Executive Summary
Strategic Imperatives/Threats
September 2003

The CUNA Mutual Group (CMG) executive leadership team (ELT) held a three-day strategic planning meeting in July. Included was a review of the strategic planning inputs compiled by CMG's Corporate Development and Business Insight groups (Product Portfolio/Gap Analysis, Customer Segmentation Analysis, Environmental Scan, etc.). The focus of the discussion was the identification of strategic opportunities and threats. The opportunity discussion resulted in the identification of a set of strategic imperatives that are critical to CMG's future success. The threat discussion resulted in a set of identified threats for the credit union system and CMG and CMG only threats that require mitigation.

The primary strategies for executing CMG's strategic imperatives and mitigating the credit union/CMG threats, the desired outcomes and timetables, and key assumptions are being developed for incorporation into our 2004-2008 strategic plan and 2004 operational plans. The current stage of strategy development and execution vary by Strategic Imperative and Threat.

The Board of Director planning meeting agenda will include a Strategic Imperatives/Threats discussion and solicitation of Board member views of identified or additional Strategic Imperatives/Threats Wednesday afternoon. The following Strategic Imperatives and Threats have been selected for specific dialogue with the Board of Directors Thursday morning.

Thursday AM Discussion Topics

<u>Strategic Imperatives</u>

Increase Penetration of Strategic Accounts

Credit Union System Leadership

<u>Threats</u>

Credit Union Taxation

Indirect Lending and Manufacturer "0% Financing"

Non-Traditional Competitors

Credit Union and CMG Threats

Summary

Credit Union Taxation (Thursday Discussion Topic)

Credit unions are currently being actively threatened on two taxation fronts. First, state chartered credit unions are being attacked by the IRS to pay unrelated business income tax (UBIT). Second, various states are looking to impose state level income tax on state chartered credit unions. Bankers recently attempted but failed to get the National Conference of State Legislatures to adopt a policy calling for the state taxation of federal and state credit unions. Those efforts are expected to continue in various venues, such as national governors association meetings, NCSL fall and spring meetings, and federal legislative meetings. There is also the future threat of losing the federal tax exemption completely and having federal credit unions become subject to UBIT.

The taxation threats have ancillary threats associated with them. Any taxation that results in differing treatment between state and federal credit unions also threatens the dual chartering system because credit unions will likely convert to federal charter to avoid taxation. This makes credit unions a much easier target for the bankers on any matter (e.g. powers, regulation, tax exemption, etc.). Any significant taxation of all credit unions could result in conversions of credit unions to banks if there is an advantage to the other form (e.g. more powers, ability to raise capital, etc.).

CUNA Mutual Group Threats

Broad Credit Union System Consolidation

Continuing trend that a large number of credit unions will consolidate in the future. Remaining credit unions will tend to be large financial institutions, many exceeding a billion dollars in assets, with greater sophistication, higher expectations and probably a broader choice of strategic partners and vendors. The potential impacts of this consolidation would include:

- Greater price bargaining by survivor credit unions and entrance of more competitors will drive product and service margins down.

- Marketplace will become less homogenous as larger credit unions will tend to disaggregate and pursue individualized strategies.

- Flexibility in distribution, delivery, and product will become more crucial as the needs of these credit unions will be specific. This may drive costs to service up and put greater pressure on skill set in the distribution channel.

- A larger, more consolidated credit unions marketplace would create challenges for CUNA Mutual as we have traditionally built products and services for the middle marketplace and then scaled solutions up or down. We have found scaling up to meet large credit unions needs to be very challenging.

- Revenues and premiums will be more volatile as the loss of large credit unions could more dramatically impact a product line.

- Taxation of the credit union system could further accelerate this consolidation. Particularly without charter parity, we would see faster migration of large credit unions to thrift charters, which could dramatically change the landscape of the marketplace, distribution delivery and current product offerings.

Credit Union Taxation

Threat

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