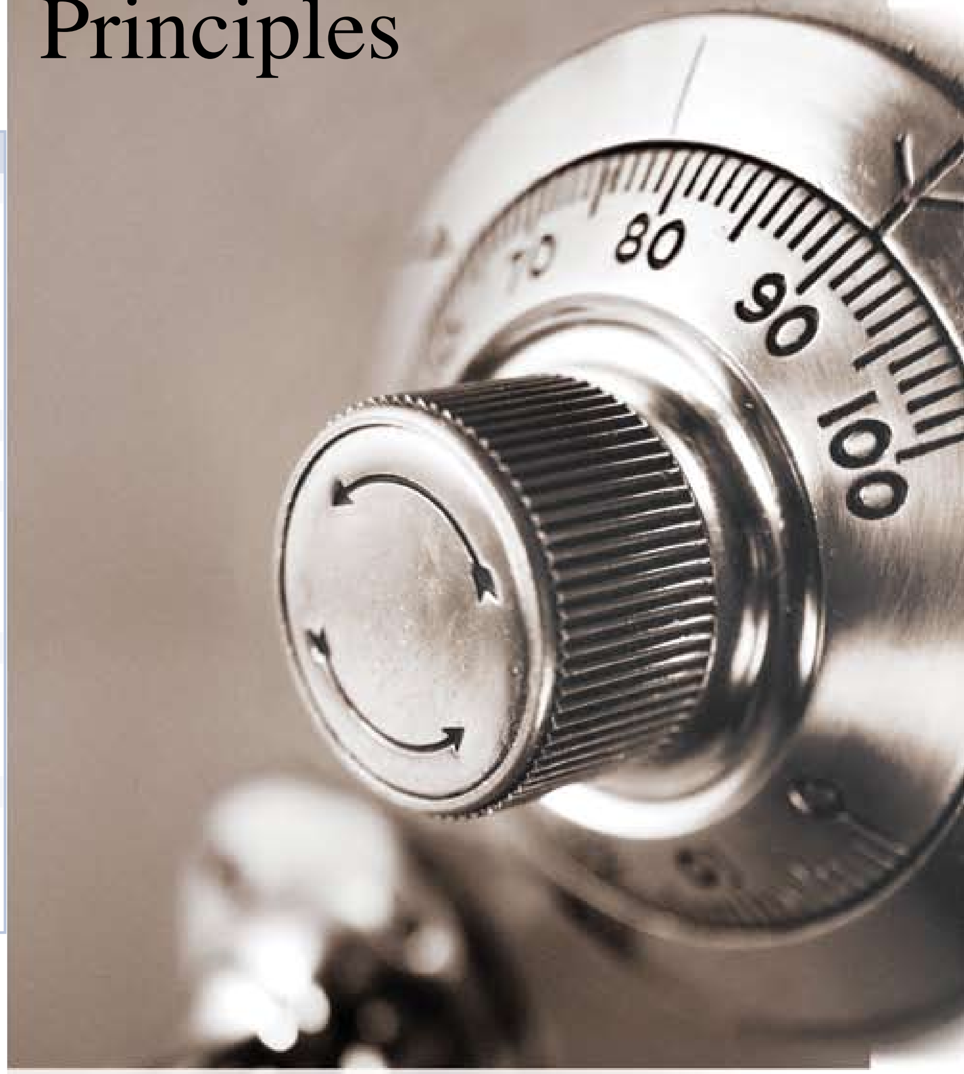
International Credit Union

Safety & Soundness Principles



Performance Indicators	Minimum Prudential Norm
Protection	
Allowance for Loan Losses Delinquency >12 Mo.	100%
Net Allowance for Loan Losses Delinquency 1-12 Mo.	35%
Complete Loan Charge Off of Delinquency > 12 Mo.	Yes
Solvency	100%
Effective Financial Structure	
Institutional Capital / Total Assets	10%
Asset Quality	
Total Delinquency / Total Loan Portfolio	Less Than 5%
Non-Earning Assets / Total Assets	Less Than 5%
Rates of Return and Costs	
Net Loan Income / Average Net Loan Portfolio	Entrepreneurial Rate
Net Income / Average Assets	Enough to reach the goal for Institutional Capital
Liquidity	
Liquid Assets – ST Payables / Total Deposits	15%
Liquidity Reserves / Total Savings Deposits	10%

The International Credit Union Safety and Soundness Principles consist of a set of performance indicators, each with a minimum prudential norm that credit unions should meet. The target indicators have been developed based on WOCCU's field experience with credit unions globally. To assist credit unions and their regulators in monitoring financial performance relative to these Principles, WOCCU has developed and makes available the software monitoring system called PEARLS™.

WOCCU World Council of Credit Unions

The International Credit Union Safety and Soundness Principles identify prudential standards intended to safeguard credit union members' savings from losses and to ensure credit unions function in a sound manner. While each credit union must comply with local regulatory requirements and prudential standards, the International Credit Union Safety and Soundness Principles offer a best practices guide based on World Council's extensive experience in the development of credit unions worldwide.

Delinquency

Loans that are not paid as agreed are considered delinquent the day after the first missed payment. The entire outstanding loan balance is considered past due. Immediate action should be taken to control delinquency and collect when a loan is reported past due. World Council recommends that loans past due more than 30 days comprise less than 5% of the total loan portfolio. When a loan becomes delinquent, the credit union should not grant new loans to pay off the outstanding capital and interest for the same borrower.

Loan Loss Provisioning

Provisions for loan losses are the first line of defense to protect savings against identified risk of losses to the credit union. Many countries and credit union systems apply a tiered system of provisioning for delinquency. Although local regulatory standards may provide a more stringent policy on loan loss provisioning, based on historical experiences, World Council recommends at least 35% of loans past due from one to twelve months be provisioned into an allowance account. World Council also recommends loans more than twelve months past due be provisioned at a 100% and consequently written off the credit union's books as a loss on a quarterly basis. Although a loan may be written off on its books, the credit union should still seek to collect payment for the outstanding loan.

Institutional Capital

Institutional capital is the second line of defense to protect savings. Each year, a portion of the credit union's earnings should be set-aside in reserves used to cover losses from unforeseen or catastrophic problems. Since institutional capital is owned collectively by the membership with no individual direct claim on the capital, these reserves should allow the credit union to support high return rates on savings, maintain low costs on loans, create additional reserves or invest in additional services.

To ensure capital adequacy, World Council recommends credit unions maintain a capital level of 10% of total assets whereas the Basel Accord requires credit unions to maintain a capital level 8% of risk weighted assets. In markets where credit unions and their regulators have the capacity to generate a risk-weighted asset capital calculation, credit unions should utilize a risk-weighted assets standard equivalent.

Non-Earning Assets

Assuming it meets its capital targets, the credit union should limit non-earning assets, such as land, buildings, vehicles, furniture and cash owned by the credit union, to a maximum of 5% of the total credit union assets and invest 95% of its funds into those assets that earn a return greater than the cost of funds and operating costs.

Pricing

Credit unions should offer competitive, entrepreneurial pricing which covers all costs of operations. From loans and investments, it is recommended that credit unions have sufficient income to cover cost of funds, operating costs, provisions for loan losses and the accumulation of institutional reserves.

Operating Costs

Credit unions should maintain efficiency by limiting operating costs at or below levels supported by local market margins.

Liquidity

To meet the demands of operational expenses, loan disbursements and withdrawals by savers, World Council's experience has found credit unions should maintain a minimum ratio of 15% of withdrawable savings in easily accessible instruments and accounts.

Diversification

A credit union should limit the risk of concentrating the loan portfolio in one or a few related loans. World Council recommends the maximum amount of related aggregate loans or credits be 5% of the credit union's total assets or 10% of its institutional capital.

Non-Financial Operations

Credit unions specialize in financial intermediation and should not implement non-financial operations such as retail store operations. World Council recommends the sum of non-financial investment not exceed 5% of total assets.

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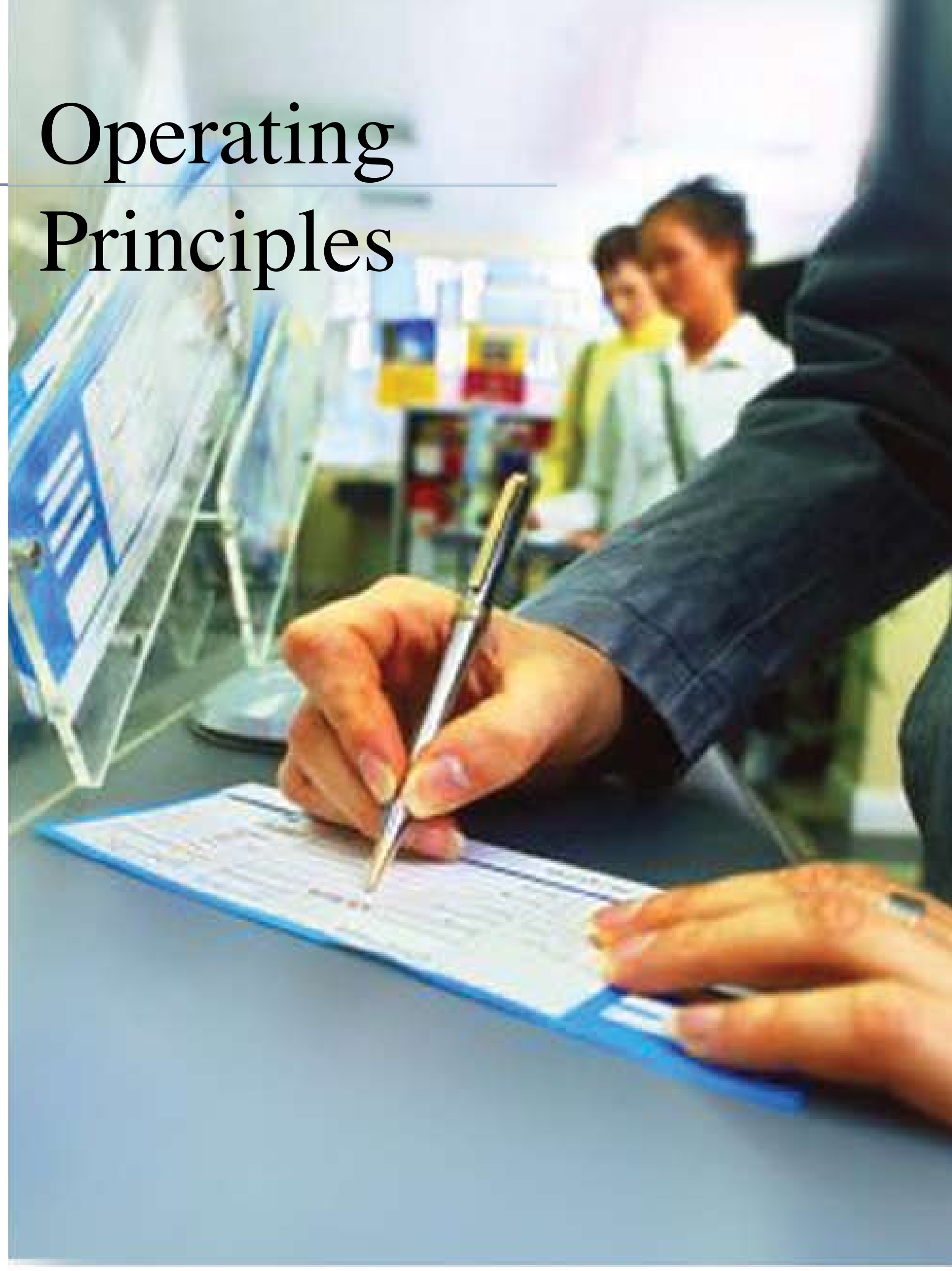
Operating Principles



Democratic Structure

- Open & Voluntary Membership
- Democratic Control
- Non-Discrimination

Service to Members

- Distribution to Members
- Building Financial Stability
- Service to Members

Social Goals

- On-Going Education
- Cooperation Among Cooperatives
- Social Responsibility

WOCCU World Council of Credit Unions

The International Credit Union Operating Principles are founded in the philosophy of cooperation and its central values of equality, equity and mutual self-help. Recognizing the varied practices in the implementation of credit union philosophy around the world, at the heart of these principles is the concept of human development and the brotherhood of man expressed through people working together to achieve a better life for themselves and their community.

Democratic Structure

Open and Voluntary Membership

Membership in a credit union is voluntary and open to all within the accepted common bond of association that can make use of its services and are willing to accept the corresponding responsibilities.

Democratic Control

Credit union members enjoy equal rights to vote (one member, one vote) and participate in decisions affecting the credit union, without regard to the amount of savings or deposits or the volume of business. Voting in credit union support organizations or associations may be proportional or representational, in keeping with democratic principles. The credit union is autonomous, within the framework of law and regulation, recognizing the credit union as a cooperative enterprise serving and controlled by its members.

Non-Discrimination

Credit unions are non-discriminatory on all grounds, including but not limited to race, orientation, nationality, sex, religion and politics.

Service to Members

Distribution to Members

To encourage thrift through savings and thus to provide loans and other services, a fair rate of interest is paid on savings and deposits, within the capability of the credit union.

The surplus arising out of the operations of the credit union after covering the cost of finance, operating costs, provisions for loan losses and ensuring appropriate capital reserve levels, belongs to and benefits all members with no member or group of members benefiting to the detriment of others. This surplus may be distributed among members in proportion to their transactions with the credit union, as dividends on shares or directed to improved or additional services required by the members.

Building Financial Stability

A prime concern of the credit union is to build the financial strength, including adequate reserves and internal controls that will ensure continued service to membership.

Service to Members

Credit union services are directed to improve the economic and social well-being of all members.

Social Goals

On-Going Education

Credit unions actively promote the education of their members, officers and employees, along with the public in general, in the economic, social, democratic and mutual self-help principles of credit unions. The promotion of thrift and the wise use of credit, as well as education on the rights and responsibilities of members, are essential to the dual social and economic character of credit unions in serving member needs.

Cooperation Among Cooperatives

In keeping with their philosophy and the pooling practices of cooperatives, credit unions within their capability actively cooperate with other credit unions, cooperatives and their associations at local, national and international levels in order to best serve the interests of their members and their communities.

Social Responsibility

Continuing the ideals and beliefs of cooperative pioneers, credit unions seek to bring about human and social development. Their vision of social justice extends both to the individual members and to the larger community in which they work and reside. The credit union ideal is to extend service to all who need and can use it. Every person is either a member or a potential member and appropriately part of the credit union sphere of interest and concern. Decisions should be taken with full regard for the interest of the broader community within which the credit union and its members reside.

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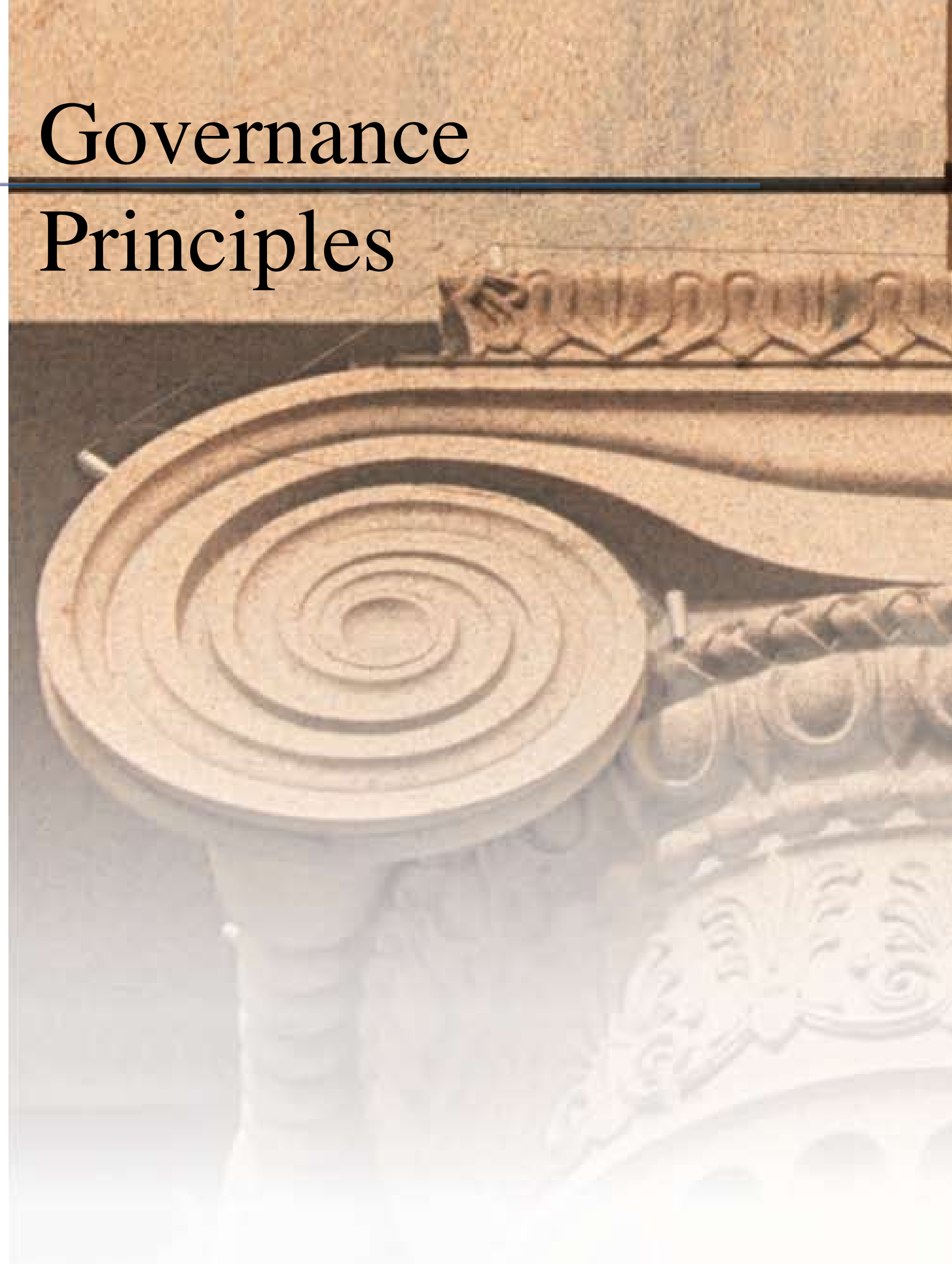
Governance Principles



External Governance

All financial institutions, regardless of type, are expected to comply with these basic standards of transparency, auditing and financial reporting. Credit unions should comply with the International Credit Union Safety and Soundness Principles and their national legal and regulatory frameworks.

Internal Governance

Unlike for-profit entities, credit unions exist to serve their members. Thus, credit unions must address this additional layer of governance related to their democratic, member-driven nature. This includes a commitment to "one member, one vote," as well as adherence to the International Credit Union Operating Principles and the role of the general assembly as the highest governing body.

Individual Governance

In order to perform their collective duties, the individual board members and managers have an obligation to maintain ethical conduct and professionalism and to speak with a single voice once board decisions have been made. Board members are also expected to possess the skills and technical capacity necessary to fulfill their duties.

WOCCU World Council of Credit Unions

Governance is the system designed to control and distribute power within an organization. The International Credit Union Governance Principles are ideals to be achieved and are intended to apply to credit unions, not to credit union associations. These Principles address the challenges of organizational power within credit unions at three separate levels. The board and managers, as a cohesive unit, ensure the credit union's compliance with issues related to external and internal governance. In order to achieve this goal, each board member has a duty to adhere to the principles of individual governance.

External Governance

Transparency

- The board should commit to regular, honest communication of its activities with members, regulators and the general public in the spirit of full disclosure.
- Financial statements, compliant with generally accepted accounting principles and local regulatory standards, should be made available to members and the public.

Compliance

- The board is expected to comply with both the letter and spirit of regulation, to cooperate fully with its regulatory body and to comply with national laws.
- The board should ensure that the credit union meets or exceeds the International Credit Union Safety and Soundness Principles as well as any other relevant standards for financial institutions.
- The credit union should undergo annual external audits within 90 days of the end of each fiscal year.
- The audit relationship should be reexamined frequently and consideration be given to changing the auditor at least every 3-5 years in a competitive bidding process.

Public Accountability

- The board of directors and management must be constantly cognizant of responsibilities to governmental structures, including but not limited to regulators, legislative bodies, the media, the community and the public.

Internal Governance

Structure

- The board of directors should be composed of an odd number, no less than five and no greater than nine.
- Consideration should be given to the rotation of directors.
- Interested general members who comply with the standards of individual governance can stand for nomination.
- The board should encourage dialogue with general members at the annual general meeting.
- The annual general meeting of the general assembly of members should be adequately promoted to ensure sufficient member participation.

Continuity

- The board should create strategies to maintain the competitiveness and sustainability of the credit union.
- The board should create succession plans for both directors and management that ensure the continued existence of the credit union.
- The board should approve a disaster management and recovery plan.

Balance

- The composition of the board should aim to adequately reflect the demographic makeup of its members and balance the financial service demands of members.
- The board should seek to balance diversity and experience, but all directors must meet the standards of individual governance.

Accountability

- The board is formally accountable to the general assembly of members, which is the highest governing body.
- The roles and responsibilities of the board, committees and managers should be established clearly in the bylaws or other policies.
- It is the duty of the board to establish strategic direction, approve policies and monitor management's implementation of these policies and achievement of targets.
- It is the duty of management to prepare the plan and budget, undertake operations, implement the policies approved by the board and achieve the targets set forth.

Individual Governance

Integrity

- The credit union should adopt a standardized code of conduct clearly explaining proper behavior.
- Directors or managers must not have criminal backgrounds, recent bankruptcies or penal backgrounds.
- Immediate family members should not serve on the board or in management at the same time.
- Board members must excuse themselves from participating in discussions and voting on matters from which they or their family have a potential conflict of interest.
- The board must approve loans to directors or management. All such insider loans must be made within the approved credit policy parameters and reported on a regular basis to the full board.
- Directors with loans more than three months delinquent will be removed from their position.

Competence

- All members of the board should have basic financial literacy, including the ability to interpret financial statements and standards, or commit to acquiring these skills through education or training within the first year of service.
- Individual members should have specialized financial or business skills and/or a member-focused viewpoint.

Commitment

- Directors should be willing and able to commit the necessary time to the credit union. Failure to attend board meetings may result in dismissal.
- Directors must respect the decisions of the board, adhering to all policies that have been adopted, regardless of personal opinion.

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