Our Focus

*Simplifying the Business Strategy*

During the past three years of our five-year history, we have streamlined our core goals to strengthen the staff, and reinvigorate their unwavering commitment to member service – all while ensuring Alloya is financially sound and compliant with the flexibility to grow. The three key goals that we hold strong to are:

**People:** Alloya is a team of 180 professionals serving 1,600 members across the United States. We ask a lot from a few when considering the breadth of services provided. I am proud to work alongside this team that is 100% focused on supporting credit union success.

During 2016, we continued our three-year project to downsize our office footprint, while setting a standard for the future that is consistent. In May, our headquarters moved to 184 Shuman Boulevard, Suite 400 in Naperville, IL (please update your contact records); and in July, we relocated our Westminster, CO office. These moves follow previous relocations in Albany, NY and Southfield, MI. The benefits of these moves: Provide staff a uniformed, efficient working environment that is extremely flexible and helps to accommodate changing business needs. Each of our updated offices also feature modern meeting spaces that are available for use by our membership free of charge. We greatly enjoy hosting credit unions in our offices as it creates a stronger connection between our staff and the members we serve.

More importantly, we continue to build a culture of RISE based on Respect, Integrity, Service and Engagement. With every goal, there must be a measure and we use the Gallup Q12 employee engagement survey. In the past three years, we have advanced to a top tier employer of choice and ranked in the 90th percentile - our highest score to date.

**Member Service:** From a member service perspective, Alloya focuses on maintaining high standards of performance for daily operational and transactional processing activities. Over the last year, we have been working to consolidate disparate systems acquired through mergers, pursued innovation to simplify how credit unions do business with Alloya, and invested in the TranzCapture platform that will provide members with even more value. Every initiative that the corporate undertakes begins with one simple question: *How will this benefit members?* (see Highlights section for details on member service).

**Financial Performance/Compliance:** From a safety and soundness perspective, Alloya earned a clean independent external audit at the beginning of 2016 and was compliant with all rules and regulations. Alloya has a long-term goal to achieve a 4% retained earnings and other equity ratio in 10-years. During 2016, we made progress against this goal by earning $9.3 million.

Having a long-range goal allows Alloya to return additional value to members in the short term (i.e., we are not trying to build a 4% ratio in one year). This is best highlighted by the increase in dividends that Alloya paid to members. For 2016, dividends of $8.6 million represented a **108%** over dividends paid in 2015. This was possible as Alloya elected to pass on a significant portion of additional earnings from the
December 2015 Federal Funds rate increase, while also effectively managing its asset liability management position throughout the year to yield additional member value.

**Summing up Membership Value:** Alloya is a cooperative that is 100% focused on supporting credit union success, and its first objective is to provide outstanding member value – just like each of you do every day for your members. How do credit unions realize value through their Alloya membership? As discussed here, the answer is numerous, all stemming from the power of cooperation supported by 1,600 member credit unions – the highest of any corporate. The Advised Lines-of-Credit yield an estimated $40.0 million in cost savings annually. Simplified operations using Premier View yields $20.0 million. Access to Premier View at no charge adds another $13.4 million. That’s $73.4 million, just from those items alone. Low fees, outstanding member service, Balance Sheet Solutions, cooperative investments, credit union education, and support of leagues and associations all add significantly to the overall value equation.

**Highlights (Membership Value)**

2016 was a historic year for Alloya Corporate as we marked our fifth year of operations. Five years ago, our cooperative embarked on a journey that turned out to be truly remarkable. In 2011, over 1,000 credit unions contributed $70 million in capital to found Alloya – the first new corporate credit union to be created in nearly 20 years. This support assured members would have a credit union owned and operated source for their liquidity needs, along with other vital services, such as investments, payments, cash delivery and single-source settlement. We officially opened our doors for business on October 24, 2011, and our talented team of professionals have spent the past five years supporting credit union success, while achieving financial goals and maintaining safe and sound operations.

In just five years, members have received a **150% return in value** on their invested capital. Alloya has been profitable every month since its inception, and has successfully been building retained earnings to add to its rainy-day fund and remain fully compliant with both current and future regulatory requirements. Beyond our financial success, Alloya has not lost sight of providing exceptional member service, scoring 4.7 out of 5 in overall member satisfaction for four consecutive years.

I invite you to take seven minutes of your time to watch **The Alloya Story: 5 years in the making** (link is to the right) to see our journey and how we got to where we are today – **which would not be anywhere without you!**

**Member Service**

Every individual at the corporate takes great pride in helping credit unions and building long lasting relationships. We view ourselves as an extension of your credit union. Our business model is based on helping members realize efficiencies – and this model is consistent for liquidity, payment, technology or investment services that Alloya offers.

For example, Alloya supports 700 members for ACH receipt processing and 450 members for ACH origination processing. Not only is our Electronic Services Department dedicated to ACH on a daily basis, but we also have staff in other areas, such as Member Services, Member Support and Project Management
that have ACH expertise and provide additional support to members. With a total of nine ACH accredited professionals at the corporate, sound guidance on all things ACH is just a phone call away.

When members call Alloya, real people answer. In 2016, credit unions calling or emailing our Member Services Team know who they are communicating with – and that familiarity helps build trust. In 2016, our member call centers received 87,761 calls with an average answer time of 3.7 seconds and an abandonment rate of just 0.28%. In addition, the group responded to 7,381 emails and placed 46,769 outbound calls.

Using a different metric, Alloya members opened over 38,278 support tickets for research, adjustments, system support and many other items. Alloya staff resolved 86% of those tickets within 24 hours of receiving them.

Cooperative Investments
Alloya makes investments in the following credit union service organizations (CUSOs) on behalf of its membership: CU Business Group, providing business lending, deposit and consulting services; CU Investment Solutions (ISI), LLC, a registered broker/dealer; and Primary Financial, LLC, providing both investment and liquidity solutions through the brokered CD market. Through collaborative efforts, the CUSO’s provide members with access to capabilities that they otherwise could not afford individually.

In 2016, Alloya and Catalyst Corporate FCU embarked on an exciting new cooperative endeavor:

Introducing TranzCapture

Looking at the future of check services and seeing how technology and consumer payments are evolving, Alloya sought a solution that wasn’t going to cause financial strain and that would be there for them in the future. Considering that the number of checks written continues to decline – down 70% over the past 15 years – the check processing business is moving into a mature phase of its life cycle, which means that service providers are usually forced to raise fees, cut investment and may even fail in some cases.

In the spirit of credit union cooperation, we announced in August that Alloya and Catalyst formed a strategic partnership to ensure that credit unions across the United States can continue to offer check writing services to their members well into the future. This is an exciting time for our industry – the two largest corporate credit unions coming together for the benefit of all credit unions – and the result of this partnership formed and funded TranzCapture, LLC, a new CUSO delivering a next-generation suite of remote deposit services, including:

- ATM Capture
- Branch Capture
- Business Capture
- Mobile Capture

Average Monthly Item Processing Transactions

Alloya Corporate 17 Million
Catalyst Corporate 20 Million
TOTAL: 37 Million
The credit union industry has a rich history of working together to provide the best services for members, and corporate credit unions are no exception. We selected Catalyst as our partner because their culture best aligned with ours. Evaluation of options focused on people, a culture of member service, capabilities and financial strength. By pooling our resources and volumes within the credit union system, we can retain the maximum benefit for credit unions (not stakeholders of outside processors), while investing to improve the technology that supports this aging, but critical payment system.

A solution owned by corporate credit unions allows us to leverage aggregated volumes (approximately 440 million items annually) to maintain low per item transaction costs, while providing resources for future development. Additional benefits include:

- Great service. Alloya will continue to provide the same great in-house expertise and member support. Alloya staff will remain the service contact.
- Extended cutoff times for returns; inclearing images and settlement totals will be available throughout the day.
- An adjustments module that allows credit unions to enter and view the real-time status of all adjustments.
- A positive pay solution to help detect fraudulent or altered corporate checks.
- Access to modern remote deposit capture technology that uses “thin client” web-based applications and improved features that reduce errors and exceptions in processing.
- Duplicate detection spanning all deposit checks processed over a 30-day period from all sources (branch, ATM, mobile, etc.).

TranzCapture ensures that credit unions will have access to a cooperatively controlled check processing solution that is focused 100% on their needs. This new software is designed to simplify credit union’s operational lives as all check deposits, regardless of source, will be accessed by credit union staff through a single sign-on process and a single administrative dashboard. The new deposit solution will be more efficient, more secure and easier to administer.
### Consolidations

During 2016, Alloya successfully completed two conversions (ACH and Safekeeping); and began a sizable item processing migration to support members coming onboard to the TranzCapture platform. These changes support Alloya’s strategic initiative to simplify processing and technology – eliminating multiple platforms, streamlining member support and improve pricing. Below is a closer look at our conversion efforts this past year:

#### Check Processing:
Beginning in November of 2016, we began the process of moving existing check images and converting share draft and deposit processing to a common platform hosted by Catalyst. Alloya members will continue to access the system through Premier View, and Alloya staff will continue to provide support for all processing functions, including research, adjustments, returns, image retrieval and exception processing. The result will be a more efficient research and adjustment process with the same great member service credit unions have come to expect.

For the member credit unions that have already successfully come onboard to TranzCapture (148 implementations completed by the end of December) – they were thrilled at how easy the process was without taking too much credit union staff time. Setup has generally taken less than an hour with no hardware to install. And, of course, our teams from Member Support & Implementations to Member Services will be with members every step of the way – from setup to training and ongoing support. In 2017, we will continue our check processing consolidation as we work towards getting members onto one inclearing platform (TranZact). Our goal is to successfully migrate all members onto the TranzCapture and TranZact platforms before 2018.

#### ACH:
During the months of July and August, Alloya staff converted 235 members to the D+H ACH systems, which met a significant goal for the year of moving all members onto one ACH platform, making our support and service more efficient.

#### Security Safekeeping:
In May, we transitioned all safekeeping activities to JPMorgan Chase because of an unexpected change from our previous custody services provider. Despite the unplanned circumstances, Alloya found a solution that allowed members to gain improved reporting for pledged securities, while Alloya added flexibility to support requests for specific reporting needs. Also, trades will begin to settle on an actual basis, meaning that proceeds from all trades will post when the transaction is settled between the broker and the custodian.

#### Contracts and Cooperative Pricing:
In August, we started a new campaign to have all members on a new universal contract.

*Why is this important?* Alloya is the result of 17 mergers. To minimize the impact of each merger, immediate efficiencies were balanced against minimizing disruptive changes to members. While this minimized change during mergers, it created outdated documents with inconsistent terms. In addition, the process has been paper-based. Enhanced technology lets Alloya streamline this system by leveraging Premier View, Alloya’s online account management system.
Premier View
With Premier View, members’ operations become easier and more efficient. Premier View’s single point-of-access and settlement allows credit unions to establish multiple vendor relationships, maintain several financial accounts and administer complicated procedures.

Alloya views itself as a department of the members it serves – and provides industry-leading technology, connecting credit unions through its Premier View system that provides secure access to a full suite of back office services. Through Premier View, we strive to make credit unions operational lives easier and more secure as they originate and process ACH payments, initiate wires, order coin and currency, process international payments, view check images and perform a host of treasury management functions (investing and borrowing). While others charge for access to systems that provide less utility and security, Alloya makes Premier View available to members for free.

Alloya has established a modest efficiency goal for Premier View to be worth just ¼ of an FTE, and we think it provides much more value than that. Assuming members agree that we have at least reached that goal, ¼ of an FTE times a compensation rate of $50,000 per year times 1,600 members is worth $20 million in annual value to the membership.

Without Premier View, your operations may look like this:

With Premier View, your operations look like this:

Premier View Security
The value of Premier View doesn’t stop with efficiency. Alloya continues to invest considerable resources into maintaining, updating and improving the security features offered through Premier View. One of those security features provides us with a warning when a credit union’s computer may be compromised by a virus. When this occurs, we will proactively contact impacted credit unions and share as much information as possible to help re-secure the machine. Some of your other business partners may have similar technology, but do they proactively pick up the phone and work with you on a solution?
Access to Premier View, and our investment in security, saves you money compared to other providers that often cost more, do less and are less secure. Assuming an access fee savings of $700 per month charged by others, Alloya members collectively save upwards of $13.4 million each year.

**Line of Credit**

Like you, we are a credit union – and we can provide benefits that the for-profit sector cannot, including the access you gain to over $8.5 billion in available Advised Lines-of-Credit. Members have consistently told us that the Advised Line-of-Credit is one of our most important services. We conservatively estimate Alloya saves credit unions 50 to 100 basis points of their line amount annually compared to the fees charged at commercial banks for underwriting, collateral and access. Using the lower end of the savings range, collectively Alloya members save upwards of $40 million annually, and that’s before the high rates the banks charge when a loan is advanced.

**Balance Sheet Solutions, LLC**

Balance Sheet Solutions is a wholly-owned subsidiary of Alloya that provides investment, risk management and educational services to over 800 credit union clients. Balance Sheet Solutions is an industry leading resource for credit unions when they invest in marketable securities and certificates of deposit. Services also include investment accounting, pre-purchase analytics, interest rate risk reporting, portfolio analytics consulting, education and investment advisory services. Balance Sheet Solutions is also the industry leader in helping credit unions raise external funding through a brokered CD issuance program.

It is a new day at Balance Sheet Solutions and they have added significant capabilities that benefit credit unions. For instance, credit unions are finding the value of the market leading investment accounting program. In just a few years the volumes speak for themselves.

**Loan Participations**

Credit unions that utilize **Alloya’s loan participations program** can bring a large amount of loans onto their books without having to spend the time, money and energy originating the loans.

Alloya’s program helps to simplify a burdensome process. Unlike non-credit union brokers, Alloya provides full financial transparency to both buyers and sellers throughout the loan participation process. Commerce is preserved within the credit union industry.

Financial officers use loan participations as a strategic balance sheet management tool to:

- Manage liquidity
- Increase income
- Address interest-rate risk
- Fine-tune asset-liability ratios
Buyers
To diversify assets, generate interest income (at rates that are competitive with investments) and reduce excess liquidity – credit unions buy a percentage of a pool of loans offered by peers.

Sellers
To increase liquidity and reduce the ratio of long-term loans in their portfolio – credit unions sell pools of loans to other credit unions.

Education Resources
Education is an important component of the value received by members from both Alloya and Balance Sheet Solutions, and knowledge transfer is not restricted to just a few topics offered a couple of times a year. Alloya professionals make themselves available to the membership regularly.

The entire Alloya and Balance Sheet Solutions teams were proud to have brought together over 120 attendees from across the country to learn and network with each other, industry experts, partners and staff during the second annual Credit Union Executive Leadership Symposium. The three-day event provided thought-provoking sessions, numerous networking opportunities, access to Alloya’s annual meeting and the opportunity to enhance leadership expertise. For additional education stats, please refer to the “Educational Outreach” chart.

Concluding Comments
Alloya represents a very good example of the Power of Cooperation within the credit union system as 1,600 credit unions are sharing resources, whether financial or human. The Board of Directors represent credit union leaders from throughout the country. They work hard on a volunteer basis to identify more ways to advance this business model without straying from the core services of liquidity, efficient cash management, investment and payment services offered through Premier View.

2016 was a successful year, but that doesn’t mean our work is done. The check project represents one of the most complex operational projects that Alloya has undertaken. But when complete, Alloya will be better positioned to support credit unions as they offer check writing and check deposit services well into the future.

Alloya’s success is 100% based on the support of its membership – so on behalf of the Alloya team – thank you!

Todd Adams, CPA
Chief Executive Officer

For financial and operational highlights, see next page.
The Numbers
Alloya’s financial and operational highlights for 2016 include:

✓ **Profitable**
  ▪ $9.3 million of net income in 2016
  ▪ Profitable every month since launch in 2011

✓ **Secure**
  ▪ $223.2 million of Perpetual Capital
  ▪ $71.1 million of retained earnings and other equity
  ▪ Core capital ratio – 6.0% (regulatory requirement of 4.0%)
  ▪ Total risk based capital ratio – 27.7% (regulatory requirement of 8.0%)

✓ **Relevant**
  ▪ 1,600 credit union members
  ▪ Primary source of operational liquidity for our members
    ▪ $8.5 billion in Advised Lines-of-Credit ($546.5 million peak outstandings)
    ▪ 49% of members used the service (nearly 9,750 advances)
    ▪ Nearly $700 million raised through CD issuance
    ▪ Facilitated $77 million in loan participations
  ▪ Outstanding member support and service (4.7 of 5.0)
  ▪ Significant source of high value education on a variety of topics

**Additional Product Volumes**
Excess Balance Account Program – $2.1 billion as of December 31, 2016
Checks processed – 190 million
ACH transactions – 173.2 million
Wires processed – 447,154
Coin & currency deliveries completed – 91,801

**Operational**
Premier View Availability – 100% (Nearly 15,500 users)

Alloya’s Audited Financials can be found at: [www.alloyacorp.org/discover_financials](http://www.alloyacorp.org/discover_financials).