

Financial highlights of credit unions in the year ended September 2003

The consolidated assets of the credit union movement at year-end September 2003 were €10.3 billion, a figure which represents a growth of 15% on the previous year. The growth in savings and loans was 15.03% and 9.49% respectively.

The breakdown of assets on the consolidated balance sheet changed considerably compared to that of previous years. As outlined in last year's report, a definite trend has emerged whereby there has been a decrease in the loan component and a corresponding increase in investments.

There was a further change in the year ended September 2003, with 54.33% of total assets made up of loans to members (57% Sep. 2002, 63% Sep. 2001) and almost 42% in respect of cash and investments (39% Sep 2002, 33% Sep. 2001).

The average dividend paid to members at year-end 2003 was 2.5% down on the 3% paid at year-end 2002. The most popular dividend band was the 2% band used by 60%, followed by the 3% band used by 24% of credit unions. This also represents a significant shift in the percentage of credit unions' dividend band distribution over that of 2002.

The percentage of total reserves to total assets declined slightly, with total reserves to total assets as at 30th September 2003 standing at 10.04%, compared to 10.09% in 2002.

Monitoring and the PEARLS System

(**P**rotection, **E**ffective Financial Structure, **A**sset Quality, **R**ates of Return and Costs, **L**iquidity, **S**igns of Growth)

The PEARLS Monitoring System was adopted at the Biennial Delegate Meeting 2003 and the first Call Reports due for return were for the quarter ended June 30th 2003. At this stage, it is possible to highlight some of the emerging trends from the first Call Reports.

Results from the Call Reports March 31st 2004:

P – Protection

PI Bad Debt Provision Requirements

This ratio measures whether a credit union is complying with its bad debt provision requirements. The requirements used were as per Resolution 49 2003. While compliance with Resolution 49 is not compulsory until year-end 2004, a result of 100% or more implies that a credit union is already meeting the requirements of the new Resolution.

If a credit union's ratio is less than 100%, the Board should give priority to increasing the provision. The movement average for this ratio for the quarter ended 31st March 2003 was 82%, and this will rise at year end when credit unions make their year end transfers and provisions.

P4 Solvency

The overall solvency of credit unions remains very strong. The goal attached to this ratio is a result of 109% or greater. Again, it was most encouraging that the average at 31st March 2004 was over 113% for this ratio. Of the processed Call Reports, only 22 credit unions had a result less than the goal of 109%.

E – Effective Financial Structure

This section examines the disposition of a credit union's assets and liabilities on the balance sheet.

The continuing trend is that there is a decrease in the loan component of the balance sheet and a corresponding increase in the investment component. This is a cause for concern, particularly when coupled with the longer maturity of loans being approved by credit unions.

E1 Total Loans to Total Assets

As at the quarter ending 31st March 2004, only 52.17% of total assets was made up of loans to members, down from 52.67% at 31st December 2003 (54.33% at 30th September 2003; 55% at June 30th 2003) and is a continued decline from the figure of 63% at year-end 30th September 2001.

E2 Total Investments to Total Assets

The reduction in the loan component has led to a corresponding increase in the investment component and the results for E2 show that, as at 31st March 2004, almost 44% of total assets is made up of investments, up from 43% at 31st December 2003 and 41% at 30th September 2003. This is compared to a figure of 33% at year-end 30th September 2001. This trend will have an adverse impact on income and continues to compress the operating margin of credit unions.

E3 Other Assets to Total Assets

The assets examined by this ratio are primarily non-earning/fixed assets. The movement results for this ratio are 3.97% which is within the recommended goal of less than 5%.

E5 Borrowed Funds to Total Assets

The movement results for this ratio, very low at 0.22%, is excellent and shows that credit unions are not borrowing to fund their continued expansion.



E6 Total Reserves to Total Assets

The result for E6 - total reserves to total assets ratio - for the movement as at 31st March 2004 is 9.36%, which will improve as credit unions make their year-end transfers. The ratio of total reserves to total assets for the movement had been broadly static at about 11.5% (the figure as at 30th September 2001 was 11.46%). However, it dipped in the Republic of Ireland to 9.36%. Credit unions in Northern Ireland have remained closer to these levels and at 31st March 2004, the total reserves to total assets for credit unions in Northern Ireland was 10.91%.

A – Asset Quality

This section looks at the quality of the assets held by the credit union; the ratios measure the impact of non-performing assets which do not generate income. Usually the largest asset held by credit unions is loans to members and, therefore, the most important ratio in this section is A1 which measures delinquency.

A1 Gross Loans in arrears as a percentage of Gross Loans Outstanding

Again, this ratio is based on the more prudent provisioning requirements as set out in Resolution 49. The movement's result for this ratio has increased marginally to 7.23% as at 31st December 2004 (7.12% at December 2003), well in excess of the goal of not exceeding 5%.

The impact of Resolution 49 is an important factor in explaining the high result of this ratio and the trend should be downwards over time as credit unions adjust to the higher standards caused by Resolution 49.

A2 Non-Earning Assets to Total Assets

The purpose of this ratio is to measure the percentage of total assets that are not producing income e.g. cash on hand, floats, non-interest bearing current accounts, debtors, pre-paid expenses, fixed assets etc. This ratio is very similar to E3 and, from the feedback received, it is clear that going forward there is probably no need to have both. The overall result for this ratio is 4.78% as at 31st March 2004 which is inside the goal of less than 5%.

A3 Statutory Reserve (ROI) General Reserve (NI) + Other Reserves + Sundry Creditors/Fixed Assets

The purpose of this ratio is to measure the percentage of fixed assets that are financed with statutory reserves, other reserves and sundry creditors. The goal for this ratio is 100% and the movement average is 344%, which is positive.

This ratio is largely irrelevant for established credit unions and is more pertinent for newer credit unions that can use it to ensure that their fixed assets are funded to a level lower than their reserves level.

Note: for credit unions with no fixed assets, this ratio will return calculate as 0% or Not Applicable.

R – Rates of Return and Costs

These indicators measure the average income return for each of the most productive assets of the Balance Sheet. In addition, they measure the average cost of assets employed and the day-to-day operating expenses of the credit union.

R1 Total Loan Income/Average Gross Loan Balances

This ratio measures the return on loans, net of the Loan Protection Insurance paid by credit unions.

There was a large divergence between credit unions in Northern Ireland and the Republic. The result for credit unions in the North was 10.85% while the result for credit unions in the Republic was 9.1% as at 31st March 2004. The divergence is explained by the fact that virtually all credit unions in Northern Ireland charge the maximum rate allowable, while over half of the credit unions in the Republic have cut their interest rates this year alone.

This divergence will also be reflected in other ratio results such as total income, gross margin, etc.

R2 Liquid Investment Income/Average Liquid Investments and R3 Total Investment Income/Average Total Investments

These ratios measure the return on investments, the out turn of which is quite good considering the prevailing low interest rate environment. The results will also be understated during the year as many credit unions do not recognise or accrue for investment income during the year and wait until the year-end to recognise investment income.

For the quarter ended 31st March 2004, the return on liquid investments across the movement was 2.57% while total investment return was 2.42%.

R4 Financial Cost of Member Resources/Average Member Resources

The purpose of this ratio is to measure the cost of savings, with the components including the dividend paid on savings, deposit interest and the Life Savings Insurance premium paid.

As credit unions do not generally finalise distributions such as dividend until year-end, the results for this ratio will be very low during the year and the true cost of savings will only be accurately calculated once the cost of dividends is included in the calculation.

R6 Total Income/Average Total Assets

This ratio measures the adequacy of earnings and while there is no specific numerical goal attached to it, the goal is to generate enough income to cover operating expenses and to build provisions and reserves to the required levels.

As loan income forms the largest part of credit unions' income, there was a divergence again between credit unions in Northern Ireland and the Republic. The result for Northern credit unions was 7.76% while in the Republic, the result was 6.38% as at 31st March 2004. The divergence is explained by the fact that virtually all credit unions in Northern Ireland charge the maximum rate allowable, while over half of the credit unions in the Republic have reduced their interest rates.

R7 Gross Margin/Average Total Asset

Quite similar to R6, this ratio, however, takes account of the dividend paid on savings, interest rebate expenses and cost of borrowed funds. As credit unions do not generally finalise distributions such as dividend and interest rebate until year-end, the results for R7 and R6 will be very similar (if not the same) during the year.

R11 Net Income/Average Total Assets

This ratio simply puts the surplus for the year-to-date over average total assets, i.e. Income less expenditure to calculate the yield on total assets.

The results as at the quarter ended 31st March 2004 for credit unions in Northern Ireland was 4.93% and in the Republic 3.98%.

R12 Expenses/Income

This ratio measures expenses as a percentage of income.

The movement average for this ratio for the quarter ended 31st March 2004 is 37.59%, well within the recommended guideline of 43%.

It is clear from the Call Reports that economies of scale emerge as credit unions grow in size, as in general larger credit unions have a lower cost income ratio.

R13 Wages / Income

This ratio measures wage expenses as a percentage of income.

The movement result for this ratio is 12.26% as at 31st March 2004, again well within the guideline of 14%.

As with R12, it is clear from the Call Reports that economies of scale emerge as credit unions grow in size, as in general larger credit unions have a lower wages-to-income ratio despite the larger number of staff employed.

L – Liquidity

The liquidity indicators show whether the credit union is managing funds and liquidity requirements and checks that the credit union has enough liquid funds to meet member withdrawal demands.

For the purpose of the PEARLS ratios and the Call Reports, short-term liquid funds are treated as those that can be converted to cash within 30 days.

L1 Liquid Investments + Liquid Assets – Short-Term Payables/Total Savings

This ratio measures the adequacy of the credit unions liquid funds to satisfy share and deposit withdrawals after paying all immediate obligations < 30 days.

This ratio includes all liquid investments less than 30 days, (both earning and non-earning) deducts the amount due to creditors less than 30 days and puts that figure over total savings. The goal associated with this ratio is a minimum of 10%.

The movement average for this ratio for 31st March 2004 was 16.1% which implies that, credit unions do have sufficient liquid funds to meet members' withdrawal needs.

L2 Liquid Investments / Uncommitted Savings

This ratio is of great importance as it measures a credit union's ability to meet the withdrawal needs of members by focusing on uncommitted/unattached savings.

This has been identified as the key liquidity ratio and includes all investments less than 30 days, cash on hand, current accounts, etc. This ratio has become an important liquidity check, as in general a greater proportion of members' savings are now uncommitted (unattached) than was the case in previous years.

The goal for this ratio is a minimum of 20% and the movement result for the quarter ended 31st March 2004 was in excess of this at 23.4% (up from 22.04% at December 2003). This result is very encouraging; however, in some credit unions, the processed Call Reports attained a result of 10%. This implies that liquidity could become an issue for these credit unions, as too great a proportion of their investments are tied up over longer terms.

L3 Non-Earning Liquid Assets/Total Assets

This ratio measures the percentage of total assets that are invested in non-earning liquid assets e.g. cash, floats, non-interest bearing current accounts, etc.

The money held in non-earning liquid assets should be minimised, as these funds are not earning any return for members of the credit union. The result for this ratio was very good at only 0.88%, as at 31st March 2004.

L4 Percentage of Members who Borrow

This ratio simply calculates the percentage of members who have loans outstanding at the particular point in time. The result for this ratio has improved marginally to 31.29% as at 31st March 2004, up from 31.06% in December 2003 which implies that less than a third of members are borrowing from credit unions.

This would in part explain why the loan component of the asset side of the balance sheet has fallen, as in previous years this figure would have been closer to 40%. Northern Ireland credit unions continue to have a greater percentage of members who borrow and the result as at 31st March 2004 was 41.66%.

L5 Total Investments and Cash/Uncommitted Savings

This ratio operates in tandem with L2 but in this case, all cash and investments are included, not just those investments less than 30 days. It is of less relevance to most credit unions as they are already complying with the goal for L2. However, where a credit union obtains a result less than 10%, it would imply that it could have liquidity problems.

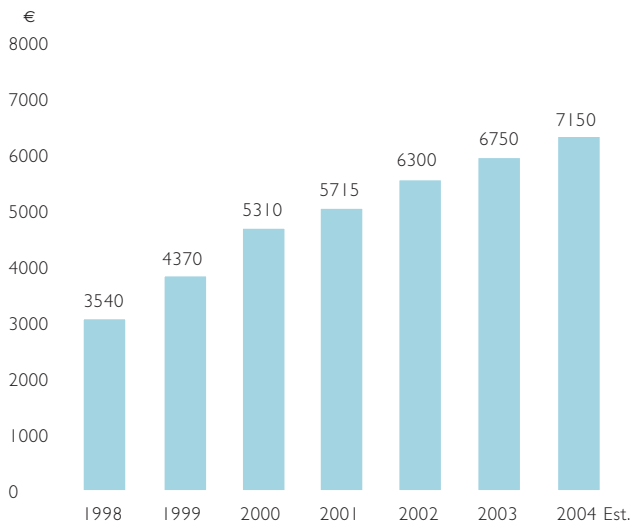
The result for this ratio is as high as would be expected, i.e. over 75%.

S – Signs of Growth

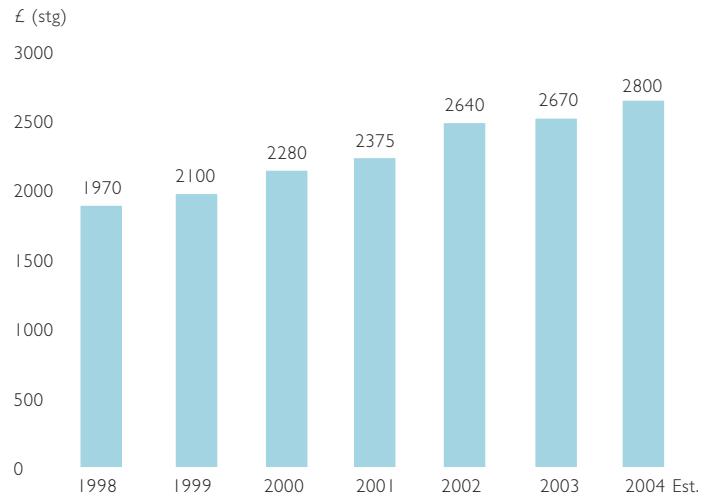
This section measures the growth of the credit union in a number of key areas such as savings, loans, membership, etc.

The movement continued to experience strong total asset growth - 6.39% - and savings growth (total member resources) - 8% - for the first half of the year up to 31st March 2004. However, loan growth lagged this figure considerably, with the total amount on loan only growing by 3.49%. As savings grew more than twice as fast as loans, there was a corresponding high investment growth of 12.53%.

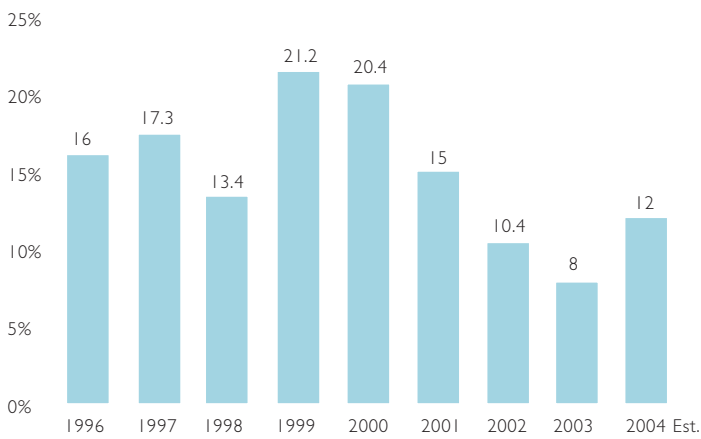
The large rise in savings would be partly explained by the distribution of dividends and interest rebates but it would indicate that the changing composition of the movement's balance sheet is set to continue.



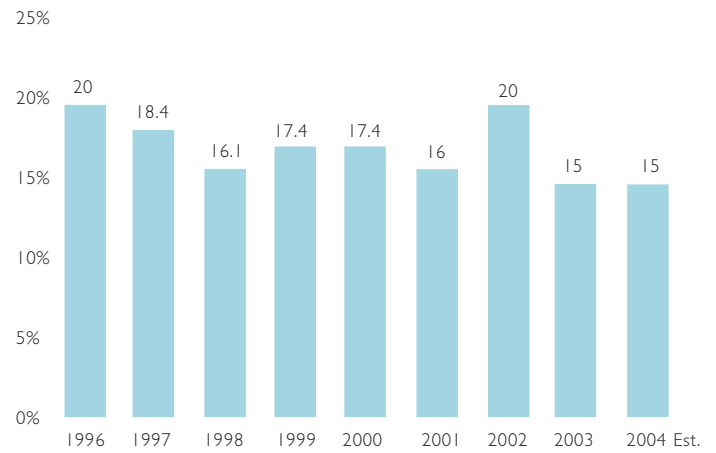
Average Loan Size at December € (Rofl)



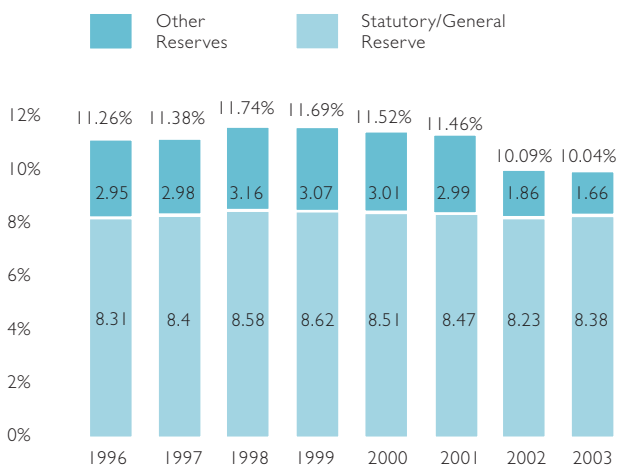
Average Loan Size at December £ (stg) (NI)



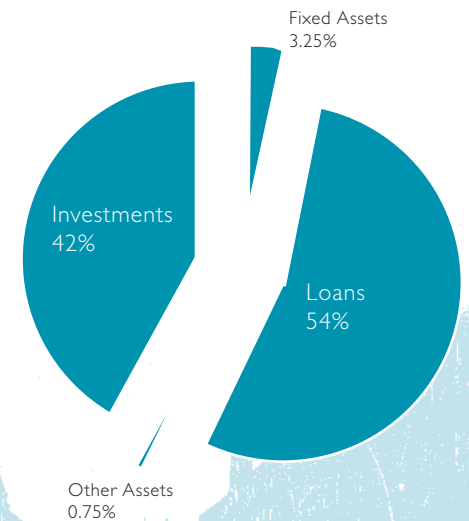
Loan Growth at December %



Annual Savings Growth at December %



Reserves to Assets (September)



Asset Distribution at September 2003

Movement Statistics

	Dec-01	Dec-02	Dec-03	Dec-04
Number of credit unions	535	534	532	531
Membership	2.55 million	2.6 million	2.8 million	2.9 million
Savings	€7.7 billion	€8.6 billion	€9.5 billion	€10.9 billion
Assets	€8.9 billion	€9.8 billion	€10.8 billion	€12.5 billion
SPS Fund	€66.6 million	€73.5 million	€80 million	€85.5 million

Consolidated Balance Sheet as at 30 September 2003

Assets	ROI 2003 €	NI 2003 £	Consolidated 2003 €	Consolidated 2002 €
Members Loans	4,983,280,668	370,525,671	5,600,823,453	5,115,300,653
Cash & Investments	3,955,113,579	211,038,721	4,306,844,780	3,493,940,364
Fixed Assets	285,105,416	24,169,199	325,387,414	294,653,396
Other Assets	64,745,886	6,257,736	75,175,446	57,792,175
Total	9,288,245,548	611,991,327	10,308,231,093	8,961,686,588
Liabilities				
Members Shares	7,969,226,941	522,657,731	8,840,323,159	7,789,388,081
Members Deposits	332,011,400	0	332,011,400	184,625,503
Statutory/General Reserve	744,814,412	71,102,689	863,318,894	737,676,345
Other Reserves/Surplus	168,429,942	1,579,371	171,062,227	166,524,353
Other Liabilities	73,762,853	16,651,536	101,515,413	83,472,306
Total	9,288,245,548	611,991,327	10,308,231,093	8,961,686,588

Dividend Rate Paid	% of Credit Unions paying that rate in 2002	% of Credit Unions paying that rate in 2003
0% to 0.99%	1.00%	1.00%
1% to 1.99%	4.50%	8.30%
2% to 2.99%	28.00%	60.00%
3% to 3.99%	50.00%	24.30%
4% to 4.99%	15.00%	6.00%
5% to 5.99%	1.50%	0.40%
	100.00%	100.00%

Northern Ireland

Amount and Number of Loans Advanced in 2003 by Size Category

Size £stg	Total Number Advanced	%	Total Amount Advanced £stg	%
£1 - £250	35,777	18%	5,370,299	2%
£251 - £500	47,434	24%	19,460,950	8%
£501 - £750	17,778	9%	11,352,975	5%
£751 - £1,000	39,513	20%	31,964,891	13%
£1,001 - £2,000	31,098	15%	50,685,111	21%
£2,001 - £3,000	12,128	6%	32,988,033	14%
£3,001 - £5,000	10,129	5%	42,689,576	18%
over £5,001	5,821	3%	45,798,777	19%
Total	199,678	100%	240,310,612	100%

Republic of Ireland

Amount and Number of Loans Advanced in 2003 by Size Category

Size €	Total Number Advanced	%	Total Amount Advanced €	%
€1 - €1,000	441,384	47.19%	253,733,068	9.62%
€1,001 - €5,000	365,795	39.10%	959,272,528	36.37%
€5,001 - €10,000	84,673	9.05%	636,700,996	24.14%
€10,001 - €25,000	37,617	4.02%	558,434,528	21.17%
€25,001 - €50,000	5,135	0.55%	157,761,085	5.98%
€50,001 - €100,000	629	0.07%	41,376,685	1.57%
over €100,000	192	0.02%	30,617,222	1.16%
Total	935,425	100%	2,637,896,112	100%

