

Korean Credit Union Experience

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National credit union federation of Korea

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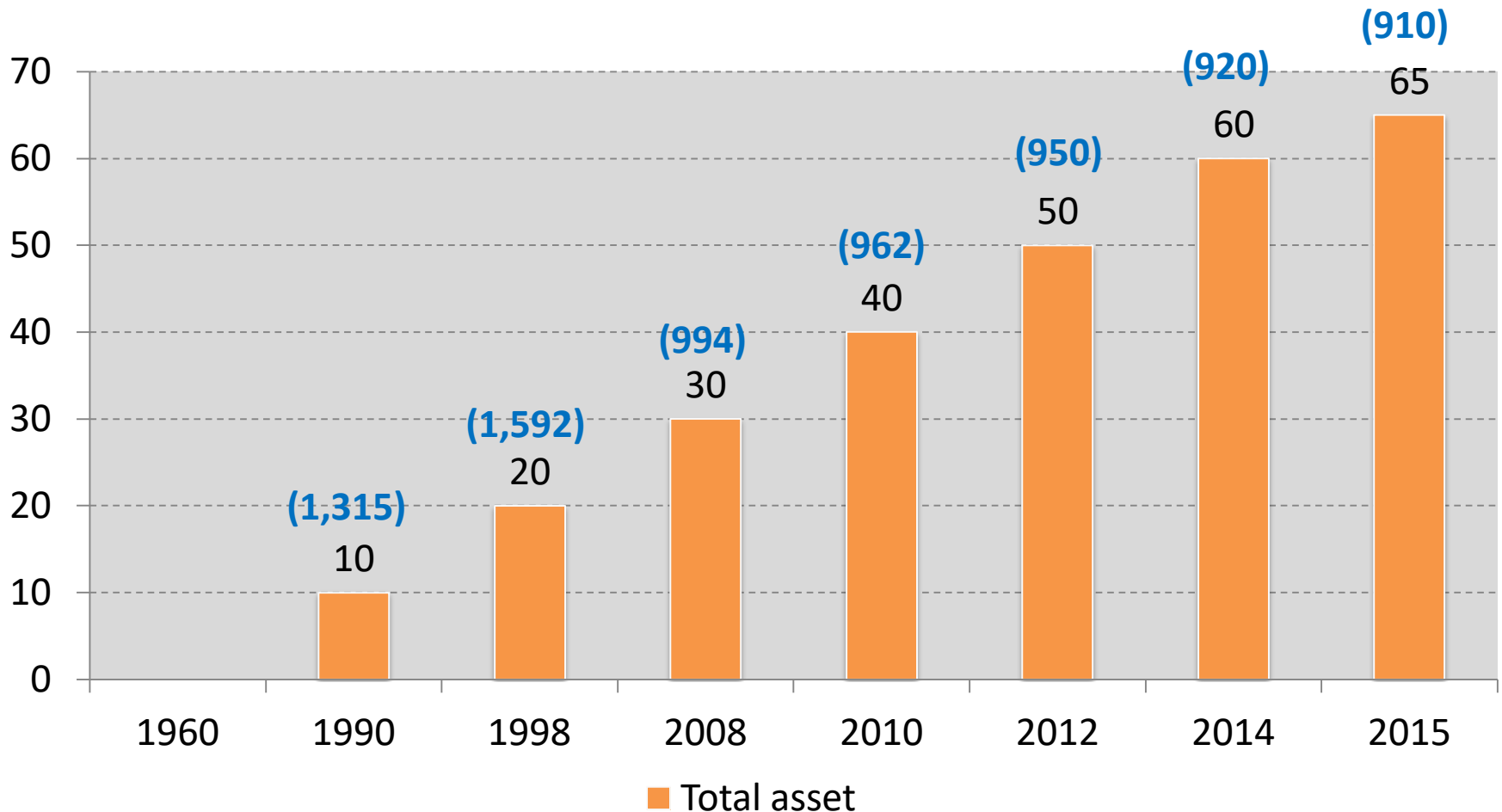
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Growth of CU Movement

- **Total asset** - (Unit : billion US\$)
(Number of CU)



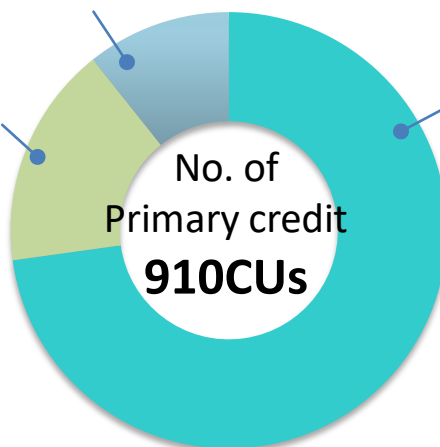
Statistic base on Common Bond

(as of 2015.12.31)

group/association 94CUs 10.7%

employees 150CUs 16.5%

community 666CUs 72.8%

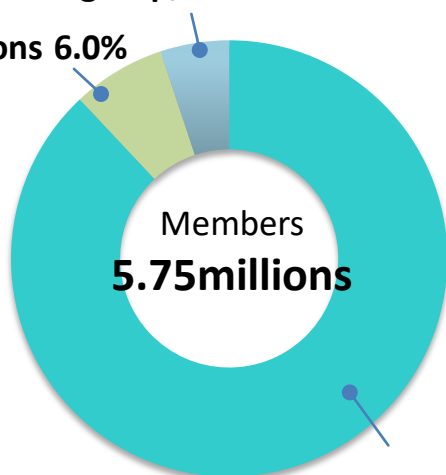


group/association 0.32millions 5.9%

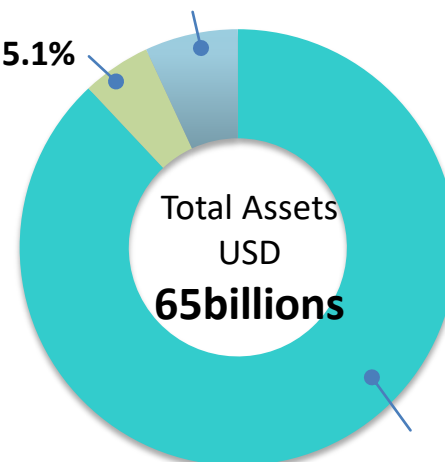
employees 0.34millions 6.0%

employees 3.2billions 5.1%

group/association 4.1billions 6.9%

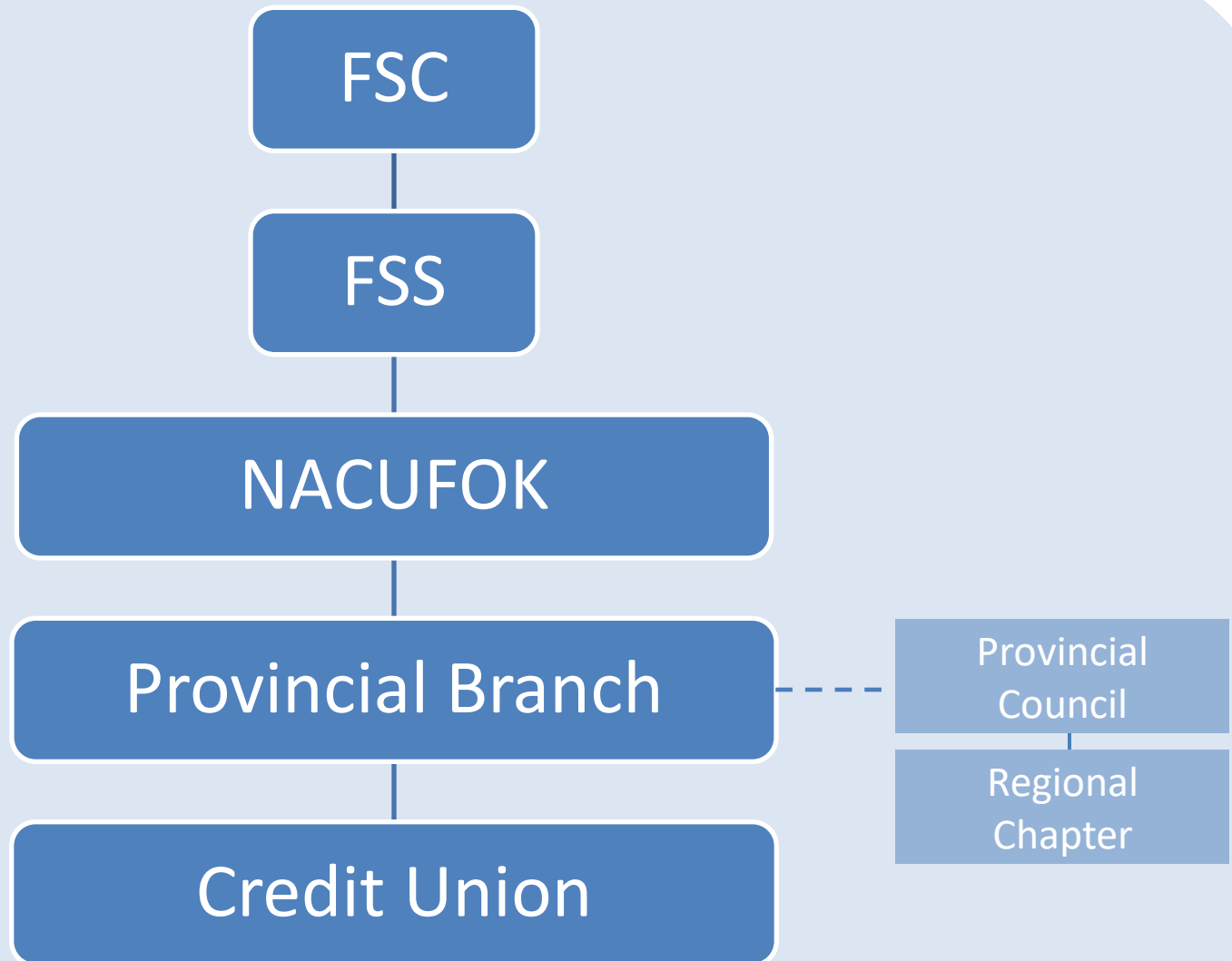


community 5.09millions 88.1%

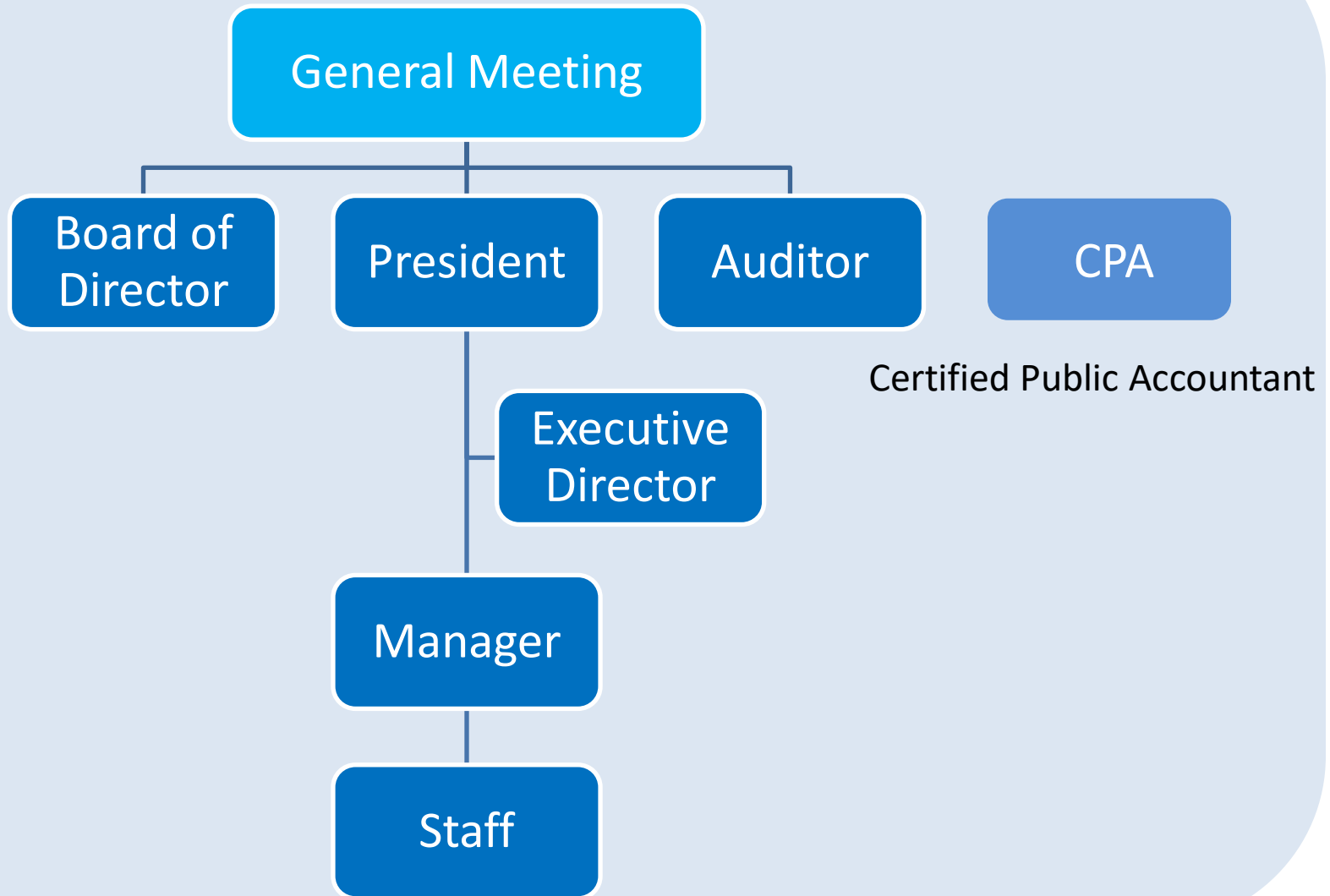


community 58.2billions 88.0%

Structure of CU System



Structure of Primary CU



Roles of Organ

General Meeting

- Composed of the union members
(Could be held with more than 251 members in the case the CU's individual member is more than 500)
- Amendments of the Articles of Bylaws
- Election of president/directors
- Approval of the annual report
- Approval business plans & annual budget

Roles of Organ

Board of Directors

- Elected in General Meeting, 4 years term
- Five to nine directors
(the specific number resolved in General Meeting, written in articles of Bylaws)
- Decisions on important matters not covered by the General Meeting
- Enactments or amendment of regulations
- Setting up of guidelines for business execution

Roles of Organ

President
or
Chairman

- Be responsible for running of CU and representing CU
- Elected by members in General Meeting
- Chairperson in General Meeting & Board Meeting
- Takes charge of general matters pertaining to CU's general activities
- Term of 4 years
- Re-elected consecutively only 3 times (after 3 terms no qualification)

Roles of Organ

Executive
Director,
Supervisory
Director

1. Standing director for financial business
(banking business & insurance business)
 - 4years term
 - Be elected in General Meeting through the recommendation of the Board
 - Qualification
 - Working career in CU, NACUFOK, Government financial agency or financial research institution
2. Standing supervisory director
 - Qualification is same to financial service director

Criteria on the position of the Director

| Total Asset | President & Chairperson | Standing Director |
|------------------------|---|-------------------|
| Less than 30 billion | Voluntary | No |
| 30 billion~150 billion | Standing President or Executive Director | |
| More than 150 billion | Standing President or Executive Director Standing President and Executive Director | |
| More than 200 billion | Same to above Standing Supervisory Director | |

Roles of Organ

Auditor

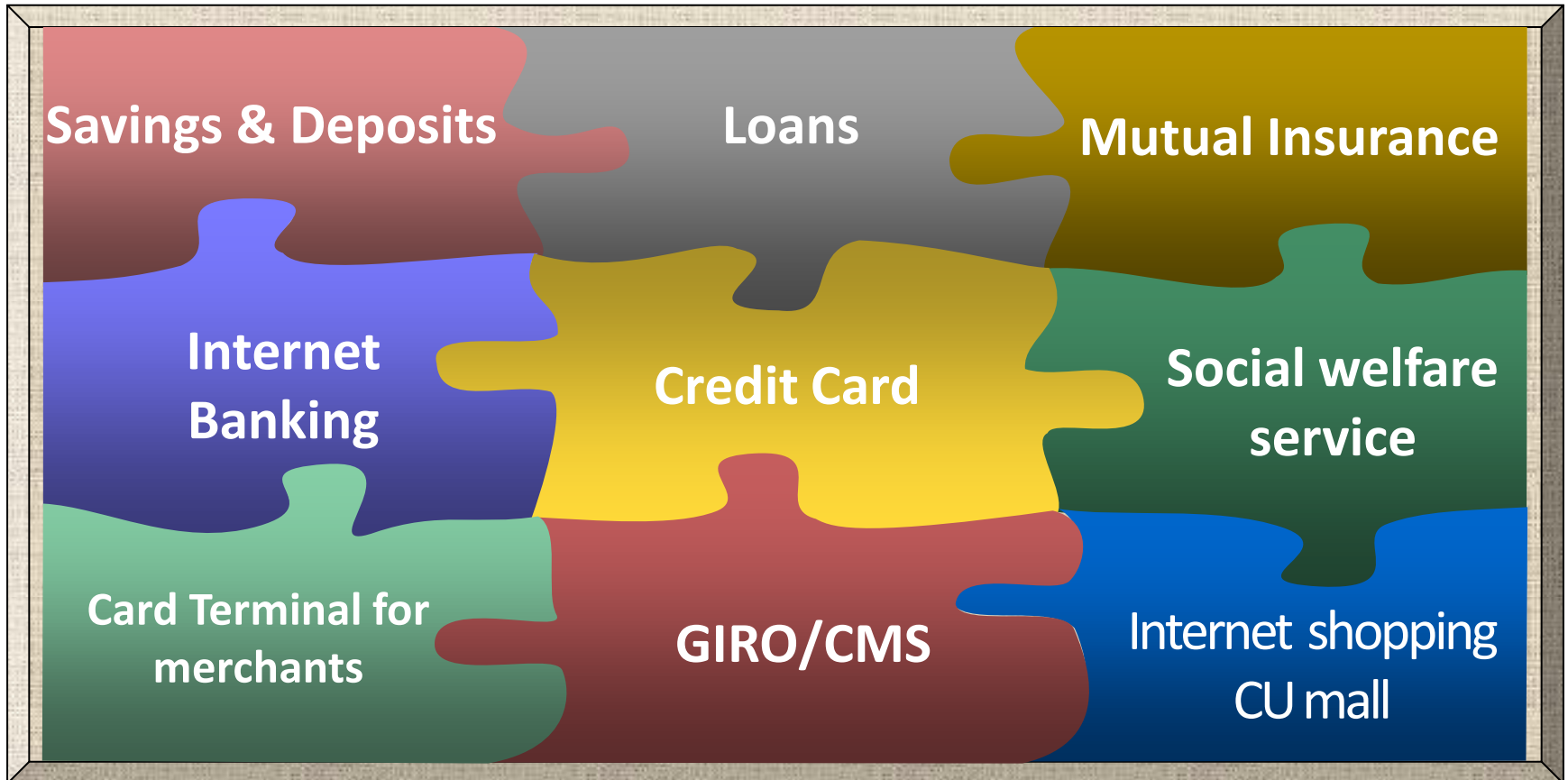
- Elected by members in General Meeting
- 2~3person. 4years term
- In charge of ensuring risk-free operations of a credit union
- Carrying out supervision of business operations, financial status, accounting books and documents
- Audit CU quarterly basis

Roles of Organ

External Auditor

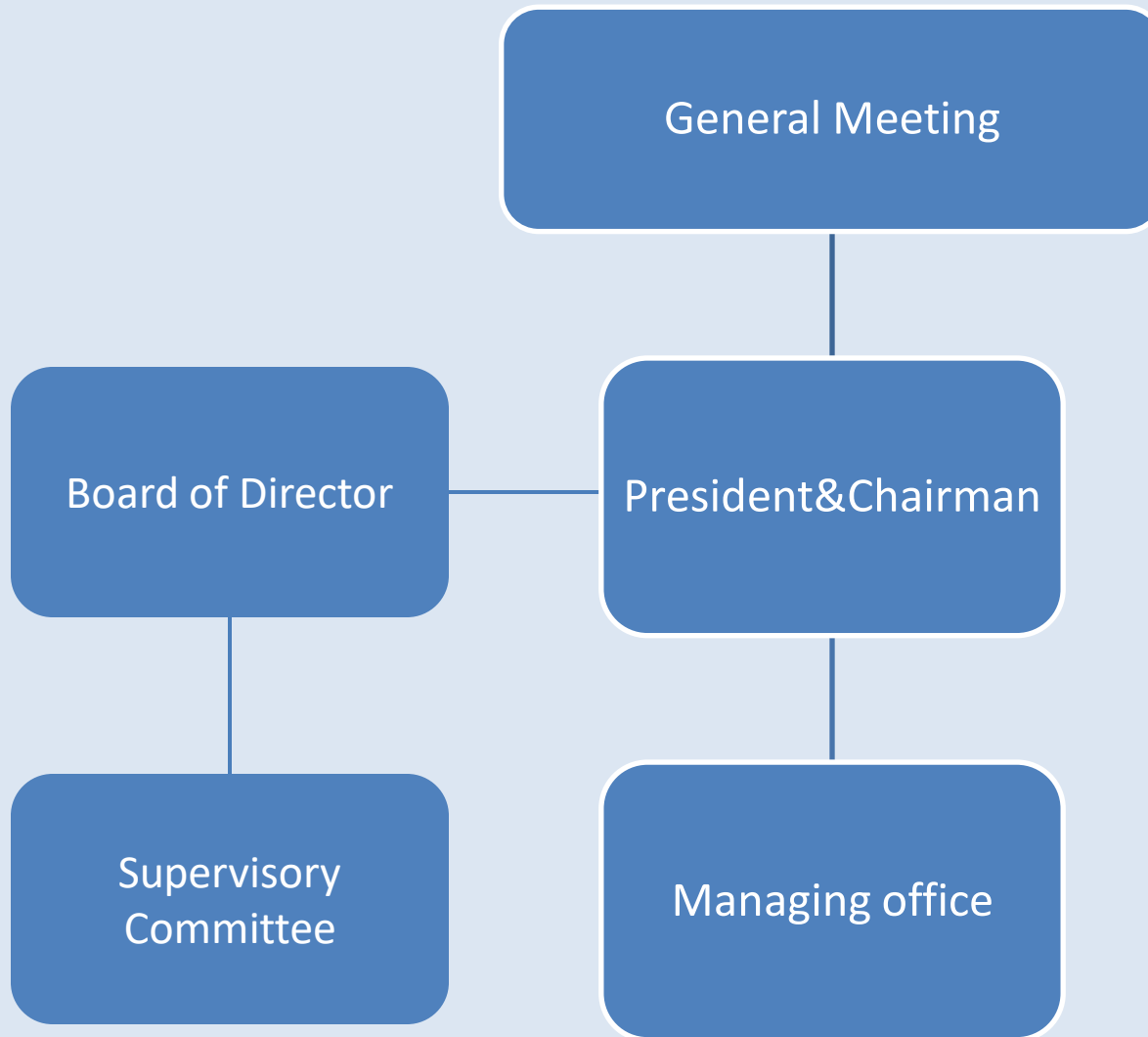
- CU which the total assets more than 30million(US\$) should get the External Auditor service(CPA)
*CPA(certified public accountant)
- Estimate the annual financial report & statement every year
- This report should be presented to Board meeting & General meeting

What Korean CUs do for members





Structure of Federation



Management of Federation

- Every CUs join federation compulsory
- No join No Qualification as Legal CU
- Membership Fee
(Approx. 0.1% of total Assets. Annually)
- Collect money from CUs and invest in financial market
- Service for Member CUs
 - inspection, research, educating, extension...
 - fund management, mutual insurance...
 - social welfare program
 - PR and advertising, maintain computerizing system..

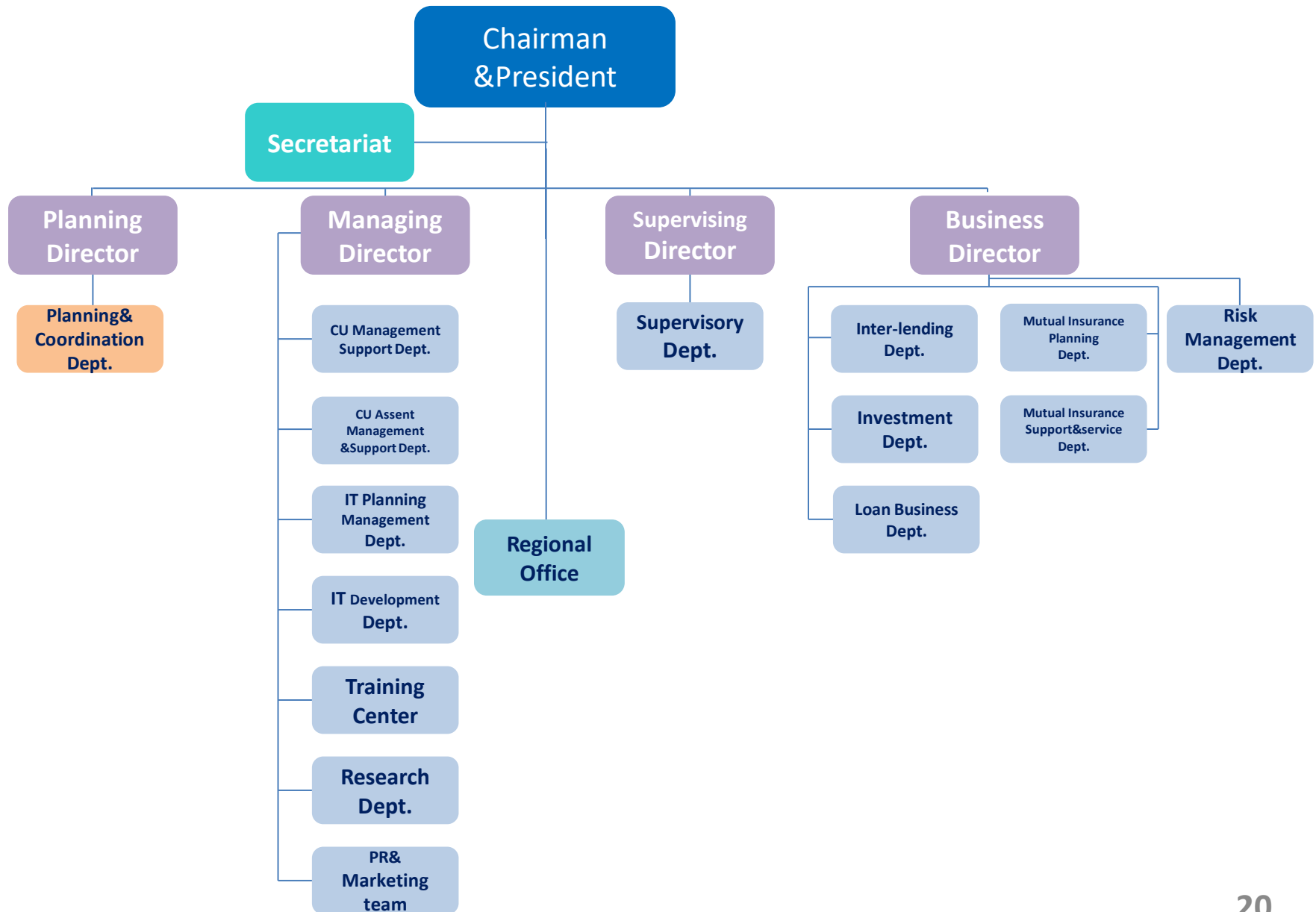
NACUFOK's Authority by CU Act

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

NACUFOK's Authority by CU Act

- Inspection for CUs business affair
- After analyzing financial state through the intranet system connected with all CUs Recommend the union
 - take a proper measure to improve financial state for example, disposition of assets, downsizing of its organization...
 - to merge with another union

Structure of Managing office



Roles of Organ

General Meeting

- Enact & Amend Byelaw
- Establish Agreement on election management etc.
- Approval of Annual Work-plan & Budget
- Approval of Annual Report & Audit Report
- Election of Officers (composition)
 - 200 representatives of all CUS
 - Selected among Chairpersons of CU with 4 years' term

Roles of Organ

Officer

- 15-25 Board members including below
3 standing directors(1 president & chairperson,
1 Financial service director ,1 Supervisory director)
- Number of Professional director having a specific qualification should be more than 1/3 of total board members
(at present 7 professional directors including Financial & supervisory)
- 4years' term
- President& Chairperson Allowed only
2 consecutive terms
- Other board member- no limit

Roles of Organ

Officer

- Qualification for professional director
 - working career as standing position at National bank, Financial supervisory service, General bank & Cooperative bank
 - Financial institution more than 10 years
 - Lawyer, CPA with more than 5 years' Career

Roles of Organ

Roles of Board Meeting

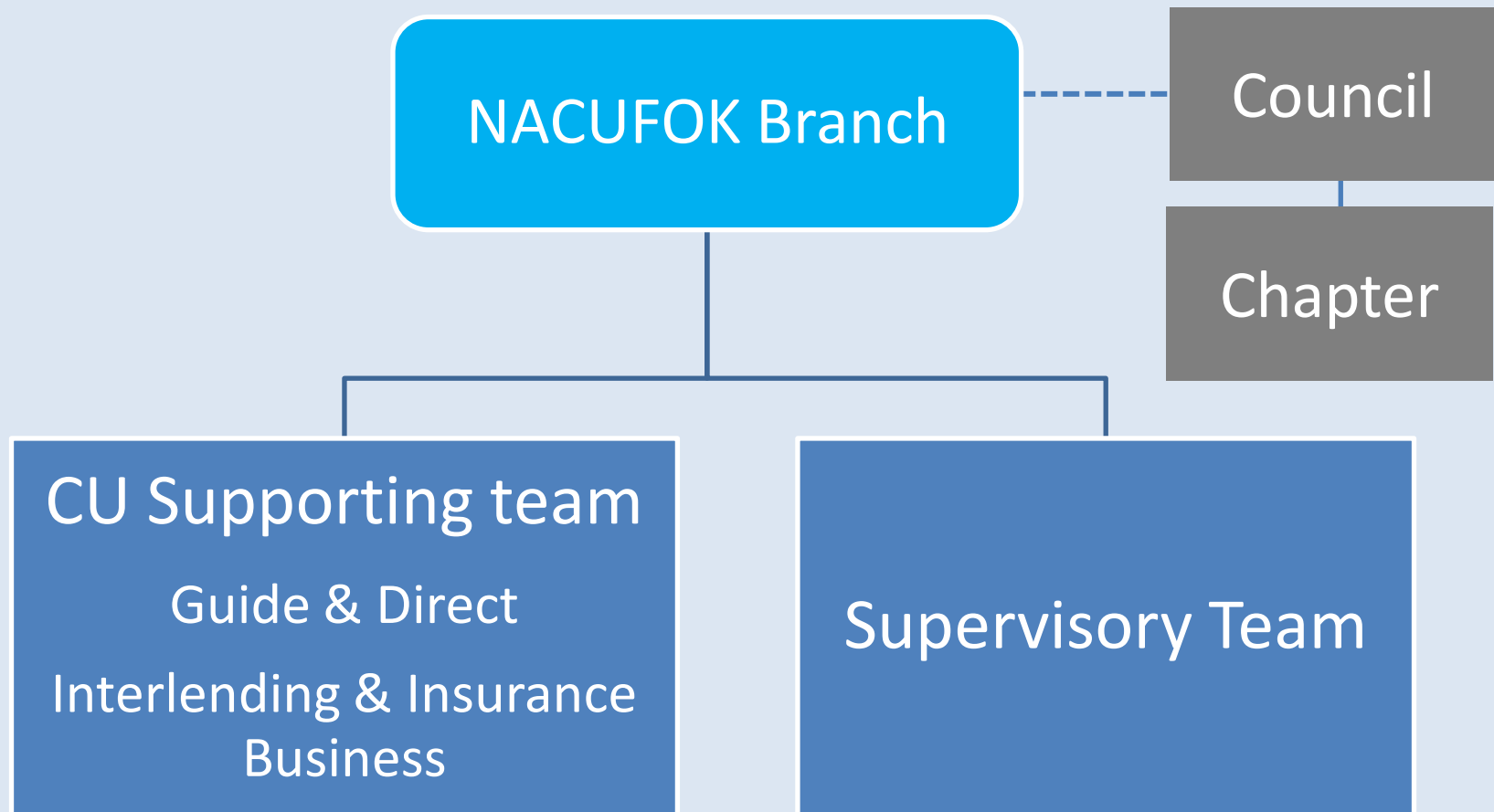
- Enact and amendment of Regulation of NACUFOK
- Enact and amendment of the model of the Regulations of primary CU (Obligatory & optional)
- Achievement & Disposal of Basic Asset
- Decision of the limitation amount of borrowing from outside
- Composition of the special committed as needed

Roles of Organ

Audit Committee

- Composed of more than 3 board members and $\frac{2}{3}$ of the total should be out of professional members
- Supervise of the all NACUFOK's Work & financial states etc. more than one time per a quarter

Structure of the Branch



Roles of Organ

Council &Chapter

Consist of the CUs belong to the specific area

- Exchange of the information on CU running and recommendation to NACUFOK
- Joint-training for individual members, officials and staffs
- Joint- welfare service for the community
- Joint-CU promotion activity

What NACUFOK does for credit unions



Association

- Guidance, Consulting, Research & Marketing
- Educations for **board** & staff, members from primary CUs
- United IT system for CU internet banking /management



Business

- Deposit & reserve fund management from CUs, Loans to CUs
- Domestic exchange for CUs and CU members
- The agency business for nation/Government/financial institution
- Inter-lending Business Total Assets: USD 11.8 Billions
- Mutual Insurance Business Total Assets: USD 2.24 Billions



Supervision

- Regulatory power, Off-site surveillance(real time monitoring)
- Deposit Insurance program and its management
- Credit union financial structure improvement

Brief history of Korea CU Movement

1960~

| | | |
|------|------|---|
| May | 1960 | “Holy family credit union” was established by Sr. Mary Gabriella |
| Jun. | 1960 | “Catholic central credit union” was established by Father Chang, Dae-ik |
| Feb. | 1962 | “Credit Union Training Society” founded for CU establishment |
| Apr. | 1964 | The Korea Credit Union League, a trade association was founded |
| Aug. | 1972 | The Korea Credit Union Act was promulgated |
| Mar. | 1973 | NACUFOK, former KCUL was organized according to the Act |

1980~

| | | |
|------|------|--|
| Jun. | 1981 | NACUFOK Training Center was built |
| Dec. | 1988 | CU Structure was changed into a three-tier system from two-tier system(CU-Provincial-League-National Federation) |

1990~

| | | |
|------|------|--|
| Oct. | 1994 | Reached USD 10 billion total assets |
| Dec. | 1997 | Structure was reshuffled into two tier; (Credit Union and NACUFOK) |

Brief history of Korea CU Movement

2000~2005

| | | |
|-------|------|---|
| Oct. | 2000 | Started on-line system connecting all CUs |
| Jul. | 2002 | Launched on-line banking services |
| Jan. | 2003 | Initiated tele-banking services |
| Sept. | 2003 | Business alliance with Hyundai card |
| Jan. | 2004 | Launched the Credit Union Depositor Protection Fund |
| Jan. | 2005 | Established the Credit Union Shopping Mall(CU Mall) |

2006~2010

| | | |
|------|------|--------------------------------------|
| May | 2006 | Moved NACUFOK head office to Daejeon |
| Jan. | 2010 | Reached UD\$40 billion total assets |
| Jun. | 2010 | Issued credit union's own check card |

2011~2015

| | | |
|------|------|---|
| Jul. | 2011 | Launched Phone Banking service |
| Jan. | 2012 | Total Asset size reached USD 50 billion |
| Dec. | 2014 | Social Cooperative, the Credit Union Social Contribution Foundation was established |
| Dec. | 2014 | Total asset size has exceeded USD 60 billion |
| Dec | 2015 | Total asset size has exceeded USD 65 billion |

Facts impacted much for Korean CU
Development

Devoted leadership of the CU movement pioneers & leaders

There is no doubt that the good leadership of the leaders is the important factor for the CU's success. Specially, in initial stage of the movement, there is no asset, no office, no performance to show to the people, there is no manners to get the trust of the peoples but only the good leadership is the best way to get the trust from the peoples.

The sister Gablialla(mother of the Korean CU movement) show her devoted leadership and give her great effort to bring the young competent leaders to CU movement who promote and develop the CU movement by working as the volunteers of the training service for the social leaders all over the country.

They followed her good attitude and enthusiasm for CU movement and became the NACUFOK president or chief of the CU training center.

Continuous training & Education Of CU

We have to train and educate for CU leaders & members on the philosophy and mission of CU to develop people socio-economic life with working together and cooperate.

We are living in the capitalism world, an age of materialism but we want to live in cooperative way, therefore we have to change our thinking way and life to the cooperative way considering the people first.

Also we need to let the people know on what is the difference of CU comparing with other financial company, which is the best power competing with other organizations

NACUFOK Training Center (Founded in 1981)

**In 2015, 20,112 staff & board,
6,989 CU members were trained here
with 51 different courses**



**Total Land Area: 51,517 m²
Building Square Area: 7,018 m²**

NACUFOK Training Center

The Board : Volunteerism & Leadership

Management

- Understanding of CU management & management ability
- Chairman, newly elected board of directors

Competency

- Leadership works for credit union principle & philosophy

Staff : Sense of Responsibility & Professionalism

Management

- Basic knowledge through professionalized areas
- Rookies, CEOs, Fund management, Loan evaluation, Analysis

Competency

- CU management & HRD management
- Leadership, performance management

Cyber Education

- On-line education for CU operation
- Accounting, deposits & loans, admin, tax, CS, laws

Enactment of CU Law

We enacted the credit union law which regulate the CU only with the great effort of CU leaders to make CU autonomous organization and protect the member's benefit legally since CU is the unique organization different from other financial organization.

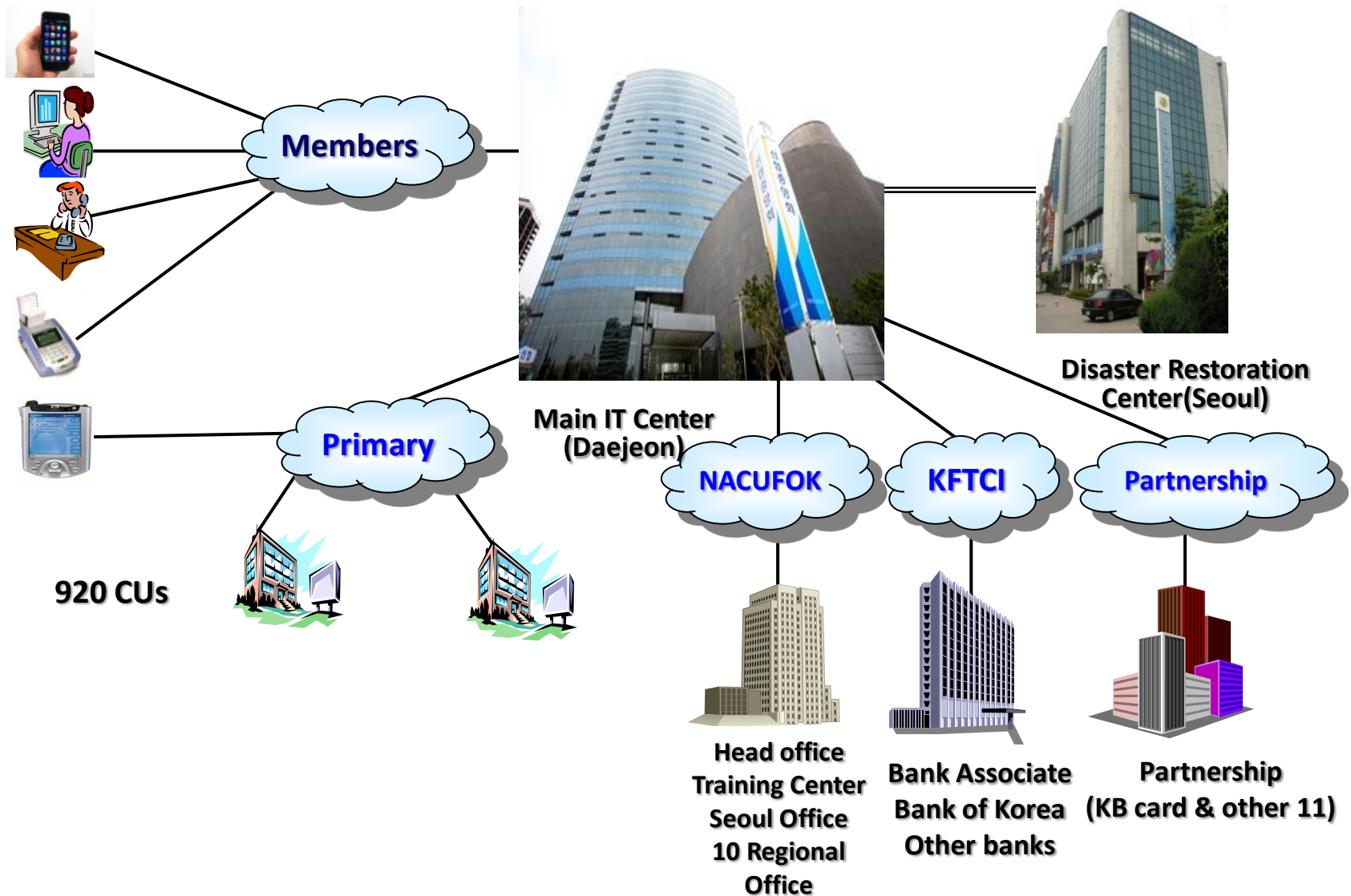
With this, The CU and CU members could be protected legally and CU could obtain the trust of the people with the institutional protection of the government.

NACUFOK has the power to guide and control the establishment of new CU as well as the management of all CUs. Also all CU should join the Federation obligatory on the regulation.

With that preparation, CU movement could control by itself within CU movement and we could provide the same operating way to all CUs and the model computerized operating system be adjusted to all CUs.

We also could provide the online financial services by joining the Korea Financial Telecommunications and Clearings Institute.

Korean CU Integrated IT Network

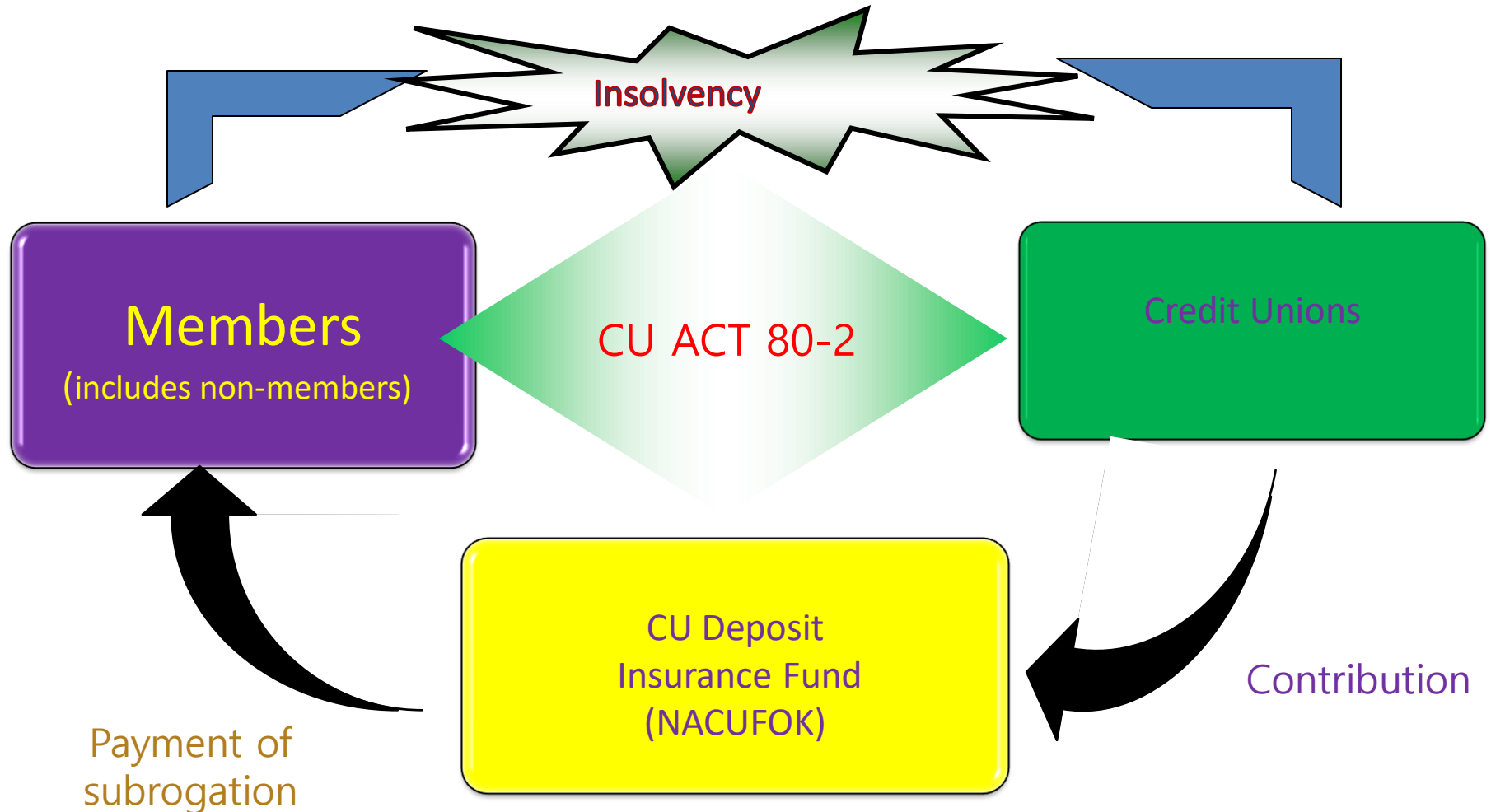


Establishment of the Deposit Insurance Fund

In the case the CU is defaulted with the financial accident or big deficit, the Deposit Insurance Fund pay back the individual members' deposit on behalf of the primary CU or support the money at the amount of 90% of the total deficit of the amalgamated CU for the amalgamating CU.

With this system, member could protect their valuable asset
And we could obtain the members trust essential for the CU's success.

Purpose of Deposit Insurance Fund



Deposit Insurance Fund

- **Deposit Insurance Fund balance : USD 590 mil(Dec. 2014)**
- **Contribution Formula : $30/10,000 \times$ insured deposit average balance of end of accounting year**
- **Guarantee limits : Maximum amount of payment in subrogation for a person shall be USD 50,000**
- **Fund Support for merger :**
 - o **target: under -7% of net capital
unable to be normalized by itself
when merger is effective than management control**
 - o **support : 90% Loss of amalgamated CU**

Role as the Hub of the member's life

We are undertaking the role as the hub of the all life of the residence by providing the various welfare service such as scholarship for the student , singing club, library etc. helpful for the people's life

This is the very good strong point in competing with the bank by showing what is the difference of CU from others

Cooperation among cooperatives

We are connecting with the other cooperative organization as well as the welfare service organization so that we could provide good quality products and services with good prices to the members

The government's Tax exemption system for CU & CU member

The government give this benefit to help the poor people, the major part of the CU members.

To obtain this benefit we are doing the best effort to persuade the government and congress

Conclusion

We have to cultivate good leaders and train the members continuously so that they could do their right role as the owner of the CU.

We need to understand the human resources is the most valuable asset to develop CU movement rather than the regulation and the products since the people make every necessary things for the CU's success.

We have to always try to reflect the CU's valuable idea and philosophy to the operation & service of CU since the idea itself is no use if that idea is not implemented.

Thanks! those are the comments I have learned from my 33 years' experience in Korean CU movement including 2 years working career in ACCU.

Hopefully my humble presentation could be helpful to your movement's success

Again, Thanks a lot for your kind participation and listening .



THANKS