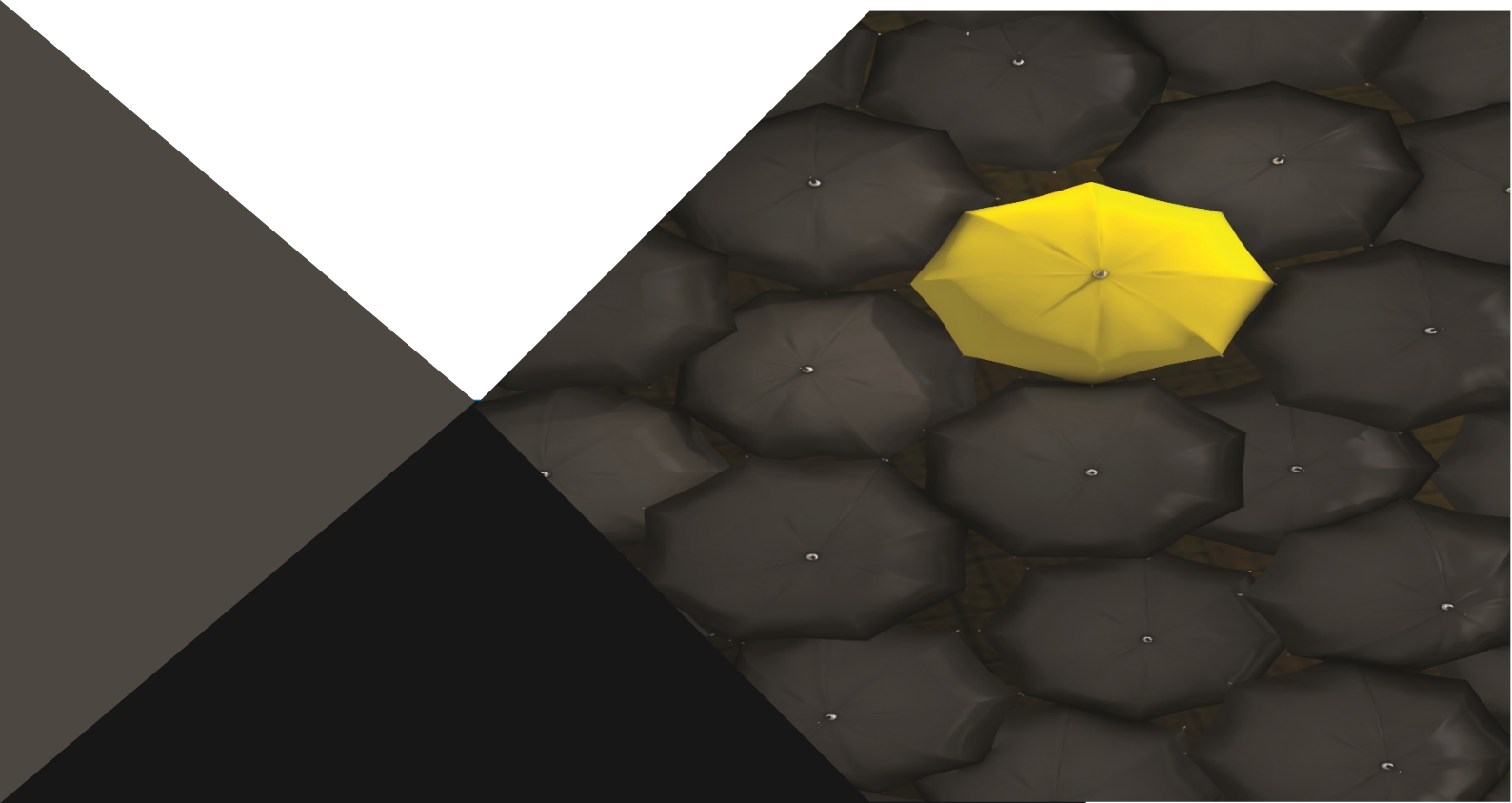




CREDIT UNION MERGER TRANSACTIONS

Providing you with strong cover



Credit Union Merger Transactions: Providing you with strong cover

Following the Commission on Credit Unions, CUCORA 2012 and the establishment of ReBo, the restructuring environment of Irish Credit Unions has proven to be highly dynamic. In the context of merger transactions involving credit unions, the overarching duty of both boards is to protecting their members' wealth. It therefore follows that critical assurances are sought to ensure that the proposed transaction does not pose risks to member wealth and that all parties are aware of relevant facts.

As a practice we have advised a significant number of credit union transactions at various stages of advancement. We provide the following services:

- Phase I Due Diligence
- Phase II Due Diligence
- High Level Business Case Advisory
- Detailed Business Case Advisory
- General Transaction Advisory Services

Phase I Due Diligence

Phase I reviews centre on asset quality. Key themes that shape our analysis are as follows:

- The loan book review would be mindful of the changing environment for loan provisioning. Our estimation technique relates to the loan book as a whole, and focus is placed on estimating provisions for performing loans where in the loan assessor's view, default risk is present/inherent, but not yet manifest through non-performance.
- Since the introduction of the 2009 Investment Circulars, significant risk has been removed from investment portfolios. However, noting that credit unions have significant positions built up in Irish and EMU State Securities, we would point to the more complex accounting aspects of government bonds and


- this would be reviewed closely by us as part of our review.
 - Value in use remains a key part of asset impairment and would be carefully reviewed.

Phase II Due Diligence

Phase II reviews centre on the business model and operational infrastructure of the credit union. Key themes that shape our analysis are as follows:

- A key aspect of the financial and accounting review would be the business model assessment and the review of financial projections. We are mindful of the challenges in financial projections; projections are based on current plans and estimates, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. In particular, loan book assumptions, which are highly sensitive to the external economic environment and the manner in which judgments on future loan book trends are arrived at, remain a critical aspect of projections.
- In our review of ICT, we would be guided by COBIT 5 in our approach. Control Objectives for Information and Related Technology ("COBIT") is a framework created by ISACA for information technology management and information





technology management and information technology governance.

- In our review of products, we are mindful that lending is the single-most important activity of a credit union, and a review of lending products would represent a key aspect of the review. Lending also represents a key macro challenge for credit unions in an environment of known trends in deleveraging.
- In our review of governance, we would be guided by the Credit Union Acts 1997-2012, the Credit Union Handbook and Guidance on Fitness and Probity for Credit Unions as issued by the Central Bank of Ireland. We would place emphasis as appropriate on the more challenging aspects of the new legal and regulatory environment for credit unions (in particular strategic planning, risk management, compliance and business continuity).

Business Cases

Articulating the strategic rationale for a merger and supporting this with a coherent, reasonable and supportable business case, is a key element of a successful merger strategy. A key outcome of a merger should be a merged credit union that is better for all members in terms of security, service and sustainability. We support credit unions to produce using this process high-quality quantitative and qualitative business cases.

General Transaction Advisory Services

We have advised transferor credit union in merger transactions. This involves assisting credit unions achieve clear visibility on how the merged entity would operate both on a granular operational level and a longer term strategic level. This facilitates the credit union to make an informed and considered view on the merger from the context of the interests of its members and officers.

Reporting

Mindful of the tight timeframes that apply to due diligence engagements, we closely manage our workflow and deliverables. Our approach is shown in the diagram below. High quality reporting with clear demarcation in roles and responsibilities will be a key aspect of ensuring quality control of a due diligence process.



Mindful of the tight timeframes that apply to due diligence engagements, we closely manage our work flow and deliverables as shown above

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