

# THE POWER OF LOCAL

## 2023 Management Discussion and Analysis





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## The Power of Local

We're pleased to provide an overview of Prospera Credit Union's 2023 financial and operational results. This Management Discussion and Analysis (MD&A) should be read in conjunction with our Audited Consolidated Financial Statements (December 31, 2023), which are prepared in accordance with International Financial Reporting Standards (IFRS) Accounting Standards. All amounts expressed are in Canadian dollars.

Built on nearly 80 years of service in our local communities, Prospera Credit Union (Prospera) is a community-based, purpose-driven organization that offers a full range of financial products and services. As one of the largest credit unions in British Columbia, we hold \$9.3 billion in assets under management and have more than 120,000 members. Our primary lines of business are Personal Banking, Business Banking, Wealth Planning and Leasing. Through our network of 26 branches, along with our Member Service Centre and digital channels, Prospera is proud to serve communities throughout the Lower Mainland, Fraser Valley and the Okanagan. 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

The inversion of the Canadian yield curve in 2023, where short-term rates rose above longer-term rates, created a challenging financial landscape for all Canadian financial institutions. This put pressure on our financial margin as the gap between income earned on loans and leases and interest expenses paid on deposits narrowed considerably. Despite these challenges, Prospera performed reasonably well, reporting net income of \$9.0 million and growth in our loan and lease portfolios of \$414.5 million, or 6.6% from the previous year. 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 business and our communities on behalf of our members.



Net income  
**↓ \$9.0 million**



Efficiency ratio  
**91.0%**



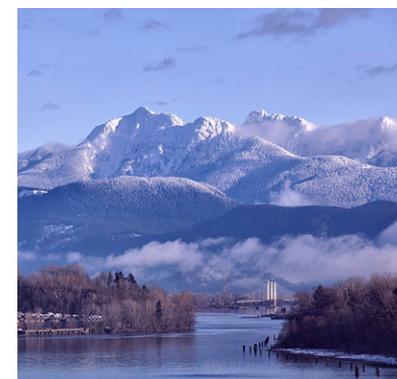
Net interest income  
**↓ \$122.3 million**



Loans & leases receivable  
**↑ \$6.5 billion**



Return on equity  
**2.1%**



Return on assets  
**0.086%**



Capital ratio  
**13.4%**

## Lines of business overview

Our members are at the heart of everything we do. In 2023, we worked to deepen our organization's relationship with each member through a holistic, tailored, advice-based approach. We know that our members have diverse needs beyond lending and deposit products and we're looking at ways to ensure that we fully explore how we can help them achieve their financial goals. This aligns with our unwavering purpose to help build vibrant, healthy communities, thriving local businesses and financially empowered people.

Prospera's Voice of the Member program gathers and analyzes a wide range of member-related feedback. We leverage this information to enhance our products, services and processes – always with the goal of making the member experience even better. As part of this program, in 2022 we launched the Customer Effort Index to better measure the ease of members' service experience, with actionable data.

### Personal Banking

Our Personal Banking team serves members across our 26 branch locations. Our team supported members with day-to-day banking, investments, borrowing and account openings and continued to provide knowledgeable, tailored advice to support overall financial well-being.

#### 2023 highlights included:

- Helped review short and long-term goals for members by completing more than 7,800 individual Financial Health Checks. This complimentary tool is offered to members to help identify their financial goals, forecast for the future and have a greater understanding of member needs.
- Focused on helping our members be cyber-savvy through several initiatives, including the implementation of multi-factor authentication to improve account security and campaigns to educate members on account alerts.
- Completed a comprehensive review and redesign of our branch roles to allow us to better serve our members and provide holistic and timely advice.
- Proactively supported our members through the challenging interest rate environment and in the purchase of new homes and mortgage renewals. Through a combination of organic growth and growth through our broker-originated channel, our mortgage portfolio grew by \$334 million in 2023.



**Mortgage  
Portfolio  
\$334  
million**

**I can't say enough about the personability, professionalism, thoroughness and helpfulness of each and every staff member we have dealt with. This, to us, makes the difference and is why we chose not to deal with banks, who cannot and do not provide this quality of interaction. It seemed like our money was more important than we were. This is not the case with Prospera.**

**A longtime member  
at the Sunwood branch  
in Coquitlam**





**I would like to compliment Prospera for the excellent service I received from Apoorv when I phoned the Member Service Centre. I had a problem with my account, and he was so helpful and courteous - professional yet friendly. He lowered my anxiety level and made me feel the problem would be solved. I am DELIGHTED with Prospera, and I thank you for having such excellent employees.**

**Diane R.**  
Prospera member



## Member Service Centre

Our Member Service Centre 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 157,000 phone calls and 18,500 emails from our members.

### 2023 highlights included:

- Introduced a call quality program focused on providing a consistent experience for our members that includes excellent service, proactive advice and first-call resolution.
- In partnership with our People Development team, we redesigned our new employee onboarding plans, which reduced new employee onboarding from an average of four weeks of training to two weeks, allowing our new team members to begin helping our members more efficiently.
- Began a consistent cadence of in-person working days to foster collaboration, teamwork and skill enhancement to better serve our members.

## Digital channels

In addition to our branches and Member Service Centres, members can complete their banking through our digital channels, including mobile and online banking. Our focus is on continuous enhancement and personalization of these channels.

### 2023 highlights included:

- Launched a new online banking platform in July 2023 that provides members with an improved user experience and more responsive design. This included updated navigation, and valuable tools and resources that members can access anytime.
- Enhanced our two-step verification process and self-serve password reset options in line with industry-best practices.
- Increased security for online and mobile transactions to help keep our members' accounts secure. We recognize some of these changes create additional friction for our members. These security enhancements were put in place for members' protection and in areas where we see the highest potential for fraud on members' accounts (e.g. e-Transfers).

## Business Banking

Prospera's Business Banking team supports approximately 12,500 local business owners and includes three divisions: Local Business, Core Commercial and Real Estate Development.

In 2023, the Business Banking divisions had net loan growth of about 3%. This was achieved by a determined focus on people, programs and relationships, and through our ongoing support of enterprising local businesses.

### 2023 highlights included:

- Increased Business Banking syndication to meet our members' lending needs while effectively managing Prospera's capital.
- Worked with members on the best-customized solution to support them, with 1,300 Canada Emergency Business Account (CEBA) loans ending in early 2024.
- The Business Banking portfolios performed well with low impairment losses and minimal special account management or collections required.

## Leasing

Prospera Auto Leasing provides new and used vehicle leasing for individuals, dealers and brokers. Approximately 45% of the leases are personal leases and 55% are business leases. Prospera Equipment Finance provides leases for all makes and models of equipment, across almost all industries and regions throughout Canada with our primary markets being BC, Alberta and Ontario.

### 2023 highlights included:

- Served more than 6,000 customers who leased a new vehicle or equipment.
- Achieved net lease growth of about 16% in 2023.
- Achieved material gross lease and net lease production in 2023, due to leveraging our dedicated team and program via core national relationships.
- Moved materially closer to auto adjudication in 2023 with a formal launch anticipated in 2024.
- Improved productivity with a double-digit increase in our approved-to-funded ratio in 2023.

We have multiple personal accounts and some commercial ones with Prospera and have been with the credit union since 1994. Over the last two years, Mehran has delivered exceptional customer service. Whenever I have reached out, I have only received a great experience. She always values our time, has a pleasant attitude and provides knowledgeable resources, exceeding our expectations consistently.

Sukhbir  
Prospera member





## Wealth Planning

Prospera's dedicated team of accredited wealth management professionals provide expert advice to help clients plan for their future. Our core services include retirement planning, financial planning, estate planning, tax planning, income protection and investment management. A key focus for our team is to provide a solid roadmap to members' financial goals through all economic cycles. We're proud of our team's ability to create achievable financial plans by listening to our members, providing advice based on sound investing principles and ensuring that risks to reaching those goals are mitigated.

### 2023 highlights included:

- Served more than 14,000 members with a wealth product through a team of more than 34 financial professionals.
- Managed more than \$1.6 billion of assets on behalf of members in an effort to help them achieve their financial planning goals.
- The majority of our advisory team members hold Responsible Investing Specialist (RIS) certification, equipping them with the expertise they need to support our members with sustainable investments and discuss environmental, social and governance (ESG) considerations.



## Corporate

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

These teams contribute to delivering products and services to our members and worked exceptionally hard this past year on core programs to create amazing member value, maintain highly engaged employees and build strong, resilient organizational health.

**My wife and I were both impressed with Prospera's efforts, direction and advice. We look forward to working with them soon, especially as we plan to make some drastic changes with both being retired and selling our home after more than 40 years. We have always felt special and very well looked after.**

**Mike and Carolyn**  
Longtime Prospera  
members



## Doing Local Good

We believe local banking means so much more than just banking. It means being financially, socially and emotionally invested in our local communities and ensuring that we are making a positive impact in our own backyard. Just a few examples:

- We're a founding partner of Do Some Good™.
- We're a Certified Caring Company™ by Imagine Canada.
- We have one of the largest credit union foundations in Canada.

In 2023, Prospera committed more than \$1.0 million to charitable organizations and community partners across British Columbia, helping to create vibrant, healthy communities. For more information on community giving and the Prospera Foundation, please review our [Foundation Report](#) and [ESG Report](#).

## Macroenvironment and 2024 outlook

The Consumer Price Index (CPI) eased in 2023, with inflation reaching 3.3% in the fourth quarter and expected to hover around 3% through the first half of 2024. As the economy grapples with excess supply, inflationary pressures are anticipated to ease, with a projected decline to 2.5% in the latter half of 2024, ultimately returning to the Bank of Canada's target level of 2.0% in 2025.

Despite markets expecting interest rate cuts in Q3 2024, there remains a notable degree of uncertainty. In the context of inflation still exceeding the Bank of Canada's target and underlying inflation displaying persistence, the Bank of Canada maintains concerns about potential upside risks that could lead to prolonged inflation above the target level. A major component of inflation expected to persist in 2024 is the shelter category. This is due to mortgage interest costs and the rise in rental prices attributable to the low housing supply and the increase in population. This component of inflation will take longer to resolve.

We pride ourselves on doing Local Good where we live, work and play. In 2023, our investments focused on supporting local businesses, promoting health and wellness initiatives, plus education programs with a focus on financial literacy, mentorship and entrepreneurship. Our commitment to local communities extends beyond financial investments.

Gavin Toy  
President and CEO



## 2023 performance highlights

Prospera reported net income of \$9.0 million for 2023, representing a \$20.0 million decrease from the \$29.0 million recorded in 2022. The decrease can largely be attributed to higher cost of funds resulting from an inverted yield curve, contributing to a \$38.3 million reduction in net interest income. Despite this notable decline, the positive net income underscores Prospera's financial resilience in light of current economic conditions.

The following chart provides a summary our financial results:

Financial metrics	2023	2022	Change (%)
Net income	\$ 9.0 M	\$ 29.0 M	-69.0% ▼
Total assets	\$ 7.5 B	\$ 6.9 B	8.7% ▲
Total loans	\$ 6.1 B	\$ 5.7 B	7.0% ▲
Total leases	\$ 410.0 M	\$ 353.7 M	15.9% ▲
Total deposits	\$ 6.6 B	\$ 6.1 B	8.2% ▲

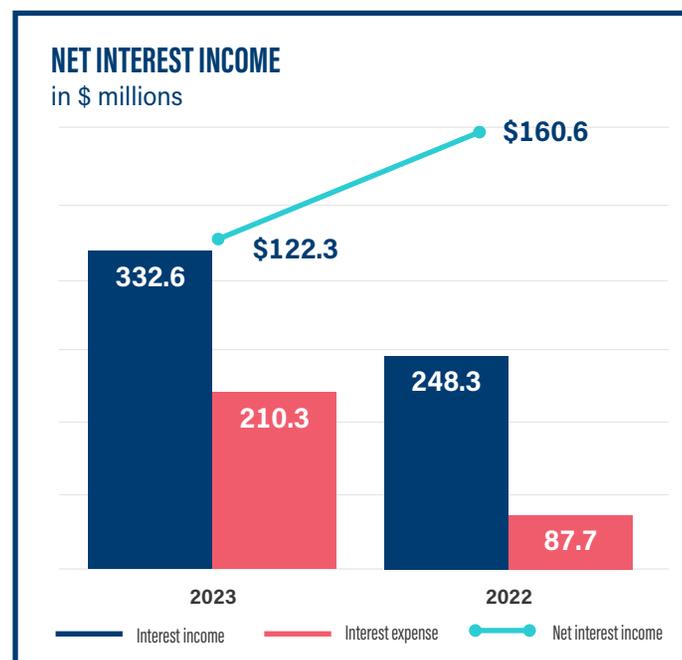
Key ratios	2023	2022	Change (%)
Capital ratio	13.4%	13.4%	0.0% -
Return on average assets	0.1%	0.5%	-80.0% ▼
Return on equity	2.1%	6.9%	-69.6% ▼
Operating efficiency*	91.0%	79.0%	15.2% ▲
Liquidity	14.3%	13.2%	8.3% ▲

\*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, decreased year over year by \$38.3 million or 23.9%, from \$160.6 million to \$122.3 million.

In 2022, the Canadian yield curve began to invert, with short-term rates rising above longer-term rates. This inversion deepened throughout 2023, marking the most pronounced occurrence in the past 20 years. This put pressure on our financial margin as the gap between income earned on loans and leases and interest expense paid on deposits narrowed considerably. Operating in an inverted yield curve environment is rare, and poses challenges for all financial institutions, particularly credit unions, as a majority of our revenue is tied to interest rates. Despite these market conditions, Prospera performed reasonably well and remains committed to continuing to proactively manage interest rate risk.



## Net fee and commission income

Net fee and commission income comprises revenue generated from various sources, including card fees, member service fees, wealth planning fees, and fees associated with loans and leases.

Our net fee and commission income was \$20.6 million in 2023, in line with 2022 (\$20.6 million). The largest component of this line is wealth planning (\$14.6 million) which remained flat year over year (\$14.6 million).

Net fee and commission income (in millions of dollars)	2023	2022	Change (\$)	Change (%)
Fee and commission income	\$ 27.0	\$ 26.2	\$ 0.8	3.1%
Fee and commission expense	\$ (6.4)	\$ (5.6)	\$ (0.8)	(14.3%)
<b>Net fee and commission income</b>	<b>\$ 20.6</b>	<b>\$ 20.6</b>	<b>\$ -</b>	<b>-</b>

## Realized and unrealized gains (losses)

In 2023, we recognized realized losses of \$0.7 million and unrealized losses of \$1.5 million on our financial instrument portfolio. 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 thousands of dollars)	2023	2022	Change (\$)	Change (%)
Realized gains (losses) on financial instruments	\$ (703)	\$ (125)	(578)	(464.8%)
Unrealized gains (losses) on financial instruments	\$ (1,489)	\$ (3,476)	1,987	57.2%
<b>Total realized and unrealized gains (losses)</b>	<b>\$ (2,192)</b>	<b>\$ (3,601)</b>	<b>1,409</b>	<b>39.1 %</b>

## Impairment (losses) recoveries on financial assets and other assets

The extent of interest rate increases in 2023 and uncertainty related to the Bank of Canada's rate posture in 2024 created a challenging environment for borrowers and was reflected in our macroeconomic indicators used in modelling our expected credit loss (ECL) provision. Growth in our loan and lease portfolios also resulted in a larger base for our calculation.

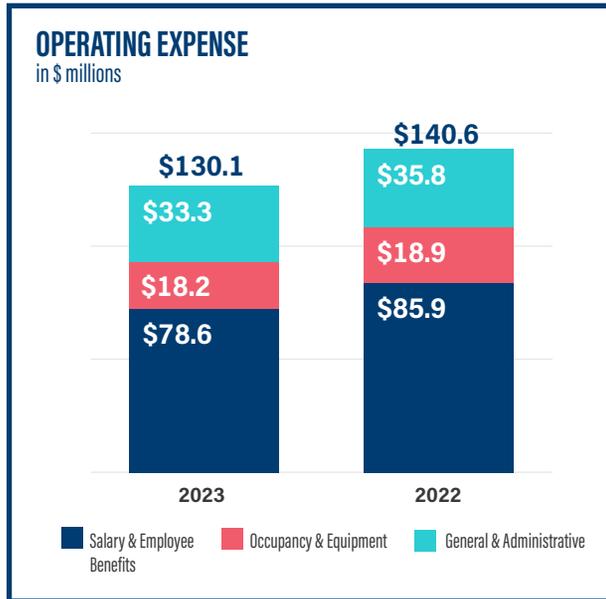
On our consolidated statement of financial position, our ECL provision was \$14.1 million as at December 31, 2023, an increase of \$1.4 million from 2022 (\$12.7 million). After adding the impact of direct loan write-offs, provision for unguaranteed lease residual values and losses on other assets, the total impact on our consolidated statement of income was an expense of \$3.6 million, compared to \$2.1 million in the prior year.

The allowance for credit losses is appropriate based on our analysis of the loan and lease portfolio as at December 31, 2023. Note 12 of the consolidated financial statements provides a complete analysis of our allowance for credit losses.

Impairment and ECL (in thousands of dollars)	2023	2022	Change (\$)	Change (%)
<b>Consolidated statement of financial position</b>				
ECL provision	\$ 14,110	\$ 12,688	\$ 1,422	11.2%
<b>Consolidated statement of income</b>				
(Increase) decrease in allowance for credit losses	\$ (1,422)	\$ (1,519)	\$ 97	(6.4%)
Impairment losses on other assets	\$ (993)	\$ (190)	\$ (803)	422.6%
Direct write-offs	\$ (827)	\$ (448)	\$ (379)	84.6%
Increase in loss allowance for unguaranteed lease residual values	\$ (408)	\$ -	\$ (408)	N/A
<b>Total impairment (losses) recoveries</b>	<b>\$ (3,650)</b>	<b>\$ (2,157)</b>	<b>\$ (1,493)</b>	<b>(69.2%)</b>

## Operating expenses

Operating expenses decreased by 7.4%, from \$140.6 million in 2022 to \$130.1 million in 2023. Lower operating expenses are a direct result of prudent cost management in response to the changing interest rate environment.



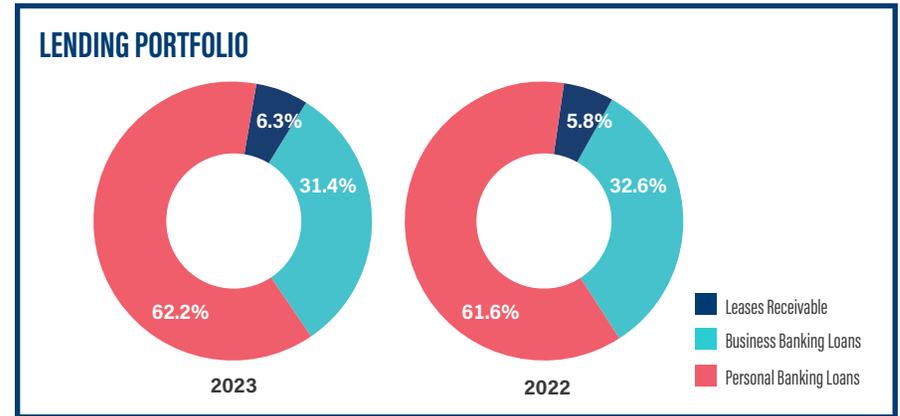
The largest driver of the decrease was salaries and employee benefits, which resulted from the combination of 1) careful management of headcount through natural attrition; 2) lower variable incentive compensation tied to lower net income; 3) normalization of prior year costs related to aligning all members onto one banking system.

The decrease in general and administrative expenses is due to the offset of lower consulting and other professional fees, incurred in 2022 to progress harmonization initiatives, and an increase in digital and technology expenses, as we advanced member online security through the implementation of multi-factor authentication (MFA) and other improvements.

Operating efficiency measures how much Prospera spends in order to earn income. Specifically, it calculates operating expenses as a percentage of total income. While we reduced our operating expenses in 2023, our lower net interest income as a result of the inversion of the yield curve resulted in our operating efficiency declining, from 79.0% in 2022 to 91.0% in 2023. Lower operating efficiency reflects more efficient operations.

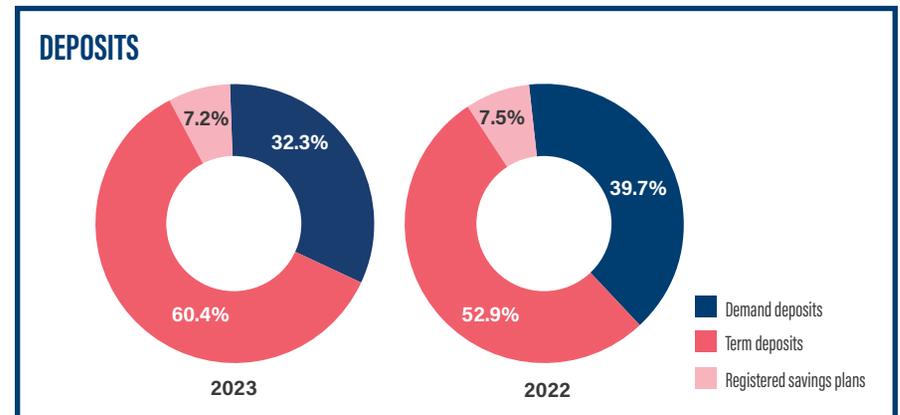
## Lending portfolio

We experienced significant growth in our loan and lease portfolios in 2023, with total growth of 6.8% (\$414.5 million). Personal Banking and Business Banking continue to represent the majority of our portfolio.



## Deposits

In 2023, member deposits totaled \$6.6 billion, an increase of \$565.1 million or 9.3% compared to 2022. High deposit rates from the inverted curve encouraged members to shift deposits from low yielding demand deposits into high yielding term deposits, and we observed a significant migration towards term deposits throughout the year.



## Capital

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 British Columbia Financial Services Authority (BCFSA) guideline related to the relative risk of the assets held by a credit union, thus establishing that more capital is to be held for 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 level may be determined non-viable by BCFSA.
2. BCFSA's supervisory target of 10% sits above the regulatory threshold and provides BCFSA with sufficient time to address any threats to solvency of the credit union before it falls below the regulatory requirement.
3. Credit unions are expected to establish their own internal capital target, which should be set above the supervisory target. This internal target is used for correction internal action before capital erodes below the supervisory target.

Our main source of capital is the retention of retained 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, 2023, our total capital base was \$518.1 million, compared with \$504.5 million in 2022. Our capital adequacy ratio was 13.4% as at December 31, 2023, consistent with 2022, and continued to exceed both regulatory and internal policy requirements.

## Liquidity

Liquidity was carefully managed throughout the year to ensure that our members' needs 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, finance loans and leases, sustain 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 14.3% as at December 31, 2023, compared with 13.2% in 2022. Liquidity levels exceeded both the regulatory and internal policy requirements.

## Risk management

Prospera is committed to managing risks effectively and proactively. Our Risk Appetite Framework enables our Board of Directors to determine the level and types of risks we are willing to take to achieve our strategic objectives. This risk-based decision-making process considers the interests of all stakeholders, including our members, employees, regulators, and the broader community.

We adhere to established risk management principles and continuously monitor and report on risks, staying attuned to market changes and industry best practices. Our approach follows the three lines of defense model: operational employees form the first line, independent oversight employees constitute the second line, and internal audit and external assurance providers serve as the third line.

To ensure compliance with risk management policies and tolerances, we have an Enterprise Risk Management Committee led by the Chief Risk Officer, consisting of senior executives. Additionally, the Management Credit Committee, overseen by the Chief Risk Officer, provides oversight of the lending portfolio. The Asset and Liability Committee, under the leadership of the Chief Financial Officer, manages and reports on asset and liability management.

Our Risk, Investment, and Loan Committee of the Board of Directors oversee adherence to the Risk Appetite Framework and are accountable to the Board. For further details, please refer to the Governance Report.