User's Guide for NCUA'S Financial Performance Report

National Credit Union Administration

NCUA - 8008 (Revised December 2003) SSIC 10100

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INTRODUCTION

The Financial Performance Report (FPR) serves as an analytical tool for credit union management. The FPR also aids NCUA and State Supervisory Authorities in measuring the financial performance of credit unions. The yearend FPR is designed to provide a 5-year picture of the financial trends and operating results of the credit union. The midyear and quarterly FPRs portray these trends for shorter time intervals. The data contained in the report may be used by the credit union to identify key trends, analyze past performance, and set future goals.

FPRs are computer generated reports prepared from data the credit union has submitted to NCUA. For all credit unions, data is updated quarterly. The data is collected from the Call Report, NCUA 5300. Optionally, credit unions with assets less than $10 million may use the abbreviated version of the Call Report, NCUA 5300SF for March and September. Data is presented in the form of ratios, percentages, and dollar amounts. FPRs also portray the credit union in relation to a credit union peer group of similar asset size.

PEER GROUPS

Peer group data is provided to show how the credit union performed in relation to a group of credit unions of similar asset size and charter type. Depending on the credit union's asset size, it is placed into one of the following peer groups:

ASSETS

$2,000,000 or less

$2,000,000 - $10,000,000

$10,000,000 - $50,000,000

$50,000,000 - $100,000,000

$100,000,000 - $500,000,000

$500,000,000 or more

The credit union's peer group is shown on page 4 of the FPR.

NCUA computes the peer group averages by calculating the average of the individual ratios values within each defined range.

PERCENTILE RANKINGS

Percentile rankings are used to show where the credit union stands in relation to its peers in key areas of financial performance.

In arriving at the percentile ranking for a particular key ratio, the corresponding ratios for all credit unions in the peer group are arranged in order from the *best* to the *worst* value. A percentile ranking from 100 (best) to 1 (worst) is assigned to each ratio depending on its position. All credit unions having the same ratio value are assigned the same percentile ranking. The percentile ranking assigned to the credit union's ratio is a measure of the relative standing of that ratio in the entire range of ratio values.

A high or low percentile ranking does not automatically imply good or bad, satisfactory or unsatisfactory. However, when reviewed in relation to other available data, a conclusion can usually be reached as to the importance of a high or low percentile to the credit union's financial performance.

ARRANGEMENT

The December FPR is divided into four sections:

- Explanatory Letter and Financial
- Comparison, page 1;
- Graphic Display, pages 2 and 3;
- 5-Year Financial History, page 4; and
- 5-Year Ratio Analysis, page 5.

The semi-annual and quarterly FPRs mirror the December FPR. In the semi-annual and quarterly FPRs, financial data is provided in shorter intervals rather than the annual intervals of the yearend report. Ratios and percentages are annualized where appropriate.

DESCRIPTION

A page-by-page description of the December FPR is given below. The discussion concerning the financial comparison, graphic display, financial history, and ratio analysis pages can also be used as a general guide to the midyear and quarterly FPRs.

Explanatory Letter, Page 1. The Explanatory Letter provides information about the credit union, including its name and charter or certificate number. The narrative portion of page 1 contains a general description of the report. Additionally, page 1 identifies the four key performance areas, the credit union's ratio in each area, the percentile ranking, and ratio peer average.

Following is an explanation of the four key ratios. The four key ratios are listed in the same order as they appear in the Financial Comparison.

Ratio Designation	Method of Computation and Comment
Net Worth	Net Worth divided by Total Assets. Comment: This is a **capital adequacy** ratio that measures net worth in relation to total assets. Net worth cushions fluctuations in earnings, supports growth, and provides protection against insolvency. The rate of growth should be commensurate with the levels of risk and asset growth. The rate of growth in total assets and net worth are shown on page 5 of the FPR.
Return on Average Assets	Net Income divided by Average Assets. Comment: This is an **earnings** ratio that measures net income in relation to average assets. This ratio represents the bottom line. A positive ratio value shows that earnings were sufficient to cover the credit union's operating expenses and cost of funds.
Delinquency	Delinquent Loans divided by Total Loans. Comment: This is an **asset quality** ratio that measures delinquent loans in relation to total loans. This ratio is an indicator of delinquency control and potential loan & lease losses. A high ratio value in relation to the peer group average indicates that the credit union could incur significant loan & lease losses.

Charge-Offs

Net Charge-Offs divided by Average Loans.

Comment: This is an **asset quality** ratio that measures net charge-offs in relation to average loans. Charge-offs are an important indicator of the effectiveness of lending and collection practices. A high ratio value in relation to the peer group average indicates that large loan & lease losses have been realized. Loan & lease losses reduce the credit union's capital.

More information about the key ratios and their components appears in the discussion of the 5-Year Ratio Analysis.

Graphic Display, Pages 2 and 3. Pages 2 and 3 contain graphic displays of the four key financial ratios for the current year and previous 4 years. (In the June FPR, the four key ratios are shown for the current cycle and 4 previous semi-annual periods. In the quarterly FPRs, the four key ratios are shown for the current quarter and 4 previous quarters.) The boxes below the graphs note the range, middle 50 percent, peer average, as well as the credit union's own ratio for each of the four key ratios. The middle 50 percent of the peer group distribution is calculated by ranking the ratio values for all credit unions within the peer group, determining the midpoint (median) of the ranked ratio values, and identifying the ratio values for the credit unions whose relative position within the ranking fall 25 percent above and below the midpoint.

The Graphic Display provides a quick, visual review of key financial trends, and can be used to monitor the credit union's progress in various areas of financial performance. The Graphic Display also provides a comparison of the credit union's performance in relation to its peers for all key ratios.

The significance of the financial ratios which appear in the Graphic Display is explained in the narrative which follows each graph. For further information about these ratios, see the discussion regarding the 5-Year Ratio Analysis.

5-Year Financial History, Page 4. The 5-Year Financial History contains balance sheet and income and expense data for the current year and previous 4 years. (In the June FPR, the data items are shown for the current and 4 previous semi-annual periods. In the quarterly FPRs, the data items are shown for the current quarter and 4 previous quarters.) For certain key data items, the annual percentage changes are displayed to the right of the item.

The 5-Year Financial History is particularly useful for reviewing trends and can also be used in monitoring the credit union's progress in various areas of financial performance. For example, if the credit union's performance has been weak in the area of loan growth, this may indicate that promotional efforts need to be increased in order to achieve a specified percentage of loan growth in future periods. The progress made toward achieving the growth could then be monitored by reviewing monthly loan growth, as well as the percent change data displayed for loans in subsequent FPRs.

5-Year Ratio Analysis, Page 5. The 5-Year Ratio Analysis displays six groups of financial ratios for the current and previous 4 years. (In the June FPR, the ratios are displayed for the current cycle and preceding 4 semi-annual periods. In the quarterly FPRs, the ratios are shown for the current quarter and 4 previous quarters.) The ratios are grouped in relation to major areas of the CAMEL Rating System (capital adequacy, asset quality, earnings, asset/liability management), productivity and other ratios. The 5-Year Ratio Analysis also displays the corresponding peer group ratios (peer averages for the current year) and the difference between the credit union's ratio values and the corresponding peer group ratio values for the current year.

The 5-Year Ratio Analysis allows in-depth analysis of the first four pages of the report. Also, by carefully reviewing the peer data shown on page 5 and other available data, the credit union should be able to judge the importance (positive or negative impact on the credit union) of any particular ratio value which varies significantly from the peer group's ratio.

As an example, assume that the credit union's Delinquent Loan Ratio (in the asset quality grouping) is significantly higher than the peer group's Delinquent Loan Ratio. This condition, coupled with a high Charge-Off Ratio in relation to the peer group and/or in relation to the credit union's past performance, could cause the board of directors to conclude that lending policies and/or collection practices need to be revised. In this example, the credit union's unfavorable comparison with the peer group indicates a negative impact on the credit union when reviewed in relation to other available information (charge-off data). ***The important point to remember is that peer comparisons must be considered in relation to other available data, including any factors unique to the credit union, before any definite conclusions can be reached.***

The following are descriptions of the ratios used in the 5-Year Ratio Analysis. Commonly used components of some of the ratios are defined first in order to simplify the descriptions. An asterisk (*) placed before a ratio indicates that it is one of the four key ratios used in the Financial Comparison, page 1.

RATIO COMPONENTS

AVERAGE ASSETS. Total assets for the current period plus total assets for the prior yearend divided by 2.

AVERAGE INVESTMENTS. Total investments, cash on deposit and cash equivalents for the current period plus total investments, cash on deposit and cash equivalents for the prior yearend divided by 2.

AVERAGE LOANS. Total loans for the current period plus total loans for the prior yearend divided by 2.

BORROWINGS. The total of promissory notes, reverse repurchase agreements, other notes payable, interest on notes payable less reverse repurchase transactions placed in investments for positive spread income, and Subordinated Debt. For low-income designated credit unions only, borrowings also include Uninsured Secondary Capital.

COST OF FUNDS. Interest on borrowed money from all sources plus dividends on shares and interest on deposits.

ESTIMATED LOSSES. Estimated losses include the Allowance for Loan & Lease Losses. The Allowance for Loan & Lease Losses reflects the estimated loss in pools of loans that have already been incurred, even if not yet identifiable. Estimated losses also include The Appropriation For Non-Conforming Investments account. This account is used by state-chartered federally insured credit unions for investments not authorized by NCUA. Note: In conformity with SFAS 115, it is assumed that investments classified as Available for Sale or Trading are properly reported at fair value. The differences between book value and fair value for Available for Sale and Trading securities should already have been adjusted through the appropriate equity or income accounts.

EQUIVALENT FULL-TIME EMPLOYEES. Number of part-time employees divided by 2 plus the number of full-time employees.

NET WORTH. The total of the Undivided Earnings, Regular Reserves, Appropriation for Non-Conforming Investments (state-chartered credit unions only), and Other Reserves (Appropriations of Undivided Earnings). **For low income designated credit unions only,** net worth also includes Uninsured Secondary Capital. Note: In all FPRs other than the December cycle, the undistributed Net Income is included in the calculation of net worth for credit unions not closing their books. Credit unions must close out net income into undivided earnings for the December reporting period.

SHARES. The total of all shares and deposits.

CAPITAL ADEQUACY

***NET WORTH/TOTAL ASSETS.** Net worth divided by total assets.

TOTAL DELINQUENT LOANS/NET WORTH. All loans 2 months or more delinquent divided by net worth.

SOLVENCY EVALUATION (ESTIMATED). Total assets plus the Allowance for Loan & Lease Losses less liabilities and estimated losses divided by total shares.

CLASSIFIED ASSETS (ESTIMATED)/NET WORTH. Estimated losses divided by net worth.

ASSET QUALITY

***DELINQUENT LOANS/TOTAL LOANS.** All loans 2 months or more delinquent divided by total loans.

***NET CHARGE-OFFS/AVERAGE LOANS.** Total amount of loans charged-off during the year less all recoveries on charged-off loans during the year divided by average loans. For March figures, multiplying the result by 4 annualizes this ratio. For June figures, multiplying the result by 2 annualizes this ratio. For September figures, multiplying the result by 1.33 annualizes this ratio.

FAIR (MARKET) VALUE/BOOK VALUE (for investments Held to Maturity). Fair market value of investments Held-to-Maturity divided by the book value of investments Held-to-Maturity.

ACCUMULATED UNREALIZED GAINS OR (LOSSES) ON AVAILABLE FOR SALE SECURITIES {+ debits - credits}/COST OF INVESTMENTS AVAILABLE FOR SALE. Accumulated Unrealized Gains or (Losses) on Available for Sale Securities, divided by the total of the book value of investments Available for Sale minus the Accumulated Unrealized Gains or (Losses) on Available for Sale Securities.

DELINQUENT LOANS/ASSETS. All loans 2 or more months delinquent divided by total assets.

EARNINGS

Earnings ratios which use average assets as the denominator must be annualized. Multiplying the result of the formula given by the appropriate annualization factor for each quarter annualizes these ratios:

March	4
June	2
September	1.33

No annualization is necessary for December ratios because they already reflect an annual period.

***RETURN ON AVERAGE ASSETS.** Net income (loss) divided by average assets, annualized as appropriate.

GROSS INCOME/AVERAGE ASSETS. Gross income divided by average assets, annualized as appropriate.

YIELD ON AVERAGE LOANS. Interest on loans net of any refunds divided by average loans, annualized as appropriate.

YIELD ON AVERAGE INVESTMENTS. Income from investments and trading profits or losses divided by average investments, annualized as appropriate.

COST OF FUNDS/AVERAGE ASSETS. Interest on borrowed money from all sources plus dividends on shares and interest on deposits divided by average assets, annualized as appropriate.

NET MARGIN/AVERAGE ASSETS. Gross income minus cost of funds divided by average assets, annualized as appropriate.

OPERATINGEXPENSES/AVERAGE ASSETS. Operating expenses (excluding the provision for loan & lease losses and cost of funds) divided by average assets, annualized as appropriate.

PROVISION FOR LOAN & LEASE LOSSES/AVERAGE ASSETS. Provision for loan & lease losses divided by average assets, annualized as appropriate.

NET INTEREST MARGIN/AVERAGE ASSETS. Loan income plus investment income minus the cost of funds divided by average assets, annualized as appropriate.

OPERATING EXPENSES/GROSS INCOME. Total operating expenses (excluding the provision for loan & lease losses and cost of funds) divided by gross income. This ratio is not annualized.

FIXED ASSETS AND OREOs/TOTAL ASSETS. The sum of land and building, other fixed assets and other real estate owned divided by total assets. This ratio is not annualized.

NET OPERATING EXPENSES/AVERAGE ASSETS. Total operating expenses (excluding the provision for loan & lease losses and cost of funds) minus fee income divided by average assets, annualized as appropriate.

ASSET/LIABILITY MANAGEMENT

NET LONG-TERM ASSETS/TOTAL ASSETS. The sum of real estate loans which will not refinance, reprice or mature within 5 years (3 years prior to December 2000), member business loans, investments with remaining maturities of more than 3 years, NCUSIF deposit, land and building and other fixed assets divided by total assets.

REGULAR SHARES/TOTAL SHARES AND BORROWINGS. Regular shares divided by total shares and borrowings.

TOTAL LOANS/TOTAL SHARES. Total loans divided by total shares.

TOTAL LOANS/TOTAL ASSETS. Total loans divided by total assets.

CASH AND SHORT-TERM INVESTMENTS/ASSETS. Cash plus investments with less than one-year remaining maturity, divided by total assets.

TOTAL SHARES, DEPOSITS AND BORROWINGS/EARNING ASSETS. Total shares, deposits, and borrowings divided by the sum of total loans and total investments (excluding reverse repurchase transactions placed in investments for positive arbitrage).

REGULAR SHARES + SHARE DRAFTS/ TOTAL SHARES AND BORROWINGS. Regular shares plus share drafts divided by total shares and borrowings.

BORROWINGS/TOTAL SHARES AND NET WORTH. Total borrowings divided by total shares and net worth.

PRODUCTIVITY

MEMBERS/POTENTIAL MEMBERS. Number of current members divided by the total of potential members.

BORROWERS/MEMBERS. Number of loans divided by number of current members.

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

AVERAGE SHARES PER MEMBER. Total shares and deposits divided by number of current members.

AVERAGE LOAN BALANCE. Total loans divided by number of loans.

SALARY & BENEFITS/FULL-TIME EMPLOYEES. Employee compensation and benefits divided by equivalent full-time employees.

OTHER RATIOS

This section of the FPR shows growth ratios for net worth, shares, loans, assets, and investments.

All growth ratios are computed using the same basic formula:

Current Period *(***)* minus Prior Year End *(***)*
divided by Prior Year End *(***)*

where *(***)* is the growth item to be calculated (such as shares or loans). The growth ratios must be annualized. Multiplying the result of the basic formula by the appropriate annualization factor for each quarter annualizes these ratios:

March	4
June	2
September	1.33

No annualization is necessary for December ratios because they already reflect an annual period.

NET WORTH GROWTH. This ratio measures the growth in total net worth. To compute the ratio, use total net worth in the basic formula discussed above and annualize as appropriate. (Note: The calculation of this ratio requires using the absolute value of the denominator.)

MARKET GROWTH. This ratio measures the growth in shares. To compute the ratio, use total shares in the basic formula discussed above and annualize as appropriate.

LOAN GROWTH. This ratio measures the growth in loans. To compute the ratio, use total loans in the basic formula discussed above and annualize as appropriate.

ASSET GROWTH. This ratio measures the growth in assets. To compute the ratio, use total assets in the basic formula discussed above and annualize as appropriate.

INVESTMENT GROWTH. This ratio measures the growth in investments. To compute the ratio, use total investments (excluding for all periods reverse repurchase transactions placed in investments for positive arbitrage) in the basic formula discussed above and annualize as appropriate. Beginning in December 2000 this ratio indicates growth in the sum of investments, cash on deposit and cash equivalents.

ADDITIONAL INFORMATION

Additional information about the FPR and this User's Guide may be obtained from the appropriate NCUA regional office, as noted on the following page.

NATIONAL CREDIT UNION ADMINISTRATION
REGIONAL OFFICES

REGION I (ALBANY)
Regional Director
National Credit Union Administration
9 Washington Square
Washington Avenue Extension
Albany, NY 12205
(518) 862-7400

Connecticut	New York
Maine	Rhode Island
Massachusetts	Vermont
New Hampshire	

REGION II (CAPITAL)
Regional Director
National Credit Union Administration
1775 Duke Street
Suite 4206
Alexandria, VA 22314-3437
(703) 519-4600

Delaware	New Jersey
District of Columbia	Pennsylvania
Maryland	Virginia

REGION III (ATLANTA)
Regional Director
National Credit Union Administration
7000 Central Parkway
Suite 1600
Atlanta, GA 30328
(678) 443-3000

Alabama	Mississippi
Arkansas	North Carolina
Florida	Puerto Rico
Georgia	South Carolina
Kentucky	Tennessee
Louisiana	Virgin Islands

REGION IV (CHICAGO)
Regional Director
National Credit Union Administration
4225 Naperville Road
Suite 125
Lisle, Illinois 60532
(630) 955-4100

Illinois	Ohio
Indiana	West Virginia
Michigan	Wisconsin
Missouri	

REGION V (AUSTIN)
Regional Director
National Credit Union Administration
4807 Spicewood Springs Rd.
Suite 5200
Austin, Texas 78759-8490
(512) 342-5600

Arizona	New Mexico
Colorado	North Dakota
Iowa	Oklahoma
Kansas	South Dakota
Minnesota	Texas
Nebraska	

REGION VI (PACIFIC)
Regional Director
National Credit Union Administration
1230 West Washington Street
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Tempe, AZ 85072
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Alaska	Montana
American Samoa	Nevada
California	Oregon
Guam	Utah
Hawaii	Washington
Idaho	Wyoming