

Hagberg Consulting Group

CUNA Mutual Group Board Presentation



September 14, 2005

Our Agenda for Today

- I. History of the CU and Banking Industries**
- II. CU Industry Forecasts 2005-2010**
- III. Risk and Impact of Exogenous Events**
- IV. Profile of CU Industry Concentration**
- V. CMG Customer Base Concentration**
- VI. Results of the Top 200 CU Interview Project**
- VII. CMG Product Portfolio Analysis**
- VIII. CMG Strategy Options**
- IX. CMG Diversification and Growth Options**
- X. Concluding Thoughts**

CU Industry Forecast

- **The following forecasts are derived from the CUNA Mutual Group 2005 Credit Union Forecast.**
- **Near-term the forecasts assume modest economic growth, rising interest rates and steady job creation.**
- **The forecasts do not factor in the impact of any possible negative exogenous events, such as:**
 - ◆ Full taxation for credit unions
 - ◆ Partial taxation (e.g., UBIT)
 - ◆ A shift in the regulatory environment (e.g., NCUA absorbed into the banking regulatory bodies)
 - ◆ A major financial shock to the system

Section III

- **The Risk and Potential Impact of Possible Exogenous Events**
 - ◆ Elimination of the federal tax exemption for CUs
 - ◆ Unrelated business income taxation (UBIT)

Elimination of the Tax Exemption

- **Description: Elimination of federal tax exemption.**
- **Impact on small/medium CUs:**
 - ◆ Increased difficulty competing
- **Impact on large CUs:**
 - ◆ A significant portion are likely to convert to raise capital and to level the playing field
- **Impact on CUNA Mutual Group:**
 - ◆ Loss of key customers

Unrelated Business Income Taxation

- **Description: Federal CUs become subject to UBIT (state CUs are already subject to UBIT on some income items)**
- **Impact on large CUs:**
 - ◆ UBIT, if broadly applied, could drive some large CUs to convert
- **Impact on CUNA Mutual Group:**
 - ◆ Some of CMG's products likely will be deemed "unrelated"
 - ▶ *If so, taxation would likely reduce demand for the products*
 - ▶ *CMG could be pressured to raise reimbursements to offset the tax effect*