
Guideline 4	Ensure that directors are competent and knowledgeable	✓
Guideline 5	Ensure the goal of every director is to make integrity the hallmark of the company	✓
Guideline 6	Establish reasonable compensation and share ownership guidelines for directors	✓
Guideline 7	Evaluate board, committee and individual director performance	✓
A high–performance board has clear roles and responsibilities		
Guideline 8	Establish mandates for Board committees and ensure committee independence	✓
Guideline 9	Adopt well defined board processes and procedures that support board independence	✓
Guideline 10	Oversee strategy	✓
Guideline 11	Oversee risk management	✓
Guideline 12	Assess the Chief Executive Officer and plan for succession	✓
Guideline 13	Develop and oversee executive compensation plans	✓
A high–performance board engages with shareholders (members)		
Guideline 14	Report governance policies and initiatives to shareholders (members)	✓
Guideline 15	Engage with shareholders (members) within and outside the annual meeting	✓

Board Committees and Meetings

The Board of Directors meets a minimum of eight times a year for regular board meetings and holds two strategy and planning sessions with management. The Board delegates specific governance responsibilities to six standing committees: Audit and Finance, Governance and Community Engagement, Human Resources, Nominations, Risk Review and Strategic Initiatives. One special purpose committee was established in 2017, the DCU/R17 Committee. The Committees are populated by a minimum of three directors and meet throughout the year and as required to fulfill their responsibilities. The Committees draw upon management resources as appropriate and are authorized by the Board to engage outside advisors as required. The Board determines the authority and responsibilities of each committee and approves the charter and committee membership annually immediately following the AGM. Committees meet in camera as a matter of routine, make recommendations to the Board and, with the exception of the Nominations Committee, report regularly to the Board. The Nominations Committee is accountable to and reports directly to the membership.

Audit and Finance Committee: oversees the quality, integrity, accuracy, and clarity of Coast Capital's financial reporting and the effectiveness of systems of internal control. The Committee is the liaison between internal audit, the external auditors, and the Board. The Committee is also responsible for monitoring the performance of the members' external auditors and reviewing legal and regulatory matters as they relate to financial reporting and controls.

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

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

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

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

Strategic Initiatives Committee: provides a forum to discuss with a select group of Directors, significant strategic and tactical issues prior to the presentation of a formal recommendation to the full Board for approval. This committee was disbanded by the Board in November 2017 due to an overlap of responsibilities with other committees.

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

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

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

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

Current and Past Directors for 2017

All directors, including the Chair are independent. A "non-independent director" is any person who derives more than 5% of their commercial business income from their relationship with Coast Capital. As of December 31, 2017, Coast Capital's directors are:

Corporate Governance – Board of Directors

Bill Cooke

Background/Experience:	Mr. Cooke retired in 2006 as CEO of MD Investment Management, a national, member-based investment and wealth management firm. Mr. Cooke has held senior management positions in public companies, financial institutions, and provincial government. Mr. Cooke has been a director and board committee chair of publicly traded and private corporations, educational institutions and non-profit organizations.
Director Since:	2007
Current Term Expires:	2019
Position:	Board Chair Member, Governance & Community Engagement Committee Member, Nominations Committee Member, Human Resources Committee The Board Chair is also an ex officio member of Committees to which he is not a member.
Other Current Boards:	Central 1 Credit Union 2013 to September 30, 2017

Bob Armstrong

Background/Experience:	Mr. Armstrong is a seasoned executive and Board Director. In his 18 years with Ritchie Bros. Auctioneers Incorporated, he held the executive positions of Chief Financial Officer, Corporate Secretary, Chief Operating Officer and Chief Strategic Development Officer. Mr. Armstrong is a Chartered Professional Accountant, has his ICD.D designation, and brings to the Coast Capital Board experience in customer-focused technology, financial, and oversight expertise. Mr. Armstrong's community activities include serving on the boards of the Crescent Beach Swimming Club and the Pennask Lake Fishing and Game Club (he is a past-president of both organizations), chairing the board of the Chris Spencer Foundation and being an active partner with Social Venture Partners Vancouver.
Position:	Director Chair, Audit & Finance Committee Member, Human Resources Committee Member, DCU/R17
Director Since:	2016
Current Term Expires:	2019
Other Current Boards:	Central 1 Credit Union: October 1, 2017 to present Armstrong Hospitality Group (Rocky Mountaineer): 2015 to present Advisory Board, Traction on Demand: 2015 to present Advisory Board, Heffel Gallery Limited

Corporate Governance – Board of Directors

Robin Chakrabarti

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

Mary Jordan

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

Valerie Lambert

Background/Experience:	Ms. Lambert is the Executive Director for the Big Brothers of Greater Vancouver, and prior to that served for seven years as Treasurer at BC Hydro. She is a CPA, CA and has run large and complex Treasury Departments, including Risk Management at both BC Hydro and BC Gas.
Position:	Member, Audit & Finance Committee Member, Risk Review Committee Member, DCU/R17 Committee
Director Since:	2018
Current Term Expires:	2020
Other Current Boards:	BC Hydro: 2015 to present Shaughnessy Golf & Country Club: 2015 to present

Corporate Governance – Board of Directors

Frank Leonard

Background/Experience:	Mr. Leonard has 18 years of Public Service as Mayor of the District of Saanich in addition to over 15 years of co-operative experience. He has chaired or served on many public and private boards, including serving as current Chair of the Agricultural Land Commission. Mr. Leonard brings his oversight and financial governance strengths to the Coast Capital Board.
Position:	Chair, Nominations Committee Member, Governance & Community Engagement Committee Member, Human Resources Committee
Director Since:	2016
Current Term Expires:	2019
Other Current Boards:	Agricultural Land Commission: 2015 to present Parkbridge Lifestyle Communities: 2012 to present Victoria Airport Authority, Victoria Tire: 1969 to present Lengai Properties: 2014 to present

Christian Morrison

Background/Experience:	Ms. Morrison is a former Senior Vice President of RBC Financial Group with 28 years of experience in financial services across Canada, including roles as CEO & President, Royal Bank Mortgage Corporation; Chair, RBC Action Direct; and Vice President Personal Markets, Lower Mainland BC. She has also served on the boards of Interac, Acxsys, Moneris, and NYO Canada. An active community music director, festival organizer and volunteer musician, Ms. Morrison has also served on the board of the National Youth Orchestra of Canada and donated her time as a volunteer mentor for the Forum for Women Entrepreneurs.
Position:	Chair, Human Resources Committee Member, Strategic Initiatives Committee
Director Since:	2009
Current Term Expires:	2018
Other Current Boards:	n/a

Shauna Turner

Background/Experience:	Shauna Turner brings executive experience in technology, finance and healthcare, serving as a CEO in both the private and public sector. Her experience includes leading enterprise technology transformation in Fortune 500 companies in Canada and the US, serving F500 global media firms, financial institutions and government. Ms. Turner held the role of Chief Innovation Officer for Providence Health Care and Executive Vice President for Providence Health Care Research Institute. She has served the Province of BC as CEO of the Immigrant Investor Fund and Renaissance Capital Fund, leading the strategy for over $1 billion in provincial infrastructure investment and the operations for one of Canada's largest venture capital investment fund-of-funds with over $2.5 billion in shared assets under management. Shauna has also served government as an Assistant Deputy Minister, leading innovation across government as well as research and development and small business portfolios. In 2018, Shauna relocated to the San Francisco Bay Area to continue to pursue her passion for innovation and entrepreneurship. Shauna serves on Centre for Aging and Brain Health Innovation (C-ABHI) Innovation Advisory Council, is a volunteer mentor for women entrepreneurs in technology and serves as an advisor and mentor to digital health and cloud based innovation startups.

Corporate Governance – Board of Directors

Position:	Chair, DCU/R17 Committee Member, Governance & Community Engagement Committee Member, Risk Review Committee
Director Since:	2015
Current Term Expires:	2018
Other Current Boards:	n/a

Chris Trumpy

Background/Experience:	Mr. Trumpy holds a CPA (CGA) designation and is a former Deputy Minister of Finance for the Province of B.C. As Deputy Minister, he held responsibility for the legislation and government policies related to the Financial Institutions Commission and the Credit Union Deposit Insurance Corporation.
Position:	Chair, Governance & Community Engagement Committee Member, Strategic Initiatives Committee
Director Since:	2012
Current Term Expires:	2018
Other Current Boards:	Coast Opportunities Fund: 2010 to present 94Forward: 2012 to present Puget Sound Energy: 2010 to present BC and Yukon Cancer Society: Sept 2017 to present

Glenn Wong

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

More detailed biographies available at https://coastcapitalsavings.com/BoardofDirectors

Interlocking Board Service

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

2017 Past Directors:

Faye Wightman

Background/Experience:	Ms. Wightman is the Executive Director of the Canadian Cancer Society, BC/ Yukon Division and the former President & CEO of the Vancouver Foundation and BC Children's Hospital Foundation. Ms. Wightman serves or has served on the boards of BC Housing, Emily Carr University of Art and Design, UBC Alumni Association, Imagine Canada, and Community Foundations of Canada.
Position:	Chair, Governance & Community Engagement Committee Member, Risk Review Committee
Director Since:	2014
Current Term Expired:	2017

(Ms. Wightman resigned from the Coast Capital Board in February 2017).

Director Compensation

Coast Capital director remuneration is set in accordance with a member-approved remuneration philosophy. In 2015 the Governance and Member Relations Committee established a Member Panel to review Director Compensation as part of the Triennial Review Process. The Member Panel recommended increases to various components of Director Remuneration; however, the Board of Directors deferred any increase. The next review of Director Remuneration will take place in the next scheduled Triennial Review (2019). The following table sets out Director Remuneration:

Board of Directors Remuneration

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

Board of Directors Remuneration

Annual Board Chair Retainer $65,000, Annual Director Retainer $25,500, Annual Committee Chair Retainers $5,000, Board and Committee Meeting Fee $1,000. Total remuneration paid to directors in 2017 was $587,570 (2016 - $634,370), including matching Canada Pension Plan contributions as required by law. Directors do not receive any product or service preferences that are not available to the general membership. The following table provides the total remuneration paid for the year to each director for attendance at all Board and committee meetings and at other designated meetings and events deemed eligible for payment.

Corporate Governance – Board of Directors

2017 Calendar year Board & Committee attendance and remuneration

	Board Meetings		Assigned Committees of the Board			
Director	Attended	Percentage	Meetings Attended	Percentage of all Meetings Attended	0%	Total Remuneration Paid for Year
Bob Armstrong	8 of 8	100%	Audit & Finance (Chair from May 3)	5 of 5	100%	$64,832
			DCU/R17 (from Nov 1)	1 of 1		
			Human Resources (from May 3)	2 of 2		
			Risk Review (to May 3))	1 of 1		
Robin Chakrabarti	8 of 8	100%	Nominations (from May 3)	7 of 7	100%	$54,832
			Risk Review (Chair)	4 of 4		
			Strategic Initiatives (to May 5)	2 of 2		
Bill Cooke (Board Chair)	8 of 8	100%	Audit & Finance (ex officio)	5 of 5	100%	$111,998
			Governance	5 of 5		
			Human Resources	5 of 5		
			Nominations	8 of 8		
			Strategic Initiatives (ex officio)	4 of 4		
			Risk Review (ex officio)	4 of 4		
			DCU/R17 (ex officio)	1 of 1		
Mary Jordan	8 of 8	100%	Governance (to May 3)	1 of 1	100%	$53,498
			Nominations (from May 3)	7 of 7		
			Strategic Initiatives (Chair)	5 of 5		
Valerie Lambert (from May 3)	4 of 5	80%	Audit & Finance (from May 3)	4 of 4	92%	$32,000
			Risk Review (from May 3)	3 of 3		
			DCU/R17 (from Nov 1)	1 of 1		
Frank Leonard	8 of 8	100%	Governance	4 of 5	95%	$53,832
			Risk Review (to May 3)	1 of 1		
			Human Resources (from May 3)	2 of 2		
			Nominations (Chair from May 3)	7 of 7		
Christian Morrison	8 of 8	100%	Governance (to May 3)	2 of 2	95%	$56,498
			Human Resources (Chair)	5 of 5		
			Nominations (to May 3)	2 of 2		
			Strategic Initiatives (from May 3)	2 of 3		
Shauna Turner	8 of 8	100%	Governance (from May 3)	3 of 3	94%	$48,333
			Human Resources (to May 3)	3 of 3		
			Risk Review	3 of 4		
			DCU/R17 (Chair from Nov 1)	1 of 1		
Chris Trumpy	7 of 8		Audit & Finance (Chair to May 3)	1 of 1	95%	$52,498
			Governance (Chair from May 3)	3 of 3		
			Human Resources (to May 3)	3 of 3		
			Nominations (to May 3)	2 of 2		
			Strategic Initiatives (from May 3)	3 of 3		
Faye Wightman (to Feb 21)	n/a		Audit & Finance (to Feb 21)	1 of 1	100%	$7,083
			Governance (Chair to Feb 21)	2 of 2		
Glenn Wong	8 of 8	100%	Audit & Finance	5 of 5	100%	$52,166
			Nominations (Chair to May 3)	2 of 2		
			Risk Review (from May 3)	3 of 3		
			Strategic Initiatives (to May 3)	2 of 2		

Corporate Governance – Board of Directors

Director Education

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

In 2017 the Board of Directors held the following education sessions:

- Government & Stakeholder Engagement
- Effective Governance of IT
- Corporate Governance under Federal Regulation
- Fierce Conversations, a Director Interactive Workshop
- Global Trends in the Financial Services Sector
- Cyber Security - Board Cyber Governance
- Operational Excellence, including presentation on Robotics and Automation

Director Expenses

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

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

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

Director Total Expenses

Description of 2017 Expenses

Director	Total Expenses	Description of 2017 Expenses
Bill Cooke (Board Chair)	Total: $5,385.66	Includes travel, and attendance at Board-related events, attendance as Coast Capitals's representative at the Large Credit Union Conference (Winnipeg) and Director Development & Continuous Learning expenses.
Bob Armstrong Chair, Audit & Finance Committee	Total: $8,057.23	Includes travel, and attendance at Board-related events (Surrey and Victoria) attendance as Coast Capital's representative at the Canadian Credit Union Association conference (Halifax) and Director Development & Continuous Learning and technology expenses.
Robin Chakrabarti Chair, Risk Review Committee	No expenses claimed or reimbursed.	

Mary Jordan Chair, Strategic Initiatives Committee	Total: $2,364.50	Includes travel and attendance at Board-related events, Director Development & Continuous Learning and technology expenses.
Valerie Lambert	Total: $18,822.18	Includes travel and attendance at Board-related events and Director Development & Continuous Learning expenses.
Frank Leonard Chair, Nominations Committee	Total: $5,916.27	Includes travel to and from principal residence (Victoria, B.C.), and attendance at Board-related events in Surrey and Victoria, and Director Development & Continuous Learning.
Christian Morrison Chair, Human Resources Committee	Total: $1,083.94	Includes travel, and attendance at Board-related events, and Director Development & Continuous Learning.
Shauna Turner Chair DCU/R17 Committee	No expenses claimed or reimbursed	
Chris Trumpy Chair, Governance and Community Engagement Committee	Total: $7,445.57	Includes travel to and from principal residence (Victoria, B.C.), and attendance at Board-related events and Director Development & Continuous Learning.
Glenn Wong	Total $3,894.32	Includes travel, and attendance at Board-related events, Director Development & Continuous Learning and technology expenses.

Board Performance Reviews

Each year the Board reviews the position descriptions for directors, the Board Chair, Committee Chairs, and the CEO. A director's job is to use their skills and experience to work with the Board in providing strategic advice and business oversight of Coast Capital's operations. This includes critiquing and giving approval to Coast Capital's three-year strategic plan and annual operating capital expenditure plans. Directors are required to act honestly, in good faith and in Coast Capital's best interests. In doing so, they must take into account the interests of the members, depositors, employees, and other stakeholders. The Board undertakes annual evaluations to review the effectiveness of the Board's governance and performance. This review process is based on the duties and responsibilities of the Board, individual directors, and the Board Chair as described in their respective charters. Annually, the Governance and Community Engagement Committee recommends to the Board a process for the evaluation. The evaluation is administered by an external governance consultant and involves the elements listed below.

- Structured individual interviews are conducted by the consultant with members of senior management to obtain input on the performance of the Board, the Board's committees, and the Board and Committee Chairs.
- Structured interviews are conducted by the consultant with each director to discuss self-performance as a Coast Capital director and obtain input on peer performance, the performance of the Board, the Board's committees, and the Board Chair. Each director is provided with the consultant's findings in respect of their performance.
- An in-depth governance review and debriefing session on Board performance is held with the consultant and all directors. Board goals for the next 12 months are determined and the responsibility for achieving each goal is assigned.
- The Board Chair meets privately with each director to discuss their peer evaluation results with a view to determining how the director could contribute more effectively to the Board.
- The Governance and Community Engagement Chair meets privately with the Board Chair to discuss the Board Chair's evaluation results.

CEO Evaluation and Compensation

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

Capital's executive compensation and benefit programs are designed to:

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

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

Industry Positioning and Comparator Groups

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

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

Chief Executive Officer Performance and Compensation Reviews

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

Our corporate performance is based on four strategic pillars: Superior Member Experience, Innovation and Growth, Operational Excellence and Community Leadership. Within these pillars we have metrics that are measured on a pre-determined frequency and presented quarterly to the Human Resources Committee and the Board for review. Individual performance, evaluated semi-annually, is based on progressive achievement of Coast Capital's strategic plan. Our 2017 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, 2017, our CEO earned the following total cash compensation.

2017 Chief Executive Officer		
Base Salary Earnings	$	491,570
Short–term (Annual) Incentive	$	387,022
Long–term Incentive (Grant Estimate)	$	0
Total Cash Compensation*	$	978,592

*A one-time earned bonus of $100,000 was also paid.

Base Salary

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

Short–term Incentive Program ("STIP")

The annual incentive plan links compensation to the achievement of performance objectives set in our annual business plan. The CEO STIP target is set at 60% of base salary (weighted at 30% for individual performance and 70% for corporate performance), with an opportunity to earn up to a maximum of 90% of base salary for exceptional performance. If the CEO does not meet threshold performance, we do not make a payout. The 2017 CEO corporate STIP measures, notated below, are to create a balance between supporting members and providing prudent fiscal and operational management.

Measures

Financial

- Normalized Operating Income
- Operating Efficiency Ratio

Member

- Deepening Member Relationships
- Net Promoter Score

Innovation and Growth

- Active Membership Growth (Net)

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

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

We measure the LTIP over a three-year performance period. At the start of each year, we establish specific metrics and targets for the new three-year performance period with an established target payout ("grant") percentage of current base salary if these metrics are successfully achieved. The LTIP is a variable pay program, with target payout for performance period 2015-2017 at 50% of base salary and maximum 100%. To provide balance between short-term and long-term focus for our members, the LTIP target payout increases to 60%, to a maximum of 120% for exceptional performance, effective performance period 2017-2019. If threshold performance targets are not met, there is no payout. 2017 performance is measured within three rolling LTIP performance periods: 2015-2017, 2016–2018, and 2017-2019. The payment for 2015-2017 would not be made until July 2018. To allow for transparent comparison to peer credit unions, the LTIP amount reported in the Compensation Summary is the 2015-2017 grant level. The CEO 2015-2017 LTIP measures are:

Measures

Financial

- Return on Risk-Weighted Assets

Member

- Revenue Per Member

Community

- Community Brand Awareness

LTIP paid in 2017, for performance period 2014-2016, was $103,057.59.

Benefits and Perquisites
We believe in investing in the health and well-being of our 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 2017 were 3.7% of base salary. The CEO is also provided a perquisite allowance of 8.1% of base salary to cover costs for out-of-pocket expenses such as car allowances and memberships.

Retirement Income Programs
We provide a Defined Benefit Pension ("DBP") plan or a Group RRSP program to all employees who meet the eligibility criteria. The CEO has elected to participate in the Group RRSP program and also participates in a Supplemental Executive Retirement Plan ("SERP"). Both programs are based on salary and STIP paid in 2017. Coast Capital contributed 17.7% of base salary for 2017 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

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

Variable Incentive Pay

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

Benefits – Health & Wellness

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

Retirement Savings Programs

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

Perquisites

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

Corporate Governance – Board of Directors

Nomination of Directors

Each year three or four vacancies occur on Coast Capital's 10-member Board for three-year terms. Immediately after the Annual General Meeting (the "AGM"), the Board appoints a Nominations Committee (the "Committee") whose responsibility is to recommend qualified candidates in the following year for election to the Board. The Committee reports directly to the membership, not to the Board. The composition of the Committee is restricted to directors who will not be standing for re-election in the ensuing year. The Committee seeks qualified candidates from the membership and retains the services of an expert governance consultant to assist in seeking out and screening for highly qualified nominees. In keeping with its charter and adhering to corporate governance best practices, the Committee carries out a due diligence review of all nominees, including a structured full committee interview of new nominees, whose stated skills and experience most closely match the current year's Ideal Director Candidate Description. For the 2018 Director Election, interviews were also conducted with Incumbent Directors who had submitted applications. Following the interviews and at the completion of all the due diligence reviews, the Committee determines those candidates it will recommend for election to the Board. The Committee is responsible for:

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

Ethical Business Conduct

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

More information regarding governance is available at coastcapitalsavings.com/governance.

Glossary

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

Allowance for credit losses: equals the difference between outstanding loan balances and their estimated net realizable value, and consists of a specific allowance and a collective allowance. The allowances are increased by the provision for credit losses and decreased by writeoffs, net of recoveries. The allowance for credit losses is maintained at a level that management considers adequate to absorb all credit-related losses in its loan portfolio.

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

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

Available for sale (AFS) financial instruments: designated non-derivative financial instruments that are not designated or classified as financial instruments at fair value through profit or loss, loans and receivables, or held-to-maturity financial instruments.

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): represents a consumer-oriented, full-service retail financial network of 109 credit unions that collectively serve 3.4 million members and hold more than $126.8 billion in assets.

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

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

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

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

Fair value: amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. Adjusting to fair value is referred to as "mark-to-market".

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

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

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

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

Held to maturity (HTM) financial instruments: designated non-derivative financial instruments with fixed or determinable payments and a fixed maturity, other than loans and receivables, which an entity has the positive intention and ability to hold to maturity.

Glossary

Impairment: where the present value of estimated future cash flows of a financial instrument is less than its carrying amount as a result of the occurrence of a loss event.

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

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

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

Notional amount: amount on which payments for derivative financial instruments are based.

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

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

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

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

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

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

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

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

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

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

Tier 1 capital: permanent capital comprised primarily of retained earnings but also voting shares, qualifying investment shares, and contributed surplus. It is offset by deferred income tax assets and various capital deductions such as goodwill as prescribed by FICOM.

Tier 2 capital: secondary capital, which includes subordinated debentures, other investment shares, and 50% of a credit union's portion of retained earnings in the Credit Union Deposit Insurance Corporation, Central 1, and Stabilization Central Credit Union.

Total capital: comprises both Tier 1 (primary) and Tier 2 (secondary) capital. Capital requirements are regulated by FICOM and a minimum capital standard based on a ratio of capital to risk-weighted assets of 8% is required. At least 50% of the capital base must consist of Tier 1 capital.

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

Corporate Information

Board of Directors (as of December 31, 2017)

Bob Armstrong, *Chair, Audit & Finance Committee*

Robin Chakrabarti, *Chair, Risk Review Committee*

Bill Cooke, *Board Chair*

Mary Jordan, *Chair, Strategic Initiatives Committee*

Valerie Lambert

Frank Leonard, *Chair, Nominations Committee*

Christian Morrison, *Chair, Human Resources Committee*

Shauna Turner, *Chair, DCU/R17 Committee*

Glenn Wong

Executive Committee (as of December 31, 2017)

Don Coulter
President and Chief Executive Officer

Tracey Arnish
Chief People Officer

Wayne Berg
Chief Commercial Officer

Helen Blackburn
Chief Strategy and Innovation Officer

Lawrie Ferguson
Chief Marketing Officer

David Gaskin
Chief Financial Officer

Ian Thomas
Interim Chief Member Experience Officer

Bruce Schouten
Chief Risk Officer

Jeff Wong
Chief Business Transformation Officer

Biographies of our Board of Directors and Executive Committee are available at coastcapitalsavings.com/AboutUs/OurLeadershipTeam.

Contact Information

Help Headquarters
9900 King George Blvd.
Surrey, B.C. V3T 0K7
T: 604.517.7400
F: 604.517.7405

Contact Centre
604.517.7000 (Metro Vancouver)
250.483.7000 (Greater Victoria)
1.888.517.7000 (Toll-free)

Victoria Administration Office
400, 645 Tyee Road
Victoria, B.C. V9A 6X5

Website
coastcapitalsavings.com

Twitter
@Coast_Capital

Facebook
facebook.com/coastcapitalsavings

Annual General Meeting

Thursday, May 10, 2018 at 5:00 pm (PT)
Delta Victoria Ocean Pointe Resort
100 Harbour Road, Victoria, BC, V9A 0G1

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