

Financial Analysis



Statement of Income

For the month ended December 31, 2000

Interest Income:		
<i>Interest on Loans</i>	519,919	
<i>Interest Refunded</i>	0	
<i>Income from Investments</i>	38,033	
<i>Income(Loss) from Trading Securities</i>	0	
		557,951
Interest Expense:		
<i>Dividends on Shares</i>	230,877	
<i>Interest on Borrowed Money</i>	23,400	
		254,277
<i>Provision for Loan and Lease Loss</i>	54,054	
		249,620
Net Interest Income		
		249,620
Non-Interest Income:		
<i>Fee Income</i>	95,921	
<i>Other Operating Income</i>	47,276	
<i>Gain(Loss) on Investments</i>	0	
<i>Gain(Loss) on Disposition of Fixed Assets</i>	0	
<i>Other Non-Operating Income(Expense)</i>	0	
		143,197
Non-Interest Expense:		
<i>Employee Compensation and Benefits</i>	177,558	
<i>Travel and Conference Expense</i>	0	
<i>Office Occupancy Expense</i>	47,790	
<i>Office Operations Expense</i>	106,690	
<i>Educational and Promotional Expense</i>	21,783	
<i>Loan Servicing Expense</i>	19,331	
<i>Professional and Outside Services</i>	1,453	
<i>Member Insurance</i>	(4,259)	
<i>Operating Fees</i>	1,177	
<i>Miscellaneous Expense</i>	7,853	
		379,375
NET INCOME (LOSS):		13,442
Required Reserve Transfer:		
<i>Required Transfer to Regular Reserve</i>	40,839	
<i>Additional Transfers to Regular Reserves</i>	(54,054)	
		26,657
Income after reserves		26,657
<i>Efficiency ratio:</i>		84.9%

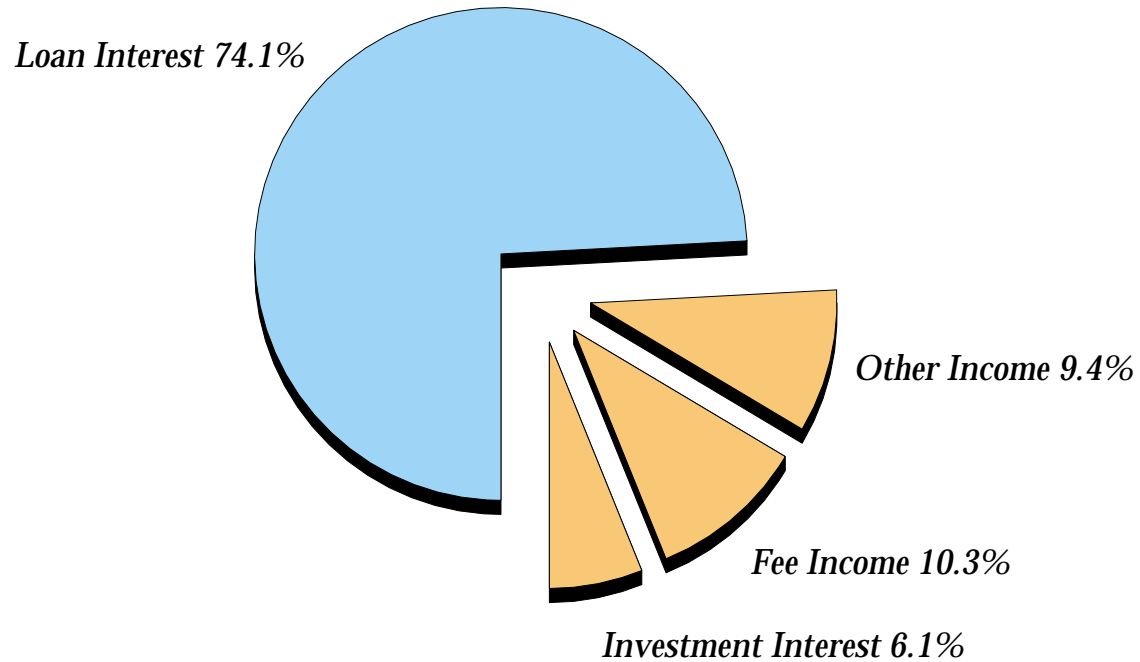
Statement of Income

December 31, 2000

	ACTUAL						VARIANCE					
	LAST YTD	%	CURRENT YTD	%	LAST MONTH	%	CURRENT MONTH	%	YTD	%	MTD	%
Interest on Loans	5,438,278	75%	6,155,799	77%	541,161	74%	519,919	74%	717,522	13%	-21,242	-4%
Interest Refunded	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Income from Investments	401,563	6%	365,682	5%	44,666	6%	38,033	5%	-35,881	-9%	-6,633	-15%
Income(Loss) from Trading Securities	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Interest Income:	5,839,841	81%	6,521,481	81%	585,826	80%	557,951	80%	681,640	12%	-27,875	-5%
Dividends on Shares	2,193,024	30%	2,599,096	32%	230,462	32%	230,877	33%	406,072	19%	415	0%
Interest on Borrowed Money	483	0%	107,805	1%	24,180	3%	23,400	3%	107,322	999%	-780	-3%
Interest Expense:	2,193,507	30%	2,706,901	34%	254,642	35%	254,277	36%	513,394	23%	-365	-0%
Provision for Loan and Lease Loss	469,961	7%	528,516	7%	33,916	5%	54,054	8%	58,555	12%	20,138	59%
Net Interest Income:	3,176,372	44%	3,286,064	41%	297,268	41%	249,620	36%	109,692	3%	-47,648	-16%
Fee Income	901,093	12%	936,136	12%	75,321	10%	95,921	14%	35,043	4%	20,600	27%
Other Operating Income	473,373	7%	548,925	7%	68,631	9%	47,276	7%	75,552	16%	-21,355	-31%
Gain(Loss) on Investments	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Gain(Loss) on Disposition of Fixed Assets	200	0%	4,000	0%	0	0%	0	0%	3,800	999%	0	0%
Other Non-Operating Income(Expense)	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Non-Interest Income:	1,374,666	19%	1,489,061	19%	143,953	20%	143,197	20%	114,396	8%	-755	-1%
Employee Compensation	1,852,258	26%	2,075,503	26%	186,324	26%	177,558	25%	223,245	12%	-8,766	-5%
Travel and Conference Expense	960	0%	1,253	0%	370	0%	0	0%	294	31%	-370	-100%
Office Occupancy Expense	462,083	6%	501,970	6%	48,663	7%	47,790	7%	39,887	9%	-873	-2%
Office Operations Expense	903,672	13%	1,022,520	13%	99,993	14%	106,690	15%	118,848	13%	6,697	7%
Educational and Promotional Expense	234,487	3%	220,597	3%	18,724	3%	21,783	3%	-13,891	-6%	3,059	16%
Loan Servicing Expense	240,875	3%	227,153	3%	19,237	3%	19,331	3%	-13,721	-6%	95	0%
Professional and Outside Services	13,838	0%	17,710	0%	1,101	0%	1,453	0%	3,871	28%	352	32%
Member Insurance	160	0%	411	0%	751	0%	-4,259	-1%	251	157%	-5,011	-667%
Operating Fees	11,331	0%	14,124	0%	1,177	0%	1,177	0%	2,794	25%	-0	-0%
Miscellaneous Expenses	42,618	1%	87,835	1%	6,833	1%	7,853	1%	45,217	106%	1,020	15%
Non-Interest Expense:	3,762,282	52%	4,169,077	52%	383,172	53%	379,375	54%	406,795	11%	-3,797	-1%
NET INCOME	788,755	11%	606,048	8%	58,049	8%	13,442	2%	-182,708	-23%	-44,607	-77%
Required Transfer to Regular Reserve	690,030	10%	677,931	8%	36,489	5%	40,839	6%	-12,099	-2%	4,350	12%
Additional Transfers to Regular Reserves	-469,961	-7%	-528,516	-7%	-33,916	-5%	-54,054	-8%	-58,555	12%	-20,138	59%
Income After Reserves:	568,686	8%	456,632	6%	55,476	8%	26,657	4%	-112,054	-20%	-28,819	-52%

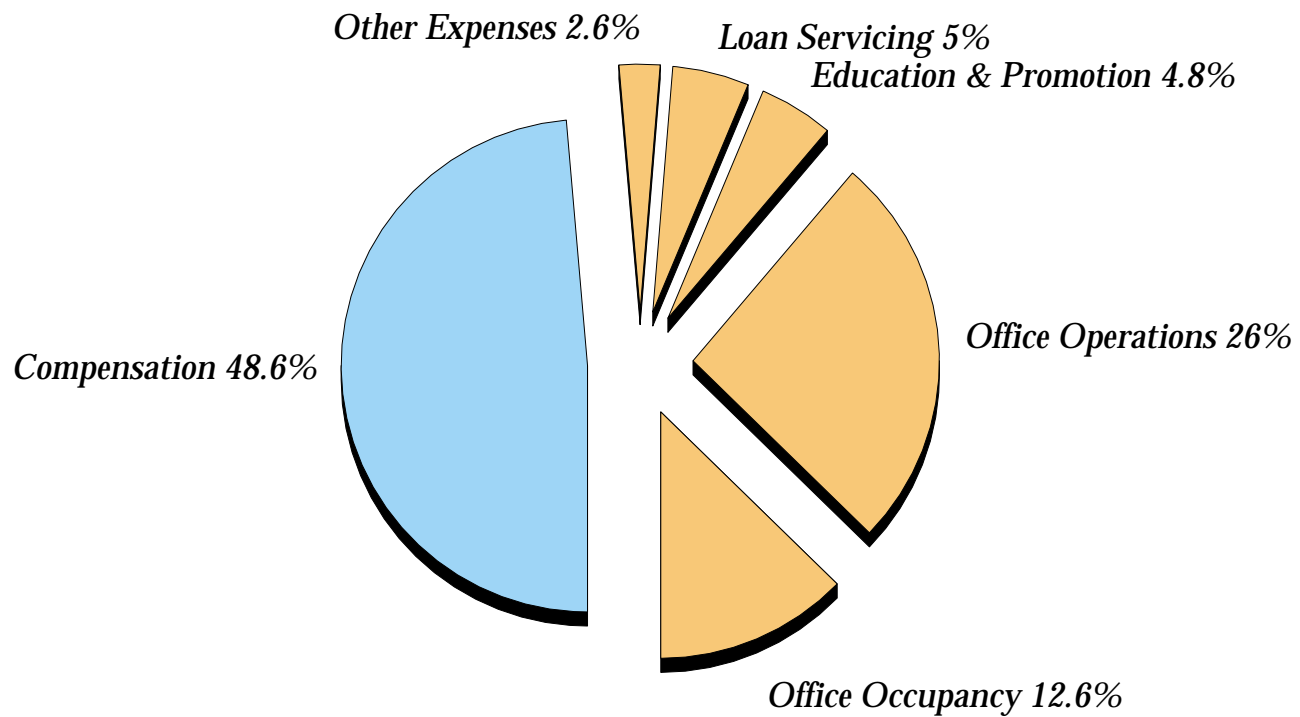
Composition of income

For the month ended December 31, 2000



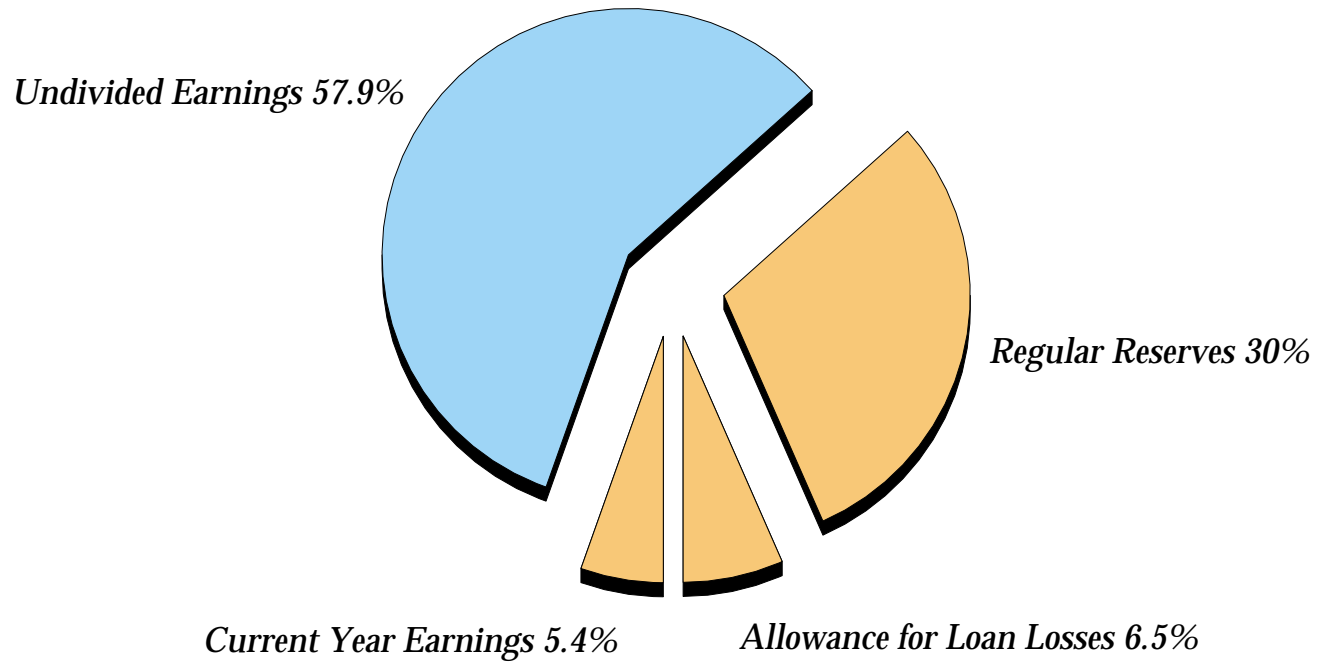
Composition of expenses

For the month ended December 31, 2000



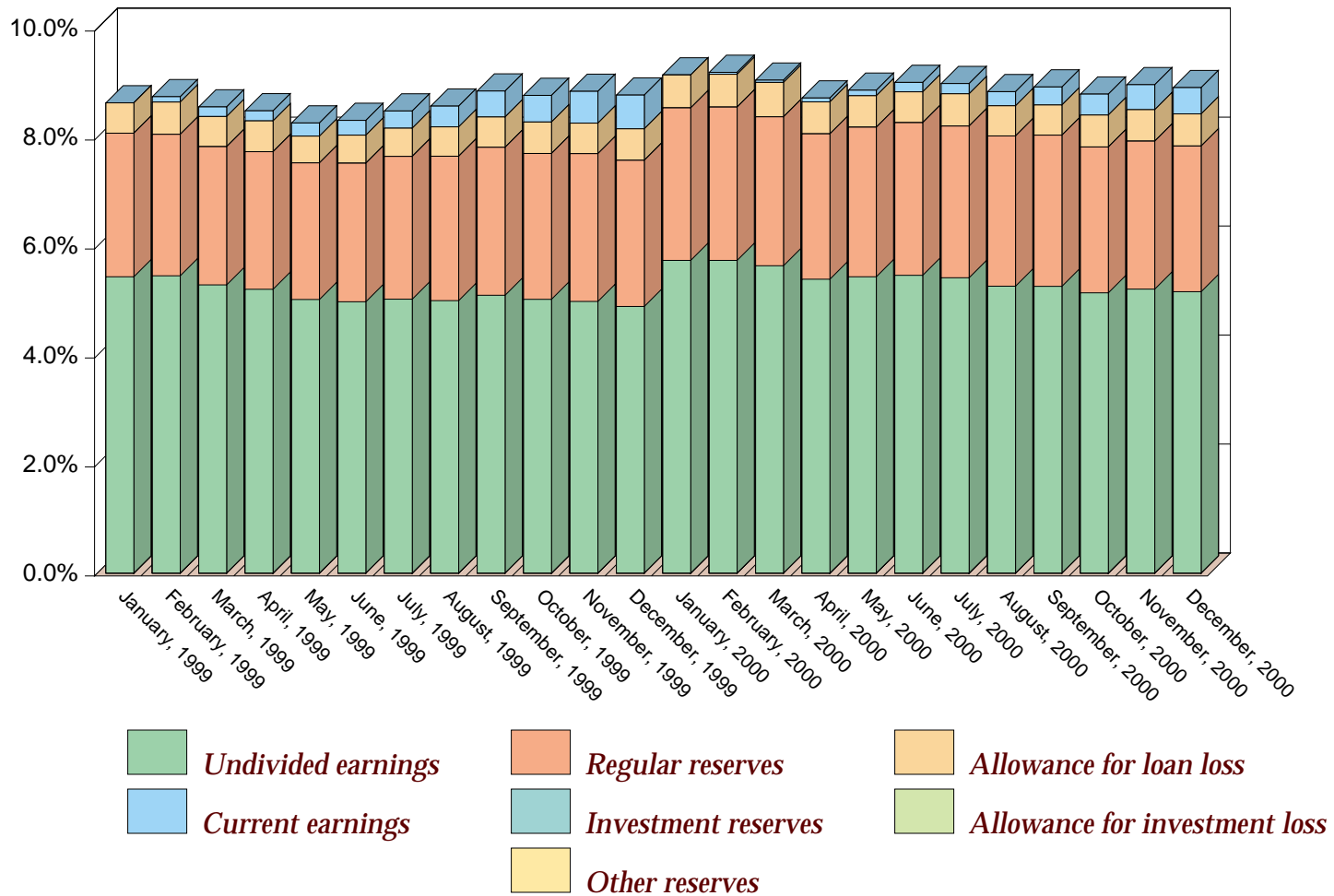
Composition of capital accounts

December 31, 2000



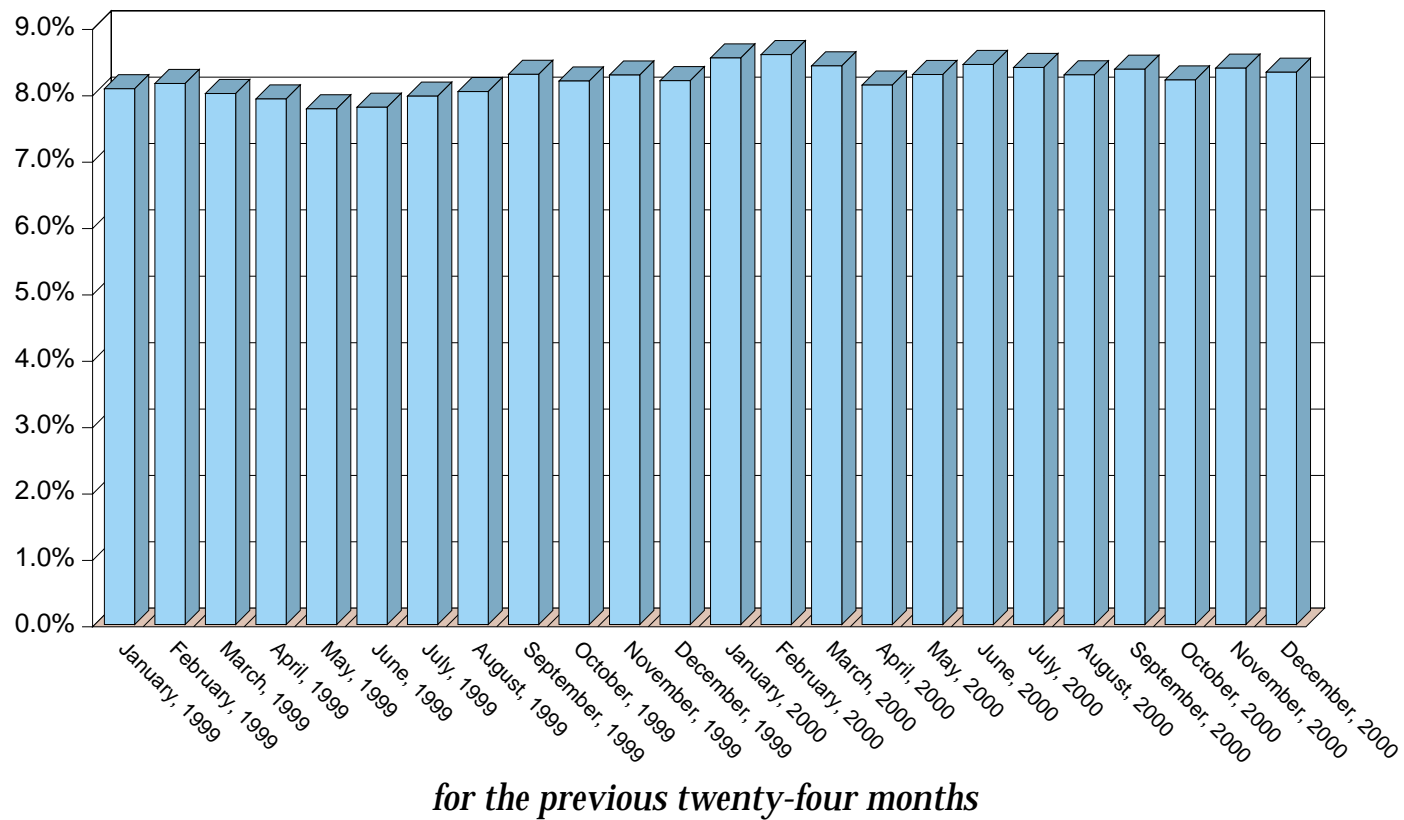
Capital-to-Asset ratio

December 31, 2000



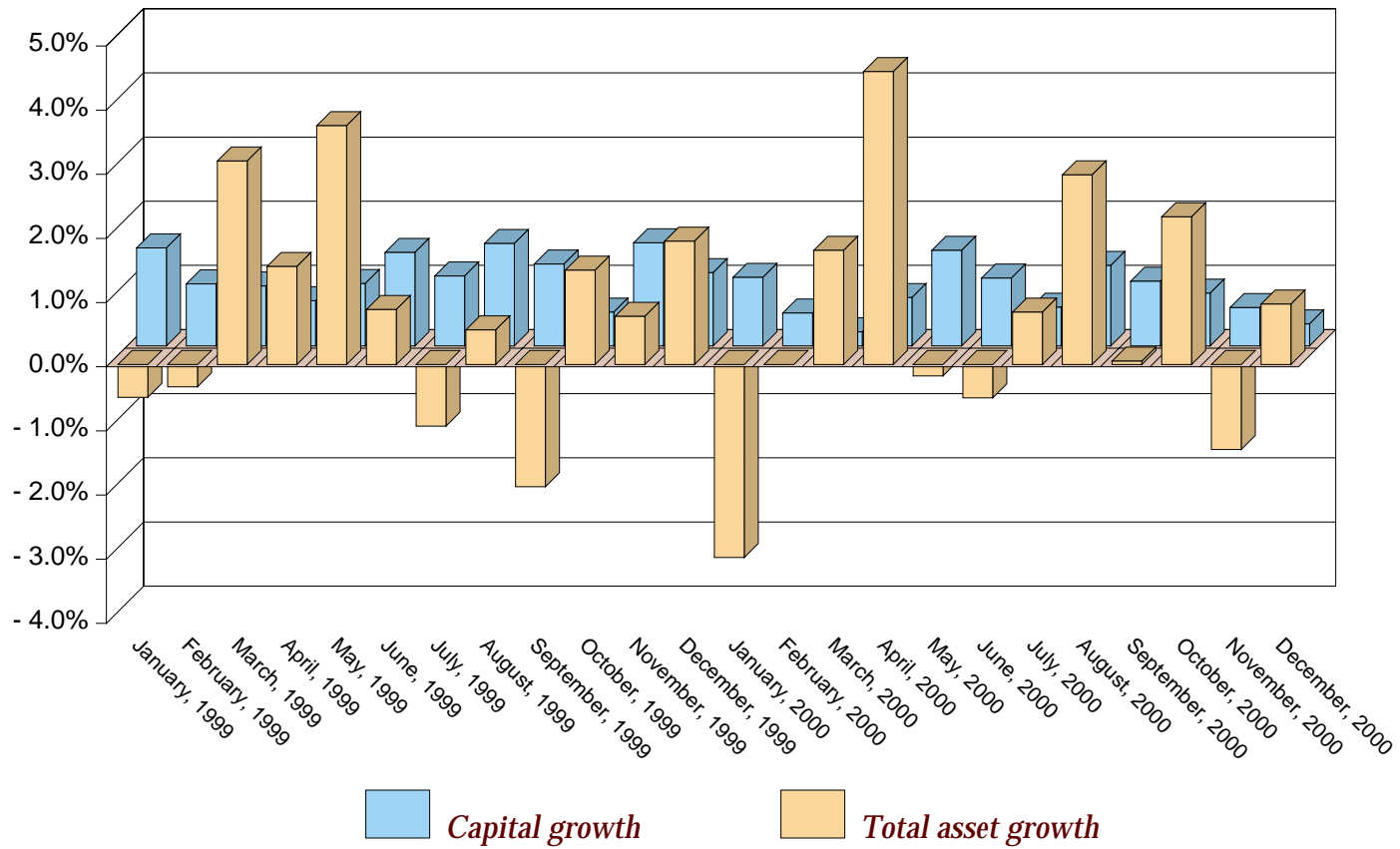
Net capital-to-asset ratio

December 31, 2000



Growth rates of capital & assets

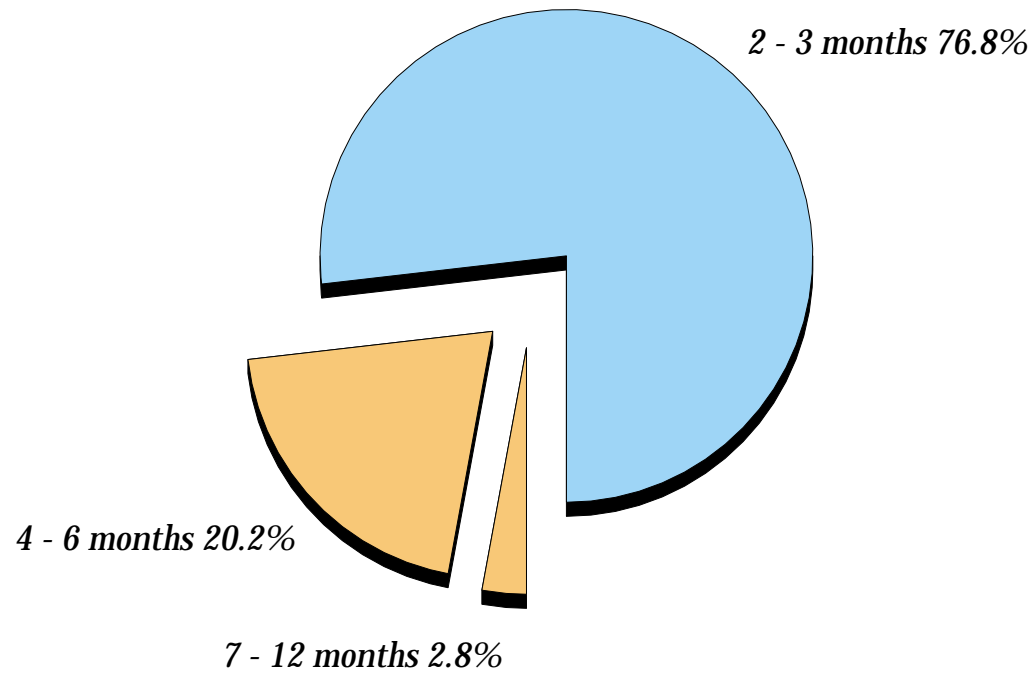
December 31, 2000



for the previous twenty-four months

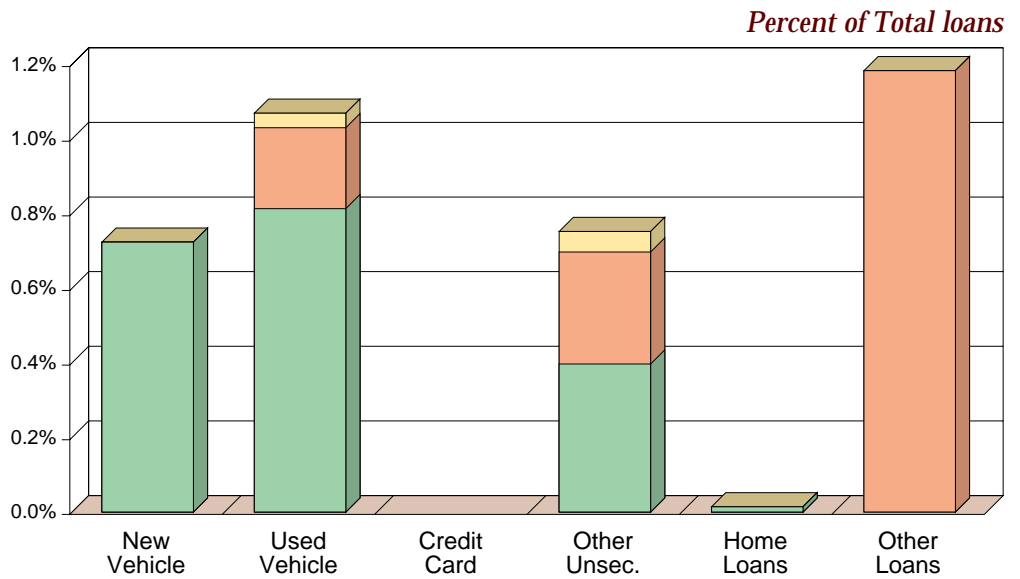
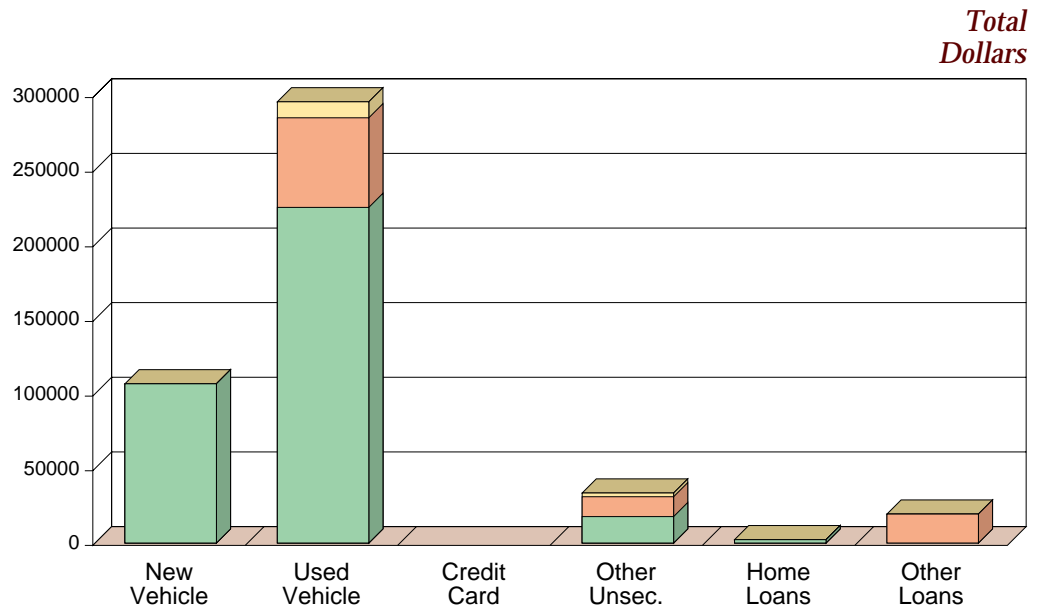
Delinquent loans

December 31, 2000



Delinquent loans

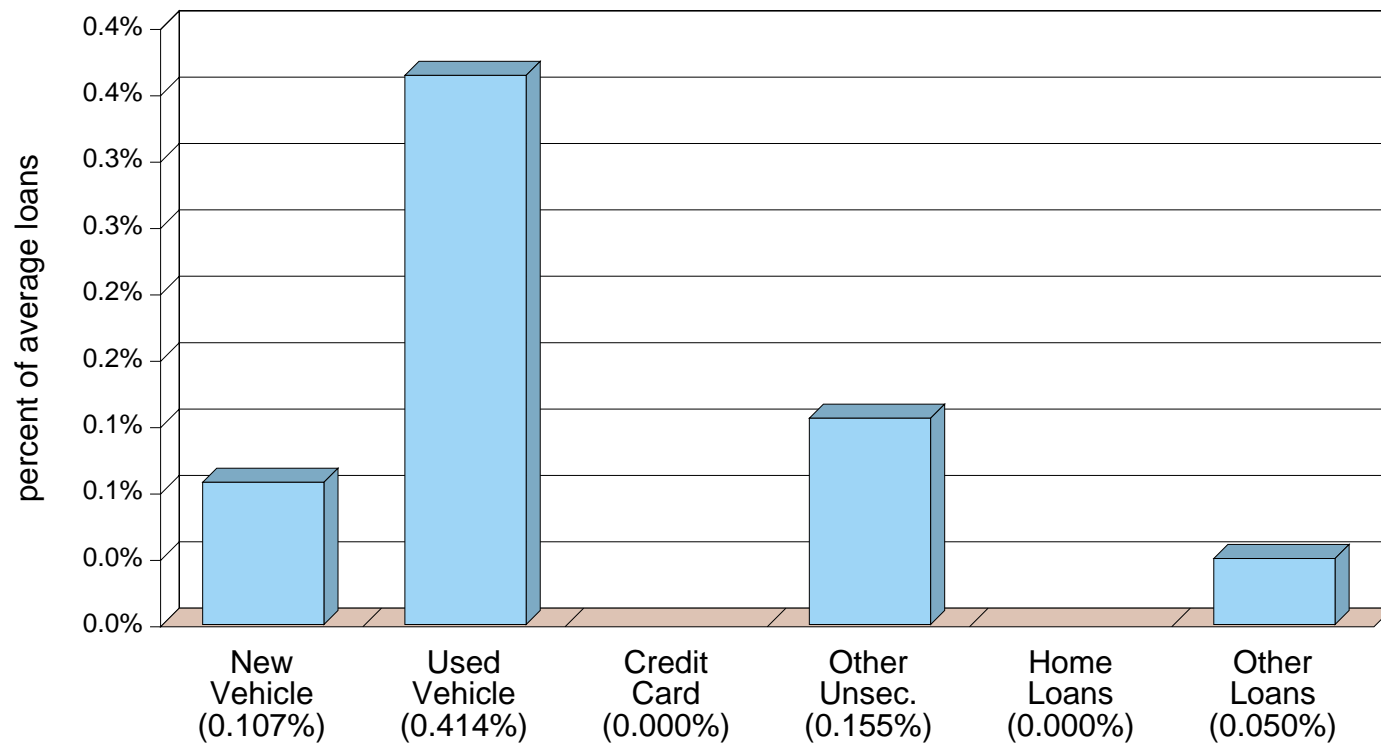
December 31, 2000



2 - 3 months
 4 - 6 months
 7 - 12 months
 over 12 months

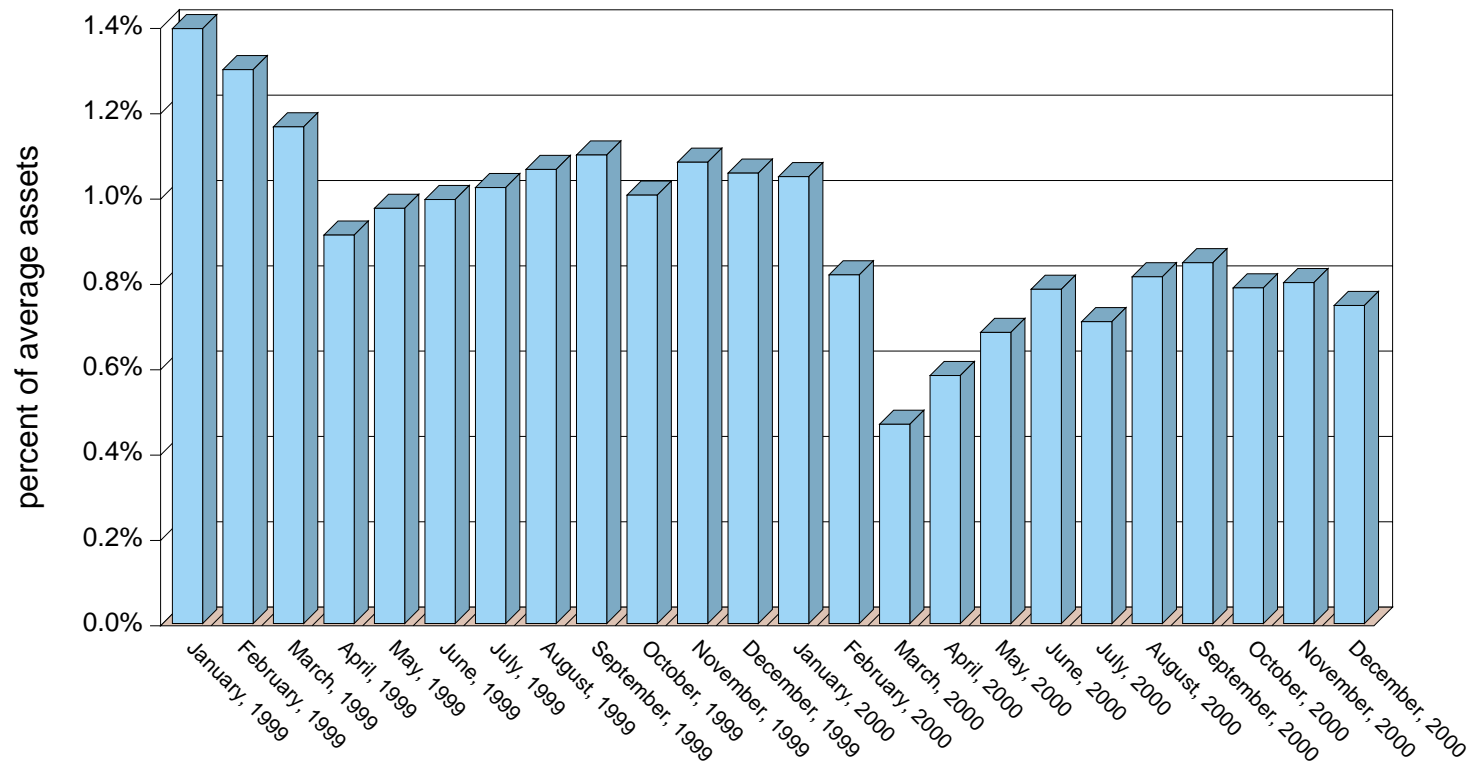
Net charged-off loans

December 31, 2000



Return on average assets

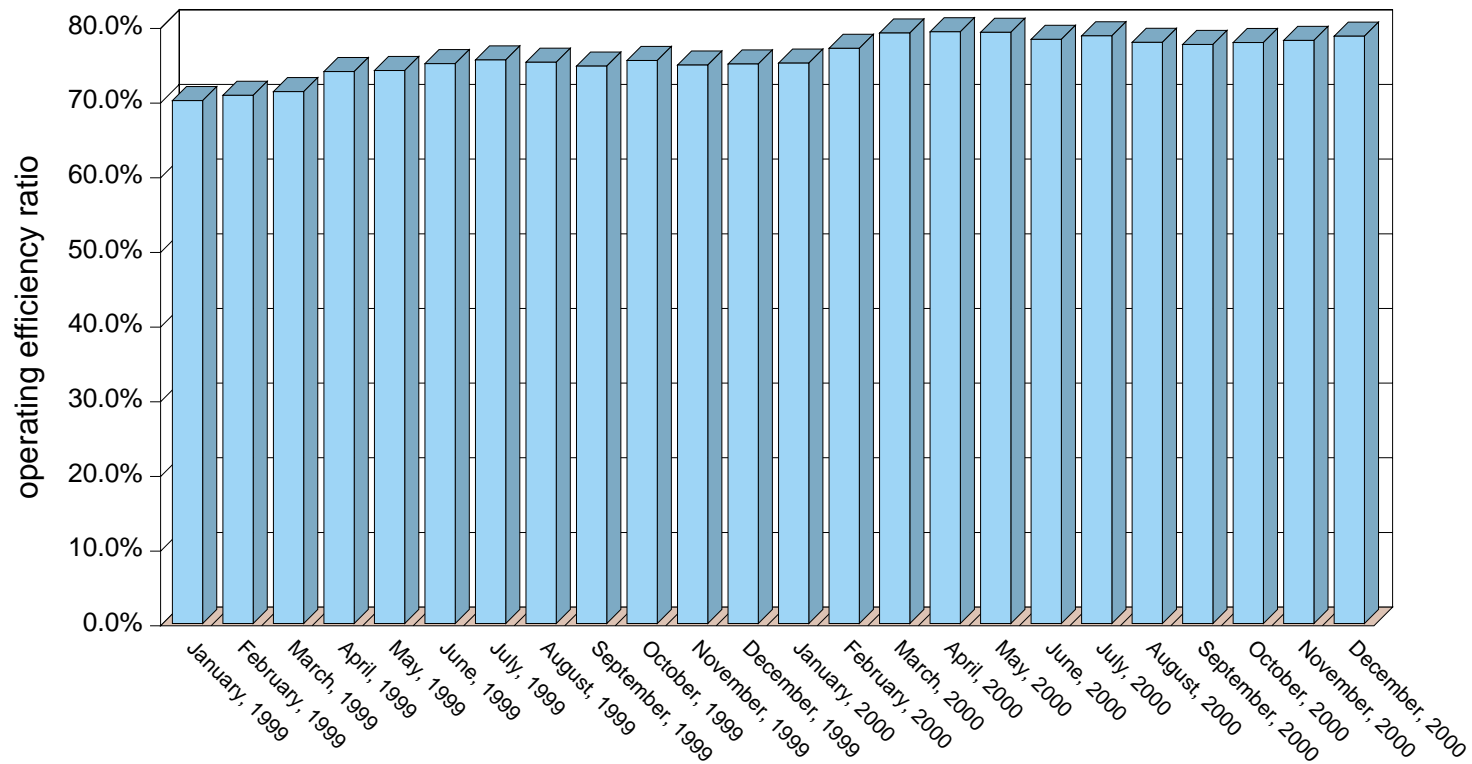
December 31, 2000



for the previous twenty-four months

Operating efficiency ratio

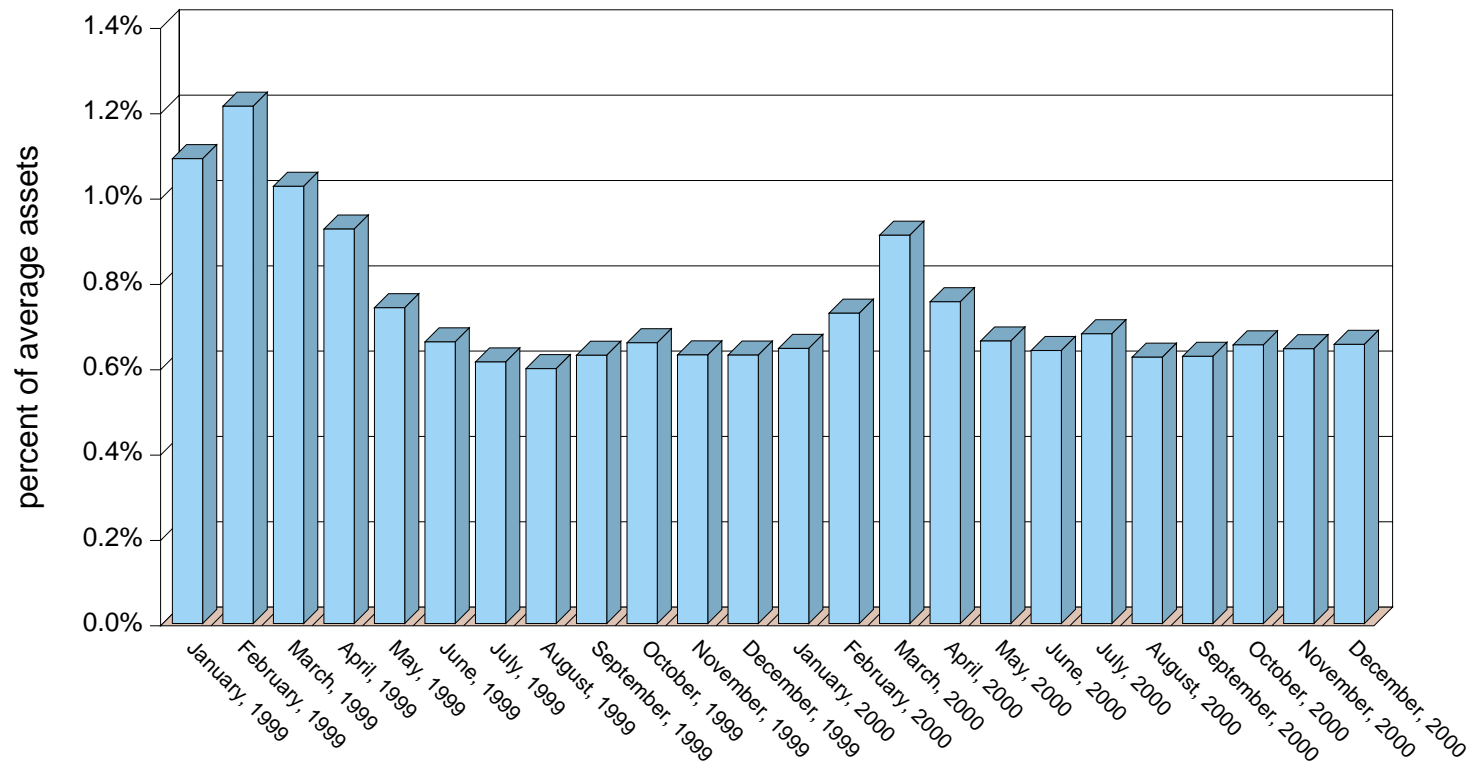
December 31, 2000



for the previous twenty-four months

Provision for loan losses

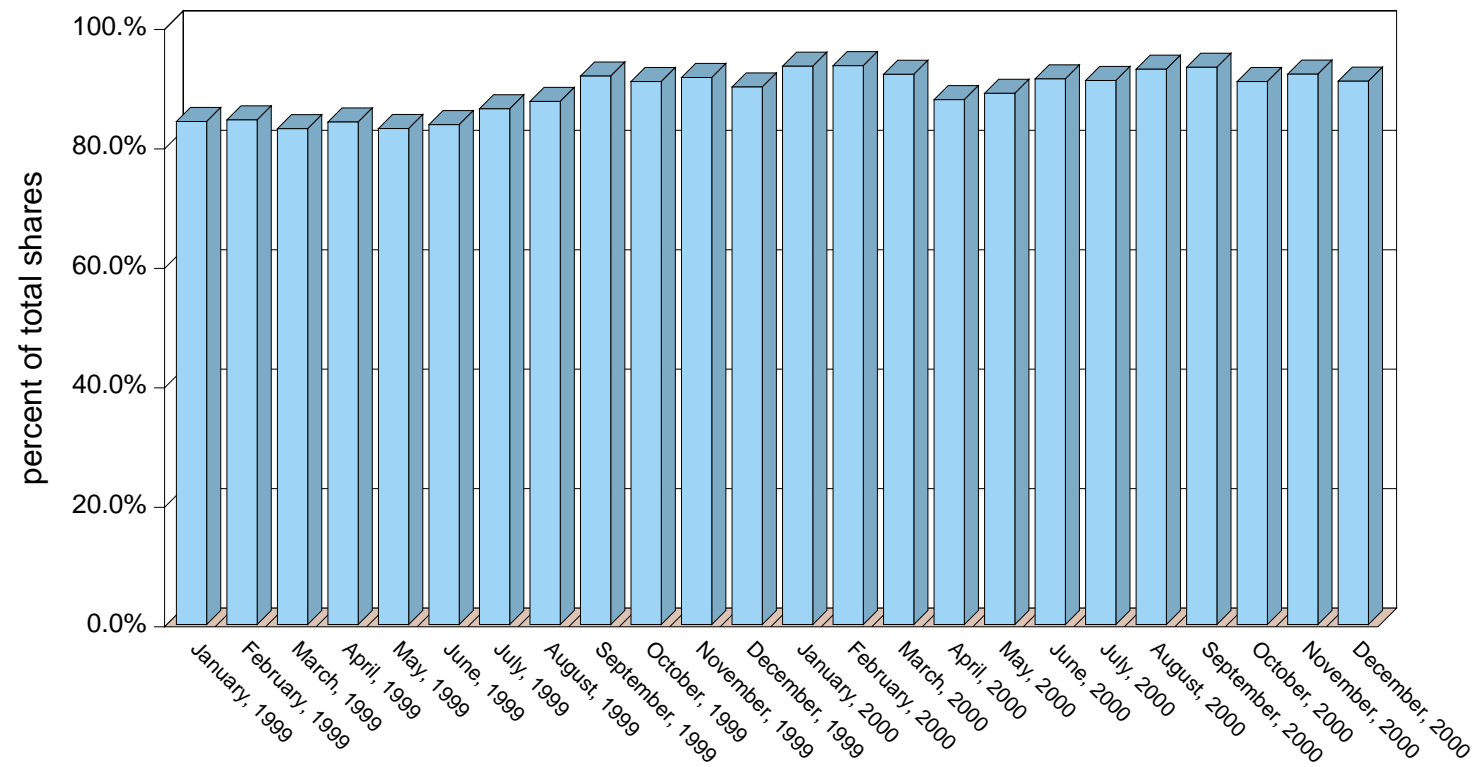
December 31, 2000



for the previous twenty-four months

Loan-to-Shares ratio

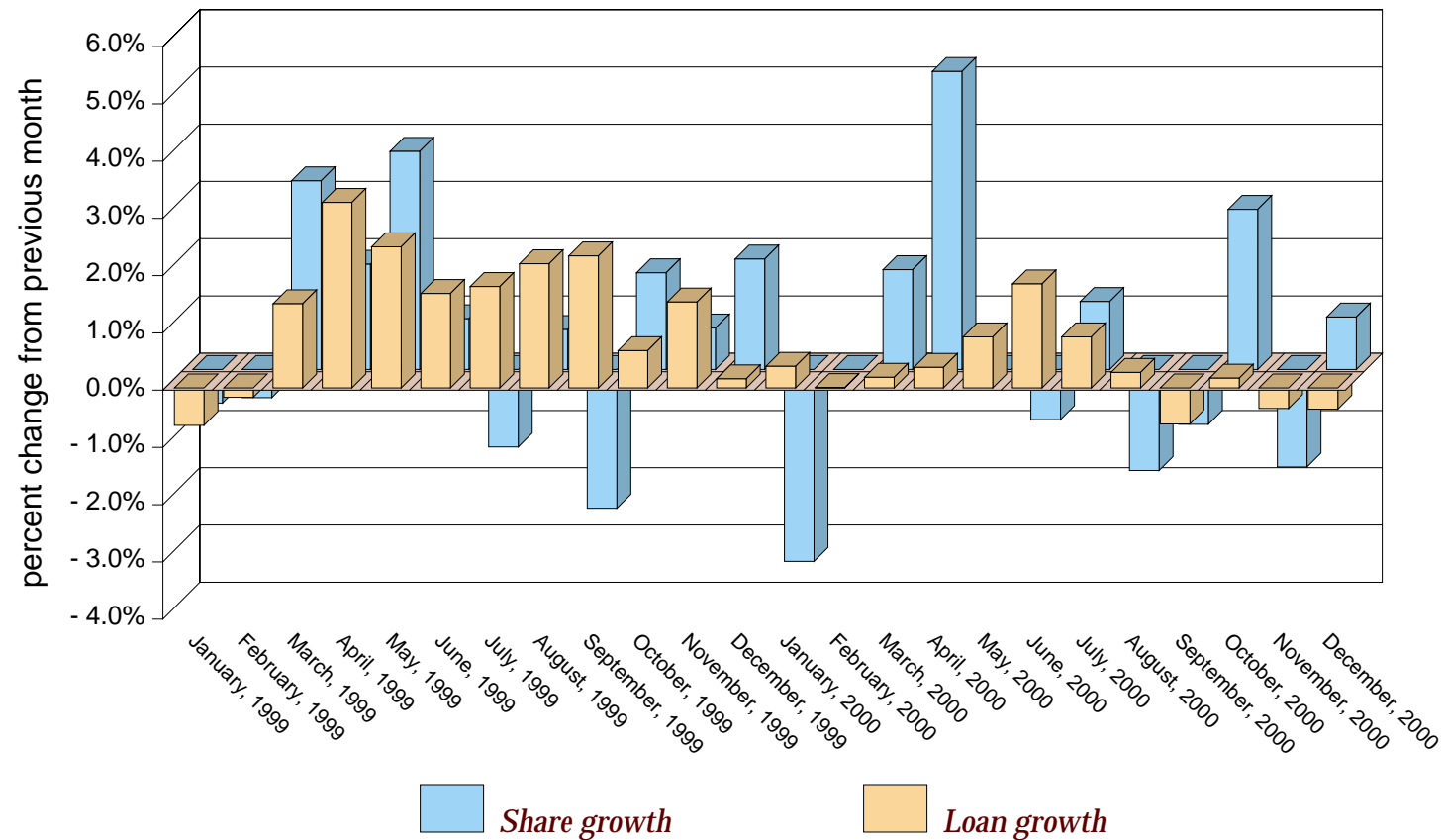
December 31, 2000



for the previous twenty-four months

Growth rates of shares & loans

December 31, 2000



for the previous twenty-four months

Definitions

Most of the financial ratios are taken directly from NCUA. Every attempt is made to use the same calculations and definitions as those used by NCUA.

❖ **Annualizing**

Where appropriate, formulas are annualized by multiplying the formula's result by 12 and dividing by the current month.

❖ **Average loans**

The sum of total loans at the end of the report month and at the end of the previous year, divided by two.

❖ **Average assets**

The sum of total assets at the end of the report month and at the end of the previous year, divided by two.

❖ **Capital**

The sum of the equity accounts and the allowance for loan and investment losses.

❖ **Capital-to-assets**

Capital divided by total assets.

❖ **Delinquent loans**

Delinquency is calculated solely from the due date of the loan. The delinquency ratio is calculated by dividing the balance of delinquent loans by the total balance for all loans.

❖ **Efficiency ratio**

Non-interest expenses divided by the sum of the net interest income and non-interest income.

❖ **Estimated losses**

The balance in the allowance for loan and investment losses accounts.

❖ **Growth**

All growth formulas are calculated on a monthly basis. The balance in the report month is divided by the balance in the prior month and one is subtracted from the quotient.

❖ **Loans-to-shares**

Gross loans divided by total share deposits.

❖ **Net capital**

The sum of the equity accounts. NCUA indicates that the allowance for loan and investment losses is equal to the "estimated" classified assets.

❖ **Net capital-to-assets**

Net capital divided by total assets.

Definitions

❖ **Net charged-off loans**

The minimum of the current balance or the charged-off amount on loans charged-off (collateral code 999) during the current year.

❖ **Net charged-offs/loans**

Net charged-off loans divided by average gross loans.

❖ **Return-on-assets (ROA)**

Total operating income less total operating expense, not including the net reserve transfer, is divided by average total assets.

Discussion

❖ **Composition analysis**

The pie charts only reflect data if it is greater than 3% of the total. If it is less than 3%, it is combined into the "other" category.

For comparison purposes, the following peer information was collected from the 12/2000 NCUA Call Report data for credit unions over \$100 million in total assets.

<i>Loan interest (net)</i>	73.8%
<i>Investment interest</i>	16.2%
<i>Fee income</i>	6.8%
<i>Other income</i>	3.2%
<hr/>	
<i>Total income</i>	100.0%

<i>Compensation</i>	49.5%
<i>Travel</i>	1.5%
<i>Office occupancy</i>	6.6%
<i>Office operations</i>	23.0%
<i>Education and promotion</i>	3.6%
<i>Loan servicing</i>	5.5%
<i>Professional</i>	6.3%
<i>Member insurance</i>	0.6%
<i>Operating fees</i>	0.6%
<i>Miscellaneous</i>	2.8%
<hr/>	
<i>Total expense</i>	100.0%

<i>Allowance for losses</i>	5.0%
<i>Undivided earnings</i>	55.4%
<i>Regular reserves</i>	28.1%
<i>Other reserves</i>	11.5%
<hr/>	
<i>Total capital</i>	100.0%

Discussion

❖ **Capital-to-assets**

Capital-to-assets is a common measure of capital adequacy. Capital provides a cushion to absorb losses during economic downturns and a no-cost earnings base. It is also a key indicator used by NCUA as it provides protections against claims to the share insurance fund.

The rate of growth of capital is generally desired to equal or exceed the growth in total assets. However, there is some debate over whether excessive capital structures are desirable. While some believe that capital can never be high enough, others believe there is a limit beyond which capital should not be raised. Capital can only be raised by withholding some of the gains from the membership, which strikes some as contrary to the philosophy of the industry.

❖ **Delinquent loans to total loans**

This asset quality ratio is an indicator of delinquency control. A high ratio value indicates high credit risk and the potential for significant losses in the loan portfolio.

❖ **Efficiency ratio**

This ratio was popularized in the 1990's by bankers. It is used to evaluate the overhead structure and, by implication, profitability of a financial institution. A desirable target for the banking industry is in the mid 50-percentile range.

A desirable and realistic target for the banking industry as a whole is something less than 60%. Some financial institutions are achieving efficiency ratios less than 50%.

Credit unions have two offsetting factors to consider. First, credit unions generally have a lower net interest margin and fee income as a result of their cooperative ownership structure. This tends to increase the efficiency ratio. Second, some credit unions enjoy substantially subsidized operations from sponsors who may provide building, equipment and/or personnel at low or no cost. Obviously, this lowers expenses and the efficiency ratio.

❖ **Loans-to-shares**

Loan-to-shares is a common liquidity ratio that measures the percentage of share deposits that have been loaned back to members. The higher the ratio, the less liquid the institution. A credit union could have a loan-to-share ratio greater than 100% by loaning out capital or by borrowing additional funds.

❖ **Net charge-offs/loans**

Net charge-offs/loans is an asset quality ratio that measures net charge-offs (loans charged off minus loans recovered in the current year) in relation to average gross loans. Charge-offs are an important indicator of the effectiveness of lending and collection practices. A high ratio indicates that large loan losses have been realized. Loan losses directly reduce capital.

Financial analysis

December 31, 2000

Discussion

❖ **Provision for loan losses**

Provision for loan losses is an earnings ratio that measures annualized provision for loan losses in relation to average assets. This ratio measures the impact the provision for loan loss expense has on net income.

❖ **Return on average assets (ROA)**

This earnings ratio measures the how efficiently assets are utilized to create profits. A positive number indicates that earnings were sufficient to cover cost of funds and operating expenses. The industry benchmark in banking is 1%.