AMALGAMATION PLAN

Proposal for the Amalgamation of

Montague Credit Union & Provincial Credit Union

September 2014

Prepared for the Members of
Montague Credit Union and
Provincial Credit Union

TABLE OF CONTENTS

Introduction

This amalgamation plan has been developed to ensure that an informed decision is made by the members of Montague Credit Union and Provincial Credit Union on this proposal for amalgamation.

These credit unions include over 17,500 members being served by 57 employees in four locations with current assets of approximately $300 million.

An Amalgamation Working Committee with three representatives from the Board and the General Manager of each credit union has participated in the development of this plan. The co-operation and focus of this group and the commitment from the General Managers have been instrumental in discussing and resolving the many issues involved in such a proposed partnership. The Working Committee members were – from Montague Credit Union: Chair, Lou Douse, Directors, Rick Gibbs and Carol Blum and General Manager Bryan Haley. From Provincial Credit Union: Chair, Corey Tremere, Directors, Wendell Dawson and Vernon Buote and General Manager, Bernard Gillis.

Both Boards of Directors have endorsed this proposal for amalgamation and therefore recommend approval by the membership of each credit union.

Why Amalgamate?

The aim of the amalgamation is to create a larger, stronger and combined credit union which will be focused for the future by building that future together. By combining resources, there can be more emphasis on customer service, relationship building and business development.

Of primary concern to the Boards of Directors were the benefits to the stakeholders – you the member, the staff, and the communities in which the Credit Union serves. While both credit unions are strong and growing and feel that in spite of the challenges in the economy today, this is a decision and move for tomorrow.

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, CHIP technology, ATMs and Member*Direct*, mobile banking to name a few and more electronic services that are just now under development. 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 nationally over the past 10 years. The proven results of these amalgamations clearly show that 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, anti-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.

There are opportunities for growth and development that can be better addressed through a stronger, more regionally based credit union. Opportunities exist for increased small to medium sized business services. 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 will be retained in such an amalgamation. Both credit unions have a traditional mix of both rural and urban membership and a strong base in primary industries. Both credit unions share similar mission statements and a common sense of values and both support their communities and believe there are opportunities to play an even stronger role in corporate social responsibility throughout the region.

Principles of Amalgamation

In starting the discussions, the Working Committee and Boards of Directors agreed to some basic principles that would form the foundation of the amalgamation.

- The initial board of directors will have representation from each of the amalgamating credit unions.

- No current staff would lose his/her job because of the amalgamation. Job duties will change for some employees.

- The amalgamated credit union will be profitable to the extent that it can build adequate reserves and have sufficient resources to fund future development.

- The existing locations will be retained at the time of amalgamation.

- A full range of competitive products and services will be provided at all branches.

- The Credit Union Deposit Insurance Corporation (CUDIC) and the Registrar of Credit Unions for the Province of Prince Edward Island will support the amalgamation.

Benefits to the Stakeholders

How We Fit Together:	
Good cultural fit	✓
Fit with Vision for both credit unions	✓
Share the same mission and values	✓
Benefits to Members:	
Share the same values of customer service	✓
Comparable products & services	✓
Expanded products, in particular financial planning and commercial lending	✓
Expanded branch and ATM network	✓
Enhanced Member Security/Risk Management	✓
Better use of our resources resulting in enhanced service to you, the member	✓
Members' accounts will be fully accessible at each branch.	✓
Benefits to Employees:	
Comparable salary levels	✓
Expanded benefits and HR Policies	✓
Expanded career opportunities	✓
Governance:	
Representation from both credit unions on the amalgamated Board	✓
Progressive governance practices	✓

Mission Statement

To provide outstanding service and professional advice to enable our members to reach their financial goals.

Vision for Our Credit Union

The Credit Union will be the superior provider of the ideal financial service experience.

Membership

The combined membership of the amalgamated credit union will include over 17,500 members. This includes 2,500 members of Montague Credit Union and 15,000 members of Provincial Credit Union located in and around the communities of Charlottetown, Stratford and North Rustico.

There will be no change to the current membership requirements.

The membership share requirement will be 1 share of $5.00 each. This is the current share requirement in both credit unions.

Board of Directors

The inaugural Board of Directors of the amalgamated credit union will consist of 12 directors –two selected from the Montague Credit Union Board of Directors and ten selected from the Provincial Credit Union Board of Directors. The directors selected for the new Board are named 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 2016
- Four 2-year terms expiring in 2017
- Four 3-year terms expiring in 2018

Director terms, for representatives selected from the Montague Credit Union, will be allocated as follows; two directors for a three-year term. After amalgamation, as vacancies occur on the Board of Directors, nominations and elections shall be from the combined membership. However, there will be a minimum number of director positions designated from each service area. It will be the responsibility of the Nominating, Governance, and Social Responsibility Committee to ensure that the policy is adhered to. Voting shall take place by a process that includes all members.

The amalgamated credit union will have several committees, appointed by the Board of Directors, including: Audit Committee, Executive Committee, Policy Committee, Nominating, Governance & Social Responsibility Committee and such other committees as determined and appointed 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 three to five years.

This structure includes the following positions:

- General Manager
- Manager of Operations
- Manager of Lending Services
- Branch Managers
- Managers of Member Services
- Manager of Deposit Services
- Manager of Accounting and Admin.
- Manager of Dealer Plan
- Dealer Plan Sales Rep.
- Marketing and Communications Officer
- Manager of Branch Lending
- Financial Services Officers – Lending
- Financial Services Officers – Deposits
- Legal and Security Administrator
- Commercial Account Managers
- Commercial Lending Administrator
- Risk Management Officer
- Clearing Administrator
- Financial Service Representatives
- Financial Service Officers
- Financial Services Administrators
- Administrative Assistant
- Receptionists
- Audit Officer
- Clerk/Typist

The General Manager of the amalgamated credit union will be Bernard Gillis, currently the General Manager of Provincial Credit Union.

The existing staff will all be retained at amalgamation. Some job functions and work processes will change as the result of amalgamation. These changes will be finalized by management after the legal amalgamation date and 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. One of the key benefits of the two credit unions joining forces is the consolidation of the administrative and compliance functions. This allows for the re-focus of the staff resources to change to one of enhancing value to you. Some staff will become greater “specialists” in their area of expertise, thus providing more challenging career opportunities and possible promotions for existing staff.

Once amalgamation is completed, employees for both credit unions will receive comparable compensation and benefits.

Financial Statements

Current individual and combined statements for each credit union for the three month period ending December 31, 2013 are attached as **Appendix Two.**

Asset Mix

Combined assets of the two credit unions for the three month period ending December 31, 2013 total $288,503,464 based on internal financial results.

Category	Dollars	Percent of Assets
Loans & Mortgages	$211,005,382	73.1%
Deposits	$262,343,819	90.9%
Gross Margin	$1,877,138	2.60%
Operating Expense	$2,091,188	2.90%
Net Earnings	$306,618	.43%

Equity

Combined equity of the two credit unions for the three month period ending December 31, 2013 total $26,159,645 or 9.07% of total assets, which is over the minimum requirement of 5%.

Growth and Opportunity

With the amalgamation, new opportunities will be created through increased focus on marketing and business development activities. There will be a re-alignment of administrative personnel to member service, with emphasis on increasing business with existing members. As a result of the amalgamation, your credit union will have increased commercial lending limits which will improve the competitive market positioning of the credit union in the competitive area. As a result of the amalgamation, the larger more dynamic credit union will continue to offer competitive rates and service charges. This will result in increased member value.

Operating Expenses for Amalgamation

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. These one time costs are projected to be in the area of $75,000 to $90,000 and will include such costs as communications, member meetings, data conversion, professional fees, member card and cheque replacement, new signage, office supplies, and web site changes.

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. Both Montague and Provincial engage external auditors to perform their financial audits each year, part of which includes a review of the impaired loans. As well, Credit Union Deposit Insurance Corporation (CUDIC) provides its analysis of the risks and appropriateness of the Allowance for Impaired Loan in each credit union.

In summary, CUDIC has reported that the Allowance for Impaired Loans is appropriate in both credit unions and that there are appropriate lending practices and levels of security in place.

Two Year Projections

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

2014 Projections

- Budget projections are based on a combined credit union for the entire year.
- Budget projections were developed by combining the individual budgets for each credit union.
- Projections include amalgamation costs for signage changes, salary adjustments, operations and data conversion, professional fees and other amalgamation costs that are fully expensed in the 2015 projections.

2015 Projections

- Budget projections are based on a combined credit union for the entire year.
- Interest rates on loans are calculated using current composite rates from both credit unions.
- Growth projections are at 4% - 5% and are reasonable. The assumption is that with the combining of resources, the credit union will be in a position to strive for a challenging goal.

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

External Audit

The Board of the amalgamated credit union shall retain the firm of MRSB Chartered Accountants as their external auditor. At the first annual meeting following amalgamation, the members shall appoint the external auditor for the subsequent fiscal year.

Pricing and Service Charges

The amalgamated credit union will have standard pricing on all of its products and services and as it stands currently, most of the pricing and service charges in both credit unions are very close.

Existing loan commitments and deposit commitments will remain in place after the amalgamation. A preliminary review of all products and services indicates that both credit unions are similar in their products and pricing, thus resulting in a minimal impact on members.

Rates on current loans and deposits will not change at amalgamation. Going forward, the new board will determine the level of dividends to be paid and whether other forms of rebates will be provided.

Name

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

Locations

All current locations will be retained and the Board of Directors will continue to evaluate the quality of our locations and upgrade as technology advances, based on a solid business case.

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 credit union system 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. Financial planning and small business services will be promoted in the new amalgamated credit union.

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 new 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 integral to this effort and therefore the amalgamated credit union will actively participate in system initiatives and the credit union system relationship management strategies.

Data Conversion

A full data conversion plan will be developed to integrate the banking systems in March 2015. As part of the conversion process, the account numbers in Montague will change. The selection of which credit union to be affected by changes in account numbers is decided by the smaller membership numbers in each credit union so that the fewest number would be affected. The amalgamated credit union will provide replacement cards and cheques if needed, to all affected members, at no charge, and will ensure that effective communications and support are in place to assist members with this change.

Summary

The partnering of the two credit unions prepares us for the future and better positions the amalgamated credit union for participation in any new initiatives. It also provides tremendous potential for growth.

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 quality efforts of staff working together as a team will ensure the future success of the credit union.

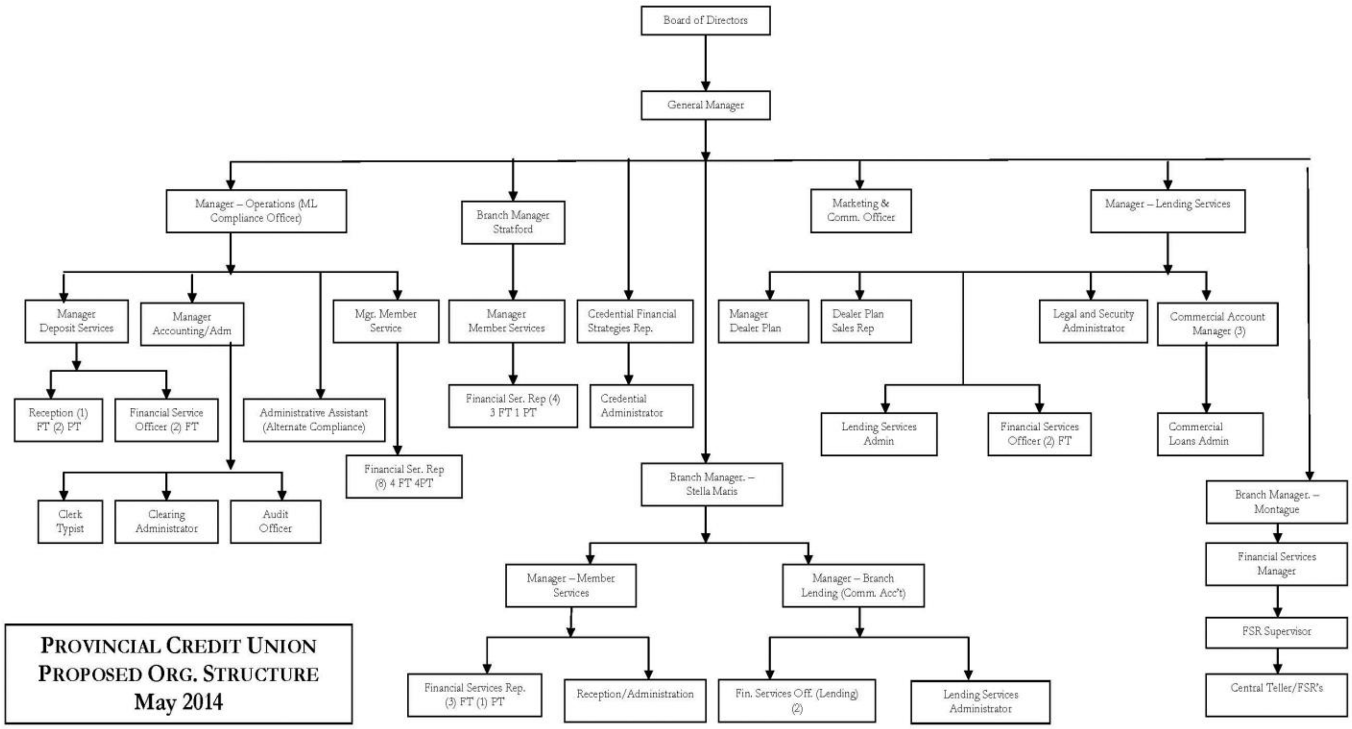
Members will benefit from competitive products, the addition of specialists, and the newest financial innovations as they occur. Staff will have more time to focus on members' needs through the consolidation of accounting, administration and reporting functions and adoption of standard policies and procedures.

Members' accounts will be fully accessible at each branch.

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 that all the stakeholders – members, staff and the community – will be truly proud to be associated with this proposed regional credit union organization.

APPENDIX ONE – ORGANIZATION CHART



APPENDIX TWO: 2013 FINANCIAL REPORT						
Provincial - Montague Amalgamated Balance Sheet						
for the period ending December 31, 2013						
A S S E T S		**Provincial**		**Montague**		**Combined**
Cash	$	2,224,231	$	516,596	$	2,740,827
Current Account	$	1,073,621	$	5,397	$	1,079,018
Loans (Note: 1)	$	194,627,198	$	16,378,184	$	211,005,382
Cash Short	$	1,185	$	219	$	1,404
Other Assets	$	681,377	$	283,701	$	965,078
Prepaid Expenses	$	1,132,368	$	26,659	$	1,159,027
Other	$	46,897	$	1,164	$	48,061
US Accounts	$	784,738	$	-	$	784,738
Total	**$**	**200,571,615**	**$**	**17,211,920**	**$**	**217,783,535**
Fixed Assets (Note: 2)	$	2,645,181	$	450,299	$	3,095,480
Investments (Note: 3)	$	50,458,442	$	17,166,007	$	67,624,449
Total Assets	**$**	**253,675,238**	**$**	**34,828,226**	**$**	**288,503,464**
L I A B I L I T I E S						
Members Deposits (Note: 4)	$	228,680,429	$	30,733,271	$	259,413,700
Other Liabilities						
- Accrued Interest Payable	$	1,424,134	$	161,440	$	1,585,574
- Other	$	969,073	$	373,811	$	1,342,884
Cash Over	$	1,355	$	306	$	1,661
	$	**231,074,991**	**$**	**31,268,828**	**$**	**262,343,819**
Reserves and Retained Earnings						
Undistributed Income	$	22,336,818	$	3,516,210	$	25,853,028
Operating Surplus (Loss)	$	263,429	$	43,188	$	306,617
Total	**$**	**22,600,247**	**$**	**3,559,398**	**$**	**26,159,645**
Total Liabilities	**$**	**253,675,238**	**$**	**34,828,226**	**$**	**288,503,464**
R E V E N U E						
Loan Interest	$	2,243,231	$	219,315	$	2,462,546
Investment	$	195,339	$	99,622	$	294,961
Chequing	$	265,971	$	56,032	$	322,003
Commissions	$	274,078	$	24,052	$	298,130
Fixed Assets	$	19,565	$	-	$	19,565
Other Income	$	13,733	$	4,680	$	18,413
Total Revenue	**$**	**3,011,917**	**$**	**403,701**	**$**	**3,415,618**
E X P E N S E S						
Staff	$	773,631	$	124,230	$	897,861
Premises	$	119,650	$	8,784	$	128,434
Insurance	$	183,553	$	16,773	$	200,326
Office	$	62,008	$	14,199	$	76,207
Service Fees	$	283,522	$	71,058	$	354,580
General	$	397,449	$	36,331	$	433,780
Cost of Capital (Deposits)	$	663,555	$	78,682	$	742,237
Subtotal	**$**	**2,483,368**	**$**	**350,057**	**$**	**2,833,425**
Share Dividends	$	135,751	$	2,381	$	138,132
Loan Loss Expense	$	33,052	$	-	$	33,052
Income Tax	$	96,317	$	8,074	$	104,391
Total Expenses	**$**	**2,748,488**	**$**	**360,512**	**$**	**3,109,000**
Operating Surplus (Loss)	**$**	**263,429**	**$**	**43,189**	**$**	**306,618**

Appendix 3 - Financial Projections

A S S E T S		**2014**	**$**	**2,015**	**$**	**2,016**
Cash	$	2,850,460	$	2,992,983	$	3,142,632
Current Account	$	1,122,179	$	1,178,288	$	1,237,202
Loans (Note: 1)	$	219,445,597	$	230,417,877	$	241,938,771
Cash Short	$	1,460	$	1,533	$	1,610
Other Assets	$	1,003,681	$	1,053,865	$	1,106,558
Prepaid Expenses	$	1,205,388	$	1,265,657	$	1,328,940
Other	$	49,983	$	52,483	$	55,107
US Accounts	$	816,128	$	856,934	$	899,781
Total	**$**	**226,494,876**	**$**	**237,819,620**	**$**	**249,710,601**
Fixed Assets (Note: 2)	$	3,219,299	$	3,380,264	$	3,549,277
Investments (Note: 3)	$	70,329,427	$	73,845,898	$	77,538,193
Total Assets	**$**	**300,043,603**	**$**	**315,045,783**	**$**	**330,798,072**
L I A B I L I T I E S						
Members Deposits (Note: 4)	$	269,790,248	$	283,279,760	$	297,443,748
Other Liabilities						
- Accrued Interest Payable	$	1,648,997	$	1,731,447	$	1,818,019
- Other	$	1,396,599	$	1,466,429	$	1,539,751
Cash Over	$	1,727	$	1,814	$	1,905
	$	**272,837,572**	**$**	**286,479,450**	**$**	**300,803,423**
Reserves and Retained Earnings						
Undistributed Income	$	26,159,645	$	27,787,118	$	29,516,352
Operating Surplus (Loss)	$	1,627,473	$	1,729,234	$	1,947,699
Total	**$**	**27,787,118**	**$**	**29,516,352**	**$**	**31,464,052**
Total Liabilities	**$**	**300,043,603**	**$**	**315,045,783**	**$**	**330,798,072**
R E V E N U E						
Loan & Investment Interest	$	11,039,300	$	11,315,283	$	11,767,894
Commissions	$	2,809,864	$	2,894,160	$	2,966,514
Other Income	$	277,152	$	285,467	$	294,031
Total Revenue	**$**	**14,126,316**	**$**	**14,494,909**	**$**	**15,028,438**
E X P E N S E S						
Staff	$	3,757,200	$	3,794,772	$	3,832,720
Insurance	$	461,520	$	470,751	$	480,166
Office/Premises	$	598,181	$	604,162	$	610,204
Service Fees	$	2,024,199	$	2,064,683	$	2,105,977
General	$	1,505,616	$	1,535,728	$	1,566,443
Cost of Capital (Deposits)	$	3,363,300	$	3,464,199	$	3,568,125
Subtotal	**$**	**11,710,016**	**$**	**11,934,296**	**$**	**12,163,634**
Loan Loss Expense	$	238,827	$	248,380	$	258,315
Income Tax	$	550,000	$	583,000	$	658,790
Total Expenses	**$**	**12,498,843**	**$**	**12,765,675**	**$**	**13,080,739**
Operating Surplus (Loss)	**$**	**1,627,473**	**$**	**1,729,234**	**$**	**1,947,699**