Management's Discussion and Analysis

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

This section is current as of February 27, 2019, and should be read with the audited consolidated financial statements, which are prepared according to the International Financial Reporting Standards ("IFRS").

Table of Contents

About Forward-Looking Statements

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

Management's Discussion and Analysis

Economic Environment

Economic Environment in 2018

The Canadian economy grew at a moderate pace in 2018, although the pace of growth was slower than 2017. Consumer spending was supported by a healthy labour market and continued wage growth, however spending slowed in response to higher interest rates and moderation in the housing market. While export growth accelerated in 2018, business investment slowed following trade uncertainty and price volatility in the energy markets. Trade talks between Canada, U.S. and Mexico concluded with a new trade agreement, the United States-Mexico-Canada Agreement (USMCA). With growth and inflation broadly in line with the Bank of Canada's expectations, the Bank of Canada continued its gradual pace of rate increases, increasing its policy rate three times in 2018 up to 1.75%.

In the U.S., the pace of economic growth strengthened in 2018. The U.S. economy benefited from expansionary fiscal policies, including aggressive tax cuts coupled with strong employment growth. Consumer spending grew at a healthy pace supported by continued job creation and low unemployment.

In B.C., economic growth has been supported by a lower Canadian dollar benefiting B.C. manufacturing and exports, tourism and local TV and film production. Population expansion and infrastructure investment also contributed to a strong economy. The housing market moderated in 2018 following an increase in interest rates and market cooling measures enacted by government.

Economic Environment in 2019

Our 2019 outlook contains forecasts and predictions based on information and assumptions from sources we consider reliable. Actual outcomes may be materially different from the outlook.

Global economic growth is projected to average 3.4% for 2019, a moderately slower pace of growth compared to 2018. Canadian economic growth is expected to average 1.7% for 2019, a slightly lower growth rate than 2018. The Canadian housing market is expected to be supported by household income trends, job creation and population growth.

The U.S. economy is expected to continue growing in 2019 at a pace above its natural long term trend as a result of fiscal stimulus. In Canada, the conclusion of trade talks and the USMCA trade deal will reduce some trade uncertainty and potentially accelerate business investment decisions. Trade uncertainty will remain a risk that could impact the global economy, including Canada; although talks between U.S. and China are expected to prevent an escalation of trade tensions.

The Bank of Canada believes interest rates will need to increase over time to achieve its inflation target. The Bank of Canada has stressed it will remain data dependent and continue to assess appropriate timing for interest rate changes.

The outlook for B.C. includes a healthy economic growth of 2.5%. B.C.'s economy is supported by a diverse mix of economic activity. Growth engines for the economy include manufacturing, export growth and business investment. In 2018, a large $40 billion liquefied natural gas project in Kitimat B.C. was approved and is expected to boost growth for B.C. in 2019 and 2020 due to the significant size of the project. Higher interest rates and market cooling measures enacted by government are expected to continue to moderate growth in the housing sector.

Impacts on Our Members

For our members, the continuation of gradual rate increases over 2018 had mixed impacts. For members seeking to grow their savings or who depend on deposits and debt securities for income, the increase in interest rates will be welcomed. For savers, as interest rates increased, this provided additional income potential. Members entering the housing market and borrowing for their purchase, or for those with existing mortgages and other borrowings, may see more of their income allocated towards debt servicing costs. As we help our members meet their lifetime needs and balance financial priorities, the financial care we provide will continue to promote a balanced approach to building financial well-being.

Financial Performance

Financial Highlights of 2018

Year ended December 31			Change from 2017	
in thousands of dollars	2018	2017	$	%
Net interest income	326,681	318,494	8,187	2.6
Fee, commission and other income	121,158	88,101	33,057	37.5
Total revenue	447,839	406,595	41,244	10.1
Provision for credit losses	8,619	8,331	288	3.5
Non-interest expenses	336,013	309,432	26,581	8.6
Income before provision for income taxes	103,207	88,832	14,375	16.2
Provision for income taxes	21,108	13,055	8,053	61.7
Net income	82,099	75,777	6,322	8.3
Assets				
Cash and financial investments	3,320,505	2,093,685	1,226,820	58.6
Loans after allowance for credit losses	16,124,695	14,788,882	1,335,813	9.0
Premises and equipment, other	174,719	165,943	8,776	5.3
Total assets	19,619,919	17,048,510	2,571,409	15.1
Liabilities				
Deposits	16,377,331	14,366,432	2,010,899	14.0
Borrowings	1,919,781	1,437,485	482,296	33.6
Other liabilities	119,272	132,743	(13,471)	(10.1)
Total liabilities	18,416,384	15,936,660	2,479,724	15.6
Members equity	1,203,535	1,111,850	91,685	8.2
	19,619,919	17,048,510	2,571,409	15.1

in per cent	2018	2017	Change from 2017
Operating efficiency ratio	75.0	76.1	(1.1)
Total liquidity ratio	20.2	14.1	6.1
Liquidity coverage ratio[1]	214.0		
Total capital ratio[1]	15.7		
Common equity tier (CET) 1 capital ratio[1]	12.1		
Leverage ratio[1]	5.6		

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

1 Value included only for 2018; reflect requirements applicable to federally regulated financial institutions.

Management's Discussion and Analysis

Our 2018 results reflect our investment in a better future for our members, employees and the communities we serve. In 2018 we achieved a long-term objective of becoming a federal credit union. In addition to moving to a new regulatory platform and expanding our future business regions to include all of Canada, we invested in our people and our capabilities with the objective of better serving the financial needs of our members. As a federal credit union, we have expanded opportunities for growth and for enhanced investment in products and services to meet the lifetime needs of our members.

Our reported net income in 2018 was $82.1 million, up $6.3 million or 8.3% from 2017. Total revenue in 2018 increased by $41.2 million or 10.1% over 2017. The increase in reported revenue reflects strong asset growth and higher net interest income growth, as well as a significant increase in reported fee, commission and other income. Fee, commission and other income was favourably impacted by two events in 2018 related to our federal credit union transition.

In 2018 we recognized a $36.6 million gain on the redemption of shares we held in Central 1. Due to our transition to federal credit union status, Central 1 required Coast Capital to change from a Class A member to a Class B member. As part of this transition, Central 1 redeemed Coast Capital's Class E shares at their redemption value on November 1, 2018, resulting in the gain as noted. Additionally, as part of our transition to federal credit union status, significant investments we held at Central 1 were required to be liquidated and moved to investments outside of Central 1. Based on interest rate conditions at the time of this transaction, a loss of $8.7 million was recognized in our consolidated statement of income, and is reported in fee, commission and other income. The net result of these events was an increase in fee, commission and other income of $27.9 million. Adjusting for the $27.9 million net gain, our 2018 fee, commission and other income is reduced from $121.2 million to $93.3 million.

Adjusted Net Income

Year ended December 31			Change from 2017	
in thousands of dollars	2018	2017	$	%
Net interest income	326,681	318,494	8,187	2.6
Fee, commission and other income	93,314	88,101	5,213	5.9
Total revenue	419,995	406,595	13,400	3.3
Provisions for credit losses	8,619	8,331	288	3.5
Non-interest expenses	336,013	309,432	26,581	8.6
Income before provision for income taxes	75,363	88,832	(13,469)	(15.2)
Provision for income taxes	16,767	13,055	3,712	28.4
Net income	58,596	75,777	(17,182)	(22.7)

in per cent	2018	2017	Change from 2017
Operating efficiency ratio	80.0	76.1	3.9

Our 2018 net interest income increased by $8.2 million, or 2.6%, to $326.7 million, resulting in total adjusted revenue of $420.0 million, an increase of $13.4 million or 3.3% compared to 2017. Provisions for credit losses in 2018 were $8.6 million, $0.3 million higher, while non-interest expenses increased $26.6 million, or 8.6% compared to 2017. On an adjusted basis our 2018 net income was $58.6 million, a decrease of $17.2 million, or 22.7%, compared to 2017.

The 2.6% increase in net interest income compared to 2017 trailed our overall asset growth in 2018 of 15.1%. Strong asset growth in 2018 supported an increase in our net interest income. The favourable impact of asset growth, however, was reduced by a decrease in our net interest margin. Our net interest margin decreased by 27 basis points, from 2.01% in 2017 to 1.74% in 2018. The decrease reflects a larger relative increase in the interest rates we paid for deposits and borrowings in 2018, compared to the increase in the rates experienced on our loan and cash assets.

Fee, commission and other income in 2018, reported at $121.2 million, increased by $33.1 million or 37.5% compared to 2017. Adjusted, fee commission and other income is $93.3 million, an increase of $5.2 million, or 5.9%, compared to 2017. Excluding the items noted as adjusted, all major non-interest revenue lines experienced positive growth in 2018. Notable areas of growth include banking fees, up $2.8 million, investment and life insurance products, up $2.7 million, and credit card revenues up $1.2 million. Increases in these revenue lines represent both growth of our overall member base and deeper relationships with our members. Fee changes also had an impact on our revenue. We review our fees annually to ensure they are market competitive and that we are continuing to provide value to our members.

Non-interest expenses increased by $26.6 million, or 8.6%, in 2018. The primary drivers of our expense growth in 2018 were activities necessary to achieve continuance as a federal credit union and initiatives designed to enhance our member service offerings and member experience. These activities required increased spending on internal human capital resources, external consultants, and technology upgrades. We also maintained our commitment to community support through investments of $5.9 million, an increase of $0.3 million over 2017, into local programs and events.

Our total asset growth in 2018 was very strong at just under $2.6 billion, or 15.1%, bringing our total assets to $19.6 billion at year end. Asset growth was enabled through deposit campaigns, which generated deposit growth of over $2.0 billion, or 14.0%, our highest annual deposit growth result on record. Additional borrowing and retained earnings growth through profitable operations, also contributed funding to support our asset growth in 2018.

Liquid assets, in the form of cash and financial investments, grew by $1.2 billion, while our loans grew by $1.3 billion. The growth of our liquid assets, which increased by almost 59% had a significant impact on our liquidity ratios and was directly attributable to the deposit campaigns we initiated to strengthen our liquidity position in preparation for our planned transition from a provincially regulated credit union to a federally regulated credit union. At year-end 2018, our liquid assets totalled $3.3 billion, our total liquidity ratio increased to 20.2% from 14.1% at year-end 2017, and our liquidity coverage ratio was 214%. Our regulatory capital also increased in 2018, due to growth in both retained earnings and borrowings in the form of subordinated debentures issued during the year. This resulted in a total capital ratio, as measured in accordance with federal capital adequacy requirements, of 15.7% at year-end.

Business Line Performance

Retail

Our retail division plays a lead role in improving the financial well-being of our 495,000 retail members. We connect with, and provide service and advice to, our retail members through a multi-channel offering which includes: a branch network with 52 locations, a mobile service team, our Contact Centre, and our digital banking platforms. Through these channels we welcomed over 26,000 new retail members in 2018. New member growth in 2018 was supported by our digital membership opening platform, first launched in the fourth quarter of 2017. Using the digital platform, new members can join Coast Capital in as few as five minutes, from anywhere they choose. In 2018, the first full year of operations for this service, almost 9,000 new retail memberships were opened digitally.

In 2018 we also delivered over 26,000 *Where You're At Money Chats®* to our members. The Money Chat service provides members with a snapshot of their overall personal or business financial health, and identifies ways Coast Capital can help improve this going forward. In furtherance of our mission to improve the financial well-being of our members, in 2018 we launched our *Take Charge Money Manager™*. This new digital tool provides members with the ability to aggregate their account information from other financial institutions to keep track of their account balances and transactions in one place; analyze their day-to-day transactions in a visual format; and set up monthly budgets to keep on top of their spending. The *Take Charge Money Manager™* is an evolving platform, with new tools and features expected to be added over time. At the end of 2018, over 8,000 of our members were regular users of the tool.

In 2018 we funded almost 15,000 new mortgages and home equity lines of credit for our members, and grew our retail mortgage portfolio by $781 million, or 7.6%, to $11.1 billion. Our 2018 mortgage offer included Help Extras®, first launched in 2015. Under the Help Extras program, members who obtain or renew their mortgages with us receive up to $1,000 in the form of deposits or investments aligned to their personal financial goals. In 2018 we funded over $3.7 million Help Extras for our members. In 2018, we also grew our retail non-mortgage loan and leasing portfolio by $41 million, or 13.0%, with the majority of this growth coming from our auto financing group.

Management's Discussion and Analysis

Our retail mortgage growth of $781 million in 2018 represents a decrease from the record $1.3 billion growth generated in 2017. Slower growth of our mortgage portfolio reflected a general cooling of the housing market in our trade areas as well as new mortgage underwriting guidelines established for federally-regulated financial institutions. We adopted the new guidelines mid-year in alignment with our focus on member financial well-being, and in preparation for becoming federally regulated. The 'stress test' guideline, intended to ensure mortgage affordability and reduce risk for both borrowers and lenders, reduces the maximum amount of mortgage funding that certain borrowers may qualify for, which in turn impacts overall mortgage lending volumes. Our mortgage growth in 2018 was also moderated by our focus on growing our liquid asset portfolio.

As we prepared to become a federal credit union in 2018, strengthening our liquidity position through deposit growth was an important objective. Our large retail member base is a primary source of core deposit growth. Of our total $2.0 billion deposit growth achieved in 2018, approximately $1.1 billion was generated through our retail division. The majority of this growth came in the first half of the year, and was concentrated in term deposits, consistent with the product offers we made available to our members.

Our retail division also includes our wealth management business. This business provides members with access to industry leading investment and life insurance products through licensed advisors. While not included in the assets captured within our consolidated statement of financial position, our mutual and segregated fund assets under administration totalled just under $3.8 billion at the end of 2018. These assets decreased by $132 million in 2018, or 3.4%, from $3.9 billion at the end of 2017. Our net sales results were positive in 2018, despite volatile capital markets, however, this growth was offset by negative market valuation impacts during the year. Our co-branded Low-fee, More-for-me Mutual Funds® program continues to be an important part of our wealth offer, growing $34 million in 2018 to $1.8 billion, and accounting for 50% of our total investment fund assets under administration at year-end.

Looking ahead to 2019, we plan to enhance our retail digital banking services, building on current capabilities with the objective of continuing to meet the needs of our members and employees. This includes the launch of a new online and mobile banking platform, and investments that will improve our processes and technologies.

Commercial and Leasing

Our commercial division continues to grow through our efforts to empower commercial members. The work we do to help our business members succeed also contributes to the health and vitality of the communities in which we operate. In 2018, we welcomed over 3,000 new commercial members, bringing our total commercial member count to over 51,000. Combined, at December 31, 2018, our commercial members accounted for approximately 29% our total loan and lease assets, and 20% of our total deposit balances. Our commercial members also provide an important source of non-interest revenue through the many banking services they require.

Recognizing the diverse needs of our commercial members, we organize our commercial banking team into several groups: Small Business Banking, Business Banking, Commercial Real Estate, Equipment Financing (Leasing) and Payments and Cash Management.

Backed by sound underwriting policies and practices, our commercial loan and lease portfolios provide an additional lever for risk management by enhancing the diversification of our overall loan portfolio, while also giving us access to higher yielding assets that strengthen our financial performance. Our commercial operations also provide geographic diversification through the Equipment Finance (Leasing) team, which operates nationally, and through participation in syndicated loan arrangements on commercial development projects and properties located in major Canadian cities outside of B.C. In 2018, our total commercial loan and equipment lease assets grew by $510 million, or 12.2%, to $4.7 billion.

Commercial loans grew by $287 million in 2018, or 8.1%, to $3.9 billion. Almost all of this growth was mortgage secured, with non-mortgage loan and line of credit balances remaining flat during the year. Commercial mortgage growth in 2018 was split relatively evenly between variable rate financing of development projects, and fixed rate term financing of completed commercial properties. Development financing loans tend to have shorter terms, but offer higher yields when compared to term mortgages on completed commercial properties. Continued positive growth of our multi-family residential development portfolio by our Commercial Real Estate team in 2018 was achieved through strong relationships with both large established developers and smaller local home builders. Growth of our fixed rate commercial mortgage portfolio in 2018 was supported by both our Business Banking team, which deals primarily with owner occupied properties, and our Commercial Real Estate team.

Our Equipment Financing (Leasing) portfolio grew $223 million in 2018, or 35.8%, to $846 million. This represents our strongest single year growth on record for this portfolio. The growth is attributed to increased volumes generated through our growing partnership network with equipment vendors. The majority of new equipment lease production in 2018 occurred in markets outside of B.C., notably Ontario and Alberta. At the end of 2018, 31.5% of our equipment leasing assets were held in B.C., with the remaining 68.5% held in other provinces, notably Ontario at 38.9% and Alberta at 19.2%.

As we prepared to become a federal credit union in 2018, strengthening our liquidity position through deposit growth was an important objective. Of our $2.0 billion total deposit growth in 2018, $416 million was raised through our commercial division. Our Small Business Banking member base has been a consistent source of core deposits growth, aligned to the needs of our small business members for transactional banking services. Our commercial Payments and Cash Management team is also focused on deposit gathering activities, and contributed approximately $150 million in deposit growth in 2018 through relationships targeted at organizations with cash management needs.

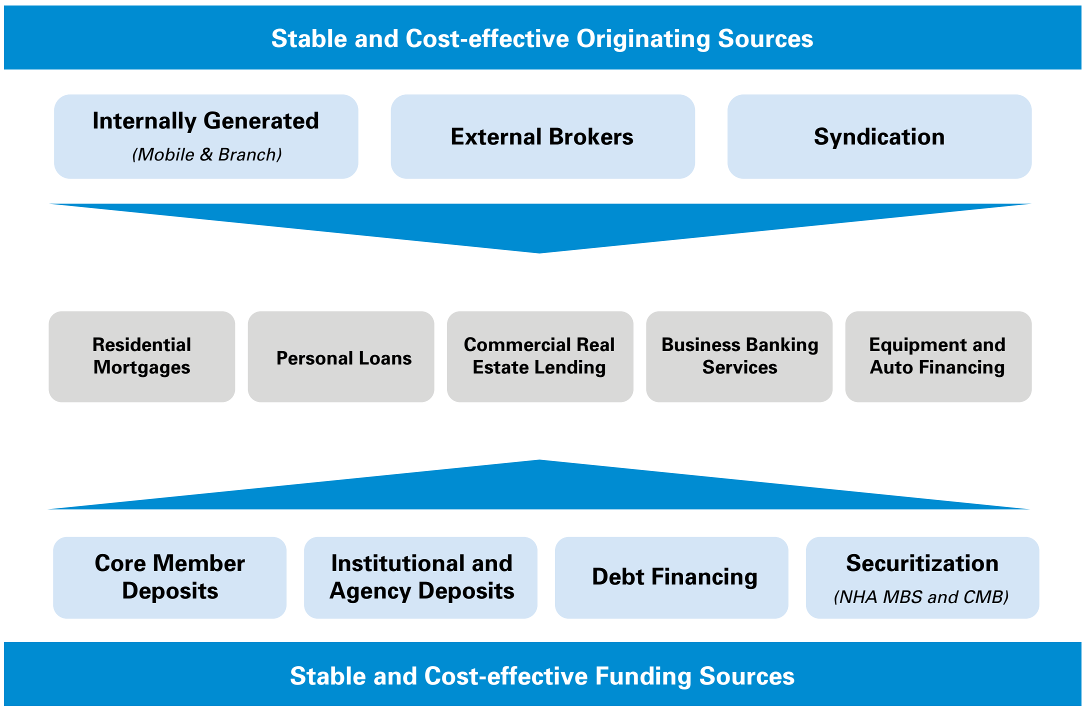
Looking ahead to 2019, we expect continued strong growth of our commercial loan portfolio. Although headwinds are expected to persist, including a cooling off of the housing market and strong competition in the fixed term commercial mortgage market, our transition to a federal credit union will help to mitigate these impacts on our production. We plan to continue to pursue high quality syndicated mortgage deals outside of B.C. and, as a federal credit union, will be able to act as the lead lender on new syndicated mortgages in other provinces. In 2019 we also plan to offer more tools to help our business members succeed, including: expanded availability of electronic statements, electronic deposit capture services for business members with high volumes of cheque deposits, and on-line foreign exchange transactions. We also plan to complete our initiative to enable small businesses to open new memberships digitally.

Net Interest Income

Net interest income is the difference between the interest income earned on loans and other financial assets, and the interest paid on deposits and other funding sources. It is impacted by both the size of our balance sheet and our net interest margin (i.e., the percentage spread between the yield earned on assets and the rate cost of liabilities to fund the assets). Given the importance of net interest income to our overall financial performance, significant attention is paid to asset and liability growth decisions and their impacts on our interest margin. In managing the interest rates we offer throughout the year, we are also careful to ensure that our members have access to rates on loans and deposits that are both fair and competitive.

Management's Discussion and Analysis

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



Our 2018 net interest income was $326.7 million, an increase of $8.2 million, or 2.6%, compared to 2017. Strong overall asset growth of 15.1% had a favourable impact on our net interest income, while changes to our net interest margin, which declined to 1.74% in 2018, from 2.01% in 2017, had an unfavourable impact. The 27 basis point decline in our net interest margin reflects a larger relative increase in the interest rates we paid for deposits and borrowings in 2018, compared to the increase in rates we earned on our loan and cash assets.

Changes in Net Interest Income

			2018
Year ended December 31	Increase (decrease) due to change in		
in thousands of dollars	Average Balance	Average Rate	Net Change
Total loans, cash resources and derivatives	92,358	43,275	135,633
Total financial liabilities	(28,987)	(98,459)	(127,446)
Net interest income	63,371	(55,184)	8,187

Net Interest Income

Year ended December 31

in thousands of dollars	2018				2017			
	Average balance	Mix %	Interest	Interest rate %	Average balance	Mix %	Interest	Interest rate %
Cash resources and financial investments	3,221,831	17.1	56,530	1.75	1,910,011	12.0	25,915	1.36
Loans								
Residential	10,697,389	56.8	342,536	3.20	9,569,275	60.6	277,784	2.90
Commercial	3,690,027	19.6	151,173	4.10	3,209,252	20.3	117,821	3.67
Equipment Leasing	716,812	3.8	36,991	5.16	642,906	4.1	34,363	5.34
Personal	187,105	1.0	11,137	5.95	143,590	0.9	8,870	6.18
Lines of credit	155,043	0.8	12,068	7.78	161,017	1.0	11,482	7.13
Total loans	15,446,376	82.0	553,905	3.59	13,726,040	86.9	450,320	3.28
Other Assets	174,719	0.9	–	–	165,943	1.1	–	–
Derivatives	–	–	1,467	–	–	–	34	–
Total	18,842,926	100.0	611,902	3.25	15,801,994	100.0	476,269	3.01
Deposits								
Demand	5,638,402	29.9	29,942	0.53	6,287,340	39.8	21,682	0.34
Term	8,062,260	42.8	186,784	2.32	5,605,874	35.5	100,019	1.78
Registered plans	1,855,238	9.8	35,679	1.92	1,307,493	8.3	16,137	1.23
Total deposits	15,555,900	82.5	252,405	1.62	13,200,707	83.6	137,838	1.04
Borrowings	1,432,566	7.6	25,026	1.75	1,276,885	8.1	19,937	1.56
Subordinated notes	148,893	0.8	7,790	5.23	–	–	–	–
Total financial liabilities	17,137,359	90.9	285,221	1.66	14,477,592	91.6	157,775	1.09
Other Liabilities	561,029	3.0	–	–	256,622	1.6	–	–
Class B Shares	27,306	0.1	–	–	29,311	0.2	–	–
Accumulated other comprehensive income (AOCI)	(12,197)	(0.1)	–	–	(1,927)	–	–	–
Retained Earnings	1,129,429	6.0	–	–	1,040,396	6.6	–	–
Total	18,842,926	100.0	285,221	1.51	15,801,994	100.0	157,775	1.00
Net interest income			326,681	1.74			318,494	2.01

Interest rate margin compression, due to historically low interest rates and a flat yield curve, has been a challenge across the industry for several years. Beginning mid-2017 and through 2018 both the Bank of Canada rate and the prime lending rate experienced five consecutive increases. A trend towards higher market interest rates has the potential to increase net interest margins. Our net interest margin, however, declined as the higher rates earned on our assets were offset by the notably higher rates applied to our funding sources.

The yield on our total average assets increased by 24 basis points to 3.25% in 2018, from 3.01% in 2017. The increase reflects higher yields across most of our major loan portfolios, as well as higher yields on our portfolio of cash resources and financial investments, which is indicative of the higher interest rate environment in 2018. The overall impact of the higher rates was, however, constrained by an overall shift in our asset mix from loans to relatively lower yielding cash resources and financial investments in 2018. The allocation of cash resources and financial investments within our asset portfolio increased from 12.0% in 2017 to 17.1% in 2018, on an average balance basis.

Our overall funding cost as a percentage of total assets increased by 51 basis points, from 1.00% in 2017 to 1.51% in 2018, resulting in an overall reduction in our net interest margin. Multiple factors contributed to the increase in the rates paid on deposits and other funding sources in 2018. Interest rates in general trended upwards in 2018, with the increases reflected in rates paid on our various deposit products. The rate premium available to members through longer term deposits also increased in 2018, resulting in a shift in our deposit mix towards longer term, higher interest rate, products. This impact was accentuated by deposit product offers and campaigns we initiated during the year to strengthen our liquidity position. Initiatives to strengthen our liquidity position were related to our transition from a provincially regulated credit union to a federally regulated credit union, specifically to the potential impact on deposit flows related to our change from the B.C. provincial deposit insurance program to the federal deposit insurance program. We considered it prudent to maintain increased liquidity in preparation for our transition to mitigate the impacts of any significant deposit outflows resulting from the change. Our overall funding cost was also increased as a result of new subordinated, long-term debt issues completed in 2018. Two notes were issued in 2018 with a combined value of $300 million. These notes provided a source of increased funding and, due to their subordinated structure, also provided regulatory capital benefits. The structural terms and long-term nature of these notes attracted higher interest rates than those applied to our other funding sources.

Fee, Commission and Other Income

In addition to loan and deposit activities that generate interest income, we help to meet our members' financial well-being needs through the provision of financial products and services that generate fee and commission revenue. These include day-to-day banking services, credit cards, foreign exchange, life insurance, and mutual and segregated fund investments. These services are important to members, helping them meet their diverse banking and financial services needs, while also providing a stable and diversified source of revenue to support our financial operations. We regularly review the fees and commissions we charge on these products and services to ensure we are providing our members with excellent value, while considering our cost of delivery and the need to remain market competitive.

Fee, Commission and Other Income

Year ended December 31			Change from 2017	
in thousands of dollars	2018	2017	$	%
Lending fees (includes creditor insurance)	9,305	8,731	574	6.6
Banking and payment services	26,803	23,997	2,806	11.7
Investment and life insurance products	38,332	35,676	2,656	7.4
Credit card revenues	8,697	7,500	1,197	16.0
Foreign Exchange	4,402	3,918	484	12.4
Other	33,619	8,279	25,340	306.1
Total	121,158	88,101	33,057	37.5

In 2018, we experienced a $33.1 million, or 37.5%, increase in our reported fee, commission, and other income revenue. The most notable increase, captured in Other above, is attributed to two events related to our transition to federal credit union status. The net result of these two events was an increase in other income of $27.9 million.

- Other income was increased in 2018 by $36.6 million related to a gain on the redemption of shares we held in Central 1. Due to our transition to federal credit union status, Central 1 required Coast Capital to change from a Class A member to a Class B member. As part of this transition, Central 1 redeemed Coast Capital's Class E shares at their redemption value on November 1, 2018, resulting in the noted gain.
- As part of our transition to federal credit union status, significant investments held at Central 1 were required to be liquidated and moved to investments outside of Central 1. Based on interest rate conditions at the time of this transaction, a loss of $8.7 million was recognized in our consolidated statement of income, and is reported here as other income.

Adjusting for this net gain our 2018 fee, commission and other income is reduced from $121.2 million to $93.3 million. Based on this adjusted amount, our 2018 fee, commission, and other income increased $5.2 million, or 5.9%. Excluding the items noted as adjusted, all major non-interest revenue lines experienced positive growth in 2018.

Lending fee revenue increased by $0.6 million, or 6.6%, to $9.3 million from $8.7 million in 2017, attributed to growth in our loan and lease portfolios and the related fee income generated. Banking and payment services revenue, generated through the fees associated with the day-to-day banking services we provided to both our retail and commercial members, increased by $2.8 million, or 11.7%, to $26.8 million from $24.0 million in 2017. Both fee changes and higher transaction volumes contributed to this increase. Fee changes made in 2018 include both increases and decreases, as well as changes to how fees for some products and services are applied, such as adjustments to threshold transaction counts used to determine fee application. The 2018 increase in fee revenue also includes the full-year benefit from fees changed in mid-2017, which would have had a partial-year impact in 2017.

Revenues from investment and life insurance products increased in 2018 by $2.7 million, or 7.4%, to $38.3 million. This business includes investment funds (mutual funds and segregated funds) and a variety of life insurance products sold through our team of financial planners and insurance specialists. The investment fund assets administered on behalf of our members account for $35.0 million of the $38.3 million in 2018 revenue reported on this line. Our assets under administration totalled just under $3.8 billion at the end of 2018, a decrease of $132 million, or 3.4%, from $3.9 billion at the end of 2017. The majority of the decrease occurred in the fourth quarter as a result of unfavourable capital market impacts. Despite the year-end spot balance decrease, our average investment fund assets in 2018 were $205 million higher than in 2017. Higher average balances contributed to the $2.8 million revenue growth from our investment fund assets under administration in 2018. Life insurance revenue was relatively flat in 2018, decreasing by $0.2 million, or 5.3%, to $3.3 million in 2018 from $3.5 million in 2017.

Credit card revenue, through our co-branded Desjardins Visa credit card offer, increased $1.2 million, or 16%, to $8.7 million from $7.5 million in 2017. The increase represents growth in the number of active cards, and an increase in the level of utilization by cardholders. Foreign exchange revenue increased $0.5 million, or 12.4%, to $4.4 million from $3.9 million in 2017. The 2018 result for foreign exchange revenue follows similar favourable growth experienced in 2017, however, the continued low valuation of the Canadian dollar relative to the U.S. dollar combined with increased competition for foreign exchange business has constrained volume growth and compressed exchange rate spreads.

Provision for Credit Losses

In 2018, our provision for credit losses was $8.6 million, an increase of $0.3 million compared to 2017. The net increase was comprised of a decrease of $2.3 million in our specific provision, offset by an increase in our collective provisions. The decrease in specific provision is attributable to improved credit quality in our loan portfolios and in particular, the equipment financing portfolio. Meanwhile, the increase in collective provisions is the result of transitioning to IFRS 9 Financial Instruments (IFRS 9), effective January 1, 2018, which replaces IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). 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. As a result, the collective provisions are $2.6 million higher than the amount reported in 2017 due to the application of a new methodology in accordance with the requirements of IFRS 9.

Similarly, our total allowance for credit losses increased to $37.7 million, a $2.6 million increase compared to $35.2 million at the end of 2017 which is primarily attributable to the transition to IFRS 9. The collective allowance for losses increased by $4.6 million to $36.8 million as at the end of 2018, reflecting the changes in the estimation methodology and inputs in accordance with the new requirements of IFRS 9, in spite of the continuing strength of the credit quality in the lending portfolios. This increase is partially offset by a decrease in specific allowances for credit losses of $2.0 million, which is largely the result of write-offs attributable to impairments in the equipment financing portfolio which were identified in prior years.

Management's Discussion and Analysis

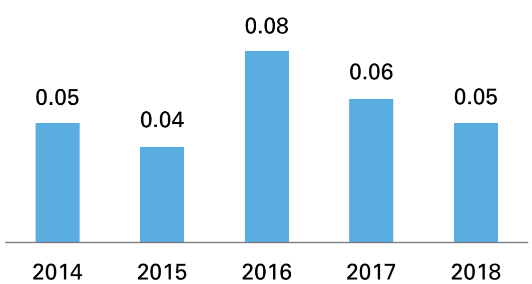
Credit Quality Performance

As at December 31

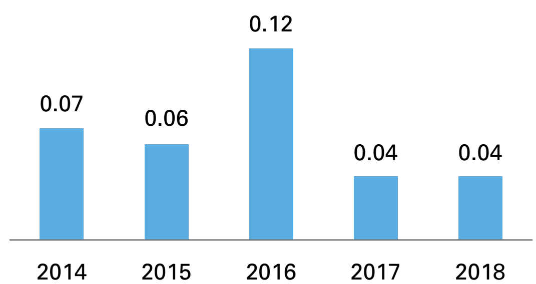
in thousands of dollars	2018	2017
Total loans	16,124,695	14,788,882
Provision for credit losses	8,619	8,331
Loan write-offs	7,187	6,560
Total allowance for credit losses	37,721	35,162
Impaired loans	11,244	13,716
Members' equity	1,203,535	1,111,850

in per cent	2018	2017
Provision for credit losses as % of total loans	0.05	0.06
Loan write-offs as % of total loans	0.04	0.04
Impaired as % of total loans	0.07	0.09
Impaired as % of members' equity	0.93	1.23
Total allowance as % of impaired loans	335.48	256.36
Total allowance as % of total loans	0.23	0.24

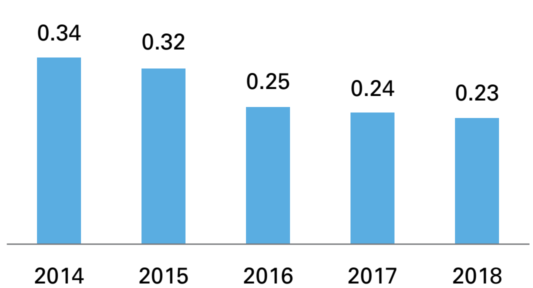
Provision for credit losses as a % of total loans



Loan write-offs as a % of total loans



Total allowance as a % of total loans



Non-Interest Expenses

Non-interest expenses include all expenses that are not interest-related, excluding provisions for credit losses and income taxes. We strive to manage our operating costs in a diligent and efficient manner, while also recognizing the impact of spending decisions on the member experience and on long-term capital growth to support sustainability. Our non-interest expenses in 2018 increased by $26.6 million, or 8.6%, to $336.0 million compared to $309.4 million in 2017. The primary drivers of the expense increase were salaries and benefits, consultants, technology and regulatory costs. Additional spending in these areas was largely due to activities necessary to achieve continuance as a federal credit union, as well as initiatives designed to enhance our member service offerings and experience.

Non-Interest Expenses

Year ended December 31			Change from 2017	
in thousands of dollars	2018	2017	$	%
Salaries and benefits				
Salaries including variable pay and incentives	140,708	132,312	8,396	6.3
Employee benefits, other	30,439	28,774	1,665	5.8
	171,147	161,086	10,061	6.2
Premises and equipment				
Rent, maintenance, utilities, taxes	27,156	26,424	732	2.8
Depreciation	4,711	5,135	(424)	(8.3)
	31,867	31,559	308	1.0
Member services administration				
Banking services	25,472	25,720	(248)	(1.0)
Loan processing	4,859	5,279	(420)	(8.0)
Investments and life insurance	3,196	3,216	(20)	(0.6)
	33,527	34,215	(688)	(2.0)
Technology				
Hardware, software, data, supplies	22,253	15,717	6,536	41.6
Depreciation	14,305	17,812	(3,507)	(19.7)
	36,558	33,529	3,029	9.0
Regulatory	14,504	12,447	2,057	16.5
Professional services	2,642	2,718	(76)	(2.8)
Consultants	19,045	9,290	9,755	105.0
Telephone, postage	1,153	1,418	(265)	(18.7)
Marketing	7,957	7,828	129	1.6
Community contributions	5,940	5,600	340	6.1
Travel, meals and entertainment	4,084	3,511	573	16.3
Bonding and other insurance	2,388	2,238	150	6.7
Recruitment, training, conferences, dues	3,106	3,212	(106)	(3.3)
Other	2,095	781	1,314	168.2
	336,013	309,432	26,581	8.6

Staff salary and benefit expenses accounted for the largest area of expense increase in 2018, up $10.1 million, or 6.2%, compared to 2017. This increase reflects growth in our total staff count (measured on a full-time equivalency basis) during the year, as well as salary increases attributed to inflation, merit and a highly competitive market for talent resources. Spending on consultants was another notable expense growth area in 2018, increasing 105.0% to $19.0 million from $9.3 million in 2017. Our increased use of external resources and expertise relates to initiatives to evolve and improve our organization for our members. The most notable initiative in 2018 was our transition to, and continuance as, a federal credit union. Understandably, this also accounted for the largest single consultancy spend and largest increase in spending related to external consultants. This work was necessary to achieve approval to continue as a federal credit union and to establish the systems and processes required to operate as a federally regulated financial institution. Members will ultimately benefit through improved processes and enhanced opportunities provided by our federal credit union status. Other areas where we experienced increased spending on consultants in 2018 include: work to better understand the service expectations and experience of our members, on-going improvements to general technology and information security, end-to-end lending process redesign, and enhancements to our contact centre platform.

Technology expenses also increased significantly in 2018 in the area of hardware, software, data, and supplies, while our technology depreciation expense decreased. The increase in hardware, software, data, and supplies expense reflects improvements we made to expand and enhance the services available to our members on digital platforms. Our new digital membership account opening platform, first launched in November 2017 and enhanced in 2018, is one example of these improvements. The digital platform makes it possible for new members to join Coast Capital in as little as five minutes from anywhere they choose. In 2018, the first full year of operations for this service, almost 9,000 new retail memberships were opened on the platform. In January 2018 we launched our *Take Charge Money Manager™*. This new digital tool provides members with the ability to aggregate their account information from other financial institutions to keep track of their account balances and transactions in one place; analyze their day-to-day transactions in a visual format; and help them set up monthly budgets to keep on top of their spending. At the end of 2018, over 8,000 of our members were regular users of the *Take Charge Money Manager* tool. The decrease in technology depreciation expenses, down $3.5 million, or 19.7%, to $14.3 million from $17.8 million in 2017, is attributed to assessments made in 2017 to accelerate the depreciation schedules of specific software assets. This inflated our 2017 depreciation expense relative to 2018, which did not include a similar acceleration.

Regulatory costs increased by $2.1 million, or 16.5%, in 2018. This increase is primarily due to our assessment for deposit insurance. During the majority of 2018 we operated under the Credit Union Deposit Insurance Corporation (CUDIC) program, which calculates premiums based on the prior year-end deposit balance and a risk-based rate assessment. Our deposit balance at the end of 2017 (used to determine the 2018 assessment) was 9.8% higher year-over-year, and the base rate applied under the CUDIC program for 2018 was 6.4% higher. Our overall deposit insurance expense for 2018 was also impacted by our transition to the federal Canada Deposit Insurance Corporation (CDIC) program during the final two months of 2018.

Capital Expenditures

Capital spending in 2018 totaled $30.8 million, $17.1 million higher than the amount spent in 2017. The majority of our 2018 spending was attributed to technology investments in software to build on our existing infrastructure and to expand digital services for our members, a continuation of the work that began in 2017. Some of the notable software investments made in 2018 include enhancements to the digital membership opening platform, as well as expenditures associated with the early phases of work related to our new digital banking platform.

Capital Expenditures

Year ended December 31 in thousands of dollars	2018	2017
Leasehold improvements	937	124
Computer equipment	2,353	5,587
Software	26,300	6,741
Furniture and equipment	1,201	1,231
Total	30,791	13,683

Capital spending in 2019 is expected to be higher than 2018, and will be focused on further enhancing the member experience though both our existing service delivery channels, as well as new digital channels.

Loan Portfolio

Total loans, including leases, increased in 2018 by over $1.3 billion, or 9.0%, to $16.2 billion, before allowance for credit losses. Although not as strong as the $1.9 billion growth experienced in 2017, loan growth in 2018 was higher than planned. Overall loan growth in 2018 was managed in consideration of our objective to grow non-loan liquid assets during the first three quarters of the year in support of our transition from a provincial credit union to a federal credit union in the fourth quarter of 2018.

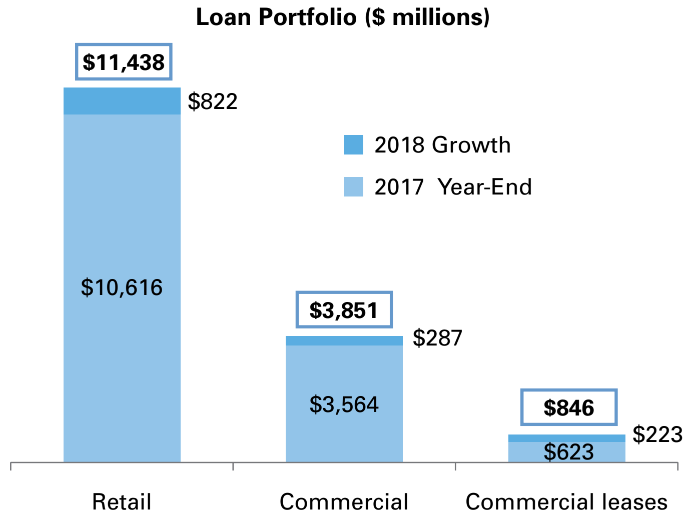
The mix of our overall loan portfolio shifted slightly in 2018. Compared to year-end 2017, retail mortgages decreased by 1.2% and commercial leases increased by 1.0%, as a per cent of the total loan portfolio. This shift favours a higher yield mix for our loan portfolio.

The table below provides a breakdown of our loan portfolios. Prior year values have been revised to reflect requirements applicable to federally regulated financial institutions, specifically in regards to the definition of high-ratio retail mortgages.

Loan Portfolio

Year ended December 31	2018				2017			
	Number	Total in millions of dollars[1]	Mix %	Average in thousands of dollars	Number	Total in millions of dollars[1]	Mix %	Average in thousands of dollars
Retail								
Mortgages:								
Conventional	28,578	6,570	40.7	230	28,847	5,825	39.4	202
Revenue	4,336	1,492	9.2	344	4,285	1,460	9.9	341
Progressive	78	2	0.0	26	48	11	0.1	229
Insured	11,215	1,928	11.9	172	11,432	1,964	13.3	172
High-ratio	15	3	0.0	200	33	5	0.0	152
Mortgage secured lines of credit	20,710	1,087	6.7	52	19,916	1,036	7.0	52
Subtotal mortgages	64,932	11,082	68.5	171	64,561	10,301	69.7	160
Other:								
Other lines of credit	139,127	152	0.9	1	143,374	149	1.0	1
Personal loans and leases	11,015	204	1.3	19	11,306	166	1.1	15
Subtotal other	150,142	356	2.2	2	154,680	315	2.1	2
Subtotal retail	215,074	11,438	70.7	53	219,241	10,616	71.8	48
Commercial								
Commercial loans	15,578	3,851	24.1	247	15,846	3,564	24.0	225
Commercial leases	11,744	846	5.2	72	6,421	623	4.2	97
Subtotal commercial	27,322	4,697	29.3	172	22,267	4,187	28.2	188
Subtotal retail and commercial	242,396	16,135	100.0	67	241,508	14,803	100.0	61
Accrued interest	–	27	–	–	–	21	–	–
Total loan portfolio	242,396	16,162	100.0	67	241,508	14,824	100.0	61

1 Before allowance for credit losses.

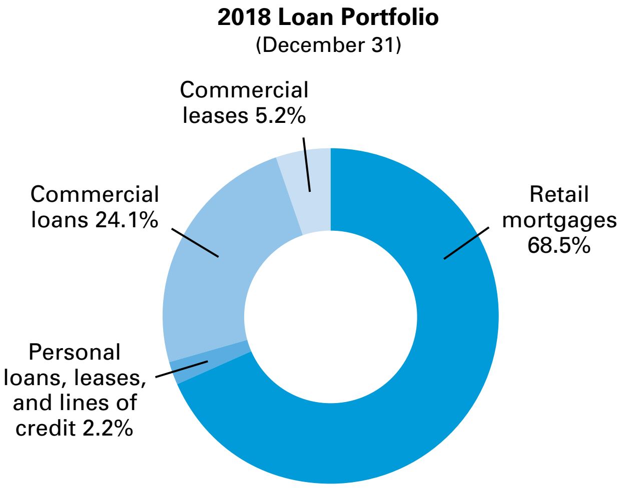


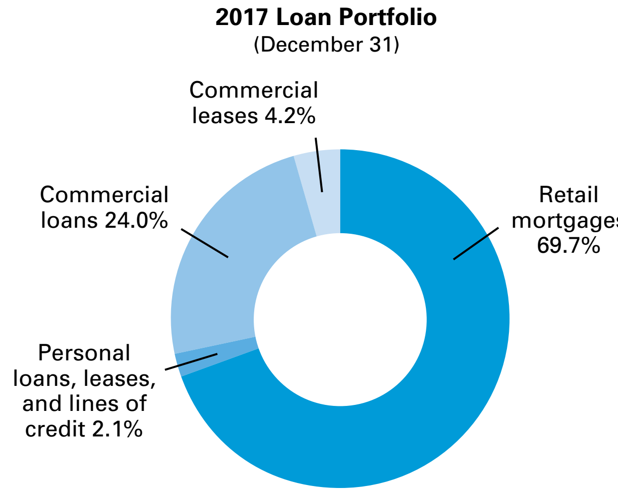
Our retail mortgage portfolio grew by $781 million, or 7.6%, notably lower than the $1.3 billion in growth generated in 2017. Slower growth of our mortgage portfolio reflected a general cooling of the housing market in our trade areas and was also moderated by our focus on growing our liquid asset portfolio in 2018. New mortgage underwriting guidelines established for federally-regulated financial institutions also impacted our mortgage growth. We adopted the new guidelines mid-year in alignment with our focus on member financial well-being and in preparation for becoming federally regulated. The 'stress test' guidelines, intended to ensure mortgage affordability and reduce risk for both borrowers and lenders, reduces the maximum amount of mortgage funding that certain borrowers may qualify for, which in turn impacts overall mortgage lending volumes.

Over 80% of our retail mortgage growth in 2018 was in fixed rate products as members responded to the rising interest rate environment. The prime lending rate increased twice in the second half of 2017 and three more times in 2018, highlighting the risk of variable rate borrowing. Our non-mortgage retail loan, lease and line of credit portfolio grew by $41 million, or 13.0%, in 2018, with the majority of this growth attributed to increased auto financing volumes.

Commercial loans (including mortgages, loans, and lines of credit) grew by $287 million in 2018, or 8.1%, to $3.9 billion. Growth of commercial loans in 2018 was significantly lower than the $563 million growth generated in 2017. As a percentage of our overall loan portfolio, commercial loans increased slightly to 24.1%, from 24.0% at year-end 2017. For commercial mortgages, which represent the majority of our commercial loan portfolio, growth of both fixed and variable rate products was similar. Continued steady growth in variable rate commercial mortgages was supported by our strong relationships with real estate developers in the multi-family construction market, which remained healthy in 2018. Term commercial mortgage lending was constrained by strong competition in this market, which made yields on this business less attractive. Growth of non-mortgage commercial loans and lines of credit, approximately 5% of our total commercial loan portfolio, was flat in 2018.

Our equipment financing (commercial leases) portfolio grew by $223 million in 2018, or 35.8%, to $846 million from $623 million at year-end 2017. Growth in 2018 represents a significant change from 2017, which saw the portfolio decrease by $6 million during the year. Increased sales volumes during the year were supported by an expansion and deepening of relationships within our network of equipment dealers that have partnered with us to offer our leasing program to their customers. As a trade-off, this channel offers slightly lower yields than are available through direct-to-purchaser originations. Unlike our credit union operations, our equipment leasing division has benefitted from the ability to operate across Canada for several years. In 2018, the majority of new sales growth came from dealer partners located in Ontario. As a percentage of our total loan portfolio, equipment leases increased in 2018 by 1.0%, to 5.2%, from 4.2% at year-end 2017.





Loan Portfolio Geographical Distribution
Year ended December 31
in millions of dollars

	Retail	Mix %	Commercial	Mix %	Equipment Leasing	Mix %	Total	Mix %
Not Secured	211	1.8	237	6.1	–	0.0	447	2.8
Secured								
AB	8	0.1	176	4.6	162	19.2	346	2.1
BC	11,188	97.7	3,232	83.6	266	31.5	14,686	90.9
MB	–	–	47	1.2	24	2.9	73	0.5
NB	–	–	–	–	7	0.8	7	–
NF	–	–	–	–	3	0.3	3	–
NS	–	–	–	–	2	0.2	2	–
NT	–	–	–	–	–	–	–	–
ON	44	0.4	173	4.5	329	38.9	545	3.4
PE	–	–	–	–	1	0.2	1	–
QC	–	–	–	–	35	4.1	35	0.2
SK	–	–	–	–	16	1.9	16	0.1
YT	–	–	–	–	–	–	–	–
Total	11,451	100.0	3,865	100.0	846	100.0	16,162	100.0

Deposits and Borrowings

Deposit growth to fund continued positive loan growth and liquid asset growth, in preparation for our planned transition from a provincially regulated credit union to a federally regulated credit union, was an important objective in 2018. Deposit growth in 2018 was very strong at $2.0 billion, or 14.0%, our highest annual deposit growth result on record. The majority of our growth, $1.6 billion, was generated through our core retail and commercial members, with strong growth of $368 million also experienced through our network of external deposit agents. Growth through our institutional depositors was relatively flat at $36 million, or 2.1%. Reduced institutional depositor growth was expected as a result of our transition from the B.C. provincial deposit insurance to the federal deposit insurance program.

Deposit Portfolio by Source

As at December 31 in millions of dollars	2018	2017	Change from 2017 $	 %
Core retail and commercial members	12,287	10,680	1,607	15.0
External deposit agents	2,306	1,938	368	19.0
Institutional depositors	1,784	1,748	36	2.1
Total	16,377	14,366	2,011	14.0

Our overall deposit mix by source shifted in 2018, with the percentage of total deposits provided by both core member (retail and commercial) and external agents increasing, while the proportion of our portfolio provided by institutional depositors decreased.

Deposits by Source – Mix

As at December 31 As a percentage of total deposits	2018	2017
Core retail and commercial members	75.0	74.3
External deposit agents	14.1	13.5
Institutional depositors	10.9	12.2
Total	100.0	100.0

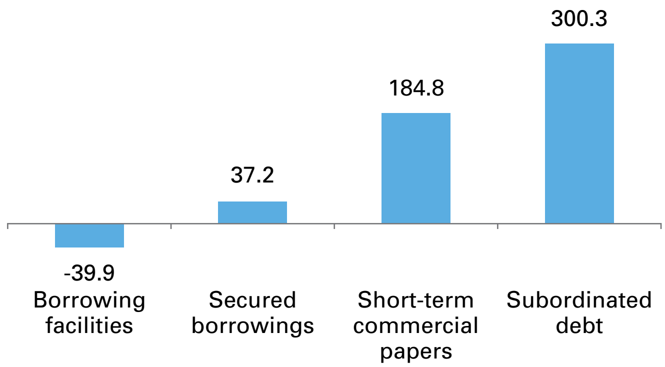
In addition to changes in our source mix, we also saw a shift in our deposit portfolio towards fixed term deposits. Five consecutive Bank of Canada interest rate increases, beginning mid-2017 and continuing through 2018, expanded the rate premium available to members through longer term deposits, making these products more attractive. The attractiveness of term products relative to demand deposit products was further enhanced by term deposit campaigns that we initiated early in 2018 to strengthen our liquidity position. Comparing our average deposit balances in 2018 to 2017, term and registered plan deposits (primarily term products) as a percentage of total deposits increased to 63.8% from 52.4%. The resulting shift in our deposit portfolio towards higher rate term products, in addition to generally higher market interest rates, increased the interest rate paid on our average deposits in 2018 by 58 basis points, to 1.62%, from 1.04% in 2017.

Our total borrowings, including subordinated debt, increased by $482 million in 2018, or 33.6%, to $1.9 billion from $1.4 billion at year-end 2017. Our lines of credit and short-term borrowing facilities with Central 1 and other financial institutions were paid down to zero in 2018, and our secured borrowings, primarily through the Canada Mortgage Bond (CMB) program, increased by $37 million, or 3.3%. The majority of our new borrowing in 2018 was sourced through capital markets. In 2018 we completed two subordinated, long-term, debt issues with a combined value of $300 million. These debt issues were made possible through our DBRS long-term issuer rating obtained in January 2018. These notes provided a source of increased funding and, due to their subordinated structure, also provide regulatory capital benefits. The growth in our short-term commercial paper debt was primarily the result of an 18 month, $175 million, floating note issued in the third quarter of 2018.

Borrowings by Source

Year ended December 31 in thousands of dollars	2018	2017	Change from 2017 $	 %
Borrowing facilities	–	39,937	(39,937)	(100.0)
Secured borrowings	1,155,211	1,118,025	37,186	3.3
Short-term commercial papers	464,278	279,523	184,755	66.1
Subordinated debt	300,292	–	300,292	–
	1,919,781	1,437,485	482,296	33.6

2018 Borrowing growth ($ millions)



Risk Management

To achieve our objectives and goals, we understand that we must selectively and prudently take and manage risks within our established risk appetite and tolerances, and that a strong risk culture and approach to managing risk is fundamental to our success. Our risk management framework enables us to understand the risks that we are taking and ensure that amount of such risk is acceptable by ensuring adequate governance is in place and by developing the necessary policies, processes, controls and reporting required to monitor and manage these risks.

The Enterprise Risk Management group (ERM), a department within Group Risk Management (GRM), develops and maintains the Enterprise Risk Management Framework (ERMF). This framework encompasses risk principles, risk cultures, risk governance structure and management, risk appetite and risk inventory.

Risk Principles

At Coast Capital, we believe in, and support the need for a strong risk culture rooted in the following principles:

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

To support our Risk Principles, we have adopted the "Three Lines of Defence" approach. Figure 1 below describes the respective accountabilities of each line:

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

Figure 1: Three Lines of Defence

Risk Culture

At Coast Capital, we strive to create a risk culture that promotes accountability, fosters learning through past experiences, and encourages open communication and transparency on all aspects of risk taking. Our risk culture embodies the "tone at the top," which is set by the Board of Directors (Board) and the Executive Committee (EXCO). It informs, and is informed by, our mission, corporate values, professional standards, and conduct. The governing objectives developed by the Board and EXCO describe the attitudes and behaviours that we seek to foster among our employees in building a culture where all employees understand the importance of managing risk and the role they play.

Risk Governance and Management

We employ a risk management structure that emphasizes and balances strong central oversight and control of risk with clear accountability for—and ownership of—risk within each business line and corporate function.

Our Risk Principles emphasize that managing risks is a shared responsibility and that everyone plays a role in effective management of risks within the desired risk appetite, as outlined in Figure 2 below.

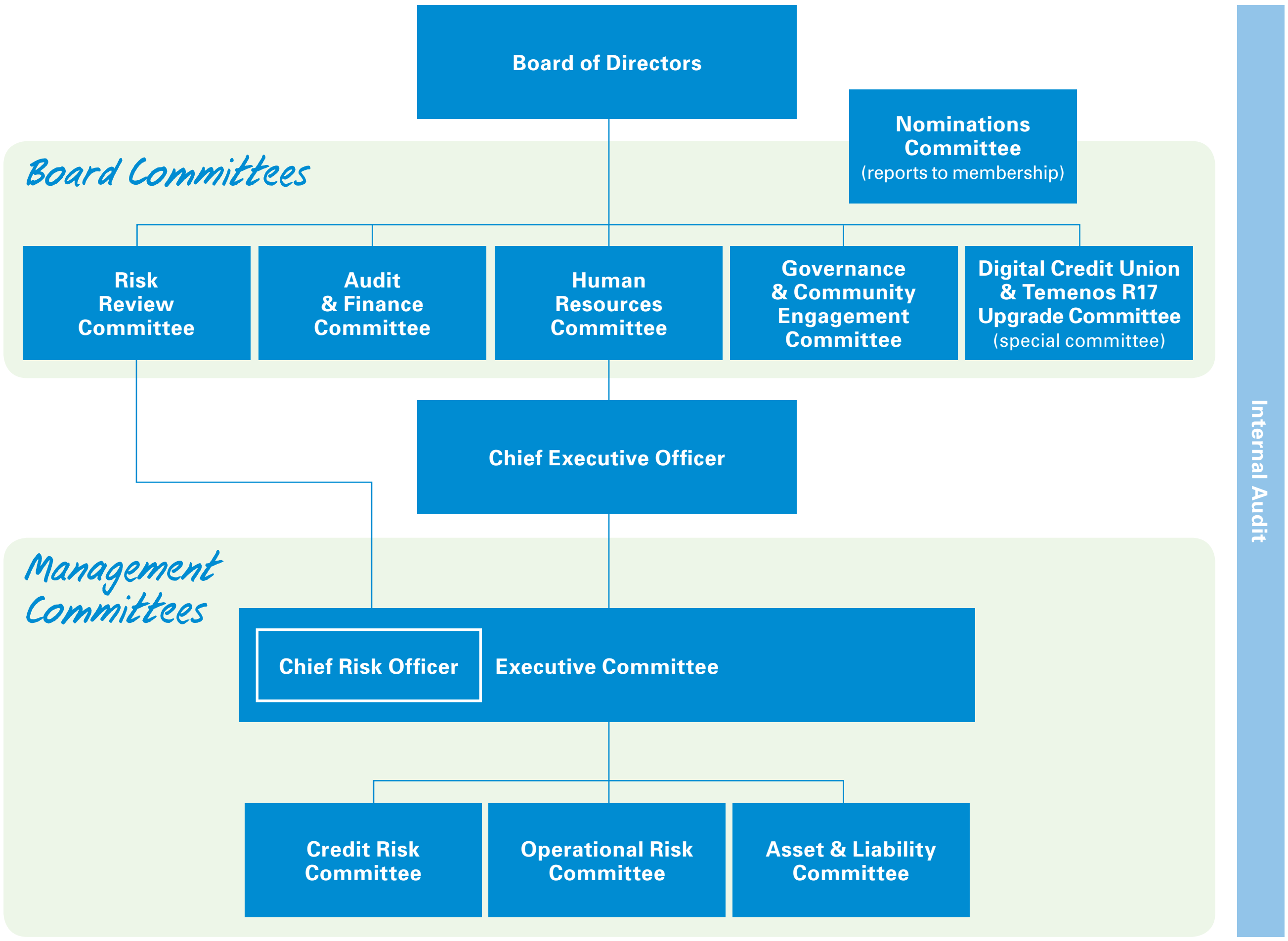


Figure 2: Coast Capital's Risk Management Governance Structure

Roles and Responsibilities of Board of Directors and Board Committees

- The Board oversees and approves the strategic plans and priorities of Coast Capital related to the management of capital and liquidity, including annual operating and capital expenditure budgets and operating plans, taking into account the risk impact of strategic decisions and the purpose, mission, vision and values of Coast Capital. The Board approves the risk appetite and provides risk oversight, including monitoring and evaluation of key risks by ensuring appropriate risk frameworks and policies are in place. The Board fulfills its oversight responsibilities through its established committees.
- The *Risk Review Committee* (RRC) is responsible for overseeing our risk profile and performance against the defined risk appetite. The RRC approves the ERMF and related frameworks and policies to manage the risk to which we are exposed.
- The *Audit and Finance Committee* (AFC) is responsible for overseeing our financial reporting and internal control activities; assisting the Board in fulfilling its responsibilities for oversight of capital and liquidity management and ensuring the independence and evaluating the performance of the Internal Audit and external audit functions.
- The *Human Resources Committee* (HRC) is responsible for overseeing the people-related risks, including employment practices and workplace health and safety, and ensures compensation programs appropriately align to, and support Coast Capital's risk appetite.
- The *Governance & Community Engagement Committee* (GCEC) is responsible for overseeing corporate governance practices to ensure alignment with best practices, regulatory expectations and our purpose and values.
- The Digital Credit Union (DCU) and Temenos R17 Upgrade (R17) Committee (Committee) is responsible for overseeing the governance of Digital Credit Union and Temenos R17 Upgrade projects.

Roles and Responsibilities of Other Risk Management Committees

- The EXCO is responsible for overseeing the overall governance, operations, and activities of Coast Capital; these activities include but are not limited to corporate strategy, business & financial performance, income, liquidity and capital performance and risk appetite. EXCO defines our overall risk strategy, in consultation with and subject to approval by the Board. Each member of EXCO is responsible for developing, executing, and managing strategies for their business areas, and ensuring such strategies are aligned with our risk appetite.
- The *Credit Risk Committee* (CRC) is responsible for overseeing key credit risks and controls to ensure alignment with the risk appetite of Coast Capital. These responsibilities include but are not limited to, identification of emerging risks/risk events, development of action plans to treat risks, assignment of action plan owners, escalation of issues to the EXCO and/or RRC and reporting risk appetite and measures to the RRC.
- The *Operational Risk Committee* (ORC) is responsible for overseeing the effective identification and management of operational risks and internal controls across Coast Capital. These responsibilities include but are not limited to, identification of emerging risks/risk events, development of action plans to treat risks, assignment of action plan owners, escalation of issues to the EXCO and/or RRC and reporting risk appetite and measures to the RRC.
- The *Asset and Liability Committee* (ALCO) is responsible for overseeing the balance sheet (including capital management, funding and liquidity management, and asset liability management) both under normal operating conditions as well as in periods of stress. These responsibilities include but are not limited to, identification of emerging risks/risk events, development of action plans to treat risks, assignment of action plan owners, escalation of issues to the EXCO and/or RRC and reporting risk appetite and measures to the RRC.

Risk Appetite

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

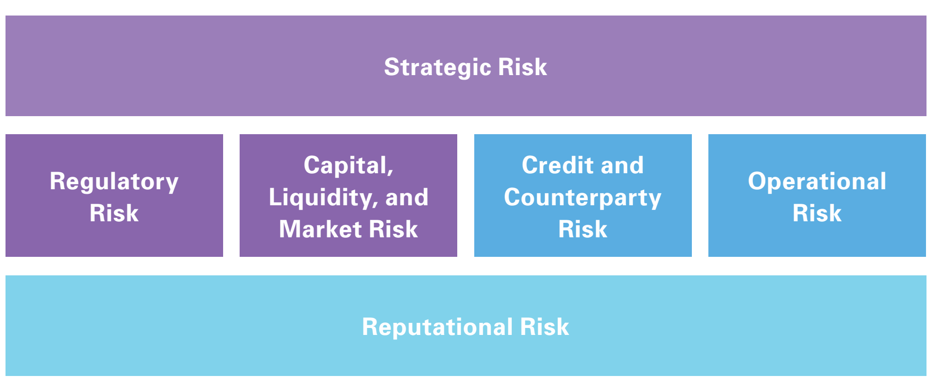
As we endeavour to improve our members' financial well-being, we consider the risks associated with the strategies available to achieve this goal, our capacity to take such risks, and our appetite for such risks. Risk appetite considerations are an integral part of management decision-making, guided by Board oversight and approval of management actions. This includes considering risk appetite in short- and long-term strategic planning, in budget planning, and in assessing new products, services, activities, and markets.

Our risk appetite is both driven by and informs:

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

Risk Inventory

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



- **Strategic Risk:** The risk that business strategies are ineffective, unclear, not executed effectively, or not responsive to changes in the external environment (economic, political, competition, industry and customer) impacting the ability to achieve organizational objectives.
- **Regulatory Risk:** The risk of non-compliance with governing legislation.
- **Capital, Liquidity and Market Risk:** The risk of inappropriate management of capital, inability to satisfy cash flow obligations, interest rate fluctuations and volatile foreign exchange markets impacting the organization's capacity to grow and execute its business model.
- **Credit and Counterparty Risk**: The risk of loss emanating from a borrower or counterparty failing to meet their obligation in accordance with contractual terms or a decrease in the value of the assets due to a decrease in the credit quality of the borrower, counterparty guarantor or the assets (collateral) supporting the credit exposure.
- **Operational Risk:** The risk of loss resulting from people, inadequate or failed internal processes and systems, or from external events. It includes legal risk but excludes strategic and reputational risk.

Reputational risk is an outcome that may arise from failure to manage key risks. The impact of reputational damage is considered when assessing key risks.

Risk Identification and Assessment

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

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

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

Risk Measurement

The ability to quantify risk is a key component of our risk management process. Our risk measurement processes align with regulatory requirements such as adequacy of capital and liquidity levels, stress testing, and maximum credit exposures guidelines established by regulators. We have processes in place to measure and quantify risks to provide accurate and timely measurements of the risks that we assume.

Strategic Risk

Strategic risk is the risk related to business strategies being ineffective, unclear, not executed effectively, or not responsive to changes in the external environment (economic, political, competition, industry and customer) impacting the ability to achieve organizational objectives.

We ensure that its strategic risks align with the risk appetite set by the Board. The EXCO and the Senior Leadership Team (SLT) evaluate strategic risks with consideration of the strategic goals established for Coast Capital. A robust Strategic Risk Management Framework and a set of supporting protocols to identify, assess, communicate, manage, monitor and report on Strategic Risk to the EXCO and RRC are in place.

Regulatory Risk

Regulatory Risk is the risk that a flaw in design or operation, human error, oversight, or indifference results in not conforming to legal and/or regulatory requirements. Our approach to managing and mitigating Regulatory Risk is comprised of: Risk Identification and Assessment, Control, Testing, Monitoring and Reporting. We have implemented the Regulatory Compliance Management Policy to establish the required standards, limits, processes, organizational structures and personnel requirements that we will have in place to meet its compliance obligations.

Risk Information Specific to Our Financial Reporting

(Shaded information that follows is an integral part of the audited financial statements)

Capital, Liquidity and Market Risk

Capital, liquidity and market risk is the risk of insufficient acquisition or inappropriate management of capital; inability to satisfy cash flow obligations; and risk of interest rate fluctuations and volatile foreign exchange markets that impact our capacity to grow and execute its business model. Capital, liquidity and market risk includes capital management risk, funding management & liquidity risk, foreign exchange risk, market risk, interest rate risk, pricing risk and securitization risk.

Capital Management

Regulatory Capital Requirements

On November 1, 2018, Coast Capital continued as a federal credit union under the *Bank Act*. Coast Capital manages its capital in accordance with its internal policy as reviewed and approved by its Board on an annual basis, with review and recommendations and input coming from its RRC and its AFC. The internal policy includes considerations of federal regulations and guidelines as set out by the *Bank Act* and the Office of the Superintendent of Financial Institutions (OSFI) Capital Adequacy Requirements, and those elements became effective on November 1, 2018.

Prior to continuance as a federal credit union, Coast Capital adhered to regulatory capital adequacy 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 we hold, and changed how we calculate our regulatory capital. Our capital is managed in accordance with requirements of the Basel III Capital Adequacy Accord (Basel III). In 2018 we have implemented processes to measure, track, and report our regulatory capital ratios based on OSFI guidelines, which are based on the Basel III requirements.

We remained fully compliant with the applicable regulatory capital requirements throughout the year ended December 31, 2018.

Maintaining a Sustainable Level of Regulatory Capital

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

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

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

- Tier 1 capital, the most permanent and subordinated forms of capital and consists of 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. The capital adequacy requirements also require the allocation of capital to support operational risk. Coast Capital uses the Basic Indicator approach to measure operational risk.

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

2018 Impacts on Capital Ratio

Capital Structure and Regulatory Ratios

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

Year ended December 31
in thousands of dollars

Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	29,222
2	Retained earnings	1,180,716
3	Accumulated other comprehensive income (and other reserves)	(3,238)
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	–
6	**Common Equity Tier 1 capital before regulatory adjustments**	1,206,700
Common Equity Tier 1 capital: regulatory adjustments		
28	**Total regulatory adjustments to Common Equity Tier 1**	82,946
29	**Common Equity Tier 1 capital (CET1)**	1,123,754
Additional Tier 1 capital: instruments		
44	Additional Tier 1 capital (AT1)	–
45	Tier 1 capital (T1 = CET1 + AT1)	1,123,754
Tier 2 capital: instruments and allowances		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	–
47	Directly issued capital instruments subject to phase out from Tier 2	300,000
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	–
50	Collective allowances	36,832
51	Tier 2 capital before regulatory adjustments	336,832
Tier 2 capital: regulatory adjustments		
57	**Total regulatory adjustments to Tier 2 capital**	–
58	**Tier 2 capital (T2)**	336,832
59	**Total capital (TC = T1 + T2)**	1,460,586
60	**Total risk-weighted assets**	9,308,607
Capital ratios		
61	**Common Equity Tier 1 (as percentage of risk-weighted assets)**	12.07
62	**Tier 1 (as percentage of risk-weighted assets)**	12.07
63	**Total capital (as percentage of risk-weighted assets)**	15.69
OSFI target		
69	Common Equity Tier 1 capital target ratio	7.00
70	Tier 1 capital target ratio	8.50
71	Total capital target ratio	10.50
Capital instruments subject to phase-out arrangements		
84	Current cap on T2 instruments subject to phase out arrangements	100.00
85	Amounts excluded from T2 due to cap (excess over cap after redemptions and maturities)	–

Management's Discussion and Analysis

On December 31, 2018, our total capital ratio, including Tier 1 and Tier 2 capital, was 15.69%. The increase is attributable to activities that benefit the capital adequacy ratios including borrowings in the form of subordinated debentures and increases in retained earnings as a result of profitable growth. Growth of assets with a positive risk weighting, which we experienced in 2018, has an immediate impact on the capital ratio denominator; however, the income generated by those assets will generally occur over time, accumulating in retained earnings and contributing to capital growth in future periods. Therefore, the main factor that increased the capital ratio in 2018 was an increase in borrowings in the form of subordinated debentures issued during the year.

Significant factors impacting our 2018 total capital ratio, calculated in accordance with federal requirements:

- Risk-weighted asset growth of 10.3% was driven by strong overall asset growth of 15.1%, of which a significant portion was in loan growth which requires a relatively higher amount of capital allocation in comparison to cash resources and financial investments. Coast Capital holds liquid assets primarily in securities issued or guaranteed by sovereigns, provinces or municipalities which are assigned a relatively lower risk weight.
- As an additional tool for raising and maintaining sufficient capital levels, in January 2018 we obtained a DBRS long-term issuer rating of BBB (high). This rating provides us with the ability to access capital markets to generate new sources of capital funding if required. In May and October of 2018, we successfully raised $300 million of additional capital in the form of subordinated debentures, which are included in Tier 2 capital subject to the phase-out requirements. The subordinated debentures are due on May 3, 2028 and October 29, 2030, and Coast Capital may redeem the notes on or after May 3, 2023 and October 29, 2025, respectively.
- As a result of the capital issuances in 2018, our total capital growth of $387 million, or 36%, was significantly higher than the growth in prior years. Furthermore, our increase in retained earnings from profitable operations contributed an additional $82 million.

Leverage Ratio

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

As detailed in the table below, our leverage ratio stood at 5.62% as at December 31, 2018 and exceeded current requirements.

Year ended December 31
In thousands of dollars

On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	19,318,265
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	82,946
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	19,235,319
Derivative exposures		
4	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	4,234
5	Add-on amounts for PFE associated with all derivative transactions	6,396
11	**Total derivative exposures (sum of lines 4 to 10)**	10,630

Securities financing transaction exposures		
12	Gross SFT assets recognised for accounting purposes (with no recognition of netting), after adjusting for sale accounting transactions	297,811
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(297,811)
14	Counterparty credit risk (CCR) exposure for SFTs	127,879
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	127,879
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	4,330,299
18	(Adjustments for conversion to credit equivalent amounts)	(3,694,495)
19	**Off-balance sheet items (sum of lines 17 and 18)**	635,804
Capital and Total Exposures		
20	**Tier 1 capital**	1,123,754
21	**Total Exposures (sum of lines 3, 11, 16 and 19)**	20,009,632
Leverage Ratios		
22	**Basel III leverage ratio**	5.62

Monitoring Capital Adequacy Risk

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

Our ICAAP includes the following elements:

- Identification and assessment of material risks and of risk mitigants.
- Internal calculation of required capital levels based on the financial plan for the upcoming fiscal year and on current and prospective risk profiles.
- Assessment of internal capital targets for reasonableness relative to internal and regulatory capital requirements
- Projection of capital levels forward over multiple years and assessment against regulatory and internal capital requirements.
- Stress testing, which assesses the potential impact of severe but plausible events, such as severe economic recession, liquidity and interest rate shocks, earthquakes, and cyberattacks.
- Monitoring and reporting, which ensures that Senior Management regularly monitors required capital levels against available capital on a regular basis. The results of this assessment are shared with EXCO and Board Committees on a regular basis. The ICAAP Report is drafted by Senior Management and approved by the Board on an annual basis. In between regular ICAAP cycles, the ICAAP is updated (if needed) to reflect material changes in the risk profile of the organization.
- Internal control review, which describes the governance process in place to ensure adequate review and challenge of ICAAP conclusions by Senior Management, the Board, and Internal Audit.

Application of the ICAAP in 2018 confirms that our capital levels are healthy and sufficient for achieving our strategic plans and for successfully navigating through all stress scenarios considered.

Liquidity and Funding Risk

Liquidity and funding risk is the risk of insufficient acquisition or inappropriate management of funding which threatens the capacity to grow and the exposure to loss as a result of the inability to satisfy cash flow obligations in a timely and cost-effective manner, impacting our ability to achieve business objectives.

Risk Governance

Coast Capital prudently manages its liquidity and funding risk to ensure sufficient liquidity for its business strategy as well as to withstand a range of stresses by maintaining sufficient levels of liquidity.

The Board defines the overall liquidity risk tolerance and ensures that it supports Coast Capital's business strategy, its role in the financial system, and to ensure that the deposits of members are protected. The Treasury and Finance departments manage liquidity risk within established limits and ensure business and strategic planning aligns with those limits. GRM and ALCO provide independent oversight to ensure that appropriate risk management policies are followed. Ultimate oversight is provided by the RRC.

Coast Capital's liquidity and funding risk policy is reviewed on an annual basis by ALCO, RRC, AFC, and the Board, with approval by the Board.

Risk Management

Coast Capital was granted approval by the Minister of Finance to operate as a federal credit union effective November 1, 2018. As a federal credit union, Coast Capital is required to adhere to guidelines and requirements as set out by OSFI, including guidelines and requirements around maintaining adequate and appropriate forms of liquidity.

Liquidity Adequacy Requirements

Prior to continuance as a federally regulated financial institution, Coast Capital adhered to regulations set by the *Financial Institutions Act* (FIA) to manage its liquidity. Upon continuance, Coast Capital manages its liquidity to comply with the regulatory liquidity metrics in the OSFI Liquidity Adequacy Requirements (LAR) Guideline. These metrics include the Liquidity Coverage Ratio (LCR), based on the Basel III liquidity framework, and the OSFI-designed Net Cumulative Cash Flow (NCCF) supervisory tool. The LCR requires that banks maintain a sufficient stock of unencumbered High-quality liquid assets (HQLAs) to meet net short-term financial obligations over a thirty day period in an acute stress scenario. In addition to these minimum standards, Coast Capital establishes a Board limit above the OSFI minimum for each of these measures, along with management limits that are used for the day to day management of liquidity.

Coast Capital remained fully compliant with applicable regulatory requirements throughout the year ended December 31, 2018.

Supplemental Liquidity Management Activities

Contingency Funding Plan. We also maintain a liquidity Contingency Funding Plan which includes ongoing monitoring of our liquidity levels, as well as the actions to be taken, should we experience a liquidity event and was formulated taking into account the outcomes of our liquidity risk stress testing programs. The plan details the approach for analyzing and responding to actual and potential liquidity events, outlines an appropriate governance structure for the management and monitoring of liquidity events and establishes clear lines of responsibility, as well as invocation and escalation procedures and is regularly tested and updated.

Stress Testing Program. Coast Capital has a liquidity stress testing program that:

- considers extreme but plausible scenarios which capture both Coast specific and systemic market wide disruptions
- compares the outcomes of stress tests to the liquidity risk tolerance established by the Board
- informs the limit setting decisions of various liquidity metrics such as the LCR and NCCF
- provides information for assessing the adequacy of the Liquidity Contingency Funding Plan

Stock of Liquid Assets. The stock of HQLAs is designed to ensure continuous compliance with policy limits of the LCR and NCCF, internal liquidity stress tests, and tested periodically to ensure the eligibility for repurchase agreements and central bank pledging.

Coast Capital holds liquid assets in the form of cash and cash resources and marketable debt securities, including securities purchased under reverse repurchasing agreements. The financial investments are comprised primarily of securities issued or guaranteed by the Government of Canada, provinces or municipalities. As at December 31, 2018, liquid assets held by Coast Capital totaled $3.9 billion and represent 20% of total assets.

Liquid Assets
Year ended December 31

in thousands of dollars	2018
Cash and cash resources	46,947
Financial investments	
Securities issued or guaranteed by sovereigns	1,193,884
National Housing Act (NHA) mortgage-backed securities	346,537
Canada Mortgage Bonds	487,973
Securities issued by provinces or municipalities	765,424
Securities purchased through reverse repurchasing agreements	297,811
NHA mortgage-backed securities (reported as loans at amortized cost)	793,062
Total Liquid Assets	3,931,638
Total Assets	19,619,919
Encumbered Assets	1,163,122
Unencumbered Assets	2,768,516

Assets are considered to be HQLA if they can be easily and immediately converted into cash at little or no loss of value. The liquidity of an asset depends on the underlying stress scenario, the volume to be monetized and the timeframe under consideration. Nevertheless, certain assets, by their nature, are more likely to generate funds without incurring large discounts in sale or repurchase agreement (repo) markets sales even in times of stress.

Funding

To improve our ability to respond to and manage liquidity and funding requirements, we ensure that we have suitable diversification of funding sources across tenors and across products, markets, and providers of retail and wholesale liquidity including retail and commercial deposits, institutional deposits, debt capital markets, borrowing facilities, securitization, and repurchase agreements.

Coast Capital recognizes that diversification of funding sources reduces reliance on any single channel or source. In addition, funding relationships in which we can build a deeper connection with members (such as retail and commercial) provide more stability and are preferable to single point relationships (such as capital markets and institutional). This is also aligned with our stated purpose to help empower members to achieve what's important in their lives.

In order to maintain sound diversification, target limits by source have been established as part of the overall liquidity policy and are monitored regularly to ensure adherence. Those limits are established, taking into consideration, among other things, the volatility of the funding sources.

In addition to this, a monthly report is submitted to ALCO on Coast Capital's liquidity position which, among other items, covers the following areas:

- Concentration of funding for a number of different time horizons.
- Market-related monitoring tools such as:
  - Unsecured and secured funding costs for various tenors and by specific instruments issued
  - Current short term secured and unsecured funding spreads
  - Material balances held at central banks or other financial institutions
  - Trends in collateral flows, net balances, and stress test projections
  - Trends in cross border flows

We maintain borrowing facilities with Central 1 and other financial institutions, and make use of the NHA MBS and CMB programs. To expand and diversify our funding options, we obtained a DBRS short-term issuer rating (R-1 (low)) in 2016, and in January of 2018 we also obtained a DBRS long-term issuer rating (BBB (high)). These ratings demonstrate our sound financial position, providing assurance to our members and to capital market participants.

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

- Lines of credit and short-term borrowing facilities with Central 1 other financial institutions. Borrowings through these facilities were fully repaid during 2018 and decreased by $40 million as a result.
- The NHA MBS and CMB programs which allow us to obtain low-cost funding through a process of securitizing existing mortgages, or using the NHA MBS as security in repurchasing agreements. The long-term nature of CMB program funding is especially attractive in periods of exceptionally low interest rates, as was the case in 2018. In 2018, our borrowing through these programs increased by $37.2 million.
- Short-term commercial paper based on our DBRS short-term issuer rating. Our short-term issuer rating of R-1 (low) was originally obtained in 2016 and was reconfirmed in 2017. Under this rating, in 2018 we issued $184.8 million in short-term notes, reflecting a continued favourable market response to our offer.
- Long-term subordinated debentures offered through capital markets. To further diversify our funding options, in January 2018 we obtained a DBRS long-term issuer rating of BBB (high). This supported activities later in the year which resulted in the issuance of two debentures totalling $300 million, further establishing Coast Capital's favourable presence with investors.

Contractual Obligations. Coast Capital's liquidity position is impacted by contracts that it enters into in the normal course of business that give rise to contractual obligations. Aside from the obligations related to deposits and borrowings discussed above, Coast Capital also has off-statement obligations from lease commitments and credit commitments. The contractual maturity of lease commitments is summarized below. Note 24 in the annual consolidated financial statements provides further information.

Maturity of Lease Commitments

As of December 31

in thousands of dollars	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
Total	110,702	111,360

Note 25 in the annual consolidated financial statements provides details of the mismatch between the contractual maturity of Coast Capital's on-statement assets and liabilities. These maturity gaps, under normal market conditions, are generally funded by members rolling over or renewing their deposits as, typically, credit union deposits are growing.

Details of contractual maturities and commitments to extend funds are a source of information for the management of liquidity risk and are monitored and reported to ALCO on a regular basis.

Credit and Counterparty Risk

Credit and counterparty risk is the risk of loss emanating from a borrower, guarantor or counterparty failing to meet their obligation in accordance with contractual terms.

Credit and counterparty risk is monitored and reassessed to track risk migration or deterioration. Risk Migration is reported to management and board committees to ensure that risk remains within tolerance.

Risk Management Overview

Credit and counterparty risk is created through the granting of loans and leases to individuals and business members. Risk includes credit default, credit concentration and settlement risk. Coast Capital supports a strong risk culture by maintaining a Credit and Counterparty Risk Management Framework and supporting policies that are designed to describe risk appetite, principles, methodologies, limits, roles and responsibilities, and controls to manage credit risk within the organization.

Risk Governance

The responsibility for managing credit and counterparty risk is enterprise-wide and shared broadly following the three lines of defence governance model. Coast Capital maintains a Credit and Counterparty Risk Management Framework and supporting policies that are designed to describe the principles, methodologies, roles and responsibilities, systems, controls, acceptable practices, and reports for managing credit and counterparty risk within the organization.

The Board, through its Risk Review Committee, delegates credit risk approval limits to the President & CEO and CRO on an annual basis. To facilitate day-to-day business operations, the CRO further delegates credit risk approval limits to individuals within a centralized Credit Risk Management function and the Retail business line, as necessary.

Each business line is responsible for adhering to the established credit risk assessment standards and must comply with established policies, exception procedures, and credit approval limits. Any credit decisions beyond their discretionary limits must obtain Credit Risk Management's approval.

Credit Risk Management is accountable for oversight of credit risk by developing frameworks, policies, and procedures that govern and control portfolio risks. The Credit Risk Committee oversees the management of credit risk and approves certain significant credit risk policies.

Credit Risk Mitigation

Coast Capital has documented framework, policies and procedures that set out the requirements for the mitigation of credit risk. The extent of the risk mitigation provided by the collateral security depends on the amount, type, and quality of the collateral security taken. In the retail and commercial business lines, collateral security is primarily non-financial and includes: residential and commercial real estate, including real estate under development, automobiles, and other business assets, such as equipment, inventory and accounts receivable. Coast Capital may take liquid assets, securities, and guarantees to reduce the risk in its credit exposures. Coast Capital uses a risk-based approach to property valuation when adjudicating loans collateralized by real estate. Third party valuations, such as appraisals and automated valuation models are used to support property values. Collateral values are monitored and periodically re-assessed depending on asset type based on external conditions to ensure that risk remains within established tolerance. Reporting is provided quarterly to the RRC.

Exposure to Credit Risk

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

Maximum Exposure to Credit Risk

As at December 31, 2018

in thousands of dollars	Banking	Derivatives
On balance sheet		
Cash held at Central 1	164,026	
Investments held at Central 1	50,418	
Shares in Central 1	1,808	
Other investments	3,104,253	
Loans	16,124,695	
Derivative instruments	–	4,233
Accounts receivable	10,286	
	19,455,486	4,233
Off balance sheet		
Letters of credit	69,012	
Commitments to extend credit	4,261,287	
	4,330,299	–
Maximum exposure to credit risk	23,785,785	4,233

Credit Risk Mitigation

As at December 31, 2018 in thousands of dollars	Amounts in Consolidated Balance Sheet	Amounts Covered By: Financial Collateral Received or Pledged	Guarantees/ Credit Derivatives	Net Amounts
Financial Assets				
Loans				
Residential Mortgages	11,093,001	–	1,888,986	9,204,015
Personal Loans	358,340	20,778	–	337,562
Commercial Loans and Mortgages	3,865,443	5,879	–	3,859,564
Equipment Financing	845,632	–	–	845,632
Financial investments	3,099,444	–	–	3,099,444
Derivatives	4,233	–	–	4,233

Concentration Risk

Concentration risk arises through larger value exposures, where a number of borrowers are engaged in similar economic activities or are located in the same geographic region. Residential mortgages represent our largest concentration of loan assets at 69% of our total loan exposure. We carry out the majority of our lending activities in the Metro Vancouver, Fraser Valley, and southern Vancouver Island regions of B.C. and also carry out activities through branches located in areas of the mid-Island and Interior of B.C., specifically Courtenay and Kelowna. Residential real estate prices in our region of operation have experienced significant price increases in recent years and have started to moderate in 2018. Understanding that prices often move and fluctuate in cyclical patterns, we monitor our residential real estate exposure on an ongoing basis, including delinquency trending and modelling of price change impacts on collateral value. This monitoring, combined with sound underwriting practices, ensures our residential real estate risk exposure is maintained within an acceptable level.

Distribution of Loans by Credit Portfolio and Industry

As at December 31, 2018 in thousands of dollars	Outstanding Loans	%	Undrawn Commitments	Letters of Credit	Total Exposure
Retail Mortgages	11,078,858	69%	2,007,307		13,086,165
Retail Loans	356,196	2%	1,032,412		1,388,608
Commercial					
Accommodation and Food Services	167,049	1%	51,493	1,995	220,537
Construction	1,654,687	10%	1,015,210	50,247	2,720,144
Health Care and Social Assistance	93,962	1%	5,114	324	99,400
Management of Companies and Enterprises	31,419	0%	5,015	521	36,955
Manufacturing	48,349	0%	7,929	20	56,298
Other	121,213	1%	16,015	9,372	146,600
Professional, Scientific and Technical Services	15,055	0%	7,823	68	22,946
Real Estate and Rental and Leasing	1,568,827	10%	82,275	4,373	1,655,475
Retail and Wholesale Trade	102,024	1%	14,588	1,819	118,431
Transportation and Warehousing	887,056	6%	16,106	273	903,435
Total	16,124,695	100%	4,261,287	69,012	20,454,994

Counterparty Credit Risk

Over-the-counter derivative instruments are subject to credit risk because the counterparties to these arrangements may default on their obligations while the exposures have a positive value to Coast Capital at the time of the default.

- Investment and security portfolio, including derivative transactions, are transacted with approved counterparties.
- Risk is mitigated by netting agreements and approved issuer lists which focus on strong credit quality.
- Investment policy provides limits on issuers, asset classes, credit risk ratings, which reduces the risk exposure.
- In regards to managing this portfolio, Coast Capital actively manages compliance with all applicable limits.

Credit Risk Exposure to Derivatives

As at December 31, 2018 in thousands of dollars	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

Market Risk

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

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

Asset and Liability Maturities

			2018			2017
As at December 31 in thousands of dollars	Assets	Liabilities and equity	Differential	Assets	Liabilities and equity	Differential
Variable rate	5,527,908	4,659,681	868,227	6,366,382	4,701,613	1,664,769
Interest sensitive						
Maturing within 1 year	2,858,101	6,957,808	(4,099,707)	2,013,574	6,192,232	(4,178,658)
Maturing between						
1-2 years 2020	2,342,843	2,844,396	(501,553)	1,303,739	1,387,400	(83,661)
2-3 years 2021	2,593,347	807,822	1,785,525	1,698,175	1,049,907	648,268
3-4 years 2022	2,709,092	447,800	2,261,292	2,513,359	323,094	2,190,265
4+ years 2023+	2,939,643	671,995	2,267,648	2,826,295	450,625	2,375,670
Non-interest bearing items[1]	648,985	3,230,417	(2,581,432)	326,986	2,943,639	(2,616,653)
	19,619,919	19,619,919	–	17,048,510	17,048,510	–

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

Interest Rate Risk

Interest rate risk captures the effect of changing interest rates on earnings and economic value of equity. Interest rate risk results from mismatches in the maturities or repricing dates of the interest rate sensitive asset and liability position, both on and off the Consolidated Statement of Financial Position.

Structural interest rate risk arises when changes in interest rates affect the cash flows, earnings and values of assets and liabilities. Structural interest rate risk management seeks to balance earnings and economic value volatility while adhering to set risk limits and tolerances.

Duration mismatch between assets and liabilities drives structural interest rate risk. Interest rate movements may cause reduced earnings; and/or a reduction in the economic value of assets; and/or an increase in the economic value of liabilities. Structural interest rate risk is primarily comprised of duration mismatch risk and option risk embedded within the structure of products. Differences in the scheduled maturity, repricing dates or reference rates of assets, liabilities and derivatives causes duration mismatch. The net duration mismatch is managed to a risk tolerance using both on balance sheet exposures and derivatives. When product features allow customers to alter scheduled maturity or repricing dates this results in product-embedded option risk. These features include deposit early redemption options, loan prepayment options, and interest rate commitments on mortgages yet to be funded.

Changes in market interest rates can affect net interest income by altering the amount and timing of cash flows and spreads. Changes in market interest rates can also affect the economic value of assets, liabilities and off-balance sheet (OBS) positions. The economic value of an instrument is the present value of the expected net cash flows, discounted to reflect market rates. The economic value reflects a view of the sensitivity of value to changes in interest rates. Other factors impacting earnings sensitivity include forecasted business volumes, mortgage prepayments and deposit redemptions. The maturity or repricing profiles change daily in the ordinary course of business as members select different terms of mortgages, member loans and deposits.

Management of structural interest rate risk balances short-term income volatility against volatility in the long-term value of equity. Treasury manages this exposure to set risk tolerances as approved by ALCO and the Board.

Risk Metrics

Structural interest rate risk is measured mainly through earnings sensitivity and economic value sensitivity analysis. Earnings sensitivity is defined as the potential reduction in net interest income due to interest rate movements over a one-year horizon. Economic value sensitivity is defined as the potential reduction in economic value of equity due to interest rate movements.

Interest Rate Risk Exposures

Exposure to interest rate risk is controlled by managing the size of the static gap positions between interest sensitive assets and interest sensitive liabilities for future periods. Interest rate risk is managed to provide consistent earnings over time while also protecting economic value.

The estimate of sensitivity of net interest income to a change in interest rates is captured in the table below. The amounts represent the estimated change in net interest income over a one year period, beginning December 31, 2018, as a result of a 1% change in interest rates. The key assumptions used to calculate the estimated impacts include changes to interest rates, such as prime rate.

	2018	2017
1% increase in rates	$ 10,273	$ 26,632
1% decrease in rates	$ (13,660)	$ (21,948)

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

Operational Risk

Operational Risk is defined as the risk of loss resulting from people, inadequate or failed internal processes and systems, or from external events. Operational risk is inherent in the normal course of business and in all our activities. Operational risk includes process ineffectiveness, information breaches and cyber security, data governance, regulatory compliance, third party supplier/vendor failures, technology failures and damages, business disruption, internal and external theft and fraud, employment practice and workplace safety, model risk, and legal risk but excludes strategic risk. Failure of Coast Capital to adequately protect against operational risks, or to adequately respond to unexpected situations could adversely affect Coast Capital.

We have developed the Operational Risk Management Framework to ensure that all stakeholders understand how we manage operational risk. Operational risk is managed through collaboration between the First Line of Defence and the risk subject matter experts who are responsible for their specific operational risk and provide support and oversight to the First Line of Defence over the related operational risk.

Internal Controls over Financial Reporting and Disclosures

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

Critical Accounting Estimates

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

Allowance for Credit Losses

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 and 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.

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 probability of default (PD), loss given default (LGD) and exposure at default (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.

As at December 31, 2018 in per cent	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
B.C. unemployment rate	4.98	5.00	4.93	4.83	5.03	5.17
B.C. 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.

Additional information on the process and methodology for determining expected credit losses can be found in the Credit and Counterparty Risk section of the MD&A, as well as Notes 6 and 7 of the audited consolidated financial statements.

Financial Instruments Measured at Fair Value

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

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

Determining fair value for instruments that trade actively and have quoted market prices (Level 1) requires minimal subjectivity. We have to apply judgment to value other instruments. We value derivatives using readily available market information that can be input to internal models (Level 2). We validate the outputs by comparing our valuations with counterparties. When we use internal models without observable market information (Level 3), we use general assumptions such as internal pricing spreads over observable market inputs. All modelled valuations consider credit risk adjustments, as appropriate. We disclose these valuations in Note 27.

We record changes in fair value to the income statement unless we have elected a security to be fair value through other comprehensive income (under IFRS 9) or available for sale (under IAS 39) or have designated a derivative as an effective cash flow hedge. On December 31, 2018, we carried $3.2 billion, or 16.1%, of our financial assets and $5.4 million of our financial liabilities (all derivative instruments) at fair value. Included in the financial assets is $13.6 million ($14.3 million as of December 31, 2017) of loans where we have made a fair value option in order to match valuations of hedged and hedging items.

Asset Impairment (Goodwill and Intangible Assets)

On December 31, 2018, total goodwill was $15.2 million, identifiable intangible assets with a definite life were $4.2 million, and software was $60.7 million. The combined total of these amounts increased in 2018 by $26.3 million due to software additions, and decreased by $10.7 million from amortization and by $7.1 million from disposals of software. Goodwill represents the excess of consideration exchanged for the acquisition of a subsidiary over the fair value of the net assets acquired. The majority of our goodwill balance at year-end resulted from our 2014 acquisition of the prime equipment and vehicle finance business of Travelers Financial Corporation.

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

Contingent Liabilities

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

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

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

Income Taxes

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

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

When valuing our deferred income tax assets and liabilities, we estimate future reversing tax rates based on our forecast growth for deposits and income before taxes. If we estimate our future reversing rate to be one per cent higher, our net deferred income tax assets will be impacted minimally. As of December 31, 2018, we had available deferred income tax assets of $19.9 million ($20.3 million in 2017) and deferred income tax liabilities of $14.4 million ($17.2 million in 2017). One driver of adjustments to future reversing rates is changes to enacted tax rates such as the announcement by the Province of B.C. to increase the general business tax rate by 1% effective January 1, 2018, and to decrease the small business tax rate by 0.5% effective April 1, 2017.

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

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

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

Future Changes to Accounting Policies

The International Accounting Standards Board (IASB) has issued new standards and amendments to existing standards that were not yet effective for the year ended December 31, 2018. These accounting changes will be applicable beginning January 1, 2019, at the earliest.

IFRS 16: Leases

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

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. We are in the process of assessing the impact of the framework.