

**MEMBERS GUIDE**

Understanding the Proposed  
Merger of Spruce Credit  
Union and Interior Savings  
Credit Union.

**THE WAY  
forward**

[movingforwardtogether.ca](http://movingforwardtogether.ca)

 **SPRUCE CREDIT UNION**

*Interior*  *Savings*

# NOTICE OF MEMBER MEETING

## NOTICE IS HEREBY GIVEN THAT A SPECIAL GENERAL MEETING OF THE MEMBERS OF SPRUCE CREDIT UNION WILL BE HELD VIRTUALLY ON

November 23, 2021  
Meeting Time: 7:00 p.m.

Members must register online at [www.movingforwardtogether.ca](http://www.movingforwardtogether.ca) or by contacting Diana Matheson at 250-596-8629 or [dmatheson@sprucecu.bc.ca](mailto:dmatheson@sprucecu.bc.ca) by no later than 12:00 p.m. (noon) on November 23, 2021.

### FOR THE FOLLOWING PURPOSES

1. Presentation by the board of directors and/or executive leadership team of Spruce Credit Union on the proposed combination of Spruce Credit Union and Interior Savings Credit Union (the “Merger”).
2. An opportunity for members of Spruce Credit Union to ask questions and receive answers from the board of directors and/or the executive leadership team of Spruce Credit Union on the Merger.
3. A review of and voting on by the members of Spruce Credit Union on the special resolution below approving the Merger.

In accordance with the voting process provided for in the rules of Spruce Credit Union, Spruce Credit Union is seeking your approval on the below Special Resolution approving the Asset Transfer Agreement, which sets out the terms and conditions of the Merger. In this Guide you will find the information you will need to make an informed decision with respect to the special resolution as well as information about the voting process. Please refer to page 26 of this Guide for more information relating to the voting process.

### BE IT RESOLVED THAT:

1. Having been presented with the Asset Transfer Agreement and upon the recommendation from the board of directors of Spruce Credit Union, the Merger in accordance with and pursuant to section 16 of the *Credit Union Incorporation Act* (British Columbia) and all of the terms and conditions set forth in the Asset Transfer Agreement be and is hereby approved, ratified, sanctioned and confirmed.
2. That any officer or director of Spruce Credit Union is hereby authorized to do all things and to execute all instruments and documents necessary or desirable to carry out and give effect to the Merger and all matters ancillary thereto.

A summary of the key provisions of the Asset Transfer Agreement can be found in this Guide at Page 24. You can obtain a full copy of the Asset Transfer Agreement from either branch of Spruce Credit Union, or by downloading a copy at [www.movingforwardtogether.ca](http://www.movingforwardtogether.ca).

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## PREFACE

Before you dive into the details, please review the following information which will help you to understand the legal terms that are referenced throughout the Guide to Understanding the Proposed Merger.

Spruce Credit Union (referred to in this Guide as “Spruce”) and Interior Savings Credit Union (referred to in this Guide as “Interior”), are proposing to merge together. The combination is to be structured as an asset transfer under Section 16 of the *Credit Union Incorporation Act (BC)*, whereby Interior will acquire all of the assets and assume all of the liabilities of Spruce (referred to in this guide as the “Merger”).

Upon successful completion of the Merger, the operations of Spruce will continue under the name of Interior Savings Credit Union. For the purpose of this Guide, when referring to Interior Savings post-Merger, we will refer to it as “Combined Interior” to distinguish it from the pre-Merger Interior Savings, but for clarity, upon being merged, it will be known legally as Interior Savings Credit Union.

## A LETTER TO MEMBERS

For over 70 years, Spruce Credit Union (Spruce) has proudly served members in Prince George and surrounding communities. Built on the vision of our founders and upheld throughout our history, we have worked to preserve the human connection in banking, supporting members through hardship, empowering them to reach their goals and working collectively to help our community thrive.

While this commitment will never change, the environment we're operating in *is* changing. Today, member demands, regulatory requirements and the financial services industry itself are calling on credit unions to adapt and evolve in order to continue providing the best products, services and advice to members, fulfilling careers for employees, and meaningful investment in our communities. As we look forward, we recognize the need to make substantial investments in technology, infrastructure, and our employees.

Because of this, our Board believes it is in the best interests of members for Interior Savings Credit Union (Interior) and Spruce to join forces, combining our team, our expertise and our assets to ensure we remain strong and ready to carry on our founding members' legacy for generations to come.

In this Guide to Understanding the proposed Merger, you will learn about the benefits and risks of the Merger, and why the boards of directors of both Spruce and Interior enthusiastically and unanimously voted in favour of it. It is their belief that joining together will create enhanced opportunity for innovation, investment, and growth, resulting in an improved member experience, expanded job and training opportunities for employees, and a greater pool of resources to benefit the community.

As members, you are owners, not just customers. All members have an equal say in how their credit union operates - and members can voice their opinions and vote on the issues that matter to them. The decision to merge is no different, and this Guide provides the information you need to make an informed decision when it comes time to vote.

In addition to reviewing this Guide, we encourage you to take the time to consider what is being proposed by our Board, and to visit [www.movingforwardtogether.ca](http://www.movingforwardtogether.ca) or either of our branches for more information and to access a copy of our supplemental information package, for additional detail in respect of proposed Merger.

If you have any questions about the proposed Merger, please visit [www.movingforwardtogether.ca](http://www.movingforwardtogether.ca) or email us at [wayforward@spruce.bc.ca](mailto:wayforward@spruce.bc.ca).

Thank you for being a part of our credit union and for lending your voice as we plan Our Way Forward.



Ken Dickson  
CEO, Spruce Credit Union



Reg Foot  
Board Chair, Spruce Credit Union

## SHARED VISION FOR THE FUTURE

People helping people. It's the credit union way, and it dates back as far as the 19th century when people began forming cooperative structures, pooling their money to help one another and to respond to the needs of their local community.

Together with Interior, we envision a future that is not altogether different from that of our founding members. It is a future that holds our members – their hopes, dreams, needs and wants – at the centre of all we do.

It is a future where:

- Members are treated as people and the human connection plays a central role in banking. Whether it is choosing to visit one of 23 branches throughout the BC interior or banking from the comfort of your home, you will have access to all the modern conveniences and technology you've come to expect, but never at the expense of the human touch.
- Employees are empowered to grow their careers through education, training and opportunity. Working in a healthy and supportive environment, and guided by our cooperative values, employees are encouraged and challenged to look for new solutions and to always do what's right for the member, even when it means taking that extra step.

- Our communities share in our success. Through a robust employee volunteer program, free financial workshops, sponsorships, donations, grants, and a Million Dollar Bursary program, we put our expertise and profits to work for our communities – because we know that when our communities succeed, we all succeed.

This is why we believe *Our Way Forward* involves coming together, building on the legacy of our founding members, as we continue working cooperatively to help each other and our communities thrive.

## **BENEFITS TO MEMBERS, EMPLOYEES AND OUR COMMUNITIES**

Combined, Spruce and Interior is anticipated to have roughly \$3.75 billion in assets under administration with the resources and capital to invest in members, local businesses, and community in way that Spruce could not do on its own. This includes investing in enhanced products and services, new technology and greater convenience with the addition of 21 branches within the existing Interior branch network, a member service centre with extended hours, enhanced wealth management and commercial services and access to popular digital banking solutions.

**“TOGETHER, WE WILL BE STRONGER, WITH THE RESOURCES TO KEEP UP WITH THE CHANGING NEEDS OF MEMBERS, DIGITAL BANKING REQUIREMENTS, AND AN INCREASINGLY COMPLEX REGULATORY ENVIRONMENT.”**

## MEMBER BENEFITS

Spruce members will continue to be served by the same friendly and knowledgeable employees you've come to know at our two Prince George locations. You will have access to the same products and services currently being offered and in certain cases will be offered additional products and services, more options for convenient ways to bank and a broader pool of knowledge and expertise to draw upon.

### WHAT MEMBERS ARE ASKING FOR



Personalized/  
competitive  
products and  
services



Added  
convenience



More branch  
locations to  
choose from



More affordable  
banking



More support  
for business

### Here are some of the principal benefits Spruce members can expect:

- Expanded branch network will include 21 branches in the Thompson Okanagan region
- Access to more affordable chequing accounts, less expensive mortgage and loan rates and better deposit rates than are currently offered to Spruce members, as a result of increased scale
- Access to a dedicated member service centre, providing online and telephone support six days a week with extended hours
- Access to a broader wealth management offering including individual equities, expertly managed accounts, and an Investment Solutions Centre accessible to all members via phone and video
- Access to general insurance services (property and casualty, commercial and Autoplan)
- Member service made stronger through enhanced employee development and training, and an improved ability to attract and retain highly skilled employees
- Higher commercial lending limits to better accommodate the needs of larger business members
- Introduction of payment solutions such as Apple Pay, Google Pay and Samsung Pay
- Participation in Interior Savings' Member Rewards profit sharing and Million Dollar Bursary Programs
- The creation of a \$750,000 legacy community fund for distribution to worthy initiatives in Prince George over the 2-3 years following the Merger

## EMPLOYEE BENEFITS

Our employees are the heart of our credit union, growing and protecting the financial health of the business while helping members tackle financial challenges, cheering them on as they reach for their goals.

Today, each credit union has a positive culture and work climate. Maintaining and building on that environment will be paramount as we work to bring our teams together. In addition, through this Merger, we expect Spruce employees to benefit in a number of ways, including:



Enhanced career paths



Expanded scope of responsibilities for many roles



Geographic diversity of locations allowing for more employment options and mobility



Harmonized benefits to a higher common denominator while driving down costs through increased scale



Enhanced training and learning management systems

We know change can be unsettling and there are a number of things we plan to do to confirm our commitment to our employees. As at the Closing, all employees, with the exception of the CEO who is retiring, will be offered employment with Combined Interior under the same terms and conditions. As there is no intended immediate change in respect of Branch structure, Branch Employees will continue to hold similar roles, supported with personalized training plans. Some members of our administration team will likewise be supported with training as they transition into new roles in Combined Interior. Over time, it is expected that certain other administrative positions with Spruce will no longer be required and, for those employees, there will be a commitment to provide a minimum 12 months guaranteed employment to help transition Spruce into Combined Interior and assist those employees in possibly finding new positions within Combined Interior or transitioning out of the organization.

Additionally, as both credit unions are currently using the same banking system, this will reduce the learning curve and make for a much smoother transition. Coupled with that, we expect better rates and a broader selection of products and services will increase member satisfaction, which in turn will increase employee engagement.



## COMMUNITY BENEFITS

Through the years, both Credit Unions have made significant and important investments in their communities. Combined, we'll have even greater ability to create positive and lasting change across Prince George and the BC interior.

With Interior's dedicated Community Engagement team, their expertise in sponsorships, grants and impact partnerships, their Million Dollar Bursary Program and numerous other giving initiatives, we expect to make a significant impact on the Prince George area.

In addition to a robust Employee Volunteer Program that supports employees' fundraising efforts and offers paid time each month to volunteer, Interior brings employees and community together with their annual Day of Difference, where they close all branches early so employees can head out as a team to volunteer and support local initiatives.

Moreover, as outlined in further detail in the Asset Transfer Agreement, a legacy community fund will be created, which will hold \$750,000 for distribution by Combined Interior to worthy groups and initiatives in Prince George over the two to three years following the Merger. This will form part of Combined Interior's ongoing commitment to providing assistance to all areas it serves, including the Prince George region.



## CREDIT UNION SYSTEM BENEFITS

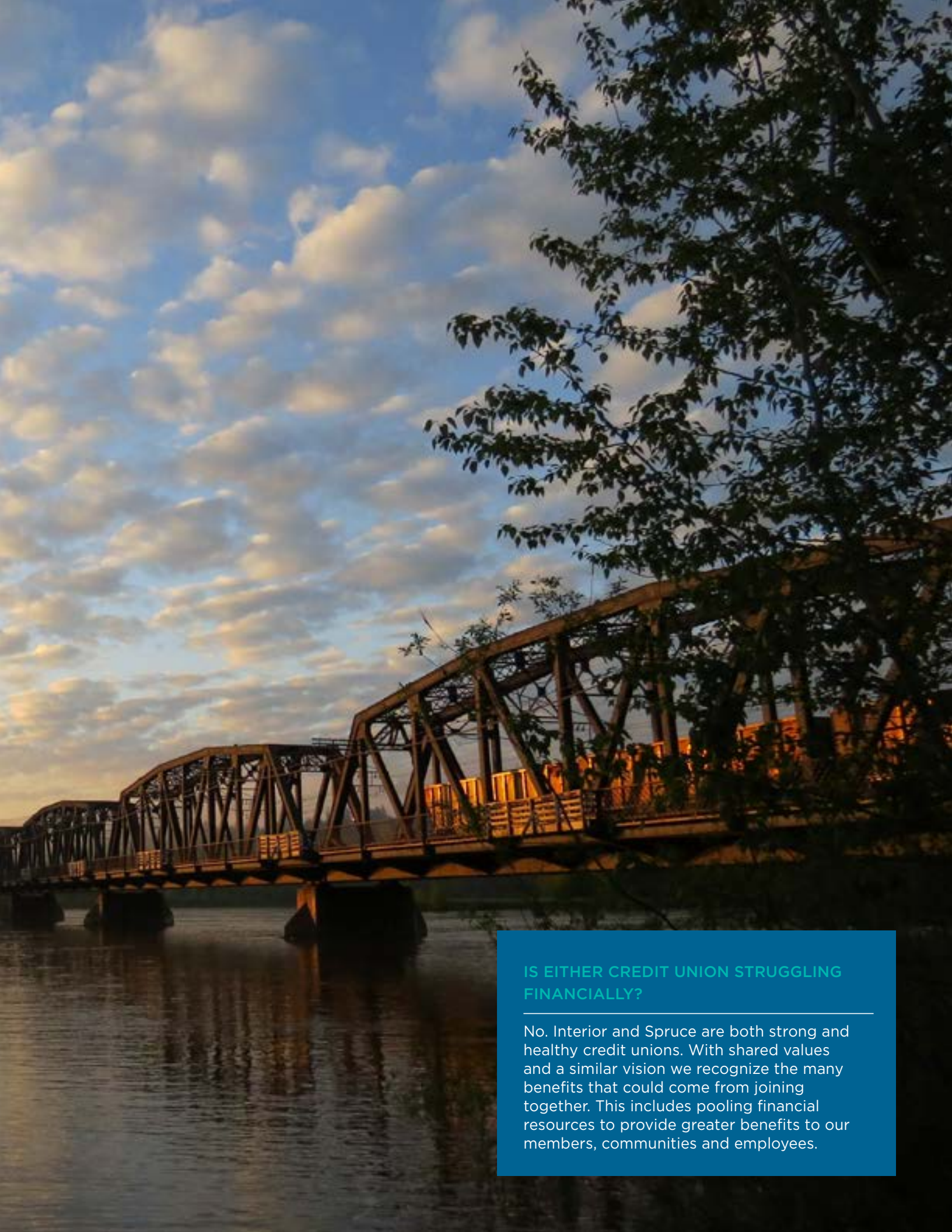
As co-operatives, credit unions in BC work together and depend on one another in many ways. Combining forces will increase the stability and resilience for Combined Interior and, in doing so, will benefit the entire credit union system in British Columbia.

Together, we will have the resources and scale needed to better serve our members and communities with a stronger balance sheet and financial position to compete in an increasingly competitive landscape and withstand uncertain economic events.

With enhanced scale will also come new growth and revenue opportunities, a greater ability to gain efficiencies and minimize operating expenses, and the ability to build a stronger market presence and attract members that Spruce cannot presently do on its own.

Combined Interior will also have greater ability to leverage the sixth Co-operative Principle (Co-operation among Cooperatives) and capitalize on its elevated standing within the financial services industry to build stronger dialogue with its peers and have a stronger national advocacy voice for the credit union system on a wide array of co-operative issues.





### IS EITHER CREDIT UNION STRUGGLING FINANCIALLY?

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No. Interior and Spruce are both strong and healthy credit unions. With shared values and a similar vision we recognize the many benefits that could come from joining together. This includes pooling financial resources to provide greater benefits to our members, communities and employees.

## FINANCIAL BENEFITS

Comprehensive and detailed financial analysis and modelling were completed as part of the due diligence and pre-Merger process. The financial model was developed on a conservative basis and represents five-year projections for the balance sheet and income statement of Combined Interior.

The financial model shows that Combined Interior does experience incremental improvements in both revenues and expenses compared to the aggregate

base case (standalone) results for each credit union. Over the 5-year forecast period, cumulative operating income improvement is estimated to be \$6.6 million. More details on the revenue and expense improvements are below. Additionally, key highlights of Combined Interior's balance sheet and income statement are provided below.

### FINANCIAL SUMMARY - COMBINED INTERIOR VS BASE CASES (STANDALONE)

	2022	2023	2024	2025	2026	5 YR TOTAL
<b>REVENUES (EXCLUDING LOAN LOSS)</b>						
Combined Interior	\$78.7M	\$80.6M	\$79.6M	\$79.7M	\$82.3M	
Base Case (standalone)	\$78.9M	\$80.5M	\$79.2M	\$78.8M	\$81.1M	
<b>Incremental change</b>	-\$0.2M	\$0.1M	\$0.4M	\$0.9M	\$1.2M	<b>\$2.4M</b>
<b>EXPENSES (INCLUDING LOAN LOSS)</b>						
Combined Interior	\$69.3M	\$70.1M	\$70.4M	\$71.5M	\$73.0M	
Base Case (standalone)	\$69.3M	\$70.7M	\$71.5M	\$72.7M	\$74.2M	
<b>Incremental change</b>	\$0.0M	-\$0.5M	-\$1.2M	-\$1.2M	-\$1.2M	<b>-\$4.2M</b>
<b>OPERATING INCOME (LOSS)</b>						
Combined Interior	\$9.4M	\$10.4M	\$9.3M	\$8.2M	\$9.3M	
Base Case (standalone)	\$9.5M	\$9.8M	\$7.6M	\$6.1M	\$6.8M	
<b>Incremental change</b>	-\$0.2M	\$0.6M	\$1.6M	\$2.1M	\$2.4M	<b>\$6.6M</b>
<b>DISTRIBUTIONS (Patronage, Dividends &amp; Taxes)</b>						
Combined Interior	\$4.0M	\$4.4M	\$3.9M	\$3.5M	\$3.9M	
Base Case (standalone)	\$4.1M	\$4.2M	\$3.3M	\$2.7M	\$3.0M	
<b>Incremental change</b>	-\$0.1M	\$0.2M	\$0.6M	\$0.8M	\$0.9M	<b>\$2.4M</b>
<b>NET INCOME (LOSS)</b>						
Combined Interior	\$5.4M	\$6.0M	\$5.3M	\$4.7M	\$5.4M	
Base Case (standalone)	\$5.5M	\$5.6M	\$4.3M	\$3.4M	\$3.8M	
<b>Incremental change</b>	-\$0.1M	\$0.4M	\$1.0M	\$1.3M	\$1.6M	<b>\$4.2M</b>

## FINANCIAL SUMMARY

	OPENING	2022	2023	2024	2025	2026	5 YR CAGR
<b>BALANCE SHEET</b>							
Total Assets	\$3.0B	\$3.1B	\$3.3B	\$3.4B	\$3.6B	\$3.8B	5.0%
Total Deposits	\$2.7B	\$2.7B	\$2.8B	\$2.9B	\$3.0B	\$3.1B	2.8%
Total Capital	\$237.3M	\$238.0M	\$239.5M	\$246.0M	\$252.0M	\$258.3M	1.7%
<b>INCOME STATEMENT</b>							
Total Revenue (Note 1)		\$78.7M	\$80.6M	\$79.6M	\$79.7M	\$82.3M	2.0%
Total Expenses (Note 1)		\$68.1M	\$68.7M	\$69.1M	\$70.4M	\$71.7M	1.2%
Operating Income		\$9.4M	\$10.4M	\$9.3M	\$8.2M	\$9.3M	4.9%
Net Income		\$5.4M	\$6.0M	\$5.3M	\$4.7M	\$5.4M	4.2%
Note 1: Bad Debt Included in Expenses							
CAGR - Cumulative Annual Growth Rate							

## FINANCIAL SUMMARY

	2022	2023	2024	2025	2026
<b>KEY PERFORMANCE INDICATORS</b>					
Capital	\$238.0M	\$239.5M	\$246.0M	\$252.0M	\$258.3M
Liquidity Total	13.0%	10.7%	9.5%	9.3%	9.1%
Liquidity Pooled	11.9%	9.7%	8.5%	8.4%	8.3%
Return of Assets (Operating Income) bps	32.4	34.4	29.2	24.7	26.5
Return on Equity (Operating Income)	4.2%	4.5%	4.0%	3.5%	3.8%
Expense Ratio	2.2%	2.1%	2.0%	2.0%	1.9%
Operating Efficiency	87.21%	86.20%	87.52%	88.90%	87.85%

The above financial summary does not represent a full strategic plan, operating plan or tactical plan, or the possibility of potential associated incremental revenue uplift according to Combined Interior's strategy. As part of integration planning, the

management and board of directors of Combined Interior will develop a more detailed strategic plan, supported by a comprehensive operating plan, that reflects the needs of the business.

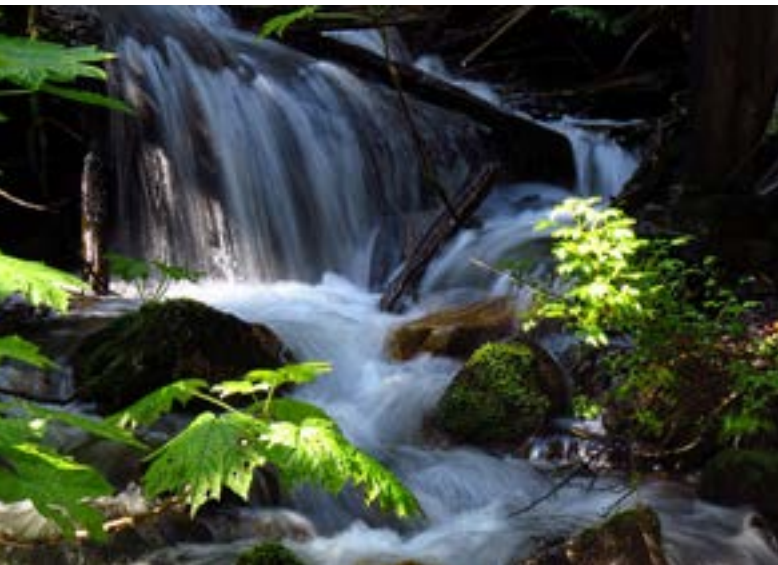
# SPRUCE AND INTERIOR AT A GLANCE

(As at December 31, 2020)

	SPRUCE	INTERIOR
Founded in	1951	1939
Location founded	Prince George	Kelowna
Number of Members (Approx.)	7,000	70,000
Number of Employees	35	500
Number of Branches	2	21
Assets under Administration (Approx.)	\$221 Million	\$3.53 Billion
Products Offered	<ul style="list-style-type: none"> <li>• Personal Banking</li> <li>• Commercial Banking</li> <li>• Financial Planning</li> </ul>	<ul style="list-style-type: none"> <li>• Personal Banking</li> <li>• Commercial Banking</li> <li>• Financial Planning</li> <li>• Insurance Services</li> </ul>

Both credit unions were founded over 70 years ago to provide essential banking services to people, farmers and local business owners who had previously struggled to receive the services they needed from banks. They were founded with a vision to put people before profits and to keep their money working locally, for the betterment of their communities.

Over the past seven decades, both credit unions have thrived as they continue with that unwavering commitment. Spruce has grown from a small group of founding members to 7,000 members, while Interior Savings has grown from 20 founding members in Kelowna to just over 70,000 members throughout the BC Interior. With that growth has come shared success. True to their founding values and cooperative principles, each credit union has continued sharing profits with its members and its community. Together we can do even more.



## WHY MERGE NOW?

Today's increasingly complex and competitive landscape is creating heightened pressures for credit unions to explore new ways of working together and creating value for members. These pressures include ever-changing needs for new technologies, a varying economic environment, increased regulatory and reporting requirements, the threat of new market entrants, and evolving member expectations.

The continued long-term viability of the credit union model depends on credit unions being able to respond and adapt to this increasingly complex and competitive environment.

A Merger, which allows for combining capital and a much greater ability to invest in innovation, will help Spruce and Interior to improve value for members and the community, and better position us to face these many challenges:

### A CHANGING ECONOMIC AND COMPETITIVE LANDSCAPE

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The financial services industry is undergoing significant digital transformation around the world. In North America, digital giants such as Google, Apple, Facebook and Amazon are disrupting many industries, including banking. Through transformation of payments capabilities and by leveraging data to provide a seamless experience to their customers, they are redefining consumer expectations and are themselves becoming daunting competitors in the financial services industry.

Simultaneously, in Europe and Australia, "Open Banking" legislation is creating a new competitive landscape, which presents both challenges and opportunities. With Canada likely to move toward some form of Open Banking, financial institutions must protect their role and relevance by embracing innovation to satisfy and attract future members and customers.

<sup>1</sup> The impact of increasing regulatory compliance on British Columbia and Ontario credit unions (April 2017).

### THE COST OF TECHNOLOGICAL INNOVATION

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It goes without saying that the financial services industry is evolving as quickly as technology evolves. Small credit unions like Spruce often find themselves in a position of continually playing catch-up as opposed to being market leaders in technology and innovation. Moreover, the increased costs of keeping up with technological advancements and offering members the latest and most innovative products and services is becoming unbearable for small credit unions. Combined Interior will be much better positioned to keep up with the financial costs and internal resources needed to meet the changing needs of members and digital banking requirements. This includes investing in and leveraging innovative technologies that will allow you, our member, greater access to what you need when you want it.

### INCREASING REGULATORY COSTS

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With increasing regulatory requirements, the costs that British Columbia credit unions must absorb continues to rise. According to a 2017 study, BC credit unions are having to bear increased costs to comply with changing regulations around Internal Audit, Anti-Money Laundering, Financial Transactions and Reports Analysis Centre of Canada and Foreign Account Tax Compliance Act as well as considerable indirect costs, such as increased cybersecurity, staff training, mandatory mailings and enterprise risk management frameworks. The average cost per member of regulatory compliance for all sizes of credit unions is \$32.75 while for small credit unions such as Spruce, the cost per member is over \$75.<sup>1</sup>

# HISTORY AND BACKGROUND OF MERGER DISCUSSIONS

In 2019, noting our common vision, goals and foundational values, Spruce and Interior began informal discussions to explore the feasibility of combining. In late 2020, the Credit Unions began a more formal review of the benefits and risks of a Merger, supported by independent legal, financial and project advisors. Later, in mid-2021 we submitted an Application for Consent to our regulator, the BC Financial Services Authority (“BCFSA”).

Below is a high-level overview of the major milestones.

## TIMELINE

2019	Informal discussions began, considering the merits of joining forces.
December 2020	Both credit unions and legal counsel met with BCFSA to discuss opportunity.
January 2021	Both boards passed a Memorandum of Understanding (“MOU”) outlining their agreement on key principles.
January 2021	Engaged the expertise of project management, legal, financial, accounting and tax advisors.
April 2021	Independent external advisors and management teams presented findings from due diligence to each Credit Union’s board. After which, each board voted unanimously to proceed with the Merger.
May 2021	Merger application submitted to BCFSA for review and consent.
August 6, 2021	Spruce and Interior entered into a pre-transfer agreement governing certain other commitments between the Credit Unions between the time of obtaining BCFSA consent to the proposed Asset Transfer Agreement and the time of entering into the Asset Transfer Agreement.
September 24, 2021	BCFSA grants its consent. View Letter of Consent in the <a href="#">Supplemental Package</a> available in branch or online at <a href="http://www.movingforwardtogether.ca">www.movingforwardtogether.ca</a> .



## ALTERNATIVES CONSIDERED

The boards of both Credit Unions looked at alternative options to the Merger and concluded that those alternatives did not provide sufficient or greater member, employee and community benefits than the proposed Merger. For a brief description of each of the alternatives considered by the boards of directors, please refer to [Section 2 of the Supplemental Package](#) available at your local Spruce branch or online at [www.movingforwardtogether.ca](http://www.movingforwardtogether.ca).



## RISKS OF THE MERGER

Both boards of directors of Spruce and Interior have assessed the risks of the Merger and concluded that the benefits far outweigh the risks. Combined Interior has developed key internal control and risk management policies and will effectively track and mitigate risks for members' benefit.

The table below outlines the major risks associated with the Merger and Combined Interior's approach to managing them.

### KEY RISKS ASSOCIATED WITH THE MERGER

RISK	DESCRIPTION	RISK MANAGEMENT AND MITIGATION APPROACH
Merger Process	The Merger is a transformative event for each Credit Union and many key items must be addressed correctly from the outset.	Through a Memorandum of Understanding, we established a collaborative process focused on teamwork. A Joint Advisory Committee was put in place to manage issues and independent advisors lead us through a robust due diligence investigation, the results of which were shared with all parties and reviewed by both Boards.
Expected Synergies May Not Materialize As Modeled	The financial model is based on the occurrence of future events, which are by nature uncertain.	The financial model is based on both reasonable and conservative assumptions and employs sensitivity analysis to test the impacts of certain potential outcomes.
Due Diligence Risk	It is possible that pertinent details (ex: undisclosed liabilities) exist and the other Credit Union is unaware of this.	The due diligence process was extremely fulsome and involved outside legal, accounting and tax expertise to assist with the review and interpretation of findings. In addition to due diligence investigations, the pre-transfer agreement requires each Credit Union to represent as to the accuracy and completeness of information supplied during this process.
Questions And Uncertainties Impacting Members And Employees Prior To Completing The Merger	Between announcements of the Merger to final implementation, employees and members could have a negative reaction to the uncertainty and potential impact of the Merger.	Those primarily affected will be the employees and members of each credit union, but particularly those of Spruce. We are committed to engaging and openly communicating with our employees and members throughout this process.

## KEY RISKS ASSOCIATED WITH THE MERGER CONTINUED

RISK	DESCRIPTION	RISK MANAGEMENT AND MITIGATION APPROACH
Impact on Operations Following Announcement	Risks to both Credit Unions to operate in their current ordinary course, while preparing for eventual integration.	Through careful integration planning, the Credit Unions will align operational practices in a method, manner and pace that seeks to minimize member disruption as much as possible.
Technology Adoption and Integration	Risks associated with operating, integrating and running multiple systems and platforms during integration.	We will develop plans to integrate our systems and technology to minimize disruption to employees and members. We are fortunate that this risk will be significantly mitigated as both credit unions already operate on the same core banking system.
Loss of Spruce Goodwill	If the Merger proceeds, the Spruce brand will cease.	Selecting the “Interior Savings” name for the combined credit union was chosen as the most logical course of action. Not only did it make sense, since Prince George is also in the Interior, but the name will better allow the Credit Unions to focus on other aspects of the Merger and integration. In addition, the creation of the Spruce Community Legacy Fund is intended to capture and retain the goodwill generated by Spruce in the community.
Culture	Risks associated with integrating two corporate cultures.	One of the primary drivers for the Merger was the common culture, vision and values shared by each Credit Union. Combined Interior will dedicate governance resources through an Integration Committee comprised of management of Spruce and Interior to monitor implementation and concerns as they arise.
Member Approval	A condition of the Merger will be the approval of the requisite majority of members of Spruce. If the Merger is not approved, the credibility and standing of each of the Credit Unions may be impacted.	After a thorough review of the opportunity, both Credit union boards voted unanimously in favour of the Merger for the benefits it offers to members, employees and the community. We are committed to engaging with members through ongoing communications, and offering opportunities for feedback and two-way dialogue, to ensure the benefits of the Merger is widely communicated and understood.

## MERGER COSTS

The anticipated one-time integration costs and write-offs related to the Merger are shown below. These are costs to be incurred by both Interior and Spruce for merger application consultation and advisory.

For context, Interior budgeted \$320,000 and Spruce budgeted \$148,000 for merger related expenses to be incurred in 2021. In addition to this, Spruce will also account for a \$750,000 community legacy fund commitment in its 2021 financial results as well as the Merger-related severance and key personnel retention costs totaling \$589,000. The \$589,000 is the unmitigated maximum amount outlined in the Memorandum of Understanding (MOU).

### ONE TIME EXPENDITURES/WRITEOFFS

EXPENSE		PRE-MERGER 2021	2022	2023	2024	2025	2026
<b>OPERATING EXPENSES (STANDALONE 2021)</b>							
Consulting and Legal (Interior)	Pre-Merger Consulting	\$320K					
Consulting and Legal (Spruce)	Pre-Merger Consulting	\$148K					
Severance & Retention Costs (Spruce) <sup>1</sup>	Post-Approval Accruals	\$589K					
Legacy Fund (Spruce)	Post-Approval Accruals	\$750K					
		<b>\$1,399K</b>					
<sup>1</sup> Severance & retention costs represent the maximum obligation should all payouts be required.							
<b>COMBINED INTERIOR OPERATING EXPENSES</b>							
One Time Training Costs For Branch Alignment	General Expenses		\$33K				
Tech Support For Technical Conversion	Professional Services		\$25K				
Spruce Early Termination of DNA (3 Yr) <sup>2</sup>	Data Processing		\$255K				
Spruce Early Termination of Celero <sup>2</sup>	Data Processing		\$192K				
Write Off NBV of Spruce Banking System	Amortization			\$720K			
Additional Tax Assistance	Professional Services		\$25K				
PST Self Assessment & Property Transfer Tax	General Expenses		\$137K				
<b>Total Operating Expense Amounts</b>			<b>\$667K</b>	<b>\$720K</b>	<b>\$0K</b>	<b>\$0K</b>	<b>\$0K</b>
<sup>2</sup> Early termination costs represent the full (worst case) unmitigated costs per terms & conditions							
<b>CAPITAL EXPENDITURES (CASH BASIS)</b>							
Branch Servers (x2)	Capital Assets (& Depreciation)		\$12K			\$12K	
The Client/Workstation Upgrades	Capital Assets (& Depreciation)		\$100k			\$100K	
Branch Equipment (ATM, Cash Recyclers)	Capital Assets (& Depreciation)			\$50K			
Phone System Licenses and Cisco	Capital Assets (& Depreciation)		\$30K				
Switches x3 Routers x 2	Capital Assets (& Depreciation)		\$25K				\$25K
MFD/Printers	Capital Assets (& Depreciation)		\$20K				
System Conversion & Integration	Capital Assets (& Depreciation)		\$1,000K				
<b>Total Capital Expenditures</b>			<b>\$1,187K</b>	<b>\$50K</b>	<b>\$0K</b>	<b>\$112K</b>	<b>\$25K</b>

## MERGER COSTS CONTINUED

Estimated costs for Combined Interior relate to integration matters. These include, but are not limited to, expected banking system conversion costs, commodity taxes for acquisition of assets, and vendor contract termination costs. It should be noted that the contract termination costs represent the fully unmitigated costs to exit those vendor agreements as specified in the terms and conditions, therefore the amounts should be considered 'worse-case' estimates. Other costs related to signage and some branding costs are contained within existing renovation and related budgets.

In addition to 'one-time' costs in the model, there are several examples of Recurring Costs included. Such costs are incurred over varying periods of the forecast, recurring incremental cost assumptions include items such as increases due to planned wage parity and benefit costs for Spruce employees, new Combined Interior full-time employment, information technology infrastructure costs, and depreciation of capital investments.

## SALARY AND BENEFIT COSTS RELATED TO THE MERGER

The base case salaries and benefits provided in the table below represent the sum of the Credit Unions' standalone multi-year projections as the starting point. Incremental costs (+) or savings / synergies (-) are shown below as changes to this base case salary and benefits projection to arrive at the projected cost for Combined Interior.

	2022	2023	2024	2025	2026
<b>BASE CASE SALARIES &amp; BENEFITS</b>	\$41,852.9K	\$42,752.2K	\$43,330.5K	\$43,992.4K	\$45,022.8K
Synergies and Salary Alignment	-\$479.0K	-\$957.7K	-\$847.1K	-\$869.6K	-\$892.6K
Expansion of Commercial	\$0.0K	\$174.4K	\$177.9K	\$181.4K	\$185.1K
Branch Structure Alignment	\$0.0K	-\$102.3K	-\$210.8K	-\$217.1K	-\$223.6K
Alignment of Incentive Plans	-\$84.5K	-\$2.7K	\$112.8K	\$174.3K	\$185.9K
<b>Combined Interior Salaries &amp; Benefits</b>	<b>\$41,289.4K</b>	<b>\$41,863.9K</b>	<b>\$42,563.3K</b>	<b>\$43,261.5K</b>	<b>\$44,277.6K</b>

# HOW COMBINED INTERIOR WILL OPERATE

## NAME

As the assets of Spruce will be acquired by Interior, and because Prince George is in the BC interior, the legal name of the combined credit union will be “Interior Savings Credit Union.”

## SHARES

Each Class “A” Membership Equity Share of Spruce will be exchanged for one (1) Membership Equity Share of Combined Interior.

As the Rules of Combined Interior require members to hold five (5) Membership Equity Shares, within a reasonable amount of time following the share exchange described above, Combined Interior may redeem shares in excess of the five (5) Membership Equity Shares, provided however, that at no time will any member hold in excess of one thousand (1,000) Membership Equity Shares.

## START DATE AND HEAD OFFICE

Combined Interior is expected to commence operations in early 2022, subject to membership and regulatory approval. The head office will be the current head office of Interior, located in Kelowna.

## BRANCH LOCATIONS

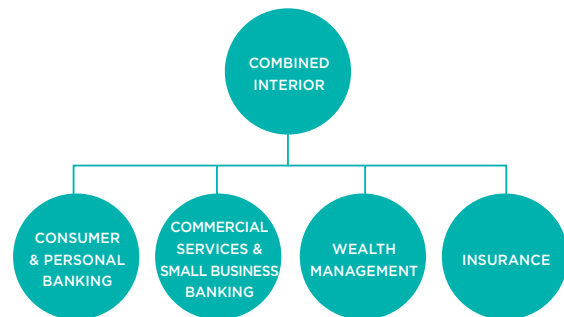
In addition to Spruce’s two existing branches in Prince George, following the Merger, Spruce members will have access to Interior’s 21 branches spanning the Thompson and Okanagan regions of the Interior, from Oliver to Clearwater and 12 communities in between. The result is that Spruce members will have significantly more choice and convenience in where they bank and have greater access to branch locations throughout the region.

## PRODUCTS AND SERVICES

The goal of Combined Interior is to offer the same, or complementary, products and services that members currently enjoy at their respective credit union. By joining together, Combined Interior will also have the opportunity to offer more to members with enhanced products and services. For members of Spruce in particular, this will include access to many of the products and services you currently enjoy plus others not previously available.

Members will continue to enjoy the same guarantees with respect to their deposits through the Credit Union Deposit Insurance Corporation of British Columbia.

Combined Interior will be equipped with a well-rounded mix of established products, services and business lines as below:



## COMBINED INTERIOR LEADERSHIP

Combined Interior’s board of directors and executive leadership team have been selected based on their experience, expertise and proven ability to build successful, values-based credit unions that are recognized for moving ahead while giving back to their communities. They will guide the Combined Interior through the Merger and beyond.

### BOARD OF DIRECTORS

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The Credit Unions have agreed that the governance structure of Combined Interior will predominantly continue with that of legacy Interior following completion of the Merger. The Board of Combined Interior will be comprised of its current board members and be expanded, as permitted by Interior’s Rules, to include one (1) director to be appointed by Interior from the existing directors of Spruce (the **“Post-Transaction Board Member”**). The Post-Transaction Board Member will serve on the Board of Combined Interior for a term of three (3) years, beginning on the date of appointment and permanently expiring (3) years later.

Once the term of the Post-Transaction Board Member expires, this individual may choose to pursue nomination or election to the Board of Combined Interior in accordance with Combined Interior’s Rules and standard election procedures in effect at such time. Moreover, members in good standing of Spruce may run for appointment to the Board of Combined Interior to fill any vacant positions starting at the 2023 annual general meeting, providing additional opportunity for legacy Spruce members to participate in the governance of Combined Interior.

The following individuals will serve as Combined Interior’s Board:

- Rob Shirra (Chair) - Summerland
- Liza Curran (Vice-Chair) - Ashcroft
- Ken Christian - Kamloops
- Elmer Epp - Kamloops
- Anna Florczyknski - Kelowna
- Stacey Fenwick - Kelowna
- Don Grant - Peachland
- Caroline Grover - Kelowna
- Daphane Nelson - Kamloops
- Shelley Sanders - Merritt
- Bruce Tisdale - Merritt
- Sandy Watt - Kamloops
- Reg Foot - Prince George (Post-Transaction Board Member)

For comprehensive profiles for each of the directors named above, please refer to [Section 5 of the Supplemental Information Package](#) available at your local Spruce branch or online at [www.movingforwardtogether.ca](http://www.movingforwardtogether.ca).

## EXECUTIVE LEADERSHIP

Combined Interior’s executive leadership team will consist of a group of experienced and talented individuals with deep knowledge of the financial services industry. The executive leadership of Interior will remain in place; however, the Credit Unions strongly believe that integrating existing Spruce executive leadership into Combined Interior is an important part of ensuring a successful Merger. As such, certain transitions have been agreed to by the Credit Unions in the MOU that will allow current Spruce executive leaders to take up new positions at Combined Interior following the Merger. Those are as follows:

ROLE WITH SPRUCE PRIOR TO MERGER	ROLE WITH COMBINED INTERIOR POST-MERGER
Chief Executive Officer	Retiring
Senior Manager, Finance and Administration	Manager, Financial Reporting
Senior Manager, Personal Financial Services	Branch Manager, Victoria St. Branch

Below is a list of the executive officers of Combined Interior. A brief biography of each of Combined Interior’s executive leaders is provided in [Section 5 of the Supplemental Information Package](#) available at your local Spruce branch or online at [www.movingforwardtogether.ca](http://www.movingforwardtogether.ca). Executive profiles reflect the current position each individual holds.

- Kathy Conway - President & Chief Executive Officer
- Ted Schisler - Senior Vice-President and Chief Operating Officer
- Trevor Tremblay - Senior Vice-President and Chief Financial and Risk Officer
- Karen Hawes - Senior Vice-President, Culture and Technology
- Gene Creelman - Senior Vice-President, Member and Community Engagement
- Cliff Ehnes - Vice-President, Commercial Services
- Ryan Tombs - Vice-President, Digital Solutions

## GOVERNANCE STRUCTURE

Combined Interior will be governed in accordance with the existing Rules of Interior. To view a complete copy of Interior’s rules, please refer to [Section 3 of the Supplemental Package](#) available at your local Spruce branch or online at [www.movingforwardtogether.ca](http://www.movingforwardtogether.ca).



## STRUCTURE AND METHOD OF THE MERGER

The method of combination was jointly decided on by both Boards of Directors. They agreed that an asset transfer was the most practical way to merge, so that they can focus on bringing together the best of both credit unions. With combined total assets under administration of approximately \$3.75 billion, the combined credit union will operate as Interior Savings Credit Union. Upon completion of the Merger, Spruce Credit Union will be dissolved as a legal entity, but its legacy will continue in the combined credit union.

Below is a summary of the key provisions of the Asset Transfer Agreement. To view a complete copy of the Asset Transfer Agreement, please refer to [Section 4 of the Supplemental Information Package](#) available at your local Spruce branch or online at [www.movingforwardtogether.ca](http://www.movingforwardtogether.ca).

SECTION	HEADING	SUMMARY
2.1	Transfer of Assets	All rights, property and assets of Spruce will be transferred to Interior upon the terms and subject to the conditions of the Asset Transfer Agreement.
2.2	Assumption of Liabilities	All obligations and liabilities of Spruce will be assumed by Interior.
2.3	Your Deposits	Interior will assume all deposit obligations of Spruce on a dollar-for-dollar basis, as such deposits exist between each depositor and Spruce once the Merger occurs.
2.6	Shares	Each Class "A" Membership Equity Share of Spruce will be exchanged for one (1) Membership Equity Share of Combined Interior. As the Rules of Combined Interior require members to hold five (5) Membership Equity Shares, within a reasonable amount of time following the share exchange described above, Combined Interior may redeem shares in excess of the five (5) Membership Equity Shares, provided however, that at no time shall any member hold in excess of one thousand (1,000) Membership Equity Shares.
2.7	Effective Date	January 1, 2022 (or another date as may be specified by the BC Financial Services Authority).



SECTION	HEADING	SUMMARY
3.1 & 4.1	Representations and Warranties	The Credit Unions have made a number of representations and warranties to one another which have provided each party comfort in entering into the Asset Transfer Agreement. These representations and warranties cover a wide range of areas and are meant to bring forward any material facts or situations which would jeopardize the success of Combined Interior. The representations and warranties are also designed such that each Credit Union has a substantive understanding of the other's business prior to merging. Upon consultation with independent legal counsel, the representations and warranties are customary for this type of transaction.
5.1	Continuity of Employment	Combined Interior will have extended offers of employment to all persons employed by Spruce (with the exception of the CEO who is retiring) as of the Effective Date of the Merger on terms and conditions that are no less favourable than those existing at that time. Certain Spruce employees will be offered a minimum of 12 month guaranteed employment with specified key employees receiving retention bonuses.
5.2	Spruce Branches	Interior has no plans or intentions to suspend or cease the operations of any Spruce branch.
5.3	Spruce Community Legacy Fund	\$750,000 will be earmarked for investing in community initiatives within the Prince George region at the direction of members of the existing Spruce board of directors who chose to be part of the advisory committee.
5.4	Name	The name of the post-Merger entity will be "Interior Savings Credit Union".
5.5	Registered & Head Office	Combined Interior's registered and head office will be located at 300 - 678 Bernard Avenue, Kelowna, British Columbia.
5.9	Products & Services to be Offered	All products and services currently offered by Interior and Spruce are expected to form part of Combined Interior's mix of products and services.
5.10	Common Bond of Membership	The common bond of membership for Combined Interior will continue to be the common bond of Interior, being: "Persons who reside, work or carry on business in the Province of British Columbia".

# HOW TO VOTE

## HOW TO REGISTER

Spruce will be using GoToWebinar to host the meeting virtually. In order to participate at the meeting, each member must register using the following link: [www.movingforwardtogether.ca](http://www.movingforwardtogether.ca) or by contacting Diana Matheson at 250-596-8629 or [dmatheson@sprucecu.bc.ca](mailto:dmatheson@sprucecu.bc.ca) by no later than 12:00 p.m. (noon) on November 23, 2021. Registration requests will be reviewed by Spruce and if a member is in good standing (see voter eligibility below) a personal link with webinar details will be sent to you.

## VOTER ELIGIBILITY

To be eligible to vote on the special resolution, a member must be nineteen (19) years or older and be a member in good standing as of September 30, 2021. A member in good standing means a member who, at the date on which good standing is determined:

- has purchased, paid for and holds a minimum of ten (10) Class “A” Membership Equity Shares in Spruce; and
- is not more than ninety (90) days delinquent in any obligation to Spruce.

In accordance with Spruce’s Rules and the *Credit Union Incorporation Act*, a member of Spruce who is not an individual and:

- is incorporated may be represented and vote at the meeting by an individual who: is not a member of Spruce; or
- is an unincorporated association may be represented and vote at the meeting by an individual who is a member of Spruce.

In both cases, the incorporated or unincorporated member must provide written authorization to Spruce indicating which individual will be voting on behalf of the incorporated or unincorporated member.

Eligible members are entitled to cast one (1) ballot. Junior members are not eligible to vote.

## VOTING METHOD

Voting may only take place virtually during the meeting through the GoToWebinar platform accessed through the personal link emailed to you by Spruce upon registration and using the built-in voting functionality.

## VOTER CONFIDENTIALITY

The voting procedure is overseen by a scrutineer who is appointed by the board of directors of Spruce who will receive a report directly from GoToWebinar with the vote result. Votes are submitted through the GoToWebinar platform which ensures total secrecy of the member’s vote.

## SPECIAL MEETING RULES OF ORDER

At the meeting, the Chair will introduce special rules of order which will apply to the virtual meeting. These rules of order will provide members additional detail as to how the meeting will be conducted through the GoToWebinar platform. Additional technical details on the GoToWebinar platform will be included in the personal link emailed to you upon registration.

## WHY A VIRTUAL MEETING

The meeting is being held virtually in accordance with Spruce’s Rules and the recently amended *Credit Union Incorporation Act* which now specifically allows for virtual meetings in place of in-person meetings where not explicitly prohibited by the credit union’s rules. The recent changes to the *Credit Union Incorporation Act* promote greater participation and are intended to facilitate enhanced member engagement in light of the uncertainty surrounding the ongoing public health restrictions. Consistent with the last annual general meeting of Spruce, Spruce has made this choice to ensure the greatest opportunity for member participation. If there are any questions about how to participate virtually please contact Diana Matheson at 250-596-8629 or at [dmatheson@sprucecu.bc.ca](mailto:dmatheson@sprucecu.bc.ca).

## QUESTIONS AND ADDITIONAL INFORMATION ABOUT THE MERGER

For more information about the Merger generally or if you have any additional questions, please go to [www.movingforwardtogether.ca](http://www.movingforwardtogether.ca) or email [wayforward@sprucecu.bc.ca](mailto:wayforward@sprucecu.bc.ca). Additional information can also be found in the Supplemental Package available at your local Spruce branch or online at [www.movingforwardtogether.ca](http://www.movingforwardtogether.ca).

## CAUTIONARY NOTE REGARDING FORWARD- LOOKING STATEMENTS

This Guide, including documents incorporated by reference herein, contains forward-looking statements and information. The use of any of the words “expect”, “anticipate”, “continue”, “estimate”, “objective”, “ongoing”, “may”, “will”, “project”, “should”, “believe”, “plans”, “intends”, “potential”, “pro forma” and similar expressions are intended to identify forward-looking statements or information. Forward-looking information presented in such statements or disclosures may, among other things, relate to: (i) the anticipated benefits from the Merger; (ii) the expected completion and implementation date of the Merger; (iii) certain operational and financial information; (iv) the nature of Combined Interior’s operations following the Merger; (v) sources of income; (vi) forecasts of capital expenditures, including general and administrative expenses; (vii) anticipated income taxes; (viii) Combined Interior’s business outlook following the Merger; (ix) plans and objectives of management for future operations; (x) forecast cost savings; and (xi) anticipated operational and financial performance.

Various assumptions or factors are typically applied in drawing conclusions or making the forecasts or projections set out in forward-looking information. Those assumptions and factors are based on information currently available to Spruce and Interior, as applicable, including information obtained from third party industry analysts and other third-party sources. You are cautioned that the following list of material factors and assumptions is not exhaustive. The factors and assumptions include, but are not limited to:

- the approval of Spruce’s members;
- satisfaction of the other conditions for completion of the Merger, including the receipt of all required regulatory and third-party approvals to complete the Merger;
- the completion of the Merger;
- no material changes in the legislative and operating framework for the business of Spruce and Interior, as applicable;
- no material adverse changes in the business of either or both of Spruce and Interior; and
- no significant events occurring outside the ordinary course of business of Spruce or Interior, as applicable such as a natural disaster or other calamity.

The forward-looking information contained in statements or disclosures in this information circular (including the documents incorporated by reference herein, including in the Supplemental Package) is based (in whole or in part) upon factors which may cause actual results, performance or achievements of Spruce or Interior, as applicable, to differ materially from those contemplated (whether expressly or by implication) in the forward-looking information. Actual results or outcomes may differ materially from those predicted by such statements or disclosures. While Spruce and Interior do not know what impact any of those differences may have on their respective businesses, results of operations and financial conditions may be materially adversely affected.

You are further cautioned that the preparation of financial statements in accordance with International Financial Reporting Standards requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates may change, having either a negative or positive effect on net earnings as further information becomes available, and as the economic environment changes.

You are cautioned that the foregoing list is not exhaustive. Readers should carefully review and consider the risk factors described under “Risks of Merger” and other risks described elsewhere in this information circular and in the documents incorporated by reference herein, including in the Supplemental Package.

The forward-looking statements and information contained in this Guide (including the documents incorporated by reference herein, including in the Supplemental Package) are made as of the date hereof and thereof and Spruce and Interior undertake no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as required by applicable laws. Because of the risks, uncertainties and assumptions contained herein and in the documents incorporated by reference herein, Spruce members should not place undue reliance on forward-looking statements or disclosures. The forward-looking information and statements contained herein and the documents incorporated by reference herein are expressly qualified in their entirety by this cautionary statement.

**THE WAY**  
**forward**

[movingforwardtogether.ca](http://movingforwardtogether.ca)

 **SPRUCE CREDIT UNION**

*Interior*  *Savings*

Special thank you to Chuck Chin for sharing his photography with us.