Asian Credit Union Forum
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Building Credit Unions: Credit Union Amalgamation

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Stages of CU Development - Developing

- Small asset size
- Highly regulated
- Tight common bond
- Strong emphasis on voluntarism
- Serve weaker sections of society
- Single savings and loans product
- Requires sponsorship from wider CU industry to take root
- High commitment to self-help ideals

Stages of CU Development - Growth

- Larger asset size
- Shifts in regulatory framework
- Adjustments to common bond
- Greater product diversification
- Emphasis on growth and efficiency
- Less reliance on voluntarism
- Recognition of need for greater effectiveness and professionalism of trade bodies
- Development of central services

Stages of CU Development - Developed

- Large asset size
- Loose common bond
- Competitive environment
- Electronic service delivery
- Well organised, progressive trade bodies
- Well developed central services
- Professional management
- Broad product range and services
- Emphasis on economic viability and long term sustainability
- Rigorous financial management

Credit Unions in Australia

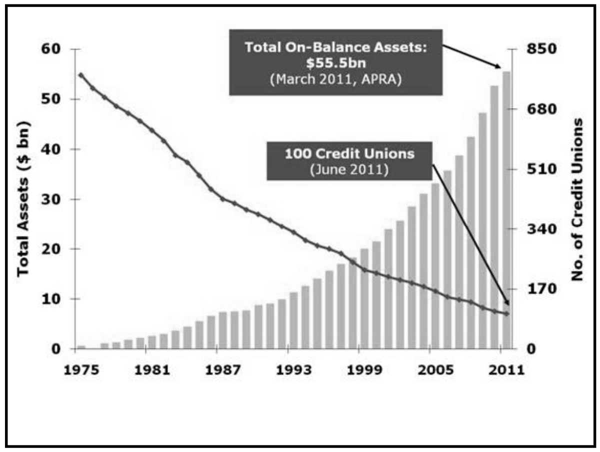
- First Credit Union “Universal Credit Union” 1946
- During the 1970’s CU’s were the fastest growing type of financial institution
- In 1971 a new CU was formed in Australia every week
- CU numbers peaked at over 700

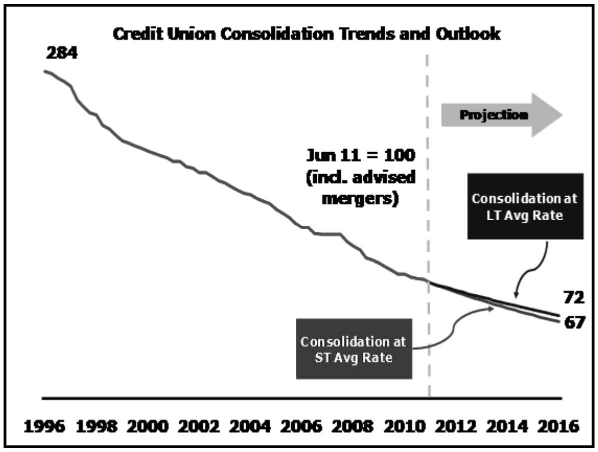
Credit Unions in Australia

- The large number of CUs placed a heavy demand on league resources & regulatory resources
- Policy emphasis moved from numerous small CUs to fewer larger organisations
- Membership bonds were broadened
- Goal was to obtain scale economies

Example – Central Mutual Credit Union

- Central Mutual was formed in 1973 by the NSWCUL to takeover unviable CUs
- Nine CUs merged into CMCU in 1973
- Caution! - This created one large unviable CU
- After stabilisation a further 15 CUs merged by 1980
- A further six CUs merged before Central Mutual itself merged into Credit Union Australia in 2002

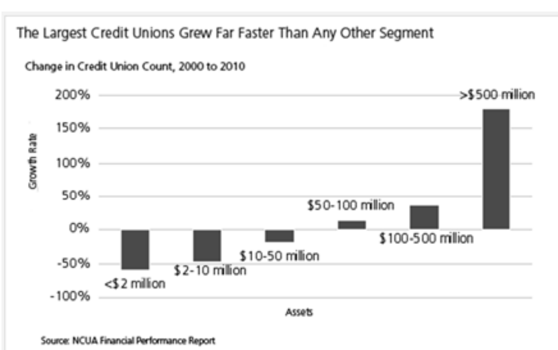




Recent Merger Activity

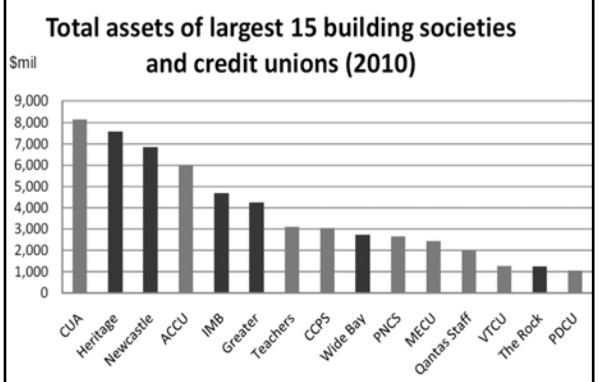
117 credit unions as at 30 June 2009
108 credit unions as at 30 June 2010
100 credit unions as at 30 June 2011
<70 credit unions in 5 years time?

Merger Activity in the US
10,316 credit unions in 2000
7,339 credit unions in 2010



Select CU Merger History

Sydney County Council Employees CU - established	1963
St George County Council Employees CU - merger	1980
Brisbane Water County Council CU - merger	1982
Hunter Valley County Council Employees CU - merger	1989
Sydney Electricity Employees CU - name change	1991
Select Credit Union Ltd - name change	1994
Orion Credit Union - merger	1996
Willoughby Omnibus Employees CU - merger	1997
Access Credit Union - merger	2001
CSR & Rinker Employees CU - merger	2009
MemberFirst CU - merger	2011



Reasons for CUs to Merge

Involuntary - Causes

- Fraud (internal investment/loan fraud)
- Loans quality – loans losses
- Profitability – costs
- Low reserves – cannot grow
- Liquidity
- Asset size – management ability
- Regulatory and compliance burden

Reasons for CUs to Merge

Voluntary - Objectives:

- Place the Credit Union in a stronger competitive financial position
- Improve efficiency (operating costs)
- Enhance balance sheet strength
- Enhance member value
- Improve product range & member service
- Improve member service pricing

Australian mergers in the 90s

Three main characteristics:

- Efficiency & profitability – driven by managerial objectives (ie eliminate underperforming credit unions)
- Direct intervention by regulators to promote sector stability (includes regulatory constraints ie min reserves)
- Strong influence of member bond of association

Merger is not a Strategy

- Aim should not be growth for growth's sake
- Asset size is not a measure of management machismo
- Aim should be a combination of controlled growth, minimum profitability required to support the growth, and increasing member satisfaction
- Must still have target market niche and plans to profitably provide services

Merger Process

- Assessment
- Board Decision
- Potential Partner Identification
- Partner Selection
- MOU negotiation
- Due Diligence
- Member approvals – SGM
- Regulatory Approval
- Business integration

Assessment

- Merger Policy
- Why do we need to merge?
- Why do we want to merge?
- Member benefit?

Board Decision

- Ideally decision should be unanimous
- Directors must act in the best interests of the organisation and members

Potential Merger Partner

Factors for consideration

- Similar Common Bond / Culture
- Geographic Location
- Merged entity size/viability
- Products / services / pricing
- Member benefit

Partner Selection

- Predetermined criteria
- Impediments – personalities – egos – conflicts - transparency

Memorandum of Understanding

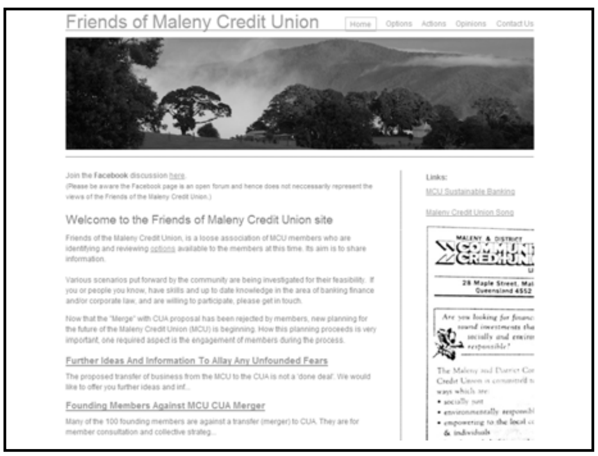
- Merged credit union name
- Board of Directors
- Management
- Employees
- Office & branch locations
- Products & pricing
- Merger timetable

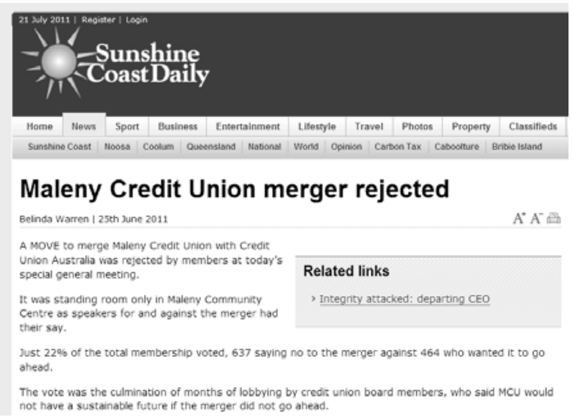
Due Diligence

- An investigation to confirm all of the material facts regarding a transaction
- Aim is to ensure that receiving credit union is aware of any current or future estimated losses or liabilities
- Ultimate aim is “NO SURPRISES” after the merger

Member approvals

- Information to members
- Opportunity to ask questions
- Special resolution & Special General Meeting (75% of members voting)
- Example – Maleny Credit Union





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Maleny Credit Union merger rejected

Belinda Warren | 25th June 2011

A MOVE to merge Maleny Credit Union with Credit Union Australia was rejected by members at today's special general meeting.

It was standing room only in Maleny Community Centre as speakers for and against the merger had their say.

Just 22% of the total membership voted, 637 saying no to the merger against 464 who wanted it to go ahead.

The vote was the culmination of months of lobbying by credit union board members, who said MCU would not have a sustainable future if the merger did not go ahead.

Related links

› Integrity attacked: departing CEO

Regulatory approval

- Three levels of approval
- Australian prudential regulator APRA will not allow to two weak credit unions to merge
- APRA will assess the viability of the merged credit union
- Corporate regulator ASIC will test any claim eg “no member will be worse off”
- Competition regulator ACCC will consider any reduced competition effect

Business Integration

- 12 month process
- Align rates / prices
- Align marketing material - website
- Staff
- Computer system integration

Due Diligence

- Loans
- Credit control
- Corporate & secretarial
- Accounting
- Information Technology
- HR & practices
- Products & Services
- Liquidity
- Audit & Compliance

- Loans
  - Documentation
  - Privacy
  - Compliance with policies
  - Credit control
    - Reports
    - Practices
    - Large exposures
    - Write offs
    - Restructured loans

- Corporate & secretarial
  - Business insurance
  - Board & Committee minutes
  - Contracts, leases, agreements
  - Constitution/by-laws

- Accounting
  - Profitability
  - Balance sheet
  - Financial statements
  - Variations from budget
  - Reconciliations
  - Investments
  - Taxation

- Information Technology
  - Bureau arrangements
  - Hardware
  - Software
  - System compatibility
  - Disaster recovery plans
  - IT access controls

- HR & practices
  - Employment arrangements
  - Remuneration
  - Termination
  - Unfair dismissal claims
  - HR policies & procedures
  - Training

- Products & Services
  - Compare product portfolio
  - Distribution channels
  - Review marketing documentation

- Liquidity
  - Capital adequacy trend
  - Liquidity trend
  - Internal / external reporting
  - Market risk
    - Term deposits
    - Fixed rate loans

- Audit & Compliance
  - Outstanding issues
  - Audit committee function
  - Audit plan & effectiveness
  - Other audit reports

- Member Services
  - Member complaints
  - Dispute resolution
  - Codes of conduct
  - Money laundering
  - Dormant accounts
  - Market research / member surveys
  - Marketing / communications