

Movement Statistics




**your
credit
union**
IRELAND

Movement Statistics

Financial Highlights of credit unions in the year ended September 2001

The consolidated assets of the Credit Union Movement at year end September 2001 were €7.6 billion. This figure represents a growth of 15.65% on the previous year. The growth in savings and loans was 15.7% and 10.85% respectively which is a decrease on the previous year when savings grew by 18% and loans grew by 20.4%. The poor loan growth rate is reflective of keener competition in the personal loan market both from traditional providers and new entrants.

The breakdown of assets on the consolidated balance sheet was broadly similar to that of previous years with 63% made up of loans to members and 33% in respect of cash and investments. Overall there was a slight decrease in the level of loans and an equivalent increase in the investments component. However, a definite trend has emerged in the last few years whereby the loan component has reduced with a corresponding increase in investment.

The average dividend paid to members at year end 2001 was 3.3% marginally down on the 3.4% paid at year end 2000 but at the same level as year end 1999. The most popular dividend band was the 3% band used by 52%, followed by the 4% band used by 25% of credit unions. Overall, once again, there was no significant shift in the percentage of credit unions' dividend band distribution over that of 2000.

The percentage of reserves to assets has continued to decline slightly over the last four years, 1998 - 11.74% 2001 - 11.46%. This trend is explained by the tightening margins due to reduced interest rates and increased expense to income ratios. Overall the total credit union movement reserves of €871,855,000 at September 2001 represents a real and strong source of protection for the movement. It is estimated that at year end 2002 that the combined reserves of all League affiliated credit unions will amount to just over €1 billion.

Monitoring and CAMEL System Review

(Capital Adequacy, Asset Quality, Management Quality, Earning and Operating Efficiency, Liquidity)

The League Board engaged in a review of many of the major strategic issues that impact upon League structures and the interaction between the League and its membership.

One of the key strategic issues prioritised was the structure and operation of the Monitoring Service.

Traditionally the movement has prided itself on its successful self regulation. The approach to date has been a mix between statutory regulation, through the office of the Registrar of Friendly Societies in the Republic of Ireland and the Registrar of Credit Unions in Northern Ireland and internal regulation through the rules of the Savings Protection Scheme and the League's field service. The League believes that this type of partnership approach should form the basis of regulation of the movement into the future and is essential to the protection of the unique ethos of the movement.

Reasons for the Review

The current monitoring system is in operation since 1990 and it was considered timely for a review so that a revised monitoring system could be devised and implemented that reflects the changes in the way credit unions now operate on a day-to-day basis.

Motions passed at League annual general meeting over the intervening years had implications for CAMEL Ratios and norms. At annual general meeting 2000 a resolution was passed:

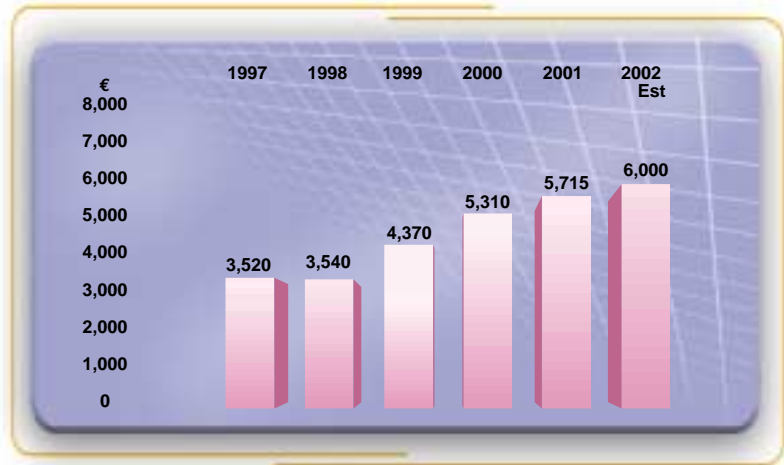
Movement Statistics

MOVEMENT STATISTICS			
	December 2000	December 2001	December 2002 (Est)
Number of credit unions	535	535	534
Membership	2.49 million	2.55 million	2.6 million
Savings	€5.86 billion	€7.7 billion	€8.25 billion
Assets	€6.87 billion	€8.9 billion	€9.58 billion
SPS fund	€59.1 million	€66.6 million	€72.6 million

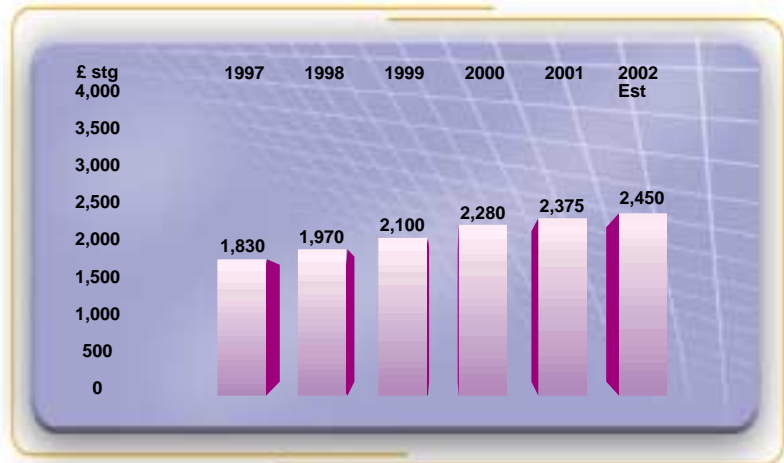
CONSOLIDATED BALANCE SHEET as at 30 September 2001				
	Republic of Ireland 2001 €	Northern Ireland 2001 £ Sterling	Consolidated 2001 €	Consolidated 2000 €
ASSETS				
Members' Loans	4,254,565,780	322,434,402	4,791,956,450	4,322,773,969
Cash & Investments	2,269,965,216	133,892,940	2,493,120,116	1,971,053,100
Fixed Assets	227,057,230	20,918,032	261,920,616	226,955,089
Other Assets (1)	39,671,321	13,040,503	61,405,492	58,074,630
Total	6,791,259,546	490,285,877	7,608,402,674	6,578,856,788
LIABILITIES				
Members' Shares	5,791,814,137	412,295,173	6,478,972,759	5,391,021,985
Members' Deposits	164,363,202	N/A	164,363,202	350,743,354
Statutory/General Reserve	557,105,627	52,661,044	644,874,034	559,800,738
Other Reserves/Surpluses (2)	213,748,923	7,939,353	226,981,178	197,695,595
Other Liabilities (3)	64,227,656	17,390,307	93,211,501	79,595,116
Total	6,791,259,546	490,285,877	7,608,402,674	6,578,856,788
Notes	(1) Prepayments, accrued income, stock (2) Reserves for technology, buildings and personal reserves (3) Creditors and accruals			

Movement Statistics

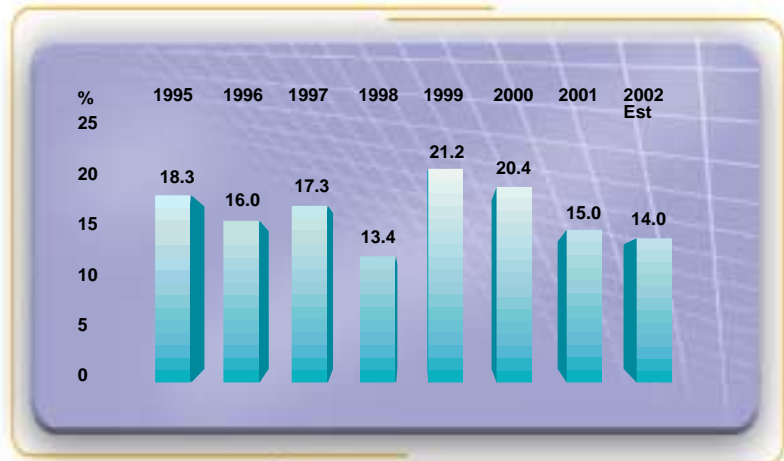
Average Loan Size at December € (Rofl)



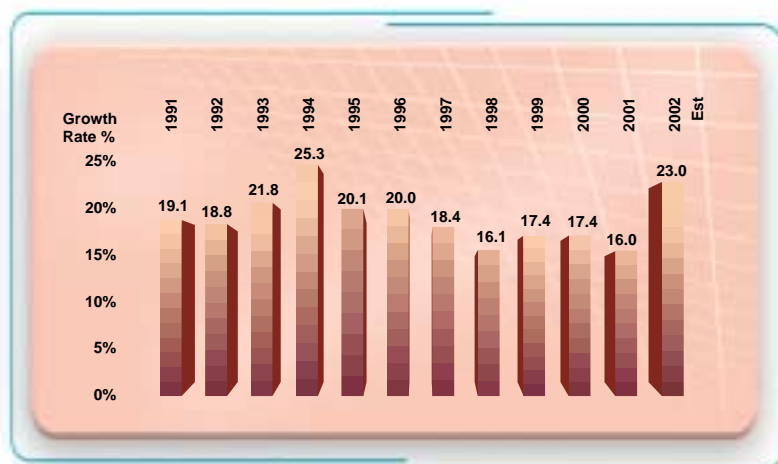
Average Loan Size at December £stg (NI)



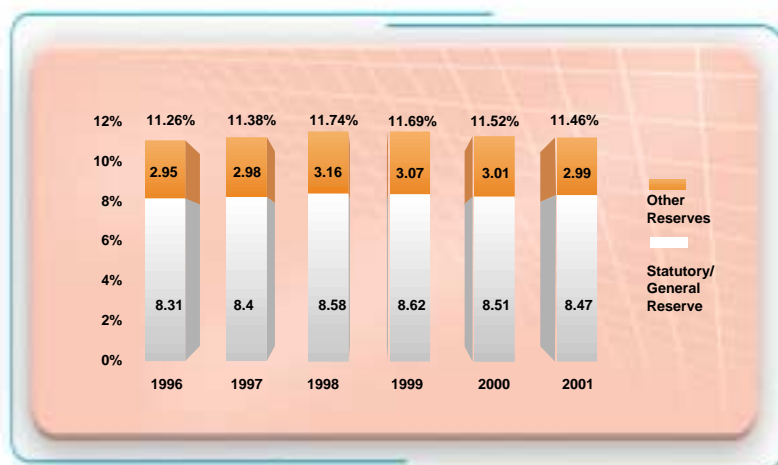
Loan Growth at December %



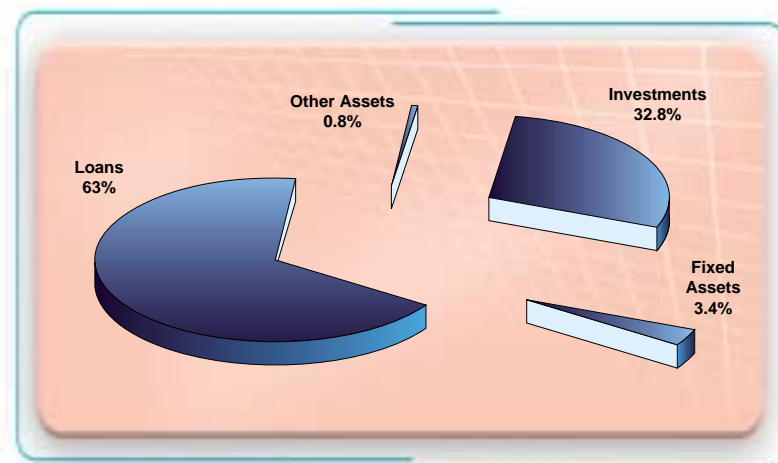
Movement Statistics



Annual Savings Growth at December %



Reserve to Assets (September)



Asset Distribution at September 2001

Movement Statistics

Republic of Ireland

AMOUNT AND NUMBER OF LOANS ADVANCED IN 2001 BY SIZE CATEGORY

Size £	Total number advanced	%	Total amount advanced £	%
£1 - £500	351,368	37	105,054,640	6
£501 - £1,000	208,959	22	174,442,381	9
£1,001 - £3,000	232,855	24	462,654,350	24
£3,001 - £6,000	96,149	10	442,477,314	23
£6,001 - £10,000	45,605	5	373,029,687	19
£10,001 - £30,000	20,821	2	310,718,816	16
over £30,001	1,192	0.12	59,149,473	3
Total	956,949	100%	£1,927,526,661	100%

Bands remain in IRE as the euro and new bands will not be requested until year end 2002

Northern Ireland

AMOUNT AND NUMBER OF LOANS ADVANCED IN 2001 BY SIZE CATEGORY

Size £stg	Total number advanced	%	Total amount advanced £stg	%
£1 - £250	41,877	22	6,320,717	3
£251 - £500	49,869	26	20,349,224	10
£501 - £750	17,768	9	11,306,990	5
£751 - £1,000	28,004	15	26,264,108	12
£1,001 - £2,000	27,955	15	44,983,077	21
£2,001 - £3,000	10,898	6	29,453,960	14
£3,001 - £5,000	8,766	4.5	36,573,417	17
over £5,001	4,958	2.5	37,141,314	18
Total	190,095	100%	£212,392,807	100%

Dividends

Dividend Rate Paid	% of Credit Unions paying that rate in 2000	% of Credit Unions paying that rate in 2001
0% to 0.99%	1%	1.7%
1% to 1.99%	2.6%	2.2%
2% to 2.99%	11%	12.9%
3% to 3.99%	52%	52%
4% to 4.99%	26%	25%
5% to 5.99%	7%	6%
6% to 6.99%	0.4%	0.2%
7% to 7.99%	0%	0%
8% to 8.99%	0%	0%

Movement Statistics

“That this Annual General Meeting decides that the present Camel Score Report format be discontinued when a suitable alternative system has been put in place.”

The development of a revised suite of ratios and alternative monitoring system was an integral part of this project.

In addition the Government proposals for a Single Financial Services Regulatory Authority will have implications for credit unions in the Republic of Ireland. Therefore, a main consideration of the review was to put in place a monitoring system which will continue to protect the safety and soundness of credit unions and position them to meet the challenges resulting from any change in the regulatory environment. In order to maintain the aspiration of self-regulation, particularly once the Single Regulatory Authority comes into effect in February 2003 it will be vital that the revised monitoring system that is put in place meets best practice.

To this end we must ensure that our approach and commitment to regulation meets the highest standards and that the State can be satisfied as to our ability to fulfil our aspiration of self regulation. It is also vital to ensure that any revision of approach confirms the position of credit unions in Northern Ireland within the SPS Scheme.

The ILCU CAMEL

The CAMEL system was used to measure the financial performance of a credit union against established norms set by the Savings Protection Scheme. In recent years the relevance of the CAMEL ratios has diminished because many credit unions have changed their interest rate on loans, the loan duration has increased with a trend towards longer term lending and the relationship between credit union income and expenditure has changed. As a result many of the norms for the CAMEL ratios are no longer relevant nor take into account the changed financial and economic circumstances under which credit unions must now operate. It was therefore timely to review how the performance of credit unions should be measured and to establish and implement what is considered to be best practice in today's credit union environment.

Findings from the Review

The primary finding from the review is that there remains a clear need to put in place a monitoring system:

- Which will act as an early warning system.
- Will continue to protect the safety and soundness of all SPS member credit unions.
- Position credit unions for change in the regulatory environment.
- Maintain Member and Public Confidence.

Best practice requires that each credit union is assessed for risks to safety and soundness on an individual basis. This must be done in order to evaluate the credit union's overall risk profile so that financial risks can be identified, measured and quantified to establish whether they constitute a risk to the Savings Protection Scheme and to the credit union's own financial structure.

The first step in this process is the development and implementation of an enhanced database of financial performance information on all SPS member credit unions, created from a revised Financial Statement submitted by credit unions.

While best practice suggests that there is no substitute for the examination programme it should only be conducted after the early warning system has identified where the examination efforts should be focussed. The field inspection programme should be complemented by a database which holds all the relevant financial data on the credit unions to be visited.

A desk audit function is a vital component in any monitoring system. The desk audit function carries out an assessment of each credit union. The assessments are done on an ongoing basis based on the data submitted by credit unions. The desk audit is charged with the task of producing the Financial Performance Report (FPR) which is

Movement Statistics

based on a suite of defined ratios. The ratios that have been selected for implementation are the PEARLS (Protection, Effective Financial Structure, Asset Quality, Rate of Return and Cost Liquidity, Signs of Growth) ratios as developed by World Council of Credit Unions (WOCCU). The PEARLS ratios were selected as each of the 45 ratios are inter-related and facilitate a quick, precise, and complete analysis of the financial strengths and weaknesses of any credit union. Also the PEARLS ratios were designed specifically for credit unions to act both as a supervisory/regulatory and management information tool.

The desk audit acts as the link between the database and the field visit programme and is in effect an early warning system to determine whether a credit union is operating within the required norms of the SPS and those of its own financial structure.

The desk audit will also code credit unions on a small number of key ratios. The key ratios and codes will give a picture of how the credit union is performing.

The desk audit assessment of each credit union will be a complete review of the credit unions financial performance. The desk audit function will also examine previous field officer reports and recommendations. Once the review of all credit unions is complete the desk audit function will then be in a position to categorise each credit union in terms of its own risk profile and what risk it may present to the fund. This will then facilitate a move towards risk based scheduling of field visits, whereby credit unions, which are deemed to present the greatest risk to the Savings Protection Scheme Fund, are prioritised for visits.

The current practice for field visits is that at the end of each visit (where possible) the field officers meet with the board of the credit union and outline the findings and recommendations from the visit. This process works well when the results of the visit uncover only minor problems or the credit union does not present a large risk profile. However, on occasions when serious problems are identified the timescale of the visit may be too short for the field officer to compile an in-depth report and reach final recommendations. In these situations best practice is that the field officer simply presents preliminary findings at the exit meeting, the field officer would return for a more in-depth visit and follow up meeting to present findings and recommendations on more serious risks. Where necessary recommendations will be developed and an implementation plan agreed with the board, committees and management of the credit union.

Implementation of the Review Findings

The desk audit function has been commenced, the staffing of the Monitoring Department has been augmented and a pilot of the monitoring input reports is underway. Initially 12 credit unions were involved in the pilot of the League's revised monitoring system (this number is now being extended to 50 by December 2002). Consideration is being given to the receipt of data from credit unions electronically. The Call Report to be completed by credit unions has been circulated to the participating credit unions as well as a document outlining the PEARLS ratios that will be used during the pilot. In order to update credit unions on the revised monitoring system currently being piloted by the League a presentation on the PEARLS Monitoring System was given at the Chapter Officers weekend (2 and 3 November 2002). This presentation outlined the PEARLS Monitoring System as well as examining the ratios used in the System. A similar presentation has also been given at several chapter meetings around the country.

As part of the Monitoring Pilot the League examined Resolution No. 11 of 1987 and amendments (arrears of loan repayments and provisions) and compared it to the bad debt provision requirements employed by other movements. This is being done in order to establish how provisioning requirements in the Irish movement compare to international best practice. The League have been in contact with a number of credit unions to aid us in conducting this analysis, in particular to assess the impact on individual credit unions were different methods of provisioning to be introduced. While this research is at a preliminary stage it is becoming clear that a more prudent/conservative provision approach is required. Credit unions will be kept informed of progress both on this research and the overall Monitoring Pilot.

The League staff are in the process of developing a revised and updated set of Standard Working Examination Procedures which are line with best practice prevailing in other movements and in compliance with the audit papers of the accountancy bodies in Ireland.