PEI Collaboration
Merger Plan

January 2021

CREDIT UNION

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Executive Summary

The Boards and Management Teams of Évangéline-Central Credit Union (É-CCU), Malpeque Bay Credit Union (MBCU), Provincial Credit Union (PCU) and Tignish Credit Union (TCU), collectively referred to as the partners, have explored the potential of a merger between their four credit unions and have concluded that such a merger is in the best interests of the members of the four credit unions.

Their collective exploration was driven by several important trends influencing their credit unions, including:

- Growing expenses
- Limited market opportunities
- Limited access to specialized services
- Increasing competitive environment
- Emerging technologies and changing banking behaviours.

In 2020, the Boards of the four credit unions tasked a Committee of Directors and Managers to develop a conceptual outline of a potential new credit union that would benefit their collective members, employees and communities. The design developed was approved by the four Boards in the fall of 2020 wherein the Boards tasked the Committee to develop a Business Case for merger.

The following pages outline the Merger Plan and show that the merged credit union will be better for members, employees, communities and the credit union system.

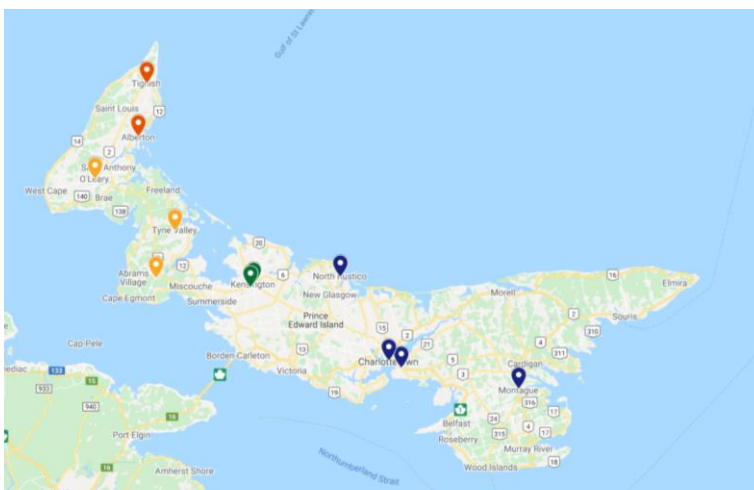
Better for Members:	The new credit union will eliminate duplicated costs incurred by the four partners and allow those funds to be directed toward enhanced products, services and pricing. The new credit union will have the capacity to attract (or develop) employees with specialized skills to strengthen the operations of the merged credit union and the level of service provided to the membership.
Better for Employees:	The new credit union will allow employees to develop their careers across a larger more complex credit union, with more positions and more variety of roles, than is currently available. The merged credit union will operate in a distributed manner that allows employees to continue to contribute to the merged credit union without the need to relocate.
Better for Communities:	The new credit union will be stronger financially than the four partners individually and have the capacity to support communities with new services and resources (e.g., online and mobile services). The new credit union will be larger and have the capacity to serve larger businesses than is possible today, this will allow more of the credit union's members to have more of their financial services needs met by their local credit union.

Better for the Credit Union System: The new credit union will be better able to leverage its size within the PEI and Atlantic credit union systems. As the largest credit union in Atlantic Canada, its elevated position with suppliers and Atlantic Central will provide a larger voice and increased influence on the issues and factors that are important to the merged credit union and its members.

The new credit union will be more sustainable and better able to leverage opportunities and manage risks in the ever-changing financial services marketplace.

Bringing four mature credit unions together is a testament to the strength of the partners and their commitment toward collaboration and a shared vision for the future. Each credit union has established strategic plans and policies that have driven their practices and decisions to this point.

If the merger is approved by the members in the spring of 2021, the new credit union will operate under a new set of shared policies driven by a shared strategic plan, and a common approach to risk management. The new plan will be focused on excellence in member service, competitive products and services, sustainable financial operations and an ongoing commitment to support all of their existing communities.



É-CCU MBCU PCU TCU

The new credit union will have branches across Prince Edward Island (PEI) as indicated on the map to the left.

The shared future vision is a credit union that is operationally competitive and differentiated through its service, advice and support for community. If this vision is successfully implemented, specific financial, member, staff and community goals will be realized.

By combining operations, the new credit union is projecting to grow profit by 56%, an increase of $5 million per annum after five years. These earnings can be reinvested back into the business, driving greater value for members.

Following are examples of how the additional money can be used:

- To fund incremental business growth
- To enhance levels of service to members
- To enhance the efficiency and effectiveness of operations
- To invest in communities.

While the financial projections are impressive, it is expected that a significant percentage of the increased earnings will be reinvested back into products, services, pricing and new technologies, to ensure that sustainable credit union operations continue well into the future.

The new credit union will be guided by a single Board comprised of equal representation of directors from each of the 4 partners regional service areas, and have a unified strategic plan to guide the organization.

The Business Case has been approved by the Boards of Directors of the partner credit unions, and pre-approval for the merger from the Regulator. Approval from the four membership groups will be sought through a voting process that will be held in the spring of 2021. While the merger Business Case is based on the benefits of all four credit unions being involved. The legal agreements will be drafted in such a manner that the merger will proceed with a minimum of three of the four credit unions, providing that one of the three is PCU. This is due to the scale and mutual benefits provided by the largest partner, at the request of the other 3 partners.

The merger is expected to close September 30, 2021 with the newly merged credit union taking effect October 1, 2021[1].

[1] This date may be adjusted to close December 31, 2021 to take effect January 1, 2022 based on the timing of activities planned post-vote pre-close. A definitive decision will be made prior to the Amalgamation Agreement being presented to the Regulator and the members for approval.

Part One
INTRODUCTION

É-CCU, MBCU, PCU, and TCU 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 groups 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:

- Continual increases in overall expenses
- Increased requirement to make significant technological investments
- Growing requirement to provide members with new ways to access services
- Increased regulatory and compliance requirements
- Lack of local market diversification
- Limited access to specialized services
- Increasing competitive environment.

While each of the partner credit unions may have resources to respond to these trends, those responses would require investment and development that may be better provided in partnership where existing investments could be leveraged, and new costs can be shared, to avoid a duplication of costs or an inefficiency of investment.

In 2020 the Boards of all four partners resolved to explore the conceptual design of what is possible through merger. Together, É-CCU, MBCU, PCU and TCU partnered to build the conceptual design for a single, larger credit union that is better able to enhance services, leverage opportunities and manage the risks that are present in today's competitive operating environment.

By combining operations, within five years the partners are projected to realize an increase in annual profit that can be reinvested back into the business driving greater value for members. The capacity that will be created through this merger can be employed in the following areas:

- To fund increased business growth
- To enhance levels of service to members
- To enhance the efficiency and effectiveness of operations.

The conceptual design of a potential new credit union was approved by the four Boards in the fall of 2020. The partners have built upon that design with the creation of the Business Case for merger. The Business Case confirms that a merger between the partners can drive more value for members than any of the partners can deliver independently.

1.0 Partnership Principles

Members of the joint Committee of Directors and Managers from the four partners (referred to as the Joint Partnership Committee or JPC) worked collaboratively to develop the previous conceptual design of a new credit union, and the Business Case. Their discussions were supported by the following seven 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 make us stronger together. *We can use collective contributions to build new value for our members and our communities.*
3. Any collaboration must leverage all of 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 discussions are confidential to the Boards and Management Teams of our four credit unions. *This is what respect looks like.*

The JPC met monthly during the conceptual design and business case processes, supported by weekly meetings of Management Team members. Throughout their discussions, the JPC and Management regularly referred to the above principles and were guided by these principles in their discussions.

2.0 Business Overview

Below is a brief overview of the four credit unions and their current vision statements. The partners share several key attributes including their commitment to member service and support for the community.

2.1 Évangéline-Central Credit Union

É-CCU was established in 2012 as a result of an amalgamation between Évangéline Credit Union and Central Credit Union and now serves approximately 8,200 members with an employee base of 31 permanent full time in addition to a few part-time and/or seasonal employees. As of August 2020, É-CCU has approximately $205 million in assets with branches in the communities of Évangéline, O'Leary and Tyne Valley. The Wellington branch of the credit union provides services in Canada's two official languages.

Vision: To enable sustainable growth and well-being for all who work and live in the communities we call home.

2.2 Malpeque Bay Credit Union

MBCU was established in 1981 as a result of a merger between CFB Summerside Credit Union (charter 1962) and Kensington Credit Union (charter 1939). It currently has 5,160 members, assets of $150 million, a staff complement of 20, and one branch serving the Central North Shore area of PEI from Reads Corner to Malpeque to Stanley Bridge to Kinkora.

Vision: Malpeque Bay Credit Union exists because of and for its members and our mission is to provide quality financial services that our members require and to continually strive to help improve the community we serve.

2.3 Provincial Credit Union

PCU was formed in 2013, the result of a merger between Metro and Stella Maris Credit Unions. On January 1, 2015, Montague Credit Union merged with Provincial Credit Union, bringing the total number of branches to four – Charlottetown, Montague, North Rustico, and Stratford. PCU serves nearly 15,000 members from various communities in and around the four branches, employs approximately 65 staff, and has approximately $497 million in assets.

Vision: Transforming your banking experience.

2.4 Tignish Credit Union

TCU was established in 1937 and now serves 7,326 members with an employee base of 31. TCU has approximately $235 million in assets with two branches serving the communities of Tignish, Alberton and West Prince.

Vision: The mission of Tignish Credit Union is to provide competitive financial services tailored to meet the needs of our owners and their communities.

2.5 Together we are Stronger

A merger between É-CCU, MBCU, PCU and TCU creates a more effective platform for investment into the resources that all credit unions require, such as research and development, training, marketing, technology, data analysis, risk management and compliance. Regardless of the size of a credit union, these investments are necessary. By merging resources, the four partners can leverage existing investments and share those future costs over a larger membership and asset base.

The detailed discussions undertaken in the development of this Concept Paper confirm that a partnership between É-CCU, MBCU, PCU and TCU can create value for members.

3.0 Strategic Options

The Boards have independently considered organic growth opportunities (no merger), multi-brand mergers, mergers of two or more entities, acquisition strategies, absorption options, and federal alternatives.

After a comprehensive review, the Boards have determined that the best approach to address external factors, to support organizational growth, to develop a stronger competitive advantage, and to serve the best interests of members is to **pursue a merger based on principles of partnership**.

4.0 Strategic Direction

Working together, the partners describe their collective vision for the future as a credit union that has been built from the best that each organization is able to contribute and to remain a leader in terms of member service and community support. The four partners aspire to be market competitive, operationally strong and financially sustainable.

5.0 Value Proposition

The value proposition of the merged credit union is based on competitive pricing delivered through a relationship banking model that leverages local member and community knowledge. The combined credit union will make the digital and data analysis investments that are necessary to fast track the work of the four individual credit unions to shift from traditional banking services to proactive data-enabled, value embedded product and service solutions that are proactively offered.

The partner credit unions understand that each member is unique and requires access to solutions that respond to their financial goals. To assist members, our employees will be supported by the power of technology and superior data analytics to identify and address member needs. The partner credit unions also recognize that a moderate level of this service experience may currently exist among the four partners and that the value proposition for the merged entity ensures a systemic approach toward strategic alignment.

6.0 Strategic Goals

The key enablers to achieve the above **Strategic Direction** include:

- Sustainable products and advisory services – including competitive prices, features and benefits
- Empowering our employees for success
- High-quality advice for individuals, businesses and families
- Commitment to support our communities including geographically defined regions and communities of special interest (e.g., small business community).

The new credit union will have a greater ability to:

- Manage the risks that are faced in an increasingly competitive and complex market
- Provide enhanced levels of specialized expertise through training and development where opportunities are presented
- Deliver more responsive advisory services
- Provide greater value to members and communities.

The new credit union will be market competitive in terms of products and prices, and will differentiate itself based on its service to members including the ability to be flexible and nimble, providing high levels of expertise, greater convenience and ease of access.

The shared future vision is a credit union that is operationally competitive and differentiated through its service levels and community support. If this vision is successfully implemented, within five years it is anticipated that the following financial, member, staff and community goals will have been realized.

7.0 History of Collaboration

The partner credit unions have a history of collaboration within the PEI and Atlantic credit union systems. This cooperative focus has created an environment where even greater collaboration is now possible.

CU PEI Investment Corp (CUPEIIC) is an example of collaboration in action. This corporation was formed by É-CCU, MBCU, PCU, and TCU during the amalgamation of the four Atlantic Centrals in 2011.

CUPEIIC was formed for two reasons:

- At the time Credit Union Central of PEI (CUCPEI) was being wound down. CUCPEI held a couple of large loans to fisheries organizations in the local communities. In keeping with a local community focus, there was a desire to maintain control over relationships with the local fisheries. The four credit unions, therefore, worked a deal to have CUCPEI wound into a new company (CUPEIIC).
- Along with maintaining relationships with the fisheries organizations, there were tax advantages through Losses Carried Forward. It also provided to the owner credit unions another avenue for loan syndications on a much more local level.

Today CUPEIIC is lending to the fishing, farming, aquaculture and tourism sectors throughout the province illustrating the four owner credit unions' combined commitment to these industries.

A Merger of the partners is the ultimate form of collaboration as it allows for the pooling of resources in a way that is not possible through any other model (e.g., joint ventures, associations and projects).

Part Two
ENVIRONMENTAL SCAN

The recommended merger of the four partners is being undertaken in the context of the current and emerging environment, impacting the future of each independent credit union. This paper focuses on four primary drivers:

- Increasing Competition
- Expanding Member Needs
- Challenging Economic Environment
- Increasing Regulation and Compliance.

Below is a summary of some of the trends that are impacting the opportunities and challenges faced by Canadian credit unions generally and PEI-based operations specifically.

1.0 Increasing Competition

Twenty years ago, credit union competition consisted of chartered banks, investment firms and finance companies. Today's competitive landscape includes all of these plus international banks, monoline service providers, fintechs such as Apple and Google, and federally regulated credit unions.

The pressure from increased competition has spurred merger activity within the Canadian credit union system as organizations are striving to achieve and maintain the scale that they believe is necessary to drive and sustain value for their members.

All four partner credit unions are also witnessing increased competition from non-traditional financial institutions for deposits and lending services. Being seen as a strong and competitive provider of financial services for small business members is particularly important due to the incremental value that is driven from this market, and this market's attractiveness to other financial services providers.

To remain competitive, many credit unions – including the four partners – are undertaking enhancements to products, services and operations, including their banking systems and IT infrastructure, to compete more effectively in the future.

2.0 Expanding Member Needs

Credit unions across Canada have been experiencing a membership trend toward convenient and accessible digital channels. For some credit unions, as much as 80% of all member transactions now take place through digital channels. Embracing and supporting this trend, while continuing to provide valuable face-to-face service, is a goal for the partners.

The trend toward digital channels has accelerated in the past several months as a result of the coronavirus pandemic. More members than ever before are using and finding value in digital solutions. This rapid adoption has created opportunities and challenges for credit unions to maintain these trends and embed relationship management strategies in new ways.

As with the majority of Canada's credit unions, the membership of PEI credit unions is aging, and new growth of the next generation will be required to sustain operations. The members of the future are looking for 24/7, multi-channel access, which necessitates increased investment in channel infrastructure. By combining resources, the four partners can leverage that investment over a larger asset and membership base.

Changing member behaviours are driving the need for an expanded suite of products, particularly in the areas of payments and wealth products. Future generations of members will continue to demand greater access, more convenience and personalized solutions. By merging operations, the partners are better able to make the investments and implement the enhancements that will be necessary.

3.0 Challenging Economic Environment

We are currently operating in a challenging economic environment. It is uncertain what the long-term impact of COVID-19 will be on our members, communities and credit unions. Even without the pandemic, our economies were challenged and continued low-interest rates were predicted.

By combining operations, the four partners will have a stronger more diversified balance sheet that will assist it to withstand more of the risks and financial pressures that credit unions may face over the next several years.

4.0 Increasing Regulation and Compliance

Credit unions are facing increased capital and liquidity requirements under provincial equivalents of Basel II and III. Credit unions are also being driven to higher levels of enterprise risk management oversight by Regulators who are concerned with the quality and oversight of governance in an increasingly complex and sophisticated marketplace.

Regulation and compliance requirements continue to grow, here are some high-profile examples of increased regulation:

- ICAAP (Internal Capital Adequacy Assessment Process)
- FINTRAC (Financial Transactions and Reports Analysis Centre of Canada)
- FATCA (Foreign Accounts Tax Compliance Act)
- Federal Credit Union Legislation
- CASL (Anti-Spam Legislation)
- Privacy Legislation (PIPEDA).

An emerging area of risk management and application of standards is developing in the area of information technology. Each of these developments, and the ones that will follow, requires that credit unions invest more time, energy and resources into compliance. While these investments do enhance the "public good", they produce no new revenue for the credit unions. By sharing the cost of compliance, the merged credit union will have incrementally more resources available to invest in its members.

Part Three
OPERATIONS

In support of the shared vision and strategies to enable the vision, the new combined credit union will operate in a distributed manner with administrative personnel working from all current locations. This plan allows our administrative staff to participate in the new credit union without the need to relocate.

1.0 Corporate Office

The legal address of the new credit union will be the current address of PCU in Charlottetown.

This location was selected at the advice of the CEOs as it is most convenient for mail and transportation, ensuring that important legal correspondence is received in a timely manner.

2.0 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 involving an experienced external agency will be launched to select the name of the merged credit union. The agency will be asked to consider potential new names as well as the pros and cons of adopting one of the existing names. Of all of the existing names, the one that is universally appropriate for all of the communities currently served by the merger credit union is Provincial Credit Union. Therefore, the name Provincial Credit Union will be considered along with potential new names.

3.0 Organizational Chart

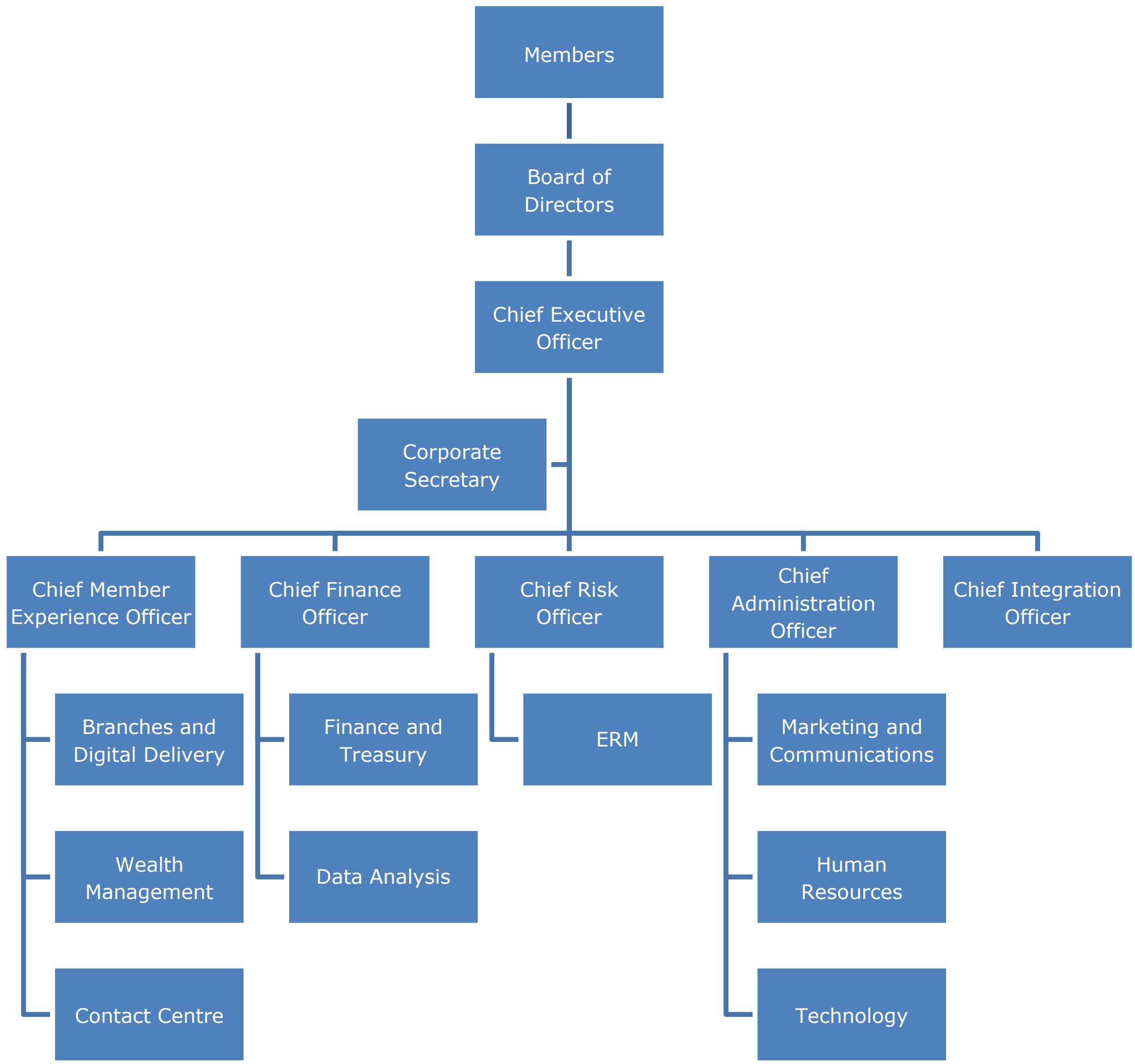
It is recommended that the new credit union will be led by an internal candidate selected from within the executive management ranks of the four credit unions, providing that the selected leader possesses the experience, skills and competencies that will be required to lead the Atlantic's largest credit union.

The process that will be followed will be for the inaugural Board to work with an experienced third-party to identify the required skills and competencies, and assess interested internal candidates against that standard to confirm that the merged credit union can be well-supported by an internally promoted CEO. In this model, the other existing CEOs would be offered roles in the executive leadership team structure of the new credit union.

Selection of the CEO, subject to regulatory compliance, is expected to take place following the membership votes and before the effective date of the new credit union.

Populating the other leadership roles in the new credit union will take place after the inaugural CEO has been identified. The inaugural CEO will work with the other CEOs to create an organizational structure that leverages talent across the entire organization.

The preliminary view of the organizational structure for the first few years of the new credit union is described below.



The structure of the new credit union must be more cost-effective and efficient than a combination of the four existing operations. The new organization will be focused on creating efficiencies and leveraging the strengths of existing personal and business practices. The Board and leadership will set out a new strategic direction and plan for the newly created organization within the first six months of operation.

This structure is expected to be amended based on the preference of the CEO once appointed. The structure is also expected to evolve as the credit union shifts from a focus on integration to a mature stable state.

4.0 Human Resources

The principles to support the evolution from four independent credit unions to a single, larger, and more diverse operation include:

- There will be no loss of employment as a direct result of the merger; however, we expect a minimal reduction in employment levels as a result of efficiencies that will be realized through retirements and other voluntary vacancies
- Over time, some roles may evolve to support organizational efficiency and effectiveness goals
- Employees will be trained, coached and mentored in their roles
- Employees will be supported by a performance management culture that recognizes and rewards success
- At all times employees, and the issues that are important to them, will be treated with respect, compassion and fairness.

5.0 Corporate Governance

The inaugural Board of the new credit union will be formed by combining three Directors from each of the four partner organizations. It is recommended that the new credit union operate with Director elections taking place on a regional basis, with members in each region able to participate in the vote for all members of the Board.

It is also recommended that the future Board undertake a thorough analysis of the effectiveness of the governance model no later than the fifth year of post-merger operations to determine whether any changes to the size of the Board, the composition of the Board, or the process of electing Directors should be amended. The Board could then refer those amendments, if any, to the membership for their consideration at that time.

The scope and complexity of the new credit union will exceed that of any of the past operations. It will be important that the credit union define the desired skills and competencies for the Board and that training, development and recruitment activities support those desired outcomes.

5.1 Inaugural Board

The members of the inaugural Board selected by each member credit union are:

É-CCU	MBCU	PCU	TCU
Imelda Arsenault	Alisha MacKay	Lindy McQuillan	Karen Gaudet-Gavin
Joel Brennan	Peter Pidgeon	Corey Tremere	Mona Jeffrey
Jamie Colwill	Jack Spencer	Jacinta Doiron	Gail Shea

It is possible that the merger will proceed with three of the four credit unions providing that one of the three is PCU. If that is the case, each of the three credit unions will appoint four members to the inaugural Board.

The fourth Directors being proposed by the partner credit unions are:

Contingency	É-CCU	MBCU	PCU	TCU
Fourth Director	Jim Cook	Eric Brookins	Bernard Keefe	Joan Martin

If three credit unions proceed, rather than four, each of the three additional Directors will be allocated an inaugural term of one, two or three years as determined by mutual consent. This will result in one of the three partners having inaugural terms as follows:

Inaugural Term	Partner A	Partner B	Partner C	Total
One Year	1	1	2	**4**
Two Year	1	2	1	**4**
Three Year	2	1	1	**4**
Total	**4**	**4**	**4**	**12**

Following the inaugural terms, each subsequent term will be three years to allow for the orderly staggering of term expiry dates.

5.2 Terms of Office

Directors can serve for a maximum of nine years on the new credit union Board. Each of the inaugural Board members will be entitled to serve for the full nine years regardless of their existing credit union years of service, providing that they continue to be elected or appointed to the Board.

5.3 Director Terms of Reference

The role of 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 legacy organizations.

5.4 Amalgamation Agreement

For risk management purposes, the Amalgamation Agreement will be drafted in a manner that allows the merger to proceed if any three of the four membership groups vote in favour of the merger, providing that one of them is PCU. This is due to the scale and mutual benefits provided by the largest partner, at the request of the other 3 partners. The Business Case has been drafted on the basis that all four will be participating; however, as few as three of the four may proceed.

The Amalgamation Agreement will be drafted 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.

6.0 Products and Services

The combined credit union will initially offer all the current É-CCU, MBCU, PCU and TCU products and services in the branches of each separate legacy credit union. Within the first twelve months following the merger, harmonization and rationalization of products and services across the organization will commence.

The merged credit union will continue to provide a comparable level of bilingual services to its members at the Wellington/Evangeline location as was provided prior to amalgamation, and that bilingual management oversight be also be maintained.

To manage member impact, banking system harmonization may need to wait to be scheduled as part of the new banking system upgrades planned for 2023.

Part Four
MARKET OPPORTUNITIES

The newly merged credit union is expected to grow organically. The organic opportunities that are seen for the merged credit union include:

- Share of wallet growth
- New market growth
- Expanded business line growth.

Each of these opportunities is explored below.

The financial projections used in this Concept Paper rely on a modest level of growth.

1.0 Share of Wallet Growth

Each of the four partners has indicated that there is room for growth with existing members. The removal of routine administration from the hands of our service staff will provide more capacity for them to meet with members, provide financial education and discuss financial needs that will result in stronger relationships with those members and incremental growth for the credit union.

2.0 New Market Growth

New markets for the combined credit union include larger commercial operations, small business and wealth management. Each of the four partners is serving some of the market segments to some degree; however, from a combined perspective there is a tremendous opportunity for the new credit union to leverage its larger size to support both larger relationships and a broader range of relationships.

Wealth management services are another growth area that has been identified. It provides support to members who are seeking non-traditional investment options, insurance products for their families and their businesses, and estate options including the sale of their business or farm operations.

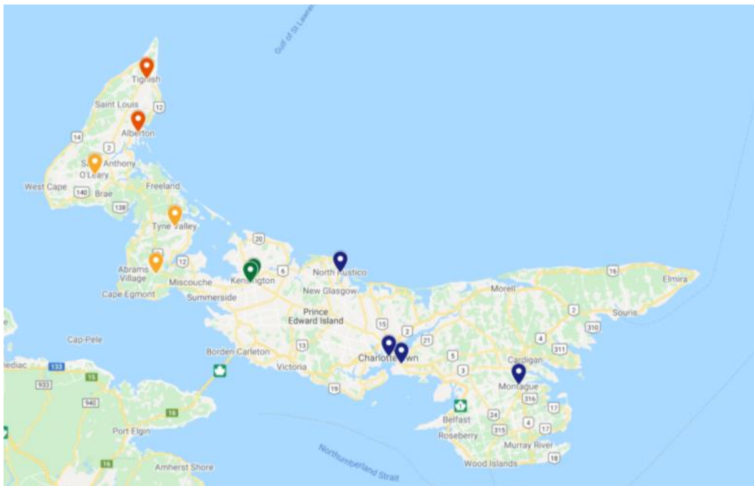
Wealth services provide a strong and reliable stream of non-interest income (NII) which would benefit the merged credit union.

3.0 Expanded Business Line Growth

There are opportunities for the combined credit union to expand into new lines of business including insurance and/or dealer financing. These investments will drive higher levels of NII and provide new sources of membership.

Part Five
MARKET POSITION

All four partners are well-established in the communities that they serve. Each credit union believes in friendly-helpful, advice-based service and has embraced traditional service-oriented values. Each credit union is committed to supporting its members with competitive prices and modern business practices to drive levels of convenience and accessibility.



The creation of a new credit union provides an opportunity to solidify these values and business practices and build on the **Value Proposition** detailed earlier in this Concept Paper into a compelling brand market position.

É-CCU MBCU PCU TCU

1.0 Brand Overview

The new credit union will be market competitive in terms of products and prices and will differentiate itself based on its service and advice to members, including the ability to be flexible and nimble, providing high levels of expertise, greater convenience and ease of accessibility (e.g., hours of operation and delivery channels).

The proposed credit union brand will leverage the best of all four credit unions and is expected to include the following key drivers: values, advice and community. The new credit union envisions high levels of engagement with its members, staff and communities.

1.1 Values

Aligned with their values, members will feel a sense of belonging to their credit union. Members will know that they are cared for and part of a "financial family". There will be a sense of trust that the credit union acts in the best interest of each member, whereas other financial services providers may be acting in their own best interests.

1.2 Advice

The new credit union will not just build relationships with individuals, it will serve whole families. Generations have chosen to become members of the legacy credit unions to help meet their financial needs; this tradition will continue.

These family values will continue in the new credit union and be an important part of personalizing the service that members will receive.

The new credit union's knowledge of its members and their needs will position it well to provide excellent advice that members will recognize the value.

1.3 Community

A community within a community, the new combined credit union will reinforce a feeling of belonging by serving members from within each legacy company's geographic realm. Employees live and work in the communities that they serve. Decisions will be made close to home.

2.0 Marketing and Business Development Approach

The new credit union will focus on three primary markets:

- More business with existing members
- New business with new members within the communities that we currently serve
- New business with new markets (e.g., youth and small business).

Business development will be built through a culture that is focused on services, advice and needs-based sales. The new credit union will invest in market research, service expansion, and product and service development.

3.0 Community Relations and Support

All four legacy credit unions have been active in their local markets with community relations and support activities. The new company will continue those traditions and ensure that all existing communities continue to be supported in a fair and equitable manner that takes into consideration the historical levels of support that each credit union has been providing.

All PEI credit unions are governed by the same Credit Union Deposit Corporation (CUDIC) approved Lending Policy which stipulates the guidelines credit unions use to grant credit requests. Credit unions have always demonstrated an understanding and flexibility to members who are experiencing financial hardship, and the policy outlines the provisions for credit unions to use with respect to loan payment extensions, rescheduling and rewriting.

In more extreme circumstances, i.e., COVID-19, the PEI Credit Union Managers Association successfully lobbied CUDIC to establish temporary guidelines in recognition of the hardship credit union members were likely to experience as a result of the anticipated negative effects of the pandemic on the provincial economy.

Should other extreme circumstances occur in the future within a specific region of the province or sector of the economy, the combined new credit union, as part of its DNA, would undoubtedly pursue available remedies to address the situation at hand for the benefit of its affected membership.

Beyond using its products and services to support local communities, the combined credit union will have active donation, marketing and sponsorship, and community investment plans.

	Donations	Marketing/ Sponsorships	Community Investments
Definition	An investment of resources into opportunities that contribute to stronger communities and reinforces the credit union's role as a good corporate citizen.	An investment of resources into opportunities that allows the credit union to raise its profile, build its brand and generate higher levels of awareness.	An investment of resources into areas that align with the credit union's business purpose. Allows the credit union to leverage the work that the credit union does to support community goals.
Credit Union Objectives	Being a good neighbour and a strong part of the community.	Drives new business to the credit union.	Builds the credit union's brand in a high-profile manner that is recognized across the communities that are served.
Budget Approach	Allocation to each branch determined through the annual (formula-driven) budgeting process.	An annual budget tied to marketing strategies and goals of the credit union.	An annual budget tied to the opportunities that are available that support the purpose defined by the credit union.
Decision-Making Model	Locally driven. This could be carried out in partnership with a local community foundation, or directly via branch staff.	Strategy driven.	Purpose-driven.

Part Six
REGULATORY ISSUES

The new combined credit union will operate in a highly regulated industry as a provincial financial institution accountable to its members.

1.0 Overview

The new credit union will leverage the best practices of the four partners and implement enhanced processes where necessary to achieve its goals of excellence.

2.0 Bylaws

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

3.0 Bond of Association

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

4.0 Amalgamation Agreement

An Amalgamation Agreement will be drafted to outline the terms and conditions of the amalgamation of É-CCU, MBCU, PCU and TCU. The new credit union will be the legal successor to, own the assets of and be responsible for the liabilities of, the four partners.

For risk management purposes, the Amalgamation Agreement will be drafted in a manner that allows the merger to proceed if any three membership groups, of the four partners votes in favour of the merger. The Business Case has been drafted on the basis that all four will be participating; however, it is possible that as only three of the four actually proceed, providing that one is PCU. This is due to the scale and mutual benefits provided by the largest partner, at the request of the other 3 partners.

If the merger proceeds with three versus four of the partners, amendments will be required to the governance model. In the event that three credit unions proceed, it is recommended that four Directors be appointed from the three partners.

5.0 Shares

The existing shares of each credit union will be transferred into the new credit union at par value.

Part Seven
DUE DILIGENCE

The Executive Management Teams of four credit unions have each assessed their partner's operations to ensure that there is full disclosure of the nature of the assets, liabilities and risks being combined to create the new company.

1.0 Business Areas Included in Due Diligence Assessment

Eight areas of the operation of the four partners were the focus of each company's due diligence:

- Earnings
- Liquidity
- Capital
- Credit
- Human Resources
- Risk Management
- Regulatory
- Information Technology

Each partner credit union provided information as requested for review by their counterparts for approximately 60 different information requirements in each of the areas listed above.

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.

The result of the due diligence assessment of each credit union's operations by their partners has resulted in no areas of significant concern from a risk or a cost perspective.

Part Eight
FINANCIAL

The creation of the new credit union is opportunity-focused where combined resources will be used more effectively to create benefits for members and the credit union. Through the process of combining resources and more effectively employing the available assets, the new credit union will realize increased efficiency and productivity. Net income after taxes and dividends is expected to grow by 56% within the first five years of the merger, in comparison to 34% asset growth and 42% improvement in efficiency for the same period.

Initial projections indicate that the new credit union can realize significant financial benefits from the proposed merger. The performance improvement is based on projections of the new credit union's ability to:

- Support incremental growth without an increase in expenses
- Grow assets at a faster pace than expenses
- Avoid duplicate costs through a consolidation of resources.

This new profit can be reinvested into three primary areas:

1. Incremental Growth:
    - Expansion of existing products and services
    - Delivery of more products and services, and the retention of existing products and services, to existing members
    - Delivery of products and services to new members in new communities.

2. Expanded Levels of Service:
    - Services to members
    - Internal services to staff
    - Enhanced integration of technology-oriented solutions.

3. Enhanced Efficiency and Effectiveness of Operations:
    - External processes for members
    - Internal processes for staff
    - Improved risk processes for staff.

1.0 Financial Projections

The following projections are conservative to illustrate a reasonable level of gained new profitability from the activities of the new credit union.

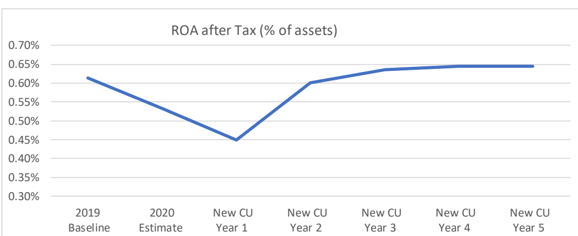
The combined credit union will integrate and enhance the efficiency and effectiveness of its operations over the first three years following the merger. The first-year post-merger will be focused on the development of an integration plan to launch combined operations at the end of that period.

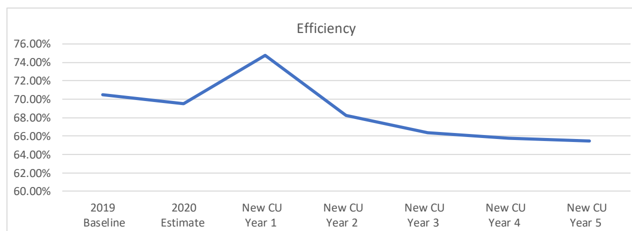
1.1 Ratios

Listed below are the projected key financial ratios listed from the 2019 base year, 2020 estimate to the end of year five.

Key Financial Ratios	2019 Baseline	2020 Estimate	New CU Year 1	New CU Year 2	New CU Year 3	New CU Year 4	New CU Year 5
Asset Growth		22.47%	4.98%	6.14%	7.11%	8.09%	8.08%
Loan to Assets	80.7%	73.1%	75.2%	76.9%	78.1%	78.6%	79.1%
Equity to Assets	8.2%	7.5%	7.7%	7.9%	8.2%	8.3%	8.5%
Margin (% of assets)	2.73%	2.43%	2.45%	2.48%	2.50%	2.52%	2.53%
Non-Interest Revenue (% of assets)	0.70%	0.51%	0.59%	0.56%	0.53%	0.50%	0.47%
Non-Interest Expense (% of assets)	2.41%	2.04%	2.27%	2.07%	2.01%	1.99%	1.96%
Loan Provision (% of loans)	0.07%	0.10%	0.08%	0.06%	0.07%	0.07%	0.07%
ROA before Rebates and Tax (% of assets	0.96%	0.82%	0.71%	0.92%	0.97%	0.98%	0.98%
ROA after Tax (% of assets)	0.61%	0.53%	0.45%	0.60%	0.64%	0.64%	0.65%
Efficiency	70.44%	69.54%	74.73%	68.21%	66.33%	65.76%	65.44%

The following charts show the return on assets recovery following the first two years of integration expenses and the improvement in efficiency over the first five years.





1.2 Income

Net income before provisions is expected to grow from $9.5 million in 2019 ($9.9 million in 2020) to $14.9 million in year five, representing growth of 50%.

1.3 Assets

Assets are projected to grow from $1.110 billion in 2020 to $1.436 billion in year five, representing growth of 29%.

1.4 Equity

Total capital is expected to grow from $83.3 million in 2020 to $121.7 million in year five, representing growth of 46%.

2.0 Merger Expenses

The financial projections noted above take into consideration a range of expenses including human resources harmonization, signage, technology, marketing and promotion, communications, website, compliance, legal and filings. The net effect of all of these items is a year one cost of $2.5 million, a year two cost of $425,000 and net cost recoveries in years three ($215,000), four ($180,000) and five ($120,000).

3.0 Pro-Forma Projections

The projected balance sheet is:

ASSETS	2019 Baseline	%	2020 Estimate	%	New CU Year 1	%	New CU Year 2	%	New CU Year 3	%	New CU Year 4	%	New CU Year 5	%
Cash	28,595,458	3.0%	25,000,000	2.3%	25,000,000	2.2%	25,000,000	2.1%	25,000,000	2.0%	25,000,000	1.9%	25,000,000	1.7%
Investments	136,927,064	14.6%	257,188,743	23.2%	244,417,866	21.2%	236,467,036	19.6%	236,989,992	18.7%	247,232,038	18.3%	258,157,648	18.0%
Total Cash and Investments	**165,522,522**	**17.6%**	**282,188,743**	**25.4%**	**269,417,866**	**23.4%**	**261,467,036**	**21.7%**	**261,989,992**	**20.6%**	**272,232,038**	**20.2%**	**283,157,648**	**19.7%**
Performing Loans	718,472,336	76.4%	768,765,399	69.2%	818,735,150	71.1%	876,046,611	72.8%	937,369,874	73.8%	1,002,985,765	74.3%	1,073,194,768	74.7%
Lines of Credit and Overdraft	44,534,012	4.7%	47,651,393	4.3%	50,748,733	4.4%	54,301,145	4.5%	58,102,225	4.6%	62,169,380	4.6%	66,521,237	4.6%
Impaired Loans	(4,279,487)	-0.5%	(4,200,000)	-0.4%	(4,200,000)	-0.4%	(4,200,000)	-0.3%	(4,200,000)	-0.3%	(4,200,000)	-0.3%	(4,200,000)	-0.3%
Total Loans	**758,726,861**	**80.7%**	**812,216,792**	**73.1%**	**865,283,883**	**75.2%**	**926,147,755**	**76.9%**	**991,272,098**	**78.1%**	**1,060,955,145**	**78.6%**	**1,135,516,005**	**79.1%**
Fixed Assets	8,770,229	0.9%	8,770,229	0.8%	8,770,229	0.8%	8,770,229	0.7%	8,770,229	0.7%	8,770,229	0.6%	8,770,229	0.6%
Accrued Interest - Investments	211,307	0.0%	396,842	0.0%	377,137	0.0%	364,869	0.0%	365,676	0.0%	381,479	0.0%	398,337	0.0%
Accrued Interest - Loans	2,722,245	0.3%	2,914,234	0.3%	3,104,639	0.3%	3,323,018	0.3%	3,556,684	0.3%	3,806,707	0.3%	4,074,231	0.3%
Foreclosed Property	264,107	0.0%	250,000	0.0%	250,000	0.0%	250,000	0.0%	250,000	0.0%	250,000	0.0%	250,000	0.0%
Deferred Tax	782,944	0.1%	782,944	0.1%	782,944	0.1%	782,944	0.1%	782,944	0.1%	782,944	0.1%	782,944	0.1%
Other Assets	3,059,657	0.3%	3,000,000	0.3%	3,000,000	0.3%	3,000,000	0.2%	3,000,000	0.2%	3,000,000	0.2%	3,000,000	0.2%
Total Other Asssets	**15,810,489**	**1.7%**	**16,114,249**	**1.5%**	**16,284,948**	**1.4%**	**16,491,060**	**1.4%**	**16,725,533**	**1.3%**	**16,991,359**	**1.3%**	**17,275,742**	**1.2%**
TOTAL ASSETS	**940,059,872**	**100%**	**1,110,519,784**	**100%**	**1,150,986,698**	**100%**	**1,204,105,851**	**100%**	**1,269,987,623**	**100%**	**1,350,178,542**	**100%**	**1,435,949,395**	**100%**
LIABILITIES														
Deposits	712,849,693	75.8%	876,805,123	79.0%	911,877,327	79.2%	957,471,194	79.5%	1,014,919,465	79.9%	1,085,963,828	80.4%	1,161,981,296	80.9%
Shares	139,916,970	14.9%	139,916,970	12.6%	139,916,970	12.2%	139,916,970	11.6%	139,916,970	11.0%	139,916,970	10.4%	139,916,970	9.7%
Total Member Deposits	**852,766,663**	**90.7%**	**1,016,722,092**	**91.6%**	**1,051,794,297**	**91.4%**	**1,097,388,164**	**91.1%**	**1,154,836,435**	**90.9%**	**1,225,880,798**	**90.8%**	**1,301,898,266**	**90.7%**
Accrued Interest - Deposits	5,438,648	0.6%	6,484,654	0.6%	6,708,344	0.6%	6,999,142	0.6%	7,365,547	0.6%	7,818,668	0.6%	8,303,507	0.6%
Other Liabilities	4,460,259	0.5%	4,000,000	0.4%	4,000,000	0.3%	4,000,000	0.3%	4,000,000	0.3%	4,000,000	0.3%	4,000,000	0.3%
Loans Payable	8,634	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Total Other Liabilities	**9,907,540**	**1.1%**	**10,484,654**	**0.9%**	**10,708,344**	**0.9%**	**10,999,142**	**0.9%**	**11,365,547**	**0.9%**	**11,818,668**	**0.9%**	**12,303,507**	**0.9%**
Total Liabilities	**862,674,203**	**91.8%**	**1,027,206,746**	**92.5%**	**1,062,502,641**	**92.3%**	**1,108,387,305**	**92.1%**	**1,166,201,982**	**91.8%**	**1,237,699,466**	**91.7%**	**1,314,201,773**	**91.5%**
Retained Earnings	71,624,587	7.6%	77,385,669	7.0%	83,313,038	7.2%	88,484,057	7.3%	95,718,546	7.5%	103,785,641	7.7%	112,479,076	7.8%
Operating Income	5,761,081	0.6%	5,927,370	0.5%	5,171,018	0.4%	7,234,489	0.6%	8,067,095	0.6%	8,693,435	0.6%	9,268,546	0.6%
Total Capital	**77,385,669**	**8.2%**	**83,313,038**	**7.5%**	**88,484,057**	**7.7%**	**95,718,546**	**7.9%**	**103,785,641**	**8.2%**	**112,479,076**	**8.3%**	**121,747,622**	**8.5%**
TOTAL LIABILITIES & CAPITAL	**940,059,872**	**100%**	**1,110,519,784**	**100%**	**1,150,986,698**	**100%**	**1,204,105,851**	**100%**	**1,269,987,623**	**100%**	**1,350,178,542**	**100%**	**1,435,949,395**	**100%**

The projected income statement is:

	2019 Baseline	%	2020 Estimate	%	New CU Year 1	%	New CU Year 2	%	New CU Year 3	%	New CU Year 4	%	New CU Year 5	%
Net Interest Margin	**25,626,864**	**2.73%**	**26,985,631**	**2.43%**	**28,199,174**	**2.45%**	**29,861,825**	**2.48%**	**31,749,691**	**2.50%**	**34,024,499**	**2.52%**	**36,329,520**	**2.53%**
Total Non-Interest Revenue	**6,581,635**	**0.70%**	**5,663,651**	**0.51%**	**6,790,822**	**0.59%**	**6,742,993**	**0.56%**	**6,730,934**	**0.53%**	**6,750,893**	**0.50%**	**6,748,962**	**0.47%**
Personnel	(10,754,054)	-1.14%	(10,861,595)	-0.98%	(11,296,059)	-0.98%	(11,747,901)	-0.98%	(12,335,296)	-0.97%	(12,952,061)	-0.96%	(13,599,664)	-0.95%
Member Security	(1,297,961)	-0.14%	(1,297,961)	-0.12%	(1,349,879)	-0.12%	(1,403,874)	-0.12%	(1,460,029)	-0.11%	(1,518,431)	-0.11%	(1,579,168)	-0.11%
Organization	(232,235)	-0.02%	(232,235)	-0.02%	(232,235)	-0.02%	(239,202)	-0.02%	(246,378)	-0.02%	(253,770)	-0.02%	(261,383)	-0.02%
Occupancy	(1,165,482)	-0.12%	(1,165,482)	-0.10%	(1,212,101)	-0.11%	(1,260,585)	-0.10%	(1,311,008)	-0.10%	(1,363,449)	-0.10%	(1,417,987)	-0.10%
General Business	(9,239,344)	-0.98%	(9,146,950)	-0.82%	(9,512,828)	-0.83%	(9,893,341)	-0.82%	(10,388,009)	-0.82%	(10,907,409)	-0.81%	(11,452,779)	-0.80%
Merger Related	-	0.00%	-	0.00%	(2,545,000)	-0.22%	(425,000)	-0.04%	215,000	0.02%	180,000	0.01%	120,000	0.01%
Total Non-Interest Expense	**(22,689,076)**	**-2.41%**	**(22,704,223)**	**-2.04%**	**(26,148,102)**	**-2.27%**	**(24,969,904)**	**-2.07%**	**(25,525,721)**	**-2.01%**	**(26,815,119)**	**-1.99%**	**(28,190,981)**	**-1.96%**
Net Income Prior to Provisions	**9,519,424**	**1.01%**	**9,945,059**	**0.90%**	**8,841,893**	**0.77%**	**11,634,914**	**0.97%**	**12,954,904**	**1.02%**	**13,960,273**	**1.03%**	**14,887,501**	**1.04%**
Loan Provisions	(506,878)	-0.05%	(800,000)	-0.07%	(700,000)	-0.06%	(600,000)	-0.05%	(650,000)	-0.05%	(700,000)	-0.05%	(750,000)	-0.05%
Member Rebates	(1,278,424)	-0.14%	(1,188,858)	-0.11%	(1,200,929)	-0.10%	(1,324,190)	-0.11%	(1,476,589)	-0.12%	(1,591,233)	-0.12%	(1,696,500)	-0.12%
Net Income Prior to Taxes	**7,734,122**	**0.82%**	**7,956,201**	**0.72%**	**6,940,964**	**0.60%**	**9,710,724**	**0.81%**	**10,828,316**	**0.85%**	**11,669,040**	**0.86%**	**12,441,001**	**0.87%**
Income Tax	(1,973,031)	-0.21%	(2,028,831)	-0.18%	(1,769,946)	-0.15%	(2,476,235)	-0.21%	(2,761,221)	-0.22%	(2,975,605)	-0.22%	(3,172,455)	-0.22%
NET INCOME	**5,761,091**	**0.61%**	**5,927,370**	**0.53%**	**5,171,018**	**0.45%**	**7,234,489**	**0.60%**	**8,067,095**	**0.64%**	**8,693,435**	**0.64%**	**9,268,546**	**0.65%**

Part Nine
KEY INITIATIVES AND GOALS

Working collaboratively the partners envision a new future as a company that is built from the best that each organization can contribute, to maintain an organization dedicated to service, advice and community.

1.0 Strategic Goals

The shared future vision is a credit union that is operationally competitive and differentiated through its service to members. If this vision is successfully implemented, within five years it is anticipated that the following financial, member, staff and community goals will have been achieved.

Financial: Within five years of the merger, the combined credit union will realize an increase in annual profit that can be reinvested back into business, driving greater value for members across each of our communities.

Members: The combined credit union will have strong and lasting relationships with its members based on the range of services, quality of service and advice, and commitment to community.

Staff: The combined credit union will attract and retain talented staff who are committed to the successful achievement of corporate goals and objectives.

Community: The combined credit union will continue to be engaged with local leaders as they endeavour to build sustainable communities.

2.0 Short-Term Focus

In the short-term, which is defined as the first three years post-merger, the new credit union will focus on integration issues and building the competencies that will differentiate it in the longer-term. The priority projects in the short-term include:

1. Operational Effectiveness
2. Skills Training and Development
3. Risk Reduction
4. Business Development
5. Member, Staff and Community Engagement.

3.0 Long-Term Focus

In the longer-term, defined as more than three years post-merger, the new credit union will turn its attention from integration and building to the effective execution of its growth and business development strategies to drive higher levels of financial capacity for reinvestment into greater value for members.

Growth and business development will not wait until year three to be launched, the intent is that they will operate simultaneously with integration issues; however, additional capacity will be available following integration to dedicate more resources to growth and development commencing in year three.

Part Ten
Implementation Plan

Once the merger has been confirmed to close on September 30, 2021 (with the new credit union taking effect October 1, 2021)[2], steps will be taken to successfully integrate operations and commence activities in support of the outlined strategic goals and objectives. Implementation Plans will be developed for the following operational areas:

Administration
Finance and Accounting Strategy
Information Technology
Credit
Loan Operations
Products
Third-Party Providers
Training

Each of these areas will required detailed implementation plans is described below. In addition to the above operational areas, the four credit unions are focusing a significant amount of energy on the merger communications plan. The communications plan will share the benefits of the merger with staff and members, with the goal to solicit support for the merger.

[2] This date may be adjusted to close December 31, 2021 to take effect January 1, 2022 based on the timing of activities planned post-vote pre-close. A definitive decision will be made prior to the Amalgamation Agreement being presented to the Regulator and the members for approval.

Part Eleven
Timeline

Draft Timeline	2020								2021									
	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O
Partnership Principles																		
Memorandum of Understanding																		
Conceptual Design (CD)																		
Board Approval of CD (go/no-go #1)																		
Due Diligence (DD)																		
Board Approval of DD (go/no-go #2)																		
Business Case (BC)																		
Board Approval of BC (go/no-go #3)																		
Regulatory Approval																		
Communications																		
Board Approval of the Merger Agreement																		
Membership Approval																		
Competition Bureau																		
Closing Date																	30	
Effective Date																		1