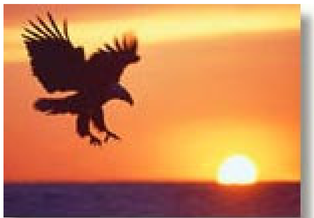

Eagle Net

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2007 – another year to build performance improvements into your organization. Perhaps this fiscal year will not easily generate the returns since the past few cycles have been spurred by the housing/mortgage boom of 100% mortgages, sub-prime extensions, refinancings and renovations. Also, with the proliferation of local and virtual competitors, deposit generation is increasingly more difficult in developed markets.

Every new fiscal/calendar year we encourage CEO's to build focused Performance Improvement Plans (PIP's) in three areas:

1. Employee Experiences
2. Customer Experiences
3. Net Productivity

We believe, as do many of you that performance improvement has to start with your people. First, there is discretionary effort, which everyone has to give if motivated, rewarded, trained and coached in the right way against consensus goals and actions. Second, there are the plans, which must be built from the bottom-up to meet corporate targets. Although some managers still believe that they have to allocate goals down to the individuals, real leaders know from experience that bottom-up commitments usually exceed corporate targets and buy-in is built-in. Next is regular feedback or what we call "Straight Talk" to all levels of management and coaching. Those in a real people centric culture will do this weekly and the sessions will energize goal attainment and new improvement ideas. Time, not a lot but regularly, has to be given to open employee communications where no fear exists and appreciation is shown.

Mistakes in communications with employees can undermine the culture's performance and its growth to new levels of competitive differentiation.

Progressive, customer centric organizations try to build, not just customer service but segment experiences. The prerequisite is knowing customers' expectations and preferences and where you need to improve. The more customers sacrifice in their expectations with you the more loyal or repeat purchasing is eroded. Textbook formulae or countrywide research do not give the application answers, only the potential elements and parameters for improvement focus. Nothing can replace determining local expectations prior to building segmented experiences, and verifying positions regularly through focus groups, segment panels or mini questionnaires. We recommend that a branch focus on their top three priority segments with sacrifices being made therein for improvement commitments. A motivated team will produce the experience solutions and implement them for both sales and service. Borrow ideas from others especially outside the financial service industry.

Although all optimum employee and customer experiences should improve productivity, this financial focus is essential as a double check and balance. First, consider operating processes from the customer in, to the background activities. Our experience has shown, for more than a decade, that where these processes haven't been independently reviewed in 3 to 5 years there is a possible 25% to 40% bottom line improvement that can be realized in the short, medium and long terms.

Let's not forget the revenue side! Improvements can range from enhancing the sales culture to opening new delivery channels such as homepreneurs to market product or service extensions, something Umpqua Bank does on a local basis through neighbourhood stores.

Performance Improvement Plans are a CEO leadership discipline that ensures the team, the customers and the corporation grow competitively. Most PIP's include only 2 or 3 actions in the three critical areas mentioned above. Progress is tracked; straight talk is received from staff and customers; and the bottom line shows real improvements.

Retail Outlook for 2007 (BAI's Banking Strategies)

1. Downward Pressure on Profitability
2. Consolidation Accelerates
3. More Sales Focus
4. Leading with the Best. (Best sales people on frontline using simple processes and products)
5. More Creative Rewards Programs
6. Connecting Distribution Channels
7. Technological Enhancements (interactive video)
8. Forensic Security Schemes
9. Enterprise View of Payments Processing

Brand Value and Re-branding

Many credit unions are paying more attention to their brand, brand logo and name especially as a result of the recent wave of mergers. The strategic reasons for re-branding range from the simple to the sophisticated. Whatever the motivation there is a significant cost to establish and build a new brand positioning internally and externally.

In 2006 one of the best run credit unions in Canada, St. Willibrods ($1.2 billion assets: 13 units; 300 employees) became Libro Financial after extensive member and employee research. Since the official launch in October, the changes have been implemented and the conversion messages consistently applied. This is an organization with annual growth of 10+% so watch the impacts of this transition – WESI sees another success for the executive team and members.

Online Banking Security

Financial IT Security reports 2007 as the year that financial institutions make progress against phishing. Mutual authentication also known as site-to-user authentication has arrived to meet consumer security demands against fraud. The research firm Gartner surveyed 5K online banking subscribers and 67% said site authentication is "extremely important" and 20% "fairly important" – no doubt as to where consumers stand. FFIEC (USA) compliance guidance adherence is skyrocketing amongst financial institutions.

Micro Financing Opportunities

Astute financial institutions are developing and offering financing to micro-enterprises at home and in developing nations. Thousands of micro businesses need funding every year in developed nations with existing entrepreneurs and start-ups. Customized products and business empathy are needed. Likewise, struggling countries such as Bangladesh and Guatemala require exceptional commitments and flexibility from traditional processes in modern economies. The recent Nobel award given to a micro-financing angel has brought these opportunities to the forefront, which can be met by large empathetic banks or small credit unions.

AUSTRALIA

Rationalization in the Mortgage Brokerage Industry

John Symond, the colourful CEO of Aussie Homeloans is forecasting a rationalization in the Mortgage Brokerage industry for the 20,000 plus brokers in the field. The largest ones have over 2,000 different home loan products and support software. Consumers increasing knowledge will drive this rationalization and will spur opportunities for some brokers to evolve into diversified areas. Since consumers have developed multiple financial institution relationships and extensive Internet literacy, this combination will lead to greater comfort with booking business through the Internet.

Australia 2006 Profit Growth Scorecard (Majors)

ANZ	16%
CBA	16%
NAB	9%
St. George	15%
WBC	14%

CANADA

Plastic Shoppers

Canadians are the highest per capita users of debit cards in the world and they continued their fixation during the past Christmas season.

There are 35 million debit cards in Canada. More than 3 billion transactions were made in 2005. On December 22nd and 23rd 2006, shoppers used their debit cards 31.2 million times! A new two-day record. Then on Boxing Day, Visa reports $2 billion in credit card transactions at an average of $328 per transaction.

BMO Relationships Erosion Counter Action

BMO has been losing retail customers across Canada but now top executives are taking counter actions targeted at "higher customer loyalty and higher store sales".

TD Canada Trust has taken BMO share in small business deposits and loans; RBC Financial in mortgages, lines of credit and credit cards; and Scotiabank in savings deposits.

BMO plans to increase its branch network expertise where they presently have 590 financial planners and 170 mortgage specialists compared to RBC's 1,500 and 1,000 respectively, excluding commissioned mobiles. Most importantly, the bank recognized that it must improve its "frontline interactions" from the front door in.

CIBC Domestic Damage Control & Caribbean Expansion

In Canada, CIBC faces another publicity challenge around privacy and security. The hard drive back-up for their 470,000 mutual funds clients, incorporating extensive private information, has been "misplaced".

On a positive note, CIBC is completing its majority position in First Caribbean Corporation headquartered in Barbados plus it has made an offer to buy a 14% interest in the Royal Bank of Trinidad and Tobago, which has extensive operations amongst the islands.

This puts the spotlight on Republic Bank Limited, headquartered in Trinidad as to its strategic direction and partnerships. The majority of Republic shares are privately held by CLICO.

U.S.A.

2006 Credit Union Mergers Decline

Total 256   Assets $5,752 million

(Source: NUCA)

U.S.A. Credit Union Coin Counters

CoinStar continues to expand its credit union penetration and innovations with its coin counters, which are generally placed in lobby entrances. The newest improvements are:

1. Money can be deposited directly to accounts
2. Footprint redesigned for lobbies (smaller)
3. Noise silencer kit

Most credit unions waive fees or charge minimal rates between 1% and 4%.

U.S.A. ATM Study (Dove Consulting)

	On-Premises	Off-Site
# Average Transactions	3,651	1,807
% Foreign Acquired	20%	49%
Large credit unions	5,601	2,409
Other credit unions	5,088	2,226
Large banks	4,500	1,996
Other banks	1,910	1,235

Per ATM Expense (Monthly)

Large bank	$1,131	$1,736
Other bank	$1,313	$1,256
Large credit union	$1,976	$2,549
Other credit union	$1,912	$2,578

WESI Note: Dove's costing methodology was not disclosed but on the surface we believe that it is not on a "fully absorbed" basis. The average transaction volumes clearly suggest that on a fully absorbed basis, many machines do not break even if they are full function units.

U.S. New Ground Study – Consumer Experiences

Consumers are experiencing a major disconnect between what they want and expect from their financial institution and what is being provided says New Ground in their recent study. All staff, top to bottom, need to build a correct customer centric vision of what consumers want and what they are delivering. New Ground's report highlighted that 93% of respondents see the need for improved frontline skills.

What Matters Most to Consumers:

Customer Service	63%
Relationship	53%
Access & Convenience	29%
Product Performance	24%
Experience	21%
Price	16%

Future Banking Trends (% of respondents out of 100%)

46% - dramatic change, increased non-traditional competition, focus on relationships and non-traditional service offering. (See The Last Word);
37% - more competition, service offering expansion, more energetic sales culture.

Future Banking Delivery Environment

55% - dynamic multi-sensory experiences that focus on targeted customers and promote relationship building
21% - environments that are designed around the specific needs of targeted customers

Note to CEO's

Where do you think you stand with your customers/members? How good is your organic growth? Take stock! Listen to the consumers. WESI has the diagnostic tools and customized resolution strategies and tactics.

THE LAST WORD

The Strategic "D's" Still Apply in 2007
- Disintermediation
- Diversification
- Deregulation

When WESI was established approximately 12 years ago, we emphasized the 3 D's to CEOs and the related solutions. These focuses still apply and have been accelerated by consumer knowledge and literacy, technology and competitive dynamics.

Disintermediation:

In the 90's, concerns centred on emerging competition through multiple channels, especially since many did not make brick and mortar investments and only concentrated on a limited number of segment specific services. There were monoline credit card companies, mortgage brokers, investment agents and store partnerships, to name a few. In Canada, an upstart President's Choice Financial arrived on the scene in food outlets and ING Direct was a virtual choice through the Internet. (Today, both have over a million customers and they are profitable with their value propositions).

As this disintermediation occurred, consumers were becoming more financially sophisticated and computer or Internet literate. This knowledge fuelled competitive comparisons, which crystallized commoditization of most financial services. The "zero service charges" and "best rate" objectives became standard. Through all this, the Yellow Pages choices grew and the Internet options exploded, including self-comparative tools.

Disintermediation has now disrupted relationship ownerships of real consumer wealth. Consumers are in control. They can aggregate their affairs quickly through the Internet. Suppliers are continuously challenged to do better. Although many researchers still identify "primary financial institutions (PFI)" for their customers, the definitions and results are misleading.

For example, many consumers identify their "chequing account suppliers" as their PFI's when the majority of their wallet shares are elsewhere.

Diversification

One answer is diversification in products, services, delivery channels, value propositions and partnership collaborations. Insurance products have become a significant contributor to bottom lines and innovative additions have appeared around travel, accounting and financial planning or lifestyle planning services. The world's greatest bank, Umpqua Bank, will offer you yoga classes, book clubs and music downloads in their Internet Café through their neighbourhood stores. Unfortunately, most financial institutions are not strong in consumer diversification since they're generally not "idea capture cultures". People are not motivated to think outside financial services, or management are traditional thinkers who "tinker" with the features of current products. At WESI, we are still amazed at how many CEO's do not have a regular cycle of consumer channel preference research which uncovers current and future choices around existing and potential deliverables. New revenue sources are a necessity and diversification is the key.

Deregulation

Deregulation is a constant and/or awaited change factor in many countries. Australia's and Canada's largest banks are still waiting for the regulatory right to merge in order to try and regain some of their international stature. Unfortunately in Canada a minority government situation means that this issue is not a legislative, let alone political priority. 2007 could represent a federal election year and perhaps the Conservatives will attain a majority status and address bank mergers early in their mandate.

As all CEO's know, change is constant and the three D's are critical areas for all financial service players, big and small, in every country. The concept of deregulation or permitting foreign investments in Chinese banks is a precursor to a shocking new level of potential competition, since major institutions there have over a million employees as well as strategic needs to grow domestic value and international reach. Perhaps in the next decade, this will be both the international and local focus globally.

POST SCRIPT

Build Organic Growth

In a recent discussion with a financial services CEO, he focused on his priority for organic growth from a net productivity perspective, as well as building relationship loyalty. Everyone has multiple financial service industry relationships covering banks, credit unions, insurance companies, financial planners, brokers, Internet sites, and research estimates that these number approximately 12 to 18. Concurrently, the industry has pushed itself into almost complete commoditization.

It's time to take back your franchise and build the implicit organic growth that is there through employee and customer care. The ideas and information contained in this issue hopefully will start you on that journey or add some energy to your strategic efforts. Success will be continuously improving long-term results at lower costs.