2020 Annual Report

coastcapital®

Contents

About Us	1
Board Chair's Message	2
President and CEO's Message	4
Coast Capital's Response to the COVID-19 Pandemic	6
Driving Social Change	7
Financial Highlights at a Glance	8
2020 Performance Against Targets	9
5-Year Financial Overview	10
Management's Discussion and Analysis	12
Consolidated Financial Statements	61
Corporate Governance—Board of Directors	118
Glossary	135
Corporate Information	139

2020 BC's Top Employers

CANADA'S BEST MANAGED COMPANIES Platinum member

Waterstone CANADA'S MOST ADMIRED CORPORATE CULTURES

CARING COMPANY SINCE 2005 IMAGINE CANADA

Certified B Corporation

LBG CANADA

About Us

Coast Capital Savings Federal Credit Union (Coast Capital) is Canada's largest credit union by membership and B.C.'s first federal credit union.

Owned by more than 594,000 members, Coast Capital offers personal and business banking and investment services across Canada digitally, by phone and through our 51 branches in the Metro Vancouver, Fraser Valley, Vancouver Island and Okanagan regions of British Columbia.

For 80 years, we have been playing an essential role in making a positive difference in the lives of each of our members by unlocking their financial opportunities. With trusted and personalized advice and a broad suite of banking products and financial services, we're enabling our members to save, spend and invest with confidence at every stage in life. Today, as many individuals, families and businesses are facing economic and social challenges and inequalities, we are looking to extend our legacy as a financial cooperative to empower them on their journey towards financial well-being, so we can help build a better future for Canadians at large.

Coast Capital is part of a community of leaders who are setting the standard for making positive social contributions by balancing profits with purpose. As a Certified B Corporation and Imagine Canada Caring Company, we commit to invest ten per cent of our budgeted bottom line in a wide range of community organizations and causes. In 2020, this equaled $3.9 million. We also received recognition for our commitment in making Coast Capital a great place to work through prestigious business accolades, like the B.C. Top Employer Award, Canada's Best Managed Companies and Canada's Most Admired Corporate Cultures™ Hall of Fame designation.

Meet our subsidiaries

In addition to our day-to-day banking products for our personal and business members, Coast Capital and its subsidiaries offer additional financial services that allow them to save, spend and invest with confidence at every stage in life.

coastcapital
Wealth Management

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

coastcapital
Financial Management

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

coastcapital
Auto & Equipment Finance

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

Board Chair's Message

2020 was a year like no other. COVID-19's financial, health and social impacts on the personal and professional lives of our membership and our communities were broad and deep, changing how we interacted and undertook our daily activities.

Working toward a meaningful recovery

Undoubtedly, the pandemic's economic impact made financial security top of mind for many people. In these challenging times, many households and businesses faced income uncertainty and had to dip into their savings to sustain themselves. Coast Capital helped guide our members to receive crucial financial aid through our broad suite of products and services and facilitated access to government relief programs and funds for those facing financial hardship.

This past year also demonstrated the purposeful role that financial institutions play in supporting recovery. As a member-owned financial cooperative, Coast Capital has a responsibility and commitment to step up and lead in a meaningful way by improving the financial potential of every person and business we serve. We want people in our communities to feel confident and well-informed to spend, save and invest in a way that provides them with financial security. We believe that by focusing on our members' financial well-being, we can also help to build a better future for Canadians at large.

Supporting community resilience

Here at Coast Capital, we have a long history of supporting our local communities. Support from our members has allowed us to boost our social contributions through our employee volunteer program and by investing approximately ten per cent of our budgeted bottom line directly back into the communities where our members live and work. Our roots and values as a financial cooperative, as recognized by our B Corp and Imagine Canada Caring Company status, provide us with a solid foundation to shape the work we do each year in fostering strong and resilient communities.

Coast Capital's community investments are focused on providing opportunities to young Canadians to lead, learn and succeed through our Youth Community Councils, Youth Education Awards, Youth Interns program and collaborations with community partners. As a key supporter of the Youth Futures Education Fund (investing in the educational success of B.C. youth who have aged out of government care), the United Way of the Lower Mainland presented Coast Capital with the Local Love Award at the 2020 Community Spirit Awards celebration, shining a spotlight on our leadership in community involvement.

Across the country, non-profit organizations, charities and small businesses have suffered under the financial impact of COVID-19, facing lost revenue, layoffs and disruptions to essential community services. To ensure community organizations and local businesses remained viable and continued to deliver the support that Canadians rely upon, Coast Capital launched the Coast Capital Community Relief Fund. Through the fund, $300,000 was granted to non-profit and charitable organizations to help them maintain operations and support an increased demand for their services. We also leveraged this fund to help small business members who found themselves in need of financial support due to COVID-19 related challenges.

Our credit union has been a strong supporter of local food banks for many years. To address critical food shortages caused by COVID-19, we pledged $100,000 to support food banks in B.C., Alberta and Ontario. While social distancing also changed how we volunteered in 2020, it didn't change our employees' dedication to giving back. In 2020, our employees gave more than 5,550 hours of their time to support non-profit organizations. In recognition of this dedication, our Help Heroes Employee Volunteer Program was honoured with the 2020 Social Responsibility Award from the Canadian Credit Union Association.

Governing through change

The Board of Directors has the responsibility for the governance of the credit union and ensuring Coast Capital successfully navigates the challenges of the rapidly changing financial services industry. During the year, Coast Capital remained focused on the financial well-being of our members and evolved the way we meet member needs. We progressed on key strategic initiatives and technology investments to set Coast Capital up for national success in the years to come. We focused on enhancing our members' income growth and advocating positive social change by grounding ourselves in the best of who we are today while shaping the future of banking.

On behalf of the entire Board, I would like to thank our Executive Team for their proactive leadership through uncertainty and applaud the 1,877 staff who have worked diligently to safely deliver access to banking services to our members during this difficult time. I would also like to offer a heartfelt thanks to our members for continuing their relationship with Coast Capital and allowing us to partner with them as a trusted advisor.

Bob Armstrong
Chair, Board of Directors

President and CEO's Message

2020 marked Coast Capital's 80th anniversary as a credit union—a phenomenal milestone for our members, employees and communities, all of whom have helped shape our success over the decades. Since our beginning, this credit union has played an essential role in empowering our members in their journey towards financial well-being.

2020 was a defining moment in our credit union journey as our society and industry continued to evolve and our members' needs and consumer behavioiurs also continued to shift. As many Canadians face economic and social challenges, we extended our legacy as a member-owned cooperative with a goal to improve the financial potential of every person, partner and community we serve, and to help build better futures together.

Maintaining financial resilience

As an essential service, we had to find new and effective ways to connect with one another and our members. Although economic pressures were felt everywhere, as individuals, families and businesses coped with difficult realities, our purpose-driven business model has proven its strength in the face of uncertainty and economic downturn. With our long-standing efforts to build and maintain financial and operational resilience, we were well-positioned and well-capitalized to weather the challenges ahead and provided much-needed support to our members, employees and community partners.

I am pleased with how Coast Capital has navigated this pandemic and the associated pressures. Despite the turbulent economic headwinds, we deepened our relationships with our members and benefited from a healthy performance across our business. Our total assets under administration increased by almost $1.0 billion, or 4.0%, to $25.4 billion. Growth during the year was supported by a strong increase of our deposit portfolio by 7.0% (retail) and 11.5% (commercial) as a result of members saving more and spending less. As well, loan deferrals and other economic support initiatives helped maintain cash flows and liquidity for our business members. Strong housing demand, low-interest rates and shifting homebuyer behaviours supported increased real estate activity and elevated new mortgage origination volumes.

Advancing our banking experience

At the start of the pandemic, we adapted quickly to provide and support members with access to our extensive products, services and trusted advice in-person, digitally and over the phone. In addition to our own Member Financial Relief Program, we worked closely with provincial and federal governments to facilitate fast and convenient access to their support initiatives, such as the Canada Emergency Business Account (CEBA) and the Canada Emergency Wage Subsidy (CEWS).

Guided by the advice and direction of provincial and federal health authorities, we also implemented health and safety precautions at every Coast Capital location to protect employees and members, while successfully maintaining essential operations.

Throughout the year, we continued to make significant investments in Coast Capital's infrastructure and technology. We enhanced our remote and award-winning digital banking platforms and industry-leading financial management tools with new features and self-serve capabilities, providing our members across the country with the comfort of safe and accessible banking where and when they needed it. In addition, we developed a cloud-based platform to support the operation of our full-service Advice Centre, migrated more of our members to our upgraded online banking platform, and expanded our technology to make opening a membership for new commercial members digitally available.

As a result of our continuous improvement and enhancement, our commitment to digital security and safeguarding member information was honoured with a CSO50 Award from IDG's CSO, a global, premier security media brand providing insight into business risk leadership. The rich security and personalization features of our online banking platform, and our collaboration with ebankIT, were also recognized with a Finovate Award for the Best Fintech Partnership. As well in 2020, Coast Capital ranked in the top five mobile services across all financial institutions in the country by Surviscor in their annual Canadian Mobile Banking scorCard Review, and we were recognized as the best credit union for mobile services in Canada by iSky Research.

Coast Capital is committed to educating and helping to raise the level of professionalism in the industry. In 2020, we celebrated our leadership in Canada's mortgage industry with a Credit Union Lender of the Year Award and became a member of the Fintech Advisory Forum, providing thought leadership and expert advice to the British Columbia Securities Commission regarding financial technology (fintech) trends, developments and issues in the securities industry.

Celebrating our award-winning team

Our teams at Coast Capital demonstrated extraordinary commitment and dedication in going above and beyond to support our members, communities and each other with professionalism and compassion during this time of uncertainty. We moved quickly to support the health, safety and well-being of our employees and their families by adapting our work environments, and we provided resources and programs to help them navigate the challenges of COVID-19.

Our 1,877 dedicated and talented employees have united as one team to deliver trusted and personalized advice to our members on a case-by-case basis. Our 2020 award win and entry into the Hall of Fame of Canada's Most Admired Corporate Cultures™ is a testament to our people, values and purpose. In addition, Coast Capital was recognized as a great place to work through a BC Top Employer designation for the fifth consecutive year and as a Platinum Club member of Canada's Best Managed Companies—given to companies who have maintained their Best Managed status for seven years or more.

Championing employment equity

While global events forced us apart in 2020, others brought us together. The impacts of social injustice, inequality and racism were brought to the forefront of many conversations at Coast Capital in 2020. As an Employment Partner of the Canadian Centre of Diversity and Inclusion (CCDI) and a federal employer under the *Employment Equity Act*, we recognize the key role we play in addressing the full picture of equity, diversity and inclusion within the workplace and beyond.

Supported by our employee-led Equity, Diversity and Inclusion Council, affinity networks and task forces, our organization is upholding its values of the respectful treatment and well-being of all our employees, members and every individual in the communities we serve. We began work in 2020 to boost education and awareness internally through training programs, to increase workforce representation, and to identify potential employment barriers for those who are a part of underrepresented or equity-seeking groups. These actions will ensure that we are continually improving to make Coast Capital more inclusive.

Leading with purpose

Challenging times come for all organizations, but how we rise to these challenges defines us. Throughout 2020, at Coast Capital we demonstrated our ability to thrive and adapt. Though uncertainties and economic challenges persist, our resilience and dedication to our membership have positioned us for growth across Canada in 2021 while also continuing our efforts to support members facing ongoing financial adversity during this unprecedented period. By leveraging our roots and capabilities and guided by our purpose to build better futures, we will continue to make a positive difference and unlock financial opportunities that positively impact people and communities.

Calvin MacInnis
President and
Chief Executive Officer

Coast Capital's Response to the COVID-19 Pandemic

Throughout the COVID-19 pandemic, Coast Capital has been there for its members, employees and communities with trusted advice and targeted support, implementing the most comprehensive financial relief program in our credit union history.

Members

Launched the Coast Capital **Member Financial Relief Program** for members facing financial hardship, with a number of options for payment deferrals and temporary relief on credit products.

Deferred approximately **5,200 mortgages and personal loans** valued at more than $2 billion for our retail members and more than **3,000 business loans** totalling about $950 million.

Processed nearly **8,400 CEBA (Canada Emergency Business Account) applications** with approved loans totalling $219 million.

Delivered over **38,000 personalized Money Chats** to new and existing members to provide them with a snapshot of their overall financial health and identify improvement opportunities.

Introduced a **Member Care Centre** model where staff take appointments with members, in-person and virtually, for advice-based services.

Promoted **remote banking options** through online banking, our mobile app and Advice Centre, and educated members on how to bank online.

Provided **virtual financial advice and resources** to individuals and businesses.

Promoted **local shopping** through social media posts, blogs on our website's The Help Hub platform and media outreach.

Reserved the first opening hour of our branches for **senior and immunocompromised members**.

Implemented **enhanced cleaning and social distancing protocols** in our branches and at ATMs to keep our members and employees safe.

Employees

Supported **safe work environments** with protective equipment, health screening, and enhanced cleaning and safety measures.

Provided work-from-home arrangements for **1100+ employees**.

Launched an interest-free-, deferred payment **"Employee Care Line of Credit"** for employees impacted by COVID-19.

Prioritized **mental health support**, including access to our Employee and Family Assistance Plan, virtual mindfulness sessions and an internal resource hub.

Provided **enhanced flexibility in the use of paid sick leave coverage and paid vacation time** to encourage self-care and support employees with childcare and eldercare obligations.

Communities

Launched the Coast Capital Community Relief Fund, granting **$300,000 to non-profit and charitable organizations** to maintain operations and support an increased demand for services. We also leveraged this fund to support our small business members in need of financial support due to COVID-19 related challenges.

Committed **$100,000 to support food banks** in British Columbia, Alberta and Ontario to address critical food shortages caused by COVID-19.

Supported non-profit organizations through **5,550 hours of virtual volunteering** by our employees.

Driving Social Change

As a purpose-driven and member-owned financial cooperative, being a responsible change-maker is in our DNA. Coast Capital's very foundation is built on finding profit through purpose and the idea that business can be a catalyst for driving positive social change.

Financial resilience

The digitization of society, changing consumer behaviour and the global events of 2020 exposed and accelerated economic and social inequalities confronting Canadians throughout the country. Financial stress is one of Canada's biggest social problems across all income segments, impacting people's overall personal well-being, relationships and hope for a better future.

Many households and small businesses are struggling to make ends meet as wages stagnate, costs of living increase and consumer debt levels rise. As more and more Canadians rely on credit for everyday expenses and have no or a limited savings buffer against unplanned life events, they are lacking the confidence and resources to get through times of financial hardship and reach their long-term goals. In addition, many Canadians are challenged in their access to meaningful financial support, solutions and advice.

Meaningful difference

As a Certified B Corporation, we believe in making a meaningful difference in the lives we touch by centring everything we do around our purpose: building better futures together. This past year demonstrated the vital, positive role that credit unions play across society as we continued to support our members, employees and community partners through times of financial hardship. By focusing on supporting our members' financial well-being and resilience, we also support the overall well-being of individuals, families, businesses and communities throughout Canada.

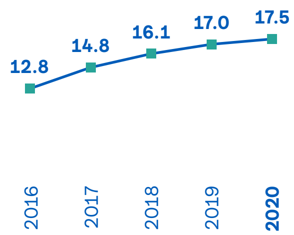
Businesses around the world are redefining their role in society to address today's challenges, including Coast Capital. We make a significant impact in our market areas by reinvesting 10% of our budgeted bottom line back into local communities and through employee volunteering—but we know we can do more. Holding on to our ideals of sustainable growth for generations to come, Coast Capital is evolving to integrate purpose into our day-to-day operations and across every dimension of our business. Embracing a social purpose business model allows us to use our products, people, supply chains, capital, influence and scale to accelerate positive impacts beyond good deeds.

- **For our members**, it means providing access to products and services that empower them to participate in our purpose, either through improving their own situation or by paying it forward to the broader community and society.
- **For our employees**, it means bringing our purpose to life in the employee experience and providing opportunities for employees to play a role in co-creating financial well-being solutions for our members.
- **For our community**, it means partnering and collaborating with others to drive knowledge, skills and programs that will help deliver a positive impact in our broader society.

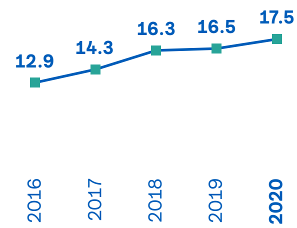
With our history and our values as a cooperative and a B Corp, we have a strong foundation to unlock economic opportunity for Canadians in a relevant and meaningful way. We will continue to act as a force for good in our society and nationally, with the interests of our members, employees and communities at heart.

Financial Highlights at a Glance

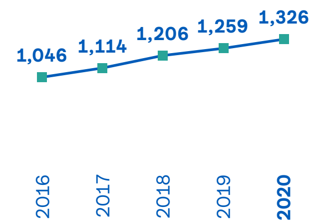
Loan Balance
Billions of dollars, net of allowance for credit losses



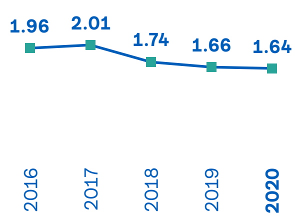
Deposit Balance
Billions of dollars



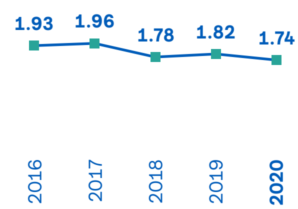
Members' Equity
Millions of dollars



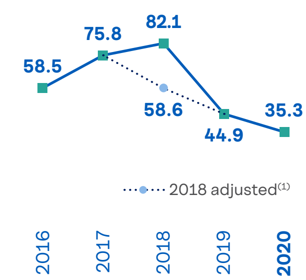
Net Interest Income
As a percentage of average assets



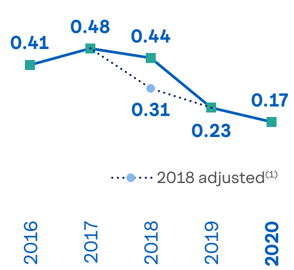
Non-interest Expenses
As a percentage of average assets



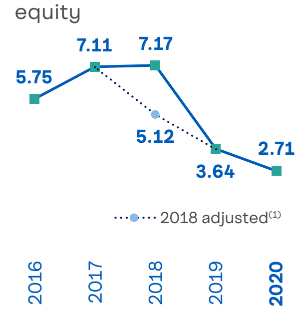
Net Income
Millions of dollars



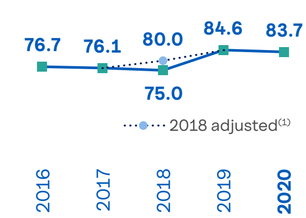
Net Income
As a percentage of average assets



Net Income
As a percentage of average equity



Operating Efficiency
In per cent



1. 2018 Adjusted reflects the 2018 result adjusted to remove a one-time increase in fee, commission and other income of $27.9 million. The increase is attributed to our transition to federal credit union status in 2018. The one-time increase in fee, commission and other income increased our 2018 net income by $23.5 million.

2020 Performance Against Targets

Loan Balance
Total loans, before allowance for credit losses

Actual $17.6 billion **Target** $18.3 billion

Deposit Balance
Total deposits

Actual $17.5 billion **Target** $17.5 billion

Net Income
All revenue less expenses and taxes

Actual $35.3 million **Target** $37.2 million

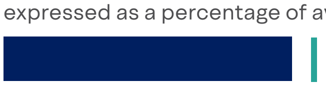
Return on Average Assets
Net income expressed as a percentage of average assets

Actual 0.17% **Target** 0.18%

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

Actual 2.71% **Target** 2.91%

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



Actual 1.74% **Target** 1.89%

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

Actual 83.7% **Target** 88.0%

5-Year Financial Overview

December 31 (in thousands of dollars)	2020	2019[1]	2018[1]	2017[1]	2016[1]
Balance sheets					
Assets					
Cash and cash resources	188,546	180,109	172,012	467,204	162,130
Financial investments	2,802,508	2,733,678	3,148,493	1,626,481	1,772,182
Loans, net of allowance for credit losses	17,543,213	16,988,951	16,098,150	14,767,421	12,840,807
Premises and equipment	95,668	105,464	24,886	28,672	30,228
Other	242,949	220,760	176,378	158,732	163,871
	20,872,884	20,228,962	19,619,919	17,048,510	14,969,218
Liabilities					
Deposits					
Demand	8,314,399	6,366,572	6,271,786	6,349,303	6,213,154
Fixed term redeemable	2,035,745	1,848,790	2,502,169	2,449,779	1,731,036
Fixed term non-redeemable	7,103,147	8,266,971	7,478,018	5,511,218	4,960,787
	17,453,291	16,482,333	16,251,973	14,310,300	12,904,977
Borrowings	667,365	673,543	464,278	319,460	–
Secured borrowings	823,401	1,184,006	1,155,211	1,118,025	869,138
Subordinated debentures	307,731	301,887	300,292	–	–
Other	294,923	327,827	241,963	186,294	149,402
	19,546,711	18,969,596	18,413,717	15,934,079	13,923,517
Members' equity					
Share capital	25,890	27,534	29,221	31,432	32,968
Retained earnings	1,253,361	1,219,355	1,180,219	1,084,983	1,010,375
Accumulated other comprehensive income (loss)	46,922	12,477	(3,238)	(1,984)	2,358
	1,326,173	1,259,366	1,206,202	1,114,431	1,045,701
	20,872,884	20,228,962	19,619,919	17,048,510	14,969,218
Income statements					
Interest income	643,541	686,702	611,902	476,269	428,671
Interest expense	305,069	356,093	285,221	157,775	148,622
Net interest income	338,472	330,609	326,681	318,494	280,049
Provision for credit losses	23,427	9,195	8,619	8,331	10,733
	315,045	321,414	318,062	310,163	269,316
Non-interest income	91,137	95,111	121,158	88,101	78,934
	406,182	416,525	439,220	398,264	348,250
Non-interest expense	359,658	360,063	336,013	309,432	275,367
Income before provision for income taxes	46,524	56,462	103,207	88,832	72,883
Provision for income taxes	11,175	11,586	21,108	13,055	14,357
Net income	35,349	44,876	82,099	75,777	58,526

1. Certain prior year information has been restated to conform with current year presentation.

5-Year Financial Overview

December 31 (in thousands of dollars)	2020	2019	2018	2017	2016
Financial statistics in per cent					
Asset growth	3.2	3.1	15.1	13.9	9.0
Loan growth	3.3	5.5	9.0	15.0	10.7
Deposit growth	5.9	1.4	13.6	10.9	11.0
Operating efficiency	83.7	84.6	75.0	76.1	76.7
Total capital ratio[1]	14.2	14.6	15.7	N/A	N/A
Average assets	20,702,259	19,832,459	18,842,926	15,801,994	14,299,277
Percentage of average assets					
Net interest income	1.64	1.66	1.74	2.01	1.96
Non-interest income	0.44	0.48	0.64	0.56	0.55
Non-interest expenses	1.74	1.82	1.78	1.96	1.93
Net income	0.17	0.23	0.44	0.48	0.41
Average equity	1,303,621	1,233,739	1,144,538	1,065,533	1,017,930
Net income percentage of average equity	2.71	3.64	7.17	7.11	5.75
Investment fund assets under administration	4,563,751	4,231,284	3,794,260	3,925,933	3,439,060
Total assets under administration	25,436,635	24,460,246	23,414,179	20,974,443	18,408,278
Allowance for credit losses, beginning of year	42,381	37,721	35,315[2]	32,413	36,806
Provisions for credit losses	23,427	9,195	8,619	8,331	10,733
Loans written off	(8,650)	(5,732)	(7,187)	(6,560)	(16,066)
Recoveries of loans written off	2,213	1,197	974	978	940
Allowance for credit losses, end of year	59,371	42,381	37,721	35,162	32,413
Impaired loans	16,334	12,799	11,244	13,716	21,279

1. Values presented for 2020, 2019 and 2018 only; reflects requirements applicable to federally regulated financial institutions.
2. Included in this amount is an adjustment of $153 due to remeasurement of the allowance for credit losses upon adoption of IFRS 9 as at January 1, 2018.

Management's Discussion and Analysis

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

The MD&A is current as of February 24, 2021, and should be read in conjunction with Coast Capital's Audited Consolidated Financial Statements as at and for the year ended December 31, 2020 (the Consolidated Financial Statements). All amounts are in thousands of Canadian dollars unless otherwise stated.

Table of Contents

Economic Environment 13
Financial Performance 15
Financial Highlights of 2020 15
Business Line Performance 17
Net Interest Income 24
Provision and Allowance for Credit Losses 27
Non-interest Income 29
Non-interest Expenses 30
Other Comprehensive Income 33
Capital Expenditures 33
Loan Portfolio 33
Deposits and Borrowing 37
Risk Management 39
Risk Principles 39
Risk Culture 40
Risk Governance and Management 40
Risk Appetite 43
Risk Inventory 43
Capital Management 45
Liquidity and Funding Risk 51
Credit and Counterparty Risk 55
Market Risk 57
Operational Risk 59
Internal Controls over Financial Reporting and Disclosures 59
Use of Critical Estimates and Judgments 60
Future Accounting Changes 60

About Forward-Looking Statements

This Annual Report contains forward-looking statements, which are usually identified by words such as "expect" and by the future or conditional tense, such as "will" or "would." These statements are subject to risks and uncertainties that may affect results, including but not limited to risks related to changes in the legislative or regulatory environment, accounting standards, capital markets, interest rates, competition and general economic conditions in B.C., Canada and globally. Readers should give careful consideration to these issues and not place undue reliance on our forward-looking statements. Coast Capital does not undertake to update any forward-looking statements in the Annual Report.

Management's Discussion and Analysis

Economic Environment

The outlook in this section contains forecasts and predictions based on information and assumptions from sources we consider reliable. Actual outcomes may be materially different from the outlook.

The COVID-19 pandemic and the response, including physical distancing efforts and government-containment measures, had a profound impact on global and local economic activity in 2020. The interruption of global growth following the emergence of the pandemic in Q1 was unprecedented. Global economic activity slowed dramatically in Q2, the largest quarterly pullback in postwar history, resulting in two consecutive quarterly declines in real gross domestic product (GDP) and confirming a global recession. Strong positive GDP growth in Q3 softened again in Q4, resulting in overall negative global GDP growth for the year. Government efforts to contain the virus and reduce infection rates, or 'flatten the curve', were accompanied by financial support programs for households and businesses, as well as significant interest rate cuts by central banks to stabilize and stimulate economic activity. Fiscal support measures, implemented in many countries, including government loans, loan guarantees, wage subsidies, income support and debt repayment deferrals, were vitally important in order to minimize the severity of the economic damage. Approximately one year later, with a better understanding of the extent of the economic impacts from the pandemic crisis, it is expected that many of the support programs, which were implemented rapidly by governments to ward off the initial impacts of the pandemic, will evolve into more sustainable long-term programs. To support economic recovery, guidance from central banks indicates that interest rates will likely remain low for the next two to three years and possibly longer.

The emergence of the pandemic crisis also resulted in a sharp decline in global equity markets, as investors responded to the deterioration in economic conditions and the uncertainty with respect to the timing and pattern of the eventual recovery. Market sentiment, however, turned more favourable as the initial shock subsided, which was evidenced by the record high valuations experienced in several leading market indices in Q4. Some of the demand driving the recovery in equity values likely resulted from the extremely low interest rate environment, motivating investors to move further along the risk spectrum to generate returns.

Full and sustained economic recovery from the pandemic appears to be dependent on the availability of effective vaccines or treatment programs that reduce the risk factors associated with contracting the virus. Early in 2021, progress was made on vaccine development programs underway globally, showing favourable results in terms of their effectiveness, although virus mutations have added new challenges. The next dependency will be on the ability of governments to procure sufficient amounts and effectively distribute the vaccines. Based on the most recent developments in these areas, forecasts indicate that global economic activity is not expected to return to pre-pandemic levels until late 2021 or early 2022 at the earliest. Moreover, the path to global economic recovery is expected to be bumpy. Until the widespread distribution of effective vaccines is achieved, governments will continue to face a tough balancing act between containing the virus's spread and keeping the economy open. Flare-ups in infection rates in different global regions are likely to continue, necessitating renewed localized containment efforts. During the recovery, households and businesses will continue to be challenged by economic uncertainty, which will vary across industry sectors and geographical locations. Additional challenges will come from the evolution, and in some cases termination, of government support programs initiated in the early stages of the pandemic.

The Canadian government responded quickly to the emergence of the pandemic crisis with financial support programs for households and businesses. Canada entered the pandemic crisis in relatively strong financial shape, having one of the lowest debt-to-GDP ratios among the G7 countries, enabling the Canadian government to provide a relatively high level of sustained fiscal economic support. Key programs include the Canada Emergency Response Benefit (CERB), the Canada Emergency Wage Subsidy (CEWS), Canada Emergency Rent Subsidy (CERS), and the Canada Emergency Business Account (CEBA). These programs were viewed as vital to maintaining economic activity and avoiding financial distress. Some of the initial programs have served their purpose and will be, or have been, transitioned to other programs, while some will be extended or expanded. For example, in Q4 the CERB was terminated and transitioned to an expanded Employment Insurance (EI) program and a new Canada Recovery Benefit (CRB) program targeted at self-employed people. These government support programs, which are set to be continued well into 2021, are expected to provide larger-than-normal household income supports for those who have lost employment due to COVID-19.

Management's Discussion and Analysis

In response to the pandemic crisis, the Bank of Canada (BoC) dropped its overnight interest rate to 25 basis points, with three successive decreases of 50 basis points each in March. The BoC has also indicated that it plans to keep interest rates low at least until 2023, similar to its U.S. counterpart, and that future rate hikes are unlikely until the economy is back at full capacity. Lower interest rates will assist in making debt-financed government relief and economic support programs more affordable. Looking forward, federal spending will likely continue to focus on bridging the economy through the ongoing crisis. Programs that helped businesses and households navigate the darkest days of the downturn will now act to facilitate the re-entry of displaced workers back into the workforce. Ongoing government business support programs are expected to be targeted at industries that experienced some of the sharpest declines in activity and have recovered the least, such as transportation, accommodation, entertainment and tourism. The energy sector has also been hit hard, with falling oil prices before the pandemic, exacerbated by the pandemic's impact on global demand.

While Canada's annual GDP contracted during 2020, it is expected to return to positive growth territory in 2021, with the annual real GDP for the next 12 months expected to be positive at 4.9%. As Canada moves into the recovery phase, it is expected that the recovery will be uneven in the early stages, with ongoing weakness in specific sectors weighing on the economy and delaying the return to full capacity. Pent-up demand on the part of Canadian households and businesses, fueled by cash accumulated in savings accounts during the pandemic, will contribute to the recovery. The change in the U.S. government administration, following the election in Q4, is expected to support the return to more traditional approaches to trade diplomacy, reducing the threat of unilateral tariffs on Canadian exports. However, the revised position on climate change by the U.S. government will add pressure to Canada's oil sands and have adverse impacts on planned pipeline development projects.

The impacts of the COVID-19 pandemic on the B.C. economy in 2020 were similar to those experienced nationally, as are the prospects for, and pattern of, recovery. Low interest rates and ongoing government programs to bridge the gap for households and businesses will be important to support the recovery, as will the widespread availability of vaccines. Major investments in projects made prior to the pandemic will continue to support economic activity in B.C. during the recovery phase, including construction related to LNG Canada's liquefied natural gas terminal in Kitimat, the Site C dam near Fort St. John, and public infrastructure projects related to transportation, schools and hospitals. Economic recovery will vary across sectors, with those hardest hit by the downturn also likely to be the last to return to normal. Despite the challenges to the economy from the pandemic, the B.C. real estate market remained buoyant throughout 2020 and is expected to remain healthy through 2021. Residential real estate demand is supported by a combination of very low mortgage interest rates and changes in preference as renters transition to homeownership, and work-from-home options promote demand for detached homes outside the urban core areas. The provincial unemployment rate, which reached almost 10% in 2020, is expected to decrease in 2021 but remain elevated compared with prior years as the economy adjusts and begins to recover.

Although uncertainty remains an overarching theme as we come to terms with the impacts of the global pandemic, the economic forecasts indicate the beginning of a multi-year recovery in 2021. The economic recovery is premised on global efforts to develop and distribute effective vaccines, continued ultra-low interest rates, and ongoing government fiscal support programs. For our business, positive balance sheet growth is expected to continue in 2021, with a modest improvement over the prior year, supported by healthy real estate market activity in our trade areas and funded through continued member deposit growth. When the pandemic crisis first emerged, it was clear that the impacts were different across our membership, with some members more severely impacted than others. With this in mind, as we work to grow and improve our business in 2021, we will also continue our efforts to support members facing ongoing financial adversity during this unprecedented period.

Management's Discussion and Analysis

Financial Performance

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.

Financial Highlights of 2020

Year ended December 31			Change from 2019	
(in thousands of dollars)	2020	2019	$	%
Net interest income	338,472	330,609	7,863	2.4
Non-interest income	91,137	95,111	(3,974)	(4.2)
Total revenue	429,609	425,720	3,889	0.9
Provisions for credit losses	23,427	9,195	14,232	154.8
Non-interest expenses	359,658	360,063	(405)	(0.1)
Income before provision for income taxes	46,524	56,462	(9,938)	(17.6)
Provision for income taxes	11,175	11,586	(411)	(3.5)
Net income	35,349	44,876	(9,527)	(21.2)
Assets				
Cash and financial investments	2,991,054	2,913,787	77,267	2.7
Loans (net of allowance for credit losses)	17,543,213	16,988,951	554,262	3.3
Premises and equipment, other	338,617	326,224	12,393	3.8
Total assets	20,872,884	20,228,962	643,922	3.2
Liabilities				
Deposits	17,453,291	16,482,333	970,958	5.9
Borrowings	1,798,497	2,159,436	(360,939)	(16.7)
Other liabilities	294,923	327,827	(32,904)	(10.0)
Total liabilities	19,546,711	18,969,596	577,115	3.0
Members' equity	1,326,173	1,259,366	66,807	5.3
Total liabilities and members' equity	20,872,884	20,228,962	643,922	3.2

(in per cent)	2020	2019	Change from 2019
Operating efficiency ratio	83.7	84.6	(0.9)
Liquidity coverage ratio	178.5	192.6	(14.1)
Total capital ratio	14.2	14.6	(0.4)
Common equity tier (CET) 1 capital ratio(1)	11.5	11.5	(0.0)
Tier 1 capital ratio(1)	11.6	11.7	(0.1)
Leverage ratio(1)	5.7	5.7	0.0

1. 2020 amounts calculated after adjusting for regulatory transitional arrangements available to federally regulated deposit taking institutions.

Management's Discussion and Analysis

The emergence of the COVID-19 crisis presented unique challenges to both our members and our business operations in 2020. As concerns about the rapid spread of COVID-19 heightened early in the year, we took a number of proactive measures to protect employees and members, while maintaining critical services. These included relief programs for members facing financial hardships, such as mortgage and loan payment deferrals, limited temporary branch closures, reduced branch hours, extra cleaning and social distancing protocols. Overall, these measures, along with the impacts of the pandemic on the financial activities of our members and overall economic conditions, had an unfavourable impact on our annual financial results.

Our net income during the year was $35.3 million, a $9.5 million or 21.2% decrease compared with 2019. The year-over-year change reflects a modest increase in our total revenue, offset by a significant increase in our provision for credit losses and relatively stable non-interest expenses. Although we continued to make investments to improve our business during the year, in recognition of the prevailing circumstances and deterioration in economic conditions experienced, we did make adjustments to the development and implementation timelines for a number of new and ongoing projects.

Our 2020 net interest income totalled $338.5 million, an increase of $7.9 million or 2.4% compared with 2019. The increase in net interest income is attributed to an increase in our total financial assets during the year, while the net interest margin earned on our assets decreased. Average total assets, primarily made up of financial assets, increased by $870 million, or 4.4% in 2020. Calculated as a percentage of average total assets, our net interest margin declined by 2 basis points, to 1.64% compared with 1.66% in 2019. The decrease in our net interest margin is attributed to the sharp drop in interest rates that occurred shortly after, and in response to, the emergence of the COVID-19 pandemic. In March, both the Bank of Canada overnight lending rate and our prime lending rate decreased by 150 basis points. The reduction in interest rates had a larger impact on the yield from our financial assets than on our cost of funding rates.

Increases in our provision for credit losses had a significant impact on our financial performance in 2020. Our total provision for credit losses in 2020 was $23.4 million, an increase of $14.2 million or 154.8% compared with 2019. The majority of the year-over-year increase, $13.6 million, was attributed to higher provisions on performing loans reflecting the deterioration in economic conditions, which impacts our expected loan loss modelling.

Total non-interest income revenue was $91.1 million, a decrease of $4.0 million or 4.2% compared with 2019. The year-over-year decrease is primarily attributed to reduced transaction volumes associated with day-to-day banking activities and other services, as members altered their transaction and spending behaviour in response to the COVID-19 pandemic. Lower banking transaction volumes reduced the fee and commission revenue generated from these services, and lower spending volumes reduced our credit card commission revenue. Life insurance and creditor insurance revenues also declined during the year. Positive revenue growth from our mutual and segregated investment fund services helped to partially offset the revenue decreases experienced in other areas. Investment services revenue benefited from the growth of our investment assets under administration during the year, which increased by $332 million or 7.9% to almost $4.6 billion at year-end, despite volatile capital markets.

Total non-interest expenses for the year were $359.7 million, a decrease of $0.4 million, or 0.1% compared with 2019. This relatively flat year-over-year expense result reflects modestly higher premises and employee salary and benefit expenses, along with more significant increases in technology expenses, offset by reductions in expenses related to marketing, member services administration, consultants, travel, meals and entertainment, and training and recruitment. The expense decreases in the areas noted reflect the impact of, and response to, the COVID-19 pandemic, including a decrease in overall transaction volumes due to changes in member banking activity and expense management efforts. Included in our 2020 expenses was our ongoing commitment to community support through the contribution of $3.9 million to local programs and events.

Management's Discussion and Analysis

Our operating efficiency ratio in 2020 was 83.7%, a decrease of 0.9% compared with 84.6% reported in 2019. The efficiency ratio measures non-interest expenses as a percentage of total revenue before provision for credit losses. The change represents a favourable result indicating a year-over-year improvement in our efficiency. Modest changes in 2020 related to both our total revenue before provision for credit loses, 0.9% higher year-over-year, and our total non-interest expense, 0.1% lower year-over-year, contributed to the improvement of our efficiency ratio.

Our total asset growth for the year was $644 million or 3.2%, a slight increase compared with growth of $609 million or 3.1% in 2019. Growth during the year was supported by exceptionally strong deposit flows. Our deposit portfolio increased by $971 million or 5.9% in 2020, compared with an increase of $230 million or 1.4% in 2019. Deposit growth was supported during the year by the response of both our retail and commercial members to the COVID-19 crisis, which dampened consumer spending and business investment, resulting in increased saving and significant growth in our demand deposit portfolio. Total deposit growth in 2020 was managed in alignment with our funding growth needs and liquidity requirements. Strong core deposit inflows allowed us to shift our funding portfolio mix away from higher cost deposit channels and reduce our outstanding borrowing balances during the year. Our liquidity coverage ratio remained strong throughout the year and was 178% as at December 31, 2020.

Our total loan portfolio (net of allowance for credit losses) increased in 2020 by $554 million or 3.3%. This result was lower than the $891 million or 5.5% growth in 2019 and lower than our planned growth for the year, which did not factor in the COVID-19 crisis and other economic impacts that occurred during the year. The mix of our total loan portfolio shifted slightly in 2020 towards total commercial loans, which (including equipment financing leases) grew by 4.5% compared with total retail loans, which grew at 2.9%. The net impact on our total loan portfolio mix was a modest shift from retail to commercial loans. This shift supports enhanced yield from our loan portfolio, although our overall yield was compressed by the general decrease in interest rates during the year.

Our regulatory capital position remained strong in 2020, with a total capital ratio of 14.2% at year-end. This represents a decrease of 0.4% compared with year-end 2019, reflecting an increase in our total capital through positive earnings and accumulated other comprehensive income growth, offset by a larger increase in our risk-weighted assets during the year. Risk-weighted asset growth during the year reflects both an increase in our total assets and a shift in our portfolio mix towards higher risk-weighted assets, such as commercial mortgages and loans. Despite the challenges presented by the COVID-19 pandemic, our DBRS credit ratings remained stable and were reconfirmed in 2020 without change.

Business Line Performance

The emergence of the COVID-19 pandemic crisis presented unique challenges to our members and our business lines in 2020. Retail and commercial members faced significant disruption and uncertainty related to their personal and business finances. In response, across our business lines, we implemented measures to support our members and protect the safety of our employees while also aligning our efforts with the larger objectives of stabilizing the economy and reducing the spread of COVID-19 in our communities.

Management's Discussion and Analysis

Throughout the year, we were careful and diligent in adjusting our activities to fully comply with the evolving public health orders related to the workplace, business travel and in-person social interactions with our members. In our branches, we adjusted service hours and on-site staffing levels to meet the service volumes. We also enhanced our janitorial services and cleaning routines and implemented social distancing protocols to reduce personal contact. In select branch locations, we shifted to an alternative service delivery approach we called Member Care Centres. Our Member Care Centres were used to facilitate virtual member meetings for advice-oriented services and in-person member meetings on an appointment-only basis. Staff at these centres also performed proactive outreach to members, making over 100,000 contacts to check in on their financial needs. We also implemented limited temporary branch closures during the year, impacting select branches within our network. All impacted branches were subsequently reopened to full-service status or as Member Care Centres. Our cloud-based contact centre platform allowed us to divide our centralized contact centre and operate out of seven separate physical locations to meet health orders. Under this structure, and with the assistance of redeployed staff from across our branch network, we managed our highest call volumes on record. In our administrative offices, all non-essential employees were directed to work from home and were supported through the transition.

Although the adjustments to our operations were challenging throughout the year, we continued to work on improving the foundations of our business and delivering trusted advice to our members. Our total net membership growth in 2020 was dampened but positive at over 3,000. Despite the impacts from the COVID-19 pandemic, total assets across our business lines increased by $644 million, or 3.2%, to $20.9 billion, and our total assets under administration increased by almost $1.0 billion, or 4.0%, to $25.4 billion.

To assist with the financial hardships faced by our retail and business members due to the COVID-19 pandemic, we developed a Member Financial Relief Program. This program provided the opportunity for members with mortgages and loans to defer scheduled payments. Relief opportunities for other credit products were also provided, and our Credit Solutions team was available to work with individual members to provide more flexible solutions on a case-by-case basis.

Under the payment deferral program, members with mortgages and loans were permitted to defer a specified number of payments. The interest portion of the deferred payment amount was applied to the principal portion of the mortgage or loan, similar to the programs offered by other financial institutions. The table below shows the number of borrowing accounts that participated in the payment deferral program, along with the outstanding balances, as at the end of each of the final three quarters of 2020. The quarterly trend indicates that both the number of accounts and the outstanding balances under the deferral program had declined significantly by year-end. As at December 31, 2020, across all divisions, participation in the payment deferral program had decreased to 34 accounts with total outstanding balances of $38.9 million.

	As at December 31, 2020		
	Number of of accounts	Outstanding balances[1] ($ thousands)	% of portfolio
Retail			
Mortgage (including HELOC)	29	9,636	0.1
Non-real estate secured	2	16	0.0
Commercial			
Mortgage secured	3	29,230	0.2
Non-real estate secured	0	0	0.0
Equipment finance	0	0	0.0
Total	34	38,882	0.2

	As at September 30, 2020		
	Number of of accounts	Outstanding balances[1] ($ thousands)	% of portfolio
Retail			
Mortgage (including HELOC)	2,303	1,044,847	8.8
Non-real estate secured	39	885	0.2
Commercial			
Mortgage secured	93	35,879	0.8
Non-real estate secured	2	372	0.2
Equipment finance	177	18,314	2.1
Total	2,614	1,100,297	6.2

	As at June 30, 2020		
	Number of of accounts	Outstanding balances[1] ($ thousands)	% of portfolio
Retail			
Mortgage (including HELOC)	3,951	1,768,140	15.1
Non-real estate secured	309	13,629	3.4
Commercial			
Mortgage secured	151	49,214	1.2
Non-real estate secured	15	827	0.4
Equipment finance	1,929	215,887	25.7
Total	6,355	2,047,697	11.8

1. Outstanding balances for accounts with payments deferred. Amounts are approximate.

Management’s Discussion and Analysis

Retail Division

Our retail division is focused on delivering high-value financial products and services aligned to the individual needs of our over 530,000 retail members. Through our trusted advice offer, we provide members with access to a wide array of day-to-day banking services, mortgages and other credit products, as well as access to industry-leading wealth management and insurance services. Meeting the diverse needs of our growing membership base requires the ability to connect with members through multiple channels. Our channels include over 50 branch locations and an ATM network that extends beyond our branch locations to provide members with access to thousands of surcharge-free ATMs across Canada. We have also invested in mobile service teams to provide added convenience and flexibility to our members for advice-based service needs related to homeownership, wealth management and insurance. In addition, we have made significant investments to develop a cloud-based platform to support the operation of our full-service member contact centre. Through our digital banking platform, members have access to self-serve banking capabilities and innovative money management tools. As a result of our continuous improvement and enhancement efforts, our digital banking platform is highly ranked for its functionality, informative account analysis and security features. To coordinate our member service delivery activities across multiple channels, we use an industry-leading customer relationship management (CRM) system. Our CRM is key to our member-centric approach, enabling us to understand the personalized needs of our members, and supporting proactive, meaningful engagement opportunities with our members to help improve their financial well-being.

The emergence of the COVID-19 crisis presented unique challenges for our retail members and our retail business operations in 2020. Proactive measures taken to protect employees and members, as concerns about the spread of COVID-19 heightened early in the year, reduced our member transactions and sales interactions, which decreased our fee and commission revenue and constrained opportunities for business growth. Given the economic circumstances and public health concerns, marketing campaigns were also scaled back, and assisting members facing financial hardship became a priority. During the year, we approved payment deferrals on approximately 5,200 mortgage, loan and automobile finance accounts. Through these challenges and our response activities, we were able to deepen our retail member relationships and, despite the headwinds, grow our retail business.

Retail Business Results

Our 2020 retail mortgage portfolio increased by $363 million, or 3.2% to $11.9 billion, compared with an increase of $417 million or 3.8% in 2019. Excluding home equity line of credit (HELOC) outstanding balances, our mortgage portfolio growth was above expectations for the year, despite headwinds from higher unemployment and economic uncertainty caused by the pandemic. The spring housing market was dampened by the initial response to the pandemic and public health restrictions. The combination of pent-up demand, low interest rates and an easing of social distancing guidelines supported increased real estate activity and increased new mortgage origination volumes through the summer months. Overall, our mortgage origination volumes were healthy during the year, but overall net growth was moderated by increased pay-down activity within the portfolio. Several factors contributed to the increase in pay-down volume, including highly competitive rate offers in the market and an increase in home sales activity that led to mid-term payouts. We also experienced an acceleration of a trend towards lower outstanding HELOC balances, which reduced our overall mortgage growth by $113 million in 2020, reflecting the adjustments our members made to their spending and borrowing activities in consideration of the prevailing economic conditions. As part of our retail Members Get It™ Mortgage offer, we continued to offer Help Extras™ in 2020. The Help Extras program provides qualifying mortgage members with cash rewards up to $1,000. In 2020, we funded over $2.7 million in Help Extras for our members, bringing the total amount provided to members since it was first launched in 2015 to over $27 million.

Management's Discussion and Analysis

In 2020, we experienced a decrease in our retail non-mortgage loan portfolio of $22 million or 5.6%, compared with an increase of $39 million in 2019. Similar to our HELOC portfolio, our non-mortgage loan growth reflects changes to member saving and borrowing activities given the financial uncertainties created by the COVID-19 pandemic. Personal lines of credit experienced the greatest decline during the year, decreasing by $30 million, while unsecured term loan balances decreased by $5 million. Our auto financing portfolio experienced positive growth of $13 million for the year. Growth of our auto financing portfolio in 2020 is consistent with enhancements we made to our digital direct channel capabilities and our increased marketing efforts related to this channel during the year. The ability to offer a broader range of payment frequencies on our auto financing contracts, a benefit of the new lease management system implemented mid-year, also supported overall the growth results for this portfolio.

Our large retail member base is a primary source of core deposits to support our overall funding growth. Retail deposit growth in 2020 was very strong at $643 million or 7.0%, compared with growth of $216 million or 2.4% in 2019. The overall growth in 2020 is attributed to the exceptional growth of demand account deposits. Our retail demand deposit portfolio grew by approximately $1.2 billion, while our retail term deposit portfolio decreased by approximately $0.6 billion. The difference in growth experienced across product types reflects the focus of members on short-term liquidity given the prevailing economic uncertainty. Additional factors included the high volume of term deposit maturities that occurred within our portfolio during the year and an interest rate environment that provided only modest rate premiums for committing to longer-term holding periods.

Our wealth management business is closely aligned with our retail division but also works with our commercial division to support investment and insurance needs of our business members. Through our team of licensed advisors, financial planners, and insurance specialists, our wealth management group provides members with access to industry-leading investment and life insurance products. Our investment fund assets under administration, which are not included in the assets captured within our Consolidated Balance Sheet, totalled almost $4.6 billion at year-end, including Coast Capital® Mutual Funds, which accounted for approximately $2.1 billion or 47% of the total. Coast Capital Mutual Funds is a co-branded mutual funds program with an external global portfolio management company. Through this program, we offer members affordable access to professionally managed investment portfolios. In 2020, our total investment fund assets under administration increased by $332 million or 7.9%, compared with growth of $437 million or 11.5% in 2019. Growth during the year was attributed to both favourable market value impacts and positive net sales results. Capital markets, which impact the value of our investment fund assets under administration, were volatile in 2020. In response to the emergence of the COVID-19 crisis, world equity markets dropped sharply in Q1 but experienced a strong recovery during the remainder of the year. Positive sales results during the year were supported through ongoing training programs to continually enhance the knowledge and advisory skills of our sales team, as well as the launch of a new fee-based account option that provides enhanced value and expands the investment choices available to our members.

Our primary focus in 2020 was on assisting existing members through the challenges of the pandemic and on building relationships with the approximately 42,000 new members that joined us in the prior year as the result of a highly successful new member acquisition campaign launched in the second half of 2019. Our Where You're At Money Chat® service, which provides members with a snapshot of their overall financial health and identifies improvement opportunities, continues to be an important part of our value proposition. In 2020, we delivered over 38,000 personalized Money Chats to new and existing members. To help our members make informed decisions about their money, we also offer Money Manager, a personal financial management tool available to all our members at no cost through our digital banking platform. Money Manager gives members the control to make smart, informed decisions with their money. In 2020, Money Manager was enhanced through the addition of six new tools that further empower our members in managing their finances. Other notable service enhancements during the year include the opening of a new branch location in North Burnaby, an area undergoing tremendous growth and home to a large number of existing Coast Capital members.

Looking ahead to 2021, our retail division will maintain its focus on the financial pressures facing our members as the impacts of the COVID-19 pandemic persist, and will be ready to respond and assist accordingly. Despite economic uncertainty that is expected to linger into 2021, we continue to see opportunities to grow our retail business. Low interest rates combined with other market factors that supported the real estate activity in 2020 are expected to prevail in 2021, supporting the continued growth of our core retail mortgage portfolio. To expand our service offer, we have also partnered with Equitable Bank to provide our members with access to reverse mortgage products in 2021. The implementation of new digital platforms underpinning our personal lending process and new product options related to auto financing will improve access to financing solutions for our retail members and support positive growth of our non-mortgage lending portfolio. Similarly, our wealth services division is planning to expand the service channels and options available to members with investment needs that will provide enhanced convenience and affordability.

Commercial Division

Our commercial division is an important part of Coast Capital's business operations. Backed by sound underwriting policies and practices, our commercial loan and lease portfolios provide an important lever for risk management through enhanced diversification while also giving us access to higher-yielding assets that strengthen our financial performance. Business members also have a broad array of financial needs, providing expanded opportunities to grow our non-interest revenue. Moreover, by helping our business members succeed and thrive, we are contributing to the health and vitality of the communities in which we operate.

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

Recognizing the diverse needs of our business members, we have organized our commercial banking team into several groups: Small Business Banking, Business Banking, Commercial Real Estate, Mezzanine Financing, Equipment Financing (Leasing) and Payments and Cash Management. On a combined basis, as at December 31, 2020, the 51,000 business members serviced by our commercial division accounted for approximately $5.4 billion, or over 30%, of our total loan and lease assets, and $3.8 billion, or almost 22%, of our total deposit balances.

Early in 2020, activities in response to the COVID-19 pandemic became a significant focus for our commercial operations. To assist business members facing financial hardship, a number of relief initiatives were implemented, including loan payment deferral programs and activities to facilitate access to federal government loan assistance programs. Through our payment deferral program during the year, we approved deferrals on approximately 460 mortgage and loan accounts for our Small Business, Business Banking and Commercial Real Estate members, and we approved deferrals on approximately 2,600 accounts managed by our Equipment Financing group.

In addition to the loan payment deferral program, our Commercial division was also active in facilitating access for business members to federal government loan assistance programs. The Canada Emergency Business Account (CEBA) program, implemented by the federal government in response to the COVID-19 pandemic, provides interest-free loans to small businesses and not-for-profit organizations. The loans under the program are intended to assist small businesses and not-for-profit organizations in covering operating costs during a period when their revenues have temporarily decreased. The government continued to evolve the program during the year with respect to qualification requirements and available loan amounts. As at December 31, 2020, we received and processed approximately 8,400 CEBA applications from business members, resulting in over 5,600 approvals and representing 4.7% of the total program approvals completed in the province of B.C. during the year. The funded value of our approved applications totalled approximately $219 million in 2020.

Management's Discussion and Analysis

For small business members who faced financial hardships and were unable to qualify for government relief programs, our Small Business team partnered with the Coast Capital Community team in the development of the Coast Capital Community Relief Fund. The fund provided $100 thousand to a number of small business members identified under the program in 2020.

Commercial Business Results

In 2020, the impacts of the COVID-19 pandemic slowed but did not extinguish our commercial business growth. During the year, our combined commercial loan and equipment lease assets increased by $230 million or 4.5%.

Our commercial loan portfolio, including mortgages, loans and lines of credit, increased by $305 million or 7.2% in 2020, compared with $371 million or 9.6% in 2019. Mortgage secured loans represent the majority of our total commercial loan portfolio. In 2020, lending activity on new development projects was dampened by the economic uncertainty, and new term lending volumes were challenged by strong industry competition and low interest rates. Our variable-rate commercial mortgage portfolio, primarily associated with real estate development and construction lending, increased by $140 million or 7.5%, supported by strong relationships with real estate developers in the multi-family construction market. Our fixed-rate commercial mortgage portfolio, primarily comprised of owner- and non-owner-occupied commercial properties, increased by $129 million or 5.9% in 2020. Our syndicated mortgage portfolio, included in the aforementioned totals, contributed to the overall growth of our mortgage portfolio, with the majority of the syndicated growth coming in regions outside of B.C. Growth of our higher yielding mezzanine portfolio, which provides financing for more complex and usually short-term needs, also contributed to the overall growth of our commercial mortgage portfolio during the year.

Our non-mortgage secured commercial loans and lines of credit, which represent approximately 4% of our total commercial loan portfolio, increased by $36 million or 22.1% in 2020, compared with relatively flat growth in 2019. Stronger growth in 2020 is primarily attributed to the origination of several larger loan facilities during the year. Expanded distribution of our trade market Business Line of Credit (BLOC) portfolio, which is targeted to certain Red Seal trades and offers streamlined approvals, also contributed to the growth of our line of credit balances experienced during the year.

The total asset value of our Equipment Financing (leasing) portfolio at year-end was $838 million, with B.C., Alberta and Ontario accounting for over 85% of the total. Total portfolio assets decreased by $75 million or 8.2% during the year, compared with an increase of $67 million or 8.0% in 2019. In addition to the general reduction in business investment activity related to economic uncertainty caused by the COVID-19 pandemic, new business investment and financing in the oil and gas sector were also impacted by the sharp decline in oil prices experienced early in the year. The year-over-year change in portfolio growth reflects a decrease in new origination volume, while the total paydown volume year-over-year was flat. New financing origination volume in 2020 decreased 34% compared with 2019. Originations in the construction, transportation and forestry industry continued to account for over 80% of the new origination volume in 2020, with the largest decrease in origination volume year-over-year attributed to the transportation sector.

At year-end 2020, our commercial deposit portfolio totalled $3.8 billion, an increase of $391 million or 11.5% during the year, compared with an increase of $171 million or 5.2% in 2019. Our large Small Business Banking member base is an important source of core deposits and is consistent with the transactional banking needs of this member group. It continues to account for the majority of our commercial deposits. Our large Small Business Banking member base is an important source of core deposits, consistent with the transactional banking needs of this member group, and continues to account for the majority of our commercial deposits. The Small Business Banking deposit portfolio increased by $227 million or 10.9% during the year, bringing the total portfolio managed by this group to $2.3 billion at year-end. Our Payments and Cash Management Group, which focuses on building relationships with business and organizations that have significant cash management needs, experienced portfolio growth of $80 million or 10.4% in 2020, increasing to $852 million at year-end. Our Business Banking Group also experienced strong deposit growth, totalling $102 million or 44.0% in 2020, while our Commercial Real Estate Group experienced modest run-off of $18 million during the year. Across all commercial divisions, growth for the year was attributed to deposits held in demand accounts, which increased by $590 million, while the overall commercial term deposit portfolio decreased by $199 million. The strong demand deposit growth is attributed to increases in the liquidity balances held by commercial members given the economic impacts and uncertainty created by the COVID-19 pandemic. Loan deferrals and government support programs focused on maintaining business cash flows and liquidity also contributed to the growth.

Several initiatives were launched in 2020 to continue to drive our commercial business forward and enhance our service offer to business members. These included fully operationalizing our remote deposit capture service, initially piloted in 2019, which allows business members to process large volumes of cheque deposits electronically. We also expanded our capabilities related to opening new commercial memberships digitally. The changes allow new membership applications for all commercial entity types, regardless of legal structure (e.g., sole proprietorship, partnership and corporation), to be received and processed digitally. To support our business members with their online banking activities, we also launched a new support page for digital business banking. One of the larger projects completed in 2020 was the replacement of our lease management system. The new lease management system adds automation and efficiency benefits for both our equipment and retail auto leasing operations. It also allows us to expand the payment frequency options available to our leasing customers. Additional investments during the year included ongoing training programs to continually enhance knowledge and advisory skills of our commercial team.

Looking ahead to 2021, we plan to continue our efforts to support the resilience and financial well-being of our business members. Our business growth expectations include lingering COVID-19 impacts on economic conditions and business confidence during the year, resulting in growth of our mortgage and loan portfolio at a rate similar to 2020, and modest positive growth within our equipment finance portfolio. In 2021, we will continue to invest in the advisory capabilities of our employees and actively seek new partnerships that provide complementary offerings to expand our business member product suite. We plan to migrate more of our existing business members from our legacy digital banking platform to our updated platform, which will offer an improved digital banking experience to members and simplify our administrative operations. Additionally, the first stage of technology enhancements to our loan origination system is planned to be introduced in 2021, which, over the coming years, will streamline and simplify the credit application process for our members.

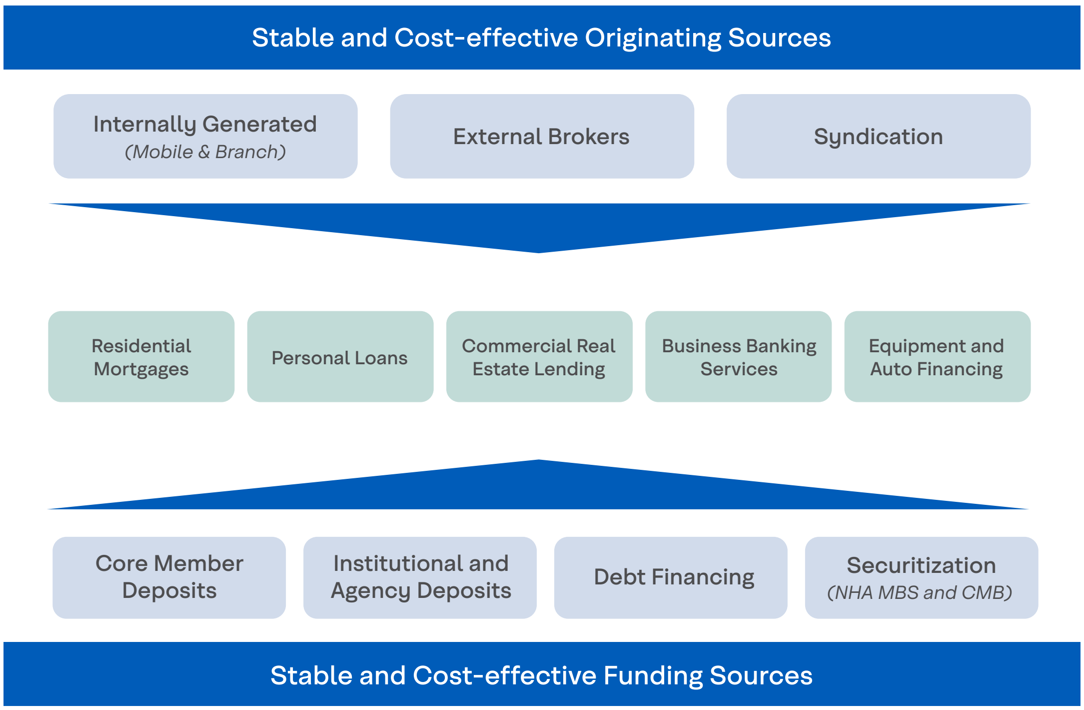
Net Interest Income

Net interest income is the difference between the interest earned on loans and other financial assets and the interest paid on deposits and other funding sources. It is impacted by both the size of our balance sheet and the net interest margin earned (net interest margin is the net interest income we earn as a percentage of our average total 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 impact on our interest margin. In managing the interest rates we offer on loans and deposits throughout the year, we are also careful to ensure that our members have access to rates 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 through a number of funding options we have established and maintain. Having access to multiple business lines and channels within our asset and liability structure provides diversification. It also provides options for managing our balance sheet growth in a stable and sustainable manner.

Diversified Asset and Liability Structure



Our net interest income in 2020 was impacted by the sharp drop in interest rates in response to the emergence of the COVID-19 pandemic. During the month of March, the Bank of Canada implemented three successive 50 basis point decreases to its overnight lending rate. These decreases were mirrored by similar changes to our prime lending rate, which decreased by 150 basis points from 3.95% to 2.45% during the month. The magnitude and speed of these sudden successive rate drops had a larger and more immediate impact on our asset yields, compared with a more gradual reduction in our funding rates, resulting in a decrease in our average net interest margin for the year.

Our 2020 net interest income totalled $338.5 million, an increase of $7.9 million or 2.4% compared with 2019. Average total assets, primarily made up of financial assets, increased by $870 million, or 4.4% in 2020, supporting this increase. The volume benefit to our net interest income was partially offset by a decrease in our net interest margin during the year. Calculated as a percentage of average total assets, our net interest margin declined by two basis points to 1.64% compared to 1.66% in 2019.

Based on interest-earning assets and interest-bearing liabilities, the increase in our average volume during the year had a favourable impact of $11.4 million on our net interest income, while rate changes had an unfavourable impact of $3.6 million.

Management's Discussion and Analysis

Net Interest Income Volume and Rate Impacts

Year ended December 31 (in thousands of dollars)	2020 Increase (decrease) in net interest income due to changes in Average balance	Average rate	Net change
Interest earning assets	26,936	(70,097)	(43,161)
Interest bearing liabilities	(15,515)	66,539	51,024
Net interest income	11,421	(3,558)	7,863

Net Interest Income

Year ended December 31 (in thousands of dollars)	2020				2019			
	Average balance	Mix %	Interest	Interest rate %	Average balance	Mix %	Interest	Interest rate %
Cash resources	3,043,783	14.7	53,516	1.76	3,019,079	15.2	62,009	2.05
Loans								
Residential	11,664,584	56.4	336,509	2.88	11,301,698	57.0	375,842	3.33
Commercial	4,413,949	21.3	172,492	3.91	4,028,454	20.3	177,254	4.40
Leasing	856,045	4.1	43,844	5.12	866,584	4.4	44,586	5.15
Personal	249,368	1.2	14,879	5.97	226,892	1.1	13,503	5.95
Lines of credit	142,109	0.7	10,218	7.19	158,267	0.8	12,812	8.10
Total loans	17,326,055	83.7	577,942	3.34	16,581,895	83.6	623,997	3.76
Other assets	332,421	1.6	–	–	231,485	1.2	–	–
Derivatives	–	–	12,083	–	–	–	696	–
Total assets	20,702,259	100.0	643,541	3.11	19,832,459	100.0	686,702	3.46
Deposits								
Demand	7,084,282	34.2	14,250	0.20	6,157,257	31.0	31,268	0.51
Fixed term non-redeemable	8,424,554	40.7	217,850	2.59	8,174,139	41.2	226,831	2.77
Fixed term redeemable	1,760,547	8.5	24,308	1.38	2,232,948	11.3	43,240	1.94
Total deposits	17,269,383	83.4	256,408	1.48	16,564,344	83.5	301,339	1.82
Borrowings	1,674,066	8.1	28,926	1.73	1,575,642	7.9	35,045	2.22
Subordinated notes	307,674	1.5	15,600	5.07	302,563	1.5	15,472	5.11
Lease obligation	85,188	0.4	4,135	4.85	86,437	0.4	4,237	4.90
Total financial liabilities	19,336,311	93.4	305,069	1.58	18,528,986	93.4	356,093	1.92
Other liabilities	62,327	0.3	–	–	69,734	0.4	–	–
Share capital	26,585	0.1	–	–	27,944	0.1	–	–
Accumulated other comprehensive income (AOCI)	40,876	0.2	–	–	10,995	0.1	–	–
Retained earnings	1,236,160	6.0	–	–	1,194,800	6.0	–	–
Total	20,702,259	100.0	305,069	1.47	19,832,459	100.0	356,093	1.80
Net interest income			338,472	1.64			330,609	1.66

Management's Discussion and Analysis

The average yield earned on our total assets decreased by 35 basis points to 3.11% in 2020, compared with 3.46% in 2019. The decrease reflects lower yields earned across all major financial asset lines during the year. Our average asset yield was also reduced due to a modest shift within our asset portfolio mix towards lower-yielding cash and investment assets, shown as cash resources in the table above. Some offset to the yield reductions was achieved through a shift in our overall loan mix, which experienced higher relative growth in higher-yielding commercial and personal loan portfolios, compared with the growth of our lower-yielding residential mortgage portfolio. Larger year-over-year gains on our derivative holdings, captured as interest income, also assisted in reducing the yield compression.

Our overall funding cost as a percentage of total assets decreased by 33 basis points to 1.47% in 2020 compared with 1.80% in 2019. The primary driver of this change was the decline in the average rates applicable to our deposit portfolio and our borrowings. A shift in our funding mix also contributed to the lower funding rate. This shift saw the proportion of funding derived through higher-cost term deposits and borrowing liabilities decrease, while the proportion of funding through lower-cost demand deposits increased.

Provision and Allowance for Credit Losses

Our total provision for credit losses (PCL) was $23.4 million, an increase of $14.2 million or 155% compared with 2019. The majority of this increase on performing loans is a direct reflection of the deterioration in the economic conditions due to the impact of the COVID-19 pandemic during the year, with the remaining smaller increase due to a growth to our loan book size year over year. In 2020, the PCL on performing loans was $17.8 million, $13.6 million higher compared with 2019. PCL on impaired loans, net of loan loss recoveries, was $5.7 million, $0.7 million or 14.0% higher compared with 2019, reflecting an increase in write-offs in 2020. As a percentage of average net loans, our total PCL was 14 basis points in 2020, an eight basis point increase compared with six basis points in 2019.

We maintain an allowance for credit losses (ACL) at a level that we consider appropriate to absorb both identified and unidentified credit losses in the loan portfolio. The total ACL at year-end 2020 was $59.4 million, an increase of $17.0 million or 40.1% compared with $42.4 million at year-end 2019. Similar to the impact on the PCL, the largest impact to the ACL is attributed to the decrease in the forward-looking forecast factors reflected in our expected credit loss (ECL) models. The biggest increase in ECL related to this reason was seen within our personal unsecured lending products of $14.5 million, reflecting the high risk of these credit facilities. This was followed by our commercial mortgages and loans portfolio with an increase of $11.2 million during the year.

Our credit loss estimate was also impacted by loan growth and refinements made to our ECL models during the year as part of an ongoing model upgrade program. The impact of the model enhancements is apparent in the ECL estimate for residential mortgages, which decreased by $10.7 million, down from $13.0 million at the end of last year.

ACL on performing loans was $58.8 million at year-end, an increase of $17.8 million during the year. ACL on impaired loans at year-end was $0.6 million, a decrease of $0.8 million during the year. Our total ACL as a percentage of total loans increased to 34 basis points as at December 31, 2020, compared with 25 basis points as at December 31, 2019.

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

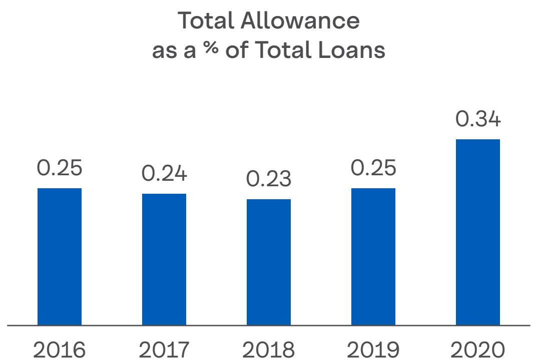
Credit Quality Ratios

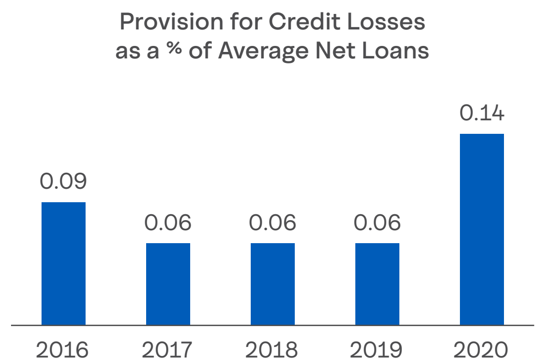
As at December 31

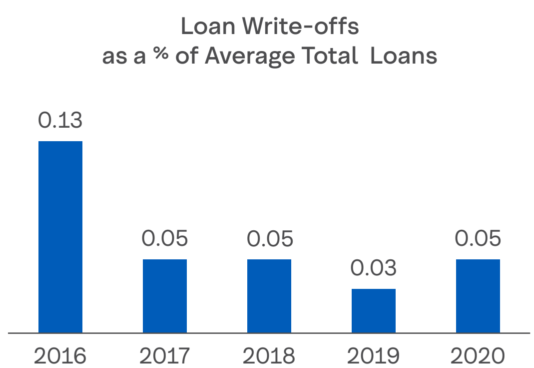
(in thousands of dollars)	2020	2019
Total loans (net of allowance for credit losses)	17,543,213	16,988,951
Provision for credit losses	23,427	9,195
Loan write-offs	8,650	5,732
Total allowance for credit losses	59,371	42,381
Impaired loans	16,334	12,799
Members' equity	1,326,173	1,259,366

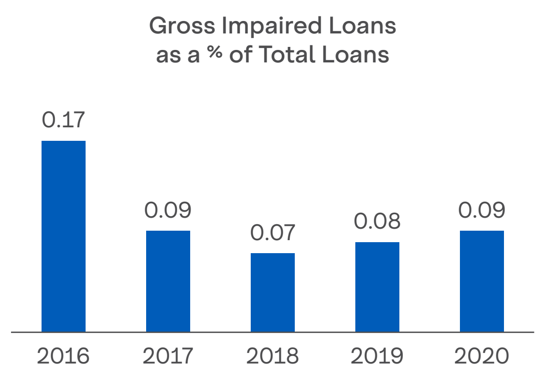
Management's Discussion and Analysis

(in per cent)	2020	2019
Provision for credit losses as % of average net loans	0.14	0.06
Loan write-offs as % of average total loans	0.05	0.03
Gross impaired loans as % of total loans	0.09	0.08
Net impaired as % of members' equity	1.19	0.91
Total allowance as % of impaired loans	363.48	331.13
Total allowance as % of total loans	0.34	0.25









We transitioned to IFRS 9 *Financial Instruments* (IFRS 9), effective January 1, 2018, which replaces IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). We elected to not restate the prior period comparative figures as permitted by the transition provisions of this standard. Accordingly, results for 2018–20 have been prepared in accordance with IFRS 9, and the comparative information for 2017 and 2016 is presented under IAS 39 as previously published.

Non-interest 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, commission and referral revenue. These products and services include day-to-day banking services, credit cards, foreign exchange, insurance, and investment fund products and accounts. These services are important to members, helping them meet their diverse financial service 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. Non-interest revenue is also generated through other activities associated with the use of our assets, such as rent and gains on securitization activities. Total 2020 non-interest income revenue was $91.1 million, a decrease of $4.0 million or 4.2% compared with 2019. The year-over-year decrease is primarily attributed to reduced transaction volumes associated with day-to-day banking activities and other services, as members altered their transaction and spending behaviour in response to the COVID-19 pandemic. Limited temporary closures across our branch network and shortened branch hours also impacted our overall transaction volumes during the year.

Non-interest Income

Year ended December 31			Change from 2019	
(in thousands of dollars)	2020	2019	$	%
Mutual and segregated fund commissions	38,250	36,715	1,535	4.2
Other fees and commissions	27,868	31,513	(3,645)	(11.6)
Credit card commissions	7,574	8,341	(767)	(9.2)
Insurance commissions	6,619	7,199	(580)	(8.1)
Foreign exchange	3,854	4,022	(168)	(4.2)
Gains from securitization activities	2,211	1,823	388	21.3
Other income	4,761	5,498	(737)	(13.4)
Total	91,137	95,111	(3,974)	(4.2)

Demand for our wealth management investment services continues to grow, both in terms of the number of members who engage with us for investment services and the depth of our member relationships. Our business in this area includes mutual and segregated funds, exchange-traded funds, and a variety of life insurance products provided through our team of financial planners, retail investment advisors and insurance specialists. The majority of wealth services revenue is generated through the mutual and segregated fund investment assets we administer on behalf of our members. Our investment assets under administration totalled almost $4.6 billion at year-end, representing an increase of $332 million or 7.9% compared with year-end 2019. Revenue from investment assets under administration was $38.3 million in 2020, an increase of $1.5 million or 4.2%, compared with 2019. Although total asset growth for the year was relatively strong, growth of our average assets during the year, a key component of revenue generation, was softer at $168 million or 4.1% compared with 2019. The reduction in average asset growth relative to total growth was caused by market volatility during the year, notably a steep decline in Q1 as global equity markets responded unfavourably to the emergence of the COVID-19 pandemic, followed by a relatively strong recovery during the remainder of the year. The percentage yield earned on our investment assets under administration in 2020 was relatively flat compared to 2019 at approximately 90 basis points.

Total revenue from other fees and commissions was $27.9 million in 2020, a decrease of $3.6 million or 11.6% compared with 2019. Revenue from other fees and commissions is primarily generated through the day-to-day banking and transaction services we provide to our retail and commercial members. These services include savings and chequing accounts, various transaction services, official cheques, safety deposit boxes and other services. The annual fee revenue we generate from these services depends on the volume of services provided, the types of services offered and the rate schedule in place, which is amended from time to time. Rate schedule changes in 2020, relative to 2019, were minor and included both fee reductions as well as selective increases. The largest impact on our revenue in this area is attributed to the reduction in member transaction volumes experienced during the year, which declined by approximately 8% compared with 2019.

Although we did experience a year-over-year volume increase in certain types of digital transactions, such as e-Transfers and on-line bill payments, the volume of other types of transactions, such as in-branch transactions, cheques written, ATM and point-of-sale purchases, declined in 2020. The decline in transaction volumes is consistent with the response of our members, in terms of their general saving and spending activities, to the COVID-19 pandemic. The pattern of change, comparing transaction volumes on a year-over-year basis, followed the trend in COVID-19 infection rates and the associated public health orders and restrictions implemented within our core B.C. market. Transaction volumes in 2020 were near the prior year level in Q1, experienced a steep decline in Q2 following the initial emergence of the pandemic, returned to near the prior year level in Q3, and declined again in Q4, although not as steeply as in Q2.

Our credit card commission revenue, through our co-branded Desjardins Visa credit card offer, was $7.6 million in 2020, representing a decrease of $0.8 million or 9.2% compared with 2019. Credit card commission was impacted in 2020 by a reduction in member transaction activity during the year, as discussed above. Both the average number of active cards and total card spending volumes decreased compared with 2019.

In 2020, our total insurance commission revenue was $6.6 million, a decrease of $0.6 million or 8.1% compared with 2019. Our total insurance commission revenue includes creditor insurance, which is generated as part of our mortgage and loan activity, and wealth management life insurance services, which provide members with a wide array of insurance solutions. Our wealth management life insurance services generated revenue of $3.0 million in 2020, which was $0.1 million or 4% lower compared with 2019. Growth of our life insurance revenue during the year was constrained by COVID-19 impacts, which reduced the number of in-person insurance meetings we were able to conduct. Our temporary branch closures during the year also reduced opportunities to identify new referrals for insurance services. Our creditor insurance activities in 2020 generated revenue of $3.6 million, a decrease of $0.5 million compared with 2019. The 2020 creditor insurance result is aligned to the trending in prior years as we investigate options to better position this service offer to our members.

Non-interest Expenses

Non-interest expenses include all non-interest-related expenses except for our provision for credit losses and income taxes. We strive to manage our expenses in a diligent and efficient manner to support sustainable long-term capital growth while also recognizing the impact of spending decisions on the member experience. Total non-interest expense was $359.7 million in 2020, a decrease of $0.4 million or 0.1% compared with 2019. This relatively flat year-over-year expense result reflects modestly higher premises and employee salary and benefit expenses, along with more significant increases in technology expenses, offset by expense reductions related to marketing, member services administration, consultants, travel, meals and entertainment, and training and recruitment. The expense decreases in the areas noted reflect the impact of, and response to, the COVID-19 pandemic, including a decrease in overall transaction volumes, due to changes in member banking activity and expense management efforts.

Management's Discussion and Analysis

Non-interest Expenses

Year ended December 31 (in thousands of dollars)	2020	2019	Change from 2019 $	 %
Salaries and benefits				
Salaries including variable pay and incentives	152,157	157,935	(5,778)	(3.7)
Employee benefits, other	41,576	33,959	7,617	22.4
	193,733	191,894	1,839	1.0
Technology				
Hardware, software, data, supplies	39,836	30,834	9,002	29.2
Depreciation and amortization	15,502	12,809	2,693	21.0
	55,338	43,643	11,695	26.8
Premises and equipment				
Rent, maintenance, utilities, taxes	12,573	11,949	624	5.2
Depreciation	18,653	17,975	678	3.8
	31,226	29,924	1,302	4.4
Member services administration				
Banking Services	18,640	22,216	(3,576)	(16.1)
Loan processing	4,196	4,884	(688)	(14.1)
Investments and life insurance	3,824	3,678	146	4.0
	26,660	30,778	(4,118)	(13.4)
Consultants	12,678	16,372	(3,694)	(22.6)
Marketing	10,812	16,224	(5,412)	(33.4)
Community contributions	3,932	5,793	(1,861)	(32.1)
Legal and audit	3,566	2,198	1,368	62.2
Stationery, telephone and postage	2,648	1,173	1,475	125.7
Travel, meals and entertainment	2,398	4,735	(2,337)	(49.4)
Bonding and other insurance	1,915	1,663	252	15.2
Training and recruitment	1,028	3,468	(2,440)	(70.4)
Other	13,724	12,198	1,526	12.5
Total	359,658	360,063	(405)	(0.1)

Salaries and benefits expense, our largest expense area, increased by $1.8 million or 1.0% compared with the prior year. This modest increase reflects a general pause in new hiring during the year, flattening the growth of our total employee count in response to the deterioration in economic conditions and general uncertainty created by the COVID-19 pandemic. Annual salary increments related to inflation and merit, as well as strategic restructuring costs incurred in the year, were offset by reductions in variable pay and incentive costs, reflective of the unfavourable economic conditions during the year and our overall financial results against targeted expectations. Strategic restructuring costs are captured in employee benefits, other expenses (above) and were the main driver of the year-over-year increase in this expense area. To demonstrate leadership with respect to expense management during the year, the Board, Executive and Senior Leadership Team agreed to salary reductions of 10%, 10% and 5%, respectively.

Management’s Discussion and Analysis

Technology platforms to support service delivery are an important part of our value proposition in the delivery of financial services. Our members, both retail and commercial, increasingly seek the convenience of digitized services, covering a broad range of banking activities, delivered with a quality experience in a secure environment. Additionally, the ability to maintain and improve the efficiency of our operations depends upon the use of technology-enabled automation solutions within our business processes. Our technology expenses in 2020 increased by $11.7 million or 26.8% compared with 2019, with increases to both our depreciation expense and our expense for hardware, software data and supplies. The increases reflect our ongoing efforts to enhance our member experience and automate our processes. In 2020, this included the implementation of a new lease management system, expanded capabilities to open new commercial memberships digitally and the addition of new tools for members using our digital Money Manager.

Premises and equipment expenses increased by $1.3 million or 4.4% compared with the prior year. The expense for rent, maintenance, utilities and taxes increased by $0.6 million or 5.2%, reflecting higher janitorial and premises hygiene related costs, as well as an increase in security spending. These increases are largely attributed to the additional costs associated with our response to the COVID-19 pandemic and our efforts to ensure the health and safety of our employees and members in our business locations. The increase in depreciation expense of $0.7 million or 3.8% compared with the prior year reflects increases in the right-of-use asset value of the locations we maintain, including impacts from one new and seven renewed or extended property lease agreements we entered into during the year.

Member services administration expenses decreased by $4.1 million or 13.4% compared with the prior year, primarily attributed to lower banking services expense, which was $3.6 million or 16.1% lower year-over-year. The reduction in banking services expense reflects a decrease in administration costs associated with member transaction volumes, which declined by approximately 8% in 2020 compared with 2019. As discussed in the non-interest revenue section (above), the decline in transaction volumes is consistent with our members’ response during the COVID-19 pandemic, in terms of their general saving and spending activities.

Other expense areas which experienced material decreases in 2020 included marketing, consultants, travel, meals and entertainment, and training and recruitment. The notable reduction in our marketing expense, which was $5.4 million or 33.4% lower compared with 2019, reflected a pull-back in planned marketing activity during the year, recognizing the dampened returns expected from this activity given the unique conditions created by the COVID-19 pandemic. The year-over-year marketing expense decrease also reflects relatively higher spending incurred in 2019 as part of an initiative to refresh our brand, and related to our member acquisition campaign that resulted in significant new member growth in 2019. Lower expenses related to consultants in 2020 reflect cost saving measures undertaken in 2020 to manage these expenses, given the economic uncertainty and financial pressures resulting from the pandemic, and also an initiative to shift to an internal resourcing approach where appropriate given our long-term needs. The year-over-year decrease in expense for consultants also reflects higher spending in 2019 related to ongoing work necessary to meet our regulatory and reporting requirements following our transition to federal credit union status in 2018. Management cost-saving efforts and adherence to public health guidelines contributed to the decrease in our total expense for travel, meals and entertainment, which was $2.3 million or 49.4% lower compared with 2019. Expenses for training and recruitment were $2.4 million or 70.4% lower year-over-year attributed to a reduction in these activities, most notably related to new employees reflecting the decision to pause new hiring during the year in response to the COVID-19 pandemic.

In 2020, we maintained our community support through our commitment to contribute approximately 10% of our budgeted bottom-line earnings to local programs and events. Our total contribution in 2020 decreased by $1.9 million or 32.1% compared with 2019, reflecting a reduction in our budgeted earnings expectations for the year. Our 2020 earnings budget included expectations of increased industry competition and lower margins, as well as expense impacts from increased investments planned during the year intended to strengthen our member service and long-term financial performance, supporting our continued commitment to healthy and sustainable community contributions.

Other Comprehensive Income

Other comprehensive income totalled $34.1 million after tax, an increase of $18.4 million or 116.2% compared with the previous year. The majority of the increase is attributed to unrealized gains on securities totalling $31.8 million, resulting from the sharp drop in market interest rates experienced during the year following the Bank of Canada interest rate announcements in Q1.

Capital Expenditures

Capital spending in 2020 totalled $47.1 million, $4.2 million or 9.7% higher compared with 2019. The majority of this spending was focused on technology projects. Combined spending on software and computer equipment was $36.1 million, which accounts for over 75% of the total capital spending during the year. This spending was necessary to update and improve the platforms and systems that are critical to delivering a quality banking experience to our members in a secure digital environment, and to expand our use of technology-enabled automation solutions to improve the efficiency of our business operations. Spending on software and computer equipment during the year includes work in progress for new systems and upgrades to be released in the future and enhancements released in 2020, including a new lease management system, additional digital Money Manager tools for our members, and expanded capabilities to open new commercial memberships digitally.

Right-of-use asset additions, related to IFRS 16 Leases accounting changes adopted in 2019, are included as $9.2 million of the 2020 total capital expenditure. This amount reflects the valuation applied to one new and seven renewed or extended property lease agreements entered into during the year. In 2020, we also made capital investments to maintain and improve the various premises used by employees and members, including investments related to the opening of a new North Burnaby, B.C. branch location.

Capital spending plans in 2021 represent an increase compared with 2020 and will continue to focus on technology platforms and digital capabilities intended to enhance our member experience, expand our service capabilities and improve our operational efficiency.

Capital Expenditures

Year ended December 31			Change from 2019	
(in thousands of dollars)	2020	2019	$	%
Software	34,596	20,773	13,823	66.5
Right-of-use assets	9,193	11,748	(2,555)	(21.7)
Computer equipment	1,519	5,681	(4,162)	(73.3)
Leasehold improvements	917	2,477	(1,560)	(63.0)
Furniture and equipment	868	2,249	(1,381)	(6.6)
Total	47,093	42,928	4,165	9.7

Loan Portfolio

Total loans, including leases, increased in 2020 by $571 million or 3.4%, to $17.6 billion at year-end. Total loan growth was lower than the $895 million or 5.5% experienced in 2019 and lower than our planned growth for the year, which did not factor in the COVID-19 crisis and other economic impacts that occurred during the year. The mix of our total loan portfolio shifted slightly in 2020 towards total commercial loans, which grew at 4.5% compared with total retail loans, which grew at 2.9%. The net impact on our total loan portfolio mix was a 0.3% shift from total retail to total commercial loans. This shift supports enhanced yield from our loan portfolio, although overall yield was compressed by a general decrease in lending rates during the year.

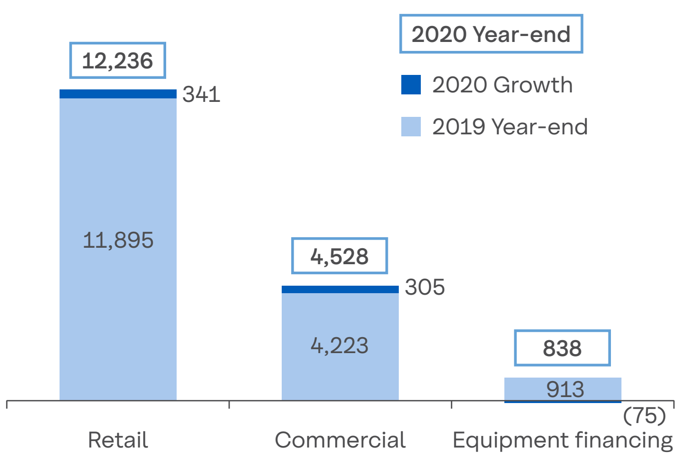
Management's Discussion and Analysis

Loan Portfolio

As at December 31	2020		2019	
	Total in millions of dollars[1]	Mix %	Total in millions of dollars[1]	Mix %
Retail				
Residential mortgages:				
Conventional	7,020	39.9	6,867	40.3
Revenue	1,954	11.1	1,640	9.6
Insured	1,955	11.1	1,955	11.5
High-ratio	12	0.1	3	–
Home equity lines of credit	921	5.2	1,034	6.1
Total residential mortgages	11,862	67.4	11,499	67.5
Other:				
Unsecured lines of credit	122	0.7	152	0.9
Loans and auto leases	252	1.4	244	1.4
Total personal loans & leases	374	2.1	396	2.3
Total retail loans	12,236	69.5	11,895	69.8
Commercial				
Commercial mortgages and loans	4,528	25.7	4,223	24.8
Equipment financing	838	4.8	913	5.4
Total commercial loans	5,366	30.5	5,136	30.2
Total loans	17,602	100.0	17,031	100.0

1. Before allowance for credit losses.

Loan Portfolio ($ millions)



Management's Discussion and Analysis

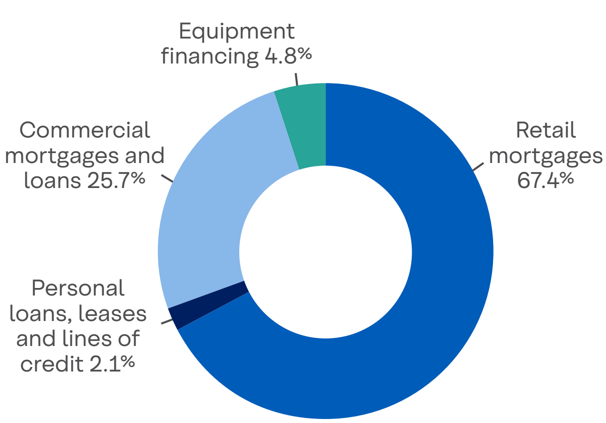
Retail residential mortgages, the largest asset group within our loan portfolio representing over 67% of the total, increased by $363 million or 3.2% in 2020, compared with an increase of $417 million or 3.8% in 2019. New mortgage origination volumes remained relatively high during the year, supported by interest rate reductions that helped maintain real estate market activity despite headwinds from higher unemployment and economic uncertainty caused by the pandemic. Strong origination volume was offset by increased pay-down activity within the portfolio. Included in pay-down activity during the year was a trend towards lower outstanding home equity line of credit balances, as members adjusted spending and borrowing activities based on the prevailing economic conditions.

Our non-mortgage secured retail loan, lease and line of credit assets decreased by $22 million or 5.6%, compared with positive growth of $39 million or 10.9% in 2019. The overall decrease in the portfolio was primarily due to a reduction in outstanding balances within our unsecured lines of credit portfolio, reflecting changes in member spending and savings activities aligned to the timing of the emergence of the COVID-19 pandemic. Auto financing portfolio growth remained positive in 2020, although growth for the year was lower than in 2019.

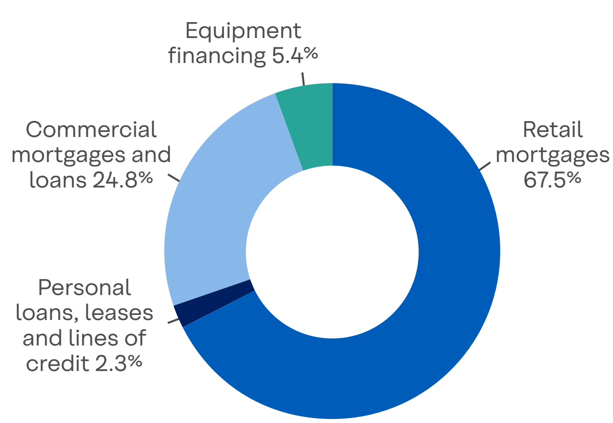
Our commercial loan portfolio, including mortgages, loans and lines of credit, increased by $305 million or 7.2% in 2020, compared with $371 million or 9.6% in 2019. Commercial mortgages represent the majority of our commercial loan portfolio. Both the fixed-rate and variable-rate mortgage portfolios experienced positive growth in 2020. Our non-mortgage secured commercial loans and lines of credit, which represent approximately 5% of our total commercial loan portfolio, increased by $36 million or 22.1% in 2020, compared with relatively flat growth in 2019.

Our equipment leasing portfolio decreased by $75 million or 8.2% in 2020, compared with an increase of $67 million or 8.0% in 2019. Our commercial leasing division has operated across Canada for several years, supported by a network of equipment dealers that we have built relationships with and have partnered with to offer our leasing program to their customers. Approximately 31% of our equipment leasing portfolio is located in B.C., with the remaining 69% attributed to other provinces, most notably Ontario and Alberta. Combined, B.C., Alberta and Ontario account for over 87% of our total equipment leasing portfolio. The majority of the portfolio reductions experienced in 2020 are attributed to these three provincial portfolios, with the largest reduction amongst the three, measured as a percentage of the portfolio value at the beginning of the year, occurring in Alberta, at 15.2%. As a percentage of our total loan portfolio, equipment lease assets decreased to 4.8% at year-end 2020, compared with 5.4% at year-end 2019.

2020 Loan Portfolio
(December 31)



2019 Loan Portfolio
(December 31)



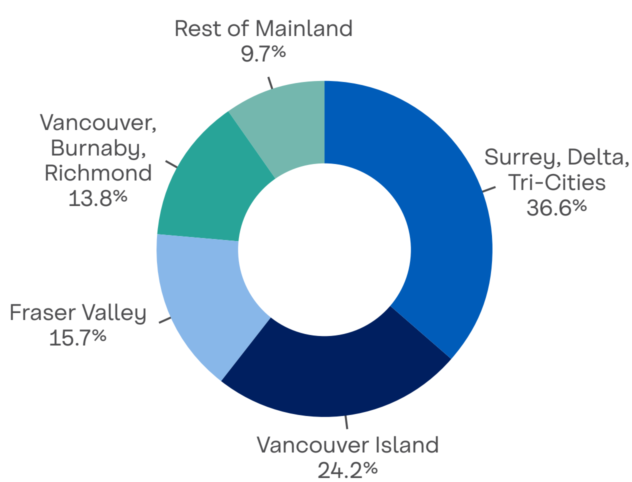
Loan Portfolio with Geographical Distribution

Year ended December 31, 2020
(in millions of dollars)

							2020		2019		Change	
	Retail	Mix %	Commercial	Mix %	Equipment leasing	Mix %	Total loans	Mix %	Total loans	Mix %	Total loans	Mix %
Not secured	166	1.4	415	9.2	0	0.0	581	3.3	507	3.0	74	0.3
Secured												
AB	12	0.1	299	6.6	145	17.3	456	2.6	397	2.3	59	0.3
BC	12,003	98.1	3,454	76.3	259	30.9	15,716	89.3	15,336	90.1	380	(0.8)
MB	0	0.0	51	1.1	29	3.5	80	0.5	78	0.5	2	(0.0)
NB	0	0.0	0	0.0	9	1.1	9	0.1	7	0.0	2	0.1
NL	0	0.0	9	0.2	0	0.0	9	0.1	11	0.1	(2)	(0.0)
NS	0	0.0	11	0.2	3	0.4	14	0.1	12	0.1	2	0.0
ON	55	0.4	273	6.0	329	39.3	657	3.7	611	3.6	46	0.1
PE	0	0.0	0	0.0	1	0.1	1	0.0	1	0.0	0	(0.0)
QC	0	0.0	0	0.0	45	5.4	45	0.3	54	0.3	(9)	(0.1)
SK	0	0.0	16	0.4	18	2.1	34	0.2	17	0.1	17	0.1
Total	12,236	100.0	4,528	100.0	838	100.0	17,602	100.0	17,031	100.0	571	

Retail secured in B.C. represents the largest single concentration within our loan portfolio at $12.0 billion. This portfolio is primarily made up of real estate secured mortgages. The geographic breakdown of our B.C. real estate secured portfolio is shown below.

B.C. Real Estate Secured Portfolio
(December 31)



Deposits and Borrowing

Deposits

Our deposit portfolio increased by $971 million or 5.9%, compared with an increase of $230 million or 1.4% in 2019. Deposit growth in 2020 was aligned to our asset funding growth needs and liquidity requirements. Positive deposit growth was supported during the year by the response of both our retail and commercial members to the COVID-19 crisis. The economic uncertainty combined with public health directives, which restricted certain consumption activities, dampened consumer spending and business investment, resulting in increased saving. Member cash flows and saving activity were also supported by loan deferral programs and government support programs implemented to reduce financial hardship due to the pandemic and minimize adverse impacts on the economy. In managing their increased savings, members favoured more liquid holdings to ensure access to funds as needed, given the heightened economic uncertainty. Additionally, the yield curve remained relatively flat during the year, minimizing the incentive to hold savings in longer, fixed-term deposit products. The net result was exceptionally strong growth of our demand deposit portfolio in 2020, while our term deposit portfolio decreased. The maturity in Q4 of a large tranche of term deposits within our deposit portfolio, created to augment our liquid asset holdings in preparation for our transition to a federal credit union status in 2018, contributed to the shift in our portfolio towards demand deposits.

During the year, we continued to maintain our strong network of external deposit agents, which we have developed over many years of operations through this channel. Our transition to federal status in 2018 allowed us to extend the reach of our existing agency partner relationships beyond B.C. to include partner offices located in other provinces. We have also developed and maintain deposit relationships with key institutional customers. Our deposit portfolios through both of these channels decreased in 2020, with our external agent portfolio declining by $18 million or 0.7%, and our institutional portfolio declining by $45 million or 3.8%, in line with our liquidity needs. The reductions during the year reflect the strong growth opportunity presented through our core retail and commercial channels. Our core retail and commercial deposit portfolio increased by $1.0 billion or 8.2% in 2020.

Deposit by Source

As at December 31 (in millions of dollars, except as noted)	2020	Mix %	2019	Mix %	Change from 2019 $	 %
Core retail and commercial members	13,607	78.0	12,573	76.3	1,034	8.2
External deposit agents	2,703	15.5	2,721	16.5	(18)	(0.7)
Institutional depositors	1,143	6.5	1,188	7.2	(45)	(3.8)
Total	17,453	100.0	16,482	100.0	971	5.9

Deposit by Type

As at December 31 (in millions of dollars, except as noted)	2020	Mix %	2019	Mix %	Change from 2019 $	 %
Demand	8,314	47.6	6,367	38.6	1,947	30.6
Fixed-term	9,139	52.4	10,115	61.4	(976)	(9.6)
Total	17,453	100.0	16,482	100.0	971	5.9

Management's Discussion and Analysis

Our overall deposit portfolio mix by source, based on year-end balances, shifted in 2020 towards our core member portfolio, which increased as a percent of total deposits by 1.7% to 78.0%. Looking at our deposits based on product type, our demand portfolio experienced a $1.9 billion or 30.6% increase during the year, while our fixed-term deposit portfolio decreased by $1.0 billion or 9.6%. As a result, our deposit mix by product type shifted to a more balanced position, with demand deposits increasing as a percent of total deposits by 9.0% during the year to 47.6% at year-end.

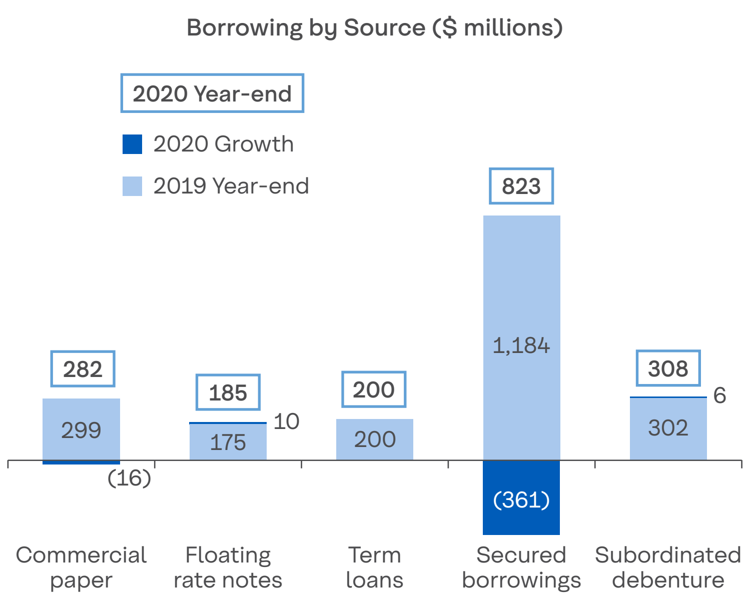
The shifts in both our source mix (towards our member deposits) and product type mix (towards our demand deposits) supported lower overall deposit funding costs. Combined with generally lower market interest rates for deposits, these shifts resulted in a 34 basis points decrease in the average rate paid on our deposit portfolio, which declined to 1.48% in 2020, compared with 1.82% in 2019.

Borrowing

We maintain borrowing facilities through a number of channels and sources to assist in the management of short-term funding needs and to support longer-term growth opportunities. Our total borrowing, including subordinated debt, decreased by $361 million or 16.7% in 2020 to $1.8 billion at year-end, compared with $2.2 billion at year-end 2019. The reduction in borrowing reflects our strong funding results through deposit growth relative to our asset growth during the year. The majority of our borrowing reduction occurred in our secured borrowing facility, with borrowing changes through our other sources remaining relatively flat during the year.

Borrowing by Source

Year ended December 31			Change from 2019	
(in thousands of dollars)	2020	2019	$	%
Commercial paper	282,469	298,543	(16,074)	(5.4)
Floating rate notes	184,896	175,000	9,896	5.7
Term loans	200,000	200,000	0	0.0
Secured borrowings	823,401	1,184,006	(360,605)	(30.5)
Subordinated debenture	307,731	301,887	5,844	1.9
Total	1,798,497	2,159,436	(360,939)	(16.7)



Management's Discussion and Analysis

Risk Management

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

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.

Management's Discussion and Analysis

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.

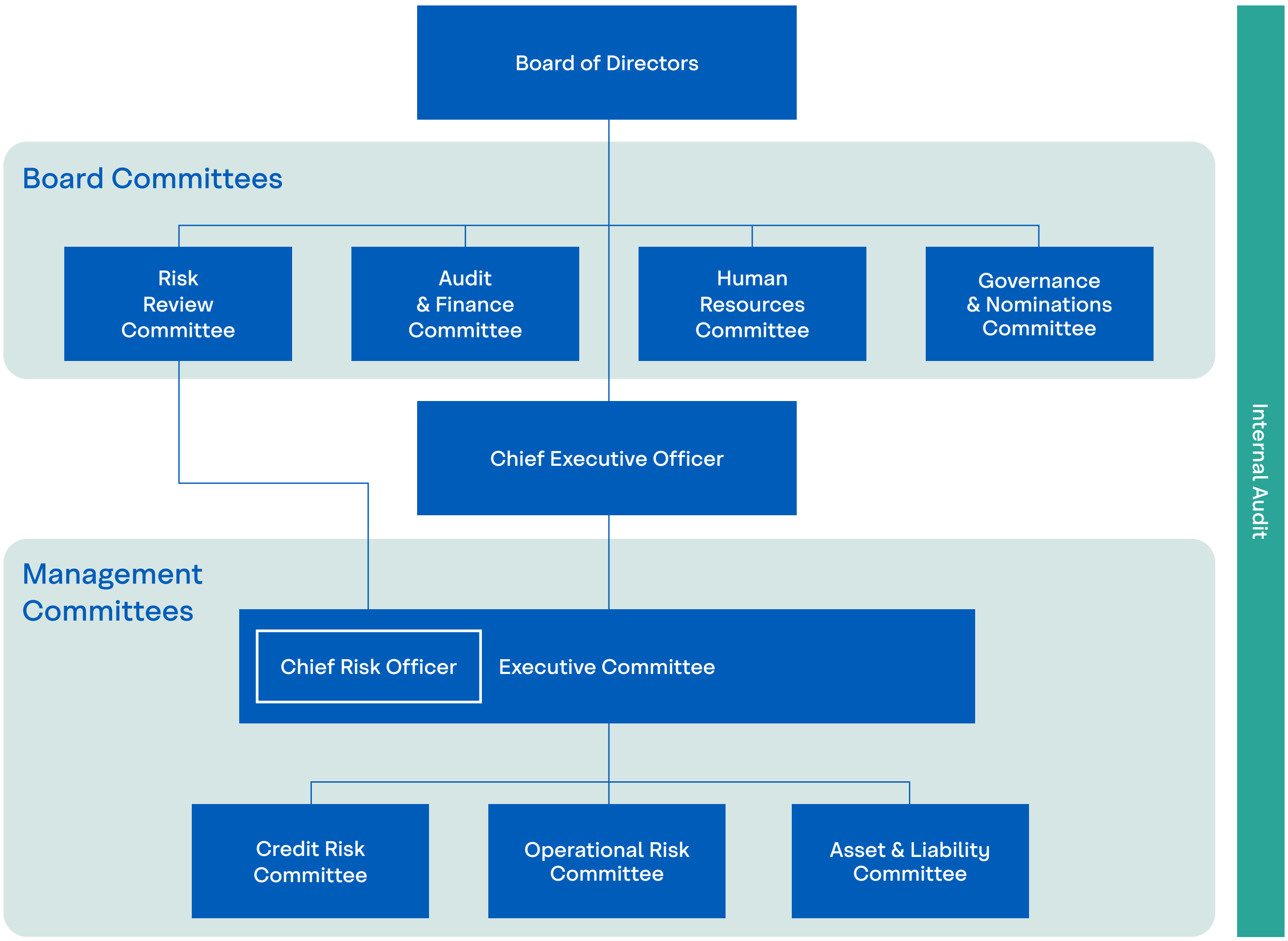


Figure 2: Coast Capital's Risk Management Governance Structure

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 Framework, the Internal Control Framework, and provides risk oversight, including monitoring and evaluation of key risks by ensuring appropriate risk frameworks and policies are in place. The Board fulfills its oversight responsibilities through its established committees.

- The *Risk Review Committee* (RRC) is responsible for overseeing our risk profile and performance against the defined risk appetite, including assisting the Board in fulfilling its responsibilities for oversight of capital and liquidity management. The RRC approves the ERMF and related frameworks and policies to manage the risk to which we are exposed. The RRC is also responsible for overseeing the governance of projects undertaken by the Enterprise Project Management Office (previously performed by a separate Project Oversight Committee).
- The *Audit & Finance Committee* (AFC) is responsible for overseeing our financial reporting and internal control activities, as well as 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, succession planning and workplace health and safety, and ensures compensation programs appropriately align to and support Coast Capital's risk appetite.
- The *Governance & Nominations Committee* (GNC) is responsible for overseeing corporate governance practices to ensure alignment with best practices, regulatory expectations and our purpose and values. The GNC also identifies the priority skills and experience to be sought in director candidates, seeks appropriate candidates for nomination to the Board, and oversees the director nomination and election process.

Roles and Responsibilities of Other Risk Management Committees

The EXCO is responsible for overseeing the overall governance, operations and activities of Coast Capital; these activities include but are not limited to corporate strategy, business and financial performance, income, liquidity and capital performance and risk appetite. EXCO defines our overall risk strategy in consultation with and subject to approval by the Board. Each member of EXCO is responsible for developing, executing and managing strategies for their business areas and ensuring such strategies align with our risk appetite.

- The *Credit Risk Committee* (CRC) is responsible for overseeing key credit risks and controls to ensure alignment with the risk appetite of Coast Capital. These responsibilities include, but are not limited to, identification of emerging risks/risk events, development of action plans to treat risks, assignment of action plan owners, escalation of issues to the EXCO or RRC (or both) and reporting risk appetite and measures to the RRC.
- The *Operational Risk Committee* (ORC) is responsible for overseeing the effective identification and management of operational risks and internal controls across Coast Capital. These responsibilities include, but are not limited to, the identification of emerging risks/risk events, development of action plans to treat risks, assignment of action plan owners, escalation of issues to the EXCO or RRC (or both) and reporting risk appetite and measures to the RRC.
- *The Asset and Liability Committee* (ALCO) is responsible for overseeing the balance sheet (including capital management, funding and liquidity management and asset liability management) both under normal operating conditions as well as in periods of stress. These responsibilities include, but are not limited to, identification of emerging risks/risk events, development of action plans to treat risks, assignment of action plan owners, escalation of issues to the EXCO or RRC (or both) and reporting risk appetite and measures to the RRC.

Risk Appetite

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

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

Our risk appetite is both driven by and informs:

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

Risk 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 business 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 associated with the inability or unwillingness of a counterparty, borrower, obligor or guarantor to fulfill its contractual obligations for a financial transaction on a timely basis.
- **Operational Risk**: The risk of loss resulting from people, inadequate or failed internal processes and systems, or from external events.

Risk Identification and Assessment

Risk identification and assessment focus on recognizing and understanding existing risks, risks that may arise from new or evolving business initiatives and risks that emerge from the changing business, economic and competitive environment.

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

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

Risk Measurement

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

Strategic Risk

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

Regulatory Risk

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 our compliance obligations.

Emerging Risks

Coast Capital identifies and assesses emerging risks on an ongoing basis, evaluating the business and economic environment as well as internal operations for potential risks on the horizon. Looking ahead into 2021 and beyond, key emerging risks include:

Digital Innovations and Disruption: Technology innovations and new entrants will create business disruption, threaten competitive advantage or affect pricing of products and services, which may threaten revenue or market share. Financial institutions in Canada are making large investments in the digital space and launching new Fintech partnerships and offers. Mass personalization through analytics, APIs and Artificial Intelligence, and consultations for open banking are emerging trends in Canada. Demographic expectations continue to evolve, requiring organizations such as Coast Capital to adopt agile strategies and consistently evaluate their approaches to digitalization.

Pandemic Recovery: Ongoing impacts from the COVID-19 pandemic will continue in 2021 and beyond, with the Bank of Canada expected to keep interest rates at current levels until at least 2023, while Canada undergoes a staggered recovery. The long-term effects of the pandemic are difficult to determine, but organizations like Coast Capital will need to be agile and flexible in the face of a potentially fragile economy, new remote working models and shifts in public expectations for services.

Climate Change: Long-term climate change is expected to have multiple physical impacts that will, in turn, affect the economy and real estate market and the related members and investments Coast Capital maintains. Growing concern and awareness amongst the public is likely to continue increasing pressure on organizations and government to offer solutions for transitioning to a climate-friendly economy. Additionally, increasing regulatory oversight related to climate risk and associated financial disclosure has begun in Europe and the United Nations and will likely continue to form around the globe.

Risk Information Specific to Our Financial Reporting

(Shaded information that follows on pages 55-59 is an integral part of the audited financial statements)

Capital, Liquidity and Market Risk

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

Capital Management

Regulatory Capital Requirements

We manage our capital in accordance with our internal policy as reviewed and approved by our Board on an annual basis, with review and recommendations from its RRC. The internal policy includes considerations of federal regulations and guidelines as set out by the *Bank Act* and OSFI's Capital Adequacy Requirements (CAR) guideline based on the Bank for International Settlements, Basel Committee on Banking Supervision (BCBS) capital guidelines, commonly referred to as Basel III.

We have implemented processes to measure, track and report our regulatory capital ratios based on these guidelines. We remained fully compliant with the applicable regulatory capital requirements as at December 31, 2020, and throughout the year then ended.

Maintaining a Sustainable Level of Regulatory Capital

Sustainable business growth and expansion of our member-focused products and services depends on our ability to maintain healthy capital ratios. Retained earnings growth, which is generated through profitable business operations, remains our primary source of capital. This underscores the importance of our pricing decisions and our efforts to manage expenses prudently to ensure we earn positive and sufficient returns.

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

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

- Tier 1 capital, which is designed to ensure going concern, is the most permanent and subordinated form of capital and consists of Common Equity Tier 1 (CET 1) capital and Additional Tier 1 (AT 1) capital; and
- Tier 2 capital consists of supplementary capital instruments.

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

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

The capital adequacy requirements also require the allocation of capital to support operational risk. Coast Capital uses the Basic Indicator Approach to measure operational risk.

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

In response to the COVID-19 pandemic and as part of its support for deposit-taking institutions, OSFI is providing relief measures to provide operational capacity for such institutions to respond to and support the immediate financial stability priorities of the Canadian government. Further details are provided in Note 19b to the Consolidated Financial Statements.

Capital Structure and Regulatory Ratios

Our Common Equity Tier 1 (CET1) capital ratio increased to 11.6% as at December 31, 2020, compared with 11.5% as at the prior year-end, and continues to remain both strong and above the internal and external limits. Growth of our CET1 ratio is mainly attributed to OSFI transitional arrangements, with the impact of retained earnings growth, through positive earnings net of member dividends and positive other comprehensive income, offset by the increase in our risk-weighted assets, during the year. Risk-weighted asset growth reflects both an increase in our total assets and a shift in our portfolio mix towards higher risk-weighted assets, such as commercial mortgages and loans, during the year.

Our Tier 1 capital ratio was 11.7% as at December 31, 2020, and remained stable compared with the prior year-end. Our Total Capital ratio was 14.2% as at December 31, 2020, a decrease compared with 14.6% as at the prior year-end, due to stronger risk-weighted asset growth relative to our total capital growth. Total capital growth continues to be impacted by the 10% phase-out requirements described above related to our non-qualifying subordinated debenture capital instruments.

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

Year ended December 31 (in thousands of dollars)	OSFI line number	2020	2019
Common Equity Tier 1 capital: instruments and reserves			
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	1	3,040	3,026
Retained earnings	2	1,253,136	1,219,131
Accumulated other comprehensive income (and other reserves)	3	46,922	12,477
Common Equity Tier 1 capital before regulatory adjustments	6	1,303,098	1,234,634
Common Equity Tier 1 capital: regulatory adjustments			
Total regulatory adjustments to Common Equity Tier 1	28	108,589	95,617
Common Equity Tier 1 capital (CET1)	29	1,194,509	1,139,017
Common Equity Tier 1 capital (CET1) with transitional arrangements for ECL provisioning not applied	29a	1,184,816	1,139,017
Additional Tier 1 capital: instruments			
Additional Tier 1 capital (AT1)	44	18,327	20,945
Tier 1 capital (T1 = CET1 + AT1)	45	1,212,836	1,159,963
Tier 1 capital (T1 = CET1 + AT1) with transitional arrangements for ECL provisioning not applied	45a	1,203,143	1,159,963
Tier 2 capital: instruments and allowances			
Directly issued capital instruments subject to phase out from Tier 2	47	210,000	240,000
Collective allowances	50	49,111	41,051
Tier 2 capital before regulatory adjustments	51	259,111	281,051
Tier 2 capital: regulatory adjustments			
Tier 2 capital (T2)	58	259,111	281,051
Total capital (TC = T1 + T2)	59	1,471,947	1,441,014
Total capital (TC = T1 + T2) with transitional arrangements for ECL provisioning not applied	59a	1,471,947	1,441,014
Total risk-weighted assets	60	10,337,091	9,892,815
Capital ratios			
Common Equity Tier 1 (as percentage of risk-weighted assets)	61	11.6	11.5
Common Equity Tier 1 (as percentage of risk-weighted assets) with transitional arrangements for ECL provisioning not applied	61a	11.5	11.5
Tier 1 (as percentage of risk-weighted assets)	62	11.7	11.7
Tier 1 (as percentage of risk-weighted assets) with transitional arrangements for ECL provisioning not applied	62a	11.6	11.7
Total capital (as percentage of risk-weighted assets)	63	14.2	14.6
Total capital (as percentage of risk-weighted assets) with transitional arrangements for ECL provisioning not applied	63a	14.2	14.6
OSFI target			
Common Equity Tier 1 capital target ratio	69	7.0	7.0
Tier 1 capital target ratio	70	8.5	8.5
Total capital target ratio	71	10.5	10.5
Capital instruments subject to phase-out arrangements			
Current cap on T2 instruments subject to phase out arrangements	84	70%	80%
Amounts excluded from T2 due to cap (excess over cap after redemptions and maturities)	85	90,000	60,000

The tables below present our assets based on their risk-weighted values, as used in the calculation of our total risk-weighted assets and regulatory capital ratios.

Risk-Weighted Assets by Weighting Category

Year ended December 31
(in thousands of dollars)

									2020
	0%	20%	35%	50%	75%	100%	150% and greater	Total	Risk-weighted assets
Corporate		63,757		102,439		4,596,791		4,762,987	4,660,762
Sovereign	1,816,320							1,816,320	0
Bank	215,504	450,027		80,098				745,629	130,054
Retail residential mortgages	1,911,542		9,776,603		167,977	3,714		11,859,836	3,551,508
Other retail									
Excluding small business entities					152,710		955	153,665	115,965
Small business entities					1,082,422		9,568	1,091,990	826,168
Equity						3,373		3,373	3,373
Undrawn commitments			1,737					1,737	608
Operational risk							64,935	64,935	811,693
Derivative exposures		19,371					464	19,835	9,672
Other	317,641	815				172,951	6,479	497,886	189,314
Off-balance sheet exposures	8,983				10,323	30,232		49,538	37,973
Total as at December 31, 2020	**4,269,990**	**533,970**	**9,778,340**	**182,537**	**1,413,432**	**4,807,061**	**82,401**	**21,067,731**	**10,337,091**
Total as at December 31, 2019	**4,703,998**	**275,417**	**9,400,560**	**97,721**	**1,505,840**	**4,546,865**	**74,009**	**20,604,409**	**9,892,815**

Risk-Weighted Assets by Asset Type

Year ended December 31
(in thousands of dollars)

					2020
	Cash, securities and resale agreements	Loans	Other items	Total	Risk-weighted assets
Corporate	244,785	4,518,202		4,762,987	4,660,762
Sovereign	1,816,320			1,816,320	0
Bank	745,629			745,629	130,054
Retail residential mortgages		11,859,836		11,859,836	3,551,508
Other retail					
Excluding small business entities		153,665		153,665	115,965
Small business entities		1,091,990		1,091,990	826,168
Equity	3,373			3,373	3,373
Undrawn commitments		1,737		1,737	608
Operational risk			64,935	64,935	811,693
Derivative exposures			19,835	19,835	9,672
Other	188,546		309,340	497,886	189,314
Off-balance sheet exposures			49,538	49,538	37,973
Total as at December 31, 2020	**2,998,653**	**17,625,430**	**443,648**	**21,067,731**	**10,337,091**
Total as at December 31, 2019	**3,127,411**	**17,059,265**	**417,733**	**20,604,409**	**9,892,815**

Leverage Ratio

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

Our leverage ratio stood at 5.8% as at December 31, 2020, compared with 5.7% as at the prior year-end, and exceeded the current minimum requirement throughout the year.

Impacts on Leverage Ratio

Year ended December 31 (in thousands of dollars)	OSFI line number	2020	2019
On-balance sheet exposures			
On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	1	20,233,076	19,948,047
Asset amounts deducted in determining Basel III Tier 1 capital	4	(118,282)	(95,617)
Total on-balance sheet exposures (excluding derivatives and SFTs)	5	20,114,794	19,852,430
Derivative exposures			
Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	6	11,517	6,604
Add-on amounts for PFE associated with all derivative transactions	7	2,319	4,828
Total derivative exposures	11	19,370	16,005
Securities financing transaction exposures			
Gross SFT assets recognized for accounting purposes (with no recognition of netting), after adjusting for sale accounting transactions	12	236,617	275,235
(Netted amounts of cash payables and cash receivables of gross SFT assets)	13	(236,617)	(275,235)
Counterparty credit risk (CCR) exposure for SFTs	14	77,151	170,631
Total securities financing transaction exposures	16	77,151	170,631
Other off-balance sheet exposures			
Off-balance sheet exposure at gross notional amount	17	4,281,639	4,346,705
(Adjustments for conversion to credit equivalent amounts)	18	(3,812,978)	(3,873,135)
Off-balance sheet items	19	468,661	473,570
Capital and total exposures			
Tier 1 capital	20	1,212,836	1,159,963
Tier 1 capital with transitional arrangements for ECL provisioning not applied	20a	1,203,143	1,159,963
Total Exposures	21	20,679,977	20,512,636
Basel III leverage ratio	22	5.8	5.7
Basel III leverage ratio with transitional arrangements for ECL provisioning not applied	22a	5.7	5.7

Monitoring Capital Adequacy Risk

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

Our ICAAP includes the following elements:

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

Application of the ICAAP in 2020 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 the protection of members' deposits. The Treasury and Finance departments manage liquidity risk within established limits and ensure business and strategic planning aligns with those limits. GRM and ALCO provide independent oversight to ensure adherence with appropriate risk management policies. The RRC provides ultimate oversight.

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

Risk Management

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

Liquidity Adequacy Requirements
Coast Capital manages its liquidity to comply with the regulatory liquidity metrics 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 for liquidity throughout the year ended December 31, 2020.

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 that will be taken should we experience a liquidity event (formulated taking into account the outcomes of our liquidity risk stress testing programs). The plan details the approach for analyzing and responding to actual and potential liquidity events, outlines an appropriate governance structure for the management and monitoring of liquidity events and establishes clear lines of responsibility, as well as invocation and escalation procedures. It is regularly tested and updated.

Stress Testing Program. Coast Capital has a liquidity stress testing program that:
- Considers extreme but plausible scenarios that capture both Coast Capital specific and systemic market-wide disruptions.
- Compares the outcomes of stress tests to the liquidity risk tolerance established by the Board.
- Informs the limit setting decisions of various liquidity metrics, such as the LCR and NCCF.
- Provides information for assessing the adequacy of the Liquidity Contingency Funding Plan.

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

Coast Capital holds liquid assets in the form of cash and cash resources and marketable debt securities, including securities purchased under reverse repurchasing agreements. The financial investments are comprised primarily of securities issued or guaranteed by the Government of Canada, provinces or municipalities. As at December 31, 2020, liquid assets held by the Credit Union totalled $3.4 billion and represent 16.2% of total assets.

Liquid Assets

Year ended December 31 (in thousands of dollars)	2020
Cash and cash resources	48,647
Financial investments	
Securities issued or guaranteed by sovereigns	289,636
National Housing Act (NHA) mortgage-backed securities	394,861
Canada Mortgage Bonds	407,621
Securities issued by provinces or municipalities	875,064
Securities purchased through reverse repurchasing agreements	236,617
Covered bonds (not self-issued)	49,823
Non-financial corporate bonds	250,636
NHA mortgage-backed securities (reported as loans at amortized cost)	823,734
Total liquid assets	3,376,639
Total assets	20,872,884
Encumbered assets	1,119,208
Unencumbered assets	2,257,431

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

Funding

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

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

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

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

- Information on our concentration of funding across a number of time horizons.
- Market-related monitoring tools, such as:
  - Unsecured and secured funding rates for various tenors and by specific instrument issued.
  - Current short-term secured and unsecured funding spreads.
  - Material balances held at central banks or other financial institutions.
  - Trends in collateral flows, net balances and stress test projections.

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

The borrowing programs and facilities we currently maintain include:

- The NHA MBS and CMB programs. These programs allow us to obtain low-cost funding through a process of securitizing existing mortgages or using the NHA MBS as security in repurchasing agreements. The long-term nature of CMB program funding is especially attractive in periods of exceptionally low interest rates. In 2020, our borrowing through these programs decreased by $360 million, to a total outstanding balance of $823 million at year-end.
- Lines of credit and short-term borrowing facilities with Central 1 and other financial institutions. Borrowings through these facilities were maintained at $200 million in 2020.
- 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 2020. At year-end, the outstanding balance of these facilities totalled $282 million.
- Floating Rate Notes issued during the year with $185 million outstanding at year-end.
- Long-term subordinated debentures based on our DBRS long-term issuer rating. In 2018, we issued $300 million in long-term subordinated debentures, which remained outstanding at year-end, under a DBRS confirmed rating of BBB.

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

Our credit ratings demonstrate the soundness of our financial position, providing assurance to our members and to capital market participants. Changes to our credit ratings impact our borrowing costs and ability to raise funds. Rating downgrades could potentially result in higher financing costs, increased requirement to pledge collateral and reduced access to capital markets. The credit ratings provided by rating agencies reflect the views of the rating providers and are subject to change based on a number of factors, including our financial strength, competitive position and liquidity, in addition to factors not entirely within our control, including the methodologies used by rating agencies and conditions affecting the overall financial services industry. Our DBRS long-term issuer rating of BBB (high) and our short-term issuer rating of R-1 (low) were reconfirmed in 2020 without change.

Contractual Obligations. Coast Capital's liquidity position is impacted by contracts that it enters into in the normal course of business that give rise to contractual obligations. Aside from the obligations related to deposits and borrowings discussed above, Coast Capital also has off-statement obligations related to credit commitments.

Note 28 in the Consolidated Financial Statements provides details of the mismatch between the contractual maturity of Coast Capital's on-statement assets and liabilities. Under normal market conditions, these maturity gaps are generally funded by members rolling over or renewing their deposits as, typically, credit union deposits are growing. Details of contractual maturities and commitments to extend funds are a source of information for the management of liquidity risk and are monitored and reported to ALCO on a regular basis.

Credit and Counterparty Risk

Credit and counterparty risk is the risk of loss emanating from a borrower, obligor, guarantor or counterparty failing to meet their obligations for a financial transaction on a timely basis and in accordance with contractual terms. To track risk migration or deterioration, credit and counterparty risk is monitored and reassessed. Management and board committees receive Risk Migration reports in order to ensure that risk remains within tolerance.

Risk Management Overview

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

Risk Governance

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

The Board, through its 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. To support property values, third-party valuations are used, such as appraisals and automated valuation models. To ensure that risk remains within established tolerance levels, monitoring and periodic reassessment of collateral values take place depending on asset type based on external conditions. The RRC receives quarterly reporting.

Exposure to Credit Risk

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

Maximum Exposure to Credit Risk

As at December 31, 2020 (in thousands of dollars)	Banking	Derivatives
On-balance sheet		
Cash held at Central 1	203,604	
Investments held at Central 1	49,594	
Other investments	2,752,914	
Loans	17,602,584	
Derivative instruments	–	11,517
Accounts receivable and accrued interest	42,700	
	20,651,396	11,517
Off-balance sheet		
Letters of credit	96,879	
Commitments to extend credit	4,182,566	
	4,279,445	–
Maximum exposure to credit risk	24,930,841	11,517

Credit Risk Mitigation

		Amounts covered by:		
As at December 31, 2020 (in thousands of dollars)	Amounts in Consolidated Balance Sheet	Financial collateral received or pledged	Guarantees/ credit derivatives	Net amounts
Financial assets				
Loans				
Residential mortgages	11,862,364	–	1,911,542	9,950,822
Personal loans	373,931	14,896	–	359,035
Commercial loans and mortgages	4,528,308	6,086	–	4,522,222
Equipment financing	837,981	–	–	837,981
Financial investments	2,752,914	–	–	2,752,914
Derivatives	11,517	–	–	11,517
Total	20,367,015	20,982	1,911,542	18,434,491

Credit Concentration Risk

Concentration risk arises through larger value exposures, where a number of borrowers are engaged in similar economic activities or are located in the same geographic region. Residential mortgages represent our largest concentration of loan assets at 67.4% of our total loan exposure. We carry out the majority of our residential lending activities in the Metro Vancouver, Fraser Valley and southern Vancouver Island regions of B.C., as well as in areas serviced by our branches located in the Central Vancouver Island region and in the B.C. Interior. Residential real estate prices in our region of operation have experienced significant price increases in recent years. Understanding that prices often move and fluctuate in cyclical patterns, we monitor our residential real estate exposure on an ongoing basis, including delinquency trending and modelling of price change impacts on collateral value. This monitoring, combined with sound underwriting practices, ensures our residential real estate risk exposure is maintained within an acceptable level.

Distribution of Loans by Credit Portfolio and Industry

As at December 31, 2020

(in thousands of dollars)	Outstanding loans	Mix %	Undrawn commitments	Letters of credit	Total exposure
Retail mortgages	11,860,104	67.6	1,898,531		13,758,635
Retail loans	355,377	2.0	813,472		1,168,849
Commercial					
Accommodation and food services	277,110	1.6	14,072	454	291,636
Construction	1,773,449	10.1	1,029,952	61,807	2,865,208
Health care and social assistance	88,700	0.5	2,266	391	91,357
Management of companies and enterprises	42,630	0.2	1,277	151	44,058
Manufacturing	55,702	0.3	9,360	256	65,318
Other	190,842	1.1	16,785	23,042	230,669
Professional, scientific and technical services	33,279	0.2	5,979	1,080	40,338
Real estate and rental and leasing	1,851,073	10.6	74,172	7,251	1,932,496
Retail and wholesale trade	114,622	0.7	9,750	2,031	126,403
Transportation and warehousing	900,325	5.1	9,160	416	909,901
Total	17,543,213	100.0	3,884,776	96,879	21,524,868

Counterparty Credit Risk on Derivative Exposures

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

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

Details on counterparty credit risk exposure from our derivatives are presented under Note 29 to the Consolidated Financial Statements.

Market Risk

Market risk relates to market fluctuations in interest rates and foreign exchange rates that can impact our profitability, capital and ability to achieve business objectives. The majority of our revenue is generated from the spread between the interest we earn on loans and the interest we pay on deposits. The mismatch between the timing and volume of loan and deposit maturities creates interest rate risk. If, as a result of the maturity mismatch between loans and deposits, deposit interest costs increase at a faster pace than the interest earned from loans, our spreads will decline. Additionally, we are impacted by volume mismatches between variable rate loans and deposits and the exercising of options included in our products (such as mortgage prepayment or deposit redemption features). As our current statement of financial position profile has a larger proportion of variable-rate assets versus variable rate liabilities, there is an immediate impact on our net interest income, which is compressed as interest rates decline.

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

Asset and Liability Maturities

As at December 31

(in thousands of dollars)	2020 Assets	2020 Liabilities and equity	2020 Differential	2019 Assets	2019 Liabilities and equity	2019 Differential
Variable rate	6,089,293	5,998,604	90,689	6,089,907	4,813,691	1,276,216
Interest sensitive maturing:						
Under 3 months in 2021	969,176	2,060,504	(1,091,328)	882,176	2,232,384	(1,350,208)
Over 3 to 6 months in 2021	567,384	1,503,366	(935,982)	639,180	1,450,564	(811,384)
Over 6 to 12 months in 2021	1,411,650	3,296,905	(1,885,255)	1,115,665	4,481,038	(3,365,373)
Over 1 to 5 years in 2022 to 2026	11,078,740	3,378,057	7,700,683	10,708,177	3,427,069	7,281,108
Over 5 years in 2027 and beyond	209,949	307,010	(97,061)	203,467	314,841	(111,374)
Non-interest bearing items[1]	546,692	4,328,438	(3,781,746)	590,390	3,509,375	(2,918,985)
	20,872,884	20,872,884	–	20,228,962	20,228,962	–

1. Assets include cash, accrued interest receivable, premises and equipment and other items. Liabilities and equity include accrued interest payable, retained earnings, accumulated other comprehensive income, share capital and other items.

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

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

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

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

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

Risk Metrics

We conduct sensitivity analysis related to our net interest income (NII) and our economic value of equity to measure structural interest rate risk. NII sensitivity is the potential reduction in net interest income due to interest rate movements over a one-year horizon. Economic value of equity sensitivity is the potential reduction in economic value of equity due to interest rate movements.

Interest Rate Risk Exposures

We control our exposure to interest rate risk by managing the size of the static gap positions between interest sensitive assets and interest sensitive liabilities for future periods, to generate stable and predictable earnings over time while also protecting economic value.

The table below provides an estimate of the sensitivity of our net interest income to a change in interest rates. The amounts represent the estimated change in net interest income over a one-year period, beginning December 31, 2020, that would result from a 1% change in interest rates.

(in thousands of dollars)	2020	2019
1% increase in rates	11,205	4,234
1% decrease in rates	(14,816)	(10,386)

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

Operational Risk

Operational Risk is the risk of loss resulting from people, inadequate or failed internal processes and systems or from external events. Operational risk is inherent in the normal course of business and in all our activities. Operational risk includes process ineffectiveness, information breaches and cybersecurity, data governance, regulatory compliance, third party supplier/vendor failures, technology failures and damages, business disruption, internal and external theft and fraud, 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. We manage operational risk through collaboration between the First Line of Defence and the risk subject matter experts. Risk subject matter experts 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. Because of its inherent limitations, ICFR may not prevent or detect misstatements on a timely basis. We are always looking for best practices in financial reporting and corporate governance. To this end, similar to public companies, we have a process in place to evaluate the design and operating effectiveness of our ICFR. Through this evaluation process, we strive to continually strengthen our system of internal controls over financial reporting.

Management's Discussion and Analysis

Use of Critical Estimates and Judgments

The preparation of financial information requires the use of estimates and judgments about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of these items, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different estimates and judgments from those reached by management for the purposes of the Consolidated Financial Statements. Management's selection of Coast Capital's significant accounting policies, which contain critical estimates and judgments, are discussed further in Note 2 to the Consolidated Financial Statements. It reflects the materiality of the items to which the policies are applied and the high degree of judgment and estimation uncertainty involved.

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

	Further relevant information	
Item	Consolidated Financial Statements	MD&A
Allowance for expected credit losses	Notes 2(c), 7	Credit and counterparty risk
Valuation of financial instruments	Note 30	Market risk
Income taxes and deferred tax assets	Notes 2(h), 25	
Impairment of goodwill and other intangible assets	Notes 2(g), 10	
Leases	Notes 2(e), 3(d), 19	

Future Accounting Changes

The International Accounting Standards Board (IASB) has issued and amended accounting standards that are effective for Coast Capital after December 31, 2020. Refer to Note 3 to the Consolidated Financial Statements for further information on these changes.

Consolidated Financial Statements

Table of Contents

Reports

Management's Responsibility for Financial Reporting 63
Independent Auditors' Report 64

Consolidated Financial Statements

Consolidated Balance Sheet 66
Consolidated Statement of Income 67
Consolidated Statement of Comprehensive Income 68
Consolidated Statement of Changes in Members' Equity 69
Consolidated Statement of Cash Flows 70

Notes to the Consolidated Financial Statements

1. Basis of Presentation 70
2. Significant Accounting Policies 73
3. Changes in Accounting Policies 85
4. Future Accounting Changes 86
5. Interest Bearing Deposits with Financial Institutions 87
6. Financial Investments 87
7. Loans and Allowance for Credit Losses 87
8. Risk Management 95
9. Premises and Equipment 95
10. Goodwill and Intangible Assets 96
11. Other Assets 97
12. Deposits 97
13. Borrowings 98
14. Secured Borrowings 98
15. Assets Pledged as Collateral 99
16. Subordinated Debentures 99
17. Other Liabilities 99
18. Leases 100
19. Capital Management 100
20. Share Capital 103
21. Net Interest Income 103
22. Fee and Commission Income 104
23. Salaries and Employee Benefits 104
24. Administration Expenses 104
25. Provision for Income Taxes 104
26. Commitments 105
27. Contingent Liabilities 106
28. Interest Rate Sensitivity Position 106
29. Derivative Instruments 108
30. Fair Value of Financial Instruments 111
31. Classification of Financial Assets and Liabilities 114
32. Related-party Transactions 115
33. Pension Plan 116
34. Membership 117

Coast Capital's Help Headquarters in Surrey, B.C.

Management's Responsibility for Financial Reporting

The consolidated financial statements and all other information contained in the Annual Report are the responsibility of management and have been approved by the Board of Directors (the Board).

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and the requirements of the *Bank Act*, which do not differ from IFRS. The consolidated financial statements include amounts based on informed judgments and estimates of the expected effects of current events and transactions. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

In meeting its responsibility for the reliability of financial data, as well as the accounting systems from which they are derived, management maintains comprehensive internal controls over transactions and related accounting practices. Controls include an organizational structure providing for effective segregation of responsibilities, delegation of authority and personal accountability; the careful selection and training of personnel; the application of accounting and administrative policies and procedures necessary to ensure adequate internal control over transactions, assets and records; and a continued program of extensive internal audits. These controls are designed to provide reasonable assurance that financial records are reliable for preparing financial statements, maintaining accountability for assets, and that assets are safeguarded against unauthorized use or disposition.

The Board has appointed an Audit and Finance Committee, comprised of five independent directors, to review with management and auditors the annual consolidated financial statements prior to submission to the Board for final approval. KPMG LLP has been appointed by the membership as independent auditors to examine and report on the consolidated financial statements, and their report appears on the next page. They have full and free access to and meet periodically with the internal audit staff and the Audit and Finance Committee of the Board.

Helen Blackburn
Chief Financial Officer

Calvin MacInnis
President and Chief Executive Officer

Independent Auditors’ Report

To the Members of Coast Capital Savings Federal Credit Union

Opinion

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

- the consolidated balance sheet as at December 31, 2020
- the consolidated statement of income for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in members’ equity for the year then ended
- the consolidated statement of cash flows for the year then ended,
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated balance sheet of the Credit Union as at December 31, 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Other Information

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

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

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

We obtained Management’s Discussion & Analysis as at the date of this auditors’ report.

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

We also:

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

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
February 24, 2021

Consolidated Balance Sheet

As at December 31 *Amounts in thousands of Canadian dollars*	Notes	2020	2019
Assets			
Cash and cash resources		188,546	180,109
Interest bearing deposits with financial institutions	5	49,594	49,690
Financial investments	6	2,752,914	2,683,988
Loans	7		
Residential mortgages		11,862,364	11,498,801
Personal loans		373,931	396,434
Commercial mortgages and loans		4,528,308	4,222,811
Equipment financing		837,981	913,286
		17,602,584	17,031,332
Allowance for credit losses	7	(59,371)	(42,381)
		17,543,213	16,988,951
Premises and equipment	9	95,668	105,464
Goodwill and intangible assets	10	112,502	89,837
Deferred tax assets	25	12,215	9,557
Derivative assets	29	11,517	6,604
Other assets	11	106,715	114,762
Total assets		20,872,884	20,228,962
Liabilities			
Deposits	12	17,453,291	16,482,333
Borrowings	13	667,365	673,543
Secured borrowings	14	823,401	1,184,006
Subordinated debentures	16	307,731	301,887
Derivative liabilities	29	154	2,066
Other liabilities	17	294,769	325,761
Total liabilities		19,546,711	18,969,596
Members' equity			
Share capital	20	25,890	27,534
Retained earnings		1,253,361	1,219,355
Accumulated other comprehensive income		46,922	12,477
Total members' equity		1,326,173	1,259,366
Total liabilities and members' equity		20,872,884	20,228,962

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

On behalf of the Board of Directors:

Bob Armstrong
Chair, Board of Directors

Calvin MacInnis
President and Chief Executive Officer

Consolidated Statement of Income

For the year ended December 31 *Amounts in thousands of Canadian dollars*	Notes	2020	2019
Interest income			
Loans	21	577,942	623,997
Cash and financial investments	21	53,516	62,009
Derivatives	21	12,083	696
		643,541	686,702
Interest expense			
Deposits	21	256,408	301,339
Borrowings	21	48,661	54,754
		305,069	356,093
Net interest income		338,472	330,609
Provision for credit losses	7	23,427	9,195
Net interest income after provision for credit losses		315,045	321,414
Non-interest income			
Fees and commission income	22	84,165	87,790
Gains from securitization activities	14	2,211	1,823
Other income		4,761	5,498
		91,137	95,111
Net interest and non-interest income		406,182	416,525
Non-interest expenses			
Salaries and employee benefits	23	193,733	191,894
Administration	24	75,429	88,809
Technology		39,836	30,834
Occupancy		12,573	11,949
Depreciation and amortization		34,155	30,784
Community contributions		3,932	5,793
		359,658	360,063
Income before provision for income taxes		46,524	56,462
Provision for income taxes	25	11,175	11,586
Net income		35,349	44,876

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

Consolidated Statement of Comprehensive Income

For the year ended December 31 *Amounts in thousands of Canadian dollars*	2020	2019
Net income	35,349	44,876
Other comprehensive income, net of income taxes		
Items that will not be reclassified subsequently to net income:		
Actuarial (losses) gains on defined benefit pension plans	(299)	78
- before income taxes	(360)	92
- income tax (recovery) provision	(61)	14
Items that will be reclassified subsequently to net income:		
Unrealized gains on financial investments classified at fair value through other comprehensive income	31,794	12,845
- before income taxes	38,492	15,112
- income tax provision	6,698	2,267
Net gains on effective portion of cash flow hedges	2,651	2,870
- before income taxes	3,209	3,377
- income tax provision	558	507
Total other comprehensive income	34,146	15,793
Total comprehensive Income	69,495	60,669

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

Consolidated Statement of Changes in Members' Equity

For the year ended December 31

Amounts in thousands of Canadian dollars	Notes	2020	2019
Share capital	20		
Balance at beginning of year		27,534	29,221
Shares issued		285	255
Shares redeemed		(1,929)	(1,942)
Balance at end of year		25,890	27,534
Retained earnings			
Balance at beginning of year		1,219,355	1,180,219
Impact from adopting IFRS 16 *Leases*	3(d)	–	(7,028)
Net income		35,349	44,876
Actuarial (losses) gains on defined benefit plans, net of income taxes		(299)	78
Share dividends		(374)	(574)
Income tax deduction on dividends		65	115
Other equity adjustments		(735)	1,669
Balance at end of year		1,253,361	1,219,355
Accumulated other comprehensive income			
Financial investments classified as FVOCI			
Balance at beginning of year		14,265	1,420
Other comprehensive income		31,794	12,845
Balance at end of year		46,059	14,265
Cash flow hedges			
Balance at beginning of year		(1,788)	(4,658)
Other comprehensive income		2,651	2,870
Balance at end of year		863	(1,788)
Total accumulated other comprehensive income		46,922	12,477
Total members' equity		1,326,173	1,259,366

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

Consolidated Statement of Cash Flows

For the year ended December 31 *Amounts in thousands of Canadian dollars*	2020	2019
Cash flows from (used in) operating activities		
Income before provision for income taxes	46,524	56,462
Adjustment for non-cash items:		
Depreciation and amortization	34,155	30,784
Provision for credit losses	23,427	9,195
Change in other assets	(5,413)	(11,283)
Change in other liabilities	(37,567)	17,767
Unrealized foreign exchange losses within financial investments	2,390	15,771
Income taxes paid	(5,639)	(40,212)
	57,877	78,484
Net increase in loans	(577,689)	(899,996)
Net increase in deposits	970,958	230,464
	451,146	(591,048)
Cash flows from (used in) investing activities		
Net (investment in) proceeds from financial investments	(32,728)	403,303
Purchase of premises, equipment and intangible assets	(47,024)	(41,552)
	(79,752)	361,751
Cash flows from (used in) financing activities		
Net (redemption of) proceeds from borrowings	(360,939)	239,655
Proceeds from share capital issued	285	255
Redemption of share capital	(1,929)	(1,942)
Dividends paid	(374)	(574)
	(362,957)	237,394
Net increase in cash and cash resources	8,437	8,097
Cash and cash resources, beginning of year	180,109	172,012
Cash and cash resources, end of year	188,546	180,109
Supplemental disclosure of cash flow information		
Cash flows from (used in) operating activities includes:		
Interest received	647,953	684,274
Interest paid	(256,169)	(377,637)
Dividends received	87	1,851

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

Notes to the Consolidated Financial Statements

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

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

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

The consolidated financial statements have been approved for issue by the Board of Directors (the Board) on February 24, 2021.

1. Basis of Presentation

a) Statement of Compliance

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

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

b) Basis of Measurement

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

c) Presentation and Functional Currency

The consolidated financial statements are presented in Canadian dollars, which is also its functional currency. Dollar amounts presented in the notes to the Consolidated Financial Statements are presented in thousands of Canadian dollars unless otherwise stated.

d) Use of Critical Estimates and Judgments, Including Consideration of Impacts from COVID-19

The preparation of financial information requires the use of estimates and judgments about future conditions. The unprecedented COVID-19 pandemic caused and continues to cause increased volatility and uncertainty to the Canadian economy. Management has considered and reflected this uncertainty related to our macroeconomic environment in its use of estimates and judgments. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items, it is possible that the outcomes in future reporting periods could differ from those on which management's estimates are based. This could result in materially different estimates and judgments from those reached by management for the purposes of the consolidated financial statements.

Management's selection of Coast Capital's accounting policies, which contain critical estimates and judgments, are disclosed below. It reflects the materiality of the items to which the policies are applied and the high degree of judgment and estimation uncertainty involved. The judgments and estimates impacted by the pandemic that have the most significant effect on amounts recognized in the consolidated financial statements pertain to estimation for allowance for expected credit losses.

1. Basis of Presentation (Continued)

Allowance for Expected Credit Losses

Coast Capital's accounting policy for determining expected credit losses (ECL) is described in Note 2(c). The most significant judgments relate to defining what is considered to be a significant increase in credit risk, determining the lifetime and point of initial recognition of revolving facilities, and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions including such conditions impacted by the pandemic. Details of such judgments and estimates are described further in Note 7 Loans and allowance for credit losses. The risk factors to estimate the ECL have a high degree of interdependency, and there is no single factor to which loan impairment allowances as a whole are sensitive.

Valuation of Financial Instruments

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

The main assumptions and estimates that management considers when applying a model with valuation techniques are:

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

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

Income Taxes and Deferred Tax Assets

Coast Capital's accounting policy for the recognition of income taxes and deferred tax assets is described in Note 2(h). Tax laws are complex and can be subject to interpretation. Management applies its own judgment to the application and interpretation of tax laws, but the interpretation by the relevant tax authorities may differ. Tax liabilities are recognized based on best estimates of the probable outcome. If the final outcome is in favour of the decisions made by the relevant tax authorities, additional liabilities and expense in excess of the amounts recorded may result.

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

Impairment of Goodwill and Other Intangible Assets

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

Notes to the Consolidated Financial Statements

1. Basis of Presentation (Continued)

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

Leases

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

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

2. Significant Accounting Policies

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

a) Basis of Consolidation

The financial position, operating results and cash flows of other entities are included in these consolidated financial statements if Coast Capital controls these investees. Coast Capital controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Control is presumed with an ownership interest of more than 50% of the voting rights unless there are other factors that indicate that Coast Capital does not control the investee despite having more than 50% of the voting rights. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Accordingly, these consolidated financial statements include the financial position, operating results and cash flows of Coast Capital and its subsidiaries. As at December 31, 2020, Coast Capital, either directly or indirectly through its subsidiaries, controls the following corporations for which head offices are located at 800 – 9900 King George Boulevard, Surrey, British Columbia:

Corporate name of subsidiary	Carrying value of shares owned (in Canadian dollars)	Voting rights
Coast Capital Financial Management Ltd.	100	100%
Coast Capital Wealth Management Ltd.	100	100%
Coast Capital Real Estate Holdings Ltd.	100	100%
Coast Capital Holdings Ltd.	100	100%
Coast Capital Equipment Finance Ltd.	88	88%
Travelers Leasing Ltd.	100	100%
Travelers Finance Ltd.	76,000	50%

2. Significant Accounting Policies (Continued)

Coast Capital applies the anticipated acquisition method where it has the right and the obligation to purchase any remaining non-controlling interest. Under this method, the interests of the non-controlling shareholder are derecognized when Coast Capital's liability relating to the purchase of its shares is recognized. The recognition of the financial liability implies that the interests subject to the purchase are deemed to have been acquired already. Therefore, the corresponding interests are presented as if already owned by Coast Capital, even though legally they are still non-controlling interests. The initial measurement of the fair value of the financial liability recognized by Coast Capital forms part of the contingent consideration for the acquisition.

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

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

b) Cash and Cash Resources

Cash and cash resources comprise balances with less than three months' maturity from the date of acquisition, including cash on hand, cheques and other items in transit to Coast Capital.

c) Allowance for Expected Credit Losses

Coast Capital carries an allowance for expected credit losses for loans and debt securities classified at amortized cost and fair value through other comprehensive income, as well as loan commitments and financial guarantee contracts that are not measured at fair value through profit or loss. The allowance is calculated using an expected credit loss model which recognizes 12 months expected credit losses for performing assets (Stage 1), lifetime losses on performing assets that have experienced a significant increase in credit risk (SICR) since origination (Stage 2), and lifetime losses on assets in default (Stage 3).

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

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

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

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

2. Significant Accounting Policies (Continued)

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

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

Coast Capital determines ECL using three (2019 – five) probability-weighted forward-looking scenarios. These scenarios include a "base" case scenario that represents the most likely outcome and two additional scenarios representing the optimistic and pessimistic outcomes. These additional scenarios are designed to capture material non-linearity of potential credit losses in portfolios.

d) Revenue from Contracts with Customers

Revenue is recognized when Coast Capital satisfies a performance obligation by transferring the promised good or service to the customer, and the customer obtains control of the good or service. The recognition of revenue can either be over time or at a point in time, depending on when the performance obligation is satisfied. Determining the timing and transfer of control, at a point in time or over time, requires judgment. Coast Capital's revenue streams recognized are described below.

Fee and Commission Income

Mutual and Segregated Fund Commissions

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

Other Fees and Commissions

The majority of other fees and commissions are derived from day-to-day banking fees. Coast Capital provides services for member chequing and savings accounts that generate fees from various activities including, but not limited to, Automated Teller Machines (ATM) transactions, cash withdrawals, issuance of paper account statements, wire transfers and money orders, Non-Sufficient Funds (NSF) fees, utilization of cheques, and e-Transfers. The fees for these services are established in the member account agreement and are either billed individually at the time the service is performed and the performance obligation is met, or on a monthly basis for a package or bundle of services as the services are performed and the performance obligation is met. Banking fees billed individually at the time the service is performed are recognized into revenue at the point in time the service is performed. Where monthly services are provided over time throughout the month, revenue is recognized over time with full recognition at the end of each month. Coast Capital also receives an annual fee from members who rent safety deposit boxes at its branch locations. The annual fee is recognized into income on a straight-line basis over the annual rental period.

2. Significant Accounting Policies (Continued)

Credit Card Commissions

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

Insurance Commissions

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

Foreign Exchange

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

e) Leases

Coast Capital as Lessor

A lessor classifies lease agreements as finance leases when substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are transferred to the lessee. Accordingly, our lease financing agreements are classified as finance leases and are included within Loans in the Consolidated Balance Sheet. Interest income earned on finance leases is included in Net interest income in the Consolidated Statement of Income and is recognized using the effective interest method.

Coast Capital as Lessee

At inception of an agreement, we assess whether the agreement is or contains a lease. A ROU asset and corresponding lease liability is recognized with respect to all lease agreements in which we are a lessee, except for leases with a term of 12 months or less (short-term leases), and leases of assets with a value of $5 or less (low-value leases). For short-term and low-value leases, the lease payments are recognized on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the related assets are consumed.

The lease liability is initially measured at the present value of the lease payments over the estimated term of the lease discounted by the estimated incremental borrowing rate. The estimated incremental borrowing rate is the rate that we would have to pay to borrow funds to obtain the ROU asset assuming a similar term and security provided. The estimated lease term includes extension or termination options that are reasonably certain to be exercised. Lease payments comprise fixed lease payments we are reasonably certain to pay less lease incentives. The lease liability is subsequently measured at amortized cost using the effective interest rate method.

The lease liability is subsequently remeasured following a change in cash flows, which is based on the original terms and conditions of the lease; for example, a market rent review, or exercising an extension option that was not previously planned to be exercised. The lease liability is remeasured by discounting the remaining estimated future lease payments using the incremental borrowing rate at the date of remeasurement with a corresponding adjustment to the ROU asset.

The ROU asset comprises the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial indirect costs. Subsequently, ROU assets are measured at cost less accumulated depreciation and impairment losses. ROU assets are depreciated over the shorter period of the lease term and useful life of the underlying asset.

2. Significant Accounting Policies (Continued)

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

f) Premises and Equipment

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

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

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

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

g) Goodwill and Intangible Assets

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

Intangible assets comprise computer software, customer lists, trademarks and other intangibles. Intangible assets have definite lives and are measured at cost less accumulated amortization. Intangible assets are amortized using the straight-line method over their estimated useful lives as follows:

Computer software	2 to 15 years
Customer lists, trademarks and other intangibles	5 to 10 years

Intangible assets, including those under development, are assessed for indicators of impairment at the balance sheet date or when events or changes in circumstances indicate that the carrying amount may not be recoverable. An intangible asset is impaired when its carrying amount exceeds its recoverable amount, which is the higher of the asset's fair value less costs to sell or its value in use. The carrying amount of an impaired intangible asset is written down to its recoverable amount.

Notes to the Consolidated Financial Statements

2. Significant Accounting Policies (Continued)

h) Income Taxes

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

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

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

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

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

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

i) Employee Benefits

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

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

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

2. Significant Accounting Policies (Continued)

Coast Capital is a participating member of the British Columbia Credit Union Employees' Pension Plan (the Plan), a multi-employer defined benefit plan. Under IFRS, an employer is required to account for its participation in a multi-employer plan in respect of its proportionate share of assets, liabilities and costs in the same manner as other defined benefit plans except in the circumstances where the information is not available to the employer as follows:

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

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

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

j) Provisions

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

Charges to and reversals to provisions are recognized in the Consolidated Statement of Income under the items corresponding to the nature of the expenditure it is covered for.

k) Foreign Currency Translation

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

l) Recognition, Classification and Measurement of Financial Instruments

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

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

2. Significant Accounting Policies (Continued)

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

Financial Assets

Financial assets are measured initially at fair value and subsequently based on their classification measured at:

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

Financial Assets that Are Debt Instruments

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

Business Model Assessment

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

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

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

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

Contractual Cash Flow Characteristics

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

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

FVOCI

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

2. Significant Accounting Policies (Continued)

Interest revenue is recognized in the Consolidated Statement of Income by applying the effective interest rates to the amortized cost of the assets and as such, premiums, discounts and transaction costs are amortized over the term of the instrument on an effective interest rate basis as an adjustment to interest income. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial liability. The amortized cost of a financial liability is the amount at which the financial liability is measured at initial recognition, minus principal payments, plus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount.

Changes in fair value are recorded in other comprehensive income; gains or losses on disposal, foreign exchange translation and impairment losses are recorded in the Consolidated Statement of Income.

AMC

Debt instruments are classified and measured at amortized cost when they are held in a business model where the objective is HTC and SPPI is met. Interest revenue is recognized in the Consolidated Statement of Income by applying the effective interest rates to the amortized cost of the assets and as such, premiums, discounts and transaction costs are amortized over the term of the instrument on an effective interest rate basis as an adjustment to interest income. Gains or losses on disposal and impairment losses are recorded in the Consolidated Statement of Income.

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

FVTPL and Fair Value Option

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

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

Financial Assets that Are Equity Instruments

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

Non-derivative Financial Liabilities

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

2. Significant Accounting Policies (Continued)

Derivative Assets and Liabilities

Derivative assets and liabilities are measured at fair value on initial recognition and are subsequently measured and classified at FVTPL.

m) Derecognition of Financial Assets and Liabilities

Financial assets are derecognized when the contractual rights to receive cash flows from the assets have expired or transferred and either all of the risks and rewards of ownership have been substantially transferred; or the risks and rewards of ownership have neither been retained nor substantially transferred but control of the asset has transferred.

Financial liabilities are derecognized when they are extinguished, that is when the obligation is discharged, is cancelled or is expired.

When a financial asset or liability is derecognized in its entirety, a gain or loss is recognized in the Consolidated Statement of Income for an amount equal to the difference between the carrying amount and the value of the consideration received or paid respectively.

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

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

Securitization

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

Securitized Loans and Securitization Liabilities

Since Coast Capital continues to be exposed to substantially all the prepayment, interest rate and credit risk associated with the securitized residential mortgages, they do not qualify for derecognition. As such, insured loans in MBS that are sold to third parties but do not qualify for derecognition continue to be classified as Loans on the Consolidated Balance Sheet. These are measured at amortized cost and are reported net of unamortized origination fees and insurance costs.

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

Under these programs, Coast Capital is entitled to the payment over time of the excess of the sum of interest and fees collected from members, in connection with the loans that were sold, over the yield paid to investors, less credit losses and other costs. The interest and fees collected, net of the yield paid to investors, are recorded in Net interest income in the Consolidated Statement of Income using the effective interest method over the term of the securitization.

2. Significant Accounting Policies (Continued)

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

Gains from Securitization Activities

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

Securitization Retained Interest and Servicing Liability

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

n) Derivative Financial Instruments

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

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

Hedge Accounting

At the inception of a hedging relationship, Coast Capital documents the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. Coast Capital requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

Fair Value Hedge

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but it does result in recognizing changes in the fair value of the hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognized in the Consolidated Statement of Income. To the extent that the change in the fair value of the derivative does not offset changes in the fair value of the hedged item for the risk being hedged, the net amount (hedge ineffectiveness) is recorded directly in Non-interest income – Other Income in the Consolidated Statement of Income. The main sources of ineffectiveness are the counterparty effect and Coast Capital's credit risk on the fair value of the swap and the difference in terms such as fixed interest rate or reset/settlement frequency between the swap and the hedged item. If a hedging relationship no longer meets the criteria for hedge accounting, the hedge accounting is discontinued; the cumulative adjustment to the carrying amount of the hedged item is amortized to profit or loss on a recalculated effective interest rate over the residual period to maturity, unless the hedged item has been derecognized, in which case it is recognized to Non-interest income – Other income, immediately.

2. Significant Accounting Policies (Continued)

Cash Flow Hedge

The effective portion of gains and losses on hedging instruments is recognized in other comprehensive income; the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognized immediately in profit or loss. The accumulated gains and losses recognized in other comprehensive income are reclassified to the Consolidated Statement of Income in the periods in which the hedged item affects profit or loss.

Hedge Effectiveness Testing

To qualify for hedge accounting, Coast Capital requires that, at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective both prospectively and retrospectively, on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed, and the method adopted by Coast Capital to assess hedge effectiveness will depend on its risk management strategy. For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated, with the effectiveness range being defined at 0.8 to 1.25. Hedge ineffectiveness is recognized in the Consolidated Statement of Income.

o) Offsetting Financial Assets and Liabilities

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

p) Loan Modification

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

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

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

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

2. Significant Accounting Policies (Continued)

q) Government Lending Programs in Response to COVID-19

During the year, the Canadian government introduced the Canada Emergency Business Account (CEBA) program to provide partially forgivable interest-free loans of up to $60 for qualifying small businesses and not-for-profit organizations to help cover their operating costs and to support any revenue gaps from the impact of the COVID-19 pandemic. The CEBA program is underwritten by Export Development Canada (EDC), and Coast Capital supports its eligible members to access such loans as a credit facility administrator. The CEBA loans are not recognized on Coast Capital's Consolidated Balance Sheet because we are not a party to the contractual provisions of the loans, and substantially all the risks and rewards to the loans, including exposure to credit losses and principle forgiveness, are assumed by the EDC.

In our administrative capacity, Coast Capital earns a fee for these services, which is recognized in the Consolidated Statement of Income.

3. Changes in Accounting Policies

Effective January 1, 2020, Coast Capital adopted the following changes in the Conceptual Framework for Financial Reporting and accounting standards as set out below.

a) 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 adoption of the changes in the Conceptual Framework for Financial Reporting had no impact on our financial results.

b) Interbank Offered Rate (IBOR) Reform (Phase 1 amendments)

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

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

c) Definition of Material

IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* have been revised to incorporate amendments issued by the IASB in October 2018. The amendments clarify the definition of material and how it should be applied. In addition, the explanations accompanying the definition have been improved. The amendments ensure that the definition is consistent across all IFRS. The adoption of the change in the definition of material had no impact on our financial results on adoption.

3. Changes in Accounting Policies (Continued)

Effective January 1, 2019, Coast Capital adopted the following changes in the accounting standards as set out below.

Impact of adoption of IFRS 16 *Leases*

The requirements of IFRS 16 *Leases* (IFRS 16) were adopted using the modified retrospective approach. Under the modified retrospective approach, retained earnings in the opening Consolidated Balance Sheet at January 1, 2019, was adjusted with the cumulative retrospective effects of adopting IFRS 16 up to this date.

The impact of adoption on the opening Consolidated Balance Sheet at January 1, 2019, was as follows:

	As previously reported	IFRS 16 adjustments	Restated
Assets			
Premises and equipment[1]	24,886	79,552	104,438
Deferred tax assets	–	1,442	1,442
Other assets	64,311	(1,309)	63,002
Assets not impacted	19,530,722	–	19,530,722
	19,619,919	79,685	19,699,604
Liabilities			
Other liabilities[2]	105,634	86,713	192,347
Liabilities not impacted	18,308,083	–	18,308,083
	18,413,717	86,713	18,500,430
Members' Equity			
Retained earnings	1,180,219	(7,028)	1,173,191
Members' equity not impacted	25,983	–	25,983
	1,206,202	(7,028)	1,199,174
	19,619,919	79,685	19,699,604

1. Includes right-of-use assets.
2. Includes lease liabilities.

The weighted average incremental borrowing rate applied to determine the opening balance of lease liabilities at January 1, 2019, was 4.98%.

4. Future Accounting Changes

The following changes to accounting standards have been issued but are not yet effective for Coast Capital.

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

In January 2020, the IASB revised IAS 1 *Presentation of Financial Statements* to clarify the criterion for classifying a liability as non-current relating to the right to defer settlement of the liability for at least 12 months after the reporting period. The revision is effective for Coast Capital on January 1, 2022. Coast Capital is currently evaluating the impact of adoption.

b) Interbank Offered Rate (IBOR) Reform (Phase 2 amendments)

In August 2020, the IASB finalized "Phase 2" amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosure, IFRS 4 Insurance Contracts* and IFRS 16 *Leases*. Phase 2 provides guidance on issues that may affect financial reporting when an existing interest rate benchmark is replaced. These amendments provide relief to accounting for modifications required by the IBOR Reform and hedge accounting. In addition, the amendments to IFRS 7 require additional disclosures related to IBOR Reform.

4. Future Accounting Changes (Continued)

The amendments are effective for Coast on or after January 1, 2021, upon replacement of existing interest rate benchmark with an alternative benchmark rate. In order to manage the transition, we continue to evaluate potential changes to market infrastructures on our risk framework, models, systems and processes, and reviewing legal documents to ensure Coast Capital is prepared prior to the cessation of IBOR.

5. Interest Bearing Deposits with Financial Institutions

	2020	2019
Non-statutory deposits with Central 1, classified as FVOCI	49,594	49,690

6. Financial Investments

	Term to Maturity					
	Under 1 year	1 to 5 years	Over 5 years	No specific maturity	2020	2019
Debt securities measured at FVOCI						
Corporate, provincial, and municipal bonds	455,727	1,365,391	–	–	1,821,118	1,844,229
Mortgage backed securities	–	394,244	–	–	394,244	266,995
Reverse repurchase agreements	236,617	–	–	–	236,617	322,577
Bankers' acceptances	160,129	–	–	–	160,129	–
Treasury bills	79,981	–	–	–	79,981	174,745
Commercial paper	40,985	–	–	–	40,985	56,400
Investment funds	–	–	–	16,282	16,282	15,484
Equity securities measured at FVOCI						
Equity[1]	–	–	–	3,558	3,558	3,558
Total financial investments	973,439	1,759,635	–	19,840	2,752,914	2,683,988

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

7. Loans and Allowance for Credit Losses

a) Maturity of Loans

The majority of Coast Capital's loans are written on properties and businesses located in the Metro Vancouver, Fraser Valley, Vancouver Island and Okanagan regions of British Columbia. The following table sets out maturity of the loans:

	Term to Maturity				2020
	Under 1 year	1 to 5 years	Over 5 years	No specific maturity	2020
Residential mortgage	1,900,746	9,022,920	13,454	922,984	11,860,104
Retail loan	44,700	150,123	40,233	120,321	355,377
Commercial	1,879,965	2,423,519	102,195	91,570	4,497,249
Equipment finance	42,316	726,775	61,392	–	830,483
Total loan net of allowances	3,867,727	12,323,337	217,274	1,134,875	17,543,213

Notes to the Consolidated Financial Statements

7. Loans and Allowance for Credit Losses (Continued)

	Term to Maturity				2019
	Under 1 year	1 to 5 years	Over 5 years	No specific maturity	Total
Residential mortgage	1,998,934	8,424,833	22,561	1,039,445	11,485,773
Retail loan	34,454	120,224	56,885	180,885	392,448
Commercial	1,543,943	2,330,404	223,538	105,084	4,202,969
Equipment finance	33,462	814,974	59,325	–	907,761
Total loan net of allowances	3,610,793	11,690,435	362,309	1,325,414	16,988,951

b) Credit Risk Exposure from Loans

The following tables set out our credit risk exposure for loans as at December 31, 2020, and December 31, 2019.

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

7. Loans and Allowance for Credit Losses (Continued)

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

	Stage 1	Stage 2	Stage 3	2019 Total
Residential mortgages				
Good	8,029,535	15,187	–	8,044,722
Satisfactory	2,864,161	164,407	–	3,028,568
Below satisfactory	267,966	151,677	–	419,643
Impaired	–	–	5,868	5,868
Total residential mortgages	11,161,662	331,271	5,868	11,498,801
Allowance for expected credit losses	(10,850)	(1,873)	(305)	(13,028)
Residential mortgages less allowance	11,150,812	329,398	5,563	11,485,773
Personal loans				
Good	90,431	819	–	91,250
Satisfactory	282,282	6,090	–	288,372
Below satisfactory	8,759	6,789	–	15,548
Not rated	476	466	–	942
Impaired	–	–	322	322
Total personal loans	381,948	14,164	322	396,434
Allowance for expected credit losses	(2,604)	(1,166)	(216)	(3,986)
Personal loans less allowance	379,344	12,998	106	392,448
Commercial mortgages and loans				
Excellent	66,740	–	–	66,740
Good	1,615,971	8,450	–	1,624,421
Satisfactory	2,477,895	43,468	–	2,521,363
Below satisfactory	331	8,102	–	8,433
Impaired	–	–	1,854	1,854
Total commercial mortgages and loans	4,160,937	60,020	1,854	4,222,811
Allowance for expected credit losses	(17,922)	(1,920)	–	(19,842)
Commercial mortgages and loans less allowance	4,143,015	58,100	1,854	4,202,969

Notes to the Consolidated Financial Statements

7. Loans and Allowance for Credit Losses (Continued)

	Stage 1	Stage 2	Stage 3	2019 Total
Equipment financing				
Satisfactory	898,425	7,745	–	906,170
Impaired	–	–	7,116	7,116
Total equipment financing	898,425	7,745	7,116	913,286
Allowance for expected credit losses	(4,628)	(88)	(809)	(5,525)
Equipment financing less allowance	893,797	7,657	6,307	907,761
Total loans less allowance	16,566,968	408,153	13,830	16,988,951

c) Allowance for Expected Credit Losses

The following tables set out the movement in our allowance for ECL for the years ended December 31, 2020, and December 31, 2019.

	Stage 1	Stage 2	Stage 3	2020 Total
Residential mortgages				
Balance as at Jan 1, 2020	10,850	1,873	305	13,028
Transfer to stage 1	1,172	(1,169)	(3)	–
Transfer to stage 2	(396)	396	–	–
Transfer to stage 3	(7)	–	7	–
	11,619	1,100	309	13,028
Net remeasurement of loss allowance	(8,692)	(443)	78	(9,057)
Loan originations	429	64	–	493
Derecognitions and maturities	(1,690)	(285)	(18)	(1,993)
Write-offs	–	–	(211)	(211)
Balance as at Dec 31, 2020	1,666	436	158	2,260
Personal loans				
Balance as at Jan 1, 2020	2,604	1,166	216	3,986
Transfer to stage 1	407	(397)	(10)	–
Transfer to stage 2	(68)	70	(2)	–
Transfer to stage 3	(15)	(48)	63	–
	2,928	791	267	3,986
Net remeasurement of loss allowance	10,489	1,495	1,897	13,881
Loan originations	1,477	1,668	–	3,145
Derecognitions and maturities	(260)	(237)	(45)	(542)
Write-offs	–	–	(1,916)	(1,916)
Balance as at Dec 31, 2020	14,634	3,717	203	18,554

7. Loans and Allowance for Credit Losses (Continued)

				2020
	Stage 1	Stage 2	Stage 3	Total
Commercial mortgages and loans				
Balance as at Jan 1, 2020	17,922	1,920	–	19,842
Transfer to stage 1	135	(135)	–	–
Transfer to stage 2	(318)	318	–	–
Transfer to stage 3	–	–	–	–
	17,739	2,103	–	19,842
Net remeasurement of loss allowance	6,110	839	–	6,949
Loan originations	7,768	342	–	8,110
Derecognitions and maturities	(3,532)	(310)	–	(3,842)
Balance as at Dec 31, 2020	28,085	2,974	–	31,059
Equipment financing				
Balance as at Jan 1, 2020	4,628	88	809	5,525
Transfer to stage 1	26	(26)	–	–
Transfer to stage 2	(43)	43	–	–
Transfer to stage 3	(71)	(30)	101	–
	4,540	75	910	5,525
Net remeasurement of loss allowance	499	(1)	5,820	6,318
Loan originations	2,599	9	–	2,608
Derecognitions and maturities	(403)	(27)	–	(430)
Write-offs	–	–	(6,523)	(6,523)
Balance as at Dec 31, 2020	7,235	56	207	7,498
Total allowance	51,620	7,183	568	59,371

				2019
	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Balance as at Jan 1, 2019	12,215	1,810	118	14,143
Transfer to stage 1	888	(885)	(3)	–
Transfer to stage 2	(442)	442	–	–
Transfer to stage 3	(5)	(26)	31	–
	12,656	1,341	146	14,143
Net remeasurement of loss allowance	(3,178)	535	212	(2,431)
Loan originations	2,636	206	–	2,842
Derecognitions and maturities	(1,264)	(209)	(3)	(1,476)
Write-offs	–	–	(50)	(50)
Balance as at Dec 31, 2019	10,850	1,873	305	13,028

7. Loans and Allowance for Credit Losses (Continued)

	Stage 1	Stage 2	Stage 3	2019 Total
Personal loans				
Balance as at Jan 1, 2019	1,579	299	266	2,144
Transfer to stage 1	72	(48)	(24)	–
Transfer to stage 2	(31)	31	–	–
Transfer to stage 3	(7)	(7)	14	–
	1,613	275	256	2,144
Net remeasurement of loss allowance	541	753	2,619	3,913
Loan originations	577	328	9	914
Derecognitions and maturities	(127)	(190)	(109)	(426)
Write-offs	–	–	(2,559)	(2,559)
Balance as at Dec 31, 2019	2,604	1,166	216	3,986
Commercial mortgages and loans				
Balance as at Jan 1, 2019	15,988	523	–	16,511
Transfer to stage 1	373	(373)	–	–
Transfer to stage 2	(107)	107	–	–
Transfer to stage 3	–	(25)	25	–
	16,254	232	25	16,511
Net remeasurement of loss allowance	(989)	1,913	(21)	903
Loan originations	6,224	4	–	6,228
Derecognitions and maturities	(3,567)	(229)	–	(3,796)
Write-offs	–	–	(4)	(4)
Balance as at Dec 31, 2019	17,922	1,920	–	19,842
Equipment financing				
Balance as at Jan 1, 2019	4,388	30	505	4,923
Transfer to stage 1	16	(16)	–	–
Transfer to stage 2	(26)	26	–	–
Transfer to stage 3	(83)	(8)	91	–
	4,295	32	596	4,923
Net remeasurement of loss allowance	(1,315)	6	2,998	1,689
Loan originations	2,013	54	334	2,401
Derecognitions and maturities	(365)	(4)	–	(369)
Write-offs	–	–	(3,119)	(3,119)
Balance as at Dec 31, 2019	4,628	88	809	5,525
Total allowance	36,004	5,047	1,330	42,381

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

7. Loans and Allowance for Credit Losses (Continued)

d) Key Economic Variables

The allowance for performing loans is sensitive to changes in both economic forecasts and the probability-weight assigned to each forecast scenario. Each macroeconomic scenario affects the estimated PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 ECL. Coast Capital maintains economic projections for the next two years from the reporting date. After this forecast period, management assumes that macroeconomic factors revert to their long-term averages.

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

Base case scenario

	2020		2019	
Driver	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Canada real GDP[1]	4.90%	3.80%	1.60%	1.80%
BC unemployment rate[2]	6.60%	5.85%	4.80%	4.80%
BC nominal GDP[1]	7.10%	6.10%	4.20%	4.30%
Housing price index % change[1]	0.20%	0.70%	8.10%	3.30%

Alternative scenario: Optimistic

	2020		2019	
Driver	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Canada real GDP[1]	5.90%	4.80%	2.00%	2.20%
BC unemployment rate[2]	5.80%	5.35%	4.60%	4.60%
BC nominal GDP[1]	8.10%	7.10%	4.60%	4.70%
Housing price index % change[1]	5.60%	3.60%	11.10%	6.30%

Alternative scenario: Pessimistic

	2020		2019	
Driver	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Canada real GDP[1]	3.40%	1.80%	1.10%	1.30%
BC unemployment rate[2]	8.30%	7.35%	6.25%	6.25%
BC nominal GDP[1]	5.60%	4.10%	2.00%	2.20%
Housing price index % change[1]	-9.00%	-4.00%	4.10%	-0.70%

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

7. Loans and Allowance for Credit Losses (Continued)

The calculation of ECL is sensitive to changes in economic forecasts and the probability weighting of each scenario. Coast Capital determines its allowance for credit losses using three (five in 2019) probability-weighted forward-looking scenarios (base case, optimistic, and pessimistic). Probability weighting of economic scenarios are not equally weighted and will change over time. In addition, ECL responds to changes in economic forecasts in a non-linear manner. Therefore depending on the attributes of the portfolio, the differences in economic forecasts can have minor or significant impact to ECL. The year-over-year change in the number of forward-looking scenarios was part of an on-going ECL model upgrade project.

During the first half of 2020, the economic impact of the COVID-19 pandemic and resulting measures to contain the virus was unprecedented. Severe and quick deteriorations in the macro-economic forecasts, key inputs to the modelled calculation of the ECL, resulted in a material impact to its re-measurement. At the same time, federal and provincial governments enacted a number of support measures designed to temper the financial impact to individuals and businesses. Along with partial easing of such restrictions, these combined measures supported a strong economic growth in the latter part of the year.

Although certain support programs for Canadians have come to an end, the Federal Government continues to provide economic stimulus and support. Within Coast Capital, an encouragingly high proportion of early deferrals have returned to performing status. However, the overall Canadian economy continues to operate below pre-pandemic levels with continuing uncertainty related to economic growth and employment levels that will remain until the wider distribution of the COVID-19 vaccine is completed. As such, we continue to operate in an uncertain macro-economic environment.

The reported ECL for financial assets in Stage 1 and Stage 2 under the Base case macroeconomic conditions, with other assumptions held constant, including the application of experienced credit adjustment, would be $57,070 (December 31, 2019 – $16,768), compared to reported allowance for performing loans of $58,803 (December 31, 2019 – $41,051).

The reported ECL for financial assets in Stage 1 and Stage 2 under the Optimistic case macroeconomic conditions, with other assumptions held constant, including the application of experienced credit adjustment, would be $48,089 (December 31, 2019 – $14,011), compared to reported allowance for performing loans of $58,803 (December 31, 2019 – $41,051).

The reported ECL for financial assets in Stage 1 and Stage 2 under the Pessimistic case macroeconomic conditions, with other assumptions held constant, including the application of experienced credit adjustment, would be $74,720 (December 31, 2019 – $41,300), compared to reported allowance for performing loans of $58,803 (December 31, 2019 – $41,051).

The current environment is subject to rapid change, and to the extent that certain effects of the pandemic are not fully incorporated into the model calculations, increased temporary quantitative and qualitative overlay adjustments have been applied to the determination of ECL at the end of the year. This includes borrower credit risk exposure ratings, industry and geography-specific COVID-19 impacts, payment support initiatives, and the persistence of the economic shutdown, the effects of which are not yet fully reflected in the quantitative models.

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

7. Loans and Allowance for Credit Losses (Continued)

e) Loans Past Due but Not Impaired[1]

Loans past due but not impaired are loan amounts that are contractually past due but not assessed as impaired because the full amount of principal and interest payments are expected to be collected. The following table sets out loans past due but not impaired as at December 31, 2020, and December 31, 2019.

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

			2019
	31 to 60 days	61 to 90 days	Total
Residential mortgage	13,580	3,967	17,547
Retail loan	3,936	546	4,482
Commercial	3,276	7	3,283
Equipment finance	7,073	672	7,745
Total	27,865	5,192	33,057

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

8. Risk Management

Coast Capital has established an Enterprise Risk Management Framework (ERMF) that defines a risk management methodology that ensures risks are effectively identified, assessed, measured, controlled, monitored and reported within an approved risk appetite. The key risks related to our financial instruments are classified as liquidity and funding risk, credit and counterparty risk, concentration risk, market risk and interest rate risk. Risk management practices and key measures are disclosed in the text and tables presented in Risk Information Specific to Our Financial Reporting section of the 2020 Management's Discussion and Analysis and are an integral part of these consolidated financial statements.

9. Premises and Equipment

Original cost	Land	Buildings	Furniture and equipment	Right-of-use assets[1]	Leasehold improvements	Total
Balance at Jan 1, 2019	57	1,581	63,098	–	37,682	102,418
Opening balance sheet adjustment	–	–	–	79,552	–	79,552
Additions during the year	–	–	7,930	11,659	2,477	22,066
Adjustments during the year	–	–	–	89	–	89
Balance at Dec 31, 2019	57	1,581	71,028	91,300	40,159	204,125
Additions during the period	–	–	2,388	9,193	917	12,498
Disposals during the period	–	–	(295)	–	(1,134)	(1,429)
Balance at Dec 31, 2020	57	1,581	73,121	100,493	39,942	215,194

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

9. Premises and Equipment (Continued)

Accumulated depreciation	Land	Buildings	Furniture and equipment	Right-of-use assets[1]	Leasehold improvements	Total
Balance at Jan 1, 2019	–	1,204	48,164	–	28,164	77,532
Amortization during the year	–	47	5,519	13,620	1,943	21,129
Balance at Dec 31, 2019	–	1,251	53,683	13,620	30,107	98,661
Amortization during the period	–	45	6,052	14,241	1,886	22,224
Disposals during the period	–	–	(295)	–	(1,064)	(1,359)
Balance at Dec 31, 2020	–	1,296	59,440	27,861	30,929	119,526
Net book value at Dec 31, 2019	57	330	17,345	77,680	10,052	105,464
Net book value at Dec 31, 2020	57	285	13,681	72,632	9,013	95,668

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

10. Goodwill and Intangible Assets

Original cost	Software	Goodwill	Customer lists, trademarks and other intangibles	Total
Balance at Jan 1, 2019	111,755	15,205	8,935	135,895
Additions during the year	20,773	–	–	20,773
Disposals during the year	(1,588)	–	–	(1,588)
Balance at Dec 31, 2019	130,940	15,205	8,935	155,080
Additions during the period	34,596	–	–	34,596
Balance at Dec 31, 2020	165,536	15,205	8,935	189,676

Accumulated depreciation	Software	Goodwill	Customer lists, trademarks and other intangibles	Total
Balance at Jan 1, 2019	51,092	–	4,708	55,800
Amortization during the year	10,239	–	792	11,031
Disposals during the year	(1,588)	–	–	(1,588)
Balance at Dec 31, 2019	59,743	–	5,500	65,243
Amortization during the period	11,123	–	808	11,931
Balance at Dec 31, 2020	70,866	–	6,308	77,174
Net book value at Dec 31, 2019	71,197	15,205	3,435	89,837
Net book value at Dec 31, 2020	94,670	15,205	2,627	112,502

11. Other Assets

	2020	2019
Accrued interest receivable	33,503	37,974
Prepaid expenses	31,630	30,283
Retained interest in commercial loans sold	11,978	7,938
Accounts receivable	9,197	10,189
Income taxes receivable	1,080	9,627
Other	19,327	18,751
Total other assets	106,715	114,762

12. Deposits

				2020
	Core retail and commercial members	External deposit agents	Institutional depositors	Total
Demand[1]	8,283,117	31,282	–	8,314,399
Fixed term redeemable[2]	1,913,362	42,615	79,768	2,035,745
Fixed term non-redeemable[3]	3,411,156	2,628,869	1,063,122	7,103,147
Total deposits[4]	13,607,635	2,702,766	1,142,890	17,453,291

				2019
	Core retail and commercial members	External deposit agents	Institutional depositors	Total
Demand[1]	6,346,506	20,066	–	6,366,572
Fixed term redeemable[2]	1,740,039	34,137	74,614	1,848,790
Fixed term non-redeemable[3]	4,486,381	2,666,907	1,113,683	8,266,971
Total deposits[4]	12,572,926	2,721,110	1,188,297	16,482,333

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

The table below sets out the contractual maturities of fixed-term redeemable and non-redeemable deposits as at December 31.

	2020	2019
Under 1 year	6,371,609	7,259,599
1 to 5 years	2,760,273	2,843,211
Over 5 years	7,010	12,951
Total term deposits	9,138,892	10,115,761

13. Borrowings

	2020	2019
Commercial paper	282,469	298,543
Term loans	200,000	200,000
Floating rate notes	184,896	175,000
Total borrowings	667,365	673,543

Commercial Paper
Commercial paper pays a fixed weighted average interest rate of 0.46% (2019 – 1.99%) and matures from January 1, 2021, to March 29, 2021.

Term Loan
The term loan entered into on July 20, 2019, bears a floating interest rate with monthly repricing. The rate as at December 31, 2020, was 1.035% (2019 – 2.56%). The term loan matures on July 29, 2022.

Floating Rate Note
The floating rate note issued on January 21, 2020, pays a floating interest rate of three-month CDOR plus 54 basis points, which was 1.03% on December 31, 2020, (2.62% – December 31, 2019) and matures on July 21, 2021.

14. Secured Borrowings

The weighted average interest rate on secured borrowings was 1.64% for the year ended December 31, 2020 (1.69% for the year ended December 31, 2019).

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

	2020	2019
Secured borrowings	823,401	1,184,006
Residential mortgages sold (included in Loans)	561,271	738,496
Reinvestment assets provided as collateral		
Loan	–	39,202
Financial Investment	236,617	429,548
Total collateral	797,888	1,207,246

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

	Residential mortgages	Secured borrowings
2021	160,651	235,680
2022	9,975	14,634
2023	60,022	88,054
2024	207,647	304,624
2025	122,976	180,409
Total	561,271	823,401

15. Assets Pledged as Collateral

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

Assets that are pledged as collateral are related to proceeds from securitizations and other borrowings. As at December 31, 2020, Coast Capital has pledged residential mortgages and other securities in the amount of $797,888 (December 31, 2019 – $1,207,246) in relation to its secured borrowings and $930,224 (December 31, 2019 – $932,710) in relation to other borrowings.

16. Subordinated Debentures

	2020	2019
Series 1 issued May 3, 2018	208,282	202,535
Series 2 issued Oct 29, 2018	99,449	99,352
Total subordinated debt	307,731	301,887

Series 1

The subordinated debentures have a 10-year term maturing on May 3, 2028, at a par value of $200 million. Coast Capital has the option to redeem the subordinated debentures from May 3, 2023, until maturity at par plus accrued interest, subject to regulatory approval. The subordinated debentures bear interest at 5.0% per annum, payable semi-annually in arrears up to May 2, 2023. From May 3, 2023, the subordinated debentures bear interest at three-month CDOR plus 244 basis points per annum, payable quarterly in arrears.

Coast Capital has entered into a fair-value hedge to hedge against the interest rate risk on this subordinated note.

Series 2

The subordinated debentures have a 12-year term maturing on October 29, 2030, at a par value of $100 million. Coast Capital has the option to redeem the subordinated debentures from October 29, 2025, until maturity at par plus accrued interest, subject to regulatory approval. The subordinated debentures bear interest at 5.25% per annum, payable semi-annually in arrears up to October 28, 2025. From October 29, 2025, the subordinated debentures bear interest at three-month CDOR plus 242 basis points per annum, payable quarterly in arrears.

17. Other Liabilities

	Note	2020	2019
Accounts payable and accruals		100,823	86,107
Accrued interest payable		98,973	149,677
Lease liabilities	18	82,159	86,162
Income taxes payable		6,777	–
Other		6,037	3,815
Total other liabilities		294,769	325,761

18. Leases

a) Right-of-Use Assets

The nature of our ROU assets is comprised of leased premises that house the majority of our branch premises, our head office and certain of our dedicated computer servers. We sublease certain of our leased premises. Our income from subleases was $1,809 for the year ended December 31, 2020 ($1,955 for the year ended December 31, 2019). ROU assets are included under Premises and equipment in the Consolidated Balance Sheet. Refer to Note 9 for further information.

b) Lease Liabilities

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

	2020	2019
Balance at the beginning of year	86,162	86,713
Additions	8,649	11,660
Lease payments	(17,330)	(16,537)
Reassessment	544	89
Interest expense	4,134	4,237
Balance at the end year	82,159	86,162

The weighted average incremental borrowing rate applied to determine the balance of lease liabilities as at December 31, 2020, was 4.91% (4.98% – 2019).

The contractual maturity of future lease payments are as follows:

	2020
1 year or less	16,588
1 to 5 years	47,883
More than 5 years	34,072
Total expected cash flow	98,543

19. Capital Management

a) Objectives, Policies and Processes

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

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

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

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

19. Capital Management (Continued)

b) Regulatory Capital

Coast Capital remained fully compliant with the applicable regulatory capital requirements and the corresponding Board and management limits throughout the years ended December 31, 2020, and December 31, 2019.

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 Audit and Finance Committee (AFC). Coast Capital's internal policy with respect to regulatory capital requirements adheres to regulations and guidelines as set out by the *Bank Act* and the OSFI Capital Adequacy Requirements (Federal Requirements).

Capital is managed in accordance with requirements of the Basel III Capital Adequacy Accord (Basel III). Coast Capital has implemented processes to measure, forecast, track and report its regulatory capital ratios based on OSFI guidelines, which are based on minimum Basel III capital ratios adopted by the Basel Committee on Banking Supervision (BCBS).

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

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

- Tier 1 capital, which is designed to ensure going concern, is the most permanent and subordinated form of capital and consists of Common Equity Tier 1 (CET 1) capital and Additional Tier 1 (AT 1) capital; 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.

In accordance with OSFI's requirements, the minimum regulatory leverage ratio is 3%. This ratio is determined by dividing the Tier 1 capital by the exposure measure. The exposure measure is independent from risk and includes on-balance sheet exposures, securities financing transaction exposures, derivative exposure and off-balance sheet exposures.

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

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

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

19. Capital Management (Continued)

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

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

	2020		2019
	Without transitional arrangements	With transitional arrangements	
Regulatory capital			
Common equity tier 1 capital[1]	1,303,098	1,303,098	1,234,634
Regulatory adjustments	(118,282)	(108,589)	(95,617)
Net common equity tier 1 capital	1,184,816	1,194,509	1,139,017
Net tier 1 capital	1,203,144	1,212,836	1,159,963
Net tier 2 capital	268,803	259,111	281,051
Total capital	1,471,947	1,471,947	1,441,014
Risk-weighted assets used in capital ratios	10,337,091	10,337,091	9,892,815
Actual regulatory capital ratios			
Common equity tier 1 capital ratio	11.5%	11.6%	11.5%
Tier 1 capital ratio	11.6%	11.7%	11.7%
Total capital ratio	14.2%	14.2%	14.6%
Leverage ratio	5.7%	5.8%	5.7%
Regulatory capital requirements			
Minimum common equity tier 1 capital ratio	7.0%	7.0%	7.0%
Minimum tier 1 capital ratio	8.5%	8.5%	8.5%
Minimum total capital ratio	10.5%	10.5%	10.5%
Minimum leverage ratio	3.0%	3.0%	3.0%

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

20. Share Capital

	2020	2019
Class A shares		
Balance at the beginning of year	2,803	2,667
Shares issued	285	255
Shares redeemed	(272)	(119)
Balance at the end of year	2,816	2,803
Class B shares		
Balance at the beginning of year	24,731	26,554
Shares redeemed	(1,657)	(1,823)
Balance at the end of year	23,074	24,731
Total share capital	25,890	27,534

Class A Shares

An unlimited number of Class A shares are authorized for issue. Class A shares are a membership requirement, voting, without par value and issued shares are fully paid. Class A shares are redeemable subject to the *Bank Act* as well as the approval of the Board and the Superintendent of Financial Institutions. The declaration of dividends is subject to the approval of the Board.

Class B Shares

An unlimited number of Class B shares are authorized for issue. Class B shares are not a membership requirement, non-voting, without par value and issued shares are fully paid. Class B shares are redeemable subject to the *Bank Act* as well as the approval of the Board and the Superintendent of Financial Institutions. The declaration of dividends is subject to the approval of the Board. The Board has approved a dividend that is equal to Coast Capital's average posted rate of its five-year term deposits and was 1.54% for the year ended December 31, 2020 (2.33% for the year ended December 31, 2019).

21. Net Interest Income

	2020	2019
Interest income		
Financial instruments measured at amortized cost	577,942	623,997
Financial instruments measured at FVOCI	53,516	62,009
Derivatives	12,083	696
Total interest income	643,541	686,702
Interest expense		
Deposits	256,408	301,339
Borrowings	16,864	20,631
Secured borrowings	16,197	18,651
Subordinated debt	15,600	15,472
Total interest expense	305,069	356,093
Net interest income	338,472	330,609

Notes to the Consolidated Financial Statements

22. Fees and Commission Income

	2020	2019
Mutual and segregated fund commissions	38,250	36,715
Other fees and commissions	27,868	31,513
Credit card commissions	7,574	8,341
Insurance commissions	6,619	7,199
Foreign exchange	3,854	4,022
Total fees and commission income	84,165	87,790

23. Salaries and Employee Benefits

	2020	2019
Salaries	152,157	157,935
Benefits	21,958	20,944
Post retirement costs	11,218	10,480
Termination benefits	8,355	2,491
Other	45	44
Total salaries and benefits	193,733	191,894

24. Administration Expenses

	2020	2019
Consultants	12,678	16,372
Professional services	7,390	5,877
Marketing	10,812	16,224
ATM/POS operations	8,088	9,317
Stationery, telephone and postage	4,885	5,170
Chequing service charges	4,451	4,354
Loan processing	4,196	4,223
Travel, meals and entertainment	2,398	5,951
Bonding and other insurance	1,915	1,663
Training and recruitment	1,028	1,737
Courier	558	860
Other	17,030	17,061
Total administration expenses	75,429	88,809

25. Provision for Income Taxes

	2020	2019
Current income taxes		
Current year	15,649	13,933
	15,649	13,933
Deferred income taxes		
Origination and reversal of temporary differences	(4,474)	(2,347)
	(4,474)	(2,347)
Total income taxes	11,175	11,586

25. Provision for Income Taxes (Continued)

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 27% (2019 – 27%) to income before income taxes. The reasons for the differences are as follows:

	2020 Amount	2020 % of pre-tax income	2019 Amount	2019 % of pre-tax income
Combined federal and provincial statutory income taxes	12,536	27.0%	15,195	27.0%
Reduction applicable to credit unions	(1,827)	(3.9%)	(2,152)	(3.8%)
Change in estimate of tax reversals	–	–	(188)	(0.3%)
Other	466	1.0%	(1,269)	(2.4%)
Effective income tax rate	11,175	24.1%	11,586	20.5%

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

	2020	2019
Allowance for credit losses	10,568	7,463
Loss carry-forwards	3,785	5,780
Restructuring costs	1,117	424
Employee future benefits	779	712
Capital and intangible assets	(408)	(945)
Deferred revenue/prepaid expense	(3,626)	(3,877)
Total deferred tax asset	12,215	9,557

26. Commitments

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

	2020	2019
Lines of credit, unfunded	2,907,791	2,752,335
Letters of credit	96,879	93,680

Coast Capital, as part of its commercial lending services program, issues letters of credit and guarantees. These are issued in the normal course of business. Coast Capital issues guarantees that commercial clients will perform certain work or services on behalf of third parties. Additionally, Coast Capital may issue guarantees to facilitate commercial trade of goods and services between clients and third parties. Coast Capital's policy for requiring collateral security with respect to these instruments held is generally the same as for loans. As at December 31, 2020, $15,086 (December 31, 2019 – $18,602) of the total letters of credit and guarantees issued were secured by deposits by the borrower with Coast Capital. Management estimates that there will be no losses under these obligations that require an allowance for credit losses.

27. Contingent Liabilities

Coast Capital is involved in various claims arising in the normal course of business, and provisions for these claims have been included in liabilities where management has considered this to be appropriate. Coast Capital establishes provisions when it becomes probable that a loss will realize and the amount can be reasonably estimated. In management's opinion, based on our current knowledge and consultation with legal counsel, Coast Capital does not expect the outcome of any of these proceedings, in aggregate, to have a material adverse effect on its consolidated financial position or consolidated cash flows.

28. Interest Rate Sensitivity Position

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

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

Notes to the Consolidated Financial Statements

28. Interest Rate Sensitivity Position (Continued)

	Floating rate	Fixed rate Under 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest sensitive	2019
Assets								
Cash and investments	194,940	546,492	97,474	308,723	1,520,304		245,854	2,913,787
Effective interest rate		*1.73%*	*2.17%*	*2.29%*	*2.33%*			
Loans	5,894,967	335,684	541,706	806,942	9,187,873	203,467	18,312	16,988,951
Effective interest rate		*3.64%*	*3.61%*	*3.17%*	*3.51%*	*2.65%*		
Other assets							326,224	326,224
	6,089,907	882,176	639,180	1,115,665	10,708,177	203,467	590,390	20,228,962
Liabilities and equity								
Deposits	4,438,691	1,792,619	1,166,590	4,306,249	2,843,211	12,954	1,922,019	16,482,333
Effective interest rate		*2.43%*	*2.26%*	*2.62%*	*2.67%*	*2.41%*		
Borrowings	375,000	293,593	4,950					673,543
Effective interest rate		*1.99%*	*2.03%*					
Secured borrowings		146,172	279,024	174,789	583,858		163	1,184,006
Effective interest rate		*2.00%*	*1.35%*	*1.42%*	*1.63%*			
Subordinated debt						301,887		301,887
Effective interest rate						*5.05%*		
Other liabilities							327,827	327,827
Equity							1,259,366	1,259,366
	4,813,691	2,232,384	1,450,564	4,481,038	3,427,069	314,841	3,509,375	20,228,962
Balance sheet mismatch	1,276,216	(1,350,208)	(811,384)	(3,365,373)	7,281,108	(111,374)	(2,918,985)	–
Derivatives		(1,266,703)	120,000	760,000	386,703			–
Net mismatch	1,276,216	(2,616,911)	(691,384)	(2,605,373)	7,667,811	(111,374)	(2,918,985)	–

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

29. Derivative Instruments

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

Types of Derivatives

Coast Capital enters into the following types of derivatives:

	Notional amounts Maturities of derivatives						
	Up to 12 months	Over 1 to 3 years	Over 3 to 5 years	2020 Total	2020 Fair value	2019 Total	2019 Fair value
Interest rate swaps							
Pay fixed, receive floating	–	12,599	–	12,599	(137)	13,297	(2,066)
Pay floating, receive fixed	200,000	200,000	–	400,000	10,548	1,280,000	5,449
Total interest rate swaps	200,000	212,599	–	412,599	10,411	1,293,297	3,383
Forward contracts	2,246	–	–	2,246	(17)	13,334	231
Equity options	4,103	5,723	493	10,319	969	11,979	924
Total derivative contracts	206,349	218,322	493	425,164	11,363	1,318,610	4,538
Derivative assets					11,517		6,604
Derivative liabilities					(154)		(2,066)

- Interest rate swaps: these are contractual agreements between two parties to exchange a series of cash flows and are tools that Coast Capital uses to manage interest rate risk. Generally, counterparties exchange fixed and floating rate interest payments on a notional value. These contracts are linked to and adjust the interest rate sensitivity of a specific asset, liability, forecasted transaction or a specific pool of transactions with similar risk characteristics. Notional amounts are not exchanged.
- Forward contracts: these are mainly bond forward contracts that Coast Capital utilizes to hedge against changes in future cash flows from interest rate changes attributable to highly probable forecasted issuance of fixed-rate liabilities.
- Options: these are contractual agreements that convey to the buyer the right but not the obligation to either buy or sell a specified amount of a currency, commodity, interest rate sensitive financial instrument or security at a fixed future date or at any time within a fixed future period.
- Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of volume of outstanding transactions but do not represent credit or market risk exposure.

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

Trading Derivatives

Trading derivatives are transacted to generate trading income or include interest rate swaps that do not qualify as hedges for accounting purposes. For the years ended December 31, 2020, and December 31, 2019, Coast Capital has not utilized any derivatives for the purpose of earning trading income. Realized and unrealized gains and losses are recorded in Non-interest income – Other income in the Consolidated Statement of Income. Unrealized gains and losses on trading derivatives are recorded in the Consolidated Balance Sheet as derivative assets and derivative liability, respectively.

29. Derivative Instruments (Continued)

Hedging Derivatives

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

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

Cash Flow Hedges

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

During the year, Coast Capital recognized a gain of $121 (2019 – loss of $57) for ineffectiveness in cash flow hedges, which is recognized in Interest income – Derivatives in the Consolidated Statement of Income as it arises. See Note 2(n) for accounting policy of cash flow hedges.

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

				2020
	Expected cash flow	Less than 1 year	1 to 5 years	More than 5 years
Receive fixed	2,211	2,211	–	–
Pay floating	942	942	–	–
Net cash inflow (outflow)	1,269	1,269	–	–

				2019
	Expected cash flow	Less than 1 year	1 to 5 years	More than 5 years
Receive fixed	8,872	6,722	2,150	–
Pay floating	11,519	8,703	2,816	–
Net cash inflow (outflow)	(2,647)	(1,981)	(666)	–

29. Derivative Instruments (Continued)

Fair Value Hedges

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

On May 4 and May 8, 2018, Coast Capital entered into two fair value hedges on certain of its fixed interest term deposits to hedge against interest rate risk. The hedged item is 76% of the selected deposits. Coast Capital entered into an interest rate swap that calls for receipt of interest at a fixed rate and payment of interest at a variable rate. These term deposits (hedged item) matured during the current year, and with the corresponding interest rate swaps (hedging instrument) settled, the related fair value hedge accounting was discontinued. During the year, a net charge of $215 was recorded to Non-interest income – Other income representing hedge ineffectiveness on this hedged position.

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

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

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

1. Amount also represents accumulated changes in fair value as the swaps were entered into during the year. The ineffectiveness is recorded in Non-interest income – Other income.
2. Represents carrying value on the Consolidated Balance Sheet and includes amortized cost, plus fair value hedge adjustments.

The credit risk associated with derivative financial instruments refers to the risk that a counterparty will fail to honour its contractual obligations toward Coast Capital at a time when the fair value of the instrument is positive for Coast Capital. The table below presents the credit risk exposure from our derivatives. Replacement cost is the cost of replacing, at current market rates, all contracts with a positive fair value without taking into consideration the impact of netting agreements or any collateral that may be obtained. Credit risk equivalent is the total replacement cost and future credit exposure, which is presented by the change in value determined using a formula prescribed by the Bank for International Settlements (BIS), excluding items prescribed by the BIS, such as the replacement cost of forwards exchange contracts with an original maturity of less than 14 days and exchange-traded derivatives subject to daily cash margining. The risk-weighted asset is the balance of the asset weighted by the risk related to the credit-worthiness of the counterparty calculated at the rates prescribed by the BIS.

29. Derivative Instruments (Continued)

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

				2019
	Notional	Replacement cost	Credit risk equivalent	Risk-weighted asset
Interest rate swaps	1,280,000	5,449	12,359	2,472
Forward contracts	13,334	231	329	66
Equity options	11,979	924	3,317	663
Total	1,305,313	6,604	16,005	3,201

30. Fair Value of Financial Instruments

There have been no significant changes to Coast Capital's approach and methodologies used to determine fair value measurements during the year ended December 31, 2020.

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

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

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

					2020		2019
	Carrying value	Fair value	Level 1	Level 2	Level 3	Carrying value	Fair value
Loans							
Residential mortgages	11,862,364	12,011,131	–	–	12,011,131	11,498,801	11,515,963
Personal loans	373,931	374,347	–	–	374,347	396,434	396,819
Commercial mortgages and loans and equipment financing[1]	5,353,486	5,423,318	–	–	5,423,318	5,122,823	5,198,013
	17,589,781	17,808,796	–	–	17,808,796	17,018,058	17,110,795
Deposits	17,453,291	17,552,831	–	17,552,831	–	16,482,333	16,534,676
Secured borrowings	823,401	863,244	–	863,244	–	1,184,006	1,242,449
Borrowings	667,365	666,507	–	666,507	–	673,543	673,562
Subordinated debentures	307,731	320,237	–	320,237	–	301,887	306,637
	19,251,788	19,402,819	–	19,402,819	–	18,641,769	18,757,324

1. Excludes a commercial loan measured at FVTPL of $12,803 (2019 – $13,274).

30. Fair Value of Financial Instruments (Continued)

(b) Fair Value Hierarchy

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

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

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

				2020
	Level 1	Level 2	Level 3	Total
Interest bearing deposits with financial institutions classified FVOCI	–	49,594	–	49,594
Financial investments				
Debt securities classified FVOCI	2,512,739	236,617	–	2,749,356
Equity securities designated FVOCI	–	–	3,558	3,558
Loans				
Commercial loan designated FVTPL	–	–	12,803	12,803
Derivative assets classified FVTPL	969	10,548	–	11,517
Total financial assets	2,513,708	296,759	16,361	2,826,828
Derivative liabilities classified FVTPL	17	137	–	154
Total financial liabilities	17	137	–	154

				2019
	Level 1	Level 2	Level 3	Total
Interest bearing deposits with financial institutions classified FVOCI	–	49,690	–	49,690
Financial investments				
Debt securities classified FVOCI	2,357,853	322,577	–	2,680,430
Equity securities designated FVOCI	–	–	3,558	3,558
Loans				
Commercial loan designated FVTPL	–	–	13,274	13,274
Derivative assets classified FVTPL	1,155	5,449	–	6,604
Total financial assets	2,359,008	377,716	16,832	2,753,556
Derivative liabilities classified FVTPL	–	2,066	–	2,066
Total financial liabilities	–	2,066	–	2,066

30. Fair Value of Financial Instruments (Continued)

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

Fair values for equity securities are determined based on redemption value. Where redemption value is not available, and there is insufficient information to determine fair value, cost is used as it represents the best estimate of fair value (Note 6).

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

Fair values of derivative financial instruments have been based on market price quotations.

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

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

(c) Changes in Level 3 Fair Value Measurements

The following table reconciles the opening and closing totals:

	Equity securities classified FVTPL	Equity securities designated FVOCI	Commercial loan designated FVTPL	Total
Balance at Jan 1, 2019	1,808	2,767	13,612	18,187
Purchased	–	791	–	791
Sold	(1,808)	–	–	(1,808)
Loan payments received	–	–	(1,093)	(1,093)
Interest included in profit or loss	–	–	412	412
Fair value adjustments	–	–	343	343
Balance at Dec 31, 2019	–	3,558	13,274	16,832
Loan payments received	–	–	(1,093)	(1,093)
Interest included in profit or loss	–	–	393	393
Fair value adjustments	–	–	229	229
Balance at Dec 31, 2020	–	3,558	12,803	16,361

In determining the fair value of the commercial loan designated FVTPL, increasing current market interest rate by 1% would decrease the fair value by $145, and decreasing the current market interest rate by 1% would increase the fair value by $148.

Notes to the Consolidated Financial Statements

31. Classification of Financial Assets and Liabilities

						2020
	Classified FVOCI	Designated FVOCI	Classified FVTPL	Designated FVTPL	Amortized Cost	Total
Financial assets						
Cash and cash resources	–	–	–	–	188,546	188,546
Interest bearing deposits with financial institutions	49,594	–	–	–	–	49,594
Financial investments						
Debt securities	2,749,356	–	–	–	–	2,749,356
Equity securities	–	3,558	–	–	–	3,558
Loans	–	–	–	12,803	17,589,781	17,602,584
Derivative assets	–	–	11,517	–	–	11,517
Other assets	–	–	–	–	42,700	42,700
Total financial assets	2,798,950	3,558	11,517	12,803	17,821,027	20,647,855
Financial liabilities						
Deposits	–	–	–	–	17,453,291	17,453,291
Borrowings	–	–	–	–	667,365	667,365
Secured borrowings	–	–	–	–	823,401	823,401
Subordinated debt	–	–	–	–	307,731	307,731
Derivative liabilities	–	–	154	–	–	154
Other liabilities	–	–	–	–	281,955	281,955
Total financial liabilities	–	–	154	–	19,533,743	19,533,897

						2019
	Classified FVOCI	Designated FVOCI	Classified FVTPL	Designated FVTPL	Amortized Cost	Total
Financial assets						
Cash and cash resources	–	–	–	–	180,109	180,109
Interest bearing deposits with financial institutions	49,690	–	–	–	–	49,690
Financial investments						
Debt securities	2,680,430	–	–	–	–	2,680,430
Equity securities	–	3,558	–	–	–	3,558
Loans	–	–	–	13,274	17,018,058	17,031,332
Derivative assets	–	–	6,604	–	–	6,604
Other assets	–	–	–	–	48,163	48,163
Total financial assets	2,730,120	3,558	6,604	13,274	17,246,330	19,999,886
Financial liabilities						
Deposits	–	–	–	–	16,482,333	16,482,333
Borrowings	–	–	–	–	673,543	673,543
Secured borrowings	–	–	–	–	1,184,006	1,184,006
Subordinated debt	–	–	–	–	301,887	301,887
Derivative liabilities	–	–	2,066	–	–	2,066
Other liabilities	–	–	–	–	321,946	321,946
Total financial liabilities	–	–	2,066	–	18,963,715	18,965,781

32. Related-party Transactions

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

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

	2020	2019
Outstanding loans	6,457	3,963
Outstanding deposits	321	527

Loans are advanced to employees at interest rates that range from market rates to preferred rates, but directors are not eligible for this employee benefit. No specific provisions for expected credit losses have been recognized for these loans (2019 – Nil). Upon initial recognition, employee loans are recorded at fair value with the difference between fair value and funds advanced being recorded as Salaries and employee benefits in the Consolidated Statement of Income. Deposits are accepted at the same terms and conditions as those extended to unrelated parties.

During the year, the following compensation was charged to Salaries and employee benefits in the Consolidated Statement of Income for key management personnel who are managers of Coast Capital and who have the authority and responsibility for planning, directing and controlling the activities of Coast Capital, directly or indirectly. These key management personnel are comprised of the President and CEO; Chief Financial Officer; Chief Commercial, Retail & Wealth Officer; Chief Risk Officer; Chief People & Corporate Services Officer; Chief Digital, Information & Technology Officer; Chief Strategy, Product & Marketing Officer; Executive Vice President, Commercial Relationships; Chief Member Experience Officer; and the Chief Enterprise Solution Officer.

	Compensation component			Compensation component		
	Fixed	Variable	2020	Fixed	Variable	2019
Short-term	4,389	1,014	5,403	3,911	1,492	5,403
Post-employment	771	–	771	695	–	695
Other long-term	–	864	864	–	892	892
	5,160	1,878	7,038	4,606	2,384	6,990
Termination	2,640	214	2,854	1,028	–	1,028
Total employee benefits	7,800	2,092	9,892	5,634	2,384	8,018

Employee benefits include amounts earned in that year. Short-term employee benefits are employee benefits that are payable within 12 months after December 31 of each year. This includes gross wages, incentive payments, all taxable/company-paid benefits, perquisite allowances and any discretionary payments made. Post-employment benefits are employee benefits that are payable after the completion of employment and this includes compensation made to retirement and pension plans. Other long-term employee benefits are employee benefits that are payable more than 12 months after December 31 of each year. This includes compensation under the long-term incentive plan. Termination benefits are employee benefits payable as a result of an employee's employment being terminated and include severance payments and accruals for pending severance offers.

During the year, members of the Board, who are also considered key management personnel under IFRS, received remuneration of $627 (2019 – $561). Directors do not receive or pay preferred rates on products and services offered by Coast Capital and are only compensated with short-term Directors' fees and related statutory benefits.

33. Pension Plan

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

a) Multi-employer Defined-benefit Plan

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

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

An actuarial valuation of the overall Plan was carried out as at December 31, 2018, and it was determined that the overall Plan was 104% funded on a going concern basis. The next actuarial review is scheduled for the period ending December 31, 2021. Pension expense of $6,922 (2019 – $6,291) in respect of contributions paid into the Plan in 2020 has been charged to Salaries and employee benefits in the Consolidated Statement of Income. Contributions to the Plan in 2021 are expected to be $6,900.

b) Defined Contribution Plan

Coast Capital provides a group RRSP to its eligible employees whereby all contributions are funded by Coast Capital. Pension expense of $3,922 (2019 – $3,628) in respect of contributions paid into this Plan in 2020 has been charged to Salaries and employee benefits in the Consolidated Statement of Income.

c) Other Post-retirement Defined Benefits

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

Actuarial valuation of the Other Post-Retirement Plans is obtained once every three years. The latest actuarial valuation was performed as at December 31, 2019, and the next valuation will be completed as at December 31, 2022.

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

The weighted-average duration of the defined benefit obligation is eight years at December 31, 2020.

	2020	2019
Benefit obligation at beginning of year	4,110	4,261
Current service costs	375	420
Interest costs	124	149
Benefit payments	(387)	(628)
Actuarial loss (gain), due to		
Experience adjustments	144	7
Changes in financial assumptions	216	(99)
Benefit obligation at end of year	4,582	4,110

Pension expense of $499 (2019 – $569) has been charged to Salaries and employee benefits in the Consolidated Statement of Income. Any actuarial gains and losses are recognized in OCI in the period in which they arise.

33. Pension Plan (Continued)

	2020	2019
Cumulative actuarial losses at beginning of year	(537)	(629)
Actuarial (losses) gains	(360)	92
Cumulative actuarial losses at end of year	(897)	(537)

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

	2020	2019
Discount rate	2.1%	3.0%
Dental benefits trend rate for 10 years	5.0%	5.0%
Extended health benefits trend rate for 10 years	6.5%	6.5%

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

The following table shows how the defined benefit obligation as at December 31, 2020, would have been affected by changes that were reasonably possible at that date in each of the actuarial assumptions that were considered significant to the valuation of the benefit obligation.

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

34. Membership

The following membership data is as at December 31, 2020, and is annexed in accordance with subsection 308 (3) of the *Bank Act*. As at December 31, 2020, Coast Capital is organized and carrying on business on a cooperative basis in accordance with subsection 12(1) of the *Bank Act*.

	2020	2019
Number of members	594,483	593,548
Percentage of members who are natural persons	91.4%	91.4%
Percentage of financial services transacted with members on the basis of gross revenues (based on unconsolidated financial data of Coast Capital Savings Federal Credit Union)	98.1%	98.0%

Corporate Governance—Board of Directors

The member-elected Board of Directors (the Board) must bring the skills, experience and competencies required to effectively guide and oversee one of Canada's largest co-operative financial institutions. Both the Board and management team of Coast Capital Savings Federal Credit Union (Coast Capital) are committed to excellence in sound business practices and the achievement of responsible economic, social and environmental objectives. The Board is responsible for supervising the management of Coast Capital's business and affairs. It has the statutory authority and obligation to protect and enhance the assets of the credit union. The Board reviews and approves Coast Capital's strategic direction and risk appetite, sets and monitors corporate policies and is responsible for overseeing management and ensuring that Coast Capital complies with regulatory and statutory requirements.

Coast Capital uses the Corporate Governance Guidelines for Building High Performance Boards published by the Canadian Coalition for Good Governance as a baseline of best practices and as they would apply to a non-public company and member-controlled financial cooperative. These include:

A High-Performance Board is Accountable and Independent		
Guideline 1	Facilitate shareholder (member) democracy	✓
Guideline 2	Ensure at least two-thirds of directors are independent of management	✓
Guideline 3	Separate the roles of Board Chair and Chief Executive Officer (CEO)	✓
A High-Performance Board Has Experienced, Knowledgeable and Effective Directors with the Highest Level of Integrity		
Guideline 4	Ensure that directors are highly competent and bring the requisite knowledge and experience to the Board	✓
Guideline 5	Ensure that the goal of every director is to make integrity the hallmark of the company	✓
Guideline 6	Establish reasonable compensation and share ownership guidelines for directors	✓
Guideline 7	Evaluate board, committee and individual director performance	✓
A High-Performance Board Has Clear Roles and Responsibilities		
Guideline 8	Establish mandates for board committees and ensure committee independence	✓
Guideline 9	Adopt well-defined board processes and procedures that support board independence	✓
Guideline 10	Oversee strategy	✓
Guideline 11	Oversee risk management	✓
Guideline 12	Assess the Chief Executive Officer and plan for succession	✓
Guideline 13	Develop and oversee executive compensation plans	✓
A High-Performance Board Engages With Shareholders (Members)		
Guideline 14	Report governance policies and initiatives to shareholders (members)	✓
Guideline 15	Engage with shareholders (members)	✓

Board Committees and Meetings

The Board meets a minimum of one time in each quarter for regular Board meetings and also holds strategy and planning sessions with management. The Board delegates specific governance responsibilities to four standing committees: Audit & Finance Committee (AFC), Governance & Nominations Committee (GNC), Human Resources Committee (HRC) and Risk Review Committee (RRC). In 2017, the Project Oversight Committee was established as a special purpose *ad hoc* committee to oversee two significant capital projects and met routinely each quarter. In May 2020, the responsibilities of the Project Oversight Committee were moved to the Risk Review Committee, and the Project Oversight Committee was concluded. Also at that time, the responsibilities of the Nominations Committee and the Governance & Community Engagement Committee were consolidated into the Governance & Community Engagement Committee, and the Nominations Committee was concluded. The Committee was renamed the Governance & Nominations Committee.

Corporate Governance—Board of Directors

The committees are populated by a minimum of three directors, as well as the Board Chair, who sits as an *ex officio* member of each committee. In a year when the Board Chair is up for re-election, the Board Chair will not take part in any portion of the GNC meeting that relates to the nominations process. The committees meet quarterly throughout the year and as required to fulfill their responsibilities. The committees draw upon management resources as appropriate and are authorized by the Board to engage outside advisors as required. The Board determines the authority and responsibilities of each committee and approves the charter and committee membership annually immediately following the Annual General Meeting (the AGM). Committees meet *in camera* as a matter of routine, make recommendations to the Board and report regularly to the Board.

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

Governance & Nominations Committee: ensures the Board's governance practices are consistent with leading practices and the needs of Coast Capital. The committee recommends to the Board an evaluation process for individual directors, the Board as a whole, committees, and the Board and committee chairs. The committee oversees the relationship of Coast Capital's Board with our members. The committee undertakes a regular process of identifying and reviewing the overall skills and experience required amongst directors to strengthen the Board and to meet the needs of Coast Capital's governance, both now and in the future. All members of the committee must be independent directors, as defined in the Coast Capital Savings Federal Credit Union Rules (the "Rules") and the independence standards established by the Board, and no member of the committee may be currently eligible for re-election. The committee ensures the integrity of the election process for directors to the Board and reports the results of the election to the members at the AGM.

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

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

In addition to these standing committees, the Board may establish ad hoc special purpose committees, which are disbanded upon completion of their purpose.

Nine Board meetings were held in 2020. A portion of each regularly scheduled Board meeting is set aside for a directors-only session with and without the CEO. The Board Chair, as the presiding Board member, ensures the relationships between the Board, the CEO, and the Executive Committee and the membership are effective and further the best interests of Coast Capital.

The Board is required by law to act in the best interest of Coast Capital and oversee the processes required to ensure the safety of the organization and the members' finances. The Board oversees the management of Coast Capital and holds the CEO accountable for achieving specific short- and long-term performance goals.

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

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

Corporate Governance—Board of Directors

Current and Past Directors for 2020

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

As of December 31, 2020, Coast Capital's directors are:

Bob Armstrong

Background/Experience:	Mr. Armstrong is a seasoned executive and corporate director who contributes his keen understanding of member-focused technology, financial expertise, and oversight experience to his role as Chair of Coast Capital's board. He works with a number of companies and non-profit organizations in board and advisory roles, including serving as a director of Armstrong Hospitality Group (parent company of Rocky Mountaineer) and the Regional Economic Prosperity Management Board (part of the Metro Vancouver governance structure). In addition to his corporate responsibilities, Mr. Armstrong is a board member and Treasurer of Ballet BC, he chairs the board of the Chris Spencer Foundation, and he is an active member of Social Venture Partners. Prior to focusing on board and advisory work, Mr. Armstrong spent 18 years with Ritchie Bros. Auctioneers, where he held several executive positions, including Chief Financial Officer, Chief Operating Officer and Chief Strategic Development Officer. He is a Chartered Professional Accountant and received his Institute of Corporate Directors designation from the Institute of Corporate Directors.
Position:	Board Chair (as of December 10, 2018) and ex officio member of all Board committees
Director since:	2016
Current term expires:	2022
Other current boards:	Armstrong Hospitality Group (Rocky Mountaineer), Ballet BC, Heffel Galleries Ltd. (Advisory Board), Pennask Lake Fishing and Game Club, Chris Spencer Foundation, and Regional Economic Prosperity Management Board (Metro Vancouver)

Corporate Governance—Board of Directors

Charlotte Burke

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

Leanna Falkiner

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

Corporate Governance—Board of Directors

Frances Fiorillo

Background/Experience:	Ms. Fiorillo is a highly accomplished Human Resources leader who complements Coast Capital's board with her diverse experience in organizational development, national expansion, workplace culture and consumer-oriented services. She has spent her career in the areas of human resources, customer service and operations. Prior to retirement from the airline industry, Ms. Fiorillo held a number of high-ranking positions at Virgin America, the BC Provincial Health Services Authority, Canadian Airlines International and Air Canada ZIP. She has a Bachelor of Arts with a major in Psychology from the University of British Columbia.
Position:	Human Resources Committee member, and Risk Review Committee member
Director since:	2019
Current term expires:	2022
Other current boards:	Vancouver Airport Authority

Valerie Lambert

Background/Experience:	With a notable history of community building and leadership and having extensive financial expertise, Ms. Lambert brings a high degree of experience to Coast Capital's board. She is currently the Executive Director for Big Brothers of Greater Vancouver. This puts her at the helm of all aspects of community outreach, programming and funding for the organization. Ms. Lambert holds an Honours Bachelor of Arts in English and Commerce from the University of Toronto. She qualified as a Chartered Accountant in Ontario and is currently a member of the Chartered Professional Accountants of BC. Ms. Lambert has also received an Institute of Corporate Directors designation from the Institute of Corporate Directors.
Position:	Chair, Audit & Finance Committee, and Governance & Nominations Committee member
Director since:	2017
Current term expires:	2023
Other current boards:	British Columbia Hydro and Power Authority, Powerex Corp., and Shaughnessy Golf & Country Club

Corporate Governance—Board of Directors

Frank Leonard

Background/Experience:	With a focus on service, along with his strong background in financial governance, Mr. Leonard deepens Coast Capital's ability to remain strong and relevant for its members and the communities it serves. Mr. Leonard comes from a family business background, having managed Victoria Tire Ltd.'s three Kal Tire stores for more than 25 years prior to their sale in 1996. In addition to his small business experience, he brings to the board leadership in stakeholder engagement and community building, gained through his extensive experience in the public service and as the former Mayor of the District of Saanich. He teaches a course on small business at the University of Victoria to support entrepreneurs in the community and is the Capital Campaign Co-Chair for Nigel House, assisted living in Saanich. Mr. Leonard has a Master's Degree in History from the University of Victoria. He also has an Institute of Corporate Directors designation from the Institute of Corporate Directors.
Position:	Chair, Governance & Nominations Committee, and Human Resources Committee member
Director since:	2016
Current term expires:	2022
Other current boards:	Parkbridge Lifestyle Communities, and Victoria Airport Authority

Nancy McKenzie

Background/Experience:	Ms. McKenzie is a corporate director and accounting professional who brings strategic, operational and executive leadership expertise to Coast Capital's board through her extensive experience across the transportation, manufacturing and industrial equipment industries. Ms. McKenzie is an active community member and for many years volunteered with the West Vancouver Minor Hockey Association. During her 19-year career with Seaspan ULC, the last 12 of which were as Chief Financial Officer, she was responsible for leading Finance, Information Technology, Risk Management, Supply Chain Management, Facilities/Security and Corporate Communications, and managed major capital projects. She holds an Honours Bachelor of Business Administration degree from Wilfrid Laurier University. Ms. McKenzie is also a Chartered Professional Accountant and was awarded a Fellowship by the Chartered Professional Accountants of BC. She has also received an Institute of Corporate Directors designation from the Institute of Corporate Directors.
Position:	Vice Chair, Board of Directors, Audit & Finance Committee member, and Chair, Risk Review Committee
Director since:	2018
Current term expires:	2021, standing for re-election
Other current boards:	University of British Columbia, and a private company board

Corporate Governance—Board of Directors

Christian Morrison

Background/Experience:	Ms. Morrison contributes her extensive experience in retail banking, corporate financial management, leadership development and member care to the Coast Capital board, gained through her background in the national financial services sector. She has a deep understanding of corporate citizenship and its benefits to members, employees and the community that she highlights through her role on the board. Ms. Morrison volunteers her time as a musician with various not-for-profit organizations, including as Founder of Sister Jazz Orchestra and Music Director for Jazz Connexion. Ms. Morrison is a former Senior Vice President of RBC Financial Group with 29 years of experience in financial services across Canada, including roles as CEO and President of Royal Bank Mortgage Corporation, Chair of RBC Action Direct, and Vice President of Personal Markets, Lower Mainland BC. She has a Master of Business Administration from Concordia University, a Professional Coach designation from Erickson College and a Bachelor of Music from McGill University. She has also received an Institute of Corporate Directors designation from the Institute of Corporate Directors.
Position:	Chair, Human Resources Committee, and Governance & Nominations Committee member
Director since:	2009
Current term expires:	2021 (served a maximum of four consecutive three-year terms)
Other current boards:	None

Chris Trumpy

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

Corporate Governance—Board of Directors

2020 Past Directors:

Robin Chakrabarti

Background/Experience:	Mr. Chakrabarti is a founding partner of Empresario Capital Partners, which has investment holdings and operational involvement in the food service, retail automotive and energy productivity industries. Mr. Chakrabarti has significant executive operational, commercial banking and corporate finance expertise, as well as experience in developing and leading strategy.
Position:	Chair, Risk Review Committee, and Human Resources Committee member
Director since:	2011
Term:	Mr. Chakrabarti resigned in June 2020.
Other boards as at date of resignation:	Assembli Restaurants Corp., Empresario Capital Partners Ltd., Mr. Mikes Restaurant Corporation, and Valley Lube Holdings Ltd.

Mary Jordan

Background/Experience:	Ms. Jordan has held senior executive positions with American Airlines, Canadian Airlines and Air Canada. She served as Provincial Executive Director of the BC Centre for Disease Control and was Executive Vice President, Human Resources and Communications at Laidlaw International.
Position:	Chair, Project Oversight Committee, and Governance & Nominations Committee member
Director since:	2008
Term :	May 14, 2020 (served a maximum of four consecutive three-year terms)
Other boards at the time of retirement:	Superior Plus Corp., TimberWest Forest Corp., and Badger Daylighting Ltd.

Remuneration for Directors, Executives, Senior Management and Employees

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

Coast Capital executive, senior management and employee remuneration is based on both business and individual performance objectives and is structured to incentivize employees to meet strategic business objectives in a manner that is aligned with our Board-approved risk appetite policy and framework and applicable governing legislation.

Our compensation structure is overseen by the Human Resources Committee of Board of Directors (HRC). The Committee is comprised of three or more directors, with the majority being independent, as determined by the Board, and none of whom is an officer or employee of Coast.

The framework of Coast Capital's compensation program consists of base salary and a general incentive plan (a staff incentive plan and an executive incentive plan, which includes senior management and the CEO) with thresholds and maximums. Base salary is reviewed for all employees annually and as required by market conditions. Coast Capital's incentive plan is paid to eligible participants annually if threshold goals are achieved. The general incentive targets are expressed as a percentage of base salary determined by position and level within the organization. The HRC has been delegated the responsibility of reviewing and approving Coast Capital's incentive plans. Coast Capital is governed by its Board of Directors, and senior management has the authority and responsibility for planning, directing and controlling corporate activities.

Corporate Governance—Board of Directors

For the year ended December 31, 2020, the compensation of our Material Risk Takers, which includes senior management and members of the Board of Directors, is disclosed in Note 32 to our 2020 audited annual consolidated financial statements.

Additionally, there were no guaranteed bonuses, and special project achievement bonuses were $146K. There were no sign-on bonuses. Further remuneration detail is provided below.

Director Remuneration

Coast Capital's director remuneration is set in accordance with a member-approved remuneration philosophy.

In 2015, the Governance and Member Relations Committee established a member panel to review director compensation as part of the Triennial Review Process. The member panel recommended increases to various components of director remuneration, but the Board of Directors deferred any increase. The next triennial review of director remuneration was scheduled to take place in 2021. However, as a result of the pandemic impact on the operating income, the Board decided it was prudent to defer this review until 2022. The following table sets out director remuneration:

Board of Directors Remuneration

Coast Capital's remuneration structure is as follows:

Annual Board Chair Retainer	$65,000
Annual Director Retainer	$25,500
Annual Committee Chair Retainers	$5,000
Board and Committee Meeting Fee	$1,000
Meeting Fee paid for four hours (or longer) of travel to and from meetings (excluding same day travel)	$1,000

Effective April 1, 2020, the Board of Directors unanimously volunteered to reduce their retainers and meeting fees by 10% in an effort to contribute to organization's efforts to reduce expenses in response to the pandemic. In addition, during 2020 and at the discretion of the committee chair(s), some meeting fees were waived. The total remuneration paid to directors in 2020 was $605,716 (2019 – $575,664), including required contributions to Canada Pension Plan, Workers Compensation Board premiums, and the Employer Health Tax premiums (which came into effect in 2019), all as required by law. Directors do not receive any product or service preferences that are not available to the general membership. The following table provides the total remuneration paid for the year to each director for attendance at all Board and committee meetings and at other designated meetings and events deemed eligible for payment.

2020 Calendar Year Board and Committee Attendance and Corresponding Remuneration

	Board Meetings		Strategy Meetings		Assigned Committees of the Board		Percentage of all Meetings	Total Remuneration
	Attended	Percentage	Attended	Percentage	Meetings Attended		Attended	Paid for Year[1]
Bob Armstrong, Board Chair	9 of 9	100%	11 of 11	100%	Audit & Finance Human Resources Governance & Nominations[2] Project Oversight[3] Risk Review	5 of 5 5 of 5 9 of 9 1 of 1 6 of 6	100%	$110,578
Charlotte Burke (from May 16, 2020)	9 of 9	100%	9 of 11	83%	Audit & Finance Project Oversight[3] Risk Review (after May 14, 2020)	5 of 5 1 of 1 4 of 4	100%	$62,327
Frances Fiorillo	9 of 9	100%	11 of 11	100%	Human Resources Risk Review	5 of 5 6 of 6	100%	$52,915
Leanna Falkiner	7 of 7	100%	8 of 8	100%	Audit & Finance (from May 14, 2020) Human Resources (from May 14, 2020)	3 of 3 2 of 2	100%	$35,656

Corporate Governance—Board of Directors

	Board Meetings		Strategy Meeting		Assigned Committees of the Board		Percentage of all Meetings Attended	Total Remuneration Paid for Year[1]
	Attended	Percentage	Attended	Percentage	Meetings Attended			
Valerie Lambert	9 of 9	100%	11 of 11	100%	Audit & Finance (Chair) Governance & Nominations[2] (from May 14, 2020)	5 of 5 7 of 7	100%	$61,356
Frank Leonard	9 of 9	100%	11 of 11	100%	Governance & Nominations[2] (Chair from June 30, 2020) Human Resources (from May 14, 2020)	9 of 9 2 of 2	100%	$61,533
Calvin MacInnis, President & CEO	9 of 9	100%	11 of 11	100%	N/A	N/A	100%	N/A
Nancy McKenzie	9 of 9	100%	11 of 11	100%	Audit and Finance Risk Review (Chair from May 14, 2020)	5 of 5 6 of 6	100%	$56,752
Christian Morrison	9 of 9	100%	11 of 11	100%	Human Resources (Chair) Governance & Nominations[2]	5 of 5 8 of 8	100%	$63,392
Chris Trumpy	9 of 9	100%	11 of 11	100%	Governance & Nominations[2] (Chair up to May 14, 2020) Human Resources (from May 14, 2020) Risk Review (from May 14, 2020) Project Oversight (up to May 14, 2020)[3]	1 of 1 2 of 2 4 of 4 1 of 1	100%	$54,266
Robin Chakrabarti	4 of 4	100%	5 of 5	100%	Risk Review (Chair until May 14, 2020) Human Resources (until May 14, 2020) Governance & Nominations[2] (Chair May 14 – June 30, 2020)	2 of 2 3 of 3 1 of 1	100%	$31,331
Mary Jordan	2 of 2	100%	0 of 4	N/A	Project Oversight (Chair, up to May 14, 2020)[3] Governance & Nominations[2] (up to May 14, 2020)	1 of 1 2 of 2	100%	$15,588

1. The total remuneration paid includes the annual retainers, meeting fees and any industry-related events (as approved by the Board Chair and GNC Chair), and travel to and from meetings if commute is longer than four hours, which is paid at the rate of a meeting fee of $1,000. This table does not include any Canada Pension Plan contributions, Workers Compensation Board premiums or the Employer Health Tax premiums that Coast Capital is required by law to pay.
2. From January 1 to May 14, 2020, there was a Nominations Committee and a Governance & Community Engagement Committee. In May 2020, the responsibilities of the Nominations Committee were consolidated into the Governance & Community Engagement Committee, and the committee was renamed the Governance & Nominations Committee, and the Nominations Committee was concluded. Between January 1 – May 14, 2020, there were two meetings of the Nominations Committee and one meeting of the Governance & Community Engagement Committee. Between May 14 to December 31, 2020, there were six meetings of the Governance & Nominations Committee. The number of meetings noted in the table above correlates with each individual director's membership on these three separate committees and their specific attendance at these meetings.
3. From January 1 – May 14, 2020, there was a Project Oversight Committee and a Risk Review Committee. In May 2020, the responsibilities of the Project Oversight Committee were moved to the Risk Review Committee, and the Project Oversight Committee was concluded. Between January 1 – May 14, 2020, there was one Project Oversight meeting.

Corporate Governance—Board of Directors

Director Education

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

In 2020 education sessions included:

- Funds Transfer Pricing
- Digital Disruption and Global Insights
- Wealth Management Landscape in Canada
- Canadian Banking Landscape (Market landscape of fintechs and non-financial players in financial services in Canada—competitive threats and opportunities)
- Strategy and Organizational Health (Organizational Health Comparators)
- Coast Capital—Lines of Business Presentations (Retail, Commercial and Auto Equipment Finance)
- Canadian Commercial Banking Landscape (Member Segmentation)
- Open Banking—Current State in Canada and Globally
- Internal Co-operative Insight and Lessons Learned—A Perspective on building a national cooperative
- Canadian Centre for Diversity and Inclusion—Unconscious Bias Training and Promoting a Diverse & Inclusive Workplace
- B Corp Certification—What it means to be a B Corp

Director Expenses

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

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

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

Corporate Governance—Board of Directors

Director Total Expenses

Director	Total Expenses	Description of 2020 Expenses
Bob Armstrong Board Chair and ex officio member of all committees	Total: $3,475	Includes travel, meals, parking and accommodation, and attendance at board-related events, continuing professional development activities, and technology upgrade expenses, attendance as Coast Capital's representative at Peer Group 5 meetings and CCUA Conference in February, 2020 (Calgary).
Charlotte Burke Audit Finance Committee member, and Project Oversight Committee member and subsequent Risk Review Committee member	Total: $2,729	Includes travel to and from principal residence (Toronto) in February, 2020, and attendance at board-related events, including airfare, meals and accommodations.
Robin Chakrabarti Risk Review Committee member, and Chair, Governance & Nominations (up to June 30, 2020)	Total: $0	No expenses claimed in 2020.
Leanna Falkiner Audit Finance Committee member, and Human Resources Committee member	Total: $2,198	Includes technology upgrade expenses.
Frances Fiorillo Risk Review Committee member, and Human Resources Committee member	Total: $2,460	Includes technology upgrade expenses.
Mary Jordan Chair, Project Oversight Committee, and Nomination Committee member (up to May 14, 2020)	Total: $0	No expenses claimed in 2020.
Valerie Lambert Chair, Audit &Finance Committee, and Governance & Nominations Committee member	Total: $0	No expenses claimed in 2020.
Frank Leonard Chair, Governance & Nominations Committee (effective July 1, 2020), and Human Resources Committee member	Total: $2,269	Includes travel to and from principal residence (Victoria, B.C.), attendance at board-related events including meal, parking, accommodation and attendance as Coast Capital's representative at Peer Group 5 meeting in February, 2020.
Nancy McKenzie Audit & Finance Committee member, and Chair, Risk Review Committee member	Total: $0	No expenses claimed in 2020.
Christian Morrison Chair, Human Resources Committee, and Governance & Nominations Committee member	Total: $3,403	Includes technology upgrade expenses.
Chris Trumpy Human Resources Committee member, Project Oversight Committee member, and Risk Review Committee member	Total: $1,832	Includes travel to and from principal residence (Victoria, B.C.), and attendance at board-related events.

Corporate Governance—Board of Directors

Board Performance Reviews

A director's job is to use their skills and experience to work with the Board in providing strategic advice and business oversight of Coast Capital's operations. This includes challenging and giving approval to Coast Capital's five-year strategic plan and annual operating capital expenditure plans. Directors are required to act honestly, in good faith and in Coast Capital's best interests. In doing so, they must take into account the interests of the members, depositors, employees and other stakeholders.

The Board undertakes periodic comprehensive evaluations to review the effectiveness of the Board's governance and performance. Annually, the GNC recommends to the Board a process for the evaluation at a frequency appropriate to Coast Capital, and in May 2018, this was determined to be that it would be prudent to do a formal evaluation every two years. This review process is based on the duties and responsibilities of the Board, individual directors and the Board Chair, as described in their respective charters.

A comprehensive review was conducted in late 2019. The 2019 evaluation was administered by an external governance consultant and involved the elements listed below:

- Confidential online director evaluation survey distributed by the consultant to all directors to self-assess their own performance and the performance of each director.
- Confidential online Board evaluation survey distributed by the consultant to all directors, and select members of senior management, to provide feedback on overall Board performance.
- Structured individual interviews conducted by the consultant with select members of senior management to obtain input on the Board's performance.
- Comprehensive surveys administered and structured interviews conducted by the consultant with each director to discuss their performance as a Coast Capital director and obtain input on peer performance, the performance of the Board, the Board's committees and the Board Chair.
- Each director provided with a confidential report summarizing feedback on their performance.
- The Board provided with a comprehensive report on Board performance, highlighting strengths and providing recommendations for continual improvement.
- An in-depth debriefing session on Board performance held with the consultant and all directors. Board goals for the next 12 months determined and the responsibility for achieving each goal assigned.
- The Board Chair met privately with each director to discuss their peer evaluation results with a view to determining how the director could contribute more effectively to the Board.
- The GNC Chair met privately with the Board Chair to discuss the Board Chair's evaluation results.

CEO Evaluation and Compensation

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

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

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

Corporate Governance—Board of Directors

Industry Positioning and Comparator Groups

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

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

Chief Executive Officer Performance and Compensation Reviews

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

Our corporate performance is based on strategic themes that focus on our culture, our members and our operations. Within these themes we have metrics that are measured on a pre-determined frequency and presented to the Human Resources Committee and the Board for review. Individual performance, evaluated semi-annually, is based on the progressive achievement of Coast Capital's strategic plan. Our 2020 results are keeping the credit union aligned and on track to achieve its long-term strategy and goals.

Components of CEO Compensation and Summary

For the fiscal year ending December 31, 2020, Coast Capital's CEO position earned the following total cash compensation.

	Year	Base salary earnings	2020 performance compensation	Long-term incentive (earned)	Total cash compensation
Chief Executive Officer	2020	$571,923	$268,585	$360,460	$1,200,968

Base Salary

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

Variable Pay

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

Short-Term Incentive Plan (STIP)

The annual short-term incentive plan links compensation to the achievement of performance objectives set in our annual business plan. The CEO STIP target is set at 80 per cent of base salary (weighted at 30 per cent for individual performance and 70 per cent for corporate performance), with an opportunity to earn up to a maximum of 120 per cent of base salary for exceptional performance. If the CEO does not meet threshold performance, Coast Capital does not make a payout under this plan. The 2020 CEO corporate STIP measures, notated below, are to provide prudent fiscal and operational management so the organization can continue to support its members and communities:

Measures
- Normalized Operating Income
- Total Revenue

Long-Term Incentive Plan (LTIP)

The long-term incentive plan links eligible compensation to the actual achievement of performance objectives that support Coast Capital's long-term strategy and vision and create value for members. Coast Capital provides the LTIP to the CEO and executives to serve as an attraction and retention tool and to prioritize their long-term focus.

The goals of the LTIP are to:
- Ensure Coast Capital's long-term health and growth so we can continue to serve our members.
- Build upon our community contributions with a goal of improving youth financial well-being.

We measure the LTIP over a three-year performance period. At the start of each year, Coast Capital establishes specific metrics and targets for the new three-year performance period with an established target payout (grant) percentage of current base salary if these metrics are successfully achieved. The LTIP is a variable pay program, with target payout for performance period 2018 – 2020 at 80 per cent of base salary and maximum 160 per cent. To remain aligned with the market peer group benchmark, the LTIP target payout increases for performance period 2021 – 2023 to 110% of base salary, with a maximum of 220% for exceptional performance. If threshold performance targets are not met, there is no payout. 2020 performance is measured within three rolling LTIP performance periods: 2018 – 2020, 2019 – 2021 and 2020 – 2022. The LTIP amount reported in the Compensation Summary is the 2018 – 2020 grant level that was earned in this time frame. The payment for 2018 – 2020 will be made in June 2021. The CEO 2018 – 2020 LTIP measures are:

Measures
- Operating efficiency ratio
- Return on risk-weighted assets
- Community brand and engagement score

The LTIP paid in 2020, for performance period 2017 – 2019, was $391,460.

Benefits and Perquisites

Coast Capital believes in investing in the health and well-being of its employees. As such, a competitive, flexible benefit program protects employees and their families through the following components: health, dental, disability, life, critical illness and accidental death and dismemberment insurance, employee and family assistance, vacation and personal leave, and tuition and educational assistance. In addition, an annual physical (optional) is provided to the CEO and executives. Total contributions towards the CEO's benefits for 2020 were 7.3 per cent of base salary. This includes the new BC Employer Health Tax that came into effect in 2020 and professional development taken by the CEO in 2020. The CEO is also provided a perquisite allowance of 8.7 per cent of base salary to cover costs for out-of-pocket expenses such as car allowances and memberships.

Retirement Income Programs

We provide a Defined Benefit Pension (DBP) plan or a Group RRSP program to all employees who meet the eligibility criteria. The CEO has elected to participate in the DBP program and also participates in a Supplemental Executive Retirement Plan (SERP). Both programs are based on salary and STIP paid in 2020. Coast Capital contributed 23.4 per cent of base salary for 2020 towards the CEO's retirement savings.

Termination and Change in Control Benefits

The CEO has an employment agreement that includes provisions covering position, term, duties, obligations, compensation (including base salary and variable pay), pension, benefits, vacation and provisions covering termination for cause and without cause. If the CEO's employment is terminated without cause, 24 months of severance continuance will be payable (including salary, bonus and benefits). If employment at another financial institution commences within the 24 months, any amount owing is payable at 50 per cent.

Compensation Policies and Practices

Eligible employees, like the CEO, participate in comprehensive compensation and benefits programs.

In addition to a compensation philosophy for executive roles, we have a non-executive employee-specific compensation philosophy that includes the following guiding principles:

- Market-competitive
- Fair
- Performance-linked
- Easily understood by employees
- Cost conscious
- Scalable

Base Salary

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

Variable Incentive Pay

Eligible front-line, administrative and management staff also participate in an annual short-term incentive program based on a combination of overall achievement against pre-defined team metrics and individual metrics, subject to overall achievement against pre-defined Corporate Normalized Operating Income performance. Payout potential varies per level of role and is based on the results achieved and overall financial health and stability of the organization. Payments are contingent on Board approval.

Benefits—Health and Wellness

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

Retirement Savings Programs

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

Perquisites

Employees are offered additional perquisites that include an employee loan program and on-site fitness centres at the administrative offices. Coast Capital also provides paid volunteer time and charitable donations of up to $1,000 per year on behalf of individual employees through its Help Heroes Employee Volunteer program.

Corporate Governance—Board of Directors

Nomination of Directors

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

Diversity of thought and perspective at the Board table enables the Board to best serve Coast Capital's members. The GNC's responsibility is to recommend qualified and diverse candidates for the following year for election to the Board. From the membership, the Committee seeks qualified candidates with a diversity of skills, experience, gender, ethnicity, race, age and geography. The Committee retains the services of an expert governance consultant to assist in seeking out and screening for highly qualified nominees. In keeping with its charter and adhering to corporate governance best practices, the committee carries out a due diligence review of all nominees, including a structured full committee interview of new nominees, whose stated skills and experience most closely match the current year's Ideal Director Candidate Description. Following the interviews and at the completion of all the due diligence reviews, the committee determines those candidates it will recommend for election to the Board.

The committee is responsible for:

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

Ethical Business Conduct

The Board embraces and promotes a culture of ethical behaviour at Coast Capital and is accountable for ensuring Coast Capital meets public, regulatory and member expectations in complying with existing laws.

The Board has a Directors' Code of Conduct and Conflict of Interest (the Director's Code) that establishes the standards that govern the manner in which directors conduct themselves and, in particular, how they consider the interests of members, employees and other stakeholders. Annually, each director is required to formally acknowledge and agree to the Director's Code. Coast Capital also has a Code of Conduct and Business Ethics Corporate Policy (the Code) that applies to the Board, officers and employees. The Code states the values upheld by Coast Capital and the standards of behaviour expected. Every director, officer and employee at Coast Capital is required to acknowledge and sign the Code each year. The HRC is responsible for reviewing the Code and the Director's Code at least annually, reviewing any incidents of non-compliance and the resulting consequences, and reporting to the Board.

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

Glossary

Accumulated other comprehensive income (AOCI): includes unrealized gains and losses reported in the equity section of the balance sheet that are netted below retained earnings. **Other comprehensive income (OCI)** can consist of gains and losses on certain types of investments, pension plans and hedging transactions.

Accumulated depreciation: the cumulative amount of depreciation on tangible assets, such as buildings and equipment, and intangible assets, such as computer software.

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

Allowance for credit losses: is provided at a level that management considers adequate to absorb all expected credit-related losses (ECL) from its loan and debt securities portfolios. The allowance is estimated considering future macroeconomic scenarios for performing assets and net realizable value for non-performing assets.

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

Asset and Liability Committee (ALCO): a committee at the credit union that evaluates the risks associated with the credit union's assets and liabilities. It manages interest rate risk while ensuring adequate returns and liquidity.

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

Bank for International Settlements (BIS): an international financial body that serves as a bank for central banks to foster international cooperation for the purposes of monetary and financial stability.

Canada Mortgage Bond (CMB): debt securities fully backed by the Canada Mortgage and Housing Corporation (CMHC) that provide a continuing investment opportunity for investors and a cost-effective source of funding for mortgage lenders.

Canada – United States – Mexico Agreement (CUSMA): replacement of the North American Free Trade Agreement (NAFTA).

Canadian Dealer Offered Rate (CDOR): is the rate determined as being the average of the quotations of all financial institutions, which are Schedule I Banks for purposes of the Bank Act (Canada). It is a short-term lending rate at which banks would agree to lend to companies.

Capital adequacy ratio (CAR): ratio that shows the amount of a credit union's capital in relation to the amount of risk (Risk-Weighted Asset—RWA) it is taking.

Carrying value: amount at which an asset or liability is recognized on the Consolidated Balance Sheet.

Cash flow hedges: derivatives used to hedge exposure to variability in cash flows that are attributable to a particular risk associated with a recognized asset or liability that could affect profit or loss. **Effective portion of cash flow hedges**: degree to which a cash flow hedge is effective in achieving offsetting changes in cash flows attributable to the hedged risk.

Central 1 Credit Union (Central 1): the financial facility and trade association for the B.C. and Ontario credit union systems. Owned and funded by the credit unions, Central 1 provides services for over 250 financial institutions across Canada.

Common Equity Tier 1 (CET 1) ratio: a component of capital, as defined by OSFI, that is primarily comprised of member's equity (class B shares, retained earnings and accumulated other comprehensive income) less deductions for goodwill, intangible assets and other items as prescribed by OSFI, divided by risk-weighted assets.

Glossary

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

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

Derecognition: the removal of a previously recognized financial asset or financial liability from the balance sheet. Derecognition can occur when a financial asset or liability is sold, exchanged or abandoned.

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

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

Exposure at default (EAD): the total value a credit union is exposed to when a loan defaults.

Fair value: the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value hedges: derivatives used to hedge exposure to changes in fair value that are attributable to a particular risk associated with a recognized asset or liability that could affect profit or loss.

Effective portion of fair value hedges: degree to which a fair value hedge is effective in achieving offsetting changes in fair value attributable to the hedged risk.

Financial assets at fair value through other comprehensive income (FVOCI): designated equity instruments and debt instruments that meet the criteria that are measured at fair value with fair value adjustments recorded in other comprehensive income within equity.

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

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

Gross domestic product (GDP): a monetary measure of market value of all the final goods and services produced in a specific time period in a geographical region.

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

Impairment: occurs when objective evidence is identified, suggesting that a portion or all of an asset's carrying value is not expected to be recovered.

Internal capital adequacy assessment process (ICAAP): provides a framework for determining the amount of capital that the credit union requires to manage unexpected losses arising from adverse economic and operational conditions.

Internal controls over financial reporting (ICFR): a set of means designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

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

International Financial Reporting Standards (IFRS): accounting standards issued by the International Accounting Standards Board (IASB).

Glossary

Leverage ratio: a regulatory metric that measures the financial health of a financial institution, as defined by OSFI, and which reflects Tier 1 capital divided by the sum of on-balance sheet and specified off-balance sheet exposures, net of specified adjustments.

Liquidity coverage ratio (LCR): a regulatory metric, as defined by OSFI, that reflects the proportion of high-quality liquid assets (HQLA) held to ensure a financial institution's ongoing ability to meet its short-term obligations.

Loss given default (LGD): the amount of money a credit union loses when a loan defaults, depicted as a percentage of total exposure at the time of default.

***National Housing Act* Mortgage-Backed Securities (NHA MBS)**: investments that are backed by distinct pools of insured mortgages.

Net cumulative cash flow (NCCF): a liquidity metric that measures a credit union's survival horizon based on its net cumulative cash flows. It identifies potential future funding mismatches between contractual inflows and outflows for various time bands over and up to a 12-month time horizon.

Net interest income (NII): the difference between the interest earned on loans and other financial assets, and the interest paid on deposits and other funding sources.

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

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

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

Office of the Superintendent of Financial Institutions (OSFI): independent agency of the Government of Canada that supervises and regulates federally regulated financial institutions, trust and loan companies, as well as private pension plans subject to federal oversight.

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

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

Probability of default (PD): the likelihood that a loan defaults.

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

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

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

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

Risk-weighted assets (RWA): total assets adjusted by applying regulatory predetermined risk-weight factors ranging from 0 per cent to 200 per cent to on- and off-balance sheet exposures. The risk-weight factors are regulated by OSFI.

Securitization: the conversion of an asset, especially a loan, into marketable securities, typically for the purpose of raising cash by selling them to other investors.

Glossary

Subordinated debenture: an unsecured loan or bond that ranks below other, more senior loans or securities with respect to claims on assets or earnings.

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

Tier 1 capital: the most permanent and subordinated forms of capital, as defined by OSFI, consisting of Common Equity Tier 1 (CET 1) capital and additional Tier 1 (AT 1) capital.

Tier 2 capital: supplementary capital instruments, as defined by OSFI, consisting of subordinated debentures and collective allowances.

Total capital: comprises both Tier 1 (primary) and Tier 2 (secondary) capital, as defined by OSFI.

Corporate Information

Board of Directors (as of December 31, 2020)

Bob Armstrong, *Board Chair and ex officio member of all committees*
Charlotte Burke
Leanna Falkiner
Frances Fiorillo
Valerie Lambert, *Chair, Audit & Finance Committee*
Frank Leonard, *Chair, Governance & Nominations Committee*
Nancy McKenzie, *Vice Chair of Board of Directors, Chair, Risk Review Committee*
Christian Morrison, Chair, Human Resources Committee
Chris Trumpy
Calvin Macinnis, *President and Chief Executive Officer*

Executive Committee (as of December 31, 2020)

Calvin Macinnis
President and Chief Executive Officer

Helen Blackburn
Chief Financial Officer

Mauro Manzi
Chief Commercial, Retail & Wealth Officer

Mark Newman
Chief Risk Officer

Lisa Skakun
Chief People and Corporate Services Officer

Jeff Wong
Chief Digital, Information and Technology Officer

Catherine Wood
Chief Strategy, Product and Marketing Officer

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

Contact Information

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

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

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

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

Website
coastcapitalsavings.com

Facebook
facebook.com/coastcapitalsavings

Instagram
instagram.com/coast_capital

LinkedIn
linkedin.com/company/coast-capital-savings

Twitter
twitter.com/coast_capital

Annual General and Special Meeting

Our Annual General and Special Meeting (AGSM) will be hosted virtually via live webcast this year in lieu of an in-person event. This will allow us to conduct the business of the credit union while also ensuring a safe and accessible meeting environment for our members. This follows the directives of provincial and federal health and governmental authorities that prevent the large gathering of people during the COVID-19 pandemic.

The live webcast of our AGSM will be able to be viewed at coastcapitalsavings.com/agm on Thursday, April 29, 2021, at 4:30 pm (PT).