



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Thematic Review of Restructuring in the Credit Union Sector

Registry of Credit Unions – February 2019

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### Note:

The information in this report is based upon information submitted to the Registry of Credit Unions by credit unions through the Online Reporting System.

# Executive Summary

The Final Report of the Commission on Credit Unions, presented to the Minister for Finance on 31 March 2012, included recommendations in relation to sector restructuring, noting that restructuring could be viewed in two ways:

1. As a way of addressing the existing weaknesses in the sector;
2. As a business strategy for credit unions that wanted to achieve the scale necessary to move to a more efficient and sophisticated business model.

A significant level of restructuring has occurred within the credit union sector, with the total number of credit unions falling 39% since 2008 from 419 to 254. This consolidation has principally occurred through voluntary transfer of engagement ('TOE') processes, with the majority taking place from 2013 onwards. This report examines the impact of this wave of credit union restructuring, and sets out key findings, conclusions and recommendations for consideration by credit unions<sup>1</sup>.

While it is still early to draw definitive conclusions on the impact of sector restructuring, and the position is not uniform, overall transferee credit unions appear to have increased income generating assets, limited the decline in income, and eliminated duplicated costs, resulting in some improvement in financial position and performance. The review indicates that for the transfers that have taken place restructuring has had a positive impact on transferee credit unions and members.

## Key Findings

- From January 2008 to September 2018, 154 individual transferor credit unions completed a TOE to another credit union, with 135 of these transfers occurring since 2013. Restructuring has happened in almost every county, with the greatest volume of transfers taking place in Dublin and Cork.
- Over 420,000 people have seen their membership transferred to an enlarged credit union following a TOE.
- While the number of registered credit unions has reduced by 35% since 2013, there has only been an 8% reduction in business locations operated by credit unions – in the majority of transfers (77%) no business locations have closed as a result of the completion of a transfer.
- Restructuring has led to a 58% reduction in smaller credit unions (assets of less than €40m) and a 93% increase in larger credit unions (assets of more than €100m).
- Transferee credit unions have grown their lending at a faster rate than the rest of the sector – increasing loans by 7.4% on aggregate compared to a decline of 0.8% amongst other credit unions.
- Transferee credit unions have also seen lower levels of cost growth as they have eliminated duplicated costs and achieved scale efficiencies.
- As a result of higher growth in loans, and lower growth in costs, transferee credit unions have reported a lower cost to income ratio and a marginally higher return on assets relative to other credit unions that did not partake in restructuring.
- Notwithstanding lower levels of cost growth, cost to income ratios across the sector are high by historic standards, and remain an issue of concern.

*Over the period 2008 to 2018, 154 individual credit unions have transferred their engagements to another credit union.*

*Between 2013 and 2018 there was a reduction in the number of credit unions with total assets of less than €40m from 285 to 119 – a 58% reduction. Over the same period the number of credit unions with total assets greater than €100m increased from 28 to 54 – a 93% increase.*

<sup>1</sup> Financial analysis focused on the period 30 September 2013 to 30 September 2017, however the overall volume of restructuring activity is assessed for the period from 1 October 2008 to 30 September 2018.

## Key Conclusions and Recommendations

Since 2013, restructuring has to a large extent been driven by push factors, with transferor credit unions seeking a strong partner to help overcome challenges. As a consequence, the credit union sector overall has been placed on a sounder footing, with the advent of larger credit unions supported by stronger reserves bases. In the future, while those push factors will likely persist, it is expected that restructuring will be increasingly led by large credit unions seeking to increase scale.

### *Transformation of the Sector*

Restructuring has contributed to a transformation in the sector, as a number of smaller credit unions have become part of larger credit unions operating from multiple business locations. Over the period 2013 to 2017 ('the review period') the number of credit unions operating from a single business location reduced by 47%, from 257 to 135, while the percentage of credit unions operating from more than one business location increased from 34% to 50%. To highlight the level of change, in 2013, 17 credit unions operated from more than 3 business locations, while by 2017, 36 credit unions operated from more than 3 business locations. Over the review period, while there has been a reduction in the total number of business locations reported by credit unions, of 51 (or 8.4% of the total business locations), an analysis of business locations by transferor and transferee has shown that of the 51, only 34 were related to restructuring.

### *Lending*

Total income levels have fallen across the sector, with weak demand for credit resulting in an overall loan to assets ratio decline across the sector. Loan levels remained relatively static while member savings and by extension total assets have continued to increase. Transferee credit unions have seen enhanced their level of interaction with members, which has manifested as higher growth rates in membership and savings. Importantly, from a sustainability perspective, there have also been higher rates of organic loan growth within transferee credit unions.

### *Cost Control*

High cost to income ratios represent a challenge to the sustainability of the credit union sector. All credit unions should examine their cost structures and seek opportunities to eliminate duplicated costs and avoid unnecessary expenditure. Boards of credit unions should be mindful of the potential cost related benefits that can be achieved through restructuring opportunities.

### *Link between Asset Size and Surplus*

Overall, restructuring has led to a divergence in the trends of the surpluses reported by transferee credit unions and those credit unions that have not engaged in restructuring. As transferee credit unions have grown, the growth in total income earning assets has to some extent offset the decline in income. Also, as credit unions have grown through restructuring, they have been able to eliminate duplicated costs and achieve economies of scale. This evidences a linkage between surplus generation and asset size in terms of scale efficiencies.

### *Restructuring as a Strategic Opportunity*

When preparing strategic plans, the Central Bank expects that boards of credit unions will consider the opportunities that transformation into larger credit unions, with expanded business locations can offer, and whether there are opportunities to increase membership and engagement. As part of a larger credit union across a wider common bond, such credit unions may be able to offer a wider range of products and services, and better serve members' needs.

*Transferee credit unions have seen their underlying loans increase by 7.4%, in addition to significant inorganic growth arising from the completion of transfers of engagements.*

*Restructuring can help credit unions to realise cost savings as they eliminate duplicated costs and achieve economies of scale.*

*Boards of credit unions should consider the findings of this report and the potential strategic opportunities that restructuring may present.*

# 1. Introduction

The Registry of Credit Unions ('RCU') is responsible for the registration, regulation and supervision of credit unions. Under the Credit Union Act 1997, (the 1997 Act) the functions of the Registrar of Credit Unions are to regulate credit unions with a view to:

- The protection by each credit union of the funds of its members; and
- The maintenance of the financial stability and wellbeing of credit unions generally.

Our strategic vision is '*Strong Credit Unions in Safe Hands*'. We see 'strong credit unions' as being financially strong and resilient, enabled by sustainable, member-focused business models underpinned by effective governance, risk management and operational frameworks.

RCU considers that credit unions are 'in safe hands' when they are effectively governed, professionally managed, and staffed by competent, capable people who appreciate and prudently manage risks, while successfully meeting members' product and service expectations.

## 1.1 Background to Restructuring

The Government established the Commission on Credit Unions on 31 May 2011 to review the future of the credit union movement. The Final Report of the Commission on Credit Unions<sup>2</sup> was presented to the Minister for Finance on 31 March 2012. The report included recommendations in relation to sector restructuring, noting that restructuring could be viewed in two ways:

1. As a way of addressing the existing weaknesses in the sector;
2. As a business strategy for credit unions that wanted to achieve the scale necessary to move to a more efficient and sophisticated business model.

The Commission recommended that restructuring should be carried out in a voluntary, incentivised and time-bound manner. The Credit Union Restructuring Board (ReBo) was established by the Minister for Finance in January 2013 to assist and oversee the voluntary restructuring of the sector, provide funding for the restructuring process, and provide a report upon completion of its work. By the time ReBo ceased its restructuring operations on 31 March 2017, it had supported a total of 117 transfer projects, of which 82 had concluded.

As noted in the ReBo Final Report<sup>3</sup> '*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.*'

*'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.'*

-ReBo Final Report, July 2017<sup>3</sup>

<sup>2</sup> Available at <https://www.finance.gov.ie/wp-content/uploads/2017/05/Report-of-the-Commission-on-Credit-Unions.pdf>

<sup>3</sup> Available at <https://www.finance.gov.ie/wp-content/uploads/2017/05/ReBo-Final-Report-2017-Restructuring-of-the-Credit-Union-Sector-in-Ireland.pdf>

## 1.2 Registry of Credit Unions Actions

RCU's strategy in relation to sector development since the crisis has been based upon achieving three key outcomes:

1. Establish an appropriate legislative and regulatory framework to protect the financial stability of individual credit unions and allow the sector to develop;
2. Bring about the effective restructuring of the sector to ensure its long-term sustainability; and
3. Resolve weak and non-viable credit unions in an orderly manner to protect members' savings and maintain the financial stability of the sector.

RCU have worked extensively with sector stakeholders to support consolidation in the credit union sector, with a view to placing the sector on a sounder footing and contributing to the financial stability and well-being of credit unions.

RCU engaged with key stakeholders, including the Department of Finance, to highlight difficulties facing the sector post-crisis, including weak governance, rising arrears and depleted capital positions. In addition, RCU recognised that the regulatory framework for the credit union sector required significant development, and sought legislative changes to implement required enhancements.

In May 2011 the Minister for Finance established the Commission on Credit Unions, whose membership comprised the Registrar of Credit Unions and other key stakeholders such as representative bodies, to review the future of the credit union sector and make recommendations. Over the period from June 2011 to March 2012, RCU participated in all meetings of the Commission on Credit Unions and prepared and presented proposals on key areas for discussion, including restructuring of the credit union sector. In the Commission's final report, a number of recommendations were made regarding restructuring, including the establishment of ReBo. The Commission recommended that restructuring should be voluntary, incentivised and time-bound.

In support of restructuring and the work of ReBo, in 2012 RCU established a dedicated team to manage restructuring projects and facilitate and oversee restructuring from a regulatory perspective. Post-ReBo, RCU continues to support sectoral restructuring, through the orientation of supervisory engagement, which included a particular focus on viability and strategic planning, as well as emphasising the importance of fully embedding transferor credit unions post-merger.

RCU considers restructuring as an important contributing factor to putting the sector on a sounder footing and contributing to the maintenance of financial stability and the well-being of credit unions generally. When ReBo ceased accepting new applications for assistance, RCU issued a circular and explanatory note<sup>4</sup> to all credit unions advising interested credit unions to engage directly with RCU to facilitate further voluntary restructuring. Additionally, the Credit Union Handbook<sup>5</sup> has been updated to include information on the restructuring process. In this report, RCU sets out the expectation that credit unions should continue to consider restructuring opportunities as a strategic option when preparing strategic plans, and should contact RCU when pursuing such options.

*'Restructuring has reduced the number of credit unions leading to larger and fewer credit unions which should provide a more solid base for the sector'*

– CUAC Review of Implementation of the Recommendations in the Commission on Credit Unions Report<sup>8</sup>

*RCU consider restructuring an important contributing factor to putting the sector on a sounder footing and contributing to the maintenance of financial stability and well-being of credit unions generally.*

<sup>4</sup> Available at <https://www.centralbank.ie/docs/default-source/Regulation/industry-market-sectors/credit-unions/credit-union-handbook/transfer-of-engagements-explanatory-note-and-related-forms-may-2012.pdf>

<sup>5</sup> Available at <https://www.centralbank.ie/regulation/industry-market-sectors/credit-unions/credit-union-handbook>

### 1.3 Post-ReBo

Restructuring was considered by the Credit Union Advisory Committee ('CUAC'), in the CUAC Report of June 2016<sup>6</sup>, and also in the December 2018 Final Report of the CUAC Report Implementation Group<sup>7</sup> (which includes a reference to the publication of this thematic review). In their June 2016 review of Implementation of the Recommendations in the Commission on Credit Unions Report<sup>8</sup>, CUAC considered that 'restructuring has reduced the number of credit unions leading to larger and fewer credit unions which should provide a more solid base for the sector.'

ReBo emphasised in its response to CUAC for the June 2016 report that 'mergers take time to yield benefits, with experience suggesting that it may take between 3 and 5 years to realise economies from restructuring.' CUAC was in agreement with ReBo that at that point in time (2016), it was very early in the process to expect any real benefits to be identified. RCU is of the view that it is now timely to set out key findings arising from an analysis of the impact that completed transfers of engagements have had in changing the nature and profile of the sector.

### 1.4 Focus of Thematic

This report focuses on quantitative analysis of the impact of restructuring, and is based upon an analysis of regulatory returns submitted by credit unions.

While the report focuses on quantitative aspects of restructuring, one significant qualitative observation that has been observed by the RCU is the positive feedback from transferee credit unions during onsite supervisory engagements. This is particularly apparent when discussing the benefits for their members of restructuring completed to date, including access to additional business locations, and access to new products and services. Another observation that can be made is the number of transferee credit unions that have completed multiple transfers of engagements, over a number of years, indicating a continued appetite for, and positive experience of restructuring within the sector.

However, it is important to stress that any credit union board decision to pursue restructuring should also consider qualitative aspects of potential transfers, including the culture of the different credit unions involved, and the change in member experience that the TOE is likely to engender.

*A number of transferee credit unions often accept multiple transfers of engagements, over a number of years, indicating a continued appetite for, and positive experience of, restructuring within the sector.*

*Any credit union board decision to pursue restructuring should also consider qualitative aspects of potential transfers, including the culture of the different credit unions involved, and the change in member experience that the TOE is likely to engender.*

<sup>6</sup> Available at <https://www.finance.gov.ie/wp-content/uploads/2017/05/CUAC-Review-of-Implementation-of-the-Recommendations-in-the-Commission-on-Credit-Unions-Report.pdf>

<sup>7</sup> Available at <https://www.finance.gov.ie/wp-content/uploads/2019/01/CUAC-Report-Implementation-Group-Final-Report.pdf>

<sup>8</sup> Available at <https://www.finance.gov.ie/wp-content/uploads/2017/05/CUAC-Review-of-Implementation-of-the-Recommendations-in-the-Commission-on-Credit-Unions-Report-1.pdf>

## 2. Legal Framework

Part IX of the Credit Union Act 1997 sets out the legal framework for Amalgamations and Transfers of Engagements of credit unions.

Under Section 129(2) of the Credit Union Act, 1997, a credit union seeking to either *“transfer its engagements or to undertake to fulfil the engagements of another credit union shall resolve to do so by a Special Resolution or, if the Bank consents in either case in circumstances where it considers it expedient to do so, by a resolution of the board of directors”*.

### 2.1 Process and Support Resources

In advance of completing a TOE, the credit unions involved are required to complete a number of steps in a TOE process including an Asset Review, a Due Diligence Review, preparation of a business case supported by detailed financial projections, and an integration plan.

There are a number of resources available on the Central Bank website to support credit unions in advancing a TOE, including chapter 21 of the Credit Union Handbook – these are detailed in Appendix 1.

The steps in the TOE process are outlined in Appendix 2.

## 3. Objective and Methodology

### 3.1 Objectives

The objectives of this thematic review were to:

1. Determine the impact of restructuring on the credit union sector, in terms of:
  - a. Change in the number of credit unions;
  - b. Change in the asset profile of the sector;
  - c. Impact on the number of business locations; and
  - d. Impact on membership numbers.
2. Compare the financial position and performance of transferee credit unions to those credit unions that have not engaged in restructuring, including the following:
  - a. Change in asset sizes, and in the key assets of loans and investments;
  - b. Change in member savings and reserves; and
  - c. Change in financial performance, particularly the key income streams, cost performance, and the overall impact upon surplus and return on assets.

While this report focuses on quantitative analysis of the impact of restructuring, it is important to stress that any decision on restructuring should also focus on qualitative aspects, including the overall member experience.

### 3.2 Methodology

The Central Bank receives information from the credit unions in the form of regulatory returns. By analysing these returns, the quantitative impact of restructuring on the credit union sector can be determined.

When preparing this report two primary sources of information were utilised:

1. Information submitted by credit unions through the online reporting system; and
2. Information submitted by credit unions as part of a TOE process.

Financial analysis focused primarily on financial information submitted by credit unions for the period 30 September 2013 to 30 September 2017 ('the review period'), however the overall volume of restructuring activity is assessed for the period from 1 October 2008 to 30 September 2018. The methodology included:

- Identifying credit unions that completed transfers of engagements since 2008;
- Extracting data from returns submitted through the online returns system;
- Analysing the information to identify which elements related to credit unions involved in transfers of engagements, both as transferors and transferees; and
- Comparing the information of transferee credit unions to credit unions that have not engaged in restructuring.

The information used in this report is based upon information submitted by credit unions, and has been aggregated to avoid identification of individual credit unions. Information relating to credit unions that dissolved or were liquidated was included in aggregate sectoral information, but excluded from further analysis.

This thematic review considers the impact of restructuring on the credit union sector, and compares the financial position and performance of transferee credit unions to the rest of the sector.

## 4. Impact of Restructuring

### 4.1 Extent and Location of Restructuring

Significant restructuring has been undertaken within the credit union sector, with 154 individual transferor credit unions completing a TOE to a transferee credit union over the period from 2008 to 2018. From 2008 to 2012, a total of 19 TOEs took place. However, from 2013, and especially during the lifetime of ReBo, the pace of restructuring in the sector increased significantly, with 135 TOEs completed between 2013 and 2018. Accordingly, the period from 2013 forms the focus of this section of the report.

Since 2008 restructuring activity has occurred throughout almost all counties in Ireland, albeit at varying levels, as set out in Figure 1 - Map of Restructuring Activity.

#### Background

For credit unions who considered a TOE as part of their strategic objectives, both 'push' and 'pull' factors contributed to the pace of restructuring – these are referred to in more detail below. The most significant factors that led to credit unions exploring restructuring since 2012 reflected a difficult environment, from a commercial, financial and governance perspective. This coincided with the establishment of ReBo in 2013.

In a number of financially distressed cases, the Central Bank demonstrated a willingness to use its resolution powers where necessary to avoid unmanaged failure and protect member funds. This may have encouraged some other credit unions that were facing viability challenges to be pro-active in seeking a TOE solution in order to preserve credit union services within their common bonds. The Irish League of Credit Unions provided private sector funding from their Savings Protection Scheme ('SPS') to restore the capital positions of a number of financially challenged credit unions immediately prior to a TOE. This facilitated 27 transfers from 2015 onwards.

#### ReBo

The establishment of ReBo<sup>9</sup> provided a statutory body to assist credit unions who wished to engage in restructuring. This assistance took the form of the provision of TOE related information, introductions to neighbouring credit unions, ongoing project management and financial assistance with the costs of completing a TOE. This resulted in an increase in the number of credit unions exploring the option of a TOE, and a large proportion of these went on to complete TOEs.

The time-limited nature of both project management and financial support from ReBo created an incentive for credit unions to complete TOEs at an accelerated pace. This was particularly evident in the period immediately prior to the cessation of ReBo's operational activities at the end of March 2017. ReBo facilitated the completion of 82 TOEs over the period 1 January 2013 to 31 March 2017. Since that time, while restructuring has continued, the pace has slowed somewhat, with a total of 34 TOEs confirmed (19 confirmed in 2017, and 15 confirmed in the nine months ended 30 September 2018). It is also noted that a number of credit unions that commenced TOE discussions during the lifetime of ReBo, but did not complete a TOE at that time, have indicated that a TOE remains a strategic option under further future consideration. Sixteen TOEs are currently underway (February 2019).

*In the period 2013 to 2018 the pace of restructuring in the sector increased significantly, with 135 TOEs taking place.*

*A challenging commercial operating environment, and the establishment of ReBo in 2013, led great numbers of credit unions to explore TOE options.*

<sup>9</sup> ReBo was established on an administrative basis in August 2012 and was put on a statutory footing on enactment of Section 42 of the Credit Union and Co-operation with Overseas Regulators Act, 2012 on 1 January 2013.

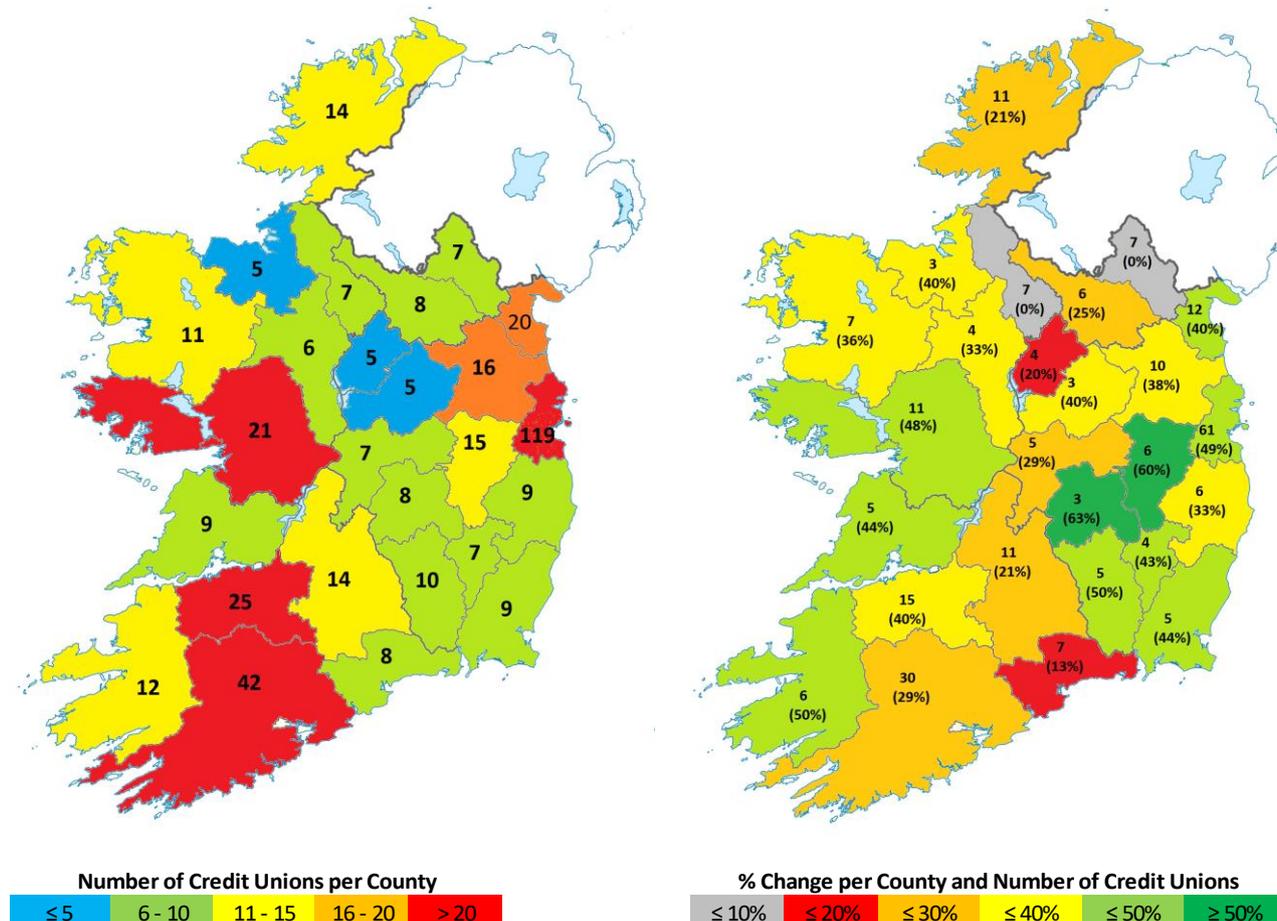
Figure 1 - Map of Restructuring Activity

30 September 2008

419 Credit Unions

30 September 2018<sup>10</sup>

254 Credit Unions



Other Factors

In addition to the factors outline above, there were a number of other factors that resulted in credit unions considering TOEs as a possible strategy:

Financial Factors

- Weak credit appetite resulted in declining loan books and reducing loan interest income.
- Falling interest rates and bond yields led to reduced investment returns.

Regulatory Factors

- New regulatory requirements necessitated significant investment in Risk Management, Compliance, and Internal Audit functions.

Member Considerations

- Competitive pressure to offer improved services would require significant investment in IT in a smaller credit union, however transferor credit unions could avail of these services in a transferee by completing a TOE.

<sup>10</sup> A transfer of engagement involving a credit union located in Leitrim completed in October 2018.

Table 1 below sets out restructuring activity from 2013 onwards, with the peak period of activity coinciding with the operational lifespan of ReBo.

Table 1 - Breakdown of TOEs 2008-2018

Calendar Year	Transfers of Engagements
2008-2012	19
2013	5
2014	13
2015	37
2016	46
2017	19
Nine months ended 30 September 2018	15
<b>Total</b>	<b>154</b>

Source: RCU Analysis

Of these 154 transfers, 27 involved the provision of private sector support and 2 were directed transfers under the Resolution Act. The above figures do not include a separate directed transfer to a non-credit union financial institution, seven dissolutions under the Act, and three liquidations under the Resolution Act.

## 4.2 Change in Profile of Asset Sizes

A significant outcome arising from restructuring within the credit union sector has been the reshaping of the asset profiles within the sector, with a significant decrease in the number of smaller credit unions (assets of less than €40m), as these credit unions have merged with larger, usually neighbouring, credit unions. This has resulted in a corresponding increase in the number of larger credit unions (those credit unions with assets in excess of €100m).

This change in the profile of the sector is demonstrated in Table 2 below.

Table 2 - Credit Union Asset Sizes 2013-2018

Asset Size at 30 <sup>th</sup> September	2013	2014	2015	2016	2017	2018	Change	% Change
<€40m	285	268	227	163	141	119	- 166	-58%
€40m-€100m	80	81	78	81	78	81	1	1%
>€100m	28	31	37	48	53	54	26	93%
No.	393	380	342	292	272	254	- 139	-35%
<b>Total Assets (€'bn)</b>	€13.9	€14.2	€15.0	€16.0	€16.8	€17.6	€3.7	27%

Source: Credit Union Annual Returns

The impact of restructuring on asset sizes is explored further in Section 4.5.

## 4.3 Impact of Restructuring upon Business Locations

A key feature of transfers of engagements is that the membership is combined and that existing services in the transferee credit union are maintained and, in certain instances, expanded as a result of the completed transfer. While the level of restructuring in the sector has seen a significant reduction in the number of individual credit unions, the change in the number of locations where credit union services have been offered has not been as significant. Table 3 below, which is based upon data provided by credit unions in their Annual Return, indicates a key impact of restructuring has been a rise in the number of credit unions operating from multiple business locations. Over the review period, while there has also been a reduction in the total number of business locations reported by credit unions, of 51 (or 8.4% of the total business locations), an analysis of business locations by transferor and transferee has shown that of the 51, only 34 closures of business locations were related to restructuring. In many cases this has been to eliminate

*A key outcome of the significant level of restructuring within the credit union sector, has been the reshaping of the asset profiles, with a material decrease in the number of smaller credit unions and a corresponding increase in the number of larger credit unions.*

duplication over the branch network where members could utilise an alternative nearby business location. The analysis indicates that there were no business location closures in 77% of TOEs. The balance of 17 closures related to strategic decisions taken by boards.

Table 3 - Number of Credit Union Business Locations

No. of Business Locations	Sept 13	Sept 14	Sept 15	Sept 16	Sept 17
1 (Registered Office)	257	247	214	156	135
2	80	79	65	63	62
3	38	37	38	37	35
4	9	7	13	14	14
5	5	5	8	9	8
6	3	2	2	2	2
7	0	1	2	7	10
8	0	1	0	2	1
9	0	0	0	0	1
10	0	0	1	0	0
<b>Total Business Locations</b>	<b>610</b>	<b>596</b>	<b>586</b>	<b>571</b>	<b>559</b>
<b>Total Movement</b>		<b>-14</b>	<b>-24</b>	<b>-39</b>	<b>-51</b>
<b>% Change</b>		<b>-2.3%</b>	<b>-3.9%</b>	<b>-6.4%</b>	<b>-8.4%</b>

Source: Credit Union Annual Returns

#### 4.4 Membership

Information submitted in returns to the Central Bank indicates that the reduction in the number of individual credit unions has not negatively impacted upon membership numbers of the credit union sector, with reported total membership numbers continuing to increase over the review period as set out in Table 4.

Table 4 - Credit Union Membership

Year	2013	2014	2015	2016	2017	Increase over period	% Change
<b>Total Members ('000)</b>	3,121	3,118	3,162	3,266	3,315	194	6.2%

Source: Credit Union Annual Returns

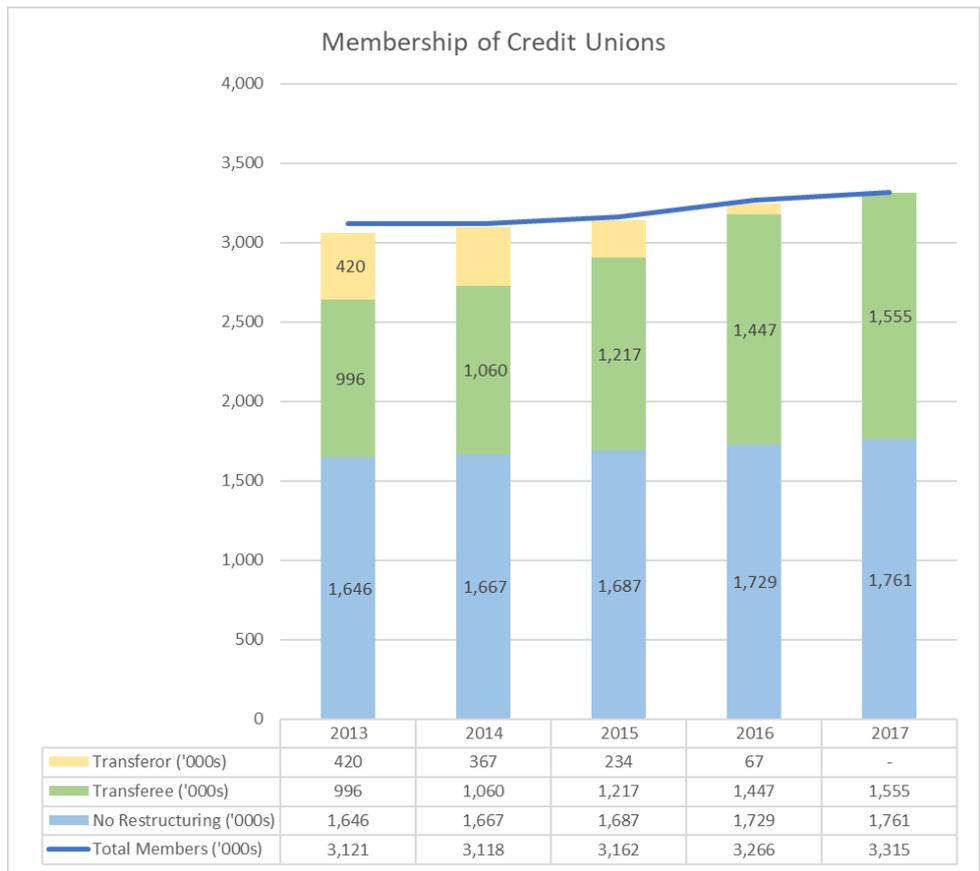
Over the review period there was a reported increase of circa. 194,000 members in credit unions. However, the impact of restructuring has resulted in a variance in rates of membership growth over the review period. As Figure 2 – Evolution of Credit Union Membership 2013 to 2017 shows, those credit unions that have not engaged in restructuring have seen their membership increase by circa. 114,000 members, or aggregate growth in membership 6.9%.

However, for credit unions that have engaged in restructuring, membership growth reflects the addition of transferor members to the transferee's membership base – for restructured credit unions this resulted in a total increase in membership of circa. 559,000 over the review period. When the reduction in the membership of transferor credit unions of circa. 420,000 is excluded, there is underlying organic growth of 139,000 in the restructured credit unions – a growth rate of 9.8%. This is set out in Figure 2 – Evolution of Credit Union Membership.

Analysis of changes to business locations indicates that of the 135 TOEs from September 2013, there has only been a reduction of 34 business locations related to restructuring.

Circa. 420,000 credit union members have seen their membership transfer to another credit union as a result of restructuring.

Figure 2 - Evolution of Credit Union Membership 2013 to 2017



There was underlying growth in membership of 9.8% in transferee credit unions over the period 2013 to 2017, compared to 6.9% in credit unions that have not engaged in restructuring.

As Figure 2 - Evolution of Credit Union Membership 2013 to 2017 shows, the number of members within transferor credit unions which were subject to a TOE increased significantly from 53,000 in 2014, to 133,000 in 2015, before peaking at 167,000 in 2016, and then falling to 67,000 in 2017. This trend coincides with the peak of restructuring activity during the lifetime of ReBo.

Figure 3 - Membership by Asset Size - 2013

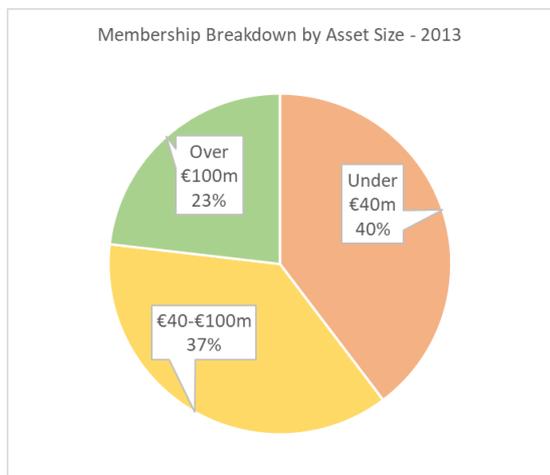


Figure 4 - Membership by Asset Size - 2017



As Figure 3 – Membership by Asset Size – 2013 and Figure 4 – Membership by Asset Size – 2017 show, the percentage of members that are within credit unions that have assets in excess of €100m has increased significantly, from 23% to 49%, over the review period. This is a result of both consolidation and organic growth in membership by these larger credit unions. These figures also show that there has been a corresponding decrease in the percentage of members that are within credit unions that have assets of less than €40m, which has declined from 40% to 20% of total membership over the review period.

#### 4.5 Financial Impact of Restructuring

This section sets out the impact of restructuring on the financial position (key balance sheet changes) and financial performance (key income and expenditure changes) of credit unions, and compares the performance, over the review period, of credit unions that have engaged in restructuring with the performance of credit unions that have not engaged in restructuring. More information on each of the key metrics is included in Appendix 3.

##### *Impact on Balance Sheets*

The main assets on a credit union balance sheet are loans and investments, while the main financial liabilities are member savings and the reserves of the credit union.

##### *Loans*

Overall, there was a slight decline in the value of loans in the credit union sector over the review period, with a fall of €28m, or 0.6%, from €4,482m to €4,454m. This performance is mirrored by the cohort of credit unions that have not engaged in restructuring, with an overall decline of €20m, or 0.8%, in these loan books.

However, this is in contrast to the growth in loans within the cohort of credit unions that engaged in restructuring, with aggregate loans increasing by €574m, or 39.6% over the review period. The majority of this growth was inorganic and achieved through the acquisition of transferor loan books. However, absent the inorganic aspect attributable to transferor loans, there was still underlying organic growth in the loan books of these credit unions of €140m, or 7.4%.

##### *Investments*

There was a significant increase in the aggregate total investments of the credit union sector over the review period of €2.4bn, or 26%. The cohort of credit unions that had not engaged in restructuring saw total investments increase by €1.4bn, or 27%. In line with the rest of the sector, there was also significant growth in investments held by the cohort of credit unions that engaged in restructuring, with aggregate investments increasing by €2.1bn, or 63%. When total investments held by transferor credit unions are excluded, there was underlying growth of €1.1bn, or 27%, indicating that the investments of these credit unions increased at a similar rate to those credit unions that did not engage in restructuring.

*The percentage of member that are within credit unions that have assets in excess of €100m has increased significantly, from 23% to 49%, over the period 2013 to 2017.*

*There was a slight decline in the value of loans in the credit union sector over the period 2013-2017, however transferee credit unions saw underlying growth of €140m, or 7.4% over the review period, in addition to significant inorganic growth.*

## Member Savings

At an aggregate sectoral level, the increase in investments is driven by an increase in savings over the review period, with overall member savings increasing by €2.3bn to €13.9bn, representing a 20% increase. For the cohort of credit unions that did not engage in restructuring, there was an aggregate increase in members' savings of €1.3bn, or just under 21%.

The movement in savings was significantly higher for credit unions that engaged in restructuring, as the savings of members of transferor credit were incorporated into the transferee savings. This drove an aggregate increase in savings of these credit unions of almost €2.4bn, or 60% over the review period. However, €1.2bn of this growth is attributable to the transferor credit unions; adjusting for this shows an underlying increase of €1.2bn representing an increase of 22%, indicating a marginally higher increase in savings for this cohort.

## Reserves

Adequate reserves support a credit union's operations, provide a base for future growth and protect against the risk of unforeseen losses. Section 45 of the Act requires credit unions to maintain reserves that '*are adequate having regard to the nature, scale, complexity and risk profile of its business.*' Credit unions need to maintain sufficient reserves to ensure continuity and to protect members' savings. The 2016 Regulations require a credit union to '*establish and maintain a minimum regulatory reserve requirements of at least 10 per cent of the assets of the credit union.*' Credit unions are expected to continue to allocate surplus funds to maintain reserves at an appropriate level having taken prudent account of the scale and complexity of the credit union's business, its risk profile and prevailing market conditions.

Credit union reserves are made up of retained earnings. The ability of a credit union to generate surpluses, and therefore grow their reserves, is a key factor in the assessment of the viability of a credit union.

Total reserves in the sector have increased from €2.1bn to €2.8bn over the review period. For credit unions that have not engaged in restructuring, there has been an increase in reserves of €364m, or 31% over the review period. For credit unions that engaged in restructuring, there has been an aggregate increase of €493m, or 67%. However, when the impact of transferor credit unions is removed, there has been an increase of €282m, or 30% over the review period.

*Over the period 2013 to 2017, overall member savings increased by €2.3bn to €13.9bn, representing a 20% increase.*

*Total reserves in the sector have increased from €2.1bn in 2013 to €2.7bn in 2017.*

## Impact upon Income and Expenditure

### Income

#### Loan Interest

Loan interest is the primary source of income for credit unions. Overall there has been a fall in loan interest income reported by credit unions in the review period. However there was an upturn in loan interest income across the sector from 2016.

Over the review period for credit unions that did not engage in restructuring loan interest income fell by €28m, or 12%. For credit unions that engaged in restructuring, when the movement in transferor loan income is factored in, there was an overall decrease of €15m, or 8.4%. As a result the decrease in loan interest income was less pronounced in credit unions that participated in restructuring.

#### Investment Income

Unlike loan interest which began to increase from 2016 onwards, there has been a consistent decline in investment income over the review period, and this has been reported across all cohorts. For credit unions that have not engaged in restructuring, there was a fall of €73m, or 49%. For credit unions that engaged in restructuring there has been a fall of €32m, or 30%. However when this is adjusted for the decline in investment income of transferor credit unions, there has been an overall decrease of approximately €58m, or 44%.

### Expenditure

Overall salaries and related costs increased by 17% over 2013-2017. In credit unions that have not engaged in restructuring salaries and related expenses increased by €12m, or 17%. After taking into account the pre-existing salary costs in transferor credit unions, there was an increase of €14m overall, or 23% in credit unions that engaged in restructuring. These cost increases may reflect movements to equalise salary levels for transferor staff to transferee levels. In addition, in several business cases prepared by credit unions, a key rationale for the completion of a TOE has been the opportunity to invest in strengthening the governance framework of the enlarged credit union through recruitment of additional staff resources. This increase in salary costs may therefore also reflect investment in enhanced governance within transferee credit unions.

The rate of growth of other expenses was significantly higher than salary growth, increasing by 29%, over the review period. There was divergence in the rate of growth, however in this case, with a higher rate of growth in the cohort of credit unions that have not engaged in restructuring. Credit unions who have not engaged in restructuring saw other expenses increase by €29m, or 39%. For credit unions that have engaged in restructuring, the increase was €36m, however when adjusted for other expenses of transferor credit unions, the actual underlying growth was lower at €18m, or 25%.

*Transferee credit unions have seen a fall in underlying total income of 16% over the period 2013 to 2017, while credit unions that have not engaged in restructuring have seen a larger fall of 23% over the review period.*

*There was underlying growth in other expenses of 25% in transferee credit unions compared to 39% in credit unions that have not engaged in restructuring. This lower rate of growth in other expenses may indicate the achievement of such savings by transferee credit unions.*

### Surplus and Return on Assets

On an aggregate level, there has been a significant decrease in the surpluses reported by credit unions over the review period. The main factors driving this have been the decrease in investment income as the impact of the low interest rate environment has reduced income on investments held by credit unions, and the reduction in loan interest income as loan books have declined. Surpluses have been supported over the review period by the release of bad debt provisions, which has had the impact of reducing reported expenditure. However this is not sustainable, and cannot be relied upon to continue to support surplus levels into the future.

While the decline has been observed across the sector, there is a noticeable divergence in performance of credit unions that have engaged in restructuring, compared to those that have not engaged in restructuring. Transferee credit unions have reported lower cost to income ratios, and have seen a lower level of reduction in their surpluses, from €113m to €88m, or 22%, while credit unions that have not engaged in restructuring saw a fall from €179m to €96m, or 46%, over the same period. As shown in the previous sections of this report, this is the result of acquiring income generating assets (loan books and investment portfolios) that have supported their surplus generation. This indicates that on an aggregate basis, there is a link between asset size and the total surplus generated.

However, increased asset size does not solely imply improved performance on a return on asset basis. As noted previously, asset sizes for credit unions that have engaged in restructuring have been increasing at a greater rate than credit unions that have not engaged in restructuring. The median return on assets for credit unions that have engaged in restructuring was higher than the median result for credit unions that have not engaged in restructuring in 2017.

*Transferee credit unions that have completed TOEs have seen a lower level of reduction in their surpluses, from €113m to €88m, while credit unions that have not engaged in restructuring saw a fall from €179m to €96m over the same period.*

*The median return on assets for transferee credit unions was higher in 2017 at 1.1% than the median result for credit unions that have not engaged in restructuring, at 1.0%.*

## Summary of Findings

### *Change in Profile of Asset Sizes*

As restructuring has predominantly involved smaller asset sized credit unions with less than €40m in total assets, restructuring has led to a significant change in the profile of asset sizes in the credit union sector. Between 2013 and 2018 there was a 58% reduction in the number of credit unions with total assets of less than €40m, from 285 to 119. The result of this consolidation was a 93% increase in the number of credit unions with total assets greater than €100m, from 28 to 54. This is in the context of an overall decrease of 35% in the total number of active credit unions, from 393 to 254. Despite this decrease, total assets in the sector increased by 27% over the review period, from €13.9bn to €17.6bn.

### *Impact of Restructuring upon Membership*

As a result of restructuring in the review period, circa 420,000 members have transferred from a transferor credit union to a transferee credit union. The volume of restructuring that has taken place has not negatively impacted the increasing levels of membership. An analysis of the movement in membership indicates that there has been a higher rate of growth in membership in credit unions that have completed restructuring.

### *Impact of Restructuring upon Financial Performance*

There has been a significant decrease in income generated by credit unions over the review period. Loan interest income is the most important source of income for credit unions. Transferee credit unions saw significant growth as they benefitted from inorganic growth following restructuring. When this is excluded, there was still a lower level of reduction in underlying loan interest income in credit unions that engaged in restructuring at 8.4% versus 12% in credit unions that did not engage in restructuring.

There has been a large decrease in the level of investment income earned as investment returns declined. However, as investments have increased at a faster rate in credit unions that have engaged in restructuring, the decline in investment income was at a slower pace in these credit unions, declining by 44% versus a 49% decline in credit unions that did not engage in restructuring.

While investment returns have been declining, total expenditure, which had fallen over 2013-2016 in line with increasing releases of provisions over the review period, has been increasing since 2016. One factor contributing to this increase has been an increase in salary costs. A divergence in salary costs has been noted between credit unions that have engaged in restructuring and those that have not, with underlying salaries and related expenses increasing by 23% over the review period. This contrasts with increases of 17% in credit unions that have not engaged in restructuring.

However, over the review period, there has been a lower rate of underlying growth in other expenses in transferee credit unions, increasing by 25% compared to an increase of 39% in credit unions that have not engaged in restructuring.

Overall, the impact has been a divergence in the trends of surplus levels reported by transferee credit unions and credit unions that have not engaged in restructuring. As transferee credit unions have grown, the growth in their income earning assets has offset the decline in income, resulting in higher overall income. On a return on assets basis, there has been a marginal divergence between the cohorts, with transferees reporting a median return on assets of 1.1%, versus 1.0% for credit unions that have not engaged in restructuring.

*A primary result of restructuring since 2013 is a 93% increase in the number of credit unions with total assets greater than €100m.*

*Approximately 420,000 members have transferred from a transferor credit union to a transferee credit union.*

*An analysis of the financial performance indicates that transferee credit unions are achieving cost savings and economies of scale, and marginally better returns on assets.*

### Impact of Restructuring on Business Locations

While there has been a significant volume of restructuring, the reduction in the number of registered credit unions has not been mirrored by a similar reduction in the number of business locations. In the majority of transfers, the business locations operated by transferor credit unions continue to be operated by the transferee credit unions following the completion of the TOE. While there has been a reduction of 51 business locations, or 8.4%, over 2013-2017, only 34 of these were related to restructuring.

### Level and Location of Restructuring

There has been a significant level of restructuring over since 2008, with the majority of this restructuring taking place from 2013 onwards. Over that period 154 individual transferor credit unions transferred their engagements to another credit union. Restructuring was geographically diverse, with almost all counties experienced some level of restructuring, as indicated in the table below.

Table 5 - Restructuring by County

% of Credit Unions Completing Restructuring by County 2008 - September 2018	
None	Leitrim, Monaghan
10 - 20%	Longford, Waterford
21 - 30%	Cavan, Cork, Donegal, Offaly, Tipperary
31 - 40%	Limerick, Louth, Mayo, Meath, Roscommon, Sligo, Westmeath, Wicklow
41 - 50%	Carlow, Clare, Dublin, Galway, Kerry, Kilkenny, Wexford
Over 50%	Kildare, Laois

The major impact of restructuring upon business locations has been the development of business networks by transferee credit unions. In 2013, only 17 credit unions had more than three business locations, with the three largest of these 17 networks having six business locations. In contrast, by 2017, 36 credit unions operated from more than three business locations, while 10 credit unions had networks with seven business locations, while one credit union operated from eight business locations, and one operated from nine business locations.

### Impact of Restructuring upon Credit Union Assets

The number of credit unions with assets greater than €100m increased by 25, from 28 to 53 over 2013 to 2017. Of these 25 credit unions, 19 realised inorganic growth through the completion of transfers of engagements, while only six increased their assets above €100m through organic growth (reflective of savings increases).

During the review period, the credit unions that were not engaged in any restructuring saw their aggregate assets increase by €1.6bn from €7.6bn to €9.2bn, with average growth rates of 22% over 2013-2017. In contrast, the 60 individual credit unions that were transferees in a TOE saw their aggregate assets increase by €2.9bn from €4.8bn to €7.6bn, with average growth rates of 72%.

Sector wide, there has been a marginal decrease in loans of 0.6% over the review period. This is reflected in the decline of 0.8% in the loans of credit unions that have not engaged in restructuring. However transferee credit unions have seen their underlying loans increase by 7.4%, in addition to significant inorganic growth arising from the completion of transfers of engagements. While both cohorts have seen their total loan to asset ratio decrease to 26%, transferee credit unions have seen a lower median decrease at 4.1% reduction versus a 5.7% median reduction in loan to asset ratios in credit unions that have not engaged in restructuring.

*The reduction in the number of credit unions has not been mirrored by a similar reduction in the number of business locations.*

*The increase in the number of credit unions with assets of over €100m is driven primarily by restructuring, with 19 credit unions growing their assets to over €100m over 2013 to 2017 as a result of restructuring.*

There has been an increase of 26% in investments held by the credit union sector between 2013 and 2017. Credit unions that have not engaged in restructuring have seen their investments increase by 27%. The underlying growth in investments was similar in transferee credit unions at 27%.

#### *Impact of Restructuring on Reserves*

While it is difficult to isolate the impact of restructuring upon reserves, a useful statistic when comparing the performance of credit unions that have engaged in restructuring with those that have not engaged in restructuring, is to compare the mean (or average) and median (or middle value) reserve ratios for each cohort. This analysis reveals that for both cohorts there has been an increase in both the mean and the median reserves ratio over the review period. However, the increase in the cohort of credit unions that have engaged in restructuring is slightly smaller, with the mean reserve ratio increasing to 16.7% versus 16.9% for other credit unions, although as credit unions that have engaged in restructuring have grown their assets faster, this has had an impact on their reserve ratios.

#### *Impact of Restructuring on Member Savings*

The major source of funding for credit unions is member savings. The growth in asset sizes across the sector has been driven by a significant increase in savings by members, with overall savings increasing by 20%. It is evident that there is a marginally higher rate of underlying growth in savings in transferee credit unions than in credit unions that have not engaged in restructuring. Transferee credit unions, in addition to the inorganic growth in savings, have also seen underlying organic savings growth of 22% compared to growth of 21% in other credit unions.

*Transferee credit unions have seen their underlying loans increase by 7.4% over 2013 to 2017, in addition to significant inorganic growth arising from the completion of transfers of engagements.*

## 5. Conclusions

There are a number of conclusions that can be drawn from the findings in Section 4, which are set out below.

### 5.1 Transformation of the Credit Union Sector from Restructuring

The Credit Union Advisory Committee ('CUAC'), in their review of Implementation of the Recommendations in the Commission on Credit Unions Report, considered that '*restructuring has reduced the number of credit unions leading to larger and fewer credit unions which should provide a more solid base for the sector.*'

The thematic review sets out the transformation of the credit union sector since 2013. Over the review period credit unions with smaller asset sizes have reduced, giving rise to an increase in credit unions with larger asset sizes that have multiple business locations. The number of credit unions with assets of less than €40m reduced by 50.5% from September 2013 to September 2017, while the number of credit unions operating from a single business location reduced from 257 to 135. In contrast, the number of credit unions with assets in excess of €100m increased by 89%, while the percentage of credit unions operating from more than one business location increased from 34% to 50%. In 2013 the three largest branch networks had six business locations each, while in 2017 there were 10 credit unions operating from seven locations, one from eight locations, and one from nine locations.

One of the impacts of this transformation has been a greater level of membership engagement in transferee credit unions. This has been evidenced by faster rates of membership growth in transferee credit unions. This growth in membership has been accompanied by an increase in savings, which has in turn led to a faster rate of growth in investments in transferee credit unions. There has also been an increase in underlying loan book growth (of 7.4%) in transferee credit unions, while aggregate loan books in credit unions that have not engaged in restructuring have fallen marginally (0.8%).

These faster rates of growth may indicate that transferee credit unions are achieving positive benefits from a multi-location business network post restructuring.

### 5.2 Link between Asset Size and Surplus

While income and return on assets have been declining across the sector, analysis of reported figures support the finding that there is a strong link between asset size and surplus. The portion of surpluses earned in the sector by the largest credit unions is increasing, with a consequent decline in the portion earned by the smallest credit unions.

There are two key conclusions that can be drawn from the report on the link between asset size and surplus.

Firstly, while income declined significantly across the sector from 2013 to 2017, due to weak credit demand and lower interest rates, transferee credit unions have been able to mitigate some of impacts of the decline. Initially they have done so by engaging in inorganic growth through restructuring. As well as giving transferee credit unions a larger base of income generating assets, in the form of transferred loans and investments, this inorganic growth has also led to faster underlying organic growth in investments and loans. This suggests that restructuring has enhanced the financial performance and outlook of transferee credit unions, albeit challenges remain given low loan to asset ratios for many credit unions.

*Restructuring has led to a transformation in the sector, where many credit unions with smaller asset sizes have transferred to credit unions with larger asset sizes that have multiple business locations.*

*Faster rates of growth may indicate that transferee credit unions are achieving positive benefits from their greater size and scale and a multi-location network post-restructuring.*

*Restructuring has enhanced the financial performance and outlook of transferee credit unions, albeit challenges remain given low loan to asset ratios for many credit unions.*

Secondly, for credit unions that have engaged in restructuring there has been a lower rate of increase in other expenses (25% versus 39%). This appears to indicate that credit unions that engage in restructuring have been able to avoid duplication of some costs, and/or achieve economies of scale. Cost savings are cited as a rationale for restructuring in the majority of business cases prepared to support restructuring, and this evidence supports the rationale. This finding also indicates that there are economies of scale as fixed costs such as IT costs and costs associated with governance can be spread across a larger asset base.

However, as stated in section 4, there has been a higher increase in salary costs for those credit unions that have engaged in restructuring (23% versus 17%) than for credit unions that have not engaged in restructuring. While some of this increase in salary costs may arise from wage inflation, it may also indicate, as noted in several business cases, a strategic decision to invest further in resourcing risk and compliance functions.

Despite the higher rate of increase in salaries, overall, transferee credit unions have been able to expand in size, growing their income generating assets, and limiting the decline in their income, while also achieving economies of scale and increasing their other costs at a lower rate. This indicated that based on the above metrics, transferee credit unions currently appear to be outperforming the rest of the credit union sector.

*Overall, transferee credit unions have been able to increase asset size, grow income generating assets, and limit the decline in income, while also achieving economies of scale and increasing other costs at a lower rate.*

## 6. Recommendations

### *Consideration of the strategic opportunities that restructuring can present*

In line with Section 53 of the Act, the board of directors of a credit union have responsibility for the general control, direction and management of a credit union. The board also have responsibility under Section 76A of the Act for setting the objectives of a credit union and the strategies and policies for achieving those objectives.

When setting strategic objectives, boards of all credit unions should consider the findings of this report and the potential strategic opportunities that restructuring may present. In particular, boards should consider the opportunities that the transformation into regional credit unions with expanded branch networks could offer the members of their common bonds, and whether there are opportunities to further increase membership and engagement in their common bonds through the completion of a TOE.

### *Requirement to grow lending*

As set out in this report, income has fallen across the sector. This has been driven largely by a fall in investment income as yields have fallen in the low interest rate environment. However, there has also been weak demand for credit which has resulted in declining loan to asset ratios across the sector, as loan levels have remained relatively stagnant while member savings and credit union assets have increased.

The credit union business model is centred upon lending to members, and the viability of the model is challenged by falling loan to asset ratios, while costs continue to increase. The challenge for all credit unions is to grow their lending in a sustainable way, through engagement with members and offering the products and services desired by members in the locations and channels they require.

Transferee credit unions have experienced greater levels of engagement with members, which has manifested as higher growth rates in membership and savings, but also there has also been higher rates of organic growth in the loan books of these credit unions.

### *Cost control*

While total costs reduced throughout the credit union sector from 2013 to 2016, they have been increasing since 2016. All credit unions should examine their cost structures to seek opportunities to eliminate duplicated costs, and seek to avoid unnecessary expenditure. Credit unions should also seek to maximise any potential economies of scale across their business locations.

Restructuring can help credit unions to realise cost savings as they can eliminate duplicated non-salary costs such as IT maintenance costs, and achieve economies of scale as core business functions are utilised across a larger organisation and multiple locations. Boards of credit unions should be mindful of the potential for cost efficiencies and economies of scale that can arise through restructuring opportunities.

Finally, while this report focuses on quantitative analysis of the impact of restructuring, it is important to stress that any decision on restructuring should also focus on qualitative aspects, including the overall member experience.

*When setting strategic objectives, boards of all credit unions should consider the findings of this report and the potential strategic opportunities that restructuring can present.*

*Restructuring can help credit unions to realise cost savings as they can eliminate duplicated costs and achieve economies of scale as core business functions are utilised across a larger organisation and multiple locations.*

## Appendix 1 - Transfers of Engagement Resources

### Credit Union Handbook

<https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/credit-unions/credit-union-handbook/cu-handbook--transfers.pdf?sfvrsn=10>

### Transfers of Engagements Explanatory Booklet

<https://centralbank.ie/docs/default-source/Regulation/industry-market-sectors/credit-unions/credit-union-handbook/transfer-of-engagements-explanatory-note-and-related-forms-may-2012.pdf?sfvrsn=4>

## Appendix 2 – Transfer of Engagements Process

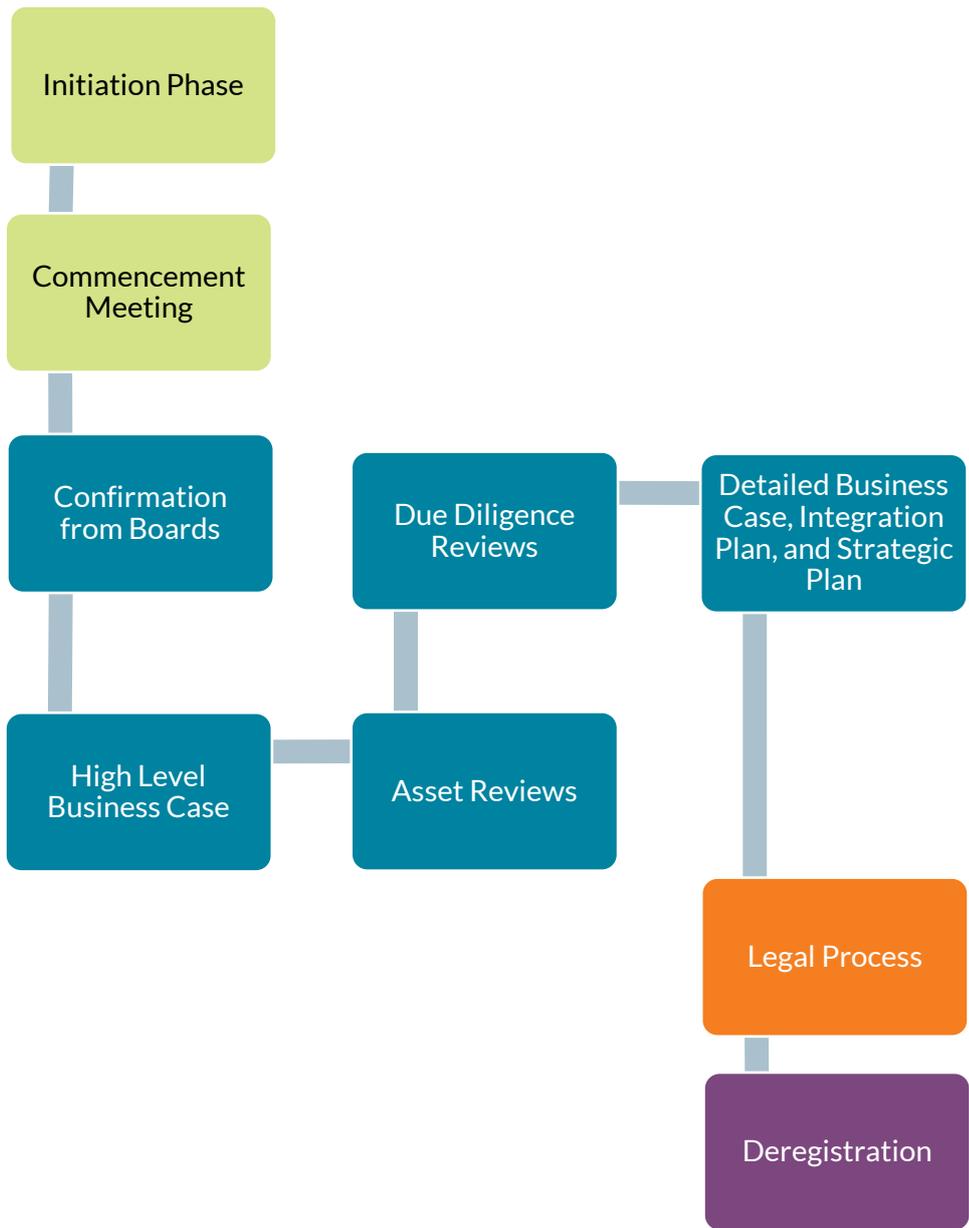
### *Steps in the TOE Process*

There are a number of steps in the TOE process, which aim to ensure that all potential risks are identified and mitigated prior to completion of the TOE. These steps typically include:

1. An Initiation Phase where credit unions complete initial negotiations before jointly approaching the Registry. From this point the Registry will engage with the credit unions on each step.
2. Once the interested credit unions contact the Registry, a commencement meeting will be arranged, at which the process will be outlined and a timeline will be established for the TOE. Credit union boards will be asked to provide confirmation that any potential issues have been agreed.
3. A High Level Business Case must then be prepared by the credit unions setting out the rationale for the TOE and how the combined business would operate (the level of detail required at this stage will vary on a case by case basis).
4. An Asset Review is undertaken of both the transferee and the transferor(s).
5. The boards of the transferee and the transferor(s) credit unions undertake a Due Diligence Review of each credit union.
6. The Business Case is revised to reflect the review findings, the transferee's Strategic Plan is updated to reflect the TOE, and a detailed Integration Plan and Communication Plan is prepared.
7. If the credit unions receive approval to proceed with the transfer, they then enter the Legal Process. This is made up of three stages:
  - a. Approval Stage where the transfer is approved by either by a resolution of the members or by a resolution of the board of both credit unions.;
  - b. Application Stage when an Instrument of Transfer is then prepared by the credit unions and submitted to the Registrar of Credit Unions along with an application for confirmation of the TOE, and a confirmation that the credit unions are operationally ready to complete the transfer; and
  - c. Confirmation Stage when the Registrar of Credit Unions confirms the TOE.
8. The registration of the transferor(s) credit union is cancelled once the secretary of the transferor(s) confirm, by way of a Section 136 Certificate, that all assets and liabilities have been transferred to the transferee.

The TOE process is outlined in Figure 5 - Transfer of Engagement Process.

Figure 5 - Transfer of Engagement Process



The timeline for completion of a TOE varies for each project. This can be as short as 12 weeks where a project is expedited, however, in most projects a typical timeline for completion is six to nine months.

The project timeline will be discussed at the commencement meeting, and will be agreed by all parties. The timeline may be impacted by the findings of the Asset Review and the Due Diligence Review. Where significant issues come to light, it is expected that these will be addressed prior to the completion of the TOE project.

## Appendix 3 – Financial Impact of Restructuring

The information in this appendix supports and expands on the high level overview reported in section 4.5 of the report.

### Balance Sheet

#### Asset Size

The number of credit unions with an asset size of €100 million or greater increased from 28 credit unions at 30 September 2013 to 53 credit unions at 30 September 2017.

Table 6 - Change in Number of Credit Unions by Asset Size

Asset Size	2013	2014	2015	2016	2017	Change	% Change
<€40m	285	268	227	163	141	- 144	-51%
€40m- €100m	80	81	78	81	78	0	0%
>€100m	28	31	37	48	53	25	89%
No.	393	380	342	292	272	- 121	-31%
Total Assets	€13.9bn	€14.2bn	€15.0bn	€16.0bn	€16.8bn	€2.9bn	21%

Source: Credit Union Annual Returns

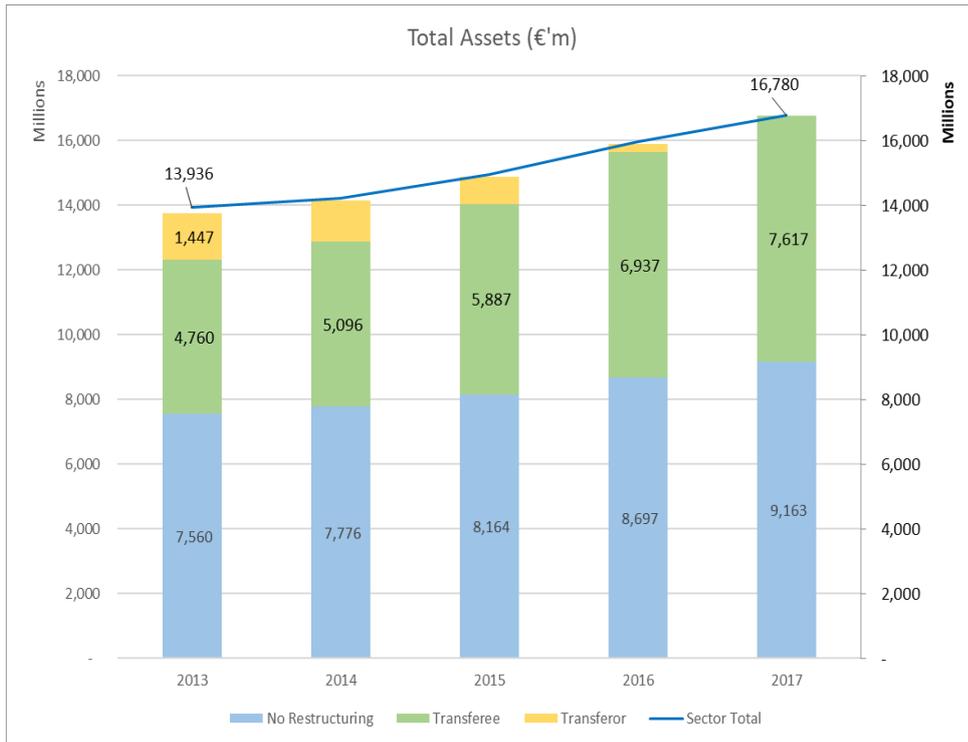
As at 30 September 2017 credit unions with assets of €100 million or greater accounted for 55% of total sector assets, while credit unions with assets of less than €40 million accounted for 16% of total sector assets. This represents a considerable change in the structure of the sector since 30 September 2013 when the assets of credit unions with assets of €100 million or greater accounted for 31% of total sector assets, while credit unions with assets of less than €40 million accounted for 33% of total sector assets. As noted above, the number of credit unions with an asset size of €100 million or greater has increased from 28 credit unions at 30 September 2013 to 53 credit unions at 30 September 2017. Of the increase, 19 resulted from restructuring, while six resulted from organic balance sheet growth.

An analysis of financial position for the years 2013 to 2017 demonstrates the increase that restructuring has had upon the asset sizes of credit unions who have engaged in restructuring as the transferee in a TOE, compared to those credit unions that have not been engaged in restructuring.

During the review period, the credit unions that were not engaged in any restructuring saw their aggregate assets increase by €1.6bn, or 21% from €7.6bn to €9.2bn. In contrast, the increase in asset sizes was much more pronounced in the cohort of credit unions that engaged in restructuring, as the impact of inorganic growth increased the assets of these credit unions. The 60 credit unions that were transferees in a TOE saw their aggregate assets increase by €2.9bn from €4.8bn to €7.6bn, with average growth rates of 72% with a median increase in asset size of 57%. When the impact of transferor credit unions is removed, there was an underlying increase of €1.4bn, or 23%, as shown in Figure 6 - Movement in Total Assets.

*During the period 2013 to 2017, credit unions that were not engaged in any restructuring saw their aggregate assets increase by €1.6bn, or 21% from €7.6bn to €9.2bn. In contrast, the 60 credit unions that were transferees saw their aggregate assets increase by €2.9bn from €4.8bn to €7.6bn, an increase of 60%.*

Figure 6 - Movement in Total Assets



The increase in the number of credit unions with assets of over €100m is driven primarily by restructuring, with 19 credit unions growing their assets to over €100m from 2013 to 2017 as a consequence of restructuring.

The variation in the movement of assets sizes of the cohorts is illustrated in Figures 7 and 8, which are profiles across three asset groupings: less than €40m, between €40m-€100m, and over €100m.

As set out in Figure 7 - Asset Sizes of Non-Transferee Credit Unions, the increase in the number of credit unions with assets of over €100m is driven primarily by restructuring, with six credit unions achieving that scale through organic growth. Figure 8 - Asset Sizes of Transferee Credit Unions demonstrates the increase in the number of credit unions with assets over €100m as a result of restructuring, with 19 credit unions increasing their assets above €100m over the review period.

Figure 7 - Asset Sizes of Non-Transferee Credit Unions

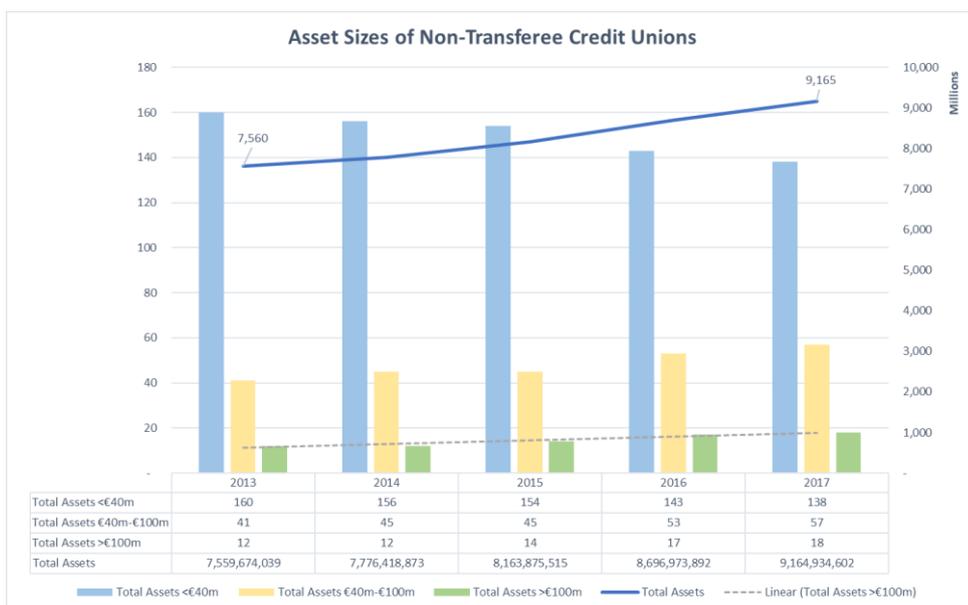
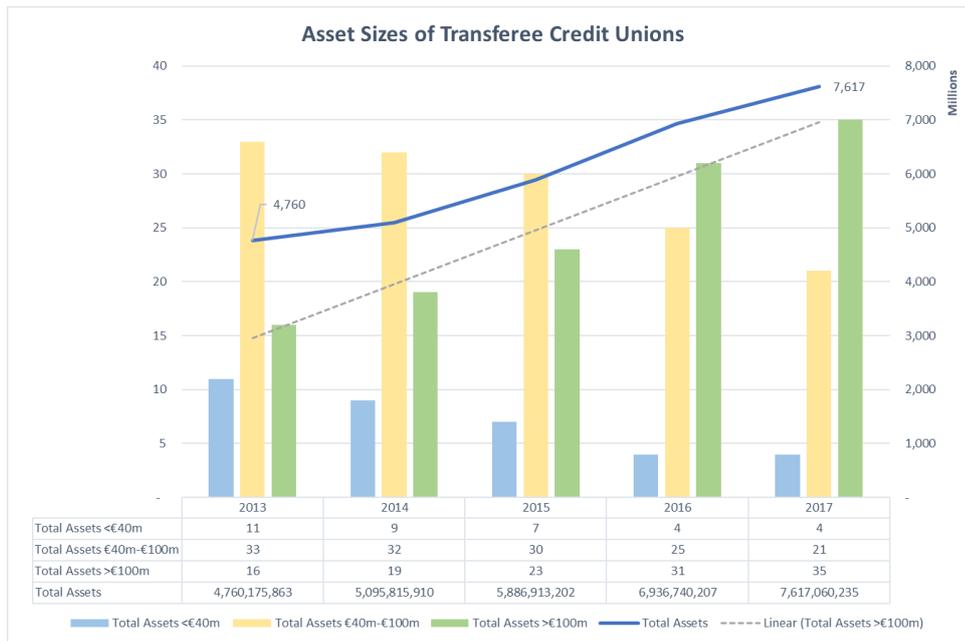


Figure 8 - Asset Sizes of Transferee Credit Unions

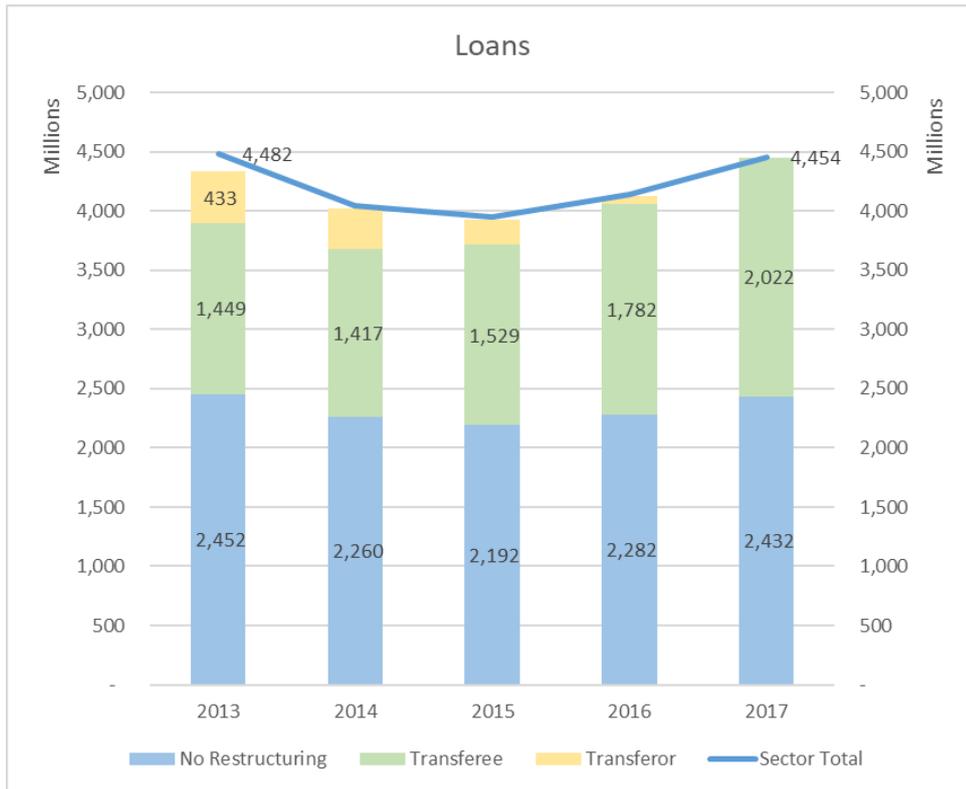


**Loans**

As Figure 9 - Movement in Loans demonstrates, overall, there was a slight decline in the value of loans in the credit union sector over the review period, with a fall of €28m, or 0.6%. This performance is reflected by the cohort of credit unions that has not engaged in restructuring, with an overall decline of €20m, or 0.8%, in these loan books.

However, this is contrasted by the growth in the loans within the cohort of credit unions that engaged in restructuring, with aggregate loans increasing by €574m, or 39.6%. As the chart below demonstrates, the majority of this was growth was inorganic and achieved through the acquisition of transferor loan books. When this movement in transferor loans is removed, there was underlying growth of €140m, or 7.4% over the review period.

Figure 9 - Movement in Loans



There was a slight decline in the value of loans in the credit union sector over the period 2013-2017, however transferee credit unions saw underlying growth of €140m, or 7.4% over the period, in addition to significant inorganic growth.

### Loan to Asset Ratio

While the overall loan book of the cohort that engaged in restructuring increased over the review period, this is in the context of an overall increase in the assets due to transfer activities. An analysis of the median loan to asset ratios of both the transferee cohort and the non-transferee indicates that both cohorts have seen a fall in the loan to asset ratio from 31% to 26%, however it is noted that the median decrease was 5.7% for credit unions that have not engaged in restructuring versus 4.1% for those credit unions that have engaged in restructuring.

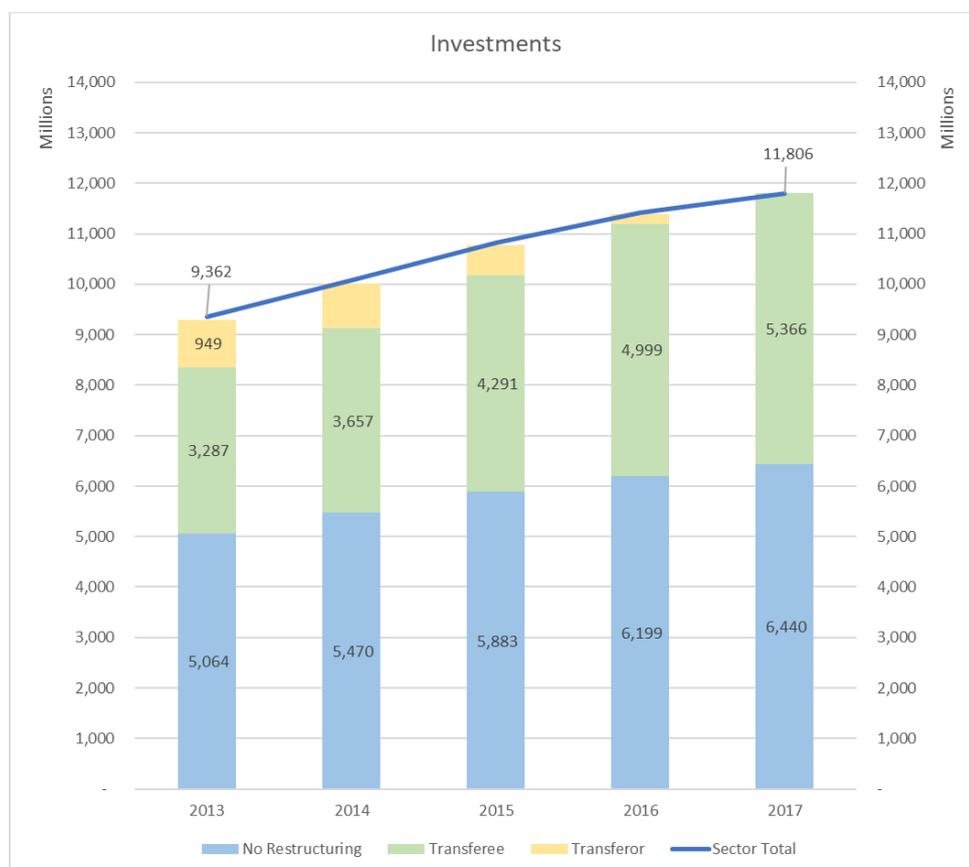
The median decrease in Loan to Asset ratios over the review period was 4.1% for transferee credit unions versus 5.7% for credit unions that have not engaged in restructuring.

### Investments

As Figure 10 - Movement in Investments sets out there was a significant increase in the aggregate total investments in the credit union sector over the review period of €2.4bn, or 26%. The cohort of credit unions that has not engaged in restructuring saw its total investments increase by €1.4bn, or 27%.

In line with the rest of the sector, there was also significant growth in investments held by the cohort of credit unions that have engaged in restructuring, with aggregate investments increasing by €2.1bn, or 63%. When adjusted for total investments held by transferor credit unions, there was underlying growth of €1.1bn, or 27%, indicating that the investments of these credit unions are increasing in line with the remainder of the sector.

Figure 10 - Movement in Investments



### Savings

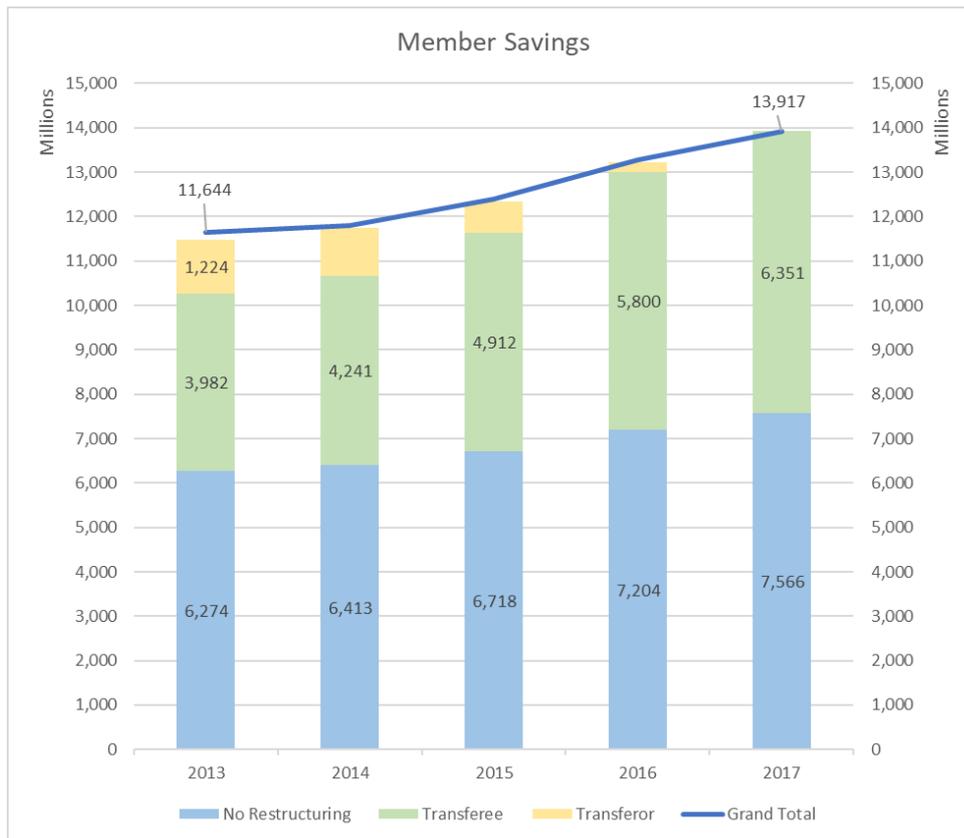
On an aggregate level, the increase in investments appears to be driven by an increase in savings in the sector over the review period, with overall member savings increasing by €2.3bn to €13.9bn, representing a 20% increase. This is shown in Figure 11 - Movement in Member Savings. For the cohort that did not engage in restructuring, there was an aggregate increase in members' savings of €1.3bn, or just under 21%.

The movement in savings was significantly higher for credit unions that engaged in restructuring, as the savings of members of transferor credit were incorporated into the transferee savings. This drove an aggregate increase in savings of these credit unions of almost €2.4bn, or 60% over the review period. However, €1.2bn of this growth is attributable to the transferor credit unions; adjusting for this shows an underlying increase of €1.2bn represented an increase of 22%, indicating a marginally higher increase in savings than for those not involved in transfers.

*Transferee credit unions had underlying growth of €1.1bn, or 27% in investments over the review period, which is in line with the 27% increase in credit unions that have not engaged in restructuring.*

*Transferee credit unions had underlying growth of €1.2bn, or 22% in savings over the review period, compared to 21% in credit unions that have not engaged in restructuring.*

Figure 11 - Movement in Member Savings



For credit unions that have not engaged in restructuring, there has been an increase in reserves of €364m, or 31% over the period 2013-2017. For credit unions that engaged in restructuring, there has been an aggregate increase of €493m, or 67% over the review period. However, when the impact of transferor credit unions is removed, there has been an underlying increase of €282m, or 30% over the review period.

### Reserves

Adequate reserves support a credit union's operations, provide a base for future growth and protect against the risk of unforeseen losses. Section 45 of the Act requires credit unions to maintain reserves that 'are adequate having regard to the nature, scale, complexity and risk profile of its business.' Credit unions need to maintain sufficient reserves to ensure continuity and to protect members' savings. The 2016 Regulations require a credit union to 'establish and maintain a minimum regulatory reserve requirements of at least 10 per cent of the assets of the credit union.' Credit unions are expected to continue to allocate surplus funds to maintain reserves at an appropriate level having taken prudent account of the scale and complexity of the credit union's business, its risk profile and prevailing market conditions.

Credit union reserves are made up of retained earnings generated by credit unions. The ability of a credit union to generate surpluses, and therefore grow their reserves, is a key factor in the assessment of the viability of a credit union.

As Figure 12 - Movement in Realised Reserves shows, realised reserves have increased for both cohorts of credit unions. For credit unions that have not engaged in restructuring, there has been an increase in reserves of €364m, or 31% over the review period. For credit unions that engaged in restructuring, there has been an aggregate increase of €493m, or 67%. However, when the impact of transferor credit unions is removed, there has been an increase of €282m, or 30%.

It is difficult to isolate the impact of restructuring upon reserves, however a useful statistic when comparing the performance of credit unions that have engaged in restructuring with those that have not, is to compare the mean and median reserve ratios for each cohort. This analysis reveals that for both cohorts there has been an

increase in both the mean and the median reserves ratio over the review period. However, transferee credit unions have marginally lower reserves, as shown in Figure 13 - Movement in Reserve Ratios.

Figure 12 - Movement in Realised Reserves

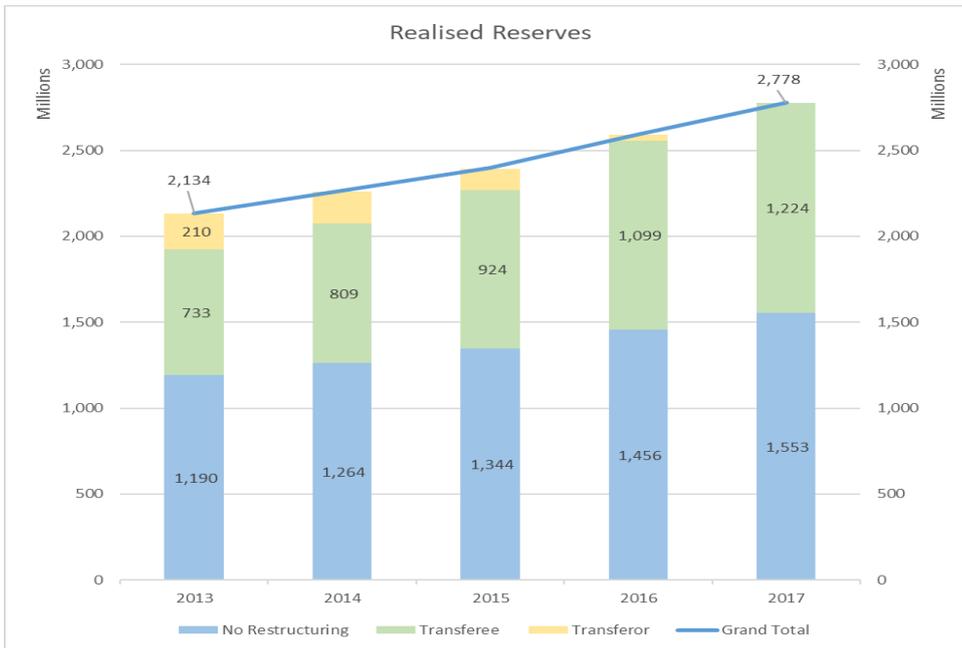
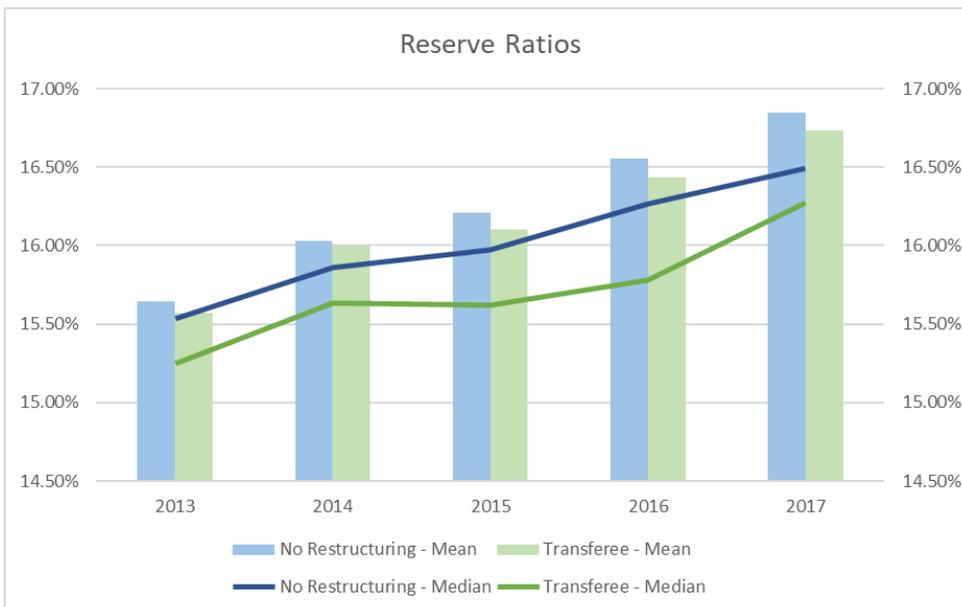


Figure 13 - Movement in Reserve Ratios



Two potential reasons have been identified. Firstly, as asset sizes increase, there is an impact on the reserve ratio. As noted above, the assets of transferee credit unions have grown faster than the assets of credit unions that have not engaged in restructuring. This increase in asset sizes puts downward pressure upon the reserve ratios of transferee credit unions.

Secondly, as credit union balance sheets are combined, where it is lower to begin with there can be a dilution impact from the reserve position of transferor credit unions upon the reserves of transferee credit unions. However, the impact of the transferor reserve position is mitigated somewhat by the difference in relative asset size.

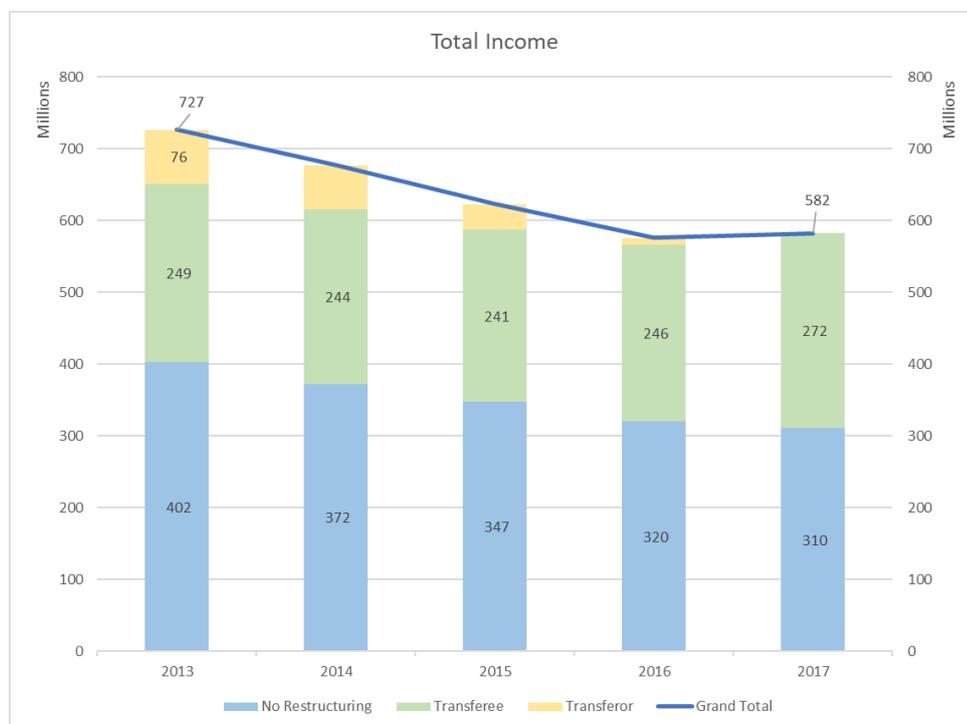
*As asset sizes increase, there is an impact on the reserve ratio. Although the assets of transferee credit unions have grown faster than the assets of credit unions that have not engaged in restructuring, there has only been a marginal dilution of reserve ratios.*

## Income & Expenditure

### Income

As Figure 14 - Movement in Total Income demonstrates, there has been a decline in the aggregate level of income in the sector over 2013 to 2016, with a slight increase in 2017.

Figure 14 - Movement in Total Income



*Transferee credit unions have seen a fall in underlying total income of 16% over the period 2013 to 2017, while credit unions that have not engaged in restructuring have seen a larger decline of 23% over the review period.*

There has been a variation in the performance of transferee credit unions and those credit unions that have not engaged in restructuring. Credit unions that have not engaged in restructuring have seen a €92m, or 23%, fall in total income over the review period. Transferee credit unions have seen an increase of €23m, or 9.2% over the review period, however when the impact of transferor credit unions is removed, there was an underlying decrease of €53m, or 16%.

The two primary sources of income for credit unions are interest on loans to members and income on the investment portfolio – both are examined below.

### Loan Interest Income

Loan interest income is the primary source of income for the credit union sector. Overall there has been a fall in loan interest income reported by credit unions in the review period, however there was an upturn in loan interest income across the sector from 2016 onwards.

As Figure 15 - Movement in Loan Interest Income sets out this overall performance has been mirrored by the cohort of credit unions that did not engage in restructuring, although over the review period loan interest income fell by €28m, or 12%.

Upon initial assessment, the loan interest income performance of credit unions that have engaged in restructuring appears superior, increasing by €30m or 23%. When the movement in transferor loan income is factored in, there is an overall decrease of €15m, or 8.4%. However this outperforms those credit unions that have not engaged in restructuring who saw a decline of 12%. It is also worth noting that as

Section 5.2 illustrates, loans are growing at a faster rate in transferee credit unions, and this may potentially lead to higher rates of growth in loan interest income going forward.

The challenge for the entire sector is to grow lending in a sustainable way to ensure higher income levels, and increased surpluses in order to safeguard the overall financial position of credit unions.

Figure 15 - Movement in Loan Interest Income



*Loans are growing at a faster rate in transferee credit unions, and this has led to a lower rate of decline in loan interest income over 2013 to 2017.*

### Investment Income

Unlike loan interest income which began to increase from 2016 onwards, there has been a consistent decline in investment income over the review period, and this has been reported across all cohorts. This decline in investment income is reflective of the low interest rate environment.

For credit unions that have not engaged in restructuring, there was a fall of €73m, or 49% over the review period. For credit unions that engaged in restructuring there has been a fall of €32m, or 30%. However when this is adjusted for the decline in investment income of transferor credit unions, there has been an overall decrease of approximately €58m, or 44%. This is shown in Figure 16 - Movement in Investment Income.

Overall transferee credit unions are reporting lower average cost to income ratios – this is shown in Figure 17 - Cost to Income Ratios.

Figure 16 - Movement in Investment Income

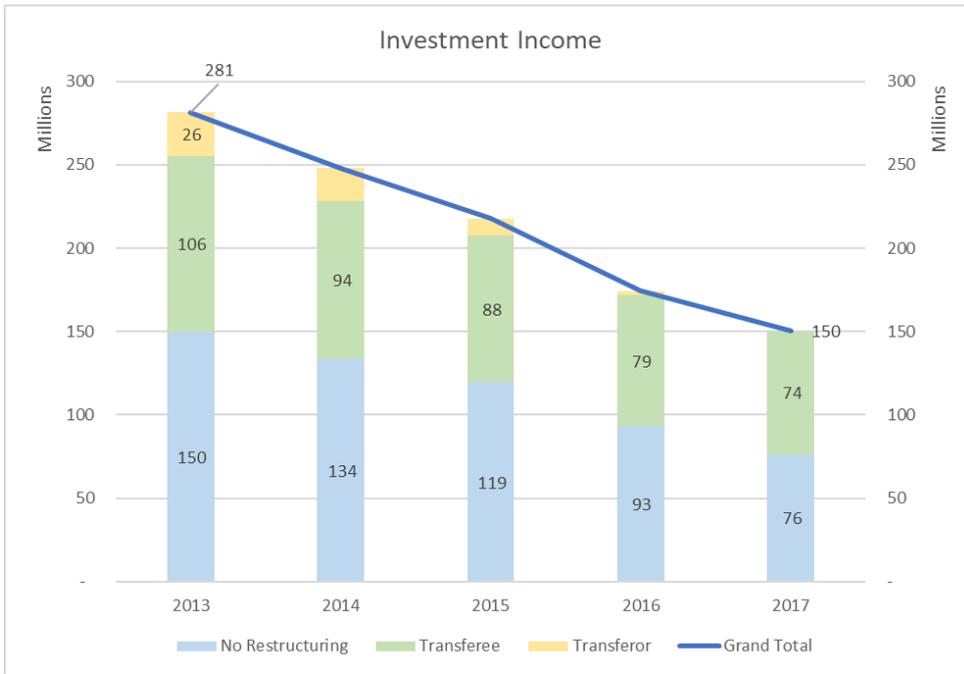
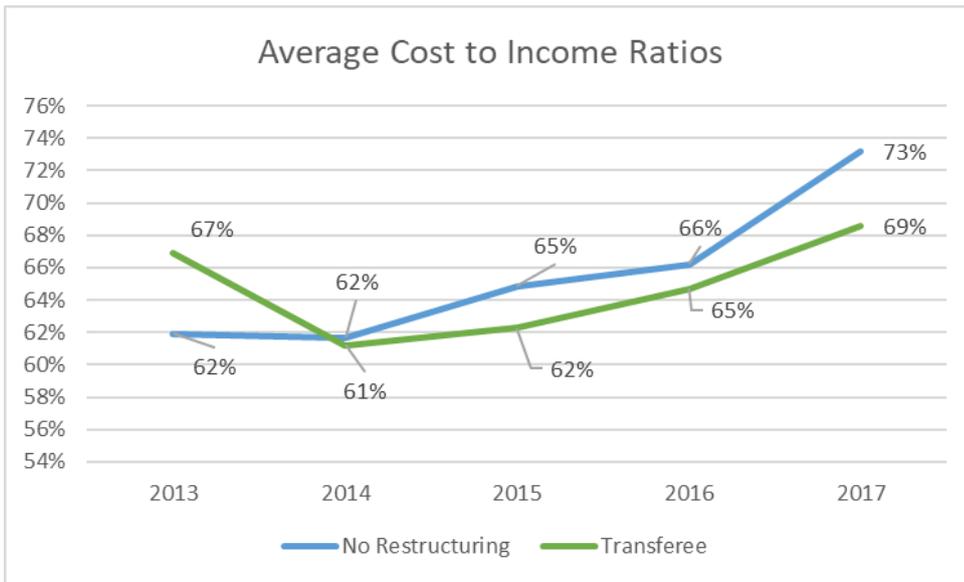


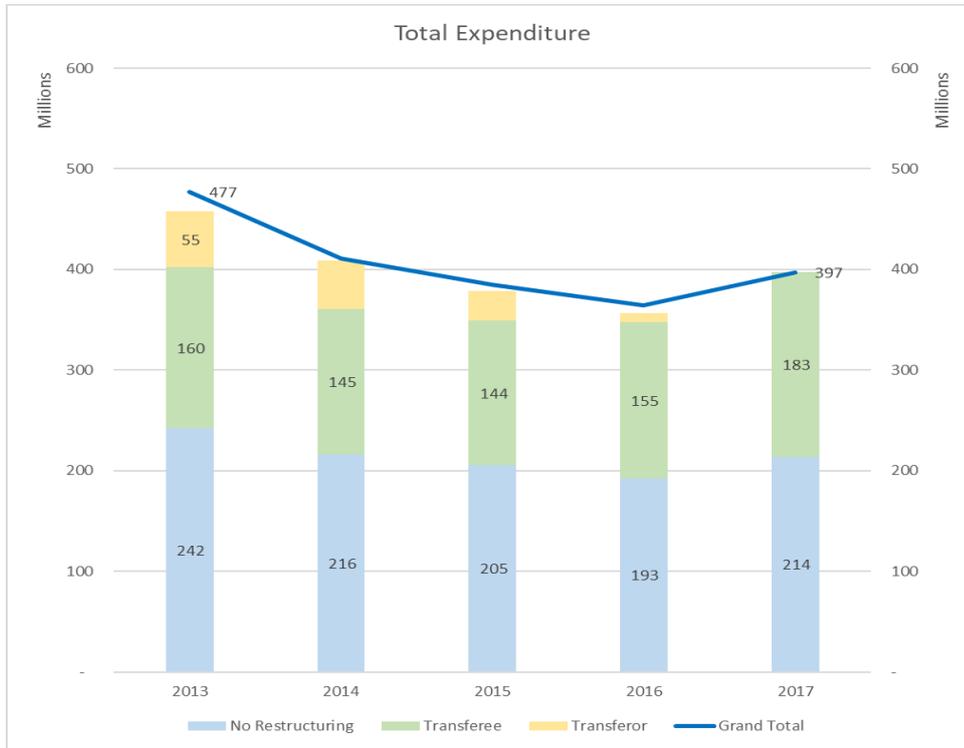
Figure 17 - Cost to Income Ratios



## Expenditure

On a sector wide basis, total expenditure has declined over the period 2013 to 2016, before increasing in 2017, as shown in Figure 18 - Movement in Total Expenditure.

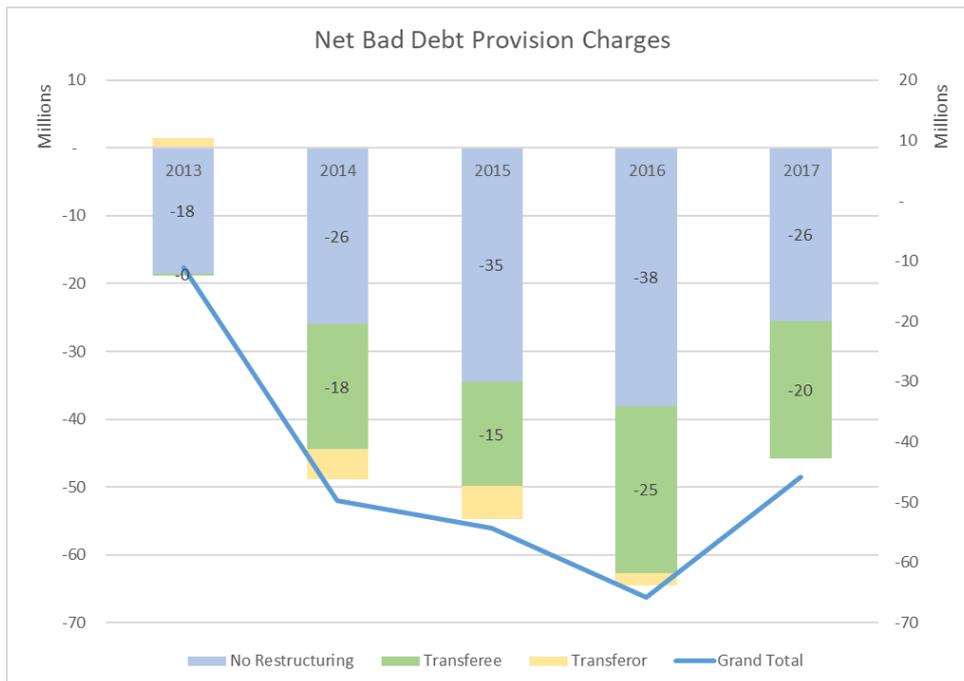
Figure 18 - Movement in Total Expenditure



Total expenditure has declined over 2013 to 2017, as many credit unions released bad debt provisions over the review period.

However, an analysis of the main components of expenditure reveal that the movement in total expenditure has been driven by a release of bad debt provisions over the review period, as shown in Figure 19 - Movement in Net Bad Debt Provision Charges, which has the effect of reducing the reported expenditure.

Figure 19 - Movement in Net Bad Debt Provision Charges



There are two major reasons for the movement in bad debt provisions. Firstly, an improving economic climate has seen improving arrears profiles on loan books, and secondly, the adoption of FRS102 prohibits general provisions, resulting in a release of general provisions by credit unions. This has also had an impact upon total asset sizes. Given these two factors, analysis has instead focused upon the other main components of expenditure reported by credit unions, namely salaries and related expenditure, and other expenses.

### Salaries and Related Expenses

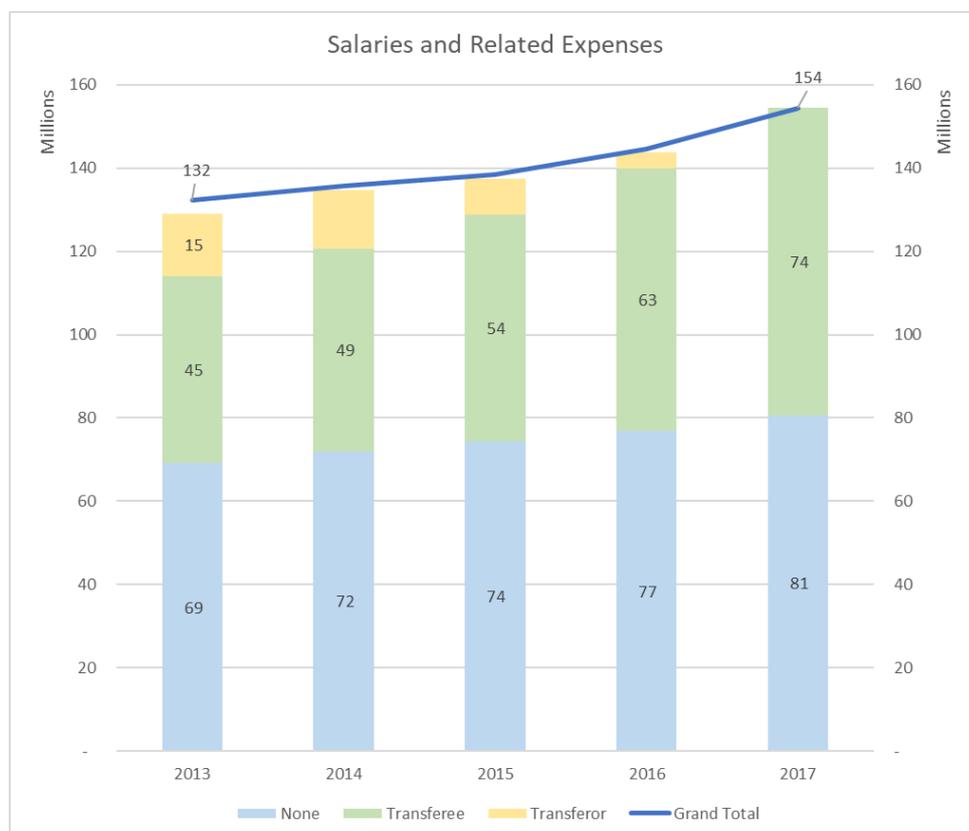
For salaries and related costs, there has been an increase in expenditure over the review period. As Figure 20 - Movement in Salaries and Related Expenses sets out there has been notable divergence in the rate of growth of salaries and related expenses between credit unions that have engaged in restructuring and those that have not.

While the salaries costs increased by €12m, or 17%, in credit unions that have not engaged in restructuring, the increase was €29m or 64% in credit unions that have engaged in restructuring. Absent the pre-existing €15m of salary costs in transferor credit unions, there was an increase of €14m overall, or 23% over the review period.

These increases in costs may relate to one-off factors upon the completion of transfers of engagements, such increases to standardise salary levels for transferor staff to transferee levels. However, a factor cited by several credit unions in the business case for restructuring is the opportunity to invest in their governance frameworks, employing more resources in Risk Management and Compliance.

*There was underlying salary growth of 23% in transferee credit unions over 2013 to 2017, versus 16% in credit unions that have not engaged in restructuring.*

Figure 20 - Movement in Salaries and Related Expenses



While Figure 20 - Movement in Salaries and Related Expenses shows that overall salaries and related costs increased by €22m, or 17% over 2013-2017, the rate of growth of other expenses was significantly higher, increasing by €44m, or 29%, as shown in Figure 21 - Movement in Other Expenses. Again, there was divergence in the rate of growth, however in this case there was a higher rate of growth in the cohort of credit unions that have not engaged in restructuring.

As Figure 21 - Movement in Other Expenses demonstrates, for credit unions who have not engaged in restructuring, other expenses increased by €29m over the review period, or 39%. However, for credit unions that have engaged in restructuring, the increase was €36m, albeit when adjusted for other expenses of transferor credit unions, the underlying growth was €18m, or 25%.

Figure 21 - Movement in Other Expenses



*There was underlying growth in other expenses of 25% in transferee credit unions over 2013 to 2017, versus 39% in credit unions that have not engaged in restructuring.*

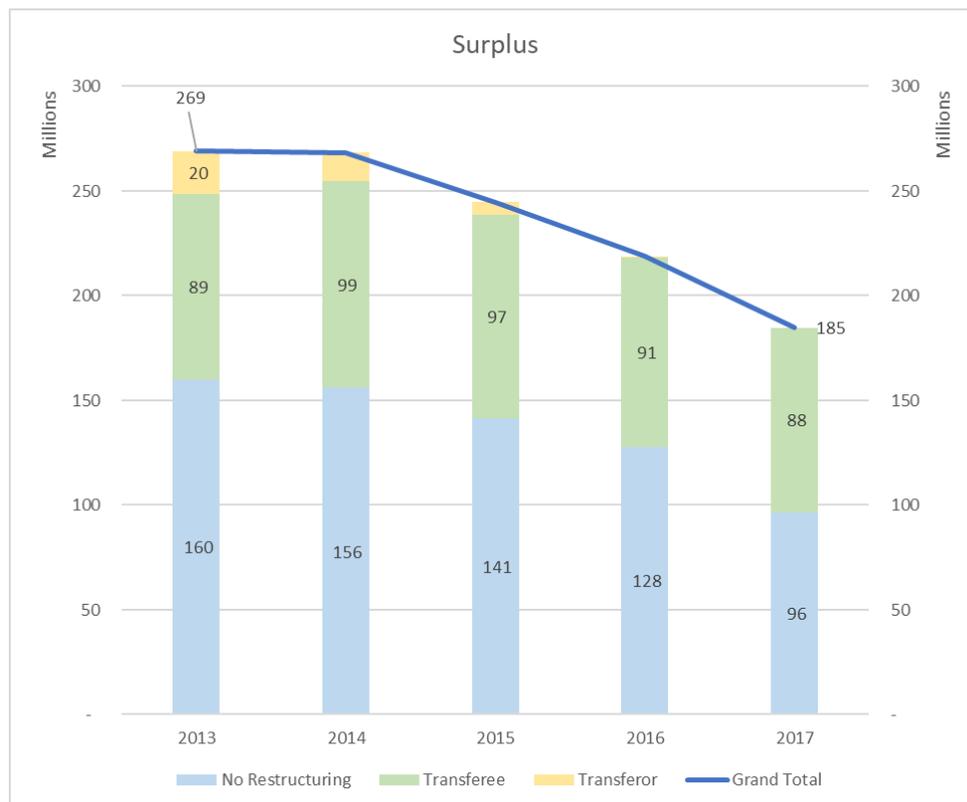
*This lower rate of growth in other expenses may indicate cost efficiencies being extracted by transferee credit unions.*

The elimination of duplicated costs and the achievement of economies of scale is often cited as a rationale for restructuring. This lower rate of growth in other expenses may indicate a level of cost extraction by transferee credit unions.

## Surplus and Return on Assets

On an aggregate level, there has been a significant decrease in the surpluses reported by the credit union sector over the review period, as shown in Figure 22 - Movement in Surplus. The main factors driving this have been the decrease in investment income as the impact of lower market yields has reduced investment income, and the reduction in loan interest income as loan books have declined. Surpluses have been supported over the review period by the release of bad debt provisions, which has had the impact of reducing reported expenditure. However this is not sustainable and cannot be relied upon to continue to support surplus levels.

Figure 22 - Movement in Surplus



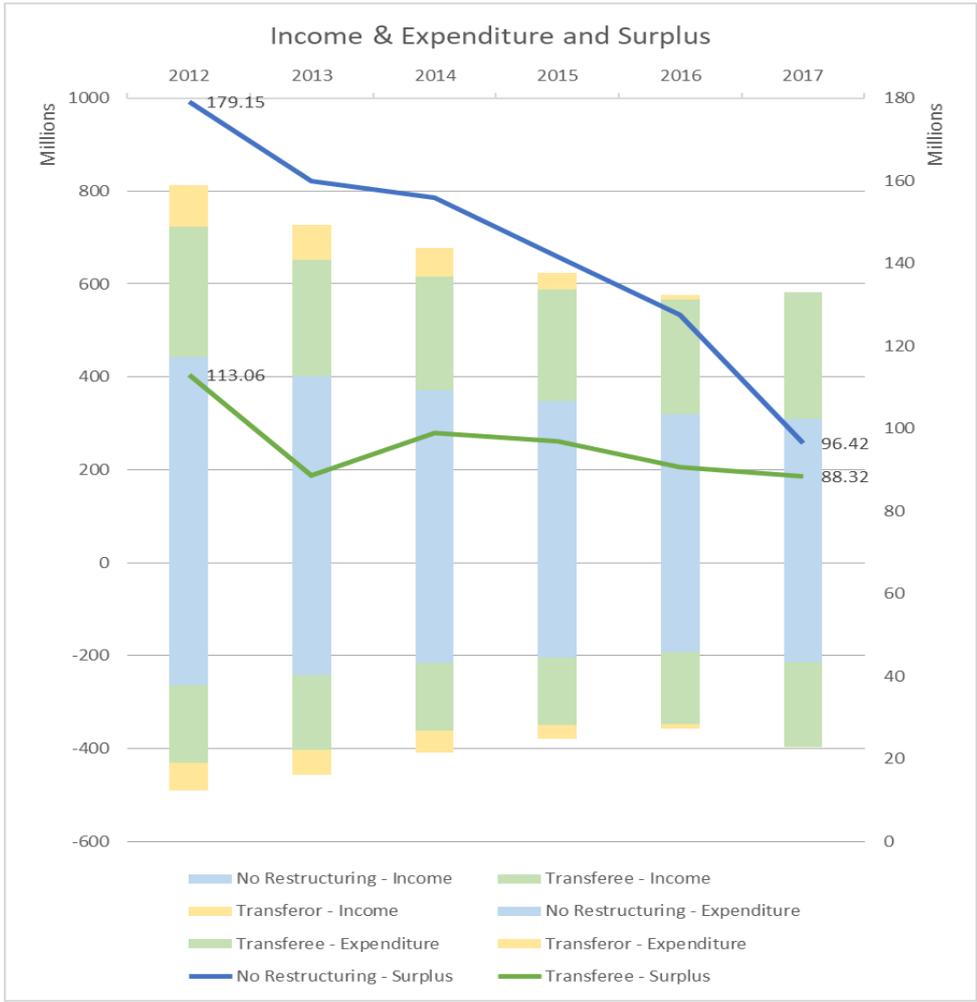
*On an aggregate level, there has been a significant decrease in the surpluses reported in the credit union sector over the period 2013 to 2017.*

While the decline has been observed across the sector, there is a noticeable divergence in performance of the credit unions that have engaged in restructuring, and those that have not engaged in restructuring.

As Figure 23 - Movement in Income & Expenditure and Surplus indicates, transferee credit unions have seen a lower level of reduction in their surpluses, from €113m to €88m, or 22%, while credit unions that have not engaged in restructuring saw a fall from €179m to €96m, or 46%, over the same period. As shown in the previous sections of this report, this is both the result of acquiring income generating assets (loan books and investment portfolios) that have supported surplus generation, and the elimination of duplicated costs and other economies of scale. This indicates that on an aggregate level, there is a link between asset size and the total value of surplus generated. This is supported by an analysis of the surpluses and asset sizes of the credit unions that have engaged in restructuring and those that have not engaged in restructuring, as shown in the diagram below.

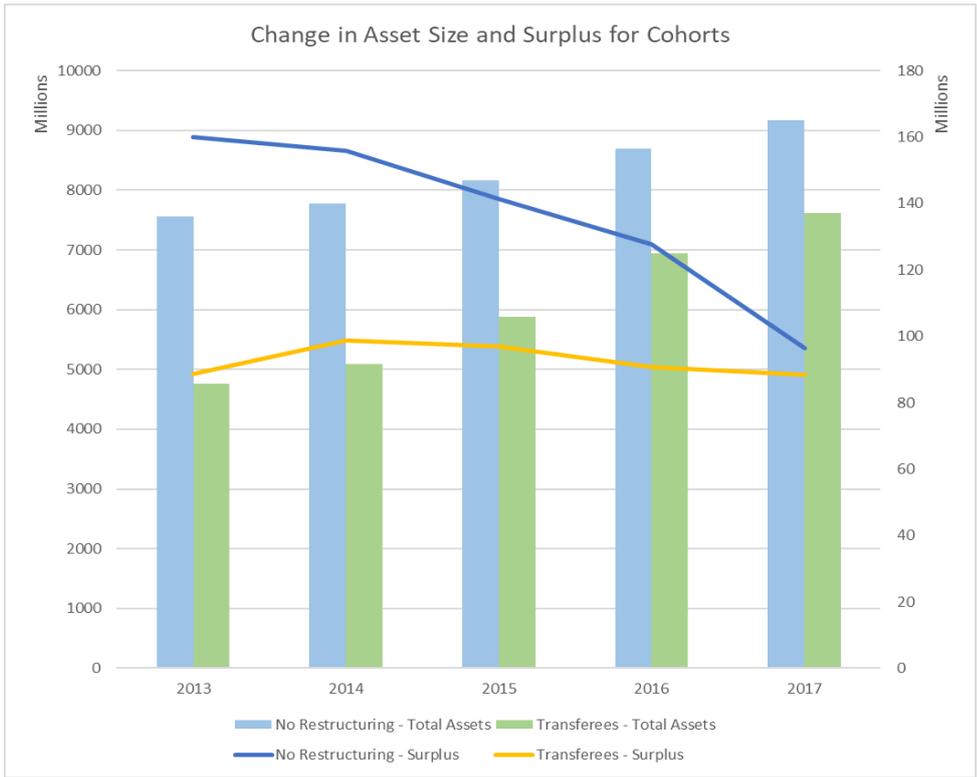
*There is a divergence in trends of surpluses in credit unions that have engaged in restructuring, and those that have not engaged in restructuring.*

Figure 23 - Movement in Income & Expenditure and Surplus



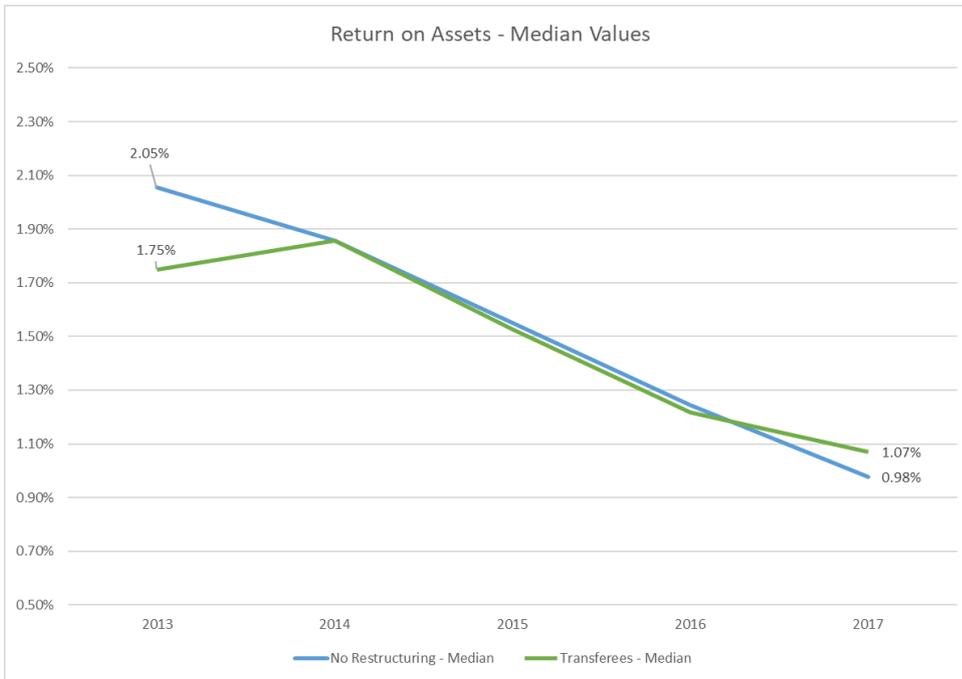
Transferee credit unions that have completed TOEs have seen a lower level of reduction in their surpluses, from €113m to €88m, or 22%, while credit unions that have not engaged in restructuring saw a fall from €179m to €96m, or 46% over the same period.

Figure 24 - Change in Asset Size and Surplus by Cohort



However, increased assets size does not on its own imply improved performance on a return on asset basis. As noted in Section 5.3, asset sizes for credit unions that have engaged in restructuring have been increasing at a slightly greater rate than credit unions that have not engaged in restructuring; however as Figure 25 - Return on Assets - Median Values indicates, in 2017 the median return on assets for credit unions that have engaged in restructuring was higher than the median result for those credit unions that have not engaged in restructuring.

Figure 25 - Return on Assets - Median Values



## Appendix 4 - Glossary

Board(s)	Board of Directors of a credit union
TOE	Transfer of Engagements
Transferee	A credit union that accepts the transfer of the engagements of another credit union
Transferor	A credit union that transfers its engagements to another credit union
The Act	The Credit Union Act, 1997 (as amended by the Credit Union and Co-operation with Overseas Regulators Act, 2012)
ReBo	The Credit Union Restructuring Board
Resolution Act	Central Bank and Credit Institutions (Resolution) Act, 2011
Credit Union Handbook	A guidance document for credit unions prepared by the Registry of Credit Unions explaining the regulatory framework and setting out expectations
2016 Regulations	Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 as amended by the Credit Union Act, 1997 (Regulatory Requirements) (Amendment) Regulations 2018
Mean / Average	The value obtained by adding several values together and dividing the sum by the number of values.
Median	The middle number in a given sequence of numbers, taken as the average of the two middle numbers when the sequence has an even number of numbers.

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