2022 MANAGEMENT DISCUSSION AND ANALYSIS

PROSPERA
CREDIT UNION

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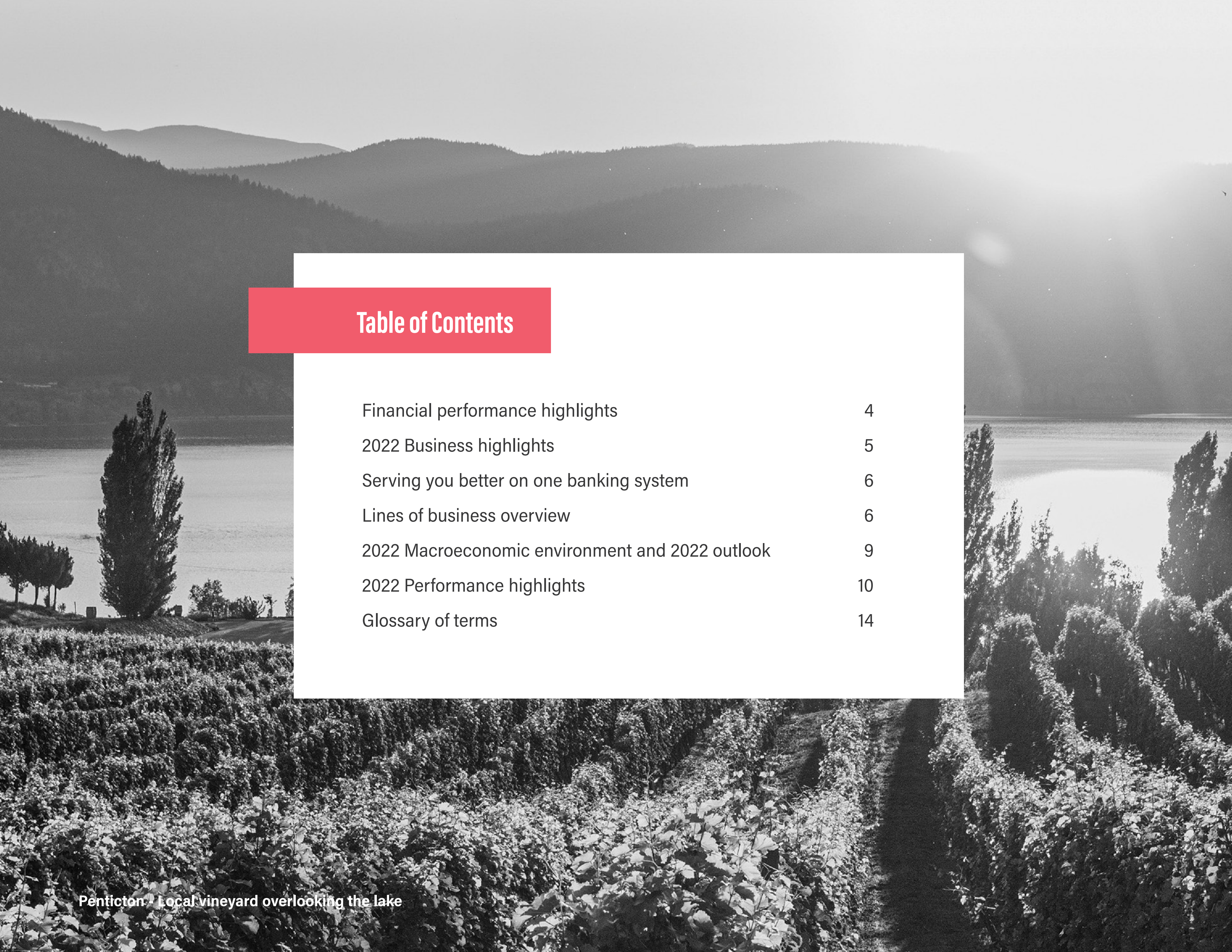


Penticton - Local vineyard overlooking the lake

Woman kayaking in Widgeon Valley, Pitt Meadows

Management Discussion and Analysis

We're pleased to provide an overview of Prospera Credit Union's (Prospera) financial and operational results for the 2022 fiscal year. This Management Discussion and Analysis (MD&A) should be read in conjunction with our Audited Consolidated Financial Statements (December 31, 2022), which are prepared in accordance with International Financial Reporting Standards (IFRS). All amounts expressed are in Canadian dollars. The MD&A commentary includes information available up to and including March 9, 2023, when Prospera's Board of Directors approved the Financial Statements.

As one of the largest credit unions in British Columbia, we deliver financial services to more than 120,000 members and customers through a network of 26 branch locations, our Member Service Centre, and our mobile and digital channels. Our primary lines of business are Personal Banking, Business Banking, and Wealth Planning. All our member deposits are 100% insured by the Credit Union Deposit Insurance Corporation (CUDIC) of BC. We're proud to be a certified Great Place to Work and our goal is to always be a great place for our members to obtain personalized financial advice. Our corporate office is located on the traditional territories of the Semiahmoo, Katzie, Kwikwetlem, Kwantlen, Qayqayt and Tsawwassen First Nations in Surrey, BC.

Financial Performance Highlights

A foggy view of Burnaby

Capital ratio
(including system capital)
13.4%

Return on equity
6.9%

Return on assets
0.42%

Efficiency ratio
79.0%

Loans & leases receivable
6.1 billion

Net interest income
160.6 million

Net income
29.0 million

Despite the economic challenges in 2022, our overall financial results were strong this past year. Loan and lease growth was up more than $555.2 million (10%) from the prior year, reflecting our focus on supporting our members' needs. In a rapidly rising interest rate environment, net interest income was $160.6 million and income before income taxes was $34.4 million. This resulted in a bottom line of $29.0 million and a return on equity of 6.9%. These positive financial returns have added to a strong capital base that will enable Prospera to fund additional member loans and to make important investments in the businesses and our communities on behalf of our members.

Business Highlights

Alouette Lake, Golden Ears Provincial Park, Maple Ridge

Business Banking and Leasing

Leasing growth of

42.0%

Personal Banking

All 26 branches
have the new Prospera branding

One
banking system
for all members

Wealth

Serving
+16,000
members with wealth products

Managing
$1.6B
in wealth assets

Member Service Centre

+160,000
Member calls taken

+18,000
Member emails received

Digital

Introduced a new
online appointment booking
solution for our members

Launched the newly designed
prospera.ca

Unveiled our
new Prospera mobile app

Introduced multiple
online banking features

Serving you better on one banking system

In 2022, all areas of our organization were focused on successfully aligning all members onto one banking system. This fulfilled an important merger promise as you can now complete all of your banking transactions at any of our 26 branches across the Lower Mainland, Fraser Valley and Okanagan, as well as online and on your mobile devices. Completing this important step enables our team to better serve you by having faster access to your information and harmonized online banking features for all members, including services such as direct banking alerts, Interac Online, business invoicing and online business account opening.

This major milestone was accomplished in November, and we remain incredibly grateful for your support and understanding throughout our short offline period.

Lines of Business overview

Business Banking and Leasing

Our Business Banking and leasing teams support almost 13,000 local business owners and 6,000 leasing customers. We have three Business Banking divisions: Local Business, Core Commercial and Real Estate Development, as well as two Leasing divisions. In 2022, we completed the rebranding of our leasing divisions, with WS Leasing becoming Prospera Auto Leasing and Mercado Capital Corporation becoming Prospera Equipment Finance.

In 2022, these divisions had strong performances. This was achieved by an unwavering focus on people, programs and relationships, as well as by supporting existing and new enterprising local businesses.

2022 highlights included:

- We **increased Business Banking loan syndication** to meet our members' lending needs while effectively managing our capital.
- Our **Leasing portfolio grew by 42%** in 2022, the result of leveraging our strong team and program via core national relationships.
- Both the **Business Banking and Leasing portfolios had low impairment losses or special account management/collections required**.

We had some cashflow issues last year and Prospera was able to help us get through this hurdle by increasing our working line of credit. We were put in contact with the equipment leasing department to free up more cash, which we had used to purchase new machinery. What impressed me the most was their ability to complete these tasks in the timeframe that we needed and now we can focus on our business.

Viha Nguyen, CFO, Viaduct Sheet Metal

> In these days of unrest and increasing difficulties in negotiating the simplest of contracts, it's an absolute joy to work with Prospera. Your whole team was involved in the support and efforts to get my grandchildren their first home. I am not only greatly relieved, but proud to think of you all as truly our financial family!
>
> **William**
> Long-time member

Personal Banking

Our Personal Banking team serves all members across our 26 branch locations and continues to provide knowledgeable, tailored advice to support our members' overall financial well-being. We support members with account openings, day-to-day banking, investments and mortgages, and are here to serve any of our members' needs.

2022 highlights included:

- By **aligning all members onto one banking system**, we can better serve our members and provide financial advice, as well as any product or transaction, at any of our branch locations.
- We **rebranded the exterior of all of our 26 branches** with our new Prospera brand.
- Our lending portfolio experienced both **strong organic growth and growth from our preferred broker-originated mortgage channel**.

Wealth Planning

Prospera's dedicated team of wealth management professionals provide expert advice to help clients plan for their future. Our core services include financial planning, estate planning, tax planning, income protection and investment management. In 2022, a key focus was bringing stability and sound advice to our members at a time when global markets experienced significant fluctuations. We're proud of our team's steady, long-term approach and sound investing principles during uncertain times.

2022 highlights included:

- We served **more than 16,000 members with a wealth product** and **managed more than $1.6 billion of assets** on behalf of our members.
- We have a **team of more than 45 financial professionals** to help our members achieve their financial planning and retirement goals.
- **Every member of our advisory team holds their Responsible Investing Specialist (RIS) certification**, equipping them with the expertise they need to support our members in sustainable investments and discuss environmental, social and governance (ESG) considerations.

> I haven't known a financial advisor or banking institution that would take the time as my advisor has to talk me about my personal worries in light of world problems. I just want you to know it made a difference and that I appreciate you very much.
>
> **Kate**
> 8-year member

Alternate Channels

Member Service Centre

Our Member Service Centre (MSC) offers a wide range of banking and lending solutions to members over the phone and online. Throughout the year, our team received and responded to more than 160,000 phone calls and 18,000 emails from our members.

2022 highlights included:

- We **redesigned our MSC phone menu and introduced a new internal escalation process** to better support our members.
- After aligning all members onto one banking system, **we completed the amalgamation of two Member Service Centres into one.**

Digital

One of our strategic imperatives is a greater focus on digital capabilities to provide better value to our members and enable our employees to thrive. Along with introducing several new online banking features as part of the alignment onto one banking system.

2022 highlights included:

- In February, **we unveiled our new Prospera app**, offering richer mobile banking capabilities and higher levels of security.
- In May, we **launched the newly designed Prospera.ca** for a better user experience and a clean, streamlined look.
- In July, we introduced an **online appointment booking solution** making it easier and faster to schedule meetings at your convenience. More than 1,300 online appointments have been booked using this feature.

Corporate

In addition to our lines of business, more than 300 employees work to support our members, employees and operations. Our corporate departments include Business Technology Solutions, Centralized Services, Communications, Credit, Facilities, Finance and Business Intelligence, Governance, Internal Audit, Legal Affairs, Marketing and Member Engagement, People Experience, Risk and Treasury.

These teams contributed to delivering products and services to our members and worked exceptionally hard this past year on core programs. One highlight included **establishing our Customer Effort Index** to better measure your experience across various touchpoints and understand where to help you best.

Doing Local Good across our local communities

Giving back to the communities where we live, work and play is part of who we are. We call it **Doing Local Good**. Through the Prospera Foundation and Prospera's direct community giving programs, we **provided more than $1.2 million to worthy causes and charities across our local communities in 2022, including $554,000 of grants to local non-profits**. For more information, please see the Prospera Foundation report.

Business Technology Solutions

2022 Macroeconomic Environment and 2023 Outlook

2022 Economic Environment

The past year was a turning point for the global economy. Inflation in Canada peaked at 9% in June, marking the highest increase in the cost of living in decades. To combat inflation, the Bank of Canada began a swift and constant cycle of increasing interest rates, resulting in an increase in overnight rates of 4.0%, yielding the highest rates in Canada in the last 20 years.

By the end of 2022, higher interest rates translated into downward pressure on home sale activity and, to a lesser extent, home prices in BC. While many economists and forecasters suggest the Bank of Canada may be near the end of the tightening cycle, rates may remain elevated for longer than previously expected since the latest inflation figures aren't showing signs of abating quickly.

Despite decelerating growth in the second half of the year, the Canadian economy proved to be resilient with GDP growth of 3.6%. Growth was supported by a strong labour market, high commodity prices and growth in the services industry following the end of COVID restrictions.

Metrotown branch employees celebrating Credit Union Day

2023 Economic Outlook

Looking forward to 2023, the residual impact from higher interest rates will continue to ripple through all aspects of the Canadian economy. Canadian growth is expected to stall through the middle of 2023, picking up later in the year. The Bank of Canada expects Canadian gross domestic product (GDP) growth of about 1.0% in 2023 and about 2.0% in 2024.

Given the higher household debt levels in BC, our province's spending and residential investment could be headed for a recession in 2023. There may be fewer major capital investment projects are expected throughout the year. These factors signal tepid growth for BC in 2023.

Projections for 2023 suggest only modest improvement in the highly competitive labour market. A massive excess of job openings relative to available workers is keeping a cap on the unemployment rate in the near term. However, with a forecasted mild downturn in the economy, the unemployment rate is projected to go above 6.5% by the end of 2023.

In Canada, inflation is projected to come down significantly in 2023. Lower energy prices, improvements in global supply conditions and the effects of higher interest rates on demand are expected to bring consumer price index (CPI) inflation down to around 3.0% in the middle of 2023 and back to the 2.0% target in 2024, as projected by the Bank of Canada.

2022 Performance Highlights

Our 2022 financial results were strong. Net income of $29.0 million was our highest reported income since our 2020 merger and was up $2.5 million from December 31, 2021 ($26.5 million). These results were primarily driven by improved net interest margin, partially offset by an increase in operating expenses and an additional provision for credit losses given the economic uncertainty that lies ahead.

The following chart details our financial results:

Financial Metrics		2022		2021	Change (%)	
Net income	$	29.0 M	$	26.5 M	9.4%	▲
Total assets	$	6.9 B	$	6.7 B	3.2%	▲
Total loans	$	5.7 B	$	5.3 B	8.5%	▲
Total leases	$	353.7 M	$	248.2 M	42.5%	▲
Total deposits	$	6.1 B	$	5.8 B	3.8%	▲

Key Ratios	2022	2021	Change (%)	
Capital ratio	13.4%	14.1%	-4.7%	▼
Return on average assets	0.42%	0.33%	28.7%	▲
Return on equity	6.9%	6.1%	13.1%	▲
Operating efficiency	79.0%	81.6%	-3.2%	▼
Liquidity	13.2%	19.4%	-32.0%	▼

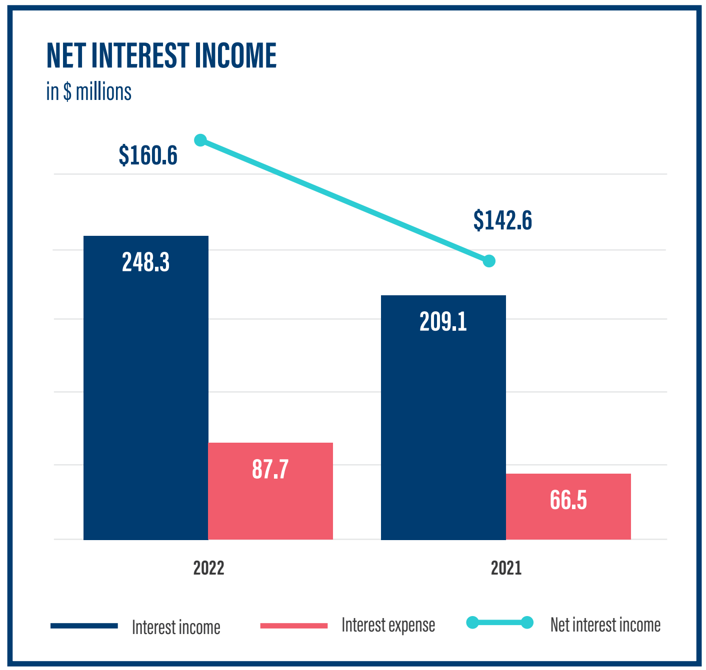
*Lower ratio reflects more efficient operations.

Net interest income

Net interest income, defined as interest and investment income earned on assets less interest expense on deposits and borrowings, increased $18.0 million or 12.7%, to $160.6 million from $142.6 million in 2021. The Bank of Canada increased interest rates seven times in 2022, with overnight rates increasing by 4%, yielding the highest rates in Canada in the last 20 years.

We helped members through the challenging and volatile interest rate environment in 2022, providing personalized, tailored advice, and developing individualized solutions to manage variable-rate mortgage resets and mortgage renewals. Member value was created through higher rates of interest on deposits providing for higher returns on demand and term deposits.

In 2022, we experienced growth in all our lines of business and significantly grew our loan and lease portfolios. The combination of growth in loan and lease volume coupled with the accretive near-term impact of rising interest rates resulted in higher net interest income compared to 2021.



Net fee and commission income

Our net fee and commission income was $20.6 million in 2022, a slight decrease from 2021 ($20.8 million). This is attributable to lower fees on our loans and leases, including lower refinancing activity and letter of credit fees. The objective of the Bank of Canada rate increases was to slow housing activity, and we observed less refinancing and other housing activity in 2022 as compared to the stable low-interest rate environment in 2021.

Realized and unrealized gains (losses)

We recognized realized losses on investments of $0.1 million in 2022, compared to $2.0 million in 2021. In addition, we recorded unrealized losses on financial instruments of $3.5 million, compared to $2.4 million in 2021. Unrealized fair value losses reflect mark-to-market changes in the value of financial instruments designated as fair value through profit and loss (FVTPL) and are impacted by volatility in the interest rate environment.

Realized and Unrealized Gains (Losses) (in millions of dollars)		**2022**		**2021**	**Change ($)**	**Change (%)**
Realized gains (losses) on financial instruments	$	(125)	$	(2,000)	1,875	(93.8)%
Unrealized gains (losses) on financial instruments	$	(3,476)	$	(2,351)	(1,125)	47.9%
Total realized and unrealized gains (losses)	**$**	**(3,601)**	**$**	**(4,351)**	**750**	**(17.2)%**

In 2022, we corrected an immaterial error in our 2021 consolidated financial statements. The correction related to the initial classification on January 1, 2021 of our mandatory liquidity pool assets, which were in error classified as FVTPL and corrected to fair value through other comprehensive income (FVOCI). The impact of this correction resulted in an increase to our 2021 comparative net income of $2.9 million, as well as changes to our consolidated statements of financial position, comprehensive income, changes in members' equity and cash flows. For further details, please see Note 3 of our consolidated financial statements.

Impairment (losses) recoveries on financial assets and other assets

The extent of interest rate increases in 2022 and uncertainty related to the Bank of Canada's rate posture in 2023 created a challenging environment for borrowers and resulted in a more pessimistic outlook for macroeconomic indicators in our expected credit loss (ECL) model. Significant growth in our loan and lease portfolios also resulted in a larger base for our ECL calculation.

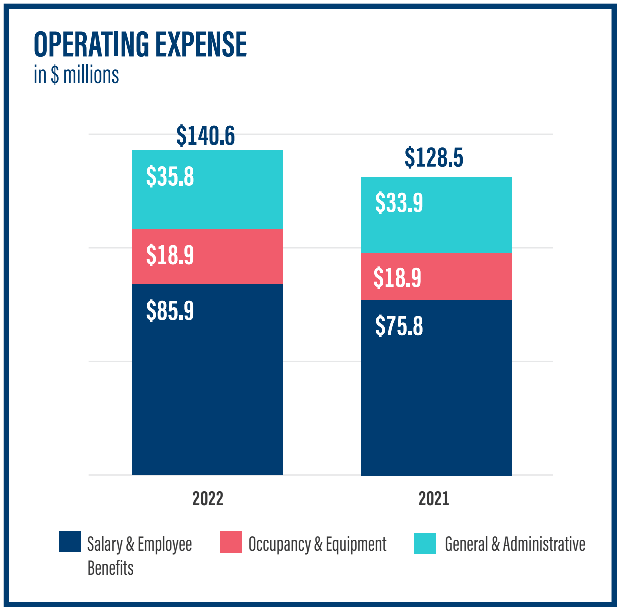
On our consolidated statement of financial position, our ECL provision was $12.7 million as at December 31, 2022, an increase of $1.5 million from 2021 ($11.2 million). After adding the impact of direct loan write-offs, the total impact on our consolidated statement of income was an expense of $2.0 million in 2022, compared to a recovery of $2.4 million in 2021. The recovery in 2021 resulted from the reversal of provisions held, reflecting an improved outlook of the macroeconomic environment.

The allowance for credit losses is adequate based on our analysis of the loan portfolio as of December 31, 2022. Note 13 of the consolidated financial statements provides a complete analysis of our allowance for credit losses.

Impairment and ECL (in millions of dollars)		**2022**		**2021**	**Change ($)**
ECL Provision (Balance Sheet)	$	12,688	$	11,169	1,519
(Increase) decrease in allowance for credit losses	$	(1,519)	$	2,620	(4,139)
Direct Write-offs (Income Statement)	$	(448)	$	(231)	(217)
Total Impairment (losses) recoveries	**$**	**(1,967)**	**$**	**2,389**	**(4,356)**

Operating expenses

Operating expenses grew by 9.4% to $140.6 million from $128.5 million in 2021.



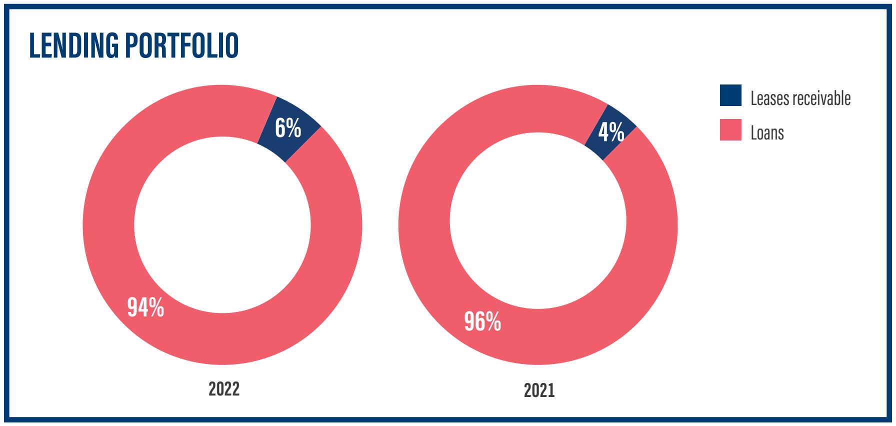
The largest driver of the increase was salaries and employee benefits, which resulted from the combination of 1) additional employees as we added new expertise and capabilities to support members; 2) higher commissions and incentive compensation accruals due to our strong operational results; and 3) the harmonization of pre-merger benefits plan.

The increase in general and administrative expenses was primarily the result of improvements in our technology, including the alignment of all members onto one banking system and efforts to improve our member support throughout all areas of our business.

Operating efficiency measures how much Prospera spends in order to earn income. Specifically, it calculates operating expenses as a percentage of total income (including provision for credit losses). While we saw an increase in our operating expenses, our operating efficiency improved to 79.0% in 2022, compared to 81.6% in 2021, as we were able to grow income at a faster pace.

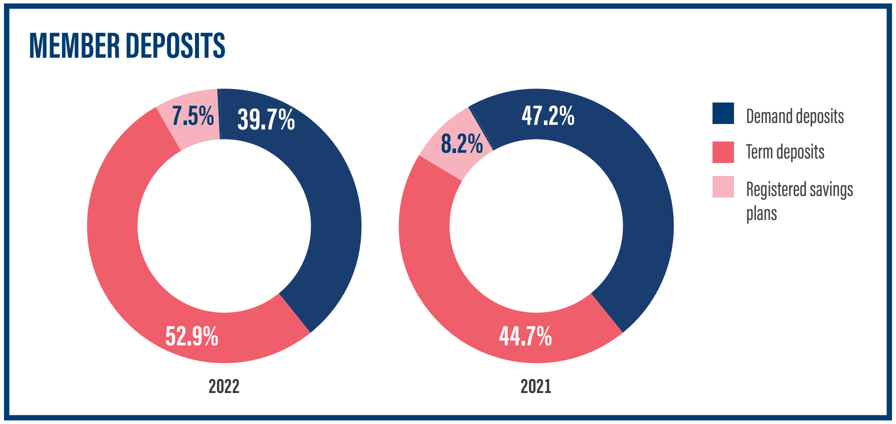
Loan Portfolio

We experienced significant growth in our loan and lease portfolios in 2022, with loan portfolio growth of 8.5% ($449.8 million) and growth in our leasing operations of 42.5% ($105.4 million). Business Banking and Personal Banking loans continue to represent the majority of our portfolio.



Deposits

In 2022, member deposits totaled $6.1 billion, an increase of $224.1 million compared with 2021. As some degree of uncertainty related to the COVID-19 pandemic abated, we noted a shift in some members' deposits from demand into term deposits throughout the year.



Liquidity (capital, deposits and cash)

As a BC credit union, we 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 BC Financial Services Authority's (BCFSA) 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.

Our main source of capital is the retention of earnings. Our capital base also includes member shares and our proportionate share of system capital. System capital refers to the retained earnings of 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, 2022, our total capital base was $504.5 million compared with $470.7 million in 2021. Our capital adequacy ratio was 13.4% at December 31, 2022, compared to 14.1% in 2021, which continued to exceed both regulatory and internal policy requirements.

	2022	2021
Capital Adequacy Ratio	13.4%	14.1%

Liquidity

We carefully manage our liquidity to ensure that our members' requirements are met at all times. By ensuring that sufficient, readily accessible or liquid assets are available, Prospera is able to meet member 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, we 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.

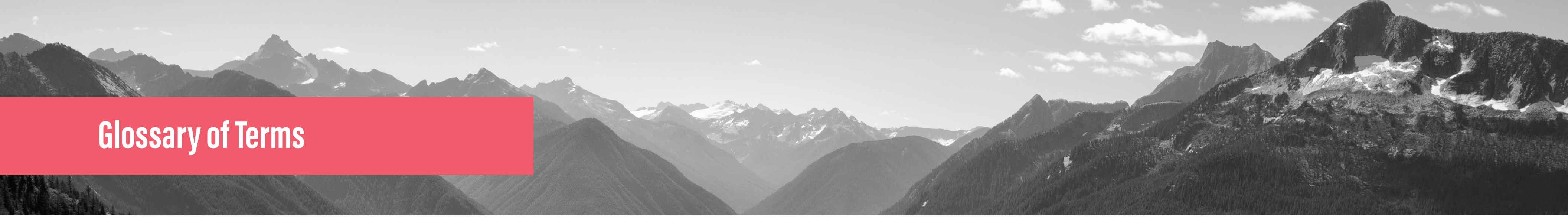
Our liquidity ratio was 13.2% at December 31, 2022, compared with 19.4% in 2021. Liquidity levels exceeded both the regulatory and internal policy requirements.

Risk Management

Prospera manages risks in a disciplined and proactive manner. Our Risk Appetite Framework allows our Board of Directors to determine the level and type of risks the organization is willing to take to achieve its strategic goals, while considering the interests of all stakeholders, including members, employees, regulators and the wider community.

This approach is guided by established risk management principles and involves continuous monitoring and reporting, taking into account market changes and best practices. The three lines of defence model is in place, where operational employees are the first line, independent oversight employees are the second line, and internal audit and external assurance providers are the third line.

An Enterprise Risk Management Committee, led by the Chief Risk Officer and consisting of senior executives, oversees compliance with risk management policies and tolerances. The Management Credit Committee, also led by the Chief Risk Officer, provides oversight of the lending portfolio. The Asset and Liability Committee, led by the Chief Financial Officer, is responsible for managing and reporting on asset and liability management. The Risk, Investment and Loan Committee ensures adherence to the Risk Appetite Framework and is accountable to the Board of Directors. For more information, please refer to the Governance Report.



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.

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.

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.

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, such as Personal Banking and Business Banking members.

Members' equity comprises retained earnings, contributed surplus 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.

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 our primary business operations.

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.