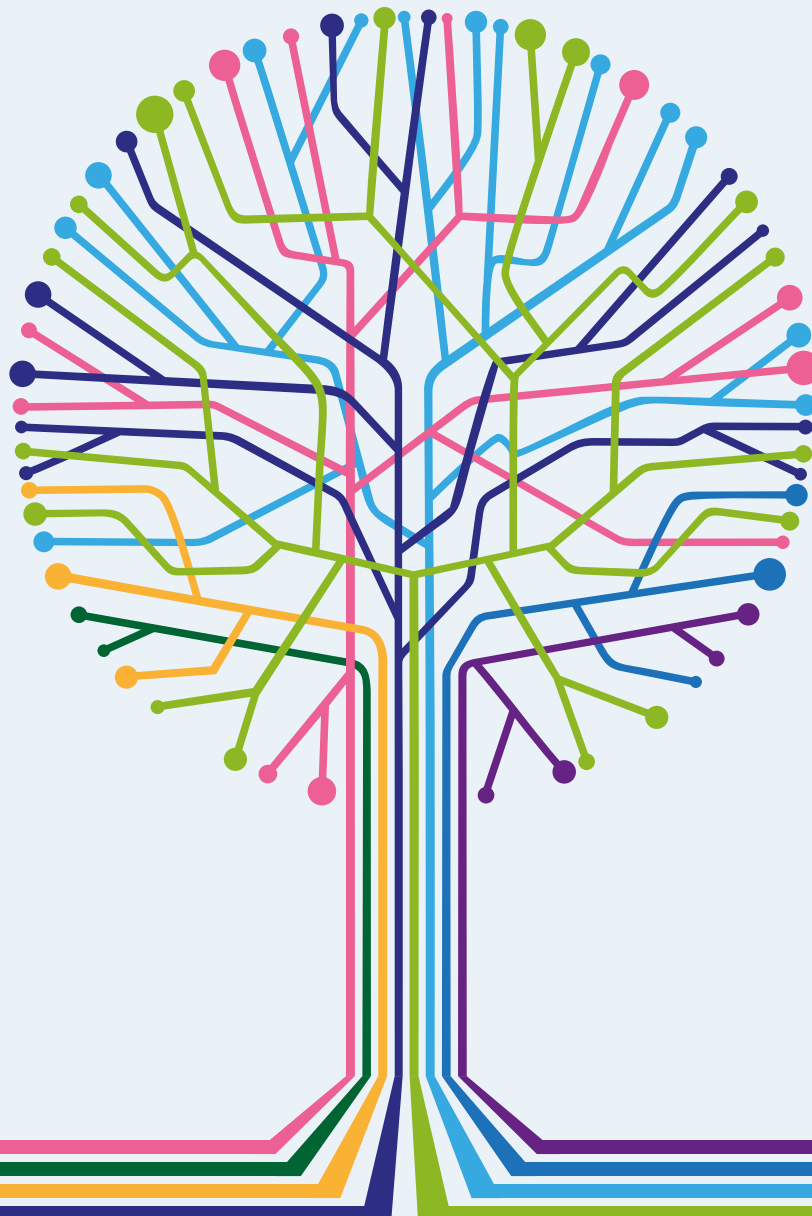


RESTRUCTURING OF THE CREDIT UNION SECTOR IN IRELAND

2013-2017



The Credit Union Restructuring Board
An Bord Atchóiriú Comhar Creidmheasa

ReBo Final Report – July 2017

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Foreword

Against a backdrop of tumultuous economic recession, an environment of falling incomes and rising costs, ReBo was established on a statutory basis on 1 January 2013 to facilitate and oversee the voluntary restructuring of the Irish credit union sector on a time-bound basis. The Minister for Finance, Mr. Michael Noonan, T.D., in following through on the Commission on Credit Union's recommendations, also provided for a financial incentive to be made available to credit unions in the restructuring process, the implementation of which was overseen by ReBo.

After more than four years since its establishment, ReBo concluded its formal operations on 31 March 2017, and at the time of writing, the Board of Directors, together with the CEO and a senior manager are proceeding with the organisation's wind down process. We achieved the objectives we set out for ReBo, as Board and Staff interacted and communicated with credit unions and sector stakeholders across Ireland in an open, inclusive and consistent manner, showing no bias toward any particular party. We acted with due care and professionalism in our dealings with credit unions, with providers and with sector stakeholders, and we operated in an ethically and financially prudent manner. Though provided with an initial fund of 500m Euro by the Minister for Finance, the ReBo operation expended only circa 22.8m Euro of Exchequer funding during its mandate. The success of ReBo's financial performance has been in part due to the efficiency with which ReBo was operated, and in part due to the financial support that the credit union sector provided in its commitment to the restructuring process across the country.

It can be confidently stated at this juncture, that ReBo's work has been a success, and the restructuring of the Irish credit union sector has begun. During ReBo's mandate, 82 mergers were completed involving 156 credit unions, with a further 13 mergers in progress at 31 March 2017 involving 20 credit unions, each occurring on a voluntary basis. ReBo has acted as a strong catalyst for change over the past 4+ years. Positive outcomes have been evidenced in the credit union sector's financial stability as a result of the mergers enacted, and perhaps just as importantly, a marked positive difference in the credit union attitude toward restructuring has been effected throughout the sector. Tremendous opportunities for learning have also been realised by credit union directors, management and staff who engaged in the process, building knowledge and competencies regarding strategy development, organisational effectiveness, operational efficiency, and business plan/budget preparation. Many leaders in the movement are to be commended for their courageous actions and for their deliberation of difficult issues through the process. They often took steps forward into uncharted waters, making decisions that required a

"leap of faith", and for that, they should be recognised as "heros" in the restructuring process.

Looking forward, it will be up to such credit union leaders at the local level to continue the process of sector restructuring so that collectively, ReBo's vision can be fully realised for the sector, that of "vibrant and sustainable credit unions that are credible, trustworthy providers of financial services to their members". There is much hope for the future given the successes achieved in the sector over the past several years, together with the fact that renewal is ongoing at the credit union board level and a new generation of professional managers are being attracted to credit unions as their desired career path. Strength in competencies at all levels of the credit union operation will be key to successful strategy development and implementation going forward.

In taking the movement forward, credit union leaders will need to focus on the next stage of the sector's evolution, that of greater transformational change through the pursuit of strategic mergers and development of a robust, growth-oriented and relevant business model. This next stage will include the merging of large, like-minded credit unions, the implementation of cost-efficiency strategies through back-office consolidation, and the adoption of business model strategies that enable the delivery of a full suite of financial products and services to members throughout their lifecycle such that credit unions may finally become the primary financial institution for their members.

Restructuring within the Irish credit union sector will be an ongoing process as it is in all other countries in the international movement. Critical to that process will be the development of relationships: those between credit unions and their members, between credit union boards and their management teams, between credit unions and their representative bodies, between credit unions and their regulatory authorities, and those between credit unions. With the shared goal of long-term sustainability of the credit union sector, and each credit union board's fiduciary duty to do what is in the best interest of their credit union, the experience of the past 4+ years suggests that further transformational change is within reach for Irish credit unions. Credit unions have always had, and will continue to have, a very valuable role in the financial services sector, and with the continued support of policy makers, will play an even more important role in the Irish economy, providing fair access to financial services at reasonable rates and enabling members of a community to support each other for the betterment of the whole.

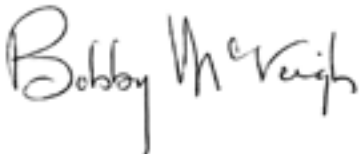
On behalf of my Board colleagues and the management and staff of ReBo, I would like to extend my appreciation to former Minister for Finance, Mr. Michael Noonan, T.D., for the opportunity to have

served the Irish credit union sector, and further, to commend the former Minister for having had the foresight to establish ReBo and follow through on the Commission's recommendations.

On behalf of the ReBo Board, I would like to extend my appreciation to all ReBo staff who have served throughout our mandate, recognising their valuable contribution and commitment to their work, including the many late nights and weekends in which they went "above and beyond" to ensure that our mission was achieved.

Lastly, I would like to thank my Board colleagues for their dedication and support in our collective role. As a Canadian credit union veteran, it has been my personal privilege to have served with such an esteemed group of Irish colleagues over these past 4+ years. You have made this outsider from across the pond, feel very welcome! I believe we should feel very proud of our accomplishments and the accomplishments of those we have served in the sector.

I know we have left the Irish credit union movement stronger and wiser, with a renewed sense of optimism and fervent desire to successfully meet the challenges ahead. I wish only the best for Ireland's credit unions and their members in the future!



L. R. (Bobby) McVeigh
B.A., B.Ed., M.Ed., CUDE, ICD.D
Chairman

Credit unions have always had, and will continue to have, a very valuable role in the financial services sector, and with the continued support of policy makers, will play an even more important role in the Irish economy.

Executive Summary

A core recommendation of The Report of the Commission on Credit Unions (“Commission”) was that the Irish credit union sector be restructured on a voluntary, incentivised and time bound basis. Further to this recommendation, the Credit Union Restructuring Board (“ReBo”) was established on a statutory basis by then Minister for Finance, Mr. Michael Noonan, T.D., on 1 January 2013 to facilitate the voluntary restructuring of the credit union sector in accordance with the provisions of the Credit Union and Co-operation Regulators Act 2012 (“2012 Act”). It is important to note that neither the Commission nor the Government had provided ReBo with any preconceived concept of the final number of credit unions in Ireland, post restructuring, given its voluntary nature and as a result, the extent of work required of ReBo was unknown prior to its establishment.

ReBo’s 13-member Board of Directors was responsible for setting up the ReBo organisation which included gaining clarity from the Department of Finance regarding the scope of ReBo’s mandate and the parameters for state aid funding in the restructuring process, developing governance frameworks and hiring of management personnel. With the hiring of the ReBo CEO in June 2013, the development of a multi-year strategic plan was initiated in the second half of 2013. The ReBo Board and management were cognisant of the fact that 50% of the operational costs incurred by ReBo were to be levied on the credit union sector. Thus, given the uncertainty of the workload that would arise, the decision was taken to keep staffing levels to a minimum as the ReBo Board and management developed strategies, objectives and performance indicators as part of its strategic plan and operating plan development processes.

As part of the establishment of ReBo, the Credit Union Fund had been established by the Minister for Finance under Section 57 of the 2012 Act. A core recommendation of the Commission on Credit Unions was that credit unions approved for restructuring “be provided with funding, where required and subject to conditions, to ensure they have adequate capital and to upgrade systems.” The Minister for Finance contributed €250m to this Fund in December 2012, the purpose of which included provision of financial support for qualifying costs incurred in the restructuring of credit unions in addition to coverage of the expenses of ReBo in discharging its functions under the 2012 Act.

During its mandate, ReBo paid a total of €17m in financial assistance from the Credit Union Fund regarding qualifying costs pertaining to credit union restructuring projects. Post ReBo levy, this amounted to a net total of €8.5m paid, out of a total available fund of €250m or 3.4% usage. Operational costs incurred by ReBo in the performance

of its functions were levied sector wide and based on a credit union’s asset size. Liability in respect of de minimis financial assistance was levied at 50% and borne exclusively by the credit union that benefitted. Over its lifetime, ReBo introduced a total of four levies in respect of the years 2014, 2015, 2016 and 2017.

An additional €250m was also contributed by the Minister for Finance for the provision of stabilisation support. As the terms and conditions of this state funding were unappealing to credit unions, there were no requests during ReBo’s mandate for support of this kind to address capital shortfalls, and thus none of the €250m set aside for this purpose was used.

During the early part of 2013, ReBo made initial written contact with all credit union boards across the country, with the ultimate goal of engaging in individual face-to-face meetings with every credit union. By year-end 2014, ReBo had met with 312 of 378 active credit unions on an individual basis.

As part of the implementation of the actions plans contained in ReBo’s Strategic Plan, ReBo routinely engaged with various sector stakeholders including the Department of Finance, the Central Bank/Registry of Credit Unions, the Irish League of Credit Unions (ILCU), the Credit Union Development Association (CUDA), the Credit Union Managers Association (CUMA), the National Supervisors Forum, and the Credit Union Advisory Committee (CUAC). ReBo also developed various communications tools/processes to assist in the facilitation of the voluntary credit union restructuring process including: an informative and interactive website; a one-day national conference; the regular distribution of communiqués to credit unions after each ReBo Board meeting; the preparation of an Interim Report on its operations; and the regular participation of its Board and Staff in meetings with stakeholder groups and individual credit unions.

In collaboration with the Registry of Credit Unions, a set of merger process guidelines was agreed in early 2014 that would allow for the prudent but expeditious development, assessment and approval of credit union restructuring plans and proposals. A copy of ReBo’s Merger Process Handbook, based on these guidelines, is attached as an appendix to this report.

The pace of restructuring increased significantly over ReBo’s lifetime. By March 2014, 92 individual credit unions had engaged in ReBo-assisted merger projects. Due to a growing awareness of ReBo’s work and the restructuring process and its associated benefits, the number of credit unions engaged in merger projects increased to 223 by March 31, 2016, the final date for ReBo acceptance of new restructuring projects as per the Minister for Finance. For the remainder of 2016, ReBo continued to support ongoing merger

projects, with the ReBo Board approving the last set of finalised merger proposals in December 2016.

Over the course of ReBo's operational lifetime there was a noticeable change in attitude towards restructuring such that credit unions became more willing to engage in the process from the perspective that restructuring could offer the opportunity to gain a strategic advantage, and was not only a strategy to be pursued due to financial necessity. Included in the Appendices to this report are two case studies, Core Credit Union and St. Canice's Credit Union, each illustrating how restructuring was used as a key element of credit union strategy.

By the time ReBo ceased operations on 31st March 2017, ReBo had supported a total of 117 merger projects involving 212 credit unions. Of these 117 merger projects, 82 projects had concluded mergers involving 156 unique (individual) credit unions with total assets in excess of €6.7bn, a further 13 projects were still progressing towards completion as at 31st March 2017, and 22 projects had been closed prior to completion.

During its mandate, ReBo paid a net total of €8.5m in financial assistance from the Credit Union Fund regarding qualifying costs pertaining to credit union restructuring projects.

Whereas in 2011, pre-ReBo, 7% of credit unions had assets of €100m or more, by the end of 2016, just prior to the end of ReBo's operations in Q1 2017, 16% of credit unions had assets in this range. Similarly, in 2011, 52% of credit unions had assets less than €20m, whereas by the end of 2016, 33% of credit unions had assets in this range. According to the Central Bank publication 'Financial Conditions of Credit Unions: 2011 – 2016', the number of registered credit unions stood at 311 as at February 2017, compared to 428 at the end of 2006. As at February 2017 there were 286 actively trading credit unions, consisting of 33 Industrial credit unions with combined assets c. €2.6bn, and 253 Community credit unions with combined assets c. €13.3bn. As at February 2017, the top 50 credit unions by asset size account for 52% of total sector assets and 51% of total sector loans.

It can be stated that the fundamental restructuring of the Irish credit union sector has successfully begun as a result of the consolidation of credit unions during ReBo's mandate. Acting as a catalyst for change, ReBo's engagement with credit unions has significantly expanded credit union awareness of the merger process, changed credit union attitudes to mergers by de-stigmatising and demystifying the process, and led to significant consolidation in the sector. As per an independent survey of credit unions commissioned by ReBo in early 2017, 86% of the 173 credit unions responding were satisfied with the support received from ReBo. Mergers were concluded not only between weaker credit unions "at the margin" and relatively stronger partners, but also by stronger credit unions seeking strong strategic partners for maximisation of joint growth prospects, the latter being an important strategy for the sector going forward. Furthermore, for those credit unions who engaged in the process, valuable learnings were gained by Boards and management (whether or not a merger was actually concluded through the process) due to their involvement in the due diligence process and merger proposal development process.

Various key findings were noted in regard to the implementation of the steps involved in the restructuring process:

- The strength of a credit union's human resources, including those at the Board level, are critical factors for success.
- Factors including the need for close geographic proximity, the targeting of a traditional membership base and choice of partners with similar representative body affiliation, were proven not to be, in and of themselves, requirements for achieving a successful merger.
- Credit unions realised significant benefit in the use of a "fact finding" investigation at an early stage in the merger process as it helped to identify any significant issues, as well as satisfy each credit union party, prima facie, that there were no insurmountable impediments to the proposed merger.
- The due diligence phase of the merger process is critically important as its purpose is to ensure that a potential merger will be in the best interest of the credit union, and in turn, will benefit the credit union's members.
- Areas such as "cultural fit", human resource practices and operational practices required a more "hands on" due diligence process to be undertaken by the management of the transferee credit union.
- The question of determining the cultural fit between credit unions was a crucial one, and a key factor in the ultimate success of the merger.

Executive Summary *continued*

- Developing a process and environment that built trust between the parties was seen as critical to working through contentious issues.

A comprehensive merger proposal business plan and budget is fundamental to the execution of a successful merger. Business plans should include sub-plans and related itemised budgets related to marketing, human resources (“HR”), training and development, and information technology (“IT”) and capital. It is important to the overall credibility of the business plan that assumptions and projections be challenged by the Board and management. Assumptions need to be supported and justified with detailed action plans. Budgets need to be stress tested and demonstrate viability in both a best case and worst case scenario.

The importance of the HR plan and related blending of cultures within the merged entity was found to be of critical importance for the success of a merger. Management’s role was critical in addressing cultural integration and typically involved: developing and implementing a communications plan that involved open and transparent communication and consultation with key stakeholders including the Board, management, staff, volunteers, members, external providers, etc.; building trust and co-operation amongst the stakeholders; and having clear processes in place to address stakeholder concerns. It was seen as important that the communications plan involve the development of a shared vision, set of values and member service charter for the merged entity, as well as forums for management and staff to collaborate on identifying synergies and implementing best practices across the merged entity.

It was also found that credit unions that had embraced the new governance measures introduced by the 2012 Act, were much better placed to successfully evaluate and execute a restructuring project. Having said that, it was found that for many boards, the decision to merge with another credit union was not just as a strategic or business decision, but was the most emotional decision they had had to face in regard to fulfilling their fiduciary duty to do what was in the best interest of their credit union. When faced with the prospect of a merger, credit union boards often found themselves challenged by their desire, on the one hand, to maintain their strong local community links, while on the other hand, having to make strategic decisions about the need for restructuring in order to ensure the long-term sustainability of credit union services for their members. Going forward, credit unions should not underestimate the time commitment and work load involved at all levels of the credit union (Board, Management, Staff, Volunteers) during the planning and integration phases of a merger.

Restructuring within the Irish credit union sector will be an ongoing process. Restructuring is critical to achieving the scale necessary to cover the increasing costs of required HR skills, IT, marketing and compliance, and ensure the sustainability of credit unions in the Irish financial services sector. As during ReBo’s mandate, a target number of credit unions is not required to enable this ongoing process. As time progresses, it is expected that more complex mergers will be pursued wherein large-to-large credit union mergers will be effected. This “next stage” of restructuring will incorporate a more “strategic” style of merger as well as the evolutionary development of credit union business models that will ultimately lead to greater transformational change in the sector.

Going forward, restructuring will be led by credit unions. The 55 transferee credit unions which engaged in mergers during ReBo’s mandate will be well positioned to provide leadership and mentoring in this regard. According to an independent survey of credit unions commissioned for ReBo in early 2017, 75% of the 173 credit unions that responded stated that consolidation across the sector should continue. Thus, sector stakeholders should not allow the progress made to date to be impeded nor allow current momentum to be lost. It will also be important that the impact of mergers be assessed over time to further clarify the qualitative and quantitative benefits of restructuring. Assessments should be undertaken after at least a 3-year period to allow sufficient time for the integration of structures, processes and cultures so as to provide for a more fulsome realisation of merger outcomes, economies of scale and related synergistic benefits. Such analyses should inform future restructuring initiatives.

Various recommendations are provided for credit unions in regard to important underlying elements of the restructuring process:

- Strategic and operational planning processes need to be more defined and imbedded in governance processes with detailed sub-plans being developed for IT, HR, Marketing, Service Delivery, Investments and Capital (Reserves). Merger proposals should be supported within the context of these strategic plans and prepared with careful analysis of the combined business and cultural fit of the prospective partners.
- Mergers will continue to require “hard” decisions concerning human resources, branch viability, replication of costs (e.g. IT) and operational efficiencies, with such decisions to be guided by the fiduciary duty to do what is in the best interest of the credit union.

- The credit union business model will require continual updating in order to remain relevant and allow for the provision of new products/services/delivery channels in response to changing member needs and competitive conditions. It is the evolution of the business model that will be key to credit unions' competitive advantage and future sustainability. The following areas should be considered in relation to business model development: expansion of loan offerings, new sources of fee income, shared services strategies and back office outsourcing strategies. Credit unions will need to present the regulator with a clear and comprehensive business case(s) in order to gain approval for new business powers or other legislative/regulatory provisions enabling evolution of their business models.

ReBo developed a very strong working relationship with the Central Bank/ Registry of Credit Unions ("RCU") and the Department of Finance during its mandate. Going forward the RCU, in its role as statutory regulator, will continue to play a key role in the evolution of the credit union sector. It will be important that the RCU implement its full powers in an action-oriented, clear and consistent manner and do so on a timely basis, intervening as early as possible in any applicable situations. RCU guidance and messaging and related communications should be clear and consistent and should not be open to interpretation.

As the sector has now begun to evolve through the restructuring efforts conducted during ReBo's mandate, there is a need for regulation to adapt in keeping with the nature, scale and complexity of credit union operations. Tiered regulations should be developed using a risk-based approach and in consideration of the complexity of business model in use at the credit union level. Risk-based capital requirements should be permitted, together with a risk-based lending model including related risk-based pricing on loans. In keeping with facilitating growth and sustainability within the sector, it is also important that the regulations regarding the credit union common bond are revisited. In regard to democratic processes in general, a variety of options should be permitted through legislation and/or regulation to allow for greater participation by members. There is also a need for continued vigilance concerning requirements for and oversight of credit union board governance. RCU supervision will remain critical going forward, including the testing of fitness and probity, with such supervisory work requiring adaptation in keeping with the changing structure of the sector and increasing sophistication of the credit union business model.

The Irish credit union sector should be proud of its engagement with 3.1 million members, its service to communities across the country, and its reputation for caring member service and commitment to

local communities. The credit union's not-for-profit business model and involvement of dedicated volunteers, together with professional management and staff, provide a unique service offering in the Irish financial services market. With the benefits of recent restructuring in the sector beginning to take hold, and the promise of additional restructuring to follow, the sector is on the path to continued growth and enrichment of members' lives.

For many boards, the decision to merge with another credit union was not just a strategic or business decision, but was the most emotional decision they had had to face.

At the same time, it is important to note that heightened competition looms from market players with the deep pockets necessary to access new technologies with which to enhance efficiencies of internal operations and offer new electronic delivery channels to retail financial services customers. As a result, credit unions will need to ensure that their cooperative financial services model continues to be relevant going forward. In general, to strengthen their prospects for future sustainability, credit unions need to attract loan seekers into their memberships, access economies of scale for their operations, and find new sources of income.

There is much hope for the future given the successes achieved in the sector over the past several years, together with the fact that renewal is ongoing at the credit union board level and a new generation of professional managers are being attracted to credit unions as their desired career path. Credit unions have always had, and will continue to have, a very valuable role in the Irish financial services sector, and with the continued support of policy makers, will play an even more important role in the Irish economy, providing fair access to financial services at reasonable rates and enabling members of a community to support each other for the betterment of the whole. Looking forward, it will be up to credit union leaders at the local level to continue the process of sector restructuring that ReBo has begun, so that collectively, ReBo's vision can be fully realised for the sector, that of "vibrant and sustainable credit unions that are credible, trustworthy providers of financial services to their members".

Section 1 Establishment of ReBo

Establishment of ReBo

The Report of the Commission on Credit Unions (“Commission”) was presented to the Minister for Finance on 31 March 2012. A core recommendation of the Report was that the credit union sector should be restructured on a voluntary, incentivised and time bound basis, with the guiding aims of restructuring to include:

- The protection of credit union members’ savings;
- The stability and viability of credit unions and the sector at large; and
- The preservation of the credit union identity and ethos.

The Commission’s recommendations recognised the need for credit unions to maintain their local presence and took into account the credit unions’ not-for-profit mandate, their volunteer ethos and community focus.

Appointment of ReBo Board

Further to the Commission’s recommendations, ReBo was established on a statutory basis by the Minister for Finance on 1 January 2013 to facilitate the voluntary restructuring of the credit union sector in accordance with the provisions of the Credit Union and Co-operation with Overseas Regulators Act 2012 (“2012 Act”). The 2012 Act was the product of extensive engagement within the credit union movement by the Commission on Credit Unions.

The members of the ReBo Board of Directors were appointed by the Minister in August 2012, with ReBo being initially established on an

administrative basis on August 31, 2012 so that preparatory work could begin prior to the enactment of the 2012 Act later in the year. The 13-member Board was appointed in accordance with Section 49 of the 2012 Act and comprised five independent members as well as members from credit union representative bodies, the Central Bank, Department of Finance and for continuity purposes, a member of the Commission on Credit Unions. The Board Chairman is a Canadian independent member with 40 years of international credit union experience.

Functions of ReBo

The functions of ReBo were set out under Section 44 of the 2012 Act as follows;

In addition to the making of a recommendation under section 65 (the provision of stabilisation support), ReBo shall facilitate and oversee the restructuring of credit unions in accordance with this Part (of the 2012 Act) to support the financial stability and long term sustainability of credit unions generally, and for that purpose its functions shall include—

- analysing and examining information provided to it by the Bank, credit unions or by any other person,
- developing provisional proposals and plans with credit unions for the restructuring of the credit union sector,
- engaging with credit unions to facilitate agreement on restructuring proposals,
- assisting credit unions in the preparation of restructuring plans,
- considering and assessing restructuring plans submitted to it by or on behalf of credit unions including any funding requirements under the plan including requiring credit unions to engage third parties to verify information and provide a report to ReBo,
- approving, approving with conditions or rejecting those restructuring plans,
- recommending the restructuring plans to the Minister and advising the Bank of its recommendations,
- overseeing the implementation of restructuring plans, including the provision of post-restructuring support.

Table 1: ReBo Board

Chair: L.R.(Bobby) McVeigh – Canada <i>Independent</i>		
Pat Fay <i>ILCU</i>	Neil Ryan <i>Department of Finance</i> (August 2012 – June 2016) <i>Independent</i> (July 2016 onward)	Tom Kavanagh <i>Independent</i> (Resigned June 2014)
Jimmy Johnstone <i>ILCU</i>	Elaine Byrne (Non-Voting) ¹ <i>Central Bank</i>	Eoin McGettigan <i>Independent</i>
Kevin Johnson <i>CUDA</i>	Joe O’Toole <i>Commission on Credit Unions</i>	Stephen O’Donovan <i>Independent</i>
Tim Molan <i>CUMA</i>	Brendan Burke <i>Independent</i>	Kathleen Prendergast <i>Independent</i>

¹ In accordance with Section 40 of the 2012 Act, nothing stated or done by the Central Bank nominated employee prevents or restricts the performance by the Governor of the Bank or the Bank of functions in relation to any credit union including functions under financial services legislation.

A Distinct Entity with Unique Start-up Challenges

As a special purpose, time-bound, state body, ReBo was distinct as an entity, particularly given its time bound nature. As such, ReBo did not have a precedent to draw upon in regard to a framework for its setup (or wind down). Much time was taken by the Board in the administrative phase of ReBo and early part of its statutory phase in regard to the interpretation of the 2012 Act and gaining of clarity regarding ReBo's corporate structure and its scope of work within the remit given. Research was conducted and discussions were held to further clarify a variety of issues including: the intent of restructuring; issues related to transparency; the extent of the voluntary nature of the restructuring process; the requirements for credit union data; and parameters for state aid funding in the restructuring process.

Information/Data Requirements

During ReBo's administrative phase, discussions were held regarding the required procedures for the transfer of information from the Central Bank to ReBo as required to facilitate ReBo's mandate. After a period of negotiation, a Memorandum of Understanding (MOU)² was signed, the purpose of which was to provide a framework for co-operation between the Central Bank of Ireland and ReBo for the request and provision of financial and other information in relation to individual credit unions and the credit union sector. Based on the MOU, the Registrar of Credit Unions provided ReBo with access to prudential data relevant to the performance of its functions, with any such data disclosed by RCU to ReBo at all times being in accordance with, inter alia, Section 33AK of the Central Bank Act 1942 and Section 50 of the 2012 Act. Such data primarily consisted of financial information submitted by credit unions to RCU in quarterly prudential returns. Information was also shared with ReBo in regard to directions provided by RCU to particular credit unions such as those preventing annual general meetings from being held, or those placing restrictions on business operations.

Initial Perception of ReBo in Credit Union Sector

During ReBo's early period, there was an understandable lack of clarity and uncertainty amongst credit unions as to ReBo's role, posing the need for communication and outreach on the part of ReBo to accurately position its mandate particularly vis-à-vis that of the Central Bank/Registry of Credit Unions. Given ReBo's positioning "in the middle" of the sector, (also reflected in the composition of the Board), it was important for ReBo to build the trust of key stakeholders and prove its independence. Furthermore, at the time, it was equally important for ReBo to ease tensions in the sector which had been apparent since the release of the Report of the Commission on Credit Unions. Thus, during quarter four of 2012,

the ReBo Board commenced its initial outreach activities to credit unions as well as to their representative bodies, the Central Bank and the Department of Finance, beginning the process of positioning ReBo as a facilitator of change within the sector.

Operationalising ReBo

During its initial 9 months, September 2012 to May 2013, the Board worked to clarify ReBo's role through discussions with the Department of Finance. The Board also developed its governance structure/processes and rapport as a team, and reached consensus on how best to operationalise ReBo's mandate. Moreover, the ReBo Board worked to secure permanent office space and develop operational policies and procedures and a set of vision and mission statements for the operation.

During the initial 9-month period, ReBo operated with an advisor to the Board and a small staff made up of contract personnel and secondees from the Department of Finance and the Central Bank. This initial staff complement focused on the setup of ReBo and development of the 2013 operating plan and budget. The process to recruit a permanent CEO commenced in February 2013, and after considerable engagement with the Public Appointments Service ("PAS"), a full time Chief Executive Officer was appointed and commenced work in June 2013.

Development of ReBo's Strategic Plan & Recruitment of Staff

With the hiring of the CEO, work began in the second half of 2013 on the development of the organisation's multi-year strategic plan and 2014 operating plan and budget, including two critical strategies: a human resource strategy and a credit union restructuring implementation strategy.

It is important to note that neither the Commission nor the Government had provided any preconceived concept of the final number of credit unions in Ireland, post restructuring, given that restructuring was to be carried out on a voluntary basis. As a result, the extent of the work to be conducted by ReBo was unknown prior to its establishment. Furthermore, key performance metrics for ReBo's operation were not set out by the Government, beyond those related to use of the Credit Union Fund.

The ReBo Board and management were cognisant of the fact, however, that 50% of the operational costs incurred by ReBo were to be levied on the sector. Thus, given the uncertainty of the workload that would arise, the decision was taken to keep staffing levels to a minimum as the ReBo Board and management developed

2. In accordance with the provisions of Section 50 of the 2012 Act.

Section 1 Establishment of ReBo

A Distinct Entity with Unique Start-up Challenges *continued*

strategies, objectives and performance indicators as part of its strategic plan and operating plan development processes.

Following an approval process with the Department of Public Expenditure and Reform for the implementation of the staffing structure included in ReBo's operating plans, a recruitment campaign was undertaken. Staff were recruited with a variety of key competencies including commercial, banking, accountancy, legal, human resources and project management. Furthermore, the majority of staff recruits had held previous volunteer positions in credit unions prior to joining ReBo.

In general, the recruitment process brought with it a series of challenges due to the limited timeframes of the positions offered and related hiring terms and compensation framework. The ability to attract employees under these unique conditions proved to be difficult and time consuming. (The ability to retain employees under these conditions continued to be a challenge throughout ReBo's mandate.)

As a result, it was not until November 2013, a year into ReBo's time-bound mandate that a full permanent staff complement of 12 was in place to move forward with implementation of ReBo's key strategy on credit union restructuring. At that point, however, a fundamental issue was still to be resolved in regard to credit union restructuring, that of the clarification of the mechanics and parameters of the incentivisation strategy.

Table 2: ReBo Staff Structure

ReBo CEO	
Administration	Restructuring Team
Finance & Administration Manager	Head of Restructuring
Restructuring Analyst x 1	Restructuring Managers x 8

Credit Union Fund

As part of the establishment of ReBo, the Credit Union Fund had been established by the Minister for Finance under Section 57 of the 2012 Act. A core recommendation of the Commission on Credit Unions was that credit unions approved for restructuring "be provided with funding, where required and subject to conditions, to ensure they have adequate capital and to upgrade systems." The Minister for Finance contributed €250m to this Fund in December 2012, the purpose of which included provision of financial support for qualifying costs incurred in the restructuring of credit unions

in addition to coverage of the expenses of ReBo in discharging its functions under the 2012 Act.

As a government-sponsored incentivisation strategy had not been previously implemented in the Irish credit union sector, it was necessary to determine related requirements under European Union state aid rules. This in turn, required legal opinions to be sought and ultimately, European Commission approval to be obtained. Considerable time was taken by the ReBo Board and CEO in the resolution of this key issue through 2013, with introduction of the incentivisation scheme by the Department of Finance not occurring until November, 2014.

In seeking to fulfil its functions under the 2012 Act, and in keeping with the Commission's recommendation to incentivise the process, ReBo ultimately utilised the De Minimis Aid Exemption of European State Aid Law to fund restructuring costs incurred by credit unions where the costs were considered as "qualifying". (Notification of this was given by the Department of Finance in its State Aid Application.) All credit unions seeking to have qualifying costs covered by ReBo were required to submit a formal restructuring proposal for ReBo Board approval. Qualifying costs were designated to include, inter alia, financial due diligence, IT, legal, business consultancy, project management, communications, etc.

The overriding rationale for the funding scheme was to remain true to the Commission's recommendation of encouraging and incentivising credit unions to involve themselves in voluntary restructuring. Under the De Minimis State Aid Exemption rule there was a ceiling of €200,000.00 for all De Minimis Aid provided to any one undertaking over a three-year period. Credit unions in receipt of such financial assistance were required to pay a levy to ReBo that equalled 50% of the financial assistance received. Costs not directly related to facilitating the restructuring process, for example, renovation of property and staff redundancy payments, were not considered as "qualifying" costs. In retrospect, this financial incentive was viewed as a motivating factor by some credit unions, but was not viewed as a "game changer" in any merger proposal.

During its mandate, ReBo paid a total of €17m in financial assistance from the Credit Union Fund regarding qualifying costs pertaining to credit union restructuring projects. Post ReBo levy, this amounted to a net total of €8.5m paid, out of a total available fund of €250m (or 3.4% usage).

Stabilisation Support

An additional €250m was also contributed by the Minister for Finance for the provision of stabilisation support. Stabilisation

support is available to credit unions with a reserve ratio equal to or greater than 7.5% and less than 10% of the credit union's total assets, and only in cases where the Central Bank assesses the credit union as viable. As per the 2012 Act, stabilisation support is to be provided to address short-term problems at credit unions that are viable but undercapitalised³. The provision of such stabilisation support constitutes State aid within the meaning of Article 107(i) of the Treaty on Functioning of the European Union (TFEU). As such, the related terms dictate that any funding provided to credit unions is to be recoupable directly from the credit union and to be provided at an interest cost of 5% – 7.5% depending on the term of repayment⁴. The terms and conditions of this state funding are unappealing to credit unions and, therefore, ultimately there were no requests during ReBo's mandate for support of this kind to address capital shortfalls, and thus none of the €250m set aside for this purpose was used.

Where capital was required by a credit union during ReBo's mandate, it was generally provided via the Irish League of Credit Unions Savings Protection Scheme. The characteristics of such capital support were legally defined as 'realised, unrestricted and non-distributable', with such support being provided without any associated interest cost⁵.

ReBo Credit Union Levy

In addition to ReBo's finalisation of its strategic plan and credit union restructuring implementation strategy in the latter half of 2013, also to be determined at that time were the regulations for the ReBo credit union levy process and arrangements for the collection of the levy by the Central Bank.

The ReBo levy was in respect of two distinct components apportioned separately, namely the operational costs of ReBo and the cost of direct de minimis financial assistance. Operational costs incurred by ReBo in the performance of its functions were levied sector wide and based on a credit union's asset size. Liability in respect of de minimis financial assistance was levied at 50% and borne exclusively by the credit union that benefitted.

Related research and discussions were held with the Central Bank and Department of Finance during preparation of ReBo's 2014 Operating Plan and budget. The ReBo levy was ultimately introduced in December, 2014 in accordance with Sections 47 and 48 of the 2012 Act.

Over its lifetime, ReBo introduced a total of four levies in respect of the years 2014, 2015, 2016 and 2017.

Neither the Commission on Credit Unions nor the Government had provided any preconceived concept of the final numbers of credit unions in Ireland, post restructuring, given that restructuring was to be carried out on a voluntary basis.

³ Under Section 65 of the 2012 Act, on provision of stabilisation support, any requests for stabilisation support shall not be approved by the Central Bank unless ReBo has recommended that the credit union be considered by the Bank for stabilisation support.

⁴ The non-cumulative interest payable to the Credit Union Fund by a credit union in receipt of stabilisation support under the Stabilisation Scheme will be applied as follows: for support being repaid within 5 years, an interest rate of 5% per annum will be applied; for a longer repayment period of between 5 and 10 years the interest rate will increase after 5 years to 6.25% per annum, for repayments of longer than 10 years this rate will further increase after 10 years to 7.5% per annum. Ref: Credit Union Fund (Stabilisation) Levy Regulations 2015, 24/11/15.

⁵ Separate legal agreements between ILCU and related credit unions provided for future recovery rights under certain conditions not impinging on the characteristics of the capital support.

Section 1 Establishment of ReBo

Key Components of ReBo's Strategic Plan

The following sub-sections provide an overview of the key components of ReBo's Strategic Plan as developed.

Vision

Vibrant and sustainable credit unions that are credible, trustworthy providers of financial services to their members.

Mission

To facilitate and oversee the restructuring of credit unions on a voluntary, incentivised and time bound basis so as to support the financial stability and long term sustainability of credit unions generally.

Objectives of Restructuring

- Protection of credit union members' savings
- Provision of credit to members at fair and reasonable rates
- Stability and viability of credit unions and the sector at large
- Preservation of the credit union identity and ethos
- Contribution to the development of a world class credit union sector in Ireland

The restructuring process provided the opportunity for credit unions to develop a more sophisticated and ultimately more sustainable business model and provided a mechanism to help deal with the financial stresses in the sector in an orderly and time bound way.

Key Strategies

- Use stronger credit unions to anchor restructuring with other participating credit unions (primary focus), in order to fulfill current and future members' needs.
- Make recommendations in relation to stabilisation support for individual credit unions and seek to offer a path to sustainability for credit unions that would not otherwise be capable of independent viability while not impinging on the Central Bank's independence or resolution actions.
- Develop proposals and plans with credit unions and sector stakeholders on viable business models for restructuring and the longer-term sustainability of the credit union sector.
- Effectively manage ReBo operations and costs to reflect its short term and focused remit.

Operating Principles

In performing its functions ReBo outlined that it would be guided by its stated objectives and adhere to the following operating principles:

- Fulfil its functions in accordance with:
 - › the Credit Union and Co-operation with Overseas Regulators Act 2012
 - › the recommendations of the Report of the Commission on Credit Unions
 - › the Code of Practice for Governance of State Bodies
 - › any other directions given to it by the Minister for Finance
- Operate on an independent basis
- Take the actions considered necessary or expedient to enable it to perform its functions
- Interact with credit unions on a voluntary basis and in a consistent manner, showing no bias toward any particular party
- Act with due care and professionalism in its dealings and operate in an ethically and financially prudent manner
- Interact and communicate with all sector stakeholders in an inclusive and open way.



La crescita 2012 sembra essere stata ancora più modesta del previsto a 10
percento, mentre nel 2011 il settore ha registrato un'accelerazione
impressionante di 18,4% (contro il 10,2% del 2010), con un
ritorno a 18,4% nel 2012.



Una volta che il settore ha
registrato un'accelerazione
impressionante di 18,4% nel
2011, anche nel 2012 ha

Section 2 Work of ReBo

Implementation of the Strategic Plan

As part of the implementation of the actions plans contained in the Strategic Plan, ReBo routinely engaged with various sector stakeholders including the Department of Finance, the Central Bank/Registry of Credit Unions, the Irish League of Credit Unions (ILCU), the Credit Union Development Association (CUDA), the Credit Union Managers Association (CUMA), the National Supervisors Forum, and the Credit Union Advisory Committee (CUAC). ReBo also developed various communications tools to assist in the facilitation of the voluntary credit union restructuring process.

Development of Merger Process Guidelines

In collaboration with the Registry of Credit Unions (“RCU”), a set of merger process guidelines was agreed in early 2014 that would allow for the prudent but expeditious development, assessment and approval of credit union restructuring plans and proposals. Briefly, the process followed the steps below:

Initiation Phase

- **Fact Find:** Where two or more credit unions sought to examine a voluntary restructuring opportunity, ReBo facilitated initial negotiations and assisted the credit unions in examining areas that required agreement.
- **High Level Business Case:** ReBo worked with the credit unions in developing a High Level Business Case that examined the rationale for the proposed merger and assessed the financial sustainability of the merged entity. This was submitted to RCU to review and adjudicate on whether to allow the merger to proceed to development phase.

Development Phase

- **Phase 1 Due Diligence:** This process examined the main areas of financial risk within each credit union, namely, the loan book, investment portfolio and fixed assets. Investigations were conducted by recognised audit firms.



- **Phase 2 Due Diligence:** Investigations were made into areas not covered in Phase 1. These included governance, legal, human resources, products and information technology.
- **Detailed Business Case:** Subject to the satisfactory completion of due diligence processes above, a detailed business case was prepared underpinning the rationale in favour of a proposed merger, together with a thorough examination of financial projections demonstrating the sustainability of the merged entity. Concurrently with this step, an integration plan was developed for the merger.

Where a project successfully completed a Detailed Business Case, the proposal was presented to the ReBo Board for review and determination of the Board's approval, approval with conditions, or rejection.

Any merger projects receiving approval by the ReBo Board were subsequently referred to RCU, the latter having the sole discretion on whether any such proposed mergers were allowed to proceed in accordance with the legislative requirements for the Central Bank to confirm transfers of engagements.

Completion Phase

- **Special Resolution or Board Resolution:** RCU approved the merger to proceed by way of special resolution or board resolution. In the case of a special resolution of members, a general meeting (SGM/AGM) is organised⁶.
- **Post Restructuring:** Work on embedding the new structures and benefits of restructuring commenced.

Additional Communications Strategies & Tools

In early 2014, ReBo's Strategic Plan was published. During the same period, a detailed Merger Process Manual, based on the above guidelines, was developed and copies circulated to all credit unions (see Appendix VI). Detailed Guidance Notes were also developed by ReBo on specific issues involved in the merger process including: human resources, accounting, legal, communications and member resolution process (see Appendix VII). In addition to the development of these detailed materials, an informative and interactive ReBo website (www.rebo.ie) was put in place for the use of credit unions and other stakeholders. The website provided a cost effective means of communicating with credit unions and disseminating the above guidance notes and manuals and ReBo communiques.

In March 2015, ReBo developed and hosted a one-day National Restructuring Conference for credit unions. It was held at the Aviva Stadium and attracted 500 credit union attendees from across Ireland and involved national and international credit union speakers.

As per Section 43 of the 2012 Act, the Minister for Finance was required to conduct a review to determine whether ReBo had, in the Minister's opinion, completed the performance of its functions, with such a review to be conducted no later than 1 January 2016. In light of these requirements, in June 2015, ReBo compiled an Interim Report, critically assessing the performance of its functions, in order to assist the Minister in the conduct of his review and subsequent issuance of his report. In addition, after release of the Minister's Report in October 2015, the ReBo Chairman and CEO appeared before the Public Accounts Committee of Dáil Éireann to answer questions as required.

Throughout ReBo's statutory mandate, a written communique was issued to all credit unions by the Board Chairman after each Board meeting to keep credit unions apprised of the progress of ReBo's work. Furthermore, throughout its mandate, members of ReBo's Board, management and staff also participated in stakeholder group meetings, individual credit union meetings and sector conferences to provide progress and information updates and/or specific presentations as requested.

⁶ Section 129 of the Credit Union Act 1997 provides that a transfer shall be by way of special resolution or, if the Bank consents where it considers it expedient to do so, by resolution of the Board of Directors.

Section 2 Work of ReBo

Credit Union Engagement

During the early part of 2013, ReBo made initial written contact with all credit union boards across the country, with the ultimate goal of engaging in individual face-to-face meetings with every credit union. ReBo considered this endeavour as essential in order to impart its message and ascertain credit unions' attitudes toward restructuring. In late 2013, following the recruitment of a permanent staff complement, ReBo augmented its outreach efforts by conducting a nationwide series of roadshows to further inform the sector about its operation and objectives.

In the first half of 2014, based on the responses received to its outreach efforts, ReBo staff met with every credit union board willing to do so. These engagements informed the development of ReBo's Strategic Plan and laid the foundation of all subsequent work. The cumulative progress of those engagements is charted below:

Table 3: Credit Union Engagement – Initial Outreach Programme

	Mar. 2014	June 2014	Sept. 2014	Dec. 2014
Met	203	302	312	312
Scheduled to meet	15	5	4	2
Credit Union refused to meet	42	81	64	64
Awaiting response	44	0	0	0
Outstanding	84	0	0	0
Total Active Credit Unions	388	388	380	378
Deregistered Credit Unions*	8	8	16	18
Total Credit Unions	396	396	396	396

* The majority of deregistered credit unions were met by ReBo prior to their deregistration

Building on the initial outreach programme, ReBo commenced its work in helping credit unions to develop restructuring solutions, based on the merger process guidelines outlined above.

The following table highlights the cumulative progression of restructuring projects during the period January 1, 2014 to March 31, 2016, the latter being the date announced by the Minister for Finance as the final date for ReBo to accept restructuring proposals from credit unions.

Credit Unions in ReBo-assisted restructuring projects

Table 4: Credit Unions in ReBo Assisted Restructuring Projects

Stage*	Mar. 2014	Mar. 2015	Mar. 2016
Initiation	56	34	16
Development	29	76	103
Approval	2	2	14
Implementation	0	6	2
Post Restructuring	5	26	88
Total	92	144	223

*Stages

Initiation: credit unions seeking a solution or in initial discussions with potential partners

Development: credit unions who have commenced formal due diligence, business case etc.

Approval: merger proposal awaiting either ReBo or RCU approval

Implementation: S130 packs issued

Post Restructuring: merger completed

The pace of restructuring increased significantly over ReBo's lifetime. By March 2014, 92 individual credit unions had engaged in ReBo-assisted merger projects. Due to a growing awareness of ReBo's work and the restructuring process and its associated benefits, the number of credit unions engaged in merger projects increased to 223 by March 31, 2016, the final date for ReBo acceptance of new restructuring projects. For the remainder of 2016, ReBo continued to support ongoing merger projects, with the ReBo Board approving the last set of finalised merger proposals in December 2016.

By the time ReBo ceased operations on 31st March 2017, ReBo had supported a total of 117 merger projects involving 212 credit unions. Of these 117 merger projects, 82 projects had concluded mergers involving 156 unique (individual) credit unions with total assets in excess of €6.7bn, a further 13 projects were still progressing towards completion as at 31st March 2017, and 22 projects had been closed prior to completion.

Table 5: ReBo Assisted Restructuring Projects Summary as at 31st March 2017

Project Status 31st March 2017	Projects	Credit Unions
ReBo completed projects	82	156
Projects still progressing post-ReBo	13	20
Projects closed without completing	22	36
Total	117	212

During ReBo's initial engagement efforts, there was found to be a perception among credit unions that sector restructuring would only involve small credit unions transferring into larger neighbouring credit unions. While this type of restructuring did take place, over the course of ReBo's operational lifetime there was a noticeable change in attitude towards restructuring, such that credit unions became more willing to engage in the process from the perspective that restructuring could offer the opportunity to gain a strategic advantage, and was not only a strategy to be pursued due to financial necessity.

Also of note is the fact that among the 82 completed mergers facilitated by ReBo there are examples of a series of successive mergers taking place as reflected in the table below (i.e. 21 of 55 transferee credit unions completed more than one ReBo merger project). These examples include cases of like-sized credit unions which initially merged to achieve the size and scale necessary to allow for desired investments in IT, management structures and service development, with the newly merged entity going on to complete further mergers for a variety of strategic reasons.

Table 6: ReBo Merger Projects Completed

Illustrating Series of Successive Mergers Involved				
	Number of Transferee CUs Involved	Number of ReBo Merger Projects Completed By Each Transferee CU	Total Number of Merger Projects Completed By ReBo	Total Number of CUs Involved
	34	1	34	73
	15	2	30	52
	6	3	18	31
Total	55		82	156

ReBo also facilitated a number of mergers that involved elements which challenged what may have previously been considered to be obstacles to restructuring. Such mergers demonstrated that a lack of close geographic proximity, the acceptance of a non-traditional membership base (community / industrial), or the merging of credit unions affiliated with different representative bodies, are not elements, in and of themselves, which create barriers to achieving a successful merger.

Below is a comprehensive listing of ReBo facilitated mergers that were fully completed.

Table 7: List of Credit Unions in ReBo Assisted Merger Projects

Credit Union Name	Merged Credit Union Name
Cashel Credit Union Limited Ballymahon Credit Union Limited Monaleen Credit Union Limited St. Bernadette's Credit Union (Limerick) Limited	Affinity Credit Union Limited
Ardee Credit Union Limited Collon Credit Union Limited Louth Credit Union Limited	Ardee Credit Union Limited
Athenry Credit Union Limited Kinvara Credit Union Limited St. Brendan's (Ballygar) Credit Union Limited	Athenry Credit Union Limited
Ballygall Credit Union Limited Ballymun Credit Union Limited	Ballygall Credit Union Limited
Ballyshannon Credit Union Limited Killybegs Credit Union Limited	Ballyshannon and Killybegs Credit Union Limited
Castledermot Credit Union Limited Dunlavin Credit Union Limited Hacketstown & Tinahely Credit Union Limited Baltinglass Credit Union Limited	Baltinglass Credit Union Limited
Buncrana Credit Union Limited Inishowen Credit Union Limited	Buncrana Credit Union Limited
Caherdavin Credit Union Limited St. John's Credit Union Limited South Hill Credit Union Limited St. Patrick's Parish (Limerick) Credit Union Limited	Caherdavin Credit Union Limited
Cahir Credit Union Limited Ardfinnan Credit Union Limited	Cahir Credit Union Limited

Section 2 Work of ReBo

Credit Union Engagement *continued*

Credit Union Name	Merged Credit Union Name
Carlow & District Credit Union Limited Ballon & Rathoe Credit Union Limited	Carlow & District Credit Union Limited
Civil Service Credit Union Limited FÁS Credit Union Limited Forfas Staff Credit Union Limited	Civil Service Credit Union Limited
Clondalkin Credit Union Limited The Four Corners Credit Union Limited	Clondalkin Credit Union Limited
Clonmel Credit Union Limited Mullinahone Credit Union Limited	Clonmel Credit Union Limited
Cois Sionna Credit Union Limited Estuary Credit Union Limited	Cois Sionna Credit Union Limited
Community Credit Union Limited West Cabra Credit Union Limited	Community Credit Union Limited
Shankill/Ballybrack and District Credit Union Limited Sallynoggin/Glenageary Credit Union Limited Dalkey Credit Union Limited Glasthule–Dun Laoghaire Credit Union Limited Carrickbrennan Credit Union Limited Foxrock and District Credit Union Limited	Core Credit Union Limited
St. Mary's Navan Credit Union Limited Dunshaughlin Credit Union Limited Ballyjamesduff Credit Union Limited Ballivor–Kildalkey Credit Union Limited St. Scire Credit Union Limited	Credit Union Plus Limited
Cuchullain Credit Union Limited Faughart Credit Union Limited	Cuchullain Credit Union Limited
Douglas Credit Union Limited Passage West/Monsktown Credit Union Limited	Douglas Credit Union Limited
Drogheda Credit Union Limited East Meath Credit Union Limited St. Loman's Trim Credit Union Limited	Drogheda Credit Union Limited
Dubco Credit Union Limited Staff of MOPI Credit Union Limited	Dubco Credit Union Limited

Credit Union Name	Merged Credit Union Name
Dundrum Credit Union Limited Sandymount Credit Union Limited	Dundrum Credit Union Limited
Edenderry Credit Union Limited Coill Dubh & District Credit Union Limited	Croí Laighean Credit Union Limited
Enniscorthy Credit Union Limited Piercestown and District Credit Union Limited	Enniscorthy Credit Union Limited
Castlebar Credit Union Limited Achill Credit Union Limited Ballyhaunis Credit Union Limited	First Choice Credit Union Limited
Ballyphehane Credit Union Limited St. Finbarr's South Credit Union Limited Kinsale & District Credit Union Limited	First South Credit Union Limited
Gorey Credit Union Limited Avonmore Credit Union Limited	Gorey Credit Union Limited
Health Services Staffs Credit Union Limited St. Gabriel's Credit Union Limited Castle Credit Union Limited C.I.E. Staff (Cork) Credit Union Limited C.I.E. (Galway) Credit Union Limited	Health Services Staffs Credit Union Limited
Kildare Credit Union Limited Kilcullen Credit Union Limited Narraghmore Parish Credit Union Limited	Kildare Credit Union Limited
Killarney Credit Union Limited Kenmare Credit Union Limited	Killarney Credit Union Limited
Kilsaran & District Credit Union Limited Togher Credit Union Limited	Kilsaran & District Credit Union Limited
Kingscourt Credit Union Limited Baileborough Credit Union Limited St. Mary's Moynalty Credit Union Limited	Link Credit Union Limited
Lisduggan District Credit Union Limited Portlaw/Ballyduff Credit Union Limited	Lisduggan District Credit Union Limited
Listowel Credit Union Limited Ballyunion Credit Union Limited	Listowel Credit Union Limited

Credit Union Name	Merged Credit Union Name
Coolock-Artane Credit Union Limited Swords & District Credit Union Limited Donnycarney Beaumont & District Credit Union Limited Raheny and District Credit Union Limited North William Street Parish Credit Union Limited	Member First Credit Union Limited
Mallow Credit Union Limited Buttevant & Doneraile Credit Union Limited Dromcollogher Credit Union Limited Millstreet Parish Credit Union Limited	Mallow Credit Union Limited
Muintir Skibbereen Credit Union Limited Bandon Credit Union Limited	Muintir Skibbereen Credit Union Limited
Mullingar Credit Union Limited Castlelost Credit Union Limited Kinnegad & District Credit Union Limited	Mullingar Credit Union Limited
Naas Credit Union Limited Maynooth Credit Union Limited	Naas Credit Union Limited
New Ross Credit Union Limited Bunclody Credit Union Limited	New Ross Credit Union Limited
Portlaoise Credit Union Limited Abbeyleix Credit Union Limited Athy Credit Union Limited	People First Credit Union Limited
Balbriggan Credit Union Limited Skerries Credit Union Limited Donabate Credit Union Limited The Victory Credit Union Limited Rivervalley & Rathingle Credit Union Limited	Progressive Credit Union Limited
Harold's Cross and District Credit Union Limited Templeogue Credit Union Limited Rathfarnham Credit Union Limited	Rathfarnham Credit Union Limited
Rathmore and District Credit Union Limited Milltown (Kerry) Credit Union Limited	Rathmore and District Credit Union Limited
Roscommon Credit Union Limited Elphin Credit Union Limited	Roscommon Credit Union Limited
Sligo Credit Union Limited Collooney Credit Union Limited	Sligo Credit Union Limited

Credit Union Name	Merged Credit Union Name
Stillorgan Credit Union Limited St. Mary's Donnybrook Credit Union Limited	Stillorgan Credit Union Limited
St. Canice's Credit Union Limited Durrow Credit Union Limited Ballyragget & District Credit Union Limited Mountrath District Credit Union Limited Rathdowney Credit Union Limited Graignamanagh Credit Union Limited	St. Canice's Credit Union Limited
St. Colman's (Claremorris) Credit Union Limited Ballinrobe Credit Union Limited	St. Colman's (Claremorris) Credit Union Limited
St. Columba's Credit Union Limited Naomh Padraig Credit Union Limited	St. Columba's Credit Union Limited
St. Francis Credit Union Limited Fergus Credit Union Limited Sixmilebridge Credit Union Limited Ss Peter & Paul Credit Union Limited	St. Francis Credit Union Limited
St. Jarlath's Credit Union Limited Moylough-Mountbellew Credit Union Limited	St. Jarlath's Credit Union Limited
Indogroup Credit Union Limited Pearse Credit Union Limited St. Laurence O'Toole's Credit Union Limited Ringsend and District Credit Union Limited St. Patrick's Credit Union (E.S.B. Staff) Limited	St. Patrick's Credit Union (E.S.B. Staff) Limited
Tipperary Credit Union Limited Plassey Credit Union Limited St. Bernard's (Bansha) Credit Union Limited	Tipperary Credit Union Limited
St. Mary's Parish Credit Union Limited Castleconnell/Ahane Credit Union Limited St. Lelia's Credit Union Limited	Unity Credit Union Limited

Section 3 Sector Review

Sector Review

The Report of the Commission on Credit Unions provided a detailed sector review for the period 2006 to 2011, including a review of performance across a series of key performance indicators. By way of comparison, an update on sector performance across similar key performance indicators is provided below for the 2015 and 2016 years during ReBo's mandate⁷.

Table 8: Credit Union Numbers and Asset Distribution

Asset Range	Number of Credit Unions	Credit Union Numbers as a % of all Credit Unions	Assets € Million	Asset/Total Assets (%)
2016				
€100m or Greater	48	16	8,040.90	50
€60m to €100m	37	13	2,812.00	18
€40m to €60m	44	15	2,091.6	13
€20m to €40m	66	23	1,899.1	12
Less than €20m	96	33	1,105.70	7
Total	291	100	15,949.30	100
2015				
€100m or Greater	37	11	6,107.80	41
€60m to €100m	39	11	3,038.70	20
€40m to €60m	39	11	1,893.50	13
€20m to €40m	79	23	2,329.60	16
Less than €20m	148	43	1,590.00	11
Total	342	100	14,959.60	100
2011				
€100m or Greater	29	7	4,509.70	33
€60m to €100m	29	7	2,210.70	16
€40m to €60m	50	13	2,462.20	18
€20m to €40m	82	21	2,415.40	18
Less than €20m	202	52	2,019.20	15
Total	392	100	13,617.20	100
2007				
€100m or Greater	29	7	4,749.10	33
€60m to €100m	35	8	2,756	19
€40m to €60m	47	11	2,299	16
€20m to €40m	86	21	2,536.50	18
Less than €20m	223	53	2,015.10	14
Total	420	100	14,355.70	100

Source: Central Bank of Ireland

Credit Union Numbers and Asset Distribution

The credit union sector has undergone significant restructuring, particularly during the years of 2015 and 2016, with consolidation primarily involving smaller credit unions transferring their business and members into larger credit unions. As a result of this restructuring, the sector now includes an increased number of larger credit unions and a reduction in the number of smaller credit unions, both in terms of asset size.

As seen in the table on the left, whereas in 2011, pre-ReBo, 7% of credit unions had assets of €100m or more, by the end of 2016, just prior to the end of ReBo's operations in Q1 2017, 16% of credit unions had assets in this range. Similarly, in 2011, 52% of credit unions had assets less than €20m, whereas by the end of 2016, 33% of credit unions had assets in this range.

According to the Central Bank publication 'Financial Conditions of Credit Unions: 2011 – 2016', the number of registered credit unions stood at 311 as at February 2017, compared to 428 at the end of 2006. As at February 2017 there were 286 actively trading credit unions, consisting of 33 Industrial credit unions with combined assets c.€2.6bn, and 253 Community credit unions with combined assets c. €13.3bn. As at February 2017, the top 50 credit unions by asset size accounted for 52% of total sector assets and 51% of total sector loans.

⁷ Data is sourced from the September Prudential Returns in respect of the years 2015 and 2016 and year end returns as at 30 September in respect of 2007 and 2011. For 2015 and 2016 Bad Debts Recovered and Investment Losses have been removed from Total Income and included under Total Costs in order to make the Income/Cost information consistent with how the year end data is reported.

Income and Costs

The table below compares income trends within the credit union sector for the years 2007 and 2011, pre-ReBo, and years 2015 and 2016, during ReBo's mandate. Income peaked in 2007 at €860m, prior to the onset of the financial crisis. Since then, total income has fluctuated year on year, to the level of €538m in September 2016. The fall in income was driven primarily by a drop in investment income and lower lending volumes.

Table 9: Income Trends

Asset Range	Total Income € Million	Investment Income € Million (%)	Interest Income € Million (%)	Other Income € Million (%)
2016				
€100m or Greater	260.8	96.7 (37)	154.9 (59)	9.3 (4)
€60m to €100m	93.9	29.7 (32)	61.2 (65)	3.0 (3)
€40m to €60m	71.8	24.2 (34)	45.5 (63)	2.0 (3)
€20m to €40m	69.1	18.0 (26)	48.9 (71)	2.1 (3)
Less than €20m	42	8.6 (21)	30.6 (73)	2.7 (6)
Total	537.6	177.3 (33)	341.2 (63)	19.1 (4)
2015				
€100m or Greater	231.5	91.2 (39)	126.4 (55)	13.9 (6)
€60m to €100m	116	44.5 (38)	65.6 (57)	5.8 (5)
€40m to €60m	76	31.1 (41)	42.9 (56)	1.9 (3)
€20m to €40m	97.8	33.4 (34)	61.2 (63)	3.3 (3)
Less than €20m	65.7	17.6 (27)	45.6 (69)	2.5 (4)
Total	587.1	217.9 (37)	341.8 (58)	27.4 (5)
2011				
€100m or Greater	233.6	79.9 (34.2)	153.1 (65.5)	0.6 (0.3)
€60m to €100m	121.2	41.7 (34.4)	78.6 (64.9)	0.9 (0.7)
€40m to €60m	139	41.4 (29.7)	93.9 (67.6)	3.8 (2.7)
€20m to €40m	137.3	36.1(26.3)	98.6 (71.8)	2.5 (1.9)
Less than €20m	116.4	28.3 (24.3)	85.1 (73.1)	2.9 (2.6)
Total	747.5	227.4 (30.4)	509.3 (68.1)	10.8 (1.5)
2007				
€100m or Greater	267.9	97.8 (36.5)	172.8 (64.5)	-2.7 (-1.0)
€60m to €100m	164	49.4 (30.1)	109.4 (66.7)	5.3 (3.2)
€40m to €60m	135	38.4 (28.4)	91 (67.4)	5.6 (4.2)
€20m to €40m	160.5	43.1 (26.9)	114.8 (71.5)	2.6 (1.6)
Less than €20m	133.2	31.5 (23.7)	96.3 (72.3)	5.4 (4.0)
Total	860.6	260.1 (30.2)	584.2 (67.9)	16.3 (1.9)

Source: Central Bank of Ireland

Section 3 Sector Review

Sector Review *continued*

The table below compares trends in Total Costs within the credit union sector for the years 2007 and 2011, pre-ReBo, and years 2015 and 2016, during ReBo's mandate. Total costs almost doubled in 2011 to €647m from €358m in 2007. By 2016, total costs decreased to €323m as a result of bad debt provision write backs and fewer loan write-offs.

Table 10: Cost Comparison

Asset Range	Total Costs € Million	Bad Debts Provision € Million	Loans Written Off € Million	Investment Losses € Million	Salaries € Million	Other Management Expenses € Million
2016						
€100m or Greater	142.3	-33.1	23.1	0.3	66.9	85.1
€60m to €100m	57.4	-11.4	10.2	0.2	26.1	32.3
€40m to €60m	46.7	-5.8	6.3	0.2	20.7	25.3
€20m to €40m	49.2	-9.9	9.2	0.1	19.9	30
Less than €20m	27.1	-3.2	4.1	0.1	10.6	15.4
Total	322.7	-63.5	52.8	0.9	144.2	188.1
2015						
€100m or Greater	123.3	-16.9	26.1	0.6	50.9	62.6
€60m to €100m	63.8	-15.6	16.0	1.2	27.7	34.5
€40m to €60m	50.6	-6.8	11.6	0.3	19.7	25.8
€20m to €40m	62.6	-11.2	16.4	0.1	24.6	32.6
Less than €20m	45.9	-3.9	7.8	0.1	15.6	26.3
Total	346.3	-54.4	77.9	2.4	138.5	181.8
2011						
€100m or Greater	179.2	39.9	30.5	25.2	34.6	49.0
€60m to €100m	110.3	26.6	16.9	16.9	19.7	30.1
€40m to €60m	127.8	24.3	29.0	17.5	23.2	33.9
€20m to €40m	124.8	29.2	28.9	7.8	23.7	35.2
Less than €20m	105.2	21.8	20.3	11.0	18.0	34.1
Total	647.3	141.8	125.6	78.4	119.2	182.3
2007						
€100m or Greater	101.4	13.0	9.9	0.5	27.8	50.3
€60m to €100m	72.8	8.6	9.3	2.5	22.1	30.4
€40m to €60m	55.8	2.4	7.9	1.7	17.9	25.9
€20m to €40m	70.0	6.2	7.6	0.7	21.5	33.9
Less than €20m	58.4	5.0	5.7	0.5	15.9	31.3
Total	358.4	35.2	40.4	5.9	105.2	171.8

Source: Central Bank of Ireland

Loans

Income generation via lending is central to the financial sustainability of credit unions. The average sectoral gross loan-to-assets ratio declined from just over 40% in 2011 to 27% in 2016. However, as shown on the table below, following a prolonged period of loan growth contraction from 2007, 2016 brought a slight improvement in this trend with total loans outstanding at €4.1bn, up from €3.9bn in 2015. The loan-to-assets ratio will continue to be a key focus for improvement going forward.

Table 11: Loan Trends

Community Credit Unions				Industrial Credit Unions			All Credit Unions		
Loan Duration	Number of Loans	Amount € Million	Average Loan €	Number of Loans	Amount € Million	Average Loan €	Number of Loans	Amount € Million	Average Loan €
2016									
Less than 1 Year	144,895	294.8	2,034	18,609	42.5	2,284	163,504	337.3	2,063
1-5 Years	394,706	2,663.40	6,748	64,724	621.3	9,600	459,430	3,284.70	7,150
5-10 Years	15,946	318.8	19,990	3,374	99.8	29,564	19,320	418.5	21,662
> 10 years	1,831	77.8	42,508	355	26.8	75,629	2,186	104.7	47,877
Total	557,378	3,354.80	6,019	87,062	790.4	9,079	644,440	4,145.20	6,432
2015									
Less than 1 Year	141,075	303.1	2,149	18,004	41.3	2,292	159,079	344.4	2,165
1-5 Years	386,558	2552	6,602	62,903	600.9	9,553	449,461	3,152.90	7,015
5-10 Years	16,383	287	17,519	2,913	82.2	28,224	19,296	369.2	19,135
> 10 years	1,817	73.1	40,246	274	13.1	47,893	2,091	86.2	41,248
Total	545,833	3215.2	5,891	84,094	737.5	8,770	629,927	3,952.70	6,275
2011									
Less than 1 Year	132,100	274.6	2,079	19,900	49.7	2,497	152,000	324.3	2,134
1-5 Years	464,200	3,522	7,587	75,300	783.5	10,405	539,400	4,305.50	7,982
5-10 Years	28,200	564.1	20,004	5,400	167.2	30,963	33,600	731.3	21,765
> 10 years	3,800	129.5	34,078	600	27.1	45,167	4,400	156.6	35,590
Total	628,300	4,490.20	7,147	101,200	1,027.50	10,153	729,400	5,517.70	7,565
2007									
Less than 1 Year	94,200	194.9	2,069	9,300	42.4	4,559	103,600	237.2	2,290
1-5 Years	552,300	4,258.70	7,711	83,600	825.4	9,873	635,900	5,084.10	7,995
5-10 Years	48,600	954	19,630	9,200	204.4	22,217	57,800	1,158.40	20,042
> 10 years	5,700	183.5	32,193	1,000	32.2	32,200	6,700	215.8	32,208
Total	700,800	5,591.10	7,977	103,100	1,104.40	10,712	804,000	6,695.50	8,327

Source: Central Bank of Ireland

Reserves Profile

The number of credit unions reporting reserve ratios below the regulatory requirement of “10% of total assets” has fallen over the last six years from 52 credit unions in September 2011 to 3 credit unions in September 2016. (Source; Central Bank Publication - Financial Conditions of Credit Unions: 2011 – 2016).

Section 3 Sector Review

Qualitative Sector Overview

In addition to the quantitative analysis provided above on the various elements of the financial position of the credit union sector, pre- and post- ReBo's mandate, qualitative observations are offered below in regard to an overview of the status of the sector as at the close of ReBo's operations.

It can be stated that the fundamental restructuring of the Irish credit union sector has successfully begun as a result of the consolidation of credit unions during ReBo's mandate. Given that 50% of credit unions were engaged in the merger process over the last 4 years, it can be assumed that the perceived strength and importance of credit unions within the financial sector at large has been enhanced. With stronger capital positions now evidenced across the credit union sector, the potential for growth should have also been improved. To date, the restructuring process has facilitated quality improvements in credit union operations, particularly in information technology and human resources, providing further opportunity for positive sector development going forward.

It is important to note that based on its work, ReBo did not find supporting evidence of a potential gap in credit union sector reserves of €1 Billion, a view which had been in circulation prior to ReBo's establishment⁸. In addition, during ReBo's mandate, previously predicted loan losses for the sector did not materialise. However, it can be stated that the sector has continued to experience a significant decline in loan book growth (against the backdrop of a contraction in the personal loan market) as well as a decline in investment income. At the time of writing, current credit union sector financial data indicates weak loan-to-asset ratios, declining loan income, declining return on investments and a relatively high cost base. These financial trends, if not corrected, will continue to raise concerns regarding the future sustainability of the credit union sector and, moreover, provide ongoing evidence of the need for restructuring to continue going forward.

Evidence is also found of competitor retail banks' movement back into the personal loan market, a traditional market for credit unions. In addition, non-bank competitors have increased their presence in the retail financial services marketplace, vying for the same customers as credit unions. Thus, heightened competition looms from market players with the deep pockets necessary to access new technologies with which to enhance efficiencies of internal operations and offer new electronic delivery channels to retail financial services customers. As a result, credit unions will need to ensure that their cooperative financial services model continues to be relevant going forward. In general, to strengthen their prospects for future sustainability, credit unions need to attract loan seekers into their memberships, access economies of scale for their operations, and find new sources of income.

It should be noted that credit unions' unique culture and community connections differentiate credit unions and provide the basis for a distinct competitive advantage within the financial services marketplace through their provision of a relatively better 'customer experience' for their members than that offered by competitors. However, it is expected that the provision of personal member service excellence will continue to be challenged in light of increasing compliance requirements, and as alternative delivery channels offer new points of non-person contact with members. As member needs change, points of differentiation will also be tested as credit unions are called to deliver on demands for new services and technologies in order to attract new members and attract and retain a greater "share of wallet" from members.

Scale is increasingly important to enhance a credit union's ability to deliver on such member demands. During ReBo's mandate, however, evidence was found of multiple back office solutions being built within the sector, resulting in duplication of cost and effort rather than enhancement of scale. Cooperation on the elements of back office operations would offer an opportunity to gain needed cost efficiencies and scale in support of future sustainability. The back office, including payments systems etc., represents a non-strategic element of a credit union's business, and is one which should not be viewed as proprietary in the way that the ability to build and deepen member relationships is key to developing and maintaining a competitive advantage.

Also linked to the issue of sustainability is the issue of vision. It appears that the sector as a whole lacks a vision to guide its progress. The articulation of a greater purpose, and a vision for the fulfilment of such a purpose, needs to be agreed across the sector. For instance, a vision that sees credit unions as the primary financial institution for their members, providing a full array of financial services for their members throughout their lifecycle, would be a progressive stance to guide the future development of the sector.

⁸ As referred to in the Commission on Credit Unions Report 2012 – Section 3.11.1 on financial projections which referenced the Strategic Review of the credit union sector undertaken by Grant Thornton and the Prudential Capital Assessment Review ("PCAR") undertaken by the Bank, which included a significant capital shortfall for the sector under certain baseline and adverse loss scenarios.

This lack of vision is further challenged by the fragmented nature of the credit union sector and the fact that fragmentation is reflected in sector representation. As a result, a unified voice does not exist for the development and promotion of a vision for the sector, nor for legislative/regulatory advocacy efforts by the sector. Cross-sector communications are similarly fragmented, which in turn can lead to relationships among sector stakeholders being impeded at best or rendered dysfunctional at worst. In general, sector issues need sector solutions which require multi-stakeholder consensus building to achieve clear unified outcomes. In this regard, some issue-specific cooperation was evidenced between ILCU, CUDA, and CUMA in regard to training on both money laundering and credit union security matters.

Lastly, service offerings at the representative body level should be relevant and provide value-for-money for credit unions, just as service offerings at the credit union level must do so for credit union members. A continuum of services should be available at both levels of the credit union sector to allow for choice and selection to meet differing and changing member needs. Moreover, as sector consolidation continues, the dynamics of the sector will change as the balance of power also changes, thus requiring ongoing diligence in planning, managing and adapting to the change process to ensure relevance of product/service offerings at the representative body level.

The Irish credit union sector should be proud of its engagement with 3.1 million members, its service to communities across the country, and its reputation for caring member service and commitment to local communities. The credit union's not-for-profit business model and involvement of dedicated volunteers, together with professional management and staff, provide a unique service offering in the Irish financial services market. With the benefits of recent restructuring in the sector beginning to take hold, and the promise of additional restructuring to follow, the sector is on the path to continued growth and enrichment of members' lives.

Credit Unions will need to ensure that their cooperative financial services model continues to be relevant going forward.



Section 4 Findings

Restructuring Impact

In general, it should be stated that ReBo's mandate and related restructuring model, as set out by the Minister for Finance as a time-bound, incentivised, voluntary process, was very appropriate and allowed ReBo to succeed as a restructuring facilitator in response to the call for change within the sector. Acting as a catalyst for change, ReBo's engagement with credit unions has significantly expanded credit union awareness of the merger process, changed credit union attitudes to mergers by de-stigmatising and demystifying the process, and led to significant consolidation in the sector.

Furthermore, for those credit unions who engaged in the process, valuable learnings were gained by Boards and management (whether or not a merger was actually concluded through the process) due to their involvement in the due diligence process and merger proposal development process.

Critical Factors for Success

Three key areas were found to be critical factors for success in credit unions. Firstly, credit union scale has been found to be even more important than originally thought within the sector. Scale not only provides for cost efficiencies, but also, and perhaps more importantly, provides the necessary platform for development of the credit union business model. Secondly, the use of information technology is critical to credit union operations. Boards and management need to clearly understand IT's role and application and, as a result, should consult objective advice in this regard. Thirdly, the strength of a credit union's human resources, including those at the Board level, are critical factors for success. Although ReBo did not have authority over a credit union's organisation structure or governance framework, reviewing them for compliance only, they were often found to be areas of weakness.

Key Drivers of Restructuring

The main drivers of restructuring at the credit union level were capital requirements, governance requirements, resource needs and the credit union's growth strategy, each having implications for ongoing sustainability. Overt member pressure was not a factor in the consideration of a merger, however, could possibly be so in the future.

For credit unions with relatively smaller asset sizes, near-term or long-term viability was the key driver cited for restructuring, leading them to transfers of engagements with relatively larger and mainly neighbouring credit unions. ReBo's work assisted in strengthening the sector through restructuring efforts involving smaller weaker credit unions. Overall, the strengthening of sustainability was a key driver regardless of asset size.

As previously noted, there was a noticeable change in attitudes towards restructuring over the course of ReBo's mandate such that credit unions began to view it as a strategic undertaking to enhance competitive advantage, rather than a move to be taken only out of financial necessity.

Restructuring as a Key Element of Strategy

For stronger credit unions, inorganic growth (through mergers) was seen as an important and cost effective part of a prudent growth strategy. As part of their strategic planning process, such credit unions identified the importance of creating efficiencies, enhancing organisational skills and increasing services, with many viewing a merger as a strategic step that could strengthen their capabilities in these areas. During ReBo's mandate, as previously noted, 21 transferee credit unions actually completed more than one merger, reflective of such an inorganic growth strategy.

Included in the Appendices to this report are two case studies, Core Credit Union and St. Canice's Credit Union, each illustrating how restructuring was used as a key element of credit union strategy.

Core Credit Union initially involved a merger of three like-sized (small) credit unions which allowed the newly merged credit union to put in place the management team required to realise their strategic objectives for future growth and provision of improved member services. During ReBo's mandate, Core Credit Union went on to complete a further three transfers of engagements with neighbouring credit unions.

The second case study involves St Canice's Credit Union, a large community credit union based in Kilkenny. From the outset, St Canice's Credit Union had made clear to ReBo, its Board's and Management's desire to work with any credit union in the region that wished to consider merging with it. There were many small credit unions in the region that were seeking the benefits of scale to safeguard the future provision of quality credit union services in their community. During ReBo's mandate, St Canice's Credit Union completed a total of five transfers of engagements, and prior to doing so, first invested in their own structures and abilities in order to successfully manage and deliver merger projects of the scale proposed.

Thus, mergers were concluded not only between weaker credit unions "at the margin" and relatively stronger partners, but also by stronger credit unions seeking strong strategic partners for maximisation of joint growth prospects, the latter being an important strategy for the sector going forward.

Breaking Perceived Barriers

As previously noted, ReBo facilitated a number of mergers that challenged what may have previously been considered to be obstacles to restructuring. Factors including the need for close geographic proximity, the targeting of a traditional membership base and choice of partners with similar representative body affiliation, were proven not to be, in and of themselves, requirements for achieving a successful merger.

While the majority of mergers involved credit unions from closely aligned geographic areas, there were also mergers completed which involved credit unions with similar cultures and vision for the future, without having particularly close geographical proximity. For example, two like-minded and similar-sized credit unions in the north west of the country merged despite being a considerable distance apart. Both credit unions were well managed with strong balance sheets, however, they each recognised that individually, their credit unions were of a size and scale that made it difficult for them to meet future challenges associated with delivering competitive services in an increasingly regulated environment. Both credit union boards also foresaw future challenges in regard to attracting skilled volunteers. The resultant merged entity is better positioned strategically to avail of future opportunities for inorganic and organic growth, as it has attracted an experienced and committed Board and a stronger specialised management team that can focus on key areas e.g. risk compliance and marketing, and the combined operation is realising cost savings and efficiencies.

The merging of credit unions with differing bonds and membership bases were also concluded. For example, the developing Dublin Docklands area provides significant potential for credit union member growth due to the increasing levels of employment being realised in the district. There were three small community-based credit unions in the area which lacked the resources to exploit the surrounding growth potential and faced other longer-term viability issues because of their small asset size. A large industrial credit union in the area, with the resources and expertise available to maximise the potential in the common bond, completed transfers of engagements with the three community-based credit unions. The community credit unions benefitted from the transferee's capabilities in areas such as governance, strategy, risk and compliance, and their members benefitted from a broader range of products and enhanced member-facing services as a result of significant investments in IT and business processes. As a result of the merger, the transferee credit union also gained the opportunity to reach new prospective members through multiple employer types as well as through outreach into the residential communities associated with the new common bond.

Working Through the Restructuring Process

All credit unions engaged in a ReBo-assisted restructuring project, followed the structured merger completion guidelines as outlined above. The timelines involved in completing mergers varied considerably. Some projects completed in as little as twelve (12) weeks, others took upwards of eighteen (18) months, depending on the complexity of the restructuring and the approach of both participating credit unions and the Regulator.

As part of ReBo's initial outreach programme, many Boards indicated an interest in investigating a merger strategy on a non-committal basis, and sought ReBo's assistance in pursuing this type of preliminary investigation. In response, ReBo facilitated many Board discussions on the pros and cons of a restructuring solution and also facilitated introductions between like-minded credit unions interested in discussing mergers. During this early stage of research and investigation, many credit unions considered possible merger opportunities involving partners situated beyond their immediate locality and having alternate business models. These initial meetings, facilitated by ReBo, were extremely important in assisting Boards and management teams to develop their thinking on the suitability of a restructuring solution and identify the best option for their credit union. ReBo's development of a structured merger process was also seen by credit unions as critical in terms of providing clarity on the way forward once the decision to restructure had been made.

Fact Finding

Credit unions realised significant benefit in the use of a "fact finding" investigation at an early stage in the merger process. This type of investigation helped to identify any significant issues, as well as satisfy each credit union party, prima facie, that there were no insurmountable impediments to the proposed merger. To facilitate this investigation, credit unions exchanged such information as prudential returns, PRISM reports, audit management letters, business and strategic plans, financial projections, HR terms and conditions of employment, pension arrangements, organisational charts, etc. A confidentiality agreement was completed prior to the sharing of such information. (Note: Member data was not shared.)

It was also during this fact finding stage that credit unions identified any "red line" issues. Matters arising from this exercise, including "difficult" issues, were discussed openly so that all parties gained a full understanding of any issues that had arisen. Such early discussion and agreement on potential "red line" issues provided credit unions the opportunity to avoid the risk of spending time and money in pursuing a merger that might be at risk of failure. In instances where credit unions ultimately abandoned a merger process, it was often

Section 4 Findings

Restructuring Impact *continued*

the case that they had not placed sufficient time and effort into the fact finding investigation stage, and its related identification and discussion of “red line” issues, thereby having prolonged the length and cost of what turned out to be a failed initiative.

Due Diligence Process

The due diligence phase of the merger process is critically important as its purpose is to ensure that a potential merger will be in the best interest of the credit union, and in turn, will benefit the credit union’s members.

As regulator, the Registrar of Credit Unions issued “terms of reference” for the due diligence process to those credit unions considering a merger, tailored to take account of any specific matters to be covered in particular cases. Credit unions contracted with external providers to complete this work.

In conducting the due diligence process, it was found that it was incumbent on credit unions to ensure that all material facts were identified and considered, whether or not such items were specifically included in the terms of reference guidelines. Credit unions learned the importance of pursuing their due diligence process to the extent necessary, investigating all questions that were presented, and not being confined solely to the areas indicated in the guidelines, as applicable.

Importance of Hands-On Due Diligence Work

Another lesson learned in regard to the due diligence process was that areas such as cultural fit, human resource practices and operational practices required a more “hands on” due diligence process to be undertaken by the management of the transferee credit union. This included reviewing loan book risks, credit policies & procedures and credit control quality, IT reporting, premises (health & safety issues), human resource policies (including CPD & flexibility), anti-money laundering activity, management reports and asset register. In addition to the review of operating plans, policies and procedures, it was found that there was also invaluable information to be gained by spending time in the transferor credit union, talking to staff and observing first-hand the credit union’s work practices and culture. The question of determining the cultural fit between credit unions was a crucial one, and a key factor in the ultimate success of the merger, and thus required discussions and observations at all levels of the credit union.

It was also found that credit unions needed to ensure that expectations for external assistance were clearly articulated and consideration given as to how internal resources would be applied



to augment the external assistance, in order to gain the valuable information available through “hands on” involvement for certain issue areas.

Various credit unions commented that their commissioned due diligence reports were formulaic, too “high level” and did not represent “value-for-money”. In addition, in some cases, post-merger issues had not been identified including information technology connectivity issues and loan rate differences. Thus, a further lesson learned and adopted thereafter, was the practice of credit unions conducting a competitive selection process for their external provider to ensure the most comprehensive set of expectations for service and highest value-for-money were achieved from the chosen provider(s).

Moreover, it is worthy to note that significant benefits were realised by credit unions who took the opportunity to discuss the merger process with other credit unions that had been through a merger, prior to embarking on the fact finding and due diligence processes. Such discussions helped to allay concerns and were seen to assist credit unions in identifying possible risks and pitfalls to watch for and mitigate against in the merger process. (This type of networking process is one that representative groups could usefully facilitate going forward.)



Special Resolution of Members or Board Resolution

In accordance with the legislative requirements in the Credit Union Act 1997, a transfer of engagements is decided by way of a special resolution of members, or, if the Registrar of Credit Unions consents, by way of board resolution. During ReBo's mandate, the Registrar's decision was usually made towards the end of the merger process. As a result, many credit unions planned mergers on the basis that they would be completed by way of board resolution, only to find late in the process that they were required to put the decision to a vote of members. A member resolution must be passed by a majority of not less than three quarters (75%) of such members of a credit union present and voting at a general meeting. It was found that a failure by credit union management and boards to adequately communicate and consult with members and other stakeholders in advance of such member votes, often jeopardised the likelihood of success on such merger votes.

Accordingly, it was found to be important to plan, from the outset of the process, for the requirement of a 'Member Resolution'. As such, a communications plan was required and its contents agreed to by all credit unions involved in the merger.

It was recognised that leading up to the SGM/AGM, employees play a key role in advancing communications in regard to a pending merger resolution. As members engage with front-line employees on a regular basis, they were often found to approach staff for their opinion on a proposed merger. Thus, it was seen as vital that employees understood the reasons for and benefits of the proposed merger, the latter from both employee and member perspectives. In briefing employees, it was important that any concerns employees had, were fully and directly addressed. It was found that when employees felt well-informed and positive towards a proposed merger, they would pass such sentiments on to members.

Of course, full engagement with members in the period leading up to a SGM/AGM was viewed as critical so that members had the opportunity to understand the reasons for the merger and the benefits to be realised, felt part of the decision-making process, and could have any concerns addressed prior to the meeting where they were to vote on the matter. It was important for this consultation to be done sufficiently in advance of the SGM/AGM so that members did not feel pushed or rushed. When such votes took place as part of a regular AGM, it was also important to make sure staff and members were alerted in advance of the special resolution that would be coming forward, so as to not to have its presence missed when part of the usual AGM staff/member communication.

It was also important that on the night of the SGM/AGM, the speakers were well prepared, with potential questions having been previously identified and answers prepared in advance. Furthermore, all board members and management should be fully aware of the running order for the meeting and abide by the same. Well-planned and clear communications delivered appropriately in the merger process assisted in building trust, reducing uncertainty, developing a shared vision, and overcoming resistance to change.

Resolving Contentious Issues

As merger discussions progressed, many questions arose for prospective merger partners about how the continuing credit union would operate, such as:

- Who will be the CEO?
- Who will serve on the Board and the various Committees?
Who will be the Chairman?
- Will the credit union be renamed, and if so, to what?
- Will local lending discretion be retained?
- Will local offices be retained?
- How will cultural differences be bridged?

Section 4 Findings

Restructuring Impact *continued*

It was found to be of critical importance not to avoid such potentially contentious issues, but to address them openly and as early as possible in the process, even though working through them was often found to be difficult. Furthermore, even when agreement seemed to have been reached on such an issue, it was often found to resurface again seemingly unresolved, at a later date.

Developing a process and environment that built trust between the parties was seen as critical to working through contentious issues. It was equally important to identify the correct forum for dealing with an issue. Sometimes it was found that the best course of action was for a Steering Committee to escalate the issue to the Boards, and in other cases, the best course of action was to defer a decision pending further investigation and evaluation. In all cases, the process was best facilitated when issues were captured on an 'Issues Log' when raised, followed up with the agreed next steps being recorded and tracked, and the same issues being closed only with the consent of all stakeholders.

Development of Business Plans and Budgets

A comprehensive merger proposal business plan and budget is fundamental to the execution of a successful merger. A significant number of merger proposal business plans submitted to ReBo were viewed as being formulaic in nature, rather than tailored to the specific situation of the merger being addressed. This was due, in part, to the reliance on third party advisors by participating credit unions. However, this was also often due to the lack of sufficient analysis and stress testing of such plans and budgets by Boards and management. As a result, various iterations were often compiled in order to address specific issues.

Going forward, it will be critical that Boards and management be sufficiently assured of, and comfortable with, the assumptions being used in respective business plans and budgets. Also to be ensured is that all integration challenges are analysed to the best possible extent, and any identified gaps in financial or human resources and/or product/service offerings are addressed through respective strategic initiatives. Furthermore, such plans should be grounded in the respective credit unions' member research findings; and if such research is not available, the gathering of such research should be considered by Boards and management prior to embarking on business plan development. In some cases, though the Board and management complained about the costliness of the use of external advisors in the development of business plans and budgets, they had not, at the same time, provided sufficient oversight and involvement in the process (as noted above) to try to ensure value-for-money in the service provision outcome.

Developing a process and environment that built trust between the parties was seen as critical to working through contentious issues.

Business plans should also include sub-plans and related itemised budgets related to marketing, human resources, training and development, and information technology and capital (reserves).

Marketing sub-plans frequently lacked any specific detail, apart from the intention to source marketing specialists to assist with promotional activity. The marketing plan, however, should extend far beyond promotional activities, requiring a planned approach to the member experience in terms of the quality of product and service delivery, breadth and depth of product/service offerings, product/service pricing, promotions, member research and delivery channel options, amongst other elements. It was found that most of those credit unions which experienced an increase in loan growth and membership post-merger, had also been engaged in marketing/business development exercises, including use of social media advertising, and in some instances, a rebranding exercise to ensure a single corporate image had been implemented at all branches.

Human resources (HR) sub-plans also frequently lacked detail apart from a proposed high level organisational structure. Such plans should include proposed recruitment strategies, compensation and benefits strategies, staff training and development strategies, and cultural integration strategies (the latter discussed further in the next section). The engagement of a HR professional services firm to manage the HR elements of the merger was found to be of value for credit unions not having sufficient resources to assist in this area. It was also found to be important that HR issues be identified and addressed well in advance of a merger, as extensive discussions may ultimately be required to avoid post-merger HR issues. Such issues would include managing expectations of the transferor's post-merger position in regard to roles, responsibilities, lending discretions, etc. The preparation of detailed training plans are also required in regard to IT systems and operational policies and procedures, so as to enable timely delivery of such training prior to the merger taking effect. In general, it was found that staff involvement, as early as possible in the merger process, assisted in creating a more seamless merger transition and smoother integration at the credit union operating level.

In regard to information technology (IT) sub-plans, connectivity issues, system migration issues, and staff training issues need to be addressed in strategy development related to the business plan. Furthermore, when an IT provider must be selected, a cost/ functionality analysis of proposed systems should be included in the planning process prior to making a decision on such a provider. It was also found to be important for prospective merger partners to review the adequacy of their connectivity link / broadband connection as part of the pre-merger planning process, due to the possibility that certain solutions could be required prior to planning subsequent strategies.

It was found that when developing the IT sub-plan and budget, credit unions should take care not to underestimate the cost/ effort involved in migrating IT systems, including in cases where the credit unions involved are on the same IT system. Planning for the IT migration process should also include transferring scanned documentations, e.g. member photographs and signatures from transferor(s), as this can be excluded from the IT data migration process. Scheduling should also ensure that the IT implementation is not rushed, if possible setting the IT conversion at month end rather than mid-month, and allowing two to three days for the conversion process.

In regard to capital, sub-plans were not generally included in the business plans reviewed. Such sub-plans should include, at minimum, the forecasted contribution to capital (reserves) expected due to earnings, along with an overview of the credit union's retained earnings policy and dividend policy and related projections. Going forward, given the recommendations below concerning the need for risk-based lending and risk-weighted capital, the development of capital sub-plans will become essential as part of the business plan/budget process to ensure related regulatory requirements are adequately addressed.

Budgets related to merger proposal business plans were often based on unrealistic or poor quality assumptions, causing an overestimation of the potential benefits to be accrued through a merger, including the potential growth to be attained in loan portfolios, investment income, fee income and/or membership. It is important to the overall credibility of the business plan that assumptions and projections be challenged by the Board and management. Assumptions need to be supported and justified with detailed action plans. Budgets need to be stress tested and demonstrate viability in both best case and worst case scenarios.

Credit union boards and management have the primary responsibility to ensure that all of the above elements are addressed in merger proposal business plans and budgets. Their assumption

of this responsibility for analytical involvement and oversight in the planning process is critical, given that without it, the appropriate commitment and buy-in cannot be achieved for the subsequent implementation process.

ReBo staff addressed the rework of merger proposal business plans and budgets prior to, and on occasion, subsequent to their presentation to the ReBo Board, in order to gain enhanced clarity and detail prior to ReBo Board approval and subsequent submission to the Central Bank for the Registrar's review and final approval.

Cultural Integration

It became even more apparent after initial mergers were conducted, that the need for enhanced awareness and focus on planning for human resource related issues, so called "soft" issues, was required to facilitate the smooth integration of operations in the implementation process. The importance of the HR plan and related blending of cultures within the merged entity was found to be of critical importance for the success of a merger.

Credit unions vary greatly in size, can be rural or urban based, have industrial or community bonds, be volunteer run or have a full time management structure, and each has its own business model tailored to their specific membership. Each credit union also has its own culture or way of operating, defined by the people, norms and practices in the organisation. Thus, it was found to be vital to recognise the potential impact of a merger on the stakeholders of the transferor credit union who may be feeling a sense of loss and/or insecurity regarding their future. Cultural integration challenges were also found to vary depending on the nature of the merger. For instance, a small volunteer-run credit union merging with a larger credit union may face the challenge of taking on board-established procedures and processes or feeling a loss of identity, while a merger of equal-sized credit unions may face the challenge of developing a new operating procedure or integrating departmental staff for the continuing credit union. As mergers necessitate behavioural change and the building of new interpersonal relationships, it was found that they have a greater chance of success if 'cultural' issues are recognised and addressed at an early stage of the process.

Management's role was critical in addressing cultural integration and typically involved: developing and implementing a communications plan that involves open and transparent communication and consultation with key stakeholders including the Board, management, staff, volunteers, members, external providers, etc.; building trust and co-operation amongst the stakeholders; and having clear processes in place to address stakeholder concerns. It was seen as important that the communications plan involve the

Section 4 Findings

Restructuring Impact *continued*

development of a shared vision, set of values and member service charter for the merged entity, as well as forums for management and staff to collaborate on identifying synergies and implementing best practices across the merged entity.

The Role of the Board

As most credit unions do not conduct mergers on a routine basis, it is difficult to develop a core expertise in this area. When faced with the prospect of a merger, credit union boards often found themselves challenged by their desire, on the one hand, to maintain their strong local community links, while on the other hand, having to make strategic decisions about the need for restructuring in order to ensure the long-term sustainability of credit union services for their members. Despite restructuring having been an ongoing topic of discussion in the credit union sector, it was found that many boards were unprepared when they actually faced the initiation of a prospective merger process.

Credit union boards have a fundamental fiduciary duty to do what is in the best interest of their credit union – as an entity. It is also the credit union board which holds ultimate responsibility for ensuring that all material aspects of the merger, both positive and negative are considered through the process. Based on the due diligence completed and merger proposal business plan and budget prepared, it is the Board which is ultimately responsible to confirm with confidence that:

- The proposed restructuring is in the best interest of their credit union, and thus, in their members' best interests
- Their credit union is in a position to proceed with the proposed merger
- The restructured entity will be financially viable
- Staffing issues have been fully explored and will be satisfactorily resolved as required
- The proposed governance structure for the restructured entity, including board committees, is appropriate and comprised of strong, skilled directors
- Appropriate infrastructure will be in place (including IT and premises)
- There is a good fit between the merger partners based on culture, mission and synergies
- There is a shared vision and set of values/principles underpinning the operation of the merged entity

As per ReBo guidelines, it was found that early during the merger negotiation process a merger steering committee was typically

formed. Ideally this committee had at least one member from each of the management team and board of each credit union. As the steering committee conducted most of the "heavy lifting" during the merger process, it was critical for the committee to keep all Board members informed at all times during merger negotiations so as to enable the full Board to ultimately make an informed final decision regarding the merger proposal.

It was found that credit unions that had embraced the new governance measures introduced by the 2012 Act, were much better placed to successfully evaluate and execute a restructuring project. Having said that, it was found that for many boards, the decision to merge with another credit union was not just a strategic or business decision, but was the most emotional decision they had had to face in regard to fulfilling their fiduciary duty to do what was in the best interest of their credit union. As mergers often entail participants giving up a level of control or autonomy previously enjoyed, some Board members (and staff) feared that a merger meant that they were being 'taken over' by the other credit union, or, that it meant they would be leaving behind their credit union's history and past accomplishments. These types of concerns had to be balanced against the benefits presented for the credit union through the proposed merger, including the ability to ensure sustainable credit union services in their community. Though never an easy task, Boards, management and steering committees had to work diligently to ensure emotions were balanced with thoughtful analysis and discussion in order to effect a productive restructuring outcome.

Merger Execution is Demanding

Following on from the previous discussion, it should thus be stated that going forward, credit unions should not underestimate the time commitment and workload involved at all levels of the credit union (Board, Management, Staff, Volunteers) during the planning and integration phases of a merger. The sheer number of processes to be worked through including due diligence, combining of systems and data, development of new structures, policies and procedures, and integration of new work practices, etc., creates a significant work load particularly for management and staff, who at the same time cannot falter in their implementation of the ongoing annual operating plan and delivery of day-to-day services to members. Credit unions which engaged in the merger process noted the importance of a merger project being carefully considered, planned and project managed. Once the decision was made to actively pursue a merger opportunity, credit unions had to invest the required time, resources and energy to ensure the proposed merger was a strategic fit and that the related risks and benefits had been

Credit unions should not underestimate the time commitment and workload involved at all levels of the credit union (Board, Management, Staff, Volunteers) during the planning and integration phases of a merger.

adequately assessed. Once the transfer of engagements was finalised, credit unions had to continue to work diligently to integrate operations and fully realise the benefits.

Insights into Abandoned/Failed Merger Projects

There were a variety of reasons for the abandonment or failure of merger projects. A small number of credit unions seeking a restructuring solution failed to identify a suitable partner credit union. In addition, 22 merger projects that proceeded past the initiation phase, did not reach completion. In general, the primary reason these 22 projects were not completed was due to issues identified during the negotiations and/or due diligence process which could not be resolved to the satisfaction of the parties involved. In a small number of cases, the Regulator raised concerns about the capacity of the continuing credit union to anchor the merger. A number of projects proceeded through to member resolution, where the merger proposal was rejected, thereby illustrating the importance of planning advanced communications with staff and members as noted above.

Section 5 ReBo's Market Research Surveys

ReBo's Market Research Surveys

During ReBo's mandate, ReBo commissioned two market research surveys. The first survey was conducted in early 2015 to elicit findings related to the Irish public's attitude toward credit unions and restructuring in the sector. This survey's results were provided as input to credit union deliberations as they considered whether to adopt a restructuring strategy. The second survey was conducted in early 2017 to elicit feedback on ReBo's services, to identify lessons learned by credit unions involved in restructuring, and to identify the intentions and needs of credit unions for the period post-ReBo.

National Survey – Attitudes and Views on Credit Unions & Credit Union Restructuring 2015

In advance of the ReBo National Conference in March 2015, ReBo commissioned Behaviour & Attitudes ("B&A") to conduct a national survey of adults, aged 16+ years, to identify their attitudes and views on credit unions and credit union restructuring. The research was based on a nationally representative sample of 1,006 adults aged 16+ years. Face-to-face, in-home interviews were utilised, with related fieldwork conducted between the 5th and 15th February 2015. The sample was fully quota controlled using the latest Central Statistics Office estimates, by gender within age and socio-economic status, all within a regional stratification.

The key finding of the survey was that credit union members were supportive of credit union mergers:

- 84% of those surveyed were positively disposed to the notion of credit unions merging, if it enabled credit unions to grow membership and offer more services such as on-line and mobile app banking and debit cards

The survey also highlighted the challenges facing the credit union movement:

- Ageing profile of credit union membership – the vast majority of credit union members (71%) had been a member of their credit union for more than 10 years
- The majority of credit union members are not borrowers
- Overall there is a perceived lack of products/services from credit unions, particularly amongst younger people
- The local ethos is important – but so too are the full range of products and services
- The key challenge is for credit unions to remain relevant, in particular to younger age groups (e.g. 66% of 16–34 yr. olds are using online banking, 45% of people 35yrs+ do so)

The results of this survey were released in a presentation at the ReBo National Conference held in March, 2015. The conference attracted 500 credit union leaders and involved speakers from both

the Irish and international credit union movements. The success of the conference ultimately led to the event becoming a catalyst for many credit unions to consider restructuring though they had not done so previously; and for those already engaged, it provided further supportive evidence of the benefits and opportunities restructuring presented.

Credit Union Restructuring Survey 2017

ReBo commissioned B&A to conduct an online survey of all credit unions in January/February 2017. The key survey objectives were to obtain feedback on ReBo's services, to identify lessons learned by credit unions involved in restructuring, and to identify the intentions and needs of credit unions for the period post-ReBo.

A 60% response rate was achieved, with 173 credit unions participating in the survey. The key findings are summarised below:

- There was a high degree of engagement with ReBo and the majority of credit unions (86%) were satisfied with the support received from ReBo
- Of ReBo's services, the most valued were:
 - › The provision of a structured approach to the completion of a Transfer of Engagements (ToE)
 - › Support with Central Bank engagement
 - › The provision of financial assistance



- The benefits sought by credit unions involved in a ToE were:
 - › More viable business model
 - › Loan growth opportunities
- Important lessons learned from restructuring:
 - › Credit Unions need to conduct their own, “on-the-ground” due diligence in addition to following the Central Bank issued Terms of Reference
 - › There needs to be a greater focus on ‘project management’ and ‘people management’ throughout the merger process
- 3 in 4 credit unions believe that further consolidation across the credit union movement is required.
- The key reasons for the need for further consolidation are:
 - › Diminishing surpluses due to increasing costs/decreasing income
 - › Requirement to invest in products/services to attract/retain members
- 67% of credit unions have included consideration of a ToE as part of their current strategic plan, 31% of these credit unions have a ToE currently underway
- The key barrier to further consolidation is identifying willing partners

Given the above expressed desire and need amongst credit unions for further consolidation, it will be incumbent upon credit union leaders to facilitate progress in this regard based on the success achieved to date through engagement with ReBo over the past several years.

The key challenge is for Credit Unions to remain relevant to younger age groups.

86%
of Credit Unions were satisfied with support received from ReBo.



Section 6 Recommendations

Recommendations

Restructuring To Continue

In advance of providing specific recommendations, several overriding observations are summarised in regard to reflections on the future:

- 1) **Restructuring within the Irish credit union sector will be an ongoing process.** Restructuring is critical to achieving the scale necessary to cover the increasing costs of required HR skills, IT, marketing and compliance, and ensure the sustainability of credit unions in the Irish financial services sector. As during ReBo's mandate, a target number of credit unions is not required to enable this ongoing process. As time progresses, it is expected that more complex mergers will be pursued wherein large-to-large credit union mergers will be effected. This "next stage" of restructuring will incorporate a more "strategic" style of merger as well as the evolutionary development of credit union business models which will ultimately lead to greater transformational change in the sector.
- 2) **Going forward, restructuring will be led by credit unions.** The 55 transferee credit unions which engaged in mergers during ReBo's mandate will be well positioned to provide leadership and mentoring in this regard. Assistance (as required) may be provided by representative bodies (e.g. ILCU, CUDA, CUMA). The RCU will impact restructuring in an indirect manner through changes in legislation/regulations. Financial incentives, similar to those offered through the Department of Finance during ReBo's mandate, are unlikely to be made available in the future. Sector stakeholders should not allow the progress made to date to be impeded nor allow current momentum to be lost.
- 3) **It will be important that the impact of mergers be assessed over time to further clarify the qualitative and quantitative benefits of restructuring.** Assessments should be undertaken after at least a 3-year period to allow sufficient time for the integration of structures, processes and cultures so as to provide for a more fulsome realisation of merger outcomes, economies of scale and related synergistic benefits. Such analyses should inform future restructuring initiatives.

Formalising the Planning Cycle

As the credit union mergers conducted to date represent only the initial steps toward sector restructuring, it will be important for credit unions to engage in the discipline of more formalised strategic planning processes on an annual basis, continually refining their medium and longer-term views, and reaching out to build relationships with potential merger partners going forward. Strategic

and operational planning processes need to be more defined and imbedded in governance processes with detailed sub-plans being developed for IT, HR, Marketing, Service Delivery, Investments and Capital (Reserves). Merger proposals should be supported within the context of these strategic plans and prepared with careful analysis of the combined business and cultural fit of the prospective partners. Such proposals require stress testing and sensitivity analysis, with assumptions and projections being challenged by both Boards and management such that the merger proposal plans are "bought into", "owned" and committed to by Boards and management after thoughtful reflection and detailed discussion. Mergers will continue to require "hard" decisions concerning human resources, branch viability, replication of costs (e.g. IT) and operational efficiencies, with such decisions to be guided by the fiduciary duty to do what is in the best interest of the credit union.

Business Model Development

A credit union's strategic plan should include objectives and strategies related to the evolution of its business model. It is clear that the credit union business model will require continual updating in order to remain relevant and allow for the provision of new products/services/delivery channels in response to changing member needs and competitive conditions. It is the evolution of the business model that will be key to credit unions' competitive advantage and future sustainability.

One of the benefits to be gained through the restructuring process is the ability to more effectively address business model development through the leveraging of scale and strengthening of balance sheets to allow for the acquisition of specialised resources to deliver new products/services. To ensure the relevance of ReBo's restructuring work is not diluted, a process is required to enable restructured credit unions to develop their business model. The recent initiative taken by the RCU to set up a new unit to engage with the sector on business model changes is a positive initial step in this regard. Where a credit union is compliant in all respects, and has the scale and expertise available, it should be permitted to develop its business model to access further cost efficiencies and provide additional services to suit its members' needs.

The following areas should be considered in relation to business model development:

Lending Options:

The expansion of loan offerings is a key priority in business model development. Credit unions need additional options for longer-term lending as well as a review of lending limits and loan categories.

Opportunities exist to expand credit union offerings related to micro lending and social lending, as well as small/medium-sized business lending. Expanded lending options may, in turn, present requirements for underwriting expertise, need for new savings product options and term lengths, as well as requirements for expertise related to asset/liability management. It should be noted that at the time of writing, a sector initiative has commenced to expand credit union lending potential, so the outcome of this initiative will need to be followed. Legislative/regulatory changes will be critical to enable expansion in this area of credit union operations.

Other Income Sources:

In addition to the expansion of loan offerings, there are also opportunities for credit unions to attract new sources of fee income to allow for greater diversification of income streams. Experience has shown that credit unions have been challenged by their return on assets not having kept pace with overhead costs. Credit unions recognise that loan book income (alone) cannot be relied on to fund growth strategies. Business model development in this area is also a priority for the future.

Cost Efficiencies:

To reduce replication of costs, credit unions should also consider business models which incorporate shared services strategies and back office outsourcing strategies as has been implemented in other international credit union movements. Credit unions should consider investments related to such initiatives, individually as well as collectively, in order to best leverage scale to create cost efficiencies or enable the offering of new services.

One particular area impacting credit unions' cost base is IT, given the increasingly important role it plays, not only in banking systems, but in delivery channel infrastructure. The IT area should be a key focus for cost efficiency initiatives. Given IT's essential role in credit union operations and the relative lack of specialised IT skills at the credit union level, it is important that credit unions seek independent advice to ensure providers are thoroughly vetted and solutions meet credit union needs on an ongoing basis. It is also important that circumstances not arise wherein credit unions become "hostage" to providers. The Regulator's document regarding governance of IT provides useful guidance in this area. Business model development is also a useful process in which to address these issues.

Business Case for Change:

Credit unions will need to present the Regulator with a clear and comprehensive business case(s) in order to gain approval for new business powers or other legislative/regulatory provisions enabling

evolution of their business models. Such business cases should be developed by management teams, under the direction and guidance of their respective boards, rather than credit unions relying solely on third party advisors to prepare proposals. The development of internal capacity and experience at the credit union level in regard to the development of strategic plans, merger proposals and business model enhancement plans are key to the future sustainability of the sector.

It should also be noted that in order to expedite the above development of business cases, there is a need for clarity to be provided by RCU concerning the process required for an application for Additional Services (Section 48-52 of the Credit Union Act 1997).

Regulator Role & Approach

ReBo developed a very strong working relationship with the Central Bank/Registry of Credit Unions during its mandate. Going forward, the RCU, in its role as statutory regulator, will continue to play a key role in the evolution of the credit union sector. As such, the RCU will set the tone regarding credit union viability and solvency through its leadership on such matters.

It will be important that RCU implement its full powers in an action-oriented, clear and consistent manner and do so on a timely basis, intervening as early as possible in any applicable situations. In instances where the RCU considers a credit union to be a weak non-viable institution, it should act on a timely basis to facilitate a merger or proceed with resolution as warranted in accordance with relevant legislation, so that further decline does not occur and contagious effects do not arise within the sector due to reputational or other risks. Further clarity regarding the RCU's definition of credit union viability would also be of benefit.

Furthermore, consistency, clarity and transparency will be required in terms of guidance and rulings provided by RCU on issues related to due diligence, merger proposal plans, and/or business model development proposals. RCU guidance and messaging and related communications should be clear and consistent and should not be open to interpretation.

The importance of RCU supervision will remain going forward, including the testing of fitness and probity, with such supervisory work requiring adaptation in keeping with the changing structure of the sector and increasing sophistication of the credit union business model.

Section 6 Recommendations

Recommendations *continued*

Regulatory Framework

The current regulatory framework should represent the minimum standard for all credit unions. However, as the sector has now begun to evolve through the restructuring efforts conducted during ReBo's mandate, there is a need for regulation to adapt in keeping with the nature, scale and complexity of credit union operations.

Risk-Based Regulatory Strategy:

Tiered regulations should be developed using a risk-based approach and in consideration of the complexity of business model in use at the credit union level⁹. Risk-based capital requirements should be permitted, together with a risk-based lending model including related risk-based pricing on loans. A risk-based strategy will further support growth and business model development, provide opportunity for revenue enhancement and enable changing strategies to be implemented in a prudent manner.

Common Bond:

In keeping with facilitating growth and sustainability within the sector, it is also important that the regulations regarding the credit union common bond are revisited¹⁰. Mergers completed during ReBo's mandate have led to the expansion of underlying credit union common bonds, with related issues and questions being raised as a result. Going forward, common bond regulations should be reconsidered so as to ensure that they do not impede the enhancement of credit union scale or business model development. Furthermore, there is need for a mechanism to be established to allow for credit unions to bid competitively in regard to gaining access to a common bond in situations where such a case is presented.

Merger Process:

Based on ReBo's experience over the past several years, there is a need for enhanced awareness of and focus on HR related issues in RCU's review of merger proposals. As noted previously, such issues can have significant implications for the success of the merger outcome and as such require detailed attention.

There is also a need for clarity and a consistency of approach at the beginning of the merger process as to whether RCU will require a special general meeting and membership vote or, a Board resolution, in order to proceed with the merger at the conclusion of the merger process. There is a need for clarity concerning the notion of "expediency" in this matter.

On a related issue, in regard to the required postal mailing of merger-related S130 information packs to credit union members, it

is important that alternate delivery options be permitted to expedite this communications process (i.e. electronic delivery or in-branch delivery)¹¹.

Facilitating the Democratic Process:

In regard to democratic processes in general, a variety of options should be permitted through legislation and/or regulation to allow for greater participation by members, including electronic on-line voting, in-branch voting and mail-in voting options.

In order to enhance transparency within the sector, it is also important that credit unions be required to hold annual meetings in line with legislative requirements of the Credit Union Act 1997, regardless of their situation, in order to ensure accountability to members and promote timely action being taken to address issues as applicable.

Credit Union Board Governance:

There is a need for continued vigilance concerning requirements for and oversight of credit union board governance. Board and management competency is critical to the ongoing restructuring of the sector and development of enhanced business models¹². In this regard, there is a need for RCU to review the effectiveness of the recently established Nominations Committee process. Such a review should determine whether adequate assessments of skill gaps at the board level are being undertaken, along with corresponding targeted recruitment efforts being conducted to ensure the necessary breadth and depth of competencies are available at credit union board tables. This issue will be of ongoing concern on an annual basis, that is, not only when a credit union is involved in a merger process and considering the composition of the merged entity's board of directors.

Mandatory comprehensive director training requirements should be considered by RCU for completion by directors during their first elected term of office, with ongoing professional development activities to be required thereafter on an annual basis. Specific plans and budgets for director training, based on individual director requirements, should be included in the credit union's annual operating plan/budget. As credit unions reach larger asset sizes and

⁹ CUAC Report Implementation Group is considering this matter.

¹⁰ Common Bond requirements are covered by legislation (Section 6 of the Credit Union Act 1997). This matter is also being considered by CUAC

¹¹ CUAC is reviewing matters related to this area.

¹² RCU conducted a thematic review in 2016 on how credit unions had embedded the fitness and probity regime and highlighted a number of areas for improvement – further details on Central Bank website.

business models advance in sophistication, a review of appropriate governance level competencies and related training requirements will be critical and require ongoing advancement in keeping with the evolution of the sector.

Sector Analysis

The RCU is commended for establishing a new semi-annual publication in 2017 concerning a sector-wide analysis of credit unions' financial position. The full sector view of quantitative factors related to financial performance provide an important source of information for both credit unions and the public. The inclusion of the Regulator's viewpoint concerning current and future risks and opportunities for the sector, within the context of the economic environment, would augment the value of this publication and further inform credit unions of key issues to be addressed in their planning processes.

Mergers will continue to require 'hard' decisions concerning human resources, branch viability, replication of costs (e.g. IT) and operational efficiencies, with such decisions to be guided by the Board's fiduciary duty to do what is in the best interest of the credit union.

Appendices

Appendices

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Appendices


Appendix I

Core Credit Union Case Study

CASE STUDY

CREDIT UNION TRANSFER OF ENGAGEMENTS


CORE CREDIT UNION – A MERGER OF EQUALS



Shankill, Ballybrack and District Credit Union (SBCU)

Sallynoggin, Glenageary Credit Union (SGCU)

Dalkey Credit Union (DCU)



The Credit Union Restructuring Board
An Bord Athchóiriú Comhar Creidmheasa

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Appendices Appendix I – Core Credit Union Case Study *continued*

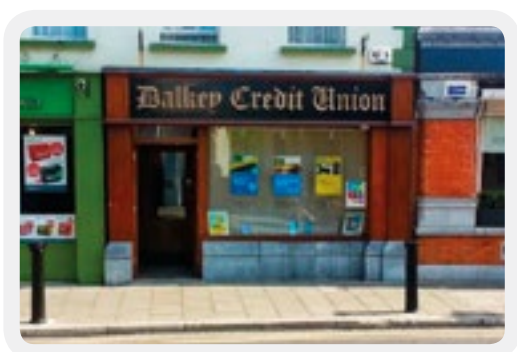


In 2014, three long established credit unions on the coast of Dublin came together to form a €71m credit union, one of the first mergers facilitated by ReBo.”

Their alliance was prompted by a realisation that the credit union landscape was going to change and the three likeminded credit unions decided to **get ahead of the curve**. In 2012 the Boards and management teams of the three credit unions commenced a process of proactive engagement with the view to merging to form a medium sized credit union.



Between March 2013 and August 2014 the Boards and management teams had reorganised the structure of the credit unions as they jointly prepared a Detailed Business and Integration Plan and also obtained regulatory approval. This merger was the first of its kind involving three credit unions relatively similar in size. The merger was promptly followed by a rebrand of the combined credit union to achieve a shared identity which was to be Core Credit Union.



NEED FOR CHANGE

All three credit unions were performing strongly with each paying dividends to members throughout the financial crisis. However, the Boards also recognised the near-term challenges facing the credit unions. The Commission Report on credit unions had just concluded and one of the key recommendations was the merging of credit unions to strengthen their business model to ensure future viability. The Government also enacted the Credit Union and Co-operation with Overseas Regulators Act 2012 (“CUCORA”) which placed a heavier burden of compliance and costs on credit union operations at a time when credit union loan books and investment returns were declining.

All three credit unions had a small asset size individually and given their size it was difficult for the credit unions to invest in IT and the development of services. The cost base individually, would also make it very difficult for them to meet all of the requirements of the CUCORA legislation. With all of the above in mind, the Board of SBCU conducted a strategic review and their findings were aligned to that of the recommendations of the Commission Report. Survival equalled change and the avenue to survival was full financial services which was best achieved through mergers with like-minded credit unions.

MERGER TALKS

There were a number of contributing factors to the initiation of merger talks. Managers held meetings on a regular basis with their chapter group and this resulted in strong relationships between managers. As SBCU and SGCU were neighbouring credit unions the two managers spoke with each other as there were overlapping issues which they consulted on regularly. This laid out the foundation of talks about a potential merger. The manager of DCU was previously employed in SGCU and through this existing connection DCU were invited into the merger talks.

This led to a number of informal meetings between the Board and management team of each of the credit unions to explore the potential for a merger. These informal talks were very tentative but did allow an element of trust to build between the boards. Following the enactment of CUCORA 2012 the tone of the talks changed with a realism that the movement was in a new era and change was upon them all. This led to a decision to be taken at the informal talks for SBCU to write formally to the Boards of SGCU and DCU to enter into formal merger discussions.



Appendices Appendix I – Core Credit Union Case Study *continued*

FOCUS OF NEGOTIATIONS

All three credit unions agreed that the **core motivation** to execute a merger was the **preservation and improvement of services for members**. At all times the members were a key focus of decisions and this helped all parties to concentrate on the outcomes for members and not be influenced by the emotions of change or their personal views.

A critical success factor in managing successful negotiation was that all parties came to the discussion process as equals, even though SBCU was larger than the other two credit unions. From the early stages it was agreed that there would be equal representation on the new Board which was a 3:3:3 breakdown. Each Board then selected 3 directors to go forward to the Board of Core CU.

KEY STRATEGIC DECISIONS

Early in the merger process, the Boards of the credit unions made key decisions in respect of how the merger would be managed and executed. These decisions included the following:

1 Creation of Steering Committee & Project Manager

Each of the credit unions set up a Board Sub-Committee which formed a Steering Committee for the project. The Sub-Committee had the authority to make decisions and report back to the Board. The purpose of this was to allow efficient decision making.

The Steering Committee, supported by the managers, worked through in significant detail and reached a consensus on all aspects of the combined credit union. The managers met on a weekly basis with the Steering Committee meeting on a monthly basis. The managers undertook provisional due diligence and analysis of the credit unions, presenting these reports and recommendations to the Steering Committee.

2 Appointment of a Project Manager

Project management of the merger process was undertaken by the manager of SBCU. A detailed project plan was developed with all elements timed and linked to track the project. This kept focus on the overall goal while ensuring that deadlines were met and the process was not delayed or important aspects overlooked.

3 Involvement of Management & Staff

SBCU and SGCU staff numbers were low prior to merger and purposely kept that way. The management structure was agreed early in the process and luckily there was a natural fit for management roles aligned to staff skills. Each of the managers had a key role in the new management structure and were assigned to the roles of CEO, Operations Manager and Lending Manager. The creation of new roles in Marketing and Risk & Compliance was a key part of the Business Plan and meeting regulatory requirements.

4. Communication

Well in advance of any agreed merger, staff were regularly briefed on the new proposed regulatory environment and the impact it would have on credit unions with a certainty that, at some point in time in the near future, there would be mergers and consolidation. Staff were informed of the decision to merge as soon as the Steering Committee were confident that the merger was going ahead. From this point staff were involved in the process through regular staff meetings and updates. These meetings also gave staff an opportunity to have a voice and be listened to.

5. Governance Structure

A critical element of the success of the talks was the creation of a Local Members Forum. From the initial presentation by SBCU to DCU and SGCU a local committee which eventually got the title of 'Local Members Forum' ("LMF") was proposed. The LMF nests into the operational structure of Core Credit Union without interfering with the separation between operations and governance. The LMF was created to ensure that local knowledge remains a cornerstone of the merged credit union, that local issues are kept a priority and that decision making is kept local but within a best practice governance and operational structure. The key functions of the LMF are to act as ambassadors for the credit union in the local community, represent the credit union at local events and provide feedback to management on local issues and opportunities.

6. New Identity

It was agreed from the start that a new identity would be advantageous for the combined credit union. Selection of a new name proved difficult - whilst it was easy to propose names as options it was very hard to find a name which was a good fit. **A competition was held with members of the three credit unions which helped to communicate the message of the merger** and also provided fantastic suggestions. From all of the names suggested **"Core Credit Union" was selected**, primarily because it matched the vision for the credit union and as it is easy to remember and spell.



Appendices Appendix I – Core Credit Union Case Study *continued*

50
YEARS
SERVING THE
COMMUNITY

OPERATIONAL AND CULTURAL INTEGRATION

All three credit unions were geographically compatible with all three common bonds joining together. All credit unions have the same ethos but culture can vary considerably and even though there were some differences in culture, the differences were not significant. The central focus of each of the credit unions was, as it should be, members. At that time SGCU had very strong member interaction and connection and the aim was to replicate this in all four offices. All three credit unions had a different approach to lending. DCU lending was typically fewer loans but larger amounts with SGCU higher volume but small amounts. SBCU lay in between. These patterns closely correlated with the demographic profiles of each area. The culture of lending also played a part with SGCU being more conservative and DCU being less so. This resulted in the combined credit union redefining its lending policy and practices to streamline the approach to lending. It also required all staff to be retrained in the new policy and practices so as to ensure a standardised approach across all three credit unions.

DIFFERENT MODEL SAME ETHOS

The business model underwent significant change both in the period leading up to the merger and also in the period since the merger. Part of this transformation was a result of the merger but part of it was also as a result of the new regulatory environment. Prior to, and in preparation for the merger, a Risk & Compliance officer and a Marketing officer were appointed. Both of these roles were heavily involved in the preparation work for the merger. Since the merger the managers of SGCU and DCU have been appointed to the management team of Core into the positions of Operations Manager and Business Development/Lending Manager. Following the merger Core Credit Union now has a strong business model with key experienced people responsible and accountable for key functions of the credit union. **This means that the Board get more detailed and comprehensive reporting which allows them to focus on governance and strategy.**



KEY STAGES OF THE MERGER PROCESS

Agree on fundamental issues

The first stage was to agree on all of the fundamental issues such as Board composition, management structure, identity etc. A vision was created for the merged entity early in the process, which centred on services to members and this was the focus of all activities there onwards.

Completion of due diligence

As with all mergers, there was a requirement to complete financial, legal and HR due diligence on all of the credit unions involved in order to ensure that there were no issues which the parties were unaware of before merging and also to address any potential risks in advance of the merger.

Development of a project plan & integration plan

Once the project manager was appointed a detailed and comprehensive plan was developed and timelines for all action items identified so as to deliver the merger and minimize risks. This was also a regulatory requirement which needed to be submitted to ReBo who reviewed it and submitted it to the Central Bank for approval.

Development of a Detailed Business Plan

A Detailed Business Plan was developed and submitted to ReBo and the Central Bank. It was an important piece of work which formed the basis for the approval or rejection of the proposed merger. This was also a great opportunity to set out a solid strategy for the combined entity post-merger, to ensure that the vision to develop member services was achieved. This is still a live document and keeps the Board and management focused on what matters.

Legal requirements

Once approval was granted by ReBo and the Central Bank, there was a 12 week period during which all legal requirements were satisfied. This involved communication to members through the issuing of Section 130 packs (a booklet outlining the financials of each credit union and also the implications of the merger on them as members) and the placing of advertisements about the merger in national papers among other requirements. Once all of the requirements were met, the Central Bank confirmed the date of merger and all data was migrated from the transferor credit union into the transferee credit union.

Appendices Appendix I – Core Credit Union Case Study *continued*

ENGAGEMENT WITH REBO AND THE CB

ReBo was set up in January 2013, however ReBo was not fully operational until November 2013. ReBo supported the merger once it became operational and **provided ongoing advice on the merger**. Throughout the process the credit unions were in regular contact with ReBo as they went through each of the required stages set out by the Central Bank and also received **financial assistance from ReBo which amounted to 50% of the total qualifying merger costs**. The credit unions also had regular interaction with the Central Bank throughout the process.



MERGER COSTS

As project management was undertaken in house in addition to significant other work costs were kept to a minimum. The merger gave rise to costs such as due diligence, IT migration and IT infrastructure, Legal & HR advisors and communications.

COMMUNICATION WITH MEMBERS

The first step in communicating to members occurred at the 2012 AGM, as the annual report for each credit union included a statement informing members that due to changed legislation the Boards of the credit unions would consider all options available to the credit union and make a decision in the best interests of the members. The 2013 annual report contained a more definite statement in addition to a cover letter from the chairman from each credit union stating that each credit union was pursuing a merger. This resulted in a large turnout for each of the respective credit unions which gave members an opportunity to question the rationale of the merger. In addition to the above draft press releases were prepared to communicate or counteract any stories as required, which were not needed. Due to the communication, openness and transparency of the process member reaction was very positive. The two most frequent questions were: “will the staff be okay?” and “will the offices remain open?”. Members were extremely happy that the credit unions had taken the initiative rather than sitting back waiting to see what happens around them.



ADVICE TO THOSE MERGING OR THINKING OF MERGING

1 Communication is key



All stakeholders should be informed as soon as possible but not before the appropriate time. Staff have the most interaction with the members and if they are uneasy or unsettled with the process, the members will feel the same way.

2 Place members' interests at the Core



Boards and managers should undertake a comprehensive and genuine analysis of their current position. Viability and the business model should be honestly and critically assessed. Any decisions should be based on what is best for members, not what is best for staff or the Board.

3 Engage with ReBo



Credit unions should engage with ReBo at the earliest possible stage so as to take advantage of their dedicated expertise and practical assistance as well as the financial support which they provide.

4 Timely Execution/Resources



If a credit union is considering a merger, then it should be done sooner rather than later. The benefits will be felt earlier and the risk of waiting will be mitigated. However, it is important to give the process the time it deserves. Once in the process, it should not be rushed. Each stage needs to be carefully thought out and planned. The project brings a body of work and the project needs to be properly resourced with committed staff.

5 Project Plan



The project impacts all aspects of the credit union's operations and governance. A detailed project plan is required; key dates and deadlines must be identified early if the project is to run smoothly.

Appendices Appendix I – Core Credit Union Case Study *continued*

BENEFITS OF THE MERGER

The merger has allowed the merged credit union to put in the management team required to comply with the new regulations without increasing the overall cost base of the credit union. This would not have been possible as standalone entities. Members have a range of new services and can conduct their business across four offices. Staff have more opportunity for career advancement and progression.

ENHANCED MEMBER SERVICES

With SBCU being SEPA compliant through BNPP members of DCU and SGCU were immediately able to avail of a range of electronic services. The combined strength and capital base has allowed Core to develop lending products with the introduction of home loans and longer term loans which has contributed to growth in the loan book.

Robust Governance

Bringing together the collective experience of three credit union boards and developing a robust strategic plan has enabled Core Credit Union to implement a strengthened governance framework

Experienced management team

The senior management team of Core have a combined 45 years credit union experience in addition to professional qualifications and experience gained outside their roles in Credit Unions.

Staff growth and opportunity

The new structure requirement by the Act and facilitated by the merger provided our staff with personal development opportunities. The increased staff base also allows for greater knowledge share among each other.

Increased engagement with members

The **increased marketing activity and buzz created by the merger** in increased awareness of the credit union in each of the four areas.

€43 million
available to lend



Key post-merger statistics:

- 28% increase in new members
- 8% increase in the number of loans issued
- 20% increase in the value of loans issued
- 3% growth in Loan Book

← STRONGER TOGETHER →



www.rebo.ie

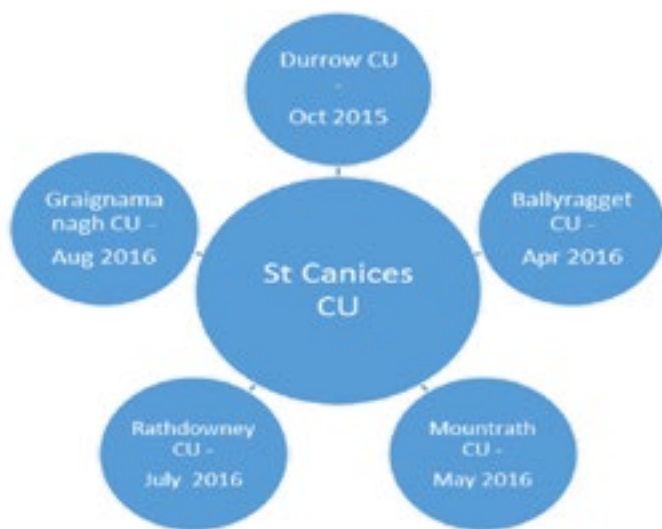
This case study was produced jointly by Core Credit Union Limited and ReBo in March 2015. During ReBo's mandate, Core Credit Union went on to complete a further three transfers of engagements with neighbouring credit unions – Glashule/ Dun Laoghaire Credit Union Limited, Carrickbrennan Credit Union Limited and Foxrock and District Credit Union Limited.

Appendices

Appendix II

St Canice's Credit Union Case Study

St Canice's Credit Union Case Study



The History

St Canice's Kilkenny Credit Union ("St Canice's") was established in 1964. Over its first 25 years, it accumulated assets of over IR£10m and built an organisation composed of 9 full-time staff. In 2008, the credit union opened its first branch in MacDonagh Junction Shopping Centre in the eastern area of Kilkenny City. In 2011, St Canice's accepted a transfer of engagements from Dunnamaggin Credit Union.

Since October 2015, with the assistance of ReBo, St Canice's has accepted five additional transfers of engagements as illustrated in the above graphic. With a commitment to community as its focus throughout the merger process, St Canice's was intent on harnessing the goodwill and member loyalty built up in each of the respective transferor credit unions. St Canice's inclusive approach in their merger process has contributed strongly to the success achieved to date. As at year-end 2016, St Canice's operated from eight (8) branch locations, including two in Kilkenny City, one at Dunnamaggin and five locations acquired from the most recent transferor credit unions. With assets of over €325m, St Canice's is the largest community credit union in Ireland.

A Meeting of Like Minds

In 2014, leaders from a number of relatively small, long-established credit unions in the North Kilkenny and South Laois area contacted ReBo in order to familiarise themselves with the Transfer of Engagements process. At that time, they expressed a willingness to pursue transfer negotiations to better protect their long-term viability. The catalyst for their engagement with ReBo was their

concern regarding challenges facing the sector related to income growth, cost efficiency and regulatory requirements, and the need to invest in increasingly sophisticated IT infrastructure and delivery mechanisms to ensure their relevancy and competitiveness going forward.

The Commission on Credit Unions Report in 2012, together with the establishment of ReBo's operations, solidified St Canice's Board and Management's position to move forward with their desire to work with any credit union in the region that wished to merge with it. As a large standalone credit union with a strong ethos of community service, St Canice's leadership held an understanding of smaller credit unions' vulnerabilities and offered an empathetic approach to addressing smaller credit unions' sensitivities in a restructuring negotiation process. As such, St Canice's became an obvious partner for smaller credit unions seeking transfers. As a result of various outreach efforts, a project ultimately developed involving transfers of engagements by Durrow Credit Union, Ballyragget Credit Union, Mountrath Credit Union and Rathdowney Credit Union to St Canice's on a phased basis during 2015 and 2016. Graignamagh Credit Union subsequently joined the project in March 2016. This ambitious restructuring project became known as "Project Noreside". Transferor credit unions involved in Project Noreside understood the significant benefits of increased scale in enabling the provision of high quality, cost-effective, relevant services to members.

ReBo worked in a supportive role with all credit unions and external providers involved in Project Noreside over a three-year period to enable this significant merger process to come to a successful conclusion for all concerned. It should be noted that all parties involved were also aware that the ultimate objectives of the project could not be achieved through the merger process alone. It was recognized that considerable work related to organisational and cultural development was required to ensure the restructured credit union entity fulfilled its potential to enhance the lives of its members and their communities over time.

Negotiations – Open and Constructive

St Canice's recognised the need for strong governance structures and processes in the merged entity, however, at the same time, were cognizant of possible contentious issues which may arise for transferor credit unions in merger negotiations such as loss of identity, dilution of locally available services, and the erosion of value credit unions offered to their communities. St Canice's approach to negotiations and project communications was based on inclusiveness. Communications with all stakeholders was structured

Appendices Appendix II – St Canice’s Credit Union Case Study *continued*

and regular, with all issues being raised and discussed with a respectful approach, with a focus on resolution being achieved in a sensitive manner. This inclusive style cultivated an alignment of all participating credit unions thereby ensuring the project’s focus was maintained on enhancing member and community benefits in the short term and into the future.

Michael O’Reilly, Chair of St Canice’s at the time, believes that open communication in the restructuring negotiation process was critical, and that the airing and addressing of concerns at the earliest stage in the process was one of the most important activities in building trust and establishing an effective working relationship between prospective partners. “At the very first meeting with each of the credit unions we listened to their concerns regarding loss of identity, the future of local service, security of staff, fears regarding loss of local decision-making and being “swallowed up” by a large entity. We were able to reassure them that our aim was to cooperate and assist wherever we could and that their members would be treated as equal to the existing members of St Canice’s. At no stage were we evasive or patronising and all discussions were conducted in an open and transparent manner even where we were not in a position to accommodate all wishes.”

Evolving Process

Project Noreside was a challenging project for all parties involved given that five credit union engagements were being transferred to St Canice’s on a phased basis. In order to better ensure a successful project outcome, early in the process St Canice’s chose to assess their own structures and ability to manage and deliver such a project. St Canice’s leadership sought to optimise their credit union’s potential through the project, while at the same time not neglect their ongoing management of day-to-day operations. Michael O’Reilly commented; “The directors and staff of St Canice’s were already fully engaged with the business of running a large credit union, dealing with increased governance and operational requirements and adapting to the regulatory changes, so we could not afford to get distracted from the day-to-day challenges”. Their internal assessment led to four key decisions that would prove to be vital in ensuring a successful outcome for the project, as follows:

- The appointment of an experienced external project manager
 - › The project manager brought structure to the project, assigning task responsibilities and timelines for delivery. Similarly critical, the project manager ensured that communications to stakeholders were managed for consistency, and any issues that arose were dealt with in a timely manner. A large steering group was also established which included representation from all credit unions involved in Project Noreside and other key stakeholders. The appointment of a project manager enabled St Canice’s board and executive to step back from project management duties to focus on the project’s overall strategic potential and assess the transformational possibilities it afforded the credit union.
- Provision of governance reassurances with the establishment of Local Liaison Committees
 - › Given the number of credit unions being transferred in Project Noreside, it was agreed not to allot any board seats to transferor credit unions, but instead, to establish a Local Liaison Committee for each transferor credit union through which local concerns could be elevated to the board. This structure ensured transferor communities would have a line of communication to the restructured entity’s board as an alternative to a board seat allotment. In addition, board members from the transferor credit unions were invited to be volunteers at St Canice’s so as to become familiar with its committees and governance structures/processes and ultimately, to engage with the Nomination Committee should they wish to apply to stand for election to the board in the future.
- The commissioning of an IT Strategic Review to ensure IT integration was effectively conducted and aligned with strategic IT goals
 - › St Canice’s did not have the expertise in-house to enable it to evaluate IT requirements for the short or long term. The engagement of a third party IT consultant was arranged to formulate a long term IT strategy and subsequently manage IT related expenditures in the merger process to ensure fulfilment of the credit union’s long-term strategy.
- Implementation of an organisational review to ensure the establishment of a management team capable of leading the restructured credit union forward
 - › One of the key strengths of St Canice’s Credit Union was its ability to appreciate the scale of Project Noreside and the implications of the undertaking including the need for a broader management team with specific skill sets to lead the restructured credit union forward. St Canice’s engaged HR consultants to carry out a review of existing in-house expertise, assess the skill sets needed for the restructured credit union and recruit new staff members as required. This engagement led to the external hiring of a CFO/ Deputy CEO, Head of Operations, Business Development Officer, and IT officer, and the establishment of new

positions, including HR Officer and Training Officer, which were filled internally.

- › The review also incorporated the introduction of a revised performance review process and training system. These systems ensure the ongoing development of management and staff. The new systems were also adapted for board level application to ensure that board skills necessary for effective strategic guidance are improved upon on an ongoing basis. These changes have provided additional assurance that the team and processes put into place will enable the delivery of service and product excellence in keeping with the credit union's strategic plan.
- › Another organisational change enacted was the establishment of a Member Service Centre (MSC). St Canice's introduced a new more sophisticated telephone system and appointed a team of qualified, experienced staff to handle telephone enquiries, loan applications, on-line queries and other member service requirements. Key performance indicators and monitoring tools were established for the MSC. Positive impact has been achieved as a result in regard to member satisfaction, staff satisfaction and the streamlining of processes. Six months after the launch of the MSC, approximately 30% of all loan applications were being dealt with through the MSC facility, 99% of all calls were answered within 20 seconds, and the vast majority of enquiries were being dealt with in full at the first point of contact.

The resultant impact of these key decisions ensured that ReBo-enabled financial assistance was optimised through its application in areas of greatest importance for the restructured entity. These decisions also allowed St Canice's to transform its internal organisation during the project such that required management resources were in place to manage the evolution of the organisation so as to deliver on its strategic goals and enhance overall confidence and morale at the same time.

Transferor Perspectives

Oliver Kennedy, former Rathdowney Credit Union director commented; "The decision by smaller credit unions to merge with a larger credit union was borne out of the gradual realisation that their future sustainability was being challenged by the increasing cost and sophistication of regulation, the increasing workload and skillset demands on voluntary boards and the investment required to provide relevant services to their younger members." The option of merging with small credit unions in the surrounding area was not seen as a solution to the challenges facing this credit union, as

it did not definitively solve the problem of scaling resources, both financial and human, to the extent that was needed to cope with the changing credit union environment.

St Canice's Credit Union was viewed as the most desirable partner in the region due to its size and resource capacity. As initial discussions were held, with the assistance of ReBo, between St Canice's and smaller neighbouring credit unions, it was reassuring for small potential transferor credit unions that other small credit unions in the same region were also considering similar decisions. While the decision to transfer was an emotional one for some Directors, as the boards had seen regulatory and competitive demands increase significantly over the years, they ultimately took the pragmatic though difficult decision to transfer to a larger credit union with greater resources in order to sustain and grow credit union services in their communities into the future.

Key concerns were debated regarding issues including job retention, maintenance of services, branch office retention, loss of local identity and continued member involvement. However, through initial joint discussions held in each of the participating credit unions' locations, these concerns were eased as all stakeholders came to realise that St Canice's, despite their size, were equally member and community focused as were the smaller potential transferor credit unions, and thus becoming part of a larger entity did not mean that this focus would be diluted.

From the transferor credit union perspective, the key factors contributing to the success of the project included:

- The resolute commitment to the project by all members of the transferor credit union boards
- A strong cultural fit between transferor credit unions and St Canice's credit union given the similar focus on the betterment of members
- Open and respectful dialogue between all credit unions, creating an environment of trust and positive engagement – this factor ensured that many issues were foreseen and solutions agreed in a timely and organised manner
- The role of ReBo and the Project Manager added experience and expertise when required, enabling all credit union representatives to have confidence in the merger process

Ultimately upon completion of the merger, credit union members immediately benefitted from the opportunity to access a wider selection of loan options, including larger-size loans as lending restrictions were lifted, improved loan turnaround times, availability of EFT and online services and enhanced customer service efficiency. In addition to the expansion of services, the continuity

Appendices Appendix II – St Canice’s Credit Union Case Study *continued*

of offices and staff and continued focus on members also led to positive feedback from members in terms of their view of the new restructured entity.

Approval Mechanism

At each phase of the process, a due diligence assessment was undertaken to ensure all credit unions were fully aware of underlying strengths and weaknesses of their partner credit unions prior to completing the merger. In addition to the due diligence assessments, a detailed business case, budget assessment and operational integration plan were completed with the aid of ReBo, for submission to the Central Bank. The Registry of Credit Unions (“RCU”) reviewed these documents and raised points of clarification where appropriate. Once these points were addressed, each credit union requested permission from the RCU to ratify their merger through Board Resolution. The dates on which the approved ratifications took place were as follows:

- Durrow and St Canice’s Board Resolutions – passed 24th September 2015
- Ballyragget and St Canice’s Board Resolutions – passed 30th March 2016
- Mountrath and St Canice’s Board Resolutions – passed 30th March 2016
- Rathdowney and St Canice’s Board Resolutions – passed 16th June 2016
- Graignamanagh and St Canice’s Board Resolutions – passed 16th June 2016

Durrow Credit Union’s transfer was expedited due to a building impairment, and with the approval of the Central Bank, was carried out under board resolution.

At their 2015 AGM, St Canice’s put forward motions to its members requesting approval to carry out each of the forthcoming transfers by board resolution. The transferor credit unions also put the corresponding motions to their members. Claire Lawton, CEO of St Canice’s commented “By doing this, the boards of each of the credit unions and the Central Bank could be confident that the members were behind the transfers, but it also gave the credit unions the flexibility to plan and phase the transfer dates throughout 2016 in a controlled and risk averse manner. If member resolutions had been required, there would have had to be special general meetings during the year at additional cost, timed to coincide with the legal process for each transfer. Alternatively, if the member resolutions were put to the members at the 2015 AGMs, there would have been a requirement to complete all five transfers within a very short

timeframe causing unnecessary operational challenges.” Indeed, by putting a board resolution motion to members at each AGM, St Canice’s allowed its members and the members of transferor credit unions to show their support and ultimately sanction all transfers.

Journey to operational readiness and cohesion

Conducting the series of transfers on a phased basis provided an additional benefit for the respective credit union partners in that it allowed operational improvements to be implemented as required on an ongoing basis. A system also evolved whereby the Steering Committee took responsibility for the following:

- Transfer-related decisions at a strategic level
- Sanctions of completed documentation for onward submission to ReBo and subsequently to the Central Bank
- Engagement of third parties to ensure agreed and required work was undertaken in a comprehensive and structured manner

The project manager liaised with and co-ordinated the Steering Committee’s work, driving timelines in relation to third party and regulatory/ReBo engagements. Together with the CEO, and later with the broader executive management team, the project manager also delegated and co-ordinated significant in-house work to a dedicated operational transfer team, who implemented the Steering Group’s decisions and ensured the transferee and transferor credit unions were ready for engagement with third parties in an efficient manner. St Canice’s training officer also liaised with the executive and operational transfer teams to ensure appropriate training programs were delivered on a timely basis to ensure the transferor credit unions were ready for operational integration.

It should be noted that the implementation process put in place for the Graignamanagh transfer (last of the phased-in transfers) differed significantly from that used for the Durrow transfer (first of the phased-in transfers). As a result of learnings achieved over the multiple transfer process, changes were made to the merger implementation strategy over time including:

1. A division of strategic and operational responsibilities to ensure a more efficient transfer process
2. The clear and detailed communication of terms, structure and timelines for work issued to third parties, the project manager, the executive team and the operational team, to ensure no duplication of effort was undertaken
3. The preparation and delivery of a well-developed training plan, based on standard procedures and appropriately timed implementation strategy to provide important and significant

support to staff to ensure they have the confidence and knowledge to support their members whilst they adjust to operational changes arising through the merger process

4. The provision of dedicated support to the transferor credit union by experienced staff of the transferee credit union for at least a two-week period following the transfer
5. The thoughtful development of timelines to ensure minimum stress on resources so as to enable a manageable and successful implementation process
6. The identification and quantification of risk and related risk mitigation strategies as a key focus throughout the transfer process to ensure only quantifiable and acceptable levels of risk were undertaken by the steering group and respective boards of directors

As a result of the implementation of changes to address these learnings, St Canice's has developed a robust transfer process for use in any future transfers post-ReBo, having been most recently used in the transfer of Callan Credit Union which was concluded in March 2017.

The Benefits of the Transfers of Engagement

Of the myriad of benefits this restructuring process has offered the enlarged entity, the key benefits are outlined as follows:

- Securing the viability of credit union services in the region through:
 - › The merged credit union's renewed ability to serve members' evolving financial services needs now and into the future
 - › The provision of flexibility of access to members such that transactions can be performed in more than one location and specifically in the main regional trading hub, Kilkenny City
 - › The provision of improved insurance benefits, EFTs, budget accounts, on-line access and higher value loans
 - › The enhanced presence and reputation of the credit union, strengthening member confidence in their larger, vibrant credit union which should in turn, attract additional future growth prospects
- Enabling improvements in governance, risk management and operational capability
- Providing increased scale to enable the continued delivery of valued services at competitive rates by member-focused staff, while also allowing for enhanced financial and management capability to expand products/services and

business model development

- Enabling the engagement of a broader range of competencies at the governance and management team levels to fulfil business potential within the enlarged common bond
- Providing enhanced staff benefits, particularly in regard to staff training and development to improve knowledge and skills and as a consequence, improve service to members

Supporting the movement's journey through challenging times

St Canice's approach to assisting transferors who sought to enhance and sustain credit union services in their communities has been a success. St Canice's leadership, while mindful of embedding progress to date, continues to be willing to work with credit unions looking to transfer their engagements where it is in the mutual interest of all credit unions and their members. Claire Lawton, CEO of St Canice's commented; "St Canice's is satisfied that its inclusive and strategic approach to the six recent mergers has led to benefits for the enlarged entity. We have built a stronger credit union, not just a bigger one. We will continue to work hard to ensure that we can provide all of our members with a broad range of financial services based on their evolving needs. We have never approached other credit unions to join with St Canice's and it is not our intention to do so. Having said that, we believe that we have developed significant capabilities in mergers and hope other credit unions who are looking for a partner would consider us based on our record and on the experiences of the credit unions that put their trust in us".

Appendices

Appendix III

ReBo Staff

ReBo Staff

Employees			
Name	Position	Join Date	Finish Date
Martina Brennan	Restructuring Manager/ H/O Restructuring	4/11/13	3/11/15
Donal Coghlan	CEO	12/6/13	30/9/14
John Doyle	H/O Restructuring / CEO	8/10/13	30/11/16
Niall Doyle	Restructuring Manager	16/10/14	26/2/16
Ellen Farrell	Restructuring Manager	20/10/14	31/3/17
Catriona Fitzgerald	Restructuring Manager/ H/O Restructuring	10/11/14	31/3/17
Joshua Fletcher	Programme Manager/ H/O Restructuring / Interim CEO	21/7/14	31/7/17
Cormac Heffernan	Restructuring Manager	1/1/16	31/3/17
Rob Hurley	Manager	2/1/14	31/3/14
Colm Lardner	Restructuring Manager	3/11/14	20/1/17
Paul Maher	Restructuring Manager	4/11/13	31/3/17
David Maguire	Restructuring Analyst	1/2/16	31/3/17
Sean McCrave	Restructuring Manager	1/1/16	31/5/16
Ian Molloy	Finance & Administration Manager	9/6/14	31/7/17
Rory Murphy	Restructuring Analyst	22/7/13	26/2/16
Cathal Tyther	Restructuring Manager	4/11/13	31/1/16
Secondees			
John Golden	Policy Analyst	25/1/13	31/5/14
Brid Kemple	Secretariat	1/11/12	23/1/13
John Lee	Finance & Administration Manager	25/2/13	30/6/14
Linda McLoughlin	Secretariat	29/11/12	23/1/13
Sean Nolan	PA to Chairman/CEO	1/3/13	31/3/17
Frank O'Byrne	Secretariat	1/11/12	29/11/12
Tom Lowth	Restructuring Manager	1/6/16	31/1/17
Contractors			
Greg Allen	Interim Manager	17/5/13	16/8/13
Kieran Clancy	Accountant	11/1/16	15/12/16
Edel Dempsey	Accountant	15/6/15	15/12/16
Rob Hurley	Interim Manager	2/9/13	2/1/14
Rory Murphy	Analyst	14/5/13	21/7/13
Margaret Sweeney	Advisor to the Board	5/2/13	19/6/13
Ronan Tierney	Internal Auditor	31/7/13	31/7/17
Nick Walsh	Manager	22/5/13	5/9/13

Appendices

Appendix IV

Requirements of ReBo under Part 3 (Restructuring) of the Credit Union and Co-Operation with Overseas Regulations Act 2012

Requirements of ReBo under Part 3 (Restructuring) of the Credit Union and Co-Operation with Overseas Regulations Act 2012

Section	ReBo Requirement	Comment	Completed/ On-going
44	Functions of ReBo	ReBo's core functions are to facilitate and oversee the restructuring of credit unions on a voluntary, incentivised and time-bound basis.	Completed
45	Recommend to the Minister the provision of financial support for a restructuring proposal	Funding of restructuring process provided under 'de-minimus' rule. No recommendations made outside of this parameter.	Completed
46	Develop guidelines for the operating principles of ReBo	Developed and presented to the Minister for Finance. The Minister laid a copy of the guidelines before each House of the Oireachtas and published them in Iris Oifigiúil.	Completed
47	Prescribe a ReBo levy	S.I.581 of 2014 – Credit Union Fund (ReBo Levy) Regulations 2014; S.I. 577 of 2015 – Credit Union Fund (ReBo Levy) Regulations 2015; S.I. 585 of 2016 – Credit Union Fund (ReBo Levy) Regulations 2016; SI 283 of 2017 – Credit Union Fund (ReBo Levy) Regulations 2017.	Completed (2017 Levy issued in July) Amount calculated annually.
48	Collection of ReBo Levy	Arrangements made for CB to collect ReBo Levy.	Completed (2017 collection in progress)
49(5)	Board of ReBo – Meeting and Code of Practice for Governance of State Bodies	The Board of ReBo has held monthly meetings and has complied with the Code of Practice for Governance of State Bodies and other codes as relevant.	Completed
50	Enter into a MOU with the CB	Framework in place between CB and ReBo for provision of financial and other information on individual credit unions & the credit union sector.	Completed
51	Report to the Minister on the performance of its functions	Minister receives reports from ReBo following its monthly Board meeting.	Completed Monthly reports received
52	Appoint a CEO	Donal Coghlan CEO June 2013 – August 2014 John Doyle CEO Sept 2014 – November 2016 Joshua Fletcher Interim CEO from December 2016 – July 2017	Completed
53	Staff of ReBo	Staff appointed in line with numbers and budget agreed with DoF and DPER.	Completed
54	Submit estimates of income & expenditure to the Minister as may be specified by the Minister	Estimates submitted and agreed.	Completed
54	Allow any person appointed by the Minister to examine the accounts		Completed
54	Accounts approved and submitted to the C&AG	2013/2014/2015 Accounts approved and submitted to C&AG and laid before Houses of the Oireachtas.	Annual 2016 accounts currently being audited by C&AG
55	Contracted Service Providers	ReBo has contracted service providers and complies with requirements of s55 of the 2012 Act.	Completed
65	May recommend stabilisation support from the Credit Union Fund	In certain cases ReBo may make recommendations to the CB in relation to stabilisation support. Such recommendation has so far not been required.	Not required

Source: Department of Finance Credit Union Restructuring Board (ReBo) Final Section 43 Review – June 2017. Pages 40 – 41 (Updated July 2017).

Appendices

Appendix V

Acknowledgements

Acknowledgements

Professor Donal McKillop, Chair, and the other members of the Commission on Credit Unions which recommended the establishment of the Credit Union Restructuring Board (ReBo).

The Minister for Finance, Mr. Michael Noonan, T.D., who established ReBo on a statutory basis on 1st January 2013, established the Credit Union Fund making available €250m to support credit union restructuring and oversaw ReBo's full operational mandate.

The Governor of the Central Bank, Patrick Honohan, and his successor Philip Lane, who were always supportive of ReBo.

Ms Ann Nolan, Second Secretary General, Department of Finance, and the members of her team in the Credit Union Policy, Shareholding and Financial Advisory Division who provided continuous support, ongoing advice and participation in our regular "tripartite" meetings.

Anne Marie McKiernan, Registrar of Credit Unions, her predecessors, Sharon Donnery and James O'Brien, and the credit union restructuring team in Registry of Credit Unions (RCU) who worked closely with ReBo throughout its mandate. The cooperation of the RCU was critical to the success of ReBo.

Mason Hayes & Curran, our trusted legal advisors.

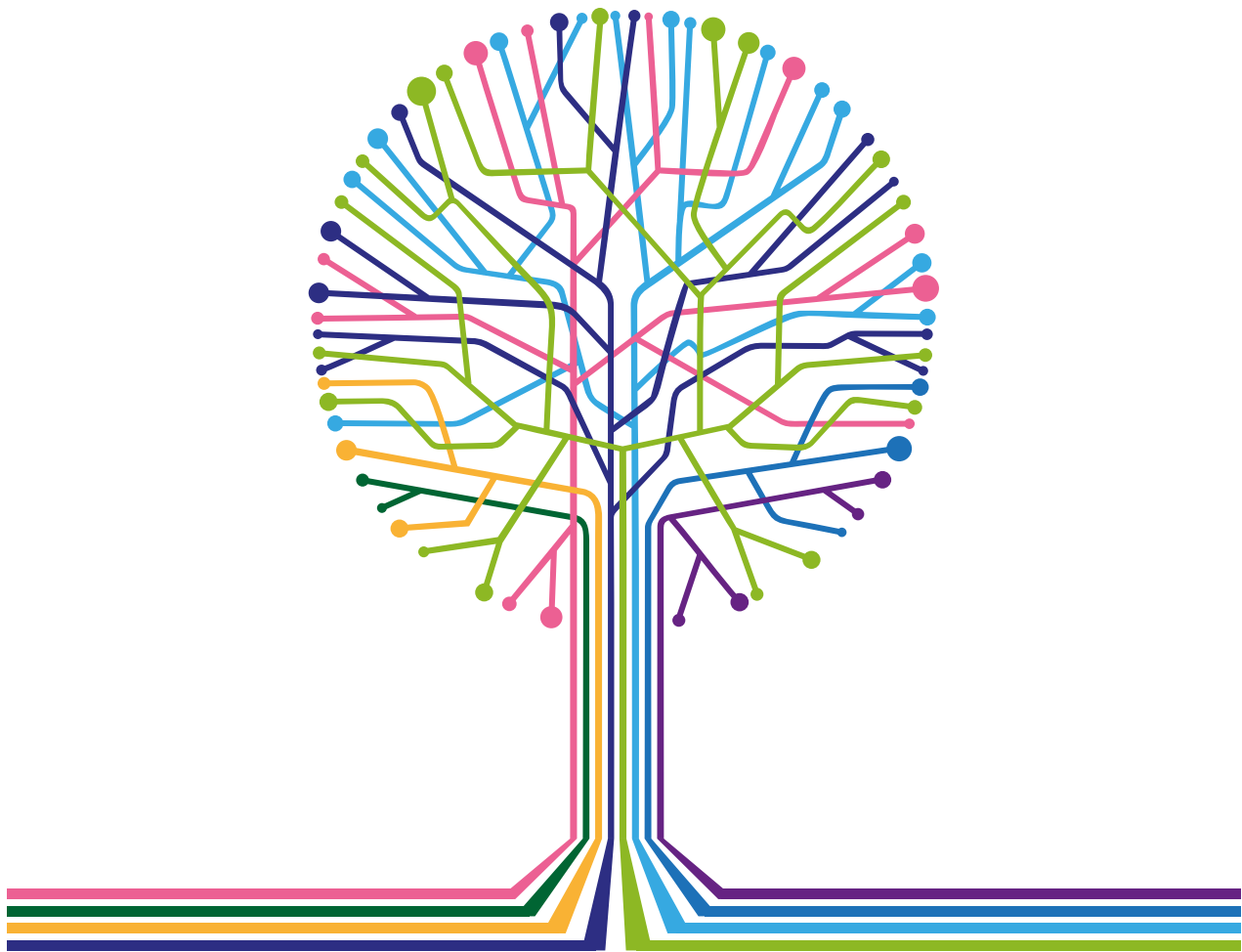
Kelly Bottone, President, Frameworks for Change, for her invaluable assistance in researching and writing this report, in addition to drafting a paper on a proposed credit union governance model and facilitating a ReBo board workshop.

Harry Joosten, (former) Governance Coach & Corporate Secretary, Libro Credit Union, Canada for sharing his credit union's restructuring experience at ReBo's national conference and CUMA's 2017 spring conference.

Appendices

Appendix VI

ReBo Merger Process Handbook



Credit Union Merger Process Handbook



The Credit Union Restructuring Board
An Bord Athchóirínú Comhar Creidmheasa

www.rebo.ie

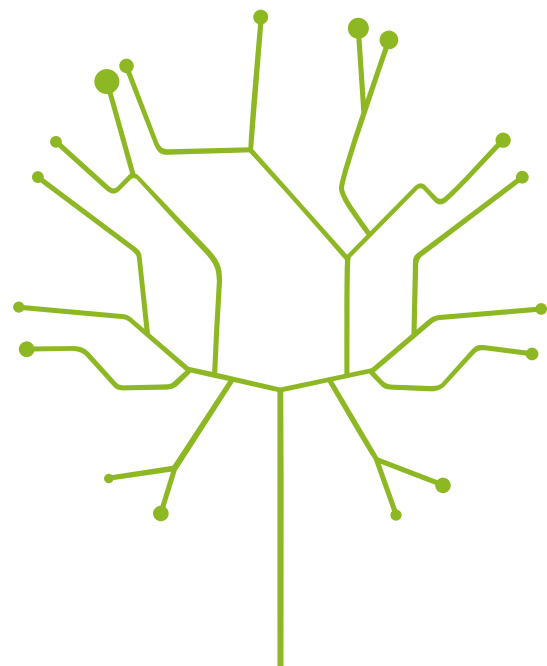
Introduction

This is intended as a guide for credit unions who wish to explore restructuring opportunities and use the services of the Credit Union Restructuring Board (ReBo) on a voluntary basis.

ReBo is an independent body set up to facilitate and oversee the restructuring of credit unions in accordance with Part 3 of the Credit Union and Co-Operation with Overseas Regulators Act 2012 (the Act).

As outlined in Section 43 of the Act, ReBo will have a finite life and is expected to carry out its work by the end of 2015. During that time, ReBo will make its resources available to assist and facilitate credit unions who wish to restructure.

For more information on any aspects of the merger process steps, please contact a member of ReBo's restructuring team.



Appendices Appendix VI – ReBo Merger Process Handbook *continued*

Reasons for Credit Unions to Consider Restructuring

The credit union movement is facing significant challenges, particularly in the areas of long-term financial viability and satisfying new regulatory requirements as well as responding to the changing needs and expectations of its members.

As part of their strategy to meet these challenges, many credit unions are exploring restructuring opportunities. Restructuring can provide significant benefits to credit unions including:

- Ensuring long-term viability, the ability to pay annual dividends and provide member services into the future.
- Increasing scale – thereby allowing the combined entity to extend its business model and provide an expanded range of products and services in line with member demands.
- Enhancing the ability to meet increased governance requirements by building an appropriate organisation structure to meet current and future needs from a wider pool of volunteers.
- Achieving cost efficiencies through economies of scale in areas such as Branding/Marketing, IT, Audit and Compliance and Risk Management.
- Enabling the development of a strong IT platform to support IT-driven services (mobile technology, ATMs, online banking, debit cards, etc.) in response to the changing needs of members.

The Board of each credit union should, as part of the strategic planning process, consider its ability to meet the needs of its members both on a stand-alone basis and also in the context of a merger. Considering all options will facilitate a more informed decision on how best to proceed.

Responsibilities and Considerations for the Board of a Restructuring Credit Union

Entering into a merger transaction is a significant decision, and the Board of a credit union should ensure that the process is subject to sufficient due diligence. A Board should ensure that all material aspects of the merger, both positive and negative, have been considered and be in a position to confirm that:

- The proposed restructure is in the best interest of their membership.
- Their credit union is in a position to proceed with a merger.
- The restructured entity will be financially viable
- Staffing issues are fully explored and can be satisfactorily resolved.
- They are satisfied with the proposed governance structure and the composition of the committees including the Board of the restructured entity.
- Appropriate infrastructure will be in place (IT and premises).
- There is a good fit based on culture, mission and synergies.
- There is a shared vision on the principles underpinning the operation of the merged entity.

For a restructuring proposal to be worthwhile, it must result in a benefit to the members.

ReBo's Role

Where a credit union wishes to consider merging with one or more credit unions, ReBo can play an important role in the facilitation of this process by:

- Assisting credit unions to understand the relevant strategic and business issues and also the benefits and challenges associated with their merger considerations.
- Assisting with finding like-minded partners.
- Negotiating with the parties and assisting with the formulation of an initial agreement.
- Providing merger templates/documentation to include: confidentiality agreement, desk audit & due diligence guidance, detailed business case, implementation plan & merger costs budget.
- Providing guidance through each step of the merger process, thereby facilitating a faster, smoother and more cost-efficient result.
- Giving financial support (up to 50% of the costs associated with the merger).
- Managing communications with the Central Bank in relation to the merger.
- Providing post-restructuring support.

ReBo's restructuring team is available to provide assistance and guidance to credit unions when seeking Central Bank approval and ultimately to ensure successful delivery of their merger project.

Summary of Key Steps in a Merger Process

INITIATION PHASE

- Credit unions engage with ReBo.
- Credit unions/ReBo find suitable 'partner credit unions' & discuss merger possibility.
- Credit unions carry out "fact-find" process on each other.
- High-level business case and merger cost budget is developed.

REPORTING/DUE DILIGENCE PHASE

- Proceed to formal due diligence.
- Develop a detailed business case and implementation plan.
- Submit application for ReBo consideration.
- ReBo recommends proposal to the Central Bank or – where funding support is required directly from the Credit Union Fund – to the Department of Finance and subsequently to the Central Bank, for approval.

COMPLETION PHASE

- Proceed with merger by way of special resolution or Board resolution.
- Central Bank issues certificate of confirmation and effective date for merger.
- Cancel registration of the transferor credit union.
- Merger complete.

These steps are outlined in more detail in the following section, and a flowchart is provided at Appendix 1.

Appendices Appendix VI – ReBo Merger
Process Handbook *continued*

“The objective of the restructuring process is to provide the opportunity to stronger credit unions to develop a more sophisticated – and ultimately more sustainable – business model and provide a mechanism to sort through the financial stresses in the sector in an orderly way”

Commission Report on Credit Unions



Credit Union Merger Process Steps

“The guiding objectives of restructuring are – protection of members savings, stability and viability of credit unions and the sector at large, preservation of the credit union identity and ethos, contributing to the development of a world class credit union sector in Ireland.”

1. BOARD DECISION

The Board of a credit union decides to investigate/pursue a merger strategy on a noncommittal basis.

2. CONTACT REBO TO DISCUSS OPTIONS

ReBo will meet with the credit union to discuss options and provide information, guidance and templates to assist with the merger process. The templates and guidance notes are also available on the ReBo website at www.rebo.ie.

3. FINDING A SUITABLE PARTNER

A credit union wishing to pursue restructuring should make contact with suitable, like-minded credit unions. Consider those which are local and those more geographically diverse and/or those operating a different model (e.g., Community with Industrial) to establish their level of interest in pursuing a merger.

ReBo can play a role in facilitating introductions between credit unions that are interested in discussing mergers and also in seeking agreement on key issues associated with the merger.

4. FACT-FIND & CONFIDENTIALITY AGREEMENTS

When the Boards of two or more credit unions have agreed to further investigate the possibility of a merger, they should complete a confidentiality agreement in advance of sharing information with each other. Standard confidentiality agreements are available on the ReBo website at www.rebo.ie.

The credit unions can then share relevant information and facilitate an early-stage, fact-find investigation to be carried out by each participating credit union on the others involved in the proposed merger. The fact-find exercise is intended to satisfy each credit union, prima facie, that there are no insurmountable impediments to the proposed merger. This step occurs before the formal, independent, due diligence process.

Credit unions should agree to exchange certain information with each other to facilitate the fact-find. The following is a non-exhaustive list of the type of information that should be included in the fact-find process:

Appendices Appendix VI – ReBo Merger Process Handbook *continued*

Source Information for Fact-Find Process	
1	Prudential Returns
2	PRISM Reports
3	Correspondence with Central Bank for a specified period
4	Details of any Business Restrictions in place
5	Audit Management Letters
6	Details of Investments
7	Details of loan book (large loans, top-up loans, arrears figures, provisions, etc. and facility to review physical files if required and officers' loans)
8	Details of Fixed Assets – basis for valuation, view on current market valuation, etc.
9	Business Model – loan rates, dividend policy, product and service offering, opening hours
10	HR – terms and conditions of employment, salary comparisons, details of pension arrangements, any industrial relations issues, organisation chart, training commitments
11	Most recent Strategic Plan
12	Most recent Financial Projections
13	Governance Structures – e.g., Composition of Board and Committees

The credit unions should agree a timeframe for reviewing the information provided. Any questions which arise during the analysis period should be documented and presented to the other credit union for response. Responses should be supplied within an agreed timeframe, and representatives of each credit union should meet to discuss and gain a full understanding of any issues which have arisen. Credit unions can also seek advice from ReBo on any matters of concern following the fact-find process.

5. APPOINT MERGER STEERING COMMITTEE

In most cases, credit unions will appoint a steering committee to represent all parties involved. Ideally, this would have at least one member from the management team and Board of each credit union. However, in the interest of the merger project progressing in a smooth manner and to ensure the proper flow of information between the parties, it is important that the merger has one dedicated person driving the project where possible. The Board should consider delegating authority on certain operational matters to the steering committee to allow them to complete their work in a timely manner.

6. REVIEW OUTPUT OF FACT-FIND

Where each credit union is satisfied with the information provided and answers received to any subsequent queries, they are then in a position to make an informed decision to move onto the next phase of the merger process or to terminate discussions. Where issues prove difficult to overcome, ReBo can provide assistance in the form of facilitation between the parties with a view to finding a suitable solution.

7. DEVELOP A HIGH-LEVEL BUSINESS CASE (SEE APPENDIX 2) & COST BUDGET (SEE APPENDIX 3)

Where credit unions decide to proceed to the next stage of the merger process, they should prepare a high-level business case and cost budget for the proposed merger.

A high-level business case is a summary of all the key financial and strategic information associated with the merger. It should be approximately 3–5 pages in length and should contain the following suggested information:

- Details of the participating credit unions
- Outline of the main reasons for the merger
- Key benefits of merging/impact of not merging
- Financial analysis demonstrating the future viability of the combined entity
- A cost budget for completing the merger

A suggested template for a high-level business case and a sample cost budget are available on the ReBo website at www.rebo.ie.

8. REBO REVIEW THE HIGH-LEVEL BUSINESS CASE & COST BUDGET

Upon completion, the high-level business case and cost budget will be reviewed by ReBo. ReBo may request additional information or propose amendments to the document. Once this process is complete, ReBo will agree the level of transaction cost support funding which it will provide and enter into a formal agreement with the participating credit unions to reflect this. Following the review and agreement on funding levels, ReBo will discuss the proposed merger with the Central Bank. It is important to establish the Central Bank's position at this early stage, to avoid unnecessary time and cost being invested where the Central Bank may have a fundamental issue with the proposed merger.

9. CENTRAL BANK REVIEW HIGH-LEVEL BUSINESS CASE

ReBo obtains Central Bank agreement to proceed to due diligence on a "no objections" basis.

10. CREDIT UNIONS UNDERTAKE DUE DILIGENCE PROCESS – SEE APPENDIX 4

Due diligence is a process of evaluating all material facts before making a merger decision. An independent, due diligence process is a critical part of the merger transaction. By undertaking a thorough due diligence, each of the participating credit unions is protecting its members' interest and ensuring that the credit unions are a good fit for each other. Due diligence will also provide independent assurance of the view reached through the fact-find process – that there are no insurmountable issues or risks which may stand in the way of the proposed merger.

It is recommended that the due diligence process be undertaken on a two-phase basis to ensure that areas of higher potential risk are reviewed in the first instance, before incurring the costs associated with reviewing some of the lower

Appendices Appendix VI – ReBo Merger Process Handbook *continued*

risk areas – see Table 1 below. More detailed guidance on matters to be examined in the due diligence process is available on the ReBo website at www.rebo.ie

Table 1 – Approach to Phased Due Diligence

Phase I	Areas of Interest
Asset Review	<ul style="list-style-type: none"> • Loans • Fixed Assets • Investments
Phase II	Areas of Interest
IT	<ul style="list-style-type: none"> • The depth of due diligence required in these areas will be commensurate with the scale and complexity of each, individual, merger proposal.
HR	
Legal	
Operations	
Financial Audit	
Governance	
Compliance	

10.1 Selecting a Due Diligence Provider

When selecting a due diligence provider, participating credit unions should contact a number of potential providers and put in place a selection process to facilitate collective agreement and ensure best value on the appointment of the preferred provider(s).

It is preferable for the same due diligence provider to carry out the process in each credit union. In some instances, the same provider may be in a position to undertake more than one aspect of the due diligence; in others, separate providers may be required for the various areas which need to be covered. Given the distinct phases associated with due diligence, credit unions should request a detailed breakdown of costing from the due diligence provider for each phase.

The chosen provider for Phase I should be a reputable, professional firm with:

- Multi-disciplinary functions
- An established track record in audit and consulting
- Experience of operating in, and a knowledge of, the credit union movement

The nature and format of the Phase II due diligence work will depend on the individual circumstances prevailing in each proposed merger. Some areas may require the involvement of specialist practitioners to investigate, identify issues and propose solutions. For example, where there is a requirement to consider and select an IT system for the merged entity, the services of an independent IT expert (who is not one of the existing suppliers) to analyse both existing systems and advise the Boards through a selection process would be important. Alternatively, where a system selection decision is not complicated – for example, where merging credit unions use the same system – the IT specialist involvement would be more about planning the migration process than a due diligence on the systems. The credit union should communicate the name of the selected due diligence provider, along with details of the terms of engagement, to ReBo for review by the Central Bank.

Where the selected due diligence provider is already associated with one or other of the participating credit unions (e.g., as part of the internal or external audit function, or on a business consultancy or other basis), the firm should be of a size sufficient to ensure that an appropriate level of independence exists internally to avoid any conflict of interest arising.

11. PHASE I AND PHASE II DUE DILIGENCE OUTPUT

ReBo will review the output from each phase of due diligence and present the findings to the Central Bank on behalf of the merging credit unions.

12. CENTRAL BANK REVIEW OF DUE DILIGENCE OUTPUT

ReBo will obtain Central Bank agreement to proceed to Phase II due diligence upon completion of Phase I and ultimately to proceed to Detailed Business Case & Implementation Planning Stage after Phase II due diligence.

13. PREPARING A DETAILED BUSINESS CASE AND INTEGRATION PLAN

Credit unions will need to produce a detailed business case and integration plan to support the merger process. Full engagement with ReBo during the process will enhance the prospects of a successful application. Suggested templates are available on the ReBo website at www.rebo.ie.

13.1 Detailed Business Case – Appendix 5

The detailed business plan will outline the basis for, and benefits of, the proposed merger. It will also provide a detailed analysis of the merged entity, including proposed governance structure, SWOT analysis, key performance indicators, three-year financial projections with associated assumptions and a business plan supporting the achievement of these projections.

The integration plan will address all practical issues with respect to the completion of the merger transaction, such as IT integration, HR matters, operation streamlining, stakeholder communication strategy, legal requirements, etc.

Credit unions may find it beneficial to engage an external consultant to assist in the development of both a business case and an implementation plan to support and validate the proposed merger. An external consultant should be impartial and therefore bring a degree of independent opinion to the process; however, it is important that the business case is owned by the credit unions and reflects their views and not just those of the consultant.

Having an independent consultant in the process can help overcome sensitive issues and act as a “sense checker” to the proposal as it develops.

When selecting an external business consultant, participating credit unions should contact a number of potential providers and put in place a selection process to facilitate collective agreement and ensure best value on the appointment of the preferred provider(s).

External business consultants should:

- Have a strong understanding of the credit union movement and current business environment, issues and challenges
- Be able to demonstrate experience in consultancy and strategic planning
- Be able to provide references

ReBo can request the independent 3rd party to prepare a separate report to verify the information contained within a detailed business case.

Appendices Appendix VI – ReBo Merger Process Handbook *continued*

13.2 Integration Plan – see Appendix 6

Allocating appropriate resources to the planning and execution of the merger process is critical to ensuring that the project runs efficiently and effectively. A suggested integration plan template is available on the ReBo website at www.rebo.ie.

Using an experienced project manager to assist in both the planning and execution of a merger project will minimise risks and maximise the potential for project delivery on time and within budget.

Where credit unions opt to use an external project management provider, they should contact a number of potential providers and put in place a selection process to facilitate collective agreement on the appointment of the preferred provider.

Guidance on the type of skills that a project manager should have and the duties that they may fulfil are outlined in Appendix 7.

Alternatively, credit unions may opt to deploy an internal resource to manage the project. Ideally, in this case, this person should have project management experience and capability to fulfil the duties as outlined in Appendix 7.

14. REBO ASSESSES BUSINESS CASE AND INTEGRATION PLAN

The Board of ReBo will have the following options: (1) assess and approve; (2) approve with conditions; or (3) decline each merger proposal presented.

15. SUBMISSION OF REBO-APPROVED PROPOSALS TO THE DEPARTMENT OF FINANCE AND/OR THE CENTRAL BANK

When a merger proposal has been approved by the Board of ReBo, it will take one of two paths depending on whether financial support, such as capital funding, is sought.

15.1 Where financial support is sought, ReBo will present the proposal to the Department of Finance for approval of funding from the Credit Union Fund. Assuming approval is obtained, the proposal will then be forwarded to the Central Bank for regulatory approval.

15.2 Where financial support is not required, ReBo will present the proposal directly to the Central Bank for regulatory approval.

16. REGULATORY APPROVAL IS GRANTED TO PROCEED BY BOARD RESOLUTION OR BY SPECIAL RESOLUTION OF THE MEMBERS

Credit unions will proceed with a merger either by way of an Amalgamation or a Transfer of Engagements. Amalgamations require a special resolution of the members, whereas a Transfer of Engagements can proceed by way of special resolution of the members or by Board resolution (the latter requires the consent of the Central Bank). Each of the credit unions involved must proceed using the same method and the resolutions must be passed on the same night.

16.1 Proceeding by Member Special Resolution:

16.1.1 The credit unions must prepare and send an information pack to the members and Auditor as prescribed in Section 130 of the '97 Act.

16.1.2 A meeting must be convened (unless this action coincides with the annual AGM) at which the members can vote on the restructuring proposal.

16.2 Proceeding by Board Resolution:

- 16.2.1 The Boards of the credit unions may hold a members' information evening (optional).
- 16.2.2 The Boards pass a resolution to proceed with the merger.
- 16.2.3 The Boards must prepare and send an information pack to the members and Auditor as prescribed in Section 130 of the '97 Act.

17. SEEK CONFIRMATION OF THE MERGER FROM THE CENTRAL BANK – SEE APPENDIX 8

Having carried out all requirements as set out in Section 130 of the '97 Act, the credit unions then seek confirmation of the merger from the Central Bank. This request must include a copy of:

- The resolutions passed by each Board – Appendix 8a
- The proposed advertisement to be placed in the national press – Appendix 8b
- The Instrument of Transfer of Engagement

18. ADVERTISEMENTS IN THE NATIONAL PRESS

The credit unions must place an advertisement in two national newspapers within seven days of the application to the Central Bank for confirmation of the Transfer of Engagements.

19. MEMBERS' REPRESENTATIONS TO THE CENTRAL BANK REGARDING THE PROPOSED MERGER

Following the placing of the advertisement in the national press, a three-week waiting period must elapse during which members may make representation to the Central Bank with regard to the proposed merger. The Central Bank will refer any representations received to the credit unions for a response.

20. CENTRAL BANK CONFIRMS TRANSFER

Where the Central Bank has reviewed any member representations and the credit union responses and remains satisfied that the merger should proceed, it will confirm the transfer.

21. CONFIRMATION OF OPERATIONAL READINESS – SEE APPENDIX 9

Each credit union must then confirm in writing to the Central Bank their operational readiness to proceed with the merger.

22. CERTIFICATE OF CONFIRMATION AND EFFECTIVE DATE

Upon receipt of the confirmation of operational readiness, the Central Bank will issue a Certificate of Confirmation and specify an effective date for the merger to come into effect.

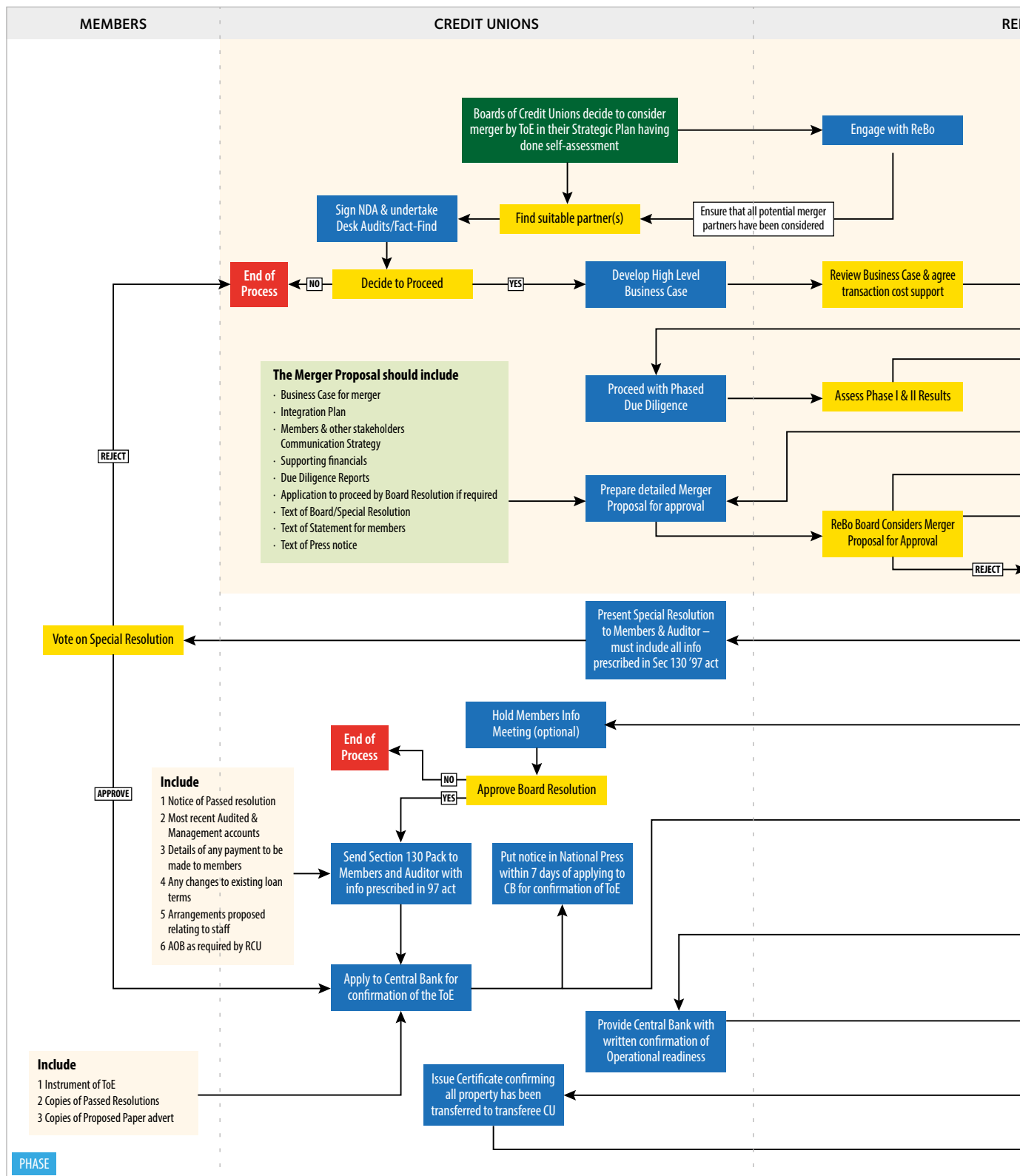
23. CONFIRMATION THAT ALL ASSETS HAVE TRANSFERRED – SEE APPENDIX 10

The transferee credit union confirms in writing to the Central Bank that the title to all assets has been transferred to it.

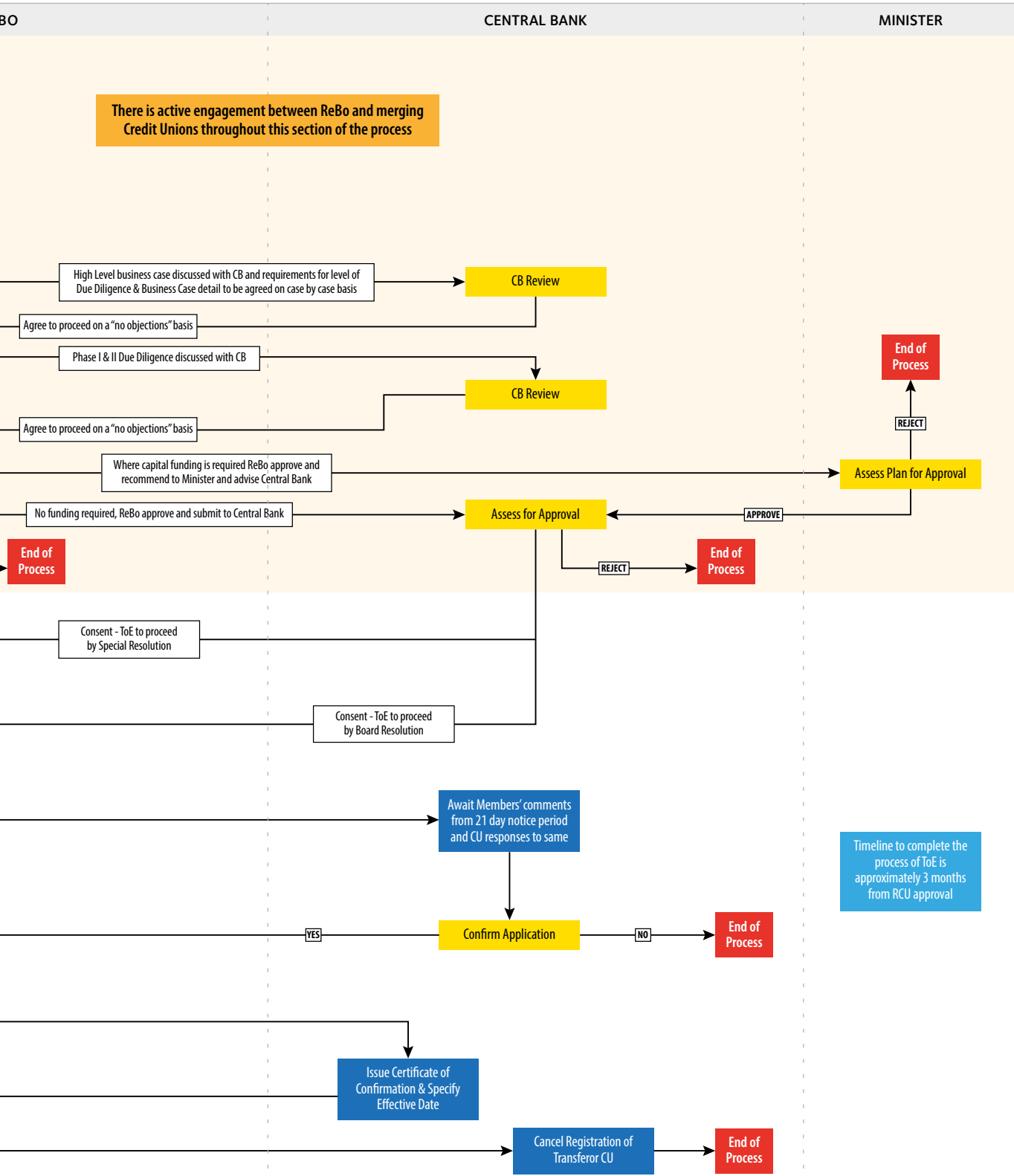
24. CANCEL REGISTRATION

The Central Bank cancels the registration of the transferor credit union.

Appendices Appendix VI – ReBo Merger Process Handbook *continued*



Appendix I – Flow Chart for Credit Union Mergers by Transfer of Engagement — Where ReBo is Engaged



This flow chart has been designed to visually present the merger process by way of a transfer of engagement. However credit unions can also pursue a merger by amalgamation; the process only differs from the point of board or member resolution onwards. Further details on the amalgamation process is available from ReBo.

Appendices Appendix VI – ReBo Merger Process Handbook *continued*

Appendix 2 – High Level Business Case

1.0 GENERAL INFORMATION

- 1.1 Names of the credit unions involved
- 1.2 Asset Size
- 1.3 Membership
- 1.4 Common Bond area
- 1.5 Latest key financial ratios
(for each CU and combined)

2.0 REASONS FOR MERGING

For Example

- 2.1 Increased Scale
- 2.2 Facilitate IT investment
- 2.3 Long Term Viability

3.0 KEY BENEFITS OF MERGER

For Example

- 3.1 How members will benefit from the merger
(new services/products)
- 3.2 Ability to leverage brand in combined common
bond area
- 3.3 Cost efficiencies to be gained
- 3.4 Ability to offer larger range of products and services
(tiered regulation)

4.0 FINANCIAL ANALYSIS

- 4.1 3 years financial projections for each credit union on
a standalone basis
- 4.2 An aggregate picture of those individual projections
- 4.3 3 year projections for the combined entity (for
comparison against 4.2 above).
- 4.4 Summary of Key Ratios for each credit union and
the combined entity

5.0 COST BUDGET

Sample Merger Cost Budget Template is provided
in the next appendix.

- 5.1 The high level business case should include a
summary of the total merger costs.

6.0 SUMMARY & CONCLUSION

- 6.1 Brief summary and conclusions in support of
proposal and proposed next steps

Appendix 3 – Merger Cost Budget

Business Consultancy	€
Develop high-level business case	*
Develop detailed business case	*
Subtotal	
Due Diligence	
Asset Review (property, Investments, Loans)	*
HR - (review of employment contracts, pensions, salaries, IR issues etc.)	*
Legal - (contracts, title to assets, on-going/potential litigation etc.)	*
Other Due Diligence Costs	*
Subtotal	
IT	
Facilitate system selection process (where required)	*
Prepare IT migration plan	*
Migration event	*
Hardware investment	*
Software investment	*
Subtotal	
Project Management	
Preparation of Integration Project plan	*
Project management and reporting for project duration	*
Subtotal	
General Costs	
Communications (events and correspondence)	*
Printing & Postage (section 130 packs to members)	*
Press adverts	*
Subtotal	
Miscellaneous/Other	
	*
	*
Subtotal	
Total Budget Costs	
*Qualifying Costs	

This is a non-exhaustive list of costs which may be incurred in a merger process. Each credit union should investigate the costs associated with its proposed merger. Costs should be prepared as accurately as possible, supported by quotations for the provision of services from external suppliers where relevant. This Cost Budget should be part of the high-level merger business case submission. It will be used by ReBo when assessing the provision of financial support to a restructuring proposal.

Appendices Appendix VI – ReBo Merger Process Handbook *continued*

Appendix 4 – Due Diligence Process

1.0 DETAILS OF CREDIT UNION

Name & contact details, Registered Number, Date of Registration, Tax Registration Number, Data Protection Commissioner Registration Number, Business Registered Number, Trade Association affiliation, Chapter affiliation.

2.0 CREDIT UNION PRINCIPAL OFFICERS

Chairperson, Secretary and Management Team, positions, date of appointment, brief biographies, DOB, Nationality and contact details

3.0 GENERAL INFORMATION

3.1 Rule Book

Copy of rule book and confirmation that all amendments have been adopted (where relevant)

3.2 Capital base

Classes of shares, Deposits (terms and conditions), Private Sector Funding, other.

3.3 Governance Structure

Number of Directors, list of elected Committees and non-statutory Committees, Directors' names, contact details, brief biographies and commencement dates for current roles

3.4 Regulatory Direction

Any business restrictions/limits or issues of note

3.5 Minutes & Resolutions

AGM (and EGM) minutes and details of any Special Resolution(s) passed in last 3 years.

3.6 Other Business interests

Details of any other business in which the CU has an interest or control, nature of business and extent of control/involvement.

3.7 Plans

Copy of current business plan and previous versions in place over past 5 years.

3.8 Relationships between individuals

Details of relationships (family, corporate, financial or other) between staff members, Directors, members, consultants and contractors of the credit union

3.9 Guarantees relating to the credit union

Details of any guarantees given to 3rd parties by the credit union or in favour of the credit union by 3rd Parties

3.10 Common Bond

Details of the common bond, including a map of the geographic area and showing overlaps with other common bonds where applicable.

4.0 AUDITING

4.1 Auditors

Contact details of Auditors (and previous Auditors in past 5 years), copy of letters of engagement to Auditors,

4.2 Audit Information

Copies of correspondence between Auditors and credit union in past 5 years.

4.3 Financial Information

5 years audited accounts, most recent management accounts, forecast-projections to year end and next 5 years, details of any issues/obligations not evident most recent audited accounts, Resolution 49 and additional provision analysis for last 3 years, investment register and product analysis for last 3 years, monthly control reports at year end and up to date of Due Diligence, Reconciliation of all bank accounts/petty cash, trial balance at last month end, nominal ledger from last year end to date, copy of any adjustments to opening trial balance at last year end, reconciliation of other cash services (FX, stamps etc.)

5.0 TAX INFORMATION

List of and contact details for all Tax consultants/Firms that the credit union has dealt with for last 5 years and copies of all related correspondence in that period. Copies of all notices of (re)assessment, audits and tax returns and any related correspondence. Copy of current tax clearance certificate.

6.0 BANKING INFORMATION

List of and contact details for all financial institutions used by the credit union in the last 5 years. List and details of all bank accounts with 12 months statements, copies of any loan agreements or other financial obligations entered into (including corporate credit card facilities) and any other form of financial support provided to the credit union in the last 5 years. Any notice of arrears or default served on the credit union in the same period.

7.0 LEGAL INFORMATION

List of and contact details for any Legal firm which the credit union has engaged in the last 5 years and copies of all related documents/correspondence - including proceedings, claims, injunctions, civil or criminal or arbitral in nature.

8.0 LEGAL COMPLIANCE

List of and copies of all licences, permits and other authorisations allowing the credit union to operate its business. Details of any notifications/warnings/other correspondence with regard to the (potential) breach of any legislation by the credit union in the last 5 years and/or of any investigations in this regard.

9.0 INTELLECTUAL PROPERTY RIGHTS

Details of any Trademarks, Copyrights, Patents, Intellectual Property Rights. Details of any NDAs in place or signed by 3rd parties or the credit union in the last 5 years.

10.0 EQUIPMENT & FIXED ASSETS

10.1 Equipment (non computer hardware)

List of all machinery & equipment, acquisition agreements, acquisition date, cost and depreciation. (include rental, maintenance and support agreements)

10.2 Equipment (computer)

List of computer equipment, servers, name and version of software, serial number, acquisition and/or rental leasing agreements, end user licence agreements, maintenance service and support agreements. credit union policies on computer use

10.3 Property Assets (owned)

List of properties and addresses, acquisition agreements, mortgage agreements, valuation reports obtained in the past 5 years, confirmation of title to each property, planning permissions for alterations to the property, agreements relating to any works carried out on the property

10.4 Property Assets (leased as lessor)

List of properties and addresses, copy of lease agreements, any notice of default

10.5 Property Assets (leased as lessee/sub-lessee)

List of properties and addresses, copy of lease agreements, any notice of default.

Appendices Appendix VI – ReBo Merger Process Handbook *continued*

13.0 INSURANCE

List contact details for all insurance companies used in the past 5 years. Copies of all policies and schedules covering credit union property/equipment, public liability, professional liability, business interruption, directors & officers liability, employees disability/health/life assurance, environmental liability. Documents and correspondence relating to any insurance claims made in the last 5 years.

14.0 INTERNET

List of URLs linked to the credit union website, list of other URLs owned by the credit union, website maintenance/design/hosting agreements, list of e-mail addresses used, details of any complaint or challenge affecting the use or ownership of the website/e-mail addresses.

15.0 ENVIRONMENT

Copy of any building inspections, health & safety reports, environmental inspections carried out in the last 5 years. credit union policy on environmental protection re-cycling/waste disposal, details of any complaints and/or formal notices of breach of environmental legislation in past 5 years

16.0 OPERATIONS

List of all business locations, list of products and services provided, organisation chart, any material relating to the market place, competition etc.

17.0 MARKETING

Copy of any press releases, articles, promotional material, adverts, surveys, advertising agreements, media plans used in past 5 years. List of all phone numbers used (low-call/free phone/mobile/land line), service agreements with call centres

18.0 CENTRAL BANK & ILCU

List of all correspondence and CUARs in last 6 years, all prudential returns, PRISM visit reports, field officer reports, submissions to ILCU for last 3 years

19.0 LOANS

List of all loan balances, list of all loans/accounts in arrears, attached borrowers, documents relating to Res 49, details of provisions, copy of all lending, credit control and provisioning policies, list of all loan rates currently in use

20.0 SUPPLIERS, SUBCONTRACTORS & CONSULTANTS (WHERE NOT ALREADY PROVIDED ABOVE)

List of suppliers, sub-contractors and consultants and contact details, details of contracts/engagement letters, list of accounts payable, copy of any outsourcing agreements, copy of any report, opinion or studies prepared by any 3rd party on behalf of the credit union in the last 3 years

21.0 EMPLOYEE INFORMATION

List of key employees (management) and staff with contact details, date of hire, position held, tenor of position (permanent, temporary, job-share etc.), job role, current remuneration & benefits, current status (maternity leave, sick leave, on site etc.), list of employees laid off in last 5 years, staff personnel files (including hiring letter, performance appraisals, dismissal letters, employment contracts, contracts for service with self employed workers), any employment agreements entered into (termination, release etc.) in last 5 years, hierarchical organisation chart, all HR policies, employee handbook/guide, HR resource handbook/guide, details of union interactions, details of grievances filed against or by the credit union and any judgement/arbitration decisions in last 5 years, details of any understanding, agreement or

other commitment in terms of remuneration/benefits or deferred consideration etc. currently outstanding, details of any pension funds – history of contributions, current status and valuation, list of loans/leases to directors or management & staff during the last 5 years, list of current vacant positions.

22.0 COMPETITION

List of main competitors, industry studies, reports, reviews etc. regarding competition faced or likely to be faced by the credit union, estimate of current market share, common bond penetration levels, list competitive advantages/disadvantages

23.0 POLICY & PROCEDURE

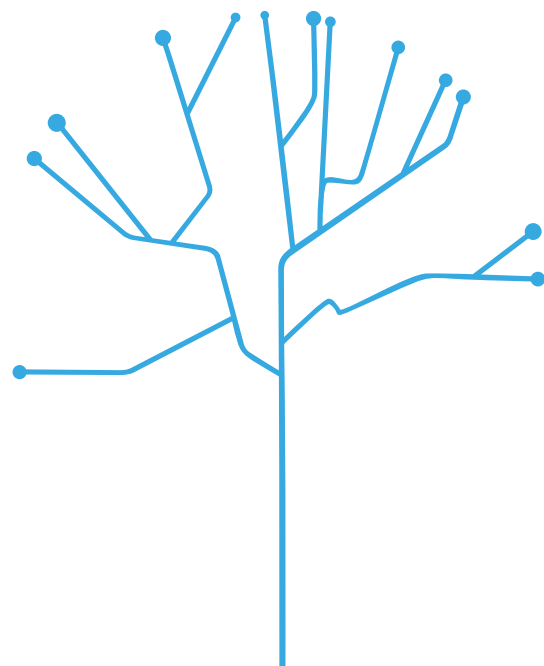
Copy of all policy documents in place, copy of all office procedure documents.

24.0 GENERAL

Any other relevant information not covered by the foregoing questions which may give rise to a claim against the credit union or the absence of which might mislead the transferee

“For credit unions to remain relevant to their actual and potential membership, and particularly a younger membership which expects a high degree of ICT sophistication, significant advances will be required”

Commission Report on Credit Unions



Appendices Appendix VI – ReBo Merger Process Handbook *continued*

Appendix 5 – Detailed Business Case

1.0 EXECUTIVE SUMMARY

Executive Summary should be brief (1–2 pages max) but should include sufficient detail to allow quick understanding of main objectives, key benefits and resource requirements to accomplish the objectives.

2.0 INTRODUCTION AND GENERAL INFORMATION

2.1 Details of Common Bond (see Appendices 6.1.3 below)

2.2 Business Location(s)

2.3 Number of Members, Employees and Directors, Asset size

2.4 IT Systems in use in each credit union

2.5 High level overview of Key Financial information and ratios for each entity and for the proposed combined entity.

Most recent Balance Sheet and I&E for each CU. Solvency, Liquidity, Loan to Assets, Provision/Gross Loans%, Fixed Assets/Total Assets%, Investment maturity profile

3.0 CURRENT SITUATION

3.1 Current Business Model

3.1.1 Products & Services
Loan balances/Numbers by type and interest rate. Special Share Accounts, Share accounts, Deposits, recent Dividend/ Rebate history

3.2 Environmental analysis

3.2.1 Economic
Overview of Economy and trends, details of any specific issues impacting locally

3.2.2 Competitor

Details of competitors (and potential new entrants) active in the CU market space

3.2.3 Regulatory

Any Regulatory issues – existing business restrictions, ability to comply with new regulatory regime

3.3 SWOT

SWOT analysis needs careful thought. Actions outlined in the Business Case should tie back to the observations in the SWOT analysis.

4.0 VISION & MISSION STATEMENTS

4.1 Vision Statement – Describes the desired future state/operating model for the combined entity

4.2 Mission Statement – Outlines how the Vision statement is to be achieved. What are the main goals and what actions are required to achieve them?

5.0 BUSINESS CASE

5.1 Business Case

5.1.1 Growth opportunities – identify, support with evidence and outline actions required to deliver

5.1.2 Cost efficiency opportunities – identify, support with evidence and outline actions required to deliver

5.1.3 New product service offerings – identify, support with evidence and outline actions required to deliver

- 5.1.4 Overview of staffing pre & post merger
Determine staffing compliment required to run the merged entity (more, fewer, same number, skills mix etc.) outline actions to be taken to arrive at desired number
- 5.1.5 Overview of Governance structure – Board and Committee make-up (same process as 5.1.4)

5.2 Financial Impact of merger (see Appendices 6.2)

- 5.2.1 Impact on Cost & Income lines
- 5.2.2 Implications for provisions (Fixed Asset and/or Loans)
Accounting assessment of business combination & impact under Irish GAAP
- 5.2.3 Comparison with projected position were the merger not to proceed
Aggregate the 5 year projections for each CU on a standalone basis and compare the results to the 5 year projections for the Merged entity to show the difference between merging and not merging

5.3 Key Performance Indicators and plans to Measure Success

How will it be known if the plan is working, what is the process for formal review?

6.0 APPENDICES

6.1 General Information

- 6.1.1 Composition of the Board and Committees post merger
- 6.1.2 Organisation Chart post merger
- 6.1.3 Details of Common Bond – map, demographics and penetration rates

6.2 Financial Information

- 6.2.1 Most recent set of management accounts
- 6.2.2 Details of Financial performance for each credit union for the last 3 years
- 6.2.3 Consolidated financial statement – including assessment of the net worth of each credit union pre merger and the net worth of the combined entity post merger (allowing for fair value adjustments (if any))
- 6.2.4 Projected figures for 5 years for the merged entity showing, Best Case, Worst Case & Most Likely Case scenario's based on relevant assumptions (including all costs and benefits associated with the merger). Present alongside the last 2 years actual figures on a aggregated basis for all CUs involved for comparison
- 6.2.5 Comparison of combined projections against individual CU projections were the merger not to proceed (shows the financial impact of the merger)
- 6.2.6 Provide an explanation of all assumptions used in the preparation of the financial projections

Appendices Appendix VI – ReBo Merger Process Handbook *continued*

Appendix 6 – Integration Plan Template

1.0 IT

- 1.1 Select IT & Telephony system
- 1.2 Review IT maintenance requirements/agreements
- 1.3 Engage IT provider for Data Migration process
- 1.4 Plan migration process
- 1.5 Undertake data cleansing exercises
- 1.6 Create Data Dictionary
- 1.7 Create Data Mapping plan
- 1.8 Data testing / Migration testing
- 1.9 Formal sign off on data migration
- 1.10 Execute migration

2.0 HUMAN RESOURCES

- 2.1 Review & update all HR policies
- 2.2 Agree management & staff structure
- 2.3 Agree selection process for appointment to roles
- 2.4 Agree process for selection of people for roles
- 2.4 Schedule appointment process
- 2.6 Ensure each role has clear job description/ specification
- 2.7 Resolve any contractual issues that may exist (salary, pension & entitlement disparities), TUPE Legislation
- 2.8 Agree opening hours for each location

3.0 STAFF TRAINING

- 3.1 New Policies – HR, Operational, Finance, IT
- 3.2 New processes
- 3.3 New IT Systems
- 3.4 New products/services
- 3.5 Customer service during transition

4.0 OPERATIONAL/FACILITIES

- 4.1 Review all Operational policies
- 4.2 Roll out policy changes and arrange staff training
- 4.3 Arrange new stationery (if required) and schedule removal of obsolete stock
- 4.4 Arrange for external signage alterations (if required)

5.0 GOVERNANCE

- 5.1 Agree new Board – structure & composition
- 5.2 Agree new Committees – structure & composition
- 5.3 Agree Rules for New credit union entity (amalgamations only)
- 5.4 Revision of Registered Rules

6.0 COMMUNICATIONS

- 6.1 Identify all stakeholders for communication (e.g. Staff, Members, ReBo, RCU, Boards, Auditors etc.)
- 6.2 Where necessary – provide statutory notice for employees (information and consultation Bill, TUPE legislation), & minimum notice for redundancy
- 6.3 Create schedule for communication to each stakeholder
- 6.4 Create draft of all communications required for each stakeholders (including Section 130 requirements)

7.0 FINANCIAL

- 7.1 Agree MIS reporting requirements
- 7.2 Review finance policies

8.0 LEGAL/REGULATORY PROCESS

- 8.1 Legal advisors to confirm process for ToE/ Amalgamation
- 8.2 Confirm title to properties
- 8.3 Prepare and submit draft Sec 130 packs for RCU approval
- 8.4 Prepare and submit draft Press Notice for RCU approval
- 8.5 Apply to RCU for confirmation of the ToE
- 8.6 Place advert in press within 7 days of seeking confirmation
- 8.7 Prepare and post Sec 130 pack to Auditor and Members
- 8.8 Confirm operational readiness to RCU
- 8.9 Advisors confirm all property has transferred to transferee CU
- 8.10 CU secretary submits certificate stating all property vested in transferee CU

GENERAL COMMENTS ON CREATING AN IMPLEMENTATION PLAN

The list of issues in this sample plan is not exhaustive and each plan needs to be drawn up based on the individual circumstances pertaining to each proposed merger.

When creating an implementation plan, it is important to start by identifying and listing every action required to ensure the merger project can be completed. Once these actions are identified, they should be broken down into individual steps or deliverables, each one being assigned to an owner. These steps then need to be reviewed for dependencies (e.g. some steps cannot commence until others have been completed) and put in a logical sequence. At this stage, the time required for each step should be estimated and the information transcribed into a Gantt chart (or similar chart). Completion of a Gantt chart will provide the project manager with a strong tool with which to manage, monitor and control the progress of the project.

Appendices Appendix VI – ReBo Merger Process Handbook *continued*

Appendix 7 – Selecting a Project Manager

The Successful candidate should have a deep understanding and experience of;

- Project Management strategies and methodologies
- Current ICT technologies
- Business & Systems Analysis techniques
- Experience in the management of systems integration projects is beneficial

The following skills/experience will be considered as a distinct advantage

- Experience in project management
- Knowledge of the credit union movement
- A professional Project Management certification (preferably Prince II)

The following duties may be required;

Project Management:

- Defining/Clarifying project scope
- Planning, Execution, Monitoring and Control,
- Business Analysis/Requirements Gathering
- Managing Stakeholder Expectations
- Change management
- Risk and Issue Management
- Deployment & Support
- Budget Management
- Stakeholder communication

Quality Assurance:

- Maintenance of a detailed project schedule
- Integrate and plan across a number of project areas
- Identification or assistance with identification of project deliverables and timing

- Preparing Acceptance Plans including all milestones, deliverables, review, activities and dependencies for the timely and efficient completion of the Project
- Determining and updating the project's critical path
- Developing and implementing risk assessment and risk mitigation procedures

Communication and Report Writing:

- Communication at all levels including project team, sponsors, vendors etc.
- Presentations at internal meetings and external meetings where required
- The preparation of reports including
 - > Project Status Reports
 - > Reports describing the analysis of any problem(s) experienced and corresponding corrective actions, taken or proposed,
 - > Reports justification of any delays occurred,
- Final Reports including
 - > Details of the results achieved,
 - > Details of the methodology adopted,
 - > Quality assurance methods applied,
 - > Deviations from the original project plan with detailed justifications,
 - > Description of problems encountered and solutions adopted,
 - > Deliverables submitted.

Appendix 8 – Application for Confirmation of Transfer of Engagements

Credit Union Act 1997 (as amended)

APPLICATION FOR CONFIRMATION BY THE REGISTRAR OF CREDIT UNIONS OF A TRANSFER OF ENGAGEMENTS IN ACCORDANCE WITH SECTION 131 OF THE ACT.

Application for Confirmation by the Registrar of the Transfer of Engagements of

_____ Credit Union Limited

to

_____ Credit Union Limited

is made by the persons whose names are subscribed hereunder.

This application is accompanied by;

1. A copy of the Special Resolutions (or resolutions of the Boards of Directors, where applicable) passed by the Transferor and Transferee Credit Unions in accordance with the Act.
2. The Instrument of Transfer of Engagements.
3. A copy of the required notice to inserted in two daily newspapers, in accordance with Section 131 of the Act.

Chairman,

_____ Credit Union
Limited (the Transferor)

Date: _____

Chairman,

_____ Credit Union
Limited (the Transferee)

Date: _____

Secretary,

_____ Credit Union
Limited (the Transferor)

Date: _____

Secretary,

_____ Credit Union
Limited (the Transferee)

Date: _____

Appendices Appendix VI – ReBo Merger
Process Handbook *continued*

Appendix 8A – Notice of Passed Resolution

PROPOSED BOARD RESOLUTION

The board of directors of ABC Credit Union Limited resolves that the credit union transfers its engagements to XYZ Credit Union Limited in accordance with the relevant provisions of the Credit Union Act 1997 (as amended).

XXXXXX

Secretary

ABC Credit Union Limited

Date

PASSED BOARD RESOLUTION

That at the board of directors meeting on Day Month Year the board of directors of ABC Credit Union Limited resolved that the credit union transfers its engagements to XYZ Credit Union Limited in accordance with the relevant provisions of the Credit Union Act 1997 (as amended).

XXXXXX

Secretary

ABC Credit Union Limited

Appendix 8B – Template Newspaper Notice

ABC Credit Union Limited

&

XYZ Credit Union Limited

ABC Credit Union Limited and XYZ Credit Union Limited hereby give notice that both credit unions have passed board resolutions agreeing to the proposed Transfer of Engagements of ABC Credit Union Limited to XYZ Credit Union Limited. A copy of the statement under Section 130 (3) of the Credit Union Act 1997, (as amended) detailing the particulars of the transfer, may be obtained on demand during normal working hours at:

ABC Credit Union office, Credit Union Road, Ireland and at

XYZ Credit Union office, Credit Union Avenue, Ireland.

A formal application to proceed with the transfer of engagements has been lodged with the Registrar of Credit Unions, Central Bank of Ireland, PO Box 559, Dame Street, Dublin 2.

Representations relating to this application may be made in writing to the Registrar of Credit Unions at the above address within 21 days of the date of this notice.

Dated this Xth day of Month 201X

XXXXXXXXXX

Secretary

ABC Credit Union Limited XXXXXXXXX

XXXXXXXXXX

Secretary

XYZ Credit Union Limited

Appendices Appendix VI – ReBo Merger
Process Handbook *continued*

Appendix 9 – Letter of Confirmation of Operational Readiness

Registry of Credit Unions,
Central Bank of Ireland,
PO Box 559,
Dame Street,
Dublin 2.

Date

Dear

We wish to confirm that Transferee Credit Union Limited and Transferor Credit Union Limited are both operationally ready to complete the Transfer of Engagements of Transferor Credit Union Limited to Transferee Credit Union Limited.

We wish to confirm that both IT systems are aligned and both credit unions are ready to operate as a single unit.

We wish to confirm that the Transferor Credit Union bank accounts will be transferred into the name of the Transferee Credit Union on the production of the Certificate of Confirmation of the Transfer.

We wish to confirm that all other relevant Transferor balance sheet items including property assets are in a position to be included in the Transferee Credit Union balance sheet.

We wish to confirm that there are no outstanding issues regarding transfer of existing Transferor lease arrangements.

Signed

Chairperson
Transferee Credit Union

Secretary
Transferee Credit Union

Chairperson
Transferor Credit Union

Secretary
Transferor Credit Union

Appendix 10 – Certificate for Lodgement with Registrar in Respect of an Instrument of Transfer of Engagements

CERTIFICATE UNDER SECTION 136 OF THE CREDIT UNION ACT, 1997 (AS AMENDED)

FOR LODGEMENT WITH THE REGISTRAR OF CREDIT UNIONS IN RESPECT OF AN INSTRUMENT OF TRANSFER OF
ENGAGEMENTS

Name of Credit Union: _____ Credit Union Limited ('the Credit Union')

Registered Number: _____

The Instrument of Transfer of Engagements appended hereto, was lodged with the Registrar of Credit Unions on the
____ day of _____ 20__.

I hereby certify that all property vested in the above named Credit Union has been duly conveyed or transferred to
_____ Credit Union Limited.

I make this certificate for the purposes of Section 136 of the Credit Union Act, 1997 (as amended) for lodgement with
the Registrar of Credit Unions.

Secretary of _____ Credit Union Limited

Date

Appendices

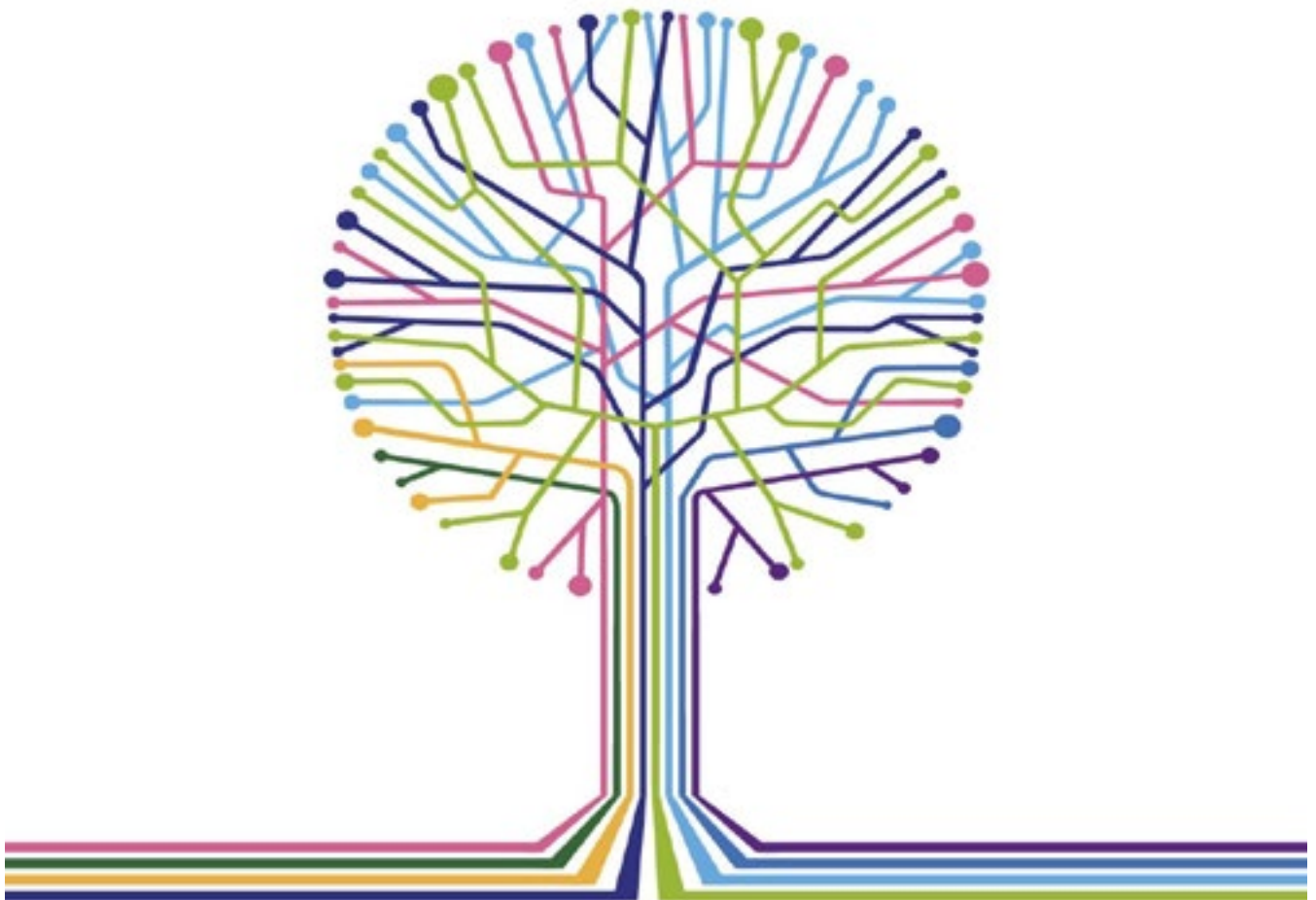
Appendix VII

ReBo Guidance Notes

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Appendix VII – ReBo Guidance Notes

(i) Accounting



Guidance on Accounting for Transfer of Engagements



This guidance paper was prepared with assistance from Grant Thornton who consulted with the relevant accountancy bodies and the Central Bank of Ireland

Appendices Appendix VII – ReBo Guidance Notes

(i) Accounting *continued*



The Credit Union Restructuring Board
An Bord Athchóiriú Comhar Creidmheasa

1. Preface

The purpose of this guidance is to outline the accounting required where there is a transfer of engagements from one credit union to another or an amalgamation of credit unions in accordance with the ReBo Merger Process Handbook and Part IX of the Credit Union Act 1997 (as amended) (“the 1997 Act”).

The Merger Process Handbook prepared by ReBo was issued as a guide for credit unions intending on restructuring their operations.

Credit Union financial statements are prepared by reference to the Credit Union Act, 1997 and Irish Generally Accepted Accounting Principles (“GAAP”). Irish GAAP is based upon accounting standards issued by the Financial Reporting Council (“FRC”) and promulgated by the Institute of Chartered Accountants in Ireland.

Whilst accounting standards are written for the generality of companies, understanding the objective of the credit union movement is an important aspect of determining the most appropriate method (acquisition or merger method) to account for restructuring in the credit union movement.

In light of the member owned cooperative nature of credit unions and the shared common bond of members, one must consider the appropriateness of results obtained by applying accounting standards produced for the generality of commercial entities, to this movement. Specifically, the existence of an accounting entry, normally classified as goodwill, may not be appropriate where acquisition accounting is applied to the restructuring of two or more credit unions. This matter is reflected in the guidance provided by this document.

It is also important to note that Irish GAAP is changing with effect for accounting periods beginning on or after 1 January 2015. FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland (“FRS 102”), will replace current Irish GAAP with the effect that merger accounting will only be available in restricted situations. This will therefore need to be considered, along with the transition requirements and the timing of the transaction, when determining which accounting treatment should be adopted.

Reference will be made to the terms transferor and transferee throughout this document. For clarity, the transferor credit union is the credit union transferring their engagements to another credit union and the transferee credit union is the credit union accepting the transfer of engagements from another credit union.



2. Guidance

Under existing Irish GAAP, guidance on business combinations is provided in FRS 6: Acquisitions and Mergers. Acquisition accounting regards a business combination as the acquisition of one company by another and requires the identifiable assets and liabilities of the company acquired to be included in the consolidated balance sheet at their fair values at the date of acquisition and the difference between the fair value of the net assets acquired and the fair value of the consideration given should be recognised as goodwill. Merger accounting on the other hand, treats two or more parties as combining on an equal footing and does not require the assets and liabilities of the merged entity to be measured at fair value. Correspondingly it does not reflect the issue of shares as an application of resources at fair value (and therefore require a share premium to be recognised). The difference that arises on consolidation is not required to be recognised as goodwill but is reflected in reserves.

As noted below, in most restructuring cases, acquisition accounting will be the most appropriate method to apply.

2.1 Acquisition Accounting Requirements

FRS 6 requires acquisition accounting to be used where one of the parties can be identified as having the role of an acquirer.

Based purely on the value of total assets of the credit unions involved in a restructure, the transferee credit union could be seen as the acquirer. If this was the position adopted, then the assets and liabilities of the transferor credit union (based on value of net assets) would be remeasured to fair value. This would involve revaluing the property to market value and making any necessary adjustments to loan book provisions. There may also be adjustments required to the value of certain investments so that these reflect market value. Further guidance on determining fair values exists in FRS 7: Fair Value Accounting.

When applying acquisition accounting, where the fair value of net assets is less than the consideration, goodwill arises. Where the consideration is less than the fair value of the net assets, negative goodwill will normally arise. In all of the transfer of engagements which have occurred to date, no consideration has been provided by the acquirer (other than membership of the transferee) and therefore the fair value of the net assets acquired is negative goodwill, effectively representing the transferor's Members Resources less fair value adjustments.

Whilst accounting standards require that positive and negative goodwill are recognised as assets on the balance sheet, that is in the context of the transactions which occur in the majority of commercial situations. However, in this instance, the members of the transferor credit union consent to the transfer, and accept no consideration other than membership of the combined entity, as a result of the nature of the common bond and shared objective of the credit union movement. It may be viewed therefore, that the positive or negative amount does not equate to the premium or discount on net asset value which arises in other combinations. Rather, the consent arises from the action of the shareholder and therefore, any resulting positive or negative balance to be dealt with in the transferee financial statements may be considered akin

Appendices Appendix VII – ReBo Guidance Notes

(i) Accounting *continued*



The Credit Union Restructuring Board
An Bord Athchóiriú Comhar Creidmheasa

to a contribution or distribution, to be recorded in the Members Resources section of the balance sheet.

Application of the acquisition method of accounting requires that the income and expenditure account of the combined credit union represents the full year of trading of the transferee credit union and only the transactions of the transferor credit union from the date of the combination. All assets and liabilities in existence at the date of the combination are added together under the balance sheet categories once the assets and liabilities of the transferor credit union have been amended for any fair value adjustments.

Consideration needs to be given to the various items included in the Members Resources section of the balance sheet. A statutory reserve can only exist in respect of the entity which is legally obliged to create it and therefore at the date of transfer of engagement this should just represent the statutory reserve of the transferee credit union, with the statutory reserve of the transferor being added to another reserve which in the examples is referred to as a reserve arising on transfer of engagement.

However, from a prudential perspective, the regulatory reserve of the Credit Union must be the same pre and post the transfer of engagement and therefore a transfer must be effected between the reserve arising on transfer of engagement and the regulatory reserve to achieve this position.

2.2 Merger Accounting Requirements

FRS 6 defines a merger as a business combination that results in the creation of a new reporting entity formed from the combining parties, in which the shareholders of the combining entities come together in a partnership for the mutual sharing of the risks and benefits of the combined entity. Additionally no party to the combination in substance obtains control over any other, or is otherwise seen to be dominant, whether by virtue of the proportion of its shareholders' rights in the combined entity, the influence of its directors or otherwise.

In order to apply merger accounting, certain criteria within FRS 6 must be satisfied, the overarching objectives of which is that there is no domination by one party of the other(s) and there is sharing of risks and rewards.

Whilst it may be possible to satisfy these criteria in some transfer of engagements, it will be difficult in many cases to rebut the presumption that the disparate size gives control to the transferee. It may also be difficult to achieve equal board representation.

Application of the merger method of accounting involves the simple line by line addition of each item in both credit unions' financial statements. In the year of the transfer, the income and expenditure account for the full year for each credit union is combined, with no distinction between the pre and post combination periods. Similarly, on the balance sheet, each asset and liability caption is added together, with no adjustments made in respect of fair values. Whilst no adjustments are required to restate assets and liabilities at their fair value, the remaining accounting standards should be applied which means that consideration needs to be given to whether additional provisions (or releases of current provisions) are required in respect of assets and liabilities to reflect their recoverable amount.



Within the Members Resources section of the balance sheet, each of the reserve components, with the exception of the statutory reserve, should be added together on a line by line basis in conformity with the fundamentals of merger accounting. However, the same principles apply in respect of the statutory reserve as noted in section 2.1 above.

It is worth noting, as elaborated on in the next section that merger accounting is only permitted in FRS 102 in the context of public benefit entities.

2.3 Requirements Under New Irish GAAP

Section 19 of FRS 102 requires all business combinations to be accounted for by applying acquisition accounting unless there is a group reconstruction or where the entity qualifies as a public benefit entity.

Group reconstructions have the same definition under FRS 102 as FRS 6 and therefore it is not relevant to the analysis as these transactions will not meet the definition of a group reconstruction.

A public benefit entity is defined as “an entity whose primary objective is to provide goods or services for the general public, community or social benefit and where any equity is provided with a view to supporting the entity’s primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members”. However, the glossary to FRS 102 specifically states that organisations such as mutual insurance companies, other mutual cooperative entities and clubs that provide dividends or other economic benefits directly and proportionately to their owners, members or participants do not meet the definition.

It is therefore unlikely that credit unions qualify as public benefit entities. Such a view is supported by the fact that the Financial Reporting Council’s (“FRC”), the UK’s independent regulator, website contains a template set of financial statements for a UK credit union which does not apply public benefit entity accounting in accordance with Section 34 of the standard.

Therefore, the most appropriate option available to the credit union to account for the transfer of engagements is to use acquisition accounting, the application of which would in most circumstances result in a goodwill number, positive or negative, to be recognised as an asset on the balance sheet. As noted earlier, it might be considered that the resulting accounting number is not a premium or discount on the net asset value, but rather an amount arising from a transaction with a shareholder in the capacity of shareholder.

If goodwill is recognised, through amortisation of the balance, it would result in an expense or an income (in the case of negative goodwill) in the income and expenditure account. Section 2 of FRS 102 considers the concepts and pervasive principles of a set of financial statements. It defines income as “increase in economic benefits during the reporting period in the form of inflows or enhancements of assets or decrease of liabilities that result in increase in equity, other than those relating to contributions from equity investors” An expense is defined in a similar manner.

Appendices Appendix VII – ReBo Guidance Notes

(i) Accounting *continued*



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One would therefore, take the view, that recognition of goodwill on the transfer of engagements is not appropriate and that any resulting accounting delta should be recorded within Members Resources.

It is clear therefore that acquisition accounting under both current Irish GAAP and FRS 102 is the same.

Transition to FRS 102

The application of FRS 102 becomes mandatory for accounting periods commencing on or after 1 January 2015. When a first time set of FRS 102 financial statements are prepared, the transition guidance included in Section 35 of FRS 102 requires that those financial statements include a current year and comparative period. As a result of the fact that credit unions have a September year end, the mandatory application date of FRS 102 will be for the period commencing 1 October 2015. Such financial statements will therefore include a current year period from October 2015 to September 2016. However, they must also include a comparative period from October 2014 to September 2015. The 1 October 2014 is referred to in the standard as the transition date.

Within Section 35 of FRS 102 which explains the transition requirements, 35.10(a) indicates that “a first time adopter may elect not to apply Section 19 Business Combinations and Goodwill to business combinations that were effected before the date of transition to this FRS”. This indicates that where a transfer of engagements occurs before 1 October 2014, the accounting for the transfer does not have to be revisited in the first time FRS 102 financial statements. This would be especially relevant where merger accounting had been applied prior to this date for current Irish GAAP purposes.

Where a transfer occurs between 1 October 2014 and 30 September 2015, then the accounting for the transaction will have to be restated in the comparative period of the first time FRS 102 financial statements using acquisition accounting. This will be the case, notwithstanding the fact that for current Irish GAAP purposes, when financial statements are prepared for the year ending 30 September 2015, the transfer of engagements may have been presented using the merger method of accounting.

It is important to note that credit unions can early adopt FRS 102. Given that the transition date starts on 1 October 2014, consideration should be given as to whether it is more beneficial to early adopt FRS 102 for transactions occurring between 1 October 2014 and 30 September 2015 rather than use merger accounting as potentially allowed under current Irish GAAP and then be forced to restate the transaction using acquisition accounting when FRS 102 becomes mandatory.



3. Illustrative Examples

Worked examples are provided in the appendices to illustrate the application of merger accounting and acquisition accounting for the following scenarios:

- Scenario 1: €5m credit union (X Ltd) transferring engagements into or amalgamating with a €100m credit union (Z Ltd);
- Scenario 2: €50m credit union (Y Ltd) transferring engagements into or amalgamating with a €50m credit union (Y2 Ltd);

It is important to note that the financial information presented for X Ltd, Y Ltd, Z Ltd and Y2 Ltd does not represent the financial information of any existing credit union and is purely to illustrate how the combined results would appear for various sizes of credit unions.

As an aid in understanding the movement in Members Resources, a table showing movements in Members Resources is provided under each scenario as would likely be presented in the financial statements.

Individual guidance notes are included for each scenario on the relevant pages where applicable.

Appendix no.	Title
1a	Scenario 1 – Acquisition accounting at year end
1b	Scenario 1 – Acquisition accounting at mid-year
1c	Scenario 2 – Merger accounting at year end

Where merger accounting is applied, the transaction is deemed to have occurred at the start of the period and the comparatives are restated on the same basis. Therefore, no template financial statements are provided for a merger accounting scenario occurring mid-year as this would effectively be the same as the financial statements presented in Appendix 1c.

Appendices Appendix VII – ReBo Guidance Notes

(i) Accounting *continued*



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Appendix 1a

Scenario 1: €5m credit union (X Ltd.) transfers engagements or amalgamates with €100m credit union (Z Ltd.)

Guidance Notes:

- Where acquisition accounting is applied, the transferor is required to adjust their assets and liabilities to fair value.
- Both the fair value adjustments above and the reserves of the transferor at the date of the transfer represent a contribution received from the transferor which is to be recognised within the members' resources section of the balance sheet.
- The statutory reserve post the transfer date must represent the combined statutory reserves of the transferee and the transferor (at the date of transfer) and therefore the relevant amount is transferred from the line "contribution arising on transfer of engagement" to the statutory reserve line.
- Because the acquisition happened at the end of the year the Income & Expenditure account for the current and prior year reflects only the results of the transferee as all of the transferor's results are "pre-acquisition".
- The comparative Income and Expenditure account and Balance Sheet represents the results of the transferee credit union as the acquisition did not occur until the current year.

	Income and Expenditure Account					
	Individual Credit Unions Pre-Acquisition				Acquisition Accounting	
	X Ltd.		Z Ltd.		X & Z Ltd.	
	2013	2012	2013	2012	2013	2012
	€	€	€	€	€	€
Income						
Interest on members' loans	250,000	150,000	1,600,000	2,500,000	1,600,000	2,500,000
Members' deposit and other interest, expense and similar charges	0	0	(20,000)	(80,000)	(20,000)	(80,000)
Other interest income and similar income	70,000	100,000	2,600,000	3,500,000	2,600,000	3,500,000
Net interest income	320,000	250,000	4,180,000	5,920,000	4,180,000	5,920,000
Other income			20,000	50,000	20,000	50,000
Total Income	320,000	250,000	4,200,000	5,970,000	4,200,000	5,970,000
Expenditure						
Salaries	25,000	20,000	1,000,000	70,000	1,000,000	70,000
Other management expenses	80,000	100,000	1,450,000	3,200,000	1,450,000	3,200,000
Losses on investments	0	0	0	25,000	0	25,000
Depreciation	2,000	2,000	500,000	50,000	500,000	50,000
Bad debts written off	34,000	88,000	500,000	410,000	500,000	410,000
Bad debts recovered		(10,000)	(250,000)	(25,000)	(250,000)	(25,000)
Total Expenditure	141,000	200,000	3,200,000	3,730,000	3,200,000	3,730,000
(Deficit)/Surplus for the year	179,000	50,000	1,000,000	2,240,000	1,000,000	2,240,000
Add:						
Undistributed surplus at 1 October	50,000	0	2,000,000	0	2,000,000	0
Less:						
Dividend paid	(49,000)	0	(500,000)	(16,000)	(500,000)	(16,000)
Total	180,000	50,000	2,500,000	2,224,000	2,500,000	2,224,000
Less:						
Transfer to statutory reserve	(17,900)	0	(100,000)	(224,000)	(100,000)	(224,000)
Surplus/(Deficit) at 30 September	162,100	50,000	2,400,000	2,000,000	2,400,000	2,000,000

Appendix 1a

		Individual Financial Position				Balance Sheet							2012 Acquisition Accounting X & Z Ltd. – total combined
		X Ltd.	2012	2013	Z Ltd.	2012	X & Z Ltd. – total combined 2013	FV adjustments to X Ltd.	Total including FV adjustments	Remove pre-acquisition reserves	X & Z Ltd. before transfer of statutory res	Transfer to statutory reserves	
Assets		€	€	€	€	€	€	€	€	€	€	€	€
Cash on hand and at bank	100,000	50,000	9,650,000	6,150,000	9,750,000	9,750,000		9,750,000	9,750,000		9,750,000		6,150,000
Deposits and investments	3,000,000	3,100,000	70,010,500	72,870,500	73,010,500	73,010,500		73,010,500	73,010,500		73,010,500		72,870,500
Loans to members	1,500,000	1,500,000	22,050,000	21,650,000	23,550,000	23,550,000		23,550,000	23,550,000		23,550,000		21,650,000
Less: Provision for bad and doubtful debts	(250,000)	(450,000)	(4,300,000)	(4,300,000)	(4,800,000)	(4,835,000)	(35,000)	(4,835,000)	(4,835,000)		(4,835,000)		(4,300,000)
Tangible fixed assets	100,000	110,000	2,500,000	2,680,000	2,600,000	2,560,000	(40,000)	2,560,000	2,560,000		2,560,000		2,680,000
Debtors, prepayments and accrued income	10,000	50,000	815,000	1,000,000	825,000	825,000		825,000	825,000		825,000		1,000,000
Total Assets	4,460,000	4,360,000	100,475,500	100,050,500	104,935,500	104,860,500	(75,000)	104,860,500	0	104,860,500	0	104,860,500	100,050,500
Liabilities													
Member shares	3,250,000	3,275,000	83,525,000	81,750,500	86,775,000	86,775,000		86,775,000	86,775,000		86,775,000		81,750,500
Members' deposit accounts			2,250,000	4,000,000	2,250,000	2,250,000		2,250,000	2,250,000		2,250,000		4,000,000
Other liabilities, creditors, accruals and charges	20,000	25,000	50,500	150,000	70,500	70,500		70,500	70,500		70,500		150,000
Total Liabilities	3,270,000	3,300,000	85,825,500	85,900,500	89,095,500	89,095,500	0	89,095,500	0	89,095,500	0	89,095,500	85,900,500
Net Worth	1,190,000	1,060,000	14,650,000	14,150,000	15,840,000	15,765,000	(75,000)	15,765,000	0	15,765,000	0	15,765,000	14,150,000
Represented by:													
Statutory reserve	1,017,900	1,000,000	12,000,000	11,900,000	13,017,900	13,017,900		13,017,900	(1,017,900)	12,000,000	1,017,900	13,017,900	11,900,000
Total Regulatory Reserve	1,017,900	1,000,000	12,000,000	11,900,000	13,017,900	13,017,900	0	13,017,900	(1,017,900)	12,000,000	1,017,900	13,017,900	11,900,000
Reserve arising on transfer of engagement													
Other reserves	162,100	50,000	2,400,000	2,000,000	2,562,100	2,562,100		2,562,100	(162,100)	2,400,000	(1,017,900)	97,100	2,000,000
Realised	10,000	10,000	250,000	250,000	260,000	260,000		260,000	(10,000)	250,000		250,000	250,000
Unrealised	152,100	40,000	2,150,000	1,750,000	2,302,100	2,302,100		2,302,100	(152,100)	2,150,000	(1,017,900)	97,100	1,750,000
Total Reserves	1,190,000	1,060,000	14,650,000	14,150,000	15,840,000	15,765,000	(75,000)	15,765,000	0	15,765,000	0	15,765,000	14,150,000

Appendix 1a

		Movement on Reserves After Transfer of Engagements		
		Balance 1/10/12	Arising on transfer of engagements	Arising in the year
		€	€	€
Statutory reserve		11,900,000	1,017,900	100,000
Reserve arising on transfer of engagement			97,100	97,100
Realised:				
Undistributed (deficit)/surplus		2,000,000		400,000
Revaluation reserve		250,000		250,000
Total other reserves		2,250,000		400,000
Total Reserves		14,150,000	1,115,000	500,000

Appendices Appendix VII – ReBo Guidance Notes

(i) Accounting *continued*



The Credit Union Restructuring Board
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Appendix 1b

Scenario 1: €5m credit union (X Ltd.) transfers engagements or amalgamates with €100m credit union (Z Ltd.)

Guidance Notes:

- Where acquisition accounting is applied, the transferor is required to adjust their assets and liabilities to fair value.
- Both the fair value adjustments above and the reserves of the transferor at the date of the transfer represent a contribution received from the transferor which is to be recognised within the members' resources section of the balance sheet.
- The statutory reserve post the transfer date must represent the combined statutory reserves of the transferee and the transferor (at the date of transfer) and therefore the relevant amount is transferred from the line "contribution arising on transfer of engagement" to the statutory reserve line.
- Because the acquisition happened mid-way through year the Income & Expenditure account for the current year reflects the results of the transferee and 6 months of results for the transferor. The Income and Expenditure account and Balance Sheet in the prior year represents the results of the transferee only.
- The comparative Income and Expenditure account and Balance Sheet represents the results of the transferee credit union as the acquisition did not occur until the current year.

	Income and Expenditure Account					
	Individual Credit Unions Pre-Acquisition				Acquisition Accounting	
	X Ltd.		Z Ltd.		X & Z Ltd.	
	2013	2012	2013	2012	2013	2012
	€	€	€	€	€	€
Income						
Interest on members' loans	250,000	150,000	1,600,000	2,500,000	1,725,000	2,500,000
Members' deposit and other interest, expense and similar charges	0	0	(20,000)	(80,000)	(20,000)	(80,000)
Other interest income and similar income	70,000	100,000	2,600,000	3,500,000	2,635,000	3,500,000
Net interest income	320,000	250,000	4,180,000	5,920,000	4,340,000	5,920,000
Other income			20,000	50,000	20,000	50,000
Total Income	320,000	250,000	4,200,000	5,970,000	4,360,000	5,970,000
Expenditure						
Salaries	25,000	20,000	1,000,000	70,000	1,012,500	70,000
Other management expenses	80,000	100,000	1,450,000	3,200,000	1,490,000	3,200,000
Losses on investments	0	0	0	25,000	0	25,000
Depreciation	2,000	2,000	500,000	50,000	501,000	50,000
Bad debts written off	34,000	88,000	500,000	410,000	517,000	410,000
Bad debts recovered		(10,000)	(250,000)	(25,000)	(250,000)	(25,000)
Total Expenditure	141,000	200,000	3,200,000	3,730,000	3,270,500	3,730,000
(Deficit)/Surplus for the year	179,000	50,000	1,000,000	2,240,000	1,089,500	2,240,000
Add:						
Undistributed surplus at 1 October	50,000	0	2,000,000	0	2,000,000	0
Less:						
Dividend paid	(49,000)	0	(500,000)	(16,000)	(549,000)	(16,000)
Total	180,000	50,000	2,500,000	2,224,000	2,540,500	2,224,000
Less:						
Transfer to statutory reserve	(17,900)	0	(100,000)	(224,000)	(108,950)	(224,000)
Surplus/(Deficit) at 30 September	162,100	50,000	2,400,000	2,000,000	2,431,550	2,000,000

Appendix 1b

Balance Sheet																				
Individual Financial Position				2013 Acquisition Accounting				2012 Acquisition Accounting												
X Ltd.		Z Ltd.		X & Z Ltd. – total combined 2013		FV adjustments to X Ltd.		Total including FV adjustments		Remove pre-acquisition reserves		X & Z Ltd. before transfer of statutory res		Transfer to statutory reserves		X & Z Ltd. – total combined		2012 Acquisition Accounting X & Z Ltd. – total combined		
2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€
Assets																				
100,000	50,000	9,650,000	6,150,000	9,750,000	6,150,000	9,750,000	9,750,000	9,750,000	9,750,000	9,750,000	9,750,000	9,750,000	9,750,000	9,750,000	9,750,000	9,750,000	9,750,000	9,750,000	9,750,000	6,150,000
3,000,000	3,100,000	70,010,500	72,870,500	73,010,500	73,010,500	73,010,500	73,010,500	73,010,500	73,010,500	73,010,500	73,010,500	73,010,500	73,010,500	73,010,500	73,010,500	73,010,500	73,010,500	73,010,500	73,010,500	72,870,500
1,500,000	1,500,000	22,050,000	21,650,000	23,550,000	23,550,000	23,550,000	23,550,000	23,550,000	23,550,000	23,550,000	23,550,000	23,550,000	23,550,000	23,550,000	23,550,000	23,550,000	23,550,000	23,550,000	23,550,000	21,650,000
(250,000)	(450,000)	(4,550,000)	(4,300,000)	(4,835,000)	(4,835,000)	(4,835,000)	(4,835,000)	(4,835,000)	(4,835,000)	(4,835,000)	(4,835,000)	(4,835,000)	(4,835,000)	(4,835,000)	(4,835,000)	(4,835,000)	(4,835,000)	(4,835,000)	(4,835,000)	(4,300,000)
100,000	110,000	2,500,000	2,680,000	2,680,000	2,680,000	2,680,000	2,680,000	2,680,000	2,680,000	2,680,000	2,680,000	2,680,000	2,680,000	2,680,000	2,680,000	2,680,000	2,680,000	2,680,000	2,680,000	2,680,000
10,000	50,000	815,000	1,000,000	825,000	825,000	825,000	825,000	825,000	825,000	825,000	825,000	825,000	825,000	825,000	825,000	825,000	825,000	825,000	825,000	1,000,000
4,460,000	4,360,000	100,475,500	100,050,500	104,935,500	104,860,500	104,935,500	104,860,500	104,935,500	104,860,500	104,935,500	104,860,500	104,935,500	104,860,500	104,935,500	104,860,500	104,935,500	104,860,500	104,935,500	104,860,500	104,935,500
Liabilities																				
3,250,000	3,275,000	83,525,000	81,750,500	86,775,000	86,775,000	86,775,000	86,775,000	86,775,000	86,775,000	86,775,000	86,775,000	86,775,000	86,775,000	86,775,000	86,775,000	86,775,000	86,775,000	86,775,000	86,775,000	81,750,500
		2,250,000	4,000,000	2,250,000	4,000,000	2,250,000	4,000,000	2,250,000	4,000,000	2,250,000	4,000,000	2,250,000	4,000,000	2,250,000	4,000,000	2,250,000	4,000,000	2,250,000	4,000,000	4,000,000
20,000	25,000	50,500	150,000	70,500	70,500	70,500	70,500	70,500	70,500	70,500	70,500	70,500	70,500	70,500	70,500	70,500	70,500	70,500	70,500	150,000
3,270,000	3,300,000	85,825,500	85,900,500	89,095,500	89,095,500	89,095,500	89,095,500	89,095,500	89,095,500	89,095,500	89,095,500	89,095,500	89,095,500	89,095,500	89,095,500	89,095,500	89,095,500	89,095,500	89,095,500	89,095,500
1,190,000	1,060,000	14,650,000	14,150,000	15,840,000	15,765,000	15,840,000	15,765,000	15,840,000	15,765,000	15,840,000	15,765,000	15,840,000	15,765,000	15,840,000	15,765,000	15,840,000	15,765,000	15,840,000	15,765,000	14,150,000
Represented by:																				
Reserves																				
1,017,900	1,000,000	12,000,000	11,900,000	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	11,900,000
1,017,900	1,000,000	12,000,000	11,900,000	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	13,017,900	11,900,000
Reserve arising on transfer of engagement																				
Other reserves																				
162,100	50,000	2,400,000	2,000,000	2,562,100	2,562,100	2,562,100	2,562,100	2,562,100	2,562,100	2,562,100	2,562,100	2,562,100	2,562,100	2,562,100	2,562,100	2,562,100	2,562,100	2,562,100	2,562,100	2,000,000
10,000	10,000	250,000	250,000	260,000	260,000	260,000	260,000	260,000	260,000	260,000	260,000	260,000	260,000	260,000	260,000	260,000	260,000	260,000	260,000	250,000
1,190,000	1,060,000	14,650,000	14,150,000	15,840,000	15,765,000	15,840,000	15,765,000	15,840,000	15,765,000	15,840,000	15,765,000	15,840,000	15,765,000	15,840,000	15,765,000	15,840,000	15,765,000	15,840,000	15,765,000	14,150,000

Appendix 1b

Movement on Reserves After Transfer of Engagements

	Balance 1/10/12	Arising on transfer of engagements	Balance 30/9/13
	€	€	€
Statutory reserve	11,900,000	1,008,950	13,017,900
Reserve arising on transfer of engagement		65,550	65,550
Realised:			
Undistributed (deficit)/surplus	2,000,000	431,550	2,431,550
Revaluation reserve	2,000,000	431,550	2,431,550
Unrealised:			
Revaluation reserve	250,000		250,000
Total other reserves	2,250,000	431,550	2,681,550
Total Reserves	14,150,000	1,074,500	15,765,000

Appendices Appendix VII – ReBo Guidance Notes

(i) Accounting *continued*



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Appendix 1c

Scenario 3: €50m credit union (Y Ltd.) transfers engagements or amalgamates with €50m credit union (Y2 Ltd.)

Guidance Notes:

- Where merger accounting is applied, both credit unions are assumed to have merged from the beginning of the prior period, therefore comparatives are shown on a merged basis for the Income and Expenditure account and the Balance Sheet.
- This also means that the results are the same for the current and prior period regardless of whether the transfer occurred at the end of the current period or mid-way through the current period.
- In the Balance Sheet, the reserves are added together on a line by line basis.

	Income and Expenditure Account				Merged Results	
	Individual Credit Unions Pre-Merger				Y & Y2 Ltd.	
	Y Ltd.		Y2 Ltd.		2013	2012
	2013	2012	2013	2012	2013	2012
	€	€	€	€	€	€
Income						
Interest on members' loans	1,600,000	1,500,000	1,000,000	2,000,000	2,600,000	3,500,000
Members' deposit and other interest, expense and similar charges	(40,000)	(10,000)	(32,804)	(33,000)	(72,804)	(43,000)
Other interest income and similar income	400,000	500,000	986,093	900,000	1,386,093	1,400,000
Net interest income	1,960,000	1,990,000	1,953,289	2,867,000	3,913,289	4,857,000
Other income	5,000	15,000	30,807	10,000	35,807	25,000
Total Income	1,965,000	2,005,000	1,984,096	2,877,000	3,949,096	4,882,000
Expenditure						
Salaries	650,000	1,000,000	660,000	500,000	1,310,000	1,500,000
Other management expenses	1,059,000	1,200,000	990,533	1,500,000	2,049,533	2,700,000
Losses on investments	0	0	0		0	0
Depreciation	100,000	100,000	124,682	100,000	224,682	200,000
Bad debts written off	200,000	205,000	268,400	120,000	468,400	325,000
Bad debts recovered	(50,000)	(600,000)	(50,000)	(400,000)	(100,000)	(1,000,000)
Total Expenditure	1,959,000	1,905,000	1,993,615	1,820,000	3,952,615	3,725,000
(Deficit)/Surplus for the year	6,000	100,000	(9,519)	1,057,000	(3,519)	1,157,000
Add:						
Undistributed surplus at 1 October	2,420,000	2,400,000	250,000	0	2,670,000	2,400,000
Less:						
Dividend paid	(19,400)	(70,000)	(170,481)	(701,300)	(189,881)	(771,300)
Total	2,406,600	2,430,000	70,000	355,700	2,476,600	2,785,700
Less:						
Transfer to statutory reserve	(600)	(10,000)		(105,700)	(600)	(115,700)
Surplus/(Deficit) at 30 September	2,406,000	2,420,000	70,000	250,000	2,476,000	2,670,000



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Appendix 1c

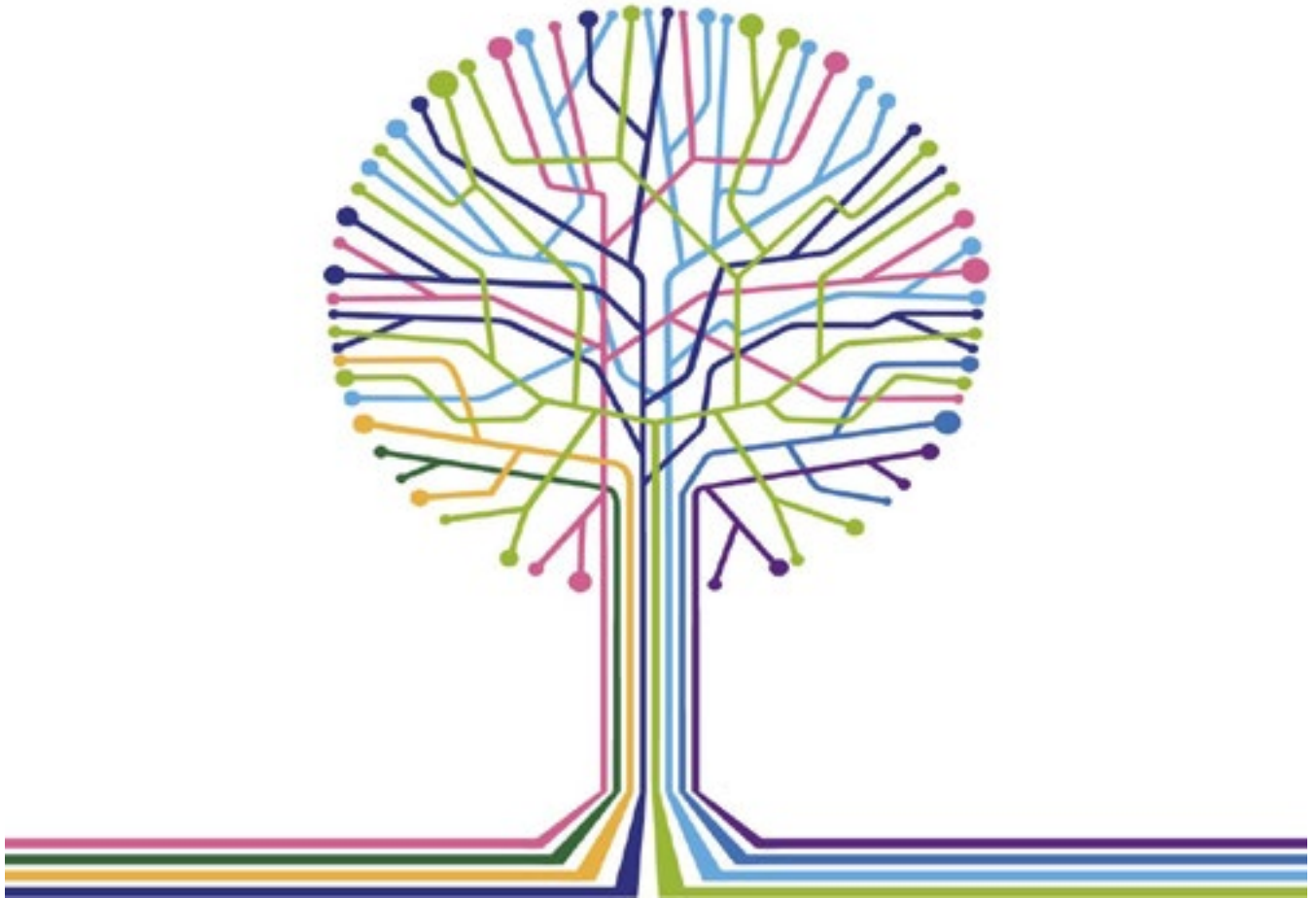
	Balance Sheet					
	Individual Credit Unions Pre-Merger				Merged Results	
	Y Ltd.		Y2 Ltd.		Y & Y2 Ltd.	
	2013	2012	2013	2012	2013	2012
	€	€	€	€	€	€
Assets						
Cash on hand and at bank	650,000	700,000	501,000	600,000	1,151,000	1,300,000
Deposits and investments	36,500,000	34,850,000	36,650,000	35,000,000	73,150,000	69,850,000
Loans to members	17,200,000	18,810,000	16,000,000	19,000,000	33,200,000	37,810,000
Less: Provision for bad and doubtful debts	(5,650,000)	(5,265,000)	(4,900,000)	(5,000,000)	(10,550,000)	(10,265,000)
Tangible fixed assets	1,650,000	1,486,000	1,900,000	1,600,000	3,550,000	3,086,000
Debtors, prepayments and accrued income	10,000	31,500	50,500	35,000	60,500	66,500
Total Assets	50,360,000	50,612,500	50,201,500	51,235,000	100,561,500	101,847,500
Liabilities						
Member shares	43,849,400	44,113,500	43,001,500	43,858,000	86,850,900	87,971,500
Members' deposit accounts	62,000	15,500	10,000	12,000	72,000	27,500
Other liabilities, creditors, accruals and charges	41,000	62,500	20,000	15,000	61,000	77,500
Total Liabilities	43,952,400	44,191,500	43,031,500	43,885,000	86,983,900	88,076,500
Net Worth	6,407,600	6,421,000	7,170,000	7,350,000	13,577,600	13,771,000
Represented by:						
Reserves						
Statutory reserve	4,000,600	4,000,000	7,000,000	7,000,000	11,000,600	11,000,000
Total Regulatory Reserve	4,000,600	4,000,000	7,000,000	7,000,000	11,000,600	11,000,000
Other reserves						
Realised	2,406,000	2,420,000	70,000	250,000	2,476,000	2,670,000
Unrealised	1,000	1,000	100,000	100,000	101,000	101,000
Total Reserves	6,407,600	6,421,000	7,170,000	7,350,000	13,577,600	13,771,000

Movement on Reserves after Transfer of Engagements				
	Balance 1/10/12	Arising on transfer of engagement	Movement for the current period	Balance 30/9/13
Statutory reserve	7,000,000	4,000,000	600	11,000,600
Realised:				
Undistributed (deficit)/surplus	2,670,000		(194,000)	2,476,000
	2,670,000		(194,000)	2,476,000
Unrealised:				
Revaluation reserve	101,000			101,000
Total other reserves	2,771,000		(194,000)	2,577,000
Additional reserve on transfer of engagement	4,000,000	(4,000,000)		
Total Reserves	13,771,000		(193,400)	13,577,600

Appendices

Appendix VII – ReBo Guidance Notes

(ii) Communications Planning



Guidance Note for Credit Unions on Communications Planning and Delivery

November 2014



Appendices Appendix VII – ReBo Guidance Notes

(ii) Communications Planning *continued*



The Credit Union Restructuring Board
An Bord Athchóiriú Comhar Creidmheasa

Introduction

Communication is key to the credit union merger process. In addition to keeping stakeholders informed, clear and timely communication assists in overcoming the fears and concerns that are naturally raised by change and avoiding misunderstanding and unnecessary delay. It is imperative that you develop a communication plan in conjunction with your merger plan. See [Appendix 1](#).

Communication planning involves identifying which people need what information, when the information is needed, and how the information is communicated.

Who, What, When and How?

Who – Develop a stakeholder register. Each credit union should create this register and include at a minimum the following 4 key stakeholders:

1. Members
2. Employees
3. Board
4. Partnering credit union(s)

A more comprehensive list of stakeholders along with a sample stakeholder register is included in [Appendix 2](#).

What - Highlight the challenges facing credit unions, why mergers are being considered, the benefits of a merger, what is expected to stay the same, what is likely to change? This is generic content. A set of frequently asked questions, FAQs is one of the most useful tools at your disposal during this process and we strongly recommend you develop a set. See [Appendix 3](#).

Bear in mind each stakeholder will have different needs. For example staff may be less interested in the macro-economic issues that have driven this merger activity and more interested in their own job security. For advice on employee communications go to: www.rebo.ie/restructuring/rebo-hr-guidance-note. Therefore alongside the generic communication should be stakeholder specific content.

The guiding principles of effective communication are contained in [Appendix 4](#).



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When - It is important that all stakeholders are kept up to date. Proactive communications allow you to control the process and the message. Give concise and frequent communications to all stakeholders. If there has been no progress since your last communication then tell your stakeholder this, and you will avoid information gaps being filled by rumours. Suppliers - Review all third party supplier contracts to identify required notice period (if necessary) and then plan your communication schedule.

A merger is a sensitive subject. Regardless of the potential advantages, certain stakeholders may view a merger quite differently to the Board. We advise that details regarding the merger such as proposed partners, timelines etc. are inappropriate content until at least the High Level Business Case or Due Diligence Phase 1 has been completed. You will then be able to communicate with clarity, confidence and enthusiasm regarding the future. Prior to these stages being completed, it is recommended to use generic content on why credit unions are considering mergers.

Note: If you use your AGM to commence the communication process and deliver the message on merger activity to members, then it is extremely important that you do not name the credit union(s) you are in merger talks with without their prior explicit consent. It is also important that all credit unions involved in merger talks with you take a similar approach.

How - Maximise face-to-face opportunities with Board, committees and staff. AGMs are face-to-face opportunities with members. Where face-to-face is not possible or appropriate use the distribution channel(s) appropriate to the message content and the relevant stakeholder, (email/post/social media/local media/phone/information leaflet or booklet).

The **over-the-counter channel** is extremely important and your staff should be briefed on what questions to expect.

Appendices Appendix VII – ReBo Guidance Notes

(ii) Communications Planning *continued*



The Credit Union Restructuring Board
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Plan for the unexpected

Planning for unknown communications events:

- Have your generic content in place;
- Have a stakeholder register in place;
- Know how you are going to communicate - your distribution channel;
- Have your process agreed with the Board;
- Have a designated spokesperson for the merger project from each credit union before the merger goes ahead, and also a main spokesperson for when the merger does go ahead as it is likely that they will have to do interviews etc.

The management of communications (urgent or planned) will run effectively when the above are in place. However if you anticipate any issues in relation to communications around the merger you should discuss them with ReBo at the earliest opportunity. It may be necessary in some cases to consider getting some external PR advice.

Merger Information Meeting

If your credit union decides to have a merger information meeting for members, you should ensure that:

- All board members are aware of the structure of the meeting and stick to same;
- Potential questions have been identified and answers prepared;
- Members who understand the merger process are in attendance. You could also get external speakers from credit unions who have gone through the process.

If communications are well planned, clear and delivered appropriately they will assist in building trust, reducing uncertainty, developing a shared vision, and overcoming resistance to change.

These advices are in no way intended to limit or restrict your autonomy but are based on both international and domestic experience of how to avoid communication pitfalls. Should you have any queries regarding this guidance note or require further information contact one the members of the ReBo team.



Appendix 1

Develop a plan based on the information needs of your stakeholders.

A communications Management Plan contains:

- Persons or groups who will receive information – stakeholders;
- Content – what is to be communicated;
- Reasons for the distribution of information;
- Schedule and frequency of communications;
- Person(s) responsible for communication;
- Person(s) who authorize communications;
- Method or media through which communications are made;
- Limits on communications – constraints being schedule, content or budget.

An example of a communications plan Activity Template for Suppliers might look as follows:

Merger Communications Activity Plan			
	Dec '14	Jan '15	Feb '15
Identify all Stakeholders	*		
Create Stakeholder Register	*		
Suppliers			
Create content	*		
Agree content with partner(s) credit union	*		
Develop and agree communications schedule		*	
Authorise content, schedule, media		*	
Deliver communications			*
Follow up face-to-face where necessary			*

It is imperative that you integrate the communications plan with your merger plan.

Appendices Appendix VII – ReBo Guidance Notes

(ii) Communications Planning *continued*



The Credit Union Restructuring Board
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Appendix 2

Sample Stakeholder Register

Name of Stakeholder	Contact Information	Role in Project	Type of Stakeholder	Potential Impact	Type of Communication	Expectations	Influence
Joe Bloggs	Phone Email Address	IT Supplier	Responsible for key deliverable	High	Phone and Email	Regular, proactive communication	Low to medium

Stakeholder List (Not Exhaustive)

1. Credit Union Board
2. Project Steering Committee
3. Employees
4. Members
5. Partnering Credit Union(s) Board and/or Manager
6. ILCU/CUDA
7. Central Bank
8. ReBo
9. Accountant/Auditors/Internal Audit
10. Employer Body (e.g. IBEC/SFA/ISME)/Unions (e.g. SIPTU)
11. Investment Advisors
12. Landlords of CU rented premises
13. Pensions Partner
14. Retail Banking – Deposit Bank
15. Phone/mobile phone supplier
16. Insurance Underwriters/Brokers (CU Scheme e.g. Death Benefit Insurance and any Insurance referral agreements)
17. IT Service Providers and other 3rd party suppliers
18. Community Development Schemes (e.g. any sponsorship or scholarship agreements)



Appendix 3

Frequently Asked Questions (FAQs)

It is our experience to date that FAQs are generally based around 4 core topics:

1. Benefits - Why are the Board considering a merger?
2. Finances - Are my savings safe, will my loan interest go up or down, and will my dividend go up or down?
3. Staff - Is my job secure?
4. Location and Opening Hours - Will this office be closing?

These questions are expanded in more detail below and time should be taken developing these answers, ensuring that consistent answers are being given. This is called controlling your communications. You should also contact the ReBo office if you are looking for guidance on certain issues.

1. Why was this particular credit union selected as the merger partner?
2. Is the credit union in financial difficulty?
3. Who is making this decision?
4. Will I have to do anything?
5. Are members' savings safe?
6. Will the credit union office remain open/will opening hours be reduced?
7. Will the credit union be stronger after the merger?
8. Will I have to travel to another office after the merger?
9. Will anything change?
10. Will the same people still be handling my accounts?
11. Is my job secure?
12. Will the cost of my loan go up or down?
13. Will my dividend go up or down?
14. Will I still be supplying my services to you post-merger?
15. If we get bigger will we become more like a bank, lose that local feel?
16. Will the credit union still be owned by members?
17. Will the credit union name change?
18. What are the benefits for members?

Appendices Appendix VII – ReBo Guidance Notes

(ii) Communications Planning *continued*



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19. Will the credit union continue to support the local community following the merger?
20. When will the merger take place?
21. How will the merger affect me personally?
22. Will jobs be lost?
23. Who can I contact for further information?
24. Where will the AGM be held?

Appendix 4

Guiding Principles of Effective Communication

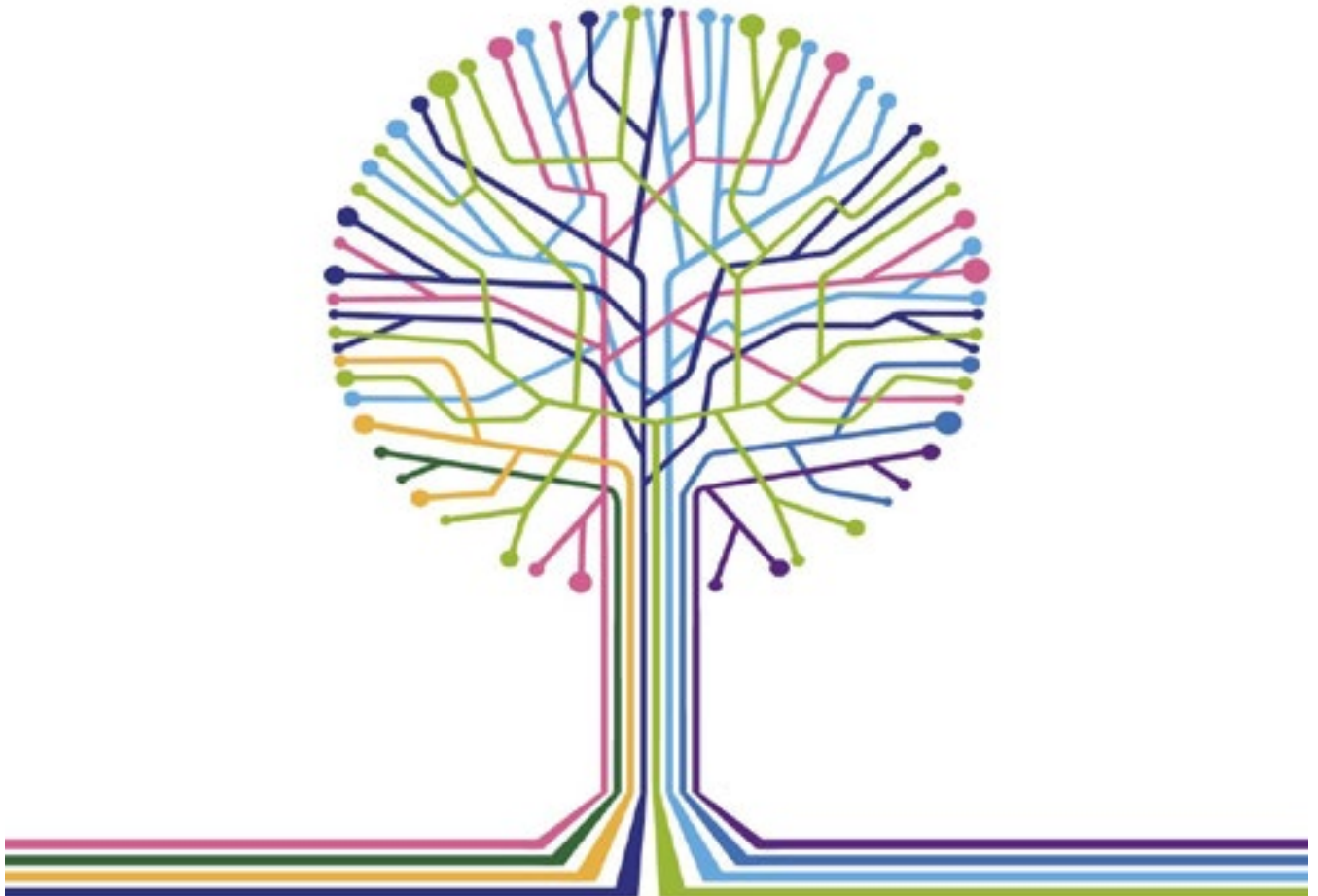
- Deliver clear, consistent and unified messages. Regardless of the audience or media, the same fundamental message is given;
- Show leadership and control through all communications;
- Give early/proactive, concise and frequent communications to all employees. This avoids information gaps being filled by rumours and will ensure engagement;
- Give advance notice to leaders/influencers where possible;
- Maximise face-to-face interaction with Board, committees, employees and members;
- Communicate timelines when available;
- Address rumours/grapevine ASAP. Listen and be seen to act on feedback;

Each stakeholder will need to be clear on ‘what is in it for them’! Therefore your communications plan and content must be stakeholder centric. Control communications throughout the entire project.

Appendices

Appendix VII – ReBo Guidance Notes

(iii) HR



HR Guidance Note

Typical HR Considerations Within a Merger Process



Appendices Appendix VII – ReBo Guidance Notes

(iii) HR *continued*



The Credit Union Restructuring Board
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Introduction

A transfer of engagements or merger process is one which involves making alterations to the employment relationship and therefore it is an activity which could potentially give rise to litigation under various parts of employment legislation. The following is a basic guidance note on typical HR issues and should not be viewed as legal advice. Therefore it is strongly recommended that you seek legal and/or HR advice pertaining to your particular circumstances before addressing any of the issues contained herein.

What is the employment law context for mergers?

- The relevant legislation in a transfer of undertakings/engagements situation such as this is the European Council Directive 2001/23/EC, introduced into Ireland as the European Communities (Protection of Employees on Transfer of Undertakings) Regulations SI 131/2003 (often referred to as TUPE).
- For more information on TUPE legislation see Appendix A

What protection do staff have in a credit union merger?

- Employees of a business being transferred move to the new employer with their accrued years of service, existing terms and conditions of employment and collective agreements to which they may already be subject (excluding occupational pensions).
- The new employer must continue to observe the terms and conditions of employment of the transferred employees (contractual, implied and by way of custom and practice) and of any collective agreement in place until it expires or is replaced by agreement.
- The new employer is under no obligation to provide a new or similar occupational pension benefit to employees who have transferred to the new business, however, the new employer must ensure that any scheme in place is properly maintained in order to protect any accrued entitlement.
- Dismissal of an employee by reason of a transfer/merger is prohibited.
- Staff have a minimum legal right to be informed and consulted with through their representative at least 30 days in advance of the merger transfer date.



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- The original employer and new employer must inform the staff representatives of the implications of the merger to include:
 - Date of the proposed transfer & reason for the transfer
 - Legal implications (both social and economic implications which may arise as a result of the merger)
- Where there is no staff representative, staff should be advised to appoint one and if they chose not to do this, the employers concerned must communicate with staff in writing.

What is HR due diligence?

- Prior to the merger, credit unions will be required to conduct HR due diligence, to review the differences between the contractual arrangements (contracts, policies, custom & practice) within the credit unions involved in the merger. This will include gathering data from personnel files, payroll, staff policies, disciplinary and attendance records, leave entitlements. It will also highlight any potential employment claims or liabilities in this area.

How do you align staff terms and conditions between two credit unions?

- The TUPE legislation protects the terms and conditions of staff involved in a merger, to ensure that staff carry all of their existing terms and conditions (both written, implied, custom and practice) to the new merged entity (with the exception of their pension entitlement).
- Therefore alignment of terms and conditions can only occur if staff consent to change their terms and conditions.
- The HR due diligence will identify the differences between the contractual arrangements in place between the credit unions involved and this will allow the credit unions involved to identify where there is alignment and divergence. Given the possible legal challenges associated with changes to a contract it is highly advisable to get legal advice in advance of any changes to the terms and conditions of employment of staff involved in mergers.
- If there are no significant differences between the terms and conditions, then it would be possible to update and strengthen the contracts of employment for all staff in line with changes in legislation, case law and best practice.

Appendices Appendix VII – ReBo Guidance Notes

(iii) HR *continued*



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How do you manage a redundancy program pre or post-merger?

- Ordinarily, the dismissal of an employee by reason of a transfer is prohibited.
- Before a credit union decides to conduct a redundancy program, it should review all possible alternatives to redundancies (see next section).
- Once the credit unions have merged, effectively all staff involved are employed under the transferee credit union, with no break in their continuation of service from when they were originally employed by the transferor credit union.
- Therefore if the merged entity want to conduct a voluntary/compulsory redundancy program, after the merger is complete, all staff (from both the transferee and transferor credit unions) will have to be treated equally and assessed against explicit objective criteria. A redundancy can occur under the three normal grounds for redundancy as follows:
 - Economic (for example due to deterioration of financial position/ to reduce costs)
 - Technical (for example due to changes in the technical/qualification profile of staff required)
 - Organisational (for example when a credit union has changed the overall organisational structure)
- The liability for all costs associated with redundancy or any potential legal challenge rests with the transferee credit union.
- Case law illustrates that there must be clear, factual evidence of economic, technical or organisational reason for the redundancies post transfer and the selection criteria must be identified and examined for fairness and objectivity at the outset of the process. This is a complex process and requires careful planning and specialist advice.
- For more information on Redundancy Legislation see Appendix B

What alternatives to redundancy can be considered?

- Before a credit union decides to conduct a redundancy program, it should review all possible opportunities for alternatives to redundancy within the merged organisation.
- Alternatives may include redeployment, early retirements, reduced working hours, wages or other non-pay cuts, job share etc.



When should a new organisational structure be designed?

- As with most mergers one of the most important strategic considerations is how to create an effective structure post-merger. This is something which needs to be considered early on in the process, as all stakeholders will need to be able to visualise the new organisational structure post-merger. In order to do this the credit unions involved will have to complete an organisational review which will assess all aspects of the workforce to identify the skills and competencies within the organisation. This is with the view to designing a new organisational structure, which will avoid duplication where possible and redeploy skills where necessary as well as having a greater level of specialisation of functions. The competencies and capabilities of the management team within the credit unions involved will be reviewed and their possible roles in the context of a more comprehensive and complex organisation, post-merger, will be assessed.

How and when do you appoint a new management team?

- Some credit unions may appoint a new management team from within the existing complement of staffing (from all credit unions involved) through an internal recruitment process. Alternatively the credit unions involved may wish to advertise the positions externally and allow both internal and external staff to apply for the positions.
- The appointment of the new management team will follow decisions in respect of organisational design of the new entity, definition of roles and responsibilities and approval by the boards and the merger sub-committees.
- In any event, all staff should be allowed to apply for any vacancy including a CEO position if they feel they meet the criteria for selection.
- This process could run parallel with a redundancy programme such that those affected may elect to take redundancy package or redeployment instead of competing for management positions in the new entity.

What communications need to be considered?

- Communications with all the stakeholders is key to an effective and smooth merger process. Credit Unions may need to get external PR advice in relation to the most

Appendices Appendix VII – ReBo Guidance Notes

(iii) HR *continued*



The Credit Union Restructuring Board
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effective way to communicate the merger to all stakeholders; this is something which should be considered early on in the process.

When should staff be informed about the merger?

- It is extremely important to communicate effectively with staff during a merger process as they are one of your most important stakeholders. However the timing of the initial communication to staff is a critical aspect of this. Given that credit unions are financial institutions, there is a need to reconcile the protection of sensitive information with the need to inform staff. When staff are informed, they should be requested to sign a confidentiality clause to formally reinforce the need for staff to remain very confidential with all information relating to a potential merger. It is also important that when informing staff you are at a stage in the process that allows you to be confident that the merger will go ahead.
- Credit unions may need to get external advice in relation to the most effective way to communicate the merger to all stakeholders, this is something which should be considered early on in the process.

What should be considered when communicating with staff?

- As part of the communication strategy, it will be necessary to identify when and what the staff are told and it will also be necessary to ensure that all of the employees are hearing the same thing at the same time (within all of the credit unions involved).
- When communicating with staff it is vital that there is a clear vision for the merged credit union, as staff will have a lot of questions which will need to be answered, otherwise they may be anxious, resistant to change and react negatively to the proposed merger.
- Once staff are informed they will need to get a strong sense that there is a clear road map for the entire merger process and also the new merged entity. The follow on engagement process with staff should be outlined at this stage, including the arrangements for individual staff to discuss the changes with management and to raise any queries or concerns they may have. It will be important, where possible, to guarantee the security of jobs in so far as is reasonably possible (for example



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clarification could be given to staff that any reductions in staffing will come about as a result of a voluntary redundancy program).

- Staff should be given a timeline of each of the phases within the merger process and each time one of these phases are complete it should be marked in some way with staff. This helps staff move through the psychological stages (shock/retreat/self-doubt/apathy/resolve/taking stock/moving forward) associated with the change process and they may be more adaptable to the changes involved as a result.
- It is also important that there is a manager/director designated to answering all staff queries in each credit union during and after the merger (preferably someone who is part of the merger steering committee). Any staff queries/grievances which arise need to be addressed very quickly so that they do not escalate into bigger issues which would have a negative impact on staff morale.
- All credit unions should have weekly meetings throughout the merger process, this will provide a forum for discussion and updates on the process and keep communication channels open.

How do you handle staff who are resisting the proposed merger?

- The key to handling most resistance is direct communication with the employee. It is important to understand their concerns and the causes of the resistance. Quite often the resistance is simply due to their fear of the unknown.
- The employee cannot insist on continuing to work with the transferor credit union as it will effectively cease to exist. However, it is important to note that an employee cannot be forced to work for the new transferee credit union.
- Where an employee refuses to transfer, no liability ensues for the transferee credit union (except where the employee sues for constructive dismissal). It is critical therefore to get legal advice if a situation like this does occur.

How do you integrate the teams and processes between the credit unions?

- It will be necessary to integrate the various credit union teams in advance of the merger going ahead. It would be advisable to consider having a team building/brainstorming session with all staff where ideas can be shared and team building activities would allow

Appendices Appendix VII – ReBo Guidance Notes

(iii) HR *continued*



The Credit Union Restructuring Board
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staff to build rapport among one another and become more at ease with the changes associated with the merger.

- It is also important to start aligning the values and culture that will underpin the new merged entity and for example the development of a member service charter is one good starting point to achieve a shared culture for the merged credit unions.
- It will also be necessary to provide training to staff on processes so that all employees are working to the same standard operating procedures and that there is consistency within the merged entity. A clear training plan will have to be outlined within the implementation plan for the merger to achieve operational readiness. It will be necessary to get buy in from staff and a commitment to align employee's performance requirements with that of the overall business strategy. The business strategy will have been set out in a comprehensive manner when completing the detailed business plan. It may be necessary to get external expertise on how best to transpose the strategy into individual and team deliverables.



Appendix A

Summary of Transfer of Undertakings Legislation - TUPE

- The Protection of Employees on Transfer of Undertakings Regulations are designed to safeguard employees' rights in the event of a transfer/merger and to establish the responsibilities of both the previous and new owners of the business.

The key relevant legislation in Ireland includes:

- European Council Directive 2001/23/EC, introduced into Ireland as the European Communities (Protection of Employees on Transfer of Undertakings) Regulations SI 131/2003 Employees (Provision of Information and Consultation) Act, 2006.

Summary of general scope of the legislation

- In general, the Protection of Employees on Transfer of Undertaking Regulations applies to any person working under a contract of employment, including apprenticeship or if employed through an employment agency. Employees in these situations have the following protection:
 - The conditions of employment and contracts of employment of individual employees involved in a transfer are protected and, ordinarily, the dismissal of an employee by reason of a transfer of undertakings is prohibited.
 - Employees of a business being transferred should move to the new employer with their accrued years of service, existing terms and conditions of employment and collective agreements to which they may already be subject (excluding occupational pensions).
 - The new employer must continue to observe the terms and conditions of any collective agreement in place until it expires or is replaced.
- However the new employer is under no obligation to provide a new or similar occupational pension benefit to employees who have transferred to the new business, however the new employer must ensure that any scheme in place is properly maintained/administered in order to protect any accrued entitlement.
- In summary the new employer inherits employees and associated employee liabilities incurred by the old employer on date of transfer.

Appendices Appendix VII – ReBo Guidance Notes

(iii) HR *continued*



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Transfer of Undertakings - Definition

- A transfer of undertakings occurs when a business, or part of a business, is taken over by another employer as a result of a merger or transfer.
- For a transfer of undertaking to take place:
 - There must be a change in the person (either an individual or a company) responsible for running the undertaking/business
 - The previous economic activity of the undertaking/business must be carried on by the new employer
 - The undertaking/business must be transferred as a “going concern”.
- A transfer under the (Protection of Employees on Transfer of Undertakings) Regulations does not occur in the case of a compulsory liquidation, or insolvency of the undertaking/business.
- However, if the sole or main reason for the institution of bankruptcy or insolvency proceedings is the evasion of an employer’s legal obligations under the Transfer Regulations, then the (Protection of Employees on Transfer of Undertakings) Regulations apply to a transfer affected by that employer.

Employee Consultation and Transfers

- The Employees (Provision of Information and Consultation) Act 2006 provides a general right to information and consultation for employees from their employer on matters which directly affect, them such as a transfer or merger.
- Both the original employer and the new employer must inform the representatives (union or chosen representative) as soon as is practicable and not less than 30 days before the transfer, and the information should include:
 - The date, or proposed date, of the transfer;
 - The reasons for the transfer;
 - The legal implications of the transfer for the employees and a summary of any relevant economic and social implications of the transfer for them, and any measures envisaged in relation to the employees.
- Where there are no employee representatives, the employers must arrange for the employees to choose (including by means of an election) representatives for this purpose.



- However if the transfer involves collective redundancies (i.e. over five staff being made redundant within a 30 days period) then the requirement to communicate and consult with staff increases to 45 days before date of transfer.
- The consultation obligations apply whether the decision resulting in the transfer is taken by the employer or another undertaking controlling the employer. The fact that the information concerned was not provided to the employer by the controlling undertaking will not release the employer from those obligations.

Dismissal as a result of a Transfer of Undertakings

- The transfer of an undertaking, business or part of a business does not constitute grounds for dismissal.
- However, there is nothing in the Protection of Employees on Transfer of Undertaking Regulations that prohibits dismissals if the employer can show justification for such dismissals under the normal ground for redundancy i.e. economic, technical or organisational reasons involving changes in the work-force. The liability for all costs associated with redundancy or any potential legal challenge rests with the new employer. However, a company must have clear, objective grounds for dismissals in these circumstances.
- Termination of employment arising out of changes to working conditions to the detriment of the employee is regarded as the responsibility of the employer imposing the changes and would be considered to be a possible constructive dismissal.
- Where an employee refuses to transfer, no liability ensues for the new employer, except where an employee sues for constructive dismissal.
- Any employee who transfers to the new business/undertaking and is subsequently dismissed must have all entitlements calculated on continuous service with both the old and new employer.
- If a dismissal results solely from a transfer of undertaking, and the employee considers it to be unfair, they may refer a complaint under the Unfair Dismissals Act 1977 to 2001 (if they have 12 months continuous service and can receive compensation of up to two years' salary if successful) or under the Transfer of Undertakings Regulations, 2003 (whether or not they have 12 months continuous service and can receive compensation of up to 4 weeks' pay if successful).

Appendices Appendix VII – ReBo Guidance Notes

(iii) HR *continued*



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Appendix B

Summary of Redundancy Legislation

The Redundancy Payments Acts, 1967 to 2007 (the “Redundancy Acts”) is the most relevant piece of legislation in relation to redundancy matters. A “redundancy” situation is defined as occurring when there is a dismissal of an employee by an employer, not related to the employee concerned, and the dismissal results “wholly or mainly” from one of the following situations:

- a) Where an employer has ceased, or intends to cease, to carry on the business for the purposes for which the employee was employed by him, or has ceased or intends to cease to carry on that business in the place where the employee was so employed; or
 - b) Where the requirements of that business for an employee to carry out work of a particular kind in the place where he was so employed have ceased or diminished or are expected to cease or diminish; or
 - c) Where the employer has decided to carry on the business with fewer or no employees whether by requiring the work for which the employee had been employed (or had been doing before his dismissal) to be done by other employers or otherwise; or
 - d) Where an employer has decided that the work for which the employee has been employed (or had been doing before his dismissal), should henceforth be done in a different manner for which the employee is not sufficiently qualified or trained; or
 - e) Where an employer has decided that the work for which the employee has been employed (or had been doing before his dismissal) should henceforth be done by a person who is also capable of doing other work for which the employee is not sufficiently qualified or trained
- A redundancy can occur for a wide variety of terminations of employment. Business closures, restructurings and a change of job requirements are three examples of where a redundancy can occur.

Disentitlement to Redundancy

- There must be a dismissal of an employee for the Redundancy Acts to apply. If the employee’s employment is either renewed or the employee is re-engaged by the same



employer under a new contract and essentially the terms and conditions do not differ greatly from the previous contract, there would be no dismissal. Similarly, if the employee is engaged by another employer immediately on the termination of the previous employment on the same terms and conditions, there will be no dismissal. There must be agreement between the employee, the previous employer and the new employer for this to apply and the employee's continuity of service will be carried over into the new employment.

- In situations where an employer is considering redundancies, consideration must first be given to alternative employment within the organisation for employees who would otherwise be made redundant. If the employee is offered alternative employment on a different contract at the same location and the same or improved terms and conditions to come into effect on or before the day of the proposed redundancy and the offer is unreasonably rejected the employee shall not be entitled to a redundancy payment.
- It is important to state that if the employee contract has a clause to allow for relocation, it may be possible to relocate employees to a different location, without it being considered a changed to terms and conditions. Furthermore it is possible to move employee's to a different work location (without a contract clause) if that location is within a reasonable distance from the original work location.

Redundancy Payments

- There are essentially two types of redundancy payments, statutory redundancy payments and ex-gratia redundancy payments. Statutory redundancy payments are payments to which employees who satisfy certain criteria are legally entitled. Exgratia redundancy payments are additional discretionary payments to employees over and above their statutory entitlements.
- There are certain conditions that an employee must fulfil before being entitled to a statutory redundancy payment.
 - The employee must work or have worked under a contract of service
 - The employee must be over 16 years of age;
 - The employee must have been continuously employed for 104 weeks; and
 - The employee must have been dismissed within the statutory definition of redundancy

Appendices Appendix VII – ReBo Guidance Notes

(iii) HR *continued*



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- An employee who fulfils the above conditions, and who has been dismissed by reason of redundancy, is entitled to a statutory redundancy payment, calculated as follows:
 - Two weeks' normal remuneration for each year of continuous and reckonable service over 16 years of age; plus
 - Additional equivalent of one week's normal weekly remuneration.

*Normal weekly wage is derived by averaging the employee's weekly wage over a 26 week period and includes overtime, commission and bonuses. The amount of statutory redundancy is subject to a maximum earnings limit of €600 per week. The employer rebate available for redundancies was abolished in 2013, therefore there is no state financial assistance for redundancy payments.

- Whilst there is no legal obligation to make payments to staff in excess of the statutory provision, many employers chose to do so, these payments are referred to as ex-gratia payments.

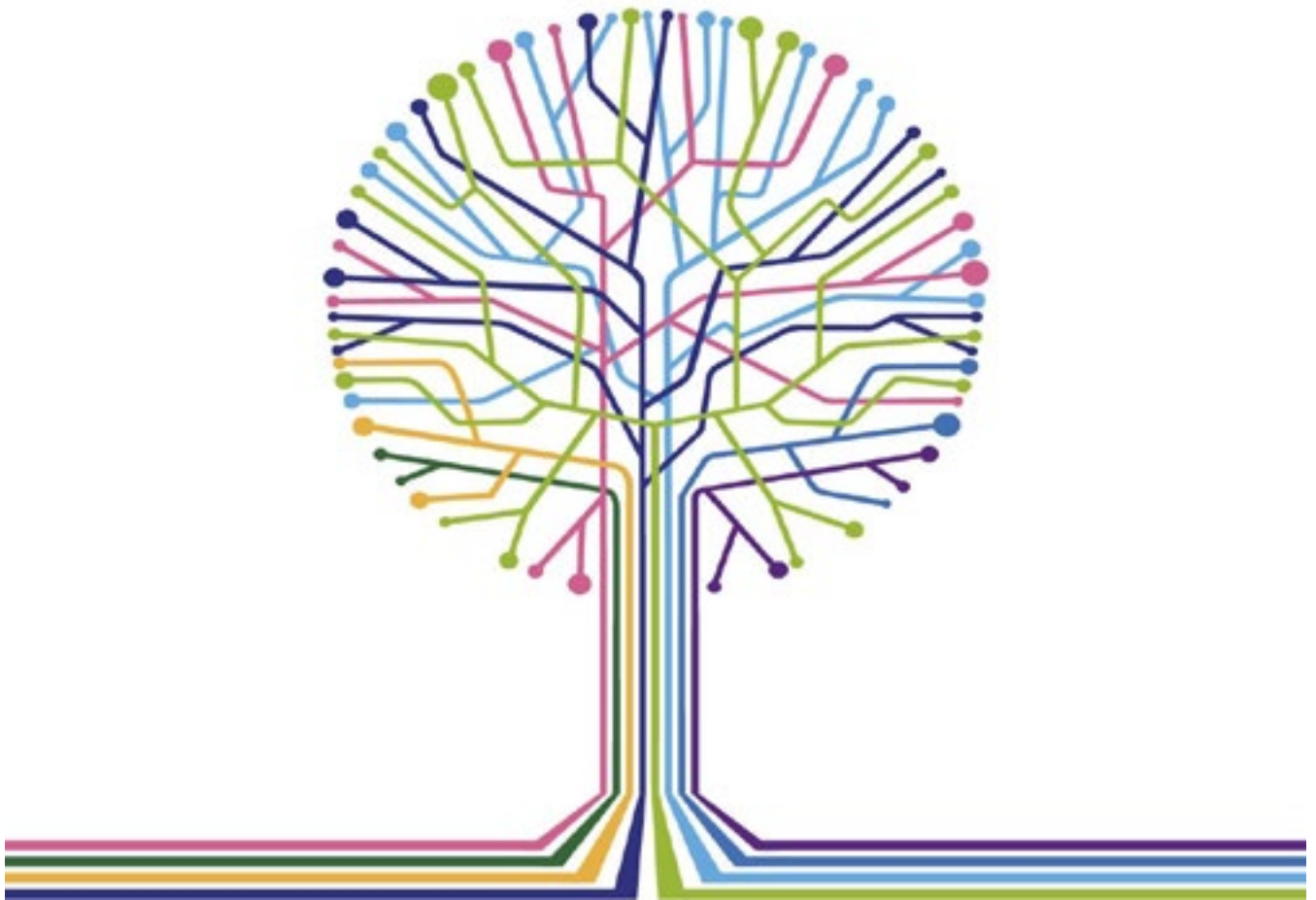
Minimum Notice and Redundancies

- A redundancy situation does not reduce or limit any statutory or other employment rights an employee may have. Employees remain entitled to either their contractual termination notice or minimum notice laid down by the Minimum Notice and Terms of Employment Acts 1973 - 2001. These minimum periods of notice apply if there is no notice provision in an employee's contract of employment or if the contractual notice is less than the statutory minimum. The relevant periods of notice are as follows:
 - 13 weeks to 2 years' service - 1 week
 - 2 to 5 years' service - 2 weeks
 - 5 to 10 years' service - 4 weeks
 - 10 to 15 years' service - 6 weeks
 - 15 or more years' service - 8 weeks

Appendices

Appendix VII – ReBo Guidance Notes

(iv) Legal



Legal Guidance Note



Appendices Appendix VII – ReBo Guidance Notes
(iv) Legal *continued*



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Provisos:

This Guidance Note is for information purposes only. It does not purport to be, nor should it be construed as legal advice or legal interpretation. The boards of credit unions should obtain independent legal advice to fully satisfy themselves of their compliance with their fiduciary responsibilities and statutory, regulatory and other obligations.

This Guidance Note sets out the minimum level of investigation recommended to be conducted as part of legal due diligence in the restructuring process. It does not intend to be exhaustive and additional investigations may be prudent in any given case.

Background:

A core recommendation of the Report of the Commission on Credit Unions was that credit unions should be restructured on a voluntary, incentivised and time-bound basis with the guiding aims of protecting members' savings, securing the stability and viability of the sector at large and preserving the credit union identity and ethos. In order to achieve this the Credit Union Restructuring Board ("ReBo") was established as an independent body to facilitate and oversee the restructuring of the sector.

The legal aspects of restructuring are laid out in Part IX of the Credit Union Act 1997 as amended (hereinafter referred to as 'the Principal Act'). The legislation provides for two legal instruments by which credit union mergers can be effected, namely;

1. **Amalgamation;** this is where the registration of each of the participating credit unions is cancelled with all property, rights and liabilities transferred into a new 'successor' credit union.
2. **Transfer of Engagements;** this is where the registration of a credit union is cancelled with all property, rights and liabilities being transferred to another existing credit union.

For a combination of legal, accountancy and regulatory reasons, transfer of engagements has been the preferred options for credit unions restructuring in Ireland and so will be the focus of this paper. Where used, the term 'merger' is in the context of a transfer of engagements.

In a transfer of engagements the credit union that transfers to another is commonly referred to as a 'transferor' whereas the credit union taking in another is called a 'transferee'. These terms will be used throughout this Guidance Note.

Appendices Appendix VII – ReBo Guidance Notes

(iv) Legal *continued*



The Credit Union Restructuring Board
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Director's Duties:

“To set aside one’s prejudices, one’s present needs, and one’s own self-interest in making a decision as a director for a company is an intellectual exercise that takes constant practice.

In short, intellectual honesty is a journey and not a destination”

Mervyn King, King Report on Corporate Governance

In considering restructuring options, directors should at all times be mindful of their fiduciary responsibilities to the credit union. This is the obligation to act at all times in good faith and to the best of their abilities, making decisions that are solely in the best interests of the credit union as a whole.

In a restructuring context, this will require directors to satisfy themselves that a restructuring proposal is in the credit unions best interests. Careful consideration should be given to the choice of a merger partner and the ability to align the vision, culture and strategic aspirations of each credit union. Directors should also consider the operating principles of the credit union movement, with any restructuring proposal preserving the ethos of credit unions.

Throughout the restructuring process, directors will be required to review documentation or ‘*due diligence reports*’ that provide an in-depth analysis of the business affairs of merger partners. Directors will need to satisfy themselves as to the independence and adequacy of these reports and once satisfied, rely on the reports to assess the suitability of the merger partner. Any issue with the potential to cause loss or harm to the credit union should be highlighted and addressed.

Subject to the successful completion of due diligence, directors will also need to review a detailed business case supporting a proposed merger. On the basis of the business case, directors must be confident that the proposed merger will secure the long term sustainability of the credit union, protect member’s savings and the ability to access credit on an affordable and fair basis, preserving the ethos of the credit union movement. In many cases, directors should also be satisfied that a proposed merger will result in an enhanced service offering to members.

This Guidance Note will focus on the requirements of legal due diligence. Further information on other areas of due diligence and the restructuring process generally is available on www.rebo.ie



Choosing a Legal Due Diligence Provider:

Legal due diligence is a critical part of the restructuring proposal. By identifying and addressing areas of potential liability, member's savings are protected, the access to credit is maintained and boards can make an informed appraisal of the merits of a proposed merger.

Legal due diligence forms part of 'Phase 2 due diligence'. It is recommended that areas of significant financial risk be investigated in Phase 1 before proceeding and incurring the cost of Phase 2 investigations. More information regarding the various stages in the restructuring process are available in the ReBo Merger Process Handbook and at www.rebo.ie.

Legal due diligence is an 'eligible cost' and so credit unions engaging with ReBo in the development of a restructuring proposal may be entitled to financial assistance towards the cost, subject to terms and conditions set out by ReBo in advance.

In order to ensure value for money in identifying a legal due diligence provider, it is recommended that credit unions request tenders from a number of reputable firms, scoring the replies on areas such as;

1. Firms experience in legal due diligence
2. Firms experience with credit unions
3. Price
4. Estimated time for completion

In the interests of consistency, it is recommended that the same firm conducts the due diligence on each of the credit unions party to a restructuring proposal.

Legal due diligence is a specialised area of practice. Credit unions should satisfy themselves that the chosen provider will be competent and capable of delivering a report of sufficient quality to assist them in the consideration of a restructuring proposal and for submission to ReBo and the Central Bank.

A report deemed to be of a standard insufficient for the purposes of considering and assessing a restructuring proposal may need to be undertaken again. A board may also decide that they are uncomfortable relying on a report that is not suitably comprehensive. In such cases ReBo will generally be unable to contribute financially towards work that was not fit for purpose.

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(iv) Legal *continued*



The Credit Union Restructuring Board
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Scope of Legal Due Diligence:

The focus of legal due diligence will be on areas of risk that would be most immediately apparent to legal professionals. It will normally cover fixed assets, litigation, third party contracts and securitisation of loans. It may be prudent in any given circumstance for legal professionals to carry out investigations into other areas. This should be done in consultation with the credit unions.

Following all necessary investigations, a report should be prepared for the benefit of the boards of directors of the credit unions involved. This report should enable directors to easily assimilate every legal aspect of a restructuring proposal, providing comfort that areas of risk have been adequately identified and addressed.

Areas to be examined:

- 1. Fixed Assets & Real Property**
- 2. Litigation**
- 3. Third Party Contracts & Service Level Agreements**
- 4. Securitisation of Loans**
- 5. Investment Portfolio**
- 6. Human Resources**
- 7. Compliance**
- 8. Business Operations**
- 9. Any Other Investigation**

Generally, the areas numbered 1 – 4 above will form the basis of legal due diligence and will be addressed in the report. The summary below offers the investigations that would normally be made at an absolute minimum. Being cognisant of the nature, scale and complexity of the credit union undergoing due diligence, more detailed investigations may be prudent in any given circumstance. Conversely, in many small credit unions, secured lending may not feature and so will not be applicable.

The remaining areas listed may be covered in other due diligence reports, however, legal advisors should satisfy themselves that anything with the potential to cause loss or harm to the credit union has been investigated, highlighted and addressed.



Brief Summary of Investigations:

Fixed Assets & Real Property:

Investigations should identify all of the real property and other significant fixed assets of the credit unions, inspecting title to same. The legal due diligence provider may also be performing a conveyance or assignment of property post-merger and this should be agreed with the credit union in advance.

Upon confirmation of the merger, the transferee will undertake the engagements of the transferor, adopting all of the transferor's assets, rights and liabilities. As with any property transaction, legal professionals should take all reasonable care in confirming marketable title and identifying the potential for liability arising out of easements, charges and any other obligations.

Litigation:

Every legal action to which the credit union is party should be reviewed including recent, current, pending and threatened cases. Where the potential exists for financial loss to the credit union, in the first instance it should be investigated whether this may be mitigated by a valid insurance policy. Where no insurance is in place, adequate provision should be made to cover potential awards and costs.

Debt recovery cases should be listed including details as to the stage at which the file is, identifying any security or guarantee and the provision made against the loan.

Third Party Contracts and Service Level Agreements:

Every significant contract for services with a third party provider should be identified and listed including service level agreements. Particular attention should be paid to Section 76J of the 2012 Act. The terms should be examined and it should be confirmed that nothing precludes a merger of the credit union, that termination is possible and that the notice period for termination

Appendices Appendix VII – ReBo Guidance Notes

(iv) Legal *continued*



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is identified. Alternatively, it should be confirmed that it is possible to transfer the contract on merger without incurring a charge.

In some instances there may be long standing agreements in place for which there is no written contract. If it is intended to transfer the agreement on merger, it may be beneficial to implement a written contract.

Securitisation of Loans:

All loans for which the credit union holds a security should be identified and listed, highlighting those in arrears together with any provision or attached savings. Loan files should be inspected for necessary documentation including family home declarations and if a security is by way of charge over a family home this should also be highlighted. Folios should be inspected, ensuring that all charges are registered and any solicitor's undertakings have been fully discharged. Any burdens, easements or anything else affecting the quality of the security should also be highlighted. Loans guaranteed by private stabilisation funds should be highlighted together with any potential liability, contingent or otherwise.

In the interests of data protection, no member should be individually identified in any due diligence report. Where loans are listed, the name of the borrower, their address or any other personal information should not be disclosed. Generic information from which no individual can be identified, such as loan duration and purpose of loan may be listed.

Investment Portfolio:

This is normally addressed as part of financial due diligence, however, it should be investigated that the credit union is the full legal owner of all investments held and balances should be confirmed. The class of investment should also be listed together with maturity dates.

Human Resources:

In many cases an experienced HR advisor will be engaged to facilitate the merger and change management. More information in this regard is available in the HR Guidance Note available on www.rebo.ie



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Legal advisors may however be called upon to advise on areas such as employee contracts and issues relating to the transfer of pension benefits.

Compliance:

The credit unions' compliance with the requirements set out under Part IV of the Principle Act, together with any other regulations prescribed under that part should be confirmed. So too should be the existence of a compliance statement that is kept under constant review by the board of directors.

Beyond this, the directors should be aware of the credit unions compliance with the objectives set out in the strategic plan along with their mission statement and the ethos and operating principles of the credit union movement.

Business Operations:

Areas of business operations that may be investigated as part of the legal due diligence process include the transferability of intellectual property rights, updating agreements for new loans and ensuring that all products and loan rates are correctly notified. Key person insurance may be in place for senior officers.

Any Other Investigations

Anything with the potential to cause loss or harm to the credit union that has not already been covered should be investigated, highlighted and addressed.

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(iv) Legal *continued*



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Guidance on Common Legal Issues Which Arise During a Merger:

1. **When should Confidentiality Agreements be signed?**
2. **Does a merger require a vote of the members?**
3. **How are regulatory restrictions treated in a merger?**
4. **Can a credit union keep its name post-merger?**
5. **Can credit unions adopt a new name as part of the merger process?**
6. **How is the common bond treated in a merger?**
7. **How are employee pensions treated in a merger?**
8. **How are Board appointments made to the merged entity?**
9. **Which credit union will be the transferee and which will be the transferor?**
10. **Does stamp duty arise on the transfer of property as part of a credit union merger?**
11. **Can a dividend be paid to members where there is an outstanding AGM?**
12. **Can meeting notices be sent electronically?**

When should Confidentiality Agreements be signed?

Ideally Confidentiality Agreements should be signed in advance of initial discussions and before any confidential or commercially sensitive information is exchanged. The purpose of the agreement should be to protect a credit union from unauthorised disclosure of sensitive information or data.

Confidentiality Agreements do not empower credit unions to exchange personal data about members or staff. Directors should at all times be cognisant of the credit unions responsibilities under data protection legislation.

Confidentiality Agreements do not preclude credit unions from engaging with members and informing the public of a restructuring proposal where all credit unions party to the agreement are happy to do so. More information on member communication is available at www.rebo.ie

Does a merger require a vote of the members?

Subject to Section 129 of the Principal Act, a transfer of engagements may be effected by a special resolution of the members (requires at least a three quarters majority of members present and voting at a general meeting of the credit union). Alternatively, the board, as the



elected representatives of the members may with the consent of RCU resolve to proceed by way of board resolution. Boards of directors must first apply to the Registrar, in writing, to proceed via board resolution.

How are regulatory restrictions dealt with in the restructuring process?

Regulatory restrictions are a supervisory matter and guidance should be sought from the Registry of Credit Unions during the restructuring process as to what restrictions, if any, will be imposed on the transferee credit union post-merger. Generally the restrictions associated with the transferor credit union will cease to apply.

In accordance with Section 52 of the Principal Act, a restriction or direction imposed on a credit union under Section 87 is an ‘appealable decision’. As with all appealable decisions, the credit union may write to RCU requesting a statement of the reasons for the decision. Subject to certain exceptions, RCU must reply within 28 days setting out their findings on material questions of fact, their understanding of the applicable law and the reasoning process that led them to the conclusions they came to¹.

If a credit union disagrees with a regulatory restriction, they may have a right of appeal to the Irish Financial Services Appeals Tribunal.

Can a credit union keep its name post-merger?

Under Section 10 (7) of the Principal Act², a transferor credit union may keep its original name on the outside of its office. In effect, this will be a trading name.

However, it must also have the name of the transferee credit union painted or affixed in a conspicuous position and in easily legible writing on the outside of the office as this is now the registered name of the credit union.

Beyond the name displayed on the office, a credit union may not trade under any name other than the registered name. Letter heads must carry the registered name of the credit union and

¹ S57N Central Bank Act 1942 as inserted by S28 Central Bank and Financial Services Authority of Ireland Act 2003

² Inserted by the Credit Union and Co-operation with Overseas Regulators Act 2012

Appendices Appendix VII – ReBo Guidance Notes

(iv) Legal *continued*



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any contracts, such as lending agreements, must be executed in the registered name rather than a trading name.

Can credit unions adopt a new name as part of the merger process?

In some cases, credit unions may wish to adopt a new name post-merger reflecting the wider bond of membership to which the credit union is now open. Depending on the member communication strategy, it may be proposed that the name change will occur before or after the actual merger.

In either event, a change of registered name must be in accordance with Section 11 of the Principal Act and the rules of the credit union. The transferee credit union should be especially aware of the requirements for a change of registered name as it will be their registered name that the transferor will adopt upon the confirmation of the merger.

A change of registered name requires the approval of RCU prior to a resolution being put to the members at a general meeting.

Before approaching RCU, the credit unions should conduct relevant searches online, in the companies office, patents office and the Irish domain registry, obtaining independent legal advice that the choice of name is in compliance with legislation and would not give rise to a claim of ‘passing off’. This is a legal claim made where one company believes another is imitating it too closely.

How is the common bond treated in a merger?

In accordance with Section 129 (7) of the Principal Act³, when a transfer of engagements is confirmed and the registration of the transferor is cancelled, the common bond of the transferor is automatically combined with the common bond of the transferee without the need for an amendment of the rules of the transferee.

If the credit union wishes to further amend its common bond, for instance for the purposes of consolidation post-merger where there are gaps between areas covered by the credit union, this will require an amendment to the rules of the credit union. Amendments to the rules are subject to Section 14 of the Principal Act and require the support of at least two thirds of eligible members present and voting at a general meeting. If passed, a copy of the amendment must be



lodged with RCU who may register or refuse to register the amendment. Where RCU refuse to register an amendment to the rules, this is an appealable decision.

How are employee pensions treated in a merger?

The TUPE⁴ Regulations provide that all the rights and obligations of a transferor under an employee's contract of employment are automatically assumed by the transferee with the exception of benefits under occupational pension schemes relating to 'old age benefits'.

An employer may generally cease participation in an occupational pension scheme. However, if exiting a scheme forms part of a restructuring proposal, credit unions should take expert advice in order to identify any liability in respect of underfunded schemes and ensure that no future liability arises. Where a future liability does arise, this should be quantified and included in the balance sheet. This is a specialised area of practice and advice should be sought from a suitably experienced pension practitioner.

How are Board appointments made to the merged entity?

As part of restructuring negotiations, credit unions may agree the composition of the board post-merger so that there is representation from each of the credit unions involved. Section 53 of the Principal Act⁵ sets out the requirements in this regard.

To facilitate board appointments within the requirements for maximum board size, directors of the transferee credit union may need to resign in order to create casual vacancies. The board may then appoint directors under Section 53 (15) to fill the casual vacancies.

Any appointments will need to be in compliance with fitness and probity requirements in addition to any other regulatory or statutory requirements.

Which credit union will be the transferee and which will be the transferor?

Generally, the larger credit union will be the transferee and the smaller will be in transferor, there is no requirement for this however.

⁴ European Communities (Protection of Employees on Transfer of Undertakings) Regulations 2003

⁵ As amended by Section 15 of the 2012 Act

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(iv) Legal *continued*



The Credit Union Restructuring Board
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Because the legal effect of a transfer of engagements is to transfer all of the assets, liabilities and rights of one credit union to another, it would stand to reason that the credit union with the fewest assets, liabilities, etc. would transfer.

Another consideration is that the transferor will adopt all of the policies, procedures and business practices of the transferee. If one credit union were to have a more robust culture of compliance, this may make them a more suitable transferee.

Does stamp duty arise on the transfer of property as part of a credit union merger?

Section 185 (2) of the Principal Act exempts from stamp duty any transfer, conveyance or other instrument executed for the purposes of effecting a credit union merger under Part IX of the Act.

Can a dividend be paid to members where there is an outstanding AGM?

Under very limited circumstances, credit unions may seek to make a ‘distribution’ to members under Section 132 of the Principal Act as part of a merger.

Credit unions may not make a distribution without the express authority of RCU who, when considering whether or not to allow a distribution, must be convinced in all circumstances that the proposed distribution is justified and reasonable.

Any such distribution will need to form part of the restructuring proposal and members must be notified of the distribution in the Section 130 pack.

Can meeting notices be sent electronically?

Yes, notice of general meetings can be sent electronically. However, this will strictly be on the condition that a member has ‘opted in’ and requested to receive communication in this form. Credit unions should maintain a written record of the members consent to receive communication electronically and the consent should be clear and unambiguous. Credit unions should also only send electronic communications where they have the facilities to record delivery of an e-communication to the address provided by the member. With any



Appendix A

Checklist

*This is a suggested checklist only and not intended to be exhaustive. Legal professionals conducting due diligence should satisfy themselves as to the extent of investigation required in drafting a report.

Fixed Assets and Real Property	✓
CU has full title to all fixed assets - folios/title documents inspected	
Title is free from mortgages, charges and encumbrances	
All building works were compliant with planning	
Commercial rates and utility charges are paid up to date	
There are no boundary disputes	
Fire safety certificate is available	
There is no liability to repair any road, sewer, drain or similar liability	
Litigation	✓
The credit union is not aware of any potential or threatened future litigation	
All ongoing litigation has been identified	
Adequate insurance is in place in respect of all claims	
Where applicable, provision has been made for anticipated settlements and costs	
Debt Recoveries are in order and within Statute of Limitations	
All Judgements have been/will be enforced	
Third Party Contracts & Service Level Agreements	✓
All significant third party contracts and SLA's have been identified	
Those terminated upon merger may be done so within the terms of the contract	
Any defined notice period for termination will be observed	
Any liability in respect of early termination has been identified and provision made	
Those transferred upon merger may be done so within the terms of the contract	
Agreement obtained from service provider to transfer control	
Long standing arrangements without written contracts now have one in place	

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(iv) Legal *continued*



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Securitisation of Loans	✓
All loans secured against an asset have been identified	
All charges/mortgages are duly registered or solicitor's undertaking in place	
All corresponding credit agreements are fully executed	
Declaration that borrower obtained independent legal advice executed	
All corresponding family law declarations are fully executed	
All credit agreements relying on a guarantor are correctly executed	
Lending restrictions/limits and lending regulations observed	
Investment Portfolio (unless addressed in another due diligence report)	✓
The credit union holds all investments in its registered name	
All investments have been identified and correspond with accounts	
No stipulation exists to prevent the transfer of ownership on merger	
Maturity dates and investment class listed	
Investment restrictions/limits and investment regulations observed	
Human Resources (unless addressed in another due diligence report)	✓
Written contracts of employment in place for all staff	
Staff Handbook in place setting out all necessary policies and procedures	
All staff transferring will retain existing salary and entitlements	
Any liability for staff exiting a pension scheme has been identified	
Compliance (unless addressed in another due diligence report)	✓
The credit union has a completed compliance statement, attached to report	
Compliance is constantly kept under review by the board of directors	
Material non-compliance by the credit union has been addressed and notified to RCU	
Succession plan and key person insurance in place	
All policies and procedures in place and up to date	
The board actively review progress against targets set in the strategic plan	
The board fulfils each of the functions set out in S55 of the Principal Act	



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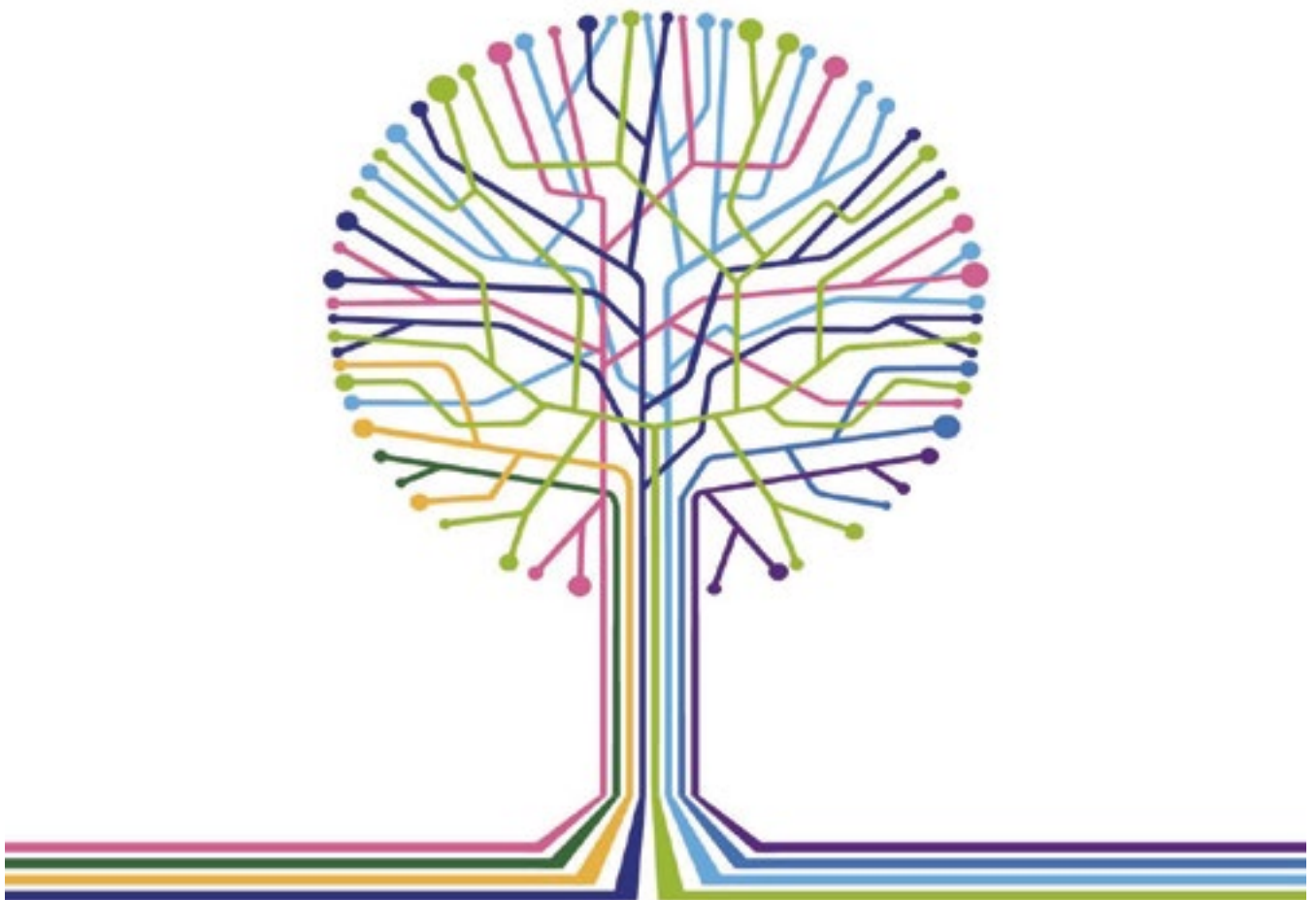
Business Operations (unless addressed in another due diligence report)	✓
Any intellectual property rights to be transferred have been identified	
Any proposed name change has been notified to RCU and consent obtained	
Lending agreements have been updated	
Complete list of products and services registered together with terms & conditions	

Any Other Investigation	✓

Appendices

Appendix VII – ReBo Guidance Notes

(v) Planning a Transfer of Engagements by way of Member Resolution



Guidance Note
on Planning a Transfer of Engagements
by way of Member Resolution

Appendices Appendix VII – ReBo Guidance Notes

(v) Planning a Transfer of Engagements by way of Member Resolution *continued*

Introduction

This Guidance Note has been prepared to assist credit unions seeking to complete a transfer of engagements by way of special resolution of the members at an SGM/AGM.

A transfer of engagements is decided by way of special resolution of members or if the Registrar of Credit Unions consents, by way of board resolution. The Registrar's decision is usually made towards the end of the merger process. Accordingly, it is important to plan from the outset on the basis that a 'Member Resolution' may be required.

Voting on a merger proposal is an important decision for your members. It is critical that they have the information and time needed to consider the reasons for, and outcomes of, the proposed merger. It is also important that members feel their credit union has taken the time to listen and consult with them.

A member resolution must be passed by a majority of not less than three quarters of such members of a credit union present and voting at the SGM. Experience has shown that a failure by credit union boards to adequately communicate and consult with members and other stakeholders ahead of a merger will jeopardise the likely success of the vote on the merger.

Communications Planning

A carefully planned programme of engagement with members and other key stakeholders in advance of the SGM is critical. In particular, the credit union must ensure that:

- Members are clear in advance as to the reason for the merger.
- Any fears and concerns are identified and addressed in advance of the vote.
- Members are provided with an opportunity to ask questions and engage in advance of the SGM.

Active members who would be likely to attend the SGM if engaged with in advance should be identified and contacted, either face to face or by telephone by credit union board/management.

This proactive contact is important in ensuring attendance at the SGM is representative of the membership base. It will also provide the board with valuable member feedback on the proposed merger in advance of the SGM.

A Communications Plan needs to be prepared and agreed by all credit unions involved in the merger. The plan execution should be co-ordinated by the merger Steering Group. There should

be agreement from the outset on the individuals who will be responsible for engaging with and briefing the various stakeholders.

Communications Team – Roles and Responsibilities

- Prepare a Stakeholder Communications Plan based on the information needs of all your stakeholders. (Ref. Stakeholder Communications Plan below).
- Prepare a simple message that explains the proposed change, reasons for the change, and addresses the fears/concerns of members.
- Prepare likely questions and answers that address the needs of members seeking additional information on the merger.
- The individuals responsible for stakeholder engagement must prepare in advance by familiarising themselves with the key messages regarding the merger and the Q & A's.
- Training should be considered for people not used to making presentations or dealing with potentially difficult communications situations.
- It is important during engagements with stakeholders to record questions raised. If you are unsure as to how to answer a question, commit to getting back with the answer.

Stakeholder Communications Plan

Central Bank

- The Registrar must be kept informed of plans, and their agreement sought in advance for the SGM.

Employees

- Employees are potentially the greatest communication asset. They are the people members engage with regularly and often know well. Most members will undoubtedly be more swayed by the opinion of the employee at their local branch than they will be by a board member who they may not know as well or may never even have met. Therefore it is vital that employees are fully briefed on and understand the reasons for the proposed merger. It is also important that any concerns they may have, such as are their job security or if they have to relocate, are addressed. If they feel well informed and positive towards the merger then they will pass this sentiment on to members and that is a priceless asset in the move to get the motion passed at SGM.
- They should be the first group to be briefed. They should never hear about plans from any other party in advance of being briefed by management, as this starts the engagement

off on a negative footing. Holding a joint briefing for staff from both credit unions in advance of the SGM should be considered. Those delivering the briefing should clearly outline the reasons for the merger, the benefits for the staff and members, and the communications plan in place to brief members and other stakeholders.

Members

- A short message explaining the merger should be communicated to all members in advance of the SGM through the credit union offices (printed leaflet), website and by email/post.
- A set of Frequently Asked Questions (FAQs) should be available to members seeking additional information. The FAQs should be made available on the credit union website and at the offices.
- Members with additional queries should be directed to contact a designated person in each credit union or to submit questions by email/post.
- It is important to engage fully with members in the lead up to the SGM so that they understand the reasons for the change, feel part of the decision, have any concerns addressed and turn up at the SGM to vote. This should be done far enough in advance that they don't feel pushed or rushed, but not so far in advance that they forget about it by the time the SGM takes place and don't bother to turn up.
- Consideration should be given to holding information evenings in the communities where the credit unions have offices.
- The requirement to provide transport for members in outlying communities wishing to attend the SGM should also be considered.

Ex-Directors/Volunteers

- One to one contact should be planned to elicit their support for the merger.

Local Politicians/Influencers

- It is important that influential people in the community are engaged with and that they are fully informed regarding the reasons for the merger.

Local Sports Clubs/Community Groups

- Engagement with clubs and community groups is important to address any concerns they may have regarding the impact of the merger e.g. withdrawal of credit union sponsorship on them and the local community.

Credit Union Boards

- Board members should play an active role in securing member support for the merger. By engaging with members the Boards will better understand their member's views and concerns. Pro-active engagement will make members feel involved and part of the decision making process.

Preparing for the SGM

- The Registrar must be informed of plans and agreement sought in advance for the SGM.
- A meeting must be convened (unless this action coincides with the AGM) at which the members can vote on the merger proposal.
- Members must be provided with a minimum of 7 and maximum of 21 days' notice of the SGM.
- Each credit union must prepare an information pack and send it to the members and Auditor, as prescribed in Section 130 of the '97 Act.

Timelines/ Execution

- Select a date for the SGM that will ensure maximum turn out. Avoid clashing with events like public holidays, sporting events, local events e.g. bingo.
- Plan the execution of the communications programme over a four/six week period leading up to the SGM.
- Make sure arrangements are in place and people are fully briefed to answer questions that will arise.
- Review the plan regularly in light of commentary and feedback received directly e.g. at the counter/information evenings/member contact and indirectly through social media etc.
- Plan for the unexpected. Have a designated spokesperson ready to deal with queries.

Special General Meeting

At the SGM it is important to ensure that:

- All board members are aware of the structure of the meeting and stick to same.
- Potential questions have been identified and answers prepared in advance
- Speakers are well prepared

If communications are well planned, clear and delivered appropriately at the SGM, they will assist in building trust, reducing uncertainty, developing a shared vision, and overcoming resistance to change.

Appendices Appendix VII – ReBo Guidance Notes

(v) Planning a Transfer of Engagements by way of Member Resolution *continued*

ReBo Support

Credit unions are encouraged to seek assistance from ReBo with the planning of their SGM. Supports available include:

- Preparation of message content, FAQs etc.
- Assistance with organising training for Board/Employees on member engagement and running an SGM.
- Guidance note on communications planning*.
- Credit Union case study videos* – suitable for member information evenings.
- Vox pop video* – Opinions of credit unions – suitable for playing in credit union offices, at information evenings etc.

**Currently available on the ReBo website*

Should you have any queries regarding this guidance note or require further information, please contact a member of the ReBo team.
(Tel 01 9022209)

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The Credit Union Restructuring Board
An Bord Athchóiriú Comhar Creidmheasa

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