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**Financial Institutions under Supervision of the FSC/FSS**

Financial Institutions			Number <sup>a)</sup>
Banks	Commercial Banks	Nationwide Commercial Banks	8
		Regional Banks	6
		Foreign Bank Branches <sup>b)</sup>	40
	Specialized Banks <sup>c)</sup>	3	
	Mutual Savings Banks	110	
	Merchant Bankers Corporations	2	
Non-Bank Financial Institutions	Credit-Specialized Financial Companies	Credit Card Companies	6
		Leasing Companies	20
		Installment Finance Companies	13
		New Technology Venture Capital Companies	9
		<b>Credit Unions</b>	<b>912</b>
Insurance Companies	Life Insurance Companies <sup>d)</sup> Property & Liability Insurance Companies <sup>e)</sup> Insurance Companies <sup>f)</sup> Guarantee Insurance Companies		42
			20
			6
			1
Securities-Related Companies	Securities Companies <sup>g)</sup> Asset Management Companies <sup>h)</sup> Investment Advisory Companies <sup>i)</sup> Future Companies		54
			49
			73
		14	

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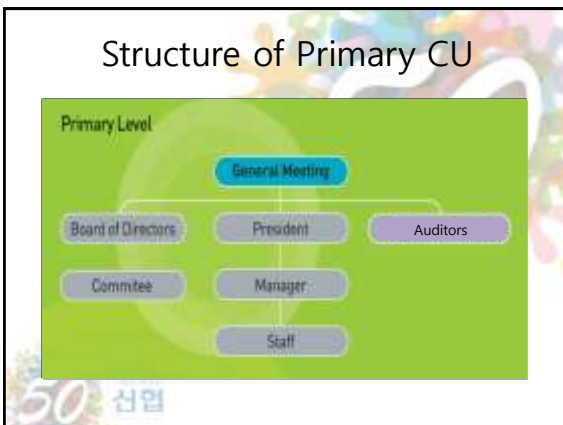
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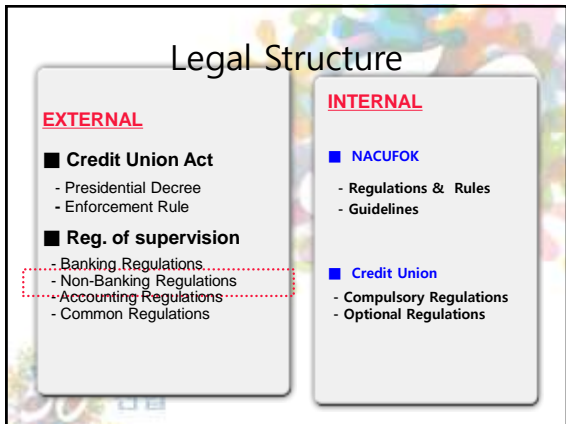
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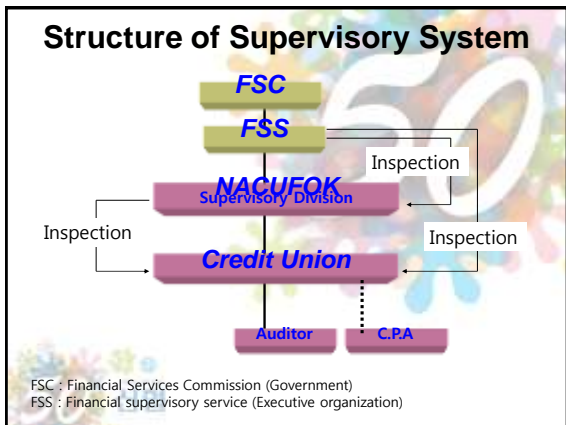
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**FINANCIAL SERVICES COMMISSION**

**Main Responsibilities**

- Deliberation and Resolution of Important Financial Issues
- Guidance and Supervision of the Financial Supervisory Service

**FSC Commissioners**

The Financial Services Commission comprises Chairman, Vice Chairman, Standing Commissioners, and Non-Standing Commissioners. The Commission also includes four ex-officio Commissioners: the Vice Minister of Strategy and Finance, the Deputy Governor of the Bank of Korea, the President of the Korea Deposit Insurance Corporation, and the Governor of the Financial Services Commission.

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 **FINANCIAL SUPERVISORY SERVICE**

The **Financial Supervisory Service** was established on January 2, 1999, under the Act on the Establishment of Financial Supervisory Organizations by bringing together four supervisory bodies- Banking Supervisory Authority, Securities Supervisory Board, Insurance Supervisory Board, and Non-bank Supervisory Authority-into a single supervisory organization.

The **primary function** of the FSS is examination and supervision of financial institutions but can extend to other oversight and enforcement functions as charged by the Financial Services Commission (the former Financial Supervisory Commission) and the Securities and Futures Commission.

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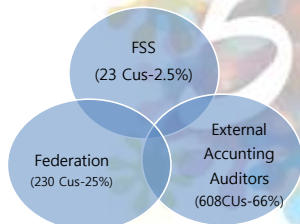
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### External Regulation



-Totally 578 CUs from 920 inspected by External Inspection, 2014  
 -FSS/federation : full scope, not overlapped  
 -External Audit(CPA) : full scope, mainly Accounting.

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### NACUFOK's Authority by CU Act

1. Demand to submit business report
  - to research or inspect soundness in financial structure
2. Administrative disposition (penalty)
  - Re-election, suspension of performance of duties, or censure, in case of an executive;
  - Disciplinary dismissal, suspension from office, salary reduction, censure, in case of an employee
  - Caution or warning, in case of both

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## NACUFOK's Authority by CU Act

### 3. Inspection for CUs business affair

### 4. After analyzing financial state, Recommend a union

- to merge with another union
- take a proper measure to improve financial state for example, disposition of assets, downsizing of its organization ....




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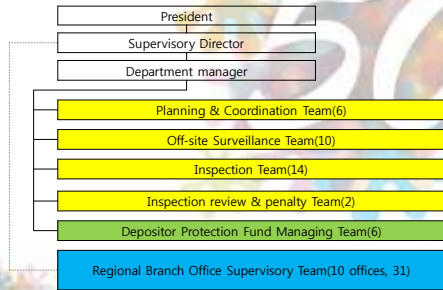
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## Structure of Supervisory System (national Federation's organization)




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## Planning & Coordination Team

- Planning and Coordination
- Licensing
- Controlling unions received PCA




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### Planning & Coordination Team

- **Planning and Coordination**
  - Set up supervisory policy
  - Communicate with FSS or FSC
  - Issue or amend CU by laws
  - Secretarial affairs(personnel, budget)




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### Planning & Coordination Team

- **Licensing**
  - Conduit services for ; establish, merge, dissolution
  - Approval of ; amend articles, open new branch, adjust common bond, subordinated borrowing
  - Fit & Proper control; board members




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### Planning & Coordination Team

- **PCA union control**
  - ① by Review financial indicators, Evaluate management status
  - ② tier: MIRecommendation, MIRequirement, MControl
  - ③ apply different improvement measures from each tier action
- **Administrative job/enrollment or release of PCA**
  - the regional office performs the action
- **Secretarial duties for the Management Evaluation Committee**
  - newly required or recommended & less than 1% unions are subject to financial indicators deteriorated
- **Mornitoring unions received PCA**
  - spot check by regional office : required(semiannually), recommended(annually)
  - control with MOU by supervision department : underperformed unions




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**Off-site Surveillance Team**

- **Monitoring unusual transactions**
- **Managing unions of priority control**
  - unions with static indicators exceeding predefined level
- **Managing unions of secondary control**
  - unions with indicators varying abnormally




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**Off-site Surveillance Team**

- **Monitoring unusual transactions**
  - abnormality,




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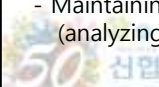
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**Off-site Surveillance Team**

- **Monitoring unusual transactions**
  - Monitoring all transaction in CU
  - Choose suspicious transaction and On-the-spot examination or phone to Auditors or President immediately
  - Educating To prevent money Laundering
  - Inspect for Financial Crime, Moral Hazard (embezzlement...)
  - Maintaining Early Warning system (analyzing financial data for soundness)




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### Off-site Surveillance Team

- Analyze Risk Factor and developing Risk Management System
- Research Financial Crime and moral Hazard
- Publishing case study for financial crime and open and share the experience




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### Inspection planning team

- Set up inspection policy
- Annual inspection Planning
- Issue inspection order
- Manage travelling inspector(contractual)
- Communicate with FSS or FSC




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### Task of each Team

- **Inspection team**
- Scheduled Regular inspection for Unions' Business affair
- Penalty for Violation or negligence for regulation or Law
- Examine for member complaints
- Educating internal auditor




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### Task of each Team

- **Deposit insurance fund team**
- Managing Depositor's Protection Fund




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### Depositor's Protection Fund

- Compulsory Joining System
- Funded from CUs for 0.3% per total deposits (Annually).
- FY 2014. approximately 155million dollars from CUs
- Guarantee Members Deposit up to \$ 50,000 in case of CU bankruptcy
- Also using for Subsidies for Merge CU
- Federation claim damage to Boards & employees
- Federation Accuse Boards & employees to the Prosecutor's Office




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**Others:**

### Service for internal Auditor

- On the job Training
- Regular Curriculum in Federation's Training Center(a times two years.)
  - compulsory to attend once a 4-year-term
- Regional Branch's regular introduction program annually(1 days)
- Distribute Auditing Manual
- Distribute research report for case study for important supervisory issue




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### Management Status Analysis & Evaluation

- Normal CU
- Improvement Recommendation
- Improvement Requirement
- Management Control
- Bankruptcy




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### Management Status Analysis & Evaluation

- Normal CU
- Improvement Recommendation
- Improvement Requirement
- Management Control
- Re-open, Bankruptcy

- Net capital ratio is Less than 2%
- Total Grade is better than 3, but Capital Adequacy or Asset Quality is under 4.



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### Financial Status Improvement Recommendation

1. Improvement in personnel management and organizational operation;
2. Enhancement in the efficiency of business offices especially branch office, Cost reduction;
3. Disposal of risky assets and fixed assets;
4. Increase or decrease in investment;
5. Restriction on distribution of dividends; and
6. Recommendation of merger.

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### Management Status Analysis & Evaluation

Normal CU


Improvement Recommendation

Improvement Requirement

Management Control

Bankruptcy

- Net capital ratio is Less than -3%
- Total Grade is 4 or 5.



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### Financial Status Improvement Requirement

1. Request for merger;
2. Restriction on holding risky assets and disposal of such assets;
3. Downsizing of organization and manpower; Closure, consolidation or restriction on opening of new branch offices;
4. Restriction on the level of interest applicable to deposits;
5. Request for improvement of executives

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### Management Status Analysis & Evaluation

Normal CU


Improvement Recommendation

Improvement Requirement

Management Control

Bankruptcy

- Net capital ratio is Less than -15%
- Consequence of large scale financial accident(s) or non-performing loans.



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### Consequence of the management control

- re-open
  1. Self-effort
  2. Federation's fund support
  3. Merger
- Bankruptcy



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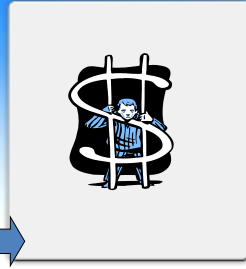
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### Management Status Analysis & Evaluation

- Normal CU
- Improvement Recommendation
- Improvement Requirement
- Management Control
- Bankruptcy



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# Thank you!!



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