Financial Statements

2022

coastcapital

Contents

Management's Discussion and Analysis **2**

Consolidated Financial Statements **54**

Coast Capital acknowledges that we live and work on the traditional and ancestral homelands of Indigenous People and Nations across Canada, each with their own unique traditions, history and culture. Our headquarters stand on the traditional territory of the Semiahmoo, Tsawwassen, Kwantlen, Katzie, the Kwikwetlem, and the Qayqayt First Nations. We are committed to strengthening relationships with Indigenous communities and the journey of reconciliation in alignment with the Truth and Reconciliation Commission's 94 Calls to Action.

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, our) 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 23, 2023, and should be read in conjunction with Coast Capital's Audited Consolidated Financial Statements as at and for the year ended December 31, 2022 (the Consolidated Financial Statements). All amounts are in thousands of Canadian dollars unless otherwise stated.

Table of Contents

Economic Environment and Outlook 3
Financial Performance Overview 4
Financial Highlights of 2022 4
Business Line Performance 6
Net Interest Income 11
Provision for Credit Losses 13
Non-Interest Income 15
Non-Interest Expense 17
Other Comprehensive Income 19
Capital Expenditures 19
Loan Portfolio 19
Deposits and Borrowing 23
Risk Management 25
Risk Principles 26
Risk Culture 26
Risk Governance and Management 26
Risk Appetite 29
Risk Categories 29
Risk Management Policies, Processes and Tools 29
Climate Risk and Disclosures 33
Capital, Liquidity and Market Risk 36
Capital Management 36
Liquidity and Funding Risk 42
Credit and Counterparty Risk 46
Market Risk 49
Internal Controls Over Financial Reporting and Disclosures 51
Non-GAAP and Other Financial Measures 51
Use of Critical Estimates and Judgments 53
Future Accounting Changes 53

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, regulatory or tax environment, accounting standards, capital markets, interest rates, competition and general economic conditions in the province of British Columbia (BC), 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 and Outlook

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 economic environment and outlook for Canada continues to be driven by broad global themes. During the year governments and central banks shifted their focus from managing the public health risks and economic threats presented by the pandemic crisis, to addressing concerns over rapidly rising inflation rates. Accommodative monetary policies and fiscal support measures implemented at the onset of the pandemic, including ultra-low interest rate policies, helped to maintain economic stability during the crisis and support economic recovery. During the pandemic crisis households and businesses stockpiled significant amounts of savings. As pandemic-related concerns began to subside and as health restrictions were eased, the reopening of economic activity unleashed pent-up demand while supply-side shortages and tight labour markets constrained capacity, creating strong inflationary pressures. These pressures were exacerbated by energy and commodity price shocks experienced during the year and by the conflict between Russia and Ukraine, which also provided a major new source of geopolitical uncertainty.

The eventual transition away from stimulative monetary policies was expected as the economic threats attributed to the pandemic crisis subsided. The pace and the magnitude of the transition, however, was much faster and larger than expected. Beginning early in the year, measures of inflation persistently surprised to the upside, and by mid-year the growth rate of Canada's consumer price index reached levels not experienced in several decades. Concerned that elevated inflation expectations could become entrenched, central banks including the Bank of Canada (BoC) responded with monetary tightening policies. During the year, beginning in March, the BoC announced seven consecutive interest rate increases, raising its overnight policy rate from 0.25% to 4.25% at year-end.

The impact of higher interest rates on the Canadian residential real estate market was relatively swift. The real estate market in Canada continued to be robust despite the pandemic, supported mainly by low interest rates and high savings rates. As interest rates increased, demand and market activity decreased, and prices adjusted accordingly. The resolve demonstrated by policy makers to rein in inflation also put downward pressure on global equity markets, which had reached new highs near the beginning of the year, but adjusted downward as the economic outlook dimmed.

At year-end there were signs that the aggressive measures taken to tighten monetary policy had begun to have the desired effect with the inflation rate beginning to decelerate. As a result, looking forward to 2023, interest rate changes are expected to be more moderate compared with the rapid increases experienced in 2022. However, given the lagged interaction between interest rates and the real economy, elevated interest rates are expected to persist through 2023, and the path towards an eventual lowering of interest rates remains difficult to predict. The Bank of Canada remains committed to its inflation control target of 2% at the mid-point and is expected to utilize the key policy interest rate as the main tool to achieve this goal. The continuation of higher borrowing costs will weigh on housing affordability and on overall economic growth, which in turn will exert another drag on housing demand. Housing market activity is expected to remain subdued in 2023 and house prices may decrease further before they begin to recover. Opinions are varied as to whether Canada will experience an actual recession in the coming year, however, most forecasts indicate that real gross domestic product growth will be lower in 2023 compared with 2022, and may be relatively flat.

For Canadian households and businesses, the combined impacts of inflation, elevated debt levels and higher borrowing costs have created new financial challenges. These challenges have been compounded by unfavourable wealth impacts related to the decrease in real estate and capital market asset values, and by the uncertainty that persists with respect to the economic outlook. From the perspective of our business activities, the challenges facing our members further emphasizes the value of the personalized financial advice and service we offer. The need for real financial advice, goal setting and planning has never been greater. As such, despite the challenging economic conditions, we continue to see opportunities to deepen member relationships through our member-centric approach and to grow our business in the coming year.

Management’s Discussion and Analysis

Financial Performance Overview

While our annual 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 are critical to our long-term sustainability and growth. Maintaining a strong financial position also supports our ability to meet our employee commitments and contribute to the communities in which we operate. In 2022, as more normal levels of economic and social activity resumed, we maintained our member-centric approach. In terms of meeting the current financial services needs of our members, our focus shifted during the year to the impacts and challenges resulting from rising inflation and sharp interest rate increases. In addition to helping our members, we also continued to invest in initiatives designed to enhance the member experience, and completed a number of projects that demonstrate our commitment to innovation, and will support new opportunities for business efficiency and growth in the future.

Financial Highlights of 2022

Year ended December 31			Change from 2021	
(in thousands of dollars)	2022	2021	$	%
Net interest income	418,355	402,701	15,654	3.9
Non-interest income	108,233	109,334	(1,101)	(1.0)
Total revenue	526,588	512,035	14,553	2.8
Provision for credit losses	2,134	1,829	305	16.7
Non-interest expenses	406,397	389,254	17,143	4.4
Income before provision for income taxes	118,057	120,952	(2,895)	(2.4)
Provision for income taxes	23,985	22,173	1,812	8.2
Net income	94,072	98,779	(4,707)	(4.8)
Assets				
Cash and financial investments	3,573,404	3,301,391	272,013	8.2
Loans (net of allowance for credit losses)	18,211,152	17,950,804	260,348	1.5
Premises and equipment, other	345,958	335,585	10,373	3.1
Total assets	22,130,514	21,587,780	542,734	2.5
Liabilities				
Deposits	18,570,139	18,118,265	451,874	2.5
Borrowings	1,809,305	1,776,396	32,909	1.9
Other liabilities	358,080	319,855	38,225	12.0
Total liabilities	20,737,524	20,214,516	523,008	2.6
Members’ equity	1,392,990	1,373,264	19,726	1.4
Total liabilities and members’ equity	22,130,514	21,587,780	542,734	2.5

(in per cent)	2022	2021	Change from 2021
Operating efficiency ratio[1]	77.2	76.0	1.2
Liquidity coverage ratio	213.5	184.4	29.1
Total capital ratio	13.7	14.0	(0.3)
Common equity tier (CET) 1 capital ratio	11.7	11.7	0.0
Tier 1 capital ratio[2]	11.9	11.8	0.1
Leverage ratio[2]	5.7	5.8	(0.1)

(1) Operating efficiency ratio is a non-GAAP financial measure. See “Non-GAAP and Other Financial Measures”.
(2) 2022 and 2021 ratios have been calculated after adjusting for transitional arrangements available to federally regulated deposit taking institutions.

Management’s Discussion and Analysis

Our net income for the year was $94.1 million, $4.7 million or 4.8% lower compared with the prior year. This was a positive result given that net income for 2021 represented one of our strongest annual results on record. The change in our net income compared with the prior year reflects a 2.8% increase in our total revenue after provision for credit losses (PCL), offset by a 4.4% increase in non-interest expense. Income taxes were higher primarily due to temporary differences in the timing of expense recognitions between accounting net income and net income for tax purposes.

Total revenue, before PCL, was $526.6 million, an increase of $14.6 million or 2.8% compared with the prior year. The increase was attributed to net interest income, which was $418.4 million, an increase of $15.7 million or 3.9% compared with the prior year. Net interest income benefited from growth of our average total assets and a modest increase in our net interest margin. Our average total assets, primarily made up of interest-earning assets, increased by $661 million or 3.1% compared with the prior year and contributed $11.6 million of the increase in net interest income. The remaining $4.1 million increase was attributed to a one basis point increase in our net interest margin. Our net interest margin was positively impacted by the Bank of Canada increasing its overnight lending rate by 4.0% over the course of the year. The rising interest rate environment increased both the rates earned on our financial assets and the rates paid on our financial liabilities. The impact of rising rates was constrained by a $12.3 million decrease in mortgage prepayment fee revenue, which reduced interest income, and a shift in our deposit portfolio mix from demand to term products, which increased interest expense.

Non-interest income was $108.2 million, a decrease of $1.1 million or 1.0% compared with the prior year. The year-over-year decrease was attributed to a reduction in gains from the sale of financial investments related to treasury activities. Excluding these gains, our non-interest income increased by $6.2 million or 6.1% compared with the prior year. The non-interest income areas experiencing the largest increases were insurance commissions, specifically related to creditor insurance activities, and activities reported as other income. The main drivers of the other income increase were gains on the sale of leased equipment, related to our equipment financing business, and revenue resulting from our partnership activities. Wealth management investment commissions, our largest source of non-interest income, were relatively flat year-over-year, reflecting stability in our average assets under administration (AUA)[3]. Other fees and commissions revenue, primarily generated through the day-to-day banking and transaction services, was also relatively flat, reflecting stable member transaction volumes year-over-year, and minimal changes to our fee schedule.

PCL expense was $2.1 million for the year, an increase of $0.3 million compared with the prior year. Our total Expected Credit Losses (ECL) reserve, or allowance, as a percentage of total loans at year-end was 32 basis points, unchanged from the prior year-end.

Total non-interest expense was $406.4 million, a year-over-year increase of $17.1 million or 4.4%. Expense results compared with the prior year were mixed across our major expense lines. Salaries and benefits expense experienced the largest increase, at $19.2 million or 9.1%, due to rising salary and benefit costs as well as strategic restructuring costs to better position the organization to meet the changing needs of our members. Our total technology expense for the year increased by $0.6 million or 0.9% compared with the prior year. The modest year-over-year change reflects a continuation of the elevated expenditures related to technology that we have incurred in recent years to support efficiency in our service delivery and enhance the member experience, including investments in our upgraded banking system. Premises and equipment expense decreased by $2.1 million or 6.7% compared with the prior year, attributed to reductions in our premises requirements through branch amalgamations and other technology-supported premises efficiencies. Our marketing expense decreased by $2.0 million or 17.0% compared with the prior year, reflecting expenditure levels aligned with business objectives and opportunities in the current year, as well reductions attributed to the increased use of internal resources for certain marketing activities.

Our operating efficiency ratio increased by 1.2%, to 77.2% from 76.0% in the prior year. The efficiency ratio measures non-interest expenses as a percentage of total revenue before PCL. The increase in the ratio reflects a slightly higher rate of expense growth year-over-year relative to revenue growth.

(3) AUA is a non-GAAP financial measure. See “Non-GAAP and Other Financial Measures”.

Management's Discussion and Analysis

Our total asset growth for the year was $543 million, or 2.5%, increasing our total assets at year-end to over $22 billion. Asset growth was supported by growth of our deposit portfolio, which increased by $452 million or 2.5%. Deposit growth was lower compared with the prior year, due to a number of factors which constrained member savings activity during the year. Overall deposit growth during the year was generated through our core retail and commercial member base and through our external deposit agent channel. A reduction in short-term member saving activity and an increased interest in fixed term deposits due to rising interest rates resulted in a shift in our deposit portfolio product mix during the year. Demand deposit balances as a percentage of our year-end total deposit portfolio decreased, and fixed term product balances increased. The shift in our product mix benefited the overall stability of our deposit funding, but also contributed to funding cost increases during the year. Compared with the prior year-end, our outstanding borrowings at year-end increased modestly, by $33 million or 1.9%. Our liquidity coverage ratio remained strong throughout the year and was 214% at year-end.

Our total loan portfolio (net of allowance for credit losses) grew by $260 million or 1.5%, which was lower compared with prior year growth of $408 million or 2.3%. Growth of residential mortgages, the largest asset group within our loan portfolio, was positive, but was lower year-over-year as new origination volume decreased due to the rising interest rate environment which dampened real estate market activity. Non-mortgage secured personal loans, auto leases and lines of credit growth was positive, but lower year-over-year with flatter growth experienced in our auto financing portfolio. Growth in our commercial mortgage, loan and lines of credit portfolio and our equipment financing portfolio increased compared with the prior year. Strong commercial mortgage growth was driven by draws on previously authorized real estate development facilities and by higher than expected retention of existing outstanding loans. Growth of our equipment financing portfolio was supported by improvements in inventory availability at the equipment dealerships we partner with.

Our regulatory capital position remained strong, with a total capital ratio of 13.7% at year-end, and our DBRS Morningstar credit ratings were reconfirmed in 2022 without change.

Business Line Performance

Operational Overview

Coast Capital has a long history of putting our members at the centre of our efforts and activities. In 2020 and 2021 we adjusted our operations in response to the evolving requirements resulting from the COVID-19 pandemic, putting the safety of our members and our employees first. In 2022, as more normal levels of economic and social activity resumed, we continued to adjust our operations accordingly. Throughout this period, as we made the necessary adjustments to our operations, we maintained our member-centric approach and continued to work on new ways to enhance the member experience. As a result, in 2022 we were able to generate strong business performance, while continuing to meet the financial services needs of our members as new challenges emerged related to rising inflation and sharp interest rate increases. During the year we were also able to complete a number of initiatives that demonstrate our commitment to innovation, and will support new opportunities for business efficiency and growth.

The implementation of our banking system upgrade during the year was a significant achievement, representing the culmination of a multi-year project, and demonstrating our commitment to innovation and continuous improvement. In addition to providing an important upgrade to our foundational banking platform, the banking system project represented an investment in our ability to develop future banking solutions that will benefit our members and improve our efficiency. In addition to the foundational upgrades made to our banking system, during the year we continued to expand the services available to our members through our digital banking platform, and we also made enhancements to our customer relationship management (CRM) system. Our CRM system is the backbone of our member-centric approach, allowing us to coordinate service delivery across multiple channels and to respond to the evolving needs of our members. Expanding the capabilities of our best-in-class CRM system allows us to connect with members more efficiently, and to engage with them more effectively to unlock financial opportunities.

Management's Discussion and Analysis

The use of digital and mobile banking channels continues to accelerate as members embrace the convenience of these platforms for day-to-day banking transactions. While we expect this trend to continue, our branch network remains an integral component of our overall channel strategy. In addition to meeting the needs of members who continue to prefer face-to-face banking, our branch locations provide an important resource for facilitating deeper, advice-based conversations to help members with their holistic financial needs.

Optimizing the number of branches in our network, and ensuring branches are located in the right places to both attract new and serve existing members, is an ongoing process. As a result of this process, in 2022 we completed three branch amalgamations and relocated one of our existing branches to a new location. The investments we make in our branch locations are focused on the member experience. The designs incorporate technology to optimize member communication and engagement opportunities during branch visits. To improve efficiency and support environmental sustainability, we have also reduced the footprint of our newer and recently renovated locations.

Retail Division

Our retail division is focused on helping over 534,000 retail members achieve their real goals and address their real financial challenges. Through our personalized advice offer, we provide members with comprehensive day-to-day banking services, mortgages and other credit products, as well as access to wealth management and life insurance services. Our multichannel approach provides members with convenience and options in terms of how they prefer to connect with us. These channels include 45 branch locations, with additional personal service and support available through our full-service contact and advice centre. For self-service banking activities, members have access to thousands of surcharge-free ATMs across Canada and to our award-winning online banking system and digital app.

Recognizing the growing preference for digital banking services, we are continuously improving our digital banking platform, which is highly ranked for its functionality, security and informative account analysis features. Our member service capabilities related to mortgages, wealth management and insurance are further enhanced by our mobile teams. Employees in these mobile teams have the flexibility to accommodate personalized advice-based service needs at times and locations that work best for our members. Coordination of our multichannel service approach is managed through our integrated CRM system, which not only helps us connect with our members, but also provides us with a real-time view and understanding of our members' financial goals and needs.

Our Money Chat service continues to be an important part of our retail member value proposition. Money Chat provides members with an overview of their financial health and an understanding of their financial strengths and opportunities. It also generates valuable insights for personalized advice delivery. The Money Chat was enhanced in 2021 through a redesign project making it a more in-depth, end-to-end experience for our members. As part of the project, Money Chat was transformed into an online tool available through all our channels: self-serve via online and mobile banking, assisted in-person at a branch, and over the phone through our Advice Centre. The move to online gave our members the ability to access their assessment results, recommendations and resources at any given time through our digital banking platform. It also enabled the Money Chat to be integrated with our CRM system, improving the ability of our advisors to add value and guide their advice conversations. In 2022 the Money Chat helped approximately 33,500 members build their better future by enabling them to identify financial goals and tangible next steps to improve their financial well-being. In the challenging financial climate of 2022, almost 90% of Money Chat users said the Money Chat was a valuable conversation about their financial situation and that they received personalized financial advice as a result of it.

Management's Discussion and Analysis

The successful transition to our new banking system was an important objective for our retail teams in 2022. Despite the organization-wide focus and attention required to complete this multi-year project, a number of other important retail service enhancements were also implemented during the year. These included new CRM system capabilities to enable members to book appointments for meetings with our advisors themselves, directly online. This change has enhanced our member and employee experience by automating and speeding up the appointment booking process, allowing more time to help members with their financial needs. We also introduced a new mortgage pre-qualification tool, integrated with our CRM, which provides members with a self-serve option to quickly and easily estimate of the amount of mortgage they may qualify for. In addition, we expanded our use of digital signature capabilities to improve convenience for our members, reduce unnecessary paper use, and free up capacity to allow our employees to focus on advice.

Retail Business Results

Total member transaction volume, through both our branch network and digital banking platforms, remained relatively stable in 2022. We continued to attract new retail members during the year, and saw a reduction in member attrition compared with the prior year. Marketing efforts aimed at new member acquisition were moderated during the year, aligned with our objectives and our focus on deepening relationships with our existing members. Rapid changes in economic conditions experienced during the year, notably higher inflation rates and rising interest rates, created new financial challenges for our members. Our retail team responded by proactively reaching out to members to help them navigate through the changes, especially those with variable rate mortgages or mortgages renewing during the year facing affordability issues related to home ownership.

Our retail mortgage portfolio increased by $44 million or 0.4%, to $12.2 billion at year-end, compared with the prior year increase of $339 million or 2.9%. Mortgage portfolio growth flattened compared with the prior year, as the rising interest rate environment dampened real estate market activity and we moderated new originations of residential revenue (rental) mortgages in alignment with our risk appetite. New term mortgage origination volume, based on total dollar value, was 38% lower year-over-year. Origination volume through our branch and advice centre channel, as a percentage of the total volume during the year, decreased by approximately 2% to 25%, volume through our mobile mortgage channel decreased by approximately 3% to 52%, and volume through our external mortgage broker channel increased by approximately 5% to 23%. The impact from the origination slowdown on the total net growth of our retail mortgage portfolio was moderated by a decrease in member pay-down activity within the portfolio. Total scheduled and unscheduled pay-downs decreased by approximately 29% compared with the prior year. During the year, we also experienced a decrease in our outstanding home equity line of credit (HELOC) balances, which reduced our overall mortgage growth by $14 million. The decrease in outstanding HELOC balances in the current year was lower than the decreases experienced in each of the preceding three years. As part of our retail mortgage offer, we continued to offer Help Extras™ in 2022. The Help Extras program provides qualifying new mortgage members with cash rewards up to $1,000. In 2022, we funded $1.7 million in Help Extras for our members, bringing the total amount provided to members since it first launched in 2015 to over $32 million.

Our personal loan, auto financing and line of credit portfolios, combined, increased by $6 million or 1.4%, compared with an increase of $40 million or 10.7% in the prior year. The slower growth was primarily attributed to our auto financing portfolio, which experienced flat growth during the current year compared with an increase of $42 million or 18.9% in the prior year. New auto financing origination volumes decreased year-over-year, reflecting reduced demand for vehicle financing at elevated interest rates, with additional impacts attributed to supply chain disruptions that continue to limit the availability of automobile inventories at dealers. Growth of our personal term loan portfolio was relatively flat, decreasing by $2 million during the year, consistent with the longer-term trend for this portfolio. The personal lines of credit portfolio, measured by outstanding balances, increased by $8 million or 6.5% during the year compared with relatively flat growth in 2021, and a $30 million decrease in 2020.

Our large retail member base is an important source of stable deposit funding. Net retail deposit growth during the year was flat at $10 million or 0.1%, maintaining our total retail deposit portfolio at $10.0 billion. Although the total retail deposit balance was stable during the year, there was a notable shift in the underlying product mix of the portfolio. Strong retail deposit growth in both 2020 and 2021 was due to an increase in demand account balances, attributed to a number of factors related to the pandemic crisis. The easing of public health restrictions early in the current year expanded the spending opportunities available to members which, combined with pent-up demand, resulted in a drawdown of the savings balances held in demand accounts. Rising inflation and higher borrowing costs also contributed to the drawdown in savings balances. The $654 million decrease in the retail demand account balance was offset by an increase of $663 million in our fixed term portfolio balance. The sharp rise in interest rates enhanced rate premiums offered on longer-term deposit products increasing the attractiveness of fixed term offers, and contributing to the shift in our portfolio mix away from demand account balances.

Our wealth management business is closely aligned with our retail division but also works with our commercial division to meet the 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 personalized advice and access to competitive investment and life insurance products. During the year we expanded our advisory capabilities to include Investment Industry Regulatory Organization of Canada (IIROC) (now the New Self-Regulatory Organization of Canada (New SRO)) registered sales capabilities, increasing the range of investment options available to our members. Member investment AUA, which are not included in the assets reported on our Consolidated Balance Sheet, were $4.7 billion at year-end, representing a decrease of $545 million or 10.3%, compared with the prior year-end. The decrease in our AUA reflects unfavourable changes in capital market valuations during the year, partially offset by positive net sales growth results.

Looking ahead to 2023, despite the economic headwinds, our operational plans include positive growth expectations across our major retail portfolios. We will continue to focus on deepening our member relationships and leveraging the ongoing enhancements made to our member engagement tools and processes. Growth of our retail mortgage portfolio is expected to be positive, but remain constrained. The higher interest rate environment is expected to support continued retail deposit growth, notably in our term deposit portfolio. Opportunities for strong wealth management AUA growth have also been identified as economic conditions stabilize and we expand and deepen our investment advice capabilities.

Commercial Division

The commercial division is an important part of our overall business operations. Backed by sound underwriting policies and practices, our commercial loan and equipment financing portfolios provide an important lever for risk management through asset diversification, while also giving us access to higher-yielding assets that strengthen our financial performance. The commercial division also operates nationally through its equipment financing activities, as well as through its syndicated commercial financing arrangements on development properties. Having loan assets located in major Canadian cities improves the geographic diversification of our portfolios. Our business members also have broad financial needs which create expanded opportunities for non-interest income growth. Moreover, by providing trusted advice and solutions that help our business members succeed and thrive, we contribute to the health and vitality of the communities in which they operate.

In alignment with the diverse needs of our more than 51,000 business members, our commercial banking division is organized into several groups: Small Business Banking, Business Banking, Commercial Real Estate, Mezzanine Financing, Equipment Financing, and Payments and Cash Management. Our support and service capabilities for business members also includes our Business Advice Centre, which provides a centralized contact point for member services, while also facilitating proactive outreach activities to deepen our business member relationships. On a combined basis, as at year-end, the business members serviced by our commercial division accounted for approximately $5.6 billion or 31% of our total loan and lease assets, and $4.3 billion, or 23%, of our total deposit balances.

Commercial Business Results

Combined commercial loan and equipment financing growth was $210 million or 3.9%, compared with growth of $28 million or 0.5% in the prior year. Stronger year-over-year growth was attributed to our commercial mortgage portfolio and to the equipment financing portfolio.

Mortgage secured commercial loans, which totalled approximately $4.7 billion at year-end, represent the majority, approximately 98%, of our commercial loan portfolio (excluding equipment finance). Commercial mortgage portfolio growth during the year was $281 million or 6.3%, compared with prior year growth of $86 million or 2.0%. New mortgage lending activity on real estate development projects was strong, as was new mortgage financing activity on owner-occupied commercial properties through our Small Business Banking group. Growth was supported by draws on previously authorized lending facilities and higher than expected retention of existing outstanding lending facilities Our variable-rate commercial mortgage portfolio, primarily associated with real estate development lending, increased by $192 million or 9.7%, and our fixed-rate commercial mortgage portfolio, primarily comprised of owner- and non-owner-occupied commercial properties, increased by $89 million or 3.6%. Growth of our higher-yielding mezzanine lending portfolio, which provides financing for more complex and usually short-term needs, was lower year-over-year, but positive, contributing to the totals noted above. The combined year-end balance of our non-real estate secured commercial loans and lines of credit was $88 million.

The total asset value of our equipment financing portfolio increased by $50 million or 6.5% during the year, to $815 million at year-end. The current year growth was a significant improvement compared to the portfolio decrease of $73 million or 8.7% in the prior year, and the decrease of $75 million or 8.2% experienced in 2020. Our commercial financing division operates across Canada, supported by a network of equipment dealers that we have partnered with to offer our financing program to their customers. Demand for equipment financing was healthy during the year, while the equipment dealers continued to report that inventory availability remains below pre-pandemic levels. However, improvements in inventory availability in the current year did contribute to the strong financing growth experienced.

Our commercial deposit portfolio totalled approximately $4.3 billion at year-end, an increase of $166 million or 4.0% during the year, compared with prior year growth of $361 million or 9.5%. Deposit growth during the year was driven by our Payments and Cash Management portfolio which increased by $222 million while the portfolios of the other three groups within our commercial division experienced modest decreases. Similar to our retail member portfolio, the year-over-year slowdown reflects increased spending activity by our commercial members, and a shift from demand account balances to fixed term portfolio balances. The total commercial demand deposit portfolio decreased by approximately $172 million while the fixed term portfolio balance increased by approximately $338 million.

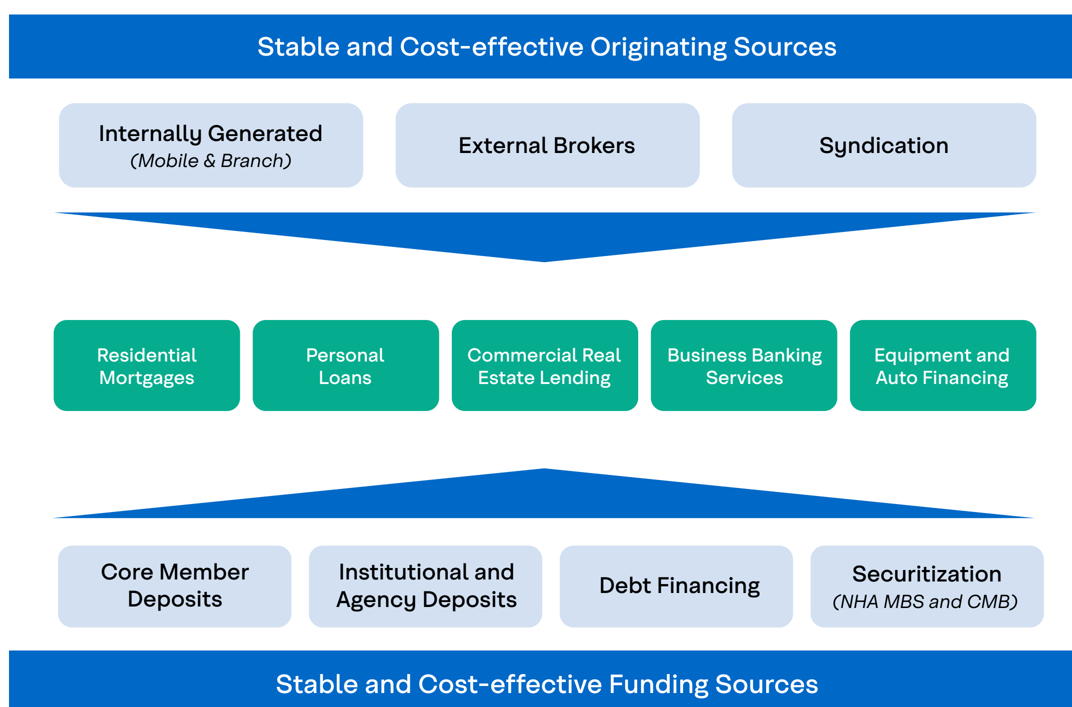
During the year we expanded our wealth management service offer to include IIROC (now New SRO) registered advisors. The initiative was directed at meeting the more sophisticated investment needs of our commercial members. We also implemented a new risk rating system to improve our commercial credit processes.

Looking ahead to 2023, based on our operational plans and forecasted economic conditions, we expect growth in our commercial loan and equipment financing portfolio to continue the positive trend, although at a moderated rate compared with 2022. Our commercial deposit portfolio is expected to be stable, with net outflows in our Small Business Services portfolio offset by growth in other portfolios within the division. We continue to see opportunities for greater penetration of the Red Seal trade owner-operator small business segment, and will continue to develop offers aligned to that market. Initiatives to enhance our commercial digital banking experience have also been identified and will be progressed in the coming year.

Net Interest Income

Net interest income is the difference between the interest income earned on our loans and other financial assets and the interest expenses paid on our deposits and other funding liabilities. Net interest margin is the net interest income we earn as a percentage of our average assets. Net interest income is impacted by both the size of our balance sheet and the net interest margin earned. Given the importance of loan and deposit services to our members, and the contribution that net interest income makes to our overall financial performance, significant attention is given to asset and liability management decisions throughout the year. In managing the interest rates we offer on loans and deposits, we are careful to ensure that our members have access to rates that are both fair and competitive.

We manage and grow our portfolio of financial assets and liabilities using a diversified, multichannel approach. In addition to originating lending and sourcing funding through our internal member channels, we maintain relationships with external partners and in other markets that provide us with additional options for managing our balance sheet growth in a stable and sustainable manner.



Our net interest income was $418.4 million, an increase of $15.7 million or 3.9% compared with the prior year. The primary driver of the increase was growth of our average total assets, supported by a modest increase in our net interest margin. Compared with the prior year, our average total assets, primarily made up of interest-earning assets, increased by $661 million or 3.1%, and our net interest margin increased by one basis point.

Our net interest margin, calculated based on net interest income as a percentage of average total assets, was 1.90% compared with 1.89% in the prior year. Interest rate increases implemented by the Bank of Canada over the course of the year resulted in a 4.0% increase in its overnight lending rate compared with the prior year-end. The Bank of Canada rate increases were mirrored by increases in our prime lending rate during the year, which increased from 2.45% at the start of the year to 6.45% at year-end. The rising interest rate environment increased both the rates earned on our financial assets and the rates paid on our financial liabilities.

Net Interest Income

For the year ended December 31

(in thousands of dollars)				2022				2021
	Average balance	Mix %	Interest	Interest rate %	Average balance	Mix %	Interest	Interest rate %
Cash resources	3,302,875	15.0	52,321	1.58	3,144,668	14.8	36,897	1.17
Loans								
Residential	12,260,511	55.8	382,991	3.12	11,977,239	56.2	306,830	2.56
Commercial	4,852,497	22.1	222,164	4.58	4,658,854	21.9	174,518	3.75
Equipment financing	784,104	3.6	39,941	5.09	789,721	3.7	39,009	4.94
Personal	293,711	1.3	13,826	4.71	270,431	1.3	17,074	6.31
Lines of credit	132,339	0.6	10,979	8.30	127,816	0.6	8,672	6.78
Total loans	18,323,162	83.4	669,901	3.66	17,824,061	83.7	546,103	3.06
Derivatives	–	–	148	–	–	–	5,559	–
Total interest-earning assets	21,626,037	98.4	722,369	3.34	20,968,729	98.4	588,559	2.81
Other assets	340,772	1.6	–	–	337,190	1.6	–	–
Total assets	21,966,809	100.0	722,369	3.29	21,305,919	100.0	588,559	2.76
Deposits								
Demand	8,984,054	40.9	46,043	0.51	8,822,145	41.4	10,437	0.12
Fixed term non-redeemable	6,795,542	30.9	150,414	2.21	7,058,344	33.1	122,687	1.74
Fixed term redeemable	2,770,158	12.6	47,604	1.72	2,129,858	10.0	13,911	0.65
Total deposits	18,549,754	84.4	244,061	1.32	18,010,347	84.5	147,035	0.82
Borrowings	1,597,936	7.3	41,756	2.61	1,386,361	6.5	19,774	1.43
Subordinated notes	299,077	1.4	15,531	5.19	305,544	1.4	15,691	5.14
Lease obligation	68,053	0.3	2,666	3.92	77,521	0.4	3,358	4.33
Total interest-bearing liabilities	20,514,820	93.4	304,014	1.48	19,779,773	92.8	185,858	0.94
Other liabilities	74,560	0.3	–	–	165,735	0.8	–	–
Total liabilities	20,589,380	93.7	304,014	1.48	19,945,508	93.6	185,858	0.93
Share capital	23,441	0.1	–	–	24,963	0.1	–	–
Accumulated other comprehensive income (AOCI)	(55,333)	(0.3)	–	–	22,574	0.1	–	–
Retained earnings	1,409,321	6.4	–	–	1,312,874	6.2	–	–
Total liabilities and members' equity	21,966,809	100.0	304,014	1.38	21,305,919	100.0	185,858	0.87
Net interest income			418,355	1.90			402,701	1.89

Net Interest Income Change

For the year ended December 31
(in thousands of dollars)

Increase (Decrease) attributed to:			2022
	Average balance change	Interest rate change	Total change
Interest-earning assets	18,450	115,361	133,811
Interest-bearing liabilities	(6,907)	(111,249)	(118,156)
Net interest income change	11,543	4,112	15,655

The average yield earned on our interest-earning assets increased by 53 basis points to 3.34%, compared with 2.81% in the prior year. The increase was due to higher yields earned across most major financial asset portfolios during the year. Changes in the mix of our financial asset portfolio, measured based on average volume during the year, were relatively minor. The overall increase in yields earned on our financial assets was constrained by a $12.3 million decrease in mortgage prepayment fee revenue compared with the prior year, reflecting the impacts of the rising interest rates and a slowdown in real estate market activity on prepayment volume. Overall, yield impacts related to our interest-earning assets increased our interest income by $115.4 million, while volume growth increased our interest income by $18.5 million, producing a net increase in interest income of $133.8 million compared with the prior year.

Our funding cost as a percentage of total interest-bearing liabilities increased by 54 basis points to 1.48% compared with 0.94% in 2021. The increase in market interest rates, impacting our deposit and borrowing expenses, was the primary driver of the funding rate increase, while a shift in our funding mix also contributed. The funding mix impact on rate reflects a decrease in the proportion of funding obtained from lower-cost demand deposits compared with the prior year, and an increase in the proportion of funding obtained from higher-cost term deposit and borrowing liabilities. The combined rate impacts on our interest-bearing liabilities increased our interest expense by approximately $111.2 million, while volume growth added $6.9 million, resulting in a total interest expense increase of $118.2 million compared with the prior year.

Overall, our $15.7 million increase in net interest income reflects an $11.6 million increase attributed to portfolio growth, and a $4.1 million increase attributed to interest rate changes.

Provision for Credit Losses

Our PCL expense was $2.1 million for the year, an increase of $0.3 million compared with the prior year expense of $1.8 million. Similar to the prior year, in 2022 we reported a net reversal of our ECL reserve on our performing loan portfolio. The PCL expense increase is attributed to a reduction in the current year performing loan ECL reserve reversal, offset by a reduction in the PCL expense attributed to impaired loans. The current year reversal was $0.4 million, compared with $1.8 million for the prior year, increasing our PCL attributed to performing loans by $1.4 million. PCL expense attributed to impaired loans was $3.8 million for the year, $1.1 million lower than the prior year expense of $4.9 million. Actual write-offs within the impaired loan portfolio totalled $3.8 million in 2022, a decrease of $0.8 million compared with the prior year, and the 2022 increase in ECL reserve attributed to non-performing loans was less than $0.1 million, which was $0.3 million lower compared with the increase reported in the prior year. Loan loss recoveries, which are reported as an offset to the PCL expense, totalled $1.3 million, unchanged compared with the prior year.

We maintain our allowance for ECL at a level that we consider appropriate to absorb both identified and unidentified credit losses in the loan portfolio. The total ECL allowance at year-end was $57.4 million, a decrease compared with $57.9 million as at the prior year-end. The reduction in our total ECL allowance during the year was attributed to the performing loan portfolio allowance, which decreased to $56.5 million at year-end, from $57.0 million as at the prior year-end. The ECL allowance on our impaired loan portfolio at year-end was $0.9 million, representing an increase of less than $0.1 million compared with the prior year-end.

The model used to determine ECL on our performing loan portfolio considers changes in the size and credit quality of our loan portfolio, forward looking economic forecasts, and other adjustment factors. Our model is reviewed and upgraded periodically. The year-end ECL model included a deterioration, relative to the prior year-end, of forward-looking economic conditions, as represented by the key economic variables and the probability weighting of economic scenarios used to estimate ECL on performing loans. Our total ECL allowance as a percentage of total loans at year-end was 32 basis points, unchanged from the prior year-end. Although the allowance as a percentage of total loans is two basis points lower compared with year-end 2020, it remains elevated relative to 2018 and 2019. Additional details on our allowance for ECL can be found in Note 7 to the Consolidated Financial Statements.

Credit Quality Ratios

As at or for the year ended December 31

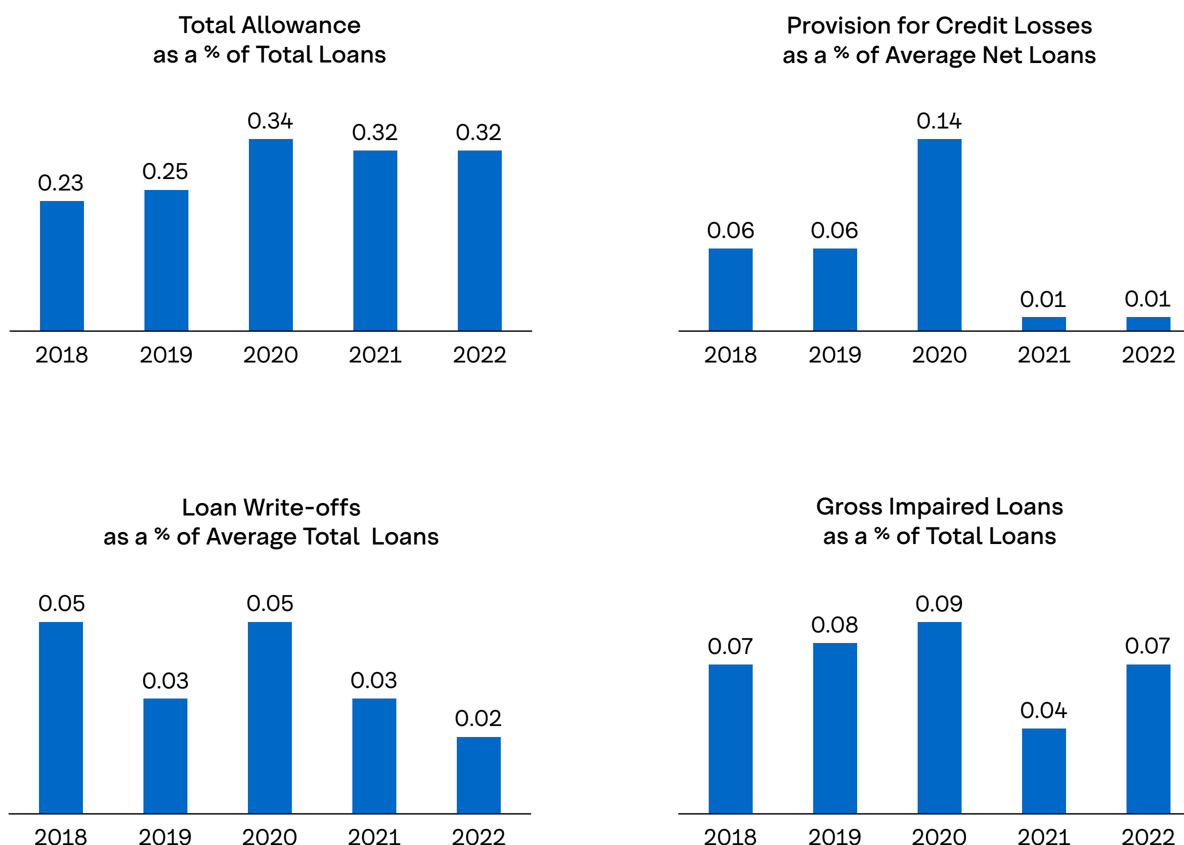
(in thousands of dollars)	2022	2021
Total loans (net of allowance for credit losses)	18,211,152	17,950,804
Provision for credit losses	2,134	1,829
Loan write-offs	3,822	4,595
Total allowance for credit losses	57,436	57,865
Impaired loans	12,028	6,708
Members' equity	1,392,990	1,373,264

(in per cent)	2022	2021
Provision for credit losses as % of average net loans	0.01	0.01
Loan write-offs as % of average total loans[4]	0.02	0.03
Gross impaired loans as % of total loans[4]	0.07	0.04
Net impaired as % of members' equity[4]	0.80	0.42
Total allowance as % of total loans[4]	0.32	0.32

(4) Non-GAAP Financial Measures. See "Non-GAAP and Other Financial Measures".

Management's Discussion and Analysis

Credit Quality Ratio Trends



Non-Interest Income

In addition to loan and deposit activities that generate interest income, we also provide our members with financial products and services that generate fee and commission revenue. These include day-to-day banking services, credit cards, foreign exchange, insurance, and wealth management services. By offering a variety of quality financial products and services we are able to meet the diverse financial needs of our members. These business activities also provide a stable and diversified source of revenue to support our operations. We regularly review the fees and commissions charged on our products and services to ensure we are providing members with excellent value, while also considering our cost of delivery and the need to remain market competitive. Non-interest income is also generated through referral activities, and activities associated with the management and deployment of our assets, such as property rent and gains on financial asset sales and securitization activities.

Total revenue from non-interest sources was $108.2 million, a decrease of $1.1 million or 1.0% compared with the prior year. The year-over-year decrease was attributed to a reduction in gains from the sale of financial investments. The gains are derived from treasury activities and decisions made in the management of our cash resources and marketable debt securities. Excluding these gains, our non-interest income increased by $6.2 million or 6.1% compared with the prior year.

Non-Interest Income

Year ended December 31			Change from 2021	
(in thousands of dollars)	2022	2021	$	%
Wealth management investment commissions	45,304	45,472	(168)	(0.4)
Other fees and commissions	28,957	28,771	186	0.6
Credit card commissions	9,923	9,287	636	6.8
Insurance commissions	7,523	5,234	2,289	43.7
Foreign exchange	5,076	4,708	368	7.8
Gain from securitization activities	1,806	1,399	407	29.1
Gain from sale of financial investments	604	7,915	(7,311)	(92.4)
Other income	9,040	6,548	2,492	38.1
Total	108,233	109,334	(1,101)	(1.0)

Wealth management services represent a key element of our ability to help our members achieve their real goals. Our services in this area include advice and sales related to a variety of investment and life insurance products provided through a team of financial planners, retail investment advisors, and insurance specialists. The majority of our revenue from wealth management services is generated from the investment assets we administer on behalf of members in partnership with our external dealer services provider. Member investment AUA are not included in the assets reported on our Consolidated Balance Sheet. At year-end, our investment AUA totalled $4.7 billion, representing a decrease of $545 million or 10.3% compared with the prior year-end. The AUA balance decrease was attributed to unfavourable global capital markets, which reduced the value of the investments that comprise our AUA. Growth of our AUA through sales activity was positive during the year, but was not sufficient to offset the reduction due to market declines. Revenue from wealth management investment commissions, generated from our investment AUA and related activities, was $45.3 million, a decrease of $0.2 million or 0.4%, compared with the prior year. The revenue decrease reflects a modest decrease in our average AUA volume compared with the prior year, while the revenue yield earned on our average AUA was relatively stable year-over-year.

Other fees and commissions revenue is primarily generated through the day-to-day banking and transaction services we provide to our retail and commercial members. These include savings and chequing accounts, various transaction related services, official cheques, safety deposit boxes and other banking services. The amount of revenue generated annually from these services depends on the volume and type of transactions completed, and on our fee schedule, which is amended from time to time to ensure our pricing is fair and competitive. Other fees and commissions revenue for the year was $29.0 million, an increase of $0.2 million or 0.6% compared with the prior year. The modest increase is aligned with stable member transaction volumes, and minimal changes to our fee schedule.

Revenue from our credit card commissions, through our co-branded credit card offer, was $9.9 million, representing an increase of $0.6 million or 6.8% compared with the prior year. The year-over-year increase in credit card commission revenue was supported by higher year-over-year member transaction volume in 2022.

Revenue from insurance commissions was $7.5 million, an increase of $2.3 million or 43.7% compared with the prior year. Insurance commissions include revenue from creditor insurance, generated as part of our mortgage and loan activity, and from wealth management-related insurance services, through which we provide our members with an array of insurance solutions to meet their broader financial planning needs. The year-over-year increase in total insurance commissions is attributed to our creditor insurance activities, while revenue from life insurance activities experienced a modest decrease compared with the prior year.

Gains from the sale of investment securities held within our treasury portfolio were $0.6 million, a decrease of $7.3 million compared with $7.9 million in the prior year. Gains or losses on securities transactions within our treasury portfolio reflect the impact of decisions made by our treasury department in the ongoing management and rebalancing of our investment portfolio, including the nature of the securities involved and the market conditions at the time of the transactions. Revenue attributed to other income sources was $9.0 million, an increase of $2.5 million or 38.1% compared with the prior year, with the favourable variance primarily attributed to an increase in gains from the sale of leased equipment, generated through our equipment financing business, and to additional revenue resulting from our partnership activities.

Non-Interest Expense

Non-interest expense includes all non-interest-related expenses except for PCL and provision for 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 $406.4 million, an increase of $17.1 million or 4.4% compared with the prior year. Expense results compared with the prior year were mixed across our major expense lines, with expenses for salaries and benefits experiencing the largest increase.

Non-Interest Expense

Year ended December 31			Change from 2021	
(in thousands of dollars)	2022	2021	$	%
Salaries and Benefits				
Salaries including variable pay and incentives	185,811	175,650	10,161	5.8
Employee benefits, other	44,452	35,382	9,070	25.6
	230,263	211,032	19,231	9.1
Technology				
Hardware, software, data, supplies	40,778	43,175	(2,397)	(5.6)
Depreciation and amortization	19,500	16,548	2,952	17.8
	60,278	59,723	555	0.9
Premises and Equipment				
Maintenance, utilities, taxes	11,820	12,271	(451)	(3.7)
Depreciation	17,425	19,070	(1,645)	(8.6)
	29,245	31,341	(2,096)	(6.7)
Member Services Administration				
Banking services	19,990	19,284	706	3.7
Loan processing	3,245	4,200	(955)	(22.7)
Investments and life insurance	4,530	4,547	(17)	(0.4)
	27,765	28,031	(266)	(0.9)
Consultants	19,710	19,279	431	2.2
Marketing	9,974	12,020	(2,046)	(17.0)
Community Contributions	4,658	3,927	731	18.6
Legal and Audit	1,806	2,346	(540)	(23.0)
Stationery, Telephone, and Postage	2,401	1,555	846	54.4
Travel, Meals, and Entertainment	2,854	1,685	1,169	69.4
Bonding and Other Insurance	2,737	1,893	844	44.6
Training and Recruitment	1,195	1,631	(436)	(26.7)
Other	13,511	14,791	(1,280)	(8.7)
Total	406,397	389,254	17,143	4.4

Salaries and benefits, our largest expense area, was $230.3 million, an increase of $19.2 million or 9.1% compared with the prior year. The majority of the increase was attributed to rising salary and benefits costs, reflecting the competitive market for talent and general inflationary impacts, combined with modest growth of our employee base compared with the prior year (measured based on an average month-end full-time equivalency basis). The increase in our salaries and benefits expense also reflects additional one-time strategic restructuring costs (reported within the Employee benefits, other line), incurred to better position the organization to meet the changing needs of our members.

Technology platforms that support service delivery and enhance the member experience are a critical part of our value proposition. Our members increasingly seek the convenience of digitized services, covering an expanding range of banking activities, delivered with a quality experience in a secure environment. Additionally, the ability to maintain and improve the efficiency of our business processes and expand our market reach depends on the expanded use of technology-enabled solutions. Our total technology expense for the year was $60.3 million, representing an increase of $0.6 million or 0.9% compared with the prior year. The modest year-over-year increase reflects a continuation of the elevated expenditures related to technology that we incurred in recent years, including our investment in our upgraded banking system implemented this year.

Premises and equipment expense was $29.2 million, a decrease of $2.1 million or 6.7% compared with the prior year. The majority of the decrease reflects reductions in our premises requirements through branch amalgamations and other facilities related efficiencies, which reduce the annual depreciation expense recognized on the right-of-use assets associated with our premises lease agreements. Renewals of ongoing lease agreements at costs that differ from the maturing agreements also impact our depreciation expense for leased premises. Overall, our depreciation expense related to premises and equipment decreased by $1.6 million or 8.6%. Other expenses for premises and equipment (reported as maintenance, utilities and taxes) decreased by $0.5 million or 3.7% year-over-year, related to our premises use efficiencies and also reflecting the impact of elevated prior year expenses. Member services administration expense was $27.8 million, a decrease of $0.3 million or 0.9%. The limited change is consistent with the year-over-year stability of the main volume drivers associated with the expenses in this area. The 23% decrease in loan processing expense aligns with the reduction of new loan origination volume during the year.

Expenses related to consultants, including contract labour, increased by $0.4 million or 2.2% compared with the prior year. Although relatively flat year-over-year, these expenditures have ramped up in recent years attributed to ongoing initiatives to update our technology platforms, automate our processes, and progress our long-term strategic initiatives. Marketing expense decreased by $2.0 million or 17.0% compared with the prior year. This decrease reflects expenditure levels aligned with business objectives and opportunities in the current year, as well as changes made to expand our use of internal resourcing for certain marketing activities that were previously completed by external suppliers. Expenses for travel, meals, and entertainment increased by $1.2 million or 69.4% after decreasing significantly in the previous two fiscal years due to pandemic-related restrictions on activities associated with these expense areas. Despite the year-over-year increase in travel, meals, and entertainment expense, the current year expense remains significantly below the longer-term historic levels. Expenses for bonding and other insurance services increased by $0.8M or 44.6% related to higher premium rates reflective of insurance market conditions.

In 2022 we also maintained our long history of community support through contributions made to a wide range of community organizations and causes. We maintain our community support based on budgeted amounts rather than actual earnings so that we are able to manage our annual contributions against a predetermined budget amount. This approach also helps to ensure consistent funding during the year to the community organizations we support. As our budgeted earnings grow, so does the support we provide to the community. Community contributions for the year totalled $4.7 million, an increase of $0.7 million or 18.6% compared with the prior year.

Other Comprehensive Income

Other comprehensive income (OCI) was negative $72.7 million after tax, compared with negative $48.3 million in the prior year. The OCI loss in the current year was attributed to the unrealized losses resulting from the impact of interest rate increases which reduced the market value of fixed income securities held in our investment portfolio.

Capital Expenditures

Investments in capital assets during the year totalled $23.9 million, a decrease of $2.9 million or 13.8% compared with the prior year. The majority of our capital expenditures continue to be related to technology projects. Combined capital expenditure on software and computer equipment accounted for 69% of the total fiscal year capital expenditure. Ongoing investment in technology is necessary to update and support the continuous improvement of platforms and systems that are critical to delivering a quality banking experience to our members in a secure digital environment. Expanding our use of automated solutions is also important to improve the efficiency of our business operations. Investments made in software and computer equipment in 2022 include projects that were operationalized during the year, and projects that extend beyond the fiscal year as work in progress initiatives to be operationalized in future periods. The upgrade to our banking system, a multi-year project that launched in 2022, was our largest project during the year. In addition to our banking system and other technology infrastructure improvements, we also invested in upgrades to our CRM system and improvements to our digital banking system.

Right-of-use asset additions, related to IFRS 16 Leases accounting, are included as $6.7 million of our 2022 total capital expenditure. This amount reflects the valuation applied to one new and six renewed or extended property lease agreements entered into during the year. We also made capital investments, related to leasehold improvements and furniture and equipment, of $0.8 million to maintain and improve the branch and administrative premises used by employees and members.

Our capital investment plans for the coming year 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 2021	
(in thousands of dollars)	2022	2021	$	%
Software	14,218	13,860	358	2.6
Right-of-use assets	6,675	4,942	1,733	35.1
Computer equipment	2,240	1,324	916	69.2
Leasehold improvements	537	611	(74)	(12.1)
Furniture and equipment	252	293	(41)	(14.0)
Total	23,922	21,030	2,892	13.8

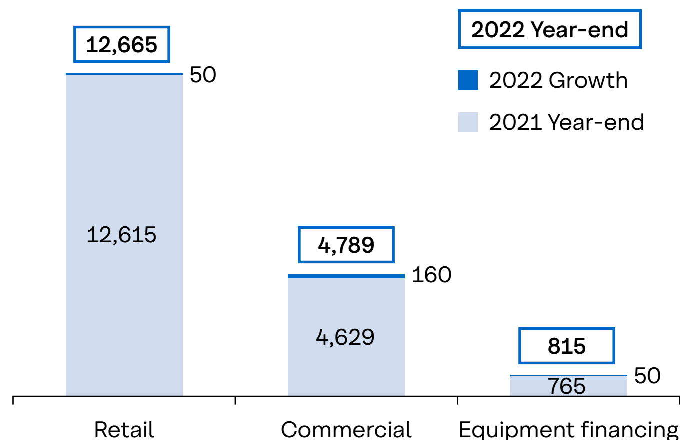
Loan Portfolio

Total loan assets, including leases, grew by $260 million or 1.4%, compared with prior year growth of $407 million or 2.3%. Growth during the year was positive for both our retail and commercial portfolios. Total retail loan portfolio growth was $50 million or 0.4%, measured as a percentage of the prior year-end balance, down from 3.1% in the prior year. Total commercial loan portfolio growth, including the equipment financing portfolio, was $210 million or 3.9%, up from 0.5% in the prior year.

Loan Portfolio

As at December 31 ($ millions, except as noted)	2022[1]	Mix %	2021[1]	Mix %	Change from 2021 $	%
Retail						
Residential mortgages:						
Conventional	7,365	40.3	7,139	39.6	226	3.2
Revenue	2,412	13.2	2,485	13.8	(73)	(2.9)
Insured	1,639	9.0	1,732	9.6	(93)	(5.4)
High-ratio	1	0.0	3	0.0	(2)	(66.7)
Home equity lines of credit	828	4.5	842	4.7	(14)	(1.7)
Total residential mortgages	12,245	67.0	12,201	67.7	44	0.4
Other:						
Unsecured lines of credit	132	0.7	124	0.7	8	6.5
Loans and auto leases	288	1.6	290	1.6	(2)	(0.7)
Total personal loans & leases	420	2.3	414	2.3	6	1.4
Total retail	12,665	69.3	12,615	70.0	50	0.4
Commercial						
Mortgages, loans and lines of credit	4,789	26.2	4,629	25.7	160	3.5
Equipment financing	815	4.5	765	4.3	50	6.5
Total commercial	5,604	30.7	5,394	30.0	210	3.9
Total retail and commercial	18,269	100.0	18,009	100.0	260	1.4

(1) Before allowance for credit losses.

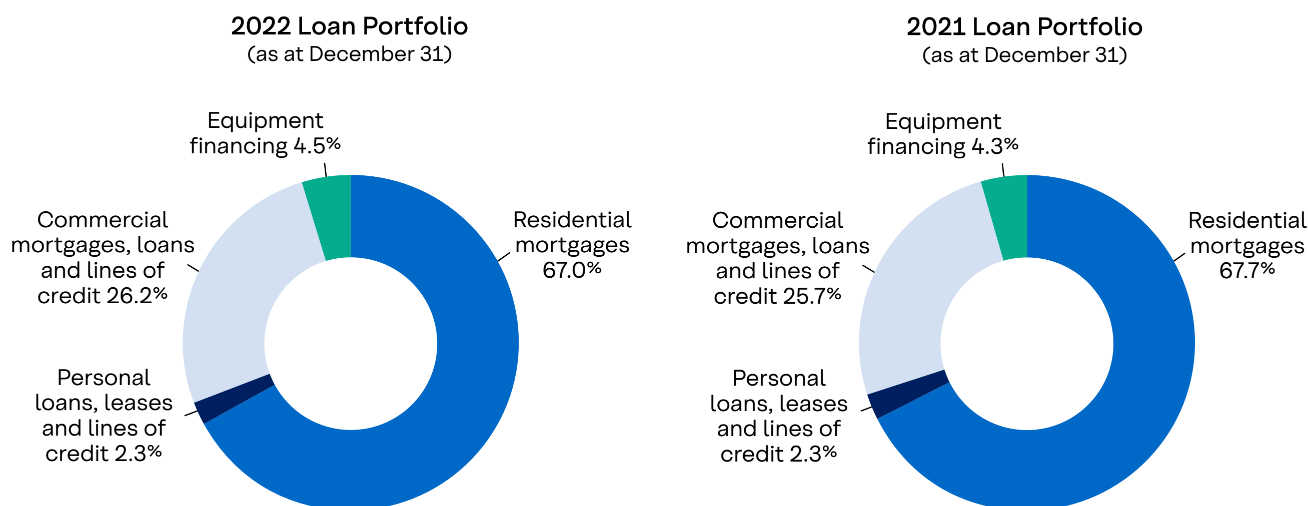


Retail residential mortgages, the largest asset group within our loan portfolio representing 67.0% of the total, increased by $44 million or 0.4%, compared with an increase of $339 million or 2.9%, during the prior year. New mortgage origination volumes decreased by approximately 38% compared with the prior year, impacted by moderation of new originations in residential revenue (rental) mortgages in alignment with our risk appetite and the rising interest rate environment which dampened real estate market activity. The origination volume decrease was partially offset by decreased pay-down activity, similarly impacted by rising interest rates and a general slowdown in real estate market activity. The trend over the past several years towards lower home equity line of credit balances continued, but moderated in the current year, with outstanding balances decreasing by $14 million or 1.7%

Non-mortgage secured personal loans, auto leases and lines of credit growth was $6 million or 1.4%, combined, compared with growth of $40 million or 10.7% in the prior year. The current year growth was primarily impacted by our auto financing portfolio, reflecting reduced demand for vehicle financing at higher interest rates, with additional impacts attributed to supply chain disruptions that continue to limit the availability of automobile inventories at dealers. Our unsecured lines of credit portfolio balances outstanding increased by $8 million or 6.5%, compared with growth of $2 million or 1.6% in the prior year and a decrease of 19.7% in 2020.

Our commercial mortgage, loan and lines of credit portfolio grew by $160 million or 3.5%, combined, compared with growth of $101 million or 2.2% in the prior year. Commercial mortgages represent the majority, approximately 98%, of our commercial loan portfolio (excluding equipment finance). Commercial mortgages related to real estate development and owner-occupied commercial properties were the primary drivers of growth in the current year. Growth within the mortgage portfolio was mainly driven by draws on previously authorized lending facilities and higher than expected retention of existing outstanding lending facilities. Demand for new commercial mortgage lending remained strong during the year, and in alignment with our risk appetite.

Our equipment financing portfolio increased by $50 million or 6.5%, compared with a decrease of $73 million or 8.7% in the prior year. The portfolios in our three main provincial markets, British Columbia, Ontario and Alberta, all experienced positive growth during the year. Equipment lease assets as a percentage of our total loan portfolio increased to 4.5% at year-end 2022, compared with 4.3% at year-end 2021.



Loan Portfolio with Geographical Distribution

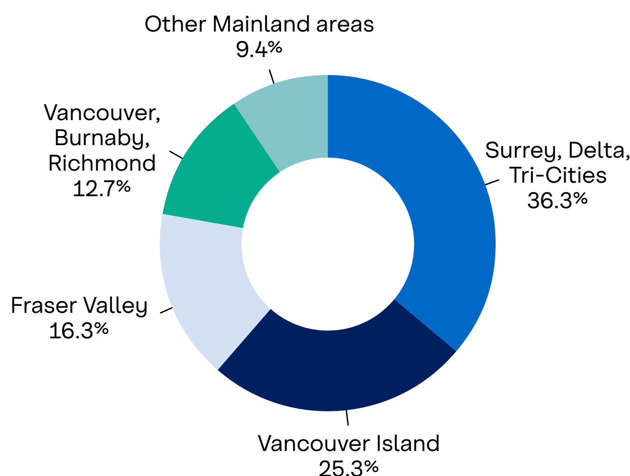
As at December 31

($ millions, except as noted)

							2022		2021		Change	
	Retail	Mix %	Commercial	Mix %	Equipment leasing	Mix %	Total loans	Mix %	Total loans	Mix %	Total loans	Mix %
Not Secured	171	1.4	74	1.5	0	0.0	245	1.3	252	1.4	(7)	(0.1)
Secured												
AB	13	0.1	315	6.6	132	16.2	460	2.5	435	2.4	25	0.1
BC	12,415	98.0	3,749	78.3	235	28.8	16,399	89.8	16,294	90.5	105	(0.7)
MB	0	0.0	48	1.0	51	6.3	99	0.5	83	0.5	16	(0.0)
NB	0	0.0	5	0.1	8	1.0	13	0.1	9	0.0	4	0.1
NL	0	0.0	8	0.2	0	0.0	8	0.0	10	0.1	(2)	(0.1)
NS	0	0.0	10	0.2	4	0.5	14	0.1	14	0.1	0	(0.0)
ON	66	0.5	504	10.5	330	40.5	900	4.9	782	4.3	118	0.6
PE	0	0.0	0	0.0	1	0.1	1	0.0	1	0.0	0	(0.0)
QC	0	0.0	49	1.0	35	4.3	84	0.5	77	0.4	7	0.1
SK	0	0.0	27	0.6	19	2.3	46	0.3	52	0.3	(6)	(0.0)
Total	12,665	100.0	4,789	100.0	815	100.0	18,269	100.0	18,009	100.0	260	

Retail secured, at approximately $12.4 billion or 68% of our total year-end loan portfolio, represents the largest single concentration within the portfolio. The retail secured portfolio is primarily made up of real estate secured mortgages on properties located in B.C. The geographic breakdown of our retail real estate secured portfolio is provided below.

B.C. Real Estate Secured Portfolio
(as at December 31, 2022, authorized)



Deposits and Borrowing

Deposits

Our total deposit portfolio increased by $452 million or 2.5%, compared with an increase of $665 million or 3.8% in the prior year. Positive deposit growth during the year was generated through our core retail and commercial member base, as well as through our external agency channel, while growth of deposits attributed to our institutional channel remained relatively flat. Deposit growth is managed in alignment with our asset growth and liquidity funding requirements, while also considering changing market conditions and opportunities across our channels and product types.

Strong deposit growth during the previous two years was supported by unique market conditions related to the COVID-19 pandemic, which elevated household and business savings rates and enhanced deposit growth opportunities. Factors driving savings growth during this period included reduced spending activity due to public health restrictions, the introduction of government fiscal programs to support household and business cash flows, and elevated concerns related to heightened economic uncertainty. In managing their savings during this period, our members favoured accounts that provided immediate access to funds, if needed. Additionally, the low interest rate environment resulted in modest rate premiums for committing to deposits with longer-term periods. The result was exceptionally strong growth of our demand deposit portfolio while our term deposit portfolio decreased.

Our deposit growth during the current year was aligned with our asset growth and liquidity funding requirements, and reflects changes in market conditions and growth opportunities compared with the prior two years discussed above. Additional easing of public health restrictions early in the year expanded the spending opportunities available to members which, combined with pent-up demand, resulted in a drawdown of member savings balances. Rising inflation and higher borrowing costs also contributed to the drawdown in savings. Concurrently, the sharp rise in interest rates enhanced rate premiums offered on longer-term deposit products, increasing the attractiveness of term deposits for savings and investment purposes.

During the year, our core retail and commercial member deposit balances increased by $176 million or 1.2%, and accounted for over 77% of our total deposit portfolio at year-end. In addition, we maintained strong funding support through our external deposit agent channel, growing our agent deposit portfolio by $298 million or 13.3%. The year-end balance of our institutional deposit portfolio remained flat compared with the prior year-end, although the balance of this portfolio did fluctuate during the year in alignment with our overall funding needs.

Deposit by Source

As at December 31					Change from 2021	
(in millions of dollars, except as noted)	2022	Mix %	2021	Mix %	$	%
Core retail and commercial members	14,333	77.2	14,157	78.1	176	1.2
External deposit agents	2,545	13.7	2,247	12.4	298	13.3
Institutional depositors	1,692	9.1	1,714	9.5	(22)	(1.3)
Total	18,570	100.0	18,118	100.0	452	2.5

With respect to our portfolio product type mix, as noted above, rising interest rates increased the attractiveness of fixed term deposit offers during the year. This, along with higher member spending and reduced short-term savings, resulted in a shift in our deposit portfolio mix. Short-term demand account balances decreased by $829 million or 8.9%, while total fixed term deposits increased by almost $1.3 billion or 14.5%. As a result, demand product balances as a percentage of our year-end total deposit portfolio decreased to 45.6% from 51.3%, and fixed term product balances increased to 54.4% from 48.7%. The shift in our product mix benefited the overall stability of our deposit funding, while also contributing to funding cost increases during the year.

Deposit by Type

As at December 31 (in millions of dollars, except as noted)	2022	Mix %	2021	Mix %	Change from 2021 $	%
Demand	8,463	45.6	9,292	51.3	(829)	(8.9)
Fixed term redeemable	2,800	15.1	2,311	12.8	489	21.2
Fixed term non-redeemable	7,307	39.3	6,515	36.0	792	12.2
Total	18,570	100.0	18,118	100.0	452	2.5

Within our fixed term deposit portfolio, both redeemable and non-redeemable products experienced strong growth. Redeemable term deposit balances increased by 21.2%, and non-redeemable term deposit balances increased by 12.2%.

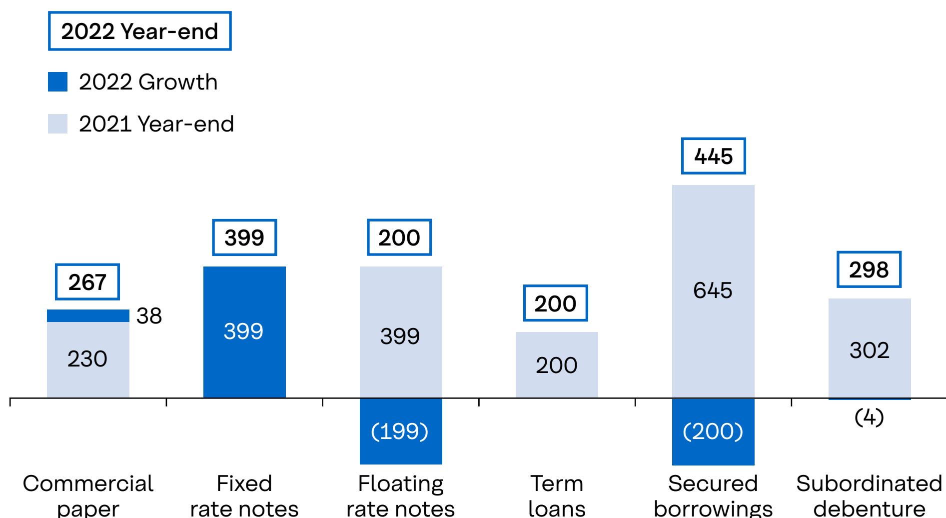
Borrowing

We maintain borrowing facilities through a number of channels and sources to assist in the management of short-term liquidity needs and to support longer-term growth opportunities. Total borrowing, including subordinated debt, increased by $32.9 million or 1.9% during the year, and continued to be diversified across a number of different channels and facilities. Decisions on the use and management of the various borrowing options available to us are based on our funding requirements and an ongoing assessment of the funding opportunities available to us in the market.

Our use of borrowing facilities was expanded during the year to include fixed rate notes, with two notes issued having a combined principal value of $400 million. The increase in fixed rate note borrowing was offset by a $200 million reduction in floating rate note borrowing and a $200 million reduction in secured borrowings. We also increased our borrowings through commercial paper issuances by $38 million, and our subordinated debenture balance decreased by $4 million.

Borrowing by Source

As at December 31 (in thousands of dollars)	2022	Mix %	2021	Mix %	Change from 2021 $	%
Commercial paper	267,494	14.8	229,845	12.9	37,649	16.4
Fixed rate notes	398,995	22.1	0	0.0	398,995	–
Floating rate notes	199,778	11.0	399,316	22.5	(199,538)	(50.0)
Term loans	200,000	11.1	200,000	11.3	0	0.0
Secured borrowings	445,110	24.6	644,993	36.3	(199,883)	(31.0)
Subordinated debentures	297,928	16.5	302,242	17.0	(4,314)	(1.4)
Total	1,809,305	100.0	1,776,396	100.0	32,909	1.9



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 reinforces risk culture by providing a common understanding among stakeholders on how Coast Capital manages risks. The ERMF encompasses risk principles, risk culture, risk governance structure and management, risk appetite and risk taxonomy.

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 risks 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 risks that we take on in a prudent and balanced way.** Employees have a clear understanding of their roles and responsibilities, have capacity and autonomy to fulfill them, take ownership of their decisions and actions, and are accountable for their actions.
3. **We integrate managing risk into everything we do.** At Coast Capital, we integrate risk management disciplines and activities into our daily routines; employees are vigilant towards known and unknown threats, notice and effectively respond to problems and opportunities, and continuously learn, improve, and adapt to changing conditions. We also understand that responsibility for managing risk spans all areas of Coast Capital, including relationships with third parties.
4. **We have a culture that supports transparent and effective communication.** We recognize that mistakes happen, and we need to recover quickly and gracefully when they occur. We support a culture that enables employees to feel safe to speak up, openly communicate and work together to ensure that we communicate and escalate matters relating to risk 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 Group Risk Management and Compliance.** While acknowledging that the business "owns the risk," we also understand the need for independent and objective review of risk policies, monitoring and reporting.

Risk Culture

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

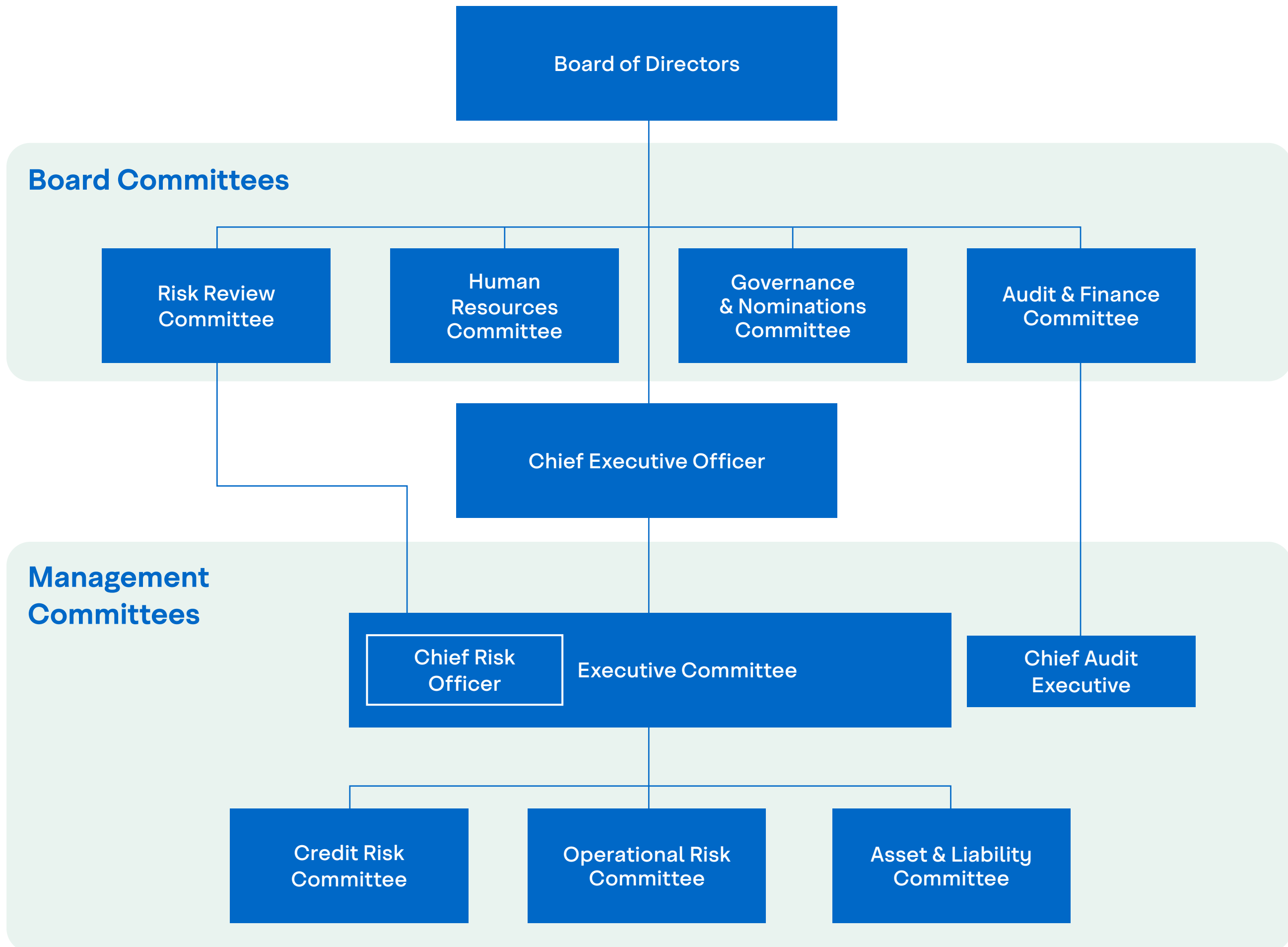
Risk Governance and Management

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

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

Management's Discussion and Analysis

Risk Management Governance Structure



First Line of Defence	Second Line of Defence	Third Line of Defence
Risk Owners	**Risk Oversight**	**Independent Assurance**
• All employees across our lines of businesses and control groups • Accountable for: - Identification - Assessment - Measurement - Mitigation - Monitoring and reporting of risk against approved policies and appetite	• The Chief Risk Officer (CRO), the Chief Compliance Officer (CCO) and the Chief Anti-Money Laundering Officer (CAMLO) have direct access to the Risk Committee • Establishes risk management practices and provides risk guidance • Provides oversight of the effectiveness of First Line risk management practices • Monitors and independently reports on the level of risk against established risk appetite	• Internal Audit • Independent assurance to management and the Board on the effectiveness of risk management practices

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 the annual operating plan, capital expenditure budgets and any material transactions, 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 and 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 assisting the Board of Directors in fulfilling its responsibilities for oversight of Coast Capital's risk management activities. It oversees the identification, measurement and monitoring of risks impacting and emanating from Coast Capital's strategic and business activities and ensures effective controls are in place. The RRC seeks to ensure Coast Capital's risk management activities are independent from operational management, are adequately resourced and have appropriate status and visibility throughout the organization. The RRC is also responsible for overseeing the governance of projects undertaken by the Enterprise Project Management Office.
- The *Audit & Finance Committee* (AFC) is responsible for overseeing our financial reporting and internal control activities, assisting the Board in fulfilling its responsibilities for oversight of capital and liquidity management. The AFC also ensures the independence and evaluation of the performance of the internal audit and external audit functions.
- The *Human Resources Committee* (HRC) is responsible for providing a forum for 'big picture' oversight of the Human Resources Strategy as it underpins the People side of Coast Capital's corporate strategy; reviewing, recommending or approving, as required, the appointment, compensation, evaluation, succession planning and, if necessary, termination of the Chief Executive Officer (CEO) and, where appropriate, members of the EXCO. The HRC establishes appropriate standards of business conduct and ethical behavior for Coast Capital, its directors, officers and employees, ensuring monitoring and compliance with those standards, and promoting the ongoing education and enhancement of those standards. The HRC also fulfils the legal requirement of having a conduct review committee and performing all the duties required of such a committee in the *Bank Act* and regulations.
- The *Governance & Nominations Committee* (GNC) is responsible for ensuring that the Board maintains current and effective corporate governance practices that are aligned with best practices, regulatory expectations, and Coast Capital's purpose and values. The GNC identifies the priority skills and experience to be sought in director candidates, seeks and recommends appropriate candidates for nomination to the Board, and oversees the director nomination and election process. The GNC also communicates with Coast Capital's members on governance issues.

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 Chief Risk Office (CRO), EXCO and/or RRC and reporting risk appetite and measures to the RRC.
- The *Operational Risk Committee* (ORC) is responsible for overseeing the effective identification and management of operational risks and internal controls across Coast Capital. These responsibilities include, but are not limited to, the identification of emerging risks/risk events, development of action plans to treat risks, assignment of action plan owners, escalation of issues to the CRO, EXCO and/or RRC and reporting risk appetite and measures to the RRC.

- The *Asset and Liability Committee* (ALCO) is responsible for overseeing the balance sheet (including capital management, funding and liquidity management and asset liability management) under both 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 Chief Financial Officer (CFO), EXCO and/or RRC and reporting risk appetite and measures to the RRC.

Risk Appetite

Our risk appetite is the aggregate level and types of risk that we are willing to accept (or 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
- Coast Capital's capacity and constraints

Risk Categories

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)
- **Financial Risk:** The risk of loss associated with insufficient acquisition or inappropriate management of capital, inability to satisfy cash flow obligations, or market shifts
- **Credit 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 inadequate or failed internal processes, people and systems, or from external events
- **Regulatory Compliance Risk:** The risk of not conforming to regulatory requirements

Risk Management Policies, Processes and Tools

The ERMF is supported by established processes and tools that are used to manage risk across Coast Capital. Risk management processes and tools are designed based on Coast Capital's size, level of complexity and risk profile. We review these processes and tools regularly and update to ensure alignment with current risk environment, activities and strategic execution.

Policies and Limits
Coast Capital has corporate document approval processes based on current legal and regulatory requirements and best practices for financial institutions, to support effective communication, implementation and governance of corporate frameworks and policies. ERM oversees the governance over corporate documents by ensuring key stakeholders follow review and approval procedures. This begins by identifying the appropriate type of document to use, determined by the appropriate chief executive officer responsible for the business area. Risk frameworks and policies are reviewed regularly and approved by the designated committee.

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.

Risk Monitoring and Reporting
Risk monitoring and reporting is a key risk management tool to facilitate the identification, monitoring and management of risks. Coast Capital's Risk Reporting Framework (RRF) establishes standards and processes to promote an effective and robust risk management reporting system that yields high-quality risk reports. These risk reports allow senior management, committees and the Board of Directors to manage risk and provide oversight. We continuously monitor and report on risk level relative to the established risk appetite to ensure Coast Capital is operating within risk limits as defined by our Risk Appetite Framework (RAF).

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:
- Supports the identification and assessment of inherent risks and 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.

Strategic Risk
Strategic risk is 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). 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 processes to identify, assess, communicate, manage, monitor and report on strategic risk to the EXCO and RRC are in place.

Regulatory Compliance Risk
Regulatory compliance risk is the risk of not conforming to regulatory requirements that apply to Coast Capital. Our approach to managing and mitigating regulatory compliance risk is comprised of risk identification and assessment, control, testing, monitoring and reporting. We have implemented the Regulatory Compliance Management Framework to establish the required standards, limits, processes, organizational structures and personnel requirements that we will have in place to meet our compliance obligations.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people 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 technology and cybersecurity risk, information management risk, third party risk, business disruption, internal and external theft and fraud, people risk, model risk and legal risk but excludes strategic risk and reputational risk. Coast Capital's inability to adequately protect against operational risks or to adequately respond to unexpected situations could adversely affect the organization.

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 amongst the Three Lines of Defence with integrated assurance. Risk subject matter experts on the second line of defence are responsible for overseeing specific operational risks and provide support and oversight to the First Line of Defence.

Top and Emerging Risks

Coast Capital identifies and assesses top and 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 2023 and beyond, key risks include:

Business and Economic Conditions

Supply chain bottlenecks caused by the pandemic have had a major impact on prices and inflation rates over the course of the financial year. Business and economic conditions potentially affecting Coast Capital in 2023 include member borrowing and spending constraints with rising interest rates, evolving business models, labour shortage, fiscal and monetary policy, inflationary pressures and related interest rate changes, and global economic and geopolitical uncertainty.

The Bank of Canada ended 2022 setting the overnight rate at 4.25%. In its policy statement, the Bank of Canada acknowledged elevated global inflation, but noted resilient global growth and easing supply chain tensions. It also noted the labour market remains very tight for Canada.

The potential consequences to Coast Capital of a prolonged upward trend in inflation include an extended period of increased business costs, policy rate hikes and a resultant business and economic slowdown impacting Coast Capital and its members and clients. Inflation remains a key macro-economic indicator factored into Coast Capital's stress testing program to manage this risk and inform strategic, financial and capital planning as well as risk appetite.

Canadian Housing and Household Debt

Canadian housing costs and household indebtedness remains high in a low unemployment and rising interest rate environment. Canadians' mortgage-related household debt increased during the pandemic, and members' ability to service it could deteriorate with further interest rate increases aimed at curbing inflationary pressures. In addition, slowing economic growth and housing market activity could degrade loan-to-value ratios and potentially lead to higher credit losses.

Late 2022 has shown signs of a slowing housing market in the Lower Mainland area, Coast Capital's largest portfolio concentration. Market activity decreased sharply in November 2022, with home sales in the region dropping 55% from November 2021 and sales 30% below the average November performance from 2010 through 2019. 2023 is expected to see further downside pressure, due to reduced affordability in relation to economic conditions, although some impacts are expected be curtailed by low unemployment and population growth.

Information Technology (IT) and Cyber Risks

The cybercrime landscape is evolving rapidly, with ransomware events growing in number and size, as well as efficiency through system infection, compromised data and multiple extortion techniques. This leaves organizations exposed to operational disruptions, reputational damage and potential liability. In addition, we see the potential for increased vulnerabilities to digital identity and data privacy risks resulting from remote working models, or business email compromise resulting in member fraud, invoice fraud and potential for account takeovers.

The organization's size and breadth of operations, the complexity of its technology infrastructure, and volume of digital activity used in transactions, as well as the development of mobile and internet banking platforms and the adoption of emerging technologies such as cloud computing, all play a significant role in providing threat actors with opportunities to exploit existing or new vulnerabilities. Coast Capital must be continuously vigilant and evolving in its IT and cybersecurity risk management practices.

Third Party Risks

Coast Capital utilizes third party providers for supporting services. Digital, cloud and technology third parties are commonplace. Threat actors may target third party providers in attempt to gain access, disrupt or profit from vulnerabilities. Through our vendor security assessment, we select partners that adhere to standard or minimum cybersecurity practices, policies and procedures. Our ongoing vendor management practices include monitoring our material third-party providers to assess inherent and residual risk, including performing periodic control environment reviews.

Environment, Social & Governance (ESG)

Organizations will face challenges with increasing pressure to meet ESG regulatory requirements, investor expectations and customer expectations. The ability to manage ESG risks will be key as demand for sustainability-linked products grows and regulatory oversight materializes in 2023. The challenges would result from the imperative to demonstrate risk management and oversight for ESG commitment and diversity, equity and inclusion through reporting and disclosures, leading to higher levels of accountability around ESG progress. Financial institutions will also face challenges and opportunities in ensuring they have adequate data collection and reporting capabilities for regulatory disclosures and in reallocating their portfolios as the de-carbonization of the economy accelerates in years to come. Coast Capital will face new regulatory oversight of climate risk from the Office of the Supervisor of Financial Institutions (OSFI) in the future, as that institution finalizes climate-related requirements for financial institutions.

Regulatory Changes

We have seen a steady increase in the introduction of new or revised regulations such as digital, data and technology reforms, cybersecurity and anti-money laundering regulations, as well as privacy, climate and consumer protection, which require attention and additional effort to be implemented within the organization, and to mitigate impacts on operations and strategies.

Government and regulatory initiatives underway with potential impacts cover a wide range of initiatives including payments evolution and modernization, open banking, consumer protection, protection of customer data, technology and cybersecurity, accommodating vulnerable persons, and financial crime risks. OSFI is releasing guidelines or guideline updates related to technology and cyber risk management, third party risk management, operational risk management, risk culture, and climate risk, which will require enhanced governance, risk management frameworks and tools, and oversight activities. These will likely generate compliance costs and impact the organization's plans, policies, and processes.

Climate Risk and Disclosures

Coast Capital supports the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), and has begun to work with the TCFD framework to disclose the evolving risks and impacts associated with climate change, together with possible mitigation strategies.

Aligning with industry efforts to address climate change, Coast Capital joined the Net-Zero Banking Alliance (NZBA) in 2021, becoming part of the global initiative to achieve net-zero emissions by 2050. We have also maintained certification as a B Corporation, or B Corp, since 2018, which requires Coast Capital to meet rigorous standards of social and environmental performance and a commitment to continuous improvement.

Climate Risk Disclosures – Governance

Board Oversight: The Board of Directors, through its Risk Review Committee, oversees climate risk, which is an established risk category in our Enterprise Risk Management Framework (ERMF). Senior management reports on climate risk quarterly to the Board of Directors, including any new or emerging issues, progress on any risk mitigation, and senior management's assessment of the overall posture of climate risk. Climate risk is captured as part of our risk appetite, for which the organization has Risk Appetite Statements that the Board reviews and considers as part of strategic planning.

Management Oversight: Senior management, in alignment with the requirements of our ERMF, is responsible for assessing climate risk. This includes evaluating the underlying drivers of the risk, implications for the organization, and arriving at a projected likelihood and consequence of climate risk for the organization. As a strategic risk, management reports and discusses climate risk monthly at the Operational Risk Committee (ORC), which has a mandate to oversee operational, regulatory, and strategic risks. Reporting and discussion include updates on actions the organization is taking to address climate risk and transition to a low-carbon economy. The ORC is comprised of senior leaders across the organization, and the EXCO receives information and results from the ORC monthly. Management, through its senior leaders, monitors any climate-related issues through ongoing tracking at the ORC.

The management team and Board of Directors have responsibilities and expectations with respect to the risks and opportunities relating to climate change. To develop its understanding, the Board of Directors has participated in education sessions on climate change, climate risk and climate-related financial disclosures. Board members have also completed other ESG-related programs, including programs on climate change offered by Institute for Corporate Directors (ICD).

Climate Risk Disclosures – Strategy

Risks and Opportunities: Management continually identifies and assesses climate-related risks and opportunities over the short-, medium-, and long-term. We consider a short-term timeframe of three years, a medium-term timeframe of five years, and a long-term timeframe of 10 years, when considering climate-related risks and opportunities. Completion of this process is necessary for us to determine the impact of climate-related risks and opportunities on our businesses, strategy, and financial planning, and to assess the resilience of our strategy, taking into consideration different climate-related scenarios. In the short- to medium-term, we have identified opportunities to improve data capture and analysis to better understand its exposure to climate-related risks. In the short-, medium-, and long term, we continue to assess risk exposure to climate-related risks. The steps we have taken in support of this assessment process, in recognition of opportunities, are outlined below.

- We have created a climate action roadmap to assist in planning activities to meet upcoming federal regulations, the TCFD disclosure requirements, and our long-term greenhouse gases (GHG) emission reduction targets. The roadmap includes the identification of internal resource requirements and the engagement of external partners necessary to build our capacity and capabilities in line regulatory expectations and the TCFD recommendations.
- We have begun to track and understand our operational GHG footprint through the development of a carbon emissions inventory. Initial GHG analysis has focused on Scope 1 and Scope 2 operational emissions, as well as certain Scope 3 emissions. We plan to continue to develop and refine our emissions inventory and analysis to include the impacts from our investment and lending activities. This work will provide a baseline to establish targets and to develop disclosure in this area.
- We are engaged in ongoing education activities with our Board members and management team as to the responsibilities and expectations in Canada with respect to the risks and opportunities relating to climate change.
- We actively monitor regulatory changes related to climate change both globally and nationally, in order to ensure the organization will be in a position to engage with regulators and to meet regulatory expectations.
- We also support collective action on climate-related risks through community investment and as a member of associations that share best practices, connect with leaders and build capacity.

Impact and Resilience: As a purpose-driven organization, we are considering climate-related risks to the organization and our members in our short- to long-term strategic planning by including climate action activities in our strategic goal-setting and our compensation targets. As we develop a transition plan, this will help us to strengthen our resilience to climate change and its impacts.

Climate Risk Disclosures – Risk Management

Identifying and Assessing Risks: We define climate risk in our risk taxonomy as the risk of event-driven or longer-term shifts in climate patterns, including physical and transition risks, leading to business disruption, stranded assets, or misalignment to a shift to a lower-carbon economy. We identify and assess climate-related risks in accordance with our ERMF. Business units across the organization that are responsible for activities that relate to climate-related risks must identify emerging risks and report them to Risk Management. Management assesses risks using Coast Capital's Risk Rating System, which evaluates the likelihood and consequences of risk scenarios. Climate risk reporting is included in the regular reporting provided to the Board of Directors, through its Risk Review Committee.

We also include specific physical risks related to climate change impacts (such as flooding and fire) in our Internal Capital Adequacy Assessment Process modelling. Any material risk identified though this modelling means we will set aside capital reserves in the event these risks materialize.

Managing and Integrating Risks: We manage climate-related risks through our enterprise-wide approach to risk management, including establishing controls and mitigations to reduce the impact or likelihood of risks occurring, and establishing action plans where further reduction of risk exposure is possible. These activities are managed by departments across the organization and centrally reported to management via the ORC, where the second line of defence (Group Risk Management) has opportunity to review and challenge the inputs and reporting from the first line of defence. Specific physical climate-related risks, as they materialize, are managed through our Business Continuity Program and Incident Response Plan, both of which provide guidance and action for the organization to navigate climate-related events.

Management of climate-related risks is integrated into the organization's overall risk management practices by utilizing the standard set of enterprise methodologies, tools, and resources for risk identification, assessment, management, monitoring, and reporting that apply to all risks to which Coast Capital is exposed.

Climate Risk Disclosures – Metrics and targets

Metrics: As a member of the NZBA, Coast Capital is required to transition all GHG emissions from lending and investment portfolios to net zero by 2050. This includes setting 2030 targets (and intermediary targets for every 5 years) within 18 months of joining, focusing on the most GHG-intensive sectors within our portfolio.

In 2022, we established flood exposure risk indicators as a starting point to measuring our climate-related risk exposure, in consideration of strategy and in alignment with our risk management processes.

GHG Emissions: We plan to continue to develop and refine our emissions inventory, which will support the development of an emissions baseline to establish targets for Scope 1, 2, and 3 GHG emissions.

Coast Capital has registered as a member of the Partnership in Carbon Accounting Financials (PCAF) in alignment with our NZBA commitments. PCAF provides an industry-standard emissions factor database that is required to calculate the GHG emissions footprint; they are committed to achieving transparency and uniformity in GHG accounting.

Coast Capital has engaged external consultants to support with baselining financed GHG emissions, set targets, and develop a net-zero strategy for our retail and commercial mortgages and commercial loan portfolios. To date, management has completed the following activities:

- Assessed Coast Capital's climate maturity in alignment with the TCFD and upcoming federal regulations
- Completed data collection for our most carbon intensive sectors, including residential and commercial mortgages and business loans

Management is finalizing the following activities:

- Conducting an emissions baseline for residential and commercial mortgages and business loans in alignment with the PCAF
- Establishing net-zero targets for residential and commercial mortgages and business loans for 2030 and 2050, with intermediary targets to be set every 5 years from 2030 onwards to align with a 1.5 degree Celsius pathway
- Establishing a baseline of our Scope 1, 2 and 3 (categories material to Coast Capital) GHG emissions

As our most significant climate-related impacts come from our loan and investment portfolios, we are committed to disclosing our financed emissions in alignment with best standards to meet the 1.5 degree Celsius pathway.

We will be releasing an inaugural climate disclosure in mid-year 2023, sharing our Scope 1, 2, and 3 baseline along with 2030 and 2050 targets for residential and commercial mortgages and business loans.

Risk Information Specific to Our Financial Reporting

(Shaded information that follows on pages 46-50 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 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

Coast Capital is committed to maintaining a strong capital base to support the risks associated with our business. 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 the Office of the Superintendent of Financial Institutions' (OSFI) Guideline for Capital Adequacy Requirements (CAR) 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, 2022, 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, 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.

Total regulatory capital consists of the sum of the following elements:

- 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
- Tier 2 capital, which consists of supplementary capital instruments

In accordance with federal capital adequacy requirements, Coast Capital must maintain a minimum capital base, plus incremental capital related to internal targets, as determined based on the ratio of capital to risk-weighted assets. Our 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, OSFI-recognized external credit rating agencies are used to determine the credit risk ratings of exposures. The external credit rating agencies used are Standard & Poor's, Moody's and DBRS Morningstar. 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. The guidance 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 with a 10% phase-out applied 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 introduced temporary regulatory relief measures in 2020 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. Coast Capital adopted such measures in line with OSFI's expectations and continued to include them as applicable in our regulatory capital and leverage ratio calculations as at December 31, 2022.

Capital Structure and Regulatory Ratios

Our Common Equity Tier 1 (CET1) capital ratio at year-end was 11.7% and our Tier 1 capital ratio was 11.9%. Both capital ratios remained strong and above the minimum regulatory and our internal target limits. Stability of these ratios reflects capital growth closely aligned with our risk-weighted asset growth. Capital growth for the year was supported by positive retained earnings growth, our primary source of regulatory capital. Capital growth was constrained, however, by a decrease in accumulated other comprehensive income. Growth of our risk-weighted assets during the year reflects an increase in our total assets. The impact of asset growth on risk-weighted assets, however, was partially offset by a shift in our portfolio mix towards lower risk-weighted assets. Our total asset growth during the year, as measured for the calculation of risk-weighted assets, was 2.2%, while our risk-weighted asset growth was 1.2%.

Our Total capital ratio at year-end was 13.7%, a decrease of 0.3% from 14.0% as at the prior year-end. The decrease to this ratio reflects the application of a 10% annual phase-out requirement, discussed above, applied to our non-qualifying subordinated debenture capital instruments, and reducing our Tier 2 capital.

The tables on the next pages 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	2022	2021
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	3,120	3,047
Retained earnings	2	1,444,528	1,350,566
Accumulated other comprehensive income (and other reserves)	3	(75,013)	(1,853)
Common Equity Tier 1 capital before regulatory adjustments	6	1,372,635	1,351,760
Common Equity Tier 1 Capital: Regulatory Adjustments			
Other deductions or regulatory adjustments to CET1 as determined by OSFI	26	3,092	6,364
Total regulatory adjustments to Common Equity Tier 1	28	(111,941)	(114,472)
Common Equity Tier 1 capital (CET1)	29	1,263,786	1,243,652
Common Equity Tier 1 capital (CET1) with transitional arrangements for ECL provisioning not applied	29a	1,260,694	1,237,288
Additional Tier 1 Capital: Instruments			
Additional Tier 1 capital (AT1)	44	13,091	15,709
Tier 1 capital (T1 = CET1 + AT1)	45	1,276,877	1,259,361
Tier 1 capital (T1 = CET1 + AT1) with transitional arrangements for ECL provisioning not applied	45a	1,273,785	1,252,997
Tier 2 Capital: Instruments and Allowances			
Directly issued capital instruments subject to phase out from Tier 2	47	150,000	180,000
Collective allowances	50	53,419	50,596
Tier 2 capital before regulatory adjustments	51	203,419	230,596
Tier 2 Capital: Regulatory Adjustments			
Tier 2 capital (T2)	58	203,419	230,596
Total capital (TC = T1 + T2)	59	1,480,296	1,489,957
Total capital (TC = T1 + T2) with transitional arrangements for ECL provisioning not applied	59a	1,480,296	1,489,957
Total risk-weighted assets	60	10,773,476	10,641,331
Capital Ratios			
Common Equity Tier 1 (as percentage of risk-weighted assets)	61	11.7	11.7
Common Equity Tier 1 (as percentage of risk-weighted assets) with transitional arrangements for ECL provisioning not applied	61a	11.7	11.6
Tier 1 (as percentage of risk-weighted assets)	62	11.9	11.8
Tier 1 (as percentage of risk-weighted assets) with transitional arrangements for ECL provisioning not applied	62a	11.8	11.8
Total capital (as percentage of risk-weighted assets)	63	13.7	14.0
Total capital (as percentage of risk-weighted assets) with transitional arrangements for ECL provisioning not applied	63a	13.7	14.0
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	50%	60%
Amounts excluded from T2 due to cap (excess over cap after redemptions and maturities)	85	150,000	120,000

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

As at December 31
(in thousands of dollars)

									2022
	0%	20%	35%	50%	75%	100%	150% and greater	Total	Risk-weighted assets
Corporate				86,861		4,678,344		4,765,205	4,721,775
Sovereign	2,755,241							2,755,241	0
Bank	113,232	417,541		29,583				560,356	98,300
Retail residential mortgages	1,586,381		10,506,879		152,391	3,045		12,248,696	3,794,746
Other retail									
Excluding small business entities					155,036		1,723	156,759	118,862
Small business entities					1,166,095		6,361	1,172,456	884,113
Equity						2,100		2,100	2,100
Undrawn commitments			1,006		0			1,006	352
Operational risk							73,157	73,157	914,459
Derivative exposures		12,201					562	12,763	9,462
Other	288,205	3,121				154,910	16,084	462,320	195,744
Off-balance sheet exposures	10,554				6,726	28,519		45,799	33,564
Total as at December 31, 2022	**4,753,613**	**432,863**	**10,507,885**	**116,444**	**1,480,248**	**4,866,918**	**97,887**	**22,255,858**	**10,773,477**
Total as at December 31, 2021	**4,188,986**	**791,818**	**10,346,294**	**123,370**	**1,387,325**	**4,840,466**	**94,264**	**21,772,523**	**10,641,331**

Risk-Weighted Assets by Asset Type

As at December 31
(in thousands of dollars)

					2022
	Cash, securities and resale agreements	Loans	Other items	Total	Risk-weighted assets
Corporate	96,050	4,669,155		4,765,205	4,721,775
Sovereign	2,755,241			2,755,241	0
Bank	560,356			560,356	98,300
Retail residential mortgages		12,248,696		12,248,696	3,794,746
Other retail					
Excluding small business entities		156,759		156,759	118,862
Small business entities		1,172,456		1,172,456	884,113
Equity	2,100			2,100	2,100
Undrawn commitments		1,006		1,006	352
Operational risk			73,157	73,157	914,459
Derivative exposures			12,763	12,763	9,462
Other	164,897		297,423	462,320	195,744
Off-balance sheet exposures			45,799	45,799	33,564
Total as at December 31, 2022	**3,578,644**	**18,248,072**	**429,142**	**22,255,858**	**10,773,477**
Total as at December 31, 2021	**3,307,638**	**18,033,224**	**431,661**	**21,772,523**	**10,641,331**

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 calculated based on the ratio of Tier 1 capital to unweighted on-balance sheet assets and off-balance sheet commitments, derivatives and securities financing transactions, as defined within the requirements.

Our leverage ratio at year-end was 5.7% and exceeded the current minimum requirement throughout the year. Our leverage ratio decreased by 0.1% compared with 5.8% as at the prior year-end. The decrease reflects positive Tier 1 capital growth during the year, but at a lower rate relative to growth of total exposures, as measured for the calculation of the leverage ratio. Tier 1 capital at year-end increased by 1.3% compared with the prior year-end, constrained by a decrease in accumulated other comprehensive income as discussed above. Total exposures increased by approximately 3.4% compared with the prior year-end.

Impacts on Leverage Ratio

Year ended December 31 (in thousands of dollars)	OSFI line number	2022	2021
On-Balance Sheet Exposures			
On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	1	21,899,414	21,166,520
Asset amounts deducted in determining Basel III Tier 1 capital	4	(111,941)	(114,472)
Total on-balance sheet exposures (excluding derivatives and SFTs)	5	21,787,473	21,052,048
Derivative Exposures			
Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	6	2,807	5,405
Add-on amounts for PFE associated with all derivative transactions	7	5,907	5,667
Total derivative exposures	11	12,201	15,501
Securities Financing Transaction Exposures			
Gross SFT assets recognized for accounting purposes (with no recognition of netting), after adjusting for sale accounting transactions	12	116,501	288,569
(Netted amounts of cash payables and cash receivables of gross SFT assets)	13	(116,501)	(288,569)
Counterparty credit risk (CCR) exposure for SFTs	14	35,575	46,142
Total securities financing transaction exposures	16	35,575	46,142
Other Off-Balance Sheet Exposures			
Off-balance sheet exposure at gross notional amount	17	4,631,888	4,453,734
(Adjustments for conversion to credit equivalent amounts)	18	(4,131,557)	(3,974,431)
Off-balance sheet items	19	500,331	479,303
Capital and Total Exposures			
Tier 1 capital	20	1,276,877	1,259,361
Tier 1 capital with transitional arrangements for ECL provisioning not applied	20a	1,273,785	1,252,997
Total exposures	21	22,335,579	21,592,993
Basel III Leverage Ratio	22	5.7	5.8
Basel III Leverage Ratio with Transitional Arrangements for ECL Provisioning Not Applied	22a	5.7	5.8

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 materialize.
- 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 2022 confirms that our capital levels are healthy and sufficient for achieving our strategic plans and for successfully navigating through all stress scenarios considered. Federally regulated financial institutions must maintain robust and credible recovery plans that identify options to restore financial strength and viability when under severe stress. Coast Capital maintains and updates its recovery plan in line with OSFI requirements and industry best practices.

Other Regulatory Capital Developments

In January 2022, OSFI finalized and released an updated version of its CAR, Leverage Requirements (LR), and Liquidity Adequacy Requirements (LAR) Guidelines and issued the new Small- and Medium-Sized Deposit-Taking Institutions Capital and Liquidity Requirements (SMSB Capital and Liquidity Guideline) and Pillar 3 Disclosure Requirements for SMSB guidelines (collectively OSFI Reforms). The OSFI Reforms incorporate the latest and final round of internationally agreed-upon Basel III reforms.

The OSFI Reforms are applicable to Coast Capital and include, amongst other changes:

- Revisions to the standardized approach for credit risk
- Introduction of new operational risk capital rules including a new Simplified Standardized Approach available to SMSBs
- Changes to the leverage ratio calculation requirements to align with revisions to the OSFI Guideline for Capital Adequacy Requirements (CAR)
- Consideration for differences in the size and complexity of federally regulated financial institutions in the form of simplified capital and liquidity requirements for SMSBs of various sizes

Based on the latest implementation timelines, the OSFI Reforms come into effect in April 2023. Coast Capital is finalizing its assessment of the OSFI Reforms and, in parallel, implementing the required changes to systems and processes.

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 seek to ensure sufficient liquidity for its ongoing and new business activities as well as to withstand a range of stresses, by maintaining sufficient levels of High Quality Liquid Assets (HQLA).

The Board defines the overall liquidity risk tolerance and seeks to ensure 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 according to 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 HQLAs to meet net short-term financial obligations over a 30-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, 2022.

Supplemental Liquidity Management Activities

Contingency Funding Plan. We 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. The Contingency Funding Plan is regularly tested and updated.

Resolution Plan. Federally regulated financial institutions must maintain robust and credible recovery plans that identify options to restore financial strength and viability when under severe stress. Coast Capital maintains and updates its recovery plan in line with OSFI requirements and industry best practices.

Stress Testing Program. We maintain 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, 2022, our liquid assets totalled $3.6 billion and represented 16.0% of total assets.

Liquid Assets

As at December 31

(in thousands of dollars)	2022
Cash and cash resources	49,955
Financial Investments	
Securities issued or guaranteed by sovereigns	1,417,361
National Housing Act (NHA) mortgage-backed securities	537,918
Canada Mortgage Bonds	404,990
Securities issued by provinces or municipalities	532,718
Securities purchased through reverse repurchasing agreements	116,501
Covered Bonds (not self-issued)	44,195
Non-Financial Corporate Bonds	116,427
NHA mortgage-backed securities (reported as loans at amortized cost)	330,378
Total Liquid Assets	3,550,443
Total Assets	22,130,514
Encumbered Assets	518,375
Unencumbered Assets	3,032,068

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 maintain suitable diversification of our funding sources. This includes diversification across tenors and providers of retail and wholesale liquidity, including retail and commercial deposits, institutional deposits, borrowing facilities, debt capital markets, securitization and repurchase agreements. Funding relationships that provide an opportunity to build deeper connections, such as with our retail and commercial members, enhance the stability of our funding, and are preferable to single-point funding relationships, such as through capital markets and institutional relationships.

To maintain sound diversification, targets and limits by funding source have been established. These targets and limits form part of our overall liquidity policy and are monitored regularly to ensure adherence. The targets and limits established take into consideration the volatility of the funding sources, among other things. Monthly reporting on our liquidity position is submitted to ALCO, which includes information on our concentration of funding across time horizons and also includes market-related monitoring information, 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 access to other funding programs is essential for managing short-term funding needs and for realizing long-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 access funding through capital markets we maintain short-term and long-term DBRS Morningstar issuer ratings.

Borrowing facilities and funding programs currently in use are as follows:

- Lines of credit with Central 1 and other financial institutions. Our outstanding borrowings through these facilities were maintained at $200 million in 2022.
- Short-term commercial paper based on our DBRS Morningstar short-term issuer rating. Our short-term issuer rating of R-1 (low) was originally obtained in 2016 and was reconfirmed in 2022. At year-end, the outstanding balance of issued short-term commercial paper was $267 million.
- Floating rate notes. At year-end we had one floating rate note with a principal amount of $200 million outstanding.
- Fixed rate notes. Two fixed rate notes with a combined principal amount of $400 million were issued during the year, and had a reported outstanding balance of $399 million at year-end.
- 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. Borrowing through these programs totalled $445 million at year-end.
- Long-term subordinated debentures based on our DBRS Morningstar long-term issuer rating. In 2018, we issued debentures with a principal amount of $300 million which remain outstanding during the year and had a reported outstanding balance of $298 million at year-end. Additional details related to these debentures are provided in Note 16 of the Notes to the Consolidated Financial Statements.

In addition to the above, at the onset of the COVID-19 pandemic, the Bank of Canada initiated liquidity programs to assist financial institutions and provide an additional risk mitigation measure. Coast Capital remains eligible for a number of programs established by the Bank of Canada including the Standing Term Liquidity Facility (STLF) and the Emergency Lending Assistance (ELA). Coast Capital has not utilized these programs to date.

Our credit ratings, maintained with DBRS Morningstar, demonstrate the soundness of our financial position, providing assurance to our members and to capital market participants. Our long-term issuer rating of BBB (high) and our short-term issuer rating of R-1 (low) were reconfirmed in 2022 without change. 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.

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. Note 28 in the Consolidated Financial Statements provides details of the mismatch between the contractual maturity of our on-balance sheet 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. Aside from the obligations related to deposits and borrowings discussed above, Coast Capital also has off-balance sheet obligations related to credit commitments. 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. Credit risk is the risk of loss associated with the inability or unwillingness of a counterparty, borrower, obligor, or guarantor (collectively, as "borrower") to fulfill its contractual obligations for a financial transaction on a timely manner. Credit risk can also occur when the underlying collateral becomes impaired due to deterioration in the credit quality of the borrower. 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 risk appetite and tolerance.

Credit Risk Management Overview

Credit risk arises from every loan, credit or transaction, and extension of these obligations that involves the transfer of funds between Coast Capital and the borrower, including actual, contingent or potential claims. Credit and counterparty risk includes credit default, credit concentration and settlement risk. Coast Capital supports a strong risk culture by maintaining a Credit 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.

Credit Risk Governance

The responsibility for managing credit risk is enterprise-wide and shared broadly following the three lines of defence governance model. Coast Capital governs and manages credit risk by providing strong oversight and control of risk with clear accountabilities, based on Coast Capital's risk principles and practices as defined by the three lines of defence governance model.

The Board, through its RRC, 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 approval from Credit Risk Management.

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

Credit Risk Assessment

Coast Capital utilizes a range of methodologies and tools to measure and manage the credit risk in our retail and commercial portfolios. Our credit risk rating systems measure and assess the credit risk inherent in our retail and commercial lending activities in a consistent and replicable manner.

Within our commercial business line, Coast Capital uses a dual probability and loss given default risk rating scale to evaluate the credit-worthiness of commercial borrowers. It is transparent and replicable for individual commercial borrower's risk rating based on the documented standards for each of the risk rating categories. For retail business line, Coast Capital uses a matrix of beacon score, total debt service ratio, and loan to value ratio to evaluate the credit-worthiness of an individual retail borrower.

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 valuations, third-party valuations are used, such as appraisals and automated valuation models. To seek 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-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, 2022

(in thousands of dollars)	Banking	Derivatives
On-Balance Sheet		
Cash held at Central 1	112,901	
Investments held at Central 1	151,413	
Other investments	3,309,090	
Loans	18,268,588	
Derivative instruments	–	2,659
Accounts receivable and accrued interest	57,560	
	21,899,552	2,659
Off-Balance Sheet		
Letters of credit	89,492	
Commitments to extend credit	2,892,524	
	2,982,016	–
Maximum exposure to credit risk	24,881,568	2,659

Credit Risk Mitigation

As at December 31, 2022 (in thousands of dollars)	Amounts in Consolidated Balance Sheet	Amounts covered by: Financial collateral received or pledged	Guarantees/ credit derivatives	Net amounts
Financial Assets				
Loans				
Residential mortgages	12,244,807	–	1,586,381	10,658,426
Personal loans	419,898	12,752	–	407,146
Commercial loans and mortgages	4,789,354	23,906	–	4,765,448
Equipment financing	814,529	–	–	814,529
Financial investments	3,257,112	–	–	3,257,112
Derivatives	2,659	–	–	2,659
Total	21,528,359	36,658	1,586,381	19,905,320

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 67.2% of our total outstanding loans. 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 price fluctuations 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 modelling of price change impacts on collateral value and validating the performance of our automated valuation models. 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, 2022 (in thousands of dollars)	Outstanding loans	Mix %	Undrawn commitments	Letters of credit	Total exposure
Retail mortgages	12,237,946	67.2	2,071,893		14,309,839
Retail loans	411,614	2.3	829,691		1,241,305
Commercial					
Accommodation and food services	270,384	1.5	4,601	35	275,020
Construction	1,741,674	9.6	1,108,684	66,482	2,916,840
Health care and social assistance	107,720	0.6	1,768	102	109,590
Management of companies and enterprises	46,477	0.3	1,561	505	48,543
Manufacturing	56,767	0.3	7,735	306	64,808
Other	178,489	1.0	22,655	14,622	215,766
Professional, scientific and technical services	35,839	0.2	3,132	1,007	39,978
Real estate and rental and leasing	2,146,345	11.8	80,836	3,827	2,231,008
Retail and wholesale trade	109,484	0.6	10,301	2,370	122,155
Transportation and warehousing	868,413	4.8	9,206	236	877,855
Total	18,211,152	100.0	4,152,063	89,492	22,452,707

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 provided in Note 29 of the Notes 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).

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 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.

Interest Rate Risk

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. Changes in market interest rates affect net interest income by altering the amount and timing of cash flows and spreads. Changes in market interest rates and changes in duration of assets and liabilities 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 of equity to changes in interest rates.

Structural interest rate risk is primarily comprised of duration mismatch risk and option risk embedded within the structure of our asset and liability portfolio. Differences in the scheduled maturity, repricing dates or reference rates of assets, liabilities and derivatives cause duration mismatch. Certain product features also allow our members to alter scheduled maturity or repricing dates, resulting in product-embedded option risks. These product features include deposit early redemption options, loan prepayment options and interest rate commitments on mortgages yet to be funded. The maturity and repricing profile of our asset and liability portfolio changes daily in the ordinary course of business as new assets and liabilities are originated, existing assets and liabilities mature, and as members exercise different product options related to their loans and deposits.

Management of structural interest rate risk balances short-term income volatility against volatility in the long-term value of equity. To manage this risk, Treasury uses both on-balance sheet exposures and derivatives, while adhering to set risk limits and tolerances as approved by ALCO and the Board.

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

The table below summarizes the transition we experienced with members' preferences shifting towards longer-term deposits as interest rates rose throughout the year. During the year, we enhanced our granularity in assessing the interest rate risk sensitivities to include assumptions relating to early repayment of loans and member preferences for demand, notice and redeemable deposits. The most notable change of these enhancements was within the variable rate deposit categories, which shifted towards maturities 3 months or less.

Asset and Liability Maturities

As at December 31

(in thousands of dollars)			2022			2021
	Assets	Liabilities and equity	Differential	Assets	Liabilities and equity	Differential
Variable rate	7,549,046	400,000	7,149,046	6,898,110	6,736,198	161,912
Interest sensitive maturing:						
Under 3 months in 2023	1,356,748	6,246,542	(4,889,794)	1,100,205	2,584,680	(1,484,475)
Over 3 to 6 months in 2023	1,205,656	1,672,172	(466,516)	590,184	1,407,822	(817,638)
Over 6 to 12 months in 2023	1,973,395	4,983,922	(3,010,527)	1,123,816	3,703,712	(2,579,896)
Over 1 to 5 years in 2024 to 2028	9,371,929	6,956,468	2,415,461	10,817,645	2,007,844	8,809,801
Over 5 years in 2029 and beyond	169,581	4,139	165,442	288,564	307,678	(19,114)
Non-interest-bearing items(1)	504,159	1,867,271	(1,363,112)	769,256	4,839,846	(4,070,590)
	22,130,514	22,130,514	–	21,587,780	21,587,780	–

(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.

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 resulting from a 1% change in interest rates.

As at December 31

(in thousands of dollars)	2022	2021
1% increase in rates	23,331	8,590
1% decrease in rates	(14,516)	(11,263)

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.

Management's Discussion and Analysis

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 International Financial Reporting Standards (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.

Non-GAAP and Other Financial Measures

Management of Coast Capital Savings uses a number of financial measures and ratios to assess overall performance. Some of these measures do not have a standardized definition prescribed by Generally Accepted Accounting Principles (GAAP) and might not be comparable to similar measures presented by other companies. Presenting non-GAAP financial measures and ratios provides readers with an enhanced understanding of how management analyzes Coast Capital Savings' results and assesses the underlying business performance. The discussions of non-GAAP financial measures and ratios that Coast Capital Savings uses in evaluating its operating results are presented as footnotes in the respective sections of this MD&A together with the required disclosure below.

Non-GAAP Financial Measures

The following are supplementary financial measures that do not have definitions prescribed by GAAP and do not meet the definition of non-GAAP financial measure or ratio. Our supplementary financial measures include:

Average assets is calculated from averaging month-end balances for total assets.

Average equity is calculated from averaging month-end balances for total members' equity.

Average total loans is calculated from averaging the month-end balances of total loans.

Average net loans is calculated from averaging the month-end balances of total loans net of allowances for credit losses.

Return on average assets (Net Income as percentage of average assets) is used to measure Coast Capital Savings' profitability and present the net income as a percentage of average assets.

Return on average equity (Net income as percentage of average equity) is used to measure Coast Capital Savings' profitability and present the net income as a percentage of average members' equity.

Assets under administration (AUA) are financial assets that are managed by a third party on behalf of members and clients. These are not reported as assets on the consolidated balance sheet.

Total assets under administration are total assets and assets under administration.

Provision for credit losses as a percentage of average net loans is a ratio represented by the annual provisions for credit losses divided by the average net loans.

Loan write-offs as a percentage of average total loans is a ratio represented by the annual loans written-off divided by the average total loans.

Gross impaired loans as percentage of total loans is a ratio represented by the gross impaired loans divided by the total loan balances.

Net impaired as percentage of total members' equity is a ratio represented by the net impaired loans divided by the total members' equity.

Total allowance as percentage of total loans is a ratio represented by the allowance for loan losses divided by total loans.

Operating efficiency ratio is a measure of productivity and cost control and is calculated as non-interest expenses divided by total revenue.

Net Interest Income percentage of average assets and Net Interest Margin is calculated as net interest income divided by average total assets.

Non-interest income as percentage of average assets is calculated as non-interest income divided by average total assets.

Non-interest expenses as percentage of average assets is calculated as non-interest expenses divided by average total assets.

Use of Critical Estimates and Judgments

The preparation of financial information requires the use of estimates and judgments about future conditions. Management's selection of Coast Capital's significant accounting policies, which contain critical estimates and judgments, are discussed 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 judgments, 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.

	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), 18	

Future Accounting Changes

The International Accounting Standards Board (IASB) has issued and amended accounting standards that are effective for Coast Capital after December 31, 2022. Refer to Note 4 to the Consolidated Financial Statements for further information on these changes.

Consolidated Financial Statements

Table of Contents

Reports
Management's Responsibility for Financial Reporting 55
Independent Auditors' Report 56

Consolidated Financial Statements
Consolidated Balance Sheet 58
Consolidated Statement of Income 59
Consolidated Statement of Comprehensive Income 60
Consolidated Statement of Changes in Members' Equity 61
Consolidated Statement of Cash Flows 62

Notes to the Consolidated Financial Statements
1. Basis of Presentation 63
2. Significant Accounting Policies 65
3. Changes in Accounting Policies 77
4. Future Accounting Changes 79
5. Interest Bearing Deposits with Financial Institutions 79
6. Financial Investments 79
7. Loans and Allowance for Credit Losses 80
8. Risk Management 87
9. Premises and Equipment 88
10. Goodwill and Intangible Assets 88
11. Other Assets 89
12. Deposits 89
13. Borrowings 90
14. Secured Borrowings 91
15. Assets Pledged as Collateral 92
16. Subordinated Debentures 92
17. Other Liabilities 92
18. Leases 93
19. Capital Management 93
20. Share Capital 96
21. Net Interest Income 96
22. Fee and Commission Income 97
23. Salaries and Employee Benefits 97
24. Administration Expenses 97
25. Provision for Income Taxes 98
26. Commitments 99
27. Contingent Liabilities 99
28. Interest Rate Sensitivity Position 99
29. Derivative Instruments 102
30. Fair Value of Financial Instruments 105
31. Classification of Financial Assets and Liabilities 108
32. Related-Party Transactions 109
33. Pension Plan 110
34. Membership 112

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 for the year ended December 31, 2022, 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.

The Office of the Superintendent of Financial Institutions Canada, which is mandated to protect the rights and interests of the depositors and creditors of the Bank, examines and enquires into the business and affairs of the Bank, as deemed necessary, to determine whether the provisions of the *Bank Act* are being complied with, and that the Bank is in a sound financial condition.

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, 2022
- 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, 2022 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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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.

Chartered Professional Accountants

Vancouver, Canada
February 23, 2023

Consolidated Balance Sheet

As at December 31

(Amounts in thousands of Canadian dollars)	Notes	2022	2021
Assets			
Cash and cash resources		164,897	414,551
Interest bearing deposits with financial institution	5	151,395	45,000
Financial investments	6	3,257,112	2,841,840
Loans	7		
Residential mortgages		12,244,807	12,200,883
Personal loans		419,898	414,424
Commercial mortgages and loans		4,789,354	4,628,522
Equipment financing		814,529	764,840
		18,268,588	18,008,669
Allowance for loan losses	7	(57,436)	(57,865)
		18,211,152	17,950,804
Premises and equipment	9	65,473	80,757
Goodwill and intangible assets	10	108,757	111,603
Deferred tax assets	25	19,268	24,374
Derivative assets	29	2,659	5,405
Other assets	11	149,801	113,446
Total assets		22,130,514	21,587,780
Liabilities			
Deposits	12	18,570,139	18,118,265
Borrowings	13	1,066,267	829,161
Secured borrowings	14	445,110	644,993
Subordinated debentures	16	297,928	302,242
Derivative liabilities	29	2,965	61
Other liabilities	17	355,115	319,794
Total liabilities		20,737,524	20,214,516
Members' Equity			
Share capital	20	23,251	24,330
Retained earnings		1,444,752	1,350,787
Accumulated other comprehensive loss		(75,013)	(1,853)
Total members' equity		1,392,990	1,373,264
Total liabilities and members' equity		22,130,514	21,587,780

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 & Chief Executive Officer

Consolidated Statement of Income

For the year ended December 31 *(Amounts in thousands of Canadian dollars)*	Notes	2022	2021
Interest Income			
Loans	21	669,900	546,103
Cash and financial investments	21	52,321	36,897
Derivatives	21	148	5,559
		722,369	588,559
Interest Expense			
Deposits	21	244,061	147,035
Borrowings	21	59,953	38,823
		304,014	185,858
Net Interest Income		418,355	402,701
Non-Interest Income			
Fees and commission income	22	96,783	93,472
Net gain from securitization activities		1,806	1,399
Net gain from sale of financial investments		604	7,915
Other income		9,040	6,548
		108,233	109,334
Total Revenue		526,588	512,035
Provision for credit losses	7	2,134	1,829
		524,454	510,206
Non-Interest Expenses			
Salaries and employee benefits	23	230,263	211,032
Administration	24	81,953	83,231
Technology		40,778	43,175
Occupancy		11,820	12,271
Depreciation and amortization		36,925	35,618
Community contributions		4,658	3,927
		406,397	389,254
Income Before Provision for Income Taxes		118,057	120,952
Provision for income taxes	25	23,985	22,173
Net income		94,072	98,779

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)*	2022	2021
Net Income	94,072	98,779
Other Comprehensive (Loss), Net of Income Taxes		
Items that will not be reclassified subsequently to net income:		
Actuarial gains on defined benefit pension plans	504	427
- before income taxes	607	515
- income tax (provision)	(103)	(88)
Items that will be reclassified subsequently to net income:		
Unrealized (losses) on financial investments classified at fair value through other comprehensive income	(72,154)	(47,727)
- before income taxes	(86,933)	(57,502)
- income tax recovery (provision)	14,779	9,775
Net (losses) on effective portion of cash flow hedges	(1,006)	(1,048)
- before income taxes	(1,212)	(1,263)
- income tax recovery (provision)	206	215
Total other comprehensive loss	(72,656)	(48,348)
Comprehensive income	21,416	50,431

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	2022	2021
Share Capital	20		
Balance at beginning of year		24,330	25,890
Shares issued		623	491
Shares redeemed		(1,702)	(2,051)
Balance at end of year		23,251	24,330
Retained Earnings			
Balance at beginning of year		1,350,787	1,253,361
Net income		94,072	98,779
Actuarial (losses) gains on defined benefit plans, net of income taxes		504	427
Share dividends		(737)	(319)
Income tax deduction on dividends		126	54
Other equity adjustments		–	(1,515)
Balance at end of year		1,444,752	1,350,787
Accumulated Other Comprehensive Income			
Financial Investments Classified as FVOCI			
Balance at beginning of year		(1,668)	46,059
Other comprehensive loss		(72,154)	(47,727)
Balance at end of year		(73,822)	(1,668)
Cash Flow Hedges			
Balance at beginning of year		(185)	863
Other comprehensive income (loss)		(1,006)	(1,048)
Balance at end of year		(1,191)	(185)
Total accumulated other comprehensive (loss)		(75,013)	(1,853)
Total members' equity		1,392,990	1,373,264

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)*	2022	2021
Cash Flows From Operating Activities		
Income before provision for income taxes	118,057	120,952
Adjustment for non-cash items:		
Depreciation and amortization	36,925	35,618
Provision for credit losses	2,134	1,829
Unrealized foreign exchange gains within financial investments	(2,004)	(2,105)
Net gain on disposal of premises and equipment	(265)	(114)
Changes in operating assets and liabilities		
Change in other assets	(30,113)	6,633
Change in other liabilities	45,798	19,137
Net increase in loans	(262,482)	(409,420)
Net increase in deposits	451,874	664,974
Income taxes paid	(15,546)	(28,094)
Net cash from operating activities	344,378	409,410
Cash Flows From Investing Activities		
Net investment in financial investments	(606,592)	(139,731)
Purchase of premises, equipment and intangible assets, net of disposals	(18,530)	(19,694)
Net cash used in investing activities	(625,122)	(159,425)
Cash Flows From Financing Activities		
Net proceeds from (redemption of) borrowings	32,909	(22,101)
Proceeds from share capital issued	623	491
Redemption of share capital	(1,702)	(2,051)
Dividends paid	(740)	(319)
Net cash from (used in) financing activities	31,090	(23,980)
Net (Decrease) Increase in Cash and Cash Resources	(249,654)	226,005
Cash and cash resources, beginning of year	414,551	188,546
Cash and cash resources, end of year	164,897	414,551
Supplemental Disclosure of Cash Flow Information		
Cash flows from (used in) operating activities includes:		
Interest received	707,918	590,488
Interest paid	(358,366)	(148,428)
Dividends received	81	92

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 the Metro Vancouver, Fraser Valley, Vancouver Island and 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 23, 2023.

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 certain financial instruments and derivatives classified at fair value through profit or loss and certain 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 the 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

The preparation of financial information requires the use of estimates and judgments about future conditions. The unprecedented COVID-19 pandemic continues to have ongoing but receding impacts on the markets where Coast Capital operates. There is also heightened economic volatility related to the ongoing global political unrest, the current inflationary environment and a tightened monetary policy as a result. Management has considered and reflected these uncertainties 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 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 and use of probability-weighted scenarios. 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 to.

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.
- 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, 2022, 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%
Coast Capital Equipment Leasing Ltd.*	100	100%
Coast Capital Auto & Equipment Finance Ltd.*	76,000	50%

* As of January 1, 2022, Travelers Finance Ltd. changed its name to Coast Capital Auto & Equipment Finance Ltd. and Travelers Leasing Ltd. changed its name to Coast Capital Equipment Leasing Ltd.

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 British Columbia and 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. Our ECL methodology also requires the use of experienced credit judgment to incorporate the estimated impact of factors that are not captured in the modelled ECL results. We applied experienced credit judgment to reflect the continuing impact of the uncertain environment on credit conditions and the economy as a result of the COVID-19 pandemic. 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 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

Wealth Management Investment Commissions

Coast Capital primarily earns trailing commissions on sales of wealth management investments to its members on behalf of the fund dealer. Trailing commissions are calculated based on the asset base and yield of the underlying funds 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 Right of Use (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 comprised of 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 comprised of 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.

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

2. Significant Accounting Policies (Continued)

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 Consolidated Statement of Income.

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

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

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

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 comprised of 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.

h) Income Taxes

Coast Capital's income taxes 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.

2. Significant Accounting Policies (Continued)

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 determining the provision for income taxes, we interpret tax legislation, case law and administrative positions in numerous jurisdictions and, based on our judgment, record our estimate of the amount required to settle tax obligations. We also make assumptions about the expected timing of the reversal of deferred tax assets and liabilities. If our interpretations and assumptions differ from those of tax authorities or if the timing of reversals is not as expected, our provision for income taxes could increase or decrease in future periods. The amount of any such increase or decrease cannot be reasonably estimated.

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 comprise 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 Consolidated Statement of 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 it is 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 Registered Retirement Savings Plan (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 and other liabilities.

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 is 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 comprises only 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 including transaction costs.

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 on expected 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 on expected 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. Any transaction cost for such instruments is expensed to 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 had 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 the Consolidated Statement of 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.

2. Significant Accounting Policies (Continued)

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.

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 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.

2. Significant Accounting Policies (Continued)

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.

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

Net Gain 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 – Net gain 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 – Net gain 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.

2. Significant Accounting Policies (Continued)

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 the Consolidated Statement of Income 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.

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 the Consolidated Statement of Income. 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 Non-interest income – Other income 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.

Notes to the Consolidated Financial Statements

2. Significant Accounting Policies (Continued)

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.

q) Dividend Income

Dividend income on equity securities is recognized when Coast Capital's right to receive payment is established, which is on the ex-dividend date for listed equity securities.

r) Dividend on Membership and Other Equity Shares

Dividends on membership shares and other equity instruments are recognized as a liability and deducted from equity when they are declared and are no longer at the discretion of Coast Capital.

s) Government Lending Programs in Response to COVID-19

In 2020, 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 funded by the Government of Canada through Export Development Canada (EDC) as its agent, and Coast Capital provides CEBA loans to eligible business members. The CEBA loans are not recognized on Coast Capital's Consolidated Balance Sheet because substantially all the risks and rewards to the loans, including exposure to credit losses and principal forgiveness, are assumed by the Government of Canada. The funding provided to Coast Capital by the Government of Canada in respect of the CEBA program represents an obligation to pass-through collections on the CEBA loans and is otherwise non-recourse to the credit union, and accordingly we are not required to repay amounts that our members fail to pay or that have been forgiven.

In our administrative capacity, Coast Capital earns a fee for these services, which is recognized in Non-interest income – Other income in the Consolidated Statement of Income.

3. Changes in Accounting Policies

Effective January 1, 2021, Coast Capital adopted the following changes in accounting standards as set out below.

Interbank Offered Rate Reform (IBOR Reform)

Major interest rate benchmark reviews have been undertaken globally to either reform or phase out certain interbank offered rates, including the Canadian Dollar Offered Rate (CDOR). As an alternative to IBORs, the regulators have recommended markets begin adopting alternative risk-free rates (RFRs). Further to previous announcements by various regulators, the publication of certain interest rates ceased after December 31, 2021, while most of the USD LIBOR tenors (i.e., overnight, one-month, three-month, six-month and 12-month tenors) continue to be published until June 30, 2023.

3. Changes in Accounting Policies (Continued)

The Federal Reserve Board and other US agencies have encouraged banks to transition away from USD LIBOR and cease entering into new contracts after December 31, 2021, to facilitate an orderly transition. Similarly, OSFI stated that Federally Regulated Financial Institutions (FRFIs) should not enter new transactions using USD LIBOR as a reference rate after December 31, 2021. On March 15, 2022, the U.S. Federal LIBOR legislation was signed into law establishing a framework for the replacement of USD LIBOR as the benchmark interest rate in existing contracts lacking effective fallback provisions that are difficult to amend before the cessation.

On May 16, 2022, Refinitiv Benchmark Services (UK) Limited (RBSL), the administrator of CDOR, announced the cessation of the publication of all CDOR tenors, including the one-month, two-month, and three-month tenors after June 28, 2024. This cessation was authorized by the Ontario Securities Commission and the Autorité des marchés financiers as required by CSA Multilateral Instrument 25-102 Designated Benchmarks and the Benchmark Administrators. This announcement provides certainty regarding the future of one-month, two-month, and three-month CDOR tenors and serves to set the fixed spread adjustment that will be used in industry standard fallback provisions for both derivative and cash products.

The Canadian Alternative Reference Rate (CARR) committee has published a detailed transition roadmap with milestones to guide market participants on the transition away from CDOR across all product types. The CARR also confirmed the intention to move forward with the development of forward looking Term Canadian Overnight Repo Rate Average (CORRA) which is expected to become available by the end of Q3 2023. By June 28, 2024, OSFI expects that federally regulated financial institutions (FRFI) will have transitioned all loan agreements referencing CDOR. As part of this transition, OSFI expects that FRFIs to prioritize system and model updates to accommodate the use of CORRA (or any alternative reference rates, as necessary) prior to June 28, 2024 and to ensure adequate contingency planning is in place to respond to potential issues that may emerge at cessation.

Our exposure to IBOR Reform as at December 31, 2022, is limited to financial instruments that are indexed to the CDOR and the USD LIBOR. The table below shows our exposures to financial instruments that have yet to transition to an alternative benchmark rate as at December 31, 2022.

				As at Dec 31, 2022
	Non-derivative financial assets	Non-derivative financial liabilities	Derivatives	Loan commitments
	Carrying amount	Carrying amount	Notional value	Undrawn amount
CDOR	626,662	697,706	400,000	1,005,000
USD LIBOR	35,277	–	–	–
Total	661,939	697,706	400,000	1,005,000

The change to contractual terms of financial assets and financial liabilities with rates that are subject to IBOR Reform is not yet complete. Coast Capital continues to work towards meeting the regulatory and industry-wide recommended milestones and will be working with members and counterparties to issue products based on alternative reference rates. Coast Capital continues to manage the transition by evaluating 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. These responsibilities are led by an organization wide cross-functional team that includes key stakeholders and decision makers from the Treasury, Finance, and Legal departments, and the frontline businesses.

4. Future Accounting Changes

Coast Capital actively monitors developments and changes in accounting standards from the IASB, as well as requirements from the other regulatory bodies, including OSFI. The following changes to accounting standards have been issued but are not yet effective for Coast Capital.

a) Classification of Debt 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, 2023. Coast Capital is currently assessing the impact of adoption.

b) Disclosure of Accounting Policies (Amendments to IAS 1)

In February 2021, the IASB revised IAS 1, *Presentation of Financial Statements*, to require entities to disclose their material accounting policies rather than significant accounting policies. The amendment is effective for Coast Capital on January 1, 2023. Coast Capital is currently assessing the impact of adoption.

c) Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases. The amendments apply for annual reporting periods beginning on or after January 1, 2023. For leases, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented. Coast Capital is currently assessing the impact of adoption.

5. Interest Bearing Deposits with Financial Institutions

		As at Dec 31
	2022	2021
Non-statutory deposits with Central 1, classified as FVOCI	151,395	45,000

6. Financial Investments

						As at Dec 31
	Term to Maturity				2022	2021
	Under 1 year	1 to 5 years	Over 5 years	No specific maturity	Total	Total
Debt Securities Measured at FVOCI						
Corporate, provincial, and municipal bonds	550,686	671,415	–	–	1,222,101	1,436,532
Mortgage backed securities	91,155	446,143	–	–	537,298	670,320
Reverse repurchase agreements	116,501	–	–	–	116,501	288,569
Bankers' acceptances	–	–	–	–	–	426,412
Treasury bills	1,369,923	–	–	–	1,369,923	–
Investment funds	–	–	–	9,004	9,004	16,449
Equity Securities Measured at FVOCI						
Equity[1]	–	–	–	2,285	2,285	3,558
Total financial investments	2,128,265	1,117,558	–	11,289	3,257,112	2,841,840

(1) Comprised of 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				As at Dec 31, 2022
	Under 1 year	1 to 5 years	Over 5 years	No specific maturity	Total
Residential mortgages	978,316	10,392,643	44,019	829,829	12,244,807
Personal loans	16,287	181,577	73,882	148,152	419,898
Commercial mortgages and loans	1,910,857	2,681,501	108,546	88,450	4,789,354
Equipment financing	53,835	659,176	101,518	–	814,529
Total loans	2,959,295	13,914,897	327,965	1,066,431	18,268,588
Allowance for loan losses					(57,436)
Total loans net of allowances					18,211,152

	Term to Maturity				As at Dec 31, 2021
	Under 1 year	1 to 5 years	Over 5 years	No specific maturity	Total
Residential mortgages	1,498,779	9,827,430	34,992	839,682	12,200,883
Personal loans	20,118	198,502	57,279	138,525	414,424
Commercial mortgages and loans	1,728,295	2,672,576	141,850	85,801	4,628,522
Equipment financing	38,962	663,073	62,805	–	764,840
Total loans	3,286,154	13,361,581	296,926	1,064,008	18,008,669
Allowance for loan losses					(57,865)
Total loans net of allowances					17,950,804

b) Credit Risk Exposure from Loans

The following tables set out our credit risk exposure for loans as at December 31, 2022, and December 31, 2021. During the year management transitioned to a new risk rating methodology for the commercial portfolio.

				As at Dec 31, 2022
	Stage 1	Stage 2	Stage 3	Total
Residential Mortgages				
Good	8,986,808	96,604	–	9,083,412
Satisfactory	2,457,506	304,941	–	2,762,447
Below satisfactory	342,781	48,899	–	391,680
Not rated	215	1,127	–	1,342
Impaired	–	–	5,926	5,926
Total residential mortgages	11,787,310	451,571	5,926	12,244,807
Allowance for expected credit losses	(4,239)	(2,314)	(308)	(6,861)
Residential mortgages less allowance	11,783,071	449,257	5,618	12,237,946

7. Loans and Allowance for Credit Losses (Continued)

				As at
				Dec 31, 2022
	Stage 1	Stage 2	Stage 3	Total
Personal Loans				
Good	75,100	956	–	76,056
Satisfactory	325,339	8,008	–	333,347
Below satisfactory	5,584	3,397	–	8,981
Not rated	84	368	–	452
Impaired	–	–	1,062	1,062
Total personal loans	406,107	12,729	1,062	419,898
Allowance for expected credit losses	(3,396)	(4,649)	(239)	(8,284)
Personal loans less allowance	402,711	8,080	823	411,614
Commercial Mortgages and Loans				
Excellent	352,168	1,668	–	353,836
Good	3,439,201	74,019	–	3,513,220
Satisfactory	751,052	132,218	–	883,270
Below satisfactory	742	836	–	1,578
Not rated	37,043	14	–	37,057
Impaired	–	–	393	393
Total commercial mortgages and loans	4,580,206	208,755	393	4,789,354
Allowance for expected credit losses	(27,098)	(9,223)	–	(36,321)
Commercial mortgages and loans less allowance	4,553,108	199,532	393	4,753,033
Equipment Financing				
Satisfactory	798,162	11,720	–	809,882
Impaired	–	–	4,647	4,647
Total equipment financing	798,162	11,720	4,647	814,529
Allowance for expected credit losses	(5,418)	(174)	(378)	(5,970)
Equipment financing less allowance	792,744	11,546	4,269	808,559
Total loans less allowance	17,531,634	668,415	11,103	18,211,152

Notes to the Consolidated Financial Statements

7. Loans and Allowance for Credit Losses (Continued)

				As at
				Dec 31, 2021
	Stage 1	Stage 2	Stage 3	Total
Residential Mortgages				
Good	8,921,184	19,316	–	8,940,500
Satisfactory	2,765,381	72,932	–	2,838,313
Below satisfactory	383,836	32,806	–	416,642
Not rated	1,512	768	–	2,280
Impaired	–	–	3,148	3,148
Total residential mortgages	12,071,913	125,822	3,148	12,200,883
Allowance for expected credit losses	(2,059)	(281)	(165)	(2,505)
Residential mortgages less allowance	12,069,854	125,541	2,983	12,198,378
Personal Loans				
Good	73,366	298	–	73,664
Satisfactory	322,853	9,157	–	332,010
Below satisfactory	3,666	4,141	–	7,807
Not rated	227	360	–	587
Impaired	–	–	356	356
Total personal loans	400,112	13,956	356	414,424
Allowance for expected credit losses	(5,075)	(4,814)	(206)	(10,095)
Personal loans less allowance	395,037	9,142	150	404,329
Commercial Mortgages and Loans				
Good	1,744,215	2,576	–	1,746,791
Satisfactory	2,715,966	103,859	–	2,819,825
Below satisfactory	960	47,500	–	48,460
Not rated	13,443	3	–	13,446
Impaired	–	–	–	–
Total commercial mortgages and loans	4,474,584	153,938	–	4,628,522
Allowance for expected credit losses	(30,530)	(7,802)	–	(38,332)
Commercial mortgages and loans less allowance	4,444,054	146,136	–	4,590,190
Equipment Financing				
Satisfactory	748,861	12,775	–	761,636
Impaired	–	–	3,204	3,204
Total equipment financing	748,861	12,775	3,204	764,840
Allowance for expected credit losses	(6,251)	(149)	(533)	(6,933)
Equipment financing less allowance	742,610	12,626	2,671	757,907
Total loans less allowance	17,651,555	293,445	5,804	17,950,804

7. Loans and Allowance for Credit Losses (Continued)

c) Allowance for Expected Credit Losses

The following tables set out the movement in our allowance for ECL for the twelve months ended December 31, 2022, and December 31, 2021. Any changes from an ongoing ECL model upgrade project are captured within Net remeasurement of loss allowance.

The provision for credit losses in the Consolidated Statement of Income includes recoveries for $1,259 for the year ended December 31, 2022 (December 31, 2021 – $1,260).

				2022
	Stage 1	Stage 2	Stage 3	Total
Residential Mortgages				
Balance as at Jan 1, 2022	2,059	281	165	2,505
Loan originations	2,605	–	–	2,605
Transfers to (from)				
Stage 1	103	(95)	(8)	–
Stage 2	(1,324)	1,324	–	–
Stage 3	(10)	(5)	15	–
Net remeasurement of loss allowance	1,023	834	164	2,021
Derecognitions and maturities	(217)	(25)	(27)	(269)
Write-offs	–	–	(1)	(1)
Balance as at Dec 31, 2022	4,239	2,314	308	6,861
Personal Loans				
Balance as at Jan 1, 2022	5,075	4,814	206	10,095
Loan originations	1,037	–	–	1,037
Transfers to (from)				
Stage 1	2,526	(2,526)	–	–
Stage 2	(750)	750	–	–
Stage 3	(81)	(198)	279	–
Net remeasurement of loss allowance	(4,002)	2,104	2,386	488
Derecognitions and maturities	(409)	(295)	(69)	(773)
Write-offs	–	–	(2,563)	(2,563)
Balance as at Dec 31, 2022	3,396	4,649	239	8,284
Commercial Mortgages and Loans				
Balance as at Jan 1, 2022	30,530	7,802	–	38,332
Loan originations	8,039	–	–	8,039
Transfers to (from)				
Stage 1	4,909	(4,909)	–	–
Stage 2	(2,073)	2,073	–	–
Stage 3	(2)	(30)	32	–
Net remeasurement of loss allowance	(8,916)	4,798	(31)	(4,149)
Derecognitions and maturities	(5,389)	(511)	–	(5,900)
Write-offs	–	–	(1)	(1)
Balance as at Dec 31, 2022	27,098	9,223	–	36,321

Notes to the Consolidated Financial Statements

7. Loans and Allowance for Credit Losses (Continued)

				2022
	Stage 1	Stage 2	Stage 3	Total
Equipment Financing				
Balance as at Jan 1, 2022	6,251	149	533	6,933
Loan originations	3,128	–	–	3,128
Transfers to (from)				
Stage 1	97	(55)	(42)	–
Stage 2	(179)	179	–	–
Stage 3	(264)	(4)	268	–
Net remeasurement of loss allowance	(2,775)	(12)	1,367	(1,420)
Derecognitions and maturities	(840)	(83)	(491)	(1,414)
Write-offs	–	–	(1,257)	(1,257)
Balance as at Dec 31, 2022	5,418	174	378	5,970
Total allowance	40,151	16,360	925	57,436

				2021
	Stage 1	Stage 2	Stage 3	Total
Residential Mortgages				
Balance as at Jan 1, 2021	1,666	436	158	2,260
Loan originations	839	–	–	839
Transfers to (from)				
Stage 1	272	(269)	(3)	–
Stage 2	(58)	58	–	–
Stage 3	–	–	–	–
Net remeasurement of loss allowance	(348)	144	87	(117)
Derecognitions and maturities	(312)	(88)	(52)	(452)
Write-offs	–	–	(25)	(25)
Balance as at Dec 31, 2021	2,059	281	165	2,505
Personal Loans				
Balance as at Jan 1, 2021	14,634	3,717	203	18,554
Loan originations	1,523	–	–	1,523
Transfers to (from)				
Stage 1	1,808	(1,808)	–	–
Stage 2	(861)	864	(3)	–
Stage 3	(35)	(122)	157	–
Net remeasurement of loss allowance	(11,004)	3,010	1,400	(6,594)
Derecognitions and maturities	(990)	(847)	(17)	(1,854)
Write-offs	–	–	(1,534)	(1,534)
Balance as at Dec 31, 2021	5,075	4,814	206	10,095

7. Loans and Allowance for Credit Losses (Continued)

	Stage 1	Stage 2	Stage 3	2021 Total
Commercial Mortgages and Loans				
Balance as at Jan 1, 2021	28,085	2,974	–	31,059
Loan originations	9,966	–	–	9,966
Transfers to (from)				
Stage 1	755	(755)	–	–
Stage 2	(929)	929	–	–
Stage 3	–	–	–	–
Net remeasurement of loss allowance	(352)	5,229	–	4,877
Derecognitions and maturities	(6,995)	(575)	–	(7,570)
Balance as at Dec 31, 2021	30,530	7,802	–	38,332
Equipment Financing				
Balance as at Jan 1, 2021	7,235	56	207	7,498
Loan originations	2,530	–	–	2,530
Transfers to (from)				
Stage 1	22	(17)	(5)	–
Stage 2	(164)	164	–	–
Stage 3	(180)	(26)	206	–
Net remeasurement of loss allowance	(2,566)	(15)	3,166	585
Derecognitions and maturities	(626)	(13)	(5)	(644)
Write-offs	–	–	(3,036)	(3,036)
Balance as at Dec 31, 2021	6,251	149	533	6,933
Total allowance	43,915	13,046	904	57,865

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 forecasts 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			
	As at Dec 31, 2022		As at Dec 31, 2021	
Driver	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Canada real GDP[1]	0.37%	1.07%	3.70%	3.00%
BC unemployment rate[2]	6.00%	5.93%	5.45%	5.15%
BC nominal GDP[3]	–	–	5.70%	4.00%
Housing price index % change[1]	(9.70%)	2.10%	2.00%	0.50%

7. Loans and Allowance for Credit Losses (Continued)

	Alternative scenario: Optimistic			
	As at Dec 31, 2022		As at Dec 31, 2021	
Driver	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Canada real GDP[1]	0.87%	1.57%	4.70%	4.00%
BC unemployment rate[2]	5.50%	5.43%	4.95%	4.65%
BC nominal GDP[3]	–	–	6.70%	5.00%
Housing price index % change[1]	(4.70%)	7.10%	7.00%	5.50%

	Alternative scenario: Pessimistic			
	As at Dec 31, 2022		As at Dec 31, 2021	
Driver	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Canada real GDP[1]	(0.43%)	0.27%	1.70%	1.00%
BC unemployment rate[2]	7.20%	7.13%	6.65%	6.35%
BC nominal GDP[3]	–	–	3.70%	2.00%
Housing price index % change[1]	(12.00%)	(5.00%)	(5.00%)	(6.50%)

(1) Calculated as annual % change.
(2) Rate at the end of the forecast period.
(3) BC nominal GDP is no longer an input to 2022 ECL models.

The calculation of ECL is sensitive to changes in economic forecasts and the probability weighting of each scenario. Probability weighting of economic scenarios are not equally weighted and may 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.

Inflation and consequently tighter monetary policies by the Bank of Canada (BoC) has seen deterioration in forward looking economic forecasts including the BC housing price index, unemployment rates and the Canadian GDP growth rate. Housing market activity has started to cool down, especially in BC and Ontario.

Looking forward, with simultaneous shocks from elevated inflation rates, increasing interest rates (and debt servicing costs) and reversal of households' wealth, through the decreasing real estate values and weaker financial markets, there is risk a recession may occur. With this view, the scenario weights utilized in the ECL models are 40% for the Base scenario, 40% for the Pessimistic scenario and 20% for the Optimistic scenario.

The reported ECL for financial assets in Stage 1 and Stage 2 solely under the Base case macroeconomic conditions, with other assumptions held constant, including the application of experienced credit adjustment, would be $51,810 (December 31, 2021 – $54,537), compared to reported allowance for performing loans of $56,511 (December 31, 2021 – $56,961).

The reported ECL for financial assets in Stage 1 and Stage 2 solely under the Optimistic case macroeconomic conditions, with other assumptions held constant, including the application of experienced credit adjustment, would be $44,571 (December 31, 2021 – $44,939), compared to reported allowance for performing loans of $56,511 (December 31, 2021 – $56,961).

7. Loans and Allowance for Credit Losses (Continued)

The reported ECL for financial assets in Stage 1 and Stage 2 solely under the Pessimistic case macroeconomic conditions, with other assumptions held constant, including the application of experienced credit adjustment, would be $67,183 (December 31, 2021 – $76,248), compared to reported allowance for performing loans of $56,511 (December 31, 2021 – $56,961).

The current environment is subject to change, and to the extent that certain effects of the forward looking economic forecasts are not fully incorporated directly into the model calculations, temporary quantitative and qualitative overlay adjustments have been applied to the determination of ECL at the end of the reporting period.

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

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, 2022, and December 31, 2021.

			As at
			Dec 31, 2022
	31 to 60 days	61 to 90 days	Total
Residential mortgage	14,402	1,982	16,384
Retail loan	2,849	1,027	3,876
Commercial	5,202	–	5,202
Equipment finance	8,257	3,462	11,719
Total	30,710	6,471	37,181

			As at
			Dec 31, 2021
	31 to 60 days	61 to 90 days	Total
Residential mortgage	2,657	1,641	4,298
Retail loan	4,169	1,131	5,300
Commercial	3,432	–	3,432
Equipment finance	10,323	2,452	12,775
Total	20,581	5,224	25,805

(1) Loans past due 30 days or less are not presented as they are not administratively considered past due.

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 the Risk Information Specific to Our Financial Reporting section of the 2022 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, 2021	57	1,581	73,121	100,493	39,942	215,194
Additions during the year	–	–	1,617	4,942	611	7,170
Disposals during the year	–	–	(445)	(369)	(827)	(1,641)
Balance at Dec 31, 2021	57	1,581	74,293	105,066	39,726	220,723
Additions during the year	–	–	2,492	6,675	537	9,704
Disposals during the year	–	(1,405)	(3,528)	(5,543)	(3,196)	(13,672)
Balance at Dec 31, 2022	57	176	73,257	106,198	37,067	216,755

Accumulated depreciation	Land	Buildings	Furniture and equipment	Right-of-use assets[1]	Leasehold improvements	Total
Balance at Jan 1, 2021	–	1,296	59,440	27,861	30,929	119,526
Depreciation during the year	–	232	5,336	14,389	1,990	21,947
Disposals during the year	–	–	(421)	(369)	(717)	(1,507)
Balance at Dec 31, 2021	–	1,528	64,355	41,881	32,202	139,966
Depreciation during the year	–	5	4,773	13,531	1,555	19,864
Disposals during the year	–	(1,405)	(3,280)	(750)	(3,113)	(8,548)
Balance at Dec 31, 2022	–	128	65,848	54,662	30,644	151,282
Net book value, at Dec 31, 2021	57	53	9,938	63,185	7,524	80,757
Net book value, at Dec 31, 2022	57	48	7,409	51,536	6,423	65,473

(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, 2021	165,536	15,205	8,935	189,676
Additions during the year	13,860	–	–	13,860
Disposals during the year	(1,174)	–	–	(1,174)
Balance at Dec 31, 2021	178,222	15,205	8,935	202,362
Additions during the period	14,218	–	–	14,218
Disposals during the period	(32)	–	–	(32)
Balance at Dec 31, 2022	192,408	15,205	8,935	216,548

10. Goodwill and Intangible Assets (Continued)

Accumulated amortization	Software	Goodwill	Customer lists, trademarks and other intangibles	Total
Balance at Jan 1, 2021	70,866	–	6,308	77,174
Amortization during the year	12,871	–	800	13,671
Disposals during the year	(86)	–	–	(86)
Balance at Dec 31, 2021	83,651	–	7,108	90,759
Amortization during the period	16,261	–	800	17,061
Disposals during the period	(29)	–	–	(29)
Balance at Dec 31, 2022	99,883	–	7,908	107,791
Net book value at Dec 31, 2021	94,571	15,205	1,827	111,603
Net book value at Dec 31, 2022	92,525	15,205	1,027	108,757

11. Other Assets

		As at Dec 31
	2022	2021
Accrued interest receivable	45,826	31,455
Prepaid expenses	35,021	31,632
Accounts receivable	11,734	7,181
Retained interest in commercial loans sold	22,542	17,037
Income taxes receivable	11,828	8,332
Other	22,850	17,809
Total other assets	149,801	113,446

12. Deposits

				As at Dec 31, 2022
	Core retail and commercial members	External deposit agents	Institutional depositors	Total
Demand[1]	8,444,276	18,602	–	8,462,878
Fixed term redeemable[2]	2,516,951	5,502	277,875	2,800,328
Fixed term non-redeemable[3]	3,371,616	2,521,134	1,414,183	7,306,933
Total deposits	14,332,843	2,545,238	1,692,058	18,570,139

12. Deposits (Continued)

			As at Dec 31, 2021	
	Core retail and commercial members	External deposit agents	Institutional depositors	Total
Demand[(1)]	9,270,192	22,078	–	9,292,270
Fixed term redeemable[(2)]	2,157,937	15,924	136,750	2,310,611
Fixed term non-redeemable[(3)]	2,728,661	2,209,518	1,577,205	6,515,384
Total deposits	14,156,790	2,247,520	1,713,955	18,118,265

(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.

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

		As at Dec 31
	2022	2021
Under 1 year	7,128,825	7,261,873
1 to 5 years	2,974,219	1,556,444
Over 5 years	4,217	7,678
Total term deposits	10,107,261	8,825,995

13. Borrowings

		As at Dec 31
	2022	2021
Commercial paper	267,494	229,845
Term loans	200,000	200,000
Floating rate notes	199,778	399,316
Fixed rate notes	398,995	–
Total borrowings	1,066,267	829,161

Commercial Paper

Commercial paper pays a fixed weighted average interest rate of 4.49% (2021 – 0.36%) and matures from Jan 3, 2023 to Mar 30, 2023 (2021: from Jan 4, 2022 to Mar 30, 2022).

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, 2022, was 5.14% (2021 – 1.06%). The term loan matures on July 29, 2026.

13. Borrowings (Continued)

Floating Rate Note

The floating rate note issued on June 9, 2021 with principal amount of $200M, pays a floating interest rate of three-month CDOR plus 42 basis points, which was 0.92% on December 31, 2021 and matured on Dec 9, 2022.

The floating rate note issued on October 27, 2021 with principal amount of $200M, pays a floating interest rate of three-month CDOR plus 33 basis points, which was 4.88% (2021 – 0.80%) on December 31, 2022 and matures on October 27, 2023.

Fixed Rate Note

The fixed rate note issued on April 21, 2022 with principal amount of $200M, pays a fixed interest rate of 4.26% and matures on April 21, 2025.

The fixed rate note issued on November 25, 2022 with principal amount of $200M, pays a fixed interest rate of 6.13% and matures on November 25, 2024.

14. Secured Borrowings

The weighted average interest rate on secured borrowings was 1.73% for the twelve months ended December 31, 2022 (1.63% for the year ended December 31, 2021).

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.

		As at Dec 31
	2022	2021
Secured borrowings	445,110	644,993
Residential mortgages sold (included in Loans)	330,401	357,019
Financial Investment – Re-investment assets provided as collateral	116,501	288,569
Total collateral	446,902	645,588

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
2023	18,501	25,349
2024	112,759	152,491
2025	114,105	152,953
2026	56,187	75,694
2027	28,670	38,623
2028	–	–
2029	179	–
Total	330,401	445,110

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, 2022, Coast Capital has pledged residential mortgages and other securities in the amount of $446,902 (December 31, 2021 – $645,588) in relation to its secured borrowings, $1,253,784 (December 31, 2021 – $978,989) in relation to other borrowings, and $1,526 (December 31, 2021 – nil) in relation to its derivative position within a counterparty.

16. Subordinated Debentures

		As at Dec 31
	2022	2021
Series 1 issued May 3, 2018	198,268	202,690
Series 2 issued Oct 29, 2018	99,660	99,552
Total subordinated debt	297,928	302,242

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. Refer to Note 29 for further information.

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

		As at Dec 31
	2022	2021
Accounts payable and accruals	155,501	167,570
Accrued interest payable	124,010	60,974
Lease liabilities	60,108	72,767
Income taxes payable	141	10,123
Deferred tax liability	1,991	188
Other	13,364	8,172
Total	355,115	319,794

18. Leases

a) Right-of-Use Assets

The nature of our ROU assets is comprised of leased premises that house the majority of Coast Capital's branch premises, our head office and certain of our dedicated computer servers. We sublease certain of our leased premises. Our income from subleases was $1,527 for the year ended December 31, 2022 ($1,728 for the year ended December 31, 2021). 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:

		As at Dec 31
	2022	2021
Balance at the beginning of year	72,767	82,159
Additions	6,675	6,301
Lease payments	(16,565)	(17,692)
Reassessment	(6,089)	(1,770)
Interest expense	3,320	3,769
Balance at the end year	60,108	72,767

The weighted average incremental borrowing rate applied to determine the balance of lease liabilities as at December 31, 2022, was 5.00% (4.89% – 2021).

The contractual maturity of future lease payments are as follows:

		As at Dec 31
	2022	2021
1 year or less	15,019	15,777
1 to 5 years	40,009	45,881
More than 5 years	14,706	24,267
Total expected cash flow	69,734	85,925

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 five-year horizon.

19. Capital Management (Continued)

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.

b) Regulatory Capital

Coast Capital remained fully compliant with the applicable regulatory capital requirements and the corresponding Board and management limits as at December 31, 2022.

Coast Capital manages its capital in accordance with its internal policy as reviewed and approved by its Board on an annual basis, with review, 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's 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 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.

19. Capital Management (Continued)

In response to the COVID-19 pandemic and as part of its support for deposit-taking institutions, OSFI continues to provide relief measures to provide operational capacity for such institutions to respond to and support the immediate financial stability priorities of the Canadian government. During the current year, some of these relief measures are being scaled back or coming to an end as explained 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. As at December 31, 2022, the scaling factor applied is 25% (2021: 50%).
- Leverage ratio transitional relief, where sovereign securities that qualify as High Quality Liquid Assets (HQLA) under the Liquidity Adequacy Requirements guidelines were allowed to be excluded from this exposure measure. This exemption was available until December 31, 2021; no relief has been applied for the year ended December 31, 2022.

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 Morningstar. To assign risk weights to credit exposures not rated by external credit agencies, we use OSFI's prescribed methodology under the Standardized Approach.

Coast Capital's 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 not been applied:

				As at
	2022		2021	
	Without transitional arrangements	With transitional arrangements	Without transitional arrangements	With transitional arrangements
Regulatory Capital				
Common equity tier 1 capital[1]	1,372,635	1,372,635	1,351,760	1,351,760
Regulatory adjustments	(111,941)	(108,849)	(114,472)	(108,108)
Net common equity tier 1 capital	1,260,694	1,263,786	1,237,288	1,243,652
Net tier 1 capital	1,273,785	1,276,877	1,252,997	1,259,361
Net tier 2 capital	206,511	203,419	236,960	230,596
Total capital	1,480,296	1,480,296	1,489,957	1,489,957
Risk-Weighted Assets Used in Capital Ratios	10,773,476	10,773,476	10,641,331	10,641,331
Actual Regulatory Capital Ratios				
Common equity tier 1 capital ratio	11.7%	11.7%	11.6%	11.7%
Tier 1 capital ratio	11.8%	11.9%	11.8%	11.8%
Total capital ratio	13.7%	13.7%	14.0%	14.0%
Leverage ratio	5.7%	5.7%	5.8%	5.8%
Regulatory Capital Requirements				
Minimum common equity tier 1 capital ratio	7.0%	7.0%	7.0%	7.0%
Minimum tier 1 capital ratio	8.5%	8.5%	8.5%	8.5%
Minimum total capital ratio	10.5%	10.5%	10.5%	10.5%
Minimum leverage ratio	3.0%	3.0%	3.0%	3.0%

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

20. Share Capital

	As at Dec 31	
	2022	2021
Class A Shares		
Balance at the beginning of period	2,823	2,816
Shares issued	623	491
Shares redeemed	(551)	(484)
Balance at the end of period	2,895	2,823
Class B Shares		
Balance at the beginning of period	21,507	23,074
Shares redeemed	(1,151)	(1,567)
Balance at the end of period	20,356	21,507
Total share capital	23,251	24,330

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 dividend target for Class B shares is equal to Coast Capital's average posted rate of its five-year term deposits and was 3.64% for the twelve months ended December 31, 2022 (1.45% for the twelve months ended December 31, 2021).

21. Net Interest Income

	For the year ended Dec 31	
	2022	2021
Interest Income		
Financial instruments measured at amortized cost	669,900	546,103
Financial instruments measured at FVOCI	52,321	36,897
Derivatives	148	5,559
Total interest income	722,369	588,559
Interest Expense		
Deposits	244,061	147,035
Borrowings	35,008	12,151
Secured borrowings	9,414	10,981
Subordinated debt	15,531	15,691
Total interest expense	304,014	185,858
Net interest income	418,355	402,701

22. Fees and Commission Income

	For the year ended Dec 31	
	2022	2021
Wealth management investment commissions	45,304	45,472
Other fees and commissions	28,957	28,771
Credit card commissions	9,923	9,287
Insurance commissions	7,523	5,234
Foreign exchange	5,076	4,708
Total fees and commission income	96,783	93,472

23. Salaries and Employee Benefits

	For the year ended Dec 31	
	2022	2021
Salaries	185,811	175,650
Benefits	24,961	21,626
Post retirement costs	12,311	11,973
Termination benefits	7,121	1,742
Other	59	41
Total salaries and employee benefits	230,263	211,032

24. Administration Expenses

	For the year ended Dec 31	
	2022	2021
Consultants	19,710	19,279
Professional services	6,337	6,893
Marketing	9,974	12,020
ATM/POS operations	8,323	8,313
Stationery, statements, telephone, and postage	4,543	3,615
Chequing service charges	4,556	4,642
Loan processing	3,245	4,200
Travel, meals, and entertainment	2,854	1,685
Bonding and other insurance	2,737	1,893
Training and recruitment	1,195	1,631
Courier	380	352
Other	18,099	18,708
Total administration expenses	81,953	83,231

25. Provision for Income Taxes

	2022	2021
Current Income Taxes		
Current year	17,077	34,143
	17,077	34,143
Deferred Income Taxes		
Origination and reversal of temporary differences	7,286	(10,794)
Change in estimates of tax rate	(378)	(1,176)
	6,908	(11,970)
Total income taxes	23,985	22,173

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 27% (2021 – 27%) to income before income taxes. The reasons for the differences are as follows:

	2022 Amount	2022 % of pre-tax income	2021 Amount	2021 % of pre-tax income
Combined federal and provincial statutory income taxes	31,850	27.0%	32,632	27.0%
Reduction applicable to credit unions	(8,828)	(7.5%)	(8,789)	(7.3%)
Change in estimate of tax rates and reversals	(365)	(0.3%)	(965)	(0.8%)
Other	1,328	1.1%	(705)	(0.5%)
Effective income tax rate	23,985	20.3%	22,173	18.4%

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

	2022	2021
Allowance for credit losses	13,943	12,205
Loss carry-forwards	3,184	2,869
Restructuring costs	1,226	485
Employee future benefits	914	877
Capital and intangible assets	4,354	11,665
Deferred revenue/prepaid expense	(6,344)	(3,915)
Total deferred tax asset, net of deferred tax liabilities	17,277	24,186

As at December 31, 2022 and 2021, Coast Capital has considered contingent tax liabilities and uncertain tax treatments, as well as interest and penalties, and determined that no amount needs be accrued in respect of such amounts.

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:

	2022	2021
Lines of credit, unfunded	3,102,912	2,995,559
Letters of credit	89,492	78,908

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, 2022, $20,391 (December 31, 2021 – $15,618) 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 Balance Sheet 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.

28. Interest Rate Sensitivity Position (Continued)

	Floating rate	Fixed rate					Non-interest sensitive	2022
		Under 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years		
Assets								
Cash and investments	–	893,362	635,375	850,875	994,209	–	199,582	3,573,403
Loans	7,549,046	463,386	570,281	1,122,520	8,377,720	169,581	(41,381)	18,211,153
Other assets							345,958	345,958
	7,549,046	1,356,748	1,205,656	1,973,395	9,371,929	169,581	504,159	22,130,514
Liabilities and Equity								
Deposits	–	5,976,042	1,474,987	4,969,963	6,145,008	4,139	–	18,570,139
Borrowings	400,000	270,500			400,000		(4,233)	1,066,267
Secured borrowings				13,959	311,460		119,691	445,110
Subordinated debt			197,185	–	100,000	–	743	297,928
Other liabilities							358,080	358,080
Equity							1,392,990	1,392,990
	400,000	6,246,542	1,672,172	4,983,922	6,956,468	4,139	1,867,271	22,130,514
Balance sheet mismatch	7,149,046	(4,889,794)	(466,516)	(3,010,527)	2,415,461	165,442	(1,363,112)	–
Derivatives	–	(400,000)	400,000	–	–	–	–	–
Net mismatch	7,149,046	(5,289,794)	(66,516)	(3,010,527)	2,415,461	165,442	(1,363,112)	–

28. Interest Rate Sensitivity Position (Continued)

	Floating rate	Fixed rate					Non-interest sensitive	2021
		Under 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years		
Assets								
Cash and investments	–	790,993	134,110	63,619	1,878,238	–	434,431	3,301,391
Loans	6,898,110	309,212	456,074	1,060,197	8,939,407	288,564	(760)	17,950,804
Other assets							335,585	335,585
	6,898,110	1,100,205	590,184	1,123,816	10,817,645	288,564	769,256	21,587,780
Liabilities and Equity								
Deposits	6,136,198	2,354,835	1,208,630	3,703,712	1,556,444	7,678	3,150,768	18,118,265
Borrowings	600,000	229,845					(684)	829,161
Secured borrowings			199,192		451,400		(5,599)	644,993
Subordinated debt						300,000	2,242	302,242
Other liabilities							319,855	319,855
Equity							1,373,264	1,373,264
	6,736,198	2,584,680	1,407,822	3,703,712	2,007,844	307,678	4,839,846	21,587,780
Balance sheet mismatch	161,912	(1,484,475)	(817,638)	(2,579,896)	8,809,801	(19,114)	(4,070,590)	–
Derivatives	–	(200,000)	–	–	200,000	–	–	–
Net mismatch	161,912	(1,684,475)	(817,638)	(2,579,896)	9,009,801	(19,114)	(4,070,590)	–

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. During the year, Coast Capital updated the adjustments made at a more granular level to include assumptions relating to early repayment of loans and customer preferences for demand, notice and redeemable deposits. Based on these preferences, deposits previously reported as floating rate behaved similar to fixed rate deposits with maturities 3 months or less.

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 1-3 years	Over 3-5 Years	2022 Total	2022 Fair value
Interest Rate Swaps					
Pay floating, receive fixed	400,000	–	–	400,000	(2,965)
Total interest rate swaps	400,000	–	–	400,000	(2,965)
Forward Contracts	26,515	–	–	26,515	239
Equity Options	3,650	35,544	8,685	47,879	2,420
Total derivative contracts	430,165	35,544	8,685	474,394	(306)
Derivative assets					2,659
Derivative liabilities					(2,965)

	Notional amounts Maturities of derivatives				
	Up to 12 months	Over 1-3 years	Over 3-5 Years	2021 Total	2021 Fair value
Interest Rate Swaps					
Pay floating, receive fixed	–	200,000	–	200,000	3,368
Total interest rate swaps	–	200,000	–	200,000	3,368
Forward Contracts	6,791	–	–	6,791	(61)
Equity Options	1,564	20,193	14,140	35,897	2,038
Total derivative contracts	8,355	220,193	14,140	242,688	5,345
Derivative assets					5,405
Derivative liabilities					(61)

29. Derivative Instruments (Continued)

- 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, 2022, and December 31, 2021, 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.

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 loss of $186 (2021 – nil) 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.

29. Derivative Instruments (Continued)

The following tables indicate the periods in which the hedged cash flows associated with cash flow hedges are expected to occur and affect consolidated statement of income:

				2022
	Expected cash flow	Less than 1 year	1 to 5 years	More than 5 years
Receive fixed	2,643	2,643	–	–
Pay floating	4,633	4,633	–	–
Net cash inflow (outflow)	(1,990)	(1,990)	–	–

There are no cash flow hedges outstanding as at December 31, 2021.

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 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.

				2022
	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	(1,567)	(1,567)	–
Hedged item – subordinated debt	–	–	1,612	198,268
Total	200,000	(1,567)	45	198,268

(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.

29. Derivative Instruments (Continued)

				2021
	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	3,368	3,368	–
Hedged item – subordinated debt	–	–	(3,089)	202,690
Total	200,000	3,368	279	202,690

(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.

				2022
	Notional	Replacement cost	Credit risk equivalent	Risk-weighted asset
Interest rate swaps	400,000	–	20	4
Forward contracts	26,515	387	567	113
Equity options	47,879	2,420	11,614	2,323
Total	474,394	2,807	12,201	2,440

				2021
	Notional	Replacement cost	Credit risk equivalent	Risk-weighted asset
Interest rate swaps	200,000	3,368	5,483	1,097
Equity options	35,897	2,037	10,018	2,004
Total	235,897	5,405	15,501	3,101

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 twelve months ended December 31, 2022.

(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 and cash resources, 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.

30. Fair Value of Financial Instruments (Continued)

The undernoted 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.

					As at
					Dec 31, 2022
	Carrying value	Fair value	Level 1	Level 2	Level 3
Loans					
Residential mortgages	12,244,807	11,828,753	–	–	11,828,753
Personal loans	419,898	420,966	–	–	420,966
Commercial mortgages and loans and equipment financing	5,603,883	5,420,333	–	–	5,420,333
	18,268,588	17,670,052	–	–	17,670,052
Deposits	18,570,139	18,563,385	–	18,563,385	–
Secured borrowings	445,110	433,700	–	433,700	–
Borrowings	1,066,267	1,066,267	–	1,066,267	–
Subordinated debentures	297,928	295,193	–	295,193	–
	20,379,444	20,358,545	–	20,358,545	–

					As at
					Dec 31, 2021
	Carrying value	Fair value	Level 1	Level 2	Level 3
Loans					
Residential mortgages	12,200,883	12,091,538	–	–	12,091,538
Personal loans	414,424	414,839	–	–	414,839
Commercial mortgages and loans and equipment financing	5,393,362	5,379,894	–	–	5,379,894
	18,008,669	17,886,271	–	–	17,886,271
Deposits	18,118,265	18,158,718	–	18,158,718	–
Secured borrowings	644,993	647,860	–	647,860	–
Borrowings	829,161	829,491	–	829,491	–
Subordinated debentures	302,242	311,903	–	311,903	–
	19,894,661	19,947,972	–	19,947,972	–

(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.

30. Fair Value of Financial Instruments (Continued)

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

				Dec 31, 2022
	Level 1	Level 2	Level 3	Total
Interest bearing deposits with financial institutions classified FVOCI	–	151,395	–	151,395
Financial investments				
Debt securities classified FVOCI	3,138,326	116,501	–	3,254,827
Equity securities designated FVOCI	–	–	2,285	2,285
Derivative assets classified FVTPL	2,659	–	–	2,659
Total financial assets	3,140,985	267,896	2,285	3,411,166
Derivative liabilities classified FVTPL	–	2,965	–	2,965
Total financial liabilities	–	2,965	–	2,965

				Dec 31, 2021
	Level 1	Level 2	Level 3	Total
Interest bearing deposits with financial institutions classified FVOCI	–	45,000	–	45,000
Financial investments				
Debt securities classified FVOCI	2,549,713	288,569	–	2,838,282
Equity securities designated FVOCI	–	–	3,558	3,558
Derivative assets classified FVTPL	2,037	3,368	–	5,405
Total financial assets	2,551,750	336,937	3,558	2,892,245
Derivative liabilities classified FVTPL	61	–	–	61
Total financial liabilities	61	–	–	61

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.

30. Fair Value of Financial Instruments (Continued)

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 twelve months ended December 31, 2022.

(c) Changes in Level 3 Fair Value Measurements

The following table reconciles the opening and closing totals:

	Equity securities designated FVOCI	Commercial loan designated FVTPL	Total
Balance as at Jan 1, 2021	3,558	12,803	16,361
Loan payments received during the year	–	(12,761)	(12,761)
Interest included in profit or loss during the year	–	129	129
Fair value adjustments during the year	–	(171)	(171)
Balance as at Dec 31, 2021	3,558	–	3,558
Sold during the period	(1,273)	–	(1,273)
Balance as at Dec 31, 2022	2,285	–	2,285

31. Classification of Financial Assets and Liabilities

					2022
	Classified FVOCI	Designated FVOCI	Classified FVTPL	Amortized Cost	Total
Financial Assets					
Cash and cash resources	–	–	–	164,897	164,897
Interest bearing deposits with financial institutions	151,395	–	–	–	151,395
Financial investments					
Debt securities	3,254,827	–	–	–	3,254,827
Equity securities	–	2,285	–	–	2,285
Loans	–	–	–	18,268,588	18,268,588
Derivative assets	–	–	2,659	–	2,659
Other assets	–	–	–	91,930	91,930
Total financial assets[(1)]	3,406,222	2,285	2,659	18,525,415	21,936,581
Financial Liabilities					
Deposits	–	–	–	18,570,139	18,570,139
Borrowings	–	–	–	1,066,267	1,066,267
Secured borrowings	–	–	–	445,110	445,110
Subordinated debentures	–	–	–	297,928	297,928
Derivative liabilities	–	–	2,965	–	2,965
Other liabilities	–	–	–	339,760	339,760
Total financial liabilities[(2)]	–	–	2,965	20,719,204	20,722,169

(1) The other assets balance excludes prepaid expenses and others.
(2) The other liabilities balance excludes deferred tax liability and other balance.

31. Classification of Financial Assets and Liabilities (Continued)

					2021
	Classified FVOCI	Designated FVOCI	Classified FVTPL	Amortized Cost	Total
Financial Assets					
Cash and cash resources	–	–	–	414,551	414,551
Interest bearing deposits with financial institutions	45,000	–	–	–	45,000
Financial investments					
Debt securities	2,838,282	–	–	–	2,838,282
Equity securities	–	3,558	–	–	3,558
Loans	–	–	–	18,008,669	18,008,669
Derivative assets	–	–	5,405	–	5,405
Other assets	–	–	–	64,005	64,005
Total financial assets	2,883,282	3,558	5,405	18,487,225	21,379,470
Financial Liabilities					
Deposits	–	–	–	18,118,265	18,118,265
Borrowings	–	–	–	829,161	829,161
Secured borrowings	–	–	–	644,993	644,993
Subordinated debentures	–	–	–	302,242	302,242
Derivative liabilities	–	–	61	–	61
Other liabilities	–	–	–	311,434	311,434
Total financial liabilities	–	–	61	20,206,095	20,206,156

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:

	2022	2021
Outstanding loans	4,606	5,424
Outstanding deposits	197	261

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 (2021 – 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 Legal, Regulatory & Corporate Affairs Officer; Chief People Officer; Chief Digital, Information & Technology Officer; and the Chief Strategy, Product & Marketing Officer.

32. Related-party Transactions (Continued)

	Compensation component			Compensation component		
	Fixed	Variable	2022	Fixed	Variable	2021
Short-term	4,037	2,627	6,664	3,778	2,144	5,922
Post-employment	634	–	634	523	–	523
Other long-term	–	2,368	2,368	–	1,254	1,254
Total employee benefits	4,671	4,995	9,666	4,301	3,398	7,699

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.

During the year, members of the Board, who are also considered key management personnel under IFRS, received remuneration of $813 (2021 – $550). 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, 2021, and it was determined that the overall Plan was 112% funded on a going concern basis. The next actuarial review is scheduled for the period ending December 31, 2024. Pension expense of $7,197 (2021 – $7,245) in respect of contributions paid into the Plan in 2022 has been charged to Salaries and employee benefits in the Consolidated Statement of Income. Contributions to the Plan in 2023 are expected to be $5,702.

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 $4,206 (2021 – $4,143) in respect of contributions paid into this Plan in 2022 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, 2022, and the next valuation will be completed as at December 31, 2025.

33. Pension Plan (Continued)

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, 2022.

	2022	2021
Benefit obligation at beginning of year	3,948	4,582
Current service costs	400	500
Interest costs	116	94
Benefit payments	(271)	(713)
Actuarial gain, due to:		
Experience adjustments	(287)	(345)
Changes in financial assumptions	(320)	(170)
Benefit obligation at end of year	3,586	3,948

Pension expense of $516 (2021 – $594) 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.

	2022	2021
Cumulative actuarial losses at beginning of year	(382)	(897)
Actuarial gains	607	515
Cumulative actuarial gains (losses) at end of year	225	(382)

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

	2022	2021
Discount rate	5.2%	2.9%
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, 2022, 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.

	2022	2021
Discount rate (1% decrease)	129	215
Trend rates (1% increase)	43	88

34. Membership

The following membership data is as at December 31, 2022, and is annexed in accordance with subsection 308 (3) of the *Bank Act*. As at December 31, 2022, Coast Capital is organized and carrying on business on a cooperative basis in accordance with subsection 12(1) of the *Bank Act*.

	2022	2021
Number of members	597,681	592,251
Percentage of members who are natural persons	91.3%	91.3%
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)	98.2%	97.3%

coastcapital