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

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