Independent Auditors' Report

To the Members of Coast Capital Savings Federal Credit Union

Opinion

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

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

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

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

Basis for Opinion

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

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

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

Emphasis of Matter – Change in Accounting Policy

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

Our opinion is not modified in respect of this matter.

Other Information

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

Chartered Professional Accountants

Vancouver, Canada
February 27, 2019

Consolidated Financial Statements

Table of Contents

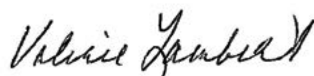
Consolidated Statement of Financial Position 53
Consolidated Statement of Income 54
Consolidated Statement of Comprehensive Income 55
Consolidated Statement of Changes in Members' Equity 56
Consolidated Statement of Cash Flows 57
Notes to the Consolidated Financial Statements:
1. Basis of presentation 58
2. Significant accounting policies and changes in significant accounting policies 60
3. Future accounting changes 71
4. Interest bearing deposits with financial institutions 71
5. Financial investments 72
6. Loans and allowance for credit losses 73
7. Risk management 75
8. Premises and equipment 76
9. Goodwill and intangible assets 77
10. Other assets 77
11. Deposits 78
12. Borrowings 79
13. Transfers of mortgage receivables 79
14. Assets pledged as collateral 80
15. Subordinated debentures 80
16. Changes in liabilities arising from financing activities 81
17. Other liabilities 81
18. Capital management 81
19. Net interest income 83
20. Other income 84
21. Salaries and employee benefits 84
22. Administration expenses 84
23. Provision for income taxes 85
24. Commitments and contingent liabilities 85
25. Interest rate sensitivity position 86
26. Derivative instruments 89
27. Fair value of financial instruments 91
28. Financial assets and liabilities 95
29. Related-party transactions 98
30. Pension plan 99
31. Membership 100

Consolidated Statement of Financial Position

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

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

On behalf of the Board of Directors:



Bob Armstrong
Chair, Board of Directors

Valerie Lambert
Chair, Audit and Finance Committee

Calvin MacInnis
President and
Chief Executive Officer

Consolidated Statement of Income

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

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

Consolidated Statement of Comprehensive Income

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

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

Consolidated Statement of Changes in Members' Equity

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

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

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

Consolidated Statement of Cash Flows

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

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

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

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

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

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

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

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

1. Basis of presentation

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

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

a) Statement of compliance

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

b) Basis of measurement

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

c) Use of significant estimates and judgments

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

1. Basis of presentation (continued)

Allowance for credit losses

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

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

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

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

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

Classification of financial assets

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

Valuation of financial instruments

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

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

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

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

1. Basis of presentation (continued)

Deferred tax assets

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

Impairment of goodwill and other intangible assets

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

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

2. Significant accounting policies and changes in significant accounting policies

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

a) Basis of consolidation

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

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

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

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

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

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

b) Cash and cash resources

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

c) Financial instruments

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

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

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

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

Allowance for expected credit losses

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

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

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

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

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

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

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

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

Modification of loans

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

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

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

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

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

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

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

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

Business model assessment

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

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

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

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

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

Contractual cash flow characteristics

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

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

FVOCI

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

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

AMC

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

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

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

FVTPL and fair value option

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

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

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

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

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

Classification and measurement of non-derivative financial liabilities

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

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

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

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

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

Derecognition of financial assets and liabilities

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

Hedge accounting

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

Offsetting of financial assets and liabilities

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

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

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

Allowance for credit losses

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

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

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

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

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

Classification and measurement of non-derivative financial assets

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

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

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

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

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

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

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

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

Derivative instruments and hedges

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

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

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

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

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

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

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

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

Offsetting of financial assets and liabilities

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

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

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

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

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

Fees and commission income

Insurance commissions

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

Mutual and segregated fund commissions

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

Foreign exchange

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

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

Other fees and commissions

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

Other income

Credit card revenues

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

Safety deposit box rental income

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

e) Finance and operating leases

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

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

f) Premises and equipment

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

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

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

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

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

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

g) Business combinations, goodwill and other intangible assets

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

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

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

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

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

h) Income taxes

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

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

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

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

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

i) Employee benefits

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

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

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

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

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

j) Provisions

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

k) Foreign currency translation

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

3. Future accounting changes

a) IFRS 16 – Leases

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

b) Conceptual framework for financial reporting

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

4. Interest bearing deposits with financial institutions

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

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

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

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

5. Financial investments

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

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

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

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

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

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

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

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

6. Loans and allowance for credit losses

a) Maturity of loans

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

b) Allowance for expected credit losses

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

6. Loans and allowance for credit losses (continued)

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

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

c) Key economic variables

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

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

6. Loans and allowance for credit losses (continued)

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

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

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

7. Risk management

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

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

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

7. Risk management (continued)

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

8. Premises and equipment

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

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

9. Goodwill and intangible assets

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

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

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

10. Other assets

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

11. Deposits

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

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

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

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

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

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

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

12. Borrowings

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

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

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

13. Transfers of mortgage receivables

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

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

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

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

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

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

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

14. Assets pledged as collateral

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

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

15. Subordinated debentures

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

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

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

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

16. Changes in liabilities arising from financing activities

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

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

17. Other liabilities

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

18. Capital management

a) Objectives, policies and processes

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

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

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

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

18. Capital management (continued)

b) Regulatory capital

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

2018 under OSFI Requirements at Continuance

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

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

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

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

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

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

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

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

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

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

18. Capital management (continued)

2017 and 2018 prior to Continuance under FICOM Requirements

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

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

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

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

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

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

19. Net interest income

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

1 Reported under IAS 39.

20. Other income

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

21. Salaries and employee benefits

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

22. Administration expenses

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

23. Provision for income taxes

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

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

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

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

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

24. Commitments and contingent liabilities

a) Commitments

Lease commitments

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

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

24. Commitments and contingent liabilities (continued)

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

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

Credit instruments

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

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

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

b) Contingencies

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

25. Interest rate sensitivity position

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

25. Interest rate sensitivity position (continued)

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

25. Interest rate sensitivity position (continued)

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

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

26. Derivative instruments

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

Types of derivatives

Coast Capital enters into the following types of derivatives:

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

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

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

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

Trading derivatives

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

Hedging derivatives

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

26. Derivative instruments (continued)

Cash Flow Hedges

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

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

Fair Value hedges

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

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

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

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

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

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

26. Derivative instruments (continued)

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

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

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

The following table presents the Credit Risk Exposure of Derivatives:

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

27. Fair value of financial instruments

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

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

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

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

27. Fair value of financial instruments (continued)

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

b) Fair value hierarchy

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

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

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

27. Fair value of financial instruments (continued)

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

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

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

27. Fair value of financial instruments (continued)

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

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

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

c) Significant transfers

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

d) Changes in level 3 fair value measurements

The following table reconciles the opening and closing totals:

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

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

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

28. Financial assets and liabilities

a) Classification of financial assets and liabilities

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

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

28. Financial assets and liabilities (continued)

b) Transition to IFRS 9

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

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

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

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

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

28. Financial assets and liabilities (continued)

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

28. Financial assets and liabilities (continued)

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

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

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

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

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

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

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

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

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

29. Related-party transactions

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

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

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

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

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

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

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

29. Related-party transactions (continued)

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

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

30. Pension plan

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

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

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

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

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

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

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

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

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

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

30. Pension plan (continued)

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

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

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

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

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

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

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

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

31. Membership

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

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

1 Based on financial data of CCSFCU only.