CREDIT UNION COLLABORATION

MERGER BUSINESS CASE

Community Credit Union
New Ross Credit Union
Victory Credit Union

2024

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EXECUTIVE SUMMARY

The Boards and Management Teams of Community Credit Union (Community), New Ross Credit Union (New Ross) and Victory Credit Union (Victory), collectively referred to as the partners, are proposing a merger between their three credit unions. This proposal is being driven by several important trends affecting financial institutions, including:

- **Emerging technology and changing member banking behaviours:** The need to invest in innovative digital technologies to meet the changing banking preferences of members, and the necessary technologies and processes to strengthen cybersecurity.
- **Access to specialized expertise:** Increased regulatory and risk management mean specialized skills and services sets are necessary to serve members, maintain the status quo and grow.
- **Limited market growth opportunities:** It is becoming increasingly challenging for community-based credit unions to compete in today's market – across the country, credit unions with broader market scope are growing their membership at faster rates than smaller credit unions.
- **Increasing competitive demands:** The competitive demands of the financial services industry are changing quickly. It is becoming increasingly necessary for credit unions to find new ways to collaborate and consolidate efforts to maintain and grow their competitive position.

In 2023, the boards of the three credit unions tasked a committee of directors and managers to develop a business case to demonstrate the potential of a new credit union and what it could offer to their collective members, employees, and communities.

For members, the new credit union can better serve members with an expanded product portfolio, digital services, and member support.

For employees, the new credit union can provide career growth and professional development opportunities**.** It also enables the organization to develop a stronger recruitment strategy to attract the talent needed to support succession and growth plans for the board, management, and specialized staffing.

For community, the new credit union can strengthen the cooperative values shared by all three partners, and enable greater opportunities to build awareness, partnerships, and presence in more Nova Scotia communities.

For financial sustainability, the opportunity to consolidate the individual balance sheets into one credit union enables a more diverse and favorable capital position – an aggregate liquidity pool enables a more effective use of deposits to create higher returns overall than any one partner can earn on its own.

The proposed merger provides several other potential benefits for the three credit union partners:

Internal: Combining resources allocated to common goals

The combined operating capacity of a new merged credit union enables new opportunities for the partners to serve members in ways that are not achievable on their own. This includes greater lending capacity and ability to develop partnerships, to further develop business in the commercial market and a broader portfolio of financial planning and banking services.

Credit Union System: Ensuring credit union strength and choice

One merged entity helps build a strong and sustainable credit union that can more effectively compete and serve more Nova Scotia communities. This opportunity to offer local community-based banking options and convenient digital banking solutions is good for the members served today, and members the new credit union will serve in the future.

Financial Strength: A stronger credit union investing for future growth

The merged credit union will offer the potential to improve financial revenue, and lower deposit costs compared to the individual credit unions on their own. It could make more efficient use of the balance sheet to enable better lending opportunities, use excess liquidity, and further improve its financial and capital position. The merged entity will be better equipped to withstand economic turmoil over the short-term and invest in the large capital and digital initiatives required for sustainable growth.

This business case describes what the merged credit union would look like and achieve, in contrast to the status quo. While this paper outlines a number of factors for the new credit union to consider, it is important to remember many of these factors apply to all credit unions as they respond to the ever-changing landscape of financial services, and evolve to remain sustainable over the long term.

PART ONE: INTRODUCTION

Community, New Ross and Victory are proposing a merger. This proposal comes after they have considered how working in partnership they can enhance the level of service to their collective members. As smaller and mid-sized credit unions, the partners have many advantages, including knowledge of their members and connections to local markets. They each have strong staff teams and are respected members of their local business communities. However, while each credit union has much to be proud of, they are also experiencing trends that have the potential to erode long-term value for their members. Some of these trends include:

- Attracting, training and retaining employees with specialized skills
- Continual increases in overall expenses
- Increased requirement to make significant investments in digital technology
- Growing competive demands and requirements to provide members with products and services
- Increased regulatory and compliance requirements
- Lack of local market diversification
- Limited access to specialized services
- Limited ability to serve commercial accounts
- Lack of succession options for directors and employees
- Increasing competitive environment

While each of the partner credit union may have resources to respond to these trends, their responses require investment and development that may be better provided in partnership, where existing investments can be leveraged, new costs can be shared to avoid a duplication of spending and improve efficiency of investment.

By combining operations, within five years the partners have the potential to realize savings that can be reinvested back into the business, driving greater value for members. The capacity that will be created through amalgamation, and can be employed in the following areas:

- To enhance levels of service to members and competitive pricing
- To enhance the efficiency and effectiveness of operations
- To fund increased business growth
- To increase opportunities to create meaningful environmental, social and governance impact

The following pages outline what a merger between the partners can look like, and how more value can be delivered to members than any of the partners independently.

1.1 Partnership Principles

Members of the joint committee of directors and managers from the three partners (referred to as the Joint Partnership Committee or JPC) work collaboratively to explore the potential for a new credit union. Their discussions are supported by the following eight principles:

1. A partnership between our three credit unions must create tangible value and benefits for the members of each credit union. *This will be the ultimate test.*

2. Each of the partner credit unions contributes uniquely and it is the collective breadth and depth of those contributions that makes us stronger together. *We can use collective contributions to build new value for our members and our communities.*
3. Any collaboration must leverage all the talent we have in our existing credit unions and any changes in roles or responsibilities will be managed fairly and transparently. *This is the right thing to do.*
4. Where possible our collaboration will take a long-term view in the best interests of our members, our staff, and our credit unions. *This is our future focus.*
5. Together we will design a future where we are focused on the mutual gains that we can generate. *Our collaboration is a creation, not a negotiation.*
6. Our goals and objectives, issues and concerns will be openly and transparently discussed. *Together we are stronger.*
7. As partners, we recognize other credit unions may wish to join later and therefore we are planning a credit union that will be scalable to accommodate future partners. *This is what collaboration looks like.*
8. As partners we recognize that our actions can impact our partners and we will engage in these discussions with the understanding that we owe each partner our support. We commit to a practice of "no harm". *This is what respect looks like.*

1.2 Business Overview

Grounded in their co-operative values, the partners are strongly aligned in their goals to deliver valued financial solutions to their members, and to create positive change in the communities they serve. The new merged credit union will build upon their shared values, community roots, and purpose-driven culture to develop a stronger business model. This will enable more opportunities to invest in communities and services that add value for members and employees for years to come.

	Community Credit Union	**New Ross Credit Union**	**Victory Credit Union**
VISION	Making the difference for our Members, Employees and Community.	New Ross Credit Union is committed to provide quality and knowledgeable member service, being proactive and remain competitive in the financial marketplace. We will continue to be community minded, people orientated and respectful to both members and employees.	We are the most ethical and caring financial partner providing services to our communities beyond expectations. This is important because our communities improve through the services, they receive that they would not otherwise get. We value the financial well-being of our customer-owners.
MISSION	Passionate about the success of our Members, Employees and Community.		

Credit Union History

Community Credit Union began 1938 with the founding of the Amherst Credit Union. In 1999, a merger with Colchester Credit Union and Amherst Credit Union established the credit union as it is known today – Community Credit Union of Cumberland Colchester. Community serves 7,000 members with assets of $175 million from branches located in Truro and Amherst.

New Ross began in 1956 in response to a community need for local banking options. Over time, the credit union has grown with the addition of a second branch in Chester Basin and welcoming members from the South Shore. Today New Ross serves over 2,000 members with $46 million in assets.

Victory Credit Union was founded in 1942 in Brooklyn, Hants County, by a group of local farmers who wanted to find better ways to support each other and their rural community. From these humble beginnings, Victory now serves 3,300 members with assets of $75 million from three branch locations in Brooklyn, Kennetcook and Windsor.

1.3 Strategic Direction and Vision

The three credit unions aspire to construct an open and candid process that enables them to develop a common vision for the future, challenge their assumptions, and design a sustainable future-focused credit union that will capture the imaginations of their employees and members.

Working together, the partners described their collective vision for the future as a credit union that is rooted in community, committed to serving the current and emerging needs of members with exceptional employees and accessible services. They aspire to be market competitive, operationally strong, and financially sustainable.

1.4 Value Proposition

The value proposition for the merged credit union will focus on relationships and member service. The credit union will provide competitive pricing and products and differentiate itself by delivering highly valued personal member service, trusted advice, and local banking solutions.

1.5 Strategic Goals

To achieve the Strategic Direction, the new credit union will enable:

- Personalized Service: There will be more focus on service to members, relationship building and business development.
- Products and Service: Improved product and service offerings, more competitive rates and fees and increased lending capacity.
- Specialized expertise: A larger organization enables staff with more opportunities to develop specialized expertise, which enhances member services and internal operations.
- Enhanced community support: A financially stronger and more diverse credit union will have more capacity to give back to the communities it serves.

Further, the new credit union will have a greater ability to:

- Manage the risks that all three partners face in an increasingly complex and competitive market environment.
- Invest in staff training and career development.

- Deliver more responsive member and market solutions.
- Provide greater value to members and communities.

1.6 Building from Partnership and Collaboration

The credit unions have experience partnering with each other and collaborating to achieve shared goals with provincial projects and regional shared services. Specific examples include:

- Lending Expertise: The three credit unions have developed an agreement to share any service as required. This may include retail and commercial lending and anti-money laundering services (AML).
- Shared Services: The three partners collaborate and participate in regional service programs – Asset Liability Management and Products and Marketing. Victory and Community also participate in the Shared Service for Risk Management & Compliance. All three credit unions use Quarterback as their IT partner.

An amalgamation of the partners is the most effective form of collaboration, as it allows for them to contribute and leverage shared resources in a way that is not possible through other options – i.e., joint venture, associations and extended shared service.

1.7 Merger Model

For the merger to take effect, the membership from all three partners must vote in favour.

1.8 Summary

The three partners have agreed creating a new combined credit union can enable them to provide valued services to members, leverage their collective expertise, and manage the risks that are inherent in today's financial services sector.

The future vision is to build a credit union that is operationally competitive and differentiated through the valued relationships it has with members and community.

By combining operations and resources, the partners expect to realize additional profit that can be reinvested in the business and shared with members to deliver greater value and financial sustainability for all.

PART TWO: ENVIRONMENTAL ANALYSIS – WHY MERGE NOW?

The proposed merger of the three partners is being considered in the context of a more competitive and complex environment that is affecting the future of each independent credit union.

In addition to the benefits for members, employees and the community, a merger helps the three credit unions respond to growing competition, changing member needs, economic challenges and increased regulatory and compliance requirements.

2.1 Growing Competition

Credit unions of all sizes operate in an increasingly competitive and complex environment. Digital disruption, new competition, and changing member expectations are all increasing the scope of what it takes to generate sustainable growth.

The new competitive challenges create new risks for the long-term viability of local community-based credit unions, and as a result, it is vital for them to explore new ways to collaborate with other strategic partners to create value for members. This is evidenced by credit union consolidation, which is taking place across every region. In the last five years, the number of credit unions in Canada has declined by more than 20% - from 272 in 2017 to 207 in 2022. Of the 207 credit unions that exist today, the largest 100 account for 95% of assets and members. Further, when comparing growth trends, the largest 100 credit unions are growing in both membership and assets, while the remaining credit unions are declining.

The requirements to invest in new technology to better serve members and in risk management to ensure the delivery of secure banking solutions, creates added cost structures and demands for specialized expertise. The move to digital service also creates significant disruption in the competitive landscape – at one end, lowering barriers to entry for new FinTechs and payment providers, and on the other end, rewarding established players like the Big Banks that have scale and capacity to invest in new digital banking services and solutions.

As a merged credit union, the three partners would be in a stronger position to invest for growth – enhancing products, services, and operating capacity, while maintaining their local community involvement and co-operative banking values.

2.2 Changing Member Needs

Credit unions are seeing dramatic shifts in how members bank. In-branch transactions are declining, and members are increasingly using digital channels to transact and manage their money. These changes in banking habits began before the pandemic and have only accelerated since. Furthermore, as more members discover new levels of flexibility and convenience, the switch to using digital channels will have a lasting impact.

For credit unions, the adoption of digital channels by members for more day-to-day banking needs requires a rethink of how they grow member value across all channels (online, mobile, phone, in-branch), while maintaining their personalized service and local banking approach.

As with many credit unions in the region and across the country, the membership of credit unions in the Atlantic region is aging, and it is important for the partners to grow and attract new members to sustain and diversify operations. For the three partners, this will mean increasing efforts to attract younger members and to diversify by growing business with small to midsize business owners.

Members from all three partners value service, convenience, access to competitive products, rates, and fees. They also value the trusted relationships they have by banking with a locally owned financial institution and the ability to manage their banking services using self-serve tools. These are key attributes the partners are committed to growing as part of the merged organization's value proposition. This may require an expansion of products in the areas of financial planning and advisory services and increased investment in data and digital tools that support the delivery of personalized banking solutions.

2.3 Attracting Talent

Employees are in demand, and those with specialized expertise are increasingly being sought out by competitors. A benefit of the merger is the opportunity to share and develop resources across the organization and leverage a shared recruitment and retention strategy to attract the talent needed to support succession and growth plans for the board, management, and specialized staffing.

2.4 Economic Environment

Credit unions have faced similar challenges and opportunities in recent years. These include:

- Revenue Growth: Finding new ways to grow and diversify revenue – interest income and non-interest income.
- Demographics: The Nova Scotia population is growing with record high immigration and migration from other provinces. This growth creates opportunities to attract new members, talent, and business in growing communities. The population is also aging, which presents other challenges – such as sustaining and growing operations in communities where there is a shortage of workers with the suitable skills needed to work in a credit union environment and limited growth potential.

The three partners realize the challenges they face in growing their membership. They also recognize there are significant untapped market opportunities within their communities which one merged credit union can more effectively access for business development and growth.

2.5 Regulatory & Compliance

In response to the increasingly complex, connected, and sophisticated marketplace, regulators in all provinces are looking to strengthen governance oversight; requiring credit unions to bring more focus to capital and liquidity management and enterprise risk management.

For credit unions, this means there are increased costs and new compliance requirements to manage things like anti-money laundering, cyber security, internal audits and strengthen their capacity and expertise with staff training and general risk management. While these investments are necessary and enhance 'public good', they do not produce new revenue for the credit unions. When working as one credit union, the three partners can eliminate duplication of costs, and optimize resources required to continue to meet all regulatory and compliance requirements.

2.6 Summary

The environment for all financial institutions is in a period of change, influenced by competition, digital service, economic and regulatory issues. For credit unions, the question that must be considered is how long the status quo can be sustained without responding to the shifts in the marketplace. The analysis of market challenges and new opportunities indicate that merging now will position the partners for greater success in the future.

PART THREE: OPERATIONS AND GOVERNANCE

In support of the shared vision and what they can achieve together, the new credit union will leverage the strengths of all three partners and operate in a distributed manner with administrative personnel working from all current locations. This approach enables employees to participate in the new credit union without the need to relocate.

3.1 Legal Address

The new credit union legal address will be linked to the working location for the corporate secretary. It is expected this will be Truro, Nova Scotia.

3.2 Corporate Premises

In recognition of the geographic scope of the new credit union and the importance of the communities it serves, the organization will have a decentralized administration structure. This means administration and corporate staff can work in various locations across the regions.

3.3 Credit Union Name & Branch Identity

The new credit union will adopt a new name that reflects the brand values and aspirations for the three credit union partners. The current branch names for the three partners will be maintained and become branches of the new merged credit union.

The name of the new credit union will be determined following a positive member vote and prior to the effective date of the merged credit union. It is recommended the partners engage a third-party marketing and brand partner and develop a process that includes member research and input from legal and trademark searches.

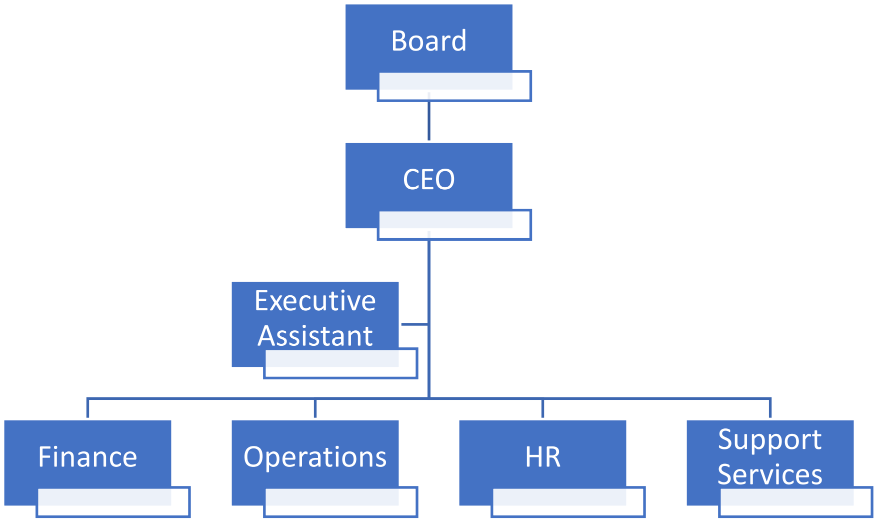
3.4 CEO & Organizational Structure

The merged organization will be led by a single board of directors and CEO.

After careful consideration of the future organizational needs, and in consultation with the current managers, it is recommended that Georg Oberprieler, CEO of Community Credit Union be appointed CEO of the new entity. Prior to finalizing this recommendation, members of the JPC had the opportunity to meet with the candidate and confirmed their expectations of the role and assessment of the skills and competencies required.

The organization structure and leadership leverages talent across the three organizations. Subject to the confirmation of the CEO role and the merger receiving approval from the membership and the regulator, Michael Wilcox, CEO/GM of New Ross Credit Union and Jim Riley, CEO/GM Victory Credit Union will transition to new leadership roles in the new organization. Both will continue to lead their respective credit unions through the merger process.

The preliminary view of the functional structure for the new credit union is shown below.



3.5 Human Resources

The merged credit union will combine the unionized workforce currently in place at Community, and non-unionized workforces in place at New Ross and Victory. The principles to support the evolution from three independent credit unions to a single larger and more diverse operation include:

- No loss of employment as a direct result of the merger. As part of the normal course of business, the new credit union may realize some additions and staffing changes through retirements and attrition.
- Over time, some roles may evolve and grow to support the organizational goals.
- Investments will be made in professional development and training to support career growth and opportunities for staff.
- The organization will foster a performance-driven culture that recognizes and rewards success.
- Current collective agreements will be respected.

3.6 Corporate Governance

The inaugural board (the first Board of the new credit union) is comprised of 12 directors – four directors appointed from each of the merging credit unions. The inaugural directors will serve a range of terms from one to three years. Following the expiry of each term, Directors will have the option of running for a new standard 3-year term. All directors are limited to nine years of continuous service.

With a twelve-person Board of Directors, work can be effectively delegated to Board committees to enhance the overall efficiency and effectiveness of governance oversight. It is recommended that the merged credit union govern with four committees: Executive and HR, Audit and Risk, Credit and Governance.

The Executive Committee will be comprised of the Chair, Vice Chair and two other directors. The other three committees will be assigned four members and three members will form a quorum. The Chair of the Board will be an ex-officio non-voting member of each Committee. The mandates for each committee are shown below.

Executive and HR	Audit and Risk	Credit	Governance
Oversee the Board's relationship with CEO and coordinate the ongoing responsibilities of the Board.	Oversee the financial and risk affairs of the credit union to ensure financial and risk management goals are achieved and maintain relationships with internal and external auditors.	Oversee the credit union's loan policies, activities, and reporting. This committee is required by NS Credit Union Act.	Oversee the governance operations of the credit union, including assessments and development plans, and nominations to ensure Board renewal goals and objectives are met.

It is also recommended that the future board undertake a thorough analysis of the effectiveness of the governance model post-merger to determine if any changes are required to the board size, composition, or process for electing directors. The board could then refer any possible amendments to the membership for consideration.

Policy Environment

The merged credit union will leverage Atlantic Central's model policies with amendments made to align with the credit unions' existing operational and policy requirements. Processes will be established to review and amend the policies as necessary before the effective date of the merged credit union to ensure that they are appropriate for the larger organization and that the current operations of the three Partners will be compliant on day one. Any changes will be carefully reviewed by Management and committees of the Board and recommendations for updates will be made to the Board as required.

3.7 Inaugural Board

The members of the inaugural Board and their inaugural terms are:

Name	Term	Legacy Credit Union
Carolyn Allen	2	Community
Susan Costin	3	Community
Andre Myette	3	Community
Daniel Roper	1	Community
John Chandler	3	New Ross
Clifford MacKinnon	2	New Ross
Sharon Rafuse	1	New Ross
Andre Veinotte	3	New Ross
Peter Francis	1	Victory
Brad MacQuarrie	3	Victory
Nick Parker	3	Victory
VanEssa Roberts	2	Victory

3.8 Board and Director Terms of Reference

The role of the Board and Director for the merged credit union will include an increased scope of responsibilities driven by the size and complexity of the merged credit union in comparison to each of the partner organizations.

Recognizing the broader scope of operations for the new organization, the merged credit union has also defined specific technical skills and competencies it requires of directors. These skills and competencies enable:

- Audit and compliance oversight
- Board and CEO performance
- Credit union operations oversight
- Financial literacy
- Standards of good governance
- Leadership
- Regulatory oversight
- Risk management oversight
- Strategic oversight
- IT governance

The technical skills and competencies for directors were shared with the three partner boards for their consideration as they selected their inaugural board members. This approach ensured consistency among the partners and demonstrates their commitment to building a strong sustainable credit union.

3.9 Summary

The new credit union will be guided by a single board initially comprised of 12 directors and led by a single CEO. The merged credit union will need to harmonize its operations and governance policy with amendments made to ensure compliance for all elements required of the partners and the new organization. The first few years of the new credit union will be one of transition and change, as operations and cultures are integrated and aligned to meet the strategic goals of the credit union moving forward.

PART FOUR: MARKET GROWTH OPPORTUNITIES

The merged entity will seek to grow organically by focusing on increasing business with current members and attracting new members. A strength of the new credit union will be the opportunity to develop expertise to serve both the personal and commercial market. On both fronts, organic growth will require the credit union to be rooted in an understanding of member needs and competitive value, and by offering customized banking solutions that best achieve members' financial goals.

It is also anticipated that there will be opportunities to grow the credit union's presence in more Nova Scotia bedroom communities, which offer strong growth, and are currently not served by any credit union choices.

4.1 Growing with Current Members

Market share data shows there is significant opportunity to grow business and relationships with current members.

Personalized service, competitive banking products, and access to financing from a financial institution with local decision-making is highly valued by members of all three partner organizations. Members also value the trusted relationships they develop with their credit union and the ability to manage their banking services using convenient self-serve tools. These are key attributes the partners are committed to growing as part of the merged organization's value proposition.

As competition disrupts traditional banking habits, the merged entity will commit to transitioning practices that primarily focus on serving members through transactions, to ones that focus on serving members with advice and solutions. To realize this transition and growth, the new credit union will invest in staff training, modernize administration processes, and implement the technology and service platforms that enable the organization to deliver customized and competitive member solutions.

4.2 Growing with New Members and Markets

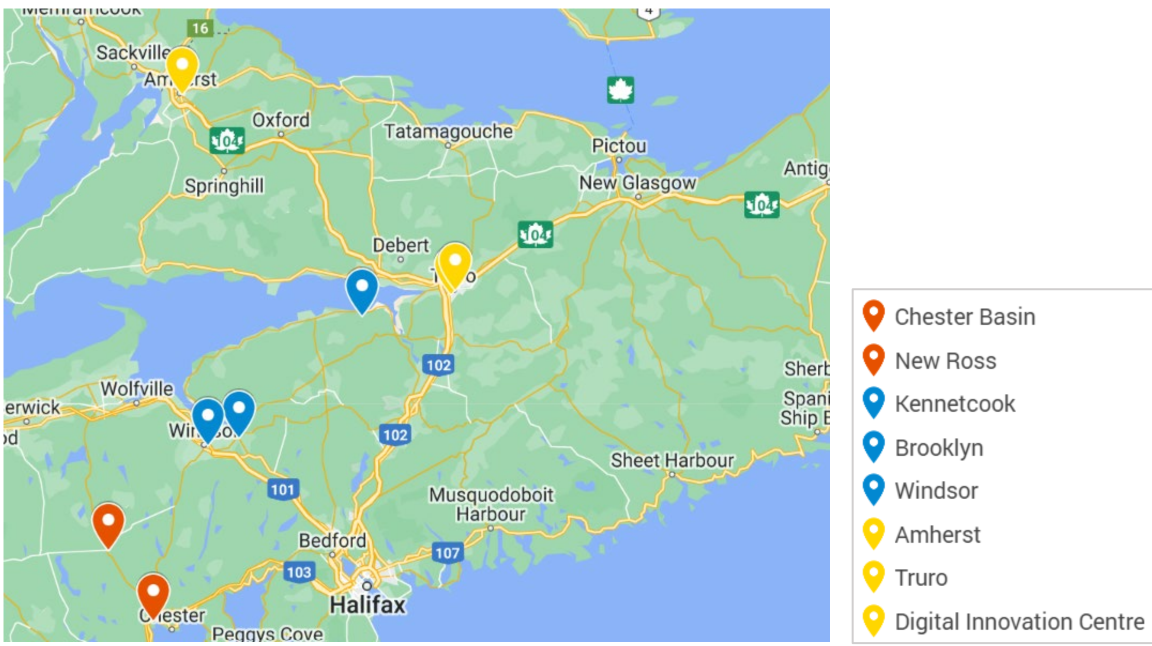
There are opportunities for the new credit union to diversify and expand products to attract new members and grow valued market segments. This includes small and medium sized commercial operations, business solutions, mortgage brokers, and insurance and wealth management. There is also good potential to grow business by developing competitive banking solutions to attract younger members which is an important growth segment for all three partners. The new entity is also better positioned to strengthen its community presence by growing the branch network.

4.3 Service Delivery

There is a strong alignment in the products and services offered by the three partner organizations. The merged entity will seek to leverage and evolve existing service networks to support business development, product development, and the delivery of banking services across all channels.

Future Service Network

- Ease of business and consistent service: Recognizing the importance of branches in serving members and communities, the merged credit union will maintain and strengthen the existing branch network and community presence as one of the many ways it serves members; including electronic and mobile options. This network will strengthen member confidence and help the new organization become the financial institution of choice for more members in the communities it serves. To support future growth, the new credit union will strive to become easier to do business with and adopt service standards to ensure a consistent experience is delivered across all service touchpoints.
- Expanding Community Presence and Member Support: Working together, the merged organization can explore the opportunity to expand its community and service offerings, to include more flexible and integrated service solutions in more communities which support members with digital and online banking and other services and omnichannel experience.
- Specialized Expertise: The merged credit union will also have enhanced opportunity to further develop specialized expertise to support commercial lending andwealth management.
- Community & Local Presence: The physical branch locations help maintain local connections and knowledge of what is needed in the communities served.



Future Product Portfolio

- Competitive and Affordable Service Offering: A larger membership base creates efficiencies, which in turn, enables savings that can be invested to enhance member services.
- Wealth Management and Insurance Services: There are opportunities for the merged entity to grow and enhance the solutions offered to members.
- Enhance Lending Capability: The merged organization’s capacity to lend and diversify financing opportunities, including participation in syndicated loans, and optimizing loan portfolios with League Savings & Mortgage (LSM), is stronger and will enable growth, good business development in retail and commercial markets, and improve margins.
- Innovation: The merged entity strengthens expertise and enhances capabilities to continue to be responsive and quick to market for new products and service offerings.

4.4 Summary

Leveraging the collective strengths enables the new credit union to deepen the expertise and capacity it must bring to effectively deliver competitive and cost-effective solutions to more members and communities.

While changes are always a normal part of any business practice, the new merged entity will be responsive to changing market conditions and will take steps when needed to ensure it maintains and grows its competitive market position.

PART FIVE: BRAND AND MARKET POSITION

All three partners share strong co-operative values and are strongly aligned in their commitment to delivering valued financial solutions and positive community change. The new merged credit union will build upon their shared values, community roots, and purpose-driven cultures to enable a business model that is responsive to local community needs.

5.1 Brand Overview

The new credit union will help members in achieving their financial goals by providing advice and services that focus on their best interests. It will do this by maintaining an unwavering commitment to the principles and values that underpin the partners' shared co-operative approach to banking and achieving their goal of being the financial institution of choice in their communities. The new credit union will be market competitive in the products, rates, and fees it offers, and differentiate itself based on the personal approach, convenient service and advice provided to members.

Brand Values

At the heart of the credit union brand is the relationships it has with members, employees, and community, and the commitment to building better futures for all. Honesty, fairness, and trust are the core values that will continue to underscore the new credit union's brand.

5.2 Marketing

The new credit union will be better able to invest in marketing resources and programs that achieve strategic growth goals and increase awareness among current and future members for the competitive services and solutions it can offer. While 'trusted relationships' are a known area of strength for credit unions, more can be done to broaden and deepen the understanding members have of the range of products and services, competitive rates, and modern banking solutions that are available from the credit union.

5.3 Community Investment

All three partners actively support local community initiatives. The new entity will support these traditions and ensure it remains vested in the communities it serves.

Beyond the current practices, one merged credit union with strong cooperative values enables greater opportunities to build awareness and partnerships to make a difference in more Nova Scotia communities. These opportunities may take the form of donations, sponsorships, and community investments.

5.4 Summary

All three partners share strong co-operative values and are strongly aligned in their commitment to delivering valued financial solutions and positive community change. The new merged credit union will build upon the shared values and purpose-driven cultures to strengthen and grow the relationships it has with members, employees and communities, and its commitment to building better futures for all.

PART SIX: MEMBER & REGULATORY APPROVAL

An amalgamation requires the approval of the membership from all three partners and the consent of the provincial regulator.

The three partners will ensure the business case, due diligence and amalgamation plan will satisfy all regulatory requirements. Further through the process, the partners are committed to engaging members with fulsome and transparent communications and encouraging their participation in the approval process.

6.1 Overview

The new credit union will leverage the best practices of the three partners and implement enhanced processes, where necessary, to achieve strategic and operational goals.

6.2 Bylaws

The bylaws of the new credit union will provide members with assurance the credit union will operate prudently and conservatively while maximizing opportunities to serve the current and emerging needs of members.

6.3 Bond of Association

The new credit union will have a province wide bond of association.

6.4 Amalgamation Agreement

The Amalgamation Agreement will be finalized following Board approval of the Business Case, and prior to its submission to the Regulator for advance approval before being submitted to the membership for approval.

6.5 Shares

The new credit union will maintain Community's common share price and requirement for all new members – $5 per share and five (5) shares required for membership. The existing membership shares of each credit union will be transferred and maintained in the new credit union at par value. In addition to common shares, other share classes include Surplus Shares.

6.6 Member Approval

The partners propose the voting process for members will be launched by each credit union at meetings held in June 2024 and remain open for ten business days. It is further recommended that voting take place electronically and within branches. The expected voting period for all three credit unions is June 3 to 14, 2024.

6.7 Summary

The new credit union will be designed to meet membership approval, all regulatory minimum standards, and aspire to governance and management excellence.

PART SEVEN: DUE DILIGENCE

The management teams of the three partners undertook an assessment of their respective operations to ensure there is full disclosure regarding the nature of the assets, liabilities and risks that will be combined to create the new credit union.

7.1 Due Diligence Approach

The partners adopted a collaborative approach with Atlantic Central supporting a platform and process for the partners to share, access and synthesize the information.

With a collaborative approach, the three partners worked together to review each other's operations. Subject matter experts from each credit union participated on teams to complete reviews of specific business areas. The scope for the reviews, along with the information gathered in each area was defined by the partners. After reviewing all the information, each team completed their assessment which formed the basis for the summary report. their review and then worked with each other to assess.

The advantage of the collaborative approach is that it enabled a focused and efficient process and leveraged the knowledge of existing staff. These same staff members can now bring insights from the process to the integration work that will be defined if the merger proceeds.

7.2 Business Areas Reviewed and Assessment

Each credit union reviewed their partners' records, policies, and practices in the following areas:

1. Finance & Accounting
    a. Capital Risk
    b. Earnings Risk
    c. Liquidity Risk
    d. Financial Risk Overall
2. Loans Administration
    a. Credit Risk
3. Risk Management & Compliance
4. Human Resources
5. Systems & Information Technology
6. Reputation & Community
    a. Community Investment
    b. Marketing
    c. Membership

Based on the information provided, the Management teams rated each individual credit union in two different states: Current and Trending. In the Current state, each section for each Credit Union was assessed as Strong, Acceptable, Needs Improvement, or Weak. In the Trending state, each section for each Credit Union was assessed as Stable, Improving, or Deteriorating.

7.3 Overall Findings

Based on the credit unions disclosures and discussions, Management has concluded there are no areas of material risk or concern that would suggest the merger between Community Credit Union, New Ross Credit Union and Victory Credit Union should not proceed.

PART EIGHT: FINANCIAL ANALYSIS

A financial analysis was conducted to assess the potential of the merger. The three credit unions were also analyzed individually to compare the merger and no-merger scenarios. This analysis assesses the potential financial opportunities of a merged entity. This analysis is aligned with the strategic goals and opportunities available to the new credit union and reflects major operational initiatives that will need to be implemented in the first few years of the new credit union.

8.1 Economic Context

The Bank of Canada has increased the benchmark overnight rate ten times between March 2022 and December 2023, from 0.25% to 5.00%. The rapid rise in the overnight rate and market rates has benefited the bottom line of most credit unions as loan, mortgage, investment, and liquid asset yields jumped. We now expect credit union financial margins to flatten and possibly decline as rising deposit costs filter through credit union balance sheets. Interest rates are expected to remain stable and possibly decline in 2024 as projected inflation approaches the Bank's target level. This could put additional pressure on financial margins.

The World Health Organization has removed COVID-19 as a global pandemic. However, other risk factors like the wars in Ukraine, Israel-Hamas, global tensions, and a continued debt ceiling showdown in the US could impact economic activity and interest rates.

Credit unions will need to be highly adaptive to shifting economic and market trends and invest in new technology to remain competitive. In this environment, size can facilitate a greater capacity for a credit union to adapt to the challenges and opportunities available now and in the future.

8.2 Merger Assumptions

The following assumptions were used for the merge and no merge scenario:

	Year	Merger Combined	No Merger Combined
Asset Growth	2024-28	10.00%	6.00% *annualized*
Loan Growth	2024	10.00%	5.00%
	2025	10.00%	7.00%
	2026	11.00%	6.00%
	2027	12.00%	6.00%
	2028	13.00%	7.00%
Expense Growth Rate*	2023	11.55%	11.55%
	2024-28	4.40%	4.40%
Member Rebate/Dividend (% of operating margin)	2024	4.75%	No rebate
	2025	4.22%	
	2026	2.60%	
	2027-28	2.50%	

Note: In both the merge, and no merge scenarios, interest rates are kept the same, the expense assumptions **include costs for core banking conversion (based on 2023 budgets). They **do not include** additional spending on other possible digital technology projects that may be required in the future.*

8.3 Amalgamation Expenses & Savings

The financial projections for the merger take into consideration one-time expenses associated with the merger planning including business consulting, compliance, legal, and regulatory filings.

The projections also anticipate the merger will result in new savings and expenses as the credit unions consolidate operations. These include:

- annual savings for board and audit efficiencies beginning in 2026
- reductions in other revenue as the credit unions deliver more competitive pricing for banking services
- increases in HR costs with staff increasing from 65 employees in 2024 to 71 by 2026. The new roles include finance, marketing and human resources and additional branch resources
- increases in premises as the new credit union expands its service network with two new locations

8.4 Financial Analysis

The new credit union is projected to reach $504 Million in total assets in 2028. Equity levels over this much larger asset base is 7.21%. The new credit union will also be more profitable – generating $5.1 million in surplus in 2028. This represents a gain of 33% in surplus when the three organizations are combined versus when they remain independent.

Projections – 2028	Merge Scenario	No Merge Scenario	Merge Benefit
Surplus ($000s)	**$5,159**	$3,701	+$1,458
Return on Assets	**1.07%**	0.91%	+0.16
Efficiency	**65.2%**	72.4%	+7.20%
Equity	**7.21%**	7.82%	-0.61%
Loan to Assets	**77.2%**	73.7%	+3.50%
Total Assets ($000s)	**$504,643**	$420,237	+$84,406

8.5 Summary

Key financial indicators show the positive impact of a merged credit union based on the assumptions used. A merged scenario offers better opportunities to improve financial revenue and surplus than credit unions can on their own.

Improving efficiency and return on assets ratios through a merger enables the merged credit union to better respond to market opportunities and will also be better positioned to invest in large capital projects and digital initiatives, which are required to remain competitive.

PART NINE: KEY INITIATIVES & GOALS

Working collaboratively, the partners envision a future credit union that is built from the best characteristics each organization can contribute, and maintains an unwavering commitment to service, advice, and community.

9.1 Strategic Goals

The new credit union will focus on being operationally competitive and differentiated through a personal and community-based approach. Within the first five years, the organization aspires to achieve the following goals:

Financial	Increase annual surplus and reinvest it into the business to create and share value with our members and communities.
Members	Retain and grow member relationships with a broader offering of services, access to specialized expertise and advice, and community investment.
Staff	Attract and retain talented staff committed to serving members and contributing to a growing credit union organization.
Community	Grow and evolve Cooperative Social Responsibility (CSR) to create meaningful community and regional impact.

9.2 Short-term Focus

Within the first three years of the merger, the credit union will focus on integration and building the strategic competencies that will differentiate its competitive position and create member value. The priority projects in the short-term include:

- Operations: Aligning and modernizing processes and system integration
- Staff Engagement and Human Resources Planning: Staff development and training, and alignment of HR compensation and benefits.
- Risk Management
- Business Development
- Member and Community Engagement

9.3 Long-term Focus

In the long-term, and as the integration efforts winddown, the credit union will focus on business development and growth, and expanding the services it can offer to members and communities.

9.4 Key Milestones

The following schedule of key milestones are proposed for the first three years of the merger. This list of milestones will continue to be enhanced and evolve, as appropriate, to support the strategic goals of the credit union.

First Year (2025)

- Marketing and business development plans are developed
- Integration plans are finalized
- Banking system and member service plans are developed
- Staff compensation and benefits are aligned

- Human resources plan and organizational structure is finalized

First Anniversary (January 2026)

- Credit Union identity is aligned across all physical and digital channels
- Business development and marketing plans are finalized
- Membership and asset levels are retained

Year Two (2026)

- First AGM for new credit union held
- Products and pricing are integrated
- Strategic planning session held
- Community engagement strategy is finalized
- Employee engagement assessment is initiated
- Performance targets for year two are realized

Year Three (2027)

- Integration plans have been fully implemented. Outstanding integration activities remaining are transitioned to ongoing development
- Member satisfaction and loyalty assessment is initiated
- Performance targets for year three are realized

Year Four (2028)

- Performance targets for year four are realized

9.5 Summary

The merged credit union will leverage the best from each organization and create a more efficient and effective operation that results in higher levels of service, growth, and financial sustainability.

The short-term focus for the new credit union will be integration. Longer-term, the credit union will be strongly positioned to focus on business development and operational investments that deliver greater value to members.

PART TEN: IMPLEMENTATION PLAN

Once the merger is confirmed to close[1], steps will be taken to integrate operations.

In the first year of operation, the merged entity manages early changes with minimal disruption to member service. Long-term, the implementation plan will focus on how to integrate core functions (listed below), while designing an organization optimized to perform most effectively in a highly competitive financial services sector.

1. Finance
2. Loans and Deposit Administration
3. Risk Management & Compliance
4. Core Banking, Digital and Information Technology
5. Human Resources
6. Member Service (Retail / Commercial)
7. Payments Administration
8. Marketing

[1] Subject to the merger receiving all necessary approvals. The proposed timeline for the approval process is April to December 2024.

PART ELEVEN: MERGER RISKS

An assessment of some of the risks associated with the merger were identified as part of the due diligence process. The table summarizes some potential risks to the proposed merger, along with how the risks will be managed and mitigated.

	Risk	Description	Approach to manage and mitigate
	Merger Process	A merger is a large undertaking for all three credit unions and many key items must be addressed correctly from the outset.	The partners managed this risk by: Establishing a Joint Partnership Committee (JPC) Establishing regular communication with all partner boards and management teams Engaging Atlantic Central and external merger consultant to lead a robust merger planning process
	Expected Financial Benefits May Not Materialize	The financial projections are based on the occurrence of future events, which by nature are uncertain	The financial projections are based on reasonable, conservative assumptions. They also include realistic expectations for future growth and operating costs.
	Due Diligence Risk	Failure to disclose details such as future liabilities or material risks	The due diligence process was an open and transparent process for all credit union partners. All partners agreed to the disclosure of all documents and material risks.
	Impact on Operations	Partners' ability to operate as usual while preparing for integration	All partners are committed to developing integration plans and engaging expertise when required to ensure sufficient resources are available to run day-to-day operations.
	Technology and Core Banking Migration and Integration	Risk associated with running multiple systems and platforms during integration phase and at the same time prepare for a core banking system change. Further timelines and resources to integrate systems are reliant on the planning driven by key partners	Effective transition and integration plans will be developed to minimize disruption while ensuring data quality, member service and governance. Regular meetings with external suppliers will also be established to ensure there is strong alignment with our planning timelines.
	Culture Alignment	Risk associated with integrating three organizations	The focus for the new credit union is to build for the future and establish a vision that unites all stakeholders on shared goals and values.
	Loss of Local Goodwill	If the merger proceeds, the credit unions will lose their local identity and relationships	The credit union will maintain local presence and work in partnership to strengthen local connections and value.
	Loss of key staff	Potential to lose staff during key transition period.	The due diligence process helped identify key roles that will inform a staff retention plan.
	Union Influence and Employee Culture and Labour Relations	Risks of integrating cultures and risk of union growing influence and bargaining power. Further if the unionized employees perceive the merger to have disadvantages, they may mobilize to vote against it.	Key principles of the proposed merger are to treat employees fairly and to respect the collective bargaining process. The merger will maintain a unionized environment as it exists with Community and a non-unionized environment as it exists in New Ross and Victory. There will be open communication around the impacts of the merger on employees. Open and ongoing communication as well as prioritizing the bargaining process are risk mitigation steps to ensure there is clarity around employee impact.

	Risk	Description	Approach to manage and mitigate
MERGER APPROVAL	Stakeholder Impact Prior to Completing the Merger	There is a risk that stakeholders will have a negative reaction to the uncertainty and potential impact of the transaction.	The partners are taking time to carefully plan communications and share with stakeholders as needed and when ready. Employees were informed after the Concept Paper was approved. This was done in large part to give key employees time to learn about the benefits, impacts and possibilities. The partners are committed to continued communication and engagement of all stakeholders leading up to the vote and through the integration.
	Board Approval	Failure to approve board resolution recommending merger	JPC members regularly updating Boards with all merger activities and decisions.
	Regulatory Approval	Failure to obtain regulatory approval	The partners are regularly engaging the regulator to ensure all key requirements will be met.
	Member Approval	Member approval is required for the merger to proceed	Communicate to members a case for change that is fulsome, informative, and engaging.

PART TWELVE: RECOMMENDATION

Resolution

Members of the Joint Partnership Committee recommend each of the three boards of directors consider the following resolution:

WHEREAS

A. The board of directors (the "Board") of [insert credit union name] has reviewed the business case (the "Business Case") presented to it by their members of the Joint Partnership Committee in connection with the proposed merger of Community Credit Union (Community), New Ross Credit Union (New Ross) and Victory Credit Union (Victory) (the "Partner Credit Unions");
B. The Board has determined the Business Case, among other things:
    1. Describes a future state that has the potential to be better for our members;
    2. Is respectful of the successes and cultures of each of the Partner Credit Unions;
    3. Builds on the strengths of each of the Partner Credit Unions;
    4. Preserves and builds upon the goodwill of all community stakeholders involved; and
    5. Demonstrates a thorough due diligence process was undertaken and did not identify any material areas of risk or concern that would suggest that the merger between the credit unions should not proceed; and
    6. Shows the potential to meet the tests for stewardship responsibility to the existing members of the Partner Credit Unions.
C. The Board wishes to approve the Business Case with the understanding the next steps in the process includes:
    1. The Credit Unions Act (the "Act") requires the Partner Credit Unions to execute an Amalgamation Agreement for their amalgamation and the incorporation of the new amalgamated Credit Union.
    2. The new amalgamated Credit Union will require new Bylaws.

BE IT RESOLVED THAT

(a) the Board of ___________ Credit Union approves the Business Case dated XXXXX as presented;
(b) The [CEO/GM] and Joint Partnership Committee are authorized to complete the Amalgamation Agreement and Bylaws of the of the amalgamated Credit Union in accordance with the Act and the Business Case;
(c) The [CEO/GM] and Partnership Committee are authorized to submit the Amalgamation Agreement and Bylaws of the amalgamated Credit Union to the members of __________ Credit Union and undertake the required steps to obtain Regulatory approval for the amalgamation of the Partner Credit Unions.