PROSPERA CREDIT UNION

Management Discussion & Analysis 2020

prospera
CREDIT UNION

TOGETHER, WE'RE
FUTURE
STRONG

Table of Contents

Management Discussion & Analysis

Prospera Credit Union ("Prospera" or "the credit union") is excited to provide our membership with an overview of the financial and operational results for the credit union's first full year of operations. January 1, 2020 was a milestone date for the credit union and the culmination of an extensive process to merge the two predecessor credit unions, Westminster Savings Credit Union ("Westminster Savings") and legacy Prospera Credit Union ("legacy Prospera"). This merger process took over two years to complete and included due diligence, Board of Directors ("board") approval, BC Financial Services Authority ("BCFSA") regulatory consent and finally, on November 21, 2019, the approval of the largest merger in Canadian credit union history by the members of both legacy organizations.

During 2020, the credit union embarked on the journey of integration and of unlocking the benefits of bringing the two legacy organizations together. This Management Discussion and Analysis ("MD&A") provides readers with an overview of Prospera's results and enables them to assess Prospera's financial condition and results of operations for the 2020 fiscal year. It also provides visibility into the credit union's response to the challenges presented, not only as a result of the integration process, but also due to the economic and operational implications associated with the global pandemic.

This MD&A should also be read in conjunction with Prospera's December 31, 2020 Audited Consolidated Financial Statements ("Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise indicated, all amounts in the MD&A are expressed in Canadian dollars. The MD&A commentary is inclusive of information available up to and including March 10, 2021, which is the date of the approval of the Financial Statements by Prospera's board.

As discussed earlier, Westminster Savings and legacy Prospera combined their respective operations to form a single credit union and as a result, the associated business combination was accounted for using the acquisition method under IFRS. The results for the year ended December 31, 2020 include the results for the combined credit union. The comparative information presented in the audited financial statements is based on the financial results of Westminster Savings as the acquirer in this business combination.

2020 COMPARATIVE ANALYSIS

In an effort to provide more comparable prior year results, the MD&A includes an analysis of the Financial Statements using combined 2019 results of Westminster Savings and legacy Prospera to create pro forma 2019 results ("pro forma 2019"). Essentially, the income statement consists of the summation of both legacy credit unions' results for 2019. The pro forma comparative balance sheet is the aggregate of the 2019 Westminster Savings balance sheet with the addition of the acquired fair valued balance sheet of legacy Prospera as at January 1, 2020. Please see note two of the Financial Statements. The credit union's decision to disclose pro forma statements allows for an enhanced analysis of the financial impacts from operating activities in 2020.

CORPORATE OVERVIEW

As one of the largest credit unions in Canada, Prospera delivers financial products and services to its more than 100,000 members through a network of 27 branches, two Member Service Centres, and robust online services. The credit union is a financial cooperative that keeps its members at the heart of everything that it does. Prospera has over 600 employees across four lines of business and several corporate support areas all of whom are there to help its members reach their financial goals.

As a newly merged credit union, Prospera aims to expand on the proud histories of its predecessor credit unions to serve British Columbians and to help build strong, resilient communities. Our community commitment is based on our cooperative values and beliefs, and we also have one of the largest credit union foundations in Canada, the Westminster Savings Foundation ("Foundation"), created to put much needed support into BC communities and to help make a difference for the people who live in these communities.

At Prospera, we evaluate success using a balance of financial and non-financial measures. Financially, success is measured using conventional banking industry indicators such as sustainable asset growth, financial returns and measures of capital, liquidity, and operating efficiency. Employee and member engagement are amongst our most important non-financial measures used to evaluate success. Employee engagement is measured on an annual basis through a third party, Great Place to Work®. Highly engaged employees take pride in what they do and will go above and beyond in their duties to provide exceptional service. Member engagement is measured in a number of ways including regular surveys and member feedback. Prospera strives to continuously improve its performance against all these performance measures over time.

FINANCIAL PERFORMANCE HIGHLIGHTS

Net Interest Income ↑
$137.2 million

Operating Income ↑
$34.7 million

Assets Under Management ↑
$9.1 billion

Loans & Leases Receivable ↓
$5.4 billion

Deposits ↑
$6.1 billion

Return on Equity (YTD)
6.1%

Capital Ratio (including system capital)
14.8%

Return on Average Assets (YTD)
0.3%

Efficiency ratio
81.8%

Community Investment
$0.5 million

Members' Equity ↑
$349.7 million

Net Promoter Score
42.2%

2020 BUSINESS HIGHLIGHTS

Served over
100,000 members

- Approximately 13,500 commercial banking members
- Over 100,000 consumer operations members
- Over 6,000 leasing customers
- Close to 14,000 wealth clients

Invested in Prospera's digital transformation to offer greater value and increased digital options

Launched the new
Prospera Mobile Banking App
a leading-edge modern digital platform

Launched
2-Step Verification
a new layer of security through online banking to protect members' accounts

Focused on integrating the operations of its predecessor credit unions to bring two teams together and serve our customers effectively and efficiently

Supported over
191,000 calls
18,000 emails
through two Member Service Centres

Was designated a
Great Place to Work®

Supported a total balance of
$1.53 billion
in commercial lending
$3.84 billion
in consumer lending

Improved our
Capital position by 8.8% to 14.8%
overall

On March 11, 2020, the World Health Organization declared COVID-19 a global health pandemic. Its impact has been broad, affecting general society, health and safety, the global and Canadian economies, culture, ecology, politics, and other areas. Our customers and our communities have been significantly impacted and in 2020, Prospera shifted focus to provide the appropriate level of support to our customers and employees, by:

Ensuring members and employees had a safe place to do business by exceeding health authority guidelines for in-branch safety measures to minimize the spread of COVID-19

Creating
online banking video tutorials
to help members bank easily from their homes

Offering deferred payment assistance to over
2,000 consumer & commercial customers

Supporting leasing customers with
400+ payment deferrals

Ensuring
COVID-19 programs were available online
to support business members and to make the application process simpler and more efficient

Processing
1,300+ Canada Emergency Business Account (CEBA) business loans
to support local businesses

Expanding the use of
electronic signatures
so that customers could bank safely from home

Offering an interest free deferred loan program to help our members manage the crisis without taking on more debt

Providing information on
government relief programs
to ensure customers had access to all available financial support

Supporting our members

Sonya
Owner, Surrey Upholstery

INTEGRATION OVERVIEW

As a newly merged credit union, one of the key priorities of 2020 was the alignment of our policies, processes, technology, and our people, all of which are foundational in delivering exceptional service to our customers. The integration management office (“IMO”) ensures Prospera has a comprehensive set of measures of success for integration and that these measures define the integration program’s direction, plans, and how integration activities are managed. In 2020, the IMO worked with business leads from across the organization to define the work required for integration, supporting efforts to complete various integration milestones to harmonize the operations of our two legacy credit unions. This large scope of work will continue over the next two years into 2022.

Highlights of the integration milestones accomplished in 2020 are:

Member experience

- Harmonized rates for all comparable products in deposits, consumer mortgages, and foreign exchange.
- Integrated the legacy Prospera and Westminster Savings social media channels to provide consistent information and support to our members online.
- Harmonized our branch delivery model to ensure consistent employee roles and responsibilities, and member experience.

Employee experience

- Supported the harmonization of our organizational structure, job profiles, and roles and responsibilities, moving us forward as a single team with a more unified approach to how we work.
- Harmonized compensation for all employees at Prospera, to improve consistency across the organization and ensure compensation is in line with current market data.

Process and technology

- Determined which single banking platform we would use and commenced the detailed planning surrounding the infrastructure conversion. While members may not see the effects of this immediately, this critical decision allows us to move forward with aligning our processes to serve members more efficiently.
- Implemented back-end systems changes for all employees in order to simplify work and ensure consistent communication exists across the credit union.
- Created one Business Intelligence infrastructure resulting in consolidated financial, regulatory and operational reporting and delivering increased efficiency and accuracy in data and analytics used in decision making.
- Introduced collaborative tools like Microsoft Teams to help employees collaborate across the organization and work virtually.

LINE OF BUSINESS OVERVIEW

Consumer Operations

Prospera's Consumer Operations team serves members from 27 branches and two Member Service Centres and provides a wide range of banking and lending solutions. In 2020, the team's priorities were to integrate the operations of our two legacy credit unions and to support members through the COVID-19 pandemic. A significant achievement was the implementation of an integrated service model at all 27 branches, to ensure consistent employee roles and responsibilities and member experience across all trade areas. Throughout the year, branch employees focused on supporting existing member relationships as we integrated operations and utilized a redirect strategy to handle crossover legacy member branch inquiries.

In March, financial services were designated an essential service due to the COVID-19 pandemic. In response, we quickly shifted our operations to help curb COVID-19 transmission and temporarily closed some branches and reduced operating hours. Prospera's employees served members at all open locations throughout the year, facing an uncertain environment to ensure members had access to their essential financial services. At an organizational level, many measures were implemented to protect employees and members while maintaining a positive and safe member experience.

Highlights for the year included:

- Serving more than **100,000 members** with **1,800 new mortgages totaling $466 million** from the Lower Mainland to the Okanagan.
- Approximately **4,400 members** have downloaded the **new mobile banking app**.
- Ending the year with total balance of **$3.84 billion in consumer lending.**
- Supporting over **191,000 calls and 18,000 emails** through two Member Service Centres.

Commercial Banking

Prospera's Commercial Banking division provides support to just under 13,500 business owners across British Columbia. Local businesses are the backbone of the British Columbia economy, and the team strives to support them holistically knowing that when local businesses succeed, their communities thrive. In 2020, this team integrated several processes and tools, including small business segment credit adjudication, a sales volume pipeline for forecasting, and a risk-based pricing tool. These tools have resulted in new resource capacity, which will improve the member experience by allowing employees to have more advice-based conversations and is also expected to generate meaningful opportunities to help local businesses and all the people they interact with.

Highlights for the year included:

- Supporting commercial banking members during COVID-19 by processing over **1,300 CEBA loans totaling $45.7 million** to ensure these members had the financial support needed during the pandemic.
- **Funding hundreds of new construction developments**, providing new housing for families in our communities.
- Ending the year with a total balance of **$1.53 billion in commercial lending.**

Looking to the future, the commercial team will continue integrating and expanding its services and products to meet the needs of local enterprising business owners. In 2021, we expect to harmonize our commercial banking support to improve member experience and productivity, including shorter approval and funding times. Credit processes will be improved, and the breadth of credit products expanded to reach new market opportunities and meet the needs of our local enterprising business owners.

Wealth Management

Prospera has a dedicated team of wealth management professionals that provide expert advice to help clients plan for their future. This team helps clients and members with:

- Financial planning
- Estate planning
- Tax planning
- Income protection
- Investment management

In 2020, the two wealth advisory teams from our legacy credit unions were operationally integrated, and the wealth support structure was completed to ensure a consistent member experience. During the year, our wealth team served over 14,000 wealth customers with more than $1.6 billion of assets under administration. Member experience was a priority as our wealth team also aligned investment advisor financial planning tools and created the basic wealth strategic foundation to provide members of all ages and planning needs with dedicated support.

Due to the pandemic, the wealth team was required to support members virtually by shifting all operations online and introducing electronic signature technology. This technology was crucial in ensuring members were able to execute on important decisions about their financial future from the comfort of their homes.

Looking ahead, our wealth team is expanding its estate and trust offerings by enhancing its strategic partnerships with Concentra Trust and Aviso Wealth and its subsidiaries to offer members more digital advice, and grow the advisory and support teams to provide enhanced professional advice to all members.

Leasing

The leasing division gives Prospera a national presence in consumer and commercial vehicle, equipment, and fleet leases across Canada. During 2020, the leasing division refined its structure to improve its alignment with Prospera's strategic focus as a new credit union and reset its cost structure to improve long-term profitability. The new leasing strategy focuses primarily on the automotive sector, with a refined national footprint, and on selective opportunities in the equipment sector for commercial banking members and other opportunities in Western Canada. As with all lines of business, 2020 was focused primarily on refining leasing operations due to the merger and supporting customers through the disruptions caused by COVID-19.

Highlights for the year included:

- Funding **1,274 vehicle leases** in 2020.
- Ending the year with a **$278.6 million lease portfolio balance**.
- **Assisting leasing customers with over 400 payment deferrals** to support their financial well-being during the COVID-19 pandemic.
- More than **370 customers acquired revenue-generating commercial equipment** contributing to Canada's economy.

Moving forward, the leasing division plans to stabilize and grow sales in the automotive portfolio. The strategy is aligned to optimize assets by prioritizing originations on light trucks in the automotive sector, and heavy trucks and equipment in vocational and construction industries, all primarily in the British Columbia market.

Corporate Support Areas

Our corporate division encompasses several departments, including credit, finance, the integration management office, people experience, business technology services, communications, marketing, treasury, and other administration. These areas are all important to the delivery of products and services to customers and these staff worked diligently in 2020 to complete key integration projects.

In 2020, the credit union invested in its digital infrastructure, including critical areas like security (e.g. multi-factor authentication) and a new digital banking platform.

Highlights for the year included:

- **Launching a new Mobile App** that provides a modern user experience, better usability, accessibility, improved performance and a cleaner look and design. New features include biometric log-in for Android devices and other improved security features.
- **Enhancing Mobile Wallets** to provide members with more options to use debit including Apple and Google Pay.
- **Implementing online programs** to support members with various government initiatives set-up for the pandemic, including dedicated COVID-19 resource pages on our member facing websites.
- **Integrating policies and procedures** to provide a roadmap for day-to-day operations.
- **Creating an Enterprise Project Management Office** ("EPMO") to establish guidelines for project managers and a central Project Management Information System ("PMIS").
- **Creating an information security team** to ensure new and existing solutions are secure.

The corporate team, working closely with Prospera's lines of businesses, responded quickly at the onset of the COVID-19 pandemic. The business technology services ("BTS") department was heavily involved, mobilizing 80% of credit union employees to work remotely in a matter of weeks, implementing Corporate Capture for Commercial Banking and rolling out Microsoft Teams to employees who can now hold video meetings and make calls through the network, ensuring the support of member facing teams was not disrupted.

Employees from all areas formed the COVID-19 Response Team to provide employees and members with timely and up-to-date information and support. Through the support of the credit and administration teams, Prospera implemented an interim relief program very quickly in April to assist members in need. This program offered an interest free payment deferral program to provide financial relief to our customers.

Our Net Promoter Score ("NPS") came in at 42.2% for 2020, slightly below the annual target of 45%. The NPS score is based on the rating our members provide to the question "How likely are you to recommend Prospera Credit Union to your family and friends?". Out of 7,400 members surveyed, 60% rated Prospera as 9/10, 22% as 7/8, and 18% between 0-6.

It was a challenging year for our members and our business due to the pandemic and general slowdown of the economy. In response to the onset of the pandemic and to ensure employee and member safety, we adjusted our operations quickly to service our members for the remainder of the year. Our members were supportive as we navigated integrating the two legacy credit unions, and of our continued efforts to manage the impact of the pandemic. Member feedback through the NPS survey indicated a need for additional communication from the credit union to keep them informed. We are committed to these efforts, and our focus in 2021 is to build deeper financial relationships with our members by providing exceptional customer service and advice.

BALANCE SHEET AND INCOME STATEMENT

Balance Sheet ($000's)	Audited Financial Statements December 31, 2020	Pro Forma* 31 Dec 2019
Cash and cash equivalents	418,928	100,189
Investments	1,223,941	1,103,023
Loans	5,366,082	5,797,235
Leases receivable	278,619	348,377
Premises and equipment	15,748	17,861
Right-of-use assets	36,760	40,851
Intangible assets	4,196	5,278
Deferred tax assets	1,943	2,976
Other assets	9,355	16,408
Total Assets	**7,355,572**	**7,432,198**
Members' deposits	6,093,888	6,040,676
Accounts payable and accrued liabilities	38,919	24,433
Borrowings	-	69,998
Securitization debt obligations	791,478	884,627
Derivative liabilities	754	1,809
Current taxes payable	907	1,437
Lease liabilities	38,841	42,342
Deferred tax liabilities	4,063	6,312
Retirement benefit obligations	37,051	28,233
Total Liabilities	7,005,901	7,099,867
Members' equity		
Contributed surplus	130,916	-
Retained earnings	246,213	354,619
Accumulated other comprehensive loss	(27,458)	(22,288)
Total Equity	349,671	332,331
Total Liabilities & Equity	**7,355,572**	**7,432,198**

* Pro forma 2019 is unaudited and calculated by the aggregate of Westminster Savings 2019 balance sheet plus the fair valued balance sheet of legacy Prospera at Jan 1, 2020

Income Statement ($000's)	Audited Financial Statements December 31, 2020	Pro Forma* 31 Dec 2019
Interest income	242,380	269,323
Interest expense	(105,217)	(134,990)
Net interest income	**137,163**	**134,333**
Fee and commission income	25,873	25,240
Fee and commission expense	(6,227)	(7,833)
Net fee and commission income	**19,646**	**17,407**
Realized gains on financial instruments measured at fair value through profit or loss	3,789	5,849
Unrealized gains on financial instruments measured at fair value through profit or loss	5,983	956
Impairment losses on financial assets	(9,068)	(2,264)
Impairment losses on other assets	(2,547)	(1,585)
Other income (losses)	2,379	(4,072)
Net interest and other income	**157,345**	**150,624**
Operating expenses:		
Salary and employee benefits	(80,439)	(80,618)
General and administrative	(28,795)	(38,285)
Occupancy and equipment	(19,641)	(19,167)
	(128,875)	**(138,069)**
Income before income taxes	**28,470**	**12,554**
Provision for income taxes:		
Current	(5,301)	(2,283)
Deferred	(659)	(156)
	(5,960)	**(2,439)**
Net Income	**22,510**	**10,115**

* Pro forma 2019 is unaudited and calculated by the aggregate of both Westminster Savings and legacy Prospera income statements for the year ending Dec 31, 2019.

2020 OPERATING RESULTS

As the first year of operations as a newly merged entity, 2020 was characterized by the effective execution of key integration initiatives within an unprecedented and complex operating environment as a result of the COVID-19 pandemic. Prospera focused on stabilizing the new organization and meeting the needs of existing members. Both liquidity and capital levels were carefully managed during the pandemic, while ensuring that support was provided to members who were struggling with the economic implications of the pandemic. As a result, asset growth was muted, and operational efficiency and prudent cost management became necessary.

Amidst a difficult operating environment, Prospera performed well and reported an operating income of $34.7 million and net income of $22.5 million. On balance sheet assets declined by 1.0% – a reflection of a cautious lending approach and an intentional preservation of capital, while total assets under management increased 0.2%, respectively. Prospera focused on the prudent management of capital while continuing to deliver solid financial returns and efficiently integrating business operations between the two legacy credit unions.

The following chart details the comparative financial and industry metrics.

Financial Metrics	2020	Pro Forma 2019	% ▲
Operating Income	$ 34.70 M	$ 20.89 M	66.1% ▲
Net income	$ 22.51 M	$ 10.12 M	122.5% ▲
Assets under management	$ 9.15 B	$ 9.13 B	0.2% ▲
Total assets	$ 7.36 B	$ $7.43 B	-1.0% ▼
Total loans	$ 5.37 B	$ $5.80 B	-7.4% ▼
Total leases	$ 278.62 M	$ $348.38 M	-20.0% ▼
Total deposits	$ $6.09 B	$ $6.04 B	0.9% ▲

Industry Metrics	2020	Pro Forma 2019	% ▲
Capital ratio	14.8%	13.6%	8.8% ▲
Return on average assets	0.30%	0.14%	114.3% ▲
Return on equity	6.1%	2.7%	125.9% ▲
Operating efficiency	81.8%	90.9%	-10.0% ▼
Liquidity	26.6%	19.4%	37.1% ▲

Operating income

Operating income is defined as income excluding taxes, contributions to the Foundation, one-time integration expenses and unrealized gains and losses on financial investments. It measures the net operating results of the credit union's primary business operations.

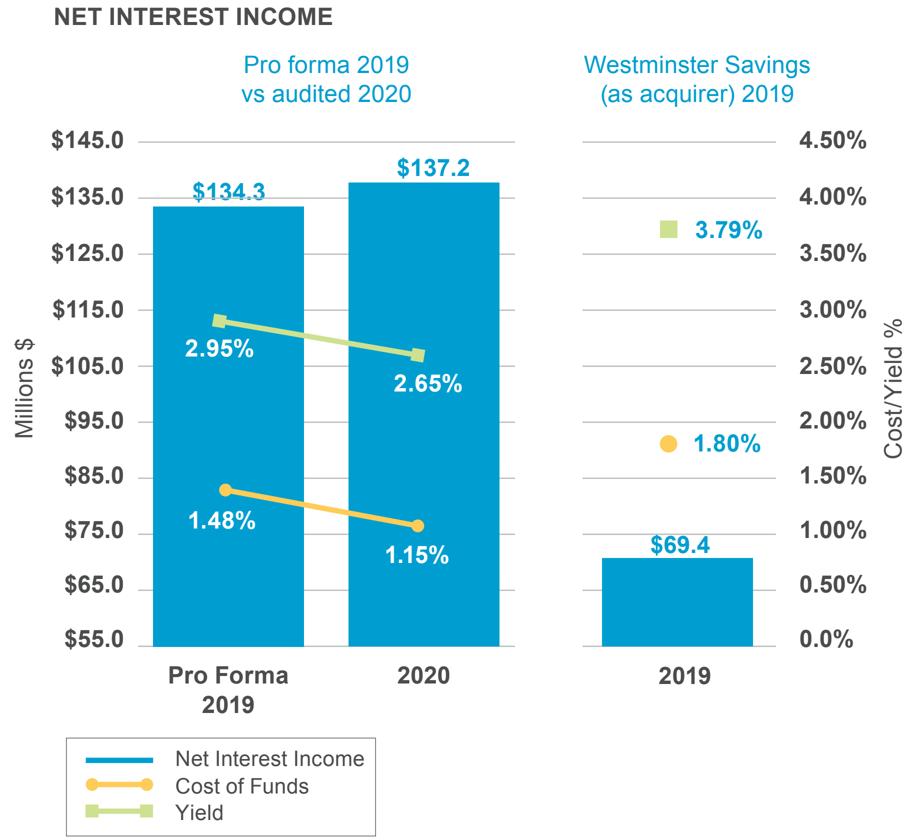
Operating income for the credit union was $34.7 million in 2020, compared to $20.9 million in 2019, an increase of 66.1% over the previous year. The merger, and management's subsequent efforts to integrate, resulted in synergies in both human resource and administrative costs. In addition, marketing was reduced during the pandemic which resulted in additional cost savings. The credit union benefited from improved revenues within the wealth management line of business as well as a decline in interest expense.

Net income

Net income in 2020 was $22.5 million, up from $10.1 million in 2019. A continued focus on cost management in the first year of operating as a newly merged credit union and maintaining a stable balance sheet under the uncertainty of a pandemic, allowed the credit union to perform favorably in 2020. Additionally, the execution of key integration activities allowed synergies to be realized, which also positively impacted net income in 2020.

Further analysis and discussions on the key components of net income are outlined below.

Net interest income



The largest component of the credit union's operating income is net interest income.

Net interest income increased to $137.2 million, up from $134.3 million in pro forma 2019. The increase in net interest income was due to both product mix in the loan portfolio and the impact of the significant reduction in interest rates by the Bank of Canada in response to the economic consequences of the pandemic. The credit union saw significant movement in the portfolio from variable to fixed rate products, with many members taking advantage of the lower interest rates. This resulted in a slight decrease in our yields across our lines of business. Interest rates remained relatively low and competitive pressures saw consumer and commercial lending rates change significantly to historic lows throughout the year.

The decline in interest rates also resulted in a favorable decline in the cost of funds for the credit union. A majority of members' deposits are variable and despite seeing higher deposit balances in 2020, the decrease in posted rates resulted in lower interest costs on members' deposits.

Impairment losses on loans, leases receivable, investments and other assets

In assessing its loans and leases receivable portfolios for evidence of impairment, Prospera considered various factors: bankruptcy, default, payment delinquency, and declines in the value of mortgage security or other collateral and additional economic considerations. Individual loans or leases may be found to be impaired due to specific factors. For loans assessed as impaired, the credit union continues to hold substantial security which serves to protect the credit union against loss. In addition, evaluations of the overall portfolios of mortgages, loans, vehicle leases and equipment leases occur regularly to quantify losses that might arise from broader factors. Prospera is proactive in the management of delinquency and other credit concerns to ensure that credit losses are minimized.

The credit union incurred impairment losses on financial assets, primarily related to changes in the expected credit loss assumptions and forward looking factors that resulted in an impairment expense of $9.1 million in 2020. Increase in impairments in our leasing book are due to a year over year downturn in transportation industry conditions leading to increased levels of default and enforcement. The credit union also recorded impairments on other assets of $2.5 million in 2020, $0.9 million higher than the pro forma 2019 figures. Small business failures subsequent to the initial pandemic lockdown, particularly in the transportation industry, resulted in a surge of equipment enforcement and inventory. This portfolio behaviour has since declined, allowing for significant reductions in both inventory and impairment moving into 2021.

In determining the expected credit loss provision, management considers future macroeconomic and industry-specific trends. Further details can be found by reading Credit Risk in the Key Business Risks section on page 21. The expected credit loss provision is extensively reviewed on a quarterly basis by credit union management. Notwithstanding the decline in the loan and lease portfolios, the credit union increased the loss provision to $13.8 million, an increase of $7.3 million over the pro forma 2019 year. The expected credit loss provision is higher due to increases in forward-looking factors due to the current uncertain economic environment.

Net fee and commission income

Net fee and commission income was $19.6 million, an increase of $2.2 million compared to pro forma 2019.

Wealth management revenues grew to $12.0 million, an increase of $0.5 million from $11.5 million in pro forma 2019. This was a result of a growing wealth management portfolio, which increased by $55.2 million to $1.6 billion, and an increased turn rate. Prospera operated under both legacy wealth trading platforms in 2020, with an intention to integrate operations in 2021. The credit union has continued to convert assets from the Mutual Fund Dealers Association platform to the Investment Industry Regulatory Organization of Canada, which offers expanded product offerings to members, and aligns the credit union with the offerings of our competitors. This strategy favors the credit union in the long term as it will increase competitiveness and allow for sustained asset and revenue growth over time.

Members' fees and commissions decreased by $0.5 million from pro forma 2019 to $7.3 million. The ongoing pandemic resulted in fewer in-branch member transactions, with increased usage of zero fee digital service transactions.

Gains in fee and commission income were partially offset by a decrease in Visa® commission income. The volume of member transactions declined in 2020 as member transaction volumes declined, and interest rates were reduced by 50% to respond to member needs during the pandemic.

Fee and commission expense decreased in 2020 by $1.6 million to $6.2 million compared to the pro forma 2019 amount of $7.8 million. This was largely driven by reduced expenses of $0.6 million for securitization fees (due to decreased volumes of securitizations), and a decrease of $0.2 million for investment management fees that were no longer required for a capital markets portfolio that was exited in 2019. Lower loan and fee commission expenses resulted in reduced expenses of $0.5 million, reduced point of sale transaction fees of $0.1 million, and a $0.2 million reduction in leasing fees. All of these were the result of lower transaction volume due in large part to the pandemic.

Net gains on financial instruments at fair value through profit and loss (FVTPL) and other income

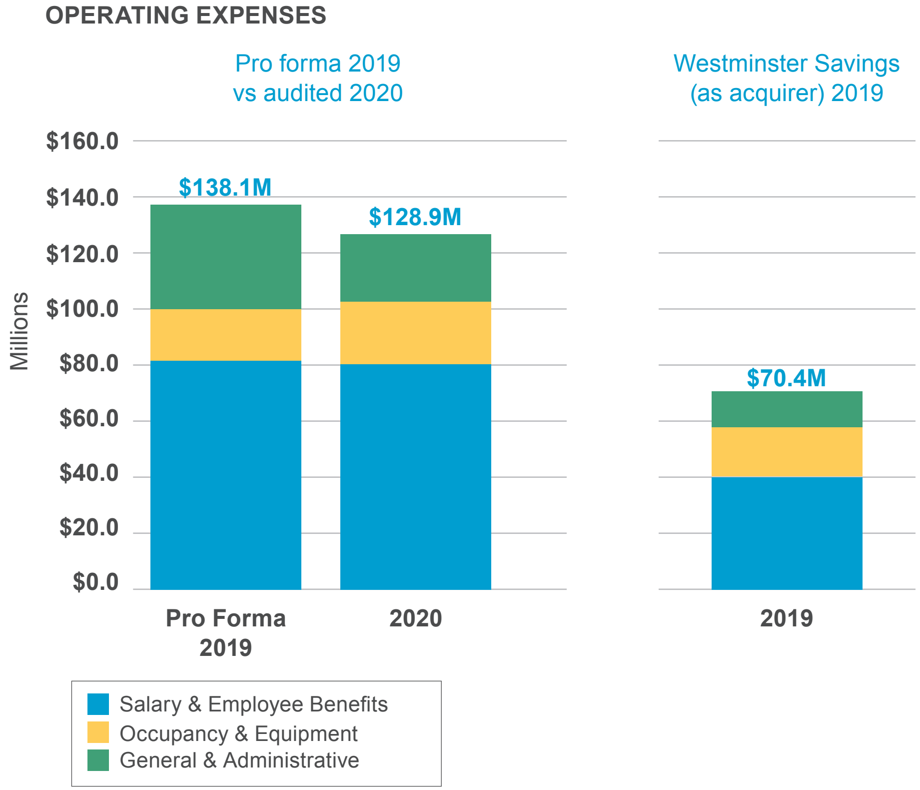
The credit union recognized realized gains of $3.8 million on investments, of which, $3.5 million was attributable to gains made upon the disposal of historically held derivatives.

During 2020, Prospera recorded unrealized gains on financial instruments of $6.0 million. This was composed of unrealized gains on investments of $9.0 million due to fair value adjustments, offset by foreign exchange losses due on investments ($1.5 million), losses on derivatives ($1.0 million) and unrealized losses on third party originated loans of $0.5 million.

Supporting our members

Beata
Owner, Breathe Salt Clinic

Operating expenses



Overall, **operating expenses** decreased 6.7% to $128.9 million in 2020. Over the course of the year, Prospera recognized synergies with reduced marketing spend and savings in employee expenses. The credit union also invested in integration activities to support the amalgamation and modify technology infrastructure to position the credit union for future growth and success.

Salary and employee benefits expense decreased by 0.2% in 2020, primarily due to the credit union incurring net savings related to the changes in organization structure and the implementation of the integrated service model at all branches.

Occupancy and equipment expense increased by 2.5% to $19.6 million in 2020. This was primarily due to the accelerated depreciation of the legacy Westminster Savings equipment and signage and the investment in developing a new brand for launch in 2021. As part of integration, the credit union continually reviews branch operations to ensure our branches are suitably located to meet the needs of our members. New locations for our existing branches in White Rock and Coquitlam are expected in 2021 and some costs were incurred in preparation for those moves.

General and administrative expense decreased by 24.8% from pro forma 2019. The major components of this year over year change were the suspension of all non-critical and non-integration related spending, which resulted in savings of $2.5 million. Further savings of $2.5 million were realized as the Credit Union Deposit Insurance Corporation (“CUDIC”) premiums were decreased due to reduced premium assessment rates. Operational marketing expenditures were temporarily paused and reduced by $1.6 million in preparation for the new Prospera brand, which will be released in 2021. These savings were offset by one-time integration expenses of $3.5 million incurred in 2020 ($5.7 million in pro forma 2019). These expenses are non-recurring and are directly linked to the key integration initiatives mentioned above. The credit union has continued to invest in its digital infrastructure as highlighted in the Line of Business Overview on page 8.

Prospera has focused on prudent cost management due to the impact the low interest rate environment and competitive pressures are having on net interest income, ensuring that operations are efficient and effective, while still making the necessary investments in the business.

Our Foundation

The Foundation was founded in 1992 as a charitable society to support worthy organizations within the general trade area of the credit union. Contributions to the Foundation are made at the discretion of the Prospera board. The Foundation has a community endowment fund of $9.7 million and disbursed grants of more than $0.3 million in 2020 to support active living and arts in the communities that the credit union serves. This included ongoing support for KidSport BC, Arts Umbrella and Special Olympics BC and was expanded to include the broader geographic territory for Prospera.

The credit union contributed $0.5 million ($0.8 million in 2019) directly to community activities and initiatives, such as United Way, Easter Seals, Canuck Place Children's Hospice, as well as many other organizations. Many of the donations made by the credit union were in support of operations of local charities impacted by the pandemic that provide important services to our communities.

Income taxes

Higher income levels in 2020 as compared to 2019 resulted in an increase in the overall level of income tax expense which include both current and deferred income tax expense. The credit union had an effective net tax rate of 20.9% for 2020 (19.4% in pro forma 2019).

Supporting our Communities


Central Okanagan Food Bank


Special Olympics

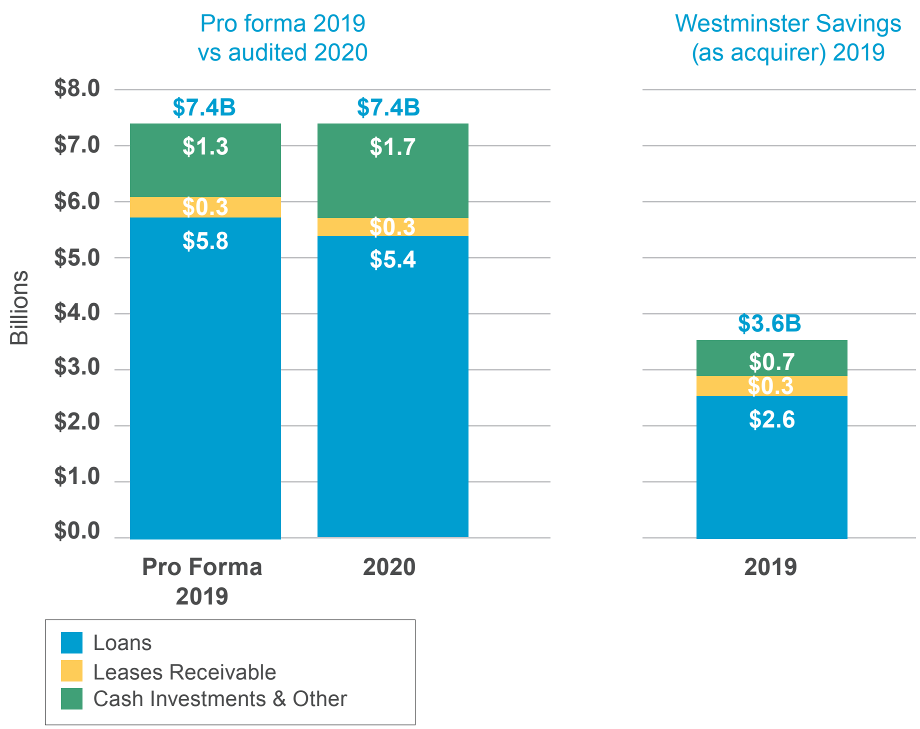

Arts Umbrella

BALANCE SHEET

Asset and liability portfolios

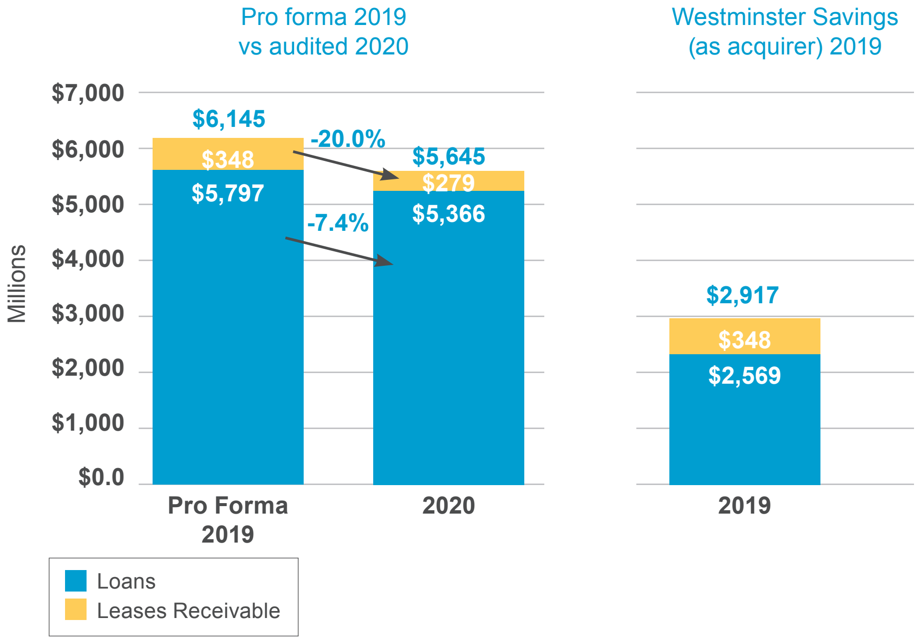
The following is a graphical analysis of total asset composition over the last two years.

TOTAL ASSETS



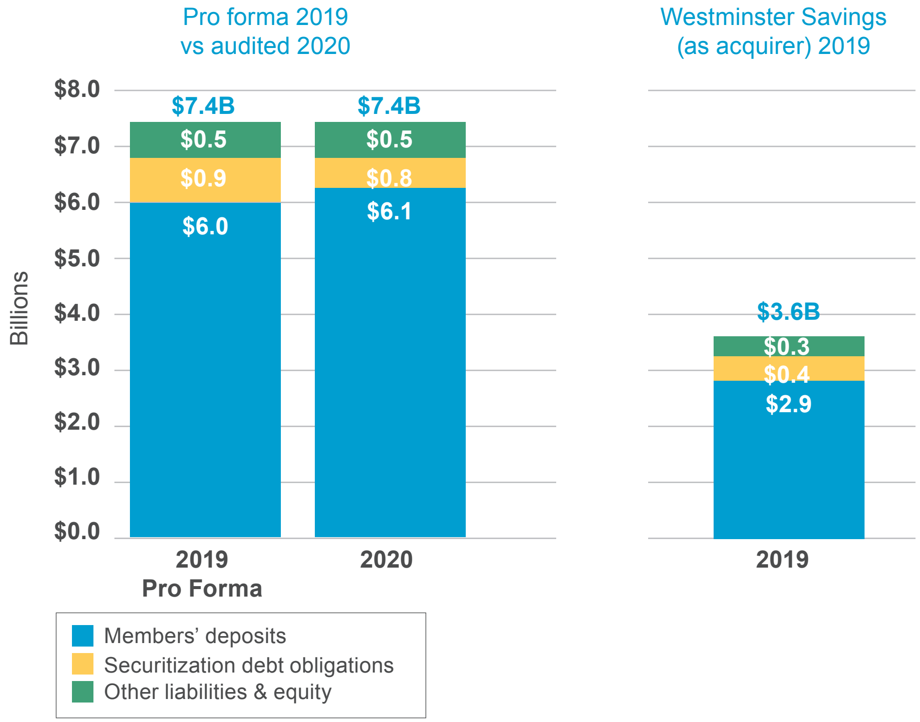
- Total assets remained at $7.4 billion in 2020.
- Cash, investments and other assets increased by $0.4 billion which was offset by a reduction in the loan portfolio of $0.4 billion.

ASSET PORTFOLIO
LOANS & LEASES RECEIVABLE



- Loans decreased by $431.2 million or 7.4% during 2020. The decline in loans was driven by decreases in both the consumer lending and commercial banking portfolios. The change in 2020 reflected the disruption caused by the global pandemic and the credit union's prudent approach to credit and capital management which resulted in an overall decline in loan and mortgage products.
- Leases receivable decreased $69.8 million or 20.0% from pro forma 2019 to 2020. The credit union saw decreases in the vehicle leasing portfolio of $23.9 million and equipment leasing portfolio of $44.5 million. Consistent with the decline in the portfolio, deferred fees also declined. The allowance for impairment losses however increased by $0.2 million due to uncertainty in the current economic environment.

TOTAL LIABILITIES AND EQUITY



- Members' deposits increased by 0.9% to $6.1 billion. Members' deposits include larger institutional wholesale deposits which declined by $0.3 billion in 2020. This was more than offset by increases in deposits held by members in demand and savings accounts in 2020. The credit union saw a significant increase in these accounts during the pandemic as members continued to save more.

For liquidity management purposes, the credit union routinely securitizes loans and leases to raise additional funds at competitive rates. During 2020:

- Securitization debt obligations decreased by $93.1 million. This decrease was a result of a net decrease of $84.2 million and $8.9 million in loan and lease securitizations, respectively. This decline was largely due to maturities of $75.7 million and pre-payment and liquidations of $113.9 million during 2020 offset by $135.9 million of new loans and leases securitized during 2020.
- There were no borrowings outstanding at the end of 2020. Borrowings outstanding at the start of the year were repaid immediately upon amalgamation. Due to excess liquidity, stability in deposit balances and declines in lending products, borrowings were not required during 2020.

Derivative liabilities were reduced by $1.1 million in 2020. Prospera currently holds interest rate swaps only. All other derivatives that were acquired at amalgamation were subsequently sold during 2020.

The non-financial asset and liability categories are a much smaller component of the consolidated statement of financial position when compared with customer accounts. These balances reflect the assets and liabilities used in the credit union's operations, along with certain income tax and pension-related balances. The balances in these asset and liability accounts saw modest changes from pro forma 2019, in keeping with ongoing business activity. Pension and income tax-related asset and liability balances have fluctuated, largely due to changes in discount and tax rates. The retirement benefit obligation and income tax payable were recorded as $37.1 million and $5.0 million compared to $28.2 million and $16.6 million respectively in pro forma 2019.

Members' equity

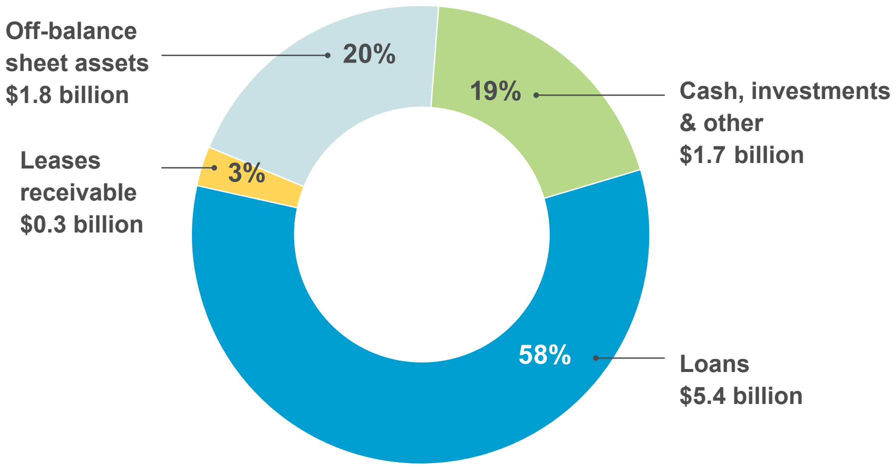
Members' equity is comprised of retained earnings which includes current year net income and contributed surplus and grew to $349.7 million at the end of 2020. Within members' equity, the increase in retained earnings represents net income for the year of $22.5 million and changes due to the amalgamation as noted in note two of the Audited Consolidated Financial Statements. Contributed surplus from legacy Prospera of $130.9 million was created as part of the IFRS 3 business combination accounting and is also included in members' equity.

Comprehensive income for 2020 was $17.3 million in the year compared to $4.1 million in pro forma 2019. This represents net income of $22.5 million combined with net actuarial losses of $7.1 million on the credit union's defined benefit plans and a favorable deferred tax recovery of $1.9 million in 2020.

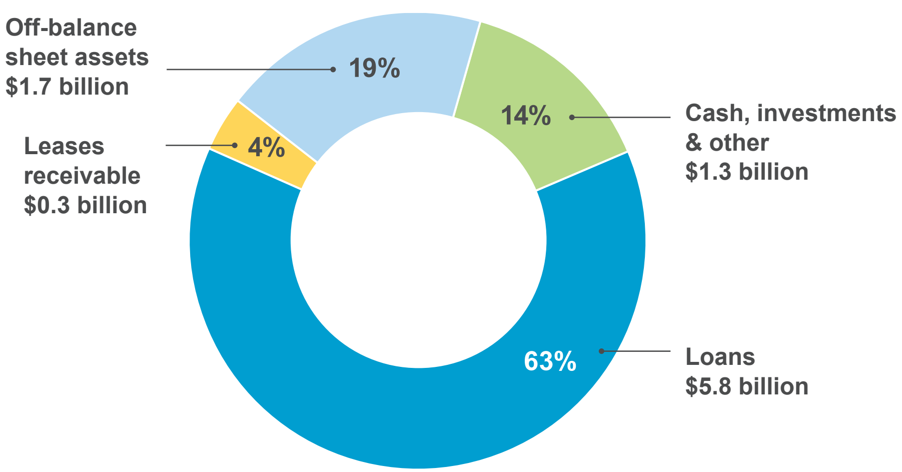
Assets under administration

ASSETS UNDER MANAGEMENT

$9.2 Billion
Audited 2020



$9.1 Billion
Pro Forma 2019



At December 31, 2020, the credit union held $9.2 billion of assets under administration, a slight increase of 0.2% from pro forma 2019. The proportionate share of off-balance sheet assets to total assets under administration increased from 22.8% to 24.4% from pro forma 2019.

At December 31, 2020, off-balance sheet assets under administration were $1.8 billion, an increase of $97.0 million from $1.7 billion in pro forma 2019.

The largest component of off-balance sheet assets under administration is customer investment products. At December 31, 2020, the total value of customer investment products under administration was $1.62 billion ($1.56 billion in pro forma 2019). These increases reflected an upturn in market values within the capital markets during the second half of 2020.

For customers with self-directed retirement accounts, the credit union acts as administrator for a fee. Self-directed RRSP funds under administration were $9.0 million, down from $21.9 million in pro forma 2019. The reduction in self-directed RRSPs is primarily a result of customers moving their investments into our managed wealth line of business.

Throughout 2020, the credit union also acted as facilitator for the CEBA loans program. This was in support of a federal relief program for businesses to gain access to interest free loans during the pandemic. Prospera supported $45.7 million of CEBA loans in 2020.

Periodically, other financial institutions are invited to participate in the funding of large-dollar loans that are originated by Prospera. These syndicated loans are administered for a fee, and totaled $112.2 million, up from $94.7 million in pro forma 2019.

MANAGING BUSINESS RISKS

Prospera faces many different inherent risks within its business model. As a result, the credit union needs to effectively manage these risks in a disciplined and proactive approach to create value for our many stakeholders, including members, employees, regulators, third party service providers, and the broader community. At the same time, this diversity of inherent risk requires us to work in an integrated fashion using an enterprise risk management ("ERM") framework guided by foundational risk management principles (i.e. understand and manage risk and maintain strong capital and liquidity) that create the appropriate foundation for an effective and efficient risk management program that drives strategic success.

In addition, Prospera has in place an ERM framework that provides a clear roadmap to determine the types and levels of risk that the organization is willing to accept in pursuit of its strategic objectives. Ultimately, it is a set of tools and resources to support the integration of risk management into strategy and performance and helps us understand and mitigate identified risks through continued monitoring and analysis. The key risk categories or dimensions considered in this framework are outlined under principal risks below.

Prospera designs its ERM policies to identify and analyze risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. Prospera's approach involves identifying events or circumstances relevant to its objectives, assessing them in terms of probability and magnitude, determining a response strategy and monitoring progress. The credit union regularly reviews its risk management policies and systems to consider changes in markets and products as well as best practices.

The board plays a key role in ensuring the credit union effectively manages and mitigates risk through policies and procedures that are implemented through three levels within the credit union (Three Line of Defense Model):

1. **First Line (Risk Owners):** Operational employees that understand and correctly carry out their roles and responsibilities;
2. **Second Line (Oversight Function):** Oversight employees that monitor policies and procedures in respect of risk and compliance amongst operational employees; and
3. **Third Line (Independent Assurance):** Internal audit and the board who regularly review business operations and oversight functions to confirm they are performing at appropriate levels for risk tolerance and regulatory compliance.

The segregation of duties and independence between these levels enhances the effectiveness of the credit union's risk management system. These three levels safeguard the credit union by working together to ensure the credit union operates within its risk appetite and compliance requirements.

Within Prospera, an ERM Committee, led by our Chief Risk Officer and made up of senior executives, has the responsibility for overseeing, managing, and reporting to the board on compliance with Prospera's risk management policies, risk appetite statements and risk tolerances. The Risk, Investment and Loan Committee, through delegated accountability from the board, ensures governance and oversight for adherence to Prospera's board-approved ERM Policy, and is responsible for reviewing and monitoring adherence to the ERM framework so that Prospera is effectively managing and controlling risk.

Prospera also maintains an internal audit function, which is responsible for the independent review of risk management and our control environment.

Overall, Prospera's risk management philosophy is that risk should not be viewed solely as a potential constraint or challenge to setting and carrying out a strategy, but rather, that the credit union's responses to risk give rise to strategic opportunities and key differentiating capabilities – the ability to consistently capture the true benefit or upside of prudent risk taking.

Principal risks

An effective risk management program creates a common understanding of risk by outlining the key categories or risk 'dimensions' that Prospera is exposed to. They allow Prospera to group risks around areas of the business that may be impacted. To help facilitate this understanding, Prospera has outlined major risk dimensions along with their definitions as noted below:

Key Risk Dimension	Key Risk Description
Strategic	The potential for loss or harm due to changes in Prospera's external business environment and a failure to appropriately respond.
Credit	The potential for loss due to the failure of a borrower (or counterparty) to repay a loan or honour its contractual commitment to Prospera.
Market	The potential for adverse changes in the value embedded within Prospera's balance sheet from changes in macroeconomic variables such as interest rates, foreign exchange rates, and credit spreads.
Liquidity & Capital	**Liquidity:** The potential for loss if Prospera is not able to meet financial commitments in a timely manner at a reasonable price as they come due. **Regulatory Capital:** The potential for adverse changes or an event that creates an inadequate or insufficient capital base required to support Prospera's strategic intent and/or regulatory requirements.
Legal & Regulatory	The potential for any loss or harm resulting from a failure to comply with laws or satisfy contractual obligations or regulatory requirements.
Operational	The potential for loss or harm resulting from inadequate or failed internal processes and systems, failed execution, human error, or misconduct or external events (such as fraud or criminal activity).

Supporting our members

Adam
Owner, Nine.

CAPITAL AND BALANCE SHEET MANAGEMENT

Balance sheet management

As an important part of its overall risk management strategy, Prospera ensures that sufficient and appropriate capital is available to protect against unexpected events and support ongoing growth. A strong capital position offers protection in the face of risk and preserves the security of customer deposits. Increased capital allows the credit union to pursue new initiatives and expand services to customers. The credit union also determines the amount of capital required to support operating divisions and ensures that it is used in the most efficient and effective manner. Prospera regularly monitors and completes quarterly portfolio stress testing to ensure it can support the operating divisions.

As a BC credit union, Prospera must meet the capital requirements outlined in the *Financial Institutions Act (FIA)* of British Columbia and the related capital requirements regulation. This regulation specifies the minimum capital a credit union must maintain and how this capital is defined and measured. The calculation of the statutory capital requirement is based on BCFSA's assessment of the relative risk of the assets held by a credit union, thus establishing that more capital is to be held against riskier assets.

BCFSA uses three capital indicators in the assessment of credit union capital adequacy:

1. The FIA regulations require a credit union to have a capital ratio of at least 8.0% to operate without any statutory restrictions. A credit union operating below this limit will be subject to immediate statutory restrictions and may be considered non-viable by BCFSA.

2. BCFSA's supervisory target of 10.0% sits above the regulatory threshold and provides BCFSA with sufficient time to address any threats to the solvency of the credit union before it falls below the regulatory requirement.

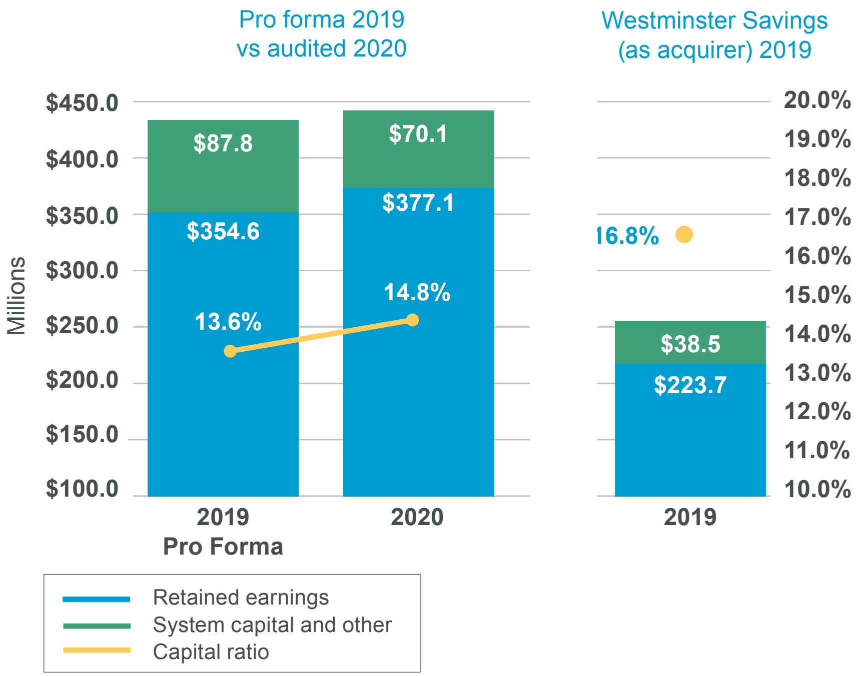
3. Credit unions are expected to establish their own internal capital target ratio, which should be set above the supervisory target. This internal target is used as a base for corrective internal action before capital erodes below the supervisory target.

Prospera's capital policy requires an annual internal capital adequacy target to be established and maintained. For 2020, the internal capital adequacy target was 12.0%. Prospera forecasts the amount and composition of the balance sheet and expected levels of risk-adjusted assets and manages within these levels to remain well-capitalized.

The main source of Prospera's capital is the retention of earnings and contributed surplus. The credit union's capital base also includes member shares and Prospera's proportionate share of system capital. System capital refers to the retained earnings of the centralized credit union organizations (Credit Union Deposit Insurance Corporation, Central 1 Credit Union and Stabilization Central Credit Union), which are owned by BC credit unions.

- As at December 31, 2020, Prospera's total capital base was $447.2 million compared with $442.4 million in 2019.
- Prospera's capital adequacy ratio, including system capital, was 14.8% at December 31, 2020, compared to 13.6% in pro forma 2019. This exceeded regulatory requirements and adhered to the credit union's internal policy requirements.

CAPITAL



The credit union's retained earnings and total capital improved during 2020. As outlined above, the capital ratio is impacted by the composition of asset portfolios and the associated underlying risks. The increases in cash and declines in the consumer, commercial and lease portfolios resulted in a slight decrease in the risk-weighted asset values in 2020. The increases in retained earnings partially offset by a decline in systems capital contributed to a healthy capital base resulting in a strengthening of the capital ratio to 14.8% at December 31, 2020.

Liquidity

The credit union carefully manages its liquidity to ensure that customers' requirements are met at all times. By ensuring that sufficient, readily accessible or liquid assets are available, Prospera is able to meet customer demand for withdrawals and deposit redemptions, fund loans, leases and business operations, and protect the credit union against sudden, unforeseen cash needs.

As a BC credit union, Prospera must meet the liquidity requirements outlined in the FIA and the related liquidity requirement regulation. This regulation specifies the minimum liquid assets a credit union must maintain, and how liquidity is determined. The legislation requires that liquid assets representing at least 8.0% of deposit and debt obligations be held by a credit union. This liquidity ratio is intended to ensure that liquidity is adequate in relation to the business being conducted.

- Prospera's liquidity ratio was 26.6% at December 31, 2020, compared with 19.4% at pro forma 2019. The combination of decreases in lending volume in addition to the increases in members' deposits and securitizations, resulted in increases in the liquidity ratio in 2020.
- Liquidity levels exceeded both the regulatory and internal policy requirements.

Loans and lease securitization

Prospera routinely enters into transactions whereby the credit union or a subsidiary securitizes (sells) consumer mortgage loans or leases receivable to third party investors. This is used by the credit union to access cost-effective funding for additional growth and to manage liquidity risk, credit risk and interest rate risk. Securitization transactions have no impact on customers who have a consumer mortgage or lease with the credit union.

During the year, the credit union continued to issue mortgage-backed securities under the NHA MBS securitization program supported and administered by the Canada Mortgage and Housing Corporation. This conduit was established to reduce liquidity risk by further diversifying funding sources.

In 2020, Prospera securitized consumer mortgage loans receivables of $120.6 million ($119.3 million in pro forma 2019) and securitized leases receivables of $15.8 million ($22.1 million in pro forma 2019).

Borrowing facilities

In addition to its borrowing facility with Central 1 Credit Union, Prospera maintains credit facilities with other major financial institutions. The credit union can draw on these facilities as required to finance operations. Prospera's credit lines provide borrowing capacity of approximately 7.6% of credit union assets.

The credit union did not have any borrowings from credit facilities at December 31, 2020.

2021 ECONOMIC OUTLOOK

After the deepest contraction in economic activity and employment in modern times resulting from lockdowns and widespread closure measures to limit the spread of COVID-19, the Canadian economy started recovering in the last seven months of 2020 after lockdown measures were eased. A resurgence of COVID-19 in the fall forced government to re-impose lockdown measures in the latter part of December and early January. Despite the virus, GDP was able to gain ground in the final months of the year, with GDP growing 9.6% in the fourth quarter of 2020. This outcome is better than anticipated and outside of sectors most directly affected by the virus, the economy is performing well.

GDP growth in the first quarter of 2021 is expected to be positive as consumers and businesses adapt to containment measures and as housing activity continues to strengthen. Improving foreign demand and higher commodity prices have brightened the prospects for exports and business investments.

With the arrival of vaccines, the Bank of Canada's ("BoC") latest forecast projects an economic growth of 4.0% in 2021, after a decline of 5.5% in 2020. The successful rollout of vaccines and no resurgence of the virus are key factors for the economic recovery over the next few years.

The job market recovery is expected to pick up in the second half of 2021, as vaccines become available for a majority of Canadians. Much of the job growth will come from industries that had been held back by pandemic-related restrictions. These industries include accommodation and food services and air transportation.

An increase in the BoC policy interest rate is not expected to occur until 2023. In its latest rate policy announcement on March 10, 2021, the BoC repeated its commitment to keep its policy rate at the effective lower bound of 0.25% until economic slack is absorbed, so the 2.0% inflation target is sustainably achieved. The BoC forecasts inflation to rise temporarily to around 3.0% in the next few months. The expected increase in inflation reflects the dissipation of the effects of price declines at the pandemic's outset and higher gasoline prices pushed up by the recent run-up in oil prices. Excess capacity is expected to moderate inflation in the next two years. As this excess capacity is absorbed, inflation is expected to return sustainably to the 2.0% target in 2023.

The housing market has proven to be a source of strength for the economy despite the pandemic and its economic fallout. Canada's housing markets have recovered from the early stages of the virus, as many markets now favour sellers.

In BC, record breaking home sales and listing activity were observed during the second half of 2020 and robust housing demand is expected to continue through to the first half of 2021. The strength of the housing market continues to reflect historically low mortgage rates and shifting housing needs. These drivers have more than offset the negative impact of pandemic-driven job losses which largely affected lower income workers rather than higher paid individuals more likely to be in the homeownership market.

Despite an increase in bond yields due to expectations of stronger economic growth, mortgage rates are expected to remain at low levels. High levels of liquidity at financial institutions will likely contribute to aggressive mortgage pricing through the spring, keeping rates low until mid-2021. A modest rise in mortgage rates are expected, but at levels that will continue to support housing demand.

While there are still significant uncertainties to the outlook and how the pandemic and vaccination efforts evolve, there is optimism that the COVID-19 virus can soon be beaten and economic growth will pick up steam in 2021 and onwards as more Canadians get vaccinated, employment rises, investment spending increases and pent-up consumer spending is unleashed when social and travel restrictions are eased.

Glossary of terms

Assets under administration are balance sheet assets and third party investment assets that the credit union originates and manages in return for administration fees and/or commissions. Although third party assets are not recorded on the credit union's balance sheet, they represent expanded investment options for customers, while providing the credit union with a reliable revenue stream.

Balance sheet is a statement of position that reflects the assets, liabilities and capital of the credit union at a particular point in time, and cumulative retained earnings.

Client is used in the wealth business for both members and non-members who have wealth assets with Prospera.

Compensation expense includes salary, benefits, employee training and development costs.

Competitive market risk is the risk of customer attrition, increased cost or other business impacts due to changes in the competitive markets for financial services, investment products, vehicle leasing and equipment leasing.

Compliance and regulatory risk is the risk of non-compliance with legislative and regulatory requirements arising from inadequate policies and operational procedures or lack of highly qualified employees.

Comprehensive income includes the net income of the credit union, unrealized derivative income along with changes in pension obligations recorded in the consolidated statement of financial position.

Credit risk is the risk of loss resulting from a borrower's inability or unwillingness to repay a loan in conjunction with inadequate collateral or from a counterparty's inability to complete or fulfill financial obligations.

Customer is used when referring to relationships in the Leasing business, whether business-to-business (B2B) or end-user (lessee) relationships. Also used when referring to the total number of people who do business with Prospera Credit Union and its affiliates.

Deferred tax expense reflects an amount of income tax expense related to the difference between the deferred tax assets and deferred tax liabilities between the beginning of the year and the end of the year. Deferred tax assets and liabilities are a result of temporary differences between accounting and tax carrying values and are calculated based on estimates of the timing and amount of future reversals at the applicable future tax rates. The judgment required in assessing the future timing of reversals, amounts and future tax rates in respect of deferred taxes may result in effective tax rates that may not be consistent from year to year.

Fee and commission expense includes costs related to delivery of transactional account services and leasing services, ATM and Interac® Direct Payment transaction processing costs, cheque clearing costs, investment management costs, custodial and other loan processing fees.

Fee and commission income comprises various fees, service charges, penalties and other miscellaneous revenues that are earned but not part of net interest income.

Financial market risk is the risk of loss that results from changes in external markets, including interest rates, foreign exchange rates, equity and commodity prices, and credit spreads.

General and administrative expense includes data processing, marketing and other costs of administration.

Interest rate risk represents the potential adverse impact that changes to market interest rates may have on the earnings and value of the credit union. It generally arises from differences between the term to maturity of investments, loans and leases receivable, and those of the credit union's sources of funding.

Liquidity risk refers to the risk of being unable to obtain funds at reasonable prices or within a reasonable time period to meet obligations as they come due.

Member is used when referring to those who have paid shares, e.g., consumer operations and commercial banking members.

Members' equity comprises retained earnings and other comprehensive income.

Net fee and commission income includes **fee and commission income** netted with fee and commission expense.

Net income is the sum of **net interest income, net fee and commission income** and other income less **operating expenses** and taxes.

Net interest income is the difference between financial income (interest earned on investments, loans and leases receivable) and financial expense (interest paid on members' deposits and other financing). It is the largest component of the credit union's income.

Occupancy and equipment expense includes premises rent, maintenance and other property-related costs.

Operating expenses consists of compensation expense, occupancy and equipment expense, and other general and administrative expense.

Operational risk refers to the risk of loss resulting from the failure or inadequacy of internal systems and processes, or from external events that may negatively impact the credit union. These risks are carefully managed under Prospera's Enterprise Risk Management program.