Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Credit Union PRISM Risk Assessments
Supervisory Commentary

May 2014

Contents

Foreword

The Central Bank's risk based supervision framework, PRISM has applied to the credit union sector since May 2012 when our first cycle of risk assessments and on-site engagements with credit unions commenced.

We have completed judgment based, outcome focused, risk assessments on almost 200 credit unions in Medium High and Medium Low risk impact categories. During the course of our engagements with these credit unions we have been clear on our expectations of sensible governance, risk management and control standards within the sector.

We found sound standards and evolving good practices in a number of credit unions that could well become models others can learn from. Regrettably, we found the majority of credit unions we engaged with needed to make significant improvements.

For each credit union visited we have established a baseline risk assessment, identifying improvements needed to meet our standards. As a result their boards and management should now be well on the way to implementing governance and risk management improvement programmes to better position their credit union to respond to the challenging operating environment.

This paper sets out our findings on the current state of governance and risk management standards and practices, draws attention to significant issues and sets out our minimum expectations of credit unions.

We expect that it will be an essential guide to boards and management as they implement their risk management frameworks and compliance programmes. It should be used to benchmark performance and where necessary used to develop and implement plans to achieve and maintain the standards expected of soundly governed and managed credit unions.

Sharon Donnery

Registrar of Credit Unions

May 2014

Introduction

Credit unions need to engage in significant transformative change to respond to a challenging operating environment and to achieve the standards the public expects of soundly governed and managed firms.

As with all other financial institutions, they depend on public confidence for their success and members need to be assured that their savings are safe.

For this reason our regulatory framework is built around the principles of responsibility, accountability, prudence, and compliance. These principles underpin sound standards and practices and inform our risk-based supervisory approach and expectations. They are also central to our vision of 'strong credit unions in safe hands'.

We see 'strong credit unions' being financially strong and resilient, enabled by sustainable, member-focussed business models having effective governance, risk management and operational frameworks.

Credit unions are 'In safe hands' when they are voluntarily governed, professionally managed and staffed, by competent, capable people who appreciate and prudently manage the risks they are pursuing and exposing the business to while successfully meeting their members product and service expectations.

Our PRISM engagements have highlighted how a small number of progressive credit unions are building the capabilities they need to continue to protect members' funds, provide value to their members, and prudently manage risks while they develop their business models.

With a pragmatic and sensible approach to compliance, their boards and management are developing effective risk-based policies and management systems suitable to the scale and complexity of their business model.

They see regulatory standards as minimum expectations, not performance benchmarks and are investing the resources and time needed to continuously improve their governance and risk management standards, practices and performance.

At the other end of the spectrum we see credit unions continuing with a minimalist approach. Having done little to anticipate the strengthened regulatory framework, they now have to make significant improvements to meet the minimum standards expected of credit unions today.

This paper provides a basis for all credit unions to benchmark their own performance to required minimum standards.

It allows progressive credit unions to compare their performance to our expectations and highlight areas for improvement. For others, it provides an important benchmark to establish the scale and scope of change needed to meet standards now required of all credit unions, whatever their size and complexity.

Where a credit union is unwilling to meet minimum standards, it must understand that we will use our supervisory and enforcement powers to effect changes necessary to protect members' interests.

For credit unions with a responsive approach to delivering on necessary changes our supervisory approach while assertive is also supportive of their transformation programmes.

PRISM – Risk based supervision

Risk based supervision, carried out through our PRISM[1] framework is fundamental to the Central Bank's statutory mandate to ensure that each credit union is protecting the funds of its members and meeting its regulatory obligations.

During our first cycle of PRISM engagements we focused on establishing a baseline risk assessment for each credit union we visited, identifying the nature and size of the gap between its current and our expected minimum standards and practices.

Credit unions that have experienced their first PRISM engagement are issued with Risk Mitigation Programmes (RMP's) addressing compliance and those key risk areas where we require remediation actions and improvements in governance and risk management. Many of our requirements are designed to address fundamental weaknesses.

Given their responsibility for members savings, we expect boards and management to implement our RMP's and to put in place comprehensive governance and risk management improvement programmes to achieve the standards expected of soundly governed and managed credit unions.

During the next cycle of PRISM engagements we expect to find that RMP's have been fully implemented and we will assess the quality of implementation. Significant material shortcomings in, or failure of implementation may result in us utilising our regulatory powers[2] to protect members' savings.

It is our objective that our PRISM supervisory activity will cause an improvement in standards. During future engagements we expect to be able to focus on having developed, forward looking risk-based discussions with boards and management on how their credit union's business is developing and related risks managed.

We are conscious that some credit unions will not have experienced a standard PRISM on-site risk assessment engagement to date, whether this is due to their being Low Impact credit unions or ones with whom we already have other types of engagement. For these credit unions this paper will provide additional value.

While we discuss engagement findings under specific PRISM risk categories in greater depth below, we have some broad observations in respect of overall findings and implications for the sector.

[1] See Appendix I for how PRISM applies to credit unions
[2] [2] The Bank's administrative sanction powers now apply to credit unions with effect from 1st August 2013

Broad observations

As can be expected, we have seen differing standards across the sector.

We identified relatively sound governance and risk management standards and practices in a small number of credit unions across PRISM risk categories.

Their boards and management, committed to achieving sound standards for some considerable time, were prudently managing risks and had embedded sound risk management and compliance practices. It was notable that they had a proactive, positive attitude to compliance (which contrasted with tick-box behaviours of certain of their peers). In many respects these credit unions propose models others should be encouraged to emulate.

For most credit unions visited, we were concerned about the fundamental nature of weaknesses we identified in governance, lending, operations and risk management.

Weaknesses in lending, credit control and credit risk management standards and practices were particularly notable.

We also noted in a small number of cases certain attitudes and behaviours indicative of an unwillingness to comply with legal and regulatory requirements and associated absence of appropriate risk management systems and compliance programmes.

Given business model viability challenges of recent years, we expected a more informed and developed dialogue around individual credit union strategy to address these challenges than proved to be the case.

Indeed in many cases it appeared strategic management was viewed as a one-off operational exercise merely to satisfy a legal and regulatory requirement rather than an essential business capability to ensure viability and sustainability.
As a result we also experienced many instances where directors and managers were unable to engage in meaningful discussion in respect of material risks.

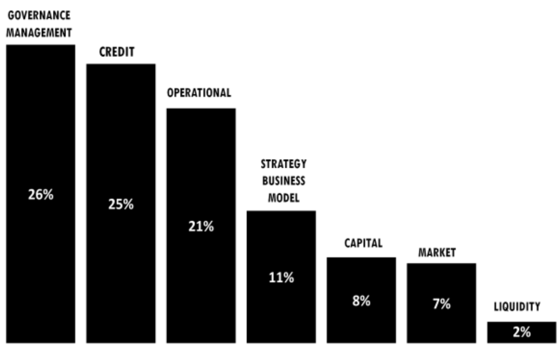
Consequently we are concerned over the absence of strategic thinking and integrated business and risk management planning. This was manifest in strategic plans that did not address viability and sustainability or incorporate consideration for risks and did not address the scale and scope of governance, risk and operational management changes required under the strengthened regulatory framework.

Our concerns here also extend to financial management, which in many cases amounted to at best an annual budgeting exercise targeting a prescribed dividend rate.

Where used, financial forecasting was largely based on unrealistic business activity assumptions, did not reflect business model constraints and significant viability challenges, did not factor in consideration of key risks, did not address balance sheet and capital management and did not realistically stress-test financial performance.

Commentary on PRISM risk assessment findings

Our PRISM risk assessments covering Medium High and Medium Low impact credit unions identified more than 2200 risk issues.



Governance and Credit risk posed the greatest risk management challenges, with many credit unions requiring quite significant remedial improvements. Many of these were interrelated with improvements required in operational risk areas.

This section of our paper considers the main risk categories of primary relevance to credit unions at this time as follows,

- Governance and Management
- Strategy/Business Model
- Lending and Credit Risk Management
- Capital
- Operational Risk
- Markets Risk and Liquidity Risk
- Insurance Risk

Before summarising our findings it is important to provide an overview of risk management standards.

Risk Management Standards Overview

It is critical that material risks arising from significant business activities are identified, continuously assessed, monitored and managed. We expect credit unions to have robust risk identification, assessment and management processes and systems commensurate with business model scale, complexity and risk profile.

Board oversight through appropriate risk management frameworks should be enabled by managerial process that regularly reports on material risks arising from significant business activities.

A credit union's risk profile should be reflected in a documented risk appetite statement, with risks managed through thresholds and limits, reflected in risk registers/dashboards that provide for on-going assessment of, and reporting on risks.

We expect to see risk profile considerations including thresholds and limits reflected in periodically updated, board agreed policies; demonstrated through functional operational processes; and subject to independent assessment by internal audit.

Encouragingly, we found a small number of credit unions were developing reasonably robust forward-looking risk management frameworks and were integrating thinking about risk with strategy and business planning.

Overall, however we found risk management standards and practices needing significant improvement, with most credit unions having an unstructured approach to managing risks, poor quality or lack of policies and weak, unsophisticated oversight and operational practices.

During many of our on-site visits we found that as boards and managers did not have an informed understanding of the nature of risk, they were unable to have developed discussions with our supervisors on risks they were pursuing and exposing the credit union to.

Governance and Management

The overriding responsibility of a credit union's board and management is to ensure the protection of members' savings, principally by employing sound governance and management standards and practices.

Our primary supervisory expectations at this time include the following:

- clarity in board (non-executive) and management (executive) roles, responsibilities and accountabilities;

- effective board oversight processes, including policy development;

- board approved risk-based policies covering all significant business activities and associated risks;

- effective risk oversight and performance management systems, including risk-based board reporting;

- risk management orientation integrated within strategic management; and,

- realistic and achievable strategy enabled by operational plans and financial budgets.

As we stated earlier, credit unions found to have sound governance standards and practices have consistently developed these over time. That they are substantially compliant with the strengthened regulatory framework is a result of this commitment to achieving sound standards. It is notable that their standards and practices, eminently achievable by their peers, provide a basis for others to learn from and adopt.

Our major findings include:

- board and management operational dysfunction arising from lack of clarity in the functions and roles of the board, directors, board committees and managers. In some cases the lack of a clearly defined boundary between the board and management and absence of performance management systems at both business and employee levels, had caused quite serious conflicts that threatened to undermine member confidence in the credit union;

- weak governance oversight and performance management including undeveloped reporting systems;

- management information was inadequate and of poor quality and did not support effective decision making;

- inadequacy of policies, with policies not being regularly assessed or updated. Boards were not periodically reviewing policies, governance practices and procedures to determine where improvements were needed. Many were using externally sourced, generic policy templates without adapting them for their credit union;

- inadequate risk oversight, reporting and management systems, particularly credit, investment, operational and strategic risks;

- short term, operational orientation – the absence of longer term thinking and planning;

- many lacked the competence to develop a response to business challenges;

- board rotation and succession planning along with learning programmes were the exception rather than the norm. We considered that many boards needed an infusion of new directors with the knowledge and skill to improve board performance; and,

- insufficient managerial expertise.

Recent legislation introduced amongst other things, important governance changes. Our baseline findings reflect many of the vulnerabilities the legislation is designed to address.

Principles underpinning sound standards and practices informed recent changes to legislation[3] and our Credit Union Handbook which is designed to support credit unions in implementing their compliance programmes.

Of specific importance are the board's strategic leadership, policy development and oversight roles and the manager's operational role to implement board agreed policies and strategy.

The new functional roles of compliance officer, risk management officer and internal audit, where embedded properly, are intended to support boards and management in discharging their key responsibilities. Boards should be able to leverage off these functions to improve their governance ability.

With most credit unions using a traditional management committee governance model, we found directors continuing to be heavily involved in day-to-day operational matters.

The Credit Union Act 1997 sets out the respective role of the board, manager, risk officer, compliance officer and internal audit.

Combined they represent a shift away from the operationally focussed management committee to the policy focussed non-executive board concerned with strategy, policy and risk oversight.

[3] the Credit Union and Co-operation with Overseas Regulators Act, 2012

Most credit unions clearly have some way to go before this transition is accomplished. In too many cases this process is just starting.

Strategy/Business Model

Strategic thinking about how to evolve the business to adapt to an increasingly challenging operating environment should be a fundamental part of the board and management conversation.

It is of particular importance for boards and management to formulate, plan and implement effective strategies to ensure the on-going protection of savers' funds and the viability and sustainability of the business.

We expect:

- strategic plans to reflect a forward-looking viability orientation, setting out feasible and achievable business objectives;
- strategy formulation to include robust assessment of business model constraints, balance sheet risk profile and revenue earning capacity and operational costs;
- business objectives to be integral to board oversight of managerial performance with a clear line of sight through shorter term operational planning, demonstrating how objectives will be achieved; and,
- financial planning to reflect anticipated outcomes of achieving objectives, with financial forecasting grounded in realistic, stress tested assumptions.

Given current and possibly continuing adverse environmental conditions impacting on credit demand and investment yields, we expect boards and managers to consider and respond to environmental influences impacting favourably or negatively on their credit union's current and anticipated levels of business activity. These influences should particularly include unique common bond characteristics.

They should also consider the credit union's risk profile and establish risk thresholds to manage the boundaries within which the credit union will carry out its business.

It is quite critical that strategic thinking also informs board and management determination concerning the continuing independence or otherwise of the credit union.

We expect informed consideration of on-going viability and sustainability in the context of core business, in particular the decline in lending as a percentage of total assets.

Appendix II of this paper illustrates how this long term decline, dating back to the late nineties, has significantly escalated since 2008. Also illustrated is the downward sloping trend in return on assets (ROA) over recent years.

With lending in many cases accounting for close to 70% of gross revenues generated from an aggregate loan to assets ratio of 31%, any fall off in lending activity results in significant reduction in current and future earning capacity. The longer term implication of a business model experiencing such a decline in revenues and increase in operating costs should be considered when thinking about and planning for the future.

It is of particular importance that alternative scenarios are used to stress test balance sheets for net revenue earning capacity, loan losses and core activity cost drivers.

Overall, we found:

- a marked reluctance by boards and management to confront business model constraints and address viability challenges;
- formulaic, generic strategic plans, developed, proposed and documented by external consultants with boards demonstrating little or no ownership of plans;
- strategy not being reflected in either financial planning or day-to-day operations;
- plans failing to integrate a realistic appreciation and appraisal of business risk or setting out risk management strategies;
- little or no consideration for balance sheet and capital management; and,
- financial forecasting based on unrealistic assumptions, in many cases not linked to stated business objectives, targeted business activity or proposed new business lines.

We were also concerned to find cases where credit unions had not considered the feasibility and achievability of new business line proposals. We found their plans to be overly ambitious, unsupported by a realistic business case or adequate consideration for risk. In particular risks related to information technology were not being adequately addressed.

It is also of concern that in last year's IT survey, many credit unions indicated they do not have an IT plan to enable their business model and business strategy.

We expect to see substantial improvement in the soundness and quality of all aspects of strategic management - strategic thinking, formulation, planning and execution - over our next cycle of PRISM engagements.

We also expect to find that strategic management explicitly and demonstrably integrates a risk management orientation and to find boards overseeing and where necessary, refining strategic plans.

Furthermore we expect to find financial and operational plans grounded on realistic assumptions, being overseen by informed boards which are challenging of managerial performance.

Lending and Credit Risk Management

Credit risk has been the subject of consistent Central Bank guidance and communications with our most recent circular[4] reiterating the need for robust consideration of borrower repayment capacity and indebtedness.

It is of major concern to consistently find that underwriting and credit risk management standards were so poor especially given recent loan loss experience.

The majority of credit unions visited have been required to implement a range of actions designed to remediate risk and substantially improve their lending and credit risk management standards and practices.

Where required risk mitigation has included the Central Bank imposing lending restrictions until fundamental weakness is addressed.

We see restrictions as short term in nature, to be lifted when risks have been addressed satisfactorily and necessary corrective measures embedded. The PRISM engagement affords a credit union the opportunity to evidence an improved underwriting, governance and credit control environment to support its business case for the easing of or removal of restrictions.

It is of considerable concern that some credit unions do not as yet appear to have realistically addressed necessary improvements to their lending practices and credit risk management systems.

Our primary supervisory expectations of sound lending and credit risk management standards and practices at this time include the following:

- clearly defined credit risk appetite and limits;
- sound and prudent lending and credit risk management systems;
- comprehensive repayment capacity assessment policy and process;
- compliance with loan rescheduling requirements;
- robust loan loss provisioning; and,
- effective credit control.

Overall our risk assessments highlighted the following areas of concern:

- weak lending policies, procedures, processes and operational competencies;
- poor quality underwriting including inadequate repayment capacity assessment;
- imprudent loan rescheduling and other loan modification arrangements;
- inadequate credit risk management policy, processes and practices;
- insufficient loan loss provisioning approaches and information systems;
- inefficient collections policies and processes; and,
- poor quality management information.

Throughout our engagements we found many instances of weak underwriting practices where affordability was not being properly assessed, particularly net disposable income and repayment capacity.

In cases it was evident that imprudent lending to heavily indebted borrowers was a feature of lending activity.

In this regard top-up lending practices, where there is no reduction in core debt, was an issue of particular concern given the potential impact on arrears and provisions.

[4] Circular on Prudent Lending, February 2013

We found that many boards were not fully engaged in appreciating their credit union's lending practices and credit risk profile, with far too many exercising ill-informed, cursory oversight.

Consequently in many cases, where loan reviews have been carried out, credit unions have had to increase provisions, many substantially so. Conversely we have identified cases where there is a very high general provision as the credit union lacked an appropriate specific provisioning methodology and was using the general provision as a "buffer".

We also found that most credit unions had not considered and estimated the likely impact of personal insolvency settlement imposed loan hair-cuts. They had not reflected the adverse impact of such loans on their loan portfolios or allowed for it in their capital, credit risk and financial management.

Credit unions found to have sound standards, had effective up to date policies, robust underwriting and loan loss provisioning systems, good quality controls and efficient collection processes.

Their boards were informed by and challenging of management's risk management process and were capable of articulating a developed appreciation of credit risk.

Their approach is clearly rooted in a consistent development of skills and capabilities which is a result of sound, competent governance and management.

Again, these credit unions propose models of sound standards and practices that others might learn from.

Capital

While credit unions are required to maintain a minimum regulatory reserve requirement of 10% of total assets, we expect boards and management to exercise informed judgement in assessing and ensuring the appropriate level of capital taking into account the credit union's risk profile.

It is notable that credit unions, having sound governance and risk management standards, maintain buffers indicative of a concern to maintain appropriate levels of reserves.

Our findings indicate that capital management does not feature in strategic thinking and planning for most credit unions. This is a concern, as capital can only be accumulated through retained earnings.

We expect to see some basic stress tests to establish a minimum capital buffer to avoid inadvertent breaches.

We also expect credit unions to give careful consideration to areas that directly impact capital, including future earnings capacity, loan losses and fixed asset valuations.

As mentioned under strategy and business model above, earnings or revenues generated from core lending are declining due to recent economic conditions and longer term trend in loans to total asset ratios. In some cases it is evident that maturing common bond demographics are adversely impacting demand for loans. Investment income is also under downward pressure as yields decline.

Taken together, interest income is under pressure as operational costs continue to rise. The effect in many cases is to cause concern for future revenue potential to adequately remunerate savers, cover operational costs, invest in business model development and accumulate appropriate levels of capital.

As stated earlier, with poor lending and credit risk management standards, loan losses continue to feature as a significant risk issue.

For some credit unions Value in Use (VIU)[5] is creating an illusion of capital strength when underlying market values of property assets are far lower than carry values.

In some cases credit unions, conscious of capital quality, are adjusting asset values to take account of impairment.

In those credit unions whose assumptions underpinning asset valuation calculations are unrealistic, we are challenging them to realistically manage capital.

In many cases we found that assumptions and projections used for VIU calculations differed substantially to those used in business plans and financial planning and historic performance.

We expect to see VIU calculations supported by realistic assumptions and projections aligned with financial forecasts derived from achievable and realistic business objectives and business activity levels.

[5] Circular: Credit Union Financial Year End 30 September 2013 – Year End Approach

We also expect credit unions to give careful consideration to appropriate levels of non-earning assets to total assets and plan accordingly.

Operational Risk

It is important for credit unions to develop a sound appreciation for material operational risks arising from significant business activities and how these risks are interrelated.

Risks should be identified and their management embedded within policies, procedures and processes. Operationally it should be possible see where risks are being monitored and reported on and where required, action is being taken to mitigate unacceptable risk.

It was encouraging to find credit unions using risk management software as a management tool. Of these, some were able to articulate an appreciation of the nature of operational risks while others appeared to use software as a compliance tool. While useful, such software facilitates operational productivity rather than a robust process for managing risks.

Generally we found a growing appreciation for and consideration of operational risks. However systems and controls policies, processes and procedures were weak in many credit unions with unstructured risk management notable in outsourced arrangements, business continuity, data management, financial accounting, lending operations and cash management.

Given that IT as a key enabler of business strategy and material business activity, it is an important area for operational risk management focus, particularly in relation to change management, security, data integrity and outsourcing arrangements.

Information technology and systems remains a significant strategic and operational challenge for many credit unions that we found were struggling with developing appropriate risk management systems to oversee and manage material business activity outsourcing arrangements.

Last year, our IT survey found a need for improvement in IT governance and controls across the sector. Communicated last July, the results of the survey are key considerations for credit unions in reviewing the adequacy of their governance and control framework in this area.

In a number of cases we were also concerned to find weaknesses in physical security and fraud prevention practices.

Market Risk and Liquidity Risk

Overall we found a reasonably compliant approach to legal requirements and our investment guidance note and related circulars[6].

However, we found that many credit unions had poor quality investment policies, are overly reliant on external advice and have not established sound risk management systems.

Where credit unions use external investment advisors, their boards should be mindful that responsibility and accountability for investment decisions and risk management cannot be outsourced to third parties.

As with all material risk activities we expect to see an articulation of risk appetite and limits along with effective polices and risk management systems.

Given the high ratio of investments to total assets, investment management competence and capabilities continues to be quite poor particularly when evaluating risk and return.

While there is some margin pressure to achieve higher yields on investments, this may only be achieved within the constraints of our 2006 Guidance Note on Investments and subsequent circulars.

Overall, liquidity management was reasonably sound. Our on-going expectation is that a credit union's asset and liability management (ALM) approach will reflect on the appropriate risk-based liquidity buffers in excess of regulatory minimum requirements.

Insurance risk

Our one observation here relates to the rising cost of member life insurance and the sustainability of levels of coverage. While a discretionary product, the cost of coverage is closely correlated with a credit union's demographic member profile. In many cases rising costs are putting pressure on net margins and ability to generate the surpluses needed to accumulate capital and remunerate savers.

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[6] Liquidity Management and Credit Policy, 13 January 2009
Clarification to Circular re; Liquidity Management and Credit Policy, 6 February 2009
Credit Union Liquidity & Investments, 3 February 2011
Guidance Note on Investments by Credit Unions, 20 June 2011

Summary

As an important next step, we expect boards and management to use this paper to benchmark their credit union's performance against our expected minimum standards. Where necessary they should develop and implement plans to ensure they achieve and maintain the standards required of soundly governed and managed credit unions.

Our principal supervisory objective is to see that credit unions comply with the legal and regulatory framework while developing, achieving and maintaining the sound standards and practices required to ensure the protection of their members' savings and their long term financial stability and resilience.

A credit union's viability and sustainability is dependent on its strategic management capability to execute effective strategies through business models that deliver the value its members expect, while prudently managing risks.

It is of some concern that strategic management capability is a significant sector-wide weakness. We have found that business model challenges and environmental factors adversely impacting credit union business activity, balance sheets and operations are not being adequately responded to.

Consequently, as we consider strategy and business model risk to be too high, we re-emphasise the necessity for strategic thinking and leadership in this crucial area.

Our first cycle of risk-based engagements has provided us with deeper insight into credit union risk characteristics. In particular into the nature of fundamental weaknesses found in many credit unions we assessed and visited – most notably in lending and credit risk activity. As a result they have been required to make considerable improvements to their governance and risk management systems.

During our next cycle of PRISM engagements we anticipate having more developed conversations with boards and management on their credit union's business model and governance and risk management frameworks.

We expect to find our RMP's implemented and we will assess the quality of implementation. As we do not expect to find the weaknesses we found during our first cycle of engagements, significant material shortcomings in or failure of RMP implementation may result in us utilising our regulatory powers to protect members' savings.

Furthermore we expect to find regulatory framework requirements embedded within functions, roles, policies, processes, procedures and structures. These include the functional roles of the board, oversight committee, manager, risk and compliance officers and internal audit.

We also expect to find boards and management developing robust forward-looking risk management frameworks through which they manage risks they are pursuing and are integrating thinking about risk with strategy and business planning.

Throughout our supervision activity we experienced a reasonably positive engagement with our supervisors.

In most cases boards and management considered it a challenging and fair process from which they developed a better understanding of our expectations of sound governance and risk management standards and practices.

They were appreciative of our pragmatic approach which reflects our understanding of the scale of transformation needed as they implement the changes required under the strengthened regulatory framework.

We found that in better governed and managed credit unions, this transformation was well under way.

Committed to achieving and maintaining sound standards and practices, their boards and management had developed and were implementing responsive compliance programmes. These credit unions provide models that others should learn from and emulate.

Our observation is that the sector requires well thought through and effective shared learning and development mechanisms for this to happen.

In this regard we will be supportive of developments aimed at improving standards of sound business practices.

Appendix I 'The Credit Union PRISM process'

Under PRISM, regulated firms are grouped into four separate impact categories. Three of these impact categories currently apply within the credit union sector: Medium High, Medium Low and Low.

For Medium High and Medium Low credit unions our risk-based supervision includes off-site reviews, on-site meetings and 'Full Risk Assessment' engagements through which we assess risk across ten PRISM risk categories.

Our engagement process involves requesting and analysing a significant amount of information from credit unions in preparation for our on-site risk assessment visits. In the course of these we meet with boards, oversight committees and management teams. We expect to engage in productive, forward looking, risk-based dialogue concerning the credit union's significant business activities, material business risks, strategy and business model.

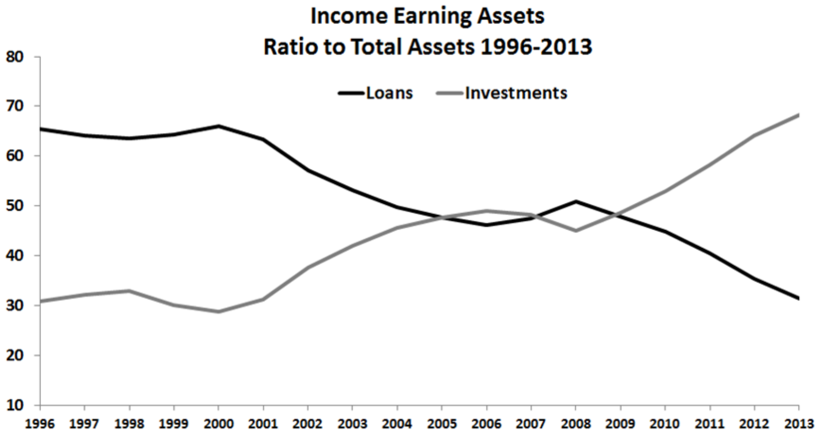
Through this process our supervisors form judgments on the material risks posed and issue credit unions with Risk Mitigation Programmes in which we set out our risk assessment and outline the actions that need to be taken to address any risks we find too high.

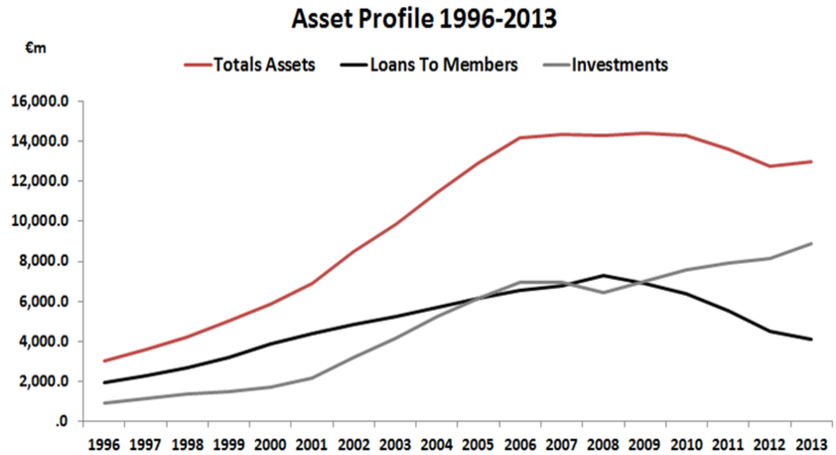
Our expectations of Low impact credit unions are the same as those of their higher impact peers in terms of standards of governance, risk management and compliance appropriate for the scale and complexity of the credit union, and at all times adequate, to effectively protect members' savings and provide and support prudent lending and investment practices.

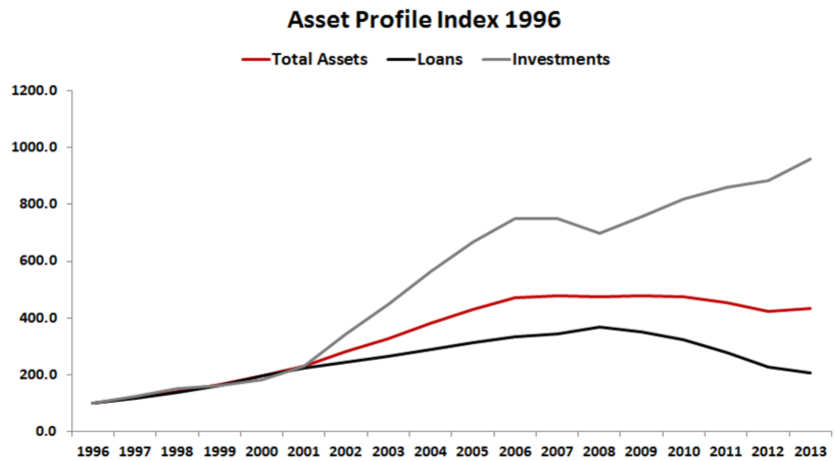
For Low impact credit unions we apply PRISM through off-site monitoring of key financial data and risk indicators. Cognisant of their scale and complexity, our proportionate approach is to adopt a reactive response to issues arising from deterioration in key risk metrics which can necessitate an on-site engagement.

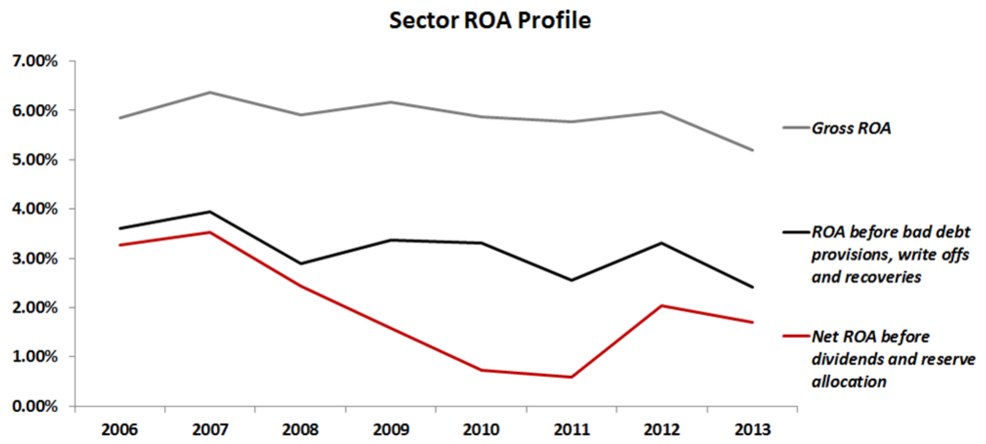
For a more detailed description of PRISM, please visit our website at
http://www.centralbank.ie/regulation/processes/prism/Pages/default.aspx

Appendix II 'Credit Union Sector Asset and ROA Profile'








Sector ROA Profile
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
2006
2007
2008
2009
2010
2011
2012
2013
Gross ROA
ROA before bad debt provisions, write offs and recoveries
Net ROA before dividends and reserve allocation

T +353 1 224 4545 **F** +353 1 224 4209 www.centralbank.ie **rcu@centralbank.ie**

Banc Ceannais na hÉireann
Central Bank of Ireland
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Registry of Credit Unions
Bosca OP 559, Sráid an Dáma, Baile Átha Cliath 2, Éire
PO. Box No 559, Dame Street, Dublin 2, Ireland