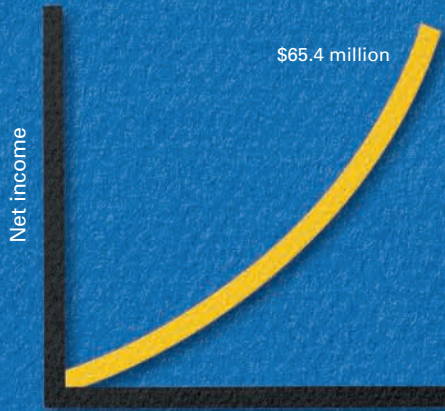


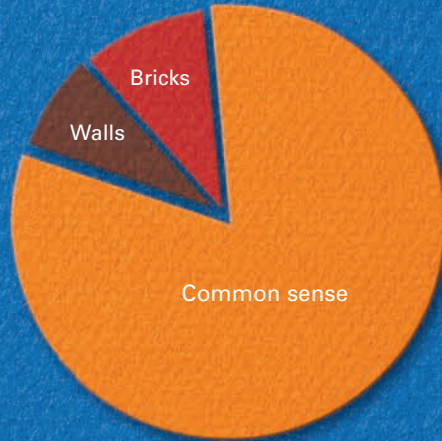
# Numbers count.

Net income



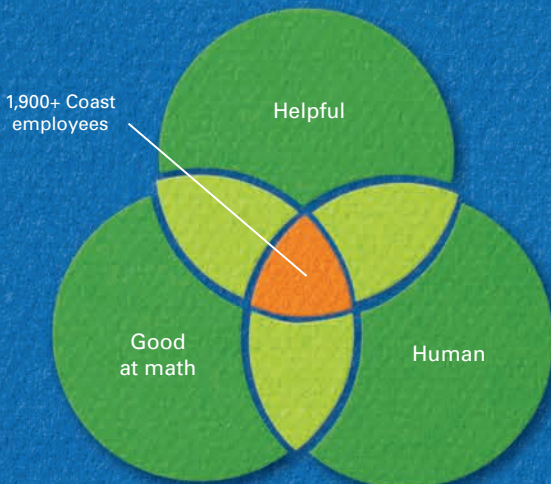
Do-gooding  
(\$4.6 million in community support)

Branches\*



\*50 branches

Employees



Membership



Non-members      Members

## *Numbers count.*

Our 2010 numbers tell a great story. Whether it's our record net income of \$65.4 million, 1,900 employees committed to providing *Simple financial help*® at one of our 50 branches or our membership that grew to 454,000 – it all adds up to a banner year. And those numbers help drive other important numbers, like how much we give back to our communities, or how much we invest in developing innovative products. Through the messages from our Board Chair and Chief Executive Officer to the detailed financial statements, you'll see that numbers do count. Read on and find the number that means the most to you.

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### **Note:**

You can read our 2010 Citizenship Report online at [www.coastcapitalsavings.com/community](http://www.coastcapitalsavings.com/community) or ask for a copy of our 2010 Community Highlights brochure available in branches or by calling 1.888.517.7000.

## Corporate Profile

Coast Capital Savings Credit Union (“Coast Capital”) is one of Canada’s largest credit unions with total assets under administration of \$12.3 billion, more than 454,000 members and 50 branches in the Metro Vancouver, Fraser Valley and Vancouver Island regions of British Columbia. For 11 years, the credit union has been named one of Canada’s Best Managed Companies, including the last three years as a Platinum Club member. Coast Capital is also designated as a Caring Company by Imagine Canada for its strong community investment.

### Purpose

**To change the way Canadians feel about banking, forever.**

### Mission

**Simple financial help**

### Values

**We take business seriously. Ourselves, not so much.**

**We invite innovation.**

**We make spirited teamwork happen.**

**We keep our promises, pinkie-swear.**

**We live to make our communities stronger.**

**We make it easy as pie.**

### Products and Services

**Personal** – savings and chequing accounts (including Canada’s first high-interest savings account with no transaction fees and the first free chequing account from a full-service financial institution), U.S. chequing accounts, term deposits (offered with our unique *Haggle-free Guarantee*<sup>®</sup>), RRSPs, RESPs, RRIFs, Tax-Free Savings Accounts, mutual funds (including *The Low-fee, More-for-me Mutual Funds*<sup>™</sup>), online brokerage, safety deposit boxes, mortgages (including the *You’re the Boss*<sup>™</sup> Mortgage), mortgage brokerage centre, loans, lines of credit, credit cards, travellers cheques, foreign currency, drafts, creditor insurance, telephone banking, online banking, mobile banking and ATMs.

**Business** – savings and chequing accounts (including Canada’s first unlimited business account), community chequing accounts with free transactions for non-profit organizations, U.S. chequing accounts, business credit cards, merchant payment services, loans to small and medium-sized businesses, equipment financing, interim lending and long-term mortgages, letters and lines of credit, ATM night depositories and automated funds transfers.

### Subsidiaries

**Coast Capital Insurance Services Ltd.** offers general insurance products including auto, home, travel, recreational, marine, business and commercial insurance at 34 locations across the Metro Vancouver, Fraser Valley and Vancouver Island regions. Marriage licenses are available at most offices. Specialized insurance staff also provide advice and service related to segregated funds, annuities, life insurance and living benefits products.

**Coast Capital Equipment Finance Ltd.** specializes in leasing commercial and industrial equipment to clients located from Alberta to Ontario. The company offers flexible, innovative and competitive leasing plans combined with unparalleled customer service. Similar commercial leasing plans are available in British Columbia through Coast Capital Equipment Finance, a division of Coast Capital.



## Message from the Chair of the Board of Directors

### By the numbers.

In 2010, we finally saw the economy on the road to recovery and the return to a reasonable level of economic growth. I'm pleased to report that Coast Capital has maintained strong financial performance over the past few years despite the economic uncertainty and unparalleled challenges facing the financial services industry. This year, our net income is in excess of \$65 million – our best on record. Coast Capital's success can be attributed to our talented senior management team, dedicated staff and the support of 454,000 members who make Coast Capital their financial institution of choice. The value proposition that Coast Capital brings to the communities we serve is the reason we have become one of Canada's most successful financial institutions.

Looking forward, Coast Capital's long-term success will continue to be driven by effective governance. We will maintain our innovative approach to continuously strengthening the skills and experience within the Board of Directors. We will continue to be guided by the work carried out by the Canadian Coalition for Good Governance and the key attributes that it has set out for high performance boards: accountable and independent; experienced, knowledgeable and effective directors and committees, and the highest level of integrity; clear roles and responsibilities; and engagement with shareholders (members).

### Numbers with great impact.

The social value of a company can be measured by its engagement with stakeholders and the impact on the communities it serves. Each year we budget approximately 7% of our pre-tax income for investment in a wide variety of community programs. As an example, our 2010 partnership with the YMCA of Greater Vancouver will help support early childhood and family development centres. This partnership also serves as a leadership model for how the business sector and community service organizations can collaborate to provide affordable and accessible child care to families and workers.

In 2010, Coast Capital invested a total of \$4.6 million to

help families through a wide variety of community programs: to promote education via student scholarships and grants to post-secondary institutions, and to encourage growth and sustainability among not-for-profit groups.

### Looking beyond the numbers.

Numbers count but equally important is our growing recognition as a successful organization. For the third consecutive year, Coast Capital has been named a Platinum Club member in Canada's Best Managed Companies program. The award can be attributed to the dynamic and innovative leadership at Coast Capital – right from our Chief Executive Officer to the helpful frontline staff in our 50 neighbourhood branches. It's the dedication of our employees who ensure that Coast Capital remains one of the top financial institutions in Canada and upholds our reputation as a community builder as well as a financial institution that offers great value and helpful service. Our most recent employee engagement survey shows that 90% of our staff are engaged and show strong commitment to Coast Capital and connection to our values. And it's not just our staff who are satisfied. Member satisfaction levels continue to remain high.

This year, we have two Directors retiring from the Board: Doug Stone and Gail Stephens. Doug has been a member of the Board for 17 years and has made significant contributions to Coast Capital, most notably his leadership and support of the Nominations Committee in strengthening the Board. Similarly, Gail has played an important role bringing her financial and executive expertise to the Board since 2008 along with a generous amount of common sense. Their guidance and thoughtfulness will be missed and we sincerely thank both Doug and Gail for their commitment and service to Coast Capital.

On behalf of the Board of Directors, I thank our members, customers and employees for their ongoing loyalty and support of Coast Capital. Together, we are changing the way Canadians feel about banking, forever.



Bill Wellburn, FCA, C.Dir.  
Chair, Board of Directors

## Message from the President and Chief Executive Officer

### Our numbers are good.

In 2010 Coast Capital had a record year. Pre-tax earnings rose 42.9% from \$60.8 million to \$86.9 million and net income increased by 20.4% from \$54.3 million to \$65.4 million in 2010 due to strong growth in residential mortgages and increases in the prime rate. Expressed as a return on average equity, net income was 11.61% compared to 10.38% in 2009.

As we continued to grow our personal customer base and deposits through 2010, we took the opportunity to repay some larger institutional deposits and borrowings, which resulted in a decline in assets from \$11.1 billion to \$10.4 billion and a decline in total assets under administration from \$12.9 billion to \$12.3 billion. Members' equity increased to \$595.7 million, up from \$543.4 million in 2009. With revenue growth of 7.8% exceeding expense growth of 3.6%, Coast Capital's operating efficiency improved to 69.5% in 2010, compared to 72.4% in 2009.

Our financial position remains healthy with a regulatory capital ratio of 14.3% and a liquidity ratio of 19.8%. Strong membership growth – we now have 454,000 members – coupled with our new and innovative *You're the Boss™ Mortgage* (named Mortgage of the Year by CanadianMortgageTrends.com), helped drive our solid financial performance.

### Good numbers only tell half of the story.

It's great to have a strong year financially. It's even better if you use your success to make life easier for members. Coast Capital offers *Simple financial help* with products that meet our customers' ever-changing needs. By challenging widely held beliefs about how financial institutions serve their customers, we plan to *change the way Canadians feel about banking, forever*. Increased profitability allows us to invest more in our communities, develop helpful and innovative products and services and enhance the ways our members can do business with us.

Our members are never just a number. We make it easy for them to do business with us by offering simple, easy to understand products and ensuring their experience is as helpful and convenient as possible. We believe that is why our members are more than twice as likely to recommend us to family and friends than customers of other B.C. financial institutions.

### Numbers to build on.

We are investing in new systems and tools that will allow us to serve members faster and provide more advice that is helpful. Our corporate strategy includes helping more small business owners succeed, as small business is a driver of economic growth in B.C. In 2010, Coast Capital welcomed a new Chief Commercial Officer to help build a larger commercial financial services business and offer members helpful solutions to support their future growth.

Over the next three years, we plan to bring our innovative, value-based products and services and extensive community support to more British Columbians in underserved markets. At the same time, we will consider our options to expand outside of B.C., as the federal government passed legislation to allow credit unions to operate beyond their traditional provincial boundaries.

We will carefully review all our growth opportunities and move ahead with the one that makes most sense for our members, employees and Coast Capital. As we expand, new members and communities will prosper from our long-standing commitment to invest 7% of our budgeted pre-tax income to support community programs as well as our great products and services.

I thank the Board for their ongoing support and our entire Coast Capital team for their amazing efforts, hard work and outstanding dedication throughout the year. I also thank our members for their trust and business, and encourage them to continue sharing their feedback on what is important to them as members of Coast Capital. Through our strong relationships with our members and communities, we are working hard to *change the way Canadians feel about banking, forever*.



Tracy Redies  
President and Chief Executive Officer

# 2010 Performance Against Targets

## Net income

All revenue less expenses and taxes



## Return on average assets

Net income expressed as a percentage of average assets



## Return on average equity

Net income expressed as a percentage of average equity



## Capital

Regulator-defined and primarily retained earnings plus share equity divided by total assets adjusted for risk as defined by regulators



## Non-interest expenses

All costs that are not interest-related, with the exception of provisions for credit losses and income taxes



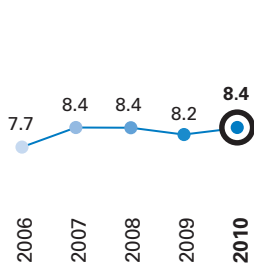
## Operating efficiency

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

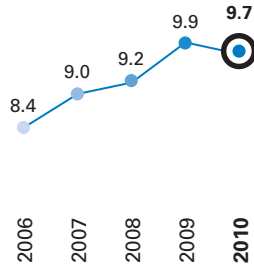


# Financial Highlights at a Glance

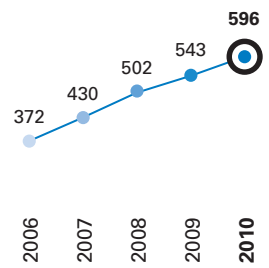
**Total loans**  
Billions of dollars



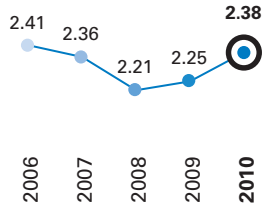
**Total deposits**  
Billions of dollars



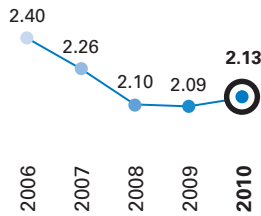
**Members' equity**  
Millions of dollars



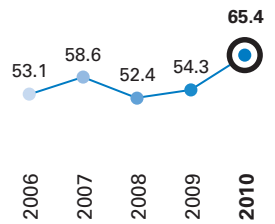
**Net interest income**  
As a percentage of average assets



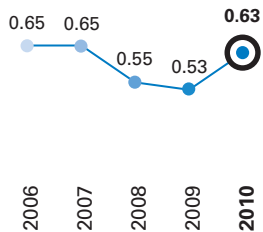
**Non-interest expense**  
As a percentage of average assets



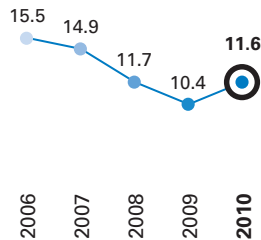
**Net income**  
Millions of dollars



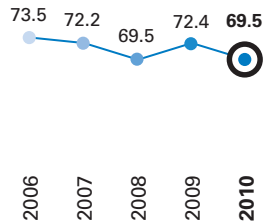
**Net income**  
As a percentage of average assets



**Net income**  
As a percentage of average equity



**Operating efficiency**  
In per cent



## Financial Highlights: 5-Year Overview

in thousands of dollars	2010	2009	2008	2007	2006
<b>Balance sheets</b>					
<b>Assets</b>					
Cash resources	\$ 190,667	\$ 964,005	\$ 1,109,784	\$ 634,732	\$ 686,997
Investments	1,729,970	1,809,507	833,204	685,312	442,896
Loans	8,383,003	8,245,780	8,364,176	8,443,534	7,650,758
Premises and equipment	51,328	41,734	38,791	37,521	41,124
Other	52,083	65,818	97,622	51,917	42,779
	\$ 10,407,051	\$ 11,126,844	\$ 10,443,577	\$ 9,853,016	\$ 8,864,554
<b>Liabilities</b>					
Deposits					
Demand	\$ 3,638,114	\$ 3,188,080	\$ 2,106,670	\$ 1,860,717	\$ 1,710,791
Term	4,596,260	5,249,023	5,665,519	5,680,453	5,162,604
Registered	1,424,406	1,410,444	1,372,710	1,353,407	1,378,544
Class A shares	2,064	1,972	1,870	1,763	1,660
Accrued interest	58,946	70,961	102,010	104,360	98,682
	9,719,790	9,920,480	9,248,779	9,000,700	8,352,281
Borrowings					
Other	–	575,000	548,259	294,469	–
	66,575	62,921	80,712	63,599	76,353
	9,786,365	10,558,401	9,877,750	9,358,768	8,428,634
Subordinated notes					
Class C shares	25,000	25,000	25,000	25,000	25,000
	–	–	38,669	38,879	39,133
<b>Members' equity</b>					
Class B shares	41,485	42,597	43,669	44,464	44,954
Retained earnings	551,484	486,962	434,385	383,343	326,833
Accumulated other comprehensive income	2,717	13,884	24,104	2,562	–
	595,686	543,443	502,158	430,369	371,787
	\$ 10,407,051	\$ 11,126,844	\$ 10,443,577	\$ 9,853,016	\$ 8,864,554

## Financial Highlights: 5-Year Overview

in thousands of dollars	2010	2009	2008	2007	2006
<b>Income statements</b>					
Interest income	\$ 406,273	\$ 424,388	\$ 504,855	\$ 518,387	\$ 447,644
Interest expense	158,492	194,039	293,627	305,987	250,446
Net interest income	247,781	230,349	211,228	212,400	197,198
Provision for credit losses	10,026	20,665	15,568	6,812	6,966
	237,755	209,684	195,660	205,588	190,232
Other income	70,679	64,983	76,599	70,145	70,366
	308,434	274,667	272,259	275,733	260,598
Non-interest expenses	221,471	213,840	199,931	203,951	196,642
Income before undernoted	86,963	60,827	72,328	71,782	63,956
Extraordinary item, net of taxes	–	6,706	–	–	–
Income before taxes	86,963	67,533	72,328	71,782	63,956
Income taxes	21,529	13,272	19,899	13,163	10,872
Net income	\$ 65,434	\$ 54,261	\$ 52,429	\$ 58,619	\$ 53,084
<b>Financial statistics in per cent</b>					
Asset growth	(6.47)	6.54	5.99	11.15	8.10
Loan growth	1.66	(1.42)	(0.94)	10.36	12.70
Deposit growth	(2.02)	7.26	2.76	7.76	7.96
Operating efficiency	69.54	72.41	69.46	72.18	73.49
Capital ratio	14.29	12.42	11.09	10.39	10.26
Liquidity ratio	19.76	26.43	19.83	14.20	13.53
<b>Percentage of average assets</b>					
Net interest income	2.38	2.25	2.22	2.36	2.41
Other income	0.68	0.64	0.80	0.78	0.86
Non-interest expenses	2.13	2.09	2.10	2.26	2.40
<b>Percentage return on</b>					
Average assets	0.63	0.53	0.55	0.65	0.65
Average equity	11.61	10.38	11.71	14.86	15.52
Branches	50	50	51	49	49
Insurance offices	34	34	36	35	35
Average assets	\$ 10,402,570	\$ 10,233,230	\$ 9,516,198	\$ 9,015,087	\$ 8,192,880
Average equity	563,406	522,829	447,831	394,403	342,084
Mutual funds under administration	1,814,829	1,635,757	1,404,155	1,788,361	1,683,630
Securitized loans	91,089	172,261	494,687	205,847	293,772
Total assets under administration	\$ 12,312,970	\$ 12,934,862	\$ 12,342,419	\$ 11,847,224	\$ 10,841,956
<b>Asset quality trends</b>					
Allowance for credit losses, beginning	\$ 62,614	\$ 53,645	\$ 42,516	\$ 37,793	\$ 32,815
Provisions for credit losses	10,026	20,665	15,568	6,812	6,966
Loans written off	12,190	12,359	5,129	3,312	2,618
Recoveries of loans written off	920	663	690	1,223	630
Allowance for credit losses, end	61,370	62,614	53,645	42,516	37,793
Impaired loans	\$ 101,498	\$ 76,869	\$ 34,144	\$ 13,938	\$ 14,032

## Management's Discussion and Analysis

This section of the Annual Report contains details of the operations and financial condition of Coast Capital Savings Credit Union, as well as management's discussion of material risks inherent in its operations. A section providing a detailed analysis of our capital structure is also included.

### Introduction

We are one of Canada's largest credit unions and provide financial services and products to consumers living in the Metro Vancouver, Fraser Valley and Vancouver Island regions of British Columbia. Our long-term goal is to provide a national alternative for consumers in the financial services marketplace.

We successfully compete with other financial services providers in our existing market area by providing an outstanding level of customer service combined with value-based and innovative products. Our focus is on attracting deposits from our members and using these deposits primarily to fund residential and commercial mortgages. Our ability to compete successfully with other financial institutions has enabled us to grow without deviating from our conservative lending strategy.

### Overview

Net income for 2010 was \$65.4 million compared to \$54.3 million in 2009; return on average assets increased to 0.63% versus 0.53% in 2009. The higher net income was primarily attributable to growth from net interest and other income. Growth of 10.4% in residential mortgages was a primary factor for net interest income growth and, since we were asset sensitive throughout 2010, we benefited from the gradual 0.75% increase in the prime rate. Asset remixes and more favourable credit conditions allowed us to recognize a lower amount of provision for credit losses in 2010. Offsetting this has been an increase in provisioning for income taxes in 2010 and not benefiting from an extraordinary gain as we did in 2009.

Assets declined by 6.5% to \$10.4 billion in 2010, down from \$11.1 billion in 2009. Given the strength in our balance sheet, including very high levels of liquidity driven by increased growth in retail deposits, we chose to repay some of our institutional deposits and borrowings as they were not required. Total loans grew by \$137.2 million to \$8.4 billion versus \$8.2 billion in 2009. Securitized mortgages declined from \$172.3 million to \$91.1 million as a result of scheduled and unscheduled prepayments. Mutual fund assets under administration increased by \$179.1 million to \$1.8 billion, bringing total assets under administration to \$12.3 billion versus \$12.9 billion in 2009.

Members' equity was \$595.7 million, up \$52.2 million from the prior year, primarily due to net income offset by negative other comprehensive income of \$11.2 million in 2010.

Total deposits stood at \$9.7 billion, a decrease of 2.0% from \$9.9 billion in 2009.

### Financial Performance

#### Net interest income

Interest income is our major source of revenue. In 2010, interest income totalling \$406.3 million was earned from borrowers on their loans and from other investments. Interest expense, which represents amounts paid by us on members' deposits and corporate borrowings, totalled \$158.5 million. Net interest income represents the difference between interest income and interest expense. Net interest income for 2010 was \$247.8 million compared to \$230.3 million in 2009. Net interest income as a percentage of average assets was 2.38% for 2010 compared to 2.25% in 2009.

Net interest income was positively impacted by rising interest rates; the prime lending rate rose from 2.25% to 3.00% as a direct result of the Bank of Canada increasing its overnight rate from 0.25% to 1.00%. This rise in interest rates had a greater positive impact on our loan yield than the negative impact it had on our deposit funding costs. Additionally, our interest income benefited as a result of \$580 million growth in our residential mortgage portfolio.

The positive impact of rising interest rates was partially offset by lower lending fees and prepayment penalties compared with 2009. Lower lending fees were the result of decreased commercial lending activity, a portfolio that declined by \$412.3 million. Prepayment penalties collected in 2010 remained at high levels as customers opted to prepay their mortgages early in order to take advantage of historically low interest rates. While the amount collected was slightly less than in 2009, prepayment penalty income recognized in 2010 was still relatively high because of past prepayment penalties which were previously deferred and are now being recognized in interest income.

## Management's Discussion and Analysis

### Analysis of net interest income

Year ended December 31

in thousands of dollars	2010				2009			
	Average balance	Mix %	Interest	Interest rate %	Average balance	Mix %	Interest	Interest rate %
Cash resources	\$ 2,014,025	19.4	\$ 28,776	1.43	\$ 1,737,305	17.0	\$ 28,060	1.62
<b>Loans</b>								
Residential	5,875,506	56.5	242,400	4.13	5,533,654	54.1	250,497	4.53
Commercial	2,064,176	19.8	111,903	5.42	2,473,177	24.2	122,101	4.94
Personal	128,465	1.2	7,215	5.62	164,577	1.6	9,000	5.47
Lines of credit	216,987	2.1	15,979	7.36	216,966	2.1	14,730	6.79
Total loans	\$ 8,285,134	79.6	\$ 377,497	4.56	\$ 8,388,374	82.0	\$ 396,328	4.72
Other assets	103,411	1.0	–	–	107,551	1.0	–	–
Total	\$ 10,402,570	100.0	\$ 406,273	3.91	\$ 10,233,230	100.0	\$ 424,388	4.15
<b>Deposits</b>								
Demand	3,434,752	33.0	22,740	0.66	2,767,481	27.0	13,821	0.50
Term	4,788,277	46.0	95,324	1.99	5,201,593	50.8	130,364	2.51
RRSP	1,428,011	13.7	39,512	2.77	1,423,069	13.9	47,403	3.33
Total deposits	\$ 9,651,040	92.7	\$ 157,576	1.63	\$ 9,392,143	91.7	\$ 191,588	2.04
Borrowings	14,628	0.1	340	2.32	48,360	0.5	765	1.58
Subordinated notes	25,000	0.2	576	2.30	25,000	0.2	561	2.24
Class C shares	–	–	–	–	18,745	0.2	1,125	6.00
Total financial liabilities	\$ 9,690,668	93.0	\$ 158,492	1.64	\$ 9,484,248	92.6	\$ 194,039	2.05
Other liabilities	148,496	1.5	–	–	226,264	2.2	–	–
Class B shares	41,508	0.4	–	–	42,488	0.4	–	–
Accum. other comp. income	7,213	0.1	–	–	28,110	0.3	–	–
Retained earnings	514,685	5.0	–	–	452,120	4.5	–	–
Total	\$ 10,402,570	100.0	\$ 158,492	1.52	\$ 10,233,230	100.0	\$ 194,039	1.90
Net interest income			\$ 247,781	2.38			\$ 230,349	2.25

### Other income

Other income is income that is not interest related. This includes items such as insurance and mutual fund commissions, securitization revenues, foreign exchange income and charges for banking services. We price our products and services to provide excellent customer value and fair returns while maintaining market competitiveness.

Other income in 2010 was \$70.7 million compared to \$65.0 million in 2009. Other income as a percentage of average assets was 0.68% in 2010 compared to 0.64% in 2009. Income from mutual and segregated funds was \$12.9 million in 2010, up from \$11.7 million in 2009. After several years of difficult markets, investors began to feel more confident and moved money back into equity markets. Our income from general insurance grew by \$1.4 million as home insurance revenue benefited from increases in active policies combined with higher insurable amounts as home prices increased in our trade area. Offsetting these increases was the lack of any securitization activities compared with a \$2.4 million gain realized in 2009 from the repurchase of \$146.9 million in loans that we had previously securitized.

## Management's Discussion and Analysis

### Non-interest expenses

Non-interest expenses represent all costs that are not interest related, excluding provisions for credit losses and income taxes. These include employee salaries and benefits, occupancy, information technology, marketing, deposit insurance assessments, Central 1 Credit Union ("Central 1") dues, provincial capital taxes and other costs. We continue to strive to contain and manage our costs as effectively as possible.

Total non-interest expenses in 2010 increased by 3.6% to \$221.5 million compared to \$213.8 million in 2009. As a percentage of average assets, non-interest expenses were 2.13% in 2010 compared to 2.09% in 2009. Employee costs, including salaries, benefits and incentive compensation, were \$120.5 million in 2010 compared to \$115.7 million in 2009, an increase of 4.1%, which was primarily attributable to an increase in the number of our employees during 2010, one-time restructuring costs incurred during the year and salary range and merit increases. Other cost increases included professional services and marketing expenditures. Professional services were higher in the year due to work related to strategic planning and realignment of business lines. Marketing expenditures were higher in 2010 due to additional resources being dedicated to the launch of our new mortgage product, the *You're the Boss™ Mortgage*. The elimination of the provincial Corporation Capital Tax benefited us by \$2.1 million while the introduction of the Harmonized Sales Tax had an unfavourable impact of approximately \$1.5 million.

### Capital expenditures

Total capital expenditures in 2010 were \$18.3 million compared to \$12.2 million in 2009. The increase was primarily the result of costs associated with a new banking system scheduled for implementation in 2011. No new branches were opened in 2010.

Year ended December 31

in thousands of dollars

	2010	2009
Building renovation and improvements	\$ 351	\$ 262
Leasehold improvements	2,845	3,221
Computer equipment and software	13,890	7,726
Furniture and equipment	1,173	1,001
Total	\$ 18,259	\$ 12,210

We are forecasting an increase in capital expenditures in 2011, largely due to further software development and interface builds for the new banking system and branch renovation and construction costs.

### Loans

Total loans grew to \$8.4 billion in 2010 versus \$8.2 billion in 2009.

We aggressively compete for, and are a major holder of, residential first mortgages in the Metro Vancouver, Fraser Valley and Vancouver Island regions of British Columbia. We provide mortgages to individuals according to conventional mortgage-lending standards for residential properties. We offer closed, open variable and fixed-rate mortgages, written with terms of six months to 10 years.

As at December 31, 2010, residential mortgage loans totalled \$6.2 billion, representing 73.8% of total loans outstanding compared to \$5.6 billion or 67.6% of total loans as at December 31, 2009. The dramatic growth seen in this area was due to a number of factors including a greatly improved real estate market, very competitive rates and the introduction of our new *You're the Boss™ Mortgage* product, which has generated large production volumes and was named Mortgage of the Year by CanadianMortgageTrends.com.

Personal loans to members include instalment loans, demand loans, retail leases and lines of credit. We also offer a suite of credit cards. Based on the contractual agreement with the credit card supplier, we do not carry the balances owing from the credit card holders but earn a fee based on the total net purchases generated by the credit card holders, as well as a per-card fee.

As at December 31, 2010, personal loans decreased by \$34.0 million to \$303.6 million, representing 3.6% of total loans outstanding compared to 4.2% of total loans as at December 31, 2009. Customers continue to move away from unsecured or chattel-secured personal borrowings and are instead accessing home equity loans, which offer lower interest rates. These loans expose us to less risk due to higher quality security.

## Management's Discussion and Analysis

Commercial lending consists primarily of first mortgages to medium-sized businesses for real estate term loans and development projects. The types of mortgages offered are similar to residential mortgages, except the maximum term is largely limited to five years. Although we also conduct other forms of commercial lending, including small business lending and commercial leases, these constitute a small but growing portion of the commercial loan portfolio.

At December 31, 2010, commercial loans totalled \$1.9 billion, representing 22.5% of total loans outstanding (18.2% of total assets) compared with \$2.3 billion, representing 27.9% of total loans as at December 31, 2009 (20.7% of total assets). As commercial real estate projects were completed and loans were paid out, fewer projects were coming on-stream to replace those borrowings. Much of the reduction in commercial volumes was due to an effort to increase the quality of our assets.

We maintain conservative lending policies and hold no loans denominated in a foreign currency. Our present policy limits commercial lending to a maximum of \$3.1 billion, in line with our goal of holding 30% of total assets in commercial loans, the regulatory maximum. The maximum single loan exposure to any one property is currently limited to \$20.0 million, while our maximum exposure to any one connection is limited to \$50.0 million on real estate loans. Other types of loans have substantially lower limits. We have no loans outstanding which exceed our internal limits. These limits are being strictly and conservatively applied in an effort to manage the economic risk in our market area. Our Credit and Counterparty Risk Corporate Policy is regularly reviewed by our Risk Review Committee, approved by our Board of Directors and filed with the Superintendent of the Financial Institutions Commission of British Columbia (FICOM).

### Loan portfolio

As at December 31	2010				2009			
	Number	Total in millions of dollars <sup>1</sup>	Mix %	Average in thousands of dollars	Number	Total in millions of dollars <sup>1</sup>	Mix %	Average in thousands of dollars
<b>Individuals</b>								
<i>Mortgages</i>								
Conventional <sup>2</sup>	18,605	\$ 3,054	36.2	\$ 164	18,187	\$ 2,810	33.9	\$ 155
Revenue	2,256	494	5.7	219	2,191	465	5.6	212
Progressive	85	17	0.2	194	119	20	0.2	169
Insured	3,760	942	11.2	250	3,499	784	9.5	224
High-ratio	1,905	655	7.8	344	1,544	506	6.1	328
Mortgage-secured lines of credit	16,203	1,027	12.2	63	15,593	1,023	12.3	66
Subtotal mortgages	42,814	6,189	73.3	145	41,133	5,608	67.6	136
<i>Other</i>								
Retail leasing	162	–	–	–	284	2	–	7
Other lines of credit	146,792	204	2.4	1	143,585	205	2.5	1
Personal loans	10,267	110	1.3	11	12,799	141	1.7	11
Subtotal other	157,221	314	3.7	2	156,668	348	4.2	2
Subtotal individuals	200,035	6,503	77.0	33	197,801	5,956	71.8	30
<b>Commercial</b>								
Commercial loans	14,504	1,753	20.8	121	13,650	2,160	26.1	158
Commercial leasing	2,610	172	2.0	66	2,595	173	2.1	67
Subtotal commercial	17,114	1,925	22.8	112	16,245	2,333	28.2	144
Subtotal individuals and commercial	217,149	8,428	99.8	39	214,046	8,289	99.8	39
Accrued interest	–	17	0.2	–	–	19	0.2	–
Total loan portfolio	217,149	\$ 8,445	100.0	\$ 39	214,046	\$ 8,308	100.0	\$ 39

1 Before allowance for credit losses.

2 In 2009, \$147 million of securitized mortgages were repurchased.

## Management's Discussion and Analysis

### Allowance for credit losses

We have a policy of providing collective and specific allowances to cover credit losses. We review our loan portfolio on an ongoing basis and will establish a specific allowance if we identify potential credit losses. Our overall credit quality remains acceptable. Our provision for credit losses in 2010 was \$10.0 million compared to \$20.7 million in 2009. The decrease in 2010 was primarily attributable to the decline in commercial loan balances as we released a portion of the collective allowance consistent with paydowns in our commercial loan portfolio. The total allowance for credit losses decreased to \$61.4 million or 0.73% of total loans as at December 31, 2010 compared to \$62.6 million or 0.76% at December 31, 2009, with the specific allowance increasing \$6.8 million and the collective allowance decreasing by \$8.0 million.

### Asset quality coverage

As at December 31

in thousands of dollars	2010	2009
Total loans	\$ 8,383,003	\$ 8,245,780
Provision for credit losses	10,026	20,665
Loan write-offs	12,190	12,359
Total allowance for credit losses	61,370	62,614
Impaired loans	101,498	76,869
Members' equity	595,686	543,443
in per cent		
Provision for credit losses as % of total loans	0.12	0.25
Loan write-offs as % of total loans	0.15	0.15
Impaired as % of total loans	1.21	0.93
Impaired as % of members' equity	17.04	14.14
Total allowance as % of impaired loans	60.46	81.46
Total allowance as % of total loans	0.73	0.76

The level of impaired loans stood at \$101.5 million as at December 31, 2010 versus \$76.9 million as at December 31, 2009, reflecting the ongoing challenges in the real estate markets resulting primarily from the recession. Most of the increase came from the commercial portfolio as losses in this book lagged the economic recovery. We classify a loan as impaired if, in the opinion of management, we have reasonable doubt as to its ultimate collectibility, either in whole or in part, of principal or interest. While the entire amount of the loan is reported as impaired, factors such as collateral in place mitigate how much of the value of the loan is actually at risk and requires a provision. Loans where interest or principal is contractually past due 90 days are automatically classified as impaired, unless management determines there is no reasonable doubt as to the ultimate collectibility of principal and interest. All loans are classified as impaired when interest or principal is past due 180 days. When a loan is classified as impaired, interest income is recognized on a cash basis only after any specific provisions or partial write-offs have been recovered and provided there is no further doubt as to the collectibility of principal. In light of the rise in provisions in 2009, a more frequent and rigorous review process was implemented in 2010.

### Deposits

We offer a full range of personal deposit services and products, including chequing accounts, savings accounts and term deposits. All deposit accounts are in Canadian funds, with the exception of a special U.S. dollar (USD) chequing account and USD short-term deposits. Included in our deposit suite is a very successful *Haggle-free Guarantee®* term deposit pricing concept, where all our retail customers are assured that they receive our best rate without having to negotiate. We actively market a suite of products that includes RRSPs, RRIFs and RESPs, as well as a complete line of Tax-Free Savings Account deposit products.

Total deposits as at December 31, 2010 were \$9.7 billion compared with \$9.9 billion for the previous year, a decrease of 2.0%. Our institutional deposit portfolio decreased by \$334 million. Two five-year deposits totalling \$400 million matured in 2010. With our liquidity still at very high levels, these deposits were no longer required and were paid out.

## Management's Discussion and Analysis

As at December 31, 2010, demand deposits represented 37.4% of total deposits compared with 32.1% in the previous year. Term deposits represented 47.3% compared with 52.9% in 2009.

Registered term deposit balances remained largely unchanged over 2010. Registered term deposits represented 14.7% of total deposits compared with 14.2% in 2009.

### Borrowings

We maintain a loan facility with Central 1 and another with Caisse Centrale Desjardins. Outstanding amounts under both these facilities fluctuate in the normal course of business throughout the year. Through the Caisse Centrale Desjardins facility we are able to borrow up to \$175 million. The primary Central 1 facility allows us to borrow up to 10% of our total assets, which based on year-end results would amount to just over \$1.0 billion and under special circumstances up to 15% on a short-term basis. We had no borrowings outstanding as at December 31, 2010 compared to \$575.0 million in 2009. Average borrowings throughout the year were \$14.6 million compared to \$48.4 million over 2009.

### Risk Management

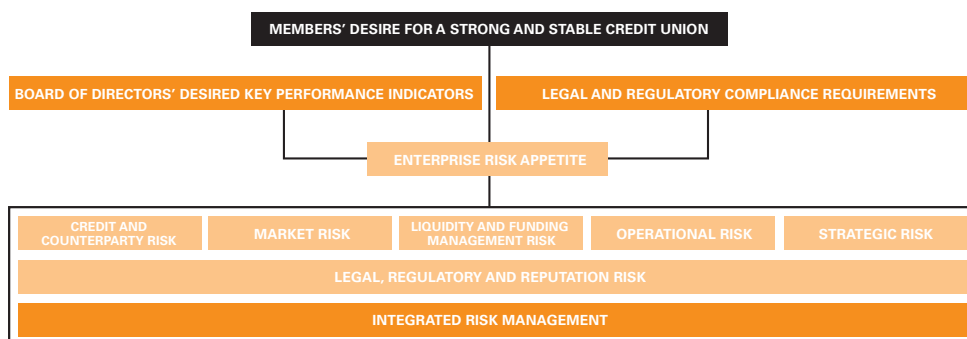
*(Certain information within this section, where indicated, forms an integral part of the audited financial statements.)*

#### Overview

The Integrated Risk Management (IRM) framework that we adopted in 2009 acts as a governance and management tool to provide effective oversight and risk management for the purpose of enhancing value and preserving long-term and sound business and financial operations. The Group Risk Management (GRM) function under the leadership of the Chief Risk Officer (CRO) enhances the continued growth of the business by maintaining appropriate risk monitoring and adherence to regulatory practices. GRM is responsible for building and maintaining our enterprise-wide risk management capability, encompassing economic, operational and credit risk functions and including the implementation of effective risk management policies and procedures and the management of the increased regulatory environment of the financial services industry.

The IRM framework below is dynamic and flexible, allowing us to adapt as required to internal and external opportunities. Our approach allows us to look across all business areas to identify, assess, mitigate, monitor and report on potential risks. As there are significant risks inherent in our business activities, we are committed to the effective, efficient and proactive management of these risks within acceptable levels, while realizing that these risks cannot be fully eliminated.

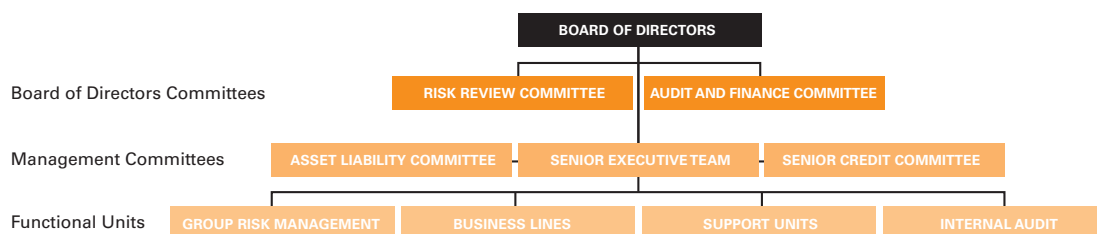
As well, the enhanced awareness of the risk management role within our organization exists in order to build a stable and strong company to benefit our members, staff and communities.



# Management's Discussion and Analysis

## Risk governance

Below is a representation of our Governance Model. Sound corporate governance is essential for ensuring an appropriate level of management and oversight of risks and controls in order to balance risk and reward in the organization. Managing risk is the shared responsibility of the Board of Directors (the "Board"), executives and staff; the GRM function enables us to understand and implement this shared responsibility.



**Board of Directors:** provides general oversight, approves the strategic direction of the credit union and performs its risk management duties through the Risk Review Committee and the Audit and Finance Committee.

**Risk Review Committee:** provides risk oversight for the Board, including the monitoring and evaluation of key risks, by ensuring the appropriate risk framework and policies are in place.

**Audit and Finance Committee:** provides oversight for the Board on financial and controls matters, including maintaining the integrity, reliability, accuracy and clarity of financial reporting.

**Asset Liability Committee:** ensures that we are within our risk appetite in terms of liquidity and funding, interest rate risk, foreign exchange risk and capital management.

**Senior Executive Team:** develops and executes our strategic direction and ensures the overall risk profile is aligned with strategic direction.

**Senior Credit Committee:** ensures that we are within our risk appetite in terms of credit risk and approves credit deals above individual limits and below our regulatory caps.

**Group Risk Management:** promotes our risk management culture and provides risk management support to the Business Lines, Support Units, Senior Executive Team and the Board of Directors and its Committees.

**Business Lines:** provide the front-line sales production and operate and manage the controls used to mitigate risks in the organization.

**Support Units:** provide back-office assistance primarily to the Business Lines but also to the rest of the organization. These units also operate and manage the controls used to mitigate risks.

**Internal Audit:** provides independent oversight and testing of the controls in place to manage the risks that we face.

We actively monitor and manage the following principal risks that are most likely to affect our organization: credit and counterparty risk, market risk, liquidity and funding management risk, operational risk, strategic risk, legal and regulatory risk and reputation risk.

## Management's Discussion and Analysis

### Credit and counterparty risk

(Information that is an integral part of the audited financial statements.)

This is the risk of loss emanating from a borrower or counterparty failing to meet their obligation in accordance with contractual terms or a decrease in the value of the assets due to a decrease in the credit quality of the borrower, counterparty guarantor or the assets (collateral) supporting the credit exposure.

Counterparty risk is the exposure to settlement risk represented by the lag between the value date and settlement date of securities transactions or from the exchange of principals in different currencies during a short window. Pre-settlement risk is the risk of loss due to non-performance of the obligation during the life of the transaction. The transaction could be a loan, bond or derivative contract contributed by a borrower with whom one generally deals in traded assets and who is sanctioned to use a credit line where exposure keeps fluctuating.

Credit risk is principally lending-activity related. Our system for controlling the risk of borrowers defaulting on loan obligations is based upon strict adherence to clearly defined credit policies and credit approval procedures. The Board delegates authority for loan approval to the Chief Executive Officer (CEO), who in turn assigns this responsibility to the CRO. The CRO grants specified limits to officers, with the policy reviewed annually by the Board. Loan approval limits are established based upon the experience and qualifications of the individuals involved. If a proposed retail loan is beyond the lending limit prescribed for branch management, it is forwarded to Retail Credit and depending on the size of the loan, escalated if necessary to more senior retail credit positions. On the commercial side of the loan portfolio, credit undergoes a dual process of approval by the business line and concurrence by a member of the credit risk team. If a commercial loan is beyond the internal lending limit prescribed for the CRO, it is then submitted to the Senior Credit Committee for final approval. We review lending practices and activities on a regular basis to ensure adherence to policy and general credit quality. Loans in default are removed from the branch level and dealt with centrally. Commercial watch loans in default are managed with risk decisions by special account officers.

Counterparty risk is also incurred in activities that are necessary for the management of our non-lending portfolio. This includes but is not limited to investments in securities, maintaining deposits with other financial institutions and/or derivative transactions. These investments are subject to counterparty risk rating limits that include portfolio, industry and single name caps. Reporting allows us to monitor and manage this risk.

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

As at December 31, 2010

in thousands of dollars

	Banking	Derivatives
<b>On balance sheet</b>		
Cash held at Central 1	\$ 67,651	
Investments held at Central 1	1,054,737	
Shares in Central 1	26,688	
Other investments	788,349	
Loans	8,383,003	
Derivative instruments		\$ 1,101
Accounts receivable	11,140	
	10,331,568	1,101
<b>Off balance sheet</b>		
Letters of credit	36,616	
Commitments to extend credit	2,177,676	
	2,214,292	–
<b>Maximum exposure to credit risk</b>	<b>\$ 12,545,860</b>	<b>\$ 1,101</b>

## Management's Discussion and Analysis

**Concentration risk** – Concentration risk arises if a number of borrowers are engaged in similar economic activities and/or are located in the same geographic region. We primarily carry out our lending activities in the Metro Vancouver, Fraser Valley and Vancouver Island regions of British Columbia. The following table breaks down our lending activity by loan type and industry.

As at December 31, 2010 in thousands of dollars	Outstanding	Undrawn commitments	Other	Derivatives	Total exposure
Residential mortgages <sup>1</sup>	\$ 6,279,167	\$ 1,667,663			\$ 7,946,830
Personal loans	314,270	2,353			316,623
Commercial					
Construction <sup>2</sup>	297,144	123,165	\$ 36,616		456,925
Food services and accommodation	118,837	32,665			151,502
Health care and social assistance	130,094	18,463			148,557
Management of companies	91,143	17,557			108,700
Manufacturing	23,640	8,867			32,507
Professional	13,041	17,935			30,976
Real estate	874,273	132,494			1,006,767
Retail trade	27,723	8,096			35,819
Transportation	179,248	1,733			180,981
Wholesale trade	10,599	3,559			14,158
Other	159,715	143,126			302,841
	\$ 8,518,894	\$ 2,177,676	\$ 36,616	–	\$ 10,733,186

1 Residential mortgages includes securitized mortgages.

2 For construction loans, "Other" refers to letters of credit.

### Market risk

*(Information that is an integral part of the audited financial statements.)*

This is the risk that interest rate fluctuations and volatile foreign exchange markets impact our profitability, capital and ability to achieve business objectives.

Market risk is primarily incurred in the fundamental banking activities of lending and deposit gathering. Reporting to the Chief Financial Officer (CFO), the Vice President, Treasury is responsible for preparing, executing and monitoring risk management strategies in this area, with additional oversight provided by GRM.

**Interest rate risk** – A large proportion of our assets are in the form of residential first mortgages, and like any other financial institution, our annual profitability depends to a certain extent on the ability to manage the maturities and yields of these assets against the maturities and costs of the liabilities funding them. We closely manage our interest rate risk through various strategies designed to optimize the return of differences between deposit and loan rates for different maturities.

Our Asset Liability Committee – comprised of the CEO, CFO, CRO, Chief Operating Officer, Chief Commercial Officer, Vice President, Treasury and other executives – meets regularly to review and monitor asset and liability related activities and initiate changes when necessary.

The differentials between assets and liabilities for different maturities change on an ongoing basis and to some extent are dependent on the interest rate expectations held by the mortgage, loan and deposit members. As previously noted, this information is monitored by management on a regular basis to ensure early identification of any developing trends, including the widening of any differentials that require modification. Through computer modelling techniques, we determine our interest rate risk on a monthly basis. The modelling determines the effect that rising or falling interest rates would have on net interest income and market value over the next 12 months. Several methods are deployed when interest rate risk levels start to approach maximum policy guidelines. The largest differentials causing the interest rate risk can be reduced through conventional means, such as deposit campaigns and mortgage securitizations. If these conventional means aren't deemed feasible, then we can decrease the differentials through so-called synthetic means by using derivative instruments, such as interest rate swaps.

## Management's Discussion and Analysis

As at year-end, we held \$0.3 billion in such instruments for interest rate risk management purposes compared to \$0.2 billion at December 31, 2009.

### Asset and liability maturities

As at December 31

in thousands of dollars

	2010			2009		
	Assets	Liabilities and equity	Differential	Assets	Liabilities and equity	Differential
Variable rate	\$ 3,130,733	\$ 3,116,885	\$ 13,848	\$ 3,540,936	\$ 3,232,447	\$ 308,489
<b>Interest sensitive</b>						
Maturing within						
1 year	2,137,580	3,795,700	(1,658,120)	2,607,020	4,731,025	(2,124,005)
<b>Maturing between</b>						
1–2 years 2012	996,960	789,768	207,192	1,266,129	737,915	528,214
2–3 years 2013	567,671	771,613	(203,942)	1,130,096	498,400	631,696
3–4 years 2014	1,292,842	222,937	1,069,905	613,445	299,665	313,780
4+ years 2015+	2,134,410	298,380	1,836,030	1,832,471	271,231	1,561,240
Non-interest bearing items <sup>1</sup>	146,855	1,411,768	(1,264,913)	136,747	1,356,161	(1,219,414)
	\$ 10,407,051	\$ 10,407,051	\$ –	\$ 11,126,844	\$ 11,126,844	\$ –

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

We continue to be asset sensitive. Our asset sensitivity is similar to what it was last year at this time. In the table above, the \$3.1 billion of variable rate liabilities includes approximately \$1.9 billion of chequing and transaction accounts that are not rate sensitive. If interest rates were to rise in 2011, they would have a positive impact on our net interest income, as a large portion of our assets are still prime-based loan products and would reprice immediately higher, while many of our liabilities have longer dated maturities and are unable to reprice higher as quickly or are in-demand deposit products whose rates are fixed or not directly influenced by prime-related changes.

The following table shows the expected change to net interest income as a result of an immediate change to interest rates. These measures are based on a number of assumptions and consider the professional judgment of senior financial staff. Interest rate scenarios are based on outstanding asset and liability balances as at December 31.

### Impact on net interest income

in thousands of dollars

	2010	2009
1% increase in rates	\$ 6,885	\$ 6,160
0.25% decrease in rates	\$ (2,088)	\$ (1,944)
1% decrease in rates <sup>1</sup>	\$ (8,463)	\$ –

1 The 2009 estimated impact was based on a 0.25% decrease as this was the maximum decrease possible for the Bank of Canada rate.

Most financial institutions tend to deem a prudent level of asset/liability mismatching to be necessary in order to optimize profitability. The challenge is to find the level of mismatch that will maximize net interest income while maintaining an acceptable level of risk.

## Management's Discussion and Analysis

**Foreign exchange risk** – Any assets or liabilities denominated in foreign currencies have foreign exchange risk. All of our foreign exchange risk comes from USD transactions. The risk occurs through our offering of USD chequing and USD term deposits to our members. We mitigate this risk by investing these USD deposits into USD denominated investments. Our investment policy stipulates the maximum difference permitted between these USD deposits and USD investments. By limiting the difference, we protect against rapid changes in USD exchange rates.

### **Liquidity and funding management risk**

*(Information that is an integral part of the audited financial statements.)*

This is the risk that insufficient access to or inappropriate management of funds threatens our capacity to grow. This is also the exposure to loss as the result of a poor investment or the inability to satisfy cash flow obligations in a timely and cost-effective manner, resulting in a loss that impacts our ability to achieve our business objectives.

The *Financial Institutions Act* (FIA) requires us to maintain a minimum of 8.0% of total deposits and borrowings in a liquidity portfolio comprised of investments with maturities ranging from overnight to five years. As part of this regulation, we are required to hold statutory liquidity with Central 1 equalling 1.5% of the British Columbia credit union system's assets, which presently amounts to approximately 7.0% of deposits and borrowings. These deposits provide yields similar to those of Government of Canada T-bills or bonds. In addition to the liquidity portfolio held at Central 1, we hold other liquidity investments outside of Central 1. Our investment policy specifies the minimum rating and certain single investment exposures for these investments. In general, funds placed outside of Central 1 are invested in financial instruments that are rated R-1 low (A) or higher.

Our intention is to maintain a total liquidity portfolio at or above 9.0% of total deposits and borrowings. This level provides us with an operating cushion in the event of rapid asset growth or sudden deposit declines and still allows us to meet our regulatory requirements. Our Treasury Department monitors liquidity levels on a daily basis.

Maintaining liquidity levels and funding loan growth are managed using a number of different strategies. These include growing our core retail deposits through the introduction of new retail deposit products, continuing to promote existing retail deposit products, seeking deposits through an established network of deposit agents and fostering institutional relationships to attract wholesale deposits. We also have in place several borrowing lines, including the facility at Central 1, with the ability to borrow as much as \$1.5 billion. We can also free up funding by securitizing mortgages through the Canada Mortgage Bond program.

### **Operational risk**

This is the risk that inadequate or faulty activities with regards to partners, vendors, products, services, processes, human capital, technology or projects could result in a loss or missed opportunity that prevents the achievement of strategic objectives.

Operational risk is incurred as a result of general day-to-day activities throughout the organization. As such, operational risk covers a broad range of events, all of which can impact our efficiency, reputation, brand and financial performance. We have built solid partnerships with other organizations that make sound business sense, with the primary objective being to make these functions seamless to our stakeholders. We continue to create and implement processes that assist in increasing efficiencies and those in turn help us use our resources more effectively and contain our costs.

We invest wisely in technology and ensure we consider our options in determining the appropriate applications for our stakeholders in order to provide effective support and security to our systems.

We invest in our people and endeavour to have those with the right skills in the right job at the right time. This enables the development of strong leaders and loyal employees, while providing a safe workplace that will help us grow and maintain a healthy corporate culture. We also strive to conduct activities in a manner consistent with our members' stated objectives. This requires a clear understanding of the relationship that we have with our members; we ensure that our sales staff have the appropriate training and licensing in place to demonstrate this understanding.

We ensure our accounting procedures are current and appropriate for the circumstances and conditions of the item being accounted. Integrity in our financial reporting is essential to instilling confidence in our members, employees and community, while maintaining a sound financial position.

## Management's Discussion and Analysis

We manage our operational risk through various policies and procedures that affect different aspects of our business and that also help protect the integrity and security of the organization and allow us to minimize any adverse impacts to our stakeholders.

### Strategic risk

This is the risk that unsuccessful business strategies, inadequate execution of business strategies or the lack of responsiveness to changes in the economic climate result in not being able to achieve our business objectives. In order to ensure the successful launch of any business strategy, we perform appropriate due diligence on any project from simple resource requests to more comprehensive due diligence for material initiatives. This process enables documented decision-making to provide greater governance over capital and resource allocation.

### Legal and regulatory risk

This is the risk that a flaw in design or operation, human error, oversight or indifference results in not conforming to legal and/or regulatory requirements. We are required to meet various regulatory obligations including, but not limited to, the FIA and its regulations as enforced by FICOM, the *Anti-Money Laundering & Anti-Terrorist Financing Act* and the *Personal Information Protection Act*. This risk also includes non-compliance by our employees, as it pertains to the many statutes and regulations set out by other governing bodies, including those associated with investment services provided to our members. In 2010, we hired an in-house General Counsel.

### Reputation risk

This is the risk that our reputation is damaged, potentially resulting in a loss of members, profits and the ability to compete and achieve business objectives. Reputation risk is one of the most significant risks we face and is considered extremely important and integral to the business. Reputation is any institution's greatest asset and, in a financial institution, reputation and brand value are essential in maintaining the continued confidence of our stakeholders. We earn our reputation by providing quality products, outstanding service and helpful interactions with our stakeholders.

### Capital Management

Our capital requirements are regulated by FICOM using the risk-weighted approach developed by the Bank for International Settlements (BIS). FICOM established a minimum capital standard based on a ratio of capital to risk-weighted assets of 8.0%. At least 50% of a credit union's capital base, for the purpose of meeting the standard, must consist of primary capital, known as Tier 1, comprised of voting shares, qualifying investment shares, contributed surplus and retained earnings, less intangible assets such as goodwill and future income tax assets.

Secondary capital, known as Tier 2, includes subordinated notes, other investment shares and 50% of a credit union's portion of retained earnings in the Credit Union Deposit Insurance Corporation (CUDIC), Central 1 and Stabilization Central Credit Union ("Stab Central"). A credit union's assets are weighted according to six categories of relative risk ranging from 0% to 200%. Residential mortgages, the largest portion of our assets, are risk-weighted at 35%, while commercial loans, the second largest portion, are risk-weighted at 100%.

We monitor our capital levels on a regular basis. Our capital plan is updated annually and provides a forecast of capital requirements over a five-year horizon. As at December 31, 2010, our total capital ratio, which includes Tier 1 and Tier 2 capital, was 14.29% compared to 12.42% in 2009. We are committed to a strong capital position, with a policy of maintaining our capital ratio above 9.0% of risk-weighted assets. The following two tables show the levels of our capital and our risk-weighted assets under the BIS requirements.

## Management's Discussion and Analysis

### Tier 1 and 2 capital

As at December 31

in thousands of dollars

	2010	2009
<b>Tier 1 capital</b>		
Class A shares	\$ 2,064	\$ 1,972
Class B shares	41,485	42,597
Retained earnings	551,484	486,962
Future income taxes <sup>1</sup>	(11,425)	(15,594)
	583,608	515,937
Less: Capital deductions	(25,704)	(16,965)
	557,904	498,972
<b>Tier 2 capital</b>		
Subordinated notes	25,000	25,000
Portion of equity in Central 1, CUDIC and Stab Central <sup>2</sup>	67,399	68,661
	92,399	93,661
<b>Total capital</b>	<b>\$ 650,303</b>	<b>\$ 592,633</b>

1 Statutory inclusion of credit union only future income taxes.

2 Portion of system-related equity multiplied by 50%.

### Risk-weighted assets

As at December 31

in thousands of dollars

	2010	2009		2010	2009
	Balance sheet amount	Balance sheet amount	BIS risk-weight (%)	Risk-weighted balance	Risk-weighted balance
Cash resources	\$ 1,153,678	\$ 1,989,858	0	\$ –	\$ –
Commercial paper	766,959	783,654	0–100	297,561	301,899
Residential mortgages	4,623,814	4,336,969	35–100	1,625,680	1,506,725
Insured mortgages	921,451	767,729	0	–	–
High-ratio mortgages	642,813	503,461	75	482,109	377,595
Personal loans	314,270	347,761	75	235,702	260,821
Commercial loans and leasing	1,925,457	2,333,763	35–100	1,849,479	2,256,504
Other assets and investments	58,609	63,649	100	58,609	63,649
Off-balance-sheet exposure	–	–	0–100	1,741	2,741
	\$ 10,407,051	\$ 11,126,844		\$ 4,550,881	\$ 4,769,934
Risk-weighted assets as a percentage of total assets				43.7%	42.9%
in per cent					
<b>Ratio of capital to risk-weighted assets</b>					
Primary capital to risk-weighted assets				12.26	10.46
Secondary capital to risk-weighted assets				2.03	1.96
<b>Total capital ratio</b>				<b>14.29</b>	<b>12.42</b>
Total collective allowance for credit losses				40,518	48,561
As a percentage of risk-weighted assets				0.89%	1.02%

## Management's Discussion and Analysis

### Investment Services and Subsidiaries

Investing and financial planning continue to be complex and highly competitive areas. We concentrate on offering *Simple financial help* to our members, providing them with the meaningful resources needed to prosper in the years ahead.

As part of this activity, we market mutual funds. These funds give our members another investment option and provide us with an alternative source of fee income. Revenue from these activities increased to \$12.9 million in 2010 from \$11.7 million in the previous year. The recovery in the markets that began in 2009 flowed into 2010 as the global financial market uncertainties continued to abate. Additionally, in 2010 we made a shift to selling all of our mutual funds as no-load funds, providing more portability for investors while also generating a more stable annuity income source. As at December 31, 2010, we had \$1.8 billion in mutual and segregated funds under administration for our members compared to \$1.6 billion in 2009. These assets are not reflected on the Consolidated Balance Sheet.

### Total assets under administration

As at December 31

in thousands of dollars

	2010	2009
Total assets	\$ 10,407,051	\$ 11,126,844
Mutual and segregated funds under administration	1,814,829	1,635,757
Securitized mortgages	91,089	172,261
Total assets under administration	\$ 12,312,969	\$ 12,934,862

One of our subsidiary companies, Coast Capital Insurance Services Ltd., provides complementary financial services. Through these operations, members are able to purchase various forms of insurance and invest in segregated funds and/or equity markets. General insurance continues to be a promising segment of our business with revenues reaching \$23.1 million in 2010 compared to \$21.7 million in 2009.

Equipment financing lease receivables were stable in 2010, growing to \$175.7 million compared to \$175.4 million in 2009. Leases that we originate in British Columbia are held by the parent credit union company. We also operate this service outside of British Columbia by way of our wholly owned subsidiary, Coast Capital Equipment Finance Ltd., providing financing in Alberta, Saskatchewan, Manitoba and Ontario.

### International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. As a publicly accountable enterprise, we will be required to prepare financial statements for the fiscal year ended December 31, 2011 in compliance with IFRS, including comparative information for 2010.

First-Time Adoption of International Financial Reporting Standards, or IFRS 1, provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for a full retrospective application of IFRS. Adjustments resulting from the adoption of the IFRS exemptions and exceptions will only be made on the date of transition to IFRS.

### IFRS project plan

We have developed an IFRS project plan which is arranged according to the following phases:

#### Planning and scoping

Our objective for this phase was to complete an assessment to understand the overall effort required to convert from Canadian GAAP to IFRS and the impacts on the organization as a whole. This phase consisted of the following activities: formation of a project team; development of a status reporting framework; development and approval of a project charter; and completion of analyses to identify differences between IFRS and current accounting policies.

## *Management's Discussion and Analysis*

### **Analysis and design**

This phase involves designing and performing the comprehensive IFRS conversion. The key elements of this phase are as follows: analysis and documentation of key policy choices and IFRS 1 policy elections that must be addressed at the changeover date; identification and design of changes required to support future state of accounting, reporting, close, consolidation and reconciliation processes and internal controls; identification and design of changes to information technology (IT) systems required to support IFRS financial reporting; and addressing information and training needs.

### **Implementation and review**

This phase is the execution phase which will focus on enabling continued IFRS reporting and facilitating knowledge transfer. The key elements are as follows: implement changes to affected accounting policies and practices, business processes, systems and internal controls; support ongoing IFRS compliance by updating relevant documentation; and develop training plans tailored to the needs of different staff groups across the organization.

### **Progress towards completion of IFRS project plan**

We have completed the first phase of the project plan. We have established a project team, including a steering committee, to provide direction for the project. The steering committee is a multi-functional group and includes representatives from different areas of the organization. The steering committee meets monthly and the Audit and Finance Committee receives updates at least quarterly on the status of the project. We have also identified, analyzed and fully documented the key differences between IFRS and our current accounting policies.

Regarding the subsequent phases, we have achieved all targeted milestones for 2010 in a timely manner. We have analyzed the key policy choices and IFRS 1 elections and have communicated recommendations, based on existing IFRS and the information currently available, to our Audit and Finance Committee. In addition, we have commenced implementation of required changes to future financial reporting processes, internal controls and other business areas – including IT systems – and will continue to assess the impact of IFRS on these areas. We are monitoring the International Accounting Standards Board's active projects and reviewing guidance from regulators to ensure that we appropriately incorporate required changes that are effective as at the transition date. Finally, we have completed preliminary knowledge building and training initiatives with relevant staff members and will continue to do so over the course of the project as needed.

### **Identification of differences**

We have assessed the differences between IFRS and our current accounting policies. The differences between existing accounting policies and IFRS requirements, combined with the decisions on the optional IFRS 1 elections, will result in measurement and recognition differences upon transition to IFRS. We will record the net impact of these differences in opening retained earnings, affecting members' equity. Precisely quantifying the impacts of these differences is dependent on completion of the work currently in progress and on finalization of all decisions where choices of accounting policies are available. Therefore, at the current stage of the project, we cannot reasonably determine the full quantitative impact that adopting IFRS will have on our financial position and results.

Based on the analyses performed to date, we have identified the following significant differences:

### **Allowances for credit losses**

IFRS and Canadian GAAP are significantly aligned in this area. As part of the conversion process, we are developing a loan loss model that recognizes specific requirements to support our impairment losses. The impact of the transition to IFRS as it relates to the allowance for credit losses is not yet determinable.

Further, IFRS requires continued accruals for interest on impaired loans in interest income and permits the reversal of previous impairment losses if it is related to a recovery event. We would establish allowances against these accruals if we deem the amounts uncollectible.

## Management's Discussion and Analysis

### **Securitization**

While Canadian GAAP focuses on the notion of control over the asset, IFRS considers the retention of risks and rewards of ownership in determining whether or not an asset should be derecognized. If we do not meet the IFRS conditions, mortgages which have been transferred to unrelated third parties and derecognized under Canadian GAAP would be returned to the Consolidated Balance Sheet and recognized as financing transactions.

In addition, IFRS 1 as it currently stands requires us to apply the derecognition requirements to, at a minimum, transactions occurring on or after our transition date, which is January 1, 2010, effective for periods beginning after July 1, 2011. Early adoption of these requirements is permitted.

### **Classification of financial instruments**

IFRS 1 permits the re-designation of any financial asset or financial liability as either available for sale or at fair value through profit and loss. We have analyzed the impacts of making this election on transition to IFRS and have implemented the processes required to address the resulting changes.

### **Outlook**

#### **Loans and deposits**

As predicted, the unprecedented deposit growth that we experienced in 2009 did slow down considerably in 2010 as customers re-entered equity markets. Going forward, we expect deposit growth in 2011 to be less than our loan growth objectives. Our plan is to manage our high liquidity down to a more historically sustainable level.

The Multiple Listing Unit Sales (MLS) in our market – Metro Vancouver, Fraser Valley and Vancouver Island – decreased by 14% in 2010 after having increased by 36% in 2009. While the MLS sales activity decreased, housing starts in British Columbia, a key driver for loan growth, increased quite dramatically in 2010 to 26,000 units compared to 16,000 units in 2009. In 2011, forecasts are for housing starts to stay close to the same levels as we saw in 2010. We believe this will translate into residential mortgage growth similar to last year.

We expect our commercial loan growth to turn around in 2011. During the latter half of 2010, the commercial real estate lending deal flow returned to a volume that was last experienced prior to the economic slowdown. This uptick in activity is expected to continue through 2011.

#### **Net income**

Net interest income was positively impacted in 2010 by rising interest rates. Being asset sensitive, we are well positioned to benefit from any increases in interest rates that may occur.

We are also forecasting other income to increase in 2011 as a result of continued restored investor confidence and renewed interest in equity markets. We offer a suite of mutual fund products with a value proposition that resonates well with our membership: solid results with low management fees. Additionally, in recent years we have added a number of branches offering general insurance and continue to provide a wide variety of products including private optional automobile coverage.

A major focus in 2011 will continue to be strategic cost management. We have been able to improve efficiencies with increased scale, but plan to accelerate these initiatives. We will be applying significant resources to our banking system conversion, which will provide numerous opportunities to analyze existing processes and seek efficiencies.

With housing starts projected to match last year's solid levels and the B.C. economy (GDP) expected to grow at a fairly healthy pace of 3.0%, we believe we are well positioned to take advantage of opportunities that present themselves in 2011.

### **Note Regarding Forward-looking Statements**

This Annual Report contains forward-looking statements about the operations, objectives and expected financial performance of Coast Capital Savings Credit Union. These statements are subject to risks and uncertainties. Actual results may differ depending on a number of factors, including but not limited to legislative or regulatory changes, interest rates and general economic conditions in British Columbia and Canada. These issues should be given careful consideration and readers should not place undue reliance on our forward-looking statements.

## *Management's Responsibility for Financial Reporting*

The consolidated financial statements and all other information contained in the Annual Report are the responsibility of management and have been approved by the Board of Directors (the "Board"). The consolidated financial statements have been prepared by management in accordance with the requirements of the *Credit Union Incorporation Act* and appropriate generally accepted accounting principles in Canada, and include amounts based on informed judgments and estimates of the expected effects of current events and transactions. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

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

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



Tracy Redies  
President and Chief Executive Officer



Don Coulter, CA  
Chief Financial Officer

# *Independent Auditors' Report*

## **To the Members**

We have audited the accompanying consolidated financial statements of Coast Capital Savings Credit Union, which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated statements of income, members' equity, comprehensive income and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

## **Management's Responsibility for the Consolidated Financial Statements**

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

## **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Coast Capital Savings Credit Union as at December 31, 2010, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



**KPMG LLP**

February 23, 2011

Vancouver, Canada

## Consolidated Balance Sheets

As at December 31

<i>All amounts expressed in thousands of dollars, unless otherwise stated</i>	Notes	2010	2009
<b>Assets</b>			
Cash resources	3	\$ 190,667	\$ 964,005
Investments	4	1,729,970	1,809,507
Loans	5, 6, 7	8,383,003	8,245,780
Premises and equipment	9	51,328	41,734
Other	10	52,083	65,818
		<b>\$ 10,407,051</b>	<b>\$ 11,126,844</b>
<b>Liabilities</b>			
Deposits	11	\$ 9,719,790	\$ 9,920,480
Borrowings	12	–	575,000
Other	13	66,575	62,921
		<b>9,786,365</b>	<b>10,558,401</b>
Subordinated notes	14	25,000	25,000
<b>Members' equity</b>			
Class B shares		\$ 41,485	\$ 42,597
Retained earnings		551,484	486,962
Accumulated other comprehensive income		2,717	13,884
		<b>595,686</b>	<b>543,443</b>
		<b>\$ 10,407,051</b>	<b>\$ 11,126,844</b>
Commitments and contingent liabilities	19		

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

On behalf of the Board of Directors:



Bill Wellburn  
Chair, Board of Directors



Karen Kesteloo  
Chair, Audit and Finance Committee

## Consolidated Statements of Income

Year ended December 31

<i>All amounts expressed in thousands of dollars, unless otherwise stated</i>	Notes	2010	2009
<b>Interest income</b>			
Loans		\$ 377,497	\$ 396,328
Cash resources and investments		28,776	28,060
		406,273	424,388
<b>Interest expense</b>			
Deposits		157,576	192,713
Borrowings		916	1,326
		158,492	194,039
<b>Net interest income</b>			
		247,781	230,349
Provision for credit losses	6	10,026	20,665
		237,755	209,684
Other income	16	70,679	64,983
		308,434	274,667
<b>Non-interest expenses</b>			
Salaries and employee benefits		120,481	115,681
Administration	17	45,844	47,549
Technology		24,916	21,152
Occupancy		25,615	25,584
Community contributions		4,615	3,874
		221,471	213,840
<b>Income before provision for income taxes and extraordinary item</b>			
		86,963	60,827
Provision for income taxes	18	21,529	13,272
Income before extraordinary item		65,434	47,555
Extraordinary item, net of taxes	26	–	6,706
<b>Net income</b>		<b>\$ 65,434</b>	<b>\$ 54,261</b>

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

## Consolidated Statements of Members' Equity

Year ended December 31

<i>All amounts expressed in thousands of dollars, unless otherwise stated</i>	Notes	2010	2009
<b>Class B shares</b>			
Balance at beginning of the year	\$	42,597	\$ 43,669
Share dividends		1,189	1,263
Share redemptions		(2,301)	(2,335)
Balance at end of the year		41,485	42,597
<b>Retained earnings</b>			
Balance at beginning of the year		486,962	434,385
Adoption of new standards		–	(520)
Net income		65,434	54,261
Share dividends		(1,189)	(1,263)
Cash dividends		(87)	(83)
Income tax deduction on dividends		364	182
Balance at end of the year		551,484	486,962
<b>Accumulated other comprehensive income – available for sale securities</b>			
Balance at beginning of the year		9,309	1,002
Other comprehensive income		(3,379)	8,307
Balance at end of the year		5,930	9,309
<b>Accumulated other comprehensive income – cash flow hedges</b>			
Balance at beginning of the year		4,575	23,102
Adoption of new standards		–	(536)
Other comprehensive income		(7,788)	(17,991)
Balance at end of the year		(3,213)	4,575
Total accumulated other comprehensive income		2,717	13,884
Total equity	\$	595,686	\$ 543,443

Class B shares are not a membership requirement. These shares are non-transferable, non-cumulative and non-voting. Retraction and redemption of Class B shares including terms, conditions and dividends, are set at the discretion of the Board of Directors. The dividend rate is a floating rate and is currently 3.08% (2009 – 3.16%).

Coast Capital has authorized six classes of equity shares. Each class is authorized for an unlimited number of shares with a par value of \$1.

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

## Consolidated Statements of Comprehensive Income

Year ended December 31

<i>All amounts expressed in thousands of dollars, unless otherwise stated</i>	2010	2009
Net income	\$ 65,434	\$ 54,261
Other comprehensive income		
Gains (losses) on effective portion of cash flow hedges arising during the year (net of income taxes of \$387, 2009 – \$(1,209))	970	(7,745)
Reclassification to net income of gains on cash flow hedges (net of income taxes of \$(1,036), 2009 – \$(1,599))	(8,758)	(10,246)
Unrealized (losses) gains on available for sale securities during the year (net of income taxes of \$(1,347), 2009 – \$1,297)	(3,379)	8,307
Total other comprehensive income	(11,167)	(9,684)
Comprehensive income	\$ 54,267	\$ 44,577

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

## Consolidated Statements of Cash Flows

Year ended December 31

<i>All amounts expressed in thousands of dollars, unless otherwise stated</i>	Notes	2010	2009
<b>Cash flows from operating activities</b>			
Net income		\$ 65,434	\$ 54,261
Adjustments for:			
Amortization of premises, equipment	9	8,640	8,968
Amortization of intangible assets		261	261
Future income taxes	18	2,818	2,094
Provision for credit losses	6	10,026	20,665
Write-down of asset-backed commercial paper	4	–	893
Changes in accrued interest receivable and payable		(11,519)	(31,684)
Changes in other non-cash operating items		3,421	1,025
Cash flows from operating activities		79,081	56,483
<b>Cash flows used in investing activities</b>			
Net (increase) decrease in loans		(149,396)	241,843
Sale of asset-backed commercial paper investments		7,930	–
Net (increase) decrease in investments		437,941	(990,914)
Net purchase of premises and equipment		(18,234)	(11,911)
Cash flows from (used in) investing activities		278,241	(760,982)
<b>Cash flows from financing activities</b>			
Net increase (decrease) in deposits		(188,576)	702,647
Net increase (decrease) in borrowing	12	(575,000)	26,741
Repurchase of mortgage securitization		–	(146,942)
Redemption of Class C shares		–	(38,669)
Net redemption of Class A and B shares		(2,209)	(2,233)
Cash flows from (used in) financing activities		(765,785)	541,544
<b>Net decrease in cash and short-term investments</b>		(408,463)	(162,955)
<b>Cash and short-term investments, beginning of year</b>	3	507,643	670,598
<b>Cash and short-term investments, end of year</b>	3	\$ 99,180	\$ 507,643
<b>Supplemental disclosure of cash flow information</b>			
Interest paid during the year		\$ (170,761)	\$ (229,026)
Income taxes paid during the year		(529)	(35,667)

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

# Notes to Consolidated Financial Statements

Years ended December 31, 2010 and 2009.

All amounts expressed in thousands of dollars, unless otherwise stated.

Coast Capital Savings Credit Union ("Coast Capital") is incorporated under the British Columbia *Credit Union Incorporation Act*, and its subsidiaries are incorporated under the British Columbia *Company Act* or the *Canada Business Corporations Act*. The operation of Coast Capital is regulated under the British Columbia *Financial Institutions Act*. Coast Capital provides financial services to members principally in the Metro Vancouver, Fraser Valley and Vancouver Island regions of British Columbia.

## 1. Significant Accounting Policies

### Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

### Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of estimates include the measurement of the allowance for credit losses, financial instruments measured at fair value, other-than-temporary impairment of available for sale (AFS) securities, securitizations, income taxes, goodwill and intangible assets. Actual results may differ from these estimates.

### Principles of consolidation

These consolidated financial statements include the financial position, operating results and cash flows of Coast Capital and its subsidiaries, Coast Capital Insurance Services Ltd. and Coast Capital Equipment Finance Ltd. All inter-company transactions and balances have been eliminated.

Variable interest entities (VIEs) are entities that have insufficient equity and/or their equity investors at risk lack one or more of the specified essential characteristics of a controlling financial interest. Coast Capital is required to identify VIEs and determine if Coast Capital has a significant variable interest and/or is the primary beneficiary of the variable interest. The primary beneficiary is required to consolidate a VIE.

Coast Capital neither has significant variable interests in nor is the primary beneficiary of any VIEs. Consequently, the consolidated financial statements do not include the financial position or results of any VIEs.

### Cash resources

For the purposes of the Consolidated Statements of Cash Flows, cash and short-term investments comprise balances with less than 90 days to maturity from the date of acquisition, including cash and deposits with Central 1 Credit Union ("Central 1"), treasury bills and other eligible bills, amounts due from other banks and cheques and other items in transit.

### Financial instruments

All financial instruments, with certain exceptions, are classified as one of the following: held to maturity (HTM), loans and receivables, held for trading (HFT), AFS or other financial liabilities. All financial instruments are recorded at fair value on initial recognition and are subsequently accounted for based on their classification. Classification depends on the purpose for which the financial instruments were acquired and their characteristics.

Fair values of financial instruments are based on quoted market prices where available from active markets; otherwise fair values are estimated using a variety of valuation techniques and models. The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal payments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

HTM financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, which an entity has the positive intention and ability to hold to maturity. HTM financial assets are accounted for at amortized cost. Coast Capital has designated certain investments as HTM.

## *Notes to Consolidated Financial Statements*

### **1. Significant Accounting Policies (continued)**

HFT financial assets include securities purchased for resale, generally within a short period of time. They are measured at fair value at the balance sheet date. Gains and losses realized on disposal and unrealized gains and losses from market fluctuations are reported in Other Income. Under the fair value option, an entity can designate any financial assets or liabilities on initial recognition as HFT.

Loans and receivables are accounted for at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

AFS financial assets are those non-derivative financial assets that are not designated as loans and receivables, HTM or HFT. AFS instruments are carried at fair value whereby the unrealized gains and losses are included in Accumulated Other Comprehensive Income until sale or identification of other than temporary impairment at which time the cumulative gain or loss is transferred to the Consolidated Statement of Income. AFS equity instruments that do not have quoted values in active markets are carried at cost. Realized gains and losses on sale and write-downs to reflect other than temporary impairment in value are recorded in Other Income.

Financial liabilities are recorded at amortized cost using the effective interest method and include all liabilities, other than derivatives, and liabilities designated as HFT. Coast Capital has not designated any financial liabilities as HFT at December 31, 2010.

All derivatives, including embedded derivatives, are recorded at fair value in the Consolidated Balance Sheet.

### **Investments**

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

### **Loans**

Loans are recorded at amortized cost using the effective interest method net of the allowance for credit losses.

Interest income is recorded on the accrual basis. Accrued but uncollected interest is reversed whenever loans are determined to be impaired. Coast Capital classifies a loan as impaired when, in the opinion of management, there is reasonable doubt as to the ultimate collectibility, either in whole or in part, of principal or interest. Loans where interest or principal is contractually past due 90 days are automatically categorized as impaired, unless management determines there is no reasonable doubt as to the ultimate collectibility of principal and interest. All loans are classified as impaired when interest or principal is past due 180 days. When a loan is classified as impaired, interest income is recognized on a cash basis only after any specific provisions or partial write-offs have been recovered and provided there is no further doubt as to the collectibility of principal.

### **Loan fees**

Loan origination fees, including commitment, renewal and renegotiation fees, are considered to be adjustments to loan yield, and are deferred and amortized to loan interest income over the term of the loans using the effective interest method. Mortgage prepayment penalty fees are recognized in income unless only minor modifications (based on a present value of future cash flows test) were made to the loan in which case, the fees are deferred and amortized over the remaining term of the loan using the effective interest rate method.

### **Allowance for credit losses**

Coast Capital maintains an allowance for credit losses which, in management's opinion, is considered adequate to provide for credit-related losses. The allowance is increased for loan impairment by a charge to income and reduced by write-offs net of recoveries.

# Notes to Consolidated Financial Statements

## 1. Significant Accounting Policies (continued)

A specific allowance is established on an individual loan basis to reduce the carrying value to the loan's estimated realizable amount. The estimated realizable amounts are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans. When the amounts and timing of future cash flows cannot be reliably determined, estimated realizable amounts are determined by reference to market prices for the loans or their underlying security.

Coast Capital also maintains a collective allowance to absorb credit losses that management estimates have occurred at the balance sheet date for which specific allowances cannot yet be determined. Coast Capital applies a methodology that incorporates loan loss history as the basis for estimating probability of default and loss for various credit portfolios that exhibit similar loan loss characteristics.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote.

### Transfers of mortgage receivables

Transfers of mortgages to unrelated parties are treated as sales provided that control over the transferred mortgages has been surrendered and consideration other than beneficial interests in the transferred mortgages has been received in exchange. If these criteria are not satisfied, then the transfers are treated as financing transactions.

If treated as sales, the mortgages are removed from the Consolidated Balance Sheet, and a gain or loss is recognized in Other Income based on the carrying value of the loans transferred, allocated between the assets sold and the retained interests in proportion to their fair values at the date of transfer. The fair values of mortgages sold, retained interests and recourse liabilities are determined using either quoted market inputs or pricing models that take into account management's best estimates of key assumptions such as expected losses, prepayments and discount rates commensurate with the risks involved.

As part of these transfers of mortgage receivables, Coast Capital retains servicing responsibilities. Coast Capital's retained interests consist of its rights to future cash flows arising after the investors have received the return for which they contracted and credit enhancement provided to the third parties in the form of cash collateral accounts. The third parties, as holders of the securitized mortgages, have recourse only to a cash collateral account and cash flow from the securitized mortgages. The investors and the third parties have no recourse to Coast Capital's other assets for failure of debtors to pay when due. Coast Capital's retained interests are subject to credit, prepayment and interest rate risks on the securitized mortgages.

Retained interests in the assets sold are classified as AFS. These retained interests are recorded at fair value at the time of transfer to unrelated parties and are periodically re-evaluated with any changes in their fair values being recognized through Other Comprehensive Income. Retained interests are recorded at fair value and are reviewed for impairment of an other than temporary nature. Changes in fair value of an other than temporary nature are recorded in Other Income.

Where Coast Capital continues to service the mortgages sold, a servicing liability is recognized and amortized over the servicing period as servicing fees. The servicing liability is initially recognized at its fair value and is recorded in Other Liabilities. Over the term of the transferred mortgages, the related servicing liability is amortized into Other Income.

### Premises and equipment

Land is carried at cost. Buildings, furniture and equipment and leasehold improvements are carried at cost, less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings	40 to 50 years
Leasehold improvements	Lease term
Computer and telephone equipment	3 years
Furniture and other equipment	5 to 10 years
Computer software	3 to 5 years

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

# *Notes to Consolidated Financial Statements*

## **1. Significant Accounting Policies (continued)**

### **Business combinations, goodwill and other intangible assets**

Business combinations are accounted for using the purchase method. Identifiable intangible assets are recognized separately from Goodwill and included in Other Intangible Assets.

Goodwill represents the excess of the price paid for the acquisition of subsidiaries over the fair value of the net assets acquired. Goodwill impairment is assessed on at least an annual basis. Any excess of carrying value over fair value is charged to income in the period in which impairment is determined.

Other intangible assets with definite useful lives are amortized over their estimated useful lives, generally not exceeding 10 years and are also reviewed for indications of impairment annually.

### **Derivative instruments and hedges**

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

In the ordinary course of business, Coast Capital enters into various derivative contracts, including interest rate forwards, swaps and options. Derivative contracts are either exchange-traded contracts or negotiated over-the-counter contracts. Coast Capital enters into such contracts principally to manage its exposures to interest rate fluctuations as part of its asset/liability management program.

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

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

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

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

# Notes to Consolidated Financial Statements

## 1. Significant Accounting Policies (continued)

### Income taxes

Coast Capital uses the asset-and-liability method of accounting for income taxes. Future 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. Future 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. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is established to reduce future income tax assets to the amount expected to be realized.

Future income tax assets or liabilities are included in Other Assets or Other Liabilities, as applicable.

### Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated in Canadian dollars at prevailing exchange rates at the date of the Consolidated Balance Sheet. Revenues and expenses are translated using average exchange rates. Realized and unrealized gains and losses arising from translation are included in the Consolidated Statement of Income.

### Comparative figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

## 2. Future Accounting Changes

### International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. As a publicly accountable enterprise, Coast Capital will be required to prepare financial statements for the fiscal year ending December 31, 2011, including comparative information for 2010, in compliance with IFRS.

## 3. Cash Resources

	2010	2009
Cash	\$ 50,868	\$ 42,052
Short-term investments, classified as HFT	18,903	12,707
Short-term investments, classified as AFS	29,409	452,884
Cash and short-term investments	99,180	507,643
Deposits with Central 1	91,426	456,223
Accrued interest	61	139
	<u>\$ 190,667</u>	<u>\$ 964,005</u>

In accordance with provincial legislation, credit unions are required to maintain liquid investments at a minimum of 8% of their deposit and debt liabilities. Within this 8%, credit unions are required to hold with Central 1 the greater of:

- 1.5% of all British Columbia credit union assets; or
- 6.0% of their deposits plus borrowings.

Deposits with Central 1 earn interest at short-term market rates. The long-term portion of Coast Capital's deposits with Central 1 is shown in Note 4 and classified as Investments.

## Notes to Consolidated Financial Statements

### 4. Investments

	2010	2009
Deposits with Central 1	\$ 959,640	\$ 1,065,250
Shares, Central 1	26,294	26,024
Accrued interest on investments	13,092	11,554
Other, classified as HFT	59,865	70,472
Other, classified as AFS	671,079	636,207
	<b>\$ 1,729,970</b>	<b>\$ 1,809,507</b>

The statutory deposits are a required investment as a condition of membership in Central 1 and are required by provincial legislation. Shares in Central 1 are classified as AFS investments and recorded at cost as there is no active market for these shares. The amount of the required share investment in Central 1 is determined based on Coast Capital's membership and assets.

Other is primarily comprised of deposit notes and bankers' acceptances with Canadian chartered banks, corporate, provincial and municipal bonds rated AA or higher and commercial paper rated R1 low or higher. In 2009, Coast Capital also had an investment in non-bank asset-backed commercial paper (ABCP) recorded at a fair value of \$7,847 with an original par value of \$20,000. This investment was sold in 2010 for proceeds of \$7,930.

### 5. Loans

2010	Residential mortgages	Personal loans	Commercial mortgages and loans	Total
Loan principal	\$ 6,188,078	\$ 314,270	\$ 1,925,457	\$ 8,427,805
Accrued interest	8,829	834	6,905	16,568
Total loans	6,196,907	315,104	1,932,362	8,444,373
Allowances for credit losses	7,511	11,524	42,335	61,370
	6,189,396	303,580	1,890,027	8,383,003
Impaired loans	29,031	1,479	70,988	101,498
Less amounts where loss not expected	28,045	595	52,006	80,646
Specific allowances	986	884	18,982	20,852
Collective allowances				40,518
Total allowances for credit losses				<b>\$ 61,370</b>

2009	Residential mortgages	Personal loans	Commercial mortgages and loans	Total
Loan principal	\$ 5,608,159	\$ 347,761	\$ 2,333,763	\$ 8,289,683
Accrued interest	8,871	825	9,015	18,711
Total loans	5,617,030	348,586	2,342,778	8,308,394
Allowances for credit losses	11,166	11,018	40,430	62,614
	5,605,864	337,568	2,302,348	8,245,780
Impaired loans	24,466	3,569	48,834	76,869
Less amounts where loss not expected	22,671	2,055	38,090	62,816
Specific allowances	1,795	1,514	10,744	14,053
Collective allowances				48,561
Total allowances for credit losses				<b>\$ 62,614</b>

Substantially all of Coast Capital's loans are written on properties and businesses located in the Metro Vancouver, Fraser Valley and Vancouver Island regions of British Columbia.

## Notes to Consolidated Financial Statements

### 6. Allowances for Credit Losses

2010	Residential mortgages	Personal loans	Commercial mortgages and loans	Total
Balance, beginning of year	\$ 11,166	\$ 11,018	\$ 40,430	\$ 62,614
Provision for credit losses	(2,137)	5,422	6,741	10,026
Loans written off	(2,228)	(4,916)	(5,046)	(12,190)
Recoveries of loans written off	710	–	210	920
Balance, end of year	\$ 7,511	\$ 11,524	\$ 42,335	\$ 61,370
Percentage of total loans	0.12%	3.80%	2.24%	0.73%

2009	Residential mortgages	Personal loans	Commercial mortgages and loans	Total
Balance, beginning of year	\$ 10,720	\$ 10,140	\$ 32,785	\$ 53,645
Provision for credit losses	647	6,068	13,950	20,665
Loans written off	(780)	(5,190)	(6,389)	(12,359)
Recoveries of loans written off	579	–	84	663
Balance, end of year	\$ 11,166	\$ 11,018	\$ 40,430	\$ 62,614
Percentage of total loans	0.20%	3.26%	1.76%	0.76%

## Notes to Consolidated Financial Statements

### 7. Credit Quality

2010	Residential mortgages	Personal loans	Commercial mortgages and loans	Total
<b>Grades</b>				
1 to 3 – satisfactory risk			\$ 1,618,062	\$ 1,618,062
4 – watch list			235,972	235,972
5 – sub-standard but not impaired			435	435
Commercial mortgages and loans not impaired			1,854,469	1,854,469
Residential mortgages and personal loans not impaired	\$ 6,159,047	\$ 312,791		6,471,838
Loans not impaired	6,159,047	312,791	1,854,469	8,326,307
Impaired	29,031	1,479	70,988	101,498
	6,188,078	314,270	1,925,457	8,427,805
<b>Loans past due</b>				
Past due up to 29 days	82,659	9,689	20,020	112,368
Past due 30 – 89 days	25,473	3,370	12,182	41,025
Past due 90 – 179 days	6,671	783	21,265	28,719
Past due over 180 days	21,145	740	43,250	65,135
	135,948	14,582	96,717	247,247
<b>Loans past due but not impaired</b>				
Past due up to 29 days	82,659	9,662	14,079	106,400
Past due 30 – 89 days	23,539	3,308	11,169	38,016
Past due 90 – 179 days	719	133	481	1,333
Past due over 180 days	–	–	–	–
	106,917	13,103	25,729	145,749
<b>Loans impaired</b>				
Past due up to 29 days	–	27	5,941	5,968
Past due 30 – 89 days	1,934	62	1,013	3,009
Past due 90 – 179 days	5,952	650	20,784	27,386
Past due over 180 days	21,145	740	43,250	65,135
	\$ 29,031	\$ 1,479	\$ 70,988	\$ 101,498

Credit grades are formally applied to commercial mortgages and loans and comply with provincial regulations. Residential mortgages and personal loans are tested for impairment on an ongoing basis. If a residential mortgage or personal loan is 14 days past due but determined to not be impaired, management has a formalized process which queues loans by age for regular monitoring.

## Notes to Consolidated Financial Statements

### 7. Credit Quality (continued)

2009	Residential mortgages	Personal loans	Commercial mortgages and loans	Total
<b>Grades</b>				
1 to 3 – satisfactory risk			\$ 2,130,274	\$ 2,130,274
4 – watch list			154,328	154,328
5 – sub-standard but not impaired			327	327
Commercial mortgages and loans not impaired			2,284,929	2,284,929
Residential mortgages and personal loans not impaired	\$ 5,583,693	\$ 344,192		5,927,885
Loans not impaired	5,583,693	344,192	2,284,929	8,212,814
Impaired	24,466	3,569	48,834	76,869
	5,608,159	347,761	2,333,763	8,289,683
<b>Loans past due</b>				
Past due up to 29 days	85,573	2,970	11,227	99,770
Past due 30 – 89 days	32,041	2,347	16,750	51,138
Past due 90 – 179 days	11,199	2,483	19,124	32,806
Past due over 180 days	16,068	2,100	12,917	31,085
	144,881	9,900	60,018	214,799
<b>Loans past due but not impaired</b>				
Past due up to 29 days	85,009	2,913	–	87,922
Past due 30 – 89 days	31,965	2,250	10,944	45,159
Past due 90 – 179 days	3,441	1,168	3,345	7,954
Past due over 180 days	–	–	–	–
	120,415	6,331	14,289	141,035
<b>Loans impaired</b>				
Past due up to 29 days	564	57	14,332	14,953
Past due 30 – 89 days	76	97	5,806	5,979
Past due 90 – 179 days	7,758	1,315	15,779	24,852
Past due over 180 days	16,068	2,100	12,917	31,085
	\$ 24,466	\$ 3,569	\$ 48,834	\$ 76,869

## Notes to Consolidated Financial Statements

### 8. Transfers of Mortgage Receivables

As part of its program of liquidity, capital and interest rate risk management, Coast Capital enters into arrangements to fund mortgage growth by selling loans to unrelated third parties.

In 2010, servicing liabilities amortized to income during the year amounted to \$506 (2009 – \$1,148). The fair value of servicing liabilities amounted to \$316 at December 31, 2010 (2009 – \$821) and is recorded in Other Liabilities. Retained interests recorded at fair value amounted to \$2,086 at December 31, 2010 (2009 – \$5,212) and is recorded in Other Assets. The amount charged to Other Income relating to other than temporary impairment of retained interests was \$1,126 (2009 – \$3,134).

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

Type of loan	Total principal amount of mortgages	Principal amount of loans over 60 days past due	Average balances
2010	\$ 91,089	\$ 629	\$ 129,003
2009	\$ 172,261	\$ –	\$ 266,562

Key assumptions used in measuring the retained interests and servicing liabilities at December 31 were as follows:

	2010	2009
Prepayment	24.00%	24.00%
Expected credit losses	0.12%	0.12%
Residual cash flows discounted at	3.62%	3.62%
Weighted average excess spread	1.73%	1.71%
Weighted average life (in years)	1.82	2.89

Coast Capital has no obligation to repurchase the securitized mortgages, which mature as follows:

2011	\$ 9,021
2012	47,146
2013	34,922
	\$ 91,089

### 9. Premises and Equipment

	Cost	Accumulated amortization	2010 net book value	2009 net book value
Land	\$ 3,703	\$ –	\$ 3,703	\$ 3,703
Buildings	18,118	10,977	7,141	7,627
Furniture and equipment	22,888	9,651	13,237	17,150
Leasehold improvements	49,900	22,653	27,247	13,254
	\$ 94,609	\$ 43,281	\$ 51,328	\$ 41,734

Amortization in respect of the above buildings, furniture and equipment and leasehold improvements amounted to \$8,640 (2009 – \$8,968).

## Notes to Consolidated Financial Statements

### 10. Other Assets

	2010	2009
Accounts receivable	\$ 11,140	\$ 10,610
Prepaid expenses	8,498	8,349
Future income taxes (Note 18)	14,722	17,540
Goodwill and other intangible assets	9,763	10,024
Derivatives, fair value	1,101	138
Retained interests on securitized mortgages (Note 8)	2,086	5,212
Taxes receivable	–	9,085
Other	4,773	4,860
	<b>\$ 52,083</b>	<b>\$ 65,818</b>

### 11. Deposits

	2010	2009
Demand	\$ 3,638,114	\$ 3,188,080
Term	4,596,260	5,248,823
Registered plans	1,424,406	1,410,444
Class A membership shares	2,064	1,972
Class P non-equity shares	188	200
Accrued interest	58,758	70,961
	<b>\$ 9,719,790</b>	<b>\$ 9,920,480</b>

#### Class A membership shares

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

#### Class P non-equity shares

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

### 12. Borrowings

Maturity Date	Interest rate	2010	2009
January 5, 2010	0.82%	\$ –	\$ 175,000
January 7, 2010	0.80%	–	200,000
January 13, 2010	0.80%	–	100,000
January 14, 2010	0.80%	–	100,000
		<b>\$ –</b>	<b>\$ 575,000</b>

Borrowings are secured by insured residential mortgages. Additionally, Coast Capital has the ability to borrow up to 15% of its total assets from Central 1. Borrowings would be secured by a debenture in favour of Central 1, creating a floating charge on the assets and undertakings of Coast Capital and an assignment of book debts.

## Notes to Consolidated Financial Statements

### 13. Other Liabilities

	2010	2009
Accounts payable and accruals	\$ 46,284	\$ 52,554
Derivatives, fair value	2,147	3,305
Taxes payable	11,978	–
Deferred fee income	6,166	7,062
	\$ 66,575	\$ 62,921

### 14. Subordinated Notes

The notes are unsecured and subordinated in right of payment to the claims of depositors and certain other creditors. The interest rates are calculated on a floating rate basis. Coast Capital has an option to convert to fixed-interest rates on 30 days' written notice.

Maturity date	2010	2009
August 25, 2016	\$ 25,000	\$ 25,000

### 15. Capital Management

Section 1535 of the Canadian Institute of Chartered Accountants Standards, Capital Disclosures, requires Coast Capital to disclose information that enables users of the financial statements to evaluate the objectives, policies and processes for managing capital.

#### a) Objectives, policies and processes

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

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

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

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

## Notes to Consolidated Financial Statements

### 15. Capital Management (continued)

#### b) Regulatory capital

Total capital comprises both primary and secondary capital. Capital requirements are regulated by the Financial Institutions Commission of British Columbia (FICOM) using the risk-weighted approach developed by the Bank for International Settlements. FICOM established a minimum capital standard based on a ratio of capital to risk-weighted assets of 8.0%. At least 50% of a credit union's capital base, for the purpose of meeting the standard, must consist of primary capital, known as Tier 1.

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

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

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

At December 31, Coast Capital reported the following components of regulatory capital:

	2010	2009
Tier 1 capital	\$ 557,904	\$ 498,972
Tier 2 capital	92,399	93,661
Total capital	\$ 650,303	\$ 592,633

### 16. Other Income

	2010	2009
General insurance commissions, net	\$ 23,099	\$ 21,740
Mutual and segregated fund commissions	12,904	11,664
Account service charges	14,841	15,502
Creditor and life insurance commissions	6,836	3,155
Foreign exchange	5,760	5,110
Gain on settlement on repurchase of securitized loans (Note 8)	-	2,374
Loan processing fees	1,747	2,023
Credit card commissions	2,941	2,894
Safety deposit box rental income	1,412	1,464
Securitization income (loss)	(620)	(2,017)
Write-down of asset-backed commercial paper investment	-	(893)
Other	1,759	1,967
	\$ 70,679	\$ 64,983

## Notes to Consolidated Financial Statements

### 17. Administration Expenses

	2010	2009
Assessments for deposit insurance	\$ 5,469	\$ 5,098
Assessments to Central 1 and regulator	2,633	2,874
Chequing service charges	3,829	3,816
Marketing	6,596	5,964
Capital taxes	363	2,450
Bonding and other insurance	1,921	2,009
Professional services	7,740	6,694
Stationery, telephone and postage	5,840	5,540
Travel, meals and entertainment	1,967	1,665
Loan processing	1,718	1,595
Courier	1,118	1,052
Training and recruitment	583	1,016
Other	6,067	7,776
	<b>\$ 45,844</b>	<b>\$ 47,549</b>

### 18. Provision for Income Taxes

	2010	2009
Current income taxes	\$ 18,711	\$ 11,178
Future income taxes	2,818	2,094
	<b>\$ 21,529</b>	<b>\$ 13,272</b>

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 28.5% (2009 – 30.0%) to income before income taxes. The reasons for the differences are as follows:

	2010		2009	
	Amount	% of pre-tax income	Amount	% of pre-tax income
Combined federal and provincial statutory income taxes	\$ 24,784	28.5	\$ 18,248	30.0
Reduction applicable to credit unions	–	–	(7,176)	(11.8)
Change in estimate of tax rates	1,823	2.1	974	1.6
Change in tax rates on other comprehensive income	(1,755)	(2.1)	–	–
Other	(3,323)	(3.7)	1,226	2.0
Effective income tax rate	<b>\$ 21,529</b>	<b>24.8</b>	<b>\$ 13,272</b>	<b>21.8</b>

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

	2010	2009
Allowance for credit losses	\$ 8,555	\$ 11,355
Deferred revenue and prepaid expense	(460)	434
Restructuring costs	876	1,226
Employee future benefits	997	1,041
Capital and intangible assets	4,731	3,688
Other	23	(204)
Future income tax asset, net (Note 10)	<b>\$ 14,722</b>	<b>\$ 17,540</b>

## Notes to Consolidated Financial Statements

### 19. Commitments and Contingent Liabilities

#### a) Commitments

##### Lease commitments

Coast Capital occupies premises under long-term leases extending to 2018. Aggregate basic annual lease payments are as follows:

	2010
2011	\$ 10,314
2012	9,772
2013	8,079
2014	6,725
2015	4,739
Subsequent years	5,480
	\$ 45,109

##### Credit instruments

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:

	2010	2009
Lines of credit, unfunded	\$ 1,601,109	\$ 1,504,279
Letters of credit	\$ 36,616	\$ 41,442

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, 2010, all but \$2,506 (2009 – \$2,537) of the total letters of credit and guarantees issued were secured by deposits by the borrower with Coast Capital. Management estimates that there will be no losses under these obligations that require an allowance for credit losses.

#### b) Contingencies

Coast Capital is involved in various claims arising in the normal course of business. Coast Capital cannot state what the ultimate outcome of such matters will be; however, based on current information and knowledge, management considers that adequate provisions have been recorded in the Consolidated Financial Statements in respect of claims issued. Management regularly assesses the adequacy of accruals for contingent liabilities.

### 20. 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 the Consolidated 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.

## Notes to Consolidated Financial Statements

### 20. Interest Rate Sensitivity Position (continued)

2010	Variable rate	Fixed-rate terms					Non-interest sensitive	Total	%
		0-3 months	4-6 months	7-12 months	1-3 years	3+ years			
<b>Assets</b>									
Cash and investments	–	514,828	472,462	497,283	341,168	2,878	92,018	1,920,637	1.48
Loans	3,130,733	255,133	145,397	282,477	1,223,463	3,424,374	(48,574)	8,383,003	4.20
Other assets	–	–	–	–	–	–	103,411	103,411	–
	3,130,733	739,961	617,859	779,760	1,564,631	3,427,252	146,855	10,407,051	
<b>Asset yield</b>	3.80%	2.28%	2.26%	2.70%	4.40%	4.12%	–		3.65
<b>Liabilities</b>									
Deposits	3,049,975	990,836	626,082	2,178,782	1,561,381	521,317	791,417	9,719,790	1.99
Other liabilities	425	–	–	–	–	–	66,150	66,575	0.01
	3,050,400	990,836	626,082	2,178,782	1,561,381	521,317	857,567	9,786,365	
<b>Liability cost</b>	1.04%	1.83%	1.77%	1.72%	2.94%	3.30%	–		1.65
Subordinated notes	25,000	–	–	–	–	–	–	25,000	2.79
	3,075,400	990,836	626,082	2,178,782	1,561,381	521,317	857,567	9,811,365	
<b>Total liability cost</b>	1.05%	1.83%	1.77%	1.72%	2.94%	3.30%	–		1.65
<b>Members' equity</b>									
Class B shares	41,485	–	–	–	–	–	–	41,485	
Retained earnings	–	–	–	–	–	–	551,484	551,484	
Accumulated other comprehensive income	–	–	–	–	–	–	2,717	2,717	
	41,485	–	–	–	–	–	554,201	595,686	
<b>Balance sheet mismatch</b>	13,848	(250,875)	(8,223)	(1,399,022)	3,250	2,905,935	(1,264,913)	–	
<b>Derivatives</b>									
Assets	–	267,525	–	–	–	–	–	267,525	1.23
Liabilities	–	45,000	–	–	131,025	91,500	–	267,525	2.66
	–	222,525	–	–	(131,025)	(91,500)	–	–	
<b>Net mismatch</b>	13,848	(28,350)	(8,223)	(1,399,022)	(127,775)	2,814,435	(1,264,913)	–	

## Notes to Consolidated Financial Statements

### 20. Interest Rate Sensitivity Position (continued)

2009	Variable rate	Fixed-rate terms					Non-interest sensitive	Total	%
		0-3 months	4-6 months	7-12 months	1-3 years	3+ years			
<b>Assets</b>									
Cash and investments	–	1,126,700	270,868	488,410	733,278	70,165	84,091	2,773,512	1.43
Loans	3,540,936	174,007	138,123	408,913	1,662,946	2,375,751	(54,896)	8,245,780	4.25
Other assets	–	–	–	–	–	–	107,552	107,552	–
	3,540,936	1,300,707	408,991	897,323	2,396,224	2,445,916	136,747	11,126,844	
<b>Asset yield</b>	3.39%	1.11%	2.20%	3.04%	4.48%	4.59%	–		3.50
<b>Liabilities</b>									
Deposits	2,589,379	1,163,646	919,329	2,648,050	1,236,315	570,896	792,865	9,920,480	1.93
Borrowings	575,000	–	–	–	–	–	–	575,000	1.25
Other liabilities	471	–	–	–	–	–	62,450	62,921	0.02
	3,164,850	1,163,646	919,329	2,648,050	1,236,315	570,896	855,315	10,558,401	
<b>Liability cost</b>	0.81%	2.11%	1.49%	1.57%	3.48%	3.90%	–		1.62
Subordinated notes	25,000	–	–	–	–	–	–	25,000	1.94
	3,189,850	1,163,646	919,329	2,648,050	1,236,315	570,896	855,315	10,583,401	
<b>Total liability cost</b>	0.84%	2.11%	1.49%	1.57%	3.48%	3.90%	–		1.62
<b>Members' equity</b>									
Class B shares	42,597	–	–	–	–	–	–	42,597	
Retained earnings	–	–	–	–	–	–	486,962	486,962	
Accumulated other comprehensive income	–	–	–	–	–	–	13,884	13,884	
	42,597	–	–	–	–	–	500,846	543,443	
<b>Balance sheet mismatch</b>	308,489	137,061	(510,338)	(1,750,727)	1,159,909	1,875,020	(1,219,414)	–	
<b>Derivatives</b>									
Assets	–	176,025	–	–	–	–	–	176,025	0.48
Liabilities	–	–	–	–	105,000	71,025	–	176,025	3.00
	–	176,025	–	–	(105,000)	(71,025)	–	–	
<b>Net mismatch</b>	308,489	313,086	(510,338)	(1,750,727)	1,054,909	1,803,995	(1,219,414)	–	

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

# Notes to Consolidated Financial Statements

## 21. Derivative Instruments

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

### Types of derivatives

Coast Capital enters into the following types of derivatives:

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

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

### Trading derivatives

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

### Hedging derivatives

A derivative will qualify as a hedge if the hedge relationship is designated and formally documented at inception, detailing the particular risk management objective and strategy for the hedge, the specific asset, liability or cash flow being hedged, as well as how effectiveness will be assessed.

The effectiveness of these hedging relationships is evaluated at inception of the hedge and on an ongoing basis, both retrospectively and prospectively using quantitative statistical measures of correlation. Cash flows or changes in the fair value of the derivative must be highly effective in offsetting either cash flows or changes in the fair value, respectively, of on-balance-sheet items. Changes in the fair value of hedging derivatives, to the extent that they are effective, are either offset in the Consolidated Statement of Income against the changes in the fair value of the risk being hedged, or recorded in Other Comprehensive Income, in the case of unrealized gains (losses) on cash flow hedges. Any ineffectiveness in the hedging relationship is recognized in interest expense in the Consolidated Statement of Income as it arises.

Cash flow hedges are a type of hedging derivative used to modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted issuance of fixed-rate liabilities. Coast Capital records interest receivable or payable on the derivative as an adjustment to interest in the Consolidated Statement of Income.

For cash flow hedges that are discontinued prior to the end of the original hedge term, the unrealized gain or loss in Other Comprehensive Income is amortized to interest in the Consolidated Statement of Income as the hedged item impacts earnings. If the hedged item is sold or settled, the entire unrealized gain or loss is recognized in interest in the Consolidated Statement of Income.

## Notes to Consolidated Financial Statements

### 21. Derivative Instruments (continued)

Coast Capital has the following derivatives:

	Notional amounts				Total 2009	Fair values 2010	Fair values 2009
	Maturities of derivatives						
	0–12 months	1–3 years	3–5 years	Total 2010			
<b>Interest rate swaps</b>							
Pay fixed	\$ 45,000	\$ 131,025	\$ 91,500	\$ 267,525	\$ 176,025	\$ (1,040)	\$ (3,117)
Total interest rate swaps	\$ 45,000	\$ 131,025	\$ 91,500	\$ 267,525	\$ 176,025	\$ (1,040)	\$ (3,117)
<b>Options</b>							
Forward contracts	–	–	–	–	2,000	–	(47)
U.S. currency options	2,000	–	–	2,000	500	(6)	(3)
Total options	2,000	–	–	2,000	2,500	(6)	(50)
Total derivative contracts	\$ 47,000	\$ 131,025	\$ 91,500	\$ 269,525	\$ 178,525	\$ (1,046)	\$ (3,167)

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.

### 22. Fair Value of Financial Instruments

The following table represents the fair values of Coast Capital's financial instruments, including derivatives. The fair values of financial assets and liabilities with fixed interest rates have been determined using discounted cash flow techniques based on interest rates being offered for similar types of assets and liabilities with similar terms and risks as at the balance sheet date. The fair value of financial assets and liabilities with floating rates of interest is assumed to be equal to book value, as the interest rates on these instruments automatically reprice to market rates. Fair values of derivative financial instruments have been based on market price quotations. Fair values of other financial assets and liabilities, not classified as HFT or AFS, are assumed to approximate their carrying values, principally due to their short-term nature. No fair values have been determined for capital assets, or any other asset or liability that is not a financial instrument.

The under noted fair values, presented for information only, reflect conditions that existed only at the respective 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.

	2010			2009		
	Book value	Fair value	Difference	Book value	Fair value	Difference
<b>Assets</b>						
Cash resources	\$ 190,667	\$ 190,669	\$ 2	\$ 964,005	\$ 964,143	\$ 138
Investments	1,729,970	1,733,696	3,726	1,809,507	1,815,937	6,430
Loans	8,383,003	8,468,854	85,851	8,245,780	8,314,638	68,858
Other	17,999	17,999	–	20,682	20,682	–
	\$ 10,321,639	\$ 10,411,218	\$ 89,579	\$ 11,039,974	\$ 11,115,400	\$ 75,426
<b>Liabilities</b>						
Deposits	\$ 9,719,790	\$ 9,829,100	\$ 109,310	\$ 9,920,480	\$ 9,978,136	\$ 57,656
Borrowings	–	–	–	575,000	575,000	–
Other	48,431	48,431	–	52,554	52,554	–
Subordinated notes	25,000	25,000	–	25,000	25,000	–
	\$ 9,793,221	\$ 9,902,531	\$ 109,310	\$ 10,573,034	\$ 10,630,690	\$ 57,656
Derivatives	\$ (1,046)	\$ (1,046)	\$ –	\$ (3,167)	\$ (3,167)	\$ –

## Notes to Consolidated Financial Statements

### 22. Fair Value of Financial Instruments (continued)

Coast Capital follows a fair value hierarchy to categorize the inputs used to measure fair value. The fair value hierarchy is based on quoted prices in active markets (Level 1), models using inputs other than quoted prices (Level 2), or models using inputs that are not based on observable market data (Level 3).

2010	Derivative instruments			
	Available for sale securities	Trading securities	Asset	Liability
Level 1 – Valued using quoted market prices	\$ 632,105	\$ 43,975		
Level 2 – Valued using models (with observable inputs)	74,313	35,583	\$ 1,101	\$ 2,147
Level 3 – Valued using models (without observable inputs)	2,086	–	–	–
<b>Total</b>	<b>\$ 708,504</b>	<b>\$ 79,558</b>	<b>\$ 1,101</b>	<b>\$ 2,147</b>

2009	Derivative instruments			
	Available for sale securities	Trading securities	Asset	Liability
Level 1 – Valued using quoted market prices	\$ 608,829	\$ 50,732		
Level 2 – Valued using models (with observable inputs)	481,935	26,208	\$ 138	\$ 3,305
Level 3 – Valued using models (without observable inputs)	5,212	7,847	–	–
<b>Total</b>	<b>\$ 1,095,976</b>	<b>\$ 84,787</b>	<b>\$ 138</b>	<b>\$ 3,305</b>

Valued using internal models (without observable inputs)	2010	2009
Balance, beginning of year	\$ 13,059	\$ 33,612
Purchases	–	–
Redemptions	(7,847)	–
Issues	–	–
Settlements	(2,000)	(5,826)
Fair value adjustments	–	–
Balance, ending of year	(1,126)	(14,727)
	<b>\$ 2,086</b>	<b>\$ 13,059</b>

Financial instruments that are valued using models with inputs that are not based on observable market data relate to retained interests on securitized mortgages, which have a fair value at December 31, 2010 of \$2,086 (2009 – \$5,212). In 2009, the balance included an investment in non-bank ABCP, which was sold in 2010. Holding other assumptions constant, changing one of the inputs in the model to reasonably possible alternative assumptions would change the fair value of the retained interests by less than 10%. There were no transfers during 2010 and 2009 between Level 1 and Level 2.

## Notes to Consolidated Financial Statements

### 23. Classification of Financial Instruments

2010	Trading	Available for sale	Held to maturity	Hedging	Loans and receivables	Financial liabilities	Other	Total
<b>Financial assets</b>								
Cash	\$ -	\$ -	\$ -	\$ -	\$ 50,868	\$ -	\$ -	\$ 50,868
Short-term investments	18,906	29,464	-	-	-	-	-	48,370
Statutory deposits with Central 1	-	-	91,429	-	-	-	-	91,429
Investments with Central 1	-	-	893,697	-	70,667	-	-	964,364
Shares in Central 1	-	26,688	-	-	-	-	-	26,688
Other investments	60,652	678,266	-	-	-	-	-	738,918
Loans	-	-	-	-	8,383,003	-	-	8,383,003
Derivatives	-	-	-	1,101	-	-	-	1,101
Premises and equipment	-	-	-	-	-	-	51,328	51,328
Other assets	-	2,086	-	-	15,913	-	32,983	50,982
	\$ 79,558	\$ 736,504	\$ 985,126	\$ 1,101	\$ 8,520,451	\$ -	\$ 84,311	\$ 10,407,051
<b>Financial liabilities and equity</b>								
Deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,719,790	\$ -	\$ 9,719,790
Borrowings	-	-	-	-	-	-	-	-
Derivatives	-	-	-	2,147	-	-	-	2,147
Other liabilities	-	-	-	-	-	46,284	18,144	64,428
Subordinated notes	-	-	-	-	-	25,000	-	25,000
Investment shares	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	595,686	595,686
	\$ -	\$ -	\$ -	\$ 2,147	\$ -	\$ 9,791,074	\$ 613,830	\$ 10,407,051

## Notes to Consolidated Financial Statements

### 23. Classification of Financial Instruments (continued)

2009	Trading	Available for sale	Held to maturity	Hedging	Loans and receivables	Financial liabilities	Other	Total
<b>Financial assets</b>								
Cash	\$ -	\$ -	\$ -	\$ -	\$ 42,052	\$ -	\$ -	\$ 42,052
Short-term investments	12,714	452,938	-	-	-	-	-	465,652
Statutory deposits with Central 1	-	-	456,301	-	-	-	-	456,301
Investments with Central 1	-	-	963,834	-	105,429	-	-	1,069,263
Shares in Central 1	-	26,024	-	-	-	-	-	26,024
Other investments	71,262	642,958	-	-	-	-	-	714,220
Loans	-	-	-	-	8,245,780	-	-	8,245,780
Derivatives	-	-	-	138	-	-	-	138
Premises and equipment	-	-	-	-	-	-	41,734	41,734
Other assets	-	5,212	-	-	16,995	-	43,473	65,680
	\$ 83,976	\$ 1,127,132	\$ 1,420,135	\$ 138	\$ 8,410,256	\$ -	\$ 85,207	\$ 11,126,844
<b>Financial liabilities and equity</b>								
Deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,920,480	\$ -	\$ 9,920,480
Borrowings	-	-	-	-	-	575,000	-	575,000
Derivatives	-	-	-	3,305	-	-	-	3,305
Other liabilities	-	-	-	-	-	52,554	7,062	59,616
Subordinated notes	-	-	-	-	-	25,000	-	25,000
Investment shares	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	543,443	543,443
	\$ -	\$ -	\$ -	\$ 3,305	\$ -	\$ 10,573,034	\$ 550,505	\$ 11,126,844

### 24. Related-party Transactions

At December 31, 2010, outstanding loans to directors, officers and employees totalled \$295,538 (2009 – \$294,201), which included 1,141 mortgages totalling \$244,683 (2009 – \$240,588) and 2,015 other loans totalling \$50,855 (2009 – \$53,613).

During the year, directors received remuneration of \$596 (2009 – \$785). Directors do not receive or pay preferred rates on products and services offered by Coast Capital.

## Notes to Consolidated Financial Statements

### 25. Post-retirement Benefits

Coast Capital is a participating member of the B.C. Credit Union Employees' Pension Plan, a multi-employer defined-benefit plan. As at December 31, 2009, the plan actuary reported that the plan was 87% funded on a going concern basis. The impact to Coast Capital is limited to participating in the financing of the deficit. The next actuarial review is scheduled for the period ending December 31, 2012 and should be available in September 2013. Under this plan, assets and liabilities are pooled and not tracked separately by employer group. Therefore insufficient information is available to apply defined benefit accounting and as a result, the plan is accounted for under a defined contribution basis. Pension expense of \$2,382 (2009 – \$2,268) in respect of contributions paid into this plan in 2010 has been charged to Salaries and Employee Benefits in the Consolidated Statement of Income.

In addition to the multi-employer defined-benefit plan, Coast Capital also provides a group RRSP to its employees, whereby all of the contributions are funded by Coast Capital. Pension expense of \$3,204 (2009 – \$3,233) in respect of contributions paid into this plan in 2010 has been charged to Salaries and Employee Benefits in the Consolidated Statement of Income.

Coast Capital also provides other post-retirement benefits to its eligible employees. 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. The plans obtain an actuarial valuation once every three years. The latest actuarial valuation was performed as at December 31, 2010 and the next valuation will be completed as at December 31, 2013. Pension expense of \$731 has been charged to Salaries and Employee Benefits in the Consolidated Statement of Income.

	2010
Benefit obligation – beginning of year	\$ 4,643
Current service costs	70
Interest costs	255
Benefit payments	(441)
Actuarial (gain) loss	406
Benefit obligation – end of year	\$ 4,933

Assumptions	2010
Discount rate	5.0%
Rate of compensation increase	5.0%
Inflation for 10 years	2.3%
Provincial medical services plan trend rate for 10 years	4.0%
Dental benefits trend rate for 10 years	5.0%
Extended health benefits trend rate for 5 years	9.0%

### 26. Extraordinary Item

Pursuant to the merger agreement with Surrey Metro Savings Credit Union (SMS) of June 27, 2002, Coast Capital became obligated to purchase all publicly traded SMS non-voting shares for \$21.00 each in the total amount of \$108,588. The asset transfer agreement included a reversion clause that specified all unclaimed monies after June 27, 2008 would become the property of Coast Capital. An ongoing asset reunification program was commenced by Coast Capital in 2003 as a consequence of the significant number of shareholders holding small share lots who had not submitted their shares for redemption in 2002. Coast Capital engaged an external search firm in 2009 in a concluding effort to locate all former SMS non-voting shareholders. The reunification program was concluded by the end of 2009 and the unclaimed monies of \$7,191 were recorded as an extraordinary gain in the 2009 reporting period (net of \$485 of taxes).

## Corporate Governance

The elected directors serving on the Board of Directors (the “Board”) must bring the skills and experience required to enable the Board to effectively guide and oversee one of Canada’s largest cooperative financial institutions. Both the Board and senior management of Coast Capital Savings Credit Union (“Coast Capital”) are committed to excellence in sound business practices and the achievement of responsible economic, social and environmental objectives.

The Board is responsible for managing Coast Capital’s business and affairs. It has the statutory authority and obligation to protect and enhance the assets of the credit union. The Board reviews and approves Coast Capital’s strategic direction, sets and monitors Corporate Policies, and is responsible for overseeing management and ensuring that Coast Capital complies with regulatory and statutory requirements.

### Governance of Coast Capital

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

#### A high performance board is accountable and independent.

Guideline One	Facilitate shareholder (member) democracy	✓
Guideline Two	Ensure at least two thirds of directors are independent of management	✓
Guideline Three	Separate roles of Chair and Chief Executive Officer	✓

#### A high performance board has experienced, knowledgeable and effective directors and committees, and the highest level of integrity.

Guideline Four	Ensure that directors are competent and knowledgeable	✓
Guideline Five	Ensure the goal of every director is to make integrity the hallmark of the company	✓
Guideline Six	Establish mandates for board committees and ensure committee independence	✓
Guideline Seven	Establish reasonable compensation and (equity) share ownership guidelines for directors	✓
Guideline Eight	Evaluate board, committee and individual director performance	✓

#### A high performance board has clear roles and responsibilities.

Guideline Nine	Oversee strategic planning, risk management and the hiring and evaluation of management	✓
Guideline Ten	Assess the Chief Executive Officer and plan for succession	✓
Guideline Eleven	Develop and oversee executive compensation plans	✓

#### A high performance board engages with shareholders (members).

Guideline Twelve	Report governance policies and initiatives to shareholders (members)	✓
Guideline Thirteen	Engage with shareholders (members) within and outside the annual meeting	✓

### Board of Directors

The Board is accountable to the members of Coast Capital. Each year, three or four directors are elected by the membership to the Board for three-year terms. All directors, including the Chair, are currently independent. The definition of a “non-independent director” is any person who derives more than 5% of their commercial business income from their relationship with Coast Capital. Nine Board meetings (including two two-day meetings) were held in 2010. A portion of each regularly scheduled Board meeting is set aside for a directors-only session with the Chief Executive Officer (CEO). The Chair, as the presiding Board member, ensures that

the relationships between the Board, the CEO and the senior executive team and the membership are effective, efficient and further the best interests of Coast Capital.

The Board undertakes a regular process of identifying and reviewing the overall skills and experience required amongst directors to strengthen the Board and to meet the needs of Coast Capital, both in the present and into the future.

### Ethical business conduct

The Board embraces and promotes a culture of ethical behaviour at Coast Capital and is accountable for ensuring Coast Capital meets public, regulatory,

## Corporate Governance

customer and member expectations in complying with existing laws.

The Board has a Code of Conduct and Ethics Policy (the “Board Code”) that establishes the standards that govern the manner in which directors conduct themselves and in particular how they consider the interests of members, employees and other stakeholders. Annually, each director is required to formally adopt and agree to the Board Code. Coast Capital also has a Code of Conduct and Business Ethics Corporate Policy (“The Code”) that applies to the Board, officers and employees and states the values upheld by Coast Capital and the standards of behaviour expected. Each year, a Conduct Review Committee, comprised of a minimum of three directors, is elected by the Board and is responsible under its mandate for reviewing and overseeing compliance with The Code. Likewise, every employee at Coast Capital is required to acknowledge and sign The Code each year as part of his or her review process.

### Position descriptions

Annually, the Board reviews the position descriptions for directors, the Board Chair, committee chairs and the CEO. A director’s job is to work with the Board in providing strategic advice and business oversight of Coast Capital’s operations. This includes critiquing and giving approval to Coast Capital’s strategic plan and annual operating plan. Directors are required to act honestly, in good faith and in Coast Capital’s best interests. In doing so, they must take into account the interests of the members, depositors, employees and other stakeholders.

### Nomination of directors

Each year three or four vacancies occur on Coast Capital’s 10-member Board for three-year directors’ terms. Immediately after the Annual General Meeting (AGM), the Board appoints a Nominations Committee that is tasked with recommending qualified candidates in the following year for election to the Board. The committee reports directly to the membership, not to the Board. The composition of the committee is restricted to directors who will not be standing for re-election in the ensuing year. The committee retains the services of an expert governance consultant to assist in seeking out and screening for highly qualified nominees.

In keeping with its mandate and adhering to corporate governance best practices, the committee carries out a due diligence review of all nominees, including a structured full-committee interview of new nominees whose stated skills and experience most closely match the current year’s ideal candidate description. Following

the interviews and at the completion of all the due diligence reviews, the committee determines those candidates it will recommend for election to the Board.

The committee is responsible for:

- Approving an updated Ideal Candidate Description for the current year based on a gap analysis of the required skills and experience required within the Board to guide and oversee the implementation of Coast Capital’s strategic plan.
- Sourcing candidates for election to the Board who possess the skills and experience set out in the Ideal Candidate Description.
- Recommending qualified candidates for election to the Board equal to the number of upcoming vacancies.
- Providing information to all Coast Capital members in a standard format for all candidates seeking election to the Board.
- Recommending to the Board the appointment of an independent returning officer to supervise the election.
- Receiving certified election results from the returning officer.

The results of each year’s directors election are announced at the AGM by the Chair of the Nominations Committee.

### Director remuneration

A Remuneration Philosophy for directors of Coast Capital and the authority for the Board to set director remuneration in accordance with the philosophy are approved by the membership. The current remuneration amounts paid to directors were recommended by an external compensation consultant in 2010, approved by the Board and are in accordance with the member-approved Remuneration Philosophy. Remuneration is reviewed at three-year intervals by the Governance Committee. Total remuneration paid to directors in 2010 was \$595,922 (including matching Canada Pension Plan contributions as required by law). Directors do not receive any product or service preferences that are not available to the general membership. Detailed information about director remuneration is available at [www.coastcapitalsavings.com/governance](http://www.coastcapitalsavings.com/governance).

### Board committees and meetings

The Board delegates specific governance responsibilities to six standing committees: Audit and Finance, Conduct Review, Governance, Human Resources, Nominations and Risk Review. Each committee is comprised of at least three directors. The Board Chair serves ex officio on those committees to which he/she has not otherwise been elected or appointed. Committees draw upon

## Corporate Governance

management resources as appropriate and are authorized by the Board to engage outside advisors as required. The Board determines the authority and responsibilities of each committee and approves the mandate and membership annually. Committees meet in-camera as a matter of routine, make recommendations to the Board and, with the exception of the Nominations Committee, report regularly to the Board. The Nominations Committee is accountable to and reports directly to the membership.

*Audit and Finance Committee* – oversees the quality and integrity of Coast Capital's financial reporting and the effectiveness of systems of internal control. The committee is the liaison between internal audit, the external auditors and the Board.

*Conduct Review Committee* – promotes and oversees Coast Capital's standards of business conduct and ethical behaviour; monitors, through the receipt of appropriate reporting, Coast Capital's compliance with the relevant legislation and The Code; and oversees related-party loans and transactions.

*Governance Committee* – promotes and enhances Board governance, community and member relations and director development. The committee recommends to the Board an annual evaluation process for individual directors, the Board as a whole, committees and the Board and committee chairs.

*Human Resources Committee* – ensures human resources policies are in place, implemented and maintained. The committee reviews and recommends policy and strategy with respect to employee salaries, benefits and incentive compensation and succession planning. It engages an outside advisor to assist in the determination and approval of executive compensation and directs the annual evaluation process for CEO performance.

*Nominations Committee* – under Coast Capital's Rules, operates independently of the Board to ensure there are qualified candidates recommended for election to fill all upcoming vacancies on the Board. The committee oversees the election of directors to the Board. The committee reports directly to the members.

*Risk Review Committee* – identifies and monitors the key risks at Coast Capital and evaluates the management of these risks. The committee approves risk management policies, ensures policies and related internal controls are in place and critically assesses Coast Capital's business strategies and plans from a risk perspective. The committee reviews and monitors adherence to and the effectiveness of policies and

internal controls. It provides a forum for macro analysis of future risks which includes considering emerging risks, significant events and trends.

Information regarding Board and committee meeting attendance is available at:

[www.coastcapitalsavings.com/governance](http://www.coastcapitalsavings.com/governance).

### Performance reviews

The Board undertakes annual evaluations to review the effectiveness of the Board's governance. This review process is based on the duties and responsibilities of the Board, individual directors and the Board Chair as described in their respective mandates. Annually, the Governance Committee recommends to the Board a process for the evaluation. The 2010 evaluation was administered by an external governance consultant and involved the following elements:

- Structured individual interviews were conducted by the consultant with members of senior management that sought comments on the performance of the Board, the Board's committees and the Board Chair.
- Structured interviews were conducted by the consultant of each director that discussed self-performance as a Coast Capital director and sought comments on peer performance, the performance of the Board, the Board's committees and the Board Chair. Each director was provided with the consultant's findings in respect of his or her performance. The Board Chair met privately with each director to discuss their peer evaluation results with a view to determining how the director could contribute more effectively to the Board.
- An in-depth governance review and debriefing session on Board performance was held with the consultant and all directors. Board goals for the next 12 months were determined and responsibility for achieving each goal was assigned.

The Board undertakes an annual performance evaluation of the CEO. Each director completes a comprehensive evaluation of the effectiveness of the CEO's performance against the CEO's agreed goals for the year and the competencies and expectations of the CEO's position description. Following Board discussion and analysis of the directors' findings, the Board Chair prepares a memorandum setting out the Board's position on CEO performance. The Board and Human Resources Committee Chairs meet privately with the CEO to formally present and review the evaluation results.

More information regarding governance is available at [www.coastcapitalsavings.com/governance](http://www.coastcapitalsavings.com/governance).

## Corporate Information

### Board of Directors

**Bill Wellburn**, *Board Chair*

**Doug Brownridge**

**Daniel Burns**, *Chair, Governance Committee*

**Bill Cooke**, *Chair, Risk Review Committee*

**Christian Findlay**

**Mary Jordan**, *Chair, Human Resources Committee*

**Karen Kesteloo**, *Chair, Audit and Finance Committee*

**Gail Stephens**

**Doug Stone**, *Chair, Conduct Review Committee*

**Glenn Wong**, *Chair, Nominations Committee*

### Senior Executive

**Tracy Redies**

*President and Chief Executive Officer*

**Sheila Baker**

*Chief Technology and Services Officer*

**Wayne Berg**

*Chief Commercial Officer*

**Don Coulter**

*Chief Financial Officer*

**Lawrie Ferguson**

*Chief Marketing and Public Relations Officer*

**Jay-Ann Fordy**

*Chief Human Resources Officer*

**Kathy McGarrigle**

*Chief Operating Officer*

**Philippe Sarfati**

*Chief Risk Officer*

**Lisa Skakun**

*General Counsel and Corporate Secretary*

Biographies of our Board of Directors and Senior Executive are available at [www.coastcapitalsavings.com/governance](http://www.coastcapitalsavings.com/governance).

### Contact Information

#### Head Office

15117 – 101 Avenue

Surrey, B.C. V3R 8P7

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F: 604.517.7405

#### Contact Centre

604.517.7000 (Metro Vancouver)

250.483.7000 (Greater Victoria)

1.888.517.7000 (Toll-free)

#### Mainland Administration Office

1900, 13450 – 102 Avenue

Surrey, B.C. V3T 5Y1

#### Island Administration Office

400, 645 Tyee Road

Victoria, B.C. V9A 6X5

#### Website

[www.coastcapitalsavings.com](http://www.coastcapitalsavings.com)

### Annual General Meeting

Wednesday, April 27, 2011 at 5 pm (PT)

Simon Fraser University – Surrey

13450 – 102 Avenue

Mezzanine level, SUR 2600

Surrey, B.C.

The meeting will also be available by webcast at [www.coastcapitalsavings.com/AGM](http://www.coastcapitalsavings.com/AGM).

## *Eco-audit*

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