Understanding Your Credit Union's Financial Statements

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R&A

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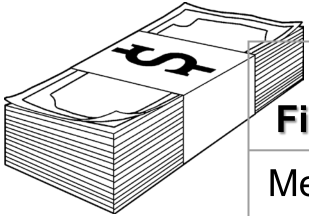
Why Financial Statements Matter

Every Important Credit Union Decision Starts Here

Financial statements help answer questions such as:

- Are we financially healthy?
- Can we support future growth?
- Are we taking on too much risk?
- Are we earning enough to build capital?
- Are we fulfilling our responsibility to the members?



Who Uses the Financial Statements	Primary Purpose	Key Question They Ask?
Members	Ensure the credit union is financially sound	“Is my money safe?”
Board of Directors	Provide strategic oversight	“Are we meeting our goals?”
Management	Make operational decisions	“How are we performing?”
Supervisory Committee	Oversee financial reporting and audits	“Can we rely on these financial statements?”
Internal Auditors	Evaluate controls and compliance	“Are controls operating effectively?”
External Auditors	Express an independent opinion	“Are the financial statements fairly presented?”
Regulators	Assess safety, soundness and compliance	“Is the credit union operating safely?”

Financial Statements Work Together

Balance Sheet
Where are we today?
↓
Income Statement
How did we perform this year?
↓
Statement of Cash Flows
Where did the cash come from and where did it go?
↓
Financial Ratios
What do these numbers tell us?

Understanding CAMELS Ratings

CAMELS is a system used by NCUA and DFPI examiners to assess the **financial health and operational soundness** of credit unions. Each letter stands for a key area of evaluation:

- **C – Capital Adequacy:** Measures the credit union’s ability to absorb losses
- **A – Asset Quality:** Assesses loan portfolio strength and risk of losses
- **M – Management:** Evaluates leadership, risk controls, and policy compliance
- **E – Earnings:** Looks at net income and ability to sustain operations
- **L – Liquidity & Asset-Liability Management:** Reviews ability to meet obligations and manage interest rate risk
- **S – Sensitivity:** Market risk

How CAMELS Ratings Are Used

Measured on a scale of 1 to 5

- 1- Indicates strong performance
- 2- Indicates satisfactory performance
- 3- Some degree of supervisory concern in one or more of the component areas
- 4- Exhibits unsafe and unsound practices or conditions
- 5- Exhibits extremely unsafe and unsound practices and conditions

Management and Volunteers should:
✓ Understand how each area ties to financial performance
✓ Monitor trends in capital, earnings, and asset quality
✓ Use CAMELS ratings as a lens for risk-based oversight

Why CAMELS Matters

It influences examination focus.

It affects regulatory supervision.

It helps identify emerging risks before they become problems.

Many of the financial ratios we'll discuss support one or more CAMELS components.

Understanding Financial Statements

Balance Sheet (Statement of Financial Condition)- Assets, Liabilites & Equity

Common asset accounts- (Loans, Investments, Cash)

Common liability accounts- (Shares, Certificates, Payables)

Equity and net worth ratio

Income Statement (Statement of Income and Expense)

Loan Interest Income

Investment Income

Operating Expenses

Provision for Loan Losses

Net Income / Net Loss

Key Financial Ratios

Financial ratios are tools that help evaluate the overall health, performance, and risk level of a credit union. They provide insight into key areas such as capital strength, lending activity, earnings, operating efficiency, and asset quality.

Reviewing these ratios regularly can:

- Spot trends or red flags early
- Compare performance against peer institutions
- Make informed oversight decisions
- Ensure the credit union is operating in a safe, sound, and sustainable manner

*Often used by **NCUA examiners**, **auditors**, and **credit union leadership** to assess progress and guide strategic planning.

Peer Groups

NCUA peer groups include all federally insured credit unions (all federal and state-chartered credit unions). The NCUA excludes non-federally insured credit unions in peer groups. Total assets determine a credit union's peer group, as shown below:

Peer Group	Total 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

NCUA Regions

Southern Region

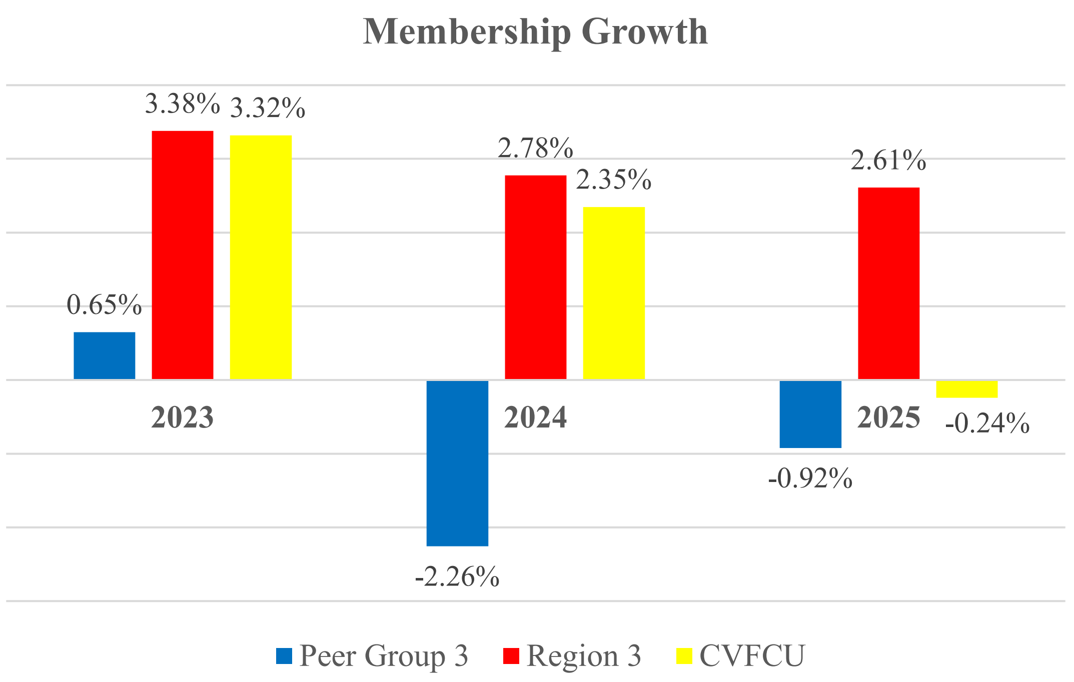
States: Alabama, Arkansas, Florida, Georgia, Indiana, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, Puerto Rico, South Carolina, Tennessee, Texas, U.S. Virgin Islands

Eastern Region

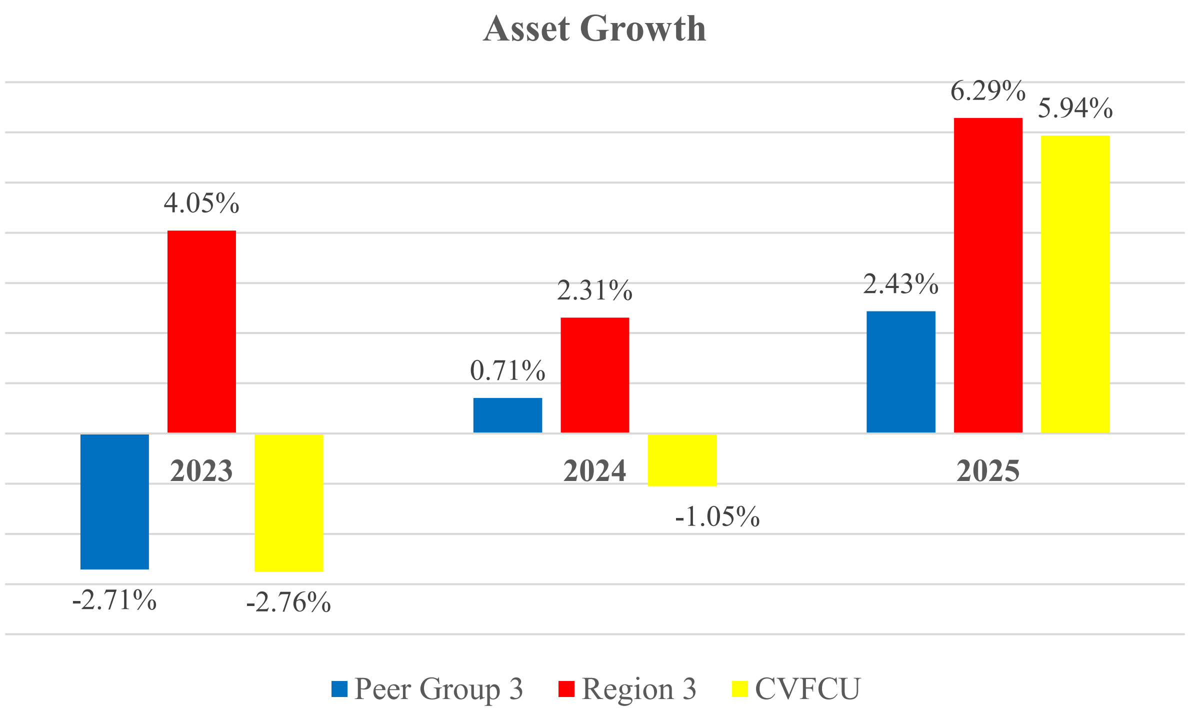
States: Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia

Western Region

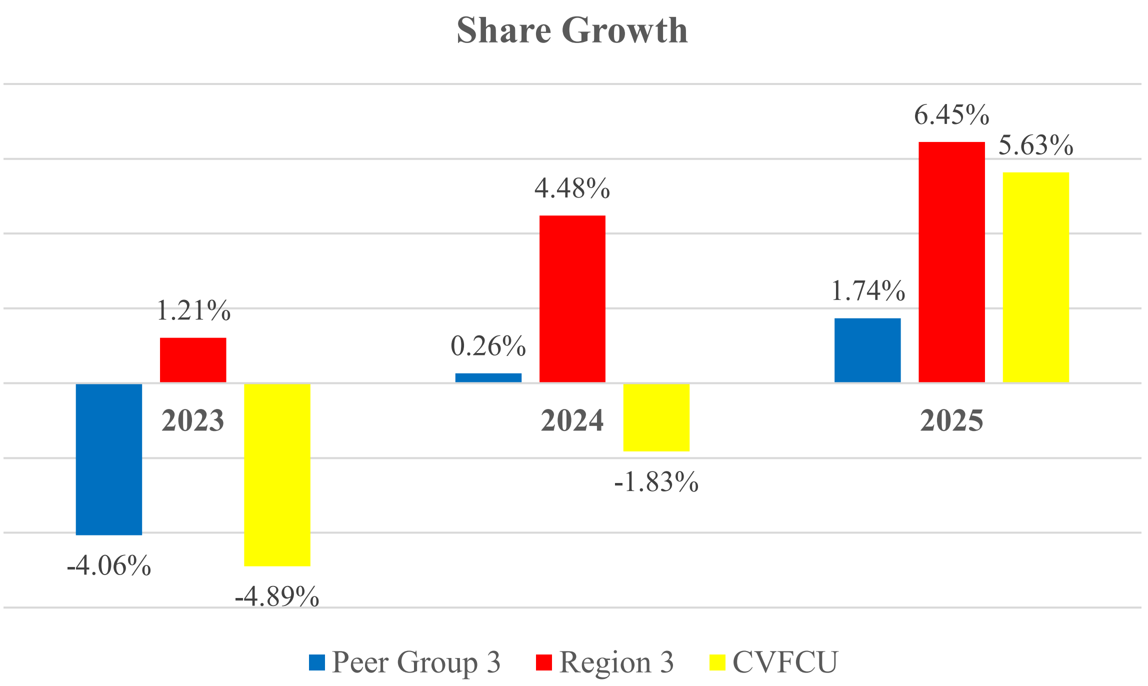
States: Alaska, Arizona, California, Colorado, Guam, Hawaii, Idaho, Illinois, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington, Wisconsin, Wyoming



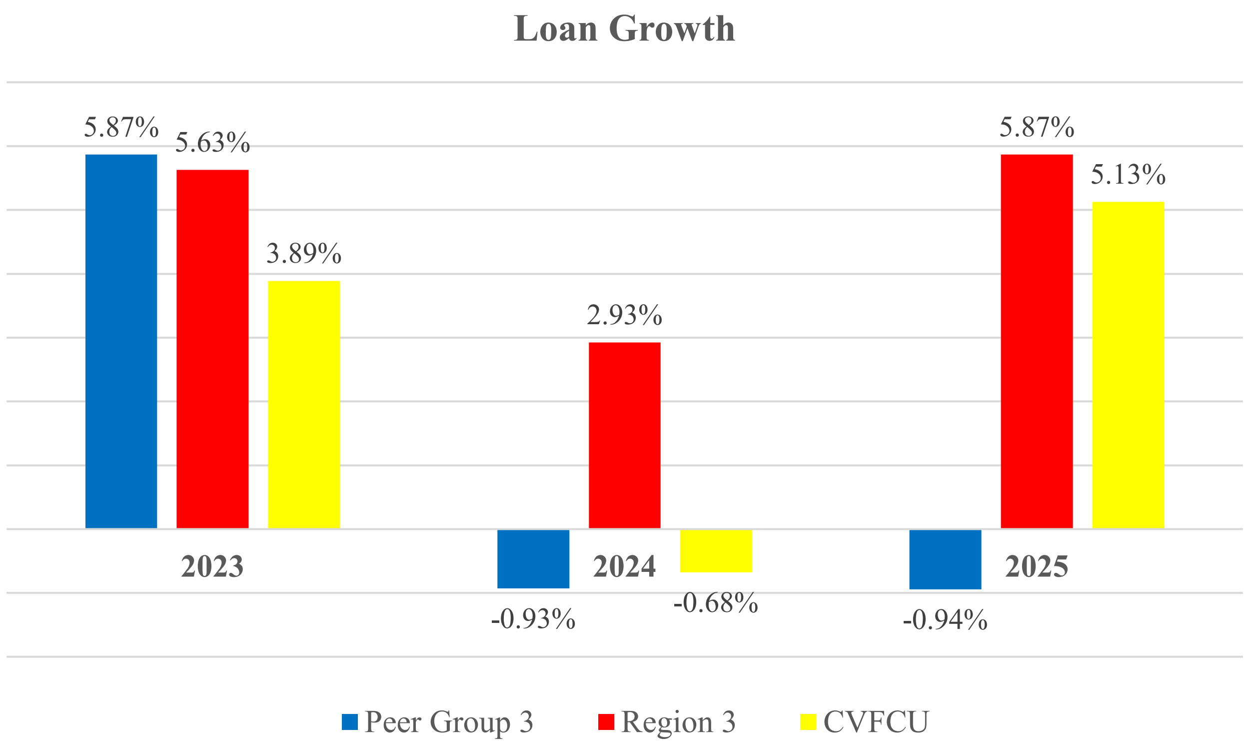
What It Measures	Formula	High or Low?	What Makes It Improve?	What Makes It Decline?
Ability to attract and retain members	New Members – Lost Members ÷ Beginning Members	Higher is generally better	Marketing, referrals, SEGs, technology, service	Competition, poor service, limited products, aging membership



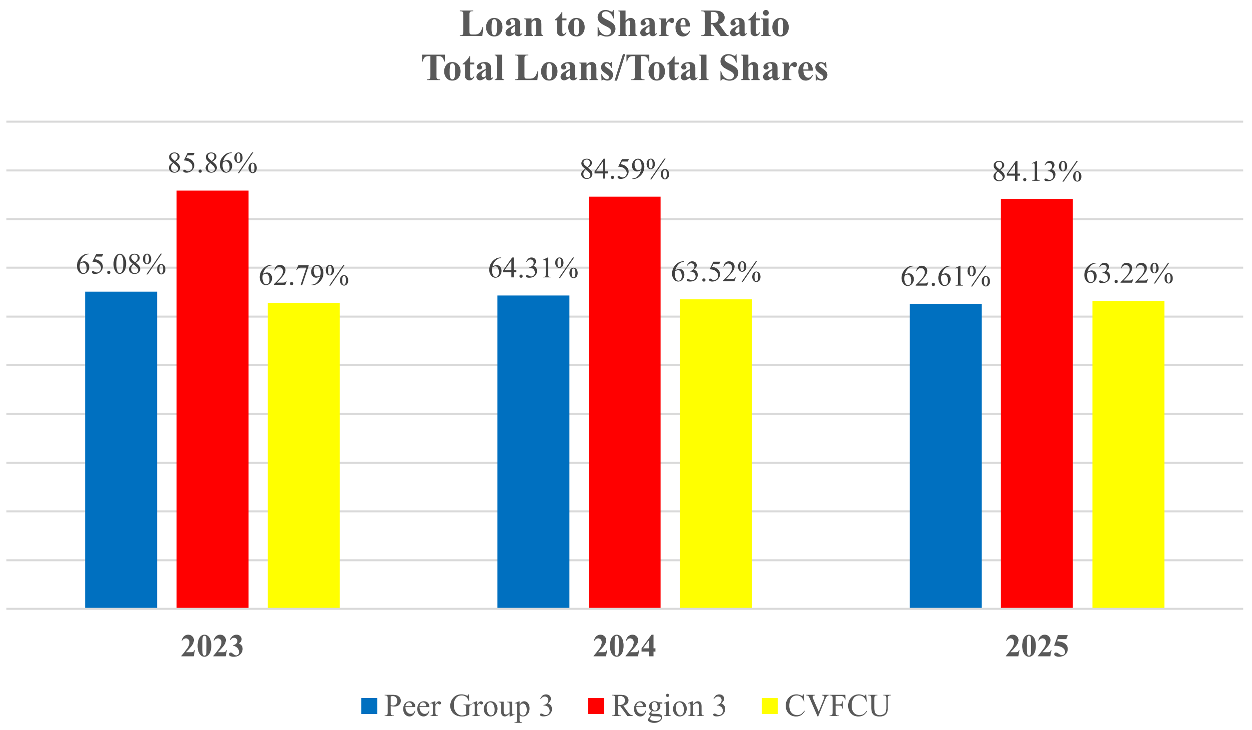
What It Measures	Formula	High or Low?	What Makes It Improve?	What Makes It Decline?
Overall growth of the credit union	Change in Total Assets	Healthy growth is good	New members, loan growth, share growth, earnings	Loan runoff, member attrition, weak deposit growth



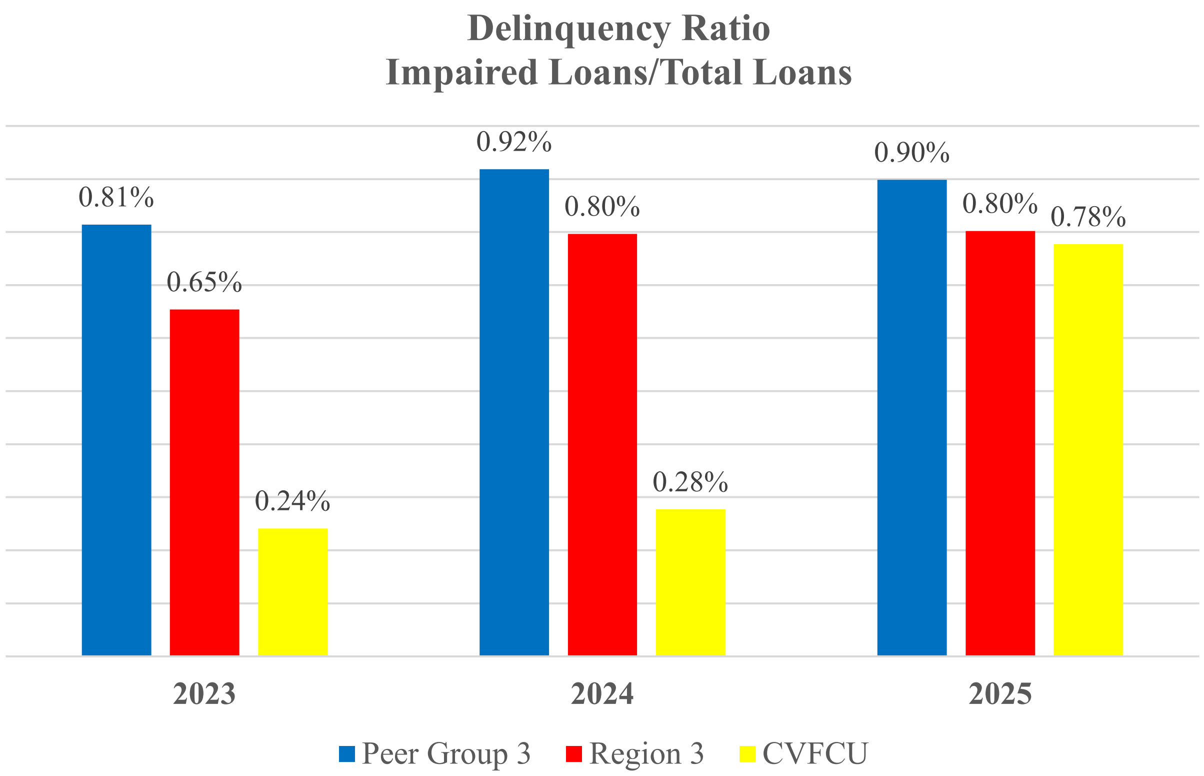
What It Measures	Formula	High or Low?	What Makes It Improve?	What Makes It Decline?
Growth in member deposits	Change in Total Shares	Generally higher is better	Member confidence, competitive rates, new members	Spending, withdrawals, competition, economic conditions



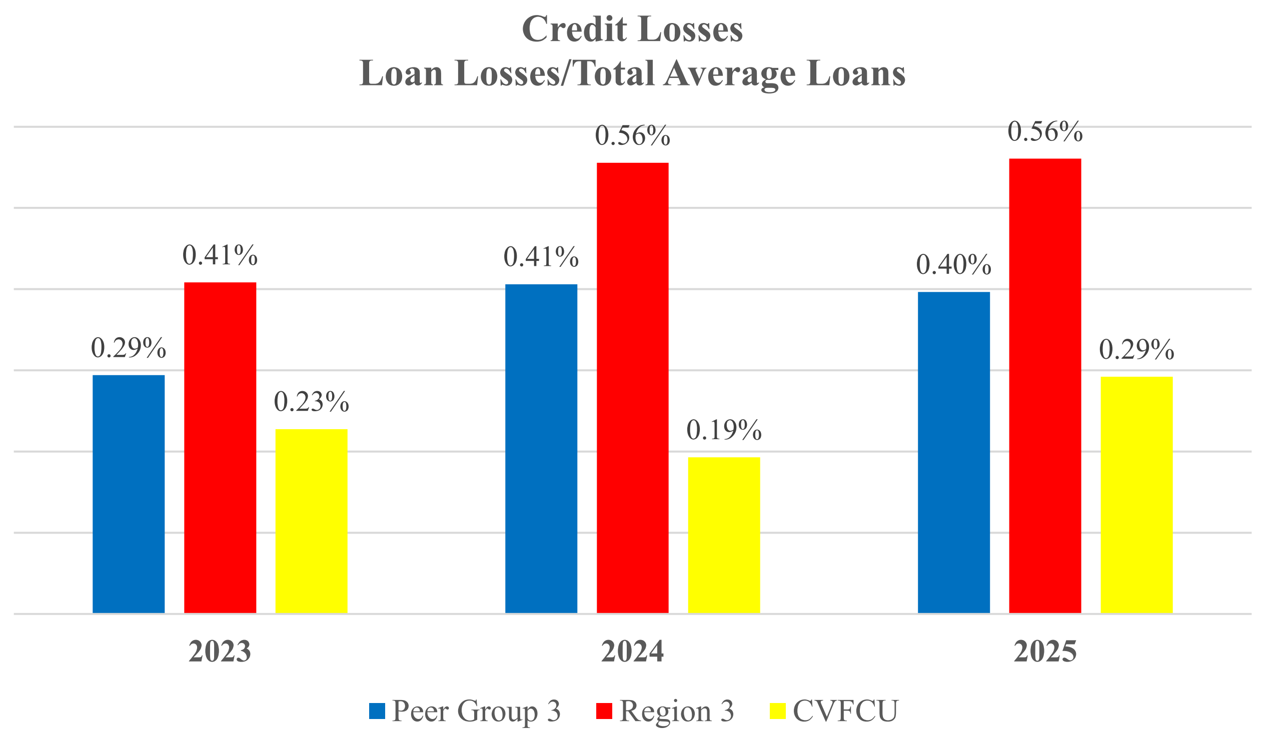
What It Measures	Formula	High or Low?	What Makes It Improve?	What Makes It Decline?
Expansion of the loan portfolio	Change in Total Loans	Higher is generally better (if quality remains strong)	Strong demand, competitive pricing, marketing, underwriting	Weak demand, tighter underwriting, high rates, payoffs



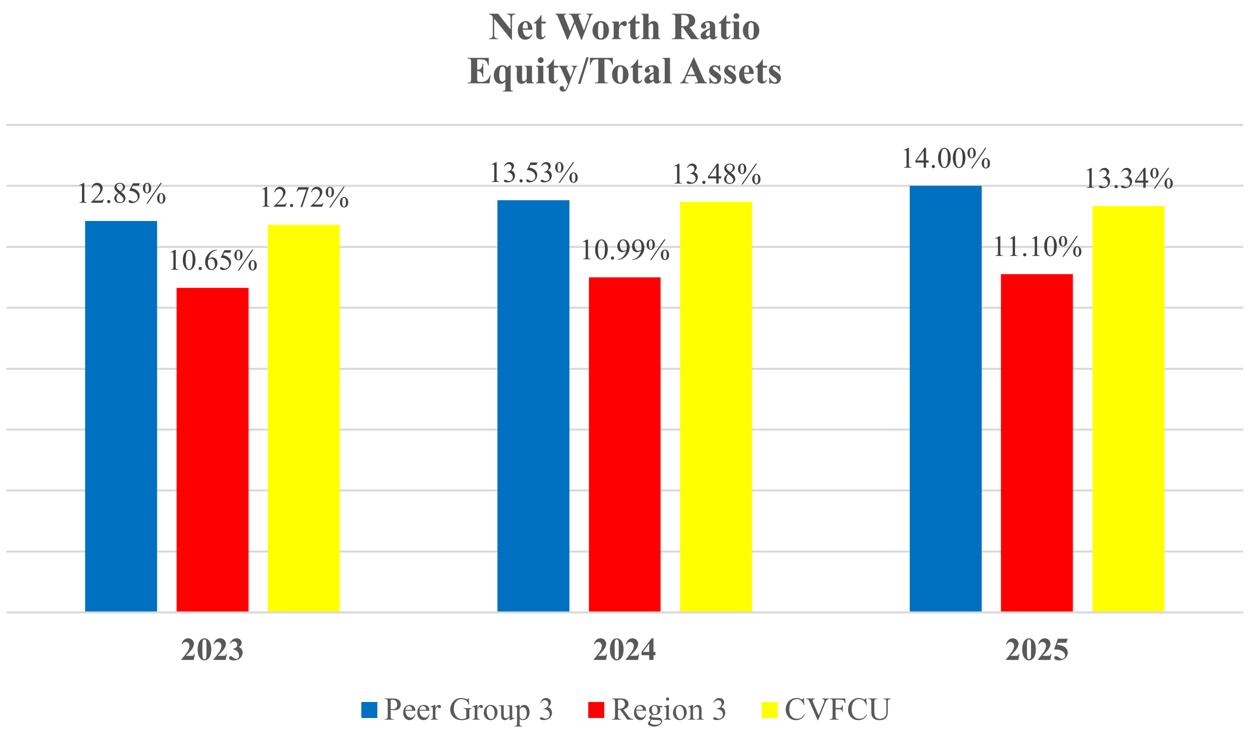
What It Measures	Formula	High or Low?	What Makes It Improve?	What Makes It Decline?
Measures how effectively deposits are being lent	Total Loans ÷ Total Shares	Generally 70–90% is desirable	Loan growth exceeds share growth	Excess deposits, weak lending, liquidity buildup



What It Measures	Formula	High or Low?	What Makes It Improve?	What Makes It Decline?
Percentage of loans that are delinquent	Delinquent Loans ÷ Total Loans	Lower is better	Strong underwriting, collections, healthy economy	Economic stress, poor underwriting, weak collections

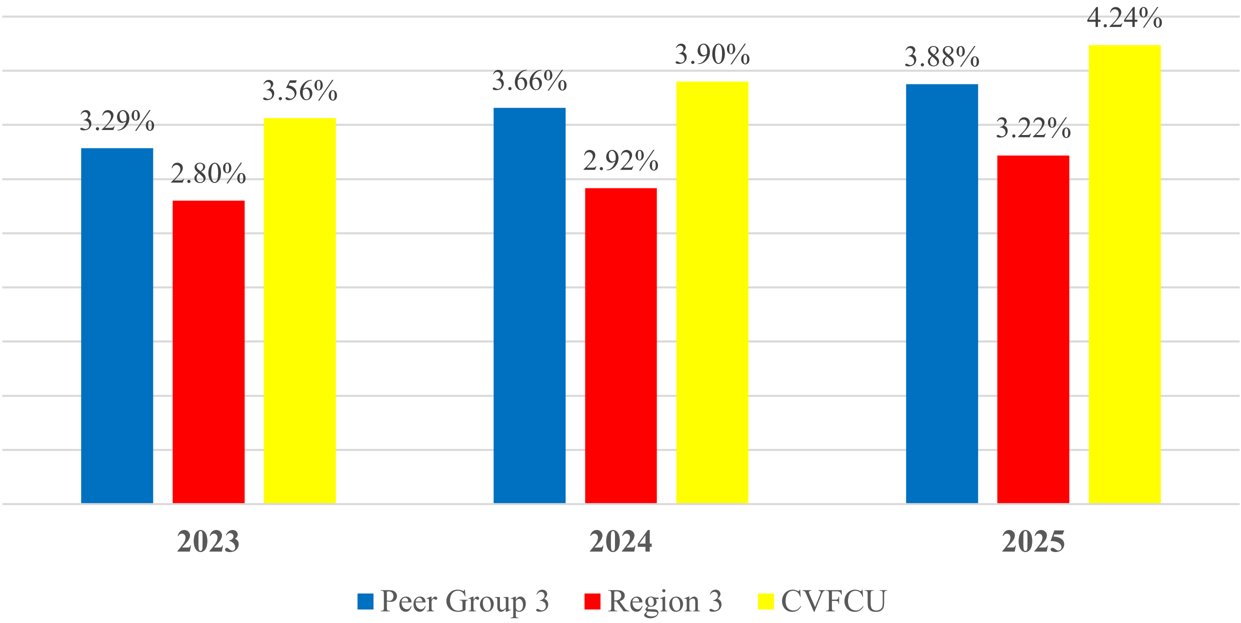


What It Measures	Formula	High or Low?	What Makes It Improve?	What Makes It Decline?
Loans written off as uncollectible	Net Charge-Offs ÷ Average Loans	Lower is better	Good underwriting, collections, monitoring	Higher defaults, poor loan quality, economic downturn

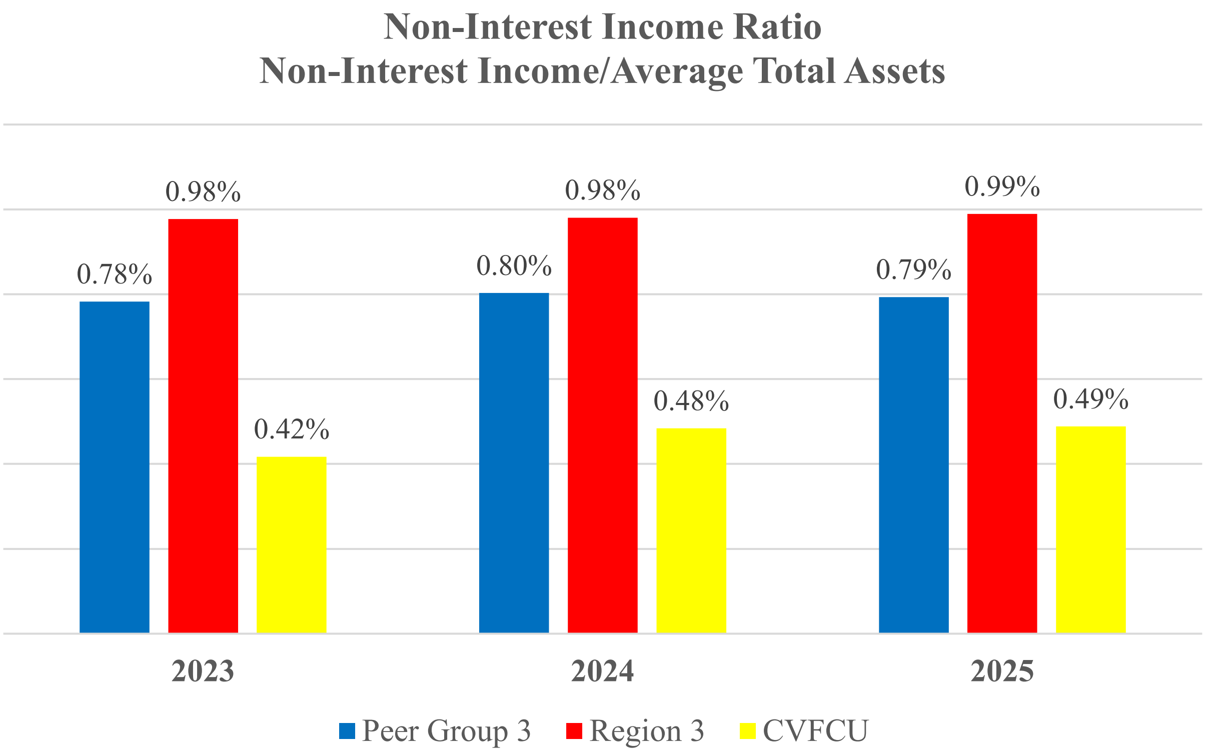


What It Measures	Formula	High or Low?	What Makes It Improve?	What Makes It Decline?
Financial strength and capital cushion	Net Worth ÷ Total Assets	Higher is better	Earnings, controlled asset growth	Losses, rapid asset growth, declining earnings

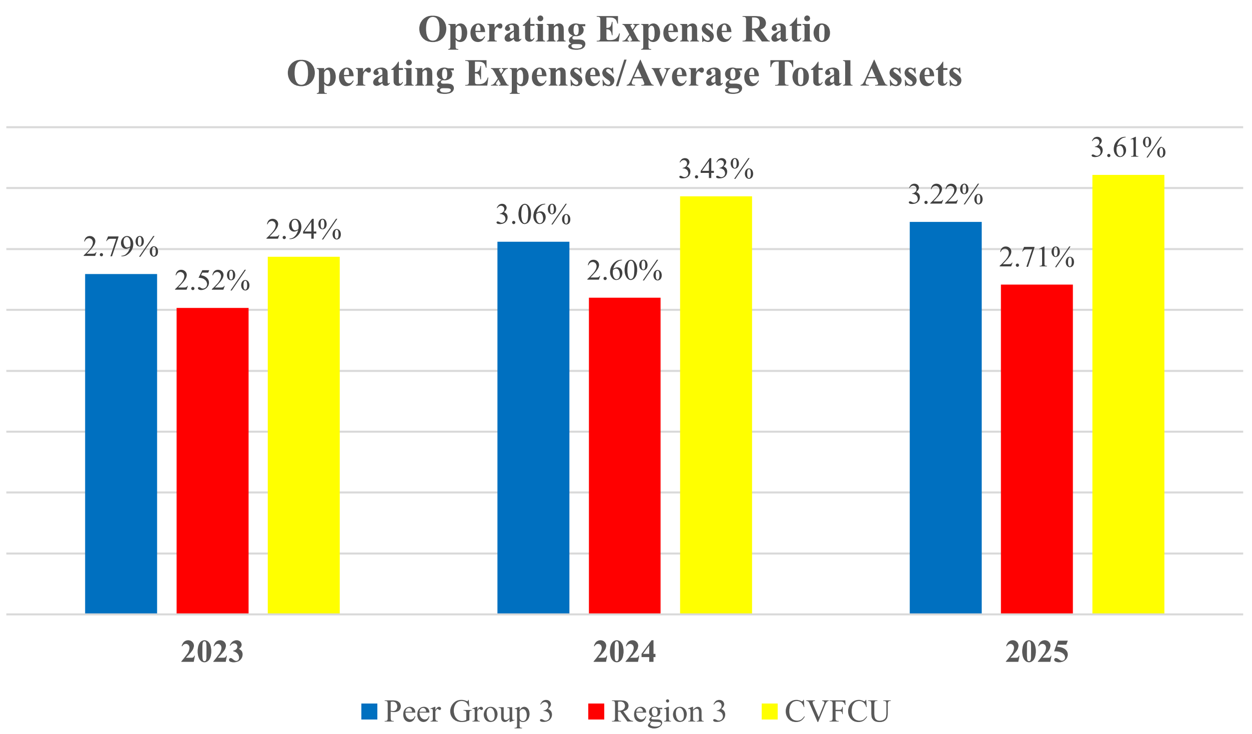
Net Interest Margin
Net Interest Margin/Average Total Assets



What It Measures	Formula	High or Low?	What Makes It Improve?	What Makes It Decline?
Profit earned from lending and investing	Net Interest Income ÷ Average Assets	Higher is generally better	Higher loan yields, lower funding costs, better pricing	Rising deposit costs, lower loan yields, excess liquidity

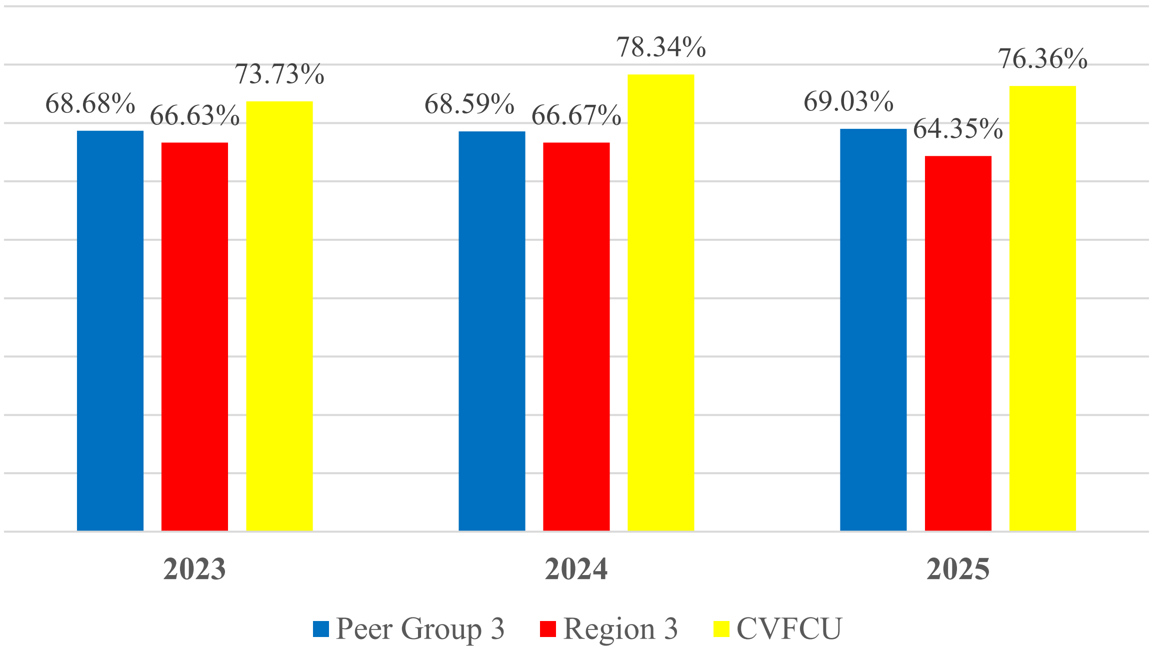


What It Measures	Formula	High or Low?	What Makes It Improve?	What Makes It Decline?
Income from fees and other services	Non-Interest Income ÷ Average Assets	Depending on strategy, generally higher provides stability	Debit cards, interchange, fees, investment services	Lower fee income, reduced member activity



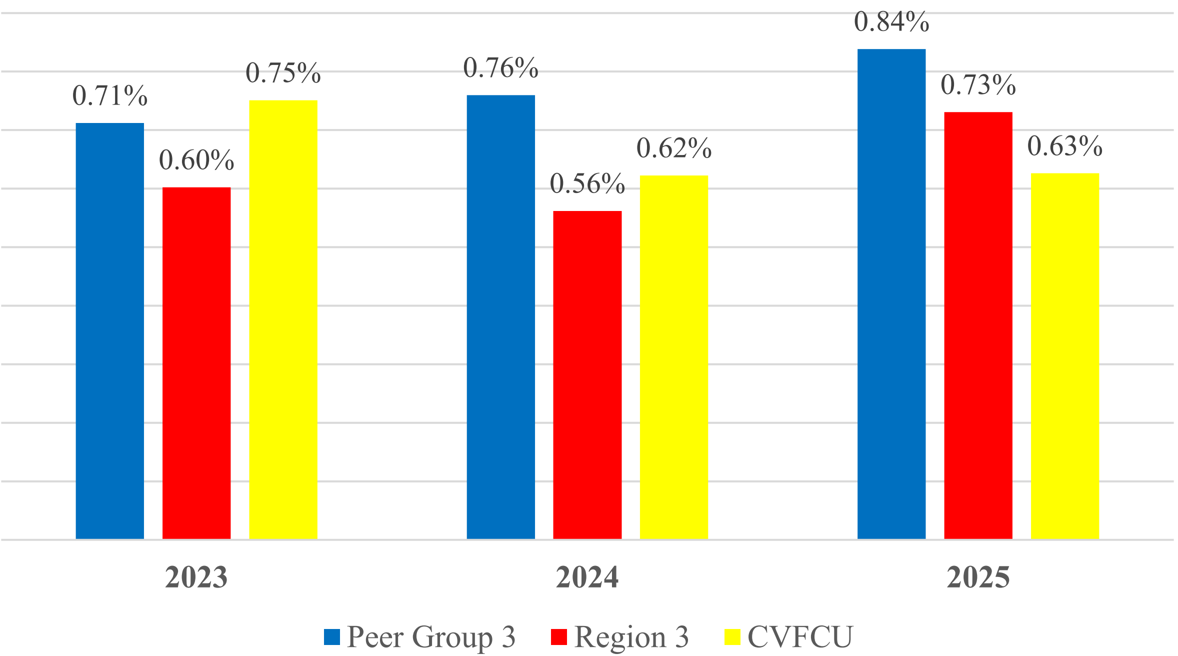
What It Measures	Formula	High or Low?	What Makes It Improve?	What Makes It Decline?
Cost to operate the credit union	Operating Expenses ÷ Average Assets	Lower is generally better	Efficiency, automation, asset growth	Higher staffing, technology costs, inflation

Efficiency Ratio
Operating Expenses/(Net Int. Margin + Non Int. Income)



What It Measures	Formula	High or Low?	What Makes It Improve?	What Makes It Decline?
Cost to generate revenue	Operating Expenses ÷ (Net Interest Income + Non-Interest Income)	Lower is better	Higher revenue, expense control	Rising expenses, declining income

Return on Assets
Net Income/Average Assets



What It Measures	Formula	High or Low?	What Makes It Improve?	What Makes It Decline?
Overall profitability	Net Income ÷ Average Assets	Higher is better	Strong lending, expense control, good asset quality	Loan losses, higher expenses, compressed margins

Strategic Dashboard

Area		**Questions to Ask**
Growth	→	Are we growing sustainably?
Capital	→	Is our net worth keeping pace?
Asset Quality	→	Is credit quality stable?
Earnings	→	Are we generating adequate returns?
Liquidity	→	Are deposits supporting lending?
Efficiency	→	Are resources being used effectively?

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STAR RATING DEFINITIONS:

5 STARS	**Superior** (These institutions are recommended by Bauer.)
4 STARS	**Excellent** (These institutions are recommended by Bauer.)
3 1/2 STARS	**Good**
3 STARS	**Adequate**
2 STARS	**Problematic**
1 STAR	**Troubled**

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Financial Statements Don't Make Decisions...

People do.

The financial statements provide information.
Management uses them to operate.
Boards use them to govern.
Supervisory Committees use them to provide independent oversight.
Auditors use them to provide assurance.

Ultimately, **informed decisions based on accurate financial information are what keep a credit union safe, sound, and successful.**

Q&A

Let Us Know How We Can Help

ANNUAL FINANCIAL AUDITS

- Opinion Audits
- Agreed-Upon Procedures Audit

CONSULTING SERVICES

- Strategic Planning
- Merger Services
- CEO Searches
- Forensic Audits
- Product Validations
- 990 Tax Forms
- Director Training

INTERNAL CONTROL AUDITS

- BSA Compliance Audit
- ACH Compliance Audit
- Branch Operations Audit
- Cash Counts
- Business Continuity Plan Audit
- Closed Accounts Internal Control Audit
- Consumer Lending Audit
- Collections Audit
- E-Banking Audit
- Human Resources Internal Control Audit
- IS&T Audit
- Military Lending Act Review
- Mortgage Lending Audit
- Payroll Administration Audit
- Related Party Audit
- SAFE Act Compliance Audit
- Servicemembers Civil Relief Act Review
- Website Compliance Audit
- Wire Transfer Audit

Thank you, NCOFCU!!

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