



**2010 Strategic Plan
and Budget**

Revised: January 5, 2010

2010 Strategic Plan

Executive Summary

The 2010 Plan focuses on re-building our brand promise. The events of the last eighteen months have taken managements, boards of directors and regulators by surprise both within the credit union movement as well as the broader global financial community. As losses worldwide have topped \$3.4 trillion dollars, financial markets have been shaken to their core. As part of that, Corporate Credit Unions (CCUs) have charged-off approximately \$10 billion in capital, with more losses possible. These losses have impacted our members through depletion actions and premiums to fund the Corporate Credit Union Stabilization Fund. We have therefore lost some of the trust we built with members over the last 30 years. We will focus on the following key themes throughout our plan:

Build Capital – We need to build capital to be viable and to meet the new regulatory requirements. This will be achieved through improved earnings, reduced balance sheet footings and capital offerings over a period of several years. CCUs were formed with their members in mind and have historically returned most earnings to their members and consequently capital levels were thin. The unexpected shock to the investment sectors, previously believed to be impervious to loss, in which CCUs invested has shown the critical need for capital at the corporate versus the natural person credit union level. Current events have forced the regulator to intervene and transfer capital between levels to ensure adequate liquidity, which has not been universally supported by Natural Person Credit Unions (NPCUs). Building capital at the CCU level will prevent a reoccurrence of this scenario.

Build brand trust – Until recently, CCUs had established a reputation as low risk, high return and high service level organizations. In part, CCUs were able to achieve all three goals simultaneously, because they were accumulating capital at a lower rate. The losses on CCUs' investments, and the subsequent depletion of member capital, have broken the brand trust. Some members have expressed concerns with re-capitalizing CCUs and even with using their products and services. To be viable and relevant going forward, we need to re-build brand trust with our members. This will involve a multi-year effort and will initially focus on demonstrating product value and evolving back to a “trusted financial partnership” as we say what we are going to do and then do it.

Collaboration – While our mission remains largely the same, how we go about offering products will not. Scale remains critical to success, but leveraging our limited capital is not a viable option going forward. Therefore, we will need to seek partners and collaborate with other product and service providers, who may or may not be CCUs, to distribute best of breed products that meet members' needs, are profitable for Members United and add value to our distribution channel.

Transparency – As we move forward and ask our members to continue to support us both through the use of products and services and eventually via additional capital contributions, members want and deserve to have visibility of how their corporate operates. With that in mind, we will continue to be transparent in all that we do, including publication of our strategic plans each year.

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2010 Plan Strategies and Goals– The 2010 plan reflects seven Strategies on which Members United will focus including fiscal responsibility, member value, managing the size of the balance sheet, ensuring adequate liquidity, seeking member capital, improving member confidence and retaining quality staff. Corporate Goals are used to determine whether we achieved our Strategies and are either Key Success Measures (KSMs) or Business Plan Initiatives (BPIs). Achievement of the KSMs and BPIs indicates successful completion of a Strategy. A more in-depth discussion of the Corporate Goals, KSMs and BPIs appears later in this document and is summarized below:

Corporate Goals

Goal Type	Fiscal Responsibility	Member Value	Balance Sheet	Maintain Liquidity	Member Capital	Member Confidence	Quality Staff
KSM	Net Income \$10.1mm (ex losses) Ops Exp \$36.6mm			Average Assets \$8.8bb		Survey Score 4.75 (out of 5.0)	Survey Score 4.75 (out of 5.0)
BPIs	Research International Wires	Deliver mortgage / default services	Research off- balance sheet products		Develop new capital offering		
	Seek opportunities to reduce costs	Deliver a cost effective Sallie Mae student loan program			Develop legacy asset strategy		
	Maximize Balance Sheet Solutions, L.L.C.	Analyze partnership for Share Systems					
	Consolidate image archives	Evaluate partnerships					
		Develop & implement value matrix					
		Implement single sign- on for ACH Now!					

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2010 Budget – Members United continues to follow a consistent financial plan as it navigates through this market cycle as summarized below:

- Participate in the NCUSIF share guarantee program
- Continue suspension of mortgage investment purchases
- Hold securities until they recover in value
- Use cash inflows to pay down debt and store cash
- Reduce operating expenses to preserve capital

The 2010 budget produces lower net income, primarily due to declines associated with Net Interest Income (NII) margin compression and level yield adjustments. The budget does not assume any other than temporary impairment (OTTI) losses or recoveries from prior OTTI. Fee income remains flat year-over-year, despite volume declines reflecting our on-going efforts to improve margins. We also continue our trend of reduced operating expenses to help offset, in part, the NII decline.

Financial Highlights

Item	2009 (ex OTTI)	2010
Average Assets	\$8.7bb	\$8.8bb
Net Interest Income	\$35.8mm	\$22.9mm
Fee Income	\$23.9mm	\$23.8mm
Operating Expenses	\$38.9mm	\$36.6mm
Net Income	\$20.8mm	\$10.1mm
Return on Assets	0.24%	0.11%
Net Interest Margin	0.41%	0.26%

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Detailed Plan

Planning Activities

The impacts of the credit markets have had a profound effect on our planning process. Our normal process begins almost 18 months in advance of the planning year and involves the Board, staff and members. The pace of change has been so significant in the last year and a half that we updated our 2009 plan three times since it was approved by the Board in November 2008, with the most recent of those changes approved in September 2009. As a result, our 2010 planning has been somewhat truncated. Based on the most recent planning session with the Board in September, we developed several scenarios and have distilled from those scenarios a strategic plan for 2010. While the environment and timing have been compressed, the process employed has been similar to prior years.

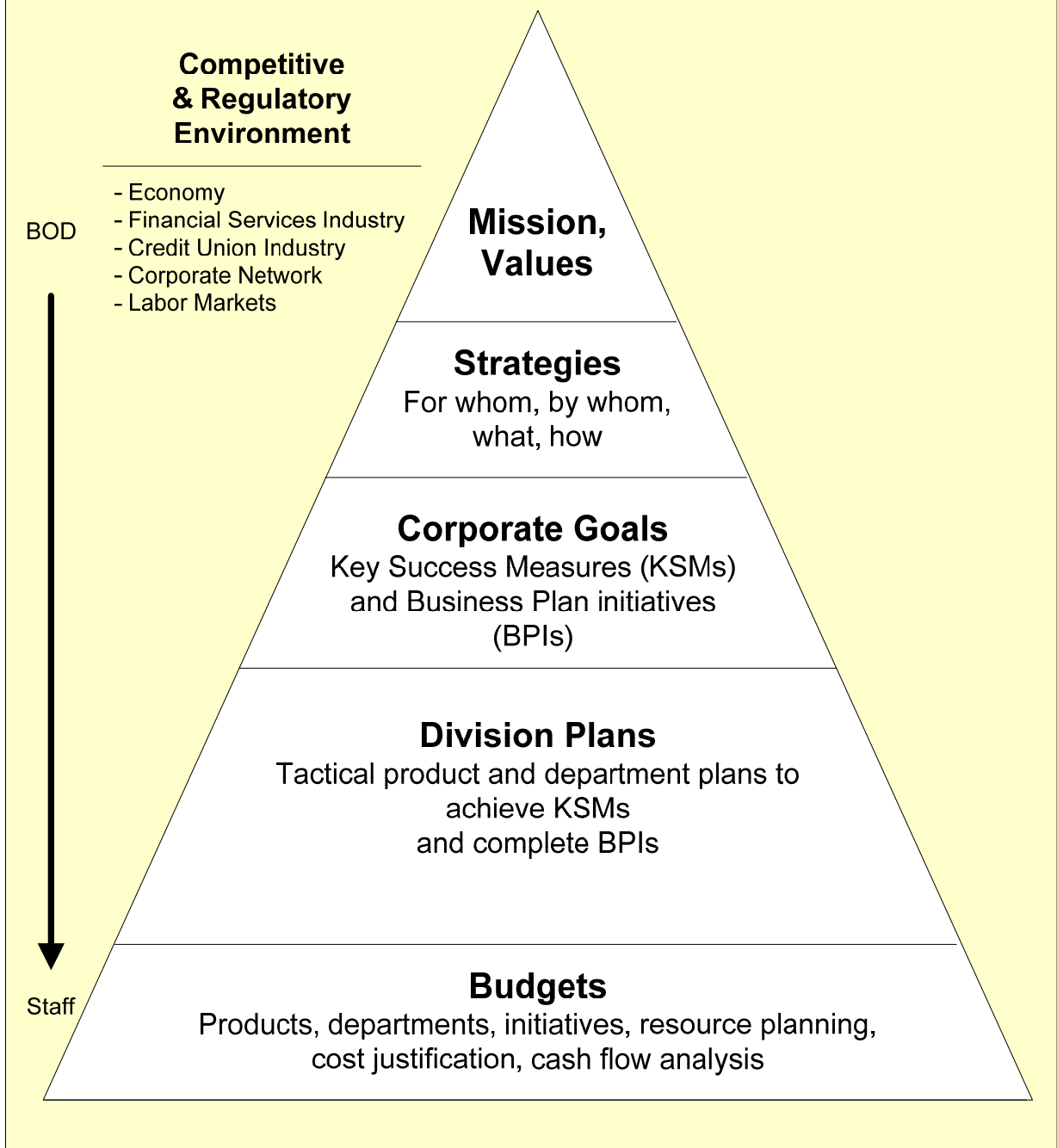
The strategic planning architecture is depicted below. The overall strategic direction, set by the Board of Directors, includes the Mission, Values and Strategies. The Mission is our reason for existing and our Values define how we will behave in relation to our members, our vendors, our regulators and each other in the pursuit of the Mission. Strategies are courses of action that must be successfully completed to achieve the Mission. Strategies are the key elements of the overall business plan that staff will focus on and completion typically spans several years.

Management then develops the activities to achieve the Strategies and Corporate Goals, as approved by the Board that are used to measure progress towards completing these Strategies. If the Corporate Goals have been achieved, we have successfully completed the plan for that year. Over several years, continued completion of the Corporate Goals will complete the Strategies and ultimately help us achieve our Mission. Corporate Goals take two forms, Key Success Measures (KSMs), which are quantitative and Business Plan Initiatives (BPIs), which are qualitative. We also develop department plans, product plans and budgets for the upcoming year. These critical elements are where the Strategies become actionable tactics that staff can focus on during their daily activities. Detailed product and department plans have been prepared that involve a wide variety of activities that support the strategies and ultimately the Mission.

The strategic plan is developed against the backdrop of the competitive, regulatory and legal environment in which Members United operates. These are critical elements as evidenced by the new draft CCU regulations released earlier this year, which will have a profound and lasting impact on the industry. We are also significantly impacted by the changing demographics of the natural person credit union landscape.

See the following chart for a graphic representation of our planning process.

Strategic Planning Architecture



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Environment

During the last year, we have seen changes wrought on the global financial markets that were both unforeseen and unprecedented. These changes have impacted our planning process as we “re-planned” multiple times during 2009 and have compressed our 2010 planning process. The impact of these changes, including the recent release of the new version of Regulation Part 704, has already had profound effects on both natural person and corporate credit unions.

Credit Markets Impacts – When the asset bubble in the U.S. real estate market burst in 2007, no one anticipated the impact. The \$3.4 trillion in losses worldwide caused the greatest number of bank failures in a single year, wiped out several large, venerable Wall Street firms including Bear Stearns, Lehman and Merrill Lynch and forced government intervention in the markets on a global scale that dwarves any historical comparisons. While much of the credit union industry has avoided these issues directly, NPCUs in selected geographies and CCUs have not. As described in the preamble to the proposed new CCU regulation, CCUs were heavily invested in what were thought to be secure, liquid, highly-rated assets, backed by mortgages. As losses on these positions increased and moved from possible to probable, CCUs started to experience significant losses in relation to their limited capital base. At the same time, these securities became illiquid. Therefore, CCUs were forced to leverage their capital to meet liquidity demands, further hampering profitability. Ultimately this cycle forced the conservatorship of two CCUs, WesCorp, and U.S. Central and has forced regulatory intervention in the form of capital notes and share guarantees. NPCUs have been negatively impacted by the additional insurance assessments and through the depletion and/or impairment of their capital investments in CCUs.

NPCU Environment – There have been many changes in the credit union environment during the last year, though some of the on-going trends remain. The on-going trend of consolidation continues as the number of NPCUs continues to decline as we have 7,848 credit unions as of June 30, 2009, which is down from over 8,000 the previous year. Loans increased slightly over 5% during the last year, while investments increased almost 20% as a result of the global flight to safety. These trends, combined with the losses that have plagued the movement over the year, negatively impacted capital ratios which declined from slightly over 11% to about 10%. As we look to 2010, it is not likely that losses from CCUs will continue at the same level; however, loan losses from mortgages and other loans are likely to continue to exert downward pressure on earnings and capital ratios.

CCU Environment – The CCU environment has been marked by the conservatorship of U.S. Central and WesCorp, the liquidity strains of the last year and the losses due to OTTI. CCUs have become critically under-capitalized across the network. Current total capital ranges from approximately 0 to 4%. The new regulations (see next page) will force additional changes onto the industry as the three tier system will be eliminated, forms of member contributed capital will change and higher levels of internal capital generation will be required. There is no regulatory mandate to consolidate the number of corporates, however given the new capital requirements it seems likely there will be some level of additional consolidation. Overall CCU market share declined six points from 34% to 28%, its lowest level since 2001. While NPCUs saw significant increases in investable funds to \$261 billion, shares at CCUs declined modestly from \$74 billion to \$73 billion. Regional market share ranged from 4% to 58%, though every CCU saw a decline in market share over the year. Larger CCUs still had higher market share on average than other CCUs,

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however the difference narrowed significantly. Members United's market share fell about the same as the CCU average. We count ourselves fortunate for the continued support of our members.

Competitive Environment – While competition has been fierce in the recent past, our main competitive threat has been other CCUs as we all tried to increase scale and create volume-based efficiencies by acquiring market share outside core markets. Given the impact that OTTI losses have had on all CCUs we think that most CCUs will retrench to their core markets and be less likely to aggressively pursue non-core markets. At the same time, competition from other sources is likely to intensify. For example, we have seen the Federal Reserve Bank (Fed) become an aggressive competitor in some markets and, with the Fed paying interest on sterile reserves, there has been a significant shift in the price performance of their offerings. Other competitors have, and will, use the market circumstances that CCUs face as an opportunity to gain a foothold in the credit union market space. We fully expect the competitive landscape to continue to be very challenging; however the source of the competition is likely to change to other non-traditional competitors.

Regulatory Environment – As challenging as the environment has been for credit unions, it has been no less so for the regulator. The regulator has been very active over the last year, including the two conservatorships, the share guarantee, the debt guarantee and multiple other programs. In late November, NCUA released the long awaited updated version of Regulation 704. The Regulation spans 250 pages and is based in part on an Advance Notice of Proposed Rulemaking (ANPR) issued earlier in 2009. The Regulation is in a ninety day comment period, with the final version likely to be issued by mid-year and effective by the end of the third quarter of 2010. The proposed regulation has many aspects; however the most significant are listed below:

- ***Capital Ratios*** – CCUs will have three capital ratios, which are generally based on Basel standards. CCUs will need to have a 4% leverage ratio, a Tier 1 risk-based ratio of 4% and a total risk-based ratio of 8%. The forms of capital will also change as the current three year membership capital will be replaced with a new five year form. There are phase-in requirements and the intent of the Regulation is to encourage meeting these ratios via retained earnings versus member contributed capital; however, it seems likely that most CCUs will need to issue some forms of either permanent or five-year member contributed capital to meet the new standards.
- ***Investment Concentrations*** – Several additional concentration limits will be added to the regulation. Limits will include maximum exposures of capital by sector, duration limits, cash flow mismatch and weighted average life restrictions. These additional requirements will reduce risk and are also likely to reduce net interest income.
- ***Prompt Corrective Action*** – PCA requirements, which were not originally applied to CCUs, will now be applied based on the new capital standards. CCUs that fail to meet the new requirements will be subject to additional regulatory actions ranging from removal of officers and denial of indemnity to conservatorship.
- ***Governance*** – Several changes have been made to corporate governance including the requirement that all Board members be CEOs, CFOs or COOs of natural person credit unions for all CCUs, including wholesale CCUs. Also, term limits have been added, such that no member may serve more than two consecutive terms. The effect of this will be to

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force all current Members United Directors to step down when their next term comes due. There is also a requirement that Board and Senior Executive salaries be disclosed.

Markets – Members United has traditionally defined its markets into four groups, core (IN, IL, MN, SD, NY, NJ, RI, MA), secondary (OH, WI, MO, PA), partner (WV, IA, KY) and national (all other). In general we sought to defend our core markets, did not compete in partner markets and competed aggressively in other markets for additional investment scale. The events of the last year have changed our focus dramatically as we will not seek on-balance sheet growth that cannot be supported with additional capital. We have therefore “gone back to basics” and will focus our efforts on our core markets. We will support existing members in all other markets, but will not make active attempts to gain share from other geographies due to the cost of acquisition and the fact most of these members view us as an alternative investment source and will therefore be unlikely to support us with capital.

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Mission – Members United is changing its mission statement from previous years as we focus on the basics. We need to reestablish our brand promise with our members and we will do so by focusing on value-added products and services. Accordingly our mission will be: “**To deliver products and services that add real value to members**”. For Members United to be viable, we need to have products that meet members’ needs, are cost effective for members and allow Members United to make a reasonable return, so we can generate capital at the required rate.

Values – Members United’s core values define the enduring character of the corporate. They are the organization’s “identity” that transcends product and market life cycles, management fads, technological change, and individual leaders. Members United may develop new purposes, employ new strategies, re-engineer processes and significantly restructure; however, our identity and ideology remains intact.

To provide guidance and clarity to staff on achieving the plan goals consistent with the core values, Members United expects employees, directors, and volunteers to breathe **LIFE** into the values. This is accomplished by performing all job responsibilities in accordance with the principles of **Leadership, Integrity, Flexibility, and Excellence**. Every individual actively supports, respects, and encourages acceptance of core values by all employees. Core competencies related to **LIFE** include:

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Values

<p><u>Leadership</u></p> <ul style="list-style-type: none"> • Independence • Initiative • Judgment • Proactive • Positive 	<p><u>Integrity</u></p> <ul style="list-style-type: none"> • Reliability • Adherence to Policy • Professionalism • Safety and Soundness • Ethical • Respect
<p><u>Flexibility</u></p> <ul style="list-style-type: none"> • Communication • Teamwork • Coordination • Dedication • Personal Development & Growth 	<p><u>Excellence</u></p> <ul style="list-style-type: none"> • Responsibility • Planning & Organization • Orientation Toward Results • Interpersonal Relationships • Member-Driven • Knowledgeable

Strategies – Strategies are the primary focus of Members United over the next three years and become the critical areas where the organization will concentrate its energies for the upcoming year. Members United will pursue the following Strategies:

- *Member Value* – A cornerstone strategy for 2010 will be to clearly demonstrate and articulate the value we bring to members each and every day. As a member-owned cooperative, we are focused on excellent pricing and exceptional service. Our products have significant value and often much of this value is in the form of exceptional service from extraordinarily talented professionals. During 2010, we will document this value by preparing a “value matrix” (see BPIs below) for each member that demonstrates the value of their relationship with Members United. We also plan to add and/or change several of our products to continue to expand the depth and breadth of our value proposition.

Another key element of member value is collaboration. CCUs were originally formed as a collaborative venture to provide NPCUs access to the capital markets and national payments systems. At that time, having 45 CCUs capitalized by local NPCUs made good business sense. As the markets have evolved over the last 30 years, that *raison d’être* has ceased to be valid as NPCUs have direct access to those markets. CCUs and NPCUs occupy a very small space in the financial services world. No individual credit union, NPCU or CCU, is in the top 30 in the U.S. or the top 100 in the world. Banking assets have topped \$12 trillion, while the entire credit union system is less than \$1 trillion. To be successful, we must collaborate to build sufficient scale to create value at both the CCU and NPCU level. If CCUs are unsuccessful in this endeavor, NPCUs will turn to other providers, including banks, who are their competitors, and we will force them to subsidize their own competition. Collaboration for Members United can take many forms including outsourcing specific products or product lines, mergers, partnerships, resource sharing, CUSOs and other business combinations. In evaluating these options we will be guided by the desire to provide the best quality products and the best price point. In some cases this may mean owning and manufacturing products and in others it may mean re-selling another product where we can aggregate sufficient volume across our distribution channel to capture pricing

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that would not otherwise be available to credit unions. Members United's history is of consolidation as we represent many former separate CCUs that have consolidated for the benefit of their members. In 2010 Members United will actively seek collaboration opportunities to find and create member value.

- *Fiscal Responsibility* – Members United has always focused on being fiscally responsible; however recent events will require us to re-double our efforts in the area. Members United needs to re-build its capital position to be a viable institution. An improved capital position is not only required by regulation, but also is good business going forward. Members United will pursue several activities to achieve this including improving the profitability of our existing products, eliminating products that are not or cannot be made profitable and continuing to reduce operating expenses. The 2010 plan calls for net income, excluding any potential OTTI, of just over \$10 million, which equates to about 11 basis points of income. This amount is below our long-term projection of 20 basis points; however, when coupled with the reduction in our balance sheet over time, we should get to the preferred levels of earnings.
- *Manage balance sheet assets* – Our capital ratio is a function of both the capital we have and the assets we support. Members United will seek to reduce its on-balance sheet assets to maximize its capital ratio over time. Any actions to move assets off-balance sheet will also be implemented with close attention to ensuring adequate on-balance sheet funding for the legacy assets. It is also critical to note that reducing balance sheet footings does not mean we will ignore member needs. Members United has a variety of tools to help members with their investment needs, some of which can be supplied via Balance Sheet Solutions, L.L.C. (Balance Sheet Solutions) sponsored products. Products such as SimpliCD and marketable securities are effective ways to meet member needs, without leveraging our limited capital. Members United also has products in development to help meet this critical opportunity (please see BPIs in the pages ahead for details).
- *Ensure adequate liquidity* – Central to our plans is having sufficient liquidity. A reality of our current balance sheet is that we have legacy assets that are currently priced significantly below cost. Should liquidity become strained, selling these assets at distressed prices would create significantly greater losses to Members United and our members. Therefore, a key tenet of our plan will be to maintain liquidity from the membership, as well as to ensure we have various lines of credit so that we do not have to sell those securities. While liquidity remains strong currently, we will continue to actively seek additional sources in the marketplace to guard against unforeseen strains. Balance sheet reductions will be measured to ensure sufficient funding for members' needs and for the legacy assets.
- *Seek member contributed capital* – Members United has two sources of capital: internal capital generation via profitability and contributed capital. To meet the new capital requirements, it is very likely that Members United will need to seek member contributed capital over the next three years, depending on the balance sheet footings and the level of losses, if any, that Members United may face. Members United has polled the market and members have expressed clearly that they want a CCU system and that they want Members United to continue to provide its valuable products and services. Members also understand that capital is required to support a financial institution; however, they want to know what

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our future is and whether they may be exposed to future losses. While we cannot with certainty say that losses are behind us, there are encouraging signs in the marketplace. Our proposed capital plan is to have an incremental approach. The idea is to have members contribute capital on an incremental basis over a couple of years as we seek to increase capital. This allows members the opportunity to observe our success and decide whether they wish to continue to support the organization based on the tangible results we achieve and the value we offer.

- *Maintain member confidence* – We count ourselves very fortunate as members have continued to support Members United through these very difficult times. We believe this has been in part a function of the NCUA-sponsored share guarantee, recently extended to March 2012, and in part a result of the effectiveness of our sales and support staff that continue to be responsive to members' needs. Another key element is on-going service levels that demonstrate the value we add to products and services each day. Perhaps most importantly, in 2010 we will continue to be as transparent in all of our dealings as possible. We will continue our monthly portfolio updates, regular member webinars, town hall meetings and regular correspondence. Members United has been a leader in this area and will continue to do so in 2010.
- *Retain quality staff* – One of the differentiating points of value that Members United brings to the marketplace is the quality of our staff. Our staff is highly trained as we employ specialists in many areas including operations experts (AAPs), information technology (CCIE, CNA, MSCE, CISSP) and financial experts (CFAs) to name a few. We also have a field sales and support staff that continues to reach out to the membership on a regular basis to make sure our products and services are meeting their needs. The staff processes millions of member checks, ACH transactions, calls to the call center, wires and other items daily, weekly and monthly without incident. They are each driven to provide the best quality product at the best possible price. Ensuring that these skilled and dedicated people remain at Members United to provide uninterrupted quality is critical. We had significant downsizing in 2009 and do not plan any other reductions in force for 2010 and will continue to make Members United an employer of choice for staff.

2010 Corporate Goals – Corporate Goals are the activities or measures that staff focuses on during the year. Achieving the Corporate Goals advances our progress towards completing the individual Strategies that make up the plan. Corporate goals are defined one of two ways, as either a Key Success Measure (KSM) or as a Business Plan Initiative (BPI). KSMs are the key measurements that management will track and are associated with the achievement of one or more Strategies. BPIs are large cross-functional activities that support the achievement of one or more Strategies. While there are many other department and product activities planned throughout the year that will help achieve the organizational mission, the BPIs and KSMs listed on the next page represent the most significant items planned for 2010.

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Corporate Goals

<u>Goal Type</u>	<u>Fiscal Responsibility</u>	<u>Member Value</u>	<u>Balance Sheet</u>	<u>Maintain Liquidity</u>	<u>Member Capital</u>	<u>Member Confidence</u>	<u>Quality Staff</u>
KSM	Net Income \$10.1mm (ex losses) Ops Exp \$36.6mm			Average Assets \$8.8bb		Survey Score 4.75 (out of 5.0)	Survey Score 4.75 (out of 5.0)
BPIs	Research International Wires	Deliver mortgage / default services	Research off- balance sheet products		Develop new capital offering		
	Seek opportunities to reduce costs	Deliver a cost effective Sallie Mae student loan program			Develop legacy asset solution		
	Maximize Balance Sheet Solutions, L.L.C.	Analyze partnership for Share Systems					
	Consolidate image archives	Evaluate partnerships					
		Develop & implement value matrix					
		Implement single sign- on for ACH Now!					

The following provides a more detailed analysis of each Corporate Goal and its rationale.

Key Success Measures (KSMs) – KSMs are quantitative Corporate Goals and represent the cumulative effect throughout the year of the various activities contained in the detailed product and department plans. For example, the KSM on fiscal responsibility represents how well staff has exceeded budgeted income on products, reduced operating expenses, profitably increased volumes, etc. The rationale for each KSM is:

- *Net Income* – Increasing capital through earnings is a key component of improving our capital position and gaining member confidence. Net income is projected to be \$10.1mm, which is about 11 basis points. Downward pressure on NII due to compressed interest rate

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margins and level yield adjustments are the primary causes for the drop in 2010 net income from \$20.8mm in 2009 (excluding OTTI).

- *Operating Expenses* – Members United has dramatically reduced operating expenses in 2009 and is looking to continue this trend with another \$2.3 million reduction in 2010 to \$36.6mm. Each dollar of operating expenses saved represents a direct contribution to member capital in the form of net income.
- *Average Assets* – Over a three-year period, Members United hopes to manage assets downward, subject to funding its existing balance sheet assets. During 2010, we expect average assets to be at about their 2009 level of \$8.8bb, as the significant flight to quality in the marketplace and the comparatively slow growth in loans continue to drive up liquidity. While Members United hopes to be able to use its newly developed off-balance sheet products (see pages ahead) to meet members’ needs in this area, in 2010 we expect interest rates to remain at historical lows. The level of interest rates required to earn a profit in the off-balance sheet market prohibits the roll-out of this product until late in 2010. Also, the continued slowing of prepayments in RMBS’ indicates a need for higher liquidity in 2010. Long-term, we will manage assets downwards, replacing them with off-balance sheet offerings; however, given the current market conditions, during 2010 we are looking for balance sheet footings to remain stable.
- *Member Survey* – Our point of differentiation in the marketplace continues to be the quality service and relationships we maintain. Just as credit unions excel in their service to their members, so we strive to exceed our members’ service expectations. For 2010 we plan to achieve a member service level of 4.75. This will be a stretch goal for 2010 as we have never achieved a level this high. However, we believe quality member service will be vital to reestablishing trust with our members and we have therefore established a high bar.
- *Staff Survey* – Staff are the most valuable asset we have and are the key ingredient in our ability to deliver quality products and services to our members. Members United must maintain its professional, quality staff to succeed. Our various department plans include a number of activities designed to enhance the experience of staff at Members United. This should translate to a staff survey score of 4.75 or better out of 5.00. Like our Member Service goal, this bar is set higher than any previous results and for similar reasons, we think it is critical to stretch ourselves to make Members United an employer of choice.

Business Plan Initiatives (BPIs) – BPIs are divided into two groups: Critical and Other. Critical BPIs are deemed to be critical to the achievement of the strategic plan and will be resourced first. However, as with any plan, events that occur during the year can alter our plans. Therefore, we have a queue of Other BPIs that represent the items that are next most important and will be advanced during the year to the extent that organizational resources are available. These items do not rise to the level of a Corporate Goal, but we believe they are valuable to the membership and will be pursued if possible. New BPIs may also be added during the year based on developments and the relative priority of existing BPIs may change. The following charts provide additional details on the planned BPIs.

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- *Critical* – The following Critical Path BPIs are planned for 2010:

Critical BPIs

Name	Strategies	Due Date	Notes
International Wires	Fiscal responsibility	03/31/10	Implement new vendor to improve profitability and member pricing. Favorable net income impact is estimated to be \$210k
Mortgage/default services	Member value	03/31/10	Evaluate national mortgage/default processing service. Program could add significant income to Members United, while providing exceptional value to members in the form of improved mortgage services
Sallie Mae student loan product	Member value	03/31/10	Implement newly developed product. Product can provide Members United earnings and members a much needed product from a premier vendor
Analyze partnership for Share Systems	Member value	06/30/10	Analyze market opportunities for card products to improve profitability and member pricing
Implement single sign-on for ACH Now!	Member value	06/30/10	Improve product convenience with single sign-on, preventing duplicate logon ids
Capital plan	Seek member contributed capital	06/30/10	Develop incremental capital model as business operations and new CCU regulations will likely require additional member capitalization
Develop legacy asset solution	Seek member contributed capital	06/30/10	Develop a strategy to minimize impact of legacy assets on future earnings and new capital offerings
Seek opportunities to reduce costs	Fiscal responsibility	12/31/10	Continue to aggressively reduce operating costs and pursue operational efficiency
Balance Sheet Solutions	Fiscal responsibility	12/31/10	Evaluate options to continue to leverage this strategic asset via existing and new off balance sheet products, while reducing costs
Consolidate data centers	Fiscal responsibility	12/31/10	Continue consolidation of data centers to position Warrentville and Albany as the premier production and recovery centers for Members United
Consolidate image archives	Fiscal responsibility	12/31/10	Consolidate three archives to a single archive to reduce costs and improve efficiency
Off-balance sheet product	Manage balance sheet	12/31/10	Implement new off balance sheet product as overnight accounts alternative to continue to meet members needs and require less balance sheet capital
Evaluate partnerships	Member value	12/31/10	Evaluate partnership opportunities including potential mergers, partnerships, CUSOs and resource sharing
Develop and implement Value Matrix	Member value	12/31/10	Implement member value matrix that defines product and service value that Members United creates for its members

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- *Other* – The following Other BPIs are planned for 2010:

Other BPIs

Name	Strategies	Due Date	Notes
Evaluate alternate ACH solution	Member value	09/30/10	Evaluate other providers for cost, features and functionality
Develop Premier View Reporting tools	Member value	12/31/10	Evaluate development of improved reporting functionality
Evaluate Teledeposit / Telewithdraw product	Fiscal responsibility	12/31/10	Evaluate options for product profitability and growth
Evaluate Bill Payment product	Fiscal responsibility	12/31/10	Evaluate options for product profitability and growth
Evaluate Western Union product	Fiscal responsibility	12/31/10	Evaluate options for product profitability and growth
Evaluate adding additional ACH receipt functionality to Premier View	Member value	12/31/10	Evaluate investing in additional product features and functionality
Evaluate improving downloading of wire transaction data via Premier View	Member value	12/31/10	Evaluate investing in additional product features and functionality
Evaluate replacing legacy software in Premier View for Midwest Share Drafts	Fiscal responsibility	12/31/10	Evaluate updating software to reduce on-going cost of maintenance

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Summary – Members United continues to follow a consistent financial plan as it navigates through this market cycle. As it follows this financial plan, legacy asset performance continues to represent the single greatest challenge from a planning and budgeting perspective. For example, a loss on a single bond could exceed a full year of net income. Members United’s financial foundation will not settle until legacy asset performance is stabilized or isolated from the corporate balance sheet. Until the financial foundation stabilizes, Members United continues to follow the financial plan summarized below:

- Participate in the NCUSIF share guarantee program
- Continue suspension of mortgage investment purchases
- Hold securities until they recover in value
- Use cash inflows to pay down debt and store cash
- Reduce operating expenses to preserve capital

The 2010 budget continues to build on this plan as Members United works through the financial losses associated with legacy investments.

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A zero based budgeting approach was followed and managers created separate revenue and expense plans that have been aggregated to form the consolidated budget. The following table provides a comparison of the 2010 budget to the 2009 projections.

(\$'s in thousands)	2009 Projections	Adjustments	2010 Budget
Net interest income	\$ 35,809	\$ (12,928)	\$ 22,881
Fee income	23,861	(97)	23,764
Total revenue	59,670	(13,025)	46,645
Total operating expense	(38,847)	2,253	(36,594)
Net income	<u>\$ 20,823</u>	<u>\$ (10,772)</u>	<u>\$ 10,051</u>
Average assets	\$ 8,699,614		\$ 8,788,610
Return on assets (excluding OTTI)	0.24%		0.11%
Net interest margin	0.41%		0.26%

Net income is budgeted to be \$10.1 million in 2010, which equates to a return on assets of 11 basis points. The budget does not include potential investment losses or investment recoveries associated with legacy assets. However, the budget does include an \$8.1 million reduction of net interest income due to OTTI amortization as discussed below.

Net interest income is budgeted to decrease by \$12.9 million in 2010. \$8.1 million of the decrease is attributable to OTTI amortization which will reduce net interest income. The 2010 budget also assumes much narrower LIBOR/Fed Funds relationships as well as less earning power as assets roll off and proceeds are reinvested in cash or cash equivalents. Lastly, some assets, such as Lehman bonds, are no longer accruing interest.

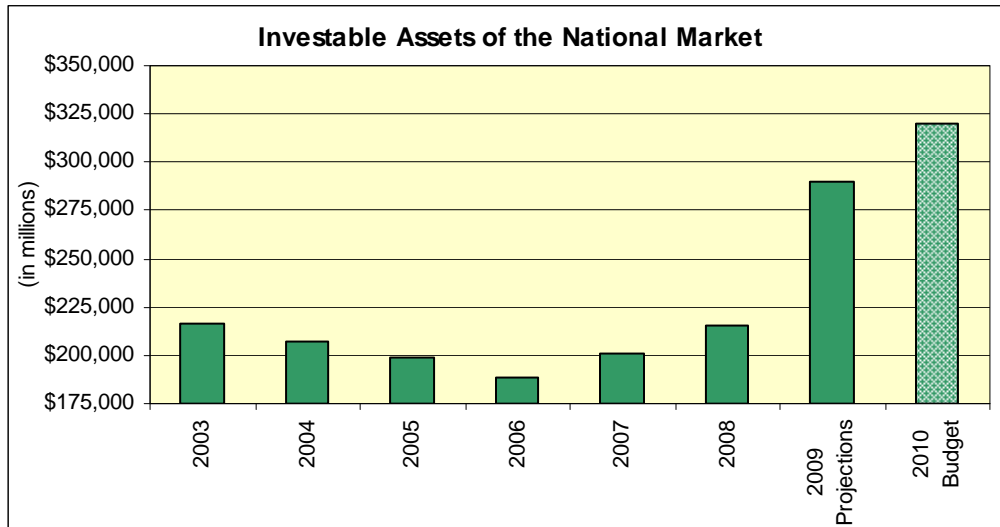
Noninterest income is budgeted flat in 2010. On a product level, fee income is significantly higher for SimpliCD and investment sales but is offset by lower revenue from the check services business as volumes continue to decline. Investable assets at credit unions are at historically high levels and are projected higher in 2010 as well. This environment continues to provide opportunities to grow off-balance sheet products such as SimpliCD and marketable security sales. This strategy is also consistent with the capital plan which projects moving balances off-balance sheet as legacy assets mature.

Noninterest expense is budgeted to decrease by \$2.3 million reflecting a shift in organizational focus from growth to financial performance and capital accumulation. Significant expense savings continue to be realized in 2009 and 2010 which will benefit from a full year of savings associated with the June 2009 reduction in force. While Members United remains focused on controlling expenses, some costs will increase even given best efforts to contain them. For instance, Members United will experience higher costs in 2010 for the NCUSIF assessment, a 3% salary increase for staff in 2010 after no increases in 2009 (note, executive team members will not receive an increase), health care insurance and employee bond insurance, and officer and directors insurance coverage.

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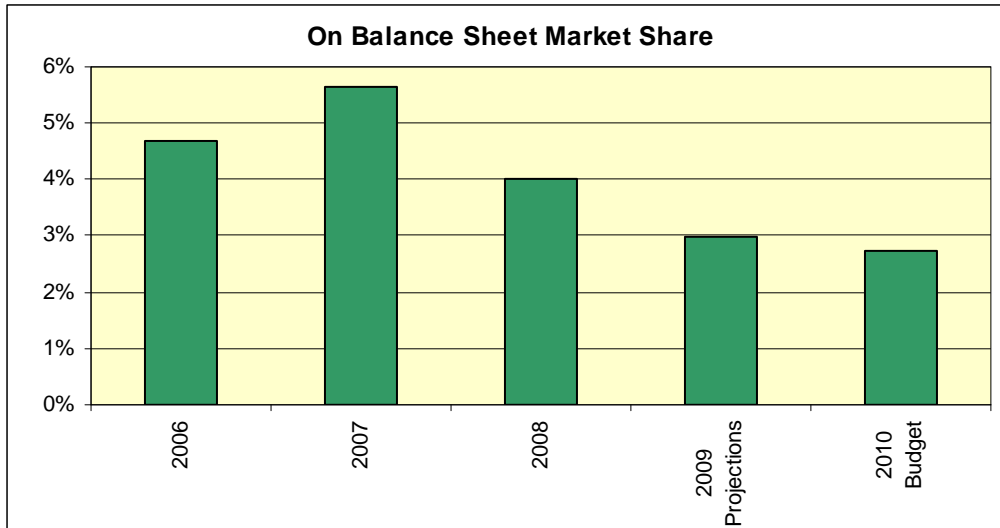
Trend Analysis – The following analysis provides historical trends for key balance and income statement items.

Market investable assets – A key assumption underlying the budget is the level of investable assets at credit unions. Investable assets are directly influenced by savings and loan growth rates. During 2009, savings growth at credit unions averaged almost 12% while loan growth averaged 4%. This means that our members, on average, have taken in more cash than they have been able to lend. Our base plan for 2010 assumes that savings growth is expected to outpace loan growth. Investable assets at credit unions are expected to increase to historic highs. This environment provides both challenges and opportunities in Members United’s efforts to execute on this strategic plan. The longer-term objective to significantly reduce the balance sheet will be difficult since credit unions investable assets are increasing. This same market condition creates a very good environment for Members United to promote Balance Sheet Solutions and off-balance sheet products. This excess liquidity could be invested in marketable securities or SimpliCD products which generate fee income, while not inflating assets on the balance sheet.

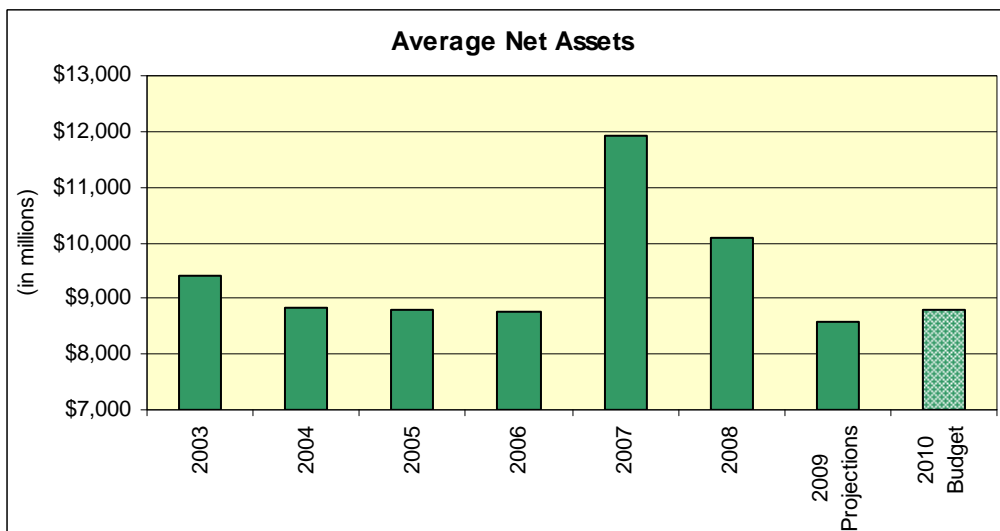


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Average net assets (on balance sheet) – While investable assets are expected to increase slightly, Members United expects market share to be under pressure in 2010 as credit unions diversify away from Members United. To a lesser extent, our cash management accounts are pressured by the Federal Reserve’s action to pay interest on both required and excess reserve balances. Previously, the Federal Reserve did not pay any interest on these balances but the new policy makes this a more attractive option. Market share is estimated at 2.75% of national investable assets in 2010 and is down from a peak of 5.65% in 2007.



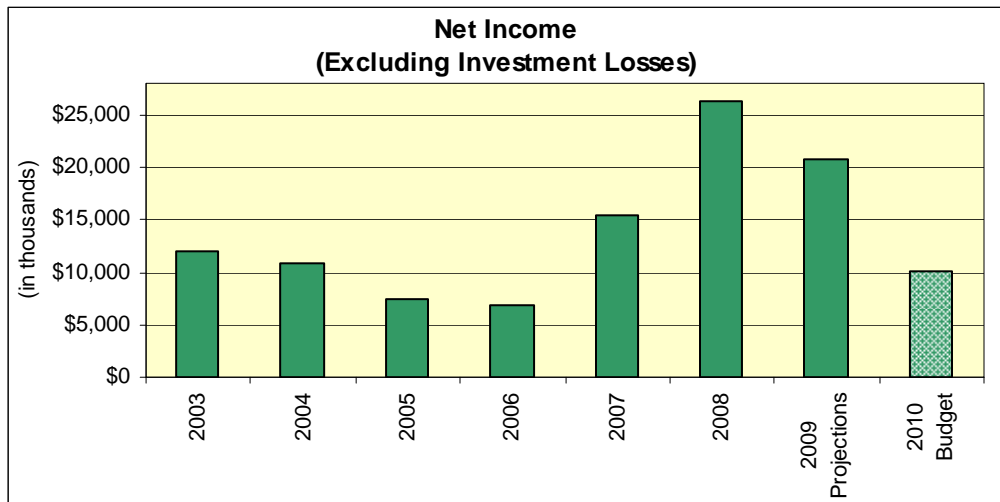
In summary, the 2010 budget is based on an assumption that credit unions will have higher levels of investable assets but that Members United will capture a lower market share. After considering these competing factors, average net assets on balance sheet are anticipated to remain at a relatively flat level with 2009 results.



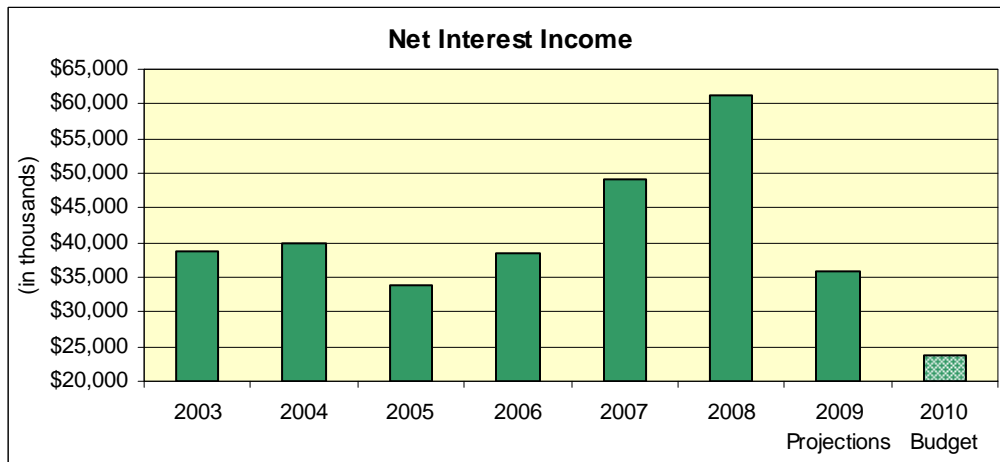
Net income (excluding investment losses) – Budgeted net income of \$10.1 million in 2010 does not include any provisions for additional investment losses. Legacy assets continue to represent the

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single greatest financial uncertainty for Members United. Deterioration in just a single bond could wipe out an entire year of hard earned core net income.

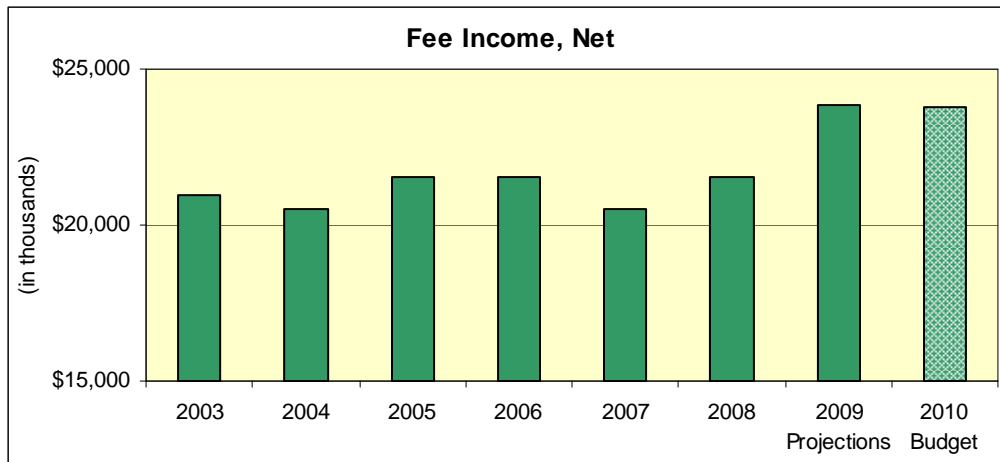


Net interest income – Net interest income of \$22.9 million is no longer the primary revenue source for Members United and is expected to decrease by \$12.9 million in 2010. As noted earlier, net interest income will be reduced by approximately \$8.1 million in 2010 due to the amortization of OTTI. In summary, future credit losses on legacy assets are projected at \$506.6 million. Accounting rules allow Members United to discount these losses which results in a present value of \$429.1 million. The difference of \$77.5 million is essentially amortized over the expected life with approximately \$8.1 million of this amortization estimated to occur in 2010.

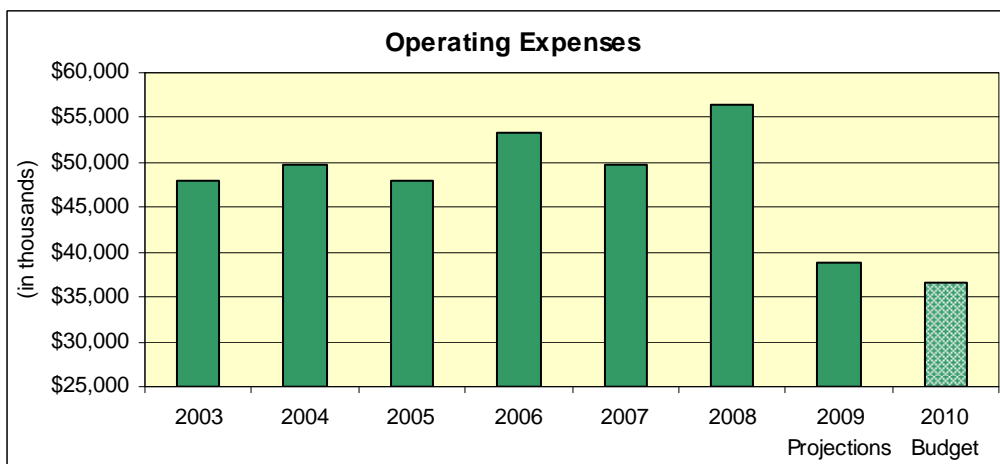


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Fee income, net – Fee income, net represents Members United’s primary revenue source for the first time. Fee income is budgeted at \$23.8 million in 2010. Fee income increases from sales by Balance Sheet Solutions of products such as SimpliCD and brokered investment transactions are expected in 2010 as these products continue to offer attractive alternatives to on-balance sheet term certificates. These higher revenue targets offset the expected decline in revenue from check services as volumes decline and continue to migrate to electronic forms.

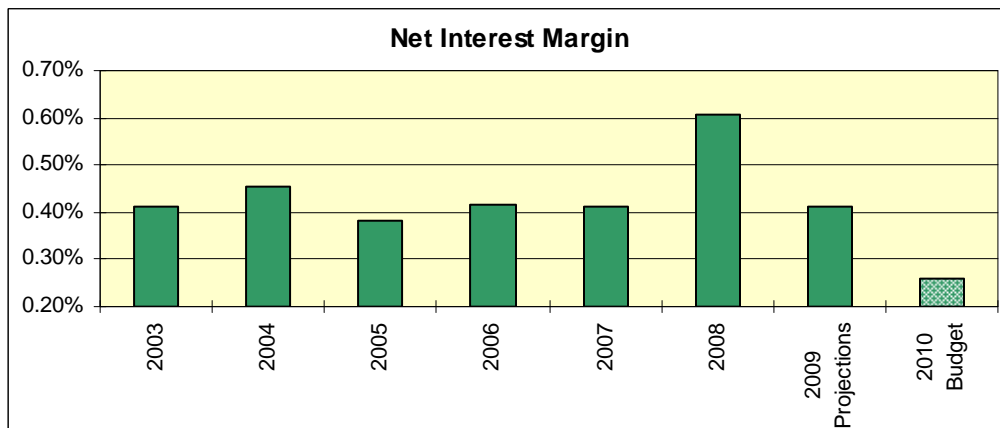
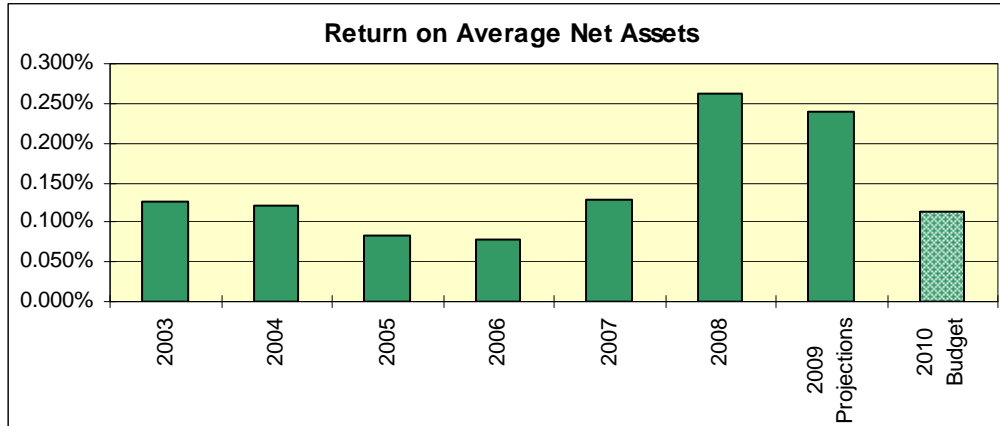


Operating expense – Operating expenses of \$36.6 million for 2010 represents a decrease of \$2.3 million compared to the 2009 projections. 2010 operating expenses include a 3% merit increase for staff (excluding executive team members), higher insurance expense and three headcount additions that are cost or revenue justified. The 2010 operating budget would be less than any plan submitted during the past 7 years (not adjusted for inflation).



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Ratio Analysis – The following charts provide key ratio trends. ROA, excluding legacy asset losses or recoveries, is projected at 11 basis points. Net interest margin is tightening due to the OTTI amortization expense estimated for 2010, narrower LIBOR/Fed Funds relationships, increasing balances of non-earning assets and a financial plan to preserve as much cash as possible.



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Capital purchase budget for 2010 – Members United’s products and services place a heavy demand on the technology infrastructure. We strive for near 100% availability of Premier View and the cash management processes. In addition, the information systems currently store 2.1 billion check images that must be accessible by internal staff and credit unions. Almost 20 million new check images are being received on a monthly basis from 1,380 credit union branch locations and multiple interfaces maintained with Federal Reserve Banks, Endpoint Exchange and other financial institutions. Members United is also a leader in security standards and has issued over 12,000 tokens to Premier View users. Compliance with business continuity standards requires dual data centers.

The 2010 capital purchases plan is submitted with a clear understanding of the company’s objective to control costs while continuing to provide services in an efficient and secure manner. Many of these capital purchases relate to our information systems. The Information Systems budgets and plans were developed after extensive joint planning with users and product managers and with a clear understanding of the financial objectives of the organization. Investments are only being made when they align with the strategies of Members United. For example, in 2009 only a handful of computers were purchased as equipment was redeployed after the staff reductions. Servers are only replaced when necessary. New investments requested for 2010 are directed towards corporate goals such as consolidation of the check processing image systems. Other investments are directed at consolidation of the Indianapolis data center so that Albany and Warrenville ultimately serve as the primary and recovery data centers.

For 2010, Members United has also suspended its update and replacement program for aged computers and servers. Historically, Members United would follow a routine maintenance program and replace employees’ computers after four years and servers after five years. In 2010, the replacement programs have been suspended and hardware will only be replaced if it fails.

The following capital purchase budget supports the organizational priorities presented earlier in the document.

Summary	Fixed Asset Budget Submitted for Approval
Image archive consolidations	\$ 250,000
Voice recorders	75,000
Hardware to support corporate goals	60,000
Data center consolidation activities	45,000
Information security	32,860
Upgrade business continuity capabilities	30,000
Business application software	30,000
Total capital purchases in 2010	<u>\$ 522,860</u>

The summary above represents items aggregated together by purpose. Only one budgeted item (Jack Henry optical archive conversion) is greater than \$100,000. In 2009, Members United considered installing a new phone system and the 2010 budget does not include this item since it was a 2009 initiative that has yet to be funded. Members United may be able to eliminate the voice recorders if a new phone system is pursued.