

CUES

PACESETTER

FINANCIAL PERFORMANCE REPORTER

2002 1st quarter report



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**CUES Pacesetter™:
Financial Performance Reporter
for March 31, 2002**

Prepared for

SAMPLE CREDIT UNION

Data Obtained from National Credit Union Administration (NCUA) Form 5300 - Call Reports

This report is based on data furnished by the credit union to the NCUA. The Credit Union Executives Society (CUES) and Digital University, Inc., (DU) have not attempted to edit or verify the reliability of these data. Therefore, CUES and DU are not responsible for the accuracy of this report and make no representations or warranties as to its accuracy or completeness.

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Introduction

The purpose of this report is to provide management and directors of credit unions with timely, accurate and meaningful financial performance data and analysis. This "CUES Pacesetter™: Financial Performance Reporter" (CPFPR) provides a comparison of individual credit union financial performance ratios with a peer group made up of similarly sized credit unions.

There is a companion to this report entitled "Guide to the CUES Pacesetter™: Financial Performance Reporter," which is available to all subscribers to this service. This extensive guide provides in-depth explanations of each ratio, management and director issues, and NCUA policies and examination procedures.

The National Credit Union Administration and several private companies provide access to financial performance ratios and comparative data using the NCUA's Form 5300 credit union data. The CPFPR goes several steps further by using those data:

- to complete a financial performance comparisons to selective peers and peer groups
- to create customized textual comments explaining the relative performance of a specified credit union against its peer group and individual peers you select
- to suggest operating changes

The peer groups created by CPFPR are based on asset size. Asset size has been shown to be the single most relevant credit union feature upon which to make comparisons of financial ratio and operating similarities. It is by no means perfect, however. Each firm is unique in its operations and strategies. The CPFPR is designed to help assess the financial impact of those differences.

The report is designed so only one ratio shows up on a page. This allows users to present the material in the order they desire.

The pre-set peer groups included in this report are following:

Peer Group 1; Smallest: Deciles 1, 2, and 3, (e.g., Smallest 30% of all credit unions ranked by asset size; actual range is \$12,398 to \$3,326,140)

Peer Group 2; Medium: Deciles 4, 5, and 6, (e.g., Next smallest 30% of all credit unions; actual range is \$3,328,014 to \$13,474,821)

Peer Group 3; Large: Deciles 7, 8, (e.g., Next group of 20% of all credit unions; actual range is \$13,477,390 to \$41,115,389)

Peer Group 4; Larger: Decile 9, (e.g., Next group of 10% of all credit unions; actual range is \$41,115,731 to \$96,412,210)

Peer Group 5; Largest: Decile 10, (e.g., Next group of 10% of all credit unions; actual range is \$96,435,652 to \$15,106,552,525)

SAMPLE CREDIT UNION 's total assets on March 31, 2002 were \$473,364,265.00.

The analyses presented here are generally consistent with the NCUA's CAMEL financial performance rating system and includes about seventeen financial topics and ratios.

Financial Topics and Ratios Used in CPFPR

The ratios used in these analyses are categorized into five financial topics including: (1) Capital Ratios; (2) Asset Quality Ratios; (3) Earnings Ratios; (4) Asset/Liability Ratios; and (5) Growth Ratios. A list of them is shown below.

Capital Ratios

1. Net Worth/Total Assets (NCUA Key Ratio)
2. Net Worth / Total Assets and Change in Net Worth/ Total Assets during Last 12 months
3. Total Delinquent Loans/Net Worth

Asset Quality Ratios

4. Delinquent Loans/Loans (NCUA Key Ratio)
5. Change in Total Delinquent Loans/Total Loans during Last 12 months

Earnings Ratios

6. Return on Average Assets {new name for Net Income/Average Assets before Reserve Transfers} (NCUA Key Ratio)
7. Operating Expenses/Average Assets {excludes PLL, PIL, and cost of funds} {PLL = Provision for loan losses}
8. Gross Income/Average Assets
9. Cost of Funds/Average Assets
10. Net Margin/Average Assets {Gross Income/Average Assets ratio minus Cost of Funds/Average Assets ratio}
11. Non-interest Income/ Total Income
12. (Fulltime Employees + .5 x Part-time employees)/Total Assets {employees per million dollars of assets}

Asset/Liability Management Ratios

13. (Land and Building + Other Fixed Assets)/Total Assets
14. Net Long Term Assets/Assets
15. Total Loans/Total Shares

Growth Ratios

16. Net Worth Growth Rate minus Asset Growth Rate
17. Asset Growth Rate

SCORECARD: SAMPLE CREDIT UNION

SELECTED RATIOS / MEASURES	Your Value	Peer Group	Comments
Net Worth/Total Assets	12.55%	10.70%	Above peer group range
Change in Net Worth/Total Assets ratio during last 12 months	-0.96%	-0.51%	Below peer group range
Total Delinquent Loans/Loans	0.25%	0.72%	Below peer group range
Total Delinquent Loans/Net Worth	1.13%	4.81%	Well below peer group range
Return on Average Assets	1.07%	0.95%	Average range
Net Margin to Average Assets	3.65%	4.81%	Below peer group range
Gross Income/Average Assets	6.78%	8.12%	Well below peer group range
Total Loans/Total Shares	66.22%	74.79%	Below peer group range
Operating Expenses/Average Assets	2.85%	3.56%	Below peer group range
Cost of Funds/Average Assets	3.13%	3.31%	Average range
Net Long-term Assets/Total Assets	49.31%	25.29%	Well above peer group range
Land, Building and other Fixed Assets/Total Assets	0.82%	2.13%	Below peer group range
(Full-time Employees + .5 Part-time)/Total Assets	2.2	4.0	Below peer group range
Non-Interest Income/Total Income	7.78%	13.50%	Below peer group range
Net Worth Growth Rate (last 12 months) minus Asset Growth Rate (last 12 months)	-8.26%	-5.20%	Well below peer group range
Asset Growth Rate (last 12 months)	15.76%	16.01%	Average range

LEGEND:

Well below peer group range: Typically lowest 10%

Below peer group range: Typically lowest 11-30%

Average range of peer group: Typically deciles including middle 30-70%

Above peer group range: Typically credit unions in upper 11-30%

Well above peer group range: Typically credit unions in highest 10%

PEER SCORECARD: SAMPLE CREDIT UNION

SELECTED RATIO / MEASURE	Your Value	Peer 1	Peer 2	Peer 3	Peer 4	Peer 5
Net Worth/Total Assets	12.55%	11.37%	9.89%	7.24%	8.33%	12.79%
Change in Net Worth/Total Assets ratio during last 12 months	-0.96%	-1.15%	-0.72%	0.40%	-0.67%	-1.00%
Total Delinquent Loans/Loans	0.25%	0.24%	0.36%	0.78%	0.65%	0.79%
Total Delinquent Loans/Net Worth	1.13%	1.17%	1.89%	8.47%	5.93%	4.81%
Return on Average Assets	1.07%	0.72%	0.52%	0.62%	0.98%	1.65%
Net Margin to Average Assets	3.65%	2.46%	3.72%	6.40%	5.22%	5.26%
Gross Income/Average Assets	6.78%	5.75%	6.16%	8.46%	7.81%	7.93%
Total Loans/Total Shares	66.22%	64.65%	60.25%	84.97%	85.40%	90.31%
Operating Expenses/Average Assets	2.85%	1.71%	2.99%	5.15%	3.90%	3.15%
Cost of Funds/Average Assets	3.13%	3.28%	2.44%	2.07%	2.58%	2.68%
Net Long-term Assets/Total Assets	49.31%	19.40%	29.75%	36.80%	36.96%	26.00%
Land, Building and other Fixed Assets/Total Assets	0.82%	0.93%	2.46%	4.71%	2.17%	2.05%
(Full-time Employees + .5 Part-time)/Total Assets	2.2	1.3	2.3	5.3	4.0	2.8
Non-Interest Income/Total Income	7.78%	5.19%	11.55%	28.46%	13.04%	15.61%
Net Worth Growth Rate (last 12 months) minus Asset Growth Rate (last 12 months)	-8.26%	-10.85%	-7.43%	5.88%	-8.91%	-8.79%
Asset Growth Rate (last 12 months)	15.76%	18.37%	9.83%	1.79%	19.05%	21.59%

LEGEND:

- PEER 1: PEER COMPARISON 1
- PEER 2: PEER COMPARISON 2
- PEER 3: PEER COMPARISON 3
- PEER 4: PEER COMPARISON 4
- PEER 5: PEER COMPARISON 5

EXPENSE DETAIL SCORECARD

AREA OF ANALYSIS	Your Value	Peer 1	Peer 2	Peer 3	Peer 4	Peer 5
OVERALL OPERATING (NON-INTEREST) EXPENSE / AVERAGE ASSETS	2.85%	1.71%	2.99%	5.15%	3.90%	3.15%
PERCENT OF TOTAL OPERATING (NON-INTEREST) EXPENSE (% of total)						
Employee Compensation and Benefits	50.84%	44.53%	39.77%	47.47%	54.72%	48.81%
Travel and Conference Expense	1.91%	1.23%	1.24%	1.25%	2.15%	0.59%
Office Occupancy Expense	9.28%	4.71%	6.14%	8.49%	7.49%	4.60%
Office Operations Expense	22.08%	9.78%	26.21%	11.19%	24.69%	30.44%
Educational and Promotional Expense	2.01%	2.67%	6.35%	10.46%	2.16%	5.67%
Loan Servicing Expense	7.53%	11.66%	12.65%	2.01%	3.05%	8.23%
Professional and Outside Services Expense	3.71%	20.69%	1.15%	11.05%	3.85%	0.23%
Member Insurance	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Operating Fees (Examination and /or supervision fees)	0.77%	1.43%	0.65%	0.48%	0.61%	0.54%
Miscellaneous operating expenses	1.86%	0.55%	5.82%	7.61%	1.30%	0.89%
LOAN AND LEASES PORTFOLIO STRUCTURE (% of total loan and lease portfolio)						
Unsecured credit card loans	4.36%	4.71%	10.14%	9.11%	4.41%	11.47%
All other unsecured loans/lines of credit	6.04%	2.96%	5.64%	6.45%	5.76%	4.77%
New vehicle loans	9.47%	8.59%	15.67%	8.77%	11.74%	14.18%
Used vehicle loans	6.49%	14.03%	14.05%	14.06%	22.18%	18.87%
Total 1 st mortgage real estate/lines of credit	65.33%	53.33%	30.70%	33.92%	32.01%	34.71%
Total other real estate loans/lines of credit	5.29%	8.61%	9.14%	24.65%	12.90%	10.51%
Leases receivable	0.00%	0.00%	9.46%	0.00%	0.04%	0.00%
Total all other loans/lines of credit	3.02%	7.77%	5.20%	3.05%	10.96%	5.50%
FUNDING SOURCES (% of total borrowings, shares/deposits)						
Total borrowings	0.00%	0.00%	3.24%	0.00%	1.74%	0.00%
Share drafts	9.01%	8.19%	16.84%	14.88%	13.78%	17.62%
Regular shares	27.31%	25.25%	21.35%	12.95%	31.74%	18.23%
All other shares and deposits	63.68%	66.56%	58.57%	72.17%	52.74%	64.16%

LEGEND:

PEER 1: PEER COMPARISON 1
 PEER 2: PEER COMPARISON 2
 PEER 3: PEER COMPARISON 3
 PEER 4: PEER COMPARISON 4
 PEER 5: PEER COMPARISON 5

TECHNOLOGY SCORECARD

TECHNOLOGY SYSTEMS	Your CU	Your Peer Group %	Peer 1	Peer 2	Peer 3	Peer 4	Peer 5
Do you have a Web site for members?	X	87%	X	X	X	X	X
If you have a Web site, what type of Web site do you offer?							
Informational	X	100%	X	X	X	X	X
Interactive	X	86%	X	X	X	X	X
Transactional	X	78%	X	X	X	0	X
Types of services offered electronically:							
Member application	0	43%	0	X	X	X	X
New loan application	0	65%	X	X	X	X	X
Account balance inquiry	X	88%	X	X	X	X	X
Share draft order	0	71%	X	X	0	X	X
New share account	0	24%	0	0	X	X	X
Loan payments	X	82%	X	X	0	X	X
View account history	X	78%	X	X	X	X	X
Merchandise purchase	0	12%	0	0	0	X	X
Share account transfers	X	87%	X	X	X	X	X
Bill payment	X	54%	0	X	X	X	X
Download account history	0	69%	X	X	X	X	X
What type of electronic devices do you support for your members?							
Wireless	0	9%	0	0	0	X	X
Internet / browser based	X	77%	X	X	X	X	X
Home banking/ PC based	X	56%	X	X	X	X	X
Audio response/ Phone based	X	87%	X	X	X	X	X
Automatic teller machines (ATMs)	X	89%	X	X	X	X	X
Kiosk	0	11%	0	X	X	X	0
Other	0	5%	0	0	0	X	0

LEGEND: (X = YES; 0 = NO)

PEER 1: PEER COMPARISON 1
PEER 2: PEER COMPARISON 2
PEER 3: PEER COMPARISON 3
PEER 4: PEER COMPARISON 4
PEER 5: PEER COMPARISON 5

SCORECARD ON INVESTMENTS

INVESTMENTS	Your Value	Your Peer Group %	Peer 1	Peer 2	Peer 3	Peer 4	Peer 5
INVESTMENTS / TOTAL ASSETS	40.95%	29%	40.77%	43.40%	13.83%	19.03%	16.76%
PERCENT OF TOTAL INVESTMENTS, CASH AND CASH EQUIVALENTS							
Cash and investments in corporate CUs	17.31%	47%	33.38%	26.11%	80.30%	24.57%	47.04%
U.S. Govt. Obligations	0.00%	2%	2.91%	1.79%	0.00%	1.95%	0.00%
Federal Agency Securities	23.33%	43%	8.48%	49.98%	15.70%	18.42%	41.92%
Mutual funds & common trusts	1.62%	3%	0.00%	0.00%	0.00%	26.89%	0.00%
Credit Union deposits and loans	0.00%	1%	0.00%	0.00%	0.25%	0.00%	0.00%
Other investments	57.74%	5%	55.23%	22.13%	3.75%	28.17%	11.05%
MATURITY STRUCTURE OF INVESTMENTS (PERCENT OF TOTAL INVESTMENTS, CASH AND CASH EQUIVALENTS)							
Less than one year	36.67%	55%	51.72%	34.75%	80.43%	62.87%	45.17%
One to three years	34.88%	30%	43.39%	35.54%	12.54%	23.45%	51.32%
Three to ten years	28.46%	13%	4.90%	29.13%	7.04%	11.85%	2.26%
Over ten years	0.00%	1%	0.00%	0.58%	0.00%	1.83%	1.25%
MORTGAGE BACKED SECURITIES (PERCENT OF TOTAL INVESTMENTS, CASH AND CASH EQUIVALENTS)							
Mortgage Pass-through Securities	0.02%	7%	0.00%	0.00%	0.00%	0.00%	0.00%
Collateralized Mortgage Obligations/ Real Estate Mortgage Investment Conduits	0.00%	7%	0.00%	0.00%	0.00%	0.00%	0.00%

LEGEND:

- PEER 1: PEER COMPARISON 1
- PEER 2: PEER COMPARISON 2
- PEER 3: PEER COMPARISON 3
- PEER 4: PEER COMPARISON 4
- PEER 5: PEER COMPARISON 5

MEMBERS' SCORECARD

The problem with financial ratios and performance measures is that they represent objectives of financial managers and federal and state examiners. These financial measures are based exclusively on financial safety and soundness considerations.

Management and boards of member-owned credit unions must constantly weigh these financial objectives against member objectives such as: (1) high dividends; (2) low loan rates; (3) convenience in terms of locations, hours and distribution networks, (e.g., ATMs, full-service branches, kiosks, telephone banking, Internet banking); (4) broad product and service packages; and (5) quality member service. Getting statistics to measure some of these issues is impossible, but others can be approximated.

To help, Pacesetter™ has developed the “Members’ Scorecard.” This is a crude measure of how well credit unions are serving members. It is based on data regarding the number of types of loans offered, types of distribution systems offered, educational and promotional expense to total expenses, fee income to total income and cost of funds to average assets. The assumption is that members appreciate having many types of loans available, many different distribution channels, low fees, high dividends and spending on education and promotion.

The Pacesetter™ member scorecard is determined as follows. Each credit union is evaluated on five criteria:

- Number of loan programs offered
- Cost of funds
- Fee income to total income
- Number of distribution networks offered
- Educational and promotional expenses to total operating expenses

Up to 3 points can be earned in each category. The highest score possible is 15 and the lowest 0. We assume that members will appreciate a higher score.

While we realize that this method of evaluating member service is crude, it may stimulate management and board discussions of strategy, mission and goals and objectives which is just what it was designed to accomplish.

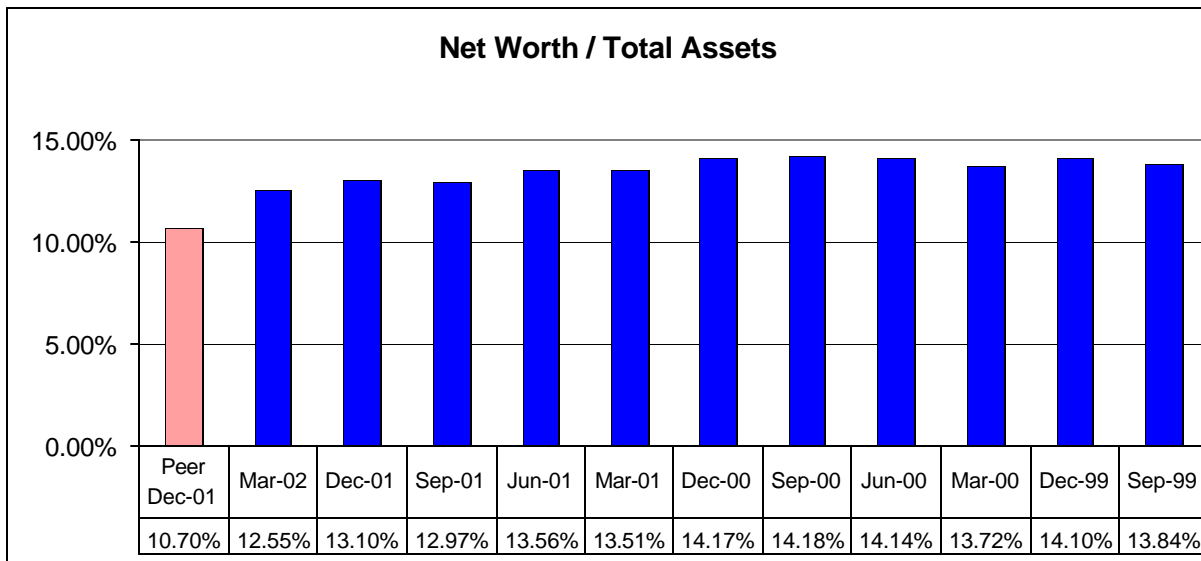
MEMBERS' SCORECARD CRITERIA	Your Value	Peer Group	Peer 1	Peer 2	Peer 3	Peer 4	Peer 5
LOAN PROGRAMS AVAILABLE (Total of 8 possible) (7-8 = 3pt.; 5-6 = 2pt.; 3-4 = 1pt.)	3	2	3	3	3	3	3
Unsecured credit card loans	X	85%	X	X	X	X	X
All other unsecured loans/lines of credit	X	99%	X	X	X	X	X
New vehicle loans	X	99%	X	X	X	X	X
Used vehicle loans	X	99%	X	X	X	X	X
Total 1 st mortgage real estate/lines of credit	X	87%	X	X	X	X	X
Total other real estate loans/lines of credit	X	90%	X	X	X	X	X
Leases receivable	0	17%	0	X	0	X	0
Total all other loans/lines of credit	X	97%	X	X	X	X	X
COST OF FUNDS / AVERAGE ASSETS (Top 10% = 3pt.; Top 11-30% = 2pt.; Top 31-70% = 1pt.)	1	1	1	0	0	0	0
FEE INCOME (NONINTEREST) TO TOTAL INCOME (Lowest 10% = 3pt.; Next lowest 11-30% = 2pt.; Next 31-70% = 1pt.)	2	1	3	1	0	1	1
NUMBER OF DISTRIBUTION NETWORKS OFFERED, (e.g., Internet, phone, kiosk, ATM) (Total of 4 possible) (3-4 = 3pt. ; 2 = 2pt.; 1=1pt.)	3	2	3	3	3	3	3
Phone	X	87%	X	X	X	X	X
Internet	X	77%	X	X	X	X	X
Kiosk	0	11%	0	X	X	X	0
ATM	X	89%	X	X	X	X	X
EDUCATIONAL AND PROMOTIONAL EXPENSE / TOTAL EXPENSE (Top 10% = 3pt. ; Top 11-30%=2pt.; Top 31-70% = 1pt.)	0	1	0	0	0	0	0
TOTAL POINTS	9	7	10	7	6	7	7

LEGEND: (X = YES; 0 = NO)

- PEER 1: PEER COMPARISON 1
- PEER 2: PEER COMPARISON 2
- PEER 3: PEER COMPARISON 3
- PEER 4: PEER COMPARISON 4
- PEER 5: PEER COMPARISON 5

CAPITAL RATIO

Net Worth / Total Assets — measures the amount of capital supporting the credit union's loans and other assets. This ratio is commonly referred to as the leverage ratio. This is one of the five principal CAMEL ratios used by the NCUA. In general, the higher this ratio, the more financially secure the credit union. A high net worth to total asset ratio protects members from the potential for reduced dividends. A credit union's net worth ratio can be too high if the credit union's net worth exceeds regulatory requirements, earns adequate income, pays relatively low dividend rates, charges relatively high interest rates on loans and/or invests inadequately in new products, services, security and technologies.



SAMPLE CREDIT UNION's capital ratio falls within the top 11-30% of your peer group. Your firm's capital ratio of 12.55% exceeds the NCUA "well capitalized" percentage cutoff of a minimum of 7.00%.

Your credit union qualifies for the rating "CODE 1," meaning "well capitalized" under the National Credit Union Administration's CAMEL rating system. This condition combined with no significant asset quality problems, earnings deficiencies, minimal exposure to excessive credit or interest-rate risks combined with the ability to meet NCUA's risk-based net worth requirement will normally earn the highest capital rating of "1" from the NCUA.

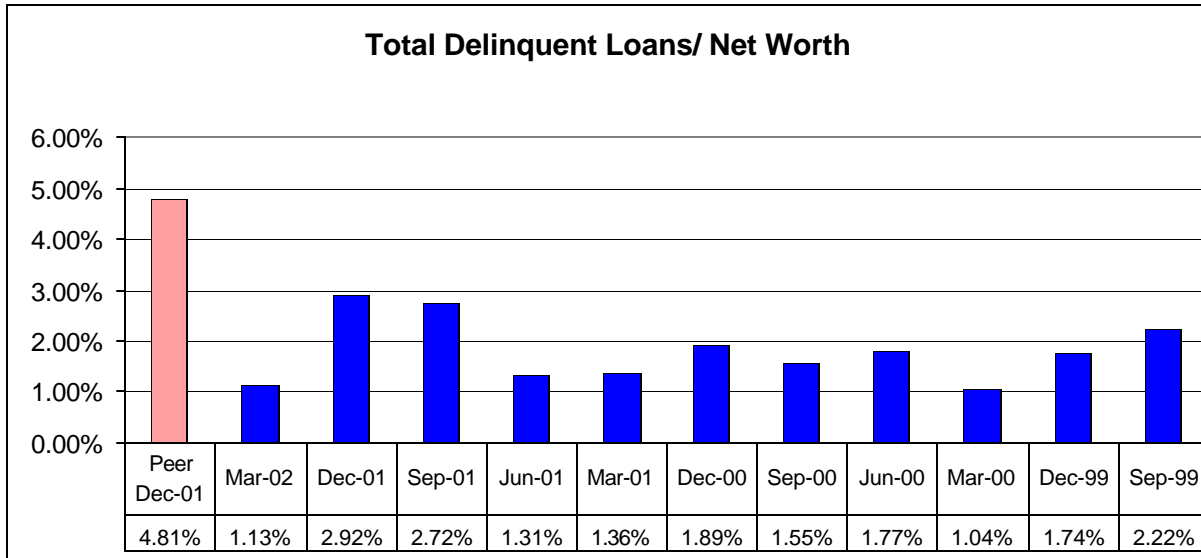
Change in Net Worth / Total Assets (Last 12 months) - measures the relationship between the change in net worth to total assets ratio during the last twelve months. In general, a change above 0.00% indicates an increase in capital adequacy and a change below 0.00% a weakening of the capital position.

SAMPLE CREDIT UNION's capital ratio changed by -0.96% during the last twelve months. This compares to a 12 month change for your peer group of -0.51%. This could be an unhealthy condition if combined with a low capital ratio and/or slow asset growth.

Your credit union has experienced a decline in its capital ratio over the last 12 months. However, this should not present a problem since its capital ratio (net worth/total assets) remains above your peer group.

CAPITAL RATIO

Total Delinquent Loans / Net Worth — measures the relationship of the dollar amount of delinquent loans in relation to the dollar amount of net worth. The higher this ratio, the greater the probability that the credit union could suffer from large loan losses and jeopardize its capital adequacy.

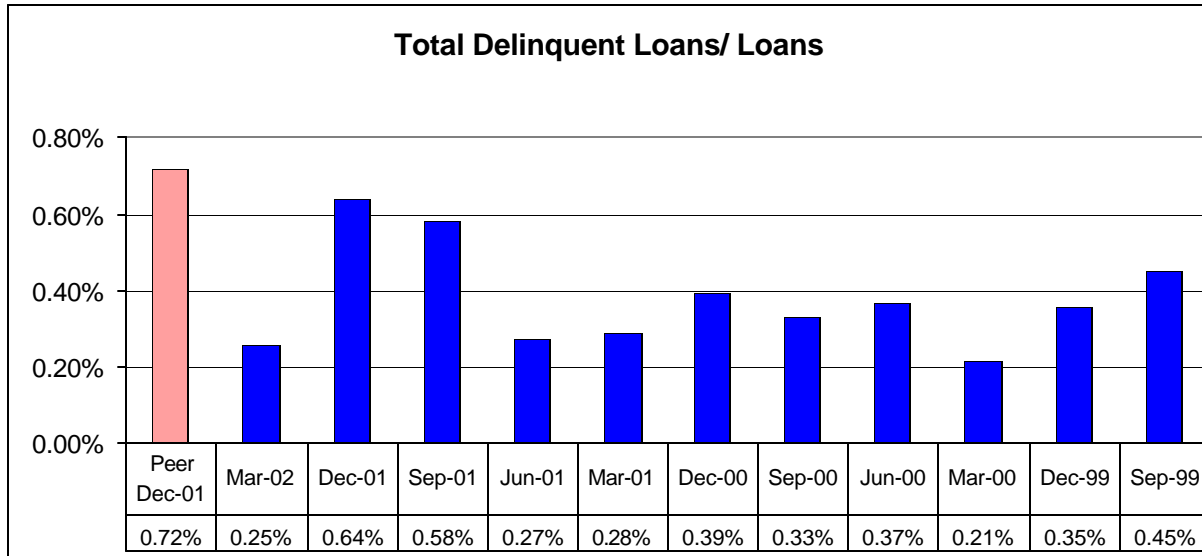


SAMPLE CREDIT UNION's very low ratio of delinquent loans to net worth of 1.13% suggests it has little exposure to insolvency due to credit risk. This is typically an enviable position. Your credit union's ratio is in the lowest 10% of your peer group.

A low total delinquent loans to net worth ratio is generally the result of conservative underwriting standards and good collection practices or the result of having a net worth to total assets which is higher than your peer group. It may also be caused by an asset strategy that stresses low-risk loans such as first mortgages and low-risk investment securities. Sometimes a credit union can be too conservative in its policies and asset selection. Your credit union's situation may suggest a review of current practices and strategies.

ASSET QUALITY RATIO

Delinquent loans / Total loans — measures the quality of the loan portfolio in relation to its size. The higher this ratio, the higher the probability the credit union will face loan losses and reduced income. Accurate delinquency data enables the board to monitor asset quality, the adequacy of the allowance for loan and lease losses (ALLL) and lending standards. An increasing level of delinquencies, as well as failure to collect delinquent amounts, may be a warning sign that economic conditions are deteriorating or that loan and lease underwriting or administration standards are either deficient or not followed.



SAMPLE CREDIT UNION has a delinquency ratio of 0.25% which is lower than your peer group. This is typically evidence of sound loan management and conservative policies.

Your credit union's delinquency ratio qualifies for "CODE 1" the best rating by the NCUA. Your credit union would receive the best asset quality rating of "1" by the NCUA if your lending and investment policies and procedures are in writing and are conducive to safe and sound operations.

A low delinquency level is typically the result of very conservative loan underwriting standards and procedures and/or a very strong economy and stable working conditions in which members live and work. It could also be a reflection of a loan portfolio made up primarily of lower-risk loans, such as residential first mortgages.

Sometimes an extremely low delinquency ratio can be the result of underwriting policies that are too conservative causing the credit union to deny loans to otherwise credit-worthy members.

Management and directors should seek to compare delinquency rates with other credit unions based on specific types of loans to determine whether they are performing better than its peer group. While a low delinquency ratio is always good news, it may, at the extreme, also be reflective of unduly stringent underwriting practices as mentioned above. Underwriting policies that are extremely conservative make it hard for some qualified members to meet the standards

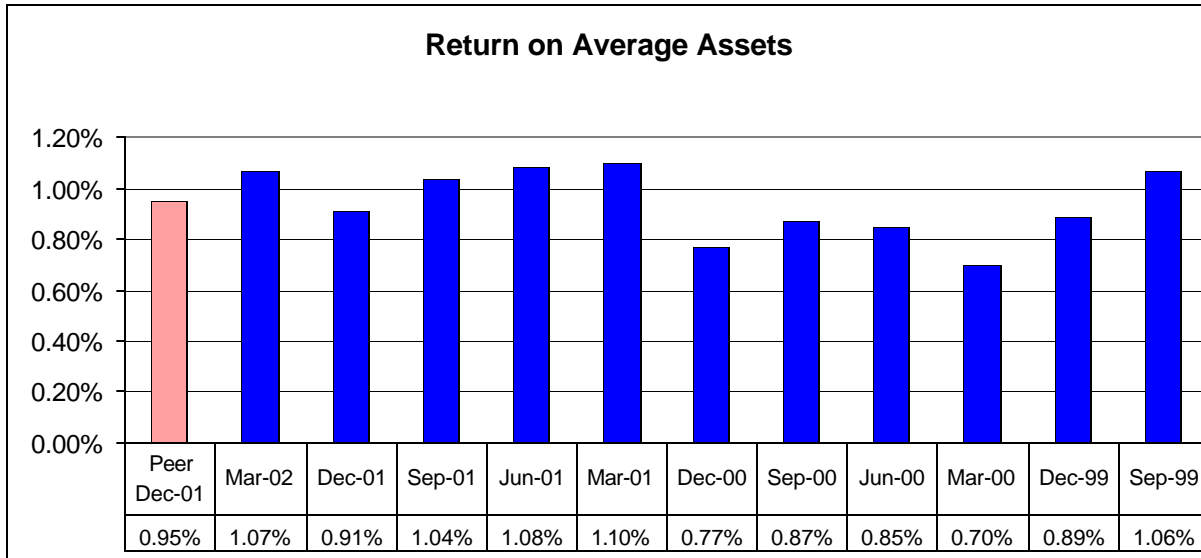
causing them to seek credit from more costly sources. This would be an indication of member service problems.

Change in Delinquent loans / Total loans (Last 12 months) - measures the last 12-month trend in the ratio of delinquent loans to total loans. The change in this ratio indicates whether the trend of delinquent loans to total loans is improving, a negative percent, or becoming more of a concern, a positive percent.

SAMPLE CREDIT UNION's change in total delinquent loans to total loans ratio is within the typical range for your peer group. A substantial rise in this ratio should act as a signal that credit quality may be deteriorating.

EARNINGS RATIO

Return on Average Assets {annualized} — measures how efficiently the credit union's assets generate earnings. This ratio, commonly referred to as *return on average assets* (ROAA), is a primary indicator of profitability.



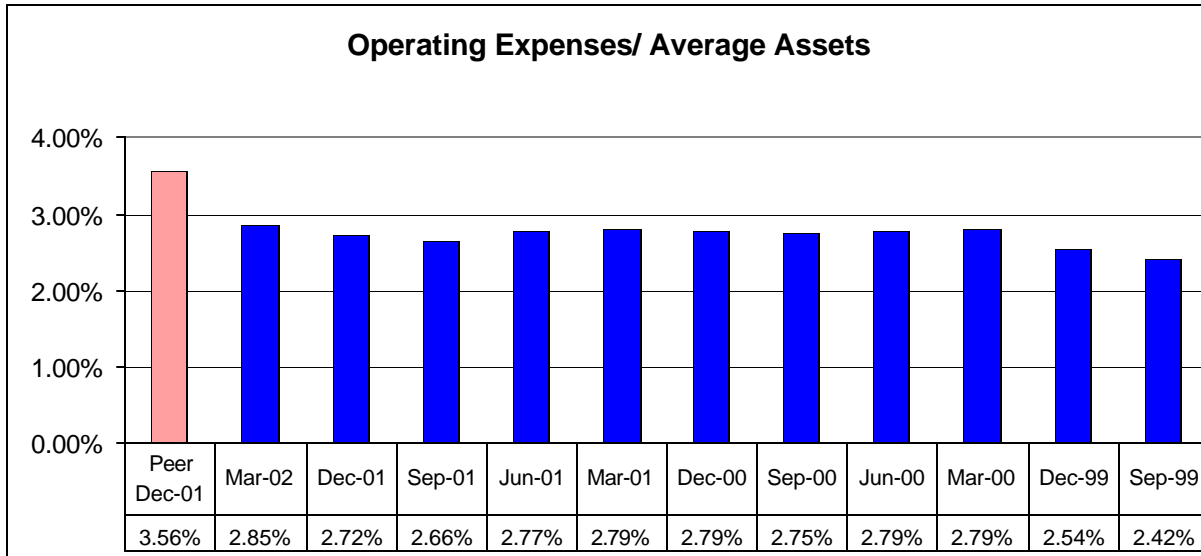
SAMPLE CREDIT UNION's return on average assets of 1.07% is among the middle 30%-70% of all credit unions in your peer group during the last period.

Your credit union's return on average assets ratio qualifies for "CODE 1," the best rating by the NCUA. Your credit union would receive the NCUA's best earnings rating of "1" if future earnings are projected by examiners to be sufficient to provide for loss absorption and capital formation after consideration is given to asset quality, growth and earnings trend.

Additional profitability analysis is suggested to permit management and the board to assess whether this strong performance is due to non-reoccurring factors or is the result of strong fundamentals. Strong fundamentals include a high net interest margin to average assets and low operating expenses to average assets ratios. Non-reoccurring factors might include unusual "gains (losses) on sales" of assets and unusually low (high) loan loss provisioning during the period.

EARNINGS RATIO

Operating Expenses / Average Assets {annualized} —measures the cost of operations in relation to asset size. A high cost of operations will be reflected in a high ratio and may reflect operational inefficiencies. Other causes of a high ratio are strategies that stress non-interest income generation, (i.e., generating income through servicing, originating or selling of loans and the offering of products and services that do not produce higher asset levels), higher risk lending operations that result in higher underwriting or legal costs, and high levels of fixed assets that produce depreciation and other costs.



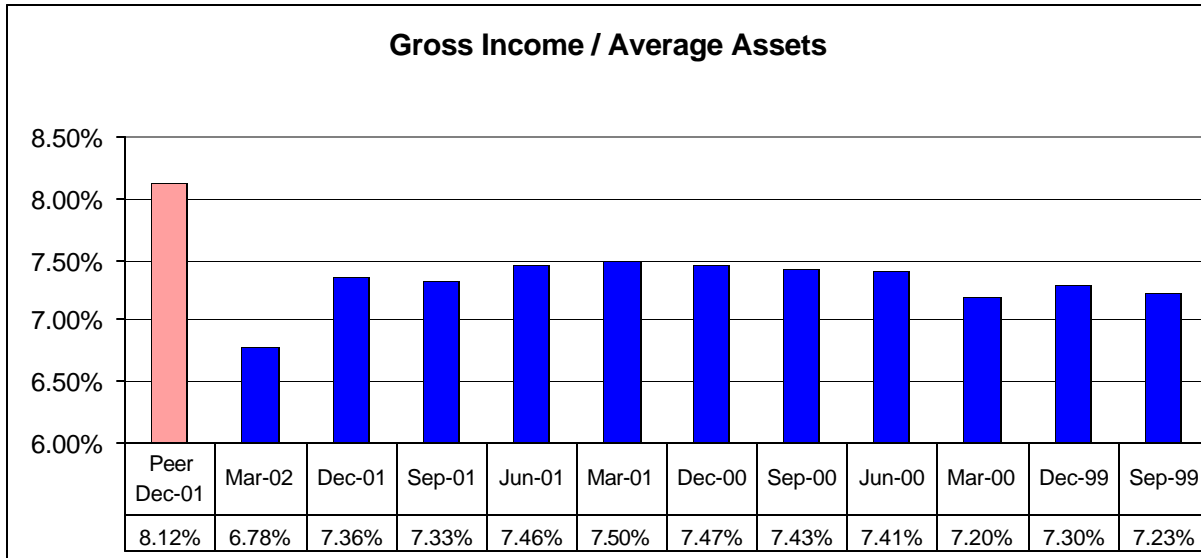
SAMPLE CREDIT UNION's operating expenses to average assets of 2.85% is among the lowest 11-30% of your peer group. This is a very enviable position.

Low operating expenses to average assets is typically the result of: (1) effective use of technology; (2) an uncomplicated asset/liability strategy; (3) effective human resource management and use of volunteers; (4) valuable assistance from an organizational sponsor; and/or (5) operations located in a geographic region with lower-than-average wage and real estate costs.

Management and directors should assure themselves that their low operating costs are not the result of insufficient investment in technology, security, and/or product and service development.

EARNINGS RATIO

Gross Income / Average Assets {annualized} — an aggregate measure of the total income of the credit union in relation to the average assets. A high ratio is usually indicative of: (1) high earning and/or riskier assets; (2) the acceptance of higher interest rate risk through ownership of generally higher-yielding longer-term assets; and/ or (3) a low liquidity position.



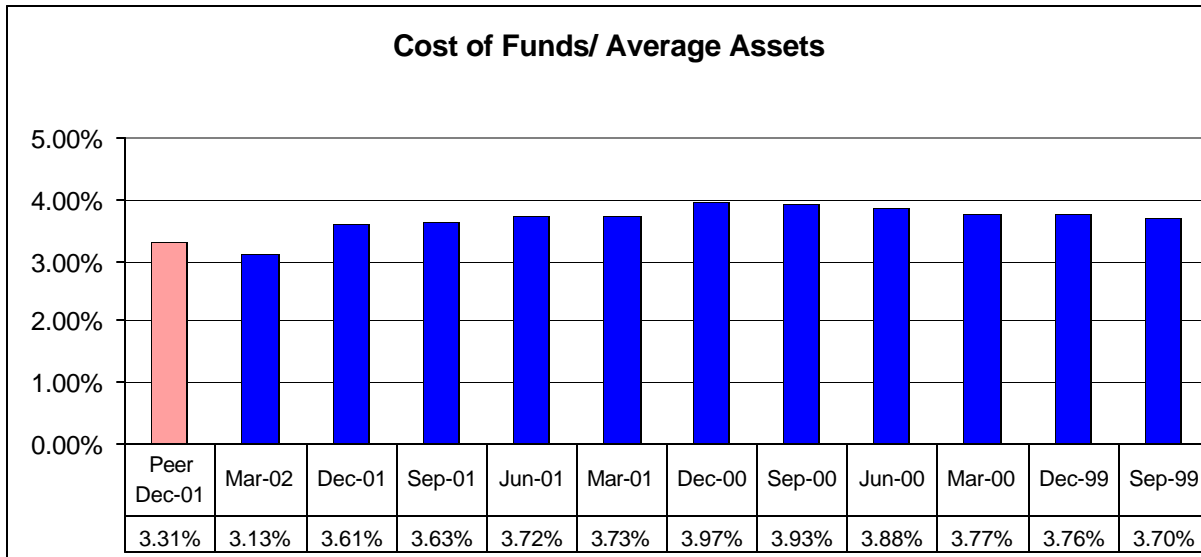
Your credit union's gross income to average assets of 6.78% is among the lowest 10% of your peer group. Considered in isolation, this is a disturbing situation especially if the firm suffers from low profitability and net worth. If the credit union's profitability and capital levels are high this condition should not be of concern.

A low gross income to average assets is typically due to: (1) a lower percentage of loans to total assets creating low interest income; (2) a lower degree of interest-rate risk due to a lower-than-average investment in long-term fixed-rate assets such as mortgages; (3) a lower percentage of loans in higher credit risk loan categories; and/or (4) a lower-than-average amount of non-interest income.

Since the first three of these factors involve lower risk - credit, interest-rate or liquidity - management and directors should review the credit union's asset investment portfolio strategy to determine whether the level of risk is appropriate. Maybe the firm is too conservative. If the cause is low noninterest income, management and directors should discuss whether charging fees and other charges are needed to improve profitability.

EARNINGS RATIO

Cost of Funds / Average Assets {annualized} — an aggregate measure of the total interest paid on all funds raised by the credit union as a ratio of total average assets. This measure is expressed as an interest rate and when computed over annualized quarterly or semiannual periods. A high cost of funds may be of concern to management and directors if the credit union is suffering from a low net interest margin, poor earnings or weak capital adequacy.

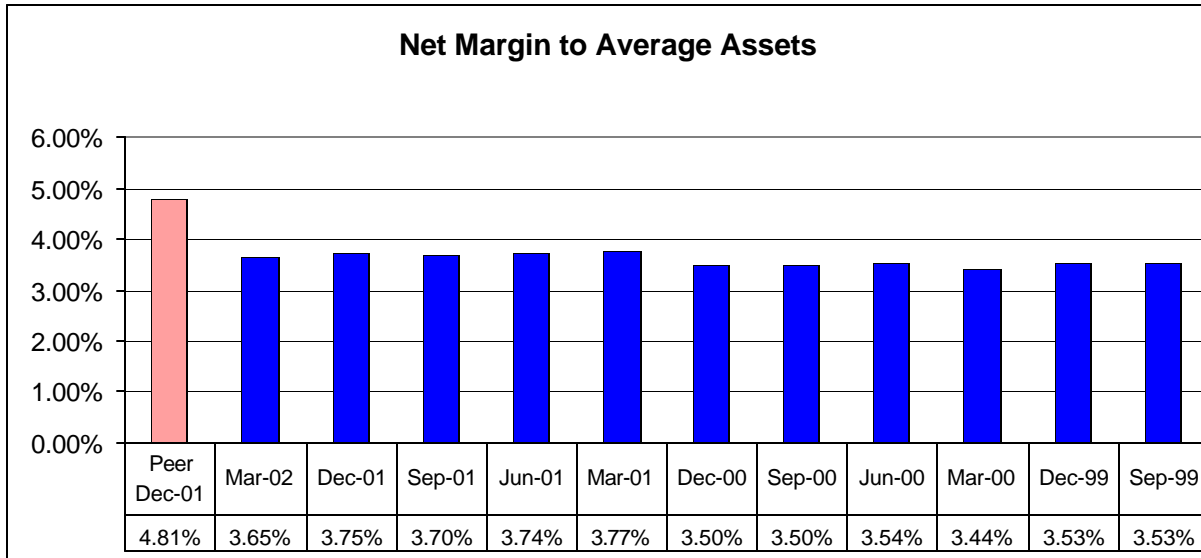


SAMPLE CREDIT UNION's cost of funds to average assets of 3.13% is in the "average range" of 30-70% of your peer group. A low cost of funds typically improves the chances for higher profitability.

Management and directors seeking to lower funding costs might want to consider various strategies. These include: (1) increasing the percentage of share draft and other low-cost funding sources compared to other credit unions of your size; (2) offering more and lower-priced services that compensate members for the lower dividends paid on their shares; and/or (3) adopting a more conservative asset/liability strategy that encourage paying a lower dividend payments than your peer group.

EARNINGS RATIO

Net Margin / Average Assets {annualized} — measures the difference between gross income earned as a percent of average assets and dividends/interest paid (for shares, deposits, federal funds, etc.) as a percent of average assets. Net interest income has historically been most credit unions' largest source of earnings.

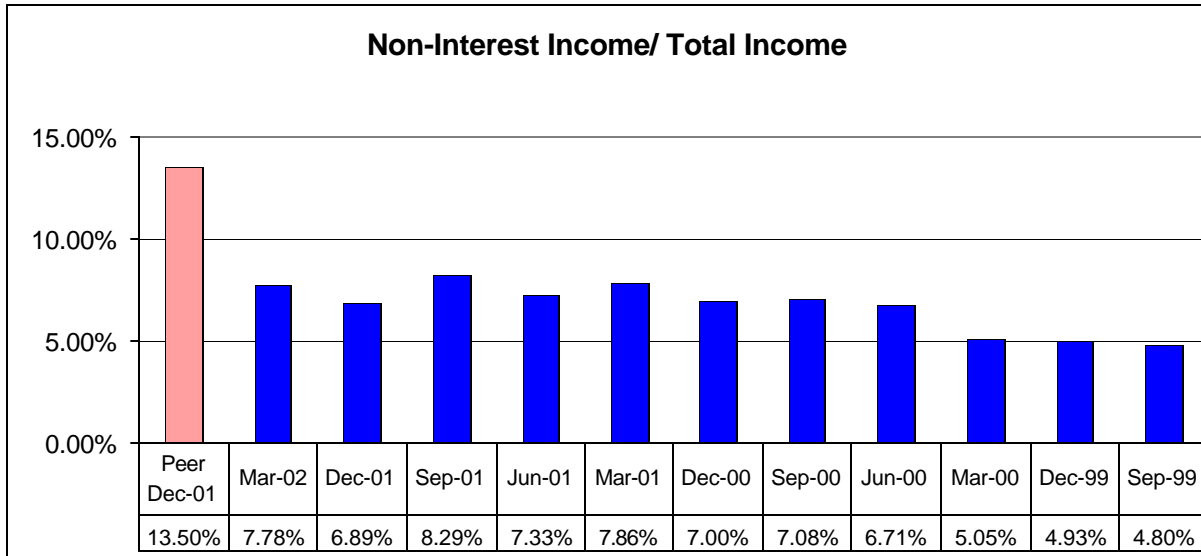


SAMPLE CREDIT UNION's net margin is among the bottom 11-30% of all credit unions in your peer group during the last period. A low net margin is a strong indication of fundamental weakness in the profitability position of the firm. However, if your credit union's profitability and capital levels are high, then this condition should not be of concern. A low net margin can be fully or partially offset by low operating expenses to average assets.

However, if your credit union is also suffering from low profitability and/or weak capital, management and directors might consider strategies to increase its net margin to average assets if it hasn't already. Your credit union's net margin can often be increased by: (1) increasing the percentage of loans to shares; (2) moving to higher-yielding earning assets; and/or (3) moving to lower-cost funding sources. All these strategies involve taking on more risk and, therefore, they should be implemented with care.

EARNINGS RATIO

Non-interest Income / Total Income — measures fee and other income earned as a ratio of total income. Many credit unions are relying more on non-interest income to fortify earnings.



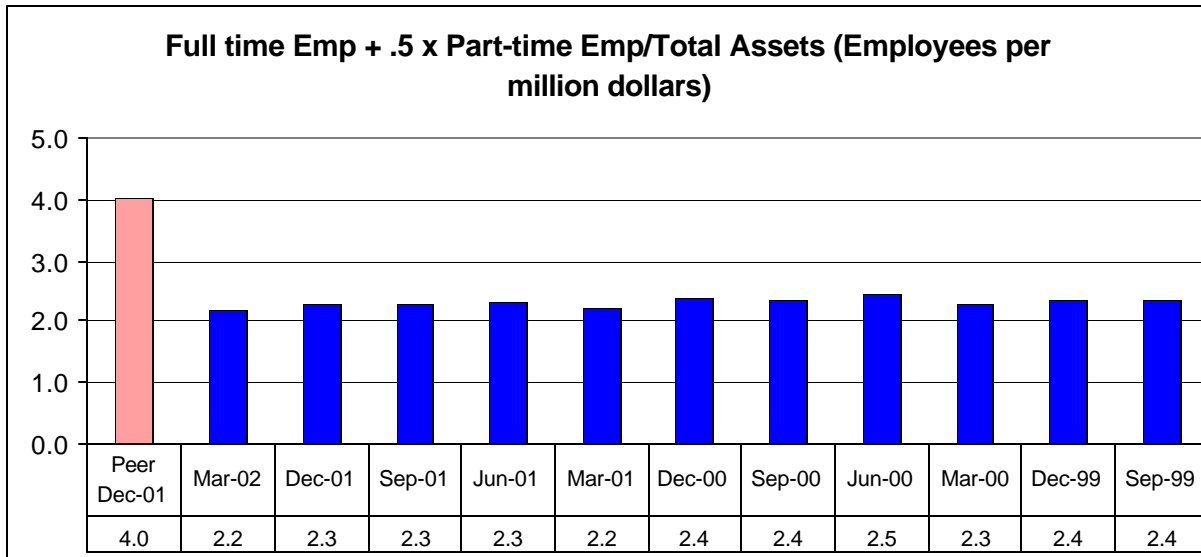
SAMPLE CREDIT UNION's ratio of non-interest income to total income of 7.78% is among the lowest 11-30% of your peer group. Since non-interest income is becoming a more important source of total income, your credit union is in a relatively weak position. Non-interest income is defined in this ratio as fee income and other operating income.

The amount of non-interest income generated by credit unions differs significantly because credit unions have different strategies. Some credit unions pursue a strategy of offering free or nearly-free services as an inducement for members to use the credit union. Others offer few member services with the objective of keeping operating costs down. Others view non-interest income as an important source of operating revenue and charge fees for many of the services they offer and also offer many services.

If management and directors are interested in increasing non-interest income, they should explore charging or raising fees on: (1) certain share account transactions such as non sufficient funds; (2) ATM transactions; (3) sales of investment products; (4) loan commitments; (5) late payments; (6) credit and debit cards; (7) loans (i.e., origination fees); (8) loan servicing; (9) underwriting loans; (10) wire transfers; and (11) IRA account administration.

EARNINGS RATIO

Full-time employees + ½ Part-time employees / Total Assets — measures the use of employees in relation to the size of the credit union. In general, a low ratio indicates lower operating costs, higher productivity and effective use of volunteers. However, a low ratio may also reflect a credit union that offers few products and services, little convenience to members and one that invests little in technology and necessary security.



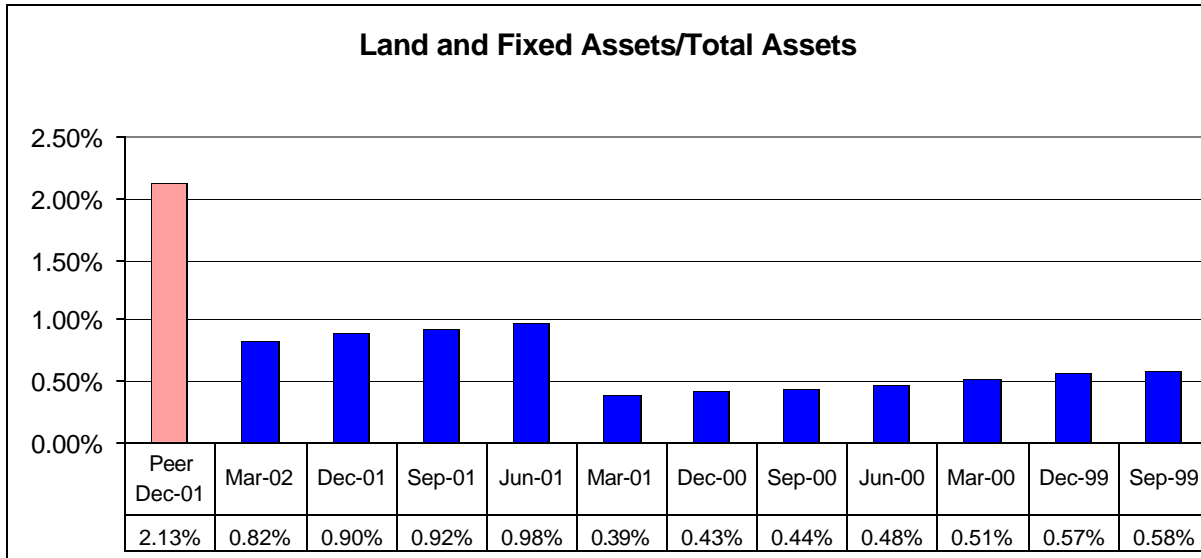
SAMPLE CREDIT UNION's ratio of full and part time employees of 2.2 is among the lowest 11-30% of your peer group. This is generally a favorable condition. Employees are typically one of a credit union's highest operating expenditures.

Your firm's low number of employees in relation to assets is probably due to: (1) effective use of productivity-enhancing technology; (2) a marketing strategy that emphasizes technology, (e.g., telephone, Internet and ATMs); (3) a limited product line; (4) large and efficient office size (s); (5) effective use of volunteers; and/or (6) a flat organization structure, (e.g., fewer management levels).

It is possible that a credit union can have a ratio that is too low. This would be the case if member service is not adequate or the firm is suffering from processing delays, quality control problems and/or inadequate product and service development.

ASSET/LIABILITY MANAGEMENT RATIO

Land and Building and other Fixed Assets / Total Assets — measures the credit union's investment in nonfinancial assets. In general, these assets create overhead expenses and provide no interest income which can reduce profitability.

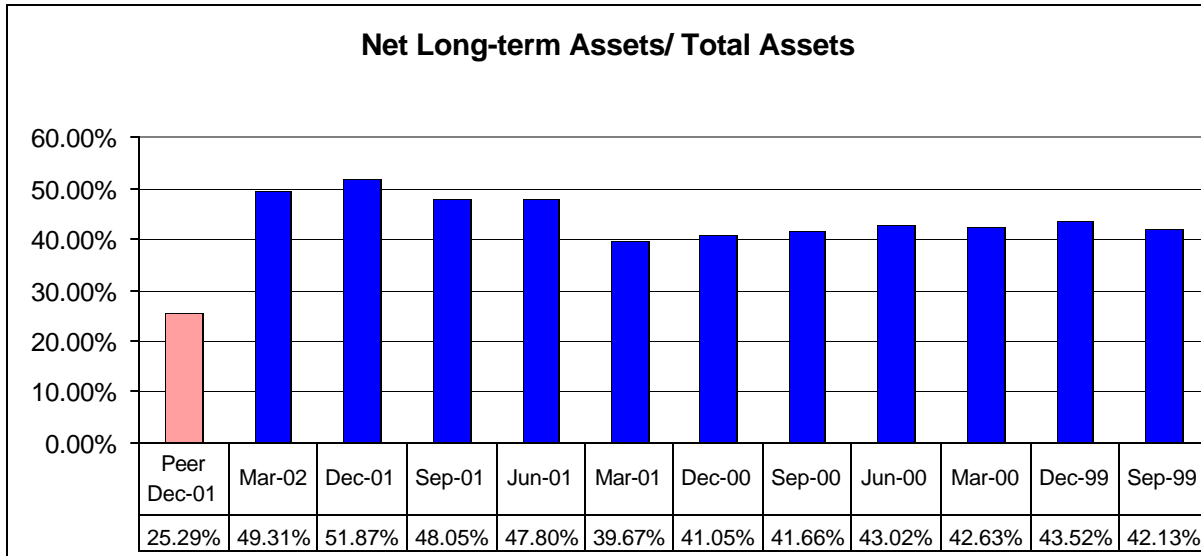


SAMPLE CREDIT UNION's ratio of land, building and other fixed assets to total assets is among the lowest 11-30% of your peer group. This is generally a very favorable position. Net long-term assets consisting of land, buildings and other fixed assets provide no cash income. As a result, a high percentage of them could negatively impact on the credit union's net interest margin and earnings. Your credit union's low percentage of net long-term assets should cushion it from this problem.

In general it is good to have a low percentage of assets invested in land, building and other fixed assets. However, there are circumstances when these investments can be justified. For example, investments in land and buildings may be worthwhile in geographic areas that experience rapid appreciation in real estate values and rising rental costs. In this circumstance, owning your offices and branches may be the better choice.

ASSET/LIABILITY MANAGEMENT RATIO

Net Long-term Assets / Total Assets — a measure of the interest-rate risk exposure of the credit union. A credit union with a high percentage of long-term assets is generally subject to a higher risk that a rise in short-term interest rates will increase the costs of funds faster than it will raise loan interest income. Since most sources of funds for credit unions are short-term in nature, a rise in market interest rates will generally cause the cost of funding sources to rise faster than asset yields when the asset portfolio has a high percentage of long-term loans and securities. This will lead to a profit squeeze.



SAMPLE CREDIT UNION's ratio of net long-term assets to total assets of 49.31% is among the highest 10% in your peer group. This may be a cause for concern.

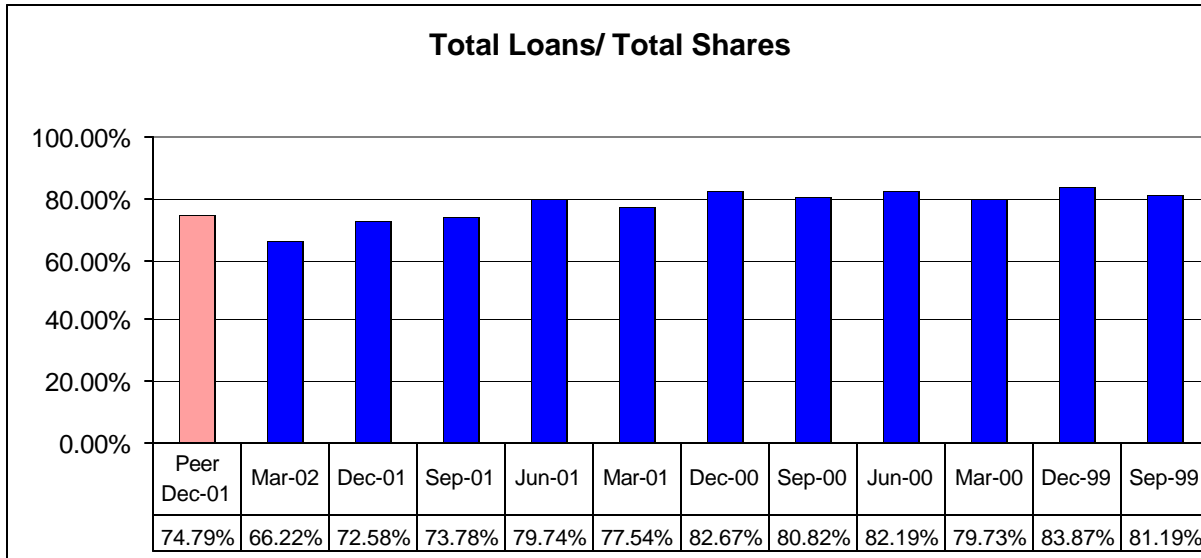
Net long-term assets consists of real estate loans that are not scheduled to reprice or mature within 3 years, member business loans, investments with maturities of more than 5 years, land, buildings and other fixed assets. These assets provide a fixed return or, in the case of property, no cash return. As a result, these fixed-return assets increase the interest rate risk of the firm in the event of a rise in open market interest rates.

Your credit union's high percentage of net long-term assets subjects it to the potential for earnings problems if interest rates rise. If not underway, management and directors should consider using asset/liability simulation, GAP and/or market value financial models to simulate the impact that a rise in interest rates would have on the earnings and market value of the credit union.

In order to reduce interest rate risk, credit unions should reduce lending on fixed-rate mortgages, long-term bonds and investments in facilities. They can also shift mortgage lending to adjustable-rate mortgages and increase lending on shorter-term installment loans.

ASSET/LIABILITY MANAGEMENT RATIO

Total Loans / Total Shares — a measure of the asset utilization of the credit union. In general, a credit union strives to balance loan demand with share availability. A credit union that has a high ratio will generally experience higher net interest margins, higher gross income to average assets and higher profitability.



SAMPLE CREDIT UNION's ratio of total loans to total shares of 66.22% is within the lowest 11-30% of the credit unions in your peer group. When considered in isolation, this condition indicates that loan demand and supply of member funds is seriously out of balance. If this ratio is consistently below your peer group, this indicates that loan demand is falling short of supply and that your credit union might be able to do more to promote growth in lending.

One of the biggest operating problems for many credit unions is finding an adequate supply of high-quality profitable loans to invest loanable funds. Credit unions with inadequate loan demand must invest in investment securities which normally earn interest rates that often barely cover the cost of funds.

Credit unions can increase lending demand by: (1) adopting more competitive loan pricing strategies; (2) implementing new lending programs; (3) implementing less conservative loan underwriting standards; and (4) implementing more aggressive loan promotion programs. Such policies do involve taking more risk and increasing expenses and should be implemented with caution.

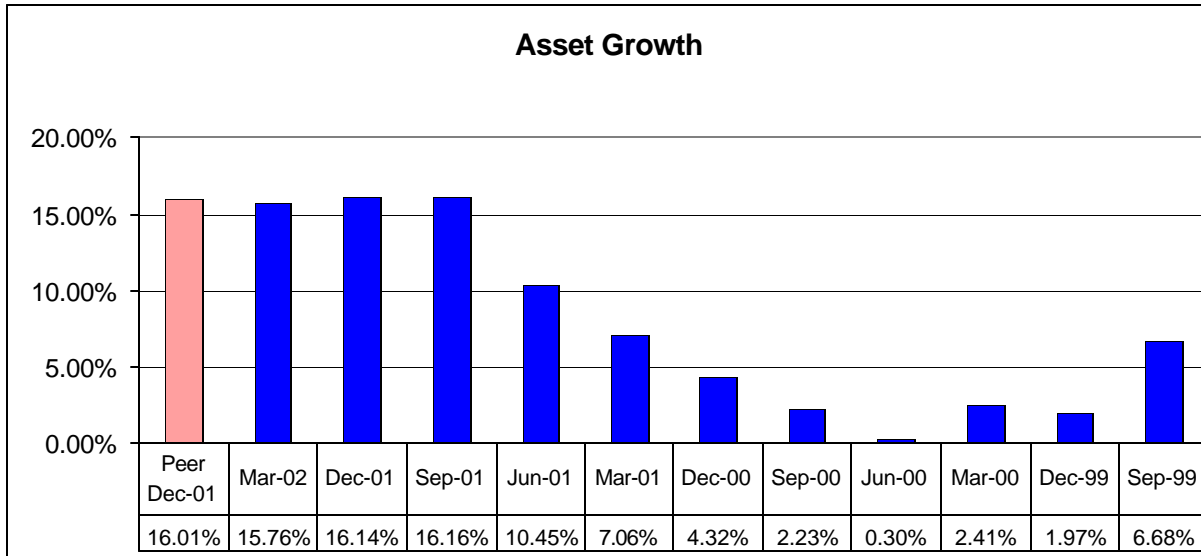
Your credit union's ratio of gross income to average assets and ratio of total loans to total shares are both in the lower 30% of your peer group. These two conditions combined more strongly suggest that your credit union's portfolio management strategy involves investing a low percentage of loanable funds in loans as compared to investment securities while receiving relatively low interest income. This condition typically results in inadequate net income. Management and directors might review their strategy and consider programs to increase lending.

Net worth growth {last 12 months} minus Asset growth {last 12 months} - measures the relationship between net worth and asset growth. Generally a measure of 0.0 or above is considered healthy since it means that net worth is growing at least as fast as or faster than assets. A measure below 0.0 should be considered a warning sign that the credit union's growth in assets is excessive or earnings are inadequate to sustain its current capital safety margin.

SAMPLE CREDIT UNION's growth in net worth of 7.50%, minus asset growth rate of 15.76%, is -8.26% or well below average for your peer group. This is typically a sign of profitability and capital adequacy problems. There is considerable variation in this measure within the credit union industry. Your credit union's negative ratio combined with positive asset growth indicates that your firm is unable to match growth in assets with growth in net worth.

GROWTH RATIO

Asset Growth Rate (last 12 months) — a measure of the growth in assets during the last 12 months. This ratio can be affected by mergers and other consolidations which would make it less useful. However, when not so affected, the ratio provides a basis to evaluate the credit union's growth in relation to its growth goals and in comparison to its growth in net worth and loans. One of the most common sources of financial problems is rapid growth. A credit union growing too fast can experience declining capital ratios and/or an inadequate supply of quality loans. Both these situations increase financial risk.



SAMPLE CREDIT UNION's asset growth exceeded 15% during the last twelve months. Unless caused by a merger, rapid growth can often result in weakened underwriting policies designed to stimulate loan growth which leads to rising credit losses and/or in a large buildup of lower-yielding security investments which adversely affects interest income. Both of these results could adversely affect profitability.

Rapid growth over a long period of time is often a risky strategy. If not already underway, management and directors might consider reviewing the credit union's asset growth goals to ensure that risks caused by growth are being well managed.

Appendix: Using Financial Ratios and Reports

Reports of financial performance should help directors assess a credit union's condition, determine whether the level of risk taken by the credit union conforms to the board's policies and identify red flags. To use financial information effectively, directors should look at the trend and level of individual measures and the interrelationships among capital, asset quality, earnings, liquidity, sensitivity to market risk, and balance sheet growth.

When using the "CUES Pacesetter™: Financial Performance Reporter," managers and directors should consider the following questions:

- What financial ratios suggest problem areas for the credit union?
- What additional analyses and information are necessary to identify the source of operational weaknesses and develop strategies to correct them?
- Is management meeting the goals established in the planning process? If not, why not?
- Was the plan realistic given the credit union's circumstances?
- Is the level of earnings consistent, or erratic?
- Do earnings result from the implementation of planned credit union's strategies, or from transactions that, while increasing short-term earnings, raise longer-term risk?
- Is the credit union being adequately compensated for the risks it is taking in its various product lines and activities?
- Does the credit have sufficient capital to support its risk profile and business strategies?
- Are the reports accurate, or do they reflect an incomplete evaluation of the financial condition of the credit union?
- Are the credit union's goals and plans consistent with the directors' tolerance for risk?

The ratios in this report cover the most important performance areas including:

Capital Adequacy: Management and the board determine how much capital the credit union must hold. This determination may change over time based on the risk inherent in the credit union's business profile, dividend expectations of the credit union's members, economic variables that affect the credit union's market or member base, and other factors. Although credit unions must maintain minimum capital ratios established in risk-based capital guidelines, most credit unions are expected to maintain a capital ratio higher than those minimums.

Adequate capital supports future growth, fosters public confidence in the credit union's condition, provides for adequate capacity under the lending limit to serve members' needs, and protects the credit union from unexpected losses.

Asset Quality: Asset quality is a function of the quantity of existing and potential credit risk associated with the loan and investment portfolios, other real estate owned (OREO), other assets, and off-balance-sheet transactions. Management maintains asset quality by identifying, measuring, monitoring, and controlling credit risk.

Earnings: The directors' review of earnings should focus on the quantity, trend, and sustainability or quality of earnings. A credit union with good earnings performance can expand, remain competitive, augment its capital funds, and, at the same time, provide a return to shareholders through dividends.

When a credit union's quantity or quality of earnings diminishes, the cause is usually either excessive or inadequately managed credit risk or high levels of market risk. High credit risk, which often requires the credit union to add to its ALLL (allowance for loan and lease losses), may result in loan losses; high market risk may increase the volatility of an institution's earnings from interest rate changes.

Asset/Liability Management: Asset/liability management is the process of identifying, measuring, monitoring, reporting, and controlling interest rate and liquidity risks. Asset/liability management is the identification, monitoring and control of

- Interest rate risk management: interest-rate risk sensitivity and exposure
- Stability and risk of funding sources: reliance on short-term, volatile sources of funds, including any undue reliance on borrowings
- Liquidity management: availability of assets readily convertible into cash
- Technical competence relative to asset/liability management: the management of interest-rate risk, cash flow, and liquidity, with a particular emphasis on assuring that the potential for loss in the credit union's activities is not excessive relative to its capital
- Loan composition and pricing
- Investment strategy and composition

The cornerstone of a strong asset/liability management system is the identification of the credit union's key risks and a measurement system to assess those risks.

Growth: Directors also must look at the effect of growth on the credit union's asset quality, earnings, capital, liquidity, and exposure to risk. Rapid growth may harm the credit union as the credit union may assume more risk than expected.

Managing additional risk or a new risk profile can be costly and strain resources. In a growth environment, personnel with the requisite expertise must be handling new lines of business or assuming additional responsibility. The credit union must also have control and information systems that are adequate to handle the credit union's increase in size and its greater exposure to risk.

Directors identify growth patterns by comparing historical and budgeted growth rates for assets, capital, loans, volatile liabilities, core deposits, and income and expenses.