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Save the Date – Registration Opening Soon!



April 10-13, 2016
Rosen Centre Hotel
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New white paper released today!

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Organizational and Development Metrics

Strengthening HR's Strategic Approach

October 2015



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A white paper from the
CUNA HR & Organizational
Development Council

www.cunacouncils.org



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Financial Statements and Key Ratios – Critical Concepts for HR & Organizational Development Pros

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As a Strategic Business
Partner, You Must
Understand your Credit
Union's Financial Condition



Take Aways

- 1) Numbers can be FUN
- 2) Know where to find your Resources
- 3) Financial Statement Excitement
- 4) Understand the Big Financial Picture
- 4) Key Measurements
- 5) Regulatory Focus

Macro View





Take Aways

- 1) What financial statements tell you about your credit union's financial performance
- 2) How examiners interpret key financial ratios
- 3) Benchmark against peers
- 4) Build partnerships with Managers and your Finance Team through financial understanding

Micro View



Too Many Numbers????

- Focus on upward or downward trends

See-Saw Report Analysis





Know your Resources

www.ncua.gov

Credit Union Data and Applications tab

- Credit Union Applications and Queries
Financial Performance Reports (FPR)

Go to FPR Application –

- Financial Performance Report
Review your own data or compare with other CUs
- 5300 Call Report

http://www.ncua.gov/GenInfo/GuidesManuals/accounting_manuals/Manual/900SampleFinancialStatementsAll.pdf

Two Main Financial Reports

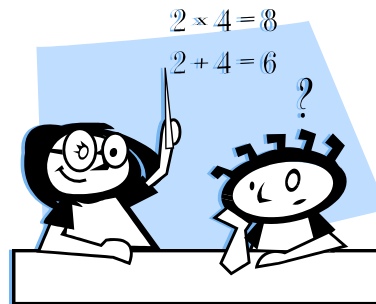
- Statement of Financial Condition
(Balance Sheet)
- Statement of Income

Notes to the Financial Statements



Statement of Financial Condition (Balance Sheet)

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$





Assets

What is an Asset?

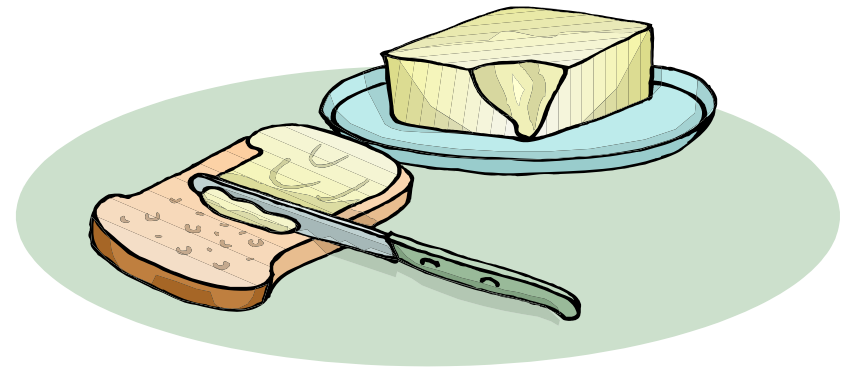
Loans

Cash in Branch/ATMs

Investments

Fixed Assets/Land/Buildings

Accounts Receivable







Liabilities and Equity

- Credit Union Borrowings
- Accounts Payable
- Member/Owner Deposits
- Retained Earnings
- Net Income (Loss)

Double Entry Bookkeeping System

	Debits		Credits
Asset – Member Loans	\$ 71.1 million		
Asset – Cash in Vault	1.2 million		
Asset - Investments	22.1 million		
Asset – Fixed Asset/Land/Bldgs	4.4 million		
Asset – Accounts Receivable	1.2 million		
Liabilities – CU Borrowings			\$ 1.3 million
Liabilities – Accounts Payable			1.2 million
Liabilities – Member Deposits			88.0 million
Equity – Retained Earnings			9.0 million
Equity - Net Income (Loss)	\$ 100 million		0.5 million
Total			\$ 100 million 

Balance Sheet is Living and Breathing

- Balance sheets are stated with an as of date.
- It a snapshot of the financial condition or single moment in time.
- Represents continuous activity of your members, employees, competition, and economic environment.





Balance Sheet Numbers to Watch

- Total Assets
- Total Loans
- Allowance for Loan Loss
- Total Member Deposits
- Net Income (Loss)

Compare this month, last month and this time last year

Are the numbers trending up or down?

Find out why?





Statement of Income

Reflects all income, expenses, gains or losses of the credit union for the period the report is prepared.

Income – Expenses = Net Income (Loss)





Sources of Income

Loan Interest

Investment Interest

Loan Related Fee Income from Members

Deposit Account Related Fee Income from Members

NSF Fee Income

Miscellaneous Operating Income



Sources of Expenses

- Compensation and Benefits
- Travel and Conference
- Office Operations
- Office Occupancy
- Depreciation of Furniture and Equipment
- Professional Services
- Provision for Loan Loss
- Share and Fraud Losses
- NCUSIF Assessments



Sources of Expenses

(Continued)

- Interest on Borrowed Money
- Dividends to Members
- Gain or Loss on Disposition of Assets



Income Statement

Numbers to Watch

- Loan Interest Income
- NSF Fee Income
- Compensation
 - Number of FTEs
 - Overtime
- Professional Services
- Provision for Loan Loss
- Dividends to Members
- Net Income and (Loss)



NCUA Examiners

- Strong focus on protecting Share Insurance Fund
- Shortened examination window
- Net Worth/Capital Ratio – Key Driver



CAMEL Ratios

The Ratio Analysis page displays financial ratios that are grouped into six categories. The first four categories are derived from the four financial areas of the CAMEL Rating System (**C**apital adequacy, **A**sset quality, **E**arnings, asset/**L**iability management). The remaining two ratio categories are productivity and other ratios. The Ratio Analysis page for a single credit union displays the corresponding peer group ratios for the current cycle date and the prior period end.



Key Ratios

- Net Worth/Capital Ratio
- Return on Assets
- Delinquency Ratio
- Charge Off Ratio
- Operating Expenses / Gross Income

C of the CAMEL

The Capital Adequacy ratio measures net worth in relation to total assets. Net worth cushions fluctuations in earnings, supports growth, and provides protection against insolvency. The rate of net worth growth should be commensurate with the levels of risk and asset growth.

Source: www.ncua.gov



Capital Adequacy

Net Worth / Total Asset Ratio

Total Equity divided by Total Assets

$\$9.5 \text{ million} / \$100 \text{ million} = 9.5\%$

NCUA's benchmark for safety and soundness is a 7% or high net worth ratio.

Why would a CU want to shrink its balance sheet?

Base Case: \$9.5 million / \$100 million = 9.5%

Scenario 1: \$9.5 million / \$150 million = 6.3%

(Yikes! Examiners may visit quarterly below 7% threshold)

Scenario 2: \$9.5 million / \$50 million = 12.7%

A of the CAMEL

Asset Quality

Delinquent Loans divided by Total Loans

(A loan is considered delinquent if its 2 months or greater past the due date)

$\$887,500 / \$71.1 \text{ million} = 1.25\%$

Benchmark is less than 1.25%

What would a higher than normal delinquency ratio suggest?



M of the CAMEL Management

Examiners will rate Management on the decisions and actions taken during the year. How closely has the credit union followed their strategic plan or mission statement?

Who has the Vision and how has it been communicated?



E of the Camel

Return on Average Assets

This Earnings ratio measures net income in relation to average assets and represents the bottom line. A positive ratio value shows that earnings covered the credit union's operating expenses and cost of funds.

Return on Average Assets (ROA)

Net Income (Loss) divided by Average Assets

$\$.5 \text{ million} / \$ 100 \text{ million} = .50\% \text{ ROA}$

1.0% or greater is the Benchmark

What if income changed significantly?

ROA

Base Case: \$0.5 million / \$100 million = 0.50%

Scenario 1: \$1.0 million / \$100 million = 1.0%

(Yeah! Examiners do a happy dance!)

Scenario 2: \$0.25 million / \$100 million = .25%



L of the CAMEL

Asset **L**iability Management Quality

TOTAL LOANS / TOTAL SHARES: Total Loans divided by Total Shares

TOTAL LOANS / TOTAL ASSETS: Total Loans divided by Total Assets.

MEMBERS / FULL-TIME EMPLOYEES: Number of current members divided by equivalent full-time employees.

Productivity Ratios

EQUIVALENT FULL-TIME EMPLOYEES:

Number of Part-Time Employees divided by 2 plus the number of Full-Time Employees.

MEMBERS / FULL-TIME EMPLOYEES: Number of current members divided by equivalent full-time employees.



Productivity Metrics

SALARY & BENEFITS / FULL-TIME EMPLOYEES: Total Employee Compensation and Benefits divided by equivalent Full-Time Employees



NCUA Peer Groups

www.ncua.gov

Peer Groups

- *NCUA peer groups include all federally insured credit unions (i.e., all federal and state-chartered credit unions).*
- *NCUA does not include non federally insured credit unions in the peer groups. A credit union's peer group is based upon its asset size as defined below:*

PEER GROUP

ASSETS

- *1 \$2 million or less*
- *2 \$2 million to less than \$10 million*
- *3 \$10 million to less than \$50 million*
- *4 \$50 million to less than \$100 million*
- *5 \$100 million to less than \$500 million*
- *6 \$500 million or more*

The credit union's peer group and respective asset range is shown on each page of the FPR.



Credit Union's Pulse

	06/30/15	Current Mo	Trend	5300 Peer
Assets	\$ 85 MM	\$100 MM	😊	3.39%
Members	15,000	15,163	😊	
Net Worth	8.89%	8.95%	😊	10.28%
ROA	0.56%	0.67%	😊	0.32%
Delinquency Ratio	1.15%	1.30%	😞	1.62%
Net Charge Offs/Ln	2.75%	2.25%	😊	0.95%
Exp/Income Ratio	75.25%	67.26%	😊	63.96%
Loan Growth	-5.75%	-1.62%	😊	0.02%
Share Growth	4.00%	6.00%	😊	5.23%
FTEs/Mbrs	264	273	😊	371



Items to Remember

- 1) Where to find your Resources
- 2) Trends of your Credit Union & Peer
- 3) Your Credit Union's Financial Strategy



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Questions

Thank you!

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Please add any questions into the chat window,
or press *6 to unmute your line.

Thank you!