CREDIT UNION COLLABORATION

MERGER BUSINESS CASE

Atlantic Edge Credit Union
EasternEdge Credit Union
Hamilton Sound Credit Union

March 24, 2023

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EXECUTIVE SUMMARY

The Boards and Management Teams of Atlantic Edge Credit Union (AECU), EasternEdge Credit Union (EECU) and Hamilton Sound Credit Union (HSCU), 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 2022, the boards of the three credit unions tasked a committee of directors and managers to develop a business case of a potential new credit union that would benefit 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 will 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 strengthens the cooperative values shared by all three partners and enables greater opportunities to build awareness and partnerships that create meaningful impact in communities across Newfoundland & Labrador. Further, with increased regional presence the new credit union is better positioned to support local business development and create potential partnerships to build solutions that uniquely address the needs of Newfoundland & Labrador.

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 strategic partnerships to further develop business in the commercial market and a broader portfolio of insurance and wealth management services.

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

One merged entity helps build a strong and sustainable credit union presence for the province. Ensuring communities can access local community-based banking options and convenient digital banking solutions is good for the members served today, and for the 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 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.

Atlantic Edge: Building from Recent Merger Success

This business case describes what the merged credit union would look like and achieve, in contrast to the status quo. This business case builds on the early success of the Leading Edge and Eagle River merger with recommendations to assume the Atlantic Edge credit union name, CEO leadership and leverage their policy environment. These recommendations are described in more detail in the following pages.

Finally, while this paper outlines a number of factors for the new credit union to consider, it is important to remember 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

AECU, EECU and HSCU are committed to a collaborative approach to enhance the level of service to their collective members. As smaller and mid-sized credit unions, the partners have many advantages including their knowledge of their members and connections to their 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 unions 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, and new costs can be shared to avoid a duplication of spending and improve efficiency of investment.

By combining operations, within five years the partners can realize savings that can be reinvested back into the business driving greater value for members. The capacity that will be created through amalgamation 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 confirm that a merger between the partners can drive more value for members than any of the partners can deliver 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) worked collaboratively to develop this business case for a new credit union. Their discussions were supported by the following eight principles:

1. A partnership between our 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 that we have in our existing credit unions and any changes 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 not a negotiation, it is a creation.*
6. Our goals and objectives, issues and concerns will be openly and transparently discussed. *Together we are stronger.*
7. Our partnership is taking place with the knowledge that other credit unions from Newfoundland and Labrador may wish to join later and therefore we are planning a credit union that will be scalable to accommodate future partners. *This is what provincial collaboration looks like.*
8. While under development, our discussions are confidential to the Boards and Management Teams of our three credit unions. Once key elements are agreed to, we will coordinate a communications strategy and openly share with our employees, other credit unions and our members. *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.

	Atlantic Edge Credit Union	**EasternEdge Credit Union**	**Hamilton Sound Credit Union**
VISION	Growing stronger together.	EasternEdge Credit Union will be the superior provider of the ideal financial service experience.	To be the primary provider to the financial stability and education of our members.
MISSION	We empower people and communities by providing financial services and advice built on honesty, fairness, and trust.	We are dedicated to assisting members in achieving their financial goals.	To provide quality personal financial services to the people of Newfoundland and Labrador.

Credit Union History

Atlantic Edge Credit Union was formed with the amalgamation of Eagle River Credit Union and Leading Edge Credit Union in 2022. A full-service credit union, Atlantic Edge has assets of $340 million and serves over 17,500 members across Newfoundland and Labrador.

EasternEdge Credit Union began as Newtel Credit Union in 1976; a closed bond credit union for employees of Newfoundland Telephone Company. In 2004, Newtel Credit Union membership was opened to the public followed by a name change to EasternEdge Credit Union in 2005. In 2011 EasternEdge Credit Union amalgamated with Horizon Credit Union (formerly CBC). Today it has one branch located in Mount Pearl and it serves 2,800 members with assets of $82 million.

Hamilton Sound Credit Union was first opened in 1991 with one branch in Carmanville and two employees. Since then, it added two other branches located in Triton and Gander. Today it serves nearly 3,500 members with assets of $55 million.

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, and 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 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:

- IT Support: AECU will be providing IT support to EECU and HSCU in 2023.
- Shared Services: The three partners participate in regional services programs – Asset Liability Management, Products and Marketing and Risk Management & Compliance. Additionally, AECU also participates in the Shared HR Payroll service.

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

While the intention and shared goal is for the merger to include all three partners, to manage the risk of one partner not receiving approval, the partners have agreed the merger should proceed if a minimum of two of the membership groups vote in favour, providing AECU is one of the two. The financial projections and governance model included in the business case may be adjusted as required to satisfy the expectations of the provincial regulator regarding this possible outcome.

1.8 Summary

The three partners have agreed to consider a merger of their credit unions to create a new credit union that is better positioned 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 to 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.

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 for 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 Newfoundland and Labrador 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. Attracting talent was a challenge before the pandemic and has only become more difficult since. A benefit of the merger is the opportunity to share and develop resources across the organization and develop a stronger 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 Challenges

Serving communities across Newfoundland and Labrador, the three credit unions face similar economic challenges.

- Interest Rates: The uncertainty around COVID-19 and economic recovery limited revenue growth and interest rate margins.
- Demographics: From a demographic perspective, some of the communities served have an aging population and a shortage of workers with the skills and interests that are suited to working in a credit union environment.

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

The costs and expertise required to meet the increased regulatory requirements for Newfoundland and Labrador credit unions continue to grow. 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. 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 will maintain Atlantic Edge's legal address located in L'Anse au Loup (8 Branch Rd PO Box 29, L'Anse au Loup NL A0K 3L0).

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

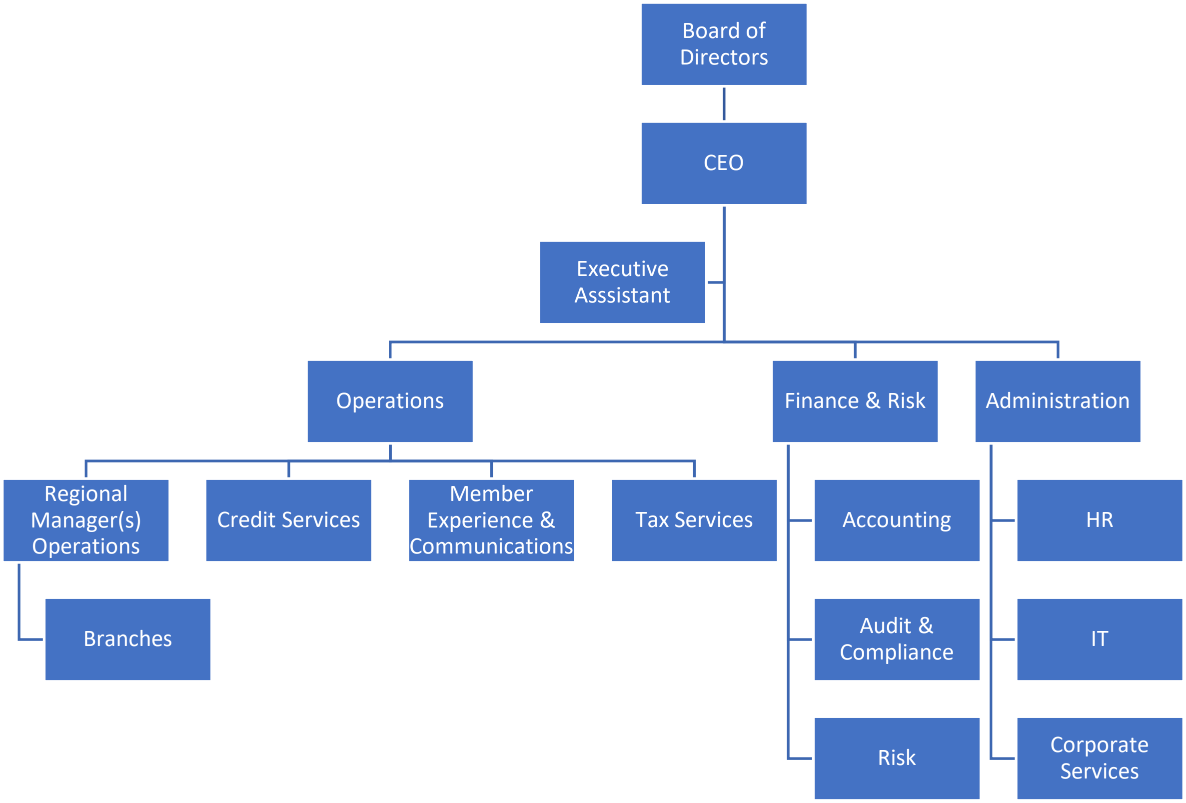
The new credit union will adopt Atlantic Edge's name and identity and be known as Atlantic Edge Credit Union.

3.4 CEO & Organizational Structure

The merged organization will be led by a single board of directors and Atlantic Edge's current CEO, Cory Munden will be the CEO for the new merged organization.

The new credit union will leverage talent across all three organizations. Subject to merger receiving approval from the membership and the regulator, Cynthia Strickland, General Manager of Eastern Edge Credit Union and Dion Jackson, CEO of Hamilton Sound Credit will transition to new leadership roles in the new organization, and 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 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 will realize some staffing reductions through retirements and attrition.
- 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.
- 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.
- At all times, employees, and the issues important to them, will be treated with respect, compassion, and fairness.

3.6 Corporate Governance

The inaugural board (the first Board of the new credit union) is comprised of 10 directors – six directors appointed from Atlantic Edge, two directors each appointed from EasternEdge, and one director appointed from Hamilton Sound. The remaining tenth director is selected by the 9 appointed directors based on desired skills and competencies. 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.

With a ten-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, Audit and Risk, Governance, and Member and Community Relations. The Executive Committee will be comprised of the Chair and Vice Chairs. 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	Audit and Risk	Governance	Member and Community Relations
Oversee the Board's relationship with CEO and coordinate the ongoing responsibilities of the Board. This committee is comprised of the Chair and Vice Chairs.	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 governance operations of the credit union, including assessments and development plans, and nominations to ensure Board renewal goals and objectives are met.	Oversee the credit union's relationship with its members and communities to ensure engagement and co-operative goals are met.

It is further recommended that the inaugural Board include a Chair and two Vice-Chairs. One Vice-Chair should serve as the Chair of the Governance Committee and the other Vice-Chair could serve as the Chair of the Member and Community Relations Committee (depending on interests, skills, and competencies). In compliance with the Act, the Audit and Risk Committee must be chaired and comprised of Directors that do not hold Officer roles on the Board.

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 AECU operations and governance policy with amendments made to ensure compliance for all elements required of all partners and the new credit union. Processes will need to be established to review and amend the AECU 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:

Three Year Term (3)	Two Year Term (3)	One Year Term (4)
Ginger Ryland	Bert Belben	Orvin Roberts
David Evans	Paul Summers	Tony Leamon
Paul Newman	Dan Sheaves	Gary O'Brien
		Rebecca Bell

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. The recommended Terms of Reference for the merged credit union are included in Appendix One.

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 comprised of 10 directors and led by a single CEO. The merged credit union will leverage AECU 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 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 organization through future mergers or partnerships with other Newfoundland and Labrador credit unions. This will be something the new credit union will consider when it completes the transition and establishes organizational stability.

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 process, 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 larger commercial operations, small 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.

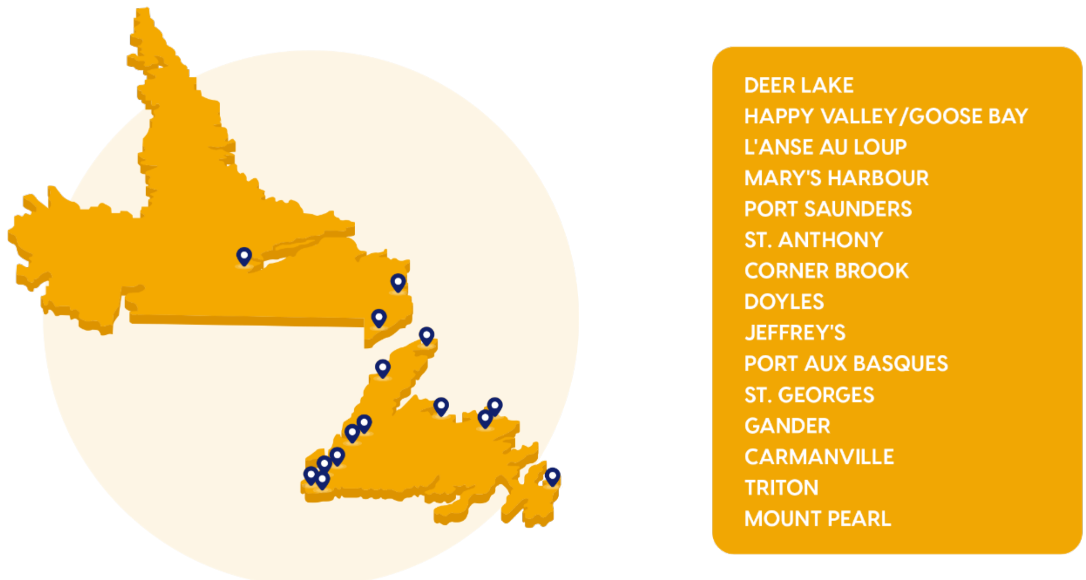
4.3 Service Delivery

There is a strong alignment in the products and services offered by the three partner organizations. Further, 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. While the merger will not create immediate impact to the products and services, the future portfolio will deliver enhanced value to all members.

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 the existing branch network as one of the many ways it serves members including electronic and mobile options. This network will strengthen member confidence and will help 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 strive to become easier to do business with and adopt service standards to ensure a consistent experience is delivered across all branches and service touchpoints.

- Member Contact Centre: Working together, the merged organization can explore the opportunity to expand its service offering, for example creating a Member Contact Centre to provide afterhours and online support.
- Specialized Expertise: It will also have enhanced opportunity to further develop specialized expertise to support commercial lending, wealth management and insurance.
- 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 improved 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 has provincial focus and 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 the communities served. 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 underscore the new credit union's brand.

5.2 Marketing

Combining marketing personnel from the partners, the new credit union will be better able to leverage the regional marketing program and invest in 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 communities across Newfoundland & Labrador. These opportunities may take the form of donations, sponsorships, and community investments.

The transition from the current approach to an aspirational future approach will take time and form part of the new credit union's long-term goals.

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 Credit Union Deposit Guarantee Corporation (CUDGC).

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 prior to being submitted to the membership for approval.

6.5 Shares

The new credit union will maintain Atlantic Edge's share price and requirement for all new members – $5 per share and 1 share required for membership. The existing membership shares of each credit union will be transferred into the new credit union at par value.

In addition to membership shares, other share classes include Surplus and Class 1.

6.6 Member Approval

The partners propose the voting process for members will be launched by each credit union at meetings held in May and remain open for five business days, when the results can be announced. It is further recommended that voting take place electronically and within branches. The tentative dates are for the credit unions to hold their meeting Monday, May 15, 2023, with voting open immediately following the meeting to mid-afternoon on Friday, May 19, 2023.

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 Executive 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

Management did not identify any areas of material risk or concern that would suggest that the merger between Atlantic Edge, EasternEdge and Hamilton Sound should not proceed.

Through this process the partner credit unions confirmed they share many strengths, common challenges, and processes. One area that was identified as a challenge for all partners was human resources. Planning for future resource needs will be difficult as demands on senior staff increase and the competition to attract and retain specialized skills continues to grow. The three credit unions also have differences in their compensation and benefits practices. While these do not pose operational risk, they may bring a financial impact that is not known at this time. Additionally, while assessing core banking systems was not a focus for the due diligence, it is important to acknowledge that all three credit unions will be impacted by the replacement of the banking system in 2023/2024. This change will require significant management oversight and has the potential to limit resources available to support integration.

The review also identified differences among the three credit unions in capital share classes and the method used to calculate regulatory capital. The shares classes will be harmonized as part of the amalgamation – adopting AECU's member share requirement and streamlining the equity classes to Member Equity, Surplus, and Class 1. AECU uses a risk weighted approach to report regulatory capital. This approach is expected to be maintained post-merger and will enable more flexibility for the merged credit union to meet regulatory requirements.

The Due Diligence Report is available in Appendix Three.

PART EIGHT: FINANCIAL

A detailed financial analysis was conducted to assess the impact of the merger. The three credit unions were also analyzed on their own to compare the merger scenario and no-merger scenario. This analysis assesses the potential financial impact and 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 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. This has created additional challenges for credit unions in the form of declining margins and equity levels.

As businesses start to return to more normal operations, economic activity in Canada has picked up significantly. The Bank of Canada has been raising the overnight rates and is expected to continue this path through 2022 and 2023. Mortgage, loan, and deposit rates are also increasing in response to inflationary pressure. While the war in the Ukraine, threat of new COVID variants and Hurricane Fiona will bring some uncertainty to the pace of recovery, this is a risk that will affect all credit unions in both a merger and no merger scenario.

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 adapt to the challenges and opportunities available now and in the future.

8.2 Merger Assumptions

The following assumptions were used for the merger scenario.

Asset Growth	5% (2024 to 2027)
Loan to Asset Ratio	74.0% (2024), 76.0% (2025), 78.0% (2026), 80.0% (2027)
Financial Margin	• Interest rates have been kept flat for this analysis. • Financial margin at Dec. 2027 increases from 2.65% in a no-merge scenario to 2.77% in merged scenario due to increases in loan portfolio and greater emphasis on commercial lending.
Expense Growth Rate	2.50% annually beginning in 2025 (2023 and 2024 includes expense growth plus one-time costs)

Note: In both the merge, and no merge scenarios, the expense assumptions **do include the costs budgeted in 2023 for core banking conversion. 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 take into consideration a range of expenses including marketing, compliance, legal and regulatory filings. These costs total $315,000 and include things such as marketing and branding costs at $115,000, consulting fees of $100,000, competition bureau of $80,000 and other fees related to changes in member services.

The merger will also bring anticipated savings as the credit unions consolidate from three operations to one. Annual savings from combined board and audit efficiencies are projected to be $75,000 beginning in 2024. There are also anticipated savings for personnel which will be realized through attrition. In a 'no merge' scenario, it is anticipated that annual personnel expenses would increase by $80,000 in 2023 and an additional $50,000 in 2024.

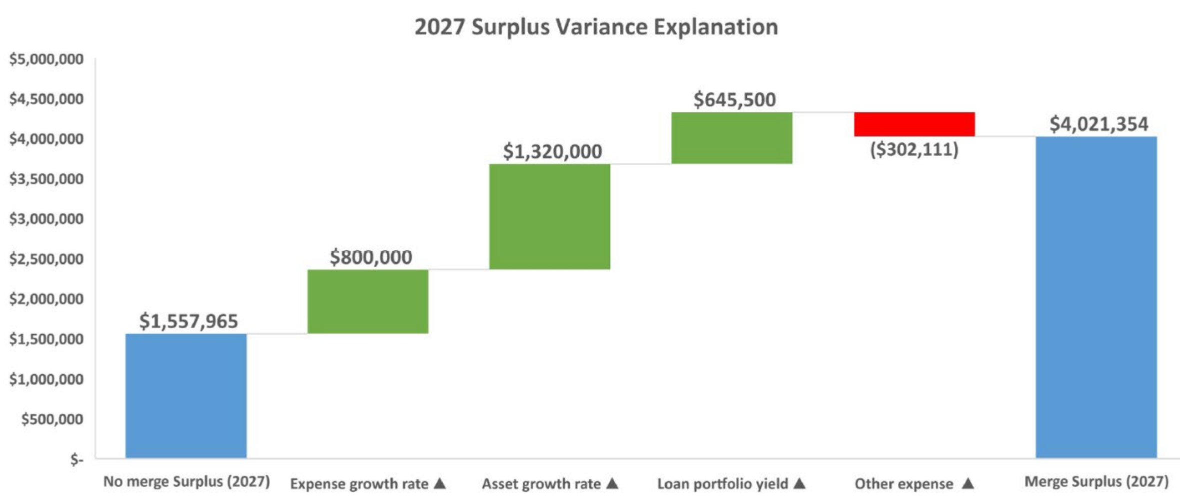
8.4 Financial Analysis

Using conservative estimates for growth and realistic expectations for expense savings, the new credit union is projected to exceed $600 million in total assets in 2027. It is also projected to generate more than $3.5 million in surplus starting in 2026 and $4.0M in 2027. This represents a significant gain for what can be achieved when comparing a scenario where no merger takes place.

The projected results of the financial analysis for the merge scenario versus the no merge scenario are shown in the table below. Additional details including a projected balance sheet, income statement and graphs of all financial measures are included in the Appendix.

2027 Projection	Merge	No Merge	Gain
Surplus	$4,021,354	$1,557,965	↑$2,463,389
Return on Assets	0.68%	0.28%	↑ 0.40%
Efficiency	78.2%	90.6%	↓ 12.40%
Equity	7.18%	6.58%	↑ 0.60%
Total Assets	$607,757,015	$555,637,226	↑ $52,119,789

Key areas driving surplus gains are opportunities to grow the business by strengthening operational expertise and expanding commercial and mortgage lending markets, expense savings and more efficient use of the balance sheet (better lending opportunities, utilizing excess liquidity and improved balance sheet strategies).



This additional surplus strengthens the financial flexibility of the new credit union – providing choices for how this surplus can be used to create new services and member value (ex: digital services, contact centre, better rates, lower fees, and member dividends).

8.5 Summary

All key 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 then credit unions can on their own.

Improving equity, efficiency and return on assets ratios through a merger enables the merged credit union to tackle economic turmoil now and, in the future, particularly as the interest rate environment continues to shift upward. The merged credit union is also 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 as a credit union that is built from the best 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 the personal approach and advice it provides to members. 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	Adopt an environmental, social, and governance (ESG) framework and evolve Cooperative Social Responsibility (CSR) to create meaningful regional and provincial impact.

9.2 Short-term Focus

Within the first three years of the merger, the credit union will focus on integration and build 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

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 (2024)

- Marketing and business development plans are developed
- Integration plans are finalized

- Banking system and member service plans are developed (preparation for core banking transition and merger)*
- Staff compensation and benefits are aligned
- Human resources plan and organizational structure is finalized

First Anniversary (January 2025)

- 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 (2025)

- First AGM for new credit union held
- Banking system integration and conversion continued implementation*
- 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 (2026)

- 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 (2027)

- Performance targets for year four are realized

**Honeybee core banking timelines are to be determined.*

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 delivers greater value to members.

PART TEN: IMPLEMENTATION PLAN

Once the merger is confirmed to close on December 31, 2023[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 May to September 2023.

PART ELEVEN: RECOMMENDATION

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 updated three partner business case (the "Business Case") presented to it by their members of the Joint Partnership Committee in connection with the proposed amalgamation of Atlantic Edge Credit Union (AECU), EasternEdge Credit Union (EECU) and Hamilton Sound Credit Union (HSCU) (the "Partner Credit Unions");
B. The Board has determined the updated 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;
    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 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.
D. The new amalgamated Credit Union will require new Bylaws.

BE IT RESOLVED THAT

(a) the Board of ___________ Credit Union approves the Business Case dated March ##, 2023 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.