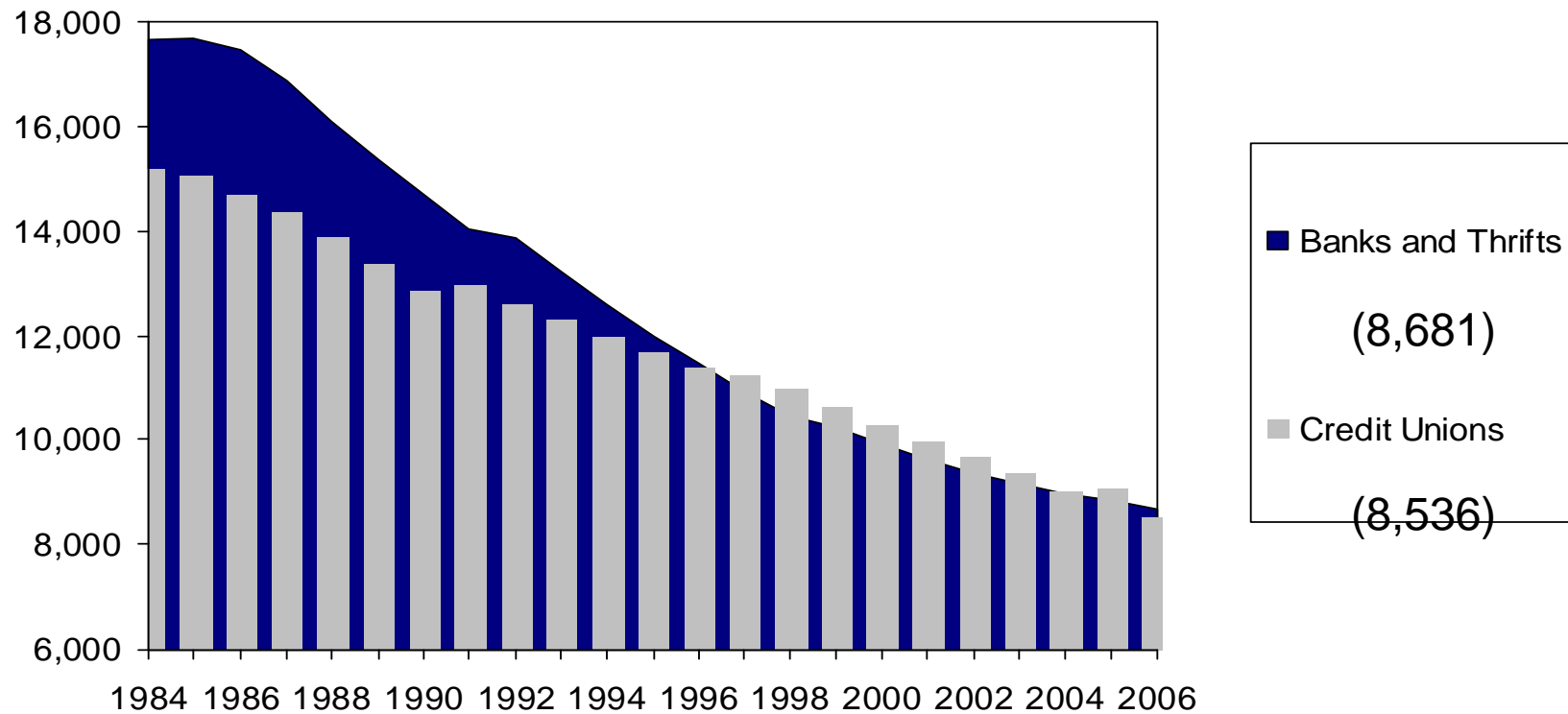

Are Mergers Problems or Solutions?

Steve Winninger, CEO
NuUnion Credit Union
Lansing, Michigan
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“Our observation as investors has been that it’s tough to make deals work. History is littered with promises of operating synergies, etc. Look at Daimler; buys Chrysler for \$30bn-plus, and they’re selling it for \$7bn. The failures are much more commonplace than the successes.”

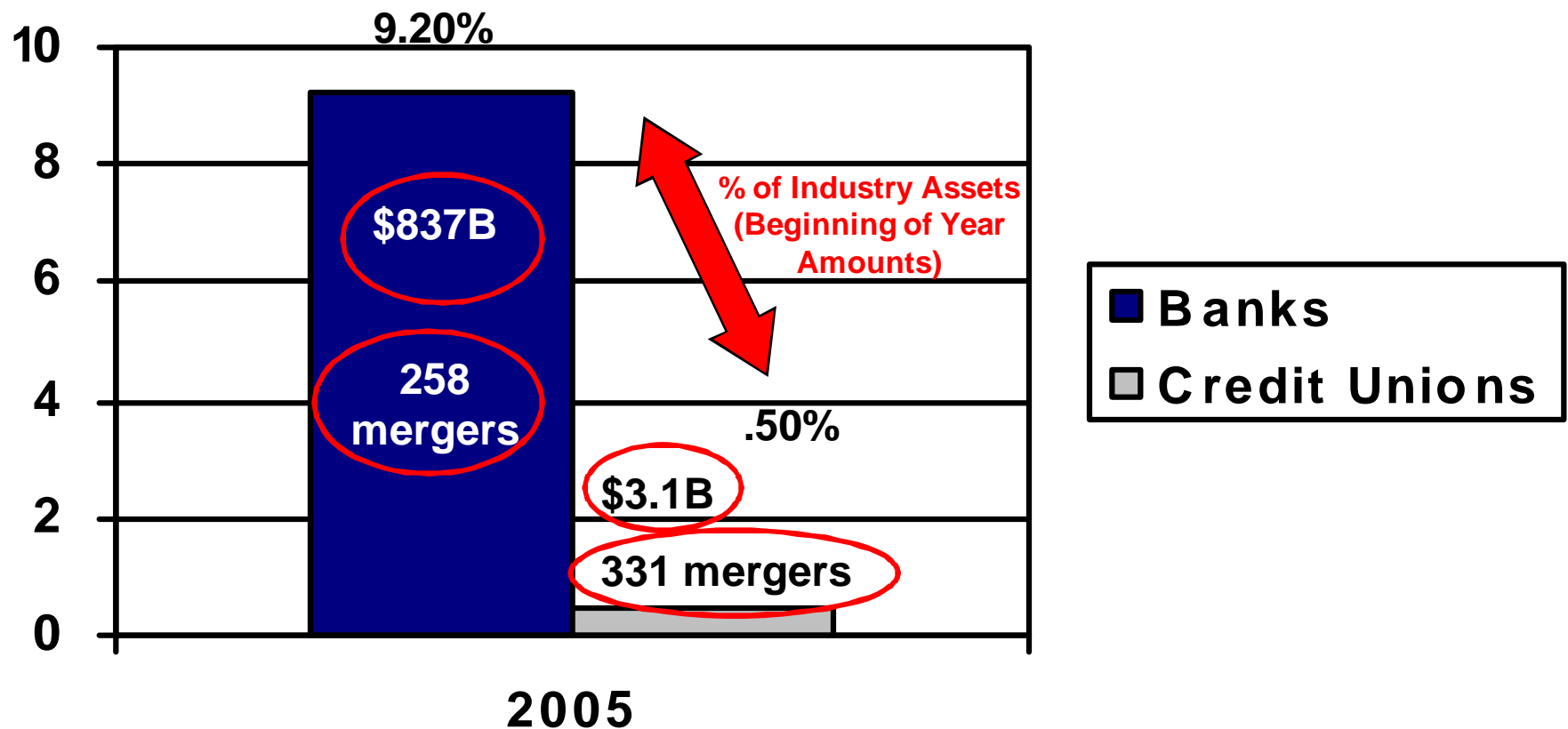
Brian Rogers
Chairman
T. Rowe Price
Financial Times
June 2007

The Rate of Consolidation is Greater in Banks and Thrifts



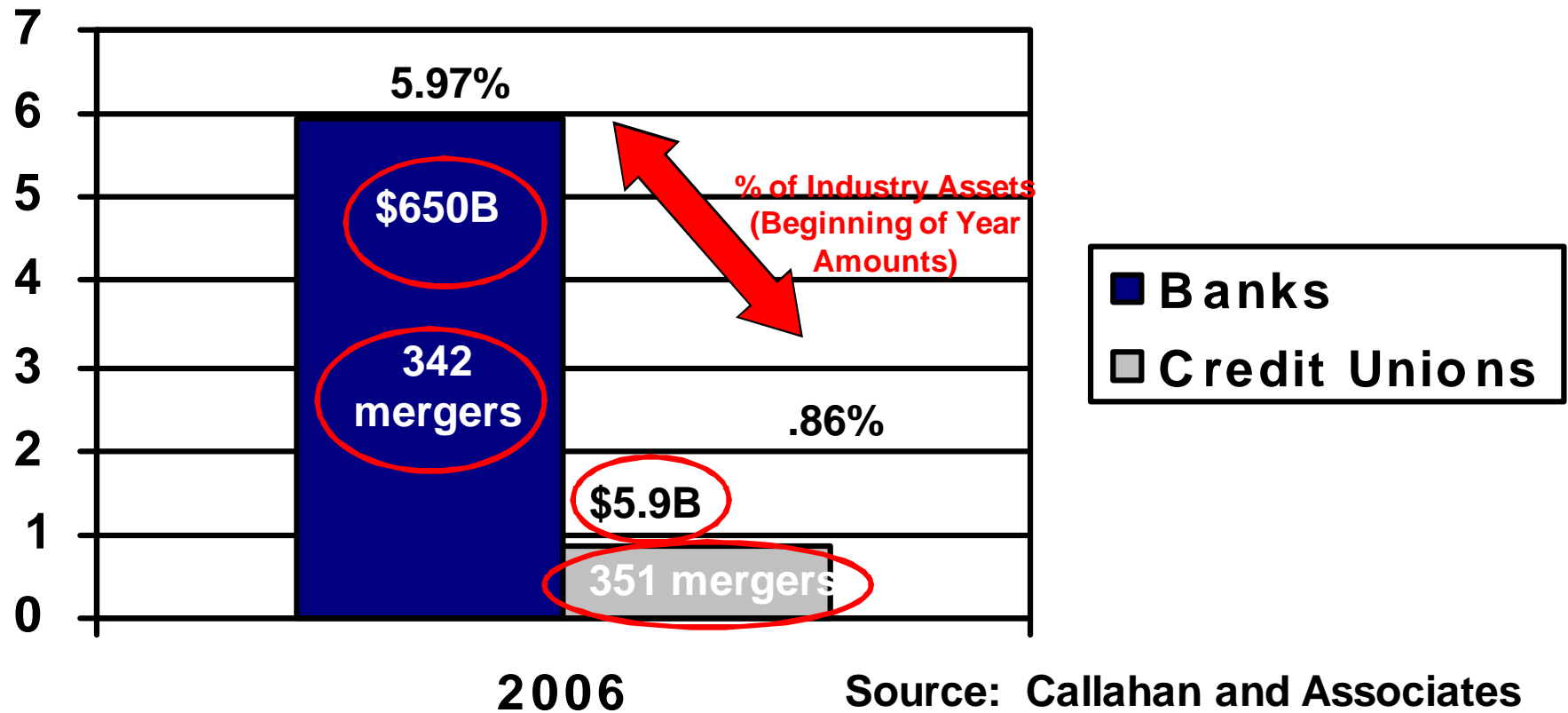
Source: Callahan and Associates

'05 Merger Activity: Banks vs. Credit Unions – 18x Greater



Source: Callahan and Associates

'06 Merger Activity: Banks vs. Credit Unions – 6x Greater



Mergers and Strategy

Is a merger a strategy in itself or is it a way to implement one?

Mergers as a Strategy

“A merger is usually not a strategy, but a way to implement one.”

1. Innovation is critical to growth & competitive advantage
2. Innovation comes mostly from outside the industry
3. Network business models are an emerging force
4. New connectivity options facilitate partnering and contracting
5. Credit unions' collaborative culture encourages alliances inside and outside the industry
6. Therefore, mergers are a secondary – not a primary, option

A Merger Opportunity

Another Credit Union your size has indicated a willingness to talk. What are you going to look for?

How do We Evaluate a Merger?

Some Key Questions

- Why are “they” seeking a merger?
- How will it advance our strategy, or will it require a new one?
- Will it be cost effective (time & resources vs. organic growth opportunities)? Payouts to members?
- Who will be in charge – post-merger governance?
- Will new members respond to our value – business model?
- If the merger partner goes elsewhere, how are we hurt?

Key Board/Management Issues

1. Do we draft a formal policy or respond tactically to each situation?
2. If we have a policy, formal or not, do we “publish” it?
3. Do we proactively seek merger partners that strategically fit?

Some Reasons to Merge

- Minimum efficient size
- Increase reach: markets, geography, customers, partners
- Consolidate – reduce duplicate elements
- Restructure an underperforming opportunity
- Access technology, talent, or products
- Change the business model or business strategy
- Gain market share and presence

Obstacles to Successful Mergers

- Complexity of mergers
- Finding a partner with the right capability to further your strategy
- “Whole firm” integration results in costs > identified benefits
- Locks credit union into the current business model and proprietary distribution systems
- Inability to execute the initial projects that bring real synergy
- Political leadership at board level
- Trade Associations position

Reasons Mergers Fail

- Size error – no scale economies
- Non-economic motives – ego.
- Reach error – larger market, no value enhancement
- Grand vision error – adding capability does not make a strategy
- Over commitment on merger-time & dollars
- Culture clash
- Integration problems
- Optimistic bias – lack of project management

Alternative Approaches

- Will a networked approach serve you better than a merger?
- Are there other models that make more sense?
- Build or Buy: Is organic growth a more efficient or effective way?

“A merger is usually not a strategy, but a way to implement one.”