

PEARLS Ratios
in
Credit Union Performance
Assessment

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IDEAL BALANCE SHEET

ASSETS

80% Loans to members

15% Liquid Investments

5% Buildings & Equipment

LIABILITIES & CAPITAL

80% - 85% Members Shares
& Deposits

15%-20% Capital Reserves

- 1. Protection** - P
- 2. Effective financial structure** - E
- 3. Asset quality** - A
- 4. Rates of return & cost** - R
- 5. Liquidity** - L
- 6. Signs of growth** - S

Cahill, E., (1997) *Corporate Financial Crises in Ireland*. Gill&McMillan. Dublin.

Cahill (1997: 390) - Symptoms –

1. Financial Ratios
2. Cash flow
3. Comparison with benchmark companies

John Hume – UCC Summer School 2004

- “Get the numbers right because the numbers will support the philosophy but if the numbers are wrong the philosophy will not support the numbers”
- So how do we know if the numbers are right?

Ratios

- Now 27 ratios on Prudential report
- But there are KEY ratios
- P1, P3, E1, E5, A1, R6, L1 (ILCU) (UCC)
- P3, A1, L1 (Rationalisation Report)
 - A1b and A1c 'were included to reflect analysis that the Registrar (ROI) was using!'
- E6b = RRR in R.o.I or E6a in N.I.
- R5 (T. O S.)

PEARLS Exercise

Analyse Key Ratios

Focus on - P1, P3, E1, E5, A1, R6, L1
E6b, R5

1. Check for change over 3 month period
2. Check for deviation from Movement average
3. Compare with Goal

Key Ratio Results

Ratio Description	<u>Credit Union Result</u>				<u>Overall Result</u>		
	Dec-2010	Sep-2010	Jun-2010	Mar-2010	Movement	RoI	Goal
P1 Bad Debt Provision Requirements	192.52	103.06	108.57	113.79	151.84	151.74	Minimum 100%
P3 Solvency	112.80	112.90	113.60	114.10	116.00	116.10	109%
E1 Loans / Total Assets	65.21	64.74	64.90	66.04	43.51	43.41	70%+
E5 Total Reserves / Total Assets	15.82	11.54	11.45	11.55	14.10	14.17	>12%
A1 Gr.Loan Arrears 10 Wks +/-Tot Loans	18.85	19.24	15.25	12.23	16.47	16.72	<5%
R6 Wages/Income	16.57	19.51	21.06	16.66	18.40	18.53	<15%
L1 Liq Invest/Uncommitted Savings	38.69	26.92	32.78	32.49	36.33	36.87	minimum 20%

Negatives

- Timeliness test – 3 month gap between Prudential report and Pearls report – R.o.I. (Business Intelligence ILCUnet should solve this !)
- Key Ratio R5?
- PEARLS not endorsed in Ireland by representative bodies other than ILCU

Conclusion

- John Hume
- Ed Cahill
- Glass, McKillop and Quinn (CU Focus: Spring 2010,12)
- Nora Herlihy, Edgar Parnell
- www.creditunionresearch.com

PEARLS Ratio Comparative Analysis

	<i>CU results Latest</i>	<i>CU Results Previous</i>	<i>PEARLS Target</i>	<i>Jurisdiction Average</i>	<i>+</i> <i>Or</i> <i>-</i>	<i>+</i> <i>Or</i> <i>-</i>	<i>+</i> <i>Or</i> <i>-</i>
P1			150%				
P3			109%				
E1			70%				
E5			>12%				
E6b			≥10%				
A1			<5%				
R5			<43%				
R6			<15%				
L1			≥20%				