# CREDIT UNION COLLABORATION

## MERGER BUSINESS CASE

North Sydney Credit Union
Sydney Credit Union

June 12, 2023

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# EXECUTIVE SUMMARY

The Boards and Management Teams of North Sydney Credit Union (North Sydney) and Sydney Credit Union (Sydney), collectively referred to as the partners, are proposing a merger between their two 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 management and specialized expertise:** Increased regulatory and risk management require all credit unions to have management teams and specialized expertise to maintain a safe and secure banking environment to serve current members and grow with future members.
- **Limited market growth opportunities:** It is becoming increasingly challenging for community-based credit unions to compete in today's market. Across the country, credit unions with broader market scope are growing their membership at faster rates than smaller credit unions.
- **Increasing competitive demands:** The competitive demands of the financial services industry are changing quickly. It is becoming increasingly necessary for credit unions to find new ways to collaborate and consolidate efforts to maintain and grow their competitive position.

In 2023, the boards of the two credit unions tasked a committee to develop a business case for 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,** combining operations can provide new career growth and professional development opportunities**.** It also enables the credit union to develop a stronger resource strategy, to ensure it has the talent needed to support current operations and can develop succession and growth plans for the board, management, and specialized staffing.

**For community,** the new credit union strengthens the cooperative values shared by the two partners and enables greater opportunities to build awareness and partnerships that create meaningful impact in Cape Breton Regional Municipality.

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

The proposed merger provides several other potential benefits for the two 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 opportunities to further develop business in the commercial market and a broader portfolio of banking and wealth management services.

**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.

This business case describes what the merged credit union would look like and achieve, in contrast to the status quo. While there are a number of factors the new credit union will need to consider as it addresses its challenges and opportunities, 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

North Sydney and Sydney have been strong partners for many years. In 2022, North Sydney engaged Sydney to provide management services. This engagement has worked very well, and the boards of the two credit unions began discussions to consider a more formal and permanent partnership. Merger discussions began in January 2023 and a Steering Committee with representatives from both boards was tasked with creating a business case to show how a merger will benefit the combined membership, employees, and communities.

Both credit unions have strong community roots and a rich history of service. Further, as smaller and mid-sized credit unions, they bring strong knowledge of their members and connections to their shared local community. While each credit union has much to be proud of, several trends are making it more challenging to sustain long-term value for 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
- Limited access to specialized services
- Lack of succession options for directors and employees

Though each partner may find 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, the partners can realize savings that can be reinvested back into the business, driving greater value for members. This can create benefits in the following areas:

- Enhance and sustain levels of service to members
- Enhance and sustain the efficiency and effectiveness of operations
- Fund increased business growth
- Increase investments 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 are capable of delivering independently.

## 1.1 Partnership Principles

Members of the joint committee of directors and the management team from the two 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 seven principles:

1. A partnership between our two credit unions must create tangible value and benefits for the members of each credit union. *This will be the ultimate test.*
2. Each of the partner credit unions contributes uniquely and it is the collective breadth and depth of those contributions that makes us stronger together. *We can use collective contributions to build new value for our members and our communities.*

3. Any collaboration must leverage all the talent we have in our existing credit unions and any changes in roles or responsibilities will be managed fairly and transparently. *This is the right thing to do.*
4. Where possible our collaboration will take a long-term view in the best interests of our members, our staff, and our credit unions. *This is our future focus.*
5. Together we will design a future where we are focused on the mutual gains that we can generate. *Our collaboration is a creation, not a negotiation.*
6. Our goals and objectives, issues and concerns will be openly and transparently discussed. *Together we are stronger.*
7. As partners, we recognize other credit unions may wish to join later and therefore we are planning a credit union that will be scalable to accommodate future partners. *This is what collaboration looks like.*

## 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.

| | North Sydney Credit Union | Sydney Credit Union |
|---|---|---|
| **VISION** | We will be a leader in the cooperative financial industry, responding to the advancing needs of our members and our community. | To exceed member and community expectations. |
| **MISSION** | We professionally provide competitively priced financial products and services that meet the needs of our members and the community we serve. | We are a financial cooperative committed to providing programs and services which enhance the economic and social well being of our members and our community. |

**Credit Union History**

**North Sydney Credit Union** was formed in 1937 by a small group of citizens committed to the co-operative movement. The old town hall was its first branch location. With a focus on meeting the needs of its members, the credit union is proud of its many years of service to the North Sydney community.

**Sydney Credit Union** began in 1935 by a small group of citizens committed to supporting each other and the economic revival for the community. The spirit of caring and commitment that founded Sydney Credit Union so many years ago remains the cornerstone of the institution today.

## 1.3 Strategic Direction and Vision

The partners share a common vision to create a sustainable future-focused credit union that continues to enhance the economic and social well-being of their members and community.

Working together, the credit union will strengthen its community roots and commitment to serving the current and emerging needs of members with exceptional employees and accessible services. They aspire to be operationally strong, financially sustainable, and offer a competitive portfolio of products and services.

## 1.4 Value Proposition

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

## 1.5 Strategic Goals

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

- Personalized Service: Focus on service to members, relationships, and business development.
- Products and Service: Enhance product and service offerings and increase lending capacity.
- Specialized Expertise: A combined organization enables more opportunities for staff to specialize in areas which enhance member services and internal operations.
- Enhanced Community Support: Combining resources strengthens the credit union's community investment and opportunity to have impact.

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

- Manage the risks that both partners face in an increasingly complex and competitive market.
- Invest in staff training and career development.
- Deliver more responsive member and market solutions.

## 1.6 Building from Partnership and Collaboration

The credit unions have experience partnering with each other and collaborating to achieve shared goals:

- Management: Sydney has been providing Management Services to North Sydney since 2022.
- Community Investment: Both partners have collaborated with other credit unions in CBRM on shared community initiatives and sponsorship – Hospice Cape Breton, Cape Breton University.
- Shared Services: The two partners participate in regional services programs – Asset Liability Management, Products and Marketing, and Risk Management & Compliance.

An amalgamation is the most effective form of collaboration, as it allows for the two partners 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

The amalgamation will proceed if both membership groups vote in favour and if approved by the provincial regulator.

## 1.8 Summary

The two 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 resources 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.

# PART TWO: ENVIRONMENTAL ANALYSIS – WHY MERGE NOW?

The proposed merger of the two 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 two 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 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 two partners would be in a stronger position to invest in 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 Cape Breton is aging. It is important for the partners to grow and attract new members to sustain and diversify operations. For the new credit union, this will mean sustaining efforts to attract younger members, and diversifying by growing business with small to midsize business owners.

Members from both credit unions 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 sustaining and growing as part of the merged organization's value proposition.

## 2.3 Attracting Talent

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

## 2.4 Economic Challenges

Serving the Cape Breton Regional Municipality (CBRM), the two credit unions face similar challenges.

- Revenue Growth: The uncertainty around COVID-19 and economic recovery limited revenue growth.
- Demographics: An aging population and a shortage of workers with the skills and interests that are suited to working in a credit union environment make it a challenge to sustain and grow operations.

The two partners realize the challenges they face in growing their membership. They also recognize there are 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 Nova Scotia 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 two 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 and build on the operational strengths that exist with Sydney Credit Union and maintain all branch 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 Sydney Credit Union's legal address located at 95 Townsend Street, Sydney, Nova Scotia, B1P 5C9.

### 3.2 Corporate Premises

Given the proximity of the branches, the administration and corporate staff may work in different branch locations, but the administrative functions will largely be based in the Sydney River office.

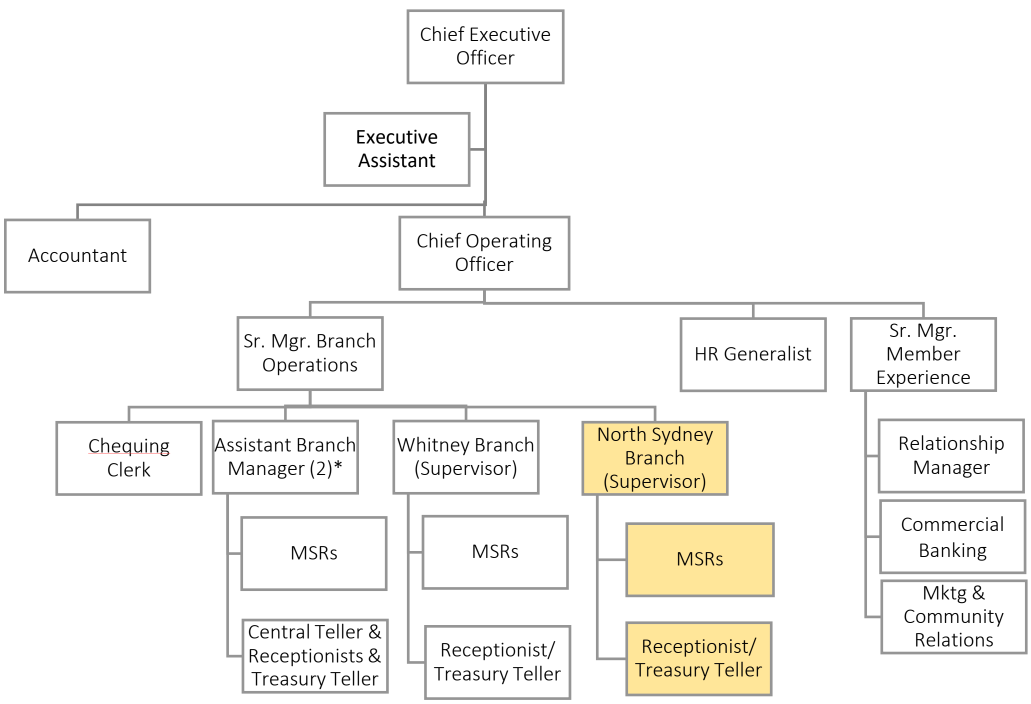
### 3.3 Credit Union Name

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

### 3.4 CEO & Organizational Structure

The merged organization will be led by a single board of directors and Sydney's current CEO, Carol Ripley.

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



### 3.5 Human Resources

The principles to support combining two independent credit unions to a single operation include:

- No loss of employment as a direct result of the merger. As part of the normal course of business, the credit union may realize staffing reductions through retirements and attrition.
- Some jobs will change, and the credit union will make its best efforts to accommodate those affected, 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 our collective contributions, results, and success.
- At all times, employees, and the issues important to them, will be treated with respect, compassion, and fairness.
- The collective bargaining process and all collective agreements will be always respected.

### 3.6 Corporate Governance

The inaugural board (the first Board of the new credit union) is comprised of 11 directors – nine directors appointed from Sydney and two directors from North Sydney. The inaugural directors will serve a range of terms from one to four years. Following the expiry of each term and subject to the Director's overall limit of 12 years of service, Directors will have the option of running for a new standard 3-year term.

With an eleven -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 & HR, Audit & Risk, Environmental, Social & Governance (ESG) and Credit. The mandates for each committee are shown below:

| Executive & HR | Audit & Risk | Environmental, Social and Governance (ESG) | Credit |
|---|---|---|---|
| Oversee the Board's relationship with CEO and coordinate the ongoing responsibilities of the Board. This committee is comprised of the Chair, Vice Chair, Secretary, Past Chair or second Vice Chair (if past Chair not available). | 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 nominations, assessments, and development plans, to ensure Board renewal goals and objectives are met. This committee will also oversee co-operative and social responsibility goals, environmental goals, and diversity, equity, inclusion, and accessibility goals. | As required by the NS Act, this Committee will oversee the lending policy environment, and ensure adherence to regulatory requirements. |

The committees will be assigned five members and three members will form a quorum. Each committee will be chaired by a director and the Chief Executive Officer and designates shall act as resources to the committees. The committees may also recommend new members be added as needed to assist with special projects. These recommendations will be sent to the Board for approval. The Chair of the Board will be an ex-officio non-voting member of each Committee.

It is further recommended the inaugural Board include a Chair, Vice Chair and Secretary. Within the first five years of the new credit union, the Board should complete a thorough analysis of the effectiveness of the governance model to determine if any changes are required to the board size, composition, and/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 adopt Sydney Credit Union's operations and governance policy with amendments made to ensure compliance for all elements required of both partners and the new credit union. Processes will need to be established to review and amend the Sydney policies as necessary before the effective date of the merged credit union to ensure they will be compliant on day one. Any changes will be carefully reviewed by Management and Board Committees, 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:

| Director | Term |
|---|---|
| Holly Chisholm | 2 |
| Jay Hollohan | 2 |
| Stephen Jamael | 1 |
| Joyce Lind | 2 |
| Sarah MacEachern | 4 |
| Debby MacKinnon | 3 |
| Mike Mombourquette | 4 |
| Mary Jane Morrison | 4 |
| Ron Neville | 3 |
| Megan Ringer | 1 |
| Max Sehl | 3 |

## 3.8 Board and Director Terms of Reference

The role of the Board of Directors 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 the previous partner organizations.

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

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

The technical skills and competencies for directors were shared with the two 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 11 directors and led by a single CEO. The merged credit union will leverage Sydney's 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 offering customized banking solutions that best achieve members' financial goals.

## 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 both 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.

## 4.2 Growing with New Members and Markets

There are opportunities for the new credit union to diversify and expand products to attract new members and grow valued market segments. This includes small 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 and newcomers, which is an important growth segment within CBRM.

## 4.3 Service Delivery

There is a strong alignment in the products and services offered by both 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 help the new organization become the financial institution of choice for more members in the communities it serves. To support future growth, the new credit union will strive to become easier to do business with and adopt service standards to ensure a consistent experience is delivered across all branches and service touchpoints.
- Specialized Expertise: It will 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 required to meet member needs.

**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 will have increased capacity to lend and diversify financing opportunities, including participation in syndicated loans and optimizing loan portfolios with League Savings & Mortgage (LSM). This 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 combined 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 credit union will be responsive to changing market conditions and take steps when needed to ensure it maintains and grows its competitive market position.

# PART FIVE: BRAND AND MARKET POSITION

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

## 5.1 Brand Overview

The new credit union will help members in achieving their financial goals by providing advice and services that focus on their best interests. It will do this by maintaining an unwavering commitment to the principles and values that underpin the partners' shared co-operative approach to banking and achieving their goal of being the financial institution of choice in 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, 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

The new credit union will leverage the regional marketing program, 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 recognized 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

Both partners actively support local community initiatives. The new credit union will support and build on these traditions.

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 CBRM. These opportunities may take the form of donations, sponsorships, and community investments.

## 5.4 Summary

Both 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 culture to strengthen and grow the relationships it has with members, employees and community and its commitment to building better futures for all.

# PART SIX: MEMBER & REGULATORY APPROVAL

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

Both partners will ensure the business case, due diligence and amalgamation plan satisfies 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 for mergers and integrations 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 that 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 prior to its submission to the Regulator for advance approval, before being submitted to the membership for approval.

## 6.5 Shares

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

## 6.6 Member Approval

The partners propose the voting process for members will be launched by each credit union at meetings held in September and remain open for ten 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 meetings September 11, 2023, with voting opening immediately following the meeting on September 11, 2023, and closing September 21, 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 credit unions undertook a due diligence process to ensure there is full disclosure regarding the nature of the assets, liabilities and risks that will be combined to create the merged credit union.

## 7.1 Due Diligence Approach

To ensure Boards from both credit unions were able to review a report that assessed objective and independent data, Atlantic Central facilitated the due diligence process. For Sydney Credit Union, the primary focus was to understand the nature of risks and opportunities they would assume by amalgamating with North Sydney Credit Union. For North Sydney Credit Union, the primary focus was to understand how well their employees, members and community would be served by combining operations with Sydney Credit Union. For both partners, Atlantic Central provided the platform, process, and reports for the partners to share, access and synthesize the information.

## 7.2 Business Areas Reviewed and Assessment

The due diligence report reviewed the records, policies, and practices in the following areas:

1. Financial and Accounting
2. Loans Administration
3. Risk Management and Compliance
4. Human Resources
5. IT
6. Member Services
7. Community

## 7.3 Overall Findings

**There were no areas of material risk or concern identified that would suggest that the merger between North Sydney Credit Union and Sydney Credit Union should not proceed.**

In all key areas, there is evidence that North Sydney will benefit from Sydney's resources, capabilities, adherence to best practice, and an environment that promotes a strong and healthy work culture.

# PART EIGHT: FINANCIAL

A detailed financial analysis was conducted to assess the impact of the merger. To isolate the potential opportunity for both organizations, the financial projections were done in two steps. The first considers North Sydney's potential growth as an independent credit union and as part of Sydney. The second focuses on Sydney – projecting its results using its current business plan targets and with the addition of North Sydney. This analysis is aligned with the strategic goals and opportunities available to the merged credit union and reflects the operational initiatives that will need to be implemented in the first few years of the merged credit union.

## 8.1 Economic Context

The Bank of Canada has increased the benchmark overnight rate 8 consecutive times between March 2022 and January 2023, from 0.25% to 4.50%. The rapid rise in the overnight rate and market rates has benefited the bottom line of most credit unions as loan, mortgage, investment, and liquid asset yields jumped. We now expect credit union financial margins to flatten and, possibly, decline as rising deposit costs filter through credit union balance sheets. Interest rates are expected to remain stable through 2023 and possibly start declining later this year and into 2024 as projected inflation approaches the Bank's target level. This could put additional pressure on financial margins.

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

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

## 8.2 Assumptions

The following assumptions were used for the merger scenario:

| | North Sydney | | Sydney | |
|---|---|---|---|---|
| | No Merge | Merge | No Merge | Merge |
| Asset Growth | 2024-27: 3% | 2024-25: 6%;<br>2026-27: 7% | 2024-27: 5% | 2024-25: 6%;<br>2026-27: 7% |
| Loan to Asset Ratio | 2024-27: 45% | 2024: 55%;<br>2025: 65%;<br>2026: 75%;<br>2027: 75% | 2024-27: 79% | 2024-27: 79% |
| Financial Margin | 2024: 2.92%;<br>2025: 2.93%;<br>2026-7: 2.94% | 2024: 3.20%;<br>2025: 3.46%;<br>2026: 3.75%<br>2027: 3.80% | 2024: 2.82%;<br>2025: 2.83%;<br>2026: 2.84%;<br>2027: 2.85% | 2024: 2.83%;<br>2025: 2.84%;<br>2026: 2.87%;<br>2027: 2.88% |
| Expense Growth Rate | 5% (2024);<br>4% (2025-27) | 5% (2024);<br>4% (2025-27) | 5% (2024),<br>4% (2025-27) | 5% (2024),<br>4% (2025-27) |

**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. These costs include things such as marketing, communication, and signage fees of $35,000, and other consulting fees related to integration of services. Other expenses related to consulting fees and the integration of services are included in 2023 budgets.

The merger will also bring anticipated savings, as the credit unions consolidate operations – for example annual savings for board and audit efficiencies are projected to be $20,000 beginning in 2024. In a 'no merge' scenario, it is anticipated North Sydney would need to hire a new CEO with annual personnel expenses increased by $30,000 in 2024.

## 8.4 Financial Projections

Using realistic estimates for growth and expenses, the new credit union is projected to exceed $450 million in total assets in 2027. It is also projected to generate nearly $2.4 million in surplus in 2027. This represents an impressive gain for what can be achieved when the two organizations are combined.

When comparing the impact of the merger on the credit unions individually, it also delivers positive results for each. When merged with Sydney, North Sydney in 2027 is projected to grow surplus by four-times, improve return on assets by 78 basis points, and become more efficient, while continuing to maintain a strong equity level over a much larger asset base. The primary drivers for this growth are a higher loan to asset ratio and changing the mix of business to include more commercial lending. Sydney also benefits from the merger in all measures as shown in the table below:

| Projections – 2027 | Sydney + North Sydney Merge | Sydney Merge | Sydney No Merge | North Sydney Merge | North Sydney No Merge |
|---|---:|---:|---:|---:|---:|
| Surplus ($000s) | **$2,391** | $1,943 | $1,515 | $447 | $90 |
| Return on Assets | **0.55%** | 0.49% | 0.40% | 1.00% | 0.22% |
| Efficiency (lower is better) | **77.09%** | 78.43% | 82.34% | 68.65% | 93.16% |
| Equity | **8.50%** | 8.26% | 8.51% | 10.65% | 10.08% |
| Total Assets ($000s) | **$452,202** | $405,866 | $383,496 | $46,336 | $40,541 |

## 8.5 Summary

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

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

# PART NINE: KEY INITIATIVES & GOALS

The two partners envision a future as a credit union that is built from the best components 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** | Strengthen community focus to adopt an environmental, social, and governance (ESG) framework and evolve current community investments 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 building the strategic competencies that will differentiate its competitive position and create member value. The priority projects in the short-term include:

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

## 9.3 Long-term Focus

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 is 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.

** Sydney and North Sydney are set to migrate to the new banking system in January or February 2024. Core banking timelines will be refined through 2023.*

## 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 September to November 2023.

# PART ELEVEN: RECOMMENDATION

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

**WHEREAS:**

A. The board of directors (the "Board") of [insert credit union name] has reviewed the business case (the "Business Case") presented to it by their members of the Joint Partnership Committee in connection with the proposed amalgamation of North Sydney Credit Union (North Sydney), and Sydney Credit Union (Sydney) (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 Union 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 XXX 2023 as presented;
(b) The [CEO] 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] and Joint 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.