

Amalgamation Plan

Proposal for the Amalgamation of
Community Credit Union of Cumberland Colchester
&
Valley Credit Union



April 2012

Prepared for the members of
Community Credit Union of
Cumberland Colchester &
Valley Credit Union

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Introduction

This business plan has been developed to ensure that an informed decision is made by the members of Community Credit Union of Cumberland Colchester and Valley Credit Union on this proposal for amalgamation.

These credit unions include over 20,000 members, a workforce of over 100 employees and current assets of \$210 million under direct administration and over \$50 million under indirect administration with partners and affiliates.

An Amalgamation Committee with representatives from the Board and Management of each credit union has participated in the development of this business plan. The co-operation and focus of this group and the commitment from all levels of Management of both credit unions have been instrumental in discussing and resolving the many issues involved in such a proposed partnership.

Both Boards of Directors have unanimously endorsed this proposal for amalgamation at a meeting held on March 3rd, 2012 and therefore recommend approval by the membership of each credit union.

So Why Amalgamate?

The business of providing financial services is becoming much more challenging. Members expect and deserve an ever increasing range of competitive products and services with convenient access including automated payments systems, ATMs, Electronic Services including Member *Direct* online banking. These services must be supported by knowledgeable staff able to provide financial advice and build confidence in the member relationship.

There have been numerous amalgamations of credit unions in the region over the past 10 years. The proven results of amalgamations clearly show that individual credit unions can be better positioned to meet competitive challenges by combining their operations. The amalgamated credit union is better able to focus its resources on developing stronger member relationships and increase its business development activities.

Regulatory and operating requirements are becoming much more complicated and time consuming for each credit union. There are significantly increased compliance requirements for privacy, money laundering, consumer disclosure, asset liability management and governance controls. As a result of amalgamation the consolidation of regulatory compliance, accounting and administration functions will provide for greater efficiencies and more effective time management.

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There are opportunities for growth and development that can be better addressed through a stronger, more broadly based credit union. Opportunities exist for increased small to medium sized business services and the amalgamated credit union will have the ability to focus more management resources on such business development. We will be better positioned to respond to market opportunities and to challenge the competition. As the credit union business grows, so too will the opportunities for staff to develop their careers within a larger organization.

Finally, the Boards of Directors believe that a sense of community and local ownership can be retained in such an amalgamation. Both credit unions have a traditional mix of both rural and to some extent, urban membership. Both credit unions share similar mission statements and a common sense of values. Both credit unions support their communities and we believe there are opportunities to play an even stronger role in corporate social responsibilities throughout the market area.

The aim of the amalgamation is to create a larger, stronger and combined credit union presence in the Northern, West and Valley area, which will focus more resources on member relationship building and business development. The market area will encompass the larger areas of Cumberland, Colchester, Kings, Annapolis Counties extending to parts of Hants and Queens County.

The partnership being formed will have representation from each credit union, with board members being comprised of six directors from Community Credit Union of Cumberland Colchester and six directors from Valley Credit Union.

Principles of Amalgamation

1. The proposed effective date of amalgamation will be July 1st, 2012.
2. The name of the amalgamated credit union will be FirstNova Credit Union Limited, with branches located in Amherst, Truro, Hantsport, Canning, New Minas, Cambridge, Greenwood, Middleton, Bridgetown and Caledonia.
3. The initial Board of Directors will have representation from each of the amalgamating credit unions consisting of six directors from Community Credit Union of Cumberland Colchester and six directors from Valley Credit Union.
4. The existing staff will all be retained with the amalgamation.
5. The amalgamated credit union will be profitable to the extent that it can maintain the strong reserves position and have sufficient resources to fund future development.
6. A full range of competitive products and services will be provided.
7. Atlantic Central and CUDIC will support the development of a viable and stronger credit union.

Vision

We will retain our high level of personal service, while keeping current with technology and providing greater access for members. More specialists will provide a wider variety of products and services in such areas as wealth management and small and medium sized business services, and these services will be available to all members.

We will actively promote and be recognized for our community support and involvement.

We will remain competitive in our pricing and services offered to our members.

We will recognize the value of our people and continue to invest in training, staff development and director education.

We will continually explore the feasibility of expanding our business to include other partners and potential locations.

People

Membership

The combined membership of the amalgamated credit union will include 20,000 members. This includes 8,000 members of Community Credit Union of Cumberland Colchester located mainly in Cumberland and Colchester Counties and 12,000 members at Valley Credit Union located mainly in Kings and Annapolis Counties.

Membership in the amalgamated credit union will be open to all those conveniently served, shall follow sound business practices and comply with the Credit Union Act of Nova Scotia. A member of the credit union who ceases to be a resident of the Province of Nova Scotia may retain membership and continue to have all the rights and privileges of membership.

Each member of the credit union shall be required to purchase and hold a minimum of One (1) fully paid share, by subscription in amounts not less than \$5.00 with such purchase being made by full payment in money or as otherwise set out in the policies of the credit union.

Members under the age of nineteen (19) shall be required to purchase one share.

Board of Directors

The Board of Directors of the amalgamated credit union will consist of 12 directors – six selected from Community Credit Union of Cumberland Colchester and six selected from Valley Credit Union. The directors selected for the new board are identified in the Amalgamation Agreement.

The initial Board of Directors will have one to three year terms staggered as follows:

- Four 1-year terms expiring in 2013
- Four 2-year terms expiring in 2014
- Four 3-year terms expiring in 2015

After amalgamation, as vacancies occur on the Board of Directors, nominations and elections shall be from the combined membership with director quotas based on geographic location. The By-laws stipulate the geographic process with definition under Board Policy.

Vacancies on the Board will be filled in compliance with by-laws which will stipulate that if members fail to elect the required number of directors at a meeting, the directors elected at that meeting may exercise all the powers of the directors if the number of directors so elected constitutes a quorum. If there is a failure to elect the required number of directors to comply with the foregoing at a meeting of the members, the

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directors then in office shall immediately call a meeting of the members to fill the vacancy(s). The Credit Union Act will be followed in all cases.

The Board of Directors of the amalgamated credit union will appoint legislated committees where required by the Act. Overall committees will include an Executive Committee, an Audit Committee, a Credit Committee and may include any other committee(s) deemed necessary by the Board of Directors.

Staff and Organization Structure

The organizational structure of the new credit union will be according to the organization chart included as **Appendix One** of this plan. This structure is seen as appropriate to support the credit union growth for the next two to five years.

This structure includes the following staff positions:

Management (16)

- President & Chief Executive Officer
- Executive Vice President
- Vice President, Finance
- Vice President, Lending Services
- Vice President Corporate Lending Services
- Human Resources Manager (1)
- Branch Managers (10)

Non Management (64)

- Financial Services Officer-FSO (12)
- Marketing (2)
- IT (2)
- Internal Auditor (1)
- Loan Auditor(1)
- Accounting positions (4)
- Collections (1)
- Loan Officer (5)
- Loans Clerk (5)
- Commercial Loan Officer (2)
- Financial Services Representatives - FSR (27)
- Receptionist (2)

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The Chief Executive Officer of the amalgamated credit union will be Michael Wark, currently the CEO of Valley Credit Union Limited. The CEO will report directly to the Board of Directors and have overall responsibility for the affairs of the credit union. The job description will also indicate a day to day focus and emphasis on Financial and Risk Management aspects of credit union operations.

The Executive Vice President of the amalgamated credit union will be Darrell Kuhn, currently the CEO of Community Credit Union of Cumberland Colchester. The Executive Vice President will report directly to the CEO and in his absence, assume his responsibilities reporting to the Board of Directors.

The existing staff will all be retained at amalgamation. Some job functions and work processes at all locations may be amended as the result of amalgamation. Management and administrative functions will also change as a result of creating a larger ten branch organization. It is anticipated that there will be a consolidation of day to day business processes at branch locations, ie. integration of clearing activities, co-ordination of marketing and advertising, publication of newsletters, preparation of monthly operating statements and financial reports, credit approval and adjudication, collections and recovery oversight etc..

The dedication of the combined management resources, focusing on human resources, marketing, technology support and branch operations, will impact duties, responsibilities and reporting levels of managers and others. These changes will be finalized by management after the legal amalgamation date as part of the conversion plans to bring the two operations together. Training and coaching will be provided to facilitate these changes.

There will be increased emphasis on member service and business development.

Some staff will develop greater "specialization" in their areas of responsibility, thus providing more challenging career opportunities.

When conversion is completed, management and staff from both credit unions will receive comparable compensation and benefits within the new entity.

The registered office of the amalgamated credit union will be located at: 5682 Highway #1, Cambridge, Nova Scotia.

Money

Appendix 2 outlines the most recent year end financial results for both existing credit unions. Included are audited financial results of each credit union as Dec.31, 2011 and projected financial statements for FirstNova Credit Union for its fiscal year ending Dec 31, 2012.

Asset Mix

Combined assets of the two credit unions are projected to be at \$210,000,000 on December 31st, 2011. The projections for 2013 are based on analysis and trends of internal operating results.

Equity

Combined equity of the two credit unions as of December 31st, 2011 total \$15,390,390 or 7.33% of total assets, which exceeds the minimum provincial legislated requirement of 5%. The ongoing equity strategy will be to maintain equity at greater than regulatory levels. A projected equity level is \$16,604,730 or 7.37% as at December 31st, 2013 and incorporated the following elements:

Growth and Opportunity

With the amalgamation, new opportunities will be created through increased focus on marketing and business development activities. There will be an emphasis on increasing existing member business and service delivery. As a result of the amalgamation the credit union will improve the competitive market positioning of the credit union in our branch locations.

FirstNova Credit Union will expand its product offerings to the branches in Amherst and Truro through provision of Wealth Management Services, enhanced Commercial Management and Electronic Service such as MemberDirect Integrated and E-transfer (email money transfer). This will provide an opportunity for these branches to increase market share.

A larger amalgamated credit union will benefit from the diversified lending opportunities in the consumer, mortgage and small and medium enterprise market. The deposit portfolios of both entities are diversified with a good mix of demand and fixed term deposits.

The larger management team consisting of CEO, Executive Vice President, Three Vice Presidents, and the entire branch management team will provide a significant resource and expertise dedicated to providing superior and professional services. The opportunity is available to assign areas of responsibility to individual managers for organizational outcomes at all locations.

Operating Expenses

By combining the physical and human resources, the new credit union will be well positioned to sustain growth with acceptable increases in operating expenses. There will be some specific direct costs to amalgamating the two credit unions. We anticipate these expenses will be paid in 2012 for the majority of items; certainly the larger issues.

· Communications	\$8,000
· Data Conversion	\$23,000
· Professional Fees	\$20,000
· Card & Cheques Replacement.....	\$8,000
· Signage	\$30,000
· Personnel Benefits	\$140,000
Specific Cost of Amalgamation	\$229,000

Allowance for Impaired Loans

As part of due diligence, the adequacy of the Allowance for Impaired Loans was reviewed in each credit union and the relative risks in each loan portfolio were assessed. The NS Credit Union Deposit Insurance Corp.(CUDIC) conducted a review of both loan portfolios within the past year at the commencement of our discussions (no further review suggested / recommended by CUDIC) and provided their analysis of the risks and appropriateness of the Allowance for Impaired Loans in each credit union. The later was conducted in early 2012.

The historical trending of loan loss provisions for each portfolio was examined in detail in relation to rates of delinquency and other general lending criteria. The loan loss provision and experience of Community Credit Union of Cumberland Colchester has been historically higher than Valley Credit Union.

Financial Projections

The financial results, for the first two years as an amalgamated credit union are included as **Appendix Two**. These projections include the following key assumptions:

- u Expenses, where applicable, are allocated on a percentage of assets basis, i.e. salaries, other costs etc... Strong emphasis will be placed on prudent spending and cost control.

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u Deposit and Loan Growth is modest based on current surplus. Liquidity and emphasis on completing the internal organization of the amalgamation.

These projections show a favourable financial future for the amalgamated credit union.

Fiscal Year End and External Audit

The fiscal year-end of the amalgamated credit union will be December 31st.

For the fiscal period from July 1st, 2012 to December 31st, 2012 the Board of the amalgamated credit union shall appoint the external auditor. At the first annual meeting of the amalgamated credit union, the members shall appoint the external auditor for the fiscal year ending December 31, 2013. Competitive quotes will be obtained from both exiting audit firms and after an overall review of the service, the board will make its decision.

Pricing and Service Charges

A detailed comparison of all products and services will be completed to ensure individual account types calculate and pay or charge interest on the same basis within the amalgamated credit union. This comparison will be completed to ensure ongoing consistency in pricing renewals and growth. The amalgamated credit union will have standard pricing on all of its products and services.

A preliminary review of all products and services indicates both credit unions are very similar in their products and pricing, thus resulting in a minimal impact on members. Valley Credit Union has a few newer electronic services which will be made available to the members of FirstNova Credit Union once our data service has been combined in 2012.

Existing loan commitments and deposit commitments will remain in place through the amalgamation.

Development

Name

The proposed name of the amalgamated credit union will be **FirstNova Credit Union Limited**.

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Locations

Ten of the current locations will be retained in accordance with the Letter of Understanding signed by and agreed to by both credit unions.

Products and Services

The amalgamated credit union will offer a full range of competitive products and services through all its branches. These products and services will align with the system's standard core requirements.

New products and services will be introduced to respond to the changing needs of the members. A relationship-servicing environment will ensure members' needs are matched with appropriate products and services.

Marketing and Human Resources

An objective for the amalgamated credit union will be to become the primary financial institution for existing and new members. Many of our current members use the credit union for only a portion of their financial needs. Increased product lines, enhanced training, specialized staff and a professional image should support this objective.

As noted already, the amalgamated credit union will have an increased focus on business development. All staff will be provided training opportunities to ensure our members receive the valued service they expect and deserve.

Data Conversion

A full data conversion plan will be developed to integrate the banking systems in the fall of 2012. As part of the conversion process, it is anticipated that the account numbers in Community Credit Union will need to change. The data process will mean very little, if any immediate impact on their members. The account number change will be noted when re-ordering cheques and new cards when they are replaced on the existing expiry date. MemberCards and Global Payment cards will be continue to be used until the original date of expiry. The amalgamated credit union will provide any required new cheques at no charge to all affected members, at no charge, and will ensure effective communications and support are in place to assist members with this change.

Data Conversion will be managed by the system service provider League Data Limited. It has developed a good track record in delivering accuracy and efficiency in this area. There have been over a dozen successful projects completed in the past 17 years. The process has evolved and is seamless without interruption of member service or access to accounts, through ATM's, Credit Cards, Debit Cards, Cheques or Internet Banking.

Summary

The partnering of the two credit unions prepares us for the future and better positions the amalgamated credit union for embarking on new initiatives. It also provides tremendous potential for growth. The amalgamation creates a new entity with pooled assets of \$210 Million under direct administration and an additional \$50 Million under indirect administration of system affiliates and partners. This concentration of assets at the \$260 Million threshold provides a solid base from which to focus on greater specialization of personnel, products and services and benefits from improved economies of scale.

The amalgamated credit union will make a strong commitment to training and staff development to ensure the credit union will build and maintain a relationship-servicing environment. The combined personnel resources and expertise of the existing credit unions ensures adequate personnel resources, training and experience is available and/or in development to meet the succession planning requirements of the organization. A review of succession plans will be completed quickly to ensure stability and service delivery are maintained. The quality efforts of staff working together as a team will ensure the future success of the credit union.

Members will benefit from competitive products, an enhanced management team with increased knowledge and greater capacity to develop expertise and adopt the newest financial innovations as they occur. Staff will have more time to focus on members needs through the consolidation of accounting, administration and reporting functions and adoption of standard policies and procedures.

Members' accounts will be fully accessible at each branch location. Ten branch outlets in the structure provide additional capacity for service delivery and enhance business continuity if any one branch goes off line due to disaster or other service interruptions.

The credit union will retain its "personal touch" as members will continue to deal with the staff they have come to know and trust.

The aim of the amalgamated credit union will be to create excitement among staff and present exceptional service to all members.

We believe all the stakeholders – Members , Directors, Staff and the community – will be truly proud to be associated with this proposed regional credit union organization.

Appendix 1	Organization Chart
Appendix 2	Credit Union Financial Summaries - Dec.31, 2011 Amalgamated – 2012 & 2013 Financial Projections