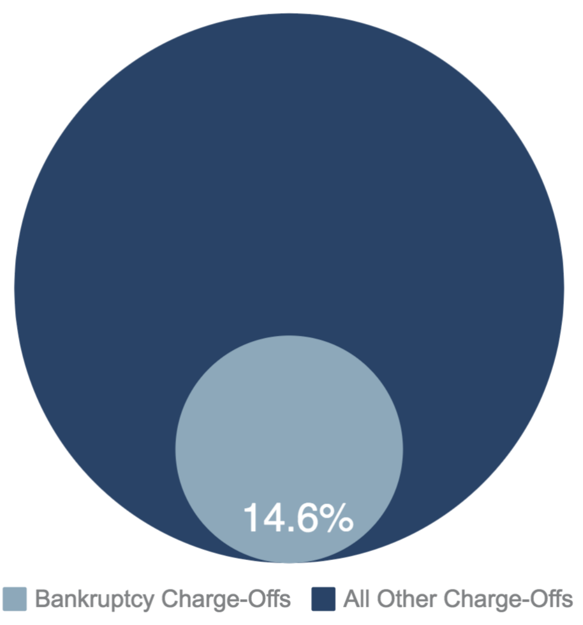
7 WAYS TO MANAGE RISK

Ratios to make enterprise risk management easier and quantifiable.

Risk managers monitor disparate areas of the credit union. For key ratios to follow, start with the measures that correspond to the risk indicators outlined by the NCUA.

* CREDIT * INTEREST RATE * LIQUIDITY * TRANSACTION * STRATEGIC * REPUTATION * COMPLIANCE *



1 CREDIT RISK

Bankruptcy Charge-Offs/ Total Charge-Offs

Bankrupt charge-offs to net charge-offs evaluates underwriting practices and future charge-offs.

The percentage of charge-offs that result from bankruptcy is an indicator of the credit union's lending environment and lending policies.

A rapid rise in bankruptcies, often from accounts that are current and show no signs of weakness, can indicate a need to challenge conventional underwriting doctrine.

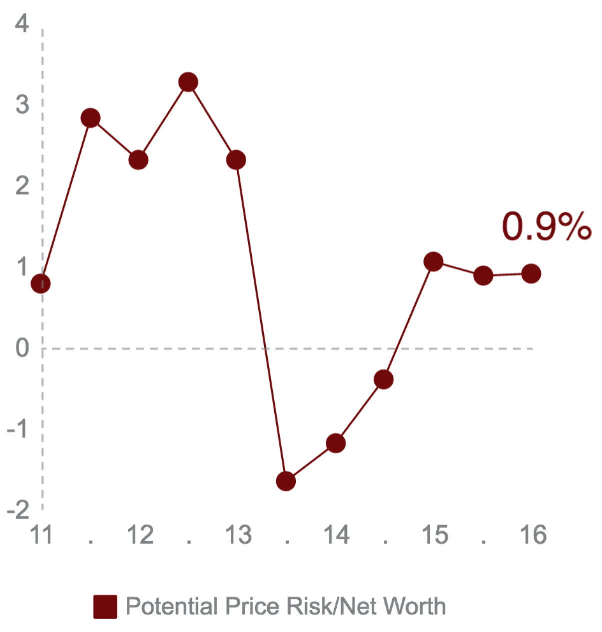
2 INTEREST RATE

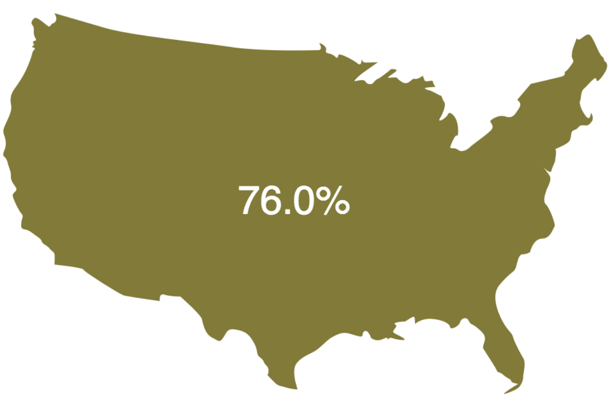
Estimated Total Current Potential Price Risk As A % Of Net Worth

When market interest rates change, so do the values of investments.

This metric measures the change in the value of all investments securities — those that are available for sale and those that are held to maturity — as a percent of net worth.

If investment gains contribute to a high percentage of net worth, the credit union could be at risk if it needs to sell securities prior to maturity.





3 LIQUIDITY

Loans/Shares

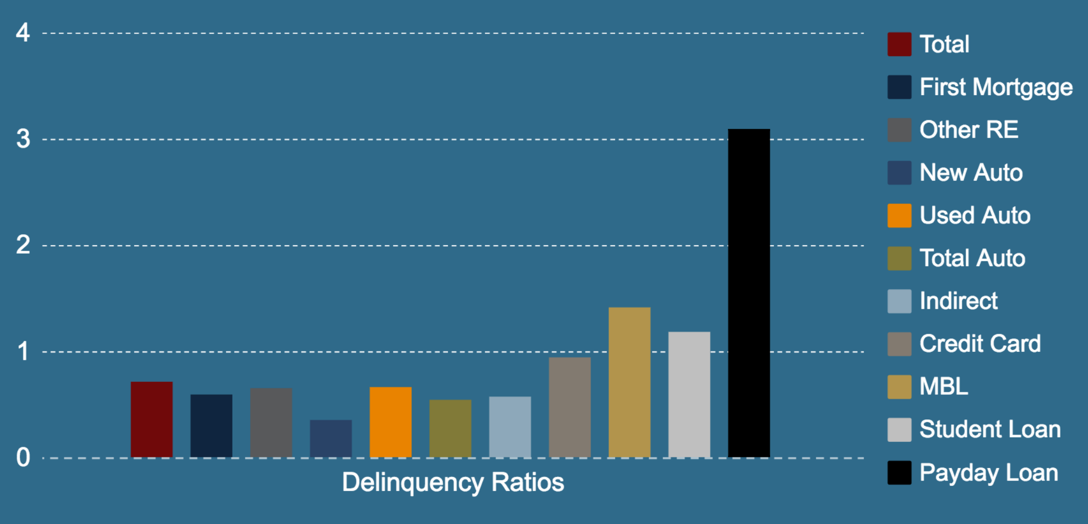
A higher loan-to-share ratio can lead to greater profitability, but risk managers must carefully monitor loan and share growth rates.

A loan portfolio that exceeds shares poses a risk if the credit union needs liquidity.

It is helpful to evaluate with an eye to the future the impact of business decisions on loans and shares.

4 TRANSACTION

Delinquency Ratios



Considering the impact of new products is a part of transaction risk.

Delinquency over time will show if new products or risk initiatives are causing spikes in delinquency rates, which in turn might impact net worth.

Risk managers should look at these metrics before and after the credit union introduces new products.

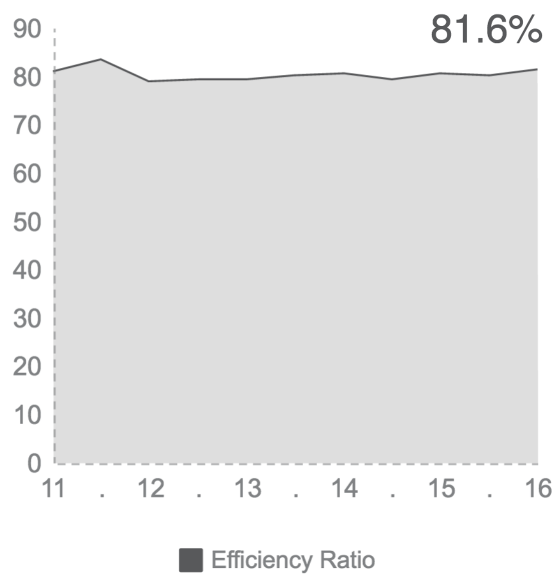
5 STRATEGIC

Efficiency Ratio

A low efficiency ratio is indicative of success in both high-level management and staff-level productivity.

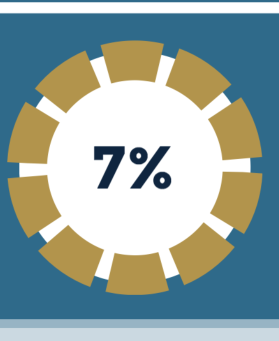
When operating expenses are a smaller percentage of income — meaning the credit union spends less to earn $1 — that credit union's efficiency ratio is lower.

A high or rising efficiency ratio means the credit union is losing a larger share of its income to overhead expenses.



6 REPUTATION & 7 COMPLIANCE

Net Worth Ratio | **Risk-Based Capital Ratio**



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Reputation risks, such as litigation or large losses, can impact net worth, too.

The net worth-to-assets ratio is the primary measure of each credit union's financial strength. Current Prompt Corrective Action (PCA) regulations state that a 7% or higher net worth ratio is a "well capitalized" credit union.

At 6% the credit union is "adequately capitalized."

Most compliance risks are not initially quantifiable using 5300 Call Report data. However, federal regulations are in place to monitor a credit union's risk-based capital (RBC) ratio.

To be considered well-capitalized by the NCUA, a credit union must have a minimum RBC ratio of 10.5%.

For U.S. credit unions I Data as of 03.31.16

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