prospera
CREDIT UNION

Bright Futures grow here.

Annual Report 2017

Our members don't just bank. They Prosper.

Don't just bank. Prosper.

Stephan Schigas
Owner, Blacksmith Bakery

“I can’t imagine...

what it’s like for some entrepreneurs, jumping through hoops to finance their dreams. When we needed financing to expand operations, our guy at Prospera came out and met with us, took the time to understand our plans and gave us the green light.

Prospera Credit Union

Management's Discussion and Analysis

For the year ended December 31, 2017

Don't Just Bank. Prosper.

At Prospera Credit Union, the true measure of our success isn't counted in dollars, it's measured by the number of members we help to realize their dreams. But financial dreams don't just happen, they take planning and action. As a values-based financial institution, helping our members build a financial plan, take action and realize their dreams is what we love to do.

In 2017, we're proud to say we:

- *helped 1,000 members finance the purchase of a home*
- *were the first credit union to offer a fully integrated digital account opening option for new members*
- *gave $20,000 in Educational Awards to BC students and overall contributed $793,000 to our members' communities through other sponsorships support and donations*
- *helped 696 members get started with a financial plan*
- *were the first financial institution in Canada to offer a business invoicing solution that is fully integrated into business online banking*
- *contributed 5,590 volunteer hours to our communities*
- *won an Empowering Your Community Award from Concentra*

Prospera's unique value proposition is providing a highly personalized member experience. We believe everyone deserves financial wellness and our financial specialists continuously seek opportunities to provide advice that is specific to members' short and long-term financial goals. In support of this strategy, we're investing in technology and innovation to provide efficiencies and enhancements for both members and staff at Prospera. We know our strategy is working because our members and our employees tell us so. This year, our membership grew to more than 64,000 and we are recognized as a Great Place to Work by the Great Place to Work Institute for a second straight year.

This year, we helped
1,000 members
finance a home

Transforming the Way We Do Business

The way our members want to bank is changing and we're changing too, transforming how we do business to leverage technology and create the online services members want while keeping traditional relationships strong. In 2016, we launched an in-depth long-term Strategy and Vision for Prospera that reimagines our presence and part in the lives of our members and communities. Our long-term plan provides a strategic direction to grow our business, develop our capabilities and determine where best to invest resources within Prospera.

Much of the focus of 2017 was on building foundational pieces that support our transformational change and in-depth planning for the next phase of projects designed to propel our Vision. Our drive is focused on achieving three levels of success: helping our members achieve financial wellness; improving our technologies and ability to provide services and advice the way our members need; and investing in our communities where our members live and do business. Many of the investments we're making are focused on process and technology improvements that will enable what was once restrictive to be efficient and effective and put the tools members need to improve their financial well-being right at their fingertips. We are also focused on how we deliver services to our 64,000 members, and in 2017 we implemented a mobile sales force, aimed at providing a greater level of service and making it easier to do business with Prospera where and when it is most convenient.

Membership grew to more than **64,000**

Another key project that moved through the planning stage in 2017 is Prospera's Business Banking Transformation Strategy, which takes a holistic approach to how we support our business members. Our priority as a financial partner to local business owners is to find innovative ways to free up more of their time to focus on building their business. In addition to implementing a new relationship management model, investments in technology will help us improve and enhance internal systems that enable us to work more efficiently, with better information, and make faster decisions in areas that directly impact our members' experience.

Other strategic developments in 2017 include the launch of Open Anywhere™ (which allows existing and prospective members to open accounts online, from any computer or mobile device, any time, from anywhere) and Virtual Wealth (which provides a smart, easy way to build wealth by combining the online convenience of virtual investing with the expertise of professional investment managers in user-friendly platform). We also introduced Mobile Pay for Android and expanded our suite of credit cards to offer more cash back and reward options through a partnership with Collabria.

Prospera staff donated **5,590 volunteer hours** in 2017

We also cemented a partnership investment with Do Some Good in 2017. Do Some Good (formerly known as Volinspire) is an online network and mobile app that connects people, charitable organizations and businesses to make a meaningful impact in communities all across Canada. This partnership will further Prospera's reach into its communities and showcase our community giving in addition to acting as the platform of choice for Prospera staff to identify and track volunteer opportunities and involvement in our local communities.

Purpose, Vision & Values

Prospera's Purpose, Vision & Values are at the foundation of our short and long-term plans and act as a strong guide for direction and alignment.

OUR PURPOSE

At Prospera, we have a strategic imperative to grow a strong, sustainable credit union to ensure that we continue to make a meaningful difference in the financial well-being of our members, which in turn will support and strengthen the financial, social and economic resiliency of people in our local BC communities.

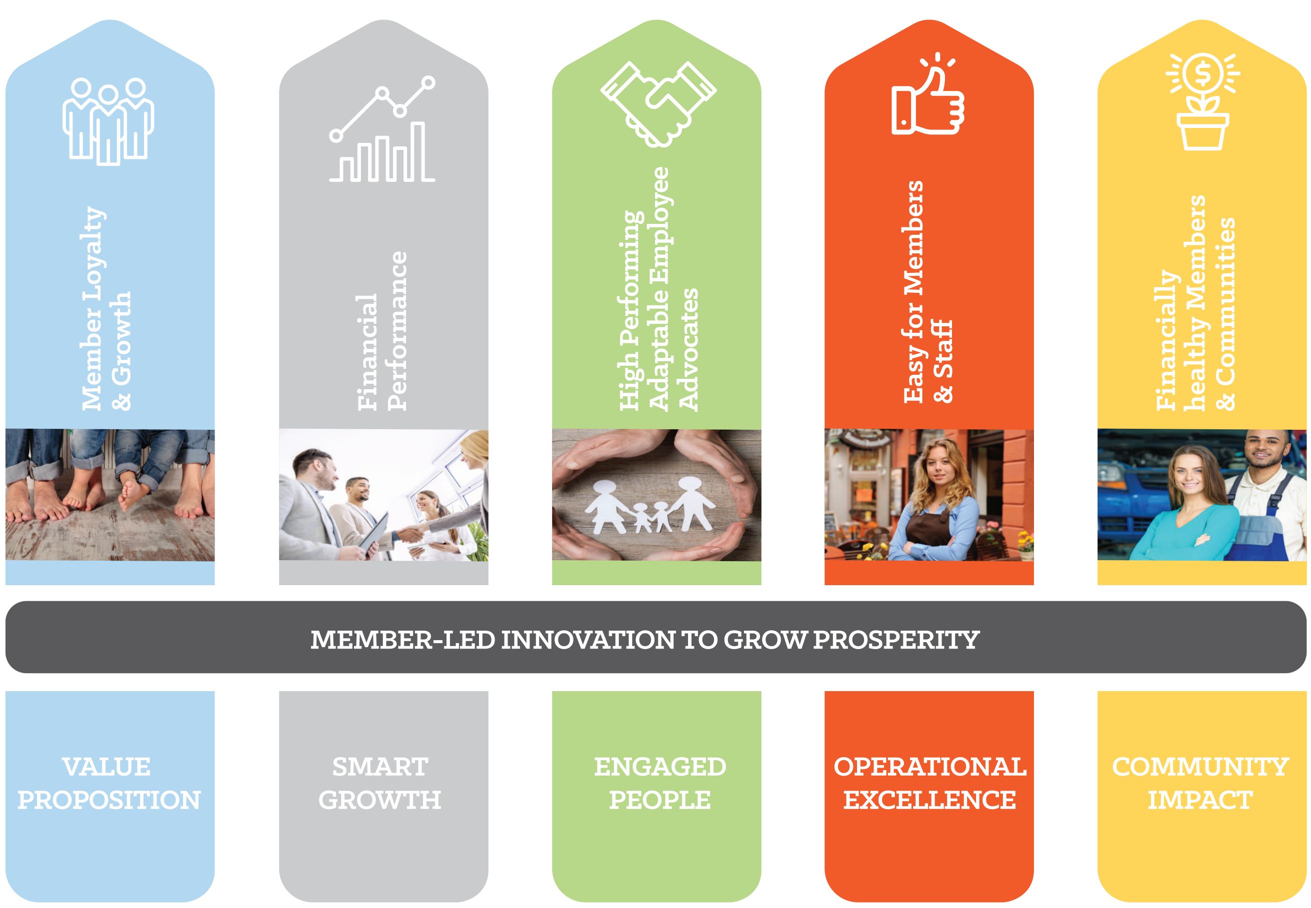
OUR VISION
We are the trusted home for families and local businesses, building their financial dreams and prosperity within our communities. We are transforming the way we do business to grow Prosperity.

OUR VALUES
Everything we do at Prospera is based on our values of accountability, focus, teamwork, integrity, passion, member first and community. In alignment with the co-operative principles that are at the heart of our credit union, these values guide us every day.

Strategic Priorities

At Prospera, our focus is driving towards the right goals, while understanding what matters for the business, our members and our communities. We recognize the changing environment within our economy and industry and have a strong desire to improve how we do business and how we serve our members and community. Our Vision 2020 strategy, which we introduced in 2016, sets us on a path for growth and the ability to improve revenues, enabling investment into the things that matter to Prospera's members. Our long-term strategy frames everything we do and encompasses five individual strategies. These five foundational pillars provide the strategic direction to grow our business, develop our capabilities and determine where best to invest resources within Prospera.

2020 STRATEGIC PILLARS & OUTCOMES

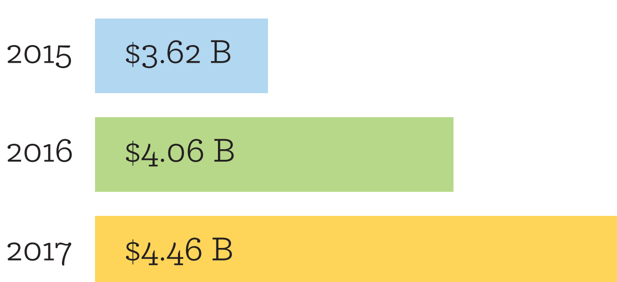


2017 Financial Highlights

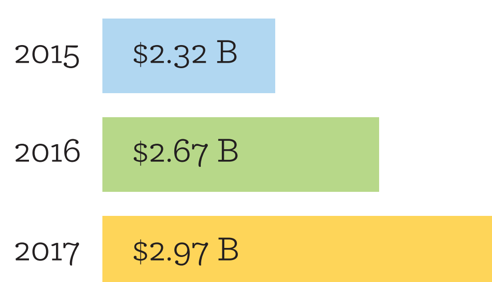
The theme for 2017 financial results builds upon the journey we started in 2016, and the results are evident in the numbers. Net loan growth reached $310 million for 2017 and our Assets Under Management grew to $4.46 billion. Additionally, 2017 was the second year in a row where we welcomed over 4,000 new members to the Prospera family.

Over the past two years, net loans have grown by over $650 million and total Assets Under Management have grown by over $840 million, illustrating the realization of our vision to be the trusted financial home for families and local businesses.

Total Assets Under Management



Loans



Overview of 2017 Operating Results

Operating results in 2017 reflect the success attributable to our focus on our long-term strategy through a year impacted by many changes in the financial services industry, the economy and our own operating environment. Throughout this change Prospera outperformed all expectations for growth and significantly outperformed in the area of Income from Normal Operations[1], a non-GAAP financial measure explained below, where we grew by 55% over the prior year.

Balance Sheet Assets reached $3.55 billion in 2017 after Loans increased by 11% or $310.0 million, (building on the high growth results of 15% achieved in 2016). This growth was supported by

Income from normal operations[1]
INCREASED 55%
in 2017 to reach $17.3 million

[1] Non-GAAP Financial Measures

Certain discussion and analysis set out in this commentary include measures which are not defined by generally accepted accounting principles (GAAP), including IFRS. We believe this information, along with comparable GAAP measurements, is useful to members because it provides a basis for measuring our operating performance. We use these financial measures, along with the most directly comparable GAAP financial measures, in evaluating our operating performance and value creation. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP. Non-GAAP financial measures as reported by us may not be comparable to similarly titled amounts reported by other companies.

over four thousand new members that joined Prospera in 2017, which matched new member growth from 2016. In addition to our Balance Sheet Asset growth, our Wealth Management portfolio grew by $87 million in the year, bringing our total ending Assets Under Management to $4.46 billion.

Income from Normal Operations[1] for 2017 was $17.3 million. During the year, costs of $8.7 million were incurred in relation to Crelogix Acceptance Corporation, resulting in a net income of $8.6 million, as stated in our audited financial statements. On a comparable basis, the $17.3 million was an increase of 55% over 2016 Income from Normal Operations[1] of $11.2 million. Costs related to Crelogix include a write down of fair value of the loans receivable portfolio of $7.5 million and $1.2 million in operating expenses incurred throughout the receivership process.

Net interest income was $62.7 million, an increase of $4.8 million over 2016, primarily attributed to strong loan growth throughout the year. In addition, rate increases throughout the year provided favourable repricing on the high growth experienced with prime rate increases providing an immediate increase in interest income on all variable rate loans. Deposit pricing pressure was felt throughout the year driven by a highly competitive market and consumer expectations to align with Bank of Canada increases.

Operating and regulatory expenses of $61.2 million increased by $1.1 million in the year. The increase reflects purposeful management of operating costs with continued investment in areas that enable us to better service our members. These earnings contributed an additional $6.7 million to Members' Equity. Retained Earnings and Members' Equity Shares serve as the foundation to support Prospera's capital base and our ability to grow and invest in the areas that matter.

Deposits grew

8%

Looking back on 2017, Prospera had an outstanding year with many areas of growth, which we proudly celebrate. We increased balances on loans, deposits and wealth; drove top line growth with a small increase in costs; supported our members (both individuals and businesses); contributed to the community through many activities; and were recertified as a Great Place to Work. Thank you for your support.

KEY MEMBER ACTIVITY	2017	2016	2015
Assets under management ($B)	**4.46**	**4.06**	**3.62**
Balance sheet assets ($B)	**3.55**	**3.25**	**2.88**
Off balance sheet assets [including Wealth AUM] ($MM)	**910**	**810**	**740**
Loans ($B)	**2.97**	**2.67**	**2.32**
Deposits ($B)	**2.90**	**2.69**	**2.45**
Membership	**64,190**	**63,294**	**62,330**

BALANCE SHEET

Assets

Total assets grew by 9.2% to $3.55 billion. The primary driver was loan growth of 11% or $310.0 million. This built on the record year in 2016 and continued the drive towards achieving our long-term strategy, giving us the ability to make key investments in improving the member experience and how we do business.

Prospera's liquidity position (cash and cash equivalents and interest bearing deposits with financial institutions) declined slightly by $57.7 million to $410.5 million to support funding for member lending. The total investment portfolio grew by $44.6 million to $141.0 million primarily in assets related to securitization activities (government-backed securities) of $39.7 million with a further increase of $4.9 million in other investments in various funds designed to increase diversification and return in the portfolio.

Loans grew
11%

Liabilities

Total liabilities grew by 9.5%, which includes deposit growth of 8% or $212.3 million, reaching $2.90 billion for the year. Borrowings for the year grew $71.2 million, to a total of $482.8 million. The increase is specific to secured borrowings associated with securitization programs.

Members' equity

Members' equity grew by 3% or $4.2 million to $135.9 million and includes Retained Earnings growth and changes in Members' equity shares and Other Reserves. Retained Earnings grew by $6.7 million to $140.2 million in 2017. Retained Earnings is the primary source of equity and reflects the equity derived from the accumulation of Prospera's earnings before Other Comprehensive Income (OCI). The intent of OCI is to capture and identify unrealized market gains and losses flowing through to Other Reserves within Members' Equity. From year to year, this category can swing from positive to negative as valuation changes relating to derivatives and pension obligations are taken into account. During the year, Prospera recorded a net unrealized loss of $2.2 million in OCI, increasing the cumulative net unrealized loss in other reserves to $7.5 million. The net unrealized losses are highly driven by changing economic conditions used to value the defined benefit pension obligations and derivatives at the year-end position in addition to an increase in unrealized value of certain investments held for resale.

Retained Earnings increased by
$6.7 million to **$140.2 million**

INCOME STATEMENT

Net interest income

Net interest income improved by $4.8 million to $62.7 million in 2017. The interest income earned on loans of $93.5 million increased year over year by $9.9 million driven by strong growth of $310.0 million in the year and two Bank of Canada key rate increases, the first such increases in seven years. Deposit costs were also impacted by the rate changes, increasing costs by $1.1 million to $34.0 million as a result of deposits being renewed and repriced at slightly higher rates during the year. The net revenues from these activities are primarily comprised of interest bearing deposits, line of credit and secured borrowings and other financial assets, all of which support funding and investment management and fluctuate based on liquidity movement and economic changes affecting values at any given time.

Provision for credit losses

Provision for credit losses increased by $0.9 million in 2017 to a net expense of $0.2 million compared to a prior year recovery of $0.7 million. The provision for credit losses in a given year represents the expense or recovery required to adjust the allowance for credit losses to the appropriate level. The allowance for credit losses is determined through analysis of a detailed credit loss model combined with a qualitative adjustment based on management judgement for factors not fully captured in the model. The provision for credit losses for 2017 comprises an adjustment to the provision of $0.3 million offset by recoveries in the year of $0.1 million. There is an impairment loss on financial assets, discussed separately.

Other income

Total other income increased by $2.1 million to $14.8 million. Other income primarily includes revenues from Wealth Management, transactional services and foreign exchange. Wealth Management service fees increased by $635 thousand to $6.1 million for 2017. Insurance commissions remained relatively flat at $952 thousand. Foreign exchange revenues increased $139 thousand to $635 thousand driven by increased volumes and the decreased value of the Canadian dollar.

Operating expenses

Total non-interest expenses for the year increased by $1.1 million to $61.2 million. Management's goal in operating expenses is that expenses increase at a lower rate than revenues. These efforts are expected to improve revenues and profitability and the ability to continuously work towards cost efficiencies. Operating costs in 2017 include investments focused in the key areas of growing the business and innovation and technology funding. Funding innovation and technologies that improve our ability to deliver service and advice the way our members need is a priority. These same technologies can be leveraged to improve efficiencies in our operations to allow us to work smarter, focus on what's important and ultimately improve revenues to grow our business. Non-interest expenses in 2017 include administrative charges of $1.2 million related to costs for the purchase transaction of Crelogix.

CRELOGIX

At Prospera, our main activity and priority is serving our members through our Family Banking and Wealth Management, and Business Banking lines of business. In addition, we had an established relationship with Crelogix Acceptance Corporation ("Crelogix"). Crelogix is a consumer-financing provider that provides businesses the ability to offer installment credit financing to their customers. Prospera, along with other financial institutions, provided funding to Crelogix for this credit financing. In July of 2017, Crelogix was placed into court-ordered receivership, as it was no longer able to fulfill its cash flow obligations. Alvarez and Marsal were appointed as the Receiver to manage the operations over the receivership process, which ended in November 2017.

As part of a risk assessment during the receivership period, Prospera identified the introduction of two key risks: operational risk and earnings risk. Operational risk was mitigated and addressed through negotiation and agreements with the Receiver, third party outsourcing supplier and other Crelogix funders. The primary change in earnings risk to Prospera as a result of Crelogix' insolvency is the elimination of indemnities previously provided by Crelogix specific to credit and prepayment risk. Earnings risk was assessed in depth to reflect this and ultimately led to an impairment charge to bring the portfolio to fair value at November 30, 2017, totaling an effect of $7.5 million to net income in addition to a further $1.2 million in expenses incurred for our proportionate share of receivership costs and professional and legal expenses.

On November 30, 2017 Prospera entered into an Asset Purchase Agreement with the Receiver and a servicing agreement with a third party to assume control of the operations and collection of the receivables, to ensure effective collection going forward. The terms within the Asset Purchase Agreement provided Prospera the ability to maintain and keep whole the business processes and supporting assets required to assume operations and manage the business with minimal interruption.

The events leading up to and including November 30, 2017 required Prospera to derecognize the loan receivable from Crelogix for the portfolio at November 30, 2017 and recognize a new receivable balance with the individual borrowers at fair value as outlined under IFRS. The fair value was determined using a valuation model that considers the present value of the contractual net cash flows at a partially risk adjusted discount rate as well as assumptions that reflects expected losses. It's important to note that this impairment adjustment is a significant estimate and differences identified from the estimate will flow through to profit and loss.

Today, Prospera has the Crelogix operations under control and is managing the business going forward.

2018 Outlook

We caution readers on the use of this forward-looking information. Our performance outlook is subject to risk and uncertainty due to changing economic conditions, interest rate fluctuations or legislation governing credit unions in British Columbia.

Canada is starting 2018 with strong economic indicators. The unemployment rate is at its lowest level in forty years and GDP growth rates strengthened in the last half of 2017. The Bank of Canada implemented two rate increases in 2017, the first in seven years, and there is a forecast for one or more further key rate increases in 2018. While the Canadian economy has rebounded and the outlook is positive, global economic unrest will persist into 2018 as reactions in the market and at the federal level are skeptical about sustained 2018 performance. This is causing delayed policy decision making. NAFTA uncertainty is causing early curtailing of investment within Canadian firms which can be interpreted as a sign of losing confidence.

Ongoing efforts to manage the growing economy and housing market, affordability and high consumer debt levels will influence our members and community directly in 2018. The new mortgage underwriting rules will extend to uninsured borrowing, widening the impact and tightening borrowing eligibility for many new homebuyers and current homeowners facing renewal. These types of changes can have impacts on behaviours and decisions as broad as geographical and housing type, pushing homeowners into more affordable situations. This was supposed to cause a favourable shift in consumer debt and financial well-being, however, it is exacerbating the affordability crisis that new homebuyers face today in the communities that we serve.

For 2018, we are continuing to grow our business and focus investments on process and technology that will enable what was once restricting to become efficient and effective for our members. We are forecasting revenues to increase in 2018 and continue the trend of strong results from 2016 and 2017. This strong growth is allowing us to fund key investment initiatives that will support our long-term Vision.

Risk Management Framework

As a financial institution, Prospera is subject to a variety of risks that are inherent to the business. Effective risk management is fundamental to our success. The primary goals of risk management are to ensure that the outcomes of risk-taking activities are consistent with our strategies and risk appetite (as outlined by the credit union's Board of Directors) and that there is an appropriate balance between risk and reward in order to maximize member benefit.

Prospera has developed an enterprise-wide risk management framework that helps us understand and mitigate all identified risks through continued monitoring and analysis. The key risk categories considered in this framework include credit, market (including interest rate risk), financial, regulatory, operational and strategic risks. The principal risks focus on the areas of credit, liquidity and market, where fluctuating interest rates is the primarily driver. Prospera also works with an Internal Capital Adequacy Assessment Process (ICAAP) model to help ensure that our capital levels are sufficient to cover ongoing operations and all material risks, as understood by management.

Prospera designs its risk management 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 particular events or circumstances relevant to its objectives, assessing them in terms of probability and magnitude, determining a response strategy and monitoring progress. We regularly review our risk management policies and systems to take into account 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 out on three levels within the Credit Union:

1. Operational staff that understand and correctly carry out their roles and responsibilities;
2. Oversight staff that monitor policies and procedures with regard to risk and compliance amongst operational staff; and
3. 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.

A number of delegated committees reporting to the Board carry out risk management. The Executive Risk Committee has the primary responsibility for overseeing enterprise risk at Prospera and providing guidance to the Board on risk related matters. The Board provides written principles for risk tolerance and overall risk management and management reports to the Board on compliance with Prospera's risk management policies. Prospera also maintains an internal audit function, which is responsible for the independent review of risk management and our control environment. For protection against cyber risk, Prospera is using new, sophisticated security tools that provide 24/7/365 monitoring of our systems for cybersecurity vulnerabilities and threats.

PRINCIPAL RISKS

Credit risk

Credit risk is related to the risk of financial loss due to the inability to fully collect on amounts due to Prospera. This includes loans to members and other counterparties with whom we engage. Prospera has a comprehensive set of controls around prudent lending practices and review these practices regularly to ensure that they adhere and are appropriate given the risks that exist. Prospera maintains an allowance for credit losses on the balance sheet and continuously monitors the required level of this allowance through a comprehensive model that outlines the potential risks within our portfolio.

Liquidity risk

Liquidity risk is the risk that Prospera will encounter difficulty in raising funds to meet its obligations to members and other liabilities. To mitigate this risk, Prospera continuously monitors current and upcoming liquidity levels to ensure that we are able to meet funding and operational requirements and maintain a minimum threshold.

Interest rate risk

Interest rate risk is the risk of loss that results in changing interest rates. This has an impact on many areas of operational earnings including interest on loans, deposits and other investments.

Other

Other risks identified and considered in our risk management framework include the risk of loss related to areas such as operational, legal, regulatory compliance, strategic and reputational.

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CREDIT UNION

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