prospera
CREDIT UNION

Together, we make the dream work.

Don’t just bank. Prosper.

Lutz Family Business

Business owners & proud Prospera Members, Nigel & Annerose

Our family has had a long history with Prospera. As a young boy, Prospera was where I, Nigel, opened my first bank account. Now, our family has our business accounts here as well as our family accounts. The Prospera team has always treated us as valued members. The staff know our names and always offer our children a treat when we come in for our banking. The level of service goes above and beyond, which is why we have been members for so long and will continue to be members in the future!

— Nigel Lutz

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Management's Discussion & Analysis

For the year ended December 31, 2018

At Prospera, we want to make our members' dreams come true – and we've been doing it for 75 years. We're a for-purpose credit union that's guided by our values and owned by our members. We're proud to serve our members and help make our communities stronger by investing locally and partnering with local charities to make life better for everyone.

We believe that financial health is just one piece of the wellness puzzle and we're here for you, your family, and your business every step of the way.

In 2018, we are proud to say that we:

- celebrated our 75th anniversary
- welcomed 4,000+ new members
- helped 2,000+ members finance the purchase of a home
- are the first financial institution in Canada to offer integrated invoicing and online payroll for small businesses
- launched ASAPP, an online loan adjudication platform for small business loans
- created two new mobile roles, the Family Banking Relationship Manager and Business Relationship Manager to support our member needs
- contributed thousands of volunteer hours to our communities

Everything we do has our members in mind. When you bank with Prospera, you'll always have someone in your corner, who has your back, and is ready to go the extra mile to help you reach prosperity. While a lot has changed in 75 years, one thing hasn't – our commitment to our members. Our members are at the heart of what we do each day as we strive to make a meaningful difference in their financial well-being.

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.

Did you know...

Our long-term plan provides a strategic direction **to grow our business, develop our capabilities and determine where best to invest** resources within Prospera.

In 2018, we continued our transformational journey by improving our service delivery model and adding new products to help better meet our members' needs. Our drive is focused on achieving three levels of success: helping our members achieve financial wellness; improving our technologies and the ability to provide services and advice the way our members need; and investing in the communities where our members live and do business. Many of the investments we're making are focused on improving our existing processes, technology

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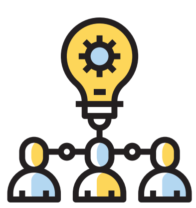
improvements and creating key partnerships. We spent our energy making meaningful changes in all three of our key service delivery channels; family banking, wealth and business banking. New technologies are all focused on delivering more efficient, faster and better service for our 64,000 members.

In Family Banking, we created a centralized underwriting centre to improve efficiency and elevate our expertise so we can better serve our members. This move created a hub of in-house excellence that is fluent in the new regulatory requirements and has helped us improve our service delivery model. The underwriting centre removes some administration from branch staff, so they can spend more time meeting member needs. It also provides support to our mobile sales force, so they can spend time out of the office, meeting members where, and when, it is most convenient for them.

Prospera's Business Banking transformation strategy takes a holistic approach to how we support our business members. Our priority is to be a true financial partner to local business owners and find innovative ways to free up more of their time, so they can spend more time focused on building their business. In 2018, we launched new services for small and medium sized businesses to help them effectively integrate their banking and business needs. These include Remote Deposit Capture (a seamless way to deposit cheques), Business Invoicing (quickly create and track invoices from online banking) and Advanced Business Deposit (using scanning technology to deposit greater volumes of cheques). We were also the first financial institution in Canada to offer a fully integrated online payroll solution, Payroll for Local Businesses.



Other strategic developments are centred around improving the member experience and include technologies that save our members time and support their financial well-being. The Prosperity Tracker, launched in July, is an online and mobile banking tool that offers members a seamless way to track their spending and net worth. The Apple watch app provides members easy access to check account balances, find ATMs, and supports real time notifications. We also launched auto-deposit for Interac e-transfers, additional e-transfer features, click to chat on prospera.ca, and many more.

Our wealth supplier Qtrade Financial Inc. announced a merger with Credential Financial Inc. and NEI Investments, which created Aviso Wealth, the largest Credit Union wealth management company in Canada. Aviso Wealth serves over 300 partners across Canada with assets under management of over $55 billion. The merger has given Prospera an opportunity to offer better services and a larger array of investment products to members through the opportunity to use both the Mutual Fund Dealers Association of Canada (MFDA) and the Investment Industry Regulatory Organization of Canada (IIROC) platforms.

Purpose, Vision & Values

Prospera's Purpose, Vision & Values are the anchor through which we serve our members and are at the heart of our credit union. They serve as a guide for our direction and alignment as we seek to help our members financial dreams become a reality.

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. In turn, this 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. These values guide us every day as we serve our members and communities.

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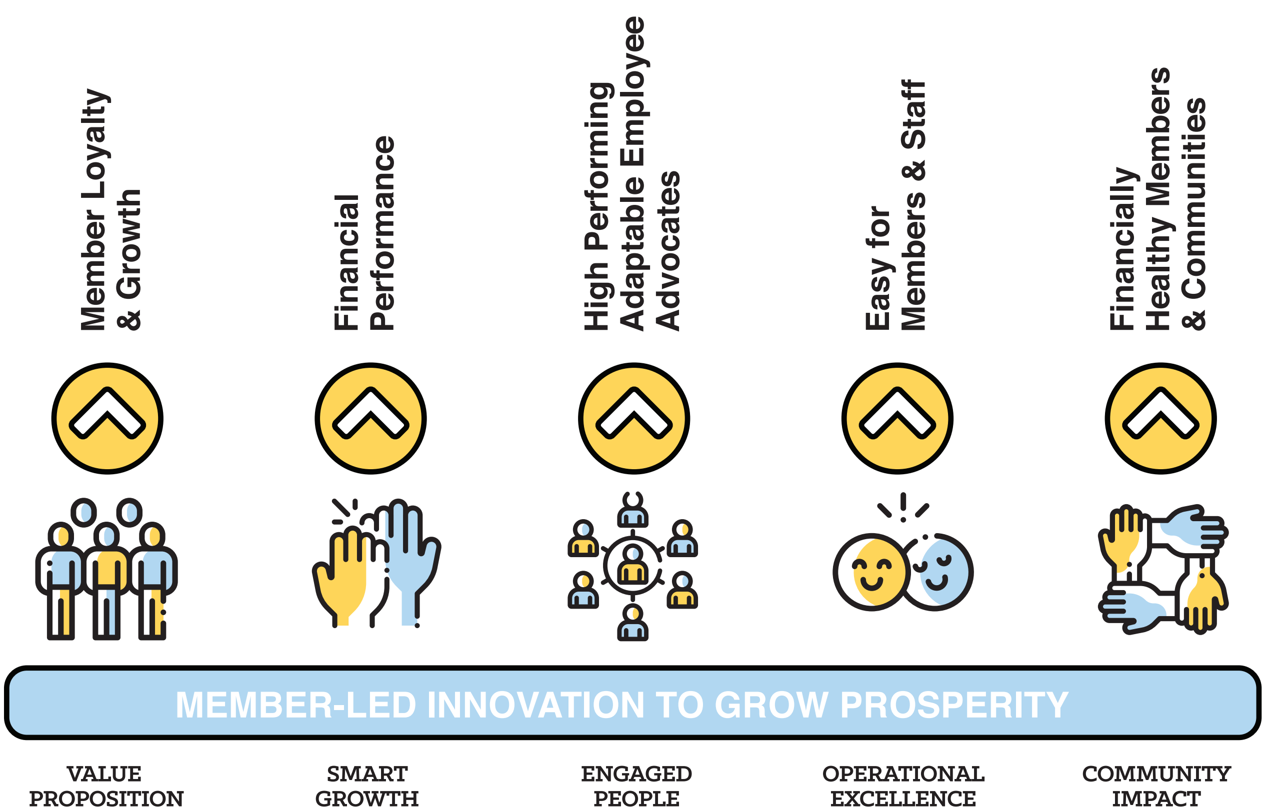
Strategic Priorities

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 gives us the ability to improve revenues, enabling investment into what matters 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

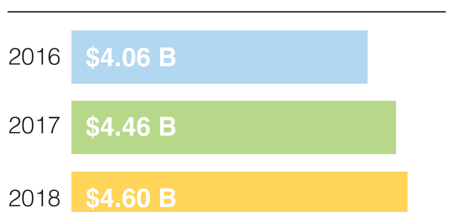


2018 Financial Highlights

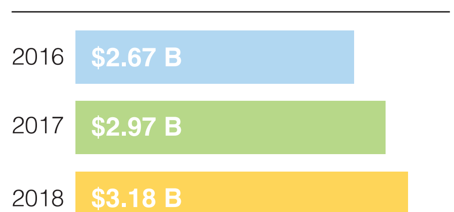
Our 2018 financial results build upon the journey we started in 2016, our third year into Vision 2020. Net loans to members grew by $208.8 million in 2018 and our Assets Under Management grew to $4.60 billion. Additionally, 2018 was the third year in a row where we welcomed over 4,000 new members to the Prospera family.

Over the past three years, net loans to members have grown by $860 million and total Assets Under Management have grown by over $1 billion, showing the commitment to our members as the trusted home for families and local businesses.

Total Assets Under Management



Loans



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Overview of 2018 Operating Results

Operating results achieved in 2018 reflect a number of influences, both internally and externally driven. As Prospera progressed through transformational change to how we do business and serve our members, the external operating environment continued to experience variability in the economy, Canadian and global markets, and interest rate outlooks. Throughout this change Prospera thrived with strong balance sheet growth and earnings and executed on several initiatives designed to add innovation and improvements to how we serve our members and do business.

Balance Sheet Assets reached $3.80 billion in 2018 after loans increased by 7% or $208.8 million. This growth was supported by over four thousand new members that joined Prospera in 2018, making this our third year in a row to exceed this new membership threshold. Total Assets Under Management measures both our on-Balance Sheet assets in addition to off-Balance Sheet assets, primarily comprised of our Wealth Management portfolio. This portfolio experienced a net decline in the year of $108 million.

2018 was a year of transformation for our wealth management division, including both structural and system changes. Although net growth was negative, attributed to both this transformation, and market conditions over the second half of 2018, we saw gross sales of over $200 million in the year. As part of our structural transformation we increased our total mutual fund licensed staff by 25% which is expected to increase again in 2019 as we complete the implementation of the generalist wealth model in Family Banking. We introduced a new investment platform called IIROC which provides greater flexibility and new investment options for our members. In the second half of 2018, the IIROC Investment Advisors successfully transferred over $100 million into the IIROC platform.

Prospera prepares financial statements in accordance with International Financial Reporting Standards (IFRS). In 2018, our IFRS net income was $2.0 million, as stated in our audited financial statements. During the year, a new accounting standard, IFRS 9, required Prospera to classify and measure a personal loan portfolio at fair value rather than amortized cost, which was its classification and measurement at the end of 2017. Portfolios carried at fair value must be remeasured at each reporting date with changes in estimation recorded in the current period. As a result of the re-estimation of future cash flows that were discounted at market rates to determine the fair value an unrealized loss was reflected in Other Income ($15.4 million). The portfolio earned $11.5 million in interest income during the period based upon the contractual rate. This exceeded the originally budgeted interest income due to the difference in measurement model under the new accounting standard (by $4 million). The net of these amounts, ($10.4 million), has been excluded from Adjusted net income because the accounting re-estimate represented an unrealized loss on cash flows over the life of the portfolio that management anticipates could recover in subsequent periods as the portfolio pays down.

Adjusted net income for 2018[1] was $16.0 million which reflects internal operational performance and is considerably different to the $2.0 million under IFRS. Specific adjustments accounting for the difference between these two measures included the following:

- The net adjustments of $10.4 million explained above for the fair value portfolio
- Investment gains of $1.1 million which were previously included in net income but recognized directly in retained earnings as a part of the transition to IFRS 9
- Merger costs of $1.5 million that were non-recurring
- Costs to raise capital to support growth of $1.0 million

[1]Non-IFRS Financial Measures
Prospera prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS"). However, Prospera considers certain non-IFRS financial measures as useful additional information in measuring financial performance. We believe this information, along with comparable IFRS 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 IFRS financial measures, in evaluating our operating performance and value creation. Non-IFRS financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with IFRS. Non-IFRS financial measures as reported by us may not be comparable to similarly titled amounts reported by other companies.

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The following table sets out certain highlights of Prospera's performance for the years ended December 31, 2018, 2017 and 2016. Looking back on 2018, Prospera had an outstanding year with many areas of growth, which we proudly celebrate. We grew our membership and balance sheet, supported members (both individuals and businesses); contributed to the community; and we were certified as a Great Place to Work.

KEY MEMBER ACTIVITY	2018	2017	2016
Assets under management ($B)	**4.60**	**4.46**	**4.06**
Balance sheet assets ($B)	**3.80**	**3.55**	**3.25**
Off balance sheet assets [including Wealth AUM] ($MM)	**795**	**891**	**810**
Loans ($B)	**3.18**	**2.97**	**2.67**
Deposits ($B)	**3.06**	**2.90**	**2.69**
New Members	**4,197**	**4,051**	**4,029**

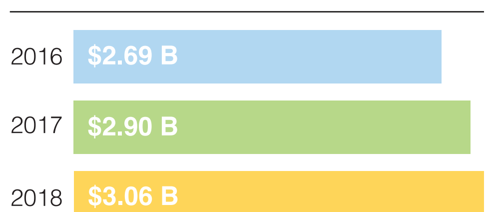
BALANCE SHEET

Assets

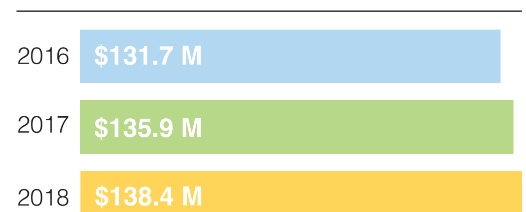
Total assets grew by 7.0% to $3.8 billion. The primary contributing factor for this increase remained the growth in loans of $208.8 million or 7.0% to $3.18 billion as compared to $2.97 billion in 2017.

Prospera's liquidity position (cash and cash equivalents and interest-bearing deposits with financial institutions) increased by $23.9 million over 2017 to a total of $434.3 million in 2018. The total investment portfolio grew by $18.8 million over the prior year to $159.7 million. As in the last few years the primary increase is due to the growth of assets related to securitization activities (government-backed securities) of $22.5 million with a further increase of $1.9 million in membership shares with Central 1.

Deposits



Members' Equity



Liabilities

Total liabilities grew by $246.8 million or 7.2%, which includes deposit growth of $156.2 million or 5.4%, reaching $3.66 billion for the year. Borrowings for the year grew by $98.7 million, to a total of $581.5 million. The increase is specific to secured borrowings associated with securitization programs.

Members' equity

Members' equity is primarily comprised of retained earnings, including 2018 net income along with Members' equity shares and Other Reserves. Members' equity grew by $2.5 million over 2017 to $138.4 million in 2018. Retained earnings increased by $2.8 million to $143.0 million driven by an increase of $1.5 million from net earnings after tax and a $2.5 million realized gain on sale of equity investments transferred from Other Reserves which were offset and reduced by an IFRS 9 transition adjustment of $1.1 million net of tax for an accounting standard change which came into effect January 1, 2018. The offsetting entry was to increase the opening allowance for credit losses to the newly modeled expected credit loss provision on our loan portfolio.

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The increase in retained earnings was partly offset by a net reduction in Other Reserves of $130 thousand and net reduction in member shares of $154 thousand. The intent of Other Reserves is to capture and identify unrealized market gains and losses flowing through the financial statements. From year to year, this category can swing from positive to negative as valuation changes are considered relating to derivatives and pension obligations. During 2018, Prospera recorded a net unrealized loss of ($130 thousand) in Other Reserves, increasing the cumulative net unrealized loss in other reserves to $7.6 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 specific investments.

INCOME STATEMENT

Net interest income

Net interest income increased by $4.4 million over 2017 to $67.1 million in 2018. Rising interest rates in 2018 and loan growth in the year provided an incremental $9.2 million or 10% increase in loan interest over 2017, in addition to interest income on the fair value measured loan portfolio of $11.5 million under new accounting. However, economic influences, heightened competition for deposits and a shorter duration of the investment portfolio drove an increase of $10.6 million or 31% in deposit expenses as we repriced high volumes of shorter-term deposits and new growth to increased rates. Further, volatility in timing of growth over the year put pressure on short term borrowings, also at higher rates in 2018.

Credit impairment losses

On January 1, 2018, IFRS 9, a comprehensive accounting standard change that governs how to account and provide for expected credit losses (among other classification and measurement changes), became effective. The financial result of extensive planning and credit modeling across the financial services sector globally was realized in the 2018 financial statements to provide a more robust and forward-looking view of credit losses within loan portfolios. The credit impairment loss of $150 thousand recognized in 2018 reflects the current period change in expected losses for the loan portfolio.

The transition to IFRS 9 also required the restatement of the opening loan loss at January 1, 2018 to the new expected credit loss standards, with the adjustment of $1.1 million (net of tax) flowing through opening retained earnings as a deduction.

Other income

Total other income for 2018 reported a net loss of $1.1M related to the fair value accounting remeasurement on a loan portfolio and the inclusion of recurring investment gains reclassified to retained earnings on transition to IFRS 9. Other income excluding the accounting remeasurements for 2018 is $15.3 million which held relatively flat compared to 2017 with a nominal increase of $1.9 million. Other income primarily includes revenues from Wealth Management, transactional services and foreign exchange. Other changes in revenues primarily focused within the Wealth Management line of business with an increase in investment management revenues of $256 thousand over 2017 to $6.4 million for 2018, partially offset by a reduction in life product revenues of $93 thousand. In addition, there was reduced fee recognition in 2018 of $500 thousand compared to $1.5 million recognized in 2017 associated with a legacy contract for services with Qtrade Financial Inc. Our wealth management partner Qtrade Financial Inc. has provided services to Prospera over the past decade and successfully merged with Credential Financial Inc. and NEI Investments to create Aviso Wealth.

Operating expenses

Total non-interest expenses for the year increased by $2.5 million over 2017 to $63.7 million. The operational increase primarily focused on increased compensation and people costs. Our employees are the foundation of Prospera and attracting and retaining the right employees is a core pillar within our strategy and a core value of our organization. Prospera deployed near $2.3 million in non-recurring costs including merger costs and costs to fund innovation and technologies that improve our ability to deliver service and advice the way our members need. A further $1.7 million in costs are attributed to the servicing and transition of the fair value measured loan portfolio, of which we assumed operational control in late 2017.

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2019 Outlook

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

Canada is starting 2019 with mixed economic indicators. The unemployment rate is at its lowest level in forty years and actual economic growth has been close to potential growth. However, Canada's forecasted 2019 GDP growth rate has been revised down, from 2.1% to 1.7%. The Bank of Canada increased rates three times in 2018 as a response to a heated economy. For 2019, economists are predicting fewer rate increases, if any at all. Oil prices have decreased, which has both a negative impact on the Canadian dollar and the Canadian economy. Another factor in forecasting economic activity is the Government of Canada bond yield curve. An inverted bond yield curve (which is when long-term bond rates are lower than short-term bond rates) have predicted economic recessions with high accuracy. The bond yield curve in Canada flattened in 2018 and sections of the curve did invert. However, the 2 Month-10 Year section, which has predicted recessions with highest accuracy, has not inverted. Regardless, the flatter yield curve indicates future economic outlook is in a precarious position.

The housing market has an indirect, but real, impact on Prospera's financial results. A growing residential housing market generally translates to growth in retail mortgages and a large portion of Prospera's business is in retail mortgages. Changes in residential housing price levels, housing starts, and number of sales affect the demand for mortgages, as do changes to mortgage qualification rules.

A mortgage stress test introduced by bank regulators OSFI in January 2018 made qualifying for a mortgage with Canada's banks more difficult. Canadian credit unions are not directly subject to the stress test. The stress test required borrowers to qualify at a higher-than-contractually-obligated rate and had an effect on the housing market, as fewer borrowers could qualify at the higher rate. Overall, house sales were down in 2018, but mortgages funded at the stress-tested rate are less risky and improved the quality of Canadians' debt levels. The stress test's full impact has yet to be seen. As more mortgages are set to mature in 2019, they will also be subject to the new policy change. The stress test does not directly impact credit unions; however, credit unions have followed enhanced guidelines in reducing their risk.

In 2018, Prospera explored potential merger discussions with Westminster Savings Credit Union and a joint merger team, comprised of three directors from each credit union and the CEOs of both organizations was established to further explore the possibility of a merger. After extensive due diligence a business case was prepared for submission to the Financial Institutions Commission of BC (FICOM), the provincial agency that regulates credit unions. If FICOM consents to the proposed merger, an extensive member communications program will follow in 2019.

For 2019, we are continuing to grow our business at a measured pace with more emphasis on our business banking members. We are forecasting revenues to increase in 2019 higher than 2018 and 2017. This growth will allow us to fund key investment initiatives that will support our long-term vision.

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Risk Management Framework

As a financial institution, Prospera is subject to a variety of risks that are inherent to the business and 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 primary 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:

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

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PRINCIPAL RISKS

Did you know...

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.

Credit Risk

Prospera has a comprehensive set of controls around prudent lending practices and review these practices regularly to ensure that they are adhered to 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.