

Credit Union Growing to New Heights: Better Choices, Better Organization; Better Community



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- Profitable business operation

Credit Unions in Korea

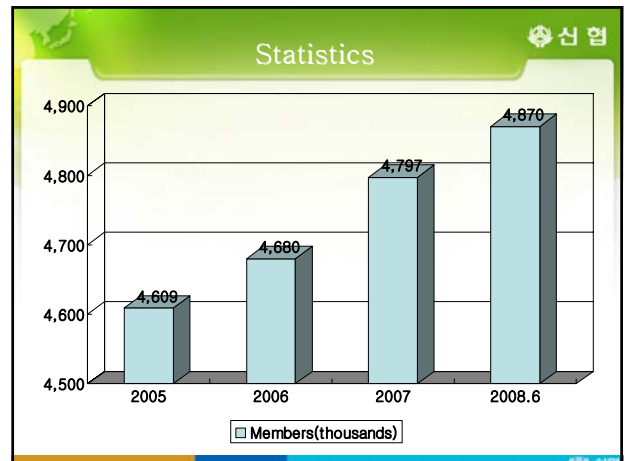
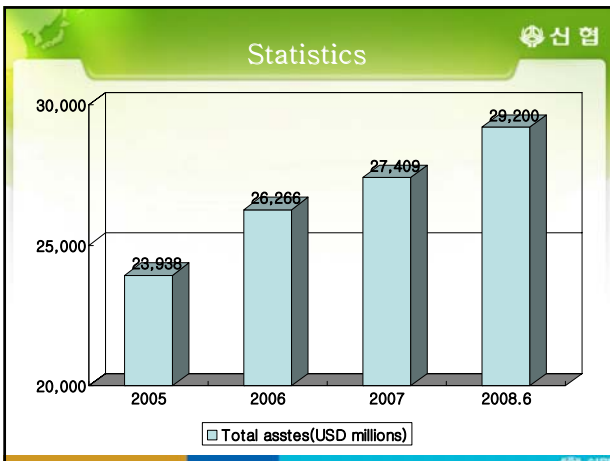
- The statistics
- The organization of primary CUs
- The business operation of primary CUs

Statistics

- 1,000 credit unions
- Total assets – USD 29 billions
- 4.9 millions credit union members
- Statistics on common bond
 - Communities: 666 CUs(66%), USD 22.8 billions(83%)
 - Employees: 183 CUs(18%), USD 2.1 billions(7%)
 - Associations/groups: 159 CUs(16%), USD 2.6 billions(10%)



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The organization of primary CU

- 1. Annual general meeting**
 - Made up of members
 - Called once a year by the chairman of credit union
 - Resolutions – the change of bylaws, approval of the annual budget, the appointment or dismissal of the board
- 2. The BOD meeting**
 - 5-9 members
 - Chairman, the board members
 - Resolutions – amendment of each CU's articles & provisions, the loan limit, suggestions to the AGM

The organization of primary CU

- 3. The audit**
 - 2 or 3 elected auditors
 - Financial audit once a quarter year
 - Report to AGM, BOD meeting
- 4. The chairman**
 - Elected in the AGM
 - Representative of each credit union
 - Business operation
- 5. CEO**
 - Appointed by the chairman
 - Eligible only for a person who passed the NACUFOK qualifying exam

Primary CU operation

1. Loans
2. Savings & deposits
3. E-finance
4. Business tie-up

Loans

- o Credit line(limit) per each member
 - 1% of asset in CU, or 10% of equity capital
 - Maximum: USD 500,000
 - Credit loan: USD 80,000
 - Loan linked with NACUFOK : USD 2.3 millions
- o Limitation
 - Loan To Value ratio(LTV) : within 70%
 - Debt to Income ratio(DTI) : within 40%
 - Nonmembers : within 30% of new loan

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Loans

- Risk management system
 - Credit Scoring System
 - Estimation & valuation
 - The judge for loaning: eligible only for those who passed NACUFOK exam of qualifications, and every CU should have those qualified
- The interest rates
 - A loan on real property : 6 ~ 8%
 - A loan on credit : 7 ~ 10%

Savings & deposits

- Types of savings & deposits
 - A demand deposit
 - A fixed deposit
 - An installment savings deposit
 - An share account(to be a member)
- The interest rates
 - A demand deposit : around 1%
 - Fixed deposit & installment savings: around 6% (basis on a year)

Savings & deposits

- Benefits of a tax exemption
 - The tax rate of income from interest : 15.4%
 - The maximum limit for the tax exemption
 - Fixed & installment deposits: USD 20,000
 - Shares account: USD 10,000
- Door to door financial service
 - Visiting retail shop owners
 - Savings & deposits, interest of loans

remittance service to other banks

- Service availability
 - Every bank all over the nation(Korea)
- Services in detail
 - Cash
 - Transfer to other accounts
 - Automatic transfer
 - GIRO(Transfer system with computers)
 - Cash management service(CMS)

E-Finance

- Using credit union standard program
- Tele Banking, Internet Banking
- Internet insurance
- Cash dispenser, Automated Teller Machine
- VAN (value-added network)
 - Credit card payment
 - Money transfer
 - Checks on transactions & the balance
 - Checking the dishonored checks

Business tie-up

- An agency business for insurance sales
- An agency business for issuing credit cards
- An agency for funeral business
- An agency business for fund sales(2009)

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1. The History Of NACUFOK

A. The quickening period

- 1960 ~ 1972
- Started the establishment
- Faced with financial difficulties

B. The settlement period

- 1972 ~ 1982
- The Credit Union Act was promulgated
- Approved as a corporate by the Minister of Finance

C. The Suffering

- 1982 ~ 1988
- Frequent Accidents
- The Government's Intervention

1. The History Of NACUFOK

D. Upheaval & Growth

- 1989 ~ 1999
- A Rapid Increase on the assets
- Harsh Restructuring
- Reorganization : secondary -> tertiary -> secondary

E. The Consolidation

- 2000 ~ present
- On-line with other financial Institutions
- Electronic financial services
- Issued check & debit card(check card)
- Real time supervisory & Inspection system

A. The quickening period -KCUL

a. Social Background

- An increase in the destitute class after The Korean War
- A need of credit union for Social, economic development
- An establishment of the first primary credit union in 1961
- The necessity of Systemized guidance & operation proposed
- Naturally Head-office & Credit union Act needed

b. Korean Credit Union League

- Established in 1964
- April, 1964 : Promoter Meeting(13 representatives)
Founding Meeting(51 chairmen out of 63 attended)
- June 1970 : decided to make a corporation in the general meeting
- Sep. 1971 : Approved as a 'corporate KCUL'

A. The quickening period -KCUL

c. Resolutions in the first meeting

- Adoption of the Articles
- Named as Korean Credit Union League
- KCUL start-up fee : USD 20 cent
- KCUL annual membership fee : 2% of the net profit
- Election of the first board

d. Major roles in KCUL

- New establishment of primary credit unions
- The inspection for sound finance
- Education on the business
- Research & public relations
- Governmental Relations, International Relations
- business with surplus fund
[USD 230 invested in 23 Primary Cus, Since 1970]
- Insurance business
- Replenishment : 18 kinds of office supplies

A. The quickening period -KCUL

e. The organization

- AGM : business plan, voting for budget & the board
- BOD meeting : giving the admission to primary CUs, approval for regional council, particulars etc.
- Supervisory Committee : group of 5, on the operations
- Guidance Committee: Research & operation on Guidance, by BOD
- Regional Council : supervision under the Guidance Committee

f. Obstacles against the financial independence

- Low payment rate
 - 1964 : 4 out of 82
 - 1967 : 16 out of 228
 - 1969 : 64 out of 327
 - (130 CUs under obligation, total amount : USD 700)
- 80% of the budget supported by others
 - The Korean Government, Korea Relief Work Committee
 - Asian Foundation, CUNA, Catholic Foundation

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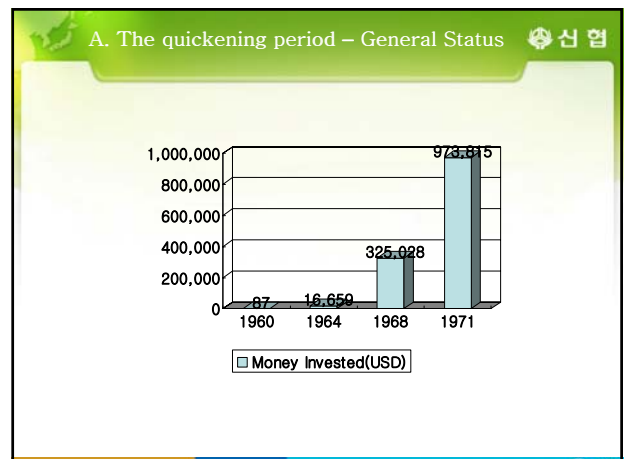
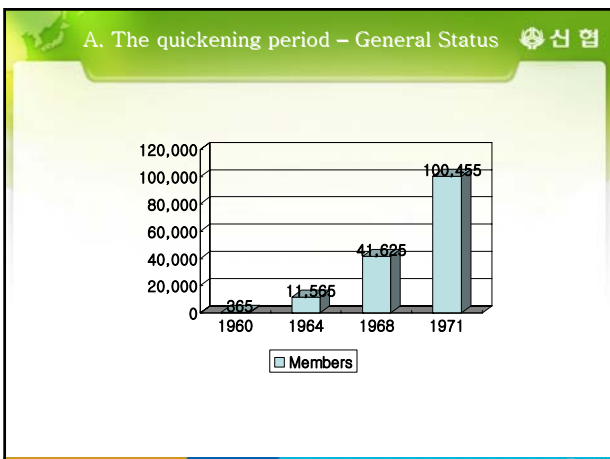
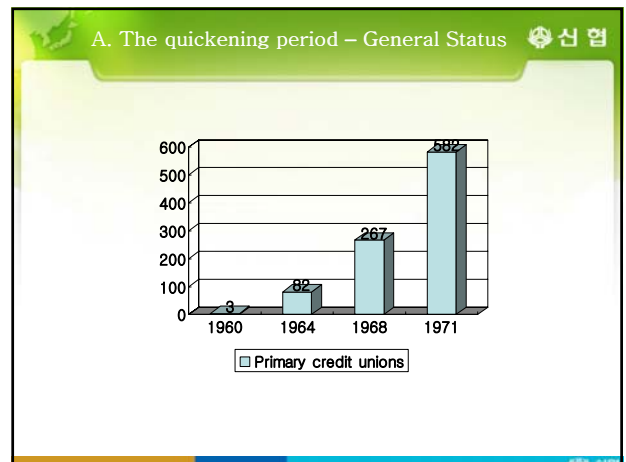
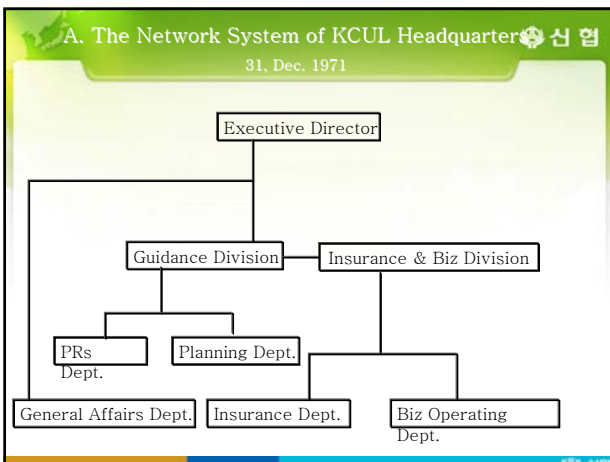
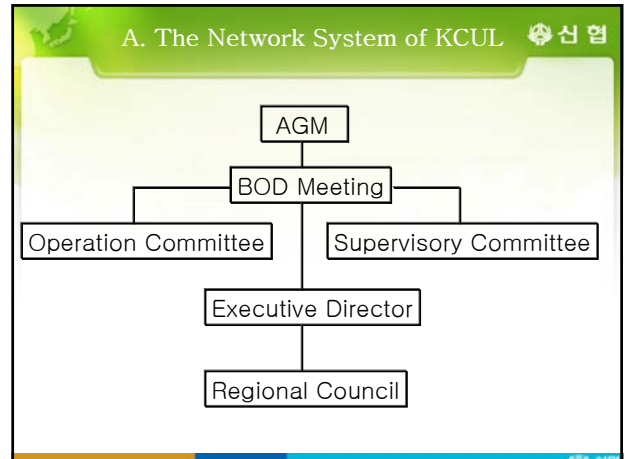
A. The quickening period -KCUL

g. Efforts for the financial independence


- Started business operating in 1971
- Started insurance business in 1972
- Collection of contributions for head-office building since 1973
- Donations by members, German Misereor Foundation

h. The increase in the amount of membership payment

- 1965 : 0% (USD 960)
- 1970 : 15% (USD 2,700)
- 1975 : 50% (USD 30,912)
- 1980 : 90% (USD 421,338)



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B. The settlement period 

a. The Credit Union Act, promulgated


- 1972, became an authorized financial institution
- Started the government's control

b. Approved as a corporate

- Since December, 1972
- 248 primary CUs by the Ministry of Finance

c. The founding of KCUL Corp

- March, 1973
- Founding meeting of KCUL Corp.
- 277 authorized Primary CUs attended

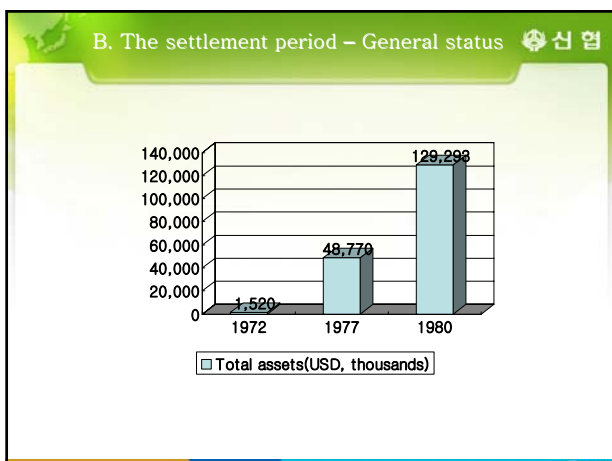
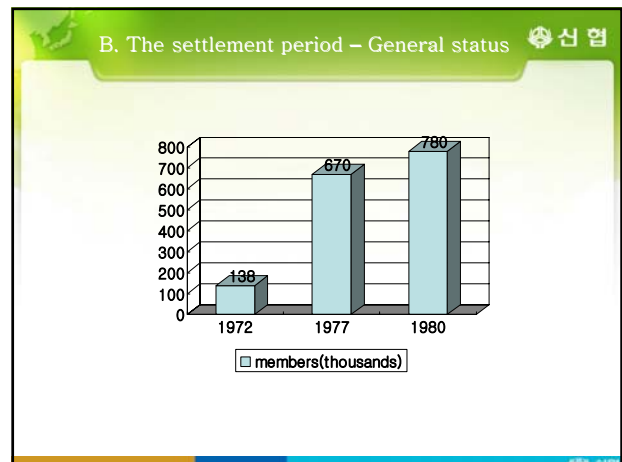
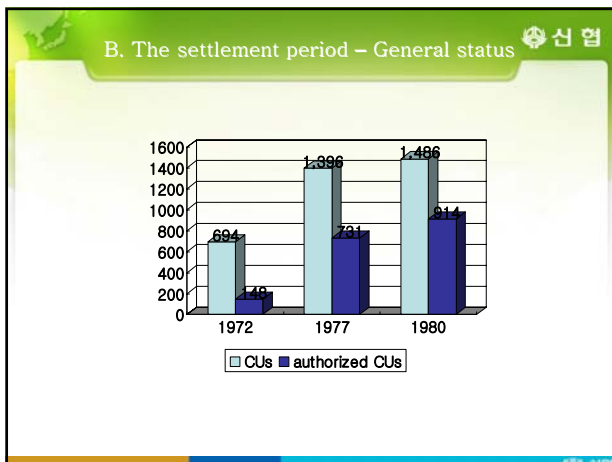
B. The settlement period 


d. The government's support

- Promoting credit union movement by Credit Union Acts
- Fostering credit unions for petty loans for the working classes
- Providing tax relief
 - a corporate tax exemption(1971)
 - an income(from the interest) tax exemption (1973)

e. Wide-spreading

- CU Dept. established in the Ministry of Finance(1972)
- The Ministry of Finance encouraged Employees CU(1974)
 - CUs in Bank of Korea, banks, stock companies, insurers(1976)
 - CUs in relevant authorities of the government (1977)
- The 20th anniversary : 1,486 CUs(970 authorized), 0.8 million members, USD 1 billion
- A contract with CUNA Mutual Group(1974)
- Built the NACUFOK training center



C. The suffering period 

a. Soaring authorized CUs

- 1983, 190 CUs authorized
- 1983, reached 1 million members
- 1986, reached USD 1 billion USD in total assets

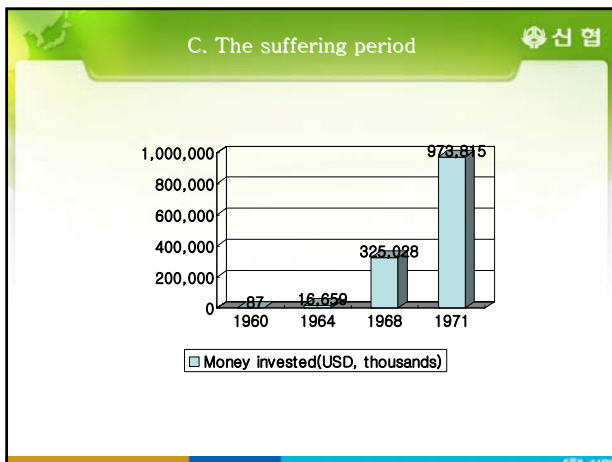
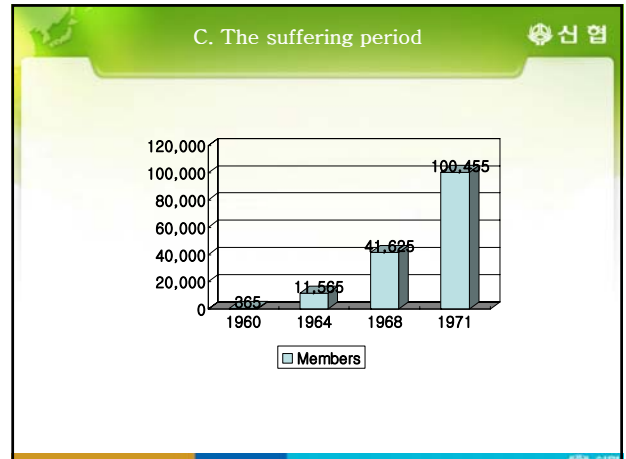
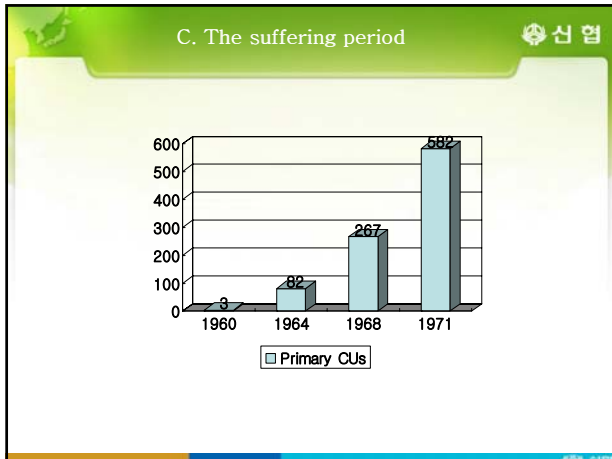
b. Failed in regulation & supervision

- Frequent financial incidents with indiscreet permissions
- 1984, direct inspections by Bank Supervisory Service(84CUs)
- 1985, Government's intervention returned -> 1987, credit control

c. Restoration

- 1984, Started depositors protection system
- Enhanced guidance : restructuring of unauthorized CUs
- Enhanced Supervision : 500 CUs inspected each year
- 1988, Credit union technical College course

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Present status of NACUFOK

The operation & the organization

2. The Present Status of NACUFOK

1. Main purpose

- Supervision on each credit union's operation
- Supporting the sound development
- Promotion of the common benefit

2. Membership

- Compulsory duty to join NACUFOK
- Need to have more than 1 shares account with USD 500

3. Fees

- Assessment in the AGM
- 2008 : 0.714/1,000 * live assets(loan+ investment+ deposit)
- Total Annual Fees in 2008 : 10 million USD

2. The Present Status of NACUFOK

4. Finance raising

Expenditure(USD, millions)		Revenues(USD, millions)	
Total Budget	56	Membership fee	10
Labor cost	27	IT development fee	6.5
PR & Marketing	5	Business Operating fee	10
Supporting & supervision	8	Insurance Business	22
Management Expenses	16	Registration Fee	7.5

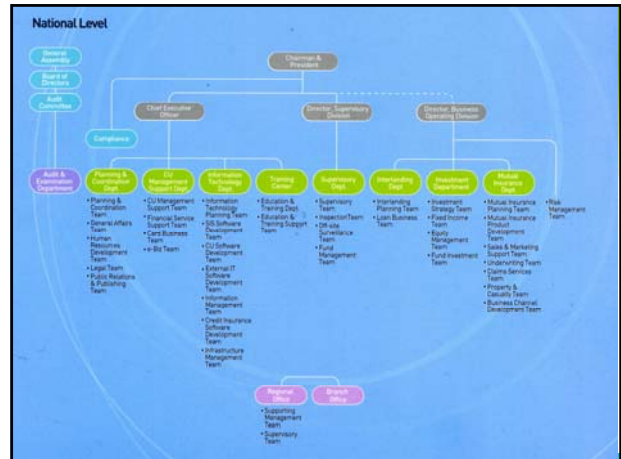
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2. The Present Status of NACUFOK

※ Different types of fees

Classification	ratio	%	Total assets(\$)	Amount(\$)
Membership Fee	0.714/1,000	0.0714	10,000,000	7,140
IT system Supporting Fee	0.48/1,000	0.048	10,000,000	4,800
Depositors Protection Fee	40/10,000	0.4	10,000,000	40,000

Imposed by: Live assets of each(=loaned money+ money on deposit + money on investment-deposit on NACUFOK*2)



A. The organization

- 1. AGM**
 - Consists of Chairmen of each credit union
 - Called by the NACUFOK president once a year
 - Resolutions – Amendment of Articles, assessment of fees, approval of business plan, The board appointment
- 2. Representative Conference**
 - Consists of 200 representatives
 - Substitute of AGM
 - More important than the AGM
- 3. The board(21)**
 - NACUFOK president & every director
 - Resolutions – Amendment of Articles & provision, The loan limit, Suggestions to AGM

A. The organization

- 4. Supervisory Committee**
 - 2 expert directors + 1 elected director
 - Supervision on NACUFOK operation
 - Financial audit
 - Once a quarter year -> report to AGM, BOD meeting

B. The board members

- 1. Personnel organization**
 - Permanent members – president, supervisory director, business operating director
 - Elected directors – 15 from CU members & chairmen
 - Expert directors – 3 outside directors
- 2. The election**
 - Election in the AGM
 - A term of membership – 4 years, two times (if reelected)
- 3. The job specification**
 - President – NACUFOK representative, superintendence
 - Business operating director – complete charge of business & insurance
 - Supervisory director – Complete charge of supervision

The NACUFOK operation



➡ Various kinds of supports

3. The NACUFOK Operation

- Supervisory system
- Depositors protection fund
- CU management support
- Supervisory system
- Profitable business
- Etes

A. The supervisory system

- Supervision on insolvent operation & financial accident
 - Policy making for inspections
 - Research on the operation
 - [Recommendations for management]
 - [Superintendence on financial statement]
 - Inspections & punishments
 - Real time transaction checkup (7 items)
 - Training for risk management

A. The supervisory system

- Permission & approval
 - Incorporate, M&A, and withdrawal
 - Bylaws change, branch office, and an over loan
- Cooperation with other supervisory service
- Depositor protection system
 - Raising fund & operation
 - Subrogation payment & support

A. The supervisory system

※ Research & Valuation on the business

- To find out sound financial structure
- Evaluation items
 - Net assets proportion
 - Insolvent loans proportion
 - Risk management ability: self control, business operation
 - High profitability: ROA, Return on assets
 - Liquidity: Current ratio

A. The supervisory system

※ Research & Valuation on the business

- Grading levels
 - The level one: Excellent
 - The level two: Fine
 - The level three: Good
 - The level four: Vulnerable
 - The level five: Dangerous

A. The supervisory system


※ Measures based on the research

- Advisable states
 - Under 2% of the net assets proportion
 - Under level 4 on net assets & insolvent loans
 - In danger of a big time financial accident
- To do list under advisable states
 - Improvements on the organizational operation
 - Curtailment of expenditure
 - Disposal of hazardous assets
 - Restrictions on dividends
 - Considering M&A with another CU

A. The supervisory system 


※ Measures based on the research

- Demandable states
 - Under 3% of the net assets proportion
 - Under level 4 on total research
 - Failure to keep the promise on improvements
- To do list under demandable states
 - Demand for M&A
 - Reduction on branch offices, manpower, the organization
 - Restrictions on the interest rates
 - Warning to the board

A. The supervisory system 


※ Measures based on the research

- Presenting a report on improvements
 - Demands & advice should be reflected in the report
 - Need to get an approval by NACUFOK president in a month
 - A performance report should be sent once a quarter year
 - Compulsory duty of NACUFOK to check them & direct them
 - Deadline: 1 through 2 years
- If they are not following NACUFOK
 - Reporting to the head of Financial Supervisory Service → inspection → a forcible execution

A. The supervisory system 


※ Measures based on the research

- Target credit unions
 - In danger of total capital impairment
 - Impossible to be normalized by self-effort(with a huge loss)
 - Under impending bankruptcy
 - Under minus 15% of the net assets proportion
 - Suggested by the NACUFOK president

A. The supervisory system 


※ Measures based on the research

- The management for those target credit unions
 - A suspension of the payment of the debts
 - A suspension of the board members' activities
 - A supervision in detail
 - A bankruptcy will be confirmed if
 - : could not make the full payment of the debts by the CU itself
 - : could not find any other M&A candidate credit union
 - : could not be normal even with NACUFOK support in 3 years

A. The supervisory system 

The supervision in details


1. Internal Self-control System
2. Supervision by NACUFOK
3. Supervision by Financial Supervisory Service(FSS)
4. The Current Statistical Data

A. The supervisory system 

1. Internal self-control system

a. Internal Supervision (Duties of Supervisors)

- At least once every quarter
- Periodic supervision of the credit union's business and operations, asset condition, accounting books and documents, etc.
- Reporting the result of each quarterly auditing to the BOD.
- Reporting the annual report, which integrates the quarterly reports, to the General Meeting


A. The supervisory system 

1. Internal self-control system

b. Daily Supervision

- Checking observance of the criteria for internal rules


(Purpose : Preventing financial incidents)

A. The supervisory system 

2. Supervision by NACUFOK

a. On-site Examination


- Total Examination : Periodical and general onsite examination
- Partial Examination : Special on-site examination concerning public grievance, operating cash, and so on

A. The supervisory system 

2. Supervision by NACUFOK

b. Off-site Examination

- Monthly Report Analysis: Off-site examination on the basis of monthly report, business analysis, and risk estimation.
- Off-site Surveillance : To identify any problematic CUs or any weaknesses in CUs' management through an real-time analysis of a report by on-line network system and minimize the loss.

A. The supervisory system 


3. Supervision by Financial Supervisory Service(FSS)

a. On-site Examination

- Total Examination : Periodical and general on-site examination
- Partial Examination : Special on-site examination concerning public grievance, operating cash, and so on


b. Off-site Examination

- Monthly Report Analysis: Off-site examination on the basis of monthly report

A. The supervisory system 

4. The Current Statistical Data

Year	NACUFOK		FSS		Total CUs	Ratio
	Total Exam.	Partial Exam.	Total Exam.	Partial Exam.		
2004	301	598	5	136	1,040	98%
2005	250	1,152	7	131	1,540	147%
2006	200	845	4	145	1,194	117%

A. The supervisory system 

4. The Current Statistical Data in 2007

Supervisory types	CUs inspected	Special Features
Overall	250	o supervisions in general (for preventions)
Section	842	o Only concerned about the special target sections
Special	39	o Random sampling among important issues
Accident prevention	81	o suspicious of fraudulent accounts & transactions
Deceptive accounting	19	o Based on the fraudulent accounting report
OJT	61	On the job training, working together with CU
FSS	102	o 4 overall, 98 section supervisions

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A. The supervisory system

4. The Current Statistical Data in 2007

Results	Numbers
Accidents discovered	38
Punishments given	696 people, 197 CUs

B. Depositors protection system

- The main purpose
 - Guarantee for credit union members
 - Support the M&A with an insolvent credit unions
- Security limit – USD 50,000 per each person
- Compulsory duty to join this fund
- Raising fund & operation
 - Total amount of the fund – USD 500 millions
 - Annual fees : 4/1,000 of the balance of deposits
 - Borrowed money from NACUFOK & government, donation

C. CU management support

- Setting up the business strategy
- Business consulting for CUs
- brand-new financial products
- Guidance for the interest rate
- Statistical analysis, R & D
- Qualifying examination
- Guidance for the Biz operation

D. Laws, bylaws, and rules

Classification	Specifications
15 Laws & regulations	Credit union laws, bylaws, rules for an election of the board, general biz operation, financial biz operation
25 guides & Standards	Standards for 'prevention of an accident', 'the appointment or the dismissal of a general manager', 'management of the board election', 'qualifying examination for financial service'
14 compulsory regulations	Loan & Deposit, the expenses for the board, the payment for permanent chairmen in CUs, an audit, personal reference, a contract, etc.
16 voluntary regulations	Personnel management, service, staff organization, wages, and management of BOD meeting

E. Support for financial tie-up

- Monetary payment Biz
- Issuing credit card & debit card
- VAN(value-added network)
 - credit card payment
 - transfer & remittance
 - Reference to transaction
 - Checking the dishonored checks
- E – Business(Internet shopping mall)

F. Public Relations

- Public relations through the mass media
 - More frequent press reporting
 - More frequent broadcasting
- TV & newspaper advertisement
- Publication – Monthly magazine for VIP credit union members
- Promoting PRs in primary credit unions
 - Designing advertisement tools
 - Promoting CUs with regional festivals

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G. Education & training

- NACUFOK training center [52,000 sq(centiares)]
 - 30 courses for employees & members
 - Two year's credit union college course
 - Home study, Cyber education
 - Academic-industrial cooperation course
 - Giving a lease on NACUFOK facilities
- Educations by each regional office
 - The education on inspection for staff in charge
 - The education on practical affairs

H. The support for IT

- Software development
 - One & only standard software
 - Online with other banks
 - Internet banking, telebanking
 - Internet insurance
 - Cash Dispenser, Automated Teller Machine
 - VAN, credit card
 - GIRO, CMS(public charge transfer)
 - NACUFOK Biz operation & insurance
 - NACUFOK general management

H. The support for IT

- Devising IT strategies for NACUFOK & CUs
- Service guarantee
 - Operating a call center
 - Field support
- A development of Next generation project
 - All in one consolidated system
 - Only on-line deposits ledgers right now

H. The support for IT

- A development of Next generation project (continues on the previous page)
 - With the new project, NACUFOK will be able to have
 - all the ledgers from every CU in NACUFOK server
 - Stronger real time inspection
 - The expenditure reduction (on server control)
 - An amount invested : USD 10 millions
 - Development took 25 months

I. Social contributions

- Social welfare
 - Day care centers, asylums for the aged
 - Free meal service
 - Fitness centers, past-time classes
 - Wedding halls, reading rooms, public baths
- Educational work
 - Scholarships
 - Community colleges for women, the old & young
- direct transactions between urban & rurals

J. The insurance business

- NACUFOK
 - Offering Insurance products
 - Investigation of contracts
 - Payment, settling affairs
 - Promoting sales
 - Sales under direct management
 - Tele-Marketing business
 - Technical cooperation with CUNA - Mutual
- Primary credit unions
 - Insurance sales -> revenues with commissions

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J. The insurance business

Insurance business	Amount
Total assets	USD 1.3 billions
Income of insurance fees	USD 280 millions
Paid insurance fees	USD 150 millions
New contracts	250,000
Holding contracts	710,000
Net profit in the insurance	USD 22 millions * See the below

(dividends to contractor: 17.5 millions, net profit for NACUFOK: 4.5 millions)

- ### K. Business operation
- Depositing surplus fund from CUs
 - The fixed deposit(an annual interest of 5.8%)
 - The operating fund deposit(an annual interest of 3.0%)
 - A Reserve for deposit: 5% of the total savings and installment deposits balance as of the end of the preceding month(an annual interest of 2.5%)
 - Loans to primary credit unions
 - Loans to members(USD 2.3 millions per each)
 - Investment with surplus fund- bonds, stocks
 - an issue of check

K. Business operation

Savings & deposits	Amount
Total amount	USD 5.3 billions
Demand deposits	USD 480 millions
Fixed deposits	USD 3.4 billions
Reserve for exchange	USD 1.2 billions
Security deposits	USD 270 millions

K. Business operation

Banking capital	Amount
Loans to CU	USD 805 millions
Bond loan to members	USD 82 millions
Stock	USD 180 millions
Bond	USD 2.6 billions
Fund	USD 1.38 billions
Current assets	USD 294 millions

- ### L. Regional Offices
- 10 regional offices around the country
 - Main functions
 - Management support in the district area
 - Supervision on the primary credit unions
 - Promoting insurance sales
 - Promoting fee income business