



**BETTER TOGETHER.
VALUE FOR ALL.**

**EAGLE RIVER CREDIT UNION AND
LEADING EDGE CREDIT UNION
AMALGAMATION BUSINESS PLAN**

APRIL 2021

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EXECUTIVE SUMMARY

The amalgamation of Eagle River Credit Union and Leading Edge Credit Union will create a stronger credit union for current and future members. With nearly \$320 million in assets and over 17,000 members, the merged organization is the second largest credit union in Newfoundland and Labrador and ensures locally owned banking services and solutions remain a competitive and accessible choice for communities for years to come.

The two credit unions are already strongly aligned, with shared values, community roots, and purpose-driven cultures. Working as one entity, they can develop a stronger business model that enables more opportunities to invest in their communities and in services that add value to all members and employees.

The new credit union will be committed to maintaining its combined network of 11 locations and strengthening digital banking services to bring more choice and convenience to all members. Staffing levels will also be maintained; as part of the normal course of business, we expect some reductions over the next three years through retirements and attrition. Further, investments will be made in professional development and training and offer exceptional career opportunities for staff.

From a financial perspective, the amalgamation will ultimately have a positive influence on revenue growth, operational efficiency, sustainability, and member equity. The improved financial position will enable the new credit union to be more resilient in tackling economic turmoil over the short-term while also being better positioned to continue investing in capital projects and digital initiatives that are required to remain competitive over the long-term.

In summary, the new credit union will have a greater ability to invest in ways that matter most to the members and communities served. It will do this while remaining committed to the co-operative values and ensuring the friendly, professional financial service members have come to expect remains strong and enduring.

1.0 INTRODUCTION

As two credit unions serving communities across Newfoundland and Labrador, Eagle River Credit Union and Leading Edge Credit Union share a common history and reputation for growing their business by being responsive to the changing needs of their members and communities. In so doing, they have invested in their employees to ensure members can access the trusted advice they need to achieve their financial goals and invested in their communities to make them stronger for everyone.

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. (CU Management, 2020) It is within this context that Eagle River Credit Union and Leading Edge Credit Union entered discussions to amalgamate. As one larger entity, the credit unions believe they will have the foundation required to sustain and grow their business for generations to come.

Merger discussions began at the Board level in 2019. With both credit union boards believing an amalgamation presented a strong opportunity for shared growth, Atlantic Central was engaged to facilitate further discussions and facilitate the creation of a business case. While the desire to consider a merger and the start of the work pre-dates COVID-19, the business case was developed during the pandemic and reflects both the harsh economic realities and the opportunities that it made clear.

This business case has been prepared to provide the information needed to make an informed decision. The assessment determined a high degree of alignment already exists between the two credit unions with respect to member service, products, systems, and culture, and that there is strong potential for the organizations to sustain and grow member value by combining resources. The sections and appendices that follow provide a comprehensive review of what the merger will enable for future market growth, operating structure, business model and financial sustainability.

In essence, the business plan lays out what the merged credit union could look like and achieve, in contrast to the status quo. With the ever-changing landscape of financial services, it is important to consider that the credit unions will have to continue to evolve to remain sustainable over the long term.

1.1 Benefits of the Merger

The amalgamation of Eagle River Credit Union and Leading Edge Credit Union will create a stronger, more sustainable credit union for all – existing and future members, employees, and the community it serves. It also enables the realization of important benefits for internal operations, the credit union system and long-term financial health. The following benefits are described more fully throughout this report:

Members: Enhanced services and banking solutions

Working together, the merged entity will be able to strengthen competitive products and services for all members.

- The combined network with 11 locations from Port aux Basques to Happy Valley Goose Bay will enable greater access to banking services and financial expertise.
- The new credit union will continue being at the forefront in adopting technology and service offerings that respond to current and future member needs
- A local and community-focused financial institution, the merged entity will ensure a strong sustainable credit union continues to serve Newfoundland and Labrador for years to come.

Employees: An employer of choice

The merged entity will become an employer of choice – retaining and attracting talent, leveraging the best practices from both organizations to build a combined work and learning culture focused on exceptional member service.

- **People Planning:** A merged entity is in a better position to attract, retain and develop succession plans for staff. With this increase in scale the new credit union can continue to invest in employees.
- **Career and Professional Development:** Enhanced training opportunities to support employees career paths and development.
- **Expertise:** The new credit union remains committed to learning, supporting cross-training, and developing specialized areas of expertise.

Community: Commitment to living co-op values and growing local communities

Working together, the new organization will have greater ability to invest in ways that make their communities stronger for everyone.

- As a combined entity, the new credit union will have more opportunities to participate in regional partnerships and invest in initiatives that create meaningful impact.
- The new credit union can leverage its combined resources and efforts. By being present in the community and coordinating with community partners, members and employees, the new credit union will raise awareness of where it invests and why it matters.
- **Local honest banking values are stronger than ever.** Both credit unions recognize their branch locations serve many communities and a diversity of needs. The new Credit Union will remain committed to ensuring members will continue to benefit from member first banking values and access to locally based banking solutions in their community.

Internal: Doubling the resources allocated to common goals

The combined operating capacity of a new merged entity will enable new opportunities to serve members in ways that are not achievable by each credit union on their own. This includes greater lending capacity and ability to develop strategic partnerships to further develop business lines like wealth management, insurance, commercial and personal lending.

Credit Union System: Ensuring a strong credit union system for Newfoundland and Labrador

One merged entity helps build a strong and sustainable credit union presence for the region. Ensuring access to local community-based banking options is good for the members served today, and the members it will serve tomorrow.

Financial Strength: A stronger Credit Union investing for future growth

The merged credit union will offer an opportunity 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 strategies. 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 growth over the long-term.

1.2 Why Merge Now

In addition to the benefits outlined, a merger also helps both credit unions address other considerations – economic, competitive, and regulatory. Today, 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 in the financial services sector. The new competitive landscape also creates risk for the long-term viability of local community-based credit unions unless they are willing to explore new ways of working together to create value for their members.

Economic Considerations

Serving communities across Newfoundland and Labrador, the two credit unions face similar economic challenges. When they started considering the possibility of a merger in 2019, it was clear the future would bring greater competitive and regulatory challenges. Then, as work began to assess the opportunity, volatility in the global oil industry and the impact of COVID-19 weakened the provincial economy in several areas:

- **Public Spending:** reduced provincial revenues and increased expenses will result in higher deficits
- **Employment:** Post-pandemic growth has been concentrated in self-employment and part-time positions. Further employment levels in sectors that are key to the region remain weak.
- **Interest Rates:** The uncertainty around COVID-19 and economic recovery is keeping interest rates at historic lows. This low-rate environment is not expected to change in the near term and limits revenue growth for financial institutions.

From a demographic perspective, both credit unions serve communities which have:

- an aging population and workforce
- a shrinking population as outmigration of people overshadows any growth in immigration
- low population density, with the population living across a large geographic footprint

Both credit unions realize the challenges they face in growing their membership, in an environment marked with continued low interest rates and a shrinking and aging population. They also recognize there are significant untapped market opportunities within their communities which one merged entity can more effectively access for growth.

Competitive Considerations

Competition and digital disruption have created new challenges for credit unions in growing their business. The requirement to invest in new digital 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 also creates significant disruption in the competitive landscape, at one end lowering barriers to entry for new FinTech's and payment providers and at the other end rewarding existing players like the Big Banks that have scale and capacity to invest in new digital banking services and solutions.

As a merged entity, Eagle River and Leading Edge would be in a stronger position to invest for growth while maintaining their local community involvement, services, and co-operative banking values.

Regulatory Considerations

The costs to meet the increased regulatory requirements for Newfoundland and Labrador credit unions continue to grow. These include costs for anti-money laundering, compliance, cyber security risk management, staff training, and general risk management. Working as one merged entity, Eagle River Credit Union and Leading Edge Credit Union can eliminate duplication and optimize resources required to meet all regulatory requirements. Moving to a single board will reduce the cost of onboarding and training directors and other board related expenses.

2.0 FUTURE FOCUS: GROWING STRONGER TOGETHER

2.1 Vision

Grounded in their co-operative values, Eagle River Credit Union and Leading Edge Credit Union are strongly aligned in their focus to deliver valued financial solutions and aspirations 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, developing a stronger business model that enables more opportunities to invest in community and in-branch services that add value to all members and employees for years to come.

	Eagle River Credit Union	Leading Edge Credit Union
VISION	We will be a full-service credit union with a strong community image achieved through leadership, building strong relationships with customer owners and the larger community, expansion, and amalgamations.	At Leading Edge Credit Union, we strive to assist all our members to meet their financial goals by providing advice and services with a focus on the members’ best interests.
MISSION	Eagle River Credit Union, having financial stability, will promote social and economic development by providing quality financial service in a democratic and co-operative environment.	To be the financial institution of choice by providing quality financial products and offering exceptional member value through knowledgeable and professional staff while adhering to the co-operative principles and values.

Credit Union History

Eagle River Credit Union was formed in 1984 by a group of committed residents and organizations working in co-operation with the Labrador Fishermen’s Union Shrimp Company Ltd. The group was united in their goal of ensuring access to banking and financial services in the communities along the Labrador Coast. Since then, Eagle River has expanded organically as well as through three amalgamations to further meet the needs of their surrounding communities. It now has six branches located in L'Anse au Loup, Mary's Harbour, St. Anthony, Port Saunders, Happy Valley-Goose Bay and Deer Lake. As a full-service financial institution, Eagle River Credit Union has over 8,000 members and \$175 million in assets.

Leading Edge Credit Union was formed in 2009 with the amalgamation of the Codroy Valley Credit Union and Brook Street Credit Union. Both former credit unions had long enriched histories of serving their communities, which continues today under the Leading Edge name. Leading Edge has five branches serving communities dating back to the 1930s located in South West and West coast of Newfoundland – Port aux Basques, Doyles, Corner Brook, Jeffrey’s and St. George’s. Leading Edge Credit Union has over 8,000 members and \$130 million in assets.

Strategic Goals

Both credit unions have similar growth strategies:

1. Growing Membership – attracting new retail and commercial members
2. Becoming the primary financial institution of choice for their members and growing their overall business held with existing members (i.e.: products per member and business per member)
3. Sustainable profitable growth – managing expenses to ensure positive surplus is generated each year for the member-owners
4. Investing in community to create positive impact

2.2 Market and Member Growth Strategy

The new merged entity will seek to grow its market and member business by being rooted in an understanding of member needs, member value, and offering the banking solutions that best achieve members’ financial goals.

Personal service and exceptional everyday banking solutions

Eagle River Credit Union and Leading Edge Credit Union have developed strong relationships and each serve members with similar financial needs and goals.

Members from both organizations 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 that both credit unions are committed to growing as part of the merged organization’s value proposition.

Both credit unions recognize, and are committed to, growing the business by maintaining strong engagement with current members. While both credit unions enjoy a loyal base of members, they also acknowledge loyalty is always at risk. 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.

MEMBER PROFILE	EAGLE RIVER	LEADING EDGE
Personal Members	7,383	7,770
Commercial Members	823	684
Personal Membership: Average Age	48	49
Personal Membership: Total Business / Member	\$26,426	\$27,860
Personal Membership: Products / Member	2.15	2.01
Personal Membership: Overall Member Satisfaction	86%	95%
Personal Membership: Consider credit union to be my primary FI	73%	69%

Source: Member Profile & Member Satisfaction Surveys, 2020 / Eagle River Credit Union & Leading Edge Credit Union

Growing with current and future members

The merged entity has a strong opportunity to grow by focusing on increasing wallet share with current members and developing new business through referrals and strategic partnerships, strengthening community presence, and expanding lending capacity.

Retail banking: attracting new members and business

There are opportunities to attract new members in all product categories and all communities.

Based on Environics’ data that both credit unions have for the geographic area, the percentage of households the merged organization serves is 33 percent for deposits, 13 percent for consumer debt and 11 percent for mortgages. By product this means there are more than 25,000 households that have deposit and consumer debt accounts and more than 9,000 households with mortgages that are not currently held at either credit union. In terms of market value, this untapped household opportunity represents more than \$2.9 billion in combined assets for all three product lines (deposits, consumer debit and mortgages). (Environics Analytics, 2018)

One strength both organizations bring to a new merged entity are strong relationships and referral scores from their current members which means there is good potential to attract new members through loyalty and referral programs.

Retail banking: growing business with current members

In addition to attracting new members, the new credit union has growth potential with current members.

- **Products per Member:** Using products per member as a proxy for wallet share, the average products per member for the combined credit union is 2.08. According to RFI Group’s research, consumers in Canada hold 7.1 products across all banking relationships. (The Financial Brand, 2016) While it is not realistic for members to hold 7+ products with one credit union, the RFI data suggests there is room for the merged entity to grow beyond its current average.
- **Wallet Share:** Wallet share is a measure of the business held with current member households in comparison to the total business each household has overall. The credit unions currently hold 40 percent of their current members’ deposits and 35 percent of their consumer debt.

Top markets served by both credit unions*	Households Currently Served	Households Not Currently Served
Deposits	8,728 (33%)	26,089
Consumer Debt	3,639 (13%)	27,747
Mortgages	958 (11%)	9,060

**Source: Environics Analytics. Note The household information reflects the top 10 markets served by each credit union. It does not include the full scope of all markets served.*

Enabling Member and Market Growth

Eagle River Credit Union and Leading Edge Credit Union have developed strong relationships with their members. To harness the full opportunity to grow the business with current and future members, the merged entity will focus on the following priorities.

Advice-based service culture

The new organization will continue to have a culture focused on serving members with advice-based solutions and services that can be consistently delivered across all channels.

- Adopt a relationship management approach: Employees will serve the holistic needs of members and their preferred service approach (i.e., community location and service channel).
- Develop people leaders and coaches to support and mentor staff and training programs to deepen product and service knowledge.

Personalized member experiences using data insights and digital solutions

- Evolve marketing approach and use of digital solutions to deliver tailored and targeted marketing
- Utilize data to identify unmet member needs and emerging service opportunities
- Service strategy will be responsive to members in all channels
- Digital Services: Optimize how technology is used to support how the organization works to serve members and grows the business.

2.3 Products & Branch Service Delivery

There is a strong alignment in the products and services offered by both organizations. Further the merged entity will seek to leverage and evolve existing branch network to support business development, product development and service delivery across all channels.

While the merger will not create any immediate impact to the products and services offered to existing members, the principles listed below will guide how the merged entity develops and implements its future portfolio.

Minimizing Member Change and Disruption

- In the few cases where change does occur, the merged entity is committed to providing the responsive, high-quality service members expect, and be available to discuss the change with them.

Members will not pay more overall for any product or service as a direct result of this merger.

- Changes are always a normal part of any business practice. The new merged entity will be responsive to changing needs in the marketplace and take steps when needed to ensure it maintains and grows its competitive market position.

Strategic Local Focus

- The credit unions understand the members needs and strengths in each location and can adapt their strategy to be responsive to each branch context.

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 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 is stronger and will enable growth and good business development.
- Innovation: The merged entity strengthens expertise and enhances capabilities to continue to be responsive and quick to market for new products and service offerings.

Future Branch Network

- Ease of business and consistent service: The merged entity is committed to maintaining the existing network of locations. This network will strengthen member confidence and helps the new organization become the financial institution of choice for even more members in the communities it serves. To support future growth, the new credit union will continue to strive to become easier to do business with and adopt service standards to ensure a consistent experience is delivered across all branches and touchpoints.
- New services and expertise: Working together, the merged organization can explore the opportunity to expand its service offering – for example: afterhours service, and online support. It will also have enhanced opportunity to further develop specialized expertise – examples: Collections, Commercial Lending, Taxation Services and Internal audit.
- Community & Local Presence: The physical branch locations help maintain local connections and knowledge of what is needed in the communities served.

2.4 Cooperative and Social Responsibility (CSR)

1. Governance

Both Eagle River and Leading Edge Credit Unions are committed to the implementation of a Cooperative Social Responsibility Policy and are already closely aligned in how they approach and integrate CSR into their credit unions. The CSR principles of both entities have been merged into purpose statements to demonstrate how closely they are aligned.

The new credit union will have a Cooperative Social Responsibility Policy and framework that clearly identifies the pillars or purpose statements which will integrate social, environmental, and economic concerns into its values, culture, decision making, strategy and operations. This framework will guide the investment and allocation of resources for the CSR initiatives.

2. CSR Funding

Currently, Eagle River Credit Union allocates a portion of their retained earnings to a CSR reserve; while Leading Edge Credit Union funds their CSR as a budgeted allocation based on annual performance and reserve position.

The new credit union will seek to adopt the approach of allocating from retained earnings to the CSR reserve to fund activities in the following year. The funds will be used to support activities and projects that are planned, purposeful and targeted. Where possible the new credit union will provide donations

of funds, time, resources, and in-kind services to charitable, non-profit, and/or community initiatives with the intention of giving back from profit for the greater common good of our communities.

3. Measurement

The new credit union will adopt a balance scorecard approach to measure the impact of how well practices are integrated throughout the business operations and decision-making framework, as well as on the delivery of social, economic, and environmental benefits to members, communities and other stakeholders.

4. CSR Commitments

Eagle River Credit Union does not have any contractual agreement with any organization for CSR specific initiatives: Leading Edge Credit Union has one commitment – a non-interest-bearing mortgage for Growing our Future Childcare Co-operative (GOFCC).

The new credit union will honor the commitment and make all reasonable efforts to continue supporting other initiatives that are currently in effect, and those anticipated to be adopted in 2021.

Initiative	2020	2021
Employee Volunteer Hours / Volunteer Days		Both CUs
Subsidized account packages for non-profit organizations		Both CUs
Scholarships		Both CUs
Warm Coats for Kids	ERCU Only	Anticipated to be adopted by LECU in 2021
Kids Eat Smart: School Breakfast Program	ERCU Only	LECU has committed volunteers and funding support
Eco Loans: forfeited revenue / discounted loan rates for green renovations, hybrid vehicles	LECU only	Anticipated to be adopted by ERCU in 2021

3.0 FUTURE FOCUS: STRUCTURE & BUSINESS MODEL

The new credit union will be guided by a single Board and led by a single CEO. The first one to three years of operation for the new credit union will experience change as operations and cultures are melded and aligned to meet the emerging needs of the credit union moving forward.

3.1 Corporate Office

In recognition of the vast geographic area the new credit union will cover and its importance to the communities it serves, we will have a decentralized head office structure, meaning our corporate staff will work in various locations. The legal address of the new credit union will be 8 Branch Rd PO Box 29, L'Anse au Loup NL A0K 3L0.

3.2 Corporate Name

The name of the new credit union will be determined following member votes and prior to the effective date of the merged credit union. A process for determining the name of the merged credit union will be developed following the vote, should members vote in favour of the merger. At that time, we would engage a third party to help with that process.

3.3 Operations & Staffing

Organizational Chart

The proposed organizational chart was created in partnership between the two current CEOs and is seen as an effective way to transition the new credit union through the first three years.

Currently, both credit unions have flat organizational charts with senior positions all reporting to the CEO (eight reports at Eagle River and six reports at Leading Edge). This structure requires both CEOs to be frequently immersed in operational initiatives which is not sustainable given the size of the new credit union, the future opportunities, industry changes and challenges that exist.

The proposed organizational structure for the new credit union will add a senior tier of strategic and critical thinkers between the CEO and other staff. The addition of this tier will enable the new CEO to be focused on:

- developing strategy,
- implementing good governance practices and processes,
- representing the credit union and acting as liaison in collaboration efforts with system partners and other stakeholders, as well as
- providing direction and oversight and leading the transition and achievement of the new credit union goals and objectives.

Given the speed and frequency of industry change, and the requirement for successful organizations to be nimble, this enhanced strategic focus will be critical to the sustainability and success of the new credit union.

The two new senior roles will be a Chief Financial Officer (CFO) and a Chief Operating Officer (COO), and each will oversee a center of expertise. The CFO will have responsibility for the financial strategies and operations, risk, and administrative functions of the credit union, and the COO will have responsibility for the employee, branch and community focused strategies and operations. Each of these positions will not only enable, but support decision making through the collective knowledge and expertise provided within their respective centers of expertise.

Under the leadership of the CFO and COO, a series of third tier managers will be responsible for the implementation of strategies under their leadership and be accountable to specific goals intended to move the new organization forward. One of these third-tier managers, will be a new role titled Manager, Employee Experience & Marketing. This position will provide leadership in human resources, marketing, communications and change management, an area for which neither credit union currently has a dedicated management resource.

This proposed new organizational chart promotes sustainability and better positions the new credit union for future opportunities and challenges. It not only enables the CEO to fulfill the strategic requirements of the position, but also more clearly aligns operational strategy with member and employee focused initiatives through centers of expertise resulting in efficiencies while enhancing member service.

The proposed organizational chart is meant to address anticipated requirements of the new organization during the short and medium term. As such, the structure may require alterations during transition to address longer term industry change.

Roles and responsibilities will change as the new credit union grows, and job profiles will be adapted to reflect the revised roles. Some positions may require re-grading to be aligned with the new credit union's compensation philosophy.

See Appendix for an overview of the proposed Organizational Chart.

Location of Work

The new credit union will have a decentralized head office structure. This will allow the organization to draw on the best talent currently available to both existing credit unions. All work options, including remote work, will be considered, drawing on the experience of existing remote and decentralized work arrangements developed by Eagle River Credit Union and by the practices that both credit unions adopted throughout COVID-19.

Staffing

Staffing levels will be maintained; however, as part of the normal course of business, we expect some reductions over the next three years through retirements and attrition. New roles will be created focusing on specialized areas of expertise.

The current CEOs recognize that some jobs will change and will make best efforts to accommodate those whose jobs have changed by providing opportunities and training to assume new roles. The new credit union is committed to working with those individuals toward a mutually satisfactory outcome.

The focus of the new credit union will be to attract and retain the best people to fulfill its long-range goals. In the development stage of the new credit union, the intent is to do its best to accommodate current employees. The credit union will not recruit externally unless, from the job evaluation and recruitment process, it does not have the skills in house. The goal is to ensure the credit union has the best person for the position. Best efforts will be made to help employees progress in their careers, offering opportunities for development, cross-training and upskilling wherever possible.

To support our staffing requirements, we expect to contract Human Resource expertise through Atlantic Central's HR Service Centre. The plan to contract external HR expertise will continue to evolve as we work through the process. Long-term, the new credit union may consider hiring its own HR expertise. Costs over and above current HR personnel expenses are not included in our budgets.

Compensation, Benefits & Personnel Policies

The new credit union will maintain its current salary structures in consideration that both are based on the same regional model. As such, with the addition of three new roles (COO, CFO, Manager, Employee Experience & Marketing and an additional Regional Manager), the combined organization will experience an increase in overall base salary costs equating to approximately \$320K plus 15% for pension, health and dental benefits, EI and CPP. Note, this does not include any anticipated policy line increases for 2021.

While both existing credit unions belong to the Credit Union National Benefits Plan, their Health and Dental benefits are cost shared at different rates. To align the cost sharing an increase will be made to an estimated employer share of 75%. This will be reflected in the budget.

As the new credit union grows, and HR (Human Resources) policies are merged, the salary administration guidelines and model structure will be reviewed to ensure the compensation philosophy that is established, is met and provides levels of compensation that are internally equitable, externally competitive, financially feasible, and that will enable the Credit Union to attract, retain and reward highly qualified individuals.

The new credit union will review all other benefits; travel allowance, incentive pay, vacation, personal and volunteer days, etc. as Human Resource policies are merged and it make all reasonable efforts, following an analysis, to maintain where possible.

CEO Selection Process

A robust and transparent recruitment process will be followed to select the CEO for the new credit union. The process will begin after a successful membership vote and involve an independent third party to manage the recruitment process. The cost of the selection process has not been factored into the HR budget.

4.0 FUTURE FOCUS: FINANCIAL SUSTAINABILITY

4.1 Overview

A detailed financial analysis was conducted to analyze the impact of a merger between Eagle River Credit Union and Leading Edge Credit Union. Both credit unions were also analyzed on their own to compare two scenarios – merger and no-merger.

This is a preliminary analysis to assess the potential financial impact and opportunities of a combined entity. While the goal is to present the best analysis possible, the many variables involved mean that actual results will deviate from projected results. The overall conclusions of the analysis, however, should still be relevant. While the discussion of a merger began in 2019, the financial analysis occurred during 2020, amidst the pandemic and its economic impacts, which are encompassed here.

Economic Environment

The provincial, national, and global economies have been significantly impacted by the COVID-19 pandemic, lowering economic activity in the region, and driving interest rates across the yield curve to some of the lowest levels in recent history. Like all financial institutions, this creates additional challenges for credit unions, including falling financial margins and eroding equity levels. The uncertainty of the length and depth of economic impacts resulting from the pandemic creates additional risk for credit unions, which may require them to take action to continue operations regardless of a merge or no-merge decision.

It is highly anticipated that credit unions will need to be highly adaptive to economic and market trends to remain competitive and to be able to invest in new technologies to serve the demand of members. In this environment, size can facilitate a greater capacity to adapt to the challenges now and in the future.

Merger Assumptions

A number financial assumptions were used for the merge or no merge scenarios. These assumptions were presented to and agreed upon by the credit union CEOs between November 17th and December 8th, 2020.

4.2 Financial Analysis

The results of the financial analysis are shown in the graphs and summary below.

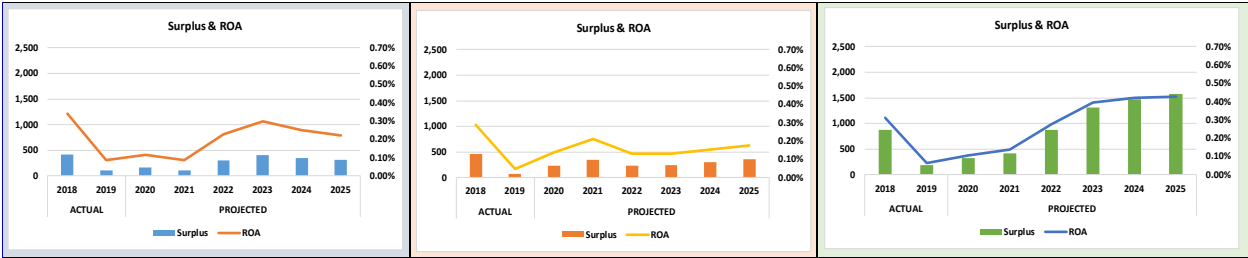
Based on this analysis, the merged scenario results in a surplus increase of nearly \$660K by 2023 and \$869K by 2025. Return on Assets (ROA) increases from 0.39% to 0.43% of total weighted average assets (WAA) between 2023 and 2025 – a 29 basis point and 25 basis point increase respectively when compared to the no merge scenario.

Efficiency also improves with a merged entity compared to the stand-alone option. The ending 2021 combined efficiency ratio is projected to be 91.9% (note for this ratio lower is better). In the no merger scenario, the combined efficiency ratio is projected to be around 93.5% by 2025 but would improve to 82.4% in the merged entity by 2025.

FINANCIAL PROJECTIONS: 2025

	MERGE SCENARIO – 2025	NO MERGE SCENARIO – 2025
Surplus	\$1.57 Million	\$0.68 Million
Return on Assets	0.43%	0.17%
Efficiency Ratio (lower is better)	82.4%	93.5%
Equity Ratio	6.45%	6.05%

Figure 4



The final key indicator, the equity ratio, shows improvement under the merged scenario due to higher expected financial margin and more efficient utilization of the balance sheet. The combined equity ratio is projected to fall to 5.86% at year-end 2021. Under the scenario of no merger, the ratio is forecasted to increase to 6.05% at 2025. However, this improves to 6.45% under the merged scenario, assuming a 5.00% rate of asset growth.

Financial Conclusion

All key indicators show the positive impact of a merged credit union based on the assumptions used. A merged scenario offers an opportunity to improve financial revenue and lower deposit costs through efficient use of the balance sheet (better lending opportunities, utilizing excess liquidity and improved balance sheet strategies) when compared to the single credit unions on their own.

Improving equity, efficiency and return on assets ratios through a merger can enable the merged credit union to tackle economic turmoil now and, in the future, particularly if the low interest rate environment persists. As a result of a merger, you can expect there is an expectation of savings from eliminating duplication in areas such as external audit, board expenses, marketing etc. A merged credit union is also better positioned to continued investing in capital projects and digital initiatives, which are required to remain competitive.

5.0 GOVERNANCE AND DUE DILIGENCE

5.1 Board Composition

The inaugural Board of the new credit union will be comprised of 12 Directors (6 Directors from Eagle River and 6 from Leading Edge). Each credit union will select the 6 Directors to serve on the new board. Initially the board will have a mix of terms of 1, 2 and 3 years but the normal term will be 3 years. Over time the board composition will change from 12 to 9.

5.2 Governance Comparison

The structure and operational characteristics of the boards of each credit unions were compared, allowing the key aspects of the new board to be defined. The comparison revealed that the governance structures and by-laws of both credit unions are very similar. The information is available in the Appendix.

Disclosures

Each board prepared a package of relevant information that is not public knowledge, due to the sensitivity and confidentiality of the information, but worthy of being disclosed and shared with the other board. The information was reviewed separately by each board to help in their decision whether to recommend amalgamation to their membership.

5.2 Merger Risks

Both credit unions have experience working through past mergers and acknowledge the risks and effort required to succeed. A risk assessment was done which identified and action plans to mitigate them; these risks and action plans will be monitored through the merger process.

6.0 CONCLUSION

The reasons to consider changing can be summed up in two groups – the competitive forces that are driving all credit unions to new levels of service and the opportunities Eagle River Credit Union and Leading Edge Credit Union to achieve more together than is possible separately.

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 credit unions for greater success in the future.

The credit unions have demonstrated a strong alignment in their values and vision for how this amalgamation enables them to better serve their members, employees, and communities. This cultural alignment along with each credit union's previous merger experience provides a solid foundation for employees to embrace the opportunities for growth that come with change.

APPENDIX: CSR PRINCIPLES

GOVERNANCE: Our Co-operative Social Responsibility (CSR) policy will guide the integration of our co-operative principles and values into every aspect of our business operations and decision-making framework.

MEMBERS: Strong individuals, families, and communities are the building blocks for a strong Newfoundland & Labrador. Our credit union will promote the financial resilience of our members and their communities through our products, services, and social responsibility activities.

COMMUNITIES: As a member-owned and democratically controlled financial co-operative, our success is linked to the success of our communities. We are committed to investing financial and nonfinancial resources to contribute to the sustainable wealth and well-being of our communities.

ENVIRONMENT: Our credit union is committed to supporting and enhancing environmental sustainability both within our operations and throughout our communities.

CO-OPERATIVES: Our credit union will contribute to a strong and resilient co-operative sector. We will leverage our resources to promote and uphold our co-operative values and principles through education, leadership and collaboration.

EDUCATION: Our credit union believes that education is foundational to the economic and social stability of our communities. We will leverage our financial and non-financial resources to support access to education and financial literacy to empower all members of our communities.

APPENDIX: ORGANIZATION CHART



APPENDIX: FINANCIAL INFORMATION

Summarized Financials

Financials		(\$ '000)						
		2019 Actual	2020 Projected	2021 Projected	2022 Projected	2023 Projected	2024 Projected	2025 Projected
Cash & Investments	Assets	67,134	86,332	63,632	64,322	65,022	68,716	72,573
Net Loans after allowance		213,578	214,688	231,810	246,382	261,683	274,767	288,506
Fixed Assets		5,474	5,199	4,944	4,702	4,471	4,252	4,043
Other Assets		2,193	2,346	2,302	2,417	2,537	2,664	2,798
Total Assets		288,379	308,566	302,688	317,822	333,713	350,399	367,919
Deposits	Liability	268,681	287,594	282,115	296,221	311,032	326,584	342,913
Other Liability		2,860	3,574	2,828	2,812	2,398	1,866	1,285
Total equity		16,837	17,398	17,744	18,788	20,283	21,949	23,721
Total Liability		288,379	308,566	302,688	317,822	333,713	350,399	367,919
Financial Revenue	Income Statement	11,277	10,748	10,946	11,394	12,045	12,649	13,153
Other Income		3,826	3,300	3,300	3,300	3,300	3,300	3,300
Total Income		15,103	14,048	14,246	14,694	15,345	15,949	16,453
Financial Expenses		2,782	2,622	2,379	1,472	1,116	1,172	1,231
Operating Exp & Provision		12,090	10,875	11,178	11,769	12,039	12,316	12,600
Tax / Dividend		43	220	275	582	876	984	1,049
Total Expenses		14,915	13,718	13,833	13,822	14,031	14,473	14,880
Surplus	188	331	413	872	1,314	1,477	1,573	

Financials		% of Total Assets						
		2019 Actual	2020 Projected	2021 Projected	2022 Projected	2023 Projected	2024 Projected	2025 Projected
Cash & Investments	Assets	23.28%	27.98%	21.02%	20.24%	19.48%	19.61%	19.73%
Net Loans after allowance		74.06%	69.58%	76.58%	77.52%	78.42%	78.42%	78.42%
Fixed Assets		1.90%	1.69%	1.63%	1.48%	1.34%	1.21%	1.10%
Other Assets		0.76%	0.76%	0.76%	0.76%	0.76%	0.76%	0.76%
Total Assets		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Deposits	Liability	93.17%	93.20%	93.20%	93.20%	93.20%	93.20%	93.20%
Other Liability		0.99%	1.16%	0.93%	0.88%	0.72%	0.53%	0.35%
Total equity		5.84%	5.64%	5.86%	5.91%	6.08%	6.26%	6.45%
Total Liability		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Financial Revenue	Income Statement	3.91%	3.48%	3.62%	3.59%	3.61%	3.61%	3.57%
Other Income		1.33%	1.07%	1.09%	1.04%	0.99%	0.94%	0.90%
Total Income		5.24%	4.55%	4.71%	4.62%	4.60%	4.55%	4.47%
Financial Expenses		0.96%	0.85%	0.79%	0.46%	0.33%	0.33%	0.33%
Operating Expenses		4.19%	3.52%	3.69%	3.70%	3.61%	3.51%	3.42%
Tax / Dividend		0.01%	0.07%	0.09%	0.18%	0.26%	0.28%	0.29%
Total Expenses		5.17%	4.45%	4.57%	4.35%	4.20%	4.13%	4.04%
Surplus	0.07%	0.11%	0.14%	0.27%	0.39%	0.42%	0.43%	

APPENDIX: GOVERNANCE COMPARISON

The following information is taken from each credit union's by-laws and provides a comparison of their governance structures and what is planned for the new credit union.

	EAGLE RIVER CREDIT UNION	LEADING EDGE CREDIT UNION	NEW CREDIT UNION
BOARD STRUCTURE			
Number of Directors	9	9	Initially 12 (6 from each board) moving to 9 over time. Each board will select the 6 to serve on the new board.
Director's term	3 years	3 years	3 years. Initially this would have a mix of 1,2,3-year terms.
# of Directors currently serving	8	9	n/a
# of Directors whose terms end in 2021	3	3	n/a
# of Directors whose terms end in 2022	3	3	n/a
Directors' compensation	Directors \$5,000 Vice Chair \$6,000 Chair \$7,000	All Directors \$3,000	Directors \$5,000 Vice Chair \$6,000 Chair \$7,000
BOARD OPERATIONS			
Eligibility to be a Director	Member in good standing	As per by-laws	Meet the act and regulations.
Election of Directors	Electronic voting announced at AGM.	Electronic voting announced at AGM.	Electronic voting announced at AGM.
Are Director competencies specified (education, experience, certification, skill competencies)	Outlined in request for directors but irrelevant as members decide on directors.	Outlined in request for directors but irrelevant as members decide on directors.	Outlined in request for directors but irrelevant as members decide on directors. Adopt the existing Director onboarding and education processes.
Board Committees	<ul style="list-style-type: none"> • Audit • Building / Properties • Cooperative Social Responsibility • Executive • Governance • Lending • Nominations and Elections 	<ul style="list-style-type: none"> • Audit • Community Impact • Executive • Legislative 	New board will decide what committees are required.
Frequency of board meetings	Monthly - at least 10 regular board meetings, plus AGM and Strategic Planning session	Potentially 6 per year plus planning session	Between 6 and 10 regular board meetings, plus AGM and Strategic Planning session
Credit Union fiscal year-end	December 31	December 31	December 31

Timing for annual meeting and filing of annual return.	As per the act	As per the act	As per the act
Location of annual meeting	Withing the vicinity of the registered address	No restriction, past practice was to move around to areas where the credit union operated.	Ability to move meeting to various branch locations with the option of virtual meetings.
Rules of order to follow.	Robert's Rules of Order for member meetings and board meetings	Robert's Rules of Order for member meetings and board meetings	Robert's Rules of Order for member meetings and board meetings
Latest version of By-laws	August 1, 2018	November 2016	Draft April 2021 (to be finalized upon merger approval)
CREDIT UNION MEMBERSHIP			
Membership eligibility	Anyone can be a member but must be 19 or older: <ul style="list-style-type: none"> To vote To be an officer To be a committee member 	Anyone can be a member but must be 19 or older: <ul style="list-style-type: none"> To vote To be an officer To be a committee member 	Anyone can be a member but must be 19 or older: <ul style="list-style-type: none"> To vote To be an officer To be a committee member
Joint membership allowed?	Yes, but only one vote for joint members.	Yes, but only one vote for joint members.	Yes, but only one vote for joint members.
Associate members?	Defined as: <ul style="list-style-type: none"> Youth (under 19 years old) Student (19-25 years old) Subsidiary business, committee or organization Or as specified in the Regulations Same rights as a member except they cannot: <ul style="list-style-type: none"> Receive loans. Vote Be a Director. 	As defined in by-laws	Defined as: <ul style="list-style-type: none"> Youth (under 19 years) Student (19-25 years) Subsidiary business, committee or organization Or as specified in the Regulations Same rights as a member except they cannot: <ul style="list-style-type: none"> Receive loans. Vote Be a Director.
SHARES			
Minimum number of shares a member must hold.	20 shares at \$5	1 share at \$5	1 share at \$5
Par value	\$5	\$5	\$5
Price of surplus shares	\$1 each	\$1 each	\$1 each
How a financial surplus will be shared with members.	Special Equity (dividend) and/or patronage refund	Special Equity (dividend) and/or patronage refund	Special Equity (dividend) and/or patronage refund
Special by-laws terms worth noting	None	<ul style="list-style-type: none"> Includes a class 2 type of shares. Directors are required to hold 100 shares. 	Include a class 2 type of shares.